

Update: Report Q2 2023

2023-08-28

Crunchfish: Recalibrating risk metrics

- Crunchfish signed their first revenue-deal within Digital Cash
- We have revised our valuation model and increased the risk coefficients
- We lower our fair value to SEK 25.80 (51.70) per share

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Ticker: CFISH
Industry: Technology
Listed on: Nasdaq First North
Latest share price (SEK): 24,70
Market cap (MSEK): 816
Enterprise Value (MSEK): 797
Total number of shares (M): 33,04
- of which free float (M): 17,80

VHCF fair value per share

DCF model SEK 25.80

Crunchfish AB

Address: Stora Varvsgatan 6A
211 19 Malmö

Webpage: crunchfish.com
CEO: Joachim Samuelsson

Main owners (31 Dec 2022)

Company	Capital (%)
Femari Invest AB	22,7
Corespring Invest AB	18,1
Paul Cronholm	3,3
Carlquist Holding AB	3,0
Mikael Kretz	2,2

Share price history (SEK)



	-1m	-3m	-12m
Change (%)	-34,0	-35,2	17,0
52 w k range (Low /Hi) - SEK	10,31 / 40,60		

Source: Börsdata

Crunchfish's report for Q2 2023 is a story of high and lows. The company signed its first revenue deal for the business segment Digital Cash, and the company is now preparing for continued market activities. However, the report raises concerns about the value per contract, short-term deal flow and the timeframe until the company reaches breakeven. On top of that, the company needs further financing in the near term. We have reassessed the risk-profile of Crunchfish, and revised short-term projections which has resulted in an updated fair value of SEK 25.80 (51.70) per share.

Crunchfish reported a net revenue of SEK 295 thousand (SEK 134 thousand), SEK 4.2 million in own work capitalized, and SEK 515 thousand other income in Q2 2023. Operating expenses plus depreciation amounted to SEK 13.9 million, resulting in an operating profit of SEK -8.9 million (SEK -6.8 million). The company exited the quarter with a cash balance of SEK 9.1 million.

In our previous forecast model, we considered Crunchfish Digital Cash to be well on its way to commercialization by now. We are now more uncertain about future cash flows, the value of the product and how fast Crunchfish will be able to commercialize its technology. In this report we have done our best to explain the chain of thought as well as what changes we have made in our updated valuation model.

Table 1: Financial Overview

MSEK	2021	2022	2023e	2024e	2025e
Net sales	4,0	6,2	1,5	21,4	76,3
Grow th (%)	-64%	56%	-76%	1326%	256%
EBITDA	-29,2	-18,1	-28,4	-15,8	25,2
EBITDA margin (%)	neg	neg	neg	neg	26%
EBT	-38,5	-24,0	-34,7	-25,2	14,5
Cash holdings	32,8	29,3	45,6	9,0	9,7
Total assets	64,2	66,5	93,6	68,9	83,8
Total equity	55,8	58,8	84,2	59,0	73,5
Solidity (%)	87%	88%	90%	86%	88%
P/E	neg	neg	neg	neg	56,3
ROE	neg	neg	neg	neg	20%
EV/EBIT (x)	neg	neg	neg	neg	54,9
EV/Sales (x)	39,2	36,7	40,6	20,0	8,4

Source: Västra Hamnen Corporate Finance

First commercial deal in India

The company's first commercial deal within Digital Cash arrived during the quarter. Due to a successful RBI pilot project, IDFC FIRST Bank became a customer as well as a partner to Crunchfish. Digital Cash is currently being integrated into IDFC FIRST Bank payment app and the release of the updated version of the app is planned for Q3 this year. The partnership together with IDFC is meant to bring Crunchfish to the UPI Payment Rail. The UPI Payment Rail is the dominating force of the payment-space in India, and for a third-party technology to be approved for the UPI Payment Rail, it needs to be endorsed by a banking partner.

Payment structure of IDFC deal

The license agreement with IDFC includes the usage of Digital Cash for 2 years and is paid by an upfront fee. The service will be offered to a small batch of IDFC customers at first, and if IDFC decides to include more of its customers, they will need to pay an additional fee and so on, as the deal includes 7 steps. The value of the upfront fee has not been communicated, due to competition reasons, and revenue recognition from the deal will occur during the 2-year contract period.

