

# Advenica

Sector: Cyber Security

## A Top Secret Investment

Redeye initiates coverage of Advenica, a leading Swedish cybersecurity firm specializing in advanced encryption systems for network communication and network segmentation solutions. With a strong focus on high-security markets and strategic defense clients, Advenica is well-positioned for growth in the rapidly evolving cybersecurity landscape, with our Base Case projecting indicating a potential upside of 27%.

### Strong presence in the cyber security market

Advenica has established itself as a leader in the high-security market segment by providing advanced encryption products and network segmentation solutions. The company's deep technical expertise and strong relationships with European tactical and strategic defense agencies have enabled it to become one of only four companies in the EU offering products at the highest level of cybersecurity classification. This unique positioning within the market makes Advenica an attractive investment opportunity for those looking to invest in high-security technology.

### Shift Towards high-margin services

Advenica has strategically shifted its product mix from hardware to services, which now represent 68% of sales, up from just 23% in 2018. This change has contributed to the company's improved margins, and we argue that Advenica will grow profitable with a CAGR of 26% next three years.

### Valuation

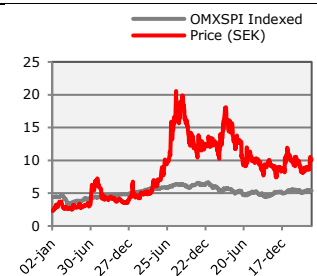
Our valuation range is between SEK7 to SEK18, with a **Base Case of SEK13** with assumptions it will reach a positive Ebit-margin of 3% 2023e. Based on our estimates, Advenica trades at an EV/EBIT of 32x 2024 and an EV/Sales of 1.8x for 2024e, an EV/Sales discount of 40% compared to European peers.

Key Financials (SEKm)	2021	2022	2023E	2024E	2025E
Net sales	101	118	161	204	234
Revenue growth	20%	17%	36%	27%	14%
EBITDA	-15	-2	5	11	15
EBIT	-15	-2	5	11	16
EBIT Margin (%)	-15%	-1%	3%	6%	7%
Net Income	-17	-2	5	10	13
EV/Revenue	neg	3.1	2.3	1.8	1.6
EV/EBITDA	0.5	neg	75.1	33.1	23.5
EV/EBIT	0.5	neg	68.3	31.9	22.8

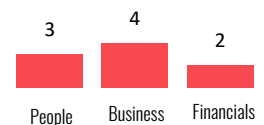
### FAIR VALUE RANGE

BEAR	BASE	BULL
SEK7	SEK13	SEK18

### ADVE VERSUS OMXSPI



### REDEYE RATING



### KEY STATS

Ticker	ADVE
Market	First North
Share Price (SEK)	10.25
Market Cap (SEKm)	468
Net Cash 2023E (SEKm)	88m
Free Float (%)	41%
Avg. daily volume ('000)	220

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## Investment case

Advenica, a leading Swedish cybersecurity firm, has established itself as a trusted provider of advanced encryption systems and products for network segmentation solutions. With 30 years of experience in developing high-quality technical solutions and hardware, the company has garnered an impeccable reputation among demanding clients, including governments and European defense industries. As one of only four companies in the world with EU-approved producing SECRET VPN technology, Advenica occupies a unique position in the market.

The company has demonstrated a strong order inflow past years and improved gross margin, which increased from 37% in 2014 to 84% today. This trend suggests that Advenica is well-positioned to capitalize on the growing demand for cybersecurity solutions in the years to come. Furthermore, the company's operational profit has steadily improved over the last five years, with Advenica posting a profit in last two quarters. This performance indicates that the company is poised for profitable growth moving forward.

As digitalization accelerates across critical infrastructure systems, for example power distribution and air traffic control, there is an increasing need for robust security measures to protect high-value data. With 80% of its revenue currently derived from the defense industry, Advenica is well-positioned to meet the surging demand from governments and private organizations seeking to bolster their IT defenses against the rising threat of cyberattacks.

## Evidence

Advenica's growth prospects for the coming years are likely to remain resilient, even in the face of a potential recession. The company's product cycles span multiple years, and the robust demand for its offering should continue to drive revenue growth.

Additionally, all of Advenica's products are designed and manufactured in Sweden, ensuring the highest level of quality and trust. This emphasis on quality further bolsters the company's position as a dependable provider of cybersecurity solutions, regardless of broader economic fluctuations.

## Challenges

Despite Advenica's solid reputation and healthy market position, it faces several challenges that could impact its growth and investment potential.

### Challenge I

Lack of transparency of orders and clients: Advenica operates in a highly secretive industry, which can mean limited visibility into its order pipeline and client base. This lack of transparency can make it difficult for investors to accurately assess the company's future prospects and potential risks. However, the historical order book builds trust and should prove just as robust in the future.

### Challenge II

High R&D costs and scalability issues: The company produces both cutting-edge hardware and software products, and the need for continuous research and development can elevate costs, making it challenging to scale the business. Additionally, Sweden's potential inclusion in NATO could further increase R&D expenses. However, Advenica receives funding when developing specific new products together with clients.

**Challenge III**

Recruiting new specialists: Attracting and retaining top talent in the cybersecurity industry is crucial for Advenica's success. If the company struggles to recruit new specialists, it may need to rely on more expensive consultants, damaging margins. Nonetheless, it has managed to attract talent for the past year and therefor pushed down its number of consultants to only eight full-time consultants from 14 one year ago. Its goal is for around 10% of its workforce to be specialist consultants.

**Challenges IV**

Lengthy approval processes for new defence products: Obtaining certification for new high security level products is time-consuming, extending the time-to-market and potentially delaying the company's ability to capitalise on emerging opportunities.

**Challenges V**

Potential increased competition if Sweden joins NATO: If Sweden becomes a NATO member, Advenica could face heightened competition from already established companies in the alliance, which could hurt its market share and growth potential. Nonetheless, its addressable market would grow.

**Challenges VI**

Low historical growth per share: The company's past growth per share has been negative as rights issues have diluted the number of shares over the years. This may raise concerns among potential investors regarding its ability to generate strong growth per share in the future.

Although these challenges are all valid concerns, it is important to weigh them against Advenica's competitive advantages, such as its industry-leading position, longstanding relationships with key clients, and expertise in providing high-level cybersecurity solutions.

## Valuation

Our valuation of Advenica stems from a classic DCF model based on Redeye's estimates. We have used a WACC of 10.5% based on our rating in all three scenarios – base, bull, and bear cases.

### Base case: SEK13

In our base case, we assume FMV will remain Advenica's largest client for the foreseeable future, while new government and private costumers will increase over time. Continuously stable order intake will smooth out future revenue and support organic growth. We anticipate a scaling effect to kick in to improve ebit-margin towards 7-9% in the long run.

Revenues for 2023: SEK161m

Revenue CAGR for 2023–2027: 21%

Terminal growth: 3%

Avg. EBIT margin for 2023–2027: 7%

Terminal EBIT margin: 9%

### Counter-thesis

Along with the challenges mentioned above, Advenica also faces several other risks that could impact its growth and investment potential:

- Risk of being sued following a cyberattack breach with its products: As a provider of high-level cybersecurity solutions, Advenica could be held liable if a cyberattack were to successfully breach its products, potentially leading to costly lawsuits and reputational damage.
- Employee going rogue: There is always a risk of employees betraying the company, whether by working for a foreign government or selling confidential information. Such actions can have severe consequences for Advenica's clients and overall business, compromising its competitive edge and credibility. However, all employees are thoroughly checked by relevant authorities.
- Components shortage: Advenica's high-security products rely on specific components that cannot be easily replaced without approval from government and defence agencies. In the event of a supply shortage or discontinued production, the company may need to scrap affected product lines and spend years developing and certifying new products, which could have a significant impact on its revenues and its growth prospects.
- History of rights issues: Although Advenica does not currently seem to require additional cash, it has conducted several rights issues in the past. This history might be a concern for potential investors, who could worry about the possibility of further dilution and the impact on share value.
- High dependence on one client: A large part of Advenica's revenues comes from the defence industry, and more specifically, the Swedish Defence Materiel Administration (FMV). Although Advenica has been working closely with FMV for almost 20 years, however, there is no guarantee FMV will continue to place orders in the future.

## Catalysts

Advenica also has several catalysts that could drive its growth and enhance its investment potential. These positive factors can help mitigate the risks and challenges the company faces:

- **Developing partnerships with large IT consultant companies:** By forging strategic partnerships with established IT consulting firms, Advenica can potentially broaden its reach and expand its customer base. These partnerships can also provide access to additional resources and expertise, which could enhance the company's offering and fuel its growth.
- **Hiring a dedicated defence salesperson and expanding the total sales force:** Advenica's recent hiring of a dedicated defence salesperson demonstrates the company's commitment to deepening its defence industry client relationships. This new hire could help Advenica to secure additional contracts, strengthen its position in the market, and drive revenue growth.
- **Expanding into the private sector with hardware products:** If Advenica successfully develops and launches hardware (and software) products for the private sector that can be sold in large volumes, the company can tap into a new revenue stream and potentially achieve significant growth. By diversifying its offerings and targeting a broader market, Advenica can reduce its reliance on government and defence contracts, creating a more balanced business model.

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## Company description

Advenica is a Swedish security company that specialises in providing reliable encryption systems and products for all types of network segmentation solutions. It focuses on offering security products and solutions for IP-based networks, primarily in the Nordic region and selected European countries. Its revenue stream comes from selling its own developed hardware and services.

Its hardware offering comprises cross-domain solutions and encryption systems. The cross-domain solutions consist of security gateways, data diodes, and self-erasing USB memories. Within encryption systems, it has developed a number of quantum-secured IP encryption modules up to the highest level of security: TOP SECRET. As of today, **32% of its revenues stem from hardware and 68% from services.**

Advenica's customer base is primarily among European tactical and strategic defence agencies, central and local authorities, and companies within critical infrastructural sectors with high security requirements. Throughout its long history, Advenica's defence customers have been a large part of both its revenues and its development of new products. As of today, **80% of revenues come from security and defence clients.**

Historically, the order stream from the defence industry is reliable but volatile between quarters. Moreover, recurring revenues are around 10–15%. Due to different client technical requirements, scalability is currently fairly low, but management is aware of this hurdle and is directing funds to the R&D department to improve the products' scalability.

### Value proposition

Advenica has been developing cybersecurity solutions together with the Swedish and European security and defence industries for more than 30 years. Over this time, it has developed a number of high-end encryption products to specification and in co-operation with its clients. This unique collaboration has created a deep technical knowledge and Advenica is a trusted partner to the Swedish Defence Materiel Administration (FMV). Moreover, it is one of only four companies in the EU offering products at the highest level of cybersecurity classification, to protect important infrastructure.

The company also offers maintenance and support services, as well as additional services like training, service, and security evaluation, at the highest security standards. These additional services help ensure that customers have the necessary resources to maintain a high level of security for their digital information.

### Competitive advantages

Advenica stands out from other security companies with its exclusive focus on protecting digital information, which enables the company to devote all its resources and expertise to delivering the best possible security solutions.

The number of competitors in the highest security classification is especially limited because it takes a very long time to establish trust and build up a solid reputation. It took Advenica more than a decade to reach its position as a reliable producer and to become a certified supplier.

Product development in the industry can take up to multiples years making it crucial for clients to have confidence that a supplier possesses the expertise and stability to provide ongoing support for their security needs.

Advenica holds patents for some of its innovations, but this is not possible for certain high-security level products due to national security concerns. The company has 30 years of experience working with encryption products and 20 years' experience of working with the absolute highest security levels, all of which establish solid moats against competitors, with Advenica enjoying an industry-leading position. As a result, it has built a strong reputation advantage in the industry as a provider of particularly reliable and effective security solutions. These competitive advantages have allowed Advenica to establish a distinct reputation as a provider of reliable and effective security solutions that are expected to generate excess returns over time.

### **Business strategy**

In our view, Advenica's business strategy includes a combination of product leadership and customer intimacy, factors we see as somewhat aligned. We believe it is necessary to be at the forefront of technology adoption to utilise market dynamics to continue providing high-level security products with a solid value proposition for customers. At the same time, we argue that a strong product portfolio is essential in building customer closeness in the first place. We believe Advenica's product leadership strategy is confirmed by it being one of only four companies in the world with EU-approved VPN technology at the highest security level. Moreover, being a trusted supplier to the Swedish FMV demonstrates the customer-intimacy strategy with tailored offerings for specific needs.

We believe the company has built an organic growth strategy by creating new untapped market opportunities, i.e., through internal growth. This implies growth from three directions: (1) broadening the product portfolio to increase sales to new and existing customers, (2) increasing the traction in existing and new customer segments, such as critical infrastructure, and (3) continuing to execute the geographical expansion.

