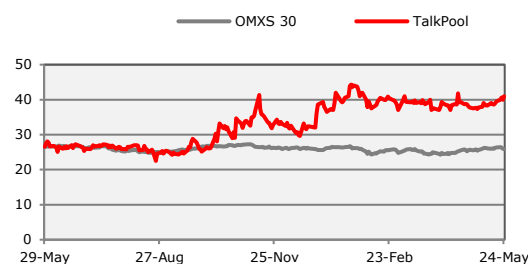


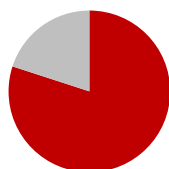
Summary
TalkPool (TALKP.ST)
Impressive gross margin

- Talkpool delivered a solid report. Although sales were lower than expected, the company delivered a quarter with EBITDA-margin over 8%. Due to the fact that the company has showed increased profitability, we have chosen to raise Talkpool's financial rating, from 2 to 3.
- Today's share price indicates that the market does not reflect Talkpool's opportunity in the arising of IoT. We believe that the market of IoT is blooming, and we find it plausible that Talkpool's share price will be closing in on our base case as soon as IoT-orders are published. We, as well as the company, believe that IoT-orders will be announced during the summer.
- We reiterate our base case valuation of Talkpool. This results in a fair value range of SEK 33-69 per share, with a base case of **SEK 50** per share.

List: Nasdaq First North
 Market Cap: 19 MEUR
 Industry: Telecommunication Services
 CEO: Erik Strömstedt
 Chairman: Magnus Sparrholm

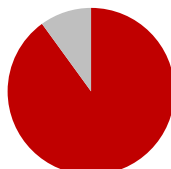

Redeye Rating (0 – 10 points)

Management



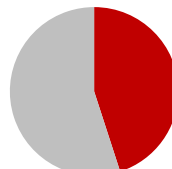
8.0 points

Ownership



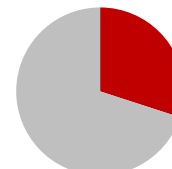
9.0 points

Profit outlook



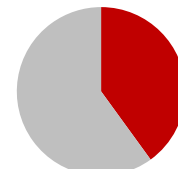
4.5 points

Profitability



3.0 points

Financial strength



4.0 points

Key Financials

	2016	2017	2018E	2019E	2020E
Revenue, MEUR	12	16	26	31	35
Growth	12%	42%	59%	20%	12%
EBITDA	0	1	2	3	3
EBITDA margin	-3%	3%	8%	10%	8%
EBIT	0	0	2	2	3
EBIT margin	-4%	2%	6%	8%	8%
Pre-tax earnings	-1	0	1	2	2
Net earnings	-1	0	1	2	2
Net margin	-6%	-2%	4%	6%	5%
Dividend/Share	0.00	0.00	0.00	0.00	0.00
EPS adj.	-0.22	-0.06	0.22	0.37	0.38
P/E adj.	-15.5	-72.1	18.0	10.4	10.1
EV/S	1.0	1.4	0.9	0.7	0.6
EV/EBITDA	-31.3	45.2	11.0	7.4	7.2

Share information

Share price (SEK)	39.7
Number of shares (m)	4.9
Market Cap (MEUR)	19
Net debt (MEUR)	4
Free float (%)	52 %
Daily turnover ('000)	1

Analysts:

Anton Wester
 anton.wester@redeye.se
 Dennis Berggren
 dennis.berggren@redeye.se

Important information: All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye Rating: Background and definitions

The aim of a Redeye Rating is to help investors identify high-quality companies with attractive valuation.

Company Qualities

The aim of Company Qualities is to provide a well-structured and clear profile of a company's qualities (or operating risk) – its chances of surviving and its potential for achieving long-term stable profit growth.

We categorize a company's qualities on a ten-point scale based on five valuation keys; 1 – Management, 2 – Ownership, 3 – Profit Outlook, 4 – Profitability and 5 – Financial Strength.

Each valuation key is assessed based a number of quantitative and qualitative key factors that are weighted differently according to how important they are deemed to be. Each key factor is allocated a number of points based on its rating. The assessment of each valuation key is based on the total number of points for these individual factors. The rating scale ranges from 0 to +10 points.

The overall rating for each valuation key is indicated by the size of the bar shown in the chart. The relative size of the bars therefore reflects the rating distribution between the different valuation keys.

Management

Our Management rating represents an assessment of the ability of the board of directors and management to manage the company in the best interests of the shareholders. A good board and management can make a mediocre business concept profitable, while a poor board and management can even lead a strong company into crisis. The factors used to assess a company's management are: 1 – Execution, 2 – Capital allocation, 3 – Communication, 4 – Experience, 5 – Leadership and 6 – Integrity.

Ownership

Our Ownership rating represents an assessment of the ownership exercised for longer-term value creation. Owner commitment and expertise are key to a company's stability and the board's ability to take action. Companies with a dispersed ownership structure without a clear controlling shareholder have historically performed worse than the market index over time. The factors used to assess Ownership are: 1 – Ownership structure, 2 – Owner commitment, 3 – Institutional ownership, 4 – Abuse of power, 5 – Reputation, and 6 – Financial sustainability.

Profit Outlook

Our Profit Outlook rating represents an assessment of a company's potential to achieve long-term stable profit growth. Over the long-term, the share price roughly mirrors the company's earnings trend. A company that does not grow may be a good short-term investment, but is usually unwise in the long term. The factors used to assess Profit Outlook are: 1 – Business model, 2 – Sale potential, 3 – Market growth, 4 – Market position, and 5 – Competitiveness.

Profitability

Our Profitability rating represents an assessment of how effective a company has historically utilised its capital to generate profit. Companies cannot survive if they are not profitable. The assessment of how profitable a company has been is based on a number of key ratios and criteria over a period of up to the past five years: 1 – Return on total assets (ROA), 2 – Return on equity (ROE), 3 – Net profit margin, 4 – Free cash flow, and 5 – Operating profit margin or EBIT.

