



## ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 15 March 2021

# Sensys Gatso Group

## Good times ahead

### The future looks brighter

Sensys Gatso is a global supplier of traffic safety solutions. The company originates from a merger in 2015 between Swedish Sensys and Dutch Gatso. The years 2016-2019 were loss-making with a volatile share price. In 2017 the company changed its management and we are seeing a positive transformation. The sales processes are lengthy, which means it is only now that results are starting to become apparent, as expected.

### Increased recurring revenue

Sensys Gatso's order intake from May to August was higher than the entire 2019 sales. Furthermore, the company is investing in an increased share of recurring revenues from traffic enforcement as a service (TRaaS), with a target for these to account for over 60 % of sales by 2025. The initiative has so far been successful and the share of recurring revenues has increased from 38% in 2018 to 57% in Q2 2020.

### Undervalued against the historical average

The historical 10-year average for EV/Sales is 4.4, compared to our 2021 estimate of only 1.7. The valuation is in our opinion a low figure for a cyclically insensitive ESG case with high growth and an increased share of recurring revenues. According to our DCF valuation, the company is worth SEK 2.2 per share and this means an upside of approximately 45% from the current price of SEK 1.5 per share.

Estimate Changes (SEK)			Estimates (SEK)				Risk and Potential			
	Now	Before		19e	20e	21e	22e	Motivated value	2.15 - 2.25	
EPS, adj 20e	0.05	0.03	80.0%	Sales,m	406	549	816	710	Current price	SEK1.52
EPS, adj 21e	0.14	0.13	5.0%	Sales Growth	6.8%	35.1%	48.6%	(12.9)%	Risk level	Medium
EPS, adj 22e	0.06	0.08	-14.6%	EBITDA, m	29	88	163	113		
				EBIT, m	(24.4)	51.0	129.0	76.1		
				EPS, adj	(0.02)	0.05	0.14	0.06		
				EPS Growth	-%	(2.5)%	1.5%	(0.5)%		
				Equity/Share	0.5	0.5	0.6	0.7		
				Dividend	0.00	0.00	0.00	0.00		
				EBIT Marginal	(6.0)%	0.1%	0.2%	0.1%		
				ROE (%)	(3.0)%	4.5%	20.5%	11.0%		
				ROCE	(5.3)%	6.4%	24.1%	15.7%		
				EV/Sales	3.41x	2.52x	1.70x	1.95x		
				EV/EBITDA	48.4x	15.7x	8.5x	12.3x		
				EV/EBIT	(56.7)x	27.1x	10.7x	18.2x		
				P/E, adj	(97.7)x	28.0x	11.0x	23.4x		
				P/Equity	3.1x	3.0x	2.5x	2.2x		
				Dividend yield	0.0%	0.0%	0.0%	0.0%		
				FCF yield	(3.9)%	0.1%	0.1%	0.0%		
				Net Debt/EBITDA	1.1g	(0.1)g	(0.9)g	(1.8)g		

Key Figures (mkr)	
Number of Shares	913.6m
Market cap	1,389
Net Debt	(5)
EV	1,384
Free Float	81.00%
Avg. No. of Daily Traded Sh.	3,320.0(k)
Reuters/Bloomberg	Sens.st

### One Year Performance Chart

### Analysts

magnus.skog@penser.se



# ERIK PENSER BANK

Penser Access | Industrial Specialties | Sweden | 15 March 2021

## Overview

---

### Good times ahead

#### Investment Case

---

*Sensys Gatso sells products and services in traffic safety to various government actors. Examples of its products are speed cameras and traffic lights. Sensys Gatso has also developed software that enables automation of the entire process of traffic violation fines. An example is that a speed camera photographs a person driving too fast, and the owner is identified using Sensys Gatso's software and the system then sends out a fine.*

#### **New management, better company**

Sensys Gatso originates from a merger in 2015 between Swedish Sensys and Dutch Gatso. The merger was initially less successful, and the years 2016-2019 were loss-making with a volatile share price. In 2017, the company changed its management and we are now seeing a positive transformation. The sales processes are extensive, and it is only now that the results of the change of leadership are beginning to be seen. Order intake from May to August 2020 was higher than the revenue in all of 2016 and 2017 combined.

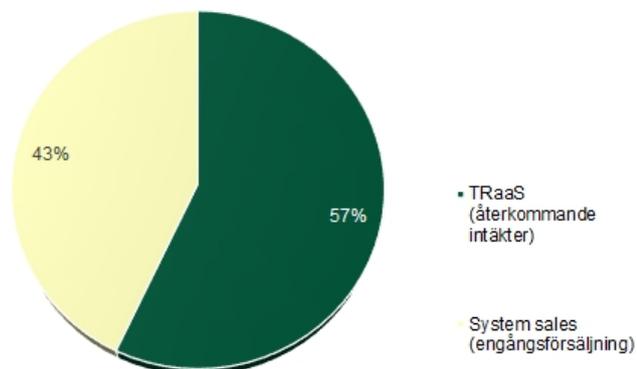
#### **Growing recurring revenue**

Sensys Gatso is focusing on an increased share of recurring revenues from traffic enforcement as a service (TRaaS), which will mean greater revenue stability. The company's target is for TRaaS to make up over 60% of sales in 2025. We estimate that the goals will be met and that the annual rate of growth for repeat revenue will be in excess of 20 % over the next 5 years.

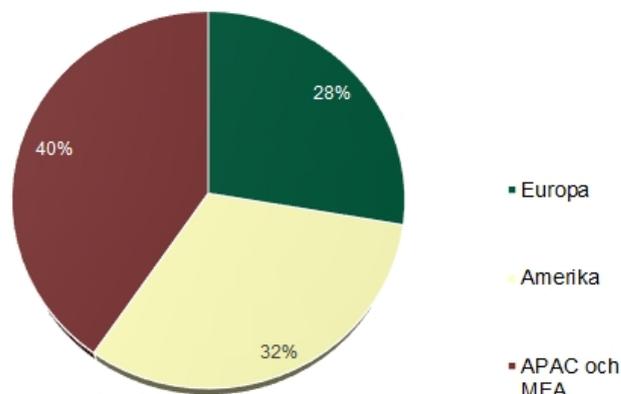
#### **Undervalued against historical average**

Sensys Gatso's historical 10-year average for EV/sales is 4.4, compared to our estimate for 2021 of only 1.6. The valuation is in our opinion low for a cyclically insensitive ESG case with high growth and an increased share of recurring revenues. According to our DCF valuation, the company is worth SEK 2.2-2.3 per share, which means an upside of approximately 50% from the current price of SEK 1.4.

### Sensys Gatso, revenue type, H1 2020



### Revenue share per region



### Sensys Gatso – Shares and management

Börsvärde	1400 Mkr	
Antal utestående aktier	914 M	
Dagsomsättning (3 mån)	3,25 Mkr	
Free float	81%	
<b>Största aktieägare</b>	<b>Röster %</b>	<b>Kapital %</b>
Gatso Special products	18,02	18,02
Avanza pension	4,33	4,33
Per Wall	2,67	2,67
Ordförande	Claes Ödman	
VD	Ivo Mönnik	
CFO	Simon Mulder	
Nästa rapport	2020-11-26	

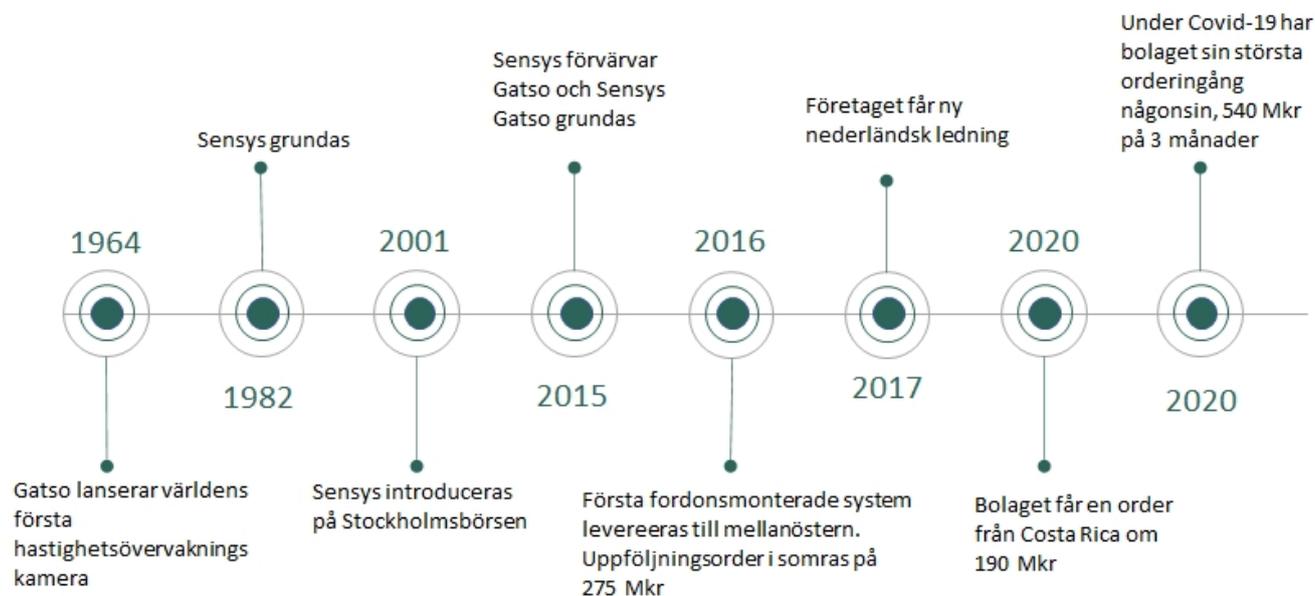
### Sensys Gatso, sales and operating profit



## Sensys Gatso's history

Sensys Gatso was created in 2015 when Swedish Sensys acquired Dutch Gatso. Both companies have a long history, and in 1958 Gatso launched the world's first external device for measuring vehicle speeds.

