

Wyld Networks: Expanding Production Capacity

Wyld Networks Research Update 2023-08-22 07:25 Updated 2023-08-22 07:26

Redeye provides an update to Wyld's Q2 2023 report, in which our estimates align with the reported figures. The report did not reveal any significant unexpected outcomes. Meanwhile, we noted a quarter in which the order book expanded by cSEK26 million, accompanied by robust business activity and a focus on scaling manufacturing to meet demand. Our financial forecast has undergone minor adjustments, and our fair value range remains unchanged, with a base case of SEK20 per share.



Jessica Grunewald



Henrik Alveskog

SEK92m order book, first delivery in Q3'23

At the end of Q2'23, Wyld's hardware order book stood at cSEK92m of which SEK77m is for hardware (modules and terminals). In our view, this is more important than looking at the sales figures for Q2'23, which, not surprisingly, were close to flat (SEK0.3m). In Q2'23, the order book expanded by cSEK26m. The first shipment of orders is expected for Q3'23, and Wyld now focuses on scaling up the manufacturing. It is worth mentioning that the orders with the hardware order book are for 1-4 years. We estimate that c200,000 modules will be deployed by the end of '24, where orders stem from the current order book and new orders during '23-'24.

SEK20m estimated cash position and debt free

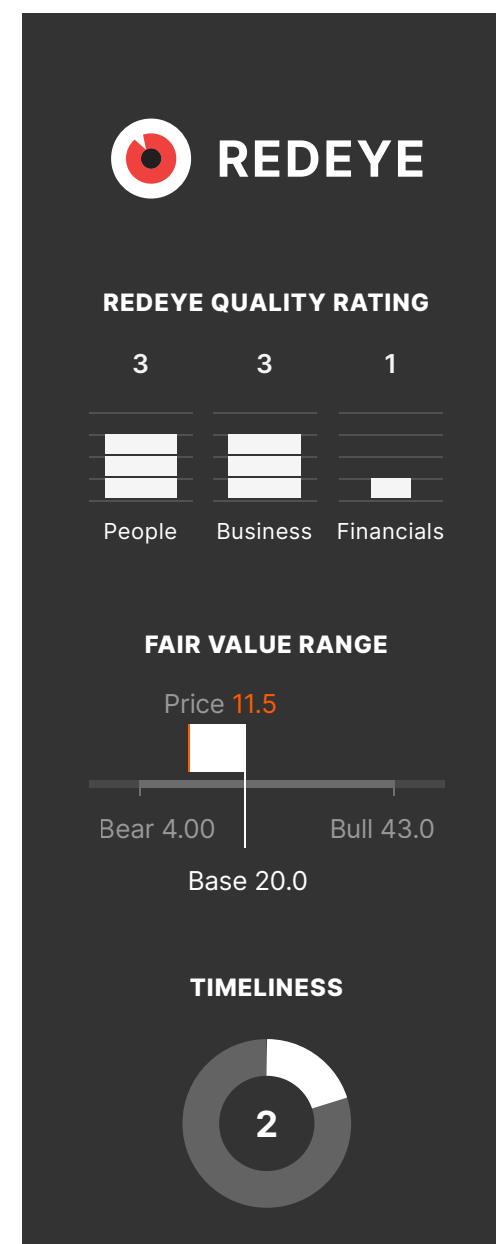
Wyld received cSEK6.3m from the UK Government for R&D activities in Q3'23 and repaid a loan of cSEK4.7m, implying that Wyld currently does not hold any outstanding loans. Hence, we estimate the present cash position to be cSEK20m. With the current burn rate of cSEK10m per quarter, the current cash position takes Wyld through Q3 and Q4, even without any sales. However, we estimate that sales will pick up in Q3'23, initially in small figures. Further, we believe that Wyld could finance operating cash flow via a bridge loan if the financial situation calls for it. Lastly, we would not be surprised to see another directed share issue. Wyld carried out a directed share issue of cSEK7.3m in Q4'22.

Intact base case, SEK20 per share

Following the Q2'23 report, our financial forecast has undergone minor adjustments, and our fair value range remains unchanged. Our Base case is SEK20, Bull case: SEK43, Bear case: SEK4. Currently, Wyld is trading at an EV/SALES of 2.5x based on our 2024e and with an 82% upside potential to our base case.

