

15. August 2022

Europa | Software

Comprehensive Update

BUY

Target-Price: 200.00 EUR

Industry: Cyber security
 Country: Germany
 ISIN: DE0007276503
 Reuters: YSNG.DE
 Bloomberg: YSN
 Website: www.secunet.com

Last price: 259.00
 High Low
 Price 52 W.: 608.00 245.00
 Market cap. (EUR) 1.70 B
 Number of shares (in mln) 6.50

Shareholders

Giesecke + Devrient GmbH 75.12%
 secunet AG 0.47%
 Free float 24.41%

Performance

4 weeks -2.60%
 26 weeks -12.40%
 52 weeks -41.60%
 3 years 126.20%

Dividend in EUR

2021 5.38
 2020 2.54
 2019 1.56
 2018 2.04
 2017 1.20
 2016 0.58

Chart: 12 Months



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DR. KALLIWODA
 RESEARCH GmbH

secunet AG

Germany's leading cybersecurity company

■ Security Networks AG performs weaker in H1 2022 than in H1 2021: Group revenue amounts to EUR 135.5 million (-8.2% compared to H1 2021). EBIT is EUR 14.9 million (-38.4%).

■ H2 is traditionally more substantial, and therefore secunet maintains its Company Guidance.

■ Current assets amounted to €127m as of 30 June 2022 compared to €209m as of 31 December 2021, mainly due to the reduction in cash used for the SysEleven GmbH acquisition and the dividend payment.

■ On 17 May 2022, secunet AG acquired all shares in SysEleven GmbH from Berlin through a purchase agreement. SysEleven GmbH is a cloud infrastructure specialist that offers cloud services, managed services, and managed Kubernetes.

■ SysEleven GmbH should decisively improve secunet's market position in cloud and cloud security business areas.

■ Company guidance for 2022 remains in place: Revenues of 320 million euros and EBIT of approx. 50 million euros.

■ Due to higher capital market interest rates, the discount factor WACC in our DCF model increases, slightly reducing our fair value to 200.00 per share. Our rating is BUY.

Figures

in EURm	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
Net sales	285,591	337,620						
EBITDA	59,697	73,812						
EBIT	51,639	63,879						
Net income	34,984	42,980						
EPS	5.43	6.66						
BVPS	15.83	20.07						
RoE	34.04%	33.11%						
EBIT margin	18.08 %	18.92 %						
P/E	75.54	61.55						
P/BVPS	25.91x	20.43x						
EV/EBITDA	44.44x	35.94x						

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Source: Dr. Kalliwoda Research GmbH © 2022 & secunet AG

Dr. Kalliwoda Research GmbH | Primary Research

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1 Results of 2022 First Half Year

Security Networks AG performs weaker in the first half of 2022 than in H1 2021, but the figures are still just within the expected range. The Executive Board assumes that the operating business will improve in the year's second half. The forecast for the full fiscal year 2022 with sales of 320 million euros and EBIT of approximately 50 million euros is confirmed, also because the company has strengthened itself with the acquisition of SysEleven. The results in detail are:

- Group revenue is EUR 135.5 million (-8.2% at H1 2021).
- EBIT amounts to EUR 14.9 million (-38.4 %)
- Net income: EUR 10.1 million (-36.9 %)
- Diluted and basic earnings per share: 1.57 euros (H1: 2.48 euros)

Public Sector

Here secunet achieved

- revenue of €113.1 million (-7.6% compared with H1 2021)
- EBIT of Euro 14.2 million (-38.3%)

Due to decreasing pandemic-related market effects, the demand situation in the Public Sector business unit has returned to normal.

Business Sector

- Sales in the Business Sector business unit amounted to €22.4 million (-11.2% compared to the same period of the previous year).
- EBIT was €0.7 million (-41.7% compared to the same period of the previous year)

The business targets companies in the private sector and the healthcare sector. The weakening development in these areas is due to lower demand for software licenses in the secunet connector area.

This area was particularly strong in the same period of the previous year. Large volume sales then also led to very high margins compared with the current reporting period.

