

ESG insight



# FREJA EID GROUP

## Planting the seeds for sales growth

Freja eID has built a strong platform and we are encouraged by early uptake metrics such as a 100k users expanding by 285% YOY and 252 relying parties showing 61% YOY growth. We also recognise that it still has a lot of work to do to demonstrate monetisation of the ecosystem, but Freja eID appears to have the right balance of user simplicity and capabilities. We forecast a 76% sales CAGR to 2023e and have lifted our fair value to SEK75–125 (50–100).

**Q4 takeaways.** Sales of SEK6m (flat YOY) beat our forecast of SEK5m, mainly related to secure fulfilment services, with Freja eID enjoying SEK0.4m in revenues. The EBIT loss of SEK10m was 44% larger than we expected, leading to a FCF burn of SEK10m, corresponding to an annual burn rate of SEK30m–40m. The recent SEK25m capital raise financially de-risks Freja eID, providing a SEK46m runway to ramp-up the eID ecosystem and business model monetisation, we believe.

**Early KPIs demonstrate traction.** We view as encouraging Freja eID's granular disclosure of key KPIs such as users (100k, increasing by 285% YOY), the number of services supporting the eID (252, up 61% YOY), transactions (319k, up 609% YOY), and revenues (SEK0.4m, up 284%), all tracking well above our forecasts. While the basis remains small, we will closely monitor uptake throughout 2021 to gauge the path to success that looks to be some quarters out.

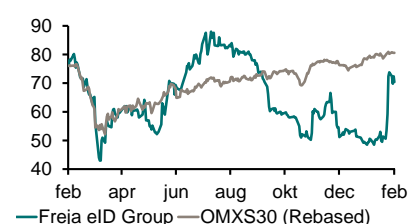
**Seeds for 76% sales CAGR to 2023e being planted.** We acknowledge that it is still early days, but we are optimistic, forecasting Freja eID revenues of SEK18m for 2021, SEK65m for 2022, and SEK112m for 2023, and EBIT break-even in 2022.

**We have arrived at a new SEK75–125 fair value,** corresponding to a 2022e EV/sales of 4–8x. We believe Freja eID has the potential to become a success as the no.2 to penetrate the Swedish SEK1bn+ eID market. The vision is big, with a fair potential long-term, should the company build credentials as a rapid-growth eID-focused name with 30%+ EBIT margins. Still, there would need to be signs of execution and sales growth being at an inflection point before we believe the market would reflect this potential.

Year-end Dec	2019	2020	2021e	2022e	2023e
Revenue (SEKm)	33	24	37	85	133
EBITDA adj (SEKm)	-31	-30	-8	26	55
EBIT adj (SEKm)	-43	-43	-22	8	33
PTP (SEKm)	-44	3	-23	5	29
EPS rep (SEK)	-8.21	0.55	-4.36	0.63	4.07
EPS adj (SEK)	-8.21	0.55	-4.36	0.63	4.07
DPS (SEK)	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	nm	-27.4	54.7	127.7	56.1
EBITDA growth adj (%)	nm	nm	nm	nm	113.1
EPS growth adj (%)	nm	nm	nm	nm	546.4
EBITDA margin adj (%)	nm	nm	nm	30.3	41.3
EV/Sales adj (x)	13.83	10.50	9.82	4.17	2.42
EV/EBITDA adj (x)	nm	nm	nm	13.8	5.9
EV/EBIT adj (x)	nm	nm	nm	45.8	9.7
P/E adj (x)	nm	93.8	nm	nm	17.3
ROE (%)	nm	5.6	nm	7.7	38.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
FCF yield (%)	-5.6	-15.2	-8.4	3.2	8.9

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

FREJA versus OMXS30 (12m)



Source: Factset

**SUMMARY**

Share price (SEK)	70.4
Tickers	FREJA SS

**CAPITAL STRUCTURE**

No. of shares (m)	5.4
No. of shares fully dil. (m)	5.4
Market cap. (SEKm)	377
NIBD adj end-2021e (SEKm)	-9
Enterprise value adj (SEKm)	368
Net debt/EBITDA adj (x)	1.17
Free float (%)	48

Source: Company, DNB Markets (estimates)

**NEXT EVENT**

Q1 2021	06/05/2020
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**ESTIMATE CHANGES (SEK)**

Year-end Dec	2021e	2022e	2023e
Sales (old)	38.00	70.41	
Sales (new)	37.42	85.21	133.0
Change (%)	-1.5	21.0	nm
EPS (old)	-3.48	0.30	
EPS (new)	-4.36	0.63	4.07
Change (%)	nm	109.1	nm

Source: DNB Markets,

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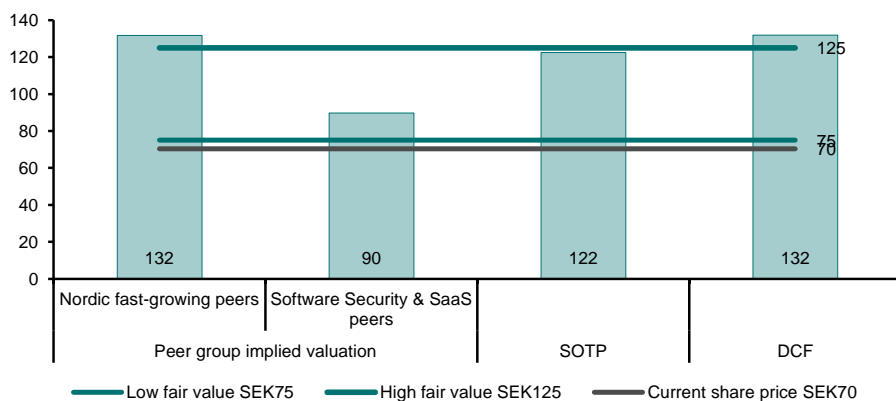
**ANALYSTS**

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 2019–2020 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 ~76% sales CAGR by 2023. As revenue growth materialises, we expect margins to improve as Freja eID benefits from economies of scale in its IDaaS model. Our FCF analysis suggests that Freja eID should be adequately capitalised until FCF-breakeven following its SEK25m capital raise.

Source: DNB Markets

## Valuation methodology

- Our fair value of SEK75–125/share (50–100) is based on peers' multiples, a SOTP, and a DCF. On our estimates the stock is trading at a 2022e EV/sales of 4x (versus its historical average of 4x).
- Our high fair value scenario of SEK300–400/share assumes Freja eID adds 1,000,000 users by end-2023e.
- Our low fair value scenario of SEK40–50/share assumes 50% lower Freja eID sales by 2022e (including a rights issue).

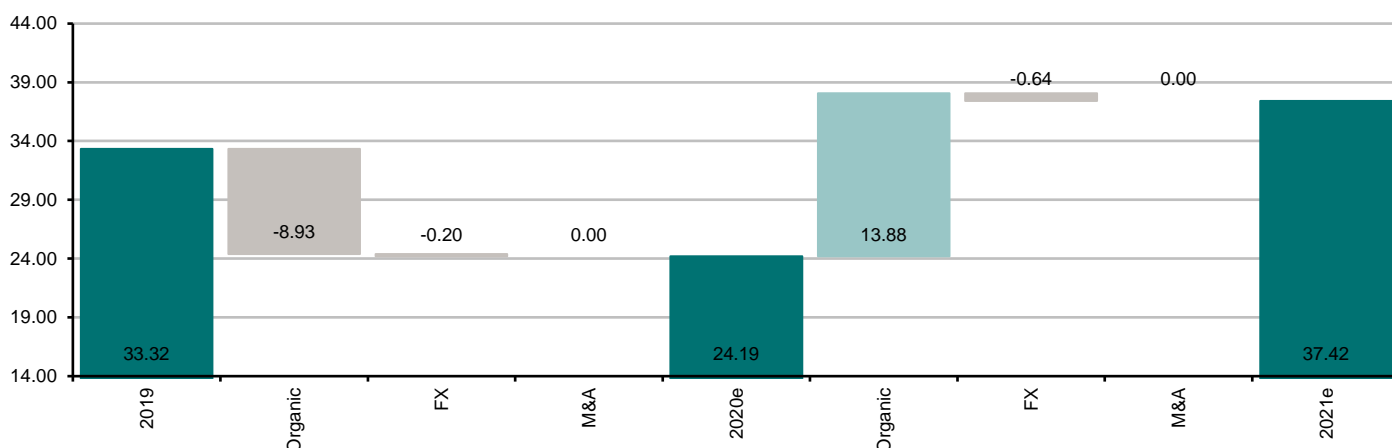
Source: DNB Markets

### 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 20–40% 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 Freja eID'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>■ Freja eID Group 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 Freja eID 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, Freja eID has a dynamic history of adapting its IT security solutions to meet customer demand and transition its offering.

