

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) and has a strong position in the financial sector

Market Data

Market Cap (Mn EUR and USD)	39.3	42.3
EV (Mn EUR and USD) ⁽²⁾	49.8	53.6
Shares Outstanding (Mn)	21.9	
-12m (Max/Med/Mín EUR)	2.98 / 2.33 / 1.80	
Daily Avg volume (-12m Mn EUR)	0.07	
Rotation ⁽³⁾	42.6	
Factset / Bloomberg	FACE-ES / FACE SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)⁵

Nice&Green	18.7
Salvador Martí Varó	4.9
Javier Mira Miró	2.1
Juan Alfonso Ortiz Company	0.7
Free Float	73.6

Relative performance (Base 100)

Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	-5.5	-11.1	-39.2	-13.3
vs Ibex 35	-4.0	-17.6	-49.1	-24.8
vs Ibex Small Cap Index	-8.5	-16.8	-44.6	-28.7
vs Eurostoxx 50	-2.7	-16.0	-46.7	-38.3
vs Sector benchmark ⁽⁴⁾	-1.8	-11.2	-50.8	-48.8

(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) The equity stakes of Javier Mira and Juan Alfonso exclude the shares loaned to Nice & Green. If their shares were included, they would be 5.85% and 5.58%, respectively.

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

The opportunity/challenge is to achieve sharp topline growth (operational gearing)

DOUBLE-DIGIT GROWTH IN REVENUE (+13.2% VS 2022) ... to EUR 25.2Mn (vs EUR 22.3Mn and EUR 9.7Mn in 2022 and 1H23, respectively). That growth was driven by: (i) the company's ability to retain customers (making for a sound recurring revenue base); and (ii) the opening of new subsidiaries and a stronger foothold in LATAM and EMEA. The company also launched new products on the market and offered new features in 2023 (e.g. behavioural biometrics and ID wallet). The change with respect to the preliminary figure FY23 earnings figures (EUR 30.1Mn) is attributable to the partial deferral of some revenue to 2024e under the accounting rules for recognising revenue. This revenue figure excludes the capitalisation of costs.

... ACCOMPANIED BY GROSS MARGIN EXPANSION. The growth in sales fed through to gross profit, which increased to EUR 21.8Mn (+14.4% vs 2022), implying gross margin expansion of 0.9pp to 86.6% (vs 85.7% and 80.3% in 2022 and 1H23, respectively).

HOWEVER, THE SHARP GROWTH IN OVERHEAD IS WEIGHING (HEAVILY) ON RECURRING EBITDA, WHICH WAS NEGATIVE BY EUR 3.9Mn (VS EUR 0.4Mn IN 2022). The sharp topline momentum requires considerable growth in the company's business structure, with overhead increasing significantly (and by more than revenue) to EUR 25.8Mn (vs EUR 18.7Mn in 2022; +37.5%). Considerable headcount growth to enable FACE's expansion strategy is the main factor behind this trend (264 employees compared to 205 at year-end 2022 and 159 at year-end 2021). Meanwhile, other operating expenses also registered sharp growth (+58% vs 2022). The company has reinforced its technical teams (70% of the workforce) and sales teams (further strengthening its position in LATAM and fuelling growth in EMEA and APAC).

INVESTMENT AGREEMENT WITH HAMCO (VIA A CAPITAL INCREASE). At the end of March, FACE announced an agreement with HAMCO, which is taking an equity interest in FACE for EUR 5Mn, implying a conversion price of EUR 2.95 per share (1.7Mn shares, 8% of the total currently outstanding). HAMCO will distribute FACE's products, services and technology exclusively in APAC. The licensing model will be based on a revenue sharing agreement. The term of the agreement is for three years (renewable by both parties).

IN SHORT, FACE'S EQUITY STORY PIVOTS AROUND REVENUE GROWTH TO LEVERAGE THE STRUCTURE IT HAS ALREADY CREATED. FACE boasts a business model that is scalable and brings exposure to megatrends (e.g. biometric technology applied to digital ID protection), which should enable it to deliver double-digit revenue growth in the coming years. In our view, 2024e and 2026e will be "key" years for the company to showcase its ability to profit from this growth (based on the operating structure in place, as seen in 2H23), enabling it to keep recurring EBITDA consistently in the black. This in a nutshell is FACE's equity story. All eyes should be on topline revenue performance. The rest (i.e. margins, FCF) will follow suit. In light of the company's share price performance in recent months, the market has yet to price this upside in (-39.2% -12m). We think it could do so (catalyst) when it starts to see an improvement in profitability.

Facephi (FACE) is a BME Growth company

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Appendix 1. Results table

EUR Mn	12m23 Real			
	12m23 Real	12m22	vs 12m22	2H23
Total Revenues	25.2	22.3	13.2%	15.6
Gross Margin	21.8	19.1	14.4%	14.1
<i>Gross Margin/Revenues</i>	<i>86.6%</i>	<i>85.7%</i>	<i>0.9 p.p.</i>	<i>90.5%</i>
Recurrent EBITDA¹	-3.9	0.4	n.a.	1.1
<i>Rec. EBITDA/Revenues</i>	<i>-15.6%</i>	<i>1.6%</i>	<i>-17.2 p.p.</i>	<i>6.9%</i>
EBIT	-5.4	1.7	-408.4%	-1.3
Net Debt	10.3	9.0	13.9%	

Note 1: Recurring EBITDA adjusted to exclude the impact of capitalized expenses, impairments and grants.

Appendix 2. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	39.3	
+ Minority Interests	-	12m Results 2023
+ Provisions & Other L/T Liabilities	0.3	12m Results 2023
+ Net financial debt	10.3	12m Results 2023
- Financial Investments	0.1	12m Results 2023
+/- Others		
Enterprise Value (EV)	49.8	

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Notes and Reports History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
06-May-2024	n.a.	1.80	n.a.	n.a.	12m Results 2023	Enrique Andrés Abad, CFA
12-Feb-2024	n.a.	1.98	n.a.	n.a.	12m 2023 Preliminary results	Enrique Andrés Abad, CFA
03-Oct-2023	n.a.	2.41	n.a.	n.a.	6m Results 2023	Enrique Andrés Abad, CFA
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

