

ESG insight



VERISEC

Freja eID launch – worth the wait

Quarterly volatility in the legacy business remains high, and while 2019 sales growth of 31% was a clear step forward, Q4 disappointed. With recent impressive ‘relying parties’ announcements, we expect Verisec’s Freja eID offering to become better reflected in the share price. We have lowered our fair value to SEK100–140 (110–150), but this still suggests an attractive investment opportunity in our view.

Q4 takeaways. Q4 sales growth of 1% YOY was below our 24% expectation, with sales of SEK20m (18% below our estimate) as we had underestimated the quarterly lumpiness of the sales cycles in its legacy business. The top line was flat YOY with a 9% YOY increase in opex, resulting in a -47% EBIT margin (we forecast -29%). At end-Q4, its cash position was SEK10m (with a SEK22m unutilised credit facility); and with an annual FCF burn rate of cSEK25m–30m in 2016–2019, our base case assumes Verisec is adequately capitalised as long as Freja eID attracts a user base in 2020. For Freja eID, we believe Verisec has signed ~140 relying parties, in line with our target, of which around a third are offering Freja eID as an identification method, suggesting it is on track to reach 250+ by end-2020 (versus BankID at 600+).

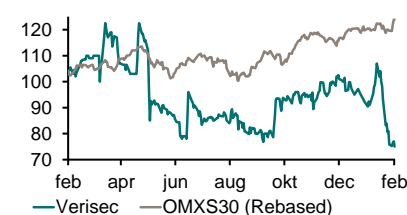
Freja eID news flow has been impressive of late, but two announcements worth highlighting are: 1) the partnership with Microsoft to provide secure login to Microsoft’s public sector cloud service Office 365 (foremost for municipalities), which validates the Freja eID technology; and 2) being chosen as the exclusive eID for users of Studentkortet and the STUK app with ~600,000 active members, which highlights its ambition to build a user base where BankID is not as strong (target audience aged 13–25), providing a solid platform for user base growth in 2020.

Fair value lowered to SEK100–140/share (110–150), suggesting we see an attractive investment opportunity trading at a 2020e EV/Sales of 3.2x (30% discount to its historical average). We consider Freja eID’s user base growth a potential swing factor on its valuation, as we forecast a 30% sales CAGR until 2022e. Still, the discount to peers and its own historical average will likely remain until management starts disclosing Freja eID sales or provides proof-points of user updates in 2020.

Year-end Dec	2016	2017	2018	2019	2020e	2021e	2022e
Revenue (SEKm)	61	61	76	104	119	182	232
EBITDA adj (SEKm)	-15	-18	-22	-14	0	32	48
EBIT adj (SEKm)	-19	-22	-28	-27	-18	8	28
PTP (SEKm)	-18	-23	-29	-28	-19	7	26
EPS rep (SEK)	-4.06	-5.03	-6.03	-5.05	-3.39	1.45	5.32
EPS adj (SEK)	-4.06	-5.03	-6.03	-5.07	-3.39	1.45	5.32
DPS (SEK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	0.8	0.6	24.9	36.2	14.9	52.3	27.6
EBITDA growth adj (%)	nm	nm	nm	nm	nm	nm	51.1
EPS growth adj (%)	nm	nm	nm	nm	nm	nm	267.4
EBITDA margin adj (%)	nm	nm	nm	nm	nm	17.4	20.6
EV/Sales adj (x)	5.47	6.46	5.77	4.44	3.17	2.03	1.49
EV/EBITDA adj (x)	nm	nm	nm	nm	nm	11.6	7.2
EV/EBIT adj (x)	nm	nm	nm	nm	nm	45.5	12.4
P/E adj (x)	nm	nm	nm	nm	nm	51.8	14.1
ROE (%)	nm	nm	nm	nm	nm	165.0	124.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCFF yield (%)	-7.5	-5.6	-7.4	-6.2	-3.7	3.2	7.0

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

VERI versus OMXS30 (12m)



Source: Factset

SUMMARY

Share price (SEK)	75.0
Tickers	VERI SS, VERI.ST

CAPITAL STRUCTURE

No. of shares (m)	4.9
No. of shares fully dil. (m)	4.9
Market cap. (SEKm)	365
NIBD adj end-2020e (SEKm)	13
Enterprise value adj (SEKm)	378
Net debt/EBITDA adj (x)	-94.30
Free float (%)	44

Source: Company, DNB Markets (estimates)

NEXT EVENT

Q1 2020	07/05/2020
---------	------------

ESTIMATE CHANGES (SEK)

Year-end Dec	2020e	2021e	2022e
Sales (old)	128.7	175.0	
Sales (new)	119.3	181.7	231.8
Change (%)	-7.3	3.8	nm
EPS (old)	-3.21	1.35	
EPS (new)	-3.39	1.45	5.32
Change (%)	nm	7.7	nm

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

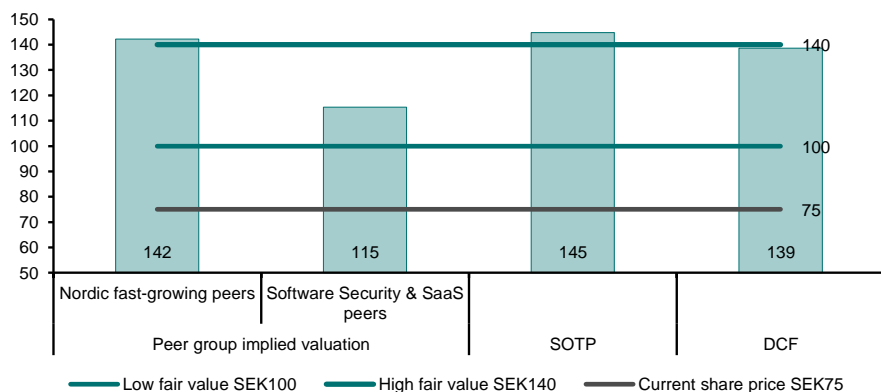
ANALYSTS

Joachim Gunell

Please see the last two pages for important information. This research report was not produced in the US. Analysts employed by non-US affiliates are not registered/qualified research analysts with FINRA in the United States.

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 2022. As revenue growth materialises, we expect margins to improve as Verisec benefits from economies of scale in its IDaaS model. Our FCF analysis suggests it needs to generate an EBIT margin of c5% by 2021e to reach cash breakeven.

Source: DNB Markets

Valuation methodology

- Our fair value of SEK100–140/share (110-150) is based on peers’ multiples, a SOTP, and a DCF. On our estimates the stock is trading at a 2020e EV/sales of 3.2x.
- 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).

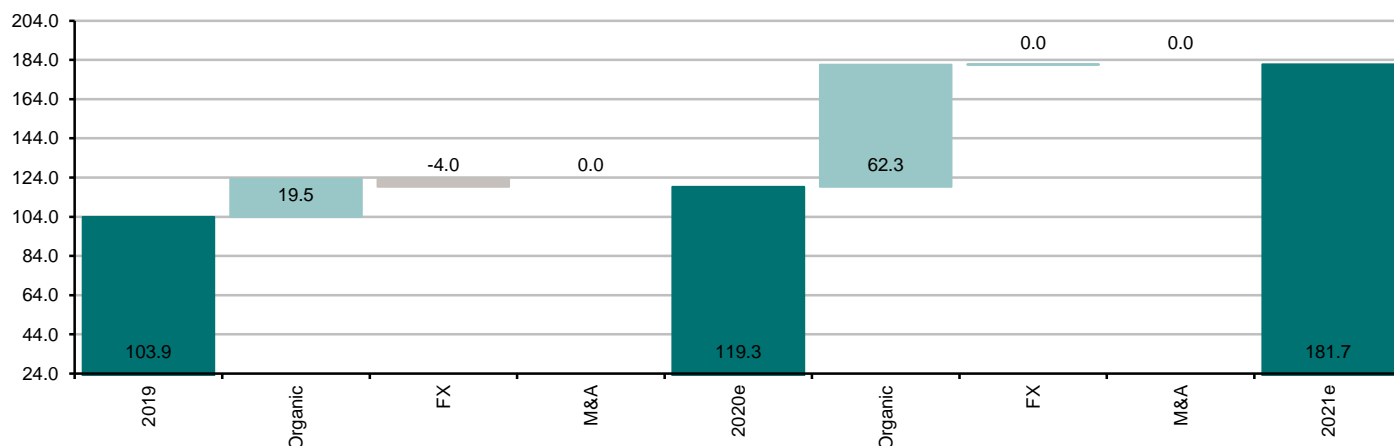
Source: DNB Markets

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 2019–2021e (SEKm)



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

ESG overview

Sustainability assessment

	Positive	Negative
Conclusions	<ul style="list-style-type: none"> ■ Digital identities such as Freja eID are imperative for the spread of digitalisation. The ability to prove we are who we say we are is increasingly determining our opportunities to establish trust and carry out meaningful interactions in a digital economy. We have identified several secular ESG drivers and the value proposition is simple: increased security and efficiency, and lower costs. 	<ul style="list-style-type: none"> ■ We have identified the following ESG risks: <ul style="list-style-type: none"> ■ Potential misuse without proper control. ■ Technical failures or data breaches. ■ Exclusion of individuals.
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.

