

Q3

Enfo Oyj

Interim report

July 1 – September 30, 2019

Enfo Group's interim report

July 1 – September 30, 2019

Enfo Q3: Positive development, profitability improving

Key points of the interim report

- Turnover was EUR 27.1 million in July–September (corresponding period 2018: 27.6).
- The operating margin (EBITDA) increased to EUR 2.7 (1.0) million in July–September.
- Operating profit (EBIT) was EUR 0.7 (0.0) million in July–September.
- Profit before taxes in July–September amounted to EUR 0.3 (0.0) million.
- Earnings per share in July–September were EUR -0.3 (-0.5).
- Cash flow from operating activities totaled EUR 0.9 (-0.1) million in July–September.
- At the end of September, Enfo employed a total of 897 (882) people.

Enfo continued business improvement in the third quarter of 2019. Operating margin EBITDA has developed positively in 2019 and costs have decreased through efficiency measures. In the third quarter, Enfo focused on developing business control. The competence management program to balance competence demand and supply advanced.

Enfo's business

Enfo Oyj is the parent company of Enfo Group. Enfo is a Nordic IT service company enabling data-driven business transformation. Enfo builds and runs data-driven solutions and services with its customers and employs approximately 900 experts in Finland and Sweden.

Outlook for 2019

The Group's operating margin (EBITDA) is expected to continue to improve in the fourth quarter of 2019. The improvement is based on the enhancement of competence management, alignment of delivery, sales and marketing operations, as well as better operational efficiency and business control. Revenue is not expected to grow as Enfo has ended non-profitable business and is focusing on profitability throughout the year, after that focusing on profitable growth.

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 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's CEO, comments on the review period:

"Continuous improvement marked our third quarter. Throughout 2019, we have been focusing on profitability, after building a sustainable business foundation in 2018. Operating margin EBITDA has developed positively. We have improved inhouse transparency regarding sales and delivery and have thus been capable to focus our efforts to minimize waste. In addition, we have decreased costs through efficiency measures.

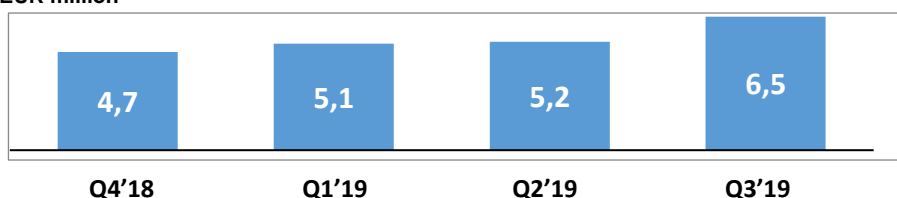
We are developing business control further to sharpen our business management. Mari Orttenvuori started as CFO and a member of the Management Team on September 23. She joins Enfo from M-Brain Oy, where she has been CFO managing global financial operations. Mari has extensive experience from developing business control and structured processes in multinational organizations. Advancing our financial processes and tools is key for us in empowering our business units and improving maneuverability and the proactive steering of our operations.

Our competence management program, which is developing tooling and processes for business management, was proceeding according to plans in the third quarter. It aims at continuously balancing competence demand and supply, also steering our recruiting and competence development. The program will provide essential data for our sales management and delivery operations as well as business control already during the fourth quarter. We expect both our competence management program as well as the improvement of financial processes and tools to affect positively on steering and results in the end of the year and in 2020. While awaiting implementation of the competence management process, we took a temporary approach to deepen the business units' and key account teams' awareness of financial performance in the third quarter.

In 2018, our strategic must-win battle was A workplace to love. Looking at eNPS and attrition development we can be truly pleased with the results. In 2019, the prioritized must-win battle has been Collaborative value creation and we have worked on cocreational initiatives with customers as well as alignment of our delivery, sales and marketing operations. Rolling EBITDA development is proving our determinate actions lead to expected results:

12-month rolling EBITDA excluding business unit Care Transform Karlskrona* (comparable numbers, excluding the impact of IFRS 16)

EUR million



* In the end of the year 2018, Enfo decided to close down the business unit during H1/2019

In the third quarter, we launched our Code of Conduct and Anti-corruption policy ensuring the common ground and commitment to responsible business development. In the fourth quarter, we will identify focus themes and KPI's for Enfo's corporate responsibility development.

In 2020, our theme is growth, and the prioritized must-win battle is Trusted partner. We will continue leveraging experience and expertise in cloud and information management to all delivery areas as well as developing our sales governance further. Our winning aspiration is to be a Nordic leader in data-driven business transformation, supporting enterprise software system transformation to the modern digital age, particularly moving business-critical IT environments from on-premise to cross-platform. We see that the first wave of cloud transformation is over. With the move of business-critical applications and even enterprise resource planning systems to cloud, the key now is to master complexity in ecosystems. In this environment,

data integrations and data management between cloud-hosted and on-premise solutions will be crucial. We also see potential in modern workplace services, with edge computing enabling new forms of collaboration.”

Turnover and profit

Enfo Group's turnover was EUR 27.1 (27.6) million in July–September. EUR 12.5 million of the turnover was accumulated in Finland and EUR 14.6 million in Sweden.

