

# TELESTE

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# EXTENSIVE REPORT



# Earnings growth across the Atlantic

We reiterate our Accumulate recommendation and EUR 3.2 target price for Teleste. Teleste's operational turnaround progressed well towards the end of the year, and the market situation in Europe does not seem to be deteriorating further. At the same time, the company's conquest of North America is progressing well, and this year's strong volume growth will also start to be reflected in the company's earnings growth. Teleste now has the opportunity to rebuild its profile as a profitable growth company after several years of stagnation. Given the medium-term earnings growth potential, the valuation of the stock looks moderate and the risk/reward ratio cautiously attractive.

## Investment in new technologies within Broadband Networks finally accelerates with North American pull

In Broadband Networks (2024: 59% of revenue), the investments in next-generation network equipment, which have been expected for years and delayed several times, are finally getting off to a good start, with concrete signs already visible in the orders received by the business unit at the end of the year (Q4'24: +51%). While North American volumes will grow significantly this year, mainly thanks to the main customer (Cox Communications), Teleste has already succeeded in winning other customers as well. Meanwhile, the European market seems to have come to a standstill, and deliveries related to DOCSIS 4.0 technology will also start to be seen here in H2'25. However, growth in the North American market is crucial for Teleste's long-term strategy, as operators in Europe are increasingly shifting their investments to fiber technologies and the market is in structural decline. Thanks to the efficiency measures taken, the unit's profitability should be supported by growth in the coming years (2024: adj. EBIT 7.9%), although expansion into a new market will also require increasing investments. In the short term, potential import tariffs from the US pose a risk. Teleste is trying to protect itself against them by, among other things, increasing local inventories and possibly setting up a final assembly line. Although tariffs could put pressure

on profitability, they could probably be passed on to prices quite well, considering that the company's competitors would suffer to a similar extent (no production in the US).

## Solid growth outlook for Public Safety and Mobility

In Public Safety and Mobility (2024: 41% of revenue), the order book (Q4'24: 93.3 MEUR), focused on passenger information solutions, is at a good level and supports the unit's solid growth outlook. Teleste is well positioned within its largest and longest-standing customer (Alstom) and the new framework agreement won with Siemens Mobility offers long-term growth opportunities. In video security applications, Teleste has a small and very profitable niche business, but the challenge here is limited growth opportunities. In recent years, Teleste has significantly improved the efficiency of its Public Safety and Mobility operations, which is already reflected in the improved results for 2024 (adj. EBIT 3.5% vs. -0.7%). This creates a good basis for maintaining a steady path of profitable growth in the future.

## Accelerating earnings growth in the coming years supports valuation

Based on the estimates for the current year, Teleste's valuation (adj. P/E 13.5x and EV/EBIT 12x) is relatively neutral but not yet particularly attractive. Nevertheless, the Q4 report was encouraging in our view as it showed that 1) the expansion into North America is progressing as planned, 2) the decline in the European market has stopped and 3) the streamlined cost structure has created a good basis for earnings growth as volumes grow in the future. With increased confidence in earnings growth, we are willing to look a bit further ahead in terms of valuation. Our forecasts for 2026-2027 show P/E ratios falling to low levels of 9x-8x and EV/EBIT ratios (9x-8x) are also reasonable. Given the improved business trend and outlook, we consider the valuation and risk/reward ratio of the stock to be cautiously attractive.

## Recommendation

**Accumulate**  
(was Accumulate)

## Business risk



## Target price:

**EUR 3.20**  
(was EUR 3.20)

## Valuation risk



**Share price:**  
**2.80**

	2024	2025e	2026e	2027e
<b>Revenue</b>	133	145	157	163
<b>growth-%</b>	-12.4 %	9.7 %	8.1 %	3.9 %
<b>EBIT adj.</b>	4.0	6.1	8.0	8.8
<b>EBIT-% adj.</b>	3.0 %	4.2 %	5.1 %	5.4 %
<b>Net Income</b>	-5.9	3.8	5.5	6.1
<b>EPS (adj.)</b>	0.20	0.21	0.30	0.33
<b>P/E (adj.)</b>	13.0	13.5	9.4	8.4
<b>P/B</b>	0.9	0.9	0.8	0.8
<b>Dividend yield-%</b>	1.1 %	3.6 %	4.3 %	5.0 %
<b>EV/EBIT (adj.)</b>	18.1	12.3	9.3	8.1
<b>EV/EBITDA</b>	11.9	6.9	5.8	5.1
<b>EV/S</b>	0.6	0.5	0.5	0.4

Source: Inderes

## Guidance

(Unchanged)

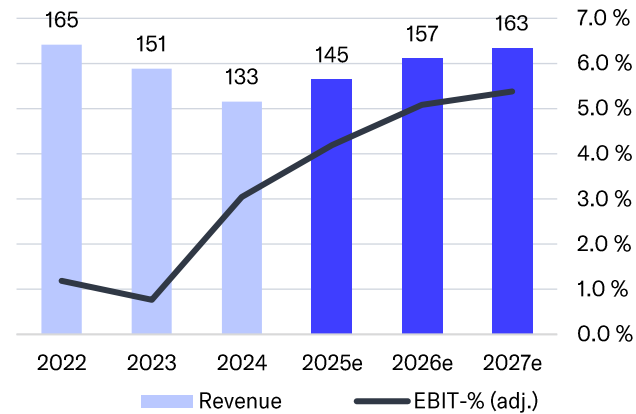
Teleste estimates that revenue in 2025 will amount to 135-150 MEUR and that the adjusted operating result in 2025 will be 4-7 MEUR.

## Share price



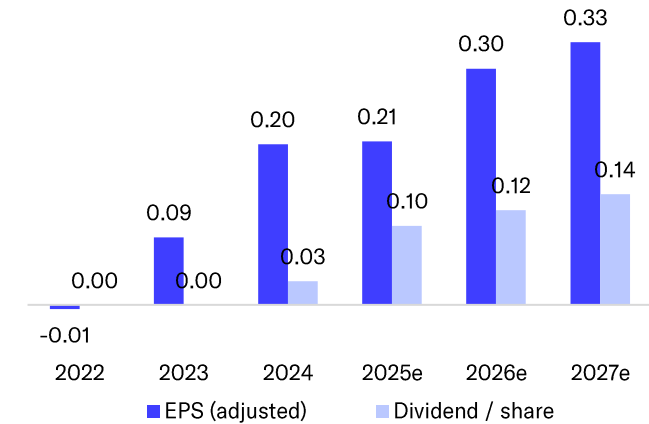
Source: Millstream Market Data AB

## Revenue and EBIT-%



Source: Inderes

## EPS and dividend



Source: Inderes

## Value drivers

- Start of volume deliveries of distributed architecture and DOCSIS 4.0 products in particular
- Expansion to North American market
- Growth driven by a streamlined cost structure will support profitability in the coming years
- Strong market position in Europe in network equipment
- Profitable growth in Public Safety and Mobility

## Risk factors

- Slowdown in operator investments in the short term
- Potential import tariffs in the US
- Structural decline in the European market for Broadband Networks
- Failure to expand into North America
- Risks related to component availability and supply chains
- Competitive market pressure and limited pricing power in the face of large operators

Valuation	2025e	2026e	2027e
<b>Share price</b>	2.80	2.80	2.80
<b>Number of shares, millions</b>	18.2	18.2	18.2
<b>Market cap</b>	51	51	51
<b>EV</b>	75	74	71
<b>P/E (adj.)</b>	13.5	9.4	8.4
<b>P/E</b>	13.5	9.4	8.4
<b>P/B</b>	0.9	0.8	0.8
<b>P/S</b>	0.4	0.3	0.3
<b>EV/Sales</b>	0.5	0.5	0.4
<b>EV/EBITDA</b>	6.9	5.8	5.1
<b>EV/EBIT (adj.)</b>	12.3	9.3	8.1
<b>Payout ratio (%)</b>	48.3 %	40.2 %	42.1 %
<b>Dividend yield-%</b>	3.6 %	4.3 %	5.0 %

Source: Inderes

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# Teleste in brief

Teleste is a developer, manufacturer and seller of access network equipment and a service provider for telecommunications operators' networks. The company also provides video security and passenger information applications and solutions, mainly for public sector customers and rail transport.

**132.5 MEUR** (-12% vs. 2023)

Revenue in 2024

**4.0 MEUR** (3.0% of revenue)

EBIT (adj.) 2024

**619**

Personnel at the end of 2024

**118.3 MEUR**

Order book at the end of 2024

**59% / 41%**

Broadband Networks / Public Safety and Mobility share of revenue 2024

**2010-2016**

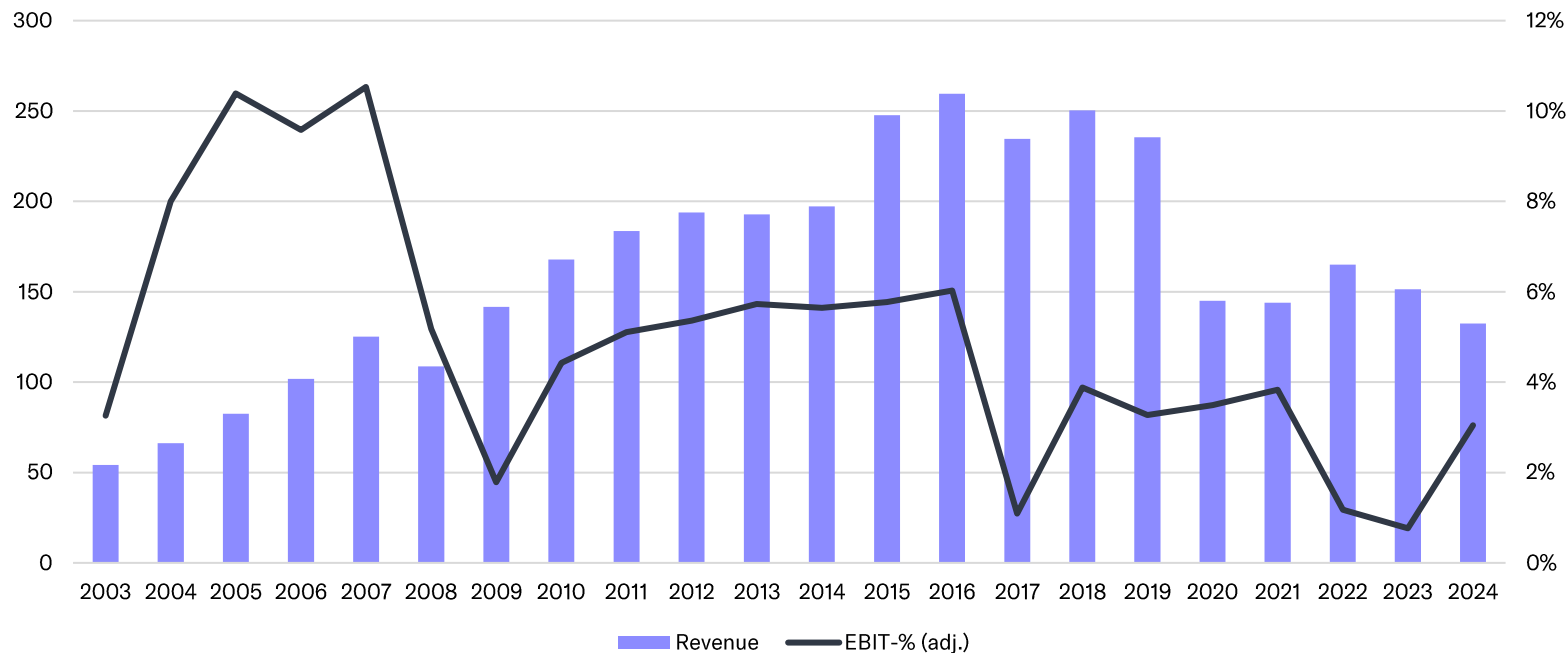
- Teleste's earnings growth supported by its success in the DOCSIS 3.1 technology cycle for access network products combined with the acquisition of Mitron (2015)
- Services business profitability at a weak level, especially in Germany

**2017-2020**

- Access network products market declines as DOCSIS 3.1 investment wanes
- Profitable growth in video security and information solutions
- Continued profitability challenges in the services business in Germany, leading to the decision to exit this business

**2021-2024**

- Component shortages and cost inflation weaken delivery capacity and profitability
- Order book reaches record levels in 2022
- Weak economic outlook and rising interest rates impact operator investments in 2023-2024
- Access network products deliveries start in North America in 2024, and volumes grow significantly in 2025
- Adjustment measures have led to significant fixed cost reductions and a return to earnings growth in 2024



# Company description and business model 1/5

## Company description

### International technology group

Teleste is an international technology group established in 1954 that develops and offers video and broadband technologies, related services as well as passenger information and video security systems. The company's revenue in 2024 was 132.5 MEUR and adjusted EBIT 4.0 MEUR (3.0% of revenue). Teleste employed 619 people at the end of 2024.

Teleste is a developer, manufacturer and seller of network equipment for telecommunications operators' cable networks as well as a service provider. The company also provides video security and passenger information applications and solutions for rail transport and public sector customers. Video and data processing, transfer and management are at the core of Teleste's various businesses. Teleste's head office is located in Kaarina, close to Turku, and the company has offices in 14 countries. Most of the production of network equipment takes place in Finland, and the company's product development activities are mainly based in Finland and Poland.

### Access network products (Broadband Networks)

Teleste's product offering includes all access network products for cable networks, from video headends to house network products for broadband subscribers. This part of the cable network is also known as HFC (Hybrid Fiber-Coaxial) network, as it uses optical fiber and coaxial cables.

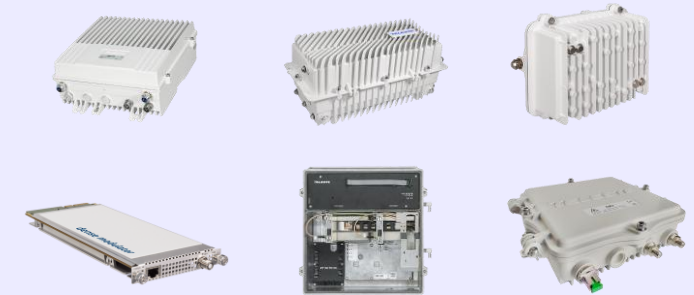
In simple terms, the structure of the cable network can be described as follows: 1) a fiber cable from the backbone of

the cable network goes to the headend (in Helsinki, for example, one can be found in Pasila), 2) from there, a fiber cable goes to nodes located in the "field" near the end user (for example, network cabinets in the street), 3) from these nodes, coaxial cables go to houses and apartments.

Network operators invest in their networks to provide faster and more reliable internet connections to end users, as the amount of data traffic on the network continues to grow as society becomes more digital. Teleste's access network products enable operators to cost-effectively increase network speed by upgrading the equipment inside the headend and network equipment cabinets. Teleste has a strong market position in network equipment in Europe and is currently expanding into North America, a key market for growth in the coming years.

In the area of access network equipment, the previous investment cycle focused on DOCSIS 3.1-compliant technology, which has already reached a mature stage. For several years, Teleste's product development has focused on equipment for distributed access architecture and technology complying with the DOCSIS 4.0 standard. Operators have been planning to start investing in these new technologies for a long time. Of these, the deployment of distributed access architecture in particular has been slower than expected, but the prospects for DOCSIS 4.0 migration are currently strong, especially in North America, where there is a significant investment backlog. Also in Europe, operators in certain countries will upgrade their network equipment to DOCSIS 4.0, with deliveries expected to start at the end of 2025.

## Examples of Teleste products within Broadband Networks



## Teleste's Broadband Networks customers



# Company description and business model 2/5

## Network services for telecommunications operators

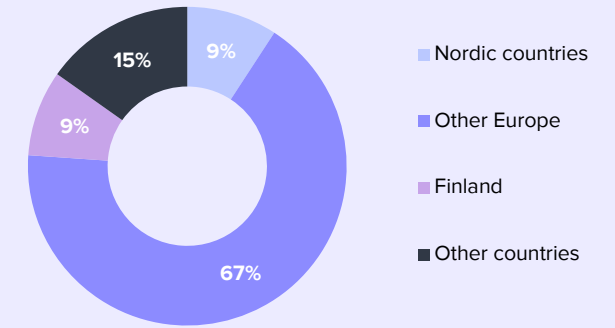
The size of Teleste's services business has been significantly reduced as a result of the divestments made. Today, these services include in particular network design and monitoring. In Finland, for example, Teleste has long monitored Elisa's networks in its network operations center, and in 2025 the operation and development of broadband and TV services delivered via Telia Finland's cable network will also be transferred to Teleste. In addition to Finland, the focus of the services business is on the UK.

## Video security and information solutions (Public Safety and Mobility)

In addition to its business serving telecom operators, Teleste provides comprehensive video security and information solutions to rolling stock manufacturers, the public sector and public transport operators. By far the largest share of revenue comes from rolling stock manufacturers, who are supplied with both passenger information and video security solutions for their trains. On the public transport side, similar systems are also supplied to train stations, among others, and increasingly these train and station systems are linked in real time.

Teleste's strength in video security is its large network management systems, where multi-object cameras, recorders and workstations are networked into one unified video security system. Overall, however, video security is a much smaller business than passenger information solutions, and growth opportunities are rather limited. In passenger information, Teleste's long-term growth outlook is good, but due to the customer base and large projects, the business requires a long-term approach.

Geographical distribution of revenue 2024



Teleste's Public Safety and Mobility customers



# Company description and business model 3/5

## Business model

Teleste is a combination of equipment, services and software business. In 2024, products accounted for 89% of revenue and services for 11%. Teleste reports its activities related to access network products and services in the Broadband Networks unit, which accounted for 59% of revenue last year. Here, the order book (2024: 25.0 MEUR) is typically shorter and orders received are normally delivered within a few months. The role of Broadband Networks' services business has been significantly reduced by the divestments made and its impact on the group figures is limited today.

Video security and information solutions are reported in the Public Safety and Mobility unit (2024: 41% of revenue). Here, orders received as well as revenue can fluctuate on a quarterly basis, due to the timing and deliveries of large projects. Due to large multi-year projects, Teleste's order book is also concentrated in this business area (2024: 93.3 MEUR).

Teleste's business is based on strong technological expertise, and the company continuously invests in its product business. Product development costs relate to access network products as well as video security and information systems, and they represented 10% of revenue in 2024. In Broadband Network, product development focuses on distributed access architecture and DOCSIS 4.0-compliant products, as well as network telemetry and remote management solutions for the North American market.

