EDISON

Leclanché

Formation of JVs with Eneris for gigafactory

Strategic restructuring

Renewable energy

Leclanché has accepted a binding conditional offer from Eneris Group, a Polish company dedicated to environmental protection, to create two JVs: one manufacturing battery cells, the other assembling battery modules. The transaction gives the group the finance it needs for capacity expansion and to fully fund its business plan until mid-2021 without dilution to shareholders as it works through an order book of over CHF90m (excluding the St Kitts project). Our estimates remain under review until there is greater visibility regarding the St Kitts project, which management intends to build under a 'build-own-operate' (BOO) model.

Year end	Revenue (CHFm)	EBITDA (CHFm)	PAT (CHF)	DPS (CHF)	P/E (x)	Yield (%)
12/17*	18.0	(31.1)**	(38.5)	0.0	N/A	N/A
12/18*	48.7	(36.9)**	(50.7)	0.0	N/A	N/A
12/19*	16.3	(58.9)	(83.4)	0.0	N/A	N/A
12/20e	N/A	N/A	N/A	N/A	N/A	N/A

Note: *FY17 and FY18 have been prepared in accordance with IFRS standards, FY19 shows unaudited key figures. **Adjusted for exceptional items.

Capital-light model for production

Under the terms of the agreement with Eneris, Leclanché's cell manufacturing plant in Germany and module assembly facility will be transferred to two JVs, which will continue to supply Leclanché with cells and modules as required. Eneris will invest over CHF53m in the JVs to expand capacity and provide up to CHF42m in working capital as a loan to Leclanché (not the JVs). Management expects this will fully fund its business plan until mid-2021. Otherwise activities in the E-transport and Speciality business segments will continue as before, but without the capacity constraints that have limited growth in the E-transport segment. The transaction therefore provides a mechanism to fund working capital and grow the business without further shareholder dilution.

BOO model for stationary energy storage projects

Management intends to create a separate holding company that will own the St Kitts solar farm and energy storage facility and other BOO developments that have already been identified. Leclanché will retain a majority stake in this company. Subject to completing financing, management expects that this holding company will generate c CHF5m annual EBITDA from the St Kitts project from 2022 onwards. The shift to a BOO model has had an adverse impact on FY19 performance but makes the group less exposed to yearly variations in revenue associated with the completion of individual projects.

Valuation: Awaiting clarity on the St Kitts project

Our valuation and our estimates remain under review until there is greater clarity on the funding for the St Kitt's project.

2 June 2020

Price	**CHF0.548**
Market cap	**CHF85m**

Net debt (CHFm) at end June 2019 (including CHF15.9m convertible debt)	25.1
Shares in issue	155.7m
Free float	28.9%
Code	LECN
Primary exchange	SIX
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(16.5)	(46.8)	(65.9)
Rel (local)	(15.1)	(42.1)	(68.0)
52-week high/low		CHF1.77	CHF0.50

Business description

Leclanché is a fully vertically integrated energy storage solution provider. It delivers a wide range of energy storage solutions for homes, small offices, large industries and electricity grids, as well as hybridisation for mass transport systems such as bus fleets and ferries.

Next events

AGM	June 2020

Analyst

Anne Margaret Crow +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page

Leclanché is a research client of Edison Investment Research Limited

Formation of cell production and module assembly JVs

Capacity constraints limiting growth in e-transport

As discussed in our Flash note issued earlier this month, Leclanché has been successful in winning contracts to develop energy storage systems for e-transport applications. For example in October 2019 it announced a memorandum of understanding with Bombardier Transportation appointing Leclanché as its preferred global provider of battery systems to power rail transportation. This agreement, which covers around 10 different railway projects, is potentially worth more than €100m over a five-year period. As of September 2019 the combined value of purchase orders related to e-marine projects for delivery between 2019 and 2021 exceeded CHF35m, with over CHF50m of orders in the final stages of negotiation or contracting so the demand is evidently there. Moreover, the technology is proven, with e-transport systems from the group having completed more than 36,000km of marine run time and more than 700,000km of road run time. However, a lack of financing has severely limited the group's ability to increase the volume of battery cells it can produce, preventing it from maximising the opportunities presented by the decarbonisation of the transport sector.

