



Penser Access by Carnegie

Electrical Equipment | Sweden | 13 May 2024

Fingerprint Cards

Accelerating the transformation

Discontinuing Mobile...

Even though sales of capacitive sensors to mobile phone manufacturers have started to recover, price pressure remains strong: ASPs have fallen by on average 12% per year since 2019. As a result, gross margins have not picked up again after the end of China's pandemic-related lockdowns. As the company expects these gross margins not to recover, it has chosen to end its sales of hardware to mobile phone manufacturers. We expect this to be completed by year-end. The Mobile segment accounted for 73% of revenues in 2023, and so we cut our 2024–2026 revenue estimates by 57–70%.

...and undertaking rights issue

To redeem the convertible bond subscribed to in Q3(23) in order to cover working capital needs and accelerate PC, Access, and Payments, the company is initiating a rights issue of up to SEK310m. The prospectus will be published on 29 May, with the outcome of the rights issue made public on 18 June.

Expecting Fingerprints to be EBITDA-positive in 2025e

As the company discontinues Mobile, it is also accelerating its cost-savings programme and aims that operating costs should be at SEK150m by the end of this year (versus SEK370m in 2023). We expect the "new" Fingerprints to be positive on EBITDA in 2025e. The margins in the other business are considerably higher and more stable than in Mobile, while their markets are growing rapidly. We believe PC will be the key to reaching profitability in the remaining businesses. PC grew by 63% in 2023 and 80% in Q1(24), and the segment accounted for almost 60% of sales LTM in Q1(24).

Change in estimates				Forecasts (SEKm)				Value and risk		
	24e	25e	26e	2023	2024e	2025e	2026e	Fair value	N.m.	
Total revenues	-57.2%	-69.9%	-64.7%	705	465	404	561	Share price	SEK 0.5	
EBIT, adj.	N.m.	N.m.	N.m.	Revenue growth	-18%	-34%	-13%	39%	Risk level	High
EPS, adj.	N.m.	N.m.	N.m.	EBITDA, adj.	-205	-125	13	57	Price performance 12 months	
Upcoming events				EBIT, adj.	-283	-155	-9	36		
Q2 - report	15 August 2024			EPS, adj.	-0.7	-0.2	0.0	0.0		
Q3 - report	31 October 2024			EPS growth, adj.	N.m.	N.m.	N.m.	N.m.		
Company facts (SEKm)				BV/share	1.5	0.9	0.9	0.9		
Number of shares	604m			EBIT margin	Neg.	Neg.	Neg.	6.5%		
Market capitalisation	290			ROE, adj.	Neg.	Neg.	Neg.	4.3%		
Net debt	50			ROCE, adj.	Neg.	Neg.	Neg.	4.5%		
EV	340			EV/Sales	1.4x	0.7x	0.8x	0.6x		
Free float	91%			EV/EBITDA	Neg.	Neg.	25.5x	6.0x		
Daily trading volume, average	9,837k			EV/EBIT	Neg.	Neg.	Neg.	9.4x		
Bloomberg Ticker	FINGB SS EQUITY			P/E, adj.	Neg.	Neg.	Neg.	12.0x	Conflicts of interest	
Analyst				P/BV	1.2x	0.5x	0.5x	0.5x		
Markus Almerud				FCF yield	Neg.	Neg.	Neg.	10%		
markus.almerud@carnegie.se				Net debt / EBITDA	N.m.	N.m.	11.5x	2.3x		
								Liquidity provider	Yes	No
								Certified adviser		✓
								Transactions 12m	✓	

Investment case

Fingerprints is in the midst of a transformation journey. In conjunction with the management change at the end of 2023, the company announced a plan to further reduce the share of sales of hardware to mobile phone manufacturers. At the same time, it launched a cost-savings programme intending to cut operating expenses from SEK370m to SEK180m.

In May 2024, it decided to accelerate its transformation with the discontinuation of sensor sales to mobile phone manufacturers. It also lowered its operating expenses target to SEK150m. Its aim is that the remaining businesses will be profitable – gross margins in PC, Access, and Payments are far higher than in Mobile. These businesses are also exposed to markets growing more rapidly.

