



TOBII AB

Far View Presentation- Value X Vail

June 2019

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Business

- Tobii provides eye-tracking technology for medical devices (Tobii Dynavox), market research (Tobii Pro) and consumer electronics (Tobii Tech)
- Founded in Sweden in 2001
- Management & Board of Directors own ~12.5% of the company

Why Is It Cheap

- The stock is undervalued due to significant losses stemming from high R&D and S&M expenses in its start-up Tobii Tech division which is just starting to ramp-up in large addressable markets
- Tobii Tech beginning to inflect as new consumer eye-tracking products have just hit the market
- Only covered by local Nordic brokers despite the majority of revenue and large portion of employees and customers located in US; Large R&D HQ in Silicon Valley

Upside

- As Tobii Tech continues to increasingly penetrate its key end markets, revenues could increase massively
- Tobii Dynavox and Pro both have significant earnings upside potential
- **Tobii stock could have upside to ~SEK 88.00+**

Downside

- Tobii Dynavox and Tobii Pro are strongly profitable enterprises with dominant market shares in their end markets
- Tobii Tech valued at a fraction of the R&D spent on its IP portfolio
- **Tobii downside should be protected at ~SEK 27.50**

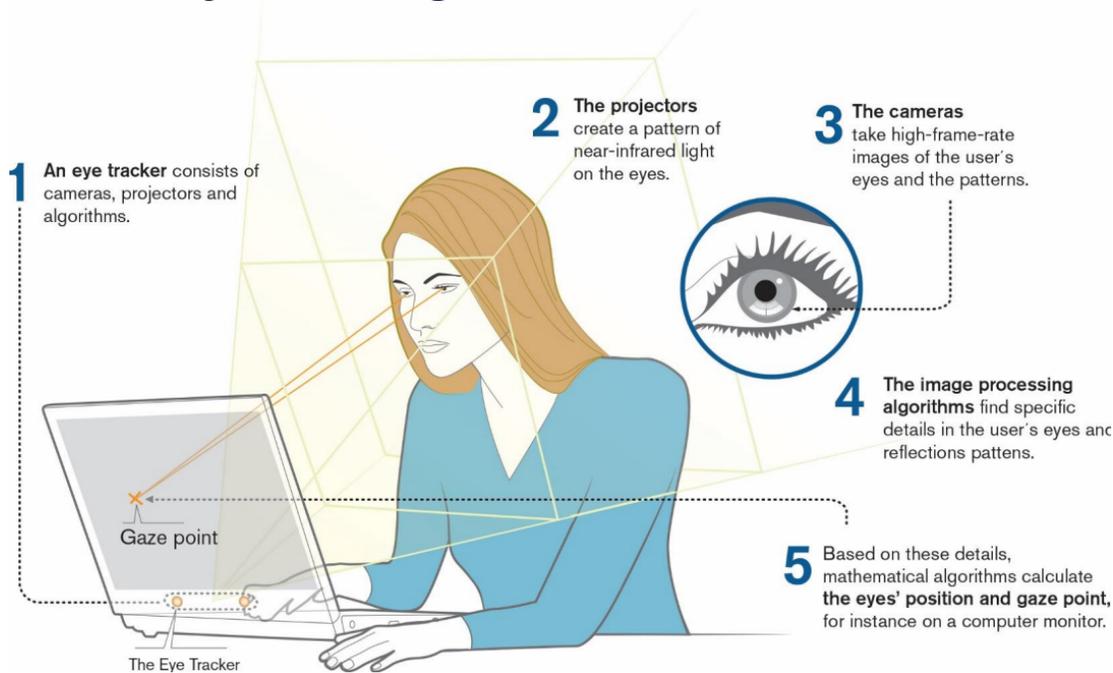
Risks

- Risks include execution, lack of eye-tracking adoption in consumer devices, increased eye tracking competition & current losses

What is Eye Tracking

- **Eye tracking uses lights, cameras and algorithms to determine where the eye is looking**
 - This allows the device to determine the presence, attention and focus of the person
 - Eye tracking has benefits for assistive communications, market and academic research and consumer devices