Formation of JVs with Eneris

Under the terms of the agreements with Eneris, the two partners will form two JVs, one manufacturing battery cells, the other assembling them into modules. Leclanché will contribute its cell production facility in Germany and its module assembly facility in Switzerland. The employees at these sites, around 135 people, will transfer to the JVs, reducing Leclanché's operating costs by around 20%. Eneris will contribute over CHF53m for capital equipment, primarily to increase cell production capacity from 250MWhr/year to around 1GWhr/year by end Q122. The exact equity split, which will be based on a valuation of the assets transferred, has not yet been determined, but Eneris will be the majority shareholder. The JVs will use IP licenced from Leclanché on a perpetual, non-exclusive basis to manufacture Leclanché branded cells and modules, incurring a royalty fee of up to CHF32m payable to Leclanché. Leclanché will retain the IP and continue to invest in R&D on next-generation battery technology such as solid-state cells, in software and in systems integration. Eneris will reserve production capacity as required by Leclanché's E-transport and Stationary business units. Eneris will invest a further CHF60m in 2022 to increase cell production capacity to 2.4GWhr by end 2024. As part of the transaction Eneris will provide Leclanché (not the JVs) with working capital finance of up to CHF42m to fully fund its business plan to mid-2021. The first CHF21m is committed and will be paid in four equal monthly tranches starting this month. The second CHF21m is to be agreed by October 2020 once the JV has been finalised.

There are three inter-related agreements. The loan agreement and the technology licence agreement have recently come into force. The industrial cooperation agreement establishing the JVs is conditional on Eneris providing confirmation of the full funding for the JVs and is expected to take effect by end June 2020.

Financing is non-dilutive for shareholders

The transaction provides Leclanché with an alternative source of finance for working capital and investment in capacity that is not dilutive to existing shareholders. This is in contrast to previous arrangements. For example, in February 2020 the company announced an agreement with US-based investment firm Yorkville Advisors for a convertible loan facility of up to US$40m (c CHF39m). At the same time, it announced that FEFAM, the group's majority holder and long-term backer, had agreed to provide a CHF25m working capital financing convertible facility. We estimate that these two convertibles represented up to 130m new shares. That calculation excluded any potential dilution from convertible debt provided for working capital in FY19. It is possible that the Eneris loan may be repaid by netting repayments against royalties or alternatively increasing Eneris's share of the JVs.

Eneris Group is a Polish company focused on environmental protection. Its Waste business unit is the largest municipal services company in Poland, collecting almost 400,000 tonnes of waste each year and recycling the waste where possible. These activities include recycling batteries. As a result Eneris was one of the beneficiaries of a €3.2bn funding plan announced by the EU in December 2019 under the European Battery Alliance, which was launched at the end of 2017. The aim of this programme is to create a 'pan-European' battery ecosystem encompassing more efficient sourcing of ores, the development of cells and modules, the roll-out of software- and algorithm-powered battery systems and sounder recycling and dismantling practices. The €3.2bn will be invested in 17 sector participants including BASF, BMW, Eneris, Solvay and Umicore. The agreement with Leclanché potentially enables Eneris to extend its involvement in the programme from recycling to the production of cells, modules and battery systems as well.

Shift to build-own-operate

Management had originally expected construction work on the 35.6MW solar farm and 44.2MWh battery energy storage project on St Kitts to start in H218. However, financing was not provisionally agreed until Q419 at which point Leclanché decided to switch to a BOO model. If it had not done so, it would have been able to recognise around CHF40m of revenue associated with the project during FY19, enabling the group to show revenue growth during FY19 rather than a drop from CHF48.7m in FY18 to CHF16.3m. The switch to a BOO model means that revenues will not be recognised until the project starts to generate electricity. At that point, which is likely to be toward the end of 2021, the project will, according to the terms of the signed Power Purchase Agreement with St Kitts' electrical utility, generate annual revenues of c CHF9m and EBITDA of over CHF5m for a 20-year period.

