

Enfo Oyj

Full year financial report 2019

February 27, 2020

Enfo Group's financial statement bulletin

January 1 – December 31, 2019

Enfo 2019: Enfo focused on profitability after building a sustainable business foundation in 2018. Enfo's operating profit improved in 2019 by EUR 3.8 million. Net sales declined mainly as a result of disposing non-profitable business.

Q4/2019

- Net sales were EUR 31.8 (33.2) million
- EBITDA was EUR 3.2 (0.8) million
- Operating profit (EBIT) was EUR 0.9 (-2.4) million
- Profit for the period was EUR 0.3 (-2.7) million
- Earnings per share were EUR -0.2 (-4.9)
- Operating cash flow was EUR 4.2 (0.8) million

Full year 2019

- Net sales were EUR 121.5 (125.6) million
- EBITDA was EUR 9.4 (3.8) million
- Operating profit (EBIT) was EUR 1.4 (-2.5) million
- Profit for the period was EUR -1.4 (-4.5) million
- Earnings per share were EUR -4.6 (-9.2)
- Operating cash flow was EUR 9.3 (2.3) million

The numbers in brackets refer to the value in the corresponding period a year earlier, unless otherwise stated.

| Key figures | 1.10.-31.12.2019 | 1.10.-31.12.2018 | 1.1.-31.12.2019 | 1.1.-31.12.2018 |
|--|------------------|------------------|-----------------|-----------------|
| Net sales, EUR million | 31,8 | 33,2 | 121,5 | 125,6 |
| Operating profit, EUR million | 0,9 | -2,4 | 1,4 | -2,5 |
| % of Net sales | 3,0 | -7,2 | 1,1 | -2,0 |
| Profit before taxes, EUR million | 1,0 | -2,3 | -0,1 | -3,6 |
| % of Net sales | 3,2 | -6,9 | -0,1 | -2,9 |
| Profit for the period, EUR million | 0,3 | -2,7 | -1,4 | -4,5 |
| % of Net sales | 1,1 | -8,2 | -1,1 | -3,6 |
| Earnings per share, EUR | -0,2 | -4,9 | -4,6 | -9,2 |
| Return on investment, % | 3,4 | neg | 3,4 | neg |
| Equity ratio, % | 36,4 | 43,8 | 36,4 | 43,8 |
| Net gearing, % | 96,0 | 69,5 | 96,0 | 69,5 |
| Interest-bearing net debt, EUR million | 41,6 | 32,0 | 41,6 | 32,0 |
| Equity per share, EUR | 62,6 | 66,8 | 62,6 | 66,8 |
| Average number of employees | 903 | 884 | 903 | 884 |
| Number of shares | 679 251 | 679 251 | 679 251 | 679 251 |

CEO's review

Seppo Kuula, Enfo's CEO, comments on the year 2019:

"In 2019, we focused on profitability after building a sustainable business foundation in 2018. We worked with collaborative value creation and continued to prioritize our people.

In 2018, we built our shared story and offering, as well as a structure for value creation. Through common goals and cultural transformation, we built a solid foundation with improved employee experience, which led to improved customer experience and lowered attrition.

In 2019, we moved into the second phase of transformation with profitability at the forefront. Lower hierarchy and greater autonomy in the organization required improved business control and advanced processes for operational management. During the year, we supported business units struggling with efficiency, improved in-house transparency regarding sales and delivery to minimize waste, took actions to decrease overhead costs and tightly followed up on utilization of value-creative actions. Thanks to these efforts, operating efficiency developed positively. Our competence management program was launched and developed during the year. The program aims at continuously balancing competence demand and supply. This provides essential data for our sales management, delivery operations and business control and brings operational efficiency in the short term and competitive advantage in the long term. Collaborative value creation was the prioritized must-win battle in 2019 and we aligned our sales, marketing and business operations further and worked with a co-creational approach in customer liaisons. Naturally, we continued to engage in our must-win battle from 2018 – being a workplace to love.

In 2020, we are continuing to the third phase of our current strategy – growth. Our winning aspiration is to be a Nordic leader in data-driven business transformation and to support hybrid enterprise software systems transition to the modern digital age. In practice, this means mastering the complexity of data management in integrated ecosystems at a time in which business-critical applications are moving to cross-platform environments, which in turn supports modern workplace development with AI-assisted edge devices, augmented analytics and distributed ledgers with robotics. Gartner predicts that, by 2021, over 75% of mid-size and large organizations will have adopted a multi-cloud or hybrid IT strategy. Integration platforms are closely following these developments. Here, IT generalists with cross-platform competence and the capacity to both build and run solutions are at the forefront. Enfo is privileged to be large enough to have all the required competences for credible deliveries in this complex transformation, but small enough to be agile in co-creating solutions based on customer needs."

Outlook

The Group's net sales and EBITDA are expected to increase in 2020 compared to 2019. Enfo's profitable growth is based on building and running business-critical applications in a cross-platform environment, with SAP as a spearhead. The competence management program, along with increased operational efficiency and improved maneuverability will also contribute to this positive development.

Net sales and profit

Q4/2019

Enfo Group's net sales in the fourth quarter were EUR 31.8 (33.2) million. EUR 13.0 million of the net sales were generated in Finland and EUR 18.7 million in Sweden. Sales from recurring services amounted to EUR 12.5 (12.1) million, sales from consulting to EUR 16.4 (17.7) million and intermediary sales to EUR 2.9 (3.3) million in the fourth quarter.

EBITDA in the fourth quarter was EUR 3.2 (0.8) million. Operating profit (EBIT) for the fourth quarter was EUR 0.9 (-2.4) million, or 3.0% of net sales. Profit before taxes was EUR 1.0 (-2.3) million and profit for the period was EUR 0.3 (-2.7) million in the fourth quarter. The fourth quarter earnings per share were EUR -0.2 (-4.9).

Full year 2019

The Group net sales in 2019 decreased by 3.3% to EUR 121.5 (125.6) million. The main reason for the decline was ending of the non-profitable business in Karlskrona. EUR 52.7 million of the net sales were generated in Finland and EUR 68.8 million in Sweden. Sales from recurring services amounted to EUR 48.0 (46.1) million, sales from consulting to EUR 62.3 (68.7) million and intermediary sales to EUR 11.2 (10.8) million in 2019.

EBITDA was EUR 9.4 (3.8) million in 2019. Full-year operating profit (EBIT) increased by EUR 3.8 million and was EUR 1.4 (-2.5) million or 1.1% of net sales. The improvement in operating profit was mainly due to efficiency measures to minimize waste in delivery processes and improved overhead cost control. Full-year profit before taxes amounted to EUR -0.1 (-3.6) million and profit for the period was EUR -1.4 (-4.5) million. Full year 2019 earnings per share were EUR -4.6 (-9.2).

Investments and financing

Enfo's net investments in 2019 amounted to EUR 15.4 (1.8) million. The total consisted of a EUR 0.6 million investment in a competence management program, the acquisition of SAP business for EUR 4.3 million, EUR 7.8 million in additions during the period due to IFRS 16 standard, and a EUR 2.7 million investment in operations and production.

In May, Enfo signed a new EUR 20 million financing package with a consortium of creditors, including previous lenders Nordea Bank and OP Corporate Bank, as well as Ilmarinen and LähiTapiola as new lenders. The financing package included repayment of the EUR 10 million multi-issuer bond due in June 2019 and re-financing of existing long-term bank financing.

As at December 31, Enfo remained in compliance with the financial covenants specified in its loan agreements:

- Net gearing less than 100%
- Interest-bearing net liabilities/EBITDA less than 4.5

At the end of 2019, Enfo had EUR 13.7 (15.0) million short-term credit limit of which EUR 9.5 (10.9) million was withdrawn at the end of December.

Interest-bearing liabilities at the end of December amounted to EUR 42.6 (32.2) million and were composed of EUR 29.9 (19.1) million in bank loans, EUR 12.7 (3.1) million in lease liabilities and EUR 0.0 (10.0) million in bonds.

The company's equity ratio at the end of the financial year was 36.4% (43.8) and net gearing was 96.0% (69.5). The net financial expenses of the Group were EUR 1.5 (1.2) million. Net cash flow from operations equaled EUR 9.3 (2.3) million. The end-of-year balance sheet totaled EUR 119.6 (105.5) million.

Risks and uncertainties

Competition for experts is a major factor in terms of growth, and the main short-term risks are related to the recruiting and efficient onboarding of employees. The internal capability to develop competence management, advance tools for maneuverability, and continue to execute offering is essential in the short term. In the long term, Enfo's growth will be influenced by the market's willingness to migrate business-critical solutions to cross-platform environments.

Personnel

Enfo employed an average of 903 employees (884) during the year and a total of 916 employees (881) at the end of the year. On average, 360 (321) employees were in Finland and 543 (561) were in Sweden. The Group's personnel expenses totaled EUR 70.9 (73.4) million in 2019. Personnel expenses made up 59%

(57) of all expenses in the income statement. Enfo paid salaries and bonuses to its personnel to a total amount of EUR 55.7 (61.6) million.

At the end of 2019, the average duration of a permanent employment relationship in the Group was 5.2 (5) years. A clear majority of 77% (77) of the Group's personnel are men. The average age of the personnel was 42.6 (42).

Management

In January 2020, the Group's Management Team consisted of CEO Seppo Kuula, Nina Annila (EVP, Care and Data platforms Finland), Björn Arkenfall (EVP, Applications and Information management Sweden), Erik Brügge (EVP, Care and Data platforms Sweden), Antti Hemmilä (General Counsel), Sami Kähkönen (EVP, Applications and Information management Finland), Henrik Norell (EVP, People operations) and Mari Orttenvuori (CFO).

Events since the review period

On December 30, 2019 the Board of Directors resolved on a rights issue of approximately EUR 4.2 million with pre-emptive subscription rights for the company's current shareholders, as authorized by the Annual General Meeting of March 27, 2019. The full number of shares was subscribed in January 2020, and the 82,233 new subscribed shares were entered in the Trade Register in February 2020. The proceeds from the rights issue will be used to finance the acquisition of the SAP ERP business of Solteq Oyj, done in December 2019.

Enfo and TIBCO Software Inc, a global leader in enterprise data, announced a strategic partnership in January 2020, making Enfo an exclusive reseller of TIBCO solutions in the Nordic and Baltic Countries.

Shares

Enfo Oyj had a total of 679,251 shares on December 31, 2019. According to the company's list of owners, the company had a total of 126 direct shareholders at the end of the financial year, including the company itself. This figure does not include foreign shareholders whose shares are nominee-registered. At the end of the financial year, the company held 13,388 treasury shares (1.97% of all of the shares). The company has one series of shares, and the shares are connected to Euroclear Finland Oy's book-entry system.

Enfo Oyj is the parent company of Enfo Group, which belongs to Osuuskunta KPY Group. The parent company of Osuuskunta KPY Group is Osuuskunta KPY. Enfo Group comprises subsidiaries in Finland, Sweden, Denmark, and Norway. Enfo Oyj has a branch in the United Kingdom. At the end of 2019, the company's ten largest shareholders 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's shares.

Proposal of the Board of Directors for dividend distribution

On December 31, 2019 the parent company's distributable funds totaled EUR 62,414,111.28. The Board of Directors proposes to the Annual General Meeting that no dividend will be distributed for the financial year 2019.

Timetable for financial reporting in 2020

The financial statement bulletin for 2019 is published on February 27 and the Annual Report 2019 on March 3. The Annual General Meeting will be held on April 24, 2020. The interim reports for 2020 will be published as follows: Q1/2020 on April 24, Q2/2020 on August 27 and Q3/2020 on October 29.

Accounting principles

This financial statement bulletin has been prepared in accordance with the recognition and measurement principles of the International Financial Reporting Standards (IFRS) and the accounting principles published in the 2019 financial statements.

Enfo has adopted *IFRS 16 Leases*, using the modified retrospective approach as at January 1, 2019. At initial application, Enfo recognized a right-of-use asset for leases previously classified as an operating lease applying IAS 17 at an amount equal to the lease liability. The company has selected to utilize the exemption to exclude short-term leases and leases of low value items as permitted by IFRS 16.

The application of the standard IFRS 16 increased fixed assets and debt by EUR 8.7 million. Of the debt, EUR 3.6 million was booked as short term and EUR 5.1 million as long term. The effect on EBITDA during 2019 has been EUR 3.5 million. Of leasing costs EUR 3.4 million was booked as depreciation and EUR 0.2 million as finance costs during 2019. Due to standard change from beginning of 2019 net cash flow from operations improved and net cash flow from financing activities weakened comparing to previous period by EUR 3.5 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 statement of income

