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Continuing the strategic transformation

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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 initially 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 target for operating expenses 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 expanding 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. Having discontinued its sales to smartphones, which looks set to be completed by year-end 2024, PC will account for 50–60% of sales, with Access representing about one-third. Sales to smartphone manufacturers in China have historically accounted for the majority of Access, but have now been decimated, while areas like logical access 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 persists as to whether biometric payment cards will succeed.

Valuation

We value Fingerprints using a sum-of-the-parts analysis. We apply 2x sales for PC and Access, using the 2026e sales multiple and then the calculated present value with a 12% WACC. The outcome represents the lower end of our valuation range.

The timing for a commercial breakthrough in biometric cards is uncertain. Also highly uncertain is the speed of this penetration, and so we use main competitor IDEX as a basis for the valuation of Payments. The upper end of our valuation range includes Payments.

Fair value

SEK 0.18–0.25

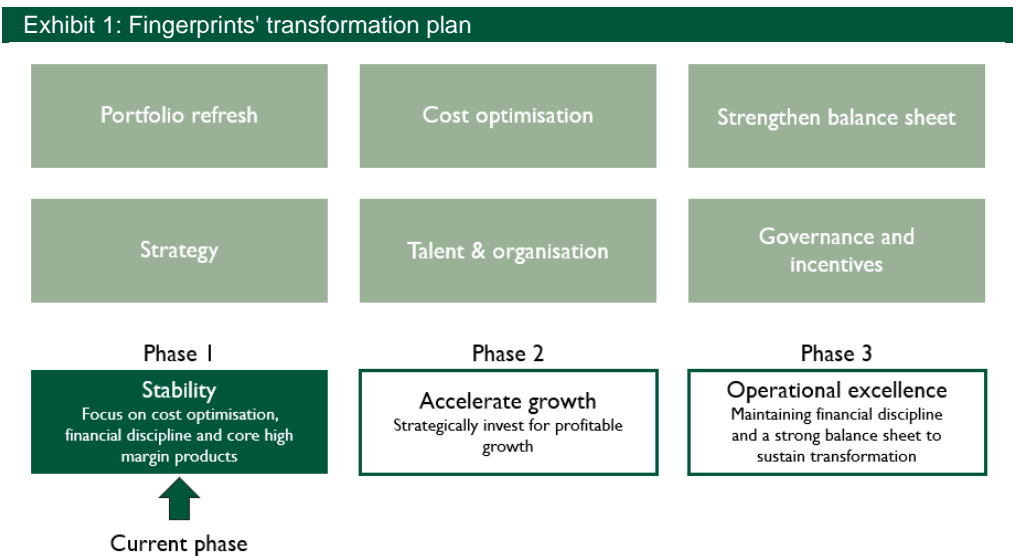
Strategic transformation continues

In October 2023, Fingerprints launched a six-part transformation plan (Exhibit 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.

Halfway through phase 1 of the transformation journey

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

The company is now halfway through phase 1. The next phase will be investments in profitable growth, with returns that exceed the cost of capital (WACC). In 2023, Fingerprints calculated its WACC at 17.6%. The underlying market sees double-digit growth, making positioning and being in the right segment essential.

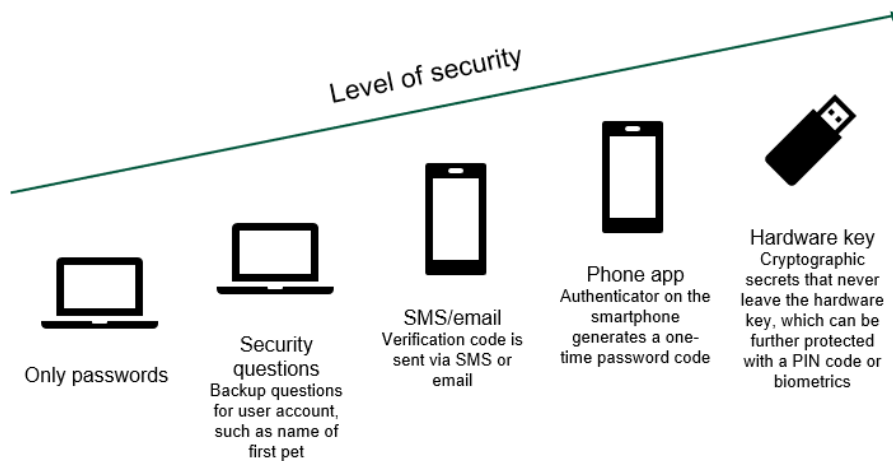


Source: Fingerprints, Penser by Carnegie

The ongoing increase in cyberattacks has bolstered security measures, and better authentication is crucial in today's digital society. Yubico, which works with IBM Security, estimates the annual cost of cyberattacks at more than USD100bn. Statistics from Tessian show that nine out of ten cybersecurity breaches are the result of employee error, such as using borrowed login credentials, phishing, or misuse. In an attack, the hacker lures users via email, phone, or SMS. These are increasingly realistic and convincing, allowing the hacker to relatively easily bypass simple and older security solutions. Theft of login credentials also occurs via social manipulation, with the hacker guessing the user's password based on personal details, such as name, birthdate, children's names and similar facts that are readily available via social media.

