

# Crunchfish AB Streamlining for breakthrough in 2024

Johan Widmark | 2024-02-05 08:00

Crunchfish has now announced that it intends to divest its gesture interaction business. While this means a logical and shareholder-friendly streamlining of focus on Digital Cash, it might prove difficult to achieve an attractive exit price. With the Indian market for real time offline payments beginning to crystalize following the last year's launch of UPI Lite X, we see good chances for fresh Digital Cash commercial agreements. While the investment case remains somewhat binary, we now find support for a fair value of SEK 13-16 (15-17) per share.

## Looking to divest Gesture Interaction

After a review of Gesture Interaction, Crunchfish has concluded that customers now tend to prefer inhouse solutions or Open Source, which means that it will be difficult for the company to succeed as an independent developer. As a consequence, CFISH has now engaged EY Corporate Finance to find a buyer for the business. A divestment is expected to lower operating expenses by 25%. However, around SEK 18m of the SEK 42,5m in Capitalized development on the balance sheet is attributable to Gesture interaction, which means that there is some risk for a write-down if the price tag in a transaction be too low.

## Binary investment case with high potential

Regardless of the outcome of a divestment, the main focus of the case continues to be Digital Cash Offline with progress in India as the primary catalyst. We have previously stated that the cash injection from the rights issue in November 2023 of SEK 51.2m should sustain the company through 2024 (forecasting a cost base including Gesture Interaction of SEK 40m). However, it also underscores the importance of securing fresh commercial deals in 2024 to avoid any further financial concerns.

While Crunchfish is still in the process of finding its position in the new Indian landscape following last year's launch of UPI Lite X, it's worth keeping in mind that scale of several of the counterparts in India, like IDFC, means that a fully fledged deal could make Crunchfish profitable. But this also makes the investment case somewhat binary, and we maintain our WACC of 25% to reflect this. As new orders in India continue to be delayed, we are rolling forward the expected ramp-up in our forecast. With consideration for the uncertainties in India, we now see support for a fair value of SEK 13-16 (15-17) per share.

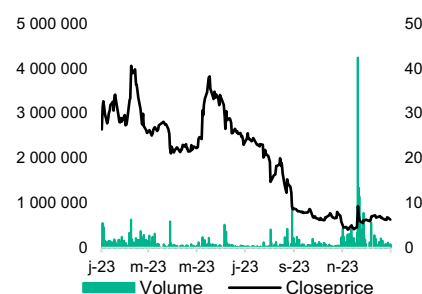
For a video interview (in Swedish) with Crunchfish CEO Joachim Samuelsson and the intended divestment of Gesture interaction, please see here <https://youtu.be/Zs2AKgoOmmk>

MSEK	2022	2023E	2024E	2025E	2026E
Revenue	6	1	2	10	30
EBITDA	-18	-22	-37	-31	-11
EBIT	-24	-29	-43	-36	-15
EPS Adjusted	-0,73	-0,73	-1,10	-0,93	-0,42
Sales Growth, %	56%	-86%	134%	400%	200%
EBITDA Margin, %	-293%	-2632%	-1867%	-308%	-37%
EBIT Margin, %	-392%	-3372%	-2167%	-355%	-51%
EV/Sales	102,1	739,5	315,9	28,5	9,9
EV/EBITDA	-34,9	-28,1	-16,9	-9,2	-27,1
EV/EBIT	-26,1	-21,9	-14,6	-8,0	-19,3
P/E	-27,5	-9,5	-6,4	-6,0	-13,3

Source: Emergers

## Crunchfish

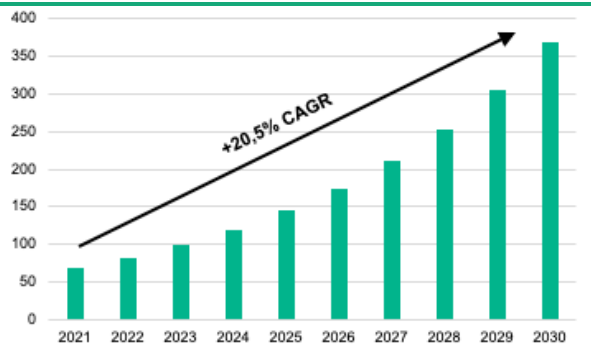
Fair Value, SEK	13 - 16
Current Price, SEK	5,60
Shares (M)	39,6
Market Capitalisation (MSEK)	222
Net Cash (MSEK)	-9,6
Enterprise Value (MSEK)	212
Market	First North



## Crunchfish in brief

Crunchfish is a deep tech company founded in 2010. With an initial focus on developing applications for smartphones, and a soon realized expertise in gesture recognition, the journey towards commercializing the technology began. Today Crunchfish is based on two business verticals, Digital Cash (DC) and Gesture Interactions (GI), where the company is addressing two global markets in rapid growth.

