

Nixu

Company update

17 April 2019

- We revise Nixu's target price to EUR 12.0 (previously EUR 11.0) in accordance with our enhanced estimates.
- Nixu experienced strong growth (+37%) during the first months of 2019, and the growth outlook for the rest of 2019 is also very good.
- We update our recommendation to the reduce level (previously accumulate) because with the strong share price increase (+60%) during the first months of the year, the valuation of Nixu's share (2019e: EV/S 1.7x) is approaching a relatively high level again.
- Nixu's long-term story continues to be interesting, but stretching the current valuation level is hard to justify.

Strong Q1, but valuation again elevated

We revise Nixu's target price to EUR 12.0 (previously EUR 11.0), reflecting our enhanced estimates following the strong growth achieved in Q1. Based on Nixu's Q1 revenue figures from yesterday, the company's growth was clearly accelerated, and the growth outlook for the rest of the year is also excellent, driven by strong organic growth and acquisitions. However, we update our recommendation to the reduce level (previously accumulate) because with the strong share price increase (+60%) during the first months of the year, the valuation of Nixu's share (2019e: EV/S 1.7x) is approaching a critical level again. Nixu's long-term story continues to be interesting, but stretching the current valuation level is hard to justify.

Strong 37 % organic growth in Q1

Nixu published its Q1 revenue figures yesterday. The company's Q1 revenue amounted to EUR 12.6 million, representing 37% growth on EUR 9.2 million during the comparison period. The growth was fully organic in Q1, which is an excellent achievement. The strong organic growth can be attributed to large continuing cybersecurity partner agreements signed last year and cybersecurity technology licence deals timed during Q1. As expected, Nixu repeated its guidance updated following the Ezenta transaction (revenue growth >40%, EBITDA will improve significantly compared with the previous fiscal year). The company has estimated that the growth will be based roughly equally on organic and inorganic growth. Therefore, we do not expect the Q1 growth rate to be the company's new level of organic growth but that the growth rate will stabilise, yet remain at a very good level.

Nixu is about to take the next step in its growth story with the most recent acquisitions

The Vesper and Ezenta acquisitions announced by Nixu in March will strengthen the company's market position in Northern Europe and expand the offering of strategically important continuous services. For Nixu, last year was about digesting the previous international acquisitions, and the losses from international operations seen last year prove that Nixu has previously had operational challenges in ramping up foreign operations after acquisitions. However, in conjunction with the H2/18 results, the company was confident that the corrective measures launched last year will clearly improve the profitability of international operations this year. The most recent acquisitions in part confirm that the company seems to be ready to take the next step in its growth story and that the previous challenges have been taken under control.

We revised our estimates upwards following the stronger organic growth

In connection with the acquisition of Ezenta, we commented that our growth estimate for the current year is under some upwards pressure, and now we updated our estimate to match Nixu's new guidance. Our revenue estimates for the current year and the next few years thereby increased by approximately 5%. We now expect Nixu's revenue to increase by 42% to EUR 56.9 million this year. We expect that the revenue for 2020 will increase by 17% to EUR 66.3 million. We estimate that, due to the integration of the acquisitions and investments in growth and internationalisation, the company's profitability (adj. EBIT-%) to remain at a moderate level of 3-5% still in 2019-2020.

Valuation of the share increased strongly during Q1

Based on our estimates, Nixu's EV/S multiples for 2019 and 2020 are 1.7x and 1.4x, respectively. The multiples have now clearly increased with the share price hike in Q1 (+60%) and are already at a clear premium of 29-22% compared with the benchmark group primarily comprising IT consultants. The EV/S multiples also begin to be absolutely quite high, and we no longer see justified room for an increase in them in the short term. Earnings multiples for the next couple of years do not support the share due to the company's current development phase. Strong acquisition-based international expansion also keeps the risk level high, and the increased valuation of the share has narrowed down the room for disappointments.

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Recommendation and target price

Reduce

(previously Accumulate)



EUR 12.00

(previously EUR 11.00)

Share price: EUR 12.20

Potential: -1.6%

Guidance

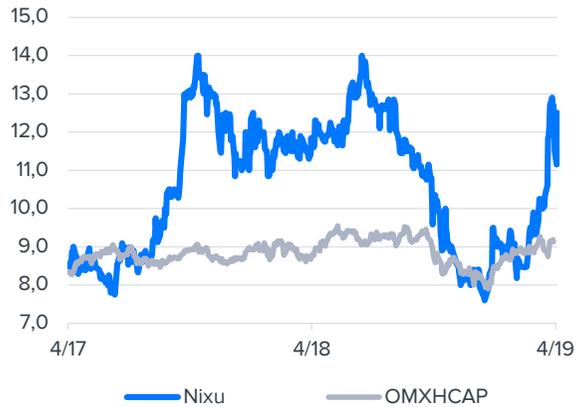
(Unchanged)

The company estimates that its revenue will increase by more than 40% compared with the previous financial year due to strong organic growth as well as the acquisitions completed. The company's full-year EBITDA is estimated to improve significantly year-on-year.

Key figures

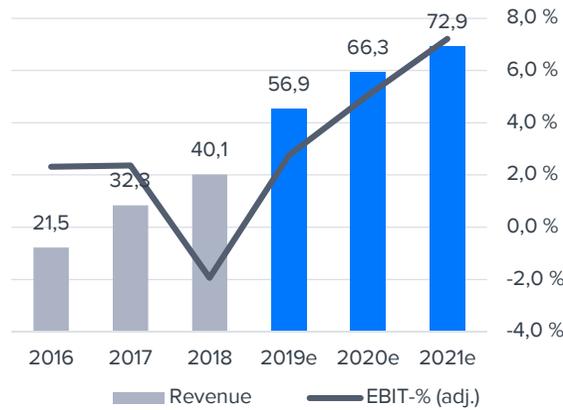
	2018	2019e	2020e	2021e
Revenue	40.1	56.9	66.3	72.9
growth %	24.3%	41.7%	16.6%	10.0%
EBIT adj.	-0.8	1.6	3.4	5.3
EBIT-% adj.	-1.9%	2.8%	5.1%	7.2%
Net income	-2.0	0.8	2.2	3.7
EPS (adj.)	-0.18	0.13	0.32	0.53
P/E (adj.)	neg.	92.7	38.2	23.1
P/B	3.3	5.1	4.5	3.8
Dividend yield, %	0.0%	0.0%	0.0%	0.0%
EV/EBIT (adj.)	neg.	60.8	28.4	17.5
EV/EBITDA	neg.	33.1	20.6	14.0
EV/S	1.4	1.7	1.4	1.3

Share Price



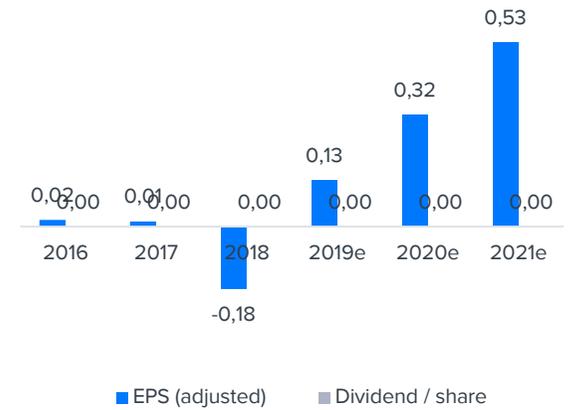
Source: Thomson Reuters

Revenue and EBIT-%



Source: Inderes

EPS and dividend / share



Source: Inderes



Value drivers

- Unique market position in a compelling market
- New service models bring customer stickiness and scalability
- Cybersecurity M&A activity and strong growth outlook supports valuations
- Growth is the main value driver in coming years

Risks

- High growth market attracts new competitors
- International expansion and its success
- M&A integrations
- Failure with growth investments

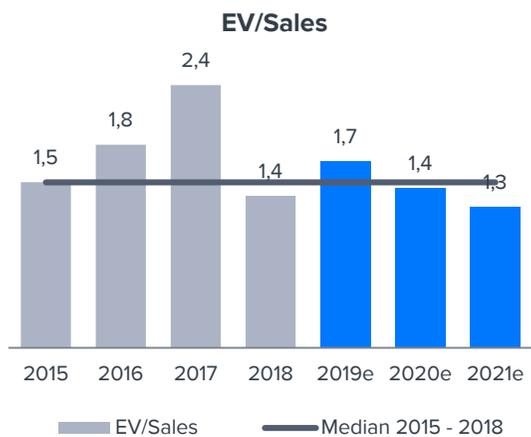
Valuation

- The EV/S multiples begin to be absolutely quite high after share price rally
- Nixu's share is valued with a premium compared to IT-service providers
- Cybersecurity valuations are in general elevated reflecting the strong growth outlook
- Nixu is constantly generating value with execution of strategy and strong growth

