Analyst	
Panu Pikkanen	No ownership in company
Siili Solutions Oyj	**[Nasdaq OMX, Dec 7]**
Stock Price	11,40
52 week low / high	7,77 - 13,48
Number of shares	7 000 316
MCAP (mEUR)	79 803 602
Net Debt (mEUR, Q2 2017)	2,3
EV (mEUR)	46,98
Sector	Technology / Software
Stock Exchange / Ticker	NASDAQ OMX Helsinki / SIILI
Next report	February 2018

Stock Price Development	
1 month	- 6,06 %
3 months	+ 0,36 %
1 year	+ 41,88 %
YTD	+ 41,53 %

Stock Price Last 12 Months

Owners (%)	
Erina Oy	11,63
Elo Pension Insurance Company	9,93
Lamy Oy	6,87
Varma Pension Insurance Co.	3,63
eQ Nordic Small Cap Fund	3,05
Ilmarinen Pension Insurance Co.	3,04

Management	
CEO	Seppo Kuula (Until Jan 2018)
Chairman of the Board	Timo Luhtaniemi (CEO 2018-)

Financial Forecast — Based on 5 year CAGR

mEUR	FY2016	FY2017E	FY2018E	FY2019E
Revenue	48,4	63,8	84,1	110,7
EBITDA	4,8	6,3	8,4	11,1
Operating Income	4,1	5,6	7,4	10,0

Hidden drivers imply an undervalued stock

Siili Solutions Oyj has grown reliably since 2010, but leverage volatility and uncertain payouts in capital expenditure have been likely drivers in the market underpricing the stock. The company's P/E ratio is not far off from its peer group, but a balance sheet and acquisitions analysis implies that the company is stronger than its peers in generating value while maintaining a steady growth through organic and inorganic growth.

EPS and dividend growth 27,9% and 28,5% since 2012

Earnings per Share is an important indicator for the company's growth, which has not faltered amid rapid expansion in the home market in Finland and with in Poland, Germany and the United States. A long term dividend payout goal of 30%-70% of net income is entirely achievable as revenues and profitability improve.

The EV/EBITDA multiple can be forecasted to 12,9x in 2018, indicating that enterprise value may outpace EBITDA growth in the near future. The forward P/E ratio estimate for 2018 yields a falling price from 17,9x to 14,2x, but due to the volatility of the stock price basing an investment decision solely on this is not recommended – instead, it serves as a signal of potential value increase in the near future.

Strategic positioning and courage to innovate

Siili has positioned itself as an agile developer for medium and large clients, gaining competitive advantage to both small and large competitors. The long-term strategic growth aim of the company has begun to yield results as Polish labor supports the scalability of the business and other foreign expansions keep the company on the expertise demand curve of automobile digitalization – another sign of the company's proactiveness in pre-empting the future demands of the field.

Robust balance sheet and reliable earnings

Siili's growth has outpaced the IT-sector and there are indications it will manage to do so in the future. However, this has not lead the company to faltering leverage, liquidity or profitability as most key ratios remain on the industry baseline or a better level.

Strong management expertise has kept growth on track

The current CEO Seppo Kuula has been the impetus for the current growth with a strong vision for an expanding base of geographic and expertise diversity combined with a growing work force.

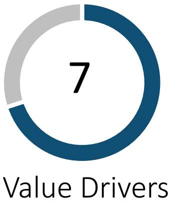
As Mr. Kuula steps down in January 2018, the interim CEO and current Chairman of the Board and co-founder of the company Timo Luhtaniemi has signaled to keep the current success strategy in clear view.

Largest shareholders are a mixture of the company management and insurance companies in the home market, signaling trust on a baseline improvement even from conservative investors.

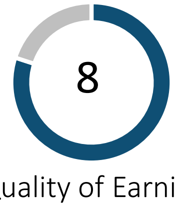
Controlled risk slows growth but brings stability

Siili Solutions is on average less risky than it's peers based on a growth that has not been marred by balance sheet issues or impairment due to failed integrations. The company has capacity to grow more aggressively than it has, but in keeping with the current strategy the most forward-leaning growth options have been traded to keeping the balance sheet strong enough.

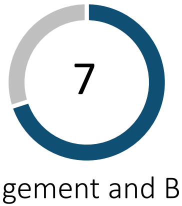
Risk in the company is manifested in two main factors: keeping up scalability and agility as an expanding IT company and ensuring success in foreign markets.



