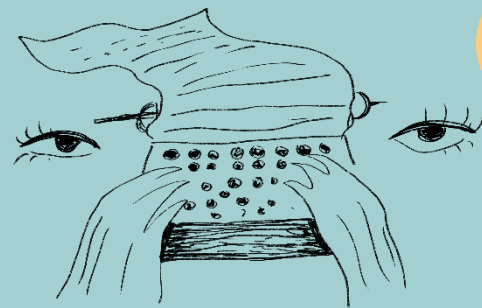




IMINT Image Intelligence

Q4'22



Imint reported a year-on-year decrease in revenue, EBIT, and profits, and the report fell short of our estimates. The quarter in numbers:

- Net sales amounted to 12,2 MSEK (17,0 MSEK)
- EBIT amounted to 0,9 MSEK (3,3 MSEK)
- Net profit amounted to -1,2 MSEK (5,7)
- Earnings per share amounted to -0,13 SEK (0,62)
- Cash flow for the period amounted to -2,7 MSEK (-1,8 MSEK)

Net sales decreased by 28,2 % to 12,2 MSEK (17,0) for the quarter but increased to 64,1 MSEK (63,2) for the full year. EBIT decreased to -0,9 MSEK (3,3) for the quarter, and to 8,6 MSEK (16,1) for the full year. The profit decreased to -1,2 MSEK (5,7) for the quarter, and to 13,8 MSEK (20,1) for the full year.

EBIT and profits are down 46,6 % and 31,3 % for the year, but on a more positive note, revenue is up 1,4 % for the full year of 2022.

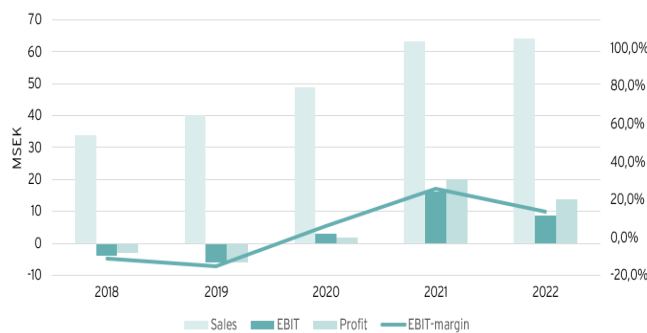
The reason for the weaker report is primarily a weaker global demand for smartphones, with volumes down almost 20 % compared to Q4'21 according to the CEO.

We have adjusted our estimates downward somewhat but maintain our long-term positive view of the company.

Key Stats

Stock Exchange	Spotlight
Ticker	IMINT
CEO	Andreas Lifvendahl
Share price (SEK)	16,36
Market cap (MSEK)	149,8
Number of owners	2 965
Insider ownership	7,1%

Financial performance



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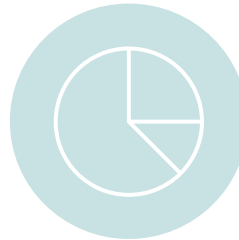


Key Insights



Strong management

The management has a track record of effectively executing their business strategy, successfully penetrating new markets, and achieving rapid sales growth while maintaining a strong balance sheet. Most of the senior leadership and board members own stocks or options.



Diversification

The company is diversifying its revenue base by launching a Professional B2B segment. With a goal of making the Professional segment account for 50% of sales by 2025, IMINT is positioning itself to be less sensitive to downturns in the smartphone market.



Low valuation

Imint is traded at P/E 10,8 and EV/EBIT 8,3 R12. Looking forward the company is trading at EV/EBIT 3,8 on our forecasts for 2025E, which we believe is too low given the company's prospects and strong financial performance. Moreover, the company has a strong balance sheet and is valued at 1,9 times its net cash position.

“During the fourth quarter of 2022, the work intensified to create a new business area, Professional, to meet both large and growing needs for improved video quality and customized video features for professional users.”

