

ESG insight



VERISEC

Regulatory tailwinds continue

With Q3 sales growth of 20% YOY, the investment case seems more multifaceted than we first thought. Freja eID remains the key value driver and further evidence of user and relying parties growth (107 today) should act as catalysts in 2020e. We have raised our fair value to SEK110–150/share (100–140) on updated peer multiples and continue to see an attractive valuation.

Q3 review. Q3 sales growth was 20% YOY (we expected 25%), with sales of SEK24m (4% below our estimate) mainly driven by continued tailwinds from PDS2 supporting security token demand. The Q3 gross margin was 62.9% (down 0.6%-points YOY), but with solid cost control on the opex lines, the EBIT loss was SEK4.5m (we expected SEK-4.8m), corresponding to a 19.1% margin (up 0.3%-points YOY), suggesting that Verisec is executing on its path to profitability. By end-Q3, its cash position was SEK11m (with a SEK25m unutilised credit facility) and it has had an annual FCF burn rate of cSEK25m–30m on average in 2016–2019. The Q3 report supports our view that Verisec is adequately capitalised for the operational business until cash flow breakeven, although any product launch delays could challenge this.

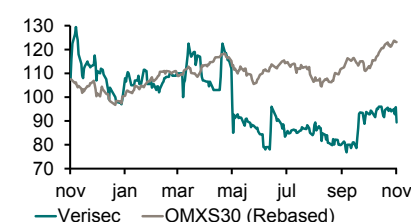
Recent Freja eID highlights. First, Verisec's main competitor mobile BankID's eID experienced operational disturbances for the second time since May this year. With the company already under scrutiny by the Swedish Post and Telecom Authority (PTS), this should raise further questions regarding Sweden's eID market monopoly situation and the reliance on one provider, which threatens the digital ecosystem. Verisec experienced users migrating to Freja eID as a result. Second, Sweden's largest gambling company, Svenska Spel (with 2.1m users), is now live with Freja eID as an ID verification method, which we believe validates Verisec's technology and provides a solid platform for user base growth. Third, the First North listing of Swedish eID broker ZignSec (trading at an LTM EV/sales of 21x) suggests that further Freja eID momentum could improve investor appetite and drive a material re-rating in Verisec.

Fair value raised to SEK110–150/share (100–140) to reflect our minor estimate changes and updated peer group multiples. Verisec is trading at a 2020e EV/sales of 3.3x, which corresponds to a c20% discount to its 3-year average and ~40% discount to SaaS and Security peers. Moreover, recent insider transactions made by management of ~SEK10m lend valuation support in our view.

| Year-end Dec | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|-----------------------|-------|-------|-------|-------|-------|-------|--------|
| Revenue (SEKm) | 60 | 61 | 61 | 76 | 108 | 129 | 175 |
| EBITDA adj (SEKm) | -7 | -15 | -18 | -22 | -12 | 3 | 34 |
| EBIT adj (SEKm) | -10 | -19 | -22 | -28 | -25 | -15 | 7 |
| PTP (SEKm) | -10 | -18 | -23 | -29 | -26 | -16 | 6 |
| EPS rep (SEK) | -1.95 | -4.06 | -5.03 | -6.03 | -4.47 | -3.21 | 1.35 |
| EPS adj (SEK) | -1.95 | -4.06 | -5.03 | -6.03 | -4.49 | -3.21 | 1.35 |
| DPS (SEK) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Revenue growth (%) | 16.8 | 0.8 | 0.6 | 24.9 | 41.1 | 19.7 | 35.9 |
| EBITDA growth adj (%) | nm | nm | nm | nm | nm | nm | 1239.1 |
| EBITDA margin adj (%) | nm | nm | nm | nm | nm | 2.0 | 19.3 |
| EV/Sales adj (x) | 4.71 | 5.47 | 6.46 | 5.77 | 3.94 | 3.34 | 2.39 |
| EV/EBITDA adj (x) | nm | nm | nm | nm | nm | nm | 12.4 |
| EV/EBIT adj (x) | nm | nm | nm | nm | nm | nm | 55.9 |
| P/E adj (x) | nm | nm | nm | nm | nm | nm | 66.4 |
| ROE (%) | nm | nm | nm | nm | nm | nm | 82.3 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| FCFF yield (%) | -4.6 | -7.5 | -5.6 | -7.4 | -6.0 | -1.2 | 2.9 |

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

VERI versus OMXS30 (12m)



Source: Factset

SUMMARY

| | |
|-------------------|------------------|
| Share price (SEK) | 89.4 |
| Tickers | VERI SS, VERI.ST |

CAPITAL STRUCTURE

| | |
|------------------------------|------|
| No. of shares (m) | 4.9 |
| No. of shares fully dil. (m) | 4.9 |
| Market cap. (SEKm) | 436 |
| NIBD adj end-2019e (SEKm) | -11 |
| Enterprise value adj (SEKm) | 424 |
| Net debt/EBITDA adj (x) | 0.97 |
| Free float (%) | 44 |

Source: Company, DNB Markets (estimates)

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

NEXT EVENT

| | |
|---------|------------|
| Q4 2019 | 06/02/2020 |
|---------|------------|

ESTIMATE CHANGES (SEK)

| Year-end Dec | 2019e | 2020e | 2021e |
|--------------|-------|-------|-------|
| Sales (old) | 106.0 | 129.2 | 171.7 |
| Sales (new) | 107.6 | 128.7 | 175.0 |
| Change (%) | 1.5 | -0.4 | 1.9 |
| EPS (old) | -4.87 | -2.88 | 1.68 |
| EPS (new) | -4.49 | -3.21 | 1.35 |
| Change (%) | nm | nm | -19.9 |

Source: DNB Markets.

This report has been commissioned and paid for by the company, and is deemed to constitute an acceptable minor non-monetary benefit as defined in MiFID II

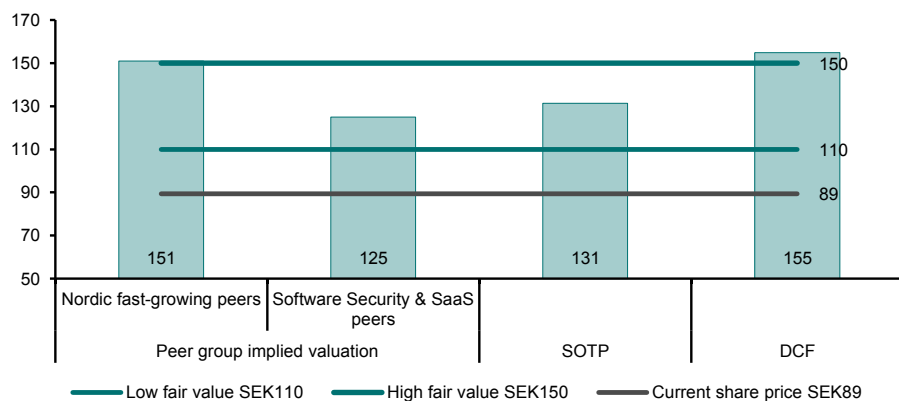
ANALYSTS

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 well 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

- 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 2021. As revenue growth materialises, we expect margins to improve as Verisec benefits from economies of scale in its IDaaS model. Our FCF analysis suggests it needs to generate an EBIT margin of c5% by 2021e to reach cash breakeven.

Source: DNB Markets

Valuation methodology

- Our fair value of SEK110–150/share is based on peers' multiples, a SOTP, and a DCF. On our estimates the stock is trading at a 2020e EV/Sales of 3.3x.
- Our bull-case fair value of SEK250–300/share assumes Freja eID achieves 600 relying parties and adds 800,000 users by end-2021e.
- Our bear-case fair value of SEK50–60/share assumes no Freja eID sales by 2021e (including a rights issue).

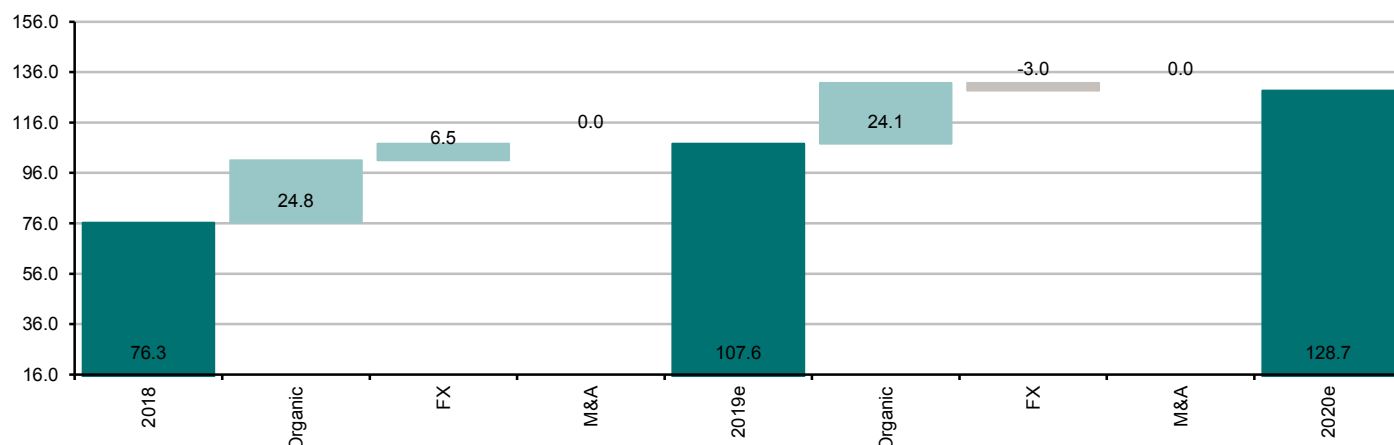
Source: DNB Markets

Upside risks to our fair value

- Continued reports of new relying parties and an 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 2018–2020e (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: 1) potential misuse without proper control; 2) technical failures or data breaches; and 3) exclusion of individuals. |
| 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. Users can choose what data they share for which service interaction, with whom, and for how long. |

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.