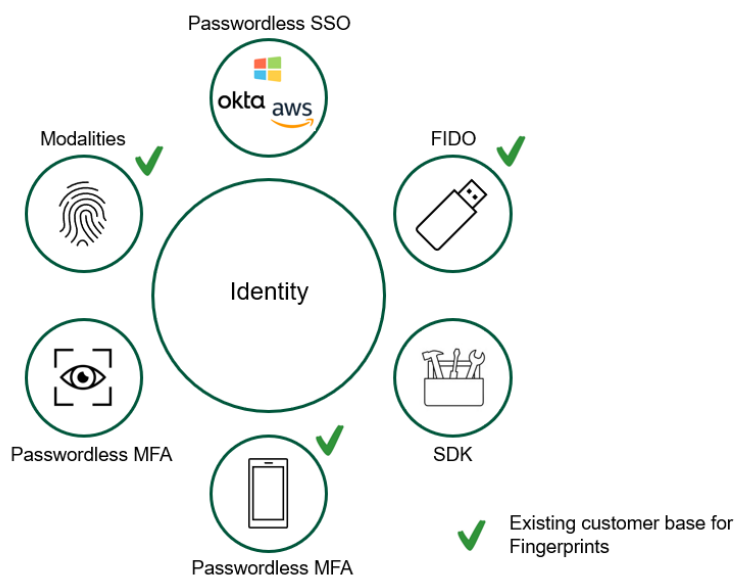
Biometrics, which eliminates the need for a password, is a small part of the larger identity and access management market (IAM – see Exhibit 3), which is the broader market Fingerprints aims to focus on.

Exhibit 2: Evolution of authentication



Source: Yubico, Penser by Carnegie

Exhibit 3: Fingerprints operates in the broader IAM market



Source: Fingerprints, Penser by Carnegie

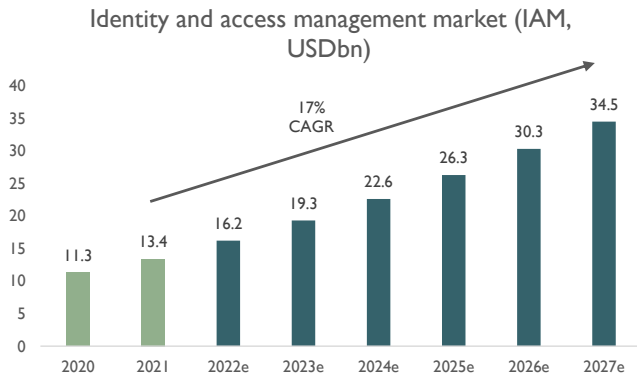
Fingerprints today operates in various biometric modalities (methods) such as fingerprint and iris recognition, FIDO (Fast IDentity Online), which uses a token for identification, and password-less MFA (multi-factor authentication). Single sign-on (SSO) is a potential new area for the company. SSO allows a user to log in through several related but independent systems using a single ID.

Double-digit market growth

Passwords are currently the key method for identification. However, the number of data breaches has increased substantially and cracked passwords are at the core of this. An incredibly complex industry has flourished to solve this problem, meaning that passwords are no longer as easy to use, cost effective, or secure. Most organisations today use a so-called Zero Trust Security (ZTS) strategy to secure their systems. ZTS is based on continuous identification. As this uses passwords, security is automatically inadequate. Biometrics is one way to resolve this.

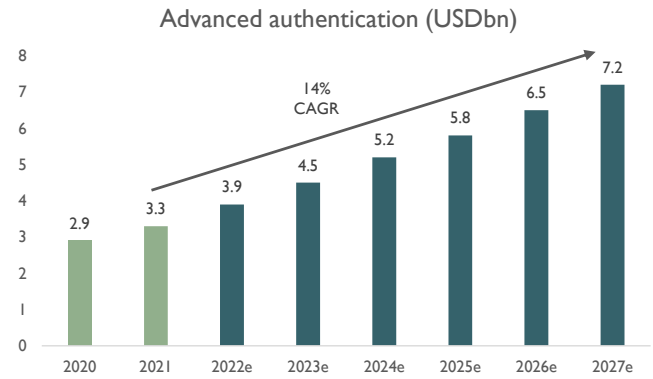
The market for identification and authentication can be defined in various ways. MARKETSANDMARKETS and Fortune Business Insights, for example, estimate the ZTS market at around USD30bn in size and growing by 17% a year over the next 5–7 years. Yubico and IDC expect 17% annual growth in the IAM market and 14% growth a year for advanced authentication.

Exhibit 4: IAM market growing by 17% a year...



Source: Yubico, Penser by Carnegie

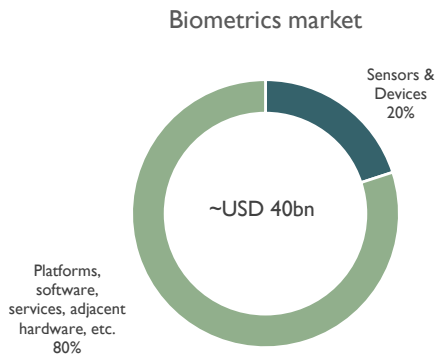
Exhibit 5: ...and advanced authentication by 14%



Source: Yubico, Penser by Carnegie

Fingerprints believes sensors for biometric applications hold a market value of about USD8bn (Exhibit 6), while consultants like Global Market Insight forecast double-digit annual growth for the next 5–10 years. Fingerprint sensors account for about one-third of the sensor market. Biometrics is a small part of the market, but as it solves the password issue, we expect compelling growth over the coming decade.

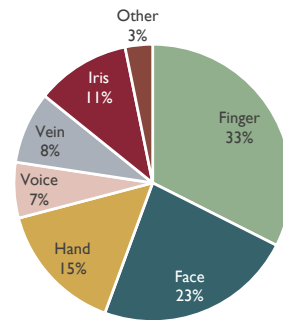
Exhibit 6: Market for biometric sensors is worth about USD8bn...



