

Nixu

Extensive report

6/10/2021 07:07



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

✓ Inderes corporate customer

This report is a summary translation of the report "Kotipesä kuntoon ja kasvuun" published on 06/10/2021 at 07:12 am

inde
res.

Fix the home base and head for growth

Since the end of 2009, Nixu's growth story has been in a digestive phase but a return to the growth path seems likely this year. This still requires Nixu to fix its home base and implement its new operating model in the organization, which still involves risks. The demand outlook for the cybersecurity market is picking up, which will help with striving for growth towards the end of the year, and Nixu's strong historic growth also makes the turnaround credible. Considering the gradually improving growth story, the valuation of Nixu's share (2021e EV/S: 1.2x) looks moderate. We reiterate our Accumulate recommendation for the share and revise our target price to EUR 11.0 (previously EUR 11.5).

Foot moving back to the gas after a digestive phase

Since its listing in 2014, Nixu has expanded internationally with several acquisitions and strengthened its service selection to respond with the market trends of cybersecurity. The strategy has generated results and Nixu has grown by an average of 21% p.a. over the past six years. At the end of 2019, Nixu's growth story hit a digestive phase after several international acquisitions. In addition, the COVID situation forced the company to move its foot from the gas to the break and focus on profitability and protecting the balance sheet in the short term. Cost savings resulted in staff turnover, which has slowed down growth in early 2021 on top of the COVID situation. As a growth company that operates on a rather immature market, Nixu's ride is likely to continue to be bumpy and challenges will appear also in coming years. Over the past six years, the company's investments in internationalization, extensive cybersecurity expertise, own digital platform, and development of continuous, scalable service models have, however, created clear value. Thus, we feel that Nixu's strategy that follows this same growth recipe is still relevant now that the company will again be able to step on the gas to generate growth as the COVID situation alleviates.

Long-term growth drivers of the cybersecurity market strengthened in the COVID crisis

The COVID pandemic showed that the cybersecurity market is not fully immune to economic trends, which was reflected in the growth of Nixu and its peers last year. The long-term growth drivers of the market are still healthy, and the wave of digitalization caused by COVID should accelerate the demand for cybersecurity services in coming years as the cybersecurity debt of organizations that was postponed because of the pandemic starts to fall due. New digital business models are not possible in the long run without cybersecurity. Therefore, digital business and IoT are creating a strongly growing area for Nixu next to the market serving conventional data administration. The growth outlook of the cybersecurity market has also attracted a lot of investments to the sector and today competition is tight both for customers and experts.

Valuation is modest if Nixu is successful in returning to the growth path

With our estimates, Nixu's 2021e-2022e EV/Sales multiples are 1.2x and 1.1x. Considering the company's history the multiples are low but, on the other hand, so is the combination of the company's growth and profitability at the moment. We must look several years ahead to find support from earnings-based valuation. With the current valuation, the return expectation of Nixu's share is on an extremely good level if the company manages to return to the growth path in line with its strategy in coming years. However, Nixu still has a lot to prove in generating profitable growth abroad, and acquisition-driven international expansion raises the risk level of the share. We feel the return/risk ratio of the share as a whole is clearly leaning towards the positive.

Recommendation

Accumulate

(previous Accumulate)

EUR 11.0

(previous EUR 11.50)

Share price:

8.90



Key indicators

	2020	2021e	2022e	2023e
Net sales	53.3	55.9	64.3	73.9
growth %	4%	5%	15%	15%
EBIT adjusted	0.5	1.5	2.9	4.6
EBIT % adjusted	0.9%	2.7%	4.6%	6.2%
Net profit	-1.8	0.6	1.7	3.1
EPS (adjusted)	-0.12	0.12	0.27	0.46
P/E (adjusted)	neg.	75.8	32.9	19.3
P/B	5.1	4.5	4.1	3.4
Dividend yield %	0.0%	0.0%	0.0%	0.0%
EV/EBIT (adjusted)	>100	45.9	23.3	14.3
EV/EBITDA	25.4	21.0	14.9	10.6
EV/Sales	1.4	1.2	1.1	0.9

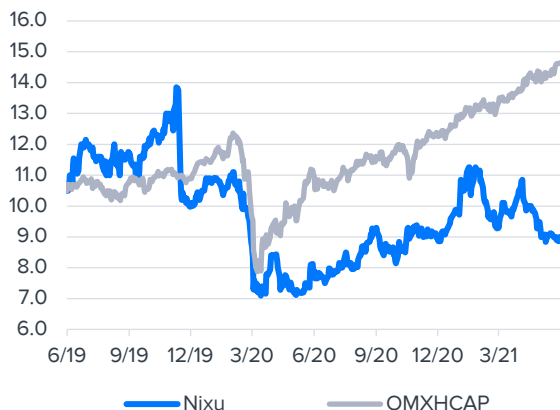
Source: Inderes

Guidance

(Unchanged)

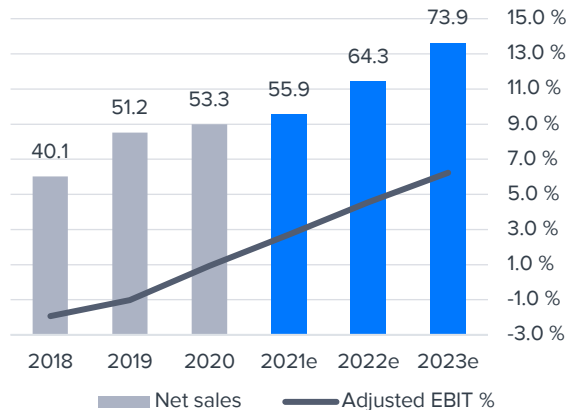
"Nixu estimates its revenue to grow organically and its EBITDA to increase from 2020. Simultaneously investments to growth are increased."

Share price



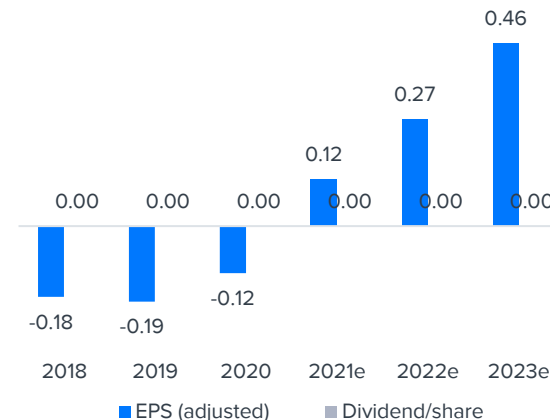
Source: Thomson Reuters

Net sales and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Good market position on a growing market
- Continuous service models generate customer maintenance and scalability
- Industry consolidation and growth outlook support valuation levels
- Revenue growth main value driver in next couple of years

Risk factors

- COVID situation weakens short-term outlook
- Increased competition on a hot market
- Successful internationalization
- Integration of acquisitions
- Success of investments directed at continuous service models

Valuation

- Valuation looks moderate with net sales ratio considering the gradually improving growth story
- Earnings multiples do not support valuation
- Valuation levels in cybersecurity sector are high in general driven by a good demand outlook
- Progressing strategy and strong growth create value

Contents

Company description and business model	5-10
Investment profile	11-13
Industry	14-19
Competition	20-23
Strategy	24-28
Financial position	29-30
Estimates and valuation	31-36
Tables	37-41
Disclaimer and recommendation history	42

Nixu in brief

Nixu is the largest specialist in cybersecurity services in the Nordic countries.

1988

Year of establishment

2014

IPO

EUR 53.3 million (+4% vs. 2019)

Revenue 2020

+21% 2015-2020

Average revenue growth (CAGR)

37% (2019: 35.5%)

All continuous services of revenue 2020

EUR 2.9 million (5.4% of revenue)

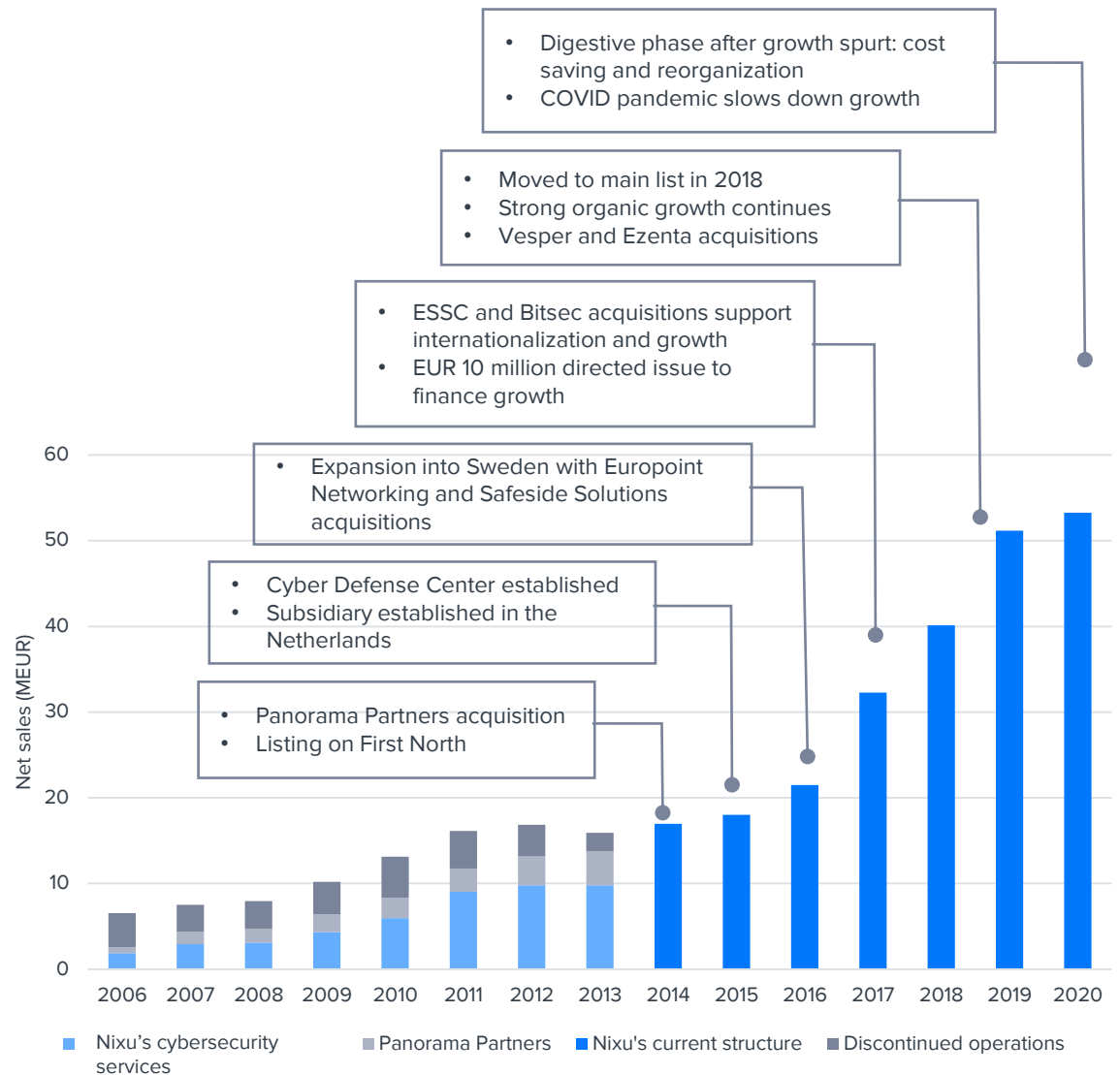
EBITDA 2020

373 (2019: 419)

Personnel at the end of 2020

580

Customers 2020



Source: Nixu / Inderes

Company description and business model 1/3

Company description

Service company specializing in cybersecurity

Nixu is a specialist company established in 1988 focusing on cybersecurity services. Measured by number of experts (2020: 373), Nixu is, in our view, the biggest supplier of cybersecurity services in the Nordic countries. In 2020, Nixu generated EUR 53.3 million in revenue (+4%) and EBITDA was EUR 2.9 million (5% of revenue). For this year, the company's guidance is that revenue grows, and EBITDA improves.

Nixu has a long history as a player in the IT industry but the strategic decision to focus on cybersecurity was made in 2005. Focusing on cybersecurity services that started at an early stage has offered Nixu a head start to its competitors.

Nixu's biggest market is Finland, but the company has rapidly become international in recent years. In 2016, Nixu started its international expansion by opening an office in the Netherlands and accelerated the expansion with an acquisition in 2017. In 2016, the company also expanded into Sweden with two small acquisitions and since then it has strengthened its position with two additional acquisitions. In 2019, the expansion continued to Denmark with the Ezenta acquisition. Last year, 39% of Nixu's revenue came from outside Finland.

Unlike several cybersecurity solution providers, Nixu is a turnkey supplier of cybersecurity solutions. So the company is not only a reseller of security devices and technologies, nor a consultant specialized in certain areas. The ability to offer cybersecurity as extensive turnkey solutions is an

important distinguishing competitive factor as technologies are complex and the threats are constantly evolving. In addition, the ability to offer cybersecurity for the customer's digital business is becoming emphasized as a competitive factor. Nixu does not invest in cybersecurity products itself, and the company is not intending to compete with cybersecurity product houses for development investments. Focusing on service business thus removes the technology risks of a product company but limits the scalability of the business.

Large organizations as customers

Nixu delivers high level cybersecurity services, so the company's main target group is large organizations and public administration. The company has no particular focus area when it comes to customers' industries. Last year, Nixu served some 580 customers and of Finland's 100 largest corporations Nixu has produced services for over 60.

Nixu divides its customer segments into data administration, digital business and industrial IoT. This depicts who on the customer's side is the buyer of Nixu's services. The conventional buyer of company services has been data administration, but the areas of digital business and industrial IoT are growing strongly. Here, the sought-after decision makers are the managers of the digital business and product development managers.

In 2020, the share of Nixu's ten largest customers of revenue was below 30% and the company's dependency on an individual customer is limited. Cybersecurity has traditionally been a mandatory support function for the customer organization's IT

whose share of the IT budget has been very small in relative terms. The share of cybersecurity in customers' IT budgets is growing as cybersecurity is a precondition for generating and maintaining digital businesses.

Strong market position in Finland

Nixu has a strong reputation and market position on the Finnish market for cybersecurity services. We estimate that Nixu has Finland's largest cybersecurity expert business with over 200 professionals and a revenue of over EUR 32 million. The competitive field is highly fragmented and because of several acquisitions Nixu is the only considerable company specializing in cybersecurity services in Finland, which brings competitive advantage. The main competitors in Finland are large IT service companies and consulting companies.

