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Company Comment	IT/Technology	Finland	27 November 2024
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Becoming AI transformation company

Siili hosted a CMD yesterday, elaborating on its revised strategy that puts AI at the core. The company is shifting from digital IT consultant to AI transformation consultant, which sounds the right move to us. Looking at the financial targets towards 2028, we find the growth ambition reachable once the market revives. The margin target looks ambitious to us; however, the company has identified a clear roadmap to improve its efficiency.

Strategic shift from digital transformation to AI transformation

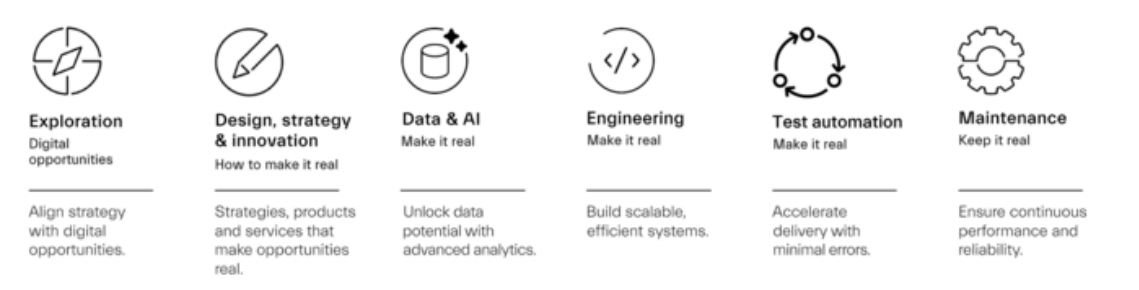
The key message of Siili's CMD was how the company is putting AI in to the core of its strategy. The company sees generative AI to fuel market growth for digital transformation market in which the company already has end-to-end offering in place. Consequently, Siili does not have to start from scratch as it can build its AI capabilities on its existing data and AI solutions competence. Currently some 10% of the staff is working on data and AI driven tasks and now, the whole company is being steered with AI as a spearhead.

We have previously argued that there might be a quiet period before the AI solution driven demand truly kicks in as the companies need to assess their technological readiness for future AI solutions. However, thanks to Siili's holistic offering the company can help its customers already in a very early phase (advisory, infrastructure) of the AI-transformation. After the assessment and preparation phase Siili trusts its expertise in creating innovative tailored solutions for its clients.

We understand that Siili is known as a delivery house of even the most technologically advanced project. Thus, the company should be in relatively good position to gain its share in new gen-AI driven innovations. Siili is relatively industry focused (Finance, Industry, Public and Automotive being the key focus areas) and it typically serves customers who are already digitally advanced, which again let us think Siili could be one of the frontrunners in the Finnish market.

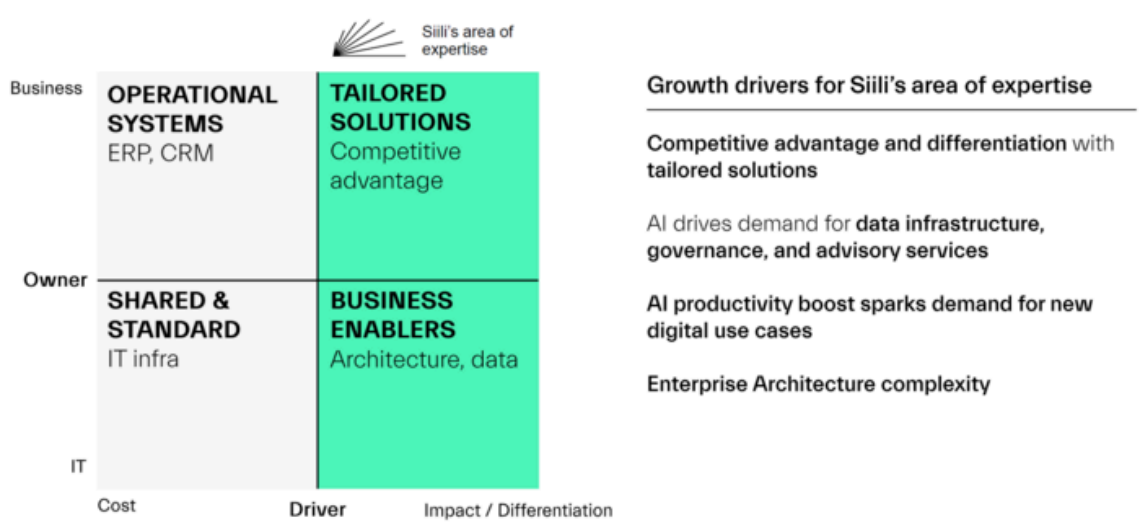
All in all, we conclude that Siili's strategic decision to focus on AI transformation is the right call. However, the company will not be the only one making such strategic move and we think virtually all the relevant rivals will have more or less similar strategy in mind. Yet, the bottom line is that we see generative AI to give the required boost for the market during the next years and Siili should well positioned for the game.

