

WithSecure

Extensive report

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Atte Riikola
+358 44 593 4500
atte.riikola@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report “Yritystietoturvan kasvuyhtiön arvostus on huokea” published on 11/25/2022 at 7:58 am

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A corporate security growth company a with cheap valuation

In the next few years, WithSecure, profiled as a growth company in corporate security, will invest heavily in growing its cloud-native product portfolio. In the short term, this depresses the company's profitability, but if the strategy is successful, the path to significant profitability improvement and shareholder value creation is clear. The first signs of gradually improving figures were already seen in Q3, but in the big picture proper results will only be achieved in the longer term. After a sharp share price decline we do not believe that the current valuation of WithSecure's share puts significant weight on the company's underlying scalable growth potential. Thus, we raise our recommendation to Buy (previously Accumulate) and reiterate our EUR 2.0 target price.

Strategy aims at strong growth

WithSecure seeks strong growth, especially with cloud-native products and detection and response (MDR) solutions. The company aims to double its comparable revenue by the end of 2025 (2021: 122.8 MEUR). This would require an average annual growth of about 19% in 2022-2025, which we consider a very optimistic goal and our estimates are clearly more cautious. We believe that thanks to competitive products WithSecure's growth is particularly dependent on the success of sales. WithSecure is investing heavily in developing its partner channel, which provides scalability for sales. In addition to new customer acquisition, WithSecure still sees clear potential to grow within existing customers. In the next few years, the pursuit of strong growth will depress WithSecure's profitability, but thanks to the scalable software business with high gross margins, the path to good profitability is realistic. With the EUR 77 million directed issue last spring, WithSecure's balance sheet is very strong and allows for necessary growth investments.

WithSecure's market is large and growing, but competition is very tight

WithSecure operates in the heavily growing corporate security market, where the current geopolitical situation has further accelerated companies' needs to prepare for cyber threats. The relevant market for the Elements product portfolio alone was some USD 16 billion in 2021 and is expected to grow by about 20%. The market for MDR solutions (USD 1.2 bn) is, in turn, growing at an annual rate of about 17%. There are several competitors competing for the growing market and the industry is still fairly fragmented. In the competitive field, WithSecure is profiled as a notable European alternative against the America-dominated group of main competitors. In a highly competitive market, growth will not come for free and we consider the tight competitive situation as one of the main risks.

Valuation does not put significant weight on the scalable growth potential

With our estimates, WithSecure's 2022-2023 EV/S ratios (1.5x-1.3x) seem very low considering the company's medium-term growth and profitability potential. We especially favor a valuation method where the product business and consulting business are priced separately due to their very different growth, profitability and scalability profiles. In the neutral scenario, we apply a 3.0x EV/S ratio to the product business and a 1.0x ratio for consulting, which considering WithSecure's strong net cash results in a per share value of EUR 2.2 with a EUR 1.7-2.8 range. At present, the market sentiment for loss-making growth companies is not particularly favorable, which partly limits the support of the EV/S ratio for the valuation. Looking a little further, however, we find the return/risk ratio with the current valuation attractive.

Recommendation

Buy

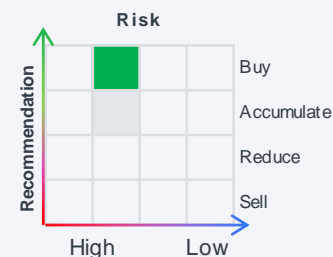
(previous Accumulate)

EUR 2.00

(previous EUR 2.00)

Share price:

1.51



Key figures

	2021	2022e	2023e	2024e
Revenue	130	135	154	172
growth-%	-41%	4%	14%	12%
EBIT adj.	-26.8	-33.0	-16.0	-5.2
EBIT-% adj.	-20.6 %	-24.4 %	-10.4 %	-3.0 %
Net Income	-25.4	-35.2	-16.1	-6.4
EPS (adj.)	-0.13	-0.17	-0.08	-0.02

P/E (adj.)	0.0	neg.	neg.	neg.
P/B	0.0	1.9	2.2	2.3
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %
EV/EBIT (adj.)	0.0	neg.	neg.	neg.
EV/EBITDA	0.0	neg.	neg.	78.0
EV/S	0.0	1.5	1.3	1.2

Source: Inderes

Guidance

(Unchanged)

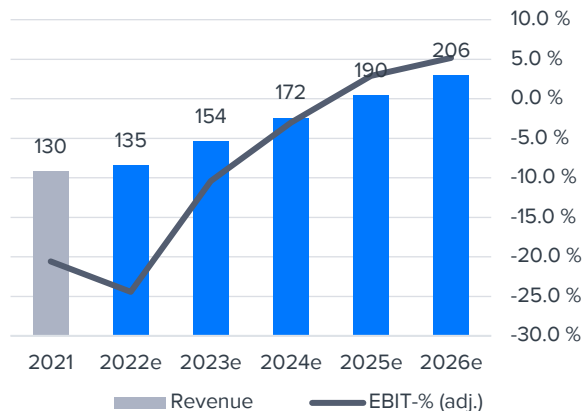
"WithSecure expects its comparable revenue (122.8 MEUR) to grow by over 10% from the previous year. The company expects comparable EBITDA to decrease from the previous year."

Share price



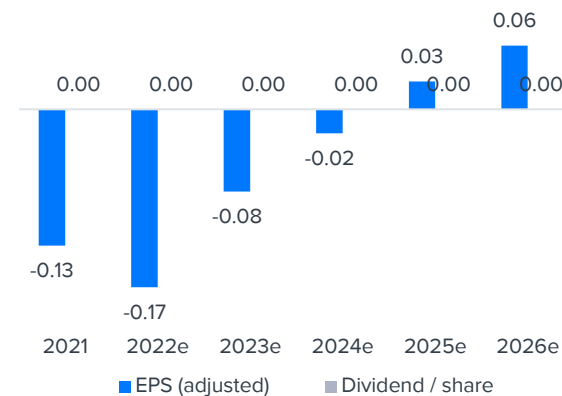
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Stable demand outlook on corporate security market
- Strong growth in cloud-native products
- WithSecure has good preconditions to invest in growth
- Scalable and sustained business model by nature



Risk factors

- Tight competitive situation in the market and rapid change rate
- Growth may require higher investments than the company's targets
- Cyber security market potentially over-invested
- Tight competition for experts and wage inflation

Valuation	2022e	2023e	2024e
Share price	151	151	151
Number of shares, millions	174.5	174.5	174.5
Market cap	264	264	264
EV	202	206	208
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/FCF	7.0	neg.	neg.
P/B	1.9	2.2	2.3
P/S	2.0	1.7	1.5
EV/Sales	1.5	1.3	1.2
EV/EBITDA	neg.	neg.	78.0
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

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WithSecure in brief

WithSecure offers cybersecurity products and services, whose solutions help thousands of companies protect themselves from security threats.

1988

Year of establishment

1999

IPO

130.0 MEUR (+7.3% vs. 2020)

Net sales 2021

+16% 2015-2021

Average growth of corporate security revenue

-17.2 MEUR (-13.3% of revenue)

Adjusted EBITDA 2021

1,280

Personnel at the end of Q3'22

54% / 20% / 27%

Share of cloud-native products/ on-premise products/consulting in revenue Q3'22

Source: WithSecure / Inderes

NB: Consumer security (F-Secure) has been eliminated from the figures unless otherwise stated

2008-2014

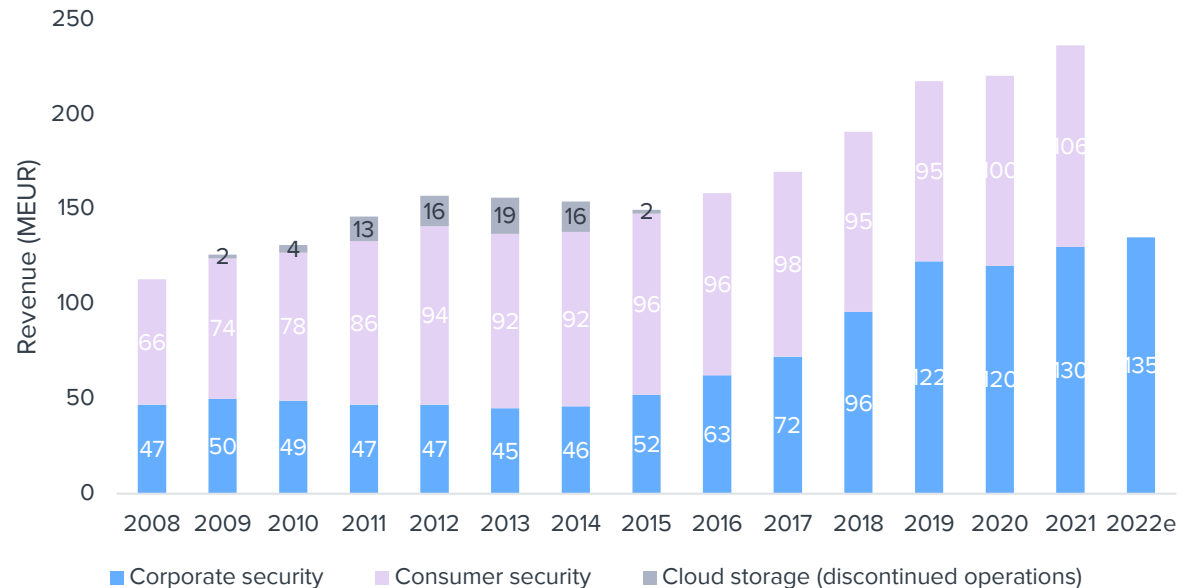
- Endpoint device focused antivirus company
- Focus on consumer customers

2014-2021

- Focus on growing corporate security markets
- Transforming into a more versatile provider of cyber security products and services
- MWR acquisition to accelerate growth strategy in 2018

2022-

- Consumer security separated into its own listed company (F-Secure) on June 30, 2022
- The heart of WithSecure's strategy is the strong growth of cloud-native solutions



Company description and business model 1/5

Company description

Software company focused on corporate security

WithSecure's roots are deep in the antivirus software business, where the company has operated since its establishment (1988) and, in practice, for as long as computer viruses have existed. Through its history, WithSecure (former F-Secure) has developed a strong expertise, reputation and brand in preventing malware and security attacks, and in how malware develop and their industrial logic works. WithSecure's software has won numerous awards in international security testing and the company's endpoint protection products have been sold to hundreds of thousands of companies worldwide.

Historically, WithSecure's business has focused on strong expertise in endpoint protection, where the basis is the prevention of attacks and threats. However, the security market has changed over the past decade and the idea of preventing all attacks has become impossible. Technological developments have made malware and data breaches much more intelligent and constantly evolving. Thus the market has shifted from attack prevention increasingly towards rapid detection and a mindset where cyber security is seen more as processes than products. This is particularly evident in the corporate security market, where the need for different detection and response solutions and consulting services has grown significantly and the market is growing strongly.

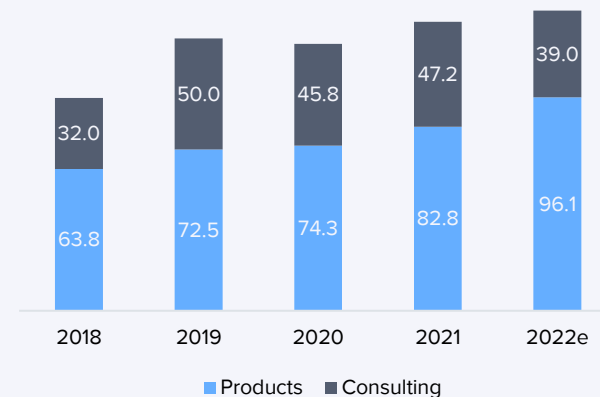
In response to market change, WithSecure successfully transformed from an antivirus company into a versatile provider of cyber security products and services in 2014-2021. The streamlining of the strategy was sealed on June 30, 2022, when the

consumer security business was separated into a stand-alone listed company.

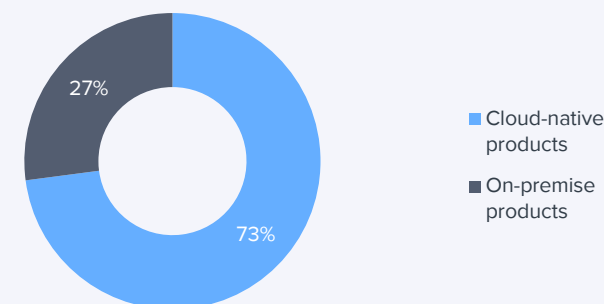
WithSecure will invest heavily in growing its cloud-native product portfolio in the next few years. In the short term, this depresses the company's profitability, but if the strategy is successful, the path to significant profitability improvement and shareholder value creation is clear. However, competition is tight in a rapidly growing market, as the industry remains highly fragmented. In the competitive field, WithSecure is profiled as a notable European alternative against the America-dominated group of main competitors.

In 2021, WithSecure's revenue was EUR 130 million and adjusted EBITDA EUR -17.1 million. 64% of revenue came from products, while the share of consulting was 36%. This year, the share of product revenue has increased, and in Q3'22, already 73% of product revenue came from cloud-native products and 27% from on-premise products. Revenue growth has been relatively fast in recent years (CAGR 2015-2021: 16%) and partly supported by acquisitions. However, the growth rate slowed down significantly during COVID, particularly in consulting, as companies held back their cyber security projects. Cloud-native products (CAGR 19-22e: 23.5%), on the other hand, have grown considerably more strongly and will continue to be the main growth driver. Of WithSecure's Q3'22 revenue, 29% came from the Nordic countries, 46% from the rest of Europe, 16% from the rest of the world and 9% from North America. The company employed 1,280 people at the end of Q3'22.

Revenue development and distribution



Distribution of product revenue Q3'22



Company description and business model 2/5

Business model

Sales, marketing and distribution channels

WithSecure has invested heavily in increasing its corporate security revenue, which has been reflected as high investment in sales and marketing resources. In 2021, sales and marketing expenses represented 56% of revenue. We estimate that the relative share of sales and marketing in revenue will decrease gradually in coming years, as the strongest investments in sales channel development are already completed. Thus, the cost item should scale in the future as revenue grows.

WithSecure sells its products through its comprehensive reseller network, which globally includes over 7,000 IT resellers and hundreds of IT service partners. The task of the company's own sales organization is to support and serve the resellers, as well as develop and grow this network. Critical in terms of success is that selling WithSecure's products and related services is good business for the resellers. In this respect, WithSecure's product portfolio and the support functions offered to partners have developed in the right direction in recent years and the changes have been positively received by partners.

