

Nano Dimension

Q317 results

First commercial sale inaugurates roll-out

Q317 marked Nano Dimension's first sale of a commercial-grade printer, the DragonFly Pro, which was to global manufacturing services giant, Jabil. In general, however, the sales cycle is proving much longer than management originally anticipated, so we are revising our estimates downwards to reflect a more cautious commercial roll-out and cutting our indicative valuation from US\$7.04/ADS to US\$6.39/ADS.

Year end	Revenue (US\$m)	EBITDA** (US\$m)	PBT* (US\$m)	EPADS* (US\$)	DPADS (US\$)	P/E (x)
12/15***	0.0	(2.4)	(2.1)	(0.39)	0.0	N/A
12/16	0.0	(6.5)	(6.8)	(0.83)	0.0	N/A
12/17e	1.2	(14.6)	(15.7)	(1.41)	0.0	N/A
12/18e	9.5	(9.6)	(11.0)	(0.75)	0.0	N/A

Note: *PBT and EPADS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. **EBITDA stated after deducting amortisation of capitalised R&D. ***Translated from NIS.

First commercial sales received

In early Q317 Nano Dimension announced that it had gained sufficient information from the beta phase to move to commercialisation. The feedback from the beta phase has been used to define a professional-grade version, which debuted at events in the US and Europe in November. Jabil Inc. and the University of Technology, Sydney, will be the first commercial customers. Nano Dimension has prepared the infrastructure for supporting commercial roll-out later this quarter by opening its nanoparticle ink production facility in October and expanding its distribution network in Australia, Canada, France and Italy.

Revenues from beta test continuing

Nano Dimension generated US\$143k revenues during Q317 (US\$150k in Q217, US\$0m in Q316) from leasing DragonFly printers to customers participating in the beta testing programme. Operating losses were lower than in Q217 (US\$4.2m vs US\$4.8m), as both R&D and sales and administrative expenses reduced slightly. Cash fell by US\$4.5m during the quarter to US\$12.0m (there is no debt). We note that while Nano Dimension is in active discussions with around 100 potential customers, the sales cycle is proving much longer than management originally anticipated, so we are revising our near-term estimates downwards to reflect more cautious roll-out assumptions.

Valuation: Significant upside on volume roll-out

Our indicative DCF-based valuation is now NIS 4.49/ordinary share or US\$6.39/ADS (formerly US\$7.04/ADS, NIS5.06/ordinary share). This uses a discount rate of 12% to reflect the current uncertainty regarding the rate of commercial ramp-up. Delivery of meaningful volumes of the DragonFly Pro in FY18 would improve visibility and remove some uncertainty, potentially justifying a lower risk valuation (at a 10% discount rate) of up to US\$9.0/ADS or NIS6.3/share. Our revised estimates identify a c US\$4.2m funding gap in FY18. We model this as satisfied through debt, although it could potentially be dilutive if financed through the issue of new shares.

Tech hardware & equipment

30 November 2017

Price* NIS2.77

Market cap NIS171m

*Priced at 24 November 2017

NIS3.51:US\$1.00

Net cash (US\$m) at end Sept 2017 12.0

Shares in issue 61.8m

ADRs in issue 12.4m

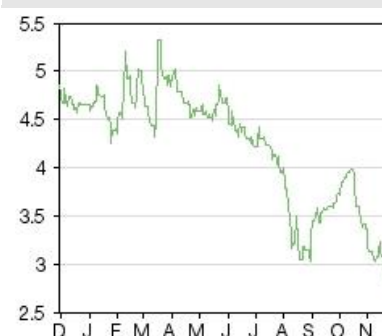
Free float 76%

Code NNDM

Primary exchange TASE

Secondary exchange NASDAQ

Share price performance



% 1m 3m 12m

Abs (19.6) (12.0) (41.1)

Rel (local) (20.0) (15.8) (43.5)

52-week high/low NIS5.3 NIS2.8

Business description

Nano Dimension focuses on the development of advanced 3D printed electronics systems and advanced additive manufacturing. The company's initial products include a 3D printer for rapid prototyping of multi-layer PCBs and associated nanotechnology conductive and dielectric inks.

