



Penser Access by Carnegie

Electrical Equipment | Sweden | 19 February 2024

Fingerprint Cards

At the start of a transformational journey

The sales trend seems to have turned...

Given currency-adjusted growth of 10% both Y/Y and sequentially, the sales trend appears to have turned – a key factor. PC has been the main driving force, with 67% growth in Q4. Mobile also saw growth of 7%, while Access sales fell by 11%. Payment seems unable to get off the ground – sales in this segment were almost non-existent in Q4, in line with what we have seen in general in the market. PC accounted for 16% of sales in the quarter.

...but Mobile continues to weigh on gross margins

Although Mobile sales appear to have passed the trough, gross margins are not showing the same positive movement. Meanwhile, PC is growing profitably, with considerably higher gross margins. Access also reports much better margins. Fingerprints will selectively broaden its solutions to address a greater share of the value in the industry. One example is the recently launched comprehensive systems solution that incorporates Fingerprints' microcontroller unit (MCU). Savings intended to halve operating costs are proceeding according to plan. The full effect will be achieved from H2(24).

Payments unable to get off the ground – removing the segment from our estimates

The transformation of Fingerprints continues. Capacitive sensors for mobile phone manufacturers have diminished from 90% of group sales in 2021 to less than three-quarters in 2023. We believe this trend will continue, with the company accelerating this shift. The transformation will be spurred by PC and Access, while Payments cannot seem to take off. Although we remain positive regarding the commercial breakthrough for biometric payment cards, the timing is unclear. We thus extract the segment from our estimates, meaning we cut our revenue estimates by 30–56%. We adjust for the new number of shares and assign a fair value of SEK2.9–3.6 per share (down from SEK4.8–5.0). The lower end of the range reflects zero value for Payments, while the upper end assumes a certain value. If biometric payment cards do achieve a breakthrough, we see upside in our valuation of more than SEK6 to almost SEK10 per share.

Change in estimates				Forecasts (SEKm)				Value and risk				
	24e	25e	26e		2023	2024e	2025e	2026e	Fair value	SEK 2.9 - 3.6		
Total Revenues	-29.5%	-43.7%	-56.4%	Total Revenues	705	1,085	1,329	1,589	Share price	SEK 1.1		
EBIT, adj.	N.m.	N.m.	N.m.	Revenue growth	-18%	54%	23%	20%	Risk level	High		
EPS, adj.	N.m.	N.m.	N.m.	EBITDA, adj.	-205	58	122	138	Price Performance 12 months			
Upcoming events				EBIT, adj.	-283	-6	73	95				
Q1 - report	31 May 2024			EPS, adj.	-0.7	0.0	0.1	0.1				
Q2 - report	15 August 2024			EPS growth, adj.	N.m.	N.m.	N.m.	32%				
Company facts (SEKm)				BV/share	1.5	1.1	1.2	1.3				
Number of shares	604m			EBIT margin	Neg.	Neg.	5.5%	6.0%				
Market capitalization	644			ROE, adj.	Neg.	Neg.	7.5%	9.1%				
Net debt	-32			ROCE, adj.	Neg.	Neg.	9.9%	12.2%				
EV	612			EV/Sales	1.4x	0.6x	0.5x	0.4x				
Free float	91%			EV/EBITDA	Neg.	10.6x	5.0x	4.5x				
Daily trading volume, average	6,088k			EV/EBIT	Neg.	-103.5x	8.4x	6.5x				
Bloomberg Ticker	FINGB SS EQUITY			P/E, adj.	-2.6x	-72.9x	12.2x	9.2x	Conflicts of interest			
				P/BV	1.2x	1.0x	0.9x	0.8x				
Analyst				FCF yield	-17%	5%	15%	19%	Yes	No		
Markus Almerud				Net debt / EBITDA	0.1x	-0.9x	-1.1x	-1.7x	Liquidity provider		✓	
markus.almerud@carnegie.se										Certified adviser		✓
						Transactions 12m						✓

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 the 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 its establishment in 1997. The mobile market accounted for around 90% of its sales in 2021. Demand is growing rapidly in the other segments – PC, Access, 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 apply 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 SEK7, 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 SEK0.8 per Fingerprints share. We apply this to our SOTP valuation.

