

Innofactor Plc Half-Yearly Report July 23, 2019, at 9:00 Finnish time

## **Innofactor Plc's Half-Yearly Report for January 1–June 30, 2019 (IFRS)**

### **Innofactor's operating margin and order backlog significantly better than in comparison periods**

January–June 2019 in brief:

- The net sales were approximately EUR 32.8 million (2018: 33.5), which shows a decrease of 2.0%
- The operating margin was approximately EUR 2.0 million (2018: 0.4), which shows an increase of 431%
- Operating profit was EUR 63 thousand (2018: -992), improving by 106%
- The order backlog at the end of the review period was EUR 44.2 million (2018: 23.6), which shows an increase of 87%
- The measures for improving profitability, carried out near the end of 2018, started to take an effect in the first quarter as planned and continued in the second quarter of 2019
- Innofactor got several significant orders in the first half of the year, for example, Traficom VISA, approximately EUR 5.0 million; a decision-making system for the City of Espoo, approximately EUR 1.5 million; a membership management project for a Swedish organization, approximately EUR 1.3 million, and several other, smaller orders

April–June 2019 in brief:

- The net sales were approximately EUR 16.7 million (2018: 17.0), which shows a decrease of 2.1%
- The operating margin was approximately EUR 1.1 million (2018: EUR 36 thousand), showing growth of 3032%.
- Operating profit was EUR 153 thousand (2018: -630), improving by 124%

	Apr 1–Jun 30, 2019	Apr 1–Jun 30, 2018	Change	Jan 1–Jun 30, 2019	Jan 1–Jun 30, 2018	Change
Net sales, EUR thousand	16,651	17,010	-2.1%	32,799	33,480	-2.0%
Growth of net sales	-2.1%	-0.8%		-2.0%	-2.7%	
Operating profit before depreciation and amortization (EBITDA), EUR thousand*	1,127	36	3031.7%	1,997	376	431.1%
percentage of net sales*	6.8%	0.2%		6.1%	1.1%	
Operating profit/loss (EBIT), EUR thousand*	153	-630	124.2%	63	-994	106.3%
percentage of net sales*	0.9%	-3.7%		0.2%	-3.0%	
Earnings before taxes, EUR thousand*	-104	-782	86.7%	-301	-1,259	76.1%
percentage of net sales*	-0.6%	-4.6%		-0.9%	-3.8%	
Earnings, EUR thousand*	-233	-768	69.6%	-276	-1,467	81.2%
percentage of net sales*	-1.4%	-3.7%		-0.8%	-3.0%	
Order backlog***	44,170	23,646	86.8%	44,170	23,646	86.8%
Net gearing*	63.3%	58.0%		63.3%	58.0%	
Equity ratio****	39.7%	42.6%		39.7%	42.6%	
Active personnel on average during the review period**	540	597	-9.5%	542	597	-9.2%
Active personnel at the end of the review period**	538	588	-8.5%	538	588	-8.5%
Earnings per share (EUR)	-0.0000	-0.0278	100.2%	-0.0023	-0.0278	91.7%

\*) In accordance with IFRS 3, the operating result for April 1–June 30, 2019, includes EUR 507 thousand (2018: 507) and the operating result for January 1–June 30, 2019 includes EUR 1015 thousand (2018: 1015) in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. The implementation of the IFRS 16 standard affects extensively different figures for 2019. Additional information on the standard's implementation and effects can be found in the "Accounting policies" section of "Financial statement summary and appendixes January 1–June 30, 2019 (IFRS)."

\*\*\*) The Innofactor Group monitors the number of active personnel. The number of active personnel does not include employees who are on a leave of over 3 months.

\*\*\*\*) Before implementing the common ERP system in two stages in Sweden on July 1, 2018, and October 1, 2018, the figures there are partly based on management estimates.

\*\*\*\*\*) The handling of lease liabilities in a new way in accordance with IFRS 16 had an effect of EUR 320 thousand in the operating margin (EBITDA) and approximately 4.3 percentage point negative effect in the equity ratio for April 1–June 30, 2019. For January 1–June 30, 2019 IFRS 16 had an effect of EUR 620 thousand in the operating margin (EBITDA) and approximately 4.3 percentage point negative effect in the equity ratio.

## Innofactor's future outlook for 2019

Innofactor's net sales in 2019 are estimated to increase from 2018, during which the net sales were EUR 63.1 million, and the operating margin (EBITDA) in 2019 is estimated to grow to EUR 4–6 million, while the operating margin in 2018 was EUR -1.0 million.

**CEO Sami Ensio's review: The corrective actions are having the planned effect – the operating margin and order backlog in the first half of the year are the best in Innofactor's history**

The net sales in the first half of 2019 were EUR 32.8 million, which shows a decrease of 2.0 percent compared to the previous year. The net sales grew in Finland and Norway, but decreased in Sweden and Denmark. The weaker than expected net sales were partly due to the lower exchange rates of Swedish krona and Norwegian krone in relation to euro. This had an effect of approximately EUR 0.25 million. Due to the taken corrective actions to increase efficiency the net sales per employee grew by 8.3% from the previous year.

The operating margin (EBITDA) grew by 431 percent from the previous year and was EUR 2.0 million (6.1 percent of the net sales). Compared to the second half of 2018, the operating margin improved by EUR 3.4 million (H2/2018: -1.4). The improvement in the operating margin was especially due to the measures in the last quarter of 2018 for reorganizing operation and making it more efficient, cost-cutting, and the changes in handling lease liabilities due to IFRS 16, which had an effect of EUR 0.6 million in the operating margin. Historically, Innofactor's operating margin has improved in every quarter towards the end of the year.

