

Teleste

Company report

11/3/2023



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✓ Inderes corporate customer

This report is a summary translation of the report “Vaikea markkinatilanne lykkää Amerikan valloitusta” published on 11/3/2023 at 6:45 am EET.

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res.**

Difficult market conditions postpone US expansion

We lower Teleste's recommendation to Reduce (was Accumulate) and the target price to EUR 3.0 (was EUR 3.9) on trimmed earnings forecasts. Teleste's short-term demand outlook has continued to weaken in Broadband Networks, which is holding back existing business in Europe and slowing expansion to North America. On lowered forecasts, the valuation of the stock is not yet materially supported by next year's results but becomes moderate in the medium term with the earnings growth that we expect through volume deliveries in North America. However, we do not believe that the risk/return ratio is currently sufficient to rely on this.

Challenging market situation for Broadband Networks, steady development in Public Safety and Mobility

Teleste's Q3 net sales decreased by 17% to EUR 35.2 million, below our forecast of EUR 37.5 million. The decline was recorded in Broadband Networks (Q3'23: 21.1 MEUR, -25%), where operators' de-stocking and the preparation for next-generation technology investments is reflected in volumes. In Public Safety and Mobility, the development was more steady and net sales (Q3'23: 14.2 MEUR) was flat. Order intake (46.4 MEUR, -5%) showed a recovery from the weak level of H1, and the order book dominated by passenger information solutions remains at a relatively good level (129 MEUR). With lower volumes, the Q3 EBIT decreased to EUR 0.5 million (Q3'22: 1.1 MEUR). This was fully in line with our forecast, which was a reasonable performance given the lower-than-expected net sales. Profitability was supported by gross margin that showed clear year-on-year improvement (Q3'23: 49.5% vs. Q3'22: 43.9%) as well as cost savings. Cash flow from operating activities was positive (0.9 MEUR) for the fourth quarter in a row, thanks to a decrease in working capital, which has reduced net debt by around EUR 10.5 million year-on-year.

Short-term demand outlook weakened - guidance revised towards the lower end of the range

Teleste now expects its net sales for the current year to total EUR 150-160 million (previously 150-175 MEUR) and an adjusted EBIT of 2-3 MEUR (previously 2-5 MEUR). Our lowered estimates now expect net sales of EUR 156 million and an adjusted EBIT of EUR 2.6 million (1.7% of net sales) for this year. In the short term, the company's prospects have deteriorated further, due in particular to the slowdown in investment by Broadband Networks' operator customers. The company's comments on the duration of the dip in demand were also more cautious than before and thus the visibility towards next year is relatively weak. In addition, expectations for the start of volume deliveries in North America have been postponed until early next year (was Q4'23) and higher volumes are expected in H2'24 at the earliest. Given the challenging market situation, we expect growth to remain sluggish next year (+2%) and EBIT to land at a rather modest level (5.3 MEUR, 3.3% of net sales). In 2025, North American deliveries should already provide a clear boost to net sales, when we forecast 11% growth and an EBIT of EUR 8.5 million (4.8% of net sales).

There is no rush in the short term as the realization of earnings potential is delayed

On our lowered estimates, Teleste's valuation looks high for the coming years, with adjusted P/E multiples of 17x and corresponding EV/EBIT multiples of 32x-15x. Previously, we expected North America to deliver a stronger earnings improvement already next year, which would have supported valuation as the earnings trend reversed. In our forecast, the earnings potential of the North American expansion will start to show up in the figures between 2025 and 2026, when P/E multiples (9x-8x) in particular fall to a low level. The EV/EBIT multiples (9x-8x), which take into account indebtedness, are also reasonable at that time. However, in the current interest rate environment, the multiples are not exceptionally attractive and require a significant improvement in performance, to which the weakened demand outlook has added further uncertainty.

Recommendation

Reduce
(previous Accumulate)

EUR 3.00
(previous EUR 3.90)

Share price:
2.94



Key figures

| | 2022 | 2023e | 2024e | 2025e |
|--------------------|--------|--------|-------|--------|
| Revenue | 165 | 156 | 160 | 177 |
| growth-% | 14.6 % | -5.2 % | 2.2 % | 10.7 % |
| EBIT adj. | 2.0 | 2.6 | 5.3 | 8.6 |
| EBIT-% adj. | 1.2 % | 1.7 % | 3.3 % | 4.8 % |
| Net Income | -5.7 | 2.5 | 3.2 | 5.9 |
| EPS (adj.) | -0.01 | 0.18 | 0.18 | 0.32 |

| | | | | |
|-------------------------|-------|-------|-------|-------|
| P/E (adj.) | neg. | 16.8 | 16.8 | 9.1 |
| P/B | 1.1 | 0.9 | 0.9 | 0.8 |
| Dividend yield-% | 0.0 % | 2.7 % | 3.4 % | 4.8 % |
| EV/EBIT (adj.) | 52.0 | 31.6 | 15.0 | 9.3 |
| EV/EBITDA | 13.0 | 10.7 | 6.7 | 5.3 |
| EV/S | 0.6 | 0.5 | 0.5 | 0.4 |

Source: Inderes

Guidance

(Adjusted)

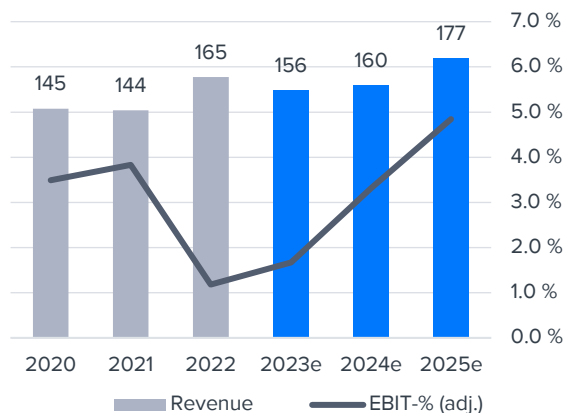
Teleste estimates that net sales in 2023 will amount to EUR 150-160 million and that the adjusted operating result in 2023 will be EUR 2-3 million.

