

Q3

enfo

Enfo Oyj

Interim report

July 1 – September 30, 2018

ENFO GROUP'S INTERIM REPORT

July 1 – September 30, 2018

Enfo Q3: Transition ongoing, significant improvement compared to last year, monthly volatility still challenging

Key points of the interim report

- Turnover was EUR 27.6 (28.8) million in July–September and EUR 92.3 (95.9) million for the period January–September. Focus for whole year 2018 has been on building a sustainable business foundation and profitability after a challenging year in 2017. This shift is advancing well in offering, leadership culture and structure, but monthly profitability development is still volatile.
- EBITDA was EUR 1.0 (-0.2) million in July–September and EUR 3.0 (1.4) million since the start of the year. Operating profit (EBIT) was EUR 0.0 (-1.4) million in July–September. EBITDA is expected to improve in Q4.
- Profit for the review period was EUR -0.3 (-1.8) million in July–September and EUR -1.8 (-3.5) million for January–September (2017 figures not including divested business).
- Earnings per share were EUR -0.5 (-3.2) in July–September and EUR -4.3 (-7.7) in January–September (2017 figures not including divested business).
- Cash flow from operating activities totaled EUR -0.1 (-0.4) million in July–September and EUR 1.5 (-1.4) million in January–September.
- At the end of September, Enfo Group employed a total of 882 (910) people.
- In Q3, Enfo implemented a revised management structure. The new structure supports Enfo's offering in enabling data-driven business transformation. The development of competence management advanced during the period and the competence acquisition team reached full operational capacity. Operational efficiency improved year-on-year, but the progress was not completely satisfactory throughout the period.

Outlook for 2018

The Group's EBITDA is expected to increase in 2018 compared to 2017. The improvement is based on the enhancement of competence acquisition and management, development of offering, deepening of customer relations, as well as operational efficiency.

Risks and uncertainties

Competition for experts is a major factor in terms of growth, and the main short-term risks are related to recruiting and efficient onboarding of employees. The internal capability to develop competence management, advance tools for maneuverability, and continue to execute renewed story, offering and structure is essential in the short-term. Enfo's growth in the long-term will be impacted by the markets' moves towards bringing together data assets, as well as the pace of the shift towards cloud.

CEO's review

Seppo Kuula, Enfo Group's CEO, comments on the review period:

"In Q3 we implemented a new structure to be better equipped to support our customers' data-driven business transformation. Our four business areas – Data platforms, Information management, Applications and Care – respond to a market where connectivity is business-critical, cross-platform and omni-channel.

This structural change followed the measures taken in H1 to strengthen our unified culture as well as evolve our shared story and offering towards competitive positioning. The business area Data platforms, headed by Nina Annila, provides the cross-platforms backbone for the management of data: data center, hybrid and public cloud platforms. Information management, headed by Sami Kähkönen, provides a holistic approach to managing and creating value from data in real-time intelligent ecosystems and handling exponentially increasing amounts of data. Applications, headed by Hans Sollerman, provides applications, digital services and integration with all leading technologies. Care, headed by Lars Aabol, is responsible for our care operations with top-notch customer support 24/7/365 irrespective of platform. In addition, a Tiger team, headed by Erik Brügge, works together with business areas as well as account management and sales to support data-driven digital solution creation, the cloud journey, co-creational business relations transformation as well as the humanization of technology.

During the period, we, together with our partly-owned subsidiary Zuite Business Consulting, investigated the possibilities of aligning our offerings around SAP on cloud. The cloud movement is massive: we see that in five years' time three to four out of five business-critical applications will be in the cloud and the rest in data centers, the ratio being the opposite today. What is more: the heart of data – enterprise resource planning (ERP) systems – will move to the cloud and here we want to be at the forefront enabling our customers' data-driven success. Only in the cloud can ecosystem data genuinely be brought together for business value.

We also started the process of bringing our financial processes and tools back in-house. This is a step towards common tools and processes throughout Enfo for a better navigation system to increase maneuverability. In Q4, tools to increase forward-looking transparency will be our focus. During the past quarter we have seen that although we are well on track with regards to a sustainable business foundation when it comes to offering, leadership culture and structure, monthly profitability development is still erratic.

Crucial for maneuverability is competence management. We are developing a competence management solution for aligning sales, business management, competence acquisition, and competence development. When ready, it will give us transparency to manage our business and competence acquisition based on market demand, providing operational excellence and competitive advantage. The development of competence management advanced during the period and will continue in Q4.

Our competence acquisition team is now fully operational and part of our People operations. In a challenging talent acquisition market, we have managed well to recruit experts. In addition, I am pleased to see that our indicators for both employee satisfaction as well as employee turnover are developing in the right direction.

Operational efficiency for the period improved year-on-year, however the progress was not completely satisfactory throughout the period. To correct this we need better alignment between sales and business areas as well as improved financial tools for forward-looking transparency supporting proactivity.

Towards the end of the year we will continue to focus on profitability, giving high priority to the development of tools and utilization rates. We will take measures to strengthen sales and business area alignment. We will also continue to work on our must-win battles towards 2020: a workplace to love; collaborative, integrated value creation; and to be the trusted partner.“

Turnover and result

In the period July–September, Enfo Group's turnover decreased by 4.3%, compared to the corresponding period last year, to EUR 27.6 (28.8) million. The turnover for the period January–September was EUR 92.3 (95.9) million. EUR 12.3 million of the turnover for July–September was accrued in Finland and EUR 15.2 million in Sweden.

EBITDA was EUR 1.0 (-0.2) million in July–September and EUR 3.0 (1.4) million in January–September. The operating profit for the period July–September was EUR 0.0 (-1.4) million, representing -0.1% (-5.0%) of turnover. The corresponding figure since the start of the year was EUR 0.0 (-2.5) million, representing -0.1% (-2.6%) of turnover.

Profit before taxes was EUR 0.0 (-1.7) million in July–September and EUR -1.3 (-3.4) million in January–September. The Group’s net financing costs amounted to EUR 0.0 (0.3) million during Q3 and EUR 1.3 (0.9) million in January–September. Profit for the review period for continuing operations was EUR -0.3 (-1.8) million in July–September and EUR -1.8 (-3.5) million in January–September. Earnings per share were EUR -0.5 (-3.2) in July–September and EUR -4.3 (-7.7) in January–September for continuing operations.

Financing and investments

Enfo’s net investments totaled EUR 1.0 (0.7) million in July–September and EUR 1.9 (1.7) million in January–September. The company’s equity ratio was 46.0% (47.2%) at the end of the review period. Interest-bearing net liabilities at the end of September amounted to EUR 31.9 (31.3) million and net gearing was 65.1% (55.7%). The Group is in breach of one of the covenants of its financiers’ agreement requiring the Group’s interest-bearing net liabilities/EBITDA to be less than 4.5, and thus the Group has classified the loans covered by the covenant as current liabilities in the Q3 interim report. The Group has received approval from its financiers for the covenant breach.

Changes in the management team

Nina Annila was appointed EVP, Data platforms, and member of the management team in August. Members of Enfo’s management team at the end of the period were Seppo Kuula (CEO), Lars Aabol (EVP, Care), Nina Annila (EVP, Data platforms), Erik Brügge (EVP, Tiger team), Antti Hemmilä (General Counsel), Christian Homén (CFO), Sami Kähkönen (EVP, Information management), Henrik Norell (SVP, People operations), Hans Sollerman (EVP, Applications), Lina Tjerneld (EVP, Marketing and communications), and Andreas Wickell (EVP, Sales).

Personnel

In July–September, Enfo Group employed an average of 885 (920) personnel, the corresponding figure for January–September being 885 (919). At the end of September, the Group employed a total of 882 (910) personnel. During the period July-September, Enfo employed an average of 335 (323) people in Finland and 550 (596) in Sweden.

Shares

On September 30, 2018, Enfo Oyj had a total of 679,251 shares, of which Enfo held 13,386 treasury shares. The company has one series of shares, which has been incorporated to the book-entry account system maintained by Euroclear Finland Oy. The company’s ten largest shareholders at the end of the period were: Osuuskunta KPY, Ilmarinen Mutual Pension Insurance Company, Rongo Cap Oy, the Gösta Serlachius Fine Arts Foundation, Seppo Kuula, Keski-suomalainen Oyj, Einari Vidgrén Oy, Lululemon Oy, Hannu Isotalo Oy and Kallax Oy. Osuuskunta KPY holds 83.56% of Enfo Oyj’s shares.

