

# Q2

enfo

## Interim report

1 April–June 30 2017



# ENFO GROUP'S INTERIM REPORT 1 APRIL–30 JUNE 2017

On 1 February 2017, Enfo Oyj sold the entire share capital of its subsidiary, Enfo Zender Oy, to Ropo Capital.

The sold business is reported as a discontinued operation. The figures below reflect continuing operations with comparison data unless otherwise stated.

## Key points of the interim report

- Turnover increased as planned by 2.3% to EUR 34.7 (33.9) million in April–June and by 5.2% to EUR 69.3 (65.9) million in January–June. Growth continues to be restricted by the poor availability of IT professionals in Sweden.
- Operating margin (EBITDA) was EUR -1.0 (2.5) million in April–June. Operating margin for January–June was -0.1 (3.6). The operating margin is weakened by the high recruitment costs in Sweden. Furthermore, the price level in IT outsourcing services was lower than in the previous year.
- Operating profit (EBIT) decreased to EUR -2.5 (1.0) million in April–June. Operating profit for January–June totaled EUR -3.0 (0.7) million.
- Profit before taxes in April–June amounted to EUR -2.8 (0.7) million. Correspondingly, profit before taxes for January–June stood at EUR -3.7 (0.1) million.
- Profit for the review period decreased to EUR -2.8 (0.6) million in April–June. Profit for January–June decreased to EUR -3.7 (0.0) million.
- Earnings per share were EUR -4.94 (-0.70) in April–June, and EUR -7.46 (-2.38) in January–June. Earnings per share including discontinued operations were EUR 20.42 (-1.17) in January–June.
- Cash flow from operating activities totaled EUR 1.5 (1.1) million in April–June and EUR -1.0 (1.2) million in January–June.
- In January–June, Enfo Group employed an average of 981 (861) people. At the end of June, the Group employed a total of 980 (868) people.

## Outlook for 2017

The Group's turnover is expected to increase in 2017. The Group's operating margin excluding non-recurring items for 2017 falls slightly below the 2016 level.

## Risks and uncertainties

Short-term risks and uncertainties are associated with maintaining competitive prices in all of the Group's business areas. Recruitment difficulties in Sweden restrict the otherwise good growth prospects. Non-recurring expenses related to the new business structure clearly weigh down short-term profitability.

The largest long-term uncertainties are associated with a decrease in demand for traditional IT services and the schedule for implementing changes as part of Enfo's revised strategy.

## Arto Herranen, CEO:

CEO Arto Herranen comments on the interim report as follows:

"Enfo's operating environment has developed favorably during the first half of the year. There is no end in sight for the strong economic growth that has continued for a long time in Sweden and, in Finland, the economic situation is better than at any point since the financial crisis. This trend is positive, but also a two-edged sword for Enfo: responding to the growing demand is challenging due to the poor availability of skilled labor. The turnover of personnel is at a record high level in the entire IT industry, including at Enfo. This phenomenon not only limits growth, but also reduces profitability. Personnel turnover decreases labor productivity, and the recruitment costs are significant. Enfo's image as an employer is at a good level and enables us to solve the challenges associated with recruitment.

Another positive trend for Enfo is digitalization-related "hype" becoming more commonplace. With the shift from "fail fast" pilot projects to business critical projects, Enfo's strengths – role as a critical supplier for customers, business models that bring continuity, and versatility combined with agility – are highlighted. In concrete terms, we have been able to open new customer relationships especially in the big business sector where requirements related to business criticality are at a very high level.

Utilizing the potential related to the changes described above requires reform. Over the summer, we have launched a reform project of the Group's business structure. We will continue following through with the project during the fall. Unfortunately, these changes may also involve effects on personnel, especially for employees in administrative or supervisory positions. I believe that, according to Enfo's tradition, these changes can be implemented in good and open cooperation with the personnel."

## Developments in Enfo's business areas

As business and IT move closer to each other thanks to digitalization, the focus on solutions and business is also highlighted more and more in Enfo's work with customers. We have noticed that our customers reduce the number of external suppliers when seeking for a strategic partner, which fits Enfo's strategy perfectly. In January–June 2017, Enfo's key business areas were IT Transformation (IT outsourcing services), Business Solutions (consulting), and Financial Process Services (financial administration outsourcing services).

In the **IT Transformation business area**, changes have continued at a rapid pace. Cloud services, digitalization as well as threats and opportunities related to information security have become an active part of everything we do. During the year, we have increased our ability to produce and build even more diverse services while supporting customers' information management and helping end users. For the personnel of the IT Transformation unit, the changes have meant training as well as refreshing their skills. IT Transformation works in close cooperation with Enfo's other units and business areas, providing our customers with more and more extensive services and solutions, such as comprehensive IoT projects.

The changes also affect services provided to end users. When the use of services becomes increasingly independent of time, place and the device, the development of user-centered services plays an important role. The service range of IT Transformation has been expanded through proactive management to provide a better service experience for the user. In terms of sales, the general market situation is clearly on the upswing and the sales and development of IT Transformation have been strengthened significantly. From an economic point of view, the first half of the year has gone as planned and the positive trend is expected to continue for the rest of the year.

In the **Business Solutions business area**, Enfo's marketing message that focuses on the Digital Dimension has opened up numerous new opportunities. The greatest challenge in the business area is to

find the right resources quickly enough in order to meet the desires of our customers. Focusing on the industrial target group with the Digital Manufacturing concept has produced good results. The next focus area is companies in the service industry where many interesting business opportunities have been identified. During the last quarter, Business Solutions gained several significant new customers for digitalization solutions. Extensive cooperation with current customers and proactive support for their digital projects also continued. As digitalization progresses, customers have more and more needs related to our predictive analytics and data science skills. A good example of this is Coop's Customer Insight project. AppCare, a maintenance service for mobile applications that can be used to quickly improve the usability of developed applications throughout the application life-cycle, has also provided rapid growth. Business processes are going digital at a rapid pace, and Enfo's All the Way to Value concept supports predefined best practices very well in this area.

The sale of the information logistics services business that was part of **the Financial Process Services business area** in February has made it possible to effectively focus resources on the development of outsourcing services for medium-sized enterprises, a new and rapidly growing market. Two new contracts were signed during the second quarter: The Enfo Group outsourced its financial administration to become part of Enfo's financial process services business. With the outsourcing, Enfo's Financial Process Services provide Enfo's financial administration services in both Finland and Sweden. Furthermore, the outsourcing includes Professional Services Automation (PSA), i.e. the automation of the business processes of the expert organization, expanding the offering of Enfo's Financial Process Services. In addition to the above, Snellman signed a contract with Enfo with the aim of utilizing Enfo's Purchase to payment solution based on Palette and, in particular, developing indirect purchasing processes.

From July onwards, the Group's operations have been divided into four business areas: Sales and Marketing (responsible for sales, marketing and customer relationships), Shift (develops customers' new, digitalization-based business models), Business Solutions (helps customers implement their own business strategy) and IT Transformation (enables customers' digital development and new business models with various tools and service platforms).

## Timetable for financial reporting in 2017

The Q3 interim report will be published on 26 October 2017. The 2017 financial statements bulletin will be issued on 2 March 2018.

## Enfo's business

Enfo Oyj is the parent company of Enfo Group. Enfo is a Nordic IT service company offering business solutions, financial processes and managed IT services. Our passion is helping customers in the digital dimension by creating innovative digital solutions that develop, innovate and improve our customers' business. Enfo group consists of 1.000 niched experts in Finland and Sweden.

