

Smart Eye

Sweden | Eye tracking | MCAP 1 590,5 MSEK

Buy

Target Price SEK 211,4
Current Price SEK 105,2
Up/downside 100,1%

An eye-catching risk/reward play on the next generation of seat belts

Smart Eye is a Swedish eye tracking company and an industry leader within its niche, the automotive industry. Due to safety legislation and initiatives from the automotive industry, a DMS (Driver Monitoring System) will be mandated by law just like a seat belt, causing the number of cars produced annually with a DMS to reach 40,0 million by 2025. Smart Eye has acquired 2/3 of the market until 2025 and is a clear market leader with its 81 design wins.¹ The company is estimated to reach a market share of 40,8%, equaling 16,3 million cars by 2025 based on already received orders and likely additional orders from current customers. With an extraordinary revenue CAGR of 56,3% between 2019-2025, revenue and EBIT is estimated to reach 1 176,7 MSEK and 517,6 MSEK respectively in 2025. A DCF with a WACC of 12,8% in 2020, gradually decreasing to 9,4% in terminal gives a fair value of 211,4 SEK per share, equaling an upside of 100,1%.

With 81 design wins out of 119 possible, the playing field for the foreseeable future is set. Smart Eye's software will dominate the market until 2025, capping the downside risk at -57,2% in a worst case scenario.

The value of Smart Eye's already existing design wins is estimated at 2 000 MSEK over the product life cycle. With potential add-on orders linked to the same car platforms estimated at 3 300 MSEK, the total potential value of Smart Eye's current orders reach 5 300 MSEK. Applied to a DCF with a WACC of 10,1%, a price per share of 45,0 SEK is deduced, taking in to account no future design wins or revenue at all for Smart Eye. This gives the company an attractive risk/reward ratio of 1:1,8 and a capped downside risk of -57,2% from today.

New legislation and safety initiatives will grow the number of vehicles produced with DMS by 70,0% CAGR between 2021 and 2025, reaching 30 to 50 million vehicles produced annually.

By 2025, the number of vehicles produced annually with a DMS is estimated to be between 30 to 50 million. From 2025 and onwards, Euro NCAP requires DMS in all new vehicles² and the European Union has legislated that all new cars produced within Europe need to have DMS from 2024. The European market alone is estimated to reach 20,6 million cars produced by 2024, why the figure of 30-50 million cars produced globally with a DMS by 2025 is considered reasonable. Taking into account Smart Eye's already announced and potential design wins, Smart Eye is estimated to reach a market share of 40,8% in 2025, equaling 16,3 million cars using Smart Eye's DMS.

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 Equity Research Analyst

Market Data

| Listing Venue | First North Stockholm |
|-------------------------------|-----------------------|
| Price (SEK) | 105,2 |
| No. of outstanding shares (m) | 15,1 |
| Market Cap (m) | 1 590,5 |
| Cash & Cash Equivalents (m) | 110,6 |
| Debt (m) | 1,7 |
| Net Debt (m) | -108,9 |
| Enterprise Value (m) | 1 481,6 |

| Key Financials (SEK) | 19A | 20E | 21E | 22E |
|----------------------|--------|-------|--------|-------|
| Sales (m) | 80,7 | 102,1 | 243,0 | 359,1 |
| Sales Growth y/y | 13,5% | 26,6% | 138,0% | 47,8% |
| EBITDA (m) | -87,0 | -73,5 | -18,4 | -1,0 |
| EBITDA Margin | neg | neg | neg | neg |
| EBIT (m) | -105,6 | -96,2 | -48,4 | -40,2 |
| EBIT Margin | neg | neg | neg | neg |
| Net Income | -106,3 | -96,2 | -48,4 | -40,2 |
| Profit Margin (%) | neg | neg | neg | neg |

| Key Ratios (SEK) | 19A | 20E | 21E | 22E |
|------------------|------|------|-----|-----|
| EV/EBITDA | neg | neg | neg | neg |
| EV/EBIT | neg | neg | neg | neg |
| P/E | neg | neg | neg | neg |
| EPS | neg | neg | neg | neg |
| P/S | 22,3 | 15,6 | 6,5 | 4,4 |
| EV/S | 20,5 | 14,5 | 6,1 | 4,1 |



