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Efecte Plc's Business review on 1-3/2020 - SaaS grew by 21%

EFFECTE PLC -- COMPANY ANNOUNCEMENT -- 29 APRIL 2020 at 12.00

Efecte Plc's Business review on 1-3/2020 - SaaS grew by 21%

- SaaS grew by 21% and international SaaS by 61%
- EBITDA was -0.3 million euro (-0.4) and operating profit -0.4 million euro (-0.5)
- EBIT profitability improved from -15% to -11%
- Started cost savings and moved into full remote work to address COVID-19 situation
- Significant investment into R&D also this year, supported by public funding
- Guidance: In 2020, SaaS net sales is expected to grow between 15-25% and profitability to improve from the comparison period.

Group key figures

MEUR	1-3/2020	1-3/2019	2019
Net sales	3.7	3.5	13.8
EBITDA	-0.3	-0.4	-1.0
Operating profit	-0.4	-0.5	-1.4
SaaS MRR (1000 eur)	680	569	640

CEO Niilo Fredrikson reviews the period 1-3/2020:

During the first quarter of the year, Efecte's growth continued while the world around us changed. We were able to grow our SaaS business 21% while again improving profitability. Services growth was slow at 4%, as the pandemic started to impact customer activity. I am proud of how the Efecte team has been stepping up in these special times to ensure the health and safety of everybody, take care of our customers, and keep driving our business.

Our businesses outside Finland delivered again strong growth, driven by a solid services performance in Scandinavia and continued SaaS growth in DACH. Our country manager for DACH since 2017, Christian Frauen, left the company during the review period. Norman Rohde has been appointed as the new country manager. He will start in June and bring with him a long track record of success in leading software sales. I was also pleased to see German analyst firm Research in Action confirm our competitiveness by ranking Efecte #1 in terms of price-performance ratio in their ITSM market study.

We continued developing our offering further, following our strategy of helping service organizations digitalize and automate their work. A definite highlight in this area was our team coming together to innovate solutions that can help our customers and the broader society during the pandemic. As a result, we published the Efecte Crisis Ops solution in March, and made it available free of charge within our customer community.

The pandemic caused by COVID-19 is affecting us, and we are taking measures to mitigate the impact and protect our P&L and balance sheet to secure the future of our business. Some of the measures can have an impact on our team members, and I am deeply sorry for that. At the same time, Efecte's core business is on a

solid footing, and our collective responsibility is to make sure we implement any necessary changes to secure the long-term success of our people, our customers, and our business.

COVID-19 impact and approach for maintaining profitability development

With a high share of recurring revenue and a team used to remote working, our business is in a better position than many others. As the pandemic started to form, our people simply switched from part-time to full-time remote work. Our cloud service runs as always, and we have the full capability to deliver the full range of our consulting services from new deployments to training. Efecte's customer support is using our own product, and is able to operate at full capacity also in a remote work setup.

That said, the general economic slowdown is impacting our business, especially in services, and we expect that to continue for the most part of this year. We saw a significant year-over-year decline in new services orders during Q1, and expect a further decline during Q2. The outlook for identity management related services has declined disproportionately compared to our main business of service management. Slowing order intake means lower-than-expected services net sales down the road. Given the positive gross profit of our services business, this will also put pressure on our profitability. And while our SaaS business is expected to deliver good growth also this year, the market remains unpredictable for both SaaS and services.

To ensure the health and success of Efecte, we need to continue the positive profitability development we have been able to maintain already for five consecutive quarters. In an environment of slowing net sales growth, it means adjusting the cost level accordingly. That is why we launched various cost saving measures during the review period. We have intensified these efforts during April, and will continue to do so. In all cost saving actions, the focus is and will be on implementing necessary short-term savings while maintaining the investments needed for long-term success.

Investments in product development

We are determined to continue our significant investment in product development also during this year. As the European Alternative to global players in our space, we are often the David competing with global Goliaths that invest immensely into R&D. We need to be smart, efficient and think long-term to be able to continue our success in building software product business out of Finland and stay competitive in the long run.

To support our product development, we have this year applied for and received public funding in two separate instances. As a growth business in a fast moving market with global competition, the role of this funding is significant. It allows us to accelerate our R&D efforts aimed at securing our position as the European Alternative in our space with a super competitive product offering.

The first instance is a research project called "Augmented Intelligence for Support Agent Assistance". This is a research project we started planning for in 2019 and filed subsequently the application for in the beginning of February. Business Finland decided in early April to fund the project with 220,000 EUR. The second instance is a project called "Restructuring operations to develop the Efecte baseline software solution and modernized user interface". The project addresses a market change that we have seen accelerating during the pandemic, with customers changing their buying behavior to online-first, even in the field of enterprise software. This increases the importance of a click-try-buy type of sales motion, and we are accelerating efforts to develop our offering in that direction. Business Finland decided last week to fund the project with 100,000 EUR from their COVID-19 related program for business development during disruptive circumstances.

Other developments

The number of employees was 105 persons at the end of the reporting period (104). 87 employees were based in Finland (83), 11 in Germany (12) and 7 in Sweden (9). The average number of employees during the period was 105 (103).

The company did not have interest-bearing financial debt at the end of the period. The company's cash and liquid assets were 4.5 million euro (3/2019: 5.7 million euro).

Long-term financial targets

Efecte aims for over 20% annual organic growth of SaaS net sales on average in 2020 - 2023. Substantial investments in international growth and product development will decrease operating profit in the next few years, but the company aims for a double-digit operating profit percentage by the end of the strategy period.

Guidance for the year 2020

In 2020 SaaS net sales is expected to grow between 15-25% and profitability to improve from the comparison period.

Next earnings release

Efecte will publish the half-yearly report 1-6/2020 on 26 August 2020.

Additional information:

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Efecte Plc

Efecte helps service organizations digitalize and automate their work. Customers across Europe leverage our cloud service to operate with greater agility, to improve the experience of end-users, and to save costs. The use cases for our solutions range from IT service management and ticketing to improving employee experiences, business workflows, and customer service. We are the European Alternative to global players in our space. Our headquarters is located in Finland and we have regional hubs in Germany and Sweden. Efecte is listed on the Nasdaq First North Growth Market Finland marketplace.

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