

Cyber Security 1

Mangold Insight – Update - 30 November 2022

Double acquisition completed

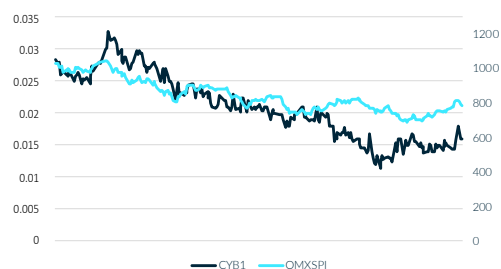
Mangold is updating the cyber security company Cyber Security 1 ("CYBER1") following the third quarter. CYBER1's revenue increased to MEUR 11.3 (8.2), corresponding to a growth rate of 37.3 percent. Revenue was 2.7 percent lower than estimate for the quarter, which means that Mangold maintains the growth estimate for the fourth quarter.

EBITDA profitable acquisitions

CYBER1 acquired the remaining 25 percent of CSSA and 50 percent of CSAD at the end of September, which means that CYBER1 owns both companies to 100 percent. The purchase price amounted to MEUR 2.172, and the companies had a combined turnover of MEUR 11.4 in 2021, as well as being EBITDA profitable. Mangold views the acquisitions positively as they are expected to contribute to growth and increase profitability for CYBER1. This means that the company is expected to be EBITDA profitable as early as 2023.

The model shows an upside

Mangold reiterates the price target of EUR 0.040 per share. This corresponds to an upside of over 150 percent. The maintained price target is justified by the fact that the third quarter followed the previous estimate. Mangold maintains its assessment that CYBER1 will be EBITDA profitable in 2023 and grow at a high rate moving forward. It is driven by completed acquisitions, the underlying market demand, and the expansion of the Managed Services business area.



Price performance %	1m	3m	12m
CYB1	4.0	11.4	-40.0
OMXSPI	6.9	4.9	-19.0

Information

Rec. price/Price target (EUR)	Buy 0.040
Risk	Medium
Price (EUR)	0.0156
Market value (MEUR)	15.9
No. of shares (million)	1 021.3
Free float	90.0%
Ticker	CYB1
Next report	20 February 2023
Website	cyber1.com
Analyst	Pontus Ericsson

Ownership structure	Shares (M)	Capital
Abn Amro Sweden	211.6	20.7%
Saxo Bank Client A.	200.7	19.7%
SIX SIS AG	99.6	9.8%
Robert Brown	94.4	9.2%
Morgan Stanley	64.4	6.3%
Cs (ch) Client	59.4	5.8%
Ibkr Financial Services	33.7	3.3%
UBS Switzerland	31.1	3.0%
Total	1 021.3	100%

Key ratios	2021	2022E	2023E	2024E	2025E
Net sales (MEUR)	37.2	45.0	55.8	66.4	74.7
EBIT (MEUR)	0.5	-3.3	-0.1	2.0	3.2
Profit before tax (MEUR)	4.3*	-3.3	-0.2	1.9	3.1
EPS (EUR)	0.004	-0.003	0.000	0.001	0.002
EV/S	0.4	0.4	0.3	0.2	0.2
EV/EBITDA	18.5	neg	20.1	5.4	3.9
EV/EBIT	29.9	neg	neg	7.8	5.0
P/E	3.7	neg	neg	10.4	6.5

*Extraordinary item as a result of the reconstruction included

Investment case

An undervalued defence

Mangold is updating CYBER1 and reiterates the Buy Recommendation with a price target of EUR 0.040 per share over a 12-month period. This corresponds to an upside of over 150 percent. Mangold believes that CYBER1 has good opportunities to continue to grow at a high rate, based on the two completed acquisitions, its history of growth, and the strong 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 2022, they have completed the acquisition of the companies CSSA and CSAD, which strengthens their position in Africa. Overall, Mangold believes that there is upside to be found in the CYBER share.

Upside to be found in CYBER1's share

Cyber Security 1 – Update & Estimates

Increased revenue

CYBER1's revenue amounted to MEUR 11.3 (8.2) during the third quarter, an increase compared to the same period last year. This corresponds to a growth rate of 37.3 percent. In the African sector of the business, several large deals have taken longer to close than expected, which CYBER1 hopes to close in the fourth quarter of 2022. Revenue from renewed contracts amounted to 43 percent of the total revenue. Operating costs increased by 36 percent to EUR 894 000 during the quarter which is slightly lower than revenue growth.