Major shareholders

| | |
|------------------------------|--------------|
| Mats Krantz (with relatives) | 7,7% |
| Swedbank Robur fonder | 7,4% |
| Första AP-fonden | 6,6% |
| Anders Jöfelt | 5,7% |
| Linda Jöfelt | 5,3% |
| Total | 32,7% |

1. Design win = When an OEM selects a supplier for a functional component in a vehicle.

2. Euro NCAP 2025 Roadmap

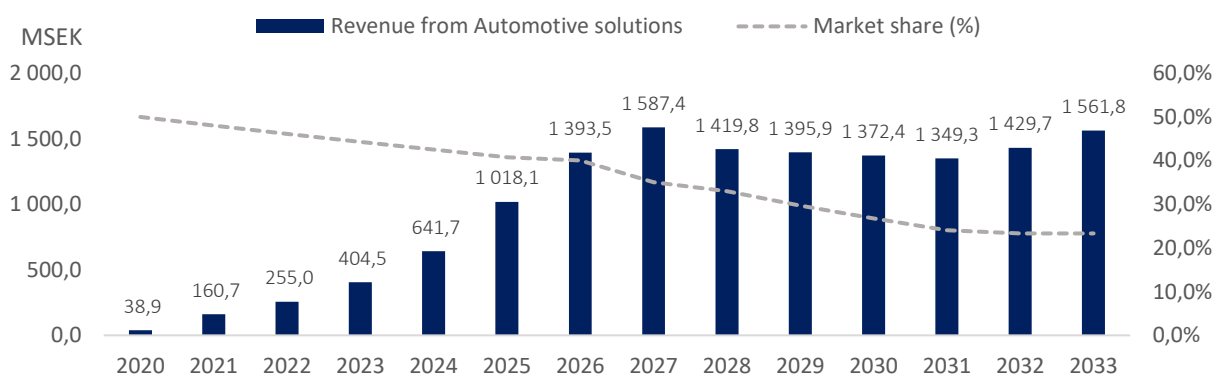
Investment thesis

The scalability achieved by selling software along with being a market leader until 2025 bodes for a competitive product offering.

The vast majority of Smart Eye's future revenue will be derived from the business area Automotive Solutions. In this business area, Smart Eye sells eye tracking software to be integrated with a tier-1 suppliers hardware in different car models made by an OEM (Original Equipment Manufacturer). Revenue from this business area comes in the form of a license fee usually averaging between 5-10€, where Smart Eye gets paid per car produced. Due to the scalability inherent to selling software, the main costs for the company is attributable to the development of the algorithms upon which the software is based. With more design wins (81) than all other competitors combined (38) meaning more revenue than any other competitor, Smart Eye has a competitive advantage. Being able to spend more on R&D to develop the next generation of DMS, the company is securing the lead and maintaining the advantage of having the best DMS available on the market.

Smart Eye is estimated to reach a mature market share of 23,3% beyond 2030 when DMS is expected to be found in all cars.

Since the playing field until 2025 is already set, the gaze is aimed at what share of the market Smart Eye could be holding in a mature market beyond 2030. With Smart Eye's main competitors FotoNation and Seeing Machines holding 20 and 15 design wins respectively, these two are expected to battle with Smart Eye for the market beyond 2030. As these three companies together holds 116 out of 119 design wins they will have the capacity to further invest in their respective DMS to create the best system on the market. Future competition having less time in the market and lower R&D spending is expected to target the low-class segment. Smart Eye is therefore estimated to be capable of holding a long term market share of one third of the premium and middle class segment due to its competitive product offering and its 20-year long relationship with the automotive industry. As a consequence, the company's share of the market will reach 23,3% beyond 2030.



Fully autonomous vehicles on the way to the market, but probably not that fast, and is not that big of a risk for the DMS industry.

There is a certain risk that if and when fully autonomous vehicles (L5 cars) enters the market, suppliers of DMS will not be needed. However, reports suggests that the technology for fully autonomous vehicles are more than ten years away³. Even though driver monitoring may not be needed in the same way, eye tracking is still to consider an essential tool in tomorrows vehicles due to other well needed functions as HMI interaction or driver identification. Therefore, a DMS should be considered a well needed tool beyond 2030.

