Transtema

Sector: Communication Services

Set for Exciting 2023

Redeye retains its positive view of Transtema and foresees a strong 2023 fueled by organic and acquired sales growth combined with a slight margin improvement. Recent acquisitions reduce the group's customer concentration and strengthen its offerings in several growth areas.

Maintaining, servicing, and installing communication networks

After some tough years focusing on Fibre-To-The-Home construction, Transtema has transformed into a robust and profitable installation and service provider. Thanks to several significant deals, its organic sales growth has averaged 16% since the end of 2020 and its EBITA margin has improved from 1% in 2019 to ~7% in 2022. Through four acquisitions during 2022, Transtema has reduced its customer concentration (Telia now accounts for ~40% of sales, down from 65% in 2021) and added coax and EV charging capabilities and exposure to the Norwegian market.

Future growth areas gaining momentum

During 2022, Transtema saw a strong inflow of deals in growth areas, including site maintenance, 5G, fibre, and EV charging, highlighting these segments' growth potential. Given that about SEK500m in copper-related sales (some 16% of 2023e sales) is destined to decline to zero over the next five to 10 years, deals in such emerging segments are crucial to Transtema maintaining organic sales growth. While we expect a 3% organic sales CAGR for 2023–2030, a similar deal flow this year to last would support higher levels.

Base case unchanged at SEK55

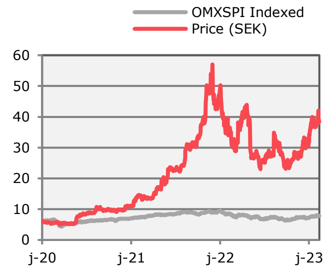
We keep our Base Case unchanged at SEK55 following minor upwards revisions of our forecasts. Trading at ~7.5x 2023e EBITA with expected EPS growth of 38% and non-cyclical and partly recurring revenues, Transtema is, in our view, an interesting pick for 2023 – despite its still somewhat high customer concentration.

Key Financials (SEKm)	2021	2022	2023E	2024E	2025E
Net sales	1690	2457	3185	3281	3379
Growth y/y	20%	45%	30%	3%	3%
EBITA	137	174	228	233	240
EBITA margin	8.1%	7.1%	7.1%	7.1%	7.1%
EV/S		0.7	0.5	0.4	0.4
EV/EBITA		10.0	7.3	6.3	5.6

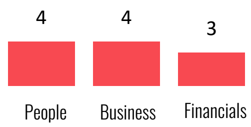
FAIR VALUE RANGE

BEAR	BASE	BULL
28	55	68

TRANS VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	TRANS
Market	Small Cap
Share Price (SEK)	38.36
Market Cap (SEKm)	1 516
Net Debt (SEKm)	-54
Free Float (%)	65%
Avg. daily volume ('000)	5 410

ANALYSTS

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

Q4 2022 - Strong Acquired and Organic Growth, and Healthy Margins

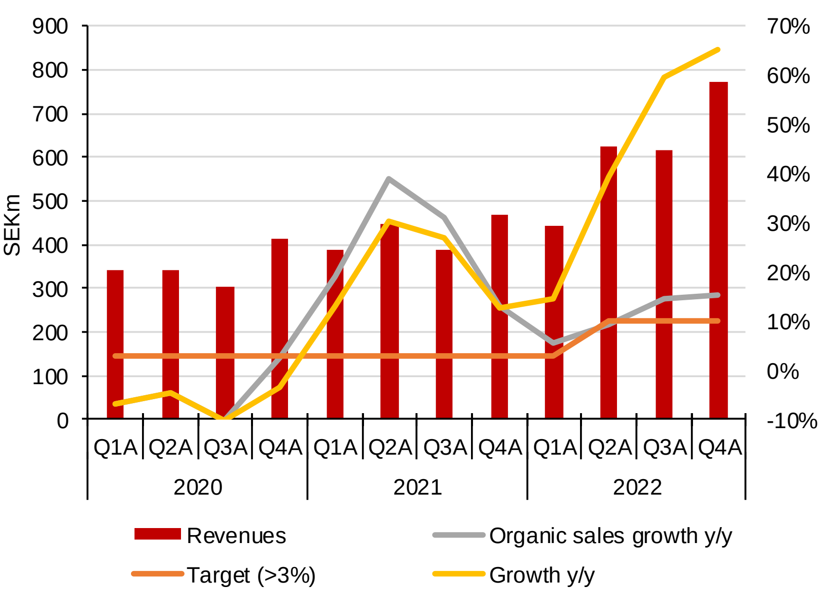
	Q4E 2022	Q4A 2022	Diff	Q4A 2021	Q3A 2022
Revenues	**662.1**	**771.6**	**16.5%**	**467.2**	**617.3**
Y/Y Growth (%)	42%	65%		13%	60%
EBITA	**48.0**	**57.9**	**20.7%**	**28.4**	**47.1**
EBITA Margin (%)	7.2%	7.5%		6.1%	7.6%
EPS	0.70	1.49	113.3%	0.59	0.59

Source: Transtema & Redeye Research

Sales beat our forecast by 17% following an impressive organic growth of 15% and a higher contribution from M&A than expected, as Tessta grew by 47% in the quarter, boosted by a catch-up from depressed covid affected levels in 2021. We expected 8% organic growth and c40% growth in Tessta.

As the declining copper business gives Transtema some growth headwind, we believe 15% organic growth is a strong number. The growth is mainly driven by the installations of fibre and 5G, which is a driver of recurring revenue. The installed equipment needs service and maintenance, deals that the installer typically has a good chance of winning.

Y/Y Organic Growth vs Target

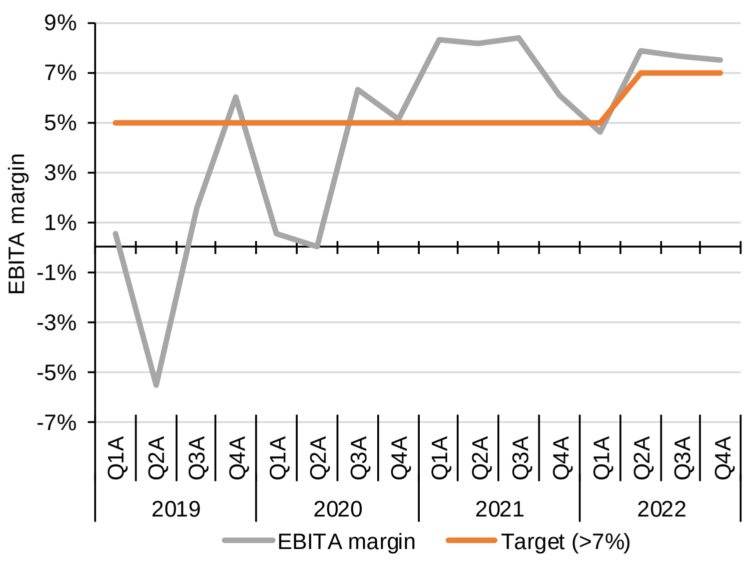


Source: Transtema, Redeye

Note that the EPS in Q4 is boosted by a write-down of an earn-out related to Tessta. While Tessta is performing very well, this part of the earn-out required an even better performance. Adjusted EPS was SEK0.84 compared to reported SEK1.49.

Following a slightly higher EBITA margin than anticipated and strong growth, EBITA beat our forecast by 21%. As Transtema, in its Q3 2022 report, pointed out that the inflationary environment is a threat to its margins, we are encouraged to see Transtema combining high organic sales growth with solid margins in the quarter.

EBITA Margin vs Target



Source: Transtema, Redeye

While management sticks to its <7% EBITA target, it once again highlights the challenges of the inflationary environment. There are healthy ongoing dialogues with suppliers and customers, but as a large employer, the outcome of the 2023 salary revision negotiations will notably impact personnel expenses. However, considering Transtema's track record, we believe it is reasonable to assume EBITA margins in line with the 7% target despite the inflationary environment.