HDFC deal postponed until further notice

In the [web conference](#) held in connection with the report, CEO Joachim Samuelsson explained how he and his team does not know when the next revenue deal will come. The hopes of a large contract with HDFC has been postponed in many instances, where discussions began well before the RBI pilot. Due to a recent corporate merge for HDFC, they have currently de-prioritized Crunchfish and top management of the bank has been and will be fully occupied with completing and integrating the newly merged company in the near term.

In need of further funding

Due to deals being pushed, and potential sales coming in later than expected, the company is now running low on cash. On the 30th of June 2023, the total cash balances were at SEK 9.1 million. The company has a burn-rate of approximately SEK 10 million per quarter. As a quick-fix, the company received a bridge-loan of SEK 7.5 million to keep its operations going until a financing solution has been put in place. As of now, the strategy is set on a directed issue to reduce potential dilution and maintain as much shareholder value as possible. Until resolved, the uncertainty around the company's financing may lead to short term pressure in the share price.

Lower sales projection for coming twelve months

We have decided to completely reshape our revenue projections for the 12 month-period ahead. We previously expected total sales for the period Q3 2023 through Q2 2024 to amount to approximately SEK 100 million. We recognize that we most likely were far off in our projections, and we therefore project total sales for the same period to amount to SEK 7.8 million.

Recalibrating the overall risk metrics

To account for the new risk assessment of Crunchfish, and to be more cautious in our projections, we have implemented a higher degree of risk-adjustment regarding our long-term projections. Previously, our risk coefficients of projected cash flow for different regions looked as follows:

- **India:** No risk coefficient of projected cash flow.
- **Africa:** No risk coefficient of projected cash flow.
- **South-East Asia:** 30% risk coefficient of projected cash flow.
- **Rest of the World:** 50% risk coefficient of projected cash flow.

Newly applied risk coefficient for specific regions

Our newly calculated risk adjustments are based on how close (or far) we believe Crunchfish are to achieve significant sales in specific regions. We have previously underestimated the time and effort it takes to sell, implement, and get regulatory approvals. Therefore, we have decided to increase our risk-coefficients of projected cash flows:

- **India:** 25% risk coefficient of projected cash flow.
- **Africa:** 50% risk coefficient of projected cash flow.
- **South-East Asia:** 50% risk coefficient of projected cash flow.
- **Rest of the World:** 50% risk coefficient of projected cash flow.

4 reasons why we have changed risk parameters

We justify these changes with several arguments:

1. Even though Crunchfish has secured its first deal in **India**, we have yet to see any numbers. Since the company needed a loan to finance short-term operations, we suspect that the upfront fee is small. Our long-term revenue projections for this region are quite significant, and while we still see similar potential, we have decided to be more cautious in assessing the projections as low risk. Therefore, we have applied a 25% risk coefficient.
2. When we formulated our previous valuation model and risk coefficients, we thought that discussions in **Nigeria** had come much further. During the latest web conference, it became clear that there are no such discussions in Nigeria at the moment. Therefore, we estimate the risk of this market to be similar to the **Rest of the World**, and we uniformly apply the 50% risk coefficient.
3. Crunchfish has had commercialization progress in **South-East Asia** in the past, but nothing major has come out of it. Instead, this region is halting, and our understanding is that Crunchfish is more focused on **India** and other countries/regions. This makes our projections more uncertain, and we therefore decide to apply the 50% risk-coefficient to be in line with **Africa** and **Rest of the World**.
4. Revaluating the assumptions and projections regularly is needed. Especially for a company such as Crunchfish, where all new information needs to be processed carefully. Last year and earlier this year, the idea was that Crunchfish Digital Cash product was ready and demand was high. While some of this is still true, circumstances around the sales process like completing pilots and facing regulatory difficulties that were not known before, have made us more cautious in our projections. Therefore, we decrease the expected revenue by adjusting risk to account for abovementioned circumstances.