### Digital Payments Market Growth (USDbn)



Source: Grandviewresearch, Emergers

## Addressing growing problems on a global scale

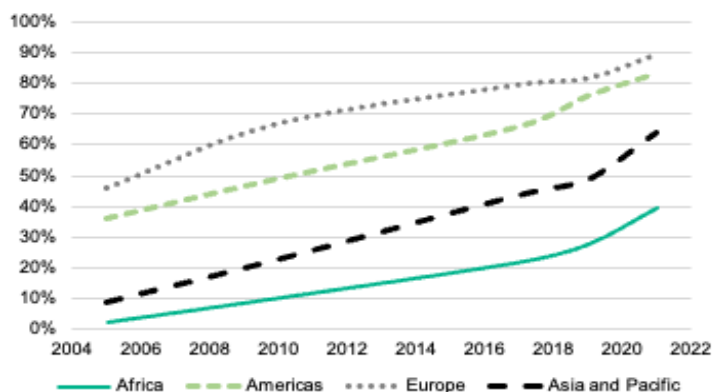
### Offline digital payments

Even though internet connectivity is good throughout the developed world, it doesn't work everywhere, all the time. Payment rails, built on circuit-switched systems, only works if everything else supporting it works, making modern societies vulnerable to IT-attacks, system failures or even just downtime maintenance.

Connectivity in general is a major concern in other parts of the world. In India for example, only about 50% of the 1,4 billion citizens enjoy a stable connection. The same goes for a country like Nigeria, where 70% of the population lives without solid internet connection.

As internet connectivity varies a lot between regions, systems are prone to downtime, and internet connection has become a vital part of existing payment infrastructure, this adds up to a problem in urgent need of a solution. Despite the poor connectivity, India is the supreme leader in real-time payments, where over 74 billion transactions were made through UPI (India's version of Swish) in 2022 alone. This compares to the 4 billion transactions that has been made on Swedish Swish since the service launched in 2012.

### Internet penetration by region (% of population)



Source: International Telecommunication Union, Emergers

## Digital Cash

Crunchfish's main philosophy with regards to their vision to augment payments is to clearly separate the three steps of payments: reserve, pay and settle. There are two general reasons why payments fail today: no internet access and disruptions in banks' backend.

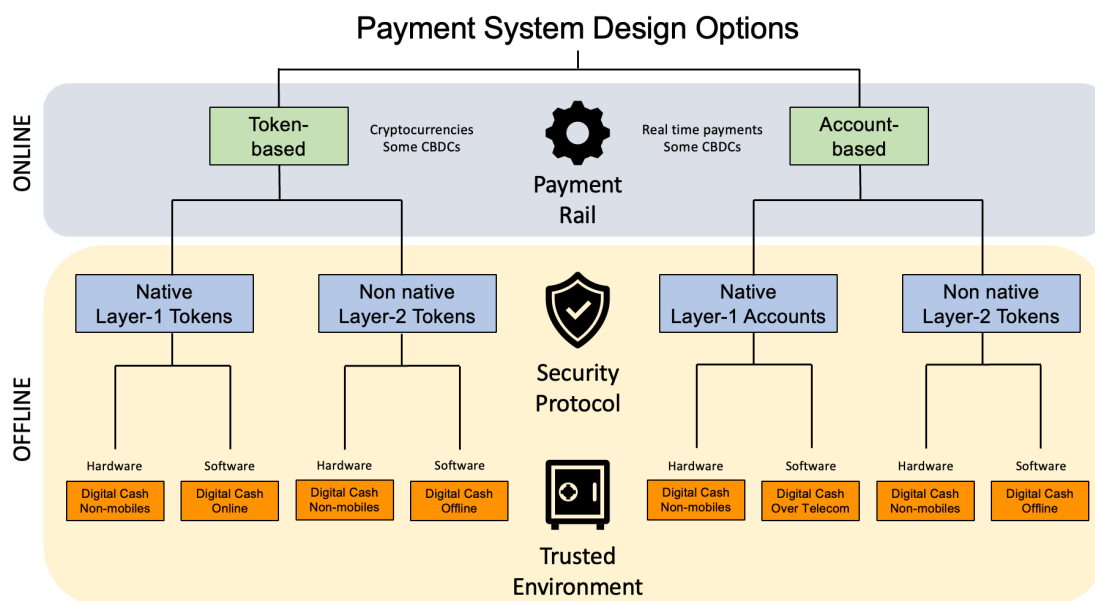
## Digital Cash Online

The primary area of usage for DC Online is to unload the massive core banking systems that are handling our bank accounts today and provide a safety net so that we can make payments, regardless of whether the banks are having issues or not. The technology can be compared to the one used by cryptocurrencies, where additional layers of payment rails were created to increase transaction speed and capacity.

