

Sivers IMA

Sector: Telecommunication Equipment

A potpourri Q3

No uptick in sales and unexpected costs

Sivers IMA reported revenue of SEK 24m (SEK 24m) in Q3, resulting in an EBITDA of SEK -16.4m (SEK -3.4m). However, the company reports a number of non-recurring items, including write-downs, one-off tax items, and temporary consultancy costs and adjusted for these items, EBITDA was SEK -6.6m. Nevertheless, the company's Q3 was overall financially weaker compared to our expectations, both on the sales and cost side, even excluding one-offs.

More delays before potential volume ramp-up

The general picture painted in the third quarter is a mixed one. On a positive note, the company has so far shipped 17 additional EVKs in H2'19, of which two to Tier 1 players, and formed a partnership with the large telecom player NXP. The Fortune 100 customer also placed a follow-up order of SEK 27.3 m. On the other hand, we have not seen signs of ramp-ups from other customers within wireless and fiber, and as far as we can tell, there are no significant volume orders on the way in the short term. On the contrary, the CEO communicates that some customers are behind schedule and that their commercial launches are delayed, which is the main message that we take with us from Q3'19.

Delays and lack of new fiber design wins lower base case to SEK 7 per share

Given the delayed schedule on the wireless side and the poor visibility regarding the customer activity in the fiber segment, we lower our sales expectations in the short term. We still believe that sales will take off within the wireless segment when the 5G equipment market materializes, but it will take a longer time than previously expected. Also in the fiber segment, we have lowered our expectations due to the lack of new design wins. For example, in 2020 and 2021, we have decreased our sales estimates with -43 % and -34 %, respectively.

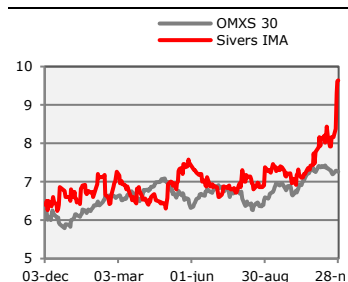
After lowering our forecasts in both segments, we value Sivers IMA to **SEK 7 (7.5) per share in a base case scenario**. We have also lowered our bear case valuation to SEK 1 (2) per share. The share is currently trading above our base case, but we also set out a scenario where the company secures volume orders from the Fortune 100 customer and gains a larger long-term market share within 5G as reflected by our bull case (SEK 16 per share).

KEY FINANCIALS (SEKm)	2017	2018	2019E	2020E	2021E	2022E
Net sales	65	71	98	135	248	356
EBITDA	-20	-53	-37	-33	17	32
EBIT	-51	-70	-77	-66	-20	-10
EPS (adj.)	-0.5	-0.6	-0.6	-0.7	-0.5	-0.6
EV/Sales	7.9	10.8	12.8	10.3	6.1	4.6
EV/EBITDA	-26.5	-14.7	-33.9	-41.7	87.1	51.7
EV/EBIT	-10.1	-11.0	-16.3	-21.0	-74.6	-156.4
P/E	-12.0	-10.6	-15.0	-14.2	-19.3	-15.3

FAIR VALUE RANGE

BEAR	BASE	BULL
1.0	7.0	16.0

SIVE.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	SIVE.ST
Market	First North
Share Price (SEK)	9.5
Market Cap (MSEK)	1,248
Net Debt 19E (MSEK)	5
Free Float	53 %
Avg. daily volume ('000)	156

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A mishmash quarter

Sivers IMA's Q3 report contained both some good news and some disappointments. The numbers were not as good as we had hoped for, but we see operational progress. The company is making efforts in marketing its 5G semiconductor chips and modules to many attractive potential customers, by selling evaluation kits (EVKs), and continuously building its 5G ecosystem of partners. Sivers IMA took an important step during the quarter, by adopting IFRS accounting standards, as part of the preparation for the coming change in stock exchange listing. This enables us to see the sales split of the two segments, as we will discuss further in the financials section.

One of the things that we did not see in the Q3 report was news on larger volume orders from telecom customers or new design-wins with larger players (excl. the Chinese deal announced 2nd of August, which was covered in the Q2 report). Sivers IMA has previously disclosed some smaller customers, and the volumes ordered by the current customers are still small. The company has so far only announced one supply agreement, with Blue Wireless (published on the 29th of November).

Delays for several customers

There seem to have occurred delays in the launch of the finalized product for several customers, and in the Q3 webcast, CEO Storm mentioned that several of their customers move more slowly than what they previously expected. Given that there are no clear indications that volumes will ramp up soon and given that the company has several times communicated delays, we believe that one should view the schedule going forward with caution.

Orders of SEK 27.3m from Fortune 100 customer during Q3

On a more positive note, Sivers IMA received two follow-up orders from the undisclosed Fortune 100 customer, totaling SEK 27.3m, during the quarter. According to CEO Storm, this signals that the customer is pleased with the work that they have done previously and the quality of the products that Sivers IMA has delivered.

