

Nanoveu Ltd

Company Update

1H21 result shows right trends, funds raised to grow

Nanoveu Ltd (ASX:NVU) has recently announced its interim 1HCY21 results and is currently undertaking a capital raise to help execute on the potential that recent product launches and peer reviewed studies/product validation offer. The result demonstrated continued sales growth and gross margin improvement, with annualised sales now ~A\$950k and gross margins already at our long-term estimates. Sales were ~66% of our assessed distributor targets for the half, with these targets increasing significantly in coming halves. The capital raise consists of a placement (\$1.35m) and rights issue (\$2.15m) with attaching options and while dilutive provides vital funding to better market and deliver products to the established distributor base. The funding will also provide working capital and underpin further trials. NVU will continue to conduct validating trials with ambitions to achieve EPA approval in the US as a “self-disinfecting” surface, which would be a game changer. Our near-term sales numbers are little changed but confidence growing they can be achieved given funding, the peer reviewed studies, new product developments (new antiviral face mask already has a A\$125k trial order) and the established distributor base. Our valuation in dollar terms is unchanged at \$27.7m but we note that with more shares on issue following the current equity raise, there will be dilution on a per share basis.

Business model

NVU has developed a number of antiviral and antimicrobial products using the groups copper compound technology including treated film, tape, face masks and a spray, with most selling under the Nanoshield brand. These products are being sold via exclusive B2B resellers, and potentially to OEMs and direct to larger customers. Resellers will typically add a mark-up to the wholesale price in order to fund the value-add required in the form of product application and maintenance. The direct route is more suited to higher volume, cookie cutter products cut to specific dimensions for specific application.

1H21 result supportive of current assumptions

While not wanting to overly focus on near-term results given the early stages of commercialisation, the 1H21 result demonstrated progression in key metrics including sales (+20% on 2H20 and +2000% 1H20 to be an annualised A\$950k) and gross margin which rose to a record 41% and now in-line with our long-term estimates. With funding secured via a placement and rights issue and a validating peer viewed study the group is in a good position to capitalise on these trends.

Valuation implies \$27.7m market cap vs \$9.5m post raise

We are at the very early stages of product recognition and distributor sign-up, and as a result, framing the take-up in terms of revenue and resulting profit is challenging. Our current sales assumptions imply a solid uplift but not when compared to distributor order targets and internal performance shares. We have assumed that the current capital raising is completed successfully, delivering funds to ram up Nanoveu's sales & marketing efforts but also resulting in more shares on issue. The net result is no change to our DCF valuation in dollar terms (\$27.7m) but a reduction on a per share basis from \$0.155/share to \$0.136/share.

Historical earnings and RaaS Advisory estimates

Year end	Revenue (A\$m)	EBIT reported (A\$m)	NPAT adjusted (A\$m)	EPS(adj) (c)	P/E (x)	EV/Sales (x)
12/20a	0.4	(1.7)	(1.7)	(0.01)	nm	14.66
12/21e	2.1	(1.4)	(1.4)	(0.01)	nm	2.26
12/22e	5.5	(0.3)	(0.3)	(0.00)	nm	1.13
12/23e	7.6	0.2	0.2	0.00	48.1	0.80

Source: Company data, RaaS Advisory, Estimates for FY21e, FY22e and FY23e

Film manufacturing

7th September 2021

Share details

ASX Code	NVU
Share price	\$0.045
Market Capitalisation post raise	\$9.5M
Shares (post raise)	205.0M
Est Net cash 31 Dec 2021	\$2.9M
Free float	~65%

Share performance (12 months)



Upside Case

- New enterprise & distribution customers
- Secures major vending retail/telco partner
- Commercial progress of EyeFyx and EyeFly

Downside Case

- Distributors fail to penetrate respective markets
- COVID vaccine programs reduce importance of antiviral products
- Ability to secure funding

Catalysts

- Follow-up distributor orders on the back of the recent peer reviewed study/publication
- Success of Customskins machines on the ground

Board of Directors

Alfred Chong	Executive Chairman
Michael van Uffelen	Executive Director/CoSec
Stephen Apedaile	Non-Executive Director
David Nicol	Non-Executive Director

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1HCY21 result summary

While not overly focused on short-term results given the early stage of product commercialisation, there are a number of positive indicators that came out of the 1H21 results, including:

- Sales revenue building over the last 3 halves to be A\$423k in 1H21
- Gross margins also building to be 41% over 1H21 and in-line with our long-term forecasts
- Continued investment in the cost base, particularly sales and marketing.

