

Netum – IPO Research Report

Netum is a Finland-based strongly growing and profitable IT services company with over 20 years of experience of demanding IT projects. The company intends to list on the Nasdaq First North Growth Market Finland by offering a maximum of 2 535 000 new shares for subscription in the IPO. The subscription period starts next Monday on 24 May 2021 and the subscription price per share is EUR 3.2.

Strong track record of profitable growth

Netum has been growing strongly in the past years, through both organic growth and M&A, with a CAGR of 22% in 2016-2020. Strong growth has been coupled with high margins as the average EBITA and EBIT margins between 2016-2020 have been 16.7% and 11.4%. Both growth and profitability have been above the average level of Finnish competitors.

Proceeds from the IPO will be used to accelerate growth

Netum aims to grow rapidly organically and according to its financial targets, the company aims to achieve net sales of EUR 30m in 2023, which corresponds to 20% annual organic growth. In addition to organic growth, the company is actively looking for opportunities for inorganic growth and seeks to grow through selective acquisitions. A core part of Netum's strategy is to continue profitable growth and the target is to achieve an EBITDA margin of at least 15%. Netum aims to raise gross proceeds of EUR 8 million through a planned Initial Public Offering in order to accelerate the implementation of its growth strategy and general business needs.

The IPO valuation is at a discount to peers on our estimates

The IPO share price of EUR 3.2 translates into EV/EBITA of 8.7x/7.6x and adj. P/E of 13.4x/12.4x on our 2021E-2022E estimates. The EV/EBITA multiples are thus ~43% and adj. P/E multiples ~26% lower compared to the Finnish peer group. In our view, Netum's strong track record of growth, relatively high net sales/employee ratio and above-average profitability could even support a premium to our peer group. On the other hand, Netum's smaller size, competition for skilled employees, concentrated customer base, and intensifying competition should be taken into account when looking at valuation.

Rating NOT DISCLOSED



Subscription price, EUR	3.20
Latest report on company	21-May-21
No. of shares outstanding '000's	11,535
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KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2019	13.4	0.7	5.0%	1.1	0.02	0.0	0.4	7.1	0.0	0.05
2020	17.5	2.0	11.5%	1.8	0.20	0.0	0.2	1.4	0.0	0.08
2021E	21.0	2.5	11.8%	2.4	0.09	35.1	1.5	12.5	6.4	0.09
2022E	25.2	2.8	11.0%	2.9	0.17	19.3	1.2	10.5	7.8	0.10
2023E	29.5	3.5	11.9%	3.5	0.22	14.7	0.9	7.6	9.4	0.12
Market cap, EURm			37	Gearing 2021E, %		-47.9	CAGR EPS 2020-23, %			2.5
Net debt 2021E, EURm			-6	Price/book 2021E		3.0	CAGR sales 2020-23, %			18.9
Enterprise value, EURm			31	Dividend yield 2021E, %		2.8	ROE 2021E, %			12.0
Total assets 2021E, EURm			19	Tax rate 2021E, %		20.0	ROCE 2021E, %			20.1
Goodwill 2021E, EURm			6	Equity ratio 2021E, %		65.7	PEG, P/E 21/CAGR			0.7

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Investment summary

Strongly growing IT services company

Netum is a Finland-based strongly growing IT services company with over 20 years of experience of demanding IT projects. Netum's services include digital service development, continuity services, integration services, cyber security solutions, and IT management consulting. In addition, the company provides two SaaS software solutions; Truugo and Netum DUX. Netum employs ~160 IT professionals in Helsinki, Tampere, Turku, and Pori.

Strong growth has been coupled with high margins

Netum has grown organically and through acquisitions and managed to grow faster than the median growth among its competitors. Netum has a strong growth record with a CAGR 22% in 2016-2020. The company's organic annual growth rate was on average 15% between 2016 and 2020. Despite strong sales growth, Netum has been able to maintain high margins. The average EBITA and EBIT margins between 2016-2020 have been 16.7% and 11.4%, which in our view are at a good level in the IT-services industry.

Netum aims to grow faster than its target market

The Finnish IT-services market accounted for EUR ~4.6bn in 2019 (Business Sweden: The Nordic IT market), and the market can be crudely split into traditional IT-services and development of new digital services. Legacy to Digi concept enables Netum to serve its customers throughout the IT-services market and to provide services in both areas. Netum estimates a slower growth rate of ~2-4% in the traditional IT-services market, while new digital services are expected to grow significantly at an annual growth rate of ~10% in the coming years. Netum is targeting to grow faster than its Finnish target market.

Mid-term financial targets: net sales of EUR 30m in 2023 and an EBITDA margin of >15%

Netum aims to grow rapidly organically and according to its financial targets, the company aims to achieve net sales of EUR 30m in 2023, which corresponds to 20% annual organic growth. In addition to organic growth, the company is actively looking for opportunities for inorganic growth and seeks to grow through selective acquisitions. A core part of Netum's strategy is to continue profitable growth and the target is to achieve an EBITDA margin of at least 15%. Netum aims to distribute at least 40% of the comparable profit as dividends each year. In 2021, Netum estimates net sales to increase to EUR 20-22m. Comparable EBITA is expected to be in the range of EUR 3.1-3.5m.

We expect net sales of EUR 21m and comparable EBITA of EUR 3.3m in 2021

We estimate 2021E net sales to grow by 19.7% to EUR 21m driven by personnel growth as well as strong demand in cyber security services and digital service development. We estimate a full-year comparable EBITA of EUR 3.3m, at a margin of 15.9%, which is at the midpoint of guidance. In 2022E-2023E, we expect Netum to be able to continue profitable strong growth and estimate a sales growth of 20% and 17%, respectively. According to management, the estimated volume of existing contracts for next year is approximately EUR 15m and there are good opportunities for new frame agreements as well as for extending contracts. In addition, we expect sales of Akamai and Netum Dux to be gradually be reflected in the company's net sales in 2022E-23E. We estimate an EBITA for 2022E and 2023E of EUR 3.8m (15.2%) and 4.6m (15.5%), as active recruitment and competition for skilled employees may put some pressure on margins.

The IPO share price is at a discount compared to our Finnish and Nordic peer groups on our estimates

The IPO share price of EUR 3.2 translates into EV/EBITA of 8.7x/7.6x and adj. P/E of 13.4x/12.4x on our 2021E-2022E estimates. The EV/EBITA multiples are thus ~43% and adj. P/E multiples ~26% lower compared to the Finnish peer group. Looking at the Finnish peer group's three-year averages of 12-month forward EV/EBIT (12.7x) and P/E (14.8x) multiples, Netum is valued at a discount 9-31% on our estimates for 2021E. In our view, Netum's strong track record of growth, relatively high net sales/employee ratio and above-average profitability could even support a premium to our peer group. On the other hand, Netum's smaller size, competition for skilled employees, concentrated customer base, and intensifying competition should be taken into account when looking at valuation.

Company overview

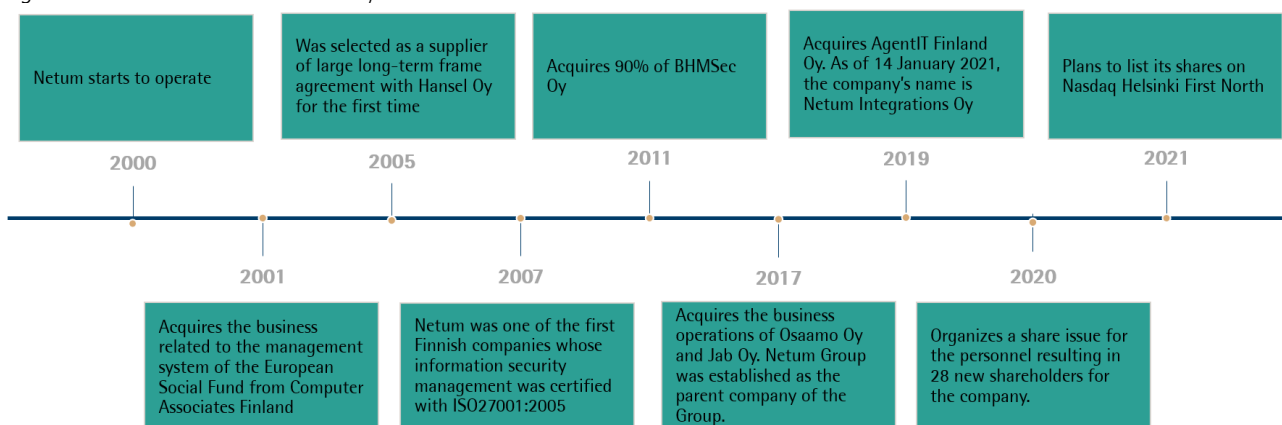
Strongly growing IT services company

Netum is a Finland-based strongly growing IT services company with over 20 years of experience of demanding IT projects. Netum employs ~160 IT professionals in Helsinki, Tampere, Turku, and Pori. The company's services include digital service development, continuity services, integration services, cyber security solutions, and IT management consulting. In addition, the company has two SaaS software solutions; Truugo (validation service platform) and Netum DUX (IT asset management). Netum's service offering differs from many small- and mid-size IT-service providers in its wider range, which also covers traditional IT services.

Netum Group was formed in 2017 and includes three subsidiaries: Netum Oy, Netum Service Channel Oy, and Netum Integrations Oy

Netum was founded in 2000. The current group structure was formed in 2017, when Netum Group was established as the parent company of the group and it acquired 100% of the shares of Netum Oy and Jab Oy. Currently, Netum Group includes three subsidiaries: Netum Oy, Netum Service Channel Oy and Netum Integrations Oy. Netum Oy offers digital services development and maintenance, development, support and maintenance of information systems, cyber security services as well as IT management consulting. Netum Integrations Oy is former AgentIT, which Netum acquired in 2019, and it concentrates on inter-company integration for business data transfer. Netum Service Channel Oy has no operations at the moment.

Figure 1: Timeline of Netum's history



Source: Netum

Netum is an experienced provider of government IT solutions

Netum operates in the Finnish IT service market and is an experienced provider of government IT solutions. Netum implements customers' digital transformation through its "Legacy to Digi" concept by utilizing existing, proven IT resources and integrating new systems into them. Public sector customers accounted for 79% Netum's net sales in 2020. In addition to public organizations, the customer base also includes corporate customers from the private sector.

Strong growth has been coupled with high margins

Netum has been growing strongly in the past years, through both organic growth and M&A, with a CAGR of 22% in 2016-2020. The company's organic annual growth rate was on average 15% between 2016 and 2020. Despite strong sales growth, Netum has been able to maintain high margins. The average EBITA and EBIT margins between 2016-2020 have been 16.7% and 11.4%, which in our view are at a good level in the IT-services industry.