The customer is, however, rather scarce with information about the path forward, and it is not known exactly how they will proceed. According to CEO Storm, the discussions are ongoing, but he cannot provide any further details concerning the timing of the next steps. We are still uncertain about what customer and application area it regards, and it is furthermore difficult to assign a value to the deal given the uncertainty regarding potential volumes in a commercial stage and the binary nature of the opportunity. Nevertheless, we have in this update included that the customer moves forward with volume production in our bull case. We view the follow-up orders as a very positive signal, and we believe that each recurring order increases the likelihood that the customer will move forward and place volume orders.

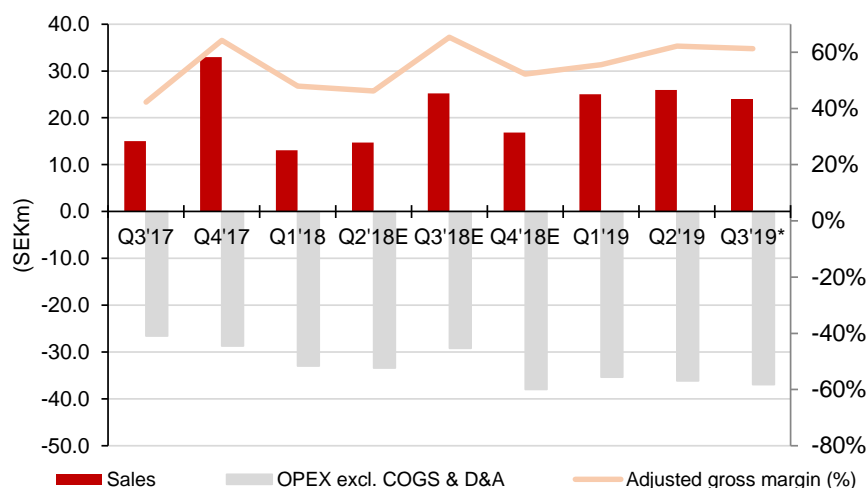
As regards the rest of the fiber segment, we do not see any activity from the two main customer groups, fiber-to-the-home players and suppliers to data centers in the quarter. Nor do we understand that there are any imminent deals in the pipeline. We have previously expected that business from these two customer groups would make up the major part of the segment's sales potential, and hence, the lack of activity leads us to lower our expectations in this area.

Financials

As mentioned, Sivers IMA adopted IFRS accounting standards in Q3'19, which affected multiple posts. The largest effect is visible in the amortization of goodwill, which is approximately SEK 8m lower than previously, therefore leading to an improved reported operating profit. The new accounting standard also gives us a segment and geographical

breakdown of sales, which we will look into a bit more. Noteworthy is also that, in addition to IFRS effects, Sivers IMA also had several one-off costs affecting the Q3'19 numbers negatively.

Sivers IMA: Sales, OPEX excl. COGS & D&A and adjusted gross margin*



Source: Redeye Research

*Q3'19 is the only quarter reported according to IFRS

The company reported revenues of SEK 24m, corresponding to a decline of 0.4% year-on-year. It came thereby in below our forecast of SEK 31m, which was based on expectations of higher sales in both segments. The gross profit was negatively affected by a write-down of SEK -3m within fiber, resulting in a gross margin of 49% and an adjusted gross margin of 61%. External costs of SEK -20.7m were significantly higher than expected, which is explained by a denied VAT deduction for 2017-2019, leading to extra costs of SEK -4.3m, and increased consultancy costs of SEK -2.5m related to a tax credit application in Scotland and the planned change in listing. The staff costs of SEK -16.3m were at the same time lower than expected, resulting in OPEX excluding COGS and D&A, of -37m. Hence, the difference to our forecast of SEK -33m is primarily explained by the one-offs.

Extra-ordinary costs
of more than SEK
10m

The extraordinary costs during the quarter resulted in increased losses. EBITDA was SEK -16.4m, compared to our forecast of SEK -4.5m. However, excluding the SEK -3m write-down taken against CoGS, the VAT costs, and increased consultancy costs, adjusted EBITDA was SEK -6.6m. The company ultimately reported net income of SEK -24.3m, corresponding to EPS of -0.19, which can be compared to our estimate of SEK -0.14.

The operating cash flow during Q1-Q3'19 was SEK -33.2m, with SEK -13.1m explained by working capital build-up. After investments of SEK -38.1m, mainly consisting of capitalization of R&D, the free cash flow amounted to SEK -71.4m. Sivers IMA held SEK 73.3m in cash by the end of the quarter, which would hence last for approximately nine more months given a maintained burn rate.

The fiber segment
accounts for 74 % of
sales

The Q3'19 report was further the first report where Sivers IMA disclosed sales and EBITDA by segment. Wireless contributed with SEK 4.3m to revenues in Q3'19, while revenues within fiber amounted to SEK 19.7m, i.e., 82% of the group's total revenues in Q3. If we look at Q1-Q3'19, the fiber segment corresponds to 74 % of sales.

