# WithSecure

## Extensive report

**5/23/2024**

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Inderes corporate customer

This report is a summary translation of the report “Yritystietoturvan eurooppalainen vaihtoehto” published on 5/23/2024 at 7:10 am EEST.

# The European alternative for corporate cybersecurity

We reiterate our Accumulate recommendation and EUR 1.3 target price for WithSecure. WithSecure has undergone major changes over the past year or so, as the company has sharpened its strategy and adjusted its cost structure to reflect a slower-than-expected growth outlook. Despite this, the company's core business has continued to grow reasonably well in recent quarters and its profitability has developed favorably. Although the weak economic environment and intense competitive pressure in the cybersecurity market continue to create uncertainty about future growth, the stock's valuation (EV/S 1.1x) seems low for a turnaround that is well underway. We also expect the divestment of the consulting business, which is expected to take place this year, to support the share price.

### SaaS-based cybersecurity provider for mid-market  companies

In its strategy, updated in October 2023, WithSecure will focus on becoming a SaaS-based cybersecurity provider for the mid-market, leveraging its strong partner channel to achieve sales scalability. WithSecure focuses on serving mid-sized customers (200-2,000 employees) with its Elements software platform and complementary Co-Security services. This target group has a clear need for protection against targeted attacks, but with limited cybersecurity budgets available, they want to get the most out of their security investments. WithSecure is able to offer competitive products for this target group and already has a large network of partners to scale sales.

### Large and fast-growing markets with fierce competition

WithSecure operates in a strong long-term growth market for corporate cybersecurity, where the cooling economic environment has reduced near-term growth prospects and increased competition. Although the development of the competitive landscape in recent years looks worrying from WithSecure's point of view in some respects (e.g. the rise of Microsoft), the still very fragmented and large market offers WithSecure good room for growth. In a large market, there will always be pockets where small and medium-sized specialized players can operate. In the competitive field, WithSecure is profiled as a notable European alternative against the America-dominated group of main competitors. Overall, however, we believe that fierce competitive pressure in the market is one of the key long-term threats to WithSecure's growth story, both in terms of growth multiples and potential pricing pressure on profitability.

### With turnaround well underway, valuation looks low

WithSecure's EV/S multiple for the current year (1.1x) seems very low in the context of software companies, although the combination of growth and profitability (Rule of 40: 2024e-2025e: 2-5%), which is still very modest at group level, does not suggest particularly high multiples. Beneath the surface, however, the current valuation seems low relative to the progress of the ongoing turnaround in the core business. Also, the EV/ARR ratio (2.0x) relative to annual recurring revenue for cloud-based products does not set a high bar for continued growth and profitability. SOTP also indicates that the stock has upside potential (EUR 1.3/share, range EUR 1.1-1.6), and in a good scenario the multiples for the software business could be even higher.

## Recommendation

**Accumulate**
(previous Accumulate)

**EUR 1.30**
(previous EUR 1.30)

**Share price:**
1.07


## Key figures

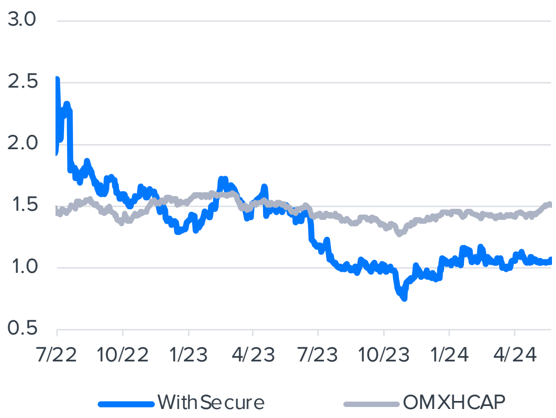
| | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|
| **Revenue** | 143 | 151 | 160 | 170 |
| **growth-%** | 6% | 6% | 6% | 6% |
| **EBIT adj.** | -26.3 | -6.5 | -1.0 | 4.7 |
| **EBIT-% adj.** | -18.4 % | -4.3 % | -0.6 % | 2.8 % |
| **Net income** | -40.0 | -6.6 | -2.7 | 2.0 |
| **EPS (adj.)** | -0.13 | -0.02 | 0.00 | 0.03 |
| | | | | |
| **P/E (adj.)** | neg. | neg. | neg. | 42.7 |
| **P/B** | 1.8 | 2.0 | 2.0 | 2.0 |
| **Dividend yield-%** | 0.0 % | 0.0 % | 0.0 % | 0.0 % |
| **EV/EBIT (adj.)** | neg. | neg. | neg. | 35.8 |
| **EV/EBITDA** | neg. | 54.2 | 21.4 | 12.3 |
| **EV/S** | 1.1 | 1.1 | 1.1 | 1.0 |

Source: Inderes

## Guidance (Unchanged)

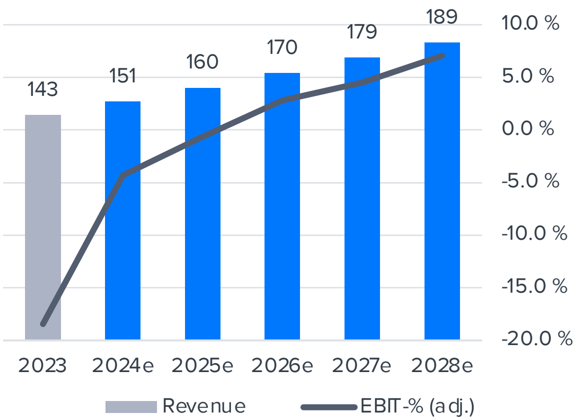
Annual recurring revenue (ARR) for Elements Cloud products and services will grow by 10-20 % (2023: 78.4 MEUR) and revenue will grow by 10-16% (2023: 76.1 MEUR). Total revenue of the group will grow by 6–12 % from previous year (2023: 142.8 MEUR). Adjusted EBITDA of full year 2024 will be positive.

## Share price



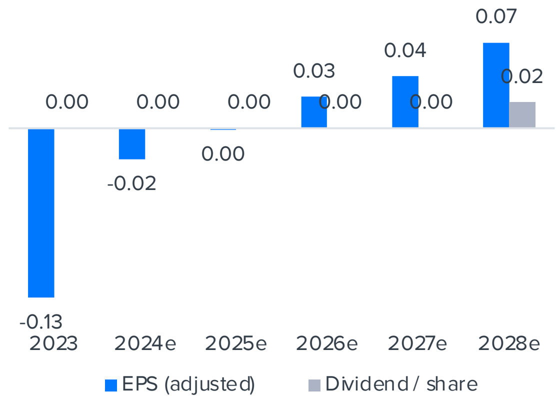

Source: Millistream Market Data AB

## Revenue and EBIT-%




Source: Inderes

## EPS and dividend




Source: Inderes

## Value drivers

- Strong long-term demand outlook for corporate cybersecurity.
- Growth of cloud-based products
- Profitability and cash flow turnaround
- WithSecure has good preconditions to invest in growth
- Scalable and continuous business model by nature
- Divestment of consulting would sharpen the investment profile

## Risk factors

- Impact of the weak economic outlook on short-term demand prospects
- Tight competitive situation in the market and rapid change rate
- Growth may require higher investments than the company's targets
- Cybersecurity market potentially over-invested
- Tight competition for experts and wage inflation

| Valuation | 2024e | 2025e | 2026e |
|---|---|---|---|
| Share price | 1.07 | 1.07 | 1.07 |
| Number of shares, millions | 176.0 | 176.0 | 176.0 |
| Market cap | 188 | 188 | 188 |
| EV | 173 | 174 | 169 |
| P/E (adj.) | neg. | neg. | 42.7 |
| P/E | neg. | neg. | 93.5 |
| P/B | 2.0 | 2.0 | 2.0 |
| P/S | 1.2 | 1.2 | 1.1 |
| EV/Sales | 1.1 | 1.1 | 1.0 |
| EV/EBITDA | 54.2 | 21.4 | 12.3 |
| EV/EBIT (adj.) | neg. | neg. | 35.8 |
| Payout ratio (%) | 0.0 % | 0.0 % | 0.0 % |
| Dividend yield-% | 0.0 % | 0.0 % | 0.0 % |

Source: Inderes

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# WithSecure in brief

WithSecure is a cybersecurity products and services company whose solutions help thousands of organizations protect themselves from security threats.

**1988**
Year of establishment

**1999**
IPO

**142.8 MEUR** (+6%)
Revenue 2023

**+12%** 2014-2023
Average growth of corporate cybersecurity revenue (CAGR)

**88.7 MEUR** (+9%)
ARR of cloud-based products at the end of Q1'24

**-16.1 MEUR** (-11% of revenue)
Adjusted EBITDA 2023

**996**
Personnel at the end of Q1'24

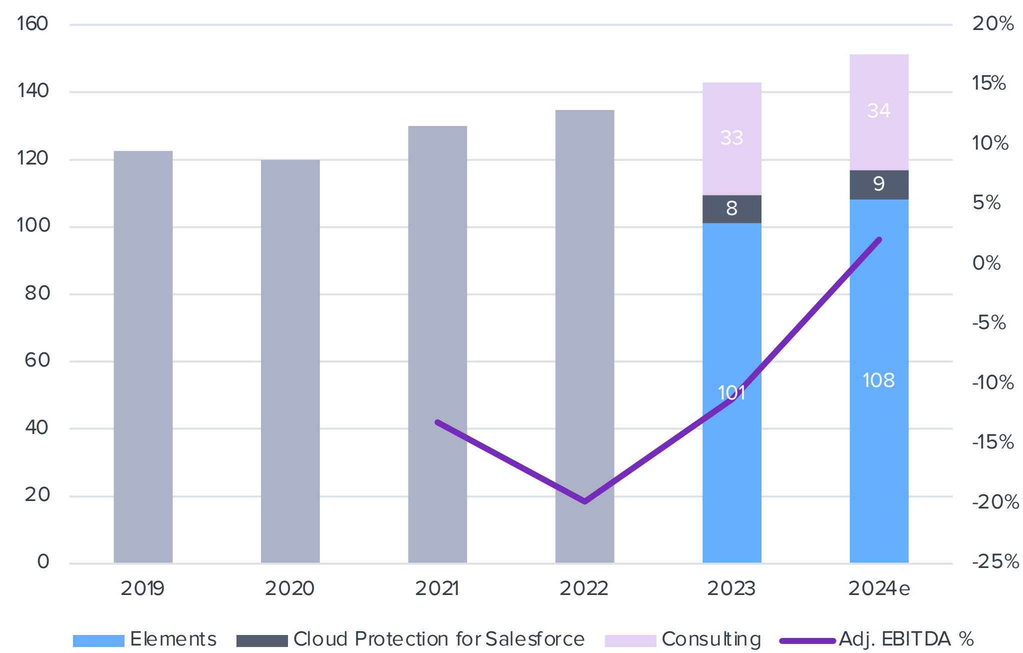
**2014-2022**

- Focus on growing corporate security markets
- Transforming into a more versatile provider of cybersecurity products and services
- MWR acquisition to accelerate growth strategy in 2018
- Consumer security demerged into its own listed company (F-Secure) on June 30, 2022

**2023-**

- Significant adjustment of cost structure to reflect slowing growth outlook
- The growth of cloud-based products for mid-market customers through the partner channel is at the heart of the updated strategy.
- Consulting and Cloud Protection for Salesforce under strategic review

**Revenue and profitability**




Source: WithSecure / Inderes

# Company description and business model 1/5

## Company description

### Software company focused on corporate security

WithSecure (formerly F-Secure) has deep roots in the antivirus software business, where the company has been active since its founding in 1988, practically as long as computer viruses and malware have existed. Throughout its history, WithSecure has developed a strong expertise, reputation and brand in the fight against malware and security attacks, how they evolve and how their industrial logic works. WithSecure's software has won numerous awards in international security testing and the company's endpoint protection products have been sold to hundreds of thousands of companies worldwide. WithSecure employed 996 people at the end of Q1'24.

Historically, WithSecure's business has focused on strong expertise in endpoint protection, with a focus on preventing attacks and threats. Over the past decade, the market has shifted from a focus on preventing attacks to one of rapid detection and a mindset that views cybersecurity as a process rather than a product. In response to market change, WithSecure successfully transformed from an antivirus company into a versatile provider of cybersecurity products and services in 2014-2021. The clarification of the strategy in this regard was sealed on June 30, 2022, when the consumer cybersecurity business (now F-Secure) was spun off into its own independent listed company.

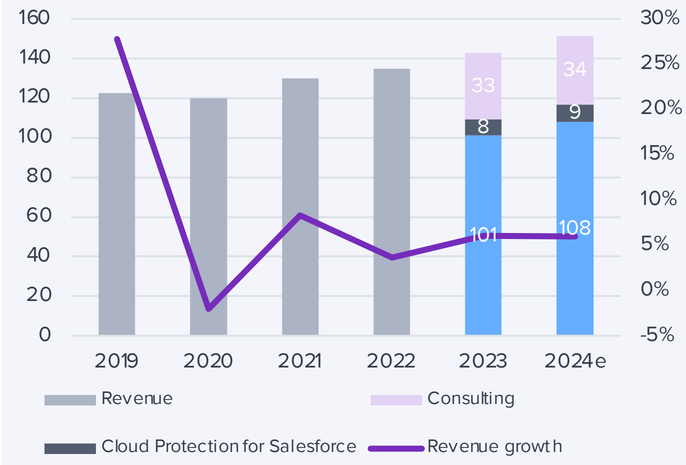
WithSecure has invested heavily in growing its cloud-based product portfolio. In the short term, this has weighed on the company's profitability, which is now turning sustainably positive thanks to significant cost savings in 2023. The pursuit of strong growth remains the company's focus, and with the profitability base in place, this will start to be more strongly reflected in the bottom line. However, competition is tight in a rapidly growing market, and the industry remains highly fragmented. In the competitive field, WithSecure is profiled as a notable European alternative against the America-dominated group of main competitors.

In 2023, WithSecure's revenue was 143 MEUR and adjusted EBITDA -16.1 MEUR. The share of cloud-based products and services at the heart of the strategy has increased significantly in recent years (57% in 2023). This is driven not only by strong growth, but also by customers' strategic shift from on-premise products (2023: 17% of revenue) to cloud solutions. The Consulting business area, which has faced challenges in recent years and is under strategic review, accounted for 23% of revenue last year.

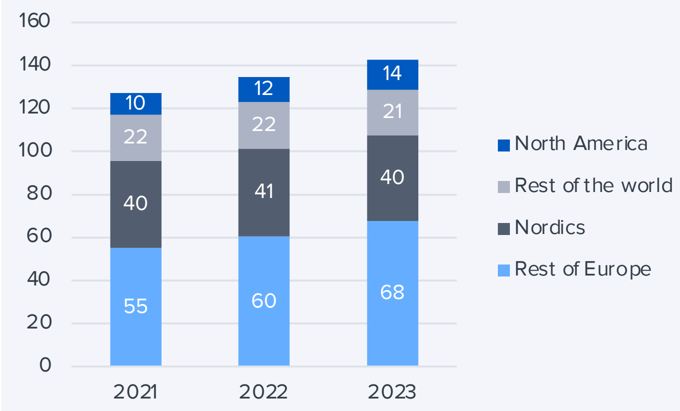
Geographically, WithSecure's business is focused on Europe. The Nordic countries (28%) and the rest of Europe (47%) accounted for the majority of the company's revenue last year. Of the other countries (15%), Japan is a good growth market for the company. In the extremely competitive North American market (10% of revenue), increased efforts are being made to defend existing positions.

By customer segment, WithSecure targets mid-market companies (200-2,000 employees) that have a growing need to invest in cybersecurity, but limited resources that prevent them from building their own internal security teams.

**Revenue development**




**Revenue development by geography (MEUR)**




Source: Inderes

# Company description and business model 2/5

## Business model

### Sales, marketing and distribution channels

WithSecure has invested heavily in increasing its corporate security revenue, which has been reflected as high investment in sales and marketing resources in recent years. In 2023, the company adjusted its cost structure to reflect the slower growth outlook, resulting in reductions in this area as well. By the end of 2023, 26% of the company's employees worked in sales and marketing.

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

WithSecure's customer base for cybersecurity products consists mostly of relatively small companies, but for new customers the focus has been on medium and large companies for some time. In total, the company has over 100,000 active customers. The company provides managed detection and response (MDR) services and cybersecurity consulting primarily through its own sales organization. As a result of organizational changes, the Consulting business, which focuses on large companies, now has its own sales function.

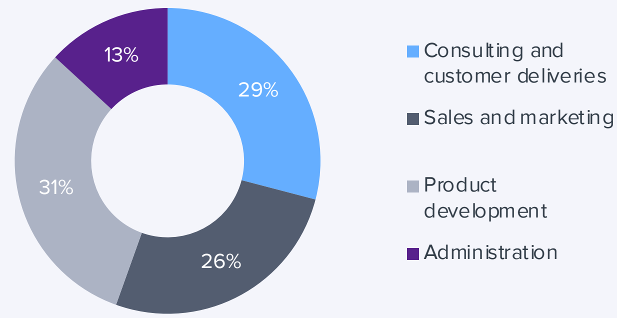
### Product development

At the end of last year, approximately 31% of WithSecure's employees worked in product development. The focus of product development is on enhancing the functionality of existing solutions on the cloud-based Elements platform and developing new products/features. In recent years, development of the Elements platform and thus integration of the product portfolio have been key to providing customers with more comprehensive security solutions. The demerger from F-Secure has also created a lot of work and resources in recent years as both companies have built their independent technology platforms while continuing to work together in certain areas under transitional service agreements (TSAs).