Aiming for strong international growth

Nixu's revenue has grown annually by an average of 21% over the past six years and the company's strategy aims at continued strong growth. Nixu's vision is to be the number one option in Northern Europe as corporations' trusted cybersecurity service partner and the best workplace for professionals in the sector. The aim of the company is to reach a strong market position in other Northern European countries like it has in Finland. The strategy is implemented with acquisitions and organic expansion. International expansion helps the company better serve large international customers and reach economies of scale especially in security operations center services and outsourced cybersecurity.

Partners



IT integrators

Operations

Sales



Project delivery



Continuous services



Recruitment



Business idea

Nixu's cybersecurity services keeps the digital society running.

nixu
cybersecurity.

- Operations near the customer
- Cybersecurity partner for digitalization
- Best cybersecurity experts
- Comprehensive services for cybersecurity

Customer segments



Large companies



Public sector

Resources

Comprehensive cybersecurity expertise



Own technology platforms to deliver services



Cyber Defense Center control center



Services



Security engineering



Internet of things (IoT)



Digital identity



Cyber defense



Cloud transformation



Cybersecurity outsourcing



Compliance and certification



Safety and reliability



Cybersecurity exercises and training

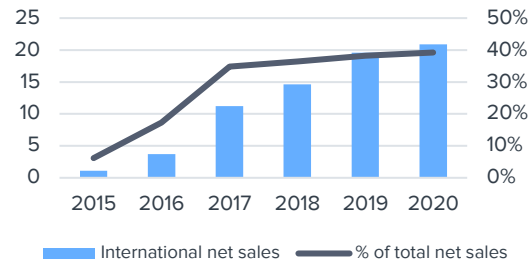
RAPID7

IBM

FORGEROCK

Cybersecurity technology suppliers

Progress of internationalization



Cost structure

373 employees (2020)
EUR -54.5 million (2020)



Personnel costs
(63% of net sales)



Materials and services
(23%)



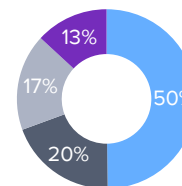
Other operating expenses
(10%)



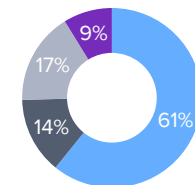
Depreciation
(7%)

Income flows (2020)

Revenue EUR 53.3 million
EBITDA EUR 2.9 million (2020)



- Projects and assignments
- Managed services
- Continuous services
- Licenses



- Finland
- Denmark
- Sweden
- Other countries

Company description and business model 2/3

Business model

Four different delivery models

Nixu helps its customers in projects that require cybersecurity planning, implementation, and inspection. In addition, the company offers cybersecurity as a continuous service. Historically Nixu has largely been a consulting and advice house in cybersecurity but in recent years it has progressed successfully in its strategy towards larger customers and bigger more demanding projects. Thus, the company has achieved a more strategic role among its customers.

Nixu’s service selection covers practically all cybersecurity related services with which the constancy and security of the customer’s business and digital services are ensured. The service packages delivered to customers can include parts from several expertise areas and third-party technologies. Nixu delivers its services with four different delivery models:

Projects and assignments (2020: 50% of revenue) include planning a cybersecurity solution for customer’s needs and implementing the project. Projects often include reselling of technology licenses. Project pricing is based on timework, and they vary in size from tens of thousands to hundreds of thousands. Projects and assignments also include security inspections and data protection services related to the company, IT system or web applications. Main competitors in cybersecurity consulting services are Big4 consulting companies.

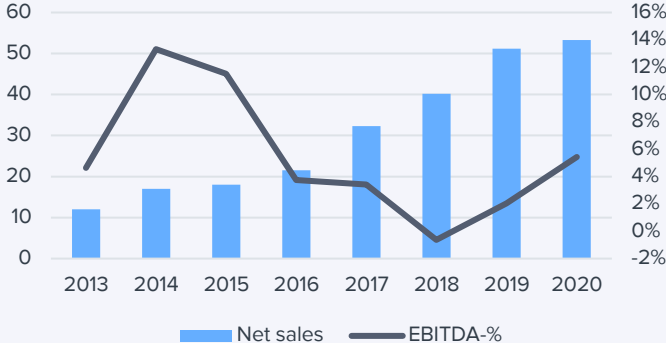
Managed services (20% of revenue) are continuous services and revenue still comes mainly

from Nixu’s Cyber Defense Center service (CDC). Managed services also include, for example, continuous user management services where Nixu takes management responsibility for the delivered technology and a continuous operational role in supporting customer operations. In the CDC service, Nixu produces real-time control for the customer’s digital environment, detection, and investigation of malicious hacking, and forms a situational picture of the threats directed at the organization’s online services. Corresponding security operations center services are offered in Finland by, e.g., CGI, Elisa, and KPMG. This is a strongly growing service area that is strategically important for Nixu. Nixu’s long-term objective is to increase the share of managed services to over 50% of revenue.

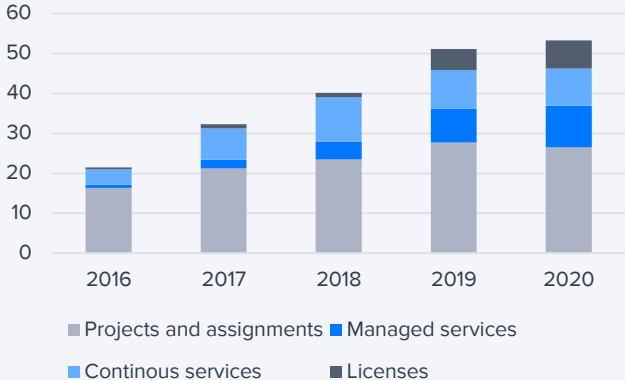
Continuous services (17% of revenue) is also an important area for Nixu that is growing quickly on the cybersecurity market (Managed Security Services, MSS). These include all other Nixu's continuous service than managed services. This area includes services based on agreements valid until further notice or that are renewed automatically like user management (IAM) services.

Technology reselling (13% of revenue) includes reselling of third-party technology licenses that typically is part of a project delivery. The role of licenses sales has been low in Nixu’s business but with the Ezenta acquisition its share of revenue has grown. There is a large and diverse group of IT service houses that resell security products in Finland, and these do not represent direct competition for Nixu.

Net sales and profitability



Net sales distribution (MEUR)



Source: Inderes

Company description and business model 3/3

“One Nixu” platform for digitalization

Nixu also tries to digitize its own businesses in the long term. For this purpose, Nixu has in recent years developed its own One Nixu platform. The idea is to achieve scalability, generate better services and avoid Nixu becoming silo-like as the company grows. The platform is still under development so in current operations it is visible as investments that weaken profitability. Due to COVID, platform development has not been on top of Nixu's list of priorities for over a year.

The idea of the platform is to collect data related to, e.g., customers, customer projects and threats so that it can be utilized throughout Nixu's organization and various operations. This ensures deeper customer knowledge and data is not fragmented in the hands of various people or various documents across the organization. The idea is also to link global cybersecurity technology suppliers to the platform, which would mean that third party cybersecurity technologies could be delivered efficiently to customers via the platform. In the long term, Nixu's goal is to be able to generate new data-driven businesses based on data collected from the platform.

Partnerships and sales

Nixu cooperates with several IT service sector players. In many IT projects Nixu is one of several suppliers and the customer can have, for example, an outside IT infra supplier whose infra Nixu controls. Many IT integrators now also try to offer cybersecurity expertise themselves.

Nixu reaches its customers mainly through own sales and direct customer relationships. The

company's services are such complex sales that it is difficult to offer them through partners without a direct customer relationship.

Scalability and competitive advantage are built on continuous service models

Due to the complexity of technologies and changes in the threats, Nixu's customers need comprehensive and continuous cyber threat management from their supplier. In addition, customers' digital business requires new expertise related to cybersecurity because cybersecurity is a critical precondition for digital business.

Players that focus only on selling expert resources cannot, in our opinion, respond to the demand trends of the market in the same way as Nixu. Players that focus on reselling and installing security products do not respond to these needs either. Customers' understanding as buyers has also developed so that cybersecurity can no longer be handled only by acquiring the latest software and hardware. The market has also moved from simply defending against attacks to detecting and reacting to attacks that pass through where the role of service providers becomes emphasized.

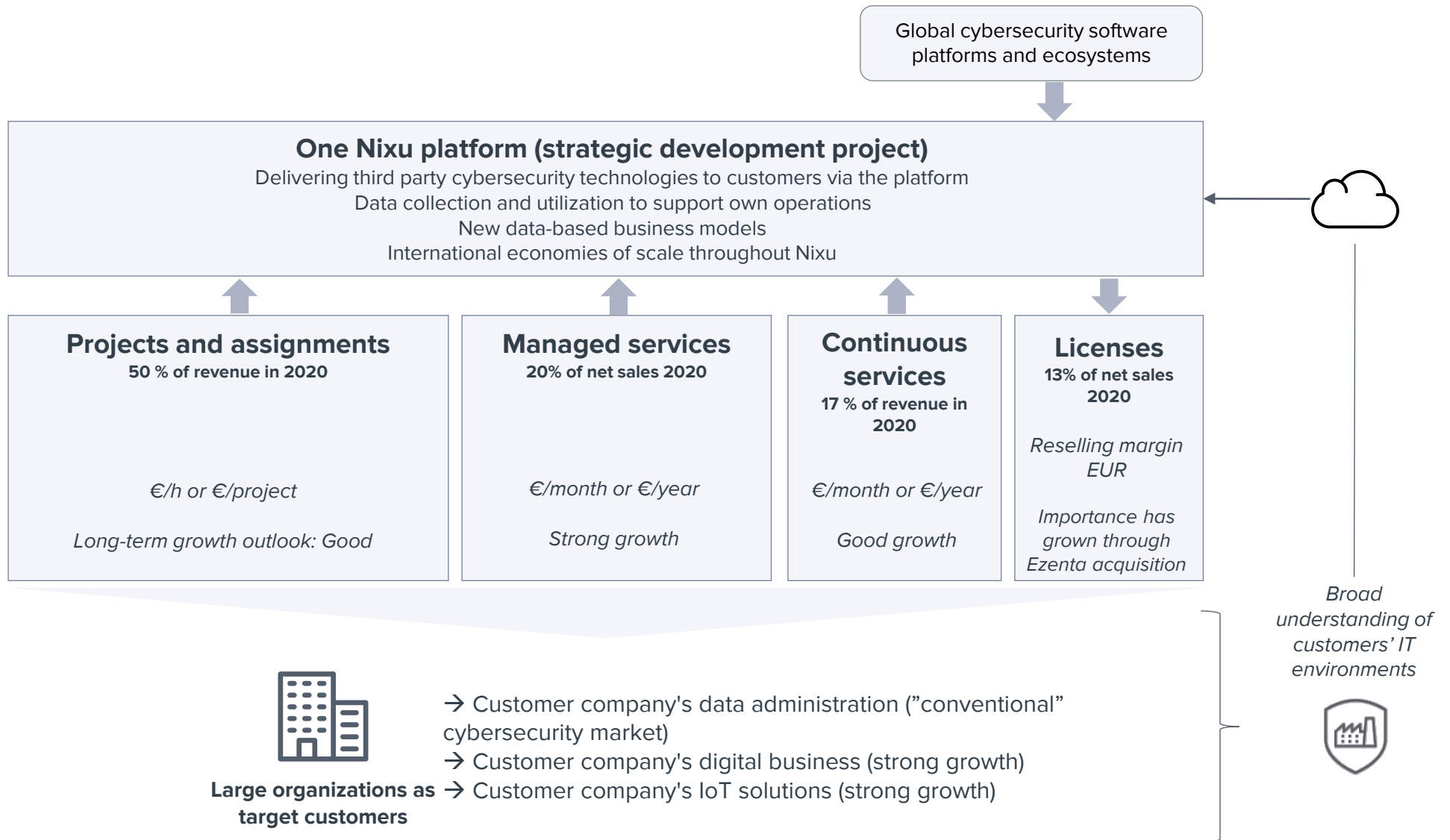
Due to the market revolution, managed security services have become an important area and Nixu is among the first in Finland who have invested in this area. This business brings continuity and scalability to Nixu's business model. For example in security operations center services the number of customers can be increased to a certain degree without having to increase costs (number of personnel). The core of the CDC service is the company's own technology platform to which third

party security technologies are implemented. When Nixu's defense center is integrated through several technologies to control the customer's IT infra, the customer relationships become strong and durable. Investments in this area thus bear fruit in the long term. In security operations center services and other managed services, Nixu has gained a good foothold in Finland but expanding these services abroad still requires investments that depress profitability.

Brand is important in this sector

The cybersecurity market is still in a rather early development stage and the decision makers of organization do not always know which supplier to turn to in questions related to cybersecurity. Customers do not necessarily understand how and from whom they should buy cybersecurity, which means that sales expertise and a good reputation become emphasized. Creating a strong brand as a competitive advantage is emphasized as cybersecurity issues rise to the surface. In our view, the pricing power generated by the brand is higher in cybersecurity services than in conventional IT services and customer relationships are tighter and more long-lasting due to trust. The COVID crisis did, however, show that in a landscape of tightening budgets, customers become more price-conscious and cybersecurity that is still perceived to some extent as “a necessary evil” was also bought purely based on price. Nixu has a strong brand and recognition in its own target group in Finland but abroad the company is not as known as in Finland.

Nixu's business model



Investment profile

Investment profile of a growth company

Nixu is a growth company in an investment stage operating on strongly growing markets. Nixu's strong market position in Finland offers it a good basis for international growth as the cybersecurity markets are developing at a nice speed. Nixu's business model is that of a service company so the company will not offer investors exploding scalability and growth that is possible for a technology company. The share is a more stable and lower-risk option to take part in the growth drivers of the cybersecurity market.

At the end of 2019, Nixu's growth story hit a digestive phase after several international acquisitions. In addition, the COVID situation forced the company to move its foot from the gas to the break and focus on profitability and protecting the balance sheet in the short term. As a growth company that operates on a rather immature market, Nixu's ride is likely to continue to be bumpy and challenges will appear also in coming years. Over the past six years, the company's investments in internationalization, extensive cybersecurity expertise, own digital platform, and development of continuous, scalable service models have, however, created clear value. Thus, we feel that the company's strategy that follows this same growth recipe is still relevant now that the company will again be able to step on the gas to generate growth as the COVID situation alleviates.

Nixu's growth investments are made primarily from the result, so the company's profitability is still far away from its potential. The investments do, however, secure the competitive advantages and continuity of Nixu's business model in the long

term, which is why they are justified. Thus, Nixu's shares should be examined by looking beyond the current investment phase while considering the risks related to the success of the investments.

