QPR Software

Annual update

4/2015

inderes.

Valuation in line with growth potential

We update the target price for QPR Software to 1.65 EUR (1.55 EUR), but reduce the recommendation to reduce (buy). We find the renewed portfolio and strong growth outlook to support a good earnings growth potential on a medium to long term. On short term however, the current market valuation is neutral compared to our estimates, and therefore we find no apparent upside or downside at the moment.

New products and services to fuel earnings' growth

QPR's portfolio, renewed in 2009-2011, started realizing its potential faster than we expected. This was materialized as strong sales growth in 2014. Especially software sales have increased as the investments into global distribution channels have come to fruition. Consultation sales have also accelerated in growth speed towards the end of FY14, ending the year above the 15% revenue growth target in the company's guidance. The scalable software business unit's growth also reflected in the 2014 profits, up by 71% from 2013.

Long term potential in good health

QPR's industry has a stronger outlook than the IT sector in general, with relatively low cyclical fluctuations. The industry is still very fragmented, and only a few players have notable market shares. We expect the consolidation to accelerate come the end of the decade, and we find QPR to be a potential target in the mergers ahead. Despite its small size, we find QPR's competitive stance to be relatively strong, as the company possesses strong methodological and practical knowhow, in addition to technologically advanced patented software solutions.

We expect continuation to strong earnings' growth

We estimate sales growth to continue the momentum to a 15% level. The expectation is particularly in the scalable software sales, although we expect to see growth accelerate in consultation services as well. We find the scalability to provide a good growth foundation for profitability as well compared to the current, with 25-35% earnings growth expected for the coming years.

Share price reflects growth expectations for next few years

QPR's share has seen an 80% rise in the last 12 months, thus toppling the actualized earnings growth rate. Earnings based valuation multiples (2015e EV/EBITDA 8x and P/E 17x) and peer group comparisons taken into account, we cannot find apparent upside or downside at the moment. The strong cash flow accommodates a strong dividend yield of over 4% in our estimates. On long term, we find growth potential, especially if the company manages to grow software sales at a rate greater than our estimates. We also find QPR to be a very potential acquisition target in the consolidating market.

Analyst

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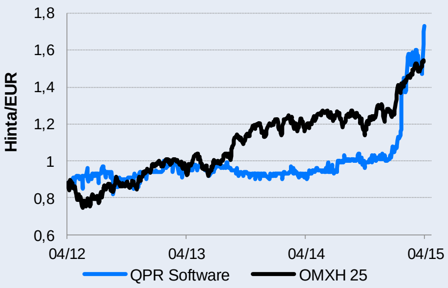
Recommendation
Reduce

Target price: 1.65 EUR



Last closing price	**1,73 EUR**
12 mo price range	**0,90-1,75 EUR**
Potential	**-5 %**

Key figures

	2014	2015e	2016e
Net sales	9,5	10,9	12,5
- growth-%	*10 %*	*14 %*	*15 %*
EBIT	1,1	1,5	1,9
- EBIT-%	*11,5 %*	*14,0 %*	*15,0 %*
PTP	1,1	1,5	1,9
Net earnings	0,9	1,2	1,5
EPS (adj.)	0,07	0,10	0,13
Dividend	0,05	0,07	0,09
- Payout ratio	*67 %*	*69 %*	*72 %*
P/E	13,6	16,7	13,5
P/B	3,8	4,9	4,2
P/S	1,3	1,9	1,6
EV/EBIT	9,8	12,0	9,4
EV/EBITDA	5,8	7,8	6,3
EV/S	1,1	1,7	1,4
Dividend yield	5,0 %	4,1 %	5,3 %

Source: Inderes

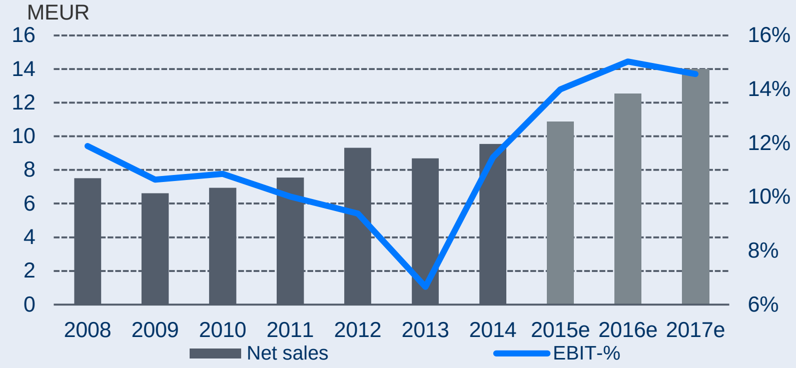
QPR Software summary

Investment case

Value drivers	Strong growth potential in new software and services Majority of business is scalable and recurring Low capital requirement and strong cash flow
Risk factors	Relatively low economies of scale and resources Failure to strengthen global distribution Technology risks
Valuation	Stable dividends Multiples in line with growth potential for the coming years Potential acquisition target in consolidating market

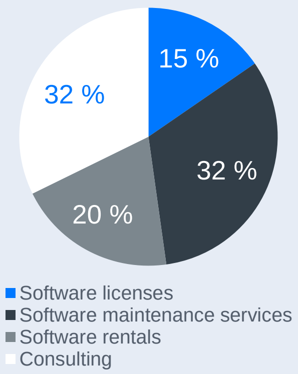
Reduce
Target price:
1.65 €

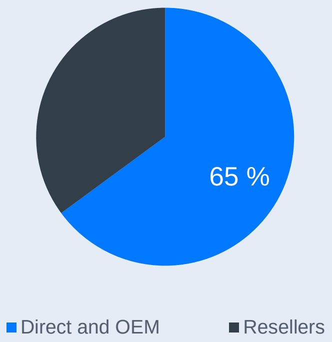
Business development



Source: Inderes

Revenue distribution 2014





Source: Inderes

Valuation 2015e

17x P/E

8x EV/EBITDA

1,7x EV/Sales

4 % Divideend - %

Contents

Company description and investment profile

QPR Software provides software, solutions, and consultation for improving and developing organizational efficiency in both the private and public sectors. The company has made extensive investments into the development of new software and services, which is now reflected as strong growth of profits. The company strategy outlines a 15% organic growth rate of revenues for the coming years. For investors, QPR profiles itself as a software and consultation oriented company with strong growth and clear focus, whose revenue visibility is improved by the substantial portion of revenue derived from recurring services. Despite the heavy R&D seen, the company has maintained a strong cash flow, enabling a steady dividend payout. The growth targets set do however require success in expanding global distribution channels and broadening of home based consultation.

Company description

Organizations' operational development software and Consultation Company

QPR Software Oyj (QPR) founded in 1991 focuses on providing organizations software and professional services for operational development in both the private and public sectors. The business logic is to help customers become agile and efficient in their business. QPR's offering is comprised of software, supporting solutions of these, implementation, and consultation services on organizations operational development.

At the moment, the company offers comprehensive consultation services only in Finland. Software deliveries are made in over 50 countries through partners, and QPR's software is in use in over 1500 organizations globally. About 60% of revenue comes from Finland. The company employed 78 people at the end of 2014.

QPR's revenue in 2014 was 9.5 MEUR, up by 10% compared to 2013. In 2009-2014, revenues have grown by over 40%, with average EBIT-margin at about 10%.

The company has made notable investments into new software, which were launched in 2010-2011. In addition, the company has strengthened software linked consultation services substantially in Finland. New solutions and products accounted for over 50% of revenues at the end of 2014.

Business structure

Two thirds of the revenue comes from direct and OEM business, and one third through distributors. When split between product segments, software maintenance services accounted for 32%, consultation 32%, software rentals 20%, and software licenses 15% in 2014.

Recurring revenues (software maintenance and rentals) corresponded to 52% of total revenues in 2014.

The main software products are 1) enterprise architecture modelling and development software QPR EnterpriseArchitect, 2) process description, analysis, and development software QPR ProcessDesigner, 3) organizational performance management tool QPR Metrics and 4) data based process description, analysis and measurement software QPR ProcessAnalyzer. The aforementioned four products are also available as a software entity, going by the name QPR Suite.

QPR's consultation services are centered on operational development and business process analysis services. Additionally the company has technical consultation for SAP process efficiency. Over 80% of consultation revenue derives from development and process analysis.

Strategy aimed at rapid growth

QPR's current phase has begun at the end of 2009, when the company decided to have special focus on software rentals and enterprise architecture based consultation services. The company also undertook notable development projects into new operational development aimed software. The basis of the strategy was to double the 2009 revenue by 2014. At the end of 2014 revenue was only up by 45%, so the goal was not met.

In the heart of the renewed strategy of 2013, the central focus is to utilize the growing need for holistic enterprise operational development, flexibility and reaction speed to change, in both private and public sectors. The strategic goal is to be the fastest growing specialized company in its field in 2015 and a market leader in Finland.

The strategy is mainly implemented by speeding up the sales of in-house developed software products, strengthening the operational development consultation and process analysis services in Finland, and by offering supporting solution services to distributors to back up software sales. The underlying growth strategy for 2015-2017 seeks on average 15% annual profitable organic growth.

QPR focuses on four different strategic goals in 2015-2017:

- The company will expand its software's (QPR EnterpriseArchitect and QPR ProcessAnalyzer) global distribution network.
- In Finland the company will continue fueling its enterprise architecture business growth by having special focus on improving the customer organizations' operative development consultation. With the expanding consultation client portfolio, efforts will be made to grow the sales of the QPR EnterpriseArchitect software.
- QPR focuses on customers' operative development needs in software offering. The company strives to further integrate its product offering and increase the scalability of said. Additionally, expanding and deepening enterprise architecture and process analysis consultation is on the menu.
- In the more mature corporate performance management segment the company invests in solutions that supports resellers' software sales.

