

Update: Report Q3 2019

2019-11-20

Crunchfish: Blippit delay adds uncertainty

- Uncertainty over Blippit rollout makes us cut fair value interval
- Exciting opportunity in mobile payments in India
- Progress in Gesture and a third business area in Services

Analysts

Alf Riple, CFA

073-840 4008

alf.riple@vhcorp.se

Pascal Dettwiler

073-332 1473

pascal.dettwiler@vhcorp.se

Stock ticker:	CFISH
Industry:	Technology
Listed on:	Nasdaq First North
Latest stock price (SEK):	10,00
Market cap (MSEK):	265,8
Enterprise Value (MSEK):	244,4
Total number of shares (M):	25,77
- of which free float (M):	14,92

VHCF fair value per share

DCF model 21,00 - 33,30 SEK

Crunchfish AB

Address: Stora Varvsgatan 6A
211 19 Malmö

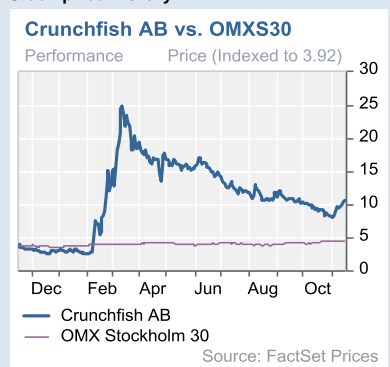
Webpage: crunchfish.com

CEO: Joakim Nydemark

Main owners (30 sep 2019)

	Capital (%)
Femari Invest AB	25,2
Midroc Invest AB	17,3
Paul Cronholm	4,1
Carlquist Holding AB	3,8
Coeli Abs European Equity	3,7

Stock price history



	-1m	-3m	-12m
Change (%)	6,3	-9,1	133,9
52 w k range (Low /Hi) - SEK		2,53 / 26,35	

Source: FactSet

The report for Q3 showed that Crunchfish is making progress in several aspects of its business, but there is no way around one troublesome fact: The Blippit affair in Sweden is running behind schedule and we are starting to question whether its competitive position will be as strong as we have previously believed.

Crunchfish announced already at the end of October that the timetable for launching Blippit had to be revised. We worry now that the project will be markedly delayed. The original plan was to do a pilot study together with ClearOn, Crunchfish' joint venture partner in Blippit. The pilot was supposed to run on ClearOn's own line of cash registers and, given a positive pilot outcome, installations of Blippit terminals around retail stores would start before the end of the year.

Due to delays on the part of ClearOn, it will not be possible to run the pilot on ClearOn's registers. Crunchfish must instead find another register manufacturer to facilitate the pilot. Crunchfish completed a software upgrade for Blippit during the summer, which opens the architecture and mimics the way card reader software runs, in order to generalise the software to fit any register, both in Sweden and elsewhere. The cost of this alteration is that the Blippit software has to be integrated with the native software on the register. According to Crunchfish, the integration is a quick and easy operation, but it does require the active participation of the manufacturer.

Crunchfish is presently approaching register manufacturers to secure their cooperation, after which it must find a retail store to host the pilot study. The process adds uncertainty to the rollout plan, and we are worried that the delay could be several quarters compared with our original scenario.

Table 1: Financial Overview

MSEK	2017	2018	2019e	2020e	2021e
Total revenues	12,8	13,8	19,9	36,8	62,3
Growth (%)	(2,4%)	7,6%	43,8%	84,9%	69,5%
EBITDA	(17,1)	(17,1)	(17,5)	(13,3)	(3,2)
EBITDA margin (%)	neg	neg	neg	neg	neg
EBT	(20,8)	(22,0)	(25,9)	(23,5)	1,3
Cash holdings	21,2	21,4	11,5	10,3	5,0
Total assets	44,7	46,6	42,4	49,5	60,7
Total equity	37,8	40,3	34,4	40,8	52,1
Solidity (%)	84,5%	86,3%	81,1%	82,5%	85,8%
P/E	neg	neg	neg	neg	215,5
ROE	neg	neg	neg	neg	2,5%
EV/EBIT (x)	neg	neg	neg	neg	neg
EV/Sales (x)	20,6	19,1	13,3	7,2	4,2