- CEO Andreas Lifvendahl

Investment case

- Scalable product offering
- Strong management
- The Professional segment offers opportunities for stable recurring revenues
- Market leader
- Strong underlying structural trends
- Low valuation
- Strong balance sheet with net cash position of 78 MSEK
- Possible acquisitions

The quarter in numbers

Imint specializes in developing and providing software-based video enhancement solutions for mobile devices, specifically smartphones. Their software improves the video quality and stabilization of smartphone cameras, making them capable of producing professional-grade footage. In addition to smartphones, Imint's technology can also be applied to other devices, such as body cameras.

Imint reported decreased net sales, EBIT and profits compared to Q4'22. EBIT and profits came in lower than in 2021, but the company managed to deliver a small growth in net sales for 2022. The table above shows our estimates compared to the actual outcome:

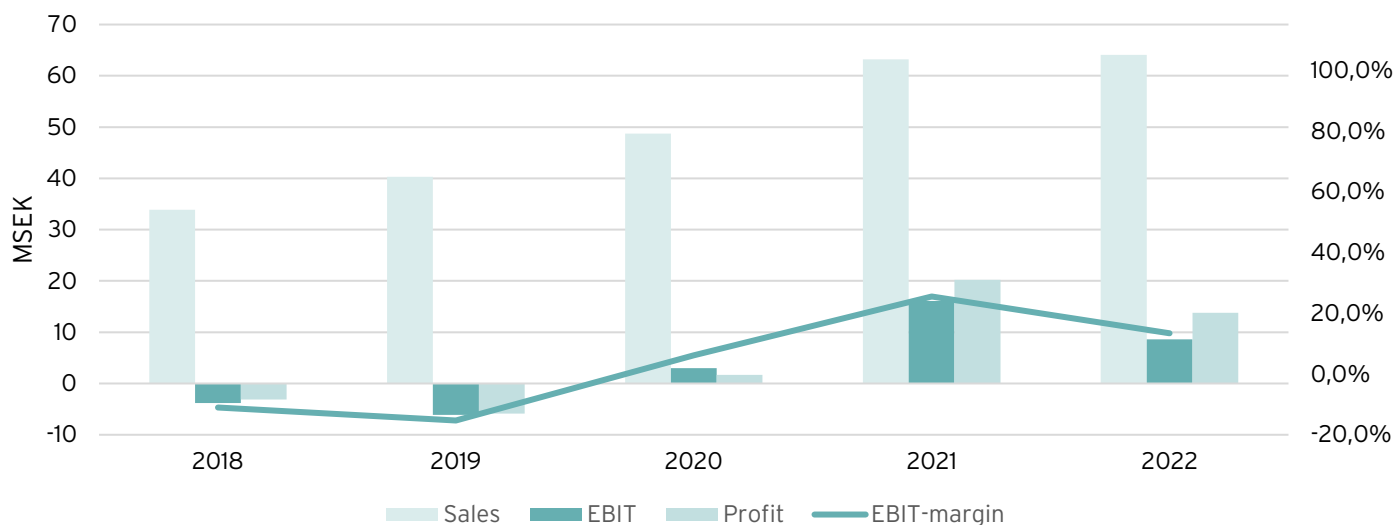
(MSEK)	2022E	2022	+/-
Net sales	69,0	64,1	-4,9
EBIT	14,5	8,6	-5,9

For the quarter, net sales decreased by 28.2% to 12.2 MSEK (17.0 MSEK), EBIT decreased to -0.9 MSEK (3.3 MSEK), and the profit decreased to -1.2 MSEK (5.7 MSEK).

(MSEK)	2021	2022	YOY
Net sales	63,2	64,1	1,4%
EBIT	16,1	8,6	-46,6%
Profit	20,1	13,8	-31,3%

For the full year, net sales increased 1,4 % to 64.1 MSEK (63.2 MSEK), EBIT decreased 46,6 % to 8.6 MSEK (16.1 MSEK), and the profit decreased 31,5 % to 13.8 MSEK (20,1). As a result of the lower sales volumes, EBIT-margins decreased to 13,4 % (25,5%) in 2022.