Q4 2019 results

Q4 sales growth of 1% YOY was below our 24% expectation, with sales of SEK20m (18% below our estimate) as we had underestimated the quarterly lumpiness of the sales cycles in its legacy business. The top line was flat YOY with a 9% YOY increase in opex, resulting in a -47% EBIT margin (we forecast -29%). At end-Q4, its cash position was SEK10m (with a SEK22m unutilised credit facility); and with an annual FCF burn rate of cSEK25m–30m in 2016–2019, our base case assumes Verisec is adequately capitalised as long as Freja eID attracts a user base in 2020.

For Freja eID, we believe Verisec has signed ~140 relying parties, in line with our target, of which around a third are offering Freja eID as an identification method, suggesting it is on track to reach 250+ by end-2020 (versus BankID at 600+)

Q4 did not meet our expectations, but we believe positive news flow for Freja eID outweighs the weak legacy business results

Figure 1: Q4 2019 results versus expectations

Key highlights (SEKm, except per share data)	Q4 2019		Deviation	Deviation	Q4 2018	DNBe
	Actual	DNB	DNB (%)	DNB, Abs	Actual	2020e
Net sales	19.7	24.2	-18%	-4	19.5	119.3
Gross profit	11.5	16.0	-28%	-5	13.1	77.2
Margin	58.3%	66.2%	-7.9pp		67.2%	64.7%
EBIT adjusted	-9.3	-7.0	-34%	-2	-7.1	-17.7
Margin	-47.4%	-28.9%	-18.5pp		-36.4%	-14.8%
One-offs		0.0			0.0	0.0
EBIT	-9.3	-7.0	-34%	-2	-7.1	-17.7
Margin	-47.4%	-28.9%	-18.5pp		-36.4%	-14.8%
EPS adj.	-2.02	-1.44	-40%	-0.58	-1.51	-3.39
Free cash flow	-2.8	-1.1	161%	-2	-5.9	-14.7
Net cash (-) or debt (+)	-11.0	-9.9	11%	-1	-28.9	12.7
Divisions (SEKm)		Q4 2019	Deviation	Deviation	Q4 2018	DNBe
		DNB	DNB (%)	DNB, Abs	Actual	2020e
By product segment						
Goods	1.2	2.7	-57%	-2	2.6	12.3
Services (incl. support)	18.5	21.1	-12%	-3	16.9	90.6
Group	19.7	24.2	-18%	-4	19.5	119.3
By geography						
Sw eden	6.2	9.7	-36%	-4	8.6	43.7
Europe excl. Sw eden	8.5	8.9	-5%	0	5.8	49.6
Outside Europe	5.1	5.6	-9%	0	5.1	26.0
Group	19.7	24.2	-18%	-4	19.5	119.3
Growth						
Goods	-55%	5%	-60pp		-17%	-36%
Services (incl. support)	10%	25%	-15pp		31%	12%
Sw eden	-28%	12%	-41pp		5%	31%
Europe excl. Sw eden	47%	54%	-8pp		-11%	15%
Outside Europe	0%	9%	-9pp		289%	12%
Group	1.1%	23.9%	-23pp		21.8%	14.9%

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

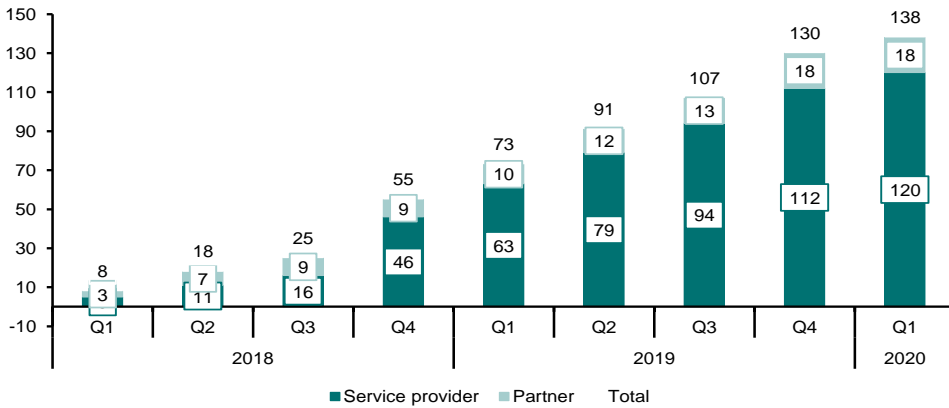
6 February 2020

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

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

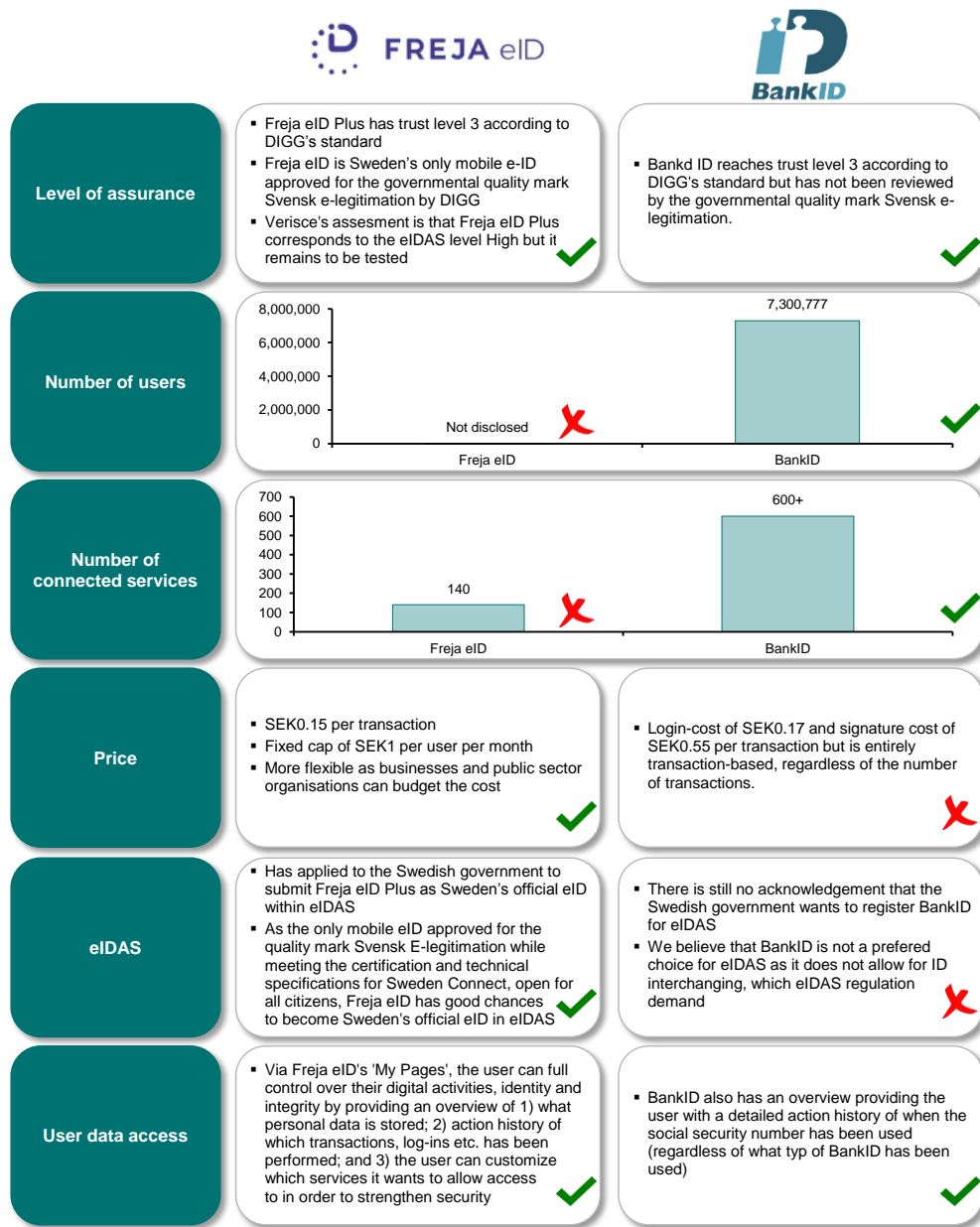
Source: Verisec press releases (underlying data), DNB Markets (table structuring)

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



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

Figure 4: Freja eID versus BankID



Source: DNB Markets

6 February 2020

Estimate revisions

Figure 5: Forecast changes (SEKm)

