

WISeKey International Holding AG

Switzerland | Digital Security Technology

H1 2016 Results' Update

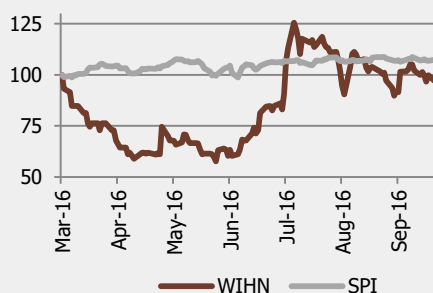
04 October 2016

Company Data

Price:	CHF5.73
Market Cap (incl. class B equivalent of class A shares):	CHF137m
Free Float (incl. class B equivalent of class A shares):	66.4%
Avg. traded vol.(since listing):	38'200
Bloomberg:	WIHN SW
Reuters:	WIHN.S
ISIN:	CH0314029270

Source: SIX Swiss Exchange and Bloomberg

Share Price Development (rebased)



Source: SIX Swiss Exchange

Key Financial Data (CHFm)

	2015	2016e	2017e	2018e
Sales	2.2	28.0	95.8	123.1
EBITDA%	NM	(15.9%)	14.5%	23.4%
EBIT %	NM	(17.0%)	13.4%	22.3%
Net Margin %	NM	(16.7%)	14.2%	23.2%
Net Income	(6.2)	(4.7)	13.6	28.5
Diluted EPS	(0.1)	(0.1)	0.4	0.9
Equity Ratio %	100%	100%	100%	100%
Capex	-	0.7	2.4	3.1
P/E	NM	NM	35.7x	17.1x
EV/EBITDA	NM	NM	33.0x	16.0x
EV/EBIT	NM	NM	35.8x	16.7x

Analysts

Doris Rudischhauser
dru@researchdynamics.ch
 Alexandre Müller
amu@researchdynamics.ch
 Tel: +41 43 268 3232
www.researchdynamics.ch

Solid outlook post H1 results; INSIDE Secure's semiconductor unit acquisition complete

WISeKey International Holding AG (Company) provided a solid outlook for 2016 following a largely un-encouraging set of H1 2016 results. The completion of the deal for INSIDE Secure's semiconductor business would enable WISeKey to offer a trusted end-to-end cybersecurity platform, thereby generating strong cross-selling opportunities for the company.

• H1 2016 operating loss widens

The company posted stand-alone revenue of USD1.3mn for H1 2016, a decline compared to USD1.5mn in H1 2015. The pro-forma revenue (including acquisitions and partnerships) amounted to USD17.5mn. The operating loss for the period significantly widened to CHF37.0mn compared to an operating loss of CHF5.0mn in H1 2015, primarily driven by strictly applying US GAAP rules to the corporate reorganization executed in March 2016 prior to the listing and the increased costs of listing on the Swiss stock exchange in Q1 2016. We believe the closure of the deal for INSIDE Secure's Semiconductor/ IoT assets and the ability to cross-sell its offerings could catapult WISeKey towards profitable growth in the future.

• Strong guidance

Post its H1 2016 results, WISeKey offered a solid outlook for 2016 and beyond. The company's pro forma sales guidance for 2016 was CHF29.0mn, which was higher than our estimate of CHF28.0mn. The company expects strong partnerships / agreements with major clients such as MasterCard, Hublot, Microsoft, CenturyLink, Bulgari, SAP and Samsung along with the acquisition of Vault IC from INSIDE Secure to drive the revenue growth. In the luxury sector, Hublot has renewed the contract with WISeKey for 2017 and the cooperation with Bulgari has started to bring revenues to WISeKey. The deployment of 1.5 million identities for Bulgari clients and the launch of the Bulgari Vault is allowing Bulgari clients to secure their assets with WISeKey Technology. A strong revenue outlook is also estimated for the Bulgari Intelligent watch to be launched in Q2 2017 with MasterCard payment using WISeKey chip and technology.

The company noted that it continues to expand globally by entering new markets such as India through strategic partnerships and a Joint Venture. WISeKey expects its cybersecurity and IoT technologies solutions to be embedded in the national infrastructure of the markets which it targets. As part of its global expansion program, the company cited potential collaborations with security service companies in Asia (India and China in particular). In Q4 2016/Q1 2017, WISeKey will focus on increasing its presence in North America through collaborations and expansion of its supply chain for the Internet of Things (IoT) market and executing the agreements signed with Microsoft, MasterCard, CenturyLink and SAP. WISeKey also stated that it plans to continue to make strategic acquisitions in the EU and the US and adding verticals to its platform in a bid to generate cross-selling opportunities for its offerings. The cooperation with CenturyLink has already delivered an IoT managed service that CenturyLink will be offering to all its clients using WISeKey technology and chips.