WithSecure's security product customers consist mostly of relatively small companies, but the company has also shifted its focus to medium and large companies with corporate security solutions in recent years. In total, the company has over 140,000 active customers. The company provides managed security services (MDR) for large companies and cyber security consulting with outcome-based solutions through its own sales organization.

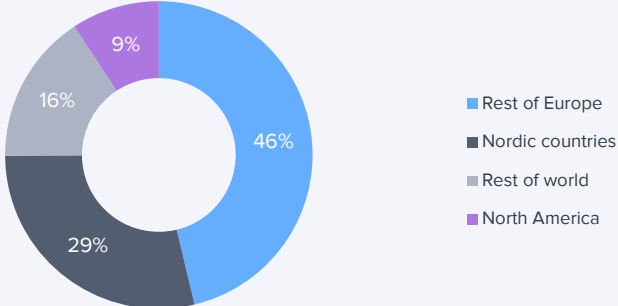
Product development

In 5/2022, around 28% of all personnel in WithSecure worked in product development and R&D costs accounted for about 25% of revenue in 2021. Product development focuses on developing cloud-native products for the Elements platform and the functionalities of detection and response (MDR and EDR) solutions. In recent years, development of the Elements platform and thus integration of the product portfolio have been key to providing customers with more comprehensive security solutions. Development of the Cloud Protection solution created for the Salesforce platform and applying it to new platforms is also a focus area of product development.

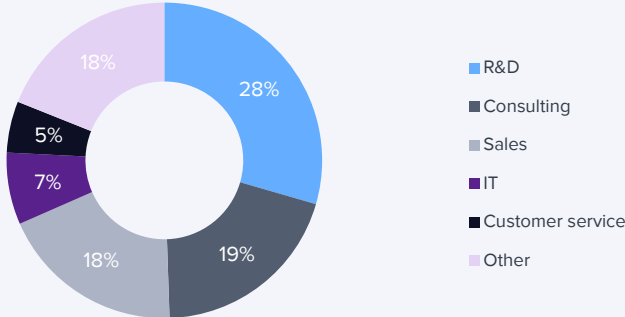
WithSecure's consulting business enriches product development as consultants can investigate security breaches at large companies and transfer the knowledge they gained to product development. At the same time, the company's products daily collect vast amounts of data from customers' information systems that are processed with AI and machine learning to detect malware and security threats. With the help of processed information from this constant data stream, WithSecure can refine its existing products and develop new ones.

WithSecure's core technologies, especially in detecting malware, are in some respects very similar both in consumer and corporate security products, which used to create certain synergies in R&D. Now, after the separation, the companies continue to share certain data with each other to ensure the widest possible understanding of the threat landscape for both companies.

Geographical distribution of revenue Q3'22



Personnel distribution (5/22)



Source: Inderes

Partners



IT service partners



IT integrators



Resellers

Operations

Product development



Sales and marketing



Consulting and managed services



WithSecure Labs research center



Resources

Long-term cyber security expertise



Cyber security technologies and software



Extensive reseller network



Business idea

WithSecure offers a comprehensive selection of cyber security solutions and services to enterprises.

W / T H
secure

- Strong and long-term technological expertise in endpoint protection
- Competitive solutions for detecting and responding to threats
- Ability to deliver comprehensive product and service packages
- High-quality consulting services complement the solution offering

Sales channels



IT resellers:
+7,000 partners



Direct sales

Customer segments



Large companies and public associations



SMEs

Products/Services

Cloud-native Elements platform for selected security solutions:

- Endpoint protection platform (EPP)
- Detection and response to targeted attacks (EDR)
- Vulnerability scanning and management
- Cloud transformation: Elements Collaboration Protection

Cloud Protection for Salesforce:

- A solution that complements the security features of the Salesforce platform

Managed security solutions:

- Managed threat hunting service to detect and respond to targeted attacks: Countercept (MDR)

Cyber Security services

- High-quality consulting services in all areas of cyber security

Cost structure (2021)



Materials and services
(32% of revenue)



Sales and marketing
(56%)



Research and development
(25%)



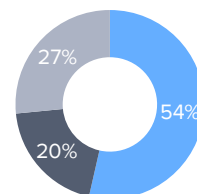
Administration
(12%)

1,280 employees (Q3'22)

Income streams

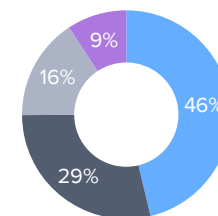
Revenue 130 MEUR (2021)
Adj. EBITDA -17.2 MEUR

Revenue distribution Q3'22



- Cloud-native products
- On-premise products
- Consulting

Geographical distribution Q3'22



- Rest of Europe
- Nordic countries
- Rest of world
- North America

Company description and business model 3/5

Solutions

WithSecure's corporate security business consists of product business, managed services, where the product and service are combined, and pure service business. The product business is excellently scalable due to replicability. Managed services (MDR) are also scalable, even if a service component is included. In consulting, scalability is limited due to the nature of the business.

In Q2'21, WithSecure launched the cloud-native and modular Elements platform around which the company's corporate security product offering is built. The platform enables the company to provide flexible individual or more extensive turnkey solutions for endpoint protection based on customer needs. Through the platform, the customer can flexibly choose from a conventional annual license, continuous monthly billing, or a usage-based security model. Elements plays an essential role when WithSecure tries to win new customers and grow them over time (Land and Expand), as well as offering opportunities for additional and cross-selling to existing customers. At the moment, only about 16% (2020: 9%) of WithSecure's customers have more than one WithSecure product, but this figure has developed strongly in the right direction in recent years. Next, we will discuss WithSecure's main products.

Endpoint protection products (EPP)

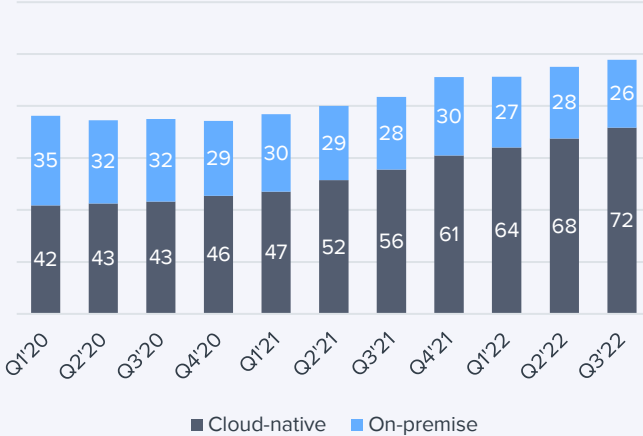
We estimate that a majority of WithSecure's revenue still comes from selling protection products for endpoint devices (Endpoint Protection, EPP), whose demand is stable and market is growing. These products represent the company's core competence, endpoint protection, and are a

key part of the product portfolio. The target customer group for these products are SMEs. The size category of annual contracts varies from hundreds of euros to some tens of thousands of euros.

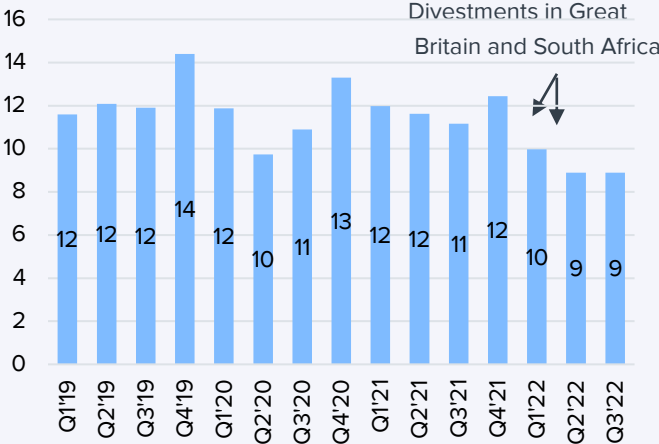
Competition is tight in endpoint protection and the field is quite established. WithSecure's competitors are numerous companies offering endpoint protection software, such as Sophos, Symantec (Broadcom), Trelix (former McAfee Enterprise and FireEye) and Trend Micro. Bigger competitors that were established in the cloud era are CrowdStrike and SentinelOne, which have won market shares from conventional players in recent years. Microsoft is also a strong player in endpoint protection.

WithSecure's customer base in this product group focuses heavily on small companies, where the role of the reseller is emphasized in the customer's purchase decision. Customer awareness of cyber security issues is usually low and purchasing decisions are often made based on price or the recommendation of a reseller partner. Comparisons by research institutes that test security software also significantly affect customers' purchase decision. WithSecure's endpoint protection products have performed very well in security tests within the industry (AV-Test, AV-Comparatives) over the years and their ability to detect malware are of world class compared to the competition.

Development of annual recurring revenue (ARR) of products



Development of consulting revenue



Source: WithSecure, Inderes

Company description and business model 4/5

Countercept (MDR)

Countercept is WithSecure's response to "the paradigm shift" on the security markets, where mere prevention of malware and data breaches has evolved to quicker detection of threats that have passed the security and responding to them. Countercept is a managed service (MDR, Managed Detection & Response), where technology plays a major role. The current Countercept consists of an RDS solution introduced by WithSecure in 2016 and Countercept acquired in the MWR acquisition, which has been integrated into a unified and competitive MDR solution in the past few years.

When implementing MDR, sensors are installed on the customer's endpoint devices to collect and transmit data to WithSecure's data center. AI and machine learning are then used to detect anomalies in the company's data communications, which can mean a security threat has passed through or an outside entity is penetrating the customer's systems. WithSecure's data center monitors customers' data environments 24/7 and provides immediate response to security alerts as necessary. Countercept's sensors collect a huge amount of data daily and the overall picture of the customer's data communications becomes clearer over time. Thus, machine learning constantly tailors the product to better respond to the customer's environment and the threshold to switch to a competing product grows over time.

Countercept is suitable for companies whose security requirements are high and the target group are companies with more than 1,000 employees.

On average, the contracts start at around EUR 100,000 and for the largest customers, long-term contracts run around million euros. Key customer groups for Countercept include banks, media, technology, and industrial companies. MDR solutions are mainly sold as direct sales and because contracts are large, the sales cycles are typically long.

Countercept is an important product for WithSecure's growth and the company sees growth opportunities in this product area for several years to come. Investments in scaling the solution currently depress the company's profitability. After the growth phase, Countercept (gross margin target >70%) has the potential to reach good profitability, as strong customer retention provides continuity in revenue and the service component scales with growth.

The rapidly growing MDR market has attracted a lot of competition and Gartner estimates that well over 100 players already offer MDR solutions.

WithSecure's main competitors come mainly from the US, and include, e.g. CrowdStrike, Darktrace, Cybereason and Rapid7. According to WithSecure, it distinguishes itself from competitors with strong technological expertise, which means that Countercept's detection ability of cyber attacks is very good. Countercept's technology stands out especially in responding to detected threats and the fight against ongoing targeted cyber attacks. In addition, in Europe, the company has competitive advantage against its competitors in that geopolitical factors affect the decision making of some customers.

Endpoint Detection & Response (EDR)

At the end of 2018, WithSecure launched an automated tool for detecting and responding to endpoint device attacks (Endpoint Detection & Response, EDR). The product is based on the same technology as Countercept but does not include the service component. Thus, it scales with automation to the size class of smaller businesses as well.

EDR acts as an additional functionality on top of endpoint protection products (EPP) and on the markets this product area has integrated with EPP products in recent years. This has accelerated the growth rate of the endpoint protection market.

The main potential for EDR is to sell the product to WithSecure's extensive EPP customer base. Medium-sized companies have the highest cross-selling potential, as the need for detection and response to threats is growing in this segment. According to WithSecure, the value of conventional EPP customers can be more than doubled when a complete endpoint device protection solution including EDR is offered. EDR can also be sold separately on top of other security suppliers' EPP solutions.

The operating principle of EDR is highly similar to Countercept but when the product detects an anomaly in the company network the information is automatically delivered to the company's IT service partner. The product also provides instructions on how to respond to the threat.

Company description and business model 5/5

The end customer or reseller partner can also send information on the detected abnormal event to WithSecure's service center, where WithSecure experts help resolve the issue. Thus, EDR also generates service revenue for WithSecure, even though the outset is a pure software product.

The EDR market is in a fast-growing phase, and, e.g., Gartner has estimated that the number of endpoint devices with detection capabilities will multiply in coming years. Also in this product category WithSecure faces competition on a broad front, as almost all competitors offering EPP products also have EDR capability. In addition, an emerging and rapidly growing market attracts new competitors.

Cloud Protection

WithSecure has developed complementing security solutions for Salesforce's and Microsoft's cloud platforms that have been well received in recent years and are already visible in the company's total growth. WithSecure has developed cyber security capabilities into Salesforce's platform for checking links and appendices for malware. The product is distributed as an application directly through Salesforce's platform, enabling high profitability. The product has good growth prospects and to our understanding it does not currently have any decent competitor. However, a risk we see is that Salesforce would build its own solution to replace WithSecure's product, which does not seem likely at the moment.

WithSecure is currently working to expand the product developed for Salesforce's platform to other cloud platforms (e.g. Slack). If successful, this offers significantly higher growth potential in addition to the Salesforce platform. In the Q3'22

report, WithSecure announced that it will in future develop this business as an independent unit to realize the potential of the product.

In addition, WithSecure offers the Elements Collaboration Protection solution designed to complement Microsoft 365's own security features. The solution provides additional protection against attacks from the rapidly growing cloud-based Microsoft 365 email services, as well as SharePoint, OneDrive and Teams collaboration applications. The product is offered through the Elements platform, either separately or as part of a turnkey solution.

Cyber Security services

WithSecure provides consulting for large businesses and other critical IT system owners in all areas of cyber security. The offered services include cyber security audits, cyber security stress tests (Red Teaming), strategic risk and cyber security management, cyber security in software development, and responding to data breaches and leaks.

WithSecure's consulting business focuses on the most demanding security issues, but the service portfolio has expanded over the years, as companies often want a more extensive turnkey solution. The scope of the consulting business increased significantly with the MWR acquisition in 2018. In this context, WithSecure divested its public sector consulting business in Great Britain in December 2021 and its South African subsidiary in February 2022. Today, an estimated around 250 experts work in consulting at WithSecure. The customer base consists of hundreds of large companies.