Source: Västra Hamnen Corporate Finance

We risk adjust our scenario for lower Blippit revenues

The postponed rollout means that the start of revenues to Blippit will be markedly delayed. In addition, we feel that it would be prudent at this point to make risk adjustments to our economic scenario when it comes to Blippit's market opportunity in Sweden. In our previous scenario we assumed very high penetration in the Swedish retail sector, based on two main benefits:

- **A technical and positional lead over competitors**, creating a first-mover advantage that would be hard to match. The new payment architecture could cause a self-reinforcing cycle, where more Blippit terminals would cause more users who in turn would cause more Blippit terminals. The longer it takes for Blippit to hit the market, the more time for competitors to launch competing solutions and thereby limit Blippit's eventual market share.
- **The partnership with ClearOn**, which we still think is a major asset, giving access to ClearOn's comprehensive network of retail stores and coupon clearing services. However, we took it for granted that ClearOn would rush to implement Blippit's software in its own line of registers at the first opportunity, securing fast market rollout. We do not know the cause of the delay at ClearOn, but we are now less convinced of the strategic value of the alliance.

We assume negligible Blippit revenues in H1 2020

Taken together, the recent news has persuaded us to scale back our revenue forecasts for Blippit in Sweden. Our revenue forecasts for Q1 and Q2 are set just above zero while the more noticeable revenue growth kicks in from Q3 onward. This model revision affects the income statement of Crunchfish AB mainly via lower *Profit from affiliated companies*, which we have chosen to separate from the operating result. Crunchfish' operating profit in our economic scenario is very little changed. Total cash flow to Crunchfish AB is however markedly lower in our revised scenario, causing a lower fair value for the stock according to our DCF model. Our valuation conclusions are summarised further down.

Exciting opportunity in India

Turning to more positive news, it is interesting to note Blippit's intensified focus on the Indian market. India is the world's fifth largest economy at current exchange rates (IMF), and it is a market where payment cards have a relatively low penetration rate. The government of India is pushing for a move away from the widespread use of cash, in an effort to curtail the black economy. In 2016, it suddenly announced the demonetisation of 500- and 1000-rupee banknotes, forcing holders to immediately exchange into newly minted notes. This caused significant disruption to the economy and triggered a demand for alternatives to cash.

Crunchfish stresses that its initiative towards the Indian market is in an early phase. Still, what little information we have suggests a sincere effort. We note for instance that Blippit has completed a market survey in India, met with local cash register suppliers and app developers and even appointed a local representative. We do not model India explicitly into our forecast model but we are curious to follow this development further.

App terminal nearly ready for mass production

The news regarding physical production of the Blippit terminal is also encouraging. Crunchfish Proximity has completed a release candidate which is used in all tests required to secure CE, FCC and Bluetooth marks for the final product. Directly after these marks have been acquired, mass production of the terminal can commence. Crunchfish expects this to happen in December 2019.

AI/computer vision Services to become third business area

Another interesting new initiative from Crunchfish is the launch a third business area besides Proximity and Gesture. With the new Services business, Crunchfish aims to leverage on its unique competencies in AI, machine learning and computer vision. These competencies will be made available to customers on a consultancy basis. It has the dual objective of making a profit in its own right and potentially drive sales of the company's AR products. The goal is to employ 10-15 people in this business area within 12 months. We have modelled a gradual build-up of the service, assuming a turnover of just over 1 MSEK per employee with an operating margin of 10 percent. This adds a small but positive contribution to the company's cash flows and our DCF valuation.

Further progress in Gesture area

There has been further progress in the Gesture area as well. In August, Crunchfish added Oglases to its list of AR partners. Oglases is a Chinese manufacturer of AR glasses for industrial applications and it has agreed to use Crunchfish' gesture technology to explore a new and improved user experience. Further, Crunchfish entered an agreement with the US company LogistiVIEW in September. LogistiVIEW will integrate Crunchfish' gesture control software in its AR platform for logistics and manufacturing applications. The agreement includes a modest start-up fee as well as recurring license fees to Crunchfish. The scale of revenues is however compatible with our forecasts and does not justify any model adjustments. All in all, we consider that the Gesture business is developing according to our scenario.

Q3 figures largely as expected

As regards the reported figures for Q3, they were mostly in line with our forecasts. The biggest discrepancy regards personnel costs, which we had overestimated by SEK 2.6 million. We had expected a faster increase in developer headcount, especially in Proximity. Seeing the outcome, we have marginally lowered our forecasts for this cost item going forward. Mostly because of this forecast miss, Crunchfish's cash holdings were SEK 3.7 million higher than we anticipated at the end of Q3.

