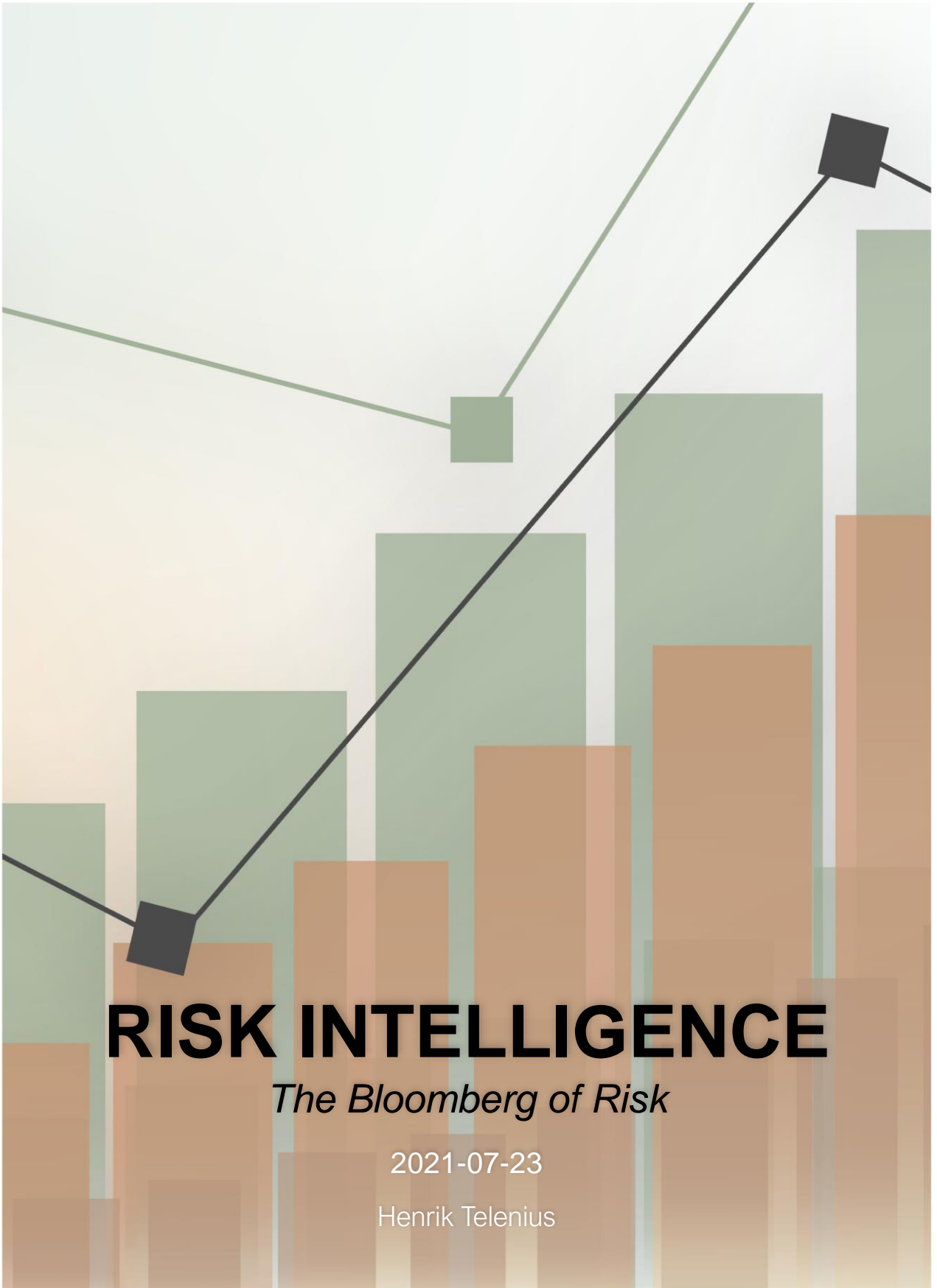# EQUITY RESEARCH REPORT

RISK INTELLIGENCE

The Bloomberg of Risk

2021-07-23

Henrik Telenius

RISK INTELLIGENCE (RISK)

THE BLOOMBERG OF RISK

Risk Intelligence ("Risk" or the "Company") produces and sells advisory services, research reports and software products within international risk analysis for shipping routes. Risk's primary business activity is their software products, enabling clients to receive a threat analysis at sea, ports and on land. The Company's new software product, LandRisk, combined with a strong demand for reliable safety systems, is expected to result in an increasing ARPU with a CAGR between 2020-2023 of 35,5%. The LandRisk product, a more lucrative product mix and a historical low churn of 1% is expected to enable Risk to reach break-even in 2023. By applying a target multiple of 4.0x EV/S with a revenue in 2021 of 21.7 MDKK results in a valuation within six months of 8.2 DKK.

