

Update: Report Q2 2020

2020-08-24

Crunchfish: Partnership with potential

- We see promise in the new partnership with V-Key
- Customer talks in India continue despite COVID-19
- We keep our valuation interval at SEK 25.30 – 40.10 per share

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Stock ticker:	CFISH
Industry:	Technology
Listed on:	Nasdaq First North
Latest stock price (SEK):	13,22
Market cap (MSEK):	385,8
Enterprise Value (MSEK):	362,3
Total number of shares (M):	28,35
- of which free float (M):	16,02

VHCF fair value per share

DCF model 25,30 - 40,10 SEK

Crunchfish AB

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211 19 Malmö

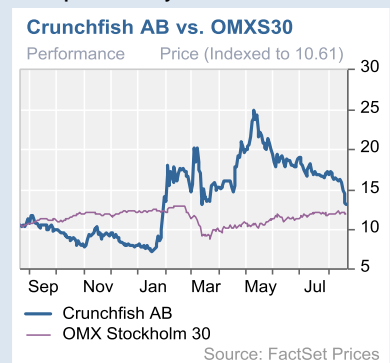
Webpage: crunchfish.com
CEO: Joachim Samuelsson

Main owners (30 Jun 2020)

Capital (%)

Femari Invest AB	26,3
Midroc Invest AB	17,3
Paul Cronholm	3,9
Carlquist Holding AB	3,5
Coeli Fonder	3,3

Stock price history



	-1m	-3m	-12m
Change (%)	-21,7	-36,6	24,6
52 w k range (Low /Hi) - SEK		6,99 / 26,86	

Source: FactSet

Crunchfish reported financial results for Q2 last week and the figures came out bang in line with our expectations. We were at any rate more interested in any news regarding the progress in mobile payments, especially in India. In short, the process is moving forward despite India suffering first a complete lockdown and later an alarming acceleration of the COVID-19 virus. We regard the news that Crunchfish is partnering with V-Key as a potential catalyst for bringing on board payment service providers with the offline payment solution.

V-Key is a Singaporean software company focused on digital security. It is an expert in user authentication and authorization, a vital requirement for any payment service. The crucial part of its offering from Crunchfish' perspective is its invention of the world's first *virtual secure element*, a piece of software called V-OS that can run inside an app on a mobile device and store encrypted information about the user, their accounts and their transactions, in a way that cannot be hacked. By integrating a virtual secure element in a payment app, bank grade authentication becomes possible even between two devices that are both offline. This is a prerequisite for making offline payments work (see Figure 1 next page).

Before partnering with V-Key, Crunchfish could offer software solutions for offline payments but would leave it to the payment service providers themselves to solve the issue of user authentication and encryption. By partnering with V-Key, Crunchfish can now provide a package deal which solves both issues compatibly, which shortens the runway significantly for payment providers who want to get going with offline mobile payments. We have so far not done any adjustment for this in our valuation model of Crunchfish, but all things equal it increases the probability of Crunchfish striking deals with mobile payment providers in India.

Table 1: Financial Overview

MSEK	2 018	2 019	2020e	2021e	2022e
Total revenues	13,8	21,1	23,9	87,8	172,7
Growth (%)	7,6%	52,7%	13,4%	266,9%	96,7%
EBITDA	(17,3)	(17,1)	(20,5)	36,0	121,7
EBITDA margin (%)	neg	neg	neg	36,5%	63,9%
EBT	(22,0)	(24,0)	(28,1)	28,1	113,7
Cash holdings	21,4	13,2	4,7	28,2	145,2
Total assets	46,6	42,9	40,5	68,5	190,1
Total equity	40,3	36,3	32,1	60,2	181,5
Solidity (%)	86,3%	84,5%	79,2%	87,8%	95,5%
P/E	neg	neg	neg	13,7	3,4
ROE	neg	neg	neg	46,7%	62,6%
EV/EBIT (x)	neg	neg	neg	12,9	3,2
EV/Sales (x)	26,2	17,2	15,1	4,1	2,1

Source: Västra Hamnen Corporate Finance

Interesting cross-selling agreement

Another point to note about the V-key deal is that it includes a co-selling agreement into each party's existing markets. Crunchfish will help V-Key find business in India and, more interestingly from our perspective, V-Key will help Crunchfish find business where V-Key already has a customer base. This includes populous countries in South East Asia such as the Philippines, Thailand and Indonesia. Again, we have not yet weighed these potential markets into our valuation of the company, but it remains an opportunity on the horizon.