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Expected to be listed on the Nasdaq First North Growth Market Finland in 2021

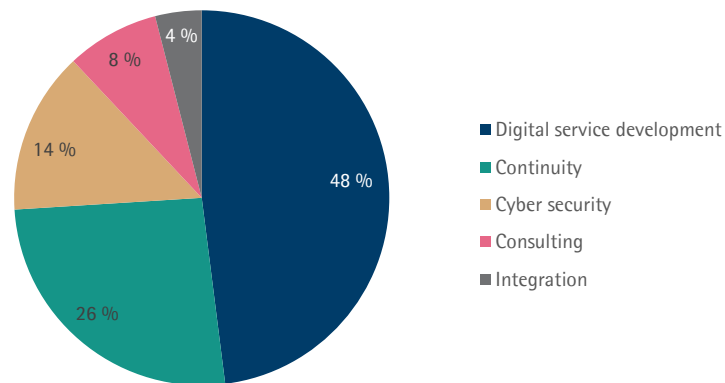
Netum aims to raise gross proceeds of EUR 8 million through a planned Initial Public Offering. After costs related to IPO, the proceeds are expected to be EUR 7.2 million. Netum intends to use the funds raised through the IPO to accelerate the implementation of its growth strategy and general business needs. The company may also use the proceeds in mergers and acquisitions, to grow the company organically and perform other corporate initiatives. The other objectives of the IPO are to enter the capital markets, increase the liquidity of the shares, possible use of shares in acquisitions as well as to increase the company's public awareness. Netum's shares are expected to be listed on the Nasdaq First North Growth Market Finland.

Business areas

Netum has a wide service offering despite relatively small size of the company

The company offers its public administration and corporate customers a "Legacy to Digi" concept that includes combining traditional IT solutions with the latest digital applications. The main idea of the concept is to tackle the development challenges of digital transformation by developing something new while also taking the existing IT resources into account. Thus, Netum develops and implements digital transformation by utilizing existing systems and integrating new systems and applications into the old functional platform. Netum's services include software design and implementation, information system management and monitoring, cyber security solutions, and IT management consulting. Netum's service offering differs from many small- and mid-size IT-service providers in its wider range, which also covers traditional IT services.

Figure 2: Net sales split in 2020



Source: Netum

Netum provides business-critical services to customers

Netum's business is based on business-critical services provided to customers, which are supported by an offering of scalable SaaS software business based on Netum's own products and leading international technology vendors. Despite the relatively small size of the company, Netum has a comprehensive range of services.

All business areas have a good market outlook

According to Netum's management, all business areas have a good market outlook. Currently, the highest demand is for data & analytics services as well as cyber security services. Netum's wide service offering also provides an opportunity to concentrate resources on other business areas if demand in some markets weakens.

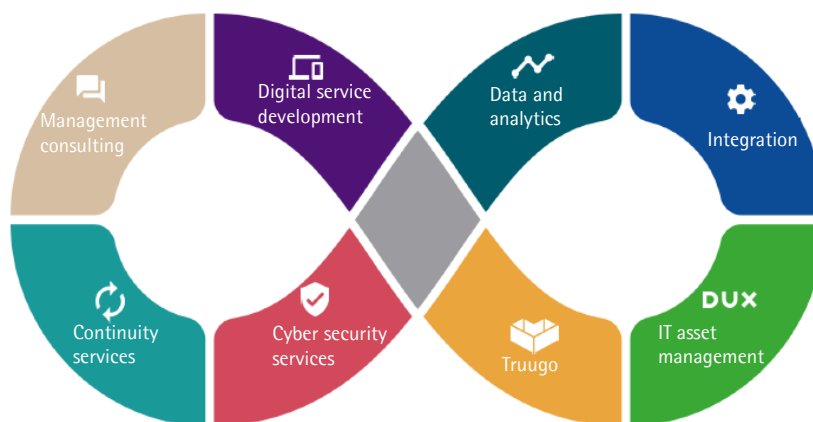
Netum's services can be divided into five segments:

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- **Digital service development:** Netum develops highly tailored applications according to client's needs and operational environment with experience in developing both robust public administration systems and agile systems for various businesses. Netum specializes in demanding system projects, and the company is familiar with various software technologies methods, technologies, and cloud services (e.g. Episerver, Azure, Amazon Web Services (AWS), DevOps, Kubernetes, Java, ISS, and many other solutions). Digital service development is currently the largest segment, accounting for almost half of net sales in 2020. Digital service development employs around 70 employees.
- **Continuity:** Continuity services help customers to choose the best systems for organization and guarantee smooth everyday operations for businesses with 24/7 system accessibility. Customers' IT staff are supported by Netum's experienced specialists who are able to help with, for example, IT system maintenance, access management, monitoring, assurance, updates, and recovering from faults. Services include service desk, 24/7 helpdesk and monitoring, application services, hosting services, hybrid cloud services, cyber security services, system & software development, and service transfer and hand-over. Continuity services accounted for 26% of net sales in 2020. The team has 38 employees.
- **Cyber security:** Netum has a long experience and a comprehensive service offering in cyber security services. Many of Netum's customers handle confidential information, such as healthcare, ICT, and public administration. To ensure the level of information security, Netum has certified its operations in accordance with the internationally recognized information security management system ISO/IEC 27001 standard. Cyber security services include consulting, technical and administrative cyber security mapping and audits, identification of cyber security and data protection requirements, protection and vulnerability testing, continuous cyber security services, Akamai services, development of data protection and personal data management. Cyber security's share of net sales was 14% in 2020. 20 employees currently work in cyber security services.
- **Consulting:** In consulting services, Netum's consultants support customers with a wide range of expert services, for example in digital transformation, selection and acquisition of IT solutions, and implementation of IT projects. Consultation business differs from other business units in that there are typically many short-term projects going on at the same time, which are smaller in terms of net sales. Consultation services also co-operate closely with the sales function and are able generate sales leads to other business units. Consulting accounted for 8% of net sales in 2020. Netum's consulting team consists of 7 consultants.
- **Integration:** Integration services ensure that customers have access to the information in the right format and preferred systems. Netum provides versatile services related to system integrations, such as auditing of the current status, architecture design, analysis of the alternative solution, tendering and preparation of offer request documents, planning of system change and project management and monitoring. Integration's share of net sales was 4% in 2020, but integration services are also included in some projects and continuity services that are not included in the segment's net sales. Integration services have 14 employees.

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Figure 3: Netum's service offering ("Legacy to Digi")



Source: Netum

Scalable product offering as a potential driver of revenue and profitability

Business related to SaaS-based products is currently in the early stage

A business related to scalable SaaS-based products is currently in the early stage and sales are relatively low. According to the management, it may take approximately 2-3 years before sales of these products (if successful) are more visible in the company's net sales. When successful, these products can expand Netum's customer base, develop revenue mix, and improve profitability. Netum develops and provides following products and solutions:



- **Netum DUX:** Netum DUX is a SaaS-based IT asset management solution which is easily integrated, scalable and secure, and provides an up-to-date and reliable overview of customers' IT assets. Netum DUX service helps managing different stages in the lifecycle of devices from procurement and maintenance to secure post-processing. Netum acquired IPR rights for IT asset management software from Axiom Oy in 2017 and has invested in the development of Netum DUX in recent years. Sales are currently low (tens of thousands of euros) and the product will be launched on a larger scale during 2021 and Netum's first channel partner is Tietokeskus Finland.



- **Akamai:** Netum's partner Akamai is the market leader in internet service protection, which guarantees a fast, reliable, and secure platform for clients' services. Akamai is a leading cyber security company in cloud services with the world's largest content delivery network. Akamai solutions offered by Netum include DDos attack prevention and advanced Web Application Firewall as a cloud service, bot management, secure enterprise application access, secure internet gateway, and cloud cyber solutions. Akamai solutions are not yet generating revenue for Netum, but the partnership have the potential to attract larger corporate customers in the coming years. It should be noted that the Akamai partnership is not exclusive with Netum, and the cooperation may end, for example, if Akamai decides to offer its services directly to end customers.



- **Truugo:** Truugo is a platform for creating customized message guidelines, validators, and validation services for structured files developed for international markets. Truugo is an online solution designed to setup customized validators and documentation for electronic messages (EDIFACT,

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XML, Flat File), such as invoices (Finvoice, TEAPPSXML ja UBL). The purpose of Truugo is to harmonize companies' testing and documentation practices, improve transparency and data quality.

Business model

Business model based on "Legacy to Digi" concept

Netum's business model is based on its "Legacy to digi" concept, which main idea is to utilize customer's existing systems or services when developing new digital solutions. In the business model, Netum acts as a partner with customers in digital transformation and makes it easier to implement digital solutions in everyday operations. The company's projects range from short-term consultation projects to multi-year framework agreements. The majority of sales consist of framework agreements with public sector customers.

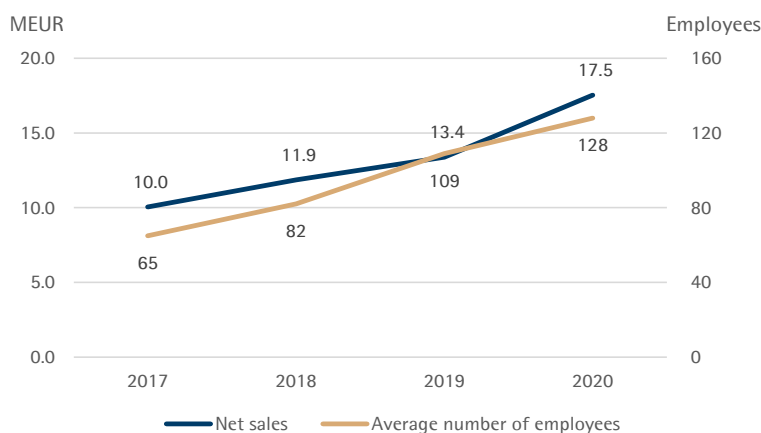
Netum has senior-level expertise in system development, their technology and life cycles

Business operations are mainly related to delivery of digital solutions, services, and consultancy for customers in the public and private sector. Employees are the key to maintaining the competitiveness in the fast-growing IT-services sector. Netum has a committed and experienced personnel, as 44% of the employees have 15-25 years of experience in the IT industry and the average age of the staff is 44 years. Thus, the company has senior-level expertise in system development, their technology and life cycles. The personnel are also committed through ownership and the personnel share issue in 2020 was fully subscribed. Currently, more than 30% of the personnel are shareholders. The business model is labor-intensive, which highlights the importance of recruiting new talents and HR operations.

