

Sekur Private Data Ltd.

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

Slashes User Acquisition Costs Using a New Marketing Formula

BUY

Current Price: C\$0.12

Fair Value: C\$0.68

Risk*: 4

Sector/Industry: Technology/Software

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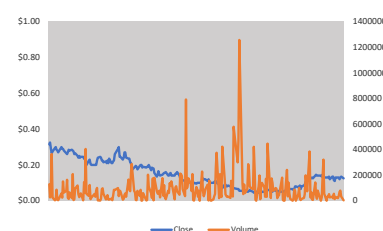
Highlights

- In Q2-2023, **revenue was up 14% YoY**, to \$129k vs our forecast of \$150k. **EPS improved YoY**, from -\$0.02 to -\$0.01, but was 11% lower than expected.
- Revenue growth continues to be **driven by individual users in the U.S.** SKUR does not report quarterly user data, but aims to increase its user-base by 30% this year.
- **Customer Acquisition Costs (CAC) fell** from US\$364 in Q1-2023, to US\$85 in Q2-2023 (US\$32 in June 2023) vs subscription revenue of US\$84-US\$120/year/user. In Q2, marketing expenses were down 50% QoQ. The significant decline in CAC and marketing expenses can be attributed to the company's shift towards in-house SEO marketing, and efforts to attract resellers and distributors, while cutting back on initiatives involving social media influencers.
- The company **plans to launch** new solutions/services this year, including enterprise solutions for businesses, as well as encrypted calls and video conferencing, to potentially increase revenue per user.
- According to Verified Market Research, the email encryption market should grow from US\$24B in 2021, to US\$167B by 2030, reflecting a CAGR of 24%. **The largest and most successful competitor of Sekur is Proton Mail**, whose subscriber-base reached 70M in 2022, up from just 2M in 2017. We believe this growth is indicative of the rising demand for secure and encrypted email services. **Sekur's primary differentiator is its approach to data storage**, utilizing its own servers instead of relying on cloud services like Amazon Web Services (NASDAQ: AMZN), Microsoft Cloud (NASDAQ: MSFT), and Google Cloud (NASDAQ: GOOGL).
- Management is following through with their plan to **uplist shares to the NASDAQ**.
- By lowering marketing expenses, the company has been able to report substantial improvements in EPS in the past few quarters. We believe that Sekur **will leverage its new marketing formula** to rapidly expand its user-base in the upcoming quarters.

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Equity Analyst

Price and Volume (1-year)



	YTD	12M
SKUR	109%	-45%
CSE	-20%	-48%

Company Data

52-Week Range	C\$0.05 – \$0.30
Shares O/S	117M
Market Cap.	C\$13M
Current Yield	N/A
P/E (forward)	N/A
P/B	2.4x

Key Financial Data (C\$)

YE Dec 31	2022	2023E	2024E
Cash	4,038,704	1,344,663	1,062,199
Working Capital	4,042,785	1,333,003	1,007,846
Total Assets	7,557,782	4,840,116	4,655,328
Debt	-	-	-
Revenue	464,299	605,972	815,478
Net Income	-6,390,233	-3,184,869	-2,678,997
EPS	-0.06	-0.03	-0.02