### Broadband Networks

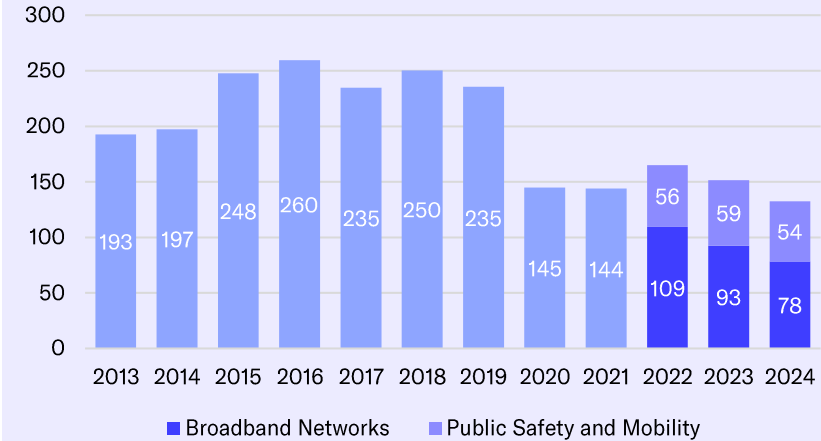
Broadband Networks' main categories include active and passive products, network management systems, headends

and video-on-demand solutions of access networks. Product design, product development and production are mainly carried out at the Littoinen plant. The aim is to maximize production flexibility by maintaining a lightweight production structure through Lean practices. For North America, the company is currently planning to establish local production capacity, for which it intends to use contract manufacturers.

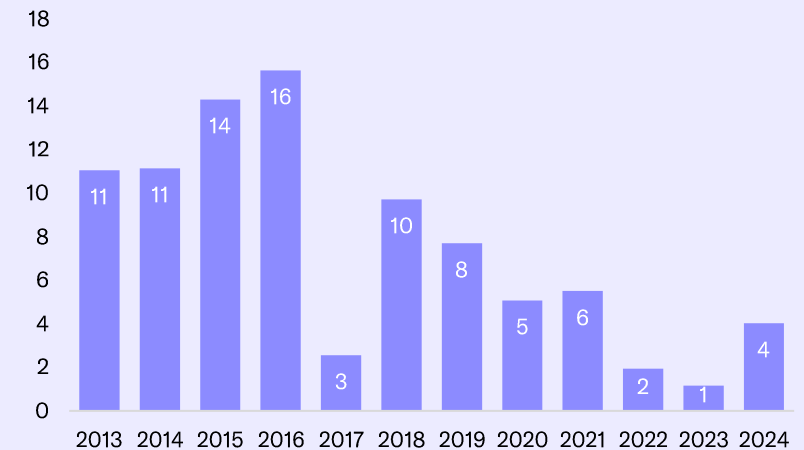
The most technologically advanced optical equipment and amplifiers are manufactured in Turku. These are produced on a make-to-order basis, where products are manufactured only when an order is received from a customer. This avoids unnecessary production in stock. In 2022-2023, the company had to build up exceptionally high inventories to ensure its delivery capacity due to the low availability of components. In 2023, the situation started to ease in this respect, and in 2024 inventories were again significantly reduced. Teleste has also invested in the expansion of the Littoinen plant in recent years, which has enabled the company to increase its own production of certain modules and prepare for future growth.

In the case of access network products, the technological features of the equipment vary between customers and countries, especially in Europe. It is therefore logical to have product development and production under one roof. This means that products can move more quickly from the drawing board to the production line and on to the customer. This makes the Littoinen plant very competitive against low-cost production. However, in the newer technology generations, some product areas are more standardized than before, and Teleste's competitive advantage of small customized product lines is somewhat diluted in these areas. Mass-volume products and products requiring less technological expertise are outsourced by Teleste.

Revenue development (MEUR)



Development of adjusted EBIT (MEUR)





# Company description and business model 4/5

## Broadband Networks customers

Teleste's network equipment is used by all major European cable operators, to whom Teleste delivers its products directly. Small and medium-sized operators in Central and Eastern Europe and North America are served through distributors. As part of its network equipment, Teleste delivers headends globally to operators and the hospitality segment. Teleste has two master supply agreements in North America, one of which is with the company's current main customer, Cox Communications. Deliveries to North America started in 2024 and volumes are set to increase significantly in 2025, driven by strong order intake.

Access network equipment is subject to strong price erosion, which is normal for the industry and is exacerbated by the consolidation of Teleste's customer base. Price erosion puts pressure on margins and thus hurts profitability. Volume growth is often the best or only way to counter price erosion, in addition to continued efficiency improvements.

## Investment in next-generation technologies has been a long time coming

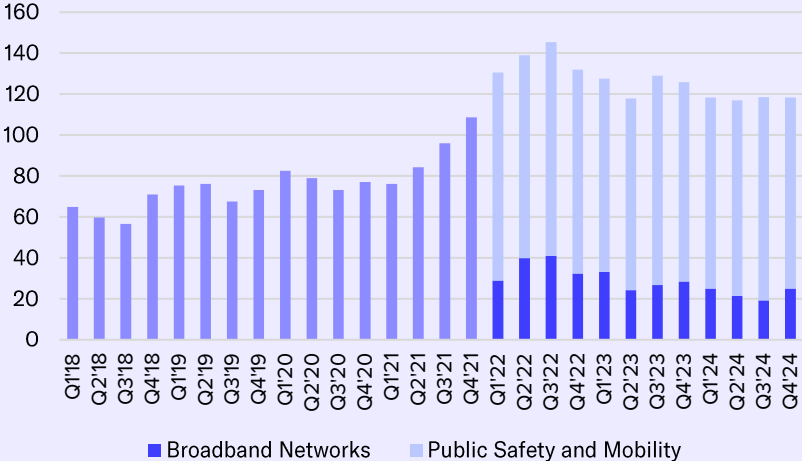
Broadband Networks has been preparing for years for investments in distributed architecture technologies, and sales of traditional HFC technologies have been gradually declining. However, the technology cycle has taken off at a much slower pace than expected, further slowed by the outbreak of the COVID pandemic. As a result, the demand for first-generation distributed architecture products has missed the mark and the overall investment wave in distributed architecture is falling short of initial expectations. This is also reflected in Teleste's impairment (-6.1 MEUR) on capitalized R&D expenses for this technology in Q4'24.

In addition to the distributed architecture, operators are investing in the latest DOCSIS 4.0 standard network equipment. DOCSIS 4.0 will allow network speeds to be increased by increasing the frequency spectrum of coaxial cables from the current 1.2 GHz to 1.8 GHz, or alternatively by changing the modulation of network equipment. Teleste's technology is focused on increasing the frequency spectrum and in particular on amplifiers that comply with the new standard. DOCSIS 4.0 offers clear growth potential in the coming years, as the technology will result in a very large number of amplifiers being replaced in the coaxial network. We believe that Teleste should also have a competitive offering for this technology, supported by the success of the previous DOCSIS 3.1 technology.

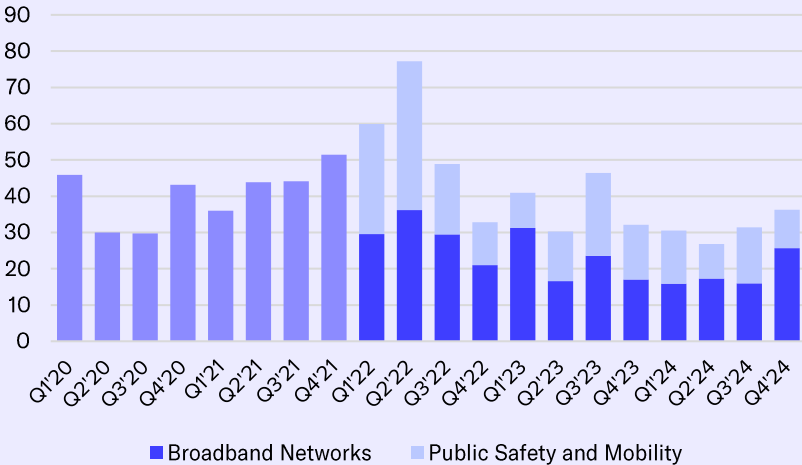
The transition to the DOCSIS 4.0 standard is likely to be much more significant in North America, where operators' networks already have significant renovation debt. In Europe, the DOCSIS 4.0 investment wave is now expected to be much smaller, as new operator investments will be more focused on fiber technologies. However, some operators will also invest in 4.0 technology, and this is expected to start in late 2025.

In any case, DOCSIS 4.0 is likely to be the last major investment cycle that operators will undertake in their cable networks, with new network investments mostly in fiber networks. Nevertheless, significant investment in cable networks is expected to continue for at least the next decade. However, Teleste has started to make preliminary plans in its product development to adapt to this long-term technology transition.

Order book by quarter (MEUR)



Orders received by quarter (MEUR)



Source: Inderes

# Company description and business model 5/5

## Public Safety and Mobility

Teleste's Public Safety and Mobility business offers end-to-end video security and passenger information applications, with Teleste's own products covering transmission, recording and management of video, as well as passenger information solutions. The scope also includes service business related to the maintenance of the delivered systems.

### Passenger information solutions

In the field of public transport information solutions, Teleste develops and sells information systems and equipment mainly for rail traffic. Teleste has strong relationships with major European rolling stock manufacturers, which have been strengthened by the acquisition of Mitron in 2015.

The most important customers for passenger information solutions are rolling stock manufacturers (Alstom, Stadler, Caf) and major city and rail operators. The largest markets are Europe and North America.

French train manufacturer Alstom is Teleste's largest customer, with a significant increase in size following the acquisition of Bombardier's rail business in 2021. Alstom faced challenges in 2023, partly related to the large projects it inherited from Bombardier. This put a strain on the company's cash flow and also created risks for Teleste, as every effort was made to tighten the screw. But the situation has now improved and Teleste has several projects underway with Alstom.

In passenger information solutions, Teleste's profitability suffered significantly from cost inflation, as the order book included many fixed-price projects. This practice, which is industry standard, proved problematic in an inflationary environment. From 2022, new contracts included clauses for

possible price increases. By 2024, most of the problematic projects had been delivered and a significant improvement in profitability was seen (adj. EBIT 3.5% vs. 2023: -0.7%). Passenger information solutions account for the largest share of Public Safety and Mobility revenue, while video security solutions represent a much smaller share.

### Video security solutions

In video security, Teleste's focus is on demanding video security sites where multi-object cameras, recorders and workstations are networked into one unified video security system. Video security applications are often joined together with other systems, such as those involving traffic control, alarm and crisis management systems. Trains today are also typically equipped with both passenger information and video security solutions.

The majority of video surveillance revenue comes from software and project deliveries, with a smaller portion coming from equipment sales. Projects always require customization and integration, which in turn limits the scalability of the software business. The main competitive factor is the reliability of the systems, and Teleste's products have a good reputation. Teleste's competitive advantage also includes strong technological expertise in video management and the ability to integrate customer-specific systems into comprehensive solutions. High replacement costs mean that customer loyalty is very good, but this also contributes to limiting the scope for new sales.

In video security, Teleste's customer base consists mainly of public sector operators. The main customer groups are cities and authorities responsible for road, rail and air traffic. As the customers are mainly public sector operators, the decision-making times for orders can be long or delayed from the

original plan. Sales processes are also often highly competitive. However, if successful, single large projects can secure demand for several years. We understand that video security projects also typically have good margins.

### Businesses support each other

The synergies between video security and information solutions enable Teleste to offer comprehensive solutions for rail transport, including both information solutions and video security for trains and stations. The product development and production of video security software and management systems takes place in Poland. Conversely, the product development and production of information systems and equipment is mainly carried out in Finland and Poland. Here, Teleste mainly develops applications, so the production is staff-centric and therefore does not tie up much capital. The business should therefore be somewhat scalable, although individual large projects will always require customization.

# Business model

## Teleste Group

(group expenses 2024: -4.1 MEUR)

### Broadband Networks

59% of revenue (2024)  
Revenue: 78.2 MEUR adj. EBIT-%: 7.9%

### Public Safety and Mobility

41% of revenue (2024)  
Revenue: 54.3 MEUR adj. EBIT-%: 3.5%

#### Network equipment

- Active and passive products, headends and video-on-demand solutions of access networks. Fast deliveries and short order book.
- Majority of product development and manufacturing in Turku. Mass-volume products outsourced from China and Taiwan.

#### Network services

- Network planning, maintenance and expert services
- Operations mainly in the UK and Finland

#### Video security and passenger information solutions

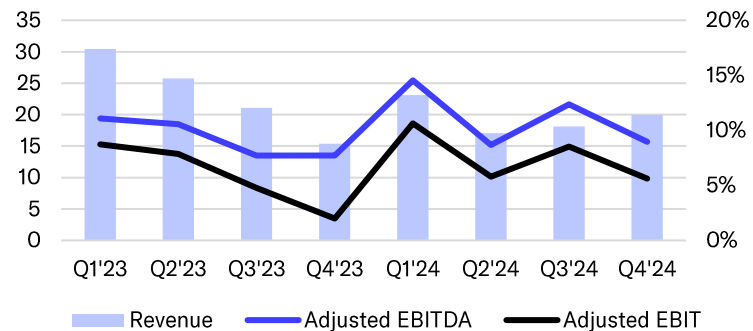
- End-to-end solutions of video security and passenger information. Large projects and long order book.
- Product development in Poland and Finland

Major telecommunications operators in Europe and the US

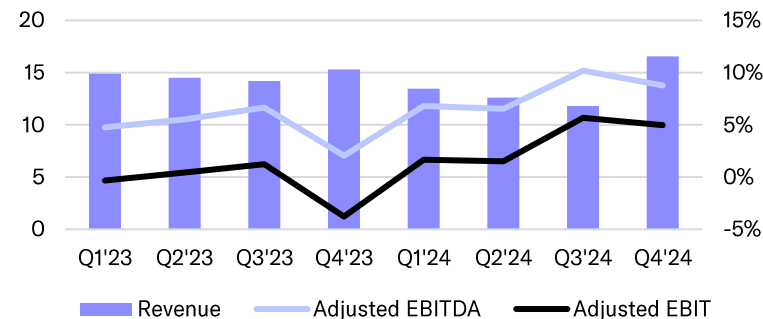
Cable, broadband and telecommunications operators in Europe

Rolling stock manufacturers, the public sector and rail and urban transport operators

**Broadband Networks revenue and profitability by quarter**



**Public Safety and Mobility revenue and profitability by quarter**



# Investment profile

## North American momentum drives earnings growth

Teleste's investment profile was that of a profitable growth company from 2009 to 2016, after which various challenges have weighed on the company's earnings development almost every year. After the COVID pandemic from 2021 onwards, component shortages and cost inflation weighed on the company's operational performance. At the same time, the company's balance sheet was leveraged by the growing inventory to ensure the company's delivery capability. While the situation began to change for the better in 2023, the weakening economic outlook at that time made operators more cautious about their investments. In recent years, this has slowed down the current business in Europe and, to some extent, the expansion in North America. In a challenging market, Teleste has made significant cost savings in response to declining volumes. The operational cost structure is therefore now in a good position for growth in the coming years.

Towards the end of 2024, there were increasing signs that the European market was stabilizing, and the market does not seem likely to deteriorate further this year. At the same time, the company's conquest of North America is progressing well, and this year's strong volume growth will also start to be reflected in the company's earnings growth. With the growth in North America, the company is now well positioned to return to more consistent profitable growth in the years ahead. The solid growth prospects of Public Safety and Mobility, as well as the efficiency measures taken, will also be reflected in the improved earnings trend of the business in the coming years.

## Strengths and drivers

**Success with new network equipment technologies:** The start of volume deliveries of distributed architecture and in particular DOCSIS 4.0 products this year offers Teleste clear earnings growth potential.

**Expansion in North America** offers significant growth potential for years to come. The investment plans of the company's main customer Cox Communication point to significant volume growth for Teleste this year. The company also has a foot in the door of several mid-sized operators, which supports the growth outlook for the coming years. The network telemetry and remote management capabilities developed by the company will serve as a competitive advantage and differentiator in North America, where progress in this area is still well behind Europe.

**Profitable growth in Public Safety and Mobility:** Business growth is supported by urbanization and the growing need for security, and Teleste is well positioned with large customers. Here, the efficiency gains achieved in recent years will also support earnings growth in the coming years.

**Strong market position in Europe for conventional HFC products:** The company has gained a competitive advantage from the technologies it has developed and from the fact that the market for cable network equipment in Europe is fragmented and not standardized. However, the market for traditional HFC products is in a mature phase and in decline.

**A potential M&A card in Teleste's share:** The convergence of network technologies and the consolidation of operators are accelerating the pressure for mergers in the sector. We believe it is possible that a larger competitor could be interested in Broadband Networks. Consolidation may also open up M&A opportunities for Teleste.

## Key risks

**Slowdown in operator investments** in a weakened economic environment has dampened demand prospects in recent years. However, the situation now seems to have stabilized and the worst may already be behind.

**Possible import tariffs in the US** could throw a spanner in the works for Teleste's conquest of America. The company's competitors would also suffer from the tariffs.

**Success with new technology cycles in network equipment:** The transition of cable operators to distributed access architecture and DOCSIS 4.0 solutions is changing the market for network equipment suppliers and may affect their market shares. Teleste appears to be well positioned in new technologies.

**Failure to expand into North America** would significantly weaken Teleste's earnings growth prospects, as the European market for access network equipment will decline in the long term. There are always risks involved in expanding into a new market, and growth may not always go according to plan. However, these risks have diminished in recent years as a result of the progress made and the customers already won.

**Component shortages and supply chain problems** have created challenges for Teleste's delivery capacity and profitability, especially in 2021-2022. The situation in these areas has largely returned to normal, but similar challenges may arise in the future.

**Balance sheet indebtedness remains slightly elevated:** To ensure security of supply, Teleste had to significantly increase its inventories in 2022. By the end of 2024, the level of buffer stocks and thus debt has already been significantly reduced, although the balance sheet multiples (net debt/EBITDA 2.8x) are still high.