Financial Strength

Our Financial Strength rating represents an assessment of a company's ability to pay in the short and long term. The core of a company's financial strength is its balance sheet and cash flow. Even the greatest potential is of no benefit unless the balance sheet can cope with funding growth. The assessment of a company's financial strength is based on a number of key ratios and criteria: 1 – Times-interest-coverage ratio, 2 – Debt-to-equity ratio, 3 – Quick ratio, 4 – Current ratio, 5 – Sales turnover, 6 – Capital needs, 7 – Cyclicity, and 8 – Forthcoming binary events.

Strong margins in Q1'18

Strong margins across the report

The Q1 results were the first quarter report where LCC was fully included. Net sales in the first quarter amounted to EUR 6.11m, which implies a growth of 77 % Y/Y. This was, however, 15 % lower than we have estimated. The lower sales was a result of lower sales in most of the regions, where the Middle East stood out the most. Sales in the Middle East came in EUR 2.0m, where we estimated sales of EUR 2.4m.

Talkpool: Expected vs. Actual			
(EURm)	Q1'17	Q1'18 Actual	Q1'18e Expected
Sales	3.46	6.11	7.2
Gross profit	0.67	1.56	1.66
EBITDA	-0.13	0.51	0.51
EBIT	-0.15	0.40	0.40
Net profit	-0.19	0.15	0.28
<i>Sales growth Y/Y</i>	24%	77%	108%
<i>Gross margin</i>	19%	26%	23%
<i>EBITDA margin</i>	-4%	8%	7%
<i>EBIT margin</i>	-4%	7%	6%
<i>Net profit</i>	-5%	2%	4%

Source: Talkpool, Redeye Research

Strong margins

Gross margin came in a lot higher than expected and resulted in gross margin of 25.5 %, compared to our estimate of 23 %. We believe that Pakistan (LCC) and temporary services as the main reason for the higher gross profit. However, we still think a gross margin of 23 % is more reasonable when forecasting future quarters.

The main contributors to the increased gross margin are LCC, more temporary services, and a more efficient organization

From a cost perspective, Talkpool reported SG&A of EUR 1.1m, which was precisely in-line with our estimate. However, other operating income & expenses came in somewhat higher than we expected. In conclusion, we feel confident regarding Talkpool cost profile going forward.

Lowered sales estimates in 2018 and 2019, but the case remains

We have lowered our sales estimates for 2018 and 2019 as we believe that Talkpool will achieve lower sales in the Middle East and Germany compared to our previous estimates. The company stated in early 2017 that they would achieve revenue of EUR 5m annually in Germany. However, we have seen that sales in Germany is not catching up, and sales in the first quarter report amounted to EUR 370t, which implies sales on a rolling 12 months of EUR 1.6m. A lot lower than the company previously stated.

Lowered sales estimates as a result of lower sales in the Middle East and Germany

The ongoing shift towards IoT

As stated in our second bullet point, we believe that the current share price does not reflect Talkpool's possibility in the upcoming wave of IoT. In relation to our target price, the current share price is trading around 25 % below our motivated value of Talkpool. Our belief is that the share price will consolidate towards our target price as soon as the company starts to publish further successes in the area of IoT, which should not be far away considering what the CEO said in the first quarter report. Erik Strömstedt (CEO) stated that Talkpool has many IoT-projects ongoing and that some are scheduled to launch in mid-2018, hence, within the coming 1 to 3 months. Therefore, we see a good potential for Talkpool's share price as we believe that Talkpool enter an eventful period which will raise the interest of the stock and attract more investors.

Share price will consolidate towards our motivated value as we enter an eventful IoT-period

Talkpool published that they have, together with some investors, founded Niot (Nordic IoT networks) because of the slow rollout of IoT-network across the Nordics. However, since then, Telia announced (24th of May) that they had implemented the first nationwide IoT-network (NB-IoT). NB-IoT is currently not supported by Talkpool's IoT-portfolio, as they are focused on LoRa-technology. Also interesting, is that Telia chose to implement a nationwide NB-IoT network (250 Kbps) instead of an LTE-M network (1 Mbps) which they already have implemented in Norway. We can only speculate why Telia chose NB-IoT instead of LTE-M. What one could derive from this is that the companies are willing to test different technologies and nothing is seen as standard. We think that it is good that companies like Telia are finally investing in IoT and that it will raise the interest of IoT in the Nordics.

Telia implementing the first nationwide IoT-network in Sweden

For a long time, the primary threshold for increasing sales in IoT is the lack of standardization where no company has a convenient solution which efficiently covers all area of aspect. As a result, companies have been slowly adopting the new technology and, thus, the interest from the operators have been fluctuating. This is also the reason why Talkpool founded Niot, as they will start to implement LoRa-network across the Nordics. We believe that there are many companies which are interested in Talkpool's IoT-solution, but as the coverage of LoRa is not sufficient, the companies have chosen to do minor proof of concept instead. We, therefore, believe that when the LoRa-network becomes more established Talkpool will go from proof of concept, to deliver breakthrough-orders in IoT.

Founded by Niot to increase the coverage of the IoT-network, LoRa, across the Nordic

Increasing the transparency

For the first time, Talkpool disclosed IoT-sales as part of total sales. We see this as a highly positive as investors have for a long time wanted more transparency regarding their development of IoT. In the first quarter of 2018, sales amounted to EUR 380k or 6.2 % of total sales. This was somewhat higher than our estimates of EUR 350k. We will, therefore, raise our sales projection of IoT going forward.

Improved transparency will make it easier for investors

Financial forecast

Going forward, we have lowered our sales projections because of lower sales in Germany and the Middle East. We now see that Talkpool will achieve revenue of slightly below Talkpool's financial target of EUR 40m by 2021, as we primary focus on organic growth. Our focus on organic growth is because it is hard to predict the multiple of the acquired company, how big the company is, when it will be acquired and how it will be financed. We will change our estimates as soon as Talkpool's announces further acquisitions. However, Erik Strömstedt (CEO) stated that Talkpool were outperforming the path set for 2021 to achieve a sales of EUR 40m by 2021, which includes further acquisitions. Looking forward, we believe that the revenue growth will mainly be driven by the global framework agreement together with Digicel and strong growth in Benelux and in the Middle East. In the short-term perspective, our belief is that Talkpool will generate sales of EUR 26m in 2018 and EUR 31m in 2019. We further expect gross margin of 23 % in 2018 and 2019.