Investment profile

Profitable growth

To investors, QPR profiles itself as a fast and profitably growing highly specialized software and consultation company, with substantial sales deriving from recurring services. The company has managed good growth rates in the recent years driven by product launches and growth in consultation, albeit compound growth has been slightly offset by hindering license sales of software at the end of life cycle. Despite the relatively large investments into R&D, the company has managed to maintain a steady and strong cash flow, in turn yielding steady and strong dividends' payout.

The liquidity of the share is average, despite the small size and centralized ownership of the company. The investor is wise to note that the market valuation can fluctuate heavily with changes in earnings or expectations. Therefore the multiples and estimates in this report can change quite rapidly.

QPR Software's shares are quoted on the NASDAQ OMX Helsinki exchange since 2002 with the ticker QPR1V. All of the shares have equal vote and financial rights.

Potential

In our view, QPR Software shares have many potential positive value drivers. From an investor's point of view the central positive drivers are:

- **High scalability:** QPR's business model is very scalable from the software viewpoint. The cost base is essentially fixed on short term, translating into software sales growth translating almost one-to-one into the profits.
- **Notable organic growth potential:** Organizations' operational development services and software markets are experiencing strong growth despite the weak economic environment. According to our estimates, QPR's software and services' competitiveness has grown substantially with the new and improved offering, thus enabling a strong organic growth platform for the coming years.
- **Recurring profits:** Half of QPR's revenue comes from relatively long and predictable recurring sales, into which the company sums software rentals and maintenance fees. Recurring services also offer stable and front balanced cash flow.
- **Low capital requirements:** The business model and growth tie little capital, with only investments in R&D requiring larger funding. Thus the business model's potential for generating stable and ample cash flow is excellent, and the company is able to pay out a large portion of its profits as dividends.
- **Potential acquisition target:** We find QPR Software to be a feasible acquisition target, as the industry's consolidation advances. We believe the products and technologies to interest global software companies, as they broaden and complement their portfolios.

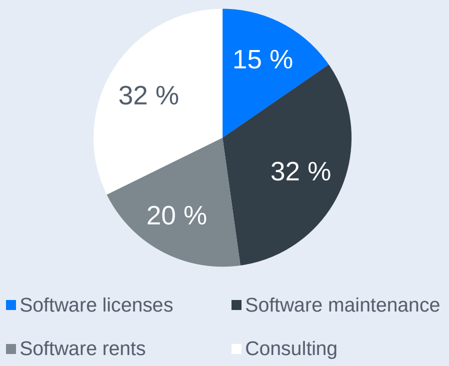
Risks

QPR Software's share also holds an above average risk level. For the investor, the most prominent risk factors in our view are:

- **Small size:** QPR is from a scale and resource point of view a relatively small company. Critical changes in the customer base or distribution network can seriously hinder earnings development and the ability to develop business operations. The company is also focused on quite a narrow segment, with most of the revenues being based in Finland.
- **Distribution channel development:** The company's software sales' development is dependent on success in acquiring new international resale partnerships. The new products require quite a lot of knowhow from the distributor; therefore it is possible that the company cannot find ample new distributors to maintain its market share and growth rate.
- **Key personnel risks:** QPR's personnel figure is quite low, meaning that business development rests in the hands of committing the key people to the company. Loss of key personnel or them moving to competitors can lead to losses in customers and knowhow.
- **Technology risks:** QPR aims a substantial portion of its resources into software development, and the potential of said can be smaller than expected due to competing products or technologies. At such an instance, the company can be stuck with substantial costs without sufficient cash flow from sales. QPR has in the spring of 2015 gained patent protection for its key technologies, which will offer more comprehensive protection against competing technologies.

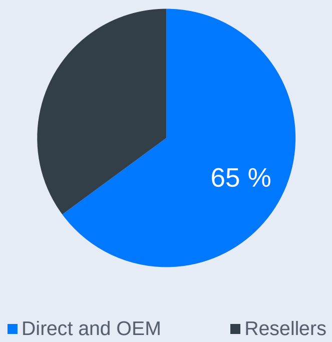
QPR Software's business

Revenue distribution by product group, 2014



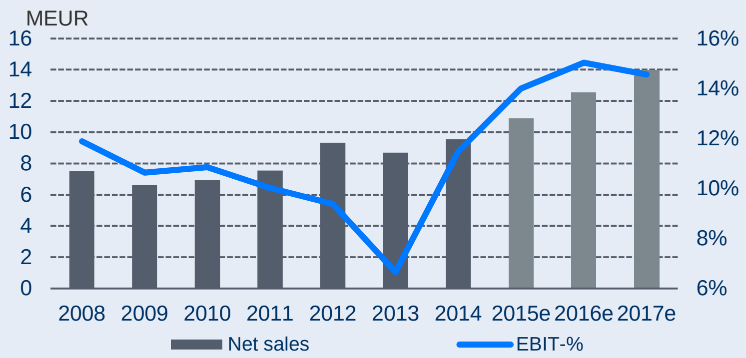
Source: QPR Software, Inderes

Revenue distribution by segment, 2014



Source: QPR Software, Inderes

Revenue and EBIT-%, 2008-2014



Source: QPR Software, Inderes

Industry and competitive landscape

QPR's main markets are organizations' operational and process development software and consultation services. In software the market is global, but in consultation the market is mainly in Finland. QPR's industry outlook is above that of the IT sector in general, and cyclical fluctuations are in our view low. The industry remains quite fragmented and only a handful of players have a notable share. We expect the industry to consolidate at an accelerating pace towards the end of the decade, and we see QPR as a prime acquisition target. Despite its small size, we see QPR's competitive stance as quite strong. The company has strong method and practice derived know how in both consultation as well as technologically advanced software solutions.

Industry

Main markets in organization operational development software and consultation

QPR's software and consultation services are a part of the quickly growing and developing enterprise architecture (EA) markets and the enterprise business process analysis (EBPA) market. The EBPA market has been developing on top of the narrower and more mature Business process analysis (BPA) market in the last few years.

Enterprise architecture (EA) describes how an organization's software, processes, operations and people function as a whole. Through EA, a comprehensive process development process is born, through which operations, systems, and organizational development are directed towards the goals stipulated in the strategy. The EA software and consultation services support EA modeling, analysis, development and communication.

Business process modeling and analysis (EBPA) includes documenting, analyzing, developing and measuring of the processes' efficiency, quality and nimbleness to improve these. EBPA solutions and consultation support companies in analysis, management and development.

EA and EBPA software end users are people in charge of operations and planning in large, typically over 500 employee organizations, and also process analysts, business analysts and business segment heads. The software is for instance used to picture and edit organizational process architecture, plan and measure processes, and model the current and target status of these in changing environments. The fundamental idea is to perceive the organizational processes and business segments as a whole.

Industry size and value distribution

The EBPA market of software licenses and maintenance fees is about 750 million dollars according to the QPR's management. If attached services such as consultation and solution services are also taken into account, the market size is many fold this.

Finland's EBPA software and maintenance market is about 5-7 MEUR according to the QPR management.

QPR offers its in house consultation services mainly in Finland, and competes in a roughly 70 million annual organizations' process development consultation market.

Industry cyclicality relatively low

We find the EA and EBPA software and consultation demand cyclicality to be moderate, as efficiency improvement solutions and change speed acceleration services have historically had demand also in low market demand scenarios. The industry's stability is heightened also by not being dependant on specific customer industries, and also the substantial portion of public sector demand.

It is also wise to note that EA and EBPA software are quite small is user costs and scale, so procurement is usually allocated into expense budgets rather that the much more cycle sensitive investment budgets.

Industry growth drivers

EA software and services' growth is driven by especially organizations' planning, modeling and developments' transition from process and system development to comprehensive view driven process management.

The change drivers are 1) growing M&A incidents (fusion, divestment, acquisition) 2) organizations' internationalization 3) IT systems' renewal and harmonization needs 4) ever accelerating need for faster reaction to changing business environments, 5) digitalization driven explosive growth in analyzable data 6) the public sectors' restructuring and growing needs for efficiency gains.

EBPA software and services' demand is driven by the growing need for business information, and process real time monitoring and management based on the information gathered. On more mature, performance measurement oriented software markets, demand is driven by the need for integrated and easy to use services.

Industry growth estimates

Gartner estimates the global IT market to grow by 3.1 % with fixed exchange rates. The analysis house estimates that out of the market segments the fastest growth will be in enterprise software (5.5%), in which QPR is situated. Gartner also predicts consolidation to rapidly accelerate. In their estimate, the Finnish IT market as a whole grew by 2.4% last year. For 2015, they expect to see 2.1% growth, undercut by the slowing growth rate of the software market. Additionally, IT services' sales will grow moderately. The fastest growing segments in software are business intelligence systems, documentation, and document management and security.

In our view, the EA and EBPA- software market growth is well above the general market growth of enterprise software in the next few years. Our assessment is based on the following observations: 1) EA and EBPA-software are still in the early stages of their development cycle, as for example QPR launched their own software in 2010-2011, 2) according to an estimate made by Gartner, EA and EBPA-software will be in use by large organizations only at the end of the decade, 3) Gartner estimates that the market segment's sales growth has been 20-35% per year in the last few years, 4) according to a global survey by Gartner, more than 60% of the companies are planning to invest in business analytics software during the next five years.

There are no accurate estimates available on consultation growth, but QPR conducted a survey in which 60% of correspondents told that their organization will be investing more into enterprise architecture. According to the same survey, the number of companies that had already started the process grew by 4%-points to 81% in 2013.

On process analysis, there are no usable estimates available on market growth. We however estimate QPR's QPR ProcessAnalyzer software based automated process analysis consultation market to be growing fast in coming years, albeit absolute market size is small.

QPR estimates EA based process development services to develop favorably both on the home market as well as in Europe. The goal is to reach 15% organic profitable growth in 2015-2017.

Industry consolidation

Consolidation only at the beginning

QPR's industry as a whole is still fragmented and only Software AG, IBM and Microsoft have a substantial stake in the market. Other players are relatively small and close to QPR's size. We expect the market to consolidate at latest when they reach the mature stage at the end of the decade.

