

RISK INTELLIGENCE A/S

investor.riskintelligence.eu

Industry: Intelligence provider

List: Spotlight Stock Market

Market value: 36 DKK million

Previous research update: [August 24, 2022](#)

A framework for profitability and growth

Increased focus on sales of proprietary data

Last week, Risk Intelligence presented its new strategy on how the company will accomplish to grow with profitability until 2025. The new strategy is based on three operational cornerstones:

- **The launch of a new tech platform for the maritime solution.** The new platform is developed and managed in collaboration with an external party. It will be launched in 2023 and include new functionality, such as integration of third-party data (e.g. AIS, weather data, sanctions, etcetera). A price increase will be implemented when migrating existing clients to the new platform. The new platform also improves opportunities for upselling on existing clients as new functionality is added. That means that the profitability-outlook improves as the new platform will increase ARPU. It will also allow for more efficient resource allocation and lower investment needs over time.
- **LandRisk and LandRisk Logistics as a separate business segment.** With a fully focused business segment, probabilities for success improve. The staffing is already in place, meaning no additions to the current operating cost structure. Any potential cost additions will be covered by revenue.
- **Increased focus on selling proprietary actionable data.** Partner sales will increase by adding new markets and upselling on existing clients. Selling proprietary data has excellent scalability and improves the profitability outlook substantially. The company recently announced a new partnership with MedAire, a global health and medical assistance service used by over 50 per cent of the world's largest superyachts – a new market.

The goal of profitability in 2023

On a group level, the company has set growth and profitability goals:

- **Revenue of DKK 50m by 2025** with an ARR corresponding to about 80 per cent of revenues. We expect key drivers to be (i) new clients on the landbased- and maritime solution (ii) price increase and upselling on existing clients, and (iii) the sales of proprietary data.
- **A positive EBITDA in 2023**, given higher revenues and scalability.
- **A positive net result in 2023.** An improved EBITDA will strengthen cash flow and reduce the need for external financing, meaning reduced interest paid over time. As the new system platform is developed in a partnership, investments will come down and reduce depreciation over time. The two will lessen the gap from EBITDA to EBT.

Revised estimates in the back of the new strategy

Slight upwards adjusted sales curve

In our latest research update published on August 24 2022, we estimated sales of DKK 25.9m 2023. That corresponds to a growth of 20 per cent. We do see great potential in selling proprietary actionable data. It adds a new focus area for the company's sales activities that was not there before to the same extent. Thus, with the new strategy, we have revised our estimate to DKK 27.6m, corresponding to a growth of 28 per cent. We leave our estimate for 2025 unchanged, just above DKK 50m – in line with the company's goal.

Substantial lift in margin assumptions

We previously estimated an EBITDA-result 2023 at negative DKK 4,1m. With an increasing revenue share from the (i) sale of data, (ii) price increases on the maritime solution and (iii) improved upselling, the total gross margin should increase substantially. Thus, based

on the new strategy, goals and scalability in all business verticals, we have revised our EBITDA result to DKK 2.1m. By 2025, we assume an EBITDA margin of 26.8 per cent. That is a substantial increase from the previously assumed 20.2 per cent.

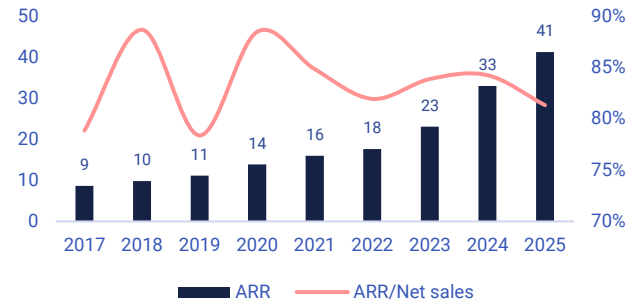
However, for 2023, we estimate Risk Intelligence to report a slightly negative net result of minus DKK 1m. In 2024, we estimate a positive net profit of DKK 2.8m – that was not the case in our previous research update. In 2025 we assume a profit margin of 15.5 per cent, up from previously seven per cent.

Net sales (DKKm) and growth (%)



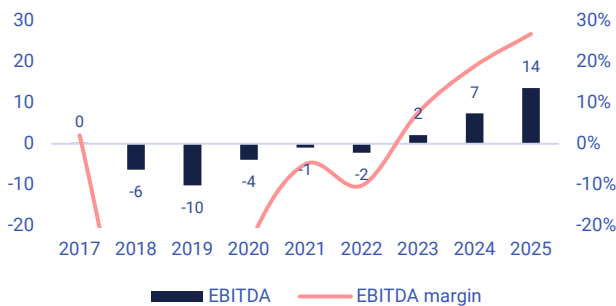
Source: Company information and Carlsquare estimates

Total recurring revenue (DKKm)



Source: Company information and Carlsquare estimates

EBITDA (DKKm) and margin (%)



Source: Company information and Carlsquare estimates

Net profit (DKKm) and margin (%)



Source: Company information and Carlsquare estimates

Underestimated value of recurring revenue, opportunities & scalability

Risk Intelligence is trading at an EV/Sales multiple of 1.8x our sales estimate for 2022 and 1.4x 2023. Companies in our reference group are trading at a median value for EV/Sales EV/Sales 2023E of 7.9x. Our reference group consists of intelligence providers that, similar to the company, offer system solutions based on analysed and actionable data with high scalability. Thus, Risk Intelligence trades at a significant rebate to our reference group. And yes, the company should be trading at a rebate given the size, current profitability and profitability outlook. However, a rebate of close to 80 per cent is, in our view, not motivated. We believe that investors underestimate the value of the company’s recurring revenue and scalability in the business models. We also think the market applies an unjustified low probability that Risk Intelligence will be able to realise its growth opportunities.

After adjustments to our estimates based on the new strategy and goals, we calculate a fair value per share of DKK 7.7 (6.8). That corresponds to an EV/Sales 2023E of 5.0x and a 37 per cent rebate compared to the reference group of intelligence providers.

A scenario with a positive net profit in 2023, in line with the company goal

Assuming a higher gross margin of about 70 per cent, our model yields a positive net profit of about DKK 0.1m in 2023. That is in line with the company’s goal. In such a scenario, a fair value per share of DKK 9.3 is calculated.

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