



ERIK PENSER BANK

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Fingerprint Cards

Gross margin bottoms at low level

Sequential stabilisation in sales and gross margin

Sales were up in Mobile, PC, and Payments, plus in Access beyond Asia, and the group saw y/y growth from low levels. Access was weaker in Asia, chiefly on account of lower demand for door locks owing to a poor development in the construction industry. Intensive price pressure persists in Mobile, as inventory levels in the value chain remain high. Fingerprints' inventories should have normalised by year-end, while it will take longer for its competitors' stock levels to follow suit. The company is still taking market share in PC. The ongoing price pressure on capacitive sensors for mobile phone manufacturers has kept the gross margin low, but largely unchanged from Q2 at around 13%.

Launching cost-cutting programme and new strategy

To meet the challenging market conditions, the company is launching a cost-cutting programme aimed at saving some SEK 204m and halving operating expenses. Restructuring costs are expected to reach SEK 62m. The company will also implement a new platform strategy with the intention of spurring growth in areas where it is not yet present. The majority of its sales currently stem from fingerprint modules for consumer electronics.

Fair value adjusted for new number of shares

Fingerprints' transformation into a company with less focus on capacitive sensors for mobile phone manufacturers continues. This new strategy is a further step along this path. The new CEO will implement this new strategy and organisation from the autumn and during 2024, giving further opportunities for us to analyse the new strategy in more depth. The refinancing has been completed and the bond issue of SEK 300m resolved. We adjust our fair value to account for the new number of shares, taking it to SEK 4.8–5.0 (7–8).

Estimate changes				Forecasts (SEK m)				Valuation and risk														
	23e	24e	25e	2022	2023e	2024e	2025e	Fair value	SEK 4,8 - 5,0													
Total revenues	-22.4%	-7.0%	2.0%	Total revenues	862	770	1 539	2 360	Share price	SEK 1,0												
EBIT, adj.	N.m.	N.m.	N.m.	Revenue growth	-36%	-11%	100%	53%	Risk level	High												
EPS, adj.	N.m.	N.m.	N.m.	EBITDA, adj.	-116	-130	78	201	<div style="background-color: #004a99; color: white; padding: 5px; text-align: center;">12-mth share price development</div>													
<div style="background-color: #004a99; color: white; padding: 5px;">Coming events</div>				EBIT, adj.	-198	-229	-50	41														
				EPS, adj.	-0,5	-0,5	-0,1	0,0														
<div style="background-color: #004a99; color: white; padding: 5px;">Company details (SEK m)</div>				EPS growth, adj.	N.m.	N.m.	N.m.	N.m.														
				Equity per share	2,8	1,6	1,1	0,7														
Number of shares		575m		Dividend per share	0,0	0,0	0,0	0,4														
Market capitalisation		580		EBIT margin	Neg.	Neg.	Neg.	1,7%														
Net debt		237		ROE, adj.	Neg.	Neg.	Neg.	4,1%														
EV		816		ROCE, adj.	Neg.	Neg.	Neg.	4,1%														
Free float		91%		EV/Sales	1,5x	1,1x	0,5x	0,3x														
Daily trading volume, average		6 502k		EV/EBITDA	Neg.	-6,3x	10,4x	4,1x														
Bloomberg Ticker		FINGB SS EQUITY		EV/EBIT	Neg.	-3,6x	-16,2x	20,1x														
<div style="background-color: #004a99; color: white; padding: 5px;">Analyst</div>				P/E, adj.	-5,9x	-2,2x	-12,1x	27,7x	<div style="background-color: #004a99; color: white; padding: 5px;">Conflicts of interest</div> <table border="1"> <thead> <tr> <th></th> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr> <td>Market maker</td> <td></td> <td>✓</td> </tr> <tr> <td>Certified adviser</td> <td></td> <td>✓</td> </tr> <tr> <td>Transactions, 12 mth</td> <td></td> <td>✓</td> </tr> </tbody> </table>			Yes	No	Market maker		✓	Certified adviser		✓	Transactions, 12 mth		✓
					Yes	No																
				Market maker		✓																
				Certified adviser		✓																
Transactions, 12 mth		✓																				
Markus Almerud			Price/book value	1,0x	0,6x	0,9x	1,4x															
markus.almerud@penser.se			Dividend yield	0,0%	0,0%	0,0%	39,7%															
			FCF yield	-49%	-2%	-6%	15%															
			Net debt / EBITDA	-0,1x	-0,5x	1,6x	1,5x															

Investment case

We see Fingerprint Cards (Fingerprints) poised for a new chapter in its history. Prices in the mobile market have stabilised, costs have adjusted, and demand in its other segments is gaining momentum. The mobile market is mature – penetration is high and market growth modest. Both market shares and entry barriers are thus high. Biometric penetration is low in PC, but it is high enough to allow for a likelihood of it increasing further. The same is true of smart locks.

