

# WISeKey International Holding AG

Switzerland | Digital Security Technology

## News Update

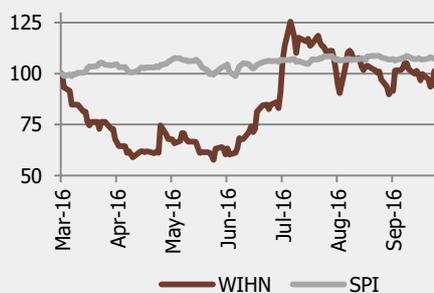
10 October 2016

### Company Data

Price:	CHF5.98
Market Cap (incl. class B equivalent of class A shares):	CHF143m
Free Float (incl. class B equivalent of class A shares):	66.4%
Avg. traded vol.(since listing):	37'933
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

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## Expanding vertical cybersecurity IoT platform in India

### Partnership with Indian Potash Limited (IPL)

WISeKey last week, on occasion of the India Economic Summit, announced a partnership with Indian Potash Limited (IPL), to create a cybersecurity IoT ecosystem based on the WISeKey Root of Trust and Semiconductors IoT technology. The cooperation between the two companies will enable IPL's end-user base of 140 million farmers (WISeFarmer) to be a part of the 'Digital India' initiative launched by the government of India and use various advantages of the Internet of Things (IoT) through the WISeKey platform that WISeKey is localizing in India. Management expects this deal to enable over 200 companies part of IPL distribution channels to be securely connected into a trusted cybersecurity platform, thereby creating an inclusive ecosystem for farmers. With the recently acquired French semiconductor company VaultIC, WISeKey will be in the position to provide the required encrypted chips for the 140 million farmers via a personalized NFC smartcard synchronizing to a mobile app and as well as IPS' fertilizer bags, which will have a substantial impact on WISeKey sales in FY 2017. We understand from management that the projection is to certify over 400 million bags with this technology. Ramp-up of production at the current chip facility in France should not be a problem as the VaultIC in the past produced over 1 million chips a day for Blackberry and thus has enough capacities to ramp-up to this size.

The farmers and distributors using this technology would be able to authenticate themselves through a trusted web platform exchange between IPL, farmer's communities, government entities and private enterprise members of this ecosystem. This would be done by providing each WISeFarmer with a digital identity stored on the cryptographic smart card that, once connected to their mobile phone, will give them access to secure services provided by IPL, adding digital certificates on their chips at the hardware level to encrypt the communication and authenticate the devices. The project will also allow farmers to access to financial services and conduct secure transactions with their mobiles. Digital certificates embedded in the chips will authenticate all products provided by IPL and will also enable IPL to track, especially, fertilizer bags from the factory/port to farmers. This would, therefore, benefit the government to directly transfer the benefits of subsidies to farmers. IPL is India's largest potash firm with FY2015 (March ended) revenues of USD2.3bn. The company is owned mainly by cooperatives and has a banking relationship with some of the major banks operating in India.

### Intention to create a partnership with Bajaj Electricals

WISeKey also announced its intention to enter into a partnership with Bajaj Electricals Limited (BEL), one of India's leading consumer durable and lighting companies. In the first phase, WISeLight, an IoT trusted platform will be developed to connect approximately 100 million consumer & industrial products to a secure cloud. WISeKey will create approximately 100 million digital identities of the stock keeping units (SKUs). WISeLight will enable each Bajaj electrical appliance to be hardened by a digitally certified eco-system for the connected objects. WISeKey also asserted that WISeLight would make possible the delivery of lighting solutions using IoT wherein sensors and embedded microchips will detect and interact with the environment in real-time, leading to 80% savings in energy consumption. We believe such innovations and their implementation by major players in India's electrical industry should bode well for demand, given India's huge energy demand-supply gap.

### Conclusion

We believe that these novel partnerships will lay the foundation for implementation of WISeKey technology to other sectors such as telecom, manufacturing and retail including e-commerce. WISeKey will benefit due to the fact that the Indian Internet of Things (IoT) market is set to grow to USD15 billion by 2020 from the current USD5.6 billion, according to a report by Nasscom released on Wednesday in Bengaluru. The IoT sector is set to get a major boost from industrial IoT, which currently accounts for 60% for the total market and includes integration of physical machinery with networked sensors and using the data for faster and more efficient operations.

We also think that such partnerships will boost the company’s efforts in expanding through similar deals in other countries and clearly shows the benefits of WISeKey’s neutral cryptographic rootkey domiciled outside the US.

