EDISON

Leclanché

Interim results

Order book exceeds CHF100m

Alternative energy

Leclanché's H119 performance was adversely affected by delays in completing financing for the St Kitts project. Management had expected construction to start in Q219 but it has been pushed back to Q419. Given the scale of this project, which is the largest the company has undertaken to date, our estimates remain under review until there is greater visibility on when different phases of the project are scheduled to complete. We note that this project pushes the order book above CHF100m, with an additional CHF166m qualified pipeline projects for delivery between 2020 and 2023, including lithium-ion battery systems for Bombardier trains. Management is seeking CHF70m funding to realise this potential.

Year end	Revenue (CHFm)	EBITDA (CHFm)	PBT* (CHFm)	EPS* (CHF)	DPS (CHF)	P/E (x)
12/17	18.0	(31.1)	(37.8)	(0.68)	0.0	N/A
12/18	48.7	(36.9)	(47.8)	(0.62)	0.0	N/A
06/19**	7.0	(28.6)	(33.6)	(0.27)	0.0	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **Six months ended June 2019.

Delays affect H119 performance

Leclanché's H119 results were adversely affected by delays in completing financing for a large solar generation plus energy storage facility in St Kitts and extended product qualification times. Group revenues declined from CHF22.3m in H118 to CHF7.0m. Because the cell manufacturing facility was underused and staffing was increased to support the ongoing e-transport and pending St Kitts projects, EBITDA losses widened by 31% y-o-y to CHF28.6m. Including CHF5.9m in additional debt related to the introduction of IFRS16, net debt reduced by CHF9.4m during the six-month period to CHF25.1m, as CHF36m convertible loans held by majority shareholder FEFAM were converted to equity, increasing its shareholding to 61%.

Financing required to execute CHF100m+ order book

Including c US$57m for the turnkey EPC contract in St Kitts, which remains subject to completion of due diligence by the financing entity in November, the group's order book for delivery in H219 and FY20 is CHF120m. There is an additional CHF166m of qualified pipeline projects for delivery in FY20–FY23. However, to execute on these projects and be certain of continuing as a going concern, management is raising CHF30.0m to finance working capital requirements for FY20 and CHF40.0m to increase both cell and module production capacity.

Valuation: Awaiting clarity on St Kitts project

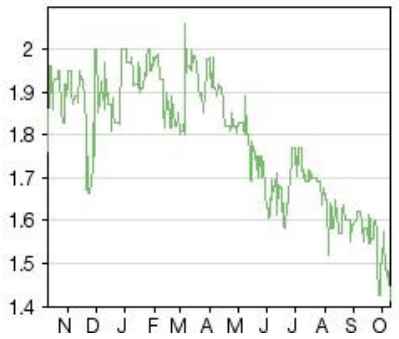
Our valuation and our estimates remain under review until there is greater clarity on the funding and the timing of deliveries for the St Kitt's project.

10 October 2019

Price	**CHF1.42**
Market cap	**CHF199m**

Net debt (CHFm) at end June 2019	25.1
Shares in issue	140.7m
Free float	38.9%
Code	LECN
Primary exchange	SIX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(11.0)	(16.8)	(24.7)
Rel (local)	(8.9)	(15.7)	(31.4)
52-week high/low		CHF2.06	CHF1.42

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 event

FY19 results	Q220

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Edison profile page

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Segmental analysis

Transport order book benefits from marine projects

Segmental revenue was modest (CHF0.3m vs CHF0.6m H118) despite the significant order book for marine projects. This partly reflected project timings, as revenues are not recognised until battery packs are delivered, and partly some product qualifications taking longer than originally expected to complete. Because staffing levels had been increased to support these marine orders, segmental EBITDA losses almost doubled from CHF3.2m to CHF5.7m.

Leclanché's order book for this segment (see Exhibit 1) for delivery during FY19 and FY20 is CHF45m with a further CHF123m of qualified projects in the pipeline for delivery between FY20 and FY23. Cell manufacturing was suspended during August while management checked there were no issues with battery quality or safety. This was in response to fires at multiple battery energy storage facilities in South Korea, although the issue seems to have been poor battery management rather than anything inherently unsafe in the batteries, which were supplied from competitors including LG Chem. Cell production resumed in early September but the shut-down means transport segment deliveries are being rescheduled, precluding management from providing any segmental guidance for FY19. The shut-down does not affect stationary projects, which use third-party cells.

