

# Cyber Security 1

Mangold Insight - Update - 2023-12-06

## Cyber Security in growth markets

Mangold updates Cyber Security 1 ("CYBER1") after the third quarter of 2023. CYBER1's revenue increased to EUR 33.9 (30.6) million in the first nine months of the year compared to the same period last year. That represents a growth rate of 10.9 percent. Mangold has chosen to adjust down the growth rate given a lower growth than expected. Gross profit increased to EUR 7.3 (6.0) million during the same period, which corresponds to an increase of 22 percent. EBITDA amounted to EUR -0.76 (-2.61) million, which is a significant improvement over the previous year. However, it is lower than Mangold's estimate which has led us to adjust the margins down moving forward. Mangold continues to believe that CYBER1 will reach profitability (EBITDA) on a full year basis in 2023 driven by an expected strong fourth quarter.

## Reduced cost mass

Operating costs have fallen by 6.1 percent compared with the previous year. We see this as a clear sign that the company can improve its margins. This is even though the company made two acquisitions in the autumn of 2022. The cash amounted to EUR 0.5 million at the end of the quarter, corresponding to approximately SEK 5.7 million. Mangold believes that the cash is sufficient provided that the company meets our estimates.

## Model shows upside

Mangold reduces the Price target to EUR 0,045 (0,055) per share. For the price target to be reached, CYBER1 needs to continue improving margins and achieving profitability on a full-year basis in 2024, while continuing to grow at a high pace.



Price development %	1m	3m	12m
CYB1	-27,4	-45,5	-21,8
OMXSPI	7,2	4,0	3,8

## Information

Price target (EUR)	Buy 0,045
Risk	Medium
Price (EUR)	0,0122
Market Cap. (MEUR)	12,5
Number of shares (M)	1 025,9
Free float	93%
Ticker	CYB1
Next report	2024-02-28
Website	cyber1.com
Analyst	Pontus Ericsson

Ownership structure	Shares (M)	Capital
Saxo Bank Client A.	241,2	23,5%
Abn Amro Sweden	219,7	21,4%
SIX SIS AG	104,0	10,1%
Morgan Stanley	84,3	8,2%
Robert Brown	68,4	6,7%
Cs (Ch) Client	59,4	5,8%
Ibkr Financial Services	36,9	3,6%
UBS Switzerland	21,5	2,1%
<b>Total</b>	<b>1 025,9</b>	<b>100%</b>

## Key figures

	2022	2023E	2024E	2025E	2026E
Revenue (MEUR)	46,8	51,9	59,7	67,2	74,9
EBIT (MEUR)	-3,6	-0,2	1,4	3,0	4,9
Profit before tax (MEUR)	-3,9	-0,7	0,8	2,7	4,8
EPS (EUR)	-0,004	-0,001	0,001	0,002	0,004
EV/S	0,4	0,3	0,3	0,2	0,2
EV/EBITDA	neg	27,4	7,9	4,4	3,0
EV/EBIT	neg	neg	12,4	5,5	3,4
P/E	neg	neg	18,7	5,9	3,3

# Investment case

## An undervalued defense

Mangold updates CYBER1 and repeats Buy at a reduced target price of EUR 0.045 (0.055) per share over a 12-month period. That represents an upside of over 200 percent. The estimate for sales and profitability has decreased as the company did not live up to our expectations for the third quarter. Mangold continues to see that CYBER1 is undervalued given its expected cash flows.

Price target EUR 0,045 per share

## Broader range of services

CYBER1 offers a wide range of software solutions and services related to cybersecurity. The company has license rights to sell software solutions from a large number of cybersecurity vendors, allowing them to offer a strong protection. The company also uses professional services to identify deficiencies, acts as advisers on solutions and ensures that the right processes are in place in case of a data breach. The new Managed services business gives customers a chance to defend themselves against cyber attacks by CYBER1 monitoring real-time security remotely. Mangold believes that the wide range of different products and services gives CYBER1 the opportunity to increase its sales and maintain good margins in the future.

Comprehensive cyber-attack protection

## Forward for the cybersecurity market

The global cybersecurity market is expected to grow from USD 177 billion to USD 403 billion between 2020 and 2027, representing a 12.5 percent annual growth rate (CAGR), according to Brand Essence Research. Digitalization is taking place on a global scale and costs related to cyber crime are expected to reach USD 10.5 trillion by 2025, according to cybersecurity magazine Cybersecurity Ventures. Mangold estimates that CYBER1 benefits from the market trend and can increase its sales based on the underlying demand.