50% chance of reaching sustainable profits

The continued delay of deals raises the concern of whether the company will be able to reach sustainable profits. The prevailing market conditions also makes the process of external funding more difficult. To account for this, instead of adjusting the WACC of projected cash-flow, we have decided to decrease the company's chance of reaching sustainable profits. We have previously had this number at 60%, and going forward, we have decreased this chance to 50%.

We lower our valuation

Considering our implemented model changes combined with a chance of survival of 50%, we see a fair value of SEK 25.80 per share, which is roughly 50% lower than our previous fairness valuation.

Income Statement - Annual Data

kSEK	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
Net revenues	3 957	6 187	1 502	21 421	76 325	125 028	207 057	383 307
Capitalised development cost	14 342	13 555	16 070	16 187	16 419	16 679	16 946	17 218
Other revenues	2 045	1 976	2 042	2 254	2 440	2 641	2 859	3 094
Total revenues	20 344	21 718	19 614	39 862	95 184	144 348	226 862	403 619
Cost of goods sold	-211	0	0	0	0	0	0	0
Personnel costs	-23 388	-21 735	-25 965	-27 858	-35 044	-51 333	-65 457	-83 468
Other external costs	-16 011	-16 175	-20 226	-23 679	-29 787	-43 633	-55 639	-70 947
Other operating expenses	-755	-1 857	-1 853	-4 123	-5 187	-7 597	-9 688	-12 353
Profit from affiliated companies	-9 186	-68	-0	0	0	0	0	0
EBITDA	-29 207	-18 116	-28 430	-15 798	25 166	41 785	96 078	236 851
Amortisation & depreciation	-7 661	-6 139	-6 462	-9 381	-10 657	-11 744	-12 679	-13 490
EBIT	-36 868	-24 255	-34 892	-25 179	14 509	30 041	83 400	223 361
Financial items, net	-1 600	214	187	-16	-6	0	0	0
EBT	-38 468	-24 042	-34 705	-25 195	14 503	30 041	83 400	223 361
Taxes	0	0	0	0	0	0	0	-12 229
Net profit	-38 468	-24 042	-34 705	-25 195	14 503	30 041	83 400	211 133
Earnings per share (SEK)	-1,26	-0,73	-1,02	-0,72	0,41	0,86	2,38	6,01
Growth (%)								
Net revenues	-63,6%	56,4%	-75,7%	1326,1%	256,3%	63,8%	65,6%	85,1%
EBITDA	na	na	na	na	na	66,0%	129,9%	146,5%
EBIT	na	na	na	na	na	107,0%	177,6%	167,8%
Net profit	na	na	na	na	na	107,1%	177,6%	153,2%
% of revenues (%)								
EBITDA margin	neg	neg	neg	neg	26,4%	28,9%	42,4%	58,7%
EBIT margin	neg	neg	neg	neg	15,2%	20,8%	36,8%	55,3%
EBT margin	neg	neg	neg	neg	15,2%	20,8%	36,8%	55,3%
Profit margin	neg	neg	neg	neg	15,2%	20,8%	36,8%	52,3%
Personnel costs	591,1%	351,3%	1728,6%	130,0%	45,9%	41,1%	31,6%	21,8%
Total OPEX	1014,8%	642,8%	3198,4%	259,8%	91,7%	82,0%	63,2%	43,5%
Profitability (%)								
ROE	neg	neg	neg	neg	19,7%	29,0%	44,6%	53,0%
ROIC	neg	neg	neg	neg	18,0%	31,8%	71,9%	145,2%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Annual Data