## Turnover and result

Enfo Group's turnover from continuing operations rose by 2.3% to EUR 34.7 million (33.9) in April–June. In January–June, Enfo Group's turnover grew by 5.2% to EUR 69.3 (65.9) million. The turnover was affected by the growing demand for services related to digitalization. In addition, e-man AB, a company acquired in November 2016 that specializes in integration solutions, increased the turnover in Sweden. The operating profit of continuing operations was EUR -2.5 (1.0) million, comprising -7.1% (3.0) of turnover. Operating profit from the beginning of the year totaled EUR -3.0 (0.7) million, comprising -4.3% (1.0) of turnover. Enfo Group's operating profit for January–June decreased by 561.9% year-on-year.

Profit before taxes for the financial period in the Group's continuing operations was EUR -2.8 (0.7) million in April–June. Profit before taxes for January–June totaled EUR -3.7 (0.1) million, or -5.3% (0.1) of turnover. The Group's net financing costs amounted to EUR 0.3 (0.3) million during Q2 and to EUR 0.7 (0.6) million in January–June. Profit for the period including discontinued operations amounted to EUR -3.2 (0.8) million in April–June and, correspondingly, to EUR 14.8 (0.8) million in January–June. Earnings per share for continuing operations were EUR -4.94 (-0.70) in April–June and EUR -7.46 (-2.38) in January–June.

Earnings per share including discontinued operations were EUR -5.53 (-0.21) in April–June and EUR 20.42 (-1.17) in January–June.

## **Financing, investments and corporate acquisitions**

Enfo's net investments in January–June totaled EUR 1.0 (2.1) million. The company's equity ratio was 48.5% (41.3) at the end of the review period. Interest-bearing net liabilities at the end of June amounted to EUR 30.4 (34.9) million and net gearing was 51.3% (69.4).

## **Changes in the Executive Management Team**

Enfo's Executive Vice President Samuli Savo resigned in May and his duties were transferred to CFO Christian Homén. From July onwards, Enfo's Executive Management Team is as follows: Arto Herranen (CEO), Lars Aabol, Erik Brügge, Mats Eliasson, Christian Homén, Sami Kähkönen and Henrik Norell. At the same time, Tero Saksman and Tero Kosunen, who joined a company in another industry, left the Executive Management Team.

## **Personnel**

In January–June, Enfo Group employed an average of 981 (861) people in continuing operations. At the end of June, the Group employed a total of 980 (868) people. During the review period, Enfo's personnel in Finland amounted in average to 384 (373) and in Sweden to 597 (488).

## **Events following the review period**

On 16<sup>th</sup> of August Enfo Group launched a program to revise its current business structure. The purpose of the change is to speed up the implementation of the Group strategy and to improve customer focus in operations. At the same time, the Group launched a program to simplify its operations and potentially make personnel reductions affecting approximately 70 positions in Finland and Sweden totally.

## **Shares**

On 30 June 2017, Enfo Oyj had a total of 670,349 shares and 115 shareholders. The company has one series of shares. At the end of June 2017, Enfo owned 3,021 treasury shares. At the end of June 2017, the company's ten largest shareholders were: Osuuskunta KPY, Ilmarinen Mutual Pension Insurance Company, Rongo Cap Oy, Enfo Oyj's Personnel Fund HR, Keski-suomalainen Oyj, Einari Vidgrén Oy, Pohjois-Savon Osuuspankki, Hannu Isotalo Oy, Kallax Oy and Arto Herranen. Osuuskunta KPY holds 84.56% of Enfo's shares.

## **Accounting principles**

This interim report 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 2016 financial statements. The figures in the tables have been rounded to the nearest million euros and may not add up to precise totals. The figures presented in the tables are unaudited.