Strengths and drivers

- **Growth of scalable continuous managed services** is a key value driver for the share.
- **Inorganic growth with acquisitions** has created shareholder value for Nixu in the past even though in recent years acquisitions have also resulted in growing pains. In future, Nixu wants to continue acquisition-driven value creation by buying smaller cybersecurity service companies with moderate valuation multiples.
- **Specialization in cybersecurity services gives the company a competitive advantage** against big IT service houses and consulting houses.
- **Strong brand and market position in Finland** helps with internationalization as the cash flow from Finnish operations can be invested in international expansion.
- **Nixu operates in a growing market** whose growth drivers are sustainable in the long term. The COVID pandemic showed that the market is not completely immune to economic trends. The wave of digitalization caused by COVID should, however, accelerate the demand for cybersecurity services in coming years.
- **Business model has good customer maintenance:** Nixu's customer relationships are usually strong, and the company works with them from one project to the next. Companies seek a reliable cybersecurity partner and

suppliers are not easily changed.

- **No considerable technology risk:** As a service company Nixu can cherry pick the best available technologies for its business and its success is not dependent on successful product development.
- **Industrial IoT and digital business** offer considerable growth potential for Nixu both as an enabler of IoT projects and in controlling IoT equipment.
- **In the long term, Nixu is a potential acquisition target** on a consolidating market.

Key risks

- **Failing in growth investments.** The company can fail in developing its own technology-based service models. Nixu's new continuous scalable service models require sufficient customer volumes to be profitable.
- **Failure of Nixu's internationalization and related acquisitions:** Nixu's international operations are still loss-making and there is only limited evidence that the internationalization is successful. Throughout history, Nixu has had operative challenges both in the Netherlands and in Sweden.
- **Increasing competitive pressure on the cybersecurity market:** Competition is tight both for customers and experts. Global players have a competitive advantage over Nixu in terms of resources when competing for the biggest international customers.

Investment profile

1. Strong growth-orientation

2. Strong position in Finland, profitable growth abroad still unproven

3. Scalable service models bring continuity and earnings leverage

4. Market has strong long-term growth drivers

5. Strategy in investment stage

Potential



- Growth especially in continuous services
- Continuity and scalability built in the business model
- Business model has good customer maintenance
- Value creation through acquisitions
- Consolidating market: potential acquisition target

Risks



- Success of investments directed at growth and new service models
- Integration of acquisitions
- Successful internationalization
- Increased competitive pressure and lack of experts on hot market
- No considerable technology risk

Industry 1/4

Market definition, size and growth

Cybersecurity companies are solving one of the biggest problems of the digitizing society. Big problems also mean big business opportunities, which makes the market extremely interesting, dynamic, and rapidly growing.

Cybersecurity 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 discovering government security secrets. Number of cyber threats and their intelligence level are constantly growing.

The cybersecurity market develops quickly and the estimates on the total market size and growth vary dramatically depending on the research institution. According to market research company Gartner, the global cybersecurity market has historically grown by some 9% and its size in 2020 was around USD 124 billion. Most of the market is formed by corporate cybersecurity services and products. The share of services is around one-half of the overall market. The COVID pandemic slowed down the demand for cybersecurity services in 2020 when companies postponed and to some extent even canceled their cybersecurity projects due to the pandemic. In the big picture, the digitalization leap brought on by COVID will increase the need for cybersecurity services when the accumulated cybersecurity debt falls due at some point. In

general, the market is expected to return to the 8-10% growth path in coming years.

The size of the Western European cybersecurity service market that is more relevant to Nixu was around USD 14.7 billion in 2018 according to Gartner's estimates (4/2019) and at that time the market was expected to grow by some 9% p.a. in 2017-2023. It is difficult to determine the exact size and growth of Nixu's target market because it is a strongly developing market. For example, IoT security is largely a completely new market whose size and growth are close to impossible to determine. In terms of Finland and the Nordic countries, there is no estimate available on the size of the cybersecurity markets either.

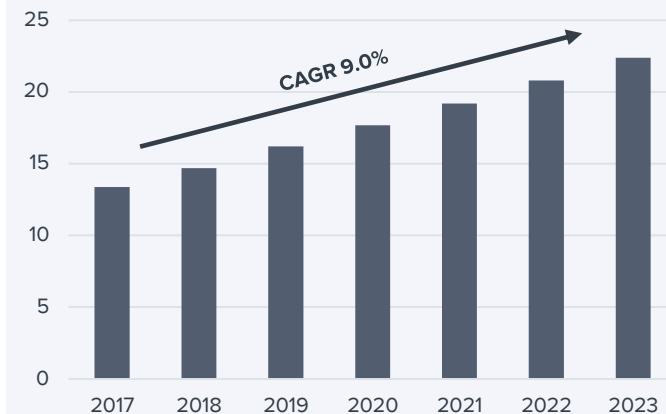
Nixu's largest market is still Finland (2020: 61% of revenue) where cybersecurity services are part of the good EUR 4 million Finnish IT service market. According to some estimates the share of cybersecurity in organizations' IT budgets would be around 5-10%, which would mean the size of the Finnish market would be roughly EUR 200-400 million. The market is clearly bigger in Sweden, but the competitive field is more fragmented. In Denmark, the market is not quite as fragmented as in Sweden in our view. The market is more mature in the Netherlands and the competition is tighter.

In the big picture, Nixu operates on a large market with healthy long-term drivers and the absolute size of the market will not become a bottleneck for the company's growth.

Global cybersecurity market (USD bn)



Western European cybersecurity service market (USD bn)



Industry 2/4

Market segments

The target groups of the cybersecurity market can be roughly divided into three based on the intelligence of attacks and technologies. The intelligence of attacks and technologies also broadly correlates 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 levels. 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. The more interesting an attack target the organization is for criminals, the more interesting a customer it is for Nixu.

The top of the cybersecurity market is represented by state espionage and the defense industry. This is a very small niche market from the viewpoint of cybersecurity companies, but it represents the highest technology and level of expertise and is thus important. The largest volume of the market from the viewpoint of service providers is found in the center part of the pyramid that covers targeted attacks. In this case, the primary target group is in practice all large organizations and public administration, and in particular the actors whose activities include critical activities in terms of security of supply. These include, e.g., energy, banks, operators, and subcontractor networks of critical organizations. Crucial in this target group is

that its size is constantly growing as data security threats expand, which also expands the market for demanding cybersecurity solutions. In the segment of targeted attacks (large and medium sized organizations), cybersecurity cannot be solved only with mass solutions and ready-made software packages which creates demand for service providers like Nixu. The data security budgets of companies in this segment are annually roughly around EUR 1 to 5 million, which makes this segment attractive to companies that offer cybersecurity services and products.

In terms of SMEs and consumers there is a need for cybersecurity but from the viewpoint of companies offering cybersecurity expert services there are often not the primary target groups. Among medium sized companies the need for higher cybersecurity than mere protection of terminal equipment is growing, but the data security budgets (EUR 0.1 to 1.0 million) are clearly lower than in the large company segment, which means that buying of the best technologies or managed/outsourced cybersecurity services is not necessarily possible. For small companies and consumers, the main thing usually is to be protected against mass attacks, which can be done with regular “off the shelf” data security products like virus protection and firewalls. In this case, organizations’ data security investments are typically guided by the sentiment that it is enough to be better protected than the neighbors. In the cybersecurity service market this target group is served by, e.g., operators that have a strong distribution channel in the SME sector.

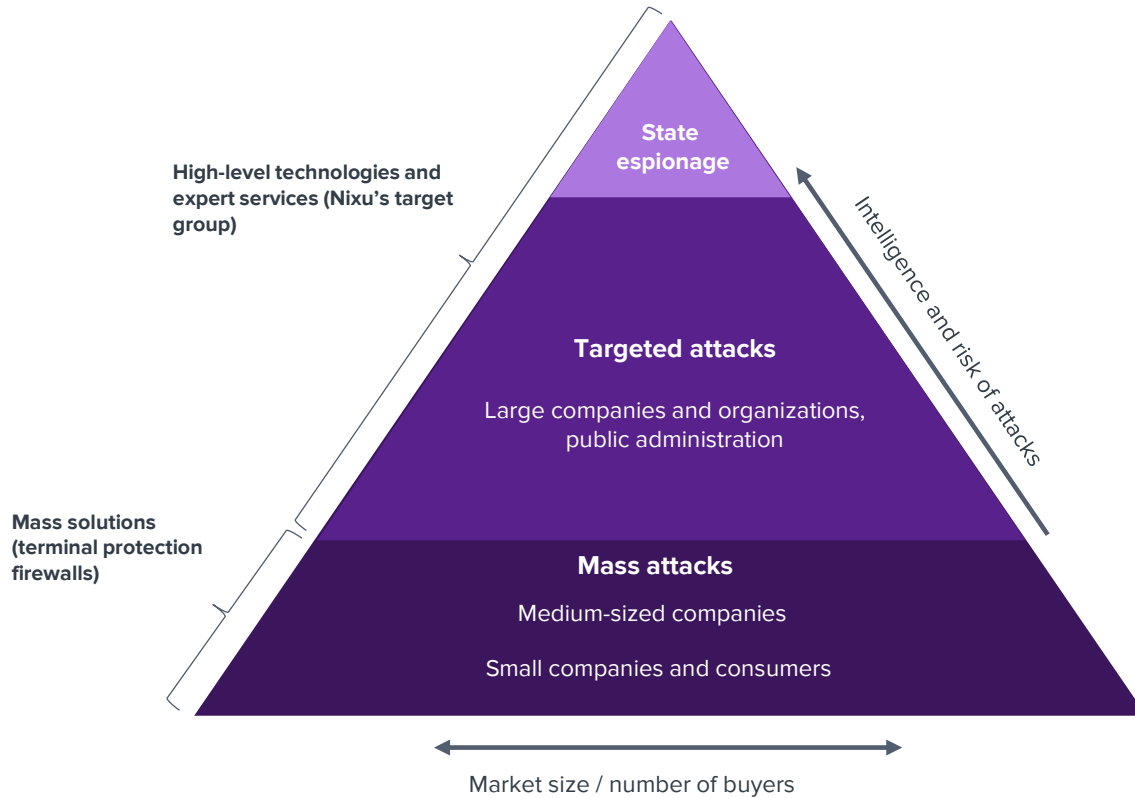
Market drivers

The growth of the cybersecurity market is likely to continue as strong in the footsteps of digitalization investments, which COVID has accelerated. In addition, constant news of serious hacking (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.

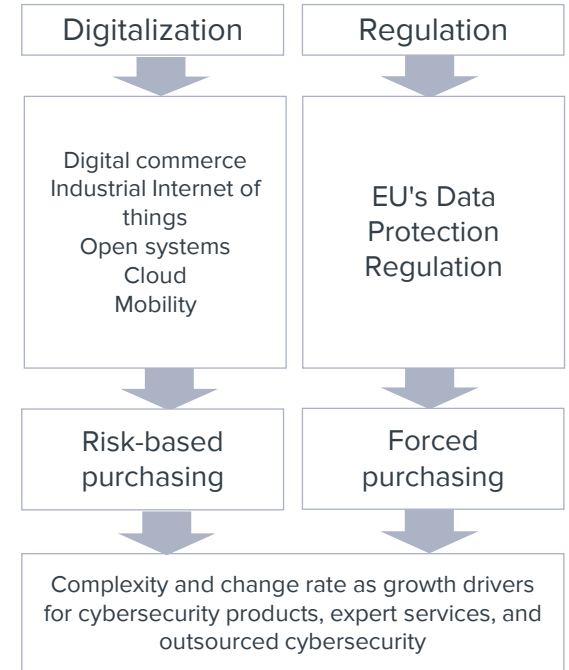
The commonly recognized mega trends in the IT world like mobility, cloud, industrial Internet of things, social media and digital commerce are strongly linked with cybersecurity. In many of these areas, the barrier for creating new applications, products and digital services is data security challenges. These challenges are related, for example, to privacy protection, e-commerce or security. One mega trend worth mentioning is also open systems (like Android) becoming more common and moving to the cloud. This increase in the complexity of IT environments makes the market more attractive from a criminal’s viewpoint than when companies still operated mainly in their own individual closed environments. The precondition for digital business and data-based business models is often that the company is linked to several external ecosystems, which makes them more vulnerable compared to a time when companies’ digital assets were enclosed inside their own machine rooms.

Sector

Distribution and operating logic of the cybersecurity market



Market drivers



Industry 3/4

Building of new digital services requires that companies and governments solve the challenges related to data security in advance. The demand for cybersecurity related products and services is also often supported by the fact that cybersecurity is increasingly becoming a critical and integral part of any new IT system, digital service or product. This means that problems related to cybersecurity cannot be solved simply by acquiring “off the shelf” security software and equipment but solving of cybersecurity also requires the use of high-level expertise services.

The need for customer-specific tailoring and expert work as the complexity of cyber threats grow is a key driver for Nixu’s services. A clear cultural shift in the way of thinking is taking place in the market, and cybersecurity is now examined more from a service approach than a technology and project work viewpoint. In this case, the winners are cybersecurity service providers that can combine expert work and tailoring as part of product and technology deliveries. The value added of simple data security product resellers is low on the market.

EU's Data Protection Regulation

EU's Data Protection Regulation (GDPR), that entered into force in May 2018, has increased the demand for cybersecurity services in recent years. The regulation imposed new obligations on organizations that handle personal data. Through EU's Data Protection Regulation organizations are, for example, obliged 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, as for more serious breaches the fine is EUR 20 million or 4% of the company's annual net sales, which is intended to make companies take the regulation seriously.

The Data Protection Regulation has increased the demand for Nixu’s expert services. GDPR services can include consulting services related to the Data Protection Regulation and outsourcing services where Nixu is responsible for all measures related to the Data Protection Regulation for the customer (like management, data protection officer, reporting obligations).

Managed security services

Outsourced data security (MSS) has been a rapidly growing area in the cybersecurity service market in recent years. The size of the global market for companies’ outsourced cybersecurity services (including managed security services) was around USD 21 billion already in 2018 according to Gartner.

Large organizations have typically been less willing to outsource their often sensitive cybersecurity-related activities. The increased complexity of cybersecurity and the expansive threats have, however, forced organizations to acquire cybersecurity-related expertise from outside as there is seldom enough expertise in-house. Because the threats are also constantly evolving, cybersecurity is now seen more as a continuous need than a one-off technology and project delivery. Nixu’s investments in outsourcing services (e.g. CDC) respond well to the market’s demand trends.

Organizations have also realized that simple protection against attacks is no longer enough, and data security must pay increasing attention to detecting threats that have passed security. Thus, cybersecurity is becoming a natural area for organizations’ IT departments to be acquired as an outsourced continuous service. Nixu’s expertise in this MDR area (Managed Detection and Response) grew with the Ezenta acquisition.

Industry 4/4

Industry consolidation continues

The growth outlook of the cybersecurity market has attracted a lot of investments in the sector in recent years, which is visible as dramatic growth in capital investments in new cybersecurity companies and as high corporate transaction activity both in North America and Europe.

