

Siili Solutions

Result Comment – 28 February 2018



SHARE

Company	Siili Solutions
Price	12,30
Price as of	28.2.2018
High/Low 12m	13,48 / 9,1

COMPANY DATA

Market Cap. Current	86
EV current	75
No. of shares (out)	7,0
No. of shares (dil)	7,0

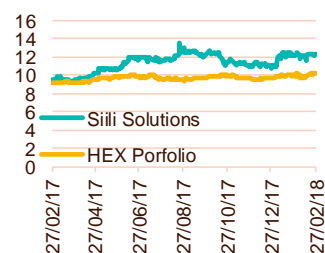
SHAREHOLDERS

Erina Oy	12 %
Elo	10 %
Lamy Oy	7 %
Varma	4 %
Freefloat	100 %

STOCK DATA

Bloomberg	SIILI FH
CALENDAR	
Next report date	14.8.2018
AGM	26.3.2018

SHARE PRICE



ANALYST

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International sales growth very strong

Siili Solutions ("Siili") second half of 2017 sales missed our estimate. However, EBITDA margin was inline highlighting the ability to generate steady profitability. International sales i.e. automotive was a positive surprise delivering growth rate of above 70%. Guidance for 2018 was close to our expectations.

- Siili revenue in H2/2017 was €28,8 clearly missing our estimate of €31,5 million. Organic growth was little above 10% when we expected organic growth of above 20%. Slow down in growth was due to intensified competition in employee recruitment and higher employee churn a risk we highlighted after the H1 report. According to the management the most intense competition for employees is in Helsinki capital region and Siili is utilizing offices outside the region to mitigate the problem. Furthermore, management sees lower churn in early 2018 and good start to the year in term of new hires.
- Our preferred profitability metric EBITDA came in at €3,4 million vs. our estimate of €3,7 million. However, EBITDA margin of 11,9% was as estimated. Siili has proven the flexibility of its cost structure as the rather large sales miss did not affect the margins.
- Employee headcount growth was 563 at the end of 2018 (+28% YoY). Good overall growth in headcount implies good momentum into 2018 considering the more stable employee churn in early 2018. Siili is planning a group wide employee share saving plan during 2018 which we expect to lower employee churn somewhat.
- Siili acquired a small 7 employee Seinäjoki based software service company Comia as per 29.11.2017. The small acquisition enables recruitment in a new region with less competition. We expect more small acquisitions to come because of reasonable valuation multiples and easy integration into Siili corporate culture. Strong balance sheet and preference for using stock would also enable larger acquisitions.
- International business (mainly automotive digital clusters) was very impressive growing over 70% YoY in 2017 surpassing our growth estimate of 50% and management target 10% of 2017 revenue. The share of international business was 12% of revenue in 2017. Management expects the growth to exceed domestic growth in 2018 and we expect it to be close to 45% in 2018. Due to positive outlook in automotive business in Germany and especially United States Siili has opened new offices in Detroit, US (close to customers) and Szczecin, Poland (new automotive competence center).
- We find that the 2018 EV/EBITDA multiple for most relevant peers (Vincit, Gofore, KnowIT, HiQ and Acando) is in the range of 11x. Considering the above peer group growth profile of Siili and risk related to smaller size we find 11,0x multiple to reflect the value of Siili. Resulting multiple imply price of approximately €12,5 per share.