In the second quarter, the order backlog again grew to a record-breaking amount and was EUR 44.2 million at the end of the quarter (2018: 23.6), which shows an increase of 87% compared to the same time in the previous year.

As regards Sweden and Denmark, measures aiming at increasing net sales have already been started. Our goal is to turn the net sales in the countries into growth in the last quarter of 2019 at the latest. In Sweden, the search for a new Country Manager has started, and our goal is to select a new Country Manager during the third quarter.

Innofactor has hired a new CFO for the Group, Markku Puolanne, who will start work on August 12, 2019, and a new General Counsel, Michaela Skrabb, who will start work on August 14, 2019. I am very glad that we will have both of them as it will strengthen the Innofactor team.

The Board of Directors of Innofactor has decided on May 2019 on a share issue of 1.2 million shares directed at the personnel, which was realized in full by the end of June 2019. Subscription contracts were made by a total of 116 persons, and they came from all of the countries Innofactor operates in: Finland, Sweden, Denmark, and Norway. For me personally, it has always been important that a large part of the personnel are owners of the company. I believe that this will further improve the commitment of our brilliant employees to being part of Innofactor's success.

Innofactor's vision is to be the leading implementer of digitalization in each of the Nordic countries. We believe in our chosen Nordic strategy and in reaching our long-term goals. This requires perseverance and determination from the company's management and employees as well as investors. Innofactor is still actively looking for new strategic partnerships in the Nordic

countries. The Group's goal is to grow both organically and through acquisitions (however, these are not a priority in 2019).

### Strategy and its realization in the review period

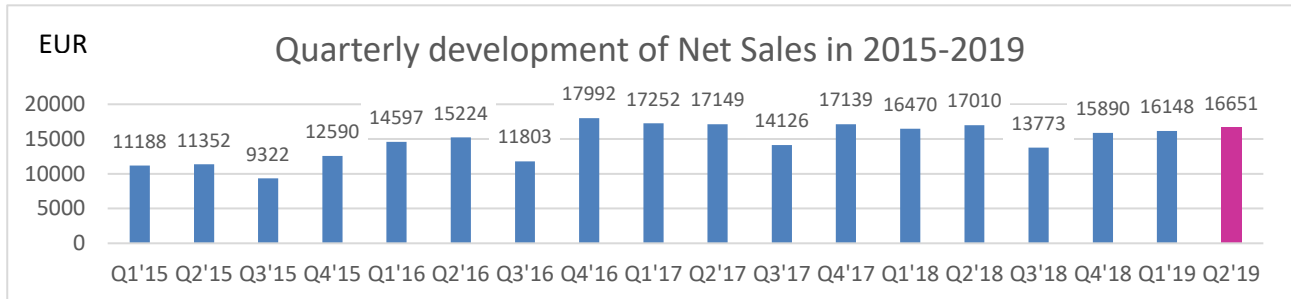
Innofactor's vision is to be the leading provider of organizations' digital transformation in each of the Nordic countries (Finland, Sweden, Denmark and Norway) The long-term financial goal is to grow profitably by achieving an annual growth of approximately 20 percent, of which majority is intended to be achieved by organic growth, by achieving approximately 20 percent operating margin (EBITDA) in relation to the net sales, and by keeping the cash flow positive and by securing solid financial standing in all situations. In 2019, Innofactor will focus especially on improving its profitability.

In the first half of the year, the operating margin (EBITDA) grew 431 percent from the previous year and was EUR 2.0 million (6.1 percent of the net sales). As regards profitability, Innofactor was able to again improve its performance substantially, but a significant effort is still needed in order to reach the long-term goal of approximately 20 percent.

Innofactor's net sales in the first half of the year were EUR 32.8 million (2018: 33.5), which shows a decrease of 2.0 percent compared to the previous year. The net sales grew in Finland and Norway, but decreased in Sweden and Denmark. It is essential for Innofactor's strategy to gain growth also in Sweden and Denmark. Our goal is to turn the net sales in Sweden and Denmark into growth in the last quarter of 2019 at the latest. The goal of getting the net sales to grow is also supported by the record-breaking order backlog of EUR 44.2 million (2018: 23.6).

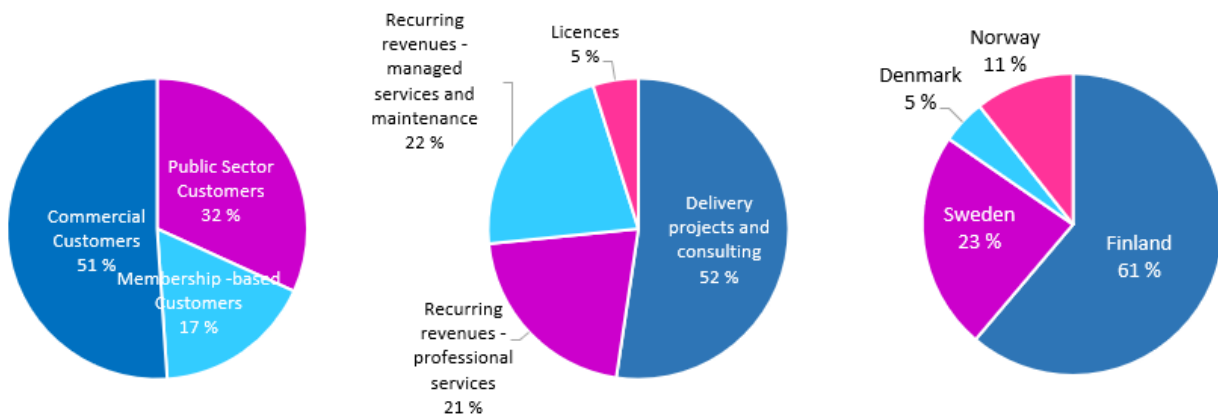
Innofactor's operating cash flow in the review period of January 1–June 30, 2019, was EUR 2.1 million (2018: EUR 0.5 million) and the equity ratio at the end of the review period was 39.7 percent (2018: 42.6 percent). The handling of lease liabilities in a new way in accordance with IFRS 16 had a positive effect of approximately EUR 0,6 million in the operating cash flow and approximately 4.3 percentage point negative effect in the equity ratio. The strong operating cash flow supports Innofactor's strategic goal of profitable growth and securing solid financial standing in all situations.