Exhibit 1: NVU half year result summary

Variable (A\$)	1H20	2H20	1H21	%CHG (pcp)	Comments
Sales	0.017	0.350	0.423	2388%	Building half to half
COGS	0.013	0.227	0.249		
Gross Profit	0.004	0.123	0.174	4250%	
GP%	24%	35%	41%	75%	Improving half to half
Operating costs	0.820	1.036	1.116	36%	Investing in sales & marketing
EBIT	(0.816)	(0.913)	(0.942)	15%	Holding

Source: Company financials

Peer reviewed antiviral trial summary

In the table below we summarise the key technologies tested by a large multinational, and peer reviewed in the American Society for Microbiology Journal (<https://journals.asm.org/doi/10.1128/AEM.01098-21>), under three “real life” settings, immediate viral effects, performance under repeated cleaning and performance after touching. NVU’s Nanoshield is positioned to become the benchmark of antiviral surface protection if the study results are any guide.

Exhibit 2: A layman’s summary of the peer review antiviral study in ASM

Variable	ROS Coating	QAC Spray	Copper Coating	Comments
Immediate effect	None	Effective	Effective	
Comments	Some reaction to influenza after 4-hours of UV-A light exposure	Only if the QAC coating was applied by spraying without subsequent wiping	4.0 log against 1.6 log for QAC at time zero, 5 log at 30 minutes	Did not progress with ROS coating post tests on immediate effectiveness
Repeated cleaning	Not investigated further	None	Effective	
		Probably wiped off during cleaning. Lost with disinfection using ethanol	Remained intact for at least 90 rounds of cleaning. Maintained using ethanol	Copper Coating particularly effective under repeat cleaning
Finger touching	Not investigated further	Effective	Effective	
			High protection after 10-touches (log >4.0 log), lower but still effective after 50 touches (1.4 log)	While effectiveness reduces on number of touches, still some effectiveness at 50, and once wiped back to full
Summary	Was not tested following immediate efficacy test.	Failed repeat cleaning at first clean and only effective if not wiped	Passed all three real life tests, particularly strong in repeat cleaning	Nanoshield positioned to become the benchmark antiviral surface protectant

Source: ASM publication, RaaS analysis

Subsequent to this peer review the National Environment Agency in Singapore has revised (at 3 September) its list of self-disinfecting surface coating products effective against Coronaviruses (<https://www.nea.gov.sg/our-services/public-cleanliness/environmental-cleaning-guidelines/guidelines/interim-list-of-household-products-and-active-ingredients-for-disinfection-of-covid-19>)

In summary only two products are currently recommended from a list of hundreds:

- Nanoshield film
- AirTumTec Pro spray, which is not available “off the shelf”.

In our view this continued validation will give key distributors in place across the USA, ANZ, Singapore, Thailand, Vietnam, Malaysia, UK, Turkey, the Philippines, MEA and India further ammunition to educate potential customers in the relative advantages of Nanoshield products and ultimately secure more sales.

Key sales indicators

Minimum Order Requirements

It is still early days for market penetration with products having only been in-market (with limited sales support) for 12-months and the peer review study only released in July 2021. To give us a guide to the potential sales uplift as the products gain traction we have looked at each individual exclusive distribution agreement signed over the last 12-months, and what hitting and maintaining the Minimum Order Requirements (MORs) to retain exclusivity would imply in sales terms. We use this as a guide to whether our sales assumptions are achievable (before any OEM or direct to business sales).

NVU achieved ~66% of our estimated MOR threshold in 1HCY21. We estimate this threshold builds significantly over the next few halves, promising a significant uplift in sales.

