

Promising trial orders for a new product extension

Nanoveu Ltd (ASX:NVU) has announced a A\$125k initial “trial” order for newly developed antiviral face masks from key distributor SANYO (Thailand and Malaysia), and the prospect of A\$250k in quarterly orders should the trial be successful. To put these orders into perspective A\$125k represents 40% of likely 1HCY21 revenue while A\$1m in sales (quarterly sales annualised) represents 40% of our current CY21 revenue forecasts. SANYO represents the group’s second largest distributor by disclosed Minimum Order Requirements (MORs) behind the UK. The antiviral face mask is a new product extension with the non-woven fabric containing the same antiviral copper compound as the group’s Nanoshield™ film. The product is also said to reduce smells enabling repeat use (up to five days) rather than requiring disposal after a single use. The recent Nestle peer-review study published in the American Society for Microbiology (ASM) Journal (<https://journals.asm.org/doi/10.1128/AEM.01098-21>) has undoubtedly provided validation for then Nanoshield technology and we expect orders across the product portfolio to accelerate. Our revenue estimates are unchanged as we have already incorporated an element of product take-up but highlight the expanded product portfolio and Nestle study marketing material as key confidence drivers and the reason we recently lower our discount rate for valuation purposes. We have stated previously that key distributors have been waiting for peer-reviewed validation to provide marketing support and the Nestle study does this.

Business model

NVU has developed a number of antiviral and antimicrobial products using the group’s 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.

A new product added to an expanding portfolio

NVU has added a non-woven, 4-ply antiviral face mask to its product portfolio and signed an initial A\$125k trial order with Thailand/Malaysia distributor SANYO. The portfolio now includes antiviral film applications from mobile phones to self-check kiosks, antiviral tape and thermoformed plastics. Distributors are in place across the USA, ANZ, Singapore, Thailand, Vietnam, Malaysia, UK, Turkey, the Philippines, MEA and India, with most set MORs to retain product exclusivity.

Valuation implies \$19.5m market cap vs \$8.5m currently

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 difficult. Our sales assumptions currently imply an uplift as the product gains traction, and these are unchanged. We recently increased our DCF to \$0.155/share on the back of a lower risk rate, and this deal supports such a move. We continue to note that our sales estimates are well below minimum order requirements required for distributors and sales targets for performance shares.

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 | 15.40 |
| 12/21e | 2.6 | (1.1) | (1.1) | (0.01) | nm | 2.93 |
| 12/22e | 5.8 | (0.1) | (0.1) | (0.00) | nm | 1.29 |
| 12/23e | 7.6 | 0.4 | 0.4 | 0.00 | nm | 0.95 |

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

Film manufacturing

24th August 2021

Share details

| | |
|-------------------------|---------|
| ASX Code | NVU |
| Share price (i23rd Aug) | \$0.047 |
| Market Capitalisation | \$7.5M |
| Shares on issue | 162.1M |
| Net cash 30 Jun 2021 | \$0.8M |
| Free float | ~51.6% |

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

- Distribution order announcements
- New product development
- 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 |

Company contact

Alfred Chong (CEO) +65 6557 0155
info@nanoveu.com

RaaS Advisory contacts

John Burgess +61 410 439 723
john.burgess@raasgroup.com
Finola Burke* +61 414 354 712
finola.burke@raasgroup.com