**Innofactor’s net sales were slightly smaller than in the comparison period, but increased per employee**



Innofactor’s net sales in April 1–June 30, 2019, were EUR 16,651 thousand (2018: 17,010), which shows a decrease of 2.1 percent. The net sales per active employee were approximately EUR 30.8 thousand (2018: 28.5), which shows an increase of 8.2 percent. In the future, we will focus on continuing to increase the net sales per active employee.

Distribution of net sales January 1–June 30, 2019:



Innofactor's business operations were focused on Finland, Sweden, Denmark, and Norway. On January 1–June 30, 2019, approximately 61 percent of the net sales came from Finland, approximately 23 percent from Sweden, approximately 11 percent from Norway, and approximately 5 percent from Denmark. The net sales grew in Finland and Norway, but decreased in Sweden and Denmark.

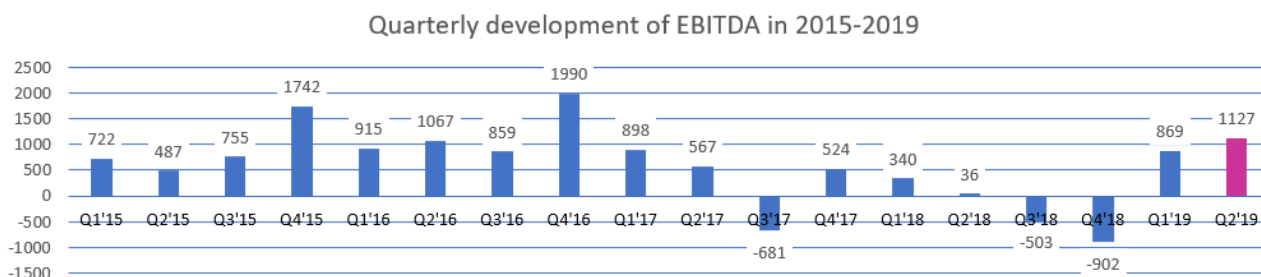
Of the net sales in January 1–June 30, 2019, approximately 51 percent came from commercial clients, approximately 32 percent from public sector clients, and approximately 17 percent from third sector clients.

Innofactor's net sales in the review period of January 1–June 30, 2019, came from the following sources:

- approximately 5 percent from licenses, of which the share of licensing income to third parties was approximately 4 percent of the net sales
- approximately 22 percent from services based on recurring service contracts, such as SaaS, cloud and hosting services, and from software maintenance
- approximately 21 percent from specialist work based on recurring service contracts, such as smaller customer-specific changes and further development of IT systems
- approximately 52 percent from IT system delivery projects and consulting

Innofactor’s 10 largest clients accounted for approximately 24 percent of the net sales during the review period January 1–June 30, 2019.

**Innofactor’s operating margin was clearly higher than in the comparison period**



Innofactor's operating margin (EBITDA) in April 1–June 30, 2019, was EUR 1,127 thousand (2018: 36), which shows an increase of 3,031 percent. EBITDA accounted for 6.1 percent of the net sales (2018: 0.2%). Innofactor’s operating profit in April 1–June 30, 2019, was EUR 153 thousand (2018: -630), improving by 124 percent. The operating profit accounted for 0.9 percent of the net sales (2018: -3.7%).

Acquisitions have been a central part of Innofactor’s strategy. Depreciations of intangible rights resulting from acquisitions vary greatly depending on how valuable the customer contracts and technology of the acquired company are estimated to be and also in what kind of schedule the resulting intangible rights will be depreciated. For this reason, the company’s view is that instead of the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations.

In accordance with IFRS 3, the operating result for April 1–June 30, 2019, includes EUR 507 thousand (2018: 507) and for January 1–June 30, 2019, EUR 1015 thousand (2018: 1015), in depreciations related to acquisitions, consisting of allocations of the purchase price to intangible assets. Adjusted for the said depreciations, Innofactor’s operative business profit for the review period of April 1–June 30, 2019, would have been EUR 660 thousand (2018: -122), improving by 641 percent. The adjusted operating result for January 1–June 30, 2019 would have been EUR 1078 thousand (2018: 21), improving by 4 687 percent.

Implementing IFRS 16 in the review period of April 1–June 30, 2019, improves the operating margin (EBITDA) by EUR 320 thousand, because a lease cost is divided into depreciations and financial expenses. For January 1–June 30, 2019 the improvement is EUR 620 thousand. The implementation of IFRS 16 is explained in more detail in the section “Financial statement summary and appendixes January 1–June 30, 2019 (IFRS).”

**Innofactor’s order backlog grew, making an all time record**

Innofactor's order backlog at the end of the review period was EUR 44,170 thousand (2018: 23,646), which shows an increase of 86.8%. The order backlog grew, for example, due to Traficom VISA, approximately EUR 5.0 million, and a membership management project for a Swedish organization, approximately EUR 1.3 million.

Before implementing the Nordic ERP system in two stages in Sweden on July 1, 2018, and October 1, 2018, the figures there are partly based on management estimates, because they had no system for reliably monitoring the order backlog.

**Innofactor’s operating cash flow in the review period improved essentially from the situation one year earlier**

Innofactor's balance sheet total at the end of the review period was EUR 56,302 thousand (2018: 57,706). The Group's liquid assets totaled EUR 82 thousand (2018: 898), consisting totally of cash funds.