▪ **The ARPU Is Expected to Increase With a CAGR of 35.5% Between 2020-2023**

The ARPU, *Average Revenue Per User,* is estimated to increase during 2020-2023 due to an increased focus on the LandRisk product. The ARPU from LandRisk in 2020 was 425 TDKK compared to the ARPU from the Company's other software products of 128 TDKK. In 2023 the ARPU for all software products is estimated to 318 TDKK due to an increase of users of LandRisk. LandRisk has yet to show its full potential because of its launch, in Q4-2019, just before the pandemic. Despite this, two clients signed during 2020, where one signed in January and the other one, Sony Europe, signed in December. The effects of this deal have barely been seen as of today but will be shown for FY 2022.

▪ **A More Lucrative Product Mix Is Expected in 2023**

The highly scalable SaaS business is expected to reach 90.2% of sales in 2023 and is unlike the Company's advisory services and intelligence reports not as dependent on staff to gain sales. The intelligence reports are expected to correspond to 3.8% of sales and advisory services to 5.9% of sales. The effect of the more scalable business is an expected increase in gross margin from 58.5% in 2020 to 74.1% in 2023.

▪ **Expected Break-Even in 2023**

The larger focus on the SaaS business, especially the LandRisk product, is expected to increase the margins alongside a sales increase with a CAGR of 37.9% during 2020-2023, reaching 41.2 MDKK in 2023. The estimated net income for break-even in the year 2023 is 5.8 MDKK, with a net income margin of 14.1%

▪ **Motivated Valuation of 8.2 DKK**

The Company is compared with Nordic SaaS businesses similar size and growth. A 4.0x EV/S multiple with estimated sales in 2021 of 21.7 MDKK results in a valuation within six months of 8.2 DKK.

CURRENT PRICE 5.3 DKK

VALUATION RANGE		
BEAR	**BASE**	**BULL**
4.9 DKK	**8.2 DKK**	**9.3 DKK**

RISK INTELLIGENCE	
Share Price (2021-07-22)	5.3
Shares Outstanding (M)	10.6
Market Cap (MDKK)	56.1
Net Debt (MDKK)	-0.2
Enterprise Value (MDKK)	55.9
1 Year Price Range	3.6 – 8.9
Exchange	Spotlight Stock Market

SHARE PRICE DEVELOPMENT	
1 Month	-2.9%
3 Months	-21.6%
1 Year	26.8%
YTD	-28.9%

OWNERS	
Sandbjerg Holding ApS (Hans Timo Hansen)	29.3%
Avanza Pension	4.0%
Nordnet Pension	2.5%
Jens Lorens Paulsen	2.0%
Stig Streit Jensen	0.8%

CEO AND CHAIRMAN	
CEO	Hans Tino Hansen
Chairman	Jan Holm

FINANCIAL CALENDAR	
Q2-2021	2021-08-18

ESTIMATES (BASE), MDKK	2020	2021	2022	2023
Total Revenue	15.7	21.7	29.7	41.2
Gross Profit	**9.2**	**14.0**	**20.7**	**30.5**
Gross margin	*58.5%*	*64.5%*	*69.6%*	*74.1%*
EBIT	**-5.7**	**-5.3**	**-0.3**	**7.5**
EBIT margin	*Neg.*	*Neg.*	*Neg.*	*24%*
Net income	**-6.0**	**-6.7**	**-2.3**	**4.7**
Net income margin	*Neg.*	*Neg.*	*Neg.*	*14.1%*
P/S	3.6x	2.6x	1.9x	1.4x
EV/S	3.6x	2.6x	1.9x	1.4x

INVESTMENT THESIS

Risk was founded in 2001 by their current CEO Hans Tino Hansen and was in the beginning mainly a risk consultancy firm advising government clients. In 2008 the Company launched its first software product, MaRisk, which clients can use for threat analysis within maritime operations. In 2015 PortRisk was established to help clients with threat analysis in ports, and in Q4-2019 LandRisk was launched for threat analysis on land. The Company now has a complete industry chain to assist clients in finding the safest routes from their starting point to their destination. The software products, with a historical churn of 1%, enable clients to see 24/7 which areas in the world to avoid for a safe route and where recent piracy/terrorist attacks have occurred. In addition to the software, Risk sells weekly and monthly risk reports as well as advisory services. The Company is currently working on enabling artificial intelligence and machine learning in their software and has recently completed a directed new issue amounting to 10.5 MDKK to finance further R&D, sales and marketing expenses.

The ARPU Is Expected to Increase With a CAGR of 35.5% Between 2020-2023

148.8% INCREASE IN ARPU FROM 2020 TO 2023

In 2018 the ARPU for Risk amounted to 115 TDKK and in 2020 128 TDKK. The products MaRisk and PortRisk showed an ARPU 2020 of 128 TDKK, while LandRisk had an ARPU for the same year of 425 TDKK. The LandRisk product first launched in Q4-2019 but had a slow start due to the pandemic. Despite the slow start, LandRisk's first client was signed in January 2020 and in December the same year where Sony Europe became a client of the newly launched software. The 232% higher ARPU from LandRisk than MaRisk and PortRisk is expected to increase the total ARPU for the Company resulting in an ARPU in the year 2023 of 318.4 TDKK.

A More Lucrative Product Mix Is Expected to Increase the Gross Margin From 58.5% In 2020 to 74.1% In 2023

GROSS MARGIN OF 74.1% IN 2023

81% of sales are derived from software products, 7.2% of sales came from research reports and 12% came from advisory services in 2020. 90.2% of sales are expected to come from software products while 3.8% and 5.9% come from research reports respectively advisory services in 2023. The increase of percent of sales for software products is expected to grow due to the LandRisk product, which has not yet shown its full effect on the top-line due to delayed effects caused by the pandemic. Hence, the increased focus on the fully scalable LandRisk product is expected to increase the gross margin from 58.5% in 2020 to 74.1% in 2023.

Expected Break-Even in 2023

The increased focus on software products, especially LandRisk, is expected to result in a CAGR of 37.9% in sales during 2020-2023. Total sales in 2023 are estimated to 41.2 MDKK, compared to 15.7 MDKK in 2020. An effect of the increased focus on the Company's SaaS business is the decreasing demand for staff, from 2017 to 2020, an average of 3.8 employees were employed per year while one employee per year is expected to be hired during 2020-2023, resulting in staff costs in 2023 of 19.5 MDKK, compared to 13.1 MDKK in 2020. This is estimated to contribute to an EBITDA margin of 26.9% and a net income margin reaching 14.1% in 2023.

A Motivated Valuation of 8.2 DKK Within Six Months
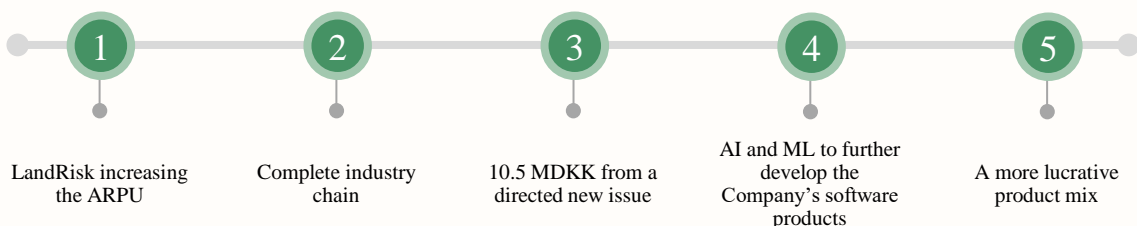
IMPLIED VALUATION OF 8.2 DKK

Risk is valued using a relative valuation methodology where the Company is compared with other Nordic SaaS businesses similar in size and growth. A 4.0x EV/S target multiple is used on Risk's expected revenue in 2021 of 21.7 MDKK, resulting in a valuation within six months of 8.2 DKK.