Most of the business is hourly invoicing

The majority of the invoicing is based on hourly invoicing, which lowers the operative risk compared to project-driven models. Netum has a relatively high invoicing rate as almost all employees work in customer projects. The company also uses automation in its bidding processes for public tenders and utilizes the data obtained from them to improve operational efficiency. Netum has been able to recruit and onboard new personnel quickly into its organization. Historically, personnel growth has translated into sales growth relatively rapidly and there has been a high correlation between sales and personnel growth due to Netum's labor-intensive business model. We see the organization as agile and the less hierarchical structure offers a competitive edge against especially the large IT-generalists. Decision-making is also quicker than in larger organizations.

Figure 4: Development of net sales and average number of employees in 2017-20



Source: Netum

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Share of fixed and target price projects is relatively low

Netum also offers some projects with fixed price and target price contracts. For service providers fixed price projects should typically be less attractive due to the risk of cost exceeding and weaker profitability on projects. Fixed price projects can be used, for example, to attract new customers. The share of fixed and target price project business is currently low, and to our understanding, the company is not planning to enlarge it due to higher operative risks.

Continuity services allows for better profitability

In Netum’s continuity services, services can be productized, and customers pay for a fixed monthly fee for the service. Additional work is charged by hourly-based. As continuity services are largely billed on a monthly basis and are not tied to employees’ working hours, it allows for better profitability compared to hourly invoicing.

Netum intends to expand its revenue mix into scalable solutions

The company intends to expand its revenue mix from hourly-based invoicing to more scalable solutions and products. Thus, Netum also develops and provides scalable SaaS, PaaS, and IaaS based services and solutions. These services include Netum DUX (IT asset management solution), Akamai (cloud-based security service), and Truugo (validation service platform). The pricing of these services consists of the fixed price in connection with the deployment and a service fee for the used period per e.g. device/user/capacity.

Scalability still relatively low and growth requires personnel recruitments

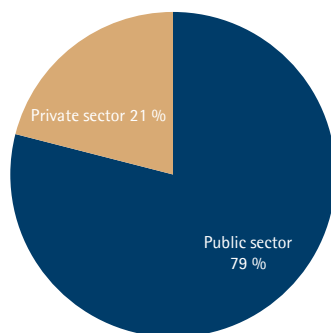
The share of recurring revenue is still relatively low and due to the labor-intensive business model, scalability of the business is rather limited. In order to continue sales growth in the short-term, Netum needs to recruit new personnel as it is difficult to raise the sales per employee (average) ratio. It is key to find new talents and attract experienced professionals as competition for personnel is relatively tough in the IT-services sector.

Customers

High share of public sector clients

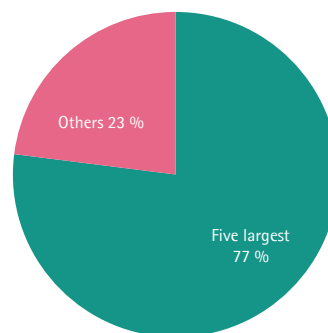
Netum is an experienced provider of government IT solutions in Finland and public sector customers accounted for EUR 13.8 million or 79% of Netum’s net sales in 2020. The private sector represented EUR 3.7 million or 21% of net sales. As an experienced IT service provider, Netum has several long-term customer relationships and a high level of customer satisfaction. The company has been able to win significant framework agreements and build long-term customer relationships that bring predictability to the business. For example, Netum has been a provider for IT services to the EU’s structural fund since 2001, to Senaatti Properties since 2011, and to the Development and Administration Centre since 2013. The company has valid agreements with these customers in the coming years as well.

Figure 5: Customer split in 2020



Source: Netum

Figure 6: Net sales by customers



Source: Netum

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Netum has won a couple of significant tenders in 2020-2021

Public procurement is based on the Public Procurement Act and purchases of IT services in recent years have amounted to approximately EUR 1 billion. Service providers for government and municipal procurement are selected through tendering processes and often enter into long-term framework contracts. Public sector tenders more often involve domestic competitors. In the public sector, Netum's largest customers are Development and Administration Centre, Ministry of Economic Affairs and Employment of Finland, and Digital and Population Data Services Agency. Netum has recently won a couple of significant tenders. In 2020, Netum was selected as the supplier for the technical implementation of EURA 2021, the digital management system for the EU's regional and structural funds. The estimated contract value is EUR 30-40 million and the project is scheduled for 2021-2027. In February 2021, Netum announced the extension of the framework contract with the Development and Administration Centre in 2021-2027 worth approximately EUR 9 million.

Targeting to expand private sector customer base

The private sector differs from the public sector and, for example, tendering processes are less transparent, and tendering is not mandatory although it is common. Customer companies' IT procurement is mainly handled by various business units. Netum competes for these projects with both domestic and foreign players. Among private sector customers, the main industry sector is currently logistics and Posti is the largest private sector customer. Other private sector customers include for example Gasum and SE Makinen, among others. Netum aims to expand its customer base in the private sector and potential customers include e.g. large companies through cyber security sales, small and medium-sized companies in projects, and publicly owned limited companies.

Figure 7: Netum's reference customers



Source: Netum

The five largest customers represented 77% of the net sales in 2020

In 2020, the five largest customers represented 77% of the net sales. Other customers' share of net sales was 23%. The fact that the five largest customers stood for 77% of revenue is in our view still a risk. Historically, the five largest public sector customers have accounted for roughly 60% of the value of Netum's total framework agreements. However, it is noteworthy that government framework agreements have typically several different end customers, even though the agreement is under one agency. According to Netum's management, the number of end customers formed by the five largest public sector customers have amounted to around 80-100 in recent years.

Market overview

The size of the IT-services market is approximately EUR 4.6 billion

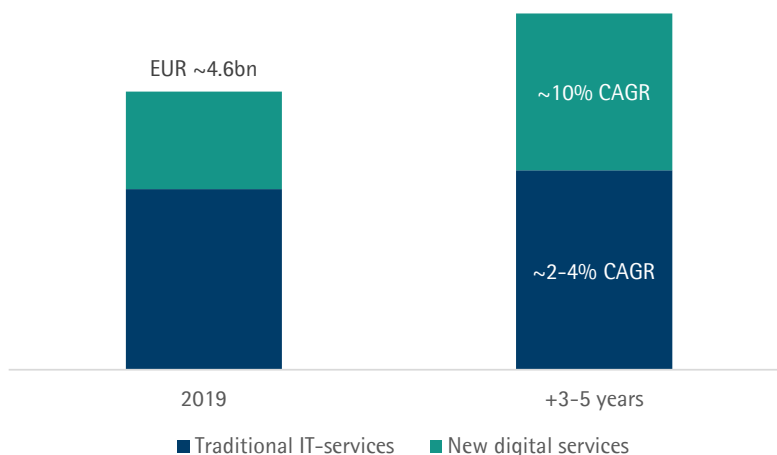
The size of the total Finnish IT-market has been estimated at slightly over EUR 7.0bn, with annual growth rates having been in the range of 3-5%. The Finnish IT-services market accounted for approximately EUR 4.6 billion in 2019 (Business Sweden: The Nordic IT market) and according to estimates of Netum's management, the private sector accounted for ~75% and the public sector for ~25%. Netum expects that the need for services on both the public and private sector will remain and growth will continue in the coming years.

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Netum serves its customers throughout IT-services market

The Finnish IT-services market can be crudely split into 1) Traditional IT-services and 2) development of new digital services. Legacy to Digi concept enables Netum to serve its customers throughout the IT-services market and to provide services in both areas. The development of the IT-services market is twofold, with traditional IT-services estimated to grow slowly and new services such as digitalization, cloud services, mobile solutions, and Internet of Things (IoT) to grow rapidly. Netum estimates a slower growth rate of ~2-4% in the traditional IT-services market, while new digital services are expected to grow significantly at an annual growth rate of ~10%. According to the management, new digital services accounted for about 30-35% of the IT-services market in 2019 and the share is expected to grow to almost half of the total market over the next 3-5 years. Although the share of the traditional IT-services is declining due to the rapid growth of new digital services, it has higher volumes and still covers a significant share of the total market.

Figure 8: Estimated development of the Finnish IT-services market



Source: Netum, Evli Research

Netum's customer base consists mainly of the public sector, which has not significantly been affected by COVID-19

In the near term the Coronavirus pandemic will in our view affect the sector. Given the impact the pandemic is having on the economy, companies will have to consider investments into digitalization from different perspectives. Some entities have deferred investments due to cash flow and financing uncertainty while others may seek to invest in new services that are more compatible with the regulations that have been in place regarding for instance traveling and changes in habits caused by social distancing. In our view the impact of the pandemic on the IT-sector should be lesser than on the economy in general. Netum's customer base consists mainly of the public sector, which has not been significantly affected by the COVID-19 pandemic. Although the total market size of IT sector remained at the previous year's level due to the COVID-19 pandemic, Netum's management estimates that the IT-services market grew slightly in 2020. However, some market segments, such as cyber security and cloud services, continued to grow as before in 2020.

Digitalization is the main growth driver

Finland was the leader out of the 28 EU Member States in the Digital Economy and Society Index (DESI) in 2020, creating an excellent operating environment for IT-service companies. The digital transformation is one of the key drivers in the Finnish IT-services market. Digital transformation means the integration of digital technology into all areas of public or private services. This results in fundamental changes to how companies operate and how they deliver value to customers. Digitalization offers customers the possibility to renew their services in order to grow and reduce costs by improved

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efficiency. Digitalization of services can also mean cost savings. Netum benefits from digital transformation and the key market trends for the company are:

- **Digitalization:** The digitalization of society is the main growth driver, which supports IT-service companies both in the short- and long-term. Digitalization enables both innovation and more efficient ways of working. Almost all new products and services include more and more digital components, and their efficient operation, from the user experience to the underlying system architecture and cloud infrastructure, is extremely business-critical for the customer.
- **Cyber security:** Cyber security is one of the fastest growing IT service segments with estimated CAGR of ~10% between 2020-2025 (Mordor Intelligence). Large-scale cyber-attacks have become more common and issues with cyber security or data protection may cause significant financial losses, as well as loss of reputation. As a result, the importance of cyber security in companies and organizations has increased, and growth is expected to continue in the future.
- **Regulatory renewals:** Legislation and regulation need to be updated and reformed as a result of digitalization. Particularly in the area of cyber security, legislative reforms are likely as society digitalizes and new threats emerge. A recent example is the GDPR setting.
- **Cloud services:** Information systems are increasingly being moved to the cloud. The importance of cloud technologies as a platform for developing and operating services is becoming the norm. Cloud services are expected to grow significantly in the next few years, as cloud-based solutions replace traditional IT infrastructure.
- **Data analytics, artificial intelligence, and machine learning:** One of the fastest growing segments of the market. Companies and organizations have begun to invest heavily in comprehensive information management and analytics services. Data is increasingly a strategic competitive factor and prerequisite for artificial intelligence and machine learning solutions.
- **Increase in the amount of IT assets:** The amount of IT assets of companies and public entities is growing constantly with digitalization, creating needs and demand for IT asset management services.