The greatest optionality is found in fingerprint sensors for smart debit and credit cards. Commercial launch has started with positive feedback but on a low scale. Fingerprints is working with the market-leading card and microprocessor manufacturers. Should biometric cards prove a commercial success, Fingerprints is likely to take the leading position. Even when considering only a small part of the potential in biometric payment cards, we see significant upside in the share from the current levels. If the market for biometric cards develops according to Fingerprints' expectations and the company succeeds in its partnerships, we see potential for more than a fourfold increase in the share price.

Company profile

Fingerprint Cards is the market leader in capacitive fingerprint sensors for smartphones, with a market share of around 30%. The company claims nine of the ten largest smartphone manufacturers as customers, holds 500 patents, and has delivered some 1.4 billion sensors since 1997. The mobile market accounted for around 90% of its sales in 2021. Demand is growing rapidly in other segments – PC, Access (predominantly smart locks), and Payments (smart debit and credit cards) – and Fingerprints believes smart payment cards can prove the next big mass market. It sees a total addressable market (TAM) of 1.4 billion units per year in the mobile market, 170 million a year in PC, in excess of 100 million each year in Access, and some three billion a year in smart payment cards in 2026 and onwards.

Valuation

We have used a SOTP model to value Fingerprints as its different segments represent distinctly different end-markets and levels of maturity. As its strategic goals are set for 2026, we have applied our target multiples for that year and have subsequently discounted back to present value.

Mobile is the most mature of its segments, with high penetration and low market growth. We thus use a P/S of 1x and a discount of 10%. PC and Access represent considerably higher growth, but we remain conservative and use a P/S of 2x. We apply a discount of 12% to them. Sales in both segments have taken off and we see the risk as relatively low.

The greatest upside for both Fingerprints and its share lies in Payments. Sales in this segment have not picked up yet, despite pilot projects and commercial launches on a smaller scale. We value this segment using a P/S of 3x and apply a discount of 15%. We value the whole segment at around SEK 7, but choose not to include the entire segment in our fair value since the risk remains elevated. Norway's IDEX, its main competitor, holds a market value of around SEK 1 per Fingerprints share. We apply this to our SOTP valuation.

Fair value

We set a fair value of SEK 4.8–5.0.

Brief overview of the quarter

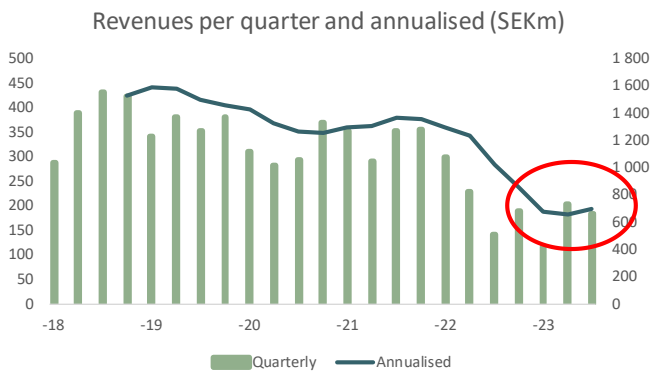
Sales were up in Mobile, PC, and Payments, plus in Access beyond Asia, and the group saw y/y growth from low levels (Chart 1). Access was weaker in Asia, chiefly on account of lower demand for door locks owing to a poor development in the construction industry. Intensive price pressure persists in Mobile, as inventory levels in the value chain remain high. Fingerprints' inventories should have normalised by year-end, while it will take longer for its competitors' stock levels to follow suit. The company is still taking market share in PC.

The ongoing price pressure on capacitive sensors for mobile phone manufacturers has kept the gross margin low, but largely unchanged from Q2 at around 13%, (Chart 2). To meet the challenging market conditions, Fingerprints is launching a cost-cutting programme aimed at saving some SEK 204m and halving operating expenses. Restructuring costs are expected to reach SEK 62m.