Next events

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Revisions to estimates

As discussed in our August [outlook note](#), now that Nano Dimension has a commercial-grade printer available and an effective distribution network in place, management is better able to judge how long it takes to complete sales. Since Nano Dimension is selling a completely new, high ticket value piece of equipment to large organisations, the sales cycle is prolonged and purchases have to fit within customers' budgetary calendars, meaning that some sales that were initially expected to land in FY17 have been pushed into customers' next financial year and slipped into FY18. On the other hand, management notes that the actual sales price that may be achieved is higher than originally envisaged. We revise our estimates to reflect both trends. The promotion of non-executive director Avi Reichtental, who joined the board in April 2017, to co-chairman, may help guide the management team through the tricky early commercialisation phase. Avi was previously president and CEO of 3D print major, 3D Systems.

We note that, following these revisions, we model a US\$4.2m financing gap in FY18. In accordance with Edison's policy, we model this as satisfied through long-term debt.

Exhibit 1: Revisions to estimates							
	FY16	FY17e			FY18e		
	Actual	Old	New	% change	Old	New	% change
Printer deliveries	6*	34*	18*	(47.1)	150	60	(60.0)
Revenues (US\$m)	0.0	2.4	1.2	(49.5)	17.8	9.5	(46.4)
EBITDA (US\$m)	(6.5)	(13.7)	(14.6)	6.3	(4.0)	(9.6)	137.5
PBT (US\$m)	(6.8)	(14.7)	(15.7)	6.7	(5.6)	(11.0)	97.2
EPADS (US\$)	(0.83)	(1.32)	(1.41)	6.7	(0.38)	(0.75)	97.2
Net cash/(debt)	12.4	9.0	7.7	(14.5)	2.2	(4.2)	N/A

Source: Company data, Edison Investment Research. Note: *Including beta-phase units.

Valuation: Delivery on milestones remains key

Exhibit 2: Revenues from printer and ink sales										
	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Total units delivered	18*	60	120	180	252	328	364	384	400	408
Price per unit (US\$k)**	175	175	158	142	128	121	115	109	105	101
Revenues from equipment sales and leasing (US\$k)	1,210	8,565	17,490	27,855	34,489	41,804	41,868	41,962	41,975	41,102
Revenues from ink sales (US\$k)	0	950	2,976	6,011	9,934	14,658	20,066	25,368	30,380	35,011
Total revenues (US\$k)	1,210	9,515	20,466	33,866	42,083	54,362	61,933	67,330	72,356	76,114

Source: Edison Investment Research. Note: *Including beta-phase units. **After commissions to distributors.

We continue to present a DCF calculation for valuation purposes. This adopts the roll-out assumed in our estimates for the first two years, then ramps up revenues through to FY26 as shown in Exhibit 2. Although we have pulled back roll-out during FY17 and FY18 (see Exhibit 1), we have retained the longer-term assumptions regarding market share detailed in our August note, leading to estimated sales of 400 units in 2025. Clearly, this sales progression is predicated on Nano Dimension making the step from successful beta test to meaningful commercial deliveries.

Exhibit 3: Edison DCF valuation sensitivities against discount and terminal growth rates									
	US\$/ADS	Discount rate			NIS/ordinary share	Discount rate			
		10.0%	12.0%	14.0%		10.0%	12.0%	14.0%	
Terminal growth	0.0%	7.48	5.53	4.22	0.0%	5.25	3.89	2.97	
	1.0%	8.15	5.92	4.47	1.0%	5.73	4.16	3.14	
	2.0%	9.00	6.39	4.75	2.0%	6.32	4.49	3.33	
	3.0%	10.08	6.97	5.08	3.0%	7.08	4.89	3.57	
	4.0%	11.52	7.68	5.48	4.0%	8.09	5.39	3.85	

Source: Edison Investment Research

Noting that ongoing commercial discussions indicate that Nano Dimension will be able to charge more for the DragonFly Pro than was originally anticipated, we have adjusted our valuation model to reflect a higher sales price at the start of the forecast period (US\$175k/unit after deduction of commission to distributors rather than US\$150k before), but applied a more aggressive price erosion rate. Our assumptions regarding gross margin and capital expenditure remain as described in our August note.

As there remains significant executional risk with regard to the volume ramp-up, which will not be reduced until the first commercial deliveries commence at the end of this year, we keep our discount rate at 12% as well as holding the terminal growth rate at 2%. This gives an indicative share price at current levels of risk of NIS4.49/ordinary share or US\$6.39/ADS (previously NIS5.06/ordinary share or US\$7.04/ADS). The share price has declined by 10% since the Q317 results and is now NIS2.77/ordinary share (US\$3.95/ADS), substantially below our indicative valuation. In our opinion, this reflects investor concerns on how long it will take to win meaningful sales volumes once commercial versions of the printer start shipping at the end of this year.

So far Nano Dimension has stuck broadly to the roll-out timetable detailed in our [initiation note](#), which is very encouraging for an early-stage technology company. Once investors gain confidence that Nano Dimension is able to secure meaningful levels of orders for the DragonFly Pro we expect the share price to start to move past our indicative valuation, which is based on current levels of execution risk, towards the lower-risk (say, 10% discount) valuation levels. However, while the current share price appears to already factor in a somewhat slower roll-out, further delays in initial commercial sales may cause the share price to decline further. We note also the potential share price dilution if the funding gap that we have identified is satisfied through the issue of new shares. This analysis excludes the earlier-stage development initiatives such as structural electronics and human tissue printing.

Exhibit 4: Financial summary

	US\$'000	2015	2016	2017e	2018e
Year-end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		0	46	1,210	9,515
Cost of Sales (including amortisation of capitalised IP)		0	(193)	(1,516)	(4,426)
Gross Profit		0	(147)	(306)	5,089
EBITDA		(2,437)	(6,465)	(14,578)	(9,611)
Operating Profit (before amort. and except.)		(2,473)	(6,829)	(15,687)	(10,954)
Intangible Amortisation		0	0	0	0
Exceptionals		0	(149)	0	0
Other		(3,262)	(2,025)	(2,025)	(2,025)
Operating Profit		(5,735)	(9,003)	(17,712)	(12,979)
Net Interest		355	38	0	0
Profit Before Tax (norm)		(2,118)	(6,791)	(15,687)	(10,954)
Profit Before Tax (FRS 3)		(5,380)	(8,965)	(17,712)	(12,979)
Tax		0	0	0	0
Profit After Tax (norm)		(2,118)	(6,791)	(15,687)	(9,201)
Profit After Tax (FRS 3)		(5,380)	(8,965)	(17,712)	(12,979)
Average Number of Shares Outstanding (m)		5.4	8.2	11.2	12.3
EPADS - normalised (c)		(39.49)	(83.30)	(140.69)	(75.03)
EPADS		(39.49)	(83.30)	(140.69)	(58.43)
EPADS - (IFRS) (c)		(1.00)	(1.10)	(1.59)	(1.06)
Dividend per ADS (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	53.5
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		4,151	8,903	10,439	10,621
Intangible Assets		2,910	6,787	6,021	5,255
Tangible Assets		1,131	2,006	4,308	5,256
Restricted deposits		110	110	110	110
Current Assets		9,057	13,323	10,288	4,596
Stocks		0	0	750	1,500
Debtors		264	814	1,689	2,634
Cash		8,665	12,379	7,719	332
Restricted deposits		128	130	130	130
Current Liabilities		(907)	(1,968)	(2,843)	(3,788)
Creditors		(907)	(1,968)	(2,843)	(3,788)
Short-term borrowings		0	0	0	0
Long-Term Liabilities		(254)	(956)	(1,376)	(5,876)
Long-term borrowings		0	0	0	(4,500)
Liability in respect of government grants		(254)	(956)	(1,376)	(1,376)
Net Assets		12,047	19,302	16,508	5,553
CASH FLOW					
Operating Cash Flow		(3,330)	(5,914)	(14,908)	(10,361)
Net Interest		0	0	0	0
Tax		0	0	0	0
Investment in intangible & tangible assets		(2,344)	(4,167)	(2,644)	(1,525)
Acquisitions/disposals		0	0	0	0
Financing		14,362	13,525	12,892	0
Dividends		0	0	0	0
Net Cash Flow		8,688	3,444	(4,660)	(11,886)
Opening net debt/(cash)		(207)	(8,665)	(12,379)	(7,719)
HP finance leases initiated		0	0	0	0
Other		(230)	270	0	0
Closing net debt/(cash)		(8,665)	(12,379)	(7,719)	4,168

Source: Company accounts, Edison Investment Research

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