kSEK	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
Inventories	0	0	0	0	0	0	0	0
Account receivable	771	1 548	442	5 316	13 697	20 355	33 777	60 658
Receivables fr affiliated comp	33	0	1 000	1 000	1 000	1 000	1 000	1 000
Prepaid costs & accrued inco	1 384	1 089	1 613	1 721	1 801	1 887	1 978	2 074
Other receivables	1 093	450	660	732	775	813	853	895
Cash and cash equivalents	32 756	29 293	45 620	9 026	9 661	28 608	94 859	275 968
Total current assets	36 037	32 380	49 335	17 795	26 934	52 664	132 467	340 595
Tangible assets	696	535	912	743	605	493	401	327
Intangible assets	27 323	33 509	43 331	50 307	56 207	61 254	65 612	69 415
Long-term receivables	0	0	0	0	0	0	0	0
Affiliated companies	137	69	68	68	68	68	68	68
Total fixed assets	28 155	34 113	44 312	51 118	56 880	61 815	66 082	69 810
Total assets	64 192	66 493	93 646	68 913	83 814	114 478	198 549	410 406
Accounts payable	1 104	1 914	2 161	2 172	2 180	2 189	2 198	2 207
Accrued cost & prepaid incor	4 188	4 645	5 590	6 144	6 656	7 199	7 786	8 422
Other liabilities	3 057	1 161	1 313	1 404	1 476	1 548	1 624	1 702
Loans	0	0	0	0	0	0	0	0
Total current liabilities	8 349	7 721	9 064	9 720	10 313	10 936	11 608	12 331
Total non-current liabilities	0	0	389	194	-0	-0	-0	-0
Total equity	55 843	58 771	84 194	58 999	73 502	103 542	186 942	398 075
Total equity and liabilities	64 192	66 493	93 647	68 913	83 814	114 478	198 550	410 406

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	2021	2022	2023e	2024e	2025e	2026e	2027e	2028e
Operating activities	-20 952	-16 604	-28 435	-15 814	25 160	41 785	96 078	224 622
Changes in working capital	1 566	79	716	-4 399	-7 911	-6 159	-12 882	-26 295
Investing activities	-15 837	-13 616	-16 661	-16 187	-16 419	-16 679	-16 946	-17 218
Financing activities	59 303	26 840	60 389	-195	-194	0	0	0
Cash flow for the period	24 022	-3 687	16 138	-36 595	635	18 947	66 251	181 109
Beginning cash balance	-7 767	16 321	12 715	28 853	-7 742	-7 106	11 841	78 092
Adjustments	65	80	0	0	0	0	0	0
Ending cash balance	16 321	12 715	28 853	-7 742	-7 106	11 841	78 092	259 201

Source: Västra Hamnen Corporate Finance

ROIC Calculations

Invested capital	23 088	29 479	38 962	50 167	63 841	74 934	92 083	122 106
ROIC	neg	neg	neg	neg	18,0%	31,8%	71,9%	145,2%
Tax rate	20,6%	20,6%	20,6%	20,6%	20,6%	20,6%	20,6%	20,6%

Source: Västra Hamnen Corporate Finance

Income Statement - Quarterly Data

kSEK	Q4 2022	Q1 2023	Q2 2023e	Q3 2023e	Q4 2023e	Q1 2024e	Q2 2024e	Q3 2024e
Net revenues	30	171	295	461	576	3 080	3 658	6 598
Capitalised development cost	3 559	4 104	4 163	3 815	3 988	4 058	4 046	4 016
Other revenues	388	465	515	526	536	547	558	569
Total revenues	3 977	4 739	4 973	4 801	5 100	7 685	8 262	11 184
Cost of goods sold	0	0	0	0	0	0	0	0
Personnel costs	-5 999	-6 154	-6 594	-6 600	-6 617	-6 633	-6 650	-7 066
Other external costs	-4 403	-4 315	-5 999	-4 950	-4 962	-5 638	-5 652	-6 006
Other operating expenses	0	-1 857	-2	0	-924	-926	-982	-984
Profit from affiliated companies	-2	-0	0	0	0	0	0	0
EBITDA	-6 427	-7 587	-7 623	-6 749	-7 403	-5 513	-5 022	-2 873
Amortisation & depreciation	-1 391	-1 039	-1 274	-2 029	-2 119	-2 212	-2 304	-2 392
EBIT	-7 818	-8 626	-8 897	-8 778	-9 521	-7 725	-7 326	-5 264
Financial items, net	15	-57	255	-6	-5	-5	-4	-4
EBT	-7 803	-8 683	-8 642	-8 784	-9 527	-7 730	-7 331	-5 268
Taxes	0	0	0	0	0	0	0	0
Net profit	-7 803	-8 683	-8 642	-8 784	-9 527	-7 730	-7 331	-5 268
Earnings per share (SEK)	-0,03	-0,29	-0,21	-0,26	-0,28	-0,27	-0,22	-0,21
Y-o-Y Growth (%)								
Net revenues	-96,5%	-21,2%	119,2%	-92,1%	1790,2%	1705,7%	1141,1%	1331,4%
EBITDA	na							
EBIT	na							
Net profit	na							
% of revenues (%)								
EBITDA margin	neg							
EBIT margin	neg							
EBT margin	neg							
Profit margin	neg							
Personnel costs	19694,8%	3608,0%	2237,3%	1431,7%	1149,1%	215,4%	181,8%	107,1%
Total OPEX	34150,3%	7226,1%	4273,6%	2505,5%	2171,4%	428,5%	363,2%	213,0%
Profitability (%)								
ROE	neg							
ROIC	neg	neg	neg	neg	0,0%	0,0%	0,0%	0,0%

