Tecnotree

Initiation of coverage

3/30/2021

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Inderes Corporate customer

This report is a summary translation of the report “Suorituskykyinen feenikslintu” published on 3/30/2021 at 08:00

A well-performing phoenix

We start coverage of Tecnotree with a target price of EUR 0.68 and a Buy recommendation. Over the past few years, the company has made several successful strategic moves. With these, the company's technological competitiveness has improved, business structure has become better, and operational activities have reached a new level. Considering current performance, scalable parts of the operating model and healthy demand drivers, the earnings growth outlook is good also in coming years. These factors are not, however, visible much in the share price at the moment, which, in our opinion, makes the return/risk ratio very attractive.

IT solution supplier that focuses on telecom operators

Tecnotree is a globally operating IT solution supplier that focuses on serving telecom operators. To its customers, the company offers cloud-based systems it has developed to manage current products, customers, and invoicing, to digitize the underlaying processes, and gradually modify their business models. The solutions Tecnotree delivers are business critical by nature, which raises the costs of changing for the operator and typically makes customer relationships long-lasting. On the other hand, the same factors also have a negative effect on new customer acquisition. In our opinion, Tecnotree's key strengths are a technologically competent product portfolio, strong industry expertise, long customer relationships, and cost efficiency that is crucial for a small player. In our view, the main risks are a highly concentrated customer portfolio, the cyclicality of operators' investments, political and legislative instability in merging countries (e.g. tax at source and repatriating cash flow).

Growth company with healthy demand drivers

The growth rate of Tecnotree's target market is estimated to be over 10% p.a. in coming years. There are two clear and healthy key drivers for growth: 1) operators' earnings moving from traditional communication solutions to completely new digital services, and 2) cloud transformation of system solutions. Geographically growth is expected to be fastest in emerging economic areas and, considering this, Tecnotree's strategic positioning is good. Structurally, the industry is very fragmented, and competition is tight which also makes us believe it is challenging to build sustainable competitive advantages. Over the next few years, we expect Tecnotree's net sales to grow nicely driven by the upward trend in current and new customers' investments and the company's own strengths. We expect this to scale well into the result even though we also believe that the company will continue to consistently carry out investments that strengthen its competitiveness and resources.

Return/risk ratio looks good

P/E ratios for 2021 and 2022 based on our estimates are 10x and 9x, while the corresponding EV/EBIT ratios are 7x and 6x. With the 2020 result, the P/E, in turn, is 11x and EV/EBIT 8x. The levels are very low in absolute terms and they are not, in our opinion, in line with the company's current performance or potential. The value indicated by our DCF model and the 0.8x PEG ratio relative to our earnings growth expectations in coming years also indicate undervaluation. The earnings expectation consisting of the clear upside in the valuation multiples and earnings growth is, in our view, double compared to the ROE requirement. Considering this we find the offered return/risk ratio to be highly attractive.

Recommendation

Buy
(previous)

0.68 EUR
(previous EUR

Share price:
0.56

Key indicators

	2020	2021e	2022e	2023e
Revenue	52.8	57.9	62.6	67.1
growth-%	12%	10%	8%	7%
EBIT adj.	19.3	21.2	24.3	27.2
EBIT-% adj.	36.6%	36.7%	38.9%	40.5%
Net Income	13.6	15.3	17.6	19.7
EPS (adj.)	0.05	0.06	0.06	0.07
P/E (adj.)	13.6	10.0	8.7	7.8
P/B	9.7	4.3	2.9	2.1
P/FCF	33.3	15.0	10.4	8.9
EV/EBIT (adj.)	10.2	7.0	5.5	4.4
EV/EBITDA	9.7	6.3	5.0	3.9
EV/S	3.7	2.6	2.2	1.8

Source: Inderes

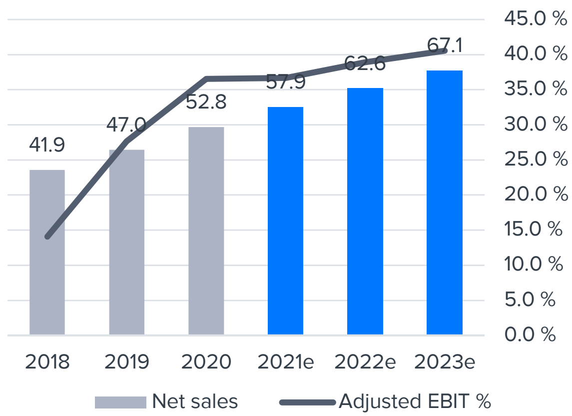
Guidance (Unchanged)

Tecnotree refrains from giving any guidance for the time being.

Share price

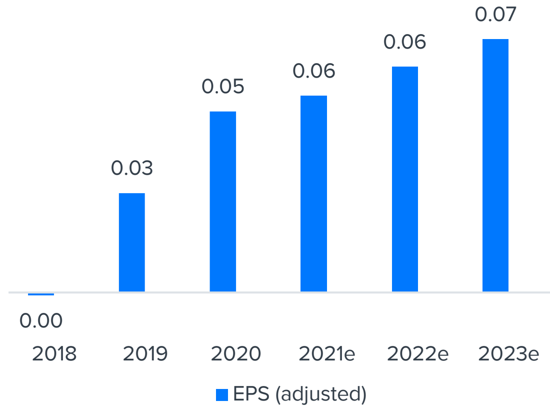
Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

Earnings per share



Source: Inderes

MCAP
154
EUR million

EV
149
EUR million

P/E (adjusted)
10x
2021e

EV/EBIT
7x
2021e

Value drivers

- The company's organic drivers are strong and we find longer-term growth outlook to be good
- The company's business model is scalable and cost efficient
- Increasing recurring income flow
- Technologically competent product portfolio
- Long customer relationships with strong operators in their own market areas

Risk factors

- Customer portfolio is highly concentrated
- Failure in product development work and reading the industry
- Degeneration of a cost efficient operating model
- Some cyclicality in operators' investments
- Political and legislative threats in emerging countries
- Repatriating cash flow

Valuation

- Valuation multiples are low even with actual result
- We feel the valuation does not consider the company's current shape and long-term potential
- Share is priced below its fair value
- Considerable upside in valuation multiples

Contents

Tecnotree in brief

Tecnotree is an internationally operating IT solution supplier that focuses on serving telecom operators

1978
Year of establishment

2001
IPO

12%
Average net sales growth in 2018 to 2020

81%
Average adjusted operating profit growth in 2018 to 2020

EUR 52.8 million
Net sales 2020

EUR 19.3 million (36.6% of net sales)
Adjusted operating profit 2020

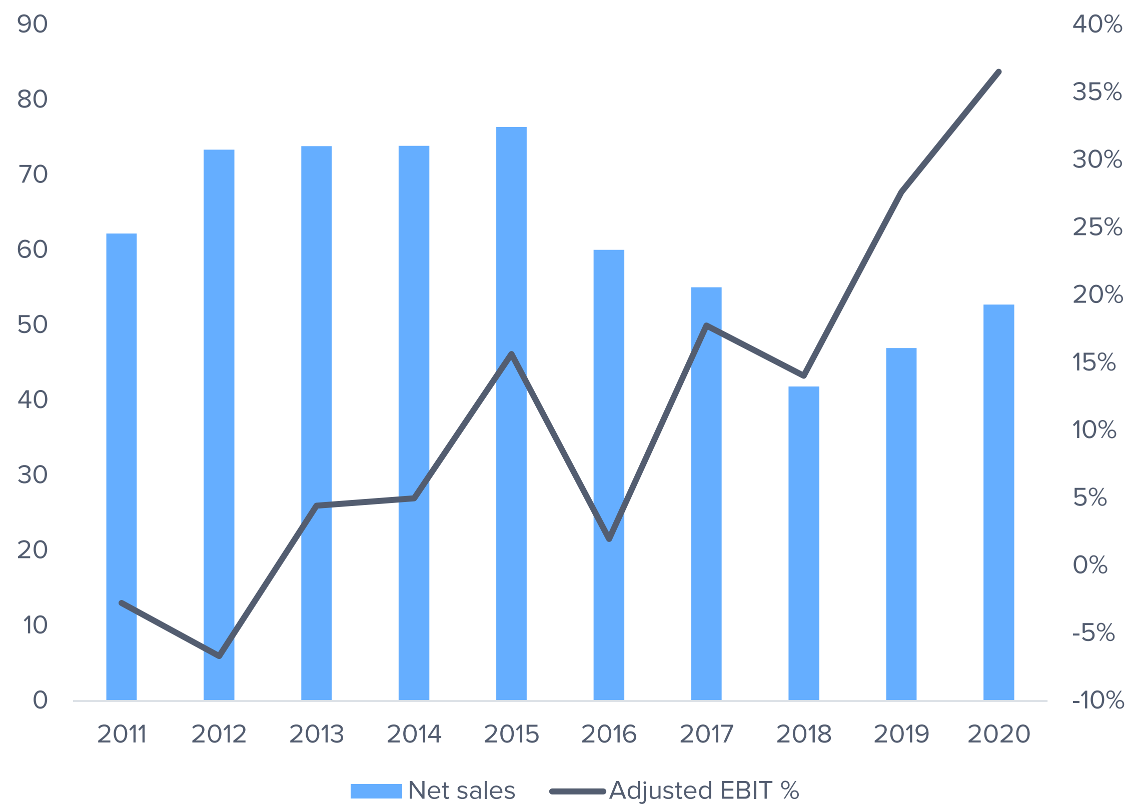
659
Personnel at the end of 2020

Years 2011 to 2017

- In 2011 to 2016 several project risks materialized and led to financial difficulties
- Old VAS business decreases
- Successful investments in product development and productization of the business create a base for current performance
- Work to improve structural efficiency begins

Years 2018 to 2020

- Company successfully continue to improve structural efficiency and earnings development is strong
- BSS solutions prove their competitiveness and net sales returns to a growth path
- Burden from taxes at source is reduced and cash flow profile improves
- Claims of the restructuring program are handled without problems



Source: Tecnotree, Inderes

Company description and business model 1/5

Company description

Solution supplier for telecom operators

Tecnotree is an internationally operating IT solution supplier that focuses on serving telecom operators. To its customers, Tecnotree offers cloud-based systems to manage current products, customers, and invoicing, to digitize the underlaying processes, and to raise the value experienced by the customer. With Tecnotree's products, telecom operators can also gradually modify their business models. A concrete example is that with the company's solution palette customers can create digital marketplaces and various micro services in their operations. This enables offering more individual and flexible service packages. In addition to actual system solutions and related implementation services, the company also offers consulting.

The spearhead of Tecnotree's offering is the Digital BSS Suite 5 service platform that consists of several different digital BSS solutions (Business Support System) that practically cover all of the customers' core processes (i.e. cash-to-order). This means that the company's product portfolio covers all key business management systems of telecom operators and all of their life cycle stages. The company's products are not dependent on telecom operators' own network technologies. These factors together increase the company's competitiveness compared to players that are only attached to certain systems, network technologies and/or parts of the business process. In our view, Tecnotree's current solutions can with relatively small effort be adapted to other industry verticals (e.g. financial sector), which enables researching business opportunities also outside the telecom operator sector in the longer term.

Tecnotree is headquartered in Espoo. The company also has ten product development and sales offices on five continents. At the end of 2020, the company employed over 650 people.

Biggest customers are large and net sales mainly from emerging areas

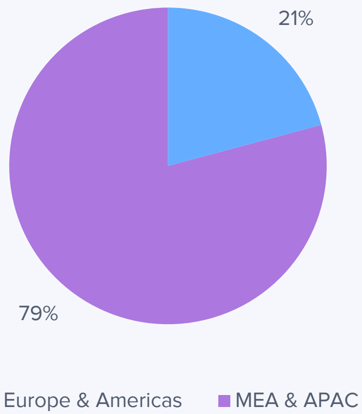
In 2020, Tecnotree's net sales was EUR 53 million and adjusted operating profit EUR 19 million. Geographically, Tecnotree reports its net sales through two areas, Europe and Americas, and MEA & APAC. Of these areas, MEA & APAC is more important for Tecnotree and formed some 80% of 2020 net sales. Within the area, important segments for the company are, in particular, the Middle East and the more developed parts of Africa. Europe and Americas, in turn, formed some 20% of 2020 net sales. Within this area, Tecnotree's main markets can be found in Central and South America. Thus, most of the company's net sales comes from emerging areas. In these areas, the underlying market is growing rapidly and technological requirements for the solutions are high.

On the other hand, predictability of operations is more challenging than in developed areas due to political and legislative variables. Thus, we believe that positioning on emerging markets offers Tecnotree both good longer-term opportunities but also elements that have a raising effect on the risk profile. In terms of currencies, a majority of Tecnotree's net sales is generated in US dollars.

Tecnotree

- Decades old operative history and deep understanding of customers' businesses
- Solutions are business critical from the customer's viewpoint
- Cloud-based service platform based on open source code is competitive
- Customer relationships with largest customers have survived hard times
- The company has transformed from a project house more clearly to a software house

Geographical net sales distribution 2020



Source: Tecnotree, Inderes

Company description and business model 2/5

Tecnotree's customer portfolio is highly concentrated as in 2020 net sales from the two largest customers was 76%. We believe that the company's biggest customers are the South African MTN Group and Mexican America Movil group. Both groups are huge and leading players on their respective continents. In addition, there are dozens of local operators that operate under these two groups. In light of this, Tecnotree's customer portfolio is also more diversified than reported, and the company has over 60 customers. Next to this dynamic, Tecnotree's customer risk is, in our opinion, also somewhat limited by the business critical role the company's solutions play for the customer. This raises the costs for switching suppliers for the customer and brings a strong hold and longevity to customer relationships. On the other hand, the same factors also have a negative effect on new customer acquisition. In the short term, the company's direction is steered by the outlook and investment activity of the largest customers, as due to earnings logic and partially the company's own resources, significant expansion of the customer base rapidly is difficult in our view. In the big picture we consider the customer structure to clearly raise the risk profile despite the strong positions of the biggest customers and factors that affect customer relationships.

