

# Nanoco

## Grant funding for life sciences project

Nanoco has secured just under £1m grant funding for a life sciences project to develop a heavy metal-free quantum dot testing kit to detect COVID-19. The project will last 18 months and represents a potential third segment for generating future revenues in addition to established activities in sensing and display applications. We make minor adjustments to our estimates, although there is no impact on EBITDA or cash flow.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	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	1.4	(2.9)	(4.4)	(1.14)	0.00	N/A
07/22e	3.2	(1.3)	(2.6)	(0.65)	0.00	N/A

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

## Project builds on cancer-detection R&D

The project is an extension of Nanoco's earlier work using its VIVODOT quantum dots conjugated with antibodies as a diagnostic tool in the detection of cancer, which completed the proof-of-concept stage. The new project focuses specifically on COVID-19 antibodies and, if successful, the technology developed will be used to detect other viruses found in saliva, potentially including flu and future COVID-19 variants. Part of the funds are allocated for the development of a delivery system for the test, which will be done by a partner selected by Nanoco. The goal is to create an accurate and rapid self-administered test with results produced in situ.

## Project cash neutral in the short term

The project will cost just under £1.0m, with Innovate UK contributing 80% and Nanoco funding the remainder. Management expects the project will have a neutral impact on its cash flow in the short term. The grant will enable Nanoco to continue its life sciences activity, which would otherwise have been mothballed, while maintaining a cash runway to December 2022. We raise our FY21 and FY22 revenue estimates by £0.4m and £0.6m respectively, to reflect the grant funding and increase R&D expenses by the same amount so there is no change to our EBITDA, PBT, EPS or cash-flow estimates.

## Valuation: Resolution of patent infringement key

This grant award demonstrates there remains significant potential for generating revenues from the supply of QDs. However, ahead of any development projects 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 pay out has not been disclosed, we calculated in [our October note](#) that lost revenue in the US attributable to the patent infringement to date could be US\$200–250m. Any damages award could also make an additional allowance for future sales of Samsung TVs using QDs and sales in other territories.

## Grant funding award

### Tech hardware & equipment

26 November 2020

**Price** 10.5p  
**Market cap** £32m

Net cash (£m) at end July 2020 5.2  
(excluding £0.5m convertible loan and £1.2m IFRS 16 lease liabilities)

Shares in issue 305.7m  
Free float 67.6%  
Code NANO  
Primary exchange LSE  
Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	5.0	(37.6)	(16.7)
Rel (local)	(3.7)	(41.7)	(5.7)
52-week high/low		29.0p	6.5p

### 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, displays, lighting and bio-imaging.

### Next event

AGM 3 December 2020

### Analysts

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**Exhibit 1: Financial summary**

	£m	2019	2020	2021e	2022e
31-July		IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>					
Revenue		7.1	3.9	1.4	3.2
Cost of Sales		(0.7)	(0.3)	(0.1)	(0.5)
Gross Profit		6.5	3.5	1.3	2.7
EBITDA		(3.8)	(2.9)	(2.9)	(1.3)
Operating profit (before amort. and except).		(5.0)	(4.8)	(4.3)	(2.5)
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)	(0.4)	(0.4)
Reported operating profit		(5.5)	(5.9)	(4.7)	(2.9)
Net Interest		(0.0)	(0.1)	(0.1)	(0.1)
Profit Before Tax (norm)		(5.0)	(4.9)	(4.4)	(2.6)
Profit Before Tax (reported)		(5.5)	(6.0)	(4.8)	(3.0)
Reported tax		1.2	0.9	0.9	0.6
Profit After Tax (norm)		(3.9)	(4.0)	(3.5)	(2.0)
Profit After Tax (reported)		(4.4)	(5.1)	(3.9)	(2.4)
Minority interests		0.0	0.0	0.0	0.0
Net income (normalised)		(3.9)	(4.0)	(3.5)	(2.0)
Net income (reported)		(4.4)	(5.1)	(3.9)	(2.4)
Average Number of Shares Outstanding (m)		286	287	306	306
EPS - normalised (p)		(1.34)	(1.38)	(1.14)	(0.65)
EPS - diluted normalised (p)		(1.34)	(1.38)	(1.14)	(0.65)
EPS - basic reported (p)		(1.52)	(1.76)	(1.27)	(0.78)
Dividend per share (p)		0.00	0.00	0.00	0.00
Revenue growth (%)		114.9	0.0	0.0	0.0
Gross Margin (%)		90.7	91.1	93.6	84.4
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Normalised Operating Margin		N/A	N/A	N/A	N/A
<b>BALANCE SHEET</b>					
Fixed Assets		4.6	4.6	3.9	3.5
Intangible Assets		3.9	3.7	3.5	3.2
Tangible Assets		0.7	0.9	0.4	0.3
Investments & other		0.0	0.0	0.0	0.0
Current Assets		9.5	7.2	4.2	2.6
Stocks		0.2	0.1	0.1	0.1
Debtors		1.1	1.0	1.0	1.0
Cash & cash equivalents		7.0	5.2	2.2	0.5
Other		1.1	0.9	0.9	0.9
Current Liabilities		(4.8)	(3.4)	(3.4)	(3.4)
Creditors		(2.6)	(2.1)	(2.1)	(2.1)
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)	(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	3.7	1.7
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		8.5	7.2	3.7	1.7
<b>CASH FLOW</b>					
Op Cash Flow before WC and tax		(3.8)	(2.9)	(2.9)	(1.3)
Working capital		1.8	(1.5)	0.0	0.0
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)	(2.0)	(0.7)
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)	(3.0)	(1.7)
Opening net debt/(cash)		(10.7)	(7.0)	(5.2)	(2.2)
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)	(2.2)	(0.5)

Source: Company data, Edison Investment Research

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