

Sekur Private Data Ltd.

(CSE: SKUR / OTCQX: SWISF / FRA: GDT0)

Preparing for NASDAQ Listing

BUY

Current Price: C\$0.09

Fair Value: C\$0.83

Risk*: 4

Sector/Industry: Technology/Software

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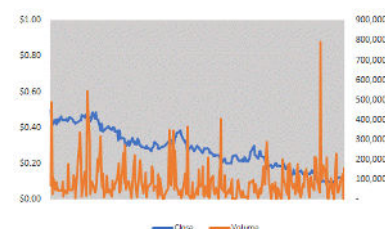
Highlights

- **Q3 revenue was up 160% YoY**, and 4% QoQ, beating our estimate by 3%. Subscriber-count increased from 4k in September, to 5.1k currently; **we are raising our year-end estimate from 5k to 5.25k.**
- Per our previous update in September, the company is in the process of **shifting its marketing strategy** by using more resellers and distributors, and in-house SEO marketing, instead of social media influencers. Management expects these initiatives to be more effective and cheaper. We are unable to comment on the effectiveness of these new initiatives until we see some preliminary results. For conservatism, we are lowering our near-term and long-term subscriber-count and revenue estimates.
- Customer Acquisition Costs (CAC) remained well above \$1,000 in Q3. Sekur expects to lower its CAC to \$200-\$250 in 2023, and to <\$100 by 2024, vs subscription revenue of \$150/year/user. We believe these cost reductions are achievable, if the company is able to ramp up its subscriber-base.
- In 2023, the company is **planning to launch new solutions/services**, including VPN, encrypted calls, and video conferencing. These solutions can be bundled with existing solutions, or offered as stand-alone services.
- 2023 marketing will primarily target small businesses operating in the U.S. (**approximately 32M**). We continue to believe that businesses operating with sensitive and confidential information (such as medical, financial, and real estate) are ideal targets for Sekur.
- Management is following through with their **plan to up list shares to the NASDAQ**; expected in 2023.
- We expect tech stocks to be under pressure in the near-term, amid slower GDP growth, and as the Fed is expected to continue raising rates. That said, we are expecting the Fed to turn less hawkish by early next year, **which should trigger a rally in tech stocks.**

Sid Rajeev, B.Tech, MBA, CFA
Head of Research

Alexis Cabel, B.A.Econ
Equity Analyst

Price and Volume (1-year)



	YTD	12M
SKUR	-80%	-81%
CSE	-46%	-46%

Company Data

52-Week Range	C\$0.09 – \$0.51
Shares O/S	117M
Market Cap.	C\$11M
Current Yield	N/A
P/E (forward)	N/A
P/B	1.2x

Key Financial Data (C\$)

YE Dec 31	2021	2022E	2023E
Cash	8,812,477	4,506,166	1,942,530
Working Capital	9,505,862	4,661,034	2,005,276
Total Assets	12,855,799	7,982,282	5,800,471
Debt	-	-	-
Net Revenue	144,881	468,000	691,911
Net Income	-9,412,484	-5,796,680	-2,782,227
EPS	-0.11	-0.05	-0.02

*See last page for important disclosures, rating, and risk definitions. All figures in C\$ unless otherwise specified.

Financials

STATEMENT OF OPERATIONS (C\$)

YE Dec 31	Q2-2021	Q2-2022	YoY	Q3-2021	Q3-2022	YoY	2021 (9M)	2022 (9M)	YoY
Revenue	10,119	113,365	1020%	45,451	118,252	160%	64,292	319,652	397%
OPEX	974,995	2,297,819	136%	1,735,572	1,391,670	-20%	3,336,158	5,459,667	64%
EBITDA (adjusted)	(964,876)	(2,184,454)	126%	(1,690,121)	(1,280,073)	-24%	(3,271,866)	(5,158,188)	58%
Net Loss	(978,707)	(2,227,618)	128%	(3,819,106)	(1,284,507)	-66%	(6,082,732)	(5,220,563)	-14%
EPS	(0.01)	(0.02)		(0.04)	(0.01)		(0.08)	(0.05)	

Q3 revenue was up 160% YoY, and 4% QoQ, beating our estimate by 3%

Subscriber-count increased from 4k in September, to 5.1k currently; we are raising our year-end estimate from 5k to 5.25k