Figures in €m

	2014	2015	2016	2017	2018e	2019e	2020e
Sales	29,5	41,9	48,4	57,8	69,7	78,8	88,0
Sales growth	56,9 %	42,0 %	15,6 %	19,4 %	20,7 %	13,0 %	11,7 %
EBITDA	3,0	4,0	4,8	5,8	7,2	8,1	9,0
EBITDA margin	10,3 %	9,6 %	9,9 %	10,0 %	10,3 %	10,3 %	10,3 %
EBIT	1,8	3,5	4,1	5,0	6,4	7,2	8,1
EBIT margin	6,0 %	8,4 %	8,6 %	8,7 %	9,2 %	9,2 %	9,2 %
PTP	1,8	3,2	4,0	5,0	6,4	7,2	8,1
EPS	0,67	1,22	0,46	0,57	0,74	0,83	0,92
DPS	0,47	0,70	0,30	0,39	0,55	0,70	0,90
Yield	3,4 %	2,9 %	3,6 %	3,5 %	4,5 %	5,7 %	7,3 %
P/E	20,3	19,7	18,0	19,5	16,7	14,9	13,3
EV/EBIT	13,5	13,5	11,7	13,8	11,7	10,1	8,8
EV/EBITDA	7,8	11,8	10,2	12,0	10,5	9,0	7,9
EV/Sales	0,8	1,1	1,0	1,2	1,1	0,9	0,8
P/B	2,8	4,3	3,2	3,7	3,7	3,4	3,2
ROE	18 %	24 %	22 %	20 %	23 %	24 %	25 %
ROCE	22 %	27 %	25 %	25 %	28 %	29 %	30 %
Net Gearing	-21 %	-9 %	-47 %	-39 %	-47 %	-52 %	-56 %
FCF/share	0,49	0,01	0,56	0,23	0,78	0,86	0,95

Source: Bloomberg, Siili, S-Bank (FIM). Financials for 2014 based on Finnish GAAP
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Sales was €28,8 million clearly below our estimates. EBITDA was €3,4 million and below our estimate. However, EBITDA margin was inline with our estimate highlighting good cost base flexibility. Dividend was up 30% but below our estimate and cash position remains strong

Deviation table

Deviation	2H17 Actual	2H17e FIM	Actual vs. FIMe	2018e FIM	2018 Guidance
Sales	28,8	31,5	-8 %	69,7	66-72
EBITDA	3,4	3,7	-8 %	7,2	6,6-7,6
EBITDA-%	11,9 %	11,9 %	0ppt	10,3 %	
EBIT	3,0	3,4	-12 %	6,4	
EBIT-%	10,4 %	10,8 %	-3,8 %	9,2 %	
PTP	3,0	3,4	-12 %	6,4	
EPS	0,35	0,39	-10 %	0,74	
DPS	0,39	0,45	-13 %	0,55	

Source: S-Bank(FIM) Estimates

We made limited revisions to our 2018 and 2019 estimates

Estimate changes

Estimate revisions m€	2018e Old	2018e New	Chg. %	2019e Old	2019e New	Chg. %
Sales	70,5	69,7	-1 %	79,1	78,8	0 %
EBITDA	7,2	7,2	0 %	8,0	8,1	1 %
EBITDA-%	10,2 %	10,3 %	0,1 pp	10,2 %	10,3 %	0,1 pp
EBIT	6,5	6,4	0 %	7,2	7,2	0 %
EBIT-%	9,2 %	9,2 %	0,1 pp	9,2 %	9,2 %	0,0 pp
PTP	6,4	6,4	0 %	7,2	7,2	0 %
EPS	0,72	0,74	2 %	0,81	0,83	2 %

Source: S-Bank (FIM) Estimates

Guidance for 2018 is inline with our revenue and EBITDA estimates

Guidance for 2018

Outlook for 2018 is the following. Net sales in 2018 estimated to reach 66–72 million euro and EBITDA 6,6–7,2 million euro.

Guidance for 2018 is in line with our estimates.

Source: Bloomberg, Siili, S-Bank (FIM)

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Peer group valuation

Siili has relatively few close listed peers in Finnish stock exchange. We find the closest peers to be Vincit and Gofore which are IT service providers focused mainly in Technology segment of digitalization (limited Design and Data).