37.3 percent higher revenue than the same period last year

CYBER1 - OUTCOME Q3

(TEUR)	Q3 21	Q3 22	9M 21	9M 22
Revenue	9 372	11 325	25 413	30 442
Growth		21%		20%
Gross margin	28.6%	18.6%	27.4%	19.1%
Personnel costs	1 723	2 201	4 345	6 109
Other expenses	664	1 031	1 957	2 259
EBIT margin	2.2%	-11.1%	1.8%	-9.8%

Source: Mangold Insight

Development of expenses

The gross margin was lower than estimate for the full year 2022, driven by higher expenses related to inflation, operational costs and competition. However, Mangold estimates that the gross margin will return to previous levels of 27 percent in 2024, 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 22.0 to 19.1 percent for the full year 2022, which is the same as in the first nine months of 2022. Personnel costs were slightly higher than estimate, which means that Mangold is upwardly adjusting costs going forward. At the same time, other expenses were somewhat lower than expected, which means that we are downwardly adjusting the estimate going forward.

Higher personnel costs, lower other expenses than expected

Maintained growth estimate

Revenue during the third quarter was 2.7 percent lower than estimate. Mangold maintains its assessment that CYBER1 will end the year strongly with a maintained quarterly growth of 25 percent. The increase in revenue is based on the fact that the final acquisitions of CSAD and CSSA will be included in the accounts, the majority of large deals are expected to be completed during the quarter, and that the fourth quarter has historically been a strong quarter for CYBER1.

Maintained growth estimate for the fourth quarter

CYBER1 - GROWTH Estimate

(TEUR)	Q1	Q2	Q3	Q4E	FY22E
Previous sales estimate	9 633	9 872	11 649	14 561	45 715
Previous growth estimate		2.5%	18%	25%	
Sales (new estimate)	9 633	9 872	11 325	14 156	44 986
Quarterly growth		2.5%	15%	25%	

Cyber Security 1 – Update cont.

Final acquisitions carried out

CYBER1 has acquired the remaining 50 percent of CSAD and the remaining 25 percent of CSSA. The purchase price for the completed acquisitions totals MEUR 2.172, which is paid in cash. Approximately MEUR 1.25 was paid on 10 October, and the remaining part will be paid up to and including 28 February 2023. In 2021, the companies generated a revenue of MEUR 11.4, and Mangold views the acquisition positively as it strengthens CYBER1's position in the cybersecurity market. Both subsidiaries were EBITDA profitable, which is expected to improve the profitability of CYBER1 moving forward.

Double acquisition completed

Upgraded by Palo Alto Networks

Cybersecurity company Palo Alto Networks has named CYBER1 a NextWave Diamond Innovator. This means that CYBER1 has lived up to the performance, capability, and company requirements to be included in the Palo Alto Networks NextWave Channel Partner Program. Mangold views the designation as a sign of CYBER1's ability to deliver strong cyber security for their customers.

Upgrade demonstrates CYBER1's ability

Additional working capital provided

CYBER1 secured additional capital via a loan of MEUR 1.5 from existing shareholders. Half of this was from SVE Group BV, a company closely linked with shareholders Sjan Van Ettehoven and Marlo Finance B.V. The loan runs until 30 September 2024, and can either be paid in cash or through a private placement of shares in CYBER1. The subscription price for the issuers of the loan is 85 percent of the average volume-weighted share price during the 30 days prior to each interest capitalisation date. The issuers of the loan can demand 25 percent of the loan amount at a share price of EUR 0.05 per share at any time during the period.

A further MEUR 1.5 in financing secured

Reseller operations rebranded

CYBER1 has chosen to rebrand its reseller operations to CYBER1 Solutions. The purpose is to gather all subsidiaries under one coherent brand. CYBER1's oldest subsidiary, DRS, was founded in 1997 and acquired in 2015. ProTec, which is one of the leading Kenyan network security companies, as well as Cognosec Dubai, are the companies that will be part of the new brand. The aim is to highlight the company's commitment to geographical cross-border cooperation, and reduce confusion when services are delivered internationally from a specific region.

Rebranded to CYBER1 Solutions

Cyber Security 1 – Update cont.

