

Crunchfish AB

Clearing the books in preparation for breakthrough in 2024

Johan Widmark | 2024-02-16 08:00

In line with the already communicated ambition to divest its Gesture Interaction business, Crunchfish decided to write down all GI-related IP to zero, along with all Digital Cash IP not related to offline payments, in a total impairment of SEK 18m. With the Digital Cash protector, Crunchfish now aims for some central integration for improved security of existing Digital Cash offers, ideally at a central level in UPI Lite X, which would mean a significant breakthrough into the Indian payment ecosystem. While the investment case remains somewhat binary, we continue to find support for a fair value of SEK 13-16 per share.

SEK 18m write off in Q4'24

In early February 2024, Crunchfish announced that it was looking to divest its Gesture Interaction business as a review had shown that it would be difficult for the company to succeed as an independent developer. In line with this, Crunchfish have now chosen to write off all its GI-related IP as well as all IP in the Digital Cash business that is not related to offline payments. With net sales of SEK 333 000 in Q4'23 this resulted in a net loss of SEK 27m. Cash position amounted to SEK 31m (net cash at SEK 29m) meaning that with 25% reduced OPEX following a divestment of GI, Crunchfish should be financed at least into Q4'24. This again underscores the importance of securing fresh commercial deals in 2024 to avoid any further financial concerns.

Digital Cash protector the spearhead in 2024

After NPCI's launch of UPI Lite X in H2'23, that offers a version of offline payments similar to Crunchfish's solution, we now see Crunchfish's Digital Cash protector, that offers increased offline payment security for UPI Lite X and eRupee offline wallets, as the Company's primary avenue forward in India. In addition, Digital Cash offline still carries the potential for large scale rollout with banks and other payment system providers inside and outside India, as well as the Company's Digital Cash telecom offering. Now the best-case scenario for the coming year would involve a deal for a central integration for improved security in some national scheme, although it could also take the form of a license deal with individual banks or payment providers.

Clearer path forward

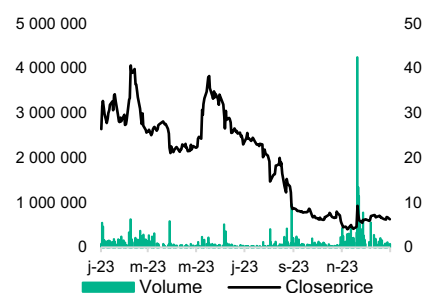
All in all, we now see a clearer path forward for Crunchfish in the new Indian landscape following last year's launch of UPI Lite X, where Crunchfish offers improved security for offline payments for UPI Lite X and eR offline wallets, which CEO estimates to represent an unchanged revenue potential. The investment case however remains somewhat binary, and we maintain our WACC of 25% to reflect this. All in all we continue to find support for a fair value of SEK 13-16 per share.

MSEK	2022	2023	2024E	2025E	2026E
Revenue	6	1	2	10	30
EBITDA	-18	-27	-42	-36	-16
EBIT	-24	-49	-64	-55	-34
EPS Adjusted	-0,73	-1,24	-1,61	-1,42	-0,90
Sales Growth, %	56%	-84%	102%	400%	200%
EBITDA Margin, %	-293%	-2687%	-2095%	-355%	-53%
EBIT Margin, %	-392%	-5000%	-3180%	-551%	-115%
EV/Sales	102,1	639,7	315,9	23,6	8,5
EV/EBITDA	-34,9	-23,8	-15,1	-6,6	-16,0
EV/EBIT	-26,1	-12,8	-9,9	-4,3	-7,4
P/E	-27,5	-5,6	-4,3	-3,3	-5,3

