

# Transtema

Sector: Communication Services

## Transformed

Redeye initiates coverage on Transtema, a leading operations, service, and maintenance provider focusing on communication networks in Sweden. The business has undergone a successful transformation resulting in both organic growth and increasing margins. However, while the share price has risen by +100% year-to-date, we believe the market has not yet grasped the full potential in Transtema 2.0.

### Time to Price in a Successful Transformation

Following a few years of weak performance, recent quarters strongly suggest that Transtema's reshaped strategy is paying off. Several significant deals will fuel organic growth in 2021, and the three last quarters indicate Transtema will easily beat its >5% EBITA margin target. While the share price has increased by over 100% year-to-date, Transtema is trading at ~8x EBITA 2021E. Considering its ~70% recurring revenues, solid market position, and positive operational momentum, we find 8x EBITA attractive. **Our Base Case Fair Value is SEK 30 (11x EBITA 2021E), corresponding to an upside potential of ~35%.**

### Essential for Digital Societies

Availability and reliability of communication networks are increasing in importance as more and more applications rely on them. Digital health services, internet of things, autonomous driving, and decentralized work drive demand for communication networks. Considering the limited or sometimes nonexistent tolerance for downtime in these often critical applications, we expect a rising demand for field services and maintenance. While having some drag from its exposure to legacy technology, we believe Transtema, with its nationwide ~900 technicians strong service organization, is set for growth as the importance of its services increases even further.

### Solid Market Position

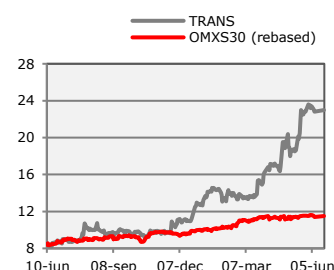
Established in 85 locations with ~900 technicians, Transtema can reach all of populated Sweden in less than one hour. We believe this capacity was crucial in signing the nationwide deals with Telia and 3GIS. Transtema is one of few players possessing nationwide reach, paving the way for similar deals going forward.

SEKm	2018	2019	2020	2021E	2022E	2023E	2024E
<b>Net sales</b>	<b>1058</b>	<b>1497</b>	<b>1405</b>	<b>1638</b>	<b>1699</b>	<b>1750</b>	<b>1802</b>
Growth y/y	9%	41%	-6%	17%	4%	3%	3%
<b>EBITA</b>	n/a	<b>13</b>	<b>42</b>	<b>108</b>	<b>104</b>	<b>112</b>	<b>117</b>
EBITA margin	n/a	0.9%	3.0%	6.6%	6.1%	6.4%	6.5%
<b>EV/S</b>				<b>0.55</b>	<b>0.48</b>	<b>0.42</b>	<b>0.36</b>
<b>EV/EBITA</b>				<b>8.4</b>	<b>7.9</b>	<b>6.6</b>	<b>5.5</b>

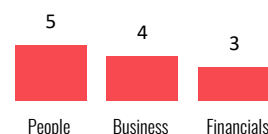
### FAIR VALUE RANGE

BEAR	BASE	BULL
14	30	47

### TRANS VERSUS OMXS30



### REDEYE RATING



### KEY STATS

Ticker	TRANS
Market	First North
Share Price SEK	23
Market Cap	856
Net Debt 21E	36
Free Float	61%
Avg. daily volume ('000)	1 460

### ANALYSTS

Fredrik Nilsson  
fredrik.nilsson@redeye.se  
Jacob Svensson  
jacob.svensson@redeye.se

## Investment Case

### Transtema 2.0

Following a few years with frequent acquisitions and focus mainly on Fiber-To-The-Home (FTTH) construction which ended badly, Transtema has reshaped its business, concentrating on the stable operations and maintenance market. Recent country-wide contracts with Telia and 3GIS, combined with impressive margin development in the last three quarters, indicate that the renewed strategy is a success. In addition to so far generating solid profits, the new focus has several advantages. ~70% of Transtema's revenues are recurring and, thus, independent of investments in new FTTH/B, which significantly increases the predictability and duration of its revenues. In the mean time, Transtema has improved its working capital substantially, now hitting negative net levels. We believe the market has not yet fully priced in Transtema's transformation to a stable and profitable company.

### Scale Advantages

While Transtema is a personnel-dependent service business without substantial intangible assets, we believe the company has durable competitive advantages. Considering the importance of reliable communication networks and the limited acceptance for downtime, reaching all populated Sweden fast is vital – especially for large country-wide contracts.

Established in 85 locations and with ~900 technicians, Transtema reaches all populated Sweden in an hour. Establishing a similar organization is a substantial investment and a significant deal, like Transtema's Telia and 3GIS (Telenor and 3) deals, is probably necessary to justify running operations in all of Sweden. Thus, we believe market characteristics limit the risk of new players entering the market, which should support Transtema's long-term profitability. Also, we believe Transtema's nationwide organization can handle increasing volumes at limited cost increases, paving the way for higher margins if signing new substantial deals.

### Demand for Availability and Reliability

Several structural trends, like digital health services, autonomous driving, the internet of things, and decentralized working, are driving demand for increased availability and reliability of communication networks. The acceptance for downtime is gradually decreasing as internet access is becoming increasingly vital for consumers and businesses alike and, going forward, unacceptable in some cases. We believe Transtema's services' rising importance will drive growth and reduce price pressure, as we assume network owners favor quality and comprehensive Service Level Agreements (SLA).

## Counter-Thesis

### Significant Customer Concentration

While including several different areas and contracts, Telia represents ~65% of Transtema's revenues. We believe that is a significant customer concentration, which increases the risk in Transtema's operation. However, Transtema is simultaneously a vital supplier to Telia's Swedish operations. While substantial customer concentration tends to cause price pressure, considering the importance of reliable networks, we believe it is in Telia's interest not to squeeze its suppliers. Especially not the larger ones, like Transtema with its nationwide capabilities.

### Exposure to Legacy Technology

During the next 5-10 years, copper will gradually be phased out. Considering that Transtema generates ~35% of its sales from copper-related contracts, we expect a negative sales growth impact of about 5% annually. However, as copper is phased out, the fiber market expands, and 5G opens new growth opportunities. While there are several opportunities to compensate the lost copper business, it is usually harder to gain new business than defending current contracts. Also, technical shifts are a natural part of the communication network market and, thus, something businesses in the sector must handle.

## Catalysts

### Preserve the Improvement

Transtema has improved its EBITA margin significantly, with several consecutive quarters outnumbering the company's margin target of >5% EBITA. The organic growth has also picked up following several major orders, and the growth is set to continue in 2021. We believe there is a high likelihood Transtema will preserve the recent operational improvements, and we believe solid performance will attract investors' attention.

### New Contracts

We believe new deals of significant magnitude will have a notable positive impact on Transtema. The recent substantial orders with Telia and 3GIS show that Transtema can handle large deals, and considering its nationwide coverage, the company is well suited for large contracts. Also, we believe Transtema's organization can handle additional volumes at limited cost increases.

### Acquisitions

While not included in our forecasts, we believe there is a good chance Transtema will make acquisitions going forward. We believe the most likely acquisition is a complementing business in an area technically close to Transtema's current business, but where its existing offering is limited. Charging stations, needing both electricity and network connection, and property technical solutions are two possible examples within fast-growing segments. A complementing acquisition in Sweden would increase the utilization of Transtema's nationwide technician workforce, its Service Operations Center (SOC) and its group functions.

## Contents

Investment Case .....	2
Catalysts .....	3
Company Profile.....	5
Business Overview .....	11
Industry Outlook .....	14
Financials and Estimates .....	17
Valuation .....	20
Summary Redeye Rating.....	25
Redeye Rating and Background Definitions .....	26
Redeye Equity Research team.....	27
Disclaimer .....	28

## Company Profile

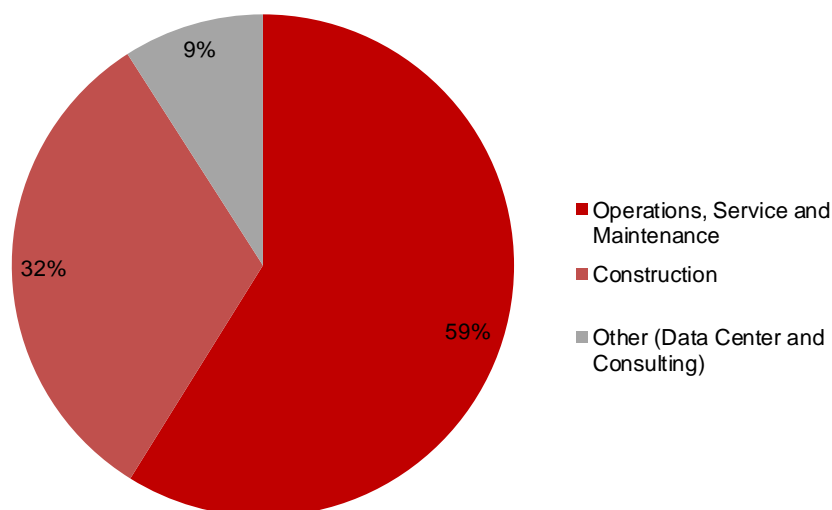
Transtema is a Gothenburg-based company founded in 1997. The company is involved in communication infrastructure and offers design, construction, operations, and maintenance, and is thus involved in the whole value chain. Transtema is listed on the First North Growth Market and plans a listing on Nasdaq Stockholm's main market – Small-Cap in H2 2021. In 2020, Transtema had sales of SEK 1405m and an EBITA of 42m, corresponding to an EBITA margin of 3.0%.