Business model

Several underlaying net sales flows

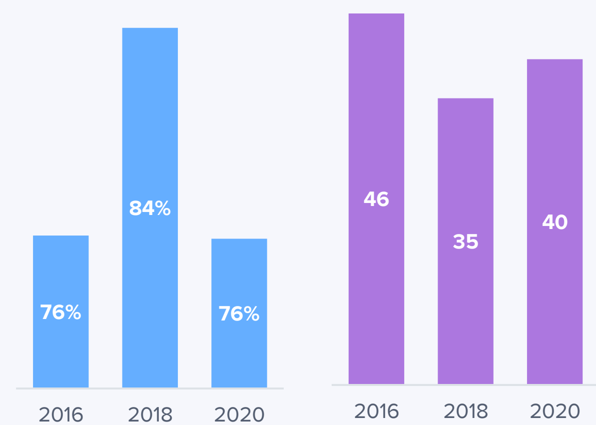
Tecnotree's earnings model is built on a few income streams that are different by nature. The most valuable for the company, and also most predictable, income streams come through the company's own cloud-based solutions and older generation solutions. We believe that the net sales coming from here is twofold. To our understanding they always consist of a non-recurring and thus project like system implementation and related service deliveries (e.g. software license sales and maintenance services). The logic of revenue recognition from sales is that license sales is quickly visible as net sales, while integration work becomes visible in net sales within some 8 to 9 months according to our estimate. We also estimate that income flow from license sales is, with certain limits, tied to the number of customers the operators have, which enables growth with the operators without actual new sales. We estimate that recurring net sales flow represents slightly over 50% of Tecnotree's business. In the longer term, we believe the company will try to move from the current license model towards a more scalable SaaS model and we also feel the cloud transformation that is ongoing in the industry offers a healthy market platform. The transformation into a full-fledged SaaS house will take time and the company cannot, at least yet, be examined through this operating model or the potential related to it.

Product development and sales are core operations

We feel Tecnotree's business model is rather typical for a software industry production house as the company develops, sells, and maintains product solutions it has created. From an operator's viewpoint, Tecnotree's BSS solutions play an important role as without them it is virtually impossible to manage once business. With BSS

Tecnotree's customers*

*Over 60 telecom operators as customers and users >800 million



Two largest customers' share of net sales

Two largest customers' net sales (EUR million)

Source: Tecnotree, Inderes

Company description and business model 3/5

With BSS solutions, customers also try to increase cost efficiency in their operations and make it more reactive throughout (e.g. shorter launch time for new services). This is a critical angle in general on the highly competed telecom operator market, but we believe it is especially emphasized among Tecnotree's customers that operate on rapidly developing and relatively low revenue per use (ARPU) markets.

We feel this background has made decision making related to BSS solutions primarily a strategic issue. We believe that instead of price, the main competitive factors are the technological abilities of the product and good understanding of the customer's business. In our opinion, this makes Tecnotree's own value chain position relatively good in the big picture, even though direct bargaining power with larger customers is limited.

In line with these dynamics, we believe Tecnotree's core operations are product development and sales. In terms of the company's earnings model, the role of product development is critical. Successful product development creates a crucial base for the competitiveness of the product portfolio, for success in acquiring and keeping customers, and, thus, also for creating shareholder value in the longer term. As an operative process, product development is continuous by nature and we feel the core of the development work is close dialog with customers and predicting the industry and its trends. As an operation, product development requires some skilled personnel, which means that maintaining the sharpness of the function and operative ability also requires successful recruitment from the company. Tecnotree's long operative history and financial performance that has improved in recent years are, in our opinion, good proof of the value of its own technology and thus of mastering product development work.

In line with the business-critical role of Tecnotree's product solutions, we believe the company's sales approach is very consulting and solution oriented. This emphasizes deep understanding of the customer's business as part of a working sales process. We expect the company's sales cycles are relatively long and new customer relationships typically start with smaller solutions and progress later to larger sales. Long sales cycles are reflected in customers' risk management (e.g. ensuring seamless process flow) as business critical systems are usually always changed/updated gradually. Large operators typically also have several strategic system suppliers. Tecnotree's sales strategy, in turn, consists of its own network and partners' channels.

Because the basic nature of Tecnotree's operating model is relatively generic, we do not feel that it, in itself, makes the company stand out from competitors or creates clear competitive advantages. Tecnotree's key strengths come, in our opinion, from a technologically competent product portfolio, strong industry knowledge, long customer relationships, and agility that is crucial for a small player.

Main elements of BSS solutions

Product management	• Supports the customer's product planning and development • Enables integration of different product areas and makes the operator's pricing process more efficient
Order management	• Enables integration of different service areas • Improves the efficiency of process flows and collects data • Lowers the cost per customer
Income flow management	• Main focus on invoicing, charging and support functions • Extremely business critical element • Role also as data collector
Customer management	• Creation of new services • Improving customer satisfaction and hold at the core • Most crucial piece in terms of operator's value creation

Source: Tecnotree, Inderes

Company description and business model 4/5

Cost structure fixed by nature

Tecnotree's cost structure is very typical for a software company and personnel intensive business. According to our estimate, over 70% of the company's costs are fixed, while the share of variable costs is under 30%. The high share of fixed costs is explained by the company's earnings model that requires relatively much expert resources with fixed salaries. Most of the company's fixed costs are, according to our estimates, directed at the product development and sales organization. Most of these resources are located in India with high technological skill levels and extremely cost competitive salary levels. In our opinion, this creates somewhat of a relative advantage on the cost side compared to Western competitors whose corresponding resources work in areas with clearly higher cost levels. However, we do not think you can call this cost side advantage permanent when considering the faster wage inflation in India than in Western countries and factors related to partial copying of Tecnotree's organization model.

The fixed cost structure and high gross margin business means that net sales growth is well scaled in the result if new sales does not require significant front-loaded investments in sales of product development. This logic naturally also works the other way and in an environment with decreasing net sales, it can be difficult to defend the balance levels in the short term. Thanks to recurring net sales flow and long customer relationships, Tecnotree's business is, however, relatively predictable. In light of this, we find it more likely that the company's balance level will in the short term be burdened by the company's own tactic/strategic choices (e.g. investments in personnel) than by changes in net sales flow.

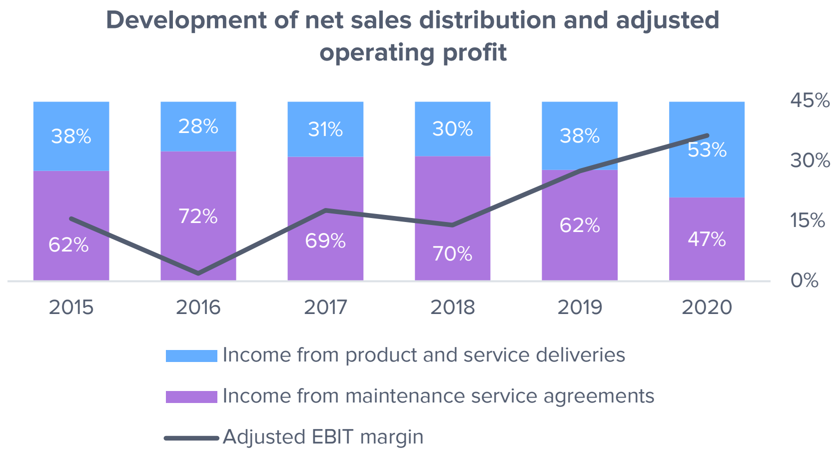
A lot of working capital is tied

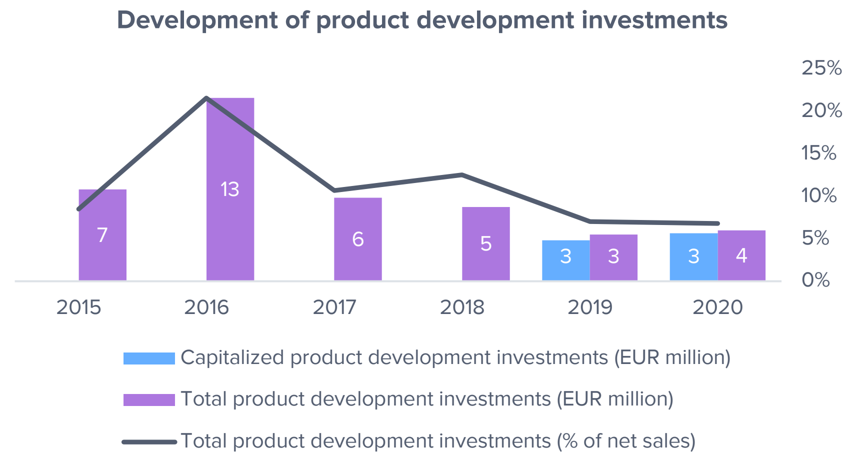
From the viewpoint of tying working capital, Tecnotree's operations are working capital dependent. Historically, the company's operations have tied up some 29% of net working capital, while in 2020 net working capital rose to 34%. This is explained both by the large relative bargaining power of Tecnotree's largest customers (i.e. long payment periods) and business being focused on countries with politically and financially challenging circumstances. In light of the latter components, the dynamic related to the working capital could, in a bad scenario, also affect the earnings level if the risks related to long receivables would realize and the company would have to write these down. The biggest problem caused by the high working capital intensity is, however, for growth, as even small volume growth ties up significant amounts of capital. This, in turn, burdens the company's free cash flow and thus also affects the options for capital allocation.

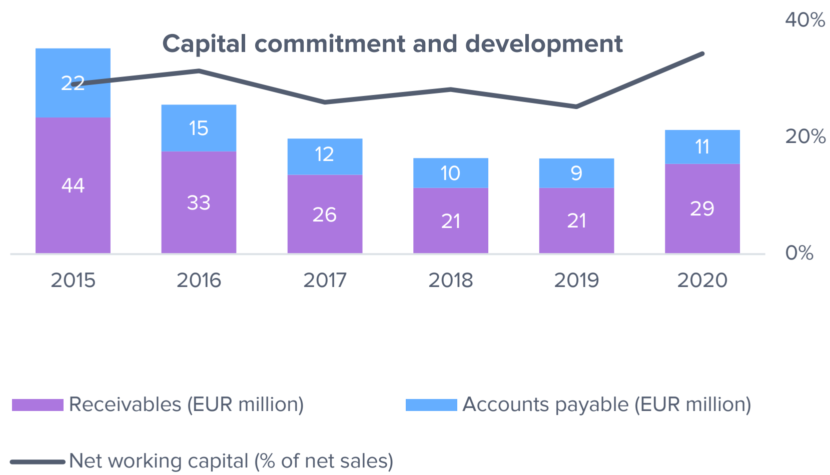
Restructuring program still ongoing

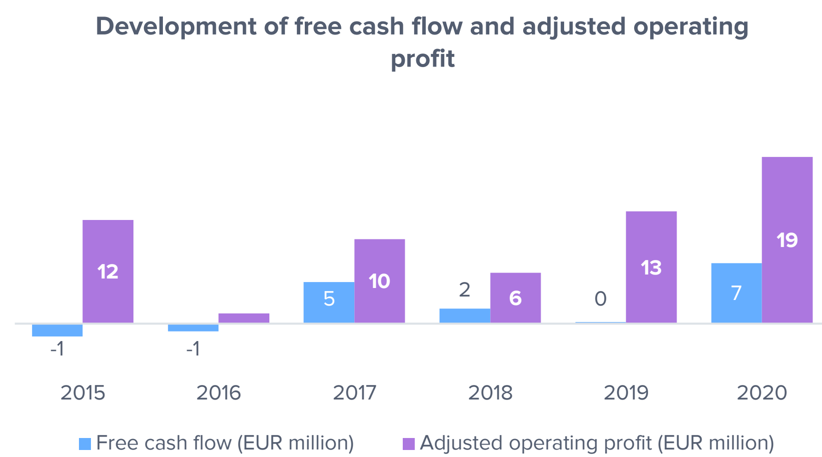
At the beginning of the 2010s, Tecnotree faced bad financial difficulties due to a slightly different business structure and realized project risks and finally in 2016 entered a restructuring program. During the program that lasts until 2025, the company has repaid debts according to plan and at the same time also improved its operational performance. At the end of 2020, remaining restructuring debts amounted to EUR 16.8 million, divided into secured restructuring debts of EUR 13.3 million, and normal unsecured restructuring debt of EUR 3.5 million. Currently, the state of the company's business and operational cash flow is healthy and considering the current development, the company should have no problems in fulfilling its claims in accordance with the program. During the restructuring program, the company is not permitted to distribute dividends.

Company description and business model 5/5









Source: Tecnotree, Inderes

Investment profile 1/2

Tecnotree is a growth company

Over the past five years, Tecnotree has made structural changes to its business, fixed its foundation both in an operational and strategic sense, and carried out a result turnaround in an impressive way. In the wake of these factors, the company has also pushed away from the pigeonhole of a crisis/turnaround company. In light of this, the healthy longer-term drivers and outlook of the industry, own technological abilities, and the scalable elements of the business model, Tecnotree's profile is, in our opinion, now unequivocally a profitable grower. Our view of this is also supported by the company's strategy that cherishes growth. In terms of longer-term value creation, focusing on growth is a very sensible choice when taking into account the earnings leverage related to growth and its scalability. However, we do not see dividend as an essential component of the company's investment profile even in a post restructuring program world.

Strengths and value drivers

We believe that Tecnotree's long-term positive value drivers are:

Technologically competent solutions and long customer relationships: Tecnotree has a long operative history, and this would not, in our opinion, have been possible without technologically competent product solutions. In addition to operative history, the company's customer relationships are long lasting, and they have lasted through extremely tough financial times. In our opinion, these are concrete proof of the value of the company's technology, its competitive deliveries and sustainable fulfillment of customer promises.

Agile and cost-efficient operating model: Good organic growth in recent years has not required the company to inflate cost lines (e.g. front-loaded investments in personnel), which has resulted in very profitable growth. We believe this stems from the company's agile and cost-efficient operating model, and the approach that focuses on cost control. This tripartite creates good working room for the company considering coming years and it also enables both targeted growth investments and generating excellent basic profitability. Here, the company is also assisted by the scalability of the business model.