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.

- 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.
- 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.

Q3 2019 results

Q3 sales growth was 20% YOY (we expected 25%), with sales of SEK24m (4% below our estimate) mainly driven by continued tailwinds from PDS2 supporting security token demand. The Q3 gross margin was 62.9% (down 0.6%-points YOY), but with solid cost control on the opex lines, the EBIT loss was SEK4.5m (we expected SEK-4.8m), corresponding to a 19.1% margin (up 0.3%-points YOY), suggesting that Verisec is executing on its path to profitability. By end-Q3, its cash position was SEK11m (with a SEK25m unutilised credit facility) and it has had an annual FCF burn rate of cSEK25m–30m on average in 2016–2019. The Q3 report supports our view that Verisec is adequately capitalised for the operational business until cash flow breakeven, although any product launch delays could challenge this.

Third consecutive quarter with impressive growth

Figure 1: Q3 2019 results versus expectations

| Key highlights (SEKm, except per share data) | Q3 2019 | | Deviation | Deviation | Q3 2018 | DNBe |
|---|--------------|----------------|------------------|------------------|----------------|--------------|
| | Actual | DNB | DNB (%) | DNB, Abs | Actual | 2019e |
| Net sales | 23.8 | 24.7 | -4% | -1 | 19.8 | 104.3 |
| Gross profit | 14.9 | 15.7 | -5% | -1 | 12.6 | 68.7 |
| Margin | 62.9% | 63.5% | -0.6pp | | 63.8% | 65.9% |
| EBIT adjusted | -4.5 | -4.8 | 5% | 0 | -4.1 | -25.1 |
| Margin | -19.1% | -19.4% | 0.3pp | | -20.7% | -24.1% |
| One-offs | | 0.0 | | | 0.0 | 0.0 |
| EBIT | -4.5 | -4.8 | 5% | 0 | -4.1 | -25.1 |
| Margin | -19.1% | -19.4% | 0.3pp | | -20.7% | -24.1% |
| EPS adj. | -0.44 | -1.03 | 57% | 0.59 | -0.88 | -4.49 |
| Free cash flow | -2.6 | 5.6 | -147% | -8 | -6.2 | -26.1 |
| Net cash (-) or debt (+) | -14.0 | -14.1 | 0% | 0 | -32.8 | -11.3 |
| Divisions (SEKm) | | Q3 2019 | Deviation | Deviation | Q3 2018 | DNBe |
| | | DNB | DNB (%) | DNB, Abs | Actual | 2019e |
| By product segment | | | | | | |
| Goods | 1.9 | 3.6 | -46% | -2 | 3.2 | 20.7 |
| Services (incl. support) | 21.8 | 20.8 | 5% | 1 | 16.6 | 83.2 |
| Group | 23.8 | 24.7 | -4% | -1 | 19.8 | 104.3 |
| By geography | | | | | | |
| Sw eden | 9.1 | 9.3 | -3% | 0 | 7.8 | 36.8 |
| Europe excl. Sw eden | 8.9 | 9.6 | -8% | -1 | 6.8 | 43.8 |
| Outside Europe | 5.8 | 5.8 | 1% | 0 | 5.3 | 23.7 |
| Group | 23.8 | 24.7 | -4% | -1 | 19.8 | 104.3 |
| Growth | | | | | | |
| Goods | -40% | 13% | -52pp | | -44% | 49% |
| Services (incl. support) | 31% | 25% | 6pp | | 31% | 34% |
| Sw eden | 17% | 20% | -4pp | | 33% | 7% |
| Europe excl. Sw eden | 31% | 42% | -11pp | | -20% | 96% |
| Outside Europe | 10% | 9% | 1pp | | 28% | 21% |
| Group | 19.9% | 24.7% | -5pp | | 7.3% | 41.1% |

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

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Figure 2: Press releases related to Freja eID (April 2017–November 2019)

| Date | Title | Type |
|------------|---|------------------|
| 2017-04-01 | Commercial launch of Freja eID | |
| 2017-06-07 | Sunet - Antagning.se | Service provider |
| 2017-06-14 | Vitec - Boplat Sverige | Service provider |
| 2017-06-28 | Svenska Försäkringsfabriken | Service provider |
| 2017-08-25 | laget.se | Service provider |
| 2018-01-26 | Informal application to make Freja eID + Sweden's official e-ID in eIDAS | |
| 2018-01-31 | Resurs Bank | Service provider |
| 2018-02-16 | PictureMyLife | Service provider |
| 2018-02-19 | Södertälje municipality | Service provider |
| 2018-03-05 | Consid | Partnership |
| 2018-03-07 | Tieto's Public Document Signing | Partnership |
| 2018-03-28 | Svensk e-identitet connects its services to Freja eID | Partnership |
| 2018-04-06 | Nexus Group integrates Freja eID into its login platform | Partnership |
| 2018-05-25 | Curity | Partnership |
| 2018-06-12 | Signicat | Partnership |
| 2018-06-12 | The Swedish Sports Confederation | Partnership |
| 2018-09-06 | Agreement with CGI | Partnership |
| 2018-09-27 | Agreement with Global Identity Integrator (DevCode) | Partnership |
| 2018-10-04 | Vklass | Service provider |
| 2018-11-07 | ATG | Service provider |
| 2018-11-08 | Agreement with one of Sweden's largest pharmacy chains | Service provider |
| 2018-11-23 | Seven authorities and municipalities | Service provider |
| 2018-11-26 | Six Swedish municipalities | Service provider |
| 2018-12-17 | Two authorities | Service provider |
| 2018-12-18 | Four Swedish municipalities | Service provider |
| 2018-12-20 | Agreement with IST Group | Service provider |
| 2018-12-21 | Järfälla municipality | Service provider |
| 2018-12-21 | The Swedish Pensions Agency joins the System of free choice 2017 E-identification | Partnership |
| 2019-01-07 | The Swedish Gambling Authority (Spelpaus.se) | Service provider |
| 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 |
| 2019-10-30 | Launch of Solo Reset - a collaboration with Tieto and Tromb | |

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

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Estimate revisions

Figure 3: Forecast changes (SEKm)

| (SEKm, except per share data) | Old | | | New | | | Change | | |
|--------------------------------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e |
| Group | | | | | | | | | |
| Sales | 106 | 129 | 172 | 108 | 129 | 175 | 1% | 0% | 2% |
| Sales growth | 39.1% | 21.9% | 32.9% | 41.1% | 19.7% | 35.9% | 202bp | -221bp | 304bp |
| Organic | 32.4% | 22.4% | 32.9% | 32.5% | 22.4% | 35.9% | 9bp | 3bp | 304bp |
| Structure | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0bp | 0bp | 0bp |
| Currency | 6.6% | -0.6% | 0.0% | 8.5% | -2.8% | 0.0% | 193bp | -223bp | 0bp |
| Gross profit | 68 | 86 | 122 | 69 | 84 | 122 | 2% | -2% | 0% |
| <i>Gross margin</i> | 63.7% | 66.3% | 71.2% | 63.8% | 64.9% | 69.6% | 15bp | -136bp | -161bp |
| Capitalised development costs | 6 | 9 | 9 | 6 | 6 | 7 | -13% | -24% | -24% |
| Other external expenses | -34 | -42 | -46 | -33 | -41 | -46 | -2% | -2% | 0% |
| Personnel costs | -58 | -66 | -76 | -56 | -64 | -75 | -3% | -2% | -1% |
| EBITDA | -12 | 1 | 28 | -12 | 3 | 34 | -5% | 116% | 19% |
| Depreciation and amortisation | -12 | -14 | -19 | -13 | -18 | -26 | 13% | 22% | 36% |
| EBIT | -24 | -13 | 9 | -25 | -15 | 7 | 4% | 14% | -17% |
| <i>EBIT margin</i> | -22.8% | -10.3% | 5.3% | -23.3% | -11.8% | 4.3% | -53bp | -151bp | -97bp |
| One-offs | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| EBIT adj. | -24 | -13 | 9 | -25 | -15 | 7 | 4% | 14% | -17% |
| <i>EBIT adj. margin</i> | -22.8% | -10.3% | 5.3% | -23.3% | -11.8% | 4.3% | -53bp | -151bp | -97bp |
| Capitalized development costs | -2 | -2 | -3 | -1 | -2 | -2 | -15% | -16% | -15% |
| EBIT adj. for cap. dev. costs | -26 | -16 | 6 | -27 | -17 | 5 | 3% | 10% | -18% |
| <i>EBIT adj. CDC margin</i> | -24.5% | -12.0% | 3.5% | -24.7% | -13.3% | 2.9% | -26bp | -125bp | -69bp |
| Net financial items | -1 | -1 | -1 | -1 | -1 | -1 | 13% | 15% | 19% |
| Pre-tax profit | -25 | -14 | 8 | -26 | -16 | 6 | 4% | 14% | -21% |
| Tax | 1 | 0 | 0 | 4 | 0 | 0 | 242% | -315% | |
| <i>Tax rate</i> | 4.7% | -0.9% | 0.0% | 15.5% | 1.7% | -0.9% | 1078bp | 256bp | -91bp |
| Net profit | -24 | -14 | 8 | -22 | -16 | 7 | -8% | 11% | -20% |
| EPS adjusted | -4.87 | -2.88 | 1.68 | -4.49 | -3.21 | 1.35 | -8% | 11% | -20% |
| EPS | -4.85 | -2.88 | 1.68 | -4.47 | -3.21 | 1.35 | -8% | 11% | -20% |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | |
| Sales by product area | | | | | | | | | |
| Goods | 23 | 16 | 16 | 21 | 13 | 14 | -8% | -15% | -15% |
| Services (incl. support) | 80 | 90 | 94 | 83 | 94 | 100 | 3% | 4% | 6% |
| Freja eID | 2 | 24 | 61 | 1 | 22 | 61 | -50% | -7% | 0% |
| Group Total | 106 | 129 | 172 | 108 | 129 | 175 | 1% | 0% | 2% |