(SEKm, except per share data)	Old			New			Change		
	2019e	2020e	2021e	2019e	2020e	2021e	2019e	2020e	2021e
Group									
Sales	108	129	175	104	119	182	-3%	-7%	4%
Sales growth	41.1%	19.7%	35.9%	36.2%	14.9%	52.3%	-489bp	-476bp	1634bp
Organic	32.6%	22.7%	35.9%	26.8%	18.8%	52.2%	-587bp	-397bp	1634bp
Structure	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0bp	0bp	0bp
Currency	8.5%	-3.1%	0.0%	9.4%	-3.9%	0.0%	97bp	-79bp	0bp
Gross profit	69	84	122	67	77	125	-3%	-8%	2%
<i>Gross margin</i>	63.8%	64.9%	69.6%	64.4%	64.7%	68.6%	57bp	-27bp	-102bp
Capitalised development costs	6	6	7	6	7	9	6%	16%	29%
Other external expenses	-33	-41	-46	-29	-32	-41	11%	22%	11%
Personnel costs	-56	-64	-75	-57	-70	-84	-2%	-10%	-12%
EBITDA	-12	3	34	-14	0	32	19%	-105%	-6%
Depreciation and amortisation	-13	-18	-26	-14	-18	-24	-1%	1%	11%
EBIT	-25	-15	7	-27	-18	8	9%	16%	8%
<i>EBIT margin</i>	-23.3%	-11.8%	4.3%	-26.4%	-14.8%	4.5%	-311bp	-299bp	17bp
One-offs	0	0	0	0	0	0			
EBIT adj.	-25	-15	7	-27	-18	8	-9%	-16%	8%
<i>EBIT adj. margin</i>	-23.3%	-11.8%	4.3%	-26.4%	-14.8%	4.5%	-311bp	-299bp	17bp
Capitalized development costs	-1	-2	-2	-2	-3	-4	-36%	-39%	-57%
EBIT adj. for cap. dev. costs	-27	-17	5	-29	-20	4	-11%	-19%	-17%
<i>EBIT adj. CDC margin</i>	-24.7%	-13.3%	2.9%	-28.4%	-17.0%	2.3%	-366bp	-372bp	-56bp
Net financial items	-1	-1	-1	-1	-1	-1	-21%	-25%	-50%
Pre-tax profit	-26	-16	6	-28	-19	7	-10%	-17%	2%
Tax	4	0	0	4	2	0	8%	-660%	-676%
<i>Tax rate</i>	15.5%	1.7%	-0.9%	13.0%	10.9%	-6.9%	-249bp	923bp	-603bp
Net profit	-22	-16	7	-25	-17	7	13%	6%	8%
EPS adjusted	-4.49	-3.21	1.35	-5.07	-3.39	1.45	-13%	-6%	8%
EPS	-4.47	-3.21	1.35	-5.05	-3.39	1.45	-13%	-6%	8%
DPS	0.00	0.00	0.00	0.00	0.00	0.00			
Sales by product area									
Goods	21	13	14	19	12	13	-8%	-7%	-7%
Services (incl. support)	83	94	100	81	91	98	-3%	-3%	-2%
Freja eID	1	22	61	1	17	71	-37%	-24%	17%
Group Total	108	129	175	104	119	182	-3%	-7%	4%

Source: DNB Markets

6 February 2020

Figure 6: Annual income statement

(SEKm)	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Sales	40.4	56.0	51.5	60.2	60.7	61.1	76.3	103.9	119.3	181.7	231.8
COGS	-11.6	-14.0	-18.3	-22.9	-19.6	-20.6	-28.2	-37.0	-42.2	-57.1	-65.2
Gross profit	28.8	42.0	33.2	37.3	41.1	40.4	48.1	66.9	77.2	124.6	166.6
Capitalised development costs	0.0	1.3	3.7	2.9	1.5	4.7	4.9	6.0	7.5	8.7	9.0
Other external expenses	-8.3	-14.8	-14.5	-21.5	-26.6	-26.4	-30.1	-29.2	-32.1	-40.8	-48.1
Personnel costs	-13.6	-17.7	-19.5	-25.8	-31.2	-36.3	-44.4	-57.5	-70.3	-84.4	-99.7
EBITDA	7.0	10.8	2.9	-7.1	-15.2	-17.6	-21.5	-13.8	-0.1	31.6	47.8
Depreciation and Amortisation	-0.6	-1.0	-1.4	-2.5	-3.4	-4.8	-6.9	-13.6	-17.5	-23.6	-20.0
EBIT	6.4	9.7	1.5	-9.6	-18.6	-22.4	-28.4	-27.5	-17.7	8.1	27.8
<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>-26.4%</i>	<i>-14.8%</i>	<i>4.5%</i>	<i>12.0%</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
EBIT adj.	6.4	9.7	1.5	-9.6	-18.6	-22.4	-28.4	-27.5	-17.7	8.1	27.8
<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>-26.4%</i>	<i>-14.8%</i>	<i>4.5%</i>	<i>12.0%</i>
Net CDC	0.0	-1.2	-3.0	-1.4	0.4	-2.1	-1.5	-2.0	-2.6	-3.9	-4.9
EBIT adj. for cap. dev. costs	6.4	8.5	-1.5	-11.0	-18.2	-24.5	-29.9	-29.5	-20.3	4.2	23.0
<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>-28.4%</i>	<i>-17.0%</i>	<i>2.3%</i>	<i>9.9%</i>
Net financial items	-0.2	-0.2	0.3	-0.1	0.5	-0.2	-0.6	-0.8	-0.9	-1.5	-1.9
Pre-tax profit	6.2	9.6	1.8	-9.7	-18.1	-22.6	-29.0	-28.3	-18.5	6.6	25.9
Tax	-1.7	-0.6	-0.5	1.6	-0.3	-0.2	-0.4	3.7	2.0	0.5	0.0
Net profit	4.5	9.0	1.3	-8.1	-18.4	-22.8	-29.4	-24.6	-16.5	7.1	25.9
Gross margin	71.4%	75.0%	64.5%	61.9%	67.8%	66.2%	63.1%	64.4%	64.7%	68.6%	71.9%
EBITDA margin	17.2%	19.3%	5.6%	-11.9%	-25.0%	-28.8%	-28.2%	-13.3%	-0.1%	17.4%	20.6%
Adj. EBIT margin	15.8%	17.4%	3.0%	-15.9%	-30.6%	-36.7%	-37.2%	-26.4%	-14.8%	4.5%	12.0%
Freja eID (DNBe)											
Number of relying parties						0	55	131	251	371	491
Number of users						0	0	15,000	190,000	490,000	690,000
Sales by product area											
Goods	0.0	0.0	0.0	25.4	17.2	12.8	14.0	19.2	12.3	12.9	13.1
Services (incl. support)	0.0	0.0	0.0	34.4	42.9	48.2	62.3	80.7	90.6	97.8	102.7
Freja eID	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	17.0	71.5	116.4
Group Total	40.4	56.0	51.5	60.2	60.7	61.1	76.3	103.9	119.3	181.7	231.8
Sales growth by product area											
Goods					-32%	-26%	9%	37%	-36%	5%	2%
Services (incl. support)					25%	12%	29%	30%	12%	8%	5%
Freja eID									3246%	321%	63%
Group Total		35%	-6%	17%	0%	2%	25%	31%	20%	52%	28%
Sales growth, of which											
Organic		35%	-8%	8%	2%	1%	21%	27%	19%	52%	28%
Structure		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Currency		0%	2%	8%	-1%	1%	4%	9%	-4%	0%	0%
Total growth		35%	-6%	17%	0%	2%	25%	36%	15%	52%	28%

