

ESG insight



VERISEC

Changing its stripes

Verisec continues to demonstrate early success in building its Freja eID ecosystem, which is set to benefit from continued digitalisation tailwinds accelerated by Covid-19 and an increasingly eID-focused organisation. However, we await further signs that it can successfully monetise its ecosystem into paying customers, and have thus cut our 2020–2022e sales by 24%, and our fair value to SEK60–110 (70–110).

Q2 review. Sales of SEK6m beat our forecast of SEK4m (28% sales fall YOY), mainly related to its fulfilment services, while the EBIT loss of SEK10m was 41% higher than we expected. With a SEK13m cash position at end-Q2, a SEK24m unutilised credit facility, and a SEK14m vendor loan, although we expect an average quarterly burn rate of SEK4m by end-2021, we do not believe a recapitalisation is needed.

Road ahead. We find the name change to Freja eID encouraging given the momentum in its eID ecosystem, which could shift investors' perception of it to a high-growth eID-focused investment case. We also believe the value proposition for both services and end-users has accelerated, driven by the demand for secure remote workforce identity systems, as well as a growing need for secure digital processes to penetrate the Nordic addressable market opportunity of ~SEK3bn. Competitively, there is still a key differentiation for Freja eID based on technology, pricing and user-friendliness.

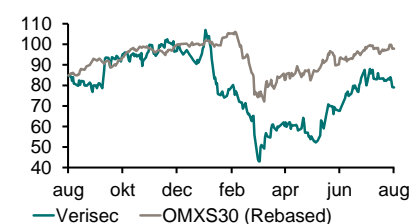
We have cut 2020–2022e sales by 24%, on a softer view of short-term monetisation from Freja eID, although KPIs such as users (we estimate ~35,000) and relying parties (~200) are tracking according to plan, aided by the integration with Office 365 and Azure, Organisations eID and personal eID. Management's tone was positive on the rate of its cost savings of SEK15m in 2020e and SEK30m in 2021e, and we believe the SEK48m divestment of its legacy businesses should result in a leaner and more focused organisation, but for now we prefer to take a prudent approach.

We see a SEK60–110/share fair value, corresponding to 2022e EV/sales of 4–7x, while we believe historical financial disclosure remains poor. Should we gain further evidence of Freja eID user adoption, we could see meaningful upside potential to our fair value, given a long runway for 40%+ sales growth and attractive scalability.

| Year-end Dec | 2019 | 2020e | 2021e | 2022e |
|-----------------------|------|-------|-------|---------|
| Revenue (SEKm) | 33 | 25 | 42 | 71 |
| EBITDA adj (SEKm) | -31 | -23 | 0 | 21 |
| EBIT adj (SEKm) | -43 | -36 | -12 | 8 |
| PTP (SEKm) | -43 | 10 | -14 | 5 |
| EPS rep (SEK) | | 1.93 | -2.86 | 0.84 |
| EPS adj (SEK) | | 1.93 | -2.86 | 0.84 |
| DPS (SEK) | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue growth (%) | nm | -23.5 | 64.5 | 70.5 |
| EBITDA growth adj (%) | nm | nm | nm | 13110.9 |
| EBITDA margin adj (%) | nm | nm | 0.4 | 29.4 |
| EV/Sales adj (x) | nm | 15.30 | 9.07 | 4.71 |
| EV/EBITDA adj (x) | nm | nm | nm | 16.0 |
| EV/EBIT adj (x) | nm | nm | nm | 43.3 |
| P/E adj (x) | | 40.9 | nm | 93.6 |
| ROE (%) | nm | 39.2 | nm | 7.4 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| FCF yield (%) | nm | -10.0 | -2.7 | 2.6 |

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

VERI versus OMXS30 (12m)



Source: Factset

SUMMARY

| | |
|-------------------|------------------|
| Share price (SEK) | 79.0 |
| Tickers | VERI SS, VERI.ST |

CAPITAL STRUCTURE

| | |
|------------------------------|-------|
| No. of shares (m) | 4.9 |
| No. of shares fully dil. (m) | 4.9 |
| Market cap. (SEKm) | 385 |
| NIBD adj end-2020e (SEKm) | 5 |
| Enterprise value adj (SEKm) | 390 |
| Net debt/EBITDA adj (x) | -0.22 |
| Free float (%) | 48 |

Source: Company, DNB Markets (estimates)

NEXT EVENT

| | |
|---------|------------|
| Q3 2020 | 05/11/2020 |
|---------|------------|

ESTIMATE CHANGES (SEK)

| Year-end Dec | 2020e | 2021e | 2022e |
|--------------|-------|-------|-------|
| Sales (old) | 23.84 | 55.16 | 102.7 |
| Sales (new) | 25.49 | 41.94 | 71.50 |
| Change (%) | 6.9 | -24.0 | -30.4 |
| EPS (old) | -6.67 | -1.79 | 4.02 |
| EPS (new) | 1.93 | -2.86 | 0.84 |
| Change (%) | nm | nm | -79.0 |

Source: DNB Markets,

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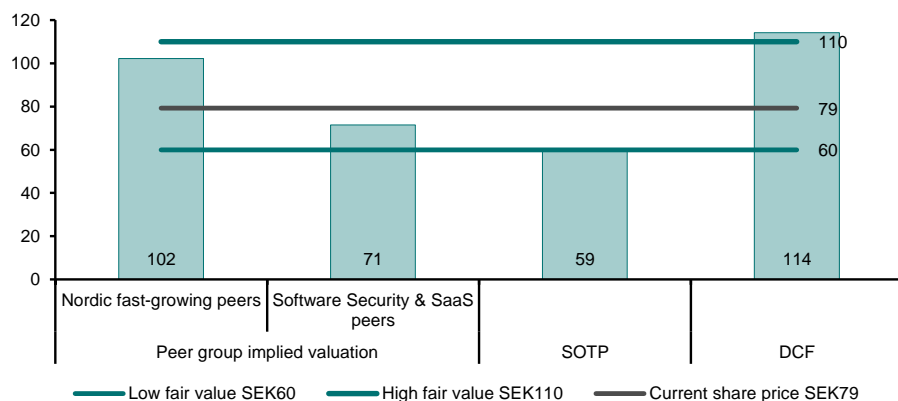
ANALYSTS

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.

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 ~30% 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 SEK60–110/share (70–110) is based on peers' multiples, a SOTP, and a DCF. On our estimates the stock is trading at a 2022e EV/sales of 5x (versus its historical average of 4x).
- Our bull-case fair value of SEK250–300/share assumes Freja eID achieves 600 relying parties and adds 800,000 users by end-2022e.
- Our bear-case fair value of SEK30–40/share assumes 50% lower Freja eID sales by 2021e (including a rights issue).

