

Jondetech

Sector: Semiconductors

Varioprint, Fingerprint & Printing Higher Lows

Redeye notice a continued progress in Jondetech. While we recognize that our valuation could be conservative in the event of advancements in the production, we maintain our current view for now, awaiting more signs of completed mass production.

Powered by Varioprint & Fingerprint

The upcoming joint venture with Varioprint is a good match. As we will outline in this update, we think Varioprint shows a lot of commitment. There have e.g., as we understand it, been well over ten Varioprint employees involved in the partnership (N.B. involvement does not equal full-time involvement). Furthermore, Jondetech yesterday announced hiring the seasoned industry expert Jan Johannesson that we know from Fingerprint Cards (FPC). In our view, Johannesson was instrumental ahead of the ramp-up during FPC's heydays. Jondetech's situation is similar, as we have highlighted in our investment case ("*... prerequisites similar to Fingerprint ahead of its breakthrough*").

New relation in heat flux & steady O-Film progress

In Q4, Jondetech initiated a relation with a new customer that bought some sensors related to a heat flux application. We are also positively surprised by the progress in the O-Film relation. In the end of 2020, O-Film wanted to evaluate a new, fourth application. There is a general, growing importance of presence detection for gradually more and more segments. This means that the market and market shares for new segments will not be decided instantly. The window is not closing immediately, as we previously feared in e.g. laptops. Also, in the existing, mature biometric keylocks market Jondetech is still poised to enter the next generation, as current solutions are inferior due to the need for a battery.

Solid stock market confidence

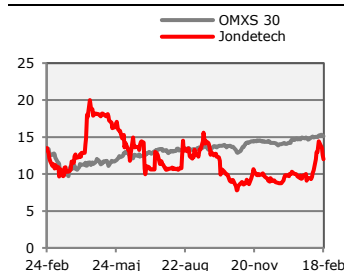
Shares have printed higher lows since October despite Per Lindeberg's resignation, as the stock market has continued to be more forgiving around the associated uncertainty than we expected. We think Jondetech's most important priority at the moment is to successfully deliver on prototypes by the end of Q2, to facilitate the next financing round that needs to happen before then, considering the current burn rate. A strong news flow during the coming months could be the difference between e.g. a successful directed share issue and a wipe out rights issue.

KEY FINANCIALS (SEKm)	2019	2020	2021E	2022E	2023E	2024E
Net sales	0	0	1	38	152	356
EBITDA	-19	-28	-31	-24	14	117
EBIT	-20	-33	-33	-28	6	105
EPS (adj.)	-1.1	-1.2	-1.2	-0.7	0.2	2.8
EV/Sales	15475.6	61609.6	470.5	9.9	3.4	1.4
EV/EBITDA	-15.8	-8.9	-9.3	-15.8	36.1	4.3
EV/EBIT	-14.8	-7.6	-8.9	-13.3	83.6	4.8
P/E	-14.8	-8.0	-9.5	-15.8	72.0	4.2

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)	11.7
Market Cap (MSEK)	313
Net Debt 21E (MSEK)	-22
Free Float	50 %
Avg. daily volume ('000)	0

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Varioprint, Fingerprint & Printing Higher Lows

As far as we can tell, the CEO transition is proceeding ok, and there are thus far no signs of any changes or slowdown in momentum. Head of Engineering and Sales, Niklas Kvist, is stepping up in the O-Film relations, with good support from board member Dave Wu. We do not know, but in our view, it seems the CEO transition and the resignation of Per Lindeberg was a defensive measure, where the company retreated back to awaiting a finished production, temporarily lowering the focus on commercialization. Jondetech will not give any deadlines for when the production can be solved, which we understand and find wise based on the history.

The operating cash flow for full year 2020 amounted to SEK -28m both before and after working capital. Capex sum up to SEK -12m. Altogether, this implies an average burn rate of SEK -10m per quarter, meaning the cash position is exhausted about 4-5 months from now, in mid-2021. The CEO says he is confident in the board's ability to raise further capital. We think Jiuyou financing is one of the alternatives on the table.