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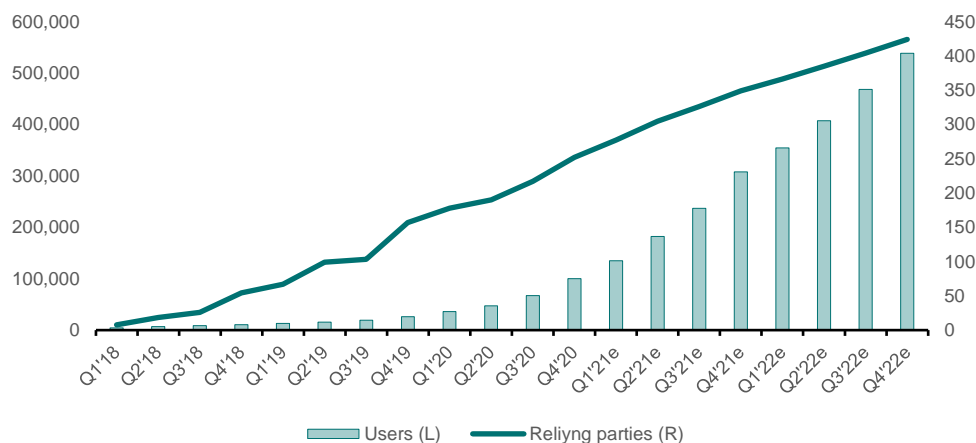
## Q4 report

Figure 1: Q4 results versus expectations

Key highlights (SEKm, except per share data)	Q4 2020		Deviation	Deviation	Q4 2019	DNBe
	Actual	DNB	DNB (%)	DNB, Abs	Actual	2020e
<b>Net sales</b>	<b>6.1</b>	<b>5.4</b>	<b>12%</b>	1	<b>6.1</b>	<b>21.8</b>
<b>Gross profit</b>	<b>5.7</b>	<b>5.1</b>	<b>10%</b>	1	<b>5.9</b>	<b>20.7</b>
Margin	93.5%	95.0%	-1.5pp		96.6%	94.9%
<b>EBIT adjusted</b>	<b>-10.0</b>	<b>-7.0</b>	<b>-44%</b>	-3	<b>-12.0</b>	<b>-43.2</b>
Margin	-165.9%	-129.3%	-36.6pp		-197.5%	-197.9%
One-offs	0.0	0.0			0.0	0.0
EBIT	-10.0	-7.0	-44%	-3	-12.0	-43.2
Margin	-165.9%	-129.4%	-36.5pp		-197.5%	-197.9%
<b>EPS adj.</b>	<b>-2.02</b>	<b>-1.49</b>	<b>-36%</b>	-0.53	<b>-2.54</b>	<b>0.55</b>
Free cash flow (ex. divestments)	-9.9	-9.7	-2%	0	-2.8	-41.6
Net cash (-) or debt (+)	-21.2	-4.8	342%	-16	-2.0	-21.2

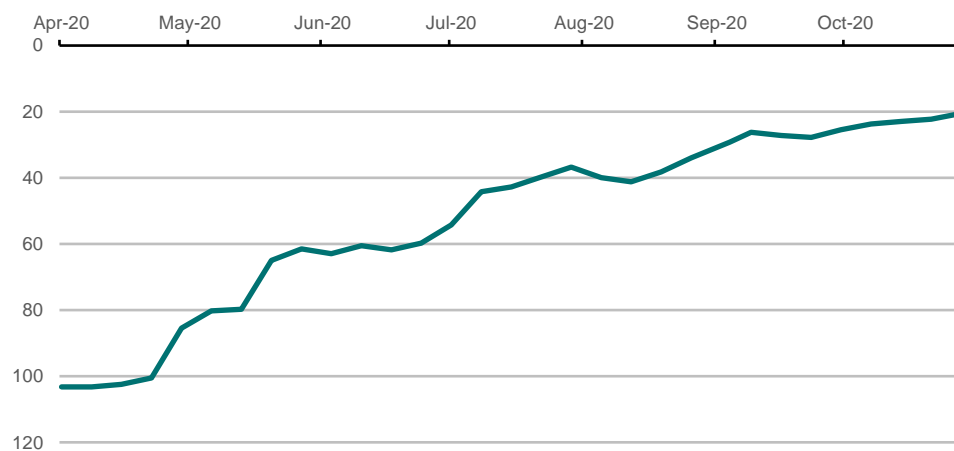
Source: Company (historical figures), DNB Markets (estimates)

Figure 2: Freja eID ecosystem (2018–2022e)



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

Figure 3: Freja eID's rank in 'utilities' category in App Store Sweden



Source: SimilarWeb

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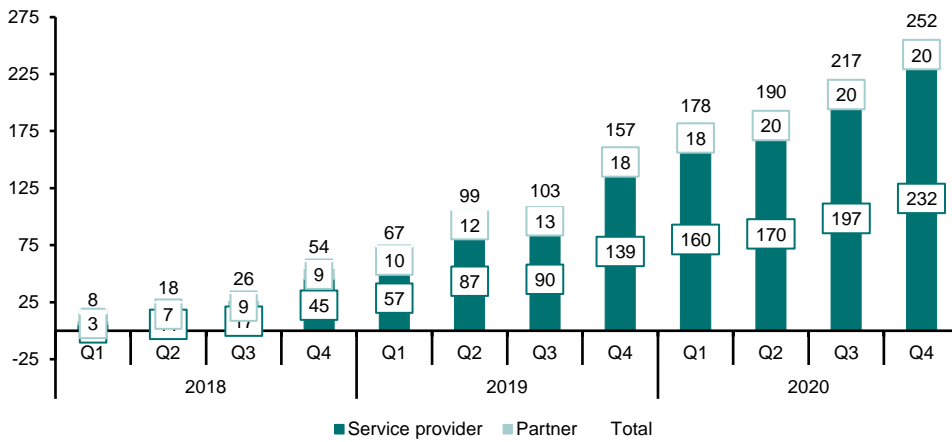
Figure 4: Selected press releases related to Freja eID (September 2018–February 2021)

Date	Title	Type
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 and Azure integration)	Partnership
2020-01-29	Casino Cosmopol	Service provider
2020-02-03	Adreax 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
2020-09-09	Telia Group framework agreement	Service provider
2020-10-26	Lidingö stad	Service provider
2020-11-06	Stockholm's Stad for public e-services	Service provider
2020-11-13	ATG for new user registrations	Service provider
2020-11-16	Swedish Energy Agency	Service provider
2020-11-18	Sotenäs, Munkedal & Lysekil municipalities	Service provider
2020-11-27	Göteborgs universitet	Service provider
2020-12-21	Umeå universitet	Service provider
2021-01-13	Freja eID test biometric verification	
2021-01-20	Formal application to make Freja eID + Sweden's official e-ID within eIDAS	
2021-01-25	Umeå municipality	Service provider
2021-02-02	Padelappen	Service provider
2021-02-04	Cambio Healthcare Systems via Min Hälsa app	Service provider
2021-02-08	Visiba Care	Partnership
2021-02-10	Payairs	Partnership

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


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Figure 5: Cumulated number of relying parties on the Freja eID platform




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

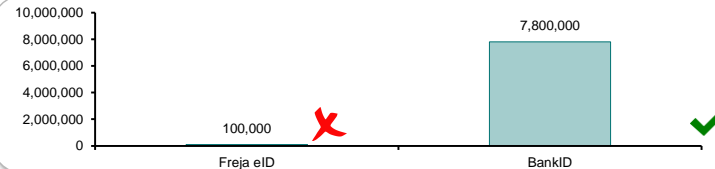
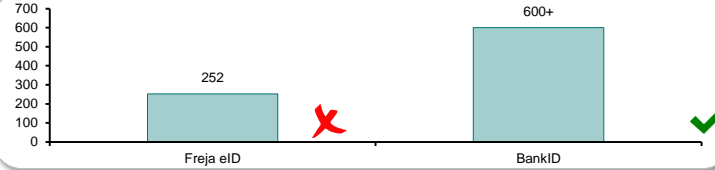
Figure 6: Freja eID versus BankID



