



## A one-stop-shop for your security needs

We initiate coverage of Tempest Security, one of the leading providers of security services in Sweden. Started 10 years ago, Tempest has evolved from mainly focussing on traditional guarding to becoming a one-stop-shop for its clients. After a period of investment, we are encouraged by the recent turnaround in profitability and see further potential ahead with a gradual move towards the long-term EBITDA margin target of 10%.

### Key Data (2020E)

|                        |         |
|------------------------|---------|
| Price (SEK)            | 42.20   |
| Reuters                | TSEC.FN |
| Bloomberg              | TSEC FN |
| Market cap (SEKm)      | 375     |
| Market cap (USDm)      | 41      |
| Market cap (EURm)      | 36      |
| Net debt (SEKm)        | (24)    |
| Net gearing            | (76%)   |
| Net debt/EBITDA (x)    | (2.1)   |
| Shares fully dil. (m)  | 8.9     |
| Avg daily turnover (m) | 0.0     |
| Free float             | 35%     |

### Invested for continued growth

In our view, Tempest is equipped to continue to grow at above-industry growth rates through a gradual shift towards more advanced security services such as risk solutions, technical solutions and the Security Operations Center, which are expected to grow at a faster pace than the overall market. At the same time, we believe the growth will come with operational leverage and an ability to scale on earlier investments into group functions and a broadened service offering.

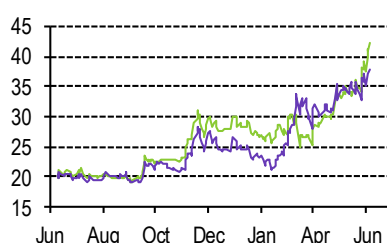
### A clear upward trend in profitability

Tempest has shown an improving earnings trend over the past year, which we expect will continue during the remainder of 2020, despite the challenges faced from COVID-19. We expect the group to produce organic sales CAGR in 2019-22 of 21% and reach a positive EBITDA margin in 2020, followed by a gradual move towards the long-term EBITDA margin of 10% in the coming years.

### Mid-point DCF value of SEK 48 per share

Based on our forecasts, Tempest trades at EV/S 0.6x, above main peers at 0.5x, but with significantly higher expected revenue growth and significant margin improvement potential beyond 2022. Based on a DCF approach, we derive a fair share price range of SEK 41-56 per share with a mid-point value of SEK 48 (WACC of 7.5%, steady state EBIT margin of 3.8%).

### Share Price (12M)



Absolute (green) / Relative to Sweden (purple).

**Marketing communication  
 commissioned by:  
 Tempest Security**

### Financials (SEK)

| Year end: Dec              | 2018   | 2019   | 2020E  | 2021E  | 2022E  |
|----------------------------|--------|--------|--------|--------|--------|
| Revenues (m)               | 222    | 287    | 332    | 417    | 509    |
| Adj. EBIT                  | (25)   | (12)   | 3      | 12     | 20     |
| Pre-tax profit (m)         | (26)   | (13)   | 1      | 11     | 18     |
| EPS                        | (3.40) | (1.55) | 0.15   | 1.26   | 2.05   |
| Adj. EPS                   | (2.38) | (1.45) | 0.24   | 1.35   | 2.14   |
| DPS                        | 0.00   | 0.00   | 0.00   | 0.00   | 0.00   |
| Revenue growth (%)         | 29.5   | 29.1   | 15.7   | 25.6   | 22.1   |
| Adj. EBIT growth (%)       | n.m.   | n.m.   | n.m.   | 385.3  | 59.1   |
| Adj. EPS growth (%)        | n.m.   | n.m.   | n.m.   | 461.9  | 58.6   |
| Adj. EBIT margin (%)       | (11.4) | (4.1)  | 0.8    | 3.0    | 3.9    |
| ROE (%)                    | (90.4) | (46.7) | 4.2    | 29.5   | 34.7   |
| ROCE (%)                   | (79.7) | (37.3) | 8.1    | 32.7   | 37.5   |
| PER (x)                    | n.m.   | n.m.   | 175.9  | 31.3   | 19.7   |
| Free cash flow yield (%)   | (10.0) | (3.0)  | (0.2)  | 1.4    | 3.5    |
| Dividend yield (%)         | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| P/BV (x)                   | 7.15   | 8.62   | 11.63  | 8.63   | 6.08   |
| EV/Sales (x)               | 0.69   | 0.84   | 1.06   | 0.83   | 0.65   |
| EV/Adj. EBITDA (x)         | (9.5)  | (82.2) | 30.4   | 14.6   | 9.5    |
| EV/Adj. EBIT (x)           | (6.0)  | (20.7) | 137.4  | 27.9   | 16.8   |
| Operating cash flow/EV (%) | (8.5)  | (0.7)  | 1.8    | 5.3    | 8.8    |
| Net debt/Adj. EBITDA (x)   | 1.38   | 8.52   | (2.12) | (1.26) | (1.23) |

Source for all data on this page: SEB (estimates) and Millstream/Thomson Reuters (prices)

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# Investment conclusion

## Growing steadily with improving margins

Tempest Security is a fast-growing Swedish security company founded 10 years ago by the current CEO Andrew Spry together with Thomas Löfving and Thomas Cavas. During this period, Tempest has transformed itself from conducting localized guarding operations in Stockholm to offering a full palette of security services. The company works in close collaboration with its clients to cater for all their security needs and to increase the penetration of more advanced security services over time, which improves the product mix and leads to higher profitability for Tempest. In our view, the investment case for Tempest relies on three pillars.

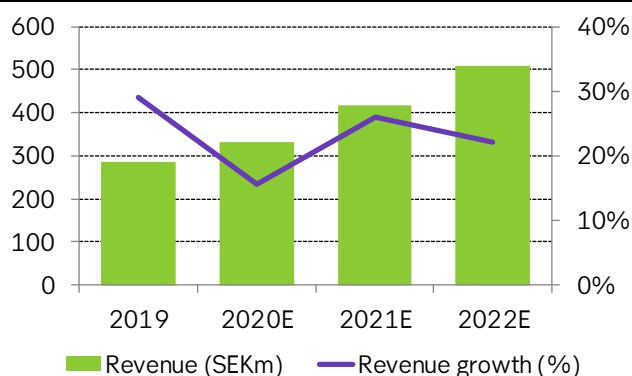
- Continued growth through market share gains with upside optionality from potential M&A, which is not part of our forecasts. We estimate an organic revenue CAGR of 21% throughout our 2019-22 forecast period.
- Increased penetration of fast-growing and high value-add security services, supporting above-industry growth and improved earnings diversification. We expect Tempest's high value-add services to outgrow traditional security services by 7pp in the coming three years
- Improved margins through operational leverage and enhanced business mix. Tempest has shown a turnaround in profitability during the last 12 months, a positive trend which expect will continue. We see the potential to raise the EBITDA margin from -1% in 2019 to 6.9% in 2022.

### Plenty of pockets for continued growth

In the past five years, Tempest has increased revenues by an average growth rate of close to 40% per annum. Despite the rapid growth, the company is still only scratching the surface with a market share of around 2%.

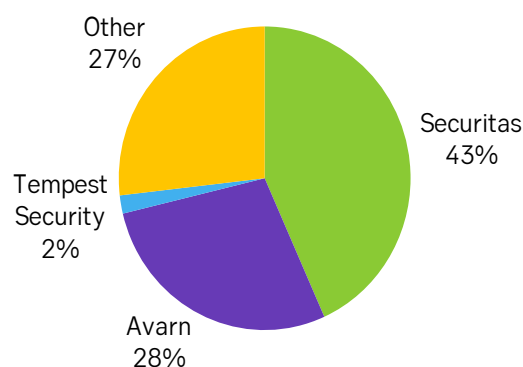
To reflect the growth opportunities, Tempest has set an ambitious revenue target of SEK 500m by 2022, implying a 2019-22 revenue CAGR of 20%, which we expect the company to reach. We forecast 2019-22E revenue CAGR of 21% with further upside from selective M&A. While revenue growth in 2020 is likely to slow due to COVID-19, we believe interesting acquisition opportunities could arise in the aftermath of the crisis and we see scope for further industry consolidation.

**Group revenue and revenue growth forecast**



Source: Tempest Security, SEB

**Estimated market split**

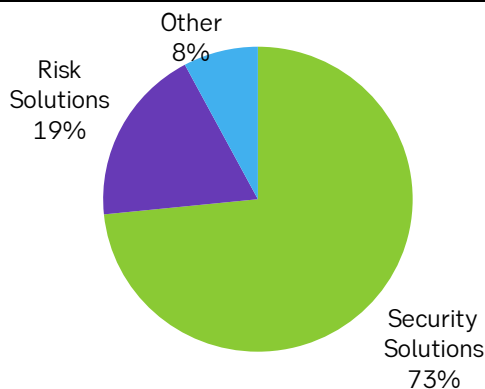


Source: Company data, SEB

### A transformation process through close client collaboration

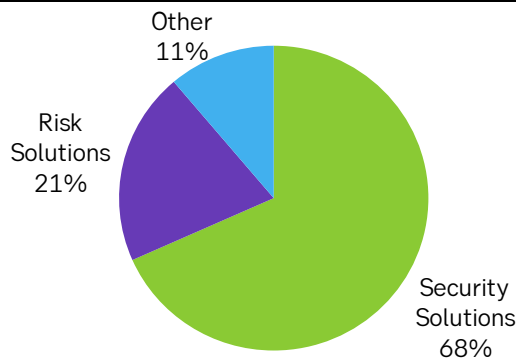
We also foresee a gradual shift towards higher value-add services for Tempest Security, which are expected to grow at a faster pace than the overall security services market. Tempest works in close partnership with its clients to develop and enable cross-selling of new services, leading to an increasingly attractive margin profile.

**Forecasted revenue split 2020**



Source: SEB

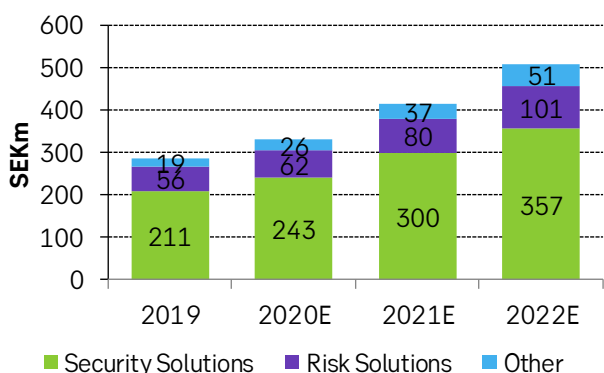
**Forecasted revenue split 2022**



Source: SEB

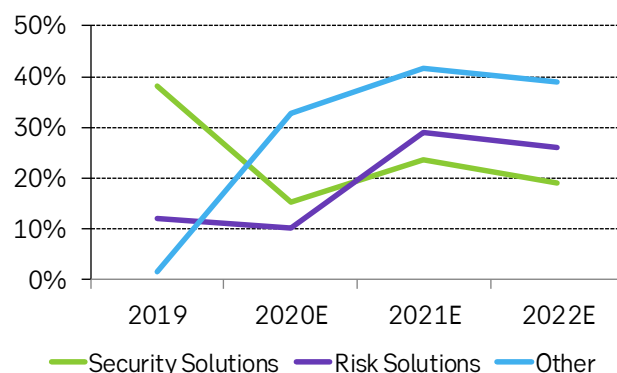
The pandemic obviously creates challenges for both Tempest’s customers and its employees, but it could also create new interesting business opportunities and enable clients to rethink their security needs. The company also mentioned in the Q1 2020 report that there had been high order activity for its Security Operations Center during the first part of Q2. We expect Tempest’s high value-add security services to grow by on average 26% over the coming three years, compared to 19% for traditional security services.

**Revenue by segment**



Source: Tempest Security, SEB

**Revenue growth by segment y/y**

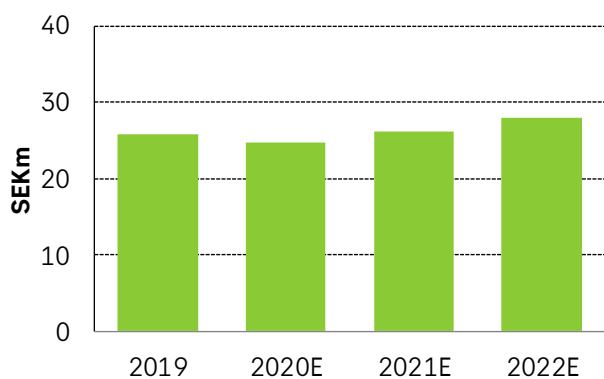


Source: Tempest Security, SEB

### Ability to scale on earlier investments

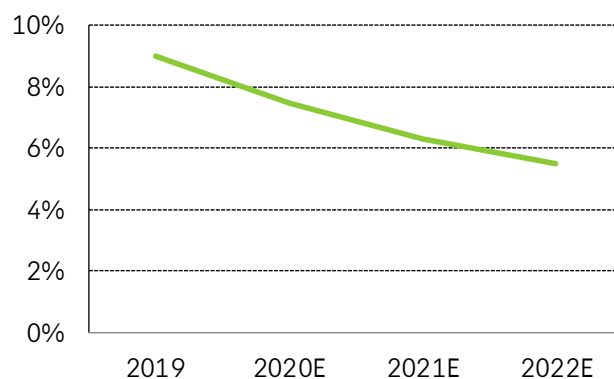
Since its public listing in 2017, Tempest has invested in building up group functions within Sales, Human Resources and Finance. In addition, the company has expanded its service offering through acquisitions and internal investments into attractive niche segments of the security market. These investments are likely to continue as the company continues to grow, but at a slower pace than the anticipated sales growth. The positive earnings trend in the last quarters supports this view and the trend seems to be maintained during the beginning of 2020, despite the ongoing challenges from the pandemic.

