

# Smart Eye

Sector: Autotech

## Ramp-Up Delayed

Redeye estimates that Smart Eye's ramp-up of revenues will be delayed by 1-2 quarters. Also, due to the delay, Redeye sees a risk of Smart Eye needing to raise cash before turning profitable – but leading to a maximum of 10% dilution. Also, Redeye increases the WACC from 9% to 10%. Redeye lowers its valuation range.

### Ramp-up delayed by 1-2 quarters – underlying development is solid

Revenues did not accelerate as expected in Q1. We estimate that ramp up is delayed by 1-2 quarters, perhaps also initially dampened. The underlying reasons are project delays and low production volumes from the component shortage and the war in Ukraine. However, we still see soft and hard demands on DMS that will accelerate revenues.

The newly onboarded OEMs are very early in their ramp-up, and we especially think the Japanese OEM will accelerate volumes soon.

Research delivered strongly but could have been even stronger without the component shortage. All units delivered well, and the acquisitions develop according to plan.

### New share issue is likely in Q4 – maximum dilution of 10%

The delayed ramp up combined with a high pace of hiring contribute to an increased burn rate. While Smart Eye can choose to pull the break by cutting its large force of consultants, we think the company will prioritize maximum growth. We estimate that the company will need to make a share issue, but that dilution will be limited to maximum 10%.

### Lowering valuation – underlying investment case is intact but delayed

Estimating a 10% dilution from a new share issue, combined with raising our WACC from 9% to 10%, a delayed ramp-up, and lower DMS take rate until 2026, we cut our valuation by some 35%. New Base Case is SEK 235 (330), Bear Case at SEK 105 (160), and Bull Case at SEK 315 (410).

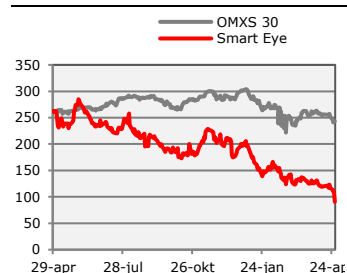
While we dramatically cut our valuation due to increased WACC, expected dilution, and delay of ramp-up, we think the underlying investment case is unchanged but delayed.

Key Financials (SEKm)	2021	2022E	2023E	2024E	2025E
Net sales	109	250	522	778	1186
Revenue growth	78%	128%	109%	49%	53%
EBITDA	-89	-159	44	238	602
EBIT	-131	-273	-70	124	488
EBIT Margin (%)	-120%	-109%	-13%	16%	41%
Net Income	-131	-217	-56	99	387
EV/Revenue	38.0	8.3	4.0	2.5	1.2
EV/EBITDA	neg	neg	48.2	8.2	2.4
EV/EBIT	neg	neg	neg	15.7	3.0
P/E	neg	neg	neg	22.4	5.7

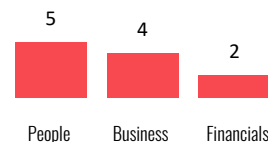
### FAIR VALUE RANGE

BEAR	BASE	BULL
105	235	315

### SEYE.ST VERSUS OMXS30



### REDEYE RATING



Ticker	SEYE.ST
Market	First North
Share Price (SEK)	91
Market Cap (MSEK)	2010
Net Debt (MSEK)	-135
Free Float	84 %

### ANALYSTS

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## Comment on Q1 report

Redeye concludes that Q1 was a weak quarter for Smart Eye.

In Automotive, the ramp-up of revenues is delayed by supply-chain constraints, which cause longer development lead cycles for OEMs. We estimate that the delay postpones the ramp-up by 1-2 quarters. On a more positive note, Smart Eye reiterates that its market position in the current RFQs is strong.

Looking at Research, this part delivered strong organic growth of +25% y/y. Without the component shortage, growth would've been even stronger.

### Automotive – ramp-up delayed due to supply-chain constraints

Automotive sales came in considerably weaker than we had expected. Smart Eye doesn't report the mix between license revenue and NRE revenue (implementation fees on a "consultancy" basis), but if it did, we think the license revenue grew on a Q/Q basis. The reason behind the slow numbers is global supply-chain constraints. These affect the automotive industry in two ways – lower production volumes of cars, as well as longer development lead cycles for OEMs.