The company is recognized as one of the market leaders in field service and communication networks with a clear strategy - "Makes the net work". With two Network Operating Centers (NOC:s), the ~900 technicians can reach the entire Swedish population within 60 minutes 24/7. This extensive geographical coverage and established organization make the group competitive in signing large deals.



Transtema has done a strategy shift from an acquisition-intensive time in the FTTH-market to concentrate on operation and maintenance services, striving for stable and recurring revenues. We argue that the strategic change de-risks the business, offering more stable revenue streams and puts Transtema in a better position to continue with operational improvements. We expect about 70% of Transtema's revenues to be recurring in 2021, with the bulk coming from Operations, Services and Maintenance.

#### Sales Mix - 2021E



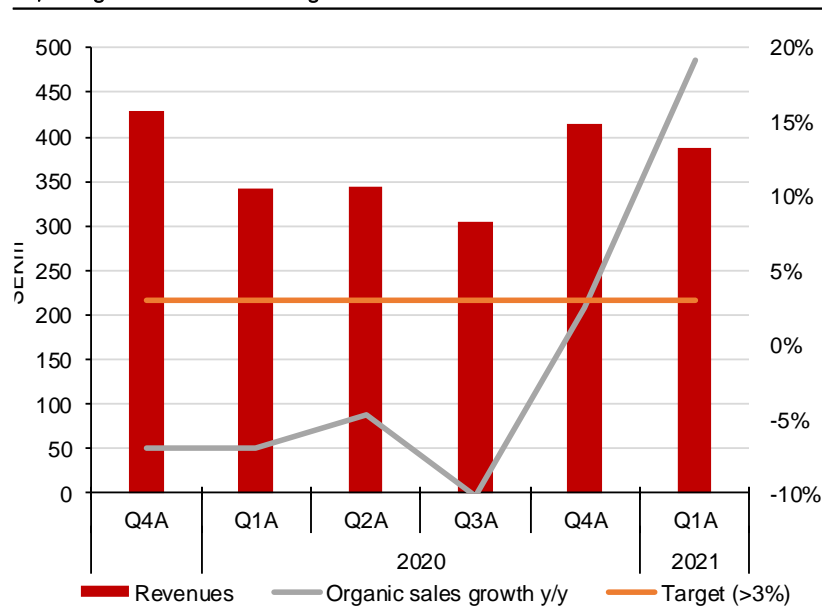
#### Financial Targets

- Annual organic sales growth of >3%
- EBITA margin of >5%
- Net debt/EBITDA <2x

Transtema's financial goals are clean and simple yet comprehensive, targeting sales growth, margins, and leverage. We believe the targets are focusing on the right things using the appropriate metrics. While risking being a bit picky, we believe a target indicating Transtema's acquisition ambitions would be interesting.

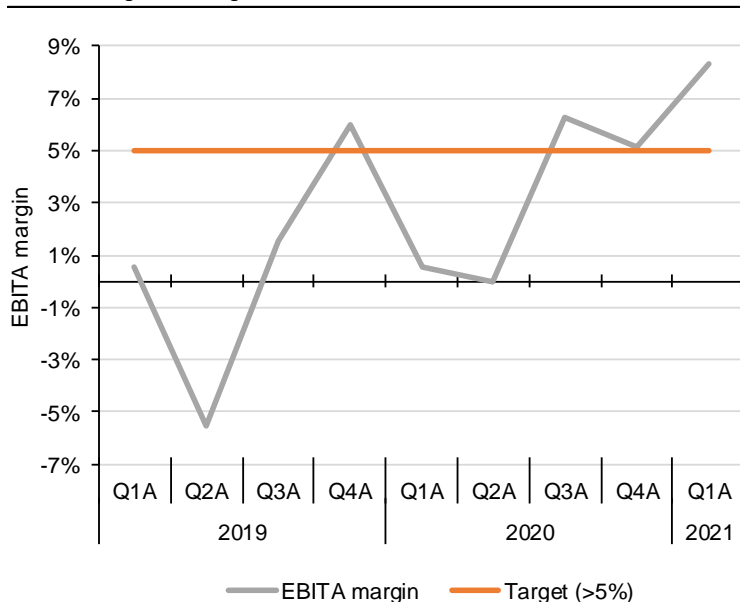
Transtema did not report its organic growth until Q4 2019, and the outcome has been below target until the two most recent quarters. Considering Transtema's transformation, we believe that the track record is not very relevant at this point. Instead, we see the recent uptick in organic growth as an early sign, indicating a successful transformation.

Y/Y Organic Growth vs Target



As with the organic sales growth, we believe Transtema's EBITA margins have missed the financial goals historically as well. However, as mentioned, considering the transformation of the business, we argue the recent surge in EBITA margins is of greater interest. The recent uptick in EBITA is likewise an early sign of a successful transformation.

EBITA Margin vs Target



Transtema's current net debt (incl. leasing) of ~0.3x EBITDA is far below the target of <2x, leaving significant financial headroom for acquisitions.

Considering Q4 and Q1, Transtema's financial targets seem rather defensive. However, the transformed Transtema is still quite new, and the significant deals with Telia and 3GIS boosted growth in Q1 2021. Nevertheless, considering the deals' life spans of five years,

these revenues will be recurring for at least the next five years, paving the way for future organic sales growth.

## Management, Board, and Owners

Magnus Johansson has been an owner and CEO of Transtema AB since 1997, nowadays controlled by Transtema Group AB. Johansson has a deep understanding of the sector with over 20 years of experience in the industry and is Transtema's largest shareholder, holding more than 25% of the capital and votes. We believe that Johansson has the right experience for the position and extensive knowledge of the sector with solid entrepreneurial skills. Also, we believe Johansson communicates well and transparently with the market.

Besides CEO Johansson, CFO Henning Sveder and COO Jens Boberg have some shares in

Transtema - Management				
Name	Position	Joined	Note	# of shares
Magnus Johansson	CEO	1997	Owner and CEO of Transtema AB since 1997 (sub. of Transtema Group)	9 653 617
Henning Sveder	CFO	2019	Former CFO of Qmatic Group	18 180
Jens Boberg	COO	2005	Experience with communication and security	80 000

Source: Redeye Research, Transtema, Holdings

the company. Boberg has been in the group since 2005 and has a technical background within IT and data communication. Sveder is the newest person in the management team and joined in 2019, possessing significant and relevant experience within similar positions in other companies.

The board of directors consists of five members. Two joined in 2014 and three in 2017. We believe that the board has a favorable mix of competencies, including several people within the area of IT and telecom. All the board members hold shares in the company and three of them substantial amount, including the CEO Johansson. The chairman, Göran Nordlund, is the second-largest shareholder with nearly 9.7% of the capital and votes.

Transtema - Board of Directors				
Name	Position	Joined	Note	# of shares
Göran Nordlund	Chairman	2014	Entrepreneur in telecommunications	3 716 679
Magnus Johansson	Member	2014	CEO of Transtema	9 653 617
Linus Brandt	Member	2017	CFO of Opus Group	2 000
Liselotte Hägertz Engstam	Member	2017	Experience with IT, engineering, digitalization	2 212
Peter Stenquist	Member	2017	Experience with automotive, IT and management consulting	187 500

Source: Redeye Research, Transtema, Holdings

The three largest shareholders stand for more than 43% of the capital and votes in Transtema. There is a lack of institutional investors, and the market cap of ~900m can be a reason for this. Another reason may be the historical fluctuation in sales and margins, even though we argue that Transtema is a more stable company today than its past self. If Transtema can continue to grow and increase its market cap and profitability, we believe that it will attract additional institutional investors in the future. We also believe that the earlier mentioned future listing on Nasdaq Stockholm's main market will increase this chance.