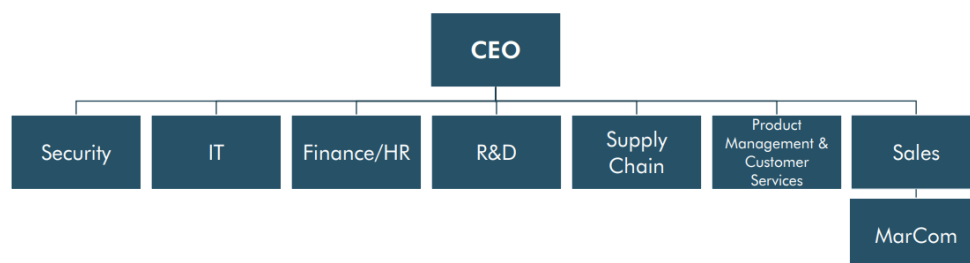


## Historical highlights

Year	Historical Highlights
1993	<ul style="list-style-type: none"> <li>- Advenica is founded in Lund</li> <li>- Advenica launches its first product SecuriCrypto</li> </ul>
2000	<ul style="list-style-type: none"> <li>- A new business strategy is implemented to attract sensitive actors within the security market</li> <li>- A strategic decision to develop VPN products is made</li> </ul>
2002	<ul style="list-style-type: none"> <li>- Obtained a contract to develop the next generation VPN-crypto to and together with FMV</li> </ul>
2006-2009	<ul style="list-style-type: none"> <li>- SecuriVPN first- and second-generation TOP SECRET-certified by the Swedish NCSA.</li> </ul>
2011	<ul style="list-style-type: none"> <li>- SecuriVPN Arana EU-certified at the highest level(SECRET)</li> <li>- Advenica became one of four companies with a VPN product to get approved at EU SECRET-level</li> <li>- Strategic decision to focus on the commercial market to smoothen the cyclical sales</li> </ul>
2012	<ul style="list-style-type: none"> <li>- Development of SecuriConnect is started</li> <li>- Obtained Swedish governmental contract to develop and deliver SE-SECRET SecuriCDS HAF</li> </ul>
2013	<ul style="list-style-type: none"> <li>- Breakthrough order for Advenica from European defense customer.</li> </ul>
2014	<ul style="list-style-type: none"> <li>- SecuriConnect is launched</li> <li>- Advenica is listed on First North Premier</li> </ul>
2015	<ul style="list-style-type: none"> <li>- FMV sign maintenance and support agreement with Advenica worth SEK 18 million</li> <li>- Advenica is granted at US-patent for a solution called Three Domain Separation</li> <li>- Advenica launches SecuriCDS ZoneGuard and the next generation SecuriCDS Data Diodes</li> <li>- A Swedish authority orderd VPN-equipment for IP-networks with an order value of about 57 SEKm</li> <li>- Established long-term agreement with Norway based company Databanken AS</li> </ul>
2016	<ul style="list-style-type: none"> <li>- Partnership with Norway based information security company Fence</li> <li>- Strategic order from the Swedish Transport Administration of SecuriCDS ZoneGuard</li> <li>- SecuriCDS Data Diode is approved for SALINEN/SECRET level by Finnish authority</li> <li>- Advenica lunched world's first commercial communication solution with integrated protection against advanced digital attacks</li> <li>- Advenica signs framework agreement with Austrian Armed Forces.</li> <li>- Won a strategic important order from a EU-nation.</li> </ul>
2017	<ul style="list-style-type: none"> <li>- New order from new customer in Singapore</li> <li>- Initiated strategic collaboration with Dustin Finland Oy</li> <li>- Carried out a rights issue of approximately SEK 44 million</li> <li>- Advenica won orders from three new customers in different industries within Finland.</li> <li>- Advenica sign three year agreement with the Swedish Transport Administration about crypto solutions and cyber security.</li> </ul>
2018	<ul style="list-style-type: none"> <li>- Deepend collaboration with one of Sweden's bigger energy companies</li> <li>- Initiation of strategic partnership with CGI Sweden</li> </ul>
2019	<ul style="list-style-type: none"> <li>- Advenica carried out new share issue which added SEK 25,9 million</li> <li>- New order from Försvarets Materialverk for crypto products to a value of SEK 35 million</li> <li>- Partnership with OPSWAT.</li> <li>- New customer in form of European Space Agency</li> <li>- Advenica partnership with Nixu.</li> <li>- Advenica signs agreement with one of Sweden larger energy companies</li> <li>- Lunch of two unique data diode, in a more compact size</li> </ul>
2020	<ul style="list-style-type: none"> <li>- Beginning of partnership with Dell Technologies</li> <li>- New order with Swedish authority amounting to SEK 26 million</li> <li>- New order from a Austria based public company</li> <li>- Rights issue which added SEK 27,6 million</li> </ul>
2021	<ul style="list-style-type: none"> <li>- New agreement with a Swedish customer worth 39 SEKm</li> <li>- New order worth SEK 20 million from a Swedish public organization</li> <li>- New order from Swedish government regarding crypto products worth approximately SEK 30 million</li> </ul>
2022	<ul style="list-style-type: none"> <li>- New order worth SEK 30 million from a Swedish public organization</li> <li>- Advenica and Axis Communications present solutions for secure communication with surveillance cameras at the highest security level</li> <li>- The Board of Advenica decides on a fully guaranteed rights issue of approximately SEK66m</li> <li>- Launch ZoneGuard PE250 - a new and unique Security Gateway with high security</li> <li>- New order worth SEK 50 million from a Swedish customer in the public sector</li> </ul>
2023	<ul style="list-style-type: none"> <li>- Wins a competitive bidding regarding data diods from the Finnish Defence Forces worth SEK 6.8 million</li> <li>- Advenica turns 30 years</li> <li>- Becomes a member of the research collaboration Software Center</li> </ul>

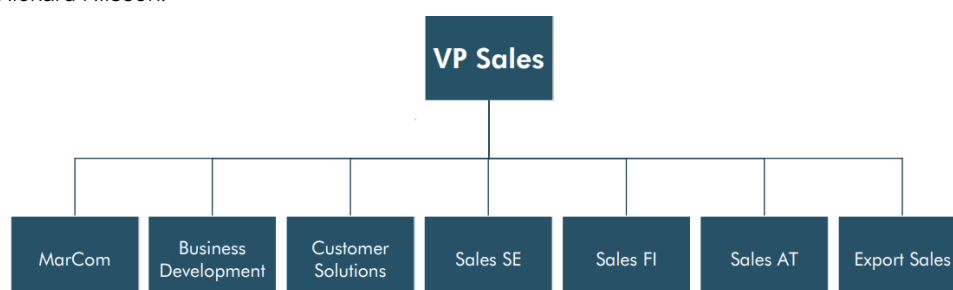
## Company structure

Advenica's company structure is flat, with seven departments reporting to CEO Marie Bengtsson. As of today, the company has 66 full-time employees.



## Sales

The sales organisation is divided into seven departments. The Vice President of sales is Rickard Nilsson.



### MarCom

Marketing communication (MarCom) covers a broad range of activities. The department is responsible for all the marketing and communication activities in the company. This means the digital strategy and the digital channels (website, social media, newsletters, webinars, inbound marketing etc) and all the content needed for all these channels (blog posts, use cases, white papers, videos etc), of which product marketing is one part. Moreover, it is also responsible for the PR and IR strategy, including all the communication towards both media and investors and a lot of the internal communication. Other responsibilities include events, both sales events and recruiting events, and employer-branding activities.

### Business Development

This unit is split across two areas: Defense and Enterprise. It sets the agenda for the next coming 2–3 years, trying to evaluate and analyse the type of solutions and products customers will demand. An important part of its activities is also to attend fairs, talk to key people in the industry, and map out the competition.

### Customer Solution

Under the Customer Solution umbrella, Advenica works closely with customers on different projects, usually on-site with the client.

### Sales SE, FI, AT

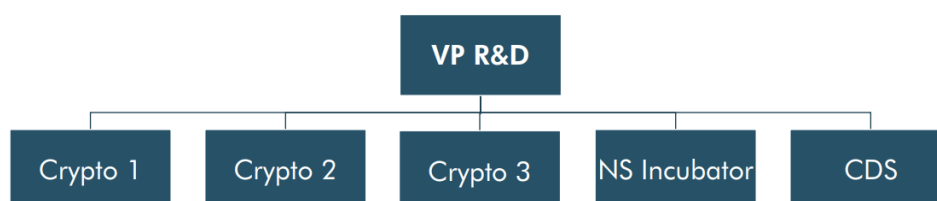
Advenica has three local offices, in Sweden, Austria, and Finland. In order to build up a close relationship with clients, it is important to be represented locally with domestic sales teams.

### *Export Sales*

Export Sales focuses on building up partner structures and carrying out sale efforts towards the rest of the world. However, its principal focus is towards friendly European countries. Advenica has an office in Den Haag, the Netherlands.

### **R&D**

The Vice President of R&D is Patrik Åkesson.



### *Crypto 1–3*

Crypto 1–3 includes client-funded projects in which developers and clients work closely together on different projects to develop both hardware and software with different secret security requirements.

### *NS Incubator*

Likewise, NS Incubator is funded client projects but at even higher security levels than crypto.

### *CDS (Cross Domain Solutions)*

The CDS team maintain and develops (new) products in the existing product family, i.e., diodes and zone guards.






## **Financial targets**

Advenica does not communicate any hard financial targets, but it has put forward a goal to develop the business in a way that ensures profitable growth. At the moment, the company is in a growth phase, meaning its main resources are focused on growth-promoting activities. These incorporate product development and increasing the employee base. They should increase sales but can, of course, have a negative effect on profitability in the shorter term. The growth initiatives should not imply another capital increase, according to the board of directors and management.

## Management, board, and owners

We argue the board of directors offers valid experience of the business. Per Wargéus has been the chair of the board since 2020. Ola Alfredsson is new on the board, joining in 2022, and bringing a very solid background and experience, making him a good fit. We see it as a good sign that all board members own shares. Ove Linde is the founder and the largest shareholder with 33.15% of the votes and capital.

### Board of directors





Name	Position	Shares	Options
<b>Per Wargéus</b>  <p>Born 1961. Studies at Lund Technical University. Electrical, Corporate, and Economics from Lunds School of Economics and Management. Other assignments includes Chairman of the board, Almi företagspartner in Skåne AB, and Board Member of Valid Asset Management i Skåne AB. Per has experience within the IT industry where he has bought, merged, and sold companies. Chairman since april 2020.</p>	Chairman of the board	255,000	
<b>Mikael Sandberg</b>  <p>Born 1965. Master of Science in Engineering from Chalmers University of Technology and an MBA from the School of Management, Bath University. Mikael was formerly a partner at Regency Capital International Ltd as well as a consultant at Analysys Mason Ltd and Arthur D. Little AB. Member of the board since 2009.</p>	Director	1,641,085	
<b>Ove Linde</b>  <p>Born 1948. Studies in Law at Lund University. Founder of Advenica and is today the CEO of Bera Holding i Lund AB. Member of the board since 2015.</p>	Director	14,057,790	
<b>Anders Silwer</b>  <p>Born 1959. Staff and management training courses of the Armed Forces and the University of Defense. Master's in Strategic Planning from the US Air University. Anders has an extensive background within the Swedish Armed Forces and retired as lieutenant general and head of product management in 2017. Anders currently works as a consultant in organizational development and in the aviation field. Member of the board since 2018.</p>	Director	33,600	
<b>Ola Alfredsson</b>  <p>Born 1964. Systems engineering degree and the Navy's Officers' College. In addition to this, a series of courses in business management, strategy, leadership, and project management at, among others, Ashridge Business School, the University of Cologne, and the Norwegian Defense Academy. Current assignments include being Chief Business Development Officer at MilDef Group AB, Chairman of the board of MilDef USA, and MilDef UK, and a board member at MilDef Norge, MilDef International, and MilDef Sweden AB. Member of the board since 2022.</p>	Director	12,000	

Source: Redeye Research

### Management

Marie Bengtsson, Advenica's CEO (and currently also CFO) joined the company in 2014 as CFO. In January 2019, she stepped in as deputy CEO, followed by the role of acting CEO in 2020. She is the company's third CEO since its listing in 2015. We believe it is important that Marie remains in this position to create long-term stability in the CEO position. We suggest a new CFO should be recruited, freeing up more of her time to be CEO.

Management's skin in the game is on the light side compared with that of the board. We would like to see higher shareholdings among management as we believe this would validate the investment case.

