

Enfo Oyj

Interim report Q2, 2020



Enfo Group's interim report Q2 April 1 – June 30, 2020

Enfo Q2: Profitability development was positive despite corona.

Q2/2020

- Net sales in April–June were EUR 29.3 (31.3) million
- EBITDA was EUR 3.0 (1.9) million
- Operating profit (EBIT) was EUR 0.6 (0.0) million
- Profit for the period was EUR 1.6 (-0.8) million
- Earnings per share were EUR 1.5 (-1.8)
- Operating cash flow was EUR 4.0 (3.6) million

H1/2020

- Net sales in January–June were EUR 60.2 (62.6) million
- EBITDA was EUR 5.5 (3.6) million
- Operating profit (EBIT) was EUR 0.9 (-0.3) million
- Profit for the period was EUR -0.4 (-1.8) million
- Earnings per share were EUR -1.9 (-4.1)
- Operating cash flow was EUR 6.0 (4.3) million

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

Key figures

	1.4.–30.6.2020	1.4.–30.6.2019	1.1.–30.6.2020	1.1.–30.6.2019	1.1.–31.12.2019
Net sales, EUR million	29.3	31.3	60.2	62.6	121.5
EBITDA	3.0	1.9	5.5	3.6	9.4
% of Net sales	10.3	6.0	9.2	5.7	7.8
Operating profit, EUR million	0.6	0.0	0.9	-0.3	1.4
% of Net sales	2.2	-0.1	1.4	-0.5	1.1
Profit before taxes, EUR million	1.6	-0.6	0.0	-1.4	-0.1
% of Net sales	5.6	-1.8	0.0	-2.2	-0.1
Profit for the period, EUR million	1.6	-0.8	-0.4	-1.8	-1.4
% of Net sales	5.6	-2.6	-0.7	-2.9	-1.1
Earnings per share, EUR	1.5	-1.8	-1.9	-4.1	-4.6
Return on investment, % *	11.1	0.9	11.1	0.9	3.4
Equity ratio, %	40.3	38.5	40.3	38.5	36.4
Net gearing, %	80.7	97.4	80.7	97.4	96.0
Interest-bearing net debt, EUR million	38.4	41.5	38.4	41.5	41.6
Equity per share, EUR	59.3	62.6	59.3	62.6	62.6
Average number of employees	904	910	915	905	903

* Rolling 12months

CEO's review

Seppo Kuula, Enfo's CEO, comments on the second quarter in 2020:

We entered the second quarter of the year in an unprecedented business environment. After a good start to 2020, the indirect effects of the corona pandemic forced us to move our focus from growth to business continuity. Our ability to respond to a rapidly changing situation was good – we are a company that is used to be agile and effectively respond to constant market changes.

The pandemic had an adverse impact of 10–15% on our net sales target, but at the same time some of the direct savings were evening out the business impact. After ensuring the financial support to impacted employees, we took measures to reduce also the labor costs, including temporary, primarily part-time layoffs in both Finland and Sweden. In addition, we secured adequate working capital by various actions. We did what had to be done, but I am proud of how we advanced, together and in a transparent manner.

Our responses to the corona crisis have worked as planned and EBITDA continued its positive development in the second quarter. We saw that after some customers' immediate strong reactions at the corona outbreak in the Nordics, business then continued at a moderate level after mid-April, even though decision making among customers was more cautious than before. On the other hand, remote work and the Asian lockdown even increased needs for some of our business-critical support services.

Sales of TIBCO solutions took off in the second quarter proving the market and competitiveness. The acquired SAP business in Finland was steady, although the expected development of this business was impacted by the pandemic.

Sales to new customers was difficult in a restricted business environment, although we were able to expand our business with the existing customers. As an example, we made a broad new agreement with



our Finnish customer Finavia, including operations and capacity in both data center and cloud as well as services for a modern workplace. The value of this agreement alone is approximately EUR 26 million. Another proof of our competitiveness and customer intimacy was seen in our customer survey in May, showing that 93% of our customers are ready to recommend Enfo to others. The customers state as Enfo's strengths, for example: expertise, wide range of competence, customer orientation and smooth co-operation.

In 2020, our original plan was to continue to the third phase of our current strategy – profitable growth. This, after having built a sustainable business foundation in 2018 and focused on profitability in 2019. The corona crisis has challenged our growth aspirations and we will focus on profitability this autumn, aiming at growth in 2021. Enfo will continue to support its customers in managing business-critical applications and data in a cross-platform environment and ensure a modern workplace. All of these services are relevant in the long term.

Outlook

Due to the corona outbreak, the Group's outlook has changed considerably. In an unstable business environment, Enfo is not giving any outlook.