Source: DNB Markets

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Figure 4: Annual income statement

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Sales | 40.4 | 56.0 | 51.5 | 60.2 | 60.7 | 61.1 | 76.3 | 107.6 | 128.7 | 175.0 |
| COGS | -11.6 | -14.0 | -18.3 | -22.9 | -19.6 | -20.6 | -28.2 | -38.9 | -45.1 | -53.2 |
| Gross profit | 28.8 | 42.0 | 33.2 | 37.3 | 41.1 | 40.4 | 48.1 | 68.7 | 83.6 | 121.8 |
| Capitalised development costs | 0.0 | 1.3 | 3.7 | 2.9 | 1.5 | 4.7 | 4.9 | 5.6 | 6.5 | 6.7 |
| Other external expenses | -8.3 | -14.8 | -14.5 | -21.5 | -26.6 | -26.4 | -30.1 | -32.9 | -41.2 | -46.0 |
| Personnel costs | -13.6 | -17.7 | -19.5 | -25.8 | -31.2 | -36.3 | -44.4 | -56.5 | -64.1 | -75.0 |
| EBITDA | 7.0 | 10.8 | 2.9 | -7.1 | -15.2 | -17.6 | -21.5 | -11.6 | 2.5 | 33.8 |
| Depreciation and Amortisation | -0.6 | -1.0 | -1.4 | -2.5 | -3.4 | -4.8 | -6.9 | -13.5 | -17.7 | -26.3 |
| EBIT | 6.4 | 9.7 | 1.5 | -9.6 | -18.6 | -22.4 | -28.4 | -25.1 | -15.2 | 7.5 |
| <i>EBIT margin</i> | <i>15.8%</i> | <i>17.4%</i> | <i>3.0%</i> | <i>-15.9%</i> | <i>-30.6%</i> | <i>-36.7%</i> | <i>-37.2%</i> | <i>-23.3%</i> | <i>-11.8%</i> | <i>4.3%</i> |
| One-offs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT adj. | 6.4 | 9.7 | 1.5 | -9.6 | -18.6 | -22.4 | -28.4 | -25.1 | -15.2 | 7.5 |
| <i>EBIT adj. margin</i> | <i>15.8%</i> | <i>17.4%</i> | <i>3.0%</i> | <i>-15.9%</i> | <i>-30.6%</i> | <i>-36.7%</i> | <i>-37.2%</i> | <i>-23.3%</i> | <i>-11.8%</i> | <i>4.3%</i> |
| Net CDC | 0.0 | -1.2 | -3.0 | -1.4 | 0.4 | -2.1 | -1.5 | -1.5 | -1.9 | -2.5 |
| EBIT adj. for cap. dev. costs | 6.4 | 8.5 | -1.5 | -11.0 | -18.2 | -24.5 | -29.9 | -26.6 | -17.1 | 5.0 |
| <i>EBIT adj. CDC margin</i> | <i>15.8%</i> | <i>15.3%</i> | <i>-2.9%</i> | <i>-18.3%</i> | <i>-30.0%</i> | <i>-40.1%</i> | <i>-39.2%</i> | <i>-24.7%</i> | <i>-13.3%</i> | <i>2.9%</i> |
| Net financial items | -0.2 | -0.2 | 0.3 | -0.1 | 0.5 | -0.2 | -0.6 | -0.7 | -0.7 | -1.0 |
| Pre-tax profit | 6.2 | 9.6 | 1.8 | -9.7 | -18.1 | -22.6 | -29.0 | -25.8 | -15.9 | 6.5 |
| Tax | -1.7 | -0.6 | -0.5 | 1.6 | -0.3 | -0.2 | -0.4 | 4.0 | 0.3 | 0.1 |
| Net profit | 4.5 | 9.0 | 1.3 | -8.1 | -18.4 | -22.8 | -29.4 | -21.8 | -15.6 | 6.6 |
| Gross margin | 71.4% | 75.0% | 64.5% | 61.9% | 67.8% | 66.2% | 63.1% | 63.8% | 64.9% | 69.6% |
| EBITDA margin | 17.2% | 19.3% | 5.6% | -11.9% | -25.0% | -28.8% | -28.2% | -10.8% | 2.0% | 19.3% |
| Adj. EBIT margin | 15.8% | 17.4% | 3.0% | -15.9% | -30.6% | -36.7% | -37.2% | -23.3% | -11.8% | 4.3% |
| Freja eID (DNBe) | | | | | | | | | | |
| Number of relying parties | | | | | | 0 | 55 | 131 | 251 | 371 |
| Number of users | | | | | | 0 | 0 | 40,000 | 220,000 | 420,000 |
| Sales by product area | | | | | | | | | | |
| Goods | 0.0 | 0.0 | 0.0 | 25.4 | 17.2 | 12.8 | 14.0 | 20.7 | 13.2 | 13.9 |
| Services (incl. support) | 0.0 | 0.0 | 0.0 | 34.4 | 42.9 | 48.2 | 62.3 | 83.2 | 93.8 | 100.3 |
| Freja eID | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 22.2 | 61.2 |
| Group Total | 40.4 | 56.0 | 51.5 | 60.2 | 60.7 | 61.1 | 76.3 | 107.6 | 128.7 | 175.0 |
| Sales growth by product area | | | | | | | | | | |
| Goods | | | | | -32% | -26% | 9% | 49% | -36% | 5% |
| Services (incl. support) | | | | | 25% | 12% | 29% | 34% | 13% | 7% |
| Freja eID | | | | | | | | | 2655% | 176% |
| Group Total | | 35% | -6% | 17% | 0% | 2% | 25% | 37% | 23% | 36% |
| Sales growth, of which | | | | | | | | | | |
| Organic | | 35% | -8% | 8% | 2% | 1% | 21% | 33% | 22% | 36% |
| Structure | | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Currency | | 0% | 2% | 8% | -1% | 1% | 4% | 9% | -3% | 0% |
| Total growth | | 35% | -6% | 17% | 0% | 2% | 25% | 41% | 20% | 36% |

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

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Figure 5: Quarterly income statement