The cybersecurity market is still highly fragmented, and consolidation is bound to continue as, despite the growth, there is not room for all current players on the market if 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 competition with new solutions that try to solve cybersecurity 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. This risk primarily threatens the cybersecurity product market and not the service business that Nixu represents. For service companies the heating up of the market is visible especially as tightening competition for experts, potential wage inflation, and weak availability of experts.

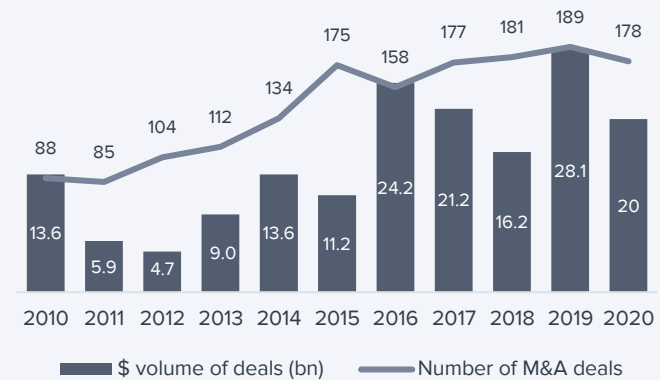
The investment pressure in the sector has resulted in the valuation of corporate acquisitions remaining high, which in part makes it difficult to complete acquisitions that generate shareholder value. For service companies, acquisitions are the only way for many players to get a piece of the market due to the lack of available expertise 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 reorganizations the aim is to generate synergy, for example, in terms of product development, sales and distribution. Consolidation pressure also increases because, instead of point solutions, cybersecurity is increasingly becoming deliveries of turnkey solutions and process deliveries, which forces actors to integrate their offerings.

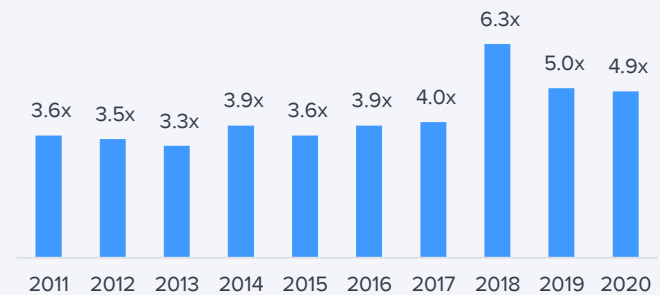
We believe Nixu will continue to be part of the industry consolidation as an active buyer. Nixu would also be an attractive acquisition target for many bigger players in the sector and we find this to be a possible scenario in the future. Potential interested buyers could be, e.g., CGI or Accenture. As Nixu grows into larger customers and starts competing with more global players the company also becomes a more potential acquisition target for an international buyer. International players' interest in the Finnish market and Nixu can, however, be limited by the small size of the market. In addition, the buyer would have to strive to maintain the strong corporate culture.

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 feel there is not much room to stretch the valuation indicators of the market anymore and value must be created from the growth and profitability of the companies in the sector.

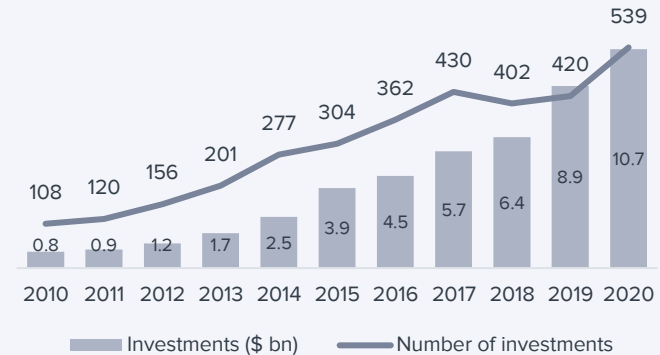
M&A transactions in cybersecurity industry



Median EV/S multiple of acquisitions (LTM)



Investments in cybersecurity companies



M&A transactions of cybersecurity service companies

Time	Target	Buyer	Value MEUR	EV/S	Employees
4/2021	Openminded	Accenture	-	-	105
12/2020	Motiv ICT Security	Atos	-	-	180
10/2020	SEC Consulting	Atos	-	-	200
3/2020	Context Information Security	Accenture	123	-	250
1/2020	Symantec Cyber Security Services	Accenture	180	-	300
6/2019	Engvall Security AB	CAG Group	2,2	-	-
5/2019	SecureLink	Orange	515	2,1x	660
3/2019	Ezenta	Nixu	6,1	0,7x	28
3/2019	Vesper Group	Nixu	1,6	1,0x	-
2/2019	SecureData	Orange	-	-	~200
2/2019	Spellpoint Oy	Viria	-	-	26
8/2018	Ymon Oy	Viria	-	-	20
6/2018	MWR InfoSecurity	F-Secure	97,4	3,1x	~400
4/2018	NSEC	Tieto	-	-	30
1/2018	Cyberinc	KPMG	-	-	190
12/2017	Propentus	Cygate Oy	-	-	55
10/2017	Qsight IT	KPN	85,2	1,7x	-
6/2017	Bitsec AB	Nixu	3,2	~1x	20
5/2017	ESSC BV	Nixu	2,6	0,8x	-
3/2017	iT-Cube	SecureLink	-	-	70
1/2017	CynergisTek	Auxilio	31,9	2,3x	-
12/2016	Optiv Security	KKR	1530,0	2,0x	-
11/2016	Virtual Security Research	NCC Group	5,5	~2,0x	11
10/2016	Safeside Solutions	Nixu	2,2	0,9x	-
9/2016	Payment Software Company	NCC Group	16,7	2,0x	37
3/2016	Europoint Netw.	Nixu	1,6	0,9x	-
12/2015	Cyveillance	Looking Glass Cyber Solutions	31,9	1,9x	-
11/2015	Fox-IT	NCC Group	133,0	5,4x	170
6/2015	nSense	F-Secure	18,0	2,5x	70
4/2015	Codenomicon	Synopsys	-	-	130
3/2015	Accumuli	NCC Group	76,0	3,3x	160
12/2014	Trusteq	KPMG Suomi	-	-	45
10/2014	Panorama Partners	Nixu	4,0	1,0x	40
5/2014	FortConsult	NCC Group	4,9	-	-
1/2014	Mandiant (US)	Fire-Eye	1007 (m\$)	~10x	500

Source: Capital IQ, Inderes

Competition 1/2

Cybersecurity services is still a relatively young market

Cybersecurity services is a relatively young area in the IT market that has started forming properly only in the 2010s. The competitive field is very fragmented, and the market is still seeking its form. The mixed bag of players is caused especially by the fact that cybersecurity services are typically not at the core of expert service companies' strategies but more of a complementing area. Because the growing market is being distributed now, it is important for Nixu to invest in growth.

The growth outlook of the cybersecurity service market has attracted a lot of competition but, on the other hand, the threshold to enter the sector is high. This is especially due to increased complexity of technologies and the importance of credibility and reputation. Due to technological complexity small players must specialize in a particular area but this leaves them in a difficult position when customers' purchasing behavior moves towards turnkey solutions and outsourced cybersecurity.

We estimate that new small companies that focus on cybersecurity are still born in addition to which established IT market players form their own teams that focus on cybersecurity. Players that try to enter the market may be able to take over market shares with lower prices, which can weaken the general price levels in the industry. In addition, we feel there is a risk that due to the increased importance of cybersecurity, IT service houses will start offering cybersecurity to their customers despite inadequate expertise and resources. It is very

difficult for customers to assess the service provider's actual expertise and value of the service, which could result in weaker general price levels.

Domestic competition: Nixu holds a strong position

The array of market players in cybersecurity services stretches from specialized companies like Nixu to IT service companies and widely also outside the IT sector. In addition to IT houses, e.g., telecom operators (like Telia and Elisa), consulting houses (like KPMG and Deloitte) and to some extent even defense industry players (like Cassidian) operate on the market. Even though Finnish cybersecurity expertise is recognized, the group of cybersecurity companies is very small in Finland. The number of players has decreased heavily in recent years due to acquisitions.

Of companies specializing in cybersecurity services acquisition targets in Finland have been Panorama Partners (Nixu), Trusteq (KPMG), nSense (F-Secure), Propentus (Cygate) as well as Spellpoint and Ymon (Viria). Smaller players in Finland that compete with Nixu include 2NS and Silverskin. These companies' revenue is a couple of million euros. Of service companies focusing on cybersecurity, Nixu is clearly the biggest player in Finland. Despite market growth it has been hard for small players to grow into a significant size class, and they have often ended up as acquisition targets.

IT generalists are interested in the growth opportunities of cybersecurity, which is why they can be seen as one of Nixu's key competitor

groups. In Finland, CGI and TietoEVERY, in particular, have invested in cybersecurity services but in our view their teams are smaller than Nixu. It is natural for IT houses to offer cybersecurity as part of their integration and maintenance services, which is a considerable strength for them. The customer may, however, find it harmful that the IT infra supplier monitors itself. Some of the IT houses have, instead of building their own team, acquired cybersecurity-related expertise from, e.g., Nixu as part of their own project deliveries.

Consulting houses compete with Nixu especially in consulting services. In cybersecurity consulting active players in Finland include, e.g., Deloitte and KPMG. Consulting in data security related legislation is one of the strengths of these players. The weakness of consulting houses focusing on consulting services can, in our opinion, be their limited knowhow of various technologies and in implementation projects involving technology.

In Finland, **telecom operators** also operate on the cybersecurity service market but their operating model and target group differ from Nixu. Operators typically try to productize their continuous services (like maintaining firewalls) and then harness their own sales network to implement services. Thus, operators try to serve large masses with continuous service models.

Competition 2/2

Suppliers of data security products have also expanded into the service market. In recent years, the line between products and service business has also become blurred due to product companies' business models shifting towards continuous services, constant detection of malicious hacking and SaaS business. At the same time, the business models of cybersecurity service companies are changing from selling expert resources towards selling cybersecurity as continuous, technology-based services, which brings product and service houses closer to one another.

An example of the development is that F-Secure became Nixu's competitor in 2015 when the company acquired nSense. In June 2018, F-Secure acquired MWR InfoSecurity that employs some 400 people, which made the company a considerable European player also in the service business (consulting around 21% of revenue). F-Secure's strategy and approach to cybersecurity is, however, different than Nixu's and the main focus is still on the product business.

Sweden's fragmented market offers good growth opportunities

Nixu has expanded to the Swedish market with four smallish acquisitions in 2016-2019. Unlike in Finland, the Swedish market is highly fragmented in terms of cybersecurity services. Already in its current size class Nixu is a significant player in Sweden. The fragmented market still offers Nixu good opportunities to grow organically and through acquisitions. Since 2017, Nixu has expanded its CDC services (Cyber Defence Center) that are

produced in Finland also to Swedish customers, which means scalability can be achieved over country borders.

International competition: a lot of opportunities but others are honing in on the catch

At a European level, the cybersecurity service market is also highly immature but due to international economies of scale international players have appeared on the market. Especially in outsourced data security an international presence benefits a player when serving global customers.

Several service companies that specialize in cybersecurity services have already been born in the North America, like Mandiant, Optiv, Secureworks and Trustwave. Nixu's strategy is to build a significant cybersecurity service company on the Northern European market. In our view, a similar strategy is implemented on a European level by NTTCom Security with Japanese background, NCC Group listed in London and SecureLink, which telecom operator Orange acquired from a capital investor in May 2019. At a global level, the market is also eyeballed by IT giants like CGI, IBM and Verizon. On the IoT side you could face, e.g., Siemens in competition.

NTTCom Security is one of Europe's largest cybersecurity players with an estimated revenue of EUR 300 million and some 1,500 employees. The company has been formed from two acquisitions in Germany: Integralis (2009) and Infotrust (2014).

SecureLink built by a capital investor rose in a few years to become one of Europe's biggest players with SecureLink (2015), Coresec (2016), Nebulas





(2016) and iT-Cube (2017) acquisitions. After the acquisitions, the company employed over 660 persons in 2019 with a revenue of around EUR 250 million. The cybersecurity revenue of telecom operator Orange rose to over EUR 600 million after the SecureLink acquisition making it an important player in Europe. Around one-half of revenue still comes from the company's home market in France.


The revenue of NCC Group listed in London is over EUR 300 million and the cybersecurity division generates a revenue of over EUR 260 million. The company has been formed by several acquisitions in the 2010s of which the Dutch Fox-IT acquired in 2014 was a very similar player to Nixu. In 2016, the company expanded into the US with two acquisitions.

A considerable share of the revenue of these three large players mentioned above comes from reselling products of third parties. When examining the service business, Nixu is closer to these players in terms of size. The market for license selling is in turmoil as services are increasingly moving to the cloud. Therefore, license resellers (like Securelink or Cygate in Finland) are trying harder to break through to the service business.

Competitive field

Competence areas

Type	Examples	Customer segments	Competence areas					
			Reselling of products	Cyber threat expertise	Consulting	Integration projects	Managed Security Services	Legal
Cybersecurity service specialists		Large organizations	✓	✓✓	✓✓	✓	✓✓	✓
Consulting houses		Large organizations	✓	✓	✓✓	✓	✓	✓
IT generalists		Large organizations	✓✓	✓	✓	✓✓	✓✓	—
Product houses		Wide	—	✓✓	✓	—	✓	—
Telecom operators		SMEs	✓	✓	—	—	✓	—

 Core competence area
 Competence area

Evolution of the cybersecurity service market



- Cybersecurity business highly technology and product driven
- No clear market in cybersecurity services yet
- No significant players specializing in cybersecurity services have been formed yet
- As complexity grows, data security can no longer be managed only with products, services are also needed
- First small, specialized players are born on the market
- IT generalists and consulting houses establish small internal cybersecurity teams
- Growth drivers for the market become stronger
- Companies invest heavily in developing entirely new digital services, which creates a delayed demand for cybersecurity
- Cybersecurity service demand also grows driven by increased threats and regulation
- Big international players become interested in the cybersecurity service market
- Industry consolidation increases
- Demand for cybersecurity grows heavily as organizations become active in protecting their new digital services
- The shift from simply blocking threats to quick detection of malicious hacking that has passed security and reacting to them
- Outsourced cybersecurity has become a key trend but only the largest players have sufficient expertise for this
- International competition increases

Three significant international cybersecurity service companies have already been formed in Europe

NCC Group



~2,000
Personnel



Acquisitions

VSR (2016)
Payment Software (2016)
Accumuli plc (2014)
Fox-IT B.V (2014)
Fortconsult A/S (2013)



EUR >300 million
Net sales

NTTCom Security



>1,500
Personnel



Acquisitions

Infotrust AG (2014)
Secode AB (2011)
Integralis AG (2009)



EUR ~300 million
Net sales

SecureLink (telecom operator Orange acquired 5/2019)



>660
Personnel



Acquisitions

iT-Cube Systems AG (2017)
Nebulas Solutions Ltd. (2016)
Coresec AB (2016)
SecureLink N.V. (2015)



EUR ~250 million
Net sales

Strategy 1/2

Strategic objectives

In 2019, Nixu published a growth ambition for 2020-2024, whose five development areas are:

- Make Nixu an internationally revered cybersecurity talent community
- Increasingly become corporations' cybersecurity partner for digitalization
- Data-driven services on global platforms
- Expanding market presence
- Profitable, scalable growth

Nixu's key strategic objectives are to expand its presence into new geographical areas and new customer segments. The company tries to stand out in competition and grow faster than the market by strengthening its position especially in digital business and industrial IoT cybersecurity solutions. Geographical presence is strengthened in Finland mainly through organic growth and internationally through acquisitions. In terms of service offering, growth and competitive advantage is sought by building technology-based scalable service models on top of the own One Nixu platform.

