

12m20 Preliminary Results

Opinion ⁽¹⁾: Below expectations

Impact ⁽¹⁾: We will have to lower our estimates

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Business description

FacePhi (FACE) is a small Spanish tech company, based in Alicante and created in 2012, specialising in the development and marketing of biometric software for facial recognition, with a strong focus on the financial sector (mainly in Latam: c. 90% of revenue). It has been listed on BME Growth since 2014.

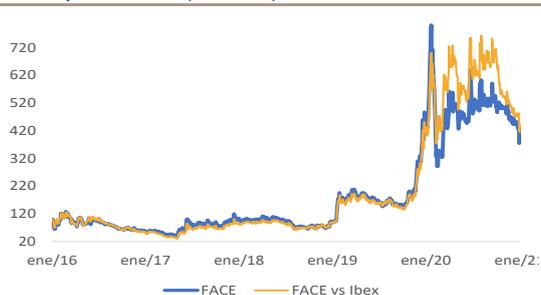
Market Data

Market Cap (Mn EUR and USD)	63.5	77.0
EV (Mn EUR and USD) ⁽²⁾	66.6	80.8
Shares Outstanding (Mn)	14.4	
-12m (Max/Med/Min EUR)	8.98 / 5.53 / 3.26	
Daily Avg volume (-12m Mn)	0.70	
Rotation ⁽³⁾	280.3	
Thomson Reuters / Bloomberg	FACE.MC / FACE SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Salvador Martí Varó	9.1
Juan Alfonso	8.5
Javier Mira Miró	6.8
Free Float	66.7

Relative performance (Base 100)



Stock performance

(%)	-1m	-3m	-12m	-5Y
Absolute	-15.1	-22.3	-16.3	292.9
vs Ibex 35	-10.5	-35.7	2.9	346.5
vs Ibex Small Cap Index	-11.9	-37.5	-24.6	111.4
vs Eurostoxx 50	-12.6	-33.9	-10.2	243.6
vs Sector benchmark ⁽⁴⁾	-16.4	-34.2	-28.5	104.2

(1) The opinion regarding the results is on reported EBITDA with respect to our estimate for the year (12m). The impact reflects whether, due to the results, we envisage a significant revision (>5% or 10%, depending on the sector) of our EBITDA estimate (for any of the estimated years).

(2) Please refer to Appendix 2.

(3) Rotation is the % of the capitalisation traded - 12m.

(4) vs TRBC Europe Technology Index.

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Refinitiv and Lighthouse

Weak 2020 results. Revenues EUR 7.3Mn (-11.3% vs 2019)

FACE has released preliminary 2020 results with a breakdown of the main (unaudited) P&L items for 2020 (without including balance sheet information). Results are worse than expected. Audited results for 2020 will be released in April 2021 (when we will update 2020 figures and revisit our estimates for 2021e and 2022e). We highlight:

A NEGATIVE SURPRISE IN REVENUE (EUR 7.3Mn; -11.3% vs 2019). Despite an increase in the number of customers (22 vs 13 in 2019) and in business metrics (both the number of onboardings and authentications), this results preview shows a fall in revenue of 11.3% vs 2019, due to: (i) a reduction in the revenue obtained from the authentication business (-28% vs 2019; c. EUR -0.8Mn) and in other revenues (-72% vs 2019; a negative impact of c. EUR 1Mn), which offset the good performance of the digital onboarding business (which already accounts for c. 66% of the revenue mix; +22% vs 2019).

WITH THE GROSS MARGIN DECLINING TO EUR 5.8Mn; -17.2% vs 2019)... because of: (i) the fall in volumes and (ii) a reduction in the gross margin in percentage terms to c. 81% (vs c. 87% in 2019; in line with our estimates), due to greater procurement of third party technology and the change in the marketing model (from direct sales to a model of sales through partners such as Everis).