HIGHLIGHTS

| 1	2	3	4	5
LandRisk increasing the ARPU	Complete industry chain	10.5 MDKK from a directed new issue	AI and ML to further develop the Company's software products	A more lucrative product mix

FINANCIAL ESTIMATES

REVENUE OF 41.2 MDKK IN 2023

Total Revenue Is Estimated to 41.2 MDKK in 2023

The Company's sales are derived from three different types of products: software, research reports and advisory services. Risk's revenue is forecasted to reach 41.2 MDKK in 2023 through a more significant focus on the SaaS business due to LandRisk. The sales from the software products are expected to reach this number through an ARPU of 318 TDKK and 116.7 active users compared to 2020 with an ARPU of 128 TDKK and 99.4 active users (based on Analyst Group's calculation). The research reports are expected to grow with a CAGR of 11.7% between 2020-2023, resulting in sales of 1.6 MDKK sales in 2023. Sales from advisory services are expected to grow with a CAGR of 9.1% 2020-2023, reaching 2.5 MDKK 2023. Sales from software are expected to grow the fastest with a CAGR of 43% during the same years, corresponding to 90.2% of sales in 2023 compared to 81% in 2020. The focus on the most scalable part of the business is estimated to result in a gross margin of 74.1%.

GROSS MARGIN OF 74.1% IN 2023

Estimated revenue and gross profit 2017-2023
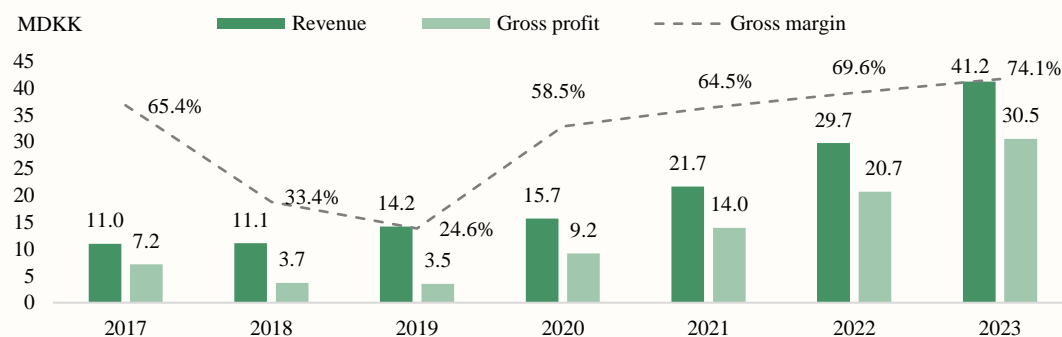
Source: Analyst Group's estimates

Break-Even in 2023

The other external costs are mainly affected by sales and marketing costs. The Company recently completed a directed new issue amounting to 10.5 MDKK, planned on being used for further R&D, sales and marketing costs which is estimated to result in 10.6 MDKK in other external costs in 2023. Staff costs are expected to grow to 19.5 MDKK compared to 13.1 MDKK in 2020, which corresponds to 28 employees in 2023 with an average cost per employee of 695.3 TDKK compared to 25 employees with an average cost per employee of 524.7 TDKK in 2020. Between 2016-2019 the average cost per employee was 655.2 TDKK and is expected to return to these levels after the pandemic with an annual increase per year of 2%. From 2017 to 2020 the Company hired circa 3.7 employees per year, whereas during 2020-2023, one employee per year is forecasted to be employed. This will contribute to a positive EBITDA margin of 7.7% in 2022 and 26.9% in 2023. After financial expenses of -2.72 MDKK and tax of 1 MDKK in 2023, a positive net income is expected to be reached with a net income margin of 14.1% compared to 2022 of -7.7%.