Share price



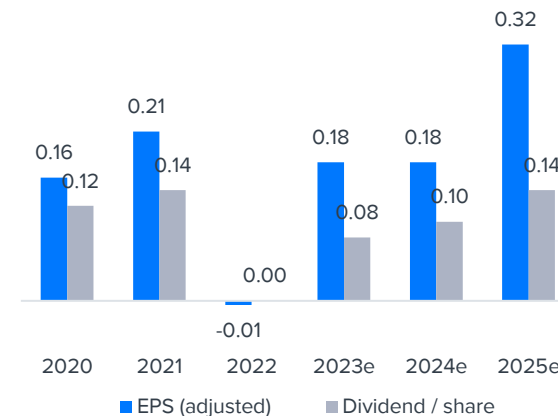
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Start of volume deliveries of distributed architecture and DOCSIS 4.0 products
- Expansion into the US market
- Strong market position in Europe in network equipment
- Profitable growth in video surveillance and passenger information solutions



Risk factors

- Slowdown in operator investments in Europe in the short term
- Fixed-price projects in passenger information solutions are a challenge in an inflationary environment
- Elevated working capital and indebtedness
- The failure in US expansion
- Component shortages and supply chain bottlenecks
- Entry of large players and competitive pressure

| Valuation | 2023e | 2024e | 2025e |
|----------------------------|--------|--------|--------|
| Share price | 2.94 | 2.94 | 2.94 |
| Number of shares, millions | 18.2 | 18.2 | 18.2 |
| Market cap | 54 | 54 | 54 |
| EV | 82 | 80 | 80 |
| P/E (adj.) | 16.8 | 16.8 | 9.1 |
| P/E | 21.7 | 16.8 | 9.1 |
| P/B | 0.9 | 0.9 | 0.8 |
| P/S | 0.3 | 0.3 | 0.3 |
| EV/Sales | 0.5 | 0.5 | 0.4 |
| EV/EBITDA | 10.7 | 6.7 | 5.3 |
| EV/EBIT (adj.) | 31.6 | 15.0 | 9.3 |
| Payout ratio (%) | 59.2 % | 57.1 % | 43.2 % |
| Dividend yield-% | 2.7 % | 3.4 % | 4.8 % |

Source: Inderes

Challenging market situation for Broadband Networks

Net sales down sharply from a strong comparison period

Teleste's Q3 net sales decreased by 17% to EUR 35.2 million, below our forecast of EUR 37.5 million. The Broadband Networks unit's net sales decreased by 26% to EUR 21.1 million, reflecting the operator customers' de-stocking, especially in traditional HFC subscriber network products. In addition, operators are currently planning to invest in new distributed network architecture and DOCSIS 4.0. technologies, which is visible in a reduction in investment in legacy products. Reflecting this, orders received by Broadband Networks (Q3'23: 23.6 MEUR, -20%) fell sharply. However, according to the company, the increase in orders for the new generation of distributed architecture was significant. The divestment of the Broadband Networks business in Switzerland also impacted the decline in the segment's net sales for EUR 1.4 million.

The Public Safety and Mobility unit's net sales were flat at EUR 14.2 million, as the company continued to deliver large orders that were received last year.

Orders received by the unit (Q3'23: 22.8 MEUR, +17.5%) were on the rise and the order book (Q3'23: 102.2 MEUR) was almost at the level of the comparison period, indicating a continued steady development in this area.

Overall, Teleste's order book remained at a reasonably good level (Q3'23: 129 MEUR, -11%), as the order book reached records highs in Q3'22. Quarter-on-quarter (Q2'23: 118 MEUR), the order book saw a clear recovery.

Operating result in line with our expectations

Teleste's Q3 EBIT landed at EUR 0.5 million (Q3'22: 1.1 MEUR), fully in line with our forecast despite a stronger-than-expected decline in net sales. As expected, profitability was supported by a gross margin improvement of around 5 percentage points year-on-year (Q3'23: 49.5% vs. Q3'22: 43.9%) as well as cost savings made by Teleste. Overall, the EBIT margin (Q3'23: 1.5%) was at a very modest level, and improving profitability will require volume growth and continued cost savings. However, the company has

so far managed its fixed costs very well, despite cost inflation. Earnings per share (Q3'23: EUR 0.03) exceeded our forecast due to positive financial items.

Improved cash flow has been allocated to loan repayments

Cash flow from operating activities (Q3'23: 0.9 MEUR) was positive for the fourth quarter in a row, indicating that this year Teleste has been quite successful in shrinking its working capital, which became inflated last year. Delivery times for certain semiconductors are still long and therefore stock levels have had to be kept high. Thus, work to optimize stock levels continues. With improved cash flow during the year, the company has reallocated its capital to repay its debt, which the company had to raise last year to finance increased working capital. As a result, the interest-bearing debt on the balance sheet has decreased to EUR 35.2 million (Q3'22: 49.4 MEUR). Relative to the current sluggish performance, net debt remains at a relatively high level (net debt/EBITDA 3.6x).

| Estimates | Q3'22 | Q3'23 | Q3'23e | Q3'23e | Consensus | | Difference (%) | 2023e |
|------------------|------------|------------|---------|-----------|-----------|------|------------------|---------|
| MEUR / EUR | Comparison | Actualized | Inderes | Consensus | Low | High | Act. vs. inderes | Inderes |
| Revenue | 42.6 | 35.2 | 37.5 | | | | -6% | 156 |
| EBIT (adj.) | 1.1 | 0.5 | 0.5 | | | | 7% | 2.6 |
| EBIT | -4.8 | 0.5 | 0.5 | | | | 0% | 1.9 |
| EPS (adj.) | 0.04 | 0.03 | 0.01 | | | | 210% | 0.18 |
| EPS (reported) | -0.22 | 0.03 | 0.01 | | | | 191% | 0.14 |
| Revenue growth-% | 32.0 % | -17.4 % | -12.0 % | | | | -5.4 pp | -5.2 % |
| EBIT-% (adj.) | 2.6 % | 1.5 % | 1.3 % | | | | 0.2 pp | 1.7 % |

Source: Inderes

Short-term outlook weakened

Guidance range was revised towards the lower end

Teleste revised its outlook downwards and now expects net sales to total EUR 150-160 million this year (was 150-175 MEUR) and an adjusted EBIT of 2-3 MEUR (was 2-5 MEUR). The company's previous guidance was very broad, so revising it at this stage of the year was no surprise. However, revising the guidance towards the lower end was disappointing, as our previous forecasts were slightly above the new guidance range.