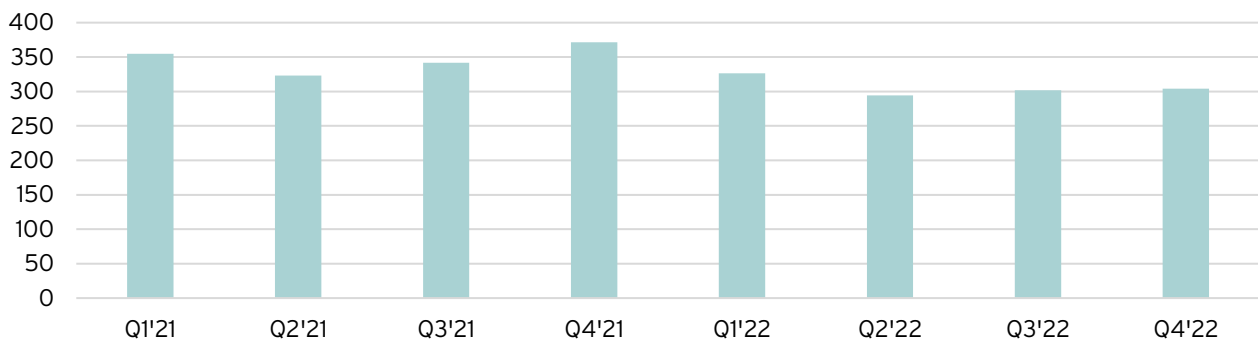
Financial performance



The primary reason for the weaker than expected earnings report is that the company's most important market, the smartphone market, had a tough fourth quarter in 2022 with volumes dropping around 18 % compared to the fourth quarter of 2021³. This the largest decline for a fourth quarter the company has ever seen¹.

Furthermore, the whole year of 2022 was the worst year for smartphone volume since 2013. The decline was even more significant for the company's most important customers, the large Chinese manufacturers. As a result, the company's revenues followed the development of its customers, with a steep decline for the quarter. Because of the slowing smartphone market, Imint's customers have become more cost aware.

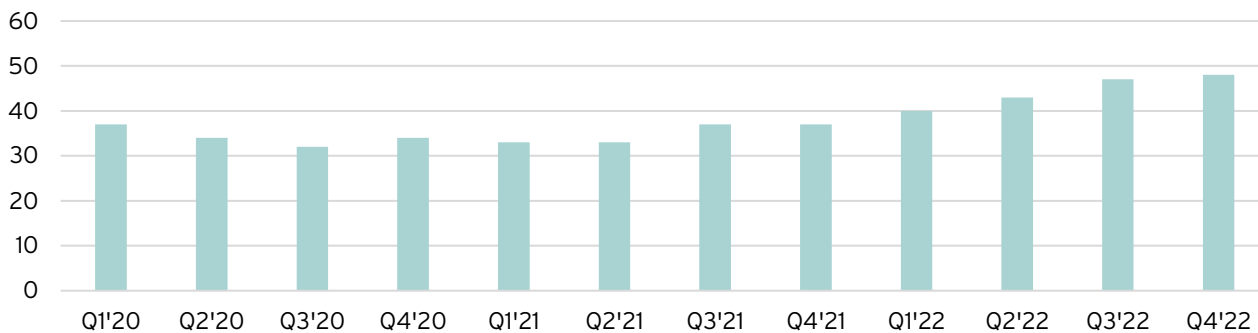
Global smartphone sales 2021/2022



A strong dollar exchange rate worked in the company's favor, and softened the decline in profits for the year, and is also primary reason for profits being higher than EBIT. On another positive note, the company still managed to grow sales while the smartphone market declined. Furthermore, the company reported a relatively strong free cash flow of 13,1 MSEK for the year, increasing their net cash position to 78 MSEK.