Name	Position	Shares	Options
 <p><b>Marie Bengtsson</b> Born 1972. Bachelor in economics from the International University of Monaco. Marie has spent most of her career as a finance manager in various companies. Most recently, Marie worked at Fitness24Seven building their finance function. She also has an extensive interest in leadership and has therefore gone to several leadership education programs. Hired since 2014.</p>	<b>CEO &amp; CFO</b>	8,152	
 <p><b>Patrik Åkesson</b> Born 1976. Studies within Systems sciences at Lund University. Patrick has more than 15 years of experience in managerial roles at various technology companies. Prior experiences include managerial roles at Axis Communications and as an consultant at Prevas, Tieto, Sony Ericsson, and Purple Scout. Hired since 2021.</p>	<b>VP R&amp;D</b>	0	
 <p><b>Thomas Carnehult</b> Born 1968. Master of Science in Electrical Engineering from LTH and Product Management &amp; Leadership from Ericsson University. Thomas has vast experience in Portfolio &amp; Product Management and Cybersecurity his previous employments at Ericsson and RISE. Hired since 2020.</p>	<b>VP Product Management</b>	800	
 <p><b>Rickard Nilsson</b> Born 1976. Bachelor of Economics and Mechanical Engineering, Master in International Marketing from Gothenburg University. Rickard Nilsson has worked with sales of technical solutions within various industries and has long experience with leading local and international sales organizations. Rickard has worked at Trelleborg AB, Beijer Electronics AB, and Lenze SE. Hired since 2022.</p>	<b>VP Sales</b>	0	

Source: Redeye Research

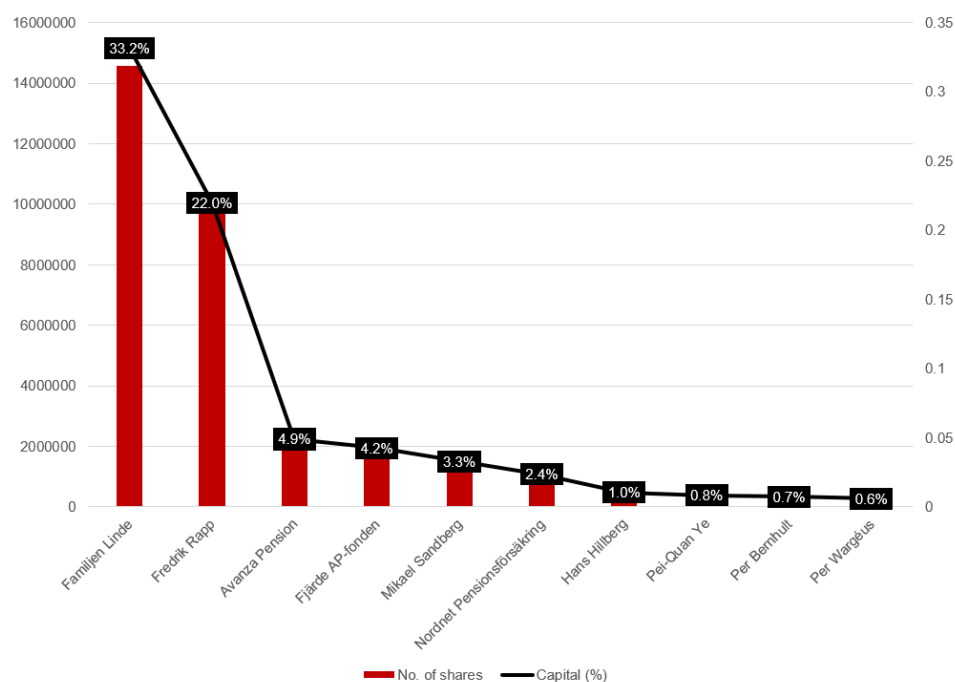
## Ownership

The second-largest capital owner is Fredrik Rapp, son of Johan Rapp, the founder of family-owned investment company Pomona Group. The group was founded in 1986 and is the largest owner in a number of holdings, with more than SEK2.2bn under management in around 24 companies. However, Fredrik Rapp holds shares in Advenica privately.

### Advenica: Shareholders

Owners	Number of shares	Value (mSEK)	Capital	Votes
Familjen Linde	14,582,966	119.1	33.15%	33.15%
Fredrik Rapp	9,668,273	79.0	21.98%	21.98%
Avanza Pension	2,152,849	17.6	4.89%	4.89%
Fjärde AP-fonden	1,869,400	15.3	4.25%	4.25%
Mikael Sandberg	1,442,423	11.8	3.28%	3.28%
Nordnet Pensionsförsäkring	1,039,105	8.5	2.36%	2.36%
Hans Hillberg	457,748	3.7	1.04%	1.04%
Pei-Quan Ye	372,286	3.0	0.85%	0.85%
Per Bernhult	324,216	2.6	0.74%	0.74%
Per Wargéus	255,000	2.1	0.58%	0.58%
Mikael Hägg	244,758	2.0	0.56%	0.56%
Per Höglund	227,617	1.9	0.52%	0.52%
Timo Järvinen	199,283	1.6	0.45%	0.45%
Försäkringsaktiebolaget Skandia	192,672	1.6	0.44%	0.44%
Johan Widén	157,500	1.3	0.36%	0.36%
Others	10,799,804	88.2	24.55%	24.55%

Source: Redeye Research &amp; Holdings (2022-03-30)

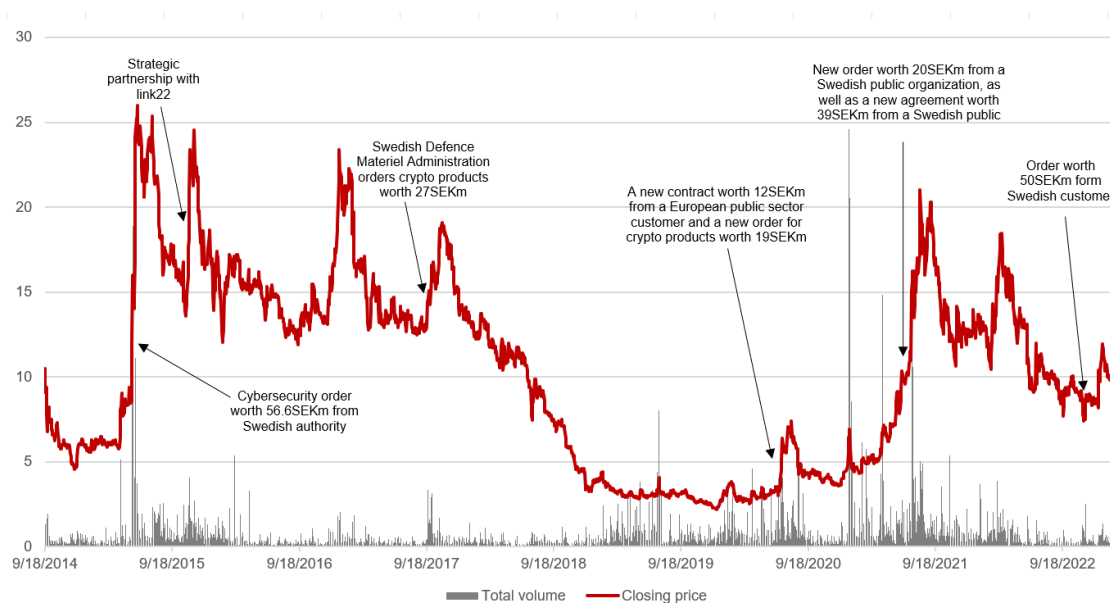


### Insider holdings

Insider holdings	Shares	%
Ove Linde	14,057,790	32.0%
Mikael Sandberg, Director	1,641,085	3.7%
Per Wargéus, Chairman of the board	255,000	1%
Anders Silwer, Director	33,600	0%
Ola Alfredsson, Director	12,000	0%
Marie Bengtsson, CEO&CFO	8,152	0%

### The share

Below, we provide a brief overview of the stock, in SEK, performance with highlighted milestones between 2014 and 2023.



## Background

Cybersecurity has become an increasingly critical issue in today's digital age. As businesses and individuals become more reliant on technology, the need for cybersecurity solutions has grown exponentially. Cyber-threats are constantly evolving and becoming more sophisticated, making it crucial for companies to prioritise cybersecurity to protect their assets and ensure their continued success.

Cybersecurity is the practice of protecting computer systems, networks, and digital information from theft, damage, or unauthorised access. Cyber-threats come in various forms, including viruses, malware, phishing scams, and hacking attacks. These threats can cause significant damage to a company, including through data breaches, financial losses, reputational damage, and legal liabilities.

In recent years, cyberattacks have become more frequent and sophisticated, with cyber-criminals using advanced tactics to gain access to sensitive information. The financial impact of cyberattacks is significant, with the average cost of a data breach for a company in excess of USD3m, according to the 2020 Cost of a Data Breach Report by IBM. This figure does not even account for the reputational damage that can result from a cyberattack, which can be difficult and costly to repair.

The growing reliance on technology and the increasing sophistication of cyber-threats make it imperative for companies to prioritise cybersecurity. Moreover, it is crucial for companies to follow directives from the European parliament and council-adopted regulations regarding cybersecurity standards. On 28 November 2022, a new cybersecurity EU directive 2022/2555 (NIS2 Directive) was adopted – an updated version of the first EU Directive on Network and Information Security (NIS Directive)<sup>1</sup>. NIS2 will most likely increase demand for cybersecurity solutions.

Advenica plays a critical role in this landscape by offering advanced encryption systems and products to protect assets, reduce the risk of cyberattacks, and ensure continued success in an increasingly digital world.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2555>

## Business strategy

In our view, Advenica's business strategy includes a combination of product leadership and customer intimacy, which we see as somewhat aligned. We believe it is necessary to be at the forefront of technology adoption to utilise market dynamics and continue providing high-level security products with a solid value proposition for customers. At the same time, we argue a strong product portfolio is essential in building customer closeness in the first place. We believe Advenica's product leadership strategy is confirmed by it being one of only four companies in the world with EU-approved SECRET classified VPN technology at the highest security level. Moreover, being a trusted supplier to the Swedish defence demonstrates its customer-intimacy strategy with tailored offerings for its specific needs.

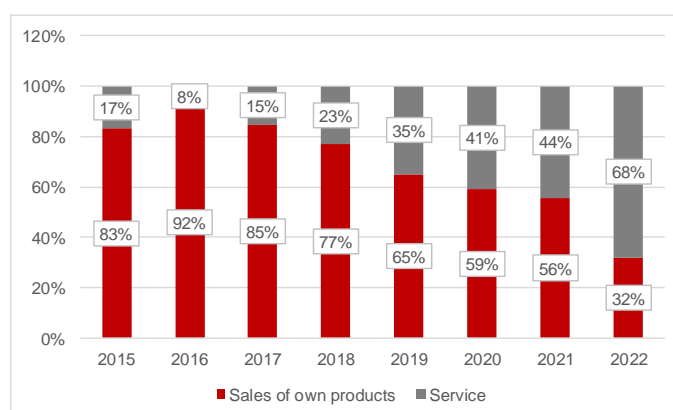
We believe the company has established an organic growth strategy by creating new untapped market opportunities, i.e., through internal growth. This strategy implies growth from three directions: (1) broadening the product portfolio to increase sales to new and existing customers, (2) increasing the traction in existing and new customer segments, such as critical infrastructure, and (3) continuing to execute the geographical expansion.

## Business model

Historically, Advenica has been a product-oriented B2B company with a business model based on a fixed compensation per development project and per delivered hardware product, with most of its sales stemming from defence customers. The business has been characterised by few but significant orders from the Swedish authorities, resulting in widely varying revenues q/q. This will continue to some extent in the future, as several of its customers place orders at the end of the year. Accordingly, we prefer to evaluate Advenica's sales from an LTM perspective.

As Advenica has broadened its operations and added customers internationally and beyond the defence segment, its revenues have increased, while its business seasonality has decreased. This has also been supported by a larger share of service revenues recently, growing from 17% of total revenues in 2015 to today's 68%. Its service offering includes maintenance contracts and other services, such as installations, analysis, and customer specific product development. The service business model varies from hourly consulting revenues to ongoing service contracts, which increases revenue predictability and potentially supports future margin improvements.

**Advenica: Sales per segment (%)**



Source: Redeye Research



According to management, it made a change to the business model in 2021 by starting to invoice contracts on a more long-term basis and using full-time resources to a greater extent, elevating billing efficiency. Typically, the company has approached customers via direct sales, while intending to extend its partnership ecosystem ahead. Because of the market complexity, all design, development, and production takes place in Sweden. By thus controlling every step from design to after-market, Advenica can offer high assurance.

**Product development is often financed directly by customers as they require advanced and specific customised solutions.** The typical timeline for a customer project is as follows:


**Pilot study:** Advenica analyses and identifies the security challenges for existing operations as well as zones and traffic flows to determine the correct security level.

**Design:** Advenica examines possible solutions and products that suit the customer's specific needs and provides a cost calculation and timetable for the subsequent phases.

**Development:** The products are developed according to the agreed requirements to meet the identified security needs. This step can sometimes be omitted, as the customer can use existing products and solutions with minor adaptations.

**Implementation:** The selected security solutions are deployed in the customer's environment, which means installation, configuration, and testing to ensure functionality.

