



# LINC

LUND UNIVERSITY FINANCE SOCIETY EST 1991

EQUITY RESEARCH REPORT

## ENEAB AB (ENEAB)

”Positioning their embedded technology in an expanding market”

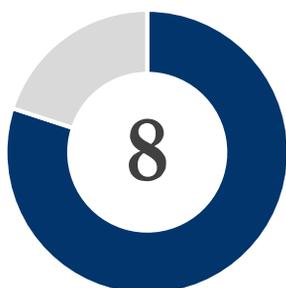
## TABLE OF CONTENTS

Case Summary	3
Investment Thesis	4
Valuation	5
Management	6
SWOT-Analysis	7
Appendix	8
Disclaimer	9

## COMPANY DESCRIPTION

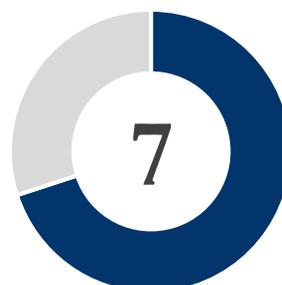
Enea is a global information technology company based in Kista, Sweden that provides real-time operating systems (RTOS), system development and IT solutions. Their historically most acclaimed area of expertise is their RTOS technology, which entails embedded back-end software intended to serve applications that process data. The company's pronominally active within telecom and software building, but is also operational within support and consulting services. The company is divided up in three segments of which are worldwide software sales, global services and key accounts. The company was founded in 1968 and currently has approximately 500 employees.

### VALUE DRIVERS



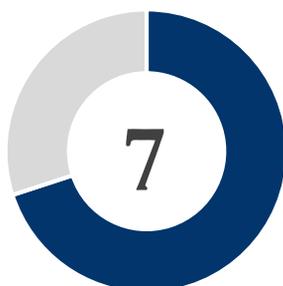
Enea's primary value drive, is its prospects within 5G and strong market position possibilities. The rapidly growing segment Worldwide Software Sales is showing promising result by large virtue of the recent acquisitions; Openwave Mobility and Qosmos. The rising interest for the 5G technology is expected to attain growth of 15% annually between 2018-2020.

### FINANCIAL HISTORY



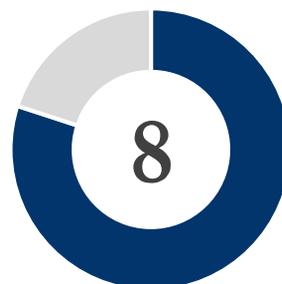
Enea has had a high debt margin of 29.1% following the major acquisitions of Qosmos, Openwave Mobility and the most recent ATOS. Though high debt is preminent the company has sufficient cash flows, with 387Msek in current liabilities and 537Msek in current assets (1.4x current account ratio) and is financially stable with an all time high EBITDA margin of 27.2%.

### MANAGEMENT



Enea's management has experience and a long history within their field of expertise. A new CEO, whom will be entering the company in Q2 2019 will bring value to Enea through his M&A experience as head of R&D and product portfolio at Ericsson. However we do see a potential risk of taking on a new CEO in this intensive phase.

### RISK PROFILE



Although Enea is the world market leader in telecom-RTOS, we see their lack of assimilation in open-source solutions as a potential risk going forward. Developers within telecom are demanding open-source solutions and it is a central reason for why Key accounts (Nokia and Ericsson) have started to switch over to competitors.

**Enea** is the world leader within RTOS technology in the telecom sector. Their underlying technology is responsible for over 3.5 billion calls made daily. This is due to the fact that their technology is present in half of the world's telephone base stations and in over 75% of the 4G base stations.

With the aspirations of attaining market share once 5G becomes official, Enea has made three crucial acquisitions which hopefully will make Enea flourish and synergize. The acquisitions will help the company continue to elevate its worldwide software sales which now represent 62% of the business. We see this strategy change as a strong counter movement to their declining revenues from key accounts (Ericsson and Nokia) whom have decreased future orders as they are switching to open source alternatives, a field which Enea is not very operational in.

- **The Worldwide software sales segment is displaying recording breaking figures, and as of Q4 2018 represent 62% of the Company.** The acquisitions of Qosmos and Openwave Mobility have shown promising results. We expect the acquisition's individual share to continue to grow by 15% annually based on the assumption that CAGR for the market NFV (Network functions virtualization) is expected to grow at this rate until 2022. We also believe that ATOS will be in line with these growth prospects.
- **Global Services are turning profitable.** ENEA's business unit; Global Services, has faced major challenges for several consecutive years. However, as of recently has managed to turn this around during Q4 2017 due to increase in demand for their consulting services. With the anticipated EBITDA margin we anticipate these results to continue.
- **Key Accounts revenues will continue to decline.** Enea has historically been dependent on their Key Accounts market. which consists of software sales and product-related services for their two biggest customers; Ericsson and Nokia. Recently the revenue figures from these clients have decreased and we expect a continued fall of -19% from 2018-2020. This decrease has been the result of Ericsson and Nokia changing their backend.

## ENEA (ENEA)

Current Price (SEK)	135
52 v Low/High	73.40 / 149.50
Market Cap (BSEK)	2.71
Net Debt (MSEK)	634.1
Enterprise Value (BSEK)	3.17
Sector	Information Technology
Exchange	Midcap Stockholm
Next Report	2018-04-24

## 1 Year Chart

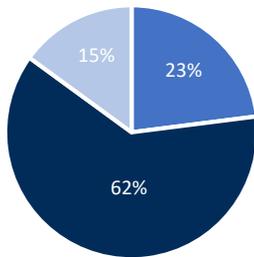


MSEK	2018A	2019E	2020E
Sales	830.4	1019.6	1150.6
Growth (%)	40.9	22.8	12.8
Gross Marg (%)	73.2	71.6	71.4
EBIT	177.3	218.8	246.9
EBIT Marg (%)	21.3	21.5	21.5
EBITDA	217.5	267.1	301.4
EBITDA Marg (%)	26.2	26.2	26.2
Earnings	149.3	214.1	240.8
Earnings Marg (%)	18.0	21.0	20.9
EV/S	3.0	2.5	2.2
EV/EBITDA	11.6	9.4	8.4
P/E	19.2	18.2	15.6
Equity Ratio (%)	50.0	54.0	45.0

## Ownership

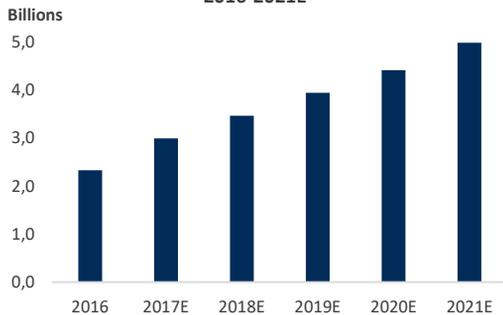
Per Lindberg	26.0 %
Avanza Pension	12.5 %
Swedbank Robur Småbolagsfond	5.8 %
JP Morgan	4.2 %

2018 Revenue by market

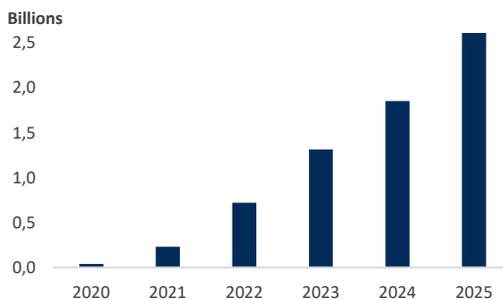


■ Key Accounts ■ Worldwide Software Sales ■ Global Services

Cellular connected devices worldwide from 2016-2021E



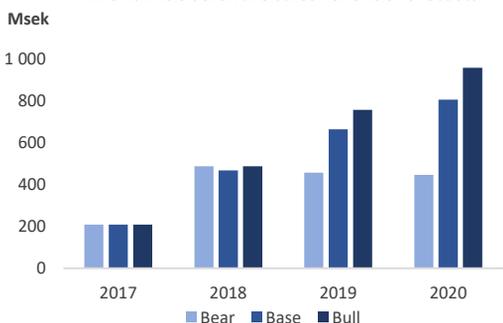
Forecast number of 5G subscriptions worldwide



”Since the previous acquisition of Openwave Mobility, we have a leading position in data storage for the fifth generation mobile network, and the current acquisition strengthens and complements this area with several of the key applications needed in the central parts of a mobile network.”

- Anders Lidbeck, CEO

Worldwide software sales revenue forecasts



## Macrotrends; 5G hitting the market & Connected Cellular Devices increasing globally

With 5G being predicted to hit market by 2020 and cellular connected devices being expected to increase by 27% over the next year, Enea is positioned well to meet the market demands and has begun expanding into new segments in order to potentially take market shares. The acquisitions of Openwave Mobility, Qosmos and ATOS will be major sources to this potential success, and has already helped Enea elevate its worldwide software sales segment.

## Openwave, Qosmos and ATOS

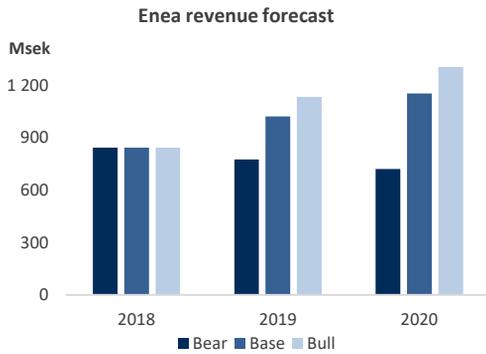
The Openwave acquisition is built around 4G/5G video streaming that is expected to be of even greater demand once 5G hits the market, considering 90% of the 5G traffic is anticipated to be based around video-streaming. Openwave’s technology will allow 5G users to buffer videos in the matter of a few seconds at a download speed of up to 1GB per second at a latency of less than 1ms. Qosmos is the world leading supplier of IP traffic classification and focuses on traffic optimization, service chaining, quality of service, analytics, cybersecurity and more. Enea’s Qosmos customers benefit from fast time to market and continuous signature updates for their products. Lastly, the most recent acquisition of ATOS will help Enea with its policy control and subscriber data.

## The synergy of the acquisitions

It is clear to us that the three acquisitions assimilate well and that they will be crucial components of the future, Qosmos will take care of traffic, ATOS will be responsible of policy making and Openwave Mobility will bring the video segment to the market. Considering Jan Häglund is stepping in as CEO in May, with experience of investment decision making, M&A activities, also noting that the company has sufficient EBITDA margins and cash flow, further acquisitions are to be expected in the upcoming years.

## Key Accounts dropping & International Competition

Enea has had a historical reliance on sales from Ericsson and Nokia, both of these customers are scaling down their future investments due to the fact that open source software is becoming more attractive. It will therefore be crucial that; Enea keeps its worldwide sales at its current rate to compensate for this decline. Another threat Enea is exposed to is international competition, the US is working tediously to become the leading nation within 5G, the question is now therefore if Sweden and Enea will be able to stand out and take worldwide market share once 5G hits the market.



Multiples 2018	EV / R	EV / EBITDA	EV / EBIT	P/E
Enea	3.0	11.6	14.2	19.17
Hiq	1.3	11.8	12.7	17.33
IAR Systems	8.3	22.9	27.7	36.43
Vitec	2.4	9.5	20.8	24.0
<i>Mean average</i>	4.0	14.7	20.4	25.9

Multiples 2019E	EV / R	EV / EBITDA	EV / EBIT	P/E
Enea	2.5	9.4	11.6	18.18
Hiq	1.3	9.9	10.5	18.94
IAR Systems	7.1	18.8	23.8	35.71
Vitec	1.4	8.8	19.2	23.1
<i>Mean average</i>	3.3	12.5	17.8	25.9



Target multiples and revenue estimates are based on the yield from key value drivers, declining future orders from key accounts as well as a comparable company analysis. With the anticipated valuation we predict that the macro trends; 5G and increasing cellular devices globally, will yield growth related to the CAGR for the NFV market. We also forecast effective synergies through recent acquisitions which will serve for increased worldwide software sales.

**In a Base scenario, the implied share price is 168.2 SEK – an upside of 22.8%.**

In the Base scenario, we anticipate that Enea’s revenue will grow 22.8% with an EBIT margin of 21.5% by the end of 2019. This upside will be based mainly on continued worldwide software sale growth and that recent acquisition’s components will seek CAGR growth of 15% until 2023-24. Enea’s technology can now be customized to customer needs which we anticipate to elevate demands for Enea’s products and services. Key Accounts will continue to fall as Nokia and Ericsson are switching to open source alternatives, we anticipate that key accounts will have decreased by 9% by the end of 2019 but that worldwide software sales will compensate for these losses. We have set the target EV/EBIT multiple at 11.6x due to the estimated 23.5% EBIT growth by the end of 2019.

**In a Bear scenario, the implied share price is 127.3 SEK – a downside of -5.4%**

In a Bear scenario we anticipate the worldwide software sales to decrease by 8.5% due to synergies not working out as planned by 2019. With this prediction we also expect that the 5G network won’t seek the same growth and demand as anticipated. Fewer 5G suppliers will demand Enea’s integrated services as less base stations would have to be built. In the Bear scenario we also anticipate that for this reason, key accounts will decrease by 20% by the end of 2019 due to that Nokia and Enea will scale down further on Enea’s services.

**In a Bull Scenario, the implied share price is 186.6 – an upside of 38.2%**

In the Bull scenario, we anticipate that Enea’s revenue will grow 38.2% primarily driven by the Enea’s strong worldwide software sales segment and that recent acquisition’s will seek a CAGR growth of 21.5% until 2023-24. With this prediction we assume that 5G would be a success and exceed its expectations. thus yield 6.5% higher growth than market expectations. We base this on 5G suppliers releasing well-functioning services and that increase in cellular connected devices would drive up demands for 5G. We also anticipate that key accounts would ease their downscaling of Enea as they revalue Enea as a key player in the market.

**Peer comparison in Sweden, Enea has substantially better EV multiples. P/E value & EBIT.**

As RTOS is a specialized field, data consulting & software optimizing companies were chosen as peers, It is notable that the EV multiples for Enea are lower than its peers. which we entail as undervaluation. Though the P/E value for Enea is at its historical high at 19.2 due to 5G excitement, it is in fact low compared to the peer mean of 25.9. We expect the P/E for Enea to decline over time with estimates of 15.6 by 2020. Enea’s EBIT is also significantly higher at 188.9mSEK compared to its peers average of 148.6mSEK.



## **Anders Lidbeck (14 000 shares)**

President & CEO

After being appointed in 2011, Anders has been a profound key to the improvements and growth of Enea. He has recently declared that his time as CEO is coming to an end with his replacer Jan Häglund stepping in to take his place.

## **Jan Häglund (0 shares)**

Upcoming CEO

Stepping in as CEO in May 2019, Jan comes with solid experience within investment decision making and M&A activities. He is leaving his current post as head of the product portfolio and R&D at Ericsson where he has been stationed for 12 years.



## **Björn Westberg (0 shares)**

CFO

Björn was recruited in 2018 however has 17 years of experience as CFO for other tech and software companies such as Jeeves Information Systems.

## **Jean-Philippe Lion (0 shares)**

Senior Vice President - DPI Business Unit

Jean-Philippe was appointed to his role in the beginning of 2017 however has been working as VP of Sales at Qosmos (acquired by Enea in the end of 2016) since 2007.



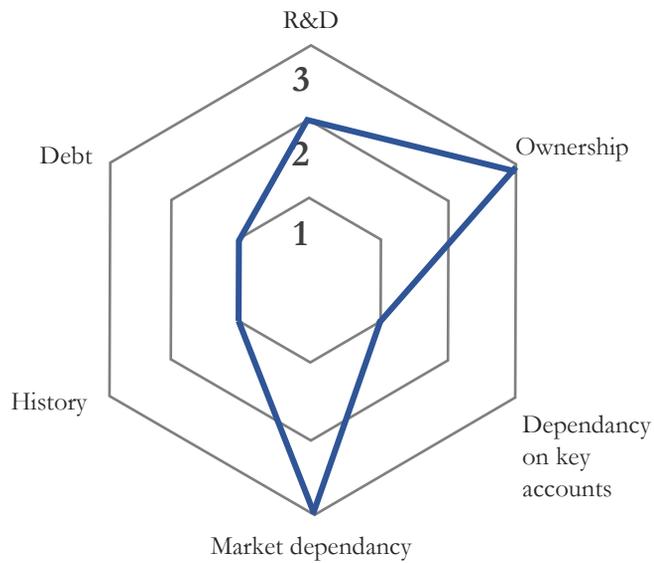
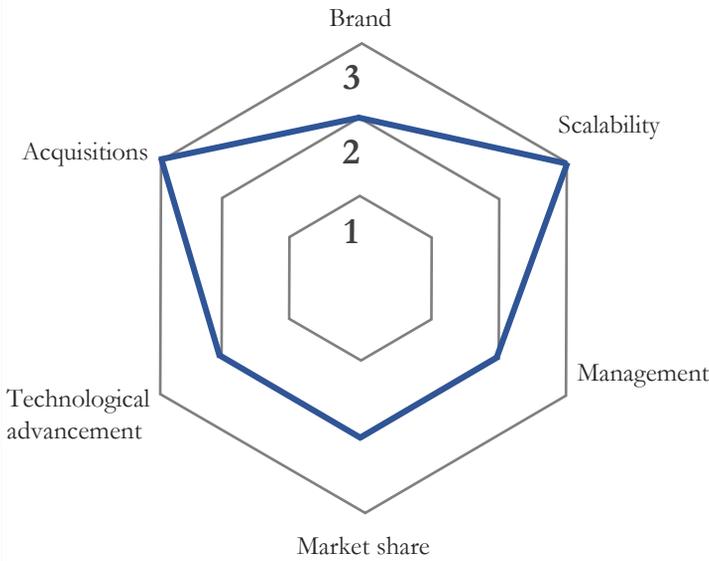
## **Adrian Leufven (15 000 shares)**

Senior Vice President - OS Business Unit Senior Vice President DPI business Unit CFO

Adrian has been working at Enea for more than 20 years since taking his exam from KTH in Stockholm.

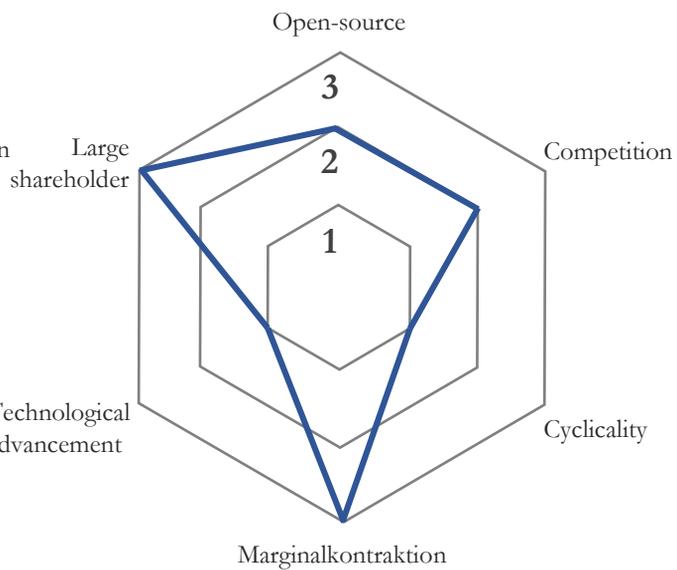
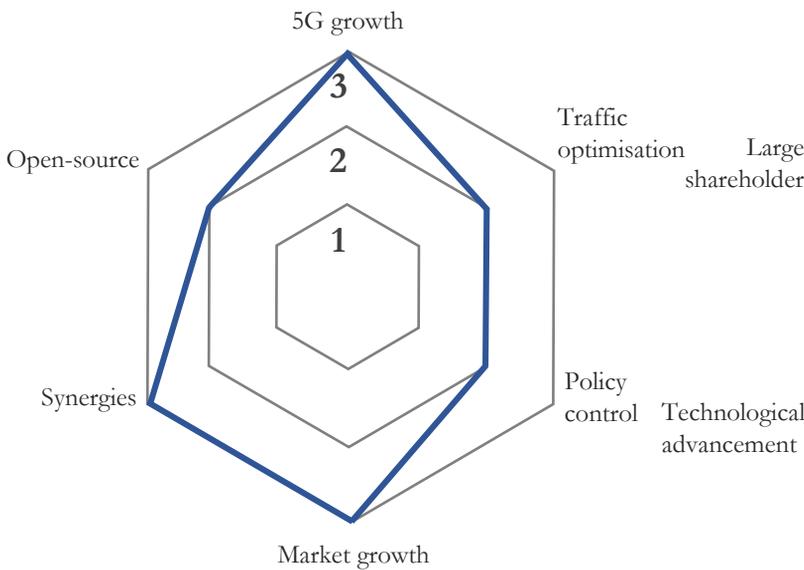
## STRENGTHS

## WEAKNESSES



## OPPORTUNITIES

## THREATS



## Ansvarsbegränsning

Analyser, dokument och all annan information (Vidare ”analys(en)”) som härrör från LINC Research & Analysis (”LINC R&A” (LINC är en ideell organisation (organisationsnummer 845002-2259))) är framställt i informationssyfte och är inte avsett att vara rådgivande. Informationen i analysen ska inte anses vara en köp/säljrekommendation eller på annat sätt utgöra eller uppmana till en investeringsstrategi.

Informationen i analysen är baserad på källor, uppgifter och personer som LINC R&A bedömer som tillförlitliga, men LINC R&A kan aldrig garantera riktigheten i informationen. Den framåtblickande informationen i analysen baseras på subjektiva bedömningar om framtiden, vilka alltid är osäkra och därför bör användas försiktigt. LINC R&A kan aldrig garantera att prognoser och framåtblickande estimat kommer att bli uppfyllda. Om ett investeringsbeslut baseras på information från LINC R&A eller person med koppling till LINC R&A, ska det anses som dessa fattas självständigt av investeraren. LINC R&A frånsäger sig därmed allt ansvar för eventuell förlust eller skada av vad slag det än må vara som grundar sig på användandet av analyser, dokument och all annan information som härrör från LINC R&A.

## Intressekonflikter och opartiskhet

För att säkerställa LINC R&A:s oberoende har LINC R&A inrättat interna regler. Utöver detta så är alla personer som skriver för LINC R&A skyldiga att redovisa alla eventuella intressekonflikter. Dessa har utformats för att säkerställa att *KOMMISSIONENS DELEGERADE FÖRORDNING (EU) 2016/958 av den 9 mars 2016 om komplettering av Europaparlamentets och rådets förordning (EU) nr 596/2014 vad gäller tekniska standarder för tillsyn för de tekniska villkoren för en objektiv presentation av investeringsrekommendationer eller annan information som rekommenderar eller föreslår en investeringsstrategi och för uppgivande av särskilda intressen och intressekonflikter* efterlevs.

Om skribent har ett innehav där en intressekonflikt kan anses föreligga, redovisas detta i informationsmaterialet.

## Övrigt

LINC R&A har ej mottagit betalning eller annan ersättning för att göra analysen.

Analysen avses inte att uppdateras.

## Upphovsrätt

Denna analys är upphovsrättsskyddad enligt lag och är LINC R&A:s egendom (© LINC R&A 2017).