Fair value

We have a fair value of SEK2.9–3.6 (4.8–5.0).

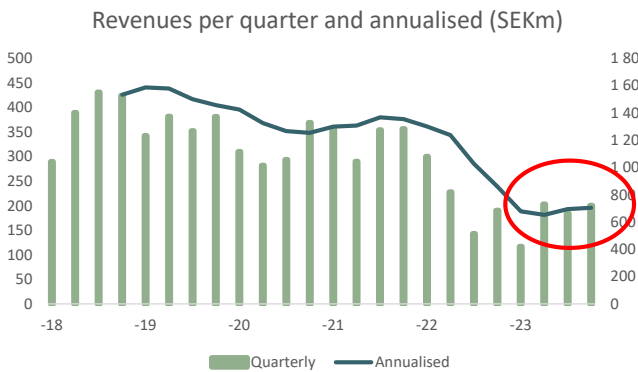
Brief overview of the quarter

The sales trends seems to have turned (figure 1) – currency-adjusted growth was 10% both Y/Y and sequentially. This is key. Mobile grew by 7% in the quarter and PC by 67%. Access saw a mixed performance. In Asia, it dropped to almost zero, while elsewhere it grew by 70%. Payment seems unable to take off, with almost non-existent sales in the quarter.

While Mobile sales recovered, gross margins did not match this, as price pressure in the value chain remains high. We believe this was the main reason why gross margins contracted in Q4 to their lowest level for several years (figure 2). Focus remains on segments other than Mobile, where gross margins are higher. The company will selectively broaden its solutions to address a greater share of the value. One example is the comprehensive systems solution for PC customers that incorporates Fingerprints' own microcontroller unit (MCU). Overall, we see PC as particularly positive. The segment accounted for 16% of sales in Q4 and 14% of full-year sales (figure 3). In 2021, capacitive sensors for mobile phone manufacturers accounted for about 90% of sales. This is now down to less than three-quarters.

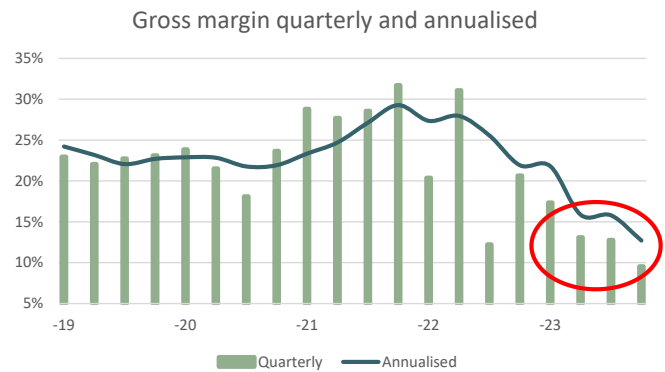
The cost-savings programme launched in Q3 is being implemented according to plan. Fingerprints plans to cut operating costs by SEK204m to SEK180m annually with full effect from H2(24). Inventories fell from SEK156m to SEK134m during the quarter (having been more than SEK 400m at the highest), and we consider this a good level given the demand in the market.