| EUR million | 1.10.-31.12.2019 | 1.10.-31.12.2018 | 1.1.-31.12.2019 | 1.1.-31.12.2018 |
|---|------------------|------------------|-----------------|-----------------|
| Net sales | 31,8 | 33,2 | 121,5 | 125,6 |
| Other operating income | 0,1 | 0,5 | 0,2 | 0,7 |
| Materials and services | -7,4 | -8,0 | -29,3 | -30,3 |
| Employee benefit expenses | -18,5 | -19,8 | -70,9 | -73,4 |
| Depreciation, amortization and impairment | -2,2 | -3,2 | -8,1 | -6,2 |
| Other operating expenses | -2,8 | -5,1 | -12,0 | -18,8 |
| Operating profit | 0,9 | -2,4 | 1,4 | -2,5 |
| Financial income | 0,6 | 0,4 | 1,4 | 2,0 |
| Financial expenses | -0,5 | -0,3 | -2,9 | -3,2 |
| Profit before taxes | 1,0 | -2,3 | -0,1 | -3,6 |
| Income taxes | -0,7 | -0,4 | -1,3 | -0,8 |
| Profit for the period | 0,3 | -2,7 | -1,4 | -4,5 |
| Attributable to | | | | |
| Ow ners of the parent company | -0,1 | -3,2 | -3,0 | -6,1 |
| Non-controlling interests | 0,5 | 0,5 | 1,7 | 1,6 |
| Earnings per share, EUR | -0,2 | -4,9 | -4,6 | -9,2 |

Consolidated statement of comprehensive income

| EUR million | 1.1.-31.12.2019 | 1.1.-31.12.2018 |
|---|-----------------|-----------------|
| Profit for the period | -1,4 | -4,5 |
| Exchange rate differences caused by net investments in foreign subsidiaries | -0,3 | -0,6 |
| Other translation differences | 0,2 | -0,1 |
| Comprehensive income for the period | -1,5 | -5,2 |
| Attributable to | | |
| Ow ners of the parent company | -3,1 | -6,8 |
| Non-controlling interests | 1,7 | 1,6 |

Consolidated statement of financial position

EUR million

| | 31.12.2019 | 31.12.2018 |
|--|--------------|--------------|
| Assets | | |
| Non-current assets | | |
| Tangible assets | 12,4 | 2,8 |
| Goodwill | 66,5 | 66,1 |
| Other intangible assets | 9,5 | 4,2 |
| Available-for-sale investments | 0,1 | 0,1 |
| Receivables | 0,9 | 0,9 |
| Deferred tax assets | 1,5 | 1,5 |
| Total non-current assets | 91,0 | 75,5 |
| Current assets | | |
| Trade receivables | 22,0 | 24,4 |
| Other receivables | 3,9 | 3,6 |
| Tax assets based on the period's taxable income | 1,7 | 1,8 |
| Cash and cash equivalents | 1,0 | 0,2 |
| Total current assets | 28,6 | 30,0 |
| Total assets | 119,6 | 105,5 |
| Equity and liabilities | | |
| Equity | | |
| Share capital | 0,3 | 0,3 |
| Other reserves | 25,6 | 25,6 |
| Retained earnings | 15,8 | 18,6 |
| Total equity attributable to owners of the parent company | 41,7 | 44,5 |
| Non-controlling interests | 1,7 | 1,6 |
| Total equity | 43,4 | 46,1 |
| Non-current liabilities | | |
| Interest-bearing liabilities | 26,9 | 1,2 |
| Other liabilities | 0,1 | 0,4 |
| Deferred tax liabilities | 0,5 | 0,7 |
| Total non-current liabilities | 27,5 | 2,3 |
| Current liabilities | | |
| Interest-bearing liabilities | 15,7 | 31,0 |
| Trade payables | 6,3 | 4,9 |
| Other liabilities | 26,7 | 21,2 |
| Total current liabilities | 48,7 | 57,1 |
| Total liabilities | 76,3 | 59,4 |
| Total equity and liabilities | 119,6 | 105,5 |

Condensed statement of cash flows

| EUR million | 1.1.-31.12.2019 | 1.1.-31.12.2018 |
|--|-----------------|-----------------|
| Cash flow from operations | | |
| Profit for the period | -1,4 | -4,5 |
| Adjustments to the profit for the period | 10,9 | 7,9 |
| Change in working capital | 2,8 | 1,4 |
| Interest paid and received | -1,2 | -0,7 |
| Taxes paid | -1,8 | -1,9 |
| Net cash flow from operations | 9,3 | 2,3 |
| Cash flow from investments | | |
| Investments in tangible and intangible fixed assets | -1,4 | -1,1 |
| Sales of tangible and intangible fixed assets | 0,2 | 0,1 |
| Net cash flow from investment activities | -1,2 | -1,0 |
| Cash flow from financing activities | | |
| Changes in loans | 1,1 | 1,0 |
| Changes in equity | -1,6 | -1,6 |
| Repayment of lease liabilities | -6,6 | -2,3 |
| Net cash flow from financing activities | -7,1 | -2,9 |
| Changes in cash and cash equivalents | 1,0 | -1,6 |
| Net foreign exchange difference on cash and cash equivalents | -0,2 | -0,1 |
| Cash and cash equivalents at the beginning of the period | 0,2 | 1,9 |
| Cash and cash equivalents at the end of the period | 1,0 | 0,2 |

