

Smart Eye

Sector: Autotech

Debt Financing Far from Impossible

Redeye states that Q2 was OK. While Automotive hasn't started ramping up yet, management appeared very confident about future procurements. Redeye assesses that Smart Eye has a good chance of solving its need for cash through debt financing - something that would likely turn the negative sentiment around for the share price. Redeye updates its estimates and makes minor changes to its valuation range.

Continued delays for Automotive ramp-up

Automotive revenues did not ramp up the way we had estimated in Q2. Instead, there is a continued delay. We estimate that Q3 and Q4 will have a somewhat softer revenue acceleration, and that the real bump in license revenues will come in 2023.

We think Smart Eye can solve its need for cash through a debt financing

Depending on how fast the revenue acceleration happens, Smart Eye's cash is likely to last to sometime in H1 2023. The company has a very flexible cost base and could thus pause consultants quickly. However, Smart Eye is confident about the future and wants to invest for the upcoming take-off for DMS and secure market leadership in interior sensing.

Regarding financing, we previously estimated a directed share issue. While this may still happen, we are getting more optimistic about Smart Eye getting a debt financing.

Main competitor closing in – Seeing Machines with three new programs in Q2

In Q2, Seeing Machines was awarded three new programs, similar to three platforms. Of these, two were to new OEMs. The way Seeing Machines communicates its design wins, which is much earlier than Smart Eye does, could play a big role in our perception. Nevertheless, we cannot rule out a technological shift that favors Seeing Machines.

Lowering short-term Automotive estimates – Small changes to the valuation range

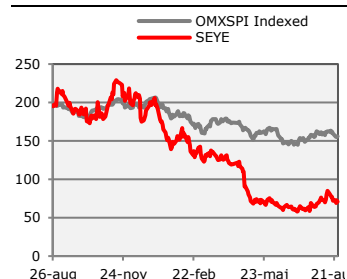
We lower short and mid-term estimates for Automotive but raise estimates for Research. Also, we now only estimate a 5% dilution, due to our increased belief in debt financing. Our new valuation range includes Base Case of SEK 220 (235), Bear Case at SEK 90 (105) and Bull Case constant at SEK 315.

Key Financials (SEKm)	2021	2022E	2023E	2024E	2025E
Revenues	109	246	451	732	1132
Revenue growth	78%	125%	83%	62%	55%
EBITDA	-89	-179	-30	202	549
EBIT	-131	-293	-144	88	435
EBIT Margin (%)	-120%	-119%	-32%	12%	38%
Net Income	-131	-233	-114	70	346
EV/Revenue	38.0	6.0	3.5	2.1	1.0
EV/EBITDA	neg	neg	neg	7.5	2.1
EV/EBIT	neg	neg	neg	17.3	2.6
P/E	neg	neg	neg	23.0	4.6

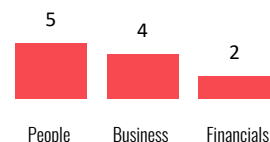
FAIR VALUE RANGE

BEAR	BASE	BULL
90	220	315

SEYE.ST VERSUS OMXS30



REDEYE RATING



KEY STATS

Ticker	SEYE.ST
Market	First North
Share Price (SEK)	69
Market Cap (MSEK)	1550
Net Debt (MSEK)	-160
Free Float	84 %

ANALYSTS

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Comment on Q2 report

Redeye concludes that Q2 was a very strong quarter for Research (88% Y/Y organic growth), but a bit of a disappointment for Automotive. However, while the *ramp-up for DMS is slightly delayed*, we think Smart Eye appeared very *optimistic about winning new deals for both DMS and Interior Sensing* going forward. Remember that Smart Eye knows with a 99% probability about winning a design win a up nine months before it can announce it. Thus, strong wording about ongoing procurements is likely a good sign for many design wins ahead.

Also, we think Smart Eye appeared quite *confident regarding its financial position*. While we think the market is frightened by a potential broad share issue, i.e., not a directed one, *we think the company could get a debt financing*. If this were to be the case, we think the market will turn positive again.

Automotive – further delay of the ramp-up, but expecting several more OEMs in production in 2022

Automotive sales came in weaker than we had expected. 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.

In the quarter, one new OEM entered volume production with Smart Eye's DMS. The total number of OEM customers that are now live amounts to six.

While a full six OEMs have now entered volume production, we think current revenues almost only comes from BMW. Thus, the company is waiting for much more volumes from the remaining five OEMs.

The company also stated that it is in the final stages before Start of Production (SoP) with several more OEMs. While some of these will enter SoP already in 2022, we think that at least 10 OEMs will be live with Smart Eye's DMS before the end of 2023.

Research – impressive organic growth and higher gross margin than expected

Research delivered strong numbers, showing a 88% y/y organic growth. Including M&A, Research grew by 624%. The company stated that the organic growth comes from all parts, i.e., Research Instruments, Media Analytics, and iMotions.

Another positive about this segment is that the reported gross margin was as high as 88%. Considering that 81% of total sales came from this area, we think the underlying gross margin in this segment is way higher than the 70% that we had previously estimated.

Financial position – We think a debt financing is likely

SEK 160.5m in cash vs 54m burn rate – lower burn rate expected forward

The company reported a negative cashflow of SEK 54m in the quarter. Per the end of June, Smart Eye had SEK 160.5m in cash. Should the burn rate remain constant, cash would last until January or February. However, we think a seasonally strong Research segment in H2, combined with accelerating revenues from Automotive will make burn rate lower than that.

Smart Eye is considering all financing opportunities – too confident to be on the way towards a share issue?

On the conf call, Smart Eye said that it is evaluating all financing options. Also, it said clearly that a share issue in the current environment is not an attractive option, and that it is definitely also looking into different options of debt financing. Without knowing how the discussions are going behind the scenes, we think the company appeared too confident and calm regarding the financial situation to be on the way towards a share issue to the broad public.

While a directed share issue is not impossible, we think a debt financing is Smart Eye's preferred choice. Considering the predictable revenues of its order book, we think this may also be the outcome. If so, we believe the stock market would be very relieved, to say the least.

Tailwind for Seeing Machines, but likely due to earlier communication of design wins

In the quarter, Smart Eye's main competitor, Seeing Machines, closed in on Smart Eye in terms of market leadership. To date, Smart Eye has won 14 OEM customers, compared to ten for Seeing Machines, of which two are new for the quarter. However, after having analyzed the situation, we think the likely reason behind the upturn of Seeing Machines is that Seeing Machines communicates its design wins much earlier than Smart Eye does. In a time when there is a high number of ongoing RfQs, the impact becomes big.

Tailwind for Seeing Machines – winning three new automotive programs

In Q2, Smart Eye's competitor announced three new automotive programs. We think these are Subaru, Renault, and GM. However, we are still very uncertain, especially around the last two.

Subaru win in May

In May, Seeing Machines announced a new automotive program for its first Japanese OEM. We think this is Subaru.

Winning a smaller, still unknown, European OEM in early June. Could be Renault

On June 6th, Seeing Machines announced that it had won a new automotive program for a new OEM customer. The OEM is described as a "European automaker", which we think means a smaller one which is not in the premium segment. We have heard rumors of this being Renault, but we are still not sure.

Winning new program with existing OEM – likely GM

On June 16th, Seeing Machines announced that it had won a new automotive program for a "large global automotive group (...) led out of North America". From the press release we also know that the OEM is an existing customer. We have seen some speculations about Stellantis, but since the headquarter is based in the Netherlands, we are hesitant about this. However, it could be true if it refers to the Chrysler part. But if not, being led out of North America and also being a "group", we think the only other option is General Motors. However, we are still not sure.

Is there an ongoing technological shift that favors Seeing Machines – or just a communication issue?

Due to the recently strong success for Seeing Machines, and not as strong for Smart Eye, we elaborate on the possibility of a technological shift that favors Seeing Machines. However, we also explore on the possibility on whether this is more of an effect of different approaches to communication between Smart Eye and Seeing Machines. While this needs to be followed up continuously, we think it's too early to draw any conclusions about Seeing Machines having gained an upper hand.

Smart Eye and Seeing have opposite strategies with regards to hardware adaptation

As we have laid out previously, Smart Eye and Seeing Machines have chosen opposite strategies when it comes to optimizing its software for the hardware, i.e., the processor. Smart Eye has a hardware agnostic approach, which means that its software can integrate with any processor. Seeing Machines' software, on the other hand, is adapted to a specific hardware, mainly to that of Qualcomm's Snapdragon processor.

Seeing Machines has thus made a bet on the success of Qualcomm's new processor, and that this success will spill over to Seeing Machines. Smart Eye is, on the other hand, not dependent on the success of any specific processor manufacturer but suits well with any hardware partner. However, Smart Eye is still the preferred choice by e.g., Nvidia and likely several more.

Strong success from Qualcomm – likely to spill over on Seeing Machines

Since Qualcomm launched its Snapdragon processor, it has gained strong traction on the market. As we know, it's the tier-1 player that assembles a whole platform that consists of all hardware and software technologies, and then offers this technology package to the car manufacturer (OEM). This way of doing business means that the tier-1 player is prone towards choosing technology suppliers (like processor makers or DMS suppliers) that integrate well with each other.

The above logic means that tier-1 players are likely to either choose a best-of-breed combination of technologies, or to go with outspoken technological partnerships, such as the one between Qualcomm and Seeing Machines. Since

Qualcomm has gained good market traction with its Snapdragon processor, we think this may have spilled over on Seeing Machines.

Has there been a technological shift, or has Seeing Machines just bet on the right horse?

We assess that Seeing Machines has benefited from having built its software to specifically fit well with Qualcomm's Snapdragon processor. This implies that we believe that Seeing Machines is benefited from one or two possible reasons; 1) being hardware specific per se, and 2) having partnered with the currently winning horse in automotive-focused processors.

Seeing Machines has for long argued that the hardware specific approach is beneficial for performance and energy efficiency, which is argued to be important factors as cars are increasingly transforming into rolling computers. If this argument is 1) true, and 2) strong enough USP (unique selling point) to choose one solution before another, the hardware-specific approach could be the reason for Seeing Machines' recent success. This would be very negative for Smart Eye since its whole foundation consists of being hardware agnostic.

The second possible reason for Seeing Machines' recent success is the partnership with Qualcomm, whose success has been spilled over to Seeing Machines. Our assessment, after having discussed it with some industry sources, is that the "cycle" of a processor is around 18 months. This means that Seeing Machines' bet on Qualcomm will be of importance in RfQs in the next twelve months or so. If this is the case, it would still be unfortunate for Smart Eye since the next twelve months will be full of design wins being awarded.

...or is the main reason a timing issue related to different communication approaches?

Another possible reason for Seeing Machines' recent success is the difference in market communication between Seeing Machines and Smart Eye. The short version of this is that Seeing Machines communicates its design wins much earlier than Smart Eye which, in a period with many design wins being awarded, causes Seeing machines to communicate its wins earlier than Smart Eye.

The reason why is that Seeing Machines communicates design wins on tier-1 level, whereas Smart Eye communicates on tier-2 level.

Tier-1 level communication: The way a design-win award works is that the tier-1 first gets notified of having been awarded it from the OEM. Since the solution/platform offered by the tier-1 player towards the OEM contains a wide range of technologies from various suppliers, the awarding of a design win indirectly implies a design win for the technology suppliers included. As an example, when Magna (tier-1 player) is awarded a design win in which Seeing Machines' DMS is included, Seeing Machines "knows" that it will also be awarded a design win. This is the moment in which Seeing Machines communicates a design win to the market.

Tier-2 level communication: At the point of time described above, the tier-1 player signs a contract with the OEM. Then, there is a co-development phase between the tier-1 and its technology suppliers, also known as "tier-2 players". Smart Eye and Seeing Machines are both included in the tier-2 category. This co-development phase goes on for a few months and sometimes up to as much as six to nine months. When this is completed, a contract between the tier-1 and tier-2 is signed. This is the moment in which Smart Eye communicates a design win to the market.

The difference between announcing a design win on tier-1 vs tier-2 level could be as big as nine months. In a period like now, when very many RfQs will be decided/awarded, the difference in communication can be interpreted by the stock market as if a major technological shift has taken place, while in fact it is pretty much status quo under the surface. While we don't know if Smart Eye has won several design wins that it has not yet been able to communicate, it would be a game changer for stock-market perception. Our own assessment is that this is highly likely.

