



2023-05-22

IMINT reported a year-on-year decrease in revenue, EBIT, and profits, and the report fell short of our estimates. Net sales decreased by 34,3 % to 11,7 MSEK (17,8) for the quarter while EBIT decreased to -4,3 MSEK (4,3) for the quarter. The profit after tax decreased to -4,0 MSEK (5,0) for the quarter.

Global smartphone sales continue to face headwinds

Sales declined for the quarter, as IMINT's important Consumer segment is affected negatively by the downturn in the global smartphone market. Smartphone volumes declined 14 % y-o-y and 10 % q-o-q, and this is the fifth consecutive quarter of decline. Soft macroeconomic conditions, weak consumer demand, inflation, destocking, and cautious production techniques, collectively contributed to the underwhelming performance of the smartphone market in the first quarter of 2023.

Significant investments in the Professional segment

IMINT's ongoing investment in its new Professional segment is impacting profitability due to increased OPEX. Both salary costs and other external costs have increased more than we expected, with the Professional segment accounting for 42% of the total costs, while only representing a fraction of the total net sales. Despite these challenges, we see potential for the Professional segment as it enables the opportunity to generate recurring revenue and would decrease IMINT's dependence of the volatile smartphone market. However, it is likely that the investment will incur higher costs and take longer to materialize than we initially anticipated.

Attractive long-term potential

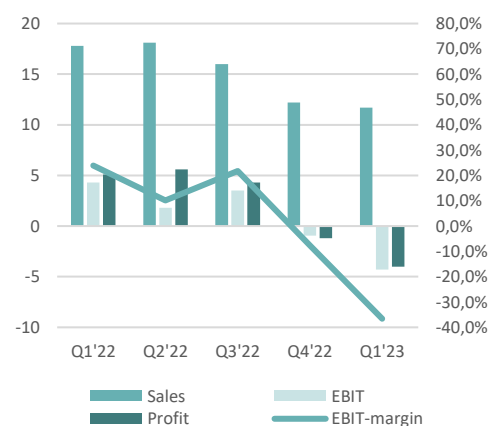
We have lowered our estimates going forward, anticipating lower net sales and higher costs resulting in lower profitability. If management can execute on building the Professional segment and given that the stock price has come down significantly, we see a potential upside of 63,5 % with a CAGR of 17,8 % for 2025E. If we apply a margin of safety of 30 %, we see a potential upside of 14,5 % with a CAGR of 4,6 %.

(MSEK)	2021	2022	2023E	2024E	2025E
Net sales	63,2	64,1	53,0	67,0	79,0
% y-o-y	29,8%	1,4%	-17,3%	26,4%	17,9%
P/S	1,6	1,6	1,9	1,5	1,3
Other income	0,9	2,8	1,0	1,0	1,0
Capitalized work on own account	11,9	13,9	19,0	16,0	14,0
Total revenues	76,0	80,8	73,0	84,0	94,0
Other external costs	19,6	24,0	31,2	30,0	26,0
Staff costs	25,7	34,1	38,0	39,0	41,0
Depreciation	14,5	14,0	14,5	14,5	14,5
Operating costs	59,8	72,1	83,7	83,5	81,5
EBIT	16,2	8,6	-10,7	0,5	12,5
EBIT-margin	25,6%	13,4%	-20,2%	0,7%	15,8%
EV/EBIT	1,7	3,2	-2,6	55,9	2,2

Facts

CEO	Andreas Lifvendahl
Stock exchange	Spotlight
Ticker	IMINT
Share price (SEK)	10,85
NOSH (M)	9,16
Market cap (MSEK)	99,4
Net cash (MSEK)	71,4
EV (MSEK)	28,0
Insider ownership	7,2%
Next report	2023-08-18

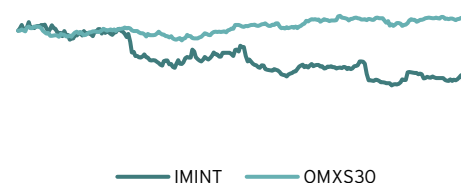
Quarterly performance



Analyst

Jakob Fritz
jakob.fritz@kalqyl.se

Stock price 12 months



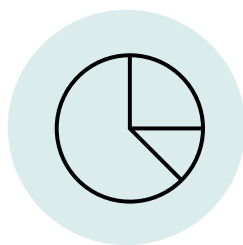
Performance %	1 m	3 m	12m
IMINT	-37,1	-49,1	-65,8