*The analyst holds shares

Exhibit 1: Financial Summary

| Nanoveu Ltd | | | | | | Share price (23 August 2021) | | | | | | AS | | 0.047 |
|-----------------------------|---------|--------|--------|--------|--------|-------------------------------------|-------|-----------|----------|----------|----------|----------|-------|-------|
| Profit and Loss (A\$m) | | | | | | Interim (A\$m) | | H120 | H220 | H121F | H221F | H122F | H222F | |
| Y/E 31 December | FY19A | FY20A | FY21F | FY22F | FY23F | Revenue | 0.0 | 0.3 | 0.6 | 2.0 | 3.1 | 2.7 | | |
| Revenue | 0.1 | 0.4 | 2.6 | 5.8 | 7.6 | EBITDA | (0.8) | (0.9) | (0.8) | (0.3) | 0.1 | (0.2) | | |
| Gross profit | (0.0) | 0.1 | 1.0 | 2.3 | 3.0 | EBIT | (0.8) | (0.9) | (0.8) | (0.3) | 0.1 | (0.2) | | |
| GP margin % | (24.6%) | 34.6% | 40.0% | 40.0% | 40.0% | NPAT (normalised) | (0.8) | (1.0) | (0.8) | (0.4) | 0.0 | (0.2) | | |
| Underlying EBITDA | (2.8) | (1.7) | (1.1) | (0.1) | 0.4 | 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) | (0.8) | (0.4) | 0.0 | (0.2) | | |
| Amort | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EPS (normalised) | nm | (0.007) | (0.005) | (0.002) | 0.000 | (0.001) | | |
| EBIT | (2.8) | (1.7) | (1.1) | (0.1) | 0.4 | EPS (reported) | nm | (0.007) | (0.005) | (0.002) | 0.000 | (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) | (1.1) | (0.1) | 0.4 | 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) | (1.1) | (0.1) | 0.4 | Divisionals | H120 | H220 | H121F | H221F | H122F | H222F | | |
| Abnormals (net) | (0.5) | (0.1) | 0.0 | 0.0 | 0.0 | | | | | | | | | |
| NPAT (reported) | (3.2) | (1.8) | (1.1) | (0.1) | 0.4 | | | | | | | | | |
| Cash flow (A\$m) | | | | | | | | | | | | | | |
| Y/E 31 December | FY19A | FY20A | FY21F | FY22F | FY23F | Total Revenue | 0.0 | 0.3 | 0.6 | 2.0 | 3.1 | 2.7 | | |
| EBITDA | (2.8) | (1.7) | (1.1) | (0.1) | 0.4 | | | | | | | | | |
| Interest | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Gross profit | 0.0 | 0.1 | 0.2 | 0.8 | 1.2 | 1.1 | | |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Underlying GP Margin % | 23.5% | 35.1% | 40.0% | 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) | (0.7) | (0.1) | 0.5 | Selling & Distribution | 0.2 | 0.3 | 0.3 | 0.4 | 0.3 | 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) | (0.7) | (0.1) | 0.5 | Other | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | | |
| Growth capex | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Total costs | 0.8 | 1.0 | 1.0 | 1.1 | 1.1 | 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) | (0.8) | (0.3) | 0.1 | (0.2) | | |
| Cash flow pre financing | (5.1) | (1.0) | (0.7) | (0.1) | 0.5 | EBITDA margin % | ##### | (260.1%) | (133.9%) | (15.7%) | 2.8% | (5.9%) | | |
| Equity issues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Margins, Leverage, Returns | | FY19A | FY20A | FY21F | FY22F | FY23F | | |
| Debt | 0.0 | 1.3 | 1.2 | 0.6 | 0.0 | EBITDA margin % | | (4573.8%) | (471.3%) | (42.1%) | -1.3% | 4.6% | | |
| Net Dividends paid | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EBIT margin % | | (4573.8%) | (471.3%) | (42.1%) | -1.3% | 4.6% | | |
| Net cash flow for year | (5.1) | 0.3 | 0.5 | 0.5 | 0.5 | NPAT margin (pre significant items) | | (4516.4%) | (459.1%) | (42.1%) | -1.3% | 4.6% | | |
| Balance sheet (A\$m) | | | | | | Net Debt (Cash) | -2.2 | -0.8 | -0.4 | -1.0 | -1.2 | | | |
| Y/E 31 December | FY19A | FY20A | FY21F | FY22F | FY23F | Net debt/EBITDA (x) | (x) | 0.8 x | 0.5 x | 0.4 x | 13.1 x | -3.4 x | | |
| Cash | 2.2 | 1.1 | 0.8 | 1.3 | 1.5 | ND/ND+Equity (%) | (%) | 53.1% | 40.6% | 25.2% | 34.3% | 35.1% | | |
| 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%) | (59.0%) | (3.4%) | 12.8% | | |
| Other current assets | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | ROE | | nm | nm | nm | nm | nm | | |
| Total current assets | 2.4 | 1.7 | 1.8 | 2.4 | 2.9 | ROIC | | nm | nm | nm | nm | nm | | |
| PPE | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 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% | 26.5% | 11.5% | 10.1% | | |
| Deferred tax asset | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Revenue growth | | nm | 501.4% | 602.0% | 125.3% | 31.4% | | |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EBIT growth pa | | nm | nm | n/a | n/a | (575.3%) | | |
| Total non current assets | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | Pricing | | FY19A | FY20A | FY21F | FY22F | FY23F | | |
| Total Assets | 2.6 | 1.8 | 1.9 | 2.5 | 3.0 | No of shares (y/e) | (m) | 132.5 | 135.0 | 166.7 | 176.0 | 176.0 | | |
| Accounts payable | 0.5 | 0.2 | 0.2 | 0.3 | 0.4 | Weighted Av Dil Shares | (m) | 132.5 | 135.0 | 166.7 | 176.0 | 176.0 | | |
| 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) | (0.006) | (0.000) | 0.002 | | |
| Lease liabilities/other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | EPS Normalised/Diluted | cps | nm | (0.012) | (0.006) | (0.000) | 0.002 | | |
| Total current liabilities | 0.6 | 0.6 | 0.5 | 0.7 | 0.8 | EPS growth (norm/dil) | | nm | nm | -48% | n/a | -575% | | |
| 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 | 1.3 | 1.9 | 2.2 | PE (x) | | | nm | - | 7.2 | - | 111.5 | 23.5 |
| | | | | | | PE market | | 18 | 18 | 18 | 18 | 18 | | |
| Share capital | 13.3 | 14.2 | 15.4 | 16.0 | 16.0 | Premium/(discount) | | | nm | (140.2%) | (719.6%) | | 30.4% | |
| Retained Earnings | (10.2) | (11.9) | (13.0) | (13.1) | (12.8) | EV/EBITDA | | (1.4) | (3.2) | (6.8) | (98.5) | | 20.1 | |
| Reserves | (1.2) | (1.1) | (1.1) | (1.1) | (1.1) | FCF/Share | cps | -0.2 | -1.7 | -0.9 | 0.0 | | 0.1 | |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | Price/FCF share | | -23.9 | -2.8 | -5.3 | -103.1 | | 36.7 | |
| Total Shareholder funds | 1.9 | 1.2 | 1.3 | 1.9 | 2.2 | Free Cash flow Yield | | (3.5%) | (30.8%) | (20.0%) | (1.1%) | | 3.1% | |

Source: RaaS Advisory

FINANCIAL SERVICES GUIDE

RaaS Advisory Pty Ltd

ABN 99 614 783 363

Corporate Authorised Representative, number 1248415

of

BR SECURITIES AUSTRALIA PTY LTD

ABN 92 168 734 530

AFSL 456663

Effective Date: 6th May 2021

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- how we transact with you
- how we are paid, and
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Contact Details, BR and RaaS

BR Head Office: Suite 5GB, Level 5, 33 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: finola.burke@raasgroup.com

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