The operating cash flow on January 1–June 30, 2019, was EUR 2,081 thousand (2018: 452). The investment cash flow was EUR -588 thousand (2018: -835).

The equity ratio at the end of the review period was 39.7 percent (2018: 42.6%) and net gearing was 63.3 percent (2018: 58.0%).

At the end of the review period, the company had EUR 9,184 thousand in current interest bearing liabilities (2018: 7,771) and EUR 4,585 thousand in non-current interest bearing liabilities (2018: 6,833). The total amount of interest bearing liabilities was EUR 13,769 thousand (2018: 14,604).

The return on investment in January 1–June 30, 2019, improved from the previous year and was 0.4 percent (2018: -5.1%). The return on equity in January 1–June 30, 2019, improved from the previous year and was -1.4 percent (2018: -8.3%).

The non-current assets in Innofactor's balance sheet at the end of the review period were EUR 42,174 thousand in total.

Innofactor's gross investments in tangible and intangible assets in the review period of January 1–June 30, 2019, were EUR 111 thousand (2018: 668), consisting of normal additional and replacement investments required by growth.

The handling of lease liabilities in a new way in accordance with IFRS 16 had a positive effect of approximately EUR 620 thousand in the operating cash flow and approximately 4.3 percentage point negative effect in the equity ratio. The implementation of IFRS 16 is explained in more detail in the section “Financial statement summary and appendixes January 1–June 30, 2019 (IFRS).”

### **Innofactor's research and product development investments decreased slightly**

In the product development during the review period, focus was on renewing existing products and services and continuous further development in order to support the growth of product-based business.

Innofactor's research and development costs recognized in profit or loss for January 1–June 30, 2019, were approximately EUR 1,424 thousand (2018: 1,613), which accounts for 4.3 percent of the net sales (2018: 4.8%).

### **The number of personnel in Innofactor is clearly lower than in the previous year due to the development actions implemented**

Primarily, Innofactor monitors the number of active personnel. The number of active personnel does not include employees who are on a leave of over 3 months.

The average number of active personnel in April 1–June 30, 2019, was 540 persons (2018: 597), which shows a decrease of 9.5 percent. At the end of the review period, the number of active personnel was 538 (2018: 588), which shows a decrease of 8.5 percent. The decrease in the number of personnel was especially due to the reorganization implemented in Finland in the last quarter of 2018.

At the end of the review period, the average age among personnel was 40.8 years (2018: 39.4). Women accounted for 26 percent (2018: 31%) of the personnel. Men accounted for 74 percent (2018: 69%) of the personnel.

### **Other events in the review period**

On January 25, 2019, Innofactor lowered its estimate on the net sales and operating margin (EBITDA) for 2018.



On February 14, 2019, Innofactor announced in a stock exchange release that a Swedish organization selected Innofactor to implement their membership management project, the value of the procurement being approximately EUR 1.3 million, which is estimated to be registered for 2019.

On February 15, 2019, Innofactor announced in a stock exchange release that Traficom selected Innofactor as the development and maintenance provider for their technical platform for digital services (VISA), the value of the procurement being approximately EUR 5.0 million within 5–7 years, starting from spring 2019.

On March 8, 2019, Innofactor announced in a stock exchange release that the City of Espoo selected Innofactor as the provider of a decision-making system, the value of the procurement being approximately EUR 1.5 million, which is estimated to be registered for 2019 and 2020.

On March 14, 2019, Innofactor announced in a stock exchange release that Innofactor Plc's CFO Marko Lehtonen has decided to assume responsibilities with another employer and has resigned from his position on March 13, 2019.

On May 14, 2019, Innofactor announced a directed personnel share issue of EUR 1.2 million shares for the personnel of the entire Group.

On May 14, 2019, Innofactor announced in a stock exchange release that Innofactor Plc's General Counsel Anna-Maria Palmroos has decided to assume duties with another employer and has resigned from her position.

On May 29, 2019, Innofactor announced in a stock exchange release that Markku Puolanne was appointed Innofactor's Chief Financial Officer (CFO), starting from August 12, 2019.

On June 4, 2019, Innofactor published a stock exchange release in which it adjusted its forecast for 2019 as regards the operating margin, estimating that it would grow to EUR 4–6 million.

On June 25, 2019, Innofactor announced in a stock exchange release that the Innofactor personnel share issue was fully subscribed. As a result of the personnel issue, the number of Innofactor's shares increases by 1,200,000 shares to a total of 37,388,225 shares. The new shares correspond to 3.21 percent of Innofactor Plc's post-issue number of shares and votes. The subscription price was EUR 0.50 per share. The new shares will be registered in the Trade Register without delay. The trading of the new in the Helsinki Stock Exchange (NASDAQ Helsinki Oy) is estimated to start on June 28, 2019. The personnel shares are subject to a sale and transfer restriction for 12 months starting from the registration.

## Share and shareowners

At the end of the review period, Innofactor Plc's share capital was EUR 2,100,000.00 and the total number of shares was 37,388,225. Innofactor Plc has one series of shares. Each share is entitled to one vote.

On April 1–June 30, 2019, the highest price of the company share was EUR 0.72 (2018: EUR 0.88), the lowest price was EUR 0.50 (2018: EUR 0.75), and the average price was EUR 0.60 (2018: EUR 0.82).

On January 1–June 30, 2019, the highest price of the company share was EUR 0.72 (2018: EUR 1.13), the lowest price was EUR 0.36 (2018: EUR 0.75), and the average price was EUR 0.53 (2018: EUR 0.89).

The closing price for the review period on June 30, 2019, was EUR 0.63 (2018: EUR 0.79).