Cybersecurity market grows with 12.5 percent CAGR

## Successful reconstruction

Mangold estimates that CYBER1 is an undiscovered company and undervalued. The company has generated an operating profit of EUR 530 thousand in 2021, while they have undergone a reconstruction during the year and written off debts. They have also managed to achieve growth of 36 percent, while costs have been significantly reduced in relation to sales. In 2022, the company completed acquisitions of the companies CSSA and CSAD which strengthened their position in Africa. Overall, Mangold estimates that there is an upside available in the CYBER1 share. During 2023, the company has continued to grow while they managed to reduce their costs.

Upside to collect in CYBER1's stock

# Cyber Security 1 – Update

## Higher gross margin and lower revenue

CYBER1's revenue amounted to EUR 33.9 (30.6) million in the first nine months of 2023, compared to the same period last year. That represents a growth rate of around 11 percent. The growth rate is lower than our estimate for the full year 2023 of 23 percent. For the quarter, revenue was significantly lower than our estimate, which means that we adjust revenue down to EUR 51.9 (57.7) million on an annual basis. Gross profit was 22 percent higher in the first nine months of the year compared with the same period of the previous year. During the quarter, both the EBITDA margin and the profit margin were lower than the corresponding period of the previous year. It is seen as negative given the previous positive developments during the year. However, we see that the fourth quarter will be strongly driven by seasonal variation and that most new customers within SOC will be included in the accounts. Moreover, deals have been postponed and is expected to be realized in the fourth quarter.

*Revenue increased by 11 percent in the first nine months*

### CYBER1 - OUTCOME Q1-Q3 23

(TEUR)	Q3 22	Q3 23	Q1-Q3 22	Q1-Q3 23	Diff
Revenues	11 325	8 858	30 592	33 914	11%
Gross profit	2 104	1 666	5 991	7 316	22%
Gross margin	18,6%	18,8%	19,6%	21,6%	
Personnel costs	2 197	1 938	6 056	5 668	-6%
Other expenses	1 035	887	2 542	2 409	-5%
EBITDA	-1 129	-1 159	-2 607	-760	71%
EBITDA margin	-10,0%	-13,1%	-8,5%	-2,2%	
Results	-1 246	-1 338	-3 067	-1 318	57%
Profit margin	-11,0%	-15,1%	-10,0%	-3,9%	

Source: Mangold Insight

## Positive cost development

Staff costs decreased to EUR 5.7 (6.1) million in quarter one to three in 2023 compared to last year. Other costs also decreased over the same period to EUR 2,4 (2,6) million. The reduction in the cost base and the increase in revenue, despite the acquisition of CSSA and CSAD in the second half of 2022, are seen as a clear sign that the company is on the right track. Total operational costs have decreased by 6.1 percent in the first nine months of 2023. At the same time, revenue increased by 11 percent. Mangold maintains that CYBER1 will be able to achieve a positive EBITDA margin for the full year 2023, given the expected strong fourth quarter. The gross margin remains significantly higher than the previous year of 21.6 (19.6) percent, but lower than our estimate of 23 percent for the full year. We thus choose to adjust the gross margin for the full year down to 22 percent.

*Operating costs decreased 6.1 percent in the first nine months of the year*

# Cyber Security 1 – Estimates

## Revenue estimate decreased

Mangold estimates that CYBER1 will show a growth rate of 10.9 percent for the full year 2023, down from 23.3 percent. This is justified by lower than expected revenues in the third quarter of 2023. The demand in the cybersecurity market is expected to contribute to growth in the coming years. The growth rate for the full year is expected to be in line with the growth for the first nine months of the year.

*Expected growth rate of 10.9 percent in 2023*

### CYBER1 - QUARTERLY ESTIMATES

Teur	Q1	Q2	Q3	Q4E	2023E	2023E (Previous estimate)
Sales	13 386	11 671	8 858	18 039	51 954	57 734
Quarterly growth	-18%	-13%	-24%	104%	11%	

Source: Mangold Insight

## Changes in estimates

Mangold has chosen to adjust down the sales estimate given that revenue decreased more than expected. In addition, we have chosen to adjust the gross margin and EBIT margin down in the future, given a weaker quarter than expected. Despite the revisions, Mangold maintains that CYBER1 is significantly underestimated given expected cash flows. Mangold track continued that CYBER1 will be able to improve its margins continuously.