Siili's end-to-end offering for digital transformation



Source: Siili, SEB

Siili's current area of expertise sets good foundation for Gen-AI driven demand



Source: Siili, SEB

Siili's market positioning

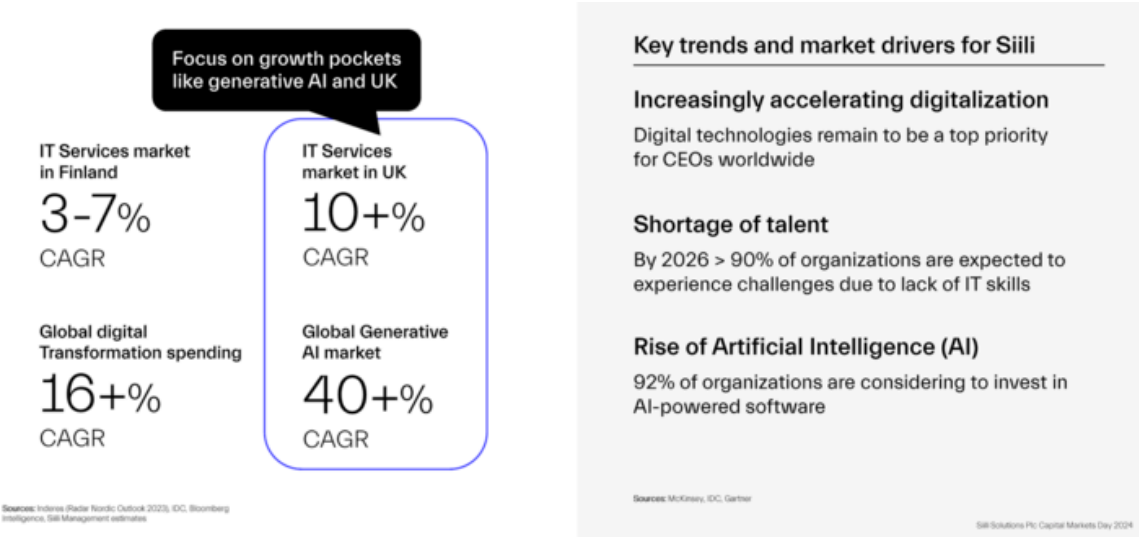
Dimension		Siili Peers	Pure AI Specialists	Global IT Generalists	Business Consultants
Industry focus	Focused	Typically generalists	Narrow focus	Multiple industries	Broad advisory
AI Embedded in Strategy	Core of strategy	Typically generalists	Core	General IT services	Not primary focus
AI Embedded in Delivery	Core of delivery	Emerging	Narrow focus	General IT services	Not primary focus
Full Lifecycle Services	End-to-end	End-to-end	Narrow	Broad, IT heavy	Limited lifecycle

Source: Siili, SEB

Digital transformation remains structural growth market

Despite the current muted market momentum Siili remains confident that digitalization remains a strong growth market and rising generative AI opportunities will fuel the growth. The overall Finnish IT service market growth is seen at 3-7%. However, generative AI market is expected to be higher and third party studies anticipate >40% global Gen-AI market growth.

Siili market growth overview



Source: Siili, SEB

Currently some 75% of Siili's revenue comes from at least five year old customers and hence in its Finnish market playbook Siili continues to trust its long customer relationships where it sees up-sales potential. Additionally, the positioning as AI expert should bring new growth. As in the past Siili clearly expects the growth of its international operations to be faster than in the Finnish markets. The company sees potential especially in the UK markets which is roughly 10x vs. the Finnish market and is expected to grow >10% annually. Although we find the UK market being crowded Siili remains relatively small and could find enough growth pockets pockets which could materialize as meaningful

growth. Siili's delivery model in international business relies on near-shoring, where the company exploits the delivery centers acquired via Supercharge acquisition few years ago.

Siili's playbook for key markets

Siili's key markets	Market size	Growth rate projection	Siili's market position	Siili's delivery model	Siili Playbook
Finland	4-5 bn€	<10% CAGR	Strong and established	Local	<ul style="list-style-type: none">• Upsell to existing customer base• Revise positioning to growing expertise areas (AI)
UK	40-50 bn€	>10% CAGR	Small and rising	Nearshore (HU)	<ul style="list-style-type: none">• Capture market growth in selected customer domains with Supercharge brand