Consolidation is usually driven by 1) large players' eagerness to complement or expand their product and technology offering 2) the need for offering integration over product boundaries 3) small and medium sized companies run out of growth space. The industry has seen numerous M&A's already, but good growth opportunities and the developing status of the markets has led to the bigger wave still lingering in the future.

In acquisitions, Software AG has been active and has expanded and strengthened its portfolio with numerous acquisitions in the last few years. In 2013 they acquired Alfabet, a company focused on IT portfolios and EA. They also acquired CEP software focused Apama, and information visualization and analytics company JackBe. There are no financials available on the acquisitions.

QPR as an acquisition target

We find QPR as a potential acquisition target as the consolidation proceeds. QPR has, despite its small size, a rather extensive and integrated software offering in its own niche field. This can interest especially large IT companies as they broaden their own portfolios. Additionally QPR's distribution channel is currently quite narrow, which can also attract players with broad sales networks. The ownership structure is also quite centralized, with 20 biggest stake holders holding 72% of shares. Therefore a large enough offer could have a good chance of succeeding.

QPR as a buyer

Acquisitions are not a big part of the company's strategy even though the company has made some in 2010-2011. The acquisitions have been targeted at distribution in Finland and Russia, and broadening consultation in Finland. According to the company, possible sales channel expansion into new markets would most probably be through organic growth instead of an acquisition.

Competitive field

Fragmented competitive field

QPR's competitive field is quite fragmented, as most of the competitors only have EBPA and consultation as a small portion of their entire offering. The main competitors in software are EBPA focused foreign software companies and in consultation in Finland mainly large IT and management consultant houses such as Tieto, CGI, Deloitte and Accenture. QPR's market share in software in Finland is estimated at 50% and in consultation 5%. Outside Finland QPR is estimated to command only 2% of the entire market.

We have divided the field into three groups: large IT system and software providers (IBM), specialized software houses such as QPR, local IT service providers such as Tieto. In addition QPR competes in consultation with SAP technical consultation specialists and broad scale management consultant firms. The central rivals in software are iGrafx, Software AG, Troux, and Casewise.

Large IT systems and software providers:

- **IBM (NYSE: IBM)** is one of the world's leading IT system and software providers. The company had a turnover last year of $ 93 billion and it employs more than 400 000 employees globally. The company's EA and BPA products portion of the company's turnover is about 1%. According to Gartner, IBM products are products are most widely used within the industry.
- **Microsoft (NYSE: MSFT)** is the world's largest software supplier in the 87 billion dollar turnover. Microsoft Visio software is the most widely used software on the market-EBPA. The software is used especially in basic process description.
- **SAP (SAP:Xetra)** is Europe's largest and the world's fourth-largest software manufacturer. It is the world's largest business software provider 17.6 billion Euros in turnover. SAP is specialized in ERP systems and related products. Although the Sap offering includes similarities to QPR products in terms of features and elements, we do not consider it as a direct competitor to QPR. In fact, QPR products are often integrated on top of the Sap, specifically because they allow for better visibility.
- **Software AG (SOW:Xetra)** is a German management consultation and software company. The company's AIRS product family is the market leader in business process management. The revenue last year was 858 MEUR. EBPA is one of seven solutions of the company. The company is a notable competitor of QPR in Finland..

Specialized software providers:

- **Casewise** is an EA and EBPA software and consultation specialized private company. Their products are directly competing with QPR on numerous markets. They have about 3000 customers globally, compared to QPR's 1500. The revenue was about 20 MEUR according to Gartner.
- **iGrafx** is an EA and EBPA software and consultation specialized American private company. iGrafx is one of QPR's main competitors on many markets. The company has a substantial portion of the big US companies as clients. Revenue was about 25 MEUR according to Gartner.
- **Mega** is focused on integrated EA, EBPA, risk control software, and consultation. They are a private French company. Their products compete mainly with QPR's EnterpriseArchitect solution. According to Gartner, their revenue is about 50 MEUR.
- **Qualiware** is a private Danish EA and EBPA company. They also compete especially with EnterpriseArchitect and QPR metrics. Qualiware has a good market hold in Denmark, Norway, and Sweden. They are revenue wise in the same league as QPR.
- **TIBCO Software** is an American software and consultation company focused on business information processing. Their products are used in business information measurement, analysis, processing and management. Their 2013 revenue was about 920 million USD, but it is quite a smaller player in the market QPR is concerned about. Equity fund Vista Equity Partners acquired TIBCO's shares in December 2014. The price was 4.3 billion dollars, corresponding to an EV/EBITDA-multiple of about 18x.
- **Troux** is a private American EA software and consultation company. The company's products are competing with especially with QPR's EnterpriseArchitect software. The revenue is similar to QPR.

Other competitors

In consultation, QPR is faced with competition form large IT service houses, such as Tieto, CGI, Fujitsu and Accenture. On the other hand, large IT houses are also assets, as they utilize more and more QPR software in their services. QPR has made agreements for a shared service offering in the last few years with for instance Tieto and CGI. In addition to large IT service houses, QPR also competes in the field of technical consultation with numerous SAP consultation houses.

Competitive factors

Expertise as strong competitive advantage

QPR's central competitive advantage in our view is strong methodological and practical know how in EA and business process analysis. In this field consultation competition is lesser, because specialized providers are fewer. Through consultation services, the company can offer comprehensive and longer lasting projects instead of one off system deliveries.

Deep know how as a specialty provides for better R&D, and also improves competitiveness of own offering. In software the company deviates from the competition in especially measurement, process analysis and SAP excellence, in addition to positive user experience. Due to this, the QPR ProcessAnalyzer software's competitiveness is high compared to other products.

A good example of know how is also the patent granted in the US for the technology used in ProceeAnalyzer software. We hold the patent as good news for QPR as a driver for medium and long term profits and valuation potential, as 1) it adds to the ProcessAnalyzer software's technological credibility and sales potential, 2) its improves chances of QPR's software being sold as part of global software providers broadly spread standardized software platforms, 3) it increases QPR's pull as a acquisition target.

Competitive advantage hindered by small size

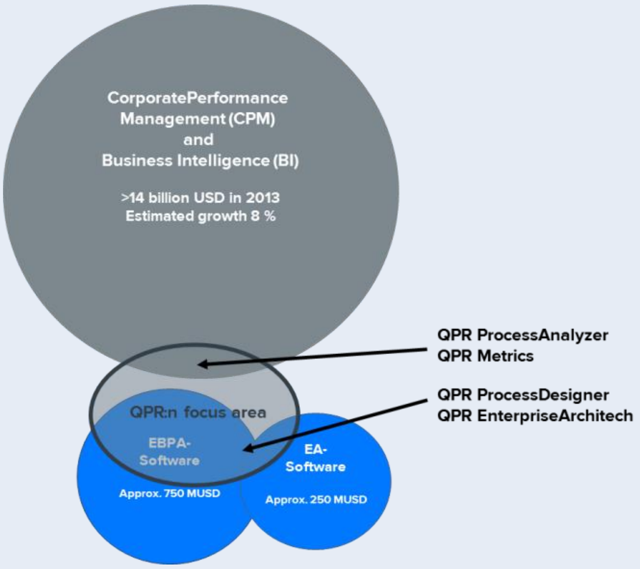
We find the central disadvantage for QPR to be the narrow operational field and small size, which contribute to a relatively weak international recognition. Compared to international markets, QPR is stronger in Finland due to its better recognition and numerous strong reference customers.

The weak global awareness makes development of distribution channels strenuous and costly. A strong distribution partner network is very important in the industry especially because the barrier for customers to change suppliers is high, and the first one to establish a working relationship usually has a lasting advantage.

The company aims to minimize this by developing solution services to help distributors' sales, and by focusing on products' competitiveness with large R&D investments. QPR's products have gained positive feedback in for instance Gartners's reviews.

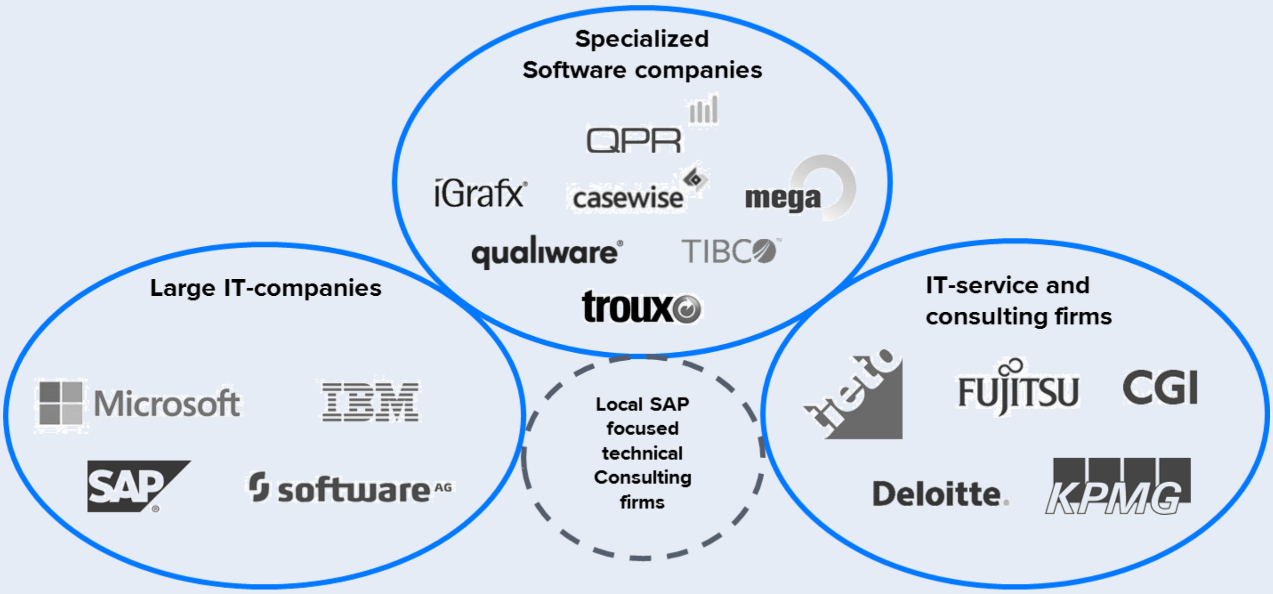
QPR:n competitive field

QPR's market positioning



Source: Inderes, QPR Software management estimates

QPR's competitive field



Source: Inderes

Business model, products and services

QPR's business model is well scalable, as two thirds of revenue is comprised of standardized software solutions' sales. The remaining third comes from organizations' operational development consultation. In addition about 50% of the revenue comes from maintenance and software rentals, which are recurring by nature and make the visibility of software revenue development better, and the revenue streams more stable. QPR's product and service portfolio has been renewed during the last 5 years, with a substantial portion of growth and revenue derivatives of the new products and services. We see great potential in the patented technology based QPR ProcessAnalyzer software, and the data based process analysis service based on the aforementioned, especially on long term.