Transtema - Ownership structure			
Name	Capital %	Votes %	Verified
Magnus Johansson	25.2%	25.2%	2021-03-31
Göran Nordlund	9.7%	9.7%	2021-03-31
Jonas Nordlund	8.4%	8.4%	2021-03-31
Nordnet Pensionsförsäkring	5.8%	5.8%	2021-03-31
Nordic Cross Asset Management	3.6%	3.6%	2021-03-31
Per Anders Bendt	3.5%	3.5%	2021-03-31
Telefon AB LM Ericsson	3.4%	3.4%	2021-03-31
Avanza Pension	3.2%	3.2%	2021-03-31
Sune Tholin	3.1%	3.1%	2021-03-31
Jovitech Invest AB	3.0%	3.0%	2021-03-31

Source: Holdings

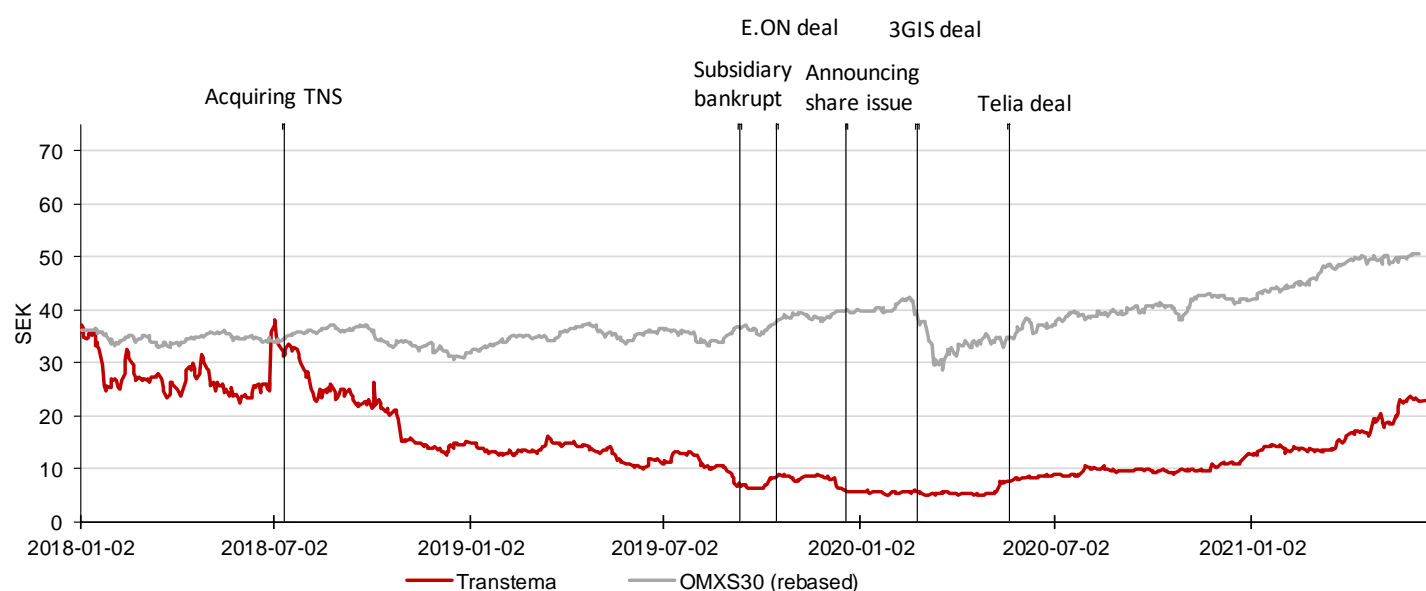
## The Share

After trading at SEK 50-60 during mid-2017 following frequent acquisitions of FTTH businesses, the share fell as the FTTH market declined and as several acquired businesses deteriorated. Despite Transtema acquiring today's TNS in mid-2018, the share continued to fall as past FTTH work haunted the P&L before bottoming out during the Corona crisis. Since May 2020, when Transtema received its major Telia deal, the share has quadrupled following solid EBITA margins above Transtema's financial target.

The market has started to notice Transtema's transformation to some degree. However, given that Transtema can preserve the solid development show in recent quarters, we believe the share is still trading at attractive multiples - especially considering the stable characteristics of its transformed business.

We believe additional solid quarters and major deals to be the most likely catalysts for a revaluation going forward.

### Transtema - Share price



Source: Redeye Research, FactSet

## Business Overview

Following a few tough years as an FTTH (Fiber-To-The-Home) contractor, Transtema repositioned itself as the largest field service and maintenance provider in Sweden. By acquiring Ericsson's Swedish field service business in 2018, (largely today's TNS) Transtema expanded its presence in mainly south- and middle Sweden and became a major player in the Swedish market.

### Emphasis on Operations, Field Service, and Maintenance

About 60% of Transtema's revenues are generated from field service and maintenance of networks, including mobile, fiber, and copper. Typical customers are telecom carriers, municipalities, businesses, and other network owners. To serve all of Sweden, which is a requirement in some contracts, Transtema is established in 85 locations, and its technicians can reach every populated part of Sweden within 60 minutes.

Transtema operates two Network Operation Centers (NOC), helping its technicians ensure functioning networks 24/7. The NOC acts reactively on incoming alarms and proactive on early indications of coming problems. Also, the NOC helps the technicians with top-down troubleshooting to catch power outages, for example.

The technicians also receive support from Transtema's Service Operation Center (SOC). The SOC dispatches the technicians to minimize costs, emissions, and downtime, through automated routing. It also handles inbound orders and supports the technicians with administration and customer contact. According to management, the SOC is staffed in such a way that it is easy to grow to handle larger volumes. With infrastructure in place to be able to keep up with sales growth needing limited additional cost.

Revenues from field service and maintenance are recurring, and the contracts are often running for ~ five years or more. Thus, we believe these revenue streams are more attractive than revenues from construction – which dominated Transtema's sales mix a few years ago.

### Construction Division Refocused on New Segments

Unlike a few years ago, where Transtema's construction division focused on large FTTH (1 000+ single dwelling homes) projects, the division now concentrates on backbone networks, FTTB, and specific destinations. According to management, the new segments are less risky than the previous ones. We find this reasonable for several reasons. First, the FTTH was apparently very risky. Second, while the construction division generates less than 30% of group sales, considering the solid operational performance on the group level lately, we expect the construction division to do okay.

### Significant Economies of Scale in Country-wide Deals

While Transtema is a personnel-dependent service business without any substantial intangible assets, we believe the company has durable competitive advantages. Considering the importance of reliable communication networks, Transtema's technicians can reach any populated location in Sweden in less than one hour – which we believe is in line with customer demand. Since Sweden is full of scarcely populated areas, long distances between network nodes are common. Thus, the need for several technicians in a one-hour radius is in many regions nonexistent, almost creating a natural monopoly in Transtema's market in rural areas.

The largest customers in Transtema's market, Telia and 3GIS, need their service providers to reach all of Sweden. To serve all of Sweden, Transtema is established in 85 locations, including a workforce of ~900 employees with cars and equipment. While establishing a similar organization is a substantial investment, a significant deal, like Transtema's Telia and 3GIS deals, is probably necessary to achieve profitability running operations in all of Sweden. Also, the market includes some inaccessible areas, such as archipelagos and sub-arctic climate (during winters), requiring specialized vehicles such as boats and snowmobiles.

## Multitalented Technicians

Transtema's technicians are typically schooled in several different fields, making them able to handle a wide range of applications and issues. While some negative aspects, like education costs and higher salaries, we believe the benefits of multitalented technicians outweighs the negatives. Considering the limited acceptance and high costs of downtime, we believe having technicians who can fix a wide range of problems makes a lot of sense, especially as the problem is sometimes unknown before reaching the site. We believe this is extra important in rural areas, where the technicians are few and the distances long. However, as management points out, moving a technician in urban areas could be just as time-consuming due to traffic.

## Ready for M&A

Coming from a history of rapid expansion within mainly FTTH through M&A, which ended badly, Transtema has spent the last few years getting its business in shape. As mentioned before, recent quarters suggest the company is back on track. Also, according to management, the organization is now running smoothly and is ready to take on acquisitions.

According to management, there are mainly two types of acquisitions that are interesting:

- **Complementing businesses in the Swedish market**

A complementing acquisition will likely be in an area technically close to Transtema's current business but where its current offering is limited. Charging stations, needing both electricity and network connection, and property technical solutions are two possible examples within fast-growing segments. A complementing acquisition in Sweden would increase the utilization of Transtema's nationwide technician workforce, its SOC, and its group functions.

- **A "Transtema-like" business in a neighboring country**

Expanding into a neighboring country would require a large "Transtema-like" acquisition of a fullservice provider with sales of SEK 300-500m to establish Transtema as a relevant player in the market.