#### The typical timeline of customer projects



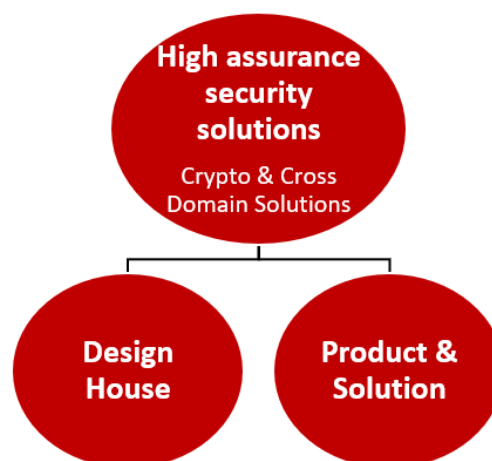
Pilot study	Design	Development	Implementation
Advenica analyses and identifies the security challenges in existing operations as well as zones and traffic flows to determine the correct security level.	Advenica examines possible solutions and products that suit the customer's specific needs and makes a cost calculation and a timetable for the subsequent phases.	The products are adapted to the agreed requirements to meet the identified security needs. This step can sometimes be omitted, as the customer can use existing products and solutions with minor adaptations.	The selected security solutions are deployed in the customer's environment, which means installation, configuration, and testing to ensure functionality.

Source: Redeye Research, Advenica

## Business segments: Design House and Product & Solutions

Advenica's business model is split into two areas: the **Design House** and **Product & Solutions**. In the former, Advenica works closely with its customers, often long-term and over extensive product cycles, developing products with close co-operation to suit the customers' specific needs. The Design House segment is characterised by larger, lumpy orders. As such, it can take Advenica 2–5 years to develop a new product in this segment, but the customer relationships can last long after completion, often up to ten years.

### Advenica's business model - Design House, and Product & Solution



*Source: Redeye Research, Advenica*

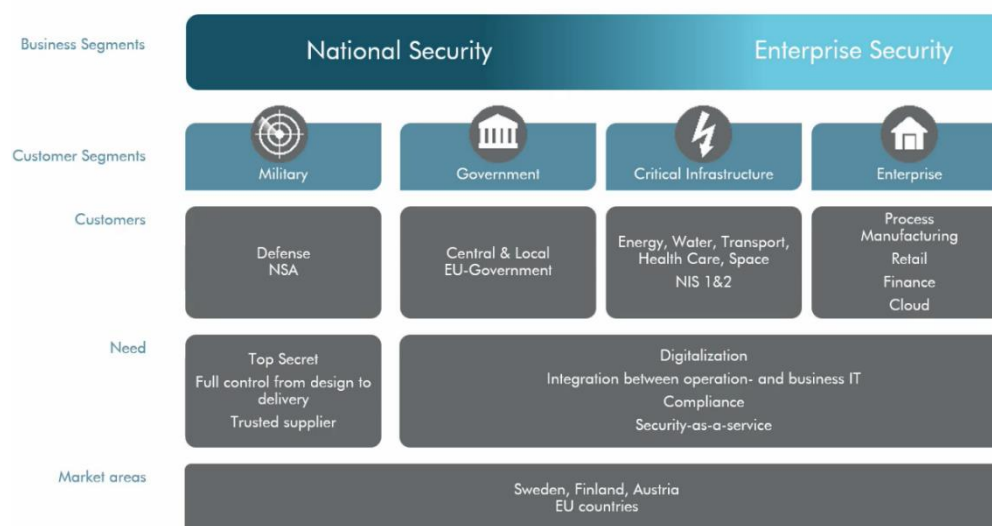
As its name suggests, Advenica's **Product & Solution** consists of products and solutions that can be offered stand-alone or as an integrated part of a comprehensive solution. Compared to the Design House segment, Product & Solution's hardware sales are easier to scale thanks to the lower complexity and more straightforward developing processes, although this typically also means lower prices.

We see both pros and cons with the Design House business model. First, customer specific product development builds long-term customer relationships. Second, we believe such customer solutions provide stickiness and create switching costs for customers – a positive for Advenica. Third, orders in the Design House are often more substantial than in Product & Solution. At the same time, the long development cycles and the complex products that customers demand could harm the scalability, meaning the segment largely grows linearly with the resources needed. However, we believe a very high percentage of the design house projects lead to finished products.

Among the pros and cons of Advenica's Product & Solution, we see some opposing characteristics to the Design House. As mentioned, Product & Solution has less complex product development phases and thus lower prices than the Design House, making the customer relationships less transparent. Accordingly, the products in this segment typically have a more extensive reach and a larger addressable market, making them easier to scale. As such, we believe Advenica's Product & Solution products can reach a broader range of industry segments and are easier to include in potential partnerships.

## Customer segments: defence and enterprise

Advenica's customer segments can be divided into national security (including defence and government customers) and enterprise security (primarily civil customers within critical infrastructure).



Source: Advenica

### Defence and security-related authority customers

Advenica has seen traction with defence and security-related authorities handling critical national security information. Such information is protected by secrecy and has legal security requirements. Information security is essential, as cyber-espionage and sabotage constitute significant and increasing threats to nations. There is thus scepticism towards foreign vendors owing to a risk of implemented vulnerabilities in hardware and software. This has reinforced the demand for domestic security solutions, especially for defence and civilian management systems at the highest security levels. Accordingly, Advenica has historically offered a solid product fit and value for such clients, with the Swedish FMV being a key reference customer.

In 2022, Advenica's defence segment accounted for 80% of its total revenues. Management anticipates solid growth prospects in this customer segment and has recently recruited an experienced industry salesperson to focus entirely on the defence segment, which we consider very positive. While Advenica does not disclose revenues from individual customers, we believe most of these revenues are generated by a few customers. We thus argue defence will remain its core customer segment and the most important for the company's future development.

The market around national classified information is complex and challenging for new players, with processes largely influenced by political interests and governed by regulations and legislation. It takes many years to gain the necessary knowledge of the solutions and an understanding of customers' operations; projects are typically long, with life cycles sometimes extending over 10 years. This creates high barriers to entry, further reinforced by the high-end technology and long product development cycles, both of which require significant experience and R&D investments. As such, we believe the market characteristics in this customer segment explain why Advenica, a Swedish player with high assurance, has been a trusted supplier to the Swedish defence authorities for a long time.

**Enterprise customers – targeting the critical infrastructure segment**

Another customer segment is enterprises with high requirements for secure communication, where privacy issues are central. Particularly interesting business avenues for Advenica are companies operating in critical infrastructure and the process industry – where information technology (IT) meets operational technology (OT). Advenica has focused on energy production and distribution players, where increased digitisation is bringing technology shifts. These companies' customers have high expectations for a modern, efficient service with high security requirements. At the same time, they are potential targets for cyber-threats, with such attacks posing considerable consequences and an impact on society if the necessary infrastructure was at stake. Advenica has recently increased its focus on this customer segment to meet the growing demand for security products and services. As such, we see considerable potential in this customer segment, as the awareness of cyber-threats, the need for reliable security solutions, and legal requirements drive demand.

## Products

Advenica's product portfolio includes two main areas: network segmentation products and encryptors.

The hardware product family consists of:

- Data diodes
- ZoneGuard
- Self-erasing USB memory
- Network encryptors (VPN)



As we have mentioned earlier, all development and production is performed in Sweden. Advenica has its own supply chain manager responsible for buying the right and approved components for its hardware products. However, one should note that the Swedish contract manufacturer assembles all components except the highest security level products, and Advenica finalises the mounting and test all products in-house before delivery to clients.

### Data diodes

Data diodes are security devices that enable one-way data transfer between networks. They work by physically separating two networks while allowing data to flow only in one direction, preventing any information from being sent back in the opposite direction. This means the receiving network is protected from any malicious or unintentional data transmission from the sending network.

These diodes offer several benefits, including increased security, a reduced risk of cyberattacks, and improved data protection. They are ideal for organisations that need to transfer sensitive data between networks with different security levels, such as military or government agencies, financial institutions, and critical infrastructure providers. By using data diodes, these organisations can ensure the integrity and confidentiality of their data without compromising their network security.

Advenica sells three different models of data diodes, all with the security level SECRET or higher.

	<p><b>SecuriCDS DD1000i:</b> unidirectional security gateway with software pre-installed. DD1000i includes integrated server hardware for proxy services and can be mounted in a 19" rack system. This model of data diode facilitates integration with existing data flows through proxy services that handle different types of high-level protocols.</p>
	<p><b>SecuriCDS DD1000A:</b> unidirectional data flow. DD1000A offers high performance in a small package. One or two DD1000As can be mounted in a 19" rack. DD1000A operates at Ethernet layer 2 and supports unidirectional protocols, such as UDP. By using external proxy services, data diodes can handle common communication protocols and translate them into unidirectional data flows.</p>



**Data diode DD1G:** unidirectional data flow. The DD1G series offers high-performance and secure data transfer for Ethernet layer 2. DD1G is an entry-level model without any software. By using external proxy services, data diodes can handle common communication protocols and translate them into unidirectional data flows.

### ZoneGuard



ZoneGuard works by creating secure zones in the network, separating critical assets from less critical ones and restricting access. It also monitors all network traffic, allow only specified information to pass and blocking any attempts to penetrate the secure zone. Additionally, it can generate alerts to security personnel when it detects any unauthorised activity, allowing them to respond quickly and prevent any potential harm.

A ZoneGuard, or security gateway, is a security solution designed to protect critical infrastructure and industrial control systems from cyberattacks and it is designed to provide cybersecurity for industrial control systems (ICS) and operational technology (OT) networks.

Advenica offers different ZoneGuard services to match the security levels of the defence customer or for (OT) enterprise customers.

### Self-erasing USB memory



Advenica offers a self-erasing USB memory used to transfer information between two different systems with an air gap. SecuriRAM is developed to self-erase after 24 hours of inactivity or through manual (by the user) or automatic erasing.

### Network encryptors

Network encryptors, including virtual private network (VPN) solutions, are essential tools for protecting sensitive data and ensuring secure communications over public networks like the internet.

VPNs work by establishing an encrypted connection between two devices, typically a client and a server, over the internet. This connection creates a secure “tunnel” that encrypts all data passing between the two devices, making it unreadable to anyone who may intercept it. VPNs also provide other security features, such as user authentication, data integrity verification, and network access control, to ensure that only authorised users can access the network resources.

They are widely used in businesses and organisations of all sizes to provide secure remote access to their network resources, as well as being popular among individuals who want to protect their online privacy and security while browsing the internet. A VPN hides an IP address, masks online activities, and bypasses censorship and geo-restrictions.

Overall, using network encryptors such as VPNs can help protect data and privacy, prevent unauthorised access to networks, and ensure secure communications over public networks. They are essential tools for anyone who values security and privacy in the digital age.

Advenica provides a range of network encryptors that offer varying levels of security, tailored to the specific needs of its clients. The SecuriVPN ISA and Arana have been developed in association with the Swedish FMV to meet the security level demanded by governments and military organisations in Sweden and elsewhere in the EU.

	<p><b>SecuriVPN Arana</b></p> <p>SecuriVPN Arana is a quantum-secure IP encryption system and a solution for tactical and strategic defence measures. It has been developed in collaboration with FMV and Swedish Defence Forces to meet certain security requirements and is approved for government and military organisations in Sweden and elsewhere in the EU. The solution is suitable for both permanent and temporary installations, for example, in crisis situations. Arana can be used for security level SECRET and TOP SECRET.</p>
	<p><b>SecuriVPN ISA</b></p> <p>VPN ISA is a product for governments and large enterprise clients. It has the same features as ARANA but Advenica can produce crypto keys without FMV approval and thus sell it to non-defence clients. ISA can be used for security level SECRET.</p>
	<p><b>SecuriConnect</b></p> <p>SecuriConnect is built on the same technology as ISA but has more underlying software installed. SecuriConnect used for the security level RESTRICTED.</p>

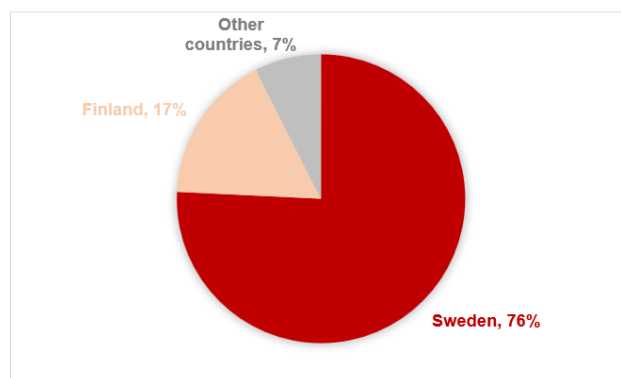
In summary, network encryptors and VPNs primarily focus on securing data transmission, while ZoneGuard and security gateways aim to protect network infrastructure from unauthorised access and cyber-threats.



## Geographical exposure and go-to-market strategy

Advenica has achieved a stable base of revenues in Sweden and has also moved into the Finnish and Austrian markets. In 2022, Sweden accounted for 76% of Advenica's revenues and Finland for 17%, while Austria, including other markets, accounted for 7% of total revenues.