Segment split						
(SEKm)	Q3'19	Q3'18	Q1-3'19	<i>Of total</i>	Q1-3'18	<i>Of total</i>
Sales						
Wireless	4.3	3.5	19.9	28%	7.1	14%
<i>Hardware</i>	4.1	2.3	17.8	25%	5.9	12%
<i>Support & other</i>	0.2	1.2	2.1	3%	1.2	2%
Fiber	19.7	20.7	51.1	72%	44.0	86%
<i>Hardware</i>	7.1	5.1	20.1	28%	15.3	30%
<i>NRE / development</i>	12.6	15.6	31.0	44%	28.7	56%
Total	24.0	24.1	71.0	100%	51.1	100%
EBITDA						
Wireless	-3.5	-1.7	0.7		-16.6	
Fiber	-8.2	0.2	-16.3		-13.0	
Costs at group level	-4.7	-1.9	-12.9		-7.0	
Total	-16.4	-3.4	-28.4		-36.5	

Altogether, it was a report with many parts to it, including several IFRS effects and diverse non-recurring items. We had expected better sales and earnings, and we believe that management's comments regarding future ramp-up signal a delay. The report, now unfolding the company's revenue mix, also sheds light on the importance of the Fortune 100 customer. Sivers IMA's revenues in Q1-Q3'19 2019 amounted to SEK 71m, of which SEK 39.7m generated by the fiber segment in North America, i.e., most likely a major part arising from the Fortune 100 customer.

Geographical sales split						
(SEKm)	Q3'19	Q3'18	Q1-3'19	<i>Of total</i>	Q1-3'18	<i>Of total</i>
Wireless	4.3	3.5	19.9		7.1	
<i>North America</i>	0.9	0.1	6.2	9%	1.5	3%
<i>Europe</i>	1.6	3.0	11.2	16%	5.0	10%
<i>Asia</i>	1.8	0.4	2.5	4%	0.6	1%
Fiber	19.7	20.7	51.1		44.0	
<i>North America</i>	15.1	16.3	39.7	56%	30.8	60%
<i>Europe</i>	2.1	2.6	7.9	11%	7.3	14%
<i>Asia</i>	2.5	1.8	3.5	5%	5.8	11%
Total	24.0	24.1	71.0	100%	51.1	100%

EVKs sold to important customers, but no new major design wins

The uplifting elements in the report concerned details regarding shipments of EVKs to prospective customers. CEO Storm stated that the company had shipped an additional 17 EVKs since the 1st of July this year, of which two to Tier 1 equipment vendors. We believe that the figure highlights a solid interest in the company's wireless solutions. It further opens up for new design wins over the coming months, which ultimately should generate high long-term growth. Management echoes that it expects that 20-40% of the delivered EVKs should generate "design-in"-agreements within 3-12 months after delivery. Over the last six months, Sivers IMA has delivered 35 EVKs. One of them has resulted in a design-win with a larger actor through the Chinese reseller Matrix (discussed in our Q2 update). During the Q3 webcast, CEO Storm mentioned that the company also has added two new customers within wireless, a European Point-to-Point player and a US defense company. It, however, regards minor players to our understanding.

Two EVKs sold to
Tier 1 players

At the same time, none of the previous design wins have resulted in significant volumes, meaning that the short-term outlook is uncertain. The company states that it currently is in discussions regarding supply agreements specifying the volumes to be delivered over the coming year. It has, however, not announced any larger orders within wireless yet, and we have, therefore, looked into our 2020 and 2021 estimates, as we discuss further in the forecasts and valuation section.

New partnership established, but further delay of volume ramp-up

In the quarter, Sivers IMA continued to build on its 5G ecosystem and announced that they have partnered up with NXP Semiconductors. With its USD 1.8bn in sales from the communication infrastructure segment, NXP is one of the largest telecom component suppliers, with several Tier 1 players as customers. The plan is to deliver 5G based FWA and small cells, i.e., the two largest 5G segments in terms of volumes, according to SNS Research's forecast.

We also saw that the efforts to establish partnerships to reach the market yielded some results when CCS announced that they had signed their first customer in Sweden – MicroNät. The Swedish wireless internet service provider MicroNät has announced plans to roll-out unlicensed FWA systems based on CCS's 60 GHz solutions, including Sivers IMA's RF modules. Although concerning a minor service provider, it reflects a commercial interest in unlicensed solutions. We find it to be an ideal use case demonstrating the potential value of deploying unlicensed solutions.

However, during the Q3 webcast, when CEO Storm provided an update on the current design wins, it became clear that several customer projects have been delayed in comparison to what was previously expected. Regarding Sivers IMA's partner Blu Wireless, Storm said that the first track-to-train deployments are expected to be initiated in Q1'20. In November 2018, Sivers IMA communicated that the system that had developed together with Blu Wireless would be ready for mass production before the end of 2018. Hence, the time to market seems to have been somewhat longer than what was expected a year ago. However, on the 29th of November, the company announced that a supply agreement had been signed with Blu Wireless and according to CEO Storm, Sivers IMA will start to deliver before year-end. However, we believe that it concerns rather small volumes of the magnitude SEK 1-2m annually.

The previously announced customers, Fujikura, and the Eastern European player, also seem to be delayed. In the press release from the 16th of January this year, Sivers IMA stated that the customer planned a commercial launch before the year-end. Nevertheless, during the webcast, CEO Storm said that the commercial launch is delayed. Hence, we conclude that the launch will not take place until next year.

