

Stock Data

Share Price:	48.00p
Market Cap:	£154.78m
Shares in issue:	322.45m
52-week high/low:	49.20p/16.05p

Company Profile

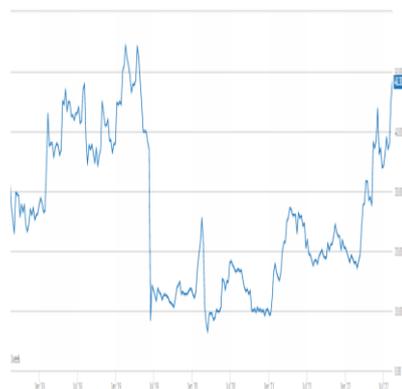
Sector:	Technology
Ticker:	NANO
Exchange:	LSE

Activities

Nanoco Group plc ('Nanoco', 'NANO', 'the Group') harnesses the power of nano-materials. These are materials with dimensions typically in the range 1 - 100 nm. Nano-materials have a range of useful properties, including optical and electronic. Nanoco is listed on the Main Market of the London Stock Exchange.

www.nanocotechnologies.com/

5-year share price performance



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

Past performance is not an indication of future performance.

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TPI acts as joint broker to Nanoco Group plc.

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Nanoco Group plc

Nanoco has released a year-end trading update, highlighting positive organic momentum along with its now extended cash runway ahead of the Samsung trial, which is expected to start on 12 September 2022. Unaudited revenues for the 12 months to end-July 2022 were up over 10% on the comparable period, with the Group order book more than doubling year-on-year following its securing of a fifth major works package from its existing important European electronics customer, along with additional development work and continued material supplies for a major Asian chemical company. Notwithstanding this of course, speculation regarding the Group's ongoing litigation has powered a 180%+ rise in its share price since 17 May 2022, when the US Patent Trial and Appeal Board ('PTAB') ruled in its favour with respect of all 47 claims in the five patents that were subject to inter partes review ('IPR') for the case. At this time, Nanoco's Board continues to express confidence in a positive outcome from the hearing that is expected to last just one week and, although it has never publicly estimated the potential value of an award from successful litigation, TPI research of 6 June 2022 suggested this could be in the range of US\$200m to US\$300m for Samsung's historical US infringement alone. Should its actions be considered specifically wilful however, the final figure could be a multiple of this. In recognition of this, and the fact that Nanoco's quantum dot ('QD') technologies remain central to Samsung's continued dominance of the international market for premium displays, the South Korean giant may become inclined to seek an early out-of-court global settlement. This offers transformational potential for both the Group's prospects and shareholder value.

(Risk warning: Future performance and forecasts are not a reliable indicator of future results)

Unaudited financial highlights – Cash runway now extends to CY 2025

- Unaudited revenues of £2.4m for the year ended 31 July 2022 were in line with the Board's expectations and just over 10% above FY2020/21.
- Continued proactive management of the cost base resulting in a reduced Adjusted LBITDA, slightly ahead of the Board's expectations.
- The unaudited cash position at 31 July 2022 was £6.8m, an increase of £5.0m since 31 January 2022, reflecting the over-subscribed £5.4m equity raise (net) in June 2022 and good operating cash performance in H2 FY2021/22
- Cash runway extended to CY 2025, beyond the expected point at which the Group's organic operations become self-financing.

Audited final results for the year ended 31 July 2022 are expected to be announced in the second half of October 2022. These are also expected to reflect both cost savings and operational benefits accruing from the ongoing consolidation of the Group's Runcorn operations into one single facility.

Two important milestones were delivered in second half of FY 2021/22

Nanoco delivered two important milestones in the second half of FY 2021/22. It won all five patents and all 47 claims that were contested by Samsung at the PTAB. It also delivered a significant contract extension with its European electronics customer that covers the work required to scale up and validate its nano-materials for production readiness. As such, management is now moving forward with confidence to the

forthcoming trial in the IP litigation and to validating its products during H1 FY2022/23, ahead of expected visibility of production orders shortly thereafter.