During the autumn, Transtema launched an efficiency program, which resulted in some layoffs during January. We believe it is related to the declining copper business and a natural consequence of a shrinking business. However, we believe it is important that Transtema keeps its nationwide network of multi-technicians.

Financial Forecasts – Revisions

We raise our sales forecasts by c3% for both 2023 and 2024 following the strong momentum expected in the installation business. However, as Telia slows its 5G expansion and as we believe Transtema's baseline organic growth is rather low single digits than the 12% seen in 2022, we expect 5% organic growth in 2023.

We leave our margin assumptions unchanged at just above 7%. Considering Transtema's track record, we believe it is reasonable to assume EBITA margins in line with the 7% target despite the inflationary environment – 7% is a high level for the sector, implying solid operational efficiency.

Due to a higher share of installations in the sales mix, we assume Transtema will see some seasonality in its margins going forward. We expect slightly stronger Q4s and somewhat weaker Q1s.

Estimate Revisions	FYE 2023	Old	Change	FYE 2024	Old	Change
Revenues	**3 185**	**3 083**	**3.3%**	**3 281**	**3 176**	**3.3%**
Y/Y Growth (%)	29.6%	25.5%		3.0%	3.0%	
EBITA	**228**	**219**	**4.0%**	**233**	**230**	**1.4%**
EBITA Margin (%)	7.1%	7.1%		7.1%	7.2%	
EPS	3.23	3.19	1.2%	3.41	3.41	0.1%

Source: Transtema & Redeye Research

For detailed 2023 forecasts, see Financial Forecast section at page 28.

Investment Case

Case

From construction to installations, operations, and maintenance

Following a few years focused on Fibre-To-The-Home (FTTH) construction, which ended badly, Transtema has reshaped its business to concentrate on stable installations, operations, and maintenance markets. Thanks to its nationwide reach in Sweden and substantial presence in Norway, Transtema is in a solid position to capture the growth stemming from structural trends that are driving a need for the availability and reliability of communication networks. In addition, recent acquisitions of EV charging and coax businesses allow for higher utilisation of Transtema's nationwide service network and reduced customer concentration.

Evidence

Stability, margins, and growth in place following the recent transformation

Since the transformation towards installations, operations, and maintenance in 2020, Transtema has delivered stable EBITA margins of ~7%, among the highest levels in the industry. Despite the erosion of the copper business, Transtema has achieved solid organic growth, fuelled by 5G and fibre. The acquisition of Tessta has been a success so far and, along with the offering-expanding acquisitions of North Projects and Bäck as well as UBConnect have reduced Transtema's customer concentration and improved its growth prospects.

Challenges I

Exposure to legacy technology

Given about 16% of sales stemming from copper and some from 3G, Transtema will experience growth headwind with the erosion of the copper business over the next few years. However, the decline of legacy technology and the rise of new solutions are routine in the communications industry. Although Transtema needs to compensate with revenues from newer technologies, we believe its prospects are solid, thanks to recent acquisitions in the surging EV charging sector and site management, among others.

Challenges II

Significant customer concentration

Although its customer concentration has decreased following the recent acquisitions, Transtema generates about 40% of its sales from Telia. While a few huge players characterise the telecommunications market, we believe customer concentration is a risk for Transtema. On the other hand, Telia also depends on Transtema, as it would be challenging for a competitor to provide similar services, at least in the short term.

Valuation

Fair value of SEK55

Our DCF model shows a fair value of SEK55, also supported by a peer valuation. We believe Transtema's high share of recurring non-cyclical revenues and solid record of healthy margins support a relatively high valuation multiple. This is somewhat offset by its high customer concentration.

Counter-thesis

Failing to mitigate copper decline

About SEK500m of Transtema's SEK~2.5bn in sales (R12M Q3 2022) relate to copper, which is gradually being removed over the next few years owing to the fibre expansion and 4G. Both the absolute number and copper's share of Transtema's revenues in particular have declined in recent years, implying that Transtema has managed to grow solidly, both organically and via M&A, despite the copper decline.

Losing Telia

While we believe the risk of Transtema losing Telia as a customer is especially low, such a scenario would significantly impact Transtema. However, Telia is also dependent on Transtema as it would be challenging for a competitor to provide similar services, at least in the short term. Moreover, Transtema has several deals with Telia, making a total withdrawal of all the Telia revenues even more unlikely.

SWOT

Strengths

- A nationwide network of multi-technicians in Sweden
- A high share of recurring non-cyclical revenues
- Set for expansion in nearby segments and geographies

Weaknesses

- High customer concentration
- Exposure to legacy technology

Opportunities

- Utilising the acquired know-how within EV charging and coax across its nationwide operations
- Cross-selling to Norwegian customers in Sweden and vice versa
- Scaling through subcontractors

Threats

- Churning a large customer
- Failing to compensate for declining legacy revenues

ESG overview

Positive

- Transtema ensures low downtimes for critical digital infrastructure.
- We believe Transtema operates at high ESG standards, especially considering its size, in terms of both reporting and operations. See examples below.

Negative

- We believe Transtema's ESG-related risks are limited. However, we see these risks as primarily associated with eventual security issues due to rogue employees working in the interests of a foreign nation, wanting access to critical infrastructure.

Actions being taken by the company

Positive

- Extensive key ESG metrics added to the quarterly financial reports.
- Joining the Science-Based Targets initiative (SBTi).
- Switching to HVO diesel in its vehicles, with an ambition to switch to BEV (battery electric vehicles) as soon as charging infrastructure allows.
- Transtema's operations and initiatives are relevant for 11 of the 17 UN Sustainable Development Goals (1, 3, 4, 5, 7, 8, 10, 11, 12, 13, and 16). Numbers 3, 4, 5, 8, 12, 13, and 16 are relevant for any business. Number 7 is relevant specifically to Transtema as it installs and provides service for EV-charging infrastructure, helping electrify transportation. Number 10 is particularly relevant to Transtema as it educates people with a weak position in the labour market to become part of its workforce of multi-technicians. Number 1 is relevant as Transtema actively urges its employees to work voluntarily for Stadsmissionen (the City Mission) and management also takes part in this voluntary work.

Negative

- Transtema's eNPS (employee Net Promoter Score) fell from -1% in 2020 to -7% in 2021.

Key ESG drivers

Short term

Positive

- Environmental and security issues have increased in importance for large telecommunication companies, which is Transtema's dominant customer type.

Negative

- Negative and declining eNPS could cause increased employee churn and increase the risk in its recruitment.

Long term

Positive

- We believe telecommunication companies will further increase their focus on the environment and security, and we believe Transtema has a strong position in this space.
- Electrification of transportation opens up a new market for Transtema: the installation and servicing of EV chargers.

Company description

Background

Transtema provides installation, operations, and maintenance for communications networks in Sweden and Norway. Telia and Telenor are its largest customers, generating ~40% and ~25% of Transtema's revenues, respectively. Transtema's offering spans a wide range of communication networks, including fibre, copper, 3G, 4G, and 5G, as well as coax and communications for EV chargers following recent acquisitions.

Revenues from operations and maintenance account for about 35% of total sales and are recurring. While installations are an important contributor to sales, they are also a way to receive operations and maintenance deals as the solutions are installed. Although growing sales volumes typically require more feet on the ground, Transtema can scale its network and service operation centres (NOC and SOC) and nationwide presence.

Value proposition

While it has slightly differing offerings in different markets regarding geography and segment, Transtema's core business is a full-service offering, including installation, operations, and maintenance of communication networks. This includes a nationwide network of multi-technicians who can reach any populated place in Sweden within an hour. Combined with its NOC and its SOC, Transtema has a unique nationwide full-service offering. These characteristics make Transtema an appealing choice for customers, especially those with nationwide networks and for real estate owners wanting only one supplier across Sweden.