Development within CYBER1's subsidiaries

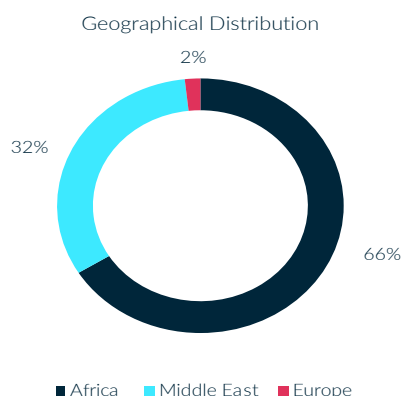
Development within CYBER1's various subsidiaries has varied, and it is also the first quarter that CSSA is included in the accounts. Below is an overview of the results within the various subsidiaries and geographical distribution:

First quarter with CSSA in the accounts

CYBER1 - OUTCOME SUBSIDIARIES H1

Subsidiary	CYBER1 Solutions	CYBER1 Solutions	Credence Security	Credence Security	CSSA	CSAD
Region	South Africa	Kenya	Middle East & India	South Africa	South Africa	Africa
(TEUR)	Q3 22	Q3 22	Q3 22	Q3 22	Q3 22	Q3 22
Revenue	4 006	460	2 507	138	1 058	2 036
Gross margin	24.8%	33.9%	9.6%	26.0%	20.0%	21.5%
EBITDA	-777	24	-532	-15	26	84

Source: Mangold Insight



Source: Mangold Insight, CYBER1

Development in CYBER1 Solutions

CYBER1 Solutions Southern Africa (formerly DRS) continues to work with financial institutions, the public sector, and critical infrastructure. The company had a turnover of MEUR 4 during the quarter, which is a decrease of 14 percent compared to the same period last year. A new significant business deal and a major contract renewal have been delayed, and are expected to be concluded during the fourth quarter. A seven-figure contract renewal with an African bank was concluded during the quarter, as well as a business deal with a multinational insurance company. After the end of the quarter, Jayson O'Reilly was recruited as the new CEO of the subsidiary. He has over 24 years of experience in senior sales roles within cyber security. Mangold views the recruitment positively as his experience can lead to increased sales in the future.

14 percent lower revenue compared to the same period last year

New CEO for the subsidiary

Revenue for CYBER1 Solutions Kenya (formerly Protec) amounted to approximately EUR 460 000, a decrease of 10.8 percent compared to the same quarter last year. The company states that they have a strong pipeline for the fourth quarter, which means that Mangold deems that the revenue in the subsidiary will increase during the fourth quarter. The subsidiary's main customer groups are banks, fintech and insurance companies. They aim to increase sales within managed services and to expand into Uganda.

Strong fourth quarter pipeline

Cyber Security 1 – Update cont.

Credence Security

Credence Security Middle East and India's revenue amounted to MEUR 2.5 in the third quarter of 2022. 69 percent of the revenue consisted of sales to new companies, of which 31 percent came from renewed contracts. Even within Credence Security, the majority of larger potential business deals have slipped over to the fourth quarter. Historically, Q4 has been the strongest for the subsidiary, which bodes well for the full year 2022. The company has participated in several events during the quarter, which includes the International Police Expo in New Delhi.

MEUR 2.5 in revenue during the quarter

Credence Security Southern Africa generated revenue of EUR 137 000, where 23 percent consisted of new sales and the remainder was from earlier customers.

CSSA

Revenue during the quarter amounted to approximately MEUR 1.1. The company generated an EBITDA of approximately EUR 26 000. 97 percent of sales consisted of new customer contracts, while 3 percent comprised renewed contracts. The company had the largest number of contracts ever. In addition, CSSA received additional technical certification in CyberArk, which should strengthen the general expertise in the company.

Largest number of contracts ever

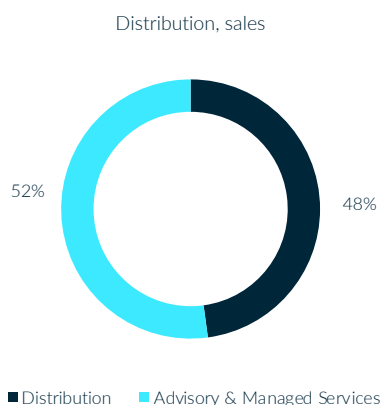
CSAD

Revenue amounted to approximately MEUR 2 during the quarter, with an EBITDA of approximately EUR 84 000. The company recruited three CyberArk engineers, which will strengthen the company's offer. Mangold believes that the integration of the two EBITDA profitable operations will contribute to improved profitability and increased growth for CYBER1 moving forward.