Key financials

SEKm	2022	2023E	2024E	2025E
Revenues	1	15	72	146
Revenue Growth	(54.9%)	1285.3%	364.4%	103.0%
EBITDA	(38)	(30)	(9)	9
EBIT	(38)	(31)	(10)	9
EBIT Margin	(3399.4%)	(198.3%)	(13.9%)	5.9%
Net Income	(39)	(31)	(6)	11
EV/Revenue	146.0	11.2	2.5	1.2
EV/EBIT	(4.3)	(5.7)	(18.2)	20.3



KEY STATS

Market Cap	178.4 MSEK
Entprs. Value (EV)	176.8 MSEK
Net Debt (2023e)	-1.5 MSEK
30 Day Avg Vol	240 K
Shares Outstanding	15.5M
Price / Earnings	N/A
PEG	0.0
Dividend Yield	N/A

Data from 2023-08-22 07:26

IMPORTANT INFORMATION

All information regarding limitation of liability and potential conflicts of interest can be found at the end of the report.

Redeye, Mäster Samuelsgatan 42, 10tr, Box 7141, 103 87 Stockholm. Tel. +46 8-545 013 30
E-post: info@redeye.se

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Investment thesis

Case

Set for High Growth

Wyld is embarking on a significant growth journey this year with its commercially launched satellite IoT network service. We estimate a sales CAGR of 192% for the next five years. Due to an attractive underlying business model with high gross margins (from both hardware sales and recurring data revenues), Wyld's business model is set to scale. We believe the investment offers unique exposure to the frontier techniques of LEO satellites, LoRaWAN/NB-IoT, and the IoT.

Evidence

Order Book of cSEK77m Suggests Robust Demand

Wyld has received several commercial orders, and its order book for hardware currently sits at cSEK77m, originating from eleven customers. We estimate the current order book value is equivalent to around 230,000 modules. The list of customers in the pilot phase is steadily ramping up; the company currently has a list of c20 potential commercial customers (pilot customers). Wyld is also part of a consortium with Eutelsat, TrakAssure, and Senet that combines Senet's ground LoRaWAN network with the satellite LoRaWAN networks of Wyld and Eutelsat to supply across the globe. Furthermore, Wyld has partnered with Dubai government-owned LEO satellite company Space D, exclusively providing Wyld's product offering. We believe these orders and the pilot customer list indicate high demand.

Challenge

Building the Market

Wyld uses frontier technology and methods, so the market has a proof-of-concept demand. Educating the market is both time- and resource-consuming. We thus argue that joining the LoRa alliance and the Multimodal IoT Infrastructure Consortium™ could enable Wyld to build awareness more rapidly and drive proof-of-concept via proven use-cases with prominent partners.

Challenge

Materializing Orders to Ramp up Revenues

Wyld's revenues and profitability lie further in the future, and orders are typically set to be deployed over several years. As a result, investors will want to see both the order book ramping up quickly and orders materializing and converting into revenues. The underlying SaaS business model (for the data packages) and the project-based sales (hardware) depend entirely on the number of deployed modules to ramp up revenues. However, we view the commercial launch and the securing of a supply chain as indicators that Wyld can execute its strategy.

Valuation

Base Case of SEK20

We value Wyld Networks based on three different DCF scenarios. Our fair value range is cSEK4-SEK43, with a Base Case of SEK20 per share. We use a 12.5% discount rate (WACC) based on Redeye's Rating model. In our Base and Bull cases, we project its current cash position and a potential bridge loan to take Wyld to positive net cash flows in 2025. Our Bear Case includes an equity issuance of SEK20-SEK35m before the company reaches break-even.

Q2 Review

Overall, Wyld Networks Q2 2023 reported figures aligned with our estimates. The report did not unveil any significant unexpected outcomes. Meanwhile, we noted a quarter in which the order book expanded by approximately cSEK26 million, accompanied by robust business activity and a

focus on scaling manufacturing to meet demand.

Financials Q2 2023: Sales

Wyld Networks: Actual vs Expectations			
(SEKm)	Q1'23	Q2'23 Actual	Q2'23e
Net sales	0.4	0.3	0.4
OPEX	9.9	11.3	10.5
EBIT	-9.1	-10.5	-10.3

Source: Redeye Research

Net sales was SEK0.3m (SEK0.1m). In our view, the order book ramp-up and the size of the cost base are more critical to pay attention to. Below we highlight the order book, customers and order value for the hardware (modules and terminals). The current order book value for the hardware equals c230,000 modules, indicating a price of cUSD30 per module. The first shipment of orders is expected for Q3'23, and Wyld now focuses on scaling up the manufacturing. It is worth mentioning that the orders in the hardware order book are for 1-4 years. We estimate that c200,000 modules will be deployed by the end of '24, where orders stem both from the current order book and new orders during '23-'24.

Wyld Networks: Hardware Orderbook			
Year of Order	Company	Sector	Order volume (SEKm)
2022	C.Towers	Energy	0.3
2022	Bayer Crop	Agriculture	0.3
2022	Not disclosed	Agriculture	17.0
2022	Nordic IoT company	Utilities	0.8
2022	DEWA/Eutelsat	Utilites	1.0
2022	IMAE	Utilites	0.3
2022	Treevia	Ecosystems	11.3
2022	Agrocognitive	Agriculture	1.1
Total Orderbook 2022			32.1
2023	Not disclosed	Agriculture	12.6
2023	Not disclosed	Utilites	6.3
2023	Not disclosed	Utilities	13.0
2023	Not disclosed	Utilities	8.3
2023	Not disclosed	Utilities	4.8
2023			
Total Current Orderbook			77.1

Source: Redeye Research and Wyld Networks

Wyld often talks about their total order book, i.e. including software/data orders, currently sitting at SEK92m. As we have estimated that all deployed modules will be connected to Wyld Fusion, we focus less on these data/software orders and concentrate on the hardware orders.

Financials Q2 2023: Cost base and Cash position

Operating expenses (ex. D&A) amounted to SEK11.3m (SEK8.9), and the cost base continues to be well-contained in our view.

Cash flow from operating activities was -SEK7.9m: by the end of the quarter, cash and cash equivalents amounted to SEK19m. In addition, Wyld has received cSEK6m from the UK Government for R&D activities in Q3'23. Hence, we estimate the current cash position to be cSEK20-25m. Wyld received cSEK6.3m from the UK Government for R&D activities in Q3'23 and repaid a loan of cSEK4m, implying that Wyld is now debt free. With the current burn rate of cSEK10m per quarter, the current cash position would take Wyld through Q3 and Q4 without any sales. However, we estimate that sales will pick up in Q3'23, initially in small figures. Further, we believe that Wyld could finance operating cash flow via a bridge loan if the financial situation calls for it. In addition, we believe that customer prepayments could further improve the cash position as we advance. Lastly, we would not be surprised to see another directed share issue. Wyld carried out a directed share issue of cSEK7.3m in Q4'22.

News flow during the quarter

Below we highlight some of the events from the recent news flow, with links to our published research notes on every event:

- [The outcome of T03 warrants exercise](#)
- [Increasing connectivity capacity supporting LoRaWAN IoT](#)

News flow after quarter

The start of Q3'23 has been eventful for Wyld, with high business activity. Below we highlight some of the events from the recent news flow, with links to our published research notes on every event.

- [System integration and distribution agreement with Net Reply](#)
- [Potential partnership with SpaceX](#)

Outlook

Outlook is overall positive from management, and there are a couple of reasons behind this:

Scaling up to meet demand

Wyld is scaling up manufacturing to the high demand it sees and plans to deliver products starting in Q3 2023.

Starts to develop 5G NB-IoT capability

As Wyld intends to upgrade its current satellite IoT service to support 5G NB-IoT it expands its TAM significantly to USD1.3bn from USD679m in 2025. The 5G/NB-IoT expansion improves Wyld's position and creates opportunities for a new class of customers—the 5G mobile operators. According to Wyld, it will be able to support more extensive hardware (modules) order volumes by Q1'24, i.e. be in the commercial phase with launched NB-IoT support to its satellite IoT services. Wyld has partnered with satellite operator OQ Technology to accelerate the roll-out of 5G NB-IoT.

UK-APAC tech growth programme

Wyld has been awarded a place on the UK-APAC tech growth programme initiative run by Intralink and the UK Government. Management states that the program will begin Wyld's penetration into the APAC IoT ecosystem, and they expect this region to be a key part of growth over the coming months and years.

Change in ownership and share performance

According to the CEO, Alastair Williamson, of Wyld Networks, Tern PLC has decreed its ownership during the last six months and is now down to 27% from c40% in terms of ownership in Wyld. The share price was under pressure from July until the beginning of August but has somewhat recovered since then. The news about the agreement with SpaceX on 4 August drove the share price up c28% intra-day, and since then, the share price has hovered around cSEK10-12.

Estimates

Our forecast still implies that Wyld Networks will reach break-even in 2025. Following the Q2'23 report, we have only made minor adjustments to our near-term forecasts.

We maintain a positive outlook for strong growth by the end of '23e, as we anticipate the shipment and deployment of hardware modules to customers. However, we acknowledge the inherent uncertainty in our estimates due to the dynamic and immature business environment.