| (SEKm) | Q1'18 | Q2'18 | Q3'18 | Q4'18 | Q1'19 | Q2'19 | Q3'19 | Q4'19e | Q1'20e | Q2'20e | Q3'20e | Q4'20e |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|---------------|
| Sales | 17.8 | 19.3 | 19.8 | 19.5 | 28.1 | 29.8 | 25.5 | 24.2 | 26.5 | 33.3 | 32.7 | 36.2 |
| COGS | -6.6 | -8.1 | -7.2 | -6.4 | -10.6 | -11.3 | -8.8 | -8.2 | -9.5 | -12.8 | -11.8 | -11.0 |
| Gross profit | 11.2 | 11.2 | 12.6 | 13.1 | 17.5 | 18.5 | 16.7 | 16.0 | 17.0 | 20.5 | 20.9 | 25.2 |
| Capitalised development costs | 0.9 | 1.4 | 1.3 | 1.3 | 1.0 | 2.0 | 1.1 | 1.5 | 0.8 | 1.6 | 1.5 | 2.6 |
| Other external expenses | -8.4 | -8.0 | -6.1 | -7.7 | -7.2 | -10.6 | -4.9 | -10.2 | -8.8 | -11.9 | -5.2 | -15.3 |
| Personnel costs | -10.9 | -11.5 | -10.2 | -11.8 | -13.9 | -14.3 | -13.9 | -14.3 | -15.0 | -15.7 | -16.4 | -17.0 |
| EBITDA | -7.1 | -6.9 | -2.4 | -5.2 | -2.6 | -4.5 | -1.1 | -3.5 | -2.9 | -2.4 | 6.5 | 1.3 |
| Depreciation and Amortisation | -1.6 | -1.6 | -1.7 | -1.9 | -3.1 | -3.4 | -3.5 | -3.5 | -3.1 | -3.2 | -5.6 | -5.8 |
| EBIT | -8.7 | -8.5 | -4.1 | -7.1 | -5.7 | -7.9 | -4.5 | -7.0 | -6.0 | -5.6 | 0.9 | -4.5 |
| <i>EBIT margin</i> | <i>-49.0%</i> | <i>-44.3%</i> | <i>-20.7%</i> | <i>-36.4%</i> | <i>-20.3%</i> | <i>-26.4%</i> | <i>-17.8%</i> | <i>-28.9%</i> | <i>-22.5%</i> | <i>-16.8%</i> | <i>2.7%</i> | <i>-12.5%</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 |
| EBIT adj. | -8.7 | -8.5 | -4.1 | -7.1 | -5.7 | -7.9 | -4.5 | -7.0 | -6.0 | -5.6 | 0.9 | -4.5 |
| <i>EBIT adj. margin</i> | <i>-49.0%</i> | <i>-44.3%</i> | <i>-20.7%</i> | <i>-36.4%</i> | <i>-20.3%</i> | <i>-26.4%</i> | <i>-17.8%</i> | <i>-28.9%</i> | <i>-22.5%</i> | <i>-16.8%</i> | <i>2.7%</i> | <i>-12.5%</i> |
| Net CDC | -0.1 | -0.6 | -0.4 | -0.4 | 0.0 | -1.0 | -0.1 | -0.4 | 0.0 | -1.2 | -0.1 | -0.6 |
| EBIT adj. for cap. dev. costs | -8.8 | -9.1 | -4.5 | -7.5 | -5.7 | -8.9 | -4.6 | -7.4 | -6.0 | -6.8 | 0.7 | -5.1 |
| <i>EBIT adj. CDC margin</i> | <i>-49.6%</i> | <i>-47.4%</i> | <i>-22.7%</i> | <i>-38.5%</i> | <i>-20.3%</i> | <i>-29.7%</i> | <i>-18.2%</i> | <i>-30.5%</i> | <i>-22.5%</i> | <i>-20.3%</i> | <i>2.2%</i> | <i>-14.0%</i> |
| Net financial items | -0.3 | -0.3 | 0.0 | 0.0 | -0.1 | -0.2 | -0.2 | -0.1 | -0.1 | -0.2 | -0.2 | -0.2 |
| Pre-tax profit | -9.0 | -8.8 | -4.1 | -7.1 | -5.8 | -8.0 | -4.8 | -7.1 | -6.1 | -5.7 | 0.7 | -4.7 |
| Tax | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 1.4 | 2.6 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 |
| Net profit | -9.1 | -8.9 | -4.2 | -7.2 | -6.0 | -6.7 | -2.2 | -7.0 | -6.0 | -5.7 | 0.7 | -4.7 |
| Gross margin | 63.0% | 58.1% | 63.8% | 67.2% | 62.3% | 62.0% | 65.4% | 66.2% | 64.1% | 61.5% | 63.9% | 69.6% |
| EBITDA margin | -40.2% | -35.8% | -12.0% | -26.5% | -9.1% | -15.0% | -4.2% | -14.7% | -10.9% | -7.1% | 19.8% | 3.6% |
| Adj. EBIT margin | -49.0% | -44.3% | -20.7% | -36.4% | -20.3% | -26.4% | -17.8% | -28.9% | -22.5% | -16.8% | 2.7% | -12.5% |
| Freja eID (DNBe) | | | | | | | | | | | | |
| Number of relying parties | 8 | 18 | 25 | 55 | 73 | 91 | 111 | 131 | 161 | 191 | 221 | 251 |
| Number of users | 0 | 0 | 0 | 0 | 5,000 | 10,000 | 15,000 | 40,000 | 70,000 | 120,000 | 170,000 | 220,000 |
| Sales by product area | | | | | | | | | | | | |
| Goods | 3.3 | 4.8 | 3.2 | 2.6 | 10.0 | 6.1 | 1.9 | 2.7 | 5.0 | 4.0 | 1.4 | 3.0 |
| Services (incl. support) | 14.4 | 14.4 | 16.6 | 16.9 | 18.2 | 22.1 | 21.8 | 21.1 | 20.9 | 24.8 | 24.4 | 23.7 |
| Freja eID | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.3 | 0.3 | 0.7 | 4.8 | 7.2 | 9.6 |
| Group Total | 17.8 | 19.3 | 19.8 | 19.5 | 28.1 | 29.8 | 25.5 | 24.2 | 26.5 | 33.3 | 32.7 | 36.2 |
| Sales growth by product area | | | | | | | | | | | | |
| Goods | 22% | 296% | -44% | -17% | 199% | 27% | -40% | 5% | -50% | -35% | -30% | 8% |
| Services (incl. support) | 26% | 28% | 31% | 31% | 26% | 54% | 31% | 25% | 15% | 12% | 12% | 12% |
| Freja eID | | | | | | | | | | 2700% | 2030% | 3116% |
| Group Total | 25% | 55% | 7% | 22% | 59% | 47% | 20% | 24% | -6% | 18% | 37% | 50% |
| Sales growth, of which | | | | | | | | | | | | |
| Organic | 24% | 51% | 1% | 17% | 52% | 43% | 17% | 20% | -8% | 17% | 37% | 50% |
| Structure | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Currency | 0% | 4% | 6% | 5% | 7% | 4% | 3% | 3% | 2% | 1% | 1% | 0% |
| Total growth | 25% | 55% | 7% | 22% | 59% | 47% | 20% | 24% | -6% | 18% | 37% | 50% |

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

Figure 6: Verisec valuation versus listed peers

| | Mkt. cap. | P/E (x) | | | EV/EBIT (x) | | | EV/sales (x) | | | Gross margin | EBIT margin | FCF margin | CAGR 2019–2021e (%) | | |
|----------------------------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|------------|------------|--------------|--------------|--------------|---------------------|-------------|-------------|
| | (SEKbn) | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e | | | | Sales | EBIT | EPS |
| Verisec (DNBe) | 0.4 | n.a. | n.a. | 66.4 | n.a. | n.a. | 55.9 | 3.9 | 3.3 | 2.4 | 65.9 | -23.3 | -24.2 | 28 | n.a. | n.a. |
| Premium/discount | | n.a. | n.a. | 96% | n.a. | n.a. | 162% | -50% | -48% | -55% | -10.4 | -40.6 | -37.4 | 8 | n.a. | n.a. |
| Nordic fast-growing peers | | | | | | | | | | | | | | | | |
| Admicom | 2.7 | 48.8 | 38.3 | 28.6 | n.a. | n.a. | n.a. | 15.6 | 11.9 | 9.5 | n.a. | 41.4 | 38.2 | 28 | 31 | 31 |
| Evolution Gaming | 42.4 | 28.1 | 23.5 | 20.4 | 25.4 | 20.7 | 18.0 | 10.8 | 8.8 | 7.6 | n.a. | 42.3 | 30.1 | 19 | 17 | 17 |
| HMS Networks | 6.5 | 33.6 | 29.0 | 24.3 | 25.6 | 21.6 | 17.8 | 4.5 | 4.2 | 3.8 | 61.1 | 17.3 | 13.0 | 9 | 17 | 18 |
| Invisio Communications | 4.2 | 59.1 | 36.6 | 27.9 | 44.7 | 27.7 | 20.8 | 9.4 | 7.1 | 5.9 | 60.8 | 20.9 | 13.3 | 26 | 45 | 45 |
| Lime Technologies | 1.8 | 39.7 | 31.0 | 24.1 | 37.0 | 28.2 | 21.4 | 6.6 | 5.5 | 4.8 | n.a. | 17.6 | 13.4 | 17 | 29 | 28 |
| Sectra | 12.6 | 66.3 | 63.5 | 52.1 | 50.7 | 47.5 | 39.4 | 8.8 | 7.6 | 7.0 | 86.0 | 17.3 | n.a. | 12 | 13 | 13 |
| Storytel | 6.6 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 3.4 | 2.7 | 2.2 | 37.6 | -19.0 | -16.6 | 24 | -7 | -8 |
| Average | | 45.9 | 37.0 | 29.6 | 36.7 | 29.1 | 23.5 | 8.4 | 6.8 | 5.8 | 61.4 | 19.7 | 15.2 | 19 | 21 | 21 |
| Median | | 44.3 | 33.8 | 26.1 | 37.0 | 27.7 | 20.8 | 8.8 | 7.1 | 5.9 | 61.0 | 17.6 | 13.3 | 19 | 17 | 18 |
| Security & SaaS peers | | | | | | | | | | | | | | | | |
| Okta | 120.8 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 31.7 | 21.6 | 16.9 | 74.7 | -13.8 | -1.8 | 37 | -22 | -34 |
| Sailpoint | 19.3 | n.a. | 90.2 | 83.2 | n.a. | n.a. | n.a. | 7.0 | 6.0 | 5.3 | 79.9 | n.a. | 5.4 | 15 | n.a. | 40 |
| Proofpoint | 63.2 | 67.1 | 58.5 | 45.9 | 51.4 | 46.7 | n.a. | 7.1 | 5.9 | 5.0 | 78.7 | 13.6 | 22.9 | 19 | 28 | 21 |
| DocuSign | 113.4 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 16.7 | 12.2 | 9.8 | 79.9 | 0.2 | 5.7 | 31 | 530 | 167 |
| Qualys | 31.8 | 37.8 | 34.8 | 29.9 | 27.8 | 24.5 | 20.7 | 9.1 | 8.0 | 7.0 | 80.3 | 35.1 | 39.5 | 14 | 11 | 12 |
| Rapid7 | 24.5 | n.a. | n.a. | 79.8 | n.a. | n.a. | 61.4 | 7.9 | 6.4 | 5.3 | 74.7 | 0.9 | -9.2 | 22 | 257 | 292 |
| Palo Alto Networks | 220.5 | 43.7 | 46.5 | 38.0 | 32.3 | 31.9 | 23.0 | 7.4 | 6.2 | 5.2 | 76.5 | 22.0 | 32.8 | 20 | 13 | 7 |
| Mimecast | 23.5 | n.a. | 89.5 | 61.5 | 89.7 | 55.0 | 34.3 | 7.3 | 5.9 | 4.9 | 76.0 | 7.8 | 10.7 | 22 | 57 | 56 |
| Average | | 49.5 | 63.9 | 56.4 | 50.3 | 39.5 | 34.8 | 11.8 | 9.0 | 7.4 | 77.6 | 9.4 | 13.2 | 23 | 125 | 70 |
| Median | | 43.7 | 58.5 | 53.7 | 41.9 | 39.3 | 28.6 | 7.7 | 6.3 | 5.3 | 77.6 | 7.8 | 8.2 | 21 | 28 | 31 |
| Average | | 47.1 | 49.2 | 43.0 | 42.7 | 33.8 | 28.5 | 10.2 | 8.0 | 6.7 | 72.2 | 14.5 | 14.1 | 21 | 73 | 47 |
| Median | | 43.7 | 38.3 | 33.9 | 37.0 | 28.2 | 21.4 | 7.9 | 6.4 | 5.3 | 76.3 | 17.3 | 13.1 | 20 | 23 | 21 |