While both semiconductor shortage and supply-chain constraints constitute short-term worries for the whole industry, this does not change the case by much. The reason why is because the company's *growth is mainly driven by the penetration of new cars sold, rather than by the total number of new cars sold.*

The newly onboarded OEMs are very early in their ramp-up, and we especially think the Japanese OEM will accelerate volumes soon.

### Research – continued strong organic growth

Research delivered strong numbers, showing a 25% y/y organic growth. Including M&A, Research grew by 475%. The company stated that the organic growth comes from all parts, i.e., Research Instruments, Media Analytics, and iMotions. Except for a rebound from the covid downturn, Smart Eye stresses the long-term structural industry change from qualitative to quantitative research.

Smart Eye states that the company is satisfied with the development of the acquired businesses from last year (Affectiva and iMotions).

## Increased burn rate makes a new share issue likely, 8-10% dilution expected

By the end of Q1, Smart Eye had a cash balance of SEK 215m, down from SEK 278m only one quarter ago. This implies a negative cash flow of SEK 63m. Of this, -35.1m comes from operating activities, -7.5m from changes in working capital, and -20.3 from investing activities. Regarding investment activities, "acquisition of intangible assets" is just R&D costs that are capitalized on the balance sheet. Thus, we think they should be viewed as part of the operating cash flow. Underlying burn rate is thus SEK -56m.

The delayed ramp up makes us believe that Smart Eye will reach breakeven in Q2 or Q3 next year. As such, Smart Eye has five or six quarters of negative cashflow in front of itself. While the upcoming revenue acceleration will help reducing the burn rate, Smart Eye is currently hiring a lot. Thus, we don't find it unlikely with an average SEK 50m quarterly burn rate in the remainder of 2022.

### We think Smart Eye will need a share issue of SEK 150m

The above estimates imply that Smart Eye will likely be out of cash just before turning cash-flow positive. As we believe Smart Eye wants to be on the safe side, it will likely want to raise a little more cash than needed. Hence, we estimate that Smart Eye will need to make a share issue of SEK 150m.

Considering today's share price of SEK 90, this would imply 1.7 million new shares. Put in relation to the 22.15m shares of today, this implies an 8% dilution. However, considering the weak sentiment on the stock market, we cannot exclude the risk of an even lower emission price. Below, we have simulated the dilution of various outcomes.

		Amount raised, SEKm			
		100	150	200	250
Price per share, SEK	120	4%	6%	8%	9%
	110	4%	6%	8%	10%
	100	5%	7%	9%	11%
	90	5%	8%	10%	13%
	80	6%	8%	11%	14%
	70	6%	10%	13%	16%
	60	8%	11%	15%	19%

Source: Redeye estimates

On last week's annual general meeting, Smart Eye decided that the company is allowed to make one or more share issues leading to a maximum dilution of 10% at each time a share issue is made. We doubt that Smart Eye will want to make two different share issue and will thus likely slow down somewhat on new hirings. As such, we expect a total dilution of 8-10%.

## Don't forget that Smart Eye is entering its inflection point

After a long time of success in winning "supposed" market share from design wins, these are now about to start generating revenues. While component shortage and supply-chain constraints dampen and delay the ramp-up somewhat, both hard and soft requirements create an unavoidable inflection point for Smart Eye.

*In times when Mr. Market is depressed, we believe its worthwhile repeating the facts to not let emotions take over the decision-making process.*

Below are the drivers that we see will drive growth each year. While this is somewhat of a repetition from our last update, we try to add some additional color.

### 2022 – EU preparation for Euro NCAP, and both soft and hard requirements in USA

In 2022, Europe won't be impacted by any hard requirements on DMS. EU General Safety Regulation (EU GSR) imposes DMS requirement for vehicles with Level 2 automation ("L2 vehicles") in July – to get a "EU type approval". We don't think this will do much for DMS penetration as it is not mandatory. However, we think OEMs will start preparing for the requirements from Euro NCAP that come into place next year. Though, we don't this preparation phase will be a major trigger in Europe.