### Sensys Gatso historical timeline



However, the integration between the companies was relatively problematic, and after a strong 2015 there was a loss every year 2016-2019, resulting in very volatile revenue and share price. This led to a change of management in 2017, which appears to have had a positive impact on the business.

### Historical share price, Sensys Gatso



*In 2015, the share price rose 500% in 6 months, and then fell back over 85%. Large price fluctuations have been the norm.*

Dutch Gatso has traditionally focused mostly on software and recurring revenues. The new management is Dutch and has turned Sensys Gatso towards a revenue model more similar to the old Gatso's, with a greater focus on recurring revenue in the form of traffic as a service (TRaaS).

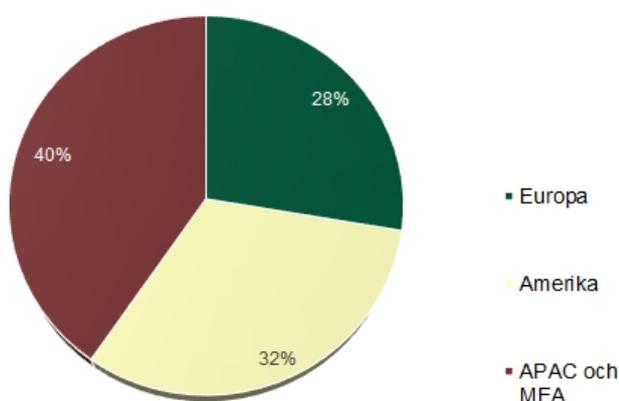
Due to the long sales cycles in road safety (often 1-3 years), it is not until now that it should be possible to see the impact of the efforts of the new management, and this is precisely what is happening. The order backlog is at a record high and TRaaS as a share of total revenue increased from 38% in 2018 to 57% in Q2 2020. The company's target is over 60% TRaaS revenues by 2025, and we believe that TRaaS will show strong growth in the future. We expect that the increasing share of recurring revenue will transform Sensys Gatso from a volatile business into a more stable company with a brighter future.

## Sensys Gatso's business

Sensys Gatso sells products and services in traffic safety to various government actors. Examples of its products are speed cameras and traffic lights. Sensys Gatso has also developed software that enables automation of the entire process of traffic violation fines. An example is that a speed camera photographs a person driving too fast, and the owner is identified using Sensys Gatso's software and the system then sends out a fine.

Sensys Gatso is today a global company with operations in Oceania, Europe, Asia, North America and Latin America. Its core market has historically been Europe, but we predict that the greatest growth will take place in America, where we believe the TraaS offering has the best potential. In total, the company has 255 employees in 7 countries and assignments have been completed in over 70 countries. Sales in H1 2020 were geographically distributed as below. It is worth pointing out that this distribution differs greatly from year to year.

### Sensys Gatso, geographical distribution of revenues



### Product range and business model

Sensys Gatso has a wide range of products, as seen in the table below.

Produkt	Exempel på användningsområde
Rödljussystem	
Stationära hastighetssystem	
Mobila hastighetssystem	Hastighetssystem monterade på bilar
Hastighetssystem för tunnlar	
Automatisk avläsning av registreringsskyltar	Automatiskt identifiera oförsäkrade fordon
Hastighetsvarningssystem	Digital skylt som visar när man kör för fort
Backoffice TRaaS	Mjukvara för integration av böter
Service	Underhåll, projektering

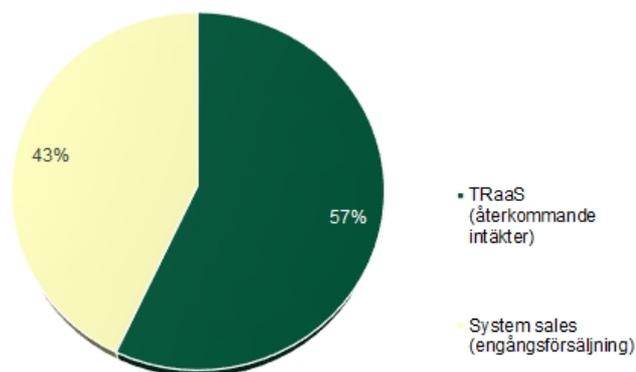
Källa: Sensys Gatso

The company's long history means that the systems have been developed over a long time and the company has a lot of know-how in the industry. Sensys's equipment is advanced and, for example, the individual speed of 32 separate vehicles can be monitored simultaneously with only one Sensys Gatso speed camera.

Different products can be sold as a bundle, as traffic light and speed monitoring often are, but all products including camera software can be sold separately. The software is also hardware diagnostic, which increases revenue opportunities. Sensys Gatso does not state the exact distribution between products, but speed systems make up a large proportion and this is also the case for the market as a whole.

Several of the products can be sold as either recurring revenues (TRaaS) or one-time sales. An example of one-time sales is the Saudi Arabian order from last summer of SEK 275m, through which Sensys Gatso will supply vehicle-mounted monitoring systems to the Saudi government. The revenue is received gradually during the time it takes to implement the solution (approximately 1 year in this case). However, even pure one-time sales usually result in some recurring revenue in the form of service and maintenance, and we also count on this for the Saudi order.

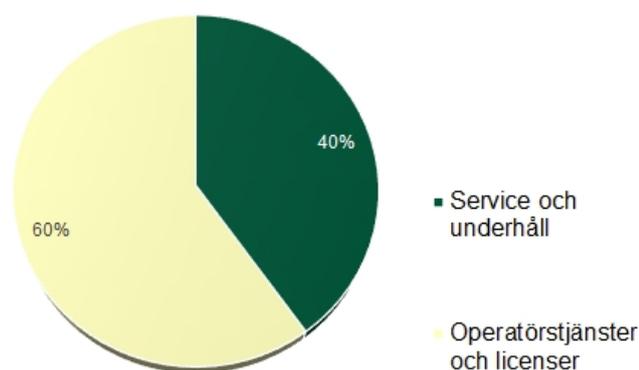
### Type of revenue, Sensys Gatso, H1 2020



Sensys Gatso delivers many different variants of TRaaS. This might be service, maintenance, automated fines or that Sensys Gatso receives a regular revenue per active speed camera. We divide these revenues into Service and Maintenance, and Managed Services.

Service and Maintenance, which often derives from maintenance linked to one-off orders, accounted for about 40% of TRaaS revenues in H1 2020.

### Fördelning av TRaaS-intäkterna, H1 2020



One of Sensys's fastest growing areas is speed monitoring in the USA, which is a typical managed service. A growing model in the US for managed services is that Sensys Gatso covers part or even all of the initial investment and then shares the fine revenue with the state.

The minimal cost to the state in these cases means a low financial barrier to implement the monitoring. Instead, the obstacles are the possible dissatisfaction of citizens with surveillance and fines, which politicians who want to be re-elected often listen to.

Sensys Gatso has a fully automatic system that can take care of traffic monitoring, registration of offenders and sending fines. Often the procedure is partly manual in that Sensys Gatso has a back office that, in the event of a traffic offense, checks out the vehicle and the driver so that fines can then be sent.

*Diagram of how Sensys's systems can work together to collect information about traffic offenses, analyze the information and send fines.*



We regard the fact that Sensys Gatso can be responsible for the entire value chain, and not just sell hardware like speed cameras, as one of the company's strengths compared to some of its competitors. Last but not least, TraaS makes the Sensys Gatso business model a very scalable one. The programs can tick over and generate revenue for a long time without any significant investment beyond the initial outlay.

### Long-term attitude

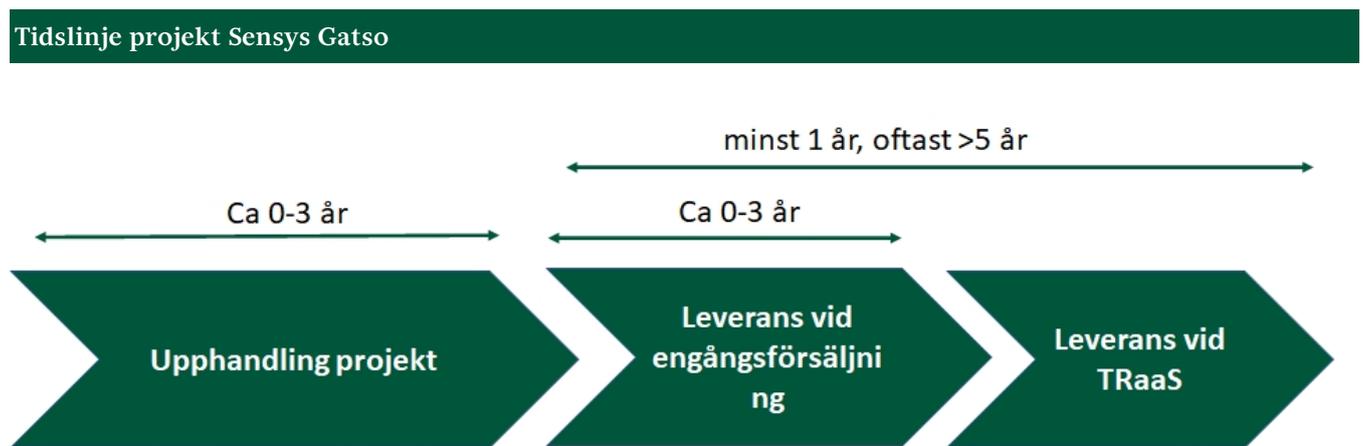
Sensys Gatso leaves the customer to decide where speed cameras should be located, and after implementation it is rarely Sensys Gatso itself that decides whether the offender should be fined. In general, it is up to the police to decide whether a fine should be imposed so that the government always has control of the fines. In about 99% of cases, however, the police proceed with a case, but Sensys Gatso sees it as important for integrity that it does not have the right to decide on government fines.