Business model

Standardized software and specialized consultation services

QPR's business model is made up from a combination of in house developed standardized software solutions (2/3 of revenue) and consultation services based mainly on the same fields of expertise.

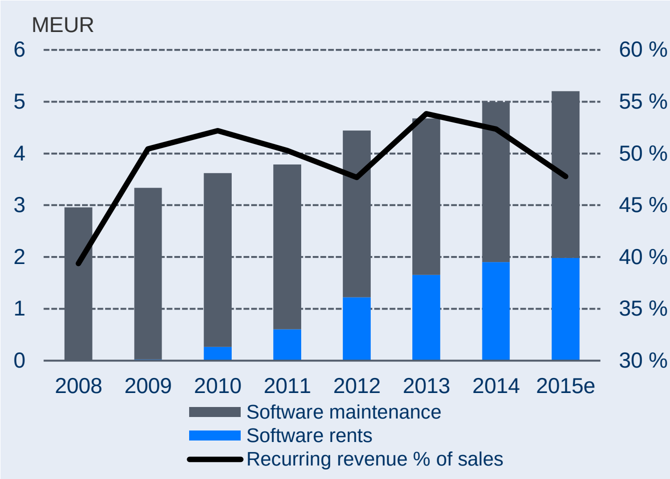
QPR's business model scalability is good as a whole, as software sales' growth is not reflected on the cost base on short term. The consultation services contain a lot of duplicable elements despite their tailored nature. The scalability is reflected in profitability, but is somewhat burdened by partly capitalized R&D costs, next generation products' R&D expenditure, and the growing proportion of consultation services.

Software rentals and maintenance bring longevity to the revenue

QPR sells software on a license basis and rental agreements. The company has grown noticeably in rental software sales when breaking down the revenue structure. With the rental model, the revenue from the software exceeds that of licenses typically after four years, so on a cash flow basis they are more profitable than license sales in the long run. At the moment the company emphasizes distribution channels to go for the license model, as QPR's pricing power and visibility into compound revenues are better this way.

50% of revenues are currently derived from recurring services, into which the company counts rentals and maintenance fees. The portion of recurring services has grown rapidly in the last few years as customers have transferred from purchasing licenses to renting the software. QPR's customer retention rate is over 90%, with typical relationships lasting for over a decade. The visibility for recurring services is therefore good revenue wise, and estimation risks related to those services are small.

Recurring revenue development



Source: Inderes

International sales through distribution partnerships

The company sells its software in Finland mainly through in house means. QPR has also reached numerous co-operation agreements, through which the large IT houses such as Tieto and CGI, can utilize QPR's software as part of their services.

Outside Finland, distribution is mainly through distribution partnerships. QPR currently has over 70 distributors in 50 countries. The current distribution network has been built on software developed prior to 2010, so QPR is actively seeking to further expand the proportion of distributors more suited to sell the new product offering. The goal is to procure 10 new distributors each year. At the moment a typical distributor is a small consultation company, whose primary source of income is selling expert services.

QPR focuses currently on attracting new distributors for especially EnterpriseArchitecture and ProcessAnalyzer software. The ramp up time of a new distributor is typically about a year on the international market, so results from expansion of distribution take time to materialize.

Consultation brings seasonal changes to revenues

QPR's revenue and profit are somewhat seasonal due to especially the prominent share of revenue generated by consultation (1/3). The first quarter is typically a little slower, as are billable hours during the summer vacation period.

The seasonal changes of software sales have been mitigated by the growth in rental, but software sales also have a small emphasis at the end of the year. Additionally, license sales timing can have a material effect on Q to Q. The seasonality is also reflected in the cash flow, with the beginning and end of the year typically strong due to the billing cycle of rental software.

Products and services

Vigorous portfolio renewal in 2009-2012

QPR commenced a renewal process of its products in 2009, which resulted in two new software solutions and two new service concepts centered on them. These future growth drivers are QPR EnterpriseArchitect and QPR ProcessAnalyzer, as well as EA based organizations' operational development services and automated process analysis based consultation services.

Software products

- **QPR EnterpriseArchitect** offers organizations with a central environment for enterprise architecture management and development. It spans business models and prowess, as well as activity processes, information, applications and technology. The software enables a flexible approach, and supports ready frameworks and standards, as well as tailored models. It was launched in 2011 and it is an expansion of the QPR ProcessDesigner product. It is our understanding that sales have taken off well, especially in Finland, and are experiencing strong growth.

- **QPR ProcessAnalyzer** offers organizations with a fast and efficient data based means of process description, by utilizing stored information, such as ERP and CRM. The software quickly pictures the processes as they actually occurred. It enables the perception of the actual state of the process, comparison, monitoring, and finding out the reasons for possible anomalies. The product was launched in 2011, so it is at the beginning of its life cycle. Rather large R&D expenditure was made when developing it, but its sales are still quite low. We find this patent based technology to be very competitive and expect the software to hold strong growth potential on long term. .

- **QPR ProcessDesigner** offers organizations with powerful means of process picturing, analysis, communicating and development. The product has been on the market in some form from the end of the 90's, so it has reached a mature state. It will remain a valuable part of the product portfolio and comprehensive solutions in the coming years.

- **QPR Metrics** offers organizations a quickly implementable and flexible network based environment for performance management. With the help of the software, it is possible to create a comprehensive system with scorecards and performance measurement. This product has been on the market since the end of the 90's, with the market at a mature state, so we don't expect to see strong growth from this segment. It is however important product as part of comprehensive solutions, and remains as part of the portfolio in the future as well.

Consultation and solution services

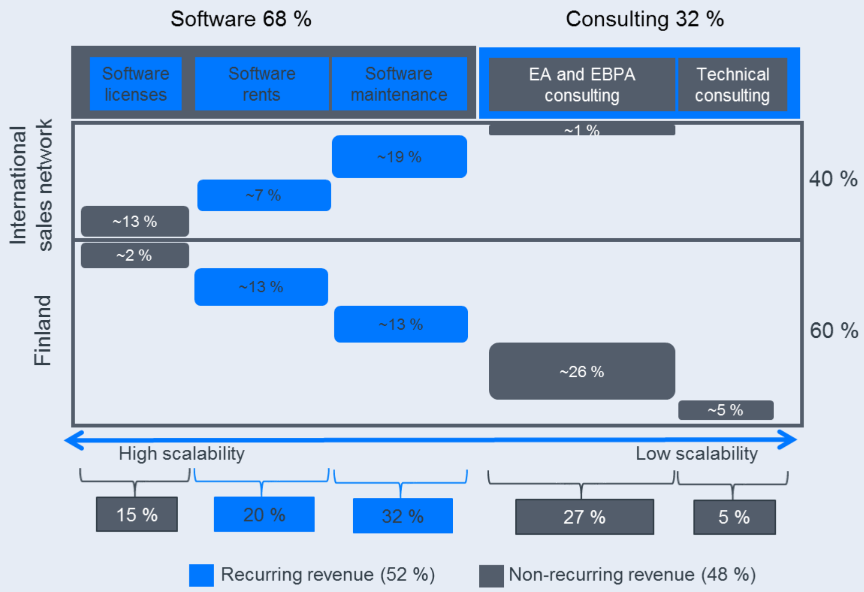
- **Enterprise architecture services** are based on QPR's models and best practices for operational development services. QPR offers expert services for the organization's EA based operational development model's introduction and development projects' analysis, as well as the measurement of current and target status. They only offer these services in Finland at the moment, and demand has been rising steadily in the last years. EA services' portion of revenues has been substantial and growing.

- **Technical consultation services** are SAP process streamlining expert services. With these single process functions can be structured, the bottle necks observed and technical changes implemented into the system. The services came as part of the company through Nobultec acquisition in 2011. The demand for these services was declining for a few years, but the management says that sales have steadied recently. The technical consultation segment accounts for under 20% of consultation services revenues.

- **Process analysis consultation services** are QPR's ProcessAnalyzer based business process development services. With the help of these services, processes can be pictured automatically by utilizing data readily available in business systems, after which the automated process analysis forms event chains, visualizations of the processes, and gives accurate information on current status and performance. When the process has been altered accordingly, the service can be used to continuously monitor the process, enabling real time observation of the effects of changes made. QPR started to offer these services in 2011. The portion of revenue generated has yet been small, but the management states that the demand for these services is experiencing strong growth.