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 EV/EBIT 2,2 on our forecasts for 2025E. Even though the cash position will likely decrease and EV increase in the coming quarters, we believe this is too low given the company's prospects and strong historical financial performance. Moreover, the company has a strong balance sheet and is valued close to its net cash position.

"2023 will be a challenging year in many ways, but it also provides us with increased energy to continue the transformation that the company has now initiated."

- CEO Andreas Lifvendahl

Investment case

- Scalable business model
- Strong management
- Potential for stable recurring revenues
- Market leader
- Strong underlying structural trends
- Low valuation
- Strong balance sheet with net cash position

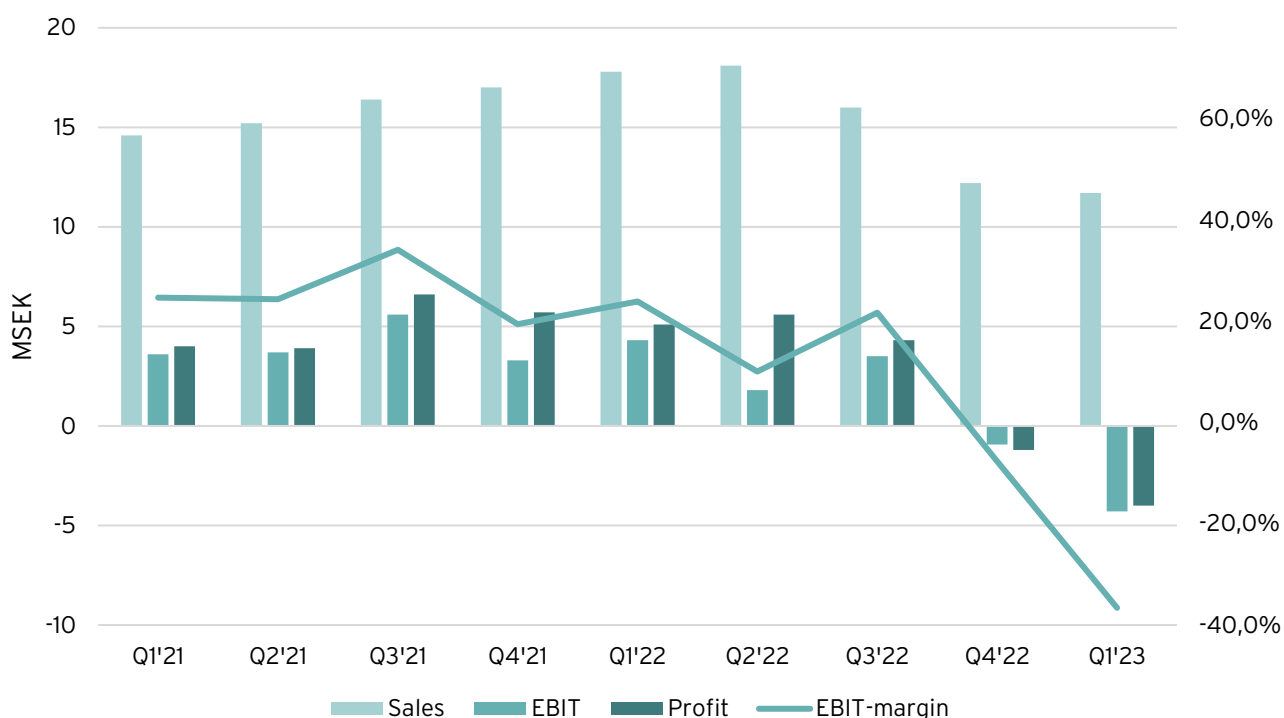
The quarter in numbers

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.