The lower outlook is due to weaker demand in H2, especially in Broadband Networks. With the worsening economic situation and rising interest rates, operators' customers have started to cut costs, delay investments and optimize their own buffer stocks. The company also sees the start of a transition in European network investment to next-generation products, which will reduce demand for earlier-generation products. In the Q2 report, the company estimated that the market softening would last around 6-9 months, but now the comments were vaguer and the company's visibility on the expected pace of recovery seems to have weakened somewhat.

Another disappointment in the outlook could be found in the company's comments on the timing of volume deliveries in North America. Previously, the company expected deliveries to start at the end of this year, but now deliveries are expected to start in early 2024, with volumes gradually increasing towards the end of the year. This is due to the increased caution of operators in their own investment plans. Higher volumes are therefore likely to take place by the end of 2024 at the earliest, while the demand outlook for existing European customers remains uncertain. Both our net sales and profit forecasts fell sharply on the deteriorated outlook.

Estimates for the current year

We now expect Teleste's net sales to decline by 5% this year to EUR 156 million and adjusted EBIT to land at EUR 2.6 million. Thus, our forecast is around the mid-point of the new guidance range. The end of the year is expected to be very challenging for the company and we forecast a 22% decline in Q4 revenue and EBIT being close to zero.

Estimates for 2024-2026

We expect the demand slump in Broadband

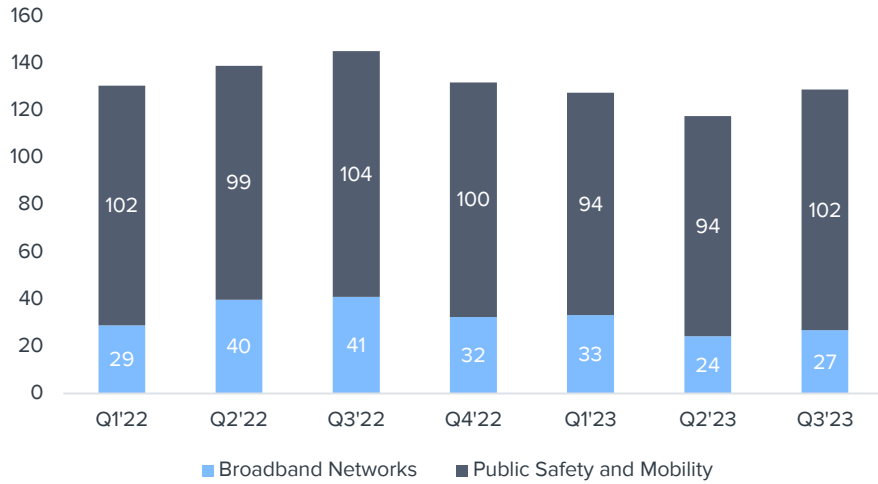
Networks to continue, especially in H1'24, when we expect net sales to remain clearly on a downward trend. We expect demand to gradually recover towards the end of the year, on top of which volume deliveries in North America should start to support growth. In Public Safety and Mobility, we expect a much steadier development, supported by a strong order book. For the full year 2024, we expect net sales to increase by a modest 2% to EUR 160 million and EBIT to improve to EUR 5.3 million (3.3% of net sales). In our forecasts, earnings growth is driven in particular by an improvement in gross margin, of which there have already been signs this year. In addition, we expect the company to continue to actively manage costs, as exemplified by the recently held change negotiations.

We now expect volume deliveries in North America to be more clearly reflected in the company's figures only in 2025, when we expect net sales to grow by 11% to EUR 177 million and EBIT to improve to EUR 8.5 million (4.8% of net sales). For 2026, we forecast 4% growth and an EBIT margin of 5.4%. In the current uncertain market environment, the visibility of this significant medium-term earnings improvement is still weak.

| Estimate revisions | 2023e | | Change | 2024e | | Change | 2025e | | Change | |
|--------------------|------------|------|--------|-------|------|--------|-------|------|--------|------|
| | MEUR / EUR | Old | | New | Old | | New | Old | | New |
| Revenue | | 162 | 156 | -4% | 173 | 160 | -8% | 184 | 177 | -4% |
| EBITDA | | 8.5 | 7.7 | -10% | 14.4 | 11.9 | -17% | 17.0 | 15.2 | -11% |
| EBIT (exc. NRIs) | | 3.4 | 2.6 | -23% | 7.8 | 5.3 | -32% | 10.4 | 8.6 | -18% |
| EBIT | | 2.7 | 1.9 | -30% | 7.8 | 5.3 | -32% | 10.4 | 8.6 | -18% |
| PTP | | 1.2 | 0.7 | -38% | 6.6 | 4.1 | -38% | 9.4 | 7.6 | -20% |
| EPS (excl. NRIs) | | 0.19 | 0.18 | -9% | 0.28 | 0.18 | -38% | 0.40 | 0.32 | -20% |
| DPS | | 0.08 | 0.08 | 0% | 0.12 | 0.10 | -17% | 0.16 | 0.14 | -13% |