Exhibit 1: Pending and contracted transport projects

Project	Status	Size	Notes
Bombardier	Memorandum of Understanding	<93MWh for first three years, 180 MWh for subsequent three years	Leclanché preferred global provider of battery systems to power rail transportation. Potential business revenue of more than €100m over the next five years, delivering battery systems for about 10 different railway projects.
Off-road vehicle manufacturer	Pending	40MWh in Europe and 40MWH in India over next three years	Already delivered battery packs for second generation fully electric excavators.
Ashok Leyland/Sun Mobility, India	Pending	60 MWh over next three years	Multi-year master supply agreement pending successful completion of trials. Battery packs for electric buses. Battery packs for 40 vehicles delivered already for pilot.
Skoda Electric, Czech Republic	Pending	25MWh over next three years	Joint development agreement and framework purchase Contract announced June 2017. Testing modules on electric buses during October 2019. Larger, high-energy G-NMC based systems for overnight charging and smaller, ultra-fast charge LTO systems for topping up charge at bus stations during the day.
Kongsberg Maritime	Contracted	45MWh	Nine vessels including Yara Birkeland, the world's first autonomous and electric container vessel with zero emissions and hybrid roll-on/roll-off vessels for delivery in Q120 and Hyseas III, the world's first hydrogen hybrid marine vessel that will be operated in the Orkneys, for delivery in 2019.

Source: Company data

JV in India

In 2018 Leclanché formed a JV in India with Exide Industries. The JV, Nexcharge, is to build lithium-ion batteries and commercialise energy storage systems for India's electric vehicle market. Exide Industries holds a 75% stake, Leclanché 25%. Management expects the Nexcharge module and battery pack assembly manufacturing facility in India to be operational by the end of FY19. Management had expected the JV partner to commence investment in an associated lithium-ion cell production plant in H119, triggering the payment of an estimated CHF10m licence fee during the period. On this schedule, cell production would have started in mid-2020. Management notes the investment decision has been deferred until next summer.

Stationary order book boosted by St Kitts project

Segmental revenues dropped from CHF19.0m in H118 to CHF3.0m in H119 as Leclanché completed work the Almelo, Cremzov and NRStor projects but was unable to start constructing the

St Kitts project in April 2019 as planned because of delays in completing financing. Because staffing levels had been increased in preparation for the St Kitts project, segmental EBITDA losses widened from CHF5.2m to CHF9.7m.

Leclanché's order book for this segment (see Exhibit 2) for delivery during FY19 and FY20 is CHF70m, US$57m (CHF57m) of which relates to the St Kitts project and is subject to completion of the due diligence by the financial backer. This is expected to complete in October, enabling construction to start in November. Because there is uncertainty on what proportion of revenues attributable to the project may be realised in FY19 rather than FY20, management is not issuing guidance for this segment either. There is a further CHF38m of qualified projects in the pipeline for delivery between FY20 and FY23. This is relatively low number compared with the size of the opportunity because management is taking a cautious approach on projects receiving funding. It has started to focus on micro-grid projects for islands similar to the St Kitts project as these typically include a power purchase agreement with a fixed price for 10 years or more, making it easier to secure finance.

Exhibit 2: Recent and pending stationary storage projects

Project	Size	Notes
St Kitt's, Caribbean	44.2MWh	Combined with 35.6MW solar farm. Project expected to provide 25–30% of the island's existing power generation requirements and secure cost-savings of between 20–25% compared with diesel generated power. Construction commencing Q419 subject to completion of financing due diligence.
Cremzow, Germany	34MWh	Part of the primary control reserve mechanism in the state of Brandenburg, evening out imbalances between electricity generation and consumption to maintain grid stability. Leclanché is acting as turnkey systems integrator and engineering, procurement and construction contractor, integrating battery and power conversion systems and energy management software, as well as supplying the battery modules. First 2MW of plant was operational from April 2018. Completed H119.
Marengo, Illinois	19.5MWh	Battery energy storage system for frequency regulation. Completed by end 2018.
IESO Basin 1 and 2, Ontario	13.8MWh	Battery storage system to support grid stabilisation and resiliency. Completed by end 2018.
SWB Bremen, Germany	15MWh	Hybrid storage system with a battery energy storage system and heating system. Completed end 2018.
Romande Energie, Switzerland	5 MWh	Storage for photo-voltaic solar integration. Completed by end 2018.
NRStor C&I, Toronto	4.9MWh	Battery storage system for industrial customer for demand charge management. Completed H119.
S4 Energy, Almelo, Netherlands	2.8MWh	System for Fast Frequency Restoration markets in the Netherlands. Operational Q218.

