

# Nanoco Group

Trading update

## Strengthening customer engagement

Nanoco has announced that a sequence of purchase orders from several existing customers for development work and validation materials means that FY23 revenues are likely to be 20% higher than FY22 rather than at a similar level. We adjust our estimates accordingly, noting that these still exclude any revenues from potential production orders, the value of which will depend on the initial use case and ramp-up timing.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)
07/20	3.9	(2.9)	(4.9)	(1.39)	0.00	N/A
07/21	2.1	(2.9)	(4.7)	(1.30)	0.00	N/A
07/22e	2.4	(2.6)	(4.4)	(1.23)	0.00	N/A
07/23e**	2.9	(2.2)	(3.6)	(0.94)	0.00	N/A

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

## Customer engagement strengthening

As discussed in [our April note](#), Nanoco is working on sensing materials for five different customers. The revenue uplift results from additional purchase orders for development and validation materials for the European electronics customer, who we have previously inferred is ST Microelectronics (ST), an additional development work package and orders for materials from the major Asian chemical company and work for the other customers. Nanoco is supplying nanomaterials to ST and the Asian customer so that they can both manufacture sensing devices for their respective end-customers to try out in complete electronic devices.

## Slight delay to trial

The start date of the trial between Nanoco and Samsung has been rescheduled from 12 September 2022 to 3 October 2022 as the court had scheduled a number of trials on the September date on the basis that the majority of cases settle before trial. The trial, which may be rescheduled again, will last a week, at the end of which the outcome will be announced, provided there has been no pre-agreed settlement.

## Valuation: Dependent on patent litigation outcome

Ahead of any of the customer programmes definitely moving to commercial production, we believe that much of Nanoco's value lies in a satisfactory resolution of the [patent infringement dispute](#) with Samsung, an outcome which we believe is much more likely given the positive verdict from the US Patent Trial and Appeal Board in May. Although the value of a potential payout has not been disclosed, we [calculate](#) that lost revenue in the United States 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 infringing TVs and a possible uplift for wilfulness.

## Tech hardware and equipment

13 September 2022

**Price** 51.2p

**Market cap** £165m

Net cash (£m) at end-February 2022 (excluding lease liabilities and £5.4m (net) from June placing, subscription and broker option) 2.6

Shares in issue 322.4m

Free float 85.2%

Code NANO

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 13.8 16.9 160.6

Rel (local) 14.9 15.1 157.3

52-week high/low 52.4p 17.1p

## Business description

Nanoco Group is a global leader in the development and manufacture of cadmium-free quantum dots and other nanomaterials, with c 560 patents. Focus applications are advanced electronics, displays, bio-imaging and horticulture.

## Next event

FY22 results October 2022

## Analysts

Anne Margaret Crow +44 (0)20 3077 5700

Dan Ridsdale +44 (0)20 3077 5729

[tech@edisongroup.com](mailto:tech@edisongroup.com)

[Edison profile page](#)

**Nanoco Group is a research client of Edison Investment Research Limited**

## Changes to estimates

We modify our FY23 estimates to reflect:

- An additional £0.5m revenues from development work packages and the provision of validation materials.
- £0.3m grant income from Innovate UK for two projects, as recently announced. The first is for the development of singly doped colloidal dots for potential use in quantum technology applications and has been won in collaboration with The University of Manchester. It extends for 18 months. The second is to develop a new material set based on alternative chemical elements for potential use in infrared sensing and other consumer electronics applications. It extends for 12 months. Both projects are scheduled to commence in early FY23.

Exhibit 1: Revisions to estimates								
Y/E July	FY21	FY22			FY23			
£'m	Actual	New	Old	% change	New	Old	% change	
Revenues	2.1	2.4	2.4	0.0%	2.9	2.4	20.8%	
Gross profit	1.9	2.2	2.2	0.0%	2.6	2.2	20.7%	
EBITDA	(2.9)	(2.6)	(2.6)	0.0%	(2.2)	(2.7)	-18.4%	
Normalised PBT	(4.7)	(4.4)	(4.4)	0.0%	(3.6)	(4.1)	-12.1%	
Normalised net income	(4.0)	(3.8)	(3.8)	0.0%	(3.0)	(3.5)	-14.2%	
Normalised diluted EPS (p)	(1.3)	(1.2)	(1.2)	0.0%	(0.9)	(1.1)	-14.2%	
Net debt/(cash)	(0.3)	(3.3)	(3.3)	0.0%	(1.5)	(1.0)	49.6%	

Source: Company data, Edison Investment Research

Our FY23 estimates do not model any potential revenues associated with commercial production of nanomaterials for sensing or other applications. We will review this when the FY22 results are announced in October when there should be better visibility of ST's requirements. The potential impact on FY23 revenues will depend on when any potential production ramp-up begins and on the initial use case. Nanoco's sensing materials are being incorporated into sensing chips which may be used in many applications. Deployment by a major mobile phone company in a key handset model could potentially generate c £15–20m annual revenues for Nanoco, while deployment in a more niche application, such as virtual reality glasses, would generate lower revenues, but is likely to catalyse take-up by other customers. Longer term, should Nanoco's material be widely deployed in multiple handset models or other high-volume devices, we note that the existing production capacity in Runcorn could generate sensing application revenues of £100m/year working 24/7.