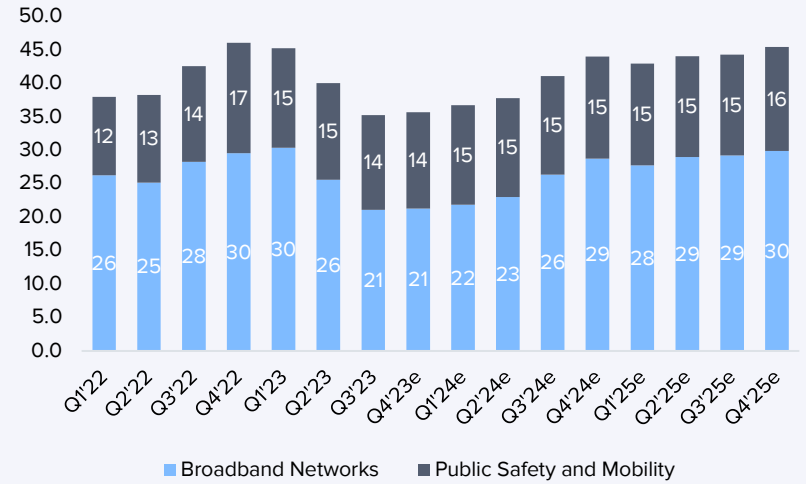
Development of orders received

Quarterly development of order book

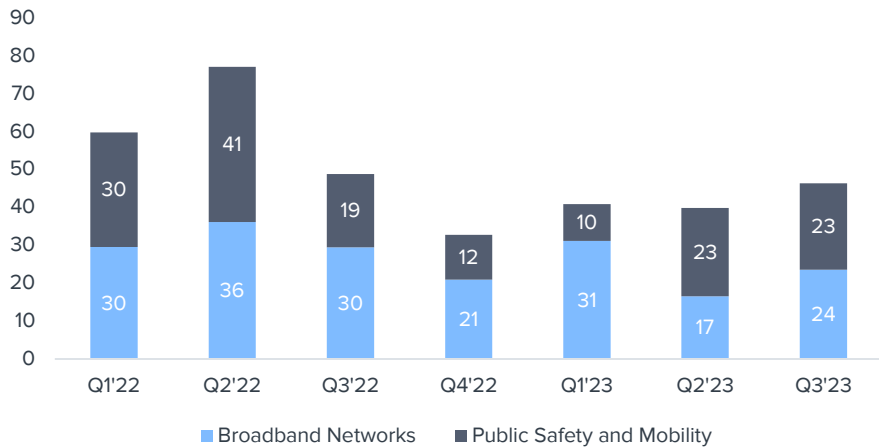


Summary of estimates

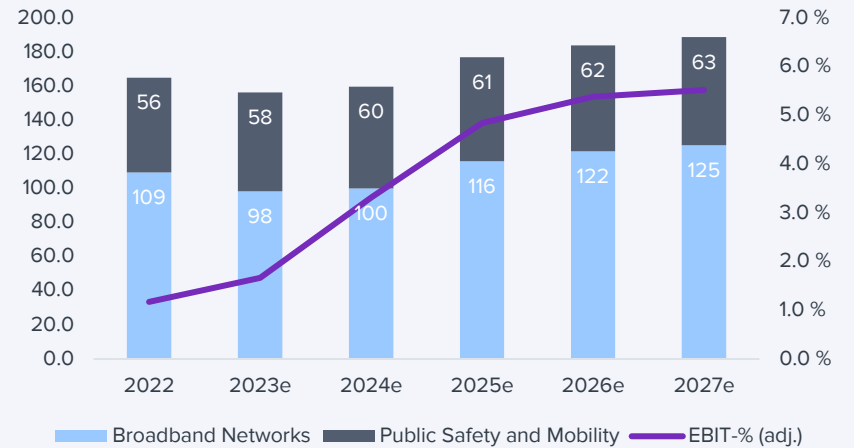
Quarterly revenue development



Quarterly development of orders received



Revenue and profitability



Valuation

There is no rush in the short term as the realization of earnings potential is delayed

On our estimates for the current year, Teleste's valuation is very high (adj. EV/EBIT 32x), due to the modest earnings level. The softness in the short-term demand outlook continues into next year, and while we forecast a clear improvement in earnings, the 2024 multiples (EV/EBIT 15x, P/E 17x) are also elevated. Previously, we expected North America to deliver a stronger earnings improvement already next year, which would have supported valuation as the earnings trend reversed. Now the timeline of the US conquest has been pushed back a notch, and at the same time the demand outlook in Europe has continued to weaken. Thus, in the short term, we see no rush to rely on Teleste's medium-term earnings potential, which will still exist once volume deliveries in North America start.

We estimate that the earnings potential of the North American expansion will start to be fully reflected in Teleste's figures in 2025-2026, when especially the P/E multiples (9x-8x) will hit a low level. The EV/EBIT ratios (9x-8x), which take into account balance sheet leverage, also look reasonable at that time. However, in the current interest rate environment, the multiples are not exceptionally attractive and require a significant improvement in performance, which is still subject to uncertainty. There are also several stocks with similar valuations on the apathetic Helsinki Stock Exchange already in the light of current numbers, so in relative terms Teleste's risk/return ratio is not particularly attractive at the moment either.

However, in a good scenario, Teleste does have the potential to deliver stronger growth than our forecasts. At the same time, a decrease in working capital and

deleveraging may occur somewhat better than we forecast. However, this is not enough to turn the valuation framework sufficiently attractive, and in recent years surprises to forecasts have unfortunately been mostly negative due to sharp changes in the operating environment.