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

6 February 2020

Figure 7: Quarterly income statement

(SEKm)	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20e	Q2'20e	Q3'20e	Q4'20e
Sales	17.8	19.3	19.8	19.5	28.1	29.8	25.5	20.4	22.6	31.6	33.1	32.0
COGS	-6.6	-8.1	-7.2	-6.4	-10.6	-11.3	-8.8	-6.2	-8.7	-12.0	-11.9	-9.5
Gross profit	11.2	11.2	12.6	13.1	17.5	18.5	16.7	14.2	13.9	19.6	21.1	22.5
Capitalised development costs	0.9	1.4	1.3	1.3	1.0	2.0	1.1	1.9	0.7	1.8	1.5	3.4
Other external expenses	-8.4	-8.0	-6.1	-7.7	-7.2	-10.6	-4.9	-6.5	-5.1	-11.3	-5.5	-10.1
Personnel costs	-10.9	-11.5	-10.2	-11.8	-13.9	-14.3	-13.9	-15.3	-16.2	-17.1	-18.0	-18.9
EBITDA	-7.1	-6.9	-2.4	-5.2	-2.6	-4.5	-1.1	-5.7	-3.1	-4.0	3.5	3.5
Depreciation and Amortisation	-1.6	-1.6	-1.7	-1.9	-3.1	-3.4	-3.5	-3.6	-3.7	-3.0	-4.4	-6.5
EBIT	-8.7	-8.5	-4.1	-7.1	-5.7	-7.9	-4.5	-9.3	-6.8	-7.0	-0.9	-3.0
<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>-45.8%</i>	<i>-29.9%</i>	<i>-22.2%</i>	<i>-2.7%</i>	<i>-9.3%</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	-9.3	-6.8	-7.0	-0.9	-3.0
<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>-45.8%</i>	<i>-29.9%</i>	<i>-22.2%</i>	<i>-2.7%</i>	<i>-9.3%</i>
Net CDC	-0.1	-0.6	-0.4	-0.4	0.0	-1.0	-0.1	-0.9	0.1	-1.1	-0.1	-1.5
EBIT adj. for cap. dev. costs	-8.8	-9.1	-4.5	-7.5	-5.7	-8.9	-4.6	-10.2	-6.6	-8.2	-1.0	-4.5
<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>-50.2%</i>	<i>-29.4%</i>	<i>-25.8%</i>	<i>-3.1%</i>	<i>-13.9%</i>
Net financial items	-0.3	-0.3	0.0	0.0	-0.1	-0.2	-0.2	-0.3	-0.1	-0.2	-0.3	-0.3
Pre-tax profit	-9.0	-8.8	-4.1	-7.1	-5.8	-8.0	-4.8	-9.6	-6.9	-7.2	-1.1	-3.3
Tax	-0.1	-0.1	-0.1	-0.1	-0.1	1.4	2.6	-0.2	0.8	0.8	0.1	0.4
Net profit	-9.1	-8.9	-4.2	-7.2	-6.0	-6.7	-2.2	-9.8	-6.1	-6.5	-1.0	-2.9
Gross margin	63.0%	58.1%	63.8%	67.2%	62.3%	62.0%	65.4%	69.5%	61.6%	62.0%	63.9%	70.2%
EBITDA margin	-40.2%	-35.8%	-12.0%	-26.5%	-9.1%	-15.0%	-4.2%	-28.1%	-13.7%	-12.7%	10.5%	10.9%
Adj. EBIT margin	-49.0%	-44.3%	-20.7%	-36.4%	-20.3%	-26.4%	-17.8%	-45.8%	-29.9%	-22.2%	-2.7%	-9.3%
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	10,000	15,000	20,000	40,000	115,000	190,000
Sales by product area												
Goods	3.3	4.8	3.2	2.6	10.0	6.1	1.9	1.2	2.5	6.4	2.1	1.3
Services (incl. support)	14.4	14.4	16.6	16.9	18.2	22.1	21.8	18.5	20.0	25.0	24.7	20.9
Freja eID	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.1	0.1	0.4	6.5	10.0
Group Total	17.8	19.3	19.8	19.5	28.1	29.8	25.5	20.4	22.6	31.6	33.1	32.0
Sales growth by product area												
Goods	22%	296%	-44%	-17%	199%	27%	-40%	-55%	-75%	5%	10%	7%
Services (incl. support)	26%	28%	31%	31%	26%	54%	31%	10%	10%	13%	13%	13%
Freja eID										149%	2782%	8789%
Group Total	25%	55%	7%	22%	59%	47%	20%	1%	-20%	12%	39%	63%
Sales growth, of which												
Organic	24%	51%	1%	17%	52%	43%	17%	-2%	-22%	12%	39%	63%
Structure	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Currency	0%	4%	6%	5%	7%	4%	3%	3%	2%	1%	0%	0%
Total growth	25%	55%	7%	22%	59%	47%	20%	1%	-20%	12%	39%	63%

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

Figure 8: 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.	51.8	n.a.	n.a.	45.5	3.5	3.2	2.0	67.0	-26.4	-28.0	32	n.a.	n.a.	
Premium/discount		n.a.	n.a.	32%	n.a.	n.a.	59%	-63%	-60%	-69%	-9.3	-43.8	-39.9	11	n.a.	n.a.	
Nordic fast-growing peers																	
Admicom	4.2	75.8	54.3	41.7	58.8	41.4	31.1	24.1	18.0	14.1	n.a.	41.0	51.3	31	36	35	
Evolution Gaming	55.8	36.8	29.2	25.1	33.5	25.9	22.3	14.3	11.3	9.7	n.a.	42.6	30.4	22	21	21	
HMS Networks	6.7	34.6	33.9	27.9	26.5	26.3	20.6	4.6	4.6	4.1	61.1	17.4	12.1	6	11	11	
Invisio Communications	6.2	62.1	47.1	36.8	54.8	36.6	28.5	12.1	9.8	8.1	61.1	21.9	14.1	22	37	30	
Lime Technologies	2.5	53.6	41.9	32.5	49.2	37.7	28.7	8.7	7.4	6.4	n.a.	17.6	11.6	17	29	28	
Sectra	15.7	82.5	79.1	66.0	63.7	66.1	54.0	11.2	10.1	9.2	86.0	17.3	n.a.	10	9	12	
Storytel	9.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.0	3.9	3.1	38.2	-19.4	-17.0	27	-4	-5	
Average		57.6	47.6	38.3	47.8	39.0	30.9	11.4	9.3	7.8	61.6	19.8	17.1	19	20	19	
Median		57.8	44.5	34.6	52.0	37.2	28.6	11.2	9.8	8.1	61.1	17.6	13.1	22	21	21	
Security & SaaS peers																	
Okta	151.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	39.6	26.9	20.4	74.7	-13.8	-1.8	39	47	-13	
Sailpoint	22.1	n.a.	n.a.	84.4	n.a.	n.a.	n.a.	7.6	6.6	5.7	80.0	n.a.	7.8	15	n.a.	48	
Proofpoint	69.2	73.7	86.0	58.0	57.1	n.a.	n.a.	8.0	6.7	5.6	79.0	13.5	22.9	20	19	13	
DocuSign	140.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	21.0	15.1	12.0	79.9	0.2	5.7	32	533	177	
Qualys	33.1	38.9	35.9	31.4	29.1	25.6	21.7	9.6	8.4	7.3	80.3	35.1	40.0	14	11	11	
Rapid7	29.4	n.a.	n.a.	n.a.	n.a.	n.a.	75.1	9.5	7.7	6.4	74.9	1.0	-9.8	22	244	282	
Palo Alto Networks	231.4	45.5	49.5	39.2	34.1	35.1	24.8	8.0	6.7	5.6	76.5	22.0	32.8	20	13	8	
Mimecast	31.7	n.a.	n.a.	79.9	n.a.	71.7	45.6	9.8	7.9	6.5	76.0	7.8	10.7	23	60	59	
Average		52.7	57.1	58.6	40.1	44.2	41.8	14.1	10.7	8.7	77.7	9.4	13.5	23	132	73	
Median		45.5	49.5	58.0	34.1	35.1	35.2	9.5	7.8	6.4	77.8	7.8	9.2	21	47	30	
Average		55.9	50.8	47.5	45.2	40.7	35.3	12.9	10.1	8.3	72.3	14.6	15.0	21	76	48	
Median		53.6	47.1	39.2	49.2	36.6	28.6	9.6	7.9	6.5	76.3	17.3	11.9	22	25	21	

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

Summary of positives

Challenger position in a market ripe for disruption

Verisec's Identity-as-a-Service (IDaaS) Freja eID is a mobile ID ecosystem that verifies, manages, and controls digital identities in online activities such as log-in, signing, and approval – the cornerstone of a digital society. Freja eID has been launched in the world's most mature eID market (Sweden, which has 75% eID adoption), for which we forecast a 20%+ CAGR by 2021e supported by four key secular digitalisation trends: 1) time and cost savings; 2) a need for greater security online; 3) increased online sales of goods and services; and 4) legislation of electronic identification. Our analysis suggests a long-tailed shift to IDaaS from the number of users and the number of authentications and signings. Freja eID's no.2 position in the Swedish mobile eID market 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 138 (118 relying parties, 20 partners). We consider it positive that Freja eID's relying parties have grown to 138 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% 2019–2022 sales CAGR primarily on growing Freja eID adoption. As revenue growth materialises, we expect margins to improve as Verisec benefits from economies of scale in its IDaaS revenue model. 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% 2019–2022 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-Q4 2019, Verisec's cash position was SEK10m (net cash of SEK32m including the SEK22m 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 FCF of SEK15m for 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 3.0x. 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