In public trading in April 1–June 30, 2019, a total of 3,284,308 shares were traded (2018: 1,497,941 shares), which corresponds to 9.1 percent (2018: 4.1%) of the average number of shares on the said period. On April 1–June 30, 2019, there were 36,240,972 shares on the average (2018: 36,188,225). The share trading increased by 119 percent compared to the corresponding period in 2018.

In public trading in January 1–June 30, 2019, a total of 6,426,286 shares were traded (2018: 4,734,382 shares), which corresponds to 17.7 percent (2018: 13.1%) of the average number of shares on the said period. On January 1–June 30, 2019, there were 36,214,744 shares on the average (2018: 36,188,225). The share trading increased by 35.7 percent compared to the corresponding period in 2018.

The market value of the share capital at the closing price of EUR 0.63, on June 30, 2019, was EUR 23,555 thousand (2018: 28,733), which shows a decrease of 18.0 percent.

On June 30, 2019, the company had a total of 11,211 shareowners (2018: 11,932), including administrative registers.

The Board of Directors has the following authorizations:

- Until June 30, 2020, to decide on a share issue and granting of special rights entitling to shares, concerning a maximum of 3,600,000 new shares (decided by the General Meeting of April 2, 2019); the authorization has been used for 1,200,000 shares in the personnel issue published on May 14, 2019, which means that 2,400,000 shares of the authorization remain.
- Until June 30, 2020, to decide on a transfer of a maximum of 3,600,000 treasury shares (decided by the General Meeting of April 2, 2019); the authorization has not been used.

## Own shares

The General Meeting of April 2, 2019, authorized the Board of Directors to decide on acquiring of a maximum of 3,600,000 of company's own shares in one or several parts with the company's unrestricted equity. The authorization entitles the Board to deviate from the shareholders' proportional shareholdings (directed acquisition). Own shares may be acquired at the purchase price formed for them in public trading at the day of purchase or at another market price. The number of treasury shares at a time may be, at the maximum, one tenth of the total number of shares in the company. Shares may be purchased to be used in company acquisitions or implementing other arrangements relating to the company's business operations, improving the company's capital or financing structure, as a part of the company's incentive system, or otherwise to be handed over or voided. In connection with the share repurchase, ordinary derivative, stock lending and other agreements may be made in the market in accordance with the laws and regulations. The authorization includes the right of the Board of Directors to decide on all other matters related to the acquisition of shares. The authorization will be valid until June 30, 2020. This authorization replaces the Board's earlier authorizations concerning share repurchase.

At the end of the review period, the company had no treasury shares.

## Management of the company

Innofactor Plc complies with the recommendations of the Corporate Governance Code 2015 for Finnish listed companies, published by the Securities Market Association.

On April 2, 2019, the General Meeting decided that the number of Board members is four. The previous members Pekka Eloholma, Sami Ensio, Anna Lindén and Risto Linturi, were re-elected as the members of the Board of Directors. In their organizing meeting held immediately after the General Meeting, the Board of Directors elected Pekka Eloholma as the Chairman of the Board.

The General Meeting approved the proposal to appoint Ernst & Young Oy, an auditing firm authorized by the Central Chamber of Commerce, as the auditor for the company, with Juha Hilmola as the main responsible auditor.

Innofactor has drawn up a separate Corporate Governance Statement for the financial period of 2018.

Innofactor Plc's entire Corporate Governance and statements are available on the company's web site at: <https://www.innofactor.com/invest-in-us/corporate-governance/>

### **Market outlook and business environment**

Innofactor's market outlook and business environment in their entirety are described in the financial statement and annual report.

There have been no significant changes in Innofactor's market outlook and business environment during the review period nor can any be seen.

### **Short term risks and uncertainty factors**

Innofactor's operations and finances involve risks that may be significant for the company and its share value. These risks are assessed by Innofactor Plc's Board of Directors four times a year as part of the strategy and business planning process. The risks are published in their entirety in the financial statement and in the Annual Report of the Board of Directors. The interim reports only present the changes in short-term risks.

Financing risks: In its normal business operations, the Innofactor Group is susceptible to normal financing risks. On June 30, 2019, Innofactor had in total approximately EUR 13.8 million in interest bearing debts (December 31, 2018: 15.4), which have been taken out to finance earlier acquisitions and working capital. Of the debts, approximately EUR 9.2 million is current liabilities consisting of loan installments of EUR 1.8 in the following year (December 31, 2018: 2.2) and a credit limit of approximately EUR 7.4 million (December 31, 2018: 7.8). Innofactor has committed itself to the following covenants: Equity ratio calculated every 6 months is at least of 40%, and interest bearing liabilities calculated every 6 months divided by the 12-month operating margin (EBITDA) is a maximum of 2.5, and certain other normal conditions for loans. The Innofactor Group's interest bearing liabilities divided by the 12-month operating margin (EBITDA) on June 30, 2019, exceeded the covenant limit of 2.5 agreed on with the financial institution. The financial institution issued a Waiver on June 30, 2019, accepting the deviations from the covenants. In addition to corrective actions done at the end of 2018 related to business operations, Innofactor has previously renegotiated some loan conditions to enable more flexible financing. These together are believed to ensure Innofactor's financial standing also in the future.

There have been no other significant changes in Innofactor's short-term risks and uncertainty factors during the review period nor can any significant changes be seen.

### **Acquisitions and changes in the Group structure**

No acquisitions or changes in the Group structure were carried out during the review period.

On July 2, 2019, Innofactor started a merger of two operative companies 100% owned by the Group in Sweden, Innofactor AB and Innofactor Cloud Platform AB, and it is estimated to be realized on December 31, 2019.

**Events after the review period**

There have been no significant events in Innofactor after the review period.