As a result of the divestments, we estimate the revenue of consulting will fall to around EUR 39 million in 2022, which corresponds to about 29% of the revenue. The COVID pandemic temporarily weakened the demand for consulting in 2020-2021 as companies canceled and slowed down their cyber projects. Demand started recovering in 2021, but the problem at the moment is the high attrition of experts. There is also high wage inflation in the sector and fierce competition for top experts among the players.

Consulting is still primarily a project driven business but WithSecure aim is to sign continuous consulting agreements with its customers. We estimate that the profitability of the consulting business is currently at a modest level and that WithSecure will focus particularly on improving it in the coming years.

WithSecure's strategic goal is not to expand into competing with regular IT service companies in the service business but to focus on detecting and preventing the most challenging security threats. More extensive cyber security services are offered by consultancy companies (like KPMG), IT generalists (like CGI) and specialized players (like Nixu).

WithSecure's ability to offer consulting services gives the company a competitive advantage against players who only offer cyber security products. In addition, consulting offers cross-selling possibilities with the products. Consulting also polishes WithSecure's brand as a comprehensive cyber security company.

WithSecure's business model



Investment profile

Growth company in corporate security

In the next few years, WithSecure, profiled as a growth company in corporate security, will invest heavily in growing its cloud-native product portfolio. In the short term, this depresses the company's profitability, but if the strategy is successful, the path to significant profitability improvement and shareholder value creation is clear.

We believe WithSecure's products are technologically competitive and that growth depends primarily on the success of sales. WithSecure is investing heavily in developing its partner channel, which provides scalability for sales. The company's extensive customer base also offers clear opportunities for additional and cross-selling. The first signs of this success have also been seen in recent years.

Thanks to the directed issue in spring 2022, WithSecure has strong resources to go through the current investment phase. In the medium term, the company's scalable and high gross margin software business should also start to clearly strengthen the company's cash flow.

Strengths and drivers

Growth in cloud-native products is at the core of value creation. In many product areas, the market is still in the early phase, growing quickly and market shares are being distributed now. Cloud-native products are based on recurring revenue, and as their role in company revenue grows the structure of revenue becomes more predictable.

A scalable and strong customer retention business model enables good profitability in the long-term. In the long term, the majority of WithSecure's revenue should consist of software business, where the targeted gross margins of over 85% create a strong basis for profitable business.

A unified product portfolio in corporate security offers additional and cross-selling opportunities and enables shifting toward larger customers in the value chain.

A stable and established position in endpoint protection provides WithSecure good resources to expand its core competence and technology to new segments and sell new solutions to the existing customer base.

An extensive partner channel provides scalability for sales and enables global sales growth.

A strong balance sheet enables necessary growth investments as well as acquisitions that complement the product portfolio when an opportunity arises.

Weaknesses and key risks

WithSecure's combination of growth and profitability seems weak in the short term as growth investment depresses the result, and consulting and the slow growth of on-premise products, slow down the company's total growth. However, as cloud-native products continue to grow rapidly, the equation gradually starts to look better.

The industry is potentially overinvested, which in recent years has been reflected as tightening competition. We believe the gold rush of new players can lead to there not being enough to go around despite the growing market. This is a clear threat both in WithSecure's established and new product areas.

Growth in the corporate security market is expensive: In a highly competed market, winning market shares requires significant sales investments and continuous product development. WithSecure is also a new brand and the company still has to invest to increase its recognition.

The huge resources of large competitors enable clearly bigger investments in product development and sales and marketing than for WithSecure, which can change the competitive dynamic in their favor in the long term.

Shortage of experts and attrition have clearly slowed down growth and profitability in consulting: In many expert industries, employee attrition has been a major challenge in the post-COVID world, and WithSecure is no exception. High attrition clearly burdens the pursuit of growth and puts pressure on profitability through weaker billable utilization.

Investment profile

1.

Strong growth-orientation

2.

A large and rapidly growing market

3.

Scalable and continuous business model

4.

Strong balance sheet enables investment growth

5.

Clear path to good profitability after the growth phase

Potential



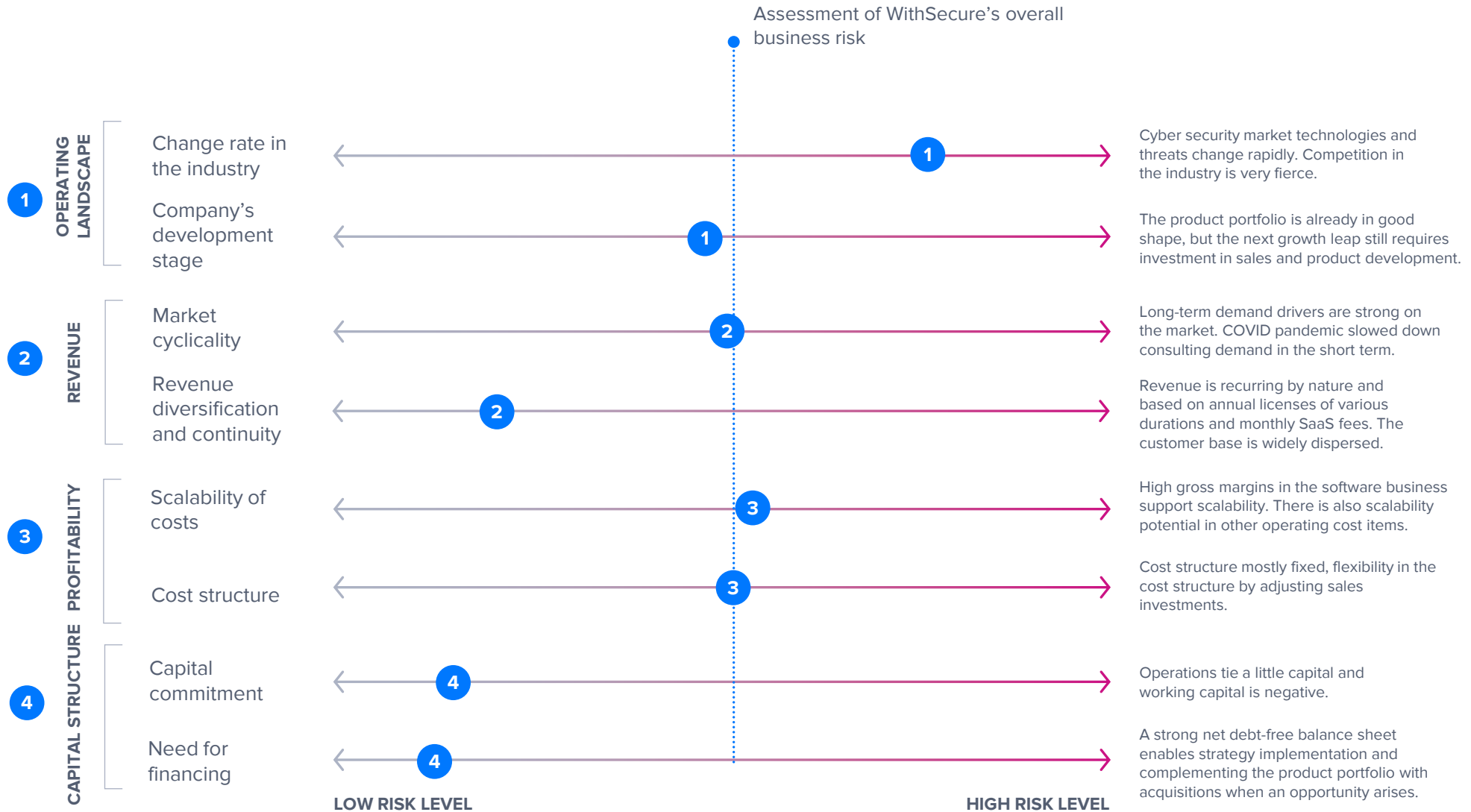
- Strong growth in cloud-native products
- The high gross margins in the product business enable good profitability in the long term
- Product portfolio and sales channels are largely in place
- Stable demand outlook on corporate security market

Risks



- The industry is potentially overinvested, which has been reflected as tightening competition in recent years
- Growth may require higher investments than the company's targets
- Rapid change rate in the market and technologies
- Tight competition for experts and wage inflation

Risk profile of the business model



Industry 1/4

Market definition, size and growth

Cyber security companies are solving one of the biggest problems of the digitalizing society. Big problems also mean big business opportunities, which makes the market very interesting, dynamic, and rapidly growing.

Cyber security refers to processes, technologies, solutions, and services that protect companies' and other organizations or individual users' data against criminality that occurs in electronic networks. Cyber threats can be divided into three categories: 1) criminality that aims at financial profit, 2) hacking that aims at disrupting companies' or governments' activities, and 3) spying that aims at gaining a competitive business advantage or phishing on state security. The number of cyber threats and their intelligence is constantly growing and the market is, in practice, driven by an endless race between criminals and cyber security technologies and processes.

The cyber security market develops quickly and the estimates on the total market size and growth still vary dramatically. Gartner estimates that the global cyber security market in 2022 would be about USD 172.5 billion, which would mean an increase of about 12% on the previous year. The market is expected to grow at about 11% per year and reach USD 267 billion in 2026.

Market segments

The target groups of the cyber security market can be roughly divided into three areas in a pyramid model (see next page) based on the intelligence of attacks and technologies. These also broadly

correlate with the size of the customer organizations as the biggest organizations and state administration are typically the main targets of cyber criminals. For organizations at the top of the hierarchy, solutions that have been created for the masses at the bottom of the hierarchy do not offer sufficient protection. Correspondingly, the solutions focusing on the top levels of the hierarchy are too expensive for organizations whose activities do not require a high protection level. Development of new technology focuses on the more demanding top level segments after which the technology is replicated to the lower levels for broader segments.

The top of the cyber security market is represented by state espionage and the defense industry. This is a niche market from the viewpoint of cyber security companies, but it represents the highest technology and level of expertise and is thus important.

The largest volume of the market is found in the middle of the pyramid that covers targeted attacks. In this case, the primary target group is in practice all large organizations and public administration, and especially the players whose activities include critical security of supply activities (like energy, banks and operators). Crucial in this target group is that its size is constantly growing as cyber security threats increase, which also expands the market for demanding cyber security solutions.

In the big picture, market growth is the result of 1) cyber security issues playing an important role for an increasing number of industries when planning new digital businesses and 2) the rising trends on the IT markets (industrial IoT, social media, digital

commerce, cloud transformation) force organizations to pay more attention to cyber security.

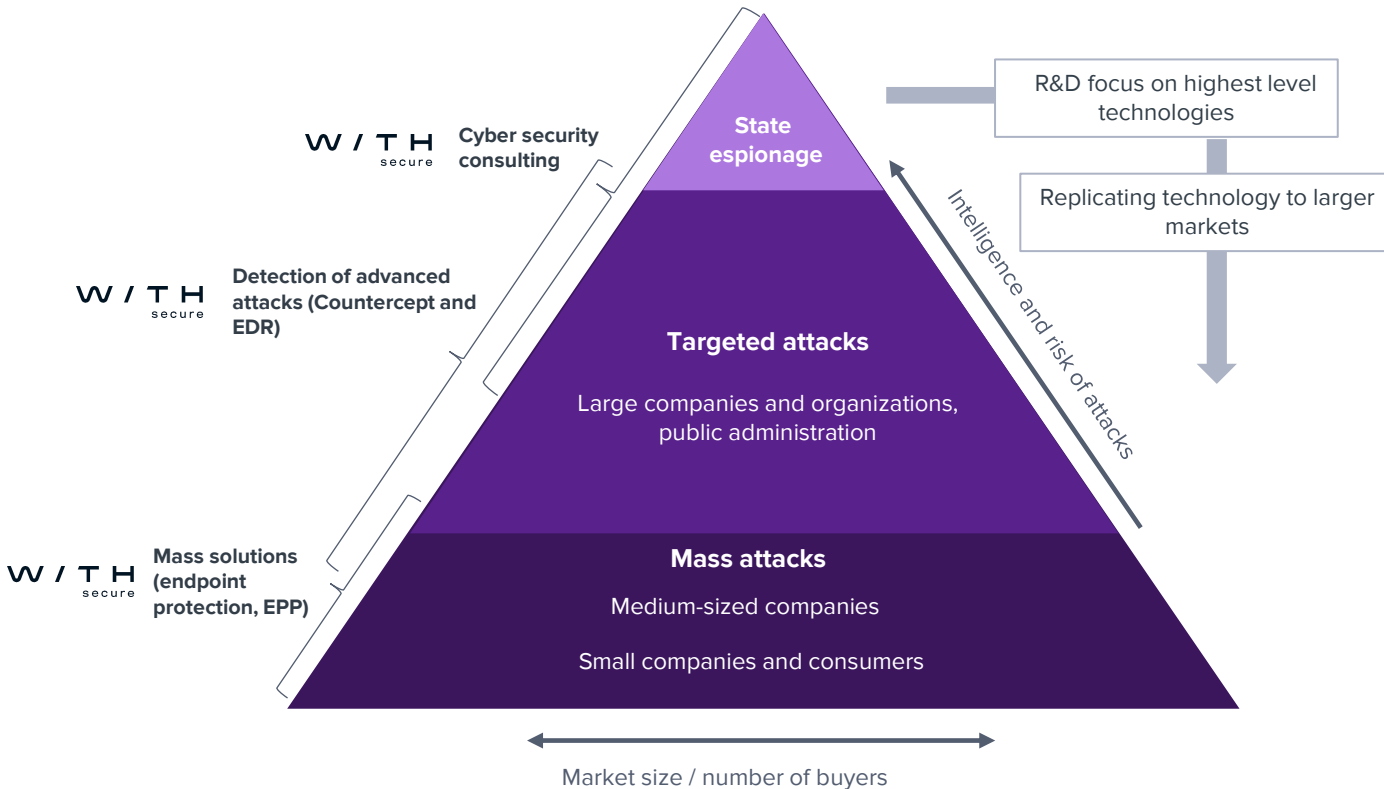
In the segment of targeted attacks (large and medium sized organizations), cyber security cannot be solved only with mass solutions. The cyber security budgets of companies in this segment are annually roughly around EUR 1-5 million, which makes it attractive to companies that offer cyber security services and products. WithSecure has expanded into this segment through acquisitions (consulting service) and a broader product portfolio (MDR/EDR).

The most important segment for WithSecure is still the bottom layer of the pyramid that includes SMEs. For small companies, the main thing is to be protected against mass attacks, which can be done with regular "off the shelf" cyber security products like endpoint protection products and firewalls.