NET INCOME MARGIN OF 14.1% IN 2023

Estimated expenses 2017-2023
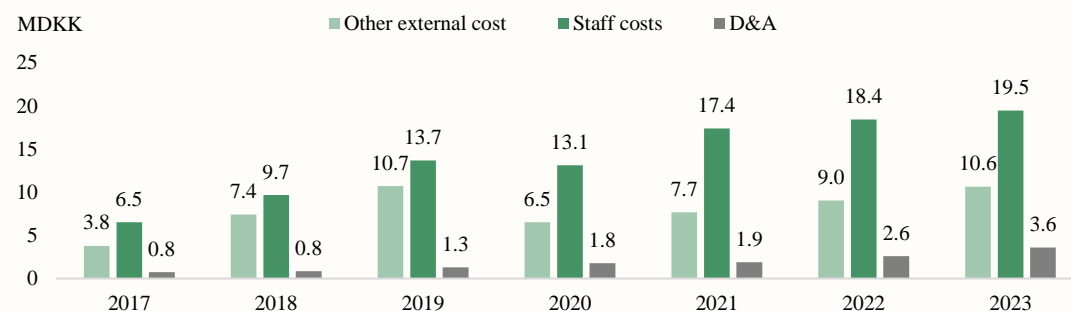
Source: Analyst Group's estimates

VALUATION

Peers, MDKK	MCAP	Sales[1]	Sales CAGR[3]	Gross margin[1]	P/S[2]	EV/S[2]	ND/EBITDA[2]
Amido	89.1	16.3	27.1%	52.5%	6.8x	5.6x	-
Efecte	677.0	110.9	10.5%	91.5%	6.1x	5.8x	-42.8x
Enersize	16.8	16.3	24.3%	60.8%	6.2x	3.5x	-
Induct	69.6	8.4	-14.7%	75.0%	9.2x	8.9x	-1.1x
QBANK	1 281.0	22.8	10.4%	67.6%	3.2x	2.5x	-59.6x
Average	426.7	34.9	11.5%	69.5%	6.3x	5.3x	-34.5x
Median	89.1	16.3	10.5%	67.6%	6.2x	5.6x	-42.8x
Risk Intelligence	57.1	15.7	18.8%	58.5%	3.5x	3.4x	-

Source: Börsdata   [1] FY 2020   [2] LTM   [3] 2018-2020

Estimated sales and EBITDA

MDKK — Sales — EBITDA — – – EBITDA margin
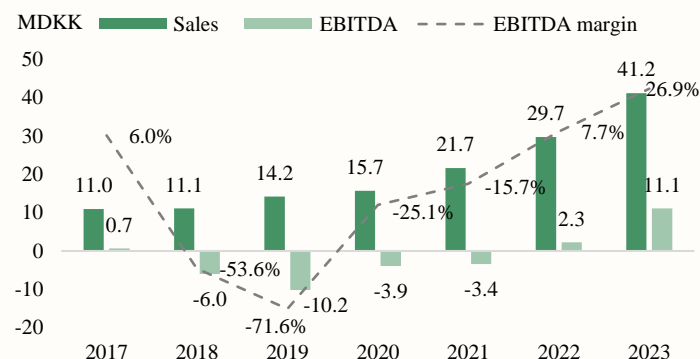
Source: Analyst Group's estimates

Valuation: Base Scenario

IMPLIED VALUATION OF 8.2 DKK IN A BASE SCENARIO

The fair value per share is based on a relative valuation methodology where Risk is compared to companies with similar business models and revenue streams. The Company's peers are active in the Nordics and have a SaaS-business model with recurring revenue. Furthermore, selected companies are similar in size, based on current market cap and sales where Risk has a market cap of 57.1 MDKK and sales in 2020 of 15.7 compared to the median of peers of 89.1 MDKK respectively 16.3 MDKK. Risk's sales CAGR between 2018-2020 is also higher, 18.8% than the median of peers of 10.5% but with a lower gross margin of 58.5% than peers of 67.6% LTM. Moreover, most peers are unprofitable, like Risk, except for QBANK, which has been profitable for several years. Hence, a similar valuation for Risk might seem fair, but due to the lower EBIT-margin and because most peers are growth companies whose valuation tends to normalize and lower over time, a target multiple of 4.0x EV/S is justified. A 4.0x EV/S target multiple with expected revenue in 2021 of 21.6 MDKK, an estimated valuation within six months of 8.2 DKK is implied

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IMPLIED VALUATION OF 9.3 DKK IN A BULL SCENARIO

Bull Scenario

The following are potential value drivers in a Bull Scenario:

- The implementation of LandRisk to the Company's product portfolio attracts more clients due to the full risk coverage from land to port to sea. Consequently, the ARPU from the software increases to 382.2 TDKK in 2023 compared to 318.4 TDKK in the Base Scenario resulting in a revenue the same year of 57.9 MDKK.

