

Cyber Security 1

Mangold Insight – Update – 6 September 2022

Continued potential within cyber security

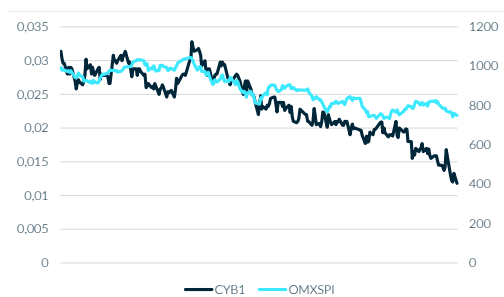
Mangold is updating the cyber security company Cyber Security 1 ("CYBER1") following the second quarter. CYBER1's revenue increased by 19.7 percent in the second quarter of 2022, compared to the same period last year. Revenue was accordingly 7.3 percent lower than estimated for the quarter. The gross margin was lower than expected, driven by costs related to customer acquisition and price wars with competitors within the largest subsidiary Drs.

Secured financing for growth

CYBER1's subscription warrants of series TO1 had a exercise rate of approximately 86 percent, meaning the company received approximately MEUR 3.1, before issue costs. Further financing has also been obtained through a loan of MEUR 3.5. The financing will contribute to continued growth, and opens the way to acquiring the remaining 25 percent of CSSA and 50 percent of CSAD. The companies had a combined turnover of approximately MEUR 2.8 during the quarter, and CSSA was EBITDA profitable. CYBER1 has an exclusive option to acquire the remaining shares of the companies until the end of September. Mangold takes a positive view of any further acquisitions, as they are expected to increase profitability and contribute to further growth moving forward.

The model shows an upside

Mangold lowers the price target from EUR 0.045 to 0.040 per share, given lower growth and margins than expected. This corresponds to an upside of over 200 percent. Mangold assessment remains that CYBER1 will be EBIT profitable in 2023, and will grow at a high rate going forward, driven by the underlying market demand and the expansion of the Managed Services business area.



Price performance %	1m	3m	12m
CYB1	-23.6	-37.0	-59.9
OMXSPI	-6.6	-10.3	-24.7

Information

Rec. price/Price target (EUR)	Buy 0.040
Risk	Medium
Price (EUR)	0.0114
Market value (MEUR)	11.6
No. of shares (million)	1 021.3
Free float	92.0%
Ticker	CYB1
Next report	14 November 2022
Website	cyber1.com
Analyst	Pontus Ericsson

Ownership structure	Shares (M)	Capital
Abn Amro Sweden	150.4	14,7%
Saxo Bank Client A.	124.4	12,2%
SIX SIS AG	63.0	6,2%
UBS Switzerland	61.4	6,0%
Robert Brown	50.8	5,0%
Cs (ch) Client	44.4	4,3%
Morgan Stanley	38.3	3,7%
Bridge Finance S.	29.9	2,9%
Total	1 021.3	100%

Key ratios

	2021	2022E	2023E	2024E	2025E
Revenue (MEUR)	37.2	45.7	56.7	67.5	75.9
EBIT (MEUR)	0.5	-2.1	0.0	2.1	3.0
Profit before tax (MEUR)	4.3*	-2.1	-0.1	2.0	2.9
EPS (EUR)	0.004	-0.002	0.000	0.002	0.002
EV/S	0.3	0.3	0.2	0.2	0.2
EV/EBITDA	13.5	neg	14.8	4.1	3.1
EV/EBIT	21.8	neg	1 768.6	5.6	3.8
P/E	2.7	neg	neg	7.4	5.0

*Extraordinary item as a result of the reconstruction included

Investment case

An undervalued defence

Mangold is updating CYBER1 and reiterates the Buy Recommendation and a price target of EUR 0.040 per share over a 12-month period, corresponding to an upside of over 200 percent. Mangold believes that CYBER1 has good opportunities to continue to grow at a high rate, based on their wide range of products and services, history of growth, and the strongly underlying market demand in cyber security.

Price target EUR 0.040 per share

Widened range of services

CYBER1's offers a wide range of software solutions and services related to cyber security. The company has licence rights to sell software solutions from a large number of suppliers in cyber security, which gives them the opportunity to offer strong protection. The company also uses professional services to identify deficiencies, acts as an advisor with regard to solutions, and ensures that the right processes are in place in the event of a data intrusion. The new Managed Services business area gives customers a chance to defend themselves against cyber attacks by CYBER1 monitoring security in real time, remotely. Mangold believes that the wide range of different products and services gives CYBER1 the opportunity to increase its sales and maintain good margins going forward.