Several structural trends, such as digital health services, autonomous driving, the Internet of Things, and decentralised working, demand increased availability and reliability of communication networks. The acceptance of downtime is gradually decreasing, as internet access is becoming increasingly vital for consumers and businesses alike and even unacceptable in some cases.

Competitive advantages

Niche: We believe Transtema has a niche cost advantage. Thanks to several large deals spanning across Sweden, Transtema can support a nationwide network of multi-technicians who can reach any populated place in the country in an hour. In many rural areas, especially remote ones, the demand for service and maintenance of communication networks is not enough to support several players. As Transtema has operations and major deals in place, we believe it is unfavourable for its competitors to compete against Transtema since doing so would come at a high cost and with relativity low upside potential.

Business strategy

Transtema aims to expand its business in two dimensions. First, it wants to expand into nearby market segments in its current geographies – for example, adding EV charging and coax know-how in Sweden through acquisitions and recent site management orders. Through these expansions, Transtema aims to utilise its NOCs and SOC and its nationwide presence. It is doing so partly to compensate for the decline in copper but also to gain further scale advantages.

Second, Transtema wants to expand into other Nordic countries with its current offering, likely through M&A, like its Tessta acquisition. As many of the large communication network owners are pan-Nordic, this geographical expansion would be a way to add customers in both new and current markets.

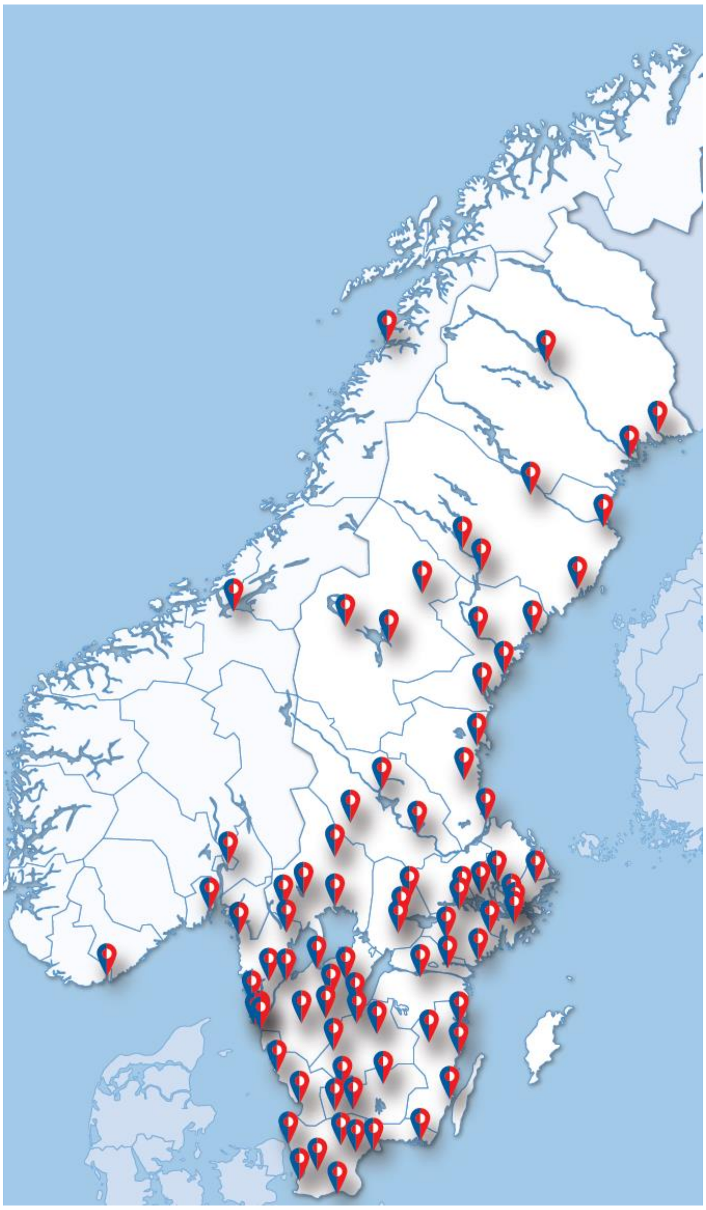
Transtema focuses on ESG and discloses a wide range of ESG KPIs in its quarterly reports. ESG is typically a high priority for its customers – often large companies – as well and they have higher ESG requirements. This is likely to spread to security and reliability from here. Thanks to its solid positions in these areas, Transtema has an advantage over local competitors and even some larger ones.

Business model

Following a few tough years as an FTTH (Fibre-To-The-Home) contractor, Transtema repositioned itself as Sweden's largest field service and maintenance provider. By acquiring what is now called TNS (Transtema Networks Services) from Ericsson in 2018, Transtema expanded its presence mainly in southern and central Sweden and became a major player in its domestic market. Through the acquisition of the installation-focused Tessta in early 2022, Transtema became a major player in the Norwegian market as well.

Emphasis on operations, field service, and maintenance

Transtema generates about 35% of its revenues from field service and maintenance of networks, including mobile, fibre, and copper, as well as EV chargers and coax following recent acquisitions. 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.



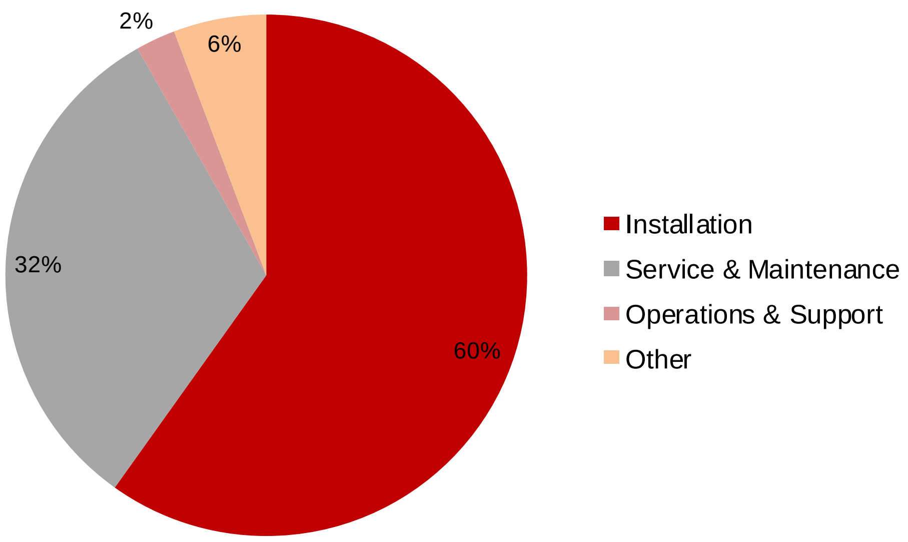
Transtema operates two network operation centres (NOCs), helping its technicians ensure functioning networks 24/7. The NOCs act reactively to incoming alarms and proactively to early indications of likely problems. They also help the technicians with top-down troubleshooting to identify power outages, for example.

The technicians also receive support from Transtema's service operation centre (SOC). The SOC dispatches technicians to minimise 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 to handle larger volumes and should only need limited cost increases to pace with sales growth.

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

About half of Transtema's revenues are recurring, mostly from service and maintenance and, to some extent, from operations and support. The share of recurring revenues was even higher before the acquisition of Norway's Tessta, which brought an installation-heavy revenue mix. Transtema aims to increase its recurring revenues in the Norwegian market by adding service and maintenance and operations and support business.