For USA, there are two "soft" requirements that come into place – from IIHS and Consumer Reports. IIHS, the Insurance Institute for Highway Safety, will impose requirements of DMS on new models of L2 vehicles – to get a "good" safety rating. Also, Consumer Reports will give extra rating points for new models of L2 cars with DMS. Considering that 30-40% of new car models in the US have L2 automation, and that 75% of these are likely to aim for these ratings, we think 9% of newly sold cars could have DMS. We are still unsure about the exact date of implementation of these.

### 2023 – DMS "mandatory" to receive five-star safety rating in EU

In 2023, DMS will practically be a requirement on the European market for cars launched in 2023. That is, if the OEMs aim to get a five-star safety rating. We estimate that one of seven cars sold are new models, and that one seventh are upgraded models of previous versions. Thus, around 28% of new cars sold will be affected. A fair estimate is that 75% of these will aim for a five-star safety rating. Thus, we estimate at around 20% of new cars sold in the EU will have DMS.

For the USA, there are no new requirements that come into place. However, the requirements from 2022 will then affect models from both 2022 and 2023, thus potentially doubling the share of cars with DMS. We estimate that 13% of new cars sold in the US will include DMS in 2023.

### 2024 – DMS Lite for all new vehicles in the EU + increased "soft" push in the USA

In July 2024, EU GSR imposes DMS requirement for L2 vehicles – for ALL new *models*. This will be another major milestone for DMS penetration on the European market. We estimate that this will bring up EU penetration to 35%.

For the US market, there is an extension of the requirement from Consumer Reports, which implies that L2 cars *without* DMS will get minus points in the rating. We estimate 18% of new cars in the US will include DMS in 2024.

### 2025 – Moving Forward Act in the USA – unsure but positive

In 2025, we believe the NHTSA in the USA will impose the "Moving Forward Act", which will demand DMS. However, much is still unsure about this we are not certain of the details. In any way, this will further strengthen penetration in the USA. We estimate that 35% of new cars sold in the US will include DMS in 2025.

### 2026 – EU getting ready for Euro NCAP, while USA imposes "soft" requirements

In 2026, all new cars sold in the EU, incl. old models, are mandated to include DMS.

For the USA, the "SAFE Act" will be imposed by NHTSA, also making DMS mandatory in the US. We are however uncertain about if this will be implemented in 2026 or 2027. Because of our big uncertainty around this, we only estimate a 59% take-rate in the US for 2026. Should the NHTSA provide further clarification, this number could increase by much.

## Development design wins and competitive environment

### Additional design wins for Smart Eye from existing Korean OEM

On April 19<sup>th</sup>, Smart Eye announced that it has been awarded three new design wins from an existing Korean OEM (likely Hyundai Group incl. Hyundai and KIA) on an existing platform. The total value of the design wins is SEK 50m, and the car models are expected to reach production in H1 2023.

Smart Eye has now been awarded 93 design wins, spanning over 14 platforms and 14 OEMs.

The additional design wins were very much expected as Smart Eye had already delivered its DMS to 16 previous car models from the OEM. However, this shows the predictability of future design wins (and revenues) after having been chosen for a platform by an OEM in the first place.

### Volkswagen stops focusing on market shares – reducing potential of SEE's DW

In the quarter, Volkswagen stated that it will reduce the number of models by around 60% in Europe over the next eight years. The company states that it will focus on quality and margins, rather than volume and market share. We think this reduces the potential in design wins from Volkswagen, which we believe Smart Eye's main competitor won in December.

### Seeing Machines enters the Chinese market

Smart Eye's main competitor, Seeing Machines, states that it will enter the Chinese market. This statement comes after previously having neglected this market. While China is not a focus market for Smart Eye, the news likely reduces Smart Eye's potential in the market. As such, we reduce estimated market share for Smart Eye by a few percentage points.

## How to think about the investment right now?

In times when a stock tumbles like Smart Eye's lately, we think it's worth looking at the facts rather than letting emotions of disappointment take over. As such, we believe there are three things to consider: a quantification of the delay, dilution due to the delay, and an updated view of Smart Eye's market position.

### The delay – two quarters plus a potentially dampened rollout

We believe the delay of the DMS rollout has been outside of Smart Eye's control. Global supply-chain constraints, component shortage and the war in Ukraine are all things that have a negative and delaying effect on the rollout of DMS.