*Reduced revenue estimate and operational costs*

### CYBER1 - OUTCOME H1 23

	2022	2023E	2024E	2025E	2026E	2027E
Sales	25,8%	23,3%	19,0%	12,5%	12,5%	12,5%
Sales (new)	25,8%	10,9%	15,0%	12,5%	11,5%	10,5%
Gross margin	19,9%	23,0%	24,3%	25,3%	26,3%	27,1%
Gross margin (new)	19,9%	22,0%	23,3%	24,7%	25,8%	27,1%
EBIT margin	-7,8%	1,3%	3,8%	5,6%	7,5%	9,1%
EBIT margin (new)	-7,8%	-0,4%	2,3%	4,5%	6,6%	8,7%

Source: Mangold Insight

## Capital needs covered given expected profitability improvements

Given that CYBER1's development is in line with our estimate, we see no reason why the company needs to raise additional capital. However, the cash position remains weak at the end of the quarter at around EUR 0.5 million. This corresponds to approximately SEK 5.7 million. It cannot be excluded that CYBER1 would have to raise capital if it were to develop in a negative direction, or not live up to our estimate. It should be noted that CYBER1 received repayable loans in 2024 and 2025. One loan of EUR 1,5 million runs until September 2024 and can be set off against shares or paid in cash. Given that we count without dilution, we assume that the loan is paid in cash. The second loan of EUR 2,5 million can also be set off against shares or paid in cash and matures in June 2025. Mangold assumes that it can pay off the loans in the light of the expected cash flow. Mangold expects an annual interest rate of 10 percent.

*SEK 5.7 million at cash*

# Cyber Security 1 – Update continued.

## Mixed developments in CYBER1 subsidiaries

CYBER1's various subsidiaries have developed relatively weakly in the third quarter. CYBER1 Solutions Southern Africa and TRINEXIA Southern Africa have turned negative EBITDA during the quarter. TRINEXIA Africa has continued a positive EBITDA which is seen as positive. The following is an overview of the third quarter.

*TRINEXIA Africa continues to have a positive EBITDA*

### CYBER1 - SUBSIDIARY Q3 2023

Subsidiary	CYBER1 Solutions			TRINEXIA		TRINEXIA
Region	Southern Africa	East & West Africa	EMEA	Middle East & India	Southern Africa	Africa
TEUR	Q3 23	Q3 23	Q3 23	Q3 23	Q3 23	Q3 23
Revenues	1 753	243	459	1 095	1 898	3 319
Gross profit or loss	656	87	23	193	237	619
Gross margin	37,4%	35,7%	5,0%	17,6%	12,5%	18,7%
EBITDA	-630	-51	-65	-395	-26	98
EBITDA margin	-36,0%	-21,0%	-14,2%	-36,1%	-1,4%	3,0%

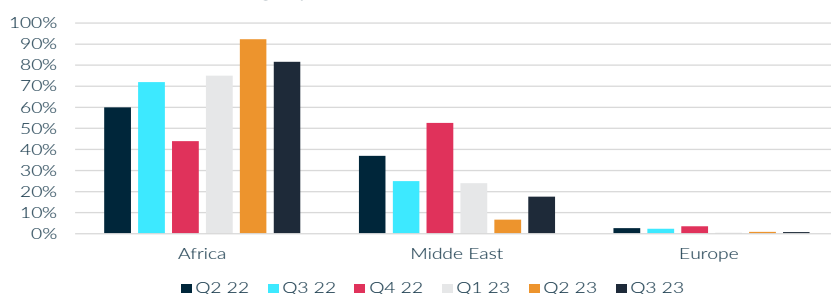
Source: Mangold Insight

## Geographical breakdown

CYBER1 has increased the share of revenue from Middle East compared to Africa since the previous quarter. Four out of six subsidiaries are located in Africa, which explains a high share of continental sales.

*Highest proportion of revenues from Africa*

Geographical Revenue Distribution



Source: Mangold Insight

## Developments in CYBER1 Solutions Southern Africa

In the third quarter of 2023, CYBER1 Solutions Southern Africa generated revenue of approximately EUR 1.8 million. Sales of services including SOC amounted to 24 percent of revenue during the quarter. This shows the potential in the business area, up from 10 percent in the previous quarter. The subsidiary achieved a B-BBEE (Broad-Based Black Economic Empowerment) level 1 status. This means the highest status in terms of strengthening social inclusion and diversity. The company expects that the certification will lead to increased revenue. This is because many private and state companies prefer companies with high B-BBEE statuses which gives a comparative advantage to CYBER1.

