

Thin Film Electronics

Route to break-even in FY21

Strategy update

Thinfilm's recent investor update provided details on how its revised strategy, focused on driving market adoption of its NFC solutions, will potentially take the company to break-even in FY21. We will update our estimates to reflect the information given in the presentation.

Year end	Revenue (\$m)	EBITDA* (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	EV/Sales (x)
12/17	5.9	(50.9)	(57.5)	(6.6)	0.0	1.8
12/18	3.4	(49.3)	(54.5)	(4.6)	0.0	3.2

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Management intends to accelerate adoption of its NFC solutions by leading with brand protection rather than mobile marketing as then products will need to be shipped with NFC tags throughout the year, not just for specific campaigns. It is addressing three verticals where counterfeiting is a major issue and where it already has proven capability: wine and spirits; health and beauty; and over-the-counter pharmaceuticals, representing a collective serviceable market of 6–9bn tags per annum. It hopes to sign-up six or seven channel partners by 2020, each with the potential to deploy 100m tags annually, with Tapi and Bericap already on board. Management notes the average selling price of a tag integrated into its CNECT software programme is US\$0.13, so deliveries of 500m tags in FY21 (<10% of serviceable market) would generate potential revenues of c US\$65m.

Thinfilm is developing two proprietary silicon NFC chips which will be fabricated by a major global foundry. These will provide better security features than existing NFC chips, strengthening Thinfilm's competitive position, and should start shipping in commercial volumes in H120. Management expects that it will generate a gross margin of c 50% on complete NFC solutions (proprietary NFC tags + software + services). With an estimated annualised operating cost base of c US\$34m once the ongoing restructuring programme is complete, the company should achieve break-even on annual sales of c 500m tags. This is a much less risky strategy than completing the printed electronics facility, which would require 1bn tags to be sold annually to reach break-even, as well as incurring higher operating costs en-route. Management is in early discussions with third parties interested in acquiring the printed electronics facility and continues to seek additional finance.

Tech hardware & equipment

25 April 2019

Price **NOK0.32**

Market cap **NOK374m**

NOK8.60/US\$

Net cash (\$m) at end March 2019 (preliminary), excluding financial lease 20.0

Shares in issue 1.17bn

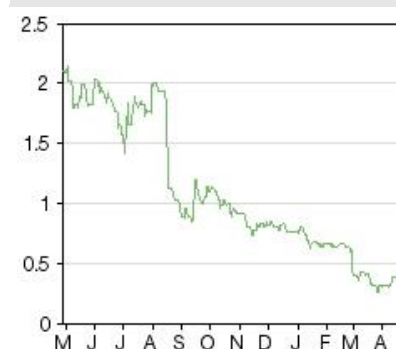
Free float 96.2%

Code THIN

Primary exchange Oslo

Secondary exchange OTCQX

Share price performance



Business description

Thin Film provides NFC solutions for brand protection, consumer engagement and supply-chain insights. It provides end-to-end services, incorporating NFC tags, integrating them onto products and delivering data and actionable insights via its CNECT cloud-based platform.

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