

Jondetech

Production Pending

Redeye maintains its view and valuation of Jondetech. Compared to the stock market, we take a more conservative view on the time required to start the mass production, but we think the fundamentals of the case is unchanged.

CEO transition indicates no quick fix

Following a completion of the tech transfer, Jondetech still needs to pass the prototype and pre series phases, before turning on the volume button. While we view it more as a question of when than if, it is still not a quick fix, which is indicated by the CEO transition, according to us.

O-Film R&D according to plan ... but what about volumes?

The CEO situation has been resolved and Jondetech says the development work with O-Film is progressing according to plan. We are not sure what this means as we expected larger volumes to also be a part of the R&D plan. However, the O-Film partnership is strategic and spans over several wide use cases, which lowers the risk of a terminated partnership. Even if Jondetech misses the laptop window, it is mitigated by the final products already being well established. O-Film today has a dominant position in e.g. laptops, i.e. Jondetech is more of an incremental step for it to improve functions and margins.

Novelda is a testament to the great potential

Norwegian radar sensor start-up, Novelda, recently won a presence detection contract related to Lenovo, i.e. exactly the type of use case and end customer that Jondetech is aiming for. Novelda states that its solution is priced at a few dollars, which we believe is several times higher than Jondetech. The Novelda valuation of NOK 1.2 bn illustrates the major potential in this segment. For Jondetech, a similar valuation would imply a 300% upside, compared to our bull case potential of ~200%.

Shares trading higher than prior to the CEO transition

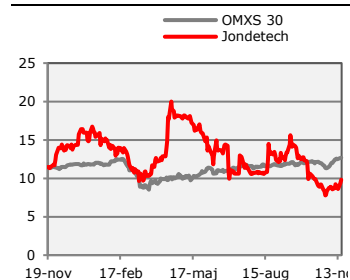
The stock market has been more patient than we had anticipated. Shares now trade at SEK 11, which is higher than prior to Per Lindeberg's resignation. We maintain our conservative stance for when mass production can start and our base case of SEK 7 per share.

KEY FINANCIALS (SEKm)	2018	2019	2020E	2021E	2022E	2023E
Net sales	0	0	0	1	38	152
EBITDA	-15	-19	-40	-36	-24	13
EBIT	-16	-20	-41	-38	-28	4
EPS (adj.)	-0.9	-1.1	-1.6	-1.0	-0.7	0.1
EV/Sales	3033.4	15475.6	12600.4	221.5	9.2	2.4
EV/EBITDA	-2.9	-15.8	-6.3	-7.9	-14.6	28.2
EV/EBIT	-2.6	-14.8	-6.1	-7.5	-12.1	82.4
P/E	-4.3	-14.8	-6.4	-10.6	-15.5	99.9

FAIR VALUE RANGE

BEAR	BASE	BULL
3.0	7.0	30.0

JDT.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	JDT.ST
Market	First North
Share Price (SEK)	10.2
Market Cap (MSEK)	272
Net Debt 20E (MSEK)	-20
Free Float	50 %
Avg. daily volume ('000)	0

ANALYSTS

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Production Pending

Orders might be on the table, but they are no good without production in place. Jondetech says it has intensified its work with the production partner by adding more internal resources, which should arguably have been done before. Nevertheless, we get the impression that there is a decent amount of people involved on the production partner' side, suggesting a solid commitment, and a firm belief in the business case on their behalf. The production partner will visit Jondetech to study the sensor element. We assume Jondetech in turn will also need to travel to the partner's facilities and educate the engineers more. The best would maybe be to have local employees close to the customer site, although we believe finding such people could be a great challenge.

The company states it is currently verifying the tests of the transferred processes in the tech transfer. The larger panels have taken some time, but Jondetech says it can handle the nano wire processes in the larger formats. This means there is no issue in moving from A4 to A3 size, i.e. processing more sensors per sheet.

The tech transfer was initiated as a route selection towards larger volumes instantly, instead of reaching proof-of-concept orders (via the German institute) for minor volumes from players like Shortlink. This decision may have been correct based on facts known at the time (or not), although this is just a hypothetical discussion.