Value Drivers



Quality of Earnings



Management and Board

Level of Risk

Investment Thesis

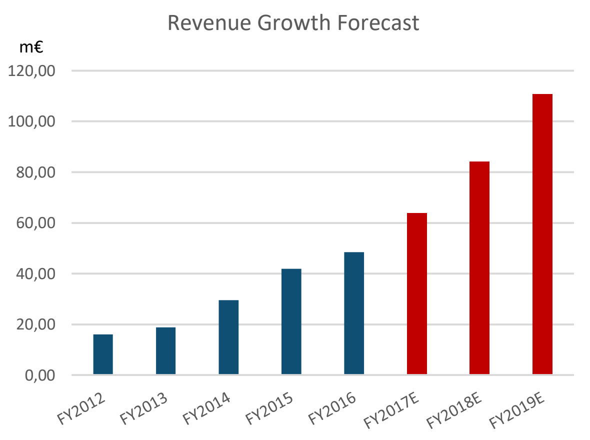
Discounted Cash Flow analysis implies a potentially underpriced stock

An analysis of assumed future cashflows discounted to present give credence to the hypothesis that the Siili share is potentially underpriced – a continued revenue growth in an approximately neutral to slightly positive market growth implies a current share price of 11,2€ to 13,7€. The assumptions made for the forecasted growth are based on the current growth era since 2012, which has shown little signs of faltering.

The discounted cash flow calculations imply a potential upside of up to 24,5% as of December 2 – purchasing the stock today would generate significant value in the long run for each invested euro in a positive growth environment. The worst growth scenario of perpetual 2% implies that even if the company grows at the approximate speed of the entire economy, value would be generated.

Rapid growth with controlled risk

Siili's year-over-year average revenue growth has been 32,9% since 2012. But more notably, this growth has been outpacing the competition: the 5-year Compound Annual Growth Rate for Siili has clearly outpaced the domestic peer group. There has been no indication so far that the growth rate would falter due to factors intrinsic to the company, but the company could face growth problems in Germany and the United States – revenue from overseas operations was 4% in 2016 from these young operations. Since there is no strong track record yet to show yet, these expansions are something to keep up with.



Profitability has been resistant to growth pains

It comes as a welcome surprise that profitability has not suffered greatly because of growth investment: gross year-over-year EBITDA growth of 33,7% while compound revenue has similarly increased 31,8%.

ROA trend since 2012 is somewhat negative – essentially signaling that returns have not quite kept pace with the expansion of the company asset base. While this is not entirely reassuring, the company has kept healthy operating margins and EBITDA over revenue, which is reassurance of aggregate positive development in profitability.

Competitive positioning is a value driver

Strategically, Siili Solutions attempts to position itself in between its smaller and larger competitors in that the smaller operators do not have the scalability to take on projects for large clients and the larger competitors like Affecto (acquired in 2016 by the Canadian giant ICG) and Tieto have a more rigid business model: Siili aims to position itself as an agile, design-oriented developer of projects that can be scaled up to the level of sizable banks and insurance companies among others.

Accordingly, Siili is well positioned in its home market in Finland. The risk concern attached to the model is scalability – as the business continues to grow, Siili may face issues with maintaining the core of their model: agility. The company acknowledges this however and reports a strategy to keep abreast with the clients to become an agile business partner.

A class leader

A look at liquidity metrics and profitability margins between Siili and its peers yields a reaffirming picture of the competitive space the company is in: notably, their quick ratio has been clearly better than the competitors', which is important in the face of a continuing strategy of expansion. Similarly, the leverage ratio is among the lower ones in the peer group.

5 year compound rates show that the sector has mostly had difficulty in maintaining ROA. The outlier for Digia is caused by a demerger in March 2016. There is also significant variance in the operating margins of the peer group, which Siili has managed to keep positive – the lesson from a historical peer ratio comparison is that Siili has managed to consistently keep their liquidity and operating margins better than the competition.

In the long term, the company aims to keep a revenue growth rate of 20% and a 10% or better EBITDA ratio on average. Keeping up both may prove difficult but the Siili has a strong track record to back that up.

	CAGR 5 years		Margin Changes, CAGR 5 yrs	
	Quick Ratio	D/E	ROA	Op. Marg.
Siili	**1,29**	**1,08**	**-4,54 %**	**1,62 %**
Affecto	0,94	1,01	-6,31 %	-6,74 %
Digia	0,67	1,15	120,74 %	-2,21 %
Innofactor	0,79	1,06	6,53 %	4,38 %
QPR	0,96	1,58	-5,78 %	-1,50 %
Solteq	0,52	1,75	-0,93 %	-5,37 %

A combination of organic growth and acquisitions

An important component of Siili's growth is that it has managed to keep up organic revenue growth at 16% increase in 2016, which is in line with the last five years – the company has managed to keep generating investor value amid capital expenditure on acquisitions with approximately one half of total growth driven by organic advancement.