Varioprint is a good match

In January, Jondetech announced that it had initiated joint venture negotiations with a leading Swiss PCB manufacturer named Varioprint, following having worked together for a long time. We believe Per Lindeberg's work in confirming the O-Film interest and incorporating it into official announcements was a crucial part to move Varioprint forward (although it should have been done in tandem with finalizing production).

According to Dun & Bradstreet, Varioprint has about 150 employees and sales of USD 38m. Varioprint was founded 50 years ago and prides itself on being led by innovation. In general, European PCB firms are under heavy attack from Asian competitors. We think Jondetech, and its cost-efficient technology, can be an important remedy in this fight. Considering the commitment from Varioprint (that we will outline in the next paragraph), we assume it sees good chances of high future volumes with Jondetech.

Varioprint has already put in a lot of work into the partnership, without any payments, which is unusual for external partners, according to Jondetech. For example, Varioprint has invested resources in helping Jondetech solve some of the technical challenges. As we understand it, there have been in total well over 10 Varioprint employees involved in the Jondetech partnership (N.B. being involved does not equal full-time). According to Jondetech, Varioprint has a relevant network that can be useful. We also note that Varioprint can assist Jondetech in the creation of the smaller next-gen sensor. In conclusion, we think the Varioprint commitment is strong and the partnership fruitful.

We assume the bill of materials and cost of processing the resources, as well as decent margins for both companies, are important parts of the discussion. It is still premature to comment on how a finished JV structure would look like, but we assume the JV will provide solid incentives for both partners to optimize production and lowering production costs further. Another subject of the discussions should be the purchase and financing of machinery and material. We assume the companies will share the machinery to be added in Switzerland, but Jondetech will own the IP, which will be its main contribution. It remains to be seen what the IP will be valued to in the equation above. At this point, we have no insight into how e.g. the gross profit will be calculated. It should also be noted that our gross margin assumptions are pure guesswork.

In terms of bargaining power in the negotiations, Jondetech has been open about having separate discussions with another PCB manufacturer as well. While this other route is not gone, we think it would still require a lot of extra time, making it a bit less likely, which to us suggests that Jondetech does not have the upper hand in the Varioprint negotiations. Anything else would really be surprising though, considering the size difference between the two companies. However, we think Jondetech is neither coming from a position of weakness as going with the alternative PCB manufacturer is a real threat, in our view. Furthermore, the sensor's low cost should mean decent margins in any scenario.

Hiring seasoned former FPC executive

Yesterday, Jondetech announced that it is hiring seasoned telecom professional Jan Johannesson, which we think is positive news since he was instrumental in Fingerprint Cards's ramp-up. Johannesson served as VP Strategic Planning & Portfolio Management, and later Senior VP Strategy and Corporate Development, during 2013-2018. Before FPC, he worked 14 years in the telecom industry, primarily heading Portfolio Management at Ericsson and ST-Ericsson, but also as an advisor at telecom consulting firm Northstream. While Jondetech does not work with silicon, unlike FPC, there are still many similarities in the ecosystem. We assume Johannesson will work on a consulting basis. He will have an important role in bridging sales/applications and production.

The laptop market is progressing

The laptop market is not waiting for Jondetech. As mentioned in our last update, Novelda has a deal with Lenovo, where it won its first laptop model in November 2020. In January, Novelda announced that its presence detection radar had been integrated in two more Lenovo models. We would be surprised if O-Film was not involved here. The order pattern provides some leads in understanding the laptop roll-out pace. We assume it should look similar for Jondetech as well. We are positive towards the laptop market happening, and we do not think Jondetech is out of the picture for future models, considering its cost advantages over silicon-based sensors.

Mobile phone patent

During December, Jondetech announced a Swedish patent for creating thermal images with a phone-based IR sensor. The company aims to extend the patent protection to other geographies, which indicates that it is a potentially relevant patent for the future. However, one should note that all current focus is on O-Film and solving the production.

Financial Estimates

We only make cosmetic changes in our estimates (see the table below). We lower our OPEX a bit as we think sales and marketing should be slightly lower in this phase. We believe Novel Unicorn is essentially in standby mode, ready to start its activities when the production is finalized.

