

September 5, 2019

TECHNOLOGY/INFRASTRUCTURE SOFTWARE

Stock Rating:

OUTPERFORM

12-18 mo. Price Target CHF4.00
 WIHN - SWX CHF2.76

3-5 Yr. EPS Gr. Rate	15%
52-Wk Range	CHF3.72-CHF2.12
Shares Outstanding	36.8M
Float	25.9M
Market Capitalization	CHF104.8M
Avg. Daily Trading Volume	38,124
Dividend/Div Yield	\$0.00/0.00%
Book Value	\$0.14
Fiscal Year Ends	Dec
2019E ROE	NA
LT Debt	\$9.0M
Preferred	\$0.0M
Common Equity	\$30M
Convertible Available	Yes

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2018A	NA	(0.20)	NA	NA	(0.48)	NM
<i>Prior (A)</i>	<i>(0.22)</i>	<i>(0.10)</i>	--	--	--	NM
2019E	NA	(0.14)	NA	NA	(0.35)	NM
<i>Prior (E)</i>	<i>(0.11)</i>	<i>(0.10)</i>	<i>(0.09)</i>	<i>(0.08)</i>	<i>(0.38)</i>	NM

WIHN reports on a semi-annual basis; as such, figures for 2Q are for the period from January to June.

WISeKey Int'l Hldg AG

1H19 Update: Non-Core Asset Sale Proceeds Reinvested for Growth and Deleveraging

SUMMARY

On 9/3, WISeKey (WIHN) released first-half 2019 interim results from January through June. Revenue from continuing operations of \$12.5M lagged our estimate of \$16.6M while non-GAAP EPS were ahead at -\$0.14 versus our estimate at -\$0.21 due to better cost control measures relating to R&D and G&A. WIHN is undergoing a strategic transformation, exiting the SSL/TLS PKI business to refocus on IoT, cybersecurity, and blockchain. The asset sale during the first half bolstered the liquid cash position to \$18.4M, an increase of \$9.2M from 12/31/18, and substantially delevered net debt by 70.6% to \$9.0M. We are maintaining our Outperform rating, but are lowering our price target to CHF4.00 from CHF5.50, reflecting a more modest EV to sales multiple of 4.1x.

KEY POINTS

- **1H19 Results:** Revenue from continuing operations of \$12.5M lagged our estimate of \$16.6M, mainly driven by the discontinued revenue associated with the SSL/TLS PKI business, now sold. EPS of -\$0.14, however, fared better than our estimate of -\$0.21 due to cost-control measures. EBITDA came in at -\$7.2M versus -\$4.0M in the year-ago period.
- **Metrics:** Post asset sale, WIHN delevered net debt from \$30.7M at 12/31/18 to \$9.0M. The unrestricted cash balance increased by 200% to \$18.4M from year-end, and we believe the company should have sufficient liquidity, near term. Sales exposure by geography is: Europe 44%, Americas 43%, APAC 11% and LatAm 1%; APAC +54% y/y due to new agreements and partnerships closed in 2018.
- **Execution:** WIHN is executing on both the IoT and cybersecurity fronts. Key achievements in 1H include: 1) received first \$2.5M payment from Daimler for connected car (ISTANA offering); 2) expanded partnerships with Microsoft and 360 Security Browser for security and Oracle for blockchain use case; and 3) signed new agreements for its IoT chips across industries from smart cars and healthcare to consumer.
- **Estimate Update:** The company provided no financial guidance. We are, however, adjusting our FY19E revenue/LPS from \$38.4M/-\$0.38 to \$35M/-\$0.35. Our new estimates are based on the assumption that WIHN is making new investments to drive growth in key priority areas such as connected cars, IoT, and anti-illicit trade use cases in the near term.
- **Bottom Line:** We continue to believe that WIHN's current discounted valuation of 2.8x is unwarranted given the large and rapidly growing IoT, cybersecurity and blockchain markets the company is addressing. Its strategic realignment could yield attractive upside if executed successfully. Lowering our PT to CHF4.00 based on 4.1x our FY19 revenue estimate, which we view as a reasonable multiple.