Integrity and honesty are two of Sensys Gatso's keywords, and this can also be seen in the organization. The priority is the long term which means, for example, that a project might fail to get off the ground because SensysGatso tells the local authority that it will not be profitable - even if Sensys Gatso would have made money from it. In the short term, this is negative, but the fact that Sensys Gatso achieves a lot of up-sales to existing customers indicates that its long-term attitude pays off through good customer relationships.

Furthermore, profitability is significantly better when selling to an existing customer. With new projects, the technology has to be integrated, new certifications must be obtained and the back office has to adjust. At this point, Sensys Gatso has had projects in 70 countries and the probability that future projects will take place in regions where Sensys Gatso has already had assignments will increase over time, paving the way for higher profitability. We see the long-term perspective as important and a probable factor as to why things have started to improve.

### Road safety projects

Below are the general lead times for the road safety market. Procurements are usually public, take a long time and set high specifications. However, the specifications differ greatly between different regions.



In general, there are 3-5 actors involved in each procurement, but there can be as many as 10. Furthermore, once the contract has been awarded other participants can challenge the decision in court, which can further delay the process.

As we understand the situation, it is important for the customer that the supplier has a long history and can show that they meet all the requirements and specifications. Considering that the end customers are governments, it is likely to be especially important that the whole procedure is correct, secure and uncomplicated. It is therefore less likely that anyone would take a chance on a new and unestablished player. We see this as a significant entry barrier.

Furthermore, price is a decisive factor, which means that there will probably never be very high margins through traditional one-time sales for Sensys. The TRaaS model, however, is a different matter and these margins could in theory be very high.

## Market analysis

### Addressable market

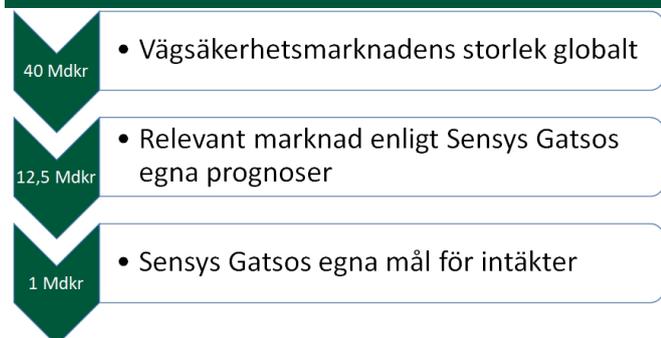
Sensys Gatso operates in a large and rapidly growing market. The global traffic safety market is worth approximately SEK 30 billion and is predicted by Markets and Markets to grow annually by 9% to SEK 40 billion in 2024. This SEK 40 billion includes parts that are not relevant to Sensys Gatso, such as median barriers for highways. Sensys Gatso itself estimates that its relevant market is approximately SEK 12.5 billion, which can be compared with the company's target of SEK 1 billion in sales in 2025.

### Market growth in the road safety market



Källa: Markets and markets

### Market size



Källa: Markets and markets

### Market background

About 1.4 million people die every year on the roads, according to the WHO, and another 20 million are seriously injured. Unlike many other causes of death, traffic accidents are common among young people. In the United States, for example, road traffic accidents are the most common cause of death for ages 1-19.

Countries have gradually intensified their focus on road safety around the world. The US, for example, has launched a goal of having no road fatalities by 2050. The way to achieve this and similar goals is, of course, largely through the purchase of solutions that monitor traffic. The cost of traffic accidents in most countries amounts to 3% of GDP annually. The willingness to pay should therefore be relatively high to solve this major global problem.

## Developing countries

We believe that one driver for the road safety market in the future will be developing countries. There is a significantly greater risk of dying in traffic in developing countries, while increasing numbers of people are expected to have access to cars in these regions.

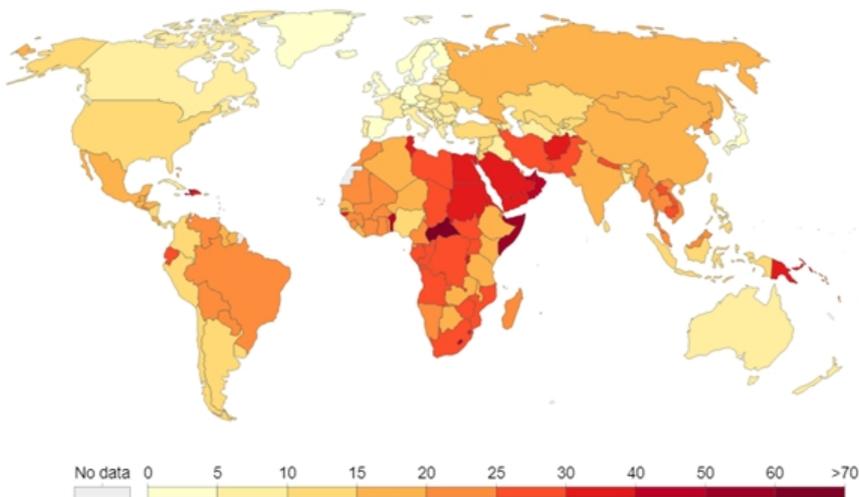
We predict that this combination means authorities will follow the Western world and start implementing more systems for road safety. For example, KBY Research estimates that Latin America, Africa and the Middle East (LAMEA) will grow by 13.3% per year until 2024, which is faster than the overall market.

## Number of deaths per capita worldwide

### Death rate from road accidents, 2017

The annual number of deaths from road accidents per 100,000 people.  
Deaths include those from drivers and passengers, motorcyclists, cyclists and pedestrians.

Our World  
in Data



Source: IHME, Global Burden of Disease (GBD)  
Note: To allow comparisons between countries and over time this metric is age-standardized.  
OurWorldinData.org/causes-of-death • CC BY

For Sensys Gatso, it is often easier to implement a TRaaS solution in countries that do not already have an established function for prosecuting and fining traffic offenders. In many developed countries, such as Sweden, there is already a centralized system for this and therefore demand is lower for some of Sensys Gatso's managed services.

The WHO has set a goal of halving the number of road deaths by 2030. Given that 93% of deaths globally occur in developing countries, this goal requires regions such as the Middle East and Latin America to increase their focus on road safety. We do not think it is a coincidence that Sensys Gatso has received large orders from countries such as Costa Rica and Saudi Arabia in recent years, and we believe this trend will continue.

## Differences between markets

The markets differ greatly between regions, which means different challenges and opportunities. In some countries, traffic monitoring is already very widespread and well-developed, which means that some of Sensys Gatso's services are not required. In other countries, cultural resistance is the biggest obstacle, such as in the United States where government surveillance is unpopular.

These large differences make regional knowledge and experience important, and are another factor that we believe benefits Sensys Gatso with its long global history. If a new global player were to be established tomorrow, it would probably lack the knowledge of regional differences needed to successfully operate its business.

## Regional market outlook for traffic safety

	Sverige	Nederländerna	Övriga Europa	Mellanöstern	Australien	USA
Typgodkännande	Ja	Ja	Ja	Nej	Ja	Nej
Grad av centralisering trafikbeslut	Centraliserat	Centraliserat	Varierande	Centraliserat	Decentraliserat	Decentraliserat
Leverantörer i projekt	1	2+	2+	2+	2+	2+
Genomdrivbarhet	Hög	Hög	Varierande	Medium	Medium	Varierande
Kulturell Acceptans	Hög	Hög	Varierande	Låg	Varierande	Låg

### Sensys regions and drivers

The variations are significant between different regions, but the primary driving forces we have identified for Sensys Gatso 's market are:

- Increased government revenue from traffic fines
- Reduced costs for hospital treatment and the like
- Reduced deaths and injuries

In the following section, we review the conditions and driving forces in some of Sensys Gatso 's most important regions.

#### **United States**

We see the United States as an important market for Sensys Gatso. A large proportion of the TRaaS contracts have been signed in the US and we also believe that many future TRaaS agreements will be concluded here. At present, Sensys Gatso has 34 TRaaS programs running in 11 different states.

The market is very decentralized and there are big differences between different states. Often it is even individual cities that decide on their traffic programs. Every year, the US Department of Transportation provides grants to cities working to improve road safety, which increases the incentives to implement Sensys Gatso solutions.