Source: Fingerprints, Penser by Carnegie

Exhibit 7: ...and fingerprints account for around one-third of the market

Biometric sensor market by application (2023)



Source: Global Market Insights, Penser by Carnegie

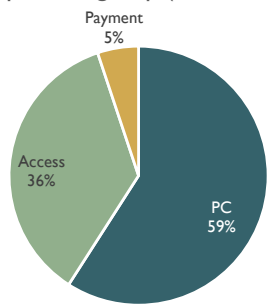
Forecasting positive EBITDA in 2025

At 73% of sales in 2023, Mobile is Fingerprints' largest segment. As stated above, Fingerprints has decided to wind down the segment during 2024. In June 2024, it signed a partnership agreement with Taiwan's Egis Technology, one of the world's largest suppliers of biometric sensor solutions. Egis acquired the assets in Mobile and will license patents and certain technologies in order to integrate Fingerprints' solutions into its mobile platform. We believe the closure of Mobile will happen more rapidly and with less friction now thanks to this agreement.

Excluding Mobile, PC is the largest segment YTD 2024 (Exhibit 8), and Y/Y sales have been relatively stable in recent quarters (Exhibit 9). Cash flow is management's primary focus and the EBITDA trend seems to have turned (Exhibit 12), which is positive. The number of employees and costs are still decreasing, and we forecast positive EBITDA in 2025 (Exhibits 13–14).

Exhibit 8: PC is the largest segment

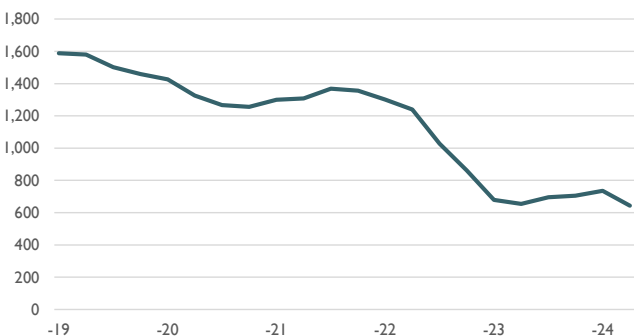
Sales by product group (core, LTM Q2'24)



Source: Company, Penser by Carnegie

Exhibit 9: Sales continue declining

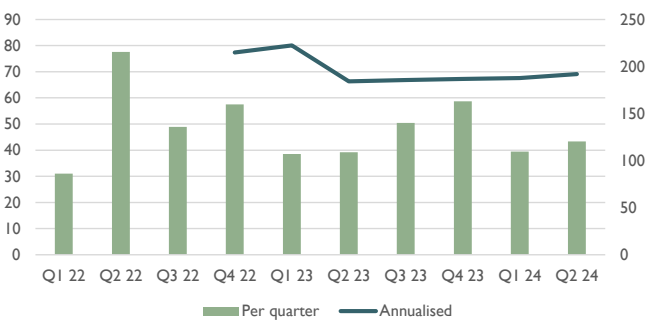
Fingerprints annualised sales (SEKm)



Source: Company, Penser by Carnegie

Exhibit 10: Sales trend (core segments) has been stable, despite the transformation

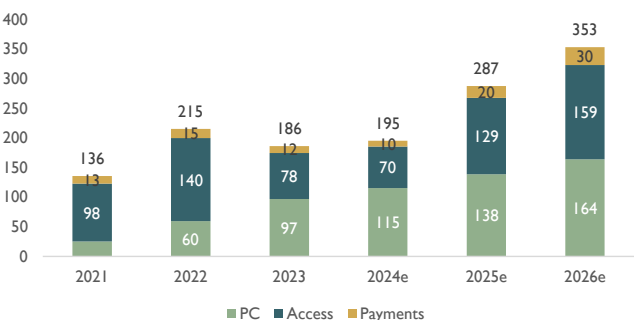
Sales excl. Mobile (SEKm)



Source: Company, Penser by Carnegie

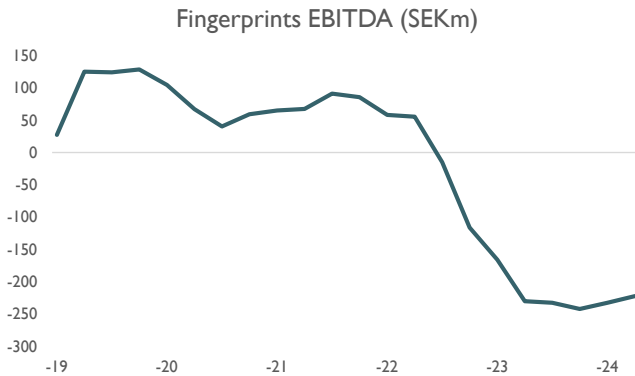
Exhibit 11: We forecast expanding sales in the coming years

Core sales per segment (SEKm)