### Valuation

While we see tremendous potential in the announced cooperations, adding to sales and profitability (we understand from management that WISeKey International Holding holds a 51% majority in the JV to be set up, thus revenues will be consolidated and sales and profits should fully go into the P&L), we are leaving our estimates unchanged for now. Firstly, we do not expect any major impact of the IPL and BEL deals in 2016 while the projects get established; secondly, final details are still to be provided on how exactly the WISeFarmer and WISeLight deals will be monetized. Thus, we await more tangibles on the cooperations before adjusting our estimates. Our current approach values the company at CHF14.8 per share, with upside potential once we have more visibility on the execution of the Indian joint ventures. Moreover, successful implementation of the deals should enable WISeKey to generate cross-selling opportunities, given its ongoing geographic expansion in countries such as India and possibly other regions.

**Exhibit 1: WISeKey – Comparison with Industry peers**

Company Name	EV/Revenue			EV/EBITDA			P/E		
	2015A	2016E	2017E	2015A	2016E	2017E	2015A	2016E	2017E
WISeKey International Holding Ltd	NM	16.4x	4.8x	NM	NM	33.0x	NM	NM	35.7x
NXP Semiconductors NV	7.3x	4.6x	4.4x	22.1x	12.7x	11.6x	19.2x	17.9x	14.0x
Ixera ASA	NM	NM	4.7x	NM	NM	NM	NM	NM	NM
Juniper Networks, Inc.	1.8x	1.8x	1.7x	6.6x	6.8x	6.3x	12.4x	12.7x	11.6x
Red Hat, Inc.	7.1x	6.2x	5.2x	25.9x	22.7x	19.6x	49.4x	41.9x	34.7x
Palo Alto Networks, Inc.	15.2x	10.1x	7.5x	NM	49.1x	31.2x	NM	NM	57.0x
VeriSign, Inc.	7.7x	7.1x	6.9x	11.4x	10.3x	10.0x	25.1x	21.9x	20.2x
FireEye, Inc.	3.4x	2.9x	2.6x	NM	NM	NM	NM	NM	NM
Check Point Software Technologies Ltd.	6.1x	5.8x	5.4x	10.6x	10.4x	9.8x	18.9x	17.5x	16.1x
Average	6.9x	5.5x	4.8x	15.3x	18.7x	14.8x	25.0x	22.4x	25.6x
Median	7.1x	5.8x	5.0x	11.4x	11.5x	10.8x	19.2x	17.9x	18.2x
High	15.2x	10.1x	7.5x	25.9x	49.1x	31.2x	49.4x	41.9x	57.0x
Low	1.8x	1.8x	1.7x	6.6x	6.8x	6.3x	12.4x	12.7x	11.6x
Premium (disc) to product peers	NM	184.9%	(3.3%)	NM	NM	205.3%	NM	NM	96.5%

Source: Bloomberg and Research Dynamics

Using discounted cash flow (DCF) methodology, the intrinsic price of the group comes to CHF14.8 per share. Our weighted average cost of capital (WACC) of 13.6% is based on a cost of equity of 13.6% and cost of debt as *nil* since the company does not have any debt in its balance sheet. Our inputs for cost of equity include beta of 1.20 (time span: last five years), current 10 year government bond yield of 2.6% and long term average return of 5.8% generated by the Swiss Market Index. Our assumptions are based on the aggressive growth plans as targeted by management; we have explicitly forecasted cash flows till FY2021E and thereafter assumed a terminal growth rate of 2.5%.

**Exhibit 2: Sensitivity of WACC and Terminal Growth**

		Enterprise Value Sensitivity				
		Terminal Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	11.6%	526	549	574	602	634
	12.6%	467	484	504	526	550
	13.6%	417	431	447	464	483
	14.6%	376	387	400	413	428
	15.6%	340	350	360	371	383

Source: Research Dynamics

**Exhibit 3: Sensitivity of WACC and Implied Multiple**

		Implied Multiple EV / 2017 Revenue				
		Terminal Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	11.6%	5.5x	5.7x	6.0x	6.3x	6.6x
	12.6%	4.9x	5.1x	5.3x	5.5x	5.7x
	13.6%	4.4x	4.5x	4.7x	4.8x	5.0x
	14.6%	3.9x	4.0x	4.2x	4.3x	4.5x
	15.6%	3.6x	3.7x	3.8x	3.9x	4.0x