Valuation

Valuation	2015	2016	2017	2018	2019e	2020e	2021e	2022e
Share price	4,91	6,05	11,0	7,60	12,2	12,2	12,2	12,2
Number of shares, millions	6,11	6,19	6,63	7,23	7,33	7,33	7,33	7,33
Market cap	30	39	80	55	89	89	89	89
EV	27	39	76	55	95	95	92	88
P/E (adj.)	20,6	>100	>100	neg.	92,7	38,2	23,1	14,0
P/E	43,7	>100	neg.	neg.	>100	40,8	24,0	14,4
P/FCF	neg.	neg.	27,0	neg.	neg.	>100	25,8	18,4
P/B	3,8	4,7	4,2	3,3	5,1	4,5	3,8	3,0
P/S	1,7	1,8	2,5	1,4	1,6	1,3	1,2	1,1
EV/Sales	1,5	1,8	2,4	1,4	1,7	1,4	1,3	1,1
EV/EBITDA	13,0	48,8	69,0	neg.	33,1	20,6	14,0	9,3
EV/EBIT (adj.)	13,6	78,9	>100	neg.	60,8	28,4	17,5	10,7
Payout ratio (%)	80,1 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	50,0 %
Dividend yield-%	1,8 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %	3,5 %

Source: Inderes



Peer group

Peer group valuation Company	Share price	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2019e
				2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	2019e	2020e	
Innofactor Plc	0,54	20	35		31,8	8,5	5,6	0,5	0,5	13,8	11,0			0,9
Digia Oyj	2,91	76	89		7,1	5,9	4,9	0,7	0,6	11,3	9,4	3,2	4,4	1,4
Enea AB	145,00	270	323	14,9	11,7	12,3	9,7	3,1	2,7	18,2	15,4			
HiQ International AB	57,80	310	296	13,8	12,6	12,3	11,4	1,6	1,5	18,3	17,0	6,0	6,3	4,0
Siii Solutions Oyj	8,78	62	59	13,6	9,3	8,2	6,4	0,8	0,7	13,0	10,2	3,8	5,4	2,9
Solteq Oyj	1,48	29	52	12,9	11,6	5,9	5,8	0,9	0,8	16,7	12,5	2,0	2,7	1,2
Tieto Oyj	26,20	1951	2092	12,4	11,6	9,1	8,5	1,3	1,2	14,2	13,6	5,6	5,6	3,8
Knowit AB (publ)	211,00	388	374	10,5	9,4	9,2	8,3	1,1	1,0	15,8	14,7	2,9	3,4	3,3
NCC Group PLC	175,00	538	591	14,6	12,3	11,0	9,5	1,9	1,7	18,8	15,5	2,9	3,4	2,2
Vincit Oyj	6,42	74	69	11,7	9,7	9,0	7,9	1,3	1,2	14,8	12,7	2,9	3,5	3,4
F-Secure Oyj	2,67	419	428	74,1	25,2	25,6	13,5	1,9	1,7	132,7	33,0	0,6	1,3	5,8
Gofore Oyj	8,42	110	98	12,2	10,4	9,9	8,3	1,5	1,2	15,5	13,9	2,6	3,0	4,0
Nixu (Inderes)	12,20	89	95	60,8	28,4	33,1	20,6	1,7	1,4	92,7	38,2	0,0	0,0	5,1
Average				19,1	13,6	10,6	8,3	1,4	1,2	25,2	14,9	3,3	3,9	3,0
Median				13,3	11,6	9,2	8,3	1,3	1,2	15,7	13,8	2,9	3,5	3,3
Diff-% to median				359 %	145 %	261 %	148 %	29 %	22 %	492 %	178 %	-100 %	-100 %	55 %

Source: Thomson Reuters / Inderes

Estimates

Income statement	H1'17	H2'17	2017	H1'18	H2'18	2018	H1'19e	H2'19e	2019e	2020e	2021e
Revenue	14,6	17,7	32,3	19,5	20,7	40,1	26,7	30,2	56,9	66,3	72,9
EBITDA	0,7	0,4	1,1	-0,7	0,4	-0,3	1,0	1,9	2,9	4,6	6,6
Depreciation	-0,2	-0,4	-0,6	-0,4	-0,8	-1,2	-0,7	-0,8	-1,5	-1,4	-1,5
EBIT (excl. NRI)	0,6	0,2	0,8	-0,5	-0,2	-0,8	0,4	1,2	1,6	3,4	5,3
EBIT	0,4	0,1	0,5	-1,0	-0,4	-1,5	0,3	1,1	1,4	3,2	5,1
Net financial items	-0,1	-0,2	-0,4	-0,2	-0,2	-0,5	-0,2	-0,2	-0,4	-0,4	-0,3
PTP	0,3	-0,2	0,1	-1,3	-0,6	-1,9	0,1	0,9	1,0	2,8	4,8
Taxes	-0,1	-0,1	-0,3	0,1	-0,2	0,0	0,0	-0,2	-0,2	-0,6	-1,0
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	0,1	-0,3	-0,2	-1,2	-0,8	-2,0	0,1	0,7	0,8	2,2	3,7
EPS (adj.)	0,04	-0,03	0,01	-0,09	-0,09	-0,18	0,03	0,11	0,13	0,32	0,53
EPS (rep.)	0,02	-0,05	-0,03	-0,16	-0,11	-0,27	0,02	0,10	0,11	0,30	0,51

Key figures	H1'17	H2'17	2017	H1'18	H2'18	2018	H1'19e	H2'19e	2019e	2020e	2021e
Revenue growth-%	44,5 %	55,3 %	50,2 %	33,6 %	16,7 %	24,3 %	37,2 %	46,0 %	41,7 %	16,6 %	10,0 %
Adjusted EBIT growth-%	76,2 %	9,7 %	52,8 %	-193,0 %	-228,6 %	-202,0 %	-	-	-	114,2 %	56,5 %
EBITDA-%	4,5 %	2,5 %	3,4 %	-3,4 %	2,0 %	-0,6 %	3,8 %	6,2 %	5,1 %	7,0 %	9,1 %
Adjusted EBIT-%	3,9 %	1,1 %	2,4 %	-2,7 %	-1,2 %	-1,9 %	1,5 %	3,8 %	2,8 %	5,1 %	7,2 %
Net earnings-%	0,9 %	-1,7 %	-0,5 %	-5,9 %	-3,9 %	-4,9 %	0,4 %	2,3 %	1,4 %	3,3 %	5,1 %

Source: Inderes

Balance sheet

Assets	2017	2018	2019e	2020e	2021e
Non-current assets	13,0	14,2	19,3	20,9	20,9
Goodwill	9,8	9,6	14,8	16,3	16,3
Intangible assets	2,3	1,6	1,4	1,3	1,2
Tangible assets	0,9	3,0	3,1	3,3	3,4
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	0,0	0,0	0,0	0,0	0,0
Other non-current assets	0,0	0,0	0,0	0,0	0,0
Deferred tax assets	0,0	0,0	0,0	0,0	0,0
Current assets	23,7	21,2	21,9	24,3	27,4
Inventories	0,0	0,0	0,0	0,0	0,0
Other current assets	0,0	0,0	0,0	0,0	0,0
Receivables	11,9	11,9	16,8	19,6	21,6
Cash and equivalents	11,9	9,3	5,1	4,6	5,8
Balance sheet total	36,8	35,3	41,3	45,2	48,4

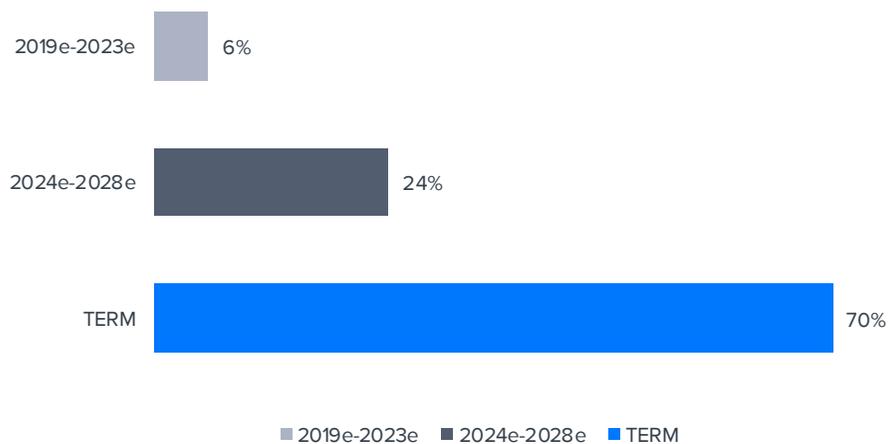
Source: Inderes

Liabilities & equity	2017	2018	2019e	2020e	2021e
Equity	18,9	16,8	17,6	19,8	23,5
Share capital	0,1	0,1	0,1	0,1	0,1
Retained earnings	1,8	-0,1	0,7	2,9	6,6
Hybrid bonds	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	-0,2	-0,4	-0,4	-0,4	-0,4
Other equity	17,1	17,3	17,3	17,3	17,3
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current liabilities	0,5	2,5	3,1	3,8	3,6
Deferred tax liabilities	0,3	0,1	0,1	0,1	0,1
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	0,2	2,4	3,0	3,7	3,4
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	0,0	0,0	0,0	0,0	0,0
Current liabilities	17,3	16,0	20,5	21,5	21,3
Short term debt	8,3	6,8	8,0	7,0	5,2
Payables	9,0	9,2	12,5	14,6	16,0
Other current liabilities	0,0	0,0	0,0	0,0	0,0
Balance sheet total	36,8	35,3	41,3	45,2	48,4

