

Efecte OYJ (EFECTE)



The Market-Leading ITSM Provider

Efecte OYJ (“Efecte” or “the Company”) is a Finnish software company that delivers cloud-based IT solutions, which accelerates organizations to digitize and automate internal and external processes, such as human resources, customer service, and financial services. Efecte is the European alternative to global competitors and are in a market-leading position in Europe. While running at zero margins and focusing on growth, Efecte is at the inflection point of becoming a profitable business and has recently launched its new partner sales strategy in the Spanish, Polish, and German market. This strategy is expected to drive a total revenue growth of 20.7% annually until 2025, while allowing a lower risk profile and capital intensity. Based on an EV/SALES multiple of 3.5x, derived from a relative valuation on 2024 revenue estimates, implies a price of EUR 12.7 per share in a Base scenario.

▪ New Sales Strategy Launched in European Markets

Efecte has been growing its SaaS revenue by a 24% CAGR between 2017 and 2022 and is well positioned for further growth in European markets. Due to domestic market saturation, the Company's new partner sales strategy have recently been launched and is ready to be scaled in new European markets. In the year of 2022, the partner sales strategy delivered 64% of new customers, and it is expected to serve as the backbone for the estimated 20.7% annual revenue growth and margin improvement until 2025.

▪ Strong SaaS Metrics Shows Competitive Products

Despite the highly competitive ITSM industry, Efecte has successfully taken the market-leading position in its European markets. Efecte's NRR of 114% and churn levels of 2.3%, showcases product stickiness. Additionally, with a product replacement cycle of five years or longer, the Company is expected to retain its market-leading position by offering its best-in-class cloud-based solutions.

▪ Efecte is at the Inflection Point of Turning Profitable

Through high operating leverage from Efecte's SaaS business model, with a gross margin of approximately 80%, the Company is estimated to deliver an EBITDA margin of 14.7% in 2025, in line with peers but is not valued accordingly, at a 2023 EV/SALES multiple of 2.5x. Efecte's cost structure allows for margin improvements, which justifies a multiple expansion towards peer levels.

▪ Technological Disruption Increases Competition

AI solutions are becoming more prominent in the ITSM space which could mean increased competition. Competitors with larger resources hold the ability to deploy such technologies and it could lower Efecte's expected profitability, due to increased investments in R&D.

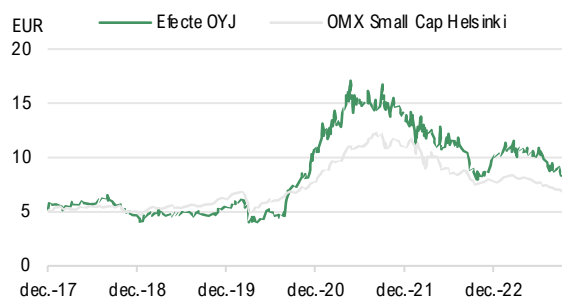
VALUATION RANGE

Bear
EUR 8.1
Base
EUR 12.7
Bull
EUR 15.4

KEY INFORMATION

Share Price (2023-10-16)	8.2
Shares Outstanding	63,835,900
Market Cap (EURm)	51.3
Net cash (-) / debt (+) (EURm)	-2.0
Enterprise Value (EURm)	52.3
List	Nasdaq First North Helsinki
Quarterly report 3 2023	2023-11-01

SHARE PRICE DEVELOPMENT



OWNERS (SOURCE: EFECTE Q2 REPORT)

First Fellow OY	12.7 %
Sijoitusrahasto Aktia Nordic Micro Cap	7.4 %
OY Fincorp AB	7.0 %
Keskinäinen Ilmarinen	4.6 %
Montonen Markku August	3.3 %

Estimates (EURm)	2022	2023E	2024E	2025E
Revenue	21.7	25.6	31.0	38.3
COGS	-4.4	-5.2	-5.6	-5.8
Gross Profit	17.4	20.4	25.5	32.4
Gross Margin	80.4 %	79.7 %	82.3 %	84.8 %
Operating costs	-21.7	-26.1	-28.1	-29.4
EBITDA	-0.1	0.3	3.2	9.2
EBITDA Margin	-0.1 %	-1.3 %	10.2 %	24.1 %
P/S	2.9x	2.4x	2.0x	1.6x
EV/S	2.8x	2.5x	2.1x	1.7x
EV/EBITDA	-	-	18.8x	6.5x
EV/EBIT	-	-	31.6x	7.6x

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Other

The Principal, **Efecte OYJ** (furthermore" the Company") has had no opportunity to influence the parts where Analyst Group has had opinions about the Company's future valuation or anything that could constitute an objective assessment.

The analyst does not own shares in the Company.

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