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 Jan 1, 2018 | 0,3 | 0,0 | -0,4 | -0,3 | 26,1 | 25,1 | 50,8 | 1,7 | 52,5 |
| Profit/loss for the period | | | | | | -6,1 | -6,1 | 1,6 | -4,5 |
| 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 | | | | -0,6 | | 0,6 | 0,0 | -0,1 | 0,0 |
| Other comprehensive income items for the period after taxes | | 0,0 | 0,0 | -1,3 | 0,0 | 0,6 | -0,6 | -0,1 | -0,7 |
| Comprehensive income for the period | 0,0 | 0,0 | 0,0 | -1,3 | 0,0 | -5,4 | -6,7 | 1,6 | -5,2 |
| 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 | | | | | | 0,0 | 0,0 | | 0,0 |
| Total transactions with owners | 0,0 | 0,0 | -0,7 | 0,0 | 0,7 | 0,0 | -0,1 | -1,7 | -1,7 |
| Other adjustments | | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,5 | | 0,5 |
| Equity on December 31, 2018 | 0,3 | 0,0 | -1,1 | -1,6 | 26,7 | 20,1 | 44,5 | 1,6 | 46,1 |
| | Share capital | Share premium account | Treasury shares | Translation differences | Value change and other funds | Retained earnings | Total | Non-controlling interests | Total equity |
| Equity on Jan 1, 2019 | 0,3 | 0,0 | -1,1 | -1,6 | 26,7 | 20,1 | 44,5 | 1,6 | 46,1 |
| Profit/loss for the period | | | | | | -3,0 | -3,0 | 1,7 | -1,4 |
| Comprehensive income | | | | | | | | | |
| Other comprehensive income items | | | | | | | | | |
| Exchange rate differences caused by net investment in foreign subsidiaries | | | | -0,3 | | | -0,3 | | -0,3 |
| Other translation differences | | | | -0,2 | | 0,4 | 0,2 | 0,0 | 0,2 |
| Other comprehensive income items for the period after taxes | | 0,0 | 0,0 | -0,5 | 0,0 | 0,4 | -0,1 | 0,0 | -0,1 |
| Comprehensive income for the period | 0,0 | 0,0 | 0,0 | -0,5 | 0,0 | -2,6 | -3,1 | 1,7 | -1,5 |
| Transactions with owners | | | | | | | | | |
| Distributed dividends | | | | | | | | -1,6 | -1,6 |
| Share bonuses | | | 0,0 | | | 0,1 | 0,1 | | 0,1 |
| Redemption obligation | | | | | | 0,3 | 0,3 | | 0,3 |
| Total transactions with owners | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 | 0,3 | -1,6 | -1,3 |
| Equity on December 31, 2019 | 0,3 | 0,0 | -1,1 | -2,1 | 26,7 | 17,8 | 41,6 | 1,7 | 43,3 |

Changes in tangible fixed assets

| EUR million | 1.1.-31.12.2019 | 1.1.-31.12.2018 |
|--|-----------------|-----------------|
| Carrying amount at the beginning of the period | 2,8 | 3,5 |
| Translation differences | -0,1 | 0,0 |
| Increases | 7,5 | 1,7 |
| Decreases | -0,2 | -0,2 |
| Increases based on standard change | 8,7 | 0,0 |
| Depreciation and amortisation | -6,3 | -2,2 |
| Carrying amount at the end of the period | 12,4 | 2,8 |

Commitments and contingencies

| EUR million | 31.12.2019 | 31.12.2018 |
|----------------------------|------------|------------|
| Leasing liabilities | 0,1 | 3,7 |
| Other rental liabilities | 2,8 | 5,8 |
| Other contract liabilities | 0,0 | 0,2 |
| Bank guarantees | 0,1 | 0,3 |
| Total other liabilities | 3,0 | 9,9 |

Enfo

Data-driven business transformation

Enfo is a Nordic IT service company enabling its customers' data-driven business transformation. With our niche expertise in hybrid platforms, information management and applications, we bring together relevant data for more intelligent operations. We both build and run digital solutions – supporting our customers in mastering complexity. We are 900 experts working for a more intelligent world, in which technology empowers people, businesses and societies.

enfogroup.com

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