Proxilink solves one-sided connectivity

Otherwise in India, Crunchfish reports that talks are ongoing with all major payment providers, especially centred on the solution named Proxilink. This is a solution which enables real-time mobile payments when one transaction party is online and the other offline. It is commonplace in India that mobile payments fail because one of the parties, typically the customer, loses connectivity at the point of payment. With Proxilink, it suffices if one of the parties is online. The offline party will communicate via a VPN tunnel through the online party's internet connection, thereby being *Online by proxy* (Figure 2). The COVID-19 pandemic is however slowing progress in this area. Crunchfish is able to continue discussions with service providers, but the service providers themselves are moving slowly since they are restricted from meeting and discussing with their retail partners.

Figure 1: Mobile Payments, Offline

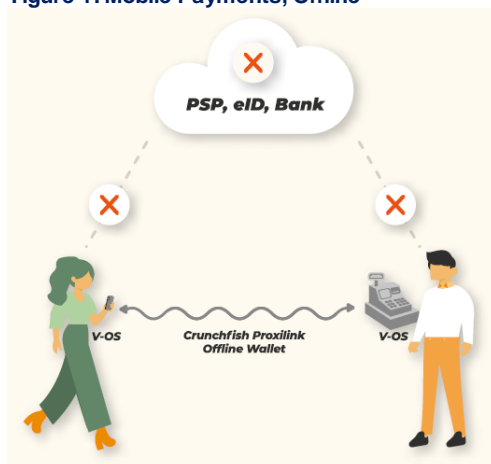


Illustration: Crunchfish

Figure 2: Mobile Payments, Online by Proxy

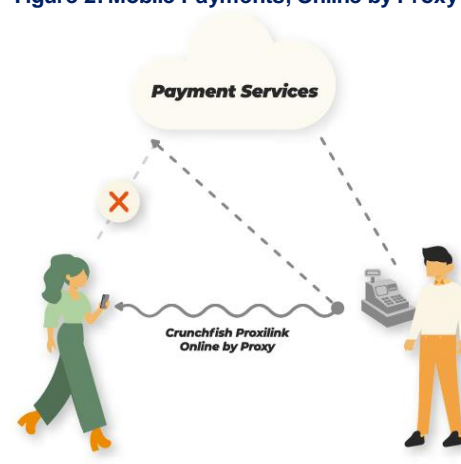


Illustration: Crunchfish

Advanced talks with NPCI

Another interesting point in the Q2 report, and further detailed in the video interview released the same morning (<https://www.youtube.com/watch?v=wHLxQbQDJXY>), is the discussions Crunchfish is having with NPCI, the organization that oversees the Indian payments system. NPCI is responsible for UPI, the mobile payments infrastructure encompassing around 150 banks and 120 different payment apps. Crunchfish says these discussions have already solved how both Offline payments and Online by proxy can work on UPI even if a customer and a merchant use different apps, i.e. different payment providers.

Universal implementation via UPI?

Crunchfish and NPCI are even discussing whether to build Crunchfish' software into the mandatory software SDK that NPCI provides to all of its participating payment services. If this integration were to happen, every mobile payment app in India would have the software required to activate Online by proxy payments. Activating it would simply require an agreement with Crunchfish. The technical challenges are said to be solved, at this point NPCI have asked Crunchfish to provide more market data and documentation to back up the justification for making the integration.

In Sweden, the most exciting recent development is the partner deal with Extenda Retail about implementing Blippit for Swish payments to their line of POS terminals called RS POS. Extenda Retail is the leading supplier of POS terminals in the Nordic, covering mostly grocery stores and other retail outlets. The integration has already started and is expected to finish around the end of August.

"Deeply intuitive gestures"

For the Gesture business, the company sums up the quarter as being mostly inwardly focussed. Instead of chasing new pilot agreements, the organisation has prioritised the development of a "skeleton" model of the hand. The model tracks the movements of 22 points of the hand and fingers, which allows a very fine interpretation of all hand gestures. Crunchfish has coined the term "Deeply intuitive gestures" to describe this solution. Such fine gesture tracking would be incredibly useful for implementation in wearables such as AR glasses, which currently is the company's prime target for Gesture solutions. Crunchfish expects the solution to be available as a demo app around late August/early September.