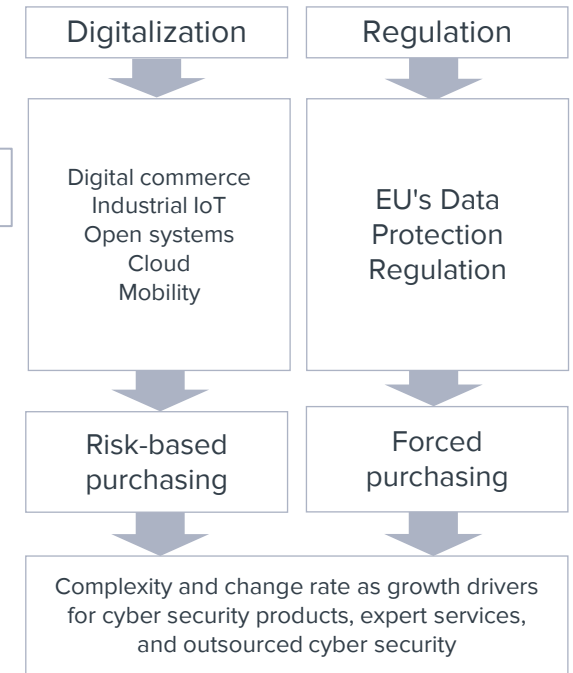
Among medium-sized enterprises, the need for cyber security beyond mere endpoint protection is increasing, but the security budgets (0.1-1.0 MEUR) are significantly lower than for large enterprises. In this case, purchasing the best technologies or managed/outsourced cyber security services is not always possible, but the need to protect against targeted attacks is increasing. Then, e.g., WithSecure's Elements solutions can be used to build appropriate security services to meet these needs, provided by a local IT service partner.

Industry

Distribution and operating logic of the cyber security market



Market drivers



Industry 2/4

Sub-segments of the market for WithSecure

WithSecure's potential market can be examined more closely through the company's product and service selection. Overall, WithSecure's target market is so large that the size of the market does not limit the company's growth.

In corporate security products, WithSecure has estimated that the relevant target market for its Elements product portfolio is about USD 16 billion. The growth profiles of the different product areas are very different, but the overall market is expected to grow at an annual rate of as much as 20% until 2025. At that point, the market would have grown to around USD 34 billion.

The market for enterprises' endpoint protection platforms is growing as automated threat detection and response products (EDR) are complementing EPP products. IDC estimates that the endpoint protection market grew by some 29% in 2021 and amounted to USD 10.3 billion. Growth of EDR products is driven by the fact that data breaches against companies is often not detected for months, and this has shifted the focus from merely preventing attacks towards faster detection and response. Large companies can buy detection capabilities as managed services (like WithSecure's Countercept), but for smaller companies a solution built around EDR is more sensible in terms of costs. In addition, other new solutions that complement the security of endpoint devices (e.g. WithSecure's Cloud Protection for Salesforce) support the growth outlook of the corporate security market.

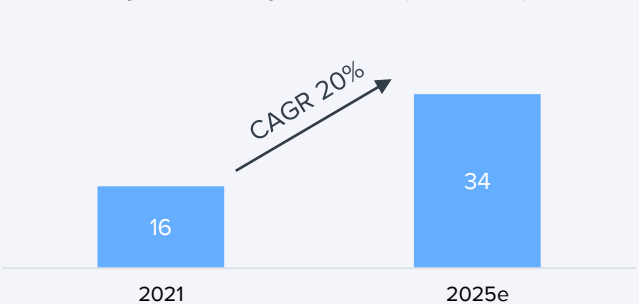
The market for managed detection and response services (MDR) has developed quickly in recent

years and estimates of market size and growth are still indicative. Gartner estimates the market to have been around USD 1.2 billion in 2021 and it is expected to grow by about 17% annually by 2025. The significant growth potential is shown by Gartner's estimate that about 50% of organizations will use MDR services by 2025. WithSecure aims to take part in the growth of this market with its Countercept solution. Over the past five years, the rapidly developing market has attracted a lot of competition, and Gartner has estimated that there are more than 100 players offering MDR solutions.

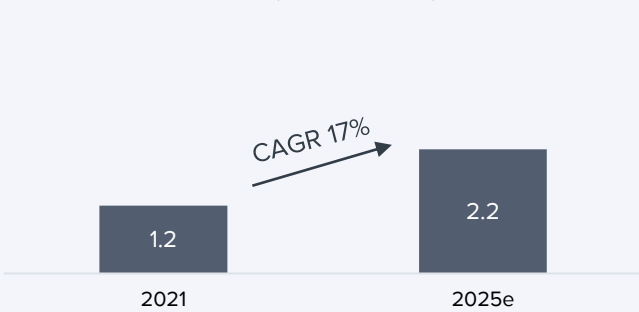
In cyber security services, WithSecure has estimated that the size of the relevant target market is around USD 26 billion and the market is expected to grow by some 10% p.a. by 2025. In Consulting, the COVID pandemic slowed down and contributed to the withdrawal of some organizations' cyber security projects, which in recent years has been seen as a slowdown in the growth of cyber security consulting companies. Russia's military aggression against Ukraine has again brought cyber security issues strongly into the forefront of companies' everyday life this year, which has increased consulting demand. However, the bottlenecks to growth are the tight expert shortage and high employee attrition in the industry, which has also been seen in the soft development of WithSecure's consulting business this year.

Size and growth of WithSecure's market segments (USD bn)

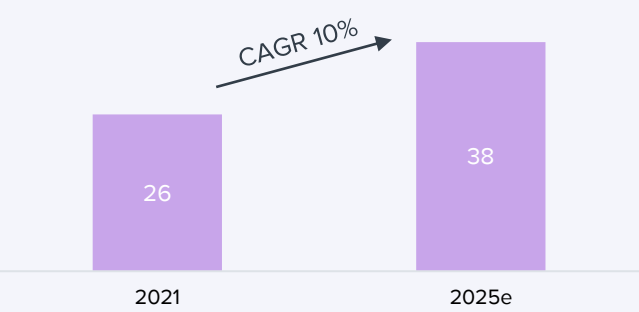
Cyber security products (Elements)



MDR (Countercept)



Cyber security consulting



Source: WithSecure & Gartner

Industry 3/4

Market drivers

Cyber security market growth will probably continue to be steady driven by digitalization investments. In addition, constant news of serious data breaches (risk-based purchasing) and pressure created by regulations (forced purchasing) boost market growth. At the top level, growth is, in practice, driven by three forces: digitalization, regulation, and increasing threat scenarios.

The commonly recognized megatrends in the IT world like cloud services, industrial IoT, social media and digital commerce are strongly linked with cyber security. In many of these areas, the barrier for creating new applications, products and digital services comes from cyber security challenges. These challenges are related, e.g., to privacy protection, e-commerce or security. Another megatrend worth mentioning is the ever-growing and diverse device portfolio and linking of various systems and online services. This makes the market more attractive from a criminal's viewpoint than when companies still mainly only operated in their own individual closed environments. Thus, digitalization progressing constantly increases the potential attacking area for cyber criminals.

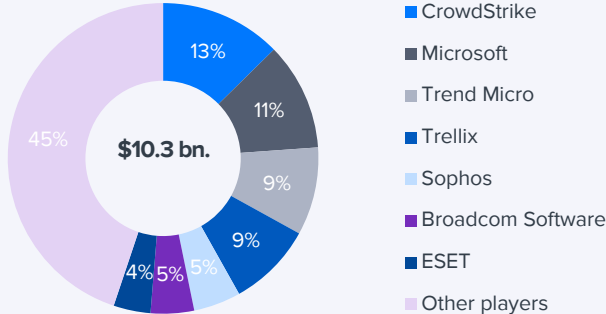
Building new digital services requires that companies and governments solve the challenges related to cyber security in advance. The demand for cyber security related products and services is also often supported by the fact that cyber security is increasingly becoming a critical and integral part of any new IT system, digital service, or product.

This means that problems related to cyber security cannot be solved simply by acquiring cyber security software and equipment off the shelf but also requires the use of high-level expertise services.

EU's Data Protection Regulation

EU's Data Protection Regulation (GDPR), that entered into force in May 2018, has increased the demand for cyber security services. The regulation imposed new obligations on organizations handling personal data, like the obligation to report any breach of security. The authority that supervises the regulation can impose sanctions if the regulation is breached. The sanctions can be massive, for more serious breaches the fine is EUR 20 million or 4% of the company's annual revenue, which has resulted in companies taking the regulation seriously. GDPR also supports WithSecure's business as the regulation means that companies have been forced to build better capabilities to detect realized security breaches.

Distribution of the endpoint protection market 2021



Industry 4/4

Industry consolidation continues

Over the past decade, the growth outlook of the cyber security market has attracted a lot of investments to the sector. This has been visible as dramatic growth in venture capital investments in new cyber security companies and as lively M&A activity both in North America and Europe. Several cyber security company IPOs have been seen on stock exchanges, while some of the listed companies have also been acquired. In 2020, the COVID situation temporarily put M&A transactions on hold, which erupted in 2021 when a record number of M&A transactions were seen.

As a whole, the cyber security market is still highly fragmented, and consolidation is bound to continue as, despite market growth, there is not room for all current players on the market when it starts maturing in the future. We have been worried for several years that the industry is overinvested. In our opinion, this has already been visible as a tightening competitive situation in the sector in recent years and can in future become more visible in the sector's profitability when new players enter the market with new solutions that try to solve cyber security problems more efficiently and/or cheaply than the competition. Some players in the sector are still generating heavy losses and their lifeline of external financing will end if they cannot generate growth or profitability.

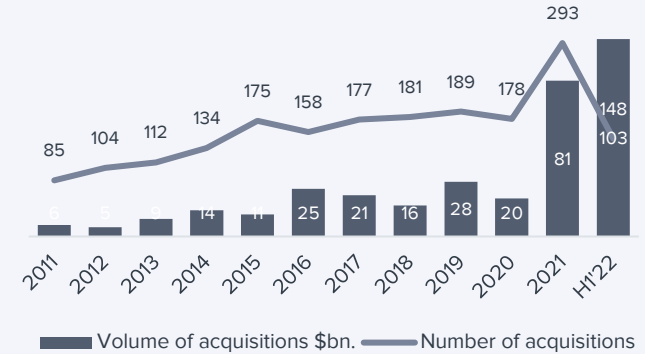
The investment pressure in the sector has led to acquisitions' valuation levels remaining high, and the valuation levels of listed cyber companies have also increased significantly in recent years. This year, however, has seen a downward correction in valuation levels along with the rest of the stock

market. The high valuation levels in the sector also make it difficult for WithSecure to carry out acquisitions that generate shareholder value.

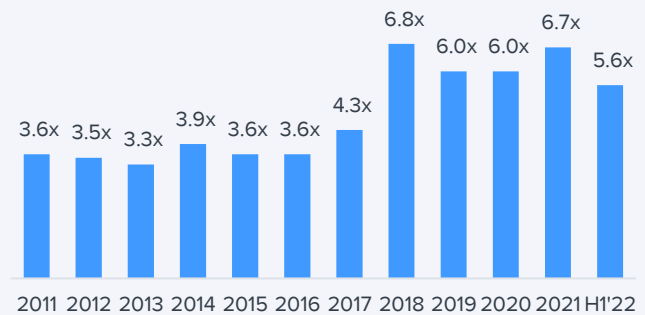
Due to the lack of experts, acquisitions are the only way for many service companies to get a piece of the market or they can act as an alternative to recruitment. In this case, the target is often small, specialized players. In acquisitions of product companies, the buyers can seek technologies that complement their product portfolio and in larger M&A transactions the aim is to generate synergy, e.g., in product development, sales and distribution. Consolidation pressure also increases because, instead of point solutions, cyber security is increasingly turning into turnkey solution and process deliveries, which forces players to integrate their offerings. We believe that WithSecure will continue to be part of the industry consolidation as a buyer but for the time being the sector's high valuation levels slow down acquisition plans.

The crucial question for investors is whether it is worth investing in the sector after the investment boom and whether it is already too late. We believe high valuation levels combined with a tight competitive situation will cause disappointments for investors in many companies. At the same time, the expected return of the ultimate winners in the sector are likely to be very good. On the whole, we do not see much room to stretch the valuation multiples of the sector, and value creation must mainly come from companies' growth and profitability.