(MSEK)	Q1'23	Q1'22	+/-
Net sales	11,7	17,8	-6,1
EBIT	-4,3	4,3	-8,6
Profit	-4,0	5,1	-9,0

The report was weaker than we had anticipated, with net sales, EBIT and profit decreasing y-o-y and q-o-q. Lower net sales combined with higher OPEX had a negative effect on the company's profitability.

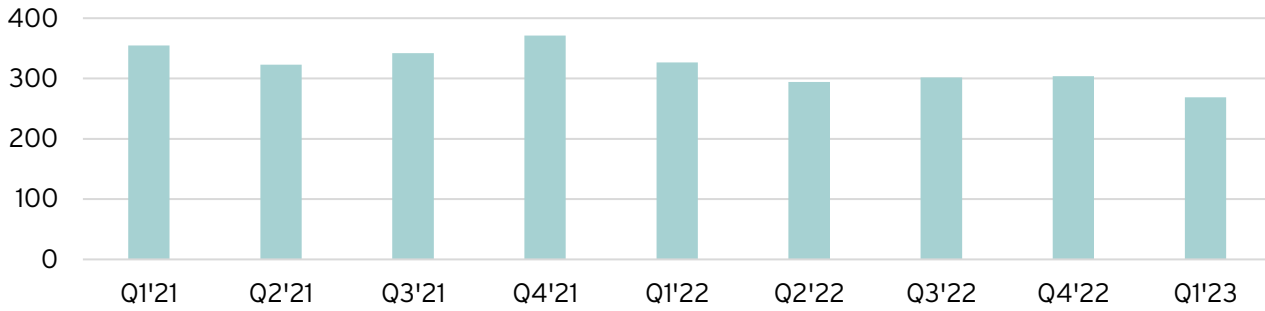
Financial performance



Sales

Sales came in soft for two main reasons. First, Q1 tends to be a somewhat slower quarter for the company, which means sales are affected negatively by seasonal variations. More importantly, the global smartphone market continued to face headwinds, and volumes declined 14 % y-o-y and 10 % q-o-q² (exact figures vary slightly among different sources).

Global smartphone sales



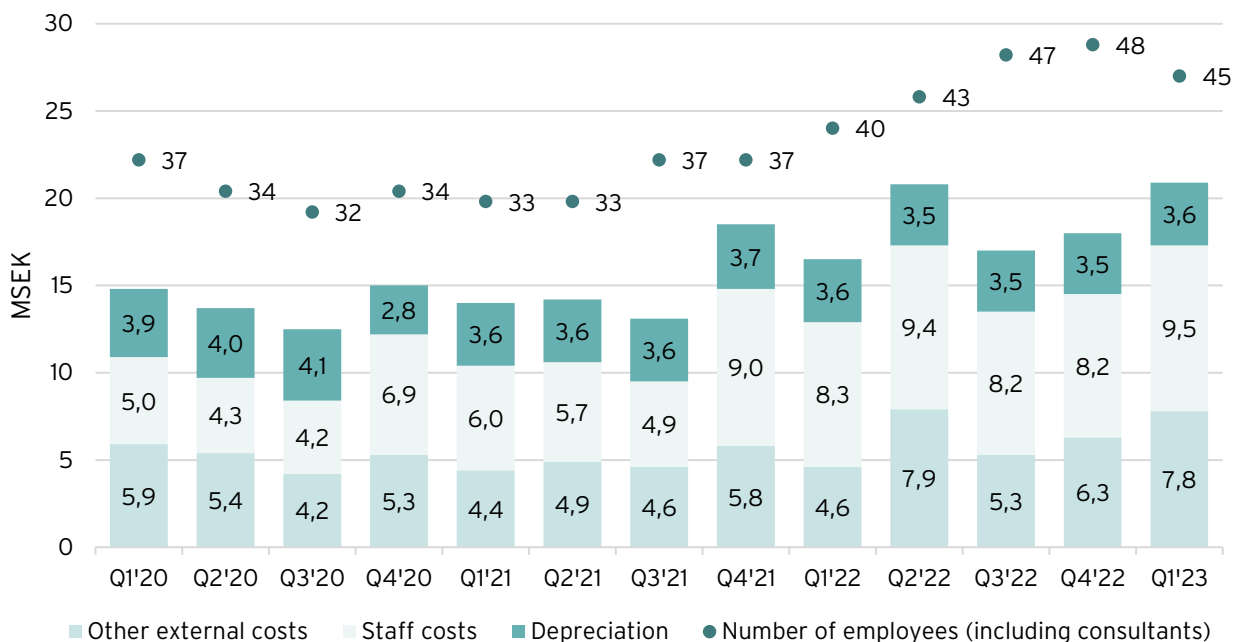
This is the fifth consecutive quarter of decline, and the global smartphone market continues to show weakness. Soft macroeconomic conditions, weak consumer demand, inflation, destocking, and cautious production techniques, collectively contributed to the underwhelming performance of the smartphone market in the first quarter of 2023². Consequently, some of IMINT’s customers have implemented cost-saving initiatives to mitigate the negative effects, which impacted sales negatively.