Exhibit 3: RaaS sales estimates against reseller minimum order requirements (MOR's)						
Line item	1H20	2H20	1H21	2H21F	1H22F	2H22F
RaaS Sales estimate	0.02	0.35	0.42	1.67	2.77	2.72
Reseller minimum order	0.00	0.39	0.64	3.33	6.16	5.44
AlBI (Singapore)	0	0.19	0.18	0.18	0.18	0.18
Sanyo (Thailand & Malaysia)	0	0.20	0.32	1.43	1.43	1.43
CuVira (UK)	0	0.00	0.00	1.30	3.90	2.60
Vial Medikal (Turkey)	0	0.00	0.06	0.29	0.39	0.78
Avolution (Philippines)	0	0.00	0.06	0.13	0.26	0.45
Verstech (India)	0	0.00	0.00	0.13	0.00	0.00
RaaS Sales/MOR	na	90%	66%	50%	45%	50%
Source: Company announcements & RaaS Analysis						

Just recently NVU announced an initial trial order of A\$125k (likely Q3CY21) for its new antiviral facemasks from key distributor SANYO in Thailand in Malaysia, and the prospect of A\$250k in quarterly orders should the trial be successful. This is a good example of how MORs provide a guide to sales potential and how sales can take a step-change from the existing base.

Performance share sales targets

The company has issued key employees with performance shares to hit certain sales targets over the next 3-years. We use these sales targets as a guide to what is achievable over the medium-term, and these targets are listed below.

Exhibit 4: Performance rights sales targets vs. RaaS estimates			
Variable	Dec-21	Dec-22	Dec-23
Cumulative A\$ sales target (m)	3.00	8.00	15.00
Implied yearly sales	3.00	5.00	7.00
Rights (no)(m)	2.81	2.81	2.81
RaaS sales/Yearly perf. target	70%	110%	109%

Source: Company announcements and RaaS estimates

Base Case DCF valuation decreased to \$0.136/share on dilution

Our medium-term sales assumptions are relatively unchanged while our cost estimates already had some uplift to incorporate sales & marketing efforts. The big unknown was securing funding to deliver on sales potential, and a successful equity issue alleviates this near-term. We have accounted for equity dilution (30% before options) but lowered our risk assessment, resulting in a reduction in our DCF from \$0.155/share to \$0.136/share.

Exhibit 5: Base Case DCF valuation	
	Parameters
Discount rate (WACC)	10.4%
Terminal Growth Rate	2.0%
Beta	1.2x
Present value of free cashflows (\$m)	
Terminal value (\$m)	24.8
Plus Net Cash at 31 Dec	2.9
Equity value (\$m)	27.7
Shares on issue (m)	205
Equity value per share	\$0.136

Source: RaaS estimates

Shares on issue history and assumptions following the current raise are listed below. Should the 1 for 4 rights issue be fully taken-up/placed we estimate 204.7m shares on issue.

Exhibit 6: NVU shares on issue history/forecasts					
Date	Event	Share issued	Price	\$ raise	Shares on issue
Nov-18	IPO	30.0	0.20	6.0	132.5
Jul-20	Perf Rights	0.2	0.00	0.0	132.7
Aug-20	Facility	1.6	0.00	0.0	134.3
Dec-20	Placement	13.2	0.05	0.7	147.5
Jan-21	Facility	9.6	0.06	0.6	157.1
Apr-21	Facility	5.0	0.05	0.23	156.5
Apr-21	Perf Rights	0.4	0.00	0.00	156.9
Sep-21	Placement	30.0	0.045	1.35	186.5
Sep-21	1 for 4 Rights	47.8	0.045	2.15	204.7

