

Stock Data

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| Share Price: | 13.25p |
| Target Price: | 30.50p |
| Market Cap.: | £23.07m |
| Shares in issue on Admission: | 174.15m |
| 52 week high/low | 32p/10p |

Company Profile

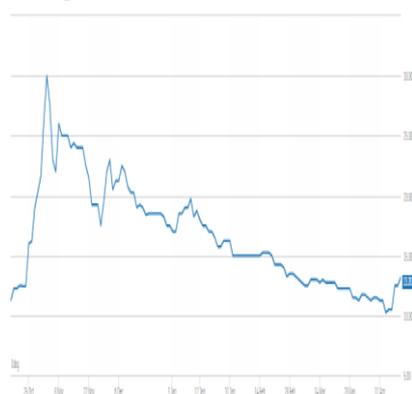
| | |
|-----------|------------------------|
| Sector: | Industrial Engineering |
| Ticker: | LST |
| Exchange: | AIM |

Activities

Light Science Technologies Holdings plc ('LST' or 'the Group') brings together controlled environment agriculture technology and quality-led UK-based contract electronic manufacturing of bespoke solutions for global clients.

www.lightsciencetechnologiesholdings.com

Share price chart since 15 October 2021



Source: [LSE](https://www.lse.com)

Past performance is not an indication of future performance.

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TPI acts as sole broker to Light Science Technologies Holdings plc.

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Light Science Technologies Holdings

LST has published its Annual Report & Accounts for the year to end-November 2021. This follows the Group's AIM Admission on 15 October 2021, in conjunction with which it raised £5.0m (gross) new primary equity funding to provide the growth capital required to continue developing and capitalising on multiple opportunities identified within its two operational divisions. While the Board remains confident that investment to further automate production lines of its long-established and cash generative UK-based contract electronics manufacturing ('CEM') business, UK Circuits, will enable it to secure larger contracts going forward, and that expansion of its controlled environment agriculture ('CEA') division, Light Science Technologies Limited ('LSTL'), into new markets will be rewarded through improved contract visibility, LST and its wider industry peer group are nevertheless facing certain highly documented, continuing challenges. Brexit, the environmental lobby, COVID-19 and recent events in Ukraine are ultimately seen to favour the Group, in terms of the ongoing push for reduced energy consumption in tandem with increasing levels of local participation, even if CEA customers are presently elongating their contract cycles and global component shortages continue to present supply chain issues for the CEM division. At this time, the Board considers its FY2022 forecasts remain achievable.

Financial highlights for the 12 months to 30 November 2021

- Group revenue: Grew by 6.6% to £7.39m (30 November 2020: £6.94m)
- Cost of sales: Rose by 6.7% to £5.75m (30 November 2020: £5.39m)
- Gross margin: Stable at 22.2% (30 November 2020: 22.3%)
- Operating profit/(loss): (£2.08m) (30 November 2020: £0.26m)
- Total comprehensive profit/(loss) for the year: (£2.14m) (30 Nov. 2020: £0.18m)
- Year-end cash/cash-equivalents: £3.86m (30 November 2020: £0.04m)

Group revenue growth for the period was slightly ahead of the forecasts TPI set last October, being powered primarily by the CEM division (+6.1% year-on-year), while consolidated gross margins held steady despite supply chain constrained headwinds resulting from the ongoing global shortage of electronic components. The higher cost of sales recorded in the closing months of the period due to such exceptional conditions not surprisingly meant that the latter fell a little short of the 24.7% projected by TPI.

In line with expectations, the Group's loss before tax for FY2021 was £2.35m resulting, amongst other things, from exceptional non-recurring costs of £0.51m associated with its Admission to trading on AIM, significant investment by the CEA division into both product research & development/marketing of its products and services. A reasonably strong post-IPO year-end cash position suggests funding sufficient to complete its divisional investment programmes scheduled for H1 2022/23. Consolidated net cash was £1.35m at year end, compared with net debt of £2.33m at 30 November 2020.