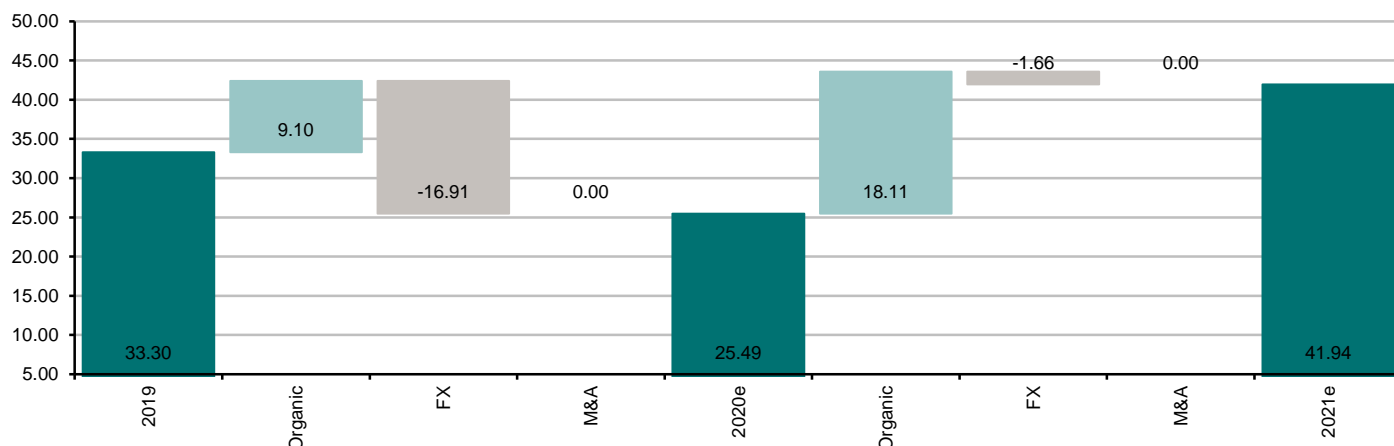
Source: DNB Markets

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"> ■ 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. | <ul style="list-style-type: none"> ■ We have identified the following ESG risks: <ul style="list-style-type: none"> ■ Potential misuse without proper control. ■ Technical failures or data breaches. ■ Exclusion of individuals. ■ 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. |
| Actions being taken by company | <ul style="list-style-type: none"> ■ 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. | <ul style="list-style-type: none"> ■ Verisec offers the only inclusive mobile eID in Sweden that is not reliant on personal identity numbers. |

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.

Q2 results

Figure 1: Q2 results versus expectations

| Key highlights (SEKm, except per share data) | Q2 2020 | | Deviation | Deviation | Q2 2019 | DNBe |
|---|--------------|--------------|-------------|-----------|--------------|--------------|
| | Actual | DNB | DNB (%) | DNB, Abs | Actual | 2020e |
| Net sales | 6.2 | 4.2 | 49% | 2 | 8.7 | 24.7 |
| Gross profit | 6.2 | 3.9 | 57% | 2 | 8.4 | 24.6 |
| Margin | 99.6% | 94.3% | 5.3pp | | 96.0% | 99.7% |
| EBIT adjusted | -10.2 | -7.2 | -41% | -3 | -10.3 | -35.9 |
| Margin | -164.6% | -173.0% | 8.3pp | | -117.9% | -145.2% |
| One-offs | 0.0 | 0.0 | | | 0.0 | 0.0 |
| EBIT | -10.2 | -7.2 | -41% | -3 | -10.3 | -35.9 |
| Margin | -164.6% | -173.0% | 8.3pp | | -117.9% | -145.2% |
| EPS adj. | 7.47 | -1.49 | 602% | 8.96 | -1.84 | 1.93 |
| Free cash flow (ex. divestments) | -25.5 | -13.2 | -93% | -12 | -18.9 | -38.4 |
| Net cash (-) or debt (+) | -6.4 | -17.4 | -63% | 11 | -8.5 | 5.1 |

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

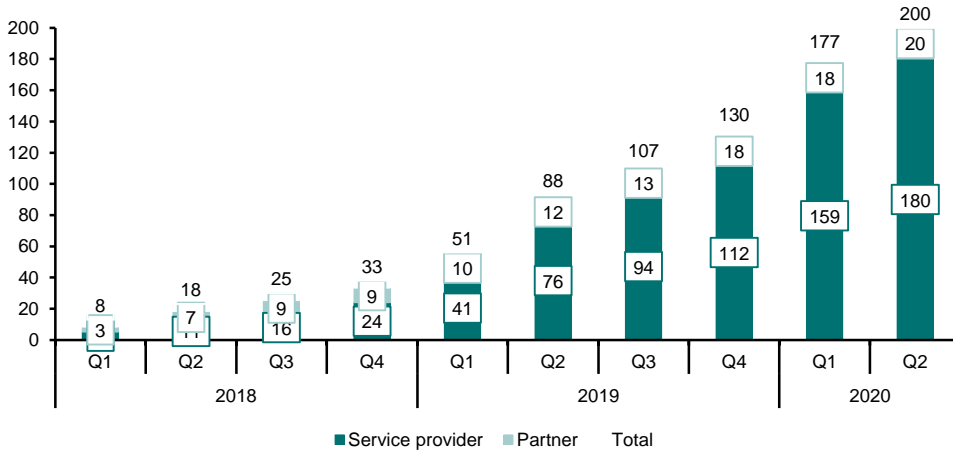
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Figure 2: Selected press releases related to Freja eID (April 2017–August 2020)

| Date | Title | Type |
|------------|---|------------------|
| 2017-04-01 | Commercial launch of Freja eID | |
| 2017-06-07 | Sunet - Antagning.se | Service provider |
| 2017-06-28 | Svenska Försäkringsfabriken | 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 |
| 2018-02-19 | 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 |
| 2018-11-07 | 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 |
| 2020-04-29 | Arbetsförmedlingen (Swedish Public Employment Service) | Service provider |
| 2020-05-25 | Svenska Energigruppen | Partnership |
| 2020-06-01 | Folkhälsomyndigheten (Public Health Agency of Sweden) | Service provider |
| 2020-06-29 | Läkemedelsverket | Service provider |
| 2020-06-30 | Min myndighetspost | Service provider |
| 2020-07-07 | Scrive | Partnership |
| 2020-07-10 | Malmö stad (potential of 75,000 users) | Service provider |




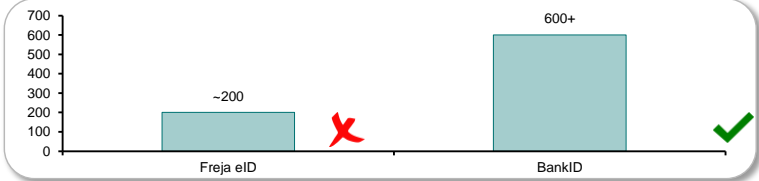
Source: Verisec press releases (underlying data), DNB Markets (table structuring)