We believe that acquiring complementing businesses in the Swedish market is a high-reward/low-risk strategy for several reasons. On the risk side of things, we believe complementing acquisitions, which we assume generally are quite small, can be bought at attractive multiples – lowering the potential loss. However, if such a small company's expertise can be leveraged throughout Transtema's nationwide organization, the potential is significant.

While we prefer the complementing acquisitions, we believe a significant acquisition in a neighboring country has vast potential. However, we believe that a large acquisition in a foreign country, although within well-known business segments, constitutes a non-negligible risk. On the other hand, the acquisition of Ericsson's field services in 2018 was a big one, which arguably has been a success. Also, we believe management is aware of the risks with

big acquisitions, and we expect management to take an opportunistic approach towards this kind of acquisition.

While we understand that some investors might dislike Transtema making acquisitions considering its track record, our impression is that management has well-founded arguments favoring acquisitions in the specific areas mentioned above. Also, we believe management is extra careful when picking acquisition targets, which we find reasonable considering Transtema's history. Also, while the mainly FTTH-related acquisitions failed, as mentioned, the acquisition of Ericsson's field services is arguably a success, suggesting that Transtema's M&A reputation is overly pessimistic.

We do not include any future M&A in our forecast, which we typically only do for distinctive serial acquirers. Although, we still expect Transtema to make acquisitions over the next few years. We believe that a few complementing acquisitions in Sweden is the most likely scenario.

## Industry Outlook

### Networks are Crucial to Modern Societies

Communication (mobile, fiber, and copper) and electricity networks are vital to modern societies. Several factors are increasing the need for availability and reliability as well as higher capacity in communication networks. Also, many of these trends have accelerated significantly during the Corona crisis.

- **Digital Health Services**

From telecare to video solutions, all kinds of remote health services rely on the availability of reliable communication networks, and for many solutions, even the slightest downtime is unacceptable. As demographic data expects an increasing share of older people, the demand for efficient healthcare, such as digital solutions, will likely rise. Marketsandmarkets expects the global eHealth market to grow by a CAGR of ~23%.2020-2025.

- **Internet of Things (IoT) and Machine-to-Machine (M2M)**

Like people, gadgets, and machines, including anything from wind turbines and charging stations to property technical solutions, are getting connected. The acceptance for downtime in these, often critical, applications spans from limited to nonexistent, increasing demand for reliability and comprehensive Service Level Agreements (SLA). Business Insider estimates the total number of installed IoT devices to reach 40+ billion in 2027, compared to about 15 billion today.

- **Autonomous Driving**

While fully autonomous driving likely is a few years away, the communication infrastructure needs to be in place before any autonomous driving can happen. This will increase demand for reliable networks all over but especially in rural areas, where the current capacity often is limited. Mordor Intelligence forecasts an 18% CAGR in the autonomous/driverless car market 2021-2026.

- **Decentralized Working**

The Corona crisis has accelerated decentralized working. While the long-term impact is up for debate, we find it reasonable to assume decentralized working is here to stay in some form. Although Sweden has one of the highest FTTH/B penetrations in Europe, penetration rates remain low in rural areas. Effective decentralized working requires reliable, high-capacity networks with limited downtime. According to an analysis by Gartner, the share of employees working from home will increase to 48% from 30% pre-pandemic.

Common for all key drivers mentioned above is that they require reliable high-capacity networks in rural areas, which we believe is favorable for Transtema, considering its nationwide offering. On the contrary, a significant increase in network capacity in rural areas could threaten the "natural monopoly" characteristic of the segment in the long run as the market grows. However, we believe Transtema has the upper hand in such a scenario, considering its nationwide offering and proven track record.

While Transtema is facing a concentrated market with mainly big customers, we believe the high costs of downtime increase the customers' willingness to pay up for quality. As more and more essential applications rely on networks, the acceptance for downtime is getting lower and lower, as described above.

## ESG to Remain Competitive

While ESG is increasing in importance for many investors, Transtema's ESG focus is not limited to attracting ESG hungry investors and utilitarianism. It is a question of staying competitive. Transtema's largest customer, Telia, has an ambitious target of eliminating the use of fossil fuels by 2030. As a major supplier with about 900 diesel cars, Transtema plays a major role in Telia's transition. According to management, Transtema probably generates about 4% of Telia's total CO2 emissions. Thus, we believe being a frontrunner towards renewable fuels is a competitive advantage in Transtema's space.

In addition to CO2 emissions, Telia requires its suppliers to reuse and recycle equipment that is torn down. For example, as 5G networks are built, older networks will be torn down.

## From Copper to Fiber and 5G

About 30% of Transtema's current revenue is generated from copper-related contracts, and considering the migration towards fiber, this market will gradually disappear over the next 5-10 years. Copper is generally phased out as fiber is built, and the Swedish government has the following targets regarding broadband in 2025:

- 98% of all households and businesses should have access to 1 Gbit/s
- 1.9% of all households and businesses should have access to 100 Mbit/s
- 0.1% of all households and businesses should have access to 30 Mbit/s

While we believe these targets are too optimistic, based on the missed 95% 100 Mbit/s 2020 target and our discussions with key players in the sector, it is clear the Swedish government strives towards solid fiber access even in rural areas. Combined with the previously mentioned market drivers for improved networks, especially in rural areas, we believe both the market and politicians are working towards a bigger market for Transtema regarding fiber. However, as fiber expands, we expect Transtema's copper-related revenue to shrink.

While the out phasing of copper is a risk to Transtema's operations, adapting to new technologies is a natural thing in the communications industry. Although copper has been around for a long time, shifts in wireless have been frequent, and the change to 5G has just started. The point is that we believe the demand for reliability and Transtema's services are increasing, and it is up to Transtema to handle the technology shift. We believe the prospects are good and keep in mind that 70% of revenues is unrelated to copper.

Notably, in late May 2021, Transtema closed a framework agreement with Ericsson regarding the development of 5G in Sweden. As typically for a framework agreement, there is no guaranteed deal value, but we believe it strongly indicates that Transtema will benefit from the forthcoming 5G rollout in Sweden.

## Competitors

The end-market of communication network services is highly consolidated. There are three competitors worth mentioning besides Transtema in the Swedish market: Eltel, OneCo, and Netel.

### Eltel

Eltel is a Nordic field service provider for critical power and communication network and divides its operations into two business areas: Power and Communication. In contrast to Transtema's focus on the Swedish market, Eltel operates widely in the Nordics. Another difference worth highlighting is Eltel's focus on power and communications networks, while Transtema explicitly focuses on the latter. In 2020, Eltel had a total sales of EUR 938m (which of EUR 225m in Sweden) and an adjusted EBITA margin of 1.2%.

Eltel is primarily a competitor to Transtema in its business area: Communication, which offers design, service, construction, and maintenance of communication networks. In 2020, Sweden generated EUR 224.5m of Eltel's total sales. Communication stands for ~ 2/3 of the group's revenue and approximately 90% of Eltel's sales in Sweden. Eltel is one of Transtema's few competitions in the maintenance service market in Sweden, and its main customers are large telecom operators and network owners.

### OneCo

OneCo is a Norwegian industrial group active in Sweden and Norway. The group has a wide focus on electricity, energy, and communication networks. By acquiring Relacom in late 2019, OneCo broadened its focus into Sweden and became a significant competitor to Transtema. Like Eltel, OneCo operating in both communication networks and within the IT and energy sector. Relacom has around 1100 employees and competes against Transtema in the communication network area, both when it comes to planning, construction, and maintenance.

### Netel

Netel builds physical telecom, broadband, and electrical networks in the Baltic and Nordic regions. Their business is divided into four areas: telecom, fixed networks, electrical installations, and service and maintenance. Netel was established in 2000 (as a full-service provider) and delivers everything from planning and project management to design and maintenance. In 2020, Netel had sales of SEK ~2bn and 480 employees in 25 offices.