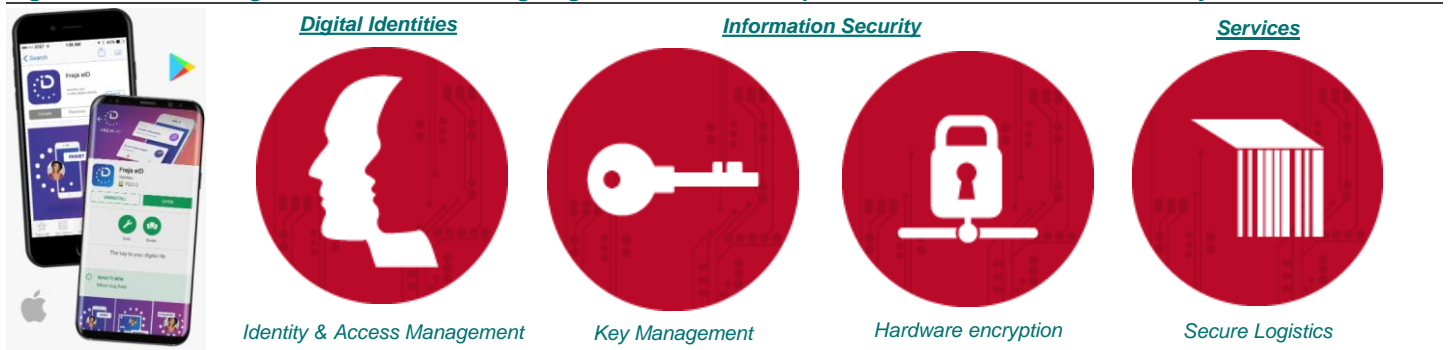
A recap on Verisec

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

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

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

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



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

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

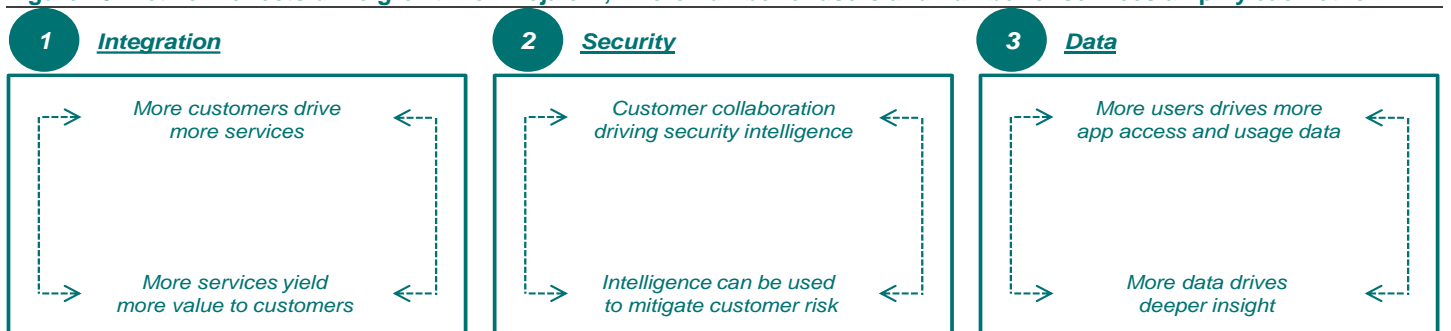
eIDs allow citizens to securely authenticate themselves to online services as proof of identification

■ **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 138 (118+ relying parties, 20 partners).

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

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



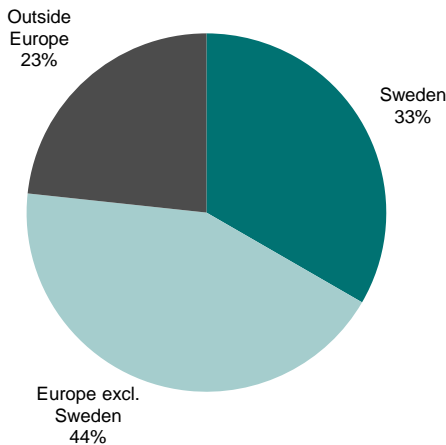
Source: DNB Markets

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

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

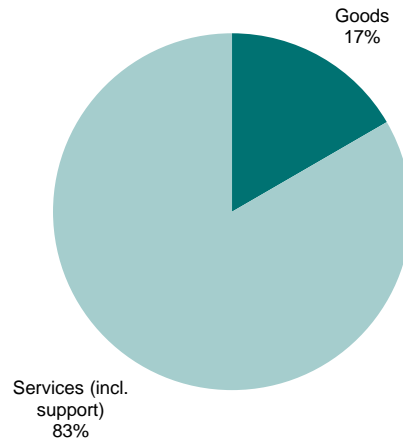
...and we see opportunities elsewhere in the Nordics

Figure 11: Geographical sales split, 2019



Source: Verisec

Figure 12: Sales by business model, 2019



Source: Verisec

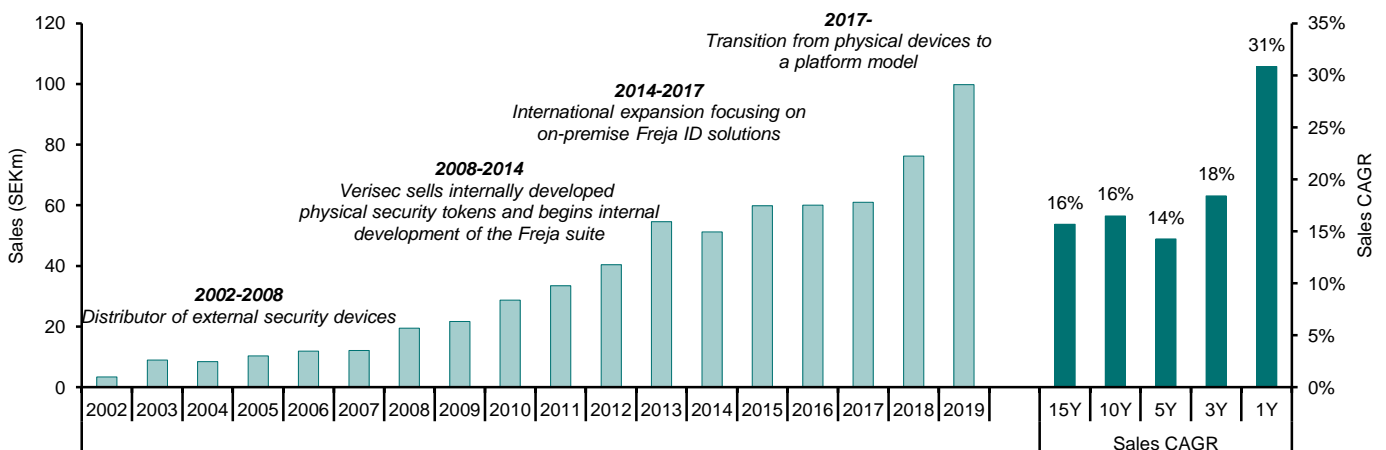
The Freja eID platform is free for users (consumer) and accessed via a mobile app. It is online service providers (businesses, municipalities, authorities, banks, online payment processes etc) where users log in, sign, or approve that are Verisec's customers, foremost via a transaction-based business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

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

Verisec reported 2019 net sales of SEK100m (past 15-year sales CAGR of 15%+), with a stable gross margin (65%+) but an operating loss of SEK28m (-28% EBIT margin), as management is investing 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 13: Verisec's 17-year footprint in the IT security market builds trust



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

6 February 2020

Forecast changes – P&L

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenues	119	182	232	129	175		-9	7	
Cost of sales	-42	-57	-65	-45	-53		3	-4	
Gross profit	77	125	167	84	122		-6	3	
Operating expenses	-95	-116	-139	-99	-114		4	-2	
EBITDA	0	32	48	3	34		-3	-2	
EBITDA adj	0	32	48	3	34		-3	-2	
EBITDA margin (%)	nm	17.4	20.6	2.0	19.3	nm	nm	-1.9	nm
Depreciation	-18	-24	-20	-18	-26		0	3	
EBIT	-18	8	28	-15	7		-2	1	
EBIT adj	-18	8	28	-15	7		-2	1	
Net interest	-1	-1	-2	-1	-1		0	0	
Net financial items	-1	-1	-2	-1	-1		0	0	
PBT	-19	7	26	-16	6		-3	0	
Taxes	2	0	0	0	0		2	0	
Net profit	-17	7	26	-16	7		-1	1	
Adjustments to net profit	0	0	0	0	0		0	0	
Net profit adj	-17	7	26	-16	7		-1	1	
<i>Per share data (SEK)</i>									
EPS	-3.39	1.45	5.32	-3.21	1.35		-0.18	0.10	
EPS adj	-3.39	1.45	5.32	-3.21	1.35		-0.18	0.10	
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	14.9	52.3	27.6	19.7	35.9	nm	-4.8	16.3	nm
EBIT adj growth	nm	nm	244.0	-39.4	-149.3	nm	nm	nm	nm
EPS adj growth	nm	nm	267.4	-28.5	-141.9	nm	nm	nm	nm
Avg. number of shares (m)	5	5	5	5	5		0	0	
Capex	-16	-22	-30	-12	-19		-4	-3	
OpFCF	-16	10	17	-10	15		-6	-5	
Working capital	-20	-21	-28	-22	-19		2	-2	
NIBD adj	13	3	-20	-5	-17		18	19	

Source: DNB Markets

Forecast changes – By segment and assumptions

(SEKm)	New			Old			Change		
	2020e	2021e	2022e	2020e	2021e	2022e	2020e	2021e	2022e
Revenue									
Goods	12	13	13	13	14		-1	-1	
Services (incl. support)	91	98	103	94	100		-3	-3	
Freja eID	17	71	116	22	61		-5	10	
Assumptions									
Revenue org. % YOY	18.76	52.25	27.58	22.44	35.92		-3.68	16.32	
Structure impact % YOY	0.00	0.00	0.00	0.00	0.00		0.00	0.00	
Currency impact % YOY	-3.87	0.01	0.00	-2.79	0.00		-1.08	0.01	