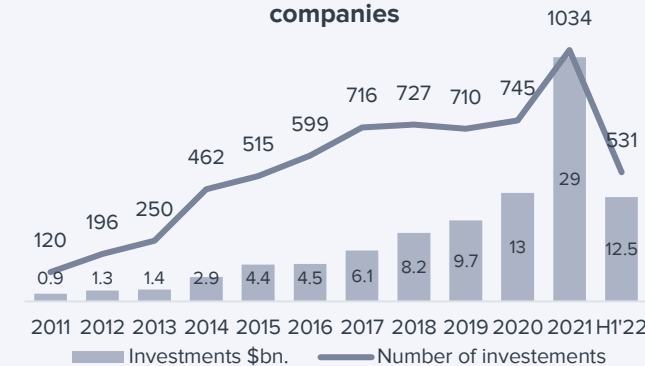
M&A in the cyber security sector



Median EV/S ratio of acquisitions (LTM)



Capital investments in cyber security companies

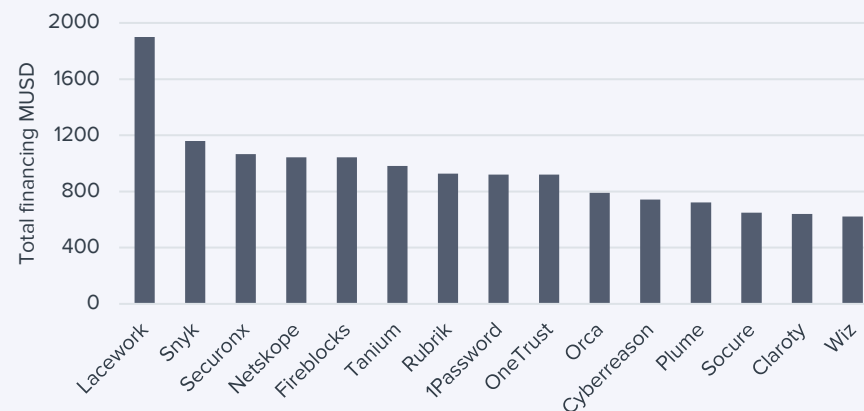


Acquisitions and investments in the industry

M&A transactions in the sector for which public valuation information is available

Timing	Buyer	Target	EV (MUSD)	EV/S
10/2022	Vista Equity Partners	KnowBe4	4,380	15.1x
10/2022	Thoma Bravo	ForgeRock	1,995	10.6x
8/2022	Thoma Bravo	Ping Identity	2,796	8.0x
8/2022	Turn/River Management	Tufin Software	489	4.2x
5/2022	Broadcom	Vmware	69,248	5.3x
4/2022	Kaseya	Datto	6,028	9.4x
4/2022	Thoma Bravo	SailPoint	7,051	15.2x
3/2022	Google	Mandiant	5,357	9.5x
12/2021	Permira	Mimecast	5,516	8.8x
11/2021	Opentext	Zix	860	3.1x
11/2021	Advent	McAfee	14,000	7.5x
4/2021	Thoma Bravo	Proofpoint	11,489	9.6x
3/2021	STG	McAfee (Corporate Business)	4,000	3.1x
3/2021	Wipro	Capco	1,450	2.0x
11/2020	Nasdaq	Verafin	2,750	19.5x
10/2020	Francisco Partners	Forcepoint	1,100	1.7x
9/2020	Ivanti	Mobileiron	859	4.2x
2/2020	Advent	Forescout	1,884	4.8x
1/2020	LexisNexis Risk Solutions	ID Analytics	375	7.8x
12/2019	F5 Networks	Shape Security	1,028	17.1x
11/2019	Open Text	Carbonite	1,400	3.4x
10/2019	Thoma Bravo	Sophos	3,948	5.1x
8/2019	Broadcom	Symantec Enterprise	10,700	4.6x
8/2019	Vmware	Carbon Black	2,100	9.1x
5/2019	Orange	SecureLink	576	2.1x
2/2019	Carbonite	Webroot	618	2.9x
11/2018	BlackBerry	Cylance	1,500	11.5x
10/2018	Thoma Bravo	Imperva	1,800	5.2x
8/2018	Cisco Systems	Duo Security	2,350	>20x
6/2018	F-Secure	MWR Infosecurity	110	3.1x
12/2017	Thales	Gemalto	5,541	1.8x
11/2017	Warburg Pingus	Cyren	119	3.8x
11/2017	Thoma Bravo	Barracuda Networks	1,405	3.8x
7/2017	Open Text	Guidance Software	245	2.1x
2/2017	Sophos Group	Invincea	120	4.8x
2/2017	Palo Alto Networks	LightCyber	105	10.5x
1/2017	Keysight Technologies	Ixia	1,603	3.3x
11/2016	Symantec	LifeLock	2,362	3.6x
9/2016	TPG	McAfee	4,200	2.5x
7/2016	Avast	AVG	1,463	3.4x
6/2016	Symantec	Blue Coat	4,722	7.9x
		Median	1,457	4.8x
		Average	4,864	6.6x

Unlisted cyber security companies that have collected most financing



IPO activity has been lively in the sector

Company	Year of IPO
Okta	2017
SailPoint	2017
Zscaler	2018
Avast*	2018
Carbon Black*	2018
Tenable	2018
Solarwinds	2018
Tufin	2019
Crowdstrike	2019
Cloudflare	2019
Ping Identity*	2019
Sumo Logic	2020
McAfee*	2020
Telos	2020
KnowBe4*	2021
Darktrace	2021
SentinelOne	2021
Riskified	2021
ForgeRock*	2021

*Public takeover made or bid in progress

Competition

A rapidly growing market has attracted a lot of competition

Rapid growth of the cyber security market and the wave of investments that swept across the sector have, over the past decade, strongly shaped the competitive landscape. The market is still very fragmented and still looking for its shape. A growing share of market growth is grabbed by new cyber security industry start-ups that often are specialized in a particular niche segment of cyber security with their services or products. Some of the companies set up in the past decade have already grown to a size class where they are eating market shares from the more conventional players in the sector. For example, the very rapid growth of US-based CrowdStrike in recent years has been reflected in the market for endpoint protection in the market share of conventional players.

Conventional players, and those who have been on the market longer, try to make their offering more comprehensive to respond to the competition and this has accelerated consolidation in the industry as bigger players buy smaller product and service companies.

In the big picture, global IT sector giants like IBM, Microsoft and Cisco, whose cyber security revenue is in the billion range also operate on the market. In recent years, especially Microsoft has risen as a strong competitor on the corporate side with good products and very strong distribution power.

Competition factors on the cyber security market

In cyber security products, the quality of the product and its ability to prevent or detect malware

is naturally emphasized as a competition factor. In endpoint protection products, the threshold to enter the field has, however, lowered as AI and cloud environments offer the required algorithms and capacity for virus prevention software. At the same time, detection and response capabilities are increasingly important. In addition, customers' confidence in the product, their success in various tests and the brand are emphasized in the competition.

The role of distribution channels is also important in competition as it is difficult for a product business operating without working channels to generate volume and thus scalability. Especially in corporate security, products are sold mainly through service partners and the product solutions must be built so that they also enable the possibility for the service partner to build value-added services on top of them.

In medium sized and large enterprises, the uniformity of the product portfolio is an emphasized competition factor as the customers rather purchase an extensive turnkey solution instead of several point product solutions. However, the market is still highly fragmented and there are plenty of entities to protect in an organization, even outside WithSecure's solution offering. Larger customers typically have security solutions from several different suppliers and the total number of different solutions easily reaches 20-30.

WithSecure's competitive advantages

WithSecure has a particularly good reputation in endpoint protection products among SMEs in Northern Europe. This is based on the company's

long-term and solid expertise in endpoint protection technologies. A testament of this are the numerous awards the company has won in malware detection tests.

For years, WithSecure has tried to strengthen its brand on the corporate side to be perceived more as a comprehensive cyber security house whose solutions also cover the security needs of larger companies. With the name change from F-Secure to WithSecure and partial demerger full focus on corporate security is a natural continuation on this journey. WithSecure has won new considerable large global customers for its Countercept solution, which also reflects the strengthening of the brand among large companies. In addition, the consulting services provided by the company strengthen the brand on the corporate side and helps companies to position themselves more strongly as a security company that offers turnkey solutions. Consulting also gives a certain competitive advantage against pure product companies.

WithSecure's extensive reseller channel is a resource for the company and brings scalability to sales. The cloud-native Elements platform has also made it easier to sell more products to existing customers. In Europe, the company has competitive advantage against its competitors in that geopolitical factors may affect the decision making of some customers. We also believe that, in addition to endpoint protection, WithSecure has a technological competitive edge in the detection and response capability of Countercept. This is partly reflected in the strong customer relationships among demanding customers, like large banks.

Competitive field

WithSecure's expertise areas	Weight in WithSecure's business	Competitors
Endpoint protection (EPP and EDR)	✓✓✓	
Detection of and response to cyber attacks as a managed service (MDR)	✓✓	
Cyber security services	✓✓	
Cloud Protection for Salesforce	✓✓	No main competitors on Salesforce platform. Adaptus (EZProtect) is an individual smaller player.
Managing vulnerabilities	✓	

Strategy 1/2

Transformation into a cyber security company focusing on corporate security

In 2015, WithSecure started evolving from an antivirus company focusing on consumer business towards a more comprehensive cyber security company, whose business focus lies on the rapidly growing corporate security markets. The change was launched by selling the consumer-focused cloud storage business and acquiring nSense that expanded the corporate security portfolio and expertise considerably. Simultaneously, the focus of R&D in corporate security shifted to developing data breach detection and response solutions. Cyber security consulting was also strengthened with two smaller acquisitions in 2017.

In 2018, the MWR acquisition moved WithSecure's growth strategy and transformation process based on corporate security forward in bounds and leaps. The weight of consulting in the company's business grew significantly and the Countercept product obtained in the acquisition strengthened the company's detection and response solution offering.

The change in WithSecure has required significant investment in unifying the product and service offerings and the development of the reselling channel. At the same time, the business model has changed from selling one-time licenses to recurring subscription-based sales and "Security as a Service" approach. At the core is the cloud-native Elements platform launched in 2021.

WithSecure's transformation journey was sealed in June 2022, when the consumer security business was separated in a partial demerger into its own

listed company (F-Secure). This also partly reflects the success of the transformation, as corporate security has grown to a sufficient size over the years to be independent. At the same time, with the directed issue in March 2022, WithSecure's financial leeway for growth investments is sufficient even without the cash flows previously provided by consumer security. Now, WithSecure can focus its strategy fully on growing corporate security, and we see the demerger as a sensible move for long-term shareholder value.

Growth strategy aims at strong growth through cloud-native products

At the heart of WithSecure's strategy is growth through its cloud-native Elements product platform. Another important pillar is the Cloud Content Protection business, where WithSecure has developed a complementary security solution for the Salesforce cloud platform. The company still sees significant growth potential in Salesforce users, but it also tries to expand the technology to other cloud platforms (e.g. Slack). Thirdly, WithSecure aims to deepen strategic partnerships with the largest customers, where, in addition to cloud-native products, managed detection and response (Countercept) solutions and consulting are key. As WithSecure's strategy progresses, the importance of consulting (Q3'22: 27% of revenue) will decrease, but it supports the product business well in some respects and acts as a gateway to selling MDR solutions, for example.

Financial objectives

In the medium term, WithSecure aims to achieve strong revenue growth and to double its revenue

by the end of 2025 (from 2021 comparable revenue of 122.8 MEUR). This would require strong average annual growth of about 19% in 2022-2025, which means a clear acceleration from current levels. We believe growth depends in particular on the success of sales, and WithSecure will continue to invest heavily in developing its partner channel, which provides scalability in sales. In addition to new customer acquisition, WithSecure still sees clear potential to grow within existing customers.

We find WithSecure's growth targets to be very ambitious. In practice, they would require a huge growth rate in cloud-native products, because we believe that the growth rate of consulting is clearly calmer than the targets and the trend is declining for on-premise products.

In terms of profitability, WithSecure targets zero level in adjusted EBITDA by the end of 2023 and a 20% margin by 2025. In the long term, we consider an EBITDA of over 20% highly realistic for WithSecure as the company's gross margins for its product business are expected to be over 85-90%. In addition, thanks to a scalable business model, the relative share of the company's operating expenses in revenue should decrease clearly with growth. In coming years, however, we believe that the pursuit of growth still requires significant investments in sales and product development. We, therefore, consider the timing for the 20% EBITDA target ambitious at this point. However, zero level EBITDA at the end of 2023 seems realistic based on the profitability improvement rate seen in Q3.

Strategy 2/2

Overall, WithSecure's balance sheet is very strong and allows for necessary growth investments. Due to the company's development phase we expect dividend taps to remain closed in the medium term and capital to be allocated to growth.

New operating model supports implementation of the strategy

WithSecure will adopt to a new operating model from the start of 2023 to seek more power from the post-demerger organization. As a result of this change, the company's sales teams will be concentrated into a single, unified sales organization. The aim is a more customer-focused approach and better utilization of additional and cross-selling opportunities. At the same time, the R&D team will be merged into a single, unified organization. The Cloud Protection for Salesforce business will, however, operate as an independent "internal start-up" to utilize the full growth potential of this business.

WithSecure's goal is a smooth transition to the new model, but organizational changes always come with a risk of some type of short-term operating friction.

Acquisitions

WithSecure's growth strategy is largely based on organic growth, but acquisitions that complement the product portfolio are not excluded. Historically, WithSecure has been relatively active in acquisitions that have helped it accelerate its

transformation into a comprehensive cybersecurity company.

In consulting, WithSecure has in the past carried out acquisitions to increase geographical coverage or to acquire experts. Examples of these are the small (3.5 MEUR) acquisitions (Inverse Path in Italy and Digital Assurance Consulting in Britain) in 2017. In 2015, WithSecure acquired the Finnish-Danish service company nSense for EUR 18 million which, in addition to cyber security consultants, gave the company a product for vulnerability management.

In 2018, WithSecure acquired the British MWR InfoSecurity with approximately 400 employees and about EUR 31 million in revenue. The cash purchase price was GBP 80 million (91.6 MEUR) and the final additional purchase price was GBP 5 million. At the final purchase price, the EV/S ratio of the acquisition was around 3.1x, which was in line with WithSecure's own valuation at the time of the transaction (EV/S last 12 months: 3.1x). In retrospect we feel the price paid was relatively high, although the transaction clearly accelerated the transformation of WithSecure's strategy and journey to a company focusing on corporate security. The acquisition increased WithSecure's geographical coverage, significantly strengthened consulting (>50% of revenue from services) and introduced complementing technologies for strategically important detection and response solutions (Countercept) to WithSecure's product portfolio.

Recently, WithSecure has also made small divestments of consulting businesses acquired in the MWR transaction. The company sold the public sector consulting business in Great Britain in December 2021 and its subsidiary in South Africa in February 2022. On an annual basis, the effect of these divestments on revenue is about EUR 7 million.

Strategy



Success factors of the strategy

Implemented

- Strengthening corporate security product and service offering
- Strong reseller channel
- Separating the consumer security business from WithSecure

Near future, 1-2 years

- Building an independent WithSecure brand
- Strong growth in cloud-native security products through the Elements platform
- In large companies deepening customer relationships to become more strategic through MDR solutions and consulting
- Expanding the Cloud Content Protection business to new platforms next to Salesforce
- Improving the profitability of consulting

Next 5 years

- Strong growth and achieving sufficient scale in all areas
- Maintaining a strong distribution channel and partner network for medium sized and large companies
- Scaling profitability to a clearly positive level with high gross margins and growing size
- Ability to continuously strengthen the product and service portfolio in line with market trends and technology shifts organically or through acquisitions

Financial position

Corporate security revenue has been on the growth path for a long time

In 2015, WithSecure sold its cloud storage business for USD 60 million (purchase price 30 MUSD in 2009). Since then, WithSecure started to invest significantly in rapidly growing corporate security markets, and growth has been sought both organically and through acquisitions. In 2014, corporate security revenue amounted to some EUR 46 million and in 2022 we estimate WithSecure's revenue to be around EUR 135 million. This means an average annual growth of about 14%, of which we estimate, well over half has been organic.

At the end of Q3'22, the annual recurring revenue (ARR) for cloud-native products at the heart of WithSecure's strategy was EUR 71.7 million. This represents an increase of about 29% on the comparison period or 6% on the previous quarter. In the Q3 report, WithSecure commented that its sales pipeline continued developing positively, but orders accumulated in a back-loaded manner during the quarter. This had a somewhat weakening effect on the growth rate seen in Q3.