Moreover, it is important to note that there may be substantial fluctuations from quarter to quarter in '23e and '24e. Additionally, we anticipate a 3-5 months lag in data revenues following the deployment of the modules.

Below are the summarized forecast changes and forecasts:

Wyld Networks: Estimate change (SEKm)			
	2023e	2024e	2025e
Net sales			
Old	18	72	146
New	15	72	146
% change	-14%	0%	0%
EBIT			
Old	-28	-9	10
New	-31	-10	9
% change	-8%	-12%	-14%
EBIT margin (%)			
Old	-157%	-12%	7%
New	-198%	-14%	6%

Source: Redeye Research

Wyld Networks: Estimate (MSEK)									
	2022	2023Q1	2023Q2	2023Q3e	2023Q4e	2023e	2024e	2025e	2026e
Net Sales	1	0	0	2	13	15	72	146	206
COGS	-1	0	0	-1	-5	-6	-30	-67	-96
Other costs	-21	-5	-6	-4	-5	-24	-24	-31	-37
Personnel costs	-20	-6	-6	-7	-7	-24	-32	-38	-49
OPEX	42	-10	-11	-11	-11	-49	-56	-70	-87
EBITDA	-38	-9	-10	-10	-3	-30	-9	9	23
D&A	0	0	0	0	-1	-1	-1	-1	-2
EBIT	-38	-9	-11	-10	-4	-31	-10	9	21
Growth									
y/y						1285%	364%	103%	41%
Margins									
EBITDA-margin (%)						neg.	neg.	6%	11%
EBIT-margin (%)						neg.	neg.	6%	10%
Earnings multiples									
EV/Sales						10	3	1	1
EV/EBITDA						neg.	neg.	19	7
EV/EBIT						neg.	neg.	20	8

Source: Redeye Research

Valuation

Our Base Case is SEK20 per share, and our Bull and Bear Case are SEK43 and SEK4. We are considering ramp-up in the order book for hardware (modules and terminals) currently sitting at cSEK77m and converting the order book to actual sales as the most critical catalysts in the next 12 months. Our fair value range remains quite broad: SEK4-43 per share. However, this is quite common for companies similar to Wyld Networks. That is high future growth expectations and a difficult-to-assess sustainable profitability level.

Our valuation is based on the financial forecasts in the table above (Base case) and long-term assumptions outlined in the table below.

Wyld Networks: DCF assumptions in Base case, SEKm				
Assumptions:	2023-27e	2028-32e	Calculations:	
Sales CAGR	195%	16%	NPV of FCF	136
Average EBIT margin	n.a.	16%	NPV of Terminal Value	158
			Value of the firm	293
Terminal				
Sales growth	2%		Net Cash (+)	20
EBIT margin	16%		Equity value	313
			Fair value per share	20
WACC	13%		Current share price	11
Shares 2023e (m)	16		Potential	82%

Source: Redeye Research

Quality Rating

People: 3

Wyld's management team has extensive experience in the industry. CEO Alastair Williamson has more than 25 years of experience in the software telecommunication sector. We also appreciate that the two founders, Gene Myers and Steve Clarke, remain active in the company and are part of the management team. The board is well composed with a representative from the largest owner. However, we would appreciate a larger board with at least five members. Management insider ownership is relatively low (3.6% of the shares), leading Wyld to lose one point in the rating.

Business: 3

The company has an asset-light business model with high recurring revenues. Furthermore, Wyld has several strategic partners, and we believe the company offers a strong value proposition to its customers, and this adds positively to the score. We expect the Business score to rise as and when Wyld proves its successful expansion into new markets and segments, strengthens its competitive position, and expands its revenue base.

Financials: 1

Redeye's financial rating model is determined using historical figures and requires consistent positive earnings. Wyld has yet to launch its products and has been unprofitable since listing, substantially affecting its financial rating. On the bright side, we are more than likely to revisit the rating and expect this score to increase as more historical data builds up and the company turns earnings into profits.