Competitive field

Large IT-generalists losing market share

The past years have seen the market structure of the Finnish IT-services sector changing rapidly. Netum's main competitors are domestic players. Small and medium sized players are growing rapidly and recruiting actively and modern and agile companies in the like of Netum have in a few years secured a good foothold in the new digital services market. Large IT-generalists (Tieto, Accenture & CGI) still hold strong market positions in Finland but they are not as agile and innovative as the growing small and medium sized players. Hence, large IT-generalists have lost market share in the Finnish market. Some large and medium sized Nordic IT-services players are also present in the market but with low market shares.

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Netum's competitive field is quite broad due to its comprehensive range of services

Netum operates on both the private and public sector and offers a comprehensive range of services. Thus, the company's competitive field is also quite broad covering agile companies focusing on e.g. new digital services, integrations and cyber security consulting, as well as IT generalists. According to the management, the main competitors include Solita, CGI Finland, Visma Consulting, Digia, KPMG, Innofactor, Gofore, and Cybercom Finland, all of which are service providers in public administration projects. The company's most significant competitors in the private sector are the same companies as on the public sector.

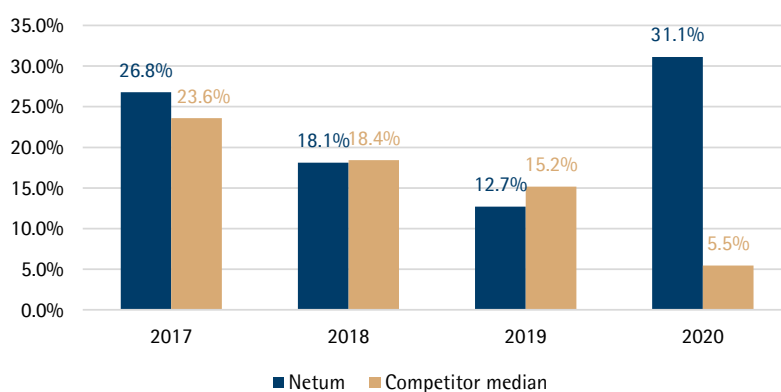
Digia can be seen as probably the closest peer to Netum

We have compared Netum's financial performance against the small & medium sized IT-service players (inc. listed and non-listed companies) in Finland. These competitors include Vincit, Siili, Solita, Reaktor, Bilot, Nitor, Innofactor, Solteq, Digia, Nixu, Gofore and Futurice. These players have overall also grown relatively aggressively in the Finnish IT-market. Digia can be seen as probably the closest peer to Netum due to a similar service offering.

Netum has grown faster than the median growth among its competitors

In 2017-2020, Netum has managed to grow faster than the median growth among its competitors. Netum's net sales CAGR between 2017-2020 was 20%. Growth among small and medium sized IT-players has been fast – all main competitors have on average seen double-digit growth rates during the past years except 2020. A large share of the growth has been organic. Netum's presence in IT services related to digitalization has been the main driver of growth. Netum's organic growth, like several of the other fastest growing competitors, have been complemented by inorganic growth. Netum has in the past few years completed a couple of acquisitions: Jab and Osaamo in 2017, and AgentIT in 2019.

Figure 9: Netum's sales growth (%) against competitors



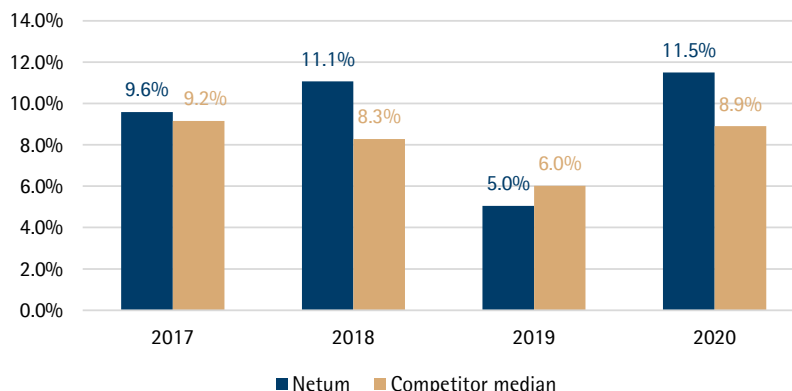
Included competitors: Vincit, Siili, Solita, Reaktor, Bilot, Nitor, Innofactor, Solteq, Digia, Nixu, Gofore and Futurice
Source: Asiakastieto, Netum, company websites, Evli Research

Netum has been one of the most profitable players

Profitability in the IT-services sector has been at a fairly high level in recent years. In addition to strong growth, Netum has been one of the most profitable players. Netum's historical profitability has been relatively stable and at slightly higher levels than its competitors' median. Nitor, Reaktor and Gofore have on average enjoyed the highest EBIT-margins of the included companies in the comparison between 2017-2020. The median EBIT-margin for the competitors in the past four years has been 8.1%, while Netum has been able to produce an average EBIT-margin of 9.3% during the same time period. In our view, Netum's good profitability has been based on continued sales

growth, which has translated into high utilization rates, along with good cost efficiency and effective service/project execution.

Figure 10: Netum's EBIT-margin (%) against competitors

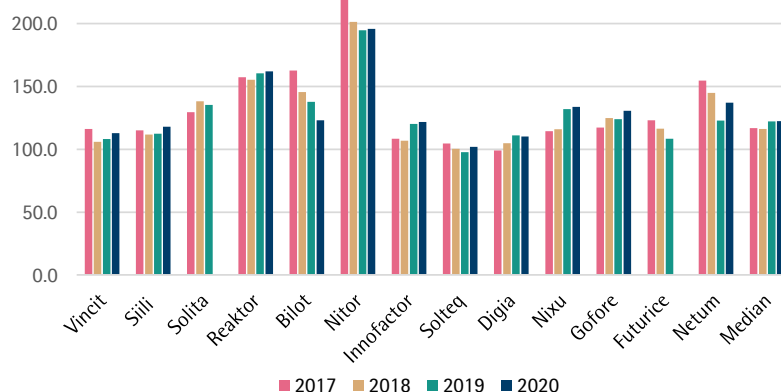


Included competitors: Vincit, Siili, Solita, Reaktor, Bilot, Nitor, Innofactor, Solteq, Digia, Nixu, Gofore and Futurice
Source: Asiakastieto, Netum, company websites, Evli Research

Sales per employee above the sector average

We also compared the net sales/employee ratio in the Finnish IT-services sector. Netum's net sales/employee ratio amounted to EUR 137k in 2020, which was above the sector median of EUR 122.3k. In 2017-2020, Netum's ratio has been in the range of EUR 122.7-154.6k, which is at a high level compared to competitors. Nitor and Reaktor have the highest net sales/employee ratios in the sector, at least in parts likely due to the high focus on Helsinki. The service offering and employee experience will also impact on the differences between competitors.

Figure 11: Net sales/employee 2017-2020



Source: Asiakastieto, Netum, company websites, Evli Research

Significant presence outside the Capital region

In our view, Netum's cost competitiveness is slightly improved by having offices in Tampere, Turku, and Pori. Of the total employees around 88% have been employed outside Helsinki. Although the difference is likely not substantial in wages, office expenses should be clearly lower. Furthermore, employee turnover is also lower outside Helsinki, where competition for skilled personnel remains tough. The local presence also provides attractiveness as an employer and benefits to acquiring new customers in the areas. Netum also has a low organization structure, which supports cost competitiveness

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against especially the large IT-services players (Tieto, CGI etc.), that on the other hand may enjoy some economies of scale benefits.

Figure 12: Netum's offices



Source: Netum

Strategy and financial targets

Netum's goal is to be the most trusted partner and the most attractive employer in the industry

Netum's goal is to be the most trusted partner and the most attractive employer in the industry. The company helps customers to develop their digital business responsibly and securely, and acts as a partner with customers in change and makes it easier to implement digital solutions in everyday life. The cornerstone of Netum's strategy is "Legacy to digi" concept that enables combining traditional IT solutions with the latest digital applications. Netum is currently focusing on the domestic market.

Figure 13: Legacy to Digi concept



Source: Netum

Netum aims to achieve ~20% organic growth in the coming years

Netum aims to grow rapidly organically and according to Netum's financial targets, the company aims to achieve ~20% annual organic growth in the coming years. Netum's strategic growth areas are data & analytics, cyber security, Netum DUX, and integration. Organic growth is supported by wide service offering, which provides cross-selling opportunities. For example, Netum's consultation, integration and development projects often lead to the use of continuity services. This, in turn, enables long-term customer relationships that strengthen Netum's position as customers plan new projects in the future. The company also sees growth opportunities in SaaS services such as Akamai, Netum DUX, and Truugo.

The company also seeks to grow through selective acquisitions

In addition to organic growth, the company is actively looking for opportunities for inorganic growth and seeks to grow through selective acquisitions. The purpose of the potential acquisitions is primarily to strengthen service offering and resources as well as to expand the customer base. Potential acquisition targets could include for example smaller IT service providers focusing on data & analytics and/or cyber security. A core part of the strategy is to continue profitable growth, and this will no doubt influence Netum's decisions regarding inorganic growth.

Netum has set the following financial targets and dividend policy:

- **Growth:** Netum aims to reach net sales of EUR 30 million in 2023 through organic growth
- **Profitability:** Netum's target is to continue its profitable growth and achieve an EBITDA margin of at least 15%
- **Dividend:** Netum aims to distribute at least 40% of the comparable profit (excluding goodwill amortization and costs related to IPO) as dividends each year

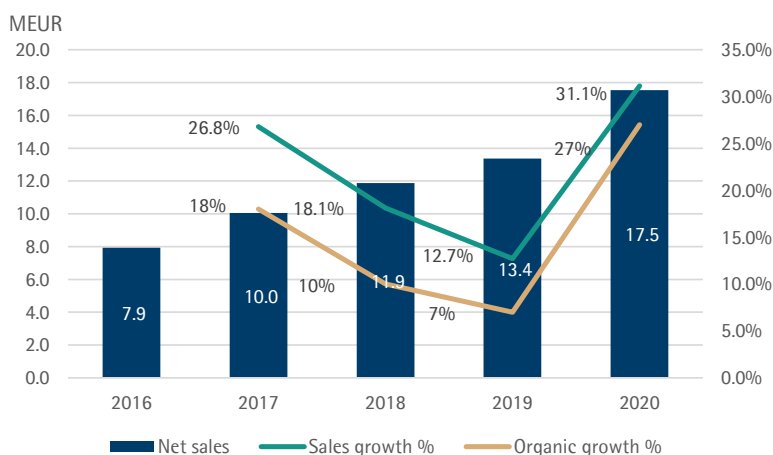
Financial performance

Net sales

2016-2020 sales CAGR
22%

Netum has been able to grow rapidly while maintaining good profitability. Net sales have increased from EUR 7.9 million in 2016 to EUR 17.5 million in 2020, with strong annual growth rates. The net sales CAGR in 2016-2020 was 22%. Growth has been both organic and inorganic, with a higher share of organic growth. Netum's organic annual growth rate was on average 15% between 2016 and 2020. Since 2017 the number of employees has more than doubled from 65 to 160 in 2021.