Organic growth: The primary drivers of Tecnotree's organic growth are telecom operators' infra and software investments. These, in turn, are driven by the revolution of the operators' business models where operators are gradually changing to marketplaces and distributor of digital services. Operators' own competitive positions and related incentives (e.g. improving cost efficiency through cloud transformation of BSS solutions) also play a role in terms of investment activity. In addition, certain megatrends like the growth of digitalization (incl. smart telecommunication networks) and urbanization affect in the background. Tecnotree's biggest customers have growth and investment ability, and, over the past few years, the company has reached successes also in new customer acquisition. Considering all of this, we feel the organic growth outlook is good. In the long term, we believe Tecnotree is interested in seeking growth paths from verticals outside the operator field and we estimate that based on its technological abilities the company has reasonable opportunities to do this.

Business model transformation: Tecnotree's business model has, over the past few years, been turned from old generation project activities to cloud-based license sales. The next step in our view is a gradual shift towards a SaaS model. With this revolution, the company's income flows could become more scalable, predictable, and less risky. In a SaaS model, the nature of software updates also typically become harmonized (that is, customers are no longer using several different software versions). This should bring small improvement potential to cost efficiency and also improve earnings potential in the long run.

Weaknesses and risk factors

According to our view, Tecnotree's main weaknesses and risks are:

Operators' IT infra and cyclicality of investments: Operators' current IT systems have been built on old, expensive, rather cumbersome and several different software. Even though the technological debt is already quite high in our view, replacing old systems is technologically a time consuming and expensive exercise. We estimate that this can slow down operators' rate of transformation in the short and partly in the medium term, and, thus, the

Investment profile 2/2

demand for Tecnotree's own solutions. We believe the risk related to this is, however, limited in the long term because at some point the technological debt of operators must be dissolved. The basic nature of operators' investments is cyclical.

Customer risks: Tecnotree's two largest customers' share of net sales is 76 %. Thus, the company's customer portfolio is highly concentrated even though the biggest customers include income flow from several local operators. Losing one of the main customers or a considerable decrease in their business would, however, be a massive setback and make a big dent in the company's net sales and result. The customer relationships with these operators are, however, long, in addition to which the business criticality of the solutions Tecnotree delivers creates somewhat of a buffer against customer risks.

Changes in the competitive field and/or position
Tecnotree is a smaller player in the global OSS/BSS market that consists of numerous players. Even though we believe Tecnotree's solutions to be competitive there are several other credible options available. Thus, the company's competitive position can weaken if, e.g., a player that operates with larger resources decides to strengthen their presence in areas that are important to Tecnotree. With the cloud transformation, the threshold to enter the market also lowers, which partly increases the threat from new competitors. On the other hand, the competitive field can also become more difficult for Tecnotree through operators' inorganic moves and resulting changes in relative strengths.

Failure in product development work: In terms of Tecnotree's earnings logic, continuous product development investments in developing own technology are critical. Failure in these investments would directly affect the company's current customer relationships, new sales, relative competitive position, and, as a sum of these factors, longer term value creation preconditions. We, however, believe that more significant than product development investments is what the company invests in. So, in our view, successful product development work is linked to understanding and anticipating customers' business operations, their development direction, and budding technological revolutions. Here we feel the company has a good historical track record, but this is naturally not any guarantee for the future.

Risks of emerging markets: A majority of Tecnotree's net sales comes from politically and financially unstable areas. More concrete risks in these areas are in our view related to repatriating receivables, possible write downs from these, and working capital challenges, as well as local tax legislation (e.g. high tax at source rates). The company has, however, successfully managed these risks in recent years, which is confidence-inspiring also in light of coming years.

SWOT analysis

Strengths

- Good industry and technology expertise (e.g. 5G readiness)
- Cloud-based and extensive (i.e. cash-to-order) product portfolio
- Agile operating model
- Competitive price point
- Long customer relationships and decades long operative history

Weaknesses

- Biggest customers' share of net sales is huge
- The resources of a small player are limited in many directions
- Working capital commitment burdens cash flow considerably
- Many variables on emerging areas that are out of the company's hands

Opportunities

- Long-term organic growth outlook is good
- Business model transformation raises earnings potential and lowers risk levels
- Verticals outside the operator field
- Potential acquisition target for a larger player

Threats

- Decrease in business from a significant customer or losing them completely
- Structural changes in the competitive field
- Failure in product development
- Materialization of political risks

Source: Tecnotree, Inderes

Investment profile

1. **Organic growth outlook is good**
2. **Scalability in business model**
3. **Verticals outside the operator field in the long term**
4. **Customer distribution is highly concentrated**
5. **Risks related to working capital commitment and cash flow generation**

Potential

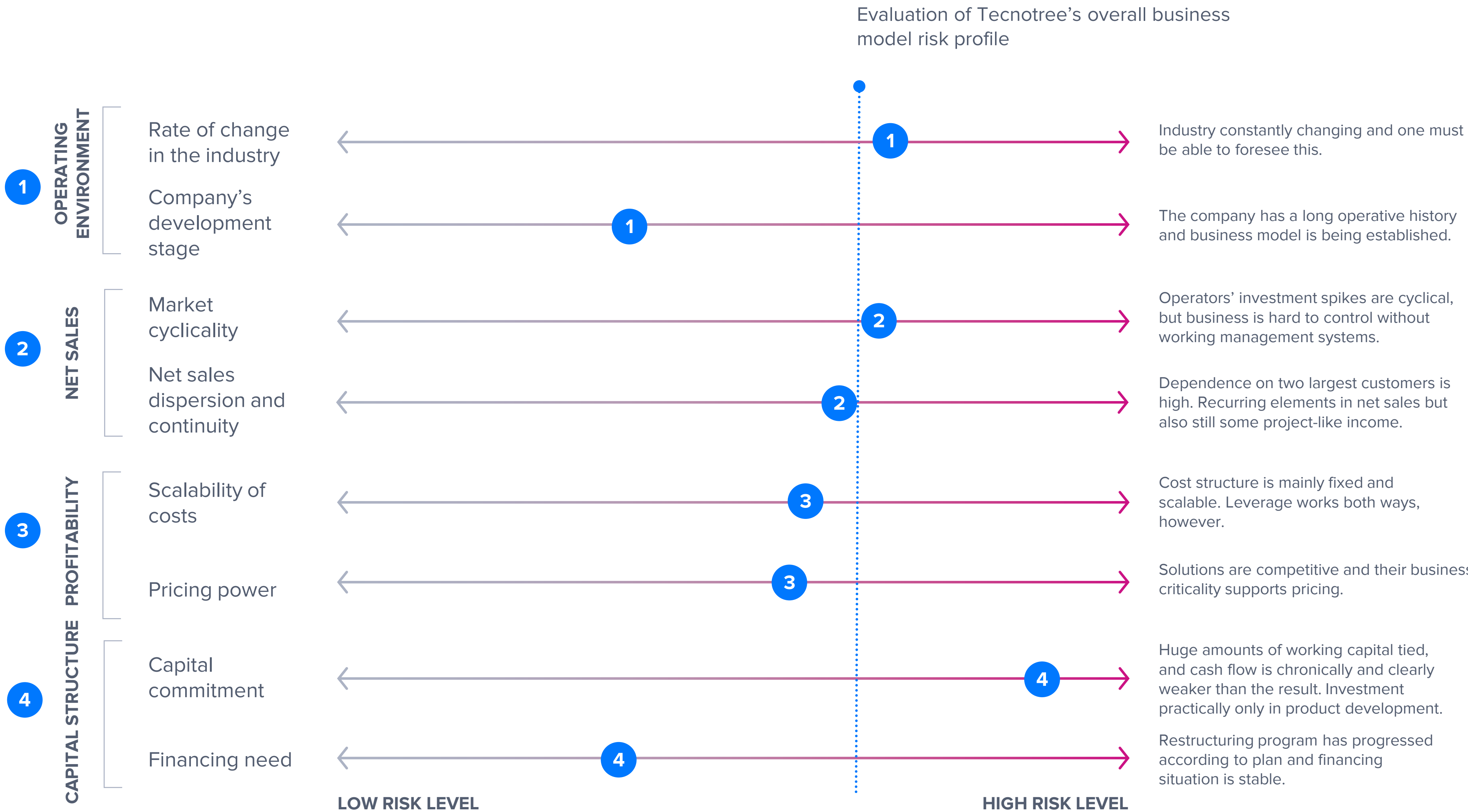
- Tecnotree’s industry expertise is solid
- The company’s technological competitiveness is good and enables winning new customers
- More agile and flexible business model than among larger players
- In the long term, growth on new geographical areas and outside the operator field
- Earnings potential improves as the business model transformation progresses

Risks

- Operators’ investments are cyclical and customer distribution is highly concentrated
- Growth ties up a lot of working capital
- Thresholds for entering the market have lowered
- Failure in product development work
- Political risks related to the business are high
- Restructuring program affects growth investments through capital allocation

Source: Inderes

Risk profile of the business model



Source: Inderes

Industry and competitive field 1/5

Huge overall market

Tecnotree is a globally operating supplier of turnkey BSS solutions. The entire industry has typically been examined so that the market for business support software or OSS solutions (Operations Support Systems) has been added next to BSS solutions. Thus, the relevant target market for Tecnotree is, in our view, also justified to be examined through the entire OSS/BSS framework even though the company is positioned purely in the BSS world and within it thus far only in the operator field. As a whole, the market consists of actual system investments and related use and support services.

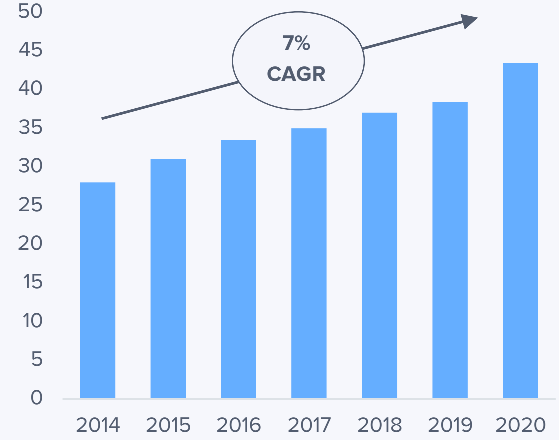
According to various market research companies, the size of the global OSS/BSS market was slightly over USD 40 billion in 2020. In our view, BSS operations is the more dominant slice of this cake even though it is extremely hard to divide the market into OSS and BSS market shares. This is because there is considerable overlapping between the markets examined both from the demand and supply side. By verticals, the telecommunication sector dominates the whole as various market sources (e.g. Allied Market Research and Transparency Market Research) estimates its share to be over 70%. Other significant industry sectors are, for example, the financial and health care sectors. In terms of Tecnotree's big picture, most significant in our view is that the underlaying market is huge compared to the company's size class, and we do not see it limiting the company's growth in the foreseeable future.

Fragmented structure

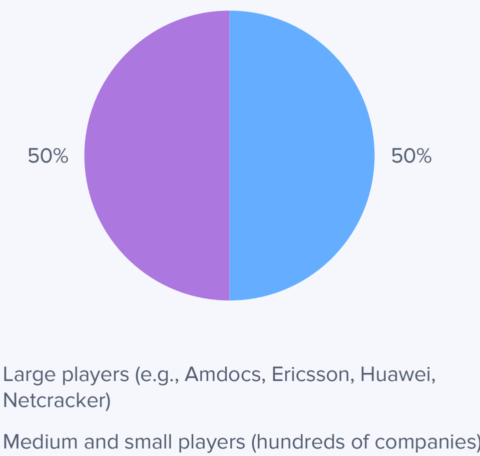
The supply side of the industry is both quite fragmented and polarized. The spectrum of players is vast as the market includes customers' own internal IT departments, large global network companies, multinational system integrators, software houses with extensive product portfolios (i.e. companies in several verticals), companies that focus on certain segments but operate internationally, and several small players that only focus on the local market (incl. IT service houses). We estimate that there are hundreds of companies that are somehow involved in the OSS/BSS market.

Industry polarization is reflected in the fact that the combined market share of the biggest players, e.g., Amdocs, Ericsson, Huawei, Oracle and CSG, is around 50% based on various estimates. In our view, this is especially explained by the fact that in the old On-Premise world, large resources were a key factor that defined success. Especially leading operators have tried to improve the competitiveness of their operations with highly tailored solutions and, thus, primarily favored large companies with good delivery ability as their strategic partners. This has created and strengthened the scale-based (e.g. tailoring ability) competitive advantages of players with huge resources. Thanks to the progressing cloud transformation this traditional dynamic is changing, which we believe offers players like Tecnotree that are small and agile and able to offer high customer orientation very interesting and longer growth paths.

Historical development of the overall market (USD billion)



Market distribution



Source: Allied Market Research, Transparency Market Research

Industry and competitive field 2/5

Due to the fragmented structure of the industry, there have been a fair share of M&A transactions on the markets in the past. The typical logic in consolidation has been that bigger players have complemented technological and industry expertise by acquiring smaller and more focused companies. One factor that we believe has affected industry consolidation is also the concentrated structure of the operator market. This has resulted in several and varied BSS solutions within operators, which, in turn, has made consolidation a natural option for BSS suppliers to strengthen their customer relationships and improve their growth opportunities. We believe that consolidation will continue to be the force that drives the structure of the industry, even though, as a result of the progressing cloud transformation, the thresholds for entering the market lower and the business dynamic (e.g. bigger size not automatically a competitive advantage) changes somewhat as a result.

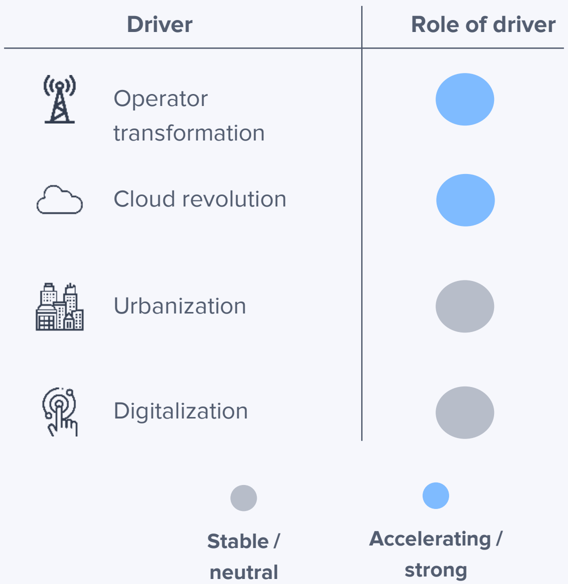
Two clear key drivers for growth

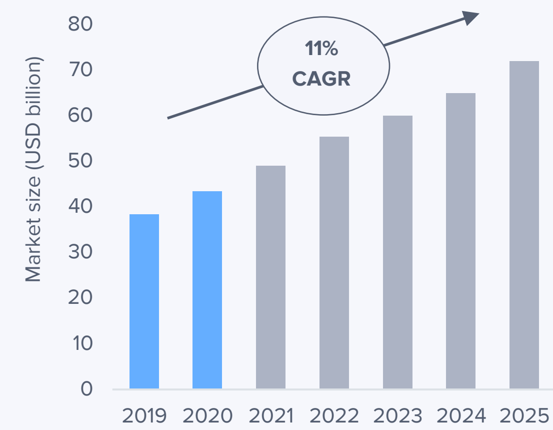
The growth of the OSS/BSS market is driven by a few factors that can, in our opinion, be divided into factors that accelerate growth and factors that support growth. Drivers that accelerate growth are, in our view, the business model transformation of operators and the cloud transformation of system solutions, while drivers that support growth are more megatrend-like factors like urbanization and digitalization (e.g. 5G).