## Consolidated income statement

EUR million	1.4-30.6.2017	1.4-30.6.2016	1.1-30.6.2017	1.1-30.6.2016	1.1-31.12.2016
<b>Turnover</b>	34,7	33,9	69,3	65,9	127,6
Other operating income	0,1	0,0	0,2	0,1	0,1
Materials and services	-9,2	-8,4	-17,5	-16,4	-33,3
Employee benefit expenses	-21,7	-18,5	-42,3	-37,3	-70,7
Depreciation and amortisation	-1,5	-1,5	-2,9	-2,9	-5,7
Other operating expenses	-4,9	-4,6	-9,8	-8,7	-17,8
<b>Operating profit</b>	-2,5	1,0	-3,0	0,7	0,1
Financial income	0,2	0,0	0,3	0,1	0,1
Financial expenses	-0,5	-0,4	-0,9	-0,6	-1,1
<b>Profit before taxes</b>	-2,8	0,7	-3,7	0,1	-0,8
Income tax	0,0	-0,1	0,0	0,0	0,2
<b>Profit for the period for continued operations</b>	-2,8	0,6	-3,7	0,0	-0,7
<b>Profit for the period for discontinued operations</b>	-0,4	0,3	18,5	0,7	1,8
<b>Profit for the period</b>	-3,2	0,8	14,8	0,8	1,2
Attributable to					
Equity holders of the parent company	-3,8	-0,1	13,6	-0,7	-1,0
Non-controlling interests	0,5	1,0	1,2	1,5	2,1
Earnings per share, continued operations EUR	-4,94	-0,70	-7,46	-2,38	-4,64
Earnings per share, EUR	-5,53	-0,21	20,42	-1,17	-1,60

## Statement of comprehensive income including discontinued operations

EUR million	1.1-30.6.2017	1.1-30.6.2016	1.1-31.12.2016
<b>Profit for the period</b>	14,8	0,8	1,2
Exchange rate differences caused by net investments in foreign subsidiaries	-0,2	-0,4	-0,7
Other translation differences		-0,2	-0,4
Net investment hedging		-0,1	-0,1
Cash flow hedging		0,0	0,1
<b>Comprehensive income for the period</b>	14,7	0,1	0,1
Attributable to			
Equity holders of the parent company	13,5	-1,3	-2,0
Non-controlling interests	1,2	1,4	2,1

## Consolidated statement of financial position

EUR million	30.6.2017	30.6.2016	31.12.2016
<b>Assets</b>			
<b>Non-current assets</b>			
Tangible assets	4,0	4,7	4,4
Goodwill	75,5	71,3	77,8
Other intangible assets	7,0	7,7	6,3
Available-for-sale investments	0,1	0,1	0,1
Receivables	0,3	0,1	0,3
Deferred tax assets	1,4	1,2	1,5
Total non-current assets	88,3	85,2	90,4
<b>Current assets</b>			
Inventories	0,1	0,1	0,1
Trade receivables	25,5	28,4	26,5
Other receivables	3,2	3,5	3,3
Tax assets based on the period's taxable income	4,2	3,0	2,9
Available-for-sale investments	0,0	0,0	0,0
Cash and cash equivalents	1,1	1,9	5,0
Total current assets	34,1	36,9	37,8
<b>Assets for discontinued operations</b>			5,4
<b>Total assets</b>	122,4	122,1	133,6
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	0,3	0,3	0,3
Share premium account	13,3	13,3	13,3
Other reserves	12,9	3,9	8,5
Retained earnings	31,5	31,1	30,9
<b>Equity attributable to equity holders of the parent company, total</b>	58,0	48,5	53,0
<b>Non-controlling interests</b>	1,2	1,8	1,9
<b>Total equity</b>	59,2	50,3	54,9
<b>Non-current liabilities</b>			
Interest-bearing liabilities	21,2	22,6	21,5
Other liabilities	1,3	5,1	1,1
Deferred tax liabilities	1,1	0,9	0,8
Non-current liabilities, total	23,6	28,6	23,3
<b>Current liabilities</b>			
Interest-bearing liabilities	10,3	14,2	22,4
Trade payables	5,5	8,7	7,1
Other liabilities	23,8	20,2	23,0
Current liabilities, total	39,6	43,1	52,5
<b>Total liabilities</b>	63,2	71,8	75,9
<b>Liabilities for discontinued operations</b>			2,9
<b>Total equity and liabilities</b>	122,4	122,1	133,6