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

| |  |  | | | | | | | | | |
|-------------------------------------|--|---|------------------------------|------------|-----------|---------------|---|--------|-----------|---|--|
| Level of assurance | <ul style="list-style-type: none"> ▪ Freja eID Plus has trust level 3 according to DIGG's standard ▪ Freja eID is Sweden's only mobile e-ID approved for the governmental quality mark Svensk e-legitimation by DIGG ▪ Verisec's assessment is that Freja eID Plus corresponds to the eIDAS level High but it remains to be tested <p style="text-align: right; color: green;">✓</p> | <ul style="list-style-type: none"> ▪ Bank ID reaches trust level 3 according to DIGG's standard but has not been reviewed by the governmental quality mark Svensk e-legitimation. <p style="text-align: right; color: green;">✓</p> | | | | | | | | | |
| Number of users |  <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th>Service</th> <th>Number of users</th> <th>Assessment</th> </tr> <tr> <td>Freja eID</td> <td>Not disclosed</td> <td style="color: red;">✗</td> </tr> <tr> <td>BankID</td> <td>7,500,000</td> <td style="color: green;">✓</td> </tr> </table> | Service | Number of users | Assessment | Freja eID | Not disclosed | ✗ | BankID | 7,500,000 | ✓ | |
| Service | Number of users | Assessment | | | | | | | | | |
| Freja eID | Not disclosed | ✗ | | | | | | | | | |
| BankID | 7,500,000 | ✓ | | | | | | | | | |
| Number of connected services |  <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th>Service</th> <th>Number of connected services</th> <th>Assessment</th> </tr> <tr> <td>Freja eID</td> <td>~200</td> <td style="color: red;">✗</td> </tr> <tr> <td>BankID</td> <td>600+</td> <td style="color: green;">✓</td> </tr> </table> | Service | Number of connected services | Assessment | Freja eID | ~200 | ✗ | BankID | 600+ | ✓ | |
| Service | Number of connected services | Assessment | | | | | | | | | |
| Freja eID | ~200 | ✗ | | | | | | | | | |
| BankID | 600+ | ✓ | | | | | | | | | |
| Price | <ul style="list-style-type: none"> ▪ SEK0.15 per transaction ▪ Fixed cap of SEK1 per user per month ▪ Subscription model for Organisations eID ▪ More flexible as businesses and public sector organisations can budget the cost <p style="text-align: right; color: green;">✓</p> | <ul style="list-style-type: none"> ▪ Login-cost of SEK0.17 and signature cost of SEK0.55 per transaction but is entirely transaction-based, regardless of the number of transactions. <p style="text-align: right; color: red;">✗</p> | | | | | | | | | |
| eIDAS | <ul style="list-style-type: none"> ▪ Has applied to the Swedish government to submit Freja eID Plus as Sweden's official eID within eIDAS ▪ As the only mobile eID approved for the quality mark Svensk E-legitimation while meeting the certification and technical specifications for Sweden Connect, open for all citizens, Freja eID has good chances to become Sweden's official eID in eIDAS <p style="text-align: right; color: green;">✓</p> | <ul style="list-style-type: none"> ▪ There is still no acknowledgement that the Swedish government wants to register BankID for eIDAS ▪ We believe that BankID is not a preferred choice for eIDAS as it does not allow for ID interchanging, which eIDAS regulation demand <p style="text-align: right; color: red;">✗</p> | | | | | | | | | |
| User data access | <ul style="list-style-type: none"> ▪ Via Freja eID's 'My Pages', the user can full control over their digital activities, identity and integrity by providing an overview of 1) what personal data is stored; 2) action history of which transactions, log-ins etc. has been performed; and 3) the user can customize which services it wants to allow access to in order to strengthen security <p style="text-align: right; color: green;">✓</p> | <ul style="list-style-type: none"> ▪ BankID also has an overview providing the user with a detailed action history of when the social security number has been used (regardless of what typ of BankID has been used) <p style="text-align: right; color: green;">✓</p> | | | | | | | | | |

Source: DNB Markets

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Estimate revisions

Figure 5: Forecast changes (SEKm)

| (SEKm, except per share data) | Old | | | New | | | Change | | |
|--------------------------------------|------------|------------|------------|------------|------------|-----------|--------------|-------------|-------------|
| | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e |
| Group | | | | | | | | | |
| Sales | 24 | 55 | 103 | 25 | 42 | 71 | 7% | -24% | -30% |
| Sales growth | -28.4% | 131.4% | 86.1% | -23.5% | 64.5% | 70.5% | 496bp | -6687bp | -1564bp |
| Organic | 52.3% | 136.0% | 86.1% | 27.3% | 71.0% | 70.5% | -2502bp | -6495bp | -1564bp |
| Structure | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0bp | 0bp | 0bp |
| Currency | -80.8% | -4.6% | 0.0% | -50.8% | -6.5% | 0.0% | 2998bp | -192bp | 0bp |
| Gross profit | 22 | 52 | 97 | 25 | 41 | 70 | 10% | -22% | -28% |
| Gross margin | 93.9% | 94.2% | 94.7% | 96.7% | 96.7% | 97.7% | 279bp | 253bp | 306bp |
| Capitalised development costs | 6 | 5 | 7 | 7 | 6 | 6 | 3% | 16% | -9% |
| Other external expenses | -18 | -21 | -28 | -20 | -17 | -22 | -10% | 20% | 24% |
| Personnel costs | -40 | -44 | -50 | -41 | -42 | -47 | -4% | 5% | 7% |
| EBITDA | -18 | 6 | 43 | -23 | 0 | 21 | 29% | -98% | -51% |
| Depreciation and amortisation | -14 | -15 | -17 | -13 | -13 | -13 | 7% | 16% | 24% |
| EBIT | -32 | -8 | 26 | -36 | -12 | 8 | 13% | 47% | -70% |
| EBIT margin | -133.2% | -15.3% | 24.9% | -140.7% | -29.5% | 10.9% | -755bp | -1425bp | -1407bp |
| One-offs | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| EBIT adj. | -32 | -8 | 26 | -36 | -12 | 8 | -13% | -47% | -70% |
| EBIT adj. margin | -133.2% | -15.3% | 24.9% | -140.7% | -29.5% | 10.9% | -755bp | -1425bp | -1407bp |
| Capitalized development costs | 0 | -1 | -2 | -1 | -2 | -3 | -129% | -61% | -47% |
| EBIT adj. for cap. dev. costs | -32 | -10 | 23 | -37 | -14 | 5 | -14% | -49% | -80% |
| EBIT adj. CDC margin | -134.8% | -17.4% | 22.8% | -144.2% | -34.0% | 6.4% | -940bp | -1660bp | -1641bp |
| Net financial items | -1 | 0 | -1 | 45 | -2 | -2 | 7063% | -463% | -364% |
| Pre-tax profit | -32 | -9 | 25 | 10 | -14 | 5 | 130% | -60% | -78% |
| Tax | 0 | 0 | -6 | 0 | 0 | -1 | | | |
| Tax rate | -0.3% | 0.0% | 22.0% | 1.7% | 0.0% | 23.8% | 201bp | 0bp | 177bp |
| Net profit | -32 | -9 | 20 | 9 | -14 | 4 | -129% | 60% | -79% |
| EPS adjusted | -6.67 | -1.79 | 4.02 | 1.93 | -2.86 | 0.84 | 129% | -60% | -79% |
| EPS | -6.67 | -1.79 | 4.02 | 1.93 | -2.86 | 0.84 | 129% | -60% | -79% |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | |
| Sales by product area | | | | | | | | | |
| Goods | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Services (incl. support) | 16 | 16 | 16 | 21 | 18 | 18 | 35% | 13% | 14% |
| Freja eID | 8 | 39 | 87 | 4 | 24 | 53 | -53% | -39% | -39% |
| Group Total | 24 | 55 | 103 | 25 | 42 | 71 | 7% | -24% | -30% |

Source: DNB Markets (forecasts)

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Figure 6: Annual income statement