Stock Price Performance



Company Description

WISeKey International Holding AG provides digital identity and IoT security solutions to organizations and manufacturers worldwide. At its technology's core is a set of functions designed to be trusted by an operating system called the Root of Trust (RoT), exclusively licensed by WISeKey and embedded in nearly four billion devices worldwide.

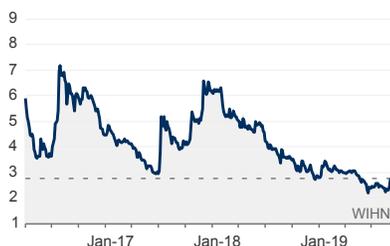
For analyst certification and important disclosures, see the Disclosure Appendix.

Shaul Eyal
 212-667-8411
Shaul.Eyal@opco.com

Yi Fu Lee, CFA, CPA,
 CAIA
 212-667-6142
yifu.lee@opco.com

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5-YEAR PRICE PERFORMANCE



Source: Bloomberg

BASE CASE ASSUMPTION

- WIHN continues to successfully integrate its recent acquisitions
- WIHN ability to reallocate capital to areas of high growth as laid out in the FY19 Initiatives
- Revenue continues to grow >20% organically

UPSIDE SCENARIO

- New products/initiatives drive increased adoption for WIHN solutions

PRICE TARGET CALCULATION

To reach our CHF4.00 price target, we apply a 4.1x EV/revenue multiple to our FY19 estimate of \$35 million (excluding discontinued operations), reflecting an enterprise value of \$143 million. Subtracting net debt of \$9.4 million, dividing by the number of diluted shares outstanding of 36.8 million, we arrive at our price target. We believe WIHN is addressing a sizable market opportunity in cybersecurity, IoT and blockchain that is increasing at a healthy growth rate, though given WISeKey is still early into its redeveloped business plan, we are applying a discounted valuation multiple to reflect the company's elevated risk profile.

KEY RISKS TO PRICE TARGET

Risks to our price target include increased competition, a challenging overall macro environment, moderate IT spending, change in acceptance of the company's products and the ability to demonstrate consistent financial performance. In addition, the stock's status as primarily overseas-listed may prevent some investors from owning it.

INVESTMENT THESIS

Based in Switzerland, WIHN is leveraging its neutral domicile to provide certificate services utilizing its exclusively-licensed Root of Trust (RoT) technology embedded in nearly four billion devices worldwide. We believe WIHN is addressing a sizable market opportunity within the Internet of Things (IoT) Security and eSignature space, which IDC estimates to grow to an over \$21B market by 2023.

CATALYSTS

- Expansion of partnerships, particularly within the supply chain management and government sectors, as well as in the US, China and German regions
- IoT or hardware-level breaches/vulnerabilities (e.g. Spectre, Meltdown)

DOWNSIDE SCENARIO

- Increased competition from incumbent vendors
- Growth from razor and blade business strategy stabilizes