Forecast adjustments				
(SEKm)		2021E	2022E	2023
Sales	Old	1	38	152
	New	1	38	152
% change		-52%	0%	0%
EBIT	Old	-38	-28	4
	New	-33	-28	6
% change		-13%	-1%	39%
Profit before tax	Old	-38	-28	4
	New	-33	-28	6
% change		-13%	-1%	39%
Earnings per share	Old	-0.95	-0.66	0.10
	New	-1.23	-0.74	0.16
% change		30%	13%	59%

Source: Redeye Research, Jondetech

It is too early to speculate around how the Varioprint JV will affect the P&L, such as gross profit calculations. What we do know is that there will be joint investments in equipment with Varioprint of an unknown size. However, we expect these investments to be relatively small, compared to competition.

While we believe that the Stockholm line annually can deliver around 1 000 sheets, i.e. a couple of million sensors, we do not expect any meaningful sales traction in the coming quarters. We think Jondetech's most important priority for now is to successfully deliver on prototypes by the summer, to facilitate the next financing round.

Quarterly figures & estimates (SEKm)											
(SEKm)	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021
Net sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.6
Sales growth (%)	36%					-84%					20567%
EBIT	-19.9	-6.4	-8.0	-7.8	-10.2	-32.5	-8.3	-8.5	-7.7	-8.4	-32.8
EBITDA	-18.7	-6.1	-7.8	-7.5	-6.3	-27.7	-8.0	-8.1	-7.3	-8.0	-31.3
PTP	-20.0	-6.6	-8.2	-8.1	-10.1	-33.0	-8.3	-8.5	-7.7	-8.4	-33.0
EPS (SEK)	-1.1	n/a	n/a	n/a	n/a	-1.2	n/a	n/a	n/a	n/a	-1.2
EBIT margin (%)	-143%	-156%	-113%	-276%	-311%	-185%	-248%	-232%	-352%	-372%	-285%
EBITDA margin (%)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	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.

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	2019	2020	2021E	2022E	2023E
Net sales	0	0	1	38	152
Total operating costs	-19	-28	-32	-61	-138
EBITDA	-19	-28	-31	-24	14
Depreciation	-1	-5	-2	-2	-2
Amortization	0	0	0	-2	-6
Impairment charges	0	0	0	0	0
EBIT	-20	-33	-33	-28	6
Share in profits	0	0	0	0	0
Net financial items	0	0	0	0	0
Exchange rate dif.	0	0	0	0	0
Pre-tax profit	-20	-33	-33	-28	6
Tax	0	0	0	6	-1
Net earnings	-20	-33	-33	-22	5

BALANCE SHEET	2019	2020	2021E	2022E	2023E
Assets					
<i>Current assets</i>					
Cash in banks	13	22	22	0	0
Receivables	2	2	1	24	46
Inventories	0	0	1	45	190
Other current assets	0	0	0	0	0
Current assets	15	25	23	70	236
<i>Fixed assets</i>					
Tangible assets	1	1	3	5	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	26	33	46	59	69
0 non-current assets	0	0	0	0	0
Total fixed assets	27	34	49	63	74
Deferred tax assets	0	0	0	0	0
Total (assets)	42	59	72	133	310
Liabilities					
<i>Current liabilities</i>					
Short-term debt	0	6	0	59	210
Accounts payable	5	0	1	24	46
0 current liabilities	0	0	0	0	0
Current liabilities	5	6	1	84	256
Long-term debt	0	0	0	0	0
0 long-term liabilities	0	0	0	0	0
Convertibles	10	0	0	0	0
Total Liabilities	15	6	1	84	256
Deferred tax liab	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	27	53	71	49	54
Minority interest (BS)	0	0	0	0	0
Minority & equity	27	53	71	49	54
Total liab & SE	42	59	72	133	310

FREE CASH FLOW	2019	2020	2021E	2022E	2023E
Net sales	0	0	1	38	152
Total operating costs	-19	-28	-32	-61	-138
Depreciations total	-1	-5	-2	-4	-8
EBIT	-20	-33	-33	-28	6
Taxes on EBIT	0	0	0	6	-1
NOPLAT	-20	-33	-33	-22	5
Depreciation	1	5	2	4	8
Gross cash flow	-19	-28	-31	-17	13
Change in WC	1	-5	2	-45	-145
Gross CAPEX	-11	-12	-16	-19	-19
Free cash flow	-29	-45	-46	-81	-151