How eye tracking works



Eye tracking provides benefits in many fields

Assistive technology



Provides the ability to communicate to people with special needs

Research



Unique insights into human behavior and consumer responses

Gaming



Raise game immersion and intensity to new levels for a large set of enthusiast gamers

VR & AR



Optimize VR graphics, and enable new interactive experiences

Smartphones



Create smart interfaces that adapt to the attention of the user

Mainstream computers



New user interfaces for computers and tablets with built-in eye tracking

Automotive



Monitor and warn drivers for drowsiness and inattention

Specialty applications



Numerous new areas such as diagnostics, process industry and security

- **Tobii is the global leader in eye tracking with dominant market shares in the fields where it operates**
- The company operates in 3 divisions
 - **Tobii Dynavox**- Global leader in assistive technology for communication
 - **Tobii Pro**- Global leader in eye tracking solutions for academic and market research
 - **Tobii Tech**- #1 provider of eye tracking for consumer electronics devices
 - Main end markets include- VR/AR, Computer Gaming, Mainstream Computing, Smartphones

Three strong, independent business units



Global leader in
assistive technology
for communication

tobiidynavox



Global leader in
eye-tracking solutions
for research

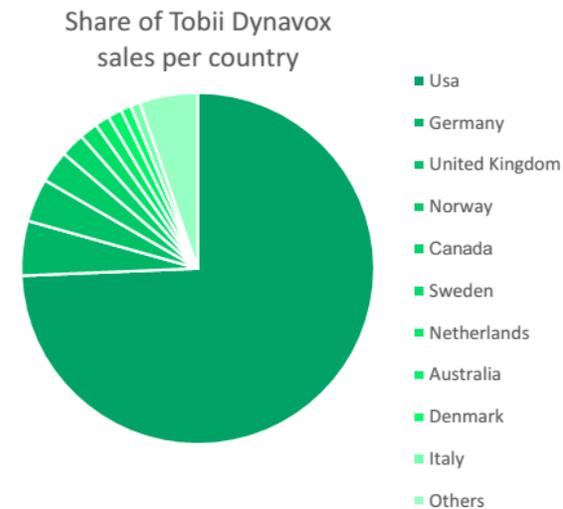
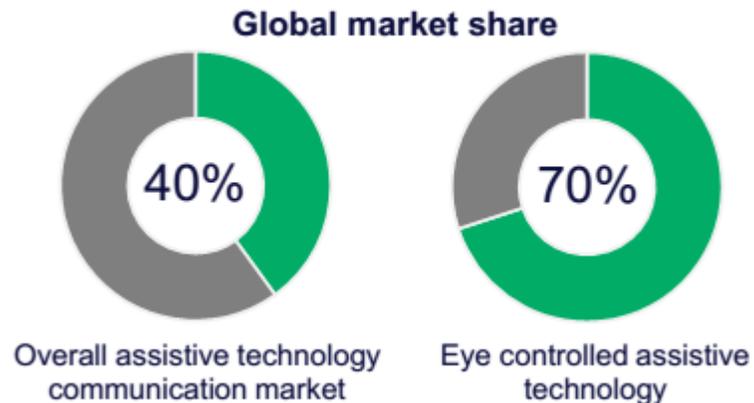
tobiipro



Leading eye-tracking
technology for integration
into consumer devices and
other volume products

tobiitech

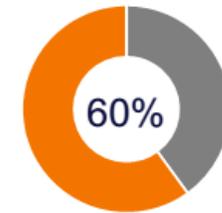
- **Global market leader in assistive technology for communication**
 - 40% market share- assistive devices, 70% market share- eye-controlled assistive devices
 - Strongest presence and distribution in the industry; leading access to therapists and funding organizations
- **Significantly underpenetrated market**
 - 1-2% current global penetration, 50 million people need assistive technology to communicate
- **Broad product offering**
 - Both eye and touch-based devices from medical to consumer grade; software-only solution for existing tablet devices



Tobii Pro

- **Global leader in eye tracking solutions for behavior research**
 - 60% global market share
- **Broad customer base-** 3,000 companies and 2,000 academic institutions
- **Underpenetrated Market**
 - Market research along is >\$40bln vs. eye-tracking <\$100mln
- **Diverse use cases**
 - Professional Performance- Sports performance, eSports, Skills transfer and process optimization
 - Market Research- Product labeling, shelf placement
 - UI- Website and application design

