

## Transtema Q2'2021 Review: Expect M&A Going Forward

Redeye remains positive to Transtema following a solid Q2 report, conforming the successful transformation to a profitable company. The new financial targets suggest we shall expect M&A going forward, which, if successful, would add a growth dimension to the case. We raise our forecasts and Base case.

- 2021E and 2022E EBITA raised by 22% and 25%
- New Base case SEK 35 (30)
- Trading at 9x EBITA 2021E

Yet another quarter with excellent EBITA margins confirms our assumption of Transtema's successful transformation. In conjunction with the report, Transtema released new financial targets, focusing on M&A, which, if successful, could open a new dimension to the case. As the profitability is healthy, we believe it makes sense to start focusing on growth. We raise our Base case to SEK 35 (30).

### Q2 2021

	Q2E 2021	Q2A 2021	Diff	Q2A 2020
<b>Revenues</b>	<b>419.3</b>	<b>448.1</b>	<b>6.9%</b>	<b>343.7</b>
Y/Y Growth (%)	22.0%	30.4%		(4.7%)
<b>Gross Profit</b>	<b>278.9</b>	<b>287.8</b>	<b>3.2%</b>	<b>195.1</b>
Gross Profit Margin (%)	66.5%	64.2%		56.8%
<b>Other external costs</b>	<b>(50.8)</b>	<b>(52.3)</b>	<b>2.9%</b>	<b>(43.8)</b>
Y/Y Growth (%)	16.0%	19.3%		8.8%
<b>Personnel expenses</b>	<b>(185.2)</b>	<b>(183.6)</b>	<b>(0.9%)</b>	<b>(134.1)</b>
Y/Y Growth (%)	38.1%	36.9%		(11.6%)
<b>EBITA</b>	<b>25.3</b>	<b>36.5</b>	<b>44.2%</b>	<b>(0.1)</b>
EBIT Margin (%)	6.0%	8.2%		(0.0%)
<b>EPS</b>	<b>0.41</b>	<b>0.50</b>	<b>22.6%</b>	<b>(0.14)</b>

Source: Transtema & Redeye Research

Sales grew by 30% y/y (organic growth was 38%), about 7% above our forecast. The expected boost from the several major contracts Transtema signed last year took place as we assumed. However, the inflow of small- and mid-sized deals was likely somewhat higher than our expectations, resulting in sales beating our forecast.

Like in Q1 2021, Transtema had an EBITA margin above 8% during the quarter, beating its target of >5%. The 8.2% was significantly above our forecast of 6%, and combined with the slightly higher sales than expected, EBITA beat our forecast by 44%. While H2 2020 and Q1 2021 showed that Transtema's new strategy was paying off, yet another quarter with EBITA margins at the 8% level make us even more confident in the "new" Transtema.

Several positive statements by management accompany the solid numbers. First, although the 5G framework agreement did not generate any substantial revenue in Q2, management expects gradually increasing volumes during H2 2021. As a framework agreement does not guarantee any volumes, we believe the statement indicates Transtema will receive meaningful volumes. For the reasons mentioned above, our previous forecasts did not

include any substantial volumes from the agreement. Second, management sees solid demand in general and stable inflow of inquiries.

Management states that Transtema's planned move to the main market is proceeding according to plan.

## New Financial Targets – Focus on M&A

In conjunction with the report, Transtema released new financial targets. Transtema raises its annual sales growth target from >3% to >10%. However, unlike the old one, the new target also includes M&A. The new targets also include a dividend policy, stating that Transtema will reinvest its cash flows – the policy will be reviewed before every annual meeting. The >5% EBITA margin and the >2x net debt/EBITDA targets remain unchanged.

Given that management has identified interesting M&A opportunities, which we believe it has, we argue that investing cash flow into M&A is a good move. We like what we interpret as an opportunistic approach to M&A/dividends rather than the common x% of net profit method. While Transtema has a mixed M&A track record, Transtema is another business today, and our impression is that management has learned a lot from previous downfalls.

As described in our Initiating report on pages 12-13, we see mainly two types of acquisitions going forward: complementing businesses in the Swedish market and "Transtema-like" businesses in a neighboring country. Considering its close to zero current net debt/EBITDA, Transtema has almost SEK 400m available for purchases before hitting the 2x mark.

## Financial Forecasts

	FYE 2021	Old	Change	FYE 2022	Old	Change
<b>Revenues</b>	<b>1 688.4</b>	<b>1 638.0</b>	<b>3.1%</b>	<b>1 761.8</b>	<b>1 699.0</b>	<b>3.7%</b>
Y/Y Growth (%)	20.2%	16.6%		4.3%	3.7%	
<b>Gross Profit</b>	<b>1 116.1</b>	<b>1 097.0</b>	<b>1.7%</b>	<b>1 159.2</b>	<b>1 131.0</b>	<b>2.5%</b>
Gross Profit Margin (%)	66.1%	67.0%		65.8%	66.6%	
<b>Other external costs</b>	<b>(206.5)</b>	<b>(205.0)</b>	<b>0.7%</b>	<b>(210.7)</b>	<b>(209.0)</b>	<b>0.8%</b>
Y/Y Growth (%)	17.6%	16.7%		2.0%	2.0%	
<b>Personnel expenses</b>	<b>(711.3)</b>	<b>(717.0)</b>	<b>(0.8%)</b>	<b>(748.4)</b>	<b>(748.0)</b>	<b>0.1%</b>
Y/Y Growth (%)	29.1%	30.1%		5.2%	4.3%	
<b>EBITA</b>	<b>131.3</b>	<b>108.0</b>	<b>21.6%</b>	<b>130.5</b>	<b>104.0</b>	<b>25.5%</b>
EBITA Margin (%)	7.8%	6.6%		7.4%	6.1%	
<b>EPS</b>	<b>2.20</b>	<b>1.72</b>	<b>28.1%</b>	<b>2.21</b>	<b>1.67</b>	<b>32.6%</b>

