

WISeKey International Holding AG

Switzerland | Digital Security Technology

2016 Earnings Update

17 May 2017

Company Data

Price:	CHF3.25
Market Cap (incl. class B equivalent of class A shares):	CHF93.8m
Free Float (incl. class B equivalent of class A shares):	70%
Avg. traded vol.(since listing):	33'918
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)

	2016A	2017E	2018E	2019E
Sales	11.0	111.7	150.0	181.3
EBITDA %	NM	3.4%	12.0%	17.9%
EBIT %	NM	4.5%	13.1%	19.0%
Net Margin %	NM	3.5%	12.1%	18.1%
Net Income	NM	4.0	18.1	32.8
Equity Ratio %	100%	100%	100%	100%
Capex	-	2.8	3.8	4.5
Basic EPS	NM	0.1	0.7	1.2
Diluted EPS	(1.0)	0.1	0.5	0.9
P/E	NM	NM	28.3x	15.6x
EV/EBITDA	NM	NM	27.1x	15.0x
EV/EBIT	NM	NM	24.8x	14.1x

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Vertical integration to fuel top line

About the company

WISeKey is a digital information security, authentication, and digital identity management company that uses distributed trusted root-based PKI (Root of Trust "RoT") to secure electronic information via their digital certification technology for objects (IoT) and users eIDs. The RoT serves as common trust anchor, which is then recognized by the OS and IoT applications to ensure authenticity, confidentiality and integrity of on-line transactions. These techniques are then used by various government and non-government organizations to prevent unidentified users from accessing the data.

FY2016 Result in line with expectation

WISeKey's FY2016 results were in line with the company's pre-announced figures in April 2017. Total consolidated revenue (including acquisitions and partnership) came in at CHF11.0 million (v/s CHF2.3 million last year) which was largely on account of the inclusion of Inside Secure business in the last quarter of 2016. The semiconductor segment (76% of total revenue) performed as per our estimates. Operating loss widened significantly to CHF36.2 million as compared to loss of CHF6.5 million. This was on account of significant increase in sales and marketing costs and general administrative costs related to acquisition and cost of listing on stock exchange. Including the impact of share based compensation and accounting book losses arising out of corporate restructuring of CHF24.8 million, net loss for the year was CHF35.9 million v/s loss of CHF6.1 million in FY2015. We believe FY2017 to be a transformative year as the results of acquisition and JVs will play their part, impacting the top-line positively. The acquisitions of the semiconductor/IoT business VaultIC and the specialist in managed public key infrastructure solutions QuoVadis should start showing positive results in 2017 in terms of monetization of WISeKey's business model with its vertical platform. We believe the company will be able to make profit at the net level in FY2017.

Credit Facility to help leverage IP and Patent Portfolio

WISeKey recently announced that it has entered into a non-binding term sheet credit facility of USD25 million with Global Asset Management Firm, (a leading US AMC) specialized in IP asset backed financing. Of the USD25 million, USD16.2 million shall be used to refinance the loan outstanding under the existing credit facility with ExWorks Capital (used to acquire QuoVadis earlier this year). The remaining amount shall be used to acquire new IoT/Semiconductor patents to be integrated into WISeKey. The capital would further allow the company to boost its operations and strengthen its roots in Silicon Valley. The new credit facility shall provide WISeKey with additional cash to leverage its IP and patent portfolios to access additional growth capital. Patent acquisition of 'INSIDE Secure' in 2016 allowed the company to acquire 17 new IoT patents, and providing certified hardware, software and system certification, provisioning and management of cybersecurity services. As it is backed by one of the largest AMC in US's with significant expertise in defending patent portfolio, this will boost WISeKey to monetize on its extensive IP and patent tool and prepare itself for immense internet connectivity.

Strategic acquisitions in 2016-17 to improve topline

WISeKey's acquisition of VaultIC in 2016, the semiconductor business segment of INSIDE Secure and the acquisition QuoVadis in 2017 along with partnership with SAP, Microsoft, MasterCard, CenturyLink and Cisco have opened doors for WISeKey to be a global leader in the technology security space. In addition, the acquisition of QuoVadis has improved WISeKey's strategic position in the Digital Certificate market. Through these acquisitions, WISeKey has expanded its client base by adding more than 300 large cap and 3000 overall customers worldwide

including Europe, the U.S., and Australia. Recently announced partnership and JVs in high growth market as Argentina and India provide significant growth opportunity in terms of client base and revenue visibility over long term. The company is looking for additions in client base in European cyber security and Blockchain space.