Global market share



Eye tracking solutions for behavior research¹⁾

Usability testing



Package design



Advertising



Shopper research



Simulators & training



Ophthalmology



Neurology



Infant research



Top 10 customers

Nielsen

Facebook

Microsoft

Ipsos

Toyota

Unilever

Explorer
Research

P&G

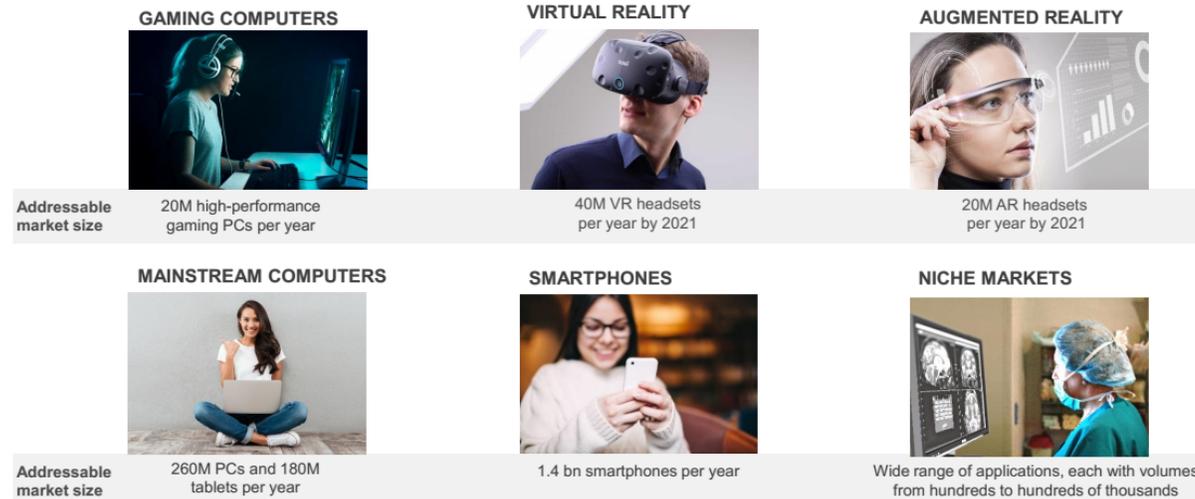
West Japan
Railway Co.

Google

- **Provides components and platforms to integrate eye tracking into consumer products**
 - Targeting high volume markets such as PC gaming, mainstream computers, VR/AR, smartphones and specialized markets
- **Limited competition**
 - Some large players have in-house eye tracking development capabilities
 - Other competitors are mainly small players specializing in certain market segment
- **Addressable markets are massive but mainly not commercial yet; just started launching commercial products in several areas in H1 2019**

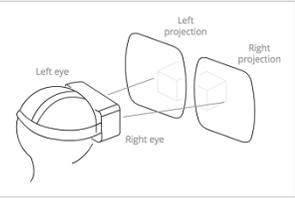
We target multiple very large opportunities

