

Q2

enfo

Enfo Oyj

Interim report

April 1 – June 30, 2018

ENFO GROUP'S INTERIM REPORT

April 1 – June 30, 2018

Enfo H1: Sustainable business foundation in place – focus on culture, offering and operational efficiency

Key points of the interim report

- Turnover was EUR 32.7 (33.5) million in April–June and EUR 64.8 (67.1) million for the period January–June. Focus has been on profitability in H1 and will continue to be so throughout the year, however slight growth is expected in H2.
- The operating margin was EUR 1.0 (-0.1) million in April–June and EUR 2.1 (1.7) million since the start of the year. Operating profit (EBIT) for H1 was back in black with EBIT standing at EUR 0.0 (-1.5) million in April–June, on the same level as in the first quarter of the year 2018, after three negative quarters in 2017. The operating profit is expected to increase in H2.
- Profit for the review period was EUR -0.5 (-2.2) million in April–June and EUR -1.4 (-2.2) million for January–June (2017 figures not including divested business).
- Earnings per share were EUR -1.5 (-4.1) in April–June and EUR -3.8 (-5.1) in January–June (2017 figures not including divested business).
- Cash flow from operating activities totaled EUR 1.4 (1.5) million in April–June and EUR 1.6 (-1.0) million in January–June.
- At the end of June, Enfo Group employed a total of 875 (926) people.
- In the beginning of the year Enfo set common values and leadership principles to strengthen the unified culture. Enfo also set development practices for competence management, as well as competence acquisition and competence development. Focus in Q2 was on evolvement of the common offering and the shared Enfo story, released during the quarter. Enfo revised its management structure in end of August to support the story. The new structure will be implemented in Q3.

Outlook for 2018

The Group's operating margin is expected to increase in 2018 compared to 2017. Improvement is based on the enhancement of competence acquisition and management, development of offering, deepening of customer relations, as well as operational efficiency.

Risks and uncertainties

Competition for experts is a major factor in terms of growth, and the main short-term risks are related to recruiting and retaining employees. Enfo's growth in the long-term will be impacted by markets' moves towards bringing together data assets, as well as the pace of the shift towards cloud.

CEO's review

Seppo Kuula, Enfo Group's CEO since the beginning of 2018, comments on the review period:

“During the first half of the year 2018, we developed our operations in line with our strategy. We began the year by setting our common values and developing processes to strengthen a unified culture and operational efficiency, and advanced in Q2 with definition of our marketplace, evolving our shared story and offering towards competitive positioning. We succeeded to get back to black figures after a tough 2017.

In the digital age, champions are the companies capable of managing, refining, analyzing and using ecosystem data to their business advantage. This is the data convergence, where we want to be the trusted partner, providing our customers support with cross-data platforms, holistic information management, and applications. Mobile convergence began in the Nordics, and so does data convergence. Our strength lies in our cross-platform expertise from data centers to different clouds, and our capability to both build and run digital solutions from business-critical enterprise software systems to discreet digital services. We enable data-driven business transformation for a more intelligent Nordics by supporting our customers in mastering the complex scene of hybrid platforms and business applications including new digital services. Going forward, our focus will increasingly be on the cloud, enabling use of ecosystem data and advanced tools for business transformation.

In May, we launched our Cloud Care concept at the AWS summit in Stockholm. We are building cloud operations offering the same level of 24/7/365 customer support that we already have a proven track record of from our data center operations. Service centers and information management that supports different data platforms, including both cloud as well as on- and off-premises, are cornerstones of our business operations. Currently four out of five business applications are stored in data centers. We see that five years ahead, four out of five business applications will be in the cloud. Moreover, enterprise resource planning (ERP) systems connecting the applications will sooner or later be taken to the cloud. Only in the cloud can ecosystem data genuinely be brought together for business value.

With the future market thus being characterized by cross-platform activity, we decided to close down our data center in Karlskrona, instead providing Swedish customers with data center capacity from Kuopio in Finland. We made the decision not to provide classic full-stack IT outsourcing operations and co-location services in Sweden and gave a redundancy notice to Arbetsförmedlingen about 15 positions. After the negotiations seven persons were laid off due to redundancies.