# Investment profile

- 1 Volumes in North America set for strong growth this year
- 2 New technology cycles for access network products finally taking off after a long wait
- 3 Solid outlook for profitable growth in passenger information solutions
- 4 Cost structure significantly streamlined during challenging recent years
- 5 Strong market position in Europe in network equipment, although market in structural decline in the long term

## Potential

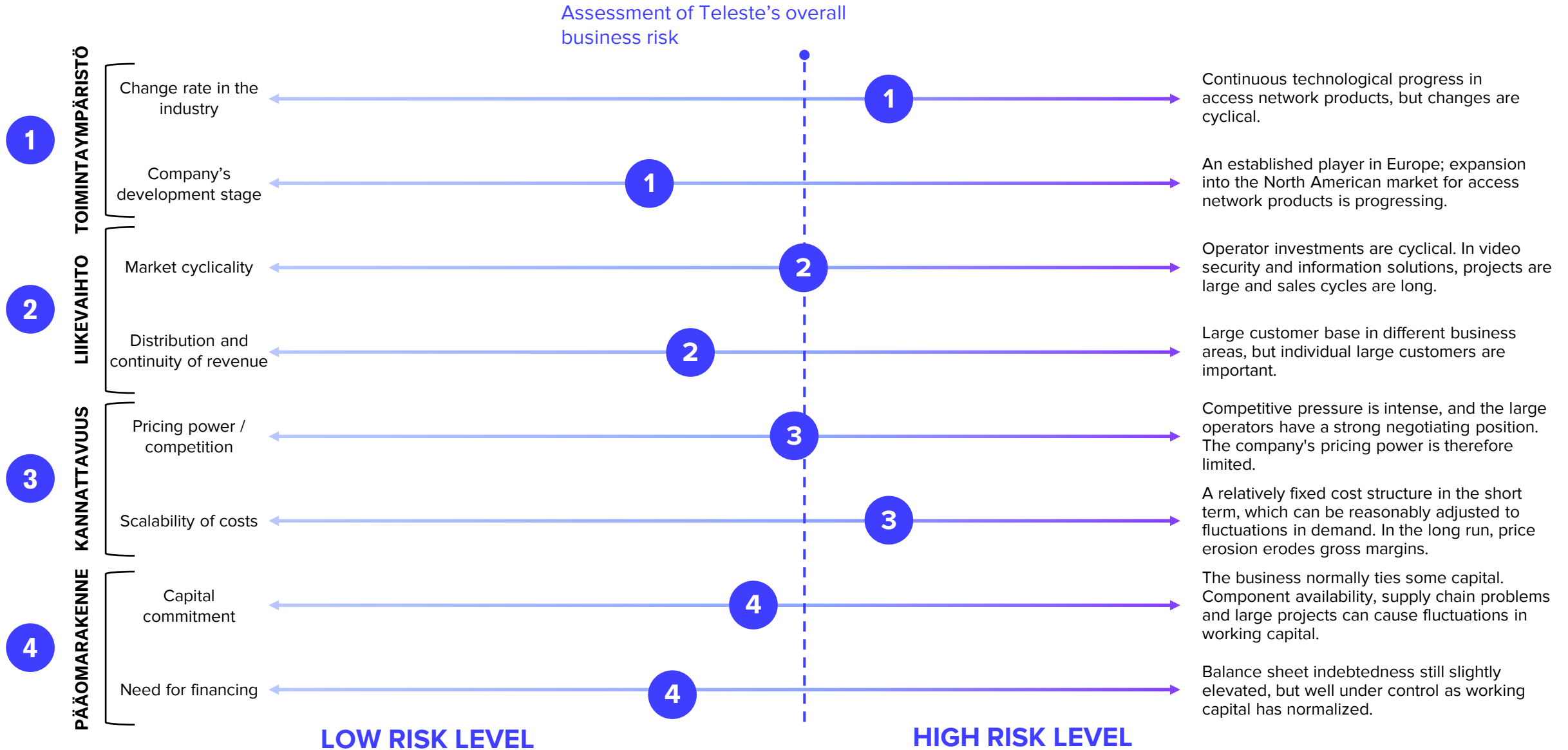
- Start of volume deliveries of distributed architecture and DOCSIS 4.0 products
- Potential for significant volume growth in Broadband Networks in North America
- Growth driven by a streamlined cost structure will support profitability in the coming years
- Profitable growth in Public Safety and Mobility
- Possible M&A target in the long term

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## Risks

- Slowdown in operator investments in Europe in the short term and structural market decline in the long term
- Possible import tariffs in the US
- Failure to expand into North America
- Risks related to component availability and supply chains
- Competitive market pressure and limited pricing power in the face of large operators
- Still slightly elevated indebtedness

# Risk profile of the business



# Market 1/6

## Broadband Networks

The European cable network market varies from country to country and there is no single European market. Cable networks in different countries have been built at different times and with different technical solutions. As a result, there is a wide range of different country-specific products in access network equipment and it is difficult to develop standard products. For Teleste, the short, customized product lines demanded by customers in the European market and the fragmented nature of the market have been a good thing, as it allows the company to compete against mass-volume products.

Teleste has a broad customer base in the network equipment market. The company has strong ties with all major European telecommunications operators that manage cable networks, and its customer base also includes medium and small cable operators. In North America, the company has so far succeeded in signing frame agreements with two major cable operators (Cox Communications and another undisclosed), as well as with several smaller operators.

### Market size

Since 2004, European cable operators have steadily managed to grow their customer base and have been able to take market share from telecom and mobile operators. According to a study commissioned by the European Commission, in 2023 around 41% of households in EU countries had access to a DOCSIS 3.0 compliant cable network and 34% to a DOCSIS 3.1 compliant network. DOCSIS 3.0 coverage has slightly decreased year-on-year as fiber networks have become more widespread, but DOCSIS 3.1 coverage has continued to increase slightly.

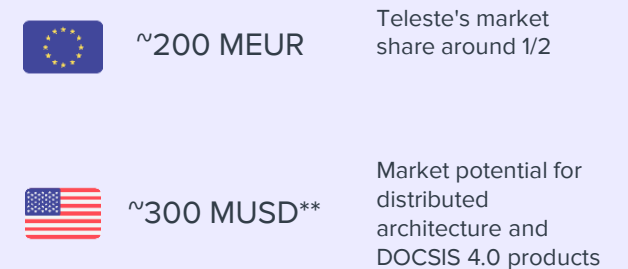
In Europe, the size of Teleste's European market for access network products was estimated at 300 MEUR a few years ago, but as the market has contracted in recent years, a more relevant estimate is around 200 MEUR. The company has a strong market position in Europe (~50%), which has been strengthened in recent years as smaller players have gone bankrupt. At the beginning of 2025, the main decline of the market seems to have stopped, but a recovery to the previous size is not expected. In the short term, the market may experience a temporary upturn as certain countries and operators migrate to DOCSIS 4.0 technology, but in the longer term, the market is likely to decline as new investments are made primarily in fiber networks. For the time being, DOCSIS 4.0 investments will be made at least in the Benelux, the Netherlands, Switzerland, Austria and the Czech Republic. On the other hand, France, the UK, Ireland, Portugal and Spain are no longer participating in the next round of upgrades. In Germany, networks are only now being upgraded to the previous-generation 1.2 GHz equipment, and technological decisions have made it impossible to go beyond this in the future.

Teleste's growth in the coming years will depend on its expansion into North America, a market that is about 4 times larger than Europe as a whole. The market size is also expected to grow in the medium term. However, Teleste will not directly enter the new market with its entire product portfolio due to limited resources. Moreover, due to the technology choices of the US operators (Comcast), the entire market is not even within the company's reach. Teleste's focus in the market will be to provide nodes for distributed access architecture and specifically 1.8 GHz amplifiers. The relevant market for Teleste in North America is estimated at approximately 300 MUSD.

## Market for Broadband Networks

- Different technologies in Europe across countries
- Growing market in North America
- High entry barriers
- Continuous price erosion
- Customers consolidating

### Market size



\*\*The total network equipment market in North America is approximately 4x larger than in Europe. Initial relevant market for Teleste in North America estimated at around 300 MUSD

### North American market breakdown

~1/3 Comcast	Not relevant for Teleste due to technology choices
~1/3 Charter	
~1/3 Other operators	Teleste's priority target operators

# Market 2/6

## Market trends

The growth of the network equipment market is supported by constantly increasing data volumes, which place demands on connection speeds and network quality. Operators need to invest in increasing the capacity and speed of their cable networks in order to remain competitive and cope with the increasing load on their networks. The COVID pandemic further increased broadband traffic, but it was still something that operators were able to respond to with DOCSIS 3.1 network upgrades. Particularly in North America, investment in network equipment is being driven not only by higher data speeds, but also by the need to increase the remote manageability and intelligence of networks through software. The aim is to improve the reliability of online services and reduce operating costs. Teleste has strong expertise in this area, as Europe is well ahead of the curve in this area.

In the coming years, network equipment will be increasingly upgraded, especially to DOCSIS 4.0 compliant equipment, while the technology cycle for the distributed architecture will remain well below initial expectations. DOCSIS 4.0 is seen as the last major wave of investment in cable infrastructure, which will remain competitive with fiber networks for at least the next 10 years. On the other hand, DOCSIS 5.0 technology is still on the industry's drawing board, although at some point the physical limits of how much more performance can be extracted from cable networks will come into play. Compared to the distributed architecture, DOCSIS 4.0 is more at home for Teleste in terms of technology, with the upgrade of the previous-generation DOCSIS 3.1 equipment.

In the last decade, the European network market has seen significant M&A activity and strong consolidation of the customer base. Cable operators have merged to achieve economies of scale, and the market has also seen mergers between cable and mobile operators to expand product portfolios. US cable operators have not shown much interest in the European market, but the European company Altice has made major acquisitions in the US. In 2018, Vodafone acquired Liberty Global's cable operations in Germany, Hungary, the Czech Republic and Romania in an 18.4 BNEUR arrangement. The consolidation of Teleste's customer base is creating larger and larger customers. With larger customers, purchasing power is strengthened as purchasing departments become more professional and volumes increase. This, combined with fierce competition, leads to greater price erosion.

Another trend is the virtualization of telecommunications networks, which can accelerate the price erosion of equipment and reduce the need for separate network equipment in certain parts of the cable network.

Virtualization allows telecom network functions to run on programmed standard hardware. This transfers the intelligence and value of networks from the hardware to the software layer. It is our understanding that virtualization is not an immediate threat to Teleste's products but applies to other areas of the cable network (especially core networks). We also perceive Teleste to be at the forefront of the industry in the development of intelligence and remote manageability of its own products. Moreover, we believe that it would not even be possible to virtualize all the features of the nodes, amplifiers and passive products manufactured by the company.

## Broadband Networks market trends and their impact on Teleste



- Constantly increasing data volumes
- Operators' need to increase network capacity and speed
- Need to improve remote manageability and intelligence of networks
- Investments in next-generation network equipment beginning



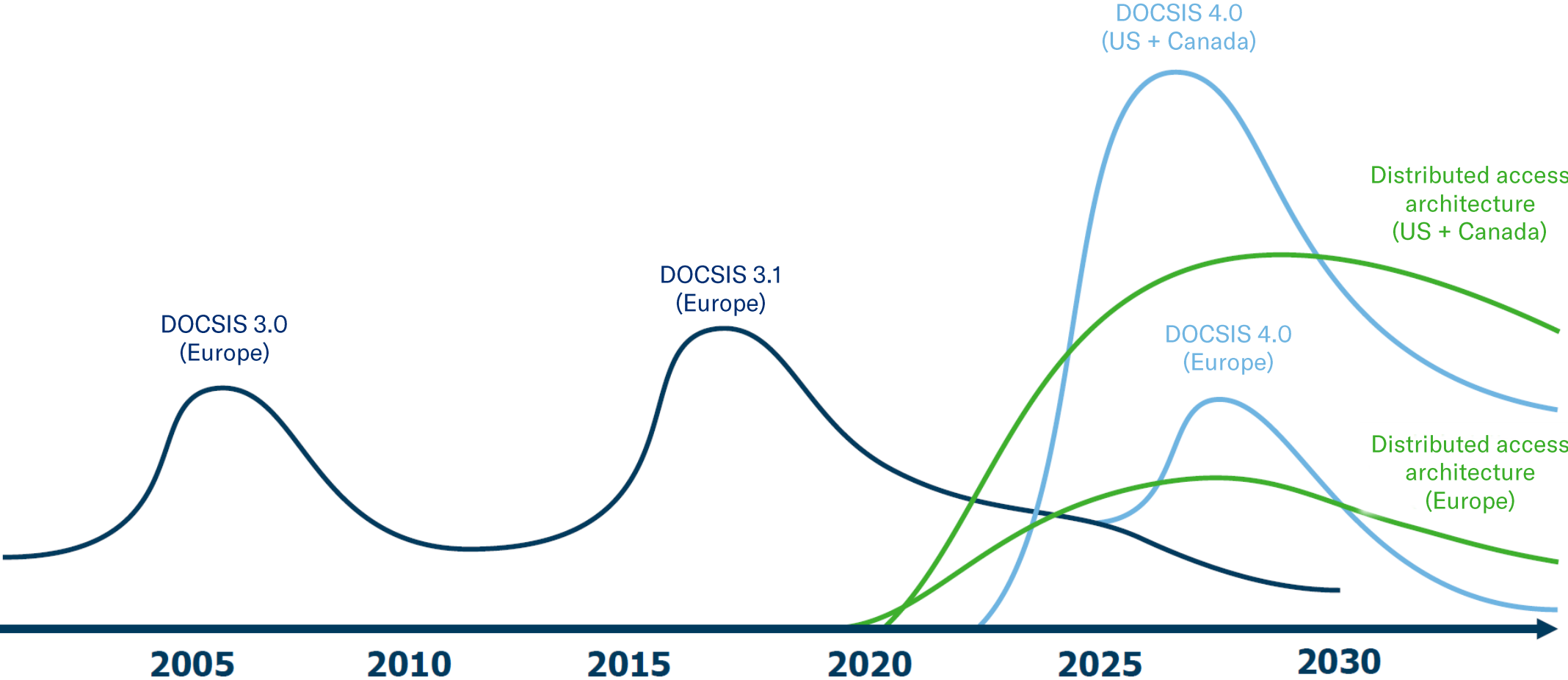
- Network virtualization
- Shift to fiber solutions in the long term (+10 y)



- Consolidation of the customer base
- Price erosion
- The impact of the weaker economic outlook on operators' investments, especially in Europe
- The long-term structural downward trend of the European market



# An indicative illustration of Broadband Networks investment cycles\*



Source: Teleste, \*Illustration created in 2023, after which expectations for the distributed access architecture market have declined. The start of technology cycles also lags behind the figure.

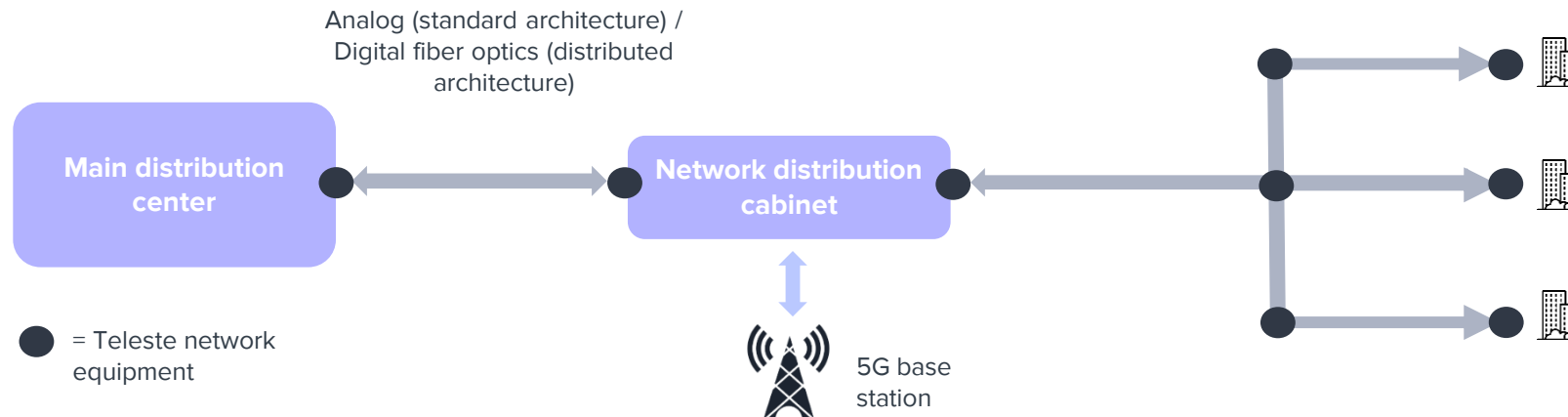
# New technologies in cable networks

## Distributed architecture

- ⇒ In the traditional architecture, the main distribution centers are full of hardware, running out of physical space. Expanding real estate is an expensive way for an operator to increase capacity.
- ⇒ In a distributed architecture, the number of devices and capacity in the main distribution center is reduced. Power consumption and space savings for operators. Investment in network equipment is reduced and some of Teleste's existing core products are cannibalized.
- ⇒ Increasing equipment and capacity, especially in network distribution cabinets. Investment in network equipment increases. Intelligence is being brought into the field, which will also enable new applications such as acting as a backbone for 5G. Demand for Teleste's new solutions is growing.

## DOCSIS 4.0

- ⇒ A new cable network standard that increases the frequency spectrum in coaxial cables from 1.2 GHz to 1.8 GHz.
- ⇒ Enables up to 10 Gb speeds over a cable network, allowing network speeds to be increased without major fiber investments.
- ⇒ The DOCSIS 4.0 standard covers all network elements from central systems to home terminals. Teleste's main product in the North American market are amplifiers at the end of the cable network, which are being upgraded to meet the new standard. The number of amplifiers is many times higher than that of network distribution cabinets, but the level of intelligence is lower. Investment in network equipment increases.



# Market 3/6

## Competition in cable network technologies

The European network equipment market has historically been highly competitive, although at the same time the demands of technology and its rapid evolution have set a high barrier to entry. Network equipment is often customized for a specific country or customer, so there are not really any mass-volume Asian suppliers in the competitive landscape. In passive products, where the technological configuration is low, there are more competitors. Teleste's competitors include Vector, Technetix, Wisi, BKTel, CommScope (Arris), Harmonic, ATX and Vecima. Of the European competitors, Technetix is approximately the same size as Teleste and is also active in North America. Wisi, BKTel and Vector are smaller players than Teleste. In North America, CommScope is a very large player, but other competitors (e.g. Vecima and ATX) are in the same size range as Teleste.

In Europe, the cooling of operator investments in recent years and the weak economic situation have driven smaller operators into corporate restructuring and bankruptcy, which has contributed to easing competitive pressure in recent years. Broadly speaking, Teleste and Technetix currently have the European market largely divided between them. A structurally declining market is unlikely to attract many new entrants.

CommScope, which acquired Arris in 2018, has a strong market position in North America. However, over the years, the company's balance sheet has been heavily leveraged due to acquisition-driven growth, which has proven problematic as markets have deteriorated and interest rates have risen. We see the company's challenges as a potential opportunity for Teleste to gain market share in North America.

Cisco's strategy has been to focus more strongly on its other business areas, and the company has effectively exited the

market for access network products. The company has already divested its amplifier business (purchased by ATX) and is also withdrawing from the CCAP core business. Cisco has historically been a partner of Teleste in Europe, supplying core equipment for joint network projects.

## Competition as network technologies converge

Several years ago, the future of fixed networks was questioned due to the rise of mobile networks. In reality, the importance of fixed network technologies has only grown and will continue to grow in the 5G era. The world has gone mobile, but at the same time wireless networks need a stronger fixed network in the background to function. The different network technologies thus complement each other, rather than simply competing with each other. For example, a cable network can be used as the backbone of a 5G radio network. The line between mobile and fixed broadband networks has therefore become blurred. For operators, this has meant having to cover different network technologies, which has led to consolidation. With network convergence, we believe that the competitive landscape for Teleste's customers, and consequently for Teleste, is also changing, creating pressure for consolidation.