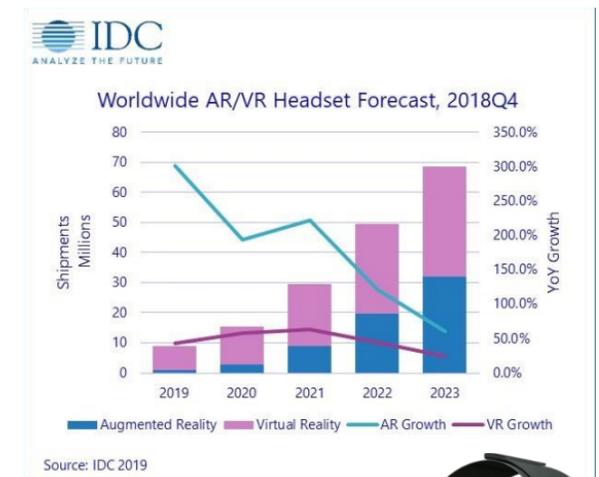
tobii tech



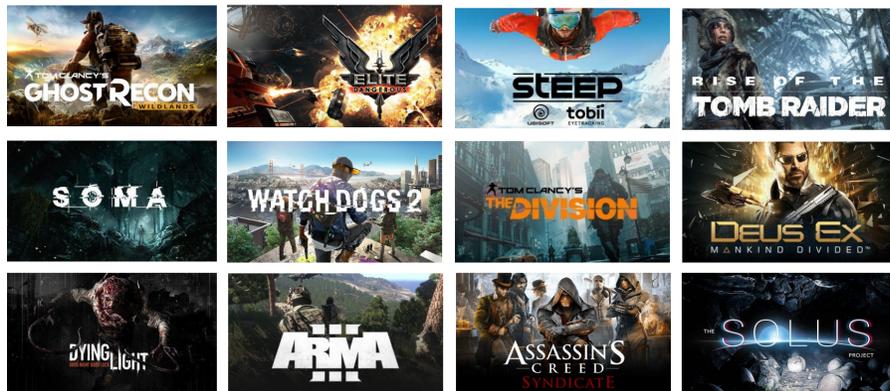
Tobii Tech-VR/AR

- **VR/AR Market is forecast to grow massively over next few years from <10mln to ~70mln units**
- **Eye tracking is expected to become a must have application in VR**
 - Provides significant improvement in technology (foveated rendering) and experience
 - *“I think there will come a point in time in the not too distant future when you cannot launch a VR headset without eye tracking”- Dominic Mallinson- Sony Playstation Global Head of R&D*
- **Tobii is primed to take massive market share as sole independent player of scale**
 - Sole VR headset on market (HTC Vive Pro Eye releasing Q2 19) uses Tobii; Tobii tech also integrated into Qualcomm’s Snapdragon 845 and XR1 reference designs for VR/AR headsets
 - *“several collaborative efforts with important VR/AR headset manufacturers that have not been announced”- 2018 Annual report*
 - *“Tobii Tech has good probability to take a strong, market-leading position in supplying eye tracking technology to VR”. Henrik Eskilsson Tobii CEO Q1 19 earnings call*

Foveated rendering	Perfect 3D image	Using eyes for interaction
		
<ul style="list-style-type: none">• Solves major technical challenges related to rendering of graphics in VR headsets	<ul style="list-style-type: none">• Reduce fatigue and improve immersion through perfect 3D image optimized to your eyes	<ul style="list-style-type: none">• Create more immersive experiences by using gaze as cue to the users' interest and intent



- **Gaming computing is one of the few markets where Tobii Tech has existing commercial products**
 - Alienware Dell's high performance gaming brand integrated Tobii's IS5 eye-tracking into its entire 2019 family of next-generation gaming laptops
 - Intel has integrated Tobii eye-tracking in its next-gen "Honeycomb Glacier" concept gaming PC
 - *"We can clearly see that the IS5 design has triggered interest in eye tracking in PCs and we are currently engaged in discussions with several major OEM manufacturers." Eskilsson- Q1 19 Call*
- **Significant opportunity in eSports, 400mln total viewers of e-sports**
 - Professionals post videos with eye tracking for more engaging viewer experiences
 - 10mln views of eye-tracking streams in Q1 2019, up 100% vs. Q4 2018
 - Eye tracking can help analyze performances for training and coaching
 - Tobii collaborated with Dell to launch Alienware Academy for eSports training



LEARN. TRAIN. RANK UP.

ALIENWARE ACADEMY BETA

- **Tobii Aware is a software solution using eye tracking for improved privacy, security, performance and well-being**
 - Privacy-instantly blurring screen when user looks away and only unblurred for correct user
 - Performance- screen brightness automatically dims when user looks away
 - Shipping on Lenovo Yoga A940 in Q2 2019
 - Tobii Aware is an algorithm using the existing Windows Hello camera which allows the company to address the mainstream PC market at lower cost
- **Tobii has very strong competitive position**
 - *“today, we are really the only player that can offer high-quality eye-tracking technology for consumer PCs”- Eskilsson Q3 18 Call*
- **Mainstream computing is a massive addressable market**
 - Tobii eye-tracking has been announced on Intel’s “Project Athena” which is its roadmap for the next several years of laptop computers