Imint currently has a total of 48 employees, including consultants. According to CEO Andreas Lifvendahl, this number is satisfactory for the time being and there are no plans for any significant recruitment drives. It is worth noting, however, that they recently hired a new Business Director for the Professional segment.

Number of employees (including consultants)



Significant events during the quarter

During the quarter, Imint announced a partnership with a leading night vision optics manufacturer, which could potentially open new market opportunities for the company. With this partnership, Imint can gain access to a new customer base comprising of users who require video stabilization technology in conjunction with night vision optics, such as military or law enforcement agencies.

Furthermore, a telecommunication company called Nothing revealed that it had chosen Imint's Vidhance Generation 4 for its Phone device, which CEO Andreas Lifvendahl believe can generate a significant revenue stream in the future.

Moreover, it was announced that Superhexa would integrate the company's software Vidhance into its next generation of Superhexa Vision AR Glasses.

On March 2nd, 2023, after the earnings report was released, Imint announced a new agreement with a Chinese smartphone manufacturer for the implementation of Vidhance Video Stabilization Gen 4 and additional video enhancement products, as well as support and maintenance, over a period of three years. However, due to confidentiality agreements, the customer's name and contract value cannot be disclosed at this time.

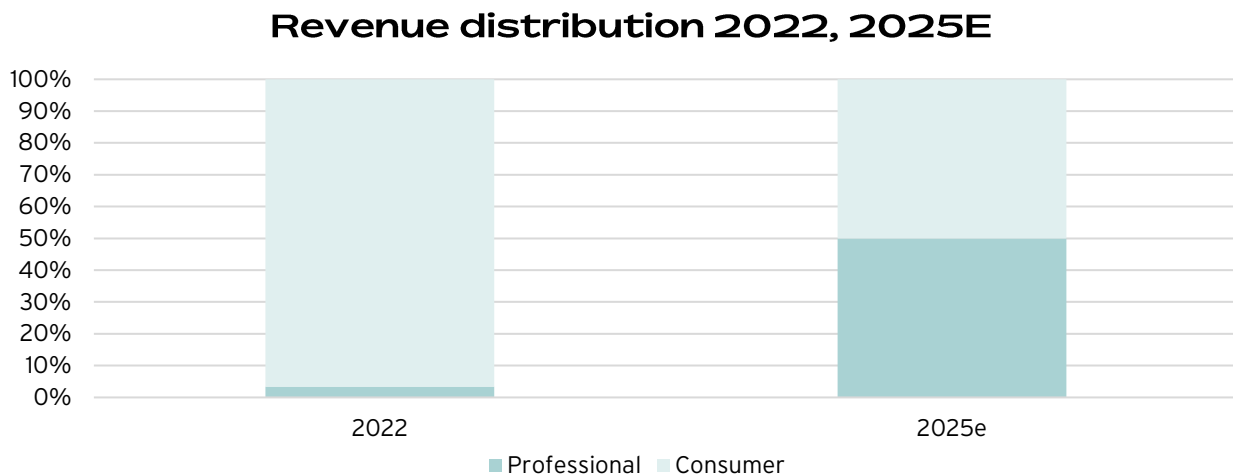
It is encouraging to see Imint announce new partnerships, which demonstrates that their product is in high demand. Moreover, their exploration of new verticals, such as night vision goggles and AR glasses, showcases the versatility of their software and its potential use in various devices. By exploring new verticals Imint can increase its market share and hopefully find more revenue generating collaborations.



2023 and onwards

Imint's operations are divided into two business areas: Consumer and Professional. In Q4'22, the Consumer segment generated 96.6% of the company's revenue, while the Professional segment accounted for 3.4%. In late 2022 the company announced new financial goals.

Financial goals	
Consumer: The Consumer segment should be cash generative and have a long-term, sustainable EBIT-margin of at least 30% during the years 2023-2025.	Professional: By the end of 2025, the Professional segment should represent 50% of the company's total revenue and have an EBIT-margin of at least 30%



The Professional segment consists of video stabilization software for remote assistance, body cams, smart glasses, security cameras and cameras for medical professionals⁷. We believe this is an opportunity for Imint since it opens up new fast-growing markets. For example, the market size for body cams was estimated to be around 545.9 million USD in 2021, and it is expected to reach 2074,0 MSEK by 2030⁵. As such, Imint's video enhancement technology may be well-positioned to meet the growing demand for body-worn camera footage in law enforcement, military, and other industries.