We continued working on our the must-win battles towards 2020: a workplace to love; collaborative, integrated value creation; and to be the trusted partner. The recruiting team was strengthened to build modern in-bound recruiting. We set leadership principles for Enfo and arranged Leaders' forums for all supervisors in both Finland and Sweden. Since the start of the year, we have put efforts on employee communications to support a common culture in line with our values; collaboration, trust, continuous development and expertise. Operational efficiency, developing positively in Q1, dipped in April, but took the right direction towards the end of the period.

To support our story we decided to revise our management structure in August. The new management structure will be implemented in Q3. Our new business areas are: Data platforms, Information management, Applications, and Care. Data platforms, headed by Nina Annila, provides the cross-platforms backbone for the management of data: data center, hybrid and public cloud platforms. The transformation to cloud requires the revisioning of each transferred application, thus hybrid platforms are required for supporting the transition. Information management, headed by Sami Kähkönen, provides a holistic approach for managing and creating value from data in real-time intelligent ecosystems and handling exponentially increasing amounts of data to support new business opportunities and make existing operations more efficient. Applications, headed by Hans Sollerman, provides applications, digital services and integration with all leading technologies. The business area works with the conversion of applications to a cross-platform environment as well as co-creation together with the customers and even Anything as a Service (XaaS) when applicable. The data convergence is generating an enormous market for these services. Care, headed by Lars Aabol, is responsible for our service center operations with top-notch customer support 24/7/365 irrespective of platform. In addition, a Tiger team, headed by Erik Brügge, will work together with business areas as well as account management and sales to support data-driven digital solution creation, the cloud journey and co-creational business relations transformation.

In the second half of 2018 we will continue to focus on a sustainable business foundation and profitability, however targeting growth towards the end of the year, by developing our cross-platform offering as well as competence management, acquisition and development further.”

Turnover and result

In the period April–June, Enfo Group’s turnover decreased by 2.5%, compared to the corresponding period last year, to EUR 32.7 (33.5) million. The turnover for the period January–June was EUR 64.8 (67.1) million. EUR 13.7 million of the turnover for April–June was accrued in Finland and EUR 18.9 million in Sweden.

The operating margin was EUR 1.0 (-0.1) million in April–June and EUR 2.1 (1.7) million in January–June. The operating profit for the period April–June was EUR 0.0 (-1.5) million, representing 0.0% (-4.4%) of turnover. The corresponding figure since the start of the year was EUR 0.0 (-1.0) million, representing 0.0% (-1.6%) of turnover.

Profit before taxes was EUR -0.5 (-2.2) million in April–June and EUR -1.3 (-2.1) million in January–June. The Group’s net financing costs amounted to EUR 0.5 (0.7) million during Q2 and EUR 1.3 (1.1) million during H1. Profit for the review period for continuing operations was EUR -0.5 (-2.2) million in April–June and EUR -1.4 (-2.2) million in January–June. Earnings per share were EUR -1.5 (-4.1) in April–June and EUR -3.8 (-5.1) in January–June for continuing operations.

Financing and investments

Enfo’s net investments totaled EUR 0.9 (1.1) million in April–June and EUR 1.4 (1.0) million in January–June. The company’s equity ratio was 45.0% (48.5%) at the end of the review period. Interest-bearing net liabilities at the end of June amounted to EUR 31.1 (30.4) million and net gearing was 63.2% (51.3%). The Group is in breach of one of the covenants of its financiers’ agreement requiring the Group’s interest-bearing net liabilities/operating margin to be less than 5, and thus the Group has classified the loans covered by the covenant as current liabilities in the Q2 interim report. In February 2018, the Group received approval from its financiers for the covenant breach for H1.

Changes in the management team

Lars Aabol took over the responsibility for the Service development function in April. Andreas Wickell was appointed EVP, Sales, and member of the management team from July. Nina Annila was appointed EVP, Data platforms, and member of the management team in August.

