

# WISeKey International Holding AG

Switzerland | Digital Security Technology

## News Update

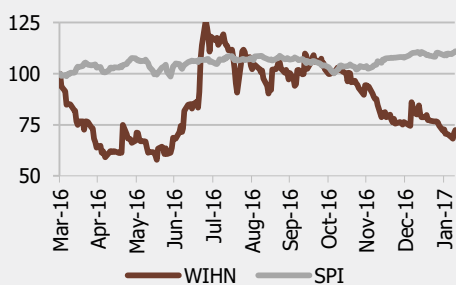
10 February 2017

### Company Data

Price:	CHF4.25
Market Cap (incl. class B equivalent of class A shares):	CHF102m
Free Float (incl. class B equivalent of class A shares):	66.4%
Avg. traded vol.(since listing):	35'836
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	11.4	118.4	148.2
EBITDA %	NM	(358.6%)	5.5%	8.8%
EBIT %	NM	(359.8%)	4.4%	7.7%
Net Margin %	NM	(359.5%)	4.1%	7.5%
Net Income	(6.5)	(41.1)	4.9	11.1
Equity Ratio %	100.0%	100.0%	100.0%	100.0%
Capex	-	0.3	3.0	3.7
Basic EPS	NM	NM	0.2	0.4
Diluted EPS	(0.1)	(1.1)	0.1	0.3
P/E	NM	NM	109.5x	48.5x
EV/EBITDA	NM	NM	78.4x	39.2x
EV/EBIT	NM	NM	NM	44.7x

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## Taking further strides towards consolidation

### Agreement to acquire QuoVadis

WISeKey signed a binding agreement to acquire 85% stake in QV Holdings Ltd ("QuoVadis"), a managed Public Key Infrastructure (mPKI), Certification Authority (CA) and electronic signature services (eID) company. QuoVadis provides platforms for TLS/SSL digital certificates, eID for authentication and digital signature and operates in Switzerland, Germany, the Netherlands, Belgium, the UK and Bermuda. QuoVadis is also an established Qualified Trust Services Provider (TSP) in the European Union (EU) and Switzerland. WISeKey expects the acquisition to close in the 1Q17 and intends to acquire the remaining 15% stake in QuoVadis held by management in May 2018, the terms thereof based on the company's financial performance. QuoVadis generated revenue of ~USD18 million and EBITDA of ~USD4 million in 2016. Management expects revenue to grow to more than USD20 million in 2017, while EBITDA is expected to reach USD7 million in the corresponding period.

The acquisition will enable WISeKey to cross-sell its offerings to more than 300 large-cap and 3,000 total customers of QuoVadis globally. WISeKey's management expects robust synergies between the two companies in core electronic identity and IoT (Internet of Things) business, especially the large recurring customer base of QuoVadis' proven Trust/Link and sealsign technologies. 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.

As part of the deal, WISeKey will pay cash of USD13 million, issue 1.1 million in new class B shares and repay USD2 million of QuoVadis debt. Based on our calculation and WISeKey's current share price (converted to USD), the total deal consideration for the 85% stake in QuoVadis is USD19.7 million, with the EV amounting to USD23.2 million. Based on management estimates for 2017, the deal valuation at 3.3x EV/EBITDA appears to be attractive, especially if WISeKey can realise the expected revenue synergies from the deal.

### Secured line of credit for acquisitions and other key developments

In January 2017, WISeKey obtained an USD16.4 million secured line of credit from US-based private debt fund ExWorks Capital with a maturity of 18 months. The availability of the credit facility is subject to, among other conditions, grant of options to ExWorks, exercisable for up to 1.075 million class B shares. WISeKey can also avail up to an additional USD10 million line of credit by adding more lenders or selling a participation interest. According to management this facility will provide the flexibility and leverage to partially finance strategic acquisitions with debt, in the short-run.

In the interim, WISeKey has also entered into an agreement with Lykke Corp, a Swiss-based digital exchange company to integrate its solutions and secure the Lykke Wallet. The company also entered into a partnership with software security company Stratumn SAS to offer enterprise grade process security software based on blockchain technologies. WISeKey is also establishing an IoT Blockchain Center of Excellence in New York in 3Q17 focused on serving the US market. In January 2017, WISeKey also announced completion of the first round of USD1.3 million seed financing for its Indian joint venture.

## Outlook

WISeKey expects to report 2016 consolidated revenue of USD11 million, which is well below our estimate of ~USD30 million. Although we still await the financial fine print, we believe the disparity primarily reflects some revenues from projects which got pushed out into 2017, such as the collaborations with SAP and CenturyLink announced mid-2016. Moreover, WISeKey's impending merger with OpenLimit Holding AG has failed to materialize so far, causing part of the revenue shortfall. Furthermore since the acquisition of VaultIC only closed at the end of Q3/16 only ¼ of pro-forma sales are included in the results versus our expectations of two quarters. WISeKey expects 2017 consolidated revenue (probability weighted for acquisitions and JVs) of USD110-120 million, achieving profitability on all levels. The combined revenue for 2017 from the acquisition of INSIDE Secure's semiconductor business and QuoVadis is expected to be USD50 million on a run-rate basis, and the company expects substantial top-line contribution from various joint venture agreements.