**Group costs**



Source: Tempest Security, SEB

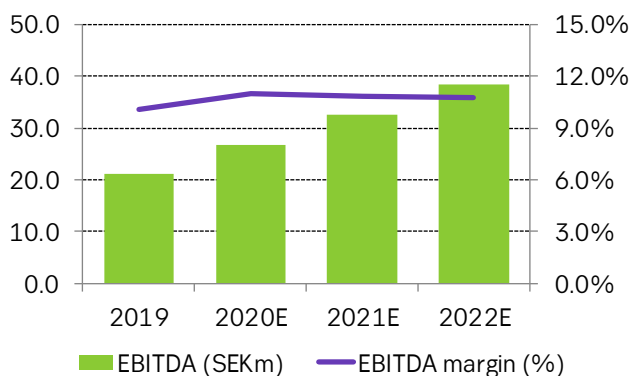
**Group costs to sales**



Source: Tempest Security, SEB

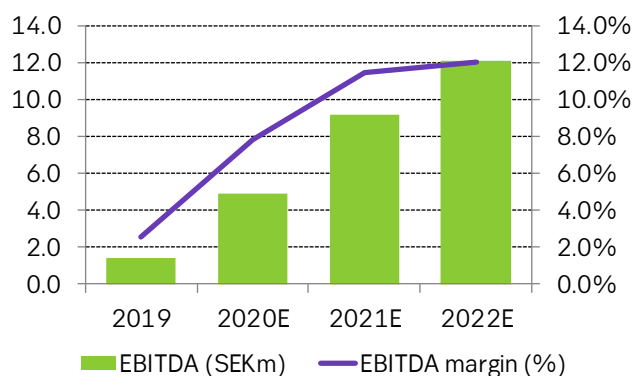
In a group context, our analysis suggests that the largest segment within traditional Security Solutions is already operating at quite healthy margin levels of above 10% in 2019. Instead, we see the most medium-term potential within Risk Solutions. In our view, there should be ample room to lift Risk Solutions EBITDA towards double-digits as soon as in 2021.

**Security Solutions EBITDA and EBITDA margin**



Source: Tempest Security, SEB

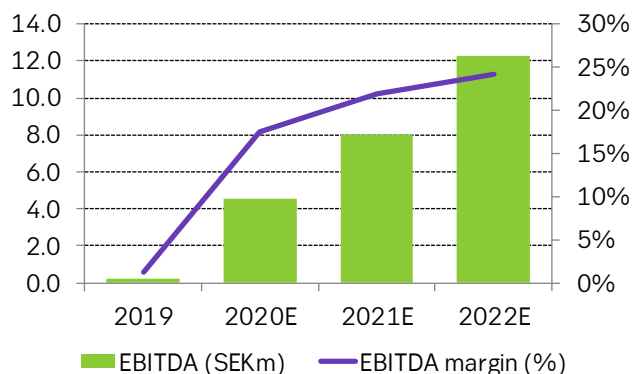
**Risk Solutions EBITDA and EBITDA margin**



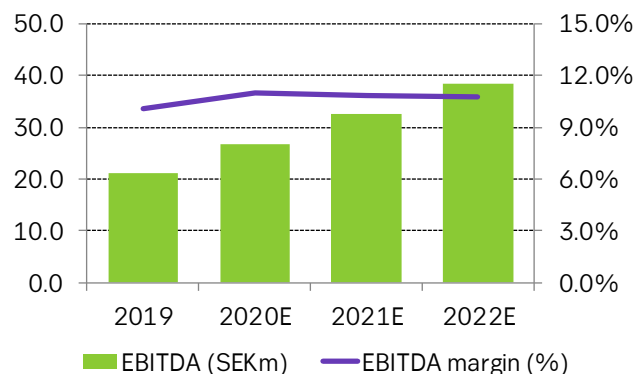
Source: Tempest Security, SEB

The Other segment, which mainly consists of the Security Operations Center (SOC) reported an EBITDA margin of 14.6% in Q1. However, looking at successful peers, we find that it is not impossible to reach a 40-50% operating margin over time, given extremely high incremental margins. But, volumes are low and we believe the main challenge will be to scale up the operations, but it remains as an interesting long-term opportunity and represents a good complement to Tempest's other services.

We forecast that the positive earnings trend will continue during this year, despite the challenges from COVID-19 and slightly slower growth. On a full-year basis, we expect Tempest to turn profitable and reach an EBITDA margin of 3.5% in 2020 and 6.9% by 2022.

**Other EBITDA and EBITDA margin**

Source: Tempest Security, SEB

**Group EBITDA and EBITDA margin**

Source: Tempest Security, SEB

**Mid-point DCF value of SEK 48 per share**

Based on our DCF valuation, we derive a fair share price range of SEK 41-56 per share with a mid-point of SEK 48 per share. Based on our forecasts, Tempest is currently trading at 2022 EV/Sales of 0.6x, +22% above its key peers, but with significantly higher expected revenue growth and potential for margin increases beyond 2022.

**Risks and possible concerns**

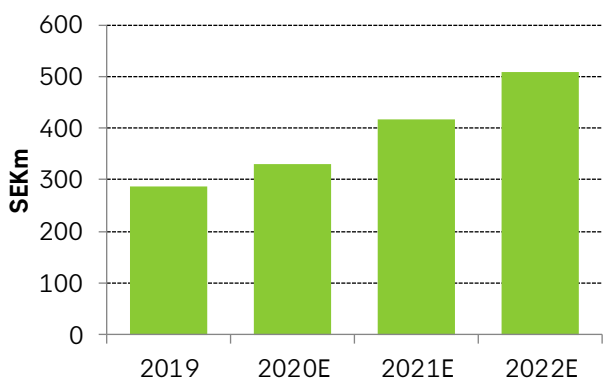
- The security industry is characterized by high personnel turnover and Tempest, in line with its peers, is highly dependent on its ability to maintain and attract new employees.
- The ability to find new employees is also crucial to deliver on the ambitious growth agenda.
- Furthermore, to maintain the historically high revenue growth numbers, there is a risk that Tempest might need to raise additional capital in the future, as the company has yet to prove that the turnaround in profitability is sustainable.
- While we expect operations to turn profitable in the near term, this is based on our forecast of high growth outside traditional security services, which we expect will lift the operating margin through improved product mix.
- The COVID-19 pandemic poses threats, as well as opportunities. So far, Tempest has only experienced a limited impact from the virus outbreak, but there is a risk that there could be more of severe impact in the future, e.g. by delayed decision making among customers and increased sickness leave.

# Estimates

## Group forecasts

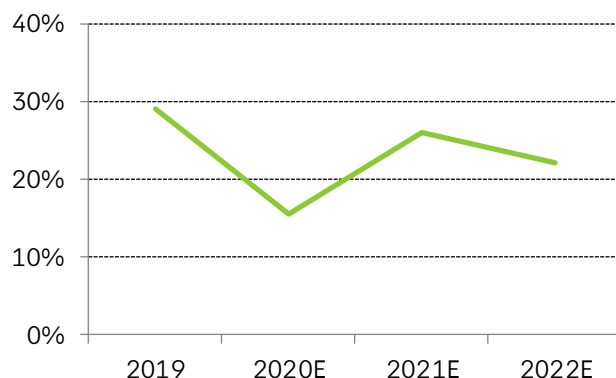
We expect Tempest Security to maintain solid revenue growth in the coming year, despite a slowdown in 2020, driven by market share gains within security solutions and high growth within attractive niche segments such as risk solutions, the Security Operations Center and technical solutions. For the period between 2019 and 2022, we forecast a revenue CAGR of 21%, compared to an average historical revenue growth of 39% in the past five years.

**Group revenue**



Source: Tempest Security, SEB

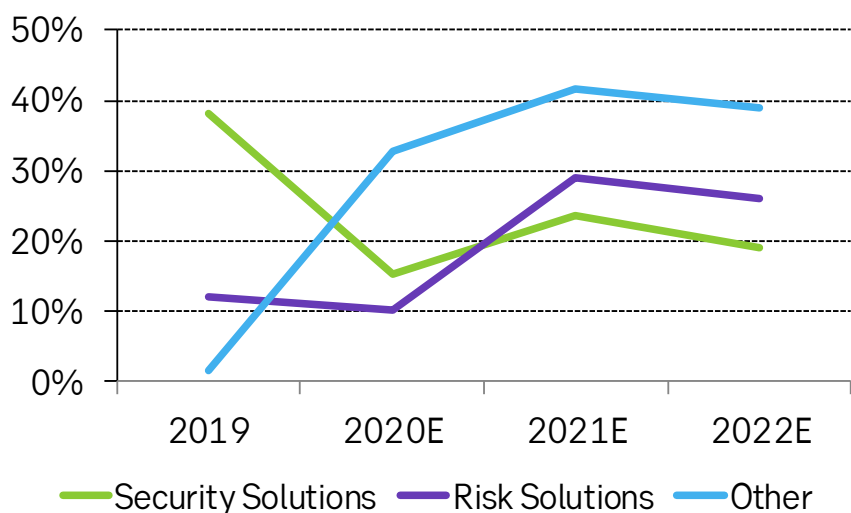
**Revenue growth y/y**



Source: Tempest Security, SEB

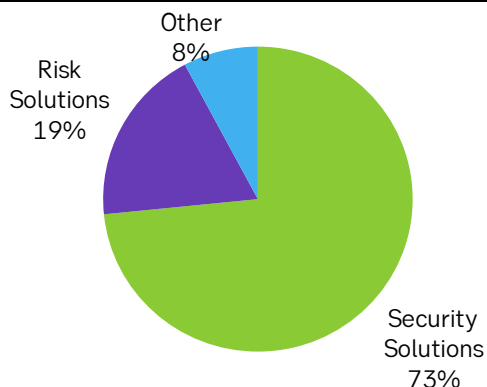
During the first part of 2020, we expect traditional security services to drive group revenues, supported by recent large contract assignments. In the medium term, we expect organic growth to be mainly driven by Special Services and the Other segment, driving an overall positive mix shift towards faster-growing niches within the security market.

**Revenue growth by segment y/y**



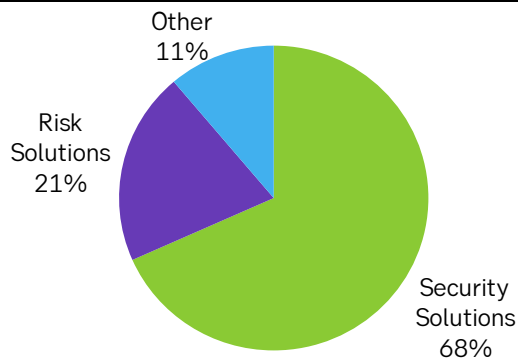
Source: Tempest Security, SEB

**Forecasted revenue split 2020**



Source: SEB

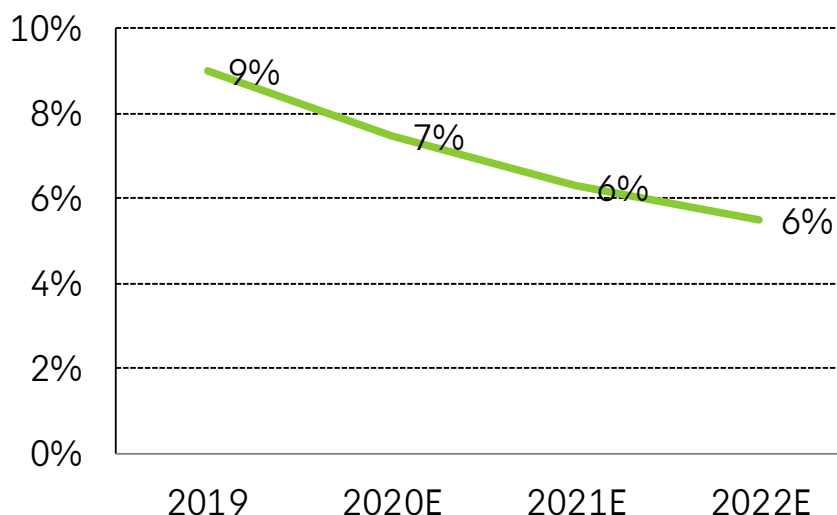
**Forecasted revenue split 2022**



Source: SEB

Tempest has shown improving profitability in the past few quarters and we expect that trend to continue in the coming years, as the company is leveraging on earlier investments into group functions and a broadened service offering.

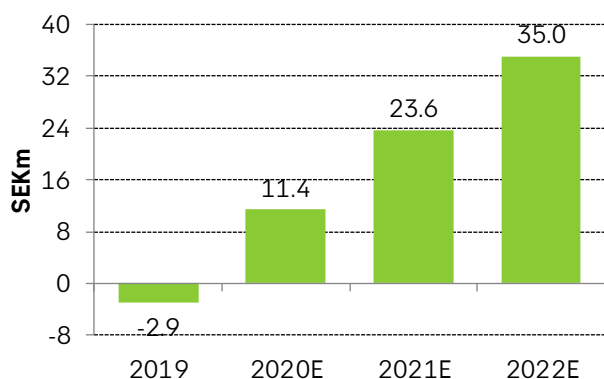
**Group costs to net sales**



Source: SEB

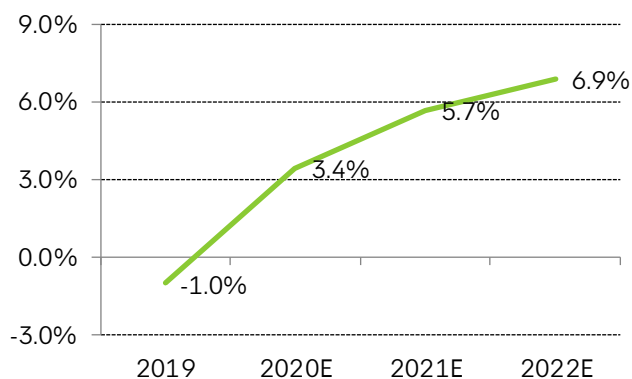
We see a potential for the company to reach a positive EBITDA margin in 2020 with further steps in the coming years towards the long-term EBITDA margin target of 10%, despite maintaining an ambitious growth agenda.

**Group EBITDA**



Source: Tempest Security, SEB

**Group EBITDA margin**

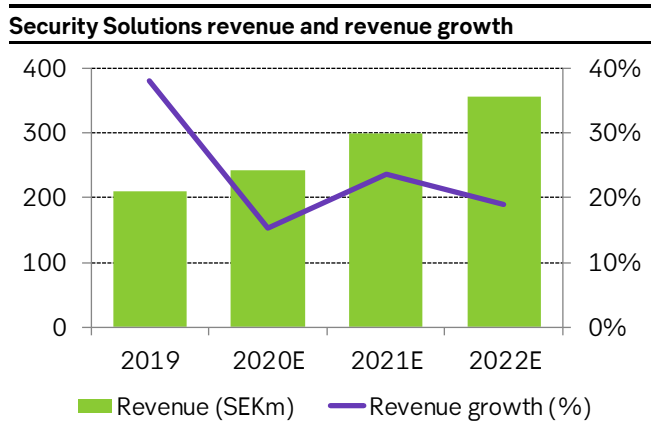


Source: Tempest Security, SEB

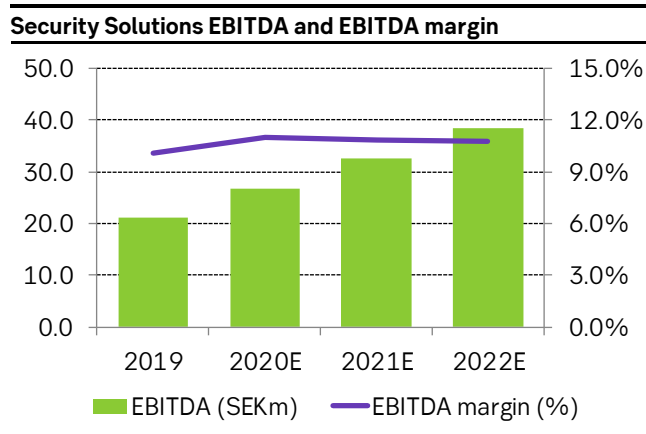


## Security Solutions

Within traditional security services, we expect revenues to grow by 16% in 2020, despite the ongoing pandemic, driven by recent large order assignments such as the Scania contract. For the period between 2019 and 2022, we forecast revenue CAGR of 19%. Due to the structural pressure on traditional security services, we forecast a flat margin development. Also, Tempest is already operating at quite healthy margins within this segment compared to many industry peers.