Exhibit 1: Sales grew Y/Y, which was key



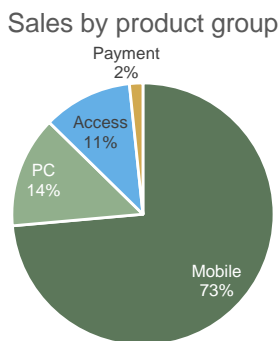
Source: Company, Penser Access by Carnegie

Exhibit 2: Gross margins were down sequentially



Source: Company, Penser Access by Carnegie

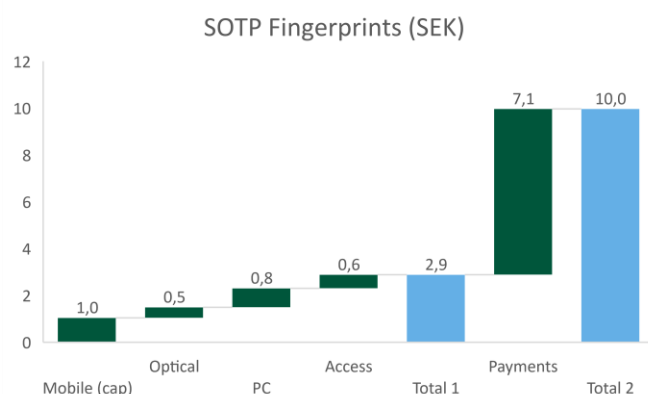
Exhibit 3: In 2023, Mobile accounted for less than three-quarters of sales



Source: Company, Penser Access by Carnegie

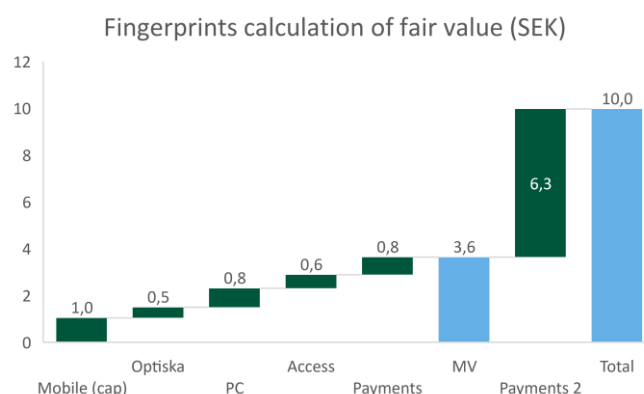
Valuation

Exhibit 4: SOTP of SEK2.9 per share excluding Payments...



Source: Penser Access by Carnegie

Exhibit 5: ...and initial upside to SEK3.6 if part of Payments is included



Source: Penser Access by Carnegie

Exhibit 6: DCF - key assumptions and conclusions

Valuation output		WACC assumptions		Terminal value assumptions	
Sum of PV of FCF (explicit period)	904	Risk free nominal rate	2,5%	Long term growth rate	3,0%
PV of terminal value (perpetuity formula)	895	Risk premium	5,5%	Long term EBIT margin	13,0%
Enterprise value	1 799	Small cap premium	2,0%	Depreciation (% of sales)	3,0%
Latest net debt	-32	Extra risk premium	4,0%	Capex (% of sales)	3,0%
Minority interests & other	0	WACC	14,0%	Working cap. (% of sales)	-6,4%
Equity value	1 831	Tax rate			22%
No. of shares outstanding (millions)	604				
Equity value per share	3,0				

Source: Penser Access by Carnegie

Exhibit 7: DCF - sensitivity

		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%
WACC	12,0%	3,5	3,7	3,8	4,0	4,3	12,0%	2,3	2,8	3,8	3,6	4,1	
	13,0%	3,1	3,3	3,4	3,5	3,7	13,0%	2,1	2,5	3,4	3,2	3,6	
	14,0%	2,8	2,9	3,0	3,1	3,3	14,0%	1,9	2,2	3,0	2,9	3,2	
	15,0%	2,6	2,6	2,7	2,8	2,9	15,0%	1,8	2,0	2,7	2,6	2,9	
	16,0%	2,3	2,4	2,5	2,6	2,6	16,0%	1,6	1,9	2,5	2,4	2,6	