We find the other close peers listed in Stockholm including KnowIT, HiQ and Acando. KnowIT is a consultancy firm focused in digitalization. KnowIT has competencies in IT, design & communication and management consultancy. It is operating in Sweden, Norway and Finland with 2017 revenue of approximately €275 million. HiQ is a IT service provider with focus broad focus on digitalization and technology. HiQ is operating in Sweden and Finland. HiQ annual revenue was €185 million in 2017. Acando is a consulting company offering management consulting, enterprise business systems, digital and application services. Acando operates in Sweden, Norway and Germany with delivery center in Latvia. 2017 revenue was approximately €250 million.

Swedish peers are larger in size but the broad offering and operations mainly in Nordics offer a good fit. We estimate Siili growth to reach double digits vs. high single digit of the Swedish peers. Profitability as measured by EBITDA margin is similar to Siili highlighting the comparability of the business model.

Luxoft is a Swiss based US listed company that offers mainly experienced Eastern European IT professionals. Luxoft main customer segments are Finance, Automotive and Telecommunication. We consider Luxoft a relevant peer as it operates in similar customer segments as Siili with experienced staff. Although Luxoft is significantly larger it offers similar expected growth profile.

We find EBITDA to be the most comparable metric of underlying profitability. EBIT includes amortization of intangibles from acquisitions. Furthermore, investments and depreciations related to fixed assets are limited in service companies.

Capgemini purchase price of Idean (February 2017) has not been announced but press (Talouselämä) and industry sources indicate EV/Sales multiple of over 3x. This supports relatively high value for design segment of Siili (approximately 100 employees).

We find that the 2018 EV/EBITDA multiple for most relevant peers (Vincit, Gofore, KnowIT, HiQ and Acando) is in the range of 11x. Considering the above peer group growth profile of Siili and risk related to smaller size we find 11,0x multiple to reflect the value of Siili. Resulting multiple imply price of approximately €12,5 per share.

Source: Bloomberg, Talouselämä, Siili, S-Bank (FIM)

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Peer group growth and profitability estimates

Peer	Sales Growth			EBITDA %			EBIT %			Net Income %		
	2018	2019	2020	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e
Vincit Group Oyj	13 %	13 %	10 %	17 %	16 %	17 %	11 %	16 %	16 %	6 %	10 %	11 %
Gofore Oyj	33 %	26 %	15 %	18 %	18 %	18 %	16 %	16 %	17 %	10 %	13 %	13 %
Nixu Oyj	27 %	14 %	12 %	2 %	10 %	13 %	0 %	10 %	12 %	-1 %	5 %	8 %
Innofactor Oyj	14 %	8 %	-3 %	8 %	6 %	6 %	4 %	5 %	6 %	3 %	3 %	4 %
Digia	9 %	5 %	0 %	4 %	8 %	9 %	2 %	6 %	8 %	1 %	4 %	6 %
Know It Ab	10 %	6 %	5 %	11 %	11 %	11 %	10 %	11 %	11 %	7 %	8 %	8 %
Hiq Intl Ab	7 %	7 %	5 %	13 %	13 %	14 %	12 %	13 %	13 %	9 %	10 %	10 %
Acando Ab	9 %	7 %	5 %	11 %	11 %	11 %	10 %	10 %	11 %	7 %	8 %	8 %
Luxoft Holding I	14 %	13 %	16 %	15 %	16 %	16 %	10 %	10 %	13 %	11 %	11 %	11 %
Upper quartile	14 %	13 %	12 %	15 %	16 %	16 %	11 %	13 %	13 %	9 %	10 %	11 %
Median	13 %	8 %	5 %	11 %	11 %	13 %	10 %	10 %	12 %	7 %	8 %	8 %
Lower quartile	9 %	7 %	5 %	8 %	10 %	11 %	4 %	10 %	11 %	3 %	5 %	8 %
Siili Solutions	21 %	13 %	12 %	10 %	10 %	10 %	9 %	9 %	9 %	7 %	7 %	7 %
% to med.	63 %	61 %	113 %	-7 %	-9 %	-19 %	-14 %	-12 %	-25 %	-3 %	-8 %	-11 %