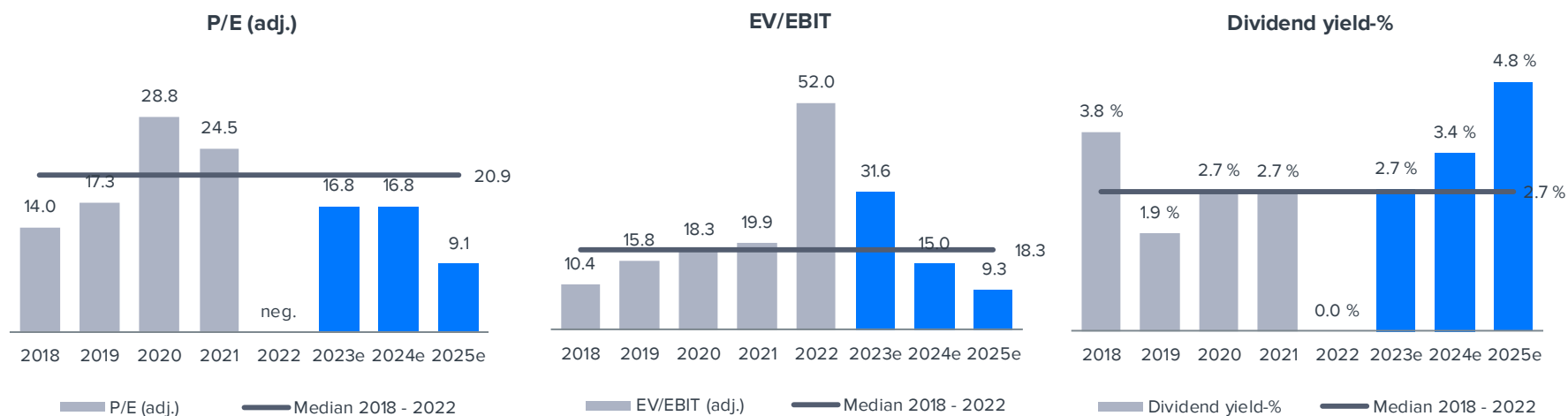
| Valuation | 2023e | 2024e | 2025e |
|----------------------------|--------|--------|--------|
| Share price | 2.94 | 2.94 | 2.94 |
| Number of shares, millions | 18.2 | 18.2 | 18.2 |
| Market cap | 54 | 54 | 54 |
| EV | 82 | 80 | 80 |
| P/E (adj.) | 16.8 | 16.8 | 9.1 |
| P/E | 21.7 | 16.8 | 9.1 |
| P/B | 0.9 | 0.9 | 0.8 |
| P/S | 0.3 | 0.3 | 0.3 |
| EV/Sales | 0.5 | 0.5 | 0.4 |
| EV/EBITDA | 10.7 | 6.7 | 5.3 |
| EV/EBIT (adj.) | 31.6 | 15.0 | 9.3 |
| Payout ratio (%) | 59.2 % | 57.1 % | 43.2 % |
| Dividend yield-% | 2.7 % | 3.4 % | 4.8 % |

Source: Inderes

Valuation table

| Valuation | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|----------------------------|-------|-------|-------|--------|-------|---------------|---------------|---------------|---------------|
| Share price | 5.26 | 5.34 | 4.49 | 5.24 | 3.54 | 2.94 | 2.94 | 2.94 | 2.94 |
| Number of shares, millions | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 | 18.2 |
| Market cap | 96 | 97 | 82 | 95 | 65 | 54 | 54 | 54 | 54 |
| EV | 101 | 122 | 93 | 109 | 101 | 82 | 80 | 80 | 77 |
| P/E (adj.) | 14.0 | 17.3 | 28.8 | 24.5 | neg. | 16.8 | 16.8 | 9.1 | 7.6 |
| P/E | 14.0 | neg. | neg. | 13.4 | neg. | 21.7 | 16.8 | 9.1 | 7.6 |
| P/B | 1.2 | 1.3 | 1.3 | 1.4 | 1.1 | 0.9 | 0.9 | 0.8 | 0.8 |
| P/S | 0.4 | 0.4 | 0.6 | 0.7 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| EV/Sales | 0.4 | 0.5 | 0.6 | 0.8 | 0.6 | 0.5 | 0.5 | 0.4 | 0.4 |
| EV/EBITDA | 6.4 | 11.8 | 7.9 | 6.7 | 13.0 | 10.7 | 6.7 | 5.3 | 4.7 |
| EV/EBIT (adj.) | 10.4 | 15.8 | 18.3 | 19.9 | 52.0 | 31.6 | 15.0 | 9.3 | 7.8 |
| Payout ratio (%) | 53.1% | neg. | neg. | 35.9 % | 0.0 % | 59.2 % | 57.1 % | 43.2 % | 46.7 % |
| Dividend yield-% | 3.8 % | 1.9 % | 2.7 % | 2.7 % | 0.0 % | 2.7 % | 3.4 % | 4.8 % | 6.1 % |

