Sequans Communications S.A. (SQNS)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>8 - 2</td>
<td>Suitability:</td>
<td>Speculative Risk</td>
<td>Q1</td>
<td>(0.34)A</td>
<td>(0.36)A</td>
<td>(0.15)E</td>
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<tr>
<td>Market Cap (mil):</td>
<td>121</td>
<td>Price Target ($) :</td>
<td>8</td>
<td>Q2</td>
<td>(0.32)A</td>
<td>(0.20)E</td>
<td>(0.12)E</td>
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<tr>
<td>Shares Out (mil):</td>
<td>23.9</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td></td>
<td>Q3</td>
<td>(0.32)A</td>
<td>(0.16)E</td>
<td>(0.09)E</td>
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<tr>
<td>Float (mil):</td>
<td>20.9</td>
<td>L-Term EPS Gr Rate Est:</td>
<td></td>
<td>Q4</td>
<td>(0.33)A</td>
<td>(0.14)E</td>
<td>(0.05)E</td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.32</td>
<td>Debt/Cap:</td>
<td>364.7%</td>
<td>Total</td>
<td>(1.33)A</td>
<td>(0.83)E</td>
<td>(0.41)E</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td>ROE:</td>
<td>NM</td>
<td>FY P/E</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
<td></td>
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Company Description
Sequans Communications designs baseband processors and RF transceiver ICs serving IoT and single-mode applications, and is a leading supplier of CAT1 and CAT M1 modems. Sequans key end markets include mobile routers, CPE, USB dongles, wireless broadband modems, embedded devices, and basestations. The company is headquartered in Paris, France.

Revenue Profile

Revenue Profile Summary

Source: Sequans, Baird

Competition
Competitors include Qualcomm, HiSilicon, Mediatek, Spreadtrum, and Sony (Altair Semiconductor).
Quick Summary
- Sequans completed a public offering of 4.9 million ADSs, representing 19.4 million ordinary shares, at a price of $5.15/ADS. The offering was held under a shelf registration filed previously in December 2017.
- **Sequans expects the net proceeds of the offering to be ~$23.1 million (~$26.5 million if the underwriters exercise the overallotment option in full), after deducting underwriting discounts and estimated offering expenses. Sequans intends to use the proceeds from the offering for general corporate purposes.**
- **Concurrently with the offering, Sequans stated it would place 428,869 ADSs in a private placement with Bpifrance Participations (“BPI”) at a price of $5.15 per ADS. The issuance of ADSs to BPI will fully satisfy the shareholder loan from BPI of $2.2 million which Sequans received in April 2020.**
- **Trimmed our price target to $8 to account for the higher share count. Reiterating Outperform rating.**

Investment Thesis
**Sequans is a technology leader on cellular IoT technologies, for which the ecosystem is slowly but surely ramping.** Design win activity has gained momentum, Sequans' revenue pipeline target remains strong, while Broadband growth is expected to be ongoing into 2020. The prospects of licensing agreements with several prospective partners should help cash flows into 2020, while key investor partnership is progressing well. Outperform-rated

Risks & Caveats
**Large competitors.** Baseband competitors include Qualcomm, Intel, and MediaTek, all of which are much larger and have more financial resources. Any of these companies pursuing the single mode LTE market could materially impact Sequans’ revenue.

**Pricing risk.** Pricing erosion, notably as units ramps in higher volume, could have a detrimental impact on revenue and/or gross margin.

**Lack of adoption for CAT M1.** Should the emerging CAT M1 market fail to materialize, and industry demand rests primarily on multi-mode LTE solutions, Sequans' ability to carve a niche in the existing modem market would be limited.

**Mis-execution in new, fast-growth markets.** The company participates in fast-growth markets. Any mis-execution, including in terms of new product launches, could cause Sequans to miss significant ramp opportunities.

**Currency.** The majority of Sequans’ revenue is denominated in U.S. dollars and about 60% of its expenses are denominated in euros; therefore, appreciation in the value of the euro may have a material adverse effect on its financial performance.

Supplemental Information
**Valuation.** Our $8 price target is based on the stock trading at 3.6x our 2021 revenue estimate of $66.8 million. Our ~4x P/S multiple is in line with the peer multiple of 4-5x P/S, as Sequans is now on a solid execution track with multiple new strategic engagements and design wins.
Appendix - Important Disclosures and Analyst Certification

Approved on 15 May 2020 07:52EDT/ Published on 15 May 2020 07:57EDT.

1 Robert W. Baird & Co. Incorporated makes a market in the securities of SQNS.

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Sequans Communications S.A.
May 15, 2020

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