Talkpool: Changes in estimate				
(EURm)	2017	2018e	2019e	2020e
Sales (new)	16.38	26.08	31.24	35.02
Sales (old)		30.38	34.31	37.20
Change (%)		-14%	-9%	-6%
EBITDA (new)	0.36	1.98	2.94	3.29
EBITDA (old)		2.38	3.07	3.32
Change (%)		-17%	-4%	-1%
EBIT (new)	0.19	1.54	2.48	2.81
EBIT (old)		1.94	2.60	2.84
Change (%)		-21%	-5%	-1%

Source: Redeye Research

Geographic sales mix

Going forward, we believe that Talkpool's main geographic markets will be Haiti, the Middle East and Benelux where we see greatest growth potential in the Middle East and Benelux. This because Talkpool now has established a local hub where they can leverage on their existing platform. Also, a country where we see great growth possibilities is Sweden as a consequence of increased IoT-sales. However, as a result of the disappointments in the last quarters, we have chosen a conservative outlook for Mauritius.

Talkpool: Sales by country									
(EURt)	2016	2017	2018 Q1e	2018 Q2e	2018 Q3e	2018 Q4e	2018e	2019e	2020e
Middle East	0	1666	1980	2000	2000	2200	8180	11000	12650
Haiti (Talkpool AG)	6333	6477	2238	2250	2250	2250	8988	9000	9000
Benelux	97	3353	740	1100	1250	1340	4430	5094	5603
Germany (TalkPool AG)	1395	1585	370	402	450	459	1681	2800	3800
Mauritius	1171	733	35	0	0	0	35	0	0
Tanzania	1166	1000	435	250	180	160	1025	923	812
Other	1409	1600	318	475	475	475	1743	2425	3153
Total Sales	11571	16414	6116	6477	6605	6884	26083	31242	35019
Growth %		42%	77%	88%	97%	12%	59%	20%	12%

Source: Redeye Research

As IoT-sales increases, Sweden is likely to become one of Talkpool's main markets

Costs Income Statement

We forecast that Talkpool will achieve a gross margin of 23 % during 2018-2020. Going forward, we have lowered the SG&A expenses, which will imply a higher EBIT margin in the years to come. The lower SG&A is the consequence of more efficient cost control by Talkpool as well as the fact that as they are able to put administrative costs in the Middle East, hence, lowering the SG&A. In 2018, the SG&A expenses are expected to amount to EUR 4m, a growth of 44 % compared to 2017. The increased SG&A expenses during 2018 are mainly driven by additional administrative cost from LCC. All considered, this implies an EBIT margin by around 6 % in 2018.

Talkpool: Estimates													
(EURm)	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18	Q2'18E	Q3'18E	Q4'18E	2018E	2019E	2020E
Revenue	11.57	3.46	3.44	3.36	6.12	16.38	6.12	6.48	6.61	6.88	26.08	31.24	35.02
Gross Profit	1.56	0.67	0.84	0.79	1.09	3.39	1.56	1.49	1.52	1.58	6.15	7.19	8.05
EBITDA	-0.37	-0.13	0.09	0.07	0.33	0.36	0.51	0.40	0.56	0.51	1.98	2.94	3.29
EBIT	-0.42	-0.15	0.07	0.05	0.22	0.19	0.40	0.29	0.45	0.40	1.54	2.48	2.81
Growth (%)	12%	41%	30%	18%	69%	42%	77%	88%	97%	12%	59%	20%	12%
Gross Margin (%)	13%	19%	24%	23%	18%	21%	25%	23%	23%	23%	23%	23%	23%
EBITDA Margin (%)	-3%	-4%	2%	2%	5%	2%	8%	6%	8%	7%	8%	9%	9%
EBIT Margin (%)	-4%	-4%	2%	2%	4%	1%	7%	4%	7%	6%	6%	8%	8%

Source: Talkpool, Redeye Research

Bear case

*Slower growth resulting
in lower profitability*

In our negative bear case, we primarily expect that the pricing pressure in the telecom industry affects Talkpool's gross margin. Also, we see that the IoT-sales do not increase at the same pace as in our base case assumption. As a result, Talkpool will not generate the same sales growth and, thus, the margins will be much lower than base case.

In bear case, we assume that Talkpool will achieve sales of EUR 25m in 2018 and by 2021 reach sales of EUR 30m, which is EUR 5m lower than our base case. Due to the pricing pressure by the operators/vendors the EBIT margin is expected to reach 1.9 % in 2018, which implies EBIT of EUR 0.93m. Sales within IoT is also expected to achieve a slower growth which, in turn, will decrease the terminal EBIT-margin and will amount to 8.4 %.

Talkpool: Estimates													
(EURm)	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18	Q2'18E	Q3'18E	Q4'18E	2018E	2019E	2020E
Revenue	11.57	3.46	3.44	3.36	6.12	16.38	6.12	6.00	6.13	6.56	24.80	27.28	30.01
Gross Profit	1.56	0.67	0.84	0.79	1.09	3.39	1.56	1.20	1.23	1.31	5.30	5.73	6.30
EBITDA	-0.37	-0.13	0.09	0.07	0.33	0.36	0.51	0.13	0.13	0.14	0.91	1.51	1.82
EBIT	-0.42	-0.15	0.07	0.05	0.22	0.19	0.40	0.02	0.02	0.03	0.47	1.17	1.47
Growth (%)	12%	41%	30%	18%	69%	42%	77%	74%	82%	7%	51%	10%	10%
Gross Margin (%)	13%	19%	24%	23%	18%	21%	25%	20%	20%	20%	23%	23%	23%
EBITDA Margin (%)	-3%	-4%	2%	2%	5%	2%	8%	2%	2%	2%	4%	6%	6%
EBIT Margin (%)	-4%	-4%	2%	2%	4%	1%	7%	0%	0%	0%	2%	4%	5%

Source: Talkpool, Redeye Research

O&M's contract with another country within the global framework agreement together with Digicel

Bull case

The positive bull case entails a scenario where Talkpool signs further contracts in regards to the global framework agreement with Digicel and higher sales growth in IoT. We can see that this increases the gross margin.