The value driver uncovered is Siili's ability to keep up organic growth and an average EBITDA-% comparable to the peer group while they are sustaining fast value increase with a combination of organic and inorganic growth; this is a positive signal for future growth as well.

Company Description

- Software development company founded 2005, specialized in flexible development to variable customer needs
- Main customers are large organizations like banks, insurance companies, healthcare firms
- Rapid growth via strategic acquisitions since 2010 with entrance of new CEO Seppo Kuula
- Headquarters in Finland; offices in the United States, Germany and Poland
- Listed on NASDAQ OMX First North in 2012, moved to Main List in 2016

siili_

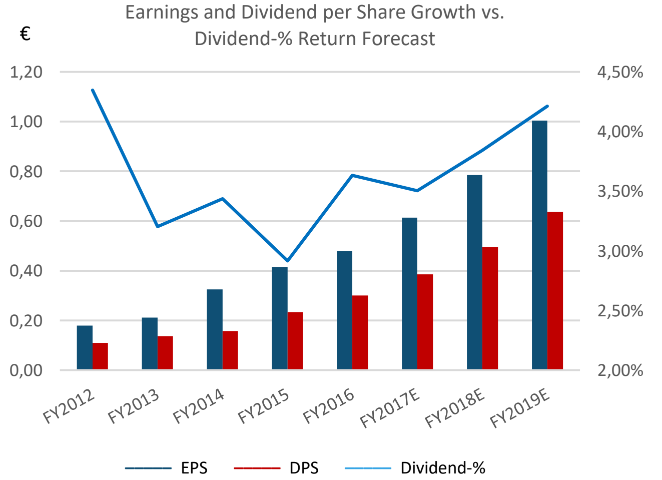
Valuation

Earnings per Share will continue to drive value

Since the First North listing in 2012 Siili has generated robust growth in revenue and profitability; the company has also not undertaken any major strategy changes related to margins or capital structure, further strengthening a case for the Discounted Cash Flow valuation as a reliable history gives credence to forecasting results based on performance.

The sustained growth combination of both organic and inorganic growth implies that the company should be able to weather growth challenges for the future: the strong EPS ratio suitably covers the dilution of earnings per share due to acquisitions. Earnings have grown at a good pace, with a forecast for EPS growth with a 5 year CAGR of 28,9%. The company goal is to pay out 30%-70% of net profit in dividends – even a conservative estimate of realized compound dividend growth at 28,5% implies increasing return.

Valuation multiples indicate similarly growing stock and company value – a forward P/E multiple for 2018 of 14,0x reveals a falling relative price to earnings should the market price stagnate. The risk revealed by the value multiples lies in EV/EBITDA, which has steadily increased at a compound 12,6% rate since 2012: a similar growth rate until 2019 would imply a yet a increasing value demand from the market, which has grown faster than earnings.



Goodwill has not impaired, signaling competent acquisitions

Siili Solutions has gathered significant goodwill through acquisitions, standing at, 8,65 mEUR i.e. 28,3% of total assets. This is noteworthy as a risk factor as Siili has not written down their most significant intangibles in the last few years – this makes the company potentially vulnerable to an economic downturn in the future or significant goodwill impairment otherwise if a significant difficulty to the brand is encountered.

However, it is also a good signal in that the company has not needed to make impairments to goodwill, signaling good performance of acquisitions after merging.

Strong essentials deliver stable growth

The DCF valuation of Siili Solutions is predicated on the following core assumptions: the company will continue to grow through a combination of organic and inorganic growth; net profit development will keep steady despite strategic acquisitions; foreign investments will pay off with competent merging as in earlier years; and that leverage will remain low.

While cavalier for the average IT index company, all of the above for Siili Solutions is supported by consistent evidence of competent balance sheet management and profitability increase.

Accordingly, the DCF analysis implies that a current P/E estimate of 17,9 is conservative for the company, as earnings have been outpacing peer and market growth with no severe leverage or liquidity stumbles, while the market prices the share from a perspective that does not see a scarcely hidden growth potential for Siili Solutions. If the risk elements of future scalability and as yet unproven foreign market performance is tolerable to an investor, the upside of a current investment will provide above average return in the long term.