We expect this trend to continue as long as the consumer faces inflationary pressure. Our best guess is that the smartphone market will remain soft throughout 2023, and hopefully start growing again in 2024.

Costs

At the same time as sales decreased, OPEX increased both y-o-y and q-o-q resulting in lower profitability and a negative EBIT and profit. OPEX consist of depreciation, staff costs and other external costs, which includes expenses for consultants, travel and more. Costs increased because of investments in the Professional segment, and Lifvendahl stated that the company is reviewing its expenses to counteract this.

OPEX and number of employees



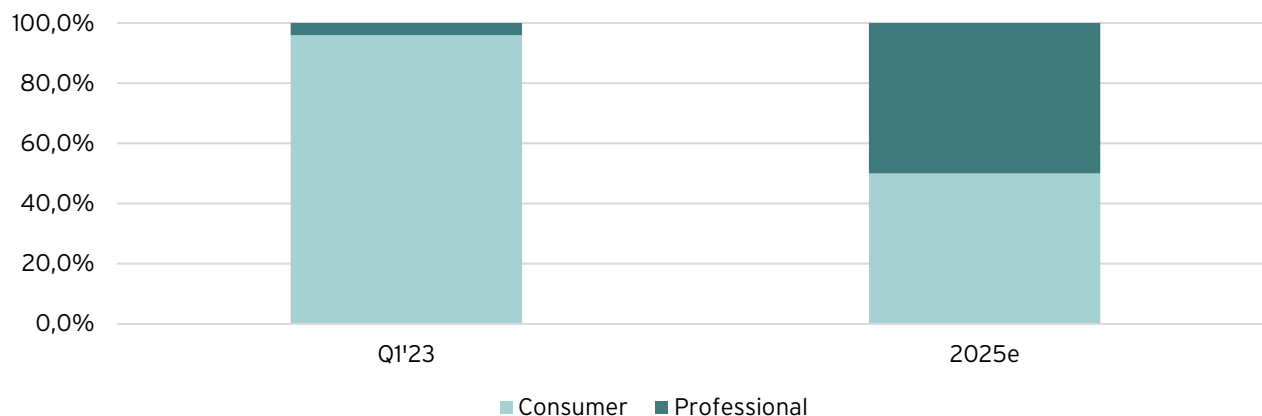
The Professional segment

The Professional segment includes video stabilization software for a range of purposes, including remote assistance, body cams, smart glasses, security cameras, and cameras tailored for medical professionals. Imint views this as a promising opportunity that unlocks access to rapidly expanding markets driven by structural trends such as 5G and IoT.

In the report for Q1'23, the company highlights the promising potential of "remote support," where experts can remotely provide guidance, support, or troubleshooting using IMINT's video stabilization software. This vertical will be prioritized going forward, and IMINT has increased capacity in sales and product development.

Additionally, the report mentions the use of body cameras in various professions, such as for first responders. We believe IMINT will work more on this vertical as remote support starts gaining momentum.

Revenue distribution between segments



The Professional segment saw a quarter-on-quarter revenue growth of 13.8%, reaching 471 KSEK (414). This growth was lower than our expectations considering the relatively low starting point. We would like to see stronger growth for the segment in 2023, as it would indicate that the new strategy is working. This is also required if the company is to reach its goal of the Professional segment making up 50 % of revenues by 2025.

