

# VERISEC

## Going through changes

Verisec's Q1 report was disappointing in our view, but we like that the divestment of non-core businesses lessens the financial risk and increases the margin and growth profile. We expect the stock to re-rate on greater Freja eID visibility in 2020, as we expect accelerated cloud security adoption driven by Covid-19. We have cut our fair value to SEK70–110 (80–120).

**Freja eID tailwinds from remote-working environment**, as organisations place increased focus on secure cloud processes (log-in, signing, and approval), as shown by the ~180 relying parties Freja eID has reached (250%+ growth YOY). We believe the rapid growth in relying parties stems mainly from the Microsoft partnership, which demands little configuration to go live in Office365 and Azure, but also from the DDoS attacks BankID has experienced recently. Still, the Services business will not be immune to Covid-19 and faces tough comparables in 2020e. Our app tracker suggests that Verisec has reached less than 0.5% (~20,000 users) of the addressable eID market in Sweden versus Mobilt BankID at 7.8m (worth ~SEK1.2bn).

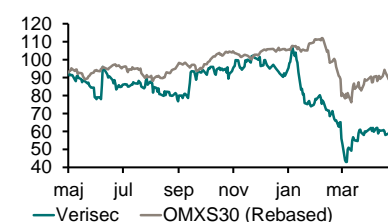
**Streamlined operations make Verisec more focused on Freja eID**, after divesting its Freja UP (on-premises identity solutions) and HSM distributor business for SEK48m (suggesting a 2019 EV/Sales of 0.7x and EV/EBIT of 3.1x). Although we initially questioned the low price tag and terms of the transaction, the deal makes sense to us given the lack of synergies, while it allows Verisec to accelerate and focus its strategy on Freja eID, where we believe the true value-creation potential lies, and also lowers the financial risk (at this point we see limited risk of a recapitalisation given the SEK48m injection plus SEK23m unutilised credit facility). We forecast Verisec to reach EBIT-breakeven in 2022, although from a ~60% lower revenue base. The remaining businesses in Verisec will be Freja eID and its fulfilment services (mainly relating to physical security tokens), and Verisec expects to achieve cost savings of SEK15m in 2020, increasing to SEK33m in 2021 from the split, although we take a more prudent approach in our forecasts as we prefer to see signs of execution.

**Fair value lowered to SEK70–110 (80–120)**. We estimate the remaining business should achieve a 45%+ sales CAGR to 2022e, which in combination with a 94% gross margin should allow for substantial scalability, thus warranting higher valuation multiples. Still, we believe financial disclosure for its remaining business is poor, adding uncertainty short-term. Our forecasts correspond to a 2022e EV/Sales of 2.4x.

Year-end Dec	2019	2020e	2021e	2022e
Revenue (SEKm)	33	24	55	103
EBITDA adj (SEKm)	-31	-18	6	43
EBIT adj (SEKm)	-43	-32	-8	26
PTP (SEKm)	-43	-32	-9	25
EPS rep (SEK)		-6.67	-1.79	4.02
EPS adj (SEK)		-6.67	-1.79	4.02
DPS (SEK)	0.00	0.00	0.00	0.00
Revenue growth (%)	nm	-28.4	131.4	86.1
EBITDA growth adj (%)	nm	nm	nm	561.7
EBITDA margin adj (%)	nm	nm	11.8	41.9
EV/Sales adj (x)	nm	11.42	5.02	2.38
EV/EBITDA adj (x)	nm	nm	42.7	5.7
EV/EBIT adj (x)	nm	nm	nm	9.5
P/E adj (x)		nm	nm	14.2
ROE (%)	nm	nm	nm	64.6
Dividend yield (%)	0.0	0.0	0.0	0.0
FCFF yield (%)	0.0	-9.0	-1.6	8.1

Source: Company (historical figures), DNB Markets (estimates)

VERI versus OMXS30 (12m)



Source: Factset

### SUMMARY

Share price (SEK)	57.0
Tickers	VERI SS, VERI.ST

### CAPITAL STRUCTURE

No. of shares (m)	4.9
No. of shares fully dil. (m)	4.9
Market cap. (SEKm)	278
NIBD adj end-2020e (SEKm)	-5
Enterprise value adj (SEKm)	272
Net debt/EBITDA adj (x)	0.31
Free float (%)	44

Source: Company, DNB Markets (estimates)

Note: Unless otherwise stated, the share prices in this note are the last closing price.

### NEXT EVENT

Q2 2020	13/08/2020
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### ESTIMATE CHANGES (SEK)

Year-end Dec	2020e	2021e	2022e
Sales (old)	104.7	163.3	213.0
Sales (new)	23.84	55.16	102.7
Change (%)	-77.2	-66.2	-51.8
EPS (old)	-3.66	-1.41	1.45
EPS (new)	-6.67	-1.79	4.02
Change (%)	nm	nm	177.0

Source: DNB Markets,

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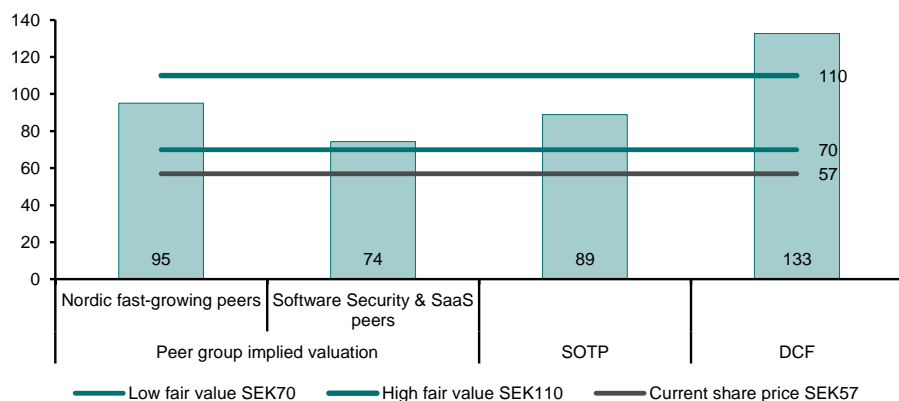
### ANALYSTS

Joachim Gunell

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# Overview

## Valuation (SEK)



Source: DNB Markets

### Downside risks to our fair value

- Lack of user-base growth or customer acceptance of Freja eID’s technology could hit the share price.
- Delayed EBIT-breakeven would raise the risk of recapitalisation.
- Escalating pricing pressure (per eID transaction) might not be offset by strong volume growth, which could hurt Freja eID’s top-line growth.
- Technology or security breaches could destroy user confidence in the business and create a significant headwind to growth.
- Covid-19 / recession risk.

Source: DNB Markets

### DNB Markets estimates

- As being loss-making in 2019–2020e is well flagged, near-term we expect the share price to be driven by: 1) Freja eID momentum adding relying parties; 2) user growth on the Freja eID platform validating the technology; and 3) news of profitability improvements.
- We expect a >45% sales CAGR by 2022. As revenue growth materialises, we expect margins to improve as Verisec benefits from economies of scale in its IDaaS model. Our FCF analysis suggests that Verisec should be adequately capitalised until FCF-breakeven following its SEK48m divestment and unutilised credit facility.

Source: DNB Markets

## Valuation methodology

- Our fair value of SEK70–110/share (80–120) is based on peers’ multiples, a SOTP, and a DCF. On our estimates the stock is trading at a 2022e EV/sales of 2.4x (versus its historical average of 4.0x).
- Our bull-case fair value of SEK250–300/share assumes Freja eID achieves 600 relying parties and adds 800,000 users by end-2021e.
- Our bear-case fair value of SEK30–40/share assumes no Freja eID sales by 2021e (including a rights issue).

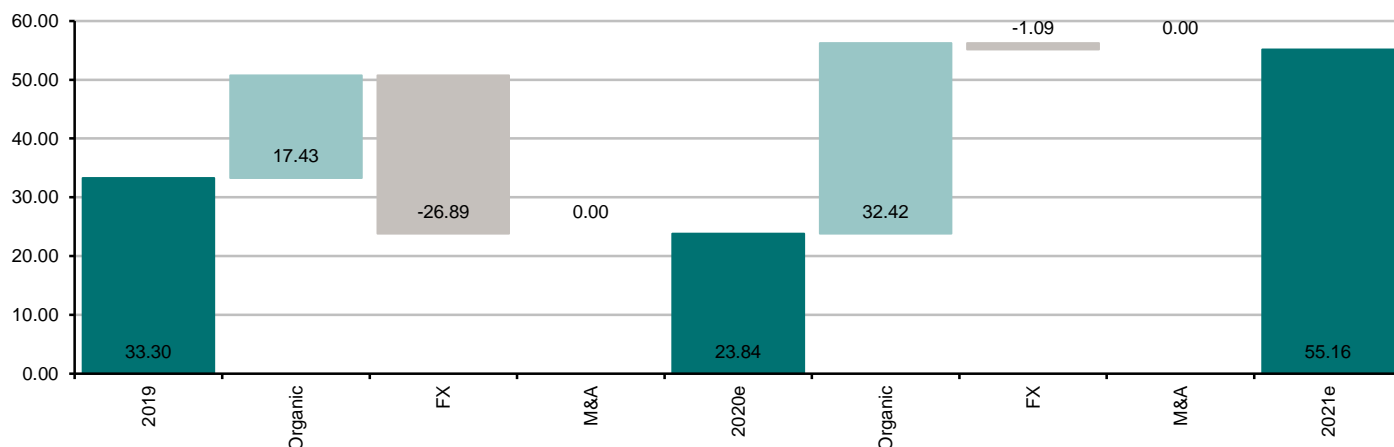
Source: DNB Markets

### Upside risks to our fair value

- Continued reports of new relying parties and accelerated user-base growth should be good for sentiment, supporting our sales growth forecasts.
- Large framework agreements with a cluster of organisations, service providers, municipalities, banks, etc.
- Better cost control, implying higher margins. In a mature state, we note other SaaS peers achieve 30–40% EBIT margins.
- As the only internationally scalable eID solution, the Swedish market could act as a stepping stone into the Nordics and potentially Europe.

Source: DNB Markets

## Sales bridge 2019–2021e (SEKm)



Source: DNB Markets (forecasts), company (historical data)

## ESG overview

### Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> <li>■ Digital identities such as Freja eID are imperative for the spread of digitalisation. The ability to prove we are who we say we are is increasingly determining our opportunities to establish trust and carry out meaningful interactions in a digital economy. We have identified several secular ESG drivers and the value proposition is simple: increased security and efficiency, and lower costs.</li> </ul>	<ul style="list-style-type: none"> <li>■ We have identified the following ESG risks:               <ul style="list-style-type: none"> <li>■ Potential misuse without proper control.</li> <li>■ Technical failures or data breaches.</li> <li>■ Exclusion of individuals.</li> </ul> </li> <li>■ The divestment of Verisec's Freja UP and HSM distributor business to a member of the management team could hurt its ESG-assessment from a governance perspective.</li> </ul>
Actions being taken by company	<ul style="list-style-type: none"> <li>■ Private and public services alike are struggling to keep up with managing identities seamlessly online, and eID providers such as Freja eID are the foundation of enabling a digital society.</li> </ul>	<ul style="list-style-type: none"> <li>■ Verisec offers the only inclusive mobile eID in Sweden that is not reliant on personal identity numbers.</li> </ul>

### Key ESG drivers

#### Short-term

- Entering a legally binding agreement with pen and paper takes time, costs money, and has slow turnaround times, whereas usernames and passwords (dominant online solution today) are threatening digitalisation as users are reluctant to use digital services that are only password-protected. Managing digital identities is front and centre for many IT administrators as digital IDs are key to how we act online.
- The reasons for this have become evident in recent surveys: 1) Verizon reports that 80% of confirmed breaches resulted from weak or poorly protected passwords; 2) Identity as a Service reduces labour costs by 30–35%, according to Forrester; and 3) McKenzie sees a 90% cost reduction in customer onboarding from eIDs with the time taken for these interactions reduced from weeks to minutes.
- Potential misuse without proper controls. As eID system administrators (private or government) would gain access to – and control – large-scale population data, it has the potential to be used for fraud, tracking ethnic groups, political manipulation and unauthorised surveillance, and has the possibility to restrict online access such as payments, travel, and social media.
- Technical failures or data breaches are threats to any digital ecosystem, so ensuring system quality from a reputational point of view is imperative.
- Processing vital customer data could create privacy risks etc. if Verisec decided to use its user data as a monetisation tool for other services.

#### Long-term

- Improved security in the digital society, as digital IDs can help to reduce fraud, offering a higher degree of confidence in authentication. eIDs are increasingly demanded to replace passwords as c90% of users request eID as an online login over passwords to feel more secure, according to GSMA.
- Regulation playing into the hands of eIDs: 1) eIDAS regulation gives electronic transactions the same legal standing as paper-based transactions in EU member states; 2) GDPR; and 3) PSD2, which should increase eID adoption.
- Increased sales of goods and services. Through streamlined digital onboarding, digital channels should increase sale of goods, boosting GDP.
- As digital identities increasingly become the foundation of the digital environment, excluding individuals without sufficient technological access or savviness could drive an aversion to adopting eIDs, which is why alternative conventional ID options should remain.
- Changes to directives and legislation for eIDs could pose a risk if one communication standard were adopted across the EU for instance.
- Changing customer behaviour could mean identification via mobile phones becomes obsolete. Yet, Verisec has a dynamic history of adapting its IT security solutions to meet customer demand and transition its offering.

## Q1 results

Figure 1: Q1 results versus expectations

Key highlights (SEKm, except per share data)	Q1 2020		Deviation	Deviation	Q1 2019	DNBe
	Actual	DNB	DNB (%)	DNB, Abs	Actual	2020e
<b>Net sales</b>	<b>18.7</b>	<b>21.7</b>	<b>-14%</b>	-3	<b>28.1</b>	<b>104.7</b>
<b>Gross profit</b>	<b>12.6</b>	<b>13.4</b>	<b>-6%</b>	-1	<b>17.5</b>	<b>67.8</b>
Margin	67.3%	61.6%	5.7pp		62.3%	64.8%
<b>EBIT adjusted</b>	<b>-9.6</b>	<b>-6.5</b>	<b>-47%</b>	-3	<b>-5.7</b>	<b>-19.3</b>
Margin	-51.2%	-30.0%	-21.2pp		-20.3%	-18.4%
One-offs	0.0	0.0			0.0	0.0
EBIT	-9.6	-6.5	-47%	-3	-5.7	-19.3
Margin	-51.2%	-30.0%	-21.2pp		-20.3%	-18.4%
<b>EPS adj.</b>	<b>-2.11</b>	<b>-1.21</b>	<b>-74%</b>	-0.90	<b>-1.24</b>	<b>-3.66</b>
Free cash flow	-2.1	-4.9	57%	3	-4.8	-19.1
Net cash (-) or debt (+)	1.1	2.9	-60%	-2	-27.3	17.1
<b>Divisions</b> (SEKm)		<b>Q1 2020</b>	<b>Deviation</b>	<b>Deviation</b>	<b>Q1 2019</b>	<b>DNBe</b>
		<b>DNB</b>	<b>DNB (%)</b>	<b>DNB, Abs</b>	<b>Actual</b>	<b>2020e</b>
<b>By product segment</b>						
Goods	0.8	2.5	-67%	-2	10.0	10.8
Services (incl. support)	17.9	19.1	-6%	-1	18.2	82.3
<b>Group</b>	<b>18.7</b>	<b>21.7</b>	<b>-14%</b>	<b>-3</b>	<b>28.1</b>	<b>104.7</b>
<b>By geography</b>						
Sw eden	7.2	7.2	-1%	0	7.9	38.3
Europe excl. Sw eden	5.7	9.2	-38%	-3	14.8	43.6
Outside Europe	5.5	5.3	5%	0	5.4	22.8
<b>Group</b>	<b>18.7</b>	<b>21.7</b>	<b>-14%</b>	<b>-3</b>	<b>28.1</b>	<b>104.7</b>
<b>Growth</b>						
Goods	-92%	-75%	-17pp		199%	-44%
Services (incl. support)	-1%	5%	-6pp		26%	2%
Sw eden	-10%	-9%	-1pp		3%	15%
Europe excl. Sw eden	-61%	-38%	-23pp		231%	1%
Outside Europe	3%	-2%	5pp		-4%	-2%
<b>Group</b>	<b>-33.5%</b>	<b>-23.0%</b>	<b>-11pp</b>		<b>58.7%</b>	<b>0.8%</b>

Source: Company (historical figures), DNB Markets (estimates)

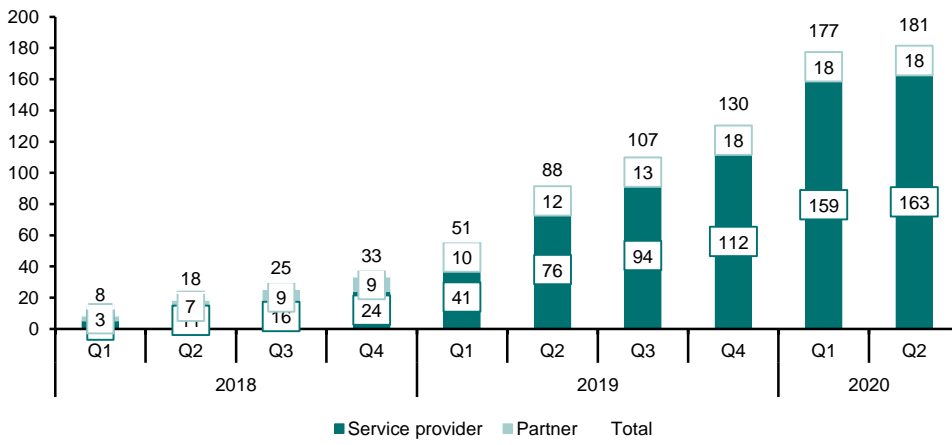
11 May 2020

Figure 2: Press releases related to Freja eID (April 2017–May 2020)

Date	Title	Type
2017-04-01	Commercial launch of Freja eID	
2017-06-07	Sunet - Antagning.se	Service provider
2017-06-14	Vitec - Bopplats Sverige	Service provider
2017-06-28	Svenska Försäkringsfabriken	Service provider
2017-08-25	laget.se	Service provider
2018-01-26	Informal application to make Freja eID + Sweden's official e-ID within eIDAS	
2018-01-31	Resurs Bank	Service provider
2018-02-16	PictureMyLife	Service provider
2018-02-19	Södertälje municipality	Service provider
2018-03-05	Consid	Partnership
2018-03-07	Tieto's Public Document Signing	Partnership
2018-03-28	Svensk e-identitet connects their services to Freja eID	Partnership
2018-04-06	Nexus Group integrates Freja eID into its login platform	Partnership
2018-05-25	Curity	Partnership
2018-06-12	Signicat	Partnership
2018-06-12	The Swedish Sports Confederation	Partnership
2018-09-06	Agreement with CGI	Partnership
2018-09-27	Agreement with Global Identity Integrator (DevCode)	Partnership
2018-10-04	Vklass	Service provider
2018-11-07	ATG	Service provider
2018-11-08	Agreement with one of Sweden's largest pharmacy chains	Service provider
2018-11-23	Seven authorities and municipalities	Service provider
2018-11-26	Six Swedish municipalities	Service provider
2018-12-17	Two authorities	Service provider
2018-12-18	Four Swedish municipalities	Service provider
2018-12-20	Agreement with IST Group	Service provider
2018-12-21	Järfälla municipality	Service provider
2018-12-21	The Swedish Pensions Agency joins the System of free choice 2017 E-identification	Service provider
2019-01-07	The Swedish Gambling Authority (Spelpaus.se)	Partnership
2019-03-07	Nynäshamn municipality	Service provider
2019-03-12	Svensk e-identitet adds services	Service provider
2019-04-16	Svensk e-identitet adds Norrbottens e-nämnd	Service provider
2019-05-27	Established Freja eID in Norway	
2019-05-28	Svenska Spel	Service provider
2019-05-28	City of Lidingö (municipality)	Service provider
2019-06-03	Agreement with Pagero payment platform	Partnership
2019-06-26	Agreement with Crunchfish Proximity	Partnership
2019-07-08	Agreement with Pulsen Integration AB	Partnership
2019-09-10	Lund University	Service provider
2019-10-03	Agreement with Visma Consulting	Partnership
2019-10-16	IT Omsorg	Service provider
2019-11-27	1177 Vårdguiden (The Healthcare Guide)	Service provider
2019-12-05	Collaboration with CESAM-H (7 Kalmar county municipalities)	Service provider
2019-12-11	Bolagsverket & Verksam.se	Service provider
2020-01-10	AFA Försäkring's R&D portal	Service provider
2020-01-13	Videoslots.com	Service provider
2020-01-13	Launch of unique mobile professional eID	
2020-01-16	Microsoft (Office365 in the public sector)	Partnership
2020-01-29	Casino Cosmopol	Service provider
2020-02-03	Addreax Group (Studentkortet and the STUK app)	Service provider
2020-03-20	Uddevalla Municipality	Service provider
2020-03-26	Svensk Travsport (Swedish Trotting Sport)	Service provider

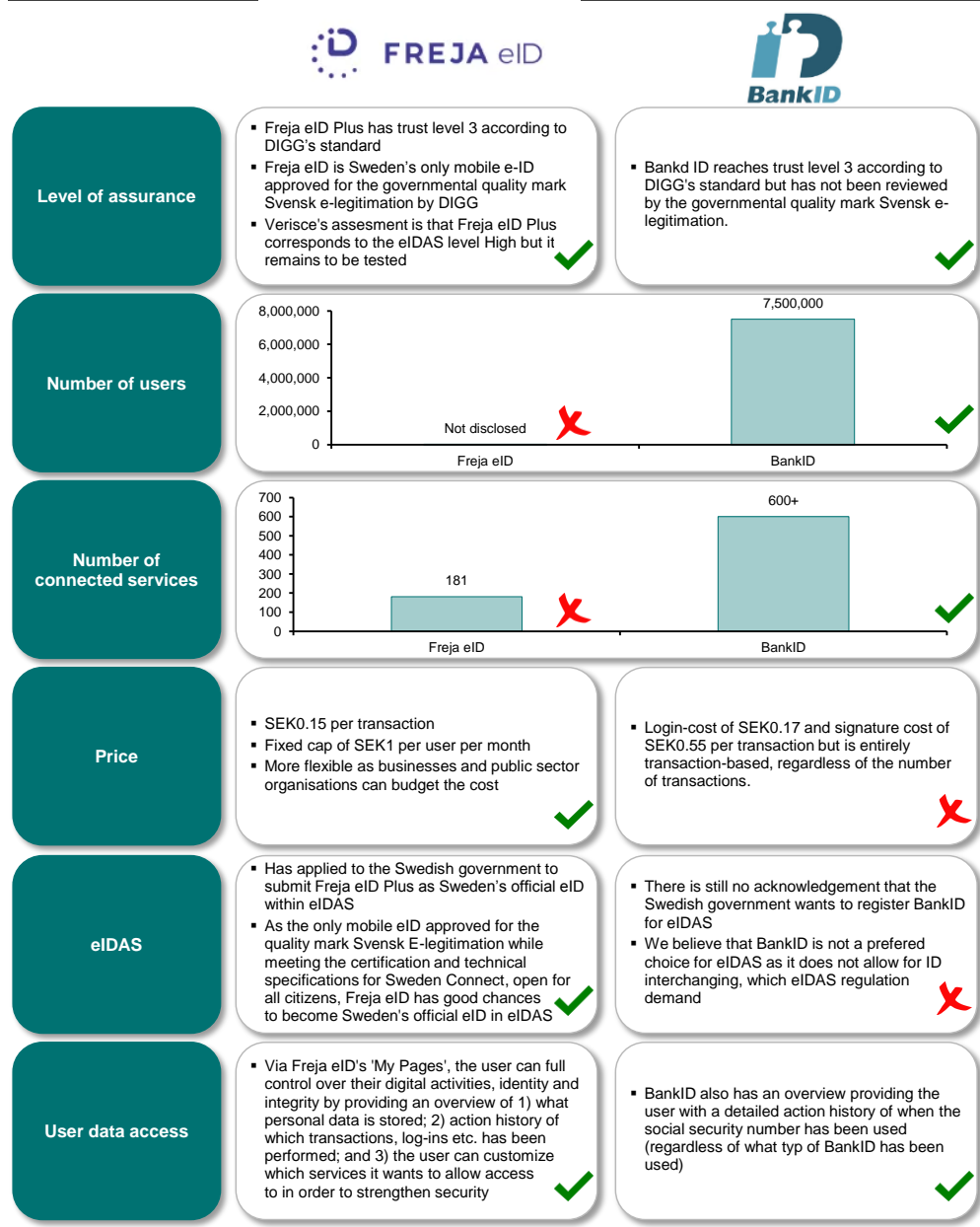
Source: Verisec press releases (underlying data), DNB Markets (table structuring)

**Figure 3: Cumulated number of relying parties on the Freja eID platform**



Source: Verisec press releases (underlying data), DNB Markets (graph structuring)

Figure 4: Freja eID versus BankID



Source: DNB Markets

11 May 2020

## Estimate revisions

Figure 5: Forecast changes (SEKm)

(SEKm, except per share data)	Old			New			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
<b>Group</b>									
<b>Sales</b>	<b>105</b>	<b>163</b>	<b>213</b>	<b>24</b>	<b>55</b>	<b>103</b>	<b>-77%</b>	<b>-66%</b>	<b>-52%</b>
Sales growth	0.8%	55.9%	30.4%	-28.4%	131.4%	86.1%	-2924bp	7547bp	5565bp
Organic	2.6%	55.6%	30.4%	52.3%	136.0%	86.1%	4971bp	8038bp	5565bp
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
Currency	-1.8%	0.3%	0.0%	-80.8%	-4.6%	0.0%	-7896bp	-491bp	0bp
<b>Gross profit</b>	<b>68</b>	<b>108</b>	<b>146</b>	<b>22</b>	<b>52</b>	<b>97</b>	<b>-67%</b>	<b>-52%</b>	<b>-34%</b>
Gross margin	64.8%	65.9%	68.7%	93.9%	94.2%	94.7%	2912bp	2829bp	2596bp
Capitalised development costs	7	6	6	6	5	7	-2%	-18%	20%
Other external expenses	-27	-39	-48	-18	-21	-28	35%	45%	41%
Personnel costs	-66	-82	-96	-40	-44	-50	40%	46%	48%
<b>EBITDA</b>	<b>-4</b>	<b>14</b>	<b>27</b>	<b>-18</b>	<b>6</b>	<b>43</b>	<b>385%</b>	<b>-55%</b>	<b>60%</b>
Depreciation and amortisation	-16	-21	-19	-14	-15	-17	9%	30%	6%
<b>EBIT</b>	<b>-19</b>	<b>-7</b>	<b>8</b>	<b>-32</b>	<b>-8</b>	<b>26</b>	<b>65%</b>	<b>22%</b>	<b>211%</b>
EBIT margin	-18.4%	-4.2%	3.9%	-133.2%	-15.3%	24.9%	-11476bp	-1107bp	2108bp
One-offs	0	0	0	0	0	0			
<b>EBIT adj.</b>	<b>-19</b>	<b>-7</b>	<b>8</b>	<b>-32</b>	<b>-8</b>	<b>26</b>	<b>-65%</b>	<b>-22%</b>	<b>211%</b>
EBIT adj. margin	-18.4%	-4.2%	3.9%	-133.2%	-15.3%	24.9%	-11476bp	-1107bp	2108bp
Capitalized development costs	-2	-3	-4	0	-1	-2	83%	67%	51%
<b>EBIT adj. for cap. dev. costs</b>	<b>-22</b>	<b>-10</b>	<b>4</b>	<b>-32</b>	<b>-10</b>	<b>23</b>	<b>-49%</b>	<b>8%</b>	<b>514%</b>
EBIT adj. CDC margin	-20.6%	-6.4%	1.8%	-134.8%	-17.4%	22.8%	-11423bp	-1103bp	2105bp
Net financial items	-1	-1	-2	-1	0	-1	14%	79%	71%
<b>Pre-tax profit</b>	<b>-20</b>	<b>-8</b>	<b>6</b>	<b>-32</b>	<b>-9</b>	<b>25</b>	<b>-62%</b>	<b>-6%</b>	<b>287%</b>
Tax	2	1	1	0	0	-6	104%	100%	1055%
Tax rate	10.9%	16.4%	-8.9%	-0.3%	0.0%	22.0%	-1116bp	-1644bp	3092bp
<b>Net profit</b>	<b>-18</b>	<b>-7</b>	<b>7</b>	<b>-32</b>	<b>-9</b>	<b>20</b>	<b>82%</b>	<b>26%</b>	<b>177%</b>
EPS adjusted	-3.66	-1.41	1.45	-6.67	-1.79	4.02	-82%	-26%	177%
EPS	-3.66	-1.41	1.45	-6.67	-1.79	4.02	-82%	-26%	177%
DPS	0.00	0.00	0.00	0.00	0.00	0.00			
<b>Sales by product area</b>									
Goods	11	11	12	0	0	0	-100%	-100%	-100%
Services (incl. support)	82	91	95	16	16	16	-81%	-82%	-83%
Freja eID	12	62	107	8	39	87	-36%	-37%	-19%
<b>Group Total</b>	<b>105</b>	<b>163</b>	<b>213</b>	<b>24</b>	<b>55</b>	<b>103</b>	<b>-77%</b>	<b>-66%</b>	<b>-52%</b>

Source: DNB Markets



11 May 2020

Figure 6: Annual income statement

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<b>Sales</b>								<b>33.3</b>	<b>23.8</b>	<b>55.2</b>	<b>102.7</b>
COGS								-1.7	-1.5	-3.2	-5.5
<b>Gross profit</b>								<b>31.6</b>	<b>22.4</b>	<b>52.0</b>	<b>97.2</b>
Capitalised development costs								5.1	6.5	5.2	7.0
Other external expenses								-20.6	-17.9	-21.5	-28.3
Personnel costs								-47.4	-39.6	-44.2	-50.3
<b>EBITDA</b>								<b>-31.3</b>	<b>-17.5</b>	<b>6.5</b>	<b>43.0</b>
Depreciation and Amortisation								-11.7	-14.2	-14.9	-17.4
<b>EBIT</b>								<b>-43.0</b>	<b>-31.7</b>	<b>-8.4</b>	<b>25.6</b>
<i>EBIT margin</i>								-129.1%	-133.2%	-15.3%	24.9%
One-offs								0.0	0.0	0.0	0.0
<b>EBIT adj.</b>								<b>-43.0</b>	<b>-31.7</b>	<b>-8.4</b>	<b>25.6</b>
<i>EBIT adj. margin</i>								-129.1%	-133.2%	-15.3%	24.9%
Net CDC								0.0	-0.4	-1.2	-2.2
<b>EBIT adj. for cap. dev. costs</b>								<b>-43.0</b>	<b>-32.1</b>	<b>-9.6</b>	<b>23.4</b>
<i>EBIT adj. CDC margin</i>								-129.1%	-134.8%	-17.4%	22.8%
Net financial items								0.0	-0.7	-0.3	-0.5
<b>Pre-tax profit</b>								<b>-43.0</b>	<b>-32.4</b>	<b>-8.7</b>	<b>25.1</b>
Tax								0.0	-0.1	0.0	-5.5
<b>Net profit</b>								<b>-43.0</b>	<b>-32.5</b>	<b>-8.7</b>	<b>19.6</b>
Gross margin								94.9%	93.9%	94.2%	94.7%
EBITDA margin								-94.0%	-73.6%	11.8%	41.9%
Adj. EBIT margin								-129.1%	-133.2%	-15.3%	24.9%
<b>Freja eID (DNBe)</b>											
Number of relying parties								131	271	361	441
Number of users								15,000	95,000	295,000	555,000
<b>Sales by product area</b>											
Goods								0.0	0.0	0.0	0.0
Services (incl. support)								28.8	15.5	15.9	16.1
Freja eID								0.5	7.8	39.3	86.6
<b>Group Total</b>								<b>33.3</b>	<b>23.8</b>	<b>55.2</b>	<b>102.7</b>
<b>Sales growth by product area</b>											
Goods											
Services (incl. support)									-46%	2%	1%
Freja eID									1437%	404%	120%
<b>Group Total</b>									<b>-20%</b>	<b>136%</b>	<b>86%</b>
<b>Sales growth, of which</b>											
Organic									52%	136%	86%
Structure									0%	0%	0%
Currency									-81%	-5%	0%
<b>Total growth</b>									<b>-28%</b>	<b>131%</b>	<b>86%</b>

Source: DNB Markets (forecasts), company (historical data)

11 May 2020

Figure 7: Quarterly income statement

(SEKm)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20e	Q3'20e	Q4'20e
<b>Sales</b>					<b>8.0</b>				<b>5.5</b>	<b>4.2</b>	<b>5.4</b>	<b>8.7</b>
COGS					-0.2				-0.4	-0.2	-0.3	-0.5
<b>Gross profit</b>					<b>7.8</b>				<b>5.1</b>	<b>3.9</b>	<b>5.1</b>	<b>8.2</b>
Capitalised development costs					1.0				1.9	1.0	1.4	2.2
Other external expenses					-4.5				-4.1	-3.1	-4.1	-6.5
Personnel costs					-11.9				-12.4	-9.1	-9.2	-8.8
<b>EBITDA</b>					<b>-7.6</b>				<b>-9.5</b>	<b>-4.7</b>	<b>-3.6</b>	<b>0.3</b>
Depreciation and Amortisation					-2.7				-3.2	-2.5	-3.3	-5.2
<b>EBIT</b>					<b>-10.3</b>				<b>-12.7</b>	<b>-7.2</b>	<b>-6.8</b>	<b>-5.0</b>
<i>EBIT margin</i>					-128.8%				-230.9%	-173.0%	-125.7%	-57.0%
One-offs					0.0				0.0	0.0	0.0	0.0
<b>EBIT adj.</b>					<b>-10.3</b>				<b>-12.7</b>	<b>-7.2</b>	<b>-6.8</b>	<b>-5.0</b>
<i>EBIT adj. margin</i>					-128.8%				-230.9%	-173.0%	-125.7%	-57.0%
Net CDC					0.0				0.0	-0.1	-0.1	-0.2
<b>EBIT adj. for cap. dev. costs</b>					<b>-10.3</b>				<b>-12.7</b>	<b>-7.3</b>	<b>-6.9</b>	<b>-5.1</b>
<i>EBIT adj. CDC margin</i>					-128.8%				-230.9%	-175.1%	-127.8%	-59.1%
Net financial items					-0.1				-0.6	0.0	0.0	0.0
<b>Pre-tax profit</b>					<b>-10.4</b>				<b>-13.3</b>	<b>-7.3</b>	<b>-6.8</b>	<b>-5.0</b>
Tax					-0.1				-0.1	0.0	0.0	0.0
<b>Net profit</b>					<b>-10.5</b>				<b>-13.4</b>	<b>-7.3</b>	<b>-6.8</b>	<b>-5.0</b>
Gross margin					97.5%				92.7%	94.3%	94.3%	94.3%
EBITDA margin					-95.0%				-172.7%	-113.0%	-65.7%	3.0%
Adj. EBIT margin					-128.8%				-230.9%	-173.0%	-125.7%	-57.0%
<b>Freja eID (DNBe)</b>												
Number of relying parties	8	18	25	55	73	91	111	131	181	211	241	271
Number of users	0	0	0	0	5,000	10,000	10,000	15,000	20,000	25,000	45,000	95,000
<b>Sales by product area</b>												
Goods					0.0				0.0	0.0	0.0	0.0
Services (incl. support)					0.0				4.9	3.9	3.5	3.2
Freja eID					0.0				0.1	0.3	1.9	5.5
<b>Group Total</b>					<b>8.0</b>				<b>5.5</b>	<b>4.2</b>	<b>5.4</b>	<b>8.7</b>
<b>Sales growth by product area</b>												
Goods					0%							
Services (incl. support)												
Freja eID										56%	746%	4838%
<b>Group Total</b>									<b>-38%</b>			
<b>Sales growth, of which</b>												
Organic									-39%	-2%	-2%	-2%
Structure									0%	0%	0%	0%
Currency									2%	2%	2%	2%
<b>Total growth</b>									<b>-38%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

Source: DNB Markets (forecasts), company (historical data)

**Figure 8: Verisec valuation versus listed peers**

	Mkt. cap. (SEKbn)	P/E (x)			EV/EBIT (x)			EV/sales (x)			Gross margin	EBIT margin	FCF margin	CAGR 2019–2021e (%)		
		2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e				Sales	EBIT	EPS
<b>Verisec (DNBe)</b>	<b>0.3</b>	<b>n.a.</b>	<b>n.a.</b>	<b>14.2</b>	<b>n.a.</b>	<b>n.a.</b>	<b>9.5</b>	<b>11.4</b>	<b>5.0</b>	<b>2.4</b>	<b>93.8</b>	<b>-133.2</b>	<b>-105.8</b>	<b>29</b>	<b>-56</b>	<b>n.a.</b>
Premium/discount		n.a.	n.a.	-54%	n.a.	n.a.	-64%	47%	-19%	-54%	16.9	-149.0	-117.5	9	-88	n.a.
<b>Nordic fast-growing peers</b>																
Admicom	3.8	47.4	35.1	27.0	40.6	27.0	n.a.	14.7	11.9	9.5	n.a.	36.5	-10.3	35	39	39
Evolution Gaming	92.3	38.1	32.1	28.9	34.3	28.8	25.8	16.9	14.0	12.5	n.a.	48.7	55.2	29	36	37
HMS Networks	8.1	50.1	37.3	29.8	36.7	27.1	21.6	5.9	5.1	4.6	61.4	15.9	11.4	4	6	7
Invisio Communications	4.8	38.8	28.2	21.7	29.4	20.8	15.5	7.8	6.2	5.1	61.2	26.2	17.3	22	41	31
Lime Technologies	2.7	49.1	36.7	30.9	42.7	32.1	26.9	8.3	7.1	6.1	n.a.	19.0	20.2	16	28	26
Sectra	17.3	76.5	69.2	60.9	58.3	52.3	45.9	10.3	9.4	8.6	83.0	17.5	n.a.	14	16	15
Storytel	11.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	4.8	3.8	3.0	37.5	-14.3	-16.0	27	-4	-8
<b>Average</b>	<b>50.0</b>	<b>39.8</b>	<b>33.2</b>	<b>33.2</b>	<b>40.3</b>	<b>31.3</b>	<b>27.1</b>	<b>9.8</b>	<b>8.2</b>	<b>7.1</b>	<b>60.8</b>	<b>21.4</b>	<b>13.0</b>	<b>21</b>	<b>23</b>	<b>21</b>
<b>Median</b>	<b>48.3</b>	<b>35.9</b>	<b>29.4</b>	<b>29.4</b>	<b>38.6</b>	<b>27.9</b>	<b>25.8</b>	<b>8.3</b>	<b>7.1</b>	<b>6.1</b>	<b>61.3</b>	<b>19.0</b>	<b>14.3</b>	<b>22</b>	<b>28</b>	<b>26</b>
<b>Security &amp; SaaS peers</b>																
Okta	212.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	37.0	27.6	21.3	77.2	-24.7	7.2	40	63	-2
Sailpoint	18.4	n.a.	n.a.	98.7	n.a.	n.a.	n.a.	5.7	5.0	4.2	79.8	n.a.	10.6	12	n.a.	-24
Proofpoint	69.1	82.3	60.6	50.1	62.9	40.9	31.7	6.7	5.8	4.8	78.8	10.6	13.7	16	16	8
DocuSign	216.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	22.7	17.1	13.8	79.0	3.4	9.3	36	263	198
Qualys	40.3	43.3	39.1	38.9	30.3	25.6	22.0	10.6	9.4	8.4	80.6	34.4	42.8	12	11	8
Rapid7	25.0	n.a.	n.a.	n.a.	n.a.	n.a.	70.0	6.6	5.5	4.7	74.4	0.0	-8.2	20	124	112
Palo Alto Networks	213.9	48.8	38.2	30.0	38.0	28.1	19.4	6.1	5.2	4.4	76.5	15.8	29.2	17	4	3
Mimecast	25.7	88.4	66.9	52.4	57.8	47.3	30.5	6.3	5.4	4.6	75.6	10.2	12.0	21	39	54
<b>Average</b>	<b>65.7</b>	<b>51.2</b>	<b>54.0</b>	<b>54.0</b>	<b>47.3</b>	<b>35.5</b>	<b>34.7</b>	<b>12.7</b>	<b>10.1</b>	<b>8.3</b>	<b>77.7</b>	<b>7.1</b>	<b>14.6</b>	<b>22</b>	<b>74</b>	<b>45</b>
<b>Median</b>	<b>65.5</b>	<b>49.9</b>	<b>50.1</b>	<b>50.1</b>	<b>47.9</b>	<b>34.5</b>	<b>30.5</b>	<b>6.7</b>	<b>5.6</b>	<b>4.7</b>	<b>78.0</b>	<b>10.2</b>	<b>11.3</b>	<b>18</b>	<b>39</b>	<b>8</b>
<b>Average</b>	<b>56.3</b>	<b>44.3</b>	<b>42.7</b>	<b>42.7</b>	<b>43.1</b>	<b>33.0</b>	<b>30.9</b>	<b>11.4</b>	<b>9.2</b>	<b>7.7</b>	<b>72.1</b>	<b>14.2</b>	<b>13.9</b>	<b>21</b>	<b>49</b>	<b>34</b>
<b>Median</b>	<b>49.0</b>	<b>37.7</b>	<b>30.9</b>	<b>30.9</b>	<b>39.3</b>	<b>28.4</b>	<b>26.3</b>	<b>7.8</b>	<b>6.2</b>	<b>5.1</b>	<b>76.8</b>	<b>15.9</b>	<b>11.7</b>	<b>20</b>	<b>32</b>	<b>15</b>

Source: Bloomberg (underlying data), DNB Markets (further calculations)

## Summary of positives

### Challenger position in a market ripe for disruption

Verisec's Identity-as-a-Service (IDaaS) Freja eID is a mobile ID ecosystem that verifies, manages, and controls digital identities in online activities such as log-in, signing, and approval – the cornerstone of a digital society. Freja eID has been launched in the world's most mature eID market (Sweden, which has 75% eID adoption), for which we forecast a 20%+ CAGR by 2021e supported by four key secular digitalisation trends: 1) time and cost savings; 2) a need for greater security online; 3) increased online sales of goods and services; and 4) legislation of electronic identification. Our analysis suggests a long-tailed shift to IDaaS from the number of users and the number of authentications and signings. Freja eID's no.2 position in the Swedish mobile eID market – which we value at SEK1.2bn – provides a good start, and we estimate the Nordic mobile eID market could be worth SEK3bn in 2020, where we believe Freja eID is the only internationally scalable solution with the potential to become Sweden's independent national eID in eIDAS – the EU regulation on electronic identification.

### Verisec benefits from platform company dynamics – network effects

There are two main growth drivers for Freja eID: 1) integrated service providers extending the value to users; and 2) users attracting new service providers. These factors amplify each other, creating growing competitive advantages that are hard to replicate. Thus, Verisec's focus has been to build a relevant base of service providers with a broad user base and high interaction, now at 181 (163 relying parties, 18 partners). We consider it positive that Freja eID's relying parties have grown to 181 with a small user base, suggesting that customers see an attractive business case. Among existing ecosystem parties, we note a heavy skew towards the public and gambling sectors (target verticals for Verisec). Both are transaction-intensive (often small transaction values), which is why they have strong incentives to join the Freja eID platform, as its flexible pricing model allows more efficient budgeting and cost control as they pay a fixed price instead of a per-transaction cost.

### We believe Freja eID is a worthy complement to competing Swedish mobile BankID

Sweden's eID market is very reliant on BankID, which holds a monopoly-like position. To lessen reliance on it, the Swedish Agency for Digital Government formed a citizens' 'System of Choice' for electronic identification in 2017. Coming out of this, Freja eID was the only government-approved mobile eID compliant with the requirements for the 'Svensk e-legitimation' quality mark. Also, the Swedish Financial Supervisory Authority's investigation of eIDs on 30 August 2019 highlighted the potential problems of BankID's dominant market position. In our view, monopoly-like situations seldom benefit users, as: 1) being too reliant on one provider threatens the digital ecosystem; 2) increased competition sparks innovation and improved product quality; and 3) there is no price competition. We believe Freja eID is as competitive on technology and ease-of-use as BankID's mobile app. We consider BankID's drawbacks to be: 1) its reliance on Swedish social security numbers (could be seen as discriminatory based on users' identity-related data); and 2) it does not have the 'Svensk e-legitimation' quality mark.

### Positioned for >45% sales CAGR and improving margins

Business model transition has allowed for stable revenues but elevated opex, yet in recent quarters Verisec has started to deliver on its path to profitability. We note solid progress in adding new relying parties in recent quarters, rapidly expanding the value for new users to the Freja eID platform. We expect a >45% 2019–2022 sales CAGR, primarily on growing Freja eID adoption. As revenue growth materialises, we expect margins to improve as Verisec benefits from economies of scale in its IDaaS revenue model.

### At c60% ownership, management's interests are aligned with those of shareholders

Management has 20+ years' experience in IT security, originating from high-growth company Protect Data, which was acquired by cyber-security global leader Check Point in 2007 for cSEK4bn (5x NTM EV/sales). We believe management's background evidences key digital identity knowledge and building scalable high-growth companies.

Swedish market (which we value at SEK1.2bn) could act as a stepping stone to a Nordic total addressable market of SEK3bn, where secular growth drivers provide a long runway for growth

Network effects drive growth for Freja eID, where the number of users and services amplify each other and the value of the platform

Competing BankID launched its mobile eID solution in 2010, giving it a headstart to Freja eID. Yet, we see Freja eID as a worthy complement and potential disruptor to incumbents

Verisec has invested heavily in Freja eID, which has held back margins...

...but we believe a >45% 2019–2022e sales CAGR and healthy operational leverage should lead to EBIT-breakeven by 2022e

Proven management ability to exploit potential in high-growth IT security companies and retain c60% ownership

## Summary of negatives

### No evidence that 'network effects' for Freja eID are gaining ground yet

As discussed, the number of users on the Freja eID platform will be the swing factor in our assessment of its growth prospects and Verisec's valuation, as the number of users determines the number of services (Verisec's customers) attracted to the platform. We expect Verisec to reach critical mass of relying parties by mid-2020; this should prompt it to intensify its efforts to drive platform user growth. Yet, if by end-2020 it does not report user-base growth in Freja eID, it would raise concerns about the attractiveness of its product offering, in our view. In such a scenario we see little evidence that Verisec's sales growth could be at a turning point, and we would have to revisit our forecasts for Freja eID.

Bears could claim Freja eID provides little evidence that growth is at a turning point near-term

### Large eID market potential could mean intensified competition

While we view Freja eID as an up-and-coming potential disruptor in the Nordic eID market, we conclude its offering is fairly similar to that of no.1 player in Sweden, Bank ID, in terms of ease-of-use, capabilities, deployment, and to some extent pricing. This indicates the space could become highly competitive as BankID would likely want to defend its monopoly-like position in Sweden. In a scenario with escalating pricing pressure (per eID transaction), this might not be offset by strong volume growth, which could hurt Freja eID's top-line growth. Banks are still the most trusted provider of eIDs in Europe according to our analysis, while the rapid growth of the mobile eID market means we cannot rule out that large technology companies could make inroads too.

Competition is already strong, and might become tougher

### Lacklustre profitability and FCF generation increases the risk of recapitalisation

As of end-Q1 2020, Verisec's cash position in the business that will remain was SEK4m (net cash of SEK20m including the SEK23m credit facility). With expected proceeds of SEK48m from its divestment of Freja UP and the HSM distributor businesses and an annual FCF burn rate of cSEK20m–30m on average in 2016–2019, investor concerns about the balance sheet should lessen. We estimate Verisec is adequately capitalised for the operational business EBIT- and cash-flow-breakeven by 2022. Yet, as our forecasts include Freja eID sales increasing to SEK39m in 2021, if sales fall short, this could increase the risk of a recapitalisation.

Delayed EBIT-breakeven would raise the risk of additional funding requirements

### If Freja eID does not take off, valuation would look rich

If Freja eID sales do not materialise, we see little evidence that group organic growth could grow strongly near-term driven by the legacy business and do not believe it would deserve a 2021e EV/Sales of 5.0x. In such a scenario (with the risk of recapitalisation rising), our bear-case fair value is SEK30–40/share.

Bear-case fair value of SEK30–40/share

### Security compromise or regulatory change

Verisec's business model is built on the trust customers place in its ability to deliver a secure signature and authentication platform that is enforceable under law and the regions in which the company operates. As eID system administrators would gain access to and control of large-scale population data, there is the potential to use it for fraud, tracking particular ethnic groups, political manipulation, and unauthorised surveillance, with the possibility to restrict online access such as payments, travel, and social media, while any technical failures or data breaches would be threats to any digital ecosystem. Changes in that dynamic (through a security breach or change in regulation) would be detrimental to the company.

Security breaches could destroy user confidence in the business and create a significant headwind to growth

11 May 2020

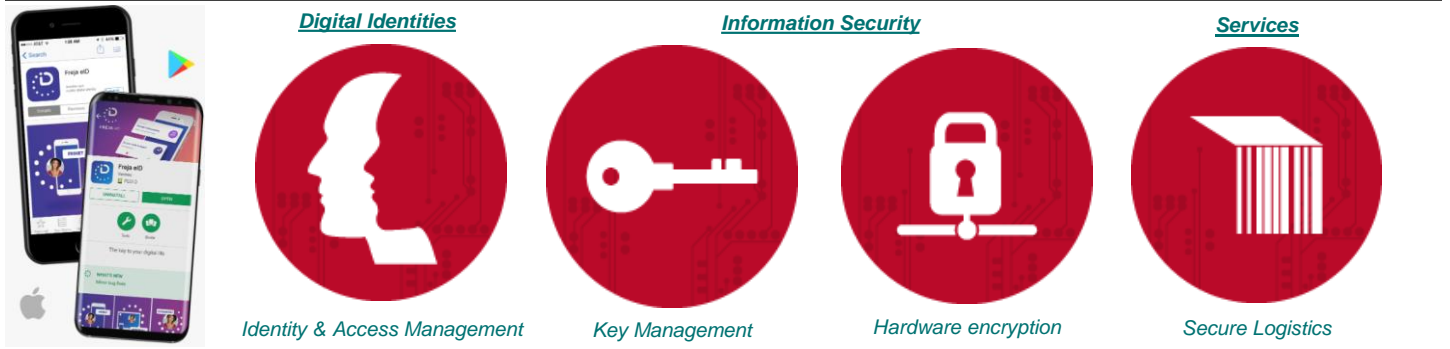
## A recap on Verisec

Dating back to 2002, Verisec has a dynamic history of adapting its IT security solutions to meet customer demand, having transitioned from being the leading Nordic provider of security tokens for banking, governments, corporations etc (physical devices) to a cloud-based Identity as a Service (IDaaS) platform of trust providing Sweden’s new mobile e-identity (eID). Verisec’s Freja eID is a mobile ID ecosystem that verifies, manages, and controls digital identities in online activities such as log-in, signing, and approval. While the business model was overhauled in 2016 as customers demanded next-generation identities as a service, the foundation remains securing identity to prove you are who you say you are in a digital context.

Verisec’s Identity-as-a-Service (IDaaS) offering secures digital identities, the cornerstone of a digital society

80% of confirmed breaches due to weak/poorly protected passwords, according to Verizon

**Figure 9: Verisec’s digital identities are in ongoing transition from on-premises solutions towards Identity-as-a-Service**



Source: Company (underlying data), DNB Markets (structuring)

- **Digital identities** through the complete security suite Freja, which offers locally installed B2B security solutions to manage digital identities on a large scale (two-factor authentication, user enrolment and device provisioning, cloud single sign-on). In particular, the Freja eID replaces complicated usernames/passwords with an easy-to-use mobile app. Freja is the only eID provider with a quality mark ‘Svensk e-legitimation’ issued by the Swedish Agency for Digital Government (DIGG), and Verisec has applied to DIGG to position Freja eID as Sweden’s independent national eID in eIDAS, the EU’s regulation to drive digital growth and cross-border electronic transactions between member states. In addition, we note that the Swedish Financial Supervisory Authority’s investigation of eIDs, whose referral on 30 August 2019 highlighted competitor BankID’s shortcomings and the potential problems from its dominant market position, benefits Freja eID, in our view.

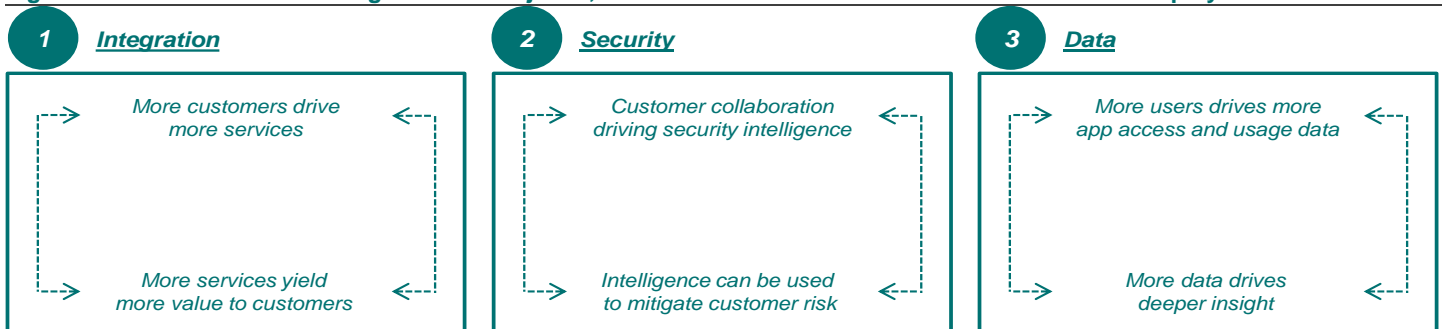
eIDs allow citizens to securely authenticate themselves in online services as proof of identification

- **Information Security** involves key management solutions (the proprietary Chiave suite), hardware encryption and decryption of sensitive data, payments and communication, where its distributor partnership with Thales comprises the bulk of its hardware sales.

There are two main growth drivers for Freja eID: 1) integrated service providers, extending the value to users; and 2) users attracting new service providers. As these factors amplify each other, it creates accelerating competitive advantages that are hard to replicate. Thus, Verisec’s focus has been to build a relevant base of service providers with a broad user base and high interaction, now at 181 (163+ relying parties, 18 partners).

Positioned to benefit from network effects where number of users determines platform’s success

**Figure 10: Network effects drive growth for Freja eID, where number of users and number of services amplify each other**



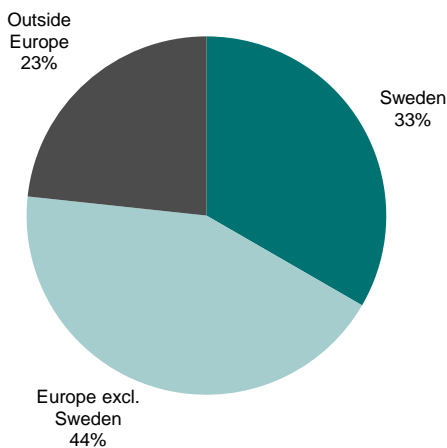
Source: DNB Markets

The company's partners include system integrators such as Tieto, Svensk e-identitet, Curity and CGI, with which Verisec's potential customers in the private and public sectors collaborate. Verisec's geographical sales mix still reflects its legacy products of internet bank security tokens and third-party hardware security modules, with 33% of 2019 sales from Sweden, 44% from elsewhere in Europe, and 23% from Latin America and the Middle East. While Freja eID will initially target the mature market for eIDs in Sweden, it will also be positioned to expand in the Nordics and eventually elsewhere in Europe, as broader adoption of eIDs is yet to be material in those markets, where Freja eID could position itself to drive that shift.

Taking market share in mature home eID market of Sweden is Verisec's focus...

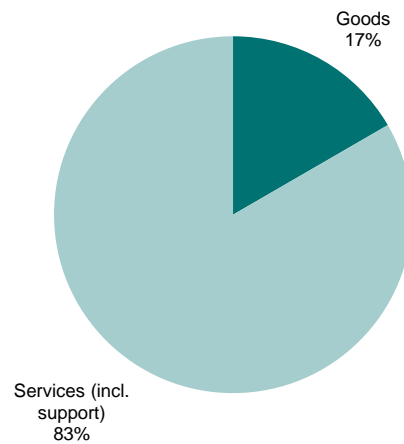
...and we see opportunities elsewhere in the Nordics

Figure 11: Geographical sales split, 2019



Source: Verisec

Figure 12: Sales by business model, 2019



Source: Verisec

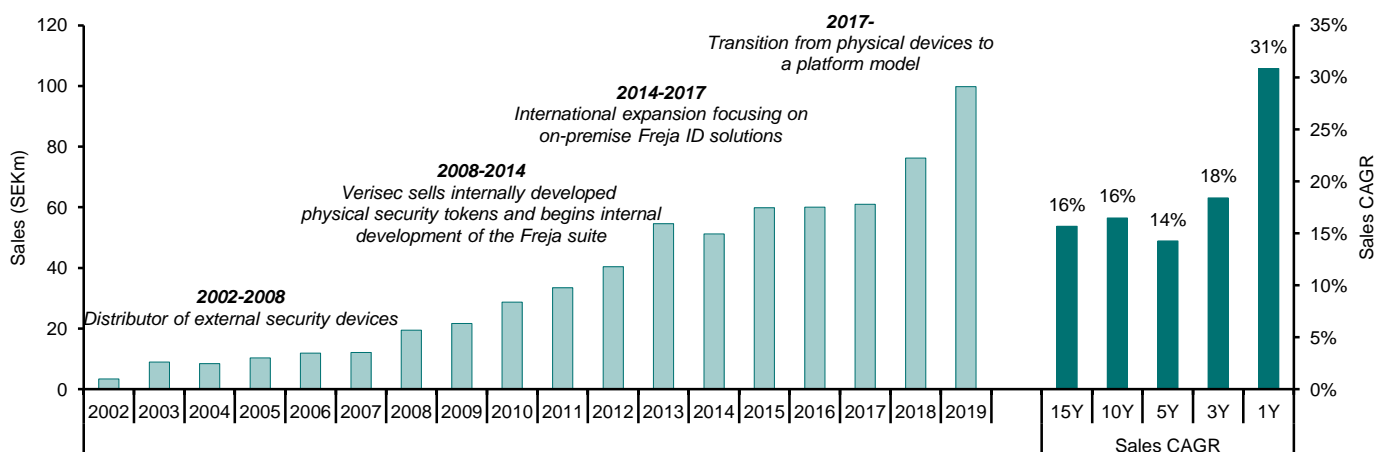
The Freja eID platform is free for users (consumer) and accessed via a mobile app. It is the online service providers (businesses, municipalities, authorities, banks, online payment processes etc) where users log in, sign, or approve that are Verisec's customers, foremost via a transaction-based business model, which is the most common procurement method for the public sector (typically SEK0.15 per transaction), and complemented by a fixed subscription model, facilitating budgeting for customers.

Transaction-based business model means Verisec is building a broad user base with frequent interaction services

Verisec reported 2019 net sales of SEK100m (past 15-year sales CAGR of 15%+), with a stable gross margin (65%+) but an operating loss of SEK28m (-28% EBIT margin), as management is investing in growth by adding as many Swedish service providers and users as possible at this early stage of growth (Freja eID launch in H2 2017) to build a large enough revenue base to create leverage and drive margin expansion.

Freja eID is key to reigniting organic growth, in our view

Figure 13: Verisec's 17-year footprint in the IT security market builds trust



Source: Company (underlying data), DNB Markets (graph structuring)



11 May 2020

Forecast changes – P&L

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenues	24	55	103	105	163	213	-81	-108	-110
Cost of sales	-1	-3	-5	-37	-56	-67	35	52	61
Gross profit	22	52	97	68	108	146	-45	-56	-49
Operating expenses	-51	-60	-72	-87	-115	-138	36	54	67
EBITDA	-18	6	43	-4	14	27	-14	-8	16
EBITDA adj	-18	6	43	-4	14	27	-14	-8	16
EBITDA margin (%)	nm	11.8	41.9	-3.5	8.9	12.6	nm	2.9	29.3
Depreciation	-14	-15	-17	-16	-21	-19	1	6	1
EBIT	-32	-8	26	-19	-7	8	-12	-2	17
EBIT adj	-32	-8	26	-19	-7	8	-12	-2	17
Net interest	-1	0	-1	-1	-1	-2	0	1	1
Net financial items	-1	0	-1	-1	-1	-2	0	1	1
PBT	-32	-9	25	-20	-8	6	-12	0	19
Taxes	0	0	-6	2	1	1	-2	-1	-6
Net profit	-32	-9	20	-18	-7	7	-15	-2	13
Adjustments to net profit	0	0	0	0	0	0	0	0	0
Net profit adj	-32	-9	20	-18	-7	7	-15	-2	13
<i>Per share data (SEK)</i>									
EPS	-6.67	-1.79	4.02	-3.66	-1.41	1.45	-3.00	-0.37	2.57
EPS adj	-6.67	-1.79	4.02	-3.66	-1.41	1.45	-3.00	-0.37	2.57
DPS ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<i>Other key metrics (%)</i>									
Revenue growth	-28.4	131.4	86.1	0.8	55.9	30.4	-29.2	75.5	55.7
EBIT adj growth	nm	nm	nm	-29.8	-64.2	-219.2	nm	nm	nm
EPS adj growth	nm	nm	nm	-27.7	-61.4	-202.5	nm	nm	nm
Avg. number of shares (m)	5	5	5	5	5	5	0	0	0
Capex	-14	-19	-29	-16	-21	-29	1	1	-1
OpFCF	-32	-13	14	-19	-6	-2	-12	-7	15
Working capital	-26	-35	-46	-18	-23	-31	-8	-11	-15
NIBD adj	-5	-1	-34	17	19	13	-22	-19	-47

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
<b>Revenue</b>									
Goods	0	0	0	11	11	12	-11	-11	-12
Services (incl. support)	16	16	16	82	91	95	-67	-75	-79
Freja eID	8	39	87	12	62	107	-4	-23	-20
<b>Assumptions</b>									
Revenue org. % YOY	52.35	136.0	86.09	2.64	55.61	30.44	49.71	80.38	55.65
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY	-80.76	-4.57	0.00	-1.80	0.34	0.00	-78.96	-4.91	0.00

Source: DNB Markets



11 May 2020

## Quarterly numbers

(SEKm)	Q1 2019	Q2 2020e	Q3 2020e	Q4 2020e	Q1 2021e
<b>Revenues</b>	<b>8</b>	<b>4</b>	<b>5</b>	<b>9</b>	<b>13</b>
Cost of sales	0	0	0	-1	-1
<b>Gross profit</b>	<b>8</b>	<b>4</b>	<b>5</b>	<b>8</b>	<b>12</b>
Operating expenses	-15	-11	-12	-13	-16
<b>EBITDA</b>	<b>-8</b>	<b>-5</b>	<b>-4</b>	<b>0</b>	<b>1</b>
Depreciation	-3	-3	-3	-5	-4
<b>EBIT</b>	<b>-10</b>	<b>-7</b>	<b>-7</b>	<b>-5</b>	<b>-4</b>
Net interest	0	0	0	0	0
Net financial items	0	0	0	0	0
<b>PBT</b>	<b>-10</b>	<b>-7</b>	<b>-7</b>	<b>-5</b>	<b>-4</b>
Taxes	0	0	0	0	0
<b>Net profit</b>	<b>-11</b>	<b>-7</b>	<b>-7</b>	<b>-5</b>	<b>-4</b>
Adjustments to net profit	0	0	0	0	0
Net profit adj	-11	-7	-7	-5	-4
Dividend paid	0	0	0	0	0
Avg. number of shares (m)	5	5	5	5	5
<i>Per share data (SEK)</i>					
EPS	-2.16	-1.49	-1.40	-1.02	-0.78
<b>EPS adj</b>	<b>-2.16</b>	<b>-1.49</b>	<b>-1.40</b>	<b>-1.02</b>	<b>-0.78</b>
DPS ordinary	0.00	0.00	0.00	0.00	0.00
DPS	0.00	0.00	0.00	0.00	0.00
<i>Growth and margins (%)</i>					
Revenues, QOQ growth	nm	-23.8	29.8	60.3	46.1
Revenues, YOY growth	nm	nm	nm	nm	131.4
EPS adj, YOY growth	nm	nm	nm	nm	nm
Gross margin	97.5	94.3	94.3	94.3	92.5
EBITDA adj margin	nm	nm	nm	3.0	4.5
Depreciation/revenues	-33.8	-60.0	-60.0	-60.0	-34.0
EBIT adj margin	-128.8	-173.0	-125.7	-57.0	-29.5
Net profit margin	nm	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

## Adjustments to quarterly numbers

(SEKm)	Q1 2019	Q2 2020e	Q3 2020e	Q4 2020e	Q1 2021e
<b>EBITDA</b>	<b>-8</b>	<b>-5</b>	<b>-4</b>	<b>0</b>	<b>1</b>
EBITDA adj	-8	-5	-4	0	1
<b>EBIT</b>	<b>-10</b>	<b>-7</b>	<b>-7</b>	<b>-5</b>	<b>-4</b>
Other EBIT adjustments	0	0	0	0	0
EBIT adj	-10	-7	-7	-5	-4
<b>Net profit</b>	<b>-11</b>	<b>-7</b>	<b>-7</b>	<b>-5</b>	<b>-4</b>
Other EBIT adjustments	0	0	0	0	0
Net profit adj	-11	-7	-7	-5	-4

Source: Company (historical figures), DNB Markets (estimates)

11 May 2020

Quarterly numbers by segment and assumptions

(SEKm)	Q2 2019	Q3 2019	Q4 2019e	Q2 2020e	Q3 2020e	Q4 2020e	Q1 2021e
<b>Revenue</b>							
Goods	0	0	0	0	0	0	0
Services (incl. support)	0	0	0	4	4	3	5
Freja eID	0	0	0	0	2	6	8
<b>Assumptions</b>							
Revenue org. % YOY				-2.45	-2.04	-1.82	152.9
Structure impact % YOY				0.00	0.00	0.00	0.00
Currency impact % YOY				2.45	2.04	1.82	1.64

Source: Company (historical figures), DNB Markets (estimates)

