

Yubico AB (YUBICO.ST – SEK 242.00)
July 09, 2024*

Yubico AB (YUBICO.ST) manufactures and sells hardware-based passkey authentication security products that provide enterprise employees and consumers secure access to computers, mobile devices, servers, browsers, and internet accounts. The Company sells its products outright and through a subscription-based model. The Company was founded in 2007 and is headquartered in Stockholm, Sweden. Its fiscal year ends on 12/31.

Thesis Summary

We are concerned the first disclosed sequential ARR decline may highlight increased churn and/or revenue pressure. A persistent ARR decline relative to subscription revenue heightens our revenue pressure concerns. Additionally, we believe subscription bookings growth may be a misleading indicator of subscription revenue growth given bookings include renewals. We are concerned recent technology sector layoffs may limit revenue growth. We believe elevated inventory levels despite prior guidance for the inventory build to be completed in FY 23 highlights overbuilt inventory. Inventory above prior guided and “sufficient” levels despite the potential benefit from a shift from FIFO to weighted average cost inventory accounting heightens our concerns. In our view, elevated receivable levels and depressed deferred income/advance payment levels suggest revenue growth may be pressured. Finally, we believe a near-term lock-up expiration may increase risk of material insider selling.

Company Data

Country/Exchange	Sweden/STO
Reporting currency	SEK
Accounting standard	IFRS
Shares Outstanding (mil)	86.1
Float (mil)	40.8
Average Volume (mil)	SEK 50.9
52 Week Range	SEK 93.00 – SEK 256.00
Dividend Yield	0.0%
Market Cap (bil)	SEK 20.8
Net Cash (bil)	SEK 0.5
Enterprise Value (bil)	SEK 20.3
FY 23 Rev (mil)/Rev Growth	SEK 1,844.2 / 18.1%
FY 23 Adj. Op. Income (mil)	SEK 283.1
FY 23 GM %/Change	80.0% / 270 bps
FY 23 Adj. Op. Margin %/Chg	15.4% / 170 bps

Valuation (as of report date)

NTM P/S	8.6x
NTM EV/ EBITDA	30.9x
NTM P/E	53.1x

Consensus Estimate Drift

in SEK	EST	1M Ago	6M Ago	1YR Ago
Q2 24 Rev	565.3	583.0	--	--
FY 24 Rev	2,323.5	2,348.5	2,119.0	--
FY 25 Rev	2,858.5	2,858.5	2,477.0	--
Q2 24 EPS	1.08	1.22	--	--
FY 24 EPS	4.11	4.20	3.26	--
FY 25 EPS	5.58	5.58	4.07	--

Peers Mentioned In This Report

Amazon.com Inc. (AMZN)
 Alphabet Inc. (GOOG)
 Microsoft Corp. (MSFT)

Catalysts and Timing

Weak subscription renewals and/or ARR.
 Elevated inventory levels drive margin pressure.
 Insider selling increases after lock-up expiration.

* All research is completed as of 4:00PM – 4:15PM Eastern Time unless otherwise noted.
 Please refer to the end of this report for an updated version of *The Short List*.
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Table of Contents

Company Background.....3

Voyant’s Earnings Risk Assessment6

First Sequential ARR Decline Highlights Churn And Suggests Revenue May Be Pressured 6

First sequential ARR decline may highlight increased churn and/or revenue pressure, in our view 7

ARR decline amidst initial three-year subscription period end heightens our increased churn concerns 7

Persistent ARR decline relative to subscription revenue heightens our revenue pressure concerns 7

Subscription bookings growth may be misleading indicator of subscription revenue growth, in our view 8

Technology Sector Layoffs May Limit Revenue Growth, In Our View 8

Recent technology company layoffs may depress demand, in our view 9

Elevated Inventory Levels May Portend Margin Pressure, In Our View..... 9

Elevated inventory levels may highlight overestimated demand and margin pressure, in our view 9

Prior guidance for inventory build to be completed in FY 23 highlights overbuild, in our view 10

Inventory above prior guided and “sufficient” levels heightens our overbuilt inventory concerns 10

Inventory levels increased despite benefit from FIFO to weighted average cost inventory accounting change. 10

Elevated Q4 23 finished goods levels heighten our overbuilt inventory concerns 11

Elevated DSO May Highlight Revenue Sustainability Risk, In Our View 11

Receivable level increase attributed to back-end weighted quarter 11

Elevated receivables relative to perpetual revenue heightens our revenue pressure concerns 12

Depressed Deferred Income & Advance Payment Levels Heighten Our Revenue Concerns 12

Weak deferred income/advance payment levels highlight revenue risk, in our view 12

Depressed deferred income levels highlight our revenue pressure concerns 13

Advance payments decline heightens our revenue pressure concerns 13

Deferred income and advance payments relative to subscription revenue decline heightens our concerns..... 13

Near-Term Lock-up Expiration May Increase Risk Of Material Insider Selling..... 14

Conclusion..... 14

Risks to Our Thesis & Valuation.....15

Organic Growth, Long Term Guidance, Value Proposition, & Market Trends 15

Valuation Analysis 16

Coverage Universe & The Short List.....17

Company Background

Company description: Yubico AB (YUBICO.ST) manufactures and sells hardware-based passkey authentication security products that provide enterprise employees and consumers secure access to computers, mobile devices, servers, browsers, and internet accounts. The Company sells its products outright and through a subscription-based model. The Company was founded in 2007 and is headquartered in Stockholm, Sweden. Its fiscal year ends on 12/31.

Background on reverse merger transaction: In its FY 19 Annual Report, Bure Equity AB (BURE.ST), a Sweden based investment company focused on technology-based and internationally focused businesses, disclosed it acquired 18.7% of shares in Yubico, a private company at the time. In its 03/25/21 Press Release, ACQ Bure AB (ACQ SPAC) disclosed its initial public offering on Nasdaq Stockholm. ACQ was a Swedish special purpose acquisition company established by Bure Equity. In its 04/19/23 Press Release, ACQ disclosed it was merging with Yubico and intended to go public on Nasdaq First North Growth Market, following a planned delisting from Nasdaq Stockholm. In its 09/20/23 Press Release, ACQ announced the first day of trading on Nasdaq North Growth Market following the completion of the merger and changed the name of the merged company to Yubico. In its Q1 24 Interim Report, Bure disclosed it owned 15.0 million shares (17.5% as of 03/31/24) of Yubico and 4.2 million warrants.

Background on accounting standard change and associated financial statement revisions: In its Q1 24 Interim Report, Yubico disclosed its first report prepared according to IFRS accounting standards. Previously, the Company disclosed its financials in accordance with K3 Swedish accounting standards. The Company indicated the change was made to (1) prepare for a listing on Nasdaq Stockholm main market, (2) provide investors a more accurate picture of how the business was managed, and (3) increase comparability. Further, the Company provided restated financial statements showing the reconciliation of the accounting standard transition beginning with Q1 22. The Company highlighted notable differences from the transition included (1) lease contracts are represented as right-of-use-assets and lease liabilities on the balance sheet and split into amortization and financials items in the income statement, (2) capitalization of development expenses had been analyzed and no development projects affecting the restatements were assessed to fulfill the capitalization criteria, and (3) cost of sales included indirect costs and thereby reduced gross profit and gross margin compared to the previous format, cost by nature.

Background on core product portfolio of Yubikeys and supporting software: In its Q1 24 Interim Report, the Company disclosed it generated the majority of revenue from the sale of Yubikeys, multi-factor authentication (MFA) hardware security keys that ensure authorized access to sensitive accounts and systems. In its FY 23 Annual Report, the Company represented its core product portfolio included several hardware product families including the Yubikey 5 Series, Yubikey 5 FIPS Series, Security Key Series, Yubikey Bio Series, and YubiHSM (Hardware Security Module). Additionally, the Company indicated its core product portfolio included supporting software and services including the Yubico Authenticator app and Software Development Kits (SDKs). Yubico Authenticator is a software-based solution for authenticating users of software applications on desktops and mobile phones. The Authenticator stores the credentials in the secure element of the YubiKey and the credentials cannot be extracted from the YubiKey. The SDKs facilitate integration with customer applications, offer seamless in-app experiences, reduce app development time through enterprise-grade SDK integrations, and provide consistent security posture through cross-platform support.

Background on perpetual and subscription-based contracts and revenue recognition: In FY 23, perpetual (subscription-based) contracts accounted for 86.2% (13.8%) of revenue. Under perpetual contracts, Yubikeys are sold and customers retain ownership of the hardware and integrated software downloaded to the key. Perpetual revenue is recognized at the point in time the hardware is transferred to the customer. In FY 20, Yubico began offering a subscription-based model where it assumed a larger responsibility and retained ownership of the hardware. The subscription service includes replacement keys and upgrades within an agreed number of keys and guaranteed functionality in line with agreed specification during the contract period. The upgrade rights provide the customer with access to Yubico's intellectual property as developed by Yubico over time. Upgrades are transferred to the customer through delivery of replacement keys. Subscription contracts are generally three years, and include an additional three-year renewal option, which customers typically exercise. Subscription services are invoiced and paid on a yearly basis in advance and revenue is recognized ratably over the contract term on a straight-line basis.

Revenue By Business Model (as % of revenue)	FY 23
Perpetual	86.2%
Subscription-based	13.8%
Total	100.0%

Revenue by geography: In FY 23, North America accounted for 66.1% of revenue, EMEA (excluding Sweden) accounted for 24.0%, Asia Pacific accounted for 8.5%, and Sweden accounted for 1.4%.

Geography Analysis (as % of revenue)	FY 23
North America	66.1%
EMEA	24.0%
Asia Pacific	8.5%
Sweden	1.4%
Total	100.0%

Background on customers: In its FY 23 Annual Report, the Company highlighted it served companies and organizations across multiple sectors including technology, financial services, manufacturing, retail, governments, and the wider public sector. Specifically, the Company highlighted Amazon, Google, Microsoft, and the State of Washington, among others used Yubikeys to protect staff, end users, and sensitive information from cyberattacks. Yubico disclosed “high tech” companies were its largest customer segment and accounted for 23.0% of FY 23 revenue.

Background on supply chain: In its FY 23 Annual Report, the Company used third party suppliers to manufacture and finish the parts near its two main offices in Sweden and the US. Further, the Company represented it was dependent on third-party suppliers for manufacturing services, supply of key components, and to a lesser extent, licensing of third-party software used in certain Yubico products. The Company highlighted most products were manufactured in Sweden and some in the US. Yubico uses third-party service providers for shipment to end customers, distributors, and resellers to ensure delivery of Yubikeys to countries worldwide. Yubico’s sensitive operations (e.g. programming) occur at its own facilities in Sweden and the US.

Background on sales channels: In its FY 23 Annual Report, the Company disclosed its direct sales team consisted of approximately 150 employees and the indirect sales network consisted of approximately 40 selected distributors with a total network of several thousands of resellers globally. For the largest enterprises and strategic accounts, Yubico uses a direct sales channel approach with a high-touch sales model. For medium enterprises, Yubico uses a combination of direct sales and partner fulfillment. Yubico’s e-commerce and local resellers sell products to small businesses and consumers.

Seasonality: In the past two years, Q4 accounted for 30.2% of annual revenue on average.

Seasonality Analysis (as % of total)	Q1	Q2	Q3	Q4
FY 23 quarterly revenue contribution	22.7%	24.7%	22.3%	30.4%
FY 22 quarterly revenue contribution	21.2%	23.6%	25.2%	30.0%
Two-year-average	21.9%	24.1%	23.7%	30.2%

Competition: Key competitors in the advanced authentication market include Duo (private), Feitian Technologies Co., Ltd. (300386.SZ), Fortinet Inc (FTNT), Microsoft (MSFT), and Okta (OKTA). Further, Yubico represented the industry could be split into three categories: (1) pure play advanced authentication providers (including Yubico), (2) broader identity solution providers, and (3) traditional authentication providers. Pure play advanced authentication providers offer MFA solutions typically involving hardware-based products with focus on a password-less experience. Leading products generally offer biometric or near field communication solutions for an even more user-friendly experience. Broader identity solution providers offer bundled portfolios with broader cybersecurity and identity security solutions, with the majority focused on single sign-on. Traditional authentication providers offer early-generation login and security solutions, including personal identity verification and common access cards systems. This category is highly secure but requires more complex infrastructure compared to newer alternatives.

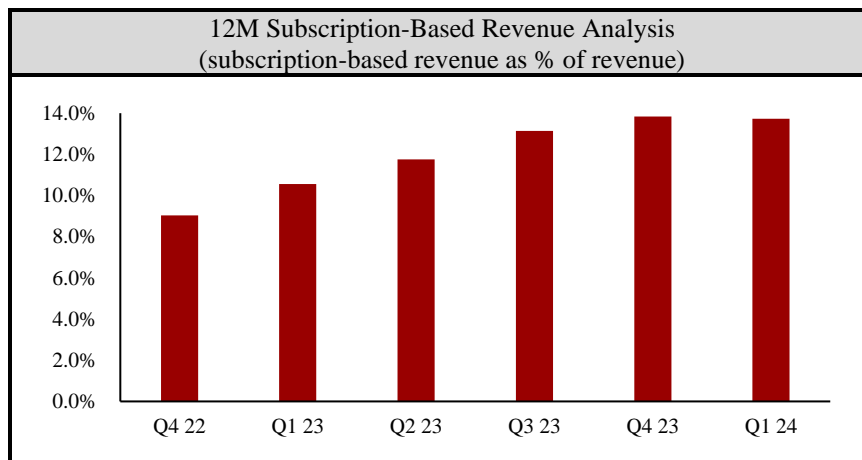
Voyant's Earnings Risk Assessment

We are concerned the first disclosed sequential ARR decline may highlight increased churn and/or revenue pressure. A persistent ARR decline relative to subscription revenue heightens our revenue pressure concerns. Additionally, we believe subscription bookings growth may be a misleading indicator of subscription revenue growth given bookings include renewals. We are concerned recent technology sector layoffs may limit revenue growth. We believe elevated inventory levels despite prior guidance for the inventory build to be completed in FY 23 highlights overbuilt inventory. Inventory above prior guided and “sufficient” levels despite the potential benefit from a shift from FIFO to weighted average cost inventory accounting heightens our concerns. In our view, elevated receivable levels and depressed deferred income/advance payment levels suggest revenue growth may be pressured. Finally, we believe a near-term lock-up expiration may increase risk of material insider selling.

First Sequential ARR Decline Highlights Churn And Suggests Revenue May Be Pressured

Subscription-based revenue guided to drive growth: In the twelve months ended Q1 24, subscription-based revenue increased 51.9% year-over-year to SEK 264.8 million, while revenue increased 17.0% year-over-year to SEK 1,929.6 million. Accordingly, subscription-based revenue as a percent of revenue increased 310 basis points to 13.7%, the second highest level disclosed. In its FY 23 Annual Report, the Company highlighted its growth strategy partially focused on developing its subscription model and indicated its long-term goal was to increase subscription-based revenue, while “keeping” the perpetual alternative. Previously, in its Information Brochure To The Shareholders, the Company highlighted there was risk of certain subscription contracts not being renewed at the end of the contract and represented it began to enter subscription contracts in FY 20 with three-year terms.¹

For Yubico, this model results in predictable revenues phased over the contract length and allows Yubico to grow revenue in the immediate customer organization as well as to the customer’s third-party partners and, ultimately, their customer base if applicable. This expands Yubico’s addressable market in existing accounts, offering a faster path to growth compared to signing new customers. Thus, **Yubico aims to increase sales of the subscription-based model going forward**, while still keeping the perpetual alternative (FY 23 Annual Report) [emphasis added]

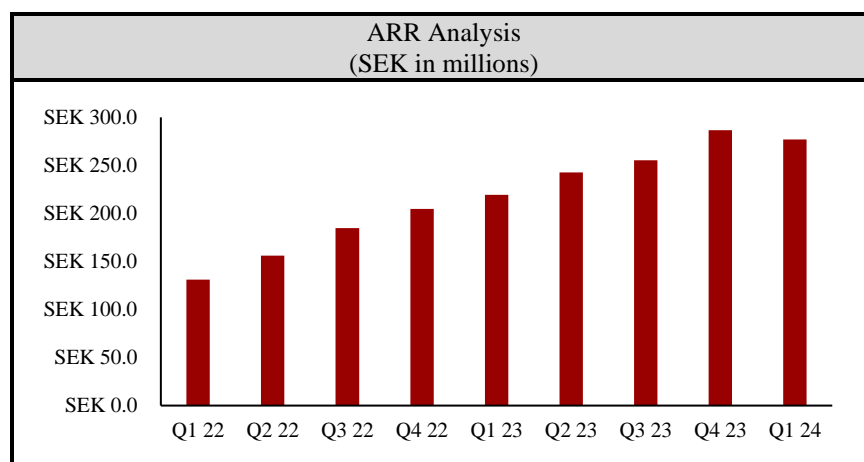


Background on subscription ARR: In its FY 23 Annual Report, the Company disclosed annual recurring revenue (ARR) represented total contract value related to subscription contracts as of the end of the reporting period, excluding one-time fees, divided by the term of the contract, translated based on the average foreign exchange rate on a rolling twelve-month basis.

¹ In its 02/04/20 Press Release, Yubico disclosed it launched its subscription-based pricing model to allow customers to purchase YubiKeys for a fixed fee, per user, per month.

First sequential ARR decline may highlight increased churn and/or revenue pressure, in our view: In the twelve months ended Q1 24, ARR declined 3.3% sequentially to SEK 277.1 million, the first sequential decline disclosed. In its Q1 24 Interim Report, the Company highlighted ARR growth was in line with expectations and attributed the sequential decline to the renewal of a large contract at a lower volume that was not fully compensated for by new subscription contracts. While we acknowledge the Company represented ARR growth was in line with expectations, we are concerned revenue growth may be pressured given the first publicly disclosed sequential ARR decline may highlight increased churn/lower value renewals.

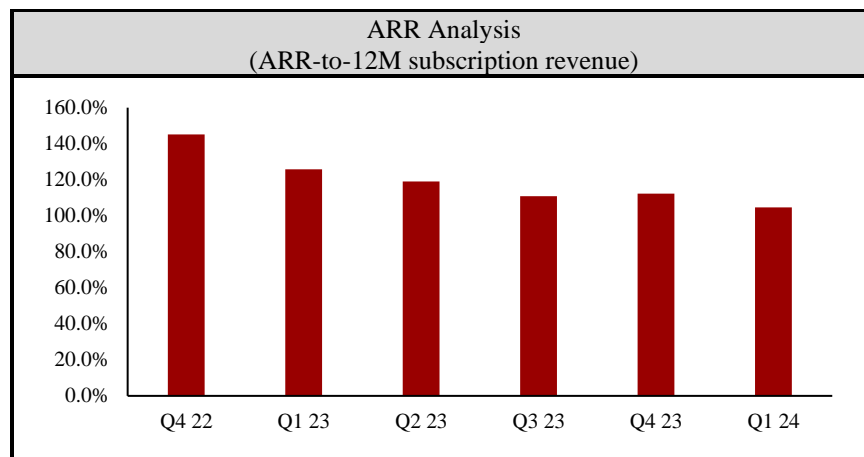
ARR increased by 26.4 percent compared to last year and amounted to SEK 277.1 (219.3) million at the end of the period. The sequential ARR has decreased compared to end of last year, due to renewal of a large contract at a lower volume and is not fully compensated for by new subscription contracts starting in the quarter. However, the overall ARR growth is in line with expectations, reflecting high demand for our product offerings. (Q1 24 Interim Report)



ARR decline amidst initial three-year subscription period end heightens our increased churn concerns: On its Q1 24 Conference Call on 05/14/24, the Company represented subscription contract renewals were primarily “higher volumes on the same values” and highlighted the lower volume renewal of the large subscription contract (discussed above) was “not” normal. Further, the Company indicated upcoming subscription contract renewals were a good opportunity to “upsell and increase scope.” In addition, the Company guided for (1) Q2 24 ARR to “come up in a positive trend” and (2) a Q1 24 booking of a new five-year subscription contract set to begin next quarter to benefit Q2 24 ARR. **Despite a new subscription contract planned to begin in Q2 24 and guidance for ARR to improve, given additional early subscription contracts coming up for renewal (subscription offerings only began in FY 20 and FY 23 was the first year of renewals) we are concerned about subscription contract churn and/or renewals with lower volumes (i.e. lower unit subscription orders due to reduced headcount).**