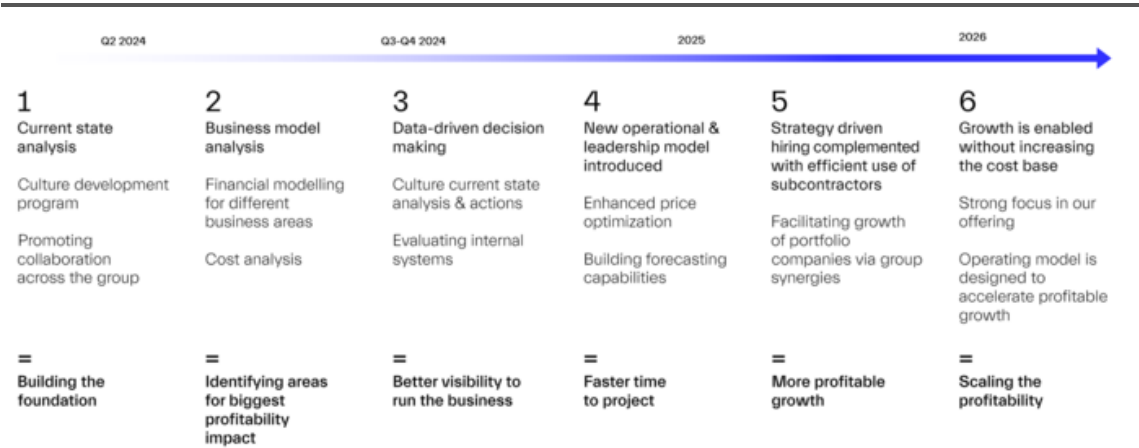
Source: Siili, SEB

Room to improve internal efficiency

Siili's current EBITA margin is around 5% (SEB 2024E) and the company is targeting margin of 12% in its strategy period of 2025-2028. Given the starting point and underlying salary inflation we find this target ambitious and reaching it will likely require favorable market turnaround, which would also be visible in healthier pricing environment. However, Siili has identified many sources for internal efficiency improvements. In IT consultancy this implies virtually better utilisation, which is always sum of many items. Siili is currently evaluating its systems and data how to manage the capacity and demand. We think that there is room for to improve efficiency via more systematic approach, which should allow pick up in margins. Yet, the work requires time as in addition to introducing new solutions and ways of working it requires also change in the organization culture.

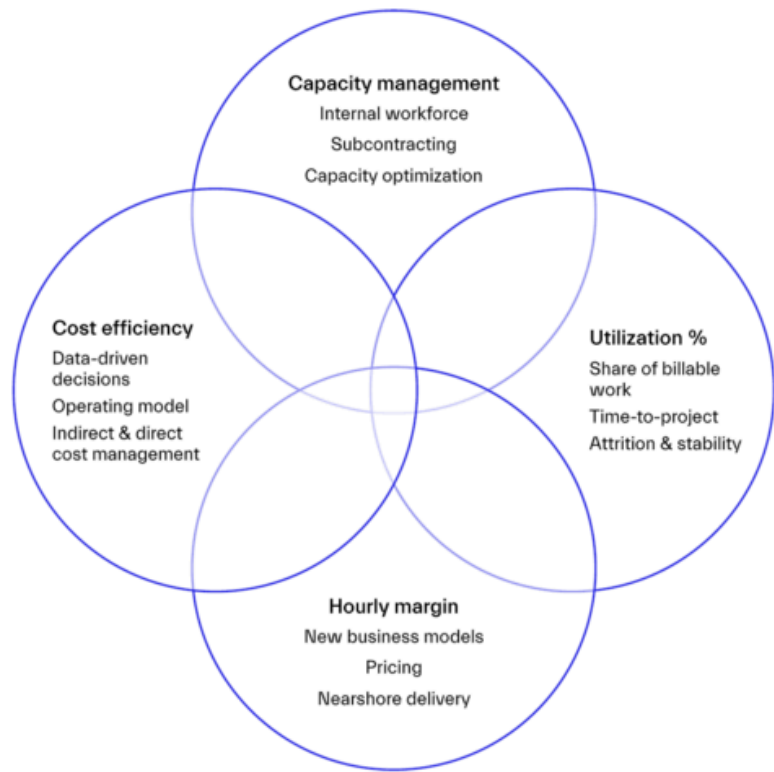
One source for higher margins could be the new pricing models that the improved engineering efficiency via AI brings. We see the outcome based pricing models being at a very early phase. Yet, the market looks definitely to be moving toward that. For the time being we are not ready to model in higher margins for IT consultants thanks to outcome based models. Although some projects might turn out very profitable, we note that there will also be project related downside risks as the competition moves along.

Detailed plan for margin improvement



Source:

Components of Siili's margin improvment plan



Source: Siili, SEB

Key figures

(EURm)	2023	2024E	2025E	2026E
Revenues (m)	123	112	118	131
Adj. EBIT	7	3	6	8
PTP (m)	6	4	5	8
EPS	0.61	0.33	0.46	0.77
EPS (adjusted)	0.80	0.48	0.60	0.91
DPS	0.26	0.26	0.30	0.45
Revenue growth (%)	3.7	(8.8)	5.1	11.0
EPS growth (%)	15.2	(40.1)	n.a.	n.a.
Operating margin (%)	5.6	3.1	4.9	6.5
Adj. EBIT margin (%)	5.9	3.1	4.9	6.5
ROCE (%)	11.1	4.9	8.4	12.7
Net Debt/EBITDA (x)	0.3	0.8	0.3	(0.2)
PER (adjusted)	11.7	12.6	10.0	6.6
Dividend yield (%)	2.8	4.3	5.0	7.5
Free Cash Flow Yield (%)	(9.8)	(1.2)	11.3	16.5
P/BV (x)	1.8	1.2	1.1	1.0
EV/EBIT (x)	11.0	16.0	9.0	5.5
EV/Sales (x)	0.65	0.50	0.44	0.36

Source: SEB

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