EBITDA of EUR 84 000

Distribution, business areas

The distribution between the two business areas Distribution and Advisory & Managed Services is shown below.



Source: Mangold Insight

Cyber Security 1 – Valuation

Undervalued stock

Mangold uses a DCF model to value CYBER1. Given that the fair value has only decreased to EUR 0.039 (0.040) per share, Mangold chooses to maintain the price target of EUR 0.040 per share. Mangold continues to view CYBER1 as undervalued in terms of expected cash flows. It should be added that CYBER1 is trading at an EV/sales multiple of 0.4 on the 2022 estimate, which we believe is low.

Price target EUR 0.040

CYBER1 - DCF						
(TEUR)	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	-3 270	-110	2 041	3 162	4 330	5 679
Free cash flow	-6 956	3 236	1 879	3 340	4 278	5 386
Terminal value						59 840
Assumptions	Disc. interest	Growth	Tax			
	12%	3%	21%			
Fair value						
Enterprise value	39 544					
Equity value	39 654					
Fair value per share (EUR)	0.039					

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 0.031 per share. If sales increase by 20 percent, the price target will instead increase to EUR 0.048 per share. Changes in required returns affect the price target more than changes in sales. In summary, the model shows a range between EUR 0.023 and EUR 0.066 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 0.023 and EUR 0.066 per share

CYBER1 - SENSITIVITY ANALYSIS			
Req. return %	0.8x	Base sales (x)	1.2x
10	0.042	0.053	0.066
12	0.031	0.039	0.048
14	0.023	0.031	0.037