Comprehensive protection against cyber attacks

Upward for the cyber security market

The global cyber security market is expected to grow from USD 177 billion to USD 403 billion between 2020 and 2027, corresponding to a growth of 12.5 percent annually (CAGR), according to market research company Brand Essence Research. Digitisation is taking place on a global scale, and costs related to cybercrime are expected to reach USD 10.5 trillion by 2025, according to cybersecurity magazine Cybersecurity Ventures. Mangold believes that CYBER1 benefits from the market trend, and can increase its sales based on the underlying demand.

The cyber security market is growing by 12.5 percent CAGR

Successful restructuring

Mangold assesses that CYBER1 is an undiscovered company, and is undervalued. The company has generated an operating profit of TEUR 530 in 2021, whilst undergoing a restructuring during the year, and wrote off debts. They have also managed to attain a growth of 36 percent, at the same time as costs have been significantly reduced in relation to sales. In 2021, they also acquired the companies CSSA and CSAD, which further strengthens their position in Africa. CSSA is now included in the accounts as CYBER1 increased its ownership to 75 percent, and CSAD is reported as 50 percent of the profit from associated companies. CYBER1 has an exclusive option to acquire the remaining shares until the end of September, which is seen as an interesting option. Overall, Mangold believes that there is a large upside to be found in the CYBER share.

Upside to be found in CYBER1's share

Cyber Security 1 – Update

Increased revenue

In the second quarter of 2022, CYBER1's revenue increased by 19.7 percent compared to the same quarter last year. The company was burdened by costs related to the new Managed Services business area and pressure on the gross margin due to competition. The construction of a Security Operations Centre (SOC) has been the primary reason why operational costs have increased by 50 percent compared to the previous year. The increase includes investments in software, cloud platform, personnel, and materials that Mangold believes will lead to growth and improved profitability in the future.

19.7 percent higher revenue than the same period last year

CYBER1 - OUTCOME Q2

(TEUR)	Q2 21	Q2 22	H1 21	H1 22
Revenue	8 246	9 872	16 052	19 514
Growth		19.7%		21.6%
Gross margin	26.4%	21.3%	27.7%	21.1%
EBIT margin	0.9%	-10.6%	-6.6%	-8.6%

Source: Mangold Insight

Margin development

The gross margin was lower than estimated for the full year 2022, driven by costs related to customer acquisition and price wars with competitors in the subsidiary Drs. However, Mangold believes that the gross margin will return to previous levels of 27 percent in 2024, primarily driven by a larger share of revenue from Managed Services. The business area is expected to have higher margins compared to Software Distribution. The gross margin estimate is lowered from 23 to 22 percent during the full year 2022. This is done due to the fact the company has not managed to recover it to a sufficient extent in the second quarter of 2022.

Margins are expected to recover in 2024

Growth estimate

Revenue was 7.3 percent lower than estimate for the quarter. Mangold assessment remains that CYBER1 will achieve a progressive extended quarterly growth, primarily driven by the closing of deals in the subsidiary Credence Security and the inclusion of CSSA in the accounts. We choose to maintain the growth estimate for the remaining two quarters. The revenue for the full year 2022 is as such expected to be approximately MEUR 2.7 lower than the previous estimate, corresponding to a reduction from 30 to 23 percent growth for the full year 2022.

Downwardly adjusted revenue estimates

CYBER1 - GROWTH ESTIMATE

(TEUR)	Q1	Q2	Q3E	Q4E	FY22E
Revenue	9 633	10 596	12 515	15 643	48 387
Previous growth estimate		10%	18%	25%	
Revenue (new estimate)	9 633	9 872	11 649	14 561	45 715
Quarterly growth		2.5%	18%	25%	

Source: Mangold Insight

Cyber Security 1 – Update cont.

Restructuring completed

CYBER1 completed its restructuring process on 28 June 2022. The restructuring has been ongoing since May 2020, and the company has paid the claims it was required to pay. The amount that has been paid is approximately MSEK 47.5, after a 75 percent depreciation of non-prioritised receivables.