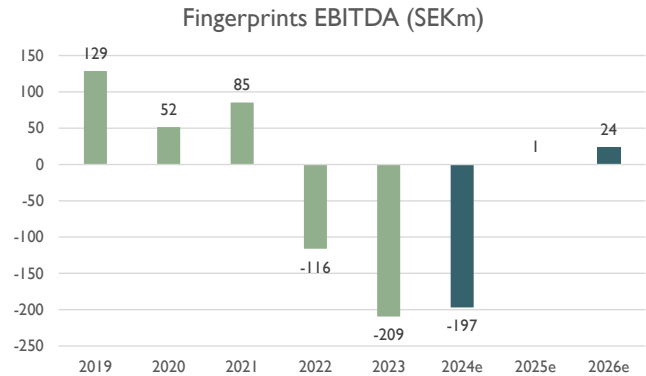
Source: Company, Penser by Carnegie

Exhibit 12: EBITDA trend seems to have turned



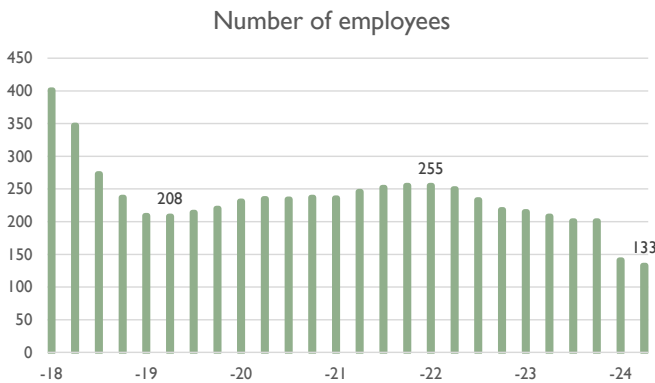
Source: Company, Penser by Carnegie

Exhibit 13: Forecasting positive EBITDA in 2025



Source: Company, Penser by Carnegie

Exhibit 14: Number of employees continues to fall



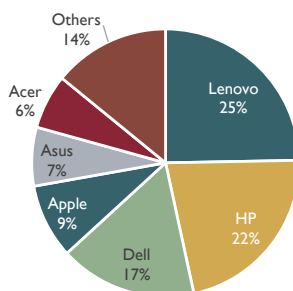
Source: Company, Penser by Carnegie

Expecting biometric penetration in the PC market to continue

The PC market is concentrated: the five largest PC manufacturers held a combined 77% market share in 2023 (Exhibit 15). Following the rapid growth in 2020–2021 during the pandemic, market volumes have dropped back. We expect the market to grow by low single digits on average in the coming years (Exhibit 16). At the same time, penetration of biometrics should increase, and we believe Fingerprints will take market share – it has grown from low levels in a declining market (Exhibit 17). The company has four of the five largest PC manufacturers as customers. We expect penetration will continue to increase, driving sales (Exhibit 18).

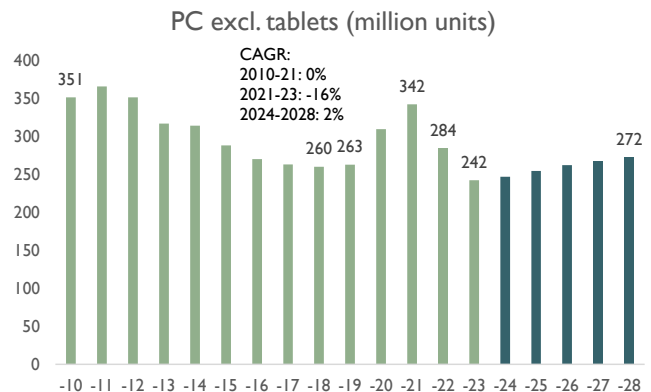
Exhibit 15: Concentrated market

PC market split by producer (2023)



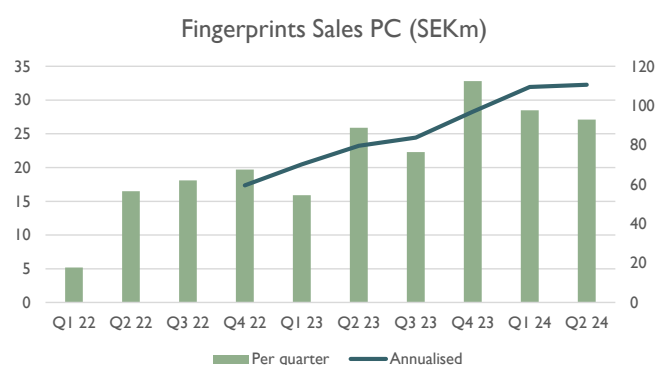
Source: Gartner, Statista, Penser by Carnegie

Exhibit 16: Low single-digit growth in PC volumes in the coming years



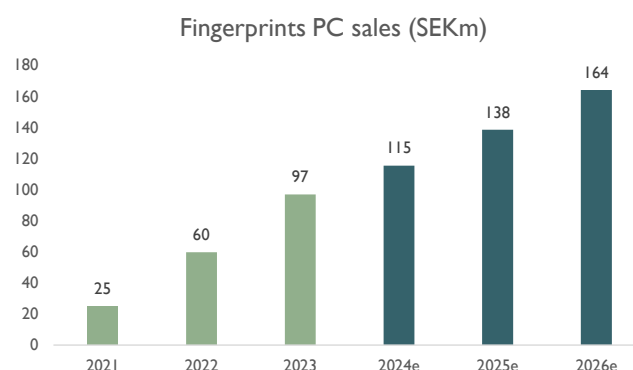
Source: Gartner, Penser by Carnegie

Exhibit 17: Fingerprints has grown in a declining market...



Source: Company, Penser by Carnegie

Exhibit 18: ...something we expect to continue



Source: Company, Penser by Carnegie

There are signs that some PC manufacturers are moving towards using facial recognition alone rather than fingerprint and facial recognition. At the same time, Apple has reintroduced fingerprint recognition in some of the most recent iPad models.

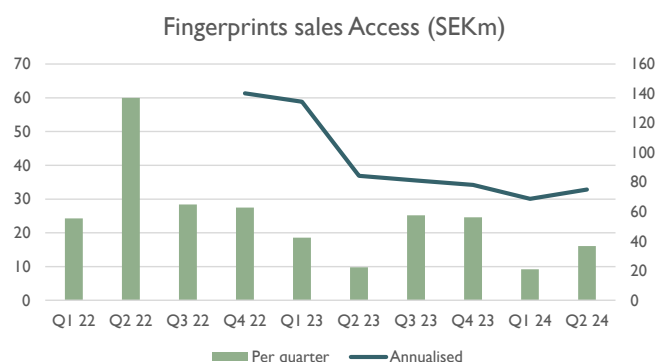
Logical access driving growth in Access

Historically, a large share of Access sales has been smart door locks in China. But we believe these sales have come down considerably and current sales should be seen as the new base. From that point of view, the uptick we saw in sales in Q2 is positive (Exhibit 19). Both PC and Access are project-driven businesses, but unlike PC, where every project is large and the customer base is concentrated, Access has a far greater number of projects and each one considerably smaller. This also means that demand is broad. Electric vehicles stand out, though.