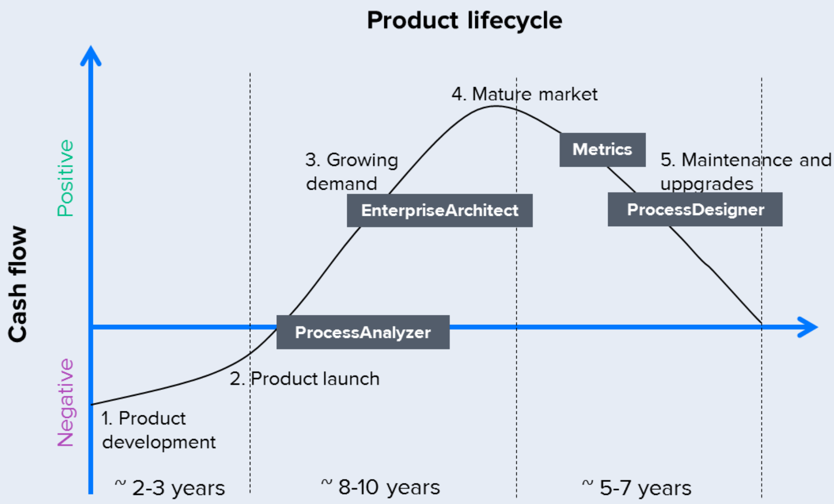
QPR's business model and products

QPR's business model and estimates revenue distribution in 2014



Source: Inderes

QPR's software products' estimated positioning according to their lifecycle



Source: Inderes

Financial situation

QPR's earnings development in 2009-2014 has fluctuated quite a bit due to changes in products and changes in the market environment, but relative profitability has remained quite stable. The earnings development turned a new leaf in with the growth of sales of new products in 2014, and QPR aims to continue growing by about 15% annually in 2015-2017. Neither the business model nor growth targets are capital intensive, so the financial stance and cash flow have remained strong, enabling a strong dividend payout despite heavy R&D expenditure. The cost base is practically fixed on short term, relating to a strong bond between revenue and profits.

Historical development

Financial development

QPR's profits have fluctuated quite a bit in 2010-2014 with the revenue, but relative profitability has remained steady. Especially in 2013 both growth and profitability were weakened due to the decline in license sales, but the company was back on track in 2014. The revenue has grown by 8% CAGR in 201-2014, with the EBIT margin at a steady 10%.

Years 2009-2010: steady profitability despite swaying sales

The revenue development in 2009 and 2010 was burdened with the weak market and transition from license sales to rental agreements, where the revenue is divided over the years. The growth was impacted positively by strong sales growth in Finland.

In 2009 QPR's revenue decreased mainly due to the weak overall market by 12%, but turned to a 5% growth the next year. The profitability remained constant despite the revenue developments, and the EBIT margin was 10.6-10.8%.

Years 2011-2012: strong sales growth in software rental

In 2011-2012 revenue went up by 9% and 24%. The 2011 revenue growth was due to the Nobultec acquisition, which bough the consultation sales up to 26% of group revenues. 2012 saw 15% organic growth in sales, driven by software rentals sales growth of 100%. '

In 2011, EBIT remained flat despite the growth in revenue. This was attributable to growth in human resources and R&D expenditure into the new QPR ProcessAnalyzer development. In 2012 EBIT grew by 16%, still falling clearly short of revenue growth. This time the deficit was caused by growth in expenses, mostly due to Nobultec, higher write offs, and investments into human resources of the growth business segments.

Year 2013: changed competitive stance hit revenue

QPR's revenue saw notable decline of 6.8%. The decline was due to rapid deterioration of software license sales, which could not be compensated by rental income. The weak performance of license sales can be explained by harsher competition, but also new products in the performance management software. The exchange rates were also unfavourable to the maintenance fees revenue.

The weakened revenue and unchanged cost base meant that EBIT slumped by 34% to the comparison period and corresponded to 6.7% of revenues.

Year 2014: new products and services accelerate growth

In 2014 both revenue and profits swerved into clear growth. Revenue went up by 9.8% to 9.5 MEUR and EBIT improved by 89% to 1.1 MEUR. The strong result is explainable by license sales booming 42%, fueled by international sales of new software products. Rental income also increased by 15%. The consultation services saw accelerated growth towards the end of the year, improving the profitability of the consultation business segment.

Financial targets

The company has a target of 15% annual profitable organic growth for the years 2015-2017.

The board accepted a new dividend policy in 2011, stipulating 30-50% of cash flow from business operations to be distributed as dividends. When considering the dividend proposal, the board takes into account the financial standing, profitability, and business outlook.

We believe the growth targets to be feasible in light of the actualized growth figures. The dividend target is also well founded, as the growth and business model are not capital intensive. In our view, there should be no problems in paying a substantial portion of cash flow out at dividends.

Balance sheet and financial position

QPR's business model does not require large working capital, enabling a light balance sheet. The largest item on the balance sheet is receivables, which account for 50% of current assets. Sales receivables are high at the end of the year due to the billing cycle of rental software. The company also has a rather large intangible items activation, mainly derived from R&D. these R&D activations where worth 1.4 MEUR, or about 16% of the total.

The financial standing is very stable, with net debt 45% negative at the end of 2014. The company does not have any interest bearing net debt at the moment, and cash position was 1.4 MEUR, 0.12 EUR per share. The equity ratio at the end of 2014 was 44%, and equity 3.2 MEUR. The ROE figure was an impressive 29.3 for 2014.

QPR's cash flow from operating activities has been on a very strong level in recent years. The operative cash flow after investments for the last three years is 9%. We estimate the strong balance sheet and operative cash flow to enable good dividend yield, but also above average R&D should such be required, as well as smaller acquisitions.

The company has 0.5 MEUR worth of good will, consequent of the Nobultec acquisition in 2011. This is equal to 16% of equity, so even a complete write off, which we find unlikely, would not threaten the financial situation or dividend payout. .

Cost structure

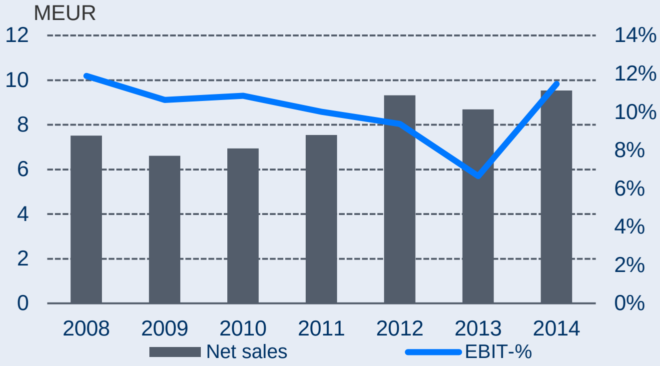
Out of QPR's costs, 60% are personnel expenses. The second largest expense, about 13%, is other expenses. This includes rents, machinery, outside services, credit losses, etc. Depreciation is currently at 8% of revenue. The majority of these are depreciations of R&D expenditure. Materials and services, including mostly distribution commissions and localization expenses, have been about 3-5% of revenues. The distribution network therefore does not materially impact QPR's profits and loss account, with most of distribution expenses netted out of revenue.

R&D has been about 18-20% of revenue. 75% of these expenses are under personnel expenses. The remaining 25% are activated as intangibles, from where they are depreciated in four years. 27 people work in R&D at the moment, corresponding to about a third of the work force. The company estimates that the R&D expenditure will remain at or close to the current level in the coming years.

The cost base is quite fixed on short term in our view, as very few variable costs are present, with most of the services produced by the company being by in house personnel. The stiff cost base is reflected with a heightened sensitivity of profits to revenue changes. On the other hand, the proportion of recurring sales has grown notably in the past years, meaning lower risks related to the fixed cost base.

Financial situation

Revenue and EBIT-%, 2008-2014



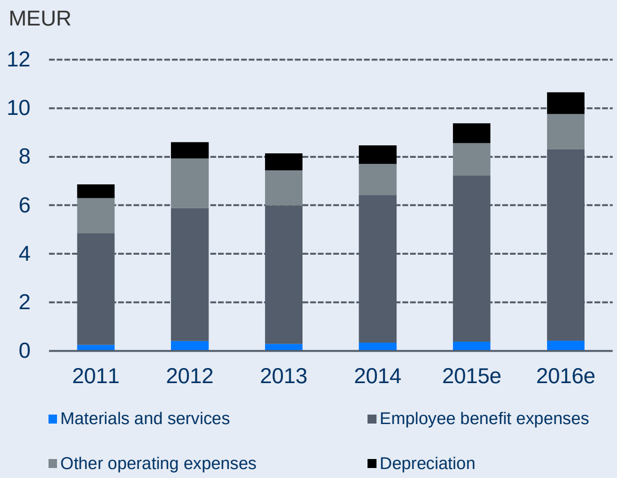
Source: Inderes

Short balance sheet

Assets (MEUR)	2014	Equity and liabilities (MEUR)	2014
Non-current assets	**2,7**	**Equity**	**3,2**
Goodwill	0,5	Share capital	1,4
Intangible assets	1,8	Retained earnings	2,5
Fixed assets	0,3	Own shares	-0,4
Other non-current assets	0,1	Other equity	-0,2
Current assets	**6,2**	**Long term liabilities**	**0,0**
Other non-current assets	0,1	**Short term liabilities**	**5,6**
Receivables	4,8	Interest bearing debt total	0,0
Cash	1,3	Non-interest bearing liabilities	5,6
Balance sheet total	**8,9**	**Balance sheet total**	**8,9**
Equity ratio %	36 %	Number of share, millions	12,0
Gearing %	-42 %	Equity per share, EUR	0,27
Goodwill/equity	16 %		

Source: Inderes

Cost structure development



Source: Inderes

Estimates and valuation

We estimate the growth to accelerate to the sought 15% level. We expect the growth to weight mostly on software sales due to their scalability, although we also expect growth to accelerate in the less scalable consultation services segment. We see the profitability improving through the scalability more than revenue, and we expect to see 25-35% improvement in profits for the coming years. Profit based valuation multiples (2015e EV/EBITDA 8x and P/E 17x) and peer group comparison offer no apparent up or downside on short term.

Estimates

The estimates in this section are based on our modeling of revenue and cost development. The estimates presented underneath also act as a foundation for valuation. We will first go through the short term estimates and thereafter the long term estimates. The investor is wise to note that QPR's license sales estimation on quarterly level is weak, whereas recurring services and consultation bring stability to the top line.

We expect strong earnings growth in 2015

QPR's guidance for 2015 expects revenue and EBIT increase compared to 2014. In addition, the company states they gave further improved their home market share, which paves for strong and profitable organic growth. In the international market, the company aims to grow substantially by means of their new and innovative software solutions.