Trend towards “software tier-1s” fits perfectly with Smart Eye’s hardware agnosticism

A very interesting piece on the conference call was when CEO, Martin Kranz, talked about the general trends that play a role when thinking about hardware specific versus hardware agnostic DMS solutions.

Historically, a tier-1 has been responsible for assembling all components, independently of whether it’s hardware or software, and then putting them together into one package. From this approach, it’s easy to understand the benefits of a software that has been pre-integrated with a certain processor, which is the approach that Seeing Machines uses.

As we understand it, there is now an ongoing trend starting to emerge, consisting of OEMs starting to demand “software tier-1s”. This means that they want one tier-1 that is responsible for all the hardware, and then another tier-1 responsible for all the software required. This means that a DMS software needs to be easy to integrate with, independently of what processor is being used. This is essence of the hardware agnostic approach that Smart Eye has adopted. Hence, should the trend of “software tier-1s” grow even stronger, it would fit perfectly for Smart Eye.

CFO leaves in November – a big loss for the company

On July 19th, Smart Eye announced that CFO Anders Lyrheden will leave the company in November this year. Considering that Lyrheden is, in our opinion, a much more active and important player for Smart Eye than a “normal” CFO is in most companies, we think this is a big loss.

When a CFO leaves a company, we think it’s always worthwhile to understand the reason why the person is leaving. Thus, it could be a warning sign.

However, after having spoken to Lyrheden, we think the reason for leaving is of the “good” kind, meaning that he’s not leaving because things aren’t going well for the company. Instead, we believe Lyrheden is looking for one last work-related adventure before retiring in about five years.

We think it’s important for investors not to think in terms of *“how can he leave when Smart Eye is just on the verge of its inflection point”*. As for his shareholding in Smart Eye, we are quite certain of Lyrheden being very long-term in his holding, i.e., not selling just because he will leave.

Estimates

Changes on sales estimates

DMS/Interior Sensing

- Lowering estimates for H2'22 due to delayed ramp-up due to supply-chain constraints
- Estimating a lower take rate. For 2023, 7.5% → 6.5% and 2024: 15% → 13%.

AIS

- Reducing sales estimates due to delays and supply-chain constraints:
- Sales estimates (included in Automotive): 50m in 2023, 85m in 2023, 123m in 2025

Research

- Raising baseline for quarterly sales

Changes on cost estimates

- Raising OPEX – especially in the short term
- Raising estimates on gross margin for Research from 70% to 82%, mainly stemming from a higher share of software. Also, considering the 88% gross margin in Q2 (which mainly consisted of Research revenues), indicates that we've been too conservative here.
- Raising estimates for investments in intangible assets
- We estimate that Smart Eye will turn cash-flow in mid-2023

Dilution

In our Base Case and Bull Case, we anticipate a 5% dilution, but a 10% dilution in our Bear Case. The reason to our increased optimism is that we think Smart Eye could get some kind of bank financing. However, we add some dilution just to not be too optimistic.

Business areas: Changes vs previous estimates										
SEKm	2020	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022	2023	2024	2025
Automotive	41	47	11	11						
New					14	17	54	223	462	816
Old					21	26	74	316	534	902
<i>Change</i>					-33%	-35%	-28%	-30%	-13%	-10%
Research	20	62	42	49						
New					50	52	193	227	268	313
Old					44	46	175	207	244	284
<i>Change</i>					14%	13%	10%	10%	10%	10%

Source: Redeye Research

Smart Eye: Estimate changes										
SEKm	2020	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022	2023	2024	2025
Total net sales	61	109	54	60						
New					64	69	246	451	732	1132
Old					65	72	250	523	778	1186
<i>Change</i>					-2%	-4%	-1%	-14%	-6%	-5%
Gross margin	166%	89%	83%	88%						
New					85%	85%	85%	84%	86%	88%
Old					80%	78%	81%	83%	84%	87%
<i>Change</i>					6%	9%	5%	1%	2%	1%
OPEX	153	186	80	94						
New					94	95	389	410	430	450
Old					84	86	360	390	415	430
<i>Change</i>					12%	10%	8%	5%	4%	5%
EBITDA	-52	-89	-36	-42						
New					-40	-36	-179	-30	202	549
Old					-32	-30	-159	44	238	602
<i>Change</i>					24%	22%	13%	-168%	-15%	-9%
EBIT	-75	-131	-71	-76						
New					-74	-71	-293	-144	88	435
Old					-67	-65	-273	-68	128	493
<i>Change</i>					10%	9%	7%	110%	-31%	-12%
EBIT (%)	-123%	-120%	-134%	-127%						
New					-116%	-103%	-119%	-32%	12%	38%
Old					-104%	-90%	-109%	-13%	16%	41%
<i>Change</i>					12%	14%	-10%	-19%	-4%	-3%