The O-Film risk a bit lower than we first thought

Jondetech says there is continuity in the O-Film relation from the board member Dave Wu and Head of Sales, Niklas Kvist. In this context, the report reads that development work with O-Film is progressing according to plan. We do not know what the exact definition of this "development work" is, but we are not sure that not having a ready product to sell in large quantities was a part of the initial plan, as we assume O-Film has had volume expectations. We do not have the full picture though.

Initially, we were therefore particularly worried about how long O-Film would wait, and if there was a risk Jondetech could find itself in a MyFC situation where it was not able to deliver on a major order etc. When we consider the width of the strategic partnership with O-Film that spans over several applications, we are a bit less uncertain about the robustness of the O-Film relation. Presence detection and temperature measurement are broad use cases. The eventual negative effect is also mitigated by the end products being established, already selling, and not going away. Thus, Jondetech will improve functions, lower power consumption and/or lower cost (improve margins) for O-Film in existing products by replacing existing solutions. In that sense, there is no acute timing issues, and Jondetech is not a bottleneck.

Nevertheless, we see a risk that the laptop market window could narrow or close before production is solved, as entering the market late is significantly harder even though Jondetech is several times more cost-efficient and better than competition. In tech, it is sometimes mentioned as a general rule of thumb that a new disruptive solution must be 10 times better than the incumbent.

We assume O-Film is in a standby mode now, but Jondetech says the dialogue is good. As we understand it, there is no issue of over-promising towards O-Film. We also assume O-Film has a much better insight and assessment of the situation, compared to us and the stock market.

CEO situation resolved

As previously mentioned, we were perplexed and concerned when Per Lindeberg decided to step down, but as we wrote above there is continuity in the rest of the company. Moreover, the CEO situation has now been resolved, at least temporary. Leif Borg takes the helmet as interim CEO. We believe Borg will do a good job as the company CEO. This is not a new role for him.

Lindeberg said he wanted to make room for a new CEO that could get the mass production ready. In our view though, a market- and sales focused CEO is almost always important, even for pre-production companies (maybe not in a start-up that is years from revenue). Since there was nothing for Lindeberg to sell, we guess he did not want to sit around and wait for the production to be ready. We believe that if Lindeberg was convinced production was only a couple of months away, he could have waited. The logical next step in this reasoning is that the mass production start should be significantly more far away than a couple of months.

Financial estimates

All in all, we only make minor changes in our estimates (see the table below). Jondetech says there are very limited ongoing operating costs for sales, which we think means no major unnecessary (at this point) sales costs related to Novel Unicorn etc. We assume costs will stay at about the same levels during the coming quarters, until there are signs of finalizing the production.

Forecast adjustments				
(SEKm)		2020E	2021E	2022E
Sales	Old	0	1	56
	New	0	1	38
<i>% change</i>		n/a	0%	-33%
EBIT	Old	-36	-46	-18
	New	-41	-38	-28
<i>% change</i>		16%	-17%	57%
Profit before tax	Old	-36	-46	-18
	New	-42	-38	-28
<i>% change</i>		18%	-17%	56%
Earnings per share	Old	-1.37	-1.17	-0.42
	New	-1.58	-0.96	-0.66
<i>% change</i>		15%	-18%	54%

Source: Redeye Research, Jondetech

Our Q4 estimates are summarized below:

Quarterly figures & estimates (SEKm)											
(SEKm)	2018	Q1'19	Q2'19	Q3'19	Q4'19	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020
Net sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales growth (%)	n/a					36%					5%
EBIT	-16.5	-4.5	-4.8	-4.7	-5.9	-19.9	-6.4	-8.0	-17.3	-9.5	-41.3
EBITDA	-14.8	-4.3	-4.6	-4.1	-5.6	-18.7	-6.1	-7.8	-17.0	-9.2	-40.1
PTP	-16.4	-4.5	-4.8	-4.7	-6.0	-20.0	-6.6	-8.2	-18.0	-9.6	-42.4
EPS (SEK)	-0.9	n/a	n/a	n/a	n/a	-1.1	n/a	n/a	n/a	n/a	-1.6
EBIT margin (%)	-168%					-143%	-156%	-113%	-276%	-311%	-185%
EBITDA margin (%)	n/a					n/a					n/a
Gross margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EPS growth (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Redeye Research, Jondetech