Source: Inderes



Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/S | | P/E | | Dividend yield-% | | P/B |
|--------------------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|------------|-------------|
| Company | MEUR | MEUR | 2023e | 2024e | 2023e | 2024e | 2023e | 2024e | 2023e | 2024e | 2023e | 2024e | 2023e |
| Nokia | 17574 | 14950 | 5.5 | 5.7 | 4.6 | 5.3 | 0.6 | 0.7 | 9.1 | 9.6 | 5.0 | 5.7 | 0.8 |
| Ericsson | 14194 | 14959 | | 7.2 | 7.2 | 5.1 | 0.7 | 0.7 | 13.7 | 9.1 | 5.6 | 5.6 | 1.5 |
| Cisco | 200613 | 183583 | 10.3 | 10.0 | 9.5 | 9.1 | 3.4 | 3.4 | 13.7 | 12.9 | 3.0 | 3.0 | 4.9 |
| ZTE | 15192 | 14865 | 10.3 | 9.4 | 7.5 | 6.9 | 0.9 | 0.8 | 12.4 | 10.9 | 1.9 | 2.1 | 1.8 |
| Harmonic | 1112 | 1158 | 22.2 | 10.4 | 17.6 | 9.5 | 2.0 | 1.6 | 29.2 | 13.3 | | | |
| Motorola | 44459 | 49507 | 19.8 | 18.3 | 17.4 | 16.3 | 5.3 | 5.0 | 24.4 | 22.5 | 1.2 | 1.3 | 53.4 |
| Viavi Solutions | 1606 | 1807 | 11.2 | 10.6 | 8.4 | 8.5 | 1.7 | 1.8 | 14.4 | 13.2 | | | 2.3 |
| CommScope | 272 | 9838 | 10.5 | 9.8 | 9.3 | 8.6 | 1.4 | 1.3 | 1.3 | 1.0 | | | |
| Ciena | 5939 | 6221 | 11.7 | 9.9 | 9.9 | 8.3 | 1.5 | 1.4 | 15.9 | 12.9 | | | 2.2 |
| Fiberhome | 2734 | 4669 | 55.1 | 36.5 | 24.4 | 19.5 | 1.1 | 1.0 | 45.7 | 33.1 | 0.7 | 0.9 | 1.7 |
| Juniper | 8070 | 8256 | 9.4 | 9.4 | 7.7 | 7.7 | 1.6 | 1.6 | 11.7 | 11.5 | 3.3 | 3.3 | 2.0 |
| Adtran | 502 | 871 | | 13.4 | 9.1 | 4.9 | 0.8 | 0.7 | | 12.7 | 5.4 | 5.4 | |
| Calix | 2125 | 1875 | 16.4 | 13.9 | 14.7 | 12.2 | 1.9 | 1.8 | 23.0 | 20.6 | | | 11.6 |
| Casa Systems | 53 | 161 | | 22.3 | 54.7 | 5.7 | 0.6 | 0.5 | | 28.6 | | | 0.4 |
| Vecima Networks | 270 | 294 | 12.9 | 10.7 | 8.0 | 7.1 | 1.4 | 1.3 | 15.6 | 13.9 | | | |
| Teleste (Inderes) | 54 | 82 | 31.6 | 15.0 | 10.7 | 6.7 | 0.5 | 0.5 | 16.8 | 16.8 | 2.7 | 3.4 | 0.9 |
| Average | 20981 | 20868 | 16.3 | 13.2 | 14.0 | 9.0 | 1.6 | 1.6 | 17.7 | 15.1 | 3.3 | 3.4 | 7.5 |
| Median | 2734 | 6221 | 11.5 | 10.4 | 9.3 | 8.3 | 1.4 | 1.3 | 14.4 | 12.9 | 3.1 | 3.2 | 2.0 |
| Diff.% to median | | | 176% | 45% | 16% | -20% | -63% | -63% | 16% | 30% | -13% | 7% | -54% |

Source: Refinitiv / Inderes

Income statement

| Income statement | 2021 | Q1'22 | Q2'22 | Q3'22 | Q4'22 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23e | 2023e | 2024e | 2025e | 2026e |
|------------------------|-------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|
| Revenue | 144 | 38.0 | 38.4 | 42.6 | 46.0 | 165 | 45.3 | 40.1 | 35.2 | 35.7 | 156 | 160 | 177 | 184 |
| EBITDA | 16.3 | 1.9 | 2.0 | 2.6 | 1.3 | 7.8 | 2.7 | 1.5 | 1.9 | 1.5 | 7.7 | 11.9 | 15.2 | 16.5 |
| Depreciation | -7.6 | -1.8 | -1.9 | -7.4 | -1.6 | -12.6 | -1.5 | -1.4 | -1.4 | -1.5 | -5.8 | -6.6 | -6.6 | -6.5 |
| EBIT (adj.) | 5.5 | 0.1 | 0.3 | 1.1 | 0.4 | 2.0 | 1.5 | 0.6 | 0.5 | 0.0 | 2.6 | 5.3 | 8.6 | 9.9 |
| EBIT | 8.7 | 0.1 | 0.2 | -4.8 | -0.3 | -4.8 | 1.2 | 0.1 | 0.5 | 0.0 | 1.9 | 5.3 | 8.6 | 9.9 |
| Net financial items | 0.3 | 0.0 | 0.1 | 0.1 | -0.4 | -0.1 | -0.3 | -0.6 | 0.1 | -0.3 | -1.1 | -1.2 | -1.0 | -0.9 |
| PTP | 9.0 | 0.1 | 0.3 | -4.7 | -0.7 | -5.0 | 0.9 | -0.5 | 0.6 | -0.3 | 0.7 | 4.1 | 7.6 | 9.0 |
| Taxes | -2.1 | 0.0 | -1.8 | 0.5 | 0.4 | -0.9 | 1.3 | 0.2 | -0.2 | 0.1 | 1.4 | -0.9 | -1.7 | -2.0 |
| Minority interest | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 | 0.2 | 0.1 | 0.2 | 0.1 | 0.0 | 0.3 | 0.0 | 0.0 | 0.0 |
| Net earnings | 7.1 | 0.1 | -1.5 | -4.1 | -0.3 | -5.7 | 2.3 | -0.1 | 0.5 | -0.2 | 2.5 | 3.2 | 5.9 | 7.0 |
| EPS (adj.) | 0.21 | 0.01 | -0.07 | 0.04 | 0.02 | -0.01 | 0.14 | 0.02 | 0.03 | -0.01 | 0.18 | 0.18 | 0.32 | 0.39 |
| EPS (rep.) | 0.39 | 0.01 | -0.08 | -0.22 | -0.01 | -0.31 | 0.13 | -0.01 | 0.03 | -0.01 | 0.14 | 0.18 | 0.32 | 0.39 |
| Key figures | 2021 | Q1'22 | Q2'22 | Q3'22 | Q4'22 | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23e | 2023e | 2024e | 2025e | 2026e |
| Revenue growth-% | -0.7 % | 2.6 % | 7.2 % | 32.0 % | 18.5 % | 14.6 % | 19.4 % | 4.5 % | -17.4 % | -22.4 % | -5.2 % | 2.2 % | 10.7 % | 4.0 % |
| Adjusted EBIT growth-% | 8.8 % | -93.3 % | -70% | -52.0 % | -30.6 % | -64.6 % | 1360.0 % | 75.8 % | -52.4 % | -93.2 % | 33.5 % | 103.3 % | 61.9 % | 15.5 % |
| EBITDA-% | 11.3 % | 5.0 % | 5.3 % | 6.0 % | 2.8 % | 4.7 % | 6.0 % | 3.9 % | 5.3 % | 4.3 % | 4.9 % | 7.5 % | 8.6 % | 8.9 % |
| Adjusted EBIT-% | 3.8 % | 0.3 % | 0.9 % | 2.6 % | 0.9 % | 1.2 % | 3.2 % | 1.5 % | 1.5 % | 0.1 % | 1.7 % | 3.3 % | 4.8 % | 5.4 % |
| Net earnings-% | 4.9 % | 0.3 % | -3.9 % | -9.5 % | -0.6 % | -3.4 % | 5.1 % | -0.3 % | 1.3 % | -0.6 % | 1.6 % | 2.0 % | 3.3 % | 3.8 % |