In the iris recognition area, the company focuses on DMS (driver monitoring systems). That DMS is the focus stems from the hardware already being in the system and because the barriers to add iris software are low. As facial recognition declines in popularity, partly owing to deep fakes, there are great opportunities for safer, alternative technologies, like iris and facial recognition, to take market share.

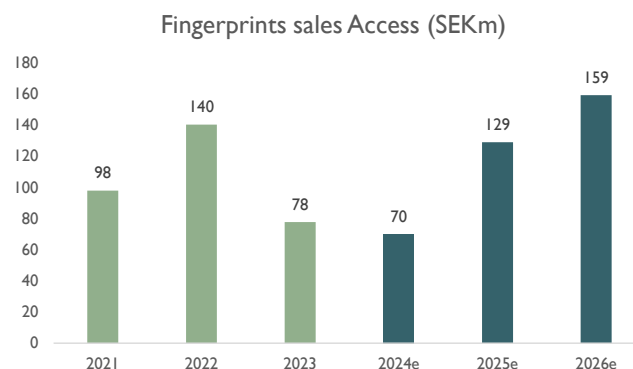
It appears that logical access is driving the growth, rather than physical access (access cards, locks etc). Logical access control offers protection of the digital system and data, unlike physical access control, which protects physical locations and objects.

Exhibit 19: Sequential increase in sales in Q2'24



Source: Company, Penser by Carnegie

Exhibit 20: We forecast expanding sales in the coming years

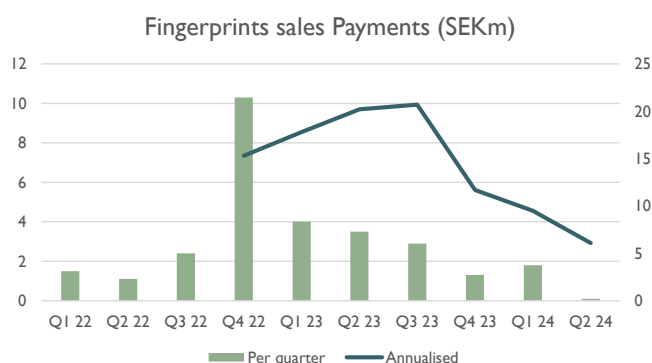


Source: Company, Penser by Carnegie

Timing for breakthrough in biometric payment cards uncertain

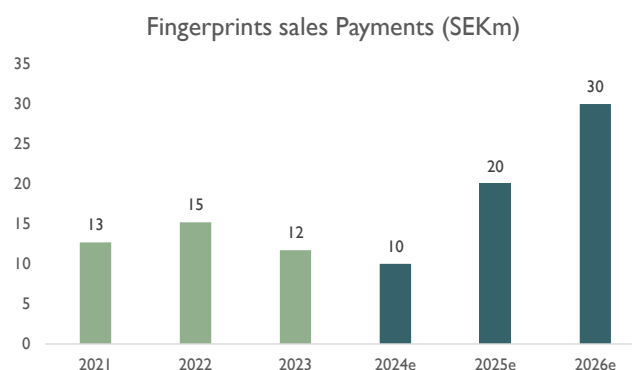
Sales of biometric payment cards have not taken off as we had hoped (Exhibit 21) and sales were at zero in Q2'24. According to the company, there are signs this can be on its way, and it sees solid demand from Latin America, the Middle East and Africa. While the ecosystem (Exhibit 23) continues investing to drive demand, Fingerprints' investment phase is complete for now – there is no reason to release a new generation of products until biometric payment card sales pick up.

Exhibit 21: Sales in Payments have been volatile...



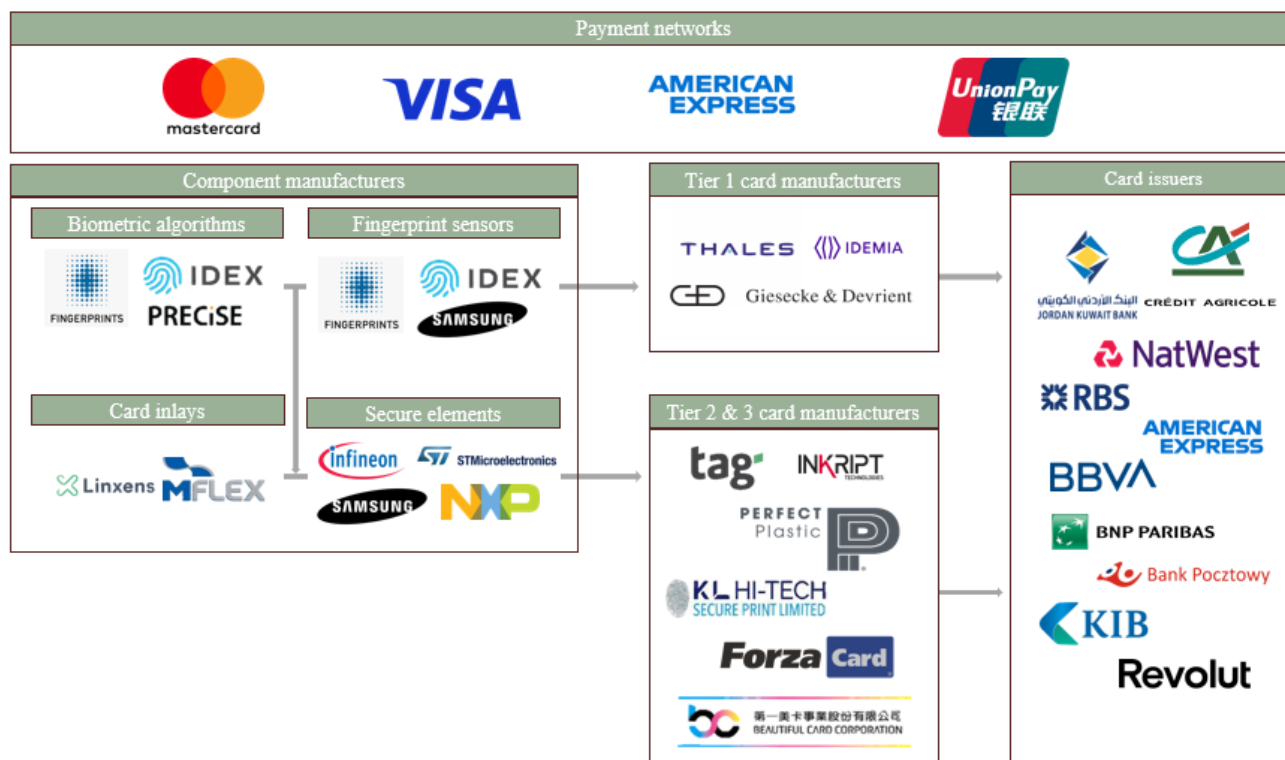
Source: Company data, Penser by Carnegie

