

## A market leader with great regulatory tailwind

For over 20 years, Smart Eye has been developing eye tracking technology that understands, supports and predicts human intentions and actions. Their technology is used in the next generation of cars, commercial vehicles while providing new insights within the research subject. Smart eye has an operation divided into four business areas: Automotive Solutions, Research Instruments, Applied AI Systems and Media Analytics following their recent acquisition of Affectiva. These solutions are used by over 700 partners and customers worldwide, including customers such as US Air Force, NASA, BMW, Lockheed Martin, Audi, Boeing, Volvo, GM and Harvard University.

Smart eye has within Automotive Solution taken a position as a market leader for Driving Monitoring Systems (DMS). This market is expected to grow rapidly in the coming years, with an 80 per cent CAGR between 2022-2026. The demand for DMS is driven by several regulatory initiatives from both EU and the US, which means that this will be mandatory in all newly produced cars from 2026.

We argue that the stock is trading below fair price and with highly predictable ramp-up in sales, this is an attractive investment for a patient investor. We believe this tremendous market growth will drive the stock price as the stock market will soon realise the strong position Smart eye has in the DMS market.

Based on our discounted cash flow analysis we see a fair value of this share around 285 SEK in a base scenario, with a potential upside of 36% compared to the current market price.

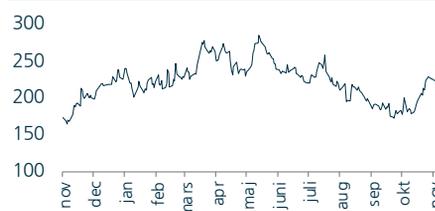
### Fair Value Range

Bear	Base	Bull
196	285	423

### Key Data

Sector	Technology
Ticker	SEYE
Market	First North
Price	208.00
Market Cap	4 268
Net Debt	(190,1)
Shares outstanding	22,15

### Share Price - 12M



Financials (MSEK)	2020	2021E	2022E	2023E	2024E
Revenue	65	102	343	624	910
EBITDA	(56)	(97)	(94)	156	409
EBIT	(77)	(133)	(197)	31	273
EPS	(4,65)	(6,03)	(9,05)	0,88	9,29
Revenue growth %	31%	57%	236%	82%	46%

## Investment Thesis

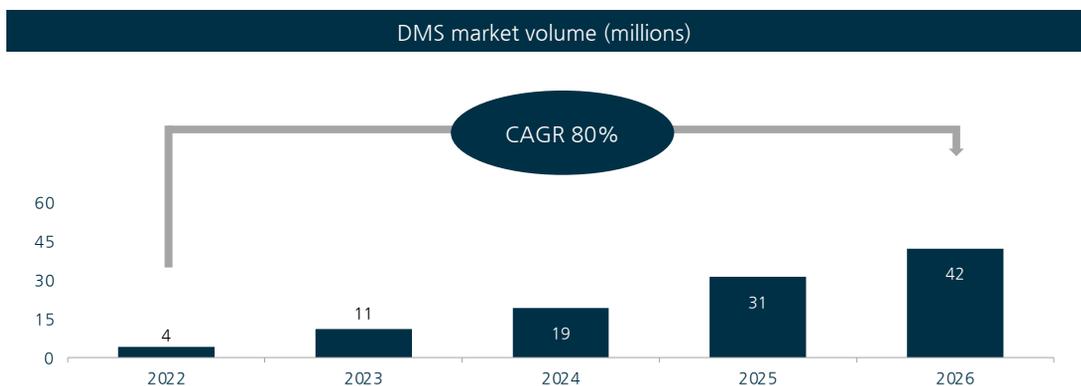
There are 1.3 million fatalities worldwide in traffic accidents each year. According to Euro NCAP, more than ninety per cent of all road accidents are caused by “human error”. As a consequence, decision-makers worldwide have taken note of active safety systems, like Driving Monitoring System. With decisions from both EU and Euro NCAP, Driving Monitoring Systems will be mandatory in EU for all new cars 2026, with a gradual implementation starting with self-driving vehicles in 2022.

The tailwind for Driving Monitoring Systems also extends to the US market. In November, a bipartisan infrastructure bill was passed by the House of Representatives. This bill includes the Safe Act which will give National Highway Traffic Safety Administration a mandate to initiate a rulemaking process to make DMS a new safety standard in the US. This is expected to be a requirement from 2026-2027.

These regulations will drive significant growth over the coming years with an CAGR of 80% reaching 42 million vehicles in 2026. This significant increase in demand for DMS is a well-known fact for the stock market, despite that, we believe that the stock market underestimates Smart eye’s strong position on the DMS market. Up until now, they have been highly successful in procurements, collecting 89 design wins with an estimated value of 2,2 billion SEK over its lifetime. This resembles approximately 53% of all DMS announced until now. Going forward, Smart eye has communicated that they expect additional procurements worth 10 billion SEK to be announced during the coming 18 months. This is in line with what Seeing Machines CEO communicated in their latest Q3 report, with projections equivalent to \$900 million.