CEO Storm received questions regarding when the ramp-up of total volumes is expected to begin during the Q&A, on which he stated that it takes time as the systems require design, testing as well as approvals (FCC) to be sold. We believe that it signals low expectations of new orders during the upcoming months. There is now one month left of Q4'19, and the company has yet not announced any larger orders within wireless. All in all, we get the general impression that despite the positive news of the partnership with NXP and the Swedish customer MicroNät, the take-off in the numbers will take longer than previously expected. The ramp-up of volumes will not go as quickly as previously communicated, and that substantial sales growth should not be expected until H2'20, at the earliest, we believe. This is reflected in our updated forecasts, which are detailed in the section below.

Forecasts & Valuation

In this quarter, we have made adjustments to our financial forecasts in accordance with the delay of product launches communicated by the company and also our updated stance on the fiber segment development. In the usual Redeye fashion, we model a bear, base, and bull case in our forecasting. The details of the base case are outlined in the coming section, whereas the other two scenarios are summarized further down below.

Forecasts – base case scenario

Given the postponement of commercial launches that Sivers IMA has communicated regarding several customers within the wireless segment, we lower our short-term sales forecasts. We still believe that some of them will come around eventually, but the timing has changed. In the base case, we expect that the first volume orders within wireless will start to ramp up in Q4'20, with most of the volumes taking off in 2021. To begin with, we see that two players of Tier 2 size will begin to ramp-up. Over the next couple of quarters, the sales within this segment will mostly consist of smaller prototype orders and the sale of EVKs. An overview of the estimate changes done in the short-term are disclosed in the table below.

Sivers IMA: Estimate changes base case					
(SEKm)	2019E	2020E	2021E	2022E	2023E
Net sales (new)	98.0	134.6	247.6	356.1	668.6
Wireless	25.9	49.6	137.6	229.6	529.4
Fiber	72.1	85.0	110.0	126.5	139.2
Net sales (old)	127.0	236.8	372.5	500.9	592.0
Wireless	58.0	122.9	178.5	266.8	325.0
Fiber	69.0	113.9	194.0	234.1	267.0
Total change (%)	-23%	-43%	-34%	-29%	13%
EBIT (new)	-76.7	-66.1	-20.3	-10.5	148.0
EBIT (old)	-72.7	-5.9	44.0	86.2	105.4
Change (%)	-5%	-1029%	-146%	-112%	40%

Source: Redeye Research

Within the fiber segment, we expect growth year-on-year, driven by additional orders from the Fortune 100 customer and higher revenue from other smaller, existing customers. We want to see orders above SEK 10m from the Fortune 100 customer being announced in H1'20. If this does not happen, we will lower our estimates in the fiber segment. However, given the lack of clear indications that larger orders are imminent from fiber-to-the-home or data center customers, we do not expect any other larger customers to place orders until 2021. Hence, we lower our short-term sales estimates within this segment as well. On a group level, we have decreased our sales estimates with -43 % and -34 % in the years 2020 and 2021, respectively.

Sivers IMA: Base case estimates							
(SEKm)	2016	2017	2018	Q3'19	Q4'19E	2019E	2020E
Net sales	18.2	65.5	68.7	24.0	27.0	98.0	134.6
COGS	-5.2	-26.5	-43.8	-12.3	-11.6	-40.8	-54.6
Gross margin (%)	71%	59%	36%	49%	57%	58%	59%
Staff costs	-31.4	-48.4	-76.8	-16.3	-16.0	-72.3	-83.6
External costs	-18.1	-40.5	-56.7	-20.7	-20.0	-72.2	-73.7
EBITDA	-19.7	-19.6	-58.6	-16.4	-6.6	-36.9	-33.3
D&A	-6.2	-31.8	-37.7	-8.6	-6.0	-39.8	-32.8
EBIT	-25.9	-51.3	-96.4	-25.0	-12.6	-76.7	-66.1
Growth (%)	-13%	259%	5%	0%	60%	43%	37%
EBIT-margin (%)	-142%	-78%	-140%	-104%	-46%	-78%	-49%

Source: Redeye Research

In the longer term, we believe that Sivers IMA will move forward to volume production with a number of wireless customers. The large ecosystem of partners in the industry that the company has built gives the company a good position to take part in the 5G transformation, particularly in the higher unlicensed frequencies, when it eventually occurs. Our sales estimates correspond to a market share of the 5G equipment market of 3-4 % in 2025, depending on the product segment.

In the fiber segment, we believe that Sivers IMA efforts will result in a couple of larger customers in 2021 and after. We expect an additional prototype order from the Fortune 100 customer of SEK 45m. We expect new design-wins 2020, that results in orders in 2021, amounting to a total of SEK 70m in total. Both orders mentioned are in addition to some existing business. However, we do not dare to entertain the notion that the Fortune 100 customer moves forward with Sivers IMA and goes into volume production in the base scenario. We still believe that the primary customer groups within this segment are fiber-to-the-home players and suppliers to data centers. However, we understand that there is currently a lack of activity from prospective customers in both of these areas. Hence, we have decreased our sales expectations accordingly, both in the short and the long term.