## Condensed statement of cash flows including discontinued operations

EUR million	1.1-30.6.2017	1.1-30.6.2016	1.1-31.12.2016
<b>Cash flow from operating activities</b>			
Profit for the period	14,8	0,8	1,2
Adjustments to the profit for the period	-14,9	3,8	7,6
Change in working capital	0,9	-1,6	-0,3
Interest paid and received	-0,5	-0,5	-0,8
Taxes paid	-1,4	-1,3	-2,3
<b>Cash flow from operating activities</b>	<b>-1,0</b>	<b>1,2</b>	<b>5,5</b>
<b>Cash flow from investment activities</b>			
Acquisition of subsidiaries less cash and cash equivalents on the acquisition date	-0,7	-2,0	-11,8
Investments in tangible and intangible assets	0,0	-0,3	-0,4
Gains from business transactions			
Gains from other investments	19,6		
<b>Cash flow from investment activities</b>	<b>19,0</b>	<b>-2,4</b>	<b>-12,3</b>
<b>Cash flow from financing</b>			
Changes in loans	-11,6	3,7	10,5
Changes in equity	-10,2	-4,7	0,3
Repayment of financial leasing liabilities	-1,5	-1,7	-3,3
<b>Cash flow from financing</b>	<b>-23,3</b>	<b>-2,7</b>	<b>7,5</b>
<b>Changes in cash and cash equivalents</b>	<b>-5,3</b>	<b>-3,9</b>	<b>0,8</b>
Impact of exchange rate changes on cash and cash equivalents	-0,1	0,0	0,1
Cash and cash equivalents at the beginning of the period	5,0	5,7	5,7
Cash of the discontinued operations at the beginning of the period	1,5		-1,5
Cash and cash equivalents at the end of the period	1,1	1,8	5,0

## Key figures, continued operations

### EUR million

	1.1-30.6.2017	1.1-30.6.2016	1.1-31.12.2016
Turnover (EUR million)	69,3	65,9	127,6
Operating profit (EUR million)	-3,0	0,7	0,1
% of turnover	-4,3	1,0	0,1
Profit before taxes (EUR million)	-3,7	0,1	-0,8
% of turnover	-5,3	0,1	-0,6
Profit for the period (EUR million)	-3,7	0,0	-0,7
% of turnover	-5,3	0,1	-0,5
Earnings per share, continued operations EUR	-7,5	-2,4	-4,6
Earnings per share, discontinued operations EUR	27,9	1,2	3,0
Earnings per share, EUR	20,4	-1,2	-1,6
Return on investment, %	-5,8	2,4	0,3
Return on equity, %	-13,1	2,1	-2,9
Equity ratio, %	48,5	41,3	41,5
Net gearing, %	51,3	69,4	68,1
Interest-bearing net liabilities (EUR million)	30,4	34,9	38,9
Equity/share, EUR	86,9	80,9	80,5
Average number of employees	981	861	876
Number of shares	670 349	600 833	660 761

## Information on sold business operations

### EUR million

### 2017

Received compensation	20,8
Bookvalue of the sold net assets	-2,3
Expenses associated to the sale	-0,4
Profit before tax	18,1
Tax on sales profit	0,0
Sales profit after tax	18,1

## Operating profit, discontinued operations

### EUR million

### 1.1-30.6.2017 1.1-30.6.2016 1.1-31.12.2016

Turnover	3,2	15,4	30,2
Expenses	-2,7	-14,4	-27,9
Profit before tax	0,5	0,9	2,3
Taxes	-0,1	-0,2	-0,5
Result after taxes	0,4	0,7	1,8