As we said initially, the reported financials for Q2 held no surprises. Total revenues, overall costs and net profit all came in pretty much exactly as we had expected, cf. Table 2 below. The same goes for the liquidity reserve and total equity.

We keep our valuation range SEK 25.30 - 40.10 per share

Consequently, we see no reason to adjust our valuation model and we reiterate our fair value per share interval of SEK 25.30 – 40.10 per share.

Table 2: Estimates vs actual, Q2 2020

kSEK	Q2 '19	Q2 '20e	Q2 '20 act	Diff
Net revenues	2 466	3 681	2 330	-1 350
Capitalised development cost	1 608	1 099	2 955	1 856
Other revenues	484	837	390	-447
Total revenue	4 558	5 616	5 675	59
Personnel costs	(4 042)	(4 525)	(5 498)	-974
Other expenses	(6 240)	(5 493)	(4 429)	1 064
Profit from affiliated companies	(424)	(780)	(646)	134
EBITDA	(6 148)	(5 182)	(4 898)	284
Amortisation and Depreciation	(1 698)	(1 848)	(1 843)	6
EBIT	(7 845)	(7 030)	(6 740)	289
Other financial items, net	2	(15)	(146)	-131
EBT	(7 843)	(7 044)	(6 886)	158
Net Profit	(7 843)	(7 044)	(6 886)	158
Cash and Equivalents	25 960	23 517	23 501	-15
Total Equity	47 126	46 570	46 788	218

Source: Västra Hamnen Corporate Finance

Income Statement - Annual Data

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Net revenues	2 690	3 203	3 510	14 565	14 176	77 983	162 524	229 556
Capitalised development cost	8 175	7 602	6 769	4 623	7 747	8 123	8 345	8 602
Other revenues	2 301	2 041	3 548	1 928	2 012	1 704	1 844	1 996
Total revenues	13 166	12 847	13 827	21 115	23 935	87 810	172 713	240 155
Cost of goods sold	-	-	-	(91)	(567)	(2 750)	(4 400)	(4 400)
Personnel costs	(12 141)	(14 324)	(14 784)	(15 496)	(20 463)	(23 932)	(26 165)	(28 606)
Other external costs	(10 854)	(15 290)	(14 637)	(20 714)	(19 349)	(25 129)	(27 473)	(30 036)
Other operating expenses	(192)	(285)	(1 554)	(379)	(1 727)	(3 925)	(4 291)	(4 691)
Profit from affiliated companies	-	-	(180)	(1 527)	(2 340)	3 881	11 291	18 709
EBITDA	(10 020)	(17 053)	(17 328)	(17 092)	(20 510)	35 956	121 675	191 130
Amortisation & depreciation	(2 149)	(3 433)	(4 748)	(6 936)	(7 547)	(7 776)	(7 956)	(8 155)
EBIT	(12 169)	(20 486)	(22 077)	(24 028)	(28 058)	28 179	113 719	182 975
Financial items, net	(365)	(293)	50	27	(56)	(54)	(54)	(54)
EBT	(12 534)	(20 779)	(22 027)	(24 001)	(28 114)	28 125	113 665	182 921
Taxes	-	-	-	-	-	-	-	(32 594)
Net profit	(12 534)	(20 779)	(22 027)	(24 001)	(28 114)	28 125	113 665	150 327
Earnings per share (SEK)	(0,96)	(1,35)	(1,30)	(0,97)	(1,01)	0,99	3,92	5,16
Growth (%)								
Net revenues	na	19,1%	9,6%	315,0%	-2,7%	450,1%	108,4%	41,2%
EBITDA	na	na	na	na	na	na	244,1%	56,2%
EBIT	na	na	na	na	na	na	321,5%	60,4%
Net profit	na	na	na	na	na	na	304,1%	32,3%
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	neg	36,5%	63,9%	71,8%
EBIT margin	neg	neg	neg	neg	neg	27,7%	59,3%	68,4%
EBT margin	neg	neg	neg	neg	neg	32,0%	65,8%	76,2%
Profit margin	neg	neg	neg	neg	neg	32,0%	65,8%	62,6%
Personnel costs	451,4%	447,1%	421,2%	106,4%	144,4%	30,7%	16,1%	12,5%
Total OPEX	862,0%	933,4%	882,5%	251,2%	293,0%	67,9%	35,6%	27,6%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	46,7%	62,6%	45,3%
ROIC	neg	neg	neg	neg	neg	58,1%	216,6%	318,6%
ROCE	neg	neg	neg	neg	neg	31,4%	44,2%	38,8%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Subscribed but not paid equity	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	181	362	362	362
Account receivable	1 545	1 824	356	2 424	1 723	5 186	9 046	11 752
Receivables fr affiliated comp	-	-	1 118	841	2 240	2 440	2 534	2 869
Prepaid costs & accrued inco	1 415	992	1 089	1 066	1 656	1 918	2 034	2 113
Other receivables	2 039	984	475	361	740	867	913	958
Cash and cash equivalents	44 077	21 164	21 362	13 181	4 745	28 239	145 246	292 219
Total current assets	49 076	24 963	24 400	17 872	11 285	39 011	160 135	310 273
Tangible assets	222	728	522	1 606	1 312	1 070	873	713
Intangible assets	14 520	18 655	20 402	18 052	18 576	19 166	19 754	20 364
Long-term receivables	-	373	373	-	-	-	-	-
Affiliated companies	-	-	945	5 418	9 293	9 293	9 293	9 293
Total fixed assets	14 742	19 757	22 242	25 076	29 181	29 530	29 921	30 370
Total assets	63 818	44 720	46 642	42 949	40 467	68 541	190 056	340 643
Accounts payable	1 610	2 640	2 280	984	2 580	2 192	2 203	2 211
Accrued cost & prepaid incon	3 265	3 287	3 177	4 023	4 048	4 317	4 494	4 708
Other liabilities	424	963	917	843	1 111	1 179	1 218	1 256
Total current liabilities	5 299	6 889	6 373	5 850	7 739	7 688	7 915	8 175
Total non-current liabilities	-	62	-	789	676	676	676	676
Total equity	58 519	37 768	40 269	36 310	32 051	60 177	181 465	331 792
Total equity and liabilities	63 818	44 720	46 642	42 949	40 466	68 541	190 056	340 643