The company will also implement a new platform strategy with the intention of spurring growth in areas where it is not yet present. The majority of its sales currently stem from fingerprint modules for consumer electronics. At the same time, three-quarters of revenues in the industry are generated in government and security, business and industry, and healthcare and finance.

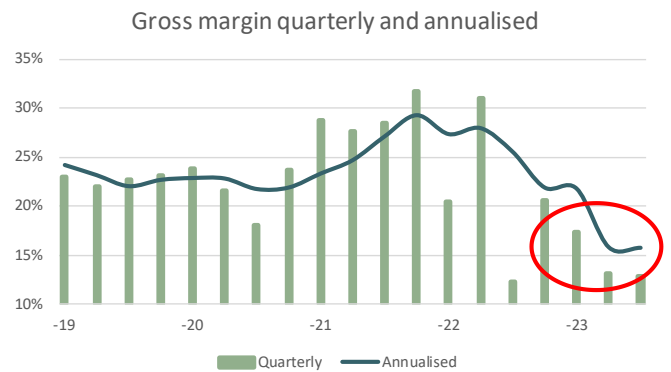
Inventory levels continue to drop, falling 23% sequentially to SEK 156m (having been SEK 400m at their peak).

Chart 1: Sales have grown y/y...



Source: Company, EPB

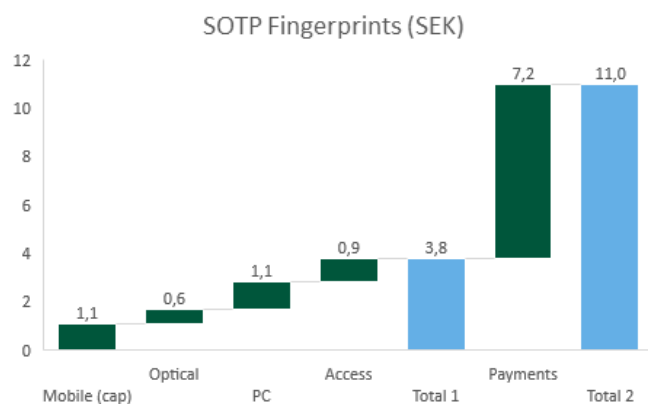
Chart 2: ...leading to the gross margin settling at a low level



Source: Company, EPB

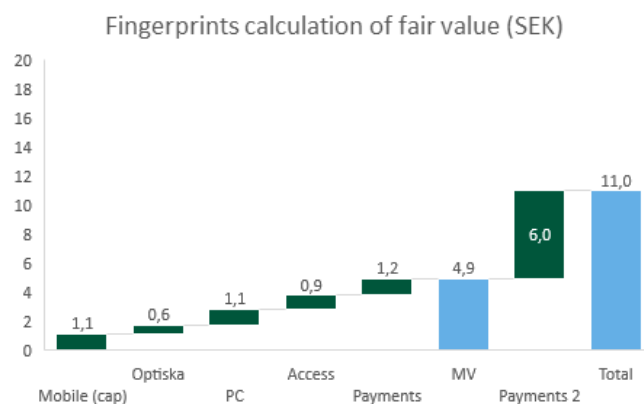
Valuation

Chart 3: SOTP of SEK 11...



Source: EPB

Chart 4: ...and a fair value of SEK 4.8–5.0



Source: EPB

Table 1: DCF – key assumptions and conclusions

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	3 008	Risk free nominal rate	2,5%	Long term growth rate	3,0%
PV of terminal value (perpetuity formula)	5 231	Risk premium	5,5%	Long term EBIT margin	13,0%
Enterprise value	8 239	Small cap premium	2,0%	Depreciation (% of sales)	3,0%
Latest net debt	237	Extra risk premium	4,0%	Capex (% of sales)	3,0%
Minority interests & other	0	WACC	14,0%	Working cap. (% of sales)	0,4%
Equity value	8 003	Tax rate			22%
No. of shares outstanding (millions)	575				
Equity value per share	14				