Operators' business models have been in transformation for several years. Historically, operators' activities have been driven by traditional and quite standard format communication solutions and the focus of value creation has been largely on the operator's cost efficiency and in administration and support functions (i.e. back-office).

In recent years, the competition between operators has tightened and new competition created by Internet companies has appeared. In terms of operators' value creation, this development has led to a more customer-oriented approach and continuous ability to react (incl. faster launch time of new services), and fully digital services have become the core of operational activities. From the viewpoint of BSS solutions, this shift has, in turn, emphasized the agility and flexibility of the system. The challenge for operators has, however, been that in an On-Premise environment, several different systems tailored for old earnings models have been used, which has made IT infra cumbersome and slow, and also made it difficult to respond to new competition. In order to maintain competitiveness and strengthening new earnings models, operators have started to dissolve the technological debt created by the above-mentioned factors in a systematic manner. Pulling out from old systems is a technologically challenging, expensive, and time-consuming process, which means investments are carried out gradually. Thus, the business model transformation of operators offers technologically skilled BSS suppliers both wide and long growth paths.

Growth profile of OSS/BSS market





Source: Allied Market Research, Transparency Market Research

Industry and competitive field 3/5

Another driver that accelerates OSS/BSS market growth is the progressing cloud transformation of the systems. In addition to being cumbersome and slow, a big problem for On-Premise systems has been the high price of tailoring. This has made life cycle costs and changing costs of the systems extremely high and, on the other hand, caused direct operational friction in activities because of various system investments in use and their updating rhythms. The key competitive advantages of cloud-based solutions come from lower life cycle costs and a more flexible basic nature (e.g. less tailoring). Both features are quite significant for operators, especially taking into account the ongoing business model transformation, and the factors that will affect the relative position after this (e.g. ability to launch new services more quickly than the competition). Thus, the variables behind the cloud transformation are logical and strong in an industrial sense, even though a small demand slowdown comes from operators being rather tightly attached to old generation systems.

Excellent growth picture

Considering these main drivers, various research companies have estimated that the annual growth rate for the OSS/BSS market in the next few years will be at a strong level of over 10%. Thus, industry-level growth should offer a solution supplier that is part of this market very good growth opportunities and, on the other hand, also generate healthy protection against a possible tightening in the competitive situation.

Geographically, growth is expected to be fastest in emerging economic areas due to a lower technological baseline and, thus, relatively faster digitalization. We believe the requirements of the leading operators in these areas on management systems are high. In our view, this is due to the fact that the revenue by customer in these areas are typically very low and operators' own financial performance requires a high volume of customers and, thus, both a scalable and flexible business management system. Based on this, we feel Tecnotree's geographical positioning is good as the company's largest customers come from emerging areas. The structure of the company's customer portfolio is, in our opinion, concrete proof of technological competitiveness in line with the high technological requirement in the area and long customer relationships.

Competition on three levels

Due to the fragmented structure of the industry, the competitive field is also multifaceted. Thus, Tecnotree does not merely compete with certain types of companies, but competition is had with players that focus purely on OSS/BSS market and mainly on the operator field, global network device suppliers, as well as multinational software houses involved in many industrial verticals. multinational software houses involved in many industrial verticals. In addition, Tecnotree is to some degree involved in invisible competition with customers' own IT departments.

Tecnotree's selected competitors

Players that specialize in BSS solutions and have a strong position on the operator market

Leading network infra suppliers that are gradually moving away from the BSS market

Global software giants that are involved in several industrial verticals.

Source: companies, Inderes

Industry and competitive field 4/5

Among BSS suppliers that nearly only focus on the operator field, Tecnotree's best known competitors are, in our opinion, Amdocs, Netcracker, CSG, Comarch, Optiva and Sterlite. In addition to these, Tecnotree also competes with several smaller suppliers. Generally, the key strengths of players that are strongly positioned in the operator field derive, in our opinion, from deep industry expertise and long customer relationships. The biggest players typically also benefit from extensive resources, while for smaller suppliers' customer-orientation is the factor that creates differentiation. Partly because of this and more limited resources, the customer portfolios of small companies are typically very concentrated.

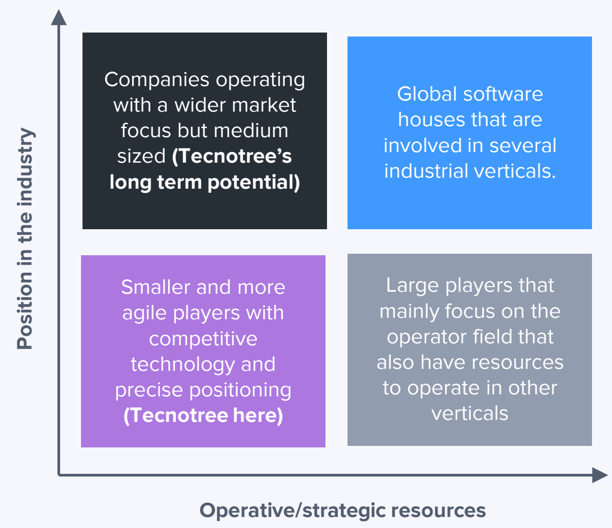
On the second level of the competitive field, you for the time being find global network device and infra suppliers like Ericsson, Nokia, Huawei and ZTE. Historically, these companies have sought a wider share of the telecommunication sector's value chain by also spreading to the OSS/BSS market. Of these players, especially Huawei has been somewhat of a market disruptor as the company has forced its own BSS solutions onto their network deliveries. In our view, Huawei and partly also other infra suppliers have, however, scaled down their BSS operations in recent years. This should become visible as a healing of the structure of the competitive field and, thus, improved business opportunities.

In the third wave of the competitive landscape comes multinational software houses for whom the operator market has conventionally been a relatively important vertical. With inorganic moves that strengthen the company's own position and abilities, these companies have been in a central role also in industry consolidation. The key strengths of these companies are also, in our opinion, linked to resources, even though we believe software houses get some advantage from extensive vertical expertise and scalability to some degree (e.g. sharing best practices in a way). We believe software houses that compete with Tecnotree are, for example, Oracle, IBM and CGI.

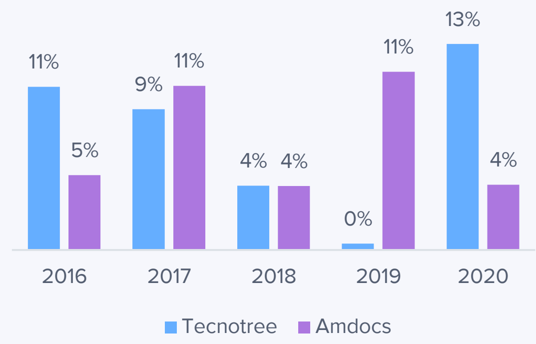
Sustainable competitive advantages are hard found

Despite the excellent growth profile, the competition situation is tight as there are several solution suppliers on the market, and the preconditions for considerable technological differentiation are quite narrow. Long term success in the industry requires, in our opinion, very competitive and continuous product development and the ability to anticipate the future development of the company's operating verticals. In the industry the key sources of competitive advantages that are closest to sustainable, in our opinion, come from the costs the customer would face if changing suppliers and, thus, from long customer relationships. Building these requires, however, success in product development and anticipation and, thus, continuously filling the customer promise. Looking at Tecnotree's long operative history and good profitable growth in the past two years, we consider the company's own overall competitiveness quite good.

Structure of competitive field



Free cash flow % development vs. Amdocs



Free cash flow % = free cash flow / net sales

Source: Inderes, Thomson Reuters

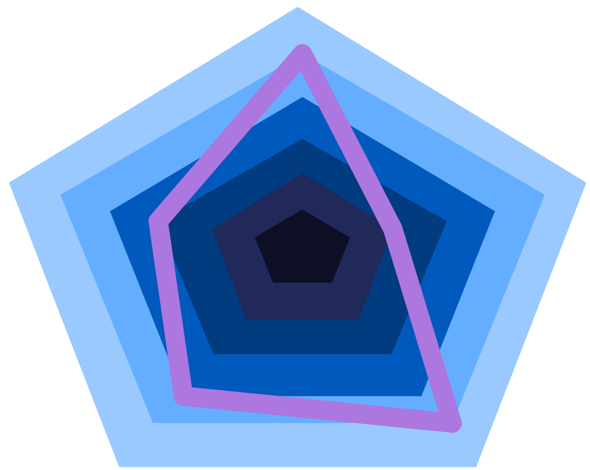
Industry and competitive field 5/5

Current competitive situation (significant*)

- The global number of suppliers is high, but business criticality and the costs of change faced by operators make the value chain positions reasonable
- Suppliers' cost structures are fixed and margin costs low
- Good growth picture in the long term alleviates the competitive situation a bit
- The thresholds for entering the market lower with the cloud transformation

Threat of substitutes (low*)

- No considerable industry level paradigm shift visible as of yet
- In the long term, technological development can generate elements that affect structures (e.g. development of AI and automation robotics)
- The progressing cloud transformation can also be seen as a threat, but for capable (e.g. adaptability) suppliers this is a huge opportunity



Bargaining power of product suppliers (minor*)

- General wage inflation in the industry is moderate and there is no indication of considerable talent shortage
- The relative bargaining power of different talent profiles vary
- The costs from staff turnover are not high, which improves the bargaining power of the BSS suppliers
- The number of subcontractors is large, and they do not create a significant threat of vertical integration

Threat of new competitors (moderate*)

- The growth picture of the industry is healthy, and the progressing cloud transformation lowers the resource-based thresholds for entering the market
- The business does not require significant capital investments, but sufficient competitiveness requires industry expertise
- Resource-based economies of scale apply to the business
- The costs of change faced by operators lower the enthusiasm of new players in the big picture

Buyers' bargaining power (significant*)

- Operators always have several strategic system suppliers, and they are not dependent on the offering of one company
- Operators more concentrated than BSS suppliers
- The tailoring degree of On-Premise solutions is high, but the dynamics is changing with the cloud transformation
- The costs of changing suppliers could be high, which weakens the buyers' bargaining power
- The share of BSS solutions of operators' operative costs is not huge, and decision-making is mostly steered by technological abilities

Source: Inderes

*Inderes' view of the threats caused by industry power for Tecnotree on the scale no threat, minor, low, moderate, significant and high.

Strategy 1/2

Value proposition and demand side

Value proposition?

- According to our estimate, Tecnotree's value proposition is built on technologically competent, cost efficient and cloud-based BSS offering.
- The aim is to establish a position as an important strategic partner for customers, strengthen the customer's earnings capacity and, thus, create continued added value for both parties.
- Considering the long operational history and long-term customer relationships, the company has succeeded in delivering the value proposition.

Target segment?

- The primary strategic target segment is operators in emerging economic areas and with technologically high requirements.
- We consider this a justified choice considering the company's commercial successes in these areas and the growth picture of emerging markets. The opposite side is the higher risk than in developed areas.
- In the longer term, the company has ambitions and, in our opinion, also preconditions to seek opportunities in other industrial verticals.

Relative price?

- Tecnotree is not a premium price setter. In our opinion, this is a logical choice considering the strategic target segments and their realities (e.g., low ARPU).
- Tecnotree's expert resources are primarily located in very cost competitive areas, which creates flexibility on the price side compared to competitors with more expensive expert resources.
- At the own end, the core of long-term value creation is not in pricing but in operational efficiency.

Source: Inderes

Own value chain and abilities

Product development

- Product development is extremely critical for recurring delivery of the value proposition.
- Product development investments (incl. new resources) dominate capital allocation but considering the earnings model it is absolutely the right choice.
- Tecnotree's product development resources are cost competitive, which supports implementing the cost efficiency included in the value proposition.
- Expansion into new industry verticals requires, in our opinion, investments in new expert resources.

Sales

- High-quality product development does not have considerable strategic value if the sales function does not work.
- The position among the largest customers is good to our understanding, which creates a healthy base for new sales within existing customers.
- The company's sales strategy is typical and does not, in our opinion, create any uniqueness in the strategy.

Value chain choices made?

- The company has invested purposefully and in a focused manner in product development. These measures have resulted in successful productization of the business and strengthened customer relationships.
- Market focus has been heavily on emerging economic areas. Risks related to this choice have also realized in the past.
- Positioning expert resources in low-cost areas has created value and has, thus, been a good strategic choice.

Strategy 2/2

Strategic objectives

Profitable growth

Current customers

- Growth with current customers is, in our opinion, an attractive and sensible choice, as the biggest customers are strong players in their own areas and have investment abilities.
- The strategies of the biggest customers are growth driven, which should also support Tecnotree in implementing its strategy.
- Long customer relationships and existing roles as strategic partners create a good base for growth with current customers.
- We believe that growth with current customers does not require considerable additional investments in product development or sales.
- The current customer portfolio is highly concentrated, which makes short term growth inevitably driven by old customers.

New customers

- In addition to growth opportunities, acquiring new customers is justified also from a risk management viewpoint, as openings from new customers would automatically stabilize the customer risk.
- Focus of new customer acquisition mainly lies in emerging areas, which is justified considering the local expertise generated by a long history.
- The fact that the solutions are cloud-based also enables growing of the partner network, which in turn boosts sales and increases the scalability of the business model.
- Acquiring new customers is, however, slowed down by high changing costs and long sales cycles. Competition is also tight.