Furthermore, Smart eye has a high probability of being awarded additional design wins on existing platforms. This means that design wins on new platforms increase the probabilities of receiving additional design wins on existing platforms. This can be explained by the convenience of using a solution that already works, and partly because there is scalability when using the same solution in several car models. Smart Eye has now been awarded 89 design wins on 11 different platforms and has estimated the potential value if they receive additional design wins on existing platforms to be 4 billion SEK in total life-time value.

We believe that the stock market will soon realise the strong position Smart eye has in the DMS market. In their last Q3 report, CEO Martin Krantz communicated they expect the majority of all 89 design wins to be in production before the end of 2023. We expect this with a gradual ramp-up of these design wins, meaning several of these design wins will move into production during 2022. Even if the exact ramp-up in sales is difficult to estimate, we are confident this will drive significant sales growth over the coming years starting in 2022.



## Strategy and Operations Analysis

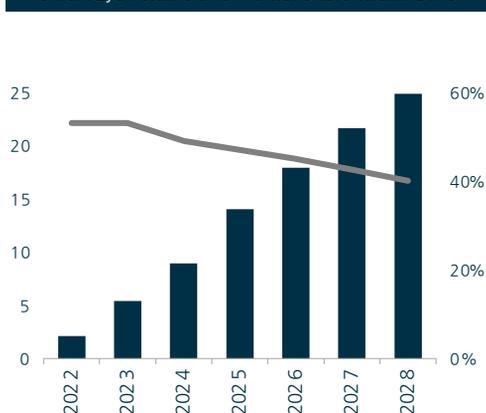
Smart eye has been a pioneer in developing eye tracking solutions for over 20 years. They have become the leading vendor of eye tracking technology. The Research Instruments unit has great strategic importance for Smart eye and provide early insights into the development of eye tracking technologies and different types of solutions that will be requested on the market in a few years.

These insights are then used within the Automotive Solution unit, to develop the next generation of eye tracking technology for the automotive industry. Smart eye has been able to meet the market's precise demands and can therefore be at the forefront.

Within Automotive Solution, Smart eye has developed a successful strategy that is divided into two phases. The first one is already accomplished: establish Smart Eye as the market leader in the premium segment, where the initial development of Driver Monitoring Systems was taking place. The second and current phase is to use the premium market as a bridgehead to establish corresponding leadership in the mid-class market segment. Given its success up until now, we assume a similar strategy when Interior Sensing moves to the next phase, Cabin Monitoring.

We argue that the management has shown several times their ability to execute on these early insights. Even if self-driving cars are not expected to be a reality before 2030, the market for Driving Monitoring Systems is starting to shift its focus. Smart eye has communicated that they have already started receiving inquiries from car suppliers regarding the next phase of Interior Sensing (IS), which includes driver monitoring system as well as Cabin Monitoring, i.e., monitoring everything else in the car including co-passengers. This means including more sensors in their offers and after acquiring Affectiva and iMotions, we believe Smart eye is ready to maintain a dominant position within the Automotive industry.

Smart Eye volume and Market Share within DMS



Average Selling Price



## Management & Ownership

**Martin Krantz, CEO and founder**, contributes over 20 years of experience in the automotive innovation industry since starting the company in 1999.

**Holdings:** 879,300 shares and 17,500 options.



**Anders Lyrheden, CFO**, has long and solid experience from global listed companies, and has been CFO at Swegon, Hexpol and Molnlycke Health Care.

**Holdings:** 38,000 shares private and 14,000 through companies, 19,100 options



**Martin Rydberg, CTO**, with a MSc, Computer Engineering at Chalmers University of Technology and has been employed at Smart eye since 2000.

**Holdings:** 41,529 shares and 5,000 options



**Detlef Wilke, VP of Automotive Solutions**, was appointed 2021, with long experience within Interior sensing, with previous appointments at Aptiv & Delphi as Lead Solution Architect and Technischer Manager.

**Holdings:** 2,200 shares



### Ownership Structure

Owner	Shares %	Votes %
Sellers Of Affectiva	10	10
Swedbank Robur Fonder	8	8
Första AP-fonden	7	7
Handelsbanken Fonder	7	7
Mats Krantz inklusive nästående	6	6
Niclas Eriksson med nästående	5	5
Avanza Pension	5	5
Martin Krantz	5	5
Anders Jöfelt	5	5
Linda Jöfelt	4	4
<b>Total</b>	<b>62</b>	<b>62</b>
Other	38	38

## Valuation

Our DCF Model is based on the assumption that Automotive Solutions will have a volume growth of 51% CAGR, reaching 24,8 million units in 2028. We believe this is equivalent to approximately 40% market share, which is in line with Smart eyes targeted market share. We assume a decreasing Average Selling price by 5 SEK annually with limited pricing power during this period. However, we expect a positive effect on ASP when Interior Sensing reach the market, since it is expected to have the double ASP of the DMS. In addition, we anticipate an annual growth rate within Research Instrument to be 12%. The EBIT is expected to reach positive digits 2023 and the EBIT-margin is set to reach 50% in long-term.

With these premises, our DCF model implies a fair value per share of 285, compared with the last closing price of 208, which gives us a 36.9% upside. This outcome is based on assumptions of a 9.3% discount rate, 2.0% perpetual growth rate and a 7.0x EBITDA exit multiple.

