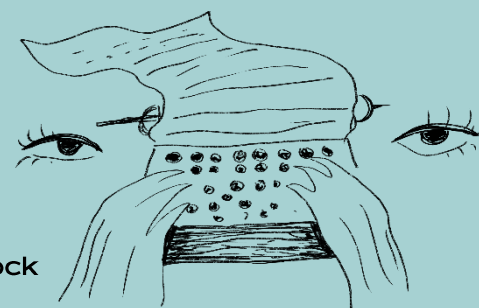


Imint Q3'22

Lowered estimates, yet still more positive towards the stock



2022-11-23

Imint's revenue came in below our expectations, with margins inline. Net revenue was more or less flat y/y (-3%). However, it was down q/q by around -11%, and even more so in USD. Third quarter in numbers:

- Net sales amounted to 16 MSEK (16.4 MSEK)
- Operating expenses amounted to 16.9 MSEK (13 MSEK)
- Earnings per share for the quarter amounted to 0.47 SEK (0.72 SEK) before dilution and 0.47 SEK (0.72 SEK) after dilution
- Cash flow after investment activities amounted to -3.5 MSEK (2.8 MSEK)

Some major happenings during and after the quarter were that Imint on September 29 announced that they expand their collaboration with Asus and gets the updated version of Vidhance integrated into Asus' new phone Zenfone 9. The model thus becomes one of the first phones to use Vidhance gen 4.

On October 5, Imint announced that they have entered a partnership with AicView Technology for promotion of the introduction of Vidhance in new markets in China, which includes both consumer products and solutions for professional users.

In connection with this quarterly report, Imint published financial goals for the first time, which applies during the period 2023 - 2025.

Key Stats

CEO	Andreas Lifvendahl
Ticker	IMINT
List	Spotlight
Stock Price	22.15 SEK
Market Cap	202.8 MSEK
Insider Ownership	7.94%

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Key Insights



Scalability

Imint already possess a great position in the market and has a product offering that will be able to be scaled into new verticals and markets with low marginal costs attached.



Management

Our perception is that Imint's management are great capital allocators and very rational. Historically, they have performed well as they have managed to become market leaders within the niche in just a few years while maintaining good cost control.



Valuation

Imint is traded at P/E 10 and EV/EBIT 9.8 today, which we believe is too low given the prospects and the company's compelling history. Moreover, the balance sheet is stronger than ever, which will allow Imint to enter new markets and initiate an M&A agenda.

“Our intention is to continue to operate Consumer with good profitability to give us the growth capital we need, and our goal is to long-term and sustainably reach an EBIT margin of over 30%.”

– CEO Andreas Lifvendahl

Investment case

- Scalable product offering with low marginal costs attached
- Strong management with history of great execution
- Market leader
- Strong underlying structural trends
- Valuation support
- Market capitalization that should start to arouse interest from institutional ownership
- Strong balance sheet

Net sales decreased by 3% in the quarter, which was below our estimate. The EBIT margin of 21.7% was more or less in line with our estimate. A globally weakened economy has left its mark on the smartphone market which still is the significantly most important one for Imint. According to IDC, the third quarter was the biggest decline ever for the smartphone market, with a total volume of around 300 million phones, compared to around 340 million in the same quarter last year.

In other words, smartphone volumes fell 12% y/y. This figure was -9% for the second quarter. If this trend continues, Q4 will be even tougher for Imint's financials. It is clear, both regarding the smartphone market and other markets, that the weakened global economy has made consumers delay purchases of durable goods - probably to be able to buy more essential products which can be categorized as need to have rather than nice to have.

Moreover, the smartphone industry especially had problems in the Chinese market, which of course affected Imint a lot considering how much exposure the company has to China. We believe this was the biggest contributing factor to the lower growth. The Chinese customers have had noticeable volume losses during the year, and the trend strengthened in the third quarter due to the pandemic related policies in the country.

Imint has shown similar quarterly drops two times before, in Q1'19 and Q2'20, but have then regained topline momentum in the following quarters. However, in the CEO's letter to shareholders, it was stated that Imint themselves predicts a few more tougher quarters. Therefore, we believe it is more reasonable that the bad trend will continue during the end of 2022 and the beginning of 2023.