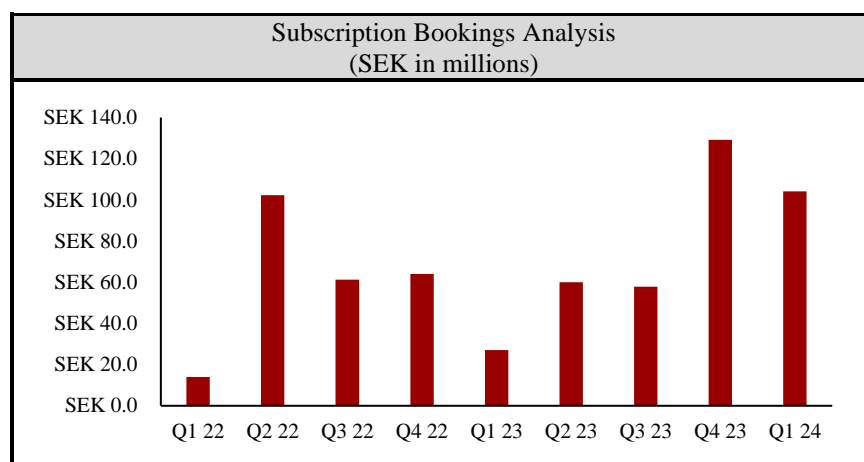
In general, I would say, they have been on higher volumes of the same values. This is not – **the effect we see from this renewal is not the normal**, but it's going down. So it's a good opportunity for us to upsell and increase scope, of course, for our renewals that are coming up. I would not comment more on the ARR developments than we know already now that from the bookings of Q1, the ARR for Q2 will come up in a positive trend again. (CFO, Ms. Camilla Oberg, Q1 24 Conference Call, 05/14/24) [emphasis added]

Persistent ARR decline relative to subscription revenue heightens our revenue pressure concerns: In the twelve months ended Q1 24, ARR increased 26.4% year-over-year to SEK 277.1 million, while subscription revenue increased 51.9% to SEK 264.8 million. Accordingly, ARR as a percent of twelve-month subscription revenue declined 2,120 basis points year-over-year to 104.6%, the lowest level publicly disclosed. In our view, historically depressed ARR relative to reported revenue suggests revenue growth may be pressured.



Subscription bookings growth may be misleading indicator of subscription revenue growth, in our view: In Q4 23, subscription bookings surged 101.6% year-over-year to SEK 129.2 million. On its Q4 23 Conference Call on 02/16/24, the Company highlighted contract renewals were a “large part” of Q4 23 bookings as it ended the first three-year subscription cycle since it entered its first “bigger” subscription contracts in Q4 20. In Q1 24, subscription bookings surged 285.6% year-over-year to SEK 104.1 million. As mentioned, on its Q1 24 Conference Call, the Company highlighted a new five-year subscription contract impacted Q1 24 bookings. In our view, recent bookings strength may be a misleading indicator of near-term subscription revenue growth given (1) bookings may not be comparable to periods prior to FY 23 where there were no renewal bookings (assuming Q1 23 was the first period of subscription contract renewals) and (2) new subscription contracts with longer durations (e.g. five versus three years) impact bookings disproportionately. Accordingly, we believe ARR is a better metric to assess subscription revenue growth than bookings.

To note here is that in this quarter, **a large part of the bookings is renewal of contract as we have now ended the first three-year cycle** where we had a contract signed in Q4 2020 when we received a bigger first subscription contracts. (CFO, Ms. Camilla Oberg, Q4 23 Conference Call, 02/16/24) [emphasis added]



Technology Sector Layoffs May Limit Revenue Growth, In Our View

Background on technology customer concentration and risk disclosure: In its Information Brochure To The Shareholders, the Company indicated its customers were historically technology companies, which accounted for 40.0% of bookings at FY 22 end. Yubico represented it was “likely” a slowdown in the tech industry with layoffs and decreased IT-security budgets would “continue” to impact the Company and could have a negative impact on its results/financial condition.

Approximately 40% of Yubico’s bookings (excluding bookings related to e-commerce) for the financial year ended 31 December 2022 were attributable to customers in the technology sector (including several of the major technology companies in the world). It is likely that a slowdown in the tech industry with layoffs, decreased budgets to spend on IT-security and general constraints on investments, such as has been the case in the recent past and, to some extent, continues to be case in the U.S., will also impact Yubico. (Information Brochure To Shareholders, 05/30/23)

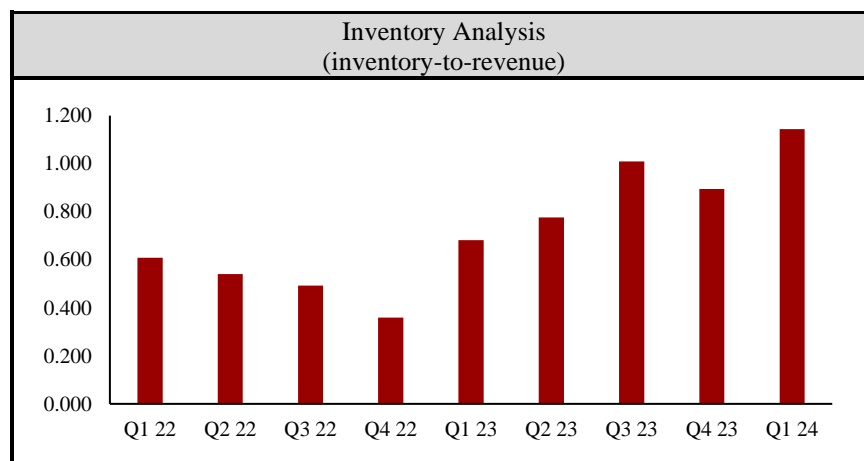
Recent technology company layoffs may depress demand, in our view: According to [Layoffs.fyi](https://www.layoffs.fyi), a website that tracks technology company layoffs, FY 23 technology company layoffs surged 59.2% year-over-year to 263,180. Subsequently, year-to-date FY 24 layoffs were 104,410. Further, the website listed technology companies organized by greatest to least number of employee layoffs, which highlighted certain Yubico customers at the top of the list including Amazon.com Inc. (AMZN), Alphabet Inc. (GOOG), and Microsoft Corp. (MSFT). Accordingly, we are concerned recent technology company layoffs may pressure revenue growth.