WiseKey Income Statement	In millions except per share figures (In USD)									
	Mar-18A	Jun-18A	Sept-18A	Dec-18A	2018A	Mar-19A	Jun-19A	Sept-19E	Dec-19E	2019E
Revenue		16.604			53.692		12.469	10.738	11.792	35.000
Cost of Sales		8.802			24.515		7.614	6.228	6.839	20.682
Gross Profit		7.802			29.177		4.855	4.510	4.953	14.318
<i>Operating Expenses</i>										
Research and Development		2.840			8.106		2.639	1.342	1.474	5.455
Sales and Marketing		2.652			8.598		3.233	1.745	1.769	6.747
General and Administrative		7.158			24.741		6.895	3.490	3.832	14.217
Other		(0.292)			(0.316)		(0.038)	0.500	0.500	0.962
Operating Income/(Loss)		(4.556)			(11.952)		(7.874)	(2.567)	(2.623)	(13.064)
Non-Operating Income/(Expense)		(0.665)			(4.465)		(1.203)	(1.203)	(1.203)	(3.609)
Income/(Loss) from Continuing Operations, Net		(5.221)			(16.417)		(9.077)	(3.770)	(3.826)	(16.673)
Income/(Loss) from Discontinued Operations		(5.481)					30.484	-	-	30.484
Income Tax Benefit (Expense)		-			0.152		-	-	-	-
Net Income		(10.702)			(16.265)		21.407	(3.770)	(3.826)	13.811
Less: NI/(Loss) attributable to NCI		0.009			-		(0.361)	-	-	(0.361)
GAAP Net Income attributable to WIHN		(10.711)					21.768	(3.770)	(3.826)	14.172
Total Non-GAAP Adjustments		4.110					(27.000)	-	-	(27.000)
Non-GAAP Net Income attributable to WIHN		(6.601)			(16.265)		(5.232)	(3.770)	(3.826)	(12.828)
Weighted Average Shares - Basic		33.267			33.905		35.545	36.805	36.805	36.385
Weighted Average Shares - Diluted		33.267			33.905		36.805	36.805	36.805	36.805
Non-GAAP EPS		(0.20)			(0.48)		(0.14)	(0.10)	(0.10)	(0.35)

Source: Company Reports, Oppenheimer Estimates

Note: 1) Non-GAAP adjustments to Net Income figures only disclosed for 2H 2018 and 2H 2019 columns

2) 2018A figure is sourced from FY2018 Annual Report Non-GAAP Income Statement

WISeKey Margin Analysis	Mar-18A	Jun-18A	Sept-18A	Dec-18A	2018A	Mar-19A	Jun-19A	Sept-19E	Dec-19E	2019E
<i>Margins</i>										
Gross Margins		47.0%			54.3%		38.9%	42.0%	42.0%	40.9%
<i>As a % of Total Revenue</i>										
Research and Development		17.1%			15.1%		21.2%	12.5%	12.5%	15.6%
Sales and Marketing		16.0%			16.0%		25.9%	16.3%	15.0%	19.3%
General and Administrative		43.1%			46.1%		55.3%	32.5%	32.5%	40.6%
Operating Margins		(27.4%)			(22.3%)		(63.1%)	(23.9%)	(22.2%)	(37.3%)
Profit Margin		(64.5%)			(30.3%)		171.7%	(35.1%)	(32.4%)	39.5%
Tax Rate		0.0%			(0.9%)		0.0%	0.0%	0.0%	0.0%
<i>YoY</i>										
Revenue		54.8%			24.6%		(24.9%)	(20.0%)	(12.2%)	(34.8%)
Gross Profit		86.3%			41.0%		(37.8%)			(50.9%)
R&D		71.1%			9.7%		(7.1%)			(32.7%)
S&M		103.3%			37.5%		21.9%			(21.5%)
G&A		131.4%			12.0%		(3.7%)			(42.5%)
Operating Profit		143.5%			(11.5%)		72.8%			9.3%
Weighted Avg. Shares Outstanding					14.9%		10.6%			8.6%