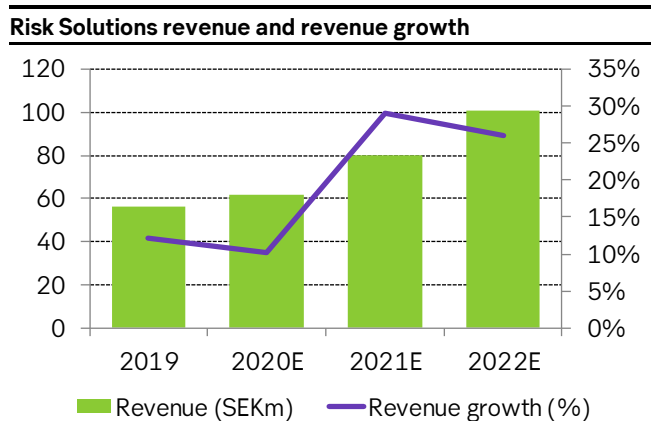
Source: Tempest Security, SEB



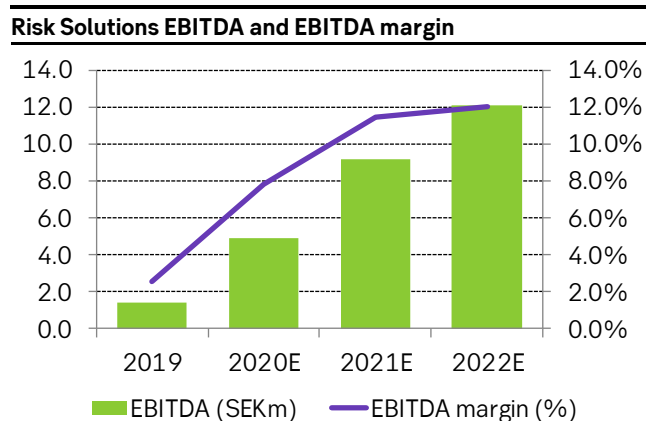
Source: Tempest Security, SEB

## Risk Solutions

In our view, the competition within the niche services offered by Tempest in risk solutions is likely to remain rather limited, as volumes are currently too small to be relevant for some of Tempest's larger peers. Therefore, we see scope for above-market growth within niche offerings such as security consulting, investigations, background checks and close protection. This translates into our forecasted revenue CAGR of 21% between 2019 and 2022. In addition, we believe there is ample room to significantly expand the operating margin in the medium term from current levels of 3% in 2019 to above 10% in 2021.



Source: Tempest Security, SEB

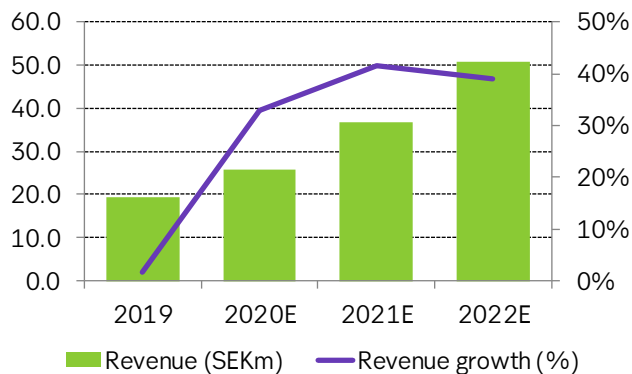


Source: Tempest Security, SEB

## Other

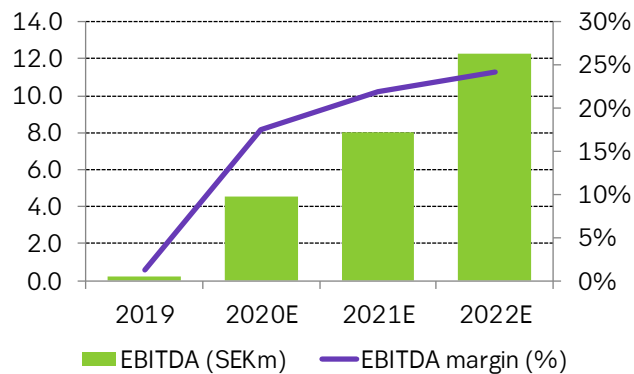
The Other segment was only 7% of group revenues in 2019 but does include some quite interesting growth opportunities, primarily through the Security Operations Center. We forecast revenue CAGR of 38% for 2019-22 with significantly expanding margins, as the incremental margins are seemingly high, particularly within the surveillance operations.

**Other revenue and revenue growth**



Source: Tempest Security, SEB

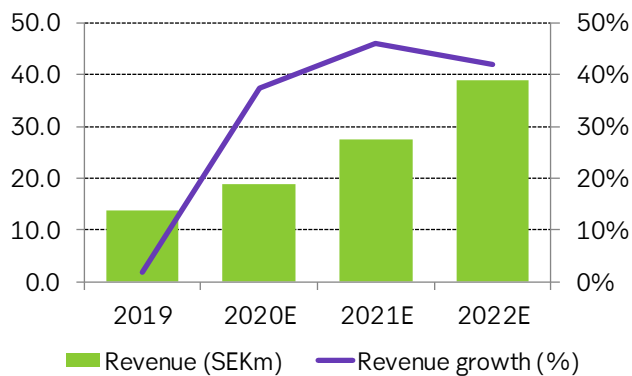
**Other EBITDA and EBITDA margin**



Source: Tempest Security, SEB

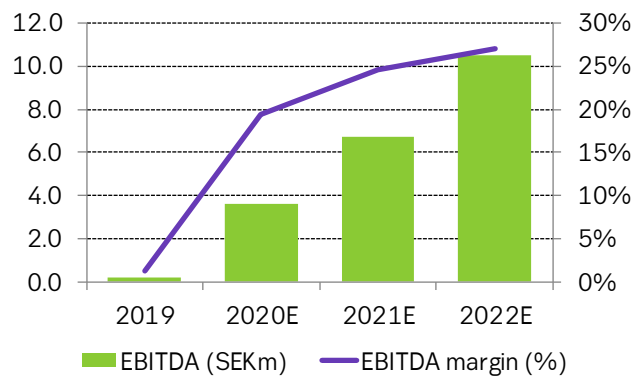
There are major initial investments associated with starting-up an alarm centre, but incremental margins are as previously mentioned very high. Our peer analysis suggests that there is potential to reach an operating of up to 40-50% if Tempest successfully expands volumes within this business.

**SOC revenue and revenue growth**



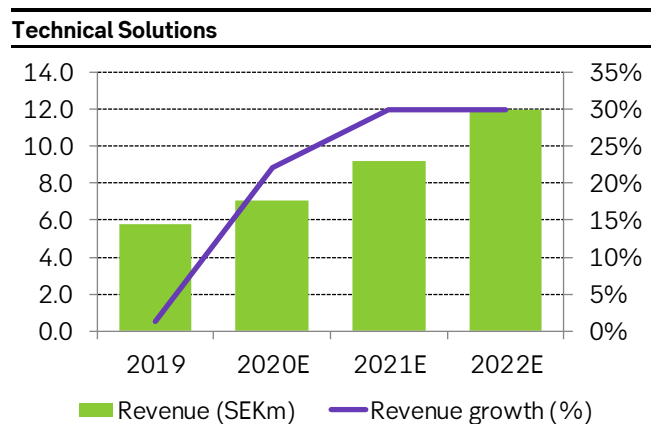
Source: SEB

**SOC EBITDA and EBITDA margin**

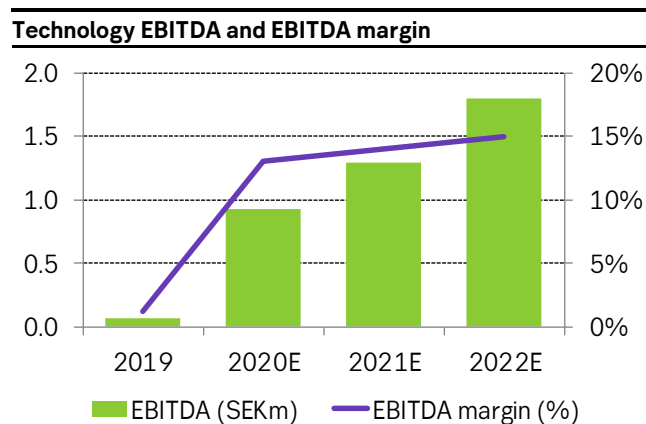


Source: SEB

Through the Technical Solutions segment, Tempest offers consulting and service of primarily camera surveillance systems, but also alarms, passage systems and other customized security solutions. Operating margins are normally above >10% among peers with similar types of services.



Source: SEB



Source: SEB

### Interim financial statement

|                            | Q1/19        | Q2/19        | Q3/19       | Q4/19       | Q1/20       | Q2/20E      | Q3/20E      | Q4/20E      | 2019         | 2020E        | 2021E        | 2022E        |
|----------------------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>           | <b>57.4</b>  | <b>66.8</b>  | <b>79.1</b> | <b>83.1</b> | <b>79.4</b> | <b>70.9</b> | <b>87.9</b> | <b>92.5</b> | <b>286.3</b> | <b>330.7</b> | <b>416.9</b> | <b>509.0</b> |
| Growth y/y                 | 23.8%        | 17.8%        | 33.7%       | 39.2%       | 38.3%       | 6.1%        | 11.1%       | 11.4%       | 29.1%        | 15.5%        | 26.1%        | 22.1%        |
| Other income               | 0.2          | 0.1          | 0.2         | 0.0         | 1.2         | 0.0         | 0.0         | 0.0         | 0.5          | 1.2          | 0.0          | 0.0          |
| Cost of goods sold         | -6.1         | -9.0         | -9.6        | -9.0        | -7.3        | -7.8        | -11.4       | -9.7        | -33.7        | -36.3        | -44.9        | -56.0        |
| Other external expenses    | -5.8         | -6.9         | -6.3        | -7.0        | -6.7        | -6.7        | -6.4        | -7.3        | -26.1        | -27.1        | -28.0        | -29.1        |
| Personnel expenses         | -49.5        | -54.4        | -59.5       | -66.6       | -63.5       | -55.2       | -66.4       | -71.9       | -229.9       | -257.0       | -320.3       | -388.9       |
| Total operational expenses | -61.5        | -70.3        | -75.4       | -82.5       | -77.4       | -69.7       | -84.3       | -88.9       | -289.8       | -320.3       | -393.2       | -474.0       |
| <b>EBITDA</b>              | <b>-3.8</b>  | <b>-3.5</b>  | <b>3.9</b>  | <b>0.5</b>  | <b>3.2</b>  | <b>1.2</b>  | <b>3.6</b>  | <b>3.6</b>  | <b>-2.9</b>  | <b>11.5</b>  | <b>23.6</b>  | <b>35.0</b>  |
| <b>Margin</b>              | <b>-6.7%</b> | <b>-5.3%</b> | <b>4.9%</b> | <b>0.6%</b> | <b>4.0%</b> | <b>1.6%</b> | <b>4.1%</b> | <b>3.9%</b> | <b>-1.0%</b> | <b>3.5%</b>  | <b>5.7%</b>  | <b>6.9%</b>  |
| EBIT                       | -5.9         | -5.8         | 1.7         | -1.7        | 1.0         | -0.7        | 1.2         | 1.1         | -11.7        | 2.6          | 12.4         | 19.7         |
| Margin                     | -10.3%       | -8.7%        | 2.2%        | -2.0%       | 1.2%        | -1.1%       | 1.4%        | 1.2%        | -4.1%        | 0.8%         | 3.0%         | 3.9%         |
| Net financials             | -0.5         | -0.3         | -0.4        | -0.6        | -0.3        | -0.3        | -0.3        | -0.3        | -1.8         | -1.2         | -1.2         | -1.5         |
| EBT                        | -6.4         | -6.1         | 1.4         | -2.3        | 0.6         | -1.0        | 0.9         | 0.8         | -13.4        | 1.3          | 11.2         | 18.2         |
| Taxes                      | -0.1         | -0.1         | 0.1         | 0.5         | 0.0         | 0.0         | 0.0         | -0.1        | 0.5          | 0.0          | -0.1         | -0.2         |
| Net income                 | -6.5         | -6.1         | 1.5         | -1.8        | 0.6         | -1.0        | 0.9         | 0.7         | -13.0        | 1.3          | 11.1         | 18.0         |
| EPS                        | -0.8         | -0.7         | 0.2         | -0.2        | 0.1         | -0.1        | 0.1         | 0.1         | -1.6         | 0.1          | 1.0          | 2.0          |