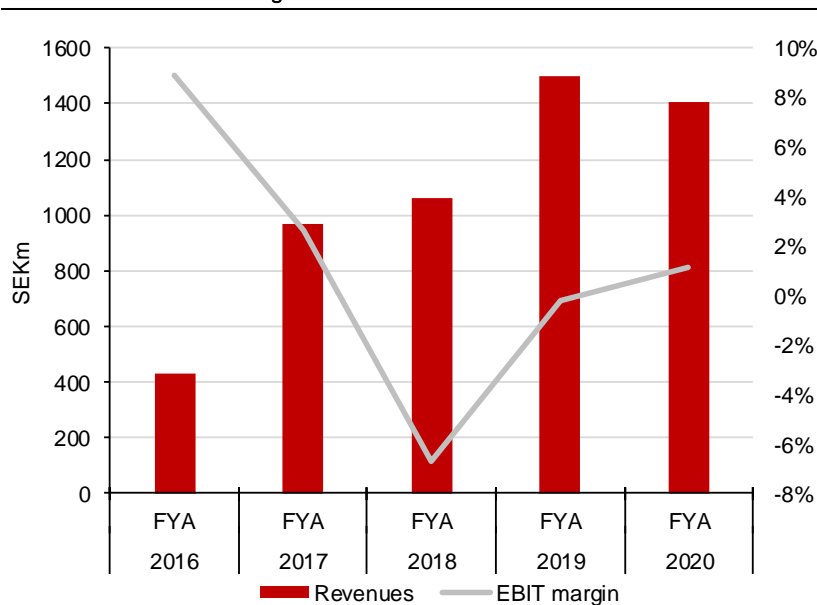


## Financials and Estimates

### Focus on Field Service and Maintenance Paying off

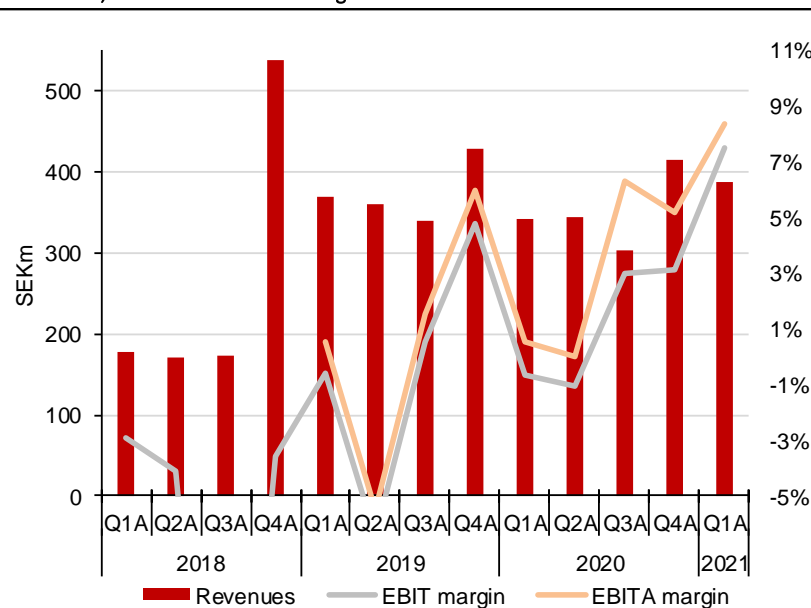
Since 2016, Transtema has had a sales CAGR of 34%, primarily due to acquisitions of FTTH contractors and Ericsson's field services. Unfortunately, the ambitious acquisition streak in FTTH did not turn out well, resulting in decreasing margins. However, we believe today's Transtema, with ~70% recurring revenues and limited exposure to FTTH, is set for a better outcome. Recent quarters, showing solid growth and margins and significant orders, support our positive outlook.

Revenues and EBITA margin



Transtema has had an average EBITA margin of ~6.5% in the last three quarters, beating its target of >5%. While Q1 2021 might have been an extraordinary quarter, the positive margin trend is clear.

Revenues, EBITA- and EBIT margin

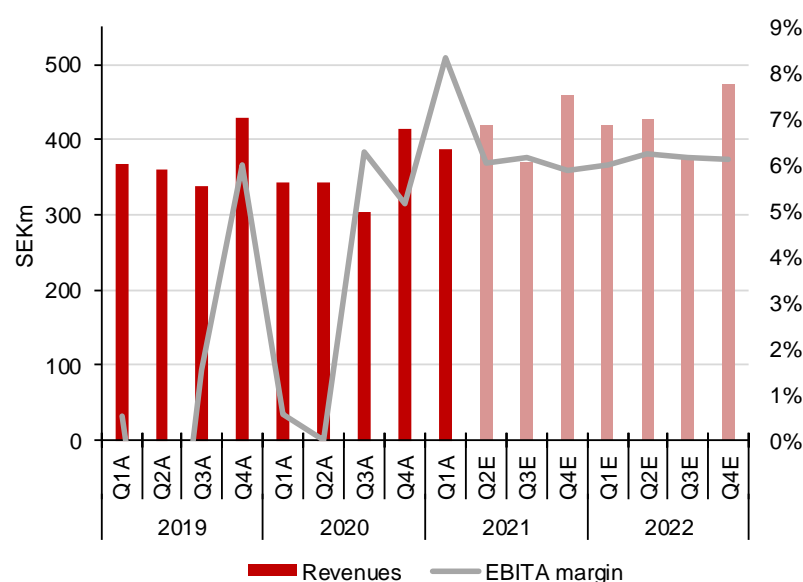


### High Likelihood for Significant Organic Sales Growth in 2021

In 2020, Transtema signed two significant deals that will substantially impact organic growth in 2021. The first one regards operations and maintenance of 3GIS's (Telenor and 3) 3G network, with an expected order value of SEK 200m over five years. The second one was an extension of its copper-related Telia deal, adding a net of SEK 1.3bn over five years. All else equal, these deals will grow Transtema's sales by approximately 20% in sales in 2021. However, sales increased slightly due to the deals already in 2020; thus, we expect a somewhat lower growth rate of ~17%.

While Q1 2021, with its 8.3% EBITA margin, was extraordinary, we believe Transtema, backed by its recent orders, will reach an EBITA margin of ~6.5% in 2021. Such an outcome will result in a significant y/y EBITA increase, considering the 2020 EBITA margin of 3%.

### Revenues and EBITA margin - Forecasts

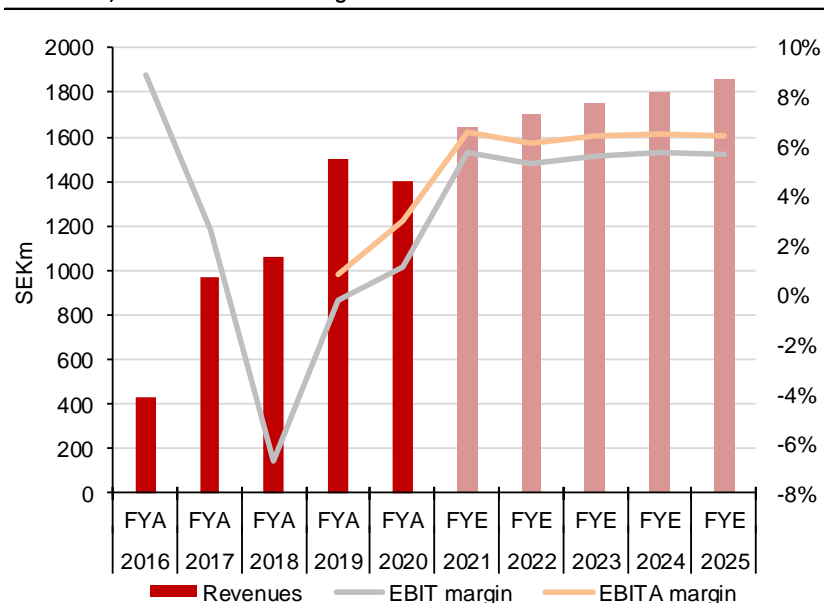


### >3% Organic Growth Target – Tougher than it Seems

For 2022 and forward, we forecast organic growth of 3%, slightly below Transtema's target of >3%. While an organic growth target of >3% might seem defensive, copper-related deals generate ~35% of Transtema's revenues. Copper is in decline, and management expects it to disappear in 5-10 years, resulting in a drag on organic growth with about 5% annually. Thus, Transtema needs to add ~>8% in non-copper-related revenues to reach a group total of >3%.

We believe Transtema will compensate lost copper-related revenue as demand increases in future-proof technologies for several reasons. First, copper is typically removed when the fiber is available as a substitute. Thus, as the copper market declines, the fiber market typically grows. Second, 5G is expanding Transtema's market even further, and the recent framework agreement with Ericsson is a first positive sign. Third, the demand for connectivity, availability, and reliability increases as society relies more upon communication networks.

Revenues, EBIT and EBITA margin - Forecasts



### >5% EBITA Margin Target Seems Defensive

Considering Transtema reached its EBITA margin target for the last three quarters and most recent orders have not yet reached the P&L, we believe Transtema will reach its goal in 2021 and onwards. While we expect the FY 2021 EBITA margin to be somewhat elevated by the great Q1, we assume Transtema will reach levels of 6-6.5% over our forecast period.

While the market dynamics, with a few large customers, are increasing the risk for price pressure, we believe the increased demand for availability and reliability, as downtime becomes more and more unacceptable, will support stable prices. We believe it is in the interest of the large carriers to keep their operations and maintenance suppliers reasonably healthy financially to ensure availability and reliability in their networks.