Sivers IMA: Base case - net sales by segment							
(SEKm)	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Wireless	26	50	138	230	529	820	1 077
Fiber	72	85	110	127	139	153	168
Net sales	98	135	248	356	669	973	1 245

Source: Redeye Research

On the cost side, we expect that Sivers IMA will have to continue to build its organization, both within R&D and sales, to be able to handle a larger customer base and sustain product competitiveness. This will continue to increase OPEX, especially in the short-term. The company is currently making losses and is cashflow negative. It should be noted that Sivers IMA had a cash flow from operating and investing activities of around SEK -90m over the last 12 months and had, at the end of the quarter, SEK 73m in cash. We see that there is a need for additional financing within the next year. In our base case, the company will reach a positive EBITDA in 2021.

Sivers IMA: Estimates in base case							
(SEKm)	2017	2018	2019E	2020E	2021E	2022E	2023E
Net sales	65.5	68.7	98.0	134.6	247.6	356.1	668.6
CoGS	-26.5	-43.8	-40.8	-54.6	-94.4	-156.4	-270.2
Gross margin (%)	59%	36%	58%	59%	62%	56%	60%
Staff costs	-48.4	-76.8	-72.3	-83.6	-87.8	-93.0	-98.2
External costs	-40.5	-56.7	-72.2	-73.7	-92.1	-115.0	-144.4
EBITDA	-19.6	-58.6	-36.9	-33.3	17.4	31.6	195.7
D&A	-31.8	-37.7	-39.8	-32.8	-37.6	-42.1	-47.7
EBIT	-51.3	-96.4	-76.7	-66.1	-20.3	-10.5	148.0
Growth (%)	259%	5%	43%	37%	84%	44%	88%
EBIT Margin (%)	-78%	-140%	-78%	-49%	-8%	-3%	22%

Source: Redeye Research

To conclude, our key forecasts and assumptions in the base case can be summarized as:

- Given the communicated delay with regards to several customers, sales growth will not take off in 2020 as previously expected within the wireless segment
- We do not expect any larger new deals or customers over the next 12 months in the fiber segment, except for additional follow-up orders from the Fortune 100 customer
- We want to see orders above SEK 10m from the Fortune 100 customer being announced in H1'20. If this does not happen, we will lower our estimates in the fiber segment
- We expect a ramp-up in volume orders in the wireless segment to take place in 2021-2024, when several of the current customers place volume orders and partners move forward with commercial launches of finalized products
- In the fiber segment, Sivers IMA will attract a couple of larger customers in 2020 within the fiber-to-the-home and data center customer segments
- Our base case estimates do not include that the Fortune 100 customer proceeds with Sivers IMA and moves forward with volume production
- Bottom-line break-even is reached in 2023, and the company will require additional funding within the coming 12 months.

Short-term forecasts – bear & bull scenario

The difference between the base and bear scenarios is that we only expect two customers within wireless to ramp-up volumes in 2020-2021, in comparison to three in the base case. In the fiber segment, we do not expect any additional order from the Fortune 100 customer. Instead, we believe that the main revenue stream will be NRE projects with potential customers, which generates lower sales in this segment compared to the base case.

Sivers IMA: Bear case - net sales by segment							
(SEKm)	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Wireless	26	30	69	115	265	410	538
Fiber	72	70	80	96	110	127	140
Net sales	98	100	149	211	375	537	678

Source: Redeye Research

The difference between the base and bull scenarios in the wireless segment is that we expect an additional customer of Tier 2 size to ramp-up sales during 2021. In the fiber segment, we expect an additional follow-up order from the Fortune 100 customer of SEK 55m in 2020, before the customer decides to move forward with volume production. This results in a fast ramp-up of volume in 2021-2022, yielding strong growth in the segment.

Sivers IMA: Bull case - net sales by segment							
(SEKm)	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Wireless	26	80	167	298	688	1 065	1 400
Fiber	72	95	140	540	640	672	706
Net sales	98	175	307	838	1 328	1 737	2 105

Source: Redeye Research

Valuation – base case scenario

Our valuation is based on a discounted cash flow (DCF) model, in which we have used a discount rate (WACC) of 13 % for valuation purposes. The discount rate we use is based on a number of different parameters that together form Redeye's rating model. The underlying factors aim at capturing the company-specific risk and take into account everything from management and owners to market position and balance sheet.

Sivers IMA: Base case valuation assumptions			
Assumptions		Valuation	
Average growth CAGR (%)		WACC	13.0 %
2019-2022	51%	NPV of FCF	431
2023-2029	24%	NPV of terminal value	443
Average EBIT-margin (%)		Sum of NPV	874
2019-2022	-35%	Net cash	12
2023-2029	28%		
Terminal assumptions		DCF-value	886
FCF Growth	2%	Fair value per share	7
EBIT-margin (%)	14%	Current share price	9.5

Source: Redeye Research

Given the forecasts and assumptions listed above and the terminal assumptions presented in the table above, we believe that a **fair value for Sivers IMA's share is SEK 7 (7.5) per share in a base case scenario**. This is below the current market price of SEK 9.5 per share. Our lowered valuation is partly caused by decreased short-term sales expectations for the wireless segment, but primarily it is driven by the lowered expected sales in the fiber segment. We believe that there are great opportunities in this segment, for example, the Fortune 100 customer, which is reflected in our bull case scenario. However, we want to see clearer indications that deals with larger customers are in the pipeline to justify higher expectations in this segment in the base case scenario. We believe **a fair value range for the share is between SEK 1-16 per share** based on our bear and bull scenarios.