- **Other key developments**

On September 29, 2016 WISeKey announced the signing of a Memorandum of Understanding (MoU) with a group of entrepreneurs to establish a joint venture for deploying its IoT and cybersecurity platform in India. Under the agreement, WISeKey will create a WISeKey cryptographic Root of Trust (RoT) in India for IoT manufacturers and chipmakers. The first project will be connecting over 120 million Indian users via a platform that will be launched during the World Economic Forum in India during October. On September 21, 2016 WISeKey announced the completion of acquisition of INSIDE Secure's semiconductor business and integration of Vault IC into its vertical cybersecurity platform. We expect that the deal can create synergistic cross-selling opportunities as many of INSIDE Secure's semiconductor clients such as Cisco are now WISeKey clients and also potential customers for other WISeKey technologies beyond chips.

- **Valuation**

Although the company's sales expectation for 2016 is higher than our estimates, we prefer to remain conservative and reiterate our estimates on the company. We have updated the financial model for the latest balance sheet figures to arrive at the current valuation of CHF14.8 per share.

DETAILED FINANCIAL STATEMENTS**Income Statement**

Figures in CHF'mn	2015	2016E	2017E	2018E
Total revenue	2.2	28.0	95.8	123.1
COGS	(0.8)	(10.6)	(34.9)	(40.0)
Gross profit	1.4	17.4	61.0	83.1
Research and development	(0.6)	(5.5)	(11.8)	(13.6)
General and administrative	(4.3)	(8.7)	(18.8)	(21.7)
Sales and marketing	(1.3)	(7.6)	(16.5)	(19.0)
Loss on impairment	(1.5)	-	-	-
Total operating Costs	(7.8)	(21.9)	(47.0)	(54.3)
EBITDA	(6.3)	(4.4)	13.9	28.8
Depreciation	0.0	0.3	1.0	1.2
Amortization	0.3	0.0	0.1	0.1
Operating Profit (EBIT)	(6.6)	(4.8)	12.9	27.4
Interest income	0.0	0.0	0.5	0.7
Interest expenses	(0.0)	-	-	-
Other income (expenses), net	0.2	0.1	0.3	0.4
Loss on investments in associated companies	(0.0)	-	-	-
Income before taxes	(6.2)	(4.7)	13.6	28.5
Income taxes	(0.0)	-	-	-
Net income	(6.2)	(4.7)	13.6	28.5

Source: Company reports, Research Dynamics

Balance Sheet

Figures in CHF'mn	2015E	2016E	2017E	2018E
Cash and cash equivalents	0.4	0.5	0.4	45.1
Trade receivables, net of allowances for doubtful accounts	0.1	0.2	0.3	2.3
Receivables from shareholders	0.0	0.1	0.0	-
Receivables from related parties	-	-	0.0	1.4
Inventories	0.0	0.0	0.0	0.1
Prepaid expenses and other current assets	0.2	0.2	0.1	1.5
Total Current assets	0.7	1.0	1.0	50.4
Property, plant and equipment, net	0.1	0.0	0.0	0.3
Intangible assets, net	2.5	1.7	0.0	0.1
Investments in associated companies	0.1	-	-	-
Deposits	0.1	0.1	0.1	0.1
Total non-current assets	2.8	1.8	0.1	0.5
Total Assets	3.5	2.8	1.1	50.8

LIABILITIES AND STOCKHOLDERS DEFICIT

Bank overdraft	-	-	-	-
Accounts payable	0.6	0.7	0.9	8.7
Other current liabilities	0.9	2.5	1.5	3.6
Notes payable to shareholders	0.1	0.3	0.0	-
Accrued expenses payable to shareholders	1.0	-	-	-
Deferred revenues	0.1	0.3	0.4	2.4
Short term borrowings (Revolver Facility)	-	-	-	-
Total Current liabilities	2.8	3.8	2.8	14.7
Pension liabilities	1.1	2.4	2.9	3.1
Convertible Debt	-	-	-	2.9
Total Non Current Liabilities	1.1	2.4	2.9	5.9
Stockholders deficit	-	-	-	-
WISeKey SA	0.6	0.6	0.8	-
WISeTrust SA	0.4	0.4	0.4	-
WIHN Share Capital	-	-	-	1.1
Additional paid-in capital	76.5	105.8	111.5	149.1
Treasury shares	(1.7)	(1.7)	(2.0)	-
Accumulated deficit	(77.6)	(109.2)	(115.5)	(120.1)
Accumulated other comprehensive income	1.4	0.6	0.1	0.2
Total combined stockholders deficit	(0.3)	(3.4)	(4.6)	30.3
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	3.5	2.8	1.1	50.8