We believe that this strategy change is wise since it further diversifies the company's revenue base with new verticals. The Consumer segment, dominated by smartphones, has short product cycles where devices are frequently replaced. Moreover, the sales volumes of smartphones are vulnerable to economic downturns and the financial well-being of end consumers. Conversely, the Professional segment has the potential to generate recurring revenue for Imint through subscription-based models. The product life cycles for this segment are typically longer, and demand from professional customers is less volatile than that of consumers. This segment will primarily focus on the European and American markets, resulting in geographic diversification as well.

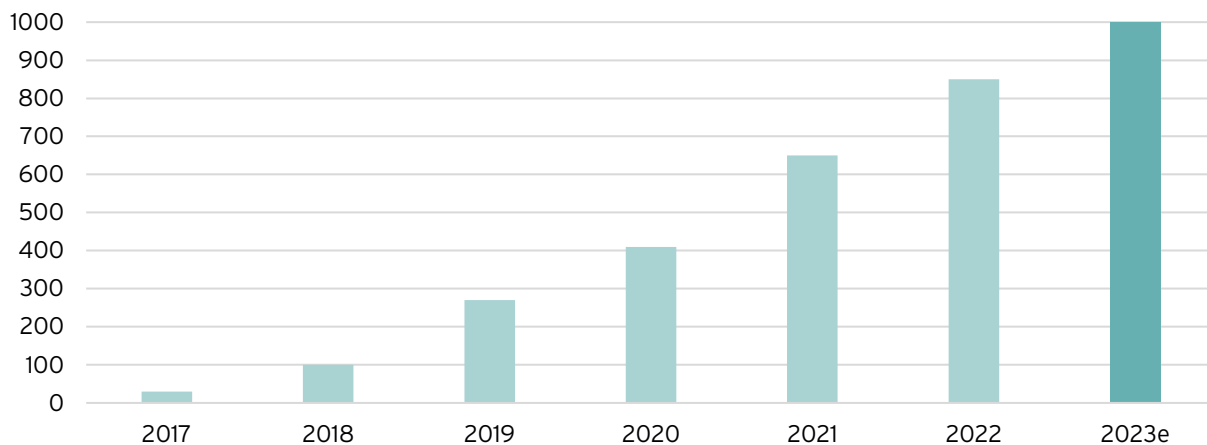
Having said that, the target for the Professional segment to account for 50 % of Imint's total revenue by 2025 is quite ambitious, given that it currently only represents 3,4% of the company's revenue. Achieving this goal would require a significant increase in revenue from the Professional segment in the upcoming years.

Imint's short-term success is largely dependent on the sales of smartphones, which in turn rely on the global consumer market. Currently, the consumer market is facing inflationary pressures, causing many consumers to reduce their spending on non-essential items. Therefore, until the Professional segment accounts for a larger proportion of Imint's total revenue, the company's success will be tied to the health of the global smartphone market. It is difficult to predict future inflation levels and the direction of the global economy. Our expectation is that 2023 will remain a challenging year for the smartphone market, but we anticipate gradual improvement from 2024 onward.

On the other hand, China has now reopened after Covid-19, and Imint is taking advantage of the situation through physical meetings with customers. Furthermore, many of Imint's customers operate in the less expensive segments of the phone market. This means that if people have less money to spend but still need to buy a phone, they may choose one of Imint's customers instead of a costly iPhone or Samsung. These effects might mitigate the slowing smartphone market somewhat.

Imint estimates that approximately 850 million phones equipped with Vidhance technology have been shipped worldwide, and at the current pace, the company is projected to achieve the milestone of one billion Vidhance phones by the end of 2023¹.