Peer group valuation

Peer	EV/EBITDA			EV/EBIT			P/E			EV/Sales		P/B
	2017	2018e	2019e	2017	2018e	2019e	2017	2018e	2019e	2018e	Latest	
Vincit Group Oyj	11,7 x	10,8 x	9,3 x	18,9 x	11,3 x	9,6 x	30,7 x	17,1 x	14,3 x	1,8 x	5,7 x	
Gofore Oyj	15,3 x	11,4 x	8,9 x	17,1 x	12,4 x	9,6 x	neg.	16,9 x	13,0 x	2,0 x	6,1 x	
Nixu Oyj	high	18,5 x	12,9 x	high	19,3 x	13,2 x	neg.	43,6 x	24,4 x	1,9 x	4,7 x	
Innofactor Oyj	9,2 x	10,8 x	9,4 x	19,0 x	12,8 x	10,7 x	19,6 x	15,0 x	10,0 x	0,7 x	1,2 x	
Digia	18,1 x	7,7 x	6,1 x	34,4 x	10,0 x	7,6 x	61,2 x	13,0 x	9,6 x	0,6 x	1,3 x	
Know It Ab	11,3 x	9,7 x	9,0 x	12,0 x	10,1 x	9,3 x	16,7 x	13,4 x	12,2 x	1,1 x	3,5 x	
Hiq Intl Ab	17,5 x	15,5 x	14,1 x	18,6 x	16,3 x	14,9 x	25,2 x	21,8 x	19,8 x	2,1 x	5,1 x	
Acando Ab	12,1 x	10,7 x	9,6 x	12,9 x	11,2 x	9,9 x	17,6 x	15,0 x	13,5 x	1,2 x	2,6 x	
Luxoft Holding I	10,3 x	8,7 x	7,5 x	15,3 x	13,4 x	9,2 x	15,6 x	13,2 x	11,8 x	1,4 x	3,3 x	
Upper quartile	15,8 x	11,4 x	9,6 x	18,9 x	13,4 x	10,7 x	27,9 x	17,1 x	14,3 x	1,9 x	5,1 x	
Median	11,9 x	10,8 x	9,3 x	17,8 x	12,4 x	9,6 x	19,6 x	15,0 x	13,0 x	1,4 x	3,5 x	
Lower quartile	11,0 x	9,7 x	8,9 x	14,7 x	11,2 x	9,3 x	17,1 x	13,4 x	11,8 x	1,1 x	2,6 x	
Siili Solutions	12,0 x	10,5 x	9,0 x	13,8 x	11,7 x	10,1 x	19,5 x	16,7 x	14,9 x	1,1 x	3,7 x	
% to med.	1 %	-3 %	-3 %	-23 %	-6 %	5 %	0 %	11 %	14 %	-23 %	7 %	