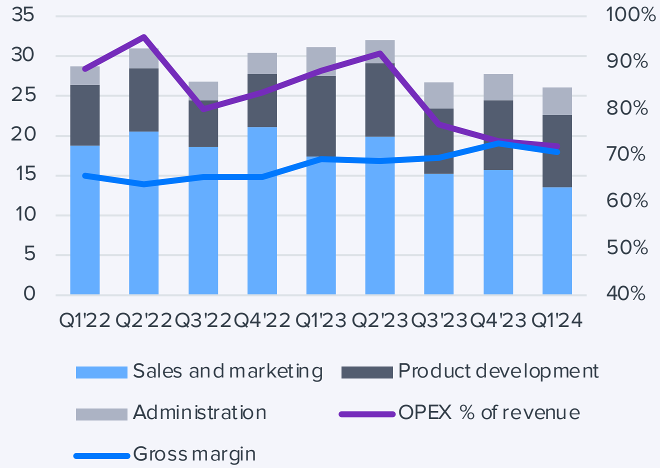
Going forward, there will be an increased focus on the development of new solutions and new product launches (Exposure Management) will be announced at the company's SPHERE24 event in May. WithSecure's products collect a wealth of data from customers' IT networks every day, which is processed using artificial intelligence and machine learning to detect malware and security threats. The insights processed from this data stream is used to refine existing products and develop new ones.

Cloud Protection for Salesforce, built on the Salesforce platform, has also been a focus of product development. This business is currently under strategic review and a partner is being sought to finance its development and growth.

**Personnel distribution by function 2023**




**Development of operational cost structure* and gross margin**




Source: Inderes, *adjusted for write-downs, depreciation, one-off items and effects of TSA contracts

## Partners

IT service partners

IT integrators

Resellers

## Operations

Product development

Sales and marketing

Consulting and managed services

WithSecure Labs research center

## Resources

Long-term cybersecurity expertise

Cybersecurity technologies and software

Extensive partner network

## Business idea

**WithSecure offers a comprehensive selection of cybersecurity solutions and services to enterprises.**

WITH secure

- Strong and long-term technological expertise in endpoint protection
- Competitive cloud-based solutions on the Elements platform
- Support services that complement own software
- European option for a security partner

## Sales channels

IT service partners: +7000 partners

Direct sales

## Customer segments

Large companies and public associations

SMEs

## Products/Services

At the heart of the strategy

- Endpoint protection, cloud security, threat detection and response
- Cyber-threat exposure management capabilities
- + Co-Security services

Under strategic review

- **Cloud Protection for Salesforce:** A solution that complements the security features of the Salesforce platform
- **Consulting:** Proactive security services and building customer cyber-resilience.

## Operational cost structure* (2023)

Materials and services (30 % of revenue)

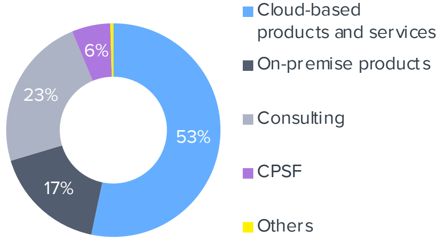
Sales and marketing (48%)

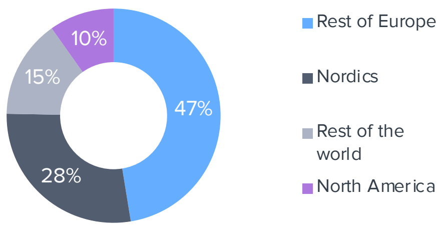
Research and development (25%)

Administration (9%)

## Income flows (2023)

**Revenue 142.8 MEUR**
**Adj. EBITDA -16.1 MEUR**




Source: Inderes, *adjusted for write-downs, depreciation, one-off items and effects of TSA contracts

# Company description and business model 3/5

## Solutions

WithSecure's corporate security business consists of product business, managed services, where the product and service are combined, and pure service business. The product business is excellently scalable due to replicability. Managed services (MDR) are also scalable, even if a service component is included. In consulting, scalability is limited due to the nature of the business. Adjusted EBITDA in WithSecure's core Elements segment was positive for the first time in Q1'24 (3.6%) and the segment's gross margin (79.5%) is high.

In Q2'21, WithSecure launched the cloud-based Elements platform around which the company's corporate security product offering is built. The platform enables the company to provide flexible individual or more extensive turnkey solutions for endpoint protection and cloud security based on customer needs. The customer can flexibly choose from a conventional annual license, continuous monthly billing, or a usage-based security model. Elements is at the heart of WithSecure's efforts to acquire and grow new customers over time, as well as provide up-sell and cross-sell opportunities to existing customers. In 2022, only about 16% of customers used more than one WithSecure product. We understand that the percentage has increased since then, but the potential for customer expansion is still significant. We will now briefly review the company's main solutions.

## Extended Detection and Response (XDR)

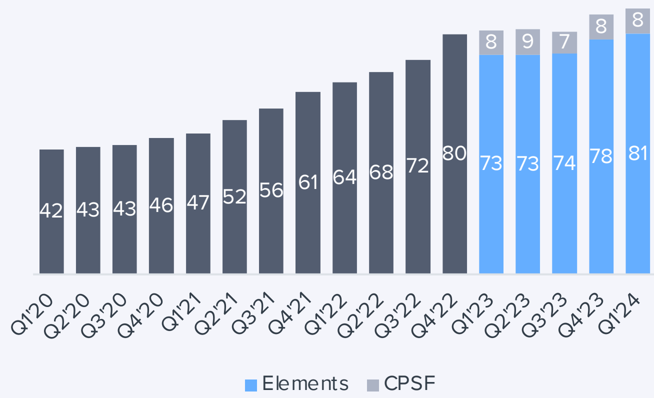
In practice, WithSecure's endpoint protection and threat detection and response solutions fall under this product area. This is complemented by Collaboration Protection and Identity Security for cloud services. The identity security solution will be launched at the SPHERE24 event in May. Together, the above products form what is known as a complete XDR solution.

### Endpoint protection products (EPP)

We estimate that the most significant part of WithSecure's revenue still comes from endpoint protection (EPP) products, for which demand is stable and the market is growing. These products represent the company's core competences and are a key part of the product portfolio. The target customer group for these products are SMEs. The size category of annual contracts varies from hundreds of euros to some tens of thousands of euros.

WithSecure's customer base in this product group focuses heavily on small companies, where the role of the sales partner is emphasized in the customer's purchase decision. Customer awareness of cybersecurity issues is usually low and purchasing decisions are often made based on price or the recommendation of a sales partner. Comparisons by research institutes that test security software also affect customers' purchase decision. WithSecure's EPP products have performed very well in industry security tests over the years.

**Recurring revenue development of cloud-based products**




**ARR growth % for cloud-based products**


Source: WithSecure, Inderes

# Company description and business model 4/5

### Endpoint Detection & Response (EDR)

In 2018, WithSecure released an automated endpoint detection and response (EDR) tool. EDR acts as an additional capability on top of EPP products. In the market, this product area has virtually merged with EPP products, which has boosted the growth rate of the endpoint protection market.

EDR offers additional sales potential, especially in medium-sized companies, where the need for threat detection and response is growing but security budgets are limited. According to WithSecure, the value of a traditional EPP account can, on average, roughly double when a customer switches to a complete solution that includes EDR.

EDR can also be sold separately on top of other security suppliers' EPP solutions. The end customer or sales partner can also send information on the detected abnormal event to WithSecure's service center, where the company's experts help resolve the issue. Thus, EDR also generates service revenue for WithSecure, even though the outset is a pure software product.

### Collaboration Protection

The Collaboration Protection solution is designed to complement Microsoft 365's own security features. The solution provides additional protection against attacks from the rapidly growing cloud-based Microsoft 365 email services, as well as SharePoint, OneDrive and Teams collaboration applications.

### Countercept (MDR)

Countercept is a more comprehensive solution than EDR for detecting and responding to security threats. Countercept is a managed service (MDR, Managed Detection & Response), where technology plays a major role.

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

Countercept is suitable for companies whose security requirements are high and the target group are companies with more than 1,000 employees. Even the smallest contracts range in size from several tens of thousands of euros to multi-year contracts in the millions for the largest customers. Key customer groups for Countercept include banks, media, technology, and industrial companies. MDR solutions are mainly sold as direct sales and because contracts are large, the sales cycles are typically long. Due to increased competition, WithSecure is now focusing on mid-market customers, where the company is more competitive than large customers.

For several years, efforts to grow Countercept have put a strain on WithSecure's profitability. However, thanks to the cost savings achieved in this area, the gross margin has recently moved in the right direction and closer to the target level (>70%). As growth continues, MDR solutions have the potential to deliver good profitability, as good customer service provides recurring revenue and the service component scales with growth. In terms of revenue, this solution has already grown to a significant size over the years.

### Exposure management

In recent years, WithSecure has developed its product range with cyber-threat exposure management capabilities. In the spring, the company is adding Exposure Management to its product portfolio, a new area of enterprise security that is still in its very early stages. The idea is to take a proactive approach to cybersecurity and stay on the pulse of the market by trying to patch potential vulnerabilities and weaknesses in the IT environment in advance. Exposure Management gives security teams 360-degree visibility into the digital environment and the ability to find digital exposures and simulated attack vectors before cybercriminals do.

The customer receives actionable remediation instructions for exposures in order of priority as the software continuously scans the IT environment. The customer can either act on the AI-powered recommendations or request help from WithSecure Elevate.

# Company description and business model 5/5

The market for Exposure Management is still emerging, with, e.g., Microsoft launching its own solution in this area in March 2024, which will help accelerate the market's development. WithSecure's solution will be launched in May, so the company is in the early game of a new, fast-growing product area. The company has been tight-lipped about the pricing of the product, but overall the company sees clear new growth potential in this area.

In terms of Exposure Management solutions, the company already launched the Cloud Security Posture Management (CSPM) solution in 2023. The product automatically detects and remediates risks detected in the company's cloud infrastructure. In addition, the product offering includes a Vulnerability Management solution that has been around for some time.

## Cloud Protection for Salesforce

WithSecure has developed complementary security solutions for Salesforce and Microsoft cloud platforms. WithSecure has developed cybersecurity capabilities into Salesforce's platform for checking links and appendices for malware. This Cloud Protection for Salesforce solution is distributed as an application directly through the Salesforce platform.

The product has historically grown rapidly, with a revenue of around 8.3 MEUR in 2023. Although growth has slowed in the short term, longer-term growth prospects for the product remain good. While there is potential in this business to extend the product built on the Salesforce platform to other cloud platforms, the near-term focus will remain on unlocking the full potential of the Salesforce platform.

The Cloud Protection for Salesforce business is undergoing a strategic review and is looking for a partner to help fund some of the investments needed to accelerate growth. The solution is specifically targeted at large enterprises, and therefore differs from the mid-market focus of WithSecure's updated strategy.

We believe that there are still very limited competitors to Cloud Protection Salesforce. However, a risk we see is that Salesforce would build its own solution to replace WithSecure's product, which does not seem likely at the moment.

## Cybersecurity consulting

WithSecure's consulting business is currently undergoing a strategic review, the likely outcome of which we see as a divestment of the business. Last year, the consulting business had a revenue 33.4 MEUR. This excludes incident response services and other services that directly support the product business. Historically, WithSecure has faced challenges with the growth and profitability of its consulting business, and we see the divestiture of the business and focus on the software business as a welcome solution.

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

At the end of 2023, approximately 29% of WithSecure's employees worked in consulting and customer delivery. On this basis, we estimate that the consulting business employs around 250 experts. Consulting is still mostly a project-driven business, but the aim is to move increasingly towards ongoing service contracts with its clients. The profitability of the consulting business has been modest in recent years, but with the cost savings made, profitability started to clearly improve towards the end of last year. By Q4'23, the gross margin of the consultancy under strategic review had already risen to around 55% and the adjusted EBITDA margin to as much as 19%. However, the current year got off to a much softer start, with a gross margin of 38% and an adjusted EBITDA margin of -7% in Q1.

The goal of WithSecure's consulting business was not to expand to compete with mainstream IT services companies, but to focus on detecting and preventing the most challenging security threats. More extensive cybersecurity services are offered by consultancy companies (like KPMG), IT generalists (like CGI) and specialized players (like Nixu).

# WithSecure product portfolio


Source: WithSecure, Inderes

# WithSecure's business model

**Technology and R&D**

**Analytics and monitoring platform**

## Elements

74% of revenue 2023
Gross margin Q1'24: 79.5%
Adjusted EBITDA Q1'24: 3.6%

**Software products and services (Elements)**

Recurring monthly/annual revenue or usage-based pricing

**Managed services (MDR)**

Recurring monthly/annual revenue

## Cloud Protection for Salesforce*

6% of revenue 2023
Gross margin Q1'24: 83%
Adjusted EBITDA Q1'24: -22%

Continuous monthly/annual revenue

## Cybersecurity consulting**

23% of revenue 2023
Gross margin 2023: 43%
Adjusted EBITDA 2023: -1.8%

Project-based fixed or hour-based pricing

| | | |
|---|---|---|
| Resellers / IT service partners | Small businesses (25-200 employees) | *Product sales* |
| IT service partners / direct sales | Medium sized (200-2000) | *Product and service sales* |
| IT integrators / direct sales | Large enterprises | *Product and service sales* |

*Threat detection and sensor data from millions of products in use*

*Cloud Protection for Salesforce under strategic review and looking for partner(s) to fund business growth

**Cybersecurity consulting under strategic review, where the likely scenario is divestment of the business

Source: Inderes

# Investment profile

## Growth company in corporate security

Although WithSecure's growth rate has slowed in the short term, we believe the company continues to profile itself as a growth company in corporate cybersecurity. As a result of the significant cost savings achieved, the cost structure has also been adjusted to better reflect the weaker short-term market conditions. An overhauled profitability base and a solid financial position provide a good foundation for profitable growth, provided revenue returns to an upward trajectory.

We believe WithSecure's products are technologically competitive and that growth depends primarily on the success of sales. The company's strategy is therefore to focus heavily on its partner channel, through which sales can be scaled. The company's already large customer base also offers clear opportunities for further expansion and cross-selling of the product portfolio, which has been broadened in recent years.

We welcome WithSecure's strategy update and decision to focus on the software business. The likely divestment of the consulting business will further sharpen the company's investment profile in this area.

## Strengths and drivers

**Growth in cloud-based products** is at the core of value creation. Long-term market growth prospects are good in many product areas, and market share is now being divided up. Cloud-based products are based on recurring revenue and as their share grows, the revenue structure will become more predictable.

**Turnaround in profitability and cash flow** thanks to cost savings.

**Scalable business model with good customer retention** enables good profitability in the long term. After the expected sale of the consulting business, the majority of WithSecure's revenues should come from the software business, where high gross margins provide a strong basis for a profitable business.

**Unified and expanded product portfolio** offers additional and cross-selling opportunities.

**WithSecure's stable and well-established position in endpoint protection**, particularly in Europe, provides a good platform for further growth in the future. Being European also differentiates the company in competition with North American operators.

**Broad partner channel** brings scalability to distribution and enables revenue growth in targeted growth markets.

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

## Weaknesses and key risks

**WithSecure's combination of growth and profitabilit**y looks weak in the near term, with profitability still low and slow growth in consulting and on-premise products holding back the company's overall growth. However, as cloud-based products continue to grow rapidly, the equation gradually starts to look better.

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

**Growth in the corporate security market is expensive:** In a highly competed market, winning market shares requires significant sales investments and continuous product development. WithSecure is also still new as a brand and the company still needs to make a clear effort to raise its profile.

**The huge resources of large competitors** enable clearly bigger investments in product development and sales and marketing than for WithSecure, which can change the competitive dynamic in their favor in the long term. We are particularly concerned about Microsoft's strong growth in the endpoint protection market in recent years.

**The impact of the weakened economic environment** on corporate IT budgets and therefore on the near-term demand outlook for WithSecure.

# Investment profile

**1.** **The European option among American competitors**

**2.** **A large and growing market offers good conditions for business growth**

**3.** **Scalable and continuous business model**

**4.** **After significant cost savings, the profitability base is in shape**

**5.** **Net debt-free balance sheet enables strategy implementation and investment for growth**

## Potential

- Growth of cloud-based products
- Profitability and cash flow turnaround
- The high gross margins in the product business enable good profitability in the long term
- Product portfolio and sales channels are largely in place
- Strong long-term demand outlook for corporate cybersecurity
- Divestment of consulting would sharpen the investment profile

## Risks

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

Source: Inderes

# Risk profile of the business model


Cybersecurity market technologies and threats change rapidly. Competition in the industry is very fierce.