Technology Company Layoffs Analysis (per Layoffs.fyi)	FY 22	FY 23	YTD FY 24
Number of technology company employee layoffs	165,269	263,180	104,410
<i>Year-over-year change</i>	--	59.2%	--

Elevated Inventory Levels May Portend Margin Pressure, In Our View

Elevated inventory levels may highlight overestimated demand and margin pressure, in our view: In Q1 24, inventory surged 102.1% year-over-year to SEK 576.9 million, while revenue increased 20.4% to SEK 504.4 million. Accordingly, inventory-to-revenue surged 67.9% year-over-year to 1.144, the highest level publicly disclosed. On its Q1 24 Conference Call, Yubico highlighted it “invested” more in inventory and indicated it was important for it to have “good levels” to meet high customer demand and to have a secure availability of components. However, the Company guided for inventory levels to “flatten out” as revenue grows. In our view, inventory levels may be overbuilt and margins may be pressured as the Company attempts to normalize inventory levels.

We also continue to see the buildup in the inventory. So we invested SEK 67 million more in the inventory. We see now that we – this will flatten out. So that we are – the growth we have in net sales will, yeah, be more balanced towards the levels we have in the inventories. But it's important for us to have good levels here. As you know, both for secure, our ability to deliver towards the customers and the high demand we see, and also securing availability of components. But we are very in a good position. (CFO Ms. Camilla Oberg, Q1 24 Conference Call, 05/14/24)



Prior guidance for inventory build to be completed in FY 23 highlights overbuild, in our view: Previously, in its Q2 23 Interim Report, the Company highlighted its strategy to build inventory to reduce lead times and secure sufficient stock levels of critical components. Further, the Company guided for the inventory build to be completed “during” FY 23. Given elevated Q1 24 inventory levels despite guidance for the inventory build to be completed in FY 23, we believe inventory may be overbuilt relative to prior expectations.

During H1 2023, Yubico grew its inventory by SEK 185 million. This is part of a strategy to reduce lead times and secure sufficient stock levels of critical components which was initiated in late 2022. **We expect this build-up to be completed during 2023.** (Q2 23 Interim Report)

Inventory above prior guided and “sufficient” levels heightens our overbuilt inventory concerns: Previously, in Q3 23, inventory as a percent of twelve-month revenue surged 330 basis points sequentially to 23.7%. On its Q3 23 Conference Call on 11/10/23, the Company highlighted inventory as a percent of twelve-month revenue was approximately 24.0% and indicated inventory levels would “probably” remain at that level. In Q4 23, inventory as a percent of twelve-month revenue increased 350 basis points sequentially to 27.2%. On its Q4 23 Conference Call on 02/16/24, the Company highlighted it was at a “sufficient” inventory level. However, in Q1 24, inventory as a percent of twelve-month revenue increased 270 basis points sequentially to 29.9%. Given inventory levels increased above the guided appropriate level as of Q3 23 and “sufficient” level as of Q4 23, our overbuilt inventory concerns are heightened.

We continue to build up the inventory, not so much this quarter as we did first half-year. But anyway, it's still SEK 61.3 million more in this quarter. And this is related to that we secure the availability of our components and also our delivery capability to the customers, and ensure that we can deliver also on large orders when we get them. And year-to-date, we have increased the inventory to SEK 242 million. And you see here that we have increased the percentage, the **inventory percentage as a percentage of the last-12-months net sales, and we are now close to 24%. And it's probably approximately where we will be.** (CFO Ms. Camilla Oberg, Q3 23 Conference Call, 11/10/23) [emphasis added]

Camilla mentioned that we've seen an inventory build-up. That's part of a strategy to ensure that we can deliver on bigger orders more quickly. **I feel that we're at a point now where we have sufficient inventory levels**, so that's one point of where we made a bet to ensure that we could meet growth. And I think we continue to perform according to plan. (CEO Mr. Mattias Danielson, Q4 23 Conference Call, 02/16/24) [emphasis added]

Inventory Analysis (SEK in millions)	Q4 22	Q1 23	Q2 23	Q3 23	Q4 23	Q1 24
Inventory	SEK 168.3	SEK 285.5	SEK 352.8	SEK 414.7	SEK 501.0	SEK 576.9
12M revenue	SEK 1,561.0	SEK 1,649.8	SEK 1,735.3	SEK 1,752.8	SEK 1,844.2	SEK 1,929.6
Inventory as a percent of 12M revenue	10.8%	17.3%	20.3%	23.7%	27.2%	29.9%
<i>Sequential change</i>	--	<i>650 bps</i>	<i>300 bps</i>	<i>330 bps</i>	<i>350 bps</i>	<i>270 bps</i>

Inventory levels increased despite benefit from FIFO to weighted average cost inventory accounting change:

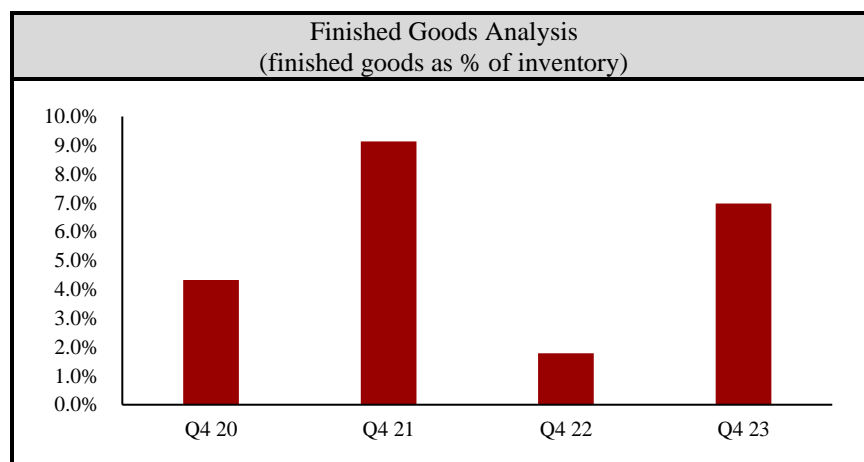
In its FY 23 Annual Report, the Company disclosed inventory was calculated on a first-in, first-out (FIFO) basis. Subsequently, in its Q1 24 Interim Report, the Company disclosed inventory was calculated using the weighted average cost formula. We believe inventory levels may have benefited (i.e. been lower) due to accounting change from FIFO to weighted average cost method (i.e. in a rising cost environment the weighted average cost would result in lower inventory as older lower-cost inventory reduces cost of newer higher-cost inventory). Given inventory levels increased despite the inventory accounting method change, our overbuilt inventory concerns are heightened.