Figure 14: Net sales development in 2016-2020



Source: Netum

Strong growth in 2020 was mainly driven by EURA 2021 project

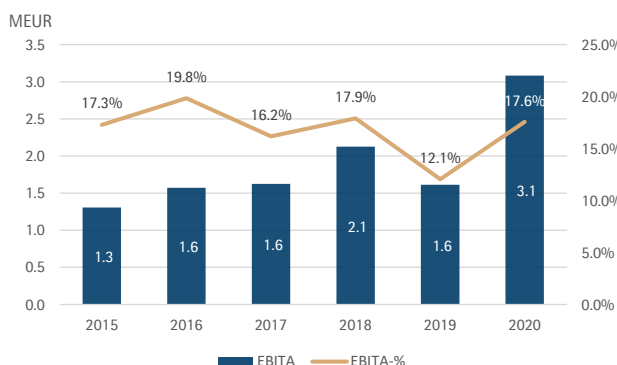
Netum's net sales in 2020 increased by 31.1% to EUR 17.5 million, with organic growth of 27%. A strong growth was mainly driven by EURA 2021 project, which started in early 2020. In Q1/2021, Netum's net sales increased by 9.7% from EUR 4.4 million to EUR 4.8 million. According to the guidance for 2021, Netum's net sales are expected to increase to EUR 20-22 million.

Profitability

Despite strong sales growth, Netum has been able to maintain strong margins

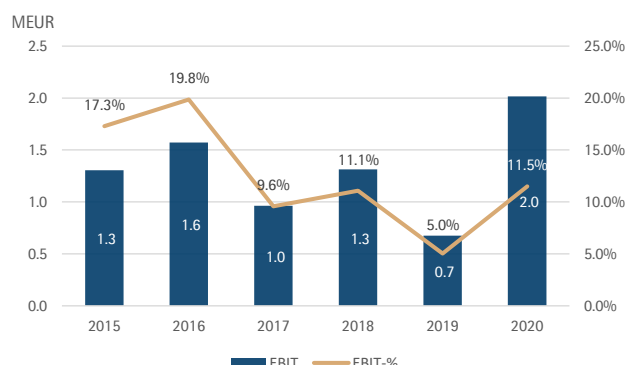
Despite strong sales growth, Netum has been able to maintain strong margins. The average EBITA and EBIT margins between 2015-2020 have been 16.5% and 12.4%, which in our view are at a good level in the IT-services industry. Netum reports financials in accordance with the Finnish Accounting Standards, where company goodwill is amortized periodically on a straight-line basis, and the EBITA metric is as such more comparable with the IFRS accounting standard EBIT. The margins declined in 2019 compared with 2018, as the company recruited employees for the EURA 2021 project in advance during 2019, which had a negative short-term impact on profitability. EBITA and EBIT margins returned to normal levels (17.1% and 11.5%) in 2020 as the EURA 2021 project started. In Q1/2021, comparable EBITA increased from EUR 0.7 million in Q1/2020 to EUR 0.8 million. According to the guidance for 2021, Netum estimates comparable EBITA to be EUR 3.1-3.5 million.

Figure 15: EBITA and EBITA margin (%) in 2015-2020



Source: Netum, financial statements

Figure 16: EBIT and EBIT margin (%) in 2015-2020



Source: Netum, financial statements

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Cost structure

Personnel expenses majority of the cost base

The IT-services sector is a labor-intensive industry with personnel being a key asset. The majority of companies' costs in the sector relate to personnel expenses. In 2019 and 2020, personnel expenses represented 61.9% and 57.3% of the total cost base, respectively. The competitiveness of Netum's personnel cost base is slightly improved by having offices in the Finnish cities of Tampere, Turku and Pori, where the company employs ~88% of its total personnel. Wage levels are slightly lower in these cities compared to the capital city of Helsinki. The share of personnel expenses to the total cost base was at a higher level in 2019 as Netum recruited employees in advance for the EURA 2021 project, which started in 2020.

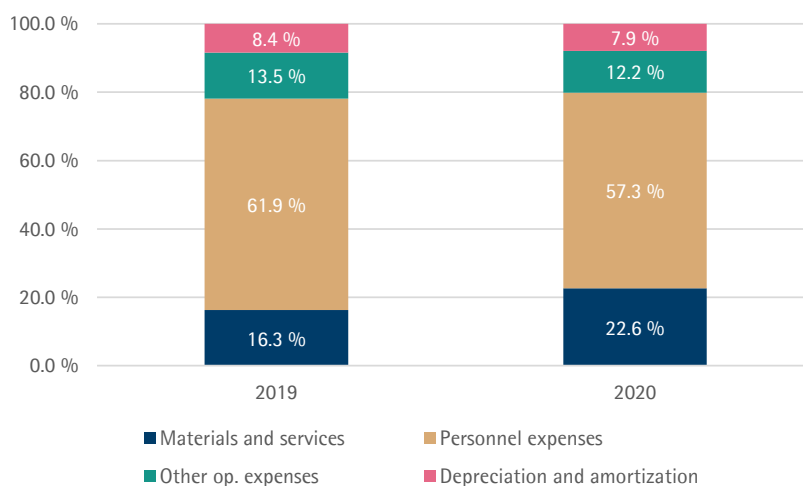
Other OPEX 12.2% of the total cost base in 2020

Materials and services represented 16.3% and 22.6% of the cost base in 2019 and 2020. Material and services expenses consist mainly of services that Netum purchases from other companies in order to successfully complete customer projects. Other operating expenses were 13.5% and 12.2% of the cost base in 2019 and 2020, respectively. Other operating expenses consist mainly of SG&A expenses and expenses from business premises. Under the Finnish Accounting Standard, in contrast to IFRS, leases are recognized as expenses instead of depreciation of right-of-use assets.

Roughly 87% of D&A expenses related to goodwill amortization in 2020

Depreciation and amortization in 2019 and 2020 amounted to 8.4% and 7.9% of the total cost base respectively. The majority of the D&A relates to goodwill amortization, as under the Finnish Accounting Standard goodwill created from the acquisition of other companies is depreciated on a straight-line basis over 10 years. Roughly 87% of D&A expenses related to goodwill amortization in 2020.

Figure 17: Netum's cost base



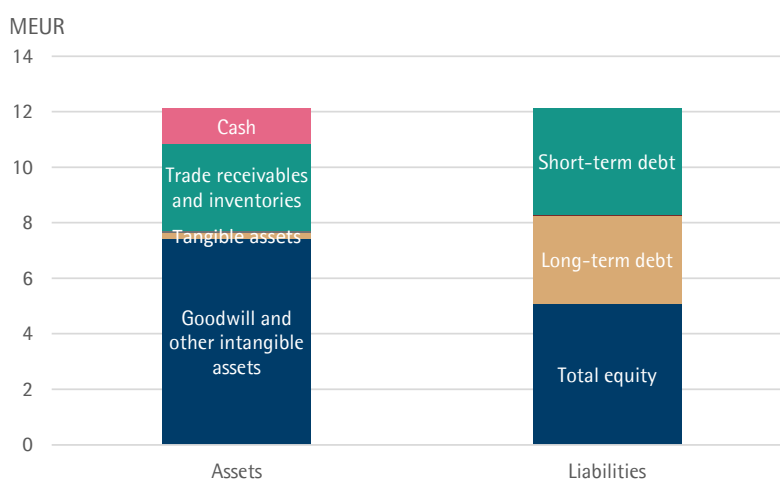
Source: Netum, Evli Research

Balance sheet

Netum's total assets at the end 2020 amounted to EUR 12.1 million. Goodwill and other intangibles make up over half of Netum's balance sheet and intangibles have mainly been obtained from acquisitions made in the past years. Other intangible rights represent a minor share of intangibles. Receivables and inventories accounted for EUR 3.1m or 26% of total assets and Netum's cash position amounted to EUR 1.3m in 2020.

Of the liabilities, long-term financial liabilities amounted to EUR 3.2 million or 26% of total liabilities at the end of 2020, consisting mainly of bank debt used in acquisitions. Short-term debt and other current liabilities were approximately EUR 3.8 million or 32% of total liabilities. The company's net debt was EUR 2.4 million at the end of Q1/2021 and according to Netum's management, the company intends to pay the short-term debt, after which only long-term debt remains. It is also expected to lower interest expenses this year. Total equity amounted to EUR 5.1 million (3.2) and the equity ratio was 44.2% (37.4%).

Figure 18: Balance sheet at the end of 2020



Source: Netum, Evli Research

Guidance and outlook

Guidance for 2021

Netum estimates net sales to increase to EUR 20-22 million in 2021. Comparable EBITA is estimated to be EUR 3.1-3.5 million in 2021.

Demand is strongest in data & analytics and cyber security

According to Netum's management, demand is strongest in data & analytics services (part of the digital service development business) as well as cyber security services. In these businesses, demand is currently higher than Netum's supply, and management expects strong annual growth to be well above the target of 20%. Achieving targeted growth rates will heavily depend on the company's ability to recruit employees at the same pace as demand. 2020 was a weaker year for Netum's integration services, as COVID-19 reduced demand from April and the long-term agreement with PHOENIX Pharmahandel ended. This year's demand looks better and management expects at least 10% growth in integration services. Continuity services are expected to grow faster compared to traditional IT-services.