**FREJA eID**



**BankID**

<b>Level of assurance</b>	<ul style="list-style-type: none"> <li>Freja eID Plus has trust level 3 according to DIGG's standard</li> <li>Freja eID is Sweden's only mobile e-ID approved for the governmental quality mark Svensk e-legitimation by DIGG</li> <li>Freja eID's assessment is that Freja eID Plus corresponds to the eIDAS level High but it remains to be tested</li> </ul> <p style="text-align: right; color: green;">✓</p>	<ul style="list-style-type: none"> <li>BankID reaches trust level 3 according to DIGG's standard but has not been reviewed by the governmental quality mark Svensk e-legitimation.</li> </ul> <p style="text-align: right; color: green;">✓</p>
<b>Number of users</b>		✓
<b>Number of connected services</b>		✓
<b>Price</b>	<ul style="list-style-type: none"> <li>SEK0.15 per transaction</li> <li>Fixed cap of SEK1 per user per month</li> <li>Subscription model for Organisations eID</li> <li>More flexible as businesses and public sector organisations can budget the cost</li> </ul> <p style="text-align: right; color: green;">✓</p>	<ul style="list-style-type: none"> <li>Login-cost of SEK0.17 and signature cost of SEK0.55 per transaction but is entirely transaction-based, regardless of the number of transactions.</li> </ul> <p style="text-align: right; color: red;">✗</p>
<b>eIDAS</b>	<ul style="list-style-type: none"> <li>Has applied to the Swedish government to submit Freja eID Plus as Sweden's official eID within eIDAS</li> <li>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</li> </ul> <p style="text-align: right; color: green;">✓</p>	<ul style="list-style-type: none"> <li>There is still no acknowledgement that the Swedish government wants to register BankID for eIDAS</li> <li>We believe that BankID is not a preferred choice for eIDAS as it does not allow for ID interchanging, which eIDAS regulation demand</li> </ul> <p style="text-align: right; color: red;">✗</p>
<b>User data access</b>	<ul style="list-style-type: none"> <li>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 customise which services it wants to allow access to in order to strengthen security</li> </ul> <p style="text-align: right; color: green;">✓</p>	<ul style="list-style-type: none"> <li>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)</li> </ul> <p style="text-align: right; color: green;">✓</p>

Source: DNB Markets

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## Estimate revisions

Figure 7: Forecast changes (SEKm)

(SEKm, except per share data)	Old			New			Change		
	2020	2021e	2022e	2020	2021e	2022e	2020	2021e	2022e
<b>Group</b>									
<b>Sales</b>	<b>23</b>	<b>38</b>	<b>70</b>	<b>24</b>	<b>37</b>	<b>85</b>	<b>6%</b>	<b>-2%</b>	<b>21%</b>
Sales growth	-31.5%	66.7%	85.3%	-27.4%	54.7%	127.7%	413bp	-1198bp	4240bp
Organic	-8.3%	81.2%	85.3%	-26.8%	74.2%	127.7%	-1848bp	-691bp	4240bp
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
Currency	-23.2%	-14.5%	0.0%	-0.6%	-2.7%	0.0%	2262bp	1182bp	0bp
<b>Gross profit</b>	<b>22</b>	<b>36</b>	<b>68</b>	<b>23</b>	<b>36</b>	<b>82</b>	<b>6%</b>	<b>-1%</b>	<b>22%</b>
<i>Gross margin</i>	95.6%	95.2%	96.2%	95.4%	96.1%	96.8%	-26bp	95bp	54bp
Capitalised development costs	6	6	6	6	5	5	-5%	-21%	-21%
Other external expenses	-17	-16	-22	-19	-22	-29	-9%	-37%	-31%
Personnel costs	-41	-42	-47	-40	-41	-50	3%	2%	-7%
<b>EBITDA</b>	<b>-27</b>	<b>-2</b>	<b>21</b>	<b>-30</b>	<b>-8</b>	<b>26</b>	<b>10%</b>	<b>256%</b>	<b>23%</b>
Depreciation and amortisation	-13	-13	-16	-13	-14	-18	-3%	-6%	-10%
<b>EBIT</b>	<b>-40</b>	<b>-16</b>	<b>5</b>	<b>-43</b>	<b>-22</b>	<b>8</b>	<b>8%</b>	<b>43%</b>	<b>72%</b>
<i>EBIT margin</i>	-175.9%	-40.9%	6.4%	-178.4%	-59.3%	9.1%	-255bp	-1841bp	272bp
One-offs	0	0	0	0	0	0			
<b>EBIT adj.</b>	<b>-40</b>	<b>-16</b>	<b>5</b>	<b>-43</b>	<b>-22</b>	<b>8</b>	<b>-8%</b>	<b>-43%</b>	<b>72%</b>
<i>EBIT adj. margin</i>	-175.9%	-40.9%	6.4%	-178.4%	-59.3%	9.1%	-255bp	-1841bp	272bp
Capitalized development costs	-1	-2	-4	-1	-2	-4	1%	14%	-14%
<b>EBIT adj. for cap. dev. costs</b>	<b>-41</b>	<b>-18</b>	<b>1</b>	<b>-44</b>	<b>-24</b>	<b>4</b>	<b>-7%</b>	<b>-36%</b>	<b>340%</b>
<i>EBIT adj. CDC margin</i>	-179.9%	-46.1%	1.1%	-182.2%	-63.9%	4.1%	-226bp	-1774bp	300bp
Net financial items	46	-1	-2	46	-1	-3	-1%	16%	-20%
<b>Pre-tax profit</b>	<b>6</b>	<b>-17</b>	<b>2</b>	<b>3</b>	<b>-23</b>	<b>5</b>	<b>51%</b>	<b>-38%</b>	<b>129%</b>
Tax	-1	0	-1	-1	0	-2			
<i>Tax rate</i>	15.9%	0.0%	32.0%	35.9%	0.0%	31.8%	1994bp	0bp	-25bp
<b>Net profit</b>	<b>5</b>	<b>-17</b>	<b>1</b>	<b>2</b>	<b>-23</b>	<b>3</b>	<b>-62%</b>	<b>38%</b>	<b>130%</b>
EPS adjusted	0.96	-3.48	0.30	0.55	-4.36	0.63	43%	-26%	109%
EPS	0.96	-3.48	0.30	0.55	-4.36	0.63	43%	-26%	109%
DPS	0.00	0.00	0.00	0.00	0.00	0.00			
<b>Sales by product area</b>									
Goods	0	0	0	0	0	0			
Services (incl. support)	20	17	17	21	20	20	5%	17%	17%
Freja eID	2	21	53	1	18	65	-19%	-16%	22%
<b>Group Total</b>	<b>23</b>	<b>38</b>	<b>70</b>	<b>24</b>	<b>37</b>	<b>85</b>	<b>6%</b>	<b>-2%</b>	<b>21%</b>

Source: DNB Markets (forecasts)



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Figure 8: Annual income statement