The follow-up question becomes how much the delay will be. While we currently think it will be delayed by about two quarters, the uncertainty has increased. If there is one thing that the stock market doesn't like, it's uncertainty – of which there is now plenty. Due to the uncertainty, we anticipate a more dampened (but still aggressive) rollout of DMS.

### The dilution – around 10%

As we have pointed out, the delay also has the negative effect of Smart Eye needing to raise more cash, which leads to some dilution. While this is negative, we find it unlikely to be above 10%.

### Smart Eye's competitive position

The last part of the assessment of the current situation is the company's competitive position on the market. We believe this is more or less unchanged from before. Seeing Machines has stated that it will enter China, which however is not a key market for Smart Eye. However, it reduces our estimate on Smart Eye's long-term global market share. As such, we have reduced this from 35% to 32%.

### While dramatically cutting our valuation – there is a large upside to our Base Case

The delay of two quarters incl. a dampened rollout, combined with a dilution of 10% and a somewhat reduced long-term market share are factors that quite drastically cut our valuation range. We also add 1 percentage point to our WACC, increasing this from 9% to 10%, further leading to lowering the valuation.

As always, the main point is always to look at the price of the stock *in relation* to what it's worth. Thus, we see a large upside to our Base Case.

## Estimates

### Automotive

- Due to the delayed ramp-up, we lower our sales estimates in the short- and medium term, while long-term estimates are only somewhat affected by a lower estimated market share. We delay the estimated ramp-up by around two quarters and estimate the ramp-up to be somewhat more dampened.
- Regarding Q2, Smart Eye stated in its annual report that it will reach 1m cars with its DMS by Q2'22, up from a "more than 0.5m" by Q3'21. We believe this implies around 0.15m cars in Q2. Considering an ASP of EUR 8-10, license revenues should be SEK 12-15m in Q2.
- To be conservative, we take a more defensive standpoint in the rollout of DMS, meaning a lower take of DMS up until 2026. Instead of estimating a 46% take rate in 2026, we lower this to 41%. This is more of a delay rather than anything else, which means an increased estimated growth rate for 2027 compared to our previous estimates.

### Research, OPEX, and general

- Slight downward adjustments for Research
- Raising OPEX – especially in the short term
- We estimate that Smart Eye will reach breakeven in mid-2023
- In our Base Case and Bull Case, we anticipate a 10% dilution, but a 15% dilution in our Bear Case

Business areas: Changes vs previous estimates										
SEKm	2020	2021	Q1 22	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024	2025
<b>Automotive</b>	41	47	11							
New				16	21	26	74	316	534	902
Old				26	34	44	125	420	661	1034
<i>Change</i>				-39%	-38%	-41%	-40%	-25%	-19%	-13%
<b>Research</b>	20	62	42							
New				43	44	46	175	207	244	284
Old				45	47	48	184	216	255	297
<i>Change</i>				-5%	-6%	-4%	-5%	-4%	-4%	-4%

Source: Redeye Research

Smart Eye: Estimate changes (SEKm)										
SEKm	2020	2021	Q1 22	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024	2025
<b>Total net sales</b>	61	109	54							
New				59	65	72	250	522	778	1186
Old				72	81	92	309	636	916	1331
<i>Change</i>				-18%	-20%	-22%	-19%	-18%	-15%	-11%
<b>Gross margin</b>	166%	89%	83%							
New				82%	80%	78%	81%	83%	84%	87%
Old				82%	80%	78%	81%	83%	84%	87%
<i>Change</i>				0%	0%	0%	0%	0%	0%	
<b>OPEX</b>	153	186	80							
New				82	84	86	360	390	415	430
Old				76	79	82	310	352	390	415
<i>Change</i>				8%	6%	5%	16%	11%	6%	4%
<b>EBITDA</b>	-52	-89	-36							
New				-34	-32	-30	-159	44	238	602
Old				-17	-14	-10	-61	176	381	745
<i>Change</i>				94%	123%	201%	162%	-75%	-37%	-19%
<b>EBIT</b>	-75	-131	-71							
New				-69	-67	-65	-273	-70	124	488
Old				-46	-43	-38	-175	62	267	631
<i>Change</i>				50%	57%	70%	56%	-213%	-53%	-23%
<b>EBIT (%)</b>	-123%	-120%	-134%							
New				-117%	-104%	-90%	-109%	-13%	16%	41%
Old				-64%	-53%	-42%	-57%	10%	29%	47%
<i>Change</i>				82%	95%	118%	-53%	-23%	-13%	-6%