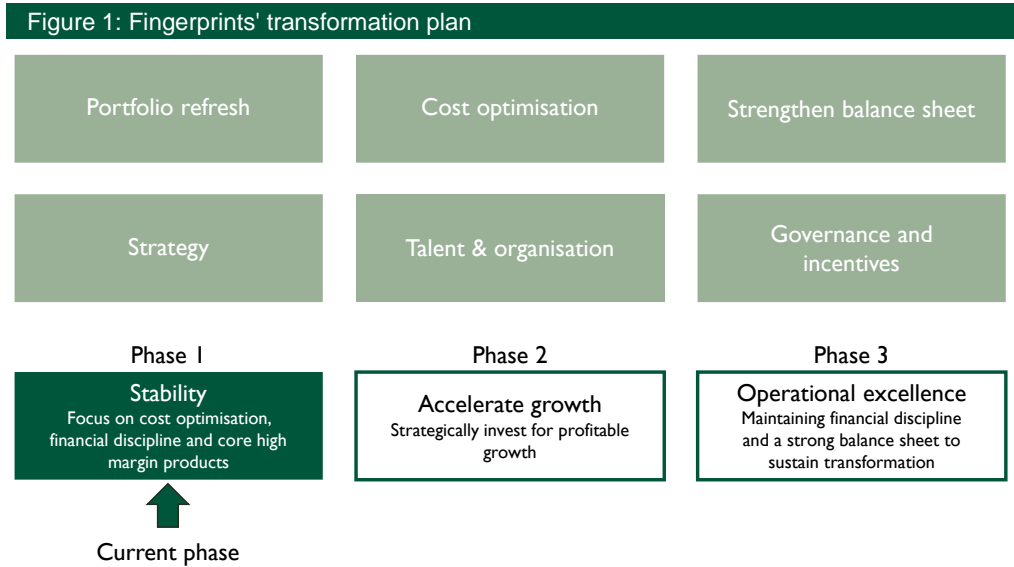
The biometric sensor market is growing by 8% a year. In recent years, both PC and Access (adjusted for exposure to smart locks in China) have grown much faster, and so we expect the remaining businesses to continue outpacing market growth.

Company profile

Fingerprint Cards is the market leader in capacitive fingerprint sensors. After discontinuing sales for smartphones, which should be complete at year-end 2024, PC will account for 50–60% of sales, while Access will represent around one-third. Sales to smart lock manufacturers in China accounted for the largest share for Access, but areas like logical access control are growing rapidly. Payments (sales of sensors for smart payment and credit cards) accounts for 5–10% of sales. The potential is vast, but sales have not taken off and uncertainty whether biometric payment cards will succeed persists.

Transformation accelerating...

In October 2023, Fingerprints launched a six-part transformation plan (figure 1) with the goal of a significant financial improvement. The company is now in the stability phase, where it aims to turn profitable by repositioning its businesses. Cash flow is in focus.



Source: Company, Penser by Carnegie

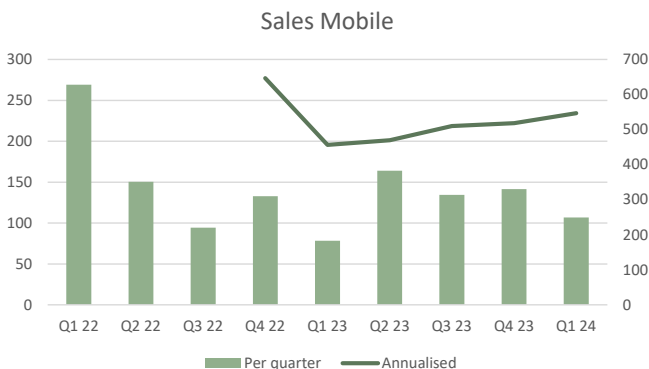
Part of the transformation has entailed the company deciding to phase out sales of capacitive sensors for mobile phone manufacturers. It aims for this phasing-out to be complete by year-end.