New verticals

- In the long term, the company will, in our opinion, try to find and realize opportunities in verticals outside telecommunication. These would bring new frequencies to the company's business and also partially decrease the risk level.
- In our view, the company now has the technological ability to operate in several verticals and considering this we see limited sales resources as the biggest bottleneck.
- In our view, the best approach for expanding into new verticals is utilizing a partner network. Building a competitive and working partner network takes some time, however, and as a small company, Tecnotree must be diligent with the background work (e.g., competitive situation in different verticals).

Operational efficiency

Source: Inderes

Financial position 1/2

Sales margin of a software house is high

As typical for a software house, Tecnotree's sales margin is very high and over the past five years it has been 95% on average. The high sales margin is purely based on the cost logic of the company's earnings model, as the variable direct costs linked to sales are nearly non-existent (cf. manufacturing industry). Considering this dynamic, no conclusion of exceptionally strong pricing power should be drawn based on the high sales margin. To understand the scalability of the company's business model the high sales margin is crucial as when fixed costs are stable, the earnings leverage of net sales growth is considerable.

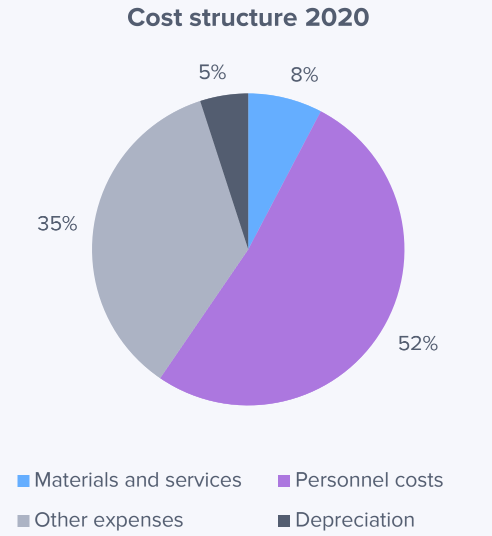
Personnel costs dominate the cost structure

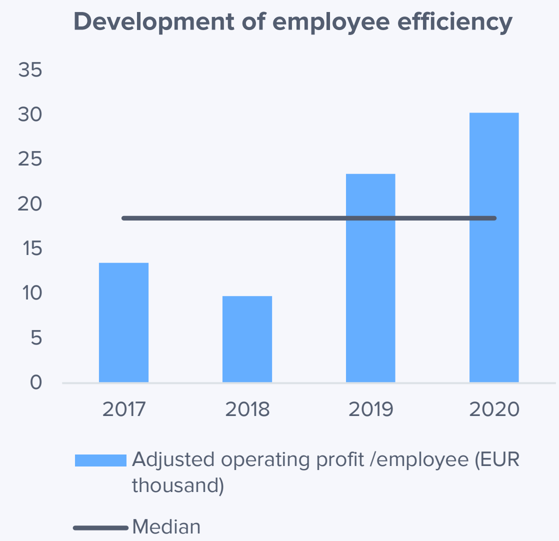
The biggest individual item in Tecnotree's cost structure is clearly personnel costs as considering the own product development and sales resources and the hands they require, the company's earnings model is highly data and person intensive. Especially personnel costs tied to product development are, based on our estimates, nearly all fixed, while sales side costs also include variable elements in the form of, e.g., various commissions. In our view, most of the company's personnel is allocated to product development, which means that personnel costs are primarily fixed. Thus, these costs are also very scalable and seeking organic growth should not, in theory, require much additional investments in personnel resources. Tecnotree's earnings model, competitiveness and core of long-term value creation relies, however, on personnel intensive activities. The company must invest in these activities in continuously and, to some degree, also in a front-loaded manner. Due to this, there may be considerable quarterly and annual differences in the actual scalability of personnel costs.

In 2020, Tecnotree's personnel costs were 52% of overall costs and relative to net sales their share was 34%. Tecnotree's adjusted operating profit per employee that describes employee efficiency well has historically been around EUR 18,000 while in 2020 this indicator stood at EUR 30,000. Considering the cost logic behind Tecnotree's operations, we believe focusing of employee efficiency is a crucial part of the company's operational activities. In the long term, raising the efficiency level must be based in particular on net sales growth and its scalability, as structurally the income side is compelled by both the strategic positioning as a non-premium price class player and India's wage inflation that is faster than in Western countries, and the dynamic related to transferring this to customer prices (e.g. tight competition in general).

Other costs include subcontracting and administrative items

The share of other costs in Tecnotree's net sales has historically been around 24 to 36%. Other costs mainly consist of direct subcontracting, other external resources, and costs related to administration. Thus, these costs include both variable and completely fixed items.





Source: Tecnotree, Inderes

Financial position 2/2

Taxes at source have been a nuisance

In several operating countries, the systems and services Tecnotree sells involve tax at source. Compensation of these taxes in the country of income — i.e. the domicile of the sales company — is not problem free and in some cases the same income is taxed twice. The local tax law in emerging areas that are important to Tecnotree are also typically changing quickly and we believe their interpretation can be very ambivalent. Historically, taxes at source have been a nuisance for the company as only in the past five years the share of taxes at source of the company's total tax burden has been 70% on average. High taxes at source have, next to the net result, also depressed cash flow and they have been one reason for the free cash flow remaining below the reported result. Considering the geographical positioning and dynamics related to local tax practices, we believe taxes at source will continue burdening the result and cash flow also in future, even though over the past two years the company has been able to lighten the relative burden of taxes at source.

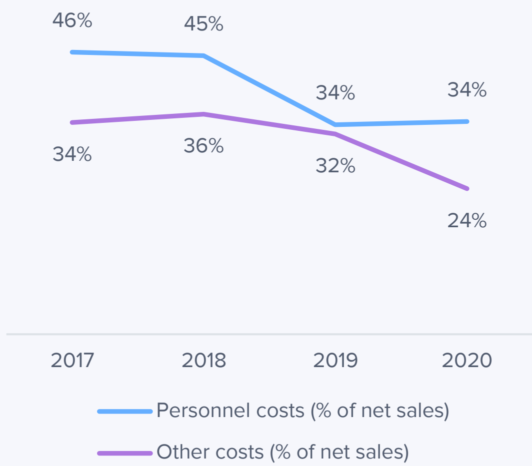
Healthy balance sheet position, cash flow below result

At the end of 2020, Tecnotree's equity ratio was 39% and net gearing 27%. Relative to the nature of Tecnotree's business, its current earnings level ad cash flow profile, these levels are healthy. At the end of the year, the company's cash funds stood at EUR 8 million, which, considering the size of the operations, running working capital needs and repayment claims of the restructuring program (EUR 1.9 million in 2021 including interest), is a healthy level. We feel the company's financial position is stable, and we do not believe it causes any actual speed bumps for implementing the company's growth strategy and seeking longer term value creation. The balance sheet total at the end of 2020 was some EUR 51 million.

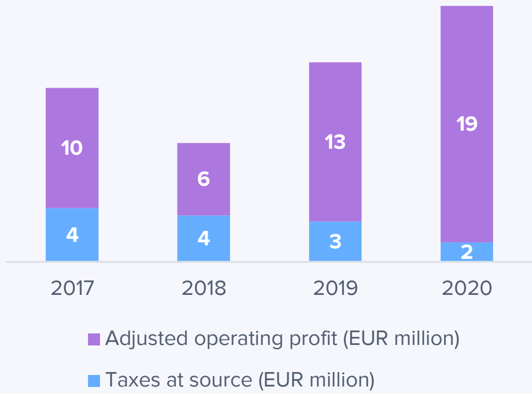
With last year's operational performance and the balance sheet parameters at the end of 2020, Tecnotree's net debt to EBITDA was 0.6x. In our opinion, this does not, however, give a fully correct picture of the company's borrowing power, as the company's free cash flow is structurally lower than both the operating margin and other earnings lines. Considering this, and factors related to repatriating cash flow, we feel the net debt to free cash flow ratio better describes the borrowing power of Tecnotree. In 2020, this ratio was 1.7x, which in our opinion is sensible and neutral relative to the overall risk level.

Due to the bottlenecks related to cash flow generation, we believe the company favors maintaining a relatively strong balance sheet position over time. We feel this is a sensible approach as seeking net sales growth is a cumbersome exercise, especially in terms of working capital commitment and generating cash flow. On the other hand, a strong balance sheet position enables more persistent development of the business and, thus, improvement of preconditions for value creation in the longer term (e.g. more room to carry out investments).

Personnel and other costs



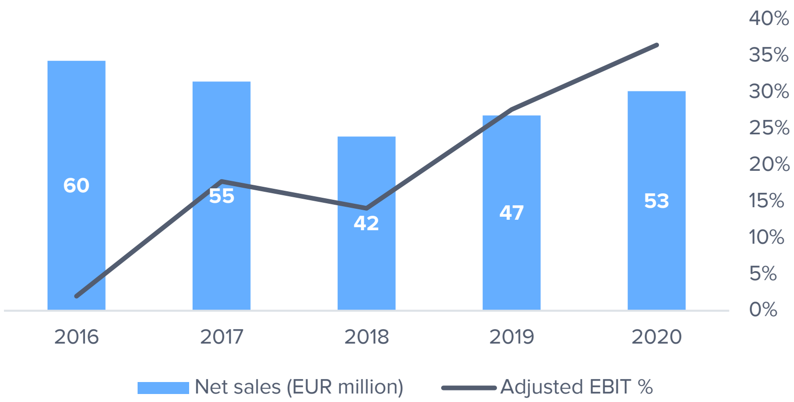
Development of burden from taxes at source



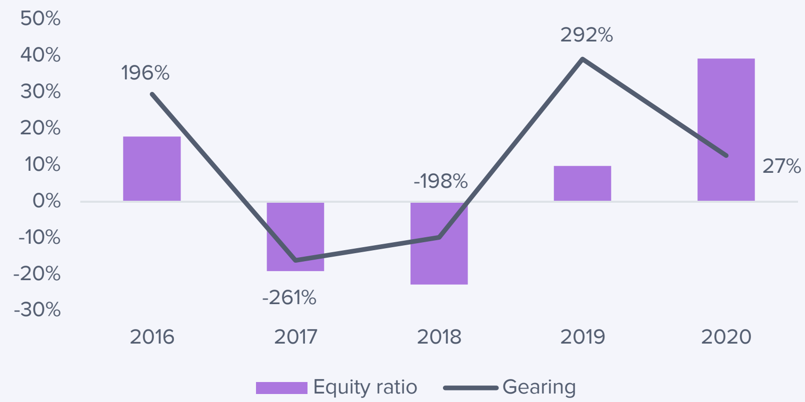
Source: Inderes, Thomson Reuters

Financial position

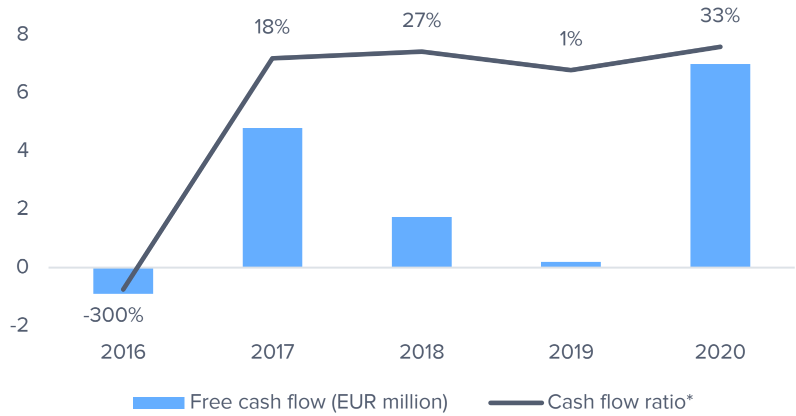
Net sales and profitability development



Development of balance sheet position

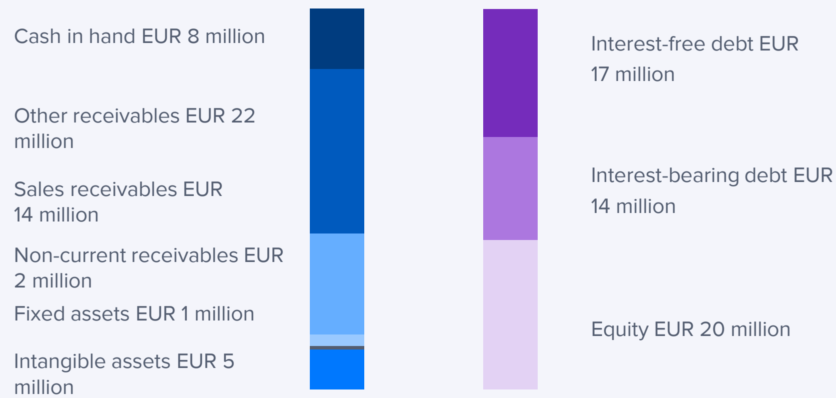


Cash flow development



*Ratio of free cash flow to adjusted EBITDA

Balance sheet position at the end of 2020



Source: Tecnotree, Inderes

Estimates 1/3

Forecast model

We estimate Tecnotree's short-term net sales development primarily based on the order book, new received orders and estimated recurring income flows. Our medium- and long-term estimates are largely based on the general industry trends and the forces that affect them. We feel visibility into Tecnotree's operations is reasonable in the short term as the structure of the order book is relatively long and net sales include a nice portion of recurring income flows. In the short term, the key uncertainties are directed at new orders and thus the slope of growth. This is based on factors relating to the timing of operators' investments and the dynamic related to dissolving the high technological debt (e.g. timing of relinquishing old solutions and high cost). In the longer term, these problems disperse, and growth is clearly more dependent on the company's own competitiveness and how it implements its strategy.