Source: Inderes

Balance sheet

| Assets | 2021 | 2022 | 2023e | 2024e | 2025e |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
| Non-current assets | 58.2 | 58.6 | 58.8 | 58.7 | 58.6 |
| Goodwill | 30.7 | 30.6 | 29.9 | 29.9 | 29.9 |
| Intangible assets | 14.0 | 10.5 | 12.3 | 12.7 | 13.0 |
| Tangible assets | 11.3 | 13.7 | 12.7 | 12.2 | 11.8 |
| Associated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 0.5 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other non-current assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred tax assets | 1.7 | 3.4 | 3.6 | 3.6 | 3.6 |
| Current assets | 77.0 | 93.7 | 75.8 | 76.9 | 87.4 |
| Inventories | 29.2 | 38.7 | 32.1 | 30.7 | 33.6 |
| Other current assets | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Receivables | 33.5 | 41.2 | 34.7 | 35.5 | 40.2 |
| Cash and equivalents | 14.1 | 13.4 | 8.6 | 10.4 | 13.3 |
| Balance sheet total | 135 | 152 | 135 | 136 | 146 |

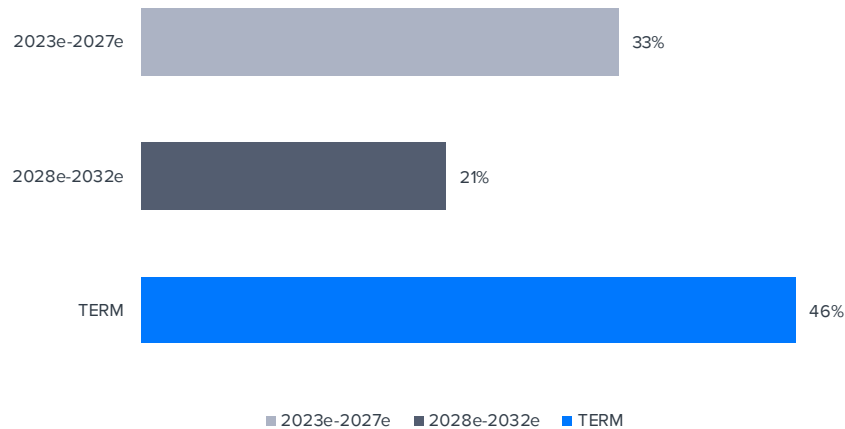
Source: Inderes

| Liabilities & equity | 2021 | 2022 | 2023e | 2024e | 2025e |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| Equity | 69.0 | 60.4 | 59.9 | 61.6 | 65.7 |
| Share capital | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| Retained earnings | 58.6 | 50.5 | 52.9 | 54.7 | 58.7 |
| 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 | 3.3 | 2.9 | 0.0 | 0.0 | 0.0 |
| Minorities | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-current liabilities | 10.9 | 50.0 | 33.2 | 32.6 | 34.8 |
| Deferred tax liabilities | 2.0 | 2.0 | 2.3 | 2.3 | 2.3 |
| Provisions | 1.3 | 3.6 | 1.0 | 1.0 | 1.0 |
| Interest bearing debt | 6.9 | 44.3 | 29.8 | 29.2 | 31.4 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 0.7 | 0.1 | 0.1 | 0.1 | 0.1 |
| Current liabilities | 55.3 | 42.0 | 41.5 | 41.4 | 45.6 |
| Interest bearing debt | 21.2 | 6.0 | 7.5 | 7.3 | 7.8 |
| Payables | 33.3 | 35.4 | 33.5 | 33.6 | 37.2 |
| Other current liabilities | 0.9 | 0.6 | 0.6 | 0.6 | 0.6 |
| Balance sheet total | 135 | 152 | 135 | 136 | 146 |

DCF calculation

| DCF model | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | TERM |
|-----------------------------------------|--------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue growth-% | 14.6 % | -5.2 % | 2.2 % | 10.7 % | 4.0 % | 2.7 % | 2.2 % | 2.0 % | 2.0 % | 2.0 % | 15 % | 15 % |
| EBIT-% | -2.9 % | 1.2 % | 3.3 % | 4.8 % | 5.4 % | 5.5 % | 5.3 % | 5.2 % | 5.1 % | 5.0 % | 5.0 % | 5.0 % |
| EBIT (operating profit) | -4.8 | 1.9 | 5.3 | 8.6 | 9.9 | 10.4 | 10.2 | 10.2 | 10.2 | 10.2 | 10.4 | |
| + Depreciation | 12.6 | 5.8 | 6.6 | 6.6 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | 6.5 | |
| - Paid taxes | -2.7 | 1.5 | -0.9 | -1.7 | -2.0 | -2.0 | -2.0 | -2.0 | -2.1 | -2.1 | -2.1 | |
| - Tax, financial expenses | 0.0 | -0.2 | -0.3 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | |
| + 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 | -15.5 | 11.2 | 0.7 | -4.0 | -2.0 | -0.1 | 0.1 | 0.2 | -0.8 | -0.8 | -0.6 | |
| Operating cash flow | -10.4 | 20.2 | 11.5 | 9.2 | 12.3 | 14.6 | 14.6 | 14.7 | 13.7 | 13.7 | 14.0 | |
| + Change in other long-term liabilities | 1.6 | -2.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| - Gross CAPEX | -11.3 | -5.8 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | -6.5 | |
| Free operating cash flow | -20.1 | 11.8 | 5.0 | 2.7 | 5.8 | 8.1 | 8.1 | 8.2 | 7.2 | 7.2 | 7.5 | |
| +/- Other | 0.0 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | -20.1 | 15.8 | 5.0 | 2.7 | 5.8 | 8.1 | 8.1 | 8.2 | 7.2 | 7.2 | 7.5 | 99.1 |
| Discounted FCFF | | 15.6 | 4.5 | 2.3 | 4.4 | 5.6 | 5.2 | 4.8 | 3.8 | 3.5 | 3.4 | 44.3 |
| Sum of FCFF present value | | 97.2 | 81.7 | 77.2 | 74.9 | 70.6 | 65.0 | 59.8 | 55.0 | 51.2 | 47.7 | 44.3 |
| Enterprise value DCF | | 97.2 | | | | | | | | | | |
| - Interest bearing debt | | -50.4 | | | | | | | | | | |
| + Cash and cash equivalents | | 13.4 | | | | | | | | | | |
| -Minorities | | 0.0 | | | | | | | | | | |
| -Dividend/capital return | | 0.0 | | | | | | | | | | |
| Equity value DCF | | 60.3 | | | | | | | | | | |
| Equity value DCF per share | | 3.3 | | | | | | | | | | |