...as it discontinues Mobile

The reason why Fingerprints has chosen to discontinue sales of sensor hardware is that it does not expect profitability in the segment to recover. Prices (ASPs) have fallen by 12% on average every year since 2019, and given the relatively high capital intensity and the large investment costs over time, we believe cash flow in the segment is poor.

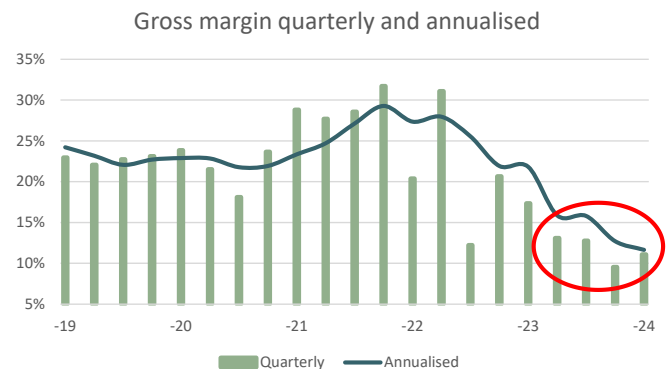
Mobile's sales have picked up since the collapse in the wake of China's pandemic-related lockdowns (figure 2) but the gross margins in the business have not followed suit (figure 3), demonstrating the problem.

Figure 2: Sales in Mobile have picked up again...



Source: Company, Penser by Carnegie

Figure 3: ...but gross margins in the business have not

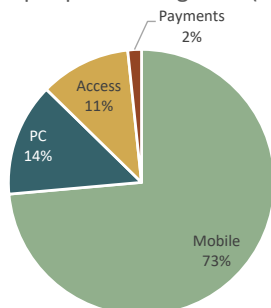


Source: Company, Penser by Carnegie

Mobile accounted for 73% of 2023 sales (figure 4). Of the remaining businesses – PC, Access, and Payments – PC was the largest in 2023 (figure 5).

Figure 4: Sales in Mobile accounted for 73% of sales in 2023

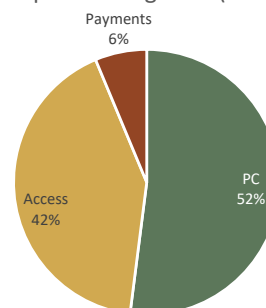
Sales per product segment (2023)



Source: Company, Penser by Carnegie

Figure 5: Excluding Mobile, PC accounted for around half of 2023 sales

Sales per product segment (excl. Mobile)



Source: Company, Penser by Carnegie

The company does not provide gross margins per business, but we estimate Mobile's gross margin is in the low single digits, which would mean the other businesses together have a gross margin of 35–40%. Last October, the company set an operating expenses target of around SEK180m a year, and it has now reduced this to SEK150m. These costs were SEK370m in 2023. On our estimates, we believe the company can achieve positive EBITDA in 2025e and close in on positive EBIT. The key is to propel growth in the other businesses. We see PC as the key to positive results.

Undertaking rights issue to redeem convertible

On 26 April, the company announced a rights issue of up to SEK 310m, partly in order to redeem the convertible bond of SEK 160m it took out in Q3(23). SEK105m of the issue remains outstanding, and Fingerprints has also taken out bridge financing of SEK60m to cover working capital needs until the rights issue is completed. Cash at the end of Q1 was around SEK46m, while cash flow after investment activities was SEK-65m in Q1.