Events since the review period

Enfo revised its management structure in the end of August. Enfo’s new business areas are: Data platforms, Information management, Applications, and Care. Members of Enfo’s management team per end of August are Seppo Kuula (CEO), Lars Aabol (EVP, Care), Nina Annila (EVP, Data platforms), Erik Brügge (EVP, Tiger team), Antti Hemmilä (General Counsel), Christian Homén (CFO), Sami Kähkönen (EVP, Information management), Henrik Norell (SVP, People operations), Hans Sollerman (EVP, Applications), Lina Tjerneld (EVP, Marketing and communications), and Andreas Wickell (EVP, Sales).

Enfo has decided to initiate the process of ending the cooperation with an external partner regarding a program including common tools as well as and financial process outsourcing. Enfo will look into an alternative approach for common tools and financial processes.

Personnel

In April–June, Enfo Group employed an average of 877 (921) personnel, the corresponding figure for January–June being 885 (919). At the end of June, the Group employed a total of 875 (926) personnel. During the period April–June, Enfo employed an average of 317 (326) people in Finland and 559 (595) in Sweden.

Shares

On June 30, 2018, Enfo Oyj had a total of 679,251 shares, of which Enfo held 13,386 treasury shares. The company has one series of shares, which has been incorporated to the book-entry account system

maintained by Euroclear Finland Oy. The company's ten largest shareholders at the end of the period were: Osuuskunta KPY, Ilmarinen Mutual Pension Insurance Company, Rongo Cap Oy, the Gösta Serlachius Fine Arts Foundation, Seppo Kuula, Keski-suomalainen Oyj, Einari Vidgrén Oy, Lululemon Oy, Hannu Isotalo Oy and Kallax Oy. Osuuskunta KPY holds 83.56% of Enfo Oyj's shares.

Timetable for financial reporting in 2018

The interim report for Q2 is published on August 23, 2018, and Q3 on October 26, 2018.

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.

Turnover as well as materials and services are adjusted (decreased) by applying IFRS 15 standards. The effects introduced by IFRS 15 were applied retrospectively. The effect in Q2/2017 was EUR 0.3 million and for the full year 2017 EUR 1.2 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

1.4-30.6.2018 1.4-30.6.2017 1.1-30.6.2018 1.1-30.6.2017 1.1-31.12.2017

Turnover	32,7	33,5	64,8	67,1	131,7
Other operating income	0,1	0,1	0,2	0,1	0,0
Materials and services	-8,2	-8,3	-15,4	-15,9	-31,7
Employee benefit expenses	-18,9	-20,9	-38,1	-40,7	-78,2
Depreciation, amortization and impairment	-1,0	-1,4	-2,1	-2,7	-9,1
Other operating expenses	-4,6	-4,5	-9,5	-9,0	-17,9
Operating profit	0,0	-1,5	0,0	-1,0	-5,1
Financial income	0,7	-0,2	1,1	-0,1	1,2
Financial expenses	-1,2	-0,5	-2,4	-0,9	-2,1
Profit before taxes	-0,5	-2,2	-1,3	-2,1	-6,1
Income taxes	0,0	0,0	-0,1	-0,1	-1,1
Profit for the period for continued operations	-0,5	-2,2	-1,4	-2,2	-7,2
Profit for the period for discontinued operations	0,0	-1,0	0,0	17,0	15,5
Profit for the period	-0,5	-3,2	-1,4	14,8	8,4
Attributable to					
Owners of the parent company	-1,0	-3,7	-2,5	13,6	6,6
Non-controlling interests	0,5	0,5	1,1	1,2	1,8
Earnings per share, continuing operations EUR	-1,5	-4,1	-3,8	-5,1	-13,5
Earnings per share, EUR	-1,5	-5,5	-3,8	20,5	9,9

Consolidated comprehensive income statement including discontinued operations

EUR million

1.1-30.6.2018 1.1-30.6.2017 1.1-31.12.2017

Profit for the period	-1,4	18,0	8,4
Exchange rate differences caused by net investments in foreign subsidiaries	-1,0	0,1	-0,5
Other translation differences	0,3	0,0	-0,1
Comprehensive income for the period	-2,1	18,1	7,8
Attributable to			
Owners of the parent company	-3,1	17,4	6,1
Non-controlling interests	1,0	0,7	1,7