Going forward

We remain confident that this strategic shift is the correct decision for long-term success. It will diversify IMINT's revenue streams by introducing new verticals and capitalizing on the Professional segment's potential to generate recurring revenue through subscription-based models. With longer product life cycles and less volatile demand from professional customers compared to consumer markets, the Professional segment will enhance the company's resilience to the volatility of the smartphone market.

IMINT is making substantial investments in the Professional segment with minimal immediate returns, at the same time as the Consumer segment is slowing down. There is a risk that the initiative for the Professional segment may take a longer time to yield success or even fails, which would be very critical for the company and the stock price. Furthermore, CEO Andreas Lifvendahl is relatively cautious, and sees some additional quarters with lower sales going forward. Because of this, we believe that the risk going forward has increased somewhat.

On the other hand, the company has a large net cash position and can withstand several quarters of negative free cash flows until the investment starts paying off. Furthermore, IMINT's management has a great track record, and CEO Andreas Lifvendahl and the rest of the employees has made a small Swedish company the leading provider of video stabilization software for smartphones globally. We do believe that the bet on the Professional segment will pay off eventually, and that the company will return to generating strong cash flows with high margins, while at the same time being more resilient to future economic downturns.

In our previous research update, we highlighted the strong cash position of the company and the potential for engaging in acquisitions. During that time, Lifvendahl, expressed that the company is actively searching for suitable acquisition targets. Our initial belief was that any potential acquisitions would likely be directed towards strengthening the Professional segment of the company.

However, considering the current circumstances and the anticipation of facing a few more challenging quarters ahead, we have reassessed the likelihood of an acquisition in the near term. The company is likely to require a period of funding its operations with available cash reserves, particularly as it focuses on the development and expansion of the Professional segment.

In this situation, we believe it would be unwise to allocate significant financial resources towards an acquisition and potentially be forced to raise additional capital. Instead, we believe it is more prudent for the company to channel its resources into building the Professional segment, which holds long-term growth potential. If an acquisition were to occur in the near future, we believe it would likely be of a smaller scale.

Financial position

As of the end of Q1'23, Imint had a cash position of 71,4 MSEK and no long-term or interest-bearing debt, resulting in a net cash position of 71,4 MSEK. This is down from 78 MSEK in Q4'22 and if we assume the same burn-rate as this quarter, the company will be able to finance its operation for another ten quarters. Our view is therefore that the company has a robust balance sheet and that it is not at risk of facing any liquidity problems short or long term.

The strong balance sheet means that IMINT will be able to fund the development of the Professional segment, ensuring they can achieve their financial goals, even in quarters where profits are not generated. 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. That being said, we will closely monitor the cash position to ensure it is not depleting rapidly.

Valuation

Key stats

Outstanding shares	9 157 563	Market cap (MSEK)	99,4
Share price	10,85	Net cash (MSEK)	71,4
		Enterprise value (MSEK)	28,0

R12

Net sales	57,9 (MSEK)	P/S	1,8
EBIT	0,04 (MSEK)	EV/EBIT	760
Profit	4,7 (MSEK)	P/E	22,3
FCF	2,7 (MSEK)	P/FCF	38,2

Source: Börndata

Historical average

	P/S	EV/EBIT	P/E	P/FCF
Average 3 years	4,5	7,1	19,4	59,4
Average 5 years	4,5	neg	neg	neg

Source: Börndata

Key performance indicators (R12)

Gross margin	EBITDA margin	EBIT margin	Profit margin
85,2%	24,3%	0,08%	8,1%
FCF margin	ROA	ROE	ROIC
4,7%	4,1%	4,9%	19,6

