

Nanoco Group

Rabbit pulled out of the hat

Nanoco's material development and supply agreement with a major US corporation provides firm support to our near term estimates and the company's balance sheet. The partner's funding of a major expansion to Nanoco's Runcorn manufacturing facility also improves the probability of a sharp inflection in revenues in FY19 and FY20 while providing welcome diversification to the company's medium term opportunity pipeline. Execution risk remains, but we believe that Nanoco's prospects are looking meaningfully stronger.

Year end	Revenue (£m)	PBT (£m)*	EPS (p)*	DPS (p)	EV/sales (x)	P/E (x)
07/16	0.5	(12.3)	(5.2)	0.0	125.8	N/A
07/17	1.3	(10.6)	(4.5)	0.0	47.4	N/A
07/18e	4.7	(6.4)	(2.3)	0.0	13.5	N/A

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

New partnership with a major US corporation

The partnership is with a large undisclosed US corporation to scale up and mass produce nano-particles for advanced electronic devices. For client confidentiality reasons, the announcement does not give any detail away other than that – but by inference we assume that the application does not sit within one of the company's established display, solar, lighting or healthcare verticals.

Funding an expansion of Runcorn

Financially, the partnership will support near term cash flows and revenues with the potential to scale revenues significantly in the longer term. The partner will fund the expansion of Nanoco's Runcorn manufacturing facility, to support the manufacture of the required materials in the volumes anticipated. Nanoco will be paid on a milestone basis during the development period and then for commercial supply which is anticipated in early calendar 2019.

Adding to progress in displays

The company's AGM statement on 8 January flagged that the company is now making firm progress in displays, with a number of high end computer displays moving forward towards volume production.

Valuation: Expansion and diversification of opportunities to scale

At this stage there is too little detail to either alter our near term estimates or introduce new forecasts for FY19 or beyond. Visibility on the implications of both this new partnership and progress in display should progressively improve over the course of this year. Nevertheless, with this new partner providing incremental revenue potential and diversification of customers/applications, Nanoco's prospects now look meaningfully more promising.

Strategic partnership

Tech hardware & equipment

8 February 2018

Price 24p

Market cap £69m

Net cash end July 17 (£m)	5.7
Shares in issue	285.9m
Free float	89.9%
Code	NANO
Primary exchange	LSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(12.1)	1.7	(41.9)
Rel (local)	(4.9)	7.7	(42.3)
52-week high/low	44p	23p	

Business description

Nanoco Group is the leading commercial supplier of cadmium-free quantum dots (CFQD) and IP. The first focus is on the display market, where CFQDs are used to enhance picture quality. The company is also developing solutions for medical imaging and lighting.

Next events

Interim Results	April 2018
-----------------	------------

Analyst

Dan Ridsdale +44 (0)20 3077 5729

tech@edisongroup.com

[Edison profile page](#)

Nanoco Group is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	£'m	2015	2016	2017	2018e
31-July		IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue		2.0	0.5	1.3	4.7
Cost of Sales		(0.3)	(0.2)	(0.3)	(1.3)
Gross Profit		1.7	0.3	1.1	3.4
EBITDA		(8.1)	(11.2)	(9.4)	(5.5)
Operating profit (before amort. and except).		(9.5)	(12.5)	(10.7)	(6.6)
Amortisation of acquired intangibles		0.0	0.0	0.0	0.0
Exceptionals		(0.9)	0.0	(0.0)	0.0
Share-based payments		(0.6)	(0.3)	(0.2)	(0.2)
Reported operating profit		(11.0)	(12.8)	(10.9)	(6.8)
Net Interest		0.1	0.2	0.0	0.2
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)		(9.3)	(12.3)	(10.6)	(6.4)
Profit Before Tax (reported)		(10.9)	(12.6)	(10.9)	(6.6)
Reported tax		1.9	2.0	1.8	0.0
Profit After Tax (norm)		(9.3)	(12.3)	(10.6)	(6.4)
Profit After Tax (reported)		(9.0)	(10.6)	(9.1)	(6.6)
Minority interests		0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0
Net income (normalised)		(9.3)	(12.3)	(10.6)	(6.4)
Net income (reported)		(9.0)	(10.6)	(9.1)	(6.6)
Basic average number of shares outstanding (m)		221	237	238	278
EPS - normalised (p)		(4.22)	(5.20)	(4.46)	(2.29)
EPS - diluted normalised (p)		(4.22)	(5.20)	(4.46)	(2.29)
EPS - basic reported (p)		(4.05)	(4.47)	(3.83)	(2.38)
Dividend per share (p)		0.00	0.00	0.00	0.00
Revenue growth (%)		nm	(76.6)	179.7	251.8
Gross Margin (%)		84.4	62.8	80.6	72.0
EBITDA Margin (%)		(400.4)	(2,367.4)	(711.2)	(117.5)
Normalised Operating Margin		(465.9)	(2,639.4)	(803.5)	(140.6)
BALANCE SHEET					
Fixed Assets		3.9	3.7	3.5	5.2
Intangible Assets		1.8	2.4	2.6	3.2
Tangible Assets		2.1	1.3	0.9	2.0
Investments & other		0.0	0.0	0.0	0.0
Current Assets		27.2	18.7	8.9	11.1
Stocks		0.2	0.2	0.2	0.2
Debtors		0.9	2.0	0.7	1.2
Cash & cash equivalents		24.3	14.5	5.7	7.4
Other		1.8	2.0	2.4	2.4
Current Liabilities		(2.0)	(3.0)	(1.4)	(1.8)
Creditors		(1.9)	(2.4)	(1.3)	(1.3)
Tax and social security		0.0	0.0	0.0	0.0
Short term borrowings		(0.1)	(0.0)	0.0	0.0
Other		0.0	(0.5)	(0.1)	(0.6)
Long Term Liabilities		(0.0)	(0.6)	(0.6)	0.0
Long term borrowings		(0.0)	0.0	0.0	0.0
Other long term liabilities		0.0	(0.6)	(0.6)	0.0
Net Assets		29.1	18.8	10.5	14.6
Minority interests		0.0	0.0	0.0	0.0
Shareholders' equity		29.1	18.8	10.5	14.6
CASH FLOW					
Op Cash Flow before WC and tax		(8.1)	(11.2)	(9.4)	(5.5)
Working capital		0.2	0.5	(0.3)	(0.6)
Exceptional & other		(0.9)	0.0	(0.0)	0.0
Tax		1.3	1.8	1.9	1.9
Net operating cash flow		(7.6)	(8.9)	(7.8)	(4.2)
Capex		(0.9)	(1.1)	(1.6)	(2.3)
Acquisitions/disposals		0.0	0.0	0.0	0.0
Net interest		0.1	0.2	0.1	0.2
Equity financing		21.1	0.0	0.6	8.0
Dividends		0.0	0.0	0.0	0.0
Other		(0.6)	0.0	0.0	0.0
Net Cash Flow		12.2	(9.7)	(8.8)	1.7
Opening net debt/(cash)		(12.2)	(24.4)	(14.5)	(5.7)
FX		0.0	0.0	0.0	0.0
Other non-cash movements		0.0	(0.1)	0.0	0.0
Closing net debt/(cash)		(24.4)	(14.5)	(5.7)	(7.4)
Source: Company Reports, Edison Group					

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Nanoco Group and prepared and issued by Edison for publication globally. 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. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US 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. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and 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 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. This document is provided 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. Edison has a restrictive policy relating to personal dealing. 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. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. 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. 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 (ie 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. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE data is permitted without FTSE's express written consent.