Exhibit 22: ...but have hovered between SEK10m and SEK15m in recent years



Source: Company data, Penser by Carnegie

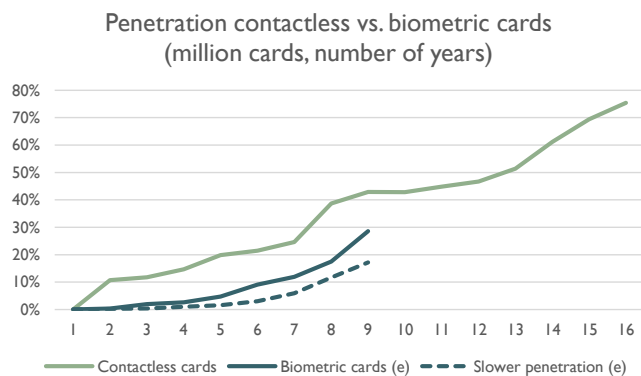
Exhibit 23: Value chain for biometric payment cards



Source: Penser by Carnegie

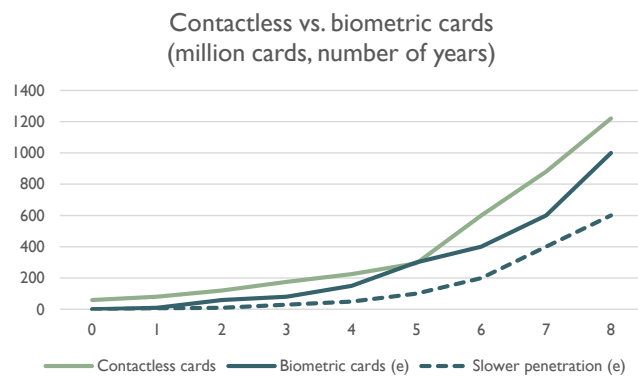
One example of the value chain's ongoing investments is the press release on 17 September announcing that Infineon and Fingerprints are to launch a joint solution with both secure microprocessors (secure element) and a biometric authentication solution. Contactless cards took some eight years to achieve mass market or around one billion cards. We believe the potential for a similar development in biometric cards persists (Exhibits 24–25), but we acknowledge the timing for this breakthrough remains uncertain.

Exhibit 24: We forecast a similar development for biometric cards as we saw with contactless



Source: Eurosmart, Penser by Carnegie

Exhibit 25: Around eight years for contactless cards to achieve mass market

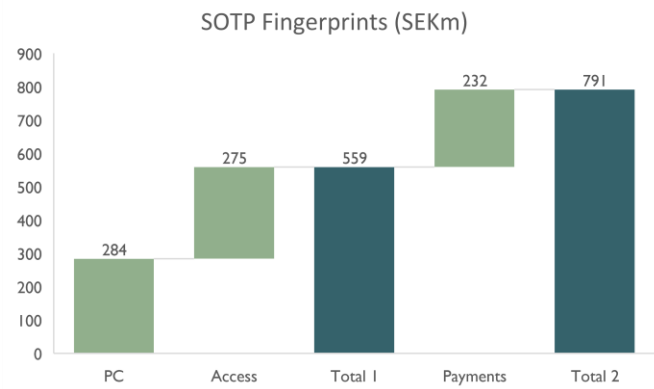


Source: Eurosmart, Penser by Carnegie

Valuation

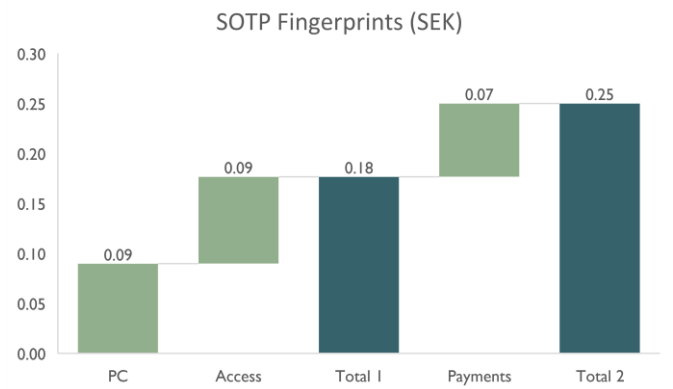
We value Fingerprints using a sum-of-the-parts analysis. We apply 2x sales for PC and Access, using the 2026e sales multiple and then the calculated present value with a 12% WACC. The outcome represents the lower end of our valuation range. As stated above, the timing of a commercial breakthrough for biometric payment cards is uncertain. Moreover, the speed of penetration is also unclear, and so we use IDEX, the main competitor, as the basis for our valuation. The upper end of the range includes Payments (Exhibits 26–27).