Light Science Technologies Limited – Successful product launches

The past year saw LSTL's focus principally on developing its new market CEA products and IP collateral, while also building its brand and robust sales pipeline. Such efforts were recognised with a sustainable award for its nurturGROW luminaire range, while gaining support from industry peers along with grants from UK Research & Innovation ('UKRI') for its SensorGROW product and intelligent polytunnel solution.

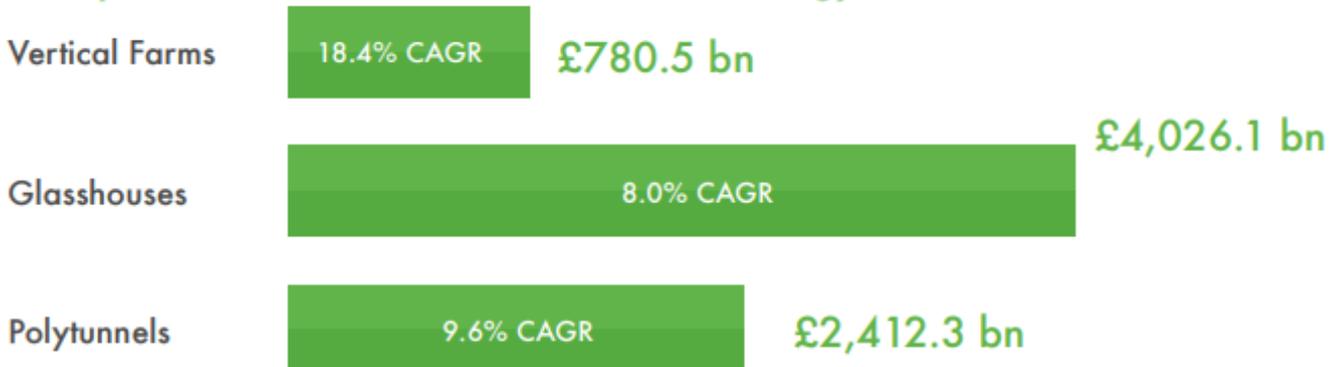
Despite its relative infancy in the sector, LSTL is already recognised as one of top 500 Foodtech companies in the world, representing value-added solutions for glasshouses, vertical farms and polytunnels. LSTL operates in a global market whose total grow lights opportunity is estimated to be worth £20.5 billion while offering 21.1% CAGR out to 2025.

The CEA division's total combined forward order book and pipeline as of today stands at £62m (split almost equally between larger vertical farming demand and higher volume products for polytunnels/glasshouses). This is on the back of 2021's growth in its UK client base, which included the passing of an important milestone with the commencement of a contract with Zenith Nurseries Limited, the major UK salad grower, potentially worth up to £13.84 million with the first gateway nearing completion subject to the terms & conditions that were detailed in LST's Admission Document. Going forward, the trend of rising energy prices offers the Group a unique medium-to-longer-term opportunity to support growers by lowering energy costs and increasing yields, something that its nurturGROW luminaire range is already demonstrating by providing growers with a compelling, energy efficient solution and recyclable and reusable design. Another important factor is the timing of the Farming Transformation Fund grants, a government initiative that was put in place at the end of 2021, designed to improve productivity, profitability and enhance environmental sustainability, including water management and adding value through the use of robotics/automation/systems to boost crop yields. With grants of up to £500,000 per applicant typically available to cover around half of the total project cost, this is expected to further boost activity for LSTL which presently has a number of major customers awaiting approval from the Department for Environment, Food and Rural Affairs, ahead of being expected to confirm orders in coming months.

SensorGROW, the indoor farm sensor that is expected to be LSTL's next major product launch, is progressing through prototype stage and expected to be launched in H2 2022. Its exacting analysis of the growing environment will enable customers to collect and monitor plant health and environmental data far beyond traditional observation. This highly advanced solution will permit growers to precisely control their closed environment through a range of measurement and alert systems designed to sustain optimum, disease-minimised conditions for their produce at all times, year-round. The high level of interest in this launch is reflected by the fact that LSTL has been working with over 28 growers to beta test its development, through which proposal for further facility/performance upgrades based on delivery of different factors, such as reduction in water usage, nutrient and/or energy are being obtained.

