

Corporate

 Current price **25p**

 Sector **Chemicals**

 Code **AGM.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **16.1**

 Shares in issue (m) **64.3**

52 weeks	High	Low
	74.5p	24.3p

 Financial year end **July**

Source: Company Data, Allenby Capital

Key Shareholders

 IP Group **11.46%**

 Herald IM **9.12%**

 North East Finance **3.68%**

 Directors **3.46%**

Source: Company Data, Allenby Capital

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Applied Graphene Materials plc (AGM.L)

Good revenue growth- albeit from a modest base

Applied Graphene Materials (AGM) is an advanced materials group with world leading expertise in the production and commercialisation of graphene and graphene dispersions. Although reporting year-on-year (yoy) revenue growth of 48%, these remain very modest at £123k for the full year. Collaboration with industry partners to develop new dispersions is meeting with encouraging success and the pipeline of engagements has risen to 181. Ultimately, AGM's investment proposition is governed by the speed of adoption by customers and this is largely out of the Group's control. We believe that AGM's patent protected production technology is a key differentiator that will ultimately result in meaningful revenue generation.

- Acceleration in revenue growth rate over the year** – In spite of the impact of COVID on activity levels, revenue growth accelerated during the year with yoy growth of 20% in H1 followed by 69% in H2, leading to full year revenues of £123k versus £83k in the comparative period. Operating expenses, before depreciation, were marginally lower than 2019/20 leading to underlying LBITDA and pre-tax loss being largely unchanged yoy at a loss of £3.15m and £3.6m respectively, some 2% higher than the previous year. The loss after tax was reduced by the receipt of an R&D tax credit of £0.4m (2019/20: £0.5m).
- Customer engagement continues to show improvement** – During the year, AGM's project pipeline (based on customers currently testing AGM's products) grew by a very encouraging 66% to 181 (2019/20: 109). 42% of these customer engagements were generated from the Group's growing multinational distributor base with two more distributors added during the year. The projected valuation of the current opportunity pipeline stands at an annualised £7.3m or on a probability-weighted basis, £2.9m. The value of completed developments stood at £0.8m p.a.
- Adequate cash resources through to 2023** - Following a successful £5.5m (net) fund raise in January 2021, cash at the year-end increased to £6.3m. Based on the last two year's operating cash outflow of c.£3m, this leaves AGM with an adequate cash runway that extends beyond January 2023.
- Novel graphene production technology and inherently strong IP** – AGM's attributes undoubtedly lie in the unique and proprietary bottom-up graphene production process and the depth of its IP. This ultimately leads to the production of high quality, low defect graphene nanoplatelets which is further differentiated by the Group's market leading dispersion know-how. The technology is therefore very soundly based and investors need to continue to show patience as the customer pipeline grows and product testing is increasingly converted into product launches.
- Forecasts** – We are introducing forecasts for the current financial year which we believe to be prudent at this early stage. With ongoing uncertainty still being felt by prospective customers we are projecting revenues increasing to c.£260k. We see the cost base also increasing to reflect higher headcount, regulatory and other expenses leading to a loss before tax of £4.25m. We still believe that investor patience will be ultimately rewarded.

Year End: July				
(£'000)	2019A	2020A	2021	2022E
REVENUE	50	83	160	260
ADJ. EBITDA	(4,559)	(3,084)	(3,190)	(3,800)
ADJ. LBT	(4,835)	(3,497)	(3,630)	(4,250)
NET CASH (£m)	6,135	3,685	6,308	2,400

Allenby Capital acts as Nomad & Broker to Applied Graphene Materials plc (AGM.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Full year financial summary