Source: Penser Access by Carnegie

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	1,459	1,256	1,356	862	705	1,085	1,329	1,589
Cost of goods sold	-1,128	-981	-959	-695	-616	-824	-1,017	-1,213
Gross profit	331	275	397	166	90	261	312	376
Other Operating Expenses	-202	-224	-312	-283	-294	-203	-190	-239
EBITDA	129	-289	85	-550	-242	58	122	138
Items affecting comparability	0	-341	0	-433	-38	0	0	0
EBITDA, adjusted	129	52	85	-116	-205	58	122	138
Depreciation	-143	-77	-93	-81	-78	-64	-49	-43
EBITA, adjusted	-14	-25	-8	-198	-283	-6	73	95
EBIT	-14	-366	-8	-631	-320	-6	73	95
EBIT, adjusted	-14	-25	-8	-198	-283	-6	73	95
Net Financial Items	-3	-15	7	-21	-63	-5	-5	-5
Profit before tax	-17	-381	-1	-652	-383	-11	68	89
Profit before tax, adjusted	-17	-41	-1	-219	-345	-11	68	89
Taxes	4	40	1	66	36	2	-15	-20
Net income	-14	-341	0	-586	-347	-9	53	70
Net income, adjusted	-14	0	0	-153	-310	-9	53	70
<i>Sales Growth</i>	-	-14%	8%	-36%	-18%	54%	23%	20%
<i>Gross Margin</i>	22.7%	21.9%	29.3%	19.3%	12.7%	24.0%	23.5%	23.7%
<i>EBIT Margin, Adjusted</i>	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	5.5%	6.0%
<i>EPS, Adjusted</i>	-0.04	0.00	0.00	-0.50	-0.66	-0.01	0.09	0.12
<i>EPS Growth, Adjusted</i>	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	32%

Source: Fingerprint Cards, Carnegie

Cash flow statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-14	-366	-8	-631	-320	-6	73	95
Other Cash flow Items	148	437	127	462	-45	61	29	18
Changes in working capital	27	87	-95	-165	277	26	30	36
Cash flow from operating activities	160	158	24	-334	-88	81	131	148
Investments in Fixed Assets	-1	-2	-5	-3	-2	-4	-5	-6
Investments in intangible fixed assets	-94	-118	-86	-102	-44	-43	-27	-21
Cash flow from Investments	-95	-119	-91	-105	-46	-47	-32	-27
Free cash flow	66	39	-67	-439	-134	34	100	121
Acquisitions & Divestments	-21	0	0	0	0	0	0	0
New share issue / repurchase	0	-190	0	375	0	0	0	0
Change in liabilities	0	0	75	-25	-26	-17	-48	0
Other items	-20	-19	-16	-22	0	-16	-17	-16
Cash flow from financing	-40	-209	58	328	-26	-34	-65	-16
Cash flow	25	-170	-8	-110	-160	0	34	106
Net debt	-507	-354	-59	43	-32	-49	-132	-237

Source: Fingerprint Cards, Carnegie

Balance sheet								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS								
Goodwill	843	502	555	214	174	174	174	174
Other intangible assets	285	258	283	324	331	331	331	330
Tangible fixed assets	16	7	7	4	3	3	3	3
Financial assets	18	47	54	122	172	172	172	172
Other fixed assets	33	25	24	25	14	14	14	15
Total fixed assets	1,195	838	923	689	694	694	694	694
Inventories	253	136	159	304	134	130	146	159
Accounts receivable	197	196	280	128	121	141	173	207
Other current assets	28	28	63	50	26	30	33	36
Cash and cash equivalents	564	377	374	274	110	110	144	250
Total current assets	1,042	737	876	756	390	411	496	651
TOTAL ASSETS	2,237	1,575	1,799	1,446	1,084	1,105	1,190	1,345
EQUITY AND LIABILITIES								
Equity	1,799	1,183	1,027	867	684	675	728	798
Total equity	1,799	1,183	1,027	867	684	675	728	798
Long-term interest-bearing liabilities	0	0	293	294	65	48	0	0
Long-term lease liabilities	39	10	12	12	7	7	7	7
Other long-term liabilities	12	21	17	13	7	7	7	7
Total long-term liabilities	50	30	321	319	79	61	13	13
Accounts payable	235	201	222	74	104	108	133	159
Short-term lease liabilities	18	13	11	11	6	6	6	6
Other current liabilities	135	148	218	174	211	254	310	369
Total current liabilities	388	362	451	260	321	369	449	534
TOTAL EQUITY AND LIABILITIES	2,237	1,575	1,799	1,446	1,084	1,105	1,190	1,345