... RESULTING IN A RETURN TO LEVELS OF REC. EBITDA AT BREAKEVEN. The large increase in the headcount to 61 employees (vs an average of 26 in 2019) caused personnel costs to rise dramatically to EUR 3.1Mn (+62% vs 2019) reducing Rec. EBITDA to breakeven levels (EUR -0.2Mn; vs EUR 1.7Mn in 2019).

NEW FINANCING AGREEMENTS. In December 2020 FACE announced new financing agreements of up to EUR 33Mn: (i) a new agreement with Nice & Green (for up to EUR 20Mn) via an issue of equity warrants (FACE will decide the level of funds and the dilution according to its financing requirements) and (ii) the signing of a syndicated loans with four banks for up to EUR 13Mn in three tranches: (a) a EUR 6Mn loan, (b) an ordinary revolving loan (EUR 5Mn) and (c) an extraordinary revolving loan for up to EUR 2Mn.

THAT SHOULD ACCELERATE THE COMPANY'S GROWTH. In our view, the funding obtained should allow FACE to boost the growth of its business (still essentially carried out in Latam) and speed up the strategy of growth in new markets (South Korea is an example; next step the US?). This will require investment.

WE WILL DOWNGRADE OUR 2021 ESTIMATES. The 2020 results preview underlines the challenge facing FACE today: although the current structure enables the company to aspire to higher turnover, dealing with this is more costly. With its current structure, turnover < EUR 8Mn would imply negative Rec. EBITDA. After the fall in the share price -12m (-16.3%) the EV is now c. EUR 67Mn (2020e EV/Sales c. 9x).

FacePhi (FACE) is a BME Growth company

BME Growth is the segment of BME MTF Equity aimed at small and medium sized companies, directed and managed by the Spanish stock market and is subject to the CNMV supervision. BME MTF Equity is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID). In July 2020, BME Growth obtained the status of SME Growth Market, a new category of EU regulations, which in Spain is called Mercado de Pymes en Expansión.

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Appendix 1. Results table

EUR Mn	12m20		12m20		12m20	
	Preview	12m19	Preview vs 12m19	2020e	Preview vs 2020e	
Total Revenues	7.3	8.2	-11.3%	9.7	-25.1%	
Recurrent EBITDA¹	-0.2	1.7	-111.9%	1.4	-114.1%	
<i>Rec. EBITDA/Revenues</i>	-2.8%	21.0%	-23.8 p.p.	14.9%	-17.7 p.p.	
EBITDA	-0.2	1.8	-111.4%	1.4	-114.1%	
<i>EBITDA/Revenues</i>	-2.8%	21.8%	-24.6 p.p.	14.9%	-17.7 p.p.	
EBIT	0.0	1.9	-98.9%	1.4	-98.5%	

(1) Rec. EBITDA excludes capitalised expenses (EUR 1.1Mn and EUR 0.6Mn in 2020 and 2019, respectively) and includes c. EUR 0.7Mn client impairment in 2019.

(2) In 2020 the Facephi Group was created with the incorporation of the Spanish company Ecercic (acquired in 1Q20) and the creation of the Korean subsidiary. This means figures for 2020 correspond to consolidated data, while in 2019 they corresponded exclusively to the parent company. In this respect, the financial information for the two years is not comparable.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	63.5	
+ Minority Interests	-	6m Results 2020
+ Provisions & Other L/T Liabilities	0.1	6m Results 2020
+ Net financial debt	3.5	6m Results 2020
- Financial Investments	0.5	6m Results 2020
+/- Others		
Enterprise Value (EV)	66.6	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
01-Feb-2021	n.a.	4.40	n.a.	n.a.	12m20 Preliminary Results	David López Sánchez
27-Jul-2020	n.a.	6.42	n.a.	n.a.	Review of estimates	David López Sánchez
07-May-2020	n.a.	5.54	n.a.	n.a.	Review of estimates	David López Sánchez
21-Jan-2020	n.a.	4.51	n.a.	n.a.	12m19 Preliminary Results	David López Sánchez
20-Dec-2019	n.a.	2.24	n.a.	n.a.	Initiation of Coverage	David López Sánchez