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

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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 that we value at SEK1.2bn provides a good start, and we estimate the Nordic mobile eID market could be worth SEK3bn in 2019, 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 107 (89 relying parties, 18 partners). We consider it positive that Freja eID's relying parties have grown to 107 with no existing 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 a discriminatory based on users' identity related data); and 2) it does not have the 'Svensk e-legitimation' quality mark.

Positioned for >30% sales CAGR and improving margins

Business model transition has allowed for revenues stable but elevated opex, yet in recent quarters Verisec has started to deliver on its path to profitability. We note solid progress in new adding relying parties in recent quarters, rapidly expanding the value for new users to the Freja eID platform. We expect a >30% 2018–2021 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. Our FCF analysis suggests it needs to generate an EBIT margin of c5% in 2021e to reach cash breakeven.

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 that 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 forecast a >30% 2018–2021 sales CAGR and healthy operational leverage will allow for EBIT breakeven by 2021

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 on 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 end-2019; this should prompt it to intensify its efforts to drive platform user growth. Yet, if by end-2019 and into H1 2020 it does not report of 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 toughen

Lacklustre profitability and FCF generation increases the risk of recapitalisation

As of end-Q3 2019, Verisec's cash position was SEK10m (net cash of SEK36m including the SEK25m credit facility) and with an annual FCF burn rate of cSEK25m–30m on average in 2016–2019, investor concerns about the balance sheet could increase. We estimate Verisec is adequately capitalised for the operational business EBIT and cash flow breakeven by 2021. Yet, as we forecast negative cumulative FCF of SEK32m for 2019–2020, a delay would likely mean more funding is needed. That said, Verisec's track record of being a profitable high-growth company offers some relief (30%+ sales growth, 15–20% EBIT margin before entering the investment phase for Freja eID).

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 12-month forward EV/Sales of 3.3x. In such a scenario (with the risk of recapitalisation rising), our bear-case fair value is SEK50–60/share.

Bear-case fair value of SEK50–60/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 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 security breach or a 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

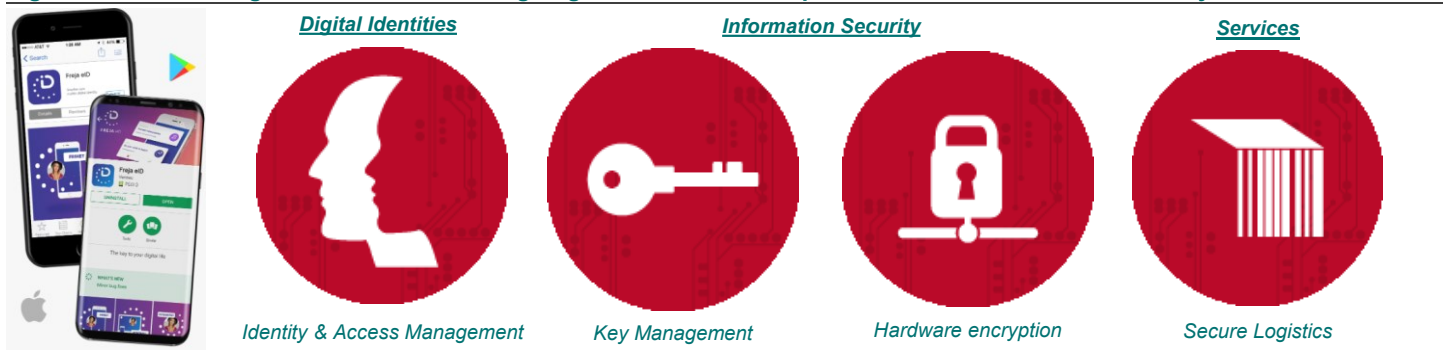
An introduction to Verisec

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 7: Verisec's digital identities are in ongoing transition from on-premises solutions towards Identity-as-a-Service



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

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

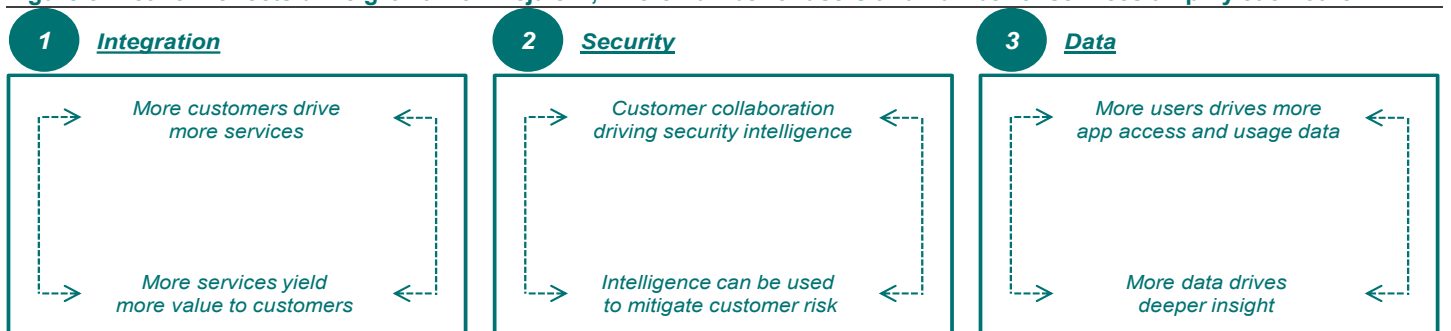
eIDs allow citizens to securely authenticate themselves to online services as proof of identification

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

There are two main growth drivers for Freja eID: 1) integrated service providers, extending the value to users; and 2) users attracting new service providers. As these factors amplify each other, it creates accelerating competitive advantages that are hard to replicate. Thus, Verisec's focus has been to build a relevant base of service providers with a broad user base and high interaction, now at 100+ (90+ relying parties, 13 partners).

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

Figure 8: Network effects drive growth for Freja eID, where number of users and number of services amplify each other



Source: DNB Markets

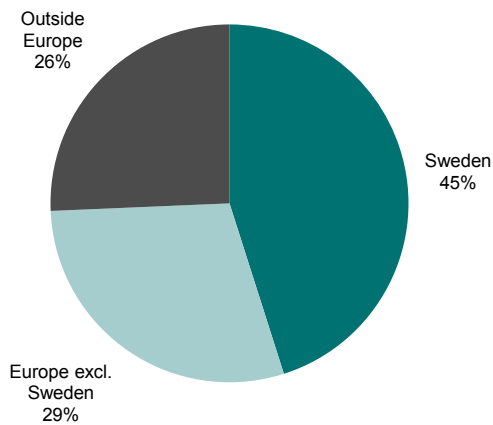
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The company's partners include system integrators such as Tieto, Svensk e-identitet, Curity and CGI, with which Verisec's potential customers in the private and public sectors collaborate. Verisec's geographical sales mix still reflects its legacy products of internet bank security tokens and third-party hardware security modules, with 45% of 2018 sales from Sweden, 29% from elsewhere in Europe, and 26% 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...