Nixu tries in coming years to build an extensive expert network in Northern Europe that in an ideal situation would work together as a network. Foreign countries (Sweden, Denmark, and the Netherlands) have so far operated rather independently but this year this will change as Nixu has begun shifting to a new operating model in March 2021. In the new model, Nixu's operations are cross-border and customers are served and competences are developed in an organization-wide manner. Thus, every country's consulting and

sales teams can offer their customers Nixu's entire uniform service selection instead of just the local team. With COVID, distance distribution has become the new normal which promotes the change. We illustrate the benefits of the new operating model on the following page.

Financial objectives

In connection with its growth ambition, Nixu published its new financial objectives for the next five years. After COVID broke out, Nixu was forced in May 2020 to announce that it is not seeking growth in line with its objectives in the short term. Thus, the company will not reach the objectives it set by 2024. We expect Nixu to update its targets when the COVID situation alleviates.

In midst of the uncertainty, Nixu had to carry out cost savings as the company's profitability and balance sheet situation were not optimal after the pandemic broke out. Now Nixu has again began to shift its focus back to growth and we believe the company will continue striving for growth in line with its objectives starting from next year. Examined in retrospect the company would have survived with a smaller slowdown in the pandemic but from a risk management perspective the company had to adjust its operations as its balance sheet position would not have survived a considerable increase in losses.

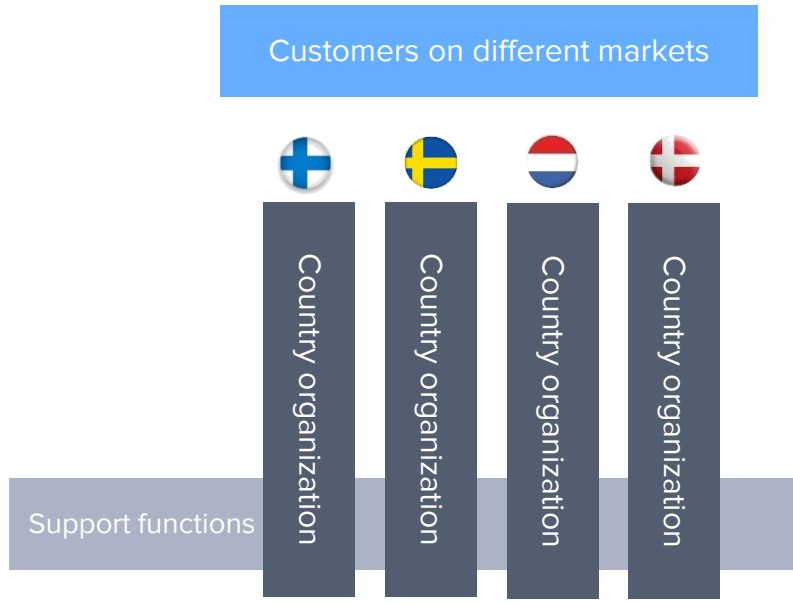
According to its growth ambition issued in 2019, Nixu aims at 15-25% annual organic growth and acquisitions are expected to generate 10% annual growth on average during the strategy period. As a whole, we consider Nixu's objectives to be ambitious but considering the company's historic

development they are also realistic and credible. In terms of organic growth reaching the objective in future requires the company to be successful in recruitment on a market that suffers from a shortage of experts and strong growth especially abroad. Organic growth drivers in the strategy are especially managed continuous services that are expected to grow clearly faster than consulting services during the strategy period. The company aims at the share of managed continuous services of revenue to grow to over 50% (2020: 20%). Managed continuous services currently consist nearly fully of CDC services but the entity can also include other solutions in the future.

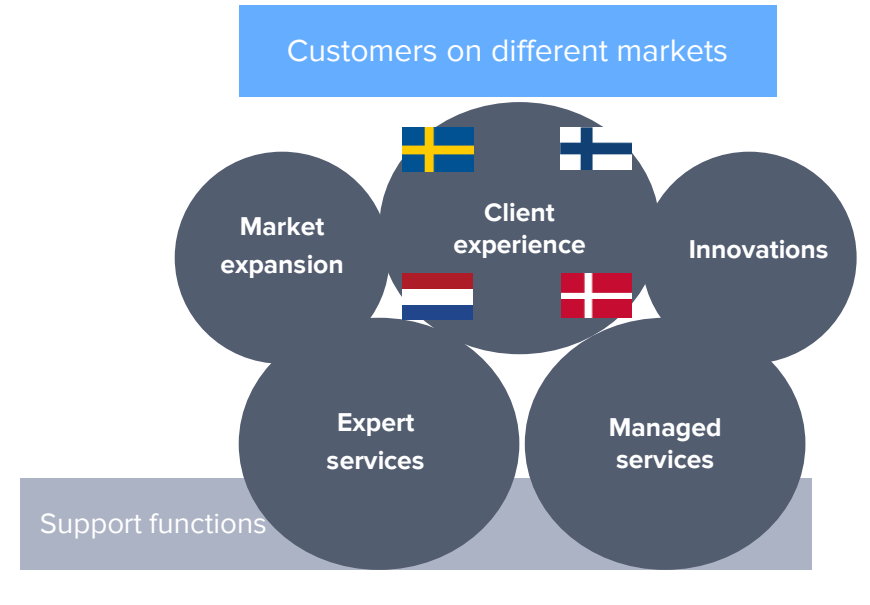
Aiming for strong growth requires considerable growth investments, and we expect Nixu's profitability to be modest over the next few years. In the long term, the company strives for 15% EBITDA as operative efficiency improves thanks to scalability and as the relative share of growth and sales investments gradually decreases. Nixu also expects it will be able to raise prices slightly faster than wage inflation, which supports basic profitability. We find the profitability objective to be realistic and, for example, in H2'20 the company reached 11% EBITDA. Reaching the objective does, however, require sufficient scale abroad and Nixu is aiming for over EUR 25 million revenue at least on five market areas. In Europe, Great Britain and Germany are large markets to which we believe Nixu could expand but in the short term the company focuses on growth on its current four market areas.

Change in Nixu's operating model

Old operating model



New "Better together" operating model



New business areas with accountability for results:

Client Experience: The aim is to promote strong growth and ensure a uniform client experience of Nixu as a trusted cybersecurity partner.

Expert Services: Responsible for producing Nixu's project-like consulting services. Experts within the same expertise area work in cross-border teams.

Managed Services: Responsible for producing and developing Nixu's technology-based managed cybersecurity services and for partner management.

Market Expansion: Responsible for implementing Nixu's acquisition strategy and for integrating new targets into Nixu.

Labs: Objective to develop new innovative cybersecurity services for customers. One key project is IoT startup that focuses on ensuring the security of industrial IoT equipment.

Objectives of the new operating model:

- Increasing customer orientation and focus
- Sales ability to offer Nixu's entire 400-person team in every country and unifying the service portfolio instead of local smaller teams
- Fix billable utilization and efficiency in consulting when capacity can be balance across borders
- Clearer separation of project-like consulting and continuous services so that both can focus fully on their own focus areas
- More efficient integration of acquisitions into a uniform "One Nixu"
- Opportunity to establish cross-border industry-specific units (e.g. financial sector or retail) and become an even more critical partner for the customer through industry expertise

Strategy 2/2

Strategy financing

With Nixu's current balance sheet (H2'20: equity ratio 34%, net gearing 16%, cash EUR 6.0 million) the leeway for the investments required by the growth strategy is limited. Thus, the company is likely to raise more capital for acquisitions, use its own shares in acquisitions, and use the leverage in a controlled manner. The company last collected some EUR 10 million from institutions in a directed issue in 2017, which later proved to be an excellently timed issue in terms of the share's valuation level (subscription price EUR 13 per share).

Acquisitions the spearhead for internationalization strategy

We believe organic expansions into new operating countries is difficult in expert services like Nixu's that require high trust. The company's operating model typical requires local presence near the customer and customer proximity is an important competitive factor for Nixu. To become the number one option in cybersecurity services for companies in Northern Europe in line with its vision, Nixu must expand its presence on these markets. Strategic acquisitions are the main tool in expanding to new markets.

Since 2014, Nixu has carried out seven strategic acquisitions. In addition, in March 2021 a 10-person small team under the Danish C-Cure became part of Nixu as so-called old employees. The arrangement involves a purchase price like bonus depending on how C-Cure's customers move to Nixu in the arrangement. All deals have been carried out with moderate valuation levels as the

paid EV/sales ratios have been around 0.8x-1.0x. Even though we have warned that the valuations of cybersecurity companies are getting out of hand, Nixu has, at least based on its track record, been able to find moderately priced small teams that in practice act as an alternative to recruitment. Through these deals, the company has gained access to new markets and gotten a ready-made team and customers.

After several acquisitions in recent years it seems that there has not been any major challenges in integrating the acquisition targets apart from the 2017 Bitsec acquisition in Sweden where employee retention was weak after the deal. With the new operating model Nixu will focus more on integrating the acquisition targets into uniform operating policies as services are offered across borders. Previously acquired targets were allowed to continue with their own operating policies more freely, which has caused some inefficiency and silo forming.

Continuous services

The core of Nixu's strategy focusing on continuous services is cybersecurity operations center services. Nixu is planning to launch continuous services also in industrial IoT and already offers a digital identity management solution, threat analysis and vulnerability management as a continuous service.

In 2015, Nixu opened its own CDC center, and the market has since started shaping rapidly in Finland. Security operations center services are offered, e.g. , by Elisa, CGI, TietoEVERY and Telia's Cygate. F-Secure's MDR solution Countercept also partly

competes with Nixu's CDC service. We do not consider Elisa and Telia as significant competitive threats for Nixu as the approach and target group of telecom operators is different than that of Nixu that specializes in cybersecurity services. Nixu's challenge in the competition for the biggest global customer can, in our opinion, be the company's limited size as larger competitors are able to offer continuous security operations center services globally from several 24/7 Security Operations Centers.

As an operating model, the security operations center service requires front-loaded investments from Nixu, but it brings scalability and continuity when a sufficient number of customers is reached. In Finland, the critical mass is almost achieved but the ramp-up of international CDC services is still in its initial stages.

In the long term, the CDC also acts as an important roll-in as analyzing malicious hacking detected by the CDC often requires use of separately charged expert services.

We find it important that Nixu has started building a bridge in its strategy towards continuous "as a service" delivery models early on in the game. This responds to the market's demand trend towards outsourced cybersecurity and safeguards the company's competitive advantages and business continuity when the competition for selling expert resources tightens.

Strategy



Strategic development areas

Expanding market presence

Cybersecurity partner for digitalization

Data-driven services on global platforms

International revered cybersecurity talent community

Profitable and scalable growth

Strategic measures

- Strategic acquisitions and organic expansion in Northern Europe
- Selling cybersecurity as a continuous service, focus especially on digital business and IoT
- Digitalization of own businesses and investment in the One Nixu platform
- Investments in employer image, recruitment, and extensive knowledge of cyber threats
- Despite growth investments, the aim is to build scalable growth

Financial objectives*

- ✓ Organic revenue growth 15-25% p.a. (2020-2024)
- ✓ Inorganic revenue growth 10% on average p.a. (2020-2024)
- ✓ Revenue EUR 100 million in 2021
- ✓ 1,000 employees in 2023
- ✓ EBITDA 15% of revenue in 2024
- ✓ Managed continuous services over 50% of revenue in 2024
- ✓ Five over EUR 25 million market areas in 2024

- Strong market position in Finland offers good base for growth
- Internationalization ongoing in Sweden, the Netherlands, and Denmark
- Continuous CDC services have reached a critical mass in Finland, internationally in ramp-up

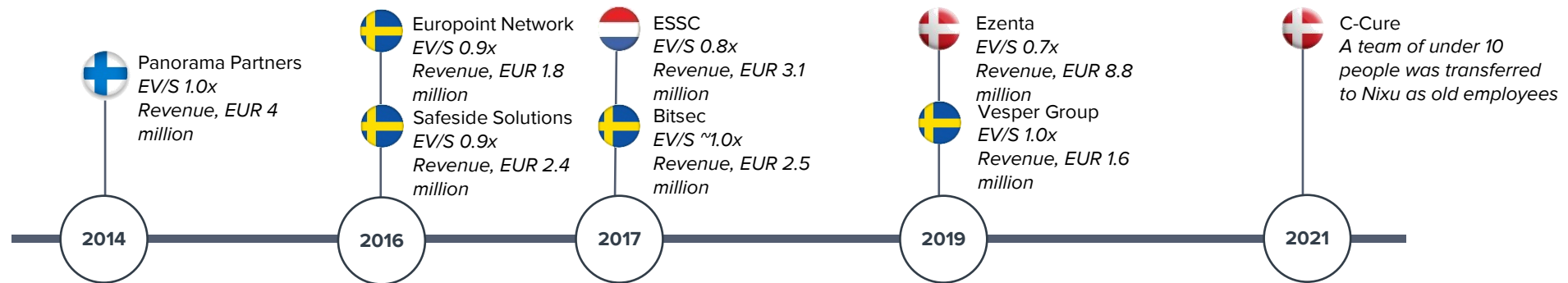
- Acquisition "sweet spot" in precision purchases of small teams, in larger targets the valuation levels may present a challenge
- Objective to create a significant cybersecurity specialized service company in Northern Europe
- Business model and market shifting towards "as a service" delivery models
- Ability to manage entities and operating close to the customer become emphasized as competitive advantages

- Organic growth target is ambitious but achievable based on historical development
- Growth within current customers in Finland, and also more new customer acquisition abroad
- Growth investments will continue to depress profitability over the next few years
- If the strategy is successful, the company would have a predictable and somewhat scalable operating model

Source: Inderes *Due to the COVID situation, Nixu has not sought growth in line with its objectives in the short term but has focused on ensuring operational profitability and efficiency

Nixu's acquisitions and M&A strategy

Acquisitions



Acquisition strategy

Strategic acquisitions

- Opening a new market
- Strengthening the market position
- Alternative to recruitment
- Acquiring missing expertise
- So far, all acquisitions have been strategic

Opportunistic acquisitions

- Nixu wants to actively participate in market consolidation and create shareholder value when possible
- Bigger acquisitions are also possible but high valuation levels are likely to slow down completing such acquisitions
- Currently Nixu's financial position also limits carrying out acquisitions

Financial position

COVID pandemic caused a respite in historically strong growth

Nixu has gone through a revolution towards a cybersecurity service business in 2006-2012. At that time, the company divested any businesses not in the cybersecurity sphere, which partially affect historic figures. The growth of Nixu's cybersecurity services has been strong historically and they have grown by an average of 27% p.a. in 2006-2020. The growth rate has remained good as the size class of the company has grown, and after the 2014 listing Nixu's revenue has grown by an average of 21% p.a. over the past six years. We estimate that around one-half of the 2015-2020 growth was organic and the other half came from acquisitions.