The timeline for the rights issue:

23 May 2024: Publication of the full terms of the issue

28 May 2024: AGM

28 May 2024: Last trading day including the right to receive subscription rights

29 May 2024: Publication of the prospectus

29 May 2024: First trading day excluding the right to receive subscription rights

30 May 2024: Record day for the rights issue

3–12 June 2024: Trading in subscription rights

3–17 June 2024: Subscription period

3–27 June 2024: Trading in paid subscribed B-shares

18 June 2024: Expected outcome of the rights issue

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	1,459	1,256	1,356	862	705	465	404	561
Cost of goods sold	-1,128	-981	-959	-695	-616	-363	-255	-356
Gross profit	331	275	397	166	90	102	149	205
Other Operating Expenses	-202	-224	-312	-283	-294	-227	-136	-148
EBITDA	129	-289	85	-550	-242	-125	13	57
Items affecting comparability	0	-341	0	-433	-38	0	0	0
EBITDA, adjusted	129	52	85	-116	-205	-125	13	57
Depreciation	-143	-77	-93	-81	-78	-30	-22	-20
EBITA, adjusted	-14	-25	-8	-198	-283	-155	-9	36
EBIT	-14	-366	-8	-631	-320	-155	-9	36
EBIT, adjusted	-14	-25	-8	-198	-283	-155	-9	36
Net Financial Items	-3	-15	7	-21	-63	-15	-5	-5
Profit before tax	-17	-381	-1	-652	-383	-170	-14	31
Profit before tax, adjusted	-17	-41	-1	-219	-345	-170	-14	31
Taxes	4	40	1	66	36	37	3	-7
Net income	-14	-341	0	-586	-347	-133	-11	24
Net income, adjusted	-14	0	0	-153	-310	-133	-11	24
<i>Sales Growth</i>	<i>Neg.</i>	<i>-14%</i>	<i>8%</i>	<i>-36%</i>	<i>-18%</i>	<i>-34%</i>	<i>-13%</i>	<i>39%</i>
<i>Gross Margin</i>	<i>22.7%</i>	<i>21.9%</i>	<i>29.3%</i>	<i>19.3%</i>	<i>12.7%</i>	<i>21.9%</i>	<i>36.9%</i>	<i>36.5%</i>
<i>EBIT Margin, Adjusted</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>Neg.</i>	<i>6.5%</i>
<i>EPS, Adjusted</i>	<i>-0.04</i>	<i>0.00</i>	<i>0.00</i>	<i>-0.50</i>	<i>-0.66</i>	<i>-0.22</i>	<i>-0.02</i>	<i>0.04</i>
<i>EPS Growth, Adjusted</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>	<i>N.m.</i>

Source: Fingerprint Cards, Penser by Carnegie

Cash flow statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EBIT	-14	-366	-8	-631	-320	-155	-9	36
Other Cash flow Items	148	437	127	462	-12	52	20	8
Changes in working capital	27	87	-95	-165	244	-12	0	-1
Cash flow from operating activities	160	158	24	-334	-88	-115	11	44
Investments in Fixed Assets	-1	-2	-5	-1	0	-2	-1	-2
Investments in intangible fixed assets	-94	-118	-86	-104	-47	-21	-15	-13
Cash flow from Investments	-95	-119	-91	-105	-47	-23	-17	-15
Free cash flow	66	39	-67	-439	-136	-138	-5	29
Acquisitions & Divestments	-21	0	0	0	0	0	0	0
New share issue / repurchase	0	-190	0	341	301	0	0	0
Change in liabilities	0	0	75	0	-315	145	11	-23
Other items	-20	-19	-16	-13	-11	-7	-5	-6
Cash flow from financing	-40	-209	58	328	-26	138	5	-29
Cash flow	25	-170	-8	-110	-161	0	0	0
Net debt	-507	-354	-59	43	-2	142	153	130