Source: Tempest Security, SEB

### Forecast by segment

|                            | Q1/19        | Q2/19        | Q3/19        | Q4/19        | Q1/20        | Q2/20E      | Q3/20E       | Q4/20E       | 2019         | 2020E        | 2021E        | 2022E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sales</b>               |              |              |              |              |              |             |              |              |              |              |              |              |
| Security Solutions         | 40.6         | 49.1         | 58.1         | 62.7         | 62.1         | 52.0        | 61.6         | 67.1         | 210.5        | 242.8        | 300.2        | 357.2        |
| Risk Solutions             | 12.1         | 13.1         | 15.6         | 15.6         | 11.9         | 12.7        | 18.7         | 18.7         | 56.4         | 62.1         | 80.1         | 100.9        |
| Other                      | 4.8          | 4.5          | 5.4          | 4.8          | 5.4          | 6.1         | 7.6          | 6.8          | 19.5         | 25.9         | 36.6         | 50.9         |
| <b>Group sales</b>         | <b>57.4</b>  | <b>66.8</b>  | <b>79.1</b>  | <b>83.1</b>  | <b>79.4</b>  | <b>70.9</b> | <b>87.9</b>  | <b>92.5</b>  | <b>286.3</b> | <b>330.7</b> | <b>416.9</b> | <b>509.0</b> |
| <b>Sales growth</b>        |              |              |              |              |              |             |              |              |              |              |              |              |
| Security Solutions         | 23.8%        | 17.8%        | 33.7%        | 39.2%        | 38.3%        | 6.1%        | 11.1%        | 11.4%        | 38.0%        | 15.3%        | 23.7%        | 19.0%        |
| Risk Solutions             | 14.9%        | 2.4%         | 16.3%        | 15.3%        | -1.0%        | -3.0%       | 20.0%        | 20.0%        | 12.2%        | 10.1%        | 29.0%        | 26.0%        |
| Other                      | 19.0%        | -7.2%        | 5.4%         | -6.9%        | 14.2%        | 34.0%       | 41.0%        | 41.0%        | 1.7%         | 32.8%        | 41.6%        | 39.0%        |
| <b>Group sales growth</b>  | <b>23.8%</b> | <b>17.8%</b> | <b>33.7%</b> | <b>39.2%</b> | <b>38.3%</b> | <b>6.1%</b> | <b>11.1%</b> | <b>11.4%</b> | <b>29.1%</b> | <b>15.5%</b> | <b>26.1%</b> | <b>22.1%</b> |
| <b>EBITDA</b>              |              |              |              |              |              |             |              |              |              |              |              |              |
| Security Solutions         | 3.5          | 4.3          | 7.7          | 5.7          | 7.7          | 5.3         | 6.8          | 6.9          | 21.2         | 26.7         | 32.7         | 38.6         |
| Risk Solutions             | -0.3         | -0.1         | 1.3          | 0.6          | 0.7          | 1.0         | 1.6          | 1.6          | 1.4          | 4.9          | 9.2          | 12.1         |
| Other                      | -0.3         | -0.4         | 0.6          | 0.4          | 0.8          | 1.0         | 1.4          | 1.3          | 0.2          | 4.5          | 8.0          | 12.3         |
| Group costs                | -6.6         | -7.3         | -5.7         | -6.1         | -6.1         | -6.2        | -6.2         | -6.2         | -25.8        | -24.7        | -26.2        | -28.0        |
| <b>Group EBITDA</b>        | <b>-3.8</b>  | <b>-3.5</b>  | <b>3.9</b>   | <b>0.5</b>   | <b>3.2</b>   | <b>1.2</b>  | <b>3.6</b>   | <b>3.6</b>   | <b>-2.9</b>  | <b>11.5</b>  | <b>23.6</b>  | <b>35.0</b>  |
| <b>EBITDA margin</b>       |              |              |              |              |              |             |              |              |              |              |              |              |
| Security Solutions         | 8.6%         | 8.8%         | 13.2%        | 9.1%         | 12.4%        | 10.2%       | 11.1%        | 10.3%        | 10.1%        | 11.0%        | 10.9%        | 10.8%        |
| Risk Solutions             | -2.8%        | -0.8%        | 8.4%         | 3.6%         | 5.6%         | 8.0%        | 8.5%         | 8.5%         | 2.5%         | 7.8%         | 11.5%        | 12.0%        |
| Other                      | -7.1%        | -8.8%        | 11.2%        | 8.0%         | 14.6%        | 17.1%       | 18.0%        | 19.6%        | 1.3%         | 17.5%        | 21.9%        | 24.2%        |
| <b>Group EBITDA margin</b> | <b>-6.7%</b> | <b>-5.3%</b> | <b>4.9%</b>  | <b>0.6%</b>  | <b>4.0%</b>  | <b>1.6%</b> | <b>4.1%</b>  | <b>3.9%</b>  | <b>-1.0%</b> | <b>3.5%</b>  | <b>5.7%</b>  | <b>6.9%</b>  |

Source: Tempest Security, SEB

# Valuation

## DCF valuation

### DCF fair share price range of SEK 41-56

We derive a fair share price range of SEK 41-56 for Tempest Security based on a mid-point DCF value of SEK 48 with +/- 10% relative change to our EBITDA assumptions being the upper- and lower end. Our weighted average cost of capital is 7.5% We use explicit forecasts for 2020-40 and then make the following assumptions:

- Revenues to grow at 2% long term and beyond our forecast period.
- A steady state EBIT margin of 3.8% beyond our forecast period.
- Working capital to stabilise at around 2% of sales.

### Mid-point DCF valuation

|   |            |   |            |
|---|------------|---|------------|
| <b>DCF valuation (SEKm)</b>             |            | <b>Weighted average cost of capital (%)</b> |            |
| NPV of FCF in explicit forecast period  | 286        | Risk free interest rate                     | 2.5        |
| NPV of continuing value                 | 118        | Risk premium                                | 5.0        |
| <b>Value of operation</b>               | <b>405</b> | <b>Cost of equity</b>                       | <b>7.5</b> |
| Net debt                                | (24)       | <b>After tax cost of debt</b>               | <b>3.5</b> |
| Share issue/buy-back in forecast period | -          | <b>WACC</b>                                 | <b>7.5</b> |
| Value of associated companies           | -          | <b>Assumptions</b>                          |            |
| Value of minority shareholders' equity  | -          | Number of forecast years                    | 20         |
| Value of marketable assets              | -          | EBIT margin - steady state (%)              | 3.8        |
| <b>DCF value of equity</b>              | <b>429</b> | EBIT multiple - steady state (x)            | 10.7       |
| <b>DCF value per share (SEK)</b>        | <b>48</b>  | Continuing value (% of NPV)                 | 29.2       |
| Current share price (SEK)               | 41.10      |   |            |
| DCF performance potential (%)           | 17         |   |            |

Source: SEB

### DCF sensitivity I

|                           |     | Cost of equity (%) |     |     |     |     |
|---------------------------|-----|--------------------|-----|-----|-----|-----|
|                           |     | 6.5                | 7.0 | 7.5 | 8.0 | 8.5 |
| Equity capital weight (%) | 80  | 72                 | 67  | 62  | 58  | 54  |
|                           | 90  | 63                 | 59  | 54  | 50  | 47  |
|                           | 100 | 57                 | 52  | 48  | 45  | 42  |
|                           | 100 | 57                 | 52  | 48  | 45  | 42  |
|                           | 100 | 57                 | 52  | 48  | 45  | 42  |

Source: SEB

### DCF sensitivity II

|   |      | Relative change in EBITDA margin - all years |      |    |      |      |
|---|------|--|------|----|------|------|
|   |      | -20%   | -10% | 0  | +10% | +20% |
| Rel. change in sales growth - all years | -20% | 30   | 37   | 43 | 50   | 56   |
|   | -10% | 32   | 39   | 46 | 53   | 60   |
|   | 0    | 33   | 41   | 48 | 56   | 63   |
|   | +10% | 35   | 43   | 51 | 59   | 67   |
|   | +20% | 37   | 46   | 54 | 62   | 71   |

Source: SEB

**Mid-point DCF valuation - detailed assumptions**

| (SEKm)                                   | 2020E    | 2021E     | 2022E     | 2023E     | 2024E     | Average<br>year 6-10 | Average<br>year 11-15 | Average<br>year 16-20 |
|--|----------|-----------|-----------|-----------|-----------|----------------------|-----------------------|-----------------------|
| Sales growth (%)                         | 15.5     | 26.1      | 22.1      | 10.0      | 10.0      | 7.2                  | 3.5                   | 2.4                   |
| EBITDA margin (%)                        | 3.5      | 5.7       | 6.9       | 7.3       | 7.7       | 8.7                  | 9.1                   | 7.4                   |
| EBIT margin (%)                          | 0.8      | 3.0       | 3.9       | 4.3       | 4.7       | 5.7                  | 6.2                   | 4.5                   |
| Gross capital expenditures as % of sales | 2.1      | 3.1       | 3.1       | 2.8       | 2.8       | 2.8                  | 2.8                   | 2.8                   |
| Working capital as % of sales            | (10.1)   | (5.7)     | (2.6)     | (1.0)     | 0.0       | 1.7                  | 2.0                   | 2.0                   |
| Sales                                    | 331      | 417       | 509       | 560       | 616       | 776                  | 981                   | 1,114                 |
| Depreciation                             | (8)      | (10)      | (14)      | (16)      | (18)      | (22)                 | (28)                  | (32)                  |
| Intangibles amortisation                 | (1)      | (1)       | (1)       | (1)       | (1)       | (1)                  | 0                     | 0                     |
| EBIT                                     | 3        | 12        | 20        | 24        | 29        | 45                   | 61                    | 50                    |
| Taxes on EBIT                            | (1)      | (3)       | (4)       | (5)       | (6)       | (10)                 | (13)                  | (11)                  |
| Increase in deferred taxes               | (0)      | (0)       | (0)       | 0         | 0         | 0                    | 0                     | 0                     |
| <b>NOPLAT</b>                            | <b>3</b> | <b>10</b> | <b>16</b> | <b>20</b> | <b>23</b> | <b>36</b>            | <b>48</b>             | <b>39</b>             |
| Gross capital expenditure                | (7)      | (13)      | (16)      | (16)      | (18)      | (22)                 | (28)                  | (32)                  |
| Increase in working capital              | (3)      | (4)       | (4)       | (8)       | (6)       | (3)                  | (1)                   | (1)                   |
| <b>Free cash flow</b>                    | <b>0</b> | <b>4</b>  | <b>10</b> | <b>12</b> | <b>18</b> | <b>32</b>            | <b>47</b>             | <b>39</b>             |
| ROIC (%)                                 | 8.1      | 23.6      | 25.8      | 28.3      | 31.8      | 42.0                 | 53.9                  | 42.8                  |
| ROIC-WACC (%)                            | 0.6      | 16.1      | 18.3      | 20.8      | 24.3      | 34.5                 | 46.4                  | 35.3                  |
| Share of total net present value (%)     | 0.0      | 0.8       | 2.2       | 2.3       | 3.3       | 23.4                 | 24.6                  | 14.1                  |

Source: SEB

## Peer group valuation

As Tempest Security is significantly smaller and less mature than its larger peers, we would argue that a peer comparison offers limited value currently. In our view, the most relevant multiple to look at would be EV/Sales. Based on 2022E EV/Sales of 0.6x, Tempest is trading at a 22% premium to close peers, which could be evaluated against the higher expected revenue growth and scope for significantly improved margins beyond 2022.

**Peer group valuation**

|                                   | Ccy | Price<br>(local) | Mkt cap<br>(EUR) | EV/SALES    |             |             | EV/EBITA    |            |            | PER         |             |            |
|-----------------------------------|-----|------------------|------------------|-------------|-------------|-------------|-------------|------------|------------|-------------|-------------|------------|
|                                   |     |                  |                  | 2020E       | 2021E       | 2022E       | 2020E       | 2021E      | 2022E      | 2020E       | 2021E       | 2022E      |
| <b>Nordic services peers</b>      |     |                  |                  |             |             |             |             |            |            |             |             |            |
| G4S PLC                           | GBP | 105.5            | 1,815            | 0.56        | 0.53        | 0.51        | 10.6        | 9.0        | 8.4        | 10.7        | 8.1         | 7.2        |
| Prosegur Compania de Seguridad SA | EUR | 2.4              | 1,437            | 0.61        | 0.57        | 0.56        | 8.4         | 7.0        | 6.3        | 17.3        | 11.4        | 10.1       |
| Securitas                         | SEK | 130.4            | 4,357            | 0.54        | 0.50        | 0.47        | 13.5        | 10.1       | 8.9        | 16.0        | 12.1        | 10.8       |
| <b>Average</b>                    |     |                  | <b>2,536</b>     | <b>0.57</b> | <b>0.54</b> | <b>0.52</b> | <b>10.8</b> | <b>8.7</b> | <b>7.9</b> | <b>14.7</b> | <b>10.5</b> | <b>9.4</b> |
| Tempest Security                  | SEK | 40.9             | 35               | 1.03        | 0.80        | 0.63        | 101.2       | 25.3       | 15.6       | 170.4       | 30.3        | 19.1       |
| <i>(prem/disc)</i>                |     |                  |                  | 80%         | 50%         | 22%         | 835%        | 190%       | 99%        | 1063%       | 188%        | 104%       |

Source: Thomson Reuters, SEB

# Company overview

## Tempest Security in brief

Tempest Security became an authorized security company in 2009 and has in less than 10 years become one of Sweden’s leading security services providers. Supported by an experienced management team, revenues have grown from SEK 55m in 2014 to SEK 287m in 2019, implying revenue CAGR of close to 40%.

While three quarters of the business is still within traditional security services, such as manned and mobile guarding, the company has through selective acquisitions and internal investments also created an attractive and broad palette of more advanced security solutions. These services include margin accretive and fast-growing niches within the security industry such as close protection, investigation, background checks, technical solutions, as well as surveillance through its own Security Operations Center.

### Selection of key events

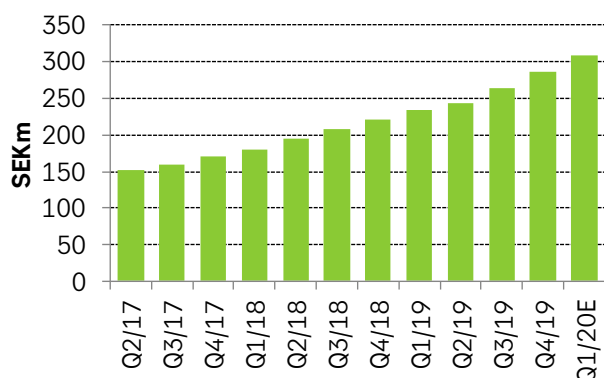
| Year | Event   |
|------|---|
| 2009 | Became an authorized security company   |
| 2009 | Heron City signed as first customer   |
| 2013 | First step towards a full-service offering through establishment of protection services |
| 2014 | Acquires technology company Svenska Probus Säkerhet AB                                  |
| 2017 | Acquires Falck Security alarm central   |
| 2017 | Listing on Nasdaq First North Growth Market   |
| 2018 | Acquires Gothia Protection Group  |
| 2019 | Signs its largest contract to date with Scania (5yr, SEK 228m)                          |

Source: Tempest Security, SEB

Following the initial public offering during the fall of 2017, Tempest Security has invested into the broadened service offering, the build-up of support functions (eg. Sales, Human Resources and Finance) and other investments to maintain the high revenue growth rate. Initially, these investments have burdened the bottom line, but the past few quarters have seen a gradually improving earnings trend.