The product portfolio is in good shape and the company's profitability base has been overhauled. Growth largely depends on success on the sales front.

Long-term demand drivers are strong on the market. Cybersecurity investments partly dependent on economic cycles as part of corporate IT budgets.

Revenue is recurring by nature and based on annual licenses of various durations and monthly SaaS fees. The customer base is widely dispersed.

High gross margins in the software business support scalability. There is also clear scalability potential in other operating cost items.

The cost structure is largely fixed and has recently been adjusted to reflect a more cautious demand outlook.

Operations tie little capital and working capital is negative.

A strong balance sheet with no net debt will allow the company to execute its strategy and, if desired, make small technology acquisitions to complement its product portfolio.

Source: Inderes

# Industry 1/4

## Market definition, size and growth

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

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

Gartner estimates that the global cybersecurity market in 2024 would be about USD 215 billion, which would mean an increase of about 14% on the previous year. The market is expected to continue to grow strongly in the coming years, and we believe that double-digit growth in the medium term remains realistic.

## Market segments

The target groups of the cybersecurity market can be roughly divided into three areas in a pyramid model (see next page) based on the intelligence of attacks and technologies. These also broadly correlate with the size of the customer organizations as the biggest organizations and state administration are typically the main targets of cyber criminals. For organizations at the top of the hierarchy, solutions that have been created for the masses at the bottom of the hierarchy do not offer sufficient protection. Correspondingly, the solutions focusing on the top levels of the hierarchy are too expensive for organizations whose activities do not require a high protection level. Development of new technology focuses on the more demanding top level segments after which the technology is replicated to the lower levels for broader segments.

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

The largest volume of the market is found in the middle of the pyramid that covers targeted attacks. In this case, the primary target group is in practice all large organizations and public administration, and especially the players whose activities include critical security of supply activities (like energy, banks and operators). Importantly, this target group is growing in size as security threats increase with technology and automation, expanding the market for sophisticated cybersecurity solutions.

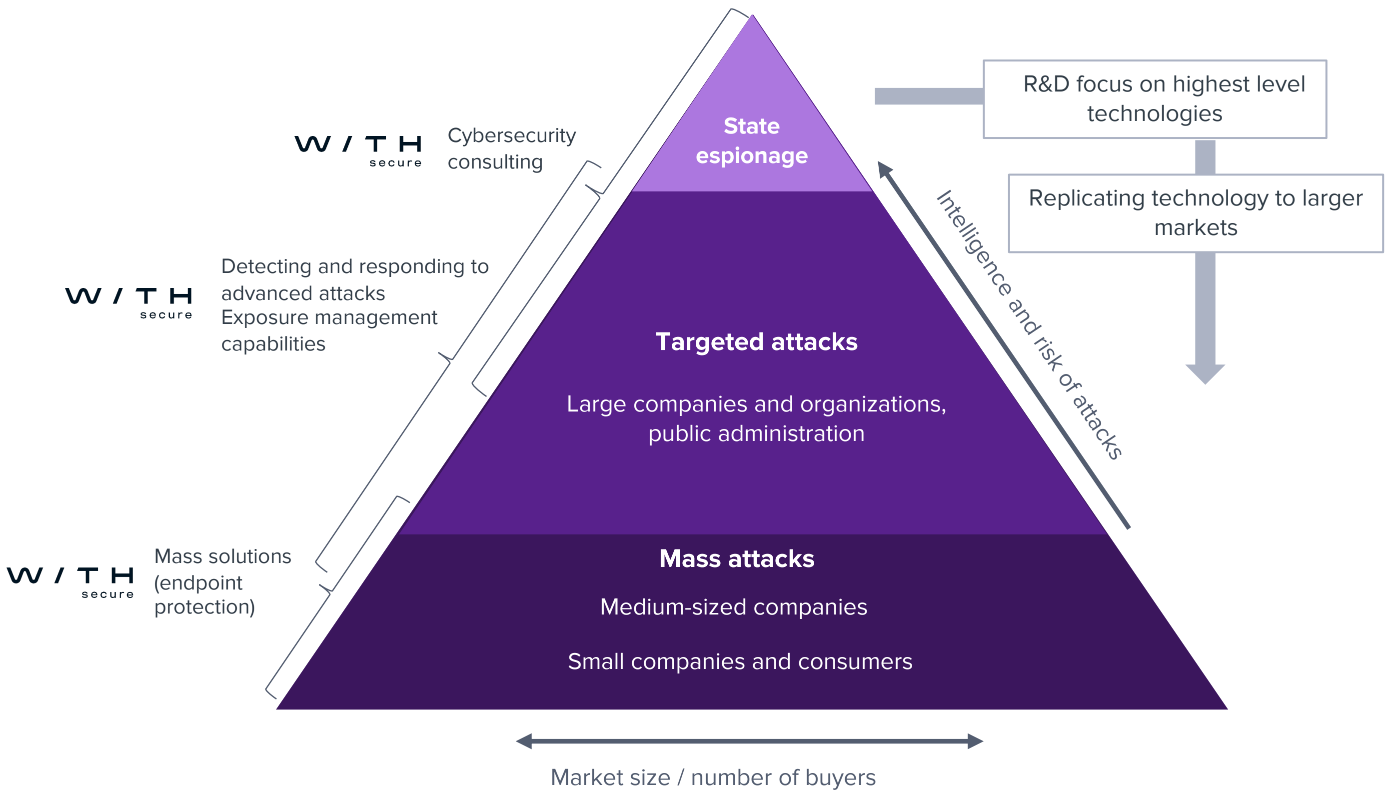
In the segment of targeted attacks (large and medium sized organizations), cybersecurity cannot be solved only with mass solutions. The cybersecurity budgets of companies in this segment are annually roughly around EUR 1-5 million, which makes it attractive to companies that offer cybersecurity services and products. Over the years, WithSecure has developed its offering to better serve customers in this segment.

The bottom layer of the triangle, which includes small and medium-sized businesses, remains a very important segment for WithSecure. For small businesses, the most important thing is often to protect against mass attacks, which can be accomplished with common "off-the-shelf" security products such as endpoint and identity protection products and firewalls.

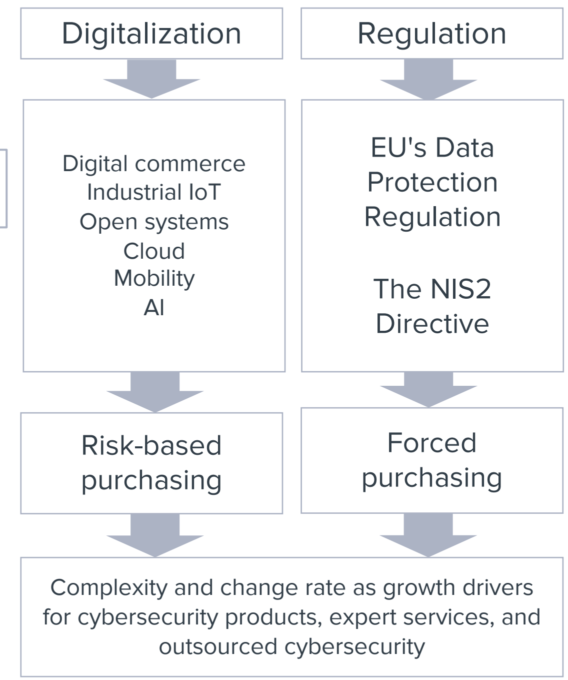
Among medium-sized enterprises, the need for cybersecurity beyond mere endpoint protection is constanly growing, but the security budgets (0.1-1.0 MEUR) are significantly lower than for large enterprises. It may not always be possible to purchase the best technologies or managed/outsourced cybersecurity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

# Industry

## Distribution and operating logic of the cybersecurity market




## Market drivers




Source: Inderes

# Industry 2/4

## Sub-segments of the market for WithSecure

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

For corporate security products, WithSecure has estimated, based on Gartner data, that the relevant target market for the company's Elements product portfolio is around 22 BNUSD. The growth profiles of the different product areas are very different, but the overall market is expected to grow at an annual rate of 16% until 2027. At that point, the market would have grown to around USD 39 billion.

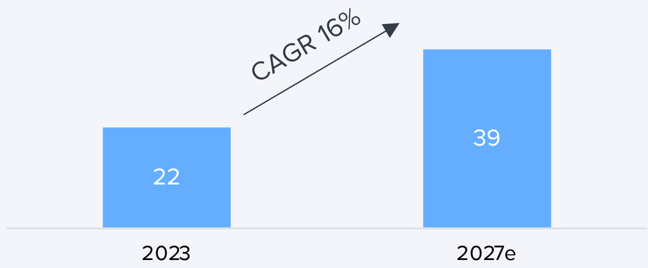
The market for enterprises' endpoint protection platforms has been growing as automated threat detection and response products (EDR) are complementing EPP products. IDC estimates that the endpoint protection market grew by some 29% in 2022 and amounted to USD 13.1 billion. The growth of EDR products is driven by the fact that corporate data breaches often go undetected for months, increasing the need for faster detection and response. Larger enterprises can buy detection capabilities as managed services (like WithSecure's Countercept), but for smaller companies a solution built around EDR is more sensible in terms of costs. Going forward, market growth will also be supported by the rise of, e.g., Exposure Management solutions.

The market for managed detection and response (MDR) services has developed rapidly in recent years. According to Gartner, the relevant market for Co-Security services (including MDR) for WithSecure is approximately 4 BNUSD in 2023. The market is expected to grow rapidly at around 25% per year until 2027. The rapidly evolving market has also attracted a lot of competition, and Gartner estimates that there are already more than 600 vendors claiming to offer some level of MDR solution. There are dozens or even hundreds of relevant players. Competition in this area has intensified, especially in the large enterprise segment, from which WithSecure began to focus its efforts on the mid-market in 2023.

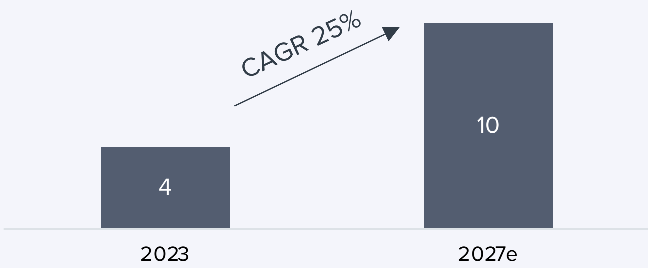
In Cybersecurity consulting, WithSecure has estimated that the size of the relevant target market is around 36 BNUSD and the market is expected to grow by some 11% p.a. by 2027. In the consulting business, the COVID pandemic slowed down and contributed to the cancellation of some organizations' cybersecurity projects, which at the time was reflected in a slowdown in growth for many companies. Russia's war of aggression in Ukraine has pushed cybersecurity issues into the daily lives of businesses, which has increased the demand for consultancy. However, particularly in 2022, the industry's severe skills shortage and high employee turnover were bottlenecks to growth. More recently, the cooling of the economic outlook has put the brakes on some consulting projects. These factors have also been reflected in the soft development of WithSecure's consulting business in recent years.

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

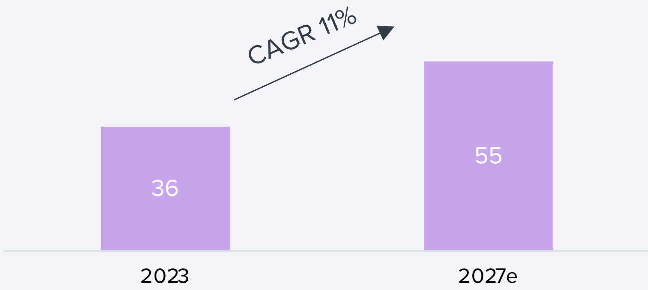
### Cybersecurity products (Elements)




### Co-Security services (incl. MDR)




### Cybersecurity consulting




Source: WithSecure & Gartner

# Industry 3/4

## Market drivers

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

Commonly identified IT megatrends such as cloudification, the industrial internet, social media, digital commerce, and, most recently, artificial intelligence are strongly linked to cybersecurity. In many of these areas, information security is a challenge to the development of new applications, products, and digital services. These challenges are related, e.g., to privacy protection, e-commerce or security.

Another trend worth mentioning is the ever-growing and diverse device portfolio and linking of various systems and online services. This makes the market more attractive from a criminal's viewpoint than when companies still mainly only operated in their own individual closed environments. Thus, digitalization progressing constantly increases the potential attacking area for cyber criminals. As a result, cyberattacks are evolving from malware-based operations to more elusive fileless techniques and identity theft. As a result, threat exposure management is becoming increasingly important as a proactive approach to blocking the potential attack surface. Today's cybercriminals are also increasingly professional, and many criminal organizations are run like businesses.

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

From the customer's perspective, however, cybersecurity investments can sometimes be seen as a "necessary evil" that, like insurance, is invaluable in the event of a loss, but it is harder to see the value it brings without problems. For many other IT investments, returns are easier to measure, such as operational efficiency. As a result, especially in a weaker economic cycle, these dynamics can affect customers' purchasing decisions, as investments in new cybersecurity projects may be postponed or, in some cases, canceled.

## Regulation drives demand for security solutions

EU's Data Protection Regulation (GDPR), that entered into force in May 2018, has increased the demand for cybersecurity services. The regulation imposed new obligations on organizations handling personal data, like the obligation to report any breach of security. The authority that supervises the regulation can impose sanctions if the regulation is breached. The fines can be significant, with the most serious offenders being fined up to 20 MEUR or 4% of a company's annual revenue.

The NIS2 Directive, which will enter into force in 2024, is another example of the demand for cybersecurity brought about by regulation. Once in force, the number of sectors covered by the directive will increase and the requirements for cybersecurity and risk management will grow. Under NIS2, sanctions can also be significant if operators do not comply. The directive applies to all medium-sized (>50 employees and >10 MEUR revenue) and large companies operating in critical sectors. In addition, it also applies to all nationally designated critical operators, regardless of size.

# Industry 4/4

## Industry consolidation continues

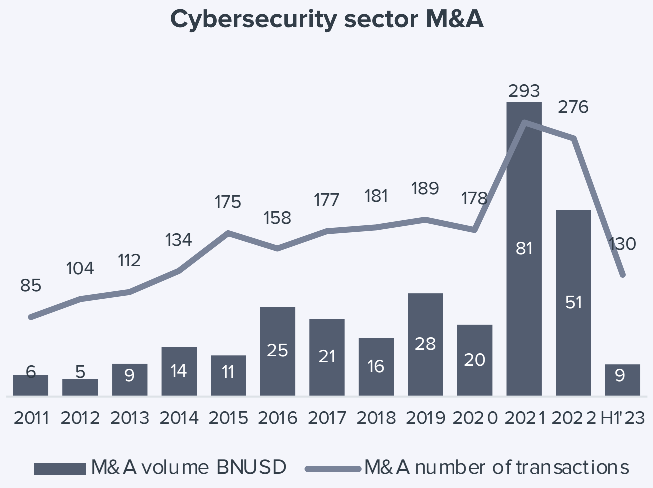
Over the past decade, the growth outlook of the cybersecurity market has attracted a lot of investments to the sector. This has been visible as dramatic growth in venture capital investments in new cybersecurity companies and as lively M&A activity both in North America and Europe. Several cybersecurity company IPOs have been seen on stock exchanges, while some of the listed companies have also been acquired. M&A and IPO activity peaked in 2021-2022 with the overshooting of the zero interest rate period and has since calmed as interest rates have risen and the economic outlook has cooled.

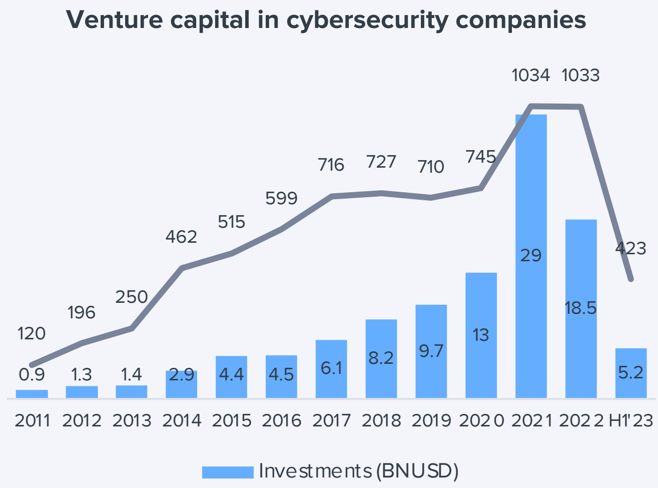
Overall, the cybersecurity market is still highly fragmented, and market consolidation will inevitably continue. Despite the growth of the market, there will not be room for all existing players as the market matures in the future. We have been worried for several years that the industry is overinvested. This has already been reflected in the intensification of competition in the sector in recent years and may become increasingly evident in the profitability of the sector as new players enter the market with new solutions that seek to solve cybersecurity problems more efficiently and/or at lower cost than their competitors. Some players in the sector are still generating heavy losses and their lifeline of external financing will end if they cannot generate growth or profitability.