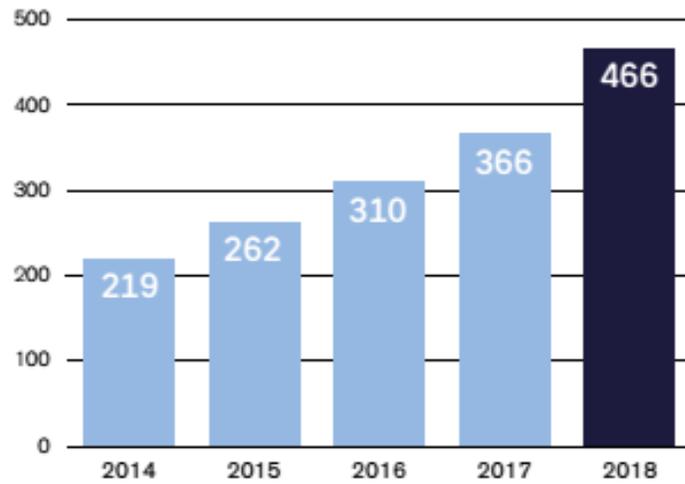


Lenovo Yoga A940 Desktop PC, featuring Tobii Aware

Strong IP

- **Leading Patent portfolio**
 - At the end of 2018, 466 granted and registered patent applications
 - Includes both core technology and applications for its use
 - Patents provide freedom to operate and allow the company to maintain healthy margins
- **Long-term plans to create a complementary patent licenscing business model**
 - Already has licensing agreements in place with smaller competitors

Number of Tobii patents and patent applications



Eye tracking-related patents granted to and applied for by Tobii's direct competitors

Largest portfolios of eye tracking-related patent applications and patents granted, as published by the US Patent and Trademark Office and the European Patent Office, Nov. 2016