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2016	2017	2018	2019	2020e	2021e	2022e	2023e
Operating activities	(10 609)	(16 767)	(16 868)	(15 211)	(19 414)	35 901	121 621	158 482
Changes in working capital	(2 757)	2 266	369	(2 090)	40	(4 282)	(3 890)	(2 905)
Investing activities	(8 216)	(7 975)	(6 823)	(11 597)	(12 788)	(8 125)	(8 347)	(8 604)
Financing activities	54 980	(163)	23 356	20 743	23 745	-	7 623	-
Cash flow for the period	39 348	(22 640)	34	(8 156)	(8 417)	23 494	117 007	146 973
Beginning cash balance	4 729	44 077	21 164	21 362	13 181	4 745	28 239	145 246
Adjustments	-	(273)	165	(26)	(18)	-	-	-
Ending cash balance	44 077	21 164	21 362	13 181	4 745	28 239	145 246	292 219

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e
Net revenues	2 600	5 526	1 948	2 330	4 082	5 815	10 343	16 114
Capitalised development cost	1 032	958	1 380	2 955	1 629	1 783	1 995	2 153
Other revenues	482	529	820	390	397	405	413	422
Total revenues	4 114	7 014	4 148	5 675	6 108	8 003	12 752	18 689
Cost of goods sold	-	(91)	(17)	-	-	(550)	(550)	(550)
Personnel costs	(3 669)	(4 211)	(4 506)	(5 498)	(5 116)	(5 343)	(5 784)	(5 915)
Other external costs	(4 966)	(4 509)	(3 950)	(4 417)	(5 372)	(5 610)	(6 074)	(6 211)
Other operating expenses	(32)	(19)	-	(11)	(839)	(876)	(949)	(970)
Profit from affiliated companies	(393)	(443)	(478)	(646)	(780)	(436)	394	700
EBITDA	(4 946)	(2 258)	(4 803)	(4 898)	(5 999)	(4 811)	(211)	5 743
Amortisation & depreciation	(1 767)	(1 849)	(1 805)	(1 843)	(1 965)	(1 935)	(1 923)	(1 934)
EBIT	(6 713)	(4 107)	(6 608)	(6 740)	(7 963)	(6 746)	(2 134)	3 810
Financial items, net	88	(85)	117	(146)	(14)	(14)	(14)	(14)
EBT	(6 625)	(4 192)	(6 491)	(6 886)	(7 977)	(6 760)	(2 148)	3 796
Taxes	-	-	-	-	-	-	-	-
Net profit	(6 625)	(4 192)	(6 491)	(6 886)	(7 977)	(6 760)	(2 148)	3 796
Earnings per share (SEK)	(0,26)	(0,16)	(0,25)	(0,24)	(0,28)	(0,24)	(0,08)	0,13
Y-o-Y Growth (%)								
Net revenues	5,4%	112,5%	(64,8%)	19,6%	75,2%	42,5%	77,9%	55,8%
EBITDA	na	na	na	na	na	na	na	na
EBIT	na	na	na	na	na	na	na	na
Net profit	na	na	na	na	na	na	na	na
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	neg	neg	neg	27,0%
EBIT margin	neg	neg	neg	neg	neg	neg	neg	neg
EBT margin	neg	neg	neg	neg	neg	neg	neg	neg
Profit margin	neg	neg	neg	neg	neg	neg	neg	neg
Personnel costs	141,1%	76,2%	231,3%	235,9%	125,3%	91,9%	55,9%	36,7%