Exhibit 26: We value PC and Access at around SEK560m...



Source: Penser by Carnegie

Exhibit 27: ...which suggests SEK0.18 per share



Source: Penser by Carnegie

Income statement								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net sales	1,459	1,256	1,356	862	705	386	287	353
Cost of goods sold	-1,128	-981	-959	-695	-616	-315	-182	-224
Gross profit	331	275	397	166	90	72	106	129
Other Operating Expenses	-202	-224	-312	-282	-299	-269	-105	-105
EBITDA	129	-289	85	-549	-247	-152	1	24
Items affecting comparability	0	-341	0	-433	-38	45	0	0
EBITDA, adjusted	129	52	85	-116	-209	-197	1	24
Depreciation	-143	-77	-93	-82	-74	-87	-29	-26
EBITA, adjusted	-14	-25	-8	-198	-283	-283	-29	-2
EBIT	-14	-366	-8	-631	-320	-238	-29	-2
EBIT, adjusted	-14	-25	-8	-198	-283	-283	-29	-2
Net Financial Items	-3	-15	7	-21	-55	-18	-8	-8
Profit before tax	-17	-381	-1	-652	-376	-256	-37	-10
Profit before tax, adjusted	-17	-41	-1	-219	-338	-301	-37	-10
Taxes	4	40	1	66	36	76	8	2
Net income	-14	-341	0	-586	-340	-180	-29	-8
Net income, adjusted	-14	0	0	-153	-302	-225	-29	-8
<i>Sales Growth</i>	<i>Neg.</i>	<i>-14%</i>	<i>8%</i>	<i>-36%</i>	<i>-18%</i>	<i>-45%</i>	<i>-26%</i>	<i>23%</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>18.6%</i>	<i>36.7%</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>Neg.</i>
<i>EPS, Adjusted</i>	<i>-0.04</i>	<i>0.00</i>	<i>0.00</i>	<i>-0.50</i>	<i>-0.65</i>	<i>-0.12</i>	<i>-0.01</i>	<i>0.00</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	-238	-29	-2
Other Cash flow Items	148	437	127	462	-12	145	29	20
Changes in working capital	27	87	-95	-165	244	8	-4	3
Cash flow from operating activities	160	158	24	-334	-88	-86	-4	21
Investments in Fixed Assets	-1	-2	-5	-1	0	0	0	0
Investments in intangible fixed assets	-94	-118	-86	-104	-47	-11	-8	-8
Cash flow from Investments	-95	-119	-91	-105	-47	-12	-8	-8
Free cash flow	66	39	-67	-439	-136	-97	-12	13
Acquisitions & Divestments	-21	0	0	0	0	0	0	0
New share issue / repurchase	0	-190	0	341	301	274	0	0
Change in liabilities	0	0	75	0	-315	-73	16	-9
Other items	-20	-19	-16	-13	-11	-6	-4	-4
Cash flow from financing	-40	-209	58	328	-26	195	12	-13
Cash flow	25	-170	-8	-110	-161	98	0	0
Net debt	-507	-354	-59	43	-2	-173	-158	-167

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	131	114	99
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	625	607	593
Inventories	253	136	159	304	134	77	57	71
Accounts receivable	197	196	280	128	121	66	49	60
Other current assets	28	28	63	50	26	22	21	22
Cash and cash equivalents	564	377	374	274	110	208	208	208
Total current assets	1,042	737	876	756	390	373	335	360
TOTAL ASSETS	2,237	1,575	1,799	1,446	1,084	998	943	954
EQUITY AND LIABILITIES								
Equity	1,799	1,183	1,027	867	692	786	757	749
Total equity	1,799	1,183	1,027	867	692	786	757	749
Long-term interest-bearing liabilities	0	0	293	294	73	0	16	6
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	13	29	19
Short-term interest-bearing liabilities	0	0	0	0	22	22	22	22
Accounts payable	235	201	222	74	104	97	72	88
Short-term lease liabilities	18	13	11	11	6	6	6	6
Other current liabilities	135	148	218	174	174	74	57	68
Total current liabilities	388	362	451	260	306	199	157	185
TOTAL EQUITY AND LIABILITIES	2,237	1,575	1,799	1,446	1,084	998	943	954

Source: Fingerprint Cards, Penser by Carnegie

Growth and margins								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Revenue growth	Neg.	-14%	8%	-36%	-18%	-45%	-26%	23%
EBITDA growth, adjusted	Neg.	-60%	66%	Neg.	Neg.	Neg.	Neg.	N.m.
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%	18.6%	36.7%	36.5%
EBITDA margin	8.8%	Neg.	6.3%	Neg.	Neg.	Neg.	0.2%	6.8%
EBITDA margin, adjusted	8.8%	4.1%	6.3%	Neg.	Neg.	Neg.	0.2%	6.8%
EBIT margin	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EBIT margin, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
Profit margin, adjusted	Neg.	Neg.	0.0%	Neg.	Neg.	Neg.	Neg.	Neg.