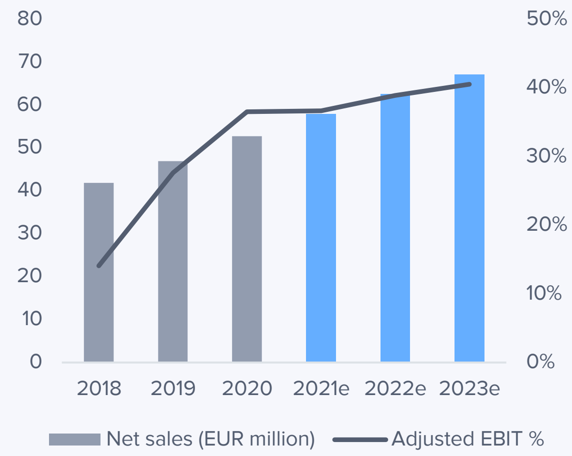
In estimating short- and medium-term profitability we focus in particular on simulating the annual level of fixed costs. This logic also applies to our long-term estimates, even though we also view financial performance through margin levels and cash flows that we deem sustainable. The key uncertainties directed at operating profitability are related to employee efficiency following the company's cost profile and the timing and size class of investments made in the organization (e.g. new expert resources). The items that are hardest to predict in the lower lines are taxes at source.

Entering 2021 in good operational position

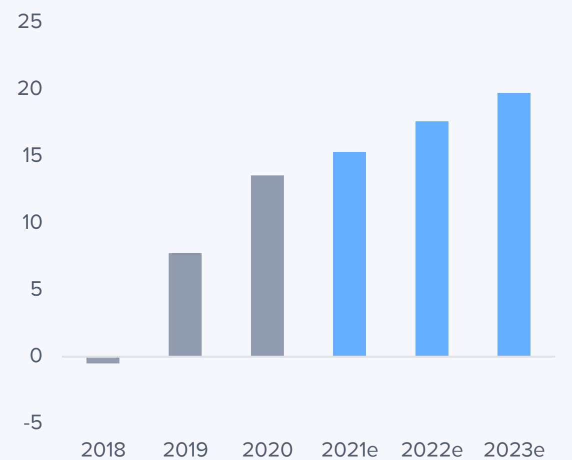
Summarizing, Tecnotree's 2020 was excellent. In an environment burdened by COVID, the company managed to grow, slightly lower its customer risk, improve the structure of its business, and allocate its capital both to the claims of the restructuring program and planned growth investments. At the same time, the company managed to preserve and to some extent even improve (due to some cost eliminations that at least to some extent are temporary) its efficiency level. As a sum of these successes, in 2020 the company reached an extremely high 37% adjusted EBIT and absolute good free cash flow considering the history. Considering the current performance and the sturdy EUR 32 million order book at the end of 2020 we feel the company's operational position when entering 2021 is good.

Despite the good starting point, the company did not give full year guidance for 2021 in connection with its financial statements due to the still acute COVID pandemic and risks related to its development. We consider this approach quite cautious. Our view of this is, next to the good starting position, also supported by the strong drivers behind the product solutions like their business development nature and the progress of operators' operating model transformation. On the other hand, Tecnotree's geographical positioning, the intricacies it generates, and the dynamics discussed before, as well as the dynamics related to new orders justify certain

Net sales and profitability development



Development of net result (EUR million)



Source: Tecnotree, Inderes

Estimates 2/3

certain restraint in the guidance for the full year even under normal circumstances.

In 2021, we estimate Tecnotree's net sales will grow by 10% to EUR 57.9 million. We believe the key drivers for growth are revenue recognition from deals made last year, investments by the largest customers and new orders this will generate, as well as winning over new customers. In line with the trends that drive the industry, we believe that the structure of Tecnotree's business will continue improving during 2021. Thus, we expect that the maintenance income related to older generation solutions will shrink but new cloud-based solutions and thus more scalable net sales to compensate for these income losses.

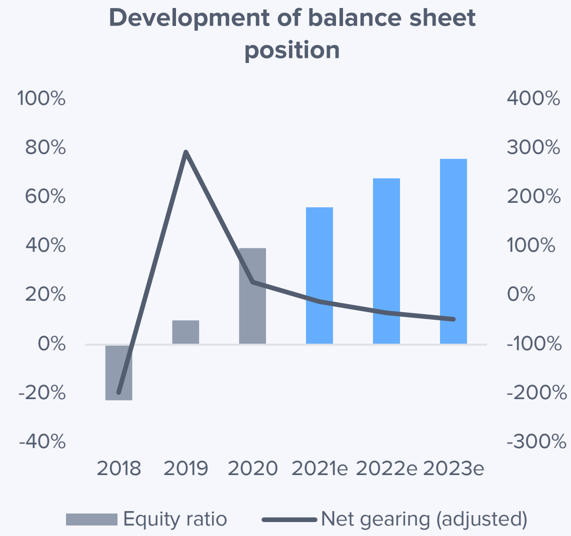
We expect adjusted operating profit to improve by 10% to EUR 21.2 million pulled by net sales growth and its improving structure. We except employee efficiency to remain on a good level in absolute terms, but both targeted growth investments and, to some degree, a normalizing cost level will limit growth scalability. We do, however, expect cost discipline to remain strict as a whole and the EBIT margin to remain at 37%. Maintaining cost efficiency and high margin levels is extremely important for cash flow generation as the working capital needs required for growth are high.

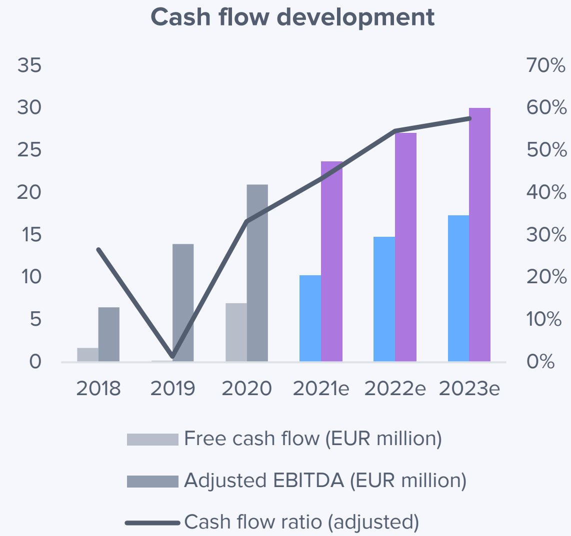
We expect financing costs before exchange rate differences not affecting cash flow to be at a normal level, while we expect the overall tax rate to remain at last year's level. Thus, we estimate Tecnotree to reach a net result of EUR 15.3 million in 2021, which corresponds with an EPS of EUR 0.06. We expect operational cash flow to improve from 2020 driven by a more modest working capital commitment because of the result improvement and slower growth. As a result of the above-explained residuals, we expect the balance sheet position at the end of the year to be strong (2021e: equity ratio 56% and net gearing -13%).

Growth continues in 2022

In 2022, we expect Tecnotree to continue on a healthy growth path and net sales to grow by 8% to EUR 62.6 million supported by good investments by the largest customers, stability of the company's own relative position, as well as progress in new customer acquisition, and opportunities generated by industry drivers. Supported by these factors, we expect the company's business structure to continue improving gradually. Even though our growth estimate is quite high, the company may even perform better than this. Such a development would, however, require that the opportunities found within the largest customers and in the new customer acquisition field prove better than we expected This would also require that these opportunities are utilized more efficiently than we expect (i.e. factors related to the company's competitiveness).

We estimate 2022 operating profit to grow by 15% to EUR 24.3 million pulled by net sales growth and better scalability than in 2021. After financing costs and tax burdens that remain at normal levels, we expect Tecnotree's net result will be EUR 17.6 million. We estimate that operational cash flow will grow more quickly than the result because of the slower growth than in 2021 and lower financing needs for working capital. We also expect this and the good





Source: Tecnotree, Inderes

Estimates 3/3

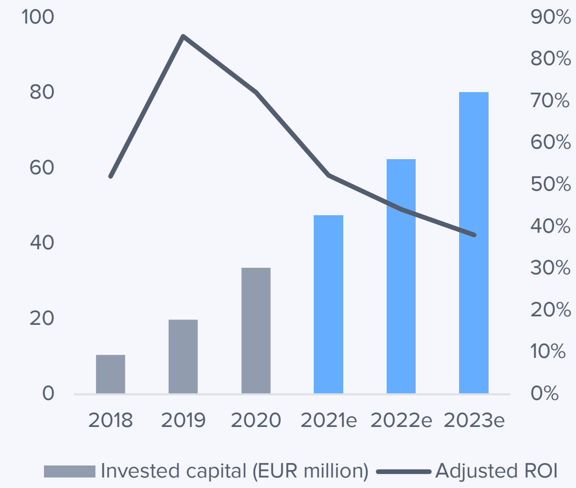
earnings level to become visible as a stronger balance sheet position. We estimate that at the end of 2022 equity ratio will be 68% and net gearing -35%. These levels would be extremely strong considering Tecnotree's business logic and without the limitations from the restructuring program, the company would have strong preconditions for profit distribution.

Growth also after 2022

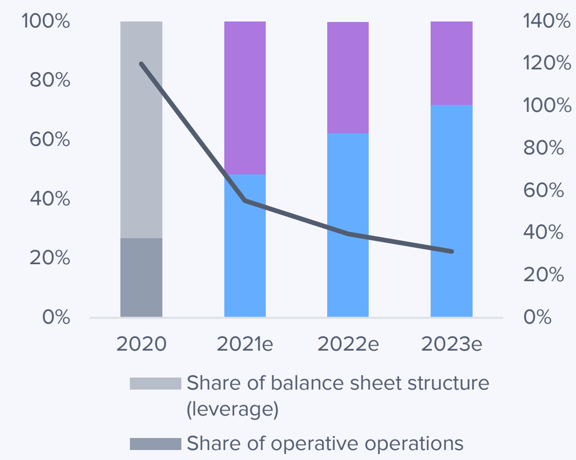
We expect Tecnotree to continue implementing its growth strategy also from 2022 onwards. In our longer-term estimate, we expect Tecnotree to continue growing supported by industry drivers and its own strengths. We expect Tecnotree's net sales to grow by 3 to 7% p.a. in the long term, which, considering the mechanical safety margin, is in line with the expected long-term growth for the industry. In the medium and especially in the long term, Tecnotree can, in our opinion, find good growth paths in verticals outside the telecommunication sector. So far, we have not, however, given any weight to these opportunities in our estimates and we consider them more option-like alternatives. We feel this is justified, considering the dynamic of breaking into new verticals (e.g. selecting a sales strategy and prevailing competitive situations), limited own resources, and the difficulties in predicting the industry in general.

In the long term, we expect the EBIT margin to remain on a strong 36 to 41% level. The key long term profitability drivers are net sales growth, gradual continuous improvement of the business structure, and maintaining current efficiency levels. Key risks, in turn, are related to the own relative position and to how the company manages to read and anticipate the market and invest based on these observations. In the equation of the expected margin level and growth rate, the operational cash flow should remain at a good level that also enables strategic leeway.

Development of return on investment



ROE development*



*In 2018 to 2019 average equity and/or net result negative

Source: Tecnotree, Inderes

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue	**47.0**	**9,8**	**14.2**	**14.6**	**14.2**	**52,8**	**10.1**	**15.2**	**16.6**	**16.0**	**57.9**	**62.6**	**67.1**	**70.7**
Konserni	47.0	9.8	14.2	14.6	14.2	52.8	10.1	15.2	16.6	16.0	57.9	62.6	67.1	70.7
EBITDA	**15.4**	**1.5**	**6.8**	**7.4**	**4.6**	**20.3**	**3.4**	**6.6**	**7.1**	**6.7**	**23.7**	**27.1**	**30.1**	**32.5**
Depreciation	-1.0	-0.4	-0.5	-0.5	-0.3	-1.7	-0.6	-0.6	-0.6	-0.6	-2.5	-2.8	-2.9	-3.3
EBIT (excl. NRI)	**13.0**	**2.3**	**5.8**	**6.9**	**4.3**	**19.3**	**2.7**	**6.0**	**6.4**	**6.1**	**21.2**	**24.3**	**27.2**	**29.3**
EBIT	**14.4**	**1.1**	**6.3**	**6.9**	**4.3**	**18.6**	**2.7**	**6.0**	**6.4**	**6.1**	**21.2**	**24.3**	**27.2**	**29.3**
Konserni	14.4	1.1	6.3	6.9	4.3	18.6	2.7	6.0	6.4	6.1	21.2	24.3	27.2	29.3
Net financial items	-2.6	-0.2	-0.9	-1.6	-0.2	-2.7	-0.2	-0.2	-0.2	-0.2	-0.8	-0.9	-0.9	-0.8
PTP	**11.8**	**1.0**	**5.5**	**5.3**	**4.2**	**15.9**	**2.5**	**5.8**	**6.2**	**5.9**	**20.4**	**23.4**	**26.3**	**28.5**
Taxes	-4.1	-0.4	-1.2	-0.9	0.1	-2.3	-0.6	-1.4	-1.6	-1.5	-5.1	-5.9	-6.6	-7.1
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**7.7**	**0.6**	**4.3**	**4.5**	**4.3**	**13.6**	**1.9**	**4.3**	**4.7**	**4.4**	**15.3**	**17.6**	**19.7**	**21.4**
EPS (adj.)	**0.03**	**0.01**	**0.01**	**0.02**	**0.02**	**0.05**	**0.01**	**0.02**	**0.02**	**0.02**	**0.06**	**0.06**	**0.07**	**0.08**
EPS (rep.)	**0.03**	**0.00**	**0.02**	**0.02**	**0.02**	**0.05**	**0.01**	**0.02**	**0.02**	**0.02**	**0.06**	**0.06**	**0.07**	**0.08**

Key figures	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21e	Q2'21e	Q3'21e	Q4'21e	2021e	2022e	2023e	2024e
Revenue growth-%	12.2%	3.2%	29.1%	17.7%	0.7%	12.3%	3.0%	6.8%	13.5%	13.0%	9.6%	8.1%	7.3%	5.3%
Adjusted EBIT growth-%	120.3%	130.0%	61.1%	60.5%	4.9%	48.5%	19.2%	2.6%	-6.6%	42.0%	10.1%	14.6%	11.8%	7.6%
EBITDA-%	32.8%	15.3%	47.9%	50.7%	32.4%	38.4%	33.3%	43.3%	42.6%	41.9%	41.0%	43.3%	44.8%	46.0%
Adjusted EBIT-%	27.7%	23.5%	40.8%	47.3%	30.3%	36.6%	27.2%	39.2%	38.9%	38.1%	36.7%	38.9%	40.5%	41.4%
Net earnings-%	16.5%	5.6%	29.9%	30.8%	30.1%	25.7%	18.9%	28.4%	28.2%	27.6%	26.5%	28.1%	29.4%	30.2%