DCF-model

DCF model	2018	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	TERM
EBIT (operating profit)	-1,5	1,4	3,2	5,1	8,0	9,4	10,6	11,0	11,0	10,9	11,2	
+ Depreciation	1,2	1,5	1,4	1,5	1,4	1,5	1,5	1,6	1,6	1,6	1,6	
- Paid taxes	-0,2	-0,2	-0,6	-1,0	-1,6	-1,8	-2,1	-2,2	-2,2	-2,2	-2,2	
- Tax, financial expenses	0,0	-0,1	-0,1	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	0,1	-1,6	-0,7	-0,5	-1,4	-1,3	-0,3	-0,3	-0,4	-0,4	-0,2	
Operating cash flow	-0,3	0,9	3,2	5,0	6,4	7,7	9,7	10,1	10,1	10,0	10,4	
+ Change in other long-term liabilities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Gross CAPEX	-2,4	-6,7	-3,0	-1,5	-1,6	-1,6	-1,6	-1,6	-1,6	-1,6	-1,9	
Free operating cash flow	-2,7	-5,7	0,2	3,5	4,9	6,0	8,1	8,4	8,4	8,4	8,5	
+/- Other	2,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	-0,7	-5,7	0,2	3,5	4,9	6,0	8,1	8,4	8,4	8,4	8,5	143
Discounted FCFF		-5,4	0,2	2,8	3,6	4,1	5,1	4,9	4,5	4,1	3,8	64,6
Sum of FCFF present value		92,3	97,7	97,5	94,7	91,1	87,0	81,9	77,1	72,6	68,4	64,6
Enterprise value DCF		92,3										
- Interesting bearing debt		-9,2										
+ Cash and cash equivalents		9,3										
-Minorities		0,0										
-Dividend/capital return		0,0										
Equity value DCF		92,4										
Equity value DCF per share		12,6										

Cash flow distribution



Wacc	
Tax-% (WACC)	20,0 %
Target debt ratio (D)/(D+E)	20,0 %
Cost of debt	5,0 %
Equity Beta	1,00
Market risk premium	4,75 %
Liquidity premium	2,00 %
Risk free interest rate	3,0 %
Cost of equity	9,8 %
Weighted average cost of capital (WACC)	8,6 %

Source: Inderes

Nixu

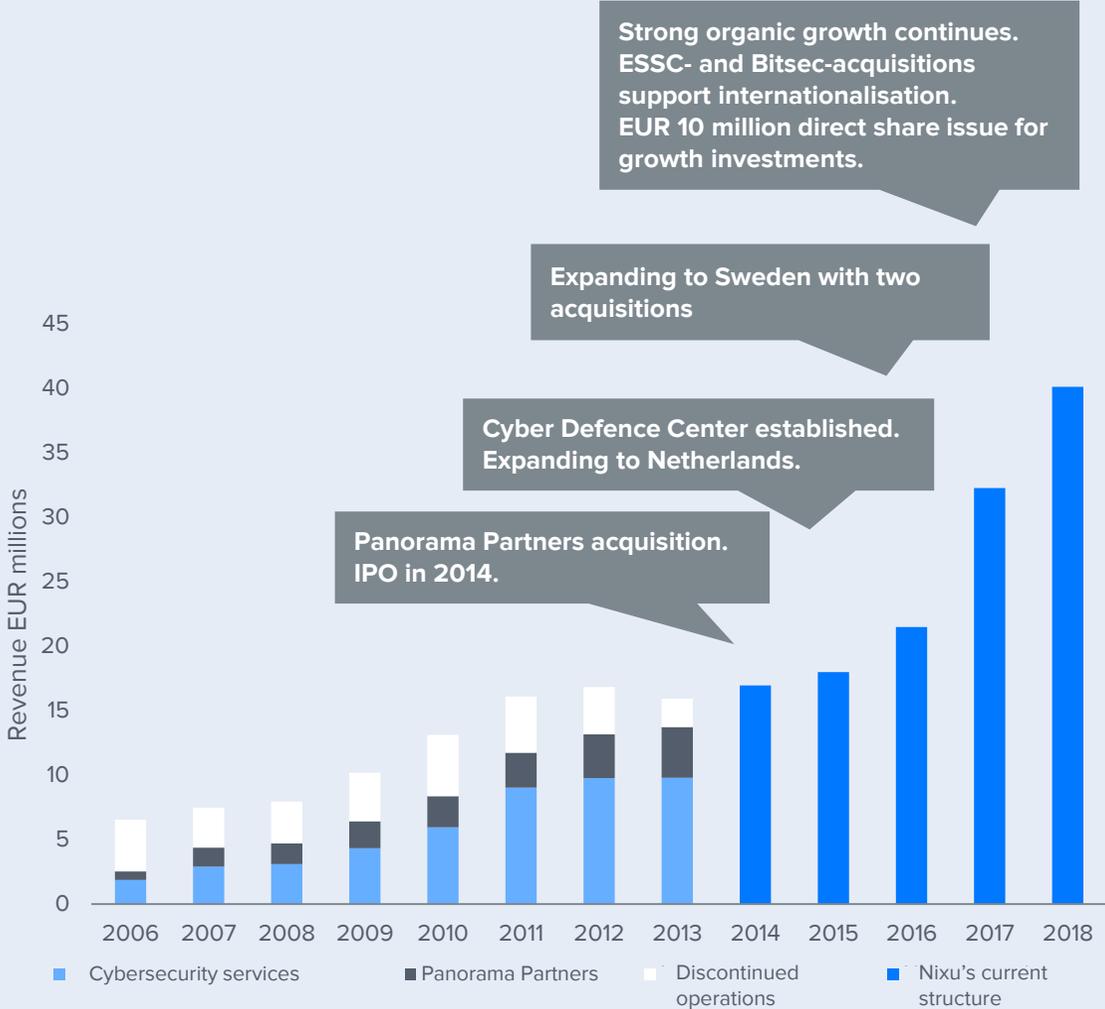
Company overview

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Nixu in short

Nixu is the biggest Nordic provider of cybersecurity services.

1988 Established	29.1% CAGR Cybersecurity service growth 2006-2018
355 employees (2018) Largest team in Nordics	
40.1 M€ (+24 % vs. 2017) Revenue 2018	
39 % All continuous services % of revenue 2018	>400 Clients
96% Customer satisfaction 2018	36% Share of international revenue



Source: Inderes, Nixu

Company description and business model 1/3

Company description

Service company specialising in cybersecurity

Nixu is a cybersecurity services company established in 1988. According to the view of the company's management, Nixu is the biggest Nordic provider of cybersecurity services in terms of the number of cybersecurity specialists. At the end of 2018, the company employed 355 specialists and its revenue for last year amounted to EUR 40.1 million (+24 %).

Nixu has a long history in the IT sector, but the strategic decision to focus on information security was made in 2005. After this, the company has left other business areas and grown strongly in services focusing on cybersecurity. Focusing on cybersecurity since an early phase has provided Nixu with a significant head start over competitors today.

Nixu primarily operates in Finland, but it has implemented customer projects in 27 countries. In 2015, the company started internationalisation by opening an office in the Netherlands. In 2016, the company expanded into Sweden through two minor acquisitions. In 2017, the company strengthened its position through acquisitions in the Netherlands (ESSC) and Sweden (Bitsec). In 2018, 36 % of the revenue was generated outside of Finland. Nixu currently has specialists in Finland, Sweden, the Netherlands, Denmark, Romania, the United States and Australia.

Contrary to many providers of information security solutions, Nixu is a turnkey provider of information security solutions. The company is, therefore, not only a retailer of information security equipment and technologies or a consultant specialising in specific service areas.

The ability to provide cybersecurity as extensive turnkey solutions is an important distinguishing competitive advantage, as the technologies are complex and the threats change rapidly. In addition, the ability to offer cybersecurity to the customer's digital business is emphasised as a competitive advantage.