Investment Case

Scalable & disruptive technology

We detect presence of prerequisites similar to Fingerprint ahead of its breakthrough

Share performance should require deals

Scalable & disruptive technology

Jondetech (JDT) benefits from an exciting, disruptive nanotechnology, but has yet to make a commercial breakthrough. The go-to-market strategy has become clear recently as the company has partnered with O-Film – the world's largest manufacturer of touch, fingerprint and camera modules. JDT provides a sensor with unique advantages at cost levels we believe are several times lower than traditional IR sensor alternatives on the market. As opposed to competition, JDT's product has a minimal footprint, can be bent and does not require encapsulation or calibration. Together with JDT's highly scalable fabless model, this allows for high gross margins of 60% (Redeye's estimate), when the production challenges have been completely solved.

We detect presence of prerequisites similar to Fingerprint ahead of its breakthrough

Strongly growing demand for sensors supports the story. JDT has zoomed in on presence detection as Intel's Athena initiative is seeking to make this standard in all laptops. Since five of the six largest manufacturers (~80% of the market) participate in Athena, the potential here is notable - Intel chips are in around 120m new laptops a year (excl. PCs). There are several other potential application areas, even if some of the use cases suggested are somewhat gimmicky. Overall, there are clear opportunities for JDT whose scalable model means that it would not take much traction for it to break through. To sum it up, we recognize several of JDT's prerequisites from Fingerprint Cards ahead of its breakthrough.

Share performance should require deals

A sustained share performance requires execution and sizeable orders. We see a chance for such orders from especially laptop manufactures.

Valuation

Bear Case 3.0 SEK

The bear case differs from our base in the following ways: In a pessimistic scenario, we assume Jondetech manages to find a few viable niches in IoT and presence detection. However, it only sells 12 million sensors in year 2026. Moreover, it achieves no smartphone volumes. These assumptions lead to sales of SEK ~100m in 2026. Using a similar cost structure as in our base case implies an EBIT margin of 12%. In the long run the company achieves an EBIT margin of 10%.

Base Case 7.0 SEK

Our base case and all our other scenarios use a required rate of return of 15%. All scenarios are based on years 2019-2026. We estimate that Jondetech will reach sales of close to 80 million sensors by 2026, of which the majority will be in the presence detection and IoT areas. We assume an initial ASP of SEK ~10, quickly dropping by CAGR -15% to SEK 5. This implies sales of about SEK 500m by 2026. We expect the gross margin to ramp up to 58% in 2023 due to increasing yields before gradually falling back to slightly above 40%. We assume an average OPEX CAGR growth of 20%. These assumptions lead to a 24% EBIT margin by 2026. Our expected long-term EBIT margin is 15%.

Bull Case 30.0 SEK

The bull case differs from our base in the following ways: Our bull case assumes about 100 million sensors sold in 2026, which reflects a successful smartphone roll-out of about 40 million sensors versus 10 million in our base case. Using 15% higher ASP as in our base case would translate into sales of about SEK 900m in 2026. We assume a more rapid OPEX growth of 30%. Altogether this leads to an EBIT margin in 2026 of 24%. The long-term EBIT margin is 22%.

Catalysts

O-Film order for access control

O-Film sells 15m biometric access control systems each year. We believe Jondetech could receive a large order related to this opportunity.

IMPACT					
Downside		Upside			Time Frame
Significance	Likelihood	Significance	Likelihood		
Major	Possible	Major	Highly likely	Mid	

Order related to a laptop OEM

If Jondetech receives a large ODM contract related to a big laptop OEM (HP, Lenovo, Dell, Acer or Asus) it could cement the share price above our base case and move it closer to bull case.