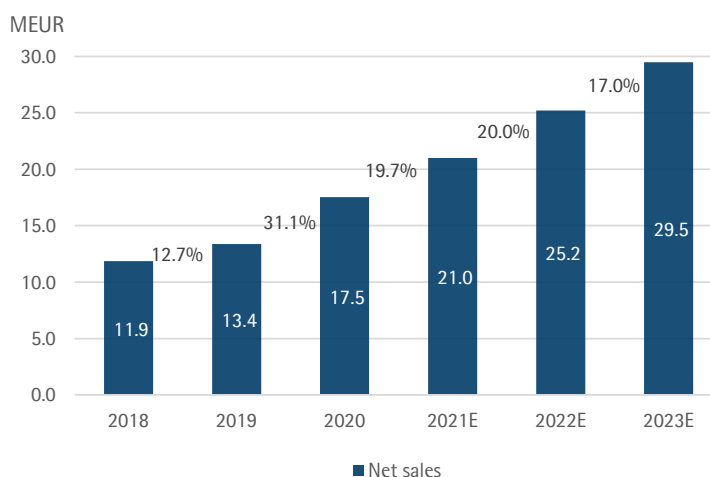
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Estimates for 2021E-2023E

We expect net sales of EUR 21m in 2021E

Netum's net sales increased by 9.7% in Q1/21. During the first quarter, Netum has continued to actively recruit and in April, the company had already hired 30 new employees. The growth rate in the first quarter is slightly below the pace of full-year guidance (14-25%), but we expect that recruitments will be realized as faster growth towards the end of the year. We believe that the recruitments will already be visible in Q2 net sales and we expect H1/21 net sales to grow by 14.3% to EUR 9.8 million. There is also some seasonality in Netum's business and Q4 is typically the strongest quarter. We estimate full-year 2021E net sales to grow by 19.7% to EUR 21 million. We expect to see growth in all business areas, but the biggest growth drivers are expected to be cyber security services, where demand and the number of employees have grown significantly (from 12 employees in Q4/20 to 20 in Q1/21), as well as digital service development driven by data & analytics services.

Figure 19: Net sales and sales growth (%) in 2018-2023E



Source: Netum, Evli Research

Our 2021E comparable EBITA estimate at EUR 3.3m

The comparable EBITA during Q1/21 amounted to EUR 0.8m, at a margin of 16.1%. Netum estimates that its comparable EBITA to be EUR 3.1-3.5 million in 2021 (2020: EUR 3.1m at a margin of 17.6%). We estimate a full-year comparable EBITA of EUR 3.3m, at a margin of 15.9%, which is at the midpoint of guidance.

We estimate strong growth to continue in 2022E-23E

Netum has a strong growth record with a CAGR of 22% in 2016-2020. In 2022E-2023E, we expect Netum to be able to continue profitable strong growth. According to Netum's management, the estimated volume of existing contracts for next year is approximately EUR 15 million. In addition, management sees good opportunities for new frame agreements as well as for extending contracts with existing customers. We estimate a sales growth of 20% and 17.0%, respectively. Growth is expected to be organic and we expect sales of Akamai and Netum Dux to be gradually be reflected in the company's net sales in 2022E-23E. Growth can also be boosted by potential acquisitions (not included in our estimates below).

We see that Netum has the potential to maintain an EBITDA margin of >15%

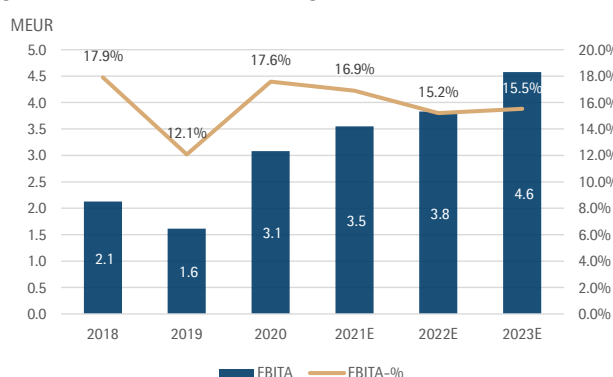
Netum targets an EBITDA-margin of >15%. The company has been able to exceed this profitability level on a regular basis except in 2019, when the EBITDA-margin was 13% due to preparations for the large EURA 2021 project. We see that Netum has the potential to maintain this profitability level. However, strong growth requires active recruitment and competition for skilled employees may put pressure on margins. In

addition, the timing and preparation for larger projects may cause fluctuations in the EBITDA margin level.

2022E and 2023E EBITA estimates EUR 3.8m and 4.6m

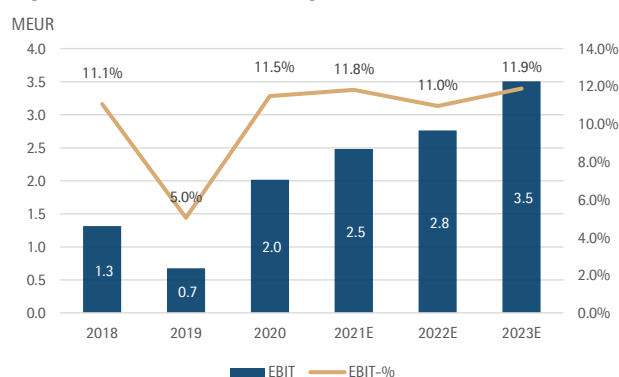
We estimate an EBITA for 2022E and 2023E of EUR 3.8m and 4.6m, corresponding to an EBITA-margin of 15.2% and 15.5% respectively. We note that EBITA is our preferred metric for profitability due to differing accounting standards, as Netum reports financials in accordance with the Finnish Accounting Standards as opposed to IFRS. The FAS EBITA is comparable with the IFRS EBIT, as under FAS goodwill is amortized periodically and EBITA excludes said amortizations.

Figure 20: EBITA and EBITA-margin in 2018-2023E



Source: Netum, Evli Research

Figure 21: EBIT and EBIT-margin in 2018-2023E



Source: Netum, Evli Research

Table 1: Estimates

Netum (EURm)	2016	2017	2018	2019	2020	H1/21E	H2/21E	2021E	2022E	2023E
Net sales	7.9	10.0	11.9	13.4	17.5	9.8	11.2	21.0	25.2	29.5
Sales growth %	4.9%	26.8%	18.1%	12.7%	31.1%			19.7%	20.0%	17.0%
Other income	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.3	0.0	0.0
Materials and services	-2.0	-2.9	-2.2	-2.1	-3.5	-1.8	-2.3	-4.1	-5.0	-5.9
% of net sales	-24.9%	-28.6%	-18.3%	-15.5%	-20.1%	-18.5%	-20.5%	-19.6%	-20.0%	-20.0%
Personnel expenses	-3.6	-4.4	-6.1	-7.9	-8.9	-5.4	-5.7	-11.1	-13.4	-15.6
% of net sales	-45.8%	-43.9%	-51.7%	-58.8%	-50.9%	-55.0%	-51.0%	-52.9%	-53.0%	-52.8%
Other op. expenses	-0.7	-1.0	-1.3	-1.7	-1.9	-1.1	-1.2	-2.3	-2.8	-3.2
% of net sales	-9.3%	-10.0%	-11.3%	-12.8%	-10.9%	-11.0%	-11.0%	-11.0%	-11.0%	-11.0%
EBITDA	1.6	1.8	2.2	1.7	3.2	1.8	2.0	3.7	4.0	4.8
EBITDA-%	19.9%	17.5%	18.7%	13.0%	18.5%	18.0%	17.7%	17.9%	16.0%	16.2%
D&A	0.0	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2
Tangible	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Intangible	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Goodwill amortization	0.0	-0.7	-0.8	-0.9	-1.1	-0.5	-0.5	-1.1	-1.1	-1.1
EBITA	1.6	1.6	2.1	1.6	3.1	1.7	1.9	3.5	3.8	4.6
EBITA-%	19.8%	16.2%	17.9%	12.1%	17.6%	17.0%	16.8%	16.9%	15.2%	15.5%
Items affecting comparability					0.0	-0.2	0.0	-0.2	0.0	0.0
Comparable EBITA	1.6	1.6	2.1	1.6	3.1	1.5	1.9	3.3	3.8	4.6
Comparable EBITA-%	19.8%	16.2%	17.9%	12.1%	17.6%	14.9%	16.8%	15.9%	15.2%	15.5%
EBIT	1.6	1.0	1.3	0.7	2.0	1.1	1.4	2.5	2.8	3.5
EBIT-%	19.8%	9.6%	11.1%	5.0%	11.5%	11.5%	12.1%	11.8%	11.0%	11.9%

Source: Evli Research

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Valuation

Our peer group for Netum

Our peer group for Netum consists of small and medium sized IT-services companies listed in Finland. These companies include Siili Solutions, Vincit, Innofactor, Solteq, Gofore, Bilot, Digia, and Nixu. We have also compared the Finnish companies' valuation against other Nordics players (other Nordic in the table). Other Nordic companies include Bouvet (NO), Enea (SWE), Knowit (SWE), Atea (NO), NNIT (DEN), Addnode (SWE), and TietoEVRY (FIN).

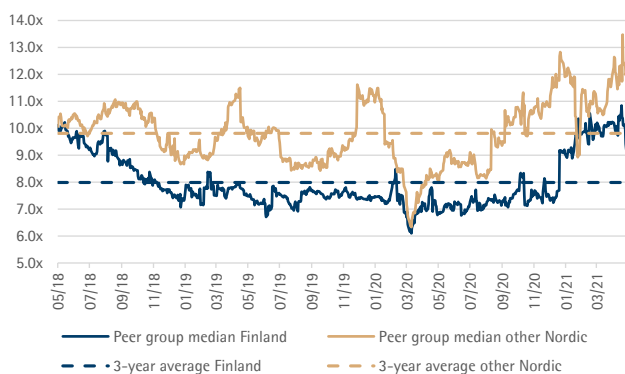
Finnish companies have traded at a discount compared to other Nordic players

Looking at 12-month forward EV/EBITDA, EV/EBIT, EV/Sales and P/E multiples over the last three years, the Finnish peers have been trading at lower multiples than other Nordic peers. On earnings-based multiples, other Nordic peers have been valued at an average premium of 11-23% compared to the Finnish peer group over the past three years. The current median EV/EBIT multiples on our Finnish peer group for 2021E-22E are at 14.8x and 13.8x, while other Nordic players trade at 18.1x and 14.9x. The valuation of Finnish peer group is also lower on P/E multiples (18.1x/16.7x against 22.0x/19.1x). Other Nordic players median EV/EBITDA is at 12.8x/11.8x, while the Finnish companies' multiples are at 9.7x/9.1x for 2021E-22E. The Finnish players are expected to grow faster than their Nordic peers, while profitability is expected to slightly lower compared to other Nordic peers.

