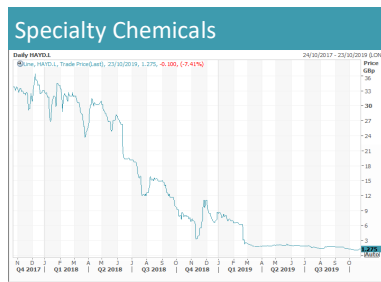




23 October 2019



## Market data

EPIC/TKR	HAYD
Price (p)	1.4
12m High (p)	12.0
12m Low (p)	1.0
Shares (m)	317.7
Mkt Cap (£m)	4.4
EV (£m)	1.0
Free Float*	100%
Market	AIM

\*As defined by AIM Rule 26

## Description

Haydale is involved in the production and functionalisation of nanomaterials, with key growth areas being silicon carbide (75% of revenues), functionalised inks and graphene composites.

## Company information

CEO	Keith Broadbent
CFO	Laura Redman-Thomas
Chairman	David Banks
	+44 01269 842946
	<a href="http://www.Haydale.co.uk">www.Haydale.co.uk</a>

## Key shareholders

Quilter Plc	13.4%
Anthony Best	8.3%
Nichola Audley Money-Kyrle	5.1%
David & Monique Newlands	4.1%
Others	69.1%

## Diary

Feb'20	Interim results
--------	-----------------

## Analyst

Paul Singer	020 7194 7622
	<a href="mailto:ps@hardmanandco.com">ps@hardmanandco.com</a>

## HAYDALE

## Cost savings evident, revenue growth to come

The re-focusing and re-orientating of the business with a major cost-saving programme are progressing well. Commercial developments are also progressing well, and medium-term financial issues have now been addressed. The long-term risk/reward balance remains favourable. The markets, though, await clear evidence that the new management team is delivering on its revenue objectives.

- **Strategic developments:** A global cross-site/cross-commodity sales team (each with specific product/market expertise) is now in place, with low regulated markets as key targets. This should enhance top-line growth. Furthermore, Haydale has just received a \$0.7m order for ceramic blanks from a large US cutting tool manufacturer, providing additional growth and a commitment in principle from a Japanese cutting tool manufacturer with a value of \$0.6m.
- **Financial developments:** 2018/19 results revealed a 55% gross margin and excellent progress on cost-cutting initiatives. New management's key focus has been the reduction of central costs, e.g. marketing and travel, etc. This has already led to a reduction in its annualised SG&A costs of more than £1.6m, with more expected in the coming years.
- **Financial position:** Net cash was £3.4m at the 2018/19 year-end. The group had an order book at 10/09/19 of £3.55m, to be delivered over the coming years. Capital expenditure will be lower in 2019/20, and working capital management is well controlled. The group should remain in a positive cash position over the medium term.
- **Investment summary:** Haydale remains well positioned competitively, with a proprietary and recently-enhanced nanomaterial functionalisation plasma process. Commercial traction is good, with a healthy order book, and the group has been financially de-risked. While the risk/reward balance remains favourable on a long-term basis, the market awaits clear evidence that the new management team is delivering on its revenue objectives.

## Financial summary and valuation

Year-end Jun (£m)	2018	2019	2020E	2021E
Sales	3.4	3.5	5.3	7.2
Gross profit	2.0	1.9	3.3	4.4
Grant income	0.8	0.8	0.6	0.6
EBITDA	-4.9	-4.4	-1.9	0.4
Underlying EBIT	-5.7	-5.5	-3.0	-0.7
Reported EBIT	-6.0	-7.5	-3.2	-0.9
Underlying PBT	-5.8	-5.6	-3.0	-0.7
Underlying EPS (p)	-22.4	-2.9	-0.8	-0.2
Statutory EPS (p)	-23.7	-4.1	-0.9	-0.3
Net (debt)/cash	4.2	3.4	1.5	1.5
EV/sales (x)	0.3	0.3	0.2	0.1

Source: Hardman &amp; Co Research

## Financials

### Profit and Loss

- ▶ 2018/19 revealed commercial revenues of £3.47m, with initial growth of £0.5m in the US business. Gross profit was maintained at the previous year's level, but the gross margins was lower, at 55%, reflecting the different sales mix, pricing strategies and a below-average yield from the US operations.
- ▶ Around £1.6m of annualised cost savings have been achieved to date. The group's UK composite business has not developed as quickly as had been planned, and, despite good pipeline opportunities, a £1.78m impairment charge has been taken. The adjusted operating loss before non-cash items was £4.18m, marginally better than anticipated and lower than the previous year's level.
- ▶ Our forecasts assume strong growth in the group's silicon carbide business and an improvement in gross margins, reflecting the more optimal sales mix.
- ▶ 2019/2020 grant income will be marginally below that of 2018/19, reflecting the new emphasis on projects, which will lead to commercial products in the short to medium term.