Investment pressure in the sector has led to high M&A valuations, and valuations of listed cyber companies, particularly in the US, have also remained high.

Due to the lack of experts, acquisitions have been the only way for many service companies to get a piece of the market or they can act as an alternative to recruitment. In this case, the target is often small, specialized players. In acquisitions of product companies, the buyers can seek technologies that complement their product portfolio and in larger M&A transactions the aim is to generate synergy, e.g., in product development, sales and distribution. Consolidation pressure also increases because, instead of point solutions, cybersecurity is continuously turning into turnkey solution and process deliveries, which forces players to integrate their offerings. We see WithSecure's industry consolidation as a potential acquisition target on paper, but smaller complementary technology acquisitions are also possible from the company's perspective.

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




Source: Momentum Partners

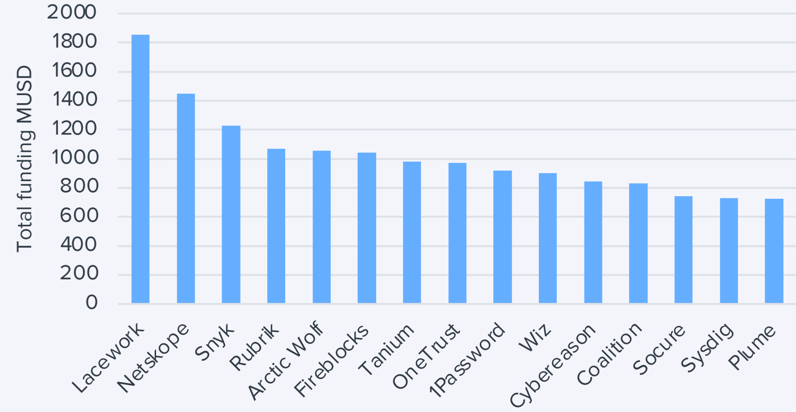
# M&A and investments in the industry

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

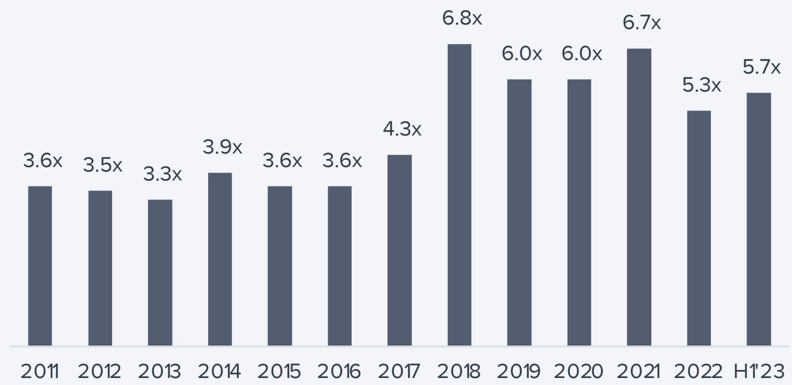
| *Date* | *Buyer* | *Target* | *EV (MUSD)* | *EV/S* |
|---|---|---|---|---|
| 4/2024 | Thoma Bravo | Darktrace | 5,200 | 6.9x |
| 9/2023 | Cisco | Splunk | 40,760 | 9.8x |
| 7/2023 | Thales | Imperva | 3,600 | 7.2x |
| 2/2023 | DNV | Nixu | 106 | 1.5x |
| 2/2023 | Francisco Partners | Sumo Logic | 1,397 | 4.2x |
| 1/2023 | Thoma Bravo | Magnet Forensic | 1,214 | 10.2x |
| 10/2022 | Vista Equity Partners | KnowBe4 | 4,380 | 15.1x |
| 10/2022 | Thoma Bravo | ForgeRock | 1,995 | 10.6x |
| 8/2022 | Thoma Bravo | Ping Identity | 2,796 | 8.0x |
| 8/2022 | Turn/River Management | Tufin Software | 489 | 4.2x |
| 5/2022 | Broadcom | Vmware | 69,248 | 5.3x |
| 4/2022 | Kaseya | Datto | 6,028 | 9.4x |
| 4/2022 | Thoma Bravo | SailPoint | 7,051 | 15.2x |
| 3/2022 | Google | Mandiant | 5,357 | 9.5x |
| 12/2021 | Permira | Mimecast | 5,516 | 8.8x |
| 11/2021 | Opentext | Zix | 860 | 3.1x |
| 11/2021 | Advent | McAfee | 14,000 | 7.5x |
| 4/2021 | Thoma Bravo | Proofpoint | 11,489 | 9.6x |
| 3/2021 | STG | McAfee (corporate business) | 4,000 | 3.1x |
| 3/2021 | Wipro | Capco | 1,450 | 2.0x |
| 11/2020 | Nasdaq | Verafin | 2,750 | 19.5x |
| 10/2020 | Francisco Partners | Forcepoint | 1,100 | 1.7x |
| 9/2020 | Ivanti | Mobileiron | 859 | 4.2x |
| 2/2020 | Advent | Forescout | 1,884 | 4.8x |
| 1/2020 | LexisNexis Risk Solutions | ID Analytics | 375 | 7.8x |
| 12/2019 | F5 Networks | Shape Security | 1,028 | 17.1x |
| 11/2019 | Open Text | Carbonite | 1,400 | 3.4x |
| 10/2019 | Thoma Bravo | Sophos | 3,948 | 5.1x |
| 8/2019 | Broadcom | Symantec Enterprise | 10,700 | 4.6x |
| 8/2019 | Vmware | Carbon Black | 2,100 | 9.1x |
| 5/2019 | Orange | SecureLink | 576 | 2.1x |
| 2/2019 | Carbonite | Webroot | 618 | 2.9x |
| 11/2018 | BlackBerry | Cylance | 1,500 | 11.5x |
| 10/2018 | Thoma Bravo | Imperva | 1,800 | 5.2x |
| 8/2018 | Cisco Systems | Duo Security | 2,350 | >20x |
| 6/2018 | F-Secure | MWR Infosecurity | 110 | 3.1x |
| 12/2017 | Thales | Gemalto | 5,541 | 1.8x |
| 11/2017 | Warburg Pingus | Cyren | 119 | 3.8x |
| 11/2017 | Thoma Bravo | Barracuda Networks | 1,405 | 3.8x |
| 7/2017 | Open Text | Guidance Software | 245 | 2.1x |
| 2/2017 | Sophos Group | Invincea | 120 | 4.8x |
| 2/2017 | Palo Alto Networks | LightCyber | 105 | 10.5x |
| 1/2017 | Keysight Technologies | Ixia | 1,603 | 3.3x |
| 11/2016 | Symantec | LifeLock | 2,362 | 3.6x |
| 9/2016 | TPG | McAfee | 4,200 | 2.5x |
| 7/2016 | Avast | AVG | 1,463 | 3.4x |
| 6/2016 | Symantec | Blue Coat | 4,722 | 7.9x |
| | | ***Median*** | ***1,482*** | ***5.0x*** |
| | | ***Average*** | ***5,147*** | ***6.6x*** |

Source: Capital IQ, Momentum Partners, Inderes

### Unlisted cybersecurity companies that have raised the most funding




### Median EV/S multiple of acquisitions (LTM)



# Competition 1/2

**A rapidly growing market has attracted a lot of competition**

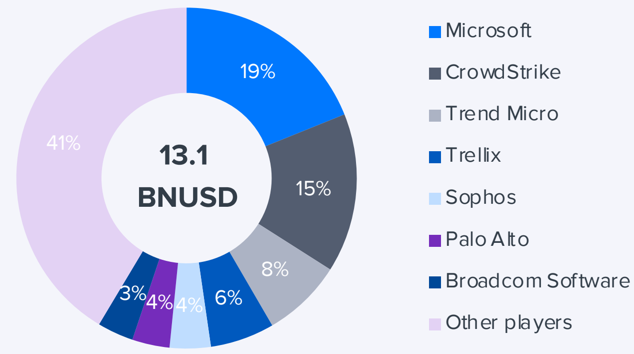
The rapid growth of the cybersecurity market and the wave of investment that has swept across the sector over the last 10 years or so have strongly shaped the competitive landscape. The market is still very fragmented and still looking for its shape. New cybersecurity startups, often initially specializing in a specific cybersecurity niche with their services or products, are taking an increasing share of market growth. Some of the companies set up in the past decade have already grown to a size class where they are eating market shares from the more conventional players in the sector. For example, the very rapid growth of US-based CrowdStrike has been reflected in the market share of the incumbents in the endpoint protection market.

Conventional players, and those who have been on the market longer, try to make their offering more comprehensive to respond to the competition and this has accelerated consolidation in the industry as bigger players buy smaller product and service companies. The new generation of companies has also started to become more of a cybersecurity platform, offering a wider range of products and services.

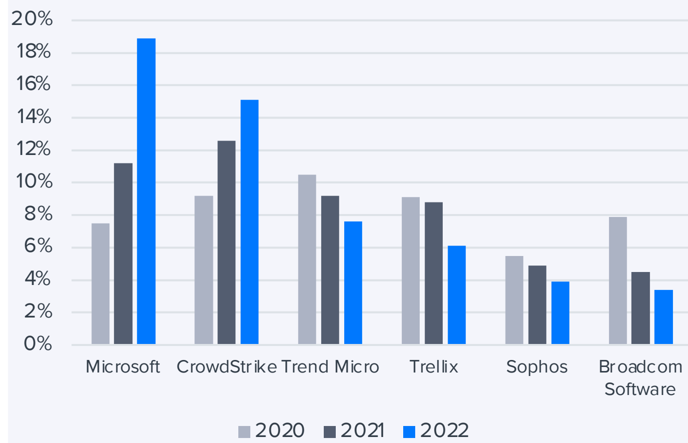
Competition is tight in endpoint protection and the field is quite established. WithSecure's competitors are numerous companies offering endpoint protection software, such as Sophos, Symantec (Broadcom), Trelix (former McAfee Enterprise and FireEye) and Trend Micro. Bigger competitors that were established in the cloud era are CrowdStrike and SentinelOne, which have won market shares from conventional players in recent years. Microsoft has also emerged in recent years as a very strong player in endpoint security. Overall, Microsoft is a strong player in the enterprise security market with good products, very strong distribution power and competitive pricing. Microsoft's annual cybersecurity revenue is more than $20 billion, which would make it the largest cybersecurity company in the world as a standalone company. We believe that Microsoft's strong growth in endpoint security has also had a negative impact on WithSecure's growth in recent years.

Although competitive developments in recent years have been worrying in some respects from WithSecure's perspective, the still very fragmented and large market offers the company ample room for growth. In a large market, there will always be pockets where small and medium-sized specialized players can operate, even if the overall market is concentrated in the hands of a few larger players. Overall, however, we believe that fierce competitive pressure in the market is one of the key long-term threats to WithSecure's growth story, both in terms of growth multiples and potential pricing pressure on profitability.

**Breakdown of the endpoint security market in 2022**




**Evolution of the market share of the main players in endpoint security**




Source: IDC

# Competition 2/2

### Competition factors on the cybersecurity market

For cybersecurity products, the quality of the product and its ability to prevent or detect malware is obviously a competitive factor, but today the differences between the solutions offered by different vendors can be very small from a buyer's perspective. In endpoint security products, the barrier to entry has been lowered as AI and cloud environments provide the necessary algorithms and capacity for software. At the same time, detection and responsivity capabilities are becoming indispensable features of products, where a few years ago they offered some degree of competitive differentiation. Cybersecurity is also to a large extent a business of trust, which is why customer confidence in the product and the company providing it is important. A brand that inspires confidence is therefore a strong competitive factor.

The role of distribution channels is also important in competition as it is difficult for a product business operating without working channels to generate volume and thus scalability. Especially in corporate security, products are sold mainly through service partners and the product solutions must be built so that they also enable the possibility for the service partner to build value-added services on top of them. As a result, product companies also compete for partners, and becoming a distributor's preferred software requires investment in the partnership and/or attractive pricing from the partner's perspective.

In medium-sized and large accounts, the uniformity of the product portfolio is an emphasized competition factor as the customers rather purchase an extensive turnkey solution instead of several point product solutions. However, the market is still highly fragmented and there are plenty of entities to protect in an organization, even outside WithSecure's solution offering. Typically, larger customers have security solutions from multiple vendors, and the total number of different solutions can be in the dozens.

### WithSecure's ways to stand out from the competition

WithSecure has a particularly good reputation in endpoint protection products among SMEs in Northern Europe. This builds on the company's long and deep expertise in identifying and countering threats. A testament of this are the numerous awards the company has won in malware detection tests.

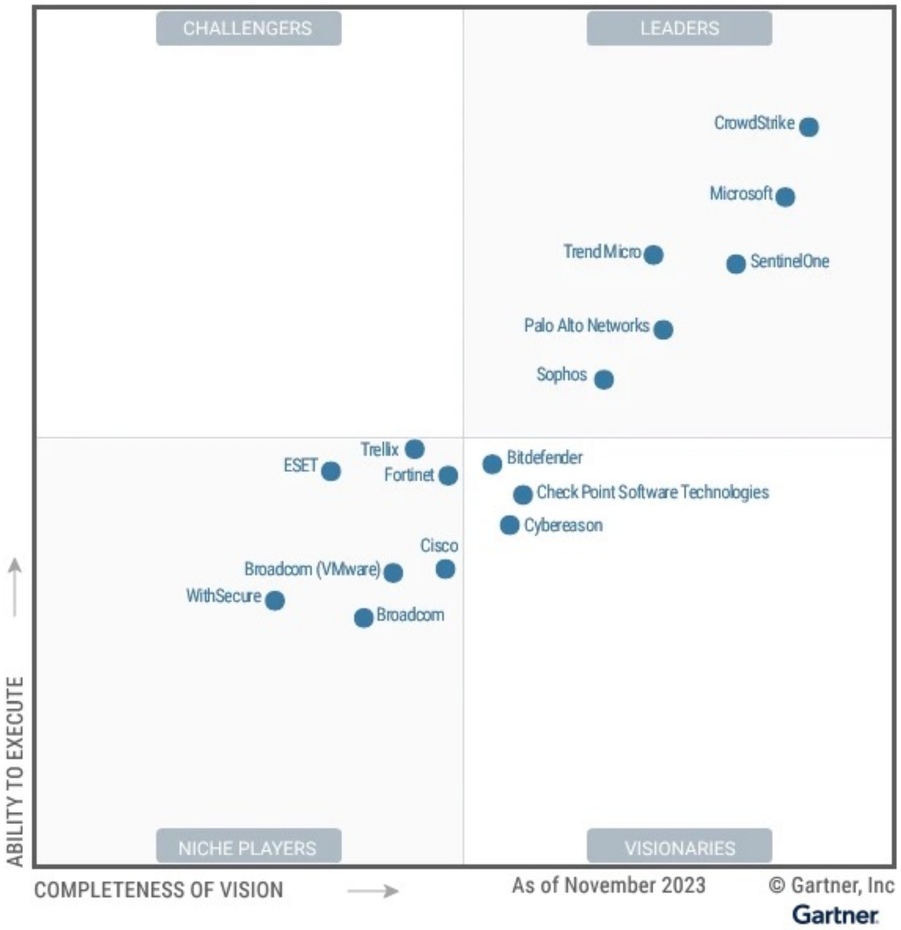
For years, WithSecure has tried to strengthen its brand on the corporate side to be perceived more as a comprehensive cybersecurity house whose solutions also cover the security needs of larger companies. The name change from F-Secure to WithSecure and the partial split to focus entirely on corporate security was a natural progression of this journey.

In its updated strategy, WithSecure will focus on mid-sized customers (200-2,000 employees), as the company's limited resources hinder it from competing for the largest customers. In 2023, the company commented that it had lost certain large Countercept customers won in previous years. In the mid-market, WithSecure's products are competitive, and the company is able to differentiate itself from its mainly US-based competitors by being European, which is an important consideration for some customers. In addition, the company is able to offer complementary services that are not available from all competitors.

WithSecure's extensive partner channel is also an asset for the company and brings scalability to sales. The cloud-based Elements platform has also made it easier to sell more products to existing customers. When competing for channel partners, the company tries to give them more attention than its competitors by offering them not only good products, but also support, tools, and training. Naturally, the pricing of products must also be as attractive as possible for partners.

# Competitive landscape

## Competitive landscape in endpoint protection




## Selected competitors for WithSecure software products

### North American and other countries

CROWDSTRIKE, Microsoft, TREND MICRO, BROADCOM, paloalto NETWORKS, Trellix, SentinelOne, TANIUM, CHECK POINT, Carbon Black., tenable, cybereason, RAPID7, Qualys.

### European*

SOPHOS, DARKTRACE, eset, Bitdefender

Source: Gartner, Inderes, *Sophos and Darktrace are based in Europe but owned by US private equity firm Thoma Bravo.