Espoo, July 23, 2019

INNOFACTOR PLC

Board of Directors

Additional information:

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**Briefings concerning the Half-Yearly Report January 1–June 30, 2019**

A briefing in Finnish concerning the half-yearly report will be held for media, investors and analysts on July 23, 2019, at 10:00 Finnish time, at the company's premises at Keilaranta 9, Espoo. The report will be presented by CEO Sami Ensio. The corresponding conference call in English will be held at 12:00 Finnish time.

Please register for the briefings beforehand by sending email to [ir@innofactor.com](mailto:ir@innofactor.com).

The presentations will be available on Innofactor's web site after the briefings.

Distribution:

NASDAQ Helsinki

Main media

[www.innofactor.com](http://www.innofactor.com)

## Financial statement summary and appendixes January 1–June 30, 2019 (IFRS)

### Accounting policies

Innofactor operates on a single segment, offering software, systems and related services.

This Half-Yearly Report has been drafted in accordance with the IAS 34 Interim financial reporting standard.

The Half-Yearly Report adheres to the same accounting policies and calculation methods as the last annual financial statement 2018. However, as of January 1, 2019, the Group has introduced the new or renewed IFRS standards and IFRIC interpretations published by IASB and mentioned in the accounting policies section of the financial report 2018. The principles for calculating the key figures and the calculation formulas have not been changed and they have been presented in an appendix to this report.

In addition to the IFRS key figures, Innofactor publishes certain alternative key figures in order to present the financial development of the actual business operations and to improve comparisons between different periods. Acquisitions are a central part of Innofactor's strategy. Depreciations of intangible rights resulting from acquisitions vary greatly depending on how valuable the customer contracts and technology of the acquired company are estimated to be and also in what kind of schedule the resulting intangible rights will be depreciated. For this reason, the company's view is that instead of the operating profit, the primary measure for profitability should be the operating margin (EBITDA), because it is not affected by the said depreciations. In addition to the operating margin, the company also publishes the following figures adjusted for the above-mentioned depreciations: the operative business result, operative business result before taxes, operative result, and operative result per share. Depreciations related to acquisitions, adjusted from the above-mentioned key figures, in the period of January 1–June 30, 2019, were EUR 1,015 thousand (2018: 1,015).

Other alternative key figures used by Innofactor are equity ratio, net gearing, return on investment, return on equity, and net sales per person. The formulas for calculating the other alternative key figures are presented at the end of this report.

Drafting a financial statement in accordance with the IFRS standards requires the management of Innofactor to use estimates and presuppositions, which affect the amounts of assets and debts at the time of drafting the balance sheet and the amounts of earnings and costs for the review period. The application of the accounting policies also requires judgment. As estimates and presuppositions are based on the views held at the time of drafting the statement, they contain risks and uncertainty factors. The actual figures may deviate from the estimates and presuppositions. The figures of the profit and loss statement and the balance sheet are figures for

the Group. The figures of the statement have been rounded, so the sum of individual figures may differ from the sum presented.

The figures in this Half-Yearly Report have not been audited.

### **IFRS 16 Leases**

Innofactor has implemented the IFRS 16 standard as of January 1, 2019. The implementation of the standard has affected the company's balance sheet by increasing the committed capital and interest bearing debt. The standard does not have a significant effect on the company's earnings per share, but it improves the company's operating margin (EBITDA), because a lease cost is divided into depreciations and financial expenses. The standard also improves the company's operating cash flow and deteriorates the financing cash flow, because the lease payments are mainly presented in the financing cash flow.

The effects of implementing the IFRS 16 standard are as follows:

Opening balance, January 1, 2019

#### Assets

Tangible assets + EUR 5,310 thousand

#### Liabilities

Current lease liabilities + EUR 1,173 thousand

Non-current lease liabilities + EUR 4,137 thousand

Financial statement January 1–June 30, 2019

- Decrease in lease liabilities, EUR 620 thousand
- Increase in planned depreciations, EUR 557 thousand
- Increase in lease liability financing costs, EUR 63 thousand

The implementation of the IFRS 16 standard affects the operating margin (EBITDA) and the key figures that have been calculated based on the balance sheet total or interest bearing debt.

In the implementation of the standard, Innofactor uses the simple method in which the comparison figures will not be adjusted. In its reporting, the company also takes into account the two exceptions that make it easier to implement the standard and which are related to leases of low value and short term.

**Comprehensive consolidated  
profit and loss statement, IFRS**

EUR thousand	Apr 1–Jun 30, 2019	Apr 1–Jun 30, 2018	Jan 1–Jun 30, 2019	Jan 1–Jun 30, 2018	Jan 1–Dec 31, 2018
Net sales	16,651	17,010	32,799	33,480	63,144
Other operating income	33	17	42	26	205
Materials (–)	-1,499	-1,974	-2,977	-3,780	-6,812
Employee benefits/expenses (–)	-11,634	-12,552	-23,231	-24,677	-46,432
Depreciation (–)	-975	-666	-1,934	-1,370	-2,842
Other operating expenses (–)	-2,424	-2,464	-4,637	-4,670	-11,134
<b>Operating profit/loss</b>	<b>153</b>	<b>-628</b>	<b>63</b>	<b>-992</b>	<b>-3,872</b>
Financial income	5	10	9	14	952
Financial expenses (–)	-262	-163	-372	-280	-892
<b>Profit/loss before taxes</b>	<b>-104</b>	<b>-780</b>	<b>-301</b>	<b>-1,257</b>	<b>-3,811</b>
Income taxes	106	157	215	253	625
<b>Profit/loss for the financial period</b>	<b>2</b>	<b>-623</b>	<b>-86</b>	<b>-1,004</b>	<b>-3,186</b>
Other comprehensive income					
Items that may be later recognized in profit or loss:					
Exchange differences	-235	-143	-190	-460	-275
<b>Total comprehensive income</b>	<b>-233</b>	<b>-766</b>	<b>-276</b>	<b>-1,464</b>	<b>-3,462</b>