In the United States, 85% of TRaaS contracts have been renewed, which we see as a relatively good proportion given that the underlying contracts are about 1-10 years (normally 3-5). Sensys Gatso hopes to be able to take the US model of shared fine revenues to other regions on a large scale. We see this as very possible given the significant revenue that can be generated for customers while the initial cost is low.

#### TRaaS contracts in US

Delstat	Antal kontrakt
Kalifornien	1
Iowa	6
Illinois	9
Ohio	7
New York	2
Rhode Island	1
Pennsylvania	1
Maryland	2
Alabama	1
Florida	3
Georgia	1
<b>Total</b>	<b>34</b>

Sensys Gatso also hopes to be able to expand this model to application areas beyond speed monitoring. However, less gratifying news about new applications came on August 21 when Sensys Gatso decided to end its project in Oklahoma for automatically fining uninsured vehicles.

The Oklahoma project was the first fully automated program for fining uninsured vehicles in the United States, and we thought it could be the basis for orders from other states. We believe that the probability of this has now decreased. Even though sales from this program were only marginal compared to Sensys Gatso's annual turnover, the strategic impact may be greater.

The program itself was technically successful, but the problem was that the Oklahoma authorities did not use court proceedings to force fine recipients to pay. This meant that Sensys Gatso lost a large proportion of its revenues from the program. People who drive uninsured vehicles are probably less likely to follow rules and we speculate that they are also less likely to pay government fines than the average driver. The pattern risks repeating itself in other states that implement this model for monitoring uninsured vehicles.

The Oklahoma debacle is a reminder of the unpredictable and varied circumstances surrounding the programs in the United States. Although we see it as less likely that this business model will pick up speed now, we certainly do not see it as out of the question given that the only ingredient missing was the state of Oklahoma forcing people to pay their fines. The program itself seems to have worked, and uninsured vehicles are a major problem in the United States.

### Up-selling in the United States

The biggest obstacle to Sensys Gatso's solutions is public dissatisfaction with being monitored and fined. This makes the political aspect important.

Opposition to traffic surveillance in the important US market is particularly widespread in Republican states, where government surveillance is often very unpopular. However, one segment that has low resistance to traffic monitoring, regardless of politics, is speed monitoring close to schools. Public acceptance to prevent speeding around children is generally significantly higher than in the rest of society.

Sensys Gatso sees speed monitoring at schools as a bridgehead for continued expansion in existing and new states. The method has so far not led to additional sales in any state, but the marketing processes are relatively long and speed monitoring outside schools is a relatively new segment for Sensys Gatso. We therefore do not think that too many conclusions should be drawn from the fact that up-selling has not been successful so far, and we think it is reasonable for monitoring at schools to be regarded as a successful path into some states.

Something that indicates that the strategy will work in the long run is that the principle of up-selling in states has worked in the past. In Ohio, for example, Sensys Gatso currently has 7 programs running and in Illinois as many as 9 programs.



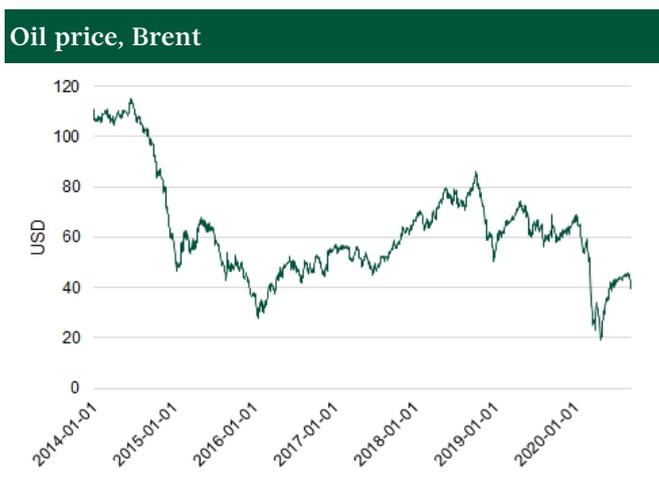
- Merförsäljning tror vi är en nyckelfaktor framöver
- Trafikövervakning vid skolor har hög acceptans från allmänheten och kan vara en väg in i stater

We believe that up-selling to US states will continue as states realize that they have implemented solutions that save lives and generate tax revenue. The threshold for expanding traffic monitoring in states that are already Sensys Gatso customers should be clearly lower than for implementing the solution from scratch. Furthermore, up-selling is often more profitable than new sales, which means that we see up-selling as an important ingredient in the future success of Sensys Gatso.

### Saudi Arabia and the Middle East

Saudi Arabia is one of the world's worst affected countries in terms of per capita traffic fatalities. The large number of traffic deaths combined with Saudi Arabia being a very rich nation have probably contributed to the country being one of Sensys Gatso's largest customers today. Sensys Gatso's single largest order came from Saudi Arabia this summer, with a value of SEK 275 million.

Saudi Arabia is entirely dependent on oil prices, and we have therefore analyzed the connection between the oil price and Saudi Arabia's investments in Sensys Gatso products. There are too few data points to draw clear conclusions, but it is worth noting that investments seem to increase when oil prices are low. Two record years for order intake in the Middle East are 2015 and 2020, which are also the two worst years for oil prices in the last decade, with falls of over 50%.



The reasoning behind this, we believe, is that Saudi Arabia wants to stimulate the economy when oil revenues dry up. Furthermore, the government can probably also see increased traffic monitoring as an investment through fine revenues and reduced costs from traffic accidents. Considering that traffic accidents cost Saudi Arabia almost SEK 50 billion in 2016, we see this as a very probable reason.

### Latin America

One region that we believe will contribute to Sensys Gatso's future growth is Latin America. The journey has already begun, with orders from Colombia last year of approximately SEK 20 million, and from Costa Rica this year of SEK 190 million.

A lot can be done for road safety in this region where, for example, only 50-70% of people wear a seat belt and the fatality rate is about 5 times higher than in Sweden. We believe that Latin America will work in the coming years to reduce the gap with more economically developed countries.

Many of the Latin American countries have increased their level of ambition and set strategies and goals to reduce traffic deaths. Some of the goals are shown below.

### Strategies and targets, traffic fatalities in Latin America

Land	Tidsperiod	Mål
Colombia	2013-2021	Minska dödsfall i trafiken med 26 %
Costa Rica	2015-2020	Minska dödsfall i trafiken med 20 %
Cuba	2009-2024	Dödligheten ska vara under 5 per 100 000 invånare
Ecuador	2015-2020	Minska dödligheten med 40 %
Mexico	2011-2020	Minska dödsfall i trafiken med 50 %
Uruguay	2011-2020	Minska dödsfall i trafiken med 50 %

Sensys Gatso has not previously had a strong presence in Latin America, but we believe that the orders from Costa Rica and Colombia are the starting point for this to change.

### Europe

Europe is Sensys Gatso's original market and the region where the company has traditionally had the most sales. For example, the Swedish Transport Administration is a repeat customer. Europe is generally a relatively well-developed market in road safety and we do not believe that this is where the greatest growth will take place for Sensys Gatso, but it is an important foundation. We believe that the TRaaS model in particular, with shared fine revenues, will be difficult to implement here as the systems for traffic monitoring are already so well developed.

On the other hand, one segment that has the potential to show growth in Europe is environmental action, an area where parts of Europe are world leaders. In Amsterdam, for example, Sensys Gatso created a tailor-made solution for monitoring environmentally hazardous vehicles. With the help of its software, Sensys Gatso was able to register environmentally hazardous trucks and fine them if they were within an environmental zone established by the municipality of Amsterdam. This is just one example of a possible application area for Sensys Gatso in the future, with environmental and air pollution.



Övervakning dagligen av 38 infarter  
och upp till 1 miljon fordon i amsterdams  
miljözon visar Sensys höga tekniska kompetens

Considering that about 1 million vehicles travel in the zone daily, the project shows Sensys Gatso's high level of technical expertise and flexibility for projects.

### Market position and competitors

Sensys Gatso describes itself as 'the leading provider of traffic safety solutions, software and services primarily for automated traffic management globally'. The market is very fragmented and many of the players are not uniquely specialized in road safety.

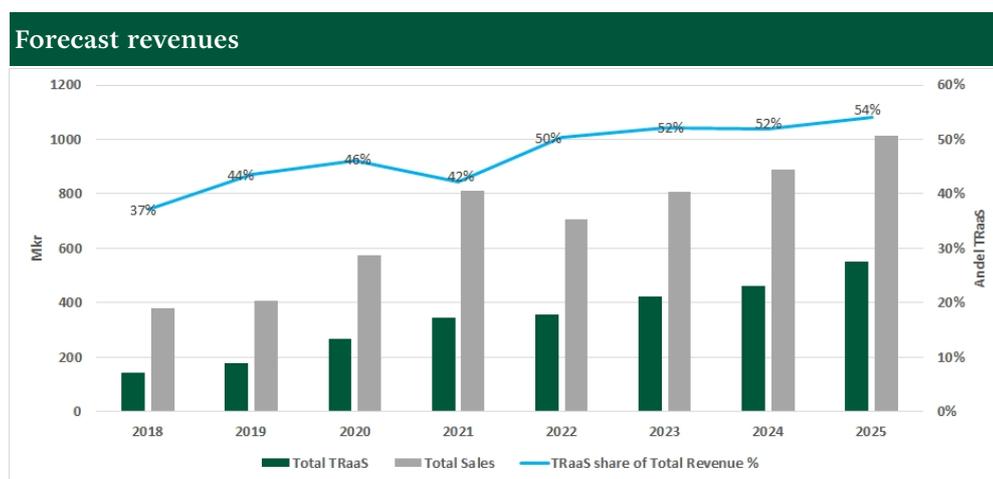
Companies that, like Sensys Gatso, are global and mainly focus on road safety include RedLex (Australia), Kapsch Trafficom (Austria) and Verra Mobility (USA). In addition, companies such as Jenoptik (Germany) and Vitronic (Germany) are also competitors because their products include speed cameras, for example. The competition in the market is intense, but one factor that distinguishes Sensys from others is that the company is able to offer the entire value chain, including traffic cameras, back office and software. Many competitors only offer speed cameras, for example. We already see the market as mature and the threat of new disruptive competition is rather low.