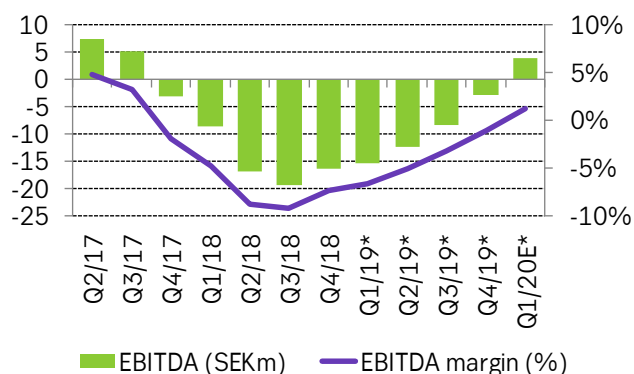
The company has set a mid-term financial target of reaching SEK 500m in sales by 2022, implying a 2019-22 sales CAGR of 20%. In addition, the aim is to reach a long-term EBITDA margin of 10%.

### LTM revenue development



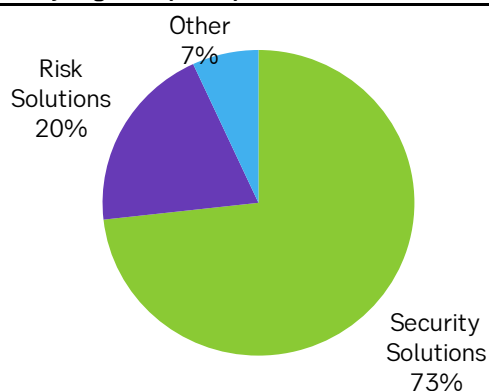
Source: Tempest Security, SEB

### LTM EBITDA and EBITDA margin

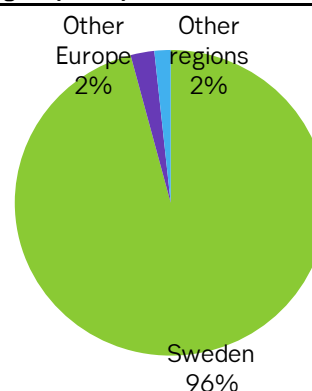


\*Inc. impact from IFRS 16

Source: Tempest Security, SEB

**Revenue by segment (2019)**

Source: Tempest Security, SEB

**Revenue by region (2019)**

Source: Tempest Security, SEB

Tempest has announced several larger assignments in 2019 and during the first part of 2020, including its largest contract to date with Scania. This is likely to keep up revenues during 2020, despite the expected slowdown in general business activity due to COVID-19.

**Order announcements**

| Customer                              | Length (inc. options) | Order value (SEKm) | Start of contract |
|---------------------------------------|-----------------------|--------------------|-------------------|
| KTH                                   | 6                     | 55                 | n.a.              |
| National Board of Health and Welfare  | 4                     | 15                 | Jun-20            |
| Swedish National Agency for Education | 4                     | 3.5                | n.a.              |
| Embassy of Canada                     | 5                     | n.a.               | n.a.              |
| Tyresö shopping center (Skandia)      | 2                     | n.a.               | Dec-19            |
| Mörby shopping center (Skandia)       | 2                     | n.a.               | Sep-19            |
| Atrium Ljungberg (Sickla)             | 3                     | 30                 | Oct-19            |
| Stockholms District Court             | 4                     | 15                 | May-19            |
| Scania                                | 5                     | 228                | Jun-19            |
| KTH                                   | 2.5                   | 22                 | May-19            |

Source: Tempest Security, SEB

The three founders (Spry, Löfving and Cavas) remain as majority shareholders with a combined ownership of over 50% of the company. Other large owners include Athanase Industrial Partners (17.2%) and Swedbank Robur Micro Cap (8.4%). The shareholder base is quite concentrated with 88.6% of the ownership in Tempest concentrated to the top 10 shareholders. In addition, it is worth highlighting that most of the executive management and board members are shareholders in the company.

**Shareholder structure****Shareholder structure (as of 31 March, 2020)**

|                                   | Share of capital | Share of votes | Number of shares |
|-----------------------------------|------------------|----------------|------------------|
| Andrew Spry                       | 23.0%            | 23.0%          | 2,041,416        |
| Thomas Löfving                    | 22.7%            | 22.7%          | 2,020,908        |
| Athanase Industrial Partners      | 17.2%            | 17.2%          | 1,527,082        |
| Swedbank Robur Micro Cap          | 8.4%             | 8.4%           | 745,000          |
| Thomas Cavas                      | 5.7%             | 5.7%           | 504,940          |
| Patruus AB                        | 4.5%             | 4.5%           | 400,000          |
| Lennarth Ädel Holding AB          | 2.7%             | 2.7%           | 236,022          |
| Gryningskust Holding AB           | 1.6%             | 1.6%           | 141,376          |
| Försäkringsbolaget Avanza Pension | 1.5%             | 1.5%           | 134,235          |
| Durling Invest AB                 | 1.5%             | 1.5%           | 131,100          |
| <b>Top 10</b>                     | <b>88.6%</b>     | <b>88.6%</b>   | <b>7,882,079</b> |
| Other                             | 11.2%            | 11.2%          | 996,528          |
| <b>Total</b>                      | <b>100.0%</b>    | <b>100.0%</b>  | <b>8,894,947</b> |

Source: Tempest Security, SEB

## Management and board

### Executive management team

**Andrew Spry** owns 2,041,416 shares in Tempest Security and has been a board member since 2013. Mr Spry is also one of the founders and CEO of the company since 2008. He has previously been a member of the board of Orion Risk Group Llc and board deputy of Termino C 1958 AB. Mr Spry studied Business, English and Economic history at the Stockholm University.

**Lotta Iverstrand** holds 18,506 shares in Tempest Security and has been the Chief Financial Officer since 2019. She has previously held a position as head of finance at Tempest Security and worked as a chartered accountant at Ernst & Young. Ms Iverstrand holds a MA (hons) First Class Accountancy Finance from Heriot Watt University in Edinburgh and is a chartered accountant from ICAS.

**Peter Köhler** holds 12,000 shares in Tempest Security and has been a senior advisor of the company since 2014. He has previously held a position as regional head at G4S. Mr Köhler studied business at Stockholm University.

**Marie Rosenquist Berthold** holds 16,400 shares in Tempest Security and has been employed as head of HR since 2017 and has been deputy CEO since 2019. She has previous experience as HR director at Synsam Drifts AB and The Body Shop Svenska Aktiebolag. She holds a degree in social education from Jönköping Högskola and studied labor law at Örebro University and psychology at Kristianstad Högskola.

**Anders Lundström** does not own any shares in Tempest Security and has been Head of Security Solutions since 2017. He has previous experience as CEO of Addici security AB and board chair of Almega Säkerhetsföretagen. Mr Lundström holds a diploma as a security manager from Företagsuniversitetet and has completed a number of management courses.

**Janne Rastas** does not own any shares in Tempest Security and has been Head of Sales since 2018. He has previous experience as head of business development security at Coor Service Management and sales manager at SOS Alarm. Mr Rastas studied security management and sales management at IHM and various courses within management, sales and security.

**Carl Höglund** own 37,230 shares in Tempest Security and has held a position as Senior Advisor since 2017. He is currently a board member of Eyeonid AB (publ). Mr Höglund has previous experience as head of operational security at MTG AB. He holds an MBA from Stockholm University and studied security management and business communication at IHM.

### Board of directors

**Anders Laurin** owns 10,000 shares in Tempest Security and has held the Chairman of the Board position since 2017. He is currently Board Chairman of AviFauna i Sverige AB, director of RCO Security Group and Alcato Consulting AB. His previous experiences include serving as vice president of Axis Communications AB and CEO of MultiQ International AB. Mr Laurin holds a degree (ABD-linjen) from Malmö Kommunala högskola (Lunds Universitet).



**Michael Silfverberg** owns 80,306 shares in Tempest Security and has served as a board member since 2017. He is currently Board Chairman of Multibrackets Europe AB, Solid Administration i Stockholm AB, Tenant Services Sweden AB and DooHClick AB. In addition, he serves as a board member of Degauss Labs Europe AB, Stockholm Yacht Center AB, Silfvergruppen AB, Nero Stockholm Restaurang AB, Einar Andersson Efterträdare AB and Supreme Marine AB. His previous experience include director of AdCityMedia AB (publ), Stora Ekholmens Fastighets AB, Divvit AB, Nero K25 AB, Scandinavian Pro Capital - SPC AB and Ramstrom Production AB. Mr. Silfverberg has an extensive experience from various industries as an entrepreneur, board member and investor. He studied business and law at the Stockholm University.

**Andrew Spry** owns 2,041,416 shares in Tempest Security and has been a board member since 2013. Mr Spry is also one of the founders and has been CEO of the company since 2008. He has previously been a member of the board of Orion Risk Group Llc and board deputy of Termino C 1958 AB. Mr Spry studied Business, English and Economic history at the Stockholm University.

**Thomas Löfving** owns 2,020,908 shares in Tempest Security and has been a member of the board since 2009. He is one of the founders of Tempest Security and held the position as Chief Financial Officer until 2019. He has also been a board deputy of GRANAT Stockholm AB. Mr Löfving holds an Master of Science in Business from Stockholm University.

**Daniel Nyhrén** holds 1,527,082 shares in Tempest Security via Athanase Industrial Partners and has been a board member since 2019. He is a partner of Athanase Industrial Partner and board member of Zutec Holding AB. Mr Nyhren has previous experience as investment director at Creades, board member of NOTE AB (publ) and as Chairman of the Board of Global Batteries AB. Mr Nyhren holds an MSc in Finance from Stockholm University.

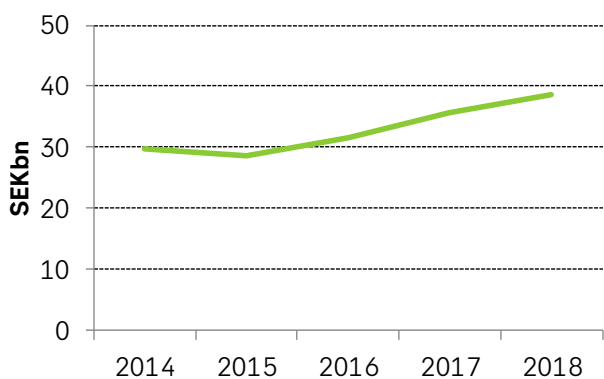
# Market overview

## The Swedish security market

Tempest Security is mainly active in the Swedish security market, which represents a total market opportunity of close to SEK 40bn. The market is roughly split into traditional security solutions (30%), parking (12%) and technology solutions (58%).

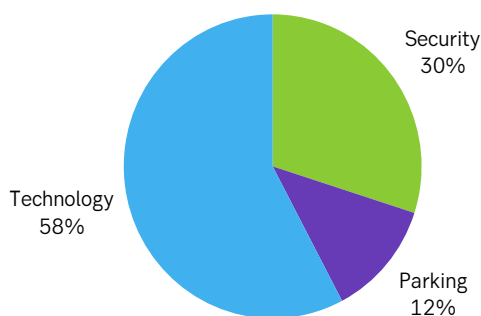
The market for security services is rather labour intensive and employed around 27,000 people in 2018, which is an increase of 1,195 employees compared to 2017. There is an expected recruitment need of around 5,300 employees over the coming three years, of which around half of the increase represents net recruitment.

**Swedish security market**



Source: Säkerhetsföretagen, Bisnode, SEB

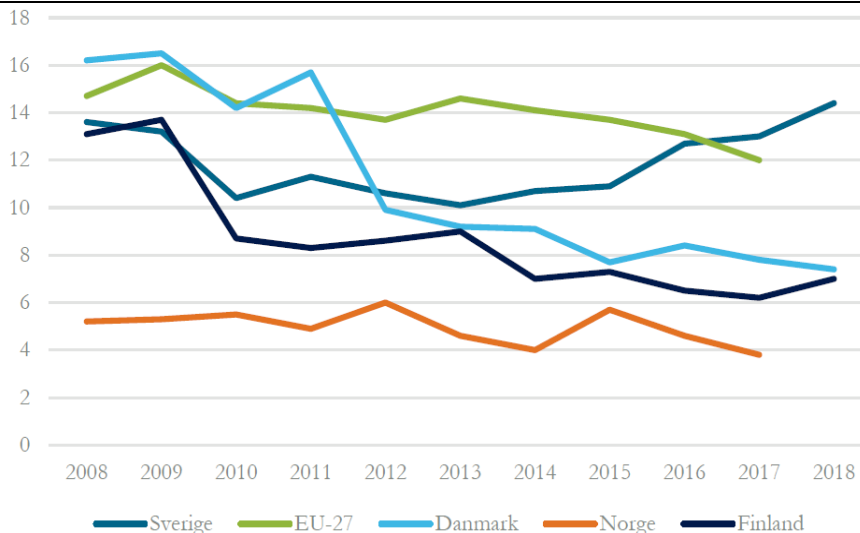
**Security market split**



Source: Säkerhetsföretagen, Bisnode, SEB

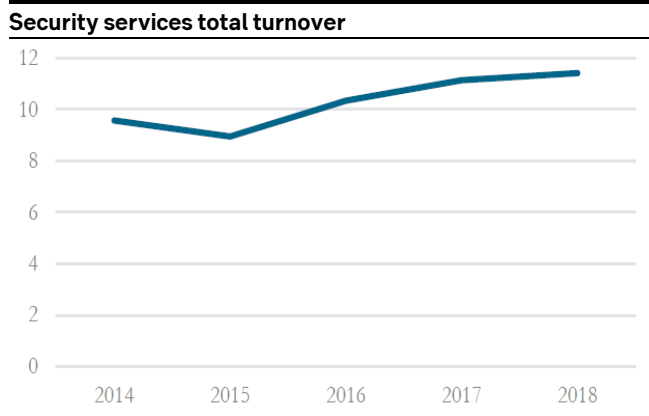
In 2018, Swedish security companies combined turnover increased by 7.6% compared to the year before. The increasing demand for security services is driven by a number of factors, including real and perceived threat of higher criminal activity. In Sweden, the proportion of the population reporting crime, violence and vandalism has been on an upward slope during the past few years and is currently above the EU-27 average.