Inventories are stated at the lower of cost and net realizable value. The risk of obsolescence has been taken into account. **Cost is calculated on a first-in, first-out basis.** The acquisition cost includes not only the cost of purchase but also the cost of bringing the goods to their present location and condition. (FY 23

Annual Report) [emphasis added]

Inventories are measured at the lower of cost and net realizable value. **Cost is calculated using the weighted average cost formula** and includes all costs of purchase for the inventories, outsourced manufacturing, programming, and transport of the inventories to their present location. The net realizable value is defined as the sales price less estimated selling cost. (Q1 24 Interim Report) [emphasis added]

Elevated Q4 23 finished goods levels heighten our overbuilt inventory concerns: In Q4 23, finished goods inventory surged 1,066.7% year-over-year to SEK 35.0 million, while total inventory increased 197.7% to SEK 501.0 million.² Accordingly, finished goods as a percent of inventory increased 520 basis points year-over-year to 7.0%, the second highest level publicly disclosed. Given finished goods were historically elevated at the end of FY 23, we believe the safety stock build may have been completed and our concerns about overbuilt inventory are heightened.



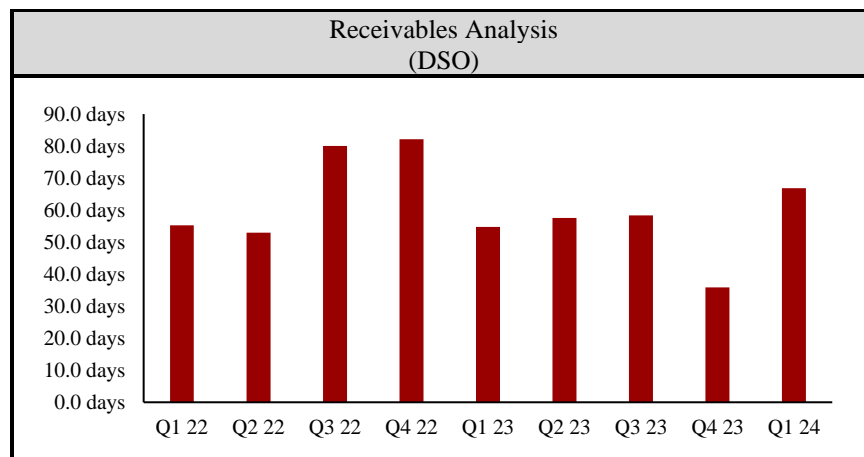
Elevated DSO May Highlight Revenue Sustainability Risk, In Our View

Background on sales channels: As mentioned, in its FY 23 Annual Report, Yubico disclosed it used a combination of direct and indirect sales channels. For the largest enterprises and strategic accounts, the Company used a direct sales channel approach with a high-touch sales model. For medium enterprises, Yubico used its high-touch sales model and partner fulfillment. Specifically, the Company indicated its indirect sales network consisted of approximately 40 distributors with a total network of several thousand resellers globally.

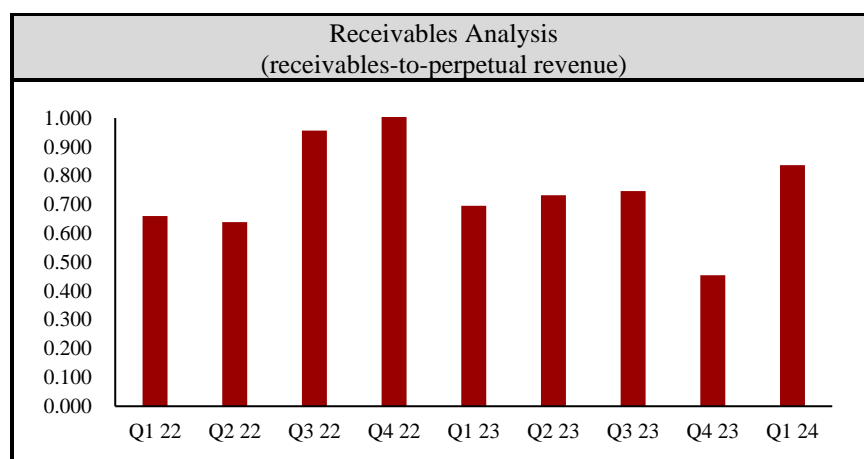
Receivable level increase attributed to back-end weighted quarter: In Q1 24, accounts receivable increased 45.2% year-over-year to SEK 370.3 million, while revenue increased 20.4% to SEK 504.4 million. Accordingly, days sales outstanding (DSO) surged 21.9% year-over-year to 66.8 days. In its Q1 24 Interim Report, the Company highlighted accounts receivables was impacted by strong sales at the end of the quarter. In our view, elevated receivable levels attributed to a back-end weighted quarter suggest (1) revenue may have been pulled forward into the period and/or (2) channel inventory levels may be elevated. In either scenario, we would be concerned about potential revenue pressure.

Working capital amounted to SEK -35.8 million (77.9), driven by **strong sales at the end of the quarter, impacting accounts receivable** and further build up in inventory. (Q1 24 Interim Report) [emphasis added]

² The Company only disclosed inventory composition in its Annual Report.



Elevated receivables relative to perpetual revenue heightens our revenue pressure concerns: In its FY 23 Annual Report, the Company disclosed subscription-based contracts were invoiced and paid on a yearly basis in advance, while perpetual revenue was recognized at the time of delivery. Accordingly, we believe accounts receivable may primarily relate to perpetual revenue and we analyzed receivables relative to perpetual revenue to further assess receivable levels. In Q1 24, accounts receivable increased 45.2% year-over-year to SEK 370.3 million, while perpetual revenue increased 20.6% to SEK 442.4 million. Accordingly, receivables-to-perpetual revenue increased 20.3% year-over-year to 0.837. To the extent accounts receivable primarily related to perpetual revenue, the receivables to perpetual revenue level surge heightens our revenue pressure concerns.



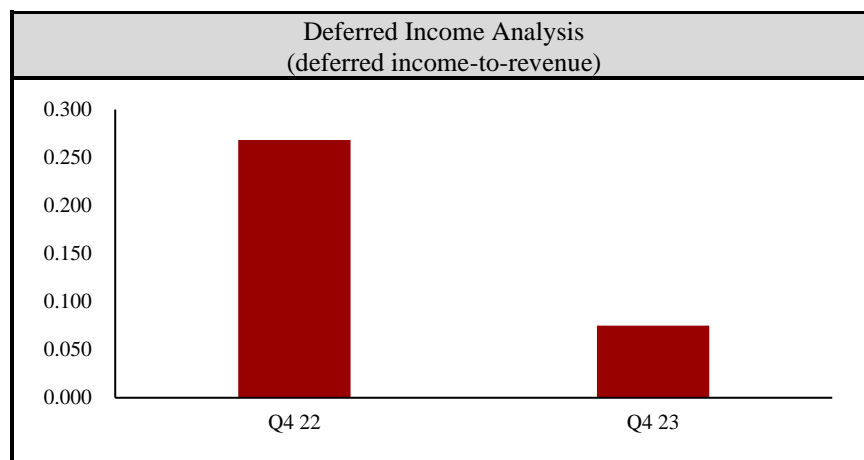
Depressed Deferred Income & Advance Payment Levels Heighten Our Revenue Concerns

Background on deferred income and advance payments from customers: In its FY 23 Annual Report, the Company disclosed deferred income and advance payments from customers. The Company only disclosed deferred income (with base period figure) in its FY 23 Annual Report. Additionally, the Company only disclosed Q4 figures for advance payments from customers in its FY 23 Annual Report and Information Brochure To The Shareholders. We believe both accounts relate to upfront contract payments and are included in other current liabilities in the quarterly Interim Reports. Given the Company did not disclose Q4 20 and Q4 21 revenue, we were only able to analyze deferred income and advance payments levels (i.e. relative to revenue) for the Q4 22 and Q4 23 periods. However, given advance payments were disclosed for five historical Q4 periods, we also analyzed advanced payments on an absolute basis.