Table 2: Estimates vs actual, Q3 2019

kSEK	Q3 '18	Q3 '19e	Q3 '19 actual	Diff
Net revenues	929	3 100	2 600	-500
Capitalise development cost	1 854	1 206	1 032	-174
Other revenues	299	450	482	32
Total revenue	3 081	4 756	4 114	-642
Personnel costs	(2 990)	(6 236)	(3 669)	2 567
Other expenses	(3 669)	(5 331)	(4 998)	333
EBITDA	(3 578)	(6 811)	(4 553)	2 258
Amortisation and Depreciation	(1 045)	(1 058)	(1 767)	-709
EBIT	(4 623)	(7 870)	(6 320)	1 550
Profit from affiliated companies	-	(800)	(393)	407
Other financial items, net	(45)	(17)	88	105
EBT	(4 668)	(8 687)	(6 625)	2 062
Net Profit	(4 668)	(8 687)	(6 625)	2 062
Cash and Equivalents	7 143	16 188	19 855	3 667
Total Equity	46 311	38 439	40 892	2 453

Source: Västra Hamnen Corporate Finance

Turning to valuation, we have decided to apply caution given our above-mentioned worries over Blippit in Sweden. In addition, the delayed income from Blippit may cause a higher cash drain on Crunchfish than we had anticipated. In our previous scenario, we pencilled in a SEK 30 million equity raise in H1 2020. Our present scenario calls for another SEK 10-15 million in additional funding a year later. New equity issues will cause dilution of the share, further weighing on our fair value estimation.

We lower valuation interval to SEK 21.00 – 33.30 per share

Adding up the impact of good and bad news, our DCF model now indicates a fair value interval of SEK 21.00 – 33.30 per share, down from SEK 32.60 – 51.80 per share in our previous scenario.

Income Statement - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Net revenues	2 690	3 203	3 510	13 156	30 041	55 204	98 980	131 557
Capitalised development cost	8 175	7 602	6 769	4 835	4 662	4 892	5 058	5 223
Other revenues	2 301	2 041	3 548	1 890	2 065	2 235	2 420	2 619
Total revenues	13 166	12 847	13 827	19 880	36 768	62 332	106 458	139 399
Cost of goods sold	-	-	-	-	(550)	(2 750)	(4 400)	(4 400)
Personnel costs	(12 141)	(14 324)	(14 784)	(15 619)	(23 123)	(30 121)	(33 708)	(35 827)
Other external costs	(10 854)	(15 290)	(14 637)	(20 687)	(23 248)	(29 289)	(32 644)	(34 868)
Other operating expenses	(192)	(285)	(1 554)	(1 097)	(3 116)	(3 406)	(3 724)	(4 072)
EBITDA	(10 020)	(17 053)	(17 148)	(17 522)	(13 269)	(3 234)	31 982	60 232
Amortisation & depreciation	(2 149)	(3 433)	(4 748)	(6 108)	(4 148)	(4 260)	(4 391)	(4 527)
EBIT	(12 169)	(20 486)	(21 896)	(23 630)	(17 417)	(7 494)	27 591	55 705
Profit from affiliated companies	-	-	(180)	(2 410)	(6 068)	8 884	27 718	56 118