Source: Redeye Research

Smart Eye: Estimates										
SEKm	2020	2021	Q1 22	Q2 22	Q3 22E	Q4 22E	2022	2023	2024	2025
Revenues	61	109	54	60	64	69	246	451	732	1132
- Automotive	41	47	11	11	14	17	54	224	464	820
- Research	20	62	42	49	50	52	193	227	268	313
Gross Profit	102	97	44	53	54	59	210	380	632	999
EBITDA	-52	-89	-36	-42	-40	-36	-179	-30	202	549
EBIT	-75	-131	-71	-76	-74	-71	-293	-144	88	435
EPS (SEK)	-4.5	-5.9	-3.2	-3.4	-2.7	-2.6	-10.0	-4.9	3.0	14.9
Growth (%)	8%	78%	196%	254%	107%	58%	125%	83%	65%	56%
Gross margin	166%	89%	83%	88%	85%	85%	85%	84%	86%	88%
EBITDA margin (%)	-84%	-81%	-68%	-69%	-62%	-53%	-73%	-7%	28%	49%
EBIT margin (%)	-123%	-120%	-134%	-127%	-116%	-103%	-119%	-32%	12%	38%
Net income margin (%)	-123%	-120%	-134%	-128%	-92%	-82%	-95%	-25%	9%	31%

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 220, Bear Case at SEK 90, and Bull Case at SEK 315.

Valuation

Bear Case 90 SEK

Growth assumptions 2022-2026

- Total CAGR: 59%
- CAGR Automotive: 70%
- CAGR Research: 36%

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: 20%
- EBIT margin 2026: 33%
- Terminal EBIT margin: 22%

General

- WACC: 10.0%
- Terminal growth: 2.0%

Dilution from share issues

- 10% dilution expected in Q4'22

Base Case 220 SEK

Growth assumptions 2022-2026

- Total CAGR: 68%
- CAGR Automotive: 88%
- CAGR Research: 40%

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: 41%
- Market share in DMS and Interior Sensing goes from 46% 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 H2 2023
- Avg. EBIT margin 2024-'26: 32%
- EBIT margin 2026: 45%
- Terminal EBIT margin: 34%

General

- WACC: 10.0%
- Terminal growth: 2.0%

Dilution from share issues

- 5% dilution expected in Q4'22

Bull Case 315 SEK

Growth assumptions 2022-2026

- Total CAGR: 73%
- CAGR Automotive: 100%
- 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 Q2 2023
- Avg. EBIT margin 2024-'26: 39%
- EBIT margin 2026: 52%
- Terminal EBIT margin: 36%

General

- WACC: 10.0%
- Terminal growth: 2.0%

Dilution from share issues

- 0% dilution expected

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	

Announcement of debt financing rather than a share issue

We think the stock market is currently terrified of a broad share issue that would lead to a massive dilution. First, we think that if there were to be a share issue, it would be directed towards quality owners. Second, we think Smart Eye could get a debt financing. Should this happen, we assess that it would be a big relief for the stock market.