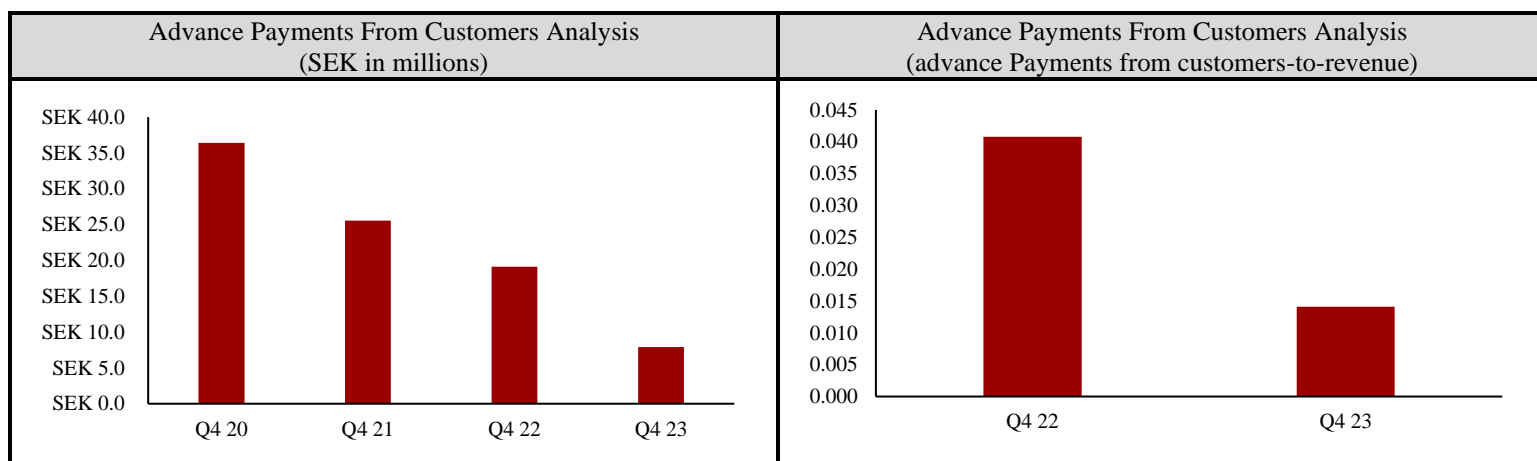
Weak deferred income/advance payment levels highlight revenue risk, in our view: Throughout the course of our research, we identified certain deferred income and advance payment level deterioration for the periods

disclosed (i.e. Q4 23 relative to Q4 22). While we acknowledge our analysis is limited to only two periods, we believe a deferred income and advance payment level decline may highlight more flexible subscription contract terms (e.g. less upfront payments and increased amount of contract cost spread across monthly subscription payments) and heightens our revenue sustainability concerns. We have included the metrics we analyzed below:

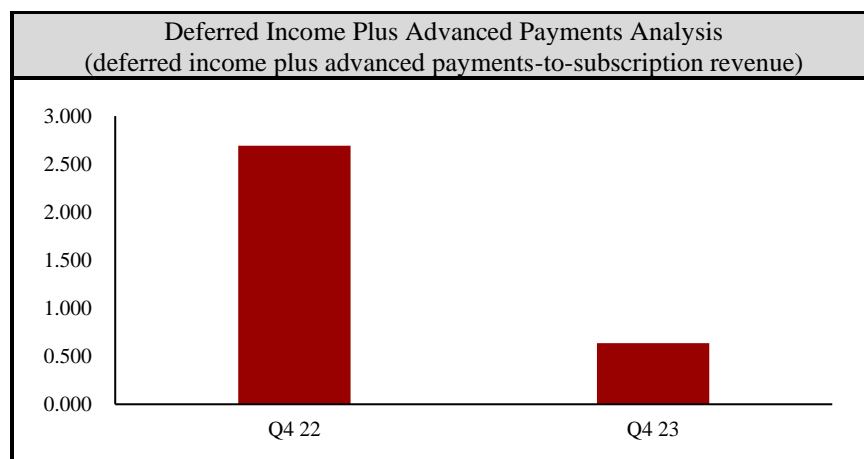
- Depressed deferred income levels highlight our revenue pressure concerns:** In Q4 23, deferred income declined 66.5% year-over-year to SEK 42.1 million, while revenue increased 19.5% to SEK 559.9 million. Accordingly, deferred income-to-revenue declined 72.0% to 0.075.



- Advance payments decline heightens our revenue pressure concerns:** In Q4 23, advanced payments declined 58.6% year-over-year to SEK 7.9 million (the lowest absolute level since at least Q4 20), while revenue increased 19.5% to SEK 559.9 million. Accordingly, Q4 23 advance payments-to-revenue declined 65.4% year-over-year to 0.014.



- Deferred income and advance payments relative to subscription revenue decline heightens our concerns:** Given subscription-based revenue is invoiced and paid on a yearly basis in advance, we believe deferred revenue (i.e. deferred income and advance payments) may primarily relate to subscription revenue. In Q4 23, deferred income and advance payments declined 65.5% year-over-year to SEK 50.0 million, while subscription-based revenue increased 45.9% to SEK 78.5 million. Accordingly, deferred income and advance payments relative to subscription revenue declined 76.3% year-over-year to 0.637.



Near-Term Lock-up Expiration May Increase Risk Of Material Insider Selling

In its FY 23 Annual Report, the Company disclosed shareholders Bure Growth (a subsidiary of Bure Equity), Ms. Stina Ehrensvard, and Mr. Mattias Danielsson were subject to a 365-day lockup period (i.e. expires 09/18/24). On Yubico’s website, the Company disclosed Bure Equity owned 17.5% and Ms. Stina Ehrensvard owned 10.2% of outstanding shares, as of 03/26/24.³ To the extent insider selling increases subsequent to the lockup period expiration of material shareholders, we would be concerned about share price pressure.

