

# WISeKey International Holding AG

Switzerland | Digital Security Technology

## News Update

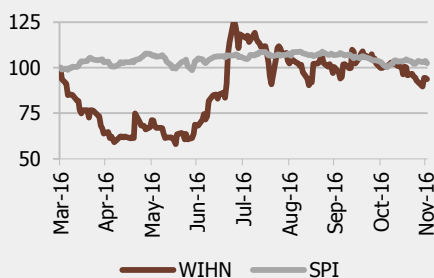
05 December 2016

### Company Data

Price:	CHF5.50
Market Cap (incl. class B equivalent of class A shares):	CHF132m
Free Float (incl. class B equivalent of class A shares):	66.4%
Avg. traded vol.(since listing):	35'272
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)

	2015A	2016E	2017E	2018E
Sales	2.3	29.6	117.9	147.8
EBITDA %	NM	(19.2%)	5.0%	8.3%
EBIT %	NM	(20.3%)	3.9%	7.2%
Net Margin %	NM	(20.1%)	4.0%	7.5%
Net Income	(6.4)	(6.0)	4.7	11.1
Equity Ratio %	100.0%	100.0%	100.0%	100.0%
Capex	-	0.7	2.9	3.7
Basic EPS	NM	NM	0.2	0.5
Diluted EPS	(0.1)	(0.2)	0.1	0.3
P/E	NM	NM	104.8x	44.4x
EV/EBITDA	NM	NM	79.1x	37.7x
EV/EBIT	NM	NM	NM	43.5x

### Analysts

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## Poised for international growth

### Establishment of Indian Joint Venture complete

WISeKey announced the incorporation of a Joint Venture (JV) company (WISeKey India) in India, in partnership with Indian Potash Limited (IPL), India's largest potash firm. The partnership will enable WISeKey to deploy its cybersecurity and IoT Vertical platform in the Indian market. The WISeKey India JV includes the development of a full localized Root of Trust (RoT) and Public Key Infrastructure (PKI) for WISeKey India in compliance with Indian Government Regulations. As per the terms of the JV, WISeKey India will create a RoT in India for IoT manufacturers and chipmakers and enable them to add dual factor authentication digital certificates on their chips at the hardware level for communication encryption and device authentication.

The WISeKey Root of Trust include the public key portion of the key pairs used in the cryptographic operations of signing and verifying signatures on digital certificates on these IoT devices allowing them to verify the code they run, establish their trustworthiness to other devices, and after authentication securely connect to other devices on or off the Internet. Management stated that WISeKey India adds incremental revenue of at least CHF20 million in 2017 and should lead to higher recurring revenue and profitability improvement going forward as the IoT market expands in India. Notably, the first project with IPL is already under development for the use of semiconductor IoT chips and Asymmetric Keys to authenticate a large number of products to be deployed and delivered in India in 2017. During the course of 2017, WISeKey NFC semiconductor chips with the WISeKey Identity will be distributed to 140 million WISeFarmers, which can then be inserted into their handsets.

We note that the Indian government is serious in its shift to a digital economy as was evident in its recent move to demonetise high-value currency notes almost overnight. We expect the demonetisation move to expedite the process of creation of digital identities and ensuring direct transfer of benefits as India transitions towards a cashless economy. We expect this transition to aid companies such as WISeKey which seek to establish a strong foothold in the digital identity and security space.

### Agreement to acquire QuoVadis

WISeKey signed a Letter of Intent (LoI) to acquire QV Holdings Ltd ("QuoVadis"), a managed PKI services company operating in Switzerland, Germany, the Netherlands, Belgium, the UK and Bermuda. QuoVadis offers digital certificates for use in encryption, authentication and digital signature and is an established Qualified Trust Services Provider (TSP) in the European Union (EU) and Switzerland. According to the company, QuoVadis is the only TSP accredited in various countries with operations on the ground, and targeting clients in both, the public sector and corporates. The addition of QuoVadis will provide WISeKey with access to more than 3,000 customers globally including the US, Europe and Australia. The deal is expected to generate strong revenue synergies through a recurring customer base. The combination with QuoVadis post the acquisition of VaultIC Semiconductors in September 2016 will enable WISeKey to offer authentication, identity and integrity for electronic transactions for eIDAS and IoT. Post the deal, WISeKey can target the eIDAS EU 'digital single market' for electronic transactions as well position itself as a major player in the Digital Switzerland initiative.

In 2016, QuoVadis expects revenue and EBITDA of USD17 million and USD3.5 million, respectively, which is expected to grow to USD20 million and USD7 million, respectively in 2017. WISeKey expects the binding transaction agreement to be signed by mid-February 2017, with the acquisition expected to close in 1Q17. We prefer to incorporate revenues from the QuoVadis deal on completion; however, we acknowledge that if successful, QuoVadis could offer the next leg of growth for WISeKey.