In the last decade, network convergence has seen companies such as Nokia and Huawei trying to expand into the cable market. Yet Huawei has virtually withdrawn from the cable market, largely as a result of sanctions imposed on the company in the US and Europe. Nokia entered the cable market in 2016 with the acquisition of US-based Gainspeed. However, Nokia failed to expand into the challenging market as expected and sold these businesses to Teleste's competitor Vecima in 2020. In Vecima's hands, the growth of these businesses has been very strong and the size of the business has multiplied from the starting point.

## Competitors in network equipment

COMMSCOPE® **technetix**

 VECIMA **harmonic**

   **VECTOR**

## Competitors in network services

**NOKIA**



**ERICSSON** 

**ZTE中兴**

+ Local actors

# Market 4/6

In the past, the market entry of large players offering comprehensive "turnkey" network deliveries appeared to be a clear competitive threat to Teleste. Based on current knowledge, the competitive threat from major players such as Cisco, Nokia and Huawei has significantly faded in recent years. Instead of looking for end-to-end solutions, operators seem to be reluctant to be locked into single-vendor technologies. Therefore, we believe that there will continue to be room in the network market for players like Teleste that specialize in a particular area of technology.

In the bigger picture, we believe that Teleste's Broadband Networks business would still be an attractive component for many players if the consolidation of network infrastructure vendors continues. In this scenario, Teleste would be left with a stable business developing video security systems and information solutions for rail traffic (Public Safety and Mobility).

In the longer term, however, fixed networks will be challenged by fiber networks, which already account for the bulk of new network investments. On the other hand, maintenance investments in cable networks will continue well into the future. In addition, the rise in interest rates has clearly slowed investment in fiber, at least temporarily.

## Network services

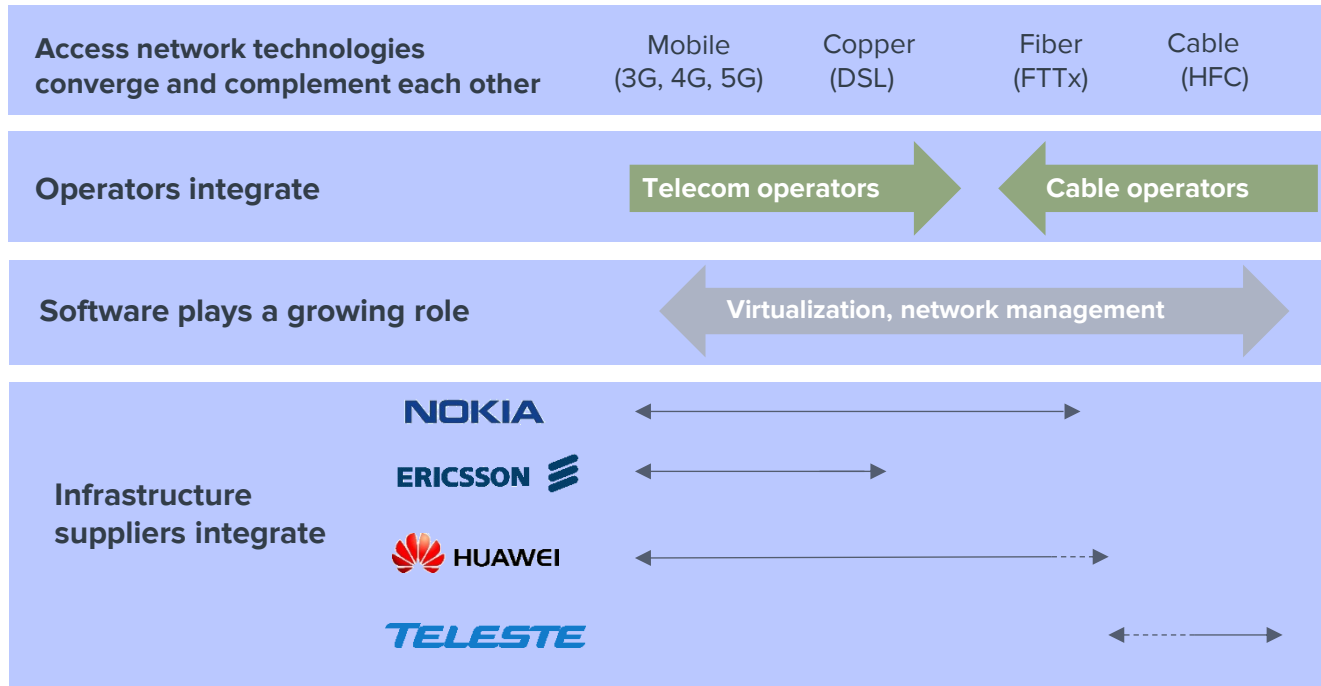
The services business was Teleste's largest segment in terms of market size before the divestment of the German operations. Now the assessment of the actual market potential is less relevant, as the size of the business is significantly small. At present, Teleste has no specific plans or desire to grow its small services business. On the other hand, the agreement with Telia to outsource the operation of broadband and TV services, announced in late 2024, is an example that the company sees certain growth opportunities here as well.

Teleste's competitors include numerous small local service providers and large global network companies (such as Nokia, Ericsson and Huawei). In addition, the company's indirect competitors are the operators' internal service organizations and, in particular, the global service organizations of the large operators.

The growth of the services business is supported by the increasing outsourcing of telecommunications network management by operators. Operators are also looking to centralize their purchasing and are therefore increasingly looking for suppliers that can provide equipment and services as comprehensive solutions. However, outsourcing network maintenance to external suppliers is not as common in cable networks as it has been among mobile operators.

The service provider has to be extremely efficient to deliver the benefits of outsourcing profitably to the operator. In the long term, we see automation as a key competitive advantage. Thus, as the services market grows, its labor intensity will decrease markedly. Operators have a chronic need to improve efficiency and reduce the labor intensity of their business as they face increasing disruptive competition and pricing pressures. In the long term, the strongest players will be the large global service providers with the capacity to invest in automation and service platforms. In our view, Teleste's divestments in the services business are indicative of these market trends, and we believe that the company's focus on the product business is a good solution.

# Convergence of telecommunications networks



- Customers become bigger and stronger buyers
- Network providers are becoming larger suppliers of total solutions as a result of consolidation of the customer base
- Customer pressure is also driving demand for specialized operators, some of which specialize in selected technologies
- Teleste's Broadband Networks a potential consolidation target

# Market 5/6

## Public Safety and Mobility

Teleste's passenger information solutions customers are mainly large European rolling stock manufacturers and railway operators. While Teleste operates globally in video security, the company's main geographical areas are North America and Europe. Examples of customer segments are transportation, cities, national defense and security. In selected vertical groups, Teleste has invested in high-end systems (complex, sophisticated systems), as the consumer market (small systems with low configuration) is more competitive and less valuable.

Teleste has good references in these businesses. The company's video security customers include the City of Paris, Cape Town Police, Chicago Transit Authority, Fintraffic, Trafikverket, Asfinag, the US Department of Transportation and Helsinki City Transport (HKL). Customers for passenger information solutions include railway operators (such as Siemens, Alstom, Stadler and Caf) and public transport operators (such as HKL, SL, Banedanmark, Translink and Toronto Transit Commission).

Teleste's customer base has undergone significant changes since the company's largest customer, Alstom, acquired Bombardier's rail business in 2020. A few years after the reorganization, the figures seem to indicate that Teleste's position as a supplier to Alstom has remained good. After the acquisition, there was a risk that Teleste's customer position could be weakened as the company reassessed its suppliers. While having an important strategic customer provides Teleste with growth opportunities, the bargaining power of a large customer increases quality requirements and maintains price pressure.

Another significant change was the frame agreement signed in late 2024 with Siemens Mobility, one of the world's leading rolling stock manufacturers. Building a position in this large account takes time, however, but when successful, such accounts are often long-term and replacement costs are high.

### Market size

The passenger information market in North America and Europe is estimated at around 550 MEUR and is expected to grow at a moderate single-digit rate. Here, large multi-year projects can run into the millions, which is also reflected in the large fluctuations in Teleste's order intake between quarters. The majority of Public Safety and Mobility business is concentrated in this area.

The total global market for video security is in the billions. However, due to Teleste's geographical and customer focus, the size of the relevant market for the company is significantly smaller. Teleste has estimated the total size of its niche market to be around 200 MEUR in Europe and the US. The market is expected to grow moderately in the medium term. As the customers are mainly public sector operators, the decision-making times for orders can be long and project timelines are often delayed. We understand that typical order sizes in video security range from one million to a few million.

## Video security solutions

- Many small product competitors, integrators in end-to-end solutions
- Mainly public-sector customers
- Slow sales cycles
- Underlying trends in urbanization and public safety

### Market size



## Passenger information solutions

- European rolling stock manufacturers as main customers
- Many different players in the market
- Stable market growth prospects
- Trends of urbanization and growing public transport

### Market size



# Market 6/6

## Market trends

The growth of the Public Safety and Mobility market is supported by megatrends such as urbanization and the increasing need for security. People around the world are moving to cities at an accelerating rate, increasing the need for these types of solutions to ensure that road, rail, bus and other transportation services operate smoothly. The growing population in cities also increases the need for security, and video security can monitor various threats more effectively than before.

Video security is moving toward more and more comprehensive situational awareness systems that integrate multiple security systems into one (e.g., border control, weather, police and emergency services). Technological trends include video analytics, recognition and artificial intelligence applications, adding intelligence to solutions.

## Competition

Teleste's competitors in passenger information solutions include the Belgian company Televic and Wabtec, which acquired the German company Annax. Competitors also include suppliers of display devices such as GDS, Lumino, Funkverk, Luminator and Daktronics. Teleste has good relations with Europe's largest rolling stock manufacturers and railway operators, which helps it to compete.

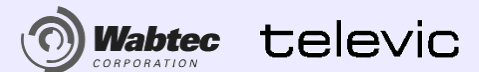
The video security market in Europe is highly fragmented. There are many different actors in the market with different roles in video security. The market includes small application suppliers, equipment suppliers, integrators, administrators and system suppliers. Teleste has focused on designing larger systems that can integrate third-party software and hardware.

Video security applications are a very niche area, which makes the market less attractive for large players. As a result, Teleste has several smaller competitors, the most important of which are Genetec and Milestone. In situational awareness systems, Teleste competes with large IT integrators.

## Competitors in video security solutions



## Competitors in passenger information solutions



# Strategy 1/2

## Strategic focus

Teleste's strategy is focused on:

- Market leadership in 1.8 GHz amplifiers (DOCSIS 4.0) and a strong position in distributed architecture
- Expanding Broadband Networks in the North American market and maintaining position in Europe
- Preparing a vision for the future beyond cable technology
- Achieving a strong position in passenger information solutions and growing maintenance business
- Maintaining niche position in video security solutions

## New technology cycles in Broadband Networks

In Broadband Networks, after years of waiting and development, next-generation technologies are now at a point where volume deployments are set to start in 2025. These deliveries will be a key driver of Teleste's growth in the coming years. The COVID pandemic, component shortages and the weakened economic environment have delayed the launch of new technology waves, but now signs of an investment pick-up are already partly reflected in the development of orders received by Broadband Networks at the end of 2024.

A few years ago, the expectations for distributed architecture were significant, as it offered Teleste the opportunity to enter new market and product areas in the access network products. However, this technological revolution has progressed much more slowly than the company originally expected. The final market potential is also lower than initially estimated, which is reflected in the impairment of the

capitalized R&D expenses for these technologies by just over 6 MEUR in Q4'24.

The DOCSIS 4.0 technology cycle is now the one with the highest expectations. With this technology standard change, there are more amplifiers to be replaced than there are nodes to be replaced within the distributed architecture. The technology transition is now taking off, first in North America, with Europe a bit behind. Deliveries of DOCSIS 4.0 technology were already made in 2024, and strong order intake at the end of the year points to strong volume growth in 2025.

Teleste is well positioned for this cycle, as the company was very successful with DOCSIS 3.1 and this is an upgrade to the same product areas. Teleste also believes that it is currently ahead of its competitors, particularly in the development of DOCSIS 4.0 compliant amplifiers, especially in terms of intelligence and remote manageability. While Teleste's amplifier products offer smart telematics and remote diagnostics features, they are not as intelligent as node products. Therefore, in our understanding, their margins are weaker than those of nodes. In time, nodes are also likely to be upgraded to comply with the DOCSIS 4.0 standard. Teleste's European expertise in areas such as remote updates is one of its competitive advantages in North America, as operators are increasingly interested in reducing their costs. We understand that Teleste's competitors are lagging behind the company in this area.

## Expansion into North America

Teleste's strategy to conquer America took a big step in 2022, when the company announced a frame agreement

with a major US broadband operator (Cox Communications). In addition, the company has one major master supply agreement (operator name not disclosed) and other smaller operator customers. At the same time, the company is still in discussions with several cable operators, and in total there are more than 10 potential mid-size customers in addition to a few large giants.

The North American market is highly competitive and as a new entrant, we estimate that Teleste may initially have to compete on price for certain customer accounts. So far, we believe that there has not been much need for this, although negotiations with several customers are still ongoing.

Expansion into North America is crucial for long-term growth, as Teleste expects the European access network market to decline in the longer term as network investments increasingly focus on fiber networks. The growth outlook for North America, on the other hand, is brighter as the country has significantly more cable networks and will continue to invest heavily in them. As a result, Teleste's business focus will shift significantly more from Europe to North America in the coming years.

Teleste operates in the US market through a joint venture with Antronix, a local technology vendor for cable operators. Teleste owns 80% of this company and has an option to redeem the entire stake. Teleste will initially produce the network equipment in Finland, but as the volume in North America increases, it is very likely that production will be done locally, using contract manufacturers.



# Strategy 2/2

The company has also built a local warehouse in the US in early 2025 to prepare for possible import tariffs. The company's competitors do not have direct production in the US either, so they would also suffer from the tariffs. This would probably allow the cost of the tariffs to be passed through to product prices fairly well, with a small delay.

## Preparing a vision beyond cable technology

DOCSIS 4.0 appears to be the last major investment cycle that operators will undertake in their cable networks, with new network investments mostly in fiber networks. Investment in cable networks is therefore likely to be well below current levels at some point in the late 2030s. Teleste has started to make preliminary plans in its product development to adapt to this long-term technology transition. For Broadband Network, this is therefore likely to mean a shift from cable technologies to fiber, or expansion into entirely new business areas. Teleste's product range already includes passive products for fiber networks, but the replacement of cable products will obviously require a significant renewal of the product offering in the long term. This technology transition creates uncertainty for Teleste's outlook in the very long term, but in the company's long history, its businesses have also been through many transformations already. The preparations for this change have also started very well in advance.

## Aim for market leadership in passenger information solutions

Teleste has important European customers in passenger information solutions (Alstom, Stadler, Caf), where the company aims to expand. Between 2022 and 2023, cost inflation and fixed-price projects posed a challenge, but these challenges have been overcome and in 2024 the segment's

profitability already started to improve significantly. Thanks to the cost savings and efficiency measures taken in recent years, the conditions for profitable growth are also good in the future. Teleste is continuously striving to improve its efficiency in this area and has, for example, concentrated its software development activities. The company has also developed the S-ARRIVE software platform, which will reduce the need for project-specific customization in the future. Growth opportunities are also seen in the maintenance business, which in principle has relatively high margins.

## Aim for a strong position in selected areas of video security

In video security, one of Teleste's strategic objectives is to grow in existing customer groups (e.g. public transport, public areas, smart city and airports). According to Teleste, the market for network management systems is saturated and the growth outlook is fairly stable. Comprehensive situational awareness systems and the introduction of video security software in trains offer certain growth opportunities.

Successful growth in video security would support Teleste's profitability, as we estimate that the software-focused business model offers a good profitability profile. Slow new customer acquisition and long sales cycles are a challenge. As a result, the current business is dependent on the upgrade cycles of existing customers' systems. It would also be strategically important for the company to be able to expand its customer base to enable growth.

## Higher value-added services with small volumes in the services business

In the services business, Teleste focuses on higher value-added services and improving operational efficiency. These services also contribute to complementing the access

network product offering. In the overall picture, the services business currently plays a very small role in Teleste's strategy and its impact on the group figures is limited.

## Financial targets

Teleste has not disclosed its long-term financial targets, and the company's dividend policy is very abstract. The company describes its dividend policy as follows: "Teleste intends to be an interesting investee corporation in which the investment's increase in value and the dividend yield form a competitive combination. The annual proposal for the dividend is validated by the Board in consideration of profitability, financial situation and needs for investment necessitated by profitable growth." The company has a history of paying an annual dividend, but no dividend was paid in 2022-2023 due to the poor result, working capital commitment and investments needed for the North American expansion. For 2024, Teleste's board of directors proposes a dividend of EUR 0.03 per share. We see the small dividend as a symbol of Teleste's improved balance sheet position last year and an improved earnings outlook for this year.

## Teleste's strategic focus

### Growing business in next-generation broadband network technologies

- Product development investments in distributed access architecture and DOCSIS 4.0 compliant equipment
- Aim to achieve a strong market position in DOCSIS 4.0 standard products and a good position in distributed architecture
- Success in new technology cycles for network equipment is key to growth in the coming years
- Transition to fiber technologies in the longer term

### Expansion into the North American market

- Entering a new market with distributed architecture products and DOCSIS 4.0 standard products in particular
- Go-to-market with Antronix via joint venture
- First key customer (Cox Communications) secured, whose investment plans for this year promise significant growth for Teleste
- Production initially in Finland, but with local assembly as volumes increase

### Growth in Public Safety and Mobility

- Growth in existing products and customer segments
- Aim for a leading position in public transport information and security solutions
- In video security, aim to maintain a solid position with selected public authorities' security solutions
- Cost savings and efficiency measures have created good conditions for profitable growth

### Focus on high value-added services in the services business

- High value-add service for network operators and public transport industry
- The role of the services business in the strategy is now small
- Focus on designing fiber networks in the UK and Finland's services business

### Improving the efficiency of internal operations

- Earlier profitability pressure from component shortages and cost inflation eased during 2024
- Improve security and volume of supply
- Pass on material costs in customer prices
- Good progress in optimizing working capital and reducing debt levels in recent years
- Production flexibility is sought to smooth out the seasonal fluctuations in demand that are typical of the industry

# Financial position 1/2

## Past development and earnings potential

Teleste's revenue grew at an average rate of 11% between 2005 and 2016. In addition to organic growth, the company has made numerous acquisitions over the years. In 2009, Teleste acquired four German companies in the services business, but these were divested in 2020 due to chronic poor profitability. Mitron, acquired in 2015, had a revenue impact of approximately 27 MEUR. After a record year in 2016 (revenue 260 MEUR), Teleste's revenue decreased by an average of 3% per year in 2017-2019 due to the weak development of its access network products and services business.