Assets and financial position

secunet's capital structure is as follows:

- Non-current assets: EUR 128.8m compared with EUR 64.9m as of Dec. 31, 2021. This change in assets is due to the acquisition of SysEleven GmbH. Therefore, goodwill increased from EUR 10.3 million (Dec. 31, 2021) to EUR 57 million too. Intangible assets increased from 12.2 million euros (Dec. 31, 2021) to 30.5 million euros.
- Current assets amounted to 127 million euros as of Jun. 30, 2022, compared to 209 million euros as of Dec. 31, 2021, mainly due to the reduction in cash and cash equivalents used for the SysEleven GmbH acquisition and the dividend payment.
- As of Jun. 30, 2022, current liabilities amounted to 76 million euros and non-current liabilities to 73.1 million euros.
- Equity amounted to 106.7 million euros at the end of the year's first half, which corresponds to an equity ratio of 41.7% (compared to 47.4% at the end of the year). This

change in equity is due to the dividend payment of 34.8 million euros, withdrawn from retained earnings.

secunet financed the acquisition of SysEleven GmbH (EUR 49.4 million) from cash and equity too.

Challenges

- secunet AG had significantly benefited from the COVID-19 pandemic, especially last year, and the relaxation in all areas led to a drop in demand for secunet products
- The demand for software licenses, which affects the revenue area of the Business Sector, has decreased
- There are general bottlenecks in the supply of semiconductors and intermediate products. This led to postponements of customer projects in the reporting period. Management has countered this problem by increasing inventories at an early stage.
- secunet AG does not maintain any production sites or business relations in Ukraine or Russia. Therefore we don't expect disadvantages from the geopolitical tensions connected to the war.
- The German government intends to spend 100 billion euros to strengthen the German armed forces. Secunet expects the first possible orders next year at the earliest.

Acquisition of SysEleven GmbH

On May 17, 2022, secunet AG acquired all shares in SysEleven GmbH of Berlin through a purchase agreement. The purchase price was settled with equity. SysEleven GmbH is a cloud infrastructure specialist offering cloud services, managed services, and managed Kubernetes. From May 31, 2022, the company will be consolidated and assigned to secunet's Public Sector business unit. secunet will now be able to offer more solution offerings in the areas of cloud and cloud security.

Outlook

- secunet AG is sticking to the guidance it issued and is forecasting sales of €320 million (2021: €330 million) and EBIT of €50 million (2021: €59 million) for the fiscal year 2022

- 177 new employees have been hired, which could be a sign of a significant improvement in sales figures for the coming years
- In addition, secunet AG is forecasting a visible regeneration of the hardware market from 2023 onwards, which would ultimately increase demand in the Business Sector
- In the Public Sector, the company aims to improve its core technology and expand its existing customer base.

The focus of business activities in recent years has always been on the second half of the year due to procurement processes and public sector demand, so we expect better figures in H2/2022 than H1/2022.

2 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> - secunet specializes in areas of IT high-security and differentiates itself from the competition with proven and unique solutions - Competitive advantage in the public sector thanks to long-standing partnerships such as the IT security partnership with the Federal Republic of Germany, which has been in place since 2004. - High level of expertise in certification and approval processes for products up to the highest security level 	<ul style="list-style-type: none"> - One Weakness could be the weaker 2022 outlook, showing lower Revenue and a lower EBIT. - Share price drop because of the weaker outlook
Opportunities	Threats
<ul style="list-style-type: none"> - Increasing digitization and growing importance of IT security - Strict regulations on IT security issues - Digital sovereignty "Made in Germany" is in demand - Increasing investment in cyber resilience (including in the defence context) 	<ul style="list-style-type: none"> - 80-90% of secunet's business is with public-sector clients. - Supply chain issues for intermediate products. More specifically the availability of semiconductors

3 Future goals and growth potential

secunet's overarching objective is to grow profitably and create sustainable value across all segments, nationally and internationally. In so doing, the company always pursues the goal of offering our customers the most effective IT security solutions and thus strengthening their digital sovereignty.

The stable basis for the further development of the company is and remains the Public Sector business segment, which secures reliable revenue fields and growth impulses. In the Business Sector business segment, secunet is continuing along the path it has taken and is consistently focusing the range of solutions on the requirements of the fast-growing future markets of eHealth, Industry 4.0 and the Internet of Things. Where there are worthwhile candidates, secunet will supplement its organic growth through targeted acquisitions. Two projects that the company brought to completion in 2021 and 2022 were the acquisitions of stashcat GmbH and SysEleven GmbH. With these takeovers, secunet is creating an additional range of products and services.

The company continues to pursue the internationalisation strategy in a targeted and proportionate manner. The focus here is on activities with the countries of the European Union and EU organisations as well as defence and space organisations. With the expansion of international sales activities and a more effective customer approach, secunet is focusing more strongly on the requirements of these target groups.