3. Autonomous vehicles worldwide, Statista, 2020

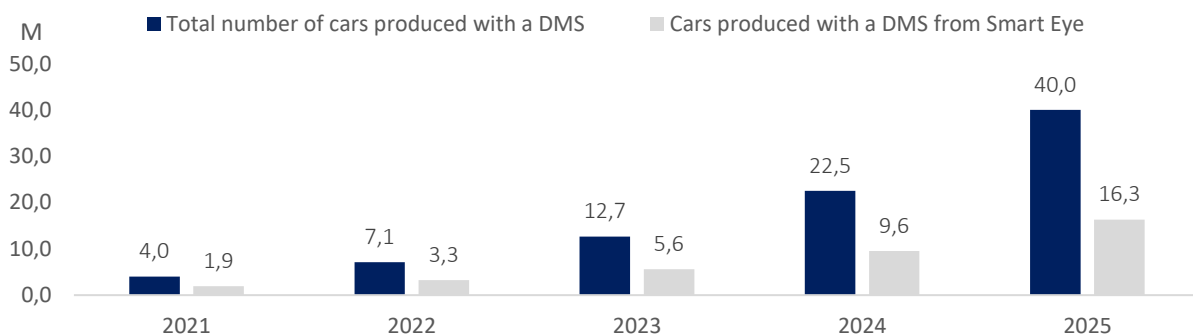
Valuation

Market actors does not seem to fully price in the potential additional orders valued at 3 300 MSEK, giving the investment a potential upside of 106,0% and a target price per share of 211,4 SEK based on a DCF.

Smart Eye has already received orders valued at 2 000 MSEK based on volume forecasts made by the OEM:s, and have potential additional orders of 3 300 MSEK not yet recognized. Based on today's valuation, it seems like market actors does not fully price in these potential additional orders. However, the probability to receive these additional orders is high due to the automakers willingness to use the same DMS on an entire car platform as it saves the OEM:s both time and money. A DCF with a WACC of 12,8% in 2020 gradually decreasing to 9,4% terminal yields a potential price per share of 211,4 SEK, an upside of 100,1%. The DCF assumes the already received and high probability orders to be recognized and that Smart Eye remains a strong actor on the market due to a highly competitive product offering.

The number of vehicles produced each year with a DMS is expected to reach 30-50 million in 2025. Based on already won and potential additional design wins, the number of vehicles with a DMS from Smart Eye will reach 16,3 million in the same year, yielding an EBIT of 526,4 MSEK.

With an estimated total addressable market (TAM) in the middle of the interval, Smart Eye's share of the TAM is an estimated 16,3 million cars, equaling a 40,8% market share. With an average license fee of 62,6 SEK per car produced, Smart Eye will generate an EBIT of 526,4 MSEK in 2025, equivalent to a robust EBIT margin of 44,8%.



Worst case scenario yields an attractive risk/reward ratio of 1:1,8

A DCF with a WACC of 10,1 % based solely on revenue from already received orders and the potential additional orders, taking into account the amount of personnel needed to handle those sales volumes yields a price per share of 45,0 SEK, capping the downside risk to -57,2% giving the investment an attractive risk/reward ratio of 1:1,8 in a worst case scenario.

A long term market share of 23,3% applied to a DCF with a WACC of 12,8% in 2020 gradually decreasing to 9,4% terminal implies a price per share of 211,4 SEK and a potential upside of 100,1%.

Smart Eye is the clear market leader within its niche towards the automotive industry. 81 design wins out of 119 in total speaks for itself, and the market for the foreseeable future is already set. It is a Driver Monitoring System from Smart Eye that will be used in most cars. When comparing the DCF with a mature market share of 23,3% to the one based solely on already received orders and potential additional orders, an attractive risk/reward of 1:1,8 is derived, and a potential price per share of 211,4 SEK, equalling an upside of 100,1%.