Since then, the company has experienced various challenges practically every year. In 2020, the COVID pandemic disrupted operations in all of Teleste's business areas. In 2021-2022, demand recovered and the order book reached new records. However, component shortages limited the company's ability to deliver and thus its revenue growth. Between 2023 and 2024, the weakened economic outlook led European operators to slow down their investments, which was particularly reflected in the collapse of Broadband Networks' revenue (2022: 109 MEUR vs. 2024: 78 MEUR). On the positive side, North American deliveries started in 2024 and revenue increased here by more than 100%. In 2024, North America and other countries already accounted for 15% of the revenue (2023: 6%). Public Safety and Mobility's revenue has been relatively stable in recent years, ranging between 54-59 MEUR.

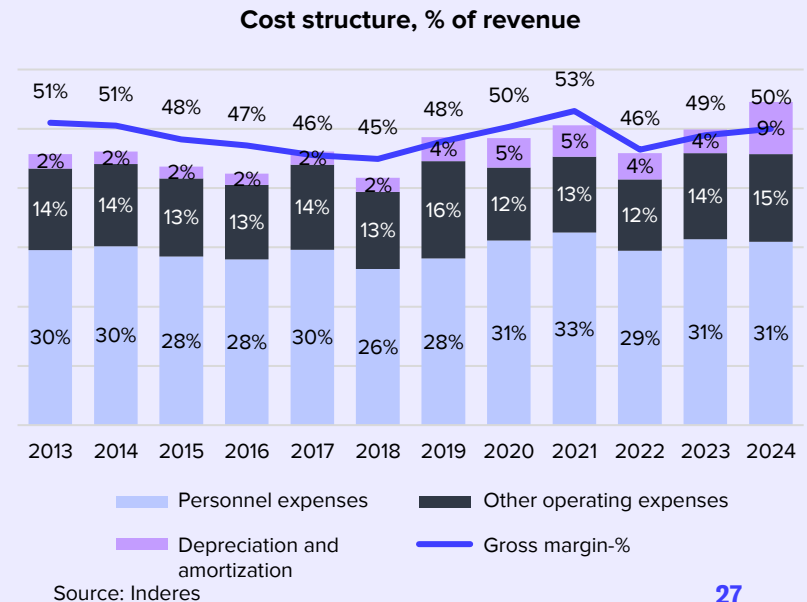
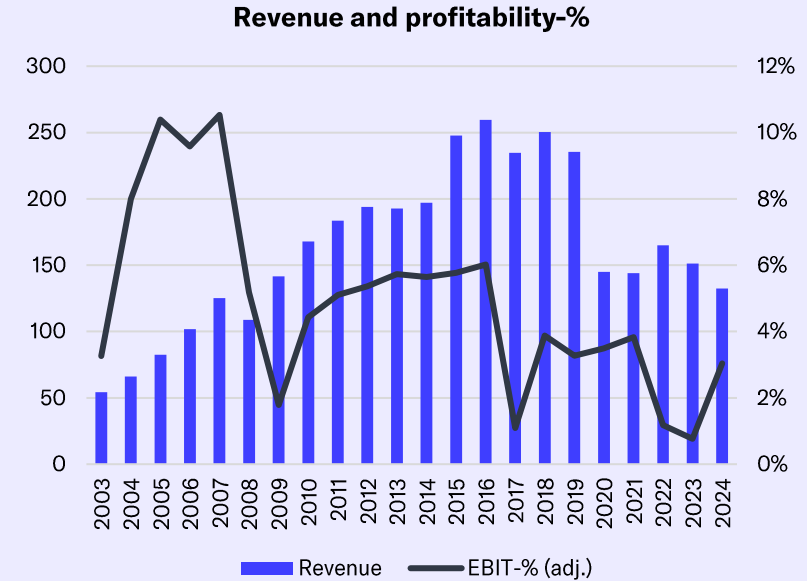
Before the financial crisis, Teleste had an EBIT margin of around 10%, but since 2009 profitability has been structurally well below this level. Fierce price competition and weak profitability in the services business initially kept

margins low. After the divestment of the German services business, Teleste's profitability profile improved, but component shortages and cost inflation created a new profitability challenge in large fixed-price projects for passenger information solutions. Their impact on profitability was largely offset by 2024. Between 2023 and 2024, the company has made major cost structure adjustments, resulting in a reduction of the fixed cost structure. This was already reflected in profitability in 2024, and the adjusted EBIT margin (2024: 3.0%) improved significantly despite a further decline in revenue (-12%).

With an adjusted cost structure in both businesses and a pick-up in the access network product cycle in the coming years, Teleste should be able to achieve an EBIT margin above 5%. In the previous technology cycle, Teleste's VBS segment (which effectively included the existing businesses) achieved an EBIT of around 8-10%, which we believe reflects the company's earnings potential if the strategy is executed very well in the medium term.

## Cost structure

Materials and services are Teleste's largest cost item (2024: 50% of revenue). The share of this item has gradually decreased from the 2022 level (54%), when the gross margin was burdened particularly by the combination of cost inflation and fixed-price projects for passenger information systems. In the long term, the gross margin will be under pressure from continued price erosion in the network equipment market. The best way to combat price erosion is to increase volumes, which should be possible again in the coming years after a more difficult period in recent years. Overall, we do not expect the change in focus of Broadband Networks from Europe to North America to significantly change Teleste's gross margins.



# Financial position 2/2

Of the operating expenses in 2024, personnel expenses accounted for 31%, other operating expenses for 15% and depreciation and amortization for around 9% of revenue (at a high level due to a one-time impairment). We see scalability potential in Teleste's operating expenses as revenue returns to growth, given that revenue was at a low level in 2024 and has declined for two years in a row. At the same time, however, growth in North America still requires further investments.

## High inventories brought down significantly in recent years

Teleste's balance sheet has historically been quite strong in general, which has given the company room for maneuver and enabled it to make acquisitions. During the 2010s, Teleste's equity ratio was around 45-50% and its net gearing was around 10-25%.

During 2022, the balance sheet deteriorated as Teleste was forced to significantly increase its inventory levels to ensure security of supply. In addition, trade receivables ballooned and the company had to finance the increased working capital with new debt financing. Between 2023 and 2024, the component shortage situation started to ease and the company managed to significantly reduce its working capital. This has also led to a decrease in gearing, although it remains slightly elevated. At the end of 2024, the company's net gearing was 46% (2023: 52%) and equity ratio 45% (2023: 45%). However, the pursuit of strong growth in North America in the future may tie up working capital again in the short term, as manufacturing products in Finland inevitably makes the supply chain quite long. At the same time, we expect Teleste to continue to optimize its inventory levels. Due to working capital

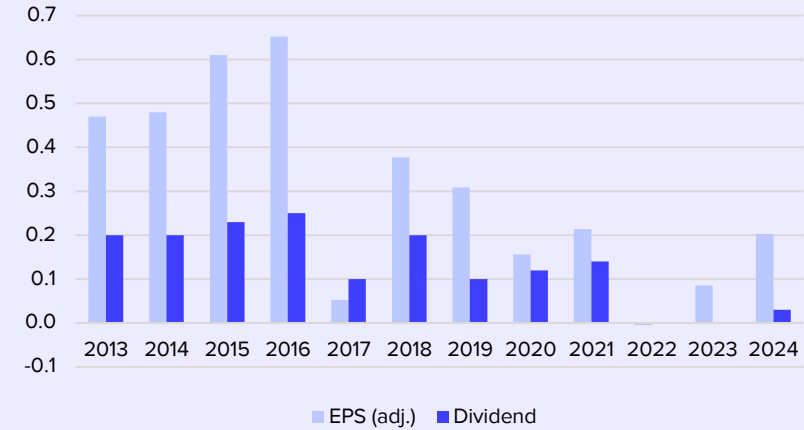
fluctuations, Teleste's cash flow can vary strongly in both directions on an annual basis. We estimate that in the longer term around 50-70% of the company's adjusted EBIT could be converted into free cash flow.

Teleste's balance sheet total at the end of 2024 was approximately 121 MEUR. The balance sheet assets consisted mainly of trade receivables (33 MEUR), inventories (25 MEUR) and cash (9 MEUR). In addition, the company has goodwill from previous acquisitions (30 MEUR) on its balance sheet. Property, plant and equipment amounted to 12 MEUR, a part of which are fixed assets according to IFRS 16. Intangible assets, mainly related to R&D capitalizations, amounted to 9 MEUR, which decreased from the previous year (2023: 13 MEUR) due to an impairment (-6 MEUR). The impairment was related, among other things, to the slower-than-expected development in the distributed access architecture market.

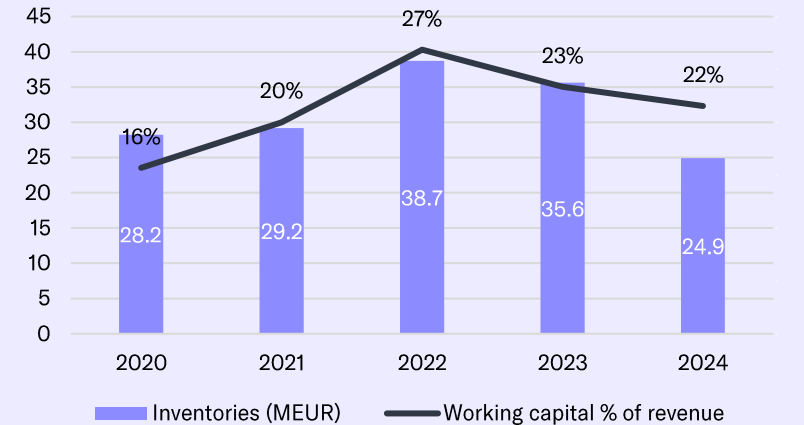
Balance sheet liabilities consisted mainly of equity (55 MEUR), interest-bearing liabilities (34 MEUR) and interest-free liabilities (30 MEUR).

Compared to the current, still rather weak performance, the balance sheet net debt remains high (net debt/EBITDA 2.8x), but is no longer strained (2023: 4,0x). Improved working capital management in particular has played an important role in reducing gearing. In the coming years, the result should also continue on an upward trend and improve the balance sheet indicators.

EPS and dividend

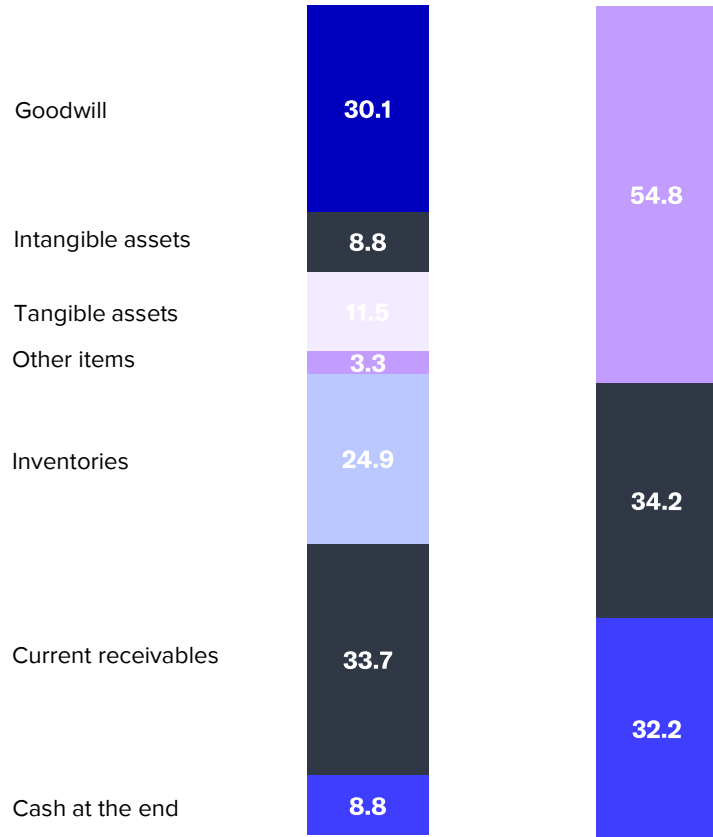


Development of inventories and net working capital

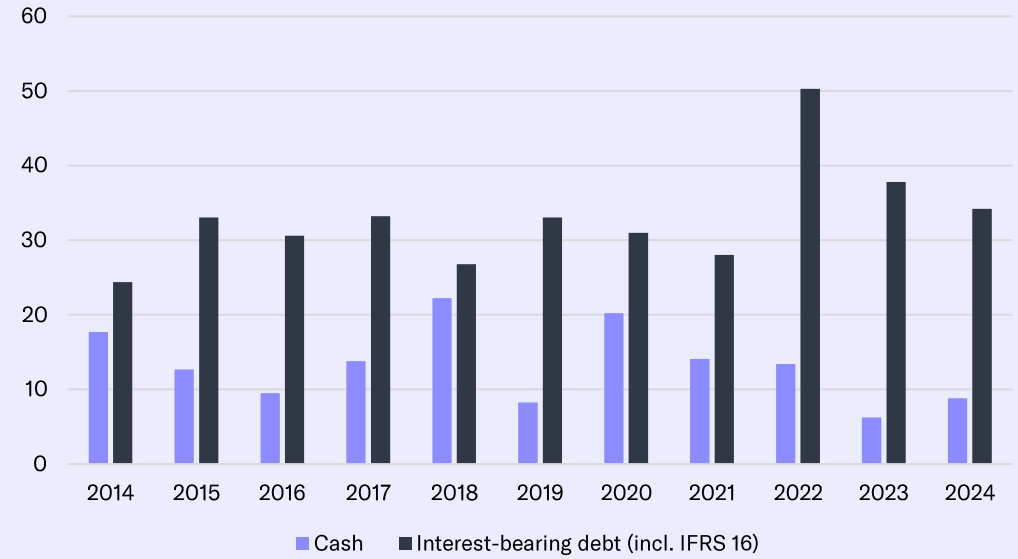


# Financial position

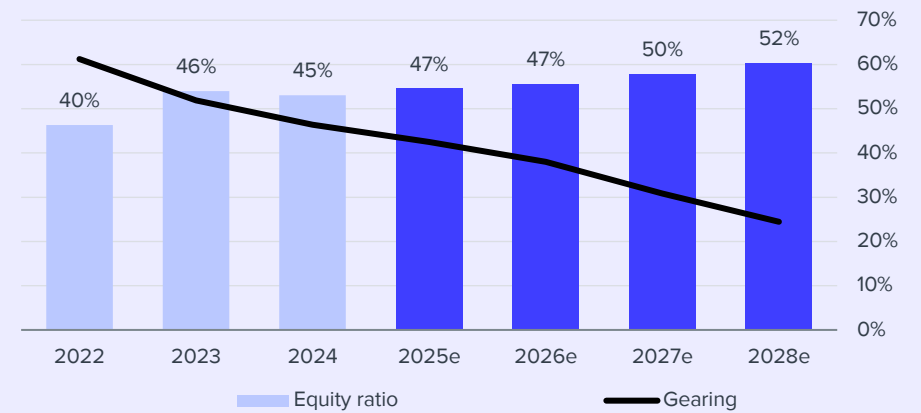
Balance sheet Q4'24



Cash and interest-bearing debt (MEUR)



Development of balance sheet key figures



# Estimates 1/3

## Basis for the estimates

We forecast the development of Teleste's revenue through the two business units reported by the company. We model the cost structure and profitability at the group level, which is also the basis for our efforts to understand the profitability trend and earnings distribution at the segment level. We have not changed our estimates in connection with this report.

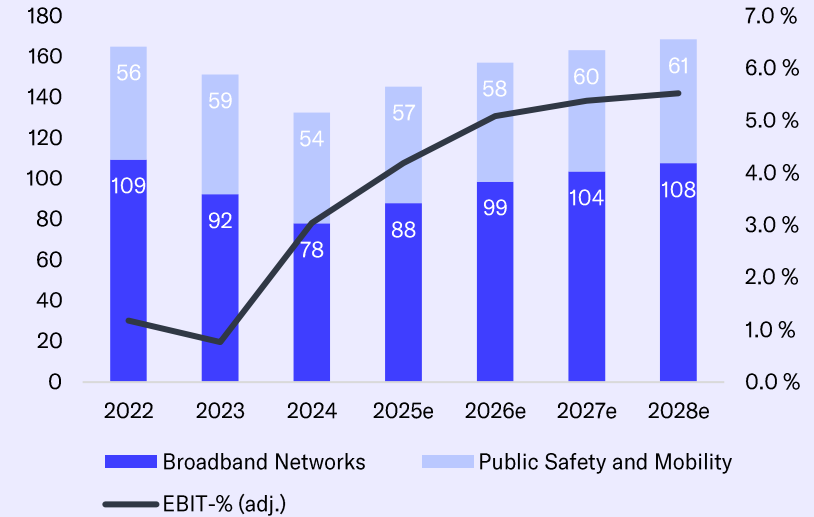
In the medium term, Teleste's business development will be driven in particular by the advancement of the DOCSIS 4.0 technology cycle. Successful expansion in the North American market, where the technology cycle will be much stronger than in Europe, will play a crucial role. What matters for longer-term growth is the position the company achieves in the market. The 2022 frame agreement with Cox Communication and the accelerated investment plans of this key customer for this year already provide a strong basis for growth. In addition, the company has another major (name not disclosed) and smaller operator customers. The start of deliveries to North America was somewhat delayed compared to original plans, but the order flow started to accelerate towards the end of 2024. In 2025, North American deliveries will already be clearly reflected in Teleste's figures, as the company's outlook for this year also predicts.

The weak market environment in recent years has made the company's European operator customers cautious, and while they still account for the majority of Broadband Networks' revenue, this has been reflected in the weak revenue development in recent years. Low demand has also been partly driven by the tipping point in operators' technology choices as they consider migrating to DOCSIS

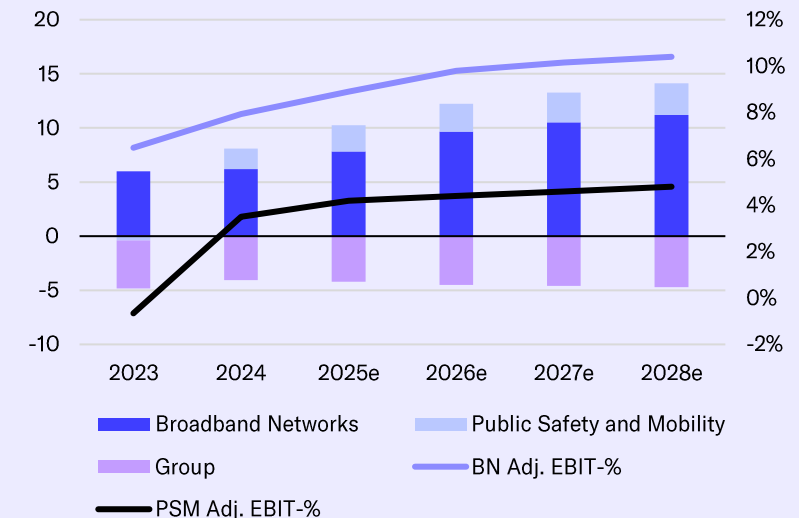
4.0 technologies. Based on the Q4'24 report, it appears that the slowdown in the European market has come to a halt. At the same time, the company has also received its first orders related to DOCSIS 4.0 technology from a major operator in Europe. Given Teleste's high market share, investment decisions by European operators would very likely end up in the company's pocket. At the moment, however, our growth expectations are entirely focused on North America, and the situation in Europe remains uncertain. In the longer term, the European cable market is also in structural decline as investment is concentrated on fiber technologies. In terms of volume, however, North America can at best offer significant growth compared to Teleste's current size, as the market is about 4 times larger than Europe.