# Strategy 1/2

### Transformation into a cybersecurity company focusing on corporate security

In 2015, WithSecure began its transformation from a consumer-focused antivirus company to a broader cybersecurity company focused on the fast-growing corporate cybersecurity market. The change was launched by selling the consumer-focused cloud storage business and acquiring nSense that expanded the corporate security portfolio and expertise considerably. Simultaneously, the focus of R&D in corporate security shifted to developing data breach detection and response solutions. Cybersecurity consulting was also strengthened with two smaller acquisitions in 2017.

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

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

WithSecure's transformation journey was sealed in June 2022, when the consumer security business was separated in a partial demerger into its own listed company (F-Secure). At the same time, a directed issue in March 2022 secured WithSecure's financial flexibility for growth investments.

### Updated strategy: SaaS-based IT security provider for mid-market companies

WithSecure updated its strategy in October 2023. The strategy focuses on the company as a mid-market SaaS provider, leveraging its strong partner channel to achieve sales scalability.

WithSecure’s strategy focuses on serving medium-sized customers (200–2,000 employees) through the company’s Elements software platform and Co-Security services through a partner channel. This target group has a clear need for protection against targeted attacks, but with limited cybersecurity budgets available, they want to get the most out of their security investments. For this target group, WithSecure believes it can offer competitive products and already has a large network of partners to help scale sales. However, finding new partners and supporting existing ones are important factors in building future growth.

Geographically, WithSecure's growth investments are focused on Finland, DACH, France, UK and Japan. In other markets (e.g. the US), more attention is being paid to the existing customer base in order to achieve good profitability. In North America, competition is extremely fierce and it is difficult or likely very expensive to challenge the big players in the market with WithSecure's resources.

WithSecure's product offering is built around the cloud-based Elements platform and complementary services. During 2024, the company will be adding Exposure Management to its product portfolio, a new area of enterprise security that is still very much in its infancy. This could provide WithSecure with significant growth potential if the company is able to enter the market among the first. The risk we see is that the cybersecurity market is under intense competitive pressure, and new product areas (e.g. MDR) that were promising in the past have eventually been buried in a flood of competitors, making it difficult to run a very profitable business.

In addition to new products, WithSecure's growth is focused on expansion within existing customers. Selling more modules to traditional endpoint protection (EPP) customers has been talked about for years, and we believe it has been reasonably successful, for example with EDR. With a future product offering that includes Exposure Management, the company estimates that, at best, the per-user billing will be approximately 6 times higher than for an EPP-only subscription when all modules are in place. Thus, with successful additional sales, the existing customer base already offers significant growth potential.

# Strategy 2/2

### *Strategic options for consulting and CPSF business are being assessed*

WithSecure's updated strategy includes greater autonomy for its Cloud Protection for Salesforce business and cybersecurity consulting that are aimed at large enterprises. The company is currently evaluating strategic options for both of these businesses. For the consulting business in particular, divestment seems to us to be a likely option, but for Cloud Protection for Salesforce the company seems more likely to seek external funding (a new co-owner) to scale the business.

We would welcome the decision to divest the consulting business, which has proven difficult to operate profitably over the years. At the same time, we see an opportunity to exit at a relatively good valuation, especially relative to WithSecure's own valuation. For example, Nixu, another Finnish cybersecurity services provider, was taken private at a 1.5x revenue multiple when market conditions and interest rates were more favorable.

### *Financial targets*

In the context of the strategy update, WithSecure stated that the financial targets previously set are no longer valid. New targets will be set once the strategic reviews of the consulting and CPSF business are completed. Previously, WithSecure's targets indicated double-digit revenue growth and an adjusted EBITDA margin of over 20% in the medium term.

With good execution of the strategy, we believe the company's Elements software business is poised for double-digit growth in the medium term, largely in line with the growth rate of the company's target markets. We believe that achieving an adjusted EBITDA margin of at least 20% should be a minimum requirement given the high gross margins in the software business.

Due to WithSecure's development phase we expect dividend taps to remain closed in the medium term and capital to be allocated to growth.

### *M&A*

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

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

In 2018, WithSecure acquired the British MWR InfoSecurity with approximately 400 employees and about EUR 31 million in revenue. Including the additional consideration, the final cash purchase price was £85 million. The EV/S multiple of the agreement was approximately 3.1x, consistent with WithSecure's own valuation at the time of the transaction. In retrospect we feel the price paid was high, although the transaction clearly accelerated the transformation of WithSecure's strategy and journey to a company focusing on corporate security. In particular, the deal looks bad in light of the fact that the consulting business that came with it has already been divested, and it is likely that most of the remaining consulting business will be divested at a much lower valuation. The development of consulting under WithSecure has also been very sluggish in recent years. However, the acquisition increased WithSecure's geographic coverage and added strategically important detection and response technologies (Countercept) to the product portfolio, which has been good for the company's development.

# WithSecure's strategy

***Vision: Leading European security company hated by cybercriminals and loved by partners***

## Priority areas of the strategy

### Cloud-based Elements portfolio

- Modular Elements software and supporting Co-Security collaboration services
- Technologically competitive products
- From a partner perspective, the products enable the delivery of value-added services around them.
- Exposure Management as a new addition to the cybersecurity offering during 2024
- Realizing up-sell and cross-sell opportunities with existing customer base

### Mid-market customers through the partner channel

- Companies with 200-2,000 employees as a priority target group
- Need to protect against targeted attacks, but cybersecurity budgets are tighter
- Already extensive network of partners will help scale sales
- Winning new good partners is also important

### European option for a security partner

- Being the European option as a differentiating factor against an American-dominated set of competitors
- Growth markets: Finland, DACH, France, UK and Japan
- In other markets (e.g. Benelux, Sweden, Norway, Denmark, USA), focus on serving existing customers to achieve good profitability

## Financial targets

- New targets will be set once the strategic reviews of the consulting and CPSF business are completed
- Previously, WithSecure's targets indicated double-digit revenue growth and an adjusted EBITDA margin of over 20% in the medium term
- With good execution of the strategy, we believe the company's Elements software business is poised for double-digit growth in the medium term, largely in line with the growth rate of the company's target markets
- We believe that achieving an adjusted EBITDA margin of at least 20% should be a minimum requirement given the high gross margins in the software business

Source: Inderes

# Financial position 1/3

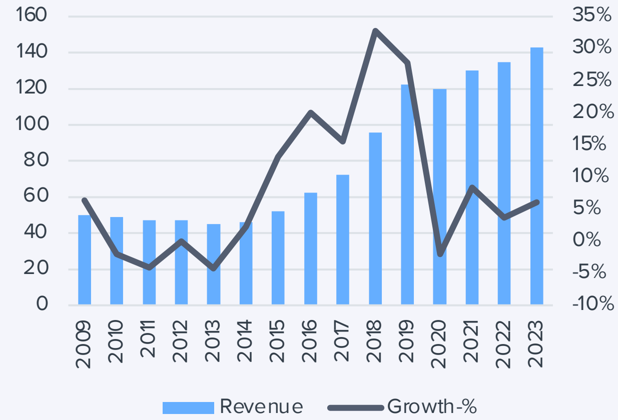
**Revenue growth has slowed in recent years, but profitability has progressed well**

In 2015, WithSecure began making significant investments in the rapidly growing corporate cybersecurity market, growing both organically and through acquisitions. In 2014, corporate security revenue amounted to around 46 MEUR and in 2023, WithSecure's revenue totaled around 143 MEUR. This represents an average annual growth rate of 12%, the majority of which is organic. The company's growth rate has slowed since 2020, reflecting the COVID pandemic, challenges in the consulting business, tighter corporate IT budgets in a weakened economic environment, and increased competition.

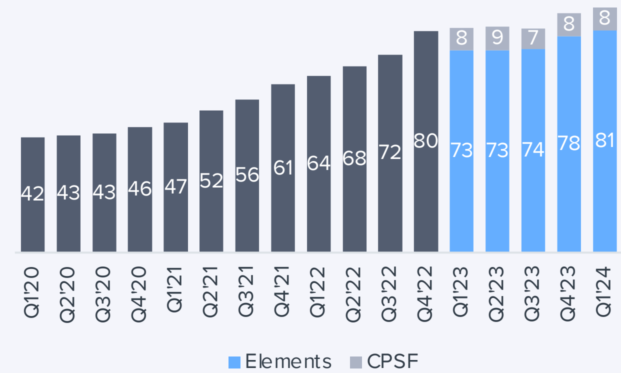
The annual recurring revenue (ARR) of the strategically central cloud-based products was 88.7 MEUR at the end of Q1'24, an increase of 9% year-on-year. Growth in 2023 fell slightly short of the company's targets, which also led to a lower outlook for the reasons mentioned above. However, there have been slight signs of an upturn in recurring revenue recently.

Historically, WithSecure's strategy has been to pursue growth at the expense of profitability, which is clearly reflected in its negative earnings performance. After the demerger, the company's growth ambitions were high and the organization was clearly geared for stronger growth than realized. As a result, the company had to significantly adjust its cost structure during 2023. As a result of these measures, adjusted EBITDA was positive for the first time in Q4'23, at 0.2 MEUR, and the profitability turnaround progressed also in Q1'24.

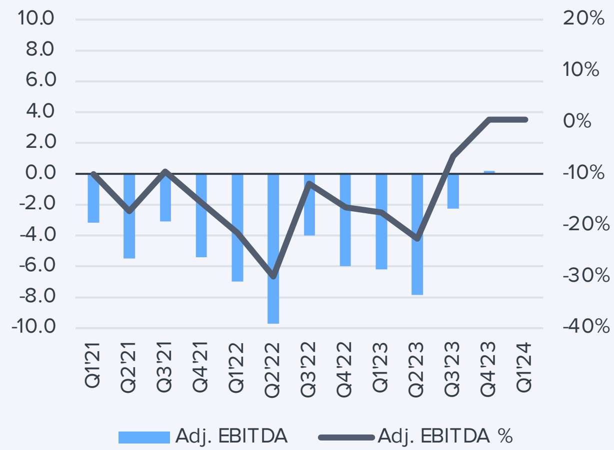
**Development of WithSecure's corporate cybersecurity revenue**




**Recurring revenue development of cloud-based products**




**Quarterly development of adjusted EBITDA**




**ARR growth % for cloud-based products**


Source: Inderes

# Financial position 2/3

## Cost structure

With the cost savings achieved, WithSecure's cost structure is now on a solid footing and, if successful, revenue growth should begin to be reflected in the bottom line. The adjustment of the cost structure is best reflected in the development of the quarterly operating cost structure.

The reported figures are impacted by one-off restructuring items and a 6.2 MEUR write-down in the consulting business. In addition, in 2022-2023, the relative cost structure was increased by the cost of services provided to F-Secure under the TSA agreement (reflected in product development and administration costs). The related income (2023: 6.9 MEUR) will be reflected in other operating income.

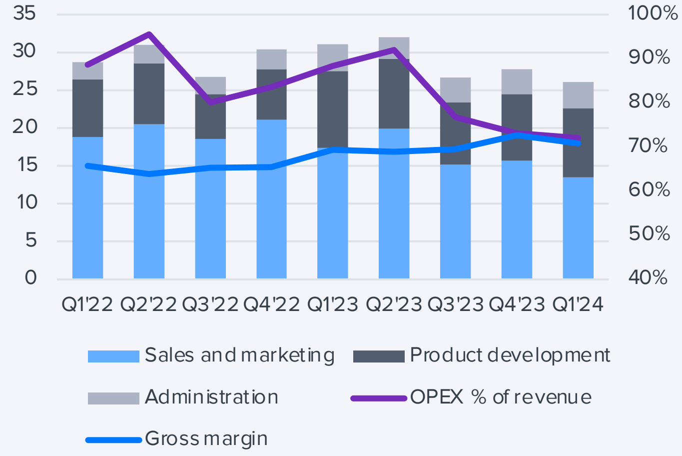
WithSecure's gross margin improved by approximately 5 percentage points to 70.2% in 2023, reflecting the growing share of software business and improved efficiency in consulting. In addition to costs related to providing services, direct sales costs also include, e.g., costs related to producing cloud-based services and customer support. There is still significant room for gross margin improvement as cloud-based products increase as a percentage of revenue.

Sales and marketing costs represent 51% of revenues in 2023. The expense item includes salaries, marketing expenses and other operating expenses. With the cost adjustments made last year, the relative share of these costs is expected to decline significantly in 2024. In the longer term, this cost also has the potential to scale with growth. However, new customer acquisition and sales activities in general are relatively expensive in the cybersecurity market, which partially limits the scalability of the item.

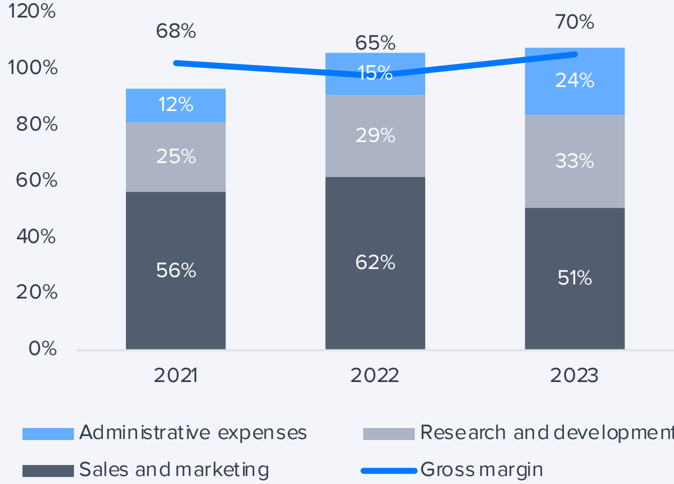
Product development costs in 2023 was around 33% of revenue. With the expiration of the TSA contracts, the relative share of expenses as a percentage of revenue should decline this year, but otherwise we expect the percentage to increase only slightly over the long term. Maintaining competitiveness requires continuous investment in product development. WithSecure capitalizes product development costs modestly in the balance sheet as capitalized costs amounted to EUR 3.0 million in 2021.

Administrative expenses in 2023 were around 24% of revenue, significantly inflated by write-downs and one-off items. This year, we expect the relative share of the cost item to decrease significantly, and there is also some potential to increase it in the longer term.

**Development of operational cost structure* and gross margin**




**Reported cost structure % of revenue and gross margin**




Source: Inderes, *adjusted for write-downs, depreciation, one-off items and effects of TSA contracts

# Financial position 3/3

## Cash flow and financing situation

Due to the loss-making result, WithSecure's cash flow from operating activities was still clearly negative in 2023 (-23 MEUR). However, thanks to the turnaround in profitability towards the end of the year, cash flow was already positive in Q4, at 1.7 MEUR. In recent years, WithSecure has financed its growth investments through the 77 MEUR directed share issue carried out in spring 2022. With the turnaround in profitability, cash and cash equivalents (Q4'23: 36.6 MEUR) will not decrease significantly in the future, providing the company with a very solid financial position for the implementation of its strategy.

In general, WithSecure's cash flow has historically been supported by customer prepayments, as contract payments are often received at the beginning of the contract term. As a result, WithSecure's working capital is clearly negative. However, the transition to the SaaS model has increased the monthly invoiced customer base, which has resulted in a structural slight downward trend in advances received (Q4'23: 66.9 MEUR).

Despite losses in recent years, WithSecure's balance sheet remains in good shape, with an equity ratio of 73% and a net debt ratio of -22% at the end of 2023. A strong balance sheet gives flexibility to implement the strategy and also enables acquisitions to complement the product portfolio when the opportunity arises. The company currently has no interest-bearing bank loans but has a credit line of 20 MEUR in reserve if needed.


Source: Inderes

# Estimates 1/2

### Basis for the estimates

We forecast WithSecure's revenue development across the three segments the company reports. In the Elements segment, which represents the company's core business, we separately forecast the revenue items included in this segment (Cloud products and services, On-premise products, and Other products). WithSecure's strategy is particularly focused on cloud-based products and supporting services, which we expect to drive growth in the coming years. At the same time, we expect a gradual decline in the revenue from on-premise products as WithSecure aims to move customers to cloud-based solutions.

We estimate that a significant share of WithSecure's product revenue still comes from endpoint protection products (EPP). In recent years, however, EDR and MDR solutions have grown to the point where they are important growth drivers. We estimate that new product launches on the Elements platform (e.g. Exposure Management) will contribute to the medium-term growth outlook, but their impact is likely to be more limited in the short term.

The separately reported Cloud Protection for Salesforce business has slowed in the near term. This has been influenced, among other things, by changes in the purchasing behavior of a single large customer. In its Q1'24 results, WithSecure was confident that the situation would improve in the future. Business is also expected to pick up in other areas as the year progresses, and medium-term growth prospects are good.