### **WISeKey Argentina and Feitian Technologies deals signal geographic diversification focus**

We like WISeKey's strategy of forging strategic partnerships to penetrate new markets. In Argentina, the company entered into a partnership with AC Investment & Consultant S.A. and Trend Technologies S.A., to form WISeKey Argentina. WISeKey's stake in WISeKey Argentina is 51%, while the remaining 49% is owned by its strategic partners. The new JV will expand current operations in Argentina with the possibility of expanding into other high-growth Latin American countries. The deal should enable WISeKey to broaden its cybersecurity offerings in the region and substantially increasing revenues and profitability.

WISeKey recently entered into a partnership with Chinese cybersecurity firm Feitian Technologies to offer solutions to protect devices against Distributed Denial of Service (DDoS) attacks. Both the companies will jointly develop hardware and software solutions to enable users to securely authenticate networks and verify the authenticity of firmware upgrades.

### **Strategic partnership with WTPF**

WISeKey, along with Swiss B2B technology company, Balluun Ltd (Balluun) signed a strategic agreement with the World Trade Point Federation (WTPF) to help online merchants streamline their digital transactions. WTPF is an international non-government organization working with small and medium-size businesses in more than 70 countries worldwide. Under the agreement, the parties will collaborate to create an online e-commerce consumer-facing e-commerce platform.

Trade Point and other partners would benefit from subscription, transactions and advertising fees, as well as paid sponsorships. Trade Point will incorporate SSL, two factor authentication (2FA), and a secure user-centric identity ecosystem via WISeKey's Cryptographic RootKey and PKI. Trade Point network will integrate 2FA to add an extra layer of security to their online stores. The system will include an Electronic Trading Opportunity (ETO) application using a security process in which a valid ETO user must provide two means of identification:

- a biometrics/username/password/digital certificate combination
- a code generated in real-time by the Trade Point network that has a localized relation with the ETO user.

### **Other developments**

In October 2016, WISeKey announced its new platform, WISeAI, which will be integrating the RoT and IoT embedded devices with problem-solving Artificial Intelligence ("AI") solution into WISeKey's Vertical Platform. By integrating AI into the WISeKey RoT and Vertical Platform, objects can develop their own cybersecurity behaviour, thus making smarter and safer decisions. IoT objects with this technology will learn from attacks, defend them and transfer this intelligence via the WISeKey Vertical Platform to other IoT objects peer-to-peer using block-chain technology. The company also signed an agreement with Favre-Leuba AG, the second oldest Swiss watch brand, for use of WISeAuthentic platform for its new generation of watches. WISeKey also entered into a partnership with Spain-based Wellness Telecom to protect its network for smart cities for smart public lighting solutions and smart waste management solutions.

### **Valuation**

We note that the recent announcement on the incorporation of the JV in India is a key positive for WISeKey. We are also encouraged by the company's focus on driving revenues through other partnerships such as the creation of national cryptographic rootkey by collaborating with various countries. We have included incremental revenues from the closure of the Indian JV into our model; however, we prefer to be conservative with our EBITDA estimates. We expect profits to rise at a relatively more moderate pace, given our expectations that the company will continue to invest significant resources in research & development and marketing efforts. Our current valuation comes out to CHF 15.0 (CHF14.8 previously). We note that completion of the QuoVadis acquisition can offer further upside to the stock. We continue to remain bullish on the stock given its recent spate of announcements which should generate cross-selling opportunities, given its ongoing geographic expansion in countries such as India and 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	15.7x	3.9x	NM	NM	79.1x	NM	NM	104.8x
NXP Semiconductors NV	6.7x	4.3x	4.3x	22.2x	13.7x	12.3x	21.5x	NM	NM
Ixex ASA	NM	NM	3.8x	NA	NM	NM	NM	NM	NM
Juniper Networks, Inc.	2.1x	2.0x	2.0x	7.8x	7.5x	7.1x	16.2x	17.7x	17.0x
Red Hat, Inc.	7.2x	6.3x	5.3x	27.7x	23.3x	19.8x	NM	NM	NM
Palo Alto Networks, Inc.	11.9x	8.0x	6.1x	NM	NM	25.3x	NM	NM	NM
VeriSign, Inc.	7.8x	7.2x	7.0x	11.5x	10.3x	10.0x	21.6x	18.6x	17.8x
FireEye, Inc.	3.1x	2.7x	2.4x	NM	NM	NM	NM	NM	NM
Check Point Software Technologies Ltd.	8.0x	7.5x	7.1x	14.0x	13.6x	13.2x	20.7x	20.5x	19.9x
Average	6.7x	5.4x	4.7x	16.6x	13.7x	14.6x	20.0x	18.9x	18.2x
Median	7.2x	6.3x	4.8x	14.0x	13.6x	12.7x	21.1x	18.6x	17.8x
High	11.9x	8.0x	7.1x	27.7x	23.3x	25.3x	21.6x	20.5x	19.9x
Low	2.1x	2.0x	2.0x	7.8x	7.5x	7.1x	16.2x	17.7x	17.0x
Premium (disc) to product peers	NM	149%	-17.9%	NM	NM	521.5%	NM	NM	487.7%