**Proportion of the population experiencing problems with crime, violence etc.**

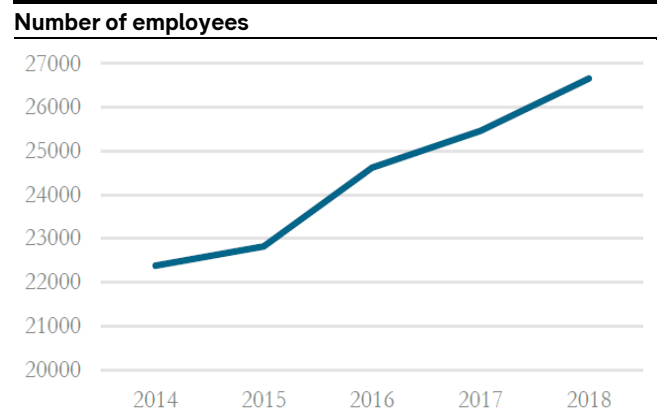


Source: Eurostat, Säkerhetsföretagen

The growth is fairly divided with high demand for technology solutions, while there is a slower demand for traditional security services. This pattern is fairly similar to what is being observed in other advanced economies. Total turnover within traditional security services was SEK 11.4bn in 2018, growing at +2.5% compared to the year before. The 10 largest companies reported an average profit margin of around 3%.

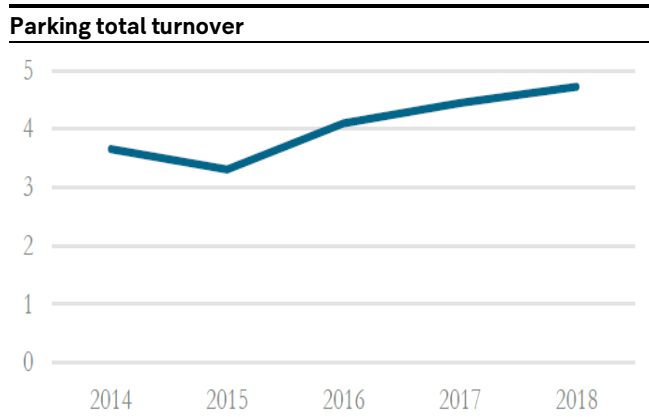


Source: Säkerhetsföretagen, Bisnode, SEB

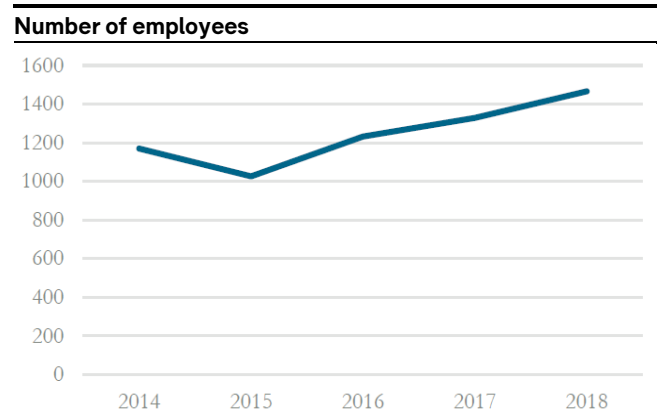


Source: Säkerhetsföretagen, Bisnode, SEB

Total turnover within parking was SEK 4.7bn in 2018, growing 6.2% compared to the year before. The 10 largest companies reported an average profit margin of close to 17%

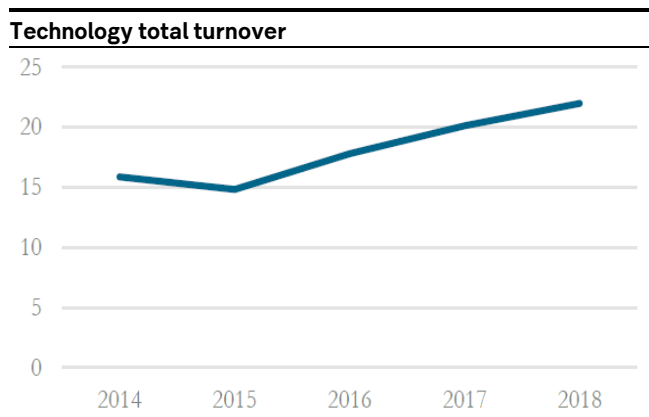


Source: Säkerhetsföretagen, Bisnode, SEB

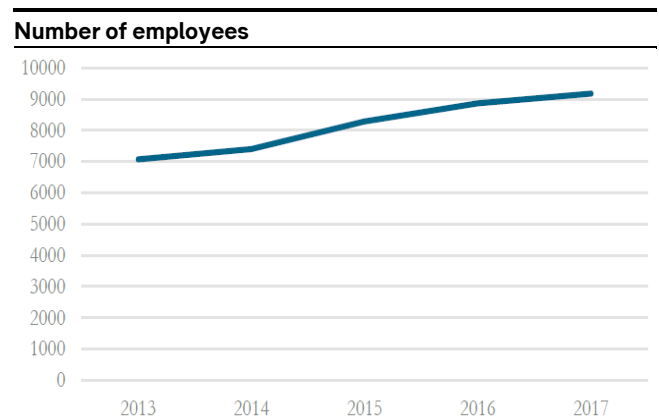


Source: Säkerhetsföretagen, Bisnode, SEB

Total turnover within alarm- and locks was SEK 22bn in 2018, growing 9.3% compared to the year before. The 20 largest companies reported an average profit margin of close to 10.2% in 2017.



Source: Säkerhetsföretagen, Bisnode, SEB

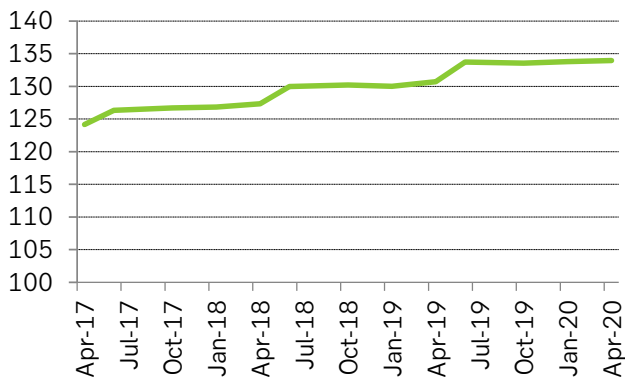


Source: Säkerhetsföretagen, Bisnode, SEB

## Cost development

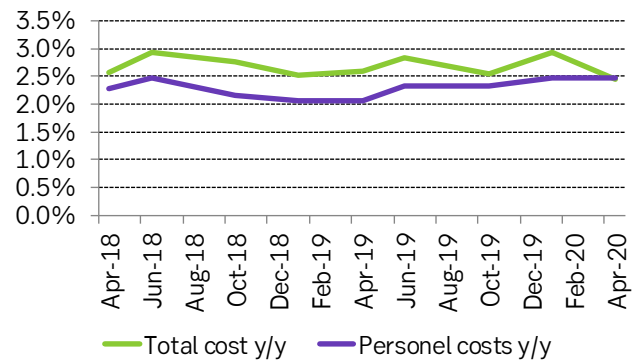
The production of security services is labour intensive and personnel expenses generally represent around 80% of the cost base. Wage inflation is currently around 2-2.5%, while total cost is increasing at yearly run-rate of around 2.5-3%, mainly due to increasing expenses for vehicles, training and administration.

**Security services cost index (Oct-2008=100)**



Source: SCB, SEB

**Cost development**



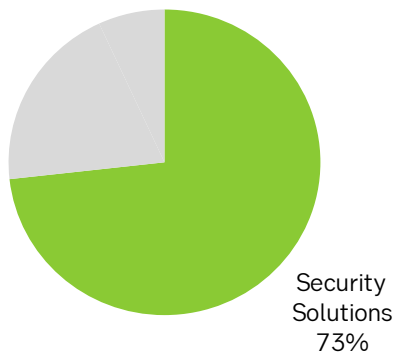
Source: SCB, SEB

# Business areas

## Security Solutions

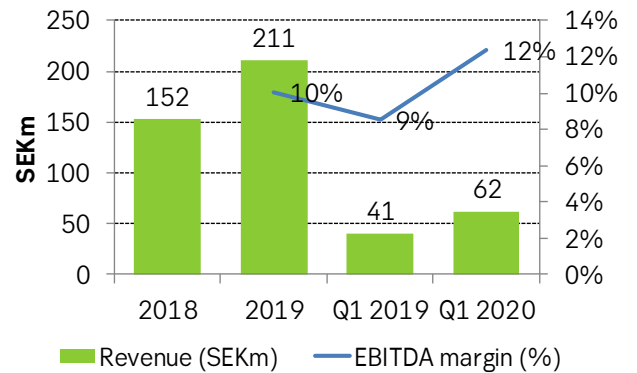
Traditional security services, such as manned and mobile guarding, represents almost three quarters of Tempest Security’s current business. In 2019, the segment revenue increased by almost 40% y/y, driven by large order announcements, including the five-year contract with Scania of SEK 228m, representing Tempest’s largest assignment to date. Security Solutions reported an EBITDA margin of 10% in 2019 and 12% in Q1 2020.

### Security Solutions



Source: Tempest Security, SEB

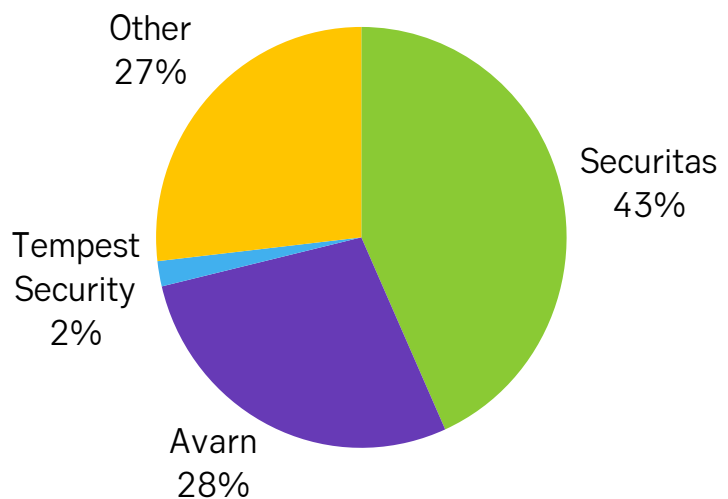
### Revenue and EBITDA margin



Source: Tempest Security, SEB

The traditional guarding market is characterized by high volumes, low margins and is quite labour intensive. In 2019, the number two and number three players Avarn and Nokas joined forces and now dominate the Swedish security market together with the market leader Securitas. Still, since barriers to entry are relatively low, there are a number of smaller local and regional players sharing the remaining pie. As such, we believe there is scope for continued consolidation potential, as margins are thin and many companies were already struggling with profitability before the COVID-19 pandemic. The recent industry consolidation could also make some clients rethink their security need as contracts are up for renegotiation.

### Estimated market split

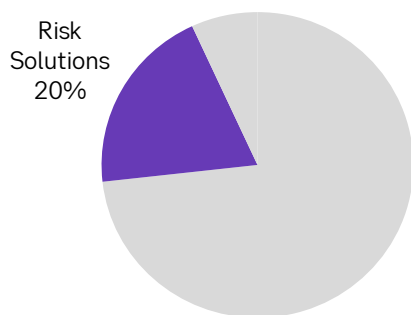


Source: Company data, SEB

## Risk Solutions

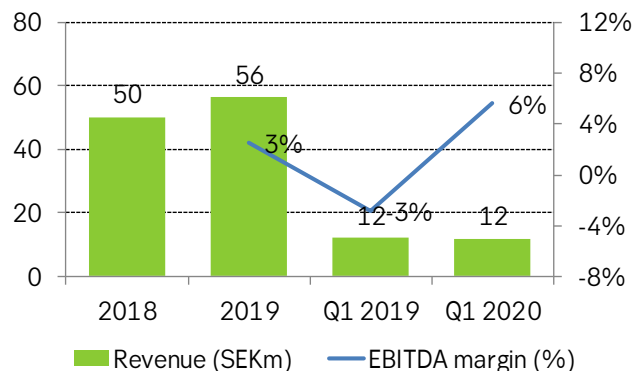
Risk Solutions contain a wide offering of consulting, education and other specialized services. Consulting includes different kind of security consultation and advisory, risk analysis, investigations and background checks. Education is mainly different types of security and safety related training, while specialized services includes close protection and other types of tailor-made solutions.

2019 revenue split



Source: Tempest Security, SEB

Revenue and EBITDA margin

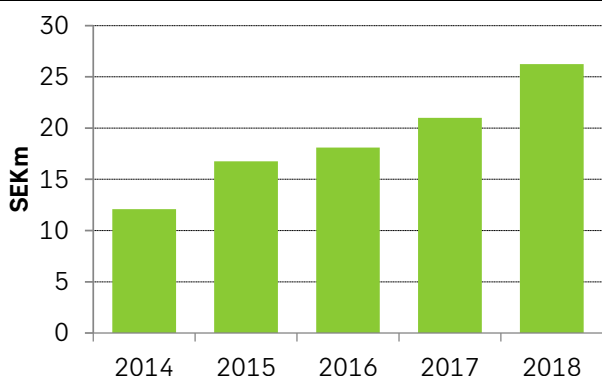


Source: Tempest Security, SEB

Risk Solutions is a relatively small niche of the overall security market and outside the scope of the larger players due to the low volumes. Competition is quite fragmented and includes accounting and law firms, IT consultants, as well as small local security companies such as SRS Security, 2Secure, Actsec and Vesper Group. Therefore, we believe the margin potential is quite high and we see scope for increased demand for services such as close protection, investigations, risk analysis and background checks.

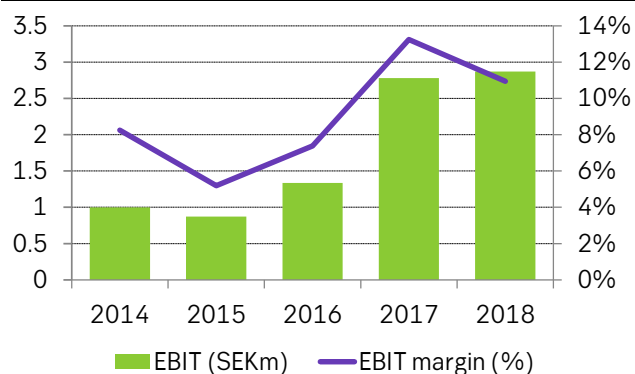
At the beginning of 2018, Tempest announced the acquisition of Gothia Protection Group, which significantly increased its presence within risk solutions. Based on consolidated public accounts for Tempest Security's subsidiaries Gothia Protection Group AB, Gothia Protection Norway A/S and Gothia Protection Academy, the revenue growth has been quite steady over the last years and the operating margin (EBIT) was above 10% in both 2017 and 2018. Therefore, we believe there is a major potential to lift profits within this segment towards at least +10% in the medium term.