Earnings per share calculated from the profit attributable to equity holders of the parent:

basic earnings per share (EUR)	-0.0000	-0.0172	-0.0023	-0.0278	-0.0880
diluted earnings per share (EUR)	-0.0000	-0.0172	-0.0023	-0.0278	-0.0880

**ASSETS**



<b>EUR thousand</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>	<b>Dec 31, 2018</b>
<b>Non-current assets</b>			
Tangible assets	5,151	596	484
Goodwill	25,937	26,011	26,126
Other intangible assets	4,757	6,920	6,114
Shares and holdings	78	62	78
Receivables	649	257	155
Deferred tax assets	5,602	5,613	5,602
<b>Non-current assets</b>	<b>42,174</b>	<b>39,459</b>	<b>38,558</b>
<b>Current assets</b>			
Trade and other receivables	14,046	17,349	13,059
Cash and cash equivalents	82	898	258
<b>Current assets</b>	<b>14,128</b>	<b>18,247</b>	<b>13,317</b>
<b>TOTAL ASSETS</b>	<b>56,302</b>	<b>57,706</b>	<b>51,875</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

<b>EUR thousand</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>	<b>Dec 31, 2018</b>
Equity attributable to the shareholders of the parent company			
Share capital	2,100	2,100	2,100
Share premium reserve	72	72	72
Other reserves (+/-)	59	59	59
Fund for invested unrestricted equity	20,921	20,321	20,321
Retained earnings	-1,526	1,081	-1,250
<b>Total shareholders' equity</b>	<b>21,627</b>	<b>23,634</b>	<b>21,303</b>
<b>Non-current liabilities</b>			
Loans from financial institutions	4,585	6,833	5,418
Lease liabilities	3,102		
Deferred tax liabilities	858	1,612	1,190
<b>Long-term liabilities total</b>	<b>8,545</b>	<b>8,445</b>	<b>6,608</b>
<b>Current liabilities</b>			
Loans from financial institutions	9,184	7,771	10,000
Lease liabilities	1,584		
Trade and other payables	15,363	17,856	13,964
<b>Current liabilities total</b>	<b>26,131</b>	<b>25,627</b>	<b>23,965</b>
<b>Total liabilities</b>	<b>34,675</b>	<b>34,072</b>	<b>30,573</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>56,302</b>	<b>57,706</b>	<b>51,875</b>

## Statement of change in shareholders' equity, IFRS

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
<b>Shareholders' equity Jan 1, 2019</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>-212</b>	<b>-1,037</b>	<b>21,303</b>
Addition to the fund for invested unrestricted equity, June 27, 2019				600				600
Comprehensive income								0
Result for the financial period						-86		-86
Correction								0
Other comprehensive income:								
Exchange differences							-190	-190
Total comprehensive income						-86	-190	-276
<b>Shareholders' equity June 30, 2019</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,921</b>	<b>0</b>	<b>-297</b>	<b>-1,228</b>	<b>21,627</b>

EUR thousand	Share capital	Share premium reserve	Reserve fund	Fund for invested unrestricted equity	Own shares	Retained earnings	Exchange difference	Total shareholders' equity
<b>Shareholders' equity Jan 1, 2018</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>2,974</b>	<b>-762</b>	<b>24,764</b>
Comprehensive income								
Result for the financial period						-1,007		-1,007
Other comprehensive income:								
Exchange differences							-460	-460
Total comprehensive income						-1,007	-460	-1,467
<b>Shareholders' equity June 30, 2018</b>	<b>2,100</b>	<b>72</b>	<b>59</b>	<b>20,321</b>	<b>0</b>	<b>1,967</b>	<b>-1,222</b>	<b>23,297</b>

## Consolidated Cash Flow Statement,

**IFRS**

EUR thousand	Jan 1–Jun 30, 2019	Jan 1–Jun 30, 2018	Jan 1–Dec 31, 2018
<b>Cash flow from operating activities</b>			
Operating profit	62	-994	-3,872
Adjustments:			
Depreciation *)	1,934	1,370	2,842
Non-cash transactions *)	683	0	0
Changes in working capital:			
Change in trade and other receivables (+/–)	-1,003	-419	3,474
Change in trade and other payables (+/–)	769	756	-2,209
Interests received	9	14	52
Interests paid (–)	-372	-275	-870
<b>Net cash flow from operating activities</b>	<b>2,081</b>	<b>452</b>	<b>-581</b>
<b>Investment cash flow</b>			
Acquisition of subsidiaries	0	-200	-200
Investments in intangible and tangible assets (–)	-111	-668	-1,133
Loan receivables paid back	30	33	109
Shares and holdings	0	0	-16
<b>Net cash flow from investments</b>	<b>-18</b>	<b>-835</b>	<b>-1,239</b>
<b>Cash flow from financing</b>			
Loans withdrawn	618	912	3,237
Loans paid	-2,268	-541	-2,069
Lease liability payments *)	-620	0	0
Payments received from share issue	93	0	0
<b>Net cash flow from financing</b>	<b>-2,176</b>	<b>371</b>	<b>1,168</b>
<b>Change in cash and cash equivalents (+/–)</b>	<b>-176</b>	<b>-12</b>	<b>-652</b>
Cash and cash equivalents, opening balance	258	910	910
Cash and cash equivalents, closing balance	82	898	258

\*) IFRS 16 Leases was implemented on January 1, 2019, using the modified retrospective approach and the comparison figures for 2018 have not been adjusted.