Cash flow distribution



| WACC | |
|------------------------------------------------|---------------|
| Tax-% (WACC) | 20.0 % |
| Target debt ratio (D/(D+E)) | 18.0 % |
| Cost of debt | 4.0 % |
| Equity Beta | 1.20 |
| Market risk premium | 4.75% |
| Liquidity premium | 2.30% |
| Risk free interest rate | 2.5 % |
| Cost of equity | 10.5 % |
| Weighted average cost of capital (WACC) | 9.2 % |

Source: Inderes

Summary

| Income statement | 2020 | 2021 | 2022 | 2023e | 2024e | Per share data | 2020 | 2021 | 2022 | 2023e | 2024e |
|---------------------------|-------|-------|-------|-------|-------|--------------------------|--------|-------|-------|--------|-------|
| Revenue | 145.0 | 144.0 | 165.0 | 156.4 | 159.8 | EPS (reported) | -0.43 | 0.39 | -0.31 | 0.14 | 0.18 |
| EBITDA | 11.8 | 16.3 | 7.8 | 7.7 | 11.9 | EPS (adj.) | 0.16 | 0.21 | -0.01 | 0.18 | 0.18 |
| EBIT | 4.5 | 8.7 | -4.8 | 1.9 | 5.3 | OCF / share | 1.39 | 0.50 | -0.57 | 1.11 | 0.63 |
| PTP | 3.7 | 9.0 | -5.0 | 0.7 | 4.1 | FCF / share | 1.28 | -0.13 | -1.10 | 0.87 | 0.27 |
| Net Income | -7.8 | 7.1 | -5.7 | 2.5 | 3.2 | Book value / share | 3.45 | 3.78 | 3.31 | 3.28 | 3.38 |
| Extraordinary items | -0.6 | 3.2 | -6.8 | -0.7 | 0.0 | Dividend / share | 0.12 | 0.14 | 0.00 | 0.08 | 0.10 |
| Balance sheet | 2020 | 2021 | 2022 | 2023e | 2024e | Growth and profitability | 2020 | 2021 | 2022 | 2023e | 2024e |
| Balance sheet total | 133.0 | 135.2 | 152.3 | 134.6 | 135.6 | Revenue growth-% | -38% | -1% | 15% | -5% | 2% |
| Equity capital | 63.1 | 69.0 | 60.4 | 59.9 | 61.6 | EBITDA growth-% | 14% | 38% | -52% | -2% | 55% |
| Goodwill | 30.5 | 30.7 | 30.6 | 29.9 | 29.9 | EBIT (adj.) growth-% | -34% | 9% | -65% | 33% | 103% |
| Net debt | 10.7 | 13.9 | 37.0 | 28.7 | 26.1 | EPS (adj.) growth-% | -49% | 37% | -102% | -3433% | 0% |
| Cash flow | 2020 | 2021 | 2022 | 2023e | 2024e | EBITDA-% | 8.1% | 11.3% | 4.7% | 4.9% | 7.5% |
| EBITDA | 11.8 | 16.3 | 7.8 | 7.7 | 11.9 | EBIT (adj.)-% | 3.5% | 3.8% | 1.2% | 1.7% | 3.3% |
| Change in working capital | 14.9 | -6.1 | -15.5 | 11.2 | 0.7 | EBIT-% | 3.1% | 6.1% | -2.9% | 1.2% | 3.3% |
| Operating cash flow | 25.2 | 9.2 | -10.4 | 20.2 | 11.5 | ROE-% | -11.5% | 10.8% | -8.8% | 4.1% | 5.3% |
| CAPEX | 0.9 | -11.0 | -11.3 | -5.8 | -6.5 | ROI-% | 4.5% | 9.1% | -4.7% | 1.8% | 5.4% |
| Free cash flow | 23.3 | -2.4 | -20.1 | 15.8 | 5.0 | Equity ratio | 48.8% | 53.3% | 39.7% | 46.5% | 47.4% |
| | | | | | | Gearing | 17.0% | 20.2% | 61.2% | 47.9% | 42.4% |
| Valuation multiples | 2020 | 2021 | 2022 | 2023e | 2024e | | | | | | |
| EV/S | 0.6 | 0.8 | 0.6 | 0.5 | 0.5 | | | | | | |
| EV/EBITDA (adj.) | 7.9 | 6.7 | 13.0 | 10.7 | 6.7 | | | | | | |
| EV/EBIT (adj.) | 18.3 | 19.9 | 52.0 | 31.6 | 15.0 | | | | | | |
| P/E (adj.) | 28.8 | 24.5 | neg. | 16.8 | 16.8 | | | | | | |
| P/B | 1.3 | 1.4 | 1.1 | 0.9 | 0.9 | | | | | | |
| Dividend-% | 2.7% | 2.7% | 0.0% | 2.7% | 3.4% | | | | | | |

Source: Inderes

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| | |
|------------|----------------------------------------------------------------------------------------|
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| 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 € |



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