IMPACT					
Downside		Upside		Time Frame	
Significance	Likelihood	Significance	Likelihood		
Moderate	Possible	Major	Likely	Short-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			Sum FCF (SEKm)		
INCOME STATEMENT					DCF Valuation Metrics				
Revenues	109	246	451	732	Initial Period (2022–2026)		296		
Cost of Revenues	12	36	70	101	Momentum Period (2027–2031)		2060		
Gross Profit	97	210	380	632	Stable Period (2032–)		2498		
Operating Expenses	186	389	410	430	Firm Value		4854		
EBITDA	-89	-179	-30	202	Net Debt (last quarter)		-223		
Depreciation & Amortization	42	114	114	114	Equity Value		5078		
EBIT	-131	-293	-144	88	Fair Value per Share		218		
Net Financial Items	0	0	0	0		2021	2022E	2023E	2024E
EBT	-131	-293	-144	88	CAPITAL STRUCTURE				
Income Tax Expenses	0	-60	-30	18	Equity Ratio	90%	83%	82%	82%
Non-Controlling Interest	0	0	0	0	Debt to equity	0.1	0.1	0.1	0.1
Net Income	-131	-233	-114	70	Net Debt	-200	-64	58	-18
					Capital Employed	1648	1495	1381	1450
					Working Capital Turnover	-8.7	-16.1	17.1	13.6
BALANCE SHEET					GROWTH				
Assets					Revenue Growth	78%	125%	83%	62%
Current assets					Basic EPS Growth	30%	69%	-51%	-161%
Cash & Equivalents	279	143	21	97	Adjusted Basic EPS Growth	30%	69%	-51%	-161%
Inventories	7	4	25	34	PROFITABILITY				
Accounts Receivable	78	86	113	146	ROE	-14%	-16%	-9%	6%
Other Current Assets	0	0	0	0	ROCE	-8%	-20%	-10%	6%
Total Current Assets	364	233	159	278	ROIC	-18%	-17%	-8%	5%
					EBITDA Margin (%)	-81%	-73%	-7%	28%
Non-current assets					EBIT Margin (%)	-120%	-119%	-32%	12%
Property, Plant & Equipment, Net	0	-107	-221	-335	Net Income Margin (%)	-120%	-95%	-25%	9%
Goodwill	0	0	0	0	VALUATION				
Intangible Assets	1377	1469	1549	1629	Basic EPS	-5.9	-10.0	-4.9	3.0
Right-of-Use Assets	0	0	0	0	Adjusted Basic EPS	-5.9	-10.0	-4.9	3.0
Shares in Associates	0	0	0	0	P/E	neg	neg	neg	23.0
Other Long-Term Assets	5	5	5	5	EV/Revenue	38.0	6.2	3.7	2.2
Total Non-Current Assets	1382	1367	1333	1299	EV/EBITDA	neg	neg	neg	7.8
					EV/EBIT	neg	neg	neg	18.1
Total Assets	1745	1600	1492	1577	P/B	2.8	1.2	1.3	1.2
Liabilities					SHAREHOLDER STRUCTURE				
Current liabilities							CAPITAL %	VOTES %	
Short-Term Debt	0	0	0	0	Sellers of Affectiva		10.2%	10.2%	
Short-Term Lease Liabilities	0	0	0	0	Swedbank Robur Fonder		7.1%	7.1%	
Accounts Payable	20	30	36	44	Handelsbanken Fonder		7.0%	7.0%	
Other Current Liabilities	77	76	75	83	Första AP-fonden		6.2%	6.2%	
Total Current Liabilities	98	105	111	127	Mats Krantz inklusive närstående		5.3%	5.3%	
Non-current liabilities					SHARE INFORMATION				
Long-Term Debt	79	79	79	79	Reuters code				SEYE.ST
Long-Term Lease Liabilities	0	0	0	0	List				First North Stockholm
Other Long-Term Liabilities	0	0	0	0	Share price				69 kr
Total Non-current Liabilities	79	79	79	79	Total shares, million				23.2561
Non-Controlling Interest	0	0	0	0	MANAGEMENT & BOARD				
Shareholder's Equity	1569	1336	1222	1291	CEO				Martin Krantz
Total Liabilities & Equity	1745	1520	1412	1497	CFO				Anders Lyrheden
					Chairman				Anders Jöfelt
CASH FLOW					ANALYSTS				
NOPAT	-131	-233	-114	70					Redeye AB
Change in Working Capital	13	3	-42	-28	Jesper von Koch				Mäster Samuelsgatan 42, 10tr
Operating Cash Flow	-104	-116	-42	156	jesper.vonkoch@redeye.se				11157 Stockholm
Capital Expenditures	0	-7	0	0					
Investment in Intangible Assets	0	-92	-80	-80					
Investing Cash Flow	-314	-99	-80	-80					
Financing Cash Flow	478	80	0	0					
Free Cash Flow	-104	-216	-122	76					

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 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 (2022-08-29)

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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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.