**Exhibit 2: Financial summary**

	£'m	2020	2021	2022e	2023e*
31-July		IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>		restated			
Revenue		3.9	2.1	2.4	2.9
Cost of Sales		(0.3)	(0.2)	(0.2)	(0.3)
Gross Profit		3.5	1.9	2.2	2.6
EBITDA		(2.9)	(2.9)	(2.6)	(2.2)
Operating profit (before amort. and excepts.)		(4.8)	(4.6)	(3.9)	(3.1)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		(0.7)	0.0	0.0	0.0
Share-based payments		(0.4)	(0.4)	(0.7)	(0.7)
Reported operating profit		(5.9)	(5.0)	(4.6)	(3.8)
Net Interest		(0.1)	(0.1)	(0.5)	(0.5)
Profit Before Tax (norm)		(4.9)	(4.7)	(4.4)	(3.6)
Profit Before Tax (reported)		(6.0)	(5.1)	(5.1)	(4.3)
Reported tax		0.9	0.7	0.6	0.6
Profit After Tax (norm)		(4.0)	(4.0)	(3.8)	(3.0)
Profit After Tax (reported)		(5.1)	(4.4)	(4.5)	(3.7)
Minority interests		0.0	0.0	0.0	0.0
Net income (normalised)		(4.0)	(4.0)	(3.8)	(3.0)
Net income (reported)		(5.1)	(4.4)	(4.5)	(3.7)
Average Number of Shares Outstanding (m)		287	306	308	322
EPS - normalised (p)		(1.39)	(1.30)	(1.23)	(0.94)
EPS - normalised fully diluted (p)		(1.39)	(1.30)	(1.23)	(0.94)
EPS - basic reported (p)		(1.77)	(1.44)	(1.46)	(1.16)
Dividend per share (p)		0.00	0.00	0.00	0.00
<b>BALANCE SHEET</b>					
Fixed Assets		4.6	3.4	3.0	2.5
Intangible Assets		3.7	2.9	2.6	2.4
Tangible Assets		0.9	0.5	0.4	0.1
Investments & other		0.0	0.0	0.0	0.0
Current Assets		7.2	5.8	8.6	6.5
Stocks		0.1	0.1	0.1	0.1
Debtors		1.0	1.2	1.0	0.7
Cash & cash equivalents		5.2	3.8	6.8	5.0
Other		0.9	0.7	0.7	0.7
Current Liabilities		(3.6)	(2.4)	(2.2)	(2.2)
Creditors		(2.3)	(1.6)	(1.5)	(1.5)
Tax and social security		0.0	0.0	0.0	0.0
Short term financial leases		(0.6)	(0.5)	(0.5)	(0.5)
Short term bank debt		0.0	0.0	0.0	0.0
Other		(0.6)	(0.3)	(0.3)	(0.3)
Long Term Liabilities		(1.3)	(3.8)	(4.3)	(4.3)
Long term financial leases		(0.5)	(0.1)	(0.6)	(0.6)
Loan notes		(0.5)	(3.5)	(3.5)	(3.5)
Other long term liabilities		(0.2)	(0.1)	(0.1)	(0.1)
Net Assets		7.0	3.1	5.1	2.5
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		7.0	3.1	5.1	2.5
<b>CASH FLOW</b>					
Operating Cash Flow		(3.0)	(2.8)	(2.6)	(2.2)
Working capital		(1.4)	(1.4)	0.0	0.3
Exceptional & other		(0.8)	(0.1)	0.0	0.0
Tax		1.1	0.9	0.7	0.7
Net Operating Cash Flow		(4.1)	(3.5)	(1.8)	(1.2)
Capex		(0.7)	(0.3)	(0.4)	(0.4)
Acquisitions/disposals		0.0	0.0	0.0	0.0
Net interest		0.0	(0.0)	(0.1)	(0.1)
Equity financing		3.2	0.0	5.4	0.0
Dividends		0.0	0.0	0.0	0.0
Other		(0.8)	2.3	0.0	0.0
Net Cash Flow		(2.4)	(1.5)	3.1	(1.7)
Opening net debt/(cash)		(6.6)	(4.7)	(0.3)	(3.3)
FX		0.0	0.0	0.0	0.0
Other non-cash movements		0.6	(3.0)	0.0	0.0
Closing net debt/(cash)		(4.7)	(0.3)	(3.3)	(1.5)

Source: Company data, Edison Investment Research. \*Excluding potential production orders.

---

## General disclaimer and copyright

This report has been commissioned by Nanoco Group and prepared and issued by Edison, in consideration of a fee payable by Nanoco Group. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

**Accuracy of content:** All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

**Exclusion of Liability:** To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

**No personalised advice:** The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

**Investment in securities mentioned:** Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

---

## Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

---

## New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

---

## United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

---

## United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia