

6m Results 2023
Opinion ⁽¹⁾: Below expectations

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

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Business description

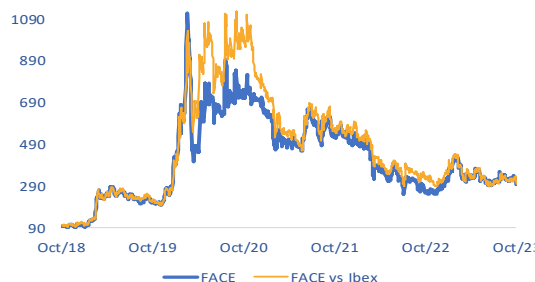
FacePhi (FACE) is a Spanish tech company based in Alicante and with offices in South Korea, Uruguay and the UK. It specialises in the development and marketing of software for identity authentication via digital onboarding solutions and biometric authentication. It is present in Latam (today its main market; c. 97% of 2022 revenue) and has a strong position in the financial sector

Market Data

Market Cap (Mn EUR and USD)	43.4	45.6
EV (Mn EUR and USD) ⁽²⁾	52.4	55.1
Shares Outstanding (Mn)	18.0	
-12m (Max/Med/Mín EUR)	3.49 / 2.60 / 2.00	
Daily Avg volume (-12m Mn EUR)	0.08	
Rotation ⁽³⁾	46.5	
Factset / Bloomberg	FACE-ES / FACE SM	
Close fiscal year	31-Dec	

Shareholders Structure (%) ⁽⁵⁾

Nice&Green	17.1
CLEARSTREAM BANKING S.A.	6.3
Salvador Martí Varó	5.9
José Cristóbal Callado Solana	4.7
Free Float	62.2

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-5.5	-1.6	17.0	201.3
vs Ibex 35	-4.2	1.3	-7.5	200.8
vs Ibex Small Cap Index	-1.8	3.1	2.9	185.2
vs Eurostoxx 50	-2.2	4.6	-6.2	146.7
vs Sector benchmark ⁽⁴⁾	0.5	9.6	-6.1	117.9

(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% - 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 Stoxx Europe 600 Technology.

(5) Others: Javier Mira Miró 2.3%, Juan Alfonso Ortiz Company 1.5%. As of the date of this report, we have assumed that the conversion of shares corresponds entirely to Nice & Green.

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

1H23 earnings: overhead exerting pressure on recurring EBITDA

ONGOING STRONG TOPLINE GROWTH (EUR 9.7MN; +22.8% VS. 1H22). In 1H23, FACE once again demonstrated its ability to deliver sharp topline growth, with revenue reaching EUR 9.7Mn (+22.8% vs. 1H22), marking a record sales volume for the first six months of the year (traditionally slower). That growth was driven by: (i) application of the company's solutions beyond the financial sector and (ii) the focus on international expansion (e.g., FACE signed its first contract in the US in May, with Fintech Orokii).

BUT GROSS PROFIT/MARGIN CAME IN BELOW EXPECTATIONS. 1H23 gross profit amounted to EUR 7.7Mn (80.3% of revenue vs. 81.8% and 85.8% in 1H22 and FY22, respectively). That shortfall is attributable to the change in the business mix.

... WHICH, COUPLED WITH SHARP GROWTH IN OVERHEAD, SCUPPERED EBITDA.

The sharp topline growth requires considerable growth in the company's business structure, with overhead increasing significantly (and by more than revenue) to EUR 12.7Mn (vs. EUR 7.9Mn in 1H22; +61.5%). Sharp headcount growth to enable FACE's expansion strategy is the main factor behind this trend (>250 employees today compared to 205 at year-end 2022 and 159 at year-end 2021). The sales teams across the LATAM, APAC and EMEA subsidiaries have been bolstered significantly. As a result, recurring EBITDA was sharply negative, to the tune of EUR -5.0Mn (vs. EUR -1.5Mn and EUR 0.5Mn in 1H22 and FY22, respectively).

FINANCING VIA CONVERTIBLE BONDS. In May 2023, FACE reached a EUR 20Mn investment agreement with Nice & Green entailing a new convertible bond financing facility. The company has announced the inscription of 1.2Mn shares (6.7% of the previously outstanding total) due to the conversion of bonds. Given the sharp contraction in recurring EBITDA and the company's hefty working capital requirement, we would not be surprised if the company continues to fill the gaps with solutions that involve equity (via conversion of instruments into shares, so diluting existing shareholders).

IN SHORT, EBITDA AND EBIT CAME IN WELL BELOW ESTIMATES, DESPITE MEETING OUR REVENUE TARGET. These results confirm FACE's ability to deliver heady growth. However, intense growth in overhead costs totally undermined recurring EBITDA (we had been looking for EUR 2.0Mn of EBITDA in FY23e). We will be cutting our estimates as a result.

AND NOW WHAT? 2023E-2025E: MARGIN IMPROVEMENT IS THE KEY. The sharp revenue growth eked out has required a much more significant sacrifice in terms of gross profit and EBITDA than we were estimating. That means that despite the topline growth, we will be lowering our EBITDA estimates for 2023e-2025e. This set of earnings shows how expensive growth can be. In our opinion, 2023e-2025e is "vital" to demonstrating FACE's ability to translate its revenue growth into positive recurring EBITDA. Note, lastly, that on 29 March, FACE announced to the market (share price performance since that day: -10% in absolute terms of -12% vs. IBEX) that it had engaged GP Bullhound (an investment bank) to search for a possible third party with an interest in taking a majority interest in the company.

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Table 1. 1H23 Results

EUR Mn	6m23		6m23 Real		2023e vs
	Real	6m22	vs 6m22	2023e	2022
Total Revenues	9.7	7.9	22.8%	27.1	20.9%
Gross Margin	7.7	6.4	20.4%	23.2	20.5%
<i>Gross Margin/Revenues</i>	<i>80.3%</i>	<i>81.8%</i>	<i>-1.6 p.p.</i>	<i>85.5%</i>	<i>-0.3 p.p.</i>
Recurrent EBITDA¹	-5.0	-1.5	n.a.	2.0	309.2%
<i>Rec. EBITDA/Revenues</i>	<i>-51.8%</i>	<i>-18.6%</i>	<i>-33.3 p.p.</i>	<i>7.4%</i>	<i>5.2 p.p.</i>
EBIT	-4.1	-0.4	n.a.	2.6	n.a.

(1) Note 1: Recurrent EBITDA adjusted to strip out the impact of capitalised expenses (EUR 1.8Mn and EUR 2.1Mn in 1F22 and 1H23, respectively; with no impact on cash flow).

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	43.4	
+ Minority Interests	-	12m Results 2022
+ Provisions & Other L/T Liabilities	0.2	12m Results 2022
+ Net financial debt	9.0	12m Results 2022
- Financial Investments	0.2	12m Results 2022
+/- Others		
Enterprise Value (EV)	52.4	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
03-Oct-2023	n.a.	2.41	n.a.	n.a.	6m Results 2023	Enrique Andres Abad
12-Jun-2023	n.a.	2.52	n.a.	n.a.	Small & Micro Caps (Spain)	David López Sánchez
04-May-2023	n.a.	2.95	n.a.	n.a.	12m Results 2022	David López Sánchez
09-Feb-2023	n.a.	3.48	n.a.	n.a.	12m 2022 Preliminary results	David López Sánchez
05-Aug-2022	n.a.	2.62	n.a.	n.a.	6m 2022 Preliminary results	David López Sánchez
17-May-2022	n.a.	2.66	n.a.	n.a.	Estimates upgrade	David López Sánchez
08-Feb-2022	n.a.	4.03	n.a.	n.a.	12m 2021 Preliminary results	David López Sánchez
27-Jul-2021	n.a.	4.65	n.a.	n.a.	6m 2021 Preliminary results	David López Sánchez
10-May-2021	n.a.	3.84	n.a.	n.a.	12m Results 2020 - Estimates downgrade	David López Sánchez
01-Feb-2021	n.a.	4.40	n.a.	n.a.	12m 2020 Preliminary results	David López Sánchez
27-Jul-2020	n.a.	6.42	n.a.	n.a.	Estimates downgrade	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.	12m 2019 Preliminary results	David López Sánchez
20-Dec-2019	n.a.	2.24	n.a.	n.a.	Initiation of Coverage	David López Sánchez