Source: CapIQ and Research Dynamics

**DETAILED FINANCIAL STATEMENTS**

**Income Statement**

Figures in CHF'mn	2015A	2016E	2017E	2018E
<b>Total revenue</b>	2.3	29.6	117.9	147.8
COGS	(0.8)	(11.5)	(48.2)	(54.3)
<b>Gross profit</b>	1.4	18.1	69.7	93.5
Research and development	(0.6)	(6.0)	(15.9)	(20.3)
General and administrative	(4.4)	(9.5)	(25.5)	(32.5)
Sales and marketing	(1.3)	(8.3)	(22.3)	(28.4)
Loss on impairment	(1.5)	-	-	-
Total operating Costs	(7.9)	(23.8)	(63.8)	(81.1)
<b>EBITDA</b>	<b>(6.5)</b>	<b>(5.7)</b>	<b>5.9</b>	<b>12.3</b>
Depreciation	0.0	0.3	1.2	1.5
Amortization	0.3	0.0	0.1	0.1
<b>Operating Profit (EBIT)</b>	<b>(6.8)</b>	<b>(6.0)</b>	<b>4.6</b>	<b>10.7</b>
Interest income	0.0	0.0	0.5	0.7
Interest expenses	(0.0)	-	-	-
Other income (expenses), net	0.2	0.1	0.4	0.4
Loss on investments in associated companies	(0.0)	-	-	-
<b>Income before taxes</b>	<b>(6.4)</b>	<b>(5.9)</b>	<b>5.4</b>	<b>11.9</b>
Income taxes	(0.0)	-	-	-
Minority Interest	-	(0.0)	(0.7)	(0.8)
<b>Net income available to Shareholders</b>	<b>(6.4)</b>	<b>(6.0)</b>	<b>4.7</b>	<b>11.1</b>

Source: Company reports, Research Dynamics

### Balance Sheet

Figures in CHF'mn	2015A	2016E	2017E	2018E
Cash and cash equivalents	0.5	45.5	72.7	80.6
Trade receivables, net of allowances for doubtful accounts	0.4	2.4	9.6	12.0
Receivables from shareholders	0.0	-	-	-
Receivables from related parties	0.0	1.4	1.4	1.4
Inventories	0.0	0.1	0.6	0.7
Prepaid expenses and other current assets	0.1	1.6	6.2	7.8
<b>Total Current assets</b>	<b>1.0</b>	<b>51.0</b>	<b>90.4</b>	<b>102.5</b>
Property, plant and equipment, net	0.0	0.3	1.5	3.0
Intangible assets, net	0.0	0.1	0.6	1.2
Investments in associated companies	-	-	-	-
Deposits	0.1	0.1	0.1	0.1
<b>Total non-current assets</b>	<b>0.1</b>	<b>0.5</b>	<b>2.1</b>	<b>4.2</b>
<b>Total Assets</b>	<b>1.1</b>	<b>51.5</b>	<b>92.6</b>	<b>106.7</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>				
Bank overdraft	-	-	-	-
Accounts payable	0.9	9.5	26.4	22.3
Other current liabilities	1.5	3.8	15.0	18.8
Notes payable to shareholders	0.0	-	-	-
Accrued expenses payable to shareholders	-	-	-	-
Deferred revenues	0.4	2.5	9.9	12.5
Short term borrowings (Revolver Facility)	-	-	-	-
<b>Total Current liabilities</b>	<b>2.9</b>	<b>15.7</b>	<b>51.4</b>	<b>53.6</b>
Pension liabilities	2.9	3.1	3.1	3.1
Convertible Debt	-	2.9	2.9	2.9
<b>Total Non Current Liabilities</b>	<b>2.9</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Stockholders deficit	-	-	-	-
WISeKey SA	0.8	-	-	-
WISeTrust SA	0.5	-	-	-
WIHN Share Capital	-	1.1	1.1	1.1
Additional paid-in capital	113.9	152.3	152.3	152.3
Treasury shares	(2.1)	-	-	-
Accumulated deficit	(118.0)	(123.9)	(119.2)	(108.2)
Accumulated other comprehensive income	0.2	0.2	0.2	0.2
Minority Interest	-	0.0	0.7	1.6
<b>Total combined stockholders deficit</b>	<b>(4.7)</b>	<b>29.8</b>	<b>35.2</b>	<b>47.0</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT</b>	<b>1.1</b>	<b>51.5</b>	<b>92.6</b>	<b>106.7</b>