EXHIBIT 1: FULL YEAR FINANCIAL SUMMARY					
	H1	H2	Year		Year
	20/21	20/21	20/21	%	19/20
	£000	£000	£000	change	£000
INCOME STATEMENT					
Revenue	42	81	123	48.2%	83
Gross loss	-104	-136	-240	81.8%	-132
Admin expenses (before depreciation)	-1,474	-1,436	-2,910	-1.4%	-2,952
Adjusted EBITDA	-1,578	-1,572	-3,150	2.1%	-3,084
Depreciation	-214	-195	-409	-8.3%	-446
Adjusted operating loss	-1,792	-1,767	-3,559	0.8%	-3,530
Finances	-2	-4	-6		33
Adjusted loss before tax	-1,794	-1,771	-3,565	1.9%	-3,497
Tax credit	178	213	391	-17.9%	476
Adjusted loss after tax	-1,616	-1,558	-3,174	5.1%	-3,021
BALANCE SHEET					
Non-current assets			1,702	0.4%	1,696
Current assets (excluding cash)			782	-6.6%	837
Cash			6,308	71.2%	3,685
Total current assets			7,090	56.8%	4,522
Total assets			8,786	41.2%	6,224
Current liabilities			-1,097	18.1%	-929
Non-current liabilities			0		-4
Total liabilities			-1,097	17.6%	-933
Net current assets			5,993	66.8%	3,593
Net assets			7,689	45.3%	5,291
CASH FLOW					
Net cash used in ops before working capital movements			-3,118	-4.5%	-3,266
Net working capital movements			149	-174.9%	-199
Tax			461	-65.0%	1,316
Finance income			3	-92.7%	41
Net cash used in operating activities			-2,505	18.8%	-2,108
Net cash used in investing activities			-217	-36.5%	-342
Net cash generated by financing activities			5,345		0
Net change in cash			2,623		-2,450
Year-end cash			6,308	71.2%	3,685

Source: AGM

Although revenues came in below our forecast of £160k, revenue growth was achieved in both halves with H1 up 20% and H2 up 69%, in spite of the pandemic impacting staff numbers in customer's development departments and in consequence resulting in delays to the progress on a number of pipeline projects.

The cost base was prudently managed during the year with the total remuneration charge, excluding share-based payments, reducing by 8% from £2.2m to £2.0m and the average monthly headcount falling from 33 to 30.

This resulted in the adjusted LBITDA increasing marginally from £3.1m to £3.2m in line with forecasts and an adjusted loss before tax of £3.6m against a comparative of £3.5m, again in line with forecasts.

The Group received an R&D tax credit in the year of £391k which resulted in a loss after tax of £3.2m.

Cash used in operations increased from £2.1m to £2.5m (2019/20 being a beneficiary of a £1.3m corporation tax receipt which was not repeated to the same degree in 2020/21). Year-end cash balances increased from £3.7m to £6.3m as a result of a successful £5.5m (net) fund raise in January 2021.

This provides the Group with a cash runway beyond January 2023 and the resources to continue product development and increase the sales and marketing effort.

Trading

AGM's core market continues to be the protective coatings sectors, where graphene nanoplatelet technology has the potential to create higher performance products with higher added value for the customer.

Revenues in the twelve months were generated from three key application areas: Protective coatings, Composites including Elastomers and Car Care. Further out, AGM is focused on applications development in the areas of Batteries, Thermal Interface Materials, Hydrogen Storage and Fuel Cells.

The Board states that the Company is ready for sales growth which will be supported by increasing demand for existing products and new product introductions, growth in the customer base the addition of new distributors. Of the latter, we note two new additions during the year covering South Korea and Turkey and the intention to add new regions including South America and India.

That said, we were encouraged by the increase in the customer engagement pipeline which has expanded during the year by 66% from 109 to 181. Eleven new customer products were launched in the period, eight of which were in the car care sector.

The ability for AGM to offer a standardised dispersed products range (the Company now has 39 different options available) has provided the opportunity for the Group's global distributor base to increase its customer engagements, thus providing valuable support to AGM's own direct sales force.

This outcome has resulted in 42% of all customer engagements in the year being generated from distributors. Many of the Group's distribution partners have only been active in promoting AGM's graphene dispersions for less than a year so the prospects are encouraging for increased sales growth from this platform in the current year.

