

Nanoco Group

Non-dilutive debt extends organic cash runway

Nanoco has announced the details of the non-dilutive loan note facility of £3.15m (gross) being provided by major shareholders. This facility supports the cash runway for organic business activities past calendar H222, at which point there should be good visibility of potential production orders. The initial IPR judgement and verdict from the trial in the patent litigation against Samsung are both expected during calendar 2022, so the loan notes preserve both potential sources of value for shareholders.

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.

Patent litigation timescale extended

Nanoco has successfully petitioned the judge in Texas to delay the court trial until after the US Patent Trial and Appeal Board has completed inter partes reviews (IPRs) of the five patents in the case, which examine the validity of the patents themselves. As discussed in our June [flash note](#), the change in sequence improves the likelihood of a positive outcome for Nanoco, but potentially extends the timescales for receiving the initial IPR judgement and trial verdict by around six months to late calendar 2022.

Non-dilutive loan resolves FY22 funding gap

Since the loan note agreement is structured (see below) so that Nanoco does not make cash interest payments, our P&L estimates are not affected. While our previous estimates identified a small funding gap of £0.2m, our revised model shows cash of £1.9m at end FY22. The loan notes fall due in July 2024, potentially giving Nanoco time either to repay them using cash from commercial production income or from the litigation settlement. Management believes that the cost of servicing the potential premium for winning the litigation would not materially affect the economic impact of the award for shareholders.

Valuation: Resolution of patent infringement is key

We are encouraged that Nanoco has expanded its product and customer portfolio of nano-materials for use in infrared-sensing applications from a single customer and one material development programme in 2018 to five customers and eight different materials. Nevertheless, ahead of any of these definitely moving to commercial production, we believe 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 infringing TVs and a possible uplift for wilfulness. Samsung would also be likely to seek a global negotiated settlement covering sales in other territories.

Non-dilutive loan note subscription

Tech hardware & equipment

21 July 2021

Price **20.2p**
Market cap **£62m**

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	(16.5)	(25.7)	14.8
Rel (local)	(15.1)	(26.0)	1.0
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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Details of non-dilutive subscription

Nanoco has completed a non-dilutive subscription for 4.5m loan notes by its major shareholders Lombard Odier Asset Management and ORA Capital, which is associated with Richard Griffiths. The loan notes are unsecured, have a nominal value of £1 each and are repayable three years from completion, which is expected to take place prior to end July 2021. Rather than paying interest directly to the loan note holders, which would adversely affect cash consumption, Nanoco is issuing the loan notes at a subscription price of 70p, which represents a discount to the nominal value of £1 equivalent to 12% annual interest. Nanoco may redeem the notes at any time prior to their maturity at 80% of nominal value during the first year of the term; 90% at any time in year two, and 100% at any time in year three. In the event of a successful outcome to the litigation with Samsung or a change of control of Nanoco, the note holders will also be entitled to a success bonus of 105% of the nominal value of the notes in addition to a repayment of the loan notes themselves. Management does not believe that affordability would be an issue in either scenario. The subscription will raise £3.15m gross and is subject to an arrangement fee of 1.4% of the nominal amount.

Management is confident that it will win the litigation against Samsung and will be able to repay the loan notes either from the settlement proceeds or from commercial revenue production if the lawsuit has not been settled by the time the loan notes fall due. Management observes that the success bonus potentially payable on the loan notes will not materially alter the economic impact on Nanoco of any litigation award and that it still expects the group will retain around 50% of a modest award from the litigation, rising to around 80% of a more substantial award.

We have reduced short-term creditors at end-FY21 by £1.0m to bring it in line with H121 levels. Following this adjustment and the receipt of the loan notes, our revised estimates show gross cash of £1.9m at end-FY22. The loan notes therefore extend the organic cash runway past calendar H222, at which point there will be good visibility of potential production orders for calendar 2023 from the European electronics company, which we have previously inferred is STMicroelectronics following ST's presentation at the Society for Information Display's symposium earlier this year. There should also be visibility at this point of whether the newer programme with the significant Asian chemical company announced earlier this month is continuing with the next stages of development required before moving to commercial production. We believe that if either of these programmes is successful, Nanoco will either become cash-generative quickly and be able to repay the loan notes from operating cash flow or would be well-placed to raise finance through the issue of equity, if required.

Exhibit 1: Financial summary

	£m	2019	2020	2021e	2022e
31-July		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
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
BALANCE SHEET					
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	6.7	4.2
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	4.6	1.9
Other		1.1	0.9	0.9	0.9
Current Liabilities		(4.8)	(3.4)	(2.4)	(2.4)
Creditors		(2.6)	(2.1)	(1.1)	(1.2)
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	0.0
Other		(2.3)	(0.6)	(0.6)	(0.6)
Long Term Liabilities		(0.8)	(1.3)	(4.2)	(4.1)
Long term financial leases		0.0	(0.5)	(0.3)	(0.2)
Long term bank debt		0.0	0.0	(3.1)	(3.1)
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
CASH FLOW					
Op Cash Flow before WC and tax		(3.8)	(2.9)	(2.6)	(2.2)
Working capital		1.8	(1.5)	(1.0)	(0.1)
Exceptional & other		0.0	(0.2)	0.0	0.0
Tax		1.4	1.1	0.9	0.6
Operating cash flow		(0.6)	(3.5)	(2.7)	(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)	(3.7)	(2.7)
Opening net debt/(cash) - excluding finance leases		(10.7)	(7.0)	(5.2)	(1.5)
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)		(7.0)	(5.2)	(1.5)	1.2

Source: Company accounts, Edison Investment Research

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