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<b>Sales</b>						<b>33.3</b>	<b>24.2</b>	<b>37.4</b>	<b>85.2</b>	<b>133.0</b>
COGS						-1.7	-1.1	-1.4	-2.7	-3.6
<b>Gross profit</b>						<b>31.6</b>	<b>23.1</b>	<b>36.0</b>	<b>82.5</b>	<b>129.3</b>
Capitalised development costs						5.1	5.5	4.6	4.6	5.0
Other external expenses						-20.5	-18.7	-22.0	-29.1	-35.7
Personnel costs						-47.4	-39.6	-40.8	-50.2	-65.3
<b>EBITDA</b>						<b>-31.2</b>	<b>-29.7</b>	<b>-8.1</b>	<b>25.8</b>	<b>55.0</b>
Depreciation and Amortisation						-11.9	-13.5	-14.1	-18.0	-21.6
<b>EBIT</b>						<b>-43.1</b>	<b>-43.2</b>	<b>-22.2</b>	<b>7.8</b>	<b>33.4</b>
<i>EBIT margin</i>						-129.4%	-178.4%	-59.3%	9.1%	25.1%
One-offs						0.0	0.0	0.0	0.0	0.0
<b>EBIT adj.</b>						<b>-43.1</b>	<b>-43.2</b>	<b>-22.2</b>	<b>7.8</b>	<b>33.4</b>
<i>EBIT adj. margin</i>						-129.4%	-178.4%	-59.3%	9.1%	25.1%
Net CDC						0.0	-0.9	-1.7	-4.2	-6.7
<b>EBIT adj. for cap. dev. costs</b>						<b>-43.1</b>	<b>-44.1</b>	<b>-23.9</b>	<b>3.5</b>	<b>26.6</b>
<i>EBIT adj. CDC margin</i>						-129.4%	-182.2%	-63.9%	4.1%	20.0%
Net financial items						-0.8	45.9	-1.2	-2.8	-4.3
<b>Pre-tax profit</b>						<b>-43.9</b>	<b>2.7</b>	<b>-23.4</b>	<b>4.9</b>	<b>29.1</b>
Tax						3.9	-1.0	0.0	-1.6	-7.3
<b>Net profit</b>						<b>-40.0</b>	<b>1.8</b>	<b>-23.4</b>	<b>3.4</b>	<b>21.8</b>
Gross margin						94.9%	95.4%	96.1%	96.8%	97.3%
EBITDA margin						-93.7%	-122.7%	-21.7%	30.3%	41.3%
Adj. EBIT margin						-129.4%	-178.4%	-59.3%	9.1%	25.1%
<b>Freja eID (DNBe)</b>										
Number of relying parties						157	252	349	424	516
Number of users						26,000	100,000	308,003	538,698	788,708
<b>Sales by product area</b>										
Goods						0.0	0.0	0.0	0.0	0.0
Services (incl. support)						29.2	20.6	19.5	20.1	20.7
Freja eID						0.1	1.2	17.9	65.1	112.3
<b>Group Total</b>						<b>33.3</b>	<b>24.2</b>	<b>37.4</b>	<b>85.2</b>	<b>133.0</b>
<b>Sales growth by product area</b>										
Goods										
Services (incl. support)							-30%	-5%	3%	3%
Freja eID							1215%	1332%	264%	72%
<b>Group Total</b>							<b>-26%</b>	<b>72%</b>	<b>128%</b>	<b>56%</b>
<b>Sales growth, of which</b>										
Organic							-27%	74%	128%	56%
Structure							0%	0%	0%	0%
Currency							-1%	-3%	0%	0%
<b>Total growth</b>							<b>-27%</b>	<b>72%</b>	<b>128%</b>	<b>56%</b>

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



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Figure 9: Quarterly income statement

(SEKm)	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21e	Q2'21e	Q3'21e	Q4'21e
<b>Sales</b>	<b>8.0</b>	<b>10.3</b>	<b>8.6</b>	<b>6.8</b>	<b>5.5</b>	<b>6.5</b>	<b>5.4</b>	<b>6.8</b>	<b>5.1</b>	<b>8.2</b>	<b>8.6</b>	<b>15.6</b>
COGS	-0.2	-0.5	-0.5	-0.2	-0.4	0.0	-0.3	-0.4	-0.3	-0.3	-0.3	-0.5
<b>Gross profit</b>	<b>7.8</b>	<b>9.7</b>	<b>8.2</b>	<b>6.6</b>	<b>5.1</b>	<b>6.5</b>	<b>5.1</b>	<b>6.4</b>	<b>4.8</b>	<b>7.9</b>	<b>8.3</b>	<b>15.0</b>
Capitalised development costs	1.0	2.0	0.7	1.4	1.9	1.4	1.1	1.1	1.1	1.1	1.2	1.2
Other external expenses	-4.5	-7.5	-4.5	-4.0	-4.1	-5.4	-3.6	-5.6	-4.9	-5.4	-5.1	-6.5
Personnel costs	-11.9	-11.6	-11.1	-12.8	-12.4	-9.5	-9.4	-8.4	-9.6	-10.0	-10.4	-10.8
<b>EBITDA</b>	<b>-7.6</b>	<b>-7.4</b>	<b>-6.7</b>	<b>-8.8</b>	<b>-9.5</b>	<b>-6.9</b>	<b>-6.8</b>	<b>-6.5</b>	<b>-5.6</b>	<b>-2.9</b>	<b>-2.2</b>	<b>2.7</b>
Depreciation and Amortisation	-2.7	-2.9	-3.1	-3.2	-3.2	-3.3	-3.4	-3.6	-3.0	-3.6	-3.8	-3.7
<b>EBIT</b>	<b>-10.3</b>	<b>-10.3</b>	<b>-9.8</b>	<b>-12.0</b>	<b>-12.7</b>	<b>-10.2</b>	<b>-10.2</b>	<b>-10.0</b>	<b>-8.6</b>	<b>-6.5</b>	<b>-6.0</b>	<b>-1.1</b>
<i>EBIT margin</i>	<i>-128.8%</i>	<i>-100.0%</i>	<i>-113.6%</i>	<i>-176.7%</i>	<i>-230.9%</i>	<i>-157.5%</i>	<i>-188.5%</i>	<i>-148.0%</i>	<i>-169.4%</i>	<i>-79.1%</i>	<i>-70.5%</i>	<i>-6.9%</i>
One-offs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT adj.</b>	<b>-10.3</b>	<b>-10.3</b>	<b>-9.8</b>	<b>-12.0</b>	<b>-12.7</b>	<b>-10.2</b>	<b>-10.2</b>	<b>-10.0</b>	<b>-8.6</b>	<b>-6.5</b>	<b>-6.0</b>	<b>-1.1</b>
<i>EBIT adj. margin</i>	<i>-128.8%</i>	<i>-100.0%</i>	<i>-113.6%</i>	<i>-176.7%</i>	<i>-230.9%</i>	<i>-157.5%</i>	<i>-188.5%</i>	<i>-148.0%</i>	<i>-169.4%</i>	<i>-79.1%</i>	<i>-70.5%</i>	<i>-6.9%</i>
Net CDC	0.0	-1.4	-0.1	-0.7	0.0	-0.6	-0.2	-0.1	-0.3	-0.8	-0.4	-0.3
<b>EBIT adj. for cap. dev. costs</b>	<b>-10.3</b>	<b>-11.7</b>	<b>-9.9</b>	<b>-12.7</b>	<b>-12.7</b>	<b>-10.8</b>	<b>-10.4</b>	<b>-10.1</b>	<b>-8.9</b>	<b>-7.2</b>	<b>-6.4</b>	<b>-1.3</b>
<i>EBIT adj. CDC margin</i>	<i>-128.8%</i>	<i>-113.7%</i>	<i>-114.8%</i>	<i>-187.0%</i>	<i>-230.9%</i>	<i>-166.7%</i>	<i>-192.2%</i>	<i>-149.4%</i>	<i>-174.6%</i>	<i>-88.7%</i>	<i>-74.9%</i>	<i>-8.5%</i>
Net financial items	-0.1	-0.1	-0.3	-0.2	-0.6	46.7	-0.2	0.0	-0.3	-0.4	-0.4	-0.1
<b>Pre-tax profit</b>	<b>-10.4</b>	<b>-10.4</b>	<b>-10.1</b>	<b>-12.2</b>	<b>-13.3</b>	<b>36.5</b>	<b>-10.4</b>	<b>-10.1</b>	<b>-8.9</b>	<b>-6.9</b>	<b>-6.5</b>	<b>-1.2</b>
Tax	-0.1	1.4	2.6	-0.1	-0.1	-0.1	-0.7	-0.1	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>-10.5</b>	<b>-9.0</b>	<b>-7.4</b>	<b>-12.4</b>	<b>-13.4</b>	<b>36.4</b>	<b>-11.1</b>	<b>-10.2</b>	<b>-8.9</b>	<b>-6.9</b>	<b>-6.5</b>	<b>-1.2</b>
Gross margin	97.5%	94.8%	94.3%	97.0%	92.7%	99.6%	94.4%	94.2%	94.0%	96.6%	96.3%	96.5%
EBITDA margin	-95.0%	-72.2%	-77.7%	-129.4%	-172.7%	-106.3%	-126.0%	-95.4%	-110.4%	-35.5%	-26.1%	17.1%
Adj. EBIT margin	-128.8%	-100.0%	-113.6%	-176.7%	-230.9%	-157.5%	-188.5%	-148.0%	-169.4%	-79.1%	-70.5%	-6.9%
<b>Freja eID (DNBe)</b>												
Number of relying parties	67	99	103	157	178	190	217	252	277	305	326	349
Number of users	12,779	15,683	19,430	26,000	36,000	47,000	67,000	100,000	135,000	182,250	236,925	308,003
<b>Sales by product area</b>												
Goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Services (incl. support)	8.0	8.7	6.9	6.0	4.7	6.0	4.2	5.7	4.5	5.7	4.0	5.4
Freja eID	0.0	0.0	0.0	0.1	0.3	0.3	0.3	0.4	0.6	2.5	4.6	10.2
<b>Group Total</b>	<b>8.0</b>	<b>10.3</b>	<b>8.6</b>	<b>6.8</b>	<b>5.5</b>	<b>6.5</b>	<b>5.4</b>	<b>6.8</b>	<b>5.1</b>	<b>8.2</b>	<b>8.6</b>	<b>15.6</b>
<b>Sales growth by product area</b>												
Goods												
Services (incl. support)					-41%	-32%	-39%	-5%	-5%	-5%	-5%	-5%
Freja eID								284%	115%	820%	1320%	2691%
<b>Group Total</b>					<b>-38%</b>	<b>-28%</b>	<b>-34%</b>	<b>0%</b>	<b>2%</b>	<b>31%</b>	<b>89%</b>	<b>158%</b>
<b>Sales growth, of which</b>												
Organic					-39%	-29%	-33%	2%	5%	35%	91%	159%
Structure					0%	0%	0%	0%	0%	0%	0%	0%
Currency					2%	1%	-1%	-2%	-3%	-4%	-2%	-1%
<b>Total growth</b>					<b>-38%</b>	<b>-28%</b>	<b>-34%</b>	<b>0%</b>	<b>2%</b>	<b>31%</b>	<b>89%</b>	<b>158%</b>