Consolidated balance sheet

EUR million

	30.6.2018	30.6.2017	31.12.2017
Assets			
Non-current assets			
Tangible assets	3,0	4,0	3,5
Goodwill	66,7	75,5	69,5
Other intangible assets	4,9	7,0	5,3
Available-for-sale investments	0,1	0,1	0,1
Receivables	0,8	0,3	0,8
Deferred tax assets	1,5	1,4	1,6
Total non-current assets	77,0	88,3	80,8
Current assets			
Inventories	0,0	0,1	0,0
Trade receivables	24,0	25,5	25,3
Other receivables	3,5	3,2	3,2
Tax assets based on the period's taxable income	3,1	4,2	1,7
Available-for-sale investments	0,0	0,0	0,0
Cash and cash equivalents	2,1	1,1	1,9
Total current assets	32,6	34,1	32,1
Total assets	109,7	122,4	112,9
Equity and liabilities			
Equity			
Share capital	0,3	0,3	0,3
Share premium account	0,0	13,3	0,0
Other reserves	25,6	12,9	25,4
Retained earnings	22,3	31,5	25,1
Total equity attributable to owners of the parent company	48,1	58,0	50,8
Non-controlling interests	1,1	1,2	1,7
Total equity	49,2	59,2	52,5
Non-current liabilities			
Interest-bearing liabilities	1,2	21,2	11,5
Other liabilities	0,4	1,3	0,9
Deferred tax liabilities	0,7	1,1	0,9
Total non-current liabilities	2,3	23,6	13,3
Current liabilities			
Interest-bearing liabilities	32,0	10,3	20,6
Trade payables	5,8	5,5	6,0
Other liabilities	20,4	23,8	20,5
Total current liabilities	58,2	39,6	47,1
Total liabilities	60,5	63,2	60,4
Total equity and liabilities	109,7	122,4	112,9

Condensed statement of cash flows including discontinued operations

EUR million

	1.1-30.6.2018	1.1-30.6.2017	1.1-31.12.2017
Cash flow from operations			
Profit for the period	-1,4	14,8	8,4
Adjustments to the profit for the period	3,5	-14,9	-6,7
Change in working capital	1,2	0,9	4,5
Interest paid and received	-0,6	-0,5	-0,8
Taxes paid	-1,1	-1,4	-1,5
Net cash flow from operations	1,6	-1,0	3,8
Cash flow from investments			
Acquisition of subsidiaries less cash and cash equivalents on the acquisition day	0,0	-0,7	-0,7
Investments in tangible and intangible fixed assets	-0,7	0,0	-0,8
Sales of tangible and intangible fixed assets	0,0	0,0	0,1
Investments: Investments accounted for using the equity method	0,0	0,0	-2,4
Sale of subsidiary less cash and cash equivalents on the sale date	0,0	19,6	19,0
Loans issued	0,0	0,0	-0,5
Net cash flow from investment activities	-0,7	19,0	14,8
Cash flow from financing activities			
Changes in loans	2,5	-11,6	-9,9
Changes in equity	-1,7	-10,2	-10,3
Repayment of financial leasing liabilities	-1,1	-1,5	-2,7
Net cash flow from financing activities	-0,3	-23,3	-23,0
Changes in cash and cash equivalents	0,7	-5,3	-4,4
Effect of exchange rate changes on cash and cash equivalents	-0,5	-0,1	-0,2
Cash and cash equivalents at the beginning of the period	1,9	5,0	5,0
Cash of the discontinued operations at the beginning of the period	0,0	1,5	1,5
Cash and cash equivalents at the end of the period	2,1	1,1	1,9

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 1 Jan 2017	0,3	13,3	-0,1	0,7	8,0	30,9	53,0	1,9	54,9
Profit/loss for the period						13,6	13,6	1,2	14,8
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-0,2			-0,2		-0,2
Other translation differences				-0,1		0,1	0,0	0,0	0,0
Other comprehensive income items for the period after taxes				-0,3	0,0	0,1	-0,2	0,0	-0,2
Comprehensive income for the period				-0,3	0,0	13,8	13,5	1,2	14,7
Transactions with owners									
Distributed dividends					-7,9	-0,7	-8,5	-1,8	-10,4
Share issue					0,9		0,9		0,9
Purchase of treasury shares			-0,1				-0,1		-0,1
Redemption obligation						-0,8	-0,8		-0,8
Total transactions with owners	0,0	0,0	-0,1	0,0	-7,0	-1,4	-8,5	-1,8	-10,4
Transfers between items					11,8	-11,8			
Equity on 30 June 2017	0,3	13,3	-0,3	0,4	12,7	31,5	58,0	1,2	59,2