Blockchain as a Service for US enterprises

Last year, WISeKey launched its first Blockchain Center of Excellence in Mauritius to develop a Blockchain platform to assist the government to create Blockchain Ecosystem. Since then, additional Blockchain Center of Excellences were launched in Rwanda and Argentina as well as the intention of establish an IoT Blockchain Center of Excellence in the Canton of Zug/Switzerland to deploy a Trusted Blockchain as a Service platform. WISeKey is also in process of establishing an IoT Blockchain Centre of Excellence in New York aiming to deploy a Trusted Blockchain as a Service platform. The center, which is expected to become operational in Q3 2017, will offer a Blockchain Platform to US based enterprises, facilitating the rapid adaptation of on-board Blockchain based solutions and services.

At the center, WISeKey will be cooperating with U.S. based participating companies, on building points of view, proof of concepts, policies, educational materials including addressing all the distributed ledger capabilities across different Blockchain schemes (public, consortium and private), with industry virtualization.

Opportunities ahead

It is expected that the global spending in cybersecurity space will exceed USD 1 trillion cumulatively over the next five years. Owing to the complexity of equipments and device automation at a rapid space, it is imminent that the sector has lots to offer in managing trillions of devices. Spending into cybersecurity is driven mainly by cybercrimes and protecting data from access to unauthorized persons. Recent increase in cybercrime rates have forced for better measures to track and prevent the crimes, requiring use of certified hardware and software. WannaCry ransomware infected more than 230,000 computers in nearly 150 countries, demanding ransom payments in Bitcoins and prohibiting the user access to its personal database.. Such attacks could also move into the IoT world, similarly as to what has happened already in the past where compromised video cameras were used in botnets. This creates opportunities for companies such as WISeKey with its offerings for digital identity ecosystems.

According to the WISeKey management the operations of the Indian JV is right on track. The Indian partners have committed to generate USD20 million of revenues for the Joint Venture in India during the period 2017-2019. The company in India is partnering with reputed enterprises such as IPL, Bajaj, Mahindra to deploy its IoT platform in India. This in our opinion is a perfect opportunity for WISeKey to leverage the Indian governments push for digital India , Internet of Things and smart city initiatives.

Valuation

We are positive on the management's strategy of synergistic mergers to create an all-round cyber security portfolio. We also remain confident on the JVs to rope in additional benefits from developing countries thereby acquiring niche markets and create a platform for future cash flows. Having entered into an era of technological dependencies and IoT being the next big thing, have already created buzz among the general population, which gives opportunity to securitization/privatization of the data form arising malwares. On a pro forma basis, the consolidated revenue for WISeKey, Vault IC and QuoVadis generated revenue of CHF52 million in 2016. Going forward, we believe this revenue could increase given the incremental revenues from the Indian JV. Moreover successful integration of QuoVadis can offer further upside to the stock. However, we prefer to be conservative with our estimates given the high R&D cost and marketing expenses will have an impact on the profit despite the increase in total revenue. On account of WISeKey's current valuation we continue to remain positive on the stock and arrive at a share price of CHF14.3 (CHF15.0 previously).