When available, the SensorGROW range will be operated on a subscription basis, creating highly visible, medium-term returns through a recurring revenue model. The large volume of real-world farming data that is expected to be generated through nationwide (and later international) installations of such networked sensors, moreover is expected to enable the Group to increase the accuracy and precision of its full-service CEA offering, as well as supporting ongoing design improvements/extensions to the range. The combination of both the Group's nurturGROW and SensorGROW technologies potentially offers a turnkey solution capable of opening new global market with significant benefits for growers, such as increasing their yields and productivity whilst lowering costs through an increasingly automated and networked environment. Based on prospective growth projections for the European CEA technology market alone, this could open a significant longer-term, high margin (expected to stabilise in the range of 35% to 40% gross) opportunity.

European market value for CEA technology*



* Based on Europe Indoor Farming market analysis from 2017 to 2028 - Grand View Research report. The revenue data shown is based on 2020 data. Figures converted from USD to GBP at 0.7465 - Source Xe.com (12 Nov 2021)

Source: LST, AR&A for year ended 30 November 2021

UK Circuits and Electronics Solutions Limited ('UK Circuits') – Seeing an increased forward order book

Revenue take for UK Circuits remains strong, with a current £4.4m pipeline in line with management expectations despite the ongoing challenges of global component shortages. Market data demonstrates that the industry's top 197 participants had a combined turnover of £2.3 billion in 2020, with 11.12% growth registered in 2020 on 2019. The coincidence of Brexit, COVID-19 and the Ukrainian war nevertheless appears to have kicked-off an important revolution amongst contract electronics manufacturers. UK Circuits is seeing the benefits many existing and potential customers reshoring supply chains from the Far East and emphasising efforts to buy British, resulting in a higher level of enquiries, positive growth in new business and a more visible forward order book (with customers prepared to commit earlier in order to either secure available components or task the division with substituting with suitably priced alternatives). Despite the complications created by global component shortages, something that is likely to continue for some months yet, the division is nevertheless expected to continue to demonstrate its ability to successfully circumnavigate such challenges during FY2022. Improved operational efficiencies/productivity/marketing have created a platform for further growth through its expanding list of over 70 recurring customers spanning a range of sectors, including audio, automotive, electronics, gas detection, lighting, pest control and, of course, more recently the CEA market. In particular, UK Circuits continues to forge strong relationships with blue-chip clients, such as Rentokil Initial plc's pest division; in 2021, Rentokil made up a significant percentage of the Group's turnover due to the growth of their Pest Control division, which is expected to continue for the foreseeable future.

UK Circuits sees investment as its key to drive expansion. To capture growth in well-established and profitable additional markets such as sensors, medical and defence, the division is seeking to secure additional, prestigious quality-related accreditations. Utilising part of the net proceeds raised in conjunction with LST's AIM IPO, management are pursuing additional areas of investment within the division's installed plant and equipment, including further automation through the purchase of two Surface Mount Technology lines, additional quality management control and ERP ('Enterprise Resource Planning') systems to enable continued improvement in operational effectiveness and efficiency, while also expanding its capacity for generation of new business.

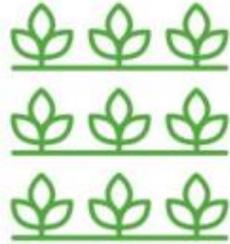
TPI retains its target price of 30.5p/share for LST

TPI retains the 30.5p/share target price it set for LST at the time of the Group's AIM IPO. This recognised significant medium-to-longer-term growth opportunities in both the CEA and CEM sectors, against which TPI utilised prudent discounted cashflow modelling in order to arrive at an indicative valuation for the Group based on a cost-of-capital discount rate of 14% extended over the first 10 years, followed by a terminal growth rate of 2.5% against which it offset then current net debt. TPI's current year revenue forecast of £14.17m also remains unchanged at this time, although based on timing factors the individual divisional contributions could alter somewhat from the 10-fold growth originally anticipated for the start-up CEA division (to £6.68m) plus 4.67% growth at the CEM division (to £7.49m). Understanding that LSTL is expected to sustain much higher gross margins than UK Circuits, a consolidated figure of 31.0% for the full 12 months also remains achievable. The scenario anticipated at the time of LST's IPO was for broad resolution to the COVID-19 crisis by the end the Group's financial year, with issues surrounding global supply chains/availability and pricing of electronic components etc. normalising shortly thereafter. In the event, of course, it now appears that such conditions might be prolonged into 2023 or even beyond, something that is producing both positive and negative scenarios for LST and its entire peer group.