Large organisations as the customer base

Nixu provides high-level cybersecurity services and, therefore, large companies and the public sector are the company's primary target group. The company does not have a specific focus area in terms of customer industries. In 2018, the company served more than 400 customers. Of the 100 biggest companies in Finland, Nixu has provided services to more than 60.

Nixu divides its customer segments into corporate IT, digital business and industrial IoT. This clearly illustrates who the buyer of Nixu's services is on the customer's side. Corporate IT has traditionally been the buyer of the company's services, but the areas of digital business and industrial IoT are growing at a strong rate. In this case, the targeted decision-makers are the directors of digital business and product development directors. This is a new and strongly evolving area in the cybersecurity market.

In 2018, the ten biggest customers accounted for approximately 30 % of Nixu's revenue, and the company's dependence on individual customers is limited. Cybersecurity has traditionally been a mandatory support function for the customer organisation's IT by nature, with a very small proportional share of the IT budget. However, the share of cybersecurity of customers' IT budgets will probably increase in the future, with cybersecurity being a prerequisite for the emergence of digital business.

Strong market position in Finland

Nixu has a solid reputation and market position in the Finnish cybersecurity services market. We estimate that the company has the biggest cybersecurity specialist services business in Finland, with more than 200 employees and over EUR 25 million in revenue. The competitive landscape is very fragmented, and following several mergers and acquisitions, Nixu is the only significant company in Finland to specialise in cyber services, which provides the company with a competitive advantage and a good foundation for pursuing international growth. The main competitors in Finland are large IT service firms and consulting firms.

Aiming for international growth

Nixu's vision is to become the number one choice as a trusted cybersecurity partner for companies in Northern Europe and the best workplace for cybersecurity professionals. The company aims to achieve a strong market position in the other Northern European countries, similarly to Finland. The strategy is implemented through acquisitions and organic expansion, both in Finland and abroad. With an international position, it is possible to better serve large international customers and achieve benefits of scale, especially in Security operations center (SOC) and outsourced cybersecurity.

In the medium term, Nixu aims for revenue growth in excess of 15 % and a minimum EBITDA of 10 %. According to our estimate, the growth objective can well be reached due to the strong demand drivers in the market. With regard to profitability, the objective of 10 % is realistic in the long term, but in the short term, investments will keep profitability below the target level.

Company description and business model 2/3

Business model

Four different delivery models

Nixu assists its customers in projects that require the design, implementation or verification of information security. In addition to this, the company provides information security as a continuous service. Nixu has previously been largely a cybersecurity consulting and advice firm, but in recent years, the company has successfully advanced in its strategy, shifting towards larger customers and larger and more demanding projects in its business. The company has thereby achieved a more strategic role for its customers.

The services provided by the company include:

- Identity and access management
- Information security audits
- Safe software development and procurement
- Data protection services
- Investigation of data breaches
- Outsourced cybersecurity and Security operations center
- Information security of cloud services
- Prevention of cyber attacks
- Security of IoT

The service packages delivered to customers can include components from several areas of excellent as well as third-party technologies.

Nixu delivers its services using four different delivery models: projects and assignments (58% of revenue in 2018), continuous services (28%), managed services (11%), and license sales (3%).

Projects and assignments include designing a

secure solution for the customer's needs and implementation of the project. Projects often involve the resale of technology licences. The pricing of the projects is hourly-based, varying from a few tens of thousands to hundreds of thousands of hours. Projects and assignments also include information security audits of a company, information system or web application as well as data protection services. Big4 consulting firms are the main competitors in information security advisory services. With the EU's General Data Protection Regulation, the demand for data protection services has been strong.

Continuous services is a strategically important and rapidly evolving area in the cybersecurity market (Managed Security Services, MSS) for Nixu. This area includes services valid until further notice or based on automatically renewed agreements, such as identity and access management (IAM) services.

Managed services are also continuous services, and they include Nixu's Cyber Defence Centre (CDC) service package, in which Nixu provides customers with real-time monitoring of the digital environment and creates a situation picture of the threats to the organisation's network services. Similar SOC-services are provided in Finland by CGI, Tieto and Elisa, for example. This is a strongly growing service area that is strategically important to the company.

Licence sales includes the resale of third-party (such as Ubisecure and FireEye) technology licenses, typically as part of project deliveries. Licence sales play a minor role in the company's business. There is a large and varying group of IT service firms reselling information security products in Finland, and they are not Nixu's direct

competitors.

"One Nixu" platform for digitalising operations

Nixu also aims to digitalise its own business in the long term. For this purpose, the company is developing the One Nixu platform. The idea is to achieve scalability, be able to produce better and more competitive services, and to avoid silos in Nixu as the company grows.

The idea of the platform is to collect data concerning customers, customer projects and threats, among other things, so that it can be utilised throughout Nixu's organisation and functions. This way, the company gets to know its customer accounts in more depth, and information is not left fragmented with different people or in different documents around the organisation. The purpose is to also connect global cybersecurity technology providers to the platform so that Nixu could efficiently provide third-party cybersecurity technologies to its customers through the platform. The company also aims to be able to produce new data-driven businesses based on the data accumulated in its own platform in the long run.

The One Nixu platform is still under development, so in the company's current business operations, it is mainly seen as investments that impair profitability. Nixu does not invest in cybersecurity products itself; the idea of the company's own platform is to combine third-party technologies and digitise Nixu's own business operations. According to Nixu's view, it is not worthwhile for the company to start competing with cybersecurity product firms in development investments; the company focuses on the service sector.

Company description and business model 3/3

Scalability and competitive advantage are built of continuous service models

Due to the complexity of technologies and changes in threats, Nixu's customers need comprehensive and continuous management of cyberthreats from their service providers. In addition, the customers' digital business requires a new type of expertise in relation to cybersecurity, as cybersecurity is a critical prerequisite for new digital business functions.

Operators focusing solely on selling specialist resources cannot, according to our view, respond to market demand trends in the same way as Nixu. In addition, operators focusing on reselling and installing information security products do not meet these needs. Customers' understanding as buyers has simultaneously developed so that cybersecurity can no longer be managed exclusively by purchasing the most recent software and hardware. The market is strongly shifting from the prevention of information security threats towards detecting and responding to successful attacks as well as the service providers' role is emphasised in this.

Due to the market transformation, outsourced information security (Managed Security Services) is becoming an important field of the cybersecurity service market, and Nixu was among the first companies in Finland to invest in it. This business provides the company with an important competitive advantage on the one hand and the business model with continuity and scalability on the other. In control room services, for example, the number of customers can be increased to a certain extent without an increase in costs (number of personnel). At the

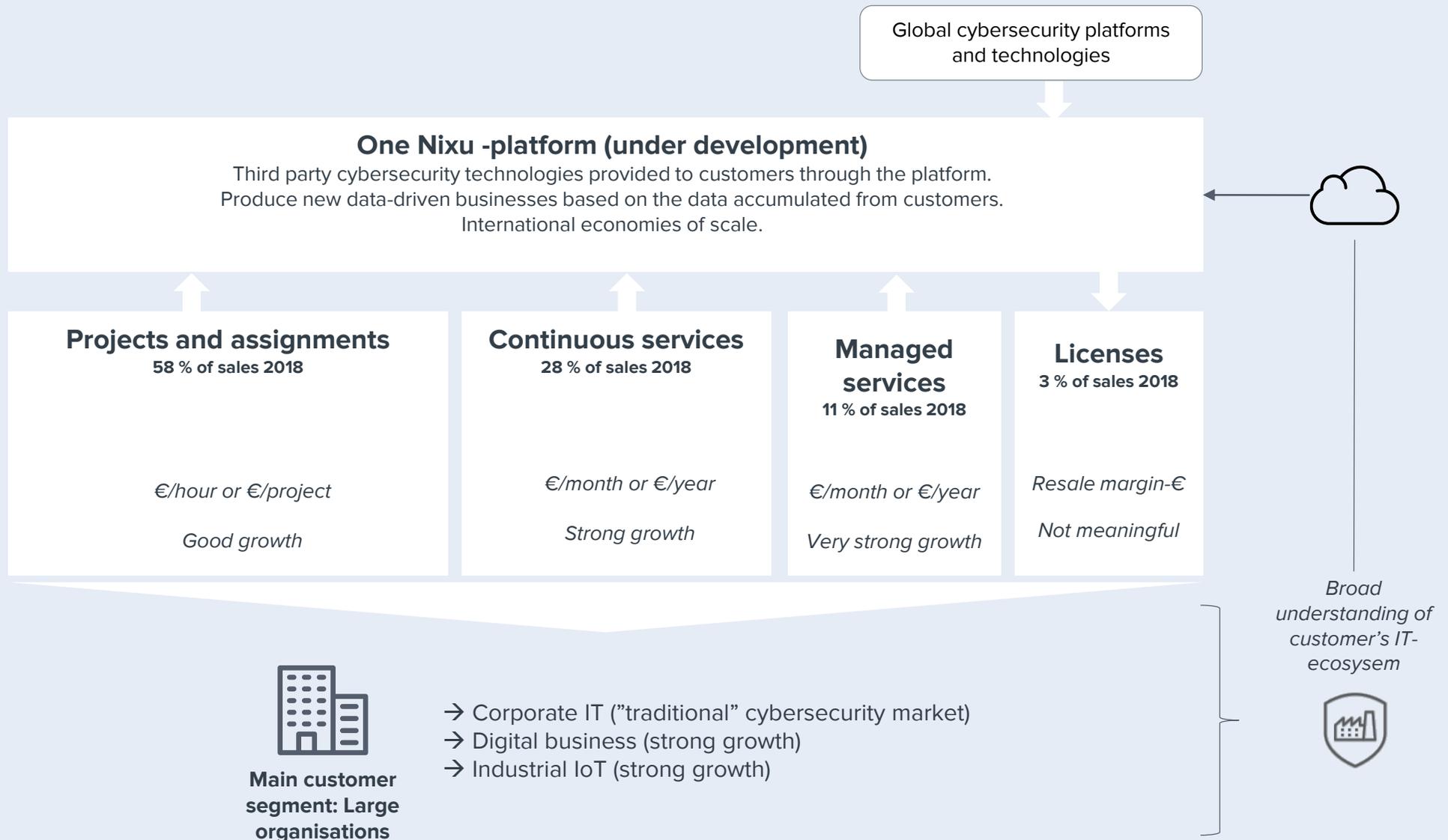
core of the CDC service is the company's proprietary technology platform to which third-party information security technologies are integrated. With Nixu's control room integrated through several technologies to monitor the customer's IT infrastructure, the customer relationships are very strong and durable. Investments in this area will bear fruit in the long run.