Source: Fingerprint Cards, Penser by Carnegie

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

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%	31%	40%	39%
Total short-term liabilities / total cost	29%	23%	36%	18%	32%	37%	55%	56%
Working capital / total revenue	7%	1%	5%	27%	0%	-1%	0%	-1%
Capital turnover rate	0.8x	1.0x	1.0x	0.7x	0.9x	0.5x	0.4x	0.4x

Source: Fingerprint Cards, Penser by Carnegie

Financial position								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
Net debt	-507	-354	-59	43	-2	-173	-158	-167
Equity ratio	80%	75%	57%	60%	64%	79%	80%	79%
Net debt / equity	-0.3x	-0.3x	-0.1x	0.0x	0.0x	-0.2x	-0.2x	-0.2x
Net debt / EBITDA	-3.9x	N.m.	-0.7x	N.m.	N.m.	N.m.	-306.9x	-7.0x

Source: Fingerprint Cards, Penser by Carnegie

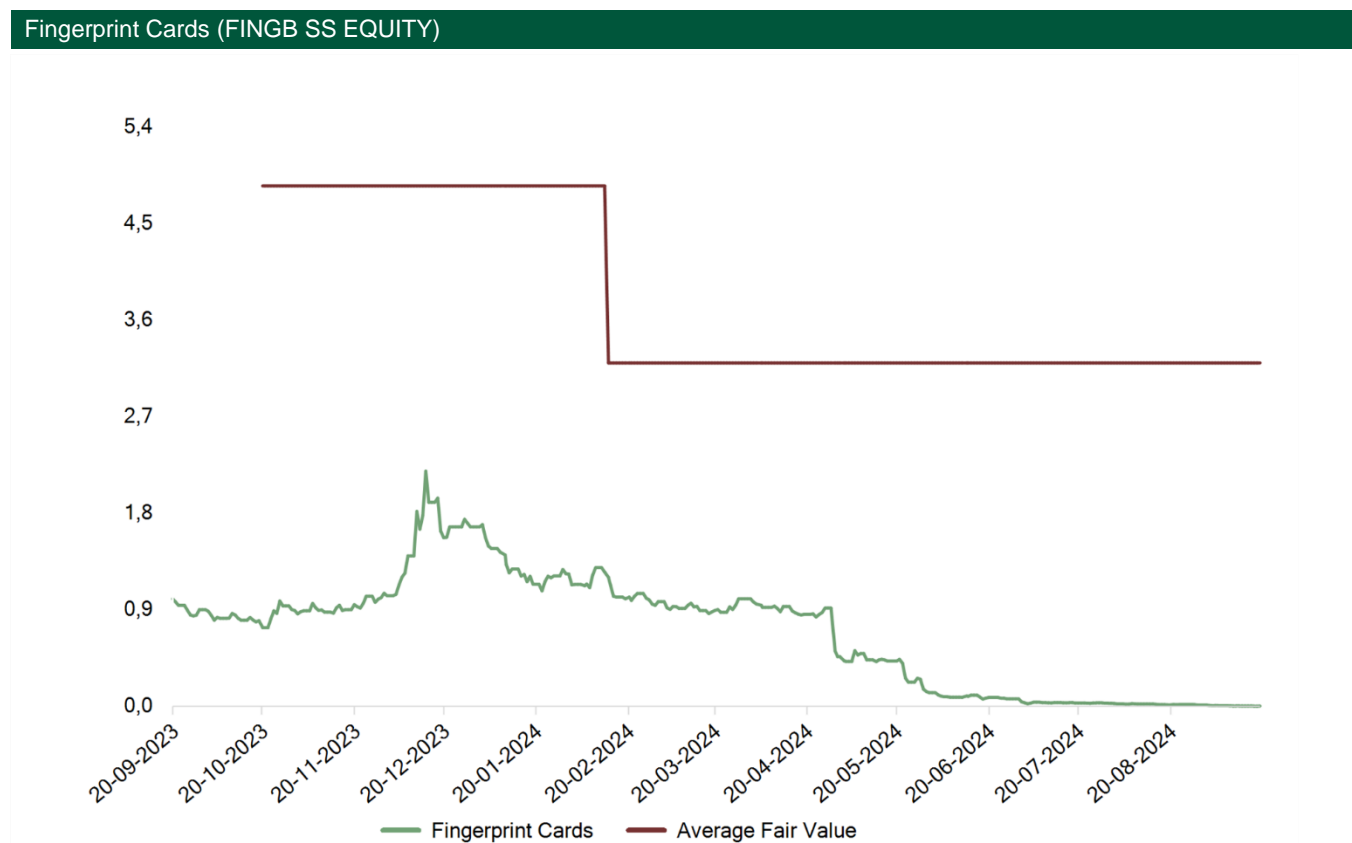
Per share data								
	2019	2020	2021	2022	2023	2024e	2025e	2026e
EPS	-0.04	-1.10	0.00	-1.92	-0.73	-0.10	-0.01	0.00
EPS, adjusted	-0.04	0.00	0.00	-0.50	-0.65	-0.12	-0.01	0.00
FCF per share	0.21	0.13	-0.23	-1.44	-0.29	-0.05	0.00	0.00
Book value per share	5.73	3.83	3.48	2.84	1.48	0.42	0.24	0.24
Number of shares, m	314	309	295	305	466	1,880	3,166	3,166
Number of shares after dilution, average	314	309	295	305	466	1,880	3,166	3,166

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.	Neg.
P/BV	3.3x	4.5x	5.9x	1.0x	1.2x	0.1x	0.2x	0.2x
P/FCF	90.4x	100x	Neg.	Neg.	Neg.	Neg.	Neg.	12.2x
FCF-yield	1%	1%	Neg.	Neg.	Neg.	Neg.	Neg.	8%
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	0.2x	0.2x	0.2x
EV/EBITDA, adjusted	42.1x	94.9x	70.6x	Neg.	Neg.	Neg.	100x	2.8x
EV/EBIT, adjusted	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.	Neg.
EV	5,420	4,895	6,025	1,277	1,018	67	67	67
Share price, year end	18.9	17.4	20.7	2.9	1.7	0.05	0.05	0.05

Source: Fingerprint Cards, Penser by Carnegie

Share Price and Average Fair Value Chart



Source: Penser by Carnegie, IDC

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