	Share capital	Share premium account	Treasury shares	Translation differences	Value change and other funds	Retained earnings	Total	Non-controlling interests	Total equity
Equity on 1 Jan 2018	0,3	0,0	-0,4	-0,3	26,1	25,2	50,8	1,7	52,6
Profit/loss for the period						-2,5	-2,5	1,1	-1,4
Comprehensive income									
Other comprehensive income items									
Exchange rate differences caused by net investment in foreign subsidiaries				-1,0			-1,0		-1,0
Other translation differences				-0,9		1,3	0,4	-0,1	0,3
Other comprehensive income items for the period after taxes		0,0	0,0	-1,8	0,0	1,3	-0,6	-0,1	-0,7
Comprehensive income for the period	0,0	0,0	0,0	-1,8	0,0	-1,2	-3,1	1,0	-2,1
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 30 June 2018	0,3	0,0	-1,1	-2,1	26,8	24,4	48,2	1,1	49,2

Key figures, continued operations	1.1-30.6.2018	1.1-30.6.2017	1.1-31.12.2017
Turnover, EUR million	64,8	67,1	132,9
Operating profit, EUR million	0,0	-1,0	-5,1
% of turnover	0,0	-1,6	-3,8
Profit before taxes, EUR million	-1,3	-2,1	-6,1
% of turnover	-2,0	-3,2	-4,6
Profit for the period, EUR million	-1,4	14,8	-7,2
% of turnover	-2,2	22,1	-5,4
Earnings per share, continuing operations, EUR	-3,8	-5,1	-13,5
Earnings per share, discontinuing operations, EUR	0,0	25,5	23,4
Earnings per share, EUR	-3,8	20,5	9,9
Return on investment, %	2,7	-3,4	-4,2
Return on equity, %	-4,6	-7,3	-9,2
Equity ratio, %	45,0	48,5	46,6
Net gearing, %	63,2	51,3	57,4
Interest-bearing net debt, EUR million	31,1	30,4	30,1
Equity per share, EUR	72,3	86,9	76,2
Average number of employees	885	919	911
Number of shares	679 251	670 349	670 349

Profit from discontinued operations

EUR million	1.1-30.6.2018	1.1-30.6.2017	1.1-31.12.2017
Turnover	0,0	5,3	6,6
Expenses	0,0	-6,8	-8,8
Profit before tax	0,0	-1,5	-2,2
Taxes	0,0	0,0	0,0
Profit after taxes	0,0	-1,5	-2,3
Capital gain from subsidiaries after taxes	0,0	18,5	17,8
Profit from discontinued operations	0,0	17,0	15,5

Changes in tangible fixed assets

EUR million	1.1-30.6.2018	1.1-30.6.2017	1.1-31.12.2017
Carrying amount at the beginning of the period	3,5	4,4	4,4
Increases	0,7	0,7	1,7
Decreases	-0,1	0,1	-0,3
Depreciation and amortisation	-1,1	-1,2	-2,3
Carrying amount at the end of the period	3,0	4,0	3,5

Commitments and contingencies

EUR million	30.6.2018	30.6.2017	31.12.2017
Leasing liabilities	4,7	4,0	4,1
Other rental liabilities	6,9	8,7	9,3
Other contract liabilities	0,2	0,3	0,3
Bank guarantees	0,3	0,3	0,3
Total other liabilities	12,1	13,3	14,0

Enfo

Data-driven business transformation

Enfo is a Nordic IT service company enabling its customers' data-driven business transformation. With our niched expertise in managing hybrid platforms and business applications including new digital services, we bring together relevant data for more intelligent operations. In an increasingly complex data environment, we integrate data on- and off-premises, in public and private cloud. We both build and run digital solutions – supporting our customers in mastering the complexity. We are over 900 niched experts working for a more intelligent world, with technology empowering people, businesses and societies.

For more information, visit enfogroup.com

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