Partnerships

Nixu cooperates with several IT service sector operators. In many IT projects, Nixu is one of several providers, or the customer may have an external IT infrastructure provider, for example, whose infrastructure Nixu monitors. Many IT integrators also aim to provide cybersecurity expertise in-house nowadays.

Nixu primarily reaches its customers through its own sales and direct customer relationships. The company's services are such complex sales that they are difficult to offer through partners without a direct customer relationship.

Nixu's business model



Investment profile 1/2

Growth company's investor profile

Nixu is a growth company in a strong investment phase that operates in a currently hot market. Nixu's strong market position provides it with a strong advantage as the cybersecurity market is advancing at a fast rate and an increasing number of companies are targeting it. The company is a service company in terms of its business model, so Nixu will not offer investors explosive scalability and growth possible for technology companies. Instead, the share is more of a stable and lower-risk way of getting a grip of the growth drivers of the cybersecurity market.

Due to the growth opportunities of the cybersecurity market, Nixu should now invest in its earnings in growth. The company operates in an emerging market that is strongly shaping, especially in the fields of digital business and IoT. The biggest value creation in the company's market is now generated by revenue growth and, therefore, a strong growth orientation is typical of companies in the sector. Naturally, companies in the sector also need to be able to show good profitability when the cybersecurity market reaches a more mature development phase at some point. Currently, however, value is primarily generated through growth.

According to our view, Nixu's investments are targeted at two areas. Firstly, the company aims to build benefits of scale through more extensive international presence, realised with the help of its extensive offering, international delivery capability and the One Nixu platform. Secondly, the company aims to digitalise its business and transform its business model towards scalable continuous services. In Nixu's business model,

these investments are made using earnings and, therefore, the company's profitability is still far from its potential. However, the investments secure the competitive advantages of the business model and continuity in the long term, which makes them justified. Nixu's share should, therefore, be reviewed over the current investment phase, while taking into consideration the risks associated with the success of the investments.

Strengths

- **Specialisation in cybersecurity services** provides the company with a competitive advantage over large IT service firms and consulting firms. At the same time, the company has a more extensive offering and stronger delivery capability in cybersecurity services than many competitors specialising in certain areas, making Nixu able to credibly serve large and international customer organisations.
- **Strong brand and market position in Finland** supports internationalisation when the cash flow from business operations in Finland can be invested in international expansion.
- **Nixu has a clear head start in a growing market** and that is an excellent foundation for Nixu's continued strong organic growth. The growth drivers are also sustainable in the long term and over economic cycles.
- **Good customer retention in the business model:** Even though projects and assignments still accounted for 58 % of Nixu's revenue for last year, the customer relationships are usually lasting, and work continues from one project to another.

Companies seek reliable cybersecurity partners, and are not very susceptible to changing the provider. Nixu operating close to the customer provides a competitive advantage over global competitors.

- **The company's service area is more defensive than conventional IT services.** Customers find it easy to break down IT investments in a recession, but taking care of cybersecurity is an absolute requirement that is often required by the law.
- **No essential technology risk:** As a service company, Nixu can pick the best available technologies for use in its business, and its success does not depend on developing a successful product.

Opportunities

- **Increasing share of scalable continuous services** supports the continuity of revenue and facilitates good profitability after the success of the current investment phase. Growth in continuous services is a key value driver for the share.
- **Industrial IoT and digital business** provide Nixu with considerable growth potential, both as a facilitator of IoT projects and in the supervision of IoT hardware. This is largely a new category in the cybersecurity service market, with the customer's business instead of IT administration as the buyer. The market is growing strongly because organisations are increasingly transforming from experimental development of digital services towards large-scale practical implementation, with cybersecurity becoming an inevitable part of the new solution.

Investment profile 2/2

- **Nixu continues to be a potential target of acquisition in the long term** in the consolidating market.
- **Inorganic growth through acquisitions** creates shareholder value, if they succeed. Nixu has succeeded in purchasing small service companies at very moderate multiples of approximately 1x EV/Sales in recent years. The company still has resources for continuing the acquisition-driven value creation by attracting smaller cybersecurity service companies to become part of Nixu.
- **IT generalists' strong customer relationships** with large companies may in some cases make it more difficult for Nixu to become a cybersecurity provider in large IT projects.
- **High valuation levels in the sector** may impair Nixu's acquisition intentions. Our view is that valuations have still remained at a moderate level in small service companies. As Nixu grows, however, it must turn its eyes towards larger companies with likely higher valuation levels.

expertise with inadequate competence.

- **International competition in the market is likely to increase.** Due to their resources, global actors have a competitive advantage over Nixu in competing for the biggest international customers.
- **New innovative players can disrupt the market for Nixu's services.** An example of these is the U.S. company HackerOne that utilises crowdsourcing in looking for vulnerabilities.

Weaknesses

- **Growth investments will burden profitability in the next couple of years:** Nixu has announced that it will invest in growth for as long as the market growth drivers are favorable. The fruits of growth in the form of good profitability will not in fact be likely enjoyed until the 2020s. As strong growth continues, however, the current weak level of profitability is not a problem, with the market currently placing a lot of weight on growth.
- **Slow ramp-up of the Dutch operations and poor international profitability:** Nixu has previously had operational challenges in ramping up foreign operations after acquisitions. With its international revenue of EUR 14.6 million last year (2017: EUR 11.2 million), Nixu made a loss of EUR 1,8 million (2017: EUR 1.1 million) at the EBITDA level. Organic expansion into Netherlands has been challenging in recent years, but the ESSC acquisition should improve the situation.
- **Failure with growth investments:** The company can fail in developing its proprietary technology-based service models. Nixu's new continuous and scalable service models require a sufficient number of customers to be profitable to the company.
- **Nixu's internationalisation and related acquisitions could fail.** The company still has a relatively limited track record of success in internationalisation. Things have gone moderately in Sweden, but the company still has work to do in integrating the acquired companies and increasing the profitability of the international operations towards the level seen in Finland.
- **Competition pressure in the cybersecurity market** may increase as an increasing number of companies target the market. Because it is difficult for customers to assess the differences in the quality of service providers, price-driven operators may emerge in the market, offering cybersecurity

Investment profile



Potential

- Market has strong growth drivers
- Potential acquisition target
- New service models bring customer stickiness and scalability
- Cybersecurity M&A activity and strong growth outlook supports valuations

Risks

- Failure with growth investments
- Nixu's internationalisation and related acquisitions could fail
- Competition pressure in the rapidly changing cybersecurity market
- No essential technology risk

Competition 1/2

Competition

Cybersecurity services are still a young market

Cybersecurity services are a relatively new area in the IT market, having begun to shape properly only in the 2010s. The arena of competition is very fragmented, and the market is still strongly looking for its shape. The diversity of the players is particularly wide due to cybersecurity services not typically being at the core of specialist service companies' strategy, but rather a complementary area. Because the market is being divided now, it is important for Nixu to invest in growth.