**Advenica: Sales per region %**



Source: Redeye Research

Advenica's go-to-market strategy in Finland and Austria has been to approach the respective countries' defence authorities and other security-classified authorities, mainly through direct sales. As with its strategy in Sweden, the company also aims to target customers in critical infrastructure in these countries. Both countries are suitable markets for Advenica, as they lack domestic suppliers of advanced security solutions. For example, Austria's Wiener Netze, one of the country's most prominent energy companies, has been an important reference customer since 2019. Given Advenica's traction in Finland and Austria, we believe its geographical expansion strategy has been successful so far, although the company aims to expand it further.

Looking beyond its current markets to possible markets ahead, we see that Germany, France, the UK, and Italy have established relationships between domestic manufacturers and authorities that Advenica considers challenging to break through in the short to medium term. The company has thus chosen to focus its resources on smaller EU countries that lack a strong domestic encryption industry or where Advenica can complement domestic suppliers. In addition, these countries are often more eager than larger countries to apply the EU guidelines for classified information, and the competition is typically lower in these smaller countries. While we believe Advenica will still focus on its current markets and expand further in these countries, we believe its long-term geographical expansion plans would most likely include the Netherlands, Slovenia, and Croatia, for example.

### Future growth opportunities and drivers

Historically, Advenica has focused heavily on technology development and customer relationships, as seen in its solid reference customers. At the same time, we believe the large share of its resources assigned to R&D and the complexity of the market (given the regulations and politics) have hindered its sales and marketing opportunities. As such, we note the company has found it somewhat challenging to scale its products. However, we see solid organic growth prospects thanks to several internal growth opportunities and market tailwinds. Moreover, we believe Advenica's cash position of SEK88m as of Q1 2023 implies it can increase its growth investments in sales, marketing, and product development.

We see the following primary future growth drivers for Advenica:

**Broadened product portfolio:** Advenica has continued to expand its product portfolio and solutions, as seen in the recently increased share of service revenues. We believe its aim is to broaden its the offering further while scaling its products into other customer segments to increase growth opportunities. For example, Advenica launched a new version of its ZoneGuard in November 2022. Moreover, as Advenica continuously works on its product pipeline, making significant R&D investments, we expect an improved and updated product portfolio.

**Growth through partnerships:** By providing products as a subcontractor to major IT and security players, Advenica can gain further growth opportunities. Its products can be integrated into more significant players' comprehensive solutions, providing supportive sales while widening its market reach. For example, Advenica collaborates with Axis Communications on customised security solutions for customers in surveillance networks, offering the highest level of cybersecurity. Another opportunity could be partnering with similar market players to reach new geographical markets and customer segments. According to management, its aim is to target partnerships on the product level to integrate its products into comprehensive solutions. We consider partnerships an untapped potential for a small player like Advenica with its relatively limited resources to expand its products' reach cost effectively.

**Ongoing growth in the defence segment:** Considering today's uncertain security environment and increased geopolitical unrest, there are further growth opportunities in the defence segment. We see this as a likely growth driver, as Advenica already has significant traction there. In addition, the increased geopolitical uncertainty can also prompt expanded national defence budgets – another potential growth driver for its defence segment.

**New customer segments with significant needs:** The awareness of and the need for security solutions in industries other than defence are increasing, especially in the critical infrastructure space. This is further strengthened by growing legal requirements, which could drive significant investments in such sectors. Despite increased traction in this customer segment, we believe there is considerable addressable market potential here.

**Continued geographical expansion:** Beyond Sweden, Advenica is currently established in Finland and Austria, offering further growth opportunities in these markets' defence and critical infrastructure customer segments. While the company sees continued solid growth prospects in both these countries, we do not judge Advenica's internationalisation as limited solely to Finland and Austria, as it has entered into agreements with authorities in other European countries.

## Moats

In our opinion, Advenica's competitive advantage relies mainly on switching costs and offering the highest security level products. The company is one of only four companies in the world with EU-approved SECRET VPN technology at the highest security level and is a well-known, trusted supplier to the Swedish defence authorities. Customer relationships are thus entrenched, with long product cycles and development phases, often in close collaboration with customers. Accordingly, we believe this creates switching costs when customised products are implemented into the customers' IT infrastructure and day-to-day business. We see both economic and physical switching costs stemming from the long-term product development cycles, as switching to another provider would imply high replacement costs and time losses for the customer.

Another competitive advantage is its intangible assets. Advenica holds patents for its proprietary technology, Three Domain Separation, in the US. Its EU-approved VPN technology implies the highest level of security. We argue that such patents and approvals further confirm the company's robust product portfolio and in-house capabilities, serving as a competitive advantage while creating barriers to entry for competitors.

**Value proposition**

By offering countries, authorities, and companies effective cybersecurity solutions, Advenica's products and services enable businesses to take full advantage of digitalisation without compromising integrity and confidentiality. The company's unique solutions protect the most critical information during transmission between computers and networks, decreasing the ever-present risk of cyberattacks.

The recent increase in threats and uncertainty worldwide has increased awareness of the importance of properly handling critical data. We have seen several costly examples of data falling into the wrong hands, which will likely only grow in the future owing to increased digitalisation. This suggests clear incentives to reduce the risk of cyber threats, and Advenica offers a solid product fit to mitigate this risk. Furthermore, by working proactively, its solutions can save substantial customer costs and damages, further strengthening the value proposition.

## SWOT

We here provide a SWOT analysis of the current and potential impacts on Advenica's business – both internal and external.

### Strengths

- One of only four companies in the world with EU-approved SECRET VPN technology at the highest security level (strong in-house capabilities).
- Close product development with customers builds good relationships and switching costs owing to long product life cycles.
- Healthy track record of organic growth with a solid order book at present.
- The product has a clear value proposition: to protect customers' most critical data.
- Strong gross margins of ~84%.

### Weaknesses

- Large customer concentration (the defence segment accounts for ~80% of its revenues).
- Lumpy revenues as customers often place orders that are delivered and invoiced at the end of the year (Q4).
- A small player compared to some of its competitors (with relatively lower available absolute spending on R&D).
- Unprofitable in its current phase.
- Low insider ownership among management.

### Opportunities

- Market with structural growth thanks to increased digitalisation and awareness of cybersecurity threats.
- Increased military spending among nations can drive the overall market.
- Market expansion, both into new geographical markets and new customer segments, such as critical infrastructure.
- An expanded and improved product/services portfolio.
- Legislation can imply increased cybersecurity spending.
- Higher demand due to adoption of NIS2.
- Swedish NATO membership.

### Threats

- Foreign governments/customers favouring domestic vendors.
- Competition from larger players with more substantial financial muscle.
- Regulations and political agendas can change the market.
- Acquisitions among competitors can weaken the market opportunities.

## Customers

Advenica is a pure B2B with a tilt towards government agencies, armed forces, security services, critical infrastructure, and the healthcare and private sectors. Due to the sensitive nature of Advenica's customers, there is no exact information about the specific clients, but Advenica has around 70–80 clients, split between Sweden, Finland, Austria, and the Netherlands.

One of its largest customers is the Swedish Defence Materiel Administration (FMV).

### Swedish Defence Materiel Administration (FMV)

FMV procures and develops materials and services for the Swedish armed forces, including fighter planes, submarines, radar systems, armoured vehicles, and personnel equipment. Experts with diverse competencies drive projects from initiation to delivery, and these vary in duration from a few months to several years.

Before handing over the equipment to the armed forces, FMV tests this at its own test sites. Vehicles, weapons, and command systems are checked for technical specifications and capabilities that meet the requirements, and to ensure the armed forces can effectively carry out their missions with the equipment.

FMV is a governmental agency acting under the Ministry of Defence and is split into seven different divisions:

- Army systems
- Navy systems
- Aerospace systems
- Command and control systems
- Logistics
- Test and evaluation
- Commercial affairs

As the geopolitical situation has changed recently owing to Russia's invasion of Ukraine and the subsequent higher defence spending, along with Sweden's pending application for NATO membership, FMV is now accelerating product development, increasing orders for military materiel, weapons, and defence systems. During 2022, FMV placed orders for a value of SEK36.4bn, a 95% increase compared with the year before.

During 2022, FMV made 416 new hires, resulting in a net growth of 221 employees. This year FMV has a significant focus on ensuring access to employees with the right competencies. As of late May 2023, FMV has 50 open job positions.

We argue this increase in defence spending will continue for many years, with ongoing high demand in the cyber-security area. This puts Advenica in a very desirable position in the coming years thanks to its long co-operation with FMV over the past 20 years.

## Market overview

The global cybersecurity market is projected to **grow at a CAGR of 13.4% until 2029**<sup>2</sup>.

Geographically, the market for cybersecurity solutions is not limited to a specific region or country. Cybersecurity is a global issue, and organisations around the world require such solutions to protect their digital assets. However, the market for cybersecurity is more mature in developed regions like North America and Europe, where organisations have been investing in cybersecurity for several years. By contrast, emerging economies in Asia and Latin America are seeing significant growth in demand for cybersecurity solutions, as more organisations become digitised.

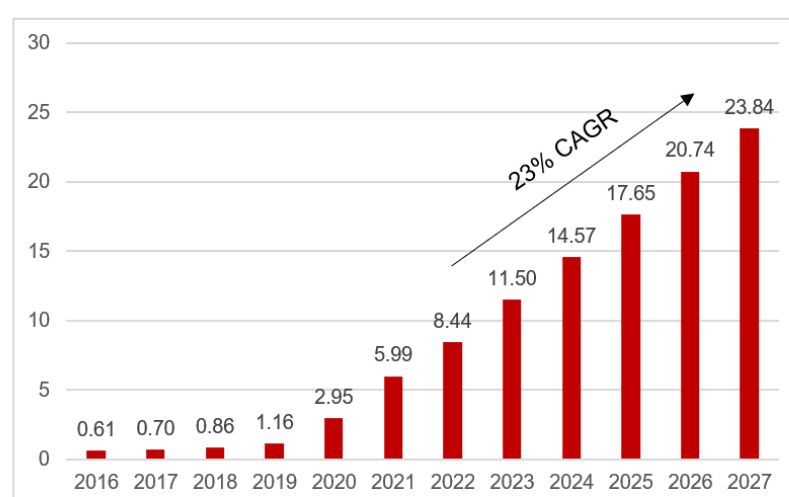
The cybersecurity industry encompasses a wide range of products and services, including network security, endpoint security, cloud security, and identity and access management. The industry has grown to include various players, including traditional IT companies, startups, and specialised cybersecurity firms. Moreover, it is continuously evolving to keep up with the latest threats, technologies, and regulations.

The market for cybersecurity solutions exhibits structural growth, as the need for cybersecurity is not going away anytime soon. The frequency and sophistication of cyberattacks are increasing, and organisations are becoming more aware of the need to protect their digital assets. The COVID-19 pandemic has also accelerated the adoption of digital technologies, creating even more demand for cybersecurity solutions.

### Cybercrime

According to the Global Risks Report (2021) by the World Economic Forum, cyberattacks rank among the most probable and impactful risks coming years<sup>3</sup>. Estimates by Statista, National Cyber Security, FBI and IMF suggest cybercrime will see a CAGR of 23% over the next five years, primarily due to a rise in state-sponsored and organised hacking activities and a larger cyberattack surface.

**Estimated cost of cybercrime, in trillion USD**



Source: Statista, National Cyber Security Organizations, FBI - Federal Bureau of Investigation, IMF

<sup>2</sup> <https://www.fortunebusinessinsights.com/industry-reports/cyber-security-market-101165>

<sup>3</sup> <https://www.weforum.org/reports/the-global-risks-report-2021/>

To put this into perspective, if measured as a country, global cybercrime would be the world's third-largest economy, following the US and China.