Orders received by Public Safety and Mobility have fallen from their peak levels in 2022, and in 2024 the segment's revenue turned slightly downwards due to lower delivery volumes. However, the order book still remains at a rather good level (2024: 93.3 MEUR), and we believe that the company has the potential to return to the targeted stable growth during the current year. The segment's profitability recovered significantly in 2024 year-on-year, as fixed-price projects have largely been removed from the order book and the cost structure has been further adjusted. Going forward, profitability will be driven, among other things, by an increase in the share of high-margin maintenance business. In general, Teleste expects moderate and steady market growth for both information and security systems in the segment in the coming years. The focus will also remain on gradually improving the segment's profitability.

### Revenue and profitability



### Result and profitability assumptions by segment



# Estimates 2/3

## Company to return to growth in 2025

For 2025, Teleste's guidance is for revenue of 135-150 MEUR (2024: 132.5 MEUR) and adjusted EBIT of 4-7 MEUR (2024: 4.0 MEUR). The company expects the result to be mainly H2-weighted. Teleste has had to lower its outlook several times in recent years due to negative surprises in the operating environment. Therefore, it would be important for investor confidence that the company could stick to the guidance this year. The prospects for this are now good, as the market situation in Europe does not seem to be deteriorating further and volumes in North America have already proven to be on a strong growth path.

According to Teleste, potential import tariffs in the US, if implemented, could reduce profitability in the short term. To prepare for the tariffs, the company has already established a local warehouse in the United States at the beginning of the year. The company's strategy also includes plans to set up a local final assembly in the country, which is already inevitable as volumes grow. Production will be set up using contract manufacturers, and plans will move forward as more clarity on the activities of the US administration becomes available later this year. It is our understanding that the current guidance range already includes some negative impact from potential tariffs. The negative impact of potential tariffs would also likely be short-lived, as the company estimates that tariffs could be passed through to prices fairly quickly. The company's competitors also manufacture most of their products outside the US, so all players in the market would suffer from the tariffs.

We estimate revenue for this year at 145 MEUR (+10%). This growth will be driven by Broadband Networks (+12.5%), boosted by deliveries in North America. In the US, the

company has good visibility on the investment plans of its largest customer (Cox Communications) and the activities of its local distributor (Mega Hertz). In Europe, too, the market decline has stopped, and next-generation DOCSIS 4.0 deliveries will also be made here during H2'25. The company has already received the first orders for these from a major European customer. Teleste has commented that it aims to keep its revenue from Europe stable this year. We also expect Public Safety and Mobility to grow by 5%. Within the year, we expect revenue to come down further in Q1, but to start growing from Q2 onwards.

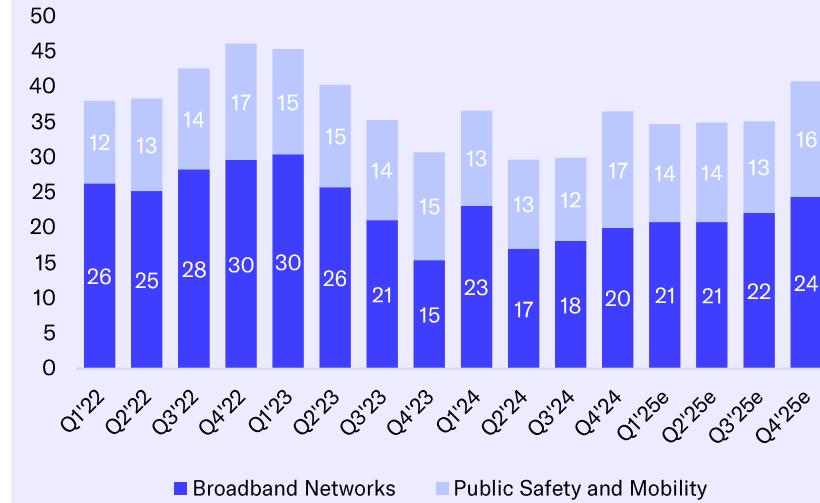
With Teleste's streamlined cost structure, the growth should also flow relatively well to the bottom lines. We expect Teleste's adjusted EBIT to improve to 6.1 MEUR (4.2% of revenue).

## Estimates for 2026-2027

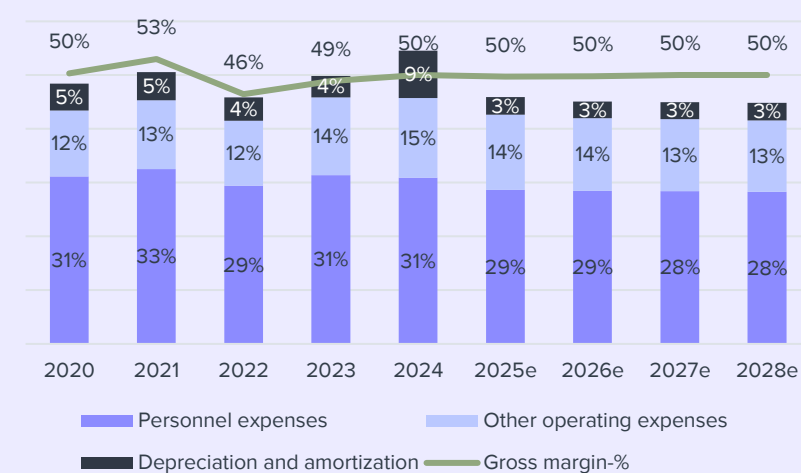
We expect Teleste to continue its strong growth in 2026 (+8%), driven by Broadband Networks (+12% forecast), with North America leading the way. We believe that the agreements already signed should provide the company with clear growth potential, but the company is also well positioned to win new operator customers if it succeeds in establishing itself as a major player in the country. We expect Public Safety and Mobility's revenue to continue to grow moderately (forecast +2%).

In 2026, we expect Teleste's adjusted EBIT to improve to 8.0 MEUR (5.1% of revenue), largely supported by the same drivers as in 2025. While profitability would then already be at a very good level relative to the company's history (3.2% on average over the last 10 years), this should be fully achievable, barring any significant negative surprises, and there is potential for much better in a good scenario.

Revenue development by quarter



Cost structure, % of revenue



Source: Inderes

# Estimates 3/3

In 2027, we expect Teleste's growth rate to slow to 4% as growth in Broadband Networks slows. If the company succeeds in winning even larger new operator customers in North America or expanding its existing customer base, the growth rate could continue to exceed our forecasts for a longer period. However, uncertainty in the European market could lead to a downward trend. With this growth, we project adjusted EBIT to increase to 8.8 MEUR (5.4% of revenue) in 2027.

## Long-term estimates

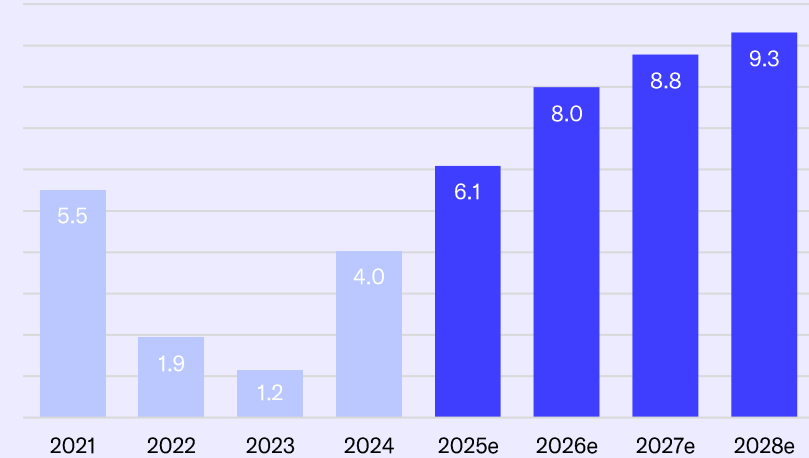
In our forecast model, we expect Teleste's revenue to grow by a further 3% in 2028 and then to slow down to 2% in the period 2029-2033. After this, our terminal growth expectation is 1.5%. The medium- and long-term forecasts for Teleste need to be cautious, as the European market, which remains important for the company, is structurally in long-term decline and there are strong cyclical features in operators' investments in new technologies.

According to our estimates, profitability will peak in 2028 (EBIT-% 5.5%). Thereafter, we forecast a gradual decline in profitability towards 5.2%, which is also our terminal assumption. Looking at the performance of recent years, this would already be a good level of profitability, but the years overshadowed by the weak market situation are not fully comparable, as Teleste is now entering a growth phase with a trimmed cost structure.

Teleste also has the potential to outperform our current estimates, but this will require good success in expanding in North America. In this respect, the first steps are promising, but at the same time the development in the European market is a negative driver. Uncertainty in long-term forecasts is caused by the technology cycles in

Teleste's markets and the resulting fluctuations in annual revenue. In general, investments in cable networks will decrease in the long term and Teleste's business focus may also shift more towards fiber technologies. Successful product development is therefore crucial for the company's long-term growth prospects.

Development of adjusted EBIT (MEUR)



EPS and dividend





# Income statement

Income statement	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25e	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
<b>Revenue</b>	<b>151</b>	<b>36.6</b>	<b>29.5</b>	<b>29.9</b>	<b>36.5</b>	<b>133</b>	<b>34.7</b>	<b>34.9</b>	<b>35.1</b>	<b>40.8</b>	<b>145</b>	<b>157</b>	<b>163</b>	<b>169</b>
Broadband Networks	92.5	23.1	17.0	18.1	20.0	78.2	20.8	20.8	22.1	24.4	88.1	98.7	104	108
Public Safety and Mobility	58.9	13.4	12.6	11.8	16.5	54.3	13.8	14.1	13.0	16.4	57.3	58.5	59.6	60.8
<b>EBITDA</b>	<b>5.6</b>	<b>1.7</b>	<b>0.4</b>	<b>2.5</b>	<b>1.5</b>	<b>6.1</b>	<b>2.1</b>	<b>2.3</b>	<b>3.5</b>	<b>3.0</b>	<b>10.9</b>	<b>12.9</b>	<b>14.0</b>	<b>14.8</b>
Depreciation	-6.1	-2.1	-1.1	-1.2	-7.2	-11.7	-1.2	-1.2	-1.2	-1.2	-4.8	-4.9	-5.2	-5.4
<b>EBIT (adj.)</b>	<b>1.2</b>	<b>1.5</b>	<b>0.2</b>	<b>1.5</b>	<b>0.8</b>	<b>4.0</b>	<b>0.9</b>	<b>1.1</b>	<b>2.3</b>	<b>1.8</b>	<b>6.1</b>	<b>8.0</b>	<b>8.8</b>	<b>9.3</b>
<b>EBIT</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.8</b>	<b>1.3</b>	<b>-5.7</b>	<b>-5.5</b>	<b>0.9</b>	<b>1.1</b>	<b>2.3</b>	<b>1.8</b>	<b>6.1</b>	<b>8.0</b>	<b>8.8</b>	<b>9.3</b>
Net financial items	-1.9	-0.2	-0.3	-0.8	-0.3	-1.5	-0.4	-0.3	-0.3	-0.3	-1.3	-1.0	-1.0	-1.0
<b>PTP</b>	<b>-2.4</b>	<b>-0.5</b>	<b>-1.0</b>	<b>0.5</b>	<b>-6.0</b>	<b>-7.1</b>	<b>0.5</b>	<b>0.8</b>	<b>2.0</b>	<b>1.5</b>	<b>4.8</b>	<b>7.0</b>	<b>7.8</b>	<b>8.3</b>
Taxes	1.9	0.0	-0.1	0.1	1.0	1.0	-0.1	-0.2	-0.4	-0.3	-1.1	-1.5	-1.7	-1.8
Minority interest	0.4	0.1	0.0	0.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net earnings</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-1.1</b>	<b>0.6</b>	<b>-5.0</b>	<b>-5.9</b>	<b>0.4</b>	<b>0.6</b>	<b>1.6</b>	<b>1.2</b>	<b>3.8</b>	<b>5.5</b>	<b>6.1</b>	<b>6.5</b>
<b>EPS (adj.)</b>	<b>0.09</b>	<b>0.08</b>	<b>-0.01</b>	<b>0.05</b>	<b>0.08</b>	<b>0.20</b>	<b>0.02</b>	<b>0.03</b>	<b>0.09</b>	<b>0.06</b>	<b>0.21</b>	<b>0.30</b>	<b>0.33</b>	<b>0.36</b>
<b>EPS (rep.)</b>	<b>0.00</b>	<b>-0.02</b>	<b>-0.06</b>	<b>0.04</b>	<b>-0.27</b>	<b>-0.32</b>	<b>0.02</b>	<b>0.03</b>	<b>0.09</b>	<b>0.06</b>	<b>0.21</b>	<b>0.30</b>	<b>0.33</b>	<b>0.36</b>

Key figures	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25e	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
<b>Revenue growth-%</b>	-8.3 %	-19%	-26%	-15%	19%	-12.4 %	-5%	18%	17%	12%	9.7 %	8.1 %	3.9 %	3.3 %
<b>Adjusted EBIT growth-%</b>	-41%	6%	-68%	183%	-158%	248%	-45%	486%	57%	119%	51%	31%	10%	6%
<b>EBITDA-%</b>	3.7 %	4.7 %	1.2 %	8.4 %	4.2 %	4.6 %	5.9 %	6.6 %	10.0 %	7.4 %	7.5 %	8.2 %	8.6 %	8.8 %
<b>Adjusted EBIT-%</b>	0.8 %	4.2 %	0.6 %	4.9 %	2.3 %	3.0 %	2.5 %	3.2 %	6.6 %	4.4 %	4.2 %	5.1 %	5.4 %	5.5 %
<b>Net earnings-%</b>	-0.1 %	-1.2 %	-3.6 %	2.2 %	-13.7 %	-4.4 %	1.1 %	1.8 %	4.5 %	2.9 %	2.6 %	3.5 %	3.7 %	3.8 %

Source: Inderes

# Balance sheet

Assets	2023	2024	2025e	2026e	2027e
<b>Non-current assets</b>	<b>58.4</b>	<b>53.7</b>	<b>54.8</b>	<b>56.0</b>	<b>56.8</b>
Goodwill	30.1	30.1	30.1	30.1	30.1
Intangible assets	13.5	8.8	11.0	13.3	15.0
Tangible assets	12.5	11.5	10.5	9.4	8.5
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.4	0.0	0.0	0.0	0.0
Other non-current assets	0.1	0.1	0.0	0.0	0.0
Deferred tax assets	1.9	3.2	3.2	3.2	3.2
<b>Current assets</b>	<b>73.8</b>	<b>67.4</b>	<b>70.1</b>	<b>74.5</b>	<b>76.1</b>
Inventories	35.6	24.9	26.9	28.8	29.4
Other current assets	0.4	1.0	1.0	1.0	1.0
Receivables	31.5	32.7	33.4	35.4	35.9
Cash and equivalents	6.2	8.8	8.7	9.4	9.8
<b>Balance sheet total</b>	<b>132</b>	<b>121</b>	<b>125</b>	<b>131</b>	<b>133</b>

Source: Inderes

Liabilities & equity	2023	2024	2025e	2026e	2027e
<b>Equity</b>	<b>60.9</b>	<b>54.8</b>	<b>58.0</b>	<b>61.7</b>	<b>65.5</b>
Share capital	7.0	7.0	7.0	7.0	7.0
Retained earnings	50.5	44.4	47.7	51.3	55.2
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	3.8	4.1	4.1	4.1	4.1
Minorities	-0.4	-0.7	-0.7	-0.7	-0.7
<b>Non-current liabilities</b>	<b>31.8</b>	<b>26.7</b>	<b>28.8</b>	<b>28.4</b>	<b>26.1</b>
Deferred tax liabilities	0.1	0.1	0.1	0.1	0.1
Provisions	1.1	2.0	2.0	2.0	2.0
Interest bearing debt	30.5	24.7	26.7	26.3	24.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.1	0.0	0.0	0.0	0.0
<b>Current liabilities</b>	<b>39.6</b>	<b>39.6</b>	<b>38.1</b>	<b>40.5</b>	<b>41.2</b>
Interest bearing debt	7.3	9.6	6.7	6.6	6.0
Payables	32.1	29.9	31.3	33.8	35.1
Other current liabilities	0.2	0.1	0.1	0.1	0.1
<b>Balance sheet total</b>	<b>132</b>	<b>121</b>	<b>125</b>	<b>131</b>	<b>133</b>

# Valuation 1/4

## Broadband Networks' North American conquest the key value driver for the stock

In Broadband Networks, technology cycles cause fluctuations in revenue development and the longer-term growth outlook for the European market is downward. However, volume deliveries of next-generation technologies are now starting to take off, which will allow Teleste to expand into the North American market, offering significant growth opportunities in the coming years. With good execution of the strategy and as the market recovers, Teleste now has the opportunity to transform its profile back into a profitable growth company after several years of stagnation. However, the cyclical nature of the Broadband Networks business, its limited profitability potential and the relatively subdued long-term growth outlook for the market, in our view, limit the acceptable valuation multiples for the business. That said, as a small player, Teleste has the opportunity to gain market share and create value through earnings growth.

In Public Safety and Mobility, we believe that the profitability profile of Teleste's video security solutions business is good. The problem lies in the small size of the business and the limited growth potential. In passenger information solutions, we estimate that the long-term profitability potential is rather limited in the face of large customers, which also limits the acceptable valuation. Here, however, the market growth prospects are stable thanks to the underlying megatrends, and Teleste has room to grow through new customer acquisition and also with existing customers.