Annual P&L

(SEKm)	2019	2020e	2021e	2022e
<b>Revenues</b>	<b>33</b>	<b>24</b>	<b>55</b>	<b>103</b>
Cost of sales	-2	-1	-3	-5
<b>Gross profit</b>	<b>32</b>	<b>22</b>	<b>52</b>	<b>97</b>
Operating expenses	-63	-51	-60	-72
<b>EBITDA</b>	<b>-31</b>	<b>-18</b>	<b>6</b>	<b>43</b>
Depreciation	-12	-14	-15	-17
<b>EBIT</b>	<b>-43</b>	<b>-32</b>	<b>-8</b>	<b>26</b>
Net interest	0	-1	0	-1
Net financial items	0	-1	0	-1
<b>PBT</b>	<b>-43</b>	<b>-32</b>	<b>-9</b>	<b>25</b>
Taxes	0	0	0	-6
Effective tax rate (%)	0	0	0	22
<b>Net profit</b>	<b>-43</b>	<b>-32</b>	<b>-9</b>	<b>20</b>
Adjustments to net profit	0	0	0	0
Net profit adj	-43	-32	-9	20
Dividend paid	0	0	0	0
Avg. number of shares	0	5	5	5
<i>Per share data (SEK)</i>				
EPS		-6.67	-1.79	4.02
<b>EPS adj</b>		<b>-6.67</b>	<b>-1.79</b>	<b>4.02</b>
DPS ordinary	0.00	0.00	0.00	0.00
DPS	0.00	0.00	0.00	0.00
<i>Growth and margins (%)</i>				
Revenue growth	nm	-28.4	131.4	86.1
EPS adj growth	nm	nm	nm	nm
Gross margin	94.9	93.9	94.2	94.7
EBITDA margin	nm	nm	11.8	41.9
EBITDA adj margin	nm	nm	11.8	41.9
Depreciation/revenues	-35.1	-59.6	-27.1	-16.9
EBIT margin	nm	nm	nm	24.9
EBIT adj margin	-129.1	-133.2	-15.3	24.9
PBT margin	nm	nm	nm	24.4
Net profit margin	nm	nm	nm	nm

Source: Company (historical figures), DNB Markets (estimates)

11 May 2020

## Adjustments to annual P&amp;L

(SEKm)	2019	2020e	2021e	2022e
<b>EBITDA</b>	<b>-31</b>	<b>-18</b>	<b>6</b>	<b>43</b>
EBITDA adj	-31	-18	6	43
<b>EBIT</b>	<b>-43</b>	<b>-32</b>	<b>-8</b>	<b>26</b>
Other EBIT adjustments	0	0	0	0
EBIT adj	-43	-32	-8	26
<b>Net profit</b>	<b>-43</b>	<b>-32</b>	<b>-9</b>	<b>20</b>
Other EBIT adjustments	0	0	0	0
Net profit adj	-43	-32	-9	20
<i>Per share data (SEK)</i>				
EPS		-6.67	-1.79	4.02
Recommended adjustment		0.00	0.00	0.00
EPS adj		-6.67	-1.79	4.02

Source: Company (historical figures), DNB Markets (estimates)

## Cash flow

(SEKm)	2019	2020e	2021e	2022e
Net profit	-43	-32	-9	20
<b>Cash flow from operations (CFO)</b>	<b>0</b>	<b>-11</b>	<b>15</b>	<b>48</b>
Capital expenditure	0	-14	-19	-29
Acquisitions/Investments	0	34	0	14
Divestments	0	0	0	0
<b>Cash flow from investing (CFI)</b>	<b>0</b>	<b>20</b>	<b>-19</b>	<b>-15</b>
<b>Free cash flow (FCF)</b>	<b>0</b>	<b>9</b>	<b>-5</b>	<b>33</b>
Net change in debt	0	0	0	0
Dividends paid	0	0	0	0
Other	0	0	0	0
<b>Cash flow from financing (CFF)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>0</b>	<b>9</b>	<b>-5</b>	<b>33</b>
<i>FCFF calculation</i>				
Free cash flow	0	9	-5	33
Less: net interest	0	1	0	1
Less: tax shields/other	0	0	0	0
Less: acquisitions	0	-34	0	-14
Less: divestments	0	0	0	0
<b>Free cash flow to the firm</b>	<b>0</b>	<b>-25</b>	<b>-5</b>	<b>20</b>
<b>Growth (%)</b>				
CFO	nm	nm	232.0	234.0
CFI	nm	nm	-197.7	20.9
FCF	nm	nm	-154.7	792.3
CFF	nm	nm	nm	nm
FCFF	nm	nm	81.6	536.1

Source: Company (historical figures), DNB Markets (estimates)

11 May 2020

## Balance sheet

(SEKm)	2019	2020e	2021e	2022e
<b>Assets</b>	<b>60</b>	<b>69</b>	<b>77</b>	<b>142</b>
Inventories	0	0	0	0
Trade receivables	0	0	0	0
Other receivables	8	9	14	24
Current financial assets	8	9	12	22
Cash and cash equivalents	8	13	8	41
<b>Current assets</b>	<b>24</b>	<b>30</b>	<b>34</b>	<b>87</b>
<b>Non-current assets</b>	<b>36</b>	<b>39</b>	<b>43</b>	<b>55</b>
<b>Total assets</b>	<b>60</b>	<b>69</b>	<b>77</b>	<b>142</b>
<b>Equity and liabilities</b>	<b>60</b>	<b>69</b>	<b>77</b>	<b>142</b>
Total equity to the parent	17	22	14	47
<b>Total equity</b>	<b>17</b>	<b>22</b>	<b>14</b>	<b>47</b>
Trade payables	0	0	0	0
Other payables and accruals	39	44	61	92
<b>Total current liabilities</b>	<b>39</b>	<b>44</b>	<b>61</b>	<b>92</b>
Long-term debt	0	0	0	0
Deferred tax liabilities	0	0	0	0
Other non-current liabilities	4	3	3	3
<b>Total non-current liabilities</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Total liabilities</b>	<b>43</b>	<b>47</b>	<b>64</b>	<b>95</b>
<b>Total equity and liabilities</b>	<b>60</b>	<b>69</b>	<b>77</b>	<b>142</b>
<i>Key metrics</i>				
Net interest bearing debt	0	-5	-1	-34

Source: Company (historical figures), DNB Markets (estimates)

11 May 2020

Valuation ratios

(SEKm)	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<i>Enterprise value</i>									
Share price (SEK)	43.00	77.75	83.75	93.00	98.00	95.00	57.00	57.00	57.00
Number of shares (m)	0.00	0.00	0.00	0.00	0.00	0.00	4.87	4.87	4.87
Market capitalisation	0	0	0	0	0	0	278	278	278
Net interest bearing debt	0	0	0	0	0	0	-5	-1	-34
Adjustments to NIBD	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	0	0	0	0	0	0	-5	-1	-34
EV	0	0	0	0	0	0	272	277	244
EV adj	0	0	0	0	0	0	272	277	244
<i>Valuation</i>									
EPS							-6.67	-1.79	4.02
<b>EPS adj</b>							<b>-6.67</b>	<b>-1.79</b>	<b>4.02</b>
DPS ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
P/E							-8.5	-31.9	14.2
P/E adj							-8.5	-31.9	14.2
Average ROE						-497.1%	-164.4%	-48.8%	64.6%
Earnings yield adj							-11.7%	-3.1%	7.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/SALES						0.00	11.42	5.02	2.38
EV/SALES adj						0.00	11.42	5.02	2.38
EV/EBITDA						0.0	-15.5	42.7	5.7
EV/EBITDA adj						0.0	-15.5	42.7	5.7
EV/EBIT						0.0	-8.6	-32.8	9.5
EV/EBIT adj						0.0	-8.6	-32.8	9.5
EV/OpFCF (taxed)						0.0	-8.6	-21.6	17.8

Source: Company (historical figures), DNB Markets (estimates)

11 May 2020

## Key accounting ratios

	2019	2020e	2021e	2022e
<i>Profitability (%)</i>				
ROA	-142.6	-50.3	-11.9	17.9
<i>Return on invested capital (%)</i>				
Working capital/revenues	-69.1	-110.3	-62.7	-44.9
<i>Cash flow ratios (%)</i>				
FCF/revenues	0.0	36.8	-8.7	32.3
FCF/market capitalisation		3.2	-1.7	12.0
CFO/revenues	0.0	-46.1	26.3	47.2
CFO/market capitalisation		-4.0	5.2	17.5
CFO/capex		-77.3	75.2	165.6
CFO/current liabilities	0.0	-25.2	23.9	52.8
Cash conversion ratio	0.0	-27.0	55.0	169.7
Capex/revenues	0.0	59.7	35.0	28.5
Capex/depreciation	0.0	100.2	129.3	168.3
OpFCF margin	-94.0	-133.3	-23.2	13.4
Total payout ratio		0.0	0.0	0.0
<i>Leverage and solvency (x)</i>				
EBIT/interest payable	nm	nm	nm	49.88
Cash coverage		-26.88	23.55	83.76
Net debt/EBITDA	0.00	0.31	-0.09	-0.79
LTD / (LTD + equity (MV))		0.00	0.00	0.00
<i>Cash conversion cycle</i>				
Inventory turnover days	0.0	0.0	0.0	0.0
Receivables turnover days	88.8	133.4	92.0	84.0
Credit period	0.0	0.0	0.0	0.0
Cash conversion cycle	88.8	133.4	92.0	84.0

Source: Company (historical figures), DNB Markets (estimates)

11 May 2020

## Important Information

Company: Verisec  
 Coverage by Analyst: Joachim Gunell  
 Date: 11-5-2020

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	Buy	Hold	Sell	No_rec	Total
Number	139	72	22	23	256
% of total	54%	28%	9%	9%	
DNB Markets client	21%	11%	3%	5%	103

11 May 2020

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