Source: Emergers

Crunchfish

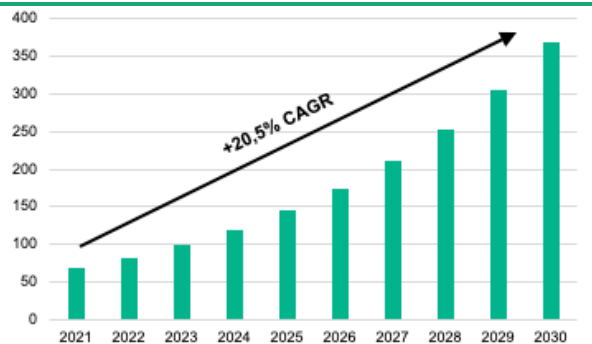
Fair Value, SEK	13 - 16
Current Price, SEK	4,74
Shares (M)	39,6
Market Capitalisation (MSEK)	188
Net Cash (MSEK)	-9,6
Enterprise Value (MSEK)	178
Market	First North



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

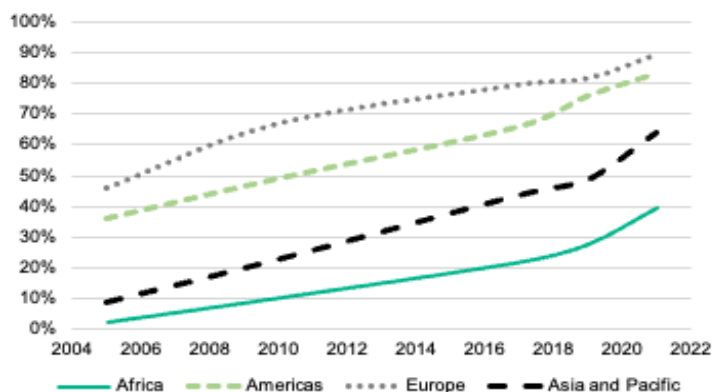
Offline digital payments

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.

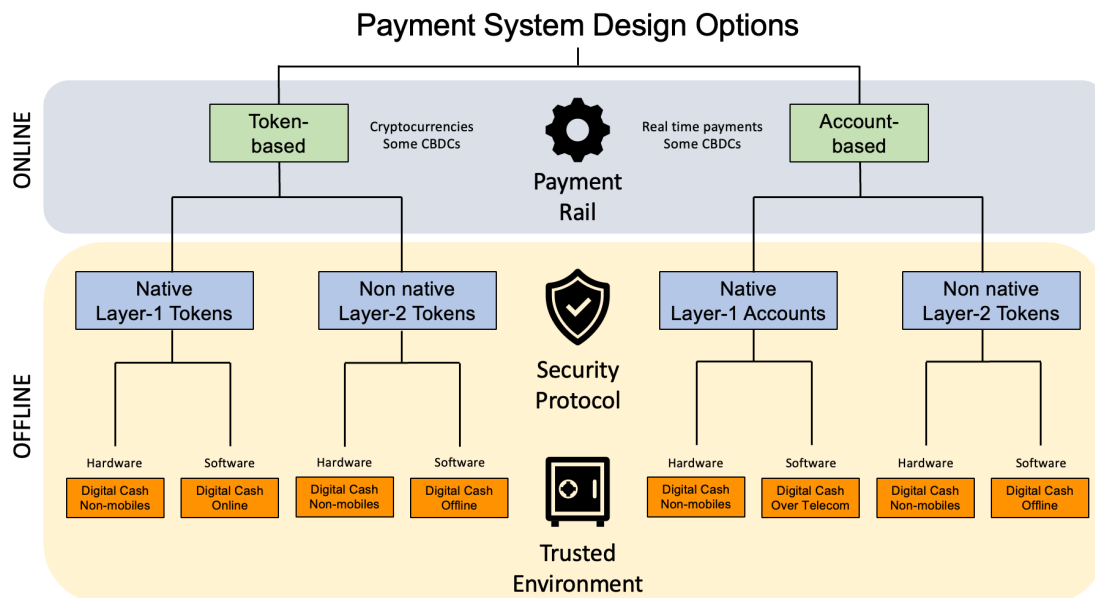
As internet connectivity varies a lot between regions, systems are prone to downtime, and internet connection has become a vital part of existing payment infrastructure, this adds up to a problem in urgent need of a solution. Despite the poor connectivity, India is the supreme leader in real-time payments, 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