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Financials and Estimates

GROUP (EURm)	2016	1H17	2H17	2017	1H18e	2H18e	2018e	2019e
Net sales	48,4	29,0	28,8	57,8	34,6	35,2	69,7	78,8
Growth, y/y	15,6 %	21,5 %	17,4 %	19,4 %	19,4 %	22,0 %	20,7 %	13,0 %
EBITDA	4,8	2,4	3,4	5,8	2,9	4,3	7,2	8,1
EBITDA margin	9,9 %	8,1 %	11,9 %	10,0 %	8,3 %	12,2 %	10,3 %	10,3 %
Depreciation	-0,6	-0,3	-0,4	-0,8	-0,3	-0,4	-0,7	-0,9
EBIT Adjusted	4,1	2,0	3,0	5,0	2,5	3,9	6,4	7,2
EBIT margin	8,6 %	7,0 %	10,4 %	8,7 %	7,3 %	11,1 %	9,2 %	9,2 %
Net financials	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Associates profit	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
PTP	4,0	2,0	3,0	5,0	2,5	3,9	6,4	7,2
Taxes	-0,8	-0,5	-0,6	-1,0	-0,5	-0,8	-1,3	-1,4
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net profit	3,2	1,5	2,4	4,0	2,0	3,1	5,2	5,8
EPS Adjusted	0,46	0,22	0,35	0,57	0,29	0,45	0,74	0,83
BALANCE SHEET (EURm)								
Intangibles	1,6	2,0	1,9	1,9	1,7	1,5	1,5	1,1
Goodwill	8,6	11,1	11,6	11,6	11,6	11,6	11,6	11,6
Tangibles	0,9	1,1	1,2	1,2	1,5	1,7	1,7	2,2
Inventory	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Receivables	8,8	9,7	9,4	9,4	11,6	11,5	11,5	13,0
Cash	9,7	8,2	9,0	9,0	7,9	11,4	11,4	13,6
Assets	30,6	32,9	33,9	33,9	35,1	38,5	38,5	42,3
Equity	18,0	18,4	20,8	20,8	20,1	23,2	23,2	25,1
Pension liabilities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Long non-ib debt	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4
Long ib debt	0,8	0,6	0,4	0,4	0,1	0,1	0,1	0,1
Short ib debt	0,4	1,8	0,4	0,4	0,4	0,4	0,4	0,4
Short non-ib debt	11,1	11,8	11,8	11,8	14,0	14,4	14,4	16,2
Advances received	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Equity and liabilities	30,6	32,9	33,9	33,9	35,1	38,5	38,5	42,3
Equity Ratio	58,9 %	55,7 %	61,4 %	61,4 %	57,3 %	60,3 %	60,3 %	59,4 %
Net Gearing	-47,5 %	-32,1 %	-39,2 %	-39,2 %	-36,8 %	-47,0 %	-47,0 %	-52,1 %
Net debt	-8,6	-5,9	-8,1	-8,1	-7,4	-10,9	-10,9	-13,1
ROE	21,7 %			20,5 %			23,4 %	24,0 %
ROCE	24,6 %			24,6 %			28,4 %	29,3 %

Source: S-Bank (FIM)

Estimates

We expect Siili to maintain high organic growth rate and steady profitability. We expect organic domestic sales growth to be approximately 13% in 2018 a slight pick-up from 2017 and phasing out to 10% by 2020. Balance Consulting & Valor estimate the market growth to be 10-15% per annum (2016-2021). International sales is expected to be the growth driver with 45% YoY growth in 2018. We expect the strong growth to continue due to high level of investments from automotive sector to digital cockpit development. We estimate growth to phase out to 20% YoY by 2020. Our confidence arises from exceeding growth target in 2017, setting up new offices, direct contacts with OEMs and Tier1s (=good position in value chain) and high demand of digitalization specialists in automotive sector.

Siili has a long track record of steady profitability. Currently Siili is considering increasing share of maintenance projects which could improve margins and bring in stable revenue streams. Management also expects wage inflation to be relatively contained despite of increasing demand for qualified personnel. We also see good opportunity to pass on wage increases due to high demand. High organic growth is lowering profitability due to lower utilization of new employees but this is expected to continue in the near future due to continuing growth. Margins in the international operations are expected to be similar to domestic margins and we do not estimate change in profitability due to higher growth in international operations. Our estimate of increasing profitability is also reflected in Siili guidance range implying over 10% EBITDA margin.

Dividend payout expected to be high due to strong cash flow due to low investment needs (excluding possible acquisitions) and negative net working capital.

Outstanding options

Siili has a management incentive program for key personnel. Maximum number of options is 337 000 with €7,50 strike. Options will vest if the average 60 day volume weighted average price is above €14,50 between 1.1.2019-30.6.2020. Options can be exercised during 30.9.2019-31.12.2020. As Siili share price is currently below the minimum price for vesting the dilution effect is not reflected in the share count.

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Siili Solutions



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