Other financial items, net	(365)	(293)	50	96	(64)	(64)	(64)	(64)
EBT	(12 534)	(20 779)	(22 027)	(25 944)	(23 548)	1 326	55 245	111 760
Taxes	-	-	-	-	-	-	-	-
Net profit	(12 534)	(20 779)	(22 027)	(25 944)	(23 548)	1 326	55 245	111 760
Earnings per share (SEK)	(0,96)	(1,35)	(1,30)	(1,05)	(0,89)	0,05	2,06	4,15
Growth (%)								
Net revenues	na	19,1%	9,6%	274,8%	128,4%	83,8%	79,3%	32,9%
EBITDA	na	na	na	na	na	na	na	88,3%
EBIT	na	na	na	na	na	na	na	101,9%
Net profit	na	na	na	na	na	na	4066,8%	102,3%
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	neg	neg	30,0%	43,2%
EBIT margin	neg	neg	neg	neg	neg	neg	25,9%	40,0%
EBT margin	neg	neg	neg	neg	neg	2,1%	51,9%	80,2%
Profit margin	neg	neg	neg	neg	neg	2,1%	51,9%	80,2%
Personnel costs	451,4%	447,1%	421,2%	118,7%	77,0%	54,6%	34,1%	27,2%
Total OPEX	862,0%	933,4%	882,5%	284,3%	164,7%	113,8%	70,8%	56,8%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	2,5%	48,0%	49,3%
ROIC	neg	neg	neg	neg	neg	neg	40,1%	76,2%
ROCE	neg	neg	neg	neg	neg	neg	18,7%	19,2%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Subscribed but not paid equity	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	181	362	362	362
Account receivable	1 545	1 824	356	836	4 381	11 305	16 427	18 895
Receivables fr affiliated comp	-	-	1 118	2 160	2 800	2 440	2 534	2 869
Prepaid costs & accrued inco	1 415	992	1 089	1 332	1 648	1 887	2 003	2 082
Other receivables	2 039	984	475	746	867	936	974	1 020
Cash and cash equivalents	44 077	21 164	21 362	11 526	10 298	4 989	62 040	170 439
Total current assets	49 076	24 963	24 400	16 599	20 175	21 919	84 339	195 666
Tangible assets	222	728	522	1 490	1 216	992	809	661
Intangible assets	14 520	18 655	20 402	19 066	19 857	20 714	21 566	22 412
Long-term receivables	-	373	373	373	373	373	373	373
Affiliated companies	-	-	945	4 860	7 860	16 745	16 745	16 745
Total fixed assets	14 742	19 757	22 242	25 790	29 306	38 824	39 493	40 191
Total assets	63 818	44 720	46 642	42 389	49 481	60 742	123 832	235 857
Accounts payable	1 610	2 640	2 280	2 399	2 577	2 189	2 200	2 208
Accrued cost & prepaid inco	3 265	3 287	3 177	3 902	4 252	4 540	4 719	4 943
Other liabilities	424	963	917	920	1 033	1 068	1 099	1 133
Total current liabilities	5 299	6 889	6 373	7 221	7 861	7 797	8 019	8 284
Total non-current liability:	-	62	-	802	802	802	802	802
Total equity	58 519	37 768	40 269	34 366	40 818	52 144	115 011	226 771
Total equity and liabilities	63 818	44 720	46 642	42 390	49 482	60 743	123 832	235 857

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2016	2017	2018	2019e	2020e	2021e	2022e	2023e
Operating activities	(10 609)	(16 767)	(16 868)	(18 527)	(19 401)	5 586	59 635	116 286
Changes in working capital	(2 757)	2 266	369	(1 078)	(4 163)	(7 117)	(5 148)	(2 663)
Investing activities	(8 216)	(7 975)	(6 823)	(11 021)	(7 663)	(13 778)	(5 060)	(5 225)
Financing activities	54 980	(163)	23 356	20 733	30 000	10 000	7 623	-
Cash flow for the period	39 348	(22 640)	34	(9 892)	(1 227)	(5 309)	57 051	108 399
Beginning cash balance	4 729	44 077	21 164	21 362	11 526	10 298	4 989	62 040
Adjustments	-	(273)	165	56	-	-	-	-
Ending cash balance	44 077	21 164	21 362	11 526	10 298	4 989	62 040	170 439

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Net revenues	929	2 133	3 973	2 466	2 600	4 117	5 138	6 475
Capitalised development cost	1 854	1 295	1 024	1 608	1 032	1 170	1 138	1 168
Other revenues	299	2 091	433	484	482	491	501	511
Total revenues	3 081	5 518	5 430	4 558	4 114	5 779	6 778	8 154
Cost of goods sold	-	-	-	-	-	-	-	-
Personnel costs	(2 990)	(4 009)	(3 417)	(4 042)	(3 669)	(4 491)	(5 004)	(5 520)
Other external costs	(3 598)	(4 155)	(5 095)	(5 911)	(4 966)	(4 715)	(5 151)	(5 590)
Other operating expenses	(71)	(1 087)	-	(329)	(32)	(736)	(753)	(770)
EBITDA	(3 578)	(3 733)	(3 082)	(5 724)	(4 553)	(4 164)	(4 131)	(3 727)
Amortisation & depreciation	(1 045)	(1 735)	(1 623)	(1 698)	(1 767)	(1 020)	(1 028)	(1 033)
EBIT	(4 623)	(5 468)	(4 705)	(7 422)	(6 320)	(5 184)	(5 159)	(4 760)
Profit from affiliated companies	-	(180)	(268)	(424)	(393)	(1 326)	(1 482)	(1 599)
Other financial items, net	(45)	80	22	2	88	(16)	(16)	(16)
EBT	(4 668)	(5 568)	(4 951)	(7 843)	(6 625)	(6 526)	(6 657)	(6 375)
Taxes	-	-	-	-	-	-	-	-
Net profit	(4 668)	(5 568)	(4 951)	(7 843)	(6 625)	(6 526)	(6 657)	(6 375)
Earnings per share (SEK)	(0,30)	(0,26)	(0,23)	(0,30)	(0,26)	(0,25)	(0,25)	(0,24)
Y-o-Y Growth (%)								
Net revenues	299,3%	129,7%	86,3%	(37,9%)	5,4%	58,3%	24,8%	26,0%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	neg
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	322,0%	188,0%	86,0%	163,9%	141,1%	109,1%	97,4%	85,3%
Total OPEX	717,1%	433,8%	214,3%	417,0%	333,3%	241,5%	212,3%	183,5%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	neg
ROIC	neg	neg	neg	neg	neg	neg	neg	neg
ROCE	neg	neg	neg	neg	neg	neg	neg	neg

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Subscribed but not paid equity	30 365	-	21 475	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Account receivable	429	356	3 176	942	212	836	1 463	2 409
Receivables fr affiliated comp	-	1 118	1 366	2 159	1 451	2 160	2 240	2 280
Prepaid costs & accrued inco	2 599	1 089	1 230	1 110	1 203	1 332	1 402	1 451
Other receivables	1 087	475	751	825	738	746	819	837
Cash and cash equivalents	7 143	21 362	13 304	26 351	19 855	11 526	33 081	24 515
Total current assets	11 257	24 400	19 826	31 387	23 460	16 599	39 004	31 492
Tangible assets	584	522	457	1 645	1 568	1 490	1 416	1 346
Intangible assets	20 809	20 402	19 869	19 527	18 838	19 066	19 251	19 457
Long-term receivables	373	373	373	373	373	373	373	373
Affiliated companies	-	945	1 677	2 253	3 860	4 860	5 860	6 860
Total fixed assets	21 767	22 242	22 375	23 798	24 639	25 790	26 901	28 036
Total assets	63 389	46 642	63 676	55 185	48 099	42 389	65 905	59 528
Accounts payable	1 882	2 280	3 127	2 619	2 142	2 399	2 491	2 508
Accrued cost & prepaid inco	4 025	3 177	4 222	3 373	3 417	3 902	3 989	3 927
Other liabilities	11 170	917	758	823	847	920	914	957
Total current liabilities	17 078	6 373	8 107	6 816	6 405	7 221	7 394	7 392
Total non-current liability:	-	-	-	853	802	802	802	802
Total equity	46 311	40 269	55 570	47 516	40 892	34 366	57 709	51 334
Total equity and liabilities	63 389	46 642	63 676	55 185	48 099	42 390	65 905	59 528

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019e	Q4 2019e	Q1 2020e	Q2 2020e
Operating activities	(3 476)	(3 769)	(3 085)	(5 401)	(4 535)	(5 506)	(5 629)	(5 342)
Changes in working capital	(1 173)	1 802	(2 916)	1 473	1 018	(653)	(677)	(1 056)
Investing activities	(1 854)	(1 295)	(2 024)	(3 793)	(3 033)	(2 171)	(2 139)	(2 168)
Financing activities	5 943	17 468	(49)	20 831	(49)	-	30 000	-
Cash flow for the period	(559)	14 207	(8 074)	13 110	(6 598)	(8 329)	21 555	(8 565)
Beginning cash balance	7 741	7 143	21 362	13 304	26 351	19 855	11 526	33 081
Adjustments	(39)	13	16	(63)	102	-	-	-
Ending cash balance	7 143	21 362	13 304	26 351	19 855	11 526	33 081	24 515

Source: Västra Hamnen Corporate Finance

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Västra Hamnen Corporate Finance AB

Jungmansgatan 12

211 11 Malmö

Telefon: +46 40 200 250

E-post: info@vhcorp.se

www.vhcorp.se