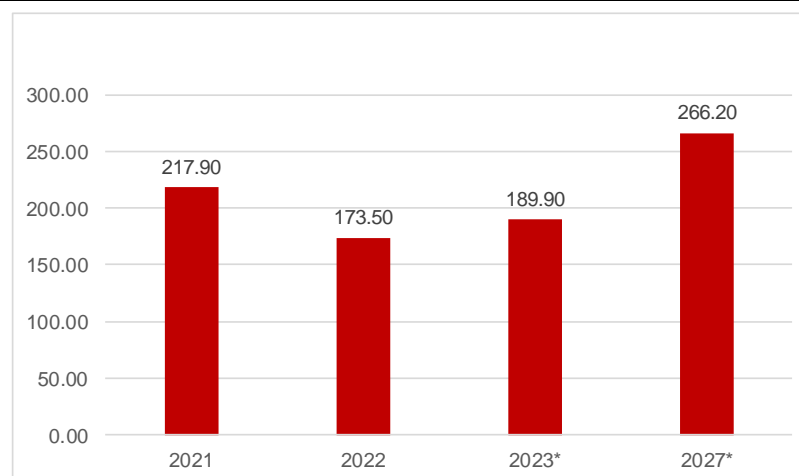
### Most common types of cyberattacks

1. **Phishing:** A phishing attack is an attempt to trick an individual into sharing sensitive information, such as login credentials, by posing as a trustworthy entity in an email, text message, or other communication. The goal of a phishing attack is to gain access to the victim's personal or financial data.
2. **Malware:** Malware is a type of software designed to harm a computer system or network. This can include viruses, worms, and Trojans, which can steal sensitive data, damage files, or even take over a device.
3. **Ransomware:** Ransomware is a type of malware that encrypts a victim's files or locks them out of their device, making this inaccessible until a ransom is paid. This type of attack can be devastating for businesses, governments, and individuals alike.
4. **Denial of Service (DoS):** A DoS attack is an attempt to overwhelm a website or network with traffic, making it unavailable to users. This can be done by flooding the target with traffic or exploiting vulnerabilities in the system.
5. **Man-in-the-middle (MITM):** In a MITM attack, a hacker intercepts communications between two parties, such as a user and a website, to eavesdrop on sensitive information or alter the content of messages. This can be done by intercepting unencrypted data or by exploiting vulnerabilities in the communication channel.
6. **SQL Injection:** SQL injection is a type of attack that exploits vulnerabilities in web applications to gain unauthorised access to a database. This can allow a hacker to steal or modify sensitive information, such as usernames and passwords.
7. **Password attacks:** Password attacks involve attempting to gain access to a system or account by guessing or cracking a user's password. This can be done through brute-force attacks, in which a hacker tries every possible combination of characters until the password is discovered, or by using a list of common passwords or stolen password data.

### Cybersecurity market

As a result, the demand for cybersecurity products will also surge in line with the growing frequency, scope, and intensity of cyberattacks. Consequently, the size of the global cybersecurity market is forecast to grow by a CAGR of 6.9% to USD266.2bn by 2027.

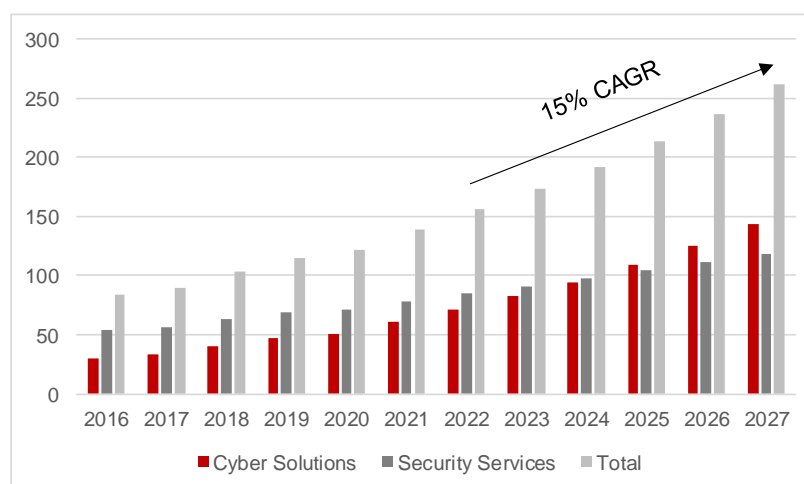
#### Size of the cybersecurity market worldwide 2021 to 2027, in billion USD



Source: Statista (\* est)

Breaking down revenues by segment between cyber-solutions and security service, these are largely evenly split in 2023, with cyber-solutions expected to grow slightly faster until 2027. In total, revenues by segment are estimated to grow at a CAGR of 15% until 2027.

#### World wide revenue by segment, in billion USD



Source: Statista

**Cyber-solutions** refer to the technical products or software tools designed to protect computer systems and networks from cyber-threats. These solutions can include firewalls, anti-virus software, intrusion detection systems, encryption software, and other security tools.

On the other hand, **security services** refer to the human-led services that provide security measures, such as risk assessments, vulnerability testing, security consulting, incident response, and monitoring of cyber-threats. Security services may also include managed security services, which involve outsourcing the management of a company's cybersecurity to a third-party provider.

In summary, cybersecurity is a critical issue in today's digital age, with the market for such solutions spanning the globe. While this is more mature in developed regions, emerging economies are experiencing significant growth in demand for cybersecurity solutions. The industry encompasses a wide range of products and services, and it is continuously evolving to keep up with the latest threats, technologies, and regulations. Given structural growth driven by the increasing frequency and sophistication of cyberattacks, the market for cybersecurity solutions is expected to continue to grow for many years to come.



## Competitive landscape

### Security classifications and competitors

Competitors can be segmented depending on the security classification levels of the products they produce and on received certification in the EU. Overall, there are four levels, from Top Secret down to Restricted. The common denominator is that the products need to be developed within the EU. Number five on the list, Unclassified, is technical rather than a classification level and is used to name commercial documents and secrets as personal data or company secrets.

1. Top Secret
2. Secret
3. Confidential
4. Restricted
5. Unclassified

#### Top Secret

Highest classification level of information on a national level. If this information is leaked to the public, it would cause "extremely serious injury" to national security.

#### Secret

If this information is leaked to the public, it would cause "serious injury" to national security.

#### Confidential

If leaked, this information would cause "harm" or be harmful to national security. This classification level is not available in all countries.

#### Restricted

If this information were leaked to the public, it would cause an "unwanted effect" to national security.

As Advenica's clients are within the EU, we will only evaluate competitors also active in European markets.

#### EU-approved companies with the highest classified products

**Thales** is a listed French company with more than 40 years of cybersecurity expertise. It is a multinational company with a market cap of EUR28bn and annual sales of EUR17bn. The French state holds 25.7% of the shares in the company. Thales offers VPN products at the highest security classification.

Thales offers cybersecurity solutions covering six markets:

- Defence and security
- Digital identity and security
- Aerospace
- Space
- Transport
- Market-specific solutions

**Secunet Security Networks** is a listed German cybersecurity company that manufactures hardware and secure network solutions. Secunet offers VPN products at the highest security classification. Its market cap is EUR1.5bn, with annual sales of EUR325m. Secunet covers five areas:

- Healthcare
- Industry, Utilities & Mobility
- Border Control, Police & Security Authorities
- Authorities, Administrations & Ministries
- Defence & Space

It recently acquired SysEleven GmbH, a provider of cloud infrastructure, cloud services, and managed service, for EUR50m.

**Leonardo S.p.A** is an Italian multinational offering solutions in aerospace, defence, and security. It is not a direct competitor to Advenica as it develops and produces helicopters, satellites, rockets, and components for space, but it also offers VPN solutions at the highest security classification. It was founded in 1948 and has 180 sites worldwide. The company is listed, holds a market cap of EUR6.4bn, and had sales of EUR14bn in 2022.

**Rohde & Schwartz** is a private German company with 13,000 employees in 70 countries, generating revenues of EUR2.5bn. It was founded in 1932 and specialises in several fields:

- Test and measurement
- Aerospace and Defence Security
- Broadcast & Media
- Cybersecurity & Networks

In the cybersecurity area, it offers endpoint security, management systems, network encryptions, and secure web browsers.

**Sectra** is a Swedish listed company with a market cap of EUR3bn and sales of EUR200m. Although Sectra's main products are in medical technology, it also develop and sells encrypted communication system and is the developer of RAKEL, a communications system used by a number of Swedish authorities (the police authorities, customs agency, armed forces, the fire department, and the coastguard, among others). Sectra is active in two areas:

- Medical imaging IT
- Cybersecurity

In the latter, Sectra offers secure communications and solutions for critical infrastructure. It is a direct competitor to Advenica here, as it sells a number of VPN and encryptions products:

- Secure mobile VPN up to Restricted
- Secure smartphone up to Restricted
- Mobile communication up to Top Secret
- Sectra Wire – Secure digital collaboration

**C-Resiliens** is a Swedish cybersecurity company that designs turnkey and user-friendly digital solutions for operations sensitive to security. In March 2023, C-Resiliens acquired Tutus, a privately owned Swedish company.

Tutus was founded in 1992, specialises in developing top-tier network encryption solutions for military, government, and business operations requiring secure communication. It partners with corporations and government bodies to provide reliable, secure, and encryption solutions tailored to their security needs. Its products are approved at the Restricted/Confidential level within both the EU and internationally.

In 2022, Tutus generated revenues of more than SEK210m, with EBIT of SEK40m. Its clientele comprises defence, government agencies, and businesses in Sweden and the EU.

**AEP Networks** provides network gateways, remote access encryption, secure data, and voice communication to more than 5,000 organisations worldwide. AEP offers VPN solutions at Confidential level. It was acquired by Ultra Electronics in 2011 for USD57.5m. Ultra Electronics is a UK-based defence conglomerate founded in 1920. In 2022, Ultra Electronic was itself acquired by Cobham Limited, a UK-based defence, aerospace, and communications company founded in 1934 that had been bought by US private equity firm Advent International in 2019.

#### Nordic competitors with lower-classification products

**SSH Communication** is a Finnish listed cybersecurity company with a market cap of EUR76m. SSH secures critical data and communication between systems, applications, and people with a range of products. SSH's focus is on software solutions, and it does not offer any hardware products. Its software products are at security levels Confidential and Restricted.

**Clavister** is a listed Swedish company offering own-developed cybersecurity software such as firewalls, secure SD-WAN, identity and access management (IAM), and cyber-armour. In early 2021, it announced a customised defence order from BAE Systems/Hägglunds with a value of EUR5m in the cyber-armour segment. Clavister's market cap is EUR20m.

**F-Secure** is a globally operating listed Finnish cybersecurity company with a market cap of EUR560m. It was founded in 1988. Its main products are antivirus software, secure VPNs, internet security, and password management.

**Nixu** is a Finnish company that provides a wide range of cybersecurity consultancy services and continuous services. It sells licences to both business enterprises and the public sector, with Sweden as its largest market, followed by Denmark and Finland in terms of sales. Its market cap is EUR95m. On 16 February 2023, DNV, the global quality assurance and risk management provider, announced an offer to acquire Nixu for a total equity value of EUR98m.

**Yubico** is a multi-factor authentication cybersecurity company that specialises in producing hardware security keys and two-factor authentication (2FA) devices. Yubico's security keys and 2FA devices support a range of authentication protocols, including FIDO2, U2F, and OTP, making them compatible with a variety of platforms and services. Its products are used by individuals and organisations around the world, including major tech companies, government agencies, and financial institutions. Special purpose acquisition company (SPAC) Bure acquired Yubico for USD800m in April this year.

In summary, Advenica's competitors can be segmented based on the security classification levels of their products in the EU. These competitors are active in European markets and offer products ranging from Top Secret to Unclassified security classifications. Key competitors with the highest classified products include Thales, Secunet Security Networks, Leonardo

S.p.A, Rohde & Schwartz, and Sectra. AEP Networks is another competitor, offering VPN solutions at the Confidential level.

Nordic competitors with lower-classification products include SSH Communication, Clavister, F-Secure, and Nixu. These companies offer a range of cybersecurity products and services, such as firewalls, secure VPNs, IAM, antivirus software, and internet security.

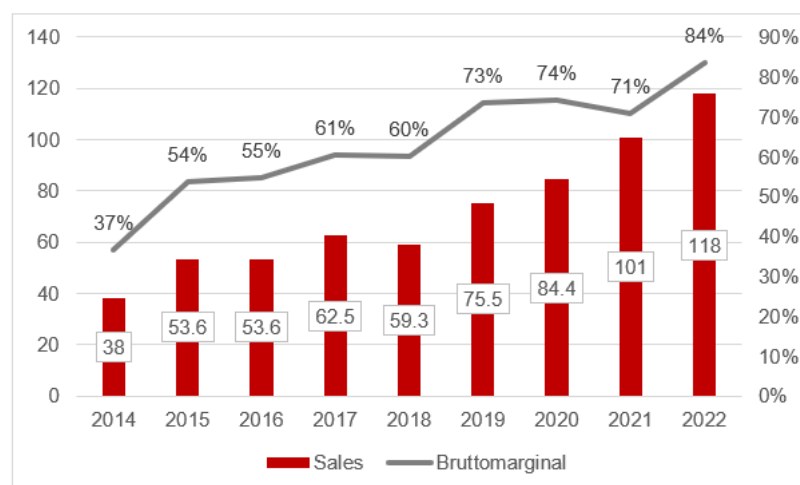
Overall, Advenica faces competition from a variety of companies offering diverse cybersecurity solutions across different security classification levels.

## Financials

Advenica's revenues have increased at a steady pace since 2014, with improved gross margins. Its gross margin for full-year 2022 came in at 84%, up from 54% in 2015.