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 29th of June 2023 Crunchfish signed their first commercial agreement for its Digital Cash Offline-solution with IDCF 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	2023	2024E	2025E	2026E
Sales	4,0	6,2	1,0	2,0	10,0	30,0
Operating Costs	-49,3	-39,8	-46,1	-45,5	-45,7	-45,8
EBITDA	-29,2	-18,1	-26,5	-41,9	-35,5	-15,8
Depreciation	-7,7	-6,1	-22,8	-21,7	-20,6	-19,6
Amortisation of Goodwill	0,0	0,0	0,0	0,0	1,0	1,0
EBIT	-36,9	-24,3	-49,4	-63,6	-55,1	-34,4
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	0,1	-0,3	-0,3	-0,3
Pre-tax Result	-38,5	-24,0	-49,3	-63,8	-55,4	-34,7
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
Net Result	-38,5	-24,0	-49,3	-63,8	-54,4	-33,7

Capital Expenditure

	2021	2022	2023	2024E	2025E	2026E
Capital Expenditure, Absolute	15,8	13,6	1,2	0,1	-0,5	-1,5
As a Pct of Sales	400%	220%	125%	5%	-5%	-5%
Depreciation Multiple	2,1	2,2	0,1	0,0	0,0	-0,1

Key Ratios

Share Price: SEK 4,74

	2021	2022	2023	2024E	2025E	2026E
Share Price at 31 Dec	25,00	20,00	7,00	7,00	4,74	4,74
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	187,9	187,9
Enterprise Value	740,9	631,9	248,2	289,5	236,2	253,7
EPS (Reported)	-1,24	-0,73	-1,24	-1,61	-1,42	-0,90
EPS (Adjusted)	-1,24	-0,73	-1,24	-1,61	-1,42	-0,90
CEPS	-1,24	-0,73	-1,24	-1,61	-1,42	-0,90
P/CEPS	n.a.	n.a.	n.a.	n.a.	-3,3	-5,3
Book Value/Share	1,8	1,8	1,3	-0,3	-1,7	-2,6
P/BV	13,8	11,2	5,3	-24,0	-2,8	-1,8
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	639,7	315,9	23,6	8,5
EV/EBITDA	-25,4	-34,9	-23,8	-15,1	-6,6	-16,0
EV/EBIT	-20,1	-26,1	-12,8	-9,9	-4,3	-7,4
P/E (Adjusted)	-20,1	-27,5	-5,6	-4,3	-3,3	-5,3
Sales Growth, Y/Y (%)	-63,6	56,4	-84,0	102,5	400,0	200,0
EBIT Growth, Y/Y (%)	46,2	-34,2	103,6	28,8	-13,3	-37,6
EPS Growth (Adjusted), Y/Y (%)	39,2	-41,5	71,0	29,5	-11,7	-36,7
EBITDA Margin (%)	-738,2	-292,8	-2687,2	-2094,5	-355,2	-52,8
EBIT Margin (%)	-931,8	-392,0	-5000,1	-3179,8	-551,4	-114,7
Return on Equity (%)	-84,8	-41,9	-88,8	-313,9	141,8	41,6
Tax Rate (%)	0,0	0,0	0,0	0,0	0,0	0,0

Financial Position

	2021	2022	2023	2024E	2025E	2026E
Interest-Bearing Net Debt	-32	-29	-29	12	48	66
Net Debt/Equity	-0,6	-0,5	-0,6	-1,0	-0,7	-0,6
Equity Ratio	0,9	0,9	0,8	1,6	1,4	2,3
Net Debt/EBITDA	1,1	1,6	1,1	-0,3	0,0	0,0

Source: Emergers, Company reports

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