Sales Mix Approximation 2023e



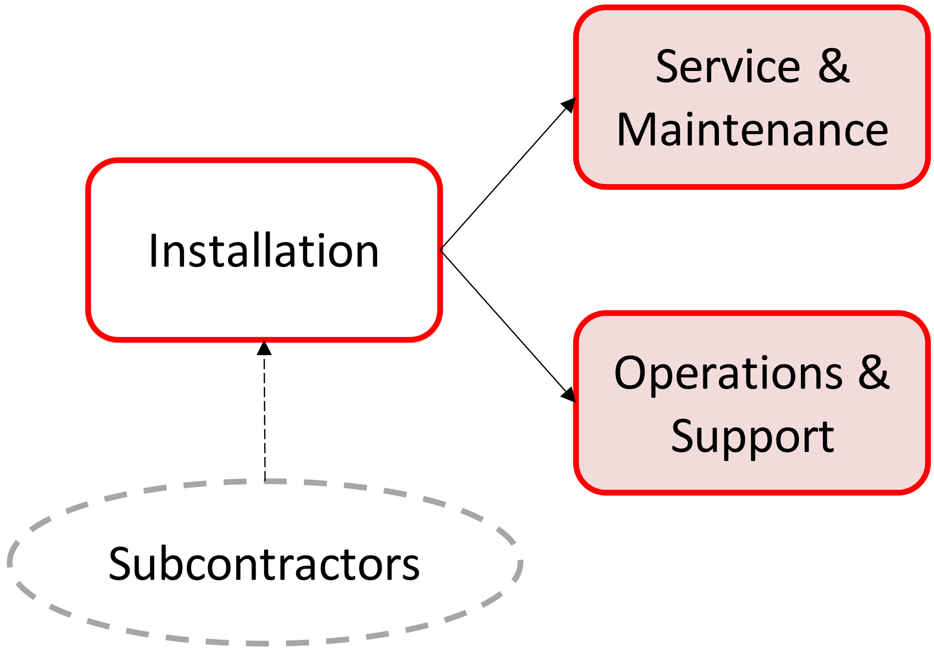
Source: Transtema, Redeye

From construction to installation

Unlike a few years ago, when Transtema's construction division focused on large FTTH (1,000+ single-dwelling homes) projects, this division now concentrates on installing backbone networks, FTTB, and specific destinations. According to management, the new installations are less risky than large construction projects. We find this reasonable for several reasons. First, FTTH was apparently very risky. Second, considering that ~60% of Transtema's sales, including Tessta and UBConnect, come from installations, combined with the solid profit levels seen since 2021, Transtema's track record supports management's view.

While installations are an important contributor to sales and a healthy profit-generating business, they are also a way to receive operations and maintenance deals as the solutions are installed.

Business Model



Source: Transtema, Redeye

Transtema uses subcontractors for installations mainly in its Norwegian business, but also to some extent in Sweden. While leaving some potential profits on the table, using subcontractors enables Transtema to scale its installation capacity up and down according to current demand. We believe Transtema will increase its usage of subcontractors in the next two to three years – see the Market Overview section for more details.

Significant economies of scale in nationwide deals

While Transtema is a personnel-dependent service business without substantial intangible assets, we believe it possesses 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 meets customer demand. Since Sweden is rich in scarcely populated areas, long distances between network nodes are common. The need for several technicians in a one-hour radius is thus non-existent in many regions, creating almost a natural monopoly in Transtema's market in particularly rural areas.

The largest customers in Transtema's market, Telia, Telenor, and 3GIS, need their service providers to cover all of Sweden. Transtema is established in 85 locations to serve the entire country, including 800-900 employees with vehicles and equipment. While establishing a similar organisation is a substantial investment, a significant deal, such as Transtema's Telia and 3GIS deals, would probably be necessary to achieve profitability in running operations across Sweden. Moreover, the market includes inaccessible areas, such as archipelagos and sub-Arctic climates (during the winter), requiring specialised vehicles such as boats and snowmobiles.

Multi-talented technicians

Transtema's technicians are typically schooled in several different fields, enabling them to handle various applications and issues. Despite the consequent negative aspects, such as education costs and higher salaries, we believe the benefits of multi-talented technicians outweigh the negatives. Considering the limited acceptance and high downtime costs, we believe having technicians who can fix a wide range of problems makes a lot of sense, especially as problems can sometimes be unknown before the technician reaches the site. We believe this is especially important in rural areas, where the technicians are few and the distances long. However, as management points out, a technician in an urban area can suffer just as time-consuming transport due to traffic, for example.

Offsetting the copper decline is crucial to sustaining competitive advantages

As Transtema's nationwide network of multi-technicians in Sweden is dependent on copper-related service and maintenance deals, Transtema must offset the declining copper business with new revenue streams. Considering our view that the nationwide network of multi-technicians is Transtema's most significant competitive advantage, we believe this task is crucial to Transtema's future earnings potential.

Copper-related deals generate about SEK500m in annual R12M sales or about 50% of Transtema's recurring revenues. The absolute and especially the relative level of copper has decreased in recent quarters. As Transtema has achieved ~10% average organic growth R12M, we can see it has handled the situation well so far. However, we understand this growth has mainly been driven by installations, while we argue new recurring revenue streams are more important in the long run.

There are also examples of new recurring revenue deals utilising the nationwide network of technicians:

- In June 2022, Transtema announced a deal with Proptivity for the installation, operation, and maintenance of indoor 5G solutions in Sweden. The deal spans 15 years (with an option to extend for two years at a time), and the expected value for the operation and maintenance parts is estimated at SEK150m. While Transtema cannot estimate the installation part at this point, Ericsson and Proptivity plan to invest SEK3bn within five years in the Nordic and Baltic countries. Thus, if Proptivity and Ericsson are successful, the potential in Sweden alone is vast. However, we would not rule out Transtema being involved in other markets as well, Norway in particular.

- In early December 2022, Transtema announced an EV-charging deal with XPeng. North Projects and other companies in the Transtema group will install and service XPeng's EV-charging points, sold and delivered in conjunction with a car purchase. The deal spans three years and is expected to generate about SEK10m-20m annually, depending on how many cars and EV-charging points XPeng sells.

  While this is a small order for Transtema as a group, it is a huge order for North Projects, which had sales of SEK~30m in 2021. It is the first nationwide EV-charging order, strengthening our view of the North Projects acquisition, which Transtema acquired to utilise know-how across Transtema's nationwide operations.

- In November 2022, Transtema received a site management deal with an estimated value of SEK150m over three years from a significant customer. The deal involves the maintenance of buildings, power, cooling, security, and fire protection for about 15,000 mobile and fixed communication network sites in Sweden, for which Transtema already provides maintenance of the telecommunication equipment. We believe this deal offers a solid example of how Transtema can increase the utilisation of its nationwide network of technicians.

While these orders alone are not enough to offset the expected decline in copper, all are good examples of different areas where Transtema can utilise its technicians to generate recurring revenues.

As we lack any reliable market data for the rather small site management and coax markets and the emerging EV-charging market, we have made rough estimates regarding market sizes to give investors an idea of the potential.

EV charging

Power Circle expect EV-charging to grow rapidly in the coming years, from about 17,000 to at least 90,000 by around 2030. Assuming 100,000 public charging points in 2030 and a SEK1,000 monthly fee for a 2-hour SLA, the public service and maintenance market would be worth SEK1.2bn. How much a 2-hour SLA will generate is yet to be seen, but we believe SEK1,000 a month is a reasonable and conservative assumption.

We assume 50% of all Swedish households will have a home charging point by 2030. Assuming SEK99 per month for a 72-hour SLA, the market would be worth SEK~3bn. Current offerings to consumers seen in the market support these assumptions.

	Charging points	Sales/point and month	SLA	MSEK
Public	100 000	1 000 kr	2h	1 200
Residential	2 500 000	99 kr	72h	2 970
Total				**4 170**

While we are confident the number of public and residential EV charging points will explode, the price per month and Transtema's future market share remain uncertain. However, a market share of just 5% would generate SEK210m in annual recurring revenues, compensating for almost half of the current copper business. Moreover, we believe Transtema has a strong offering towards the public sector and last-mile transportation – both segments that we believe will require low-hours SLAs, resulting in high revenue potential.

Note this calculation only includes recurring maintenance and service revenues and not the revenues from potential one-off installation.

Site management

Transtema's current site management deal concerns 15,000 site and is similar to its Telia deal in that there is no other player with as many sites. Transtema expects the deal to generate SEK150m over three years. Assuming a total of 45,000 sites in Sweden, potential annual revenues are SEK150m. While this market is quite limited in size, we believe Transtema has a strong offering in it.

Deal	Sites	Sales per year (MSEK)
Current deal	15 000	50
Potential deals	30 000	100
Total		**150**

Coax

Following the acquisition of Bäck, Transtema has a robust position within coax in Greater Stockholm and Greater Gothenburg. As smaller local firms typically serve the coax market, we believe Transtema can gain all Tele2's coax in Sweden. We estimate the total coax maintenance and service market at SEK120m (as shown in the table below). Tele2 is more or less the only coax player in Sweden following its acquisition of Com Hem.

Deal	Population	Sales per year (MSEK)
Greater STHLM + GBG	3 500 000	40
Rest of Sweden	7 000 000	80
Total		**120**

Expect for EV charging, these markets alone are not enough to compensate for the decline in copper. However, combined with additional maintenance and service deals in fibre and 5G, we believe these areas can offset the copper decline and add organic sales growth. Thanks to its higher speeds and shorter range than 4G, 5G has additional opportunities, such as the Proptivity deal, indoor areas, and shopping centres.

In addition to the recurring revenues, we expect the installation of fibre and 5G to contribute to growth over the next five to 10 years.

New M&A strategy successful so far

Following a history of rapid expansion mainly in FTTH through M&A – something that ended badly – Transtema has spent the past few years knocking its business into shape. However, for the acquisitions made after Transtema's refocus, the performance so far is solid.

The recent acquisitions represent the two main types of acquisitions that are interesting for Transtema:

- **Complementary businesses in the Swedish market**

  A complementary 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 connections, and property technical solutions are two possible examples that represent rapidly growing segments. A complementary acquisition in Sweden would increase the utilisation of Transtema's nationwide technician workforce, its SOC, and its group functions.

- **A "TNS-like" business in a neighbouring country**

  Expanding into a neighbouring country would require a large "TNS-like" acquisition with sales of SEK300-500m to establish Transtema as a relevant player in the market.

We believe acquiring complementary businesses in the Swedish market is a high-reward/low-risk strategy for several reasons. On the risk side, we believe complementary acquisitions, which we assume are generally quite small, can be bought at attractive multiples, reducing the potential loss. However, the potential is significant if Transtema can leverage such a small company's expertise throughout its nationwide organisation.

M&A since the revised strategy

Segment	Company	Country	Consolidated	Sales (SEKm)	EBITA (SEKm)	Price (SEKm)	Earn-out (SEKm)
Wireless (5G)	UBConnect	Norway	2023-01-01	462	32	99	113
Coax	Bäck	Sweden	2022-10-01	40			
EV-charging	North Project	Sweden	2022-07-01	30			
Fiber	Tessta Connect	Norway	2022-01-03	560	43	200	221

Source: Transtema

Although we get the impression management aims for larger complementary acquisitions, we believe North Projects and Bäck are both solid acquisitions. While it is too early to evaluate Bäck, we believe the XPeng deal indicates the success of the North Projects acquisition so far. We describe these companies further in the Market Overview segment.

While we prefer complementary acquisitions, we believe a significant acquisition in a neighbouring country also holds vast potential. However, we believe a large acquisition in a foreign country, even in known business segments, also constitutes a non-negligible risk. On the other hand, the acquisition of today's TNS was sizeable and has arguably been a success. Moreover, we believe management is aware of the risks associated with large acquisitions, and we expect it to take an opportunistic approach towards any such acquisition. On the upside, many of the large communication network owners are pan-Nordic, making Nordic expansion a way to add customers both in new and current markets. For example, through Tessta, Transtema gained Telenor as a customer, and Transtema now aims to win business with Telenor in Sweden as well.

So far, the acquisition of Norway's Tessta has been a success, bringing high growth and likely solid profitability (undisclosed). While it has a high share of installation revenues – and we typically prefer recurring service and maintenance revenues – Tessta has also brought a high share of subcontractors, reducing the cyclical risk. Transtema sees potential in moving its Swedish installation business in a similar direction – more on this in the Market Overview section. Although Tessta joined Transtema quite recently (early 2022), there is already an example of a large Transtema customer in Sweden starting to use Tessta for its Norwegian operations.

In late 2022, Transtema made its second Norwegian acquisition, UBConnect. The company generates the bulk of its revenues from Norway but also has exposure to other Nordic countries, where it has experienced an increasing demand for its services. UBConnect focuses solely on radio (3G, 4G, 5G, etc.), currently meaning mostly 5G. According to Transtema's management, UBConnect's operations are highly effective, especially regarding logistics, thanks partly to a proprietary software solution. We thus believe Transtema's current radio installation business can benefit from this acquisition.

UBConnect has several customers that Transtema lacks any material exposure to today, such as ICE and Nokia, opening it up for cross-selling. Interestingly, according to management, the early indications from UBConnect's customers have been positive.

We do not include any future M&A in our forecasts, as we typically only do so for distinctive serial acquirers. Despite this, we still expect Transtema to make acquisitions over the next few years. We believe additional complementary acquisitions in Sweden are the most likely.

Market overview

Networks are crucial to modern societies

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

- **Digital health services**

From telecare to video solutions, all types 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 expect an increasing share of older people in society, 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% in 2020–2025.

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

Like people, gadgets, and machines (anything from wind turbines and charging stations to property technical solutions) are becoming connected. The acceptance of downtime in these often critical applications span from limited to non-existent, increasing demand for reliability and comprehensive service level agreements (SLA). Business Insider estimates the total number of installed IoT devices will reach 40+ billion in 2027, up from about 15 billion today.

- **Autonomous driving**

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

- **Decentralised working**

The coronavirus crisis has accelerated decentralised working trends. While the long-term impact is up for debate, we find it reasonable to assume decentralised 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 decentralised working requires reliable, high-capacity networks with limited downtime. According to an analysis by Gartner, the share of employees working from home will increase from 30% pre-pandemic to 48% post-pandemic.

Common to all the key drivers mentioned above is that they require reliable high-capacity networks in rural areas, which we believe is favourable for Transtema, considering its nationwide offering. However, 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. We believe Transtema has the upper hand in such a scenario, though, considering its nationwide offering and proven track record.

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

Extensive opportunities in EV charging

~20% CAGR in EV-Charging Points till 2030

According to base case estimates from Utfasningsutredningen, Bloomberg New Energy Finance, and Power Circle, 60-90% of all new cars sold in Sweden in 2030 should be BEVs, rising to 95-100% for 2035. Several factors are pushing the use of electric vehicles in Sweden (28% of all new cars in the country were BEVs, Jan-Oct 2022), including:

- Substantial price increases in fossil fuels like petrol and diesel
- High taxation of new petrol and diesel cars
- Consumers becoming increasingly concerned about climate change

Moreover, the EU recently voted to ban new petrol and diesel cars by 2035. We thus see many factors suggesting that the EV charging market will become enormous. In addition, a quick read in any motor journal suggests that the current EV charging infrastructure is insufficient.

The rapid growth in BEVs will fuel a huge demand for EV chargers, as the BEVs cannot operate without them. According to Power Circle, there were ~18,000 public EV charging points in Sweden as of November 2022. Market estimates suggest Sweden will need at least 90,000 EV charging points by 2030, implying a ~20% CAGR until then. Given political decisions and market data, we see no reason to question whether the need for EV chargers will surge or not; rather, the question is whether Transtema can capture a meaningful share of this market.

The removal of the SEK50,000 (2023) in subsidies for BEVs in the Swedish market, combined with rising BEV prices and elevated interest rates, leave us somewhat concerned about the demand for BEVs and EV charging in the short term. However, following Tesla's sharp price decreases, which we assume competitors will follow suit with, the BEV once again looks appealing from an economic perspective.

North Projects adds EV know-how

In June 2022, Transtema announced the acquisition of North Projects, a company founded in 2016 that focuses on infrastructure for EV charging, including installation, operations, service and maintenance, and payment/cloud solutions. North Projects's current CEO and former main owner, Marcus Andersson, remains in charge of operations.

In 2021, the company had sales of SEK~30m (~1.5% of Transtema's sales) and, based on historical profitability levels, we believe its margins are around zero. While North Projects's current sales and profit contribution is limited, EV charging is one of Transtema's potential growth areas, and likely the most interesting one.

North Projects adds know-how and resources that Transtema can scale across its nationwide organisation. While North Projects has mostly served smaller B2B customers and tenant owner associations, as a part of Transtema, it is now backed by a large nationwide organisation with financial muscle.

While the first nationwide deal with XPeng (described earlier) – combining North Projects's know-how with Transtema's presence and organisation – is a good start, we see potential for large orders from players needing nationwide solutions. The group of potential customers includes EV charging networks, real estate owners, and the public sector, among others. We believe the latter two are particularly interesting for Transtema, partly as we do not expect them to establish in-house maintenance and service organisations.

We believe real estate owners will have to provide the possibility for EV charging in the future. In fact, we argue this is already an issue in many neighbourhoods today, as the possibility for EV charging is much worse for those living in rental multi-dwelling homes than people in single-dwelling homes. We consider Transtema, with its nationwide presence and experience of substantial deals with large customers, an attractive option for the installation, maintenance, and servicing of EV charging stations for real estate owners with properties in multiple cities in particular.

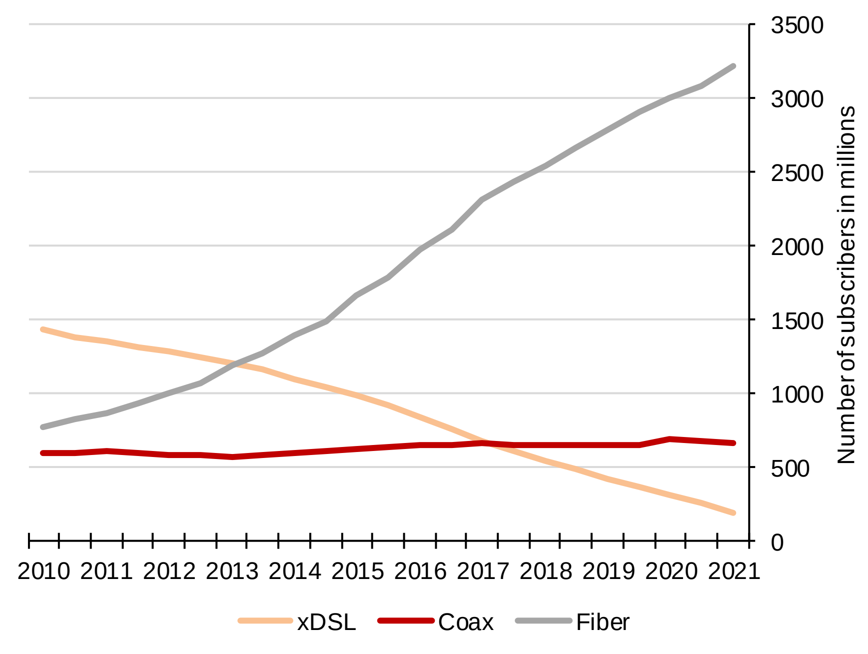
Foothold in coax – old but stable business

In early October, Transtema acquired Bäck. Below is a short description of the business (English translation of highlights from the press release):
"*Bäck is one of Sweden's leading companies in the installation, service, and maintenance of cable TV (coax) networks in Sweden. The company has its headquarters in Kungsbacka and today covers the metropolitan areas in Sweden. The turnover amounts to approximately SEK 40 million with 50 employees and stable profitability. Bäck is expected to contribute positively to Transtema's revenue growth and strengthen the operating profit from the day of entry*."

The acquisition marks Transtema's entry into the coax market, which shares many similarities with the group's other markets. We believe there is substantial potential for synergies on the revenues side, as Transtema can utilise Bäck's know-how in coax across its nationwide operations.

While coax is old technology compared with fibre, Tele2 (Com Hem) has invested substantial amounts into its coax network. Today's coax supports speeds of ~1Gbit/s, which is more than enough for most consumers today and in line with the maximum speed in a typically open city network. The graph below shows that the number of coax subscriptions has been flat for more than a decade, suggesting that switching from coax to fibre is an unattractive investment.

Fixed Broadband Sweden



Source: PTS

While we believe the coax speed is good enough, at least for now, we argue the monopoly structure of the coax network makes it less appealing to consumers relative to the often open fibre networks. However, the incentive for a real estate owner (coax is most common in rental multiple-dwelling units) to invest in fibre when coax is already in place is limited with, in most cases, no advantage to the real estate owner from switching to fibre.

Although we are doubtful about coax in the long run, the market is very stable, and the competition among support and maintenance providers is probably quite limited. All in all, we believe it is a solid acquisition, adding stable support and maintenance revenues with the potential for revenue synergies by utilising Transtema's nationwide organisation.

Transtema aims to establish itself as Tele2's national coax service provider, which we believe would be a great way to leverage Bäck's know-how in coax across Transtema's nationwide operations. Moreover, Tele2 is a major carrier, and getting a solid relation with it could pave the way for contracts in other areas down the line.

Focusing on ESG to remain competitive

While ESG is increasing in importance for many investors, Transtema's ESG focus is not limited simply 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 its use of fossil fuels by 2030. As a major supplier with about 900 diesel cars, Transtema plays a major role in Telia's fossil fuel elimination. According to management, Transtema probably represents about 50-60% of Telia's CO_2 emissions in Sweden. We thus believe being a forerunner in renewable fuels is a competitive advantage in Transtema's space.

In November 2022, the Science-Based Targets initiative (SBTi) approved Transtema's targets to limit global warming to 1.5° C. Transtema pledges to reduce its Scope 1 and 2 fossil CO_2 emissions by 100% by 2030, in line with Telia's target. In addition, Transtema pledges to reduce the emissions from purchased good and services by 50% (Scope 3). Transtema believes high environmental standards will be a "must-have" for suppliers to the large telecommunication players in the near term. The approval by the SBTi verifies Transtema's high ambitions.

In addition to CO_2 emissions, Telia requires its suppliers to reuse and recycle equipment that is torn down, such as older networks as 5G networks are built.

Since Q1 2022, Transtema has disclosed basically all relevant ESG KPIs quarterly. The data includes the share of electric vehicles, the share of renewable fuels, CO_2e emissions, the number of severe accidents, etc. We favour such transparency, which makes Transtema's ESG initiatives more tangible and allows analysts and investors to follow up on its performance. We also argue that detailed reporting reduces the ESG-related risks for investors, as they can get a comprehensive picture of the current situation. We believe the income statement-style reporting of its ESG KPIs suits analysts and investors well, this being a format with which they are familiar. Moreover, we believe Transtema's quarterly ESG reporting should inspire other companies with high ESG ambitions.

From copper to fibre and 5G

About 30% of Transtema's current revenues is generated from copper-related contracts. Considering the migration towards fibre, this market will gradually disappear over the next five to 10 years. Copper is generally being phased out as fibre is built, and the Swedish government has set the following targets regarding broadband by 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 fibre 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 larger market for fibre for Transtema. However, as fibre expands, we expect Transtema's copper-related revenues to shrink.

While the phasing-out of copper is a risk to Transtema's operations, adapting to new technologies is natural 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; bear in mind that 70% of Transtema's revenues are unrelated to copper.

Notably, in late May 2021, Transtema closed a framework agreement with Ericsson regarding the development of 5G in Sweden. As is typical 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.

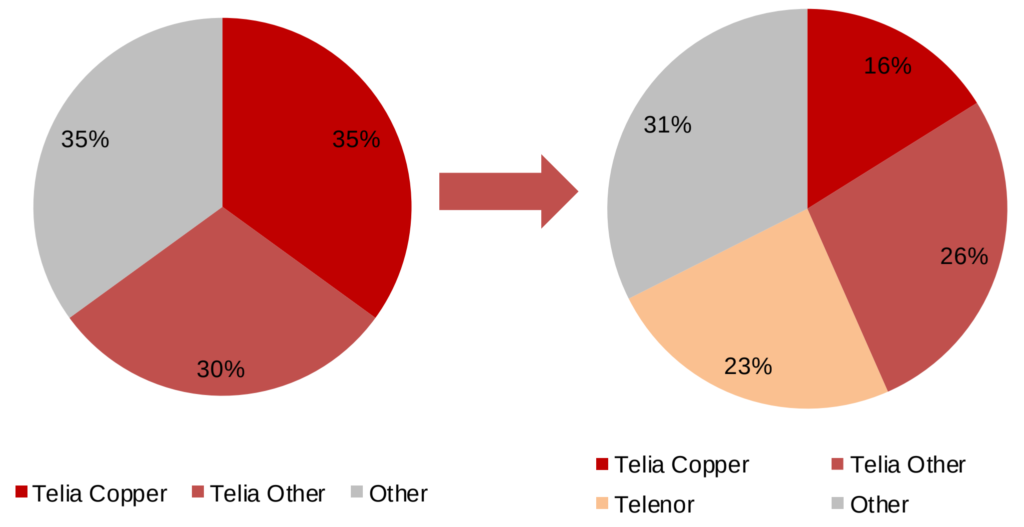
Transtema does not disclose the share of revenues generated by fibre. However, we believe it is a significant share of both installation and recurring revenues.

Customer concentration decreasing from high levels

Following the acquisition of Tessta (a major supplier to Telenor), UBConnect, North Projects, and Bäck, as well as several new orders, the share of revenues generated from Telia has decreased from ~65% in 2021 to ~40% for 2023e. While the exposure to its two largest customers, Telia and Telenor, remains significant, Transtema's customer concentration risk has decreased since 2021.

Moreover, as mentioned, as the telecommunication market is highly concentrated among a few large players, Transtema's high customer concentration is natural. In addition, it is taking measures to expand into related areas, such as EV charging and coax, to decrease its customer concentration further.

Customer Exposure 2021 and 2023e



Source: Transtema, Redeye

As we expect the copper business (with almost half of the revenues generated from Telia to decline), we forecast the absolute revenues from Telia to decline. However, given strong demand for fibre installation from Telia, Transtema has likely seen an increase in absolute revenues from Telia. This increased fibre installation demand is just one example of the many ways Transtema can and has been able to offset the decline in copper.

Competitors and peers

The end-market of communication network services is highly consolidated. While none of the companies listed below are as focused on communication networks as Transtema, they share similar business models and end-customers to some extent.

Bravida

Bravida offers service and installation in electricity, heat, sanitation, and ventilation in the Nordic markets. While Transtema does not target those end-markets, their business models – focusing on service and installation – are similar. In 2021, Bravida had sales of SEK~22bn and an EBITA margin of 6.9%.

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 across the Nordics. Another difference worth highlighting is Eltel's focus on power and communications networks, while Transtema explicitly focuses on the latter. In 2021, Eltel had total sales of EUR813m (EUR182m of which in Sweden) and an adjusted EBITA margin of 1.8%.

Eltel is primarily a competitor to Transtema in its Communication business area, which offers design, service, construction, and maintenance of communication networks. In 2020, Sweden accounted for EUR224.5m of Eltel's total sales. Communication represents around two-thirds of the group's revenues and approximately 90% of its sales in Sweden. Eltel is one of Transtema's few competitors 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 broad 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 operates both in communication networks and the IT and energy sectors. Relacom has around 1,100 employees and competes with Transtema in the communication network area in terms of planning, construction, and maintenance.

Netel

Netel builds physical telecom, broadband, and electrical networks in the Baltic and Nordic regions. Its 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 2021, Netel had sales of SEK~2.4bn with an EBITA margin of 5.2%.

Financial forecasts

Long-Term Forecasts

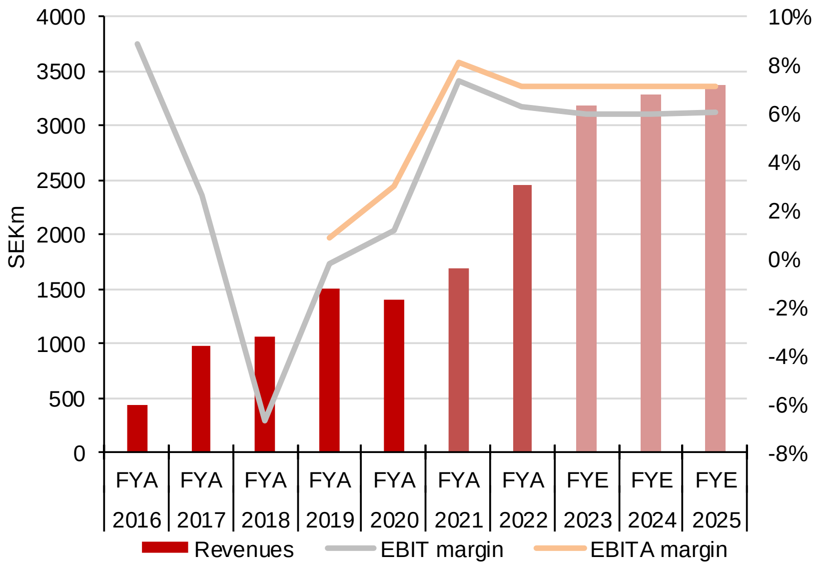
We expect an organic sales CAGR of 3% for 2023–2030 for Transtema. Considering the growth potential in EV charging, 5G, site management, coax, and fibre, 3% might seem particularly conservative. However, Transtema generates about SEK500m from copper-related deals, which will gradually decline to zero over the next some five to 10 years. Assuming a linear decline over 7.5 years, Transtema will lose 2.2% of 2023e sales through the copper decline. To reach 3% on the group level, the remaining business must thus reach about 5% in organic growth.

While the potential is significant, especially in EV charging, Transtema has a limited presence in this segment today. On the other hand, its nationwide network of multi-technicians is a unique selling point towards larger multiregional players. All in all, we believe 5% excluding copper and 3% in total organic growth are reasonable assumptions at this point. During 2022, however, Transtema had robust order inflow in these potential growth areas, as described on pages 10-11. Given a similar inflow during 2023, we would need to revise our forecasts upwards.

In addition, we want to highlight that the declining copper business is nothing unusual in this sector. Old technologies are consistently and gradually replaced by new technology – both in fixed, where copper is being replaced by fibre, and wireless, where 3G is being replaced by 5G. Given the need for high-speed and reliable communication networks, we expect this trend to continue. Replacing the copper revenues with new revenues is thus a natural process in the sector. However, as Transtema has a large nationwide copper deal with Telia, the impact of this transition is larger greater for it than usual.

While our 3% growth assumption only includes organic growth, Transtema's >10% growth target includes acquisitions. We believe the target's implied organic growth target is roughly in line with ours. As mentioned on pages 11-12, we expect smaller complementary acquisitions in Sweden and expansionary acquisitions in the Nordic region. However, we do not include any future M&A into our forecasts at this point, as Transtema's M&A record remains quite brief.

Revenues, EBIT and EBITA margin - Forecasts



Source: Transtema, Redeye

We expect the current EBITA margin levels of about 7% to continue. Some 7% is among the best in the industry, and while we see potential for some scalability as Transtema grows, we believe the upside margin potential is quite limited.