IMPACT					
Downside		Upside			Time Frame
Significance	Likelihood	Significance	Likelihood		
Moderate	Possible	Moderate	Possible	Mid	

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.

Rating changes in the report

With another new CEO comes some uncertainties, although this does not affect the score in our rating.

People: 2

The company is young with a limited track record and has a very short history on the stock market (IPO in May 2018). Still, capital allocation and communication have so far not been flawless. However, a new management is in place. We generally view their industry experience and that of the board positively. The co-founders and re-founders are main owners with large holdings plus they work in the company. However, excluding the founders, management's ownership is limited. Plus, there is a negative trend in insider transactions. The interim CEO has been in different other industries, but has general experience in management.

Business: 1

Provided that Jondetech can enter the commercial phase, it should have a scalable, fabless business model with high gross margins (~60%) and large cost advantages against its competitors. In theory, the market should be enormous, but Jondetech is still in an early proof of concept stage. Presence detection in laptops (the Intel Athena project) is a major opportunity as five of the six largest PC manufacturers (80% of the market) have joined Athena. However, some of the other applications seem more like nice-to-have. The go-to-market strategy is O-Film, world's largest manufacturer of touch, fingerprint and camera modules. This has de-risk the case significantly.

Financials: 1

Since Jondetech is not yet profitable and our profitability rating is retrospective we cannot award JDT any profitability points for now, even though the scalable, fabless model and the low cost should mean a solid profitability outlook and high gross margins if Jondetech sales would start to ramp. As mentioned, Jondetech is in an early stage where it has not reached proof of concept yet and there is virtually no revenue, which weighs on the stability score. It is too soon to understand what the customer base will look like in terms of differentiation etc., but the product offering is narrow, consisting of one sensor. The burn rate is modest. Nevertheless, we see a possible need for another capital raising in 2021.

INCOME STATEMENT	2018	2019	2020E	2021E	2022E
Net sales	0	0	0	1	38
Total operating costs	-15	-19	-40	-38	-61
EBITDA	-15	-19	-40	-36	-24
Depreciation	-2	-1	-1	-2	-2
Amortization	0	0	0	0	-3
Impairment charges	0	0	0	0	0
EBIT	-16	-20	-41	-38	-28
Share in profits	0	0	0	0	0
Net financial items	0	0	-1	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-16	-20	-42	-38	-28
Tax	0	0	0	8	6
Net earnings	-16	-20	-42	-30	-22

BALANCE SHEET	2018	2019	2020E	2021E	2022E
Assets					
<i>Current assets</i>					
Cash in banks	32	13	20	0	0
Receivables	1	2	1	1	24
Inventories	0	0	0	1	23
Other current assets	0	0	0	0	0
Current assets	33	15	21	2	47
<i>Fixed assets</i>					
Tangible assets	1	1	2	3	5
Associated comp.	0	0	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Cap. exp. for dev.	0	0	0	0	0
0 intangible rights	16	26	37	50	63
0 non-current assets	0	0	0	0	0
Total fixed assets	17	27	39	53	67
Deferred tax assets	0	0	0	0	0
Total (assets)	50	42	60	55	114
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	0	0	14	72
Accounts payable	3	5	10	1	24
0 current liabilities	0	0	0	0	0
Current liabilities	3	5	10	15	97
Long-term debt	0	0	0	0	0
0 long-term liabilities	0	0	0	0	0
Convertibles	0	10	0	0	0
Total Liabilities	3	15	10	15	97
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	47	27	50	40	18
Minority interest (BS)	0	0	0	0	0
Minority & equity	47	27	50	40	18
Total liab & SE	50	42	60	55	114

FREE CASH FLOW	2018	2019	2020E	2021E	2022E
Net sales	0	0	0	1	38
Total operating costs	-15	-19	-40	-38	-61
Depreciations total	-2	-1	-1	-2	-5
EBIT	-16	-20	-41	-38	-28
Taxes on EBIT	0	0	0	8	6
NOPLAT	-16	-20	-41	-30	-22
Depreciation	2	1	1	2	5
Gross cash flow	-15	-19	-40	-28	-17
Change in WC	2	1	6	-10	-22
Gross CAPEX	-12	-11	-13	-16	-19
Free cash flow	-26	-29	-47	-54	-58