### Sales and gross margin

**Advenica: Sales (MSEK) and Gross Margin (%)**

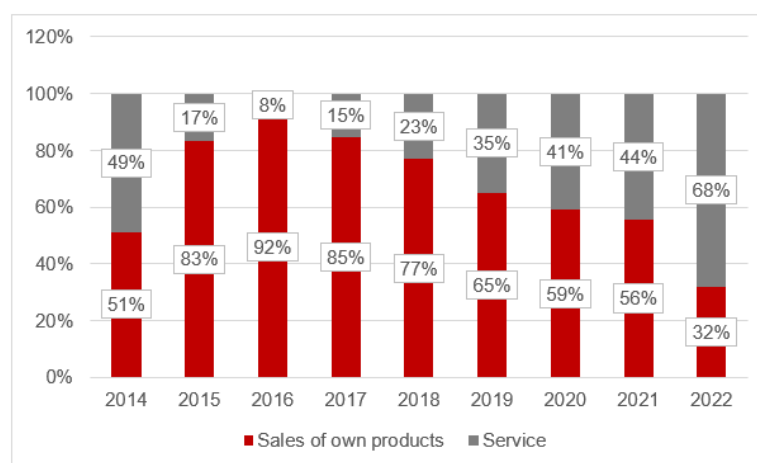


Source: Redeye Research

There are three reasons for this increase:

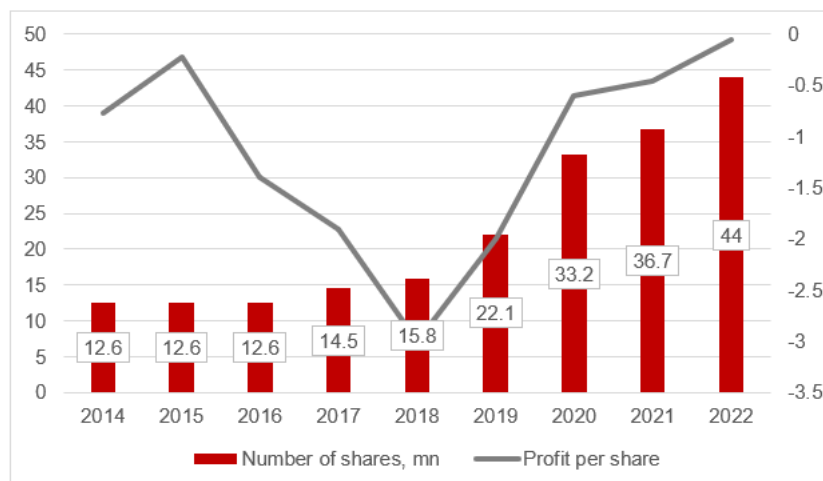
- (1) The number of external consultants has decreased to eight over time, so roughly 10% of full-time employees. In 2018, external consultants accounted for 44% of total personnel expenses in R&D. Management has a goal of 10% external consultants.
- (2) The product mix between hardware and service has shifted towards the latter (with better margins) and is today 68%. In 2018, services only accounted for 23% of sales.
- (3) In the Design House business arm, developing products together with clients, education, and integration of software has increased, implying a shift away from pure hardware sales. Overall, the shift from sales of own products has decreased from 92% in 2016 to 32% in 2022.

## Sales per business segment

**Advenica: Sales per segment (%)**

Source: Redeye Research

Taking into account the increase in the number of shares with the dilution effect following share issues over the years, the average growth per share has been negative at 6.3% for the past seven years. The number of shares has increased by 29% every year since 2018.

**Advenica: Number of shares (M) and Profit per share (SEK)**

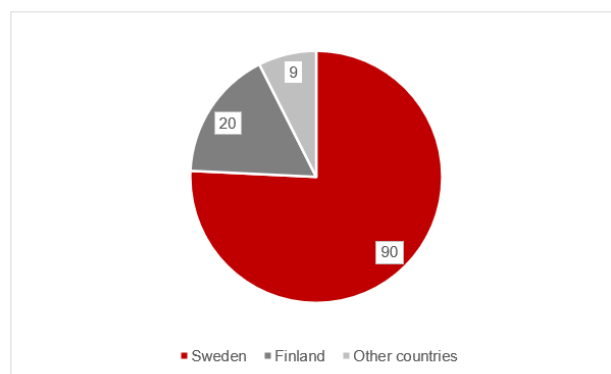
Source: Redeye Research

However, profit per share has improved since 2018 and is now close to turning positive.

### Sales per region

Sales per geographical region are heavily tilted towards Sweden at 76%, followed by Finland at 17%, and other countries at 7%.

**Advenica: Sales per region (MSEK)**

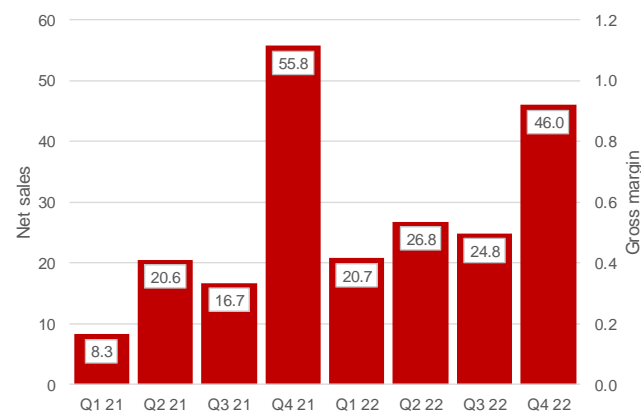


Source: Redeye Research

### Quarterly cyclicalities

Sales between quarters are very inconsistent, with a clear seasonality in Q4 stemming from an end-of-year effect when public and armed forces' defence budget spending typically comes.

**Advenica: Net Sales (MSEK)**

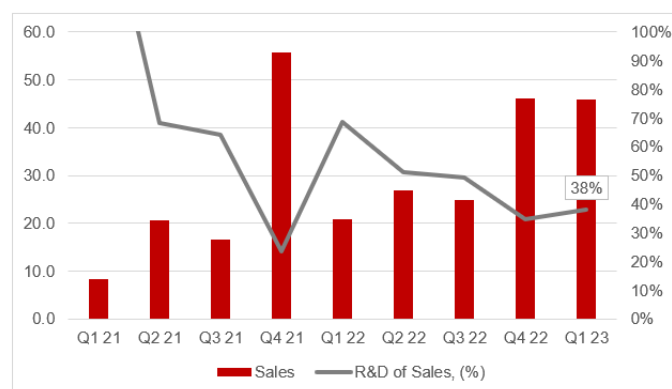


Source: Redeye Research

## R&D

Like most cybersecurity companies, Advenica spends considerable resources on R&D. The company develops its own products, but the majority of its R&D spending goes to developing products together with clients, at approximately 80%, through the Design House business arm.

**Advenica: Sales (MSEK) and R&D of Sales (%)**



Source: Redeye Research

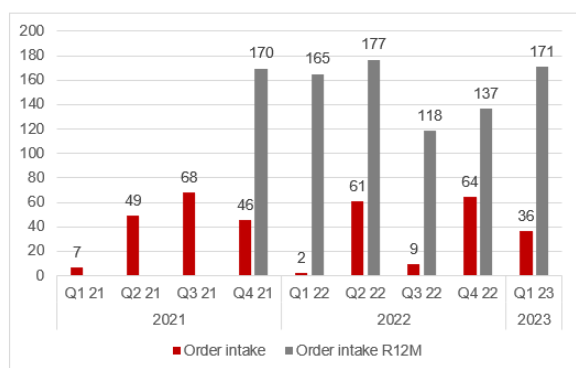
Since Q3 2021, R&D has averaged ~50% of sales, which is in line with peers. In the most recent reported quarter (Q4 2022) R&D spending was at 35%, implying a slight increase in coming quarters.



## Financial estimates

Order intake was solid during 2022 at a total of SEK136.9m, and so far in 2023, it is SEK36m. R12M y/y was up from 16% to 25% in Q1 2023.

Advenica: Order Intake (MSEK)



Source: Company data & Redeye Research

Advenica: R12M Order Intake, Y/Y (%)



Source: Company data & Redeye Research

During 2021, total order intake amounted to SEK170m, versus revenues at SEK101m, thus representing 59% of revenues. In 2022, this percentage increased to 86%.

Estimating future quarterly or annual revenues based on order intake is challenging due to the varying structure and delivery timelines of the announced orders. As a rule of thumb, orders for both hardware and service are, according to the company, split at roughly 70% hardware and 30% software.

To make an approximation, we analyse the information provided in press releases, taking into account the size and delivery duration of the orders. We estimate the cumulative order value will contribute approximately SEK8m per quarter over the next two years with current order book, i.e., 2023 and 2024. This represents around 7–8% of revenues and accounts for roughly 50% of our projected annual growth. **Order intake is important to monitor for the investment case.**

## Annual financial estimates for 2023e–2026e

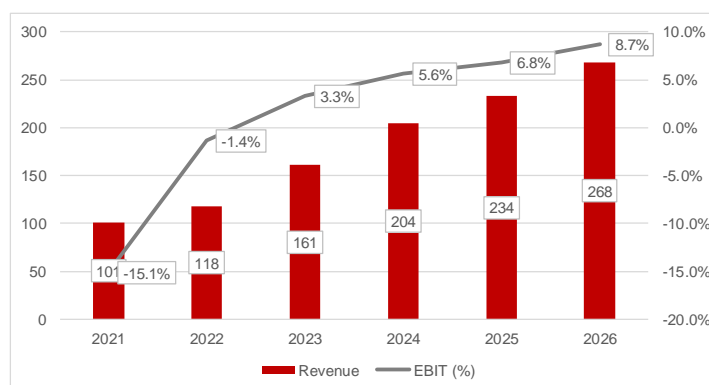
Redeye estimates a revenue CAGR of 16% for 2023e–2026e, with the gross margin stable at 84%.

Advenica: Estimates										
(SEKm)	2021	2022	Q1 23	Q2 23E	Q3 23E	Q4 23E	2023	2024	2025	2026
Sales	101	118	46	31	28	57	161	204	234	268
COGS	-29	-19	-7	-5	-4	-10	-26	-34	-38	-44
Gross Profit	72	99	38	26	24	47	135	171	195	224
Total opex	-94	-103	-30	-27	-24	-49	-130	-160	-180	-201
EBITDA	-15	-2	8	-1	0	-2	5	11	15	23
EBIT	-15	-2	8	-1	0	-2	5	11	16	23
EPS (SEK)	-0.5	0.0	0.2	0.0	0.0	-0.1	0.1	0.3	0.3	0.5
Total Revenue Growth, %	#DIV/0!	12%	112%	12%	11%	22%	34%	27%	14%	15%
Gross margin, %	71%	84%	84%	84%	85%	83%	84%	84%	84%	84%
EBITDA-margin, %	-15%	-1.4%	17.8%	-2.9%	-1.5%	-3.5%	3.0%	5.4%	6.6%	8.6%
EBIT-margin, %	-15%	-1.4%	18.1%	-2.6%	-1.2%	-3.2%	3.3%	5.6%	6.8%	8.7%

Source: Redeye Research

We expect the EBIT margin to turn positive during 2023 and then to gradually over time improve to ~9%.

Advenica: Sales (MSEK) and EBIT-margin (%)



Source: Redeye Research

## Valuation

Our valuation of Advenica stems from a classic DCF model based on Redeye's estimates. We have used a WACC of 10.5% based on our rating in all three scenarios – base, bull, and bear cases.

### Base case: SEK13

In our base case, we assume FMV will remain Advenica's largest client for the foreseeable future, while new government and private costumers will increase over time. Continuously stable order intake will smooth out future revenue and support organic growth. We anticipate a scaling effect to kick in to improve ebit-margin towards 7-9% in the long run.

DCF assumption in Base case				
Assumptions:	2023-2027	2028-2032	DCF-Value	
Sales CAGR	21.1%	15.6%	WACC	10.5%
Avg. EBIT margin	7%	8.8%	NPV of FCF	225
			NPV of Termir	268
Terminal				
Terminal growth	3.0%		Sum of NPV	493
Terminal EBIT margin	9.0%		Net Debt	(92)
			Equity value	585

*Redeye research*

Revenues for 2023: SEK161m

Revenue CAGR for 2023–2027: 21%

Terminal growth: 3%

Avg. EBIT margin for 2023–2027: 7%

Terminal EBIT margin: 9%

### Bull case: SEK18

The demand for cybersecurity solutions is stronger than anticipated and Advenica can sell new products at volume. Given the cost structure in place, business scaling kicks in and Advenica becomes profitable with better margins.

Revenues for 2023: SEK166m

Revenue CAGR for 2023–2027: 23%

Terminal growth: 3%

Avg. EBIT margin for 2023–2027: 7.5%

Terminal EBIT margin: 11%

### Bear case: SEK7

Due to higher competition after Sweden joins NATO, FMV places fewer orders owing to its own increasing in-house development, and demand drops, with dampened revenue growth. The bear case also incorporates share dilution of 40% after multiple share issues.