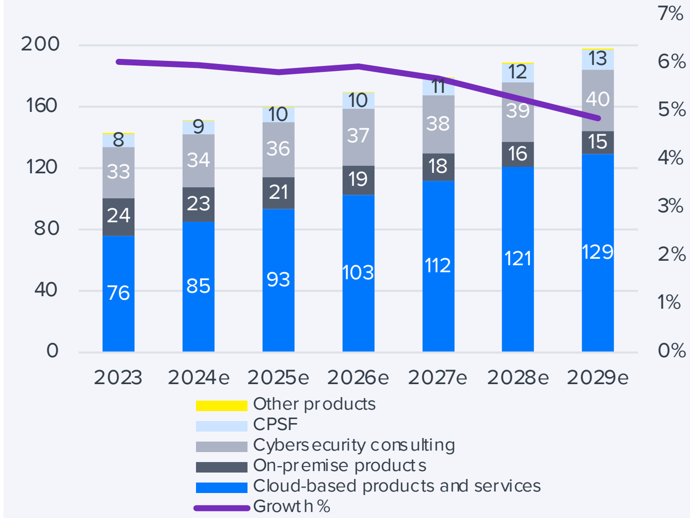
In consulting, the challenges started to ease towards the end of 2023, and despite a soft start to 2024, the order book is at a good level. We therefore expect moderate growth of around 3% in the coming years. On consulting, the company commented that the revenue of just over 10 MEUR seen in Q4 was close to the maximum for the current capacity. The first quarter's figure of 7.6 MEUR was in turn low.

In terms of profitability, we expect WithSecure's turnaround to progress over the next few years, with revenue growth increasingly reflected in the bottom line in addition to the cost savings already achieved. As cloud-based products grow, the company's gross margin (2023: 70%) should increase by several percentage points. At the same time, other operating cost items (sales and marketing, product development and administration) should scale with growth. We do not expect WithSecure to pay dividends in the medium term, but to channel its capital to growth.

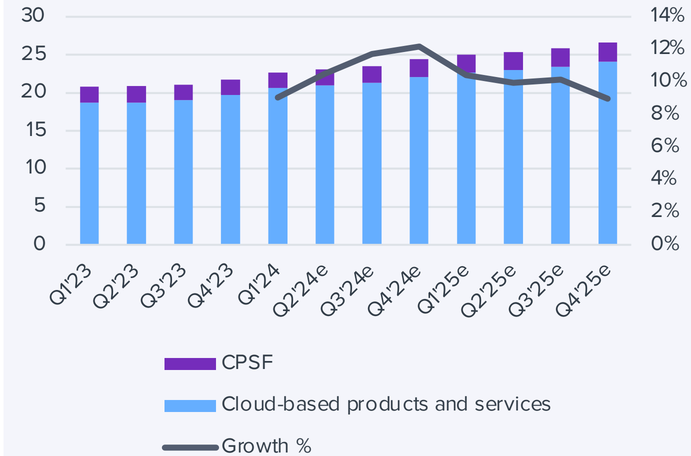
### Estimates for 2024

In its outlook, WithSecure expects total group revenue growth of 6-12%, with cloud-based products and services (10-16% growth, 10-20% ARR growth) as a key driver. Adjusted EBITDA is expected to be positive, which seems very realistic based on the developments in Q1. Given last year's growth disappointments and the softness seen in the consulting business in Q1, risks to the current group-level growth guidance are elevated. However, in connection with the likely divestment of the business, the outlook will be updated in this respect.

**Revenue and growth, %**




**Revenue and growth of cloud-based products and services by quarter**




Source: Inderes

# Estimates 2/2

In the core businesses, progress appears to be broadly in line with our expectations, although a gradual improvement towards the end of the year is still required to achieve the outlook. Competition in the WithSecure market remains fierce and the economic environment in Europe has not yet started to improve significantly. To accelerate growth this year, the company will need to perform well and also benefit from a market upturn.

For 2024, our forecast for growth is right at the lower end of the guidance range at 6.0%. We expect adjusted EBITDA to improve to 3.1 MEUR, which would represent a still low margin of 2.1%. Our forecast is for Cloud-based products and services to grow 11.6% and On-premise products to decline 7%. We expect Consulting to grow 3% as performance improves towards the end of the year. We also expect Cloud Protection for Salesforce to pick up in H2 and deliver full-year growth of 4.5%.

Profitability will improve thanks to the cost savings already achieved, and we also expect the gross margin (2024e: 71.9%) to continue to improve as the share of software business increases and the consulting business improves its utilization rates.

## Estimates for 2025-2026

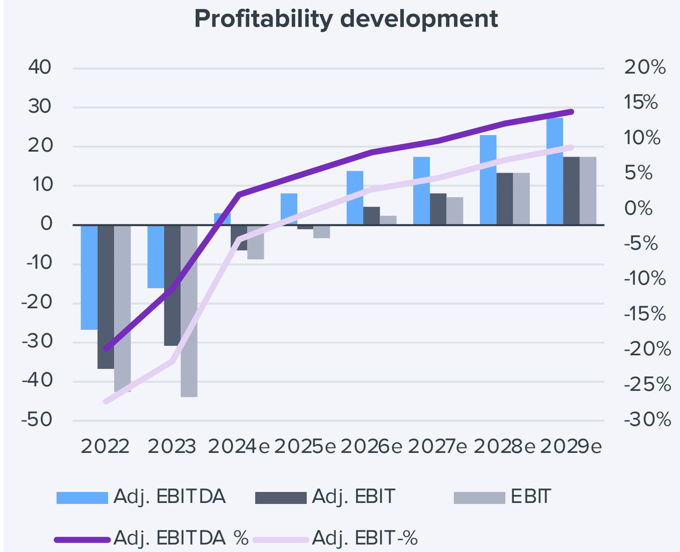
Between 2025 and 2026, we expect cloud-based products and services to grow at a compound annual growth rate of 10%, while revenue from on-premise products will decline by 7-8%. We forecast the CPSF business to grow by 8-11% and Consulting to deliver steady growth of 3%. As a result, WithSecure's total revenue would grow at a rate of approximately 6%. Adjusted EBITDA would then rise to 5-8% and adjusted EBIT would be -1% and 2.8%, respectively. As a result, profitability would remain modest in the coming years. Therefore, accelerating growth beyond our forecasts is key to the momentum of the turnaround.

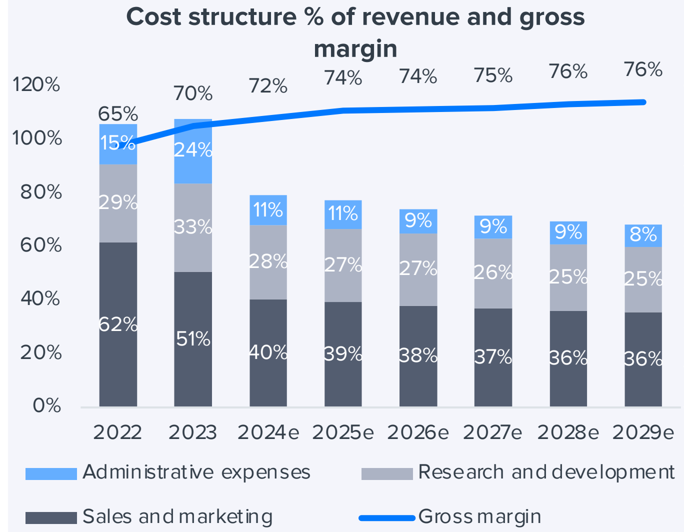
## Long-term estimates

Between 2027 and 2032, we expect WithSecure's revenue to continue to grow by 4-6%. After this our terminal growth assumption is 2.5% from 2033 onwards.

We estimate that WithSecure's adjusted EBITDA margin will be around 10% in 2027 and gradually rise to 20% by 2032. At adjusted EBIT level, this represents a margin of 5-15%. In the terminal, we assume EBIT margin to be 15%.

Considering the scalable software business, WithSecure could reach even significantly better profitability in a positive scenario. However, the strong competitive pressure and speed of change in the cybersecurity market create uncertainty in assessing long-term sustainable profitability levels. We estimate that growth in a highly competitive market will require significant investments in product development and sales, which we expect will slow the expansion of profitability. The company also does not have a history of a strong profitability in corporate cybersecurity.




Source: Inderes *In 2022-2023, the relative cost structure has been increased by the cost of services provided to F-Secure under the TSA contract. Related income is shown in other operating income (not shown in this graph). In addition, a EUR 6.2 MEUR write-off for the consulting business and other one-off items increased administrative expenses in 2023.

# Income statement

| Income statement | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24 | Q2'24e | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue** | **135** | **35.2** | **34.8** | **34.8** | **38.0** | **143** | **36.2** | **37.0** | **37.5** | **40.6** | **151** | **160** | **170** | **179** |
| Elements | | 25.2 | 25.1 | 25.1 | 25.7 | 101 | 26.6 | 26.8 | 27.0 | 27.8 | 108 | 115 | 122 | 130 |
| Cloud Protection for Salesforce | | 2.0 | 2.2 | 2.0 | 2.1 | 8.3 | 2.0 | 2.2 | 2.2 | 2.3 | 8.7 | 9.6 | 10.4 | 11.2 |
| Cybersecurity consulting | | 8.0 | 7.5 | 7.7 | 10.2 | 33.4 | 7.6 | 8.0 | 8.3 | 10.5 | 34.5 | 35.7 | 36.7 | 37.8 |
| **EBITDA (excl. NRIs)** | **-26.7** | **-6.2** | **-7.9** | **-2.3** | **0.2** | **-16.1** | **0.0** | **-1.0** | **1.7** | **2.4** | **3.1** | **8.1** | **13.8** | **17.5** |
| **EBITDA** | **-29.9** | **-10.7** | **-6.5** | **-2.5** | **-5.4** | **-25.1** | **0.1** | **-1.0** | **1.7** | **2.4** | **3.2** | **8.1** | **13.8** | **17.5** |
| Depreciation | -12.6 | -3.2 | -3.1 | -9.3 | -3.3 | -18.8 | -3.0 | -3.0 | -3.0 | -3.0 | -12.0 | -11.5 | -11.4 | -10.3 |
| **EBIT (excl. NRI)** | **-36.8** | **-8.7** | **-10.4** | **-4.8** | **-2.4** | **-26.3** | **-2.4** | **-3.4** | **-0.7** | **0.0** | **-6.5** | **-1.0** | **4.7** | **8.1** |
| **EBIT** | **-42.6** | **-13.9** | **-9.6** | **-11.8** | **-8.6** | **-43.9** | **-2.9** | **-4.0** | **-1.3** | **-0.6** | **-8.8** | **-3.4** | **2.3** | **7.2** |
| Net financial items | -1.6 | 0.0 | 0.4 | 0.1 | -0.3 | 0.2 | 0.3 | 0.1 | 0.1 | 0.1 | 0.6 | 0.0 | -0.1 | -0.1 |
| **PTP** | **-44.2** | **-13.9** | **-9.2** | **-11.7** | **-8.9** | **-43.7** | **-2.6** | **-3.9** | **-1.2** | **-0.5** | **-8.3** | **-3.4** | **2.2** | **7.1** |
| Taxes | 6.0 | 2.8 | 2.3 | 1.3 | -2.8 | 3.7 | 0.5 | 0.8 | 0.2 | 0.1 | 1.6 | 0.8 | -0.2 | -0.7 |
| **Net earnings** | **-38.2** | **-11.1** | **-6.9** | **-10.4** | **-11.7** | **-40.0** | **-2.2** | **-3.1** | **-0.9** | **-0.4** | **-6.6** | **-2.7** | **2.0** | **6.4** |
| **EPS (adj.)** | **-0.19** | **-0.04** | **-0.04** | **-0.02** | **-0.03** | **-0.13** | **-0.01** | **-0.01** | **0.00** | **0.00** | **-0.02** | **0.00** | **0.03** | **0.04** |
| **EPS (rep.)** | **-0.22** | **-0.06** | **-0.04** | **-0.06** | **-0.07** | **-0.23** | **-0.01** | **-0.02** | **-0.01** | **0.00** | **-0.04** | **-0.02** | **0.01** | **0.04** |

| Key figures | 2022 | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24 | Q2'24e | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenue growth-%** | 8.3 % | 8.9 % | 7.2 % | 4.0 % | 4.4 % | 6.0 % | 2.9 % | 6.2 % | 7.8 % | 6.8 % | 6.0 % | 5.8 % | 5.9 % | 5.7 % |
| **EBITDA-%** | -22.2 % | -30.5 % | -18.7 % | -7.1 % | -14.1 % | -17.6 % | 0.2 % | -2.7 % | 4.6 % | 5.9 % | 2.1 % | 5.1 % | 8.1 % | 9.7 % |
| **Adjusted EBIT-%** | -27.3 % | -24.8 % | -29.8 % | -13.7 % | -6.4 % | -18.4 % | -6.6 % | -9.2 % | -1.8 % | -0.1 % | -4.3 % | -0.6 % | 2.8 % | 4.5 % |
| **Net earnings-%** | -28.4 % | -31.5 % | -19.7 % | -29.8 % | -30.9 % | -28.0 % | -6.0 % | -8.5 % | -2.5 % | -1.1 % | -4.4 % | -1.7 % | 1.2 % | 3.6 % |

Source: Inderes

# Valuation 1/3

## Valuation is low as turnaround progresses

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

WithSecure's current EV/sales ratio (2024e: 1.1x) seems very low in the context of software companies. However, it is important to remember that this year, just over 20% of revenue will come from consulting and about 15% from on-premises products, which have been declining for a while. Moreover, based on our current forecasts, the combination of group-level growth and profitability (adj. EBIT%) will remain very modest in the coming years (Rule of 40: 2024e-2025e: 2-5%). Against this backdrop, the relatively low multiples are partly justified, and in the current challenging market environment, a significant acceleration in growth does not seem to us to be a realistic scenario. Beneath the surface, however, the current valuation seems low relative to the progress of the ongoing turnaround in the core business. Also, the EV/ARR ratio (2.0x) relative to annual recurring revenue for cloud-based products does not set a high bar for continued growth and profitability.

## SOTP indicates upside

In the SOTP, we have estimated the value of the software and consulting businesses separately, based on 2024 projections, and added our projected year-end net cash.

As an employee-driven and therefore less scalable business, we believe that the revenue multiple for consulting is less interpretable. As a good benchmark, we can use the multiples of IT service companies (median 0.7x). Thus, we have set the EV/S multiple for consulting at 0.6x-0.8x.

The valuation multiples of Elements, the core business, and Cloud Protection for Salesforce ultimately depend on their growth prospects. Based on our current forecasts, Elements' growth will remain in the single digits (6-7%) for the next few years, while profitability will remain at a more modest level. The situation is similar in the CPSF business, where profitability is currently even worse. Thus, we believe that acceptable multiples should be well below those of the major global peers (6.7x in 2024e), whose combination of growth and profitability is on average much better. Thus, in the neutral scenario, we price Elements at a multiple of 1.7x (range 1.4x-2.0x) and CPSF at a multiple of 1.4x (1.0x-2.0x). With a better combination of growth and profitability, multiples could be higher.

Applying the above assumptions, WithSecure's share value in the neutral scenario is 235 MEUR (1.3 EUR/share) with a range of 1.1-1.6 EUR/share. In other words, based on the SOTP, the stock has justifiable upside. Moreover, in an M&A situation, we see conditions for consulting to be closer to or even above 1x sales multiple, which would further support the valuation implied by the sum of the parts.

| Valuation | 2024e | 2025e | 2026e |
|---|---|---|---|
| Share price | 1.07 | 1.07 | 1.07 |
| Number of shares, millions | 176.0 | 176.0 | 176.0 |
| Market cap | 188 | 188 | 188 |
| EV | 173 | 174 | 169 |
| P/E (adj.) | neg. | neg. | 42.7 |
| P/E | neg. | neg. | 93.5 |
| P/B | 2.0 | 2.0 | 2.0 |
| P/S | 1.2 | 1.2 | 1.1 |
| EV/Sales | 1.1 | 1.1 | 1.0 |
| EV/EBITDA | 54.2 | 21.4 | 12.3 |
| EV/EBIT (adj.) | neg. | neg. | 35.8 |
| Payout ratio (%) | 0.0 % | 0.0 % | 0.0 % |
| Dividend yield-% | 0.0 % | 0.0 % | 0.0 % |

Source: Inderes

| *WithSecure* | *Lower end* | *Neutral* | *Upper end* |
|---|---|---|---|
| Revenue 2024e | 151 | 151 | 151 |
| | | | |
| Elements | 108 | 108 | 108 |
| x valuation multiple (EV/S) | 1.4x | 1.7x | 2.0x |
| ***Elements value*** | ***151*** | ***184*** | ***216*** |
| | | | |
| CPSF | 8.7 | 8.7 | 8.7 |
| x valuation multiple (EV/S) | 1.0x | 1.4x | 2.0x |
| ***CPSF value*** | ***9*** | ***12*** | ***17*** |
| | | | |
| Cybersecurity consulting | 34 | 34 | 34 |
| x valuation multiple (EV/S) | 0.6x | 0.7x | 0.8x |
| ***Consulting value*** | ***21*** | ***24*** | ***28*** |
| | | | |
| ***EV*** | ***181*** | ***220*** | ***261*** |
| + Net cash 2024e | 15 | 15 | 15 |
| ***Value of entire stock*** | ***196*** | ***235*** | ***276*** |
| *Value per share* | *1.1* | *1.3* | *1.6* |

# Valuation 2/3

***Outlining the value of the consulting business***

In our view, the 1.5x EV/S multiple paid for cybersecurity specialist Nixu in a takeover bid sets a clear ceiling for the valuation of the consulting business. At that time, market conditions and interest rates were more favorable than they are today, so it would be difficult to justify this level of valuation based on WithSecure's current consulting fundamentals.