Source: Redeye Research

Smart Eye: Estimates										
(SEKm)	2020	2021	Q1 22	Q2 22E	Q3 22E	Q4 22E	2022	2023	2024	2025
Net sales	61	109	54	59	65	72	250	522	778	1186
- Automotive	41	47	11	16	21	26	74	316	534	902
- Research	20	62	42	43	44	46	175	207	244	284
Gross Profit	102	97	44	48	52	56	201	434	653	1032
EBITDA	-52	-89	-36	-34	-32	-30	-159	44	238	602
EBIT	-75	-131	-71	-69	-67	-65	-273	-70	124	488
EPS (SEK)	-4.5	-5.9	-2.6	-2.5	-2.4	-2.3	-8.9	-2.3	4.0	15.9
Growth (%)	8%	78%	196%	248%	110%	65%	128%	109%	49%	53%
Gross margin	166%	89%	83%	82%	80%	78%	81%	83%	84%	87%
EBITDA margin (%)	-84%	-81%	-68%	-57%	-49%	-41%	-64%	8%	31%	51%
EBIT margin (%)	-123%	-120%	-134%	-117%	-104%	-90%	-109%	-13%	16%	41%
Net income margin (%)	-123%	-120%	-106%	-93%	-82%	-72%	-87%	-11%	13%	33%

Source: Redeye Research

## Investment Case

### **In pole position within eye tracking for mandated driver monitoring**

#### **Driver monitoring translating into interior sensing - strong position expected**

#### **Design wins to move the share price**

#### **Rapid, predictable growth to a low price**

### **In pole position within eye tracking for mandated driver monitoring**

Due to EU and Euro NCAP's decisions to mandate driver monitoring, the market for driver monitoring systems (DMS) is about to explode. This expected growth is a known fact for the stock market, but we believe many do not understand Smart Eye's strong positioning. Smart Eye has devoted ~20 years of 100 percent focus to and investments in this very niche. The company is in pole position with an unmatched 90 design wins for 14 car OEMs. As for barriers to entry, the technology needs to cope with e.g. changing light conditions, tunnels, sunshine, darkness, vibrations etc., and at the same time never fail. Competition is therefore basically limited to one other tier-2 player aside from the tier-1 customers' own solutions. However, we believe it is unlikely that the customers, in the long run, are willing to put up with all investments and maintain the focus necessary for in-house sourcing. Smart Eye states that being platform-independent and hardware agnostic, it has a competitive edge as its technology can be locked late in the development process.

Smart Eye's first design wins with new customers are in general worth a lot more than what meets the eye as they are platform-based. The platforms will usually (although not automatically) yield additional new car models for every year over the platforms' lives of about 10 years. In addition, each car model lives around seven years. For Smart Eye, this creates a very foreseeable and stable revenue stream for many years to come as the large switching costs provide solid barriers to entry.

### **Driver monitoring translating into interior sensing – strong position expected**

While DMS only monitors the driver, the market and regulators are moving towards also mandating monitoring of the whole cabin and all its passengers. This combination of driver and cabin monitoring is called interior sensing.

From H2'22, we believe design wins will start to be awarded for interior sensing. From that point, we expect an initial period where design wins will be awarded both for driver monitoring individually as well as for interior sensing. In time, we believe all OEMs will start procuring the whole interior-sensing package, but in the beginning, we expect European premium OEMs to be first with adopting interior sensing. Revenue from interior sensing is likely to start from 2025. We believe the average selling price (ASP) per car will double as OEMs include the whole interior-sensing package vs only DMS.

### **Design wins and ramp-up of sales to move the share price**

We expect a steady news flow going forward with design wins from already won procurements as well as RFQ's worth SEK billions in progress for the next few quarters, which should drive the share price.