Multiples have risen above pre-COVID-19 levels

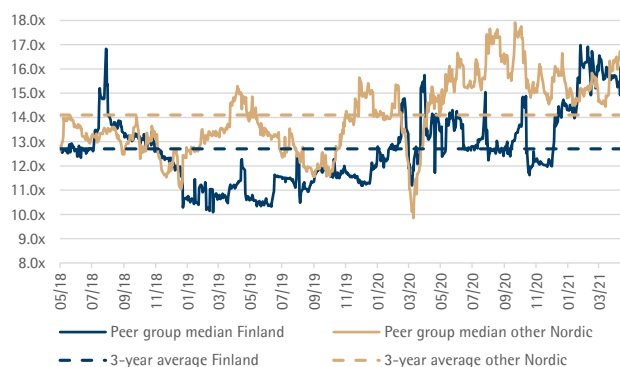
The valuation multiples in the Nordic IT-services sector have risen above pre-COVID-19 levels and are well above the three-year averages. Including all peer group companies, median EV/EBITDA and EV/EBIT multiples are at 9.7x and 14.8x for 2022E, respectively. EV/Sales multiples are quite reasonable at 1.3x for 2022E.

Figure 22: 12-month forward EV/EBITDA



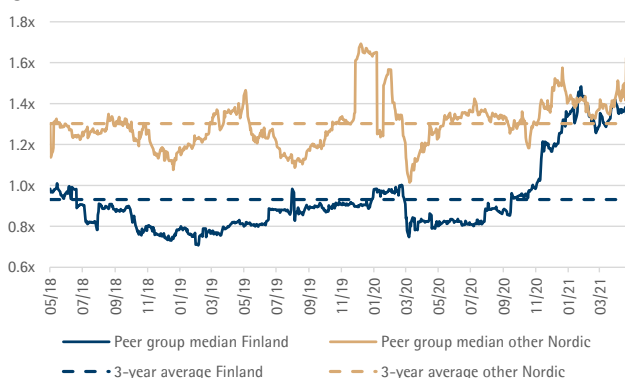
Source: FactSet, Evli Research

Figure 23: 12-month forward EV/EBIT



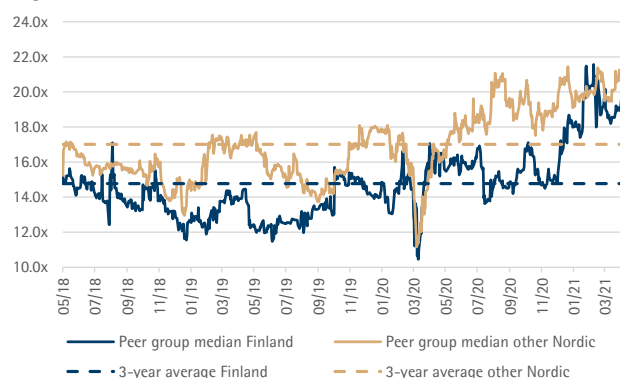
Source: FactSet, Evli Research

Figure 24: 12-month forward EV/Sales



Source: FactSet, Evli Research

Figure 25: 12-month forward P/E



Source: FactSet, Evli Research

The IPO share price of EUR 3.2 translates into EV/EBITDA of 8.7x/7.6x and adj. P/E of 13.4x/12.4x on our 2021E-2022E estimates. The EV/EBITDA multiples are thus ~43% and adj. P/E multiples ~26% lower compared to the Finnish peer group. Looking at the Finnish peer group's three-year averages of 12-month forward EV/EBIT (12.7x) and P/E (14.8x) multiples, Netum is valued at a discount 9-31% on our estimates for 2021E. The discount to other Nordic peer group is even greater, as the EV/EBIT multiples are ~52% and adj. P/E multiples ~37% lower on our estimates for 2021E-22E, while the discount to other peer group's three-year averages of 12-month forward EV/EBIT (14.1x) and P/E (17.0x) multiples is 21-38%.

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Table 2: Peer group valuation

Finnish peer group	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E			EV/Sales		
		21	22	23	21	22	23	21	22	23	21	22	23
SiiI Solutions	106	7.5x	6.4x	6.5x	12.7x	9.9x	9.3x	13.4x	11.0x	11.0x	1.1x	0.9x	
Vincit	114							16.9x	14.6x	13.5x			
Innofactor	64	6.5x	7.6x	7.3x	10.4x	10.5x	10.3x	11.0x	13.3x	11.9x	1.0x	0.9x	0.9x
Solteq	112	9.5x	9.0x	8.4x	15.4x	13.9x	12.5x	19.6x	17.3x	14.7x	2.0x	1.7x	1.6x
Gofore	276	14.9x	12.9x	11.8x	19.8x	16.6x	14.9x	24.4x	20.9x	18.8x	2.7x	2.4x	2.2x
BILOT								19.3x	17.2x	16.0x	1.0x	0.9x	
Digia	201	9.9x	9.3x	9.1x	14.3x	13.7x	12.7x	16.9x	16.1x	14.8x	1.4x	1.3x	1.2x
Nixu	67	19.1x	14.5x	11.4x	42.1x	24.8x	16.1x	56.6x	28.8x	17.3x	1.2x	1.0x	0.8x
Peer Group Average	134	11.2x	9.9x	9.1x	19.1x	14.9x	12.6x	22.3x	17.4x	14.7x	1.5x	1.3x	1.3x
Peer Group Median	112	9.7x	9.1x	8.7x	14.8x	13.8x	12.6x	18.1x	16.7x	14.8x	1.2x	1.0x	1.2x

Other Nordic peer group	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E			EV/Sales		
		21	22	23	21	22	23	21	22	23	21	22	23
Bouvet	653	16.1x	14.7x	13.3x	19.5x	17.7x	15.8x	26.2x	23.7x	21.5x	2.3x	2.1x	1.8x
Enea	469	14.3x	11.9x	10.6x	21.5x	16.9x	14.5x	23.7x	19.7x	16.7x	5.1x	4.2x	3.6x
Knowit	580	11.9x	11.4x	10.6x	14.8x	14.0x	13.0x	19.8x	19.1x	17.8x	1.5x	1.4x	1.3x
Atea	1751	10.8x	9.7x	9.3x	17.3x	14.9x	14.0x	22.0x	18.8x	17.2x	0.4x	0.4x	0.4x
NNIT	381	8.1x	7.6x	7.1x	18.1x	14.8x	13.0x	19.0x	15.6x	13.7x	1.1x	1.0x	1.0x
Addnode Group	1000	20.5x	19.5x	18.3x	30.0x	28.1x	31.2x	31.0x	29.4x	26.7x	2.7x	2.6x	2.3x
TietoEVRY	3159	7.9x	7.6x	7.3x	11.4x	10.8x	10.3x	11.7x	10.8x	10.2x	1.4x	1.3x	1.2x
Peer Group Average	1142	12.8x	11.8x	10.9x	19.0x	16.7x	16.0x	21.9x	19.6x	17.7x	2.1x	1.8x	1.6x
Peer Group Median	653	11.9x	11.4x	10.6x	18.1x	14.9x	14.0x	22.0x	19.1x	17.2x	1.5x	1.4x	1.3x

Finnish peer group	Sales 20	Sales gr.			EBIT-%			Div. yield		
		21	22	23	21	22	23	21	22	23
SiiI Solutions	83	18.0%	10.3%	3.5%	12.7 %	13.6 %	12.9 %	2.6 %	3.0 %	3.3 %
Vincit	52	18.3%	9.9%	6.9%	15.1 %	16.0 %	16.2 %	2.1 %	2.4 %	2.6 %
Innofactor	66	3.9%	4.0%	3.5%	16.4 %	13.4 %	13.4 %	2.9 %	3.3 %	3.8 %
Solteq	61	13.3%	7.6%	6.7%	21.0 %	20.8 %	20.8 %	2.0 %	2.7 %	3.1 %
Gofore	78	30.4%	12.3%	9.5%	16.6 %	17.1 %	17.1 %	1.7 %	2.0 %	2.2 %
BILOT			6.0%	6.0%	9.4 %	9.9 %	10.2 %	1.1 %	1.4 %	
Digia	139	9.6%	5.3%	4.3%	14.1 %	14.3 %	14.0 %	2.3 %	2.6 %	2.9 %
Nixu	53	5.7%	13.2%	12.5%	6.5 %	7.5 %	8.5 %	0.2 %	0.3 %	1.9 %
Peer Group Average	77	14.6%	8.8%	6.3%	13.8 %	14.0 %	14.0 %	1.9 %	2.3 %	2.9 %
Peer Group Median	72	15.6%	9.9%	6.0%	14.1 %	13.6 %	13.4 %	2.1 %	2.6 %	3.0 %

Other Nordic peer group	Sales 20	Sales gr.			EBIT-%			Div. yield		
		21	22	23	21	22	23	21	22	23
Bouvet	235	9.7%	10.0%	8.8%	15.1 %	15.0 %	15.2 %	3.4 %	3.6 %	4.0 %
Enea	90	3.6%	15.5%	13.2%	36.7 %	38.2 %	37.6 %	0.0 %	0.6 %	2.0 %
Knowit	335	14.8%	5.3%	5.3%	12.1 %	12.0 %	12.2 %	2.3 %	2.4 %	2.6 %
Atea	3851	5.8%	3.8%	4.1%	4.2 %	4.5 %	4.5 %	3.5 %	4.1 %	4.3 %
NNIT	380	3.6%	5.7%	6.0%	14.5 %	14.6 %	14.7 %	2.7 %	3.2 %	3.7 %
Addnode Group	377	-1.2%	4.3%	8.9%	13.1 %	13.2 %	12.9 %	0.9 %	1.0 %	1.1 %
TietoEVRY	2786	0.9%	2.6%	3.4%	18.3 %	18.7 %	18.7 %	5.5 %	5.5 %	5.8 %
Peer Group Average	1151	5.3%	6.7%	7.1%	16.3 %	16.6 %	16.6 %	2.6 %	2.9 %	3.4 %
Peer Group Median	377	3.6%	5.3%	6.0%	14.5 %	14.6 %	14.7 %	2.7 %	3.2 %	3.7 %

Source: FactSet, Evli Research

In our view, Netum's strong track record of growth, relatively high net sales/employee ratio and above-average profitability could even support a premium to our peer group. On the other hand, Netum's smaller size, competition for skilled employees, concentrated customer base, and intensifying competition should be taken into account when looking at valuation. In our valuation summary (Table 3), we have formed a valuation range for Netum based on our 2021E estimates using EV/EBITDA, EV/EBIT, and adj. P/E multiples.

