

## First Take

### WISeKey International Holding Ltd. (WIHN.SW)

September 28, 2018

Price: CHF3.48; Market Cap (M): CHF93; 9/27/2018 close.

Rating: Buy; Price Target: CHF7.50

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### Tech-Expanding Investment Broadens Capabilities and Provides Cross-Selling Opportunities; Reit Buy

**Strategic investment expands opportunities in many directions.** Late yesterday afternoon, WISeKey announced acquiring a 22% stake in privately held, Boston-based, cloud data storage and data manipulation company, Tarmin, for an undisclosed sum. Effective immediately, WISeKey and Tarmin are incorporating applications of WISeKey cybersecurity solutions into Tarmin's cloud data management software (product name: GridBank) in a combined solution called WISeBox—with expected commercial introduction in 4Q18—where Tarmin's current main clients are financial institutions either operating or intending to manage data in the cloud. Importantly, Tarmin's solutions store, structure, compress, and provide analytics for massive databases of multi-petabyte capacities—as reference, a petabyte is one million gigabytes, and 1.5 peta represents approximately one billion [sic] Facebook (FB; not rated) photos. Per the press issued last evening, the market Tarmin addresses, the data and software defined networking market (networks are becoming infinitely more complicated as more functions run virtually across shared and disparate infrastructure), is expected to surpass \$88B by 2024. While we were unable to secure the financial aspects of the deal, we see it strengthening our positive investment perspective on two fronts: (1) an up-and-coming "copy data management" solution provider, per Gartner (IT; not rated), recognizes the critical web security need and has validated WISeKey's solutions; and (2) WISeKey is exercising its financial strength to build a 20-tentacled octopus of solutions, each of which offers the company another avenue to customers. As we understand the situation here, WISeKey should be able to cross sell the WISeBox solution (leveraging Tarmin's cloud storage algorithms) to some 4,000 existing clients.

**Increasingly complicated world of networking.** As network function virtualization (NFV) capabilities continue to spread across IT infrastructure, network function and the underlying hardware infrastructure become less co-dependent, untethering network applications from network infrastructure. The phenomenon calls for layering in segmented security solutions specialized for the application, and WISeBox integrates WISeKey's homegrown PKI, TLS/SSL encryption across web traffic while authenticating web pages and users in Tarmin's GridBank software implementations. GridBank helps data intensive organizations meet accelerating data growth, scale storage, and performance requirements by delivering improved metadata search, discovery, and analytics integration. While the company's leading clients are financial institutions, we suspect that WISeKey may help to leverage the combination solution, WISeBox, in addressing massive IoT applications in the future.

**Not so much now as later.** As initially appealing as the deal seems given cross-selling and implementations starting perhaps as early as next quarter, the solution enables WISeKey to structure a foundation on which to build additional software solutions germane to specific industries and their respective technology applications. Perhaps the easiest example to imagine is WISeKey's work already underway in leveraging IBM's (IBM; not rated) Watson computer processing capability in metadata manipulation and predictive analytics in an artificial intelligence (AI) application. In concert with improved data storage and management capabilities, we see the secure GridBank architecture becoming a competitive solution across many industries WISeKey has already targeted. Further, and more importantly, the \$88B market assessment no longer applies as we see it as the WISeBox solution is applied in massive data-producing industrial IoT (Internet of Things) solutions—recall, IoT networks could bring as many as 50B (B for billion) Internet-enabled devices to communications networks by 2020. Despite the opportunity and the improved positioning we see WISeKey gaining on this investment that reinforces our overarching bullish thesis, we are not offering estimate revisions with this note.



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**Maintaining Buy and CHF7.50 price target.** A broad average of industry players' valuation metrics suggests WISeKey should command a 3.5-4.0x EV-to-sales multiple on our \$54.9 million 2018 sales estimate, which supports our CHF7.50 price target. Importantly, we believe there is an argument to be made for a premium multiple, and one we think deserves consideration once WISeKey has provided greater quarterly revenue and expense transparency, a development expected as the next fiscal year progresses. All told, in our view, WISeKey represents an asymmetrical risk-reward opportunity heightened by what has proven to be a surprising ability to deliver a constant stream of new technology and solutions with real-world applicability, and perhaps most importantly, accordant customer relationships. Risks to attaining our price target, include, but are not exclusive of: (1) a rapidly evolving cybersecurity market that while fragmented, is highly competitive with many far larger, better resourced operators; (2) future acquisitions poorly integrated or financial dilution; and (3) end market rejection of WISeKey's security solutions on price, perception, or functionality.

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			Count	Percent
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Sell	1	0.32%	0	0.00%
Under Review	2	0.65%	0	0.00%
<b>Total</b>	<b>310</b>	<b>100%</b>	<b>120</b>	<b>38.71%</b>

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