Source: Fingerprint Cards, Carnegie

Growth and margins								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	-	-14%	8%	-36%	-18%	54%	23%	20%
EBITDA growth, adjusted	-	-60%	66%	N.m.	N.m.	N.m.	>100%	13%
EBIT growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	30%
EPS growth, adjusted	-	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	32%
Gross margin	22.7%	21.9%	29.3%	19.3%	12.7%	24.0%	23.5%	23.7%
EBITDA margin	8.8%	Neg.	6.3%	Neg.	Neg.	5.3%	9.2%	8.7%
EBITDA margin, adjusted	8.8%	4.1%	6.3%	Neg.	Neg.	5.3%	9.2%	8.7%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	5.5%	6.0%
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	5.5%	6.0%
Profit margin, adjusted	Neg.	Neg.	0.0%	Neg.	Neg.	Neg.	4.0%	4.4%

Source: Fingerprint Cards, Carnegie

Return								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	Neg.	0%	Neg.	Neg.	Neg.	8%	9%
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	10%	12%
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	12%	16%

Source: Fingerprint Cards, Carnegie

Capital efficiency

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenue	17%	11%	12%	35%	19%	12%	11%	10%
Accounts receivable / total revenue	14%	16%	21%	15%	17%	13%	13%	13%
Accounts payable / COGS	21%	20%	23%	11%	17%	13%	13%	13%
Total short-term liabilities / total cost	29%	23%	36%	18%	34%	36%	37%	37%
Working capital / total revenue	7%	1%	5%	27%	-5%	-6%	-7%	-8%
Capital turnover rate	0.8x	1.0x	1.0x	0.7x	0.9x	1.5x	1.8x	2.0x

Source: Fingerprint Cards, Carnegie

Financial position

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	-507	-354	-59	43	-32	-49	-132	-237
Equity ratio	80%	75%	57%	60%	63%	61%	61%	59%
Net debt / EBITDA	-3.9x	1.2x	-0.7x	-0.1x	0.1x	-0.9x	-1.1x	-1.7x

Source: Fingerprint Cards, Carnegie

Per share data

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-0.04	-1.10	0.00	-1.92	-0.74	-0.01	0.09	0.12
EPS, adjusted	-0.04	0.00	0.00	-0.50	-0.66	-0.01	0.09	0.12
FCF per share	0.21	0.13	-0.23	-1.44	-0.29	0.06	0.16	0.20
Book value per share	5.73	3.83	3.48	2.84	1.47	1.12	1.21	1.32
Number of shares, m	314	309	295	305	466	604	604	604
Number of shares after dilution, average	314	309	295	305	466	604	604	604