Source: Company data

Speciality battery packs deployed in autonomous vehicles

Segmental revenues increased by 28% year-on-year to CHF3.2m. The segment is focused on the development of highly specialised battery packs for autonomous underwater vehicles for both defence and civil applications and automated guided vehicles for warehouse logistics. EBITDA losses widened by CHF1.9m year-on-year to CHF4.3m. This reflects additional sales resource recruited to develop the business, especially in the defence sector, the impact of development and engineering costs on projects yet to be delivered, and inventory write-off for discontinued activities such as domestic energy storage systems. Leclanché's order book for this segment for delivery during FY19 and FY20 is CHF5m, with a further CHF5m of qualified projects in the pipeline for delivery between FY20 and FY23.

H119 group performance

Leclanché's H119 results were adversely affected by delays in completing financing for a large solar generation plus energy storage facility in St Kitts and extended product qualification times. Group revenues declined from CHF22.3m in H118 to CHF7.0m. Because the German cell manufacturing facility was underused, resulting in an estimated CHF4.2m costs and staffing was substantially increased from levels to support future projects, EBITDA losses widened by CHF6.8m y-o-y to CHF28.6m. Depreciation, amortisation and impairment expenses increased by CHF1.3m,

most of which related to the adoption of IFRS16 in January 2019. Loss after tax widened by CHF8.5m to CHF33.7m, although loss per share reduced from CHF0.31 to CHF0.27 because of the dilutive impact of debt-to-equity conversion.

Working capital decreased by CHF12.1m as a result of lower activity levels. CHF3.5m was invested in capital equipment, primarily expanding the formation tower for charging and testing battery cells at the German site, CHF2.0m in Nexcharge and CHF1.1m in intangible assets. This included the final instalment for the Energy Management Software acquired in FY18 and capitalised cell development costs. Free cash outflow totalled CHF24.3m. However, including CHF5.9m in additional debt related to the introduction of IFRS16, net debt reduced by CHF9.4m during the six-month period to CHF25.1m. This comprises CHF15.9m convertible loans and CHF7.6m non-convertible loans, all held by FEFAM and related parties.

The reason for the reduction in debt was that CHF36m convertible loans held by majority shareholder FEFAM were converted to equity, increasing FEFAM's shareholding to an estimated 61%. The reduction in debt attributable to the debt-to-equity conversion was partially offset by a new convertible loan arrangement in April 2019, also with FEFAM, to provide Leclanché with a working capital facility of CHF35m, CHF8.4m of which had been drawn down at end H119. In September 2019 FEFAM agreed to convert a further CHF17.4m of its debt to equity, subject to shareholder approval. Management estimates this will result in the creation of a further 12.6m shares and increase FEFAM's stake to 64%. Assuming that all of the working capital facility is drawn and converted to shares, this would result in a total of 160m shares in issue and give FEFAM a 66% holding. (FEFAM is AM INVESTMENT SCA, SICAV-SIF – Liquid Assets Sub-Fund, together with FINEXIS EQUITY FUND – Renewable Energy Sub-Fund, FINEXIS EQUITY FUND – Multi Asset Strategy Sub-Fund and FINEXIS EQUITY FUND – EMoney Strategies Sub-Fund, also called Energy Storage Invest).

Additional financing required

While noting that it still has around CHF26m of the working capital facility to draw down, as well as potentially deriving an estimated CHF34m from outstanding trade receivables, project receivables and pre-payments for hardware for the St Kitts project by the year end, management has stated it is seeking additional finance. It is working with its financial advisers to finalise a financing round by the end of FY19 to raise CHF30.0m to finance working capital requirements for FY20 and CHF40.0m to increase production capacity of both cells and modules so it can fulfil all of its orders in FY20 and beyond. Consequently, there remains material uncertainty over the turnaround and execution of the company's growth plan, which may cast doubts on its ability to continue as a going concern. Management is reorganising the company into three standalone business units corresponding to the three market segments addressed. This is to enable shareholders to invest in individual units, providing each with the investment required to fully exploit the market opportunity. Details of this have not yet been disclosed other than advising that existing shareholders will have the option of investing in these units on preferential terms based on a fair market valuation provided by a third party.

Board changes

Two new non-executive directors, Bénédict Fontanet and Lluís M Fargas, were elected at the AGM. Mr Fontanet is the chairman of the board of directors of Golden Partner in Geneva, which is an investment adviser to FEFAM, the company's main shareholder. This brings the total of Golden Partner personnel on the board to three. Since November 2016, Mr Fargas has held the role of vice president tax, controller and corporate development Europe at Arconic, which comprises the rolling, plating, precision casting and fastening operations of Alcoa. Mr Fargas manages the European tax

and country controllership function and is responsible for running the corporate development strategy of Arconic in Europe. Mr Fargas joined Alcoa in 1994, after five years as a senior manager at Coopers & Lybrand in Barcelona, Spain.

Exhibit 3: Financial summary

CHFm	2016	2017	2018
Year-end Dec			
PROFIT & LOSS			
Revenue	28.1	18.0	48.7
Cost of Sales	(26.2)	(15.7)	(45.7)
Gross Profit	1.9	2.3	3.0
EBITDA	(27.4)	(31.1)	(36.9)
Operating Profit (before amort. and except.)	(33.6)	(35.3)	(39.9)
Amortisation of acquired intangibles	0.0	0.0	0.0
Share-based payments	(1.0)	(0.7)	(0.8)
Exceptionals	0.0	(0.1)	(1.3)
Operating Profit	(34.5)	(36.1)	(42.1)
Net Interest	(3.2)	(2.5)	(8.0)
Profit Before Tax (norm)	(36.8)	(37.8)	(47.8)
Profit Before Tax (FRS 3)	(37.8)	(38.5)	(50.0)
Tax	0.6	0.1	(0.7)
Profit After Tax (norm)	(36.3)	(37.7)	(48.6)
Profit After Tax (FRS 3)	(37.2)	(38.5)	(50.7)
Minority interest	0.0	0.0	0.0
Net income (norm)	(36.3)	(37.7)	(48.6)
Net income (FRS 3)	(37.2)	(38.5)	(50.7)
Average Number of Shares Outstanding (m)	42.7	55.3	79.0
EPS - normalised (CHFc)	(85.0)	(68.3)	(61.5)
EPS - normalised fully diluted (CHFc)	(85.0)	(68.3)	(61.5)
EPS - FRS 3 (CHFc)	(87.2)	(69.6)	(64.2)
Dividend per share (CHFc)	0.0	0.0	0.0
BALANCE SHEET			
Fixed Assets	16.9	16.6	25.1
Intangible Assets	6.9	4.5	5.6
Tangible Assets and Deferred tax assets	10.0	12.1	19.5
Current Assets	35.6	52.1	62.2
Stocks	9.6	12.7	19.9
Debtors	21.5	32.8	33.9
Cash	4.5	6.6	8.4
Current Liabilities	(46.2)	(35.7)	(20.2)
Creditors including tax, social security and provisions	(23.9)	(20.6)	(14.8)
Short term borrowings	(22.3)	(15.1)	(5.4)
Long Term Liabilities	(11.6)	(22.1)	(48.7)
Long term borrowings	0.0	(13.3)	(37.5)
Retirement benefit obligation	(9.5)	(8.5)	(10.8)
Other long term liabilities	(2.1)	(0.4)	(0.4)
Net Assets	(5.3)	11.0	18.4
Minority interest	0.0	0.0	0.0
Shareholders' equity	(5.3)	11.0	18.4
CASH FLOW			
Operating Cash Flow	(34.2)	(44.6)	(47.9)
Net Interest	(0.1)	(0.1)	(2.2)
Tax	0.0	0.0	(0.1)
Investment activities	1.6	(6.6)	(14.2)
Acquisitions/disposals	0.0	0.0	0.0
Equity financing and other financing activities	3.9	6.5	0.0
Dividends	0.0	0.0	0.0
Net Cash Flow	(28.7)	(44.7)	(64.4)
Opening net debt/(cash)	5.3	17.8	19.5
HP finance leases initiated	0.0	0.0	0.0
Other	(16.2)	(43.0)	(49.4)
Closing net debt/(cash)	17.8	19.5	34.5

Source: Company data

EDISON

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