For FY 2021, secunet Group achieved a revenue increase of 18% from 285.6 million EUR to 337.6 million EUR and an EBIT increase of 24% from 51.6 million EUR to 63.9 million EUR. The reason for this growth is the very good performance of secunet products in both business segments. Two of the product groups which contributed the most to this positive development are the SINA product family and the secunet eHealth connector. secunet also benefited from corona related effects such as public clients and companies switching to a mobile office setting and needing to provide employees with secure workstations such as the SINA Workstation S. In comparison with the published forecast for 2021 which was already adjusted for the corona related economic boost, secunet was able to slightly exceed the targets.

The Group's revenue from the product business, which comprises hardware, software, maintenance, and support, amounts to 290.8 million EUR in 2021 and 46.8 million EUR from the provision of consulting and services. Sales from the Public Sector rose by 17% in 2021 to 278.1 million EUR. This growth was due to the excellent core business performance with the SINA product family but also because of the already mentioned corona related economic boost. This segment contributed 82% to the Group's total revenue.

In the Business Sector segment, sales revenue increased by 23% to 59.5 million EUR. The main reason for this was the excellent performance of the secunet eHealth Connector. This Business Sector contributed 18% to the Group's total revenue in 2021.

Gross profit on sales increase by 26% in 2021, while the cost of sales increased by 15% due to the increased material expenses because of the increased order volume. Selling expenses increase by 10% and general administrative costs increased by 15% because of the growth in the workforce.

The EBIT margin increased from 18.1% in 2020 to 18.9% in 2021.

In the Public Sector, EBIT grew by 7% while in the Business Sector generated a positive EBIT of 6.5 million EUR in comparison to 2020 where this number was -2.2 million EUR. The main reason for the Group's increases in EBIT is the higher demand for products in 2021, while the increase in the Business Sector EBIT is boosted by the sale of software upgrades of the secunet eHealth connector which led to license revenues with a favorable margin profile.

As a result of these positive developments, the secunet group generated a net income for FY 2021 of 43.0 million EUR which equals a 23% increase compared to 2020.

4 Valuation

Our internal model with WACC of 7.3 % indicates a fair value of

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8 Appendix: Equity Story, Growth drivers

- secunet's objective remains the sustainable and profitable growth, which the management aims to achieve by further developing its public sector business segment, but also advance in the business sector division by developing its solution according to the requirements of markets such as eHealth, Industry 4.0, the Internet of Things, eGovernment and Cloud. Organic growth will be supplemented by mergers and acquisitions, one of which was completed during 2021, the acquisitions of stashcat GmbH. In 2022, secunet also acquired SysEleven GmbH.
- 2022 outlook remains weaker because of the expiration of the pandemic related benefits for secunet, as well as global bottlenecks in the supply of semiconductors. On the other hand, a potential growth driver for the future may be the decision of the German government to increase spending in the defense sector due to the current uncertain situation and potential war threats because of the Russia-Ukraine conflicts. Nevertheless, the opportunity this will create for secunet is not yet foreseeable.
- Development of new business models, demand for digital sovereignty "Made in Germany", increasing importance of IT security, specific requirements for IT security due to regulation and digitalization providing a real growth opportunity for secunet.

9 Company Profile

secunet is a Germany based IT security company, offering products and solutions for a secure digital infrastructure as well as protection against cyber attacks. The main fields of application are the following: Authorities, Administrations and Ministries, Defence and Space, Border Control and Police, Healthcare and Industry.

secunet offers ready-to-use products as well as individual consulting which help companies improve their digital security and drive their digital transformation forward.

secunet's key offering is the SINA product family while SINA stands for "Sichere Inter-Netzwerk Architektur".

The product portfolio includes components for the protected processing, storage and transmission of classified information (CI) over the internet approved by the German Federal Office for Information Security (BSI) up to the highest national and international classification levels.

The focus of the SINA product family is the protection of electronic information against unauthorized access. Ensuring this protection is a core task of any IT security precaution and

an indispensable basic requirement when implementing a security policy.

The product range includes workstations, servers, tablets, gateways, telephones, software tools.

The second relevant product family concerns the field of biometrics and is called "secunet border gears". This segment comprises the products "easygate", "easykiosk", "easytower" and "bocoa". For instance, the easygates are used to verify the authenticity of electronic identity documents. In addition, the system reads the facial image from the chip in the electronic identity document and compares the biometric data with the actual appearance of the traveler, which is captured by a facial image camera.