Valuation

Bear Case 1 (2) SEK

The bear scenario is based on that customers will show a limited interest in Sivers IMA's products and that there will be a tough competitive environment, especially within the licensed spectrum. Also, we assume that the unlicensed spectrum only will be used in some special use cases, limiting the market potential for those products.

We assume within the wireless segment that a couple of the smaller customers ramps-up volume production in 2021-2025. This corresponds to a low single-digit market share of the total 5G market. Thus, wireless sales will grow to around SEK 700m at the end of the forecast period.

Within the fiber segment, we assume that a few customers order larger volumes, so that sales grow with a CAGR of around 10 % over the entire forecast period.

Total sales thus end up at around SEK 900m. The gross margin declines rather quickly due to heavy price competition, resulting in a terminal gross margin of 38 %. We also assume a terminal EBIT-margin of 9 %.

Base Case 7 (7.5) SEK

In the base scenario, we assume that a number of customers find Sivers IMA's product offering competitive. We still believe that competition will be rather fierce within the licensed spectrum, but that the use of the unlicensed products will be more extensive.

Within the wireless segment, we assume that a number of smaller customers ramps-up volume production in 2021-2025. This corresponds to a mid-single-digit market share. Thus, wireless sales will grow to more than 1,400m at the end of the forecast period.

Within the fiber segment, we assume that some customers order larger volumes, so that sales grow with a CAGR of around 13 % over the entire forecast period.

Hence, the scenario yields total revenue of around SEK 1,700m at the end of the period. The gross margin still declines rather quickly due to price competition, resulting in a terminal gross margin of 39 %. We also assume a terminal EBIT-margin of 14 %.

Bull Case 16 (16) SEK

In our positive bull scenario, we assume that Sivers IMA's product offering is deemed to be attractive by larger customers as well as by smaller ones. We also base the scenario on that a substantial part of the 5G market consists of the unlicensed spectrum.

We model that Sivers IMA gains a number of smaller customers that ramps up volumes in 2021-2025. The size of these players is, however, slightly larger compared to in the base case, entailing higher volumes and hence, sales. This implies that Sivers IMA takes a higher mid-single-digit market share of the 5G market, in comparison to the base case. The wireless segment hence generates almost SEK 1,900m in 2030.

In addition, we assume that the Fortune 100 customer moves forward with Sivers IMA and orders volume orders, starting to ramp-up in 2021-2022. This entails larger CAPEX investments to set up a new production line, which is assumed to be partially paid for by the customer. This scenario results in a CAGR for the fiber segment of around 26 % up until 2030, with sales of almost SEK 800m at the end of the forecast period.

All in all, the scenario generates total revenue of around SEK 2,700m at the end of the period. The gross margin for the wireless segment here stays over 50 % for a longer period in comparison to the other scenarios. However, given the bargaining power of the Fortune 100 customer, we expect a considerably lower gross margin for the fiber segment of around 40 %. All in all, the weighted terminal gross margin ends up at 37 %. We also assume a terminal EBIT-margin of 18 %.

Investment Case

Huge 5G market potential

Sivers IMA develops and produces semiconductor chips and modules, especially for 5G telecom applications and semiconductor lasers for optical fiber applications. In the coming years, the market for 5G network equipment is forecasted to, more or less, explode when the industry is preparing for the launch of the new technology. This will require not only large investments in current networks but also a densification of networks. Hence, the investments in network equipment are expected to be larger in comparison to previous generations. The market outlook for fiber-to-the-home applications are also good, with increased usage of fiber in the networks in general. Thus the market outlook for Sivers IMA's two product segments in the coming years is great.

Established partnerships to increase the value of product offering

Five large OEM dominates the network equipment markets - Ericsson, Nokia, Huawei, Samsung, and ZTE, the so-called Tier 1 players. Sivers IMA can sell directly to these companies, but as a small supplier, it is difficult to attract the attention of these giants. Hence, the company's main strategy is to establish partnerships with larger suppliers, and by combining product solutions, the partners can offer a more value-adding to product to Tier 1 players.

Sivers IMA has so far partnered up with some of the largest telecom subsuppliers, such as Ampleon and NXP Semiconductors. Going forward, Sivers IMA is in a good position to be able to reach large potential customers, and potentially also gain one or several Tier 1 customer. There are however also smaller equipment vendors, the Tier 2 players, that would be attractive as potential customers as well. We believe that Sivers IMA could gain several Tier 2 player customers that could generate annual sales of approximately SEK 1,000m in 2025.

Binary add-on opportunity for orders from a Fortune 100 company

A large Fortune 100 company approached Sivers IMA a little more than a year ago, conveying an interest in semiconductor components from the fiber division. The customer has placed three pre-series orders totaling around SEK 50m during the last year. We believe that if the customer decides to proceed, it will imply very large volumes. Thus, it represents a significant growth opportunity, but it is rather binary in nature, and it is difficult to assess whether the customer will move forward with Sivers IMA or not. Given that the company has received two follow-up orders from the customer, it looks promising so far. In full ramp-up, we expect that the customer could generate peak sales of at least SEK 600m annually.