IMPLIED VALUATION OF 4.9 DKK IN A BEAR SCENARIO

- The Company's products attract customers through Word-to-Mouth as their product portfolio increases through LandRisk, resulting in a lesser need for marketing which lowers the other external costs to 8.5 MDKK in a Bull Scenario compared to 10.7 in a Base Scenario.

Based on a 4.2x EV/S target multiple with sales in 2021 of 23.6 MDKK, a valuation within six months of 9.3 DKK is implied.

Bear Scenario

The following are potential factors in a Base Scenario:

- The LandRisk product and the new full coverage from land to sea to port is not as in demand as the Company anticipated, resulting in a lower revenue in 2023 of 28.8 MDKK in a Bear Scenario compared to 41.2 in a Base Scenario.
- The lower demand from customers of the LandRisk product results in a larger need for marketing, resulting in higher other external cost of 12.2 MDKK in a Bear Scenario compared to 10.7 in a Base Scenario.
- The above results in the Company not being profitable in 2023 as expected in a Base Scenario.
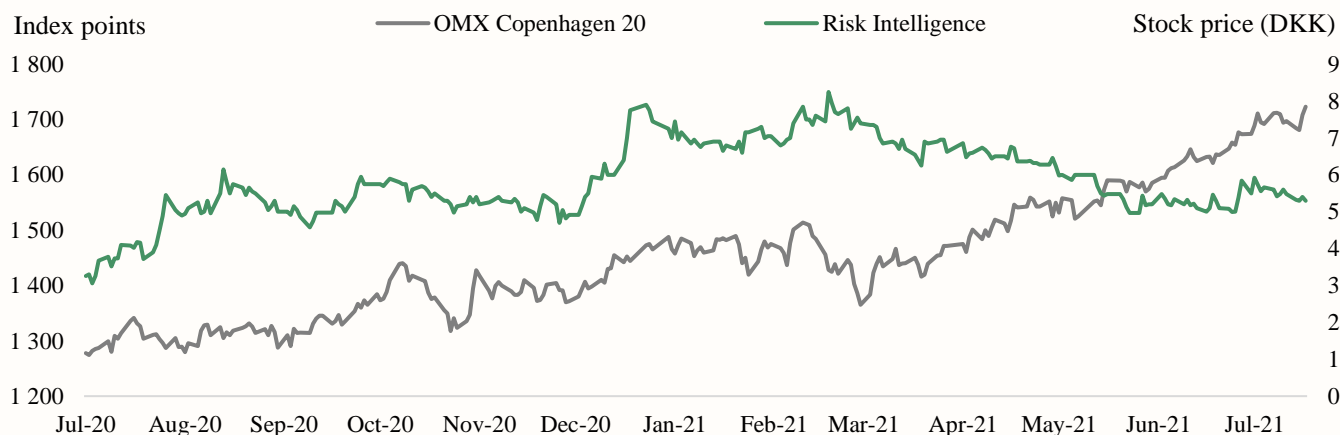
Based on a 3.0x EV/S target multiple with sales in 2021 of 17.3 MDKK, a valuation within six months of 4.9 DKK is implied.

APPENDIX

Risk Intelligence's Stock Price

Source: Börsdata

Base Scenario, MDKK	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	**11.0**	**11.1**	**14.2**	**15.7**	**21.7**	**29.7**	**41.2**
Other external cost	-3.8	-7.4	-10.7	-6.5	-7.7	-9.0	-10.6
Gross profit	**7.2**	**3.7**	**3.5**	**9.2**	**14.0**	**20.7**	**30.5**
Gross margin	*65%*	*33%*	*25%*	*58%*	*65%*	*70%*	*74%*
Staff costs	-6.5	-9.7	-13.7	-13.1	-17.4	-18.4	-19.5
EBITDA	**0.7**	**-6.0**	**-10.2**	**-3.9**	**-3.4**	**2.3**	**11.1**
EBITDA margin	*6%*	*-54%*	*-72%*	*-25%*	*-16%*	*8%*	*27%*
D&A	-0.8	-0.8	-1.3	-1.8	-1.9	-2.6	-3.6
Other operating cost	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
EBIT	**-0.5**	**-7.1**	**-11.5**	**-5.7**	**-5.3**	**-0.3**	**7.5**
EBIT margin	*-7%*	*-192%*	*-328%*	*-63%*	*-38%*	*-2%*	*24%*
Financial income	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial costs	-0.5	-0.3	-0.9	-2.1	-1.4	-2.0	-2.7
EBT	**-1.1**	**-7.4**	**-12.3**	**-7.8**	**-6.7**	**-2.3**	**4.7**
Tax	0.2	1.5	2.7	1.8	0.0	0.0	1.0
Profit/loss for the year	**-0.9**	**-5.9**	**-9.6**	**-6.0**	**-6.7**	**-2.3**	**5.8**
Net income margin	*-9%*	*-53%*	*-68%*	*-38%*	*-31%*	*-8%*	*14%*