Source: Börndata

Estimates

<i>(MSEK)</i>	2021	2022	2023E	2024E	2025E
Net sales	63,2	64,1	53,0	67,0	79,0
<i>% y-o-y</i>	<i>29,8%</i>	<i>1,4%</i>	<i>-17,3%</i>	<i>26,4%</i>	<i>17,9%</i>
<i>P/S</i>	<i>1,6</i>	<i>1,6</i>	<i>1,9</i>	<i>1,5</i>	<i>1,3</i>
Other income	0,9	2,8	1,0	1,0	1,0
Capitalized work on own account	11,9	13,9	19,0	16,0	14,0
Total revenues	76,0	80,8	73,0	84,0	94,0
Other external costs	19,6	24,0	31,2	30,0	26,0
Staff costs	25,7	34,1	38,0	39,0	41,0
Depreciation	14,5	14,0	14,5	14,5	14,5
Operating costs	59,8	72,1	83,7	83,5	81,5
<i>% y-o-y</i>	<i>4,8%</i>	<i>20,6%</i>	<i>16,0%</i>	<i>-0,2%</i>	<i>-2,4%</i>
EBIT	16,2	8,6	-10,7	0,5	12,5
EBIT-margin	25,6%	13,4%	-20,2%	0,7%	15,8%
<i>% y-o-y</i>	<i>457,3%</i>	<i>-47,6%</i>	<i>-250,7%</i>	<i>-103,7%</i>	<i>2020,3%</i>
<i>EV/EBIT</i>	<i>1,7</i>	<i>3,2</i>	<i>-2,6</i>	<i>55,9</i>	<i>2,2</i>

To value IMINT, we have projected the company's income statement until 2025 and applied a multiple we find reasonable. Because Q1'23 came in weaker than expected, we have adjusted our estimates to reflect this.

We have adjusted our projections for future net sales downwards, primarily due to the continued softness of the smartphone market and slower-than-anticipated growth in the Professional segment. Additionally, we have revised our cost estimates upwards, specifically anticipating a steep increase in staff costs for 2023, although we do not foresee significant growth beyond that. As the Professional segment matures, we expect other external costs, in the form of for example consultant fees, to start coming down. Given the lower sales and higher costs, we anticipate a negative EBIT for 2023.

In 2024, we expect the smartphone market to start growing again, leading to growth in the Consumer segment, and we expect that the Professional segment will start to grow as well. We believe margins will improve and that IMINT will deliver a positive EBIT again by 2024.

Moving in to 2025, we expect sales to continue to grow, driven both by the Consumer and Professional segments. We expect costs to fall slightly from today's levels, leading to improved margins.

We have opted to use a multiple of 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.

Ideally, we prefer to value companies based on their profits rather than EBIT. In the case of IMINT we have chosen to use EBIT due to the potential impact of currency fluctuations on the company's profit

and loss, making it challenging to estimate accurately. In 2022 for example, IMINT delivered a stronger profit than EBIT because of this.

It is worth noting that the company currently has an equity options program consisting of 480,000 options, with each option representing one share. However, the strike price of these options is lower than our projected upside for the stock in 2025 (50.38 SEK). Therefore, 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)
2025E	13	12,5	162,5	17,7
<i>Margin of safety (30%)</i>	<i>13</i>	<i>8,8</i>	<i>113,8</i>	<i>12,4</i>

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
2025E	1,6	63,5%	17,8%	1,1	14,5%	4,6%

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%)			
xEBIT	Market cap (MSEK)	Share price (SEK)	Change %	Market cap (MSEK)	Share price (SEK)	Change %	
11	137,5	15,0	38,4%	96,3	10,5	-3,1%	
12	150,0	16,4	51,0%	105,0	11,5	5,7%	
13	162,5	17,7	63,5%	113,8	12,4	14,5%	
14	175,0	19,1	76,1%	122,5	13,4	23,3%	
15	187,5	20,5	88,7%	131,3	14,3	32,1%	

In our base scenario, we see a potential upside of 63,5 % with a CAGR of 17,8 % for 2025E. If we apply a margin of safety of 30 %, we get a potential upside of 14,5 % with a CAGR of 4,6 %.

References

1. [IMINT: Delårsrapport Q1'23](#)
2. [Canalys Newsroom - Global smartphone market shows signs of stability with a 13% decline in Q1 2023](#)

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Conflict of interest

Jakob Fritz owns shares in the analyzed company



The analysis is commissioned