Table 3: Netum valuation summary 2021E (assuming public offering is fully subscribed)

EV/EBITDA	7.0x	8.0x	9.0x	10.0x	11.0x	12.0x	13.0x	14.0x	15.0x
EV (with Evli est. 2021E EBITDA)	26	30	34	37	41	45	49	52	56
Net debt*	-6	-6	-6	-6	-6	-6	-6	-6	-6
Equity value	32	36	40	43	47	51	55	58	62
Per share	2.8	3.1	3.4	3.8	4.1	4.4	4.7	5.1	5.4
EV/EBIT	10.0x	11.0x	12.0x	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
EV (with Evli est. 2021E EBITA)	35	39	43	46	50	53	57	60	64
Net debt*	-6	-6	-6	-6	-6	-6	-6	-6	-6
Equity value	41	45	49	52	56	59	63	66	70
Per share	3.6	3.9	4.2	4.5	4.8	5.1	5.4	5.7	6.1
Adj. P/E	13.0x	14.0x	15.0x	16.0x	17.0x	18.0x	19.0x	20.0x	21.0x
Earnings (Evli est. 2021E)	3	3	3	3	3	3	3	3	3
Price	36	39	41	44	47	50	52	55	58
Per share	3.1	3.3	3.6	3.8	4.1	4.3	4.5	4.8	5.0

*including net IPO proceeds of EUR 7.2m

Source: Evli Research

Risk factors

The main risks to our investment case are:

- 1) **Failing to maintain key personnel and attract new skilled professionals.** Competition for skilled employees has been increasing in the IT-services sector. Especially experienced IT-professionals are on the recruiting list of many companies. The company's success and organic growth depend to a large extent on the company's ability to recruit skilled professionals, motivate and engage its personnel, and maintain and develop professional skills of its employees. Some IT-services players have acquired small companies to get new employees as it has become more difficult to find right employees.
- 2) **Increased competition dampening price level.** Due to strong growth expectations in the new digitalization market, competition is likely to intensify. The current price level is healthy but when market growth decelerates, price competition may increase in the sector. Price competition is typically tougher in the public sector, which is Netum's main market.
- 3) **Higher personnel costs due to wage inflation.** Wage inflation has been a reality in the market in recent years and a lack of experienced employees may potentially continue to increase wage competition in the IT-services market.
- 4) **Customer risk.** Netum's five largest customers have accounted for some 77% of the company's net sales in 2020, which we consider a risk. Contracts awarded through the company's public procurement tenders are also generally tied to a specific project or fixed-term, which requires continuous success in the procurement processes to reach the targeted growth.

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INTERIM FIGURES

EVLI ESTIMATES, EURm	2020	2021H1E	2021H2E	2021E	2022E	2023E
Net sales	17.5	9.8	11.2	21.0	25.2	29.5
EBITDA	3.2	1.8	2.0	3.7	4.0	4.8
<i>EBITDA margin (%)</i>	<i>18.5</i>	<i>18.0</i>	<i>17.7</i>	<i>17.9</i>	<i>16.0</i>	<i>16.3</i>
EBIT	2.0	1.1	1.4	2.5	2.8	3.5
<i>EBIT margin (%)</i>	<i>11.5</i>	<i>11.5</i>	<i>12.1</i>	<i>11.8</i>	<i>11.0</i>	<i>11.9</i>
Net financial items	-0.2	-0.8	0.0	-0.9	-0.1	-0.1
Pre-tax profit	1.8	0.3	1.3	1.6	2.7	3.4
Tax	0.0	-0.2	-0.4	-0.5	-0.7	-0.9
<i>Tax rate (%)</i>	<i>0.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>
Net profit	1.8	0.1	0.9	1.1	1.9	2.5
EPS	0.20	0.01	0.08	0.09	0.17	0.22
EPS adjusted (diluted no. of shares)	0.20	0.01	0.08	0.09	0.17	0.22
Dividend per share	0.08	0.00	0.00	0.09	0.10	0.12
SALES, EURm						
Group	17.5	9.8	11.2	21.0	25.2	29.5
Total	17.5	9.8	11.2	21.0	25.2	29.5
SALES GROWTH, Y/Y %						
Group	31.1			19.7	20.0	17.0
Total	31.1			19.7	20.0	17.0
EBIT, EURm						
Group	2.0	1.1	1.4	2.5	2.8	3.5
Total	2.0	1.1	1.4	2.5	2.8	3.5
EBIT margin, %						
Group	11.5	11.5	12.1	11.8	11.0	11.9
Total	11.5	11.5	12.1	11.8	11.0	11.9

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INCOME STATEMENT, EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	7.9	10.0	11.9	13.4	17.5	21.0	25.2	29.5
<i>Sales growth (%)</i>	<i>4.9</i>	<i>26.8</i>	<i>18.1</i>	<i>12.7</i>	<i>31.1</i>	<i>19.7</i>	<i>20.0</i>	<i>17.0</i>
EBITDA	1.6	1.8	2.2	1.7	3.2	3.7	4.0	4.8
<i>EBITDA margin (%)</i>	<i>19.9</i>	<i>17.5</i>	<i>18.7</i>	<i>13.0</i>	<i>18.5</i>	<i>17.9</i>	<i>16.0</i>	<i>16.3</i>
Depreciation	0.0	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
EBITA	1.6	1.6	2.1	1.6	3.1	3.5	3.8	4.6
Goodwill amortization / writedown	0.0	-0.7	-0.8	-0.9	-1.1	-1.1	-1.1	-1.1
EBIT	1.6	1.0	1.3	0.7	2.0	2.5	2.8	3.5
<i>EBIT margin (%)</i>	<i>19.8</i>	<i>9.6</i>	<i>11.1</i>	<i>5.0</i>	<i>11.5</i>	<i>11.8</i>	<i>11.0</i>	<i>11.9</i>
Reported EBIT	1.6	1.0	1.3	0.7	2.0	2.5	2.8	3.5
<i>EBIT margin (reported) (%)</i>	<i>19.8</i>	<i>9.6</i>	<i>11.1</i>	<i>5.0</i>	<i>11.5</i>	<i>11.8</i>	<i>11.0</i>	<i>11.9</i>
Net financials	0.2	-0.2	-0.2	-0.2	-0.2	-0.9	-0.1	-0.1
Pre-tax profit	1.7	0.8	1.1	0.5	1.8	1.6	2.7	3.4
Taxes	-0.3	-0.4	-0.3	-0.4	0.0	-0.5	-0.7	-0.9
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	1.4	0.4	0.8	0.1	1.8	1.1	1.9	2.5
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	0	0	0	0	1	1	1	1
Goodwill	0	8	7	8	7	6	5	4
Right of use assets	0	0	0	0	0	0	0	0
Inventory	0	0	0	0	0	0	0	0
Receivables	3	3	2	3	3	3	4	5
Liquid funds	2	0	1	1	1	9	10	12
Total assets	5	11	10	12	12	19	20	22
Liabilities								
Shareholder's equity	3	2	3	3	5	12	13	15
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	0	6	5	6	4	3	3	2
Non-interest bearing current liabilities	1	3	2	3	3	4	4	5
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	5	11	10	12	12	19	20	22
CASH FLOW, EURm								
+ EBITDA	2	2	2	2	3	4	4	5
- Net financial items	0	0	0	0	0	-1	0	0
- Taxes	0	0	0	0	0	-1	-1	-1
- Increase in Net Working Capital	-1	1	0	0	-1	0	0	0
+/- Other	0	0	0	0	0	0	0	0
= Cash flow from operations	0	2	2	1	2	3	3	4
- Capex	0	-9	0	0	0	0	0	0
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	0	-6	2	1	2	2	3	3
+/- New issues/buybacks	2	-1	0	1	0	7	0	0
- Paid dividend	0	0	0	0	0	-1	-1	-1
+/- Other	0	6	-1	-2	-1	-1	0	0
Change in cash	2	-2	1	0	1	8	1	2

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KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	0	0	0	0	37	37	37
Net debt (excl. convertibles)	6	4	5	3	-6	-8	-10
Enterprise value	6	4	5	3	31	29	27
Sales	10	12	13	18	21	25	29
EBITDA	2	2	2	3	4	4	5
EBIT	1	1	1	2	2	3	4
Pre-tax	1	1	0	2	2	3	3
Earnings	0	1	0	2	1	2	3
Equity book value (excl. minorities)	2	3	3	5	12	13	15
Valuation multiples							
EV/sales	0.6	0.4	0.4	0.2	1.5	1.2	0.9
EV/EBITDA	3.4	1.9	2.8	0.8	8.3	7.2	5.6
EV/EBITA	3.7	2.0	3.0	0.9	8.7	7.6	5.8
EV/EBIT	6.2	3.2	7.1	1.4	12.5	10.5	7.6
EV/OCF	2.4	2.4	3.5	1.3	11.5	9.0	6.9
EV/FCFF	-1.0	2.0	-250.9	1.6	10.0	9.8	7.5
P/FCFE	0.0	0.0	0.0	0.0	15.5	12.8	10.6
P/E	0.0	0.0	0.0	0.0	35.1	19.3	14.7
P/B	0.0	0.0	0.0	0.0	3.0	2.8	2.5
Per share measures							
Number of shares	32,000	32,000	8,500	9,000	11,535	11,535	11,535
Number of shares (diluted)	32,000	32,000	8,500	9,000	11,535	11,535	11,535
EPS	0.01	0.02	0.02	0.20	0.09	0.17	0.22
Operating cash flow per share	0.08	0.06	0.16	0.23	0.23	0.28	0.33
Free cash flow per share	-0.19	0.06	0.13	0.20	0.21	0.25	0.30
Book value per share	0.06	0.08	0.38	0.56	1.08	1.16	1.28
Dividend per share	0.01	0.01	0.05	0.08	0.09	0.10	0.12
Dividend payout ratio, %	56.5	51.8	309.8	41.6	98.6	60.2	55.0
Dividend yield, %	0.0	0.0	0.0	2.6	2.8	3.1	3.7
FCF yield, %	0.0	0.0	0.0	0.0	6.4	7.8	9.4
Efficiency measures							
ROE	16.3	33.6	4.7	43.7	12.0	14.8	17.9
ROCE	17.0	16.7	8.3	22.5	20.1	17.6	21.5
Financial ratios							
Inventories as % of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Receivables as % of sales	29.9	16.5	19.3	17.9	16.0	16.0	16.0
Non-interest bearing liabilities as % of sales	29.4	17.1	23.2	16.7	16.7	16.7	16.7
NWC/sales, %	0.5	-0.6	-3.9	1.2	-0.7	-0.7	-0.7
Operative CAPEX/sales, %	86.3	-1.0	2.0	1.6	1.4	1.3	1.2
CAPEX/sales (incl. acquisitions), %	86.3	-1.0	2.0	1.6	1.4	1.3	1.2
FCFF/EBITDA	-3.4	0.9	0.0	0.5	0.8	0.7	0.7
Net debt/EBITDA, book-weighted	3.4	1.9	2.8	0.8	-1.6	-1.9	-2.1
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Equity ratio, book-weighted	18.2	26.6	27.3	41.9	65.7	66.6	68.0
Gearing, %	293.5	165.3	148.9	54.1	-47.9	-58.6	-69.0

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Definitions

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

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