Source: EPB

Table 2: DCF – sensitivity

WACC	Long-term growth rate					Long-term EBIT margin				
	2,0%	2,5%	3,0%	3,5%	4,0%	6,0%	8,0%	13,0%	12,0%	14,0%
12,0%	17	18	19	20	21	10	12	19	18	20
13,0%	15	15	16	17	18	8	11	16	15	17
14,0%	13	13	14	15	15	7	9	14	13	15
15,0%	11	12	12	13	13	6	8	12	11	13
16,0%	10	10	11	11	12	6	7	11	10	11

Source: EPB

Income statement

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Net sales	1 459	1 256	1 356	862	770	1 539	2 360	3 646
Total revenues	1 459	1 256	1 356	862	770	1 539	2 360	3 646
Cost of goods sold	-1 128	-981	-959	-695	-659	-1 151	-1 711	-2 526
Gross profits	331	275	397	166	111	388	649	1 120
Other operating costs	-202	-224	-312	-283	-241	-309	-448	-672
EBITDA	129	-289	85	-550	-130	78	201	448
Items affecting comparability	0	-341	0	-433	0	0	0	0
EBITDA, adjusted	129	52	85	-116	-130	78	201	448
Depreciation	-143	-77	-93	-81	-99	-129	-160	-197
EBITA, adjusted	-14	-25	-8	-198	-229	-50	41	251
EBIT	-14	-366	-8	-631	-229	-50	41	251
EBIT, adjusted	-14	-25	-8	-198	-229	-50	41	251
Net financial items	-3	-15	7	-21	-25	-11	-14	-22
Profit/loss before tax	-17	-381	-1	-652	-254	-62	27	229
Profit/loss before tax, adjusted	-17	-41	-1	-219	-254	-62	27	229
Taxes	4	40	1	66	56	14	-6	-50
Net income	-14	-341	0	-586	-198	-48	21	179
Net income, adjusted	-14	0	0	-153	-198	-48	21	179
Sales growth	-	-14%	8%	-36%	-11%	100%	53%	55%
Gross margin	22,7%	21,9%	29,3%	19,3%	14,4%	25,2%	27,5%	30,7%
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	1,7%	6,9%
EPS, adjusted	-0,04	0,00	0,00	-0,50	-0,47	-0,08	0,04	0,31
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	>100%

Source: Fingerprint Cards, EPB

Cash flow statement

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
EBIT	-14	-366	-8	-631	-229	-50	41	251
Other cash flow items	148	437	127	462	131	131	140	125
Changes in working capital	27	87	-95	-165	187	2	41	89
Cash flows from operating activities	160	158	24	-334	88	83	222	465
Investments in fixed assets	-1	-2	-5	-3	-3	-5	-8	-13
Investments in intangible fixed assets	-94	-118	-86	-102	-95	-110	-126	-148
Cash flows from investments	-95	-119	-91	-105	-97	-115	-135	-160
Free cash flows	66	39	-67	-439	-9	-32	88	305
Acquisitions & divestments	-21	0	0	0	0	0	0	0
Rights issues / buybacks	0	-190	0	375	0	0	0	0
Changes in liabilities	0	0	75	-25	24	56	173	163
Dividends	0	0	0	0	0	0	-230	-431
Other items	-20	-19	-16	-22	-15	-23	-31	-36
Cash flows from financing	-40	-209	58	328	9	32	-88	-305
Cash flows	25	-170	-8	-110	0	0	0	0
Net debt	-507	-354	-59	43	68	123	296	459

Source: Fingerprint Cards, EPB

Balance sheet

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
ASSETS								
Goodwill	843	502	555	214	214	214	214	214
Other intangible assets	285	258	283	324	338	347	353	352
Tangible fixed assets	16	7	7	4	4	4	4	4
Financial assets	18	47	54	122	122	122	122	122
Other fixed assets	33	25	24	25	25	25	25	26
Total fixed assets	1 195	838	923	689	703	712	718	718
Inventories	253	136	159	304	92	169	212	255
Accounts receivable	197	196	280	128	77	154	236	365
Other current assets	28	28	63	50	49	57	66	81
Cash and cash equivalents	564	377	374	274	274	274	274	274
Total current assets	1 042	737	876	756	492	654	789	975
TOTAL ASSETS	2 237	1 575	1 799	1 446	1 195	1 367	1 506	1 692
EQUITY AND LIABILITIES								
Equity	1 799	1 183	1 027	867	668	620	411	159
Total equity	1 799	1 183	1 027	867	668	620	411	159
Long-term interest-bearing liabilities	0	0	293	294	318	374	547	710
Long-term lease liabilities	39	10	12	12	12	12	12	12
Other long-term liabilities	12	21	17	13	13	13	13	13
Total long-term liabilities	50	30	321	319	344	399	572	735
Accounts payable	235	201	222	74	54	108	165	255
Short-term lease liabilities	18	13	11	11	11	11	11	11
Other current liabilities	135	148	218	174	118	228	346	532
Total current liabilities	388	362	451	260	183	347	523	798
TOTAL EQUITY AND LIABILITIES	2 237	1 575	1 799	1 446	1 195	1 367	1 506	1 692