The 2015 estimate is mostly in line with the 15% growth stated in the company strategy. We expect QPR to reach 10.9 MEUR in sales, 14% growth compared to 2014. Our growth drivers are 1) about 10 new distributors annually (10-15% growth) translate to sales growth in licenses and rentals 2) software base expansion facilitates rental and maintenance revenue growth 3) strengthened growth of consultation services.

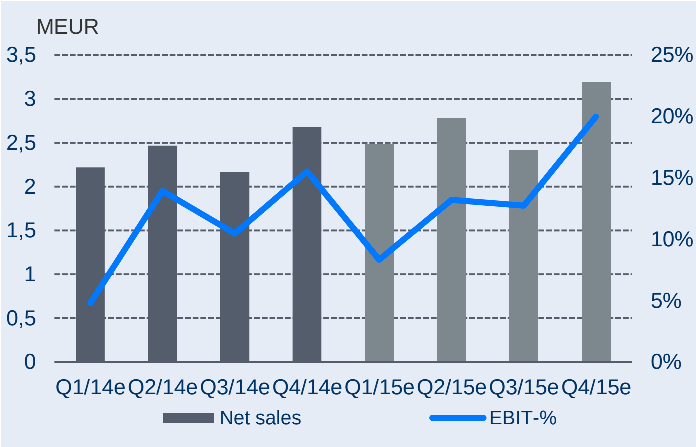
We estimate the growth to be by far strongest in license sales, with especially the EnterpriseArchitect software sales boosting the segment to 49%. For consultation we expect 13%. We would also like to clear and positive development in development consultation services, but we also expect to see technical consultation sales growth to be relatively strong. Software rentals and maintenance services we estimate to see 4.2% compound growth, as the company lost a mayor maintenance client and cut the cost of a large software rental agreement, taking effect at the start of the ongoing year.

Our growth expectations are mostly at the end of the year, as were last years', due to the seasonal changes in license sales.

We estimate the 2015 operating profit to be up 39 % from 2014 at 1.5 MEUR, 14% of revenues. The gross profit margin we estimate to improve by 2 percentage points to 21.5%. We expect the company to be able to maintain the cost base rise at a lower level than revenue growth, and we expect to see 11% increases in expenses compared to 2014. EBIT is also supported by the software based growth distribution, and we believe that the profitability in consultation is at a lower level than in software.

We estimate the net result to be 1.22 million Euros, or 11 % of revenue. The EPS in our model rises by 37% to 0.10 EUR, with dividend estimated at 0.07 EUR. The dividend yield with these figures is 4%.

Estimates on quarterly level



Source: Inderes

Short to medium term estimates

We expect QPR Software to reach over 5% revenue growth in 2016-2019, fuelled by new software solutions, expansion of international distribution networks, and growth in consultation services. At the end of the period, we expect QPR's revenue to be 15.3 MEUR, showing growth of over 50% compared to 2014.

Although the business model is very scalable in theory, we remain cautious in our estimates for the time being and assume fixed costs to grow hand in hand with revenue in 2016-2019. Due to this, the profitability measured by EBIT-%

remains in the 14-15% region on short to medium term. The EPS grows to 0.143 EUR come 2019, with the predicted growth about 4.5% annually.

Long term estimates

From 2018 onwards we cautiously estimate QPR to continue growing at a clearly lower pace of about 2-5% organically and annually. In the long run, we expect the EBIT margin to steady to a 12% level.

Estimate changes

Estimate changes MEUR / EUR	FY'15e Old	FY'15e New	Change %	FY'16e Old	FY'16e New	Change %
Net sales	10,8	10,9	0 %	12,2	12,5	2 %
EBIT	1,5	1,5	0 %	1,9	1,9	0 %
PTP	1,5	1,5	0 %	1,9	1,9	0 %
EPS	0,10	0,10	0 %	0,13	0,13	0 %
Dividend	0,07	0,07	0 %	0,09	0,09	0 %

Source: Inderes

Profit and loss account, 2013-2017e

(MEUR)	FY13	Q1/14	Q2/14	Q3/14	Q4/14	FY14	Q1/15e	Q2/15e	Q3/15e	Q4/15e	FY15e	FY16e	FY17e
Net sales	**8,7**	**2,2**	**2,5**	**2,2**	**2,7**	**9,5**	**2,5**	**2,8**	**2,4**	**3,2**	**10,9**	**12,5**	**14,0**
Software licenses	1,0	0,3	0,4	0,3	0,5	1,5	0,4	0,5	0,4	0,8	2,2	2,9	3,4
Software maintenance fees	3,0	0,8	0,8	0,8	0,8	3,1	0,8	0,8	0,8	0,8	3,2	3,4	3,5
Software rents	1,7	0,4	0,5	0,5	0,5	1,9	0,5	0,5	0,5	0,5	2,0	2,3	2,6
Consulting	3,0	0,7	0,8	0,6	0,9	3,1	0,8	0,9	0,7	1,1	3,5	4,0	4,5
Other income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Materials and services	-0,3	-0,1	-0,1	-0,1	-0,1	-0,3	-0,1	-0,1	-0,1	-0,1	-0,4	-0,4	-0,5
Gross margin	**8,4**	**2,2**	**2,4**	**2,1**	**2,6**	**9,2**	**2,4**	**2,7**	**2,3**	**3,1**	**10,5**	**12,1**	**13,5**
Employee benefits	-5,7	-1,5	-1,6	-1,4	-1,6	-6,1	-1,7	-1,8	-1,5	-1,9	-6,9	-7,9	-8,8
Other operating expenses	-1,4	-0,3	-0,3	-0,3	-0,3	-1,3	-0,3	-0,3	-0,3	-0,4	-1,3	-1,4	-1,6
EBITDA	**1,3**	**0,3**	**0,5**	**0,4**	**0,6**	**1,9**	**0,4**	**0,6**	**0,5**	**0,9**	**2,3**	**2,8**	**3,1**
Depreciation	-0,7	-0,2	-0,2	-0,2	-0,2	-0,8	-0,2	-0,2	-0,2	-0,2	-0,8	-0,9	-1,1
EBIT	**0,6**	**0,1**	**0,3**	**0,2**	**0,4**	**1,1**	**0,2**	**0,4**	**0,3**	**0,6**	**1,5**	**1,9**	**2,0**
Net financial costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Profit before taxes	**0,6**	**0,1**	**0,3**	**0,2**	**0,4**	**1,1**	**0,2**	**0,4**	**0,3**	**0,6**	**1,5**	**1,9**	**2,0**
Taxes	0,0	0,0	0,0	-0,1	-0,1	-0,2	0,0	-0,1	-0,1	-0,1	-0,3	-0,4	-0,4
Net earnings	**0,5**	**0,1**	**0,3**	**0,2**	**0,3**	**0,9**	**0,2**	**0,3**	**0,2**	**0,5**	**1,2**	**1,5**	**1,6**
EPS (adjusted)	**0,04**	**0,01**	**0,02**	**0,01**	**0,03**	**0,07**	**0,01**	**0,02**	**0,02**	**0,04**	**0,10**	**0,13**	**0,14**

Key figures	FY13	Q1/14	Q2/14	Q3/14	Q4/14	FY14	Q1/15e	Q2/15e	Q3/15e	Q4/15e	FY15e	FY16e	FY17e
Net sales growth-%	-6,8 %	6,7 %	5,7 %	10,5 %	16,2 %	9,8 %	12,2 %	12,5 %	11,6 %	19,1 %	14,1 %	15,1 %	11,6 %
Software licenses	-42,4 %	51,5 %	11,1 %	70,6 %	54,2 %	42,1 %	45,0 %	45,0 %	40,0 %	60,0 %	49,3 %	30,0 %	20,0 %
Software maintenance fees	-6,3 %	-0,9 %	4,1 %	2,1 %	4,0 %	2,3 %	4,0 %	3,0 %	5,0 %	5,0 %	4,2 %	5,0 %	3,0 %
Software rents	35,6 %	13,8 %	17,8 %	13,2 %	14,9 %	14,9 %	2,0 %	4,0 %	5,0 %	5,0 %	4,0 %	15,0 %	15,0 %
Consulting	-3,3 %	-0,7 %	-1,3 %	2,9 %	12,4 %	3,4 %	12,8 %	12,2 %	12,1 %	15,8 %	13,4 %	15,0 %	10,9 %
Gross margin-%	97,0 %	96,9 %	96,7 %	97,0 %	96,5 %	96,7 %	97,0 %	96,4 %	96,9 %	96,7 %	96,7 %	96,7 %	96,6 %
EBITDA-%	14,8 %	13,7 %	21,2 %	19,2 %	22,9 %	19,5 %	16,4 %	20,4 %	21,1 %	26,9 %	21,5 %	22,2 %	22,2 %
EBIT-%	6,6 %	4,9 %	14,0 %	10,5 %	15,5 %	11,5 %	8,3 %	13,2 %	12,7 %	20,0 %	14,0 %	15,0 %	14,6 %
PTP-%	6,4 %	4,6 %	13,5 %	10,2 %	15,2 %	11,2 %	8,3 %	13,2 %	12,7 %	20,0 %	14,0 %	15,0 %	14,6 %
Net earnings-%	6,0 %	4,2 %	11,7 %	7,7 %	12,7 %	9,3 %	6,7 %	10,6 %	10,2 %	16,0 %	11,2 %	12,0 %	11,6 %

Source: Inderes

Valuation

Valuation summary

We inspect QPR's valuation as a software and consultation service provider combination. Because of this, we can accept higher valuation multiples due to the scalable nature of the software sales, than we would for a pure IT service house. QPR's valuation is supported by much higher growth potential than usual, notable recurring operations' portion of revenue, and relatively low cyclical effect. Correspondingly, negative valuation fundaments are the small size and uncertainties related to maintaining the growth pace set.