Below we have outlined the potential value of the consulting, were it valued at an EV/S of 1.0x-1.4x. We applied these multiples to our consulting revenue forecast for 2024. Based on these assumptions, the value of the divested business would be around 34-48 MEUR.

We have also looked at the above value in terms of earnings multiple. Assuming that the business to be divested grows 10% per year for the next 2 years and reaches a 10% EBIT margin in 2026, the above range would imply an EV/EBIT multiple of 8-12x. Under these assumptions, the transaction price would also be well justified from the buyer's perspective by an earnings-based valuation.

WithSecure currently has goodwill from consulting of around 44.9 MEUR, so it is likely that this will have to be written down as part of the divestiture, which can be easily absorbed by the company's equity.

Overall, we would welcome the divestment of the consulting business at the valuations outlined above. We currently use a low EV/S multiple of 0.6x-0.8x for consulting in our sum-of-parts calculations. Thus, a sale with a multiple of more than 1x would push the calculation below even more clearly above the current share price.

**Peer group**

We have included listed cybersecurity companies in WithSecure’s peer group, some of which are direct competitors or compete, at least to some extent, in particular product areas of the company. The companies in the peer group are, for the most part, clearly larger than WithSecure and we feel this should be partly reflected in WithSecure’s pricing compared to the peer group. The companies are also in different business development stages, which is visible in their growth and profitability profiles, and, to some extent, makes it difficult to compare the companies’ valuation levels. Cybersecurity peers are trading at high median EV/S multiples of 6.7x-5.9x over the next few years, reflecting investors' belief in the sector's strong long-term growth prospects. However, there are significant differences between companies, and strong profitable growth in particular is highly valued.

Measured by the EV/S ratio, WithSecure is valued at a considerable discount of over 80% compared to its peers in the next few years. However, WithSecure's combination of growth and profitability (Rule of 40) remains well below the peer group average, which we believe justifies a lower valuation (see page 38). By weighting growth twice as much as profitability (Rule of X), WithSecure currently looks reasonably priced relative to its peers given the modest near-term growth and earnings trajectory we forecast. However, the significant undervaluation relative to peers offers clear potential for valuation multiples to increase if WithSecure is able to improve its combination of growth and profitability over the medium term.

**Outlining the value of the consulting business to be divested**

| *EV/S* | *EV* | *EV/EBIT 2026e* |
|---|---|---|
| 1.0x | 34.5 | 8.3x |
| 1.1x | 37.9 | 9.1x |
| 1.2x | 41.4 | 9.9x |
| 1.3x | 44.8 | 10.7x |
| 1.4x | 48.3 | 11.6x |

# Valuation 3/3

Comparing WithSecure's earnings-based multiples with peers is in practice not possible due to the company being loss-making. At the same time, many companies in the peer group are still investing heavily in growth at the expense of profitability. Thus, it is difficult to use the peer group's median earnings multiples to make assumptions about the sector's correct acceptable earnings-based valuation.

## DCF model

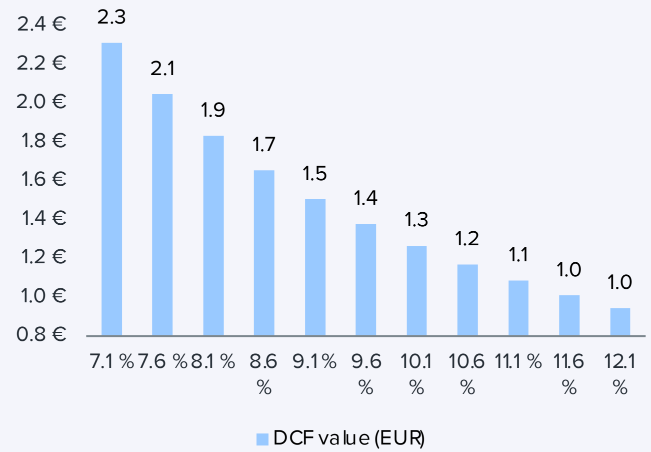
The equity value of WithSecure under our DCF model is 247 MEUR, or EUR 1.41 per share. Our terminal assumption is an EBIT margin of 15% and a growth rate of 2.5%. In the long term, we feel the company has preconditions to reach slightly better profitability in the positive scenario through strong growth in the software business but here you should use caution when it comes to long-term assumptions.

The cost of capital (WACC) in the DCF model is 9.6%. We feel the level is well justified in the current interest rate environment considering the growth rate and profitability improvement we estimate. As the strategy progresses and profitability improves, we believe there may be slight downward pressure on the required return. The weight of the terminal assumption is 73% of the debt-free value, which in part indicates that most of WithSecure's value is generated from cash flow long in the future, which increases uncertainty.

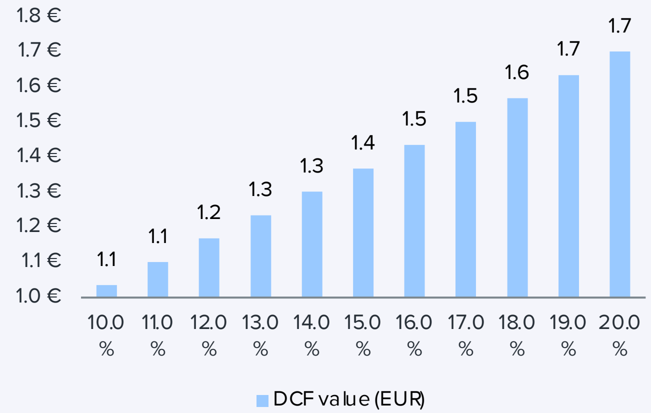
## Summary and fair value

Based on the valuation methodologies discussed above, we estimate that the fair value of WithSecure is currently in the range of EUR 1.1-1.6. With the stock currently trading below this range, we believe the risk/reward is attractive. In our view, the ongoing earnings turnaround and the divestment of the consulting business are the clearest near-term drivers of the undervaluation reversal. The main risk we see is the impact of weak markets and fierce competition on WithSecure's growth. If the growth rate does not accelerate, the earnings turnaround would also be partially blocked, which should keep the EV/S low in the future.

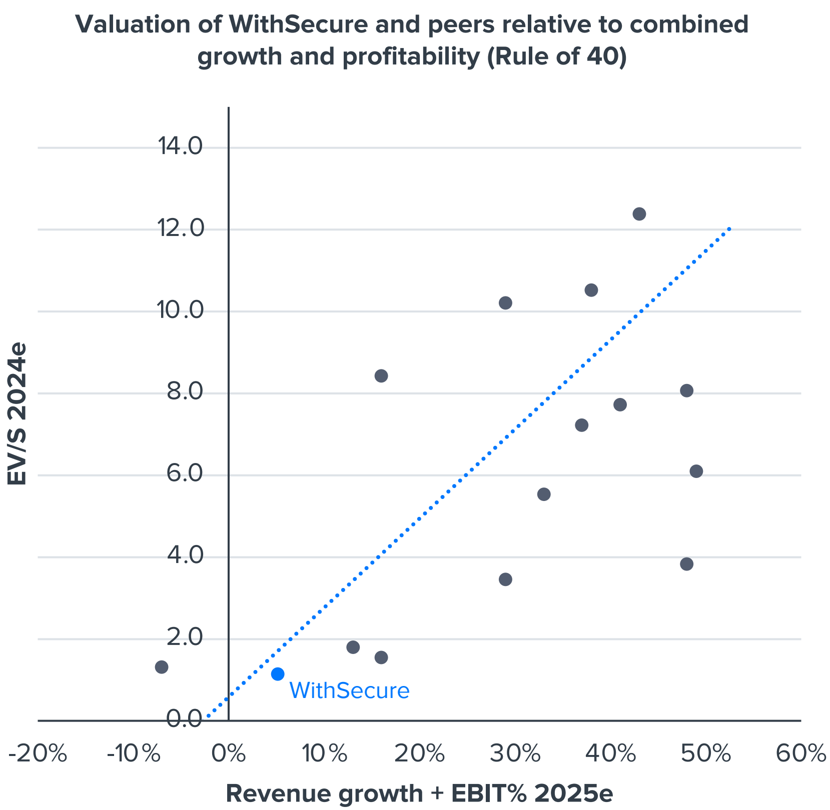
**Sensitivity of DCF to changes in the WACC-%**

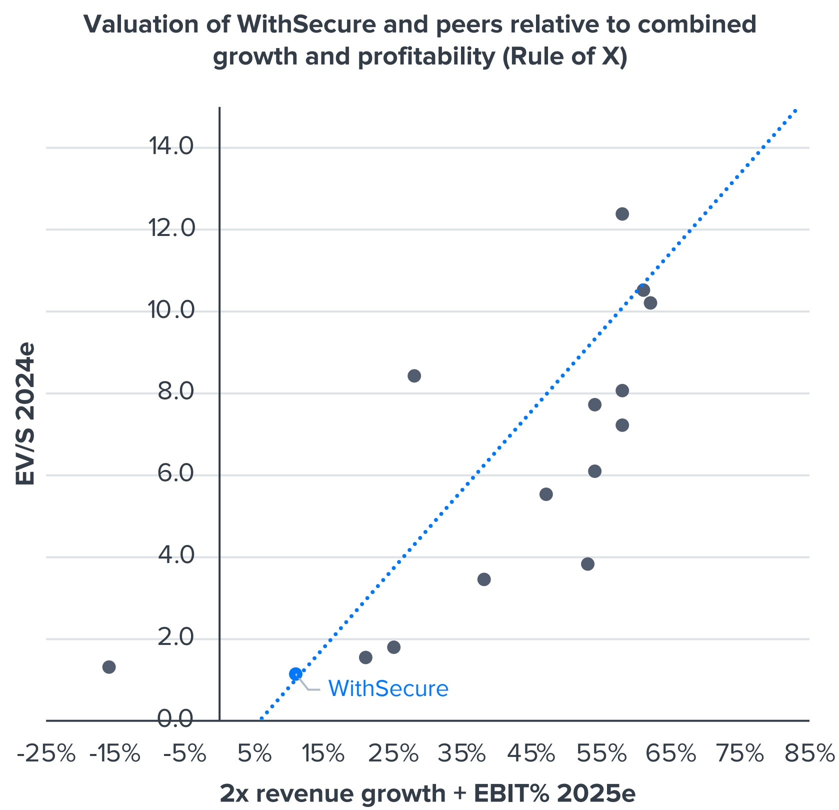



**Sensitivity of DCF to changes in the terminal EBIT margin**



# Valuation of WithSecure and cybersecurity companies



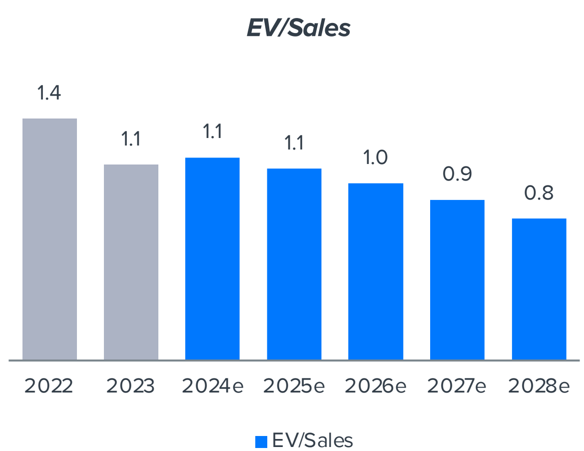




Source: Refinitiv, Inderes, Note: the graph does not show Crowdstrike (EV/S: 27x, Rule of 40: 53%)

# Valuation table

| Valuation | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e |
|---|---|---|---|---|---|---|---|
| Share price | 1.37 | 1.04 | 1.07 | 1.07 | 1.07 | 1.07 | 1.07 |
| Number of shares, millions | 174.5 | 174.5 | 176.0 | 176.0 | 176.0 | 176.0 | 176.0 |
| Market cap | 240 | 181 | 188 | 188 | 188 | 188 | 188 |
| EV | 184 | 158 | 173 | 174 | 169 | 163 | 151 |
| P/E (adj.) | neg. | neg. | neg. | neg. | 42.7 | 26.0 | 15.8 |
| P/E | neg. | neg. | neg. | neg. | 93.5 | 29.5 | 15.8 |
| P/B | 1.7 | 1.8 | 2.0 | 2.0 | 2.0 | 1.8 | 1.7 |
| P/S | 1.8 | 1.3 | 1.2 | 1.2 | 1.1 | 1.1 | 1.0 |
| EV/Sales | 1.4 | 1.1 | 1.1 | 1.1 | 1.0 | 0.9 | 0.8 |
| EV/EBITDA | neg. | neg. | 54.2 | 21.4 | 12.3 | 9.3 | 6.5 |
| EV/EBIT (adj.) | neg. | neg. | neg. | neg. | 35.8 | 20.2 | 11.3 |
| Payout ratio (%) | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 30.0 % |
| Dividend yield-% | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 0.0 % | 1.9 % |

Source: Inderes



# Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | EV/S | | Lv:n kasvu-% | | EBIT-% | | Rule of 40 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **MEUR** | **MEUR** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** | **2025e** | **2024e** | **2025e** | **2025e** |
| Trend Micro | 6170 | 4404 | | | 10.5 | 9.3 | 2.8 | 2.6 | 7% | 6% | | | |
| Rapid7 | 2185 | 2663 | 18.7 | 16.1 | 15.9 | 14.4 | 3.5 | 3.2 | 8% | 9% | 19% | 20% | 29% |
| Fortinet | 43126 | 41256 | 28.2 | 24.8 | 26.1 | 22.9 | 7.7 | 6.9 | 9% | 13% | 27% | 28% | 41% |
| Cyberark | 9578 | 9112 | 101.5 | 57.9 | 84.4 | 50.9 | 10.5 | 8.6 | 27% | 23% | 10% | 15% | 38% |
| Palo Alto Networks | 92919 | 91328 | 46.2 | 39.4 | 42.0 | 36.4 | 12.4 | 10.8 | 16% | 15% | 27% | 28% | 43% |
| Check Point Software | 15758 | 14373 | 14.1 | 13.3 | 13.9 | 12.9 | 6.1 | 5.8 | 6% | 5% | 43% | 44% | 49% |
| Qualys | 4915 | 4498 | 20.8 | 19.4 | 19.2 | 17.6 | 8.1 | 7.4 | 9% | 10% | 39% | 38% | 48% |
| NCC Group | 507 | 604 | 17.6 | 13.3 | 12.3 | 10.0 | 1.6 | 1.5 | -1% | 5% | 9% | 11% | 16% |
| SecureWorks | 505 | 442 | | 66.4 | | 46.6 | 1.3 | 1.5 | -20% | -9% | -10% | 2% | -7% |
| Tenable | 4753 | 4616 | 30.9 | 25.7 | 27.6 | 22.3 | 5.5 | 4.9 | 14% | 14% | 18% | 19% | 33% |
| SolarWinds | 1936 | 2757 | 8.8 | 8.5 | 8.2 | 8.0 | 3.8 | 3.7 | 4% | 5% | 44% | 43% | 48% |
| Varonis | 4491 | 4217 | 391.8 | 212.8 | 186.0 | 113.9 | 8.4 | 7.6 | 9% | 12% | 2% | 4% | 16% |
| Darktrace | 4864 | 4567 | 44.4 | 36.4 | 32.6 | 25.5 | 7.2 | 6.0 | 26% | 21% | 16% | 16% | 37% |
| Riskified | 969 | 550 | | 120.0 | 39.3 | 18.9 | 1.8 | 1.6 | 11% | 12% | -4% | 1% | 13% |
| SentinelOne | 6650 | 5798 | | | | | 10.2 | 7.7 | 46% | 33% | -21% | -4% | 29% |
| Crowdstrike | 78208 | 75723 | 129.5 | 91.3 | 108.3 | 79.1 | 27.0 | 20.7 | 37% | 30% | 21% | 23% | 53% |
| **WithSecure (Inderes)** | **188** | **173** | **-26.7** | **-171.0** | **54.2** | **21.4** | **1.1** | **1.1** | **6%** | **6%** | **-4%** | **-1%** | **5%** |
| **Average** | | | **71.0** | **53.2** | **44.7** | **32.6** | **7.4** | **6.3** | **13%** | **13%** | **16%** | **19%** | |
| **Median** | | | **29.5** | **31.0** | **26.9** | **22.3** | **6.7** | **5.9** | **9%** | **12%** | **18%** | **19%** | |
| ***Diff-% to median*** | | | | | | | ***-83%*** | ***-82%*** | | | | | |