The operating margin (EBITDA) increased from the comparable period, being EUR 2.7 (1.0) million in July–September. The operating profit (EBIT) for the period was EUR 0.7 (0.0) million, representing 2.7% (0.0%) of turnover. Profit before taxes was EUR 0.3 (0.0) million in July–September. Profit for the review period amounted to EUR 0.1 (-0.3) million.

The Group's net financing costs amounted to EUR 0.5 (0.0) million in the third quarter of the year. Earnings per share in July–September were EUR -0.3 (-0.5).

Financing and investments

Enfo's net investments in July–September totaled EUR 1.8 (0.9) million. The company's equity ratio was 39.7% (46.0%) at the end of the review period. Interest-bearing net liabilities at the end of September amounted to EUR 42.7 (31.9) million and net gearing was 100.1% (65.1%). Net debt increased by EUR 8.7 million at the start of the year due to appliance of IFRS16 standard and the net effect on debt caused by applying IFRS16 standard in 2019 was EUR 0.4 million.

Personnel

In July–September, Enfo employed an average of 896 (885) employees. At the end of September, the Group had a total of 897 (882) employees. During the review period, Enfo employed an average of 362 (335) in Finland and 534 (550) in Sweden.

Management

The Management Team in the end of the period was Seppo Kuula, CEO; Lars Aabol, EVP Care; Nina Annila, EVP Data platforms; Björn Arkenfall, EVP Applications, Erik Brügge, EVP Sales; Antti Hemmilä, General Counsel; Sami Kähkönen, EVP Information management; Henrik Norell, EVP People operations and Mari Orttenvuori, CFO.

Shares

On September 30, 2019, Enfo Oyj had a total of 679,251 shares. According to the company's list of owners, the company had a total of 132 shareholders at the end of the review period, including the company itself. However, this figure does not include foreign shareholders whose shares are nominee registered. At the end of September, the company held 13,388 treasury shares (1.97% of all the shares). The company has one series of shares, and the shares are connected to Euroclear Finland Oy's book-entry system.

At the end of the review period, 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 83.56% of Enfo s shares.

Timetable for financial reporting in 2020

The interim report for Q3/2019 is published on October 30, 2019. The financial statement bulletin for 2019 will be published on February 27 and the Annual Report 2019 on March 3. The Annual General Meeting will be held on March 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 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.

Enfo has applied the standard IFRS16 starting January 1, 2019. Assets were valued to an amount corresponding to the lease agreement debt at the time of the implementation of the standard. The exemption of the standard IFRS16, according to which leases of less than 12 months that do not include purchase option are not recognized on the balance sheet, was applied. In addition, the Group did not recognize immaterial contracts on the balance sheet.

The application of the standard IFRS16 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 2.4 million. Of leasing costs EUR 2.3 million was booked as depreciation and EUR 0.1 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 2.4 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	1.7-30.9.2019	1.7-30.9.2018	1.1-30.9.2019	1.1-30.9.2018	1.1-31.12.2018
Turnover	27,1	27,6	89,7	92,3	125,6
Other operating income	0,0	0,0	0,1	0,2	0,7
Materials and services	-6,8	-6,9	-21,9	-22,2	-30,3
Employee benefit expenses	-15,0	-15,5	-52,4	-53,6	-73,4
Depreciation, amortization and impairment	-2,0	-1,0	-5,8	-3,1	-6,2
Other operating expenses	-2,6	-4,3	-9,1	-13,7	-18,8
Operating profit	0,7	0,0	0,4	0,0	-2,5
Financial income	0,2	0,5	0,8	1,6	2,0
Financial expenses	-0,7	-0,4	-2,4	-2,9	-3,2
Profit before taxes	0,3	0,0	-1,1	-1,3	-3,6
Income taxes	-0,2	-0,3	-0,6	-0,4	-0,8
Profit for the period	0,1	-0,3	-1,7	-1,8	-4,5
Attributable to					
Ow ners of the parent company	-0,2	-0,4	-2,9	-2,9	-6,1
Non-controlling interests	0,3	0,0	1,2	1,1	1,6
Earnings per share, EUR	-0,3	-0,5	-4,4	-4,3	-9,2

Consolidated comprehensive income statement

EUR million	1.1-30.9.2019	1.1-30.9.2018	1.1-31.12.2018
Profit for the period	-1,7	-1,8	-4,5
Exchange rate differences caused by net investments in foreign subsidiaries	-0,7	-0,7	-0,6
Other translation differences	0,5	0,2	-0,1
Comprehensive income for the period	-1,8	-2,3	-5,2
Attributable to			
Ow ners of the parent company	-3,0	-3,4	-6,8
Non-controlling interests	1,2	1,0	1,6