Net sales and profit

Q2/2020

The Group net sales in the second quarter decreased by 6.1% to EUR 29.3 (31.3) million. EUR 12.9 (13.6) million of the net sales were generated in Finland and EUR 16.4 (17.7) million in Sweden. Sales from recurring services amounted to EUR 11.2 (11.8) million, sales from consulting to EUR 14.3 (16.5) million and intermediary sales to EUR 3.8 (2.9) million in the second quarter.

EBITDA increased to EUR 3.0 (1.9) million in April–June. Operating profit (EBIT) for the second quarter was EUR 0.6 (0.0) million, or 2.2% of net sales. Profit before taxes was EUR 1.6 (-0.6) million and profit for the period was EUR 1.6 (-0.8) million. Net financial items in Q2/2020 were impacted by the strengthening of the Swedish krona. Earnings per share amounted to EUR 1.5 (-1.8).

H1/2020

Net sales in January–June decreased by 3.8% to EUR 60.2 (62.6) million. EUR 26.7 (27.1) million of the net sales were generated in Finland and EUR 33.5 (35.4) million in Sweden. Sales from recurring services amounted to EUR 22.8 (23.4) million, sales from consulting to EUR 30.3 (33.4) million and intermediary sales to EUR 7.0 (5.7) million in the first half of the year.

EBITDA was EUR 5.5 (3.6) million in January–June. Operating profit (EBIT) for January–June was EUR 0.9 (-0.3) million, or 3.1% of net sales. Profit before taxes was EUR 0.0 (-1.4) million and profit for January–June was EUR -0.4 (-1.8) million. Earnings per share amounted to EUR -1.9 (-4.1).

Investments and financing

Enfo's net investments in April–June amounted to EUR 1.0 (1.1) million. The total consisted of a EUR 0.2 million investment in a competence management program and EUR 0.9 million in additions in right of use assets. Net investments in January–June amounted to EUR 2.5 (3.7) million. The total consisted of a EUR 0.3 million investment in a competence management program and EUR 2.2 million in additions in right of use assets.

Interest-bearing liabilities at the end of June amounted to EUR 40.9 (41.6) million and were composed of EUR 29.3 (30.2) million in bank loans and EUR 11.6 (11.5) million in lease liabilities.

Enfo's loan agreements contain financial covenants which are tested bi-annually at the end of the second and the fourth quarter. As at June 30, Enfo was in compliance with the financial covenants:

- Net gearing less than 100%
- Interest-bearing net liabilities/EBITDA less than 4.0

At the end of June, Enfo had EUR 16.7 (13.7) million short-term credit limit of which EUR 9.0 (11.1) million was withdrawn. In response to the corona crisis Enfo agreed increases of credit limits with the financiers.

The company's equity ratio at the end of June was 40.3% (38.5) and net gearing was 80.7% (97.4). Net financial items in April–June were EUR 1.0 (-0.6) million and in January–June EUR -0.9 (-1.1) million. The

second quarter net cash flow from operations was EUR 4.0 (3.6) million and for H1 EUR 6.0 (4.3). The balance sheet at the end of the period totaled EUR 117.1 (111.0) million.

Risks and uncertainties

The primary short-term and mid-term risks are related to the continued corona crisis. The scope of the impacts will depend on the advancement of the virus and the public measures implemented to reduce the spread of the virus. A major uncertainty is the length and depth of the economic effects on business environments and societies.

Enfo is impacted by customers' possible decisions to scale down services or postpone projects. In addition, customers' ability to pay and demands on renegotiating terms affect Enfo. On the other hand, the crisis may give Enfo new business opportunities in ensuring smooth remote work as well as the availability and security of platforms, operating systems and data. During the second quarter Enfo witnessed a slowdown in decision-making among customers, however the immediate strong customer reactions visible in end of March and beginning of April did not continue.

On the finance side, actions have been taken to ensure adequate working capital. Increased credit limits have been agreed with the financiers and recruitment and cost control has been implemented. Enfo has implemented temporary layoffs in both Finland and Sweden, most of which have been part time. Temporary layoffs in Finland mainly ended in the summer. In Sweden, temporary layoffs continue. Due to these prompt responses in H1 we were able to keep up profitability and enter H2 with a stable business.

In the long term, Enfo's growth will be influenced by the market's preparedness and capability to migrate and manage business-critical solutions in cross-platform environments.

Personnel

Enfo employed an average of 904 employees (910) during April–June and a total of 899 employees (910) at the end of the period. On average, 397 (353) employees were in Finland and 507 (557) were in Sweden.

Management

In June 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).

Annual General Meeting

Enfo Oyj's Annual General Meeting was held on April 24, 2020 in Kuopio. The Annual General Meeting decided that no dividend is paid for the year 2019. The Articles of Association was amended to allow the company to have three to eight board members (previously five to seven board members).

Anssi Lehikoinen, Mikko Laine and Kaisa Olkkonen were elected as members of the Board of Directors. At the organization meeting held after the Annual General Meeting, the Board of Directors elected Anssi Lehikoinen as the Chairman and Kaisa Olkkonen as the Deputy Chairman. The Board of Directors also appointed Lauri Kerman as observer to the Board of Directors.

Events since the review period

In August, Kaisa Olkkonen was elected Chairman of the Board of Enfo Oyj. Anssi Lehikoinen, who previously served as Chairman, continues as Member of the Board. Mikko Laine continues as the third board member.

The owner of Enfo Oyj, Cooperative KPY Group, announced earlier in August that Anssi Lehikoinen has been elected CEO of KPY after Lauri Kerman. Lauri Kerman does not continue in his role as observer to the Board of Directors of Enfo Oyj.

Shares

Enfo Oyj had a total of 761,484 shares on June 30, 2020. According to the company's list of owners, the company had a total of 128 direct shareholders at the end of the period, including the company itself. This figure does not include foreign shareholders whose shares are nominee-registered. At the end of the period, the company held 13,506 treasury shares (1.77% 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 June, 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, Keskisuomalainen Oyj, Einari Vidgrén Oy, Lululemon Oy, Hannu Isotalo Oy and Kallax Oy. Osuuskunta KPY holds 84.29% of Enfo's shares.

Timetable for financial reporting in 2020

The Q3/2020 interim report will be published on October 29.

Accounting principles

This Interim report has been prepared in accordance with the recognition and measurement principles of the International Financial Reporting Standards (IFRS). Enfo has applied the same accounting principles in the preparation of this Interim report as in its Financial Statements for 2019, except for the adoption of new standards and interpretations effective during 2020 that are relevant to its operations, the changes of which did not have a material impact on the Interim report.

The information presented in this Interim report has not been audited.

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

Consolidated statement of income

EUR million

	1.4-30.6.2020	1.4.-30.6.2019	1.1.-30.6.2020	1.1.-30.6.2019	1.1.-31.12.2019
Net sales	29.3	31.3	60.2	62.6	121.5
Other operating income	-0.1	0.0	1.1	0.0	0.2
Materials and services	-6.3	-7.6	-13.5	-15.1	-29.3
Employee benefit expenses	-18.2	-18.9	-37.9	-37.4	-70.9
Depreciation, amortization and impairment	-2.4	-1.9	-4.7	-3.9	-8.1
Other operating expenses	-1.7	-3.0	-4.3	-6.5	-12.0
Operating profit	0.6	0.0	0.9	-0.3	1.4
Financial income	2.5	0.4	3.6	0.7	1.4
Financial expenses	-1.5	-1.0	-4.5	-1.7	-2.9
Profit before taxes	1.6	-0.6	0.0	-1.4	-0.1
Income taxes	0.0	-0.2	-0.4	-0.4	-1.3
Profit for the period	1.6	-0.8	-0.4	-1.8	-1.4
Attributable to					
Owners of the parent company	1.1	-1.2	-1.4	-2.7	-3.0
Non-controlling interests	0.5	0.4	1.0	0.9	1.7
Earnings per share, EUR	1.5	-1.8	-1.9	-4.1	-4.6

Consolidated statement of comprehensive income

EUR million

	1.4-30.6.2020	1.4.-30.6.2019	1.1.-30.6.2020	1.1.-30.6.2019	1.1.-31.12.2019
Profit for the period	1.6	-0.8	-0.4	-1.8	-1.4
Exchange rate differences caused by net investments in foreign subsidiaries	0.9	-0.3	0.0	-0.5	-0.3
Other translation differences	-0.9	0.3	0.0	0.4	0.2
Comprehensive income for the period	1.6	-0.8	-0.5	-1.9	-1.5
Attributable to					
Owners of the parent company	1.0	-1.2	-1.4	-2.8	-3.1
Non-controlling interests	0.6	0.4	1.0	0.9	1.7

Consolidated statement of financial position

EUR million

	30.6.2020	30.6.2019	31.12.2019
Assets			
Non-current assets			
Tangible assets	11.2	11.1	12.4
Goodwill	66.3	64.8	66.5
Other intangible assets	8.4	4.2	9.5
Available-for-sale investments	0.1	0.1	0.1
Receivables	1.0	1.0	0.9
Deferred tax assets	1.5	1.5	1.5
Total non-current assets	88.6	82.6	91.0
Current assets			
Trade receivables	18.8	23.6	22.0
Other receivables	4.8	2.2	3.9
Tax assets based on the period's taxable income	2.4	2.3	1.7
Cash and cash equivalents	2.5	0.2	1.0
Total current assets	28.5	28.4	28.6
Total assets	117.1	111.0	119.6
Equity and liabilities			
Equity			
Share capital	0.3	0.3	0.3
Other reserves	29.8	25.6	25.6
Retained earnings	14.2	15.8	15.8
Total equity attributable to owners of the parent company	44.4	41.7	41.7
Non-controlling interests	2.7	0.9	1.7
Total equity	47.0	42.6	43.4
Non-current liabilities			
Interest-bearing liabilities	26.4	26.2	26.9
Other liabilities	0.1	0.4	0.1
Deferred tax liabilities	0.5	0.6	0.5
Total non-current liabilities	27.0	27.2	27.5
Current liabilities			
Interest-bearing liabilities	14.5	15.5	15.7
Trade payables	4.2	4.9	6.3
Other liabilities	24.3	20.9	26.7
Total current liabilities	43.0	41.2	48.7
Total liabilities	70.0	68.4	76.3
Total equity and liabilities	117.1	111.0	119.6

Condensed statement of cash flows

EUR million

	1.1.–30.6.2020	1.1.–30.6.2019	1.1.– 31.12.2019
Cash flow from operations			
Profit for the period	-0.4	-1.8	-1.4
Adjustments to the profit for the period	5.9	5.5	10.9
Change in working capital	1.7	1.9	2.8
Interest paid and received	-0.8	-0.6	-1.2
Taxes paid	-0.4	-0.7	-1.8
Net cash flow from operations	6.0	4.3	9.3
Cash flow from investments			
Investments in tangible and intangible fixed assets	-0.4	-1.5	-1.4
Business acquisitions	-4.1	0.0	0.0
Sales of tangible and intangible fixed assets	0.0	0.6	0.2
Net cash flow from investment activities	-4.5	-0.9	-1.2
Cash flow from financing activities			
Changes in loans	-0.8	1.4	1.1
Rights issue	4.2	0.0	0.0
Other changes in equity	0.0	-1.6	-1.6
Repayment of lease liabilities	-3.2	-3.0	-6.6
Net cash flow from financing activities	0.2	-3.2	-7.1
Changes in cash and cash equivalents	1.7	0.1	1.0
Net foreign exchange difference on cash and cash equivalents	-0.2	0.0	-0.2
Cash and cash equivalents at the beginning of the period	1.0	0.2	0.2
Cash and cash equivalents at the end of the period	2.5	0.2	1.0

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, 2019	0.3	0.0	-1.1	-1.6	26.7	20.1	44.5	1.6	46.1
Profit/loss for the period						-2.7	-2.7	0.9	-1.8
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-0.5			-0.5		-0.5
Other translation differences				-0.4		0.8	0.4		0.4
Other comprehensive income items for the period after taxes		0.0	0.0	-0.9	0.0	0.8	-0.1	0.0	-0.1
Comprehensive income for the period	0.0	0.0	0.0	-0.9	0.0	-1.1	-2.8	0.9	-1.9
Transactions with owners									
Distributed dividends								-1.6	-1.6
Total transactions with owners	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.6	-1.6
Equity on June 30, 2019	0.3	0.0	-1.1	-2.4	26.7	19.0	41.7	1.0	42.6

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, 2020	0.3	0.0	-1.1	-2.1	26.7	17.8	41.6	1.7	43.3
Profit/loss for the period						-1.4	-1.4	1.0	-0.4
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				0.0			0.0		0.0
Other translation differences				-0.2			-0.2		-0.2
Other comprehensive income items for the period after taxes		0.0	0.0	-0.2	0.0	0.0	-0.2	0.0	-0.2
Comprehensive income for the period	0.0	0.0	0.0	-0.2	0.0	-1.4	-1.6	1.0	-0.6
Transactions with owners									
Share issue					4.2		4.2		4.2
Acquisition of treasury shares			0.0				0.0		0.0
Total transactions with owners	0.0	0.0	0.0	0.0	4.2	0.0	4.2	0.0	4.2
Equity on June 30, 2020	0.3	0.0	-1.1	-2.3	30.9	16.5	44.3	2.7	47.0

Commitments and contingencies

EUR million

	30.6.2020	30.6.2019	31.12.2019
Leasing liabilities	0.3	0.2	0.1
Other rental liabilities	1.2	0.0	2.8
Bank guarantees	0.3	0.3	0.1
Total other liabilities	1.8	0.5	3.0

Additional information



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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.

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