In an ideal scenario, we expect that Talkpool will achieve a growth rate of 25 % CAGR during 2017-2021. This difference is related to the profitability, where we see that Talkpool will reach EBIT of EUR 4.21m by 2021. In the Bull case, we expect that Talkpool will have a 35 % gross margin on IoT and a margin of 23 % in TNS.

In our Bull case, we also expect that OPEX will not increase as much as the previous cases, which is due to the moving SG&A costs towards Pakistan (LCC).

Talkpool: Estimates (EURm)	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18	Q2'18E	Q3'18E	Q4'18E	2018E	2019E	2020E
Revenue	11.57	3.46	3.44	3.36	6.12	16.38	6.12	7.75	8.37	8.47	30.70	34.70	37.82
Gross Profit	1.56	0.67	0.84	0.79	1.09	3.39	1.56	1.78	1.93	1.95	7.21	8.33	9.08
EBITDA	-0.37	-0.13	0.09	0.07	0.33	0.36	0.51	0.80	0.86	0.87	3.03	4.17	4.56
EBIT	-0.42	-0.15	0.07	0.05	0.22	0.19	0.40	0.72	0.77	0.78	2.67	3.63	4.21
Growth (%)	12%	41%	30%	18%	69%	42%	77%	125%	149%	38%	87%	13%	9%
Gross Margin (%)	13%	19%	24%	23%	18%	21%	25%	23%	23%	23%	23%	23%	23%
EBITDA Margin (%)	-3%	-4%	2%	2%	5%	2%	8%	10%	10%	10%	10%	12%	12%
EBIT Margin (%)	-4%	-4%	2%	2%	4%	1%	7%	9%	9%	9%	9%	11%	11%

Source: Talkpool, Redeye Research

Valuation

In our valuation of Talkpool, we have applied a discounted cash flow model (DCF) to our three scenarios: the base case (most likely), the bull case (optimistic) and the bear case (pessimistic).

In all our scenarios, we use a required rate of return (WACC) of 12.0% based on the Redeye Rating of the company's qualities and an effective tax rate of 22%.

DCF-valuation

Base case

All numbers presented in this section are from our financial forecasts. Our base case uses the following assumptions during the period 2017-2021:

- Acquisition of LCC Pakistan will contribute to sales of EUR 8m in 2018 with a gross margin of 22 - 24 %.
- The big contract with Deutsche Telekom has potential to reach EUR 5m annually over the next 8 years.
- Turnkey provider for Digicel in Haiti will be worth EUR 9.4m.
- High growth in Benelux.
- There will be a global framework agreement with Digicel covering O&M services for all of Digicel's 33 markets. Potential to take another market.
- We believe that as sales of IoT increases the margins will improve.

We predict that Talkpool will be able to achieve sales growth of 23 % CAGR and gross profit growth of 22 % CAGR in the period 2017-2021. This implies that Talkpool will reach sales of EUR 38m and an EBIT-margin of 9 % by 2021, somewhat lower than their financial target of EUR 40m sales with an EBIT-margin of 8-12 % by 2021.

In addition, we forecast that Talkpool will be able to grow sales by 4 % annually during the period 2021-2025, with a weighted EBIT margin of 10.6 %, as a result of good cost control by Talkpool. Going forward, we expect that TNS will achieve a gross margin of 23 % while IoT will achieve a somewhat higher gross margin of 35 %. Because of improved cost structure and IoT as part of sales increases, the long-term EBIT margin is expected to amount to 10.5 %.

Strong growth and better margins will create shareholder value

Talkpool will reach their financial target by 2021

Our updated DCF-value of Talkpool in our base case amounts to **SEK 50** (44) per share.

Base case DCF valuation		Cash flow, MEUR	
WACC (%)	12.00%	NPV FCF (2017-2019)	2
		NPV FCF (2020-2026)	10
		NPV FCF (2027-)	17
		Non-operating assets	1
		Interest-bearing debt	-4
		Fair value estimate MEUR	25
Assumptions 2017-2023 (%)			
Average sales growth	9.1%	Fair value e. per share SEK	50
EBIT margin	8.6%	Current share price SEK	39.7

Source: Redeye Research

Bear case

Our bear case assumes that one or more of our negative scenarios will materialise such as failed LCC integration, slow growth in IoT and with a continued price pressure within TNS. The greatest risk, in our view, is that price the pressure will continue since services provided are homogeneous. We thus believe that there is possible that Talkpool can fail to reach its financial targets.

In our bear case, we assume that Talkpool achieves a lower weighted gross margin, 21%, in the period of 2018-2025, which implies a weighted EBIT margin of 5.7%. We also see slower sales growth and especially in the segment of IoT. Here we estimate total revenue growth of 19 % CAGR during 17-21, where IoT-sales only increases with 10% CAGR. Our long-term assumptions are a revenue growth of 2 % with an EBIT-margin of 7.5 %.

Another assumption is that the acquisition of LCC will fail to generate the margins estimated in the base case. Talkpool, therefore, has problems with the integration of LCC, implying that there will be no cost structure synergies.

Our updated bear case assumptions result in a fair value of **SEK 33** (29) per share.

Bear case DCF valuation		Cash flow, MEUR	
WACC (%)	12.00%	NPV FCF (2017-2019)	1
		NPV FCF (2020-2026)	6
		NPV FCF (2027-)	13
		Non-operating assets	1
		Interest-bearing debt	-4
		Fair value estimate MEUR	17
Assumptions 2017-2023 (%)			
Average sales growth	8.0%	Fair value e. per share SEK	33
EBIT margin	6.3%	Current share price SEK	39.7

Source: Redeye Research

Bull case

Our bull case assumes that Talkpool's integration of LCC will continue to deliver solid cash flow, which Talkpool will further invest in IoT. A transformation by Talkpool from TNS to IoT will improve margins substantially. This scenario incorporates that a nationwide IoT-network is implemented and that Talkpool works with major industries on its IoT-solutions.