Also, according to management, Transtema's operations could handle more business at only limited cost increases. Thus, additional revenue streams should have a substantial positive effect on margins. However, as mentioned, the first ~5% of new revenues will compensate for the decline in copper. Thus, Transtema will need significant organic growth to increase the utilization, which we do not forecast in our Base case at this point.

### No Future M&A in our Forecast

We do not include any future M&A in our forecast, which we typically only do for distinctive serial acquirers. Although, we still expect Transtema to make acquisitions over the next few years. We believe that a few complementing acquisitions in Sweden is the most likely scenario.

## Valuation

We use a WACC of 9.3% across our Base, Bull, and Bear cases. While we find future acquisitions likely, we do not include them in our forecasts at this point. Transtema's M&A track record is mixed (failures in the FTTH market while TNS is solid), and acquisition frequency has been low in recent years.

### Base Case – SEK 30

#### Key Assumptions

- Sales CAGR of ~4% 2020-2030
- No future M&A
- Terminal growth of 2%
- Average EBITA margin of 6.4% 2021-2030
- Terminal EBITA margin of 2%

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
<b>Revenues</b>	<b>1 405</b>	<b>388</b>	<b>419</b>	<b>371</b>	<b>460</b>	<b>1 638</b>	<b>1 699</b>	<b>1 750</b>	<b>1 802</b>
Y/Y Growth (%)	(6.2%)	13.2%	22.0%	22.0%	11.0%	16.6%	3.7%	3.0%	3.0%
<b>Cost of Revenues</b>	<b>(602)</b>	<b>(112)</b>	<b>(140)</b>	<b>(130)</b>	<b>(159)</b>	<b>(541)</b>	<b>(568)</b>	<b>(586)</b>	<b>(607)</b>
<b>Gross Profit</b>	<b>803</b>	<b>276</b>	<b>279</b>	<b>241</b>	<b>301</b>	<b>1 097</b>	<b>1 131</b>	<b>1 164</b>	<b>1 195</b>
Gross Profit Margin (%)	57.1%	71.2%	66.5%	65.0%	65.5%	67.0%	66.6%	66.5%	66.3%
<b>Other external costs</b>	<b>(176)</b>	<b>(52)</b>	<b>(51)</b>	<b>(41)</b>	<b>(61)</b>	<b>(205)</b>	<b>(209)</b>	<b>(213)</b>	<b>(218)</b>
<b>Personnel expenses</b>	<b>(551)</b>	<b>(176)</b>	<b>(185)</b>	<b>(160)</b>	<b>(196)</b>	<b>(717)</b>	<b>(748)</b>	<b>(768)</b>	<b>(789)</b>
<b>Other operation income</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>EBITDA</b>	<b>118</b>	<b>48</b>	<b>43</b>	<b>41</b>	<b>45</b>	<b>177</b>	<b>176</b>	<b>184</b>	<b>190</b>
EBITDA Margin (%)	8.4%	12.4%	10.3%	11.0%	9.8%	10.8%	10.4%	10.5%	10.6%
<b>Depreciation</b>	<b>(75)</b>	<b>(16)</b>	<b>(18)</b>	<b>(18)</b>	<b>(18)</b>	<b>(70)</b>	<b>(72)</b>	<b>(72)</b>	<b>(73)</b>
<b>EBITA</b>	<b>42</b>	<b>32</b>	<b>25</b>	<b>23</b>	<b>27</b>	<b>108</b>	<b>104</b>	<b>112</b>	<b>118</b>
EBITA Margin (%)	3.0%	8.3%	6.0%	6.1%	5.9%	6.6%	6.1%	6.4%	6.5%
<b>Amortization</b>	<b>(26)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(13)</b>	<b>(14)</b>	<b>(14)</b>	<b>(14)</b>
<b>EBIT</b>	<b>16</b>	<b>29</b>	<b>22</b>	<b>20</b>	<b>24</b>	<b>94</b>	<b>90</b>	<b>99</b>	<b>104</b>
EBIT Margin (%)	1.2%	7.5%	5.3%	5.3%	5.2%	5.8%	5.3%	5.6%	5.8%
<b>Interest Expenses</b>	<b>(10)</b>	<b>(3)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(9)</b>	<b>(8)</b>	<b>(8)</b>	<b>(8)</b>
<b>EBT</b>	<b>8</b>	<b>26</b>	<b>20</b>	<b>18</b>	<b>22</b>	<b>85</b>	<b>82</b>	<b>91</b>	<b>96</b>
<b>Income Tax Expenses</b>	<b>15</b>	<b>0</b>	<b>(4)</b>	<b>(4)</b>	<b>(5)</b>	<b>(19)</b>	<b>(18)</b>	<b>(20)</b>	<b>(21)</b>
Effective Tax Rate (%)	(200.5%)	(1.9%)	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income</b>	<b>4</b>	<b>26</b>	<b>16</b>	<b>14</b>	<b>17</b>	<b>66</b>	<b>64</b>	<b>71</b>	<b>75</b>
Net Income Margin (%)	0.3%	6.7%	3.7%	3.7%	3.7%	4.1%	3.8%	4.0%	4.2%

Source: Transtema & Redeye Research

Balance Sheet	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Property, Plant & Equipment, Net	28	34	32	31	29	29	29	29	30
Goodwill	77	74	74	74	74	74	74	74	74
Intangible Assets	64	65	62	58	55	55	41	28	14
Right-of-Use Assets	125	129	129	128	128	128	128	128	128
Shares in Associates	67	66	66	66	66	66	66	66	66
Other Long-Term Assets	27	27	27	27	27	27	27	27	27
<b>Total Non-Current Assets</b>	<b>388</b>	<b>394</b>	<b>389</b>	<b>384</b>	<b>379</b>	<b>379</b>	<b>366</b>	<b>352</b>	<b>339</b>
Cash & Equivalents	65	131	102	123	146	146	227	313	403
Inventories	17	21	18	19	19	19	20	21	21
Accounts Receivable	168	96	153	159	164	164	170	175	180
Other Current Assets	121	76	122	127	131	131	136	140	144
<b>Total Current Assets</b>	<b>371</b>	<b>325</b>	<b>394</b>	<b>428</b>	<b>461</b>	<b>461</b>	<b>552</b>	<b>648</b>	<b>748</b>
<b>Total Assets</b>	<b>758</b>	<b>718</b>	<b>783</b>	<b>812</b>	<b>840</b>	<b>840</b>	<b>918</b>	<b>1 000</b>	<b>1 087</b>
Long-Term Debt	19	7	7	7	7	7	7	7	7
Long-Term Lease Liabilities	80	81	81	81	81	81	81	81	81
Other Long-Term Liabilities	51	45	45	45	45	45	45	45	45
<b>Total Non-current Liabilities</b>	<b>150</b>	<b>132</b>	<b>132</b>	<b>132</b>	<b>132</b>	<b>132</b>	<b>132</b>	<b>132</b>	<b>132</b>
Short-Term Debt	49	47	47	47	47	47	47	47	47
Short-Term Lease Liabilities	48	49	49	49	49	49	49	49	49
Accounts Payable	140	115	153	159	164	164	170	175	180
Other Current Liabilities	212	186	198	207	213	213	221	227	234
<b>Total Current Liabilities</b>	<b>448</b>	<b>398</b>	<b>447</b>	<b>463</b>	<b>473</b>	<b>473</b>	<b>487</b>	<b>499</b>	<b>511</b>
Non-Controlling Interest	1	1	1	1	1	1	1	1	1
Shareholder's Equity	160	187	203	217	233	233	298	368	443
<b>Total Liabilities &amp; Equity</b>	<b>758</b>	<b>718</b>	<b>783</b>	<b>812</b>	<b>840</b>	<b>840</b>	<b>918</b>	<b>1 000</b>	<b>1 087</b>

Source: Transtema &amp; Redeye Research

Cash Flow	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
Change in Net Working Capital	6	62	(49)	3	2	17	2	2	2
<b>Operating Cash Flow</b>	<b>161</b>	<b>101</b>	<b>(12)</b>	<b>37</b>	<b>40</b>	<b>166</b>	<b>152</b>	<b>158</b>	<b>163</b>
Investing Cash Flow	14	(8)	(2)	(2)	(2)	(15)	(16)	(16)	(17)
Financing Cash Flow	(128)	(28)	(14)	(14)	(14)	(70)	(56)	(56)	(56)
<b>Cash Flow</b>	<b>47</b>	<b>65</b>	<b>(29)</b>	<b>21</b>	<b>24</b>	<b>81</b>	<b>80</b>	<b>86</b>	<b>90</b>