Gothia Protection Group revenue development



Source: Allabolag, proff.no, SEB

Gothia Protection Group EBIT and EBIT margin



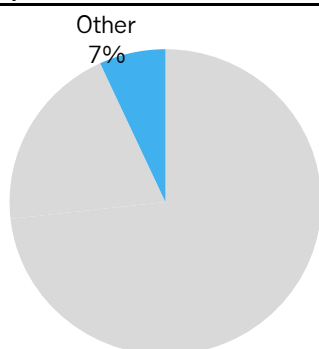
Source: Allabolag, proff.no, SEB

## Other

The other segment includes Tempest's combined offering within the Security Operations Center, Technical Solutions and Cyber Security. The Technical Solutions segment includes project management and service within video surveillance, alarms, entrance systems, alarms, access control and other types of specialized security solutions. In Q1 2020, Technical Solutions revenues were SEK 1.8m, or around one third of the total revenues within the Other segment.

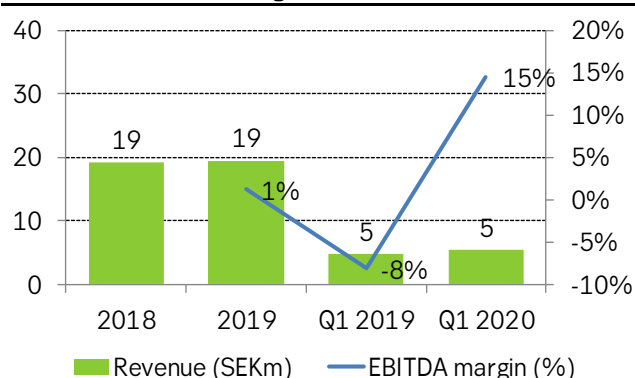
The Security Operation Center (SOC) was acquired by Falck Security in 2017. The SOC is operated 24/7 and is supporting clients within a variety of different security services, ranging from alarm- and video surveillance and dispatch services to business travel within Global Support Services and Cyber Security.

2019 revenue split



Source: Tempest Security, SEB

Revenue and EBITDA margin

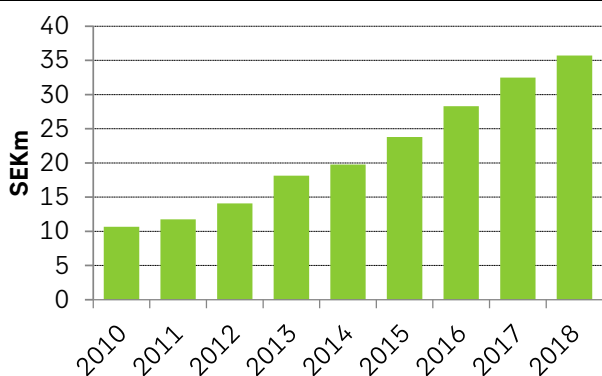


Source: Tempest Security, SEB

The acquisition of Falck Security broadened Tempest's product portfolio and fits well into a strategy of moving towards a product mix with higher operating margin and superior growth opportunities. In Sweden, there are about 12 authorized alarm centres operated by private companies. The barriers to entry are relatively high due to the need for major upfront investments, while volumes are relatively low. However, this also allows for high incremental margins as these types of operations scale quite well.

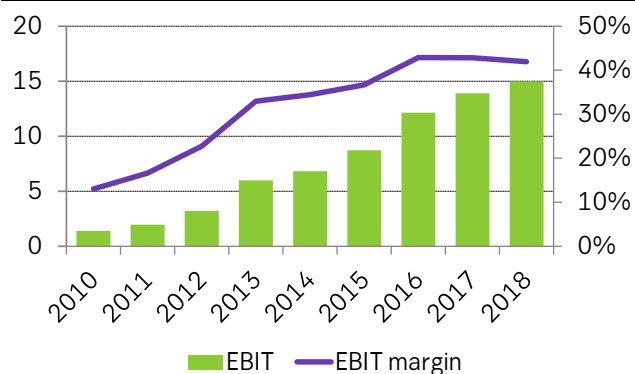
A quite successful benchmark is the private company Lövestad Larmcentral AB, which has reported double-digit revenue growth over the past 10 years with the operating margin (EBIT) expanding above 40% in recent years.

Lövestad Larmcentral revenue development



Source: Allabolag, SEB

Lövestad Larmcentral EBIT and EBIT margin



Source: Allabolag, SEB

# Overview

## Investment considerations

In our view, Tempest Security is equipped to continue to show above-industry revenue growth rates throughout our forecast period, driven by market share gains and increased penetration of more advanced security services. We also expect that the recent turnaround in profitability could be sustained, due to further operational leverage and an enhanced revenue mix. We expect the group to turn profitable for the full year 2020 and then gradually move towards the long-term EBITDA margin target of 10%.

## Company profile

Tempest Security is a fast-growing Swedish security company founded ten years ago by the current CEO Andrew Spry together with Thomas Löfving and Thomas Cavas. During this period, Tempest has transformed from conducting guarding operations mainly in the Stockholm region to offering a broad set of different security services. In the past five years, the company has increased its revenues from SEK 55m in 2014 to SEK 287M in 2019, implying revenue CAGR of close to 40%. Traditional security services remain the main exposure (73%), while higher value-add services such as risk solutions and surveillance are expected to gradually increase its part of the future revenue mix.

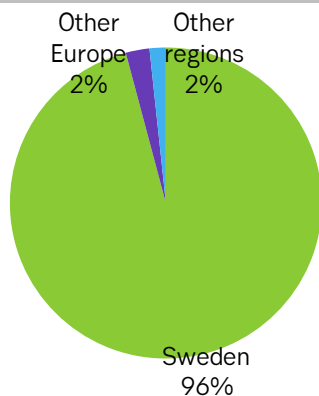
## Valuation approach

Our fair share price range is based on a mid-point DCF value +/- 10% relative change to our EBITDA assumptions being the upper- and lower end of the range.

## Investment risks

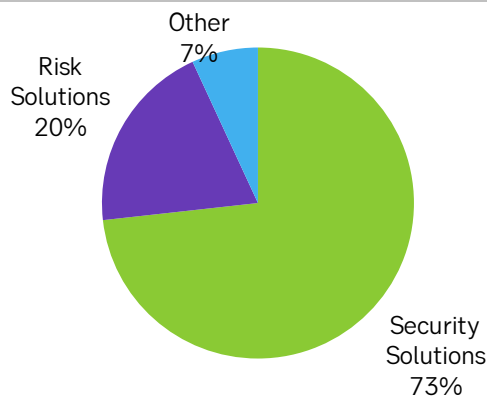
The security industry is people intensive and Tempest Security, in line with its peers, is highly dependent on the ability to maintain and attract new employees. This is particularly crucial in order to deliver on its ambitious growth agenda. Furthermore, the company has yet to prove that the recent turnaround in profitability is sustainable and our forecasts of further margin improvements is partly based on success and high growth rates within its new and more advanced security services.

Revenue by region (2019)



Source: SEB

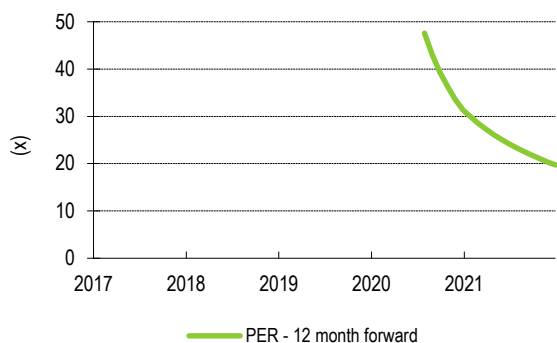
Revenue by segment (2019)