We assume that Talkpool is awarded more framework agreements within TNS going forward (Digicel) and that Talkpool accomplishes a fast growth in the Middle East region.

This leads us to higher revenue growth and a higher net income. We assume that Talkpool achieves annual revenue growth of 25.7 % in the period of 2017-2021 and a 6.8 % growth in the period of 2021-2025.

Another assumption is that Talkpool improves its margins in TNS as a result of the acquisition of LCC. Now, thanks to the acquisition of LCC, Talkpool can offer its highly educated people at a lower cost, which we believe will increase the gross margin. We also believe that further big framework agreements will be awarded to Talkpool and with improved cost control will improve margins.

Also, Talkpool will be able to achieve a weighted gross margin of 24 % in the period of 2017-2025, which implies a weighted EBIT-margin of 9.6 %. We expect that the terminal growth amounts to a 2% growth and an EBIT-margin of 12 %.

These estimates correspond to a fair value of **SEK 69** (55) per share.

Bull case DCF valuation	Cash flow, MEUR		
WACC (%)	12.00%	NPV FCF (2017-2019)	3
		NPV FCF (2020-2026)	13
		NPV FCF (2027-)	22
		Non-operating assets	1
		Interest-bearing debt	-4
		Fair value estimate MEUR	35
Assumptions 2017-2023 (%)			
Average sales growth	8.1%	Fair value e. per share SEK	69
EBIT margin	10.1%	Current share price SEK	39.7

Source: Redeye Research

Investment case

- The profitable core business, Telecom Network Services, is paving the way
- The fast-growing IoT will spark both margins and revenue
- The market underestimates Talkpool's ability to acquire companies

Profitable core business paving the way

Talkpool has been active in Telecom Network Services (TNS) since early 2000 and has now established a global presence. This business area has historically provided a very stable income, with a recurring revenue at 40-50% of sales from Operation and Maintenance. Talkpool has an impressive client portfolio, consisting of the most prominent operators and vendors, like Huawei and Telenor. Lately, the Company has shown a strong growth potential in TNS with the award of two major turnkey contracts with Digicel (USD 7m annually), and Deutsche Telecom (potential of reaching EUR 5m annually). In addition, the global framework agreement with Digicel will increase Talkpool's sales substantially. The stable revenue from TNS has enabled Talkpool to finance its next big business area, Internet of Things (IoT).

The exponential growth of IoT

According to Ericsson, the entire IoT-market is expected to grow by 21% CAGR by 2022, from 16 bn to 29 bn devices. The total market value of IoT in which Talkpool is active is estimated to EUR 4.2bn by 2022. Currently, including the acquisition of LCC Pakistan, Talkpool has IoT-sales of around EUR 1.5m. We believe that Talkpool will use its product portfolio to launch its IoT-products in the Middle East while using LCC IoT-solutions in areas like Haiti. We also think the Swedish IoT-market may be ready for nationwide implementation since many telecommunication companies are actively building up IoT-networks. To our belief, sales of IoT will contribute with a gross margin of 35 %.

Value creation through M&As

Talkpool acquired Camouflage in 2016 and Technetix in early 2017. Ever since Talkpool acquired these companies, they have shown an impressive revenue and profit growth. In Q2 2017, Camouflage increased its profit more than six-fold, as well as they doubled their income, while Technetix doubled their profit. The latest acquisition of LCC Pakistan will double the revenue and improve the overall margins, as LCC had revenues of EUR 9.9m and an EBITDA margin of 15% (EUR 1.5m) in 2016. Now, thanks to the acquisition of LCC, Talkpool will be exposed to the fastest-growing TNS-market. We assume that Talkpool will continue to cherry-pick its acquisitions in niche areas where price pressure is not as intense as in TNS, and also acquire companies with better margins than Talkpool. However, we have not included any additional M&A activity in our valuation.

Bear points

- **Price pressure from operators and vendors**

Talkpool's current client portfolio consists of two customers (Digicel and Huawei) who account for 43% of their revenue. If one of them decided to choose another TNS-provider, there would be a huge negative impact on Talkpool's business. However, one big client is often spread on numerous contracts in different countries. Talkpool has felt a price drop, which we believe has averaged 2-4% annually. We, thus, believe that it is possible that price pressure will continue. This will make it a challenge for Talkpool to achieve its financial target of an EBIT margin of 8% in the TNS-segment.

- **Slow ramp-up in IoT**

As we see it, the IoT-market is ramping up, in line with Ericsson's Mobility Report. However, the development of the IoT-market has taken longer than the market initially thought. Currently, most IoT-solutions are highly customised which is a threshold for continued rapid growth. IoT-market growth during the period of 2018-2019 will suffer if the market does not adopt a technology standard.

- **Less developed countries equal more risk**

Talkpool has exposure to more than 20 countries, many of which are in regions of poor political and legal stability. This is illustrated by the Pakistan Company LCC, exposing itself to a more volatile market. Quarterly results going forward could be more volatile due to market instability.

- **Impairments are part of the business**

We believe that 60% of Talkpool's revenue comes from implementations of a market segment notorious for impairment losses. If the Company does not comply with requirements set out in contractual terms and conditions higher costs related to the project could result in impairments. This can result in heavy losses and also impact the development of Talkpool. Talkpool's activities in Mauritius is a clear example of the impairment risk associated with TNS. However, Talkpool has historically not been required to take major impairment losses.

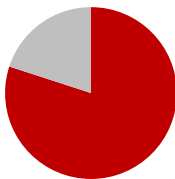
Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in the report

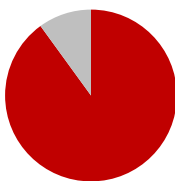
Changed our rating of profitability due to the fact that the company has showed increased profitability. Therefore, we motivate a financial rating of 3 instead of 2.