The growth outlook of the cybersecurity services market is currently attracting a lot of competition, but the threshold of entering the segment is high. This is particularly due to the increasing complexity of the technologies and the importance of credibility and reputation. According to a survey by the consulting company PwC, the key purchase criteria include the vendor's ability to understand the customer's need, the vendor's reputation and technology-independent counselling. Due to the complexity of the technologies, small operators must specialise in a specific area, but this leaves small companies in a difficult position as customers' purchasing behaviour is shifting towards turnkey solutions and outsourced cybersecurity.

According to our estimate, new companies specialising in cybersecurity will still emerge in the industry, in addition to which established players in the IT market will establish more teams focusing on cybersecurity. Players seeking to enter the market may try to gain a foothold with a price-driven approach, which can lower the general price level of the industry. In addition, we

consider it a risk that due to the increasing significance of cybersecurity, IT service firms will offer cybersecurity to their customers in spite of their insufficient expertise and resources. It is very difficult for the customer to assess the service provider's actual competence and value of the service, which might lead to a lower general price level in the industry.

Competition in Finland: Nixu has a strong position

The cybersecurity services market parties range from specialised companies such as Nixu to IT service companies as well as extensively outside of the IT sector. In addition to IT firms, there are also teleoperators (such as Telia and Elisa), consulting firms (such as KPMG and Deloitte) and, to some extent, even defence industry companies (such as Cassidian) operating in the market.

Even though Finnish cybersecurity expertise is very much the hype, there are very few cybersecurity companies in Finland. The number of companies has decreased strongly in recent years due to acquisitions made by foreign players.

Of companies specialising in cybersecurity services, Panorama Partners (Nixu), Trusteq (KPMG), nSense (F-Secure) and Propentus (Cygate) have been acquired in Finland. Smaller players competing with Nixu in Finland include Spellpoint, Ymon, Xcure, 2NS and Silverskin. These companies are in the revenue category of one or a few million euros, meaning that they are considerably smaller than Nixu. Therefore, Nixu is clearly Finland's biggest service company focusing on cybersecurity. In spite of the growth of the market, it has been difficult for small players to grow into the significant size category;

they have often been the targets of acquisitions.

IT generalists (such as CGI and Tieto) are very interested in the growth opportunities in the cybersecurity market and, therefore, they can be considered to be one of Nixu's main competitor groups. In Finland, CGI and Tieto in particular have invested strongly in cybersecurity services, but our view is that their teams are clearly smaller than Nixu. It is natural for IT firms to offer cybersecurity as part of their integration and hosting services, which is a significant strength for them. However, the customer can perceive it as detrimental for the provider of its IT infrastructure to supervise itself. Some IT firms have, instead of building a team of their own, acquired cybersecurity-related special expertise from Nixu, for instance, as part of their own project deliveries.

Consulting firms compete with Nixu, especially in advisory services. Parties active in cybersecurity advisory services in Finland include Deloitte and KPMG, which acquired Nixu's competitor Trusteq in early 2015. Advice in data protection-related legal affairs is one of the strengths of these parties. In our view, limited expertise in different technologies and technology implementation projects can be a weakness for consulting firms focusing on advisory services.

Teleoperators also operate in the cybersecurity services market in Finland, but their operating model and target group differ from those of Nixu. Operators typically aim to productise continuous services (such as firewall maintenance) and after that harness their own sales network to implement the services. Operators thereby aim to serve the big masses with continuous service models.

Competition 2/2

Providers of information security products have also expanded into the service market. Drawing a line between product and service business is becoming more vague due to the transformation of product companies' business models towards continuous services, ongoing detection of security breaches and SaaS business. At the same time, cybersecurity service companies' business models are transforming from selling specialist resources towards selling cybersecurity as continuous technology-based services, which brings product and service firms closer to each other. As an example of the development, F-Secure became Nixu's competitor in 2015 when the company acquired nSense. In June 2018, F-Secure announced purchasing MWR InfoSecurity, a company with some 400 employees, which makes F-Secure a significant European player in the service business as well.

F-Secure's strategy and approach to cybersecurity is, however, different from Nixu. According to our view, F-Secure aims to get the service business focusing on the most demanding security breaches to enrich the company's products, providing F-Secure with a competitive advantage over other product suppliers. Moreover, F-Secure provides services as part of its information security products as the company is increasingly shifting towards security breach detection business.

Fragmented Swedish market provides good opportunities for growth

Nixu expanded into the Swedish market through three smallish acquisitions in 2016-2017 (combined revenue approx. EUR 7 million). Contrary to Finland, the Swedish market is very fragmented with regard to cybersecurity services. Nixu has already become one of Sweden's most

significant players with a team of more than 60 people. The fragmented market provides Nixu with good opportunities for growth organically and through acquisitions. The customer base in the Swedish market also lays down a good foundation for selling Nixu's other services to the Swedish market. Nixu also expanded its CDC (Cyber Defence Centre) services provided in Finland to Swedish customers during 2017, reaching scalability across national boundaries.

International competition: lots of opportunities, but Nixu is not alone

At the European level, the market of cybersecurity services is also very immature, but due to international benefits of scale, international players have already begun to emerge in the market. In outsourced information security in particular, international presence involves benefits in serving global customers.

Based on the last three years, it seems that there is clear market demand for international service companies specialising in cybersecurity. A few service companies specialising in cybersecurity services have already emerged in North America, such as Mandiant, Optiv and Trustwave. Nixu's strategy is to build a significant cybersecurity service company in the Northern European market. According to our view, a similar strategy is being implemented at the European level by the originally Japanese NTTCom Security, NCC Group, which is listed in London, and the venture capitalist Investcorp (SecureLink Group). Even though Nixu is a significant operator in the Finnish market, it is tiny compared to these. At the global level, IT giants, such as CGI, IBM and Verizon, are also looking at the market. With regard to IoT, Siemens, for example, could become a competitor.

NTTCom Security, operating in Germany, is one of the biggest cybersecurity companies in Europe, with annual revenue of approximately EUR 300 million and some 1,500 employees. The company was formed from two mergers and acquisitions in Germany: Integralis (2009) and Infotrust (2014).

The Bahrain-based company Investcorp, managing assets of more than EUR 22 billion, has reported its aim as creating Europe's leading company specialising in cybersecurity. Built by the venture capitalist, SecureLink has become one of Europe's biggest operators in just a couple of years with the SecureLink (2015), Coresec (2016), Nebulas (2016) and iT-Cube (2017) acquisitions. Following the acquisitions, the company has approximately 650 employees in 10 countries, and its annual revenue is EUR 250 million. The aggressiveness of Investcorp underlines how capital is now pursuing the cybersecurity market due to its growth prospects.

NCC Group, listed in London, has an annual revenue of EUR 230 million and its cybersecurity division has over 1,300 employees. The company was formed by several acquisitions in the 2010s, with the Dutch company Fox-IT acquired in 2014 being very similar to Nixu. In 2016, the company expanded into the United States through two acquisitions.

Reselling third-party products accounts for a considerable share of the revenues of the three above-mentioned large operators. In terms of the service business, Nixu is clearly closer to these operators by size. The licence sales market is, however, in a turmoil as services are increasingly migrating to the cloud. Therefore, licence resellers (such as Securelink or Cygate in Finland) increasingly aim for actual service business.

Competitive field

Competence areas

Type	Examples	Customer segments	Technology reselling	Cybersecurity capabilities	Advice	Integration projects	Managed Security Services	Law
Cybersecurity service providers	 	Large organisations	✓	✓✓	✓✓	✓	✓✓	✓
Consulting and audit companies	   	Large organisations	✓	✓	✓✓	✓	✓	✓
IT-integrators	  	Large organisations	✓✓	✓	✓	✓✓	✓✓	—
Technology vendors	  	From SMEs to Large organisations	—	✓✓	✓	—	✓	—
Teleoperators	 	SME	✓	✓	—	—	✓	—

	Core competence
	Competence

Strategy and competitive advantages 1/4

Strategy

Objectives of the strategy

During 2006-2013, Nixu underwent a strategic transformation process in which the company focused on cybersecurity services and divested its other business functions. At the same time, the organisation was aligned to the new strategy. This laid down the foundation for accelerating the company's growth and the First North listing carried out in late 2014. The company has successfully implemented its growth strategy launched in 2014, the key strategic development projects of which have been :

1) internationalisation, 2) development of scalable services and 3) development of cybersecurity expertise. These themes are also strongly present in the growth strategy updated in conjunction with the company's Capital Markets Day in May 2018, the four development areas of which are:

- 1) Cybersecurity talent community
- 2) Cybersecurity partner for digitalisation
- 3) Data-driven services on global platforms
- 4) Expanding Nixu's market presence

Nixu's key strategic objectives are to expand presence into new geographical areas and new customer segments. The company aims to stand out from the competitors and outgrow the market by strengthening its position, especially in digital business and industrial IoT cybersecurity solutions. According to our view, geographical presence is strengthened especially through organic growth in Finland and through acquisitions outside Finland. With regard to the service offering, growth and competitive advantage are pursued by building scalable

service models based on proprietary technology.