Number of smartphones using Vidhance



In our opinion, this is a sign of a high-quality product that is in demand among customers. Despite the short-term headwinds facing the smartphone market, we see strong long-term potential. According to market research, the global smartphone market is projected to reach a value of 792.51 billion USD by 2029, amounting to a CAGR of 7.3% during the period⁶.

IMINT has established itself as the market leader in its niche in the Consumer segment, with ArcSoft in China and Morpho in Japan being notable competitors. While competition can drive innovation, it can also threaten Imint's dominant position in the market. It is difficult to assess

how these companies differentiate their products and whether Imint's product has any advantages over its rivals. Vidhance currently holds the highest DXOMARK testing score⁸, which is a global market reference for image quality, so we believe it is possible that Imint has a superior product.

Additionally, there is always the risk of new players entering the market with similar products, which raises questions about how strong the barriers to entry are in the industry. Based on Imint's customer base, which includes prominent tech companies such as Xiaomi, and MediaTek, and the fact that these companies have not developed their own in-house solutions, it appears that Imint has a moat which could provide some protection against new competitors.

During our interview with CEO Andreas Lifvendahl, we asked about the company's plans for its cash position. Lifvendahl indicated that Imint is actively searching for potential acquisition targets. This is noteworthy, as the company has not previously engaged in M&A activity. Given Imint's ambitious goals for the Professional segment, we believe that any potential acquisition would likely be aimed at strengthening this area of the business.

While acquisitions can provide IMINT with opportunities to acquire new technologies and expand its customer base, they are also associated with risks. For instance, integrating an acquisition can be challenging. Since IMINT has no prior experience with acquisitions, we believe that this risk is elevated.

Financial position

As of the end of Q4'22, Imint had a cash position of 78 MSEK and no long-term or interest-bearing debt, resulting in a net cash position of 78 MSEK. This demonstrates that the company has a robust balance sheet and is not at risk of facing any liquidity problems in the short or long term.

The strong balance sheet means that Imint will be able to fund development of the Professional segment, ensuring they can achieve their financial goals, even in quarters where profits are not generated. Additionally, the company will be well-equipped to pursue potential M&A if they identify an attractive acquisition opportunity.

Overall, the company's solid financial position provides it with flexibility to pursue strategic opportunities and continue investing in growth areas, further enhancing its long-term prospects.

Valuation

R12

R12			
Sales	64,1	P/S	2,3
EBIT	8,6	EV/EBIT	8,3
Profit	13,8	P/E	10,8
FCF	13,1	P/FCF	11,4

R12

	P/S	EV/EBIT	P/E	P/FCF
Average 3 years	4,7	7,5	19,0	61,1
Average 5 years	4,6	neg	neg	neg
Average 7 years	20,2	neg	neg	neg

Estimates

Outstanding shares	9 157 563
Share price	16,36 SEK
Market cap	149,8 MSEK
Net cash	-78 MSEK
Enterprise value	72 MSEK

(MSEK)	2022	2023E	2024E	2025E
Net sales	64,1	65,0	71,0	82,0
% y-o-y	1,4%	1,4%	9,2%	15,5%
P/S	2,3	2,3	2,1	1,8
Other income	2,75	1,0	1,0	1,0
Capitalized work on own account	13,93	16,0	14,0	12,0
Total revenues	80,8	82,0	86,0	95,0
Other external costs	24,0	25,0	26,0	27,0
Staff costs	34,1	35,0	36,0	37,0
Depreciation	14,0	16,0	14,0	12,0
Operating costs	72,1	76,0	76,0	76,0
EBIT	8,6	6,0	10,0	19,0
EBIT-margin	13,4%	9,2%	14,1%	23,2%
% y-o-y	-46,6%	-30,5%	66,7%	90,0%
EV/EBIT	8,3	12,0	7,2	3,8

To value Imint, we estimate the company's income statement up until 2025 and then apply a reasonable multiple. Since Q4'22 came in slightly weaker than expected we have revised our estimates downward somewhat.