Restructuring completed

Loan to accelerate growth

CYBER1 has secured a loan from Group BV, a company closely associated with current shareholder Sjan Van Ettehoven. The loan is for MEUR 3.5 and will finance continued growth moving forward. As an example, the capital could be used to acquire the remaining shares of CSAD and CSSA, which the company has an exclusive option to acquire until 30 September 2022. It should be added that CSSA has been included in the company's accounts from 1 April 2022 as CYBER1 increased its ownership from 50 to 75 percent. The loan carries a 10 percent annual interest, where the first due date for MEUR 1 is 31 August and is interest-free. The second due date is 15 June 15 2025, where the remaining part of MEUR 2.5 shall be paid. The loan can either be paid in cash or in the form of newly issued shares.

Exclusive opportunity to acquire the remaining shares of CSSA and CSAD

Subscription warrants provide conditions for growth

Approximately 310.5 million subscription warrants of series TO1 were subscribed during the period 25 July to 8 August 2022, which corresponds to a exercise rate of approximately 86 percent. CYBER1 thereby received approximately MEUR 3.1, before issue costs, of which EUR 635 000 offset previous liabilities. Mangold has previously calculated that the company would obtain a coverage ratio of 100 percent, which means that the dilution was lower than expected at 44 (51) percent. The number of shares in the company after the issue amounts to approximately 1 021 million. The loan and the liquidity from the subscription warrants will allow CYBER1 to acquire the remaining 25 percent of CSSA and 50 percent of CSAD. Mangold believes that it would strengthen the company's position on the African cyber security market, increase growth, and increase profitability.

Capital injection enables acquisitions

Investments

The company has made larger investments in Managed Services than expected, which means that we choose to increase the investments for the full year 2022 from approximately MEUR 0.5 to MEUR 1.3.

Higher investment rate than expected

Cyber Security 1 – Update cont.

Development within CYBER1's subsidiaries

Development within CYBER1's various subsidiaries has varied, and it is also the first quarter that CSSA is included in the accounts. Below is an overview of the results within the various subsidiaries.

First quarter with CSSA in the accounts

CYBER1 - OUTCOME SUBSIDIARIES H1

Subsidiary	Drs	Credence Security	Credence Security	Protec	CSSA
Region	South Africa	Middle East & India	South Africa	Kenya	South Africa
(TEUR)	H1 22	H1 22	H1 22	H1 22	Q2 22
Revenue	10 157	7 178	537	596	1 058
Gross margin	21.0%	21.7%	25.0%	38.0%	20.0%
EBITDA	-1 161	-254	57	-69	26

Source: Mangold Insight

Drs

Drs revenue in the second quarter of 2022 amounted to approximately MEUR 4.4, a decrease of 14 percent compared to the same period last year. The Managed Services business area accounted for 13 percent of revenue, former customers in software distribution for 60 percent, and new customers for 25 percent. The reduction stems from stricter budgets in both the countries and the sectors in which Drs is active, which negatively affected sales. Price wars with competitors have also contributed to a deteriorating gross margin for the subsidiary. Costs related to Managed Services burden the company's results, resulting in approximately MEUR -1.2 in EBITDA. The subsidiary is as such clearly the greatest contributing factor to the negative result trend. However, Mangold views that the development of a SOC and the new business area will benefit CYBER1 in the long term.

Expenses related to SOC burden the company

Credence Security

In the Middle East and India, revenue for the quarter amounted to MEUR 3.8, which is an increase of 48 percent compared to the same period last year. New sales accounted for 84 percent of revenue and can be attributed to marketing efforts, such as the previously announced road show in 19 cities in Africa, the Middle East and India. The company has a pipeline of 200 new potential customers, and is expected to return to profitability by the end of the next quarter. The South African area of the business increased revenues to EUR 287 000, corresponding to over 100 percent. The business area generated around EUR 57 000 in EBITDA, and the majority of the revenue came from new sales. Mangold believes that the subsidiary will be able to maintain a continued high growth rate during the remaining two quarters, given the large pipeline of potential customers.

Increased revenue by 48 percent in the Middle East and India

Cyber Security 1 – Update cont.

Protec

Revenue in the second quarter of 2022 was EUR 255 000, a decrease of 27 percent. Political unrest in Kenya in connection with local elections has contributed to the deteriorating performance of Protec. Budget priorities with customers have contributed to the subsidiary missing out on a number of large deals during the quarter. EBITDA was approximately EUR -68 500 for the first half of 2022. The company aims to expand the Managed Services business area and also expand in Uganda.