We consider it important that the company set off to building the bridge towards continuous "as a service" delivery models in time in its strategy. On the one hand, this responds to the market demand trend towards outsourced cybersecurity and secures the company's competitive advantages and continuity of business, with tightening competition in the sales of specialist resources.

According to our view, Nixu aims to build an extensive talent network in Northern Europe in the years to come, ideally acting together in a network-like manner. In this respect, the door has already been opened to the Netherlands (organic growth + acquisition), Sweden (four small acquisitions) and Denmark (Ezenta-acquisition). The new countries still operate relatively independently, and business synergies between the countries would emerge from replicable service and technology concepts and the ability of the country organisations to utilise the extensive expertise, resources and 24/7 control room services of the Finnish central organisation.

Nixu's strategic objective is to achieve more than 15 % annual growth and more than 10 % EBITDA of revenue on average in the medium term. The growth will be based on internationalisation, acquisitions and growth in the existing customer accounts. The company has a strong customer base of more than 400 customers, offering good growth potential through growth in customer-specific revenue. The success of the growth is not particularly dependent on securing new customers. With regard to profitability, the company will, according to our estimate, remain at under the target level of 10 % in the current investment phase of strong growth, but in the long term, the company should have the

prerequisites for an EBITDA margin of more than 15 %, if the strategy succeeds.

Development area 1 of the strategy: Cybersecurity talent community

Extensive cybersecurity expertise, skilled team and its continuous development are important to Nixu's business, as managing entities is critical from the customer's point of view in protecting against cyber threats. A metaphor in the industry is that many customers typically behave in a way in which a thick armored door is built as the front door, while forgetting to lock the windows. Parties specialising in a single cybersecurity technology (suppliers of armoured doors) are not necessarily capable of providing an adequate level of protection for the customer's cybersecurity on the whole. Therefore, the market should have an inherent need for a technology-independent provider of turnkey solutions such as Nixu that understands the big picture and is able to combine the technologies required for the level of protection needed by the customer. Nixu nowadays also has expertise in legal affairs concerning information protection, for example.

From the point of view of the success of international growth in the future, it is important for Nixu to achieve a distinguished position in the international information security company, as the company has already been able to do in Finland. This would strengthen the company's ability to recruit and retain the best professionals in the cybersecurity industry, which is vital to an expert organisation such as Nixu. The cybersecurity market suffers from a significant shortage of talent globally and, therefore, having a talent community of one's own creates an important competitive advantage.

Strategy and competitive advantages 2/4

Development area 2 of the strategy: Cybersecurity partner for digitalisation

Cybersecurity has traditionally been a mandatory support function for the customer organisation's IT by nature, with a small proportional share of the IT budget. As companies are digitising their business operations, the need for cybersecurity services will, however, grow strongly so that new digitalisation investments are implemented securely and the businesses functions emerging with them are protected against continuously increasing cyber threats. Nixu wants to act increasingly work as companies' cybersecurity partner and facilitator or their digitalisation projects. In digitalisation projects, the budget allocated to cybersecurity can be considerably larger than in companies' IT administration, as many projects aim to create new business for the company. In new digital business functions, companies' digital assets are increasingly in the cloud instead of the company's in-house data centres, which emphasises the role of cybersecurity. Nixu sees particularly strong growth opportunities in facilitating its customers' utilisation of industrial IoT and digital identities. The most recent IoT agreements valued at millions of euros announced by Nixu prove that the company is advancing well with its strategy in this area.

Development area 3 of the strategy: Data-driven services on global platforms

Nixu also aims to digitise its own business. The idea is that data accumulating in the joint systems used by the company will be increasingly used in serving the customers and developing the company's own operations in the future. The traditional consulting business still relies largely

on the expertise of individual consultants and case archives. The company is investing in the One Nixu platform, which acts as the consultants' working platform as well as a data platform on which new data-driven business models can possibly be built in the future. The company's control room services and consulting activities accumulate enormous amounts of data that can be increasingly utilised in the future using artificial intelligence and machine learning. If successful, this will provide business operations with added scalability and customer relationships with better permanence, with Nixu gaining a deeper insight into its customers' business. The One Nixu platform is still very much in the development phase at this point.

Development area 4 of the strategy: Expanding Nixu's market presence

According to our view, organic expansion into new countries is difficult in specialist services requiring a high level of trust, such as those of Nixu. The company's business model typically requires local presence close to the customer, and customer orientation is an important competitive advantage for Nixu; therefore, large-scale production of services from Finland is difficult. In order to become the number one choice as a trusted cybersecurity partner for companies in Northern Europe in accordance with its vision, Nixu will need to expand its presence in these markets closer to the customer. We believe that strategic acquisitions will be the primary method of expanding into new markets. We consider organic expansion into new countries to be challenging, which has in part been proved in the company's expansion into the Netherlands.

Acquisitions as the spearhead of the

internationalisation strategy

Nixu opened the door to internationalisation in October 2015, when the company announced that it will open an office in the Netherlands. The company estimates that the Dutch unit will have a few dozen employees within a few years. According to Nixu, the Netherlands are a developed and also highly competed market in the area of cybersecurity.

In 2016, the company took significant steps towards internationalisation through two acquisitions in Sweden. In March, the company acquired Europoint Networking, a company with an annual revenue of EUR 1.9 million, and in October, the company announced that it will acquire Safeside Solutions, a company with an annual revenue of EUR 2.4 million.

During 2017, the company completed two acquisitions with which it strengthened its position in Sweden and the Netherlands in particular. In May, the company acquired Expert Solution Support Center (ESSC), a Dutch company with an annual revenue of EUR 3.1 million and operations in the United States, Romania and Australia in addition to the Netherlands. In June, Nixu acquired Bitsec, a Swedish company with an annual revenue of EUR 2.5 million. The company thereby already has a team of more than 60 professionals in Sweden, making it one of the biggest operators in the country's fragmented market.

Nixu has succeeded in carrying out the above-mentioned four acquisitions at very moderate valuation levels. The price paid for Bitsec equaled an EV/S multiple of roughly 1.0x, while the other three acquisitions were made at revenue multiples of under 1.0x.

Strategy and competitive advantages 3/4

Even though we have warned about the valuations of cybersecurity rising too high for Nixu, it seems that Nixu has found a clear “sweet spot” in acquiring small teams, practically as an alternative to recruitment. With these acquisitions, the company will access new markets, obtain an existing team and existing customer accounts, which is considerably easier than organic expansion. The strategy seems to be working well, especially with regard to Sweden.

According to our view, Nixu actively surveys potential acquisitions in the rest of Northern Europe as well, even though in the short term we expect the company to focus on developing the Dutch and Swedish operations. In the Netherlands in particular, the company has faced challenges in launching organic growth in recent years, and the Netherlands generated losses of approximately EUR 0.6-0.7 million at the EBITDA level in 2016-2017. According to the company, however, the ESSC acquisition should increase the awareness of Nixu in the Netherlands and thereby assist in securing new customers.

Nixu also established a subsidiary in the United States in 2016, and according to our view, the company has had a team of a few employees in the US, seeking market understanding of the far more developed US cybersecurity market. With the ESSC acquisition, Nixu also obtained a few customer accounts in the United States. As we understand it, Nixu is not currently seeking growth in the United States, but focuses on managing the existing customer accounts, while growth investments are focused on Northern Europe.

Of Nixu’s previous acquisitions, Panorama Partners acquired in Finland in 2014 seems like a

well-timed, moderately priced and successful acquisition.

Focus on integrating previous acquisitions and on future acquisitions

As Nixu has made several small acquisitions in recent years, our attention is now increasingly paid to how the company succeed in integrating the acquisitions. For the time being, it seems that no abnormal challenges have emerged in integrating the acquisitions. The company wants to avoid the emergence of a siloed portfolio organisation, so significant investments will be made in integrating the acquisitions so that benefits of scale from a unified Nixu can be utilised in the future. These are in part growth investments that currently burden Nixu’s profitability.

Following the listing from First North to main list fall 2017, Nixu has good resources for continuing acquisitions, and the company has also begun to accumulate good expertise in acquisitions. In Nixu’s future acquisitions, the objects will probably be small teams of a few dozens experts, and valuation levels are typically lower in such acquisitions. Larger transactions are not out of the question, but there are fewer available, and the valuation levels of larger entities are typically considerably higher as well.

Continuous services

Cybersecurity control room services are at the core of Nixu’s strategy focused on continuous services, and the company also develops proprietary technologies to support them. In 2015, Nixu launched its Cyber Defence Centre service. The Security operations center market has rapidly begun to take its shape in Finland after this, and

SOC services are provided by Tieto, Elisa, CGI and Telia’s Cygate, for example. F-Secure’s Rapid Detection Service also partly competes with Nixu’s CDC services. We do not consider Elisa and Telia to be an essential competitive threat to Nixu, as the approach and target group of a teleoperator differ from those of Nixu, a specialist in cybersecurity services.