Management intends to create a separate holding company, which will own the St Kitts solar farm and energy storage facility and other BOO developments that have already been identified and will generate additional EBITDA. Leclanché will own the majority stake in this holding company and is in the process of securing equity finance from external investors. A large infrastructure fund in New York has already committed a construction loan of CHF46m, but management still has to secure the equity finance. If this is not obtained, the group will revert to merely providing engineering, procurement and construction services for the project as it did for the 20MWhr Marengo energy storage project in Chicago that was commissioned in Q418

Exhibit 1: Financial summary

	CHFm	2017	2018
Year-end 31 December		IFRS	IFRS
PROFIT & LOSS			
Revenue		18.0	48.7
Cost of Sales		(15.7)	(45.7)
Gross Profit		2.3	3.0
EBITDA		(31.1)	(36.9)
Operating Profit (before amort. and except.)		(35.3)	(39.9)
Amortisation of acquired intangibles		0.0	0.0
Share-based payments		(0.7)	(0.8)
Exceptionals		(0.1)	(1.3)
Operating Profit		(36.1)	(42.1)
Net Interest		(2.5)	(8.0)
Profit Before Tax (norm)		(37.8)	(47.8)
Profit Before Tax (FRS 3)		(38.5)	(50.0)
Tax		0.1	(0.7)
Profit After Tax (norm)		(37.7)	(48.6)
Profit After Tax (FRS 3)		(38.5)	(50.7)
Minority interest		0.0	0.0
Net income (norm)		(37.7)	(48.6)
Net income (FRS 3)		(38.5)	(50.7)
Average Number of Shares Outstanding (m)		55.3	79.0
EPS - normalised (CHFc)		(68.3)	(61.5)
EPS - normalised fully diluted (CHFc)		(68.3)	(61.5)
EPS - FRS 3 (CHFc)		(69.6)	(64.2)
Dividend per share (CHFc)		0.0	0.0
BALANCE SHEET			
Fixed Assets		16.6	25.1
Intangible Assets		4.5	5.6
Tangible Assets and Deferred tax assets		12.1	19.5
Current Assets		52.1	62.2
Stocks		12.7	19.9
Debtors		32.8	33.9
Cash		6.6	8.4
Current Liabilities		(35.7)	(20.2)
Creditors including tax, social security and provisions		(20.6)	(14.8)
Short term borrowings		(15.1)	(5.4)
Long Term Liabilities		(22.1)	(48.7)
Long term borrowings		(13.3)	(37.5)
Retirement benefit obligation		(8.5)	(10.8)
Other long term liabilities		(0.4)	(0.4)
Net Assets		11.0	18.4
Minority interest		0.0	0.0
Shareholders equity		11.0	18.4
CASH FLOW			
Operating Cash Flow		(44.6)	(47.9)
Net Interest		(0.1)	(2.2)
Tax		0.0	(0.1)
Investment activities		(6.6)	(14.2)
Acquisitions/disposals		0.0	0.0
Equity financing and other financing activities		6.5	0.0
Dividends		0.0	0.0
Net Cash Flow		(44.7)	(64.4)
Opening net debt/(cash)		17.8	19.5
HP finance leases initiated		0.0	0.0
Other		(43.0)	(49.4)
Closing net debt/(cash)		19.5	34.5

Source: Company data. Leclanché issued unaudited 2019 key figures on 18 May 2020. It has been allowed to delay publication of the FY19 accounts until 15 June 2020 at the latest.

General disclaimer and copyright

This report has been commissioned by Leclanché and prepared and issued by Edison, in consideration of a fee payable by Leclanché. Edison Investment Research standard fees are £49,500 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 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.

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.