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

Figure 10: Freja eID valuation versus listed peers

	Mkt. cap.	P/E (x)			EV/EBIT (x)			EV/sales (x)			Gross	EBIT	FCF	CAGR 2019–2021e (%)		
	(SEKbn)	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e	margin	margin	margin	Sales	EBIT	EPS
<b>Freja eID (DNBe)</b>	<b>0.4</b>	<b>215.4</b>	<b>n.a.</b>	<b>111.8</b>	<b>n.a.</b>	<b>n.a.</b>	<b>45.8</b>	<b>14.7</b>	<b>9.8</b>	<b>4.2</b>	<b>94.9</b>	<b>-178.4</b>	<b>-111.2</b>	<b>88</b>	<b>n.a.</b>	<b>7</b>
<i>Premium/discount</i>		209%	n.a.	131%	n.a.	n.a.	34%	-6%	-20%	-56%	18.5	-195.6	-124.5	70	n.a.	-12
<b>Nordic fast-growing peers</b>																
Admicom	5.5	n.a.	55.5	46.7	55.2	38.1	29.9	24.6	20.8	17.7	n.a.	44.5	-7.8	18	34	55
Evolution Gaming	217.2	67.5	42.9	34.5	69.5	39.9	32.1	38.9	22.9	18.9	n.a.	55.7	33.5	43	45	40
HMS Networks	14.5	69.6	56.9	50.1	54.4	41.9	36.4	10.3	8.4	7.6	62.1	19.0	15.6	16	21	18
Invisio Communications	9.3	n.a.	59.6	41.5	74.8	45.3	31.1	16.8	12.3	9.5	59.8	22.3	15.1	33	55	61
Lime Technologies	5.4	76.9	65.7	54.4	69.3	58.0	46.7	16.1	13.8	11.9	n.a.	23.0	20.6	16	21	19
Sectra	27.7	n.a.	n.a.	93.3	86.7	79.6	71.2	15.6	16.0	13.7	82.7	17.9	n.a.	7	10	10
Storytel	15.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.1	4.9	3.9	47.3	-5.9	-13.2	25	-51	-55
<b>Average</b>		<b>71.3</b>	<b>56.1</b>	<b>53.4</b>	<b>68.3</b>	<b>50.5</b>	<b>41.2</b>	<b>18.3</b>	<b>14.2</b>	<b>11.9</b>	<b>63.0</b>	<b>25.2</b>	<b>10.6</b>	<b>23</b>	<b>19</b>	<b>21</b>
<b>Median</b>		<b>69.6</b>	<b>56.9</b>	<b>48.4</b>	<b>69.4</b>	<b>43.6</b>	<b>34.2</b>	<b>16.1</b>	<b>13.8</b>	<b>11.9</b>	<b>60.9</b>	<b>22.3</b>	<b>15.3</b>	<b>18</b>	<b>21</b>	<b>19</b>
<b>Security &amp; SaaS peers</b>																
Okta	314.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	64.8	45.3	34.7	77.2	-24.7	4.9	37	-80	n.a.
Sailpoint	47.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.7	14.0	12.0	81.3	10.1	11.4	14	-13	-20
Proofpoint	62.9	69.6	66.9	53.1	51.3	50.3	36.7	7.3	6.4	5.4	80.0	14.3	16.0	16	23	14
DocuSign	400.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	49.9	33.7	25.6	79.0	3.4	6.7	40	171	118
Qualys	33.0	35.5	37.5	34.6	25.7	24.2	20.7	9.8	8.9	8.0	80.7	39.1	41.1	11	6	1
Rapid7	38.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.6	9.6	8.1	73.8	0.6	-2.6	20	253	n.a.
Palo Alto Networks	310.4	81.3	66.9	56.1	63.0	48.3	37.3	11.1	9.1	7.7	75.4	17.1	23.0	20	26	20
Mimecast	23.5	93.0	39.8	36.6	62.8	29.6	22.9	6.6	5.6	5.0	75.6	10.2	9.6	15	60	59
<b>Average</b>		<b>69.8</b>	<b>52.8</b>	<b>45.1</b>	<b>50.7</b>	<b>38.1</b>	<b>29.4</b>	<b>22.1</b>	<b>16.6</b>	<b>13.3</b>	<b>77.9</b>	<b>8.8</b>	<b>13.8</b>	<b>22</b>	<b>56</b>	<b>32</b>
<b>Median</b>		<b>75.4</b>	<b>53.4</b>	<b>44.8</b>	<b>57.0</b>	<b>39.0</b>	<b>29.8</b>	<b>11.3</b>	<b>9.4</b>	<b>8.0</b>	<b>78.1</b>	<b>10.1</b>	<b>10.5</b>	<b>18</b>	<b>25</b>	<b>17</b>
<b>Average</b>		<b>70.5</b>	<b>54.6</b>	<b>50.1</b>	<b>61.3</b>	<b>45.5</b>	<b>36.5</b>	<b>20.3</b>	<b>15.5</b>	<b>12.6</b>	<b>72.9</b>	<b>16.4</b>	<b>12.4</b>	<b>22</b>	<b>39</b>	<b>26</b>
<b>Median</b>		<b>69.6</b>	<b>56.9</b>	<b>48.4</b>	<b>62.9</b>	<b>43.6</b>	<b>34.2</b>	<b>15.6</b>	<b>12.3</b>	<b>9.5</b>	<b>76.4</b>	<b>17.1</b>	<b>13.2</b>	<b>18</b>	<b>23</b>	<b>19</b>

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

## Summary of positives

### Challenger position in a market ripe for disruption

Freja eID Group'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.

### Freja eID 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, Freja eID's focus has been to build a relevant base of service providers with a broad user base and high interaction, now at 252 (232 relying parties, 20 partners). We consider it positive that Freja eID's relying parties have grown to 252 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 Freja eID). 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 >76% sales CAGR and improving margins

Business model transition has allowed for stable revenues but elevated opex, yet in recent quarters Freja eID 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 >76% 2020–2023 sales CAGR, primarily on growing Freja eID adoption. As revenue growth materialises, we expect margins to improve as Freja eID 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

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

...but we believe a >76% 2020–2023e 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 Freja eID's valuation, as the number of users determines the number of services (its customers) attracted to the platform. We expect Freja eID to reach critical mass of relying parties by early-2021; this should prompt it to intensify its efforts to drive platform user growth. Yet, if by end-2021 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 Freja eID 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 competitor 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-Q4 2020, Freja eID's cash position was SEK23m (net cash of SEK46m including its credit facilities). With an annual FCF burn rate of cSEK30m–40m on average in 2019–2020, investor concerns about the balance sheet should lessen as operational leverage improves. We estimate Freja eID 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 SEK18m 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 high

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 should be attributed a 2022e EV/sales of 7.0x. In such a scenario (with the risk of recapitalisation rising), our low fair value is SEK40–50/share.