Source: DNB Markets

6 February 2020

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	20	23	32	33	32
Cost of sales	-8	-7	-6	-11	-11	-9	-6	-9	-12	-12	-10
Gross profit	11	13	13	18	18	17	14	14	20	21	23
Operating expenses	-18	-15	-18	-20	-23	-18	-20	-21	-27	-22	-25
EBITDA	-7	-2	-5	-3	-4	-1	-6	-3	-4	3	3
Depreciation	-2	-2	-2	-3	-3	-3	-4	-4	-3	-4	-6
EBIT	-9	-4	-7	-6	-8	-5	-9	-7	-7	-1	-3
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	-10	-7	-7	-1	-3
Taxes	0	0	0	0	1	3	0	1	1	0	0
Net profit	-9	-4	-7	-6	-7	-2	-10	-6	-6	-1	-3
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	-9	-4	-7	-6	-7	-2	-10	-6	-6	-1	-3
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	-2.02	-1.26	-1.33	-0.21	-0.60
EPS adj	-1.98	-0.88	-1.51	-1.24	-1.37	-0.44	-2.02	-1.26	-1.33	-0.21	-0.60
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	-20.0	10.5	40.2	4.5	-3.0
Revenues, YOY growth	54.7	6.9	21.4	58.4	54.5	28.7	4.7	-19.8	6.3	29.5	56.9
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	69.5	61.6	62.0	63.9	70.2
EBITDA adj margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	10.5	10.9
Depreciation/revenues	-8.5	-8.7	-9.9	-11.2	-11.4	-13.7	-17.7	-16.2	-9.6	-13.2	-20.2
EBIT adj margin	-44.3	-20.7	-36.4	-20.3	-26.4	-17.8	-45.8	-29.9	-22.2	-2.7	-9.3
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	-6	-3	-4	3	3
EBITDA adj	-7	-2	-5	-3	-4	-1	-6	-3	-4	3	3
EBIT	-9	-4	-7	-6	-8	-5	-9	-7	-7	-1	-3
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0	0
EBIT adj	-9	-4	-7	-6	-8	-5	-9	-7	-7	-1	-3
Net profit	-9	-4	-7	-6	-7	-2	-10	-6	-6	-1	-3
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0	0
Net profit adj	-9	-4	-7	-6	-7	-2	-10	-6	-6	-1	-3

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

6 February 2020

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	1	2	6	2	1
Services (incl. support)	14	17	17	18	22	22	19	20	25	25	21
Freja eID	0	0	0	0	0	0	0	0	0	6	10
Assumptions											
Revenue org. % YOY	50.68	1.12	16.97	51.96	43.18	16.76	-2.13	-21.72	11.52	38.81	62.83
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	3.20	1.95	0.66	0.30	-0.23

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

Annual P&L

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Revenues	56	52	60	61	61	76	104	119	182	232
Cost of sales	-14	-18	-23	-20	-21	-28	-37	-42	-57	-65
Gross profit	42	33	37	41	40	48	67	77	125	167
Operating expenses	-31	-30	-44	-56	-58	-70	-81	-95	-116	-139
EBITDA	11	3	-7	-15	-18	-22	-14	0	32	48
Depreciation	-1	-1	-2	-3	-5	-7	-14	-18	-24	-20
EBIT	10	2	-10	-19	-22	-28	-27	-18	8	28
Net interest	0	0	0	1	0	-1	-1	-1	-1	-2
Net financial items	0	0	0	1	0	-1	-1	-1	-1	-2
PBT	10	2	-10	-18	-23	-29	-28	-19	7	26
Taxes	-1	-1	2	0	0	0	4	2	0	0
Effective tax rate (%)	6	27	16	-2	-1	-1	13	11	-7	0
Net profit	9	1	-8	-18	-23	-29	-25	-17	7	26
Adjustments to net profit	0	0	0	0	0	0	0	0	0	0
Net profit adj	9	1	-8	-18	-23	-29	-25	-17	7	26
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	5
<i>Per share data (SEK)</i>										
EPS	2.15	0.32	-1.95	-4.06	-5.03	-6.03	-5.05	-3.39	1.45	5.32
EPS adj	2.15	0.32	-1.95	-4.06	-5.03	-6.03	-5.07	-3.39	1.45	5.32
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
<i>Growth and margins (%)</i>										
Revenue growth	38.6	-7.9	16.8	0.8	0.6	24.9	36.2	14.9	52.3	27.6
EPS adj growth	nm	-85.1	nm	nm	nm	nm	nm	nm	nm	267.4
Gross margin	75.0	64.5	61.9	67.8	66.2	63.1	64.4	64.7	68.6	71.9
EBITDA margin	19.3	5.6	nm	nm	nm	nm	nm	nm	17.4	20.6
EBITDA adj margin	19.3	5.6	nm	nm	nm	nm	nm	nm	17.4	20.6
Depreciation/revenues	-1.9	-2.6	-4.1	-5.6	-7.9	-9.0	-13.1	-14.7	-13.0	-8.6
EBIT margin	17.4	3.0	nm	nm	nm	nm	nm	nm	4.5	12.0
EBIT adj margin	17.4	3.0	-15.9	-30.6	-36.7	-37.2	-26.4	-14.8	4.5	12.0
PBT margin	17.1	3.6	nm	nm	nm	nm	nm	nm	3.6	11.2
Net profit margin	nm	nm	nm	nm	nm	nm	nm	nm	nm	nm

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

6 February 2020

Adjustments to annual P&L

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
EBITDA	11	3	-7	-15	-18	-22	-14	0	32	48
EBITDA adj	11	3	-7	-15	-18	-22	-14	0	32	48
EBIT	10	2	-10	-19	-22	-28	-27	-18	8	28
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0
EBIT adj	10	2	-10	-19	-22	-28	-27	-18	8	28
Net profit	9	1	-8	-18	-23	-29	-25	-17	7	26
Other EBIT adjustments	0	0	0	0	0	0	0	0	0	0
Net profit adj	9	1	-8	-18	-23	-29	-25	-17	7	26
<i>Per share data (SEK)</i>										
EPS	2.15	0.32	-1.95	-4.06	-5.03	-6.03	-5.05	-3.39	1.45	5.32
Recommended adjustment	0.00	0.00	0.00	0.00	0.00	0.00	-0.02	0.00	0.00	0.00
EPS adj	2.15	0.32	-1.95	-4.06	-5.03	-6.03	-5.07	-3.39	1.45	5.32

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

Cash flow

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Net profit	9	1	-8	-18	-23	-29	-25	-17	7	26
Cash flow from operations (CFO)	18	4	-8	-20	-14	-20	-14	1	32	53
Capital expenditure	-1	-4	-5	-4	-8	-13	-15	-16	-22	-30
Acquisitions/Investments	3	0	0	0	0	0	0	0	0	0
Divestments	0	0	0	0	0	0	0	0	0	0
Cash flow from investing (CFI)	2	-4	-5	-4	-8	-13	-15	-16	-22	-30
Free cash flow (FCF)	20	0	-13	-24	-22	-33	-29	-15	10	22
Net change in debt	0	0	0	0	0	0	7	22	0	0
Dividends paid	0	0	0	0	0	0	0	0	0	0
Other	-10	-5	1	0	1	2	0	0	0	0
Cash flow from financing (CFF)	-10	30	1	34	1	43	10	22	0	0
Total cash flow (CFO+CFI+CFF)	10	30	-12	10	-21	10	-19	7	10	22
<i>FCFF calculation</i>										
Free cash flow	20	0	-13	-24	-22	-33	-29	-15	10	22
Less: net interest	0	0	0	-1	0	1	1	1	1	2
Less: tax shields/other	0	0	0	0	0	0	0	0	0	0
Less: acquisitions	-3	0	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	17	0	-13	-25	-22	-33	-28	-14	12	24
<i>Growth (%)</i>										
CFO	113.6	-77.4	-311.3	-135.8	31.1	-45.7	29.4	107.0	3145.5	63.5
CFI	121.6	-296.3	-12.6	6.0	-90.0	-58.5	-13.9	-4.4	-40.6	-37.6
FCF	1409.9	-100.7	-8883.6	-85.4	9.2	-50.5	12.2	49.6	169.1	119.8
CFF	-497.4	402.3	-96.8	3467.5	-98.2	6809.6	-77.7	127.2	-100.0	nm
FCFF	1413.4	-102.8	-2703.4	-90.7	11.5	-48.4	13.0	51.2	184.2	108.0