## Valuation

We continue to remain positive on WISeKey as it is currently in a consolidation phase, making operational progress by adding capabilities to its offerings. We point out that 2016 has been a transitional year, with revenues coming in below estimates; however WISeKey is poised to benefit from the recent strides it has taken towards revenue growth. We believe the expected surge in revenue should consequently translate into significant operating leverage over the long-term and lead to strong profitability. We reiterate our valuation on the stock at CHF 15.0 per share. 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	44.7x	4.3x	NM	NM	78.4x	NM	NM	109.5x
NXP Semiconductors N.V.	6.8x	4.4x	4.5x	22.7x	13.9x	12.4x	22.3x	NM	NM
Ilex ASA	NM	NM	4.3x	NA	NM	NM	NM	NM	NM
Juniper Networks, Inc.	2.1x	2.0x	1.9x	7.7x	7.4x	7.1x	16.4x	17.8x	17.1x
Red Hat, Inc.	7.6x	6.6x	5.7x	29.1x	24.6x	21.6x	NM	NM	NM
Palo Alto Networks, Inc.	14.4x	9.8x	7.4x	NM	NM	NM	NM	NM	NM
VeriSign, Inc.	8.2x	7.7x	NA	12.3x	10.9x	NA	23.0x	19.8x	NA
FireEye, Inc.	2.8x	2.4x	2.4x	NM	NM	NM	NM	NM	NM
Check Point Software Technologies Ltd.	9.9x	9.3x	8.7x	17.4x	17.0x	16.1x	25.6x	25.1x	23.3x
ams AG	6.0x	7.0x	4.4x	19.2x	25.4x	17.3x	23.4x	NM	NM
Average	7.2x	6.2x	4.9x	18.1x	16.5x	14.9x	22.2x	20.9x	20.2x
Median	7.2x	6.8x	4.4x	18.3x	15.5x	16.1x	23.0x	19.8x	20.2x
High	14.4x	9.8x	8.7x	29.1x	25.4x	21.6x	25.6x	25.1x	23.3x
Low	2.1x	2.0x	1.9x	7.7x	7.4x	7.1x	16.4x	17.8x	17.1x
Premium (disc) to product peers	NM	556%	(2.5%)	NM	NM	388.2%	NM	NM	440.9%

Source: CapIQ and Research Dynamics

**SUMMARY FINANCIAL STATEMENTS**

**Income Statement**

Figures in CHF'mn	2015A	2016E	2017E	2018E
Total revenue	2.3	11.4	118.4	148.2
Gross profit	1.5	7.4	69.9	93.6
EBITDA	(6.6)	(41.0)	6.5	13.1
Operating Profit (EBIT)	(6.9)	(41.1)	5.2	11.4
Net income available to Shareholders	(6.5)	(41.1)	4.9	11.1

Source: Company reports, Research Dynamics

**Balance Sheet**

Figures in CHF'mn	2015A	2016E	2017E	2018E
<b>ASSETS</b>				
Total Current assets	0.7	5.2	36.9	50.1
Total non-current assets	0.1	0.2	1.9	4.0
Total Assets	1.1	8.0	57.3	79.1
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>				
Total Current liabilities	2.9	8.9	52.6	62.5
Total Non Current Liabilities	3.0	6.1	6.1	6.1
Total Liabilities And Stockholders Deficit	1.1	8.0	57.3	79.1

Source: Company reports, Research Dynamics

**Cash Flow Statement**

Figures in CHF'mn	2015A	2016E	2017E	2018E
Net cash generated from operating activities	(3.6)	(10.1)	(0.6)	9.6
Net cash flow from/(used in) investing activities	(0.0)	3.0	(3.0)	(3.7)
Net cash (used in)/from financing activities	3.6	10.7	-	-
Cash and cash equivalents - end of the year	0.5	4.0	0.5	6.4

Source: Company reports, Research Dynamics

### Key Ratios

	2015A	2016E	2017E	2018E
<b>Growth Ratios (YoY)</b>				
Revenue Growth (%)	(34.0%)	400.0%	935.1%	25.2%
EBITDA Growth (%)	NM	NM	NM	100.2%
Net Income Growth (%)	NM	NM	NM	125.7%
<b>Profitability Ratios (% of Revenue)</b>				
GP Margin	64.1%	65.0%	59.1%	63.2%
EBITDA Margin	(287.8%)	(358.6%)	5.5%	8.8%
Operating Profit Margin	(301.3%)	(359.8%)	4.4%	7.7%
Net income margin	(282.6%)	(359.5%)	4.1%	7.5%
<b>ROE DuPont analysis</b>				
Net profit margin (%)	(282.6%)	(359.5%)	4.1%	7.5%
Turnover to asset ratio	1.1x	2.5x	3.6x	2.2x
Asset to equity ratio	(0.5x)	(0.8x)	(7.7x)	15.1x
Return on equity (%)	NM	NM	(115.8%)	245.4%
Total common equity	(4.8)	(7.0)	(1.4)	10.5
Total debt	-	-	-	-
Total Invested Capital	(4.8)	(7.0)	(1.4)	10.5
EBIT	(6.6)	(41.1)	5.2	11.4
NOPAT	(6.6)	(41.1)	5.2	11.4
ROIC (%)	NM	NM	NM	253.4%
Net Profit / Sales	(282.6%)	(359.5%)	4.1%	7.5%
Sales / CE	NM	NM	NM	NM
ROCE (%)	NA	NA	NA	245.4%
<b>Return Ratios (%)</b>				
Return on asset (%)	NM	NM	15.0%	16.2%
Return on equity (%)	NM	NM	NM	245.4%
<b>Major expenses (as a % of net sales)</b>				
COGS	35.9%	35.0%	40.9%	36.8%
Opex	351.9%	423.6%	53.5%	54.4%
<b>Liquidity ratios (x)</b>				
Current ratio	0.3x	0.9x	1.1x	1.2x
Quick ratio	0.3x	0.6x	0.3x	0.4x

Source: Company reports, Research Dynamics

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