Source: Västra Hamnen Corporate Finance

Balance Sheet - Quarterly Data

kSEK	Q4 2022	Q1 2023	Q2 2023e	Q3 2023e	Q4 2023e	Q1 2024e	Q2 2024e	Q3 2024e
Inventories	0	0	0	0	0	0	0	0
Account receivable	1 548	545	566	354	442	2 025	2 405	4 339
Receivables fr affiliated comp	0	0	0	1 000	1 000	1 000	1 000	1 000
Prepaid costs & accrued inco	1 089	2 140	1 529	1 506	1 613	1 748	1 647	1 677
Other receivables	450	612	778	722	660	714	740	730
Cash and cash equivalents	29 293	19 029	9 130	56 881	45 620	34 469	25 257	16 236
Total current assets	32 380	22 327	12 002	60 462	49 335	39 956	31 049	23 982
Tangible assets	535	482	1 011	960	912	866	823	782
Intangible assets	33 509	36 627	39 578	41 414	43 331	45 223	47 007	48 673
Long-term receivables	0	0	0	0	0	0	0	0
Affiliated companies	69	68	68	68	68	68	68	68
Total fixed assets	34 113	37 177	40 657	42 442	44 312	46 157	47 899	49 523
Total assets	66 493	59 504	52 659	102 904	93 646	86 113	78 947	73 506
Accounts payable	1 914	1 107	1 071	2 151	2 161	2 175	2 165	2 168
Accrued cost & prepaid incor	4 645	5 184	6 155	5 310	5 590	5 838	6 009	5 971
Other liabilities	1 161	1 139	1 516	1 283	1 313	1 352	1 407	1 379
Loans	0	0	0	0	0	0	0	0
Total current liabilities	7 721	7 430	8 742	8 743	9 064	9 364	9 581	9 518
Total non-current liabilitie	0	0	487	438	389	340	292	243
Total equity	58 771	52 073	43 431	93 723	84 194	76 408	69 075	63 745
Total equity and liabilities	66 493	59 504	52 660	102 904	93 647	86 113	78 947	73 506

Source: Västra Hamnen Corporate Finance

Cash flow statement

kSEK	Q4 2022	Q1 2023	Q2 2023e	Q3 2023e	Q4 2023e	Q1 2024e	Q2 2024e	Q3 2024e
Operating activities	-6 945	-5 753	-7 592	-7 679	-7 410	-5 573	-5 029	-2 938
Changes in working capital	6 450	-476	1 671	-707	187	-1 472	-89	-2 017
Investing activities	-3 559	-4 104	-4 754	-3 815	-3 988	-4 058	-4 046	-4 016
Financing activities	22 370	105	552	59 951	-49	-49	-49	-49
Cash flow for the period	18 316	-10 228	-10 124	47 751	-11 260	-11 151	-9 212	-9 021
Beginning cash balance	10 833	29 293	19 029	9 130	56 881	45 620	34 469	25 257
Adjustments	0	0	0	0	0	0	0	0
Ending cash balance	29 293	19 029	9 130	56 881	45 620	34 469	25 257	16 236

Source: Västra Hamnen Corporate Finance

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