Source: Fingerprint Cards, Penser by Carnegie

Balance sheet

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ASSETS								
Goodwill	843	502	555	316	305	305	305	305
Other intangible assets	285	258	283	222	200	200	200	199
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	93	81	112
Accounts receivable	197	196	280	128	121	79	69	95
Other current assets	28	28	63	50	26	23	22	24
Cash and cash equivalents	564	377	374	274	110	110	110	110
Total current assets	1,042	737	876	756	390	305	282	342
TOTAL ASSETS	2,237	1,575	1,799	1,446	1,084	999	976	1,035
EQUITY AND LIABILITIES								
Equity	1,799	1,183	1,027	867	692	559	548	572
Total equity	1,799	1,183	1,027	867	692	559	548	572
Long-term interest-bearing liabilities	0	0	293	294	73	217	228	205
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	86	231	241	218
Short-term interest-bearing liabilities	0	0	0	0	22	22	22	22
Accounts payable	235	201	222	74	104	93	81	112
Short-term lease liabilities	18	13	11	11	6	6	6	6
Other current liabilities	135	148	218	174	174	88	77	105
Total current liabilities	388	362	451	260	306	209	186	245
TOTAL EQUITY AND LIABILITIES	2,237	1,575	1,799	1,446	1,084	999	976	1,035

Source: Fingerprint Cards, Penser by Carnegie

Growth and margins

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	-14%	8%	-36%	-18%	-34%	-13%	39%
EBITDA growth, adjusted	Neg.	-60%	66%	Neg.	Neg.	Neg.	Neg.	325%
EBIT growth, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EPS growth, adjusted	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.	N.m.
Gross margin	22.7%	21.9%	29.3%	19.3%	12.7%	21.9%	36.9%	36.5%
EBITDA margin	8.8%	Neg.	6.3%	Neg.	Neg.	Neg.	3.3%	10.1%
EBITDA margin, adjusted	8.8%	4.1%	6.3%	Neg.	Neg.	Neg.	3.3%	10.1%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	6.5%
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	6.5%
Profit margin, adjusted	Neg.	Neg.	0.0%	Neg.	Neg.	Neg.	Neg.	4.3%

Source: Fingerprint Cards, Penser by Carnegie

Return

	2019	2020	2021	2022	2023	2024e	2025e	2026e
ROE, adjusted	Neg.	Neg.	0%	Neg.	Neg.	Neg.	Neg.	4%
ROCE, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	4%
ROIC, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	5%

Source: Fingerprint Cards, Penser by Carnegie

Capital efficiency

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Inventory / total revenue	17%	11%	12%	35%	19%	20%	20%	20%
Accounts receivable / total revenue	14%	16%	21%	15%	17%	17%	17%	17%
Accounts payable / COGS	21%	20%	23%	11%	17%	26%	32%	32%
Total short-term liabilities / total cost	29%	23%	36%	18%	32%	35%	48%	49%
Working capital / total revenue	7%	1%	5%	27%	0%	3%	3%	3%
Capital turnover rate	0.8x	1.0x	1.0x	0.7x	0.9x	0.6x	0.5x	0.7x

Source: Fingerprint Cards, Penser by Carnegie

Financial position

	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	-507	-354	-59	43	-2	142	153	130
Equity ratio	80%	75%	57%	60%	64%	56%	56%	55%
Net debt / equity	-0.3x	-0.3x	-0.1x	0.0x	0.0x	0.3x	0.3x	0.2x
Net debt / EBITDA	-3.9x	N.m.	-0.7x	N.m.	N.m.	N.m.	11.5x	2.3x

Source: Fingerprint Cards, Penser by Carnegie

Per share data

	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-0.04	-1.10	0.00	-1.92	-0.74	-0.22	-0.02	0.04
EPS, adjusted	-0.04	0.00	0.00	-0.50	-0.66	-0.22	-0.02	0.04
FCF per share	0.21	0.13	-0.23	-1.44	-0.29	-0.23	-0.01	0.05
Book value per share	5.73	3.83	3.48	2.84	1.48	0.93	0.91	0.95
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, Penser by Carnegie