## Financial forecast

We believe that the company will show strong growth in the future, and we have made the following assumptions:

- Returns to profit no later than next year, probably this year due to shipments from the large order backlog. Order intake in May-August alone was higher than the entire 2019 turnover, and will now start generating revenues
- More stability in the company's orders and revenues due to TRaaS
- Margins will gradually improve according to the logic of the SaaS model, with large investments in the beginning and then good long-term margins on revenues
- Long-term EBITDA margin of almost 20%, compared with 7% today
- TRaaS in United States will be a strong growth factor. We expect almost 25% CAGR for TRaaS in 2019-2025, driven primarily by the US and today's strong order book
- We estimate that sales will end up at just over SEK 1 billion in 2025, with 54% from TRaaS revenues. A key factor in achieving the strong growth is that contract terminations continue to be kept at today's low level, which we believe they will. We believe that governments will place greater value on the benefits of increased revenues and saved lives over the downside of the systems
- The coming year's profits also have a tailwind of financial factors. The company will reduce impairment of customer contracts by SEK 14 million annually, and it has deferred unutilized tax loss carryforwards of SEK 150 million

We estimate that TRaaS will account for 54% of revenues, which is slightly lower than the company's forecast of 60%. The reason is the setback for automatic number plate recognition in Oklahoma and that we look marginally more conservatively on the growth rate. Furthermore, we believe that non-recurring sales will be better than Sensys Gatso expects, which means that TRaaS revenues as a share of the total will decrease.



We believe that the share of managed services will grow faster than Service as a share of TRaaS revenues, to 75% from the current 60%. This assumption is based on the fact that managed service revenues from America will grow faster than Sensys Gatso's non-recurring revenues, and service revenues arise mainly as additional orders from the non-recurring revenues.

We anticipate that one-time sales from System Sales will grow 12% annually from 2019 to 2025, which is slightly faster than the market as a whole. This summer's large one-off orders give us higher confidence in this assumption.

### Termination rate

The termination rate of TRaaS contracts will be a key factor for Sensys Gatso's growth journey, and we believe that the rate will be kept low. We expect the parts of TRaaS contracts that relate to service and maintenance to have a very low proportion of terminations. A large percentage of this revenue comes from maintaining equipment that Sensys Gatso has sold. We therefore see few realistic reasons why customers would want to engage a new provider to maintain Sensys Gatso equipment.

TRaaS revenues from managed services are likely to be at greater risk of being lost. But even here, the proportion of contracts lost is very low. In the US, 85% renew their contracts and given that these run for 1-10 years (normally 3-5 years), the proportion of contracts lost annually should be well below 10%. This assumption is based on renewing every three years, making the proportion of lost contracts only 5% (15% terminations every three years is about 5% annually).

Since a large part of the cost is taken at the beginning of these projects, the early years are less profitable and terminated contracts hit the profit hard. Assuming that the annual termination rate is only 5%, Sensys Gatso needs approximately SEK 95 million in new annual revenues from TRaaS to reach just under SEK 600 million in TRaaS revenues in 2025. This is our main scenario.

If, on the other hand, we were to increase the annual termination rate to 15%, annual new TRaaS revenues would need to increase from SEK 95 million to as much as SEK 155 million. Keeping the termination rate down is a key factor for Sensys Gatso to succeed in its ambitions. Below is a sensitivity analysis that shows how the termination rate affects the TRaaS value in 2025 at SEK 95 million in annual new revenue from TRaaS.

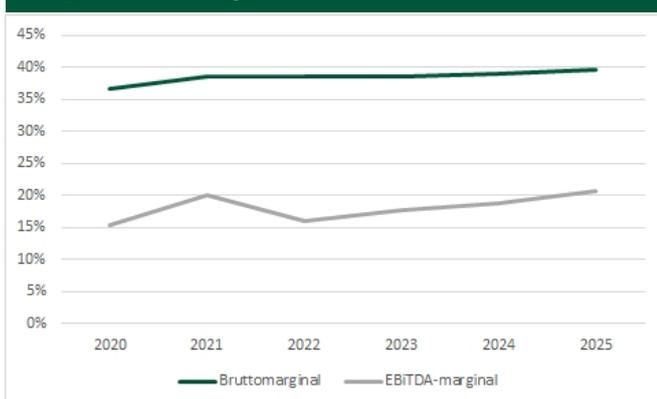
### Sales from TRaaS, according to termination rate of TRaaS contracts

Uppsägningsandel	2020	2021	2022	2023	2024	2025
5%	235	314	388	459	527	590
10%	235	297	353	403	448	489
15%	235	281	319	352	380	404

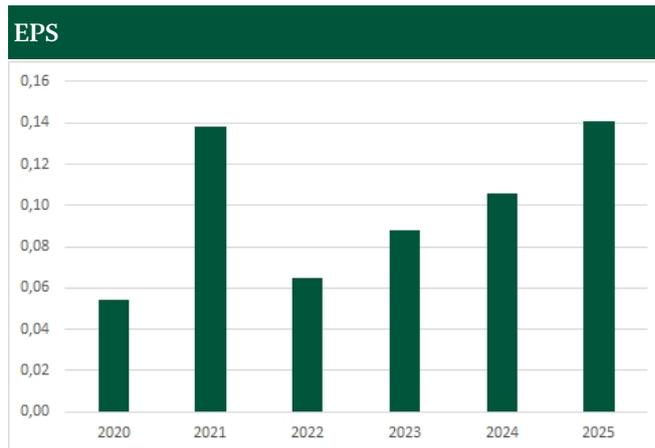
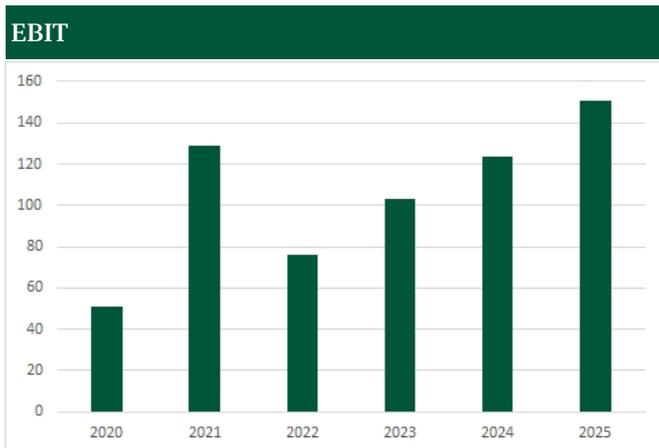
### Margins and profits

We believe that the margins will gradually improve as the costs for implementation of TRaaS are taken at the beginning of the projects while revenues are generated throughout the contract. This, combined with an increased share of TRaaS revenues will, we think, lead to a gross margin of over 40% and an EBITDA margin of approximately 19% in 2025.

### Sensys Gatso margins



We expect that 2020 will show a slight profit, driven by the fact that the summer's large order backlog will begin to be delivered H2 2020, and that 2021 will be a good year as the rest of the orders are delivered.



### Financial benefits next year

In addition to its large order book, Sensys Gatso will have two financial factors that will improve its profit in 2021. Since the acquisition of Gatso, Sensys Gatso has written down acquired customer contracts that in 2019 burdened earnings by SEK 14 million. Although SEK 14 million is not a particularly large proportion of sales, it will have a noticeable impact on the bottom line, which in 2019 was SEK -13 million.

At the end of 2020, only SEK 10 million remained in the book value of customer contracts, and we expect that these will in principle be fully written down in 2020. This means that in 2021 the net profit will increase by approximately SEK 14 million compared with 2019, all else equal.

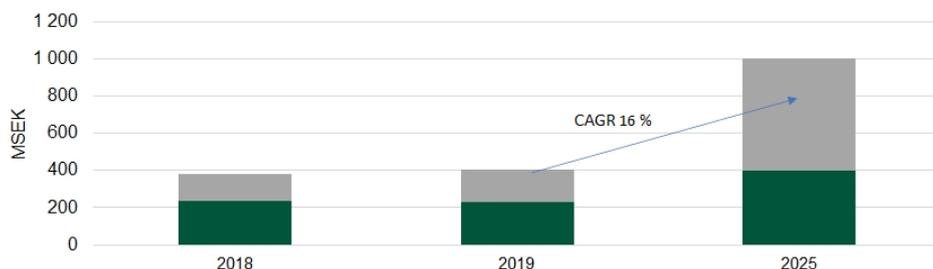
Furthermore, Sensys Gatso has accumulated significant deferred unutilized tax loss carryforwards over the years that it will be able to use in 2021 (and also in Q3 and Q4 2020 according to our forecasts). Sensys Gatso could make a profit of approximately SEK 150 million without having to pay tax. This means that a large part of EBIT next year will be profit after tax.