Political unrest contributing to reduced revenue

CSSA

Revenue increased from approximately EUR 858 000 to EUR 1 058 000 in the second quarter of 2022, compared to the same quarter last year. This corresponds to a growth of approximately 23 percent. New sales accounted for 63 percent of revenue, and the company delivered an EBITDA of EUR 25 630. Mangold takes a positive view in that the acquired company is EBITDA profitable, which is expected to lift CYBER1's results as a whole moving forward.

The first quarter included sees growth and EBITDA profitability

CSAD

The company is not included in the accounts as CYBER1 only owns 50 percent of the company. They increased their revenue by 27 percent during the quarter, with a revenue of MEUR 1.7. Mangold takes a positive view in that CYBER1 has the exclusive right to acquire the remaining shares of the two companies, as they can increase growth and improve growth in the future. The capital injection from the subscription warrants and the loan taken out enables these acquisitions, if CYBER1 so wishes.

Potential further acquisition of shares in growing companies

Cyber Security 1 – Valuation

Undervalued stock

Mangold uses a DCF model to value CYBER1. Mangold has downwardly adjusted the growth rate from 30 to 23 percent for the full year 2022. In addition, the gross margin has been downwardly adjusted from 23 to 22 percent for the period. The price target is thereby reduced from EUR 0.045 to EUR 0.040 per share. Mangold still views CYBER1 as severely undervalued in terms of expected cash flows, but also sees them trading at an EV/sales multiple of 0.3 on 2021 sales, which is considered low.

Price target EUR 0.040

CYBER1 - DCF

(TEUR)	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	-2 067	37	2 096	3 045	4 148	5 428
Free cash flow	-472	-37	1 731	3 093	4 012	5 081
Terminal value						56 453

Assumptions	Req. return	Growth	Tax
	12%	3%	21%

Price target

Enterprise value	40 531
Equity value	40 642
Price target per share (EUR)	0.040

Source: Mangold Insight

Sensitivity analysis

Mangold has carried out a sensitivity analysis to test the model's outcome given different sales levels and required returns. If CYBER1 reaches 80 percent of estimated sales, the price target will fall to EUR 0.032 per share. If sales increase by 20 percent, the price target will instead increase to EUR 0.049 per share. Changes in required returns affect the price target more than changes in sales. In summary, the model shows a range between EUR 0.025 and EUR 0.065 per share. The model shows an upside regardless of the level of sales and required returns, which indicates that the company is undervalued.