**Consolidated Profit and Loss Statement by Quarter,  
IFRS**

EUR thousand	Jan 1– Mar 31, 2019	Apr 1– Jun 30, 2019	Jul 1–Sep 30, 2019	Oct 1– Dec 31, 2019	Jan 1– Mar 31, 2018	Apr 1– Jun 30, 2018	Jul 1– Sep 30, 2018	Oct 1– Dec 31, 2018
<b>Net sales</b>	<b>16,148</b>	<b>16,651</b>			<b>16,470</b>	<b>17,010</b>	<b>13,773</b>	<b>15,890</b>
Growth of net sales	-2.0%	-2.1%			-4.5%	-0.8%	-2.5%	-7.3%
Other operating income	10	33			9	17	20	159
Materials (–)	-1,478	-1,499			-1,807	-1,974	-1,691	-1,341
Employee benefits/expenses (–)	-11,597	-11,634			-12,125	-12,552	-9,818	-11,937
Depreciation (–)	-959	-975			-704	-666	-683	-789
Other operating expenses (–)	-2,213	-2,424			-2,207	-2,464	-2,787	-3,676
<b>Operating profit/loss</b>	<b>-90</b>	<b>153</b>			<b>-364</b>	<b>-629</b>	<b>-1,186</b>	<b>-1,693</b>
Financial income	4	5			4	10	15	923
Financial expenses (–)	-111	-262			-117	-163	-52	-560
<b>Profit/loss before taxes</b>	<b>-197</b>	<b>-104</b>			<b>-477</b>	<b>-782</b>	<b>-1,223</b>	<b>-1,329</b>
Income taxes	109	106			95	157	243	129
<b>Profit/loss for the financial period</b>	<b>-88</b>	<b>2</b>			<b>-382</b>	<b>-625</b>	<b>-980</b>	<b>-1,200</b>
EBITDA	868	1,127			340	36	-503	-902

**Commitments and contingent liabilities**

EUR thousand	June 30, 2019	June 30, 2018	Dec 31, 2018
<b>Collateral given for own commitments</b>			
Lease collateral	179	183	183
Mortgages on company assets*	16,950	16,958	16,972
Bank guarantees	303	303	303
<b>Other own liabilities</b>			
Lease liabilities			
Current lease liabilities	155	322	172
Lease liabilities maturing in 1-5 years	42	262	94
<b>Total</b>	<b>197</b>	<b>584</b>	<b>266</b>
<b>Lease liabilities**</b>			
Current lease liabilities	337	1,970	2,007
Lease liabilities maturing in 1-5 years	0	551	4,639
<b>Total</b>	<b>337</b>	<b>2,521</b>	<b>6,646</b>
<b>Other own liabilities total</b>	<b>534</b>	<b>3,105</b>	<b>6,912</b>

## Largest shareholders

According to the share register maintained by Euroclear Finland Oy, the share ownership of the 20 largest Innofactor Plc shareowners at the end of the review period on June 30, 2019, was as follows.

Name	Number of shares	% of share capital
1. Ensio Sami	7,880,237	21.08%
<i>Ensio Sami</i>	5,706,477	15.26%
<i>Minor under guardianship</i>	724,588	1.94%
<i>Minor under guardianship</i>	724,586	1.94%
<i>Minor under guardianship</i>	724,586	1.94%
2. Ilmarinen Mutual Pension Insurance Company	1,800,000	4.81%
3. Hallikainen Jyrki	1,471,009	3.93%
4. Tilman Tuomo Tapani	1,265,437	3.38%
5. Laiho Rami Tapani	1,265,159	3.38%
6. Linturi Kaija and Risto	1,256,411	3.36%
<i>R. Linturi Oyj</i>	489,107	1.31%
<i>Linturi Kaija Anneli</i>	430,000	1.15%
<i>Linturi Risto Erkki Olavi</i>	337,304	0.90%
7. Ärje Matias Juhanoika	882,065	2.36%
8. Mäki Antti-Jussi	877,192	2.35%
9. Muukkonen Teemu Heikki	522,230	1.40%
10. Ingman Finance Oy Ab	500,000	1.34%
11. Järvenpää Janne-Olli	315,211	0.84%
12. Kukkonen Heikki-Harri	301,931	0.81%
13. Saarelainen Mika Pekka	296,633	0.79%
14. Rausanne Oy	272,545	0.73%
15. Anttila Mikko Matias	255,137	0.68%
16. Hellen Stefan Andreas	250,000	0.67%
17. Laiho Jari Olavi	235,000	0.63%
18. Heino Petri Juhani	165,000	0.44%
19. Mäkinen Antti Vilho Juhani	164,000	0.44%
20. Heikki Tervonen Oy	153,000	0.41%

**Formulas for calculating the key figures**

**Operating margin (EBITDA):**

Operating profit/loss - Depreciations

**Order backlog:**

Received license and project orders - realized net sales related to the order + net sales from recurring agreements for the next 12 months (does not include expected purchase activity not based on agreement, so called Run Rate)

**Net sales / employee:**

Net sales

Active personnel on average during the review period

**Percentage of return on equity:**

Profit/loss for the financial period

Shareholders' equity

**Percentage of return on investment:**

Profit or loss before taxes + Interest and other financial expenses

Shareholders' equity + Interest bearing financial liabilities

**Net gearing:**

Interest bearing liabilities - Cash funds

Shareholders' equity

**Equity ratio, (%):**

Shareholders' equity

Balance sheet total - Received advances

**Result/share:**

Profit before taxes attributable to equity holders of the parent - Taxes

Average number of shares on the financial period adjusted after the share issue

**Shareholders' equity / share:**

Equity attributable to the shareholders of the parent company

Undiluted number of shares on the date of the financial statement