In 2020, Nixu's growth slowed down to 4% as the COVID pandemic made some of Nixu's customers postpone and compromise on their cybersecurity investments. At the same time, the growing pains on the international markets that popped up in late 2019, weak profitability and the tight balance sheet position forced Nixu to turn its eyes from growth to fixing the basis for profitability in 2020. After a successful turnaround, Nixu's focus again shifted more towards growth in 2021.

Growth investments have gnawed on profitability

In 2014, Nixu's EBITDA was 13% and since then profitability has fallen to clearly lower levels. The EBITDA was at its lowest in 2018 (-1%) and in H2'19 (-3.6%). In 2020, EBITDA was 5% of revenue. To our understanding no structural factors that weaken profitability have occurred in Nixu's pricing, billable utilization or cost structure and the weak

profitability is mainly due to growth investments. The company has, for example, experts continuously developing technology-based services which is not billable customer work. Integrating acquisitions into Nixu has also caused extra costs.

To our understanding, despite the growth investments Nixu aims at keeping profitability positive even though the company has slipped into red a few times in recent years. The corrective measures Nixu made in profitability in 2019-2020 started to show in H2'20 when EBITDA rose to 11%. The rapid result turnaround supports the story of healthy operative profitability (billing vs. wages) even though lower travel costs due to COVID have also supported profitability.

Nixu's cost structure mainly consists of personnel costs, which is typical for a service company so in the short term the cost structure is quite fixed. In 2020, personnel costs corresponded with 63% of revenue. With the Ezenta acquisition the share of technology resale in revenue rose, which is visible as an increase in materials and services costs (2020: 23% of revenue vs. 2018: 11%). Other operating expenses only represented 10% of revenue last year due to COVID (2019: 18%) and we expect that the share will increase as the situation normalizes. Otherwise we expect that the relative share of Nixu's costs will decrease gradually over the coming years when operational efficiency improves with scalability and the relative share of growth investments decreases.

Balance sheet and financial position

Nixu's net gearing at the end of 2020 was 16% and

equity ratio 34%. The company's cash in hand was EUR 6.0 million and it had EUR 5.6 million in interest-bearing bank loans. Nixu also has a EUR 4 million unused credit limit. There was EUR 2.7 million in IFRS16 lease liabilities in the balance sheet. With the current balance sheet, Nixu's leeway for the investments required by the growth strategy is limited. Thus, we expect the company at some point to collect more equity for acquisitions and to use leverage in a controlled manner.

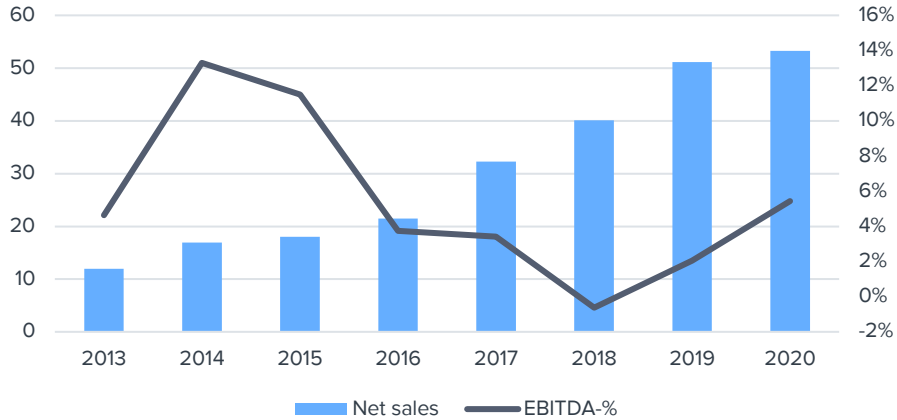
There was EUR 12.7 million goodwill collected from acquisitions in Nixu's balance sheet after a EUR 1.4 million write-down made at the end of 2020. The company also had to make a EUR 1.6 million write-down in 2019 and these partially indicate the company's growing pains on the international markets in recent years. There was EUR 2.5 million of intangible assets related to customer relationships in the balance sheet. We estimate that depreciation related to these amount to some EUR 0.3 million p.a. and we adjust for them in the adjusted EPS.

Cash flow is invested in growth

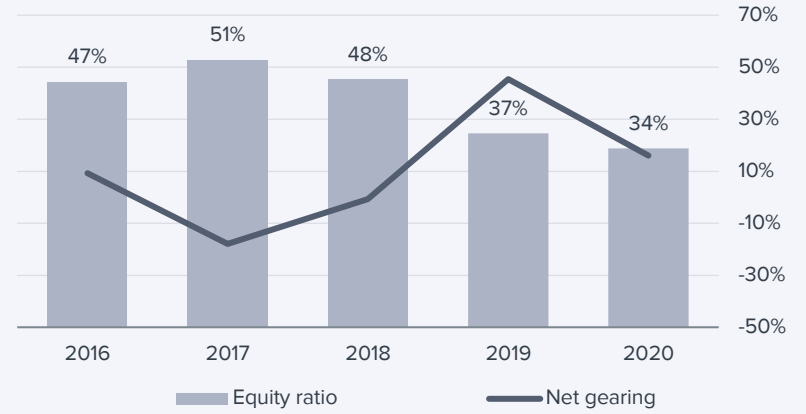
Nixu's service business ties up relatively little working capital and the investment need is low. Nixu's investments in growth, internationalization and technology-based services and the implemented acquisitions have, however, almost eaten away the cash flow since 2014. According to its strategy Nixu will continue investing its cash flow mainly in growth in coming years and shareholders should not expect dividends over the next few years. After the current growth phase, the business that relies on scalable continuous services should generate good cash flow.

Financial position

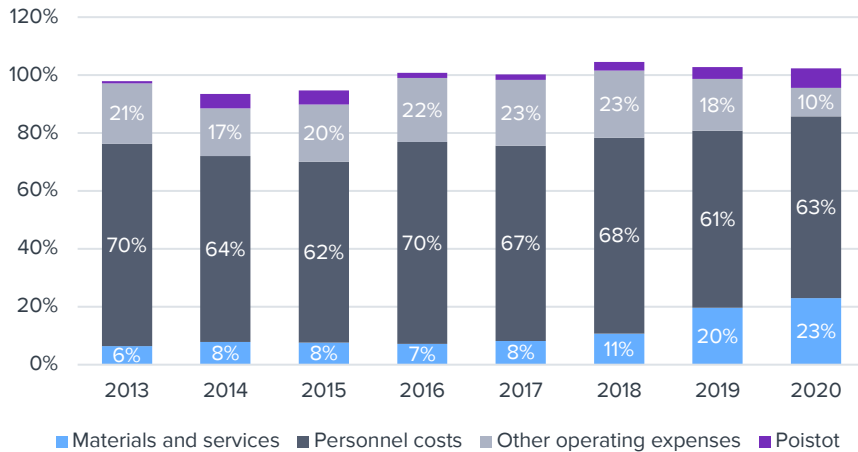
Net sales and profitability



Development of balance sheet key figures



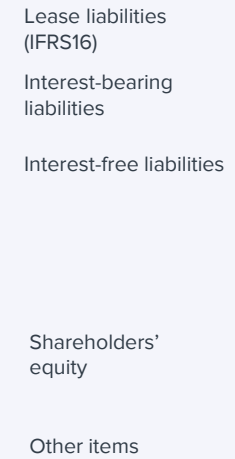
Cost structure % of net sales



Assets



Balance sheet 2020



Estimates and value determination 1/5

Estimates

Basis for the estimates

Nixu's 2021 guidance and strategy-accordant financial targets act as the basis for our estimates. According to its strategy, Nixu targets 15-25% organic growth and growth will be accelerated with acquisitions. Our estimates are based solely on organic growth as simulating future acquisitions is challenging without visibility into the size class and terms of the acquisitions.

Nixu has a strong track record of strong organic growth, which makes us believe that the company will get back on the growth track once COVID lets up. We expect managed continuous services to act as the main growth driver over the next five years. Expanding Nixu's CDC services from Finland to other market areas and launching new continuous service models play a key role here. In the short term, growth is likely to first pick up in the project business when projects that have been postponed due to COVID start up.

In the long term, Nixu aims for EBITDA of some 15% but we expect that profitability will be clearly below this in the next few years as international expansion and other growth investments depress profitability. After the profitability challenges seen in recent years, we expect that the company will strive to keep profitability clearly in the positive. We estimate that Nixu's profitability will improve gradually over the coming years but to be below the company's target levels due to weak historic evidence. In our opinion, more crucial than the profitability level over the next few years is to focus on Nixu's growth and successes in the company's

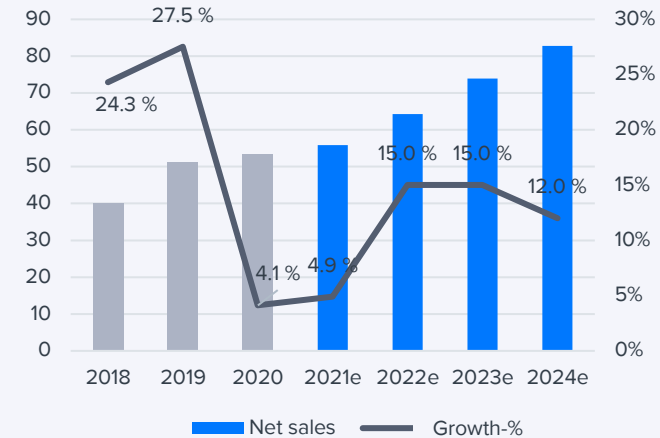
strategic projects that are clearly more important drivers for the share's value creation. The weak profitability history does, however, create more pressure for the profit figures as well. We do not expect Nixu to pay dividends in the next few years but to channel all funds towards growth.

Short-term estimates

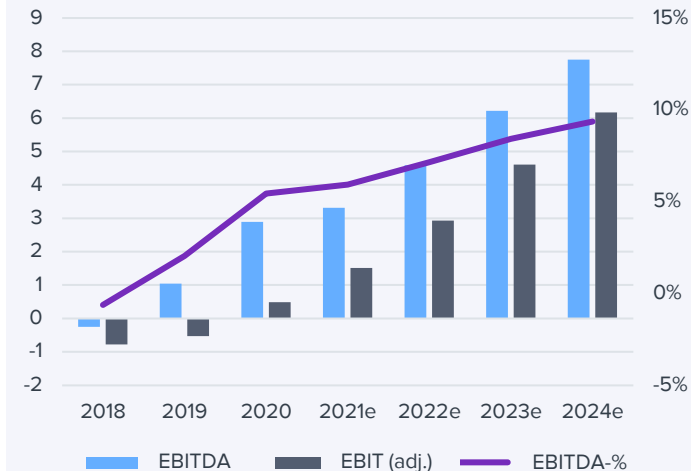
2021 kicked-off mutedly for Nixu as Q1 revenue decreased by 6% as the COVID situation continued to slow down demand for cybersecurity services. In addition, the efficiency measures carried out by the company last year increased staff turnover towards the end of the year, which made operations hard in early 2021. Nixu did, however, reiterate its outlook in its Q1 business review and stated that revenue will grow organically, and EBITDA will improve from the year before (2020: EUR 2.9 million). The company also comments that the sales performance in Q1 was relatively good and that the order book had developed favorably. The expectation is that the digitalization leap brought on by COVID starts to also become reflected in the demand of cybersecurity services starting from H2.

We expect that Nixu's revenue will grow by 5% this year to EUR 55.9 million and EBITDA will be EUR 3.3 million (EBITDA % 6%). We expect that Q2 revenue will be at last year's level, but that growth will accelerate clearly in H2 (+14%). Then the company also faces a comparison period that was weakened by COVID. This year, Nixu still has a lot of work to do to fix its home base in order to return to a sustainable growth path.

Net sales and growth %



Earnings estimates



Estimates and value determination 2/5

Success in implementing the new operating model in the company and new recruitments are at the core of this.

In 2022 we estimate that Nixu's growth will accelerate to 15% when the new operating model together with the improving outlook of the cybersecurity market become reflected in growth. At this stage, there is still uncertainty involved in growth picking up and one cannot lean fully on estimates for the next few years before there is proof of accelerating growth in the form of numbers. As the outlook picks up, Nixu also plans to increase its growth investments, so we do not expect significant improvement in profitability and our EBITDA margin estimate for 2022 is 7%.

Long term estimates

We expect 2023 and 2024 revenue to grow by 15% and 12%. In our estimates, Nixu's EBITDA will improve gradually, and we expect that Nixu's EBITDA margin will be around 8-9%. A slight profitability improvement should primarily come through as operational efficiency improves and the relative share of growth and sales investments gradually decreases over coming years.

In our long-term estimates compiled for the DCF model, we expect that Nixu's revenue will be 10% in 2025 and growth to slow down to 5% in 2026-2027. After this, we expect 3% growth and starting from 2030 the terminal growth assumption in the model is 2.5%. We feel that Nixu has preconditions to grow faster in the long term but at this point more cautious long-term assumptions are justified in our opinion until the company has proven it has returned to a sustainable growth path.

In terms of profitability, we expect that Nixu's EBITDA margin will rise to 10% in 2025 and after this as the growth stabilizes it will remain at around 12% in the long term. This corresponds with a 10% EBIT margin. We feel that after the current growth stage, Nixu can reach the targeted 15% EBITDA margin. Especially if the company's aim to raise managed continuous services to over 50% of revenue materializes the profitability objective seems very realistic. For example in CDC services Nixu should be able to raise its revenue faster than costs grow, which would mean that the profitability profile of these services would according to our estimates be better than in the consulting business in the long term. At the same time, the tight competition in the cybersecurity market creates margin pressure in the long term.