Source: Tempest Security, SEB

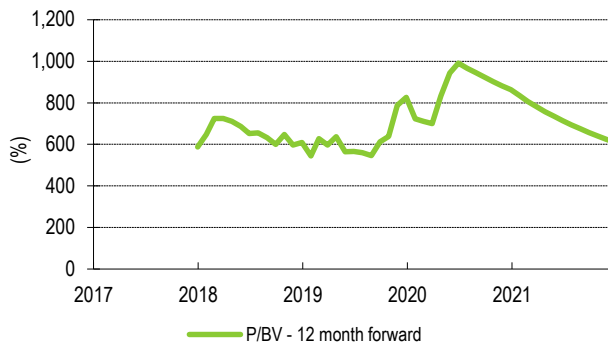


**PER - 12 month forward**



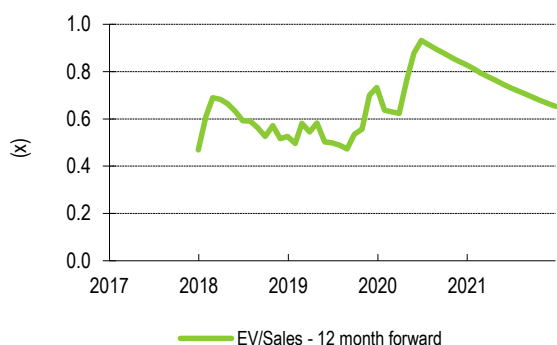
Source: SEB

**P/BV - 12 month forward**



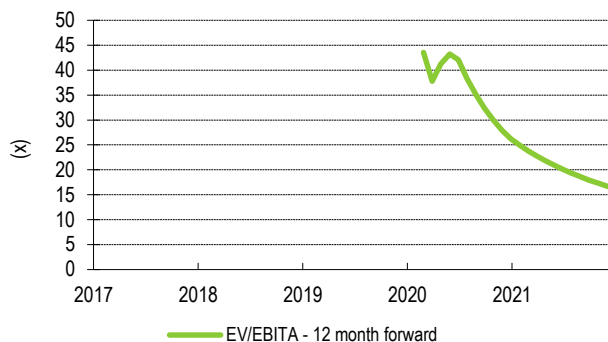
Source: SEB

**EV/Sales - 12 month forward**



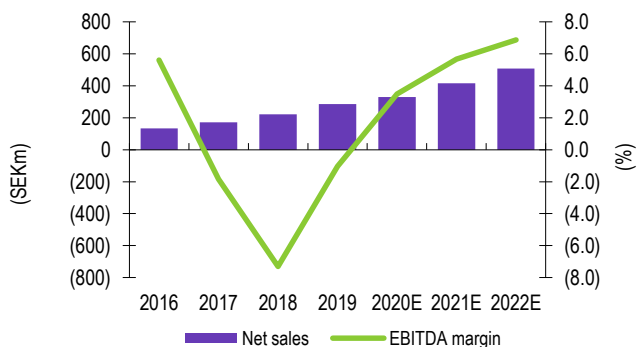
Source: SEB

**EV/EBITA - 12 month forward**



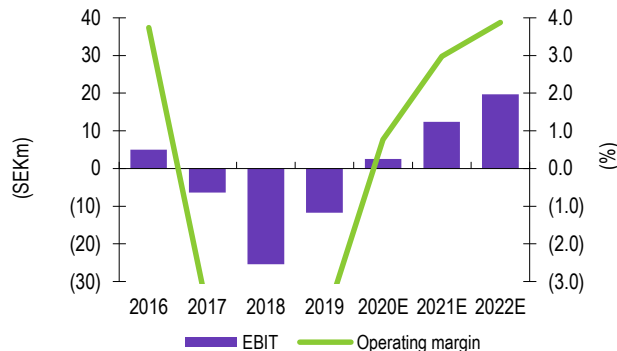
Source: SEB

**Net sales & EBITDA margin**



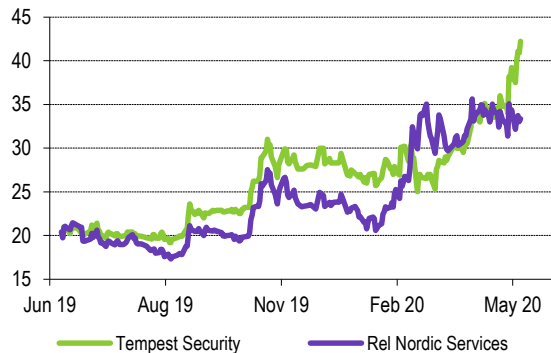
Source: SEB

**EBIT & Operating margin**



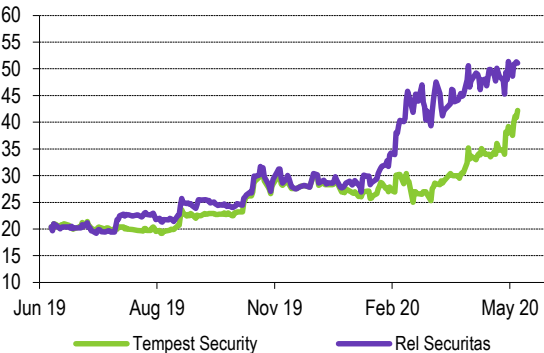
Source: SEB

**Comparison with sector index - 1 year**



Source: SIX

**Comparison with Securitas - 1 year**



Source: SIX

| <b>Profit &amp; loss statement - Tempest Security</b> |             |             |             |             |              |              |              |
|---|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| <b>(SEKm)</b>   | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
| Net Sales   | 134         | 171         | 222         | 286         | 331          | 417          | 509          |
| Other revenues  | 0           | 0           | 0           | 0           | 1            | 0            | 0            |
| <b>Total revenues</b>                                 | <b>135</b>  | <b>172</b>  | <b>222</b>  | <b>287</b>  | <b>332</b>   | <b>417</b>   | <b>509</b>   |
| Total expenses  | (127)       | (175)       | (238)       | (290)       | (320)        | (393)        | (474)        |
| <b>Profit before depreciation</b>                     | <b>8</b>    | <b>(3)</b>  | <b>(16)</b> | <b>(3)</b>  | <b>12</b>    | <b>24</b>    | <b>35</b>    |
| Depreciation - Fixed assets                           | (2)         | (1)         | (1)         | (8)         | (8)          | (10)         | (14)         |
| Depreciation - Other assets                           | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Amortisation - Goodwill                               | (0)         | (1)         | (7)         | 0           | 0            | 0            | 0            |
| Amortisation - Other intangibles                      | (0)         | (1)         | (1)         | (1)         | (1)          | (1)          | (1)          |
| <b>Operating profit</b>                               | <b>5</b>    | <b>(6)</b>  | <b>(25)</b> | <b>(12)</b> | <b>3</b>     | <b>12</b>    | <b>20</b>    |
| Net interest expenses                                 | (0)         | (0)         | (1)         | (2)         | 0            | 0            | 0            |
| Foreign exchange items                                | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Other financial items                                 | 0           | 0           | 0           | 0           | (1)          | (1)          | (2)          |
| Value changes - Fixed assets                          | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Value changes - Financial assets                      | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Value changes - Other assets                          | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| <b>Reported pre-tax profit</b>                        | <b>5</b>    | <b>(6)</b>  | <b>(26)</b> | <b>(13)</b> | <b>1</b>     | <b>11</b>    | <b>18</b>    |
| Minority interests                                    | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Total taxes   | (1)         | 1           | 0           | 0           | 0            | 0            | 0            |
| <b>Reported profit after tax</b>                      | <b>4</b>    | <b>(5)</b>  | <b>(26)</b> | <b>(13)</b> | <b>1</b>     | <b>11</b>    | <b>18</b>    |
| Discontinued operations                               | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Extraordinary items                                   | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| <b>Net Profit</b>                                     | <b>4</b>    | <b>(5)</b>  | <b>(26)</b> | <b>(13)</b> | <b>1</b>     | <b>11</b>    | <b>18</b>    |
| <b>Adjustments:</b>                                   |             |             |             |             |              |              |              |
| Discontinued operations                               | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Interest on convertible debt                          | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Minority interests (IFRS)                             | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Value changes   | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Goodwill/intangibles amortisations                    | 0           | 2           | 8           | 1           | 1            | 1            | 1            |
| Restructuring charges                                 | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Other adjustments                                     | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Tax effect of adjustments                             | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| <b>Adjusted profit after tax</b>                      | <b>4</b>    | <b>(4)</b>  | <b>(18)</b> | <b>(12)</b> | <b>2</b>     | <b>12</b>    | <b>19</b>    |
| <b>Margins, tax &amp; returns</b>                     |             |             |             |             |              |              |              |
| Operating margin                                      | 3.7         | (3.7)       | (11.4)      | (4.1)       | 0.8          | 3.0          | 3.9          |
| Pre-tax margin  | 3.7         | (3.7)       | (11.7)      | (4.7)       | 0.4          | 2.7          | 3.6          |
| Tax rate  | 25.1        | 14.4        | 1.1         | 3.6         | 0.0          | 0.0          | 0.0          |
| ROE   | 64.0        | (27.4)      | (90.4)      | (46.7)      | 4.2          | 29.5         | 34.7         |
| ROCE  | 86.4        | (32.0)      | (79.7)      | (37.3)      | 8.1          | 32.7         | 37.5         |
| <b>Growth rates y-o-y (%)</b>                         |             |             |             |             |              |              |              |
| Total revenues  | n.a.        | 27.4        | 29.5        | 29.1        | 15.7         | 25.6         | 22.1         |
| Operating profit                                      | 133.2       | n.m.        | n.m.        | n.m.        | n.m.         | 385.3        | 59.1         |
| Pre-tax profit  | 138.2       | n.m.        | n.m.        | n.m.        | n.m.         | 738.8        | 62.8         |
| EPS (adjusted)  | 0.0         | 0.0         | 0.0         | 0.0         | 0.0          | 461.9        | 58.6         |
| <b>Cash flow</b>                                      |             |             |             |             |              |              |              |
| <b>(SEKm)</b>   | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
| Net profit  | 4           | (5)         | (26)        | (13)        | 1            | 11           | 18           |
| Non-cash adjustments                                  | 2           | 2           | 7           | 9           | 8            | 11           | 15           |
| <b>Cash flow before work cap</b>                      | <b>6</b>    | <b>(4)</b>  | <b>(19)</b> | <b>(4)</b>  | <b>10</b>    | <b>22</b>    | <b>33</b>    |
| Ch. in working capital / Other                        | 2           | 10          | 6           | 3           | (3)          | (4)          | (4)          |
| <b>Operating cash flow</b>                            | <b>7</b>    | <b>7</b>    | <b>(13)</b> | <b>(2)</b>  | <b>6</b>     | <b>18</b>    | <b>29</b>    |
| Capital expenditures                                  | (2)         | (1)         | (3)         | (6)         | (7)          | (13)         | (16)         |
| Asset disposals                                       | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| L/T financial investments                             | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Acquisitions / adjustments                            | 0           | (3)         | (27)        | 0           | 0            | 0            | 0            |
| <b>Free cash flow</b>                                 | <b>5</b>    | <b>2</b>    | <b>(43)</b> | <b>(8)</b>  | <b>(1)</b>   | <b>5</b>     | <b>13</b>    |
| Net loan proceeds                                     | 0           | (2)         | 7           | (13)        | 0            | 0            | 0            |
| Dividend paid   | 0           | (6)         | 0           | 0           | 0            | 0            | 0            |
| Share issue   | 0           | 36          | 18          | 16          | 0            | 0            | 0            |
| Other   | (0)         | 0           | 0           | 0           | 0            | 0            | 0            |
| <b>Net change in cash</b>                             | <b>6</b>    | <b>30</b>   | <b>(18)</b> | <b>(4)</b>  | <b>(1)</b>   | <b>5</b>     | <b>13</b>    |
| <b>Adjustments</b>                                    |             |             |             |             |              |              |              |
| C/flow bef chng in work cap                           | 6           | (4)         | (19)        | (4)         | 10           | 22           | 33           |
| Adjustments   | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Int on conv debt net of tax                           | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Cash earnings   | 6           | (4)         | (19)        | (4)         | 10           | 22           | 33           |
| <b>Per share information</b>                          |             |             |             |             |              |              |              |
| Cash earnings   | 1.09        | (0.56)      | (2.5)       | (0.53)      | 1.09         | 2.51         | 3.74         |
| Operating cash flow                                   | 1.41        | 1.05        | (1.73)      | (0.2)       | 0.72         | 2.06         | 3.3          |
| Free cash flow  | 0.98        | 0.31        | (5.66)      | (0.91)      | (0.07)       | 0.6          | 1.5          |
| <b>Investment cover</b>                               |             |             |             |             |              |              |              |
| Capex/sales (%)                                       | 0.2         | 0.3         | 0.9         | 1.9         | 1.9          | 2.8          | 2.8          |
| Capex/depreciation (%)                                | 15          | 43          | 137         | 69          | 77           | 112          | 100          |

Source for all data on this page: SEB

| <b>Balance sheet - Tempest Security</b> |             |             |             |             |              |              |              |
|---|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| <b>(SEKm)</b>                           | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
| Cash and liquid assets                  | 17          | 47          | 29          | 25          | 24           | 30           | 43           |
| Debtors                                 | 21          | 27          | 27          | 39          | 46           | 57           | 70           |
| Inventories                             | 1           | 0           | 0           | 0           | 0            | 0            | 0            |
| Other                                   | 5           | 6           | 13          | 11          | 11           | 11           | 11           |
| <b>Current assets</b>                   | <b>44</b>   | <b>80</b>   | <b>70</b>   | <b>76</b>   | <b>81</b>    | <b>98</b>    | <b>124</b>   |
| Interest bearing fixed assets           | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Other financial assets                  | 0           | 2           | 3           | 3           | 3            | 3            | 3            |
| Capitalized development cost            | 0           | 0           | 0           | 0           | 1            | 2            | 4            |
| Goodwill                                | 2           | 11          | 22          | 24          | 24           | 24           | 24           |
| Other intangibles                       | 1           | 4           | 8           | 10          | 10           | 9            | 8            |
| Fixed tangible assets                   | 5           | 4           | 6           | 37          | 35           | 36           | 36           |
| Other fixed assets                      | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| <b>Fixed assets</b>                     | <b>8</b>    | <b>20</b>   | <b>39</b>   | <b>74</b>   | <b>72</b>    | <b>74</b>    | <b>74</b>    |
| <b>Total assets</b>                     | <b>51</b>   | <b>100</b>  | <b>109</b>  | <b>149</b>  | <b>153</b>   | <b>172</b>   | <b>199</b>   |
| Creditors                               | 3           | 6           | 11          | 8           | 9            | 11           | 13           |
| Other trade financing                   | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| S/T interest bearing debt               | 0           | 0           | 1           | 0           | 0            | 0            | 0            |
| Other                                   | 39          | 62          | 63          | 81          | 81           | 81           | 81           |
| <b>Current liabilities</b>              | <b>41</b>   | <b>68</b>   | <b>75</b>   | <b>89</b>   | <b>90</b>    | <b>92</b>    | <b>95</b>    |
| L/T interest bearing debt               | 0           | 0           | 6           | 0           | 0            | 0            | 0            |
| Other long-term liabilities             | 2           | 1           | 4           | 26          | 28           | 34           | 40           |
| Convertible debt                        | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Pension provisions                      | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| Other provisions                        | 0           | 0           | 0           | 3           | 3            | 3            | 3            |
| Deferred tax                            | 0           | 0           | 0           | 0           | (0)          | (0)          | (0)          |
| <b>Long term liabilities</b>            | <b>2</b>    | <b>1</b>    | <b>10</b>   | <b>30</b>   | <b>31</b>    | <b>36</b>    | <b>42</b>    |
| Minority interests                      | 0           | 0           | 0           | 0           | 0            | 0            | 0            |
| <b>Shareholders' equity</b>             | <b>8</b>    | <b>32</b>   | <b>25</b>   | <b>31</b>   | <b>32</b>    | <b>43</b>    | <b>62</b>    |
| <b>Total liabilities and equity</b>     | <b>51</b>   | <b>101</b>  | <b>110</b>  | <b>150</b>  | <b>153</b>   | <b>172</b>   | <b>199</b>   |
| Net debt (m)                            | (17)        | (47)        | (22)        | (25)        | (24)         | (30)         | (43)         |
| Working capital (m)                     | (15)        | (35)        | (34)        | (38)        | (33)         | (24)         | (13)         |
| Capital employed (m)                    | 8           | 32          | 32          | 31          | 32           | 44           | 62           |
| Net debt/equity (%)                     | (222)       | (147)       | (91)        | (81)        | (76)         | (68)         | (70)         |
| Net debt/EBITDA (x)                     | (2.3)       | 14.9        | 1.4         | 8.5         | (2.1)        | (1.3)        | (1.2)        |
| Equity/total assets (%)                 | 15          | 32          | 22          | 21          | 21           | 25           | 31           |
| Interest cover                          | 66.0        | (841.3)     | (48.7)      | (6.7)       | 0.0          | 0.0          | 0.0          |

| <b>Valuation</b>               |             |             |             |             |              |              |              |
|--------------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|
| <b>(SEK)</b>                   | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020E</b> | <b>2021E</b> | <b>2022E</b> |
| No of shares, fully dil. (y/e) | 5.3         | 7.3         | 8.3         | 8.9         | 8.9          | 8.9          | 8.9          |
| No of shares, fully dil. avg.  | 5.3         | 6.3         | 7.5         | 8.4         | 8.9          | 8.9          | 8.9          |
| Share price, y/e               |             | 17.4        | 21.2        | 30.0        | 42.2         | 42.2         | 42.2         |
| Share price, high              |             | 23.6        | 27.0        | 31.6        | 42.2         |              |              |
| Share price, low               |             | 16.5        | 14.5        | 18.0        | 25.0         |              |              |
| Share price, avg               |             | 18.5        | 21.0        | 22.1        | 30.0         |              |              |
| EPS (reported)                 | 0.70        | (0.87)      | (3.40)      | (1.55)      | 0.15         | 1.26         | 2.05         |
| EPS (adjusted)                 | 0.77        | (0.57)      | (2.38)      | (1.45)      | 0.24         | 1.35         | 2.14         |
| Cash earnings/share            | 1.09        | (0.56)      | (2.50)      | (0.53)      | 1.09         | 2.51         | 3.74         |
| Dividend/share                 | 0.00        | 0.00        | 0.00        | 0.00        | 0.00         | 0.00         | 0.00         |
| Enterprise value/share         |             | 10.9        | 18.5        | 27          | 39           | 39           | 37           |
| Book value/share               | 1.5         | 4.4         | 3.0         | 3.5         | 3.6          | 4.9          | 6.9          |
| Adjusted equity/share          | 1.5         | 4.4         | 3.0         | 3.5         | 3.6          | 4.9          | 6.9          |
| PER (adjusted)                 |             | n.m.        | n.m.        | n.m.        | 175.9        | 31.3         | 19.7         |
| CEM                            |             | (30.9)      | (8.5)       | (56.6)      | 38.6         | 16.8         | 11.3         |
| Dividend yield                 |             | 0.0         | 0.0         | 0.0         | 0.0          | 0.0          | 0.0          |
| EV/EBITDA                      |             | (25.1)      | (9.5)       | (82.2)      | 30.4         | 14.6         | 9.5          |
| EV/EBITA                       |             | (17.7)      | (8.7)       | (22.3)      | 104.7        | 26.2         | 16.2         |
| EV/EBIT                        |             | (12.4)      | (6.0)       | (20.7)      | 137.4        | 27.9         | 16.8         |
| EV/Sales (x)                   |             | 0.46        | 0.69        | 0.84        | 1.06         | 0.83         | 0.65         |
| Price/Book value               |             | 3.94        | 7.15        | 8.62        | 11.63        | 8.63         | 6.08         |
| Price/adjusted equity          |             | 3.94        | 7.15        | 8.62        | 11.63        | 8.63         | 6.08         |
| Free cash flow/Market cap (%)  |             | 4.8         | (10.0)      | (3.0)       | (0.2)        | 1.4          | 3.5          |
| Operating cash flow/EV (%)     |             | 8.3         | (8.5)       | (0.7)       | 1.8          | 5.3          | 8.8          |
| EV/Capital employed (x)        |             | 2.5         | 4.9         | 7.8         | 10.9         | 7.9          | 5.4          |

| <b>Main shareholders</b>           |            |              | <b>Management</b> |                  | <b>Company information</b> |                 |
|------------------------------------|------------|--------------|-------------------|------------------|----------------------------|-----------------|
| <b>Name</b>                        | <b>(%)</b> | <b>Votes</b> | <b>Capital</b>    | <b>Title</b>     | <b>Name</b>                | <b>Contact</b>  |
| Andrew Spry                        | 25.0       | 25.0         | COB               | Anders Laurin    | Internet                   | www.tempest.se  |
| Thomas Löfving                     | 22.7       | 22.7         | CEO               | Andrew Spry      | Phone number               | 010 - 45 777 60 |
| Athanase Industrial Partners II AB | 17.2       | 17.2         | CFO               | Lotta Iverstrand |                            |                 |
|                                    |            |              | IR                | Lotta Iverstrand |                            |                 |

Source for all data on this page: SEB

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