Source: Company reports, Research Dynamics

Cash Flow Statement

Figures in CHF'mn	2015	2016E	2017E	2018E
Net profit/(loss) for the year	(6.2)	(4.7)	13.6	28.5
Non Cash adjustments	3.6	0.5	1.1	1.4
Operating profit before working capital changes	(0.0)	(0.0)	0.0	0.0
Decrease (increase) in trade receivables	(0.1)	(1.9)	(5.5)	(2.2)
Decrease (increase) in inventories	0.0	(0.1)	(0.3)	(0.1)
Decrease (increase) in other receivables	-	-	-	-
Decrease (increase) in prepaid expenses and other assets	0.1	(1.3)	(3.6)	(1.4)
Increase (decrease) in payables and other liabilities	0.2	7.8	10.4	(2.7)
Increase (decrease) in other current liabilities	(1.0)	2.1	8.6	3.5
Increase (decrease) in deferred revenues	0.1	1.9	5.7	2.3
Interest paid	-	-	-	-
Interest received	-	-	-	-
Other items	(0.0)	-	-	-
Net cash generated from operating activities	(3.5)	4.3	30.0	29.2
Acquisition of WISeKey Liber, net of cash acquired	-	-	-	-
Other Acquisitions	-	-	-	-
Increase in receivables from related parties	(0.0)	(1.3)	-	-
Purchase of intangible assets	-	(0.1)	(0.5)	(0.6)
Change in receivable from shareholders	0.0	0.0	-	-
Purchase of property, plant and equipment	-	(0.6)	(1.9)	(2.5)
Reimbursements from shareholders	-	-	-	-
Cash from recapitalisation	-	-	-	-
Increase / Decrease in Deposits	-	(0.0)	-	-
Disposal of Assets	-	0.0	-	-
Net cash flow from/(used in) investing activities	(0.0)	(2.0)	(2.4)	(3.1)
Net cash flow from/(used in) investing activities	(0.0)	(2.0)	(2.4)	(3.1)
Increase in Share Capital	-	37.6	-	-
Increase (decrease) in bank overdrafts	-	-	-	-
Increase (decrease) in notes payable to shareholders	0.0	(0.0)	-	-
Increase (decrease) in short term borrowings	-	-	-	-
Proceeds from issuance of common stock	0.4	-	-	-
Proceeds from sales of treasury shares	3.1	2.0	-	-
Proceeds from issuance of convertible debt	-	2.9	-	-
Other Financing Activities	-	(0.1)	-	-
Net cash (used in)/from financing activities	3.5	42.4	-	-
Net Increase in cash and cash equivalents	(0.0)	44.7	27.6	26.1
Cash and cash equivalents - beginning of the year	0.5	0.4	45.1	72.8
Cash and cash equivalents - end of the year	0.4	45.1	72.8	98.9

Source: Company reports, Research Dynamics

Key Ratios

	2014	2015	2016E	2017E	2018E
Growth Ratios (YoY)					
Revenue Growth (%)	(39.8%)	(34.0%)	1169.9%	242.0%	28.5%
EBITDA Growth (%)	NM	NM	NM	NM	106.5%
Net Income Growth (%)	NM	NM	NM	NM	109.4%
Profitability Ratios (% of Revenue)					
GP Margin	61.1%	64.1%	62.1%	63.6%	67.5%
EBITDA Margin	(940.9%)	(287.8%)	(15.9%)	14.5%	23.4%
Operating Profit Margin	(960.2%)	(301.3%)	(17.0%)	13.4%	22.3%
Net income margin	(947.8%)	(282.6%)	(16.7%)	14.2%	23.2%
ROE DuPont analysis					
Net profit margin (%)	(947.8%)	(282.6%)	(16.7%)	14.2%	23.2%
Turnover to asset ratio	1.1x	1.1x	1.4x	1.4x	1.2x
Asset to equity ratio	(1.7x)	(0.5x)	2.5x	1.9x	1.8x
Return on equity (%)	NM	NM	NM	36.7%	49.0%
Total common equity	(3.4)	(4.6)	30.3	43.9	72.4
Total debt	-	-	-	-	-
Total Invested Capital	(3.4)	(4.6)	30.3	43.9	72.4
EBIT	(31.5)	(6.3)	(4.4)	13.9	28.8
NOPAT	(31.5)	(6.4)	(4.4)	13.9	28.8
ROIC (%)	NM	NM	NM	37.6%	49.5%
Net Profit / Sales	(947.8%)	(282.6%)	(16.7%)	14.2%	23.2%
Sales / CE	NM	NM	343.4%	258.5%	211.8%
ROCE (%)	NA	NA	(57.2%)	36.7%	49.0%
Return Ratios (%)					
Return on asset (%)	NM	NM	NM	19.4%	27.2%
Return on equity (%)	NM	NM	NM	36.7%	49.0%
Major expenses (as a % of net sales)					
COGS	38.9%	35.9%	37.9%	36.4%	32.5%
Opex	1002.0%	351.9%	78.0%	49.1%	44.1%
Liquidity ratios (x)					
Current ratio	0.26	0.35	3.43	2.22	2.76
Quick ratio	0.25	0.35	3.42	2.21	2.74