The above two factors, in combination with the large order book that will be delivered in 2021, lay the ground for the significant profit we expect next year.

### Sensys's own financial targets

Earlier this year, Sensys Gatso set a goal of having SEK 1 billion in sales by 2025, of which TRaaS will account for at least 60%. This can be compared with sales in 2019 of SEK 400 million, with 44% from TRaaS. The targets are ambitious, but we expect that Sensys Gatso's sales in 2025 will be around these target levels.

## Sensys Gatso finansiella mål



To achieve these targets, Sensys Gatso needs to grow at CAGR 16%. The company expects that most of the growth will come from TRaaS (approximately 25% annually). Assuming that the market will grow by 9.3% during the period and that Sensys Gatso has had a very good start, we see this target as clearly feasible. We assess the management's communication as transparent and realistic overall, which leads us to believe that they themselves have confidence they will achieve the targets. Our forecasts are slightly higher for System Sales and slightly lower for TRaaS, as we detailed above.

### Covid-19

Covid-19 is having relatively little impact on Sensys Gatso, as seen by the record-breaking order intake in the middle of the pandemic. Road safety solutions have nothing to do with the economy and are a long-term investment. Furthermore, the pandemic has increased the importance of not bringing in victims of traffic accidents to already congested hospitals.

However, there is a certain impact from Covid-19 on the company's profits. Sensys Gatso's speed cameras beside schools in the United States operate only when the schools are open, and in several areas these are closed for the foreseeable future. We expect the effect to be quite small, approximately SEK 5 million per quarter or 3-5% of sales, but these are systems that have already been installed and that provide pure revenues, which means this affects Sensys Gatso's margin in the short term. However, schools are opening up again and we regard any impact as temporary and small, and note that the company is affected to only a very small extent by Covid-19.

Another possible effect of Covid-19 is that infrastructure investments will increase. Right now, central banks are pushing monetary policy, but if this eventually fails to bite or if inflation rises, then fiscal policy will be the next step. Sensys Gatso's solutions are part of infrastructure investments, and the company would benefit from a scenario of greater fiscal stimulus.

## Valuation

### DCF valuation

We see a fair value of SEK 2.2, which means about 45% upside from today.

DCF-värdering Sensys Gatso	
WACC	10%
PV FCF	423,1
Terminal value	1713
Nettoskuld	-5
Totalt värde	2131
Antal aktier	914
Värde per aktie	2,33
Uppsida	55%

- The company is clearly valued lower than its historical average, while we believe the future will be brighter. According to our forecasts, the P/E for 2021 is currently 10
- An increased share of recurring revenue will create scope for a higher valuation
- Marginally impacted by Covid-19
- Potential for an ESG case given that Sensys Gatso's solutions reduce air pollution and emissions, and save lives
- More stable revenues should lead to a more stable share price and generate interest from institutional investors. Accordingly, multiple institutional investors participated in the latest rights issue
- The risks are judged to consist mainly of the recent upswing being temporary, as similar episodes have been historically. We believe this is not the case
- Sensys Gatso operates in a cyclically insensitive market with approximately 10% in CAGR
- Required rate of return (WACC) reduced from 12% to 10%

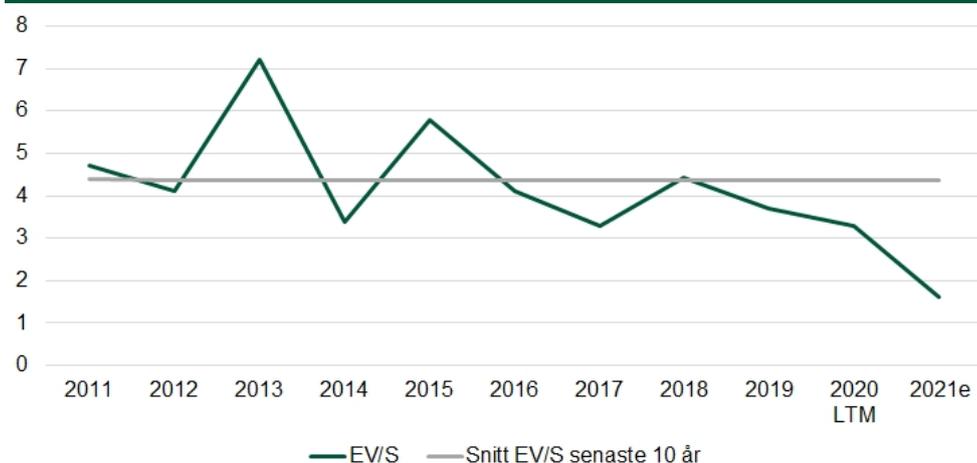
Given Sensys Gatso's more stable operations, we have chosen to reduce the WACC from 12% to 10%. The table below shows the impact of different WACCs on our valuation. Since Sensys Gatso has relatively few profits in the near future, a change in WACC has a big impact on the company's valuation.

Sensitivity analysis, required rate of return (WACC)					
WACC	8%	9%	10%	11%	12%
Värdering	2,79	2,4	2,2	2,0	1,8

### Historical valuation

Sensys Gatso has a low valuation in terms of its historical average. The average for EV/sales over the past 10 years is 4.4, but on our 2021 estimates this number is only 1.6. We see no reasonable explanation for this discrepancy given that we regard Sensys Gatso as a better company today, with more stable and faster growing revenues.

## Historical valuation, EV/sales



Furthermore, we believe that the market does not fully understand the turnaround that is taking place at Sensys Gatso. Unless you dig deep, the most striking thing about Sensys Gatso is probably the negative profits in recent years. We therefore believe that an upward revaluation will take place as the positive net profits start to roll in, possibly as early as in Q3 this year.

Our forecast period runs until 2025, and after that we expect 2% in terminal growth rate. The implicit valuation for 2023 is EV/EBITDA 9.7 and EV/sales 1.7.

## Forecast valuation

	2020	2021	2022	2023	2024	2025
EV/Sales	2,4	1,6	1,9	1,7	1,5	1,3
EV/EBITDA	13,7	8,1	12,2	9,7	8,4	6,8

## Peer valuation

Below is a selection of companies similar to Sensys Gatso. Verramobility, ReLex and Kapsch are most similar, while Jenoptik is active in several different industries.

One conclusion we draw is that Sensys Gatso is expected to grow faster than its peers in the next few years. The valuation on EV/EBITDA 2022 is also slightly higher, which we think is fully justified given TRaaS and the high growth rate.

## Sensys Gatso, peer table

Compa	Market Cap	Mdcr	EV/EBIT 2020e	EV/EBIT 2021e	EV/EBIT 2022e	EV/Sales 2020e	EV/Sales 2021e	EV/Sales 2022e
Sensys	€ 1,4		38,0	9,5	13,5	2,4	1,6	1,6
Jenoptik	0,5		10,60x	11,97x	8,97x	1,66x	1,70x	1,45x
Median	18		12,49x	11,54x	8,24x	0,61x	3,38x	2,83x
Verra Mobility A			12,49x	15,37x	10,98x	5,42x	6,30x	5,22x
Redflex			3,37x	-	-	0,61x	-	-
Kapsch TrafficCom			32,65x	7,71x	5,51x	0,48x	0,47x	0,43x

Källa: Factset

## Sensys Gatso, peer table

Företag	EBITDA-marginal 2020e	EBITDA-marginal 2021	EBITDA-marginal 2022
Sensys Gatso	14%	20%	16%
Jenoptik	15,7%	14,2%	16,2%
Median	18,2%	23,5%	27,7%
Verra Mobility A	43,4%	41,0%	47,6%
Redflex	18,2%	-	-
Kapsch TrafficCom	1,5%	6,1%	7,8%

Källa:Factset

## Share price triggers

We believe the share price triggers going forward will be:

- Turning to profit, probably this year but no later than next year according to our estimates
- That the summer trend continues and a major one-off order is received

## Risks

Sensys Gatso is supported by multiple legs in terms of both products and geographies, which reduces the risk. Furthermore, the company is cyclically insensitive and has managed the crisis from Covid-19 with flying colors. But the following are risks:

- It turns out that the upswing in the order book is temporary

Sensys Gatso has a history of short periods with large orders and then falling back to low activity. There is of course the risk that this is still the case. However, the recurring revenues and the new management that we think have successfully turned the company around should counter this.

- US market turns

We see the United States as an important factor in the continued growth of the key TRaaS business. The loss of the contract in Oklahoma is an example of how the journey across the Atlantic is not straightforward. But even here, Sensys Gatso can rely on multiple supports from programs in 11 different states. This reduces the risk of Sensys Gatso generally starting to underperform in the US.

- TRaaS contracts lost

As we have previously detailed, a large contract termination rate would have a big impact on Sensys. The costs are mainly taken at the beginning of a contract, while the revenues are intended to run over many years.

## Shareholders, management, board

Sensys Gatso's shareholder structure is rather fragmented. Aside from Gatso's founding family, the Gatsonides, there are no owners with more than 5%, and major institutional shareholders are conspicuous by their absence. However, the situation has improved somewhat following the latest rights issue.