Outlook & Forecasts

The reality is that the Group is still a long way from reaching a revenue run rate that would achieve a breakeven position. With an operating expense base, before depreciation, historically standing at around £3m and forecast to grow to £3.6m this year, revenues clearly need to grow significantly.

On the plus side, the annualised valuation of the current opportunity pipeline stands at £7.3m based on expected annual sales when products are fully launched. However, this reduces to £2.9m on a probability-weighted success basis and current completed developments are only valued at c.£0.8m per annum.

However, we believe that AGM has the resources, know-how, technology and products, together with a multinational distribution network to substantially increase its opportunity pipeline of customer engagements and we expect its distributors to play an increasingly important role in facilitating this growth in the current financial year.

As the economic impact of COVID gradually reduces and markets open again, 2022 should provide a more fertile year for growth opportunities and this is reflected in our forecasts which, although remaining conservative, anticipate revenues more than doubling to

£260k. It was always expected that the cost base would have to rise to accommodate higher regulatory expenses and an increase in headcount. This is likely to increase the LBITDA and loss before tax which we are currently expecting to rise to £4.3m.

We are forecasting cash to decline to £2.4m by the end of July 2022, which underpins management's expectations that the cash runway extends into 2023.

Conclusion

The acceptance and integration of graphene into industrial applications has to date been sluggish for the whole sector and the adoption by industry has been disappointingly slow. Some of this can be explained by poor quality graphene from some producers and an inability for the sector to provide graphene in commercial quantities at an economic price.

However, the same could be probably have been said of carbon fibre, a material developed in the 1950's which took another 30-40 years to see mass adoption.

Investors in the sector and in AGM in particular therefore require patience and this remains the case. We believe that such patience will however be ultimately rewarded.

Summary financial and forecasts

EXHIBIT 2: SUMMARY FINANCIALS AND FORECASTS

Y/E July	FY 2019A	FY 2020A	FY 2021A	FY 2022E
	£000	£000	£000	£000
INCOME STATEMENT				
Revenue	50	83	123	260
Gross loss	-422	-132	-240	-200
Other income	74	0	0	0
Total operating costs	-4,211	-2,952	-2,910	-3,600
Underlying EBITDA	-4,559	-3,084	-3,150	-3,800
D&A	-343	-446	-409	-450
Net finance	67	33	-6	0
Underlying loss before tax	-4,835	-3,497	-3,565	-4,250
Tax	908	476	391	325
Underlying loss after tax	-3,927	-3,021	-3,174	-3,925
Weighted average shares (m)	49,400	49,400	56,400	64,300
Underlying basic EPS (p)	-7.95	-6.12	-5.63	-6.10
CASH FLOW				
Y/E July	FY 2019A	FY 2020A	FY 2021E	FY 2021E
	£000	£000	£000	£000
Operating cash flow before working capital	-4,256	-3,266	-3,118	-3,768
Net change in working capital	72	-199	149	80
Net cash inflow from operating activities	-4,115	-2,108	-2,505	-3,288
Net cash outflow from investing activities	-193	-342	-217	-400
Net cash inflow/(outflow) from financing activities	0	0	5,345	-206
Net change in cash	-4,308	-2,450	2,623	-3,894
Cash at end of the year	6,135	3,685	6,308	2,414
BALANCE SHEET				
Y/E July	FY 2019A	FY 2020A	FY 2021E	FY 2021E
	£000	£000	£000	£000
Assets				
Non-current assets	1,800	1,696	1,702	1,652
Current assets (excluding cash)	1,546	837	782	829
Cash	6,135	3,685	6,308	2,414
Total Assets	9,481	6,218	8,792	4,895
Liabilities				
Current liabilities	-993	-929	-1,097	-1,237
Non-current liabilities	0	-4	0	0
Total Liabilities	-993	-933	-1,097	-1,237
Net current assets	6,688	3,593	5,993	2,006
Net Assets	8,488	5,285	7,695	3,658

Source: AGM, Allenby

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