## Valuation not demanding given earnings growth potential

Teleste's share price has already recovered significantly

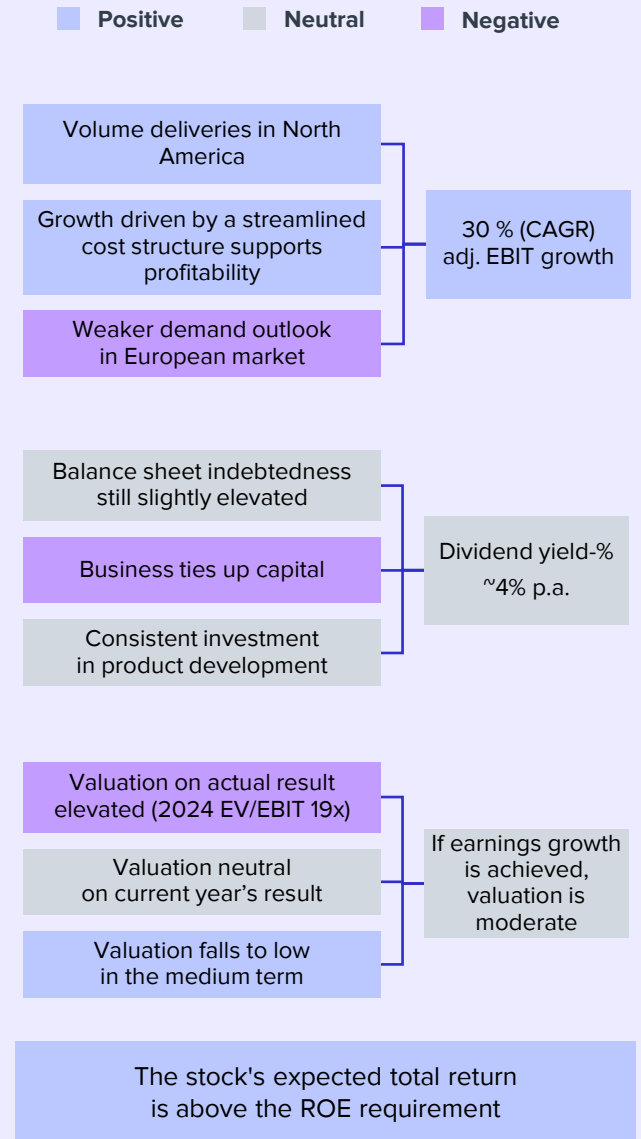
from last fall's lows, as the worst seems to be finally over in the European market and progress in the US is moving promisingly in the right direction. We also believe that the fall in interest rates supports Teleste's valuation, both through a leveraged balance sheet in the form of lower financing costs and through a lower required return.

Based on the actual 2024 result, the valuation of the stock (adj. P/E 14x, and adj. EV/EBIT 19x) is elevated, indicating that the valuation is based on earnings improvement in the coming years. Our 2025 estimates (P/E 13.5x and EV/EBIT 12x) already make the valuation look relatively neutral. With the Q4 report, visibility on the current year's performance has increased, and we believe this already provides some support for the stock.

However, our cautiously positive view is based on the fact that we believe Teleste's result still has clear growth potential in the medium term, provided the company succeeds in conquering North America as planned. After the Q4 report, we think this scenario looks a touch more likely than before. With the earnings growth we expect for 2026-2027, the P/E ratios fall to low levels of 9x-8x and EV/EBIT ratios (9x-8x) are also reasonable. The earnings growth would also allow the company to significantly increase its dividend, which would support the expected return. Our estimates for the next few years indicate a dividend yield of about 4%. Until the earnings growth is realized, however, we do not see the dividend as providing material support for the stock.

We note that in a good scenario, Teleste would have the potential to perform well above our current forecasts, provided the company makes excellent progress with its expansion in North America.

## Total shareholder return drivers 2024-2027e



# Valuation 2/4

Overall, we see that Teleste could be priced at around 10x-13x P/E and 9x-11x EV/EBIT in the longer term, depending on the earnings growth outlook and financial structure. The cyclical nature of the business, the pressure on profitability from large customers, the ongoing need for investments and the business model that ties up working capital justify in our view a somewhat lower valuation than the Helsinki Stock Exchange average.

## Sum-of-the-parts calculation

We have also examined the valuation of Teleste using the sum-of-the-parts calculation. In the calculation, we value the company's two reported businesses separately and also take into account the present value of group expenses. The calculation is based on our estimates for 2025.

In the calculation, we price Broadband Networks at an EV/EBIT ratio of 12x-14x and Public Safety and Mobility at 10x-12x. In our view, Broadband Networks' longer-term acceptable ratio is somewhat below the level we have applied, but the current year's earnings level does not yet fully reflect the unit's medium-term earnings potential.

Applying the above assumptions, Teleste's share value in the neutral scenario is 62 MEUR (3.4 EUR/share) with a range of 2.6-4.2 EUR/share. In view of the sum-of-the-parts, an upside for the share could therefore be justified, and the value of the sum-of-the-parts could also increase if earnings growth is realized in the coming years.

Sum of the parts	Lower end	Neutral	Upper end
<b>Broadband Networks</b>			
EBIT (adj.)	7.8	7.8	7.8
X valuation multiple	12	13	14
<b>Enterprise value (MEUR)</b>	<b>94</b>	<b>102</b>	<b>110</b>
<b>Public Safety and Mobility</b>			
EBIT (adj.)	2.4	2.4	2.4
X valuation multiple	10	11	12
<b>Enterprise value (MEUR)</b>	<b>24</b>	<b>26</b>	<b>29</b>
<b>Group expenses (NPV, MEUR)</b>	<b>-46</b>	<b>-42</b>	<b>-38</b>
<b>Total enterprise value</b>	<b>72</b>	<b>86</b>	<b>101</b>
Net liabilities 2025e	-25	-25	-25
<b>Value of entire stock</b>	<b>47</b>	<b>62</b>	<b>76</b>
<i>Per share</i>	2.6	3.4	4.2

# Valuation 3/4

## Peer group

We have compiled Teleste's peer group of companies operating in the cable and telecommunications markets. For example, the North American companies CommScope, Harmonic and Vecima are Teleste's competitors in access network equipment, although to some extent they operate in different product areas. Nokia and Ericsson are also included in the peer group, as they are active in much the same sector of network infrastructure and services as Teleste. Overall, it is difficult to find a perfect peer company for Teleste, as no other company has exactly the same business structure. In addition, most of the companies in the peer group are on average many times larger than Teleste. Therefore, we give relatively little weight to the peers in the valuation.

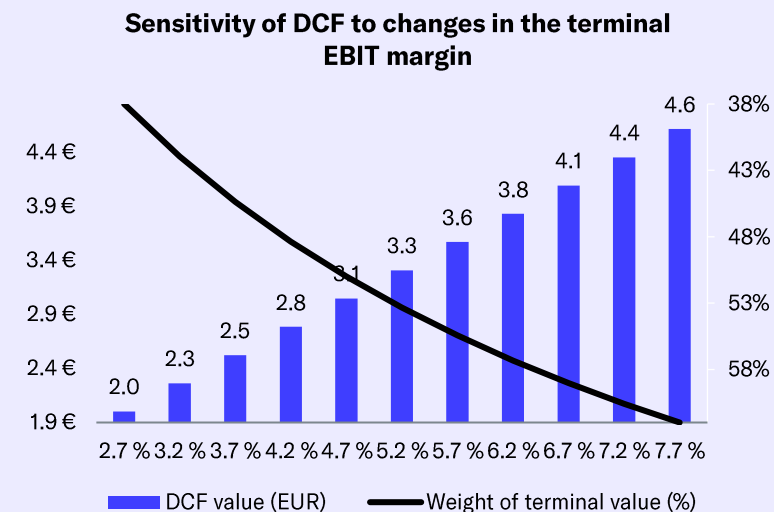
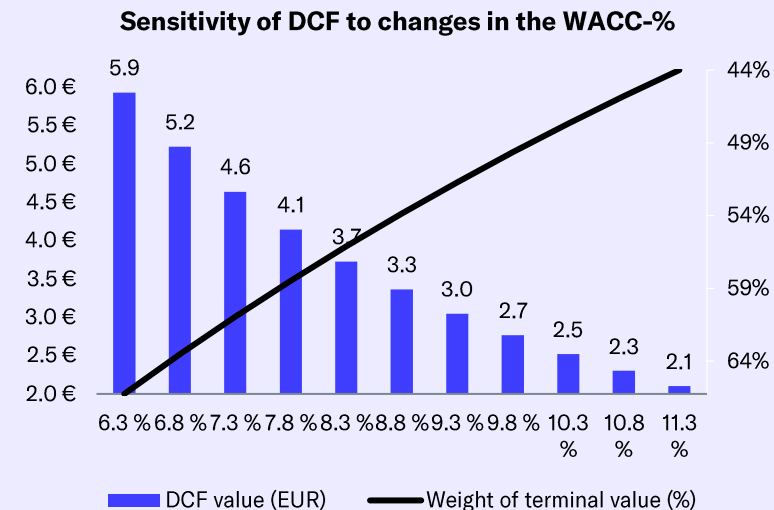
The peer group is valued at a median level of 21x P/E and 17x EV/EBIT for 2025. We believe that the peer group's valuation level is quite high and reflects the market's expectation of an investment recovery in the coming years. For 2026, the median multiples (EV/EBIT 14x and P/E 16x) will decline significantly in line with the expected earnings growth.

On an earnings basis, Teleste is valued significantly below its peer group for the next few years. The company's significantly smaller size and below-average profitability profile compared to its peers support a lower valuation as well. The lower profitability is also reflected in the fact that Teleste (2025e 0.5x) is priced around 76% below its peer group (2.1x). On the whole, we do not see Teleste's discount to its peers as a real driver for the stock. However, the peer group valuations are not a real drag on the valuation of Teleste's shares either, at least for now.

## DCF valuation

Our DCF model indicates a value of EUR 3.3 per Teleste share. The assumptions of the model have been discussed in the estimates section. We have used a terminal assumption of 1.5% for growth and 5.2% for EBIT.

In the DCF model, we have set the WACC at 8.8% and the ROE requirement at 10.1%. In our view, the required return is at a reasonable level considering the current interest rate level and the risk profile of Teleste's business. We note that Teleste's DCF model is quite sensitive to the long-term profitability assumption and the required rate of return used, as illustrated by the adjacent figures.



# Valuation 4/4

## Scenario analysis

We have used the scenario analysis to illustrate the possible development of Teleste's share in three different scenarios (poor, baseline and strong) looking ahead to 2027. The biggest variable in the scenarios is revenue growth, the main driver of which is the success of the expansion into North America. With stronger growth, we also expect Teleste's profitability to scale slightly better.

In the baseline scenario based on our forecasts, we have applied an EV/EBIT multiple of 10.5x, which, given Teleste's financial structure, would imply a P/E multiple of around 12x. Under these assumptions, Teleste's enterprise value would be 92 MEUR in 2027. Taking into account the net debt we project, Teleste's share price would then be EUR 3.9, which would mean an expected annual return of around 13%. In addition, dividends would also contribute to the expected return. The baseline scenario also suggests

that Teleste's share has value creation potential as the company's strategy progresses in the coming years.

In the strong scenarios, we expect revenue to grow by 12% on average over the next three years and the EBIT margin to reach 6.0%. In this scenario, the volumes generated in North America would already be very significant and would compensate very well for the slower development in Europe. We apply an EV/EBIT multiple of 11x in this scenario, which would correspond to a P/E multiple of around 13.5x. In this scenario, the share price would be EUR 5.9, implying an expected annual return of 30%. This scenario is a good reflection of the stock's potential if the expansion into North America is very successful and profitability returns to a sustainable good level.

In the poor scenario, we expect revenue growth to be much more moderate and profitability to remain at a sluggish level. We also assume that Teleste's growth

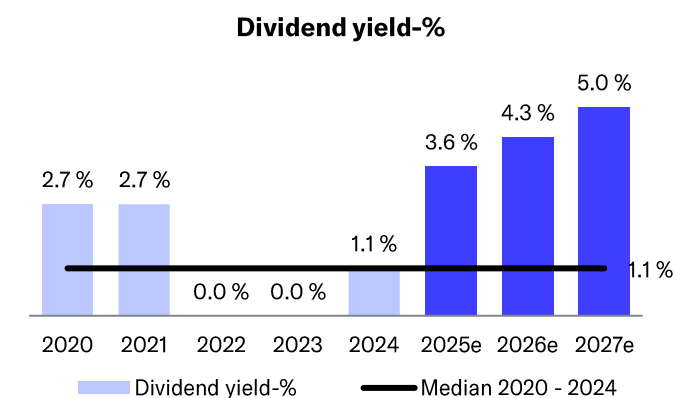
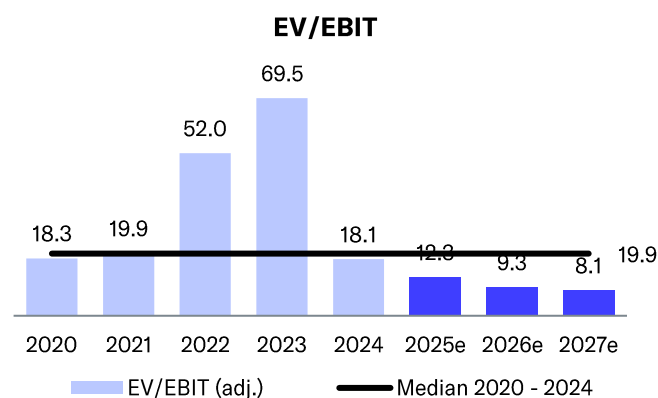
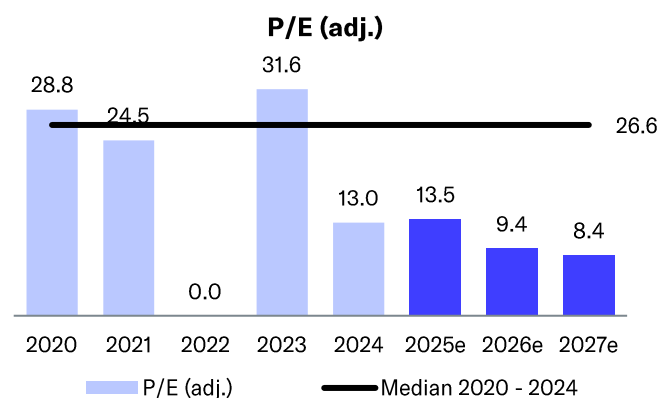
outlook would remain modest in the future as well. In this scenario, we apply an EBIT multiple of 10x, which would mean a P/E multiple of around 9x. Under these assumptions, the share price would be EUR 2.0, which would imply a sharp decline in the share price from the current levels. This partly reflects the risks to the stock if the implementation of the company's strategy does not go according to plan or if new challenges arise along the way. However, even in this scenario, Teleste's result increases compared to the actual level in 2024, so it is by no means a worst-case scenario.

Scenarios by 2027	Poor	Baseline	Strong
Revenue (MEUR)	150	163	187
Growth-% (CAGR 24-27)	4%	7%	12%
EBIT (adj.)	6.0	8.8	11.2
EBIT-%	4.0%	5.4%	6.0%
EV/EBIT multiple	10.0x	10.5x	11.0x
<b>EV</b>	<b>60</b>	<b>92</b>	<b>123</b>
Net liabilities 2027e	-24	-20	-16
<b>Market cap 2027e</b>	<b>36</b>	<b>72</b>	<b>107</b>
Share price	2.0	3.9	5.9
Return potential	-30%	41%	110%
Annual expected return	-12%	13%	30%
P/E in 2027	9.2x	11.9x	13.5x

# Valuation table

Valuation	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Share price	4.49	5.24	3.54	2.70	2.64	<b>2.80</b>	<b>2.80</b>	<b>2.80</b>	<b>2.80</b>
Number of shares, millions	18.2	18.2	18.2	18.2	18.2	<b>18.2</b>	<b>18.2</b>	<b>18.2</b>	<b>18.2</b>
Market cap	82	95	65	49	48	<b>51</b>	<b>51</b>	<b>51</b>	<b>51</b>
EV	93	109	101	80	73	<b>75</b>	<b>74</b>	<b>71</b>	<b>68</b>
P/E (adj.)	28.8	24.5	neg.	31.6	13.0	<b>13.5</b>	<b>9.4</b>	<b>8.4</b>	<b>7.9</b>
P/E	neg.	13.4	neg.	neg.	neg.	<b>13.5</b>	<b>9.4</b>	<b>8.4</b>	<b>7.9</b>
P/B	1.3	1.4	1.1	0.8	0.9	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.7</b>
P/S	0.6	0.7	0.4	0.3	0.4	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
EV/Sales	0.6	0.8	0.6	0.5	0.6	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
EV/EBITDA	7.9	6.7	13.0	14.4	11.9	<b>6.9</b>	<b>5.8</b>	<b>5.1</b>	<b>4.6</b>
EV/EBIT (adj.)	18.3	19.9	52.0	69.5	18.1	<b>12.3</b>	<b>9.3</b>	<b>8.1</b>	<b>7.3</b>
Payout ratio (%)	neg.	35.9 %	0.0 %	0.0 %	neg.	<b>48.3 %</b>	<b>40.2 %</b>	<b>42.1 %</b>	<b>45.0 %</b>
Dividend yield-%	2.7 %	2.7 %	0.0 %	0.0 %	1.1 %	<b>3.6 %</b>	<b>4.3 %</b>	<b>5.0 %</b>	<b>5.7 %</b>

Source: Inderes



# Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2025e
			2025e	2026e	2025e	2026e	2025e	2026e	2025e	2026e	2025e	2026e	
Nokia	26448	23150	10.4	9.4	9.6	9.0	1.2	1.1	15.4	14.5	3.3	3.7	1.2
Ericsson	26436	25346	10.4	9.9	7.8	7.6	1.1	1.1	13.5	13.2	3.4	3.5	2.9
Cisco	245240	258148	14.0	13.3	12.5	12.0	4.8	4.5	17.2	16.0	2.5	2.6	5.5
ZTE	23296	24292	16.6	15.3	11.6	10.7	1.4	1.3	17.4	16.0	1.8	1.9	2.3
Harmonic	1160	1186	13.2	7.7	10.5	7.2	2.0	1.6	17.8	11.0			
Motorola	70663	74423	23.2	21.7	21.2	19.6	6.8	6.4	29.9	27.6	1.0	1.0	34.7
Viavi Solutions	2388	2522	17.6	14.6	13.8	11.4	2.4	2.2	25.2	20.3			3.3
CommScope	1322	10847	13.0	11.3	11.1	9.9	2.3	2.1	8.4	5.5			
Ciena	10910	11236	24.0	17.5	19.8	15.1	2.7	2.4	33.4	23.4			4.0
Fiberhome	3831	5595	35.4	32.1	22.5	21.0	1.3	1.2	33.8	30.4	0.9	1.0	2.0
Juniper	11598	11810	13.7	12.8	11.5	10.8	2.3	2.2	17.4	16.1	2.5	2.6	2.4
Adtran	805	1322	29.3	18.0	10.6	8.8	1.3	1.2	52.9	22.8			7.1
Calix	2374	2088	43.4	19.8	31.9	16.1	2.5	2.2	53.0	27.1			2.9
Vecima Networks	176	211	19.4	6.0	8.4	4.8	1.1	0.9	135.9	10.0			
<b>Teleste (Inderes)</b>	<b>51</b>	<b>75</b>	<b>12.3</b>	<b>9.3</b>	<b>6.9</b>	<b>5.8</b>	<b>0.5</b>	<b>0.5</b>	<b>13.5</b>	<b>9.4</b>	<b>3.6</b>	<b>4.3</b>	<b>0.9</b>
<b>Average</b>	<b>30475</b>	<b>32298</b>	<b>20.3</b>	<b>14.9</b>	<b>14.5</b>	<b>11.7</b>	<b>2.4</b>	<b>2.2</b>	<b>33.7</b>	<b>18.1</b>	<b>2.2</b>	<b>2.3</b>	<b>6.2</b>
<b>Median</b>	<b>7370</b>	<b>11042</b>	<b>17.1</b>	<b>14.0</b>	<b>11.5</b>	<b>10.8</b>	<b>2.1</b>	<b>1.9</b>	<b>21.5</b>	<b>16.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.9</b>
<b>Diff-% to median</b>			<b>-28%</b>	<b>-34%</b>	<b>-40%</b>	<b>-47%</b>	<b>-76%</b>	<b>-75%</b>	<b>-37%</b>	<b>-42%</b>	<b>43%</b>	<b>65%</b>	<b>-70%</b>