Exhibit 1: WISeKey – Comparison with Industry peers

Company Name	EV/Revenue			EV/EBITDA			P/E		
	2016 A	2017E	2018E	2016 A	2017E	2018E	2016 A	2017E	2018E
WISeKey International Holding Ltd	NM	44.4x	4.4x	NM	NM	NM	NM	NM	NM
NXP Semiconductors	4.5x	4.8x	4.5x	14.4x	13.7x	12.1x	NM	NM	29.3x
Idex ASA	NM	12.7x	2.7x	NM	NM	22.7x	NM	NM	29.3x
Juniper Networks, Inc.	2.1x	2.0x	1.9x	7.8x	7.2x	6.5x	19.2x	18.5x	17.2x
Red Hat, Inc.	7.3x	6.2x	5.4x	27.0x	23.4x	19.9x	NM	NM	NM
Palo Alto Networks, Inc.	6.7x	5.4x	4.4x	NM	24.0x	18.2x	NM	NM	NM
VeriSign, Inc.	7.9x	7.8x	7.6x	11.4x	11.2x	10.7x	20.4x	19.4x	18.8x
FireEye, Inc.	2.8x	2.8x	2.5x	NM	NM	20.9x	NM	NM	NM
Check Point Software	9.6x	8.9x	8.4x	17.6x	16.4x	15.5x	25.2x	23.7x	22.1x
ams AG	9.6x	5.6x	4.3x	NM	20.5x	13.0x	NM	NM	21.5x
Average	6.3x	6.3x	4.7x	15.6x	16.6x	15.5x	21.6x	20.5x	23.0x
Median	7.0x	5.6x	4.4x	14.4x	16.4x	15.5x	20.4x	19.4x	21.8x
High	9.6x	12.7x	8.4x	27.0x	24.0x	22.7x	25.2x	23.7x	29.3x
Low	2.1x	2.0x	1.9x	7.8x	7.2x	6.5x	19.2x	18.5x	17.2x
Premium (disc) to product	NM	698%	(0.0%)	NM	NM	NM	NM	NM	NM

Source: CapIQ and Research Dynamics

FINANCIAL STATEMENTS**Income Statement**

Figures in CHF'mn	2016A	2017E	2018E	2019E
Total revenue	11.0	111.7	150.0	181.3
Gross profit	4.4	69.7	102.3	130.2
EBIT (Operating Profit)	(36.2)	3.8	18.0	32.5
EBITDA	(35.0)	5.0	19.6	34.5
Net income available to Shareholders	(35.9)	4.0	18.1	32.8

Source: Company reports, Research Dynamics

Balance Sheet

Figures in CHF'mn	2016A	2017E	2018E	2019E
ASSETS				
Total Current assets	11.6	33.1	51.9	77.4
Total non-current assets	16.3	17.9	20.0	22.5
Total Assets	33.6	67.5	97.8	138.7
LIABILITIES AND STOCKHOLDERS DEFICIT				
Total Current liabilities	25.6	55.2	67.2	74.9
Total Non Current Liabilities	6.1	6.1	6.1	6.1
Total Liabilities And Stockholders' Deficit	33.6	67.5	97.8	138.7

Source: Company reports, Research Dynamics

Cash Flow Statement

Figures in CHF'mn	2016A	2017E	2018E	2019E
Net cash generated from operating activities	(10.9)	(5.1)	14.3	35.9
Net cash flow from/(used in) investing activities	(3.0)	(2.8)	(3.8)	(4.5)
Net cash (used in)/from financing activities	18.1	-	-	-
Cash and cash equivalents - end of the year	4.4	(3.5)	7.1	38.4
Net Increase in cash and cash equivalents	4.1	(7.9)	10.5	31.4
Cash and cash equivalents - beginning of the year	0.3	4.4	(3.5)	7.1

Source: Company reports, Research Dynamics

Key Ratios

	2016A	2017E	2018E	2019E
Growth Ratios (YoY)				
Revenue Growth (%)	NM	NM	34.4%	20.8%
EBITDA Growth (%)	NM	NM	NM	80.8%
Net Income Growth (%)	NM	NM	NM	81.1%
Profitability Ratios (% of Revenue)				
GP Margin	40.4%	62.4%	68.2%	71.8%
EBITDA Margin	NM	3.4%	12.0%	17.9%
Operating Profit Margin	NM	4.5%	13.1%	19.0%
Net income margin	NM	3.5%	12.1%	18.1%
Total debt	-	-	-	-
Total Invested Capital	1.9	6.1	24.5	57.6
EBIT	(35.0)	5.0	19.6	34.5
NOPAT	(35.0)	5.0	19.6	34.5
ROIC (%)	NM	125.7%	128.1%	84.0%
Net Profit / Sales	NM	3.5%	12.1%	18.1%
ROCE (%)	NA	98.6%	118.3%	79.9%
Return Ratios (%)				
Return on asset (%)	NM	7.8%	21.9%	27.7%
Return on equity (%)	NM	98.6%	118.3%	79.9%
Liquidity ratios (x)				
Current ratio	0.7x	0.9x	1.2x	1.6x
Quick ratio	0.6x	0.2x	0.4x	0.8x

Source: Company reports, Research Dynamics

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