Management 8.0p



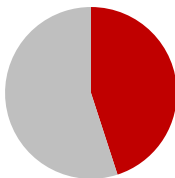
CEO Erik Strömstedt has extensive experience from the telecommunications industry. Magnus Sparrholm, the founder of Talkpool, is still the COO and is chairman of the board. Overall, this is an experienced management team with industrial knowledge. For higher score, we want to see IoT disclosed as part of sales.

Ownership 9.0p



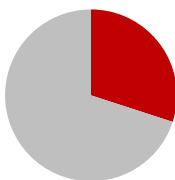
We regard the ownership structure as very respectable. The management and board hold a large number of the total shares. The largest shareholder, COO Magnus Sparrholm, holds 33% of total shares. In the last share issue Mr Sparrhold subscribed for shares worth a total EUR 11m, showing his dedication as the largest shareholder. Before assigning a higher ownership score we would like to see an institutional investor.

Profit outlook 4.5p



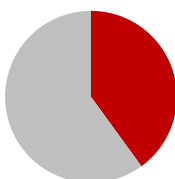
Talkpool has historically had a high portion of recurring revenue (40%) with stable gross profit. The problem lies in the TNS-market, where it is directly exposed to pricing pressure. We therefore believe that it will be hard for Talkpool to achieve an EBIT margin in excess of 8% within the TNS-segment. However, the combination of IoT and TNS will give Talkpool a competitive advantage and thus higher prices.

Profitability 3.0p



It is difficult to assign a higher rating since Talkpool has historically not shown positive net income. We expect to see net income improve on the back of increased revenue and improved cost structure, which will boost this rating. Once the company is able to show positive net income and improved profits, this rating will improve.

Financial strength 4.0p



Talkpool have just a small amount of debt which makes their financial stability as raver favorable. After the share issue it is likely that Talkpool will have a cash position of SEK 5m, depending on the amortization of guarantors debt. A good thing for Talkpool is that the Company is not largely exposed to business cyclically. The reason why Talkpool did not receive a higher rating is due to that there is a few client who covers a big part of total sales and that Talkpool in the past have shown negative cashflow.

Income statement	2016	2017	2018E	2019E	2020E
Net sales	12	16	26	31	35
Total operating costs	-12	-16	-24	-28	-32
EBITDA	0	1	2	3	3
Depreciation	0	0	0	0	0
Amortization	0	0	0	0	0
Impairment charges	0	0	0	0	0
EBIT	0	0	2	2	3
Share in profits	0	0	0	0	0
Net financial items	0	0	0	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-1	0	1	2	2
Tax	0	0	0	0	-1
Net earnings	-1	0	1	2	2

Balance	2016	2017	2018E	2019E	2020E
Assets					
<i>Current assets</i>					
Cash in banks	0	1	2	2	2
Receivables	2	5	5	6	7
Inventories	2	5	5	6	7
Other current assets	1	3	3	3	3
Current assets	5	13	15	17	19
<i>Fixed assets</i>					
Tangible assets	0	1	1	1	1
Associated comp.	0	0	0	0	0
Investments	0	1	1	1	1
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total fixed assets	1	2	2	1	2
Deferred tax assets	0	0	0	0	0
Total (assets)	6	15	17	19	21

Liabilities	2016	2017	2018E	2019E	2020E
<i>Current liabilities</i>					
Short-term debt	0	2	3	3	2
Accounts payable	1	9	8	9	10
O current liabilities	3	0	0	0	0
Current liabilities	4	11	11	12	12
Long-term debt	1	2	3	2	2
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	5	13	14	14	14
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	1	2	3	5	7
Minority interest (BS)	0	0	0	0	0
Minority & equity	1	2	3	5	7
Total liab & SE	6	15	17	19	21

Free cash flow	2016	2017	2018E	2019E	2020E
Net sales	12	16	26	31	35
Total operating costs	-12	-16	-24	-28	-32
Depreciations total	0	0	0	-1	0
EBIT	0	0	2	2	3
Taxes on EBIT	0	0	0	0	-1
NOPLAT	0	0	1	2	2
Depreciation	0	0	0	1	0
Gross cash flow	0	0	2	3	2
Change in WC	-1	-2	-1	-1	-1
Gross CAPEX	0	-1	0	0	0
Free cash flow	-1	-3	0	1	1

Capital structure	2016	2017	2018E	2019E	2020E
Equity ratio	23%	14%	19%	27%	33%
Debt/equity ratio	95%	209%	179%	97%	62%
Net debt	1	3	4	3	2
Capital employed	2	6	7	8	9
Capital turnover rate	1.9	1.1	1.5	1.6	1.7

Growth	2016	2017	2018E	2019E	2020E
Sales growth	12%	42%	59%	20%	12%
EPS growth (adj)	0%	-75%	-491%	73%	3%

DCF valuation		Cash flow, MEUR	
WACC (%)	12.0 %	NPV FCF (2018-2020)	2
		NPV FCF (2021-2027)	10
		NPV FCF (2028-)	17
		Non-operating assets	1
		Interest-bearing debt	-4
		Fair value estimate MEUR	25
Assumptions 2017-2023 (%)		Fair value e. per share, SEK	50.0
Average sales growth	9.1 %	Share price, EUR	39.7
EBIT margin	8.6 %		

Profitability	2016	2017	2018E	2019E	2020E
ROE	-62%	-16%	41%	45%	32%
ROCE	-19%	8%	22%	26%	27%
ROIC	-36%	14%	24%	30%	28%
EBITDA margin	-3%	3%	8%	10%	8%
EBIT margin	-4%	2%	6%	8%	8%
Net margin	-6%	-2%	4%	6%	5%

Data per share	2016	2017	2018E	2019E	2020E
EPS	-0.22	-0.06	0.22	0.37	0.38
EPS adj	-0.22	-0.06	0.22	0.37	0.38
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	0.26	0.70	0.73	0.54	0.37
Total shares	3.00	4.92	4.92	4.92	4.92