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020e | 2021e | 2022e |
|--------------------------------------|------|------|------|------|------|------|------|--------------|--------------|--------------|-------------|
| Sales | | | | | | | | 33.3 | 25.5 | 41.9 | 71.5 |
| COGS | | | | | | | | -1.7 | -0.8 | -1.4 | -1.6 |
| Gross profit | | | | | | | | 31.6 | 24.6 | 40.6 | 69.9 |
| Capitalised development costs | | | | | | | | 5.1 | 6.7 | 6.1 | 6.4 |
| Other external expenses | | | | | | | | -20.6 | -19.6 | -17.3 | -21.6 |
| Personnel costs | | | | | | | | -47.4 | -41.1 | -41.8 | -46.9 |
| EBITDA | | | | | | | | -31.3 | -22.6 | 0.2 | 21.0 |
| Depreciation and Amortisation | | | | | | | | -11.7 | -13.3 | -12.6 | -13.3 |
| EBIT | | | | | | | | -43.0 | -35.9 | -12.4 | 7.8 |
| <i>EBIT margin</i> | | | | | | | | -129.1% | -140.7% | -29.5% | 10.9% |
| One-offs | | | | | | | | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT adj. | | | | | | | | -43.0 | -35.9 | -12.4 | 7.8 |
| <i>EBIT adj. margin</i> | | | | | | | | -129.1% | -140.7% | -29.5% | 10.9% |
| Net CDC | | | | | | | | 0.0 | -0.9 | -1.9 | -3.2 |
| EBIT adj. for cap. dev. costs | | | | | | | | -43.0 | -36.8 | -14.3 | 4.6 |
| <i>EBIT adj. CDC margin</i> | | | | | | | | -129.1% | -144.2% | -34.0% | 6.4% |
| Net financial items | | | | | | | | 0.0 | 45.4 | -1.6 | -2.4 |
| Pre-tax profit | | | | | | | | -43.0 | 9.6 | -13.9 | 5.4 |
| Tax | | | | | | | | 0.0 | -0.2 | 0.0 | -1.3 |
| Net profit | | | | | | | | -43.0 | 9.4 | -13.9 | 4.1 |
| Gross margin | | | | | | | | 94.9% | 96.7% | 96.7% | 97.7% |
| EBITDA margin | | | | | | | | -94.0% | -88.6% | 0.4% | 29.4% |
| Adj. EBIT margin | | | | | | | | -129.1% | -140.7% | -29.5% | 10.9% |
| Freja eID (DNBe) | | | | | | | | | | | |
| Number of relying parties | | | | | | | | 131 | 260 | 350 | 430 |
| Number of users | | | | | | | | 15,000 | 75,000 | 225,000 | 465,000 |
| Sales by product area | | | | | | | | | | | |
| Goods | | | | | | | | 0.0 | 0.0 | 0.0 | 0.0 |
| Services (incl. support) | | | | | | | | 28.8 | 21.1 | 17.9 | 18.3 |
| Freja eID | | | | | | | | 0.5 | 3.7 | 24.0 | 53.2 |
| Group Total | | | | | | | | 33.3 | 25.5 | 41.9 | 71.5 |
| Sales growth by product area | | | | | | | | | | | |
| Goods | | | | | | | | | | | |
| Services (incl. support) | | | | | | | | | -27% | -15% | 2% |
| Freja eID | | | | | | | | | 621% | 558% | 121% |
| Group Total | | | | | | | | | -16% | 70% | 70% |
| Sales growth, of which | | | | | | | | | | | |
| Organic | | | | | | | | | 27% | 71% | 70% |
| Structure | | | | | | | | | 0% | 0% | 0% |
| Currency | | | | | | | | | -51% | -6% | 0% |
| Total growth | | | | | | | | | -23% | 65% | 70% |

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

16 August 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 | Q2'20 | Q3'20e | Q4'20e |
|--------------------------------------|-------|-------|-------|-------|----------------|----------------|--------|--------|----------------|----------------|----------------|---------------|
| Sales | | | | | 8.0 | 10.3 | | | 5.5 | 6.5 | 6.0 | 7.4 |
| COGS | | | | | -0.2 | -0.5 | | | -0.4 | 0.0 | -0.1 | -0.3 |
| Gross profit | | | | | 7.8 | 9.7 | | | 5.1 | 6.5 | 5.9 | 7.1 |
| Capitalised development costs | | | | | 1.0 | 2.0 | | | 1.9 | 1.4 | 1.5 | 1.9 |
| Other external expenses | | | | | -4.5 | -7.5 | | | -4.1 | -5.4 | -4.5 | -5.6 |
| Personnel costs | | | | | -11.9 | -11.6 | | | -12.4 | -9.5 | -9.5 | -9.8 |
| EBITDA | | | | | -7.6 | -7.4 | | | -9.5 | -6.9 | -3.5 | -2.7 |
| Depreciation and Amortisation | | | | | -2.7 | -2.9 | | | -3.2 | -3.3 | -3.0 | -3.7 |
| EBIT | | | | | -10.3 | -10.3 | | | -12.7 | -10.2 | -6.6 | -6.4 |
| <i>EBIT margin</i> | | | | | <i>-128.8%</i> | <i>-100.0%</i> | | | <i>-230.9%</i> | <i>-157.5%</i> | <i>-108.5%</i> | <i>-85.6%</i> |
| One-offs | | | | | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT adj. | | | | | -10.3 | -10.3 | | | -12.7 | -10.2 | -6.6 | -6.4 |
| <i>EBIT adj. margin</i> | | | | | <i>-128.8%</i> | <i>-100.0%</i> | | | <i>-230.9%</i> | <i>-157.5%</i> | <i>-108.5%</i> | <i>-85.6%</i> |
| Net CDC | | | | | 0.0 | -1.4 | | | 0.0 | -0.6 | -0.1 | -0.2 |
| EBIT adj. for cap. dev. costs | | | | | -10.3 | -11.7 | | | -12.7 | -10.8 | -6.7 | -6.5 |
| <i>EBIT adj. CDC margin</i> | | | | | <i>-128.8%</i> | <i>-113.7%</i> | | | <i>-230.9%</i> | <i>-166.7%</i> | <i>-110.6%</i> | <i>-87.7%</i> |
| Net financial items | | | | | -0.1 | -0.1 | | | -0.6 | 46.7 | -0.3 | -0.4 |
| Pre-tax profit | | | | | -10.4 | -10.4 | | | -13.3 | 36.5 | -6.9 | -6.7 |
| Tax | | | | | -0.1 | 1.4 | | | -0.1 | -0.1 | 0.0 | 0.0 |
| Net profit | | | | | -10.5 | -9.0 | | | -13.4 | 36.4 | -6.9 | -6.7 |
| Gross margin | | | | | 97.5% | 94.8% | | | 92.7% | 99.6% | 98.0% | 96.0% |
| EBITDA margin | | | | | -95.0% | -72.2% | | | -172.7% | -106.3% | -58.5% | -35.6% |
| Adj. EBIT margin | | | | | -128.8% | -100.0% | | | -230.9% | -157.5% | -108.5% | -85.6% |
| Freja eID (DNBe) | | | | | | | | | | | | |
| Number of relying parties | 8 | 18 | 25 | 55 | 73 | 91 | 111 | 131 | 177 | 200 | 230 | 260 |
| Number of users | 0 | 0 | 0 | 0 | 5,000 | 10,000 | 10,000 | 15,000 | 20,000 | 25,000 | 40,000 | 75,000 |
| Sales by product area | | | | | | | | | | | | |
| Goods | | | | | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 |
| Services (incl. support) | | | | | 8.0 | 8.5 | | | 4.9 | 6.0 | 5.4 | 4.8 |
| Freja eID | | | | | 0.0 | 0.2 | | | 0.1 | 0.3 | 0.7 | 2.6 |
| Group Total | | | | | 8.0 | 10.3 | | | 5.5 | 6.5 | 6.0 | 7.4 |
| Sales growth by product area | | | | | | | | | | | | |
| Goods | | | | | | | | | | | | |
| Services (incl. support) | | | | | | | | | -39% | -30% | | |
| Freja eID | | | | | | | | | | 56% | 201% | 2239% |
| Group Total | | | | | | | | | -38% | -28% | | |
| Sales growth, of which | | | | | | | | | | | | |
| Organic | | | | | | | | | -39% | -29% | 2% | 2% |
| Structure | | | | | | | | | 0% | 0% | 0% | 0% |
| Currency | | | | | | | | | 2% | 1% | -2% | -2% |
| Total growth | | | | | | | | | -38% | -28% | 0% | 0% |