We expect the sales growth to speed up to the 15% level stipulated in the company strategic goals. We expect to see growth mainly focused in the scalable software sales, albeit we also estimate strong and accelerating growth in the consultation business present as well. Due to scalability, the profitability has clear potential, and thus we expect to see 25-35% annual profits growth. The share price has however risen by 80% over the last 12 months, and earnings based multiples (EV/EBITDA, P/E) and peer group valuation multiples offer neither apparent upside nor downside on short term. We therefore elevate the target price to 1.65 (1.55 EUR) due to the increased profits expectation, but downgrade the recommendation to reduce (buy).

Long term investors should stay with the growth story, as the long term growth aspects of the industry and company are good. To balance the relatively high valuation, the 4% dividend yield is good in comparison. We also find QPR to be a very potent acquisition target on long term as the industry consolidates and large IT houses expand their technological platforms. The company's current 18,6 million Euro market cap (EV/S 1,7x and EV/EBITDA 8x) would be low in an acquisition, especially taking into account that technology based acquisitions have fetched 3-6x EV/S-multiples. A clear premium in an acquisition does require however especially the patent protected ProcessAnalyzer software or other solutions to make a break through.

The main risk involved are related to the products nearing the end of their life cycle and the stalling of sales as happened in 2013, as well as stalling of the distribution channel growth. The risks are downplayed by the new products already having a larger portion of the revenue than the old ones, and distributors' centralized on the newer products have grown markedly in the last two years.

Valuation multiples

We mainly use profit based multiples to price the share, as the company does not have any notable balance sheet items apart from receivables. We in particular favor the EV/EBITDA multiple due to its good comparability.

Based on our estimates, QPR's multiples seem reasonable, but the undervaluation has unraveled after the steep rise seen after the year's beginning. The EV/EBITDA multiple with our 2015 estimates is 7,9x. The 2016 EV/EBITDA multiple declines to a 6,4x.The corresponding P/E multiples are 17,0x and 13,8x. With our estimates, the dividend yield for this year is 4.0 % and 5.2 % for next year.

The risk profile is higher than usual due to the relatively small size and poor liquidity of the share and company. This is however compensated by notable recurring revenues, enabling a strong and predictable cash flow and dividend yield. We do still want to note that multiples are extremely sensitive to software sales estimates.

QPR's valuation multiples

Valuation	2012	2013	2014	2015e	2016e	2017e	2018e
P/Sales	1,3	1,3	1,3	1,9	1,6	1,5	1,3
EV/EBITDA	7,2	7,6	5,8	7,8	6,3	5,6	5,0
P/E	18,3	21,5	13,6	16,7	13,5	12,5	11,6
P/B	4,1	3,5	3,8	4,9	4,2	3,8	3,4
Payout ratio %	74 %	93 %	67 %	69 %	72 %	74 %	75 %
Dividend yield %	4,0 %	4,3 %	5,0 %	4,1 %	5,3 %	5,9 %	6,5 %

Source: Inderes

Earnings based multiples' sensitivity analysis

We have constructed a simplified sensitivity analysis to determine the share's potential in different growth and profitability scenarios (table on page 25). In the analysis, we keep everything else as is, but alter either the 2015-2017 average revenue growth or EBIT-% estimates in steps. The sensitivity model calculates the EPS based on these. In the model, we assume that the market accepts a P/E of 14x not accounting for non operational net cash position. The model then compares the price change potential to the current 1.73 EUR share price.

The sensitivity analysis supports our view on the relatively high growth expectations already reflected in the valuation, but growth higher than estimates especially in software would offer upside. For instance, were QPR to achieve 15% growth on a three year period, based mostly on software, the EBIT margin could rise to 15%, the current share price would reflect 18% upside. On the other hand, where the growth to be 10%, mainly from consultation, with 11% EBIT margin, the share could have a 25% downside compared to the current valuation.

When deciphering the sensitivity analysis, it should be taken into account that the model doesn't consider dividend yields, which can be about 4-5% annually in this case.

Peer group

As QPR's peer group, we used mainly Nordic software and IT service companies, whose products and services are mainly marketed to companies. We have also chosen quoted international companies in the same industry as QPR. In our view, the peer group profit drivers are as a whole quite similar to QPR's business operations, so the peer group valuation gives a good yard stick for QPR.

According to the peer group valuation, QPR is quite close to the valuation indicated by our estimates. The P/E figure is 7-13% higher than the average, which is partially explained by the high net cash position QPR possesses. R&D expenditure activation and accounting for net debt with the EV/EBIT multiple indicates that QPR is priced similarly as the peer group.

Peer group

	P/E		EV/EBITDA		EV/EBIT		EV/S
	2015e	2016e	2015e	2016e	2015e	2016e	2015e
Affecto	8,2	7,0	5,8	5,2	6,3	5,5	0,6
Axway Software	12,2	10,8	8,8	7,7	9,6	8,5	1,4
Digia	17,0	10,6	9,2	9,0	13,3	8,7	0,9
Enea AB	19,9	17,9	11,9	10,8	13,8	12,4	3,2
HIQ International AB	15,8	14,2	10,7	9,7	11,4	10,2	1,4
Innofactor *	14,1	11,1	7,9	7,0	10,7	8,8	0,9
Know IT AB	12,0	9,4	7,7	6,7	9,8	7,6	0,6
Micro Focus International	14,9	13,1	12,1	8,0	16,4	10,4	5,2
Microstrategy	26,6	22,6	12,6	10,9	16,3	12,9	2,8
Opentext	15,0	14,0	11,7	10,9	15,1	14,1	4,1
Software AG	13,7	13,1	9,4	9,1	10,9	10,5	2,7
Solteq *	12,9	11,3	6,4	6,2	9,5	8,9	0,7
Tieto	12,9	12,4	8,6	7,2	12,7	9,9	1,0
Median	**14,1**	**12,4**	**9,2**	**8,0**	**11,4**	**9,9**	**1,4**
Average	15,0	12,9	9,5	8,3	12,0	9,9	2,0
QPR Software *	**17,0**	**13,8**	**7,9**	**6,4**	**12,2**	**9,6**	**1,7**
Difference to median	20 %	11 %	-14 %	-20 %	7 %	-3 %	24 %

*Inderes estimate

Source: Inderes

DCF-analysis

We give a higher weight to multiples based valuation than the cash flow based DCF, as the cash flow model is very sensitive, even with conservative estimates, to especially terminal value changes. The DCF model can however be used to outline long term potential related upside potential. The cash flow based valuation model suggests a value of 1.94 Euros, clearly above the target price.

In our estimates model, revenue growth levels off after the medium term to 2.2%. On long term, we expect the EBIT margin to be 12%. In the model, the terminal value of discounted cash flows is moderate, 50%.

The capital cost used in our DCF model (WACC) is 8.8 % and due to no debt, this is also the WACC: used. Equity cost components used are 3% risk free interest rate, market risk premium of 4.8%, liquidity premium of 1% and a beta of 1.0. The capital cost has decreased by one percentage point compared to the previous report, as the risk free interest rate we use has now been reduced to 3% from 4%. A one percent increase in WACC lowers the DCF value to 1.70 EUR.

Estimates and valuation

Short to medium term estimates

	2013	2014	2015e	2016e	2017e – 2019e
Net sales growth-%	-7%	10%	14%	15%	5-12%
Materials and services, % of sales					
Fixed costs, % of sales					
Depreciation, % of sales					
EBIT-%	6,6%	11,5%	14%	15%	13-15%
EPS-growth-%	-20%	72%	37%	24 %	CAGR ~ 5 %

Source: Inderes

Valuation sensitivity analysis

EPS

EBIT-% \ Average net sales growth-% 2015-2017	0 %	5 %	10 %	15 %	20 %
7 %	0,04	0,05	0,06	0,07	0,08
9 %	0,06	0,07	0,08	0,09	0,10
11 %	0,07	0,08	0,09	0,11	0,12
13 %	0,08	0,10	0,11	0,13	0,14
15 %	0,10	0,11	0,13	0,15	0,17
17 %	0,11	0,13	0,14	0,16	0,19
19 %	0,12	0,14	0,16	0,18	0,21

Share price with P/E of 15x

EBIT-% \ Average net sales growth-% 2015-2017	0 %	5 %	10 %	15 %	20 %
7 %	0,67	0,77	0,89	1,02	1,16
9 %	0,86	1,00	1,14	1,31	1,49
11 %	1,05	1,22	1,40	1,60	1,82
13 %	1,24	1,44	1,65	1,89	2,15
15 %	1,43	1,66	1,91	2,18	2,48
17 %	1,62	1,88	2,16	2,47	2,81
19 %	1,81	2,10	2,42	2,76	3,14

Share price potential compared to 1,66 €

EBIT-% \ Average net sales growth-% 2015-2017	0 %	5 %	10 %	15 %	20 %
7 %	-60 %	-53 %	-46 %	-39 %	-30 %
9 %	-48 %	-40 %	-31 %	-21 %	-11 %
11 %	-37 %	-27 %	-16 %	-4 %	9 %
13 %	-25 %	-13 %	0 %	14 %	29 %
15 %	-14 %	0 %	15 %	31 %	49 %
17 %	-2 %	13 %	30 %	49 %	69 %
19 %	9 %	27 %	45 %	66 %	89 %