Source: Research Dynamics

## DETAILED FINANCIAL STATEMENTS

### Income Statement

Figures in CHF'mn	2015	2016E	2017E	2018E
<b>Total revenue</b>	2.2	28.0	95.8	123.1
COGS	(0.8)	(10.6)	(34.9)	(40.0)
<b>Gross profit</b>	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)
<b>EBITDA</b>	<b>(6.3)</b>	<b>(4.4)</b>	<b>13.9</b>	<b>28.8</b>
Depreciation	0.0	0.3	1.0	1.2
Amortization	0.3	0.0	0.1	0.1
<b>Operating Profit (EBIT)</b>	<b>(6.6)</b>	<b>(4.8)</b>	<b>12.9</b>	<b>27.4</b>
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)	-	-	-
<b>Income before taxes</b>	<b>(6.2)</b>	<b>(4.7)</b>	<b>13.6</b>	<b>28.5</b>
Income taxes	(0.0)	-	-	-
<b>Net income</b>	<b>(6.2)</b>	<b>(4.7)</b>	<b>13.6</b>	<b>28.5</b>

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
<b>Total Current assets</b>	<b>0.7</b>	<b>1.0</b>	<b>1.0</b>	<b>50.4</b>
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
<b>Total non-current assets</b>	<b>2.8</b>	<b>1.8</b>	<b>0.1</b>	<b>0.5</b>
<b>Total Assets</b>	<b>3.5</b>	<b>2.8</b>	<b>1.1</b>	<b>50.8</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>				
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)	-	-	-	-
<b>Total Current liabilities</b>	<b>2.8</b>	<b>3.8</b>	<b>2.8</b>	<b>14.7</b>
Pension liabilities	1.1	2.4	2.9	3.1
Convertible Debt	-	-	-	2.9
<b>Total Non Current Liabilities</b>	<b>1.1</b>	<b>2.4</b>	<b>2.9</b>	<b>5.9</b>
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
<b>Total combined stockholders deficit</b>	<b>(0.3)</b>	<b>(3.4)</b>	<b>(4.6)</b>	<b>30.3</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT</b>	<b>3.5</b>	<b>2.8</b>	<b>1.1</b>	<b>50.8</b>

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
<b>Operating profit before working capital changes</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>0.0</b>	<b>0.0</b>
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)	-	-	-
<b>Net cash generated from operating activities</b>	<b>(3.5)</b>	<b>4.3</b>	<b>30.0</b>	<b>29.2</b>
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)	-	-
Dsposal of Assets	-	0.0	-	-
<b>Net cash flow from/(used in) investing activities</b>	<b>(0.0)</b>	<b>(2.0)</b>	<b>(2.4)</b>	<b>(3.1)</b>
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)	-	-
<b>Net cash (used in)/from financing activities</b>	<b>3.5</b>	<b>42.4</b>	<b>-</b>	<b>-</b>
<b>Net Increase in cash and cash equivalents</b>	<b>(0.0)</b>	<b>44.7</b>	<b>27.6</b>	<b>26.1</b>
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

	2015	2016E	2017E	2018E
<b>Growth Ratios (YoY)</b>				
Revenue Growth (%)	(34.0%)	1169.9%	242.0%	28.5%
EBITDA Growth (%)	NM	NM	NM	106.5%
Net Income Growth (%)	NM	NM	NM	109.4%
<b>Profitability Ratios (% of Revenue)</b>				
GP Margin	64.1%	62.1%	63.6%	67.5%
EBITDA Margin	(287.8%)	(15.9%)	14.5%	23.4%
Operating Profit Margin	(301.3%)	(17.0%)	13.4%	22.3%
Net income margin	(282.6%)	(16.7%)	14.2%	23.2%
<b>ROE DuPont analysis</b>				
Net profit margin (%)	(282.6%)	(16.7%)	14.2%	23.2%
Turnover to asset ratio	1.1x	1.1x	1.4x	1.2x
Asset to equity ratio	(0.5x)	2.0x	1.9x	1.8x
Return on equity (%)	NM	NM	36.7%	49.0%
Total common equity	(4.6)	30.3	43.9	72.4
Total debt	-	-	-	-
Total Invested Capital	(4.6)	30.3	43.9	72.4
EBIT	(6.3)	(4.8)	12.9	27.4
NOPAT	(6.4)	(4.8)	12.9	27.4
ROIC (%)	NM	NM	34.7%	47.2%
Net Profit / Sales	(282.6%)	(16.7%)	14.2%	23.2%
Sales / CE	NM	218.5%	258.5%	211.8%
ROCE (%)	NA	(36.4%)	36.7%	49.0%
<b>Return Ratios (%)</b>				
Return on asset (%)	NM	NM	19.4%	27.2%
Return on equity (%)	NM	NM	36.7%	49.0%
<b>Major expenses (as a % of net sales)</b>				
COGS	35.9%	37.9%	36.4%	32.5%
Opex	351.9%	78.0%	49.1%	44.1%
<b>Liquidity ratios (x)</b>				
Current ratio	0.3	3.4	2.2	2.8
Quick ratio	0.3	3.4	2.2	2.7

Source: Company reports, Research Dynamics

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