

# Interim Report Q1 2019

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# Business Areas



## Video and Broadband Solutions

Broadband networks and video security and information solutions



## Network Services

Comprehensive service solutions for cable networks

# Teleste personnel around the Globe

31.3.2019

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**Teleste's expertise and competitive edge are based on the motivated and professional personnel.**  
**Teleste employs about 1380 employees.**  
**66 % of the personnel works outside Finland.**

# Teleste Group - Q1 2019



- Orders received decreased year-on-year especially in Network Services.
- Compared with the end of the reference period, the order backlog increased by 16.2% to record high 75.4 M€.
- Net sales were on par with the reference period.
- Adjusted operating result grew from the reference period.
- The operating result was negative and included a provision totalling 7.3 M€ recognised in relation to the loss of assets due to a crime committed against a foreign subsidiary.
- Cash flow from operations was reduced year-on-year by the loss of assets due to the crime.

|                         | Q1 2019 | Q1 2018 | YoY change | Q4 2019 | QoQ change |
|-------------------------|---------|---------|------------|---------|------------|
| Orders received, M€     | 63,0    | 66,6    | -5,4 %     | 81,0    | -22,2 %    |
| Net sales, M€           | 58,6    | 59,3    | -1,2 %     | 66,5    | -11,9 %    |
| Adjusted EBIT, M€       | 1,3     | 0,8     | 59,4 %     | 2,2     | -41,4 %    |
| Adjusted EBIT-%         | 2,2 %   | 1,4 %   |            | 3,4 %   |            |
| EBIT, M€                | -6,0    | 0,8     | -829,7 %   | 2,2     | -368,3 %   |
| Net profit, M€          | -6,4    | 0,6     | -1246,8 %  | 1,6     | -491,4 %   |
| Adjusted EPS, €         | 0,05    | 0,03    | 63,0 %     | 0,09    | -43,3 %    |
| EPS, €                  | -0,35   | 0,03    | -1200,5 %  | 0,09    | -482,5 %   |
| Operative cash flow, M€ | -0,9    | 3,0     | -130,0 %   | 2,1     | -143,3 %   |



# Video and Broadband Solutions - Q1 2019



- Orders received were on par with the reference period, but decreased from record high level seen in the last quarter.
- Order backlog increased to 75.4 M€ reaching the highest level in history. Approx 60 % of the orders in the order backlog will be delivered this year.
- Net sales increased year-on-year particularly in video security and information solutions.
- Operating result increased year-on-year. Operating result was improved by the growth of the net sales of video security and information systems and due to focus on higher-margin products in the sale of access network products.

|                     | Q1 2019 | Q1 2018 | YoY change | Q4 2018 | QoQ change |
|---------------------|---------|---------|------------|---------|------------|
| Orders received, M€ | 39,7    | 39,9    | -0,6 %     | 51,1    | -22,4 %    |
| Net sales, M€       | 35,3    | 32,6    | 8,2 %      | 36,7    | -3,9 %     |
| EBIT, M€            | 2,2     | 0,4     | 429,5 %    | 1,9     | 13,7 %     |
| EBIT-%              | 6,3 %   | 1,3 %   |            | 5,3 %   |            |
| Average personnel   | 672     | 717     | -6,2 %     | 675     | -0,5 %     |

## Network Services - Q1 2019

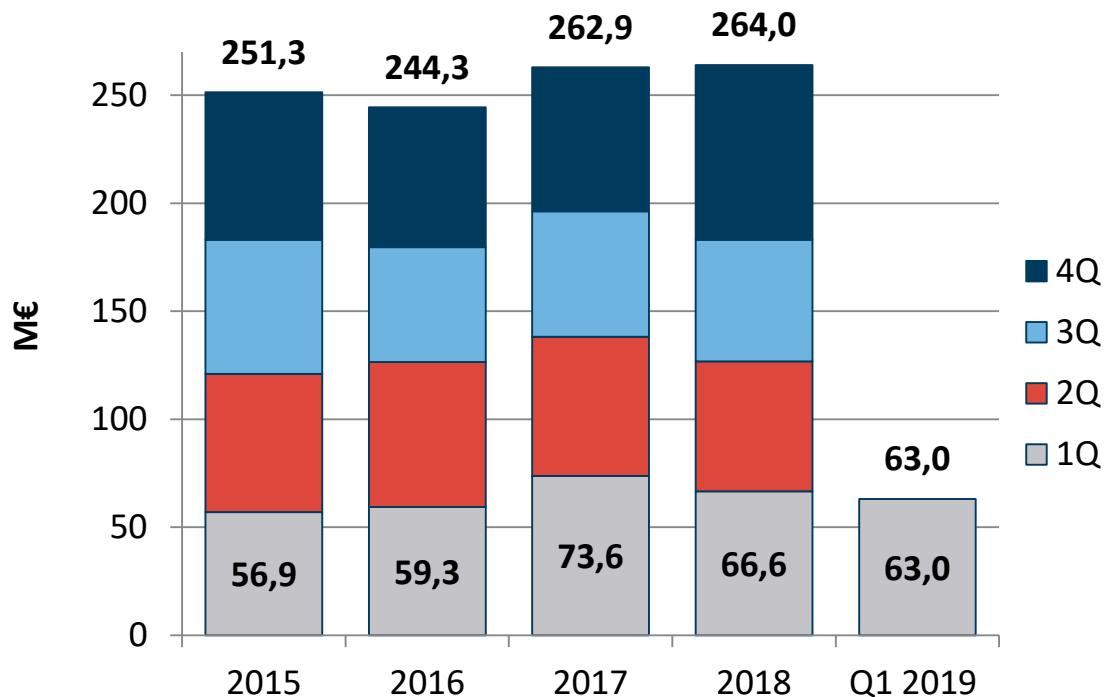
- Orders received and net sales decreased year-on-year. Net sales decreased due to the completion of a significant project in Germany in the last quarter of 2018 and a decline in orders for network design services in Finland.
- The operating result decreased year-on-year and was negative. The negative operating result was attributable to lower net sales and the winter conditions during the first months of the year, which complicated installation services in Germany.

|                     | Q1 2019 | Q1 2018 | YoY change | Q4 2018 | QoQ change |
|---------------------|---------|---------|------------|---------|------------|
| Orders received, M€ | 23,3    | 26,7    | -12,6 %    | 29,8    | -21,8 %    |
| Net sales, M€       | 23,3    | 26,7    | -12,6 %    | 29,8    | -21,8 %    |
| EBIT, M€            | -0,9    | 0,4     | -323,0 %   | 0,3     | -409,8 %   |
| EBIT-%              | -3,9 %  | 1,5 %   |            | 1,0 %   |            |
| Average personnel   | 696     | 697     | -0,1 %     | 684     | 1,8 %      |

# Orders Received

Teleste Group, M€

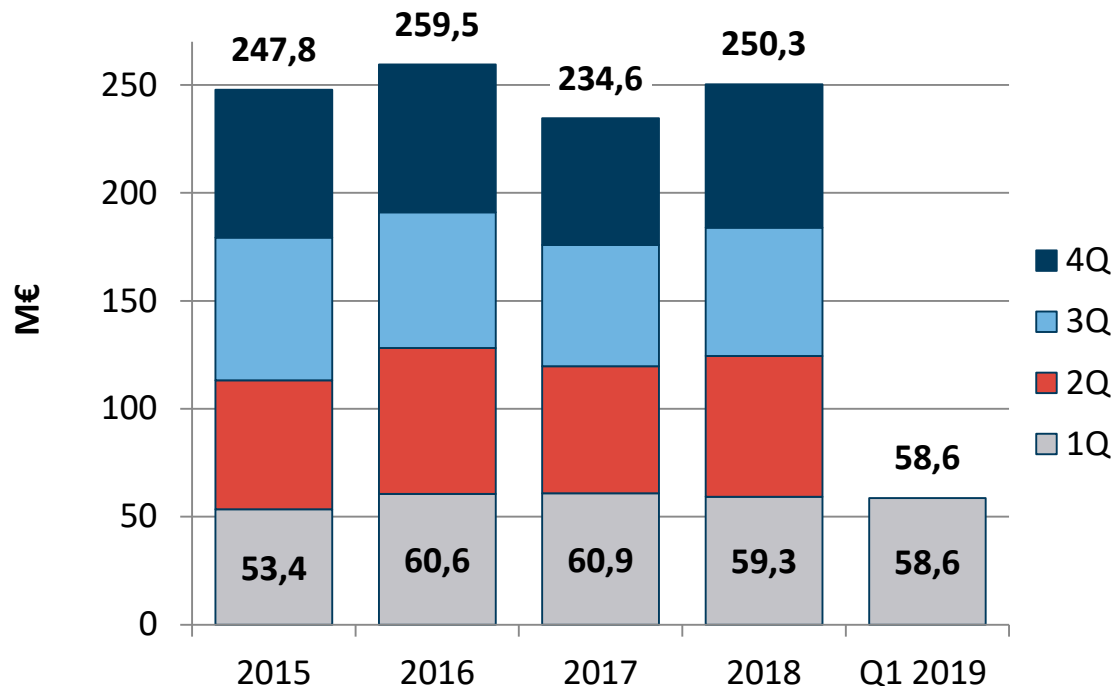
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# Net Sales

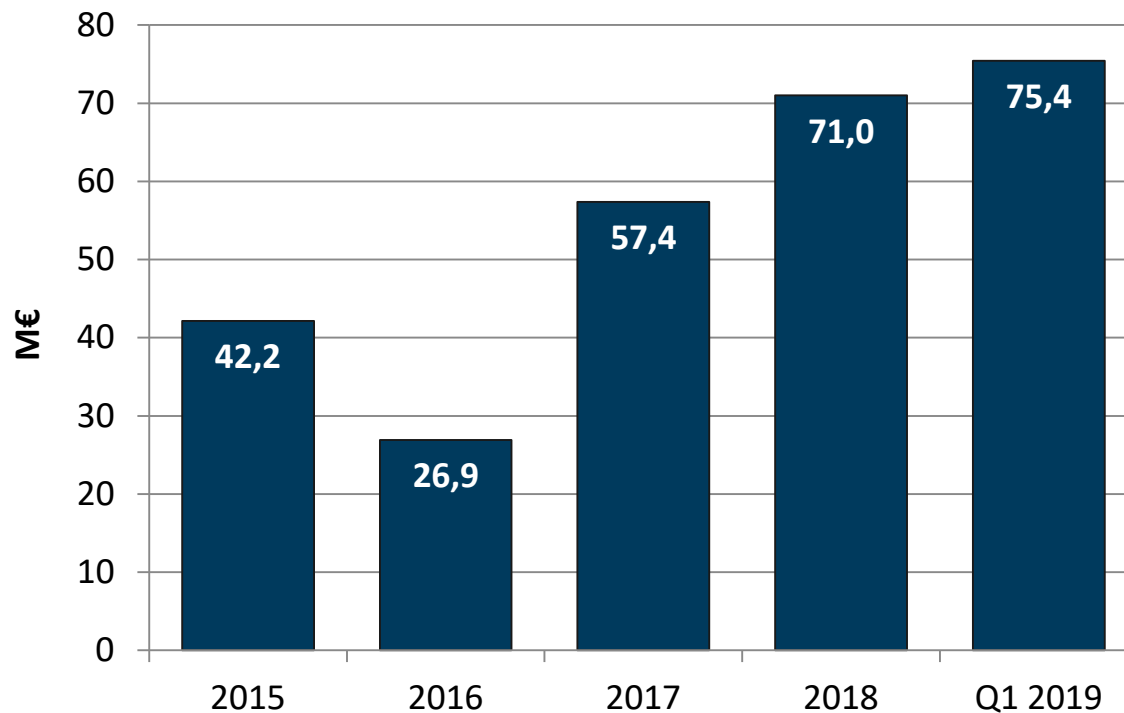
## Teleste Group, M€



# Order Backlog (at the end of period)

Teleste Group

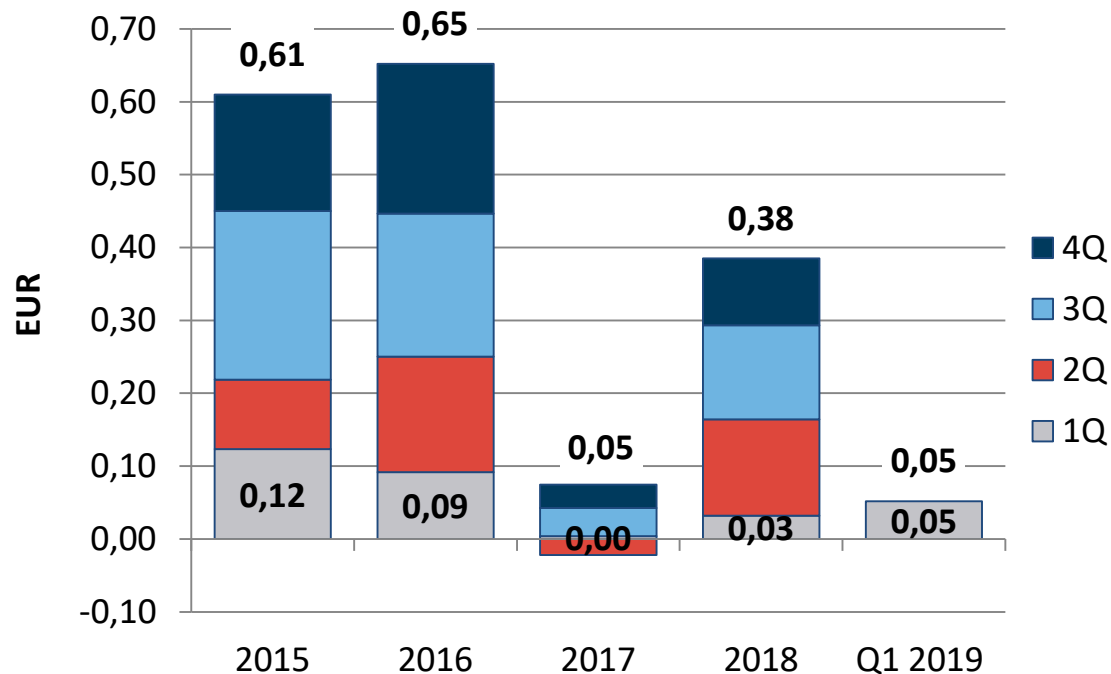
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# Adjusted Earnings Per Share

## Teleste Group, EUR

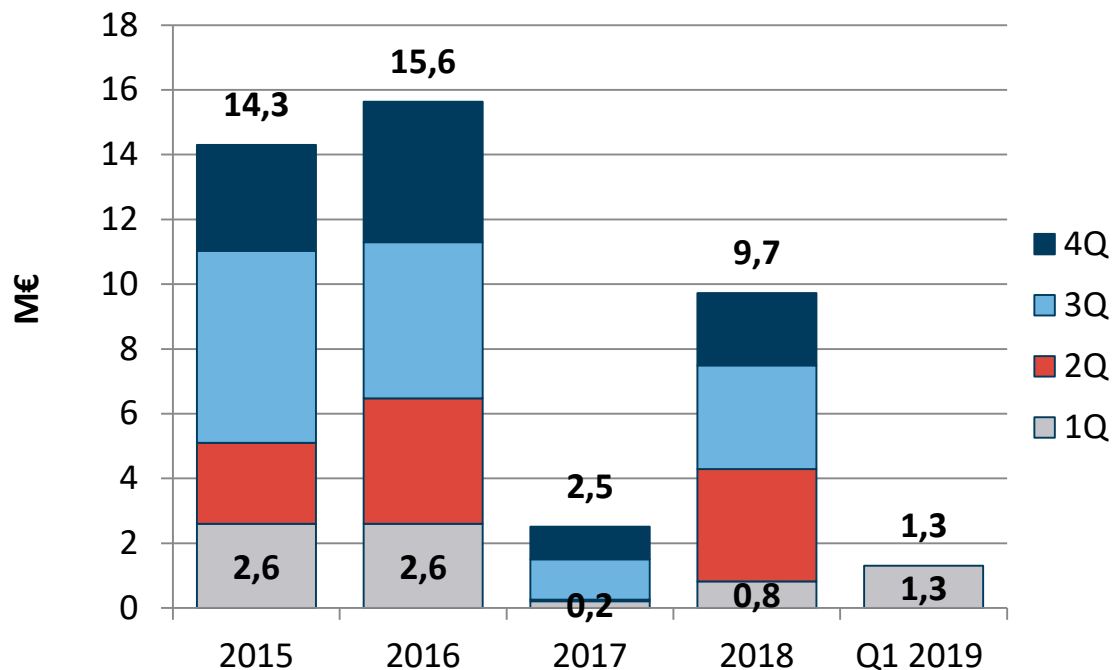
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# Adjusted Operating Profit

Teleste Group, M€

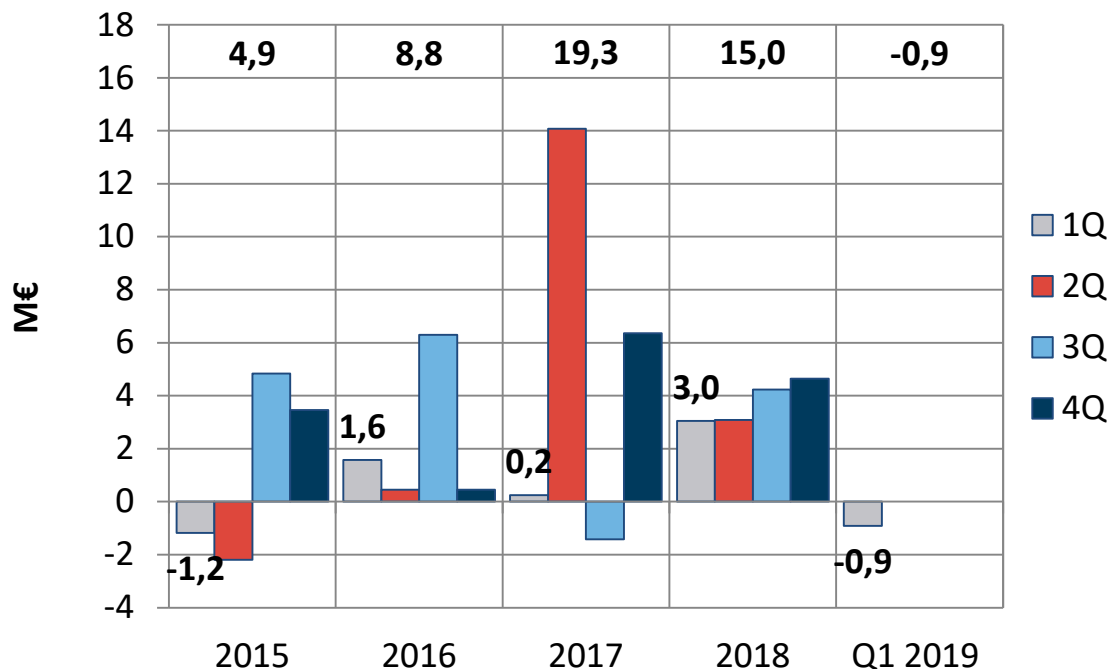
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# Cash Flow From Operations

Teleste Group, M€

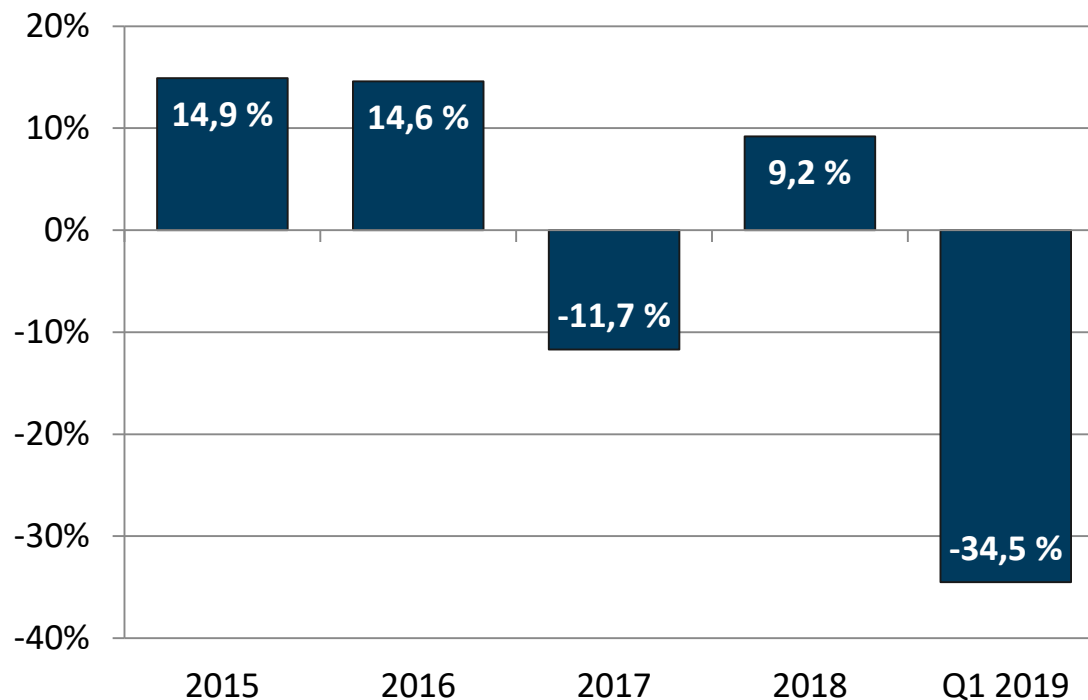
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# Return on Equity

## Teleste Group

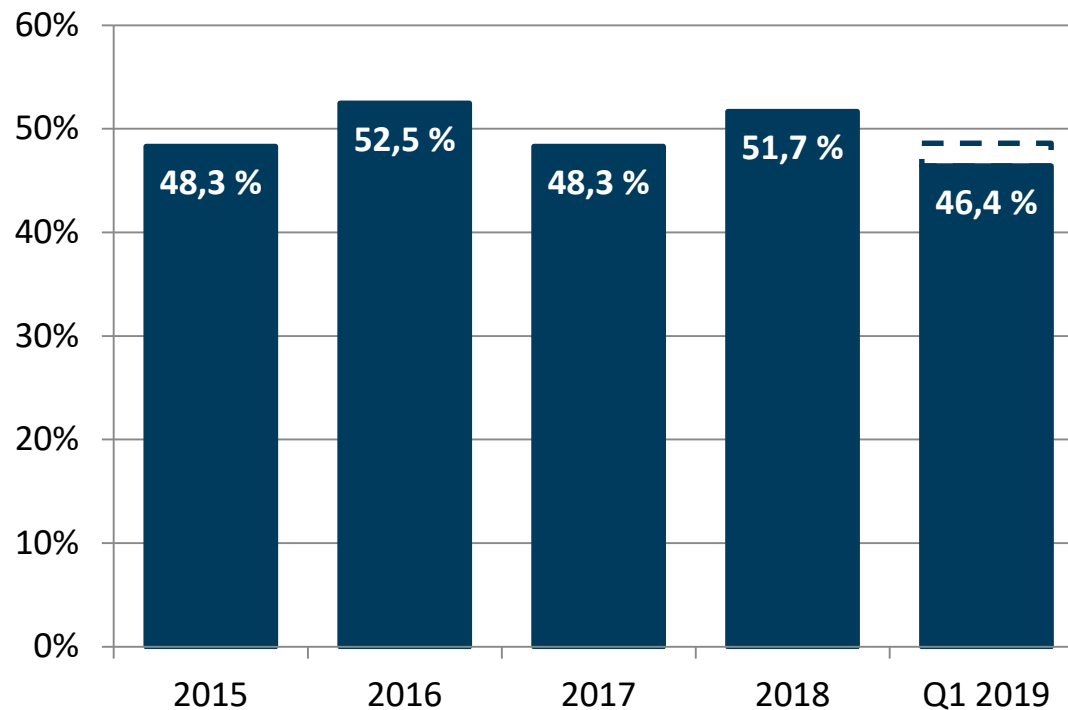
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# Equity Ratio (at the end of period)

## Teleste Group

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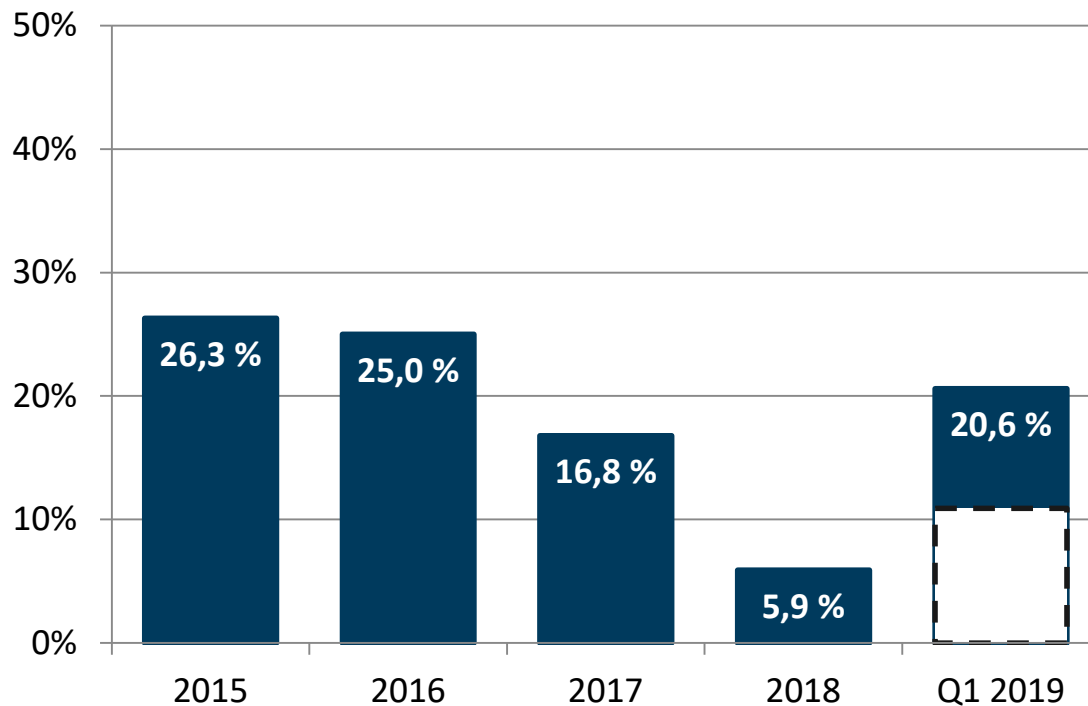
IFRS 16 standard decreased  
equity ratio by 2,2 %



# Gearing (at the end of period)

## Teleste Group

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IFRS 16 standard increased  
gearing by 9,7 %

# Trends

Urbanization drives public transportation and security solutions demand

Cable, FTTH and mobile markets are converging

New entrants and consolidation of competitors changes market environment

Corporate environmental responsibility

Network capacity growth driven by video services and IoT (30-40% a year)

RF-optics is declining, Distributed Access Architecture replacing technology

Need for centralized situational management for public transport and security services

Information solutions enhance use of public transportation

The business objective of **Video and Broadband Solutions** is to maintain its strong market position in Europe and to strengthen this market position particularly in Northern America. Demand for broadband services by cable operators continues to grow. Household broadband services are estimated to grow by 30-40 per cent a year. European cable operators have been able to competitively respond to the increasing demand by investing in DOCSIS 3.1 standard-compliant 1.2 GHz frequency range network upgrades. Investments in expansion of the traditional HFC network infrastructure frequency range continue, but operators are already planning investment in next-generation distributed access architecture network solutions. For years now, the cable industry, including Teleste, has been preparing for the next technology wave with which investment in cable network infrastructure can be competitively continued also in the years to come. We expect that new investment projects that are based on distributed access architecture will be launched in Europe and North America in 2019. The transition to the new access architecture requires careful preparation, and we expect that upgrade projects will increase and more and more operators will launch distributed architecture investment projects in 2020. Transition to distributed architecture provides Teleste with growth opportunities, but it also involves risks. Growth is enabled by the increased value of access network optical products as well as the possibility to use the technological transition to expand business into the North American markets. Achieving interoperability with the cable network central systems is the most significant risk. We estimate that net sales from access network products in 2019 will be on par with the previous year, including the launch of distributed architecture product sales.

Ensuring safety in city environments, increase of public transport services and the increasing popularity of smart digital systems for a smoother life provide a foundation for growing business. Public transport operators must ensure smooth running of services and infrastructure as well as passenger safety. Supply of real-time information for passengers is essential for flexible public transport. The public transport information systems market as well as video security and situational awareness systems market are expected to grow in 2019. The prices of traditional video security systems have fallen and competition has increased considerably. Video security solutions are becoming increasingly smart, including pattern recognition and artificial intelligence. Furthermore, a need is arising in the market for comprehensive situational awareness systems that include management of other sensor-level data flows in addition to video image and automate operating processes in exceptional situations. Ensuring competitiveness requires Teleste to continuously make R&D investments in new intelligent solutions. In addition, it is necessary to improve the productivity and cost-efficiency of business. The order backlog of video security and information solutions increased in 2018. Characteristic for the business, a considerable proportion of deliveries will be distributed over several years. We estimate that net sales for video security and information solutions will continue to increase in 2019 from the previous year.

In **Network Services**, operators will increase their demand for various services as a result of changes in access architectures. As to Network Services, our business objective is to further develop operational efficiency and increase the share of those services that provide our customers with higher added value. In our largest market area, Germany, we will continue to improve the efficiency of operations, strengthen the capabilities of the organisation and renew the subcontractor network. In addition, we will invest in the continuous improvement of customer satisfaction. In 2018, we completed an important delivery project in Germany, and the forecast for 2019 does not include a similar project. Therefore, we estimate that net sales of Network Services will decrease in 2019 compared with the previous year.

➤ **Teleste expects the company's net sales to remain at the level of 2018 (EUR 250.3 million). Adjusted operating result is expected to increase compared with 2018 (EUR 9.7 million).**



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smart, safe and smooth