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 | |
| Verisec (DNBe) | 0.4 | 41.0 | n.a. | 93.8 | n.a. | n.a. | 43.4 | 15.3 | 9.1 | 4.7 | 96.6 | -140.7 | -150.8 | 12 | -46 | n.a. | |
| Premium/discount | | -28% | n.a. | 160% | n.a. | n.a. | 63% | 47% | -2% | -38% | 20.2 | -157.8 | -164.1 | -8 | -79 | n.a. | |
| Nordic fast-growing peers | | | | | | | | | | | | | | | | | |
| Admicom | 3.8 | 52.5 | 38.8 | 29.8 | 40.8 | 29.8 | n.a. | 16.5 | 13.0 | 10.4 | n.a. | 40.0 | -14.1 | 33 | 36 | 36 | |
| Evolution Gaming | 110.1 | 41.1 | 33.6 | 28.1 | 36.9 | 30.2 | 25.3 | 20.1 | 16.0 | 13.2 | n.a. | 53.8 | 65.6 | 35 | 48 | 49 | |
| HMS Networks | 9.9 | 53.6 | 44.2 | 36.7 | 40.3 | 32.4 | 26.7 | 7.3 | 6.3 | 5.6 | 62.0 | 17.9 | 14.6 | 3 | 7 | 8 | |
| Invisio Communications | 7.5 | 60.4 | 42.6 | 32.5 | 45.5 | 31.8 | 23.7 | 11.9 | 9.4 | 7.7 | 61.5 | 26.1 | 18.8 | 24 | 43 | 33 | |
| Lime Technologies | 4.2 | 71.6 | 55.5 | 47.6 | 60.8 | 48.7 | 41.0 | 12.5 | 10.6 | 9.2 | n.a. | 20.5 | 20.9 | 16 | 29 | 28 | |
| Sectra | 23.7 | 96.8 | 92.8 | 83.5 | 74.2 | 70.8 | 64.0 | 13.3 | 12.9 | 11.5 | 82.7 | 17.9 | n.a. | 14 | 17 | 16 | |
| Storytel | 16.4 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 6.3 | 5.0 | 3.9 | 41.1 | -7.6 | -17.2 | 30 | -42 | -34 | |
| Average | | 62.7 | 51.3 | 43.0 | 49.7 | 40.6 | 36.1 | 12.5 | 10.5 | 8.8 | 61.8 | 24.1 | 14.8 | 22 | 20 | 19 | |
| Median | | 57.0 | 43.4 | 34.6 | 43.2 | 32.1 | 26.7 | 12.5 | 10.6 | 9.2 | 61.7 | 20.5 | 16.7 | 24 | 29 | 28 | |
| Security & SaaS peers | | | | | | | | | | | | | | | | | |
| Okta | 215.3 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 42.6 | 31.5 | 24.2 | 77.2 | -24.7 | 7.2 | 41 | 45 | -27 | |
| Sailpoint | 28.8 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 9.4 | 8.4 | 7.2 | 80.5 | 5.9 | 11.7 | 15 | n.a. | -43 | |
| Proofpoint | 53.5 | 64.6 | 52.7 | 43.5 | 45.3 | 32.4 | 26.4 | 5.8 | 5.0 | 4.3 | 79.8 | 12.6 | 14.8 | 17 | 21 | 9 | |
| DocuSign | 318.5 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 37.9 | 27.7 | 21.6 | 79.0 | 3.4 | 9.3 | 38 | 621 | 194 | |
| Qualys | 35.1 | 39.1 | 36.8 | 33.3 | 28.6 | 24.8 | 20.4 | 10.4 | 9.3 | 8.3 | 81.0 | 36.4 | 41.1 | 12 | 13 | 11 | |
| Rapid7 | 26.4 | n.a. | n.a. | n.a. | n.a. | n.a. | 79.9 | 7.9 | 6.7 | 5.6 | 74.2 | 1.3 | -8.6 | 21 | 155 | 76 | |
| Palo Alto Networks | 217.2 | 54.0 | 44.3 | 35.3 | 41.8 | 32.9 | 25.2 | 7.4 | 6.3 | 5.3 | 75.4 | 17.1 | 27.3 | 17 | 5 | 4 | |
| Mimecast | 24.8 | 95.5 | 63.2 | 53.1 | 63.5 | 41.1 | 31.0 | 6.8 | 5.9 | 5.0 | 75.6 | 10.2 | 12.0 | 20 | 57 | 65 | |
| Average | | 63.3 | 49.3 | 41.3 | 44.8 | 32.8 | 36.6 | 16.0 | 12.6 | 10.2 | 77.8 | 7.8 | 14.3 | 23 | 131 | 36 | |
| Median | | 59.3 | 48.5 | 39.4 | 43.6 | 32.7 | 26.4 | 8.7 | 7.6 | 6.4 | 78.1 | 8.0 | 11.8 | 19 | 45 | 10 | |
| Average | | 62.9 | 50.5 | 42.3 | 47.8 | 37.5 | 36.4 | 14.4 | 11.6 | 9.5 | 72.5 | 15.4 | 14.5 | 22 | 75 | 28 | |
| Median | | 57.2 | 44.3 | 36.0 | 43.6 | 32.4 | 26.6 | 10.4 | 9.3 | 7.7 | 76.4 | 17.1 | 13.3 | 20 | 33 | 16 | |

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 200 (180 relying parties, 20 partners). We consider it positive that Freja eID's relying parties have grown to 200 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 >29% 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 >29% 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 >29% 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-Q2 2020, Verisec's cash position in the business that will remain was SEK13m (net cash of SEK30m including the SEK24m 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 to be EBIT- and cash-flow-breakeven by 2022. Yet, as our forecasts include Freja eID sales increasing to SEK24m 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 2022e 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

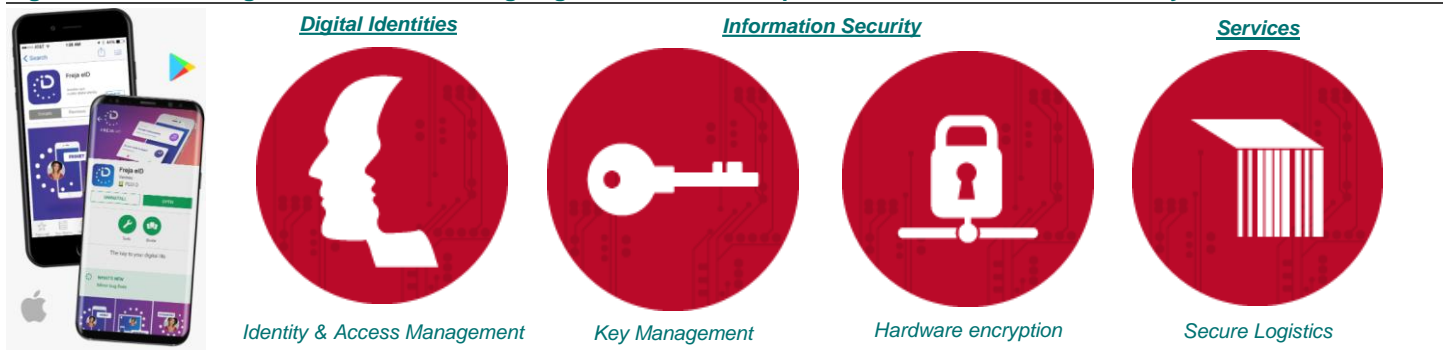
A recap on Verisec

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)

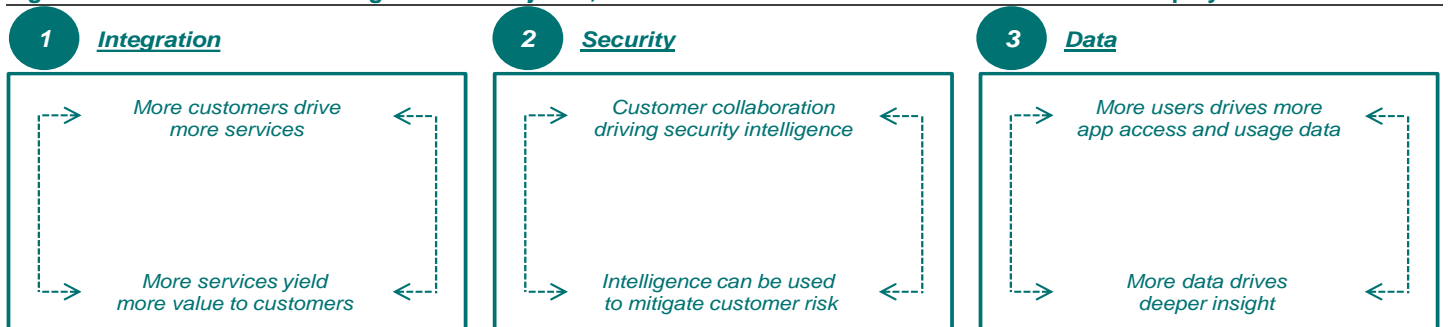
- Digital identities as software as a service platform.** The Freja eID replaces complicated usernames/passwords with an easy-to-use mobile app. Freja is the only eID provider with a quality mark 'Svensk e-legitimation' issued by the Swedish Agency for Digital Government (DIGG), and Verisec has applied 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.
- Services** comprise Verisec's secure fulfilment services, mainly related to security tokens for banking which is a mature business with low growth, but still needed from redundancy reasons and to face regulatory demands (PDS2 etc.).

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

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 200 (180+ relying parties, 20 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



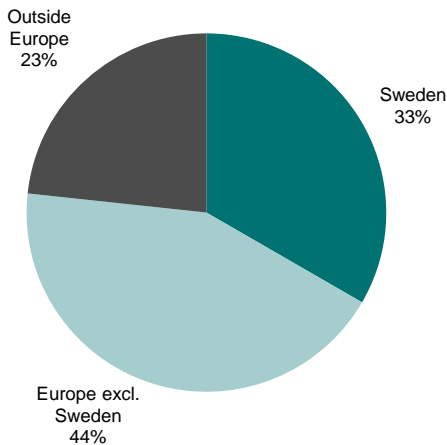
Source: DNB Markets

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...

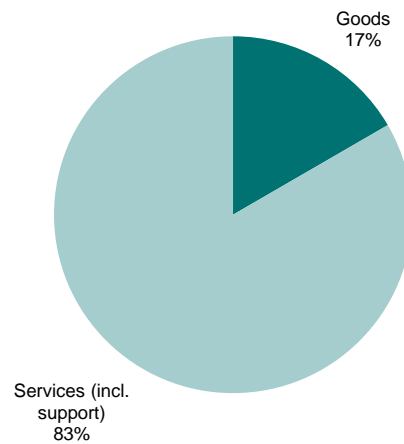
...and we see opportunities elsewhere in the Nordics

Figure 11: Geographical sales split, 2019



Source: Verisec

Figure 12: Sales by business model, 2019



Source: Verisec

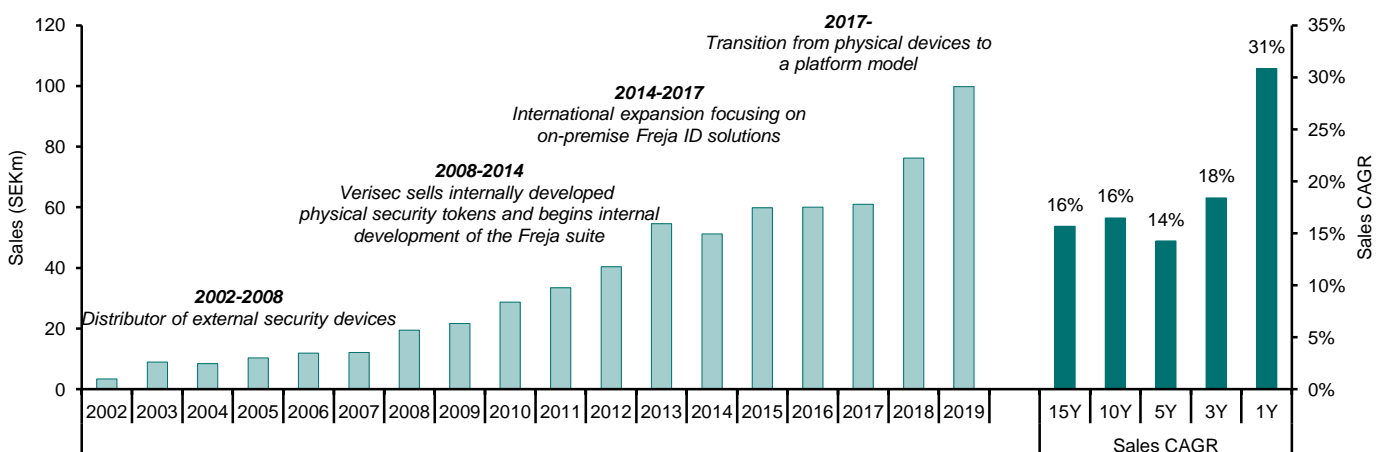
The Freja eID platform is free for users (consumer) and accessed via a mobile app. It is the online service providers (businesses, municipalities, authorities, banks, online payment processes etc) where users log in, sign, or approve that are Verisec's customers, foremost via a transaction-based business 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)

16 August 2020

Forecast changes – P&L

| (SEKm) | New | | | Old | | | Change | | |
|------------------------------|-------|-------|-------|-------|-------|--------|--------|-------|-------|
| | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e |
| Revenues | 25 | 42 | 71 | 24 | 55 | 103 | 2 | -13 | -31 |
| Cost of sales | -1 | -1 | -2 | -1 | -3 | -5 | 1 | 2 | 4 |
| Gross profit | 25 | 41 | 70 | 22 | 52 | 97 | 2 | -11 | -27 |
| Operating expenses | -54 | -53 | -62 | -51 | -60 | -72 | -3 | 7 | 9 |
| EBITDA | -23 | 0 | 21 | -18 | 6 | 43 | -5 | -6 | -22 |
| EBITDA adj | -23 | 0 | 21 | -18 | 6 | 43 | -5 | -6 | -22 |
| EBITDA margin (%) | nm | 0.4 | 29.4 | -73.6 | 11.8 | 41.9 | nm | -11.4 | -12.4 |
| Depreciation | -13 | -13 | -13 | -14 | -15 | -17 | 1 | 2 | 4 |
| EBIT | -36 | -12 | 8 | -32 | -8 | 26 | -4 | -4 | -18 |
| EBIT adj | -36 | -12 | 8 | -32 | -8 | 26 | -4 | -4 | -18 |
| Net interest | 45 | -2 | -2 | -1 | 0 | -1 | 46 | -1 | -2 |
| Net financial items | 45 | -2 | -2 | -1 | 0 | -1 | 46 | -1 | -2 |
| PBT | 10 | -14 | 5 | -32 | -9 | 25 | 42 | -5 | -20 |
| Taxes | 0 | 0 | -1 | 0 | 0 | -6 | 0 | 0 | 4 |
| Net profit | 9 | -14 | 4 | -32 | -9 | 20 | 42 | -5 | -15 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | 9 | -14 | 4 | -32 | -9 | 20 | 42 | -5 | -15 |
| <i>Per share data (SEK)</i> | | | | | | | | | |
| EPS | 1.93 | -2.86 | 0.84 | -6.67 | -1.79 | 4.02 | 8.60 | -1.07 | -3.17 |
| EPS adj | 1.93 | -2.86 | 0.84 | -6.67 | -1.79 | 4.02 | 8.60 | -1.07 | -3.17 |
| 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 | -23.5 | 64.5 | 70.5 | -28.4 | 131.4 | 86.1 | 5.0 | -66.9 | -15.6 |
| EBIT adj growth | nm | nm | nm | -26.2 | -73.4 | -403.4 | nm | nm | nm |
| EPS adj growth | nm | nm | nm | nm | -73.2 | -324.5 | nm | nm | nm |
| Avg. number of shares (m) | 5 | 5 | 5 | 5 | 5 | 5 | 0 | 0 | 0 |
| Capex | -15 | -16 | -22 | -14 | -19 | -29 | -1 | 3 | 7 |
| OpFCF | -37 | -16 | -1 | -32 | -13 | 14 | -6 | -3 | -15 |
| Working capital | -19 | -26 | -41 | -26 | -35 | -46 | 8 | 9 | 5 |
| NIBD adj | 5 | -4 | -48 | -5 | -1 | -34 | 10 | -4 | -15 |

