

# Nanoco Group

Project extension

## Sensing programme moves to next phase

**Nanoco has signed an extension to its development project with a major European customer, under which it is working on a range of materials for a number of sensing applications, which could potentially lead to volume production in calendar H222 (FY23). Importantly, securing this contract gives management the confidence and cash to retain its nanomaterial development and production capability rather than cutting back to focus on the litigation case against Samsung.**

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (x)	P/E (x)
07/19	7.1	(3.8)	(5.0)	(1.34)	0.00	N/A
07/20	3.9	(2.9)	(4.9)	(1.38)	0.00	N/A
07/21e	1.9	(2.6)	(3.9)	(0.99)	0.00	N/A
07/22e	2.0	(2.2)	(3.6)	(0.97)	0.00	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

## Development potentially leads to volume production

In May 2020, Nanoco signed a framework agreement with the major European customer, which we have previously inferred is STMicroelectronics (ST). The first phase of the project, developing a new generation of nanomaterials for potential use in infra-red sensing applications, completed successfully in H121. Nanoco is now working on the second phase, optimising these materials, which is scheduled to complete in Q122. If successful, this phase could lead to production scale-up and eventual volume production in calendar H222, using Nanoco's existing nanomaterials facility in Runcorn, which has capacity to output materials worth £100m per year.

## Cash runway to calendar H222

We revise our FY21 estimates to reflect the project extension but leave our FY22 estimates, which already assume that the project progresses to the scale-up phase, unchanged. Management notes that the revenues associated with the project extension support a cash runway through to calendar H222. This is in line with our model, which identifies a small funding gap of £0.2m in FY22. While we model this as satisfied with debt, in line with Edison policy, we believe that Nanoco would be well-placed to raise further equity finance should the programme with ST move to the scale-up phase.

## Valuation: Resolution of patent infringement is key

The progress with ST confirms that there remains significant potential for generating revenues from the supply of quantum dots (QDs) for sensing applications. However, ahead of the ST development project definitely moving to commercial production, we believe that Nanoco's value lies in a satisfactory resolution of the patent infringement dispute with Samsung. Although the value of the potential payout has not been disclosed, we [calculate](#) that lost revenue in the US attributable to the patent infringement to date could be in the region of US\$200–250m or more. Any damages awarded could also make an additional allowance for future sales of Samsung TVs using QDs and sales in other territories.

### Tech hardware & equipment

14 May 2021

**Price** **27.5p**  
**Market cap** **£84m**

Net cash (£m) at end January 2021 (excluding £0.5m convertible loan and £0.9m IFRS 16 lease liabilities) 2.9

Shares in issue 305.7m

Free float 70.0%

Code NANO

Primary exchange LSE

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (3.5) 70.5 174.5

Rel (local) (4.7) 60.6 126.9

52-week high/low 30p 9p

### Business description

Nanoco is a global leader in the development and manufacture of cadmium-free quantum dots and other nanomaterials. Its platform includes c 740 patents and specialist manufacturing lines. Focus applications are advanced electronics sensing, displays, and bio-imaging.

### Next event

FY21 results October 2021

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## Revisions to estimates

Management notes that the project extension increases its FY21 revenue expectations by approximately 40%, with the balance of the project revenue falling in Q122. We raise our FY21 revenue estimate by £0.5m, leaving indirect costs unchanged, which results in a £0.4m reduction in the FY21 EBITDA loss. Our FY22 estimates already assumed that the project with ST progresses to scale-up, so we leave these unchanged until there is greater visibility regarding the scale-up phase. Our model assumes that potential commercial production related to the ST programme commences in calendar H222, ie FY23.

Exhibit 1: Changes to estimates							
£m	FY20	FY21e			FY22e		
	Actual	New	Old	% change	New	Old	% change
Revenues	3.9	1.9	1.4	35.7%	2.0	2.0	0.0%
Gross profit	3.5	1.7	1.2	36.9%	1.7	1.7	0.0%
EBITDA	(2.9)	(2.6)	(3.0)	-14.9%	(2.2)	(2.2)	0.0%
Normalised PBT	(4.9)	(3.9)	(4.4)	-10.3%	(3.6)	(3.6)	0.0%
Normalised net income	(4.0)	(3.0)	(3.5)	-13.0%	(3.0)	(3.0)	0.0%
Normalised diluted EPS (p)	(1.4)	(1.0)	(1.1)	-13.0%	(1.0)	(1.0)	0.0%
Net debt/(cash)	(5.2)	(2.5)	(2.1)	21.8%	0.2	0.6	-72.5%

Source: Edison Investment Research

Our estimate revisions result in a narrowing of the financing gap in FY22 by £0.4m to £0.2m. While we continue to model the gap as satisfied by debt in line with Edison policy, we believe that Nanoco would be well-placed to raise further equity finance should the programme with ST progress to the scale-up phase. At this point, we believe that management is likely to take the opportunity to raise finance to cover the working capital required to complete scale-up and initial commercial production phases as well. Management's target is to progress nanomaterial development and scale-up programmes, of which the initiative with ST is the most advanced, so that the company reaches break-even within three years. Management estimates that break-even is achievable on annual revenues of c £6m.