## Digital Cash Offline

DC Offline addresses both the lack of internet access as well as the issues of backend disruptions. Crunchfish's platform can ensure that users are able to pay in full offline mode, rather than internet. By separating settlement from the other two steps, reserve and pay, Crunchfish guarantees successful payments in proximity or over the telecom network. Potential customers include Central Banks, commercial banks and payment service providers such as Amazon Pay, Google Pay and PhonePe.

## Payment System Design Options



Source: Lipis Advisors, Emergers

## Forecasting an unproven business model

### Digital Cash Offline

While the tech itself has a proven track record in test surroundings, and we believe that the need for Crunchfish's Digital Cash solution is global and in high demand, it is still an unproven business model. This means we can only speculate how, who and in what way Crunchfish will charge for their platform. To quantify and estimate future revenues we have made the following assumptions in our **Base Case**:

- A model of yearly fees based on SEK 3 per user paid by the bank/payment solution provider

- Three sets of counterparts i.e. banks or payment solution providers with an average of 20/10/5 million users per counterpart
- A step-wise rollout of 10%/25%/50%/85% of the bank/payment solution providers users
- This means that these deals and the rollout will likely be made in tranches where the bank buys a license for part of its retail customers.

With the assumption that Crunchfish manages to rollout to one (1) big client, two (2) medium clients and two (2) small clients per year starting in 2024, this would amount to sales of SEK 82.5m in 2026 from DC Offline alone.

### **IDFC First Bank Commercial Agreement**

On the 29<sup>th</sup> of June 2023 Crunchfish signed their first commercial agreement for its Digital Cash Offline-solution with IDFC First Bank. The first release to the bank's customers is planned for late Q3, and the initial use case will be to enable offline UPI payments over the telecom network.

The 3-year license includes a first trench of users, out of a maximum of seven. Should IDFC Bank decide they want to offer the service to more of its customers, additional licenses will have to be purchased.

### **SaaS business model with high scalability**

As both of Crunchfish's verticals are fully based on software, the business is highly scalable by nature with high margins. With an annual OPEX currently at about SEK 40m per year (which the company expects to keep intact going forward), future profitability will be high should high volume deals be signed.

### **Valuation**

In our DCF-model we use a discount factor (WACC) of 25% to take into account the high uncertainty regarding all future cash flows. With estimated sales of SEK 10m in 2025E, to reach SEK 83m in 2027E, our DCF and target multiple valuation approach support a fair value of SEK 14 per share.

### **Risks**

**Unproven business model:** Even though one Digital Cash commercial deal has been signed, the business model, earning capacity and rollout-pace are still highly uncertain.

**Addressing a slow-moving market:** Crunchfish's business is focused on critical financial infrastructure, such as payment systems. We believe that even though the technology works, an investor needs to keep in mind that these institutions are slow to change and that a rollout might take longer than expected.

### **Corporate Governance**

**CEO of Crunchfish AB** Joachim Samuelsson has a Master of Science in industrial Engineering and Management from Linköping University. As a serial entrepreneur since 1996, Samuelsson has had successful engagements in ComOpt Ab, Actix Ltd and Biomain AB. Before that Samuelsson worked several years for Ericsson in international technical and marketing roles.

**Chairman of the board** Göran Linder has a Master of Science in Engineering from KTH Royal Institute of Technology in Stockholm. Linder also serves as CEO of Corespring New Technology AB and serves on the board in Powercell AB, Promore Pharma AB, Minesto AB and QCG Sweden AB.

**CEO of Crunchfish Digital Cash AB** Patrik Lindeberg has a Master of Science in Electrical Engineering from Lund University and National University of Singapore, bringing experience in commercial and technical areas of responsibility.

**Founder and CTO** Paul Cronholm has a master's degree in theoretical physics from Lund University within the field of complex computer simulations. Cronholm has more than 15 years of experience as a senior software designer and project manager in various projects to implement mobile internet around WAP, 3G and DVB-H.