Source: Transtema &amp; Redeye Research

## Peers

Company	EV	Sales	EV/SALES			EV/EBIT (x)			Sales growth			EBIT margin		
	(SEK)	20A	21E	22E	23E	21E	22E	23E	21E	22E	23E	21E	22E	23E
Eltel	3 509	9 843	0.4	0.4	0.4	16	12	10	-10%	1%	2%	2.5%	3.3%	3.7%
Bravida	24 663	21 147	1.1	1.1	1.0	17	16	15	4%	5%	3%	6.5%	6.7%	6.9%
Caverion	10 120	23 273	0.4	0.4	0.4	11	9	8	1%	4%	4%	3.8%	4.4%	4.8%
Enersense	1 481	1 560	0.6	0.6	0.5	15	12	11	62%	3%	3%	4.0%	4.8%	5.2%
<b>Median</b>	<b>6 814</b>	<b>15 495</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>15</b>	<b>12</b>	<b>10</b>	<b>2%</b>	<b>4%</b>	<b>3%</b>	<b>3.9%</b>	<b>4.6%</b>	<b>5.0%</b>
<b>Average</b>	<b>9 943</b>	<b>13 956</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>15</b>	<b>12</b>	<b>11</b>	<b>14%</b>	<b>3%</b>	<b>3%</b>	<b>4.2%</b>	<b>4.8%</b>	<b>5.1%</b>
<b>Transtema</b>	<b>902</b>	<b>1 405</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>17%</b>	<b>4%</b>	<b>3%</b>	<b>5.8%</b>	<b>5.3%</b>	<b>5.6%</b>

Source: Redeye, FactSet

We believe four listed peers are relevant comparing to Transtema, Eltel, Bravida, Caverion, and Enersense. While all peers are larger than Transtema and with slightly different market exposures, we believe similarities in the business models make them relevant peers. Transtema is trading at an average discount of ~30% on EV/EBIT for 2021-23, despite above-average sales growth and EBIT margins. While size is working against Transtema's valuation, we believe the discount is unjustified.

## Bear Case – SEK 14

### Key Assumptions

- Sales CAGR of ~3% 2020-2030
- No future M&A
- Terminal growth of 2%
- Average EBITA margin of ~4% 2021-2030
- Terminal EBITA margin of 2%

In the Bear case, we expect Transtema not to compensate the shortfall in copper well enough to reach its >3% growth target from 2022 and onwards. Note that the sales CAGR of ~3% 2020-2030 is positively affected the solid growth expected in 2021. Thus the 2021-2030 sales CAGR is below Transtema's >3% target. Also, in the Bear case, we expect more price pressure resulting in somewhat lower gross margins.

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
<b>Revenues</b>	<b>1 405</b>	<b>388</b>	<b>416</b>	<b>368</b>	<b>456</b>	<b>1 627</b>	<b>1 672</b>	<b>1 705</b>	<b>1 739</b>
Y/Y Growth (%)	(6.2%)	13.2%	21.0%	21.0%	10.0%	15.8%	2.7%	2.0%	2.0%
<b>Cost of Revenues</b>	<b>(602)</b>	<b>(112)</b>	<b>(141)</b>	<b>(129)</b>	<b>(157)</b>	<b>(539)</b>	<b>(559)</b>	<b>(571)</b>	<b>(586)</b>
<b>Gross Profit</b>	<b>803</b>	<b>276</b>	<b>274</b>	<b>239</b>	<b>298</b>	<b>1 088</b>	<b>1 113</b>	<b>1 134</b>	<b>1 153</b>
Gross Profit Margin (%)	57.1%	71.2%	66.0%	65.0%	65.5%	66.9%	66.6%	66.5%	66.3%
<b>Other external costs</b>	<b>(176)</b>	<b>(52)</b>	<b>(51)</b>	<b>(41)</b>	<b>(61)</b>	<b>(205)</b>	<b>(209)</b>	<b>(213)</b>	<b>(218)</b>
<b>Personnel expenses</b>	<b>(551)</b>	<b>(176)</b>	<b>(185)</b>	<b>(160)</b>	<b>(196)</b>	<b>(717)</b>	<b>(748)</b>	<b>(767)</b>	<b>(786)</b>
<b>Other operation income</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>EBITDA</b>	<b>118</b>	<b>48</b>	<b>39</b>	<b>39</b>	<b>42</b>	<b>168</b>	<b>158</b>	<b>156</b>	<b>151</b>
EBITDA Margin (%)	8.4%	12.4%	9.4%	10.5%	9.3%	10.3%	9.4%	9.1%	8.7%
<b>Depreciation</b>	<b>(75)</b>	<b>(16)</b>	<b>(18)</b>	<b>(18)</b>	<b>(18)</b>	<b>(69)</b>	<b>(71)</b>	<b>(71)</b>	<b>(71)</b>
<b>EBITA</b>	<b>42</b>	<b>32</b>	<b>21</b>	<b>21</b>	<b>24</b>	<b>99</b>	<b>87</b>	<b>84</b>	<b>80</b>
EBITA Margin (%)	3.0%	8.3%	5.1%	5.7%	5.4%	6.1%	5.2%	4.9%	4.6%
<b>Amortization</b>	<b>(26)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>	<b>(13)</b>
<b>EBIT</b>	<b>16</b>	<b>29</b>	<b>18</b>	<b>18</b>	<b>21</b>	<b>86</b>	<b>74</b>	<b>71</b>	<b>66</b>
EBIT Margin (%)	1.2%	7.5%	4.3%	4.8%	4.7%	5.3%	4.4%	4.2%	3.8%
<b>Interest Expenses</b>	<b>(10)</b>	<b>(3)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(9)</b>	<b>(8)</b>	<b>(8)</b>	<b>(8)</b>
<b>EBT</b>	<b>8</b>	<b>26</b>	<b>16</b>	<b>16</b>	<b>19</b>	<b>76</b>	<b>66</b>	<b>63</b>	<b>58</b>
<b>Income Tax Expenses</b>	<b>15</b>	<b>0</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(17)</b>	<b>(14)</b>	<b>(14)</b>	<b>(13)</b>
Effective Tax Rate (%)	(200.5%)	(1.9%)	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income</b>	<b>4</b>	<b>26</b>	<b>12</b>	<b>12</b>	<b>15</b>	<b>60</b>	<b>51</b>	<b>49</b>	<b>46</b>
Net Income Margin (%)	0.3%	6.7%	3.0%	3.3%	3.3%	3.7%	3.1%	2.9%	2.6%

Source: Transtema & Redeye Research

## Bull Case – SEK 47

### Key Assumptions

- Sales CAGR of ~5% 2020-2030
- No future M&A
- Terminal growth of 2%
- Average EBITA margin of ~8.5% 2021-2030
- Terminal EBITA margin of 2%

In the Bull case, we expect Transtema to significantly take advantage of increased demand for availability and reliability and 5G expansion, resulting in a sales CAGR of ~5%. Also, we expect Transtema to benefit from higher utilization of its technicians and its SOC, leading to higher margins.