In this case, we have chosen to value the company at 13x EBIT, which we believe is more than reasonable considering Imint's strong historical growth, solid balance sheet, and scalable product offering with potential for recurring revenues. This figure is slightly lower than in the previous analyses, which can be attributed to the fact that stock market valuations have generally decreased, and multiples have come down.

Whenever possible, we prefer to value companies based on their profits rather than EBIT. However, in the case of Imint, we have still chosen to use EBIT because currency fluctuations can affect the company's profit and loss, making it difficult to estimate.

In our base case, we estimate that the smartphone market will continue to face headwinds in 2023, negatively impacting the Consumer segment. We anticipate that the Professional segment will grow fast, albeit from low levels, accounting for 5-10 % of total sales. Overall, we anticipate that net sales will remain relatively unchanged, while costs are expected to increase, leading to a lower EBIT. The primary contributor to the cost increase is the rise in depreciation, which we believe will rise as capitalized work on own account increases. Furthermore, we anticipate higher travel costs as China has opened up, allowing Imint to meet with more of its customers there. Finally, we anticipate that staff costs may moderately increase due to salary inflation.

In 2024, we expect that the smartphone market will regain momentum, accelerating growth for the Consumer segment. We expect that the Professional segment will continue to grow at a rapid pace, accounting for 10-20 % of total sales in 2024. We expect that EBIT margins will improve as sales accelerate, and costs remain stable.

We anticipate that this trend will continue in 2025, with the Professional segment accounting for 20-30 % of sales.

The company currently has an equity options program comprising 480 000 options, where each option represents one share. However, the strike price of these options is only 50,38 SEK, which is lower than our projected upside for the stock in 2025. As a result, we have not factored in the potential dilution that may arise from the exercise of these options on the total number of outstanding shares.

	Valuation			
	Multiple	EBIT 2025E	Market cap (MSEK)	Share price (SEK)
2026E	13	19,0	247	27,0
<i>Margin of safety (30%)</i>	13	13,3	172,9	18,9

Below, we can see the potential return for 2025E if the company's financials develop in line with our estimates and we apply a safety margin of 30%.

Potential return						
Base case 2025E				Margin of safety (30%)		
	Factor	Percent	CAGR	Factor	Percent	CAGR
2026E	1,6	64,9%	18,1%	1,2	15,4%	4,9%

Below is a sensitivity analysis where you can see how the potential return changes depending on the earnings multiple applied.

Sensitivity analysis						
Base case 2025E				Margin of safety (30%)		
EBITx	Market cap (MSEK)	Share price (SEK)	Change %	Market cap (MSEK)	Share price (SEK)	Change %
11	209,0	22,8	39,5%	146,3	16,0	-2,3%
12	228,0	24,9	52,2%	159,6	17,4	6,5%
13	247,0	27,0	64,9%	172,9	18,9	15,4%
14	266,0	29,0	77,5%	186,2	20,3	24,3%
15	285,0	31,1	90,2%	199,5	21,8	33,2%

In our base scenario, we see an upside of 64,9 % with a CAGR of 18,1 % for 2025E. If we apply a margin of safety of 30 %, we get an upside of 15,4% with a CAGR of 4,9 %.

Risks

- Severe economic downturn affects the smartphone market negatively
- The investment in the professional segment is not successful
- Increased competition

References

1. [IMINT Bokslutskommuniké: Q4 2022](#)
2. [Pressmeddelande. IMINT Tecknar avtal med ny kinesisk smartphone-uppstickare](#)
3. [Global Smartphone Market Share: Q4 2020 to Q4 2022](#)
4. [IMINT: Interview with CEO Andreas Lifvendahl on Q4'22 - YouTube](#)
5. [Body-Worn Camera Market Size](#)
6. [Smartphone Market Size, Share](#)
7. [Professional Solutions & Applications - Discover Vidhance](#)
8. [Smartphone - Implement Vidhance Video Stabilization](#)

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