Valuation	2016	2017	2018E	2019E	2020E
EV	11.4	23.7	23.1	22.1	21.1
P/E	-15.5	-72.1	18.0	10.4	10.1
P/E diluted	-15.5	-72.1	18.0	10.4	10.1
P/Sales	0.9	1.2	0.7	0.6	0.5
EV/Sales	1.0	1.4	0.9	0.7	0.6
EV/EBITDA	-31.3	45.2	11.0	7.4	7.2
EV/EBIT	-27.0	66.1	13.9	8.9	7.5
P/BV	7.7	9.4	6.1	3.8	2.8

Share performance		Growth/year	15/17e
1 month	5.0 %	Net sales	49.9 %
3 month	1.3 %	Operating profit adj	◆
12 month	49.8 %	EPS, just	◆
Since start of the year	2.9 %	Equity	51.9 %

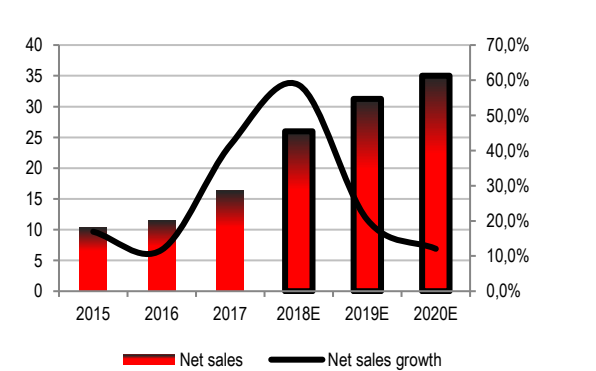
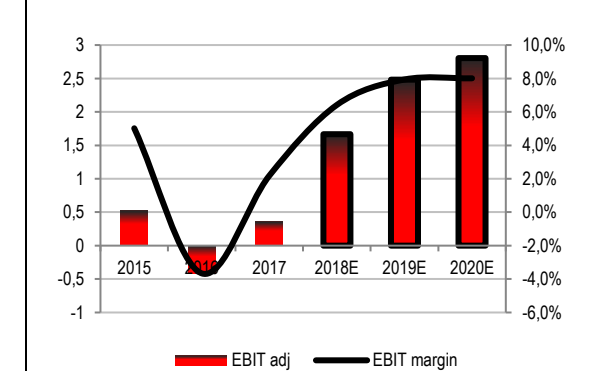
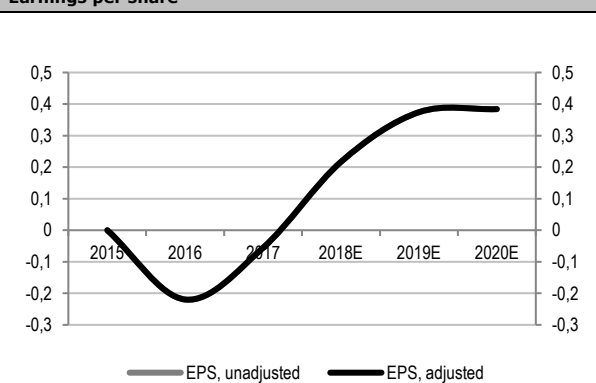
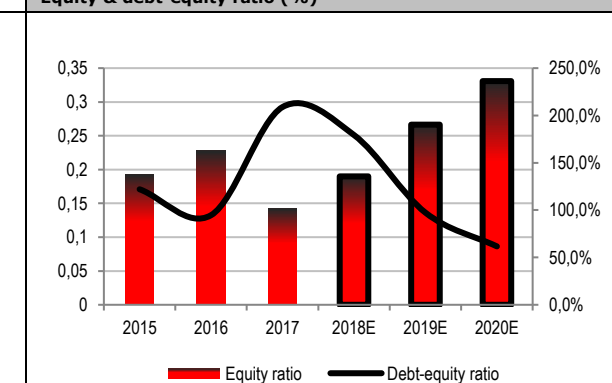
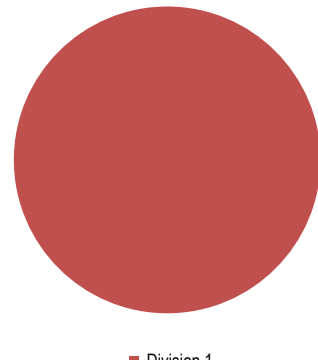
Shareholder structure %	Capital	Votes
Magnus Sparrholm	32.4 %	32.4 %
Erik Strömstedt	8.8 %	8.8 %
Avanza Pension	5.5 %	5.5 %
Nordnet Pensionsförsäkring	3.5 %	3.5 %
Stig Sparrholm	2.4 %	2.4 %
KPR Capital GmbH	2.0 %	2.0 %
IT Talks Sweden AB	1.7 %	1.7 %
Carl Rietz	1.6 %	1.6 %
Comperte AB	1.5 %	1.5 %
Handelsbanken Liv Försäkring AB	1.3 %	1.3 %

Share information	
Reuters code	
List	Nasdaq First North
Share price	39.7
Total shares, million	4.9
Market Cap, MEUR	19.2

Management & board	
CEO	Erik Strömstedt
CFO	Hanna Rubensson
IR	Erik Strömstedt
Chairman	Magnus Sparrholm

Financial information

Analysts	Redeye AB
Anton Wester	Mäster Samuelsgatan 42, 10tr
anton.wester@redeye.se	111 57 Stockholm
Dennis Berggren	
dennis.berggren@redeye.se	