Appendix

| DCF Smart Eye (MSEK) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 Terminal | |
|----------------------|------|------|--------|--------|---------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|---------|
| Base | 47.8 | 55.5 | 60.6 | 71.1 | 80.7 | 102.1 | 243.0 | 359.1 | 524.3 | 779.4 | 1176.7 | 1559.1 | 2190.8 | 2916.3 | 3858.2 | 5000.0 | 6358.2 | 7973.3 | 10000.0 | 12744.4 | 16376.1 | 21223.0 | 27950.0 | 36420.0 | 46620.0 | 59580.0 |
| Discount factor | | | | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | |
| Adj. Beta | | | | | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 | 1.0 | |
| Value | | | | | -129.8 | -88.7 | -87.5 | -39.3 | 48.9 | 174.4 | 323.4 | 510.8 | 750.2 | 1098.9 | 1652.2 | 2408.8 | 3418.8 | 4800.0 | 6588.8 | 9144.4 | 12500.0 | 17100.0 | 23200.0 | 31200.0 | 40500.0 | |
| Delta NOPAT | | -8.6 | -30.3 | -14.5 | 49.6 | 9.4 | 47.8 | 8.2 | 90.1 | 169.1 | 298.6 | 352.3 | 6.1 | -21.4 | -30.6 | -29.4 | -24.3 | 29.6 | 53.9 | 57.7 | 61.9 | 31.6 | 17.8 | 15.7 | 14.7 | |
| Reinvestments | -6.0 | -7.6 | -31.3 | -14.6 | 49.7 | 64.1 | 84.0 | 103.6 | 122.7 | 182.5 | 171.2 | 237.2 | 9.9 | 34.4 | 23.6 | 20.6 | 16.5 | 87.0 | 109.2 | 133.8 | 111.4 | 123.7 | 142.0 | 150.5 | | |
| WACC | | | 113.2% | -96.8% | -99.6% | -213.3% | 19.0% | 74.6% | 9.8% | 87.8% | 127.4% | 163.6% | 205.8% | 4.5% | -2370.8% | -88.8% | -124.5% | -118.3% | 52.5% | 62.0% | 52.9% | 46.2% | 24.3% | 13.3% | 11.1% | 9.8% |