Source: DNB Markets

Forecast changes – By segment and assumptions

| (SEKm) | New | | | Old | | | Change | | |
|--------------------------|--------|-------|-------|--------|-------|-------|--------|--------|--------|
| | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e | 2020e | 2021e | 2022e |
| Revenue | | | | | | | | | |
| Goods | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Services (incl. support) | 21 | 18 | 18 | 16 | 16 | 16 | 6 | 2 | 2 |
| Freja eID | 4 | 24 | 53 | 8 | 39 | 87 | -4 | -15 | -33 |
| Assumptions | | | | | | | | | |
| Revenue org. % YOY | 27.33 | 71.04 | 70.46 | 52.35 | 136.0 | 86.09 | -25.02 | -64.95 | -15.64 |
| Structure impact % YOY | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Currency impact % YOY | -50.78 | -6.49 | 0.00 | -80.76 | -4.57 | 0.00 | 29.98 | -1.92 | 0.00 |

Source: DNB Markets

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Quarterly numbers

| (SEKm) | Q1 2019 | Q2 2019 | Q3 2020e | Q4 2020e | Q1 2021e | Q2 2021e |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 8 | 10 | 6 | 7 | 9 | 10 |
| Cost of sales | 0 | -1 | 0 | 0 | 0 | 0 |
| Gross profit | 8 | 10 | 6 | 7 | 8 | 10 |
| Operating expenses | -15 | -17 | -12 | -14 | -12 | -14 |
| EBITDA | -8 | -7 | -4 | -3 | -1 | -1 |
| Depreciation | -3 | -3 | -3 | -4 | -3 | -3 |
| EBIT | -10 | -10 | -7 | -6 | -4 | -4 |
| Net interest | 0 | 0 | 0 | 0 | 0 | -1 |
| Net financial items | 0 | 0 | 0 | 0 | 0 | -1 |
| PBT | -10 | -10 | -7 | -7 | -5 | -5 |
| Taxes | 0 | 1 | 0 | 0 | 0 | 0 |
| Net profit | -11 | -9 | -7 | -7 | -5 | -5 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -11 | -9 | -7 | -7 | -5 | -5 |
| Dividend paid | 0 | 0 | 0 | 0 | 0 | 0 |
| Avg. number of shares (m) | 5 | 5 | 5 | 5 | 5 | 5 |
| <i>Per share data (SEK)</i> | | | | | | |
| EPS | -2.16 | -1.84 | -1.41 | -1.38 | -0.93 | -0.95 |
| EPS adj | -2.16 | -1.84 | -1.41 | -1.38 | -0.93 | -0.95 |
| DPS ordinary | 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 |
| <i>Growth and margins (%)</i> | | | | | | |
| Revenues, QOQ growth | nm | 28.3 | -7.1 | 23.3 | 14.4 | 19.9 |
| Revenues, YOY growth | nm | nm | nm | nm | 54.9 | 57.0 |
| EPS adj, YOY growth | nm | nm | nm | nm | nm | nm |
| Gross margin | 97.5 | 94.8 | 98.0 | 96.0 | 95.0 | 97.6 |
| EBITDA adj margin | nm | nm | nm | nm | nm | nm |
| Depreciation/revenues | -33.8 | -27.8 | -50.0 | -50.0 | -39.0 | -33.6 |
| EBIT adj margin | -128.8 | -100.0 | -108.5 | -85.6 | -48.1 | -40.5 |
| Net profit margin | nm | nm | nm | nm | nm | nm |

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

Adjustments to quarterly numbers

| (SEKm) | Q1 2019 | Q2 2019 | Q3 2020e | Q4 2020e | Q1 2021e | Q2 2021e |
|------------------------|------------|------------|-----------|-----------|-----------|-----------|
| EBITDA | -8 | -7 | -4 | -3 | -1 | -1 |
| EBITDA adj | -8 | -7 | -4 | -3 | -1 | -1 |
| EBIT | -10 | -10 | -7 | -6 | -4 | -4 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT adj | -10 | -10 | -7 | -6 | -4 | -4 |
| Net profit | -11 | -9 | -7 | -7 | -5 | -5 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -11 | -9 | -7 | -7 | -5 | -5 |

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

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Quarterly numbers by segment and assumptions

| (SEKm) | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019e | Q3 2020e | Q4 2020e | Q1 2021e | Q2 2021e |
|--------------------------|---------|---------|---------|----------|----------|----------|----------|----------|
| Revenue | | | | | | | | |
| Goods | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Services (incl. support) | 8 | 9 | 0 | 0 | 5 | 5 | 4 | 5 |
| Freja eID | 0 | 0 | 0 | 0 | 1 | 3 | 4 | 5 |
| Assumptions | | | | | | | | |
| Revenue org. % YOY | | | | | 1.68 | 2.13 | 72.69 | 66.80 |
| Structure impact % YOY | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| Currency impact % YOY | | | | | -1.68 | -2.13 | -2.32 | -2.71 |

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

Annual P&L

| (SEKm) | 2019 | 2020e | 2021e | 2022e |
|-------------------------------|------------|-------------|--------------|-------------|
| Revenues | 33 | 25 | 42 | 71 |
| Cost of sales | -2 | -1 | -1 | -2 |
| Gross profit | 32 | 25 | 41 | 70 |
| Operating expenses | -63 | -54 | -53 | -62 |
| EBITDA | -31 | -23 | 0 | 21 |
| Depreciation | -12 | -13 | -13 | -13 |
| EBIT | -43 | -36 | -12 | 8 |
| Net interest | 0 | 45 | -2 | -2 |
| Net financial items | 0 | 45 | -2 | -2 |
| PBT | -43 | 10 | -14 | 5 |
| Taxes | 0 | 0 | 0 | -1 |
| Effective tax rate (%) | 0 | 2 | 0 | 24 |
| Net profit | -43 | 9 | -14 | 4 |
| Adjustments to net profit | 0 | 0 | 0 | 0 |
| Net profit adj | -43 | 9 | -14 | 4 |
| Dividend paid | 0 | 0 | 0 | 0 |
| Avg. number of shares | 0 | 5 | 5 | 5 |
| <i>Per share data (SEK)</i> | | | | |
| EPS | | 1.93 | -2.86 | 0.84 |
| EPS adj | | 1.93 | -2.86 | 0.84 |
| 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 | -23.5 | 64.5 | 70.5 |
| EPS adj growth | nm | nm | nm | nm |
| Gross margin | 94.9 | 96.7 | 96.7 | 97.7 |
| EBITDA margin | nm | nm | 0.4 | 29.4 |
| EBITDA adj margin | nm | nm | 0.4 | 29.4 |
| Depreciation/revenues | -35.1 | -52.1 | -29.9 | -18.6 |
| EBIT margin | nm | nm | nm | 10.9 |
| EBIT adj margin | -129.1 | -140.7 | -29.5 | 10.9 |
| PBT margin | nm | 37.6 | nm | 7.5 |
| Net profit margin | nm | nm | nm | nm |

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

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Adjustments to annual P&L

| (SEKm) | 2019 | 2020e | 2021e | 2022e |
|-----------------------------|------------|------------|------------|-----------|
| EBITDA | -31 | -23 | 0 | 21 |
| EBITDA adj | -31 | -23 | 0 | 21 |
| EBIT | -43 | -36 | -12 | 8 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 |
| EBIT adj | -43 | -36 | -12 | 8 |
| Net profit | -43 | 9 | -14 | 4 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 |
| Net profit adj | -43 | 9 | -14 | 4 |
| <i>Per share data (SEK)</i> | | | | |
| EPS | | 1.93 | -2.86 | 0.84 |
| Recommended adjustment | | 0.00 | 0.00 | 0.00 |
| EPS adj | | 1.93 | -2.86 | 0.84 |