Price Per Share Sensitivity to Cost of Capital and Revenue Growth

Cost of Capital	Terminal Growth Rate		
	2,0 %	2,5 %	3,0 %
7,0 %	11,2 €	12,3 €	13,7 €
8,0 %	8,9 €	9,6 €	10,5 €
9,0 %	7,3 €	7,8 €	8,4 €

Expected growth will spur on reliable return on current investment

Forward P/E and P/S ratios each fall from 17,9x to 14,0x and from 1,2x to 0,9x respectively, signaling an improving price ratio in a conservative share price environment.

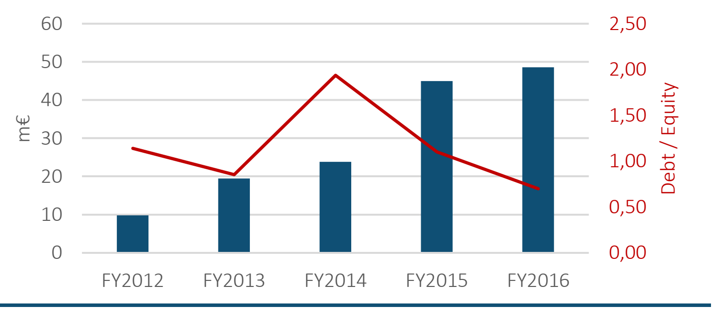
Projecting Siili's geometric mean of EBIT since 2012 (growth 33,8%) to 2019 and adjusting similarly for depreciation, amortization and capital expenditure yields a steadily increasing cash flow.

For a scenario-based DCF a cost of capital assumption of 7%-9% was estimated based on a review of Siili's and its peer group's betas. A perpetuity growth assumption of 2%-3% was made based on a traditional DCF of the company keeping up or slightly outpacing a moderate perpetual growth of the economy. This analysis yields a set of implied prices for the current price of Siili Solution's share – even a fairly conservative estimate of the company's future performance skews interpretation of the table toward a higher value of the stock as the company's past performance and the software sector's future prospects signal that Siili Solution's current price of 11,4€ a share is modestly underpriced.

EV / EBITDA Comparisons

Company	FY2012	FY2013	FY2014	FY2015	FY2016
Siili	8,27	11,22	9,34	8,97	9,85
Affecto	4,8	7,52	21,27	7,72	7,68
Digia	6,61	11,44	12,62	11,15	17,29
Innofactor	14,01	14,12	11,51	11,09	9,98
QPR Software	6,48	8,13	5,9	15,56	8,33
Solteq	5,96	7,55	6,2	17,94	5,7

Historical Revenue and Leverage



SWOT-analysis

Strengths

- Strategic flexibility in business model
- Technology-indepent design offers wide variety of industries
- Nascent successes in foreign markets
- Set apart by market positioning: competitors either large generalists or small specialists

Weaknesses

- Current size makes it difficult to challenge established companies
- Limited expertise in industries compared to specialist companies
- The business model may suffer from scalability issues
- Reliance on largest customers
- Geographical reliance on home market

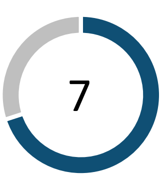
Opportunities

- Strong international growth opportunity
- Growing demand for digitalization
- Successful challenging of established operators through agile development

Threats

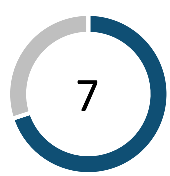
- Failed market expansions
- Operating sector sensitive to economic downturn
- Failure to challenge established operators
- Stalling agility as organization grows
- Over-reliance on biggest clients
- Keeping growth pace despite change of management

Value Drivers



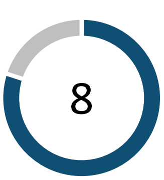
- Maket positioning captures advantages from both smaller and largers peers
- Innovative anticipator of market trends and technologies

Management and Board



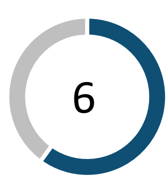
- CEO and board have on average over a decade of IT-sector management experience
- Change of current CEO poses a potential risk, but current growth strategy will be held according to company

Quality of Earnings



- Robust revenue and profitability growth currently underpriced by the market
- Leverage and liquidity have performed better than peer group despite acquisitions

Risk Profile



- Consistent strategy of controlled organic and inorganic growth gives credence to continued stability
- Digitalization trend is promising for the company, but scalability concerns may be a future obstacle