Valuation range between EUR 0.025 and EUR 0.065 per share

CYBER1 - SENSITIVITY ANALYSIS

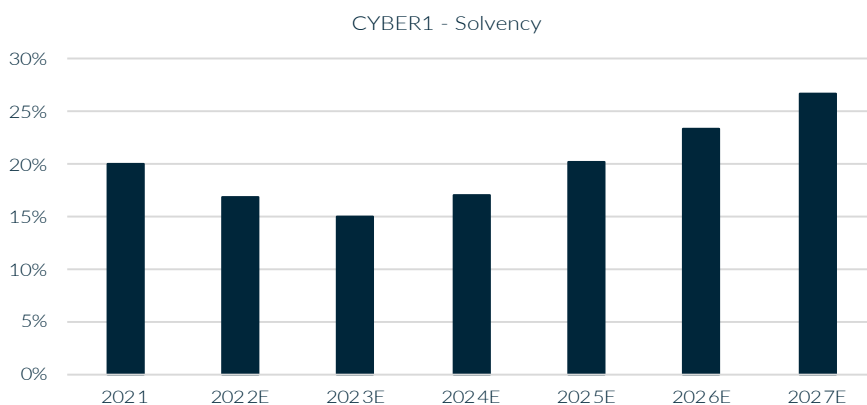
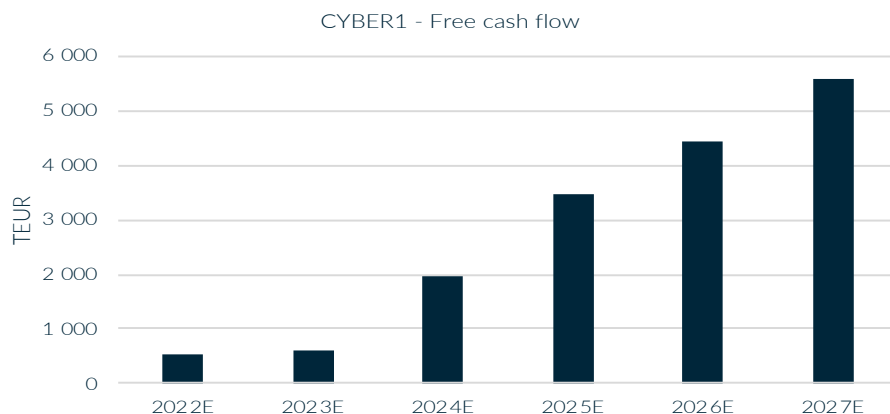
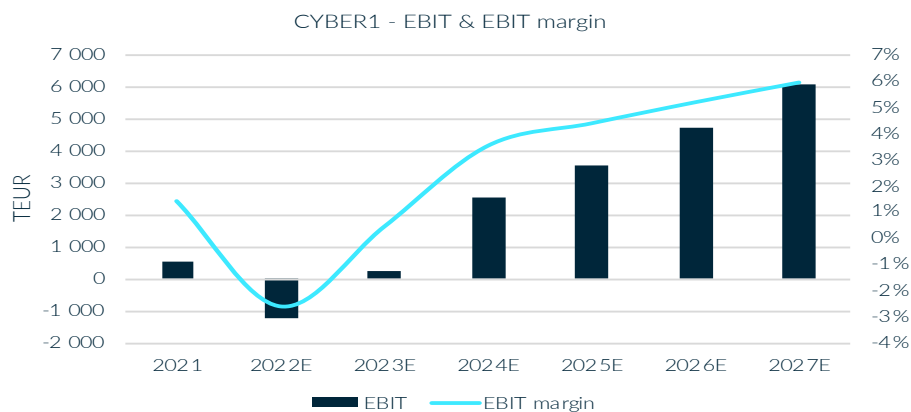
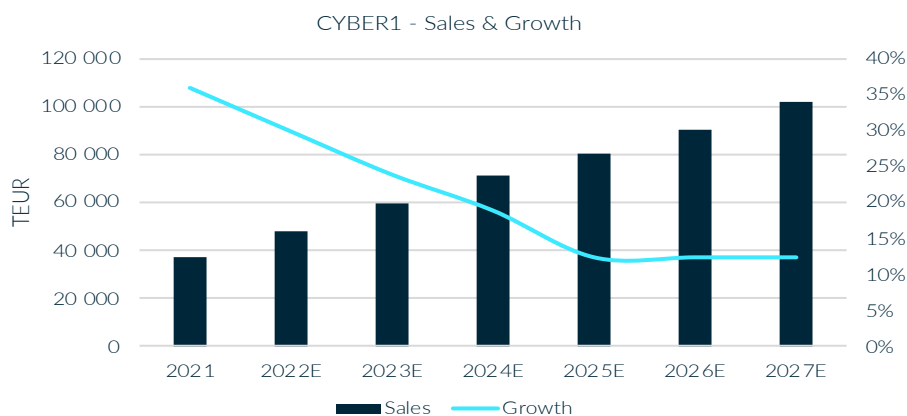
Req. return %	0.8x	Base sales (x)	1.2x
10	0.043	0.053	0.065
12	0.032	0.040	0.049
14	0.025	0.031	0.039

Source: Mangold Insight

Cyber Security 1 – SWOT



Cyber Security 1 – Appendix



Cyber Security 1 – Income statement & balance sheet

Income statement (TEUR)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	37 221	45 715	56 686	67 457	75 889	85 375	96 047
Costs of sales	-27 127	-35 612	-42 458	-49 176	-55 323	-62 238	-70 018
Gross profit	10 094	10 103	14 228	18 281	20 566	23 137	26 029
Gross margin	27%	22%	25%	27%	27%	27%	27%
Personnel costs	-6 346	-7 794	-9 085	-10 270	-10 977	-11 731	-12 538
Other expenses	-2 895	-3 657	-4 365	-5 194	-5 843	-6 574	-7 396
Depreciation	-323	-718	-772	-747	-725	-705	-687
Operating result	530	-2 067	7	2 069	3 021	4 126	5 408
Operating margin	1%	-5%	0%	3%	4%	5%	6%
Net interest income	3 785	-15	-75	-75	-75	-75	-75
Result after net financial items	4 315	-2 082	-68	1 994	2 946	4 051	5 333
Taxes	0	0	0	-411	-607	-835	-1 099
Net profit	4 315	-2 082	-68	1 583	2 339	3 217	4 235
Profit margin	12%	-5%	0%	2%	3%	4%	4%