CAPITAL STRUCTURE	2019	2020	2021E	2022E	2023E
Equity ratio	65%	90%	99%	37%	17%
Debt/equity ratio	37%	11%	0%	121%	390%
Net debt	-3	-17	-22	59	210
Capital employed	24	37	49	109	264
Capital turnover rate	0.0	0.0	0.0	0.3	0.5

GROWTH	2019	2020	2021E	2022E	2023E
Sales growth	36%	-79%	15,400	5,964%	305%
EPS growth (adj)	17%	11%	0%	-40%	-122%

DCF VALUATION		CASH FLOW, MSEK	
WACC (%)	15.0 %	NPV FCF (2020-2021)	-204
		NPV FCF (2022-2028)	243
		NPV FCF (2029-)	139
		Non-operating assets	22
		Interest-bearing debt	-6
		Fair value estimate MSEK	195
Assumptions 2020-2026 (%)			
Average sales growth	206.5 %	Fair value e. per share, SEK	7.3
EBIT margin	-753.6 %	Share price, SEK	11.7

PROFITABILITY	2019	2020	2021E	2022E	2023E
ROE	-54%	-82%	-53%	-36%	9%
ROCE	-47%	-68%	-50%	-31%	3%
ROIC	-130%	-136%	-90%	-44%	5%
EBITDA margin	-98158%	-692200%	-5051%	-63%	10%
EBIT margin	-104842%	-813225%	-5297%	-75%	4%
Net margin	-105474%	-824700%	-5323%	-58%	3%

DATA PER SHARE	2019	2020	2021E	2022E	2023E
EPS	-1.11	-1.23	-1.23	-0.74	0.16
EPS adj	-1.11	-1.23	-1.23	-0.74	0.16
Dividend	0.00	0.00	0.00	0.00	0.00
Net debt	-0.17	-0.62	-0.81	2.02	7.15
Total shares	18.12	26.79	26.79	29.43	29.43

VALUATION	2019	2020	2021E	2022E	2023E
EV	294.0	246.4	291.7	372.8	523.7
P/E	-14.8	-8.0	-9.5	-15.8	72.0
P/E diluted	-14.8	-8.0	-9.5	-15.8	72.0
P/Sales	15,641.3	65,761.4	505.5	9.2	2.3
EV/Sales	15,475.6	61,609.6	470.5	9.9	3.4
EV/EBITDA	-15.8	-8.9	-9.3	-15.8	36.1
EV/EBIT	-14.8	-7.6	-8.9	-13.3	83.6
P/BV	10.9	4.9	4.4	6.4	5.8

SHARE PERFORMANCE		GROWTH/YEAR	18/20E
1 month	24.7 %	Net sales	471.2 %
3 month	13.6 %	Operating profit adj	28.4 %
12 month	-16.1 %	EPS, just	5.6 %
Since start of the year	19.1 %	Equity	61.8 %

SHAREHOLDER STRUCTURE %	CAPITAL	VOTES
O&G Innovation AB	14.9 %	14.9 %
Nordnet Pensionsförsäkring	10.0 %	10.0 %
Mikael Lindeberg	9.3 %	9.3 %
Didier Pineau-Valencienne	7.9 %	7.9 %
Avanza Pension	6.6 %	6.6 %
Novel Unicorn Ltd	6.5 %	6.5 %
Bfcm P/C Cic Sweden Opcvm Lt	5.8 %	5.8 %
Formue Nord A/S	2.7 %	2.7 %
Thomas Krishan	2.6 %	2.6 %
Per Nordström	2.6 %	2.6 %

SHARE INFORMATION	
Reuters code	JDT.ST
List	First North
Share price	11.7
Total shares, million	26.8
Market Cap, MSEK	313.4

MANAGEMENT & BOARD	
CEO	Leif Borg
CFO	Erik Mossakowski
IR	n/a
Chairman	Katarina Bonde

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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 (2021-02-22)

Rating	People	Business	Financials
5p	23	18	3
3p - 4p	105	87	41
0p - 2p	6	29	90
Company N	134	134	134

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Westman owns shares in the company : No

Vilhelmsson owns shares in the company No

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