Source: Company Reports, Oppenheimer Estimates

WISeKey Consolidated Balance Sheet	In millions except per share figures (In USD)									
	Mar-18A	Jun-18A	Sept-18A	Dec-18A	2018A	Mar-19A	Jun-19A	Sept-19E	Dec-19E	2019E
Assets										
Cash and cash equivalents					9.146		18.357			15.000
Accounts receivable					7.620		5.262			15.498
Notes receivable					0.008		-			0.005
Inventories					4.186		4.263			2.729
Prepaid expenses					0.521		0.700			0.340
Deferred charges, current					0.184		0.184			-
Other current assets					10.453		4.124			10.453
Total current assets					32.118		32.890			44.025
Equity securities					7.857		0.900			9.428
Deferred income tax assets					0.008		7.005			0.005
Deferred tax credits					2.541		3.092			1.656
PPE					2.370		2.042			2.844
Intangible assets					1.132		0.863			1.358
Operating lease right-of-use assets, noncurrent					-		1.509			1.509
Goodwill					8.317		8.317			9.980
Deferred charges, noncurrent					0.214		0.123			0.257
Other noncurrent assets					23.896		2.151			28.675
Total noncurrent assets					46.335		26.002			55.714
Total assets					78.453		58.892			99.739
Liabilities										
Accounts payable					12.917		12.139			8.420
Notes payable					6.797		4.019			6.797
Convertible note payable					-		2.006			-
Deferred revenue, current					0.091		0.619			0.091
Current portion of obligations under operating leases					-		0.542			0.542
Income Tax payable					0.009		0.003			0.006
Derivative liabilities					-		0.265			-
Other current liabilities					15.061		0.670			9.818
Total current liabilities					34.875		20.263			25.674
Convertible note payable					23.940		2.931			23.940
Derivative liabilities					-		0.072			0.072
Deferred revenue, noncurrent					0.009		0.004			0.009
Operating lease liabilities					-		0.967			0.967
Employee benefit plan obligation					4.465		4.468			2.911
Deferred income tax liability					-		0.005			-
Other noncurrent liabilities					11.189		-			11.189
Total noncurrent liabilities					39.603		8.447			39.088
Total liabilities					74.478		28.710			64.761
Equity										
Stockholders' Equity					3.975		30.182			34.977
Total Liabilities and Equity					78.453		58.892			99.739

Source: Company Reports, Oppenheimer Estimates

WISeKey Consolidated Cash Flow Statement	In millions except per share figures (In USD)									
	Mar-18A	Jun-18A	Sept-18A	Dec-18A	2018A	Mar-19A	Jun-19A	Sept-19E	Dec-19E	2019E
Net Loss		(16.265)			(16.265)		21.407			13.811
Depreciation of PPE		1.437			1.437		0.396			0.995
Amortization of intangible assets		2.047			2.047		0.270			2.456
Interest and other non cash items		1.165			1.165		0.184			1.282
Stock based comp		1.660			1.660		0.163			4.500
Other		1.484			1.942		(29.695)			1.942
<i>Change in Working Capital</i>										
Accounts receivables					(2.898)					(7.878)
Inventories					(0.722)					1.457
Other assets		0.630			1.312		(0.237)			-
Accounts payable					(0.126)					(4.497)
Deferred revenue					5.992					0.000
Income taxes payable					0.349					(0.003)
Other current liabilities		(0.172)			(4.385)		2.533			(5.243)
Changes in op assets & liabilities, net of effects of businesses acqui		(0.478)					(0.958)			
Net cash provided by operating activities		(8.492)			(8.492)		(5.937)			8.822
Acquisition of PPE		(1.244)			(1.244)		(0.069)			(4.976)
Sale/(Acquisition) of a business		-			-		40.919			-
Other		(3.000)			(3.000)		(4.000)			-
Net cash provided by investing activities		(4.244)			(4.244)		36.850			(4.976)
Proceeds of issuance of common stock		2.904			3.121		-			-
Other		8.972			8.755		(18.958)			-
Net cash provided by financing activities		11.876			11.876		(18.958)			-
Effect of exchange rate changes on cash		(0.200)			(0.200)		0.080			-
Net (decrease) increase in cash and cash equiv		(1.060)			(1.060)		12.035			3.846
Cash at beginning of period		12.214			12.214		11.154			11.154
Cash at end of period		11.154			11.154		23.189			15.000

Source: Company Reports, Oppenheimer Estimates

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Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	388	64.88	186	47.94
PERFORM [P]	209	34.95	68	32.54
UNDERPERFORM [U]	1	0.17	0	0.00

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