Profit & Loss				
Year-end Jun (£m)	2018	2019	2020E	2021E
Sales	3.40	3.47	5.27	7.16
COGS	-1.40	-1.57	-2.00	-2.72
Gross profit	2.00	1.90	3.27	4.44
Gross margin	58.8%	54.8%	62.0%	62.0%
Other income – grant	0.83	0.79	0.60	0.60
Sales & marketing	0.00	0.00	0.00	0.00
Administrative expenses	-7.71	-6.87	-5.84	-4.78
R&D	-0.88	-1.00	-1.00	-1.00
EBITDA	-4.94	-4.41	-1.87	0.35
Depreciation & amortisation	-0.82	-1.12	-1.10	-1.10
Restructuring costs	0.00	-0.35	0.00	0.00
Underlying EBIT	-5.76	-5.53	-2.97	-0.74
Share-based costs	-0.29	-0.20	-0.20	-0.20
Exceptional items	0.00	-1.78	0.00	0.00
Statutory operating profit	-6.05	-7.51	-3.17	-0.94
Finance income	0.00	0.00	0.00	0.00
Finance costs	-0.10	-0.12	0.00	0.00
Associates	0.00	0.00	0.00	0.00
Net financials	-0.10	-0.12	0.00	0.00
Underlying PBT	-5.86	-5.65	-2.97	-0.74
Reported PBT	-6.15	-7.63	-3.17	-0.94
Tax payable/receivable	0.85	0.57	0.30	0.07
Minorities	0.00	0.00	0.00	0.00
Underlying net income	-5.01	-5.08	-2.67	-0.67
Statutory net income	-5.30	-7.06	-2.87	-0.87

Source: Hardman & Co Research

## Balance sheet

- ▶ Following the £5.8m fund raise in March 2019, Haydale was in a net cash position at end-2018/19 of £3.4m.
- ▶ We forecast that Haydale will be in a net cash position of around £1.5m at the end of 2019/20.

Balance sheet				
@30 Jun (£m)	2018	2019	2020E	2021E
Shareholders' funds	12.5	11.3	8.6	7.9
Cumulated goodwill	0.0	0.0	0.0	0.0
<b>Total equity</b>	<b>12.5</b>	<b>11.3</b>	<b>8.6</b>	<b>7.9</b>
Share capital	0.5	6.4	6.4	6.4
Reserves	12.0	4.9	2.2	1.6
Minorities	0.0	0.0	0.0	0.0
Provisions/liabilities	0.0	0.0	0.0	0.0
Deferred tax	0.1	0.0	0.0	0.0
Long-term debt	0.3	0.9	0.9	0.9
Short-term loans	0.6	0.4	0.4	0.4
<i>less: Cash</i>	5.1	4.7	2.7	2.8
<i>less: Deposits</i>	0.0	0.0	0.0	0.0
<i>less: Non-core invests.</i>	0.0	0.0	0.0	0.0
<b>Invested capital</b>	<b>8.5</b>	<b>7.8</b>	<b>7.1</b>	<b>6.4</b>
Fixed assets	5.1	5.6	5.1	4.6
Intangible assets	2.1	1.0	0.8	0.6
Goodwill	2.1	1.5	1.5	1.5
Inventories	1.0	1.2	1.2	1.3
<i>Trade debtors</i>	0.7	0.6	0.7	0.7
<i>Other debtors</i>	0.4	0.5	0.5	0.5
<i>Tax credit/liability</i>	0.5	0.8	0.8	0.8
<i>Trade creditors</i>	-2.2	-2.1	-2.2	-2.3
<i>Other creditors</i>	-1.2	-1.3	-1.3	-1.3
Debtors less creditors	-1.8	-1.4	-1.5	-1.5
<b>Invested capital</b>	<b>8.5</b>	<b>7.8</b>	<b>7.1</b>	<b>6.4</b>
<b>Net debt</b>	<b>-4.2</b>	<b>-3.4</b>	<b>-1.5</b>	<b>-1.5</b>

Source: Hardman & Co Research

## Cashflow

- ▶ 2018/19 capital expenditure was £1.2m, primarily for the US blanks equipment business.
- ▶ For 2019/2020, capital expenditure will decrease to around £0.4m, and working capital management will remain tight.

Cashflow				
Year-end Jun (£m)	2018	2019	2020E	2021E
Trading profit	-5.76	-5.5	-3.0	-0.7
Depreciation	0.65	0.9	0.9	0.9
Amortisation	0.15	2.0	0.2	0.2
Working capital	0.16	-0.2	0.0	0.0
Other	0.00	0.0	0.0	0.0
Company op. cashflow	-4.81	-2.8	-1.9	0.4
Net interest	-0.1	-0.1	0.0	0.0
Tax paid/received	0.9	0.7	0.3	0.1
Operational cashflow	-4.1	-2.3	-1.6	0.4
Capital expenditure	-0.7	-1.2	-0.4	-0.4
Sale of fixed assets	0.0	0.0	0.0	0.0
Free cashflow	-4.8	-3.5	-2.0	0.0
Dividends	0.0	0.0	0.0	0.0
Acquisitions	-0.6	-0.3	0.0	0.0
Disposals	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0
Cashflow after invests.	-5.4	-3.7	-2.0	0.0
Share repurchases	0.0	0.0	0.0	0.0
Share issues	8.8	5.9	0.0	0.0
Change in net debt	3.4	2.9	-2.0	0.0

Source: Hardman & Co Research

## Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at <http://www.hardmanandco.com/legals/research-disclosures>. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, mechanical, photocopying, recording or otherwise, without prior permission from Hardman & Co. By accepting this document, the recipient agrees to be bound by the limitations set out in this notice. This notice shall be governed and construed in accordance with English law. Hardman Research Ltd, trading as Hardman & Co, is an appointed representative of Capital Markets Strategy Ltd and is authorised and regulated by the FCA under registration number 600843. Hardman Research Ltd is registered at Companies House with number 8256259.

(Disclaimer Version 8 – Effective from August 2018)

## Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public...'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-2016-2031.pdf>

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.



[research@hardmanandco.com](mailto:research@hardmanandco.com)

35 New Broad Street  
London  
EC2M 1NH

+44(0)20 7194 7622

[www.hardmanandco.com](http://www.hardmanandco.com)