Total OPEX	333,3%	158,1%	434,1%	426,0%	277,5%	203,4%	123,8%	81,3%
Profitability (%)								
ROE	neg	neg	neg	neg	neg	neg	neg	11,3%
ROIC	neg	neg	neg	neg	neg	neg	neg	8,1%
ROCE	neg	neg	neg	neg	neg	neg	neg	7,1%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e
Subscribed but not paid equity	-	-	-	-	-	-	-	-
Inventories	-	-	-	-	-	181	181	181
Account receivable	212	2 424	3 260	366	1 412	1 723	2 988	3 623
Receivables fr affiliated comp	1 451	841	853	1 317	1 800	2 240	1 608	1 720
Prepaid costs & accrued inco	1 203	1 066	1 803	1 337	1 555	1 656	1 747	1 731
Other receivables	738	361	557	1 108	740	740	826	896
Cash and cash equivalents	19 464	13 181	5 715	23 501	13 661	4 745	1 338	4 372
Total current assets	23 069	17 872	12 188	27 630	19 168	11 285	8 688	12 523
Tangible assets	1 568	1 606	1 506	1 453	1 381	1 312	1 247	1 185
Intangible assets	18 838	18 052	17 729	18 922	18 659	18 576	18 713	18 995
Long-term receivables	373	-	-	-	-	-	-	-
Affiliated companies	3 860	5 418	5 940	6 293	7 793	9 293	9 293	9 293
Total fixed assets	24 639	25 076	25 174	26 668	27 833	29 181	29 253	29 473
Total assets	47 709	42 949	37 362	54 298	47 001	40 467	37 941	41 997
Accounts payable	2 142	984	2 711	1 570	2 544	2 580	2 262	2 260
Accrued cost & prepaid incon	3 417	4 023	3 190	4 005	3 915	4 048	3 979	4 186
Other liabilities	847	843	909	1 259	1 054	1 111	1 121	1 175
Total current liabilities	6 405	5 850	6 810	6 835	7 514	7 739	7 362	7 621
Total non-current liabilities	802	789	733	676	676	676	676	676
Total equity	40 501	36 310	29 819	46 788	38 811	32 051	29 904	33 700
Total equity and liabilities	47 709	42 949	37 362	54 298	47 000	40 466	37 941	41 996

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020e	Q4 2020e	Q1 2021e	Q2 2021e
Operating activities	(4 535)	(1 800)	(4 331)	(4 246)	(6 012)	(4 825)	(225)	5 730
Changes in working capital	1 018	(1 665)	(820)	2 367	(698)	(808)	(1 187)	(542)
Investing activities	(3 033)	(2 747)	(2 381)	(3 995)	(3 129)	(3 283)	(1 995)	(2 154)
Financing activities	(49)	9	(55)	23 800	-	-	-	-
Cash flow for the period	(6 598)	(6 202)	(7 587)	17 925	(9 840)	(8 916)	(3 407)	3 034
Beginning cash balance	25 960	19 464	13 181	5 715	23 501	13 661	4 745	1 338
Adjustments	102	(82)	121	(139)	-	-	-	-
Ending cash balance	19 464	13 181	5 715	23 501	13 661	4 745	1 338	4 372

Source: Västra Hamnen Corporate Finance

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