APPENDIX

Bull Scenario, MDKK	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	**11.0**	**11.1**	**14.2**	**15.7**	**23.6**	**35.4**	**57.9**
Other external cost	-3.8	-7.4	-10.7	-6.5	-7.3	-8.1	-8.5
Gross profit	**7.2**	**3.7**	**3.5**	**9.2**	**16.3**	**27.3**	**49.4**
Gross margin	*65%*	*33%*	*25%*	*58%*	*69%*	*77%*	*85%*
Staff costs	-6.5	-9.7	-13.7	-13.1	-16.5	-16.6	-16.5
EBITDA	**0.7**	**-6.0**	**-10.2**	**-3.9**	**-0.2**	**10.7**	**32.9**
EBITDA margin	*6%*	*-54%*	*-72%*	*-25%*	*-1%*	*30%*	*57%*
D&A	-0.8	-0.8	-1.3	-1.8	-1.9	-2.6	-3.6
Other operating cost	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
EBIT	**-0.5**	**-7.1**	**-11.5**	**-5.7**	**-2.1**	**8.1**	**29.3**
EBIT margin	*-7%*	*-192%*	*-328%*	*-63%*	*-13%*	*30%*	*59%*
Financial income	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial costs	-0.5	-0.3	-0.9	-2.1	-1.4	-2.0	-2.7
EBT	**-1.1**	**-7.4**	**-12.3**	**-7.8**	**-3.5**	**6.1**	**26.5**
Tax	0.2	1.5	2.7	1.8	0.0	0.0	1.0
Profit/loss for the year	**-0.9**	**-5.9**	**-9.6**	**-6.0**	**-3.5**	**6.1**	**27.6**
Net income margin	*-9%*	*-53%*	*-68%*	*-38%*	*-15%*	*17%*	*48%*

Bear Scenario, MDKK	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	**11.0**	**11.1**	**14.2**	**15.7**	**17.3**	**22.3**	**28.8**
Other external cost	-3.8	-7.4	-10.7	-6.5	-8.1	-9.9	-12.2
Gross profit	**7.2**	**3.7**	**3.5**	**9.2**	**9.3**	**12.4**	**16.6**
Gross margin	*65%*	*33%*	*25%*	*58%*	*53%*	*55%*	*58%*
Staff costs	-6.5	-9.7	-13.7	-13.1	-19.1	-21.2	-23.4
EBITDA	**0.7**	**-6.0**	**-10.2**	**-3.9**	**-9.9**	**-8.8**	**-6.8**
EBITDA margin	*6%*	*-54%*	*-72%*	*-25%*	*-57%*	*-40%*	*-23%*
D&A	-0.8	-0.8	-1.3	-1.8	-1.9	-2.7	-3.8
Other operating cost	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
EBIT	**-0.5**	**-7.1**	**-11.5**	**-5.7**	**-11.7**	**-11.5**	**-10.6**
EBIT margin	*-7%*	*-192%*	*-328%*	*-63%*	*-127%*	*-93%*	*-64%*
Financial income	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial costs	-0.5	-0.3	-0.9	-2.1	-1.4	-2.0	-2.7
EBT	**-1.1**	**-7.4**	**-12.3**	**-7.8**	**-13.2**	**-13.5**	**-13.3**
Tax	0.2	1.5	2.7	1.8	0.0	0.0	1.0
Profit/loss for the year	**-0.9**	**-5.9**	**-9.6**	**-6.0**	**-13.2**	**-13.5**	**-12.2**
Net income margin	*-9%*	*-53%*	*-68%*	*-38%*	*-76%*	*-61%*	*-42%*

Analyst Group