Ägare	Antal aktier	Värde (MSEK)	Kapital	Röster	Land
Gatso Special Products B.V.	155 000 000	255,44	18,02%	18,02%	Nederländerna
Avanza Pension	37 226 447	61,35	4,33%	4,33%	Sverige
Per Wall	23 000 000	37,90	2,67%	2,67%	Sverige
Inger Bergstrand	20 659 837	34,05	2,40%	2,40%	Sverige
Nordnet Pensionsförsäkring	16 395 651	27,02	1,91%	1,91%	Sverige
AXA	9 138 050	15,06	1,06%	1,06%	Frankrike
Swedbank Försäkring	8 356 765	13,77	0,97%	0,97%	Sverige
Livförsäkringsbolaget Skandia	6 514 434	10,74	0,76%	0,76%	Sverige
Futur Pension	5 886 098	9,70	0,68%	0,68%	Sverige
Dimensional Fund Advisors	5 844 465	9,63	0,68%	0,68%	USA
Hans Edvin Ståhlgren	5530000	9,11	0,64%	0,64%	Sverige

Källa: Holdings

Insider ownership is relatively modest apart from the Gatsonides family, who are represented in the company in the form of the CTO and the Dutch MD.

Ägare	Insynsperson	Insiderägande			
		Befattning	Värde Aktie kr	Kapital	Röster
Gatso Special Products B.V.	Niki Gatsonides	Annan Befattning	254 200 000	18,02%	18,02%
Ivo Mönnink	Ivo Mönnink	VD	2 324 889	0,16%	0,16%
Claes Ödman	Claes Ödman	Styrelseordförande	773 782	0,05%	0,05%
Pia Hofstedt	Pia Hofstedt	Styrelseledamot	574 013	0,04%	0,04%
Kerstin Sjöstrand	Kerstin Sjöstrand	Styrelseledamot	269 226	0,02%	0,02%
Simon Mulder	Simon Mulder	Annan Befattning	196 800	0,01%	0,01%
Jochem Garritsen	Jochem Garritsen	Styrelseledamot	180 633	0,01%	0,01%
Christina Hallin	Christina Hallin	Styrelseledamot	86 100	0,01%	0,01%
Joris Lampe	Joris Lampe	Annan Befattning	41 000	0,00%	0,00%
Nishant Batra	Nishant Batra	Styrelseledamot	0	0,00%	0,00%
Gatso Special Products B.V.	Gatso Special Products B.V.	Annan Befattning	0	0,00%	0,00%

Källa: Holdings

In August this year, the Gatsonides family completed a large divestment of SEK 12.3 million. However, we do not think one should draw any conclusions from this because the family had a loan to Sensys Gatso which they chose to convert into shares. They therefore sold approximately the same number of shares in order not to increase their net holding, and the signal value of the sale is therefore minimal. We rather think that insider trading has been relatively positive in the past year since as many as 6 different people have made insider purchases, albeit for small amounts.

Insynshandel senaste året	
Antal köpare	6
Antal säljare	1
Värde köp	0,88 MSEK
Värde sälj	12,3 MSEK
Värde sälj exkluderat konverterade aktier	0
<b>Netto</b>	<b>-11,42 MSEK</b>
<b>Netto exkluderat konverterade aktier</b>	<b>+0,88 MSEK</b>

Källa: Holdings

## **Board and management**

The board is based in Jönköping, while the management is based in the Netherlands

We like the CEO's focus on the long-term rather than on short-term profits, and how he has apparently cleaned up the problems that arose from the integration between Sensys and Gatso in 2015. We believe his guiding words of integrity, transparency and honesty are appropriate for leading such as diverse organization as Sensys Gatso.

### **Board**

Chairman of the Board: Claes Ödman. Director since 2011, Chairman since 2016. MSc Engineering and MBA in Technical Physics from Chalmers University in Gothenburg. Has previously held various management positions at Ericsson in Southeast Asia.

### **Kerstin Sjöstrand**

Director since 2016. MSc in Economics from Stockholm University. Worked for a long time at SEB as, among other things, CFO at division level.

### **Pia Hofstedt**

Director since 2016. MSc in Economics from Stockholm University and Management Training from Dale Carnegie. Has extensive experience as a CIO from multiple industries and was CEO of NeoNet Technology.

### **Christina Hallin**

Director since 2019. MSc Engineering from Chalmers University. Has held multiple senior positions at Volvo Group, including Vice President Market India.

### **Jochem Garritsen**

Director since 2015. MSc Systems Engineering, Policy Analysis and Management from University of Delft. Has worked in the telecom industry since 1999 and has held multiple senior positions as sales and area manager.

### **Nishant Batra**

Director since 2020. MBA from Insead and MSc Telecommunications and IT from Southern Methodist University in Dallas. Has held senior positions for Ericsson and works as CTO at Veoneer.

## **Management**

### **Ivo Mönnink - CEO**

CEO since 2017. Formerly CEO HITECHITEC Power Protection Holding B.V., FERM Holding B.V and Besin International (now Smurfit Kappa Hexacomb). Started his international career with commercial roles at Nike and Unilever. Holds a Master's Degree in Business Economics from Erasmus University Rotterdam

### **Simon Mulder - CFO**

Finance Director of Sensys Netherlands since 2016 and CFO of entire Sensys Gatso since 2018. Post Master Accountancy and former Senior Audit Manager at BDO.

### **Timo Gatsonides - CTO**

Employed since 2015 and educated in Computer Science. Started working at old Gatso as early as 1995 and is former CEO of the company.

### **Joris Lampe - CCO**

Msc Science and Business Administration from Twente University. Has worked as an account manager at Lucent Technologies, sales manager at Nedap and as CEO at Itron Nederland.

### **ESG Analysis**

Sensys Gatso's speed and traffic light monitoring systems can prevent road traffic accidents and save lives. Sensys Gatso has committed itself to the ten principles of the UN Global Compact. The company's operations are primarily focused on the UN's 2030 Sustainable Development Goal number 11, Sustainable Cities and Communities.

### **Environment**

Sensys Gatso's systems help to reduce greenhouse gas emissions by slowing down vehicles and providing a smoother traffic flow. In a number of countries, the company collaborates with authorities and schools to monitor and register vehicles within certain zones to create quieter, safer and cleaner environments. Sensys Gatso complies with both the WEEE Directive on waste electronic equipment and the RoHS Directive on the use of hazardous substances. For the subsidiary in the Netherlands where production takes place, annual KPIs are calculated for the consumption of water, energy and gas, and for CO<sub>2</sub> emissions. These CPIs have shown a decline since 2012. Deliveries are made by air freight or by truck. At present, the company does not measure the environmental risks of its freight.

### **Social**

Sensys Gatso works with authorities in many different countries to reduce traffic problems. The company also has contact with most multilateral organizations and has participated in the UUECE, AfDB, IFR, RS5C (VTI), and ARSC (Asean Road Safety Centre) conferences. In 2019, Sensys Gatso's Director of Government Affairs in Bulgaria made a presentation to the IRF 2nd International Road Safety & Innovation Forum and to the IRF Transport Connectivity Forum.

### **Governance**

The company's code of conduct sets out Sensys Gatso's position on issues relating to human rights, human resources, the environment, business ethics and communication. The company has an equality policy and strives to achieve the best possible age, gender and ethnic distribution. Since 2008, there has been a policy that addresses issues of bribery, corruption and public affairs. The company has a whistleblower policy that enables employees to report specific instances or events anonymously to the chairman of the board. The elected board in 2020 consisted of three women and three men.

## Income statement

Income statement								
	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E
<b>Net Income</b>	<b>437</b>	<b>293</b>	<b>380</b>	<b>406</b>	<b>455</b>	<b>811</b>	<b>813</b>	<b>816</b>
Other revenue	0	0	0	0	0	0	0	0
Cost goods sold	-269	-177	-219	-261	-294	-502	-508	-507
Gross profit	168	116	162	145	161	309	305	309
Selling expenses	-86	-84	-75	-81	-72	-76	-86	-90
Administrative expenses	-44	-40	-39	-41	-48	-50	-57	-59
Research and development	-51	-47	-46	-48	-34	-43	-44	-46
Other expenses	11	0	-1	1	0	0	0	0
<b>EBITDA</b>	<b>46</b>	<b>-16</b>	<b>38</b>	<b>29</b>	<b>59</b>	<b>177</b>	<b>159</b>	<b>158</b>
Depreciation and amortization	-49	-39	-37	-53	-49	-38	-41	-44
<b>EBIT</b>	<b>-2</b>	<b>-55</b>	<b>1</b>	<b>-24</b>	<b>11</b>	<b>140</b>	<b>118</b>	<b>114</b>
Extraordinary items	0	0	0	0	0	0	0	0
<b>Adjusted EBIT</b>	<b>-2</b>	<b>-55</b>	<b>1</b>	<b>-24</b>	<b>11</b>	<b>140</b>	<b>118</b>	<b>114</b>
Financial income	0	0	0	0	0	0	0	0
Financial expenses	-7	-11	-2	-3	-8	-2	-2	0
<b>Profit before taxes</b>	<b>-9</b>	<b>-65</b>	<b>-1</b>	<b>-28</b>	<b>3</b>	<b>138</b>	<b>117</b>	<b>114</b>
Taxes	6	3	-1	12	2	20	26	25
Minority interests	2	4	1	2	2	2	2	0
<b>Net income</b>	<b>-1</b>	<b>-58</b>	<b>-2</b>	<b>-13</b>	<b>4</b>	<b>116</b>	<b>92</b>	<b>89</b>
<b>Net income adjusted</b>	<b>-1</b>	<b>-58</b>	<b>-2</b>	<b>-13</b>	<b>4</b>	<b>116</b>	<b>92</b>	<b>89</b>