*B-BBEE level 1 status provides increased opportunities*

# Cyber Security 1 – Update cont.

## **CYBER1 Solutions East and West Africa**

CYBER1 Solutions Eastern and Western Africa reported revenue of approximately EUR 0.24 million in the third quarter of 2023. Gross margin increased to 36 (34) percentage compared to the same quarter of the previous year. The company aims to continue to grow in Uganda with support from the rest of the organization.

*Aims for continued growth in Uganda*

## **CYBER1 Solutions EMEA**

Revenue amounted to approximately EUR 0.46 million in the quarter, the majority of which came from Europe. The company participated in several events in the UK during the quarter, which is expected to strengthen its position in the area. Mangold's track continued that CYBER1 can take market share in Europe through its SOC and contracts with key suppliers. CYBER1 itself sees that they can expand sales in this area with ISO 27001 certification. In addition, by offering the service to European offices that the company already has as customers in southern Africa.

*Strengthening European presence*

## **TRINEXIA**

### **Middle East and India**

In TRINEXIA Middle East and India, revenue amounted to approximately EUR 1.1 million in the third quarter of 2023, of which 70 percent consisted of new customers. The company has been restructured in line with the other distribution subsidiaries. The revenue structure has changed radically, which will be visible at the end of the fourth quarter and in 2024. The company is working to close the fourth quarter with significantly higher revenue, which they have historically also had. It is also expected to lead to higher revenue and better opportunities for up-sell in the future. The company will participate in several CISO workshops in Saudi Arabia and the United Arab Emirates during the fourth quarter, which they see as an opportunity for increased sales.

*Restructuring to improve prospects*

### **Southern Africa**

Within TRINEXIA Southern Africa (formerly CSSA), revenue amounted to approximately EUR 1.9 million in the third quarter of 2023. Revenues were the highest in this year with the most transactions ever. However, EBITDA was negative for the quarter of approximately EUR 0.26 million. The company has had a strong internal focus on expanding dealer certificates, sales and renewal of contracts.

*Highest quarterly revenues in 2023*

### **Africa**

TRINEXIA Africa (formerly CSAD) delivered a strong third quarter with approximately EUR 3.3 million in revenue, the highest revenue since the company was acquired. The EBITDA remained positive at around EUR 0,98 million. The share of new customers reached 63 percent in the third quarter, which shows the company's ability to generate new business. The company has managed new business in Nigeria, Kenya and Ghana, which together with Ethiopia and Morocco continue to show strong figures.

*Highest revenue since acquisition*

# Cyber Security 1 – Valuation

## Undervalued share

Mangold uses a DCF model to value CYBER1. The motivated value is EUR 0.044 per share, which brings us down to EUR 0.045 (0.055) per share. That represents an upside of over 200 percent. Given an EV/S multiple of 0.3 on 2023 sales and expected future cash flows, we believe that CYBER1 is significantly undervalued.

*Price target EUR 0,045 per share*

### CYBER1 - DCF

(TEUR)	2023E	2024E	2025E	2026E	2027E
EBIT	-199	1 355	3 050	4 923	7 225
Free cash flow	577	1 979	2 954	3 486	5 983
Terminal value					59 835

Assumptions	Req. return	Growth	Tax
	12%	2%	21%

### Fair Value

Enterprise value	48 993
Equity value	44 712
<b>Fair value per share (EUR)</b>	<b>0,044</b>

Source: Mangold Insight

## Sensitivity analysis

Mangold has conducted a sensitivity analysis to test the model's outcome given different sales levels and yield requirements. If CYBER1 reaches 80 percent of the estimate sales, the value of the asset will fall to EUR 0.037 per share. If the sale increases by 20 percent, the value of the transaction rises to EUR 0.051 per share. Changes in the required rate of return affect the benchmark more than changes in sales. In conclusion, the model shows a range between EUR 0,030 and EUR 0,066 per share. The model shows an upside regardless of the sales and return requirement level in the model, which indicates that the company is undervalued.

*Valuation range between EUR 0,030 and EUR 0,066 per share*

### CYBER1 - SENSITIVITY ANALYSIS

Req. return %	Bear (0,8x)	Base Sales (x)	Bull (1,2x)
10	0,049	0,057	0,066
<b>12</b>	0,037	<b>0,044</b>	0,051
14	0,030	0,035	0,041

Source: Mangold Insight

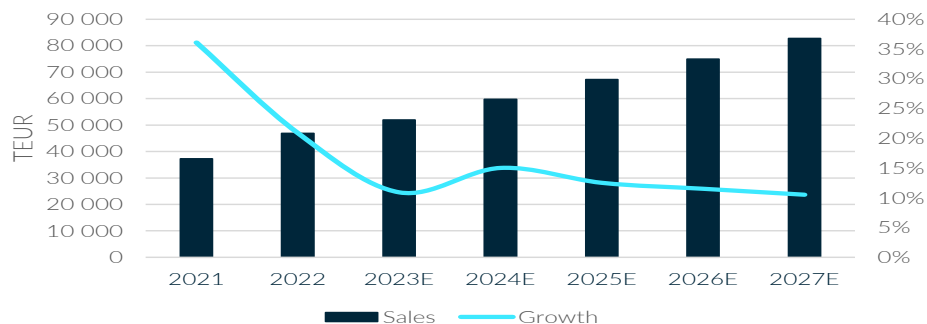
# Cyber Security 1 – SWOT



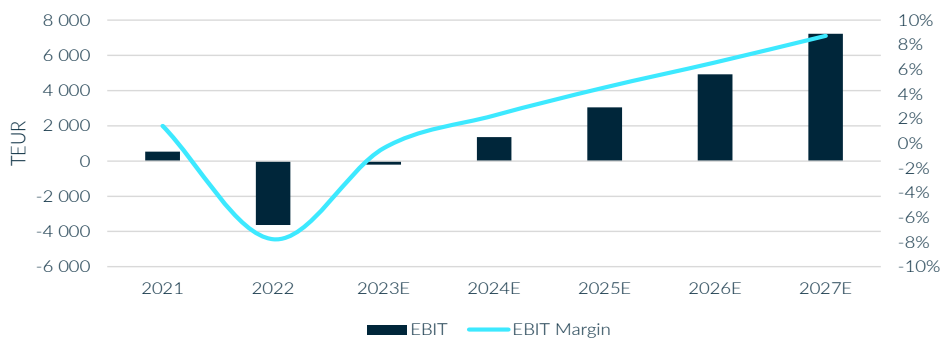


# Cyber Security 1 – Appendix

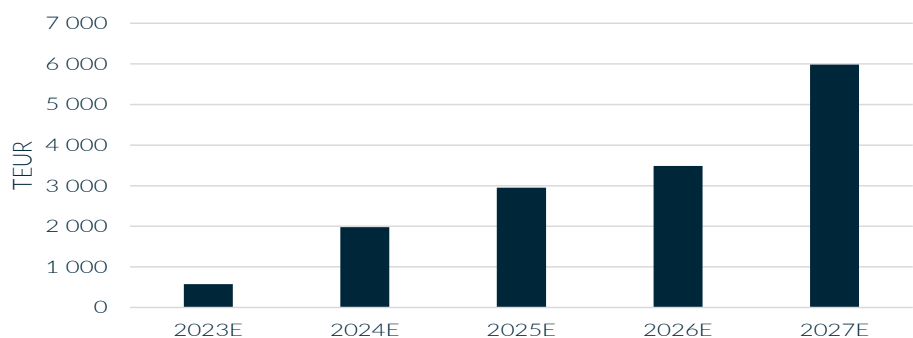
CYBER1 - Sales & Growth



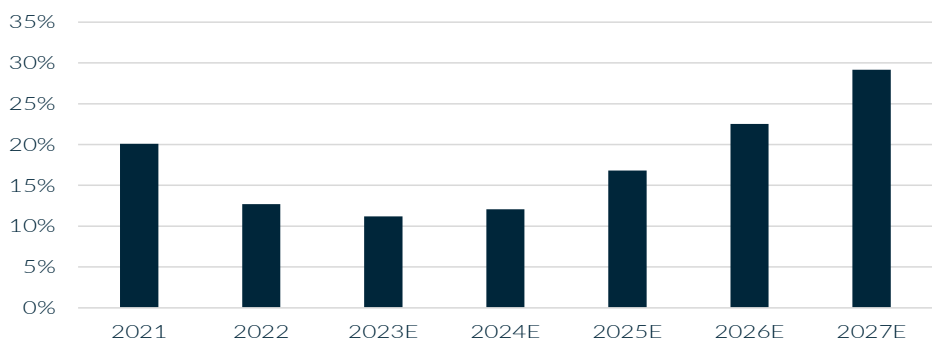
CYBER1 - EBIT & EBIT Margin



CYBER1 - Free cashflow



CYBER1 - Solvency



# Cyber Security 1 – Income Statement & Balance Sheet

Income Statement (Teur)	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	37 221	46 833	51 938	59 728	67 195	74 922	82 789
Cost of sales	-27 127	-37 520	-40 511	-45 812	-50 597	-55 592	-60 353
<b>Gross profit</b>	<b>10 094</b>	<b>9 313</b>	<b>11 426</b>	<b>13 917</b>	<b>16 597</b>	<b>19 330</b>	<b>22 436</b>
Gross margin	27%	20%	22%	23%	25%	26%	27%
Personnel costs	-6 346	-8 460	-7 574	-8 274	-8 843	-9 269	-9 627
Other expenses	-2 895	-3 950	-3 239	-3 524	-3 964	-4 420	-4 885
Depreciation	-323	-541	-812	-763	-739	-718	-699
<b>Operating result</b>	<b>530</b>	<b>-3 638</b>	<b>-198</b>	<b>1 355</b>	<b>3 050</b>	<b>4 923</b>	<b>7 225</b>
Operating margin	1%	-8%	-0%	2%	5%	7%	9%
Net interest income	3 785	-213	-503	-513	-363	-113	-113
<b>Profit or loss after net financial items</b>	<b>4 315</b>	<b>-3 851</b>	<b>-701</b>	<b>842</b>	<b>2 687</b>	<b>4 810</b>	<b>7 112</b>
Part of net profit from partnership							
Taxes	0	0	0	-174	-554	-991	-1 465
Net profit	<b>4 315</b>	<b>-3 866</b>	<b>-701</b>	<b>669</b>	<b>2 134</b>	<b>3 819</b>	<b>5 647</b>
<b>Profit margin</b>	<b>12%</b>	<b>-8%</b>	<b>-1%</b>	<b>1%</b>	<b>3%</b>	<b>5%</b>	<b>7%</b>

Source: Mangold Insight

Balance Sheet (Teur)	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Assets</b>							
Cash and bank	620	747	925	891	982	4 356	10 226
Trade receivables	16 143	23 500	22 056	25 364	28 535	32 842	36 291
Deferred tax		145	145	145	145	145	145
Inventory	6	151	22	314	347	381	413
Fixed assets	7 184	8 120	7 630	7 392	7 178	6 985	6 812
<b>Total assets</b>	<b>23 954</b>	<b>32 663</b>	<b>30 778</b>	<b>34 106</b>	<b>37 186</b>	<b>44 709</b>	<b>53 887</b>
<b>Liabilities</b>							
Payables	18 628	23 485	22 198	26 357	29 804	33 508	37 039
Liabilities	510	5 028	5 131	3 631	1 131	1 131	1 131
<b>Total Liabilities</b>	<b>19 138</b>	<b>28 513</b>	<b>27 329</b>	<b>29 988</b>	<b>30 935</b>	<b>34 639</b>	<b>38 170</b>
<b>Equity</b>							
Restricted equity	599	269	269	269	269	269	269
Unrestricted equity	4 217	3 881	3 180	3 849	5 982	9 801	15 448
<b>Total equity</b>	<b>4 816</b>	<b>4 150</b>	<b>3 449</b>	<b>4 118</b>	<b>6 251</b>	<b>10 070</b>	<b>15 717</b>
<b>Liabilities and equity</b>	<b>23 954</b>	<b>32 663</b>	<b>30 778</b>	<b>34 106</b>	<b>37 186</b>	<b>44 709</b>	<b>53 887</b>

Source: Mangold Insight

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Mangold analyzed Cyber Security 1 on August 21, 2023.

Mangold's analysts don't own shares in Cyber Security 1.

Mangold does not own shares in Cyber Security 1 such as own inventory.

Mangold owns shares in Cyber Security 1 through an assignment as a liquidity provider.

Mangold has performed services for the Company and has received compensation from the Company based on this.

Mangold is under the supervision of the Swedish Financial Supervisory Authority.

Recommendation structure:

Mangold Insight grades stock recommendations over a 12-month term using the following structure:

Buy - An upside in the share of at least 20 percent

Increase - An upside in the stock of 10-20 percent

Neutral - An upside and downside in the stock of 0 to 10 percent

Decrease - A downside of the stock of 10-20 percent

Sell - A minimum of 20 percent downside of the stock