Low fair value of SEK40–50/share

### Security compromise or regulatory change

Freja eID'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

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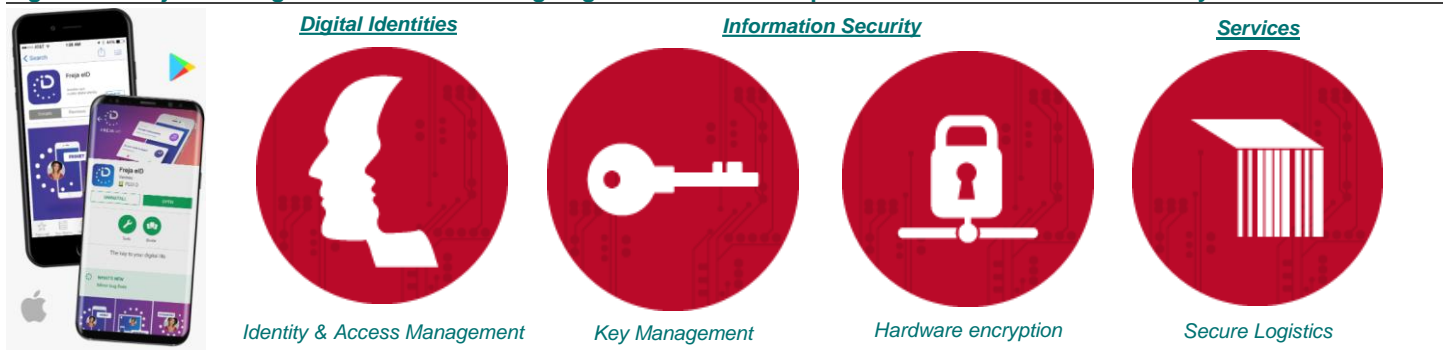
## A recap on Freja eID

Dating back to 2002, Freja eID 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). 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.

Freja eID'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 11: Freja eID's digital identities are in ongoing transition from on-premises solutions towards Identity-as-a-Service



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

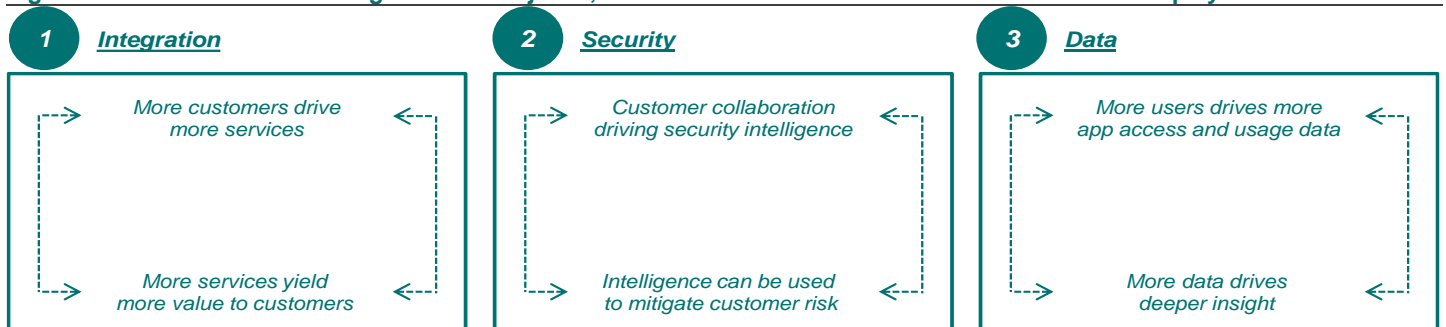
- Digital identities as software as a service platform.** The Freja eID replaces complicated usernames/passwords with an easy-to-use mobile app. Freja is the only eID provider with a quality mark 'Svensk e-legitimation' issued by the Swedish Agency for Digital Government (DIGG), and Freja eID has applied 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 Freja eID'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, Freja eID's focus has been to build a relevant base of service providers with a broad user base and high interaction, now at 252 (232 relying parties, 20 partners).

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

Figure 12: Network effects drive growth for Freja eID, where number of users and number of services amplify each other



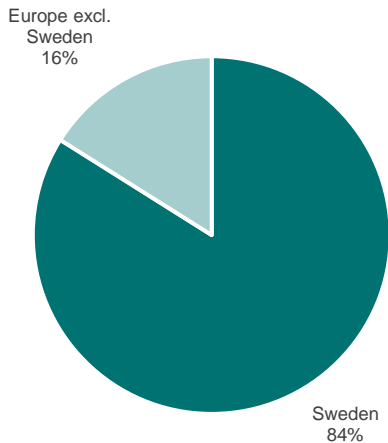
Source: DNB Markets

The company's partners include system integrators such as Tieto, Svensk e-identitet, Curity and CGI, with which Freja eID's potential customers in the private and public sectors collaborate. Freja eID's geographical sales mix still reflects its renewed focus on building its Freja eID ecosystem, with 84% of 2020 sales from Sweden, and 16% from elsewhere in Europe. 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 Freja eID's focus...

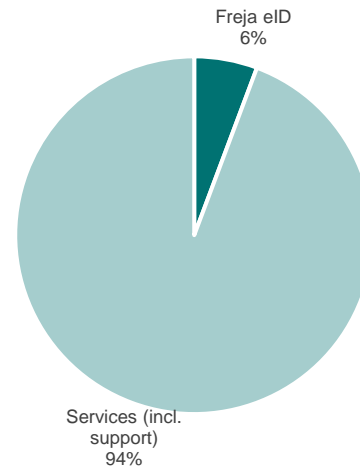
...and we see opportunities elsewhere in the Nordics

Figure 13: Geographical sales split, 2020



Source: Freja eID

Figure 14: Sales by business model, 2020



Source: Freja eID

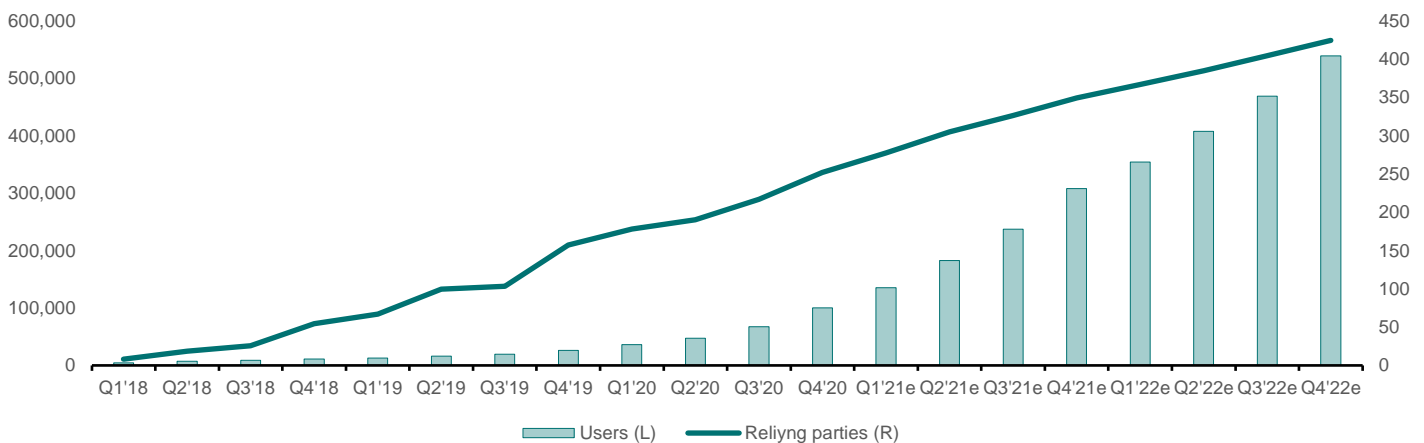
The Freja eID platform is free for users (consumer) and accessed through a mobile app. It is the online service providers (businesses, municipalities, authorities, banks, online payment processes etc) where users log in, sign, or approve that are Freja eID's customers, foremost through a transaction-based 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 Freja eID is building a broad user base with frequent interaction services

Freja eID reported 2020 net sales of SEK22m with a stable gross margin (94%+) but an operating loss of SEK43m (-175% 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 launched 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 15: Freja eID ecosystem (2018–2022e)



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

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Forecast changes – P&L

(SEKm)	New			Old			Change		
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Revenues	37	85	133	38	70		-1	15	
Cost of sales	-1	-3	-4	-2	-3		0	0	
Gross profit	36	82	129	36	68		0	15	
Operating expenses	-58	-75	-96	-52	-63		-6	-11	
EBITDA	-8	26	55	-2	21		-6	5	
EBITDA adj	-8	26	55	-2	21		-6	5	
EBITDA margin (%)	nm	30.3	41.3	-6.0	29.7	nm	nm	0.6	nm
Depreciation	-14	-18	-22	-13	-16		-1	-2	
EBIT	-22	8	33	-16	5		-7	3	
EBIT adj	-22	8	33	-16	5		-7	3	
Net interest	-1	-3	-4	-1	-2		0	0	
Net financial items	-1	-3	-4	-1	-2		0	0	
PBT	-23	5	29	-17	2		-6	3	
Taxes	0	-2	-7	0	-1		0	-1	
Net profit	-23	3	22	-17	1		-6	2	
Adjustments to net profit	0	0	0	0	0		0	0	
Net profit adj	-23	3	22	-17	1		-6	2	
<i>Per share data (SEK)</i>									
EPS	-4.36	0.63	4.07	-3.48	0.30		-0.89	0.33	
EPS adj	-4.36	0.63	4.07	-3.48	0.30		-0.89	0.33	
DPS ordinary	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	
<i>Other key metrics (%)</i>									
Revenue growth	54.7	127.7	56.1	66.7	85.3	nm	-12.0	42.4	nm
EBIT adj growth	nm	nm	329.5	-61.2	-129.0	nm	nm	nm	nm
EPS adj growth	nm	nm	546.4	-463.0	-108.7	nm	nm	nm	nm
Avg. number of shares (m)	5	5	5	5	5		0	0	
Capex	-15	-20	-23	-19	-20		3	0	
OpFCF	-24	6	32	-21	1		-2	5	
Working capital	-17	-28	-41	-16	-24		-1	-4	
NIBD adj	-9	-21	-55	-7	-12		-3	-10	

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
<b>Revenue</b>									
Goods	0	0	0	0	0		0	0	
Services (incl. support)	20	20	21	17	17		3	3	
Freja eID	18	65	112	21	53		-3	12	
<b>Assumptions</b>									
Revenue org. % YOY	74.25	127.7	56.07	81.16	85.31		-6.91	42.40	
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00		0.00	0.00	
Currency impact % YOY	-2.66	0.00	0.00	-14.48	0.00		11.82	0.00	

Source: DNB Markets



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Quarterly numbers

(SEKm)	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
<b>Revenues</b>	9	7	6	7	5	7	5	8	9	16	17
Cost of sales	0	0	0	0	0	0	0	0	0	-1	-1
<b>Gross profit</b>	8	7	5	6	5	6	5	8	8	15	16
Operating expenses	-15	-15	-15	-13	-12	-13	-13	-14	-14	-16	-18
<b>EBITDA</b>	-7	-9	-10	-7	-7	-6	-6	-3	-2	3	3
Depreciation	-3	-3	-3	-3	-3	-4	-3	-4	-4	-4	-4
<b>EBIT</b>	-10	-12	-13	-10	-10	-10	-9	-6	-6	-1	-1
Net interest	0	0	-1	47	0	0	0	0	0	0	-1
Net financial items	0	0	-1	47	0	0	0	0	0	0	-1
<b>PBT</b>	-10	-12	-13	36	-10	-10	-9	-7	-6	-1	-2
Taxes	3	0	0	0	-1	0	0	0	0	0	0
<b>Net profit</b>	-7	-12	-13	36	-11	-10	-9	-7	-6	-1	-2
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	-7	-12	-13	36	-11	-10	-9	-7	-6	-1	-2
Dividend paid	0	0	0	0	0	0	0	0	0	0	0
Avg. number of shares (m)	5	5	5	5	5	5	5	5	5	5	5
<i>Per share data (SEK)</i>											
EPS	-1.53	-2.54	-2.75	7.47	-2.28	-1.90	-1.66	-1.28	-1.21	-0.22	-0.38
<b>EPS adj</b>	<b>-1.53</b>	<b>-2.54</b>	<b>-2.75</b>	<b>7.47</b>	<b>-2.28</b>	<b>-1.90</b>	<b>-1.66</b>	<b>-1.28</b>	<b>-1.21</b>	<b>-0.22</b>	<b>-0.38</b>
DPS ordinary	0.00	0.00	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	0.00	0.00
<i>Growth and margins (%)</i>											
Revenues, QOQ growth	-15.8	-21.4	-19.0	18.3	-17.0	25.6	-24.9	60.2	5.0	81.8	7.8
Revenues, YOY growth	nm	nm	-31.3	-36.6	-37.5	-0.1	-7.4	25.5	58.7	129.8	229.7
EPS adj, YOY growth	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm
Gross margin	94.3	97.0	92.7	99.6	94.4	94.2	94.0	96.6	96.3	96.5	96.0
EBITDA adj margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	17.1	15.8
Depreciation/revenues	-35.9	-47.3	-58.2	-51.2	-62.5	-52.6	-59.0	-43.6	-44.4	-24.0	-24.0
EBIT adj margin	-113.6	-176.7	-230.9	-157.5	-188.5	-148.0	-169.4	-79.1	-70.5	-6.9	-8.2
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

Adjustments to quarterly numbers

(SEKm)	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
<b>EBITDA</b>	-7	-9	-10	-7	-7	-6	-6	-3	-2	3	3
EBITDA adj	-7	-9	-10	-7	-7	-6	-6	-3	-2	3	3
<b>EBIT</b>	-10	-12	-13	-10	-10	-10	-9	-6	-6	-1	-1
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0	0
EBIT adj	-10	-12	-13	-10	-10	-10	-9	-6	-6	-1	-1
<b>Net profit</b>	-7	-12	-13	36	-11	-10	-9	-7	-6	-1	-2
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	-7	-12	-13	36	-11	-10	-9	-7	-6	-1	-2

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

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Quarterly numbers by segment and assumptions

(SEKm)	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021e	Q2 2021e	Q3 2021e	Q4 2021e	Q1 2022e
<b>Revenue</b>											
Goods	0	0	0	0	0	0	0	0	0	0	0
Services (incl. support)	7	6	5	6	4	6	4	6	4	5	5
Freja eID	0	0	0	0	0	0	1	3	5	10	12
<b>Assumptions</b>											
Revenue org. % YOY			-39.08	-29.25	-33.27	1.79	5.26	34.92	90.71	158.5	229.7
Structure impact % YOY			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Currency impact % YOY			1.58	0.76	-0.86	-2.27	-3.34	-3.73	-1.66	-0.95	0.00

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

Annual P&L

(SEKm)	2019	2020	2021e	2022e	2023e
<b>Revenues</b>	<b>33</b>	<b>24</b>	<b>37</b>	<b>85</b>	<b>133</b>
Cost of sales	-2	-1	-1	-3	-4
<b>Gross profit</b>	<b>32</b>	<b>23</b>	<b>36</b>	<b>82</b>	<b>129</b>
Operating expenses	-63	-53	-58	-75	-96
<b>EBITDA</b>	<b>-31</b>	<b>-30</b>	<b>-8</b>	<b>26</b>	<b>55</b>
Depreciation	-12	-13	-14	-18	-22
<b>EBIT</b>	<b>-43</b>	<b>-43</b>	<b>-22</b>	<b>8</b>	<b>33</b>
Net interest	-1	46	-1	-3	-4
Net financial items	-1	46	-1	-3	-4
<b>PBT</b>	<b>-44</b>	<b>3</b>	<b>-23</b>	<b>5</b>	<b>29</b>
Taxes	4	-1	0	-2	-7
Effective tax rate (%)	9	36	0	32	25
<b>Net profit</b>	<b>-40</b>	<b>2</b>	<b>-23</b>	<b>3</b>	<b>22</b>
Adjustments to net profit	0	0	0	0	0
Net profit adj	-40	2	-23	3	22
Dividend paid	0	0	0	0	0
Avg. number of shares	5	5	5	5	5
<i>Per share data (SEK)</i>					
EPS	-8.21	0.55	-4.36	0.63	4.07
<b>EPS adj</b>	<b>-8.21</b>	<b>0.55</b>	<b>-4.36</b>	<b>0.63</b>	<b>4.07</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>					
Revenue growth	nm	-27.4	54.7	127.7	56.1
EPS adj growth	nm	nm	nm	nm	546.4
Gross margin	94.9	95.4	96.1	96.8	97.3
EBITDA margin	nm	nm	nm	30.3	41.3
EBITDA adj margin	nm	nm	nm	30.3	41.3
Depreciation/revenues	-35.6	-55.7	-37.7	-21.2	-16.3
EBIT margin	nm	nm	nm	9.1	25.1
EBIT adj margin	-129.4	-178.4	-59.3	9.1	25.1
PBT margin	nm	11.3	nm	5.8	21.9
Net profit margin	nm	nm	nm	nm	nm

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

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### Adjustments to annual P&L

(SEKm)	2019	2020	2021e	2022e	2023e
<b>EBITDA</b>	<b>-31</b>	<b>-30</b>	<b>-8</b>	<b>26</b>	<b>55</b>
EBITDA adj	-31	-30	-8	26	55
<b>EBIT</b>	<b>-43</b>	<b>-43</b>	<b>-22</b>	<b>8</b>	<b>33</b>
Other EBIT adjustments	0	0	0	0	0
EBIT adj	-43	-43	-22	8	33
<b>Net profit</b>	<b>-40</b>	<b>2</b>	<b>-23</b>	<b>3</b>	<b>22</b>
Other EBIT adjustments	0	0	0	0	0
Net profit adj	-40	2	-23	3	22
<i>Per share data (SEK)</i>					
EPS	-8.21	0.55	-4.36	0.63	4.07
Recommended adjustment	0.00	0.00	0.00	0.00	0.00
EPS adj	-8.21	0.55	-4.36	0.63	4.07

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

### Cash flow

(SEKm)	2019	2020	2021e	2022e	2023e
Net profit	-40	2	-23	3	22
<b>Cash flow from operations (CFO)</b>	<b>-11</b>	<b>-30</b>	<b>-16</b>	<b>32</b>	<b>56</b>
Capital expenditure	-15	-12	-15	-20	-23
Acquisitions/Investments	0	34	0	0	0
Divestments	0	0	0	0	0
<b>Cash flow from investing (CFI)</b>	<b>-15</b>	<b>22</b>	<b>-15</b>	<b>-20</b>	<b>-23</b>
<b>Free cash flow (FCF)</b>	<b>-26</b>	<b>-8</b>	<b>-32</b>	<b>12</b>	<b>33</b>
Net change in debt	4	3	20	0	0
Dividends paid	0	0	0	0	0
Other	0	-2	0	0	0
<b>Cash flow from financing (CFF)</b>	<b>6</b>	<b>21</b>	<b>20</b>	<b>0</b>	<b>0</b>
<b>Total cash flow (CFO+CFI+CFF)</b>	<b>-20</b>	<b>13</b>	<b>-12</b>	<b>12</b>	<b>33</b>
<i>FCFF calculation</i>					
Free cash flow	-26	-8	-32	12	33
Less: net interest	1	-46	1	3	4
Less: tax shields/other	0	0	0	0	0
Less: acquisitions	0	-34	0	0	0
Less: divestments	0	0	0	0	0
<b>Free cash flow to the firm</b>	<b>-25</b>	<b>-88</b>	<b>-31</b>	<b>15</b>	<b>38</b>
<b>Growth (%)</b>					
CFO	nm	-179.6	45.0	295.4	76.9
CFI	nm	244.2	-169.9	-29.6	-15.0
FCF	nm	70.6	-316.3	137.6	180.7
CFF	nm	229.4	-4.6	-100.0	nm
FCFF	nm	-249.4	65.2	148.2	156.0

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

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**Balance sheet**

<b>(SEKm)</b>	<b>2019</b>	<b>2020</b>	<b>2021e</b>	<b>2022e</b>	<b>2023e</b>
<b>Assets</b>	<b>89</b>	<b>85</b>	<b>91</b>	<b>121</b>	<b>170</b>
Inventories	1	0	0	0	0
Trade receivables	17	3	6	8	10
Other receivables	3	3	6	8	7
Current financial assets	19	7	19	30	43
Cash and cash equivalents	10	23	12	23	57
<b>Current assets</b>	<b>50</b>	<b>37</b>	<b>42</b>	<b>70</b>	<b>117</b>
<b>Non-current assets</b>	<b>39</b>	<b>48</b>	<b>50</b>	<b>51</b>	<b>53</b>
<b>Total assets</b>	<b>89</b>	<b>85</b>	<b>91</b>	<b>121</b>	<b>170</b>
<b>Equity and liabilities</b>	<b>89</b>	<b>85</b>	<b>91</b>	<b>121</b>	<b>170</b>
Total equity to the parent	17	45	42	45	67
<b>Total equity</b>	<b>17</b>	<b>45</b>	<b>42</b>	<b>45</b>	<b>67</b>
Trade payables	11	3	8	15	25
Other payables and accruals	57	35	39	59	76
<b>Total current liabilities</b>	<b>68</b>	<b>38</b>	<b>48</b>	<b>74</b>	<b>101</b>
Long-term debt	0	0	0	0	0
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	4	2	2	2	2
<b>Total non-current liabilities</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
<b>Total liabilities</b>	<b>72</b>	<b>40</b>	<b>49</b>	<b>76</b>	<b>103</b>
<b>Total equity and liabilities</b>	<b>89</b>	<b>85</b>	<b>91</b>	<b>121</b>	<b>170</b>
<i>Key metrics</i>					
Net interest bearing debt	-2	-21	-9	-21	-55

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

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Valuation ratios

(SEKm)	2014	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
<i>Enterprise value</i>										
Share price (SEK)	43.00	77.75	83.75	93.00	98.00	95.00	51.40	70.40	70.40	70.40
Number of shares (m)	0.00	0.00	0.00	0.00	0.00	4.87	5.36	5.36	5.36	5.36
Market capitalisation	0	0	0	0	0	463	275	377	377	377
Net interest bearing debt	0	0	0	0	0	-2	-21	-9	-21	-55
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	0	0	0	0	0	-2	-21	-9	-21	-55
EV	0	0	0	0	0	461	254	368	356	322
EV adj	0	0	0	0	0	461	254	368	356	322
<i>Valuation</i>										
EPS						-8.21	0.55	-4.36	0.63	4.07
<b>EPS adj</b>						<b>-8.21</b>	<b>0.55</b>	<b>-4.36</b>	<b>0.63</b>	<b>4.07</b>
DPS ordinary	0.00	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	0.00
P/E						-11.6	93.8	-16.1	111.8	17.3
P/E adj						-11.6	93.8	-16.1	111.8	17.3
Average ROE						-463.7%	5.6%	-53.4%	7.7%	38.7%
Earnings yield adj						-8.6%	1.1%	-6.2%	0.9%	5.8%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/SALES						13.83	10.50	9.82	4.17	2.42
EV/SALES adj						13.83	10.50	9.82	4.17	2.42
EV/EBITDA						-14.8	-8.6	-45.4	13.8	5.9
EV/EBITDA adj						-14.8	-8.6	-45.4	13.8	5.9
EV/EBIT						-10.7	-5.9	-16.6	45.8	9.7
EV/EBIT adj						-10.7	-5.9	-16.6	45.8	9.7
EV/OpFCF (taxed)						-9.9	-6.1	-15.6	61.1	10.1

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

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## Key accounting ratios

	2019	2020	2021e	2022e	2023e
<i>Profitability (%)</i>					
ROA	-89.6	2.0	-26.5	3.2	15.0
<i>Return on invested capital (%)</i>					
Working capital/revenues	-83.0	-100.6	-46.2	-32.6	-30.7
<i>Cash flow ratios (%)</i>					
FCF/revenues	-77.8	-31.5	-84.8	14.0	25.2
FCF yield (%)	-5.6	-15.2	-8.4	3.2	8.9
CFO/revenues	-31.9	-122.7	-43.6	37.4	42.4
CFO/market capitalisation	-2.3	-10.8	-4.3	8.5	15.0
CFO/capex	-69.4	-242.0	-105.9	159.7	245.7
CFO/current liabilities	-15.6	-78.3	-34.2	43.1	55.9
Cash conversion ratio	64.8	-435.6	135.8	353.6	153.6
Capex/revenues	45.9	50.7	41.2	23.4	17.3
Capex/depreciation	128.9	91.0	109.3	110.8	106.2
OpFCF margin	-139.6	-172.1	-62.9	6.8	24.1
Total payout ratio	0.0	0.0	0.0	0.0	0.0
<i>Leverage and solvency (x)</i>					
EBIT/interest payable	nm	nm	nm	2.75	7.77
Cash coverage	-40.25	0.65	-6.93	9.14	12.80
Net debt/EBITDA	0.06	0.72	1.17	-0.83	-1.00
LTD / (LTD + equity (MV))	0.00	0.00	0.00	0.00	0.00
<i>Cash conversion cycle</i>					
Inventory turnover days	186.7	0.0	0.0	0.0	0.0
Receivables turnover days	224.9	92.5	114.6	68.3	48.3
Credit period	2257.8	1061.8	2089.2	2041.1	2454.4
Cash conversion cycle	-1846.2	-969.3	-1974.6	-1972.8	-2406.1

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

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## Important Information

Company: Freja eID Group  
 Coverage by Analyst: Joachim Gunell  
 Date: 11-2-2021

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DNB Markets client	23%	9%	4%	4%	113



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