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

6 February 2020

Balance sheet

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Assets	44	70	62	82	64	85	89	121	161	211
Inventories	0	1	1	1	1	1	1	1	1	1
Trade receivables	14	13	12	17	13	19	17	30	43	47
Other receivables	10	3	2	2	2	3	3	6	9	11
Current financial assets	4	6	9	12	15	13	19	30	45	55
Cash and cash equivalents	12	42	30	40	18	29	10	17	27	50
Current assets	40	64	53	71	49	64	50	84	125	165
Non-current assets	3	6	10	11	14	20	39	37	36	46
Total assets	44	70	62	82	64	85	89	121	161	211
Equity and liabilities	44	70	62	82	64	85	89	121	161	211
Total equity to the parent	7	38	31	47	24	39	17	1	8	34
Total equity	7	38	31	47	24	39	17	1	8	34
Trade payables	6	5	7	9	11	7	11	17	22	25
Other payables and accruals	29	25	24	26	28	39	49	69	97	118
Total current liabilities	35	30	31	35	39	46	60	86	119	143
Long-term debt	0	0	0	0	0	0	8	30	30	30
Deferred tax liabilities	2	1	0	0	0	0	0	0	0	0
Other non-current liabilities	0	0	0	0	0	0	4	4	4	4
Total non-current liabilities	2	1	0	0	0	0	12	34	34	34
Total liabilities	37	32	31	35	39	46	72	120	153	177
Total equity and liabilities	44	70	62	82	64	85	89	121	161	211
<i>Key metrics</i>										
Net interest bearing debt	-12	-42	-30	-40	-18	-29	-2	13	3	-20

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

6 February 2020

Valuation ratios

(SEKm)	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<i>Enterprise value</i>										
Share price (SEK)		43.00	77.75	83.75	93.00	98.00	95.00	75.00	75.00	75.00
Number of shares (m)	0.00	4.03	4.03	4.44	4.44	4.79	4.87	4.87	4.87	4.87
Market capitalisation		173	314	372	413	469	463	365	365	365
Net interest bearing debt	-12	-42	-30	-40	-18	-29	-2	13	3	-20
Adjustments to NIBD	0	0	0	0	0	0	0	0	0	0
Net interest bearing debt adj	-12	-42	-30	-40	-18	-29	-2	13	3	-20
EV		131	283	332	394	440	461	378	368	346
EV adj		131	283	332	394	440	461	378	368	346
<i>Valuation</i>										
EPS	2.15	0.32	-1.95	-4.06	-5.03	-6.03	-5.05	-3.39	1.45	5.32
EPS adj	2.15	0.32	-1.95	-4.06	-5.03	-6.03	-5.07	-3.39	1.45	5.32
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		134.3	-40.0	-20.6	-18.5	-16.3	-18.8	-22.1	51.8	14.1
P/E adj		134.3	-40.0	-20.6	-18.5	-16.3	-18.7	-22.1	51.8	14.1
Average ROE	126.6%	6.0%	-23.5%	-47.5%	-64.2%	-92.9%	-87.8%	-183.4%	165.0%	124.8%
Earnings yield adj		0.7%	-2.5%	-4.8%	-5.4%	-6.1%	-5.3%	-4.5%	1.9%	7.1%
Dividend yield		0.0%	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	4.44	3.17	2.03	1.49
EV/SALES adj		2.54	4.71	5.47	6.46	5.77	4.44	3.17	2.03	1.49
EV/EBITDA		45.6	-39.7	-21.8	-22.4	-20.5	-33.3	-2808.1	11.6	7.2
EV/EBITDA adj		45.6	-39.7	-21.8	-22.4	-20.5	-33.3	-2808.1	11.6	7.2
EV/EBIT		85.9	-29.6	-17.8	-17.6	-15.5	-16.8	-21.4	45.5	12.4
EV/EBIT adj		85.9	-29.6	-17.8	-17.6	-15.5	-16.8	-21.4	45.5	12.4
EV/OpFCF (taxed)		-103.5	-24.0	-16.9	-15.2	-12.7	-16.0	-23.9	38.4	19.8

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

6 February 2020

Key accounting ratios

	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
<i>Profitability (%)</i>										
ROA	23.7	2.4	-12.3	-25.5	-31.4	-39.6	-28.2	-15.7	5.0	14.0
<i>Return on invested capital (%)</i>										
Working capital/revenues	-12.5	-16.6	-14.0	-5.8	-12.7	-13.9	-18.9	-16.5	-11.7	-12.1
<i>Cash flow ratios (%)</i>										
FCF/revenues	35.3	-0.3	-21.8	-40.1	-36.1	-43.6	-28.1	-12.3	5.6	9.6
FCF/market capitalisation		-0.1	-4.2	-6.5	-5.3	-7.1	-6.3	-4.0	2.8	6.1
CFO/revenues	31.6	7.8	-14.0	-32.8	-22.5	-26.2	-13.6	0.8	17.7	22.7
CFO/market capitalisation		2.3	-2.7	-5.4	-3.3	-4.3	-3.1	0.3	8.8	14.4
CFO/capex	1838.5	96.5	-181.1	-454.4	-162.9	-151.6	-93.9	6.3	146.0	173.6
CFO/current liabilities	50.3	13.2	-27.2	-56.9	-35.2	-43.4	-23.5	1.2	27.1	36.8
Cash conversion ratio	219.8	-10.9	161.1	132.1	96.6	113.0	118.5	89.0	143.8	86.1
Capex/revenues	1.7	8.0	7.8	7.2	13.8	17.3	14.5	13.1	12.1	13.1
Capex/depreciation	91.7	306.6	190.3	129.1	176.0	192.2	110.3	89.5	93.6	151.8
OpFCF margin	17.6	-2.5	-19.6	-32.3	-42.5	-45.5	-27.8	-13.3	5.3	7.5
Total payout ratio	0.0	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	62.08	nm	nm	nm	nm	nm	nm	nm	5.43	14.64
Cash coverage	68.75	-9.05	-66.04	30.34	-81.90	-34.33	-17.19	-0.16	21.22	25.16
Net debt/EBITDA	-1.14	-14.71	4.22	2.62	1.03	1.34	0.14	-94.30	0.08	-0.41
LTD / (LTD + equity (MV))		0.00	0.00	0.00	0.00	0.00	0.02	0.08	0.08	0.08
<i>Cash conversion cycle</i>										
Inventory turnover days	12.1	10.2	8.0	19.2	21.4	14.5	8.6	9.3	8.6	7.6
Receivables turnover days	152.6	108.0	80.5	113.3	88.4	103.1	72.1	107.5	103.5	92.0
Credit period	162.2	103.9	104.8	164.1	187.6	87.9	104.6	144.6	138.8	139.1
Cash conversion cycle	2.5	14.3	-16.2	-31.6	-77.8	29.7	-23.8	-27.8	-26.8	-39.6

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

6 February 2020

Important Information

Company: Verisec
 Coverage by Analyst: Joachim Gunell
 Date: 06-2-2020

This report has been prepared by DNB Markets, a division of DNB Bank ASA. DNB Bank ASA is a part of the DNB Group. This report is based on information obtained from public sources that DNB Markets believes to be reliable but which DNB Markets has not independently verified, and DNB Markets makes no guarantee, representation or warranty as to its accuracy or completeness. This report does not, and does not attempt to, contain everything material which there is to be said about the Company. Any opinions expressed herein reflect DNB Markets' judgement at the time the report was prepared and are subject to change without notice. The report is planned updated minimum every quarter.

Any use of non-DNB logos in this report is solely for the purpose of assisting in identifying the relevant issuer. DNB is not affiliated with any such issuer.

This report is for clients only, and not for publication, and has been prepared for information purposes only by DNB Markets, a division of DNB Bank ASA.

This report is the property of DNB Markets. DNB Markets retains all intellectual property rights (including, but not limited to, copyright) relating to the report. Sell-side investment firms are not allowed any commercial use (including, but not limited to, reproduction and redistribution) of the report contents, either partially or in full, without DNB Markets' explicit and prior written consent. However, buy-side investment firms may use the report when making investment decisions, and may also base investment advice given to clients on the report. Such use is dependent on the buy-side investment firm citing DNB Markets as the source.

Conflict of interest

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.

Readers should assume that DNB Markets may currently or may in the coming three months and beyond be providing or seeking to provide confidential investment banking services or other services to the company/companies

Share positions in the company:	Analyst*	Employees**	DNB***
Number of shares	0	0	0

*The analyst or any close associates. **Share positions include people involved in the production of credit and equity research, including people that could reasonably be expected to have access to it before distribution.

***Share positions as part of DNB Group. Holdings as part of DNB Markets investment services activity are not included.

Recommendation distribution and corporate clients for the last 12 months

	Buy	Hold	Sell	No_rec	Total
Number	144	60	37	13	254
% of total	57%	24%	15%	5%	
DNB Markets client	28%	9%	4%	2%	107

6 February 2020

Legal statement

These materials constitute research as defined in section 9-27 (1) of the Norwegian Securities Trading Regulations (Norwegian: verdipapirforskriften), and are not investment advice as defined in section 2-4(1) of the Norwegian securities trading act (Norwegian: verdipapirhandelloven). It constitutes an acceptable minor non-monetary benefit as defined in MiFID II.