Source: Refinitiv / Inderes

# Balance sheet

| Assets | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|
| **Non-current assets** | **133** | **130** | **128** | **127** | **125** |
| Goodwill | 83.0 | 78.1 | 78.1 | 78.1 | 78.1 |
| Intangible assets | 23.5 | 20.6 | 18.4 | 17.4 | 16.5 |
| Tangible assets | 10.7 | 13.0 | 13.1 | 12.5 | 12.1 |
| Associated companies | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other investments | 7.9 | 6.1 | 6.1 | 6.1 | 6.1 |
| Other non-current assets | 1.3 | 1.9 | 1.9 | 1.9 | 1.9 |
| Deferred tax assets | 6.8 | 10.7 | 10.7 | 10.7 | 10.7 |
| **Current assets** | **113** | **77.2** | **65.6** | **68.9** | **74.3** |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other current assets | 3.2 | 3.3 | 3.3 | 3.3 | 3.3 |
| Receivables | 40.4 | 37.3 | 39.3 | 41.6 | 44.1 |
| Cash and equivalents | 69.1 | 36.6 | 23.0 | 24.0 | 26.9 |
| **Balance sheet total** | **246** | **207** | **194** | **195** | **200** |

Source: Inderes

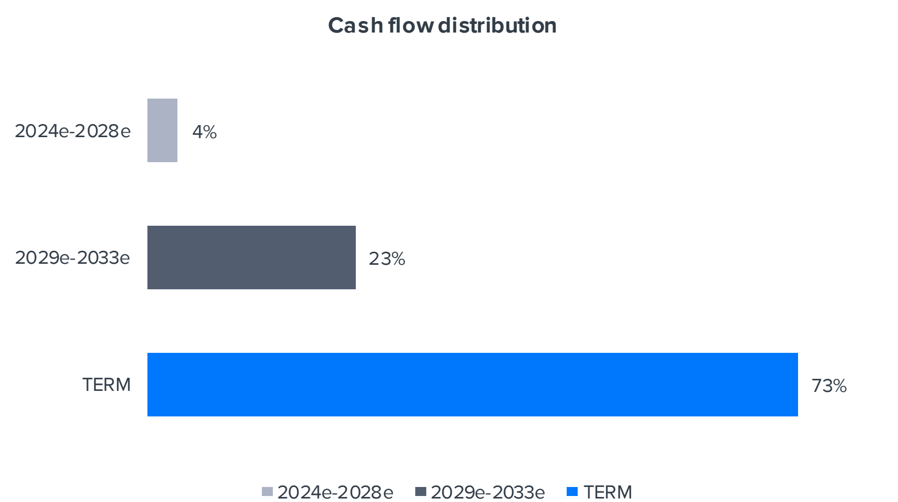
| Liabilities & equity | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|
| **Equity** | **140** | **103** | **96.3** | **93.7** | **95.7** |
| Share capital | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Retained earnings | 58.6 | 20.2 | 13.6 | 10.9 | 12.9 |
| Hybrid bonds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | 81.4 | 82.7 | 82.7 | 82.7 | 82.7 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Non-current liabilities** | **32.5** | **34.3** | **28.1** | **27.8** | **27.5** |
| Deferred tax liabilities | 1.6 | 1.3 | 1.3 | 1.3 | 1.3 |
| Provisions | 0.0 | 3.5 | 0.0 | 0.0 | 0.0 |
| Interest bearing debt | 8.4 | 8.4 | 6.0 | 6.0 | 6.0 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 22.5 | 21.2 | 20.8 | 20.5 | 20.2 |
| **Current liabilities** | **73.3** | **70.1** | **69.2** | **74.0** | **76.4** |
| Interest bearing debt | 4.8 | 5.4 | 2.0 | 3.2 | 2.0 |
| Payables | 66.3 | 64.2 | 66.6 | 70.1 | 73.8 |
| Other current liabilities | 2.1 | 0.6 | 0.6 | 0.6 | 0.6 |
| **Balance sheet total** | **246** | **207** | **194** | **195** | **200** |

# DCF calculation

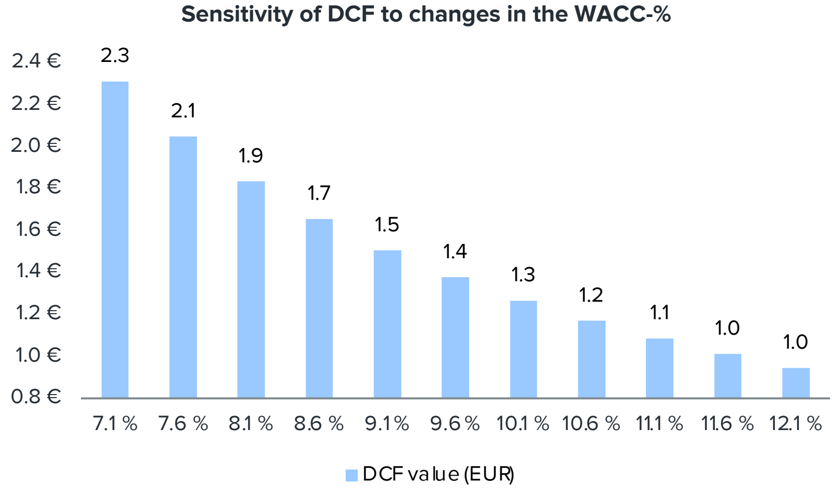
| DCF model | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | TERM |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue growth-% | 6.0 % | 6.0 % | 5.8 % | 5.9 % | 5.7 % | 5.3 % | 4.9 % | 5.0 % | 4.0 % | 4.0 % | 2.5 % | 2.5 % |
| EBIT-% | -30.7 % | -5.8 % | -2.1 % | 1.4 % | 4.0 % | 7.1 % | 8.8 % | 10.5 % | 12.5 % | 15.0 % | 15.0 % | 15.0 % |
| **EBIT (operating profit)** | **-43.9** | **-8.8** | **-3.4** | **2.3** | **7.2** | **13.3** | **17.4** | **21.7** | **27.0** | **33.7** | **34.5** | |
| + Depreciation | 18.8 | 12.0 | 11.5 | 11.4 | 10.3 | 9.7 | 10.0 | 10.3 | 10.5 | 10.7 | 10.8 | |
| - Paid taxes | -0.6 | 1.6 | 0.8 | -0.2 | -0.7 | -1.3 | -2.6 | -3.2 | -5.4 | -6.7 | -7.2 | |
| - Tax, financial expenses | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | |
| + 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 | -0.7 | 0.3 | 1.3 | 1.2 | 1.0 | 0.9 | 0.7 | 0.8 | 0.5 | 0.2 | 0.4 | |
| **Operating cash flow** | **-26.3** | **5.3** | **10.1** | **14.7** | **17.7** | **22.6** | **25.6** | **29.5** | **32.6** | **37.8** | **38.4** | |
| + Change in other long-term liabilities | 2.2 | -3.8 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | |
| - Gross CAPEX | -12.0 | -9.8 | -10.0 | -10.2 | -10.4 | -10.6 | -10.8 | -11.0 | -11.0 | -11.0 | -11.0 | |
| **Free operating cash flow** | **-36.1** | **-8.4** | **-0.2** | **4.2** | **7.0** | **11.7** | **14.5** | **18.2** | **21.3** | **26.6** | **27.2** | |
| +/- Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| FCFF | -36.1 | -8.4 | -0.2 | 4.2 | 7.0 | 11.7 | 14.5 | 18.2 | 21.3 | 26.6 | 27.2 | 394 |
| **Discounted FCFF** | | **-7.9** | **-0.2** | **3.3** | **5.1** | **7.7** | **8.7** | **10.0** | **10.6** | **12.1** | **11.3** | **164** |
| Sum of FCFF present value | | 225 | 233 | 233 | 229 | 224 | 217 | 208 | 198 | 187 | 175 | 164 |
| **Enterprise value DCF** | | **225** | | | | | | | | | | |
| - Interest bearing debt | | -13.7 | | | | | | | | | | |
| + Cash and cash equivalents | | 36.6 | | | | | | | | | | |
| -Minorities | | 0.0 | | | | | | | | | | |
| -Dividend/capital return | | 0.0 | | | | | | | | | | |
| **Equity value DCF** | | **248** | | | | | | | | | | |
| **Equity value DCF per share** | | **1.41** | | | | | | | | | | |

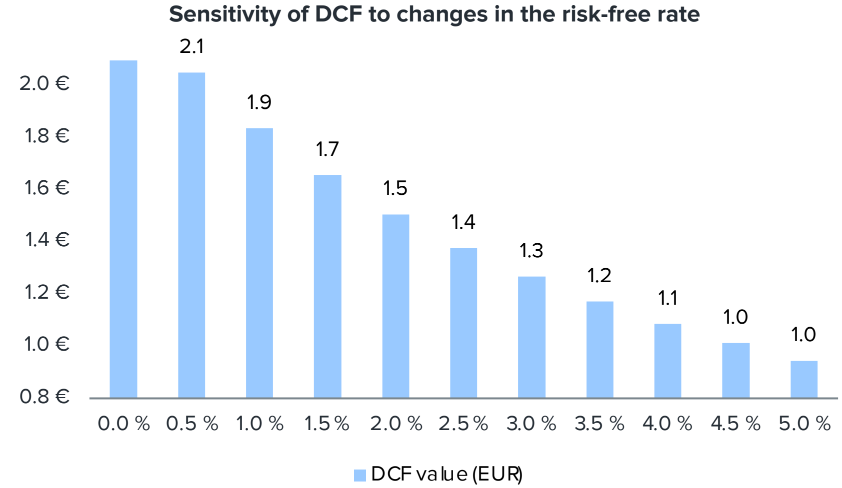
| WACC | |
|---|---|
| Tax-% (WACC) | 22.0 % |
| Target debt ratio (D/(D+E) | 0.0 % |
| Cost of debt | 4.0 % |
| Equity Beta | 1.15 |
| Market risk premium | 4.75% |
| Liquidity premium | 1.60% |
| Risk free interest rate | 2.5 % |
| **Cost of equity** | **9.6 %** |
| **Weighted average cost of capital (WACC)** | **9.6 %** |

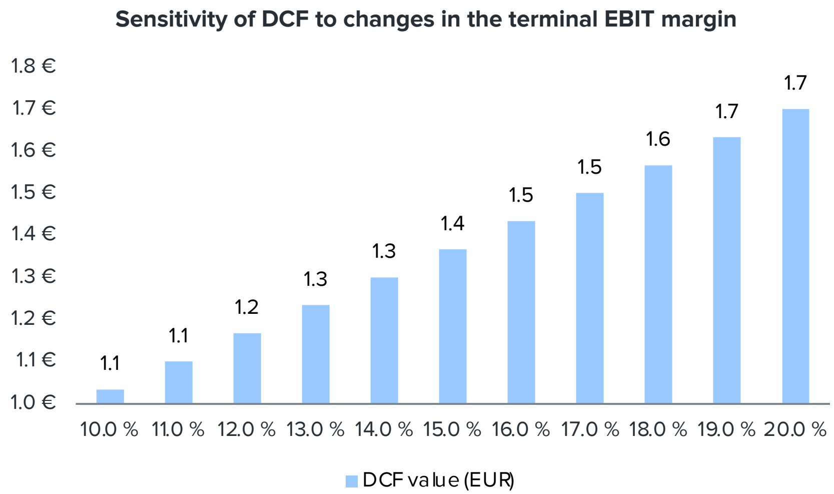
Source: Inderes

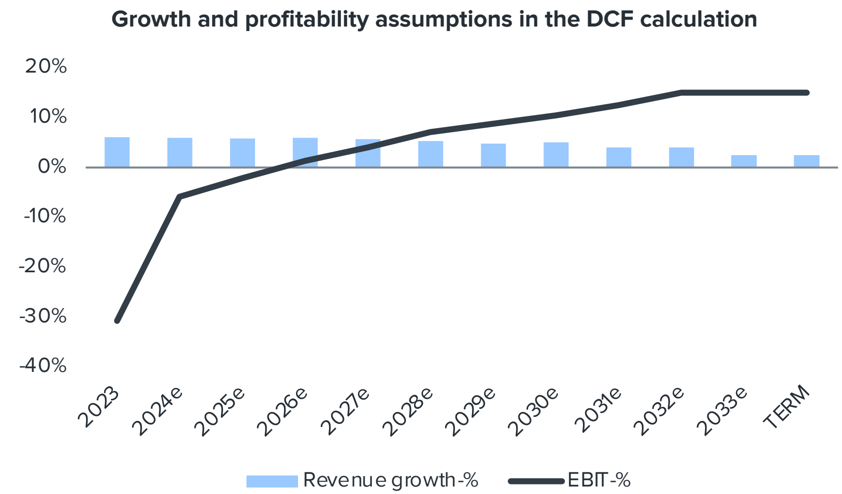


# DCF sensitivity calculations and key assumptions in graphs




Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

# Summary

| Income statement | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|
| Revenue | 134.7 | 142.8 | **151.3** | **160.1** |
| EBITDA | -29.9 | -25.1 | **3.2** | **8.1** |
| EBIT | -42.6 | -43.9 | **-8.8** | **-3.4** |
| PTP | -44.2 | -43.7 | **-8.3** | **-3.4** |
| Net Income | -38.2 | -40.0 | **-6.6** | **-2.7** |
| Extraordinary items | -5.8 | -17.6 | **-2.3** | **-2.4** |

| Balance sheet | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|
| Balance sheet total | 245.8 | 207.4 | **193.6** | **195.5** |
| Equity capital | 140.1 | 103.0 | **96.3** | **93.7** |
| Goodwill | 83.0 | 78.1 | **78.1** | **78.1** |
| Net debt | -55.9 | -22.9 | **-15.0** | **-14.8** |

| Cash flow | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|
| EBITDA | -29.9 | -25.1 | **3.2** | **8.1** |
| Change in working capital | -12.8 | -0.7 | **0.3** | **1.3** |
| Operating cash flow | -40.0 | -26.3 | **5.3** | **10.1** |
| CAPEX | -6.3 | -12.0 | **-9.8** | **-10.0** |
| Free cash flow | -50.1 | -36.1 | **-8.4** | **-0.2** |

| Valuation multiples | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|
| EV/S | 1.4 | 1.1 | **1.1** | **1.1** |
| EV/EBITDA | neg. | neg. | **54.2** | **21.4** |
| EV/EBIT (adj.) | neg. | neg. | **neg.** | **neg.** |
| P/E (adj.) | neg. | neg. | **neg.** | **neg.** |
| P/B | 1.7 | 1.8 | **2.0** | **2.0** |
| Dividend-% | 0.0 % | 0.0 % | **0.0 %** | **0.0 %** |

Source: Inderes

| Per share data | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|
| EPS (reported) | -0.22 | -0.23 | **-0.04** | **-0.02** |
| EPS (adj.) | -0.19 | -0.13 | **-0.02** | **0.00** |
| OCF / share | -0.23 | -0.15 | **0.03** | **0.06** |
| FCF / share | -0.29 | -0.21 | **-0.05** | **0.00** |
| Book value / share | 0.80 | 0.59 | **0.55** | **0.53** |
| Dividend / share | 0.00 | 0.00 | **0.00** | **0.00** |

| Growth and profitability | 2022 | 2023 | 2024e | 2025e |
|---|---|---|---|---|
| Revenue growth-% | 4% | 6% | **6%** | **6%** |
| EBITDA growth-% | 80% | -16% | **-113%** | **154%** |
| EBIT (adj.) growth-% | 37% | -28% | **-75%** | **-84%** |
| EPS (adj.) growth-% | 48% | -30% | **-82%** | **-94%** |
| EBITDA-% | -22.2 % | -17.6 % | **2.1 %** | **5.1 %** |
| EBIT (adj.)-% | -27.3 % | -18.4 % | **-4.3 %** | **-0.6 %** |
| EBIT-% | -31.6 % | -30.7 % | **-5.8 %** | **-2.1 %** |
| ROE-% | -32.4 % | -32.9 % | **-6.7 %** | **-2.8 %** |
| ROI-% | -30.7 % | -32.5 % | **-8.0 %** | **-3.3 %** |
| Equity ratio | 79.0 % | 73.3 % | **75.4 %** | **71.7 %** |
| Gearing | -39.9 % | -22.2 % | **-15.5 %** | **-15.8 %** |

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

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## Recommendation history (>12 mo)

| Date | Recommendation | Target | Share price |
|---|---|---|---|
| 7/2/2022 | Reduce | 2.60 € | 2.53 € |
| 7/21/2022 | Accumulate | 2.20 € | 1.80 € |
| 10/28/2022 | Accumulate | 2.00 € | 1.62 € |
| 11/25/2022 | Buy | 2.00 € | 1.51 € |
| 1/11/2023 | Buy | 1.80 € | 1.36 € |
| 2/9/2023 | Accumulate | 1.90 € | 1.58 € |
| 3/30/2023 | Buy | 1.90 € | 1.41 € |
| 4/21/2023 | Osta | 1.90 € | 1.42 € |
| 7/17/2023 | Accumulate | 1.40 € | 1.23 € |
| 10/19/2023 | Reduce | 1.00 € | 0.91 € |
| 12/14/2023 | Accumulate | 1.10 € | 0.91 € |
| 2/14/2024 | Reduce | 1.30 € | 1.17 € |
| 4/25/2024 | Accumulate | 1.30 € | 1.09 € |
| 5/23/2024 | Accumulate | 1.30 € | 1.07 € |

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