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

Financials

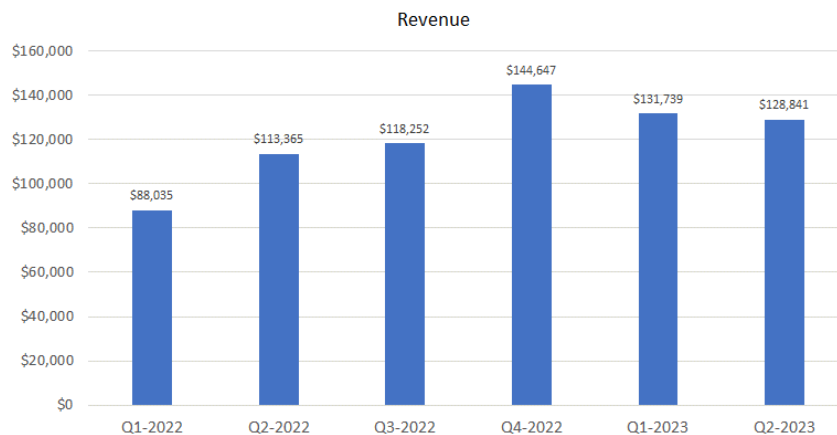
STATEMENT OF OPERATIONS (C\$)									
YE Dec 31	Q1-2022	Q1-2023	YoY	Q2-2022	Q2-2023	YoY	H1-2022	H1-2023	YoY
Revenue	88,035	131,739	50%	113,365	128,841	14%	201,400	260,580	29%
G&A and Others	246,183	322,012	31%	587,126	511,125	-13%	785,043	833,127	6%
Marketing Expenses	1,535,513	588,263	-62%	1,710,693	294,784	-83%	3,246,206	883,057	-73%
EBITDA (adjusted)	(1,693,661)	(778,536)	-54%	(2,184,454)	(677,068)	-69%	(3,829,849)	(1,455,604)	-62%
Net Loss	(1,708,438)	(1,237,325)	-28%	(2,227,618)	(730,574)	-67%	(3,936,056)	(1,967,899)	-50%
EPS	(0.01)	(0.01)	-29%	(0.02)	(0.01)	-67%	(0.03)	(0.02)	-51%

Q2 revenue was up 14% YoY, but down 2% QoQ, due to a 50% QoQ reduction in marketing expenses

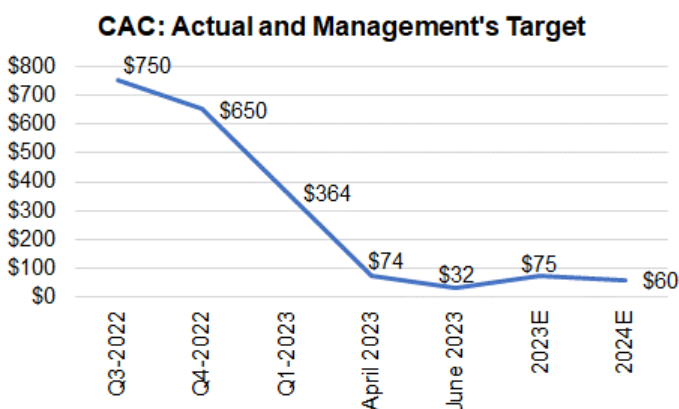
Due to higher revenue and lower marketing expenses, EPS improved YoY, from $-\$0.02$ to $-\$0.01$, but fell 11% below our forecast

Revenue continues to be driven by individual users in the U.S.

Sekur has been able to reduce its CAC significantly



Revenue Breakdown			
	2021	2022	H1-2023
Product Type			
B2B	\$6,496	\$3,024	\$2,221
Sekur	<u>\$138,385</u>	<u>\$461,275</u>	<u>\$258,359</u>
	\$144,881	\$464,299	\$260,580
Geographical Location			
Latin America	\$585	\$1,611	\$2,286
U.S.	<u>\$144,296</u>	<u>\$462,688</u>	<u>\$258,294</u>
	\$144,881	\$464,299	\$260,580



Source: Company / FRC

FCF improved YoY

Summary of Cash Flows (in C\$)		
	H1-2022	H1-2023
Operating	-\$3,351,616	-\$1,450,393
Investing	\$0	\$0
Financing	\$925,855	\$0
Effects of Exchange Rate	\$0	\$0
Net	\$6,386,716	\$2,588,311

Free Cash Flows to Firm (FCF) **-\$3,351,616** **-\$1,450,393**

Healthy balance sheet

(in C\$) - YE Dec 31st			
Liquidity & Capital Structure	2021	2022	Q2-2023
Cash	8,812,477	4,038,704	2,588,311
Working Capital	9,505,862	4,042,785	2,618,034
Current Ratio	73.86	20.25	51.05
LT Debt	-	-	-
Total Debt	-	-	-

In-the-money options can bring in \$0.50M

	# Options	Strike Price	Value	#Warrants	Strike Price	Value
Total Outstanding	8,266,272	\$0.06	\$504,976	14,630,075	\$0.65	\$9,545,755
In the Money	8,266,272	\$0.06	\$504,976	-	-	-

Source: FRC / Company

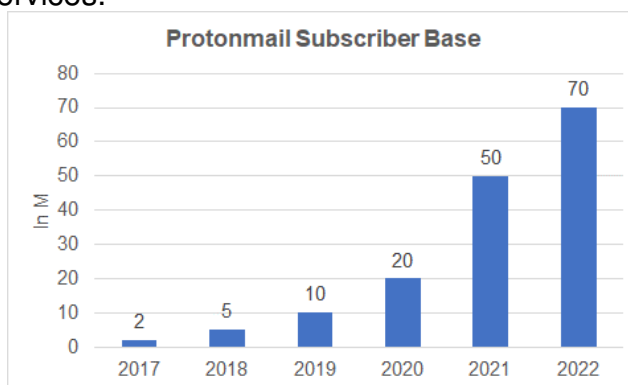
Optimistic Market Outlook

It is estimated that the global email encryption market will grow by 24% p.a. over the next decade



We believe businesses operating with sensitive and confidential information (such as medical, financial, and real estate) are ideal targets for Sekur

We believe Proton Mail's growth is indicative of the rising demand for secure and encrypted email services.



Source: Earthweb.com

Sekur vs Competitors

All of the competing email services listed on this table offer end-to-end encryption, and are operated by private companies

We believe Sekur's solutions are competitively priced

Sekur stores data on its own servers, while most competitors use cloud services offered by Big-Tech companies

We also note that most competitors lack enterprise solutions, and encrypted messaging services

As Q2 revenue and EPS were below expectations, we are lowering our 2023 and 2024 forecasts

As a result, our DCF valuation declined from \$0.72 to \$0.68/share

Secure Email Service Providers					
Email Provider	Free Plan	Basic Plan/User		High-End Plan/User	
		Monthly (US\$)	Storage (GB)	Monthly (US\$)	Storage (GB)
Mailbox	None	1.11	2	9.96	25
Mailfence	Has	3.87	6	32.09	60
Proton Mail	Has	7.74	15	12.16	500
StartMail	None	3.60	20	4.20	20
Thexyz	None	2.95	25	9.95	unlimited
Tutanota	Has	3.32	20	13.28	1,000
Zoho Mail	Has	1.00	5	4.00	50
SekurMail®	Free Trial	7.00	100	10.00	100

Source: FRC / Various

FRC Projections and Valuations

	2023 (Old)	2023 (New)	2024 (Old)	2024E (New)
Revenue	\$642,827	\$605,972	\$867,812	\$815,478
EBITDA	-\$2,531,673	-\$2,609,783	-\$1,948,882	-\$2,075,157
Net Income	-\$2,875,565	-\$3,184,869	-\$2,309,969	-\$2,678,997
EPS	-\$0.02	-\$0.03	-\$0.02	-\$0.02

Source: FRC

DCF Model (In \$)	2023E	2024E	2029E	2030E	Terminal
EBIT	-\$2,609,783	-\$2,075,157	\$14,346,100	\$21,059,977	
Non-Cash Charges	\$575,086	\$603,840	\$770,670	\$809,204	
Investment in WC	\$15,742	\$42,693	-\$298,451	-\$331,156	
CFO	-\$2,018,955	-\$1,428,624	\$14,818,319	\$21,538,025	
CAPEX	-\$100,000	-\$250,000	-\$500,000	-\$500,000	
FCF	-\$2,118,955	-\$1,678,624	\$14,318,319	\$21,038,025	
PV	-\$1,975,936	-\$1,361,152	\$5,772,395	\$7,375,155	\$63,303,415
Discount Rate	15%				
Terminal Growth Rate	3%				
Total PV	\$81,919,449				
Cash - Debt (beg. of the year)	\$4,038,704				
Equity Value	\$85,958,153				
Shares O/S (dil)	120,900,615				
Fair Value	\$0.68				

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 2.8x revenue (based on the present value of our 2026 revenue forecast) vs the Application Software sector average of 6.3x (Source: S&P Capital IQ).

We are maintaining our BUY rating, and lowering our fair value estimate from \$0.72/share to \$0.68/share. Based on the success of their revamped marketing strategy, we believe Sekur is likely to ramp up their marketing initiatives. We are expecting robust growth in users in the coming quarters.

Risks

We believe the company is exposed to the following risks:

- Yet to generate meaningful revenue
- Technological innovations are key for long-term sustainability
- **Converting users from free to paid services can be challenging**
- Rising competition among encrypted service providers
- We are not expecting the company to break-even before 2026

*Maintaining our risk
rating of 4*

Appendix

STATEMENTS OF OPERATIONS				
(in C\$) - YE Dec 31st	2021	2022	2023E	2024E
Net Revenue	144,881	464,299	605,972	815,478
COGS				
Gross Profit	144,881	464,299	605,972	815,478
EXPENSES				
G&A Expense	711,033	997,932	948,035	853,232
Marketing Expense	3,796,378	4,954,260	1,500,000	1,500,000
Share-based Compensation	4,555,966	-	431,194	452,754
Software Maintenance	455,097	787,404	767,719	537,403
Operating Expenses	9,518,474	6,739,596	3,215,754	2,890,635
EBITDA	(9,373,593)	(6,275,297)	(2,609,783)	(2,075,157)
Depreciation	6,198	137,040	143,892	151,087
Amortization				
EBIT	(9,379,791)	(6,412,337)	(3,184,869)	(2,678,997)
Foreign Exchange Loss	(39,739)	(44,244)		
Interest Income	7,046	66,348		
EBT	(9,412,484)	(6,390,233)	(3,184,869)	(2,678,997)
Non-Recurring Expenses				
Taxes	-	-	-	-
Net Profit (Loss)	(9,412,484)	(6,390,233)	(3,184,869)	(2,678,997)
Non-Controlling Interest				
Net comprehensive Profit (Loss)	(9,412,484)	(6,390,233)	(3,184,869)	(2,678,997)
EPS	-0.11	-0.06	-0.03	-0.02
BALANCE SHEET				
(in C\$) - YE Dec 31st		2022	2023E	2024E
ASSETS				
CURRENT				
Cash and Cash Equiv.		4,038,704	1,344,663	1,062,199
A/R		34,041	49,806	67,026
Prepaid Expenses		180,065	184,567	166,110
Total Current Assets		4,252,810	1,579,036	1,295,334
Lease Right of Use				
Intangible Asset		2,552,573	2,552,573	2,552,573
Equipment/Others		752,399	708,507	807,420
Total Assets		7,557,782	4,840,116	4,655,328
LIABILITIES				
CURRENT				
A/P		171,270	207,278	248,734
Licensee Fees Payable		38,755	38,755	38,755
Total Current Liabilities		210,025	246,033	287,489
Lease				
Loans Payable		-	-	-
Total Liabilities		210,025	246,033	287,489
SHAREHOLDERS EQUITY				
Share Capital		22,001,842	22,001,842	24,001,842
Reserves		5,221,699	5,221,699	5,221,699
Shares Subscribed				
Accumulated Deficit		- 19,875,784	- 22,629,459	- 24,855,702
Total shareholders' equity (deficiency)		7,347,757	4,594,083	4,367,839
Total Liabilities and Shareholders Equity		7,557,782	4,840,116	4,655,328

STATEMENTS OF CASH FLOWS			
(in C\$) - YE Dec 31st	2022	2023E	2024E
OPERATING ACTIVITIES			
Net Profit for the Year	-6,390,233	-3,184,869	-2,678,997
Adjusted for items not involving cash:			
Stock-based Compensation	-	431,194	452,754
Depreciation and Amortization	137,040	143,892	151,087
Stock-Based Compensation	56,250		
Funds From Operations	-6,196,943	-2,609,783	-2,075,157
Change in working capital			
A/R	14,514	-15,765	-17,220
Prepaid expenses and deposit	595,229	-4,502	18,457
A/P	93,540	36,008	41,456
Licensee Fees Payable	-13,979	-	-
NET CASH USED IN OPERATING ACTIVITIES	-5,507,639	-2,594,041	-2,032,464
INVESTING ACTIVITIES			
Acquisition of Equipment	-222,539	-100,000	-250,000
NET CASH USED IN INVESTING ACTIVITIES	-222,539	-100,000	-250,000
FINANCING ACTIVITIES			
Proceeds from equity issue	956,405		2,000,000
NET CASH FROM FINANCING ACTIVITIES	956,405	-	2,000,000

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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.

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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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