Source: Inderes

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	**6.8**	**7.3**	**8.5**	**10.3**	**11.9**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	3.0	5.3	6.9	8.4	9.9
Tangible assets	2.4	0.5	0.6	0.8	1.0
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.8	1.0	1.0	1.0	1.0
Deferred tax assets	0.6	0.5	0.0	0.0	0.0
Current assets	**30.1**	**43.3**	**54.8**	**68.2**	**84.4**
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	26.7	35.3	38.2	40.1	41.6
Cash and equivalents	3.4	8.0	16.6	28.2	42.8
Balance sheet total	**36.8**	**50.6**	**63.3**	**78.5**	**96.3**

Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	**3.6**	**19.9**	**35.4**	**53.0**	**72.7**
Share capital	1.3	1.3	1.3	1.3	1.3
Retained earnings	5.2	18.7	34.1	51.7	71.4
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	-3.1	-0.2	0.0	0.0	0.0
Minorities	0.2	0.0	0.0	0.0	0.0
Non-current liabilities	**21.8**	**18.8**	**16.0**	**12.7**	**10.0**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	13.5	12.4	10.6	8.0	6.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	8.3	6.4	5.4	4.7	4.0
Current liabilities	**11.5**	**12.0**	**11.9**	**12.8**	**13.6**
Short term debt	0.5	1.0	1.5	1.5	1.5
Payables	9.4	11.0	10.4	11.3	12.1
Other current liabilities	1.5	0.0	0.0	0.0	0.0
Balance sheet total	**36.8**	**50.6**	**63.3**	**78.5**	**96.3**

Valuation and recommendation 1/4

Focus on result and cash flow

We prefer result and cash flow based multiples when examining Tecnotree's pricing. Over the past few years, Tecnotree has been able to lighten its tax at source burden and thus improve the quality of its net income. At the same time, the company has also clearly raised its earnings level. Together, these factors have enabled that the company's pricing can primarily be examined through the P/E ratio. Among earnings-based multiples we favor the EV/EBIT multiple that better takes the balance sheet into account. We consider cash flow based multiples a good hygienic test for the earnings based valuation level reflecting the tripartite variables linked to earnings growth, geographical positioning and cash flow generation.

Factors to be considered in valuation

We believe the following factors affect Tecnotree's valuation:

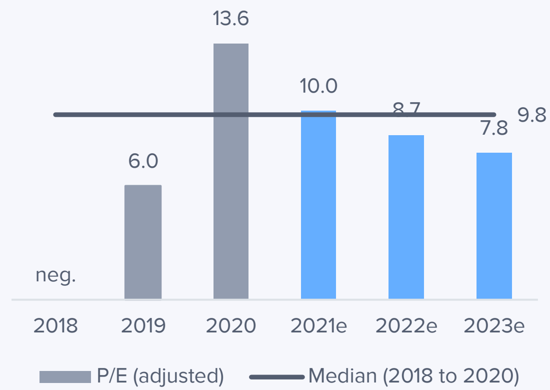
- **Cost-efficient culture** enables both maintaining a good valuation level and carrying out investments that are important for the company's competitiveness.
- **Earnings growth proof in recent years** is excellent, which in our opinion indicates the value and competitiveness of the company's own technology and the sustainability of a cost-efficient operating model. These demonstrations together with a scalable business model strengthen confidence in terms of coming years.
- **Transformation from project house to product house** has been very successful which has improved the business structure and lowered the risk profile of the share.
- **Organic growth outlook** is good and recurring income flows improve the visibility of earnings development even though there is always some cyclicality in operators' investments in the short term.
- **Cash flow profile is healthier** but one should not dismiss the risks related to this and to operating in emerging economic areas.
- **Concentrated customer portfolio** raises the risk profile and requires certain safety margins in valuation multiples.
- **The restructuring program continues until 2025**, which limits the company's financial leeway (e.g. cannot take out new loans) and, thus, can prevent grabbing some growth opportunities.

For a company like Tecnotree that has good growth potential and a scalable business model it is very hard to define an absolute multiple range. We feel this is even dangerous to some extent because a highly simplistic approach can direct you to look at the company in a too short perspective and/or only through the current earnings and risk parameters. Thus, we feel it is sensible to examine the company's pricing and available earnings expectation from the viewpoint of the company's qualitative features based on valuation levels we consider neutral, on further looking scenarios and a DCF model.

Valuation	2021e	2022e	2023e
Share price	0.56	0.56	0.56
Number of shares, millions	274.6	274.6	274.6
Market cap	154	154	154
EV	149	135	118
P/E (adj.)	10.0	8.7	7.8
P/E	10.0	8.7	7.8
P/FCF	15.0	10.4	8.9
P/B	4.3	2.9	2.1
P/S	2.7	2.5	2.3
EV/Sales	2.6	2.2	1.8
EV/EBITDA	6.3	5.0	3.9
EV/EBIT (adj.)	7.0	5.5	4.4
Payout ratio (%)	0.0%	0.0%	0.0%
Dividend yield-%	0.0%	0.0%	0.0%

Source: Inderes

P/E (adjusted)



Source: Inderes

Valuation and recommendation 2/4

Tecnotree's own historical valuation levels do not, however, bring any additional value to current pricing considering the business model that has gone through a transformation and conquered financial difficulties.

Earnings indicators are not high

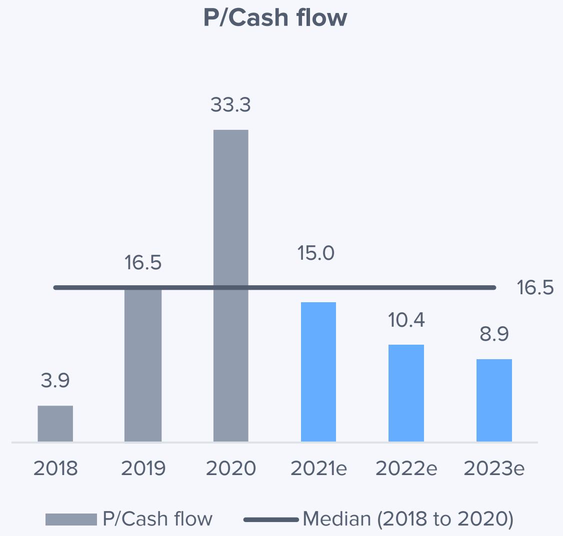
Based on our estimates, Tecnotree's P/E ratios for 2021 and 2022 are 10x and 8x while the corresponding EV/EBIT ratios are 7x and 6x. In our opinion, these levels are very moderate considering Tecnotree's growth and profitability profile. Our view of this is supported especially by the company's PEG ratio being 0.8x with the expected CAGR of the next three years. Considering the convincing track record in recent years and relative visibility of the earnings development (e.g. order book and recurring income flows), the PEG ratio could, in our opinion, justifiably but also considering sufficient safety margins be at least 1.1x to 1.2x at this point. Translated to a P/E ratio this would mean around 13x to 14x earnings multiplies and thus some 30% to 40% revenue potential. Even after a relatively high upside the multiples achieved from the exercise above would still be highly neutral in our opinion. Considering all of this, we see considerable upside pressure in the multiples from the current levels.

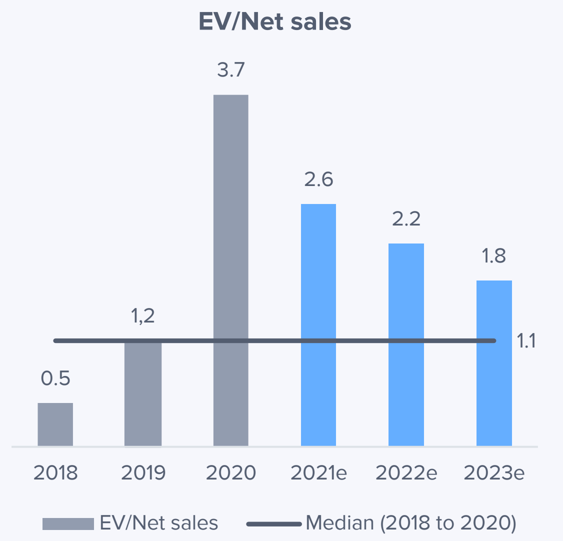
Our view of low earnings-based valuation is also supported by the fact that the P/E adjusted by the 2020 result is very modest, 11x. Considering this, we feel Tecnotree's current valuation contains a buffer against the realization of the risks related to the business and thus weaker earnings development we expect. Based on out estimates, cash flow-based multiples are at a highly sensible levels at 15x and 10x and we do not feel the valuation contains any discrepancy in this sense.

In our view, the company's current pricing is dominated more by short-term earnings development and probably also in some degree the risks related to the company's difficult past than the current operational profile. Considering this, we feel that the company's current performance, proven competitiveness, and longer-term earnings potential are not currently taken into account to their actual value. This angle strengthens our view of the upside potential in earnings-based multiples.

Peers only provide a framework

There is only handful of listed BSS suppliers. Therefore, the role of relative pricing in our valuation is secondary and we only utilize the peer group as kind of a framework. All the listed BSS suppliers are clearly bigger than Tecnotree and the companies' geographical focus areas and, thus, their strategic choices also focus on developed areas. This makes the peer group's risk profile lower. Tecnotree's operational efficiency is, however, clearly higher than the peer groups, which evens out the differences arising from the risk profiles to some extent. Compared to the peer group, Tecnotree's earnings-based discount is around 40%. Considering that the basic activities are in excellent shape, improved quality of the result and healthier cash flow profile, a discount of this size is not rational in our opinion. In our view, the company should be priced closer to the narrow peer group. In the longer term,





Source: Inderes

Valuation and recommendation 3/4

the company can, in our opinion, be justified a small relative premium as long as the company is successful in achieving profitable growth and a gradually decreasing the risk profile. The peer group as such is not especially expensive, which supports our view of upside in the relative valuation.

Longer term scenarios

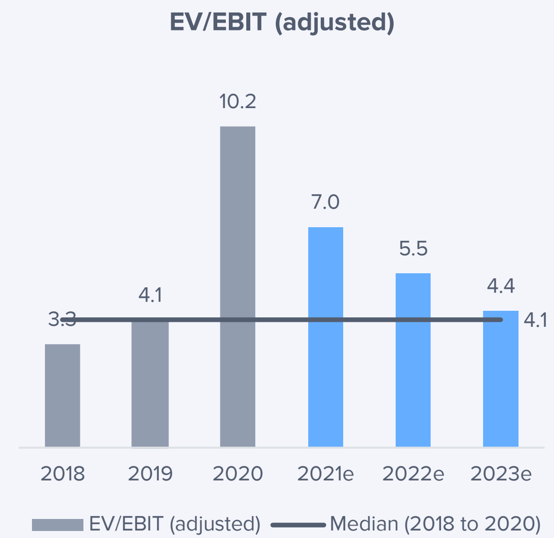
We have also determined Tecnotree's annual earnings expectation through a scenario that stretches over three years to 2025. These scenarios are based on our assumptions on implementing the company strategy, maintaining/developing competitiveness, and scalability of the business model. Even though our scenarios are rather static, and our cause-effect assumptions are straightforward, this approach offers a tangible illustration of the potential the share contains.

With our current estimates, we expect Tecnotree to be successful in implementing its strategy and nurturing its key strengths. We expect these successes to translate to some 7% annual net sales growth. We, however, expect the company to also continuously invest in operations that are critical for value creation, which will limit the scalability of growth to some extent. Despite these investments, we expect the EBIT margin to remain at a splendid 40% level. Considering the risk profile lowered by strong profitability, large growth potential and good operational performance, the company could in that case, in our opinion, be priced at an EV/EBIT ratio of at least 10x. With these assumptions, Tecnotree's debt-free enterprise value in 2025 would be EUR 297 million and corresponding market value with our net cash estimate EUR 366 million. Relative to the current market value, this would mean an annual earnings expectation of some 20%.

In our pessimistic scenario we have assumed that strategy implementation is weak, and this would result in wrong types of investments and deteriorating technological competitiveness. In this scenario, annual net sales growth is very slow and the EBIT margin drops to 25% due to investment mistakes. In this type of world, the company would generate a good result and healthy cash flow. The weaker growth profile should, however, be visible in pricing and, thus, the EV/EBIT multiple in this scenario could in our opinion be 8x. The company's market value would be EUR 149 million and annual earnings expectation 0%. The key message of the pessimistic scenario is, in our opinion, that the company is currently not subjected to very demanding expectations. In the scenario we outlined, operative development is modest, and the absolute result

	Pessimistic	Current	Optimistic
Net sales (EUR million)	55.6	74.2	92.7
Net sales growth CAGR (2021 to 2025)	*1%*	*7%*	*12%*
Operating profit (EUR million)	14	30	42
EBIT margin	25%	40%	45%
Neutral result multiple (EV/EBIT)	8	10	12
Enterprise value 2025e (EUR million)	111	297	501
Net cash 2025e	38	69	83
Market value 2025e (EUR million)	149	366	584
Market value per share	*0.5*	*1.3*	*2.1*
Return potential	-3%	137%	279%
Annual earnings expectation	-1%	19%	31%

Source: Inderes



Valuation and recommendation 4/4

multiple is quite low, but the annual earnings expectation is still only slightly negative.

In the optimistic scenario, we estimate that both investments and strategy implementation are highly successful and net sales grows at an annual level of 12%. We expect growth to scale perfectly and the EBIT margin to reach 45%. The higher growth and profitability, as well as lower risk profile (incl. stronger proof of profitable growth) should also be visible in the result multiple and we feel the company could after such a development be priced at an EV/EBIT ratio of at least 12x. This exercise results in a market value of EUR 585 million corresponding with a 31% earnings expectation.