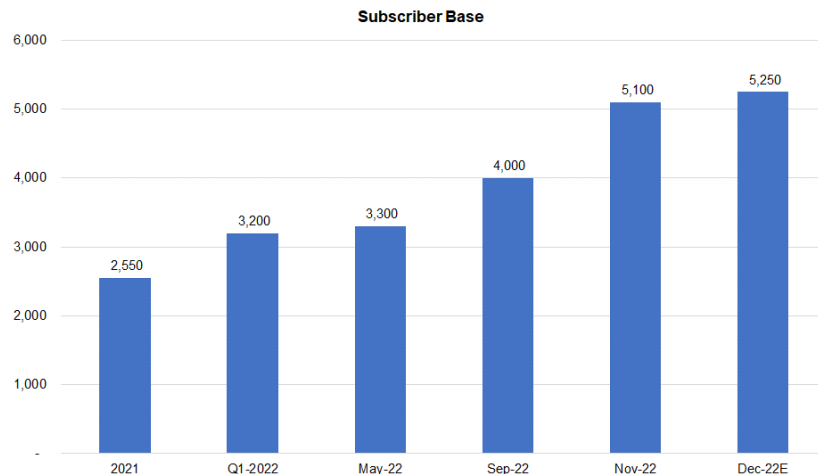
EBITDA and EPS improved QoQ and YoY, due to reduced marketing expenses; EPS was 7% higher than our estimate

As Sekur is implementing a new marketing strategy, management had previously indicated that their marketing budget for H2-2022 will be significantly lower

We expect the company to be profitable by 2025/2026

Balance sheet remains strong

None of its options/warrants are in-the-money



Revenue Breakdown

	FY-2021	2022 (9M)
Product Type		
B2B	\$6,496	\$2,333
Sekur	\$138,385	\$317,319
	\$144,881	\$319,652
Geographical Location		
Latin America	\$585	\$1,249
U.S.	\$144,296	\$318,403
	\$144,881	\$319,652

Summary of Cash Flows

(in C\$)	2021 (9M)	2022 (9M)
Operating	-\$3,271,894	-\$4,520,507
Investing	\$0	\$0
Financing	\$11,511,923	\$956,405
Net	\$8,734,956	\$5,248,375

Free Cash Flows to Firm (FCF) -\$3,271,894 -\$4,520,507

(in C\$) - YE Dec 31st

Liquidity & Capital Structure	2020	2021	Q1-2022	Q2-2022	Q3-2022
Cash	494,927	8,812,477	7,230,482	6,386,716	5,248,375
Working Capital	554,456	9,505,862	7,877,171	6,600,177	5,388,289
Current Ratio	7.39	73.86	111.79	75.31	160.09
LT Debt	-	-	-	-	-
Total Debt	30,670	-	-	-	-
LT Debt / Capital	-	-	-	-	-
Total Debt / Capital	0.01	-	-	-	-

	# Options	Strike Price	Value	Warrants	Strike Price	Value
Total Outstanding	16,540,000	0.47	7,711,800	27,438,071	0.49	13,450,286
In the Money	-	-	-	-	-	-

Source: FRC / Company

FRC Projections and Valuations

For conservatism, we are lowering our near-term and long-term subscriber count and revenue estimates

Lower revenue resulted in lower EPS forecasts for 2024+

However, we are raising our 2022 and 2023 EPS estimates, as we reduced our operating expense forecasts significantly for those years

As a result of the above, our DCF valuation declined from \$0.96 to \$0.83 per share

	2022 (Old)	2022 (New)	2023 (Old)	2023 (New)
Net Revenue	\$453,000	\$468,000	\$856,599	\$691,911
EBITDA	-\$6,128,402	-\$5,676,233	-\$3,677,507	-\$2,655,758
Net Income	-\$6,224,934	-\$5,796,680	-\$3,778,865	-\$2,782,227
EPS	-\$0.05	-\$0.05	-\$0.03	-\$0.02

DCF Model (In \$)	2022E	2023E	2030E	Terminal
EBIT	-548,157	-2,908,696	29,102,575	
Non-Cash Charges	30,112	126,469	177,955	
Investment in WC	-14,954	92,121	-222,713	
CFO	-532,999	-2,690,106	29,057,817	
CAPEX	-125,000	-500,000	-500,000	
FCF	-657,999	-3,190,106	28,557,817	
PV	-650,380	-2,741,884	9,227,502	79,202,722
Discount Rate	15%			
Terminal Growth Rate	3%			
Total PV	97,136,547			
Cash - Debt	5,248,375			
Equity Value	102,384,922			
Shares O/S (dil)	116,870,107			
Fair Value	0.83			

Source: FRC

As the company does not have any direct publicly traded comparables, we are continuing to not use a comparables valuation model. That said, we note that Sekur is trading at 1.6x revenue (based on the present value of our 2026 revenue forecast) vs the Application Software sector average of 5.4x (Source: S&P Capital IQ).

We are maintaining our BUY rating, and lowering our fair value estimate from \$0.96 to \$0.83 per share. We are closely monitoring the company's new marketing initiatives to evaluate their effectiveness.

Risks

We believe the company is exposed to the following risks:

- The company is in early stages, and yet to generate meaningful revenue.
- Must constantly keep its technology up-to-date to remain ahead of the curve.
- **Converting users from free to paid email/messaging services can be challenging.**
- Rising competition among private encrypted service providers.

- We are not expecting the company to break-even before 2025/2026.

Appendix

STATEMENTS OF OPERATIONS			
(in C\$) - YE Dec 31st	2021	2022E	2023E
Net Revenue	144,881	468,000	691,911
COGS		24,231	34,596
Gross Profit	144,881	443,769	657,315
EXPENSES			
G&A Expense	371,981	1,040,259	832,207
Marketing Expense	3,796,378	4,478,661	2,000,000
Share-based Compensation	4,555,966	-	-
Software Maintenance	794,149	601,083	480,866
Operating Expenses	4,962,508	6,120,002	3,313,073
EBITDA	(4,817,627)	(5,676,233)	(2,655,758)
EBIT	(9,379,791)	(5,796,680)	(2,782,227)
Foreign Exchange Loss	(39,739)		
Interest Income	7,046		
EBT	(9,412,484)	(5,796,680)	(2,782,227)
Non-Recurring Expenses			
Taxes	-	-	-
Net Profit (Loss)	(9,412,484)	(5,796,680)	(2,782,227)
EPS	-0.11	-0.05	-0.02
BALANCE SHEET			
(in C\$) - YE Dec 31st	2021	2022E	2023E
ASSETS			
CURRENT			
Cash and Cash Equiv.	8,812,477	4,506,166	1,942,530
A/R	48,555	58,266	56,869
Prepaid Expenses	775,294	193,824	203,515
Total Current Assets	9,636,326	4,758,256	2,202,914
Lease Right of Use			
Intangible Asset	2,552,573	2,552,573	2,552,573
Equipment/Others	666,900	671,453	1,044,984
Total Assets	12,855,799	7,982,282	5,800,471
LIABILITIES			
CURRENT			
A/P	77,730	44,488	144,903
Licensee Fees Payable	52,734	52,734	52,734
Total Current Liabilities	130,464	97,222	197,637
Lease			
Loans Payable	-	-	-
Total Liabilities	130,464	97,222	197,637
SHAREHOLDERS EQUITY			
Share Capital	20,982,323	21,938,728	22,438,728
Reserves	5,228,563	5,228,563	5,228,563
Accumulated Deficit	- 13,485,551	- 19,282,231	- 22,064,457
Total shareholders' equity (deficiency)	12,725,335	7,885,060	5,602,834
Total Liabilities and Shareholders Equity	12,855,799	7,982,282	5,800,471

STATEMENTS OF CASH FLOWS			
(in C\$) - YE Dec 31st	2021	2022E	2023E
OPERATING ACTIVITIES			
Net Profit for the Year	- 9,412,484	- 5,796,680	- 2,782,227
Adjusted for items not involving cash:			
Discontinued Operations			
Stock-based Compensation	4,555,966	-	-
Depreciation and Amortization	6,198	120,447	126,469
Common Stock to be Issued for Services			
Funds From Operations	- 4,593,848	- 5,676,233	- 2,655,758
Change in working capital			
A/R	- 29,083	- 9,711	1,397
Inventory	-	-	-
Prepaid expenses and deposit	- 345,160	581,471	- 9,691
A/P	49,946	33,242	100,416
Due to Related Parties	- 2,759	-	-
Licensee Fees Payable	14,486	-	-
NET CASH USED IN OPERATING ACTIVITIES	- 4,906,418	- 5,137,716	- 2,563,637
INVESTING ACTIVITIES			
Acquisition of Equipment	- 673,098	- 125,000	- 500,000
NET CASH USED IN INVESTING ACTIVITIES	- 673,098	- 125,000	- 500,000
FINANCING ACTIVITIES			
Proceeds from equity issue	13,884,824	956,405	500,000
NET CASH FROM FINANCING ACTIVITIES	13,884,824	956,405	500,000

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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