EPS and dividend



Estimates

Income statement	2018	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21e	H2'21e	2021e	2022e	2023e	2024e
Revenue	40.1	25.7	25.5	51.2	27.7	25.6	53.3	26.8	29.1	55.9	64.3	73.9	82.8
EBITDA	-0.3	2.0	-0.9	1.0	0.1	2.8	2.9	0.8	2.5	3.3	4.6	6.2	7.7
Depreciation	-1.2	-0.9	-2.7	-3.7	-1.1	-2.5	-3.6	-1.1	-1.1	-2.1	-2.0	-1.9	-1.9
EBIT (excl. NRI)	-0.8	1.1	-1.6	-0.5	0.0	0.5	0.5	-0.1	1.6	1.5	2.9	4.6	6.2
EBIT	-1.5	1.0	-3.7	-2.6	-1.1	0.4	-0.7	-0.2	1.5	1.2	2.6	4.3	5.9
Net financial items	-0.5	-0.3	-0.3	-0.6	-0.3	-0.3	-0.7	-0.3	-0.3	-0.5	-0.5	-0.4	-0.3
PTP	-1.9	0.7	-4.0	-3.2	-1.4	0.0	-1.4	-0.5	1.2	0.7	2.1	3.9	5.6
Taxes	0.0	-0.2	0.0	-0.3	-0.1	-0.4	-0.5	0.1	-0.2	-0.1	-0.4	-0.8	-1.1
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	-2.0	0.5	-4.0	-3.5	-1.5	-0.4	-1.8	-0.4	1.0	0.6	1.7	3.1	4.5
Net earnings	-2.0	0.5	-4.0	-3.5	-1.5	-0.4	-1.8	-0.4	1.0	0.6	1.7	3.1	4.5
EPS (adj.)	-0.18	0.08	-0.27	-0.19	-0.08	-0.04	-0.12	-0.03	0.15	0.12	0.27	0.46	0.64
EPS (rep.)	-0.27	0.07	-0.54	-0.47	-0.20	-0.05	-0.25	-0.05	0.13	0.08	0.23	0.42	0.60
Key figures	2018	H1'19	H2'19	2019	H1'20	H2'20	2020	H1'21e	H2'21e	2021e	2022e	2023e	2024e
Revenue growth-%	24.3 %	31.9 %	23.3 %	27.5 %	7.7 %	0.5 %	4.1 %	-3.2 %	13.6 %	4.9 %	15.0 %	15.0 %	12.0 %
Adjusted EBIT growth-%		-	-	-	-	-	-	-	219%	209%	93.8 %	57.1 %	33.9 %
EBITDA-%	-0.6 %	7.7 %	-3.6 %	2.0 %	0.2 %	11.1 %	5.4 %	3.0 %	8.6 %	5.9 %	7.1 %	8.4 %	9.4 %
Adjusted EBIT-%	-1.9 %	4.3 %	-6.4 %	-1.0 %	-0.1 %	2.0 %	0.9 %	-0.4 %	5.5 %	2.7 %	4.6 %	6.2 %	7.5 %
Net earnings-%	-4.9 %	1.9 %	-15.7 %	-6.9 %	-5.3 %	-1.5 %	-3.4 %	-1.5 %	3.3 %	1.0 %	2.7 %	4.2 %	5.4 %

Source: Inderes

Estimates and value determination 3/5

Valuation

Investment view

The respite in Nixu's growth story will soon be over as the company's outlook indicates that it will return to the growth path towards the end of the year. At the same time, the COVID crisis further strengthens the cybersecurity market's strong long-term fundamentals and we expect Nixu's growth to accelerate as the situation normalizes. Examined with the net sales ratio, the valuation of Nixu's share is historically low. If Nixu is successful in returning to the growth path in line with its strategy, investors can get return from the share both through growth and rising valuation multiples. Thus, we consider the share's return/risk ratio to be attractive at the current level even though there are risks involved with international expansion, the ongoing change in the organization's operating model, and future acquisitions. We reiterate our Accumulate recommendation for the share and revise our target price to EUR 11.0 (previously EUR 11.5).

Valuation indicators

Nixu still primarily operates in the consulting business whose pricing is much more straightforward than in a cybersecurity product company due to the limited scalability of the business. With the growth of technology-based managed services (2020: 20% of net sales) the business model is, however, changing and, thus, the valuation cannot be fully compared to conventional IT service houses. Thus, we see Nixu's value creation as a combination of a service and product house still strongly focusing on services.

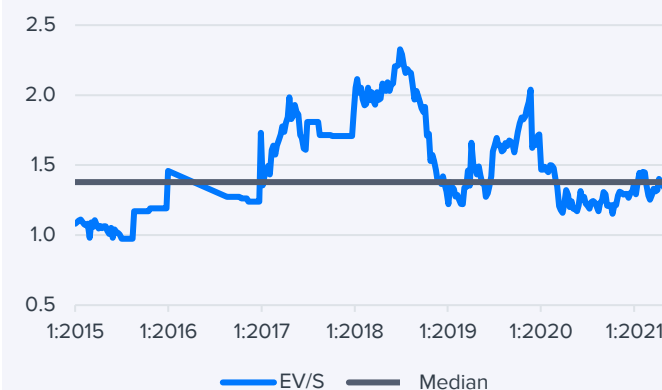
Due to Nixu's development stage, earnings indicators do not give the right picture of the company's valuation and the valuation should be viewed through the net sales ratio. In our view, investors are currently pricing cybersecurity sector companies largely through a combination of the net sales ratio and the company's growth rate, and growth and profitability. Quickly growing companies with weaker profitability must have a credible path to how their growth investments become realized in the near future also in profitability. For example, this is clear in Nixu as the ramp up of the company's scalable service models progresses. At the same time, we are aware that Nixu will continue making growth investments when necessary for as long as there is something up for grabs on the market. On the other hand, after Nixu's challenges in recent years leaning purely on the net sales ratio is not as watertight as before when strong growth better forgave weaker profitability.

With our estimates, Nixu's 2021e-2022e EV/Sales multiples are 1.2x and 1.1x. Considering the company's history, the multiples are low but, on the other hand, so is the combination of the company's growth and profitability at the moment. We see upside in the multiples if Nixu is successful in returning to the growth path in line with its strategy. The share's return expectation would be at a good level also in a scenario where growth would not accelerate to the level expected in the strategy (> 15%) and the current net sales ratio would remain somewhat stable. Nixu's net sales ratio has since 2015 varied between 1.0x and 2.3x with a median of 1.4x.

Valuation level	2021e	2022e	2023e
Share price	8,90	8,90	8,90
Av. number of shares, million	7,41	7,41	7,41
Market cap	66	66	66
EV	69	68	66
P/E (adj.)	75,8	32,9	19,3
P/E	>100	38,7	21,1
P/Cash flow	neg.	42,1	24,8
P/B	4,5	4,1	3,4
P/S	1,2	1,0	0,9
EV/Sales	1,2	1,1	0,9
EV/EBITDA (adj.)	21,0	14,9	10,6
EV/EBIT (adj.)	45,9	23,3	14,3
Dividend/result (%)	0,0 %	0,0 %	0,0 %
Dividend yield%	0,0 %	0,0 %	0,0 %

Source: Inderes

Nixu's historic forward-looking EV/S multiple



Source: Bloomberg, Inderes

Estimates and value determination 4/5

We feel a net sales ratio of above 2x is close to the tolerance level of a service company's valuation level unless the combination of profitability and organic growth is on an excellent level.

With our estimates, Nixu's earnings-based valuation multiples are high in the next few years as growth investments depress the result. In 2023, the adjusted P/E is 19x and supports the valuation even though our estimate (2023e EBITDA: 8.4%) is still far from the company's earnings potential.

Peer group

We have primarily picked Nordic companies operating in the IT service sector as Nixu's peers. There are only a few listed companies focusing on cybersecurity service but the closest peer is the British NCC Group. Among cybersecurity companies we have also picked the US SecureWorks that offers technology-based continuous services and F-Secure where around one-fifth of net sales comes from services to the peer group.

With the net sales ratio, Nixu is this year valued 34% below the peer group median and 39% below the median in 2022 (EV/S 1.9x-1.7x). Compared to IT service companies (1.5x-1.4x), Nixu is currently priced at a 16-25% discount. Compared to the multiples of cybersecurity peers (2.2x-3.5x) the discount is clearly larger this year.

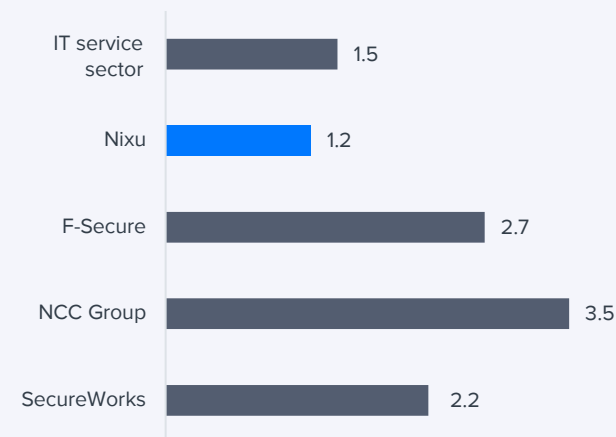
Historically, Nixu has at times been priced at a clear premium to IT service companies and a clear "cybersecurity bonus" has been accepted for the company in pricing. Currently the combination of Nixu's poor growth and profitability does not favor premium pricing. In our view, the company could,

however, be priced at the median level of IT service companies as the gradually improving growth outlook progresses. Calculated with 2021-2022 multiples this would indicate a EUR 10.7-11.9 value per share for Nixu's share.

Acquisition scenario

Based on acquisitions carried out in recent years Nixu's net sales-based valuation would likely be higher than currently in an acquisition situation. Nixu's close competitor nSense was sold in 2015 with a 2.5x net sales ratio. Correspondingly the "Dutch Nixu" Fox-IT exchanged owners in 2015 with a 5.4x multiple. In June 2018, F-Secure acquired the British MWR InfoSecurity with a 3.1x net sales ratio. MVR also had considerable own product business, which raised the valuation of the deal. Telecom operator Orange in turn acquired Nixu's big competitor Securelink in May 2019 with a 2.1x net sales ratio. Currently we see no basis to price a clear acquisition premium in Nixu's share as this is more of an option for the share.

Nixu's and its peers' EV/S 2021e



Valuation based on peer's multiples

	2021e	2022e
Net sales	55,9	64.3
x EV/S (IT service copanies)	1.5	1.4
EV	83	92
-Net debt 2021e	3.5	3.5
Value of share capital	79	88
<i>Per share</i>	<i>10.7</i>	<i>11.9</i>

Estimates and value determination 5/5

Scenario analysis

We examine Nixu's value in three scenarios based on our estimate and our expectation of weaker and stronger growth. With the scenarios we try to assess what the return expectation of Nixu's share looks like in 2024 if the company gets back on the growth path in line with its strategy. The scenarios are based only on organic growth as simulating future acquisitions is challenging.

In the calculation on the right we have assumed that a 1.0x-1.4x EV/Sales multiple would be accepted for Nixu in 2024 depending on the scenario. We have also illustrated the sensitivity of annual returns with different net sales ratios (0.8x-1.6x).

With growth in line with our estimates and a moderate 1.2x EV/S multiple Nixu's value in 2024 would be EUR 103 million which corresponds with a share price of some EUR 13.9. This offers the share a 13% annual return expectation for the next three and half years to the current share price. When we also consider the value creation potential of Nixu's possible future acquisitions, and the risks related to the growth strategy we feel the return/risk ratio of Nixu's share is attractive at the current share price.

In the weak scenario, the return of Nixu's share would be modest but still slightly positive even though the growth expectation (7%) and net sales ratio are very cautious. This partly reflects the fact that the growth expectations loaded into Nixu's share at the moment are very modest. In a scenario that is stronger than our estimates, Nixu's share would offer excellent income from the current

levels, but it would also require very strong strategy implementation from the company over the next few years.

DCF analysis

Our DCF model indicates a fair value of EUR 11.7 per share for Nixu. We have discussed the assumptions of the model in the estimates section. After the growth stage, we estimate that Nixu's cash flow will be quite stable due to light investment needs. The WACC we used is 9.0%, ROE requirement is 10.2% and the perpetual growth assumption is 2.5%. The weight of the perpetual assumption is around 67% in the model, which in part indicates that a majority of Nixu's value will be generated from future cash flow long in the future, which increases uncertainty. The DCF model still partly supports Nixu's valuation by reelecting the clear upside in the share if the company manages to get back on the growth path in line with its strategy.

Return expectation of Nixu's share in different scenarios

In 2024	Weak	Inderes	Strong
Growth (CAGR 21-24)	7 %	12 %	17 %
-net sales	70	83	100
x EV/S	1.0	1.2	1.4
EV	70	99	140
+Net cash	0	4	8
Market cap	70	103	148
Share price 2024	9.4	13.9	19.9
Return	6 %	56 %	124 %
Annual income	2 %	13 %	25 %

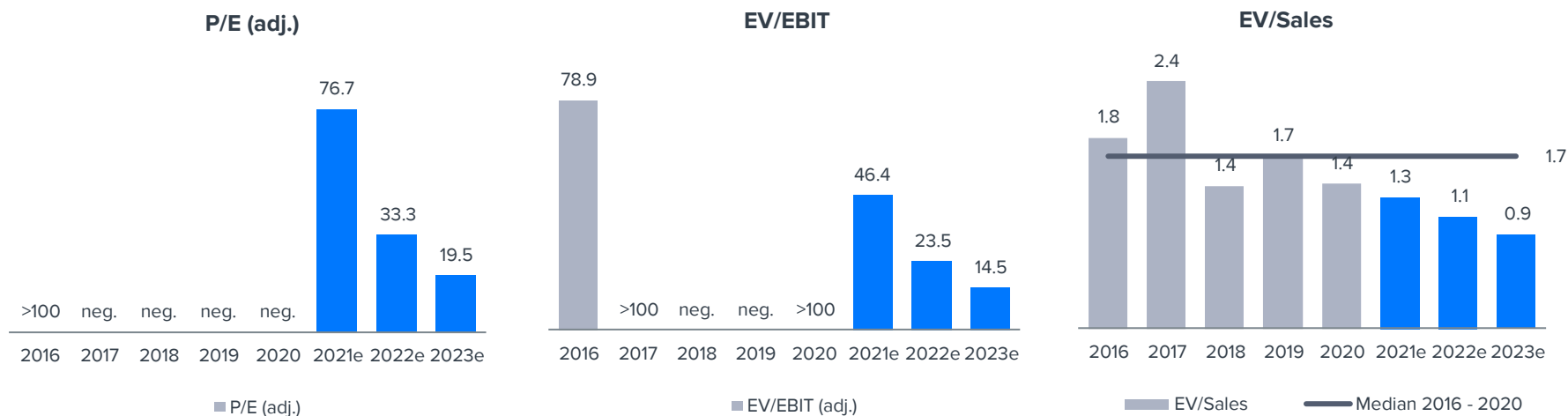
Sensitivity of annual income with various net sales ratios