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
<b>Revenues</b>	<b>1 405</b>	<b>388</b>	<b>423</b>	<b>374</b>	<b>464</b>	<b>1 649</b>	<b>1 726</b>	<b>1 795</b>	<b>1 867</b>
Y/Y Growth (%)	(6.2%)	13.2%	23.0%	23.0%	12.0%	17.4%	4.7%	4.0%	4.0%
<b>Cost of Revenues</b>	<b>(602)</b>	<b>(112)</b>	<b>(142)</b>	<b>(131)</b>	<b>(160)</b>	<b>(544)</b>	<b>(577)</b>	<b>(601)</b>	<b>(629)</b>
<b>Gross Profit</b>	<b>803</b>	<b>276</b>	<b>281</b>	<b>243</b>	<b>304</b>	<b>1 104</b>	<b>1 149</b>	<b>1 194</b>	<b>1 238</b>
Gross Profit Margin (%)	57.1%	71.2%	66.5%	65.0%	65.5%	67.0%	66.6%	66.5%	66.3%
<b>Other external costs</b>	<b>(176)</b>	<b>(52)</b>	<b>(51)</b>	<b>(41)</b>	<b>(61)</b>	<b>(205)</b>	<b>(209)</b>	<b>(213)</b>	<b>(218)</b>
<b>Personnel expenses</b>	<b>(551)</b>	<b>(176)</b>	<b>(185)</b>	<b>(160)</b>	<b>(196)</b>	<b>(717)</b>	<b>(748)</b>	<b>(769)</b>	<b>(793)</b>
<b>Other operation income</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>EBITDA</b>	<b>118</b>	<b>48</b>	<b>46</b>	<b>43</b>	<b>48</b>	<b>184</b>	<b>194</b>	<b>213</b>	<b>229</b>
EBITDA Margin (%)	8.4%	12.4%	10.8%	11.4%	10.3%	11.2%	11.2%	11.9%	12.3%
<b>Depreciation</b>	<b>(75)</b>	<b>(16)</b>	<b>(18)</b>	<b>(18)</b>	<b>(18)</b>	<b>(70)</b>	<b>(73)</b>	<b>(73)</b>	<b>(74)</b>
<b>EBITA</b>	<b>42</b>	<b>32</b>	<b>28</b>	<b>25</b>	<b>30</b>	<b>114</b>	<b>121</b>	<b>140</b>	<b>156</b>
EBITA Margin (%)	3.0%	8.3%	6.5%	6.6%	6.4%	6.9%	7.0%	7.8%	8.3%
<b>Amortization</b>	<b>(26)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(3)</b>	<b>(13)</b>	<b>(14)</b>	<b>(14)</b>	<b>(14)</b>
<b>EBIT</b>	<b>16</b>	<b>29</b>	<b>24</b>	<b>21</b>	<b>26</b>	<b>101</b>	<b>108</b>	<b>126</b>	<b>142</b>
EBIT Margin (%)	1.2%	7.5%	5.7%	5.7%	5.7%	6.1%	6.2%	7.0%	7.6%
<b>Interest Expenses</b>	<b>(10)</b>	<b>(3)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(9)</b>	<b>(8)</b>	<b>(8)</b>	<b>(8)</b>
<b>EBT</b>	<b>8</b>	<b>26</b>	<b>22</b>	<b>19</b>	<b>24</b>	<b>92</b>	<b>100</b>	<b>118</b>	<b>134</b>
<b>Income Tax Expenses</b>	<b>15</b>	<b>0</b>	<b>(5)</b>	<b>(4)</b>	<b>(5)</b>	<b>(20)</b>	<b>(22)</b>	<b>(26)</b>	<b>(29)</b>
Effective Tax Rate (%)	(200.5%)	(1.9%)	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
<b>Non-Controlling Interests</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income</b>	<b>4</b>	<b>26</b>	<b>17</b>	<b>15</b>	<b>19</b>	<b>71</b>	<b>78</b>	<b>92</b>	<b>104</b>
Net Income Margin (%)	0.3%	6.7%	4.1%	4.0%	4.1%	4.3%	4.5%	5.1%	5.6%

Source: Transtema & Redeye Research



## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### People: 5

Transtema receives the highest rating for People for several reasons. First, we believe management has relevant experience and a solid understanding of the market. Second, following operational and financial issues, its management has reshaped the business to profitability. Third, insiders, such as CEO Magnus Johansson, own a substantial share of Transtema. Fourth, we believe that management's communication is balanced and realistic.

### Business: 4

Transtema receives a high rating for Business for several reasons. First, the group gets most of its revenue from operations, services, and maintenance, and ~70% is recurring. Second, the limited acceptance for downtime makes Transtema's services vital to its customers. Third, Transtema has established nationwide operations with ~900 technicians and a presence in ~85 locations, implying significant investments for new entrants.

### Financials: 3

Transtema receives an average rating for Financials. Recent improvements in organic growth, margins, and cash flow increase the rating, while weak performance a few years ago is working oppositely. Given that Transtema can preserve its recent improvements in margins, which we find likely, Transtema is heading for a higher rating over the coming years.

## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

## Redeye Equity Research team

### Management

**Björn Fahlén**

[bjorn.fahlen@redeye.se](mailto:bjorn.fahlen@redeye.se)

**Tomas Otterbeck**

[tomas.otterbeck@redeye.se](mailto:tomas.otterbeck@redeye.se)

### Technology Team

**Jonas Amnesten**

[jonas.amnesten@redeye.se](mailto:jonas.amnesten@redeye.se)

**Henrik Alveskog**

[henrik.alveskog@redeye.se](mailto:henrik.alveskog@redeye.se)

**Fredrik Nilsson**

[fredrik.nilsson@redeye.se](mailto:fredrik.nilsson@redeye.se)

**Niklas Sävås**

[niklas.savas@redeye.se](mailto:niklas.savas@redeye.se)

**Jesper Henriksson**

[jesper.henriksson@redeye.se](mailto:jesper.henriksson@redeye.se)

**Douglas Forsling**

[douglas.forsling@redeye.se](mailto:douglas.forsling@redeye.se)

**Forbes Goldman**

[forbes.goldman@redeye.se](mailto:forbes.goldman@redeye.se)

**Mark Siöstedt**

[mark.siostedt@redeye.se](mailto:mark.siostedt@redeye.se)

**Danesh Zare**

[danesh.zare@redeye.se](mailto:danesh.zare@redeye.se)

**Mattias Ehrenborg**

[mattias.ehrenborg@redeye.se](mailto:mattias.ehrenborg@redeye.se)

**Jacob Svensson**

[jacob.svensson@redeye.se](mailto:jacob.svensson@redeye.se)

### Editorial

**Mark Siöstedt**

[mark.siostedt@redeye.se](mailto:mark.siostedt@redeye.se)

**Joel Karlsson**

[joel.karlsson@redeye.se](mailto:joel.karlsson@redeye.se)

### Life Science Team

**Gergana Almquist**

[gergana.almquist@redeye.se](mailto:gergana.almquist@redeye.se)

**Oscar Bergman**

[oscar.bergman@redeye.se](mailto:oscar.bergman@redeye.se)

**Anders Hedlund**

[anders.hedlund@redeye.se](mailto:anders.hedlund@redeye.se)

**Johan Unnerus**

[johan.unnerus@redeye.se](mailto:johan.unnerus@redeye.se)

**Niklas Elmhammer**

[niklas.elmhammer@redeye.se](mailto:niklas.elmhammer@redeye.se)

**Mats Hyttinge**

[mats.hyttinge@redeye.se](mailto:mats.hyttinge@redeye.se)

**Filip Einarsson**

[filip.einarsson@redeye.se](mailto:filip.einarsson@redeye.se)

**Fredrik Thor**

[fredrik.thor@redeye.se](mailto:fredrik.thor@redeye.se)

**Kevin Sule**

[kevin.sule@redeye.se](mailto:kevin.sule@redeye.se)

**Christian Binder**

[christian.binder@redeye.se](mailto:christian.binder@redeye.se)

## Disclaimer

### Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

Redeye is licensed to; receive and transmit orders in financial instruments, provide investment advice to clients regarding financial instruments, prepare and disseminate financial analyses/recommendations for trading in financial instruments, execute orders in financial instruments on behalf of clients, place financial instruments without position taking, provide corporate advice and services within mergers and acquisition, provide services in conjunction with the provision of guarantees regarding financial instruments and to operate as a Certified Advisory business (ancillary authorization).

### Limitation of liability

This document was prepared for information purposes for general distribution and is not intended to be advisory. The information contained in this analysis is based on sources deemed reliable by Redeye. However, Redeye cannot guarantee the accuracy of the information. The forward-looking information in the analysis is based on subjective assessments about the future, which constitutes a factor of uncertainty. Redeye cannot guarantee that forecasts and forward-looking statements will materialize. Investors shall conduct all investment decisions independently. This analysis is intended to be one of a number of tools that can be used in making an investment decision. All investors are therefore encouraged to supplement this information with additional relevant data and to consult a financial advisor prior to an investment decision. Accordingly, Redeye accepts no liability for any loss or damage resulting from the use of this analysis.

### Potential conflict of interest

Redeye's research department is regulated by operational and administrative rules established to avoid conflicts of interest and to ensure the objectivity and independence of its analysts. The following applies:

- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, from the date Redeye publishes its analysis plus one trading day after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

### Redeye's research coverage

Redeye's research analyses consist of case-based analyses, which imply that the frequency of the analytical reports may vary over time. Unless otherwise expressly stated in the report, the analysis is updated when considered necessary by the research department, for example in the event of significant changes in market conditions or events related to the issuer/the financial instrument.

### Recommendation structure

Redeye does not issue any investment recommendations for fundamental analysis. However, Redeye has developed a proprietary analysis and rating model, Redeye Rating, in which each company is analyzed and evaluated. This analysis aims to provide an independent assessment of the company in question, its opportunities, risks, etc. The purpose is to provide an objective and professional set of data for owners and investors to use in their decision-making.

### Redeye Rating (2021-06-22)

Rating	People	Business	Financials
5	26	17	4
3-4	124	102	40
0-2	5	36	111
Total	155	155	155

### Duplication and distribution

This document may not be duplicated, reproduced or copied for purposes other than personal use. The document may not be distributed to physical or legal entities that are citizens of or domiciled in any country in which such distribution is prohibited according to applicable laws or other regulations.

Copyright Redeye AB.

---

### CONFLICT OF INTERESTS

Fredrik Nilsson owns shares in the Company: No

Jacob Svensson owns shares in the Company: No

Redeye performs/have performed services for the company and receives/have received compensation from the company in connection with this.