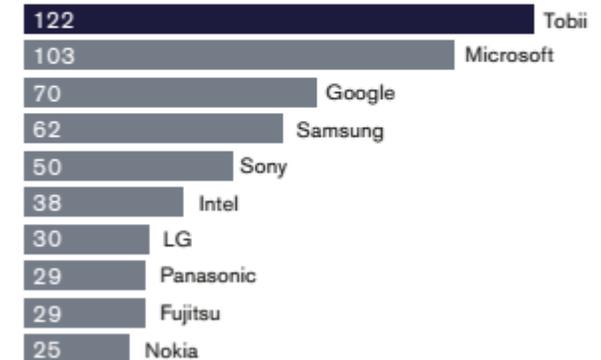
NUMBER OF PATENTS



Largest portfolios of eye tracking-related patents

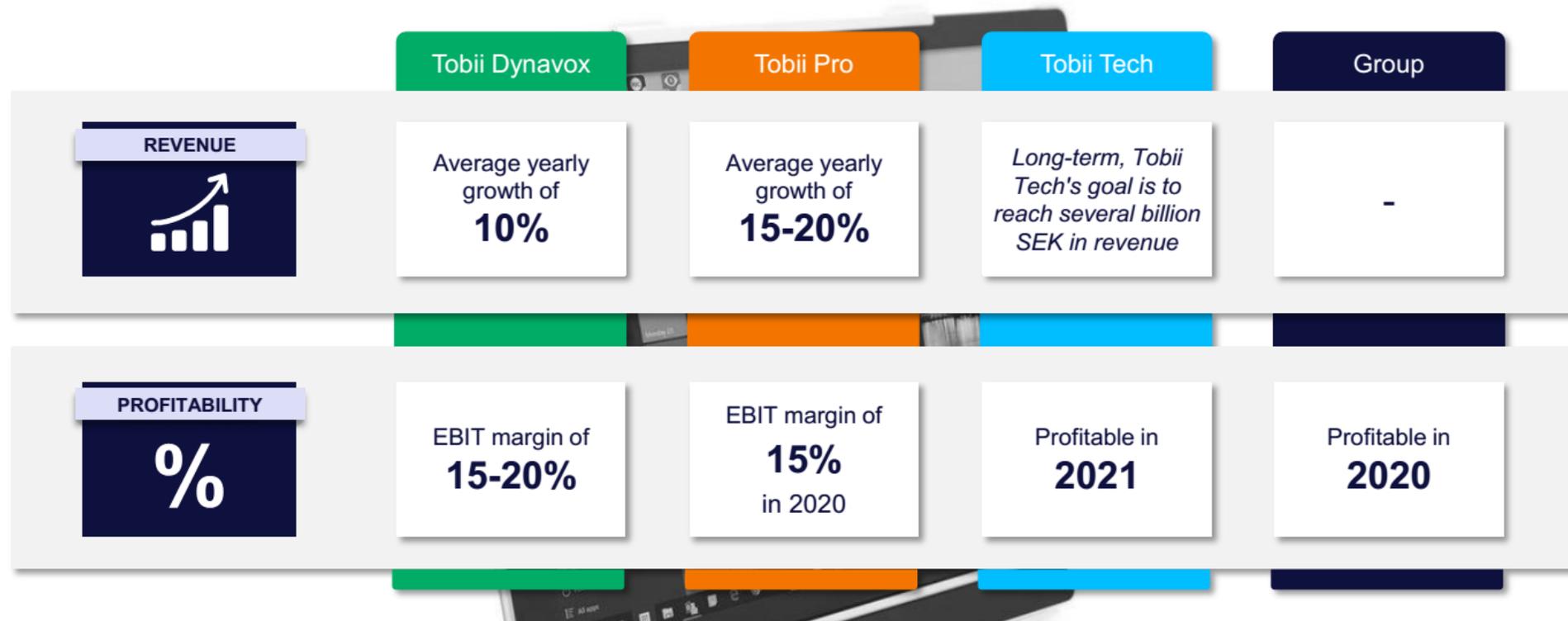
Largest portfolios of eye tracking-related patent applications and patents granted, as published by the US Patent and Trademark Office and the European Patent Office, Nov. 2016

NUMBER OF PATENTS



*****Please note these two charts are from the 2017 Annual Report and were not updated in the 2018 Annual Report. *****

Tobii's long-term financial targets



Downside Protection

- **Tobii Dynavox and Tobii Pro are profitable companies with dominant market shares in markets with significant growth**
 - European Assistive Technology peers appear to trade at ~20x EBIT on average (see Appendix for comps)
 - Market Research Peers appear to trade at ~17-18x 2019 EBIT
 - Valuing these divisions at 15x 2019 EBIT suggests a value for **Tobii of ~SEK 25 per share pre Tobii Tech**

	EBIT	Multiple	Value	Shares	Per Share
	2019	Low	Low		Low
Dynavox	106.9	15.0x	1,603.3		16.2
Pro	56.7	15.0x	850.9		8.6
Net Cash			91.1		0.9
Warrant Cash					
Cash Burn			(100.0)		(1.0)
Tobii Value pre Tech	163.6		2,445.33		24.72

- **Tobii Tech has spent almost SEK 1.1bln (~SEK 11 per share) on R&D since 2013**
 - This R&D has created a patent portfolio that should have significant value to other technology companies
 - If we value this R&D portfolio at 25% of cost, then it would be worth **~SEK 3 per share (~3x TTM revenues)**
 - **Combined that would be a value of ~SEK 27.50 for Tobii in a downside scenario**

	R&D	Multiple	Value	Per Share
	Since 2013	Low	Low	Low
TECH	1,075.9	25%	269.0	2.7
Total TOBII VALUE				27.44

Upside Potential

- For Dynavox and Pro, upside derives from their ability to meet Tobii's mid-term financial targets
 - Both divisions remain underpenetrated with significant growth opportunities in their end markets
 - Both divisions have just finished a significant growth investment cycle and are now poised to expand margins
 - If they achieve these goals, these two divisions could be worth **~SEK 49 at 15x EBIT**