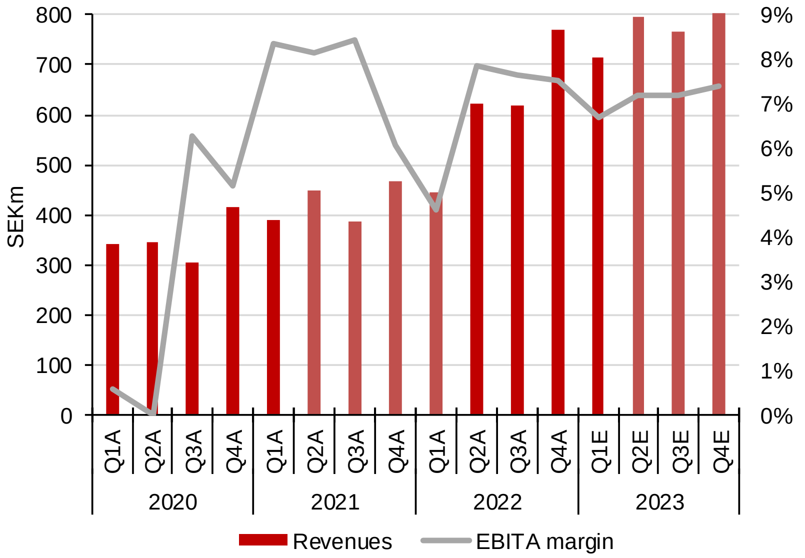
All in all, we believe the long-term profit growth will mainly stem from acquisitions, with the optionality of a larger-than-expected contribution from deals in EV charging, 5G, site management and coax.

The short term

We believe 2023 will be a strong year for Transtema, with EPS growth of 28% fuelled by acquisitions and the solid order inflow during 2022. We assume 5% organic growth thanks to several deals won in 2022 and strong momentum in fibre and 5G installation.

We forecast 27% growth from acquisitions, with UBConnect as the largest contributor. As the EBITA margin was depressed in Q1 2022, we expect some margin expansion y/y. While the solid growth should arguably result in some scale advantages, management points to the negative impact from the inflationary situation, with increased fuel prices, especially for the environmentally friendly HVO diesel Transtema uses.

Revenues and EBITA margin - Forecasts



Source: Transtema, Redeye

Besides sales and EBITA, 2023 will also be an interesting year in terms of deal flow. We saw quite a strong 2022 in terms of new deals, and for 2023, we believe large deals, particularly in EV charging, are plausible.

Income Statement	2022	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024	2025
Revenues	**2 457**	**713**	**794**	**768**	**910**	**3 185**	**3 281**	**3 379**
Y/Y Growth (%)	45.4%	60.4%	27.3%	24.3%	18.0%	29.6%	3.0%	3.0%
Cost of Revenues	(1 175)	(357)	(397)	(384)	(455)	(1 593)	(1 640)	(1 690)
Gross Profit	**1 282**	**357**	**397**	**384**	**455**	**1 593**	**1 640**	**1 690**
Gross Profit Margin (%)	52.2%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
EBITA	**174**	**48**	**57**	**55**	**67**	**228**	**233**	**240**
EBITA Margin (%)	7.1%	6.7%	7.2%	7.2%	7.4%	7.1%	7.1%	7.1%
Amortization	(20)	(9)	(9)	(9)	(9)	(36)	(36)	(36)
EBIT	**155**	**39**	**48**	**46**	**58**	**192**	**197**	**204**
EBIT Margin (%)	6.3%	5.4%	6.1%	6.0%	6.4%	6.0%	6.0%	6.1%
Interest Expenses	(40)	(7)	(7)	(7)	(7)	(28)	(24)	(24)
Income Tax Expenses	(33)	(7)	(9)	(9)	(11)	(36)	(38)	(40)
Net Income	**118**	**25**	**32**	**31**	**40**	**128**	**135**	**141**
Net Income Margin (%)	4.8%	3.5%	4.0%	4.0%	4.4%	4.0%	4.1%	4.2%
EPS	2.99	0.63	0.81	0.78	1.01	3.23	3.41	3.56

Source: Transtema & Redeye Research

Valuation

While the new version of the Redeye Rating reduces Transtema rating from 5,4,3 to 4,4,3 (People, Business, Financials), the WACC remains at 9.5%. The new version of the Redeye Rating is more demanding and makes it harder to receive a high rating. Thus, it should not be seen as we believe the underlying quality of Transtema has decreased.

Bear case: SEK28

- Sales CAGR of ~2% for 2020–2030
- No future M&A
- Terminal growth of 2%
- Average EBITA margin of ~5% for 2021–2030
- Terminal EBITA margin of ~4%

Base case: SEK55

- Sales CAGR of ~3% for 2020–2030
- No future M&A
- Terminal growth of 2%
- Average EBITA margin of ~7.8% for 2021–2030
- Terminal EBITA margin of ~7.5%

Bull case: SEK68

- Sales CAGR of ~4% for 2020–2030
- No future M&A
- Terminal growth of 2%
- Average EBITA margin of ~9% for 2021–2030
- Terminal EBITA margin of ~8.5%

Note also that Transtema has few institutional investors, despite a market cap of SEK1.5bn. The transformed Transtema has many features that we believe institutional investors should find appealing, such as non-cyclical recurring revenue streams and a genuine commitment to ESG.

Peer valuation

Transtema is trading at a discount to peers for 2023e. Its margins are the highest, and it has a solid track record since its transformation. We thus believe a premium is justified, and our base case of SEK55 is equivalent to ~10x 2023e EBITA.

	EV	Sales	EV/SALES			EV/EBITA (x)			Sales growth			EBITA margin		
Company	(SEK)	21A	22E	23E	24E	22E	23E	24E	22E	23E	24E	22E	23E	24E
Eltel	2 036	8 628	0.2	0.2	0.2	n/a	19.2	12.2	6%	3%	1%	0.0%	1.1%	1.7%
Bravida	24 223	21 875	0.9	0.9	0.9	15.0	14.6	14.3	17%	5%	1%	6.3%	6.2%	6.3%
Caverion	12 858	2 140	0.5	0.5	0.5	11.2	10.7	9.4	10%	4%	3%	4.5%	4.6%	0.0%
Netel	1 398	2 418	0.5	0.4	0.4	7.2	5.9	5.4	27%	16%	7%	6.3%	6.7%	6.8%
Median	**12 858**	**5 384**	**0.5**	**0.5**	**0.5**	**13.1**	**14.6**	**12.2**	**10%**	**4%**	**1%**	**4.5%**	**4.6%**	**1.7%**
Average	**13 039**	**8 220**	**0.6**	**0.5**	**0.5**	**13.1**	**14.8**	**12.0**	**11%**	**4%**	**2%**	**3.6%**	**4.0%**	**2.7%**
Transtema	**1 746**	**1 405**	**0.7**	**0.5**	**0.4**	**10.0**	**7.3**	**6.3**	**45%**	**30%**	**3%**	**7.1%**	**7.1%**	**7.1%**

Source: Redeye, FactSet

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: 4

Transtema receives a high 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 former CEO and current chairman Magnus Johansson, own a substantial share of Transtema. Fourth, we believe management's communication is balanced and realistic.

Business: 4

Transtema receives a high rating for Business for several reasons. First, the group receives most of its revenues from operations, services, and maintenance, and ~70% is recurring. Second, the limited acceptance for communication networks' 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 and entry barriers for new players.

Financials: 3

Transtema receives an average rating for Financials. Recent improvements in organic growth, margins, and cash flows increase the rating, but its weak performance of a few years ago works in the opposite direction. Should Transtema be able to preserve its recent improvements in margins, which we find likely, we see the company heading for a higher Financials rating in 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.

Disclaimer

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Redeye Rating (2023-02-13)

Rating	People	Business	Financials
5	7	6	2
3-4	142	141	36
0-2	23	25	134
total	172	172	172

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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.