Also, we expect 2022 to be the year where several design wins will move into production, leading to strong sales growth. We believe this will be the most important driver for the market to regain trust in Smart Eye's long-term earnings potential.

### **Rapid, predictable growth to a low price**

Even though the exact ramp-up of sales is hard to predict, we believe rapid sales growth in the 100's % between 2022 and 2026 is likely. Our confidence in the ramp-up of sales stems from already awarded design wins and expected design wins on existing platforms. Considering an estimated low-single-digit EBIT multiple for 2025, combined with the highly predictable ramp-up of sales, we think Smart Eye has a good journey ahead. Redeye's Base Case is at SEK 245, Bear Case at SEK 110, and Bull Case at SEK 330.

## Valuation

### Bear Case 105 SEK

#### Growth assumptions 2022-2026

- Total CAGR: 63%
- CAGR Automotive: 67%
- CAGR Research: 39%

Total sales 2026: SEK 1.1 bn

#### Automotive assumptions

- ASP for DMS and Interior Sensing in line with Base Case
- DMS take rate 2026: 37%
- Market share in DMS and Interior Sensing goes from 40% in 2022 to 27% in 2029
- Sales for AIS develops in the same way as in the Base Case

#### Margins

- Breakeven in 2024
- Avg. EBIT margin 2024-'26: 23%
- EBIT margin 2026: 36%
- Terminal EBIT margin: 22%

#### General

- WACC: 10.0%
- Terminal growth: 2.0%

#### Dilution from share issues

- 15% dilution expected in Q4'22

### Base Case 235 SEK

#### Growth assumptions 2022-2026

- Total CAGR: 72%
- CAGR Automotive: 85%
- CAGR Research: 43%

Total sales 2026: SEK 1.45 bn

#### Automotive assumptions

- ASP for DMS declines from SEK 80 in 2022 to SEK 40 in 2029
- ASP for Interior Sensing (excl. DMS) is 75% of DMS
- DMS take rate 2026: 47%
- Market share in DMS and Interior Sensing goes from 48% in 2022 to 32% in 2029
- Sales for AIS goes from SEK 35m in 2022 to 210m in 2029 with 35% gross margin

#### Margins

- Breakeven in 2023
- Avg. EBIT margin 2024-'26: 35%
- EBIT margin 2026: 50%
- Terminal EBIT margin: 34%

#### General

- WACC: 10.0%
- Terminal growth: 2.0%

#### Dilution from share issues

- 10% dilution expected in Q4'22

### Bull Case 315 SEK

#### Growth assumptions 2022-2026

- Total CAGR: 77%
- CAGR Automotive: 97%
- CAGR Research: 45%

Total sales 2026: SEK 1.7 bn

#### Automotive assumptions

- ASP for DMS develops in line with Base Case
- ASP for Interior Sensing (excl. DMS) is in line with DMS
- DMS take rate 2026: 50%
- Market share in DMS and Interior Sensing goes from 50% in 2022 to 42% in 2029
- Sales for AIS develops in the same way as in the Base Case

#### Margins

- Breakeven in 2023
- Avg. EBIT margin 2024-'26: 42%
- EBIT margin 2026: 55%
- Terminal EBIT margin: 36%

#### General

- WACC: 10.0%
- Terminal growth: 2.0%

#### Dilution from share issues

- 10% dilution expected in Q4'22

## Catalysts

### Toyota win

The Toyota procurement will be finished imminently. Toyota sells almost 11 million vehicles per year and is the World's largest car OEM, meaning significant catalyst potential if Smart Eye would win Toyota.

IMPACT					
Downside		Upside		Time Frame	
Significance	Likelihood	Significance	Likelihood		
Moderate	Possible	Major	Possible	Short	

### Design wins and follow-up orders in general

The major key catalyst in general is won contracts from the many RFQ's worth in total SEK 7 billion, which should drive the share price. In addition, we expect follow-up orders from existing customers.

IMPACT					
Downside		Upside		Time Frame	
Significance	Likelihood	Significance	Likelihood		
Minor	Unlikely	Moderate	Highly likely	Short	

### Ramp-up of automotive sales

We expect automotive sales will experience Y/Y growth in the 100's % between 2022 and 2026. This is an effect of design wins moving into production of car models that include Smart Eye's DMS. Whether the true acceleration in sales growth will come in 2022 or 2023 remains to be seen, but when it happens, we think it will be a major catalyst for the shares.