## Changes in Shareholders' Equity

EUR million	Share Capital	Share premium account	Treasury shares	Translations differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
<b>Equity on 1 Jan 2016</b>	0,3	13,3	-0,1	2,1	2,9	35,1	53,5	1,4	54,9
Profit/loss for the period						-0,7	-0,7	1,5	0,8
Comprehensive income									
<b>Other comprehensive income items</b>									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,4			-0,4		-0,4
Net investment hedging				-0,1			-0,1		-0,1
Other translation differences				-0,4		0,3	-0,2	0,0	-0,2
Cash flow hedging					0,1		0,1		0,1
Other comprehensive income items for the period after taxes				-1,0	0,0	0,3	-0,7	0,0	-0,7
Comprehensive income for the period				-1,0	0,0	-0,4	-1,4	1,5	0,1
<b>Business operations with owners</b>									
Distributed dividends						-3,5	-3,5	-1,1	-4,6
Purchase of treasury shares			-0,1				-0,1		-0,1
Total			-0,1			-3,6	-3,6	-1,1	-4,7
<b>Equity on 30 June 2016</b>	0,3	13,3	-0,1	1,1	2,9	31,1	48,5	1,8	50,3

	Share Capital	Share premium account	Treasury shares	Translations differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
<b>Equity on 1 Jan 2017</b>	0,3	13,3	-0,1	0,7	8,0	30,9	53,0	1,9	54,9
Profit/loss for the period						13,6	13,6	1,2	14,8
Comprehensive income									
<b>Other comprehensive income items</b>									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,2			-0,2		-0,2
Net investment hedging							0,0		0,0
Other translation differences				-0,1		0,1	0,0	0,0	0,0
Cash flow hedging							0,0		0,0
Other comprehensive income items for the period after taxes	0,0	0,0	0,0	-0,3	0,0	0,1	-0,2	0,0	-0,2
Comprehensive income for the period				-0,3	0,0	13,8	13,5	1,2	14,7
<b>Business operations with owners</b>									
Distributed dividends					-7,9	-0,7	-8,5	-1,8	-10,4
Emission					0,9		0,9		0,9
Purchase of treasury shares			-0,1				-0,1		-0,1
Sale of treasury shares			0,0				0,0		0,0
Management incentive scheme							0,0		0,0
Redemption obligation						-0,8	-0,8		-0,8
Total		0,0	-0,1	0,0	-7,0	-1,4	-8,5	-1,8	-10,4
Transfers between items					11,8	-11,8			
<b>Equity on 30 June 2017</b>	0,3	13,3	-0,3	0,4	12,7	31,5	58,0	1,2	59,2

## Changes in tangible fixed assets

EUR million	1.1-30.6.2017	1.1-30.6.2016	1.1-31.12.2016
Carrying amount at the beginning of the period	4,4	4,4	4,4
Increases	0,7	2,0	3,3
Decreases	0,1	-0,4	-0,7
Depreciation and amortisation	-1,2	-1,2	-2,5
Carrying amount at the end of the period	4,0	4,7	4,4

## Commitments and contingencies

EUR million	30.6.2017	30.6.2016	31.12.2016
Debts and their securities			
Loans from financial institutions	17,4	21,8	29,3
Other liabilities			
Leasing liabilities	4,0	5,6	4,7
Other rental liabilities	8,7	8,3	9,2
Other contingent liabilities	0,3	0,0	0,1
Bank guarantees	0,3	0,3	0,3
Total other liabilities	13,3	14,2	14,3

## Enfo

### Simpler, smoother, smarter business in the Digital Dimension

Enfo creates innovative digital solutions that develop, innovate and improve operations for our customers. With business awareness, technical expertise and proven work methods, we refine information flows and develop IT solutions so that our clients take the initiative in a digitalized world and are able to deliver results and experiences to their clients.

The Group employs approximately 1,000 specialized experts in Finland and Sweden.

For more information, visit [enfogroup.com](http://enfogroup.com)

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