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

Cash flow

| (SEKm) | 2019 | 2020e | 2021e | 2022e |
|--|----------|------------|------------|-----------|
| Net profit | -43 | 9 | -14 | 4 |
| Cash flow from operations (CFO) | 0 | -24 | 6 | 32 |
| Capital expenditure | 0 | -15 | -16 | -22 |
| Acquisitions/Investments | 0 | 34 | 0 | 14 |
| Divestments | 0 | 0 | 0 | 0 |
| Cash flow from investing (CFI) | 0 | 19 | -16 | -8 |
| Free cash flow (FCF) | 0 | -4 | -10 | 24 |
| Net change in debt | 0 | -4 | 20 | 20 |
| Dividends paid | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 |
| Cash flow from financing (CFF) | 0 | -4 | 20 | 20 |
| Total cash flow (CFO+CFI+CFF) | 0 | -9 | 10 | 44 |
| <i>FCFF calculation</i> | | | | |
| Free cash flow | 0 | -4 | -10 | 24 |
| Less: net interest | 0 | -45 | 2 | 2 |
| Less: tax shields/other | 0 | 0 | 0 | 0 |
| Less: acquisitions | 0 | -34 | 0 | -14 |
| Less: divestments | 0 | 0 | 0 | 0 |
| Free cash flow to the firm | 0 | -84 | -9 | 12 |
| Growth (%) | | | | |
| CFO | nm | nm | 124.1 | 465.1 |
| CFI | nm | nm | -184.1 | 48.2 |
| FCF | nm | nm | -135.6 | 328.2 |
| CFF | nm | nm | 574.2 | 0.0 |
| FCFF | nm | nm | 89.4 | 237.6 |

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

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Balance sheet

| (SEKm) | 2019 | 2020e | 2021e | 2022e |
|--------------------------------------|-------------|--------------|--------------|--------------|
| Assets | 60 | 74 | 96 | 167 |
| Inventories | 0 | 0 | 0 | 0 |
| Trade receivables | 0 | 7 | 11 | 17 |
| Other receivables | 8 | 7 | 11 | 17 |
| Current financial assets | 8 | 7 | 10 | 16 |
| Cash and cash equivalents | 8 | 1 | 11 | 55 |
| Current assets | 24 | 23 | 42 | 104 |
| Non-current assets | 36 | 51 | 54 | 63 |
| Total assets | 60 | 74 | 96 | 167 |
| Equity and liabilities | 60 | 74 | 96 | 167 |
| Total equity to the parent | 17 | 31 | 37 | 75 |
| Total equity | 17 | 31 | 37 | 75 |
| Trade payables | 0 | 7 | 13 | 23 |
| Other payables and accruals | 39 | 33 | 44 | 67 |
| Total current liabilities | 39 | 40 | 57 | 90 |
| Long-term debt | 0 | 0 | 0 | 0 |
| Deferred tax liabilities | 0 | 0 | 0 | 0 |
| Other non-current liabilities | 4 | 3 | 3 | 3 |
| Total non-current liabilities | 4 | 3 | 3 | 3 |
| Total liabilities | 43 | 43 | 60 | 93 |
| Total equity and liabilities | 60 | 74 | 96 | 167 |
| <i>Key metrics</i> | | | | |
| Net interest bearing debt | 0 | 5 | -4 | -48 |

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

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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 | 79.00 | 79.00 | 79.00 |
| 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 | 385 | 385 | 385 |
| Net interest bearing debt | 0 | 0 | 0 | 0 | 0 | 0 | 5 | -4 | -48 |
| Adjustments to NIBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net interest bearing debt adj | 0 | 0 | 0 | 0 | 0 | 0 | 5 | -4 | -48 |
| EV | 0 | 0 | 0 | 0 | 0 | 0 | 390 | 380 | 337 |
| EV adj | 0 | 0 | 0 | 0 | 0 | 0 | 390 | 380 | 337 |
| <i>Valuation</i> | | | | | | | | | |
| EPS | | | | | | | 1.93 | -2.86 | 0.84 |
| EPS adj | | | | | | | 1.93 | -2.86 | 0.84 |
| 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 | | | | | | | 40.9 | -27.6 | 93.6 |
| P/E adj | | | | | | | 40.9 | -27.6 | 93.6 |
| Average ROE | | | | | | -497.1% | 39.2% | -41.3% | 7.4% |
| Earnings yield adj | | | | | | | 2.4% | -3.6% | 1.1% |
| Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/SALES | | | | | | 0.00 | 15.30 | 9.07 | 4.71 |
| EV/SALES adj | | | | | | 0.00 | 15.30 | 9.07 | 4.71 |
| EV/EBITDA | | | | | | 0.0 | -17.3 | 2387.6 | 16.0 |
| EV/EBITDA adj | | | | | | 0.0 | -17.3 | 2387.6 | 16.0 |
| EV/EBIT | | | | | | 0.0 | -10.9 | -30.7 | 43.3 |
| EV/EBIT adj | | | | | | 0.0 | -10.9 | -30.7 | 43.3 |
| EV/OpFCF (taxed) | | | | | | 0.0 | -10.4 | -23.8 | -252.1 |

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

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Key accounting ratios

| | 2019 | 2020e | 2021e | 2022e |
|---------------------------------------|--------|---------|---------|---------|
| <i>Profitability (%)</i> | | | | |
| ROA | -142.6 | 14.0 | -16.4 | 3.1 |
| <i>Return on invested capital (%)</i> | | | | |
| Working capital/revenues | -69.1 | -73.2 | -61.4 | -56.8 |
| <i>Cash flow ratios (%)</i> | | | | |
| FCF/revenues | 0.0 | -17.4 | -24.9 | 33.4 |
| FCF yield | | -10.0 | -2.7 | 2.6 |
| CFO/revenues | 0.0 | -92.9 | 13.6 | 45.1 |
| CFO/market capitalisation | | -6.2 | 1.5 | 8.4 |
| CFO/capex | | -160.3 | 35.3 | 144.1 |
| CFO/current liabilities | 0.0 | -58.5 | 10.0 | 35.9 |
| Cash conversion ratio | 0.0 | -47.2 | 75.0 | 580.5 |
| Capex/revenues | 0.0 | 57.9 | 38.6 | 31.3 |
| Capex/depreciation | 0.0 | 111.2 | 128.8 | 168.6 |
| OpFCF margin | -94.0 | -146.6 | -38.2 | -1.9 |
| Total payout ratio | | 0.0 | 0.0 | 0.0 |
| <i>Leverage and solvency (x)</i> | | | | |
| EBIT/interest payable | nm | nm | nm | 3.27 |
| Cash coverage | | 0.50 | 0.10 | 8.85 |
| Net debt/EBITDA | 0.00 | -0.22 | -28.09 | -2.30 |
| 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 | 205.8 | 187.2 | 172.1 |
| Credit period | 0.0 | 3218.1 | 3362.8 | 5114.4 |
| Cash conversion cycle | 88.8 | -3012.3 | -3175.6 | -4942.2 |

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

16 August 2020

Important Information

Company: Verisec
 Coverage by Analyst: Joachim Gunell
 Date: 16/08/2020

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| | Buy | Hold | Sell | No_rec | Total |
|--------------------|-----|------|------|--------|-------|
| Number | 148 | 67 | 25 | 24 | 264 |
| % of total | 56% | 25% | 9% | 9% | |
| DNB Markets client | 19% | 12% | 3% | 4% | 98 |

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