Source: Fingerprint Cards, Carnegie

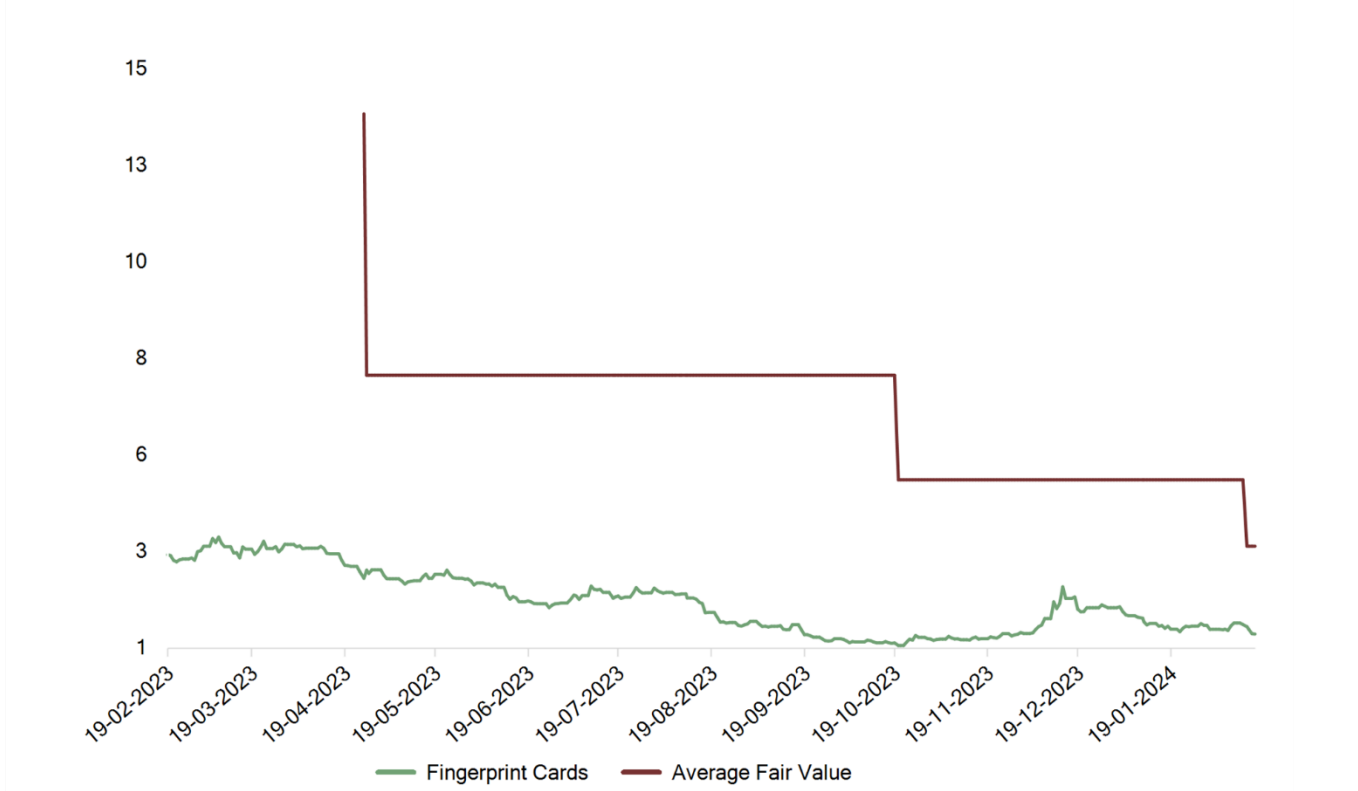
Valuation

	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	Neg.	61,078.7x	Neg.	Neg.	Neg.	12.2x	9.2x
P/BV	3.3x	4.5x	5.9x	1.0x	1.2x	1.0x	0.9x	0.8x
P/FCF	90.4x	137.9x	Neg.	Neg.	Neg.	19.1x	6.5x	5.3x
FCF-yield	1%	1%	Neg.	Neg.	Neg.	5%	15%	19%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Payout ratio, adjusted	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales	3.7x	3.9x	4.4x	1.5x	1.4x	0.6x	0.5x	0.4x
EV/EBITDA, adjusted	42.1x	94.9x	70.6x	Neg.	Neg.	10.6x	5.0x	4.5x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	-103.5x	8.4x	6.5x
EV	5,420	4,895	6,025	1,277	988	612	612	612
Share price, year end	18.9	17.4	20.7	2.9	1.7	1.1	1.1	1.1

Source: Fingerprint Cards, Carnegie

Share Price and Average Fair Value Chart

Fingerprint Cards (FINGB SS EQUITY)



Source: Penser by Carnegie, IDC

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Penser Access by Carnegie

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