IMPACT					
Downside		Upside		Time Frame	
Significance	Likelihood	Significance	Likelihood		
Negligable	Unlikely	Major	Highly likely	Mid-term	

## 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 point. The maximum score for a valuation key is 5 points.

### Rating changes in the report

#### **People: 5**

Smart Eye is governed by an owner operator as the co-founder is the CEO, which is positive in many ways. Compensation is moderate and just. We especially like the tendency to include all employees in the stock option programs, which indicates a healthy HR policy that could explain the relatively low employee turnover. The solid growth trend during the years prior to the listing implies that so far investments have been savvy and execution essentially flawless. Overall, the Management score is hampered by Smart Eye's short period on the stock market where e.g. there is not much history of Smart Eye's communication to the shareholders as a listed company. As mentioned, Smart Eye is governed by owner operators where the founding family (Martin & Mats Krantz) together owns ~11% of the company. Overall, insiders in the Board as well as Management own a lot of shares and keep on adding to their positions. The founding family really has put their money where their mouths are. Thus, the ownership structure is in short very appealing. Our only concern is if there are enough financial muscles to back up the Company should there be need for future supplementary investments.

#### **Business: 4**

Smart Eye is the market leader in a viable niche within driver monitoring that is expected to grow at a CAGR of about 200 percent until 2025, especially driven by autonomous vehicles and traffic safety. Following a 20 year focus in automotive Smart Eye has established important relations with all potential tier 1 customers. Smart Eye's automotive focus and the recurring software licenses together imply sticky and predictable revenue for the foreseeable future. In addition, high barriers to entry mean limited competition. All in all, it is a great business.

#### **Financials: 2**

Our profitability rating is fully retrospective and requires consistent, positive earnings. As Smart Eye is not profitable at the moment it therefore cannot have a higher score for now. However, Smart Eye has a scalable business model with low costs, meaning the stage is set for a gradually increased rating ahead should the Company keep up its growth trend. The cash position is unsure, and we estimate that Smart Eye will need one last share issue in late 2022 before turning to black figures. Smart Eye loses some points on this rating as the company currently has negative earnings and cash flow. In addition, there is a risk in the cyclical nature of the automotive industry as the customers must be able to afford to fully embrace the new driver monitoring technology. However, the amount of customers and their respective share of total sales is reasonably diversified.