DCF MODEL												
<b>Assumptions</b>												
Tax rate	22,0%											
Discount rate	9,3%											
Prep. Growth rate	2,0%											
EV/EBITDA Multiple	7,0x											
Current price	208,00											
Shares outstanding	22,15											
<b>Cash flows</b>												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030		
	(119)	(163)	38	188	352	429	594	652	790	809		
<b>Market value Vs. Intrinsic value</b>												
	Market value	Upside	Intrinsic value									
	208,00	76,76	284,76									
<b>Smart Eye</b>												
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Terminal Value	
Sales	102	343	624	910	1 436	1 832	2 173	2 386	2 529	2 590		
Sales change (%)	57%	236%	82%	46%	58%	28%	19%	10%	6%	2%		
EBIT	(133)	(197)	31	273	503	733	978	1 074	1 265	1 295		
EBIT margin	(130%)	(58%)	5%	30%	35%	40%	45%	45%	50%	50%		
Cash taxes	-	-	5	58	107	157	210	231	273	279		
D&A	36	103	125	136	215	183	217	239	253	259		
CapEx	8	27	50	73	115	147	174	191	202	207		
Change in NWC	14	41	62	91	144	183	217	239	253	259		
Unlevered FCF	(119)	(163)	38	188	352	429	594	652	790	809		11 117
PV of FCF	(109)	(136)	29	132	226	252	319	321	356	333		
<b>Discount rate</b>												
Cost of debt	1,2%											
Market return	7,5%											
Risk free rate	1,5%											
Beta	1,15											
<b>Terminal value</b>												
Perpetual growth	11 356											
EV/EBITDA	10 879											
Average Terminal value	11 117											
<b>Intrinsic value</b>												
PV of FCF	1 723											
PV of Terminal Value	4 584											
Equity value	6 307											
Equity value per share	284,76											
<b>Market value Vs. Intrinsic value</b>												
Market value	208,00											
Upside	76,76											
Intrinsic value	284,76											
Upside (%)	36,91%											
<b>Sensitivity on EBITDA Exit Multiple &amp; WACC</b>												
	4,0x	5,0x	6,0x	7,0x	8,0x	9,0x	10,0x					
WACC	6,3%	412,17	431,28	450,39	469,50	488,61	507,72	526,83				
	7,3%	335,65	353,06	370,46	387,86	405,26	422,66	440,06				
	8,3%	281,74	297,60	313,46	329,32	345,18	361,04	376,90				
	9,3%	241,36	255,83	270,30	284,76	299,23	313,69	328,16				
	10,3%	209,81	223,01	236,22	249,43	262,63	275,84	289,04				
	11,3%	184,36	196,43	208,50	220,56	232,63	244,70	256,76				
	12,3%	163,37	174,40	185,44	196,47	207,50	218,54	229,57				
<b>Sensitivity on Perpetuity growth &amp; WACC</b>												
		0,5%	1,0%	1,5%	2,0%	2,5%	3,0%	3,5%				
WACC	6,3%	405,00	422,41	443,48	469,50	502,42	545,44	604,02				
	7,3%	346,94	358,40	371,85	387,86	407,23	431,14	461,40				
	8,3%	301,76	309,68	318,78	329,32	341,69	356,42	374,24				
	9,3%	265,38	271,06	277,47	284,76	293,13	302,84	314,23				
	10,3%	235,34	239,53	244,19	249,43	255,33	262,05	269,76				
	11,3%	210,05	213,22	216,70	220,56	224,87	229,69	235,13				
	12,3%	188,46	190,90	193,55	196,47	199,69	203,25	207,22				

## Case Summary

### **Pole position within a market with regulatory tailwind**

With EU and the US mandating Driving Monitoring Systems, this market is expected to witness significant growth over the coming years. Smart eye has taken a pole position in this niche with a market share of approximately 53 per cent.

### **Impatient stock market**

This significant increase in demand for DMS is a well-known fact for the stock market, despite that, we believe the stock market underestimates Smart eye's strong position on the DMS market. The majority of all 89 design wins is expected to be in production before the end of 2023, and even if the exact ramp-up in sales is difficult to estimate, we are confident this will drive significant sales growth over the coming years starting in 2022.

### **Short-term fuel for the share price**

With 10 billion SEK to be announced within the next 18 months, we assume Smart eye has a high probability to announce additional design wins, which should drive the stock price in the short term.

### **Great position for the next phase of Interior Sensing**

Even if self-driving cars are not expected to be a reality before 2030, the market for Driving Monitoring Systems is starting to shift its focus. Smart eye has communicated that they have already started receiving inquiries from car suppliers regarding the next phase of Interior Sensing (IS), which includes both driver monitoring system and Cabin Monitoring. With Smart eyes acquisition of Affectiva and iMotions, we believe Smart eye is well-positioned to maintain a dominant position within the Automotive industry.

To summarize, we believe that the fair value of this share should be around 285 SEK in a base scenario based on our discounted cash flow analysis, suggesting a potential upside of 36% from the current market price.

## Disclaimer

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