	EBIT		Multiple		Value		Shares	98.9	102.4
	2019	2022	Low	High	Low	High		Low	High
Dynavox	106.9	219.9	15.0x	15.0x	1,603.3	3,298.0		16.2	32.2
Pro	56.7	104.8	15.0x	15.0x	850.9	1,572.2		8.6	15.4
Net Cash					91.1	91.1		0.9	0.9
Warrant Cash						154.7			1.5
Cash Burn					(100.0)	(100.0)		(1.0)	(1.0)
Tobii Value pre Tech	163.6	324.7			2,445.33	5,016.01		24.72	48.99

- For Tobii Tech, the key factor is the company's ability to generate significant revenue from its massive end markets
 - Tobii Tech's long-term goal is to achieve sales of **"several billion SEK with good profitability"**
 - *"I think that at least the -- for instance the PC opportunity and the VR and AR opportunities, each one of those even on a standalone basis are SEK1 billion revenue opportunities"-Eskilsson Q1 19 Call*
- Given the large range of potential outcomes, a sensitivity analysis seems best

Tech Value per Tobii Share					
	2.8	1.0x	2.0x	3.0x	4.0x
1,000	10	20	29	39	
2,000	20	39	59	78	
3,000	29	59	88	117	
4,000	39	78	117	156	

- **SEK 2bln of sales at 2x suggests a Tech value of SEK 39 per Tobii share and a total value of ~SEK 88**

1. **Execution**- Tobii Tech needs to significantly increase sales in several verticals simultaneously. Unclear if they have the ability to manage this growth
2. **Competition**- Eye tracking competitors do exist as both divisions of large companies and independent start ups. It is possible that one of them takes significant market share from Tobii
3. **Eye Tracking Adoption**- Expectations for significant eye tracking adoption in consumer devices may be incorrect
4. **Currently Losing Money**- Tobii does not expect to break-even until FY 2020.

Appendix- Comps

	Market Research			European Assistive Technology					
	EXPERIAN PLC	NIELSEN HOLDINGS PLC	FORRESTER RESEARCH INC	AMPLIFON SPA	GN STORE NORD A/S	HANDICARE GROUP AB	MEDCAP AB	SONOVA HOLDING AG-REG	DEMANT A/S
<i>6/10/2019</i>									
Share Price	2,405	\$ 22.47	\$ 45.99	20.02	321.10	35.00	102.00	221.00	225.80
Shares	904.0	355.5	18.4	226.4	120.1	58.9	13.4	65.3	249.1
Market Cap	21,741	7,988	848	4,532	38,568	2,063	1,367	14,431	56,256
Net Debt	3,175	8,225	76	1,262	5,162	874	287	254	6,498
EV	24,916	16,213	924	5,793	43,730	2,937	1,654	14,685	62,754
EV/2019 S	4.8x	2.5x	2.0x	3.4x	3.6x	0.9x	2.1x	5.0x	4.2x
EV/2019 EBIT	18.0x	17.5x	36.9x	29.6x	19.9x	13.1x	17.2x	24.3x	21.6x

1. Tobii Financials Reports
2. Tobii Earnings Calls
3. Tobii Investor Presentations
4. Websites
 1. <https://www.tomshardware.com/reviews/eye-tracking-glossary-definition-tobii-gaming-software,6012.html>
 2. https://www.sporttechie.com/chip-ganassi-racing-performance-edge-tobii-eye-tracking-tech/?utm_content=buffer5aac5&utm_medium=social&utm_source=twitter
 3. <https://www.manufacturing.net/blog/2019/04/eye-tracking-missing-link-between-man-and-machine>
 4. https://www.vice.com/en_us/article/bj9ygv/the-eyes-are-the-prize-eye-tracking-technology-is-advertisings-holy-grail
 5. <http://en.brinkwire.com/93604/tobii-proves-that-eye-tracking-is-vrs-next-killer-feature/>
 6. <https://techcrunch.com/2017/02/19/unlocking-the-potential-of-eye-tracking-technology/>
 7. <https://www.cnet.com/news/sonys-vr-plans-for-playstation-5-could-involve-eye-tracking-wireless-and-more/>
 8. <https://blog.tobii.com/dont-blink-eye-tracking-is-coming-f07b855995be>
 9. <https://www.hotspawn.com/ea-announces-new-broadcast-center-for-esports/>

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