CAPITAL STRUCTURE	2018	2019	2020E	2021E	2022E
Equity ratio	94%	65%	83%	72%	16%
Debt/equity ratio	0%	37%	0%	36%	407%
Net debt	-32	-3	-20	14	72
Capital employed	15	24	30	54	90
Capital turnover rate	0.0	0.0	0.0	0.0	0.3

GROWTH	2018	2019	2020E	2021E	2022E
Sales growth	250%	36%	5%	6,360%	2,810%
EPS growth (adj)	57%	17%	43%	-40%	-31%

DCF VALUATION

WACC (%) 15.0 %

Assumptions 2020-2026 (%)

Average sales growth 436.8 %
EBIT margin -29,941.7

PROFITABILITY	2018	2019	2020E	2021E	2022E
ROE	-38%	-54%	-110%	-66%	-77%
ROCE	-39%	-47%	-95%	-73%	-39%
ROIC	-269%	-130%	-172%	-100%	-41%
EBITDA margin	-105543%	-98158%	-200526%	-2822%	-63%
EBIT margin	-117664%	-104842%	-206641%	-2956%	-75%
Net margin	-117257%	-105474%	-211801%	-2303%	-59%

DATA PER SHARE	2018	2019	2020E	2021E	2022E
EPS	-0.95	-1.11	-1.58	-0.95	-0.66
EPS adj	-0.95	-1.11	-1.58	-0.95	-0.66
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-1.76	-0.17	-0.74	0.46	2.14
Total shares	18.12	18.12	26.79	31.19	33.83

VALUATION	2018	2019	2020E	2021E	2022E
EV	42.5	294.0	252.0	286.2	344.2
P/E	-4.3	-14.8	-6.4	-10.6	-15.5
P/E diluted	-4.3	-14.8	-6.4	-10.6	-15.5
P/Sales	5,078.1	15,641.3	13,594.3	245.0	9.1
EV/Sales	3,033.4	15,475.6	12,600.4	221.5	9.2
EV/EBITDA	-2.9	-15.8	-6.3	-7.9	-14.6
EV/EBIT	-2.6	-14.8	-6.1	-7.5	-12.1
P/BV	1.6	10.9	5.5	6.8	15.3

SHARE PERFORMANCE	GROWTH/YEAR	18/20E
1 month	11.5 %	Net sales 19.5 %
3 month	-30.0 %	Operating profit adj 58.4 %
12 month	-11.7 %	EPS, just 29.2 %
Since start of the year	-38.1 %	Equity 2.7 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
O&G Innovation AB	17.6 %	17.6 %
Mikael Lindeberg	11.0 %	11.0 %
Nordnet Pensionsförsäkring	10.2 %	10.2 %
Didier Pineau-Valencienne	7.9 %	7.9 %
Novel Unicorn Ltd	7.7 %	7.7 %
Bfcm P/C Bfcm Sweden Retail Lt	5.9 %	5.9 %
Avanza Pension	4.2 %	4.2 %
Per Nordström	3.1 %	3.1 %
J. Norberg Holding AB	3.0 %	3.0 %
Elis Hirvonen	2.6 %	2.6 %

SHARE INFORMATION

Reuters code	JDT.ST
List	First North
Share price	10.2
Total shares, million	26.8
Market Cap, MSEK	271.9

MANAGEMENT & BOARD

CEO	Leif Borg (interim)
CFO	Erik Mossakowski
IR	n/a
Chairman	Micheal Olsson

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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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Redeye Rating (2020-11-19)

Rating	People	Business	Financials
5p	20	16	3
3p - 4p	106	87	39
0p - 2p	5	28	89
Company N	131	131	131

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CONFLICT OF INTERESTS

Westman owns shares in the company : No

Vilhelmsson owns shares in the company : No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this.