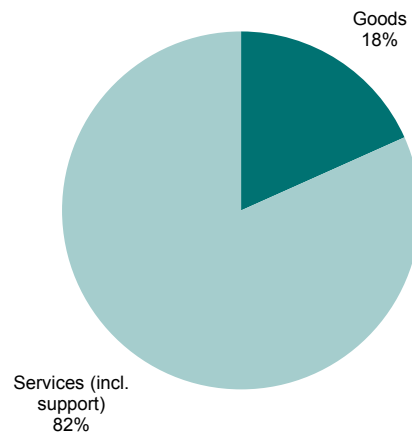
...and we see opportunities elsewhere in the Nordics

Figure 9: Geographical sales split, 2018



Source: Verisec

Figure 10: Sales by business model, 2018



Source: Verisec

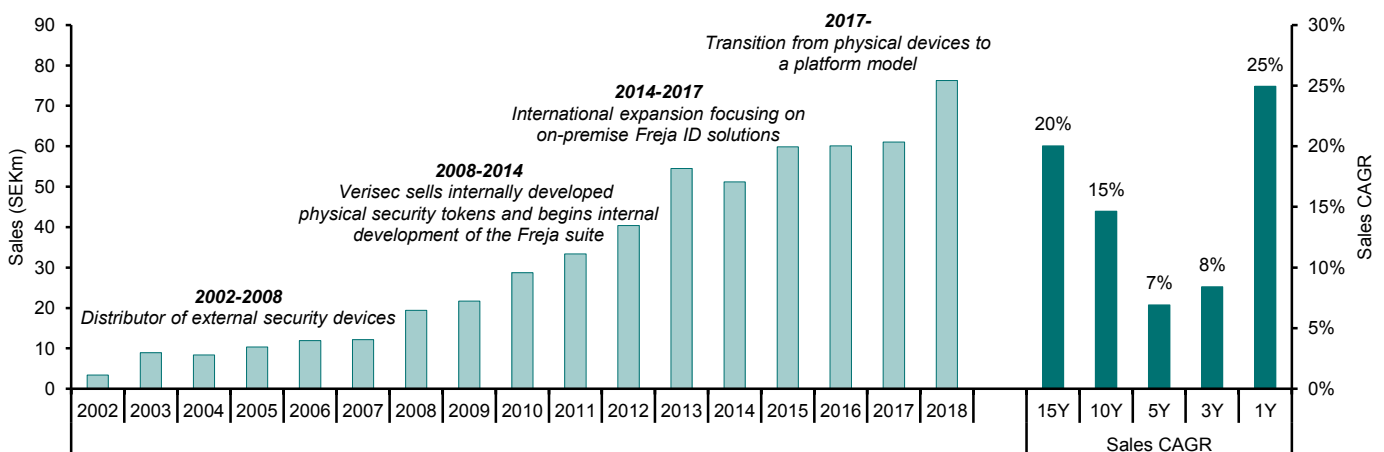
The Freja eID platform is free for users (consumer) and accessed via a mobile app. It is online service providers (businesses, municipalities, authorities, banks, online payment processes etc) where users log in, sign, or approve that are Verisec's customers, foremost via a transaction-based business 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 2018 net sales of SEK76m (past 15-year sales CAGR of 20%), with a stable gross margin (60%+) but an operating loss of SEK28m (-37% EBIT margin), as management is investing into 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 11: Verisec's 17-year footprint in the IT security market builds trust



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

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Forecast changes – P&L

| (SEKm) | New | | | Old | | | Change | | |
|------------------------------|-------|-------|-------|-------|-------|--------|--------|-------|-------|
| | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e |
| Revenues | 108 | 129 | 175 | 106 | 129 | 172 | 2 | 0 | 3 |
| Cost of sales | -39 | -45 | -53 | -39 | -44 | -49 | 0 | -2 | -4 |
| Gross profit | 69 | 84 | 122 | 68 | 86 | 122 | 1 | -2 | -1 |
| Operating expenses | -84 | -99 | -114 | -85 | -99 | -113 | 1 | 0 | -1 |
| EBITDA | -12 | 3 | 34 | -12 | 1 | 28 | 1 | 1 | 5 |
| EBITDA adj | -12 | 3 | 34 | -12 | 1 | 28 | 1 | 1 | 5 |
| EBITDA margin (%) | nm | 2.0 | 19.3 | -11.5 | 0.9 | 16.6 | nm | 1.1 | 2.8 |
| Depreciation | -13 | -18 | -26 | -12 | -14 | -19 | -2 | -3 | -7 |
| EBIT | -25 | -15 | 7 | -24 | -13 | 9 | -1 | -2 | -2 |
| EBIT adj | -25 | -15 | 7 | -24 | -13 | 9 | -1 | -2 | -2 |
| Net interest | -1 | -1 | -1 | -1 | -1 | -1 | 0 | 0 | 0 |
| Net financial items | -1 | -1 | -1 | -1 | -1 | -1 | 0 | 0 | 0 |
| PBT | -26 | -16 | 6 | -25 | -14 | 8 | -1 | -2 | -2 |
| Taxes | 4 | 0 | 0 | 1 | 0 | 0 | 3 | 0 | 0 |
| Net profit | -22 | -16 | 7 | -24 | -14 | 8 | 2 | -2 | -2 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -22 | -16 | 7 | -24 | -14 | 8 | 2 | -2 | -2 |
| <i>Per share data (SEK)</i> | | | | | | | | | |
| EPS | -4.47 | -3.21 | 1.35 | -4.85 | -2.88 | 1.68 | 0.38 | -0.33 | -0.33 |
| EPS adj | -4.49 | -3.21 | 1.35 | -4.87 | -2.88 | 1.68 | 0.38 | -0.33 | -0.33 |
| 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 | 41.1 | 19.7 | 35.9 | 39.1 | 21.9 | 32.9 | 2.0 | -2.2 | 3.0 |
| EBIT adj growth | nm | nm | nm | -14.8 | -45.0 | -167.8 | nm | nm | nm |
| EPS adj growth | nm | nm | nm | -19.2 | -40.8 | -158.3 | nm | nm | nm |
| Avg. number of shares (m) | 5 | 5 | 5 | 5 | 5 | 5 | 0 | 0 | 0 |
| Capex | -13 | -12 | -19 | -11 | -11 | -17 | -2 | -1 | -1 |
| OpFCF | -24 | -10 | 15 | -23 | -10 | 11 | -1 | 0 | 4 |
| Working capital | -18 | -22 | -19 | -22 | -33 | -42 | 4 | 11 | 23 |
| NIBD adj | -11 | -5 | -17 | -12 | -13 | -32 | 1 | 8 | 16 |

Source: DNB Markets

Forecast changes – By segment and assumptions

| (SEKm) | New | | | Old | | | Change | | |
|--------------------------|-------|-------|-------|-------|-------|-------|--------|-------|-------|
| | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e | 2019e | 2020e | 2021e |
| Revenue | | | | | | | | | |
| Goods | 21 | 13 | 14 | 23 | 16 | 16 | -2 | -2 | -2 |
| Services (incl. support) | 83 | 94 | 100 | 80 | 90 | 94 | 3 | 4 | 6 |
| Freja eID | 1 | 22 | 61 | 2 | 24 | 61 | -1 | -2 | 0 |
| Assumptions | | | | | | | | | |
| Revenue org. % YOY | 32.54 | 22.44 | 35.92 | 32.45 | 22.41 | 32.88 | 0.09 | 0.03 | 3.04 |
| Structure impact % YOY | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Currency impact % YOY | 8.54 | -2.79 | 0.00 | 6.61 | -0.56 | 0.00 | 1.93 | -2.23 | 0.00 |

Source: DNB Markets

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Quarterly numbers

| (SEKm) | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019e | Q1 2020e | Q2 2020e | Q3 2020e | Q4 2020e |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
| Revenues | 19 | 20 | 20 | 28 | 30 | 26 | 24 | 27 | 33 | 33 | 36 |
| Cost of sales | -8 | -7 | -6 | -11 | -11 | -9 | -8 | -10 | -13 | -12 | -11 |
| Gross profit | 11 | 13 | 13 | 18 | 18 | 17 | 16 | 17 | 20 | 21 | 25 |
| Operating expenses | -18 | -15 | -18 | -20 | -23 | -18 | -23 | -23 | -26 | -20 | -30 |
| EBITDA | -7 | -2 | -5 | -3 | -4 | -1 | -4 | -3 | -2 | 6 | 1 |
| Depreciation | -2 | -2 | -2 | -3 | -3 | -3 | -3 | -3 | -3 | -6 | -6 |
| EBIT | -9 | -4 | -7 | -6 | -8 | -5 | -7 | -6 | -6 | 1 | -5 |
| Net interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net financial items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PBT | -9 | -4 | -7 | -6 | -8 | -5 | -7 | -6 | -6 | 1 | -5 |
| Taxes | 0 | 0 | 0 | 0 | 1 | 3 | 0 | 0 | 0 | 0 | 0 |
| Net profit | -9 | -4 | -7 | -6 | -7 | -2 | -7 | -6 | -6 | 1 | -5 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -9 | -4 | -7 | -6 | -7 | -2 | -7 | -6 | -6 | 1 | -5 |
| 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 | -1.82 | -0.86 | -1.49 | -1.22 | -1.37 | -0.44 | -1.44 | -1.23 | -1.16 | 0.14 | -0.96 |
| EPS adj | -1.98 | -0.88 | -1.51 | -1.24 | -1.37 | -0.44 | -1.44 | -1.23 | -1.16 | 0.14 | -0.96 |
| 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 | 8.5 | 2.9 | -1.6 | 44.3 | 5.8 | -14.3 | -5.3 | 9.9 | 25.6 | -2.0 | 10.9 |
| Revenues, YOY growth | 54.7 | 6.9 | 21.4 | 58.4 | 54.5 | 28.7 | 23.9 | -5.7 | 11.9 | 27.9 | 49.9 |
| EPS adj, YOY growth | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |
| Gross margin | 58.1 | 63.8 | 67.2 | 62.3 | 62.0 | 65.4 | 66.2 | 64.1 | 61.5 | 63.9 | 69.6 |
| EBITDA adj margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | 19.8 | 3.6 |
| Depreciation/revenues | -8.5 | -8.7 | -9.9 | -11.2 | -11.4 | -13.7 | -14.3 | -11.6 | -9.6 | -17.2 | -16.1 |
| EBIT adj margin | -44.3 | -20.7 | -36.4 | -20.3 | -26.4 | -17.8 | -28.9 | -22.5 | -16.8 | 2.7 | -12.5 |
| 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) | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019e | Q1 2020e | Q2 2020e | Q3 2020e | Q4 2020e |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|
| EBITDA | -7 | -2 | -5 | -3 | -4 | -1 | -4 | -3 | -2 | 6 | 1 |
| EBITDA adj | -7 | -2 | -5 | -3 | -4 | -1 | -4 | -3 | -2 | 6 | 1 |
| EBIT | -9 | -4 | -7 | -6 | -8 | -5 | -7 | -6 | -6 | 1 | -5 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT adj | -9 | -4 | -7 | -6 | -8 | -5 | -7 | -6 | -6 | 1 | -5 |
| Net profit | -9 | -4 | -7 | -6 | -7 | -2 | -7 | -6 | -6 | 1 | -5 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | -9 | -4 | -7 | -6 | -7 | -2 | -7 | -6 | -6 | 1 | -5 |

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

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Quarterly numbers by segment and assumptions

| (SEKm) | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019e | Q1 2020e | Q2 2020e | Q3 2020e | Q4 2020e |
|--------------------------|---------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|
| Revenue | | | | | | | | | | | |
| Goods | 5 | 3 | 3 | 10 | 6 | 2 | 3 | 5 | 4 | 1 | 3 |
| Services (incl. support) | 14 | 17 | 17 | 18 | 22 | 22 | 21 | 21 | 25 | 24 | 24 |
| Freja eID | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 5 | 7 | 10 |
| Assumptions | | | | | | | | | | | |
| Revenue org. % YOY | 50.68 | 1.12 | 16.97 | 51.96 | 43.18 | 16.76 | 20.46 | -8.07 | 17.14 | 36.79 | 50.18 |
| Structure impact % YOY | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Currency impact % YOY | 3.86 | 6.18 | 4.80 | 6.69 | 4.03 | 3.10 | 3.40 | 2.36 | 0.99 | 0.62 | -0.23 |

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

Annual P&L

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|-------------------------------|-----------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Revenues | 40 | 56 | 52 | 60 | 61 | 61 | 76 | 108 | 129 | 175 |
| Cost of sales | -12 | -14 | -18 | -23 | -20 | -21 | -28 | -39 | -45 | -53 |
| Gross profit | 29 | 42 | 33 | 37 | 41 | 40 | 48 | 69 | 84 | 122 |
| Operating expenses | -22 | -31 | -30 | -44 | -56 | -58 | -70 | -84 | -99 | -114 |
| EBITDA | 7 | 11 | 3 | -7 | -15 | -18 | -22 | -12 | 3 | 34 |
| Depreciation | -1 | -1 | -1 | -2 | -3 | -5 | -7 | -13 | -18 | -26 |
| EBIT | 6 | 10 | 2 | -10 | -19 | -22 | -28 | -25 | -15 | 7 |
| Net interest | 0 | 0 | 0 | 0 | 1 | 0 | -1 | -1 | -1 | -1 |
| Net financial items | 0 | 0 | 0 | 0 | 1 | 0 | -1 | -1 | -1 | -1 |
| PBT | 6 | 10 | 2 | -10 | -18 | -23 | -29 | -26 | -16 | 6 |
| Taxes | -2 | -1 | -1 | 2 | 0 | 0 | 0 | 4 | 0 | 0 |
| Effective tax rate (%) | 27 | 6 | 27 | 16 | -2 | -1 | -1 | 15 | 2 | -1 |
| Net profit | 4 | 9 | 1 | -8 | -18 | -23 | -29 | -22 | -16 | 7 |
| Adjustments to net profit | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | 4 | 9 | 1 | -8 | -18 | -23 | -29 | -22 | -16 | 7 |
| Dividend paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Avg. number of shares | | 4 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| <i>Per share data (SEK)</i> | | | | | | | | | | |
| EPS | | 2.15 | 0.32 | -1.95 | -4.06 | -5.03 | -6.03 | -4.47 | -3.21 | 1.35 |
| EPS adj | | 2.15 | 0.32 | -1.95 | -4.06 | -5.03 | -6.03 | -4.49 | -3.21 | 1.35 |
| 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>Growth and margins (%)</i> | | | | | | | | | | |
| Revenue growth | nm | 38.6 | -7.9 | 16.8 | 0.8 | 0.6 | 24.9 | 41.1 | 19.7 | 35.9 |
| EPS adj growth | nm | nm | -85.1 | nm | nm | nm | nm | nm | nm | nm |
| Gross margin | 71.4 | 75.0 | 64.5 | 61.9 | 67.8 | 66.2 | 63.1 | 63.8 | 64.9 | 69.6 |
| EBITDA margin | 17.2 | 19.3 | 5.6 | nm | nm | nm | nm | nm | 2.0 | 19.3 |
| EBITDA adj margin | 17.2 | 19.3 | 5.6 | nm | nm | nm | nm | nm | 2.0 | 19.3 |
| Depreciation/revenues | -1.4 | -1.9 | -2.6 | -4.1 | -5.6 | -7.9 | -9.0 | -12.5 | -13.8 | -15.0 |
| EBIT margin | 15.8 | 17.4 | 3.0 | nm | nm | nm | nm | nm | nm | 4.3 |
| EBIT adj margin | 15.8 | 17.4 | 3.0 | -15.9 | -30.6 | -36.7 | -37.2 | -23.3 | -11.8 | 4.3 |
| PBT margin | 15.3 | 17.1 | 3.6 | nm | nm | nm | nm | nm | nm | 3.7 |
| Net profit margin | nm | nm | nm | nm | nm | nm | nm | nm | nm | nm |

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

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Adjustments to annual P&L

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|-----------------------------|----------|-----------|----------|------------|------------|------------|------------|------------|------------|-----------|
| EBITDA | 7 | 11 | 3 | -7 | -15 | -18 | -22 | -12 | 3 | 34 |
| EBITDA adj | 7 | 11 | 3 | -7 | -15 | -18 | -22 | -12 | 3 | 34 |
| EBIT | 6 | 10 | 2 | -10 | -19 | -22 | -28 | -25 | -15 | 7 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EBIT adj | 6 | 10 | 2 | -10 | -19 | -22 | -28 | -25 | -15 | 7 |
| Net profit | 4 | 9 | 1 | -8 | -18 | -23 | -29 | -22 | -16 | 7 |
| Other EBIT adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit adj | 4 | 9 | 1 | -8 | -18 | -23 | -29 | -22 | -16 | 7 |
| <i>Per share data (SEK)</i> | | | | | | | | | | |
| EPS | | 2.15 | 0.32 | -1.95 | -4.06 | -5.03 | -6.03 | -4.47 | -3.21 | 1.35 |
| Recommended adjustment | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.02 | 0.00 | 0.00 |
| EPS adj | | 2.15 | 0.32 | -1.95 | -4.06 | -5.03 | -6.03 | -4.49 | -3.21 | 1.35 |

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

Cash flow

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|--|------------|------------|-----------|------------|------------|------------|------------|------------|------------|------------|
| Net profit | 4 | 9 | 1 | -8 | -18 | -23 | -29 | -22 | -16 | 7 |
| Cash flow from operations (CFO) | 8 | 18 | 4 | -8 | -20 | -14 | -20 | -14 | 6 | 30 |
| Capital expenditure | -10 | -1 | -4 | -5 | -4 | -8 | -13 | -13 | -12 | -19 |
| Acquisitions/Investments | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash flow from investing (CFI) | -10 | 2 | -4 | -5 | -4 | -8 | -13 | -13 | -12 | -19 |
| Free cash flow (FCF) | -2 | 20 | 0 | -13 | -24 | -22 | -33 | -26 | -6 | 11 |
| Net change in debt | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 30 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -3 | -10 | -5 | 1 | 0 | 1 | 2 | 0 | 0 | 0 |
| Cash flow from financing (CFF) | 3 | -10 | 30 | 1 | 34 | 1 | 43 | 33 | 0 | 0 |
| Total cash flow (CFO+CFI+CFF) | 1 | 10 | 30 | -12 | 10 | -21 | 10 | 7 | -6 | 11 |
| <i>FCFF calculation</i> | | | | | | | | | | |
| Free cash flow | -2 | 20 | 0 | -13 | -24 | -22 | -33 | -26 | -6 | 11 |
| Less: net interest | 0 | 0 | 0 | 0 | -1 | 0 | 1 | 1 | 1 | 1 |
| Less: tax shields/other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: acquisitions | 0 | -3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less: divestments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Free cash flow to the firm | -1 | 17 | 0 | -13 | -25 | -22 | -33 | -25 | -5 | 12 |
| <i>Growth (%)</i> | | | | | | | | | | |
| CFO | nm | 113.6 | -77.4 | -311.3 | -135.8 | 31.1 | -45.7 | 32.2 | 145.0 | 392.1 |
| CFI | nm | 121.6 | -296.3 | -12.6 | 6.0 | -90.0 | -58.5 | 5.0 | 3.8 | -55.6 |
| FCF | nm | 1409.9 | -100.7 | -8883.6 | -85.4 | 9.2 | -50.5 | 21.4 | 77.1 | 288.3 |
| CFF | nm | -497.4 | 402.3 | -96.8 | 3467.5 | -98.2 | 6809.6 | -24.4 | -100.0 | nm |
| FCFF | nm | 1413.4 | -102.8 | -2703.4 | -90.7 | 11.5 | -48.4 | 21.9 | 79.3 | 332.0 |

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

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Balance sheet

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|
| Assets | 33 | 44 | 70 | 62 | 82 | 64 | 85 | 117 | 129 | 153 |
| Inventories | 1 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Trade receivables | 14 | 14 | 13 | 12 | 17 | 13 | 19 | 24 | 36 | 48 |
| Other receivables | 3 | 10 | 3 | 2 | 2 | 2 | 3 | 3 | 4 | 5 |
| Current financial assets | 2 | 4 | 6 | 9 | 12 | 15 | 13 | 17 | 26 | 34 |
| Cash and cash equivalents | 2 | 12 | 42 | 30 | 40 | 18 | 29 | 36 | 30 | 42 |
| Current assets | 23 | 40 | 64 | 53 | 71 | 49 | 64 | 81 | 98 | 130 |
| Non-current assets | 10 | 3 | 6 | 10 | 11 | 14 | 20 | 37 | 31 | 23 |
| Total assets | 33 | 44 | 70 | 62 | 82 | 64 | 85 | 117 | 129 | 153 |
| Equity and liabilities | 33 | 44 | 70 | 62 | 82 | 64 | 85 | 117 | 129 | 153 |
| Total equity to the parent | 7 | 7 | 38 | 31 | 47 | 24 | 39 | 20 | 5 | 11 |
| Total equity | 7 | 7 | 38 | 31 | 47 | 24 | 39 | 20 | 5 | 11 |
| Trade payables | 3 | 6 | 5 | 7 | 9 | 11 | 7 | 9 | 12 | 13 |
| Other payables and accruals | 16 | 29 | 25 | 24 | 26 | 28 | 39 | 54 | 77 | 94 |
| Total current liabilities | 18 | 35 | 30 | 31 | 35 | 39 | 46 | 62 | 89 | 107 |
| Long-term debt | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 25 | 25 | 25 |
| Deferred tax liabilities | 2 | 2 | 1 | 0 | 0 | 0 | 0 | 5 | 5 | 5 |
| Other non-current liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5 | 5 | 5 |
| Total non-current liabilities | 7 | 2 | 1 | 0 | 0 | 0 | 0 | 35 | 35 | 35 |
| Total liabilities | 25 | 37 | 32 | 31 | 35 | 39 | 46 | 97 | 124 | 142 |
| Total equity and liabilities | 33 | 44 | 70 | 62 | 82 | 64 | 85 | 117 | 129 | 153 |
| <i>Key metrics</i> | | | | | | | | | | |
| Net interest bearing debt | 3 | -12 | -42 | -30 | -40 | -18 | -29 | -11 | -5 | -17 |

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

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Valuation ratios

| (SEKm) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|-------------------------------|--------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| <i>Enterprise value</i> | | | | | | | | | | |
| Share price (SEK) | | | 43.00 | 77.75 | 83.75 | 93.00 | 98.00 | 89.40 | 89.40 | 89.40 |
| Number of shares (m) | | 0.00 | 4.03 | 4.03 | 4.44 | 4.44 | 4.79 | 4.87 | 4.87 | 4.87 |
| Market capitalisation | | | 173 | 314 | 372 | 413 | 469 | 436 | 436 | 436 |
| Net interest bearing debt | 3 | -12 | -42 | -30 | -40 | -18 | -29 | -11 | -5 | -17 |
| Adjustments to NIBD | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net interest bearing debt adj | 3 | -12 | -42 | -30 | -40 | -18 | -29 | -11 | -5 | -17 |
| EV | | | 131 | 283 | 332 | 394 | 440 | 424 | 430 | 419 |
| EV adj | | | 131 | 283 | 332 | 394 | 440 | 424 | 430 | 419 |
| <i>Valuation</i> | | | | | | | | | | |
| EPS | | 2.15 | 0.32 | -1.95 | -4.06 | -5.03 | -6.03 | -4.47 | -3.21 | 1.35 |
| EPS adj | | 2.15 | 0.32 | -1.95 | -4.06 | -5.03 | -6.03 | -4.49 | -3.21 | 1.35 |
| 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 | | | 134.3 | -40.0 | -20.6 | -18.5 | -16.3 | -20.0 | -27.9 | 66.4 |
| P/E adj | | | 134.3 | -40.0 | -20.6 | -18.5 | -16.3 | -19.9 | -27.9 | 66.4 |
| Average ROE | 126.6% | 6.0% | -23.5% | -47.5% | -64.2% | -92.9% | -73.7% | -125.0% | 82.3% | |
| Earnings yield adj | | | 0.7% | -2.5% | -4.8% | -5.4% | -6.1% | -5.0% | -3.6% | 1.5% |
| Dividend yield | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/SALES | | | 2.54 | 4.71 | 5.47 | 6.46 | 5.77 | 3.94 | 3.34 | 2.39 |
| EV/SALES adj | | | 2.54 | 4.71 | 5.47 | 6.46 | 5.77 | 3.94 | 3.34 | 2.39 |
| EV/EBITDA | | | 45.6 | -39.7 | -21.8 | -22.4 | -20.5 | -36.4 | 170.4 | 12.4 |
| EV/EBITDA adj | | | 45.6 | -39.7 | -21.8 | -22.4 | -20.5 | -36.4 | 170.4 | 12.4 |
| EV/EBIT | | | 85.9 | -29.6 | -17.8 | -17.6 | -15.5 | -16.9 | -28.3 | 55.9 |
| EV/EBIT adj | | | 85.9 | -29.6 | -17.8 | -17.6 | -15.5 | -16.9 | -28.3 | 55.9 |
| EV/OpFCF (taxed) | | | -103.5 | -24.0 | -16.9 | -15.2 | -12.7 | -17.5 | -45.1 | 27.9 |

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

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Key accounting ratios

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|-------|
| <i>Profitability (%)</i> | | | | | | | | | | |
| ROA | | 23.7 | 2.4 | -12.3 | -25.5 | -31.4 | -39.6 | -21.5 | -12.7 | 4.7 |
| <i>Return on invested capital (%)</i> | | | | | | | | | | |
| Working capital/revenues | 4.7 | -12.5 | -16.6 | -14.0 | -5.8 | -12.7 | -13.9 | -16.6 | -17.0 | -10.9 |
| <i>Cash flow ratios (%)</i> | | | | | | | | | | |
| FCF/revenues | -3.7 | 35.3 | -0.3 | -21.8 | -40.1 | -36.1 | -43.6 | -24.3 | -4.6 | 6.4 |
| FCF/market capitalisation | | | -0.1 | -4.2 | -6.5 | -5.3 | -7.1 | -6.0 | -1.4 | 2.6 |
| CFO/revenues | 20.5 | 31.6 | 7.8 | -14.0 | -32.8 | -22.5 | -26.2 | -12.6 | 4.7 | 17.1 |
| CFO/market capitalisation | | | 2.3 | -2.7 | -5.4 | -3.3 | -4.3 | -3.1 | 1.4 | 6.9 |
| CFO/capex | 84.6 | 1838.5 | 96.5 | -181.1 | -454.4 | -162.9 | -151.6 | -108.1 | 50.5 | 159.8 |
| CFO/current liabilities | 44.9 | 50.3 | 13.2 | -27.2 | -56.9 | -35.2 | -43.4 | -21.7 | 6.8 | 28.0 |
| Cash conversion ratio | -33.7 | 219.8 | -10.9 | 161.1 | 132.1 | 96.6 | 113.0 | 119.8 | 38.2 | 171.3 |
| Capex/revenues | 24.2 | 1.7 | 8.0 | 7.8 | 7.2 | 13.8 | 17.3 | 11.7 | 9.4 | 10.7 |
| Capex/depreciation | 1724.9 | 91.7 | 306.6 | 190.3 | 129.1 | 176.0 | 192.2 | 93.1 | 68.0 | 71.3 |
| OpFCF margin | -7.0 | 17.6 | -2.5 | -19.6 | -32.3 | -42.5 | -45.5 | -22.5 | -7.4 | 8.6 |
| Total payout ratio | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| <i>Leverage and solvency (x)</i> | | | | | | | | | | |
| EBIT/interest payable | 28.31 | 62.08 | nm | nm | nm | nm | nm | nm | nm | 7.52 |
| Cash coverage | 30.81 | 68.75 | -9.05 | -66.04 | 30.34 | -81.90 | -34.33 | -17.56 | 3.64 | 33.94 |
| Net debt/EBITDA | 0.37 | -1.14 | -14.71 | 4.22 | 2.62 | 1.03 | 1.34 | 0.97 | -2.10 | -0.49 |
| LTD / (LTD + equity (MV)) | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.05 | 0.05 | 0.05 |
| <i>Cash conversion cycle</i> | | | | | | | | | | |
| Inventory turnover days | 24.7 | 12.1 | 10.2 | 8.0 | 19.2 | 21.4 | 14.5 | 10.3 | 9.8 | 6.9 |
| Receivables turnover days | 159.2 | 152.6 | 108.0 | 80.5 | 113.3 | 88.4 | 103.1 | 91.1 | 114.6 | 109.8 |
| Credit period | 86.2 | 162.2 | 103.9 | 104.8 | 164.1 | 187.6 | 87.9 | 80.3 | 97.5 | 87.4 |
| Cash conversion cycle | 97.7 | 2.5 | 14.3 | -16.2 | -31.6 | -77.8 | 29.7 | 21.1 | 26.9 | 29.4 |

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

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Important Information

Company: Verisec
 Coverage by Analyst: Joachim Gunell
 Date: 07-11-2019

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