## Crunchfish

### Income Statement

MSEK	2021	2022	2023E	2024E	2025E	2026E
Sales	4,0	6,2	0,9	2,0	10,0	30,0
Operating Costs	-49,3	-39,8	-40,0	-41,0	-41,0	-41,0
EBITDA	-29,2	-18,1	-22,5	-37,3	-30,8	-11,0
Depreciation	-7,7	-6,1	-6,3	-6,0	-5,7	-5,4
Amortisation of Goodwill	0,0	0,0	0,0	0,0	1,0	1,0
EBIT	-36,9	-24,3	-28,8	-43,3	-35,5	-15,4
Non-recurring Items	0,0	0,0	0,0	0,0	0,0	0,0
Associated Companies	0,0	0,0	0,0	0,0	0,0	0,0
Net Financial Items	-1,6	0,2	-0,3	-0,3	-0,3	-0,3
<b>Pre-tax Result</b>	<b>-38,5</b>	<b>-24,0</b>	<b>-29,1</b>	<b>-43,6</b>	<b>-35,8</b>	<b>-15,7</b>
Tax	0,0	0,0	0,0	0,0	0,0	0,0
Minority Interest	0,0	0,0	0,0	0,0	1,0	1,0
<b>Net Result</b>	<b>-38,5</b>	<b>-24,0</b>	<b>-29,1</b>	<b>-43,6</b>	<b>-34,8</b>	<b>-14,7</b>

### Capital Expenditure

	2021	2022	2023E	2024E	2025E	2026E
Capital Expenditure, Absolute	15,8	13,6	0,0	0,1	-0,5	-1,5
As a Pct of Sales	400%	220%	5%	5%	-5%	-5%
Depreciation Multiple	2,1	2,2	0,0	0,0	-0,1	-0,3

### Key Ratios

Share Price: SEK 5,60

	2021	2022	2023E	2024E	2025E	2026E
Share Price at 31 Dec	25,00	20,00	7,00	7,00	5,60	5,60
Number of Shares (Millions)	30,93	33,04	39,65	39,65	39,65	39,65
Market Cap	773,1	660,8	277,5	277,5	222,0	222,0
Enterprise Value	740,9	631,9	271,4	309,1	285,2	297,9
EPS (Reported)	-1,24	-0,73	-0,73	-1,10	-0,93	-0,42
EPS (Adjusted)	-1,24	-0,73	-0,73	-1,10	-0,93	-0,42
CEPS	-1,24	-0,73	-0,73	-1,10	-0,93	-0,42
P/CEPS	n.a.	n.a.	n.a.	n.a.	-6,0	-13,3
Book Value/Share	1,8	1,8	0,7	-0,4	-1,3	-1,7
P/BV	13,8	11,2	9,3	-20,0	-4,4	-3,3
Dividend	0,00	0,00	0,00	0,00	0,00	0,00
Dividend Yield (%)	0,0	0,0	0,0	0,0	0,0	0,0
Dividend Payout Ratio (%)	0,0	0,0	0,0	0,0	0,0	0,0
EV/Sales	187,3	102,1	739,5	315,9	28,5	9,9
EV/EBITDA	-25,4	-34,9	-28,1	-16,9	-9,2	-27,1
EV/EBIT	-20,1	-26,1	-21,9	-14,6	-8,0	-19,3
P/E (Adjusted)	-20,1	-27,5	-9,5	-6,4	-6,0	-13,3
Sales Growth, Y/Y (%)	-63,6	56,4	-86,2	134,1	400,0	200,0
EBIT Growth, Y/Y (%)	46,2	-34,2	18,8	50,4	-18,0	-56,7
EPS Growth (Adjusted), Y/Y (%)	39,2	-41,5	0,8	50,0	-15,6	-54,7
EBITDA Margin (%)	-738,2	-292,8	-2632,5	-1866,7	-308,3	-36,6
EBIT Margin (%)	-931,8	-392,0	-3372,4	-2167,1	-355,4	-51,3
Return on Equity (%)	-84,8	-41,9	-65,7	-551,2	114,0	28,2
Tax Rate (%)	0,0	0,0	0,0	0,0	0,0	0,0

### Financial Position

	2021	2022	2023E	2024E	2025E	2026E
Interest-Bearing Net Debt	-32	-29	-6	32	63	76
Net Debt/Equity	-0,6	-0,5	-0,2	-2,3	-1,2	-1,1
Equity Ratio	0,9	0,9	1,0	1,1	1,1	1,3
Net Debt/EBITDA	1,1	1,6	0,3	-0,8	0,0	0,1

Source: Emergers, Company reports

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