Insider Shares Lockup Analysis (as of 03/26/24)	Ownership % of Outstanding Shares
Bure Growth	17.5%
Ms. Stina Ehrensvard	10.2%
Total	27.7%

Conclusion

We are concerned the first disclosed sequential ARR decline may highlight increased churn and/or revenue pressure. A persistent ARR decline relative to subscription revenue heightens our revenue pressure concerns. Additionally, we believe subscription bookings growth may be a misleading indicator of subscription revenue growth given bookings include renewals. We are concerned recent technology sector layoffs may limit revenue growth. We believe elevated inventory levels despite prior guidance for the inventory build to be completed in FY 23 highlights overbuilt inventory. Inventory above prior guided and “sufficient” levels despite the potential benefit from a shift from FIFO to weighted average cost inventory accounting heightens our concerns. In our view, elevated receivable levels and depressed deferred income/advance payment levels suggest revenue growth may be pressured. Finally, we believe a near-term lock-up expiration may increase risk of material insider selling.

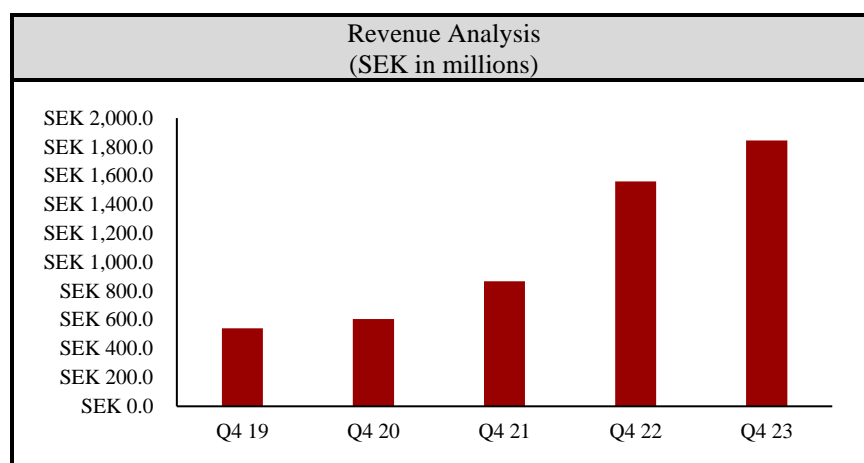
³ <https://investors.yubico.com/en/investors/ownership-structure/>. The Company did not disclose ownership percent of outstanding shares for Mr. Mattias Danielsson.

Risks to Our Thesis & Valuation

Organic Growth, Long Term Guidance, Value Proposition, & Market Trends

Consistent organic growth and guided subscription expansion: In its FY 23 Annual Report, the Company highlighted a compounded annual revenue growth rate of 36.0% between FY 19 and FY 23. The Company also maintained a stable gross margin of approximately 85.0% since FY 20 and had a positive EBIT since FY 22. The Company represented FY 23 continued on a “solid note” as revenue increased 18.0% year-over-year to SEK 1,844.2 million and adjusted EBIT margin increased 100 basis points to 15.0%. Further, the Company highlighted ARR increased 40.0% year-over-year to SEK 286.5 million and it aimed to enhance customer loyalty and retention by expanding its subscription offerings to both new and existing clients.

Yubico has grown its net sales by a compounded annual growth rate, CAGR of 36 percent since 2019 and sales 2023 amounted to SEK 1,844m. (FY 23 Annual Report)



Long-term guidance for consistent growth and profitability: In its FY 23 Annual Report, the Company guided to increase revenue by an average of 25.0% per year in the “coming years” with an EBIT margin of at least 20.0%. The Company disclosed it would continue to work to (1) expand its current customer base, (2) expand to customer’s customers and third-party suppliers, (3) grow within current and new industry verticals, (4) enter new authentication solution agencies through R&D, acquisitions, and partnerships, and (5) focus on larger deployments to enterprises using the subscription-based model. Yubico guided to continue to develop its perpetual model and its subscription model, with the long-term goal of increasing subscription-based revenue. In addition, the Company guided to use cash flow to invest in growth.

The current go-to-market approach focuses on addressing larger deployments from the start, a strategy that has been successfully enabled by the subscription model that offers enterprises purchasing flexibility to buy and deploy and ramp up aligned with internal requirements and changing needs. (FY 23 Annual Report)

Value proposition, track record, and large customer validation: In its FY 23 Annual Report, the Company highlighted its authentication solution provided high security through phishing-resistant MFA and had been demonstrated at scale. Specifically, the Company disclosed its track record of zero known successful customers account takeovers or hacking attempts due to the protective use of Yubikeys. Further, the Company represented its global secure supply chain, which it fully controlled, included manufacturing of YubiKeys only in Sweden and the US. In addition, Yubico indicated its flexible support, personalization services, and partners for ease of deployment made its offering hard to replicate by competitors. The Company also disclosed its customers included Google, Amazon, Atlassian, Dropbox, Microsoft, Schneider Electric, eBay, Hyatt, and X (formerly Twitter), which represented how its solution was a recognized standard in the Advanced Authentication segment.

YubiKeys have a strong track record of zero successful known hacking attempts, to date. (FY 23 Annual Report)

Market trends support long term growth: In its FY 23 Annual Report, the Company highlighted it operated in the Advanced Authentication market, which had a 2023 global market size of USD \$19.3 billion and was expected to grow 13.6% per year until 2027. The Company represented the surge in advanced authentication was driven by escalating cyber threats, geopolitical instability, regulatory demands, and the shift to advanced authentication in the workforce. Further, Yubico indicated it was positioned to address compliance needs, as an increasing number of companies are exploring a move towards user-friendly, password-less login models.

The Advanced Authentication is expected to continue to grow by approximately 13.6 percent per year up until 2027. (FY 23 Annual Report)

Valuation Analysis

As of the date of this publication, Yubico’s shares traded at 53.1 times next-twelve-month earnings, 45.8% above the peer group average of 36.4 times.

Valuation Analysis	NTM P/E
Yubico AB (YUBICO.ST)	53.1x
Fortinet Inc (FTNT)	33.7x
Okta (OKTA)	39.1x
Peer average	36.4x
<i>YUBICO.ST above (below) peer average</i>	<i>45.8%</i>

Disclaimer and Disclosure

This report was produced by Voyant Advisors, LLC (“Voyant”). The following Research Analysts employed by Voyant contributed to this report: Graeme Lazarus, Ryan DesJardin, Andrew Brown, Duran Sulymankhel, and Adam Yribarren. Voyant’s home office is at 15373 Innovation Dr, Suite 365 San Diego, CA 92128. The firm’s home office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, Voyant expects to provide updates on a quarterly or semi-annual basis depending on the frequency of when the above company discloses material financial results. We will cease providing updates if we are discontinuing research coverage as disclosed on the front page of this report in the Thesis Summary.

Voyant has not provided previous recommendations concerning the same financial instrument or issuer during the preceding twelve-month period.

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