Source: Company announcements & RaaS estimates

Exhibit 7: Financial Summary

Nanoveu Ltd						Share price (3 September 2021)						A\$		0.046
Profit and Loss (A\$m)						Interim (A\$m)		H120	H220	H121	H221F	H122F	H222F	
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	Revenue	0.0	0.3	0.4	1.7	2.8	2.7		
Revenue	0.1	0.4	2.1	5.5	7.6	EBITDA	(0.8)	(0.9)	(0.9)	(0.4)	(0.2)	(0.2)		
Gross profit	(0.0)	0.1	0.8	2.2	3.0	EBIT	(0.8)	(0.9)	(0.9)	(0.4)	(0.2)	(0.2)		
GP margin %	(24.6%)	34.6%	40.2%	40.0%	40.0%	NPAT (normalised)	(0.8)	(1.0)	(1.1)	(0.5)	(0.2)	(0.2)		
Underlying EBITDA	(2.8)	(1.7)	(1.4)	(0.3)	0.2	Minorities	0.0	0.0	0.0	0.0	0.0	0.0		
Depn	0.0	0.0	0.0	0.0	0.0	NPAT (reported)	(0.8)	(1.0)	(1.1)	(0.5)	(0.2)	(0.2)		
Amort	0.0	0.0	0.0	0.0	0.0	EPS (normalised)	nm	(0.007)	(0.007)	(0.003)	(0.001)	(0.001)		
EBIT	(2.8)	(1.7)	(1.4)	(0.3)	0.2	EPS (reported)	nm	(0.007)	(0.007)	(0.003)	(0.001)	(0.001)		
Interest income	0.0	0.0	0.0	0.0	0.0	Dividend (cps)	0.000	0.000	0.000	0.000	0.000	0.000		
Tax	0.0	0.0	0.0	0.0	0.0	Imputation								
NPAT	(2.8)	(1.7)	(1.4)	(0.3)	0.2	Operating cash flow	na	na	na	na	na	na		
Adjustments	0.0	0.0	0.0	0.0	0.0	Free Cash flow	na	na	na	na	na	na		
Adjusted NPAT	(2.8)	(1.7)	(1.4)	(0.3)	0.2	Divisionals	H120	H220	H121	H221F	H122F	H222F		
Abnormals (net)	(0.5)	(0.1)	0.0	0.0	0.0									
NPAT (reported)	(3.2)	(1.8)	(1.4)	(0.3)	0.2									
Cash flow (A\$m)														
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	Total Revenue	0.0	0.3	0.4	1.7	2.8	2.7		
EBITDA	(2.8)	(1.7)	(1.4)	(0.3)	0.2									
Interest	0.0	0.0	0.0	0.0	0.0	Gross profit	0.0	0.1	0.2	0.7	1.1	1.1		
Tax	0.0	0.0	0.0	0.0	0.0	Underlying GP Margin %	23.5%	35.1%	41.1%	40.0%	40.0%	40.0%		
Working capital changes	(2.4)	0.7	0.4	(0.0)	0.1	Operating Costs								
Operating cash flow	(5.2)	(1.0)	(1.0)	(0.3)	0.3	Selling & Distribution	0.2	0.3	0.4	0.4	0.4	0.4		
Mtce capex	0.1	0.0	0.0	0.0	0.0	Administration	0.5	0.6	0.6	0.7	0.7	0.7		
Free cash flow	(5.1)	(1.0)	(1.0)	(0.3)	0.3	Other	0.1	0.1	0.2	0.1	0.1	0.1		
Growth capex	0.0	0.0	0.0	0.0	0.0	Total costs	0.8	1.0	1.2	1.1	1.3	1.3		
Acquisitions/Disposals	0.0	0.0	0.0	0.0	0.0									
Other	0.0	0.0	0.0	0.0	0.0	EBITDA	(0.8)	(0.9)	(1.0)	(0.4)	(0.2)	(0.2)		
Cash flow pre financing	(5.1)	(1.0)	(1.0)	(0.3)	0.3	EBITDA margin %	(4800.0%)	(260.1%)	(238.5%)	(26.8%)	(5.9%)	(5.9%)		
Debt	0.0	0.0	0.0	0.0	0.0	Margins, Leverage, Returns		FY19A	FY20A	FY21F	FY22F	FY23F		
Net Equity Issues	0.0	1.2	3.8	0.0	0.0	EBITDA margin %		(4573.8%)	(471.3%)	(66.4%)	-5.9%	2.6%		
Net Dividends paid	0.0	0.0	0.0	0.0	0.0	EBIT margin %		(4573.8%)	(471.3%)	(66.4%)	-5.9%	2.6%		