We value Sivers IMA to SEK 7 in a base case scenario

In the long term, we believe that Sivers IMA will profit from the 5G transformation, and we also expect growth in the fiber segment. However, we believe that the deployment of the new technology may

take some time. We currently value Sivers IMA in the **base case to SEK 7 per share, with a fair value range of SEK 1-16 per share**. To justify a higher share price, we want to see stronger signals that volumes are about to ramp up on the wireless side and/or that larger customers are in the pipeline in the fiber segment.

Catalysts

New design-wins with large telecom players

As of now, Sivers IMA is not profitable and is awaiting its first large volume orders within wireless. The company's focus has been to build an ecosystem of partners and are currently teamed up with two partners that are suppliers to Tier 1 telecom players – Ampleon and NXP Semiconductors. If the combined offering of Sivers IMA and its partners were integrated into one the Tier 1 players' system, it would mean a real take-off in Sivers IMA's sales. The resulting improvement in the financial results would be a catalyst for the company's stock.

5G market takes off

The transformation of the telecom industry, moving from 4G to 5G technology, is expected to take place in the coming years, and this shift has partially already begun. The telecom industry has started to utilize some 5G technology in the lower frequencies, i.e., for sub-6-GHz. However, in the higher frequencies, where Sivers IMA's products would be used, the deployment is expected to take a somewhat longer time. At the same time, many industry experts voice the opinion that 5G is happening faster than they had expected. When the market for 5G telecom equipment in the higher frequencies takes off, Sivers IMA is in a good position to take part in the transformation. It would lead to strong growth and would act as a catalyst for the stock.

Large orders from Fortune-100 customer

Sivers IMA has, as mentioned above, received substantial orders from a Fortune 100 company over the last year. If the customer moves forward and decides to integrate Sivers IMA's components in their final product, this would entail very large orders and strong growth for the fiber division. Even though we would expect that such a large customer would use its bargaining power to put pressure on margins, we expect that the orders would increase the bottom line and create a substantial upside in the stock.

Counter thesis

Fierce competition may put pressure on margins

Sivers IMA has a number of competitors that are making similar components, and it is difficult to differentiate the product offering. The competition in the lower, licensed, frequency bands that Sivers IMA targets is intense, with many players addressing the same segment,

whereas, in the higher frequency bands that the company targets, there are fewer head-on competitors. However, given the brutal nature that competition usually takes in hardware businesses, we believe that price competition will put pressure on margins in both segments going forward.

Rapid technological development

Technological development in the industry advances quickly, and even state-of-the-art products soon become obsolete. We believe that this will hold true also for Sivers IMA's products and that their current products will have a limited life cycle. To be able to continue to offer attractive products to its customers, the company will have to work with product development continuously.

Uncertainties regarding 5G deployment

Even though the 5G transformation is starting to happen, it is difficult to say how quickly 5G will be adapted and also exactly how the new technology will be utilized. What we have seen so far is that 5G is mostly taking place in the lower, sub-6-GHz, frequencies. We believe that the higher frequencies that Sivers IMA's products cover will be used more later on. However, it is not yet possible to say how extensively the higher, unlicensed, frequencies will be employed or when this will happen.

Summary Redeye Rating

The rating consists of three valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 1 points. The maximum score for a valuation key is 5 points.

No rating changes

People: 3

The company's management has extensive and broad experience from the telecom industry. We believe that management shows a good understanding of the market and has a clear idea of the areas of application in which the company can make the most difference. We are further reassured by Sivers IMA's ownership. A majority of management and all board members own shares in the company. Sivers IMA also has two strong owners, each holding around 20% of the shares, and who have previously supported it in rights issues.

Business: 3

The company focuses on areas that offer great growth opportunities. We believe it is particularly well-positioned to grow with the licensed and unlicensed 5G markets through the production of its unique chip and established partnerships with leading players. The company, therefore, has very good potential to show high growth in the coming years.

Financials: 2

Sivers IMA is still operating at a loss and invests substantial amounts related to its development of new chips and increased production capacity. We currently see a need for additional financing within the next 12 months.

INCOME STATEMENT	2017	2018	2019E	2020E	2021E
Net sales	65	71	98	135	248
Total operating costs	-85	-124	-135	-168	-230
EBITDA	-20	-53	-37	-33	17
Depreciation	-2	-10	-8	-10	-11
Amortization	-29	-8	-31	-23	-26
Impairment charges	0	0	0	0	0
EBIT	-51	-70	-77	-66	-20
Share in profits	0	0	0	0	0
Net financial items	-1	-10	-11	-22	-44
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-52	-80	-88	-88	-65
Tax	6	8	4	0	0
Net earnings	-46	-72	-83	-88	-65

BALANCE SHEET	2017	2018	2019E	2020E	2021E
Assets					
<i>Current assets</i>					
Cash in banks	62	42	55	13	25
Receivables	34	33	29	54	99
Inventories	16	14	20	47	62
Other current assets	7	7	16	16	16
Current assets	119	96	120	130	202
<i>Fixed assets</i>					
Tangible assets	37	45	51	56	65
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	135	135	135	135	135
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	63	104	113	132	146
0 non-current assets	0	0	0	0	0
Total fixed assets	235	283	299	323	345
Deferred tax assets	0	0	0	0	0
Total (assets)	353	380	419	453	547
Liabilities					
<i>Current liabilities</i>					
Short-term debt	3	13	20	58	81
Accounts payable	36	48	34	61	87
0 current liabilities	0	0	10	10	10
Current liabilities	39	61	64	129	177
Long-term debt	28	35	40	98	208
0 long-term liabilities	9	7	16	16	16
Convertibles	0	0	0	0	0
Total Liabilities	77	103	120	242	401
Deferred tax liab	0	0	0	0	0
Provisions	82	3	3	3	3
Shareholders' equity	194	273	295	207	143
Minority interest (BS)	0	0	0	0	0
Minority & equity	194	273	295	207	143
Total liab & SE	353	380	419	453	547