Source: Transtema & Redeye Research

We increase our sales forecasts by 3-4% for 2021E and 2022E for two reasons. First, the underlying demand for small- and mid-sized orders seems to have been stronger than we expected, and based on management's statements, we believe the trend is likely to continue. Second, we add some volumes from the 5G framework agreement with Ericsson.

We raise our EBITA forecasts by 22% and 25% for 2021E and 2022E, respectively. That might seem high considering the modest increases in sales forecasts. However, an EBITA margin raise by just over one percentage point has a significant impact at these rather low absolute levels. Considering two consecutive quarters with >8%

EBITA margins and solid momentum in the business, we believe a 7-8% level rather than a 6-7% level is reasonable going forward.

Income Statement	2020	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024
<b>Revenues</b>	<b>1 405</b>	<b>388</b>	<b>448</b>	<b>380</b>	<b>472</b>	<b>1 688</b>	<b>1 762</b>	<b>1 815</b>	<b>1 869</b>
Y/Y Growth (%)	(6.2%)	13.2%	30.4%	25.0%	14.0%	20.2%	4.3%	3.0%	3.0%
Cost of Revenues	(602)	(112)	(160)	(135)	(165)	(572)	(603)	(624)	(643)
<b>Gross Profit</b>	<b>803</b>	<b>276</b>	<b>288</b>	<b>245</b>	<b>307</b>	<b>1 116</b>	<b>1 159</b>	<b>1 190</b>	<b>1 226</b>
Gross Profit Margin (%)	57.1%	71.2%	64.2%	64.4%	65.1%	66.1%	65.8%	65.6%	65.6%
Other external costs	(176)	(52)	(52)	(41)	(61)	(207)	(211)	(215)	(219)
Personnel expenses	(551)	(176)	(184)	(158)	(194)	(711)	(748)	(769)	(792)
Other operation income	9	1	1	1	1	2	2	2	2
<b>EBITDA</b>	<b>118</b>	<b>48</b>	<b>53</b>	<b>46</b>	<b>53</b>	<b>201</b>	<b>202</b>	<b>208</b>	<b>217</b>
EBITDA Margin (%)	8.4%	12.4%	11.7%	12.2%	11.3%	11.9%	11.5%	11.5%	11.6%
Depreciation	(75)	(16)	(16)	(19)	(19)	(69)	(72)	(72)	(72)
<b>EBITA</b>	<b>42</b>	<b>32</b>	<b>37</b>	<b>28</b>	<b>35</b>	<b>131</b>	<b>131</b>	<b>136</b>	<b>144</b>
EBITA Margin (%)	3.0%	8.3%	8.2%	7.3%	7.4%	7.8%	7.4%	7.5%	7.7%
Amortization	(26)	(3)	(3)	(3)	(3)	(13)	(14)	(14)	(14)
<b>EBIT</b>	<b>16</b>	<b>29</b>	<b>33</b>	<b>24</b>	<b>31</b>	<b>118</b>	<b>117</b>	<b>123</b>	<b>131</b>
EBIT Margin (%)	1.2%	7.5%	7.4%	6.4%	6.7%	7.0%	6.6%	6.8%	7.0%
Interest Expenses	(10)	(3)	(2)	(2)	(2)	(10)	(8)	(8)	(8)
<b>EBT</b>	<b>8</b>	<b>26</b>	<b>31</b>	<b>22</b>	<b>29</b>	<b>108</b>	<b>109</b>	<b>115</b>	<b>123</b>
Income Tax Expenses	15	0	(11)	(5)	(6)	(24)	(24)	(25)	(27)
Effective Tax Rate (%)	(200.5%)	(1.9%)	35.6%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Non-Controlling Interests	0	0	(0)	-	-	(0)	-	-	-
<b>Net Income</b>	<b>4</b>	<b>26</b>	<b>19</b>	<b>17</b>	<b>23</b>	<b>85</b>	<b>85</b>	<b>90</b>	<b>96</b>
Net Income Margin (%)	0.3%	6.7%	4.3%	4.6%	4.9%	5.0%	4.8%	4.9%	5.1%

Source: Transtema & Redeye Research

While we believe Transtema will start acquiring business soon considering the revised financial targets, we do not include future M&A in our forecasts at this point. We leave our long-term sales growth forecasts of 3% per annum intact. In line with the increases for 2021E and 2022E, we raise our long-term EBITA margin assumptions by about one percentage point.

## 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 (2021-08-12)

Rating	People	Business	Financials
5p	19	15	3
3p - 4p	100	77	37
0p - 2p	6	33	85
Company N	125	125	125

### 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

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