The relatively widespread deemphasising of globalisation now being seen, along with apparent willingness to partially sacrifice 'just-in-time' efficiencies that had been captured by international corporations, is likely to give way to a higher degree of localisation in the medium term, while policies toward much higher energy efficiencies/environmental considerations become increasingly built-in to the corporate psychology. Indeed, recently food security issues have highlighted the need for nations to reconsider how they access fresh produce, while recognising that modern technologies not only cut energy consumption but also enable smarter growing to reduce waste and increase yields. While LST is clearly positioned to benefit from such a short-to-medium term evolution, the more immediate outcome has been to elongate the sales cycle which in turn increases uncertainty around current year revenues for its CEA division, while CEM continues in line with management expectations. Overall, Group operations are likely to become more predictable in the second half, with the scale and prospective long-term growth opportunities presented through its two asymmetric markets becoming firmly re-established in due course.

(Please note that TPI's valuation is based on financial modelling and there is no guarantee that such a valuation will ever be realised, therefore please do not base investment decisions on this valuation alone. Also please note that past performance is not a reliable indicator of future results.)

Across all CEA environments



Vertical farms



Glasshouses



Polytunnels

| | | | |
|-----------------|------------|-------------|--------------|
| Revenue* | £780.51 bn | £4,026.1 bn | £2,412.27 bn |
| CAGR (2021-28)^ | 18.4% | 8.0% | 9.6% |

Fully integrated technology solutions = 36% growth^

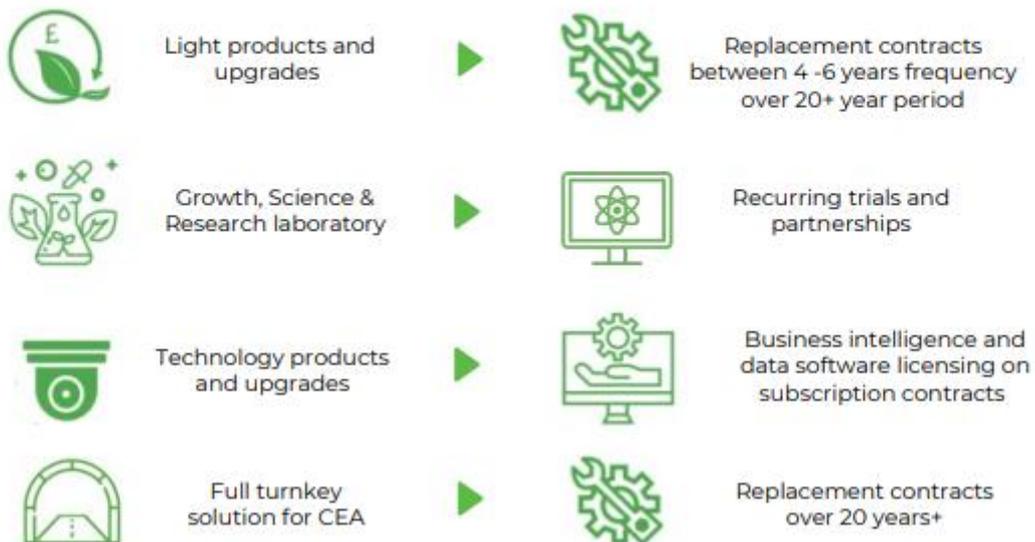
*^Based on Europe Indoor Farming market analysis from 2017 to 2028 - Grand View Research report. The revenue data shown is based on 2020 data. Figures converted from USD to GBP at 0.7465 - Source Xe.com (12 Nov 2021)

Source: LST, Extract from Investor Presentation of 26 April 2022

Our recurring revenue model



Building long term partnerships



Source: LST, Extract from Investor Presentation of 26 April 2022

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