WithSecure's profitability is currently clearly in red and the adjusted EBITDA of the last 12 months is about EUR -26.1 million. In Q3'22, the adjusted EBITDA was EUR -4.0 million and the loss rate started to decline clearly from the beginning of the year (H1'22: -16.6 MEUR). We expect the gradually improving trend to continue in the future, as the scalable software business grows.

Cost structure

WithSecure's gross margin was 68% in 2021, which is not particularly high for a software company. The

gross margin is still limited by the relatively high share of consulting in revenue. In addition, the gross margins (target >70%) for MDR solutions do not reach the level of pure software revenue (target >85-90%), as the business also contains a human component. In addition to costs related to providing services, direct sales costs also include, e.g., costs related to producing cloud-native services and customer support. There is clear upside in the gross margin as the share of cloud-native products increases in revenue.

Sales and marketing costs accounted for 56% of revenue in 2021 and 62% in Q1-Q3'22, showing a significant increase in costs associated with the launch of the WithSecure brand. The expense item includes salaries, marketing expenses and other operating expenses. Costs relative to revenue are currently very high and we see a clear potential for scaling. However, acquiring new customers is relatively expensive in the cyber security market, which limits the scalability of the item.

In 2021, R&D expenditure was about 25% of revenue and in Q1-Q3 it was about 29%. We expect that the cost item's share of revenue will only scale a little in the long term, as maintaining competitiveness requires constant investment in product development. WithSecure capitalizes product development costs modestly in the balance sheet as capitalized costs amounted to EUR 5.6 million in 2021.

Administrative expenses in 2021 amounted to about 12% of revenue and this year its relative share will be elevated by the costs from the partial demerger. Compared to the 2021 level, we see some scalability potential in the expense item with growth.

Cash flow

Due to the negative result, the cash flow from WithSecure's business is currently clearly negative (Q3'22 YTD -18 MEUR). The company will finance its growth investments with the EUR 77 million from the directed share issue in spring 2022.

In general, WithSecure's cash flow is supported by advance payments from customers, as contract payments are often received at the beginning of the contract period. As a result, WithSecure's working capital is clearly negative.

Balance sheet and financial position

As a result of the directed share issue, WithSecure's balance sheet is in very good shape, which is also shown in balance sheet indicators (Q3'22: equity ratio 80%, gearing -42%). The strong balance sheet gives leeway for implementing WithSecure's strategy and allows for acquisitions that complement the product portfolio when the opportunity arises.

At the end of Q3'22, the balance sheet total was EUR 250 million. Balance sheet assets consisted mainly of cash (75.1 MEUR), goodwill of acquisitions (83.3 MEUR), receivables (34.7 MEUR) and other intangible assets (24.5 MEUR).

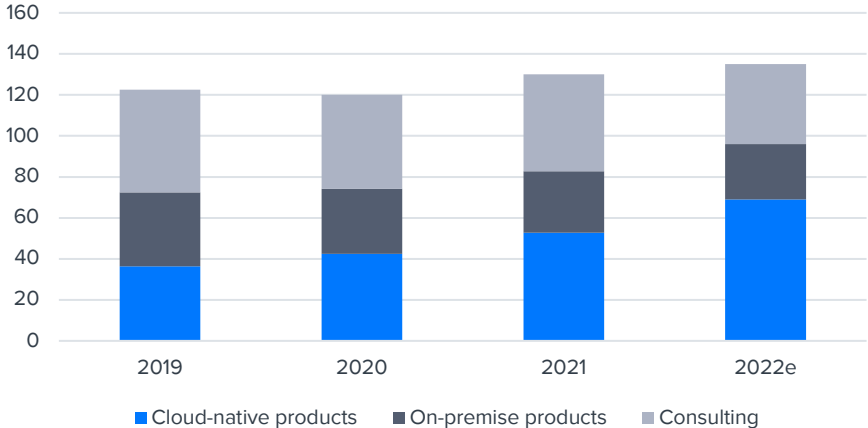
Balance sheet liabilities consisted mainly of equity (146.5 MEUR), advances received (66 MEUR) and other current interest-free liabilities (19.4 MEUR). Interest-bearing liabilities at the end of Q3 totaled EUR 13.7 million, some of which is explained by lease liabilities under IFRS 16.

Financial position

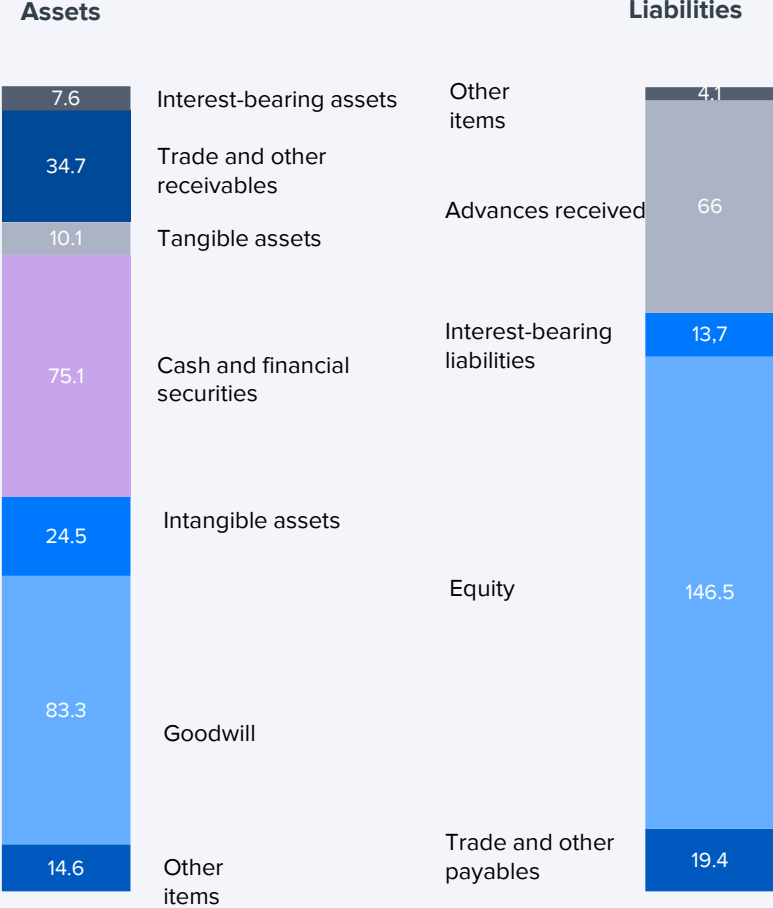
WithSecure's corporate security revenue and growth %



Development of revenue distribution



Balance sheet Q3'22 (MEUR)



Source: Inderes

Estimates 1/2

Basis for the estimates

We estimate the development of WithSecure's revenue through three items reported by the company (cloud-native products, on-premise products and consulting). In its strategy, WithSecure focuses particularly on cloud-native products, which we expect to drive growth in the coming years. At the same time, we expect a gradual decline in the revenue from on-premise products as WithSecure aims to move customers to cloud-native solutions. In consulting, the demand outlook is good for the coming years, but availability of experts acts as a bottleneck for growth. With the divestments, the starting level for reported revenue also decreases in 2022 from 2021.

We estimate that a significant share of WithSecure's product revenue still comes from endpoint protection products (EPP). However, newer solutions (e.g. MDR and EDR) have already reached a scale where they are becoming more apparent in revenue growth. Especially bundling products into larger comprehensive solutions through the Elements platform offers clear potential for additional/cross-selling in WithSecure's extensive EPP customer base. Among newer products, Cloud Protection for Salesforce has also become an important product for growth.

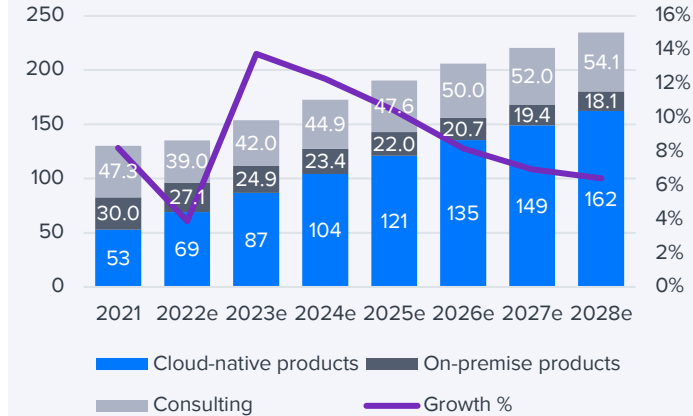
We consider WithSecure's growth targets to be very ambitious and our estimates are more cautious at this stage. The company aims to double its comparable revenue organically by 2025 (= revenue around 246 MEUR) while our estimate is some EUR 190 million. With our estimate the revenue will reach the company's target level at the end of this decade.

In terms of profitability, WithSecure aims for zero-level profitability in 2023 and an adjusted EBITDA of around 20% by 2025, which we believe is an optimistic target level for profitability improvement. With our current estimate, the targeted profitability of around 20% will be reached at the end of this decade, but zero-level EBITDA can be achieved at the end of 2023 or in the first half of 2024. Thanks to growth there are clear conditions for the company to improve profitability. As cloud-native products grow, the company's gross margin (2021: 68%) should rise by several percentage points as the targeted gross margins for products are even above 90%. At the same time, other operating cost items (sales and marketing, product development and administration) should scale with growth. We do not expect WithSecure to pay dividends in the medium term, but to channel its capital to growth.

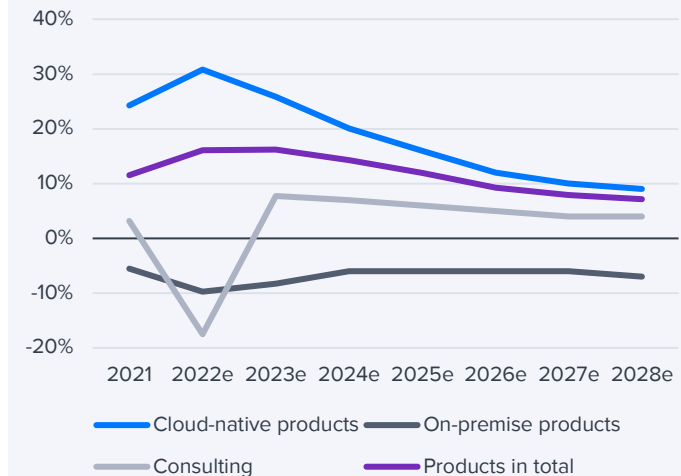
Estimates for 2022

WithSecure guidance for 2022 is that comparable revenue (122.8 MEUR) will grow at a low double-digit rate. "low double-digit"). Growth is driven especially by cloud-native products, which are expected to grow by about 30%. WithSecure expects comparable EBITDA (2021: -11.3 MEUR) will decline from the previous year, which is explained by additional investments in new product areas and increased sales and marketing costs, e.g., through brand renewal. However, the company expects profitability to improve in H2 compared to H1, signs of which was seen already in Q3.

Revenue and growth %



Components of revenue growth



Estimates 2/2

In the Q3 report, WithSecure commented that its sales pipeline continued developing positively, and financial uncertainty does not appear to have materially affected the demand outlook of security solutions at present.

Our estimates are in line with WithSecure's outlook and we expect around 10% comparable growth, which means that reported revenue will increase by 4% to EUR 135 million. If the softness in consulting continues in Q4, the company can may still cut its guidance slightly in terms of growth. This would, however, not be very dramatic as the company's value creation relies on the growth in the software business. We expect adjusted EBITDA to decrease to EUR -23.1 million, which corresponds to an estimated comparable EBITDA of about EUR -19.6 million. This means a gradual decrease in losses also in Q4.

Estimates for 2023-2026

In 2023-2024, we expect cloud-native products to grow at an annual rate of 26-20%, while revenue from on-premise products will decrease by 8-6% per year. In consulting, we expect revenue to increase by 8-7% from the soft base level in 2022 supported by the strong demand situation and improved delivery capacity thanks to recruitment. As a result, total revenue will increase by 14-12%.

We believe that acceleration of growth will depress the earnings development in the next few years, but expect the improving gross margin and cost scaling will rapidly reduce WithSecure's losses compared to 2022. With our estimates the adjusted EBITDA % improves to -3.9% in 2023 and turns positive to 1.5% in 2024. For adjusted EBIT the result is at that point still slightly in red.

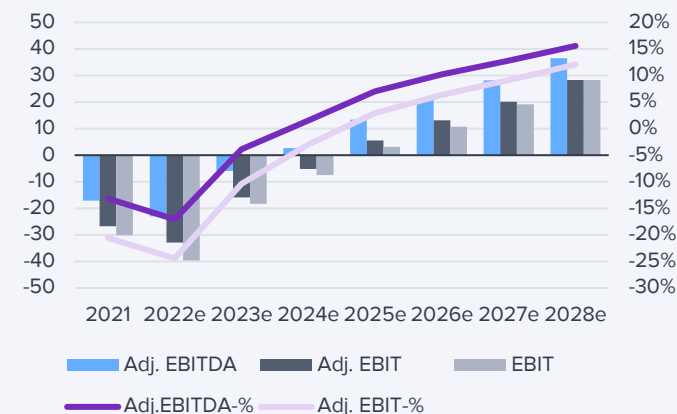
In 2025-2026, we expect WithSecure's revenue to grow by 10-8% driven by cloud-native products and the adjusted EBITDA to rise to 7-10%. We believe that growth in the highly competitive corporate security market requires significant investment in product development and sales, which holds back profitability improvement in our estimates relative to the pace targeted by WithSecure.

Long term estimates

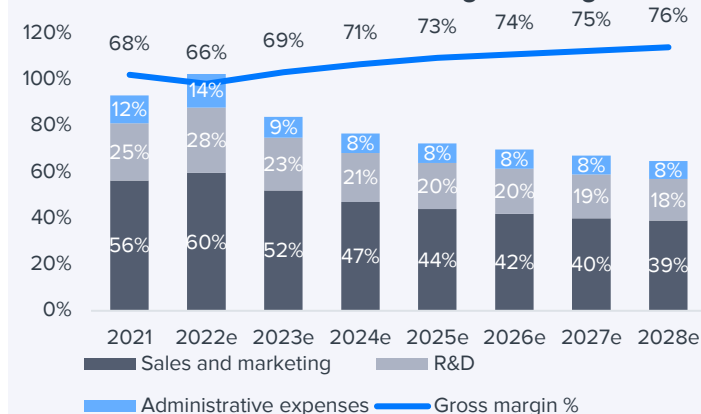
In 2027-2030, WithSecure's growth rate gradually decreases from 7% to 4%. After this our terminal growth assumption is 2.5% from 2031 onwards.