| Company: Smart Eye | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E | 2034E | 2035E | 2036E | 2037E | 2038E | 2039E |
|------------------------|-------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| MSEK | | | | | | | | | | | | | | | | | | | | | | | | | |
| Automotive solutions | 9.2 | 16.6 | 22.4 | 21.2 | 26.2 | 38.9 | 160.7 | 255.0 | 404.5 | 641.7 | 1 018.1 | 1 393.5 | 1 587.4 | 1 419.8 | 1 395.9 | 1 372.4 | 1 349.3 | 1 429.7 | 1 561.8 | 1 706.1 | 1 863.8 | 1 968.7 | 2 048.2 | 2 131.0 | 2 217.1 |
| Research Instruments | 28.4 | 24.2 | 20.8 | 29.5 | 23.0 | 32.0 | 36.7 | 42.6 | 46.8 | 51.5 | 55.1 | 58.0 | 63.1 | 66.2 | 68.6 | 73.0 | 74.5 | 76.0 | 77.5 | 78.1 | 80.6 | 82.3 | 83.9 | 85.6 | |
| Applied AI Systems | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.6 | 0.9 | 1.4 | 2.0 | 3.0 | 4.6 | 6.8 | 10.3 | 15.4 | 23.1 | 32.0 | 33.3 | 34.2 | 35.9 | 37.5 | 39.0 | 40.6 | 42.2 | 43.9 |
| Other operating income | 10.2 | 14.8 | 17.4 | 20.3 | 30.9 | 30.9 | 46.6 | 64.6 | 75.8 | 88.8 | 104.1 | 108.0 | 122.4 | 113.2 | 114.3 | 116.6 | 120.0 | 132.6 | 150.6 | 171.0 | 194.1 | 213.6 | 231.7 | 251.2 | 272.2 |
| Revenue | 47.8 | 55.5 | 60.6 | 71.1 | 80.7 | 102.1 | 243.0 | 359.1 | 524.3 | 779.4 | 1 176.7 | 1 559.1 | 1 775.6 | 1 606.3 | 1 591.8 | 1 580.6 | 1 574.4 | 1 670.1 | 1 822.6 | 1 990.5 | 2 174.5 | 2 302.0 | 2 402.8 | 2 508.3 | 2 618.8 |
| COGS | | | | | | 8.2 | 9.2 | 10.2 | 11.5 | 12.9 | 14.7 | 16.5 | 18.8 | 21.9 | 25.8 | 31.2 | 37.5 | 38.6 | 39.5 | 40.9 | 42.3 | 43.6 | 44.9 | 46.3 | 47.8 |
| OPEX | | | | | | | | | | | | | | | | | | | | | | | | | |
| Personnel costs | 27.1 | 36.3 | 50.3 | 64.9 | 85.7 | 85.5 | 128.9 | 178.8 | 210.3 | 246.0 | 288.3 | 293.5 | 339.2 | 313.5 | 316.5 | 320.2 | 324.3 | 349.1 | 386.1 | 427.5 | 473.5 | 508.0 | 538.9 | 570.9 | 604.8 |
| Other external costs | 17.5 | 23.2 | 40.8 | 48.4 | 82.0 | 81.8 | 123.4 | 171.1 | 201.2 | 235.4 | 275.9 | 289.9 | 324.5 | 300.0 | 302.9 | 306.4 | 310.4 | 334.0 | 389.5 | 429.1 | 453.1 | 486.7 | 515.6 | 546.3 | 578.8 |
| EBITDA | 3.2 | -3.9 | -30.5 | -42.3 | -87.0 | -73.5 | -18.4 | -1.0 | 101.3 | 285.1 | 597.8 | 968.2 | 1 093.1 | 970.9 | 946.6 | 922.7 | 902.2 | 948.4 | 1 027.4 | 1 113.0 | 1 205.6 | 1 263.0 | 1 303.4 | 1 344.8 | 1 387.4 |
| Depreciation | 0.2 | 0.3 | 0.8 | 1.4 | 2.0 | 2.3 | 3.2 | 3.6 | 5.6 | 8.0 | 12.3 | 17.8 | 23.3 | 27.6 | 30.8 | 32.5 | 32.5 | 32.1 | 33.0 | 34.6 | 36.9 | 39.8 | 42.8 | 45.6 | 48.0 |
| EBITA | 3.0 | -4.2 | -31.4 | -43.7 | -89.0 | -75.8 | -21.7 | -4.6 | 95.9 | 277.1 | 585.5 | 950.6 | 1 069.8 | 943.3 | 915.7 | 890.3 | 869.7 | 916.3 | 994.4 | 1 078.4 | 1 166.6 | 1 223.2 | 1 260.6 | 1 299.3 | 1 339.3 |
| Amortization | 5.5 | 6.7 | 9.9 | 12.2 | 16.7 | 20.4 | 26.7 | 35.6 | 45.0 | 58.1 | 67.9 | 80.7 | 94.9 | 107.5 | 118.4 | 130.0 | 140.1 | 149.4 | 159.6 | 170.8 | 183.1 | 197.8 | 212.8 | 231.6 | 253.2 |
| EBIT | -2.5 | -10.9 | -41.4 | -55.9 | -105.6 | -96.2 | -48.4 | -40.2 | 49.9 | 219.0 | 517.6 | 869.9 | 974.9 | 835.8 | 797.3 | 729.6 | 767.0 | 767.0 | 834.9 | 907.6 | 985.5 | 1 025.4 | 1 047.8 | 1 067.7 | 1 086.1 |
| Interest Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Expenses | 1.3 | 1.2 | 0.4 | 0.4 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBT | -3.8 | -12.2 | -41.8 | -56.2 | -106.2 | -96.2 | -48.4 | -40.2 | 49.9 | 219.0 | 517.6 | 869.9 | 974.9 | 835.8 | 797.3 | 760.3 | 729.6 | 767.0 | 834.9 | 907.6 | 985.5 | 1 025.4 | 1 047.8 | 1 067.7 | 1 086.1 |
| Tax Expense | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Income | -3.8 | -12.2 | -41.8 | -56.3 | -106.3 | -96.2 | -48.4 | -40.2 | 49.9 | 219.0 | 517.6 | 869.9 | 976.0 | 836.6 | 800.3 | 760.3 | 729.6 | 767.0 | 834.9 | 907.6 | 985.5 | 1 025.4 | 1 047.8 | 1 067.7 | 1 086.1 |

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