Operational costs in the quarter increased by 30% y/y, mostly attributable to the increased employment rate. Personnel costs grew from 4.9 MSEK to 8.2 MSEK, which translates into an increase of 67% y/y. Adjusted for the increase of personnel costs, OPEX was stable as it increased by roughly 5% y/y. Imint has been transparent about that they will continue to increase the personnel costs to take advantage of the many growth opportunities that exist. Therefore, the increase for OPEX was expected.

Further, Imint continues to close deals and grow its already strong customer base. Imint estimates that around 800 million smartphones are now powered with Vidhance software, which is a statistic that makes Imint the global market leader in the niche. Moreover, the record high cash pile, which is now 81.2 MSEK, is an exciting option for making acquisitions. This is something that CEO Andreas Lifvendahl has been open about for several quarters, i.e., that Imint has plans to make acquisition for at least some of this cash.

We continue to look positively at Imint continuing to grow as a profitable company, even though capitalized development costs significantly affected the profitability this quarter. The capitalized development costs increased y/y and are expected to increase further due to more investments in their core technology.

All in all, Imint continues its profitable growth journey, and have now made a statement to the market that they aim to significantly increase their profitability during the coming years given their new financial guidance. The guidance tells us that Imint's intention is to continue to operate the Consumer segment with high profitability (+30% EBIT margin during 2023-2025), which in turn will provide the capital needed to support the growth of the Professional segment. Also, the goal of the Professional

segment is that it will constitute at least 50% of Imint's total revenue with an EBIT margin of at least 30% at the ending of 2025. We do not view these goals as impossible. However, we do believe that it will be a challenge for Imint to reach them.

The Consumer segment includes the smartphone revenues and has a royalty-driven business model with higher risk for price pressure and has faster product cycles. The Professional segment includes smart glasses with AR/VR functions for industrial use. We also consider other cameras that depend on the highest possible image quality, such as the security industry, as an interesting future market for this segment.

One interesting aspect of the new business area is that Imint can expand into new verticals and markets with the same platform and technology as they already use within the Consumer segment. This will strengthen the unit economics when entering new verticals and markets. We therefore view this shift as positive in more ways than one. Imint has already signed a few professional customers, like Rokid and RealWear. We believe it is possible to operate with a subscription-based model in the Professional segment, which would transform Imint to more of a B2B SaaS company in parallel to this segment becoming a larger part of total topline.

Moreover, we believe there are several short-term triggers. Not least in the upcoming M&A activity, which will also serve as an opportunity for Imint gaining more institutional investors on board. We also see potential triggers in additional major deals with leading smartphone manufacturers, launches of products in new business segments, deals with major customers like Samsung, a collaboration with Facebook or some other big player within social media, or that Imint gets acquired by a larger industry player.

The primary risks we see are that Imint's features become commoditized which in turn leads to margin compression, deals and revenues keep getting delayed due to component shortage and that China may close itself to foreign technological influence.

Valuation

We lower our estimates for both revenue and EBIT, but we remain more positive regarding the potential stock return since the stock price has declined with ~34% since our previous update.

We assume that Imint will keep gaining market share within the smartphone market, predominantly in Asia, and that they will keep being successful with new product launches. We do not take potential M&A into consideration in our forecasts. Also, we have not made any adjustments for capitalized development costs for the figures presented below.

	2021	2022E	2023E	2024E	2025E
Revenue MSEK	63,2	69	81	97	114
% y/y	77,9%	9,2%	17,4%	19,8%	17,5%
Gross Profit	56,3	61,0	70,0	84,0	96,0
*margin	89,1%	88,4%	86,4%	86,6%	84,2%
% y/y	76,0%	8,3%	14,8%	20,0%	14,3%
EBIT	16,1	14,5	18,5	23,0	27,5
*margin	25,5%	21,0%	22,8%	23,7%	24,1%
% y/y	245,0%	-9,9%	27,6%	24,3%	19,6%

Enterprise Value / x

	Sales	GP	EBIT
2021	1,9	2,2	7,6
2022E	1,8	2,0	8,4
2023E	1,5	1,7	6,6
2024E	1,3	1,4	5,3
2025E	1,1	1,3	4,4

Exit multiple

	Sales	EBIT	FCF
2025E	4	15	15
Weight	50%	50%	0%

Valuation

	Sales	EBIT	Total
2025E	228	206	434

Potential Return

	Factor	Percent	CAGR
2025E	2,14	114%	29%

Margin of safety 30%

	Factor	Percent	CAGR
	1,50	50%	14%

Disclaimer

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