FREE CASH FLOW	2017	2018	2019E	2020E	2021E
Net sales	65	71	98	135	248
Total operating costs	-85	-124	-135	-168	-230
Depreciations total	-32	-17	-40	-33	-38
EBIT	-51	-70	-77	-66	-20
Taxes on EBIT	6	7	4	0	0
NOPLAT	-45	-63	-73	-66	-20
Depreciation	32	17	40	33	38
Gross cash flow	-13	-46	-33	-33	17
Change in WC	-16	15	-14	-26	-34
Gross CAPEX	-234	-66	-55	-57	-60
Free cash flow	-263	-97	-103	-116	-77

CAPITAL STRUCTURE	2017	2018	2019E	2020E	2021E
Equity ratio	55%	72%	70%	46%	26%
Debt/equity ratio	16%	18%	20%	75%	202%
Net debt	-30	6	5	143	264
Capital employed	164	279	300	350	406
Capital turnover rate	0.2	0.2	0.2	0.3	0.5

GROWTH	2017	2018	2019E	2020E	2021E
Sales growth	259%	9%	37%	37%	84%
EPS growth (adj)	-21%	24%	4%	5%	-26%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	13.0 %	NPV FCF (2019-2027)	431
		NPV FCF (2028-)	443
		Non-operating assets	73
		Interest-bearing debt	61
		Fair value estimate MSEK	886
Assumptions 2017-2023 (%)			
Average sales growth	52.8 %	Fair value e. per share, SEK	7
EBIT margin	-8.0 %	Share price, SEK	9.5

PROFITABILITY	2017	2018	2019E	2020E	2021E
ROE	-36%	-31%	-29%	-35%	-37%
ROCE	-36%	-26%	-23%	-18%	-5%
ROIC	-121%	-39%	-26%	-22%	-6%
EBITDA margin	-30%	-74%	-38%	-25%	7%
EBIT margin	-78%	-98%	-78%	-49%	-8%
Net margin	-70%	-101%	-85%	-65%	-26%

DATA PER SHARE	2017	2018	2019E	2020E	2021E
EPS	-0.49	-0.61	-0.63	-0.67	-0.49
EPS adj	-0.49	-0.61	-0.63	-0.66	-0.49
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.33	0.05	0.04	1.08	2.00
Total shares	93.08	118.45	131.61	131.61	131.61

VALUATION	2017	2018	2019E	2020E	2021E
EV	518.9	770.8	1,252.6	1,390.2	1,511.2
P/E	-12.0	-10.6	-15.0	-14.2	-19.3
P/E diluted	-12.0	-10.6	-15.0	-14.4	-19.3
P/Sales	8.4	10.7	12.7	9.3	5.0
EV/Sales	7.9	10.8	12.8	10.3	6.1
EV/EBITDA	-26.5	-14.7	-33.9	-41.7	87.1
EV/EBIT	-10.1	-11.0	-16.3	-21.0	-74.6
P/BV	2.8	2.8	4.2	6.0	8.8

SHARE PERFORMANCE		GROWTH/YEAR	16/18E
1 month	21.9 %	Net sales	22.3 %
3 month	29.9 %	Operating profit adj	22.2 %
12 month	48.1 %	EPS, just	13.7 %
Since start of the year	43.6 %	Equity	23.2 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
Keith Halsey	26.3 %	26.3 %
Rothsay Ltd	23.7 %	23.7 %
Danske Bank International S.A.	17.9 %	17.9 %
Swedbank Robur Fonder	8.8 %	8.8 %
Avanza Pension	6.8 %	6.8 %
AMF Försäkring & Fonder	3.5 %	3.5 %
Nordnet Pensionsförsäkring	2.1 %	2.1 %
Neil Martin	1.6 %	1.6 %
Andrew McKee	1.5 %	1.5 %
Prioritet Finans	1.1 %	1.1 %

SHARE INFORMATION	
Reuters code	SIVE.ST
List	First North
Share price	9.5
Total shares, million	131.6
Market Cap, MSEK	1247.6

MANAGEMENT & BOARD	
CEO	Anders Storm
CFO	Robert Ejermark
IR	
Chairman	Tomas Duffy

FINANCIAL INFORMATION	

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Redeye Rating and Background Definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive long-term earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number.

The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories: Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories: Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials

Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories: Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

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Disclaimer

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Redeye Rating (2019-12-10)

Rating	People	Business	Financials
5p	11	11	2
3p - 4p	84	64	28
0p - 2p	10	30	75
Company N	105	105	105

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Erika Madebrink owns shares in the company: No

Dennis Berggren owns shares in the company: No

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