As a business model, CDC operations require front-loaded investments from Nixu, but they provide scalability and continuity once a sufficient number of customers is reached. In addition, the CDC acts as an important “barker” for projects, as settling security breaches detected by the center often requires using separately charged specialist services. In 2017, offering managed services also began in Sweden, and the first CDC customer accounts in the country are already live.

In managed services, Nixu’s challenge in the competition for global customers may, to our minds, arise from the company’s limited scale, as the company’s larger global competitors can offer continuous managed services from their numerous 24/7 SOC’s.

From the point of view of an investor, it is essential to note that the development of proprietary service technologies and front-loaded investments in control room services burden Nixu’s profitability in the short term, as the company does not capitalise R&D expenditure. The CDC operations becoming profitable also requires reaching a certain critical customer mass. According to our view, the company has progressed very successfully in ramping up its CDC services in the Finnish market until now.

Strategy and competitive advantages 4/4

Competitive advantages

Market position gives a head start

According to our view, Nixu's competitive advantages supporting the strategy include the company's strong brand and customer accounts in Finland, focus on cybersecurity services, agility of a small specialised operator, presence close to the customer, extensive service portfolio and benefits of scale compared to smaller companies as well as the company's proprietary productised services. In particular, we emphasise the company's unique position in the Finnish market as the only significant IT firm specialising in cybersecurity, as the waves of consolidation have flushed the operators closest to Nixu away in recent years.

Brand is important in the sector

The cybersecurity market is still emerging, and the decision-makers of organisations on average do not necessarily know who to turn to in questions relating to cybersecurity. Customers do not necessarily understand how and from whom cybersecurity should be purchased and, therefore, sales expertise and reputation are emphasised. Creating a strong brand as a competitive advantage is emphasised as cybersecurity-related matters increasingly surface. According to our view, the pricing power provided by brand is higher in cybersecurity services than in conventional project-like IT services, and that the customer relationships are closer and last longer due to trust bonds. Nixu has a strong brand and awareness in its own target group in Finland, but awareness of the company is its weakness outside Finland.

"as a Service" delivery models bind customers

Nixu has progressed well with its strategy towards offering cybersecurity as an outsourced continuous service, and the company's control room operations are advancing steadily. The continuous service models bind the customer to the company stronger, with Nixu integrating closely to the customer's IT environment. Continuous services already accounted for 39 % of the company's revenue in 2018.

Extensive knowledge of technologies is emphasised

Cybersecurity cannot be resolved simply by purchasing a lot of cybersecurity technologies using a hefty amount of money. Due to the complexity of customers' IT environments on the one hand and of cyber threats on the other, reaching the adequate level of protection requires comprehensive technology and service expertise. This makes it difficult for small vendors and companies focusing on reselling information security products to remain competitive.

Operating close to the customer is important in global competition

As Nixu is internationalising, it will face several global players in the competition. In this case, the ability to be able to operate close to the customer is emphasised as a competitive factor, making the customer relationships closer and strengthening the trust between the cybersecurity provider and customer. Nixu's aim to build an extensive talent network in Northern Europe supports this competitiveness factor as the company's strategy succeeds.

Summary

Income statement	2016	2017	2018	2019e	2020e	Per share data	2016	2017	2018	2019e	2020e
Revenue	21,5	32,3	40,1	56,9	66,3	EPS (reported)	0,01	-0,03	-0,27	0,11	0,30
EBITDA	0,8	1,1	-0,3	2,9	4,6	EPS (adj.)	0,02	0,01	-0,18	0,13	0,32
EBIT	0,4	0,5	-1,5	1,4	3,2	OCF / share	0,08	-0,04	-0,04	0,13	0,44
PTP	0,3	0,1	-1,9	1,0	2,8	FCF / share	-0,65	0,45	-0,09	-0,78	0,03
Net Income	0,1	-0,2	-2,0	0,8	2,2	Book value / share	1,33	2,85	2,33	2,41	2,71
Extraordinary items	-0,1	-0,3	-0,7	-0,2	-0,2	Dividend / share	0,00	0,00	0,00	0,00	0,00

Balance sheet	2016	2017	2018	2019e	2020e	Growth and profitability	2016	2017	2018	2019e	2020e
Balance sheet total	17,4	36,8	35,3	41,3	45,2	Revenue growth-%	19 %	50 %	24 %	42 %	17 %
Equity capital	8,2	18,9	16,8	17,6	19,8	EBITDA growth-%	-61 %	38 %	-123 %	-1233 %	61 %
Goodwill	5,6	9,8	9,6	14,8	16,3	EBIT (adj.) growth-%	-75 %	53 %	-202 %	-302 %	114 %
Net debt	0,8	-3,4	-0,1	5,9	6,0	EPS (adj.) growth-%	-92 %	-23 %	-1322 %	-174 %	143 %

Cash flow	2016	2017	2018	2019e	2020e	EBITDA-%	2016	2017	2018	2019e	2020e
EBITDA	0,8	1,1	-0,3	2,9	4,6	EBIT (adj.)-%	2,3 %	2,4 %	-1,9 %	2,8 %	5,1 %
Change in working capital	-0,2	-1,1	0,1	-1,6	-0,7	EBIT-%	2,0 %	1,5 %	-3,6 %	2,5 %	4,8 %
Operating cash flow	0,5	-0,3	-0,3	0,9	3,2	ROE-%	0,7 %	-1,3 %	-11,0 %	4,7 %	11,7 %
CAPEX	-4,5	-6,2	-2,4	-6,7	-3,0	ROI-%	3,8 %	2,5 %	-5,4 %	5,2 %	10,9 %
Free cash flow	-4,0	3,0	-0,7	-5,7	0,2	Equity ratio	47,2 %	51,4 %	47,6 %	42,7 %	43,9 %
						Gearing	9,3 %	-17,9 %	-0,7 %	33,5 %	30,3 %

Largest shareholders	% of shares
Nordea Bank Ab (Hallintarekisteröidyt)	11,1 %
Gylfe Bo Peter	9,9 %
Keskinäinen eläkevakuutusyhtiö Varma	3,6 %
Tenendum Oy	3,4 %
Skandiska Enskilda Banken Ab (hallintarekisteröity)	2,8 %
Sijoitusrahasto Taaleritehdas Mikro Markka	2,8 %

Source: Inderes

Valuation multiples	2016	2017	2018	2019e	2020e
EV/S	1,8	2,4	1,4	1,7	1,4
EV/EBITDA (adj.)	48,8	69,0	neg.	33,1	20,6
EV/EBIT (adj.)	78,9	>100	neg.	60,8	28,4
P/E (adj.)	>100	>100	neg.	92,7	38,2
P/B	4,7	4,2	3,3	5,1	4,5
Dividend-%	0,0 %	0,0 %	0,0 %	0,0 %	0,0 %

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Recommendation potential*	Upside
Buy	> 15 %
Accumulate	5 - 15 %
Reduce	-5 - 5 %
Sell	< -5 %

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
20.4.2015	Accumulate	5,10 €	4,65 €
17.8.2015	Accumulate	5,10 €	4,70 €
15.10.2015	Accumulate	5,00 €	4,42 €
17.12.2015	Accumulate	5,00 €	4,49 €
18.2.2016	Accumulate	5,40 €	4,78 €
13.4.2016	Accumulate	5,40 €	4,95 €
17.8.2016	Accumulate	5,60 €	5,23 €
11.10.2016	Accumulate	5,80 €	5,40 €
10.11.2016	Accumulate	6,20 €	5,48 €
17.2.2017	Accumulate	7,10 €	6,74 €
9.3.2017	Reduce	7,30 €	7,20 €
13.4.2017	Reduce	7,80 €	8,32 €
31.5.2017	Reduce	8,20 €	8,37 €
18.8.2017	Accumulate	9,50 €	8,88 €
2.10.2017	Accumulate	12,00 €	11,15 €
7.12.2017	Reduce	12,00 €	12,50 €
17.1.2018	Reduce	12,00 €	12,05 €
9.3.2018	Reduce	12,00 €	11,90 €
21.6.2018	Reduce	13,00 €	13,15 €
17.8.2018	Reduce	12,50 €	12,70 €
16.10.2018	Reduce	10,00 €	10,35 €
27.11.2018	Accumulate	9,00 €	8,10 €
30.1.2019	Accumulate	9,50 €	9,00 €
1.3.2019	Accumulate	9,50 €	8,48 €
29.3.2019	Accumulate	11,00 €	10,30 €
17.4.2019	Reduce	12,00 €	12,20 €

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