In this way, easykiosk, easytower and bocoa are also designed to minimize queues at border controls.

The third product group comprises healthcare with the secunet connector (one-box connector as well as two-box connector for data centers). The secunet connector is used by medical service providers such as practices, pharmacies and hospitals for highly secure access to the German telematics infrastructure. Due to its modular design, the connector can be expanded to include additional applications and possible uses.

In addition, there is the secunet edge.

A secure platform for Industrial Internet of Things (IIoT) and edge computing and combines three normally separate product categories into one solution for industry clients. IIoT gateway that connects machines with cloud platforms for Industry 4.0 scenarios; edge computing platform on industrial-grade hardware; and firewall with network monitoring and AI-based anomaly and threat detection that secures production assets and even legacy.

secunet has over 800 employees, is present in 12 location in Germany and currently has over 500 customers which include federal ministries and 20+ DAX listed companies. It has a market capitalization of 1.8B and is listed in the German Small Cap Index – SDAX.

10 Business model

secunet, Germany's leading cybersecurity company, is headquartered in Essen, but also has other locations in major German cities. They offer products, solutions and consulting services in the field of IT security. The product range includes services, hardware and software. secunet covers the entire value chain from analysis and design to development, integration, operation, maintenance, and support of solutions.

They are aimed at large-scale infrastructures and focus on areas with specific IT security

requirements (e.g. eGovernment, Biometrics, Cloud, eHealth, and Internet of Things).

In summary, the companies' business operations can be divided into two segments, the Public Sector and the Business Sector.

10.1 Public Sector

The Public Sector products are targeted towards public clients within and outside of Germany such as governmental organizations, organizations in the defense sector, EU organizations, security authorities and border police. This sector includes one of the bestselling product categories which is the SINA product portfolio. This product family offers different kinds of solutions for highly secure processing, transmission and storing of classified data up to the highest national and international classification levels. The Public Sector division also includes a wider range of products and services such as IT security consulting, Cloud Security, Biometrics, Border Control Systems, Military Grade Encryption and Public Key Infrastructures. The segment contributes approximately 82 % of total revenue and its sales rose by 17% to 278.1 million EUR compared to 237.1 million EUR for 2020. EBIT in this sector increased by 7% to 57.4 million. This growth was mainly driven by the SINA product family.

secunet has worked with well known and important clients in the sphere of the public sector such as the following: Federal Foreign Office, Federal Criminal Police office, Federal Office for Information Security, Federal Police, Fraport, Eurocontrol, Deutsche Rentenversicherung and Vienna International Airport.

10.2 Business Sector

The Business Sector division offers products and solutions to companies in the private sector, but also strongly focuses on the healthcare industry. Other industries to which secunet offers its solutions are finance, insurance and energy, utilities, telecommunications and manufacturing/production industries, automotive manufacturers and suppliers and KRITIS.

KRITIS are critical infrastructures which are organizations and facilities with important significance for the state community or society.

The most important product from this segment is the secunet eHealth connector which securely connects small and large medical facilities to the German telematics infrastructure.

This solution reliably protects medical and confidential data.

secunet edge, which is also part of the Business Sector and amongst the most important products is a platform which combines three different product categories into one. It serves as a security device, an IoT gateway providing connectivity to industrial clouds, and lastly as an industrial PC, computing intensive tasks.

Examples of consulting services offered to private companies are security assessments, security consulting and support for certification projects.

This segment is responsible of ca. 18% of the company's total revenue and recorded a 23% increase in sales for the year 2021 amounting to 59.5 million EUR and generated an EBIT of 6.5 million EUR in comparison to the loss of 2.2 million EUR in 2020. These significant increases are mainly due to the exceptional performance of the eHealth connector during the year 2021.

11 Shareholder structure

The share capital of secunet AG amounts to 6,500,000 EUR and is subdivided into 6,500,000 no-par value bearer shares. Each share grants the holder one vote at the Annual General Meeting and, in the event of a distribution, an equivalent dividend entitlement.