Source: Company reports, Research Dynamics

### Cash Flow Statement

Figures in CHF'mn	2015A	2016E	2017E	2018E
Net profit/(loss) for the year	(6.4)	(5.9)	5.4	11.9
Non Cash adjustments	3.6	0.5	1.3	1.6
<b>Operating profit before working capital changes</b>	<b>(2.7)</b>	<b>(5.4)</b>	<b>6.7</b>	<b>13.5</b>
Decrease (increase) in trade receivables	(0.1)	(2.1)	(7.2)	(2.4)
Decrease (increase) in inventories	0.0	(0.1)	(0.4)	(0.1)
Decrease (increase) in other receivables	-	-	-	-
Decrease (increase) in prepaid expenses and other assets	0.1	(1.4)	(4.6)	(1.6)
Increase (decrease) in payables and other liabilities	0.2	8.5	17.0	(4.1)
Increase (decrease) in other current liabilities	(1.0)	2.3	11.2	3.8
Increase (decrease) in deferred revenues	0.1	2.1	7.4	2.5
Interest paid	-	-	-	-
Interest received	-	-	-	-
Other items	(0.0)	-	-	-
<b>Net cash generated from operating activities</b>	<b>(3.5)</b>	<b>3.9</b>	<b>30.1</b>	<b>11.6</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)	(0.6)	(0.7)
Change in receivable from shareholders	0.0	0.0	-	-
Purchase of property, plant and equipment	-	(0.6)	(2.4)	(3.0)
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>(2.1)</b>	<b>(2.9)</b>	<b>(3.7)</b>
Increase in Share Capital	-	38.4	-	-
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	2.1	-	-
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>43.3</b>	<b>-</b>	<b>-</b>
<b>Net Increase in cash and cash equivalents</b>	<b>(0.0)</b>	<b>45.1</b>	<b>27.2</b>	<b>7.9</b>
Cash and cash equivalents - beginning of the year	0.5	0.5	45.5	72.7
Cash and cash equivalents - end of the year	<b>0.5</b>	<b>45.5</b>	<b>72.7</b>	<b>80.6</b>

Source: Company reports, Research Dynamics

### Key Ratios

	2015A	2016E	2017E	2018E
<b>Growth Ratios (YoY)</b>				
Revenue Growth (%)	(34.0%)	1214.3%	298.0%	25.3%
EBITDA Growth (%)	NM	NM	NM	109.6%
Net Income Growth (%)	NM	NM	NM	136.2%
<b>Profitability Ratios (% of Revenue)</b>				
GP Margin	64.1%	61.2%	59.1%	63.2%
EBITDA Margin	(287.8%)	(19.2%)	5.0%	8.3%
Operating Profit Margin	(301.3%)	(20.3%)	3.9%	7.2%
Net income margin	(282.6%)	(20.1%)	4.0%	7.5%
<b>ROE DuPont analysis</b>				
Net profit margin (%)	(282.6%)	(20.1%)	4.0%	7.5%
Turnover to asset ratio	1.1x	1.1x	1.6x	1.5x
Asset to equity ratio	(0.5x)	2.1x	2.2x	2.4x
Return on equity (%)	NM	NM	14.4%	26.9%
Total common equity	(4.7)	29.8	35.2	47.0
Total debt	-	-	-	-
Total Invested Capital	(4.7)	29.8	35.2	47.0
EBIT	(6.5)	(6.0)	4.6	10.7
NOPAT	(6.5)	(6.0)	4.6	10.7
ROIC (%)	NM	NM	14.1%	26.1%
Net Profit / Sales	(282.6%)	(20.1%)	4.0%	7.5%
Sales / CE	NM	236.6%	363.3%	359.7%
ROCE (%)	NA	(47.6%)	14.4%	26.9%
<b>Return Ratios (%)</b>				
Return on asset (%)	NM	NM	6.5%	11.1%
Return on equity (%)	NM	NM	14.4%	26.9%
<b>Major expenses (as a % of net sales)</b>				
COGS	35.9%	38.8%	40.9%	36.8%
Opex	351.9%	80.5%	54.1%	54.9%
<b>Liquidity ratios (x)</b>				
Current ratio	0.3x	3.2x	1.8x	1.9x
Quick ratio	0.3x	3.2x	1.7x	1.9x

Source: Company reports, Research Dynamics

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