Source: Refinitiv / Inderes



# DCF calculation

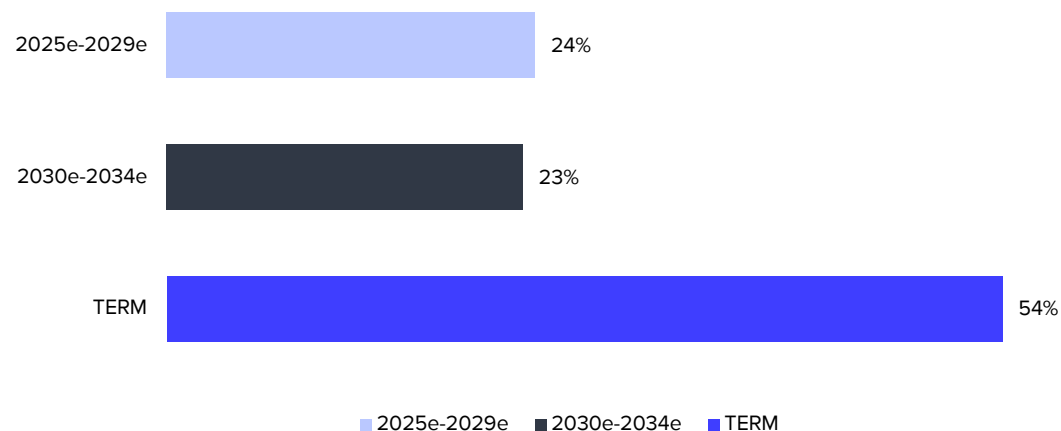
DCF model	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	TERM
Revenue growth-%	-12.4 %	9.7 %	8.1 %	3.9 %	3.3 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	1.5 %	1.5 %
EBIT-%	-4.2 %	4.2 %	5.1 %	5.4 %	5.5 %	5.4 %	5.4 %	5.3 %	5.3 %	5.2 %	5.2 %	5.2 %
<b>EBIT (operating profit)</b>	<b>-5.5</b>	<b>6.1</b>	<b>8.0</b>	<b>8.8</b>	<b>9.3</b>	<b>9.3</b>	<b>9.5</b>	<b>9.5</b>	<b>9.7</b>	<b>9.7</b>	<b>9.8</b>	
+ Depreciation	11.7	4.8	4.9	5.2	5.4	6.2	6.1	6.1	6.0	6.0	6.0	
- Paid taxes	-0.3	-1.1	-1.5	-1.7	-1.8	-1.9	-1.9	-2.0	-2.0	-2.1	-2.1	
- Tax, financial expenses	-0.2	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	
+ Tax, financial 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 working capital	6.8	-1.4	-1.2	0.1	-0.1	0.3	0.3	-0.1	-0.2	-0.2	-0.1	
<b>Operating cash flow</b>	<b>12.4</b>	<b>8.1</b>	<b>9.9</b>	<b>12.2</b>	<b>12.6</b>	<b>13.7</b>	<b>13.8</b>	<b>13.4</b>	<b>13.4</b>	<b>13.3</b>	<b>13.6</b>	
+ Change in other long-term liabilities	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-5.7	-5.9	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	
<b>Free operating cash flow</b>	<b>7.5</b>	<b>2.3</b>	<b>3.9</b>	<b>6.2</b>	<b>6.6</b>	<b>7.7</b>	<b>7.8</b>	<b>7.4</b>	<b>7.4</b>	<b>7.3</b>	<b>7.6</b>	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	7.5	2.3	3.9	6.2	6.6	7.7	7.8	7.4	7.4	7.3	7.6	105
<b>Discounted FCFF</b>		<b>2.1</b>	<b>3.3</b>	<b>4.9</b>	<b>4.7</b>	<b>5.1</b>	<b>4.8</b>	<b>4.2</b>	<b>3.8</b>	<b>3.5</b>	<b>3.3</b>	<b>45.7</b>
Sum of FCFF present value		85.4	83.3	80.0	75.1	70.4	65.3	60.5	56.3	52.5	49.1	45.7
<b>Enterprise value DCF</b>		<b>85.4</b>										
- Interest bearing debt		-34.2										
+ Cash and cash equivalents		8.8										
-Minorities		0.6										
-Dividend/capital return		0.0										
<b>Equity value DCF</b>		<b>60.6</b>										
<b>Equity value DCF per share</b>		<b>3.3</b>										

## WACC

Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	5.0 %
Equity Beta	1.15
Market risk premium	4.75%
Liquidity premium	2.10%
Risk free interest rate	2.5 %
<b>Cost of equity</b>	<b>10.1 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>8.8 %</b>

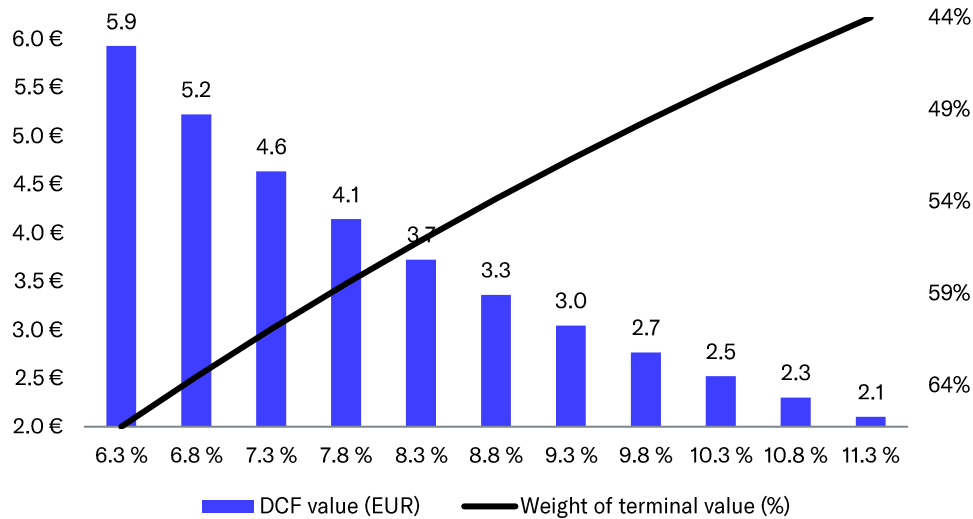
Source: Inderes

## Cash flow distribution

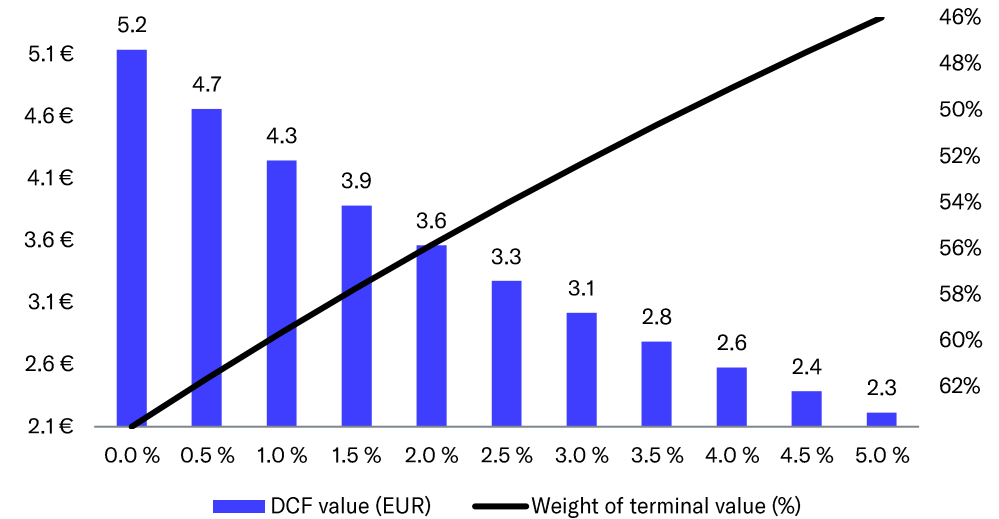


# DCF sensitivity calculations and key assumptions in graphs

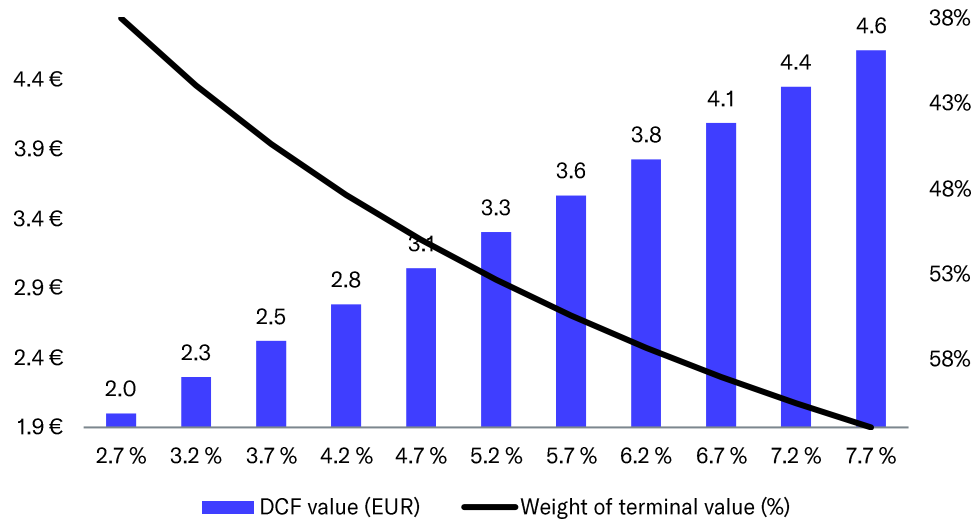
Sensitivity of DCF to changes in the WACC-%



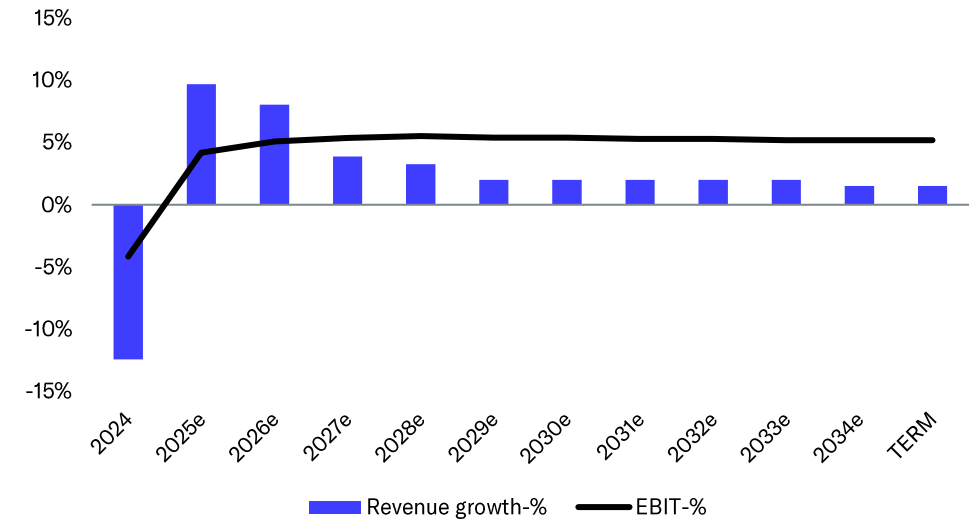
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

# Summary

Income statement	2022	2023	2024	2025e	2026e	Per share data	2022	2023	2024	2025e	2026e
Revenue	165.0	151.3	132.5	<b>145.4</b>	<b>157.1</b>	EPS (reported)	-0.31	0.00	-0.32	<b>0.21</b>	<b>0.30</b>
EBITDA	7.8	5.6	6.1	<b>10.9</b>	<b>12.9</b>	EPS (adj.)	-0.01	0.09	0.20	<b>0.21</b>	<b>0.30</b>
EBIT	-4.8	-0.5	-5.5	<b>6.1</b>	<b>8.0</b>	OCF / share	-0.57	0.86	0.68	<b>0.45</b>	<b>0.54</b>
PTP	-5.0	-2.4	-7.1	<b>4.8</b>	<b>7.0</b>	FCF / share	-1.10	0.32	0.41	<b>0.12</b>	<b>0.21</b>
Net Income	-5.7	-0.1	-5.9	<b>3.8</b>	<b>5.5</b>	Book value / share	3.31	3.36	3.04	<b>3.22</b>	<b>3.42</b>
Extraordinary items	-6.8	-1.6	-9.6	<b>0.0</b>	<b>0.0</b>	Dividend / share	0.00	0.00	0.03	<b>0.10</b>	<b>0.12</b>
Balance sheet	2022	2023	2024	2025e	2026e	Growth and profitability	2022	2023	2024	2025e	2026e
Balance sheet total	152.3	132.2	121.2	<b>124.9</b>	<b>130.5</b>	Revenue growth-%	15%	-8%	-12%	<b>10%</b>	<b>8%</b>
Equity capital	60.4	60.9	54.8	<b>58.0</b>	<b>61.7</b>	EBITDA growth-%	-52%	-28%	10%	<b>77%</b>	<b>18%</b>
Goodwill	30.6	30.1	30.1	<b>30.1</b>	<b>30.1</b>	EBIT (adj.) growth-%	-65%	-41%	248%	<b>51%</b>	<b>31%</b>
Net debt	37.0	31.6	25.4	<b>24.7</b>	<b>23.4</b>	EPS (adj.) growth-%	-102%	-1724%	138%	<b>2%</b>	<b>44%</b>
Cash flow	2022	2023	2024	2025e	2026e	EBITDA-%	4.7 %	3.7 %	4.6 %	<b>7.5 %</b>	<b>8.2 %</b>
EBITDA	7.8	5.6	6.1	<b>10.9</b>	<b>12.9</b>	EBIT (adj.)-%	1.2 %	0.8 %	3.0 %	<b>4.2 %</b>	<b>5.1 %</b>
Change in working capital	-15.5	9.0	6.8	<b>-1.4</b>	<b>-1.2</b>	EBIT-%	-2.9 %	-0.3 %	-4.2 %	<b>4.2 %</b>	<b>5.1 %</b>
Operating cash flow	-10.4	15.8	12.4	<b>8.1</b>	<b>9.9</b>	ROE-%	-8.8 %	-0.1 %	-10.0 %	<b>6.6 %</b>	<b>9.0 %</b>
CAPEX	-11.3	-7.4	-5.7	<b>-5.9</b>	<b>-6.0</b>	ROI-%	-4.7 %	-0.5 %	-5.9 %	<b>6.8 %</b>	<b>8.6 %</b>
Free cash flow	-20.1	5.9	7.5	<b>2.3</b>	<b>3.9</b>	Equity ratio	39.7 %	46.3 %	45.5 %	<b>46.7 %</b>	<b>47.5 %</b>
Valuation multiples	2022	2023	2024	2025e	2026e	Gearing	61.2 %	51.9 %	46.3 %	<b>42.5 %</b>	<b>38.0 %</b>
EV/S	0.6	0.5	0.6	<b>0.5</b>	<b>0.5</b>						
EV/EBITDA	13.0	14.4	11.9	<b>6.9</b>	<b>5.8</b>						
EV/EBIT (adj.)	52.0	69.5	18.1	<b>12.3</b>	<b>9.3</b>						
P/E (adj.)	neg.	31.6	13.0	<b>13.5</b>	<b>9.4</b>						
P/B	1.1	0.8	0.9	<b>0.9</b>	<b>0.8</b>						
Dividend-%	0.0 %	0.0 %	1.1 %	<b>3.6 %</b>	<b>4.3 %</b>						

Source: Inderes

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Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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## Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
12/20/2018	Accumulate	6.30 €	5.52 €
2/8/2019	Reduce	6.30 €	6.52 €
3/7/2019	Reduce	6.00 €	5.90 €
5/10/2019	Reduce	5.50 €	5.50 €
8/16/2019	Reduce	5.50 €	5.32 €
11/1/2019	Reduce	5.50 €	5.82 €
12/3/2019	Sell	5.00 €	5.78 €
12/27/2019	Reduce	5.00 €	5.16 €
2/14/2020	Reduce	5.00 €	5.10 €
3/10/2020	Reduce	4.60 €	4.36 €
3/30/2020	Reduce	3.50 €	3.70 €
5/18/2020	Accumulate	4.20 €	3.81 €
8/14/2020	Accumulate	4.50 €	4.18 €
10/30/2020	Accumulate	4.50 €	4.04 €
2/12/2021	Accumulate	5.50 €	4.99 €
5/7/2021	Accumulate	6.10 €	5.76 €
8/13/2021	Reduce	6.10 €	6.16 €
9/21/2021	Accumulate	6.00 €	5.00 €
11/5/2021	Reduce	5.50 €	5.20 €
2/10/2022	Reduce	5.00 €	5.16 €
5/6/2022	Reduce	4.30 €	4.20 €
6/21/2022	Reduce	3.90 €	4.10 €
8/11/2022	Reduce	3.90 €	3.95 €
11/4/2022	Reduce	3.70 €	3.39 €
12/9/2022	Reduce	3.70 €	3.85 €
2/10/2023	Reduce	3.70 €	3.96 €
5/5/2023	Accumulate	4.10 €	3.68 €
8/11/2023	Accumulate	3.90 €	3.47 €
11/3/2023	Reduce	3.00 €	2.95 €
12/17/2023	Reduce	2.60 €	2.64 €
1/17/2024	Reduce	2.60 €	2.70 €
2/12/2024	Reduce	2.60 €	2.77 €
5/6/2024	Reduce	2.60 €	2.88 €
8/15/2024	Reduce	2.60 €	2.50 €
9/17/2024	Reduce	2.30 €	2.26 €
11/7/2024	Reduce	2.40 €	2.27 €
2/12/2025	Accumulate	3.20 €	2.89 €
3/4/2025	Accumulate	3.20 €	2.80 €



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