EV/S	Weak	Inderes	Strong
0.8	-5 %	2 %	8 %
1.0	2 %	8 %	15 %
1.2	7 %	13 %	20 %
1.4	12 %	18 %	25 %
1.6	16 %	23 %	30 %

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	6.05	11.0	7.60	10.5	9.62	8.90	8.90	8.90	8.90
Number of shares, millions	6.19	6.63	7.23	7.41	7.41	7.41	7.41	7.41	7.41
Market cap	39	80	55	78	71	66	66	66	66
EV	39	76	55	85	74	69	68	66	62
P/E (adj.)	>100	neg.	neg.	neg.	neg.	75,8	32,9	19,3	13,9
P/E	>100	neg.	neg.	neg.	neg.	>100	38,7	21,1	14,8
P/FCF	neg.	32.3	neg.	neg.	13.0	neg.	42.1	24.8	17.8
P/B	4.7	4.2	3.3	5.1	5.1	4.5	4.1	3.4	2.8
P/S	1.8	2.5	1.4	1.5	1.3	1.2	1.0	0.9	0.8
EV/Sales	1.8	2.4	1.4	1.7	1.4	1.2	1.0	0.9	0.8
EV/EBITDA	48.8	>100	neg.	81.1	25.4	21.0	14.9	10.6	8.1
EV/EBIT (adj.)	78.9	>100	neg.	neg.	>100	45,9	23,3	14.3	10.1
Payout ratio (%)	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Dividend yield-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes



Peer group valuation

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield %		P/B 2021e
				2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	
Innofactor Plc	1.7	64	73	9.1	10.4	6.6	7.3	1.1	1.0	11.1	13.2	2.9	3.2	2.3
Bouvet ASA	61.8	632	597	18.7	17.1	15.3	14.0	2.3	2.0	25.6	23.3	3.6	3.8	13.0
Digia Oyj	7.6	204	215	14.6	13.6	10.0	9.4	1.4	1.3	17.9	17.1	2.2	2.6	3.0
Enea AB	215.0	462	497	20.6	15.7	14.0	11.3	5.2	4.5	23.3	18.5			2.6
Siili Solutions Oyj	15.8	111	98	14.0	10.3	7.9	6.8	1.0	0.9	13.9	11.4	2.5	2.8	4.3
Solteq Oyj	5.7	110	135	15.0	12.9	9.3	8.5	2.0	1.8	18.6	15.4	2.1	2.7	3.7
Tieto Oyj	26.5	3,136	3,966	11.3	10.9	7.6	7.4	1.4	1.4	11.4	10.7	5.5	5.5	1.8
Knowit AB	296.0	584	572	16.5	15.3	12.6	12.0	1.5	1.5	22.7	20.9	2.4	2.6	3.6
Vincit Oyj	9.9	122	113	16.1	12.5	12.5	10.2	1.8	1.7	18.0	15.4	2.0	2.2	4.4
Gofore Oyj	18.4	277	271	21.7	18.1	16.4	13.9	2.7	2.4	27.9	21.3	1.6	1.9	6.1
Bilot Oyj	7.5	38	29	29.0	14.5	14.5	9.7	1.2	1.1	19.7	17.4			1.9
F-Secure Oyj	4.1	653	641	27.3	23.8	17.2	15.3	2.7	2.6	36.6	32.9	1.2	1.2	7.0
NCC Group	296.5	1,065	1,105	28.5	19.3	19.7	14.7	3.5	3.0	34.9	24.7	1.4	1.6	
SecureWorks	17.26	1,182	1,034	59.1		37.3		2.2	2.3	76.8				2.1
Nixu (Inderes)	8.90	66	69	45.9	23.3	21.0	14.9	1.2	1.1	75.8	32.9	0.0	0.0	4.5
Average				21.5	15.0	14.4	10.8	2.1	2.0	25.6	18.6	2.5	2.7	4.3
Median				17.6	14.5	13.3	10.2	1.9	1.7	21.2	17.4	2.2	2.6	3.6
Diff-% to median				161 %	61 %	58 %	45 %	-34 %	-39 %	258 %	89 %	-100 %	-100 %	25 %

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

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	21.2	18.5	18.2	18.0	17.9
Goodwill	13.9	12.7	12.7	12.7	12.7
Intangible assets	2.9	2.5	2.5	2.4	2.3
Tangible assets	3.9	3.0	2.7	2.6	2.6
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.3	0.3	0.3	0.3	0.3
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Current assets	20.1	22.2	20.5	24.2	27.8
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	16.2	16.2	16.5	19.0	21.9
Cash and equivalents	3.9	6.0	3.9	5.1	5.9
Balance sheet total	41.3	40.7	38.7	42.2	45.7

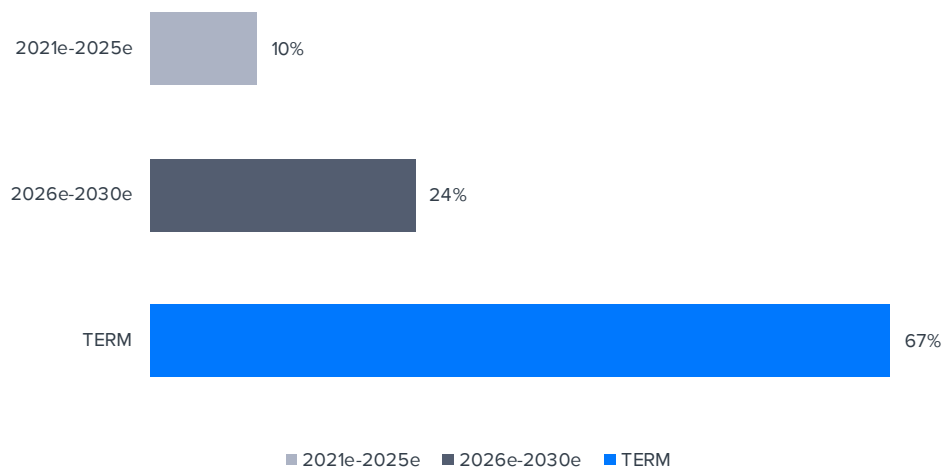
Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	15.4	14.0	14.6	16.3	19.4
Share capital	0.1	0.1	0.1	0.1	0.1
Retained earnings	-3.4	-5.0	-4.5	-2.8	0.4
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	18.7	19.0	19.0	19.0	19.0
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	2.7	6.9	5.6	5.4	4.7
Deferred tax liabilities	0.5	0.2	0.2	0.2	0.2
Provisions	0.0	0.0	0.0	0.0	0.0
Long term debt	2.1	6.4	5.1	4.9	4.2
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.1	0.3	0.3	0.3	0.3
Current liabilities	23.2	19.8	18.5	20.5	21.6
Short term debt	8.8	1.9	2.3	2.5	1.6
Payables	14.4	17.9	16.2	18.0	20.0
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	41.3	40.7	38.7	42.2	45.7

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	-0.7	1.2	2.6	4.3	5.9	7.3	9.6	11.0	11.4	10.7	10.9	
+ Depreciation	3.6	2.1	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8	
- Paid taxes	0.0	-0.1	-0.4	-0.8	-1.1	-1.4	-1.9	-2.2	-2.3	-2.1	-2.2	
- Tax, financial expenses	-0.1	-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	3.6	-2.1	-0.7	-0.9	-1.1	-1.2	-1.2	-0.3	-0.2	-0.2	-0.1	
Operating cash flow	6.3	1.0	3.4	4.5	5.5	6.5	8.3	10.4	10.8	10.2	10.4	
+ Change in other long-term liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-1.0	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	
Free operating cash flow	5.5	-0.8	1.6	2.7	3.7	4.7	6.5	8.6	9.0	8.4	8.6	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	5.5	-0.8	1.6	2.7	3.7	4.7	6.5	8.6	9.0	8.4	8.6	136
Discounted FCFF		-0.8	1.4	2.1	2.7	3.2	4.0	4.9	4.7	4.0	3.8	59.8
Sum of FCFF present value		89.8	90.6	89.2	87.1	84.3	81.2	77.1	72.2	67.6	63.6	59.8
Enterprise value DCF		89.8										
- Interesting bearing debt		-8.3										
+ Cash and cash equivalents		6.0										
-Minorities		0.0										
-Dividend/capital return		0.0										
Equity value DCF		87.6										
Equity value DCF per share		11.8										

Cash flow distribution



Wacc

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	5.0 %
Equity Beta	1.10
Market risk premium	4.75%
Liquidity premium	3.00%
Risk free interest rate	2.0 %
Cost of equity	10.2 %
Weighted average cost of capital (WACC)	9.0 %

Source: Inderes

Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	40.1	51.2	53.3	55.9	64.3	EPS (reported)	-0.27	-0.47	-0.25	0.08	0.23
EBITDA	-0.3	1.0	2.9	3.3	4.6	EPS (adj.)	-0.18	-0.19	-0.12	0.12	0.27
EBIT	-1.5	-2.6	-0.7	1.2	2.6	OCF / share	-0.04	0.27	0.85	0.13	0.45
PTP	-1.9	-3.2	-1.4	0.7	2.1	FCF / share	-0.37	-1.14	0.74	-0.11	0.21
Net Income	-2.0	-3.5	-1.8	0.6	1.7	Book value / share	2.33	2.08	1.89	1.97	2.20
Extraordinary items	-0.7	-2.1	-1.2	-0.3	-0.3	Dividend / share	0.00	0.00	0.00	0.00	0.00
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	35.3	41.3	40.7	38.7	42.2	Revenue growth-%	24%	28%	4%	5%	15%
Equity capital	16.8	15.4	14.0	14.6	16.3	EBITDA growth-%	-141%	-512%	177%	14%	39%
Goodwill	9.6	13.9	12.7	12.7	12.7	EBIT (adj.) growth-%	-388%	-32%	-194%	209%	94%
Net debt	-0.1	7.0	2.2	3.5	2.3	EPS (adj.) growth-%	200%	7%	-38%	-199%	131%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	-0.6 %	2.0 %	5.4 %	5.9 %	7.1 %
EBITDA	-0.3	1.0	2.9	3.3	4.6	EBIT (adj.)-%	-1.9 %	-1.0 %	0.9 %	2.7 %	4.6 %
Change in working capital	0.1	0.9	3.6	-2.1	-0.7	EBIT-%	-3.6 %	-5.1 %	-1.3 %	2.2 %	4.1 %
Operating cash flow	-0.3	2.0	6.3	1.0	3.4	ROE-%	-11.0 %	-21.9 %	-12.5 %	4.0 %	11.1 %
CAPEX	-2.4	-10.6	-1.0	-1.8	-1.8	ROI-%	-5.4 %	-10.1 %	-2.9 %	5.5 %	11.5 %
Free cash flow	-2.7	-8.5	5.5	-0.8	1.6	Equity ratio	47.6 %	37.3 %	34.4 %	37.7 %	38.6 %
						Gearing	-0.7 %	45.4 %	16.0 %	23.8 %	14.1 %
Largest shareholders	% of shares					Valuation multiples	2018	2019	2020	2021e	2022e
Gylfe Bo Peter	9.7 %					EV/S	1.4	1.7	1.4	1.2	1.1
Nordea Bank (hallintarekisteri)	4.9 %					EV/EBITDA (adj.)	neg.	81.1	25.4	21.0	14.9
Turret Oy	4.4 %					EV/EBIT (adj.)	neg.	neg.	>100	45.9	23.3
OP Suomi Pienyhtiöt sijoitusrahasto	3.8 %					P/E (adj.)	neg.	neg.	neg.	75.8	32.9
Varma	3.5 %					P/B	3.3	5.1	5.1	4.5	4.1
Sijoitusrahasto Taaleritehdas Mikro Markka	3.4 %					Dividend-%	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Source: Inderes

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

Buy	The 12-month risk-adjusted expected shareholder return of the share is very attractive
Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Inderes has made an agreement with the issuer and target of this report, which entails compiling a research report.

Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
20-04-15	Accumulate	5.10 €	4.65 €
17-08-15	Accumulate	5.10 €	4.70 €
15-10-15	Accumulate	5.00 €	4.42 €
17-12-15	Accumulate	5.00 €	4.49 €
18-02-16	Accumulate	5.40 €	4.78 €
13-04-16	Accumulate	5.40 €	4.95 €
17-08-16	Accumulate	5.60 €	5.23 €
11-10-16	Accumulate	5.80 €	5.40 €
10-11-16	Accumulate	6.20 €	5.48 €
17-02-17	Accumulate	7.10 €	6.74 €
09-03-17	Reduce	7.30 €	7.20 €
13-04-17	Reduce	7.80 €	8.32 €
31-05-17	Reduce	8.20 €	8.37 €
18-08-17	Accumulate	9.50 €	8.88 €
02-10-17	Accumulate	12.00 €	11.15 €
07-12-17	Reduce	12.00 €	12.50 €
17-01-18	Reduce	12.00 €	12.05 €
09-03-18	Reduce	12.00 €	11.90 €
21-06-18	Reduce	13.00 €	13.15 €
17-08-18	Reduce	12.50 €	12.70 €
16-10-18	Reduce	10.00 €	10.35 €
27-11-18	Accumulate	9.00 €	8.10 €
30-01-19	Accumulate	9.50 €	9.00 €
01-03-19	Accumulate	9.50 €	8.48 €
29-03-19	Accumulate	11.00 €	10.30 €
17-04-19	Reduce	12.00 €	12.20 €
24-05-19	Accumulate	12.00 €	10.50 €
16-08-19	Accumulate	12.50 €	11.45 €
09-10-19	Accumulate	13.00 €	11.95 €
26-11-19	Reduce	10.50 €	10.90 €
14-02-20	Reduce	11.00 €	10.80 €
12-03-20	Accumulate	8.20 €	7.30 €
17-04-20	Reduce	8.20 €	8.22 €
20-05-20	Reduce	7.50 €	7.20 €
14-08-20	Accumulate	8.50 €	8.02 €
14-10-20	Accumulate	9.50 €	8.58 €
12-02-21	Accumulate	11.50 €	10.80 €
16-04-21	Accumulate	11.50 €	10.35 €
10-06-21	Accumulate	11.00 €	8.90 €



Inderes' mission is to connect listed companies and investors. We produce high-quality research and content for the needs of our extensive investor community.

At Inderes we believe that open data is every investor's fundamental right. We guarantee investors' access to award-winning research, insightful video content and an active investor community.

For listed companies we ensure that there is always high-quality information available on the company for investors and shareholders for decision making, and that data collected from investors can be utilized by the companies.

Over 100 Finnish listed companies want to serve their shareholders and investors through us by utilizing our company research services, data driven IR services, content creation and consulting.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at [inderes.fi](https://www.inderes.fi)



STARMINE
ANALYST AWARDS
FROM REFINITIV



THOMSON REUTERS
ANALYST AWARDS



Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020



Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020



Petri Kajaani
2017, 2019, 2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020



Olli Koponen
2020

**Research belongs
to everyone.**