Revenue & Growth (%)	EBIT (adjusted) & Margin (%)																																										
 <table border="1"> <caption>Revenue & Growth (%) Data</caption> <thead> <tr> <th>Year</th> <th>Net sales (M)</th> <th>Net sales growth (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>10</td> <td>10%</td> </tr> <tr> <td>2016</td> <td>12</td> <td>20%</td> </tr> <tr> <td>2017</td> <td>16</td> <td>33%</td> </tr> <tr> <td>2018E</td> <td>26</td> <td>60%</td> </tr> <tr> <td>2019E</td> <td>32</td> <td>25%</td> </tr> <tr> <td>2020E</td> <td>35</td> <td>10%</td> </tr> </tbody> </table>	Year	Net sales (M)	Net sales growth (%)	2015	10	10%	2016	12	20%	2017	16	33%	2018E	26	60%	2019E	32	25%	2020E	35	10%	 <table border="1"> <caption>EBIT (adjusted) & Margin (%) Data</caption> <thead> <tr> <th>Year</th> <th>EBIT adj (M)</th> <th>EBIT margin (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>0.5</td> <td>5%</td> </tr> <tr> <td>2016</td> <td>-0.2</td> <td>-2%</td> </tr> <tr> <td>2017</td> <td>0.4</td> <td>2%</td> </tr> <tr> <td>2018E</td> <td>1.7</td> <td>5%</td> </tr> <tr> <td>2019E</td> <td>2.5</td> <td>8%</td> </tr> <tr> <td>2020E</td> <td>2.8</td> <td>8%</td> </tr> </tbody> </table>	Year	EBIT adj (M)	EBIT margin (%)	2015	0.5	5%	2016	-0.2	-2%	2017	0.4	2%	2018E	1.7	5%	2019E	2.5	8%	2020E	2.8	8%
Year	Net sales (M)	Net sales growth (%)																																									
2015	10	10%																																									
2016	12	20%																																									
2017	16	33%																																									
2018E	26	60%																																									
2019E	32	25%																																									
2020E	35	10%																																									
Year	EBIT adj (M)	EBIT margin (%)																																									
2015	0.5	5%																																									
2016	-0.2	-2%																																									
2017	0.4	2%																																									
2018E	1.7	5%																																									
2019E	2.5	8%																																									
2020E	2.8	8%																																									
 <table border="1"> <caption>Earnings per share Data</caption> <thead> <tr> <th>Year</th> <th>EPS, unadjusted</th> <th>EPS, adjusted</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>2016</td> <td>-0.2</td> <td>-0.2</td> </tr> <tr> <td>2017</td> <td>0.0</td> <td>0.0</td> </tr> <tr> <td>2018E</td> <td>0.3</td> <td>0.3</td> </tr> <tr> <td>2019E</td> <td>0.4</td> <td>0.4</td> </tr> <tr> <td>2020E</td> <td>0.4</td> <td>0.4</td> </tr> </tbody> </table>	Year	EPS, unadjusted	EPS, adjusted	2015	0.0	0.0	2016	-0.2	-0.2	2017	0.0	0.0	2018E	0.3	0.3	2019E	0.4	0.4	2020E	0.4	0.4	 <table border="1"> <caption>Equity & debt-equity ratio (%) Data</caption> <thead> <tr> <th>Year</th> <th>Equity ratio (%)</th> <th>Debt-equity ratio (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>150%</td> <td>100%</td> </tr> <tr> <td>2016</td> <td>180%</td> <td>100%</td> </tr> <tr> <td>2017</td> <td>140%</td> <td>200%</td> </tr> <tr> <td>2018E</td> <td>190%</td> <td>150%</td> </tr> <tr> <td>2019E</td> <td>260%</td> <td>100%</td> </tr> <tr> <td>2020E</td> <td>330%</td> <td>100%</td> </tr> </tbody> </table>	Year	Equity ratio (%)	Debt-equity ratio (%)	2015	150%	100%	2016	180%	100%	2017	140%	200%	2018E	190%	150%	2019E	260%	100%	2020E	330%	100%
Year	EPS, unadjusted	EPS, adjusted																																									
2015	0.0	0.0																																									
2016	-0.2	-0.2																																									
2017	0.0	0.0																																									
2018E	0.3	0.3																																									
2019E	0.4	0.4																																									
2020E	0.4	0.4																																									
Year	Equity ratio (%)	Debt-equity ratio (%)																																									
2015	150%	100%																																									
2016	180%	100%																																									
2017	140%	200%																																									
2018E	190%	150%																																									
2019E	260%	100%																																									
2020E	330%	100%																																									
<p>Sales division</p>  <p>■ Division 1</p>	<p>Geographical areas</p>																																										
<p>Conflict of interests</p> <p>Anton Wester. owns shares in the company : No Dennis Berggren owns shares in the company : No</p> <p>Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.</p>	<p>Company description</p> <p>Talkpool is a global profitable Telecommunication Network Service specialist and an IoT ecosystem enabler. The Company services, designs, delivers technology and integrates IoT and Telecommunication solutions. Talkpool is based in Chur, Switzerland.</p>																																										

DISCLAIMER**Important information**

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

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

Limitation of liability

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

Potential conflict of interest

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

- For companies that are the subject of Redeye's research analysis, the applicable rules include those established by the Swedish Financial Supervisory Authority pertaining to investment recommendations and the handling of conflicts of interest. Furthermore, Redeye employees are not allowed to trade in financial instruments of the company in question, effective from 30 days before its covered company comes with financial reports, such as quarterly reports, year-end reports, or the like, to the date Redeye publishes its analysis plus two trading days after this date.
- An analyst may not engage in corporate finance transactions without the express approval of management, and may not receive any remuneration directly linked to such transactions.
- Redeye may carry out an analysis upon commission or in exchange for payment from the company that is the subject of the analysis, or from an underwriting institution in conjunction with a merger and acquisition (M&A) deal, new share issue or a public listing. Readers of these reports should assume that Redeye may have received or will receive remuneration from the company/companies cited in the report for the performance of financial advisory services. Such remuneration is of a predetermined amount and is not dependent on the content of the analysis.

Redeye's research coverage

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

Recommendation structure

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

Redeye Rating (2018-05-29)

Rating	Management	Ownership	Profit outlook	Profitability	Financial Strength
7,5p - 10,0p	45	44	17	10	20
3,5p - 7,0p	76	68	105	34	46
0,0p - 3,0p	15	24	14	92	70
Company N	136	136	136	136	136

Duplication and distribution

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

Copyright Redeye AB.