## Balance sheet

Balance sheet								
	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
<b>Assets</b>								
Goodwill	243	243	251	257	242	242	242	242
Other immaterial assets	111	86	69	53	47	36	28	24
Property plant and equipment	95	74	43	101	86	110	130	150
Deferred tax asseets	0	0	38	45	40	25	15	10
<b>Sum non current assets</b>	<b>449</b>	<b>404</b>	<b>401</b>	<b>456</b>	<b>416</b>	<b>413</b>	<b>415</b>	<b>426</b>
Inventories	47	64	72	97	140	313	173	175
Receivables	63	71	57	76	65	57	57	57
Other current assets	19	27	26	26	35	60	60	60
Cash	32	59	77	52	109	6	217	404
<b>Sum current assets</b>	<b>160</b>	<b>221</b>	<b>231</b>	<b>251</b>	<b>348</b>	<b>437</b>	<b>507</b>	<b>696</b>
<b>Sum assets</b>	<b>609</b>	<b>624</b>	<b>632</b>	<b>708</b>	<b>764</b>	<b>850</b>	<b>922</b>	<b>1 122</b>
<b>Equity and liabilities</b>								
Equity	387	420	454	449	515	624	686	887
Minority interests	0	0	0	0	0	0	0	0
<b>Sum equity</b>	<b>387</b>	<b>420</b>	<b>454</b>	<b>449</b>	<b>511</b>	<b>624</b>	<b>686</b>	<b>887</b>
Non current liabilities	62	56	49	62	56	62	62	60
Pension liabilities	0	0	0	0	0	0	0	0
Deferred tax liabilities	0	30	19	10	5	10	10	10
Other non current liabilities	0	45	45	45	10	45	45	40
<b>Sum non current liabilities</b>	<b>62</b>	<b>131</b>	<b>112</b>	<b>117</b>	<b>71</b>	<b>117</b>	<b>117</b>	<b>110</b>
Short term liabilities	41	26	10	10	62	10	10	10
Trade payables	21	31	28	48	60	70	80	95
Tax liabilities	0	0	17	17	5	17	17	10
Other liabilities	14	17	11	67	57	12	12	10
<b>Sum current liabilities</b>	<b>76</b>	<b>73</b>	<b>66</b>	<b>143</b>	<b>184</b>	<b>109</b>	<b>119</b>	<b>125</b>
<b>Sum equity and liabilities</b>	<b>525</b>	<b>624</b>	<b>632</b>	<b>708</b>	<b>764</b>	<b>850</b>	<b>922</b>	<b>1122</b>

## Cash flow

Cash flow								
	2 016	2 017	2 018	2 019	2 020	2 021	2 022	2 023
EBIT	-2	-55	1	-24	11	140	118	114
Items not affecting cash flow	4	41	34	56	49	38	41	44
Financial items	-7	-11	-2	-3	-4	-2	-2	0
Taxes	6	3	-1	12	2	20	26	25
Changes in working capital	87	-26	15	-36	-42	0	0	0
<b>Cash flow from operations</b>	<b>88</b>	<b>-39</b>	<b>49</b>	<b>-4</b>	<b>15</b>	<b>177</b>	<b>159</b>	<b>158</b>
Investments	-19	-13	-21	-45	-33	-32	-33	-33
Divestments	0	0	0	0	0	0	0	0
<b>Free cashflow</b>	<b>70</b>	<b>-52</b>	<b>28</b>	<b>-49</b>	<b>-18</b>	<b>145</b>	<b>127</b>	<b>125</b>
Dividends	0	0	0	0	0	0	0	100
Share issues	0	87	18	0	71	0	0	0
Aquisitions	0	0	0	0	0	0	0	0
Borrowings and other adjustments	-109	-29	-28	24	2	0	0	0
<b>Cash flow</b>	<b>-39</b>	<b>6</b>	<b>18</b>	<b>-25</b>	<b>55</b>	<b>145</b>	<b>127</b>	<b>25</b>
Cash at the beginning of the period	0	0	0	0	52	107	252	379
<b>Cash and bank balances</b>	<b>682</b>	<b>23</b>	<b>-18</b>	<b>31</b>	<b>107</b>	<b>252</b>	<b>379</b>	<b>404</b>

This publication (“the Publication”) has been compiled by Erik Penser Bank (“the Bank”) exclusively for clients of the Bank. The contents are based on information from publicly available sources which have been deemed reliable. No guarantee is extended as to the accuracy and completeness of the contents of the document or the forecasts and recommendations provided therein. The Bank may permit employees of another department or analysed company (“the company”) to read facts or series of facts in order to verify the same. The Bank does not disclose conclusions or assessments included in the Publication in advance. Opinions stated in the Publication are those of the analyst at the time the Publication was prepared and such opinions are subject to change. No assurance is provided that future events will be in accordance with opinions stated in the Publication.

The information in the Publication must not be understood as encouragement or recommendation to enter into transactions. The information does not take into account an individual recipient’s investment knowledge and experience, financial situation, or investment goals. The information thus does not constitute a personal recommendation or investment advice.

The Bank disclaims all liability for direct or indirect loss that may be based upon the Publication. Investments in financial instruments are associated with financial risk. The investment may go up or down in value or become entirely worthless. Past favourable performance of an investment is not a guarantee of future performance.

#### **Fair value and risk**

The fair value reflects a value for the share on the day the analysis is published in a range corresponding to approximately 5-10%. The Bank uses several different valuation models to value financial instruments, such as cash flow models, valuation of multiples and breakup value analysis.

The valuation method and the approach for determining the fair value should be apparent in the analysis and may vary from company to company. Significant assumptions used in valuations are based on currently available market data and a scenario for the company’s future development that we consider reasonable. As regards risk, the share is classified on a High-Medium-Low scale based on a number of known parameters relevant to the company. A general guideline for being classified as low risk is that the company has positive cash flow and that no individual factor affects net sales by more than 20%. The corresponding general description of high risk is that the company has not achieved positive cash flow or that an individual factor affects net sales by more than 50%.

The research presented in the Publication was performed in accordance with the terms and conditions of the “Penser Access” service that the Bank performs on behalf of analysed companies. The analysed company remunerates the Bank for the aforementioned service. The fair value and risk classifications are continuously updated. Click here <https://www.penser.se/historiska-analysrekommendationer/> to view the history of investment recommendations issued by the Bank.

#### **General**

The Bank’s consent is required to copy or disseminate the Publication in whole or in part. The Publication must not be disseminated or made available to any natural or legal person in the United States of America (other than as provided under Rule 15a–16, Securities Exchange Act of 1934), Canada, or any other country that imposes statutory restrictions on the dissemination and availability of the contents of the material.

The Bank has prepared an Ethics Policy and a Conflicts of Interest Policy. The aim of these policies is to protect against and prevent conflicts between the interests of clients and departments within the Bank. The approach used by the Bank to prevent conflicts of interest includes restrictions on communications (Chinese Walls). The Research Department is physically separated from the Corporate Finance department, which occupies separate premises. The Corporate Finance department is not permitted to participate in the production of a Publication or to express opinions on a Publication. However, there may from time to time exist a client relationship or advisory situation between a company covered in a Publication and a department of the Bank other than the Research Department. The Bank has drawn up internal restrictions concerning when employees are permitted to conduct trades in a financial instrument that is the subject of an Investment Recommendation.

From time to time, the Bank performs assignments for a company that is mentioned in a Publication. The Bank may, for example, be acting as an advisor or issuer agent to the company or as the liquidity guarantor for one of the company’s securities. If such is the case, this has been stated in the Publication. The Bank, its owners, directors, or employees may own shares in companies mentioned in the Publication. All employees of the Bank must report their holdings in securities and must report all transactions. The Bank and its employees comply with guidelines issued by the Swedish Securities Dealers Association concerning employee transactions. The analyst who has prepared Investment Research as referred to in Chapter 11, section 8 of the Swedish Financial Supervisory Authority’s Regulations regarding securities (FFFS 2007:16) and others involved in this work are not permitted to trade on their own account in the covered Financial Instrument or related Financial Instruments in contravention of the applicable recommendation. The Bank’s Compliance Department monitors all employee transactions.

The Bank pays salaries to analysts, which may also consist of a share of the Bank’s profits but which is never linked to the financial performance of another department. Neither the Bank nor the individuals who compiled the Publication have holdings (long or short) in the financial instruments issued by the analysed company that exceed 0.5% of the analysed company’s share capital.

For the company in question, the Bank also conducts research in accordance with the terms of the “Penser Access” paid-for service. Click here <https://epaccess.penser.se/> for more information about this service.

Erik Penser Bank is authorised to conduct securities operations and is under the supervision of the Swedish Financial Supervisory Authority (Finansinspektionen)

---

Erik Penser Bank (*publ.*)

Apelbergsgatan 27 Box 7405 103 91 STOCKHOLM

tel: +46 8 463 80 00 fax: +46 8 678 80 33 [www.penser.se](http://www.penser.se)