Source: Fingerprint Cards, EPB

Growth and margins

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Revenue growth	-	-14%	8%	-36%	-11%	100%	53%	55%
EBITDA growth, adjusted	-	-60%	66%	N.m.	N.m.	N.m.	>100%	>100%
EBIT growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	>100%
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	>100%
Gross margin	22,7%	21,9%	29,3%	19,3%	14,4%	25,2%	27,5%	30,7%
EBITDA margin	8,8%	Neg.	6,3%	Neg.	Neg.	5,1%	8,5%	12,3%
EBITDA margin, adjusted	8,8%	4,1%	6,3%	Neg.	Neg.	5,1%	8,5%	12,3%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	1,7%	6,9%
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	1,7%	6,9%
Profit margin, adjusted	Neg.	Neg.	0,0%	Neg.	Neg.	Neg.	0,9%	4,9%

Source: Fingerprint Cards, EPB

Profitability

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
ROE, adjusted	Neg.	Neg.	0%	Neg.	Neg.	Neg.	4%	63%
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	4%	27%
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	6%	38%

Source: Fingerprint Cards, EPB

Capital efficiency

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Inventory / total revenues	17%	11%	12%	35%	12%	11%	9%	7%
Accounts receivable / total revenues	14%	16%	21%	15%	10%	10%	10%	10%
Accounts payable / COGS	21%	20%	23%	11%	8%	9%	10%	10%
Total short-term liabilities / total costs	29%	23%	36%	18%	20%	24%	24%	25%
Working capital / total revenues	7%	1%	5%	27%	6%	3%	0%	-2%
Capital turnover rate	0,8x	1,0x	1,0x	0,7x	0,8x	1,5x	2,4x	4,1x

Source: Fingerprint Cards, EPB

Financial position

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Net debt	-507	-354	-59	43	68	123	296	459
Equity ratio	80%	75%	57%	60%	56%	45%	27%	9%
Net debt / equity	-0,3x	-0,3x	-0,1x	0,0x	0,1x	0,2x	0,7x	2,9x
Net debt / EBITDA	-3,9x	1,2x	-0,7x	-0,1x	-0,5x	1,6x	1,5x	1,0x

Source: Fingerprint Cards, EPB

Share data

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
EPS	-0,04	-1,10	0,00	-1,92	-0,47	-0,08	0,04	0,31
EPS, adjusted	-0,04	0,00	0,00	-0,50	-0,47	-0,08	0,04	0,31
FCF per share	0,21	0,13	-0,23	-1,44	-0,02	-0,06	0,15	0,53
Dividend per share	0,00	0,00	0,00	0,00	0,00	0,00	0,40	0,75
Book value per share	5,73	3,83	3,48	2,84	1,58	1,08	0,72	0,28
Number of shares, m	314	309	295	305	424	575	575	575
Number of shares after dilution, average	314	309	295	305	424	575	575	575