Update on Nanoco's ongoing IP litigation against Samsung

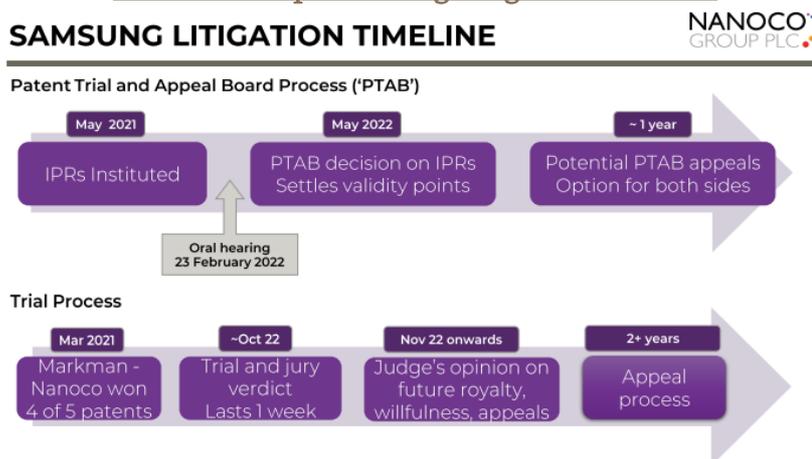
Nanoco provided an update regarding its ongoing IP litigation against Samsung on 17 May 2022, in which it confirmed the PTAB had validated all 47 claims in the five patents at issue in the law suit in the Eastern District of Texas. His Honour, Judge Gilstrap, on 7 June 2022 lifted the stay on the trial to be held in Texas, rejecting Samsung's request for a further delay. A pre-trial conference date was subsequently set for 18-19 August 2022, with the trial itself due to start on 12 September 2022 and expected to last just one week. While it is understood that Samsung has the right of appeal against the IPR verdict, which could possibly extend legal proceedings by up to 18 months, Nanoco's Board notes the robustness of the PTAB opinions in dismissing its claims, therein implying the validity of the IP in question.

The jury will be obliged to consider the questions of infringement, wilfulness and damages, with the PTAB having settled the issue of validity. The trial's outcome has potential to be transformational for both Nanoco's prospects and shareholder value. Although the Board has not cited to shareholders any value assessment of potential reparations, it nevertheless appears to be ideally positioned to pursue an award for significant damages, or otherwise negotiate a global out-of-court settlement, that realistically could total significantly more than the Group's current market capitalisation.

Such successful litigation would require at least one claim to survive both potential patent review appeal and trial which, assuming an out-of-court settlement is not reached beforehand, will then formally rule on infringement, wilfulness and damages. The outcome in the current US litigation alone, for example, could be based on considerations covering any or all of the following:

- US sales only – estimated at c.33% of Samsung's global QD television sales
- Historical sales only to the date of trial - anticipated future sales can have an ongoing royalty awarded by the judge post trial (including existing market, second generation TVs, other devices such as phones, tablets, etc), This could be extensive since some of the patents do not expire until 2028 or even 2035
- Wilfulness – US courts have been seen to increase damages by up to three times should any infringement demonstrated be considered wilful by the jury, as opposed to accidental.

Nanoco Group -Samsung Litigation Timeline



Litigation, IPR and appeal processes underwritten by third party funder

Source: Nanoco, [Interim Results presentation for period ended 31 January 2022](#)

Any compensation claim would need to encompass the global nature of the IP, comprising four patents that are due to expire between 2025–2028, along with a fifth extending out to 2035, covering the historic sales of Samsung's QD flat screen displays plus its more recently launched second-generation models (the Group estimates that Samsung's market share represents close to 90% of the total global market). In terms of unit numbers involved, for example, these have been estimated by independent analytical and consultancy firm, Omdia, that recently suggested Samsung's cumulative QLED-based sales over the past five years to end-2021 reached c.26m, with 9.43m premium units in 2021 alone.

Nanoco believes any damages it ultimately receives should reflect the value enabled by its IP. Based on *no win, no fee* litigation funding, the Board has agreed a risk reward sharing mechanism that would lead to c.50% of a 'modest' trial award being retained by the Group, rising to 80% for larger 'wins'. From April, retailers in the US were offering Samsung's latest second generation QD-OLED SB95 devices for sale at between US\$2200 for the 55-inch model and US\$3000 for the 65-inch, around double the price of similar premium, but not QD based devices. Assuming that Samsung's US QD display sales totalled 25m units over the five years to end-2021, upon which it is realistic to estimate a low-end royalty payable to Nanoco in the range of US\$8.0 to US\$12.0 per display. This amounts to lost revenue in the range of US\$200 and US\$300 million for the US alone. Although royalties negotiated might have been expected to taper with rising volumes, Nanoco's annual take might nevertheless continue on a rising trend to the point of expiry of its various patents.

Samsung might be expected to indicate its willingness to negotiate a global settlement with Nanoco when its legal counsel considers there to be a high probability that the US damages claim against it will be successful. Within this, it would recognise that the European QD TV market, which is covered by the same five patents, is presently only a little smaller by value than North America; China is also an expanding opportunity which, due to its recent environmental regulations, is likely to favour non-cadmium based QD technology. Samsung would also seek an agreement that encompasses existing and/or prospective white label sales of display panels to other multinationals as part of its planning to expand their use into other product areas.