	2021	2022E	2023E	2024E						
<b>INCOME STATEMENT</b>					<b>DCF Valuation Metrics</b>					<b>Sum FCF (SEKm)</b>
Net sales	109	250	522	778	Initial Period (2022–2026)				675	
Cost of Revenues	12	49	89	124	Momentum Period (2027–2031)				1985	
Gross Profit	97	201	434	653	Stable Period (2032–)				2817	
Operating Expenses	186	360	390	415	Firm Value				5477	
EBITDA	-89	-159	44	238	Net Debt (last quarter)				-286	
Depreciation & Amortization	42	114	114	114	Equity Value				5763	
EBIT	-131	-273	-70	124	Fair Value per Share				237	
Net Financial Items	0	0	0	0						
EBT	-131	-273	-70	124						
Income Tax Expenses	0	-56	-14	26						
Non-Controlling Interest	0	0	0	0						
Net Income	-131	-217	-56	99						
<b>BALANCE SHEET</b>										
<b>Assets</b>										
<b>Current assets</b>										
Cash & Equivalents	279	226	187	337						
Inventories	7	25	35	42						
Accounts Receivable	78	87	131	156						
Other Current Assets	0	0	0	0						
Total Current Assets	364	338	352	535						
<b>Non-current assets</b>										
Property, Plant & Equipment, Net	0	-106	-220	-334						
Goodwill	0	0	0	0						
Intangible Assets	1377	1450	1510	1550						
Right-of-Use Assets	0	0	0	0						
Shares in Associates	0	0	0	0						
Other Long-Term Assets	5	5	5	5						
Total Non-Current Assets	1382	1349	1295	1221						
Total Assets	1745	1687	1647	1756						
<b>Liabilities</b>										
<b>Current liabilities</b>										
Short-Term Debt	0	0	0	0						
Short-Term Lease Liabilities	0	0	0	0						
Accounts Payable	20	30	42	47						
Other Current Liabilities	77	76	80	85						
Total Current Liabilities	98	106	122	132						
<b>Non-current liabilities</b>										
Long-Term Debt	79	79	79	79						
Long-Term Lease Liabilities	0	0	0	0						
Other Long-Term Liabilities	0	0	0	0						
Total Non-current Liabilities	79	79	79	79						
Non-Controlling Interest	0	0	0	0						
Shareholder's Equity	1569	1352	1296	1395						
Total Liabilities & Equity	1745	1537	1497	1606						
<b>CASH FLOW</b>										
NOPAT	-131	-217	-56	99						
Change in Working Capital	13	-18	-37	-22						
Operating Cash Flow	-104	-121	21	191						
Capital Expenditures	0	-8	0	0						
Investment in Intangible Assets	0	-73	-60	-40						
Investing Cash Flow	-314	-81	-60	-40						
Financing Cash Flow	478	150	0	0						
Free Cash Flow	-104	-202	-39	151						
					<b>CAPITAL STRUCTURE</b>					
					Equity Ratio	90%	80%	79%	79%	
					Debt to equity	0.1	0.1	0.1	0.1	
					Net Debt	-200	-147	-108	-259	
					Capital Employed	1648	1581	1525	1624	
					Working Capital Turnover	-8.7	43.3	12.1	11.9	
					<b>GROWTH</b>					
					Revenue Growth	78%	128%	109%	49%	
					Basic EPS Growth	30%	50%	-74%	-277%	
					Adjusted Basic EPS Growth	30%	50%	-74%	-277%	
					<b>PROFITABILITY</b>					
					ROE	-14%	-15%	-4%	7%	
					ROCE	-8%	-17%	-5%	8%	
					ROIC	-18%	-16%	-4%	8%	
					EBITDA Margin (%)	-81%	-64%	8%	31%	
					EBIT Margin (%)	-120%	-109%	-13%	16%	
					Net Income Margin (%)	-120%	-87%	-11%	13%	
					<b>VALUATION</b>					
					Basic EPS	-5.9	-8.9	-2.3	4.0	
					Adjusted Basic EPS	-5.9	-8.9	-2.3	4.0	
					P/E	neg	neg	neg	22.4	
					EV/Revenue	38.0	8.3	4.0	2.5	
					EV/EBITDA	neg	neg	48.2	8.2	
					EV/EBIT	neg	neg	neg	15.7	
					P/B	2.8	1.6	1.7	1.6	
					<b>SHAREHOLDER STRUCTURE</b>					
					Sellers of Affectiva			10.2%	10.2%	
					Swedbank Robur Fonder			7.1%	7.1%	
					Handelsbanken Fonder			7.0%	7.0%	
					Första AP-fonden			6.2%	6.2%	
					Mats Krantz inklusive närstående			5.3%	5.3%	
					<b>SHARE INFORMATION</b>					
					Reuters code				SEYE.ST	
					List				First North Stockholm	
					Share price				91 kr	
					Total shares, million				24.3635	
					<b>MANAGEMENT &amp; BOARD</b>					
					CEO				Martin Krantz	
					CFO				Anders Lyrheden	
					Chairman				Anders Jöfält	
					<b>ANALYSTS</b>					
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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

### Important information

Redeye AB ("Redeye" or "the Company") is a specialist financial advisory boutique that focuses on small and mid-cap growth companies in the Nordic region. We focus on the technology and life science sectors. We provide services within Corporate Broking, Corporate Finance, equity research and investor relations. Our strengths are our award-winning research department, experienced advisers, a unique investor network, and the powerful distribution channel redeye.se. Redeye was founded in 1999 and since 2007 has been subject to the supervision of the Swedish Financial Supervisory Authority.

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### Redeye Rating (2022-05-02)

Rating	People	Business	Financials
5p	20	15	3
3p - 4p	97	76	37
0p - 2p	6	32	83
Company N	123	123	123

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### CONFLICT OF INTERESTS

Jesper von Koch owns shares in the company : Yes

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