Appendix

Siili unlevered Free Cash Flow Projection									
Calendar Year Ending December 31									
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017E	FY2018E	FY2019E	CAGR
Revenue	16,06	18,80	29,50	41,90	48,42	63,79	84,05	110,74	31,8%
EBIT	1,29	1,37	2,52	3,50	4,14	5,40	6,74	8,08	33,8%
Plus: Non-deductible Goodwill Amort.	-	-	-	-	-	-	-	-	
EBITA	1,29	1,37	2,52	3,50	4,14	5,40	6,74	8,08	33,8%
Less: Provision for Taxes	(0,26)	(0,27)	(0,50)	(0,70)	(0,83)	(1,08)	(1,35)	(1,62)	
Unlevered Net Income	1,03	1,10	2,02	2,80	3,31	4,32	5,39	6,46	33,8%
Plus: D&A (excl. non-deductible GW amort.)	0,25	0,42	0,42	0,52	0,63	0,79	1,00	1,26	
Less: Capital Expenditures	(0,23)	(0,73)	(2,78)	(1,82)	(1,75)	(2,07)	(2,07)	(2,07)	
Less: Increase in Net Working Capital									
Unlevered Free Cash Flow	1,05	0,79	(0,34)	1,50	2,19	3,04	4,32	5,66	40,3%

Peer Comparisons

Revenue	FY2012	FY2013	FY2014	FY2015	FY2016
Affecto	133,40	132,90	122,69	116,03	112,51
Digia	100,45	99,74	97,43	80,95	86,46
Innofactor	18,82	32,69	43,83	44,45	61,50
QPR	9,32	8,69	9,54	9,44	8,63
Solteq	39,02	38,12	40,93	54,22	63,05

Op.Margin	FY2012	FY2013	FY2014	FY2015	FY2016
Affecto	7,83	6,22	6,73	6,44	5,93
Digia	6,85	-2,83	4,22	7,97	6,27
Innofactor	3,29	6,90	5,49	5,72	3,91
QPR	9,38	6,68	11,49	3,91	8,83
Solteq	12,74	5,62	6,08	5,52	10,22

ROA	FY2012	FY2013	FY2014	FY2015	FY2016
Affecto	5,15	3,82	-1,20	4,81	3,97
Digia	4,47	-4,63	3,48	6,49	106,06
Innofactor	2,22	4,09	3,31	3,39	2,86
QPR	9,06	6,94	10,67	4,08	7,14
Solteq	7,63	6,18	7,51	0,23	7,35

Ansvarsbegränsning
Analyser, dokument och all annan information som härrör från LINC Research & Analysis (LINC R&A) är framställt i informationssyfte och är inte avsett att vara rådgivande. LINC är en ideell organisation (organisationsnummer 845002-2259) och analyser eller annan information som härrör från LINC R&A ska inte betraktas som investeringsrekommendationer.

Informationen i analysen är baserad på källor, uppgifter och personer som LINC R&A bedömer som tillförlitliga, men LINC R&A kan aldrig garantera riktigheten i informationen. Den framåtblickande informationen i analysen baseras på subjektiva bedömningar om framtiden, vilka alltid är osäkra och därför bör användas försiktigt. LINC R&A kan aldrig garantera att prognoser och framåtblickande estimat kommer att bli uppfyllda. Om ett investeringsbeslut baseras på information från LINC R&A eller person med koppling till LINC R&A, så fattas dessa alltid självständigt av investeraren. LINC R&A frånsäger sig därmed allt ansvar för eventuell förlust eller skada av vad slag det än må vara som grundar sig på användandet av analyser, dokument och all annan information som härrör från LINC R&A.

Intressekonflikter och opartiskhet
För att säkerställa LINC R&A's oberoende har LINC R&A inrättat interna regler, utöver detta så är alla studenter som skriver för LINC R&A skyldiga att redovisa alla eventuella intressekonflikter. Dessa har utformats för att säkerställa att Finansinspektionens föreskrifter och allmänna råd om investeringsrekommendationer riktade till allmänheten samt hantering av intressekonflikter (FFFS 2005:9) efterlevs. Material från LINC R&A ska aldrig betraktas som investeringsrekommendationer.

Om skribent har ett innehav där en intressekonflikt kan anses föreligga, redovisas detta i informations-materialet.

Övrigt
LINC R&A har ej mottagit betalning eller annan ersättning för att göra analysen.

Upphovsrätt