Source: Company reports, Research Dynamics

DISCLAIMER

WISeKey International Holding AG ("WIHN") is a client of Research Dynamics. The equity research report(s) are prepared for informational purposes only and are paid for by the company portrayed in the report. Research Dynamics is a division of Dynamics Group AG. Dynamics Group is an independent consultancy firm focused on strategic advisory, communication management and research and analysis.

This report (henceforth known as "document") has been drafted by the authors concerned as a non-binding opinion on the market situation and on the instruments of investment in question and compiled by Dynamics Group in order to provide background information about the companies. It is intended exclusively for the purpose of information.

Dynamics Group has not individually verified the information and data on which this document is based. All information and data in this document originate from generally available sources which the author concerned or Dynamics Group viewed as reliable at the time of drafting this document. However, no liability can be assumed for their correctness, accuracy, completeness and appropriateness – neither expressly nor tacitly. The contents of this document do not represent an assurance or guarantee by the authors concerned or Dynamics Group. Forward-looking information or statements in this document contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Dynamics Group shall not be liable for any consequential damage to properties – on whatever legal grounds it may be. Liability of Dynamics Group on account of premeditation or gross negligence shall remain unaffected by this.

Dynamics Group has no permission to provide assurances or assume guarantees on behalf of the companies or a third party mentioned in this document. Neither the companies mentioned in this document nor any other individual assumes liability for any loss, damage or detriment that may result from the use of this document, especially when taking decisions on investments, or from other reasons. Dynamics Group cannot be held responsible for detrimental consequences that occur or may occur due to the use or its omission based on the views and inferences contained in this document. Past performance trends of value, price or rates do not provide any indications to the future trends for an investment. Dynamics Group does not provide any guarantees for the suggested yield or the achievement of referred targets.

This document does neither represent an offer of purchase, holding or sale of any securities, money market instruments or of derivatives, nor does it contain the basis for a contract or a commitment of any kind. Every investment, for example, in debentures, shares and options, is associated with enormous risks. A decision on investment with regard to any security may not be based on this document. This document is neither an advice on investment, nor a recommendation or invitation for purchasing, holding or selling any securities, money market instruments or derivatives.

Dynamics Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this document. However, the respective directors, employees and contractors of Dynamics Group may hold positions in the described securities and/or options, futures and other derivatives that are based on these securities.

This document has been provided to you for information only. It may not be reproduced or distributed to others or published in any other form partially or fully.

The distribution of this document and the information contained therein may be restricted in other jurisdictions by law and persons who may come into possession of this document must be aware of possible restrictions and adhere to the same. Failure to comply with such restrictions may constitute an infringement of the laws in USA or Canada governing the securities or of the laws of any other jurisdiction.

This study is protected by the copyright laws. It may be used only for the purpose as defined in this disclaimer. Portions of the study, if quoted, must be acknowledged by indicating the source. Any use other than this shall require prior written permission by Dynamics Group. Reproduction, circulation, publication and provision of online access to the document shall be regarded as its use and the same shall require permission. Circulation of this document, especially in a foreign country, may be permitted only under the provisions of the disclaimer and the applicable regulations. Unauthorized use of the study or omission of details of the source or the acknowledgement of copyright may lead to initiation of a civil suit for damages and be liable for prosecution.

If any part or individual formulations of this disclaimer are found to be unsustainable or become unsustainable at a future date, the rest of the contents and their validity shall not be affected by it.

Dynamics Group AG

Utoquai 43
CH-8008 Zürich
Tel. +41 43 268 32 32
Fax +41 43 268 32 39

Zeughausgasse 22
CH-3011 Bern
Tel. +41 31 312 28 41
Fax +41 31 312 28 49

21, rue des Caroubiers
CH-1227 Carouge/GE
Tel. +41 22 308 62 20
Fax +41 22 308 62 36

contact@dynamicsgroup.ch

<http://www.dynamicsgroup.ch>