Source: Mangold Insight

Balance sheet (TEUR)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and bank balances	620	4 929	4 816	6 478	9 501	13 443	18 453
Accounts receivable	16 143	19 789	24 538	29 200	32 851	36 957	41 576
Inventory	6	390	640	741	834	938	1 055
Fixed assets	7 184	7 720	7 473	7 251	7 051	6 871	6 709
Total assets	23 954	32 828	37 468	43 671	50 237	58 209	67 794
Liabilities							
Accounts payable	18 628	24 489	29 197	33 817	38 044	42 800	48 149
Liabilities	510	2 500	2 500	2 500	2 500	2 500	2 500
Total liabilities	19 138	26 989	31 697	36 317	40 544	45 300	50 649
Equity							
Restricted equity	599	3 704	3 704	3 704	3 704	3 704	3 704
Unrestricted equity	4 217	2 135	2 066	3 650	5 989	9 205	13 440
Total equity	4 816	5 839	5 771	7 354	9 693	12 910	17 144
Liabilities and equity	23 954	32 828	37 468	43 671	50 237	58 209	67 793

Source: Mangold Insight

Disclaimer

Mangold Fondkommission AB ('Mangold' or 'Mangold Insight') offers financial solutions to companies and private individuals with potential, delivered in a personalised manner with a high level of service and availability. The company currently operates in two segments: i) Investment Banking and ii) Private Banking. Mangold comes under the supervision of Finansinspektionen (FI), Sweden's financial supervisory authority, and conducts business with transferable securities, in accordance with the Securities Market Act (2007:528). Mangold is a member of NASDAQ Stockholm, Spotlight Stock Market and Nordic Growth Market, and a derivative member on NASDAQ Stockholm.

This publication has been compiled by Mangold Insight for information purposes, and should not be viewed as advice. The content is based on information from publicly accessible sources that have been deemed reliable. The accuracy and totality of the subject content, as well as any forecasts and recommendations provided, can thereby not be guaranteed. Mangold Insight does not provide any advance conclusions and/or judgements in the publication. Any opinions provided in the publication are those of the analyst at the time of its preparation, and these may change. No assurance is given that future events will be in accordance with opinions conveyed in the publication.

Mangold disclaims all liability for direct or indirect damage that may be attributed to this publication. Investments in financial instruments are associated with financial risk. The historical performance of an investment is no guarantee for the future. Mangold thereby disclaims all liability for any loss or damage of any kind attributable to the use of this publication.

This publication may not be reproduced for any purpose other than personal use. The document may not be distributed to physical or legal entities who are citizens of or resident in a country where such distribution is prohibited under applicable laws or other provisions. Mangold's written consent is required in order to distribute all or any part of this publication.

Mangold may carry out publications on behalf of, and against payment from, the company highlighted in the analysis, or an issuing institute in conjunction with M&A, new issues or IPOs.

In relation to the execution of this publication, the reader may assume that Mangold receives remuneration from the company. A client/assignment relationship or consulting situation may also exist between the company and another department at Mangold. Mangold has guidelines for managing conflicts of interest, and restrictions on when trading may take place in financial instruments.

Mangold last analysed Cyber Security 1 17 June 2022

Mangold's analyst does not own shares in Cyber Security 1.

Mangold does not own shares in Cyber Security 1, such as for own stock.

Mangold does not own shares in Cyber Security 1 through assignments, such as a liquidity guarantor.

Mangold has performed services for the company and has received remuneration from the company for these.

Mangold comes under the supervision of Finansinspektionen (FI), Sweden's financial supervisory authority.

Recommendation structure:

Mangold Insight grades its share recommendations over a 12-month period, according to the following structure:

Buy – An upside in the share of at least 20%

Increase – An upside in the share of 10–20%

Neutral – An upside and downside in the share of 0–10%

Decrease – A downside in the share of 10–20%

Sell – A downside in the share of at least 20%