Giesecke + Devrient GmbH, Munich, is the majority shareholder with a direct holding of 75.12%, and is the parent company of secunet AG. As a strategic holding company, the owner-managed Giesecke + Devrient GmbH manages its affiliated companies, including secunet AG. The group of companies is internationally oriented and active in the field of banknote and securities printing as well as the development and production of security paper and banknote processing systems. In addition, the group of companies develops and manufactures magnetic strip and chip cards, predominantly for the telecommunications industry, for banks and for the healthcare sector. A further 0.47% of shares (30,498 shares) are held by secunet AG itself. The free float as at 31 December 2021 was 24.41%. It was distributed among a regionally broadly diversified shareholder structure with an increasing share of international investors, primarily from the USA, UK and Scandinavia.”

There are no share option programmes or convertible bonds that could dilute the shareholding.

12 Digital Sovereignty in the Cloud

For secunet, Cloud Computing is essential because it enables organizations and people to have access and process their data at any time and any place. This works based on infrastructures operated by third parties. However, Cloud computing also poses certain risks to companies who make use of this technology because it makes them vulnerable to cyber-attacks. For this reason, companies, as well as high level authorities with high protection requirements make use of secunet's product and solutions. One example of such a solution is secustack GmbH, a joint venture between secunet and Cloud&Heat Technologies whose objective is to offer customers the highest-level digital security and protection against hacker attacks. This is done by making use of secustack's safe cloud operating system for secure data processing and storage. The goal of this joint venture is to create trustworthiness and sovereignty in the cloud. Secustack's cloud operating system is based on the open-source software "Openstack" providing an architecture for cloud computing to which then the security mechanism is added. The user data is always fully encrypted by making use of strong cryptography.

Cloud Computing became an important topic during this ongoing pandemic because it enables workers to work from home, thus saving costs and resources. It also provides flexibility as well as efficiency for companies. Therefore, many companies that did not use Cloud Computing previously are starting to implement this technology. However, according to a study done by the German digital industry association Bitkom, 70% of non-users hesitate to make the move because they fear that their sensitive data might not be protected well enough.

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Regulatory authority for DR. KALLIWODA RESEARCH GmbH is the Federal Financial Supervisory Authority (BaFin), Graurheindorfer Straße 108, 53117 Bonn, Germany and Lurgiallee 12, 60439 Frankfurt am Main, Germany.

Author of this research: Dr. Norbert Kalliwoda, Analyst, CEO and founder of DR. KALLIWODA RESEARCH GmbH.

II. Additional Information:

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Within the scope of the evaluation of companies the following valuation methods are applied: Multiple-based models (Price/Earnings, Price/Cash-flow, Price/Book value, EV/Sales, EV/EBIT, EV/EBITDA), peer group comparisons, historic valuation methods, discounting models, sum-of-the-parts-approaches, substance-valuation methods and swot-analyses. The valuation principles and models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials and on basic assumptions about the economy. Besides, the market moods and market sentiment affect the valuation of enterprises. The approaches are based on expectations that could change rapidly and without advance warning according on developments specific to individual branch. The valuation results and fair values derived from the models might therefore change accordingly. The ratings are the evaluation results and refer to a fair value pricing reflecting a time-horizon of up general relate to a twelve-months. Nevertheless, evaluation results are subject to changing market conditions and constitute merely a snapshot. The evaluation results and fair values may be reached faster or slower than expected by the analysts. The results and fair values may to be scale upwards or downwards.

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BUY:	Based on our analysis, we expect the stock to appreciate and produce a total return of at least 10% over the next twelve months
ACCUMULATE:	Based on our analysis, we expect the stock to appreciate and produce a total return between 5% - 10% over the next twelve months
HOLD:	Based on our analysis, we expect the stock to produce a total return between -5% and +5% over the next twelve months
REDUCE:	Based on our analysis, we expect the stock to cause a negative return between -5% and -10% over the next twelve months
SELL:	Based on our analysis, we expect the stock to cause a negative return exceeding -10% over the next twelve months

For the sustainability ranking DR. KALLIWODA RESEARCH GmbH uses the 17 United Nations Sustainable Development Goals, where each goal is classified as follows:

-1	The company negatively contributes to the goal.
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0	The company does not contribute to the goal at all.
1	The company positively contributes to the goal.
2	The company profoundly contributes to the goal.
3	The company significantly contributes to the goal.

From adding up the given numbers, it is being set in a ratio to the maximum points (e.g. 51). The following model shows the note procurement:

A	100% - 70%	The company exceptionally contributes to the goal.
B	70% - 50%	The company promotes the transition to sustainability.
C	50% - 30%	The company is on the way to sustainability.
D	30% - 10%	The company minimizes its negative impact.
E	10% - 0%	The company is not sustainable.

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