Source: Inderes

Profit and loss account, balance sheet, DCF model

Profit and loss account

(MEUR)	2012	2013	2014	2015e	2016e	2017e	2018e
Net sales	**9,3**	**8,7**	**9,5**	**10,9**	**12,5**	**14,0**	**15,3**
Expenses	-7,8	-7,4	-7,7	-8,5	-9,7	-10,9	-12,0
EBITDA	**1,6**	**1,3**	**1,9**	**2,3**	**2,8**	**3,1**	**3,4**
Depreciation	-0,7	-0,7	-0,1	-0,1	-0,1	-0,1	-0,1
EBITA	**0,9**	**0,6**	**0,4**	**0,8**	**1,1**	**1,1**	**1,1**
Amortization of intangibles	0,0	0,0	-0,7	-0,8	-0,8	-1,0	-1,1
EBIT	**0,9**	**0,6**	**1,1**	**1,5**	**1,9**	**2,0**	**2,2**
extraordinaries in EBIT	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
EBIT excluding extraordinaries	*0,9*	*0,6*	*1,1*	*1,5*	*1,9*	*2,0*	*2,2*
Financial costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Interes expenses	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other financial costs	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Exchange rate differences	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Associated companies income	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Profit before taxes	**0,8**	**0,6**	**1,1**	**1,5**	**1,9**	**2,0**	**2,2**
Other items	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Taxes	-0,2	0,0	-0,2	-0,3	-0,4	-0,4	-0,4
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	**0,7**	**0,5**	**0,9**	**1,2**	**1,5**	**1,6**	**1,8**
Net earnings excl. Extraordinaries	*0,7*	*0,5*	*0,9*	*1,2*	*1,5*	*1,6*	*1,8*
Extraordinary income	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net result	0,7	0,5	0,9	1,6	1,5	1,6	1,8

Balance sheet

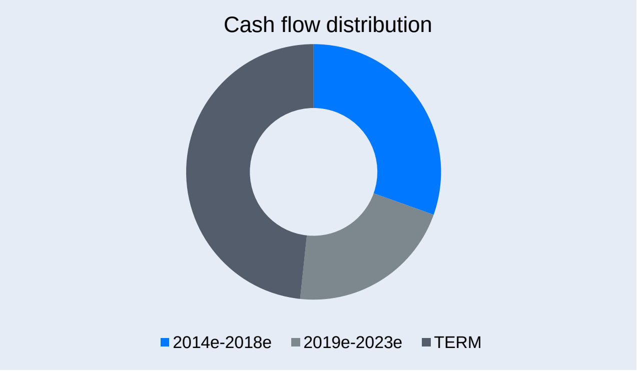
Assets (MEUR)	2012	2013	2014	2015e	2016e	2017e	2018e
Non-current assets	**2,4**	**2,5**	**2,7**	**3,1**	**3,5**	**3,8**	**4,2**
Goodwill	0,5	0,5	0,5	0,5	0,5	0,5	0,5
Intangibles	1,6	1,8	1,8	2,1	2,4	2,7	3,0
Working capital	0,1	0,2	0,3	0,4	0,5	0,6	0,6
Associated companies	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other investments	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other non-current assets	0,1	0,0	0,1	0,1	0,1	0,1	0,1
Deferred tax assets	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Current assets	**4,6**	**6,0**	**6,2**	**7,0**	**8,1**	**9,0**	**9,9**
Inventory	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other current assets	0,1	0,0	0,1	0,1	0,1	0,1	0,1
Trade and other receivables	3,1	4,6	4,8	5,4	6,3	7,0	7,7
Cash and cash equivalents	1,4	1,4	1,3	1,5	1,8	2,0	2,1
Total assets	**6,9**	**8,5**	**8,9**	**10,6**	**12,4**	**13,8**	**15,2**

Equity liabilities (MEUR)	2012	2013	2014	2015e	2016e	2017e	2018e
Equity	**3,0**	**3,2**	**3,2**	**4,2**	**4,8**	**5,4**	**6,0**
Share capital	1,4	1,4	1,4	1,4	1,4	1,4	1,4
Retained earnings	2,0	2,5	2,5	3,5	4,1	4,7	5,2
Own shares	0,0	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4
Asset revaluation reserve	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other reserves	-0,4	-0,2	-0,2	-0,2	-0,2	-0,2	-0,2
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Deferred tax liabilities	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Provisions	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	**0,2**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**
Interest-bearing liabilities	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Convertibles	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Current liabilities	**3,7**	**5,3**	**5,6**	**6,4**	**7,5**	**8,4**	**9,2**
Interest-bearing liabilities	0,2	0,0	0,0	0,0	0,0	0,0	0,0
Trade and other payables	3,5	5,3	5,6	6,4	7,5	8,4	9,2
Other short term liabilities	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total of equity and liabilities	**6,9**	**8,5**	**8,9**	**10,6**	**12,4**	**13,8**	**15,2**

DCF-model

DCF (MEUR)	2014	2015e	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	TERM
EBIT	**1,1**	**1,5**	**1,9**	**2,0**	**2,2**	**2,1**	**2,1**	**2,1**	**2,1**	**2,1**	**2,2**	
+ Depreciation	0,8	0,8	0,9	1,1	1,2	1,3	1,4	1,5	1,5	1,6	1,6	
- Paid taxes	-0,2	-0,3	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	-0,4	
- tax on interest payments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
+ tax on interest income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- change in net working capital	0,1	0,1	0,3	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0	
Operative cash flow	**1,8**	**2,2**	**2,7**	**2,8**	**3,1**	**3,1**	**3,2**	**3,2**	**3,2**	**3,3**	**3,4**	
+ change in non-interest bearing liabilities.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-0,9	-1,2	-1,3	-1,4	-1,5	-1,5	-1,6	-1,6	-1,6	-1,7	-1,7	
Free operational cash flow	**0,8**	**1,0**	**1,4**	**1,4**	**1,5**	**1,6**	**1,6**	**1,6**	**1,6**	**1,7**	**1,7**	
+/- Other	0,0	0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
Free cash flow	0,8	1,3	1,4	1,4	1,5	1,6	1,6	1,6	1,6	1,7	1,7	26,6
Discounted free cash flow		1,3	1,2	1,1	1,1	1,1	1,0	0,9	0,8	0,8	0,8	11,8
Discounted cum free cash flow		**21,9**	**20,6**	**19,4**	**18,3**	**17,1**	**16,1**	**15,1**	**14,2**	**13,3**	**12,5**	**11,8**
Debt free DCF		**21,9**										
- interest bearing debt		0,0										
+ Cash		1,3										
-Minority share		0,0										
-Dividends		0,0										
Equity value, DCF		**23,3**										
Equity value DCF / share		**1,94**										

Cost of capital (WACC)	
Tax-% (WACC)	20,0 %
Target debt ratio D/(D+E)	0,0 %
Cot of debt	6,0 %
Beta	1,00
Market risk premium	4,8 %
Liquidity premium	1,0 %
Risk free interest rate	3,0 %
Cost of equity	8,8 %
Weighted average cost of capital (WACC)	8,8 %



Summary

QPR Software summary

Profit and loss	2012	2013	2014	2015e	2016e	2017e
Net sales	9,3	8,7	9,5	10,9	12,5	14,0
EBITDA	1,6	1,3	1,9	2,3	2,8	3,1
EBITDA-margin (%)	*16,7 %*	*14,8 %*	*19,5 %*	*21,5 %*	*22,4 %*	*22,2 %*
EBIT	0,9	0,6	1,1	1,5	1,9	2,0
EBIT-margin (%)	*9,4 %*	*6,7 %*	*11,5 %*	*14,0 %*	*15,0 %*	*14,6 %*
PTP	0,7	0,8	0,6	1,1	1,5	1,9
Net earnings	0,5	0,7	0,5	0,9	1,6	1,5

Tase	2012	2013	2014	2015e	2016e	2017e
Balance sheet total	6,9	8,5	8,9	10,6	12,4	13,8
Equity	3,0	3,2	3,2	4,2	4,8	5,4
Goodwill	0,5	0,5	0,5	0,5	0,5	0,5
Interest bearing net debt	-1,1	-1,1	-1,4	-1,3	-1,5	-1,8

Cash flow	2012	2013	2014	2015e	2016e	2017e
EBITDA	1,6	1,3	1,9	2,3	2,8	3,1
Change in NWC	0,5	0,4	0,1	0,1	0,3	0,1
Operative cash flow	1,9	1,6	1,8	2,2	2,7	2,8
Free cash flow	1,3	0,6	0,8	1,3	1,4	1,4

Per share data	2012	2013	2014	2015e	2016e	2017e
EPS	0,05	0,04	0,07	0,10	0,13	0,14
EPS adjusted	0,05	0,05	0,04	0,07	0,10	0,13
Operative cash flow per share	0,15	0,15	0,13	0,15	0,18	0,23
Book value per share	0,48	0,24	0,27	0,27	0,35	0,40
Dividends per share	0,04	0,04	0,04	0,05	0,07	0,09
Payout ratio %	74 %	74 %	93 %	67 %	69 %	72 %
Dividend yield %	4,0 %	4,0 %	4,3 %	5,0 %	4,1 %	5,3 %

Valuation metrics	2012	2013	2014	2015e	2016e	2017e
P/E	18,3	21,5	13,6	16,7	13,5	12,5
P/B	4,1	3,5	3,8	4,9	4,2	3,8
P/FCF	9,3	17,5	14,7	15,3	14,5	14,2
P/S	1,3	1,3	1,3	1,9	1,6	1,5
EV/S	1,2	1,1	1,1	1,7	1,4	1,2
EV/EBITDA	7,2	7,6	5,8	7,8	6,3	5,6
EV/EBIT	12,8	16,8	9,8	12,0	9,4	8,5

Company description

QPR Software focuses on providing organizations with software and professional services for operational development. It's software and services are used in more than 50 countries. The Company offers its customers insight into their business operations through modeling, analysis and performance monitoring. This insight enables customers to streamline and improve business operations and to execute their strategies swiftly and effectively.The Company's product portfolio has been strongly renewed in recent years. The new software products offer customers tools to model enterprise architecture, to discover any processes based on actual event data and to analyze causes for problems.

Largest owners	% of shares
Ulkomarkkinat Oy	13,3 %
Pelkonen Jouko Antero	12,4 %
Leskinen Vesa-Pekka	10,7 %
AC Invest OY	10,0 %
Junkkonen Kari Juhani	4,1 %

RECOMMENDATION HISTORY, LAST 12 MONTHS

Date	Recommendation	Target price	Share price
19.5.2014	Accumulate	1,05	0,94
1.8.2014	Accumulate	1,10	1,00
30.10.2014	Accumulate	1,12	1,00
9.2.2014	Buy	1,55	1,35
17.4.2015	Reduce	1,65	1,73

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