Financials

Income statement

SEKm	2022	2023E	2024E	2025E
Revenues	1	15	72	146
Cost of Revenue	(3)	2	25	67
Operating Expenses	42	43	56	70
EBITDA	(38)	(30)	(9)	9
Depreciation	0.11	-	-	0.07
Amortizations	0.04	1	1	1
EBIT	(38)	(31)	(10)	9
Shares in Associates	-	-	-	-
Interest Expenses	1	-	-	-
Net Financial Items	(1)	-	-	-
EBT	(39)	(31)	(10)	9
Income Tax Expenses	-	-	-	2
Net Income	(39)	(31)	(6)	11

Cash flow

SEKm	2022	2023E	2024E	2025E
Operating Cash Flow	(41)	(30)	(7)	12
Investing Cash Flow	(1)	(1)	(1)	(3)
Financing Cash Flow	44	36	-	-

Rating definitions

Company Quality

Company Quality is based on a set of quality checks across three categories; PEOPLE, BUSINESS, FINANCE. These are the building blocks that enable a company to deliver sustained operational outperformance and attractive longterm earnings growth.

Each category is grouped into multiple sub-categories assessed by five checks. These are based on widely accepted and tested investment criteria and used by demonstrably successful investors and investment firms. Each sub-category may also include a complementary check that provides additional information to assist with investment decision-making.

If a check is successful, it is assigned a score of one point; the total successful checks are added to give a score for each sub-category. The overall score for a category is the average of all sub-category scores, based on a scale that ranges from 0 to 5 rounded up to the nearest whole number. The overall score for each category is then used to generate the size of the bar in the Company Quality graphic.

People

At the end of the day, people drive profits. Not numbers. Understanding the motivations of people behind a business is a significant part of understanding the long-term drive of the company. It all comes down to doing business with people you trust, or at least avoiding dealing with people of questionable character.

The People rating is based on quantitative scores in seven categories:

- Passion, Execution, Capital Allocation, Communication, Compensation, Ownership, and Board.

Business

If you don't understand the competitive environment and don't have a clear sense of how the business will engage customers, create value and consistently deliver that value at a profit, you won't succeed as an investor. Knowing the business model inside out will provide you some level of certainty and reduce the risk when you buy a stock.

The Business rating is based on quantitative scores grouped into five sub-categories:

- Business Scalability, Market Structure, Value Proposition, Economic Moat, and Operational Risks.

Financials



Investing is part art, part science. Financial ratios make up most of the science. Ratios are used to evaluate the financial soundness of a business. Also, these ratios are key factors that will impact a company's financial performance and valuation. However, you only need a few to determine whether a company is financially strong or weak.

The Financial rating is based on quantitative scores that are grouped into five separate categories:


- Earnings Power, Profit Margin, Growth Rate, Financial Health, and Earnings Quality.

The team

MANAGEMENT

-  **Björn Fahlén**
bjorn.fahlen@redeye.se
-  **Tomas Otterbeck**
tomas.otterbeck@redeye.se






EDITORIAL








-  **Joel Karlsson**
joel.karlsson@redeye.se

TECHNOLOGY TEAM

-  **Alexander Flening**
alexander.flening@redeye.se
-  **Anton Hoof**
anton.hoof@redeye.se
-  **Fredrik Reuterhäll**
fredrik.reuterhall@redeye.se
-  **Fredrik Nilsson**
fredrik.nilsson@redeye.se
-  **Henrik Alveskog**
henrik.alveskog@redeye.se
-  **Hjalmar Ahlberg**
hjalmar.ahlberg@redeye.se
-  **Jacob Svensson**
jacob.svensson@redeye.se
-  **Jesper Von Koch**
jesper.vonkoch@redeye.se
-  **Jessica Grunewald**
jessica.grunewald@redeye.se
-  **Mark Siöstedt**
mark.siostedt@redeye.se
-  **Mattias Ehrenborg**
mattias.ehrenborg@redeye.se
-  **Niklas Sävås**
niklas.savas@redeye.se
-  **Rasmus Jacobsson**
rasmus.jacobsson@redeye.se
-  **Viktor Lindström**
viktor.lindstrom@redeye.se

LIFE SCIENCE TEAM

-  **Christian Binder**
christian.binder@redeye.se
-  **Ethel Luvall**
ethel.luvall@redeye.se
-  **Filip Einarsson**
filip.einarsson@redeye.se
-  **Fredrik Thor**
fredrik.thor@redeye.se
-  **Gustaf Meyer**
gustaf.meyer@redeye.se

-  **Johan Unnerus**
johan.unnerus@redeye.se
-  **Kevin Sule**
kevin.sule@redeye.se
-  **Martin Wahlström**
martin.wahlstrom@redeye.se
-  **Mats Hyttinge**
mats.hyttinge@redeye.se
-  **Oscar Bergman**
oscar.bergman@redeye.se
-  **Richard Ramanius**
richard.ramanius@redeye.se
-  **Sebastian Andersson**
sebastian.andersson@redeye.se

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