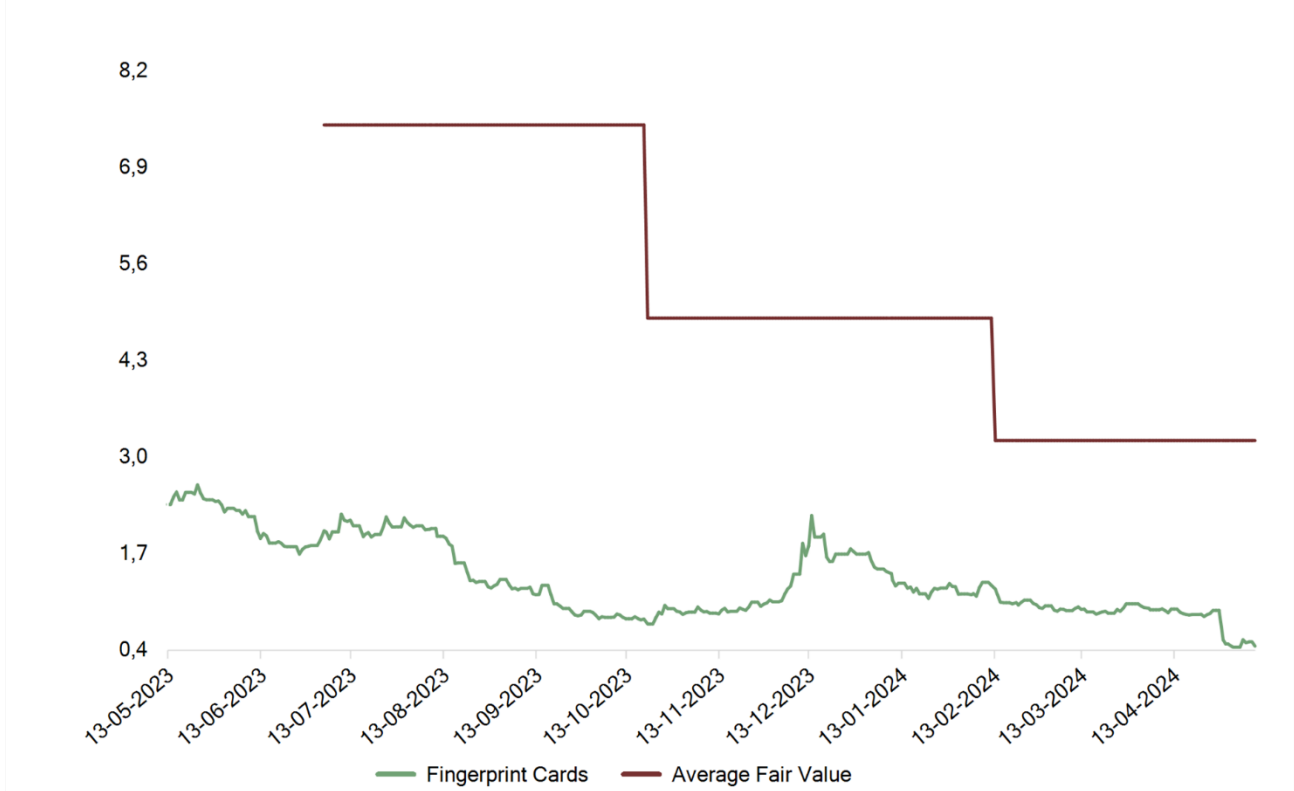
Valuation

	2019	2020	2021	2022	2023	2024e	2025e	2026e
P/E, adjusted	Neg.	Neg.	100x	Neg.	Neg.	Neg.	Neg.	12.0x
P/BV	3.3x	4.5x	5.9x	1.0x	1.2x	0.5x	0.5x	0.5x
P/FCF	90.4x	100x	Neg.	Neg.	Neg.	Neg.	Neg.	10.0x
FCF yield	1%	1%	Neg.	Neg.	Neg.	Neg.	Neg.	10%
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	0.7x	0.8x	0.6x
EV/EBITDA, adjusted	42.1x	94.9x	70.6x	Neg.	Neg.	Neg.	25.5x	6.0x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	9.4x
EV	5,420	4,895	6,025	1,277	1,018	340	340	340
Share price, year end	18.9	17.4	20.7	2.9	1.7	0.48	0.48	0.48

Source: Fingerprint Cards, Penser by 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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Penser Future by Carnegie

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Carnegie Investment Bank AB
Regeringsgatan 56
SE-103 38 Stockholm
Tel: +46 8 676 88 00 Fax +46 8 676 88 95