Net cash flow for year	(5.1)	0.2	2.8	(0.3)	0.3	NPAT margin (pre significant items)		(4516.4%)	(459.1%)	(66.4%)	-5.9%	2.6%		
Balance sheet (A\$m)						Net Debt (Cash)	-2.2	-0.8	-2.9	-2.6	-2.7			
Y/E 31 December	FY19A	FY20A	FY21F	FY22F	FY23F	Net debt/EBITDA (x)	(x)	0.8 x	0.5 x	2.1 x	8.0 x	-13.6 x		
Cash	2.2	1.1	3.2	2.9	3.0	ND/ND+Equity (%)	(%)	53.1%	40.6%	42.1%	41.2%	40.6%		
Accounts receivable	0.2	0.2	0.5	0.6	0.8	EBIT interest cover (x)	(x)	n/a	n/a	n/a	n/a	0.0x		
Inventory	0.0	0.4	0.4	0.4	0.4	ROA		nm	(79.6%)	(43.6%)	(7.3%)	4.3%		
Other current assets	0.0	0.0	0.3	0.3	0.3	ROE		nm	nm	nm	nm	nm		
Total current assets	2.4	1.7	4.4	4.2	4.5	ROIC		nm	nm	nm	nm	nm		
PPE	0.1	0.1	0.2	0.2	0.2	NTA (per share)								
Goodwill	0.0	0.0	0.0	0.0	0.0	Working capital		-0.3	0.3	0.7	0.7	0.8		
Right of use asset	0.0	0.0	0.0	0.0	0.0	WC/Sales (%)		(557.4%)	83.7%	32.7%	12.1%	10.1%		
Deferred tax asset	0.0	0.0	0.0	0.0	0.0	Revenue growth		nm	501.4%	469.7%	162.9%	38.7%		
Other	0.0	0.0	0.0	0.0	0.0	EBIT growth pa		nm	nm	n/a	n/a	(160.1%)		
Total non current assets	0.1	0.1	0.2	0.2	0.2	Pricing		FY19A	FY20A	FY21F	FY22F	FY23F		
Total Assets	2.6	1.8	4.6	4.4	4.7	No of shares (y/e)	(m)	132.5	135.0	166.0	204.1	204.1		
Accounts payable	0.5	0.2	0.2	0.3	0.4	Weighted Av Dil Shares	(m)	132.5	135.0	166.0	204.1	204.1		
Short term debt	0.0	0.3	0.3	0.3	0.3									
Provisions	0.0	0.0	0.0	0.0	0.0	EPS Reported	cps	nm	(0.013)	(0.008)	(0.002)	0.001		
Lease liabilities/other	0.0	0.0	0.0	0.0	0.0	EPS Normalised/Diluted	cps	nm	(0.012)	(0.008)	(0.002)	0.001		
Total current liabilities	0.6	0.6	0.5	0.7	0.8	EPS growth (norm/dil)		nm	nm	-33%	n/a	-160%		
Long term debt	0.0	0.0	0.0	0.0	0.0	DPS	cps							
Other non current liabs	0.0	0.0	0.0	0.0	0.0	DPS Growth		n/a	n/a	n/a	n/a	n/a		
Total long term liabilities	0.0	0.0	0.0	0.0	0.0	Dividend yield		0.0%	0.0%	0.0%	0.0%	0.0%		
Total Liabilities	0.6	0.6	0.5	0.7	0.8	Dividend imputation		30	30	30	30	30		
Net Assets	2.0	1.2	4.0	3.7	3.9	PE (x)			nm	5.5	28.9	48.1		
						PE market		18	18	18	18	18		
Share capital	13.3	14.2	18.4	18.4	18.4	Premium/(discount)			nm	(130.6%)	(260.5%)	167.1%		
Retained Earnings	(10.2)	(11.9)	(13.3)	(13.7)	(13.5)	EV/EBITDA		(1.4)	(3.1)	(3.4)	(20.9)	34.5		
Reserves	(1.2)	(1.1)	(1.1)	(1.1)	(1.1)	FCF/Share	cps	-0.2	-1.7	-1.0	-0.2	0.0		
Minorities	0.0	0.0	0.0	0.0	0.0	Price/FCF share		-23.4	-2.7	-4.6	-28.4	137.3		
Total Shareholder funds	1.9	1.2	4.0	3.7	3.9	Free Cash flow Yield		(3.7%)	(32.6%)	(23.9%)	(4.7%)	1.0%		

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

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Corporate Authorised Representative, number 1248415

of

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