Consolidated balance sheet

EUR million	30.9.2019	30.9.2018	31.12.2018
Assets			
Non-current assets			
Tangible assets	11,5	2,9	2,8
Goodwill	64,2	67,4	66,1
Other intangible assets	4,0	4,6	4,2
Available-for-sale investments	0,1	0,1	0,1
Receivables	1,0	0,8	0,9
Deferred tax assets	1,5	1,5	1,5
Total non-current assets	82,3	77,3	75,5
Current assets			
Trade receivables	19,3	20,7	24,4
Other receivables	3,2	6,4	3,6
Tax assets based on the period's taxable income	2,9	0,7	1,8
Cash and cash equivalents	0,2	1,7	0,2
Total current assets	25,5	29,6	30,0
Total assets	107,8	106,9	105,5
Equity and liabilities			
Equity			
Share capital	0,3	0,3	0,3
Other reserves	25,6	25,6	25,6
Retained earnings	15,6	22,0	18,6
Total equity attributable to owners of the parent company	41,5	47,9	44,5
Non-controlling interests	1,2	1,1	1,6
Total equity	42,7	49,0	46,1
Non-current liabilities			
Interest-bearing liabilities	26,3	1,2	1,2
Other liabilities	0,4	0,4	0,4
Deferred tax liabilities	0,6	0,7	0,7
Total non-current liabilities	27,3	2,2	2,3
Current liabilities			
Interest-bearing liabilities	16,6	32,5	31,0
Trade payables	2,8	5,4	4,9
Other liabilities	18,5	17,8	21,2
Total current liabilities	37,9	55,7	57,1
Total liabilities	65,1	57,9	59,4
Total equity and liabilities	107,8	106,9	105,5

Condensed statement of cash flows

EUR million	1.1-30.9.2019	1.1-30.9.2018	1.1-31.12.2018
Cash flow from operations			
Profit for the period	-1,7	-1,8	-4,5
Adjustments to the profit for the period	8,0	4,8	7,9
Change in working capital	0,9	-0,2	1,4
Interest paid and received	-0,7	-0,7	-0,7
Taxes paid	-1,3	-0,6	-1,9
Net cash flow from operations	5,2	1,5	2,3
Cash flow from investments			
Investments in tangible and intangible fixed assets	-1,1	-0,8	-1,1
Sales of tangible and intangible fixed assets	0,0	0,0	0,1
Net cash flow from investment activities	-1,1	-0,8	-1,0
Cash flow from financing activities			
Changes in loans	2,4	2,9	1,0
Changes in equity	-1,6	-1,7	-1,6
Repayment of financial leasing liabilities	-4,7	-1,7	-2,3
Net cash flow from financing activities	-3,9	-0,6	-2,9
Changes in cash and cash equivalents	0,1	0,2	-1,6
Effect of exchange rate changes on cash and cash equivalents	-0,1	-0,4	-0,1
Cash and cash equivalents at the beginning of the period	0,2	1,9	1,9
Cash and cash equivalents at the end of the period	0,2	1,7	0,2

Key figures	1.1-30.9.2019	1.1-30.9.2018	1.1-31.12.2018
Turnover, EUR million	89,7	92,3	125,6
Operating profit, EUR million	0,4	0,0	-2,5
% of turnover	0,5	-0,1	-2,0
Profit before taxes, EUR million	-1,1	-1,3	-3,6
% of turnover	-1,2	-1,4	-2,9
Profit for the period, EUR million	-1,7	-1,8	-4,5
% of turnover	-1,9	-1,9	-3,6
Earnings per share, EUR	-4,4	-4,3	-9,2
Return on investment, %	2,1	2,5	neg
Return on equity, %	neg	neg	neg
Equity ratio, %	39,7	46,0	43,8
Net gearing, %	100,1	65,1	69,5
Interest-bearing net debt, EUR million	42,9	31,9	32,0
Equity per share, EUR	62,3	71,9	66,8
Average number of employees	902	885	884
Number of shares	679 251	679 251	679 251

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	25,2	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 September 30, 2018	0,3	0,0	-1,1	-1,7	26,8	23,7	47,9	1,1	49,0

	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						-2,9	-2,9	1,2	-1,7
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		1,1	0,6		0,6
Other comprehensive income items for the period after taxes		0,0	0,0	-1,2	0,0	1,1	-0,1	0,0	-0,1
Comprehensive income for the period	0,0	0,0	0,0	-1,2	0,0	-1,8	-3,0	1,2	-1,8
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 September 30, 2019	0,3	0,0	-1,1	-2,8	26,7	18,4	41,4	1,3	42,7

Changes in tangible fixed assets

EUR million	1.1-30.9.2019	1.1-30.9.2018	1.1-31.12.2018
Carrying amount at the beginning of the period	2,8	3,5	3,5
Increases	4,9	1,1	1,7
Decreases	-0,5	-0,1	-0,2
Increases based on standard change	8,7	0,0	0,0
Depreciation and amortisation	-4,5	-1,6	-2,2
Carrying amount at the end of the period	11,5	2,9	2,8

Commitments and contingencies

EUR million	30.9.2019	30.9.2018	31.12.2018
Leasing liabilities	0,7	4,4	3,7
Other rental liabilities	0,0	6,4	5,8
Other contract liabilities	0,0	0,2	0,2
Bank guarantees	0,3	0,3	0,3
Total other liabilities	1,0	11,3	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 the complexity. We are 900 experts working for a more intelligent world, with technology empowering people, businesses and societies.

For more information, visit enfogroup.com

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