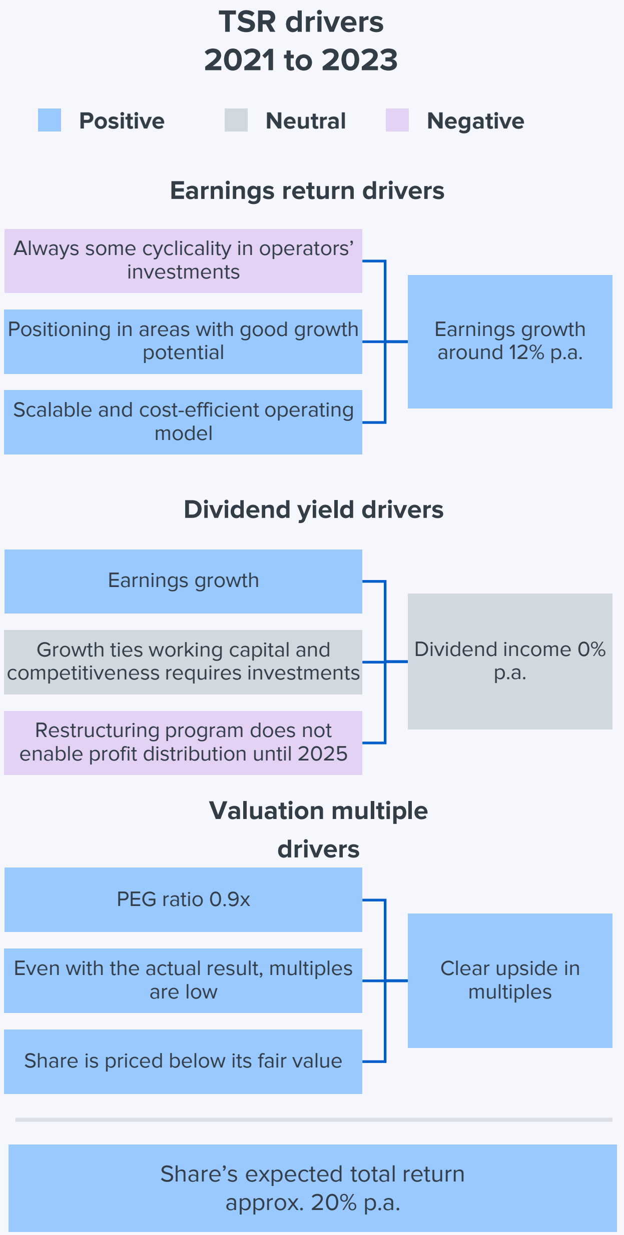
Cash flow-based valuation

We also give weight to the cash flow-based model (DCF) in our valuation despite it being very sensitive to the variables of the terminal period. We have, however, used relatively conservative estimates in our terminal period parameters for the DCF model. Considering this, the model offers, in our opinion, sufficiently relevant support for the other methods we use and especially for examining revenue potential in the longer term.

According to our DCF model, the share value is EUR 0.84, which supports the value indicated by other methods we use of the share's potential. As a whole, the DCF model also gives, in our opinion, a sensible picture of the company's current fair value. In our model, the company's net sales growth will stabilize in the long term at 3 to 7% and to 2% in the terminal period. We expect the EBIT margin will remain around 36 to 41% considering the scalable growth and cost-oriented operating model. In our model, the weight of the terminal period is a feasible 51%. The average cost of capital (WACC) used is 10% and the cost of equity is 11%.

High earnings expectation

In view of the valuation methods we use, we feel the company is priced quite clearly below its actual value. The earnings expectation consisting of expected earnings growth and clear upside in valuation multiples is high and we believe the return/risk ratio is very attractive. We start coverage of Tecnotree with a Buy recommendation and a target price of EUR 0.68.



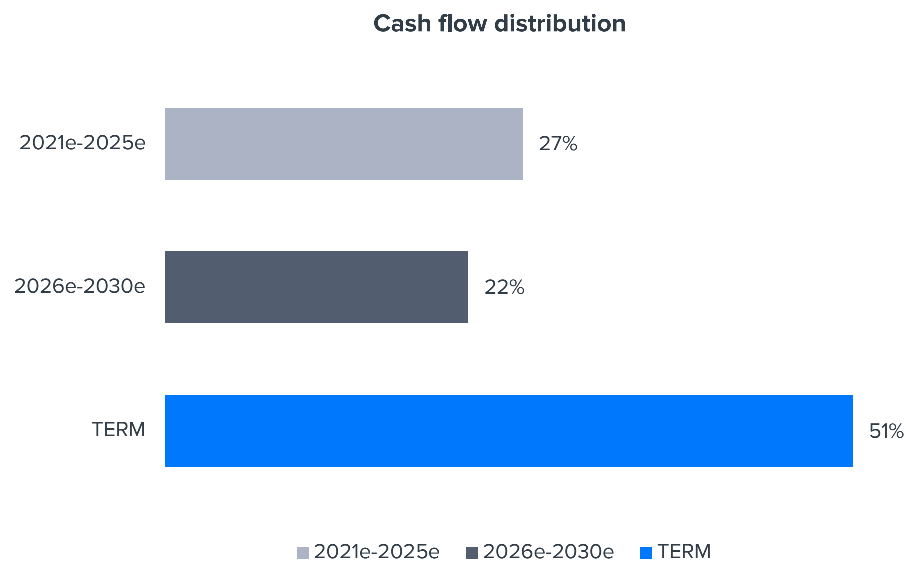
Source: Inderes

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	**18.6**	**21.2**	**24.3**	**27.2**	**29.3**	**29.7**	**29.6**	**30.0**	**31.2**	**31.2**	**31.9**	
+ Depreciation	1.7	2.5	2.8	2.9	3.3	3.8	4.0	4.1	4.2	4.2	4.2	
- Paid taxes	-3.2	-4.6	-5.9	-6.6	-7.1	-7.2	-7.2	-7.3	-7.6	-7.7	-8.0	
- Tax, financial expenses	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	-8.1	-3.5	-1.0	-0.7	-0.1	0.0	0.1	-0.4	-0.4	0.0	-0.6	
Operating cash flow	**12.9**	**15.4**	**20.0**	**22.5**	**25.1**	**26.1**	**26.3**	**26.2**	**27.2**	**27.6**	**27.5**	
+ Change in other long-term liabilities	-1.9	-1.0	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7	-0.5	0.0	
- Gross CAPEX	-3.6	-4.2	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.3	
Free operating cash flow	**7.4**	**10.3**	**14.8**	**17.3**	**19.9**	**20.9**	**21.1**	**21.0**	**22.0**	**22.6**	**23.2**	
+/- Other	-1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.8	10.3	14.8	17.3	19.9	20.9	21.1	21.0	22.0	22.6	23.2	302
Discounted FCFF		**9.6**	**12.6**	**13.4**	**14.0**	**13.4**	**12.3**	**11.1**	**10.6**	**9.9**	**9.3**	**121**
Sum of FCFF present value		237	227	215	201	188	174	162	151	140	130	121
Enterprise value DCF		**237**										
- Interesting bearing debt		-13.4										
+ Cash and cash equivalents		8.0										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		**232**										
Equity value DCF per share		**0.84**										

Wacc	
Tax-% (WACC)	25.0%
Target debt ratio (D/(D+E)	10.0%
Cost of debt	3.0%
Equity Beta	1.25
Market risk premium	4.75%
Liquidity premium	2.75%
Risk free interest rate	2.0%
Cost of equity	**10.7%**
Weighted average cost of capital (WACC)	**9.8%**

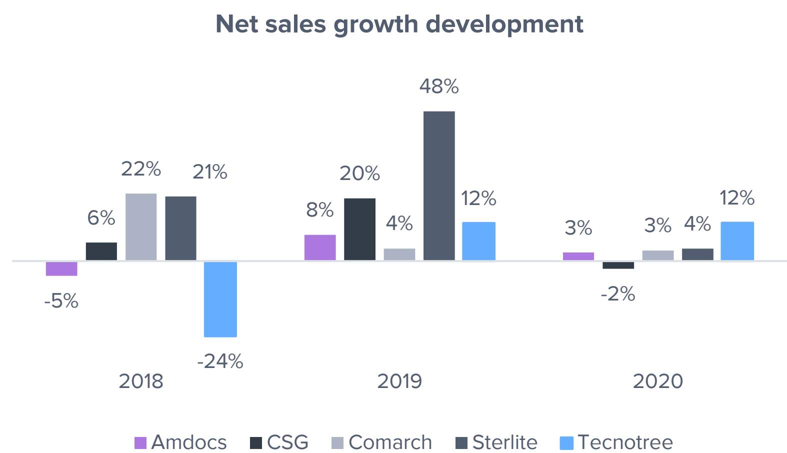
Source: Inderes

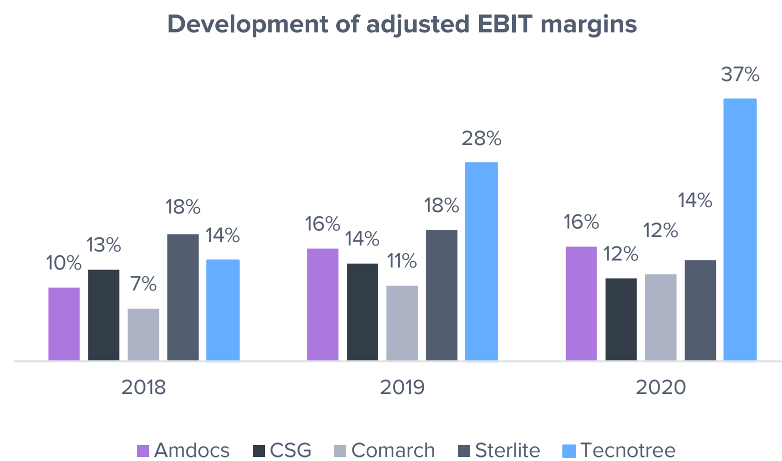


Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company		**MEUR**	**MEUR**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**	**2022e**	**2021e**
Amdocs Ltd	82.16	9,132	8,516	11.0	10.3	8.6	7.7	1.9	1.8	17.5	16.1	1.7	1.8	2.8
CSG Systems International Inc	48.66	1,347	1,441							15.1	14.6			
Comarch SA	214.00	375	332	9.4	8.8	6.1	5.6	1.0	0.9			2.3	1.5	
Sterlite Technologies Ltd	193.75	897	1,124	19.0	11.5	11.9	8.1	2.0	1.5	28.5	14.9	1.1	2.1	3.9
Tecnotree (Inderes)	**0.56**	**154**	**149**	**7.0**	**5.5**	**6.3**	**5.0**	**2.6**	**2.2**	**10.0**	**8.7**	**0.0**	**0.0**	**4.3**
Average				**13.1**	**10.2**	**8.9**	**7.2**	**1.6**	**1.4**	**20.3**	**15.2**	**1.7**	**1.8**	**3.3**
Median				**11.0**	**10.3**	**8.6**	**7.7**	**1.9**	**1.5**	**17.5**	**14.9**	**1.7**	**1.8**	**3.3**
Diff-% to median				***-36%***	***-46%***	***-27%***	***-35%***	***35%***	***41%***	***-43%***	***-41%***	***-100%***	***-100%***	***31%***

Source: Thomson Reuters / Inderes





Summary

Income statement	2018	2019	2020	2021e	2022e
Revenue	41.9	47.0	52.8	**57.9**	**62.6**
EBITDA	5.9	15.4	20.3	**23.7**	**27.1**
EBIT	5.3	14.4	18.6	**21.2**	**24.3**
PTP	4.4	11.8	15.9	**20.4**	**23.4**
Net Income	-0.5	7.7	13.6	**15.3**	**17.6**
Extraordinary items	-0.6	1.4	-0.7	**0.0**	**0.0**

Balance sheet	2018	2019	2020	2021e	2022e
Balance sheet total	28.6	36.8	50.6	**63.3**	**78.5**
Equity capital	-6.5	3.6	19.9	**35.4**	**53.0**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	12.9	10.6	5.4	**-4.5**	**-18.7**

Cash flow	2018	2019	2020	2021e	2022e
EBITDA	5.9	15.4	20.3	**23.7**	**27.1**
Change in working capital	4.3	-6.6	-8.1	**-3.5**	**-1.0**
Operating cash flow	5.1	3.9	12.9	**15.4**	**20.0**
CAPEX	0.0	-4.8	-3.6	**-4.2**	**-4.5**
Free cash flow	1.7	2.4	5.8	**10.3**	**14.8**

Largest shareholders	% of shares
Fizroy Investments	26.2%
Luminos Sun Holding	22.6%
Viking Acquisitions Corp	9.2%
Padma Ravichander	5.0%
Tecnotree Oyj	3.9%
Hammaren & Co Oy Ab	3.1%

Source: Inderes

Per share data	2018	2019	2020	2021e	2022e
EPS (reported)	0.00	0.03	0.05	**0.06**	**0.06**
EPS (adj.)	0.00	0.03	0.05	**0.06**	**0.06**
OCF / share	0.04	0.02	0.05	**0.06**	**0.07**
FCF / share	0.01	0.01	0.02	**0.04**	**0.05**
Book value / share	-0.05	0.01	0.07	**0.13**	**0.19**
Dividend / share	0.00	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2018	2019	2020	2021e	2022e
Revenue growth-%	-24%	12%	12%	**10%**	**8%**
EBITDA growth-%	-37%	161%	32%	**17%**	**14%**
EBIT (adj.) growth-%	-40%	120%	48%	**10%**	**15%**
EPS (adj.) growth-%	-97%	-3,598%	82%	**9%**	**15%**
EBITDA-%	14.1%	32.8%	38.4%	**41.0%**	**43.3%**
EBIT (adj.)-%	14.1%	27.7%	36.6%	**36.7%**	**38.9%**
EBIT-%	12.6%	30.6%	35.2%	**36.7%**	**38.9%**
ROE-%	7.7%	-472.4%	116.2%	**55.4%**	**39.8%**
ROI-%	46.9%	102.3%	73.1%	**52.6%**	**44.3%**
Equity ratio	-22.8%	9.9%	39.3%	**55.9%**	**67.6%**
Gearing	-197.8%	292.2%	27.1%	**-12.8%**	**-35.2%**

Valuation multiples	2018	2019	2020	2021e	2022e
EV/S	0.5	1.1	3.7	**2.6**	**2.2**
EV/EBITDA (adj.)	3.3	3.4	9.7	**6.3**	**5.0**
EV/EBIT (adj.)	3.3	4.1	10.2	**7.0**	**5.5**
P/E (adj.)	neg.	6.0	13.6	**10.0**	**8.7**
P/B	neg.	11.7	9.7	**4.3**	**2.9**
Dividend-%	0.0%	0.0%	0.0%	**0.0%**	**0.0%**

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Buy The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

Sell The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
30.3.2021	Buy	0,68 €	0,56 €

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