

Nano Dimension

Technology

30 September 2024

Scaling up

Nano Dimension has agreed to acquire Markforged, a specialist in additive manufacturing (AM) for metal and advanced composites, for cash of \$115m. The deal requires regulatory and Markforged shareholder approval, which, if granted, should allow the deal to close by the end of Q125. The combination of Nano Dimension, Desktop Metal (acquisition process underway) and Markforged had pro forma revenue of \$340m in FY23. This deal further broadens the product portfolio with the addition of a new printing technology, strengthens Nano Dimension's position in metal AM and provides greater scale, which should support the path to profitability for the combined group.

Second acquisition in three months

After announcing the acquisition of Desktop Metal on 3 July, Nano announced on 25 September that it had agreed to acquire Markforged for \$115m in cash from existing resources. The addition of both companies will take Nano Dimension from FY23 revenue of \$56m to pro forma revenue of \$340m. While all three businesses are currently loss-making, the scale of the combined group provides synergies on both a revenue and cost basis that provide a clear path to profitability.

Filling out the product portfolio

Markforged brings expertise in composite materials and metals AM, with c 15,000 systems connected to its Digital Forge platform. It has developed innovative composite materials, including its continuous fibre reinforcement technology, which can provide the strength of metals in polymer-based applications.

Valuation: Well-funded for M&A strategy

On news of the proposed acquisition of Markforged, the share price has rebounded 18% from the \$2.15 it was trading at on 23 September. Nano Dimension has gross cash of \$765m on the balance sheet, highlighting its ability to consolidate the sector. After the Markforged deal closes, Nano Dimension expects to have gross cash including marketable securities of c \$475m, which should support the combined entity to reach profitability. The shares are currently trading at a significant discount (c 34%) to Nano Dimension's net cash balance plus the current value of its stake in Stratasys (\$79m as at 27 September). We believe that as the acquisitions complete, the company reduces cash burn and moves towards profitability, this discount should reduce.

Historical performance

Year end	Revenue (US\$m)	Adjusted EBITDA	PBT* (US\$m)	PAT* (US\$m)	DPS (\$)	P/E (x)
12/20	3.4	(12.6)	(15.0)	(15.0)	0.00	N/A
12/21	10.5	(38.4)	(44.5)	(44.5)	0.00	N/A
12/22	43.6	(91.3)	(96.4)	(96.4)	0.00	N/A
12/23	56.3	(99.9)	(59.0)	(59.0)	0.00	N/A

Source: Company data. Note: *PBT and PAT are normalised, excluding amortisation of acquired intangibles, exceptionals and share-based payments.

Price

US\$2.53

Market cap

US\$548m

Share price graph



Share details

Code	NNDM
Listing	Nasdaq
Shares in issue	216.6m
Net cash at end Q224 (including \$11.2m lease liability)	\$753.1m

Business description

Nano Dimension offers equipment for additive manufacture of high-performance electronic devices, complex 3D ceramic and metal objects as well as miniature parts requiring a resolution of only one micron. It also offers complementary equipment for automated assembly of electronic devices and PCBs.

Bull

- Additive manufacturing enables the creation of more complex parts and is more efficient for smaller-volume production runs.
- Balance sheet strength positions the company well to consolidate the sector.
- Strategy in place to improve financial performance and reduce cash burn, with gross margins already approaching 50%.

Bear

- Currently loss-making.
- Distraction of hostile behaviour from major shareholder Murchinson.
- Difficult to predict market growth for disruptive technologies.

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Acquiring Markforged

On 25 September, the company announced it had entered into a definitive agreement with Markforged to acquire all outstanding shares of Markforged for all-cash \$5.00 per share.

Terms of the deal

The total consideration payable will be \$115m. The \$5.00 price represents a 71.8% premium to Markforged's volume-weighted average price (VWAP) on 24 September and a 67.8% premium to the VWAP for the 90 days up to 24 September. The deal requires approval by Markforged shareholders and regulatory approvals including from the Committee on Foreign Investment in the US (CFIUS). Assuming all approvals are received, the company expects the deal to close in Q125.

Based on the deal value and net cash at the end of Q224, the deal values Markforged on EV/sales multiples of 0.7x FY24e and 0.6x FY25e.

Nano Dimension's CEO, Yoav Stern, will be the CEO of the combined entity. The Markforged management team will join Nano Dimension, although their roles may change.

Deal rationale

The company sees the following benefits from this acquisition:

- **Comprehensive product portfolio:** already broadened by the proposed acquisition of Desktop Metal, this acquisition will give the combined entity a stronger position in the faster-growing areas of the industrial market.
- **Leading metals position:** as described in more detail below, this deal combined with Desktop Metal's metals expertise will create a leader in systems for the production of metal applications, with metals AM expected to be the fastest growing segment of the AM market.
- **Specialty materials:** the focus on specialty metal and composite-reinforced materials for high performance applications should provide the opportunity to grow the level of recurring revenues (28% for Desktop Metal, 37% for Markforged).
- **Gain critical mass to drive profitability:** by leveraging organisational scale and Nano Dimension's strong balance sheet, the combined entity will work towards reaching break-even and then driving profitable growth.

Acquisition creates a leading position in metals

Markforged is a specialist designer and manufacturer of machines for the AM of parts for manufacturing, predominantly in metal but increasingly using its continuous fibre reinforcement (CFR) technology, which can be used in place of metal. It works across a range of verticals, including industrial automation, aerospace, military & defence, automotive, healthcare & medical and research institutions.

Its Digital Forge platform brings together 11 printers and sintering furnaces, materials (28 proprietary metals and composites) and software. It is particularly strong in fused filament fabrication of metal parts. Markforged has an installed base of c 15,000 systems. The image below shows the proposed metal AM portfolio of the combined entity:

Exhibit 1: Metal additive manufacturing portfolio

Nano Dimension's Metal-AM offering for true production applications

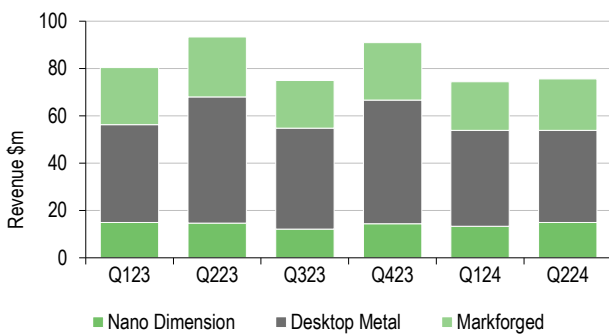
Markforged			Desktop Metal	
Metal X™ Fused filament fabrication Metal at the point of need	FX10™ Fused filament fabrication Metal & composites on-demand	PX100™ Binder jetting Precise, reliable, proven metal	P series & others® Binder jetting Metal for mass production	S-Max Series® Binder jetting Sandcasting at scale

Source: Nano Dimension

Pro forma revenue of \$340m for FY23

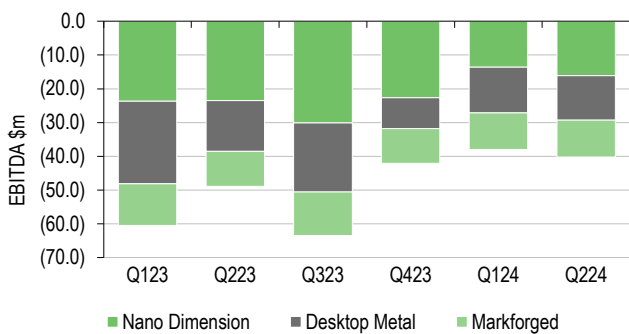
The combined entity