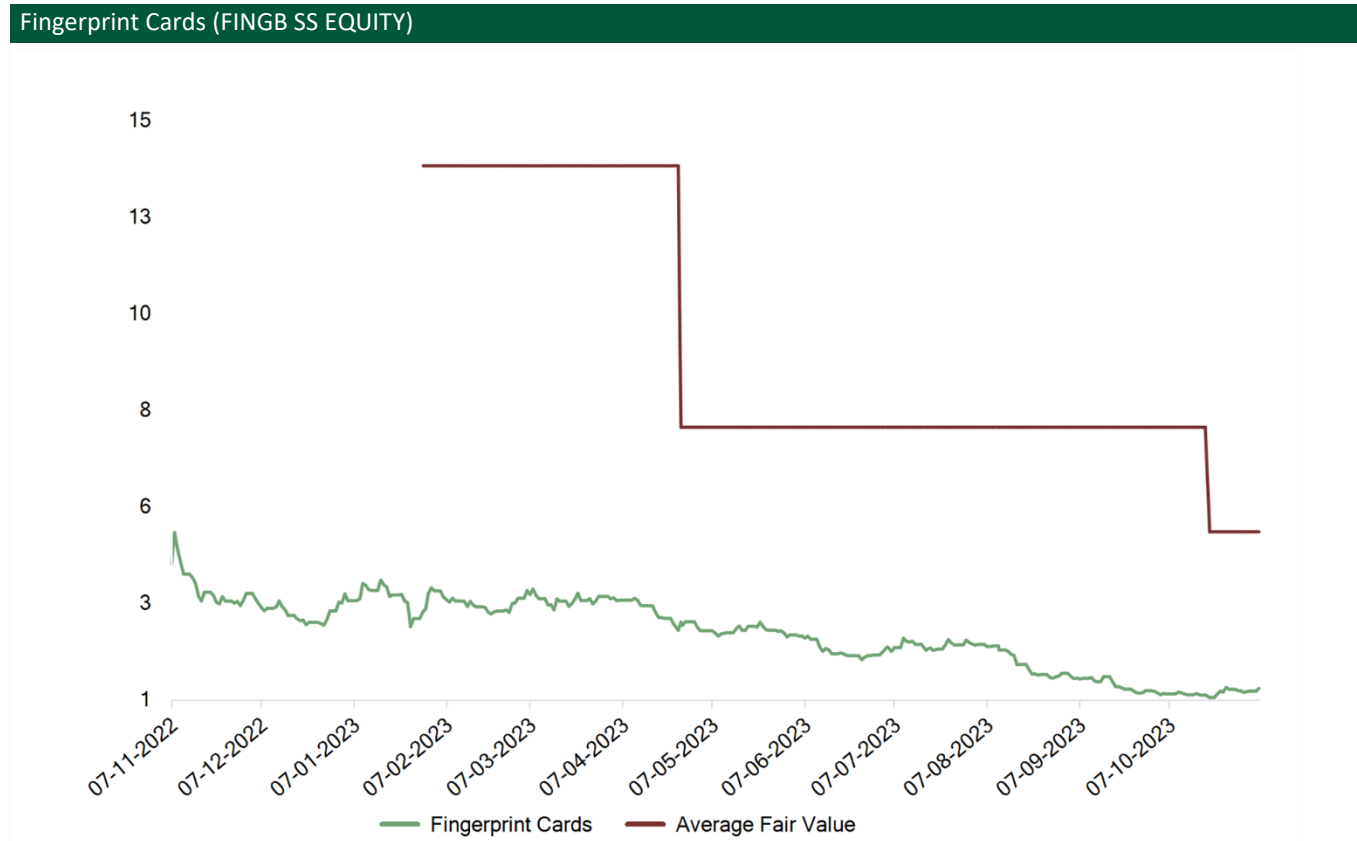
Source: Fingerprint Cards, EPB

Valuation

	2019	2020	2021	2022	2023e	2024e	2025e	2026e
P/E, adjusted	Neg.	Neg.	61 078,7x	Neg.	Neg.	Neg.	27,7x	3,2x
Price/book value	3,3x	4,5x	5,9x	1,0x	0,6x	0,9x	1,4x	3,6x
P/FCF	90,4x	137,9x	Neg.	Neg.	Neg.	Neg.	6,6x	1,9x
FCF yield	1%	1%	Neg.	Neg.	Neg.	Neg.	15%	53%
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	39,7%	74,4%
Payout ratio, adjusted	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%	>100%	>100%
EV/Sales	3,7x	3,9x	4,4x	1,5x	1,1x	0,5x	0,3x	0,2x
EV/EBITDA, adjusted	42,1x	94,9x	70,6x	Neg.	-6,3x	10,4x	4,1x	1,8x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	-3,6x	-16,2x	20,1x	3,3x
EV	5 420	4 895	6 025	1 277	816	816	816	816
Share price, year end	18,9	17,4	20,7	2,9	1,0	1,0	1,0	1,0

Source: Fingerprint Cards, EPB

Share price and average fair value



Source: EPB, IDC

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