**Exhibit 2: Financial summary**

	£m	2019	2020	2021e	2022e
31-July		IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>					
Revenue		7.1	3.9	1.9	2.0
Cost of Sales		(0.7)	(0.3)	(0.2)	(0.3)
Gross Profit		6.5	3.5	1.7	1.7
EBITDA		(3.8)	(2.9)	(2.6)	(2.2)
Operating profit (before amort. and except).		(5.0)	(4.8)	(3.8)	(3.5)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		(0.3)	(0.7)	0.0	0.0
Share-based payments		(0.2)	(0.4)	(0.6)	(0.6)
Reported operating profit		(5.5)	(5.9)	(4.4)	(4.1)
Net Interest		(0.0)	(0.1)	(0.1)	(0.1)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	0.0	0.0
Profit Before Tax (norm)		(5.0)	(4.9)	(3.9)	(3.6)
Profit Before Tax (reported)		(5.5)	(6.0)	(4.5)	(4.1)
Reported tax		1.2	0.9	0.9	0.6
Profit After Tax (norm)		(3.9)	(4.0)	(3.0)	(3.0)
Profit After Tax (reported)		(4.4)	(5.1)	(3.6)	(3.5)
Minority interests		0.0	0.0	0.0	0.0
Net income (normalised)		(3.9)	(4.0)	(3.0)	(3.0)
Net income (reported)		(4.4)	(5.1)	(3.6)	(3.5)
Average Number of Shares Outstanding (m)		286	287	306	306
EPS - normalised (p)		(1.34)	(1.38)	(0.99)	(0.97)
EPS - diluted normalised (p)		(1.34)	(1.38)	(0.99)	(0.97)
EPS - basic reported (p)		(1.52)	(1.76)	(1.18)	(1.16)
Dividend per share (p)		0.00	0.00	0.00	0.00
<b>BALANCE SHEET</b>					
Fixed Assets		4.6	4.6	4.1	3.6
Intangible Assets		3.9	3.7	3.5	3.3
Tangible Assets		0.7	0.9	0.5	0.3
Investments & other		0.0	0.0	0.0	0.0
Current Assets		9.5	7.2	4.6	2.7
Stocks		0.2	0.1	0.1	0.2
Debtors		1.1	1.0	1.0	1.1
Cash & cash equivalents		7.0	5.2	2.5	0.4
Other		1.1	0.9	0.9	0.9
Current Liabilities		(4.8)	(3.4)	(3.4)	(4.0)
Creditors		(2.6)	(2.1)	(2.1)	(2.2)
Tax and social security		0.0	0.0	0.0	0.0
Short term financial leases		0.0	(0.6)	(0.6)	(0.6)
Short term bank debt		0.0	0.0	0.0	(0.6)
Other		(2.3)	(0.6)	(0.6)	(0.6)
Long Term Liabilities		(0.8)	(1.3)	(1.1)	(1.0)
Long term financial leases		0.0	(0.5)	(0.3)	(0.2)
Long term bank debt		0.0	0.0	0.0	0.0
Other long-term liabilities		(0.8)	(0.7)	(0.7)	(0.7)
Net Assets		8.5	7.2	4.2	1.3
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		8.5	7.2	4.2	1.3
<b>CASH FLOW</b>					
Op Cash Flow before WC and tax		(3.8)	(2.9)	(2.6)	(2.2)
Working capital		1.8	(1.5)	0.0	(0.1)
Exceptional & other		0.0	(0.2)	0.0	0.0
Tax		1.4	1.1	0.9	0.6
Net operating cash flow		(0.6)	(3.5)	(1.7)	(1.7)
Capex		(3.1)	(0.7)	(0.7)	(0.8)
Acquisitions/disposals		0.0	0.0	0.0	0.0
Net interest		(0.0)	(0.1)	(0.1)	(0.1)
Equity financing		0.0	3.2	0.0	0.0
Dividends		0.0	0.0	0.0	0.0
Other		0.0	0.0	(0.2)	(0.1)
Net Cash Flow		(3.7)	(1.1)	(2.7)	(2.7)
Opening net debt/(cash) - excluding finance leases		(10.7)	(7.0)	(5.2)	(2.5)
FX		0.0	0.0	0.0	0.0
Other non-cash movements		0.0	(0.8)	0.0	0.0
Closing net debt/(cash) - excluding finance leases		(7.0)	(5.2)	(2.5)	0.2

Source: Company accounts, Edison Investment Research

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