Revenues for 2023: SEK136m

Revenue CAGR for 2023-2027: 16%

Terminal growth: 3%

Avg. EBIT margin for 2023–2030: 6%

Terminal EBIT margin: 3%

## Tables

Key financials 2021-2026e							
SEKm	2020	2021	2022	2023	2024	2025	2026
Revenue		101	118	161	204	234	268
Revenue, R12m		101	118	161	204	234	268
EBITDA		-15.3	-1.6	4.9	11.0	15.4	23.0
EBIT		-15.3	-1.6	5.3	11.4	15.9	23.3
PTP		-16.8	-1.6	6.1	11.4	15.9	23.3
EPS, SEK		-0.48	-0.05	0.12	0.26	0.31	0.46
Growth Y/Y (%)			16.9%	36.2%	26.7%	14.2%	14.7%
EBITDA (%)		-15.1%	-1.4%	3.0%	5.4%	6.6%	8.6%
EBIT (%)		-15.1%	-1.4%	3.3%	5.6%	6.8%	8.7%

Source: Redeye Research

Valuation 2021-2026e							
SEKm	2020	2021	2022	2023	2024	2025	2026
EV/S		4.3	3.1	2.3	1.8	1.6	1.2
EV/EBITDA		-28.6	-223.4	75.1	33.1	23.5	14.4
EV/EBIT		-28.6	-223.4	68.3	31.9	22.8	14.3
P/E		-26.5	-230.1	93.0	43.2	35.8	24.4

Source: Redeye Research

Profitability 2021-2026e							
SEKm	2020	2021	2022	2023	2024	2025	2026
ROA		-26.5%	-1.3%	2.6%	5.2%	5.8%	7.7%
ROE		-84.9%	-2.9%	4.8%	9.7%	10.6%	13.7%
ROIC		-103.4%	-12.8%	51.9%	54.4%	42.8%	64.6%
ROIC less Goodwill & Intangibles		-94.4%	-10.9%	38.7%	47.3%	38.9%	58.7%
ROCE		-27.9%	-1.5%	4.7%	9.2%	11.6%	15.0%
Cash Conversion Ratio		3.4	-3.0	-1.2	-0.1	0.4	1.7

Source: Redeye Research

## Peer table

### Multiples valuation

Advenica is currently trading at a lower valuation compared to its European median counterparts, registering a 40% discount on projected 2024 Enterprise Value (EV) to Sales ratios.

The contrast is more pronounced when compared to the Nasdaq Cybersecurity index growth, where Advenica lags by a staggering 75%. However, when the metric of evaluation is shifted to EV/EBITDA for the year 2024, Advenica's stock trades at a significant premium of 78% to European peers and 11% discount to US counterparts. There's an expectation for the EV/EBITDA multiple to decrease as the company's profitability improves due to the high revenue CAGR of 16% up until 2024E taking down the multiple to 24x 2025E

Company name	EV EURm	2023	EV/S 2024	2025	2023	EV/EBITDA 2024	2025	Sales CAGR 2021-24	Avg EBITDAm 2022-24
<b>European Cybersec</b>									
Clavister Holding AB	50	3.6	3.2	2.9	34.6	21.0	14.7	8%	15%
Thales SA	27,878	1.5	1.4	1.3	9.6	8.8	8.3	7%	16%
Leonardo SpA	9,475	0.6	0.6	0.6	5.3	4.8	4.5	5%	12%
Napatech A/S	74	3.0	2.4	1.8	neg	49.9	11.0	6%	5%
Nixu OY	102	na	na	na	na	na	na	na	na
Sectra AB Class B	3,020	13.1	11.7	10.4	57.6	50.1	42.8	11%	23%
SSH Communications Security Oyj	80	3.6	3.1	2.6	26.6	16.0	13.8	18%	17%
secunet Security Networks AG	1,253	3.3	2.9	2.6	18.4	15.9	13.6	9%	18%
<b>Average</b>	<b>4,665</b>	<b>4.0</b>	<b>3.5</b>	<b>3.1</b>	<b>26.7</b>	<b>23.4</b>	<b>15.4</b>	<b>9%</b>	<b>15%</b>
<b>Median</b>	<b>102</b>	<b>3.5</b>	<b>3.0</b>	<b>2.6</b>	<b>26.6</b>	<b>18.5</b>	<b>13.7</b>	<b>8%</b>	<b>15%</b>
<b>Advenica AB</b>	<b>32</b>	<b>2.3</b>	<b>1.8</b>	<b>1.6</b>	<b>75.1</b>	<b>33.0</b>	<b>23.5</b>	<b>16%</b>	<b>5%</b>
<b>Nasdaq CTA Cybersecurity Index Growth</b>									
Cloudflare Inc Class A	19,397	16.2	12.5	9.6	>100	78.0	54.4	41%	16%
CrowdStrike Holdings, Inc. Class A	31,900	11.3	8.8	7.0	53.8	39.0	28.0	43%	23%
CyberArk Software Ltd.	5,465	8.0	6.5	5.3	>100	74.3	29.6	26%	10%
Darktrace PLC	2,117	4.2	3.4	2.8	21.7	17.1	13.1	38%	20%
Fortinet, Inc.	49,072	9.6	8.1	6.8	34.5	28.4	23.5	29%	28%
Okta, Inc. Class A	10,459	5.1	4.4	3.6	51.9	37.3	25.2	29%	12%
Palo Alto Networks, Inc.	70,904	11.0	9.0	7.6	41.5	33.3	26.8	30%	27%
SentinelOne, Inc. Class A	3,340	6.0	4.6	3.4	neg	neg	26.4	61%	-3%
Splunk Inc.	16,802	4.6	4.1	3.6	22.8	19.0	15.4	22%	22%
Zscaler, Inc.	19,707	13.3	10.3	8.2	76.2	52.6	38.2	50%	19%
<b>Average</b>	<b>22,916</b>	<b>8.9</b>	<b>7.2</b>	<b>5.8</b>	<b>30.2</b>	<b>37.9</b>	<b>28.1</b>	<b>37%</b>	<b>17%</b>
<b>Median</b>	<b>18,100</b>	<b>8.8</b>	<b>7.3</b>	<b>6.0</b>	<b>41.5</b>	<b>37.3</b>	<b>26.6</b>	<b>34%</b>	<b>20%</b>
<b>Nasdaq CTA Cybersecurity Index Mature</b>									
Akamai Technologies, Inc.	15,774	4.5	4.2	4.0	11.0	10.2	9.4	8%	42%
Booz Allen Hamilton Holding Corporation Class A	15,196	1.6	1.5	1.4	14.8	13.9	13.1	12%	11%
Check Point Software Technologies Ltd.	12,497	5.5	5.3	5.1	12.7	12.1	11.8	9%	44%
Cisco Systems, Inc.	177,459	3.3	3.2	3.2	9.3	9.0	8.9	9%	36%
Juniper Networks, Inc.	9,679	1.8	1.7	1.7	8.8	8.2	7.9	12%	21%
Leidos Holdings, Inc.	15,330	1.1	1.0	1.0	10.7	9.9	9.3	8%	10%
Thales SA	27,878	1.5	1.4	1.3	9.6	8.8	8.3	7%	16%
VMware, Inc. Class A	57,450	4	4	4	12	11	10	8%	39%
<b>Average</b>	<b>41,408</b>	<b>3.0</b>	<b>2.8</b>	<b>2.7</b>	<b>11.2</b>	<b>10.4</b>	<b>9.8</b>	<b>9%</b>	<b>27%</b>
<b>Median</b>	<b>15,552</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>10.9</b>	<b>10.1</b>	<b>9.4</b>	<b>9%</b>	<b>28%</b>

## Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

### Rating changes in the report

#### People: 3

Advenica scores 3 in our rating. We argue the CEO is passionate, has strong market insight, and has brought extensive experience of the cybersecurity business since she took over as acting CEO in 2014. Low stock ownership in combination with the historical dilution of the stock, hindering shareholder value generation, trims two points from the highest score.

#### Business: 4

Given the deep moats, solid underlying demand, and strong tailwinds in combination with robust business model, Advenica scores four out of five. Its low percentage of recurring revenues, dependence on one large client, and low returns on capital shave off one point.

#### Financials: 2

Dilution of the share due to multiple share issues and negative profit for a number of years put the score at two out of five. However, if Advenica can turn profitable, this score would improve. Moreover, communicating financial targets and deliver on these targets would improve the financial scoring as well.

	2021	2022	2023E	2024E					
<b>INCOME STATEMENT</b>					<b>DCF Valuation Metrics</b>				<b>Sum FCF (SEKm)</b>
Net sales	101	118	161	204	Initial Period (2023–2027)				51
Cost of Revenues	29	19	26	34	Momentum Period (2028–2032)				92
Gross Profit	72	99	135	171	Stable Period (2033–)				351
Operating Expenses	87	101	130	160	Firm Value				493
EBITDA	-15	-2	5	11	Net Debt (last quarter)				-92
Depreciation & Amortization	0	0	0	0	Equity Value				585
EBIT	-15	-2	5	11	Fair Value per Share				13.30
Net Financial Items	-1	0	1	0					
EBT	-17	-2	6	11	<b>CAPITAL STRUCTURE</b>				
Income Tax Expenses	0	0	1	1	Equity Ratio	0.3	0.5	0.5	0.5
Non-Controlling Interest	0	0	0	0	Debt to equity	0.4	0.0	0.0	0.0
Net Income	-17	-2	5	10	Net Debt	-7	-92	-86	-85
					Capital Employed	55	109	114	124
					Working Capital Turnover	19.9	-6.3	-18.9	75.8
<b>BALANCE SHEET</b>									
<b>Assets</b>					<b>GROWTH</b>				
<b>Current assets</b>					Revenue Growth	20%	17%	36%	27%
Cash & Equivalents	22	92	86	85	Basic EPS Growth	-119%	-90%	-344%	115%
Inventories	7	10	13	16	Adjusted Basic EPS Growth	-119%	-90%	-344%	115%
Accounts Receivable	45	34	45	57					
Other Current Assets	9	8	11	14	<b>PROFITABILITY</b>				
Total Current Assets	84	144	156	173	ROE	-85%	-3%	5%	10%
					ROCE	-28%	-2%	5%	9%
<b>Non-current assets</b>					ROIC	-103%	-13%	52%	54%
Property, Plant & Equipment, Net	1	2	2	2	EBITDA Margin (%)	-15%	-1%	3%	5%
Goodwill	0	0	0	0	EBIT Margin (%)	-15%	-1%	3%	6%
Intangible Assets	24	20	20	20	Net Income Margin (%)	-17%	-2%	3%	5%
Right-of-Use Assets	15	12	12	12					
Shares in Associates	0	0	0	0	<b>VALUATION</b>				
Other Long-Term Assets	3	2	2	2	Basic EPS	na	0.0	0.1	0.3
Total Non-Current Assets	43	35	36	36	Adjusted Basic EPS	na	0.0	0.1	0.3
					P/E	na	neg	85.3	39.6
Total Assets	127	179	191	209	EV/Revenue	na	3.1	2.3	1.8
					EV/EBITDA	na	neg	75.1	33.1
<b>Liabilities</b>					EV/EBIT	na	neg	68.3	31.9
<b>Current liabilities</b>					P/B	na	4.7	4.4	4.0
Short-Term Debt	15	0	0	0					
Short-Term Lease Liabilities	3	3	3	3	<b>SHAREHOLDER STRUCTURE</b>				<b>CAPITAL %VOTES %</b>
Accounts Payable	8	7	10	12	Familjen Linde			33.2%	33.2%
Other Current Liabilities	46	60	65	70	Fredrik Rapp			22.0%	22.0%
Total Current Liabilities	72	70	78	85	Avanza Pension			4.9%	4.9%
					Fjärde AP-fonden			4.3%	4.3%
<b>Non-current liabilities</b>					Mikael Sandberg			3.3%	3.3%
Long-Term Debt	0	0	0	0					
Long-Term Lease Liabilities	12	9	9	9	<b>SHARE INFORMATION</b>				
Other Long-Term Liabilities	3	2	2	2	Reuters code			ADVE	
Total Non-current Liabilities	15	11	11	11	List			First North	
					Share price			10.5	
Non-Controlling Interest	0	0	0	0	Total shares, million			44	
Shareholder's Equity	40	98	103	113					
Total Liabilities & Equity	127	179	191	209					
					<b>MANAGEMENT &amp; BOARD</b>				
<b>CASH FLOW</b>					CEO	Marie Bengtsson			
NOPAT	-15	-2	4	10	CFO	Marie Bengtsson			
Change in Working Capital	-5	24	-10	-11	Chairman	Per Wargéus			
Operating Cash Flow	-56	6	-6	-1					
Capital Expenditures	0	0	0	0					
Investment in Intangible Assets	0	0	0	0					
Investing Cash Flow	0	0	0	0					
Financing Cash Flow	0	0	0	0					
Free Cash Flow	-56	6	-6	-1					
					<b>ANALYSTS</b>				
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## Redeye Rating and Background Definitions

### Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

### People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

### Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

### Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:

- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.



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## Disclaimer

### Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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### Redeye Rating (2023-06-09)

Rating	People	Business	Financials
5p	7	6	2
3p - 4p	154	149	40
0p - 2p	25	31	144
Company N	186	186	186

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### CONFLICT OF INTERESTS

Fredrik Reuterhäll owns shares in the company : No

Jacob Svensson owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.