We estimate that WithSecure's adjusted EBITDA margin will be around 13% in 2027 and gradually rise to 20% by 2030. At EBIT level this represents a margin of 9-17%. In the terminal, we assume EBITDA to be 22% (EBIT: 19%). Considering the scalable software business, WithSecure could reach better profitability in a positive scenario. However, the strong competitive pressure and speed of change in the cyber security market create uncertainty in assessing long-term sustainable profitability levels. In our estimates, consulting still represents some 20% of revenue at the end of this decade, which contributes to limiting the profitability potential. We also believe that WithSecure still has to prove its ability to maintain a strong growth and profitability trend before the company's target development could warrant a position as the neutral scenario in estimates.

Earnings and profitability development



Cost structure % of revenue & gross margin%



Source: Inderes *NB! This year, the relative cost structure is elevated by the costs of services produced for F-Secure based on the TSA agreement. Related income is shown in other operating income (not shown in this graph)

Estimates

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue	220	31.5	31.9	32.1	34.5	130	32.4	32.5	33.5	36.7	135	154	172	190
Cloud-native products		11.8	12.7	13.5	14.7	52.7	15.2	16.9	17.9	19.0	69.0	86.8	104	121
On-premise products		7.7	7.5	7.4	7.4	30.0	7.1	6.8	6.7	6.6	27.1	24.9	23.4	22.0
Consulting		12.0	11.6	11.2	12.4	47.3	10.0	8.9	8.9	11.2	38.9	42.0	44.9	47.6
EBITDA excl. NRIs	35.7	-3.2	-5.5	-3.1	-5.5	-17.2	-7.0	-9.7	-4.0	-2.4	-23.1	-6.0	2.7	13.4
EBITDA	35.7	-3.2	-5.5	-3.1	-4.9	-16.6	-11.4	-10.5	-3.0	-2.4	-27.3	-6.0	2.7	13.4
Depreciation	-16.0	-3.1	-3.1	-3.0	-4.3	-13.5	-3.2	-3.0	-3.1	-3.1	-12.4	-12.4	-10.2	-10.2
EBIT (excl. NRI)	22.9	-5.5	-7.8	-5.4	-8.0	-26.8	-9.5	-12.1	-6.5	-4.9	-33.0	-16.0	-5.2	5.5
EBIT	19.7	-6.3	-8.6	-6.1	-9.2	-30.1	-14.6	-13.5	-6.1	-5.5	-39.7	-18.4	-7.6	3.1
Net financial items	-3.2	0.3	-0.3	-0.3	0.0	-0.3	-0.3	-0.2	-0.4	-0.2	-1.0	-0.5	-0.4	-0.3
PTP	16.5	-6.0	-8.9	-6.3	-9.2	-30.4	-14.9	-13.7	-6.4	-5.7	-40.7	-18.9	-8.0	2.8
Taxes	-3.6	1.5	0.5	1.5	1.5	5.0	1.9	1.4	1.5	0.8	5.5	2.8	1.6	-0.6
Net earnings	12.9	-4.5	-8.4	-4.8	-7.7	-25.4	-13.0	-12.3	-4.9	-4.9	-35.2	-16.1	-6.4	2.2
EPS (adj.)	0.10	-0.02	-0.04	-0.02	-0.04	-0.13	-0.06	-0.06	-0.03	-0.02	-0.17	-0.08	-0.02	0.03
EPS (rep.)	0.08	-0.03	-0.05	-0.03	-0.05	-0.15	-0.08	-0.07	-0.03	-0.03	-0.20	-0.09	-0.04	0.01
Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22	Q3'22	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	1.3 %	-42.5 %	-39.9 %	-41.0 %	-40.4 %	-41.0 %	2.7 %	1.9 %	4.3 %	6.4 %	3.9 %	13.7 %	12.3 %	10.4 %
Adjusted EBIT growth-%	138.3 %	-236.5 %	-214.2 %	-170.5 %	-286.7 %	-	71.8 %	55.4 %	20.3 %	-39.1 %	-	-	-	-
EBITDA-%	16.2 %	-10.1 %	-17.3 %	-9.6 %	-14.1 %	-12.8 %	-35.2 %	-32.5 %	-8.9 %	-6.5 %	-20.2 %	-3.9 %	1.5 %	7.0 %
Adjusted EBIT-%	10.4 %	-17.5 %	-24.5 %	-16.8 %	-23.3 %	-20.6 %	-29.2 %	-37.4 %	-19.4 %	-13.3 %	-24.4 %	-10.4 %	-3.0 %	2.9 %
Net earnings-%	5.8 %	-14.3 %	-26.4 %	-15.0 %	-22.2 %	-19.5 %	-40.2 %	-38.0 %	-14.7 %	-13.3 %	-26.0 %	-10.5 %	-3.7 %	1.2 %

Source: Inderes, NB! 2020 figures still include consumer security

Valuation 1/2

Sales-based valuation is low

Due to WithSecure's development phase, earnings-based multiples will not support the share valuation in coming years. Thus, in our view, the single most important valuation multiple is EV/S, which should be related to the combined growth and profitability of WithSecure. We especially favor a valuation method where the product business and consulting business are priced separately due to their very different growth, profitability and scalability profiles.

In absolute terms, WithSecure's current EV/S multiples (2022e-2023e: 1.5x-1.3x) looks low for software company. In addition, relative to annual recurring revenue of cloud-native products (Q3'22: 72 MEUR) the EV/ARR ratio is only 2.8x. Multiples have been under pressure this year, as the strong rise in interest rates has materially changed the pricing environment of growth companies and especially loss-making growth companies. Thus, the support provided by EV/S ratios alone for valuation has decreased in the short term. However, WithSecure's current multiples no longer put significant weight on the company's underlying scalable growth potential, and we see an upside in the multiples as the company's strategy progresses.

The growth expectations loaded into WithSecure's share can be illustrated by assuming that the company will reach the 15-20% adjusted EBIT % that reflects the company's medium-term target. In this case the share's P/E ratio would be 8x-11x and EV/EBIT 5x-7x. These multiples are already very low and indicate moderate growth expectations.

Sum of the parts also indicates a moderate valuation

WithSecure opens the share of consulting and products of revenue, based on which we have

separately assessed the values of these businesses. We believe the EV/S ratio of consulting (revenue 2022e 39 MEUR) that is personnel driven and thus less scalable requires less interpretation. E.g., the ratios of IT service companies (2022e median EV/S 1.0x) can be used as a good benchmark. Thus we have set the ratio for consulting in the range of 0.9x-1.1x.

The pricing multiple for product revenue (2022e: 96 MEUR) will ultimately depend on WithSecure's success in accelerating growth over the coming years. In line with the company's growth targets, product revenue should grow by clearly over 20% per year, allowing the acceptable EV/S ratio to be somewhat closer to the level of global cyber security peers (2022e: 6.1x). In the coming years, WithSecure's profitability will still be modest and, thus the combination of growth and profitability is currently low compared to rapidly growing product companies. At the same time, the multiples of the peers have been under pressure in recent months. Considering all this, we price product turnover in a neutral scenario with a 3.0x EV/Sales ratio, the range being 2.0x-4.0x. By comparison, McAfee's corporate operations were sold in March 2021 to a venture capitalist with a 3.1x EV/S ratio.

By applying the above assumptions, WithSecure's debt-free value in the neutral scenario is EUR 327 million with a range of EUR 227-427 million. Considering the net cash we expect at year-end (2022e: 61 MEUR), the value of WithSecure's shares in the neutral scenario is EUR 388 million (EUR 2.2 per share) with a EUR 1.7-2.8 range. WithSecure's share price is currently well below the value indicated by the sum of the parts, which is why the market currently prices product revenue with very moderate multiples.

Valuation	2022e	2023e	2024e
Share price	1.51	1.51	1.51
Number of shares, millions	174.5	174.5	174.5
Market cap	264	264	264
EV	202	206	208
P/E (adj.)	neg.	neg.	neg.
P/E	neg.	neg.	neg.
P/FCF	7.0	neg.	neg.
P/B	1.9	2.2	2.3
P/S	2.0	1.7	1.5
EV/Sales	1.5	1.3	1.2
EV/EBITDA	neg.	neg.	78.0
EV/EBIT (adj.)	neg.	neg.	neg.
Payout ratio (%)	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %

Source: Inderes

Sum of the parts calculation

WithSecure	Min.	Neutral	Max.
Revenue 2022e	135	135	135
Product revenue	96	96	96
x pricing multiple (EV/S)	2.0x	3.0x	4.0x
Value of product business	192	288	384
Consulting revenue	39	39	39
x pricing multiple (EV/S)	0.9x	1.0x	1.1x
Value of consulting	35	39	43
EV	227	327	427
+ Net cash at end of 2022	61	61	61
Value of the stock	288	388	488
Value per share	1.7	2.2	2.8

Valuation 2/2

Peer group

We have included listed cyber security companies in WithSecure's peer group, some of which are direct competitors or compete, at least to some extent, in particular product areas of the company. The companies in the peer group are, for the most part, clearly larger than WithSecure and we feel this should be partly reflected in WithSecure's pricing compared to the peer group. The companies are also in different business development stages, which is visible in their growth and profitability profiles, and, to some extent, makes it difficult to compare the companies' valuation levels.

Measured by the EV/S ratio, WithSecure is valued at a considerable discount of over 70% compared to its peers in the next few years. However, the combination of WithSecure's growth and profitability is well below the average of the peer group, which we feel is somewhat rightly reflected as a lower valuation. However, the valuation gap is already so significant that we see a risk of it narrowing as the combination of WithSecure's growth and profitability strengthens in coming years.

Despite stock market melancholy and lower share prices of cyber security companies, the sales-based valuation level of peers is still high in absolute terms (2022e-2023e 6, 2023e 6.1x-5.0x). Thus, we see a risk of a downward adjustment in the multiples. On the other hand, the strong growth outlook of the cyber security market also supports the high overall valuation of the sector.

Comparing WithSecure's earnings-based multiples with peers is in practice not possible due to the company being loss-making. At the same time, many companies in the peer group are still investing heavily

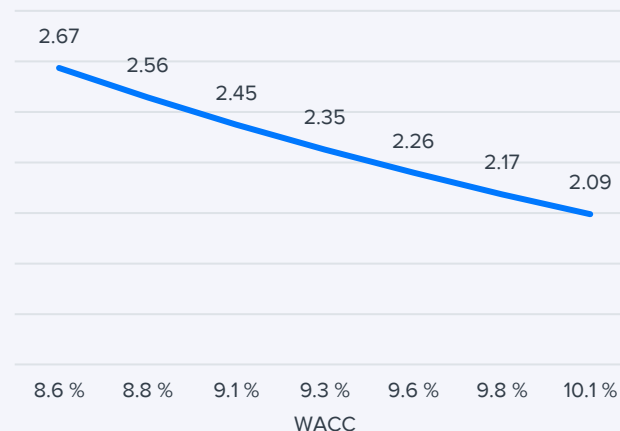
in growth at the expense of profitability. Thus, it is difficult to use the peer group's median earnings multiples to make assumptions about the sector's correct acceptable earnings-based valuation.

DCF model

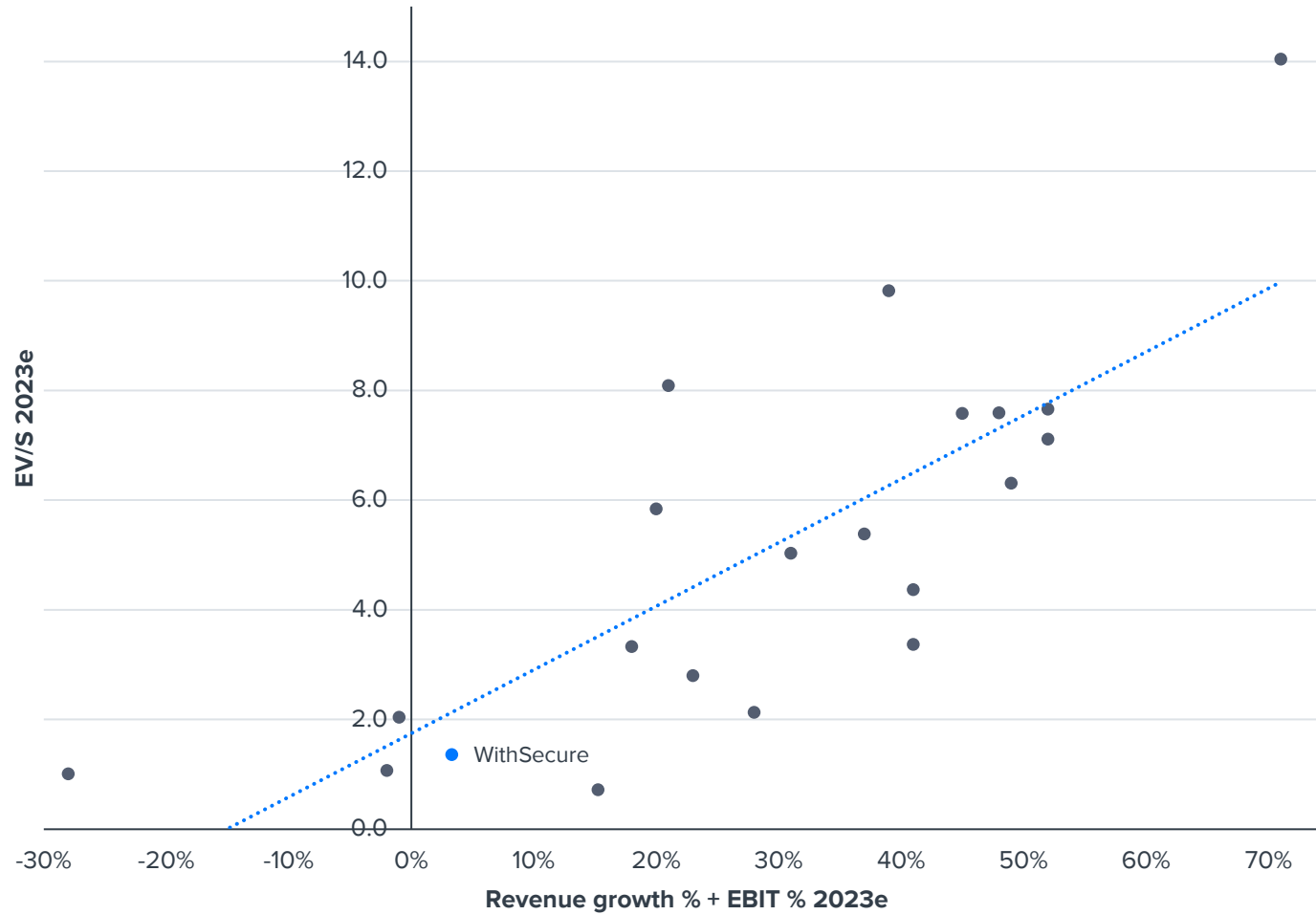
The DCF value for equity for WithSecure is EUR 410 million, i.e. EUR 2.35 per share. Our terminal assumption is that EBIT % is 19% and growth 2.5%. Measured by EBITDA, profitability is equivalent to a margin of 22%, which is slightly above WithSecure's medium-term targets. In the long term, we feel the company has preconditions to reach slightly better profitability in the positive scenario through strong growth in the software business but here you should use caution when it comes to long-term assumptions.