The analyst hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report, and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report. DNB Markets employees, including research analysts, may receive compensation that is generated by overall firm profitability. Confidentiality rules and internal rules restricting the exchange of information between different parts of DNB Markets/DNB Bank ASA or the DNB Group are in place to prevent employees of DNB Markets who are preparing this report from utilizing or being aware of information available in the DNB Group that may be relevant to the recipients' decisions. DNB Markets and the DNB Group have incorporated internal rules and regulations in order to avoid any potential conflicts of interest.

The Report has been prepared by DNB Markets, a division of DNB Bank ASA, a Norwegian bank organized under the laws of the Kingdom of Norway and under supervision by the Norwegian Financial Supervisory Authority, The Monetary Authority of Singapore, and on a limited basis by the Financial Conduct Authority and the Prudential Regulation Authority of the UK, and the Financial Supervisory Authority of Sweden. Details about the extent of our regulation by local authorities outside Norway are available from us on request.

It is issued subject to the General Business Terms for DNB Markets and information about the terms is available at www.dnb.no. For requests regarding the General Business Terms of the Singapore Branch of DNB Bank ASA, please contact +65 6212 6144. Information about the DNB Group can be found at www.dnb.com. DNB Markets is a member of The Norwegian Securities Dealers Association, which has issued recommendations and market standards for securities companies. The Association's Internet address where the recommendations and market standards can be found is: www.vpff.no. This report is not an offer to buy or sell any security or other financial instrument or to participate in any investment strategy. No liability whatsoever is accepted for any direct or indirect (including consequential) loss or expense arising from the use of this report. Distribution of research reports is in certain jurisdictions restricted by law. Persons in possession of this report should seek further guidance regarding such restrictions before distributing this report. The report is not to be distributed or forwarded to private persons in the UK or the US. Please contact DNB Markets at 08940 (+47 915 08940) for further information and inquiries regarding this report, including an overview on all recommendations from DNB Markets over the last 12 Months according to Market Abuse Regulations.

Additional information for clients in Singapore

The report has been distributed by the Singapore Branch of DNB Bank ASA. It is intended for general circulation and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. You should seek advice from a financial adviser regarding the suitability of any product referred to in the report, taking into account your specific financial objectives, financial situation or particular needs before making a commitment to purchase any such product. You have received a copy of the report because you have been classified either as an accredited investor, an expert investor or as an institutional investor, as these terms have been defined under Singapore's Financial Advisers Act (Cap. 110) ("FAA") and/or the Financial Advisers Regulations ("FAR"). The Singapore Branch of DNB Bank ASA is a financial adviser exempt from licensing under the FAA but is otherwise subject to the legal requirements of the FAA and of the FAR. By virtue of your status as an accredited investor or as an expert investor, the Singapore Branch of DNB Bank ASA is, in respect of certain of its dealings with you or services rendered to you, exempt from having to comply with certain regulatory requirements of the FAA and FAR, including without limitation, sections 25, 27 and 36 of the FAA. Section 25 of the FAA requires a financial adviser to disclose material information concerning designated investment products which are recommended by the financial adviser to you as the client. Section 27 of the FAA requires a financial adviser to have a reasonable basis for making investment recommendations to you as the client. Section 36 of the FAA requires a financial adviser to include, within any circular or written communications in which he makes recommendations concerning securities, a statement of the nature of any interest which the financial adviser (and any person connected or associated with the financial adviser) might have in the securities. Please contact the Singapore branch of DNB Bank ASA at +65 6212 6144 in respect of any matters arising from, or in connection with, the report. The report is intended for and is to be circulated only to persons who are classified as an accredited investor, an expert investor or an institutional investor. If you are not an accredited investor, an expert investor or an institutional investor, please contact the Singapore Branch of DNB Bank ASA at +65 6212 6144. We, the DNB group, our associates, officers and/or employees may have interests in any products referred to in the report by acting in various roles including as distributor, holder of principal positions, adviser or lender. We, the DNB group, our associates, officers and/or employees may receive fees, brokerage or commissions for acting in those capacities. In addition, we, the DNB group, our associates, officers and/or employees may buy or sell products as principal or agent and may effect transactions which are not consistent with the information set out in the report.

In the United States

Each research analyst named on the front page of this research report, or at the beginning of any subsection hereof, hereby certifies that (i) the views expressed in this report accurately reflect that research analyst's personal views about the company and the securities that are the subject of this report; and (ii) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

The research analyst(s) named on this report are foreign research analysts as defined by FINRA Rule 1050. The only affiliate contributing to this research report is DNB Bank through its DNB Markets division ("DNB Markets/DNB Bank"); the foreign research analysts employed by DNB Markets/DNB Bank are named on the first page; the foreign research analysts are not registered/qualified as research analysts with FINRA; foreign research analysts are not associated persons of DNB Markets, Inc. and therefore are not subject to the restrictions set forth in FINRA Rules 2241 and 2242 regarding restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

This is a Third Party Research Report as defined by FINRA Rules 2241 and 2242. Any material conflict of interest that can reasonably be expected to have influenced the choice of DNB Markets/DNB Bank as a research provider or the subject company of a DNB Markets/DNB Bank research report, including the disclosures required by FINRA Rules 2241 and 2242 can be found above.

This report is being furnished solely to Major U.S. Institutional Investors within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934 and to such other U.S. Institutional Investors as DNB Markets, Inc. may determine. Distribution to non-Major U.S. Institutional Investors will be made only by DNB Markets, Inc., a separately incorporated subsidiary of DNB Bank that is a U.S. broker-dealer and a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation ("SIPC").

Any U.S. recipient of this report seeking to obtain additional information or to effect any transaction in any security discussed herein or any related instrument or investment should contact DNB Markets, Inc., 200 Park Avenue, New York, NY 10166-0396, telephone number +1 212-551-9800.

In Canada

The Report has been distributed in reliance on the International Dealer Exemption pursuant to NI 31-103 subsection 8.18(2) and subsection 8.18(4)(b). Please be advised that: 1. DNB Bank ASA (DNB Markets) and DNB Markets, Inc. are not registered as a dealer in the local jurisdiction to make the trade. We provide our services in Canada as an exempt international dealer. 2. The jurisdiction of DNB Bank ASA (DNB Markets) and DNB Markets, Inc.'s head office is Norway. 3. There may be difficulty enforcing legal rights against DNB Bank ASA (DNB Markets) and DNB Markets, Inc. because all or substantially all of their assets may be situated outside of Canada. 4. The name and address of the agent for service of process for DNB Bank ASA (DNB Markets) and DNB Markets, Inc. in the local jurisdiction is:

Alberta: Blake, Cassels & Graydon LLP, 855 - 2nd Street S.W., Suite 3500, Bankers Hall East Tower, Calgary, AB T2P 4J8. British Columbia: Blakes Vancouver Services Inc., 595 Burrard Street, P.O. Box 49314, Suite 2600, Three Bentall Centre, Vancouver, BC V7X 1L3. Manitoba: Aikins, MacAulay & Thorvaldson LLP, 30th Floor, Commodity Exchange Tower, 360 Main Street, Winnipeg, MB R3C 4G1. New Brunswick: Stewart McKelvey, Suite 1000, Brunswick House, 44 Chipman Hill, PO Box 7289, Station A, Saint John, NB E2L 2A9. Newfoundland and Labrador: Stewart McKelvey, Suite 1100, Cabot Place, 100 New Gower Street, P.O. Box 5038, St. John's, NL A1C 5V3. Nova Scotia: Stewart McKelvey, Purdy's Wharf Tower One, 1959 Upper Water Street, Suite 900, P.O. Box 997, Halifax, NS B3J 2X2. Northwest Territories: Gerald Stang, Suite 201, 5120-49 Street, Yellowknife, NT X1A 1P8. Nunavut: Field LLP, P.O. Box 1779, Building 1088C, Iqaluit, NU X0A 0H0. Ontario: Blakes Extra-Provincial Services Inc., Suite 4000, 199 Bay Street, Toronto, ON M5L 1A9. Prince Edward Island: Stewart McKelvey, 65 Grafton Street, Charlottetown, PE C1A 1K8. Québec: Services Blakes Québec Inc., 600 de Maisonneuve Boulevard Ouest, Suite 2200, Tour KPMG, Montréal, QC H3A 3J2. Saskatchewan: MacPherson, Leslie & Tyerman LLP, 1500 Continental Bank Building, 1874 Scarth Street, Regina, SK S4P 4E9. Yukon: Grant Macdonald, Macdonald & Company, Suite 200, Financial Plaza, 204 Lambert Street, Whitehorse, YK Y1A 3T2.

6 February 2020

In Brazil

The analyst or any close associates do not hold nor do they have any direct/indirect involvement in the acquisition, sale, or intermediation of the securities discussed herein. Any financial interests, not disclosed above, that the analyst or any close associates holds in the issuer discussed in the report is limited to investment funds that do not mainly invest in the issuer or industry discussed in the report and the management of which these persons cannot influence.