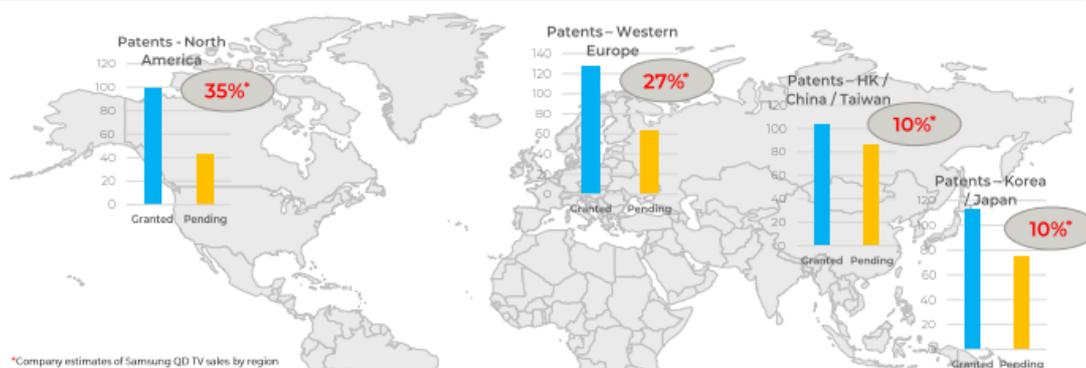
A favourable trial verdict, moreover, would enhance Nanoco's options to start further litigation in other territories covered by its IP and potentially in territories where the legal process is faster, costs would be lower and where injunctions are more commonly granted in addition to damages (in the USA injunctions are much harder to win following the Supreme Court ruling in [eBay Inc. v. MercExchange, LLC](#), 547 U.S. 388 (2006)).

With the agreed proportion of total success fee claimable by Nanoco's funder and legal counsel set to taper as the absolute award grows, the net amount prospectively received by the Group could be partially protected by existing carried forward tax losses amounting to c.£36 million. Such an award would not only permit the Group to vigorously pursue any further global infringement of its IP, but also permit it to build out the technologies and IP surrounding value enhancing nanomaterials, while investing in its development, production capacity and marketing platform in expectation of securing long-term, high volume customer demand. Beyond such needs, the Board may consider returning surplus funds to shareholders by way of a special dividend or other such distribution.

Nanoco – Samsung Litigation Value Opportunities

LITIGATION VALUE OPPORTUNITIES

NANOCO
GROUP PLC



- European QD TV market only a little smaller by value than North America*
- Nanoco significant patent coverage in large European markets – same five patents
- China a growing market and opportunity with new environmental regulations
- Samsung selling panels to other huge multi-nationals
- QD use cases expanding to other devices

Successful litigation unlocks more than just a damages award in USA

Source: Nanoco, [Interim Results presentation for period ended 31 January 2022](#)

Trading update and financial review

Following the announcement of a full year service contract with its major European electronics customer, Nanoco's order book has now more than doubled that of a year ago. The contract delivers a monthly revenue run rate at least equivalent to that seen in H1 FY2021/22 (£1.1m for the six months, implying £2.2m for FY2021/22), while also underpinning FY 2022/23 revenue at least in line with FY2021/22 and creating favourable working capital terms to fund a raw material stock build. Significantly, it also adds new material to the Group's range, something which emphasises the long-term nature of the development and production partnership with this customer. New orders for additional development material have also been received from a major Asian electronics customer, with additional development work packages and a new framework agreement now at an advanced stage of discussion.

Tight cost management plus agreement of terms to exit the Group's now surplus facility in Manchester are expected to reduce its annualised cost base by January 2023 to below that previously expected for FY2021/22, delivering an estimated break-even revenue figure of around £5.0m. Progress already reported within the interim results on 12 April 2022, noted average monthly cash burn had reduced to a little over £0.3m (H1 FY2021/22: £0.4m) while management continued to consolidate R&D and scale-up activities at its Runcorn production facility ahead of anticipated final product validation; with the second stage of the phased closure in Manchester expected to complete during Q3 FY2022/23, this figure is set to reduce still further.

With net cash at end-February 2022 having increased to £2.6m (due to receipt of tax credit and major customer payment), the Group's over-subscribed £5.4m equity raise (net) in June 2022 along with good operating cash performance in H2 FY2021/22, has extended its cash runway into CY 2025. This is beyond the expected point at which the Group's organic operations become self-financing. The Board's focus remains on this goal for the short to medium term.

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