Timetable for financial reporting in 2018

The interim report for Q3 is published on October 26, 2018. The financial statement bulletin for 2018 will be published on February, 27, 2019 and the Annual Report for 2018 on March 6, 2019.

Accounting principles

This interim report has been prepared using the same measurement and accrual principles as in the annual financial statements, but this interim report has not been prepared according to the IAS 34 standard.

Turnover as well as materials and services are adjusted (decreased) by applying IFRS 15 standards. The effects introduced by IFRS 15 were applied retrospectively. The effect in Q3//2017 was EUR 0.2 million and for the full year 2017 EUR 1.2 million.

The figures in the tables have been rounded to the nearest million euros so they may not add up to precise totals. The figures presented in the tables are unaudited.

Consolidated income statement

EUR million

1.7-30.9.2018 1.7-30.9.2017 1.1-30.9.2018 1.1-30.9.2017 1.1-31.12.2017

	1.7-30.9.2018	1.7-30.9.2017	1.1-30.9.2018	1.1-30.9.2017	1.1-31.12.2017
Turnover	27,6	28,8	92,3	95,9	131,7
Other operating income	0,0	0,1	0,2	0,2	0,0
Materials and services	-6,9	-7,2	-22,2	-23,1	-31,7
Employee benefit expenses	-15,5	-18,2	-53,6	-58,8	-78,2
Depreciation, amortization and impairment	-1,0	-1,2	-3,1	-3,9	-9,1
Other operating expenses	-4,3	-3,7	-13,7	-12,7	-17,9
Operating profit	0,0	-1,4	0,0	-2,5	-5,1
Financial income	0,5	0,1	1,6	0,3	1,2
Financial expenses	-0,4	-0,3	-2,9	-1,2	-2,1
Profit before taxes	0,0	-1,7	-1,3	-3,4	-6,1
Income taxes	-0,3	-0,1	-0,4	-0,1	-1,1
Profit for the period for continued operations	-0,3	-1,8	-1,8	-3,5	-7,2
Profit for the period for discontinued operations	0,0	-1,1	0,0	15,5	15,5
Profit for the period	-0,3	-2,8	-1,8	12,0	8,4
Attributable to					
Owners of the parent company	-0,4	-3,2	-2,9	10,5	6,6
Non-controlling interests	0,0	0,3	1,1	1,5	1,8
Earnings per share, continuing operations EUR	-0,5	-3,2	-4,3	-7,7	-13,5
Earnings per share, EUR	-0,5	-4,8	-4,3	15,7	9,9

Consolidated comprehensive income statement including discontinued operations

EUR million

1.1-30.9.2018 1.1-30.9.2017 1.1-31.12.2017

	1.1-30.9.2018	1.1-30.9.2017	1.1-31.12.2017
Profit for the period	-1,8	12,0	8,4
Exchange rate differences caused by net investments in foreign subsidiaries	-0,7	-0,2	-0,5
Other translation differences	0,2	0,0	-0,1
Comprehensive income for the period	-2,3	11,8	7,8
Attributable to			
Owners of the parent company	-3,4	10,3	6,1
Non-controlling interests	1,0	1,5	1,7

Consolidated balance sheet

EUR million	30.9.2018	30.9.2017	31.12.2017
Assets			
Non-current assets			
Tangible assets	2,9	3,8	3,5
Goodwill	67,4	75,4	69,5
Other intangible assets	4,6	5,4	5,3
Available-for-sale investments	0,1	0,1	0,1
Receivables	0,8	0,3	0,8
Deferred tax assets	1,5	1,4	1,6
Total non-current assets	77,3	86,5	80,8
Current assets			
Inventories	0,0	0,1	0,0
Trade receivables	20,7	24,0	25,3
Other receivables	6,4	3,2	3,2
Tax assets based on the period's taxable income	0,7	4,0	1,7
Available-for-sale investments	0,0	0,0	0,0
Cash and cash equivalents	1,7	1,9	1,9
Total current assets	29,6	33,1	32,1
Assets for discontinued operations		1,9	
Total assets	106,9	121,5	112,9
Equity and liabilities			
Equity			
Share capital	0,3	0,3	0,3
Share premium account	0,0	0,0	0,0
Other reserves	25,6	26,1	25,4
Retained earnings	22,0	28,3	25,1
Total equity attributable to owners of the parent company	47,9	54,7	50,8
Non-controlling interests	1,1	1,5	1,7
Total equity	49,0	56,3	52,5
Non-current liabilities			
Interest-bearing liabilities	1,2	20,4	11,5
Other liabilities	0,4	1,4	0,9
Deferred tax liabilities	0,7	1,0	0,9
Total non-current liabilities	2,2	22,8	13,3
Current liabilities			
Interest-bearing liabilities	32,5	12,9	20,6
Trade payables	5,4	4,9	6,0
Other liabilities	17,8	22,8	20,5
Total current liabilities	55,7	40,6	47,1
Total liabilities	57,9	63,4	60,4
Liabilities for discontinued operations		1,8	
Total equity and liabilities	106,9	121,5	112,9

Condensed statement of cash flows including discontinued operations

EUR million	1.1-30.9.2018	1.1-30.9.2017	1.1-31.12.2017
Cash flow from operations			
Profit for the period	-1,8	12,0	8,4
Adjustments to the profit for the period	4,8	-12,9	-6,7
Change in working capital	-0,2	1,6	4,5
Interest paid and received	-0,7	-0,6	-0,8
Taxes paid	-0,6	-1,5	-1,5
Net cash flow from operations	1,5	-1,4	3,8
Cash flow from investments			
Acquisition of subsidiaries less cash and cash equivalents on the acquisition day	0,0	-0,7	-0,7
Investments in tangible and intangible fixed assets	-0,8	-0,2	-0,8
Sales of tangible and intangible fixed assets	0,0	0,0	0,1
Investments: Investments accounted for using the equity method	0,0	0,0	-2,4
Sale of subsidiary less cash and cash equivalents on the sale date	0,0	19,6	19,0
Loans issued	0,0	0,0	-0,5
Net cash flow from investment activities	-0,8	18,8	14,8
Cash flow from financing activities			
Changes in loans	2,9	-8,9	-9,9
Changes in equity	-1,7	-10,2	-10,3
Repayment of financial leasing liabilities	-1,7	-2,2	-2,7
Net cash flow from financing activities	-0,6	-21,3	-23,0
Changes in cash and cash equivalents	0,2	-3,9	-4,4
Effect of exchange rate changes on cash and cash equivalents	-0,4	-0,1	-0,2
Cash and cash equivalents at the beginning of the period	1,9	5,0	5,0
Cash of the discontinued operations at the beginning of the period	0,0	1,5	1,5
Cash of the discontinued operations at the end of the period	0,0	-0,6	0,0
Cash and cash equivalents at the end of the period	1,7	1,9	1,9

Changes in shareholders' equity

EUR million	Share capital	Share premium account	Treasury shares	Translation differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
Equity on 1 Jan 2017	0,3	13,3	-0,1	0,7	8,0	30,9	53,0	1,9	54,9
Profit/loss for the period						10,5	10,5	1,5	12,0
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,2			-0,2		-0,2
Other translation differences				-0,2		0,2	0,0	0,0	0,0
Other comprehensive income items for the period after taxes	0,0	0,0	0,0	-0,3	0,0	0,2	-0,2	0,0	-0,2
Comprehensive income for the period	0,0	0,0	0,0	-0,3	0,0	10,6	10,3	1,5	11,8
Transactions with owners									
Distributed dividends					-7,9	-0,7	-8,5	-1,8	-10,4
Share issue					0,9		0,9		0,9
Purchase of treasury shares			-0,2				-0,2		-0,2
Sale of treasury shares			0,0				0,0		0,0
Redemption obligation						-0,8	-0,8		-0,8
Total transactions with owners	0,0	0,0	-0,1	0,0	-7,0	-1,5	-8,6	-1,8	-10,4
Transfers between items		-13,3			25,1	-11,7	0,0		0,0
Equity on 30 September 2017	0,3	0,0	-0,3	0,3	26,1	28,3	54,7	1,5	56,3

	Share capital	Share premium account	Treasury shares	Translation differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
Equity on 1 Jan 2018	0,3	0,0	-0,4	-0,3	26,1	25,2	50,8	1,7	52,6
Profit/loss for the period						-2,9	-2,9	1,1	-1,8
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,7			-0,7		-0,7
Other translation differences				-0,7		0,9	0,3	-0,1	0,2
Other comprehensive income items for the period after taxes		0,0	0,0	-1,4	0,0	0,9	-0,5	-0,1	-0,6
Comprehensive income for the period	0,0	0,0	0,0	-1,4	0,0	-1,9	-3,3	1,0	-2,3
Transactions with owners									
Distributed dividends								-1,7	-1,7
Share issue					0,7		0,7		0,7
Purchase of treasury shares			-0,7				-0,7		-0,7
Redemption obligation						0,5	0,5		0,5
Total transactions with owners	0,0	0,0	-0,7	0,0	0,7	0,5	0,4	-1,7	-1,3
Equity on 30 September 2018	0,3	0,0	-1,1	-1,7	26,8	23,7	47,9	1,1	49,0

Key figures, continued operations	1.1-30.9.2018	1.1-30.9.2017	1.1-31.12.2017
Turnover, EUR million	92,3	95,9	132,9
Operating profit, EUR million	0,0	-2,5	-5,1
% of turnover	-0,1	-2,6	-3,8
Profit before taxes, EUR million	-1,3	-3,4	-6,1
% of turnover	-1,4	-3,5	-4,6
Profit for the period, EUR million	-1,8	-3,5	-7,2
% of turnover	-1,9	-3,7	-5,4
Earnings per share, continuing operations, EUR	-4,3	-7,7	-13,5
Earnings per share, discontinuing operations, EUR	0,0	23,4	23,4
Earnings per share, EUR	-4,3	15,7	9,9
Return on investment, %	2,5	-4,4	-4,2
Return on equity, %	-2,3	-8,2	-9,2
Equity ratio, %	46,0	47,2	46,6
Net gearing, %	65,1	55,7	57,4
Interest-bearing net debt, EUR million	31,9	31,3	30,1
Equity per share, EUR	71,9	82,1	76,2
Average number of employees	885	919	911
Number of shares	679 251	670 349	670 349

Profit from discontinued operations

EUR million	1.1-30.9.2018	1.1-30.9.2017	1.1-31.12.2017
Turnover	0,0	6,6	6,6
Expenses	0,0	-8,8	-8,8
Profit before tax	0,0	-2,2	-2,2
Taxes	0,0	-0,1	0,0
Profit after taxes	0,0	-2,3	-2,3
Capital gain from subsidiaries after taxes	0,0	18,5	17,8
Profit from discontinued operations	0,0	16,3	15,5

Changes in tangible fixed assets

EUR million	1.1-30.9.2018	1.1-30.9.2017	1.1-31.12.2017
Carrying amount at the beginning of the period	3,5	4,4	4,4
Increases	1,1	1,2	1,7
Decreases	-0,1	0,1	-0,3
Depreciation and amortisation	-1,6	-1,8	-2,3
Carrying amount at the end of the period	2,9	3,9	3,5

Commitments and contingencies

EUR million	30.9.2018	30.9.2017	31.12.2017
Leasing liabilities	4,4	3,6	4,1
Other rental liabilities	6,4	10,7	9,3
Other contract liabilities	0,2	0,4	0,3
Bank guarantees	0,3	0,3	0,3
Total other liabilities	11,3	15,0	14,0

Enfo

Data-driven business transformation

Enfo is a Nordic IT service company enabling its customers' data-driven business transformation. With our niched expertise in managing hybrid platforms and business applications including new digital services, we bring together relevant data for more intelligent operations. In an increasingly complex data environment, we integrate data on- and off-premises, in public and private cloud. We both build and run digital solutions – supporting our customers in mastering the complexity. We are over 900 niched experts working for a more intelligent world, with technology empowering people, businesses and societies.

For more information, visit enfogroup.com

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