The cost of capital (WACC) in the DCF model is 9.3%. We feel the level is well justified in the current tighter interest rate environment considering the growth rate and profitability improvement we estimate. As the strategy progresses and profitability improves, we believe there may be slight downward pressure on the required return. The weight of the terminal assumption is 69% of the debt-free value, which in part indicates that most of WithSecure's value is generated from cash flow long in the future, which increases uncertainty. The adjacent graph illustrates the sensitivity of the DCF model to changes in the required return.

Sensitivity of DCF value to required return



Valuation of WithSecure and cyber security companies



Peer group valuation

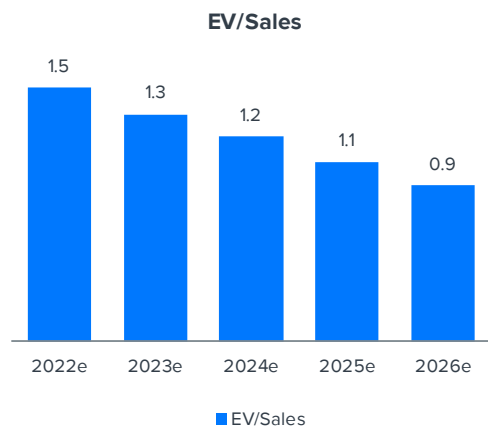
Peer group valuation Company	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		Lv:n kasvu-%		EBIT-%	
	MEUR	MEUR	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e	2022e	2023e
Trend Micro	6954	5251	18.1		13.5	12.5	3.4	3.1	18%	9%	19%	
Rapid7	1603	2146	86.0	44.2	47.2	32.4	3.3	2.8	29%	17%	4%	6%
Fortinet	40174	39475	34.7	28.7	32.1	26.3	9.2	7.6	33%	22%	27%	26%
Cyberark	6021	5654					9.8	8.1	20%	21%	-3%	0%
Palo Alto Networks	50449	50323	50.5	38.2	44.0	31.6	9.5	7.6	31%	25%	19%	20%
Check Point Software	16357	14875	14.9	14.2	14.6	14.1	6.6	6.3	8%	5%	44%	44%
Qualys	4580	4190	23.1	21.1	20.0	18.4	8.9	7.7	19%	16%	38%	36%
NCC Group	750	848	15.4	12.9	12.3	10.5	2.4	2.1	13%	11%	15%	17%
Nixu	46	49	33.0	12.3	15.4	8.9	0.8	0.7	16%	9%	3%	6%
SecureWorks	613	451			45.6		0.9	1.0	-4%	-14%	0%	-14%
Tenable	4149	3973	64.9	44.0	50.8	37.1	6.1	5.0	27%	20%	9%	11%
SolarWinds	1337	2389	9.4	8.8	9.0	8.3	3.5	3.4	-11%	3%	37%	38%
Splunk	12286	14336		54.7		38.5	5.8	4.4	17%	33%	-16%	8%
Varonis Systems	2210	1688	67.3	56.5	45.7	35.2	3.7	3.3	22%	12%	6%	6%
Sumo Logic	878	571					2.5	2.0	20%	22%	-22%	-23%
Knowbe4	4199	3935	99.0	72.9	72.0	56.4	12.2	9.8	37%	25%	12%	14%
Darktrace	3145	2833	133.9	90.6	41.9	34.8	7.1	5.4	50%	31%	5%	6%
ForgeRock	1784	1492					7.2	5.8	22%	24%	-14%	-4%
Riskified	808	316					1.3	1.1	14%	18%	-18%	-20%
SentinelOne	4464	2854					14.8	7.1		108%	-90%	-56%
CrowdStrike	31694	30183	180.0	94.9	137.8	77.2	21.9	14.0	67%	56%	12%	15%
WithSecure (Inderes)	264	202	-6.1	-12.9	-7.4	-34.4	1.5	1.3	4%	14%	-24%	-10%
Average			59.3	42.4	40.1	29.5	6.7	5.2	22%	23%	4%	7%
Median			42.6	41.1	41.9	31.6	6.1	5.0	20%	20%	6%	7%
Diff-% to median							-75%	-73%				

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Valuation table

Valuation	2022e	2023e	2024e	2025e	2026e
Share price	1.51	1.51	1.51	1.51	1.51
Number of shares, millions	174.5	174.5	174.5	174.5	174.5
Market cap	264	264	264	264	264
EV	202	206	208	202	190
P/E (adj.)	neg.	neg.	neg.	57.1	25.0
P/E	neg.	neg.	neg.	>100	32.3
P/FCF	7.0	neg.	neg.	38.8	21.3
P/B	1.9	2.2	2.3	2.3	2.1
P/S	2.0	1.7	1.5	1.4	1.3
EV/Sales	1.5	1.3	1.2	1.1	0.9
EV/EBITDA	neg.	neg.	78.0	15.1	9.0
EV/EBIT (adj.)	neg.	neg.	neg.	36.4	14.5
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



DCF calculation

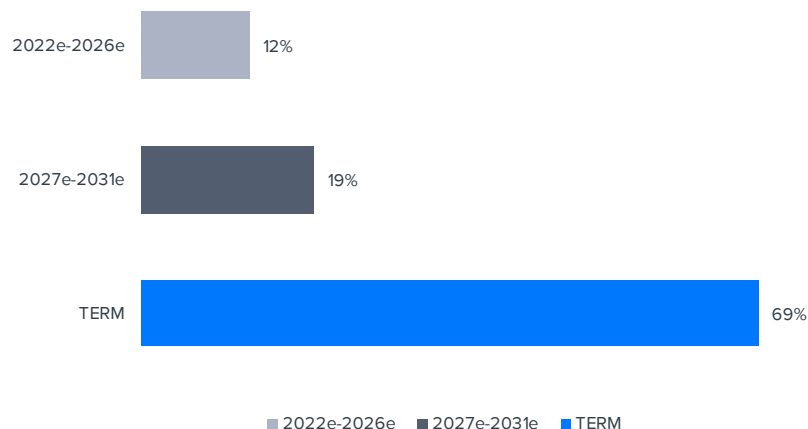
DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
Revenue growth-%	-41.0 %	3.9 %	13.7 %	12.3 %	10.4 %	8.2 %	6.9 %	6.4 %	5.0 %	4.0 %	2.5 %	2.5 %
EBIT-%	-23.2 %	-29.4 %	-12.0 %	-4.4 %	1.7 %	5.2 %	8.7 %	12.1 %	15.0 %	17.0 %	19.0 %	19.0 %
EBIT (operating profit)	-30.1	-39.7	-18.4	-7.6	3.1	10.7	19.2	28.3	36.9	43.5	49.8	
+ Depreciation	13.5	12.4	12.4	10.2	10.2	10.3	9.0	8.3	8.4	8.5	8.7	
- Paid taxes	5.5	3.6	2.8	1.6	-0.6	-2.3	-4.2	-6.2	-8.1	-9.5	-10.9	
- Tax, financial expenses	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	0.6	-3.5	0.2	0.9	1.5	1.4	0.5	0.2	0.8	0.3	0.0	
Operating cash flow	-10.6	-27.3	-3.0	5.1	14.2	20.1	24.5	30.5	38.0	42.8	47.5	
+ Change in other long-term liabilities	0.9	-1.3	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	1.0	
- Gross CAPEX	-15.6	-10.8	-0.9	-7.8	-8.2	-8.5	-8.6	-8.7	-8.8	-9.0	-9.0	
Free operating cash flow	-25.3	-39.4	-3.2	-2.0	6.8	12.4	16.7	22.7	30.1	34.7	39.5	
+/- Other	0.0	77.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-25.3	37.6	-3.2	-2.0	6.8	12.4	16.7	22.7	30.1	34.7	39.5	595
Discounted FCFF		37.3	-2.9	-1.6	5.2	8.6	10.6	13.2	16.0	16.9	17.6	265
Sum of FCFF present value		386	349	351	353	348	339	329	316	300	283	265
Enterprise value DCF		386										
- Interesting bearing debt		-28.4										
+ Cash and cash equivalents		52.9										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		410										
Equity value DCF per share		2.35										

Wacc

Tax-% (WACC)	22.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	4.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	1.10%
Risk free interest rate	2.5 %
Cost of equity	9.3 %
Weighted average cost of capital (WACC)	9.3 %

Source: Inderes

Cash flow distribution



Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	119	147	146	134	130
Goodwill	81.9	85.1	85.1	85.1	85.1
Intangible assets	18.0	43.3	36.3	32.1	29.0
Tangible assets	14.1	12.7	9.9	8.4	8.5
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	6.6	0.0	0.0
Other non-current assets	0.6	1.9	1.9	1.9	1.9
Deferred tax assets	4.0	4.1	6.0	6.0	6.0
Current assets	103	109	103	104	105
Inventories	0.1	0.1	0.0	0.0	0.0
Other current assets	0.9	1.7	1.7	1.7	1.7
Receivables	50.9	54.7	33.8	38.4	42.3
Cash and equivalents	51.4	52.9	67.2	63.7	61.3
Balance sheet total	238	246	240	229	228

Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	82.3	95.5	137	121	115
Share capital	1.6	1.6	1.6	1.6	1.6
Retained earnings	79.6	87.8	52.6	36.5	30.2
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	1.2	6.1	83.1	83.1	83.1
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	50.6	45.7	30.9	31.7	32.4
Deferred tax liabilities	1.3	1.9	1.9	1.9	1.9
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	23.9	17.6	4.0	4.0	4.0
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	25.3	26.3	25.0	25.8	26.5
Current liabilities	105	105	71.7	76.5	81.3
Short term debt	15.9	10.8	2.0	2.0	2.0
Payables	83.3	90.1	68.9	73.7	78.5
Other current liabilities	5.7	4.2	0.8	0.8	0.8
Balance sheet total	238	246	240	229	228

Summary

Income statement	2021	2022e	2023e	Per share data	2021	2022e	2023e
Revenue	130.0	135.0	153.6	EPS (reported)	-0.15	-0.20	-0.09
EBITDA	-16.6	-27.3	-6.0	EPS (adj.)	-0.13	-0.17	-0.08
EBIT	-30.1	-39.7	-18.4	OCF / share	-0.06	-0.16	-0.02
PTP	-30.4	-40.7	-18.9	FCF / share	-0.15	0.22	-0.02
Net Income	-25.4	-35.2	-16.1	Book value / share	0.56	0.79	0.69
Extraordinary items	-3.3	-6.7	-2.4	Dividend / share	0.00	0.00	0.00
Balance sheet	2021	2022e	2023e	Growth and profitability	2021	2022e	2023e
Balance sheet total	246.2	239.8	229.4	Revenue growth-%	-41%	4%	14%
Equity capital	95.5	137.2	121.2	EBITDA growth-%	-147%	64%	-78%
Goodwill	85.1	85.1	85.1	EBIT (adj.) growth-%	-217%	23%	-52%
Net debt	-24.6	-61.2	-57.7	EPS (adj.) growth-%	-234%	30%	-54%
Cash flow	2021	2022e	2023e	EBITDA-%	-12.8 %	-20.2 %	-3.9 %
EBITDA	-16.6	-27.3	-6.0	EBIT (adj.)-%	-20.6 %	-24.4 %	-10.4 %
Change in working capital	0.6	-3.5	0.2	EBIT-%	-23.2 %	-29.4 %	-12.0 %
Operating cash flow	-10.6	-27.3	-3.0	ROE-%	-28.6 %	-30.2 %	-12.4 %
CAPEX	-15.6	-10.8	-0.9	ROI-%	-24.5 %	-29.7 %	-13.6 %
Free cash flow	-25.3	37.6	-3.2	Equity ratio	59.6 %	79.9 %	76.1 %
Valuation multiples	2021	2022e	2023e	Gearing	-25.8 %	-44.6 %	-47.6 %
EV/S	5.9	1.5	1.3				
EV/EBITDA (adj.)	neg.	neg.	neg.				
EV/EBIT (adj.)	neg.	neg.	neg.				
P/E (adj.)	neg.	neg.	neg.				
P/E	8.2	1.9	2.2				
Dividend-%	0.0 %	0.0 %	0.0 %				

Source: Inderes

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Date	Recommendation	Target price	Share price
10-02-21	Reduce	3.60 €	3.92 €
30-04-21	Reduce	3.80 €	4.09 €
15-07-21	Reduce	4.00 €	4.30 €
01-09-21	Reduce	4.60 €	4.79 €
22-10-21	Reduce	4.80 €	4.95 €
17-11-21	Reduce	5.30 €	5.46 €
20-01-22	Accumulate	4.80 €	4.36 €
18-02-22	Accumulate	4.80 €	4.24 €
28-04-22	Accumulate	5.60 €	5.21 €
06-06-22	Accumulate	5.60 €	4.98 €
<i>**Consumer security (F-Secure) spin-off 1.7.2022**</i>			
02-07-22	Reduce	2.60 €	2.53 €
21-07-22	Accumulate	2.20 €	1.80 €
28-10-22	Accumulate	2.00 €	1.62 €
25-11-22	Buy	2.00 €	1.51 €



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Itämerentori 2

FI-00180 Helsinki, Finland

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