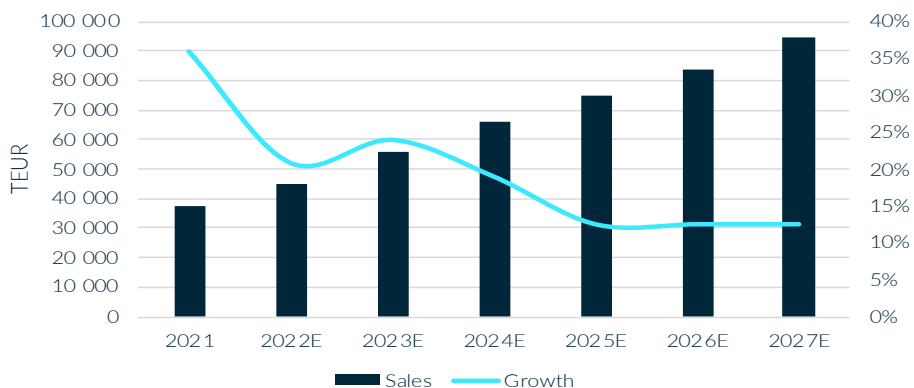
Source: Mangold Insight

Cyber Security 1 – SWOT

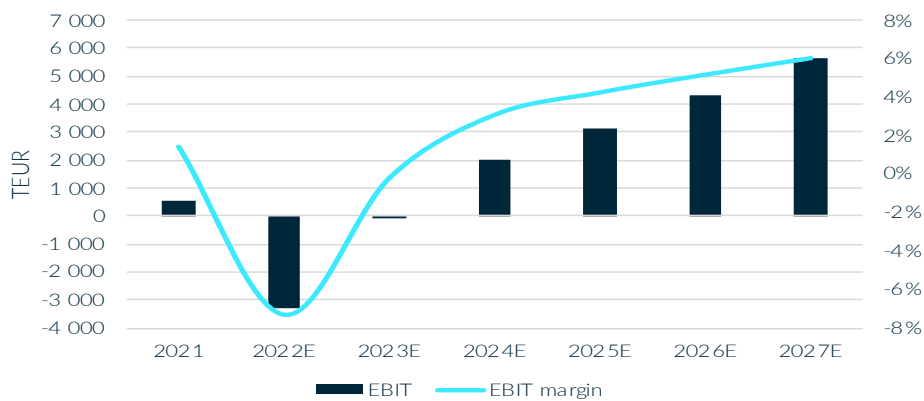


Cyber Security 1 – Appendix

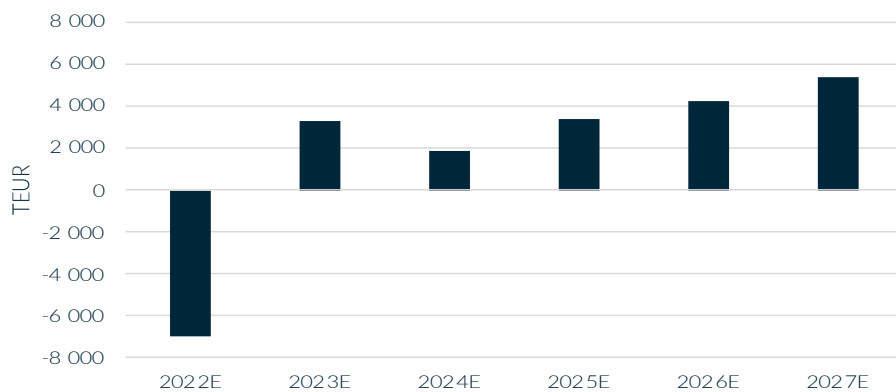
CYBER1 - Sales & Growth



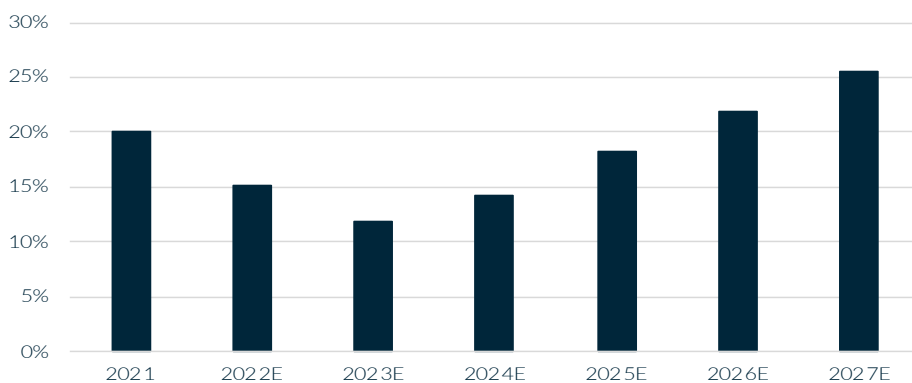
CYBER1 - EBIT & EBIT margin



CYBER1 - Free cash flow



CYBER1 - Solvency



Cyber Security 1 - Income statement & balance sheet

Income statement (TEUR)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Net revenue	37 221	44 986	55 783	66 382	74 680	84 015	94 516
Costs of sales	-27 127	-36 394	-41 782	-48 392	-54 442	-61 247	-68 903
Gross profit	10 094	8 592	14 002	17 990	20 238	22 768	25 614
Gross margin	27%	19%	25%	27%	27%	27%	27%
Personnel costs	-6 346	-8 130	-9 477	-10 600	-11 210	-11 981	-12 804
Other expenses	-2 895	-3 014	-3 737	-4 448	-5 004	-5 629	-6 333
Depreciation	-323	-718	-898	-900	-862	-829	-798
Operating result	530	-3 270	-110	2 041	3 162	4 330	5 679
Operating margin	1%	-7%	0%	3%	4%	5%	6%
Net interest income	3 785	-15	-120	-120	-75	0	0
Result after net financial items	4 315	-3 286	-230	1 922	3 087	4 330	5 679
Taxes	0	0	0	-396	-636	-892	-1 170
Net profit	4 315	-3 286	-230	1 526	2 451	3 438	4 509
Profit margin	12%	-7%	0%	2%	3%	4%	5%

Source: Mangold Insight

Balance sheet (TEUR)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Assets							
Cash and bank balances	620	244	3 360	3 619	4 386	8 663	14 049
Accounts receivable	16 143	20 953	24 147	28 735	32 327	36 368	40 914
Stock	6	399	630	729	820	923	1 038
Fixed assets	7 184	8 975	9 000	8 625	8 287	7 984	7 710
Total assets	23 954	30 571	37 137	41 708	45 820	53 938	63 711
Liabilities							
Accounts payable	18 628	21 936	28 732	33 278	37 438	42 118	47 382
Liabilities	510	3 999	3 999	2 499	0	0	0
Total liabilities	19 138	25 935	32 731	35 777	37 438	42 118	47 382
Equity							
Restricted equity	599	3 704	3 704	3 704	3 704	3 704	3 704
Unrestricted equity	4 217	931	702	2 227	4 679	8 116	12 625
Total equity	4 816	4 636	4 406	5 931	8 383	11 820	16 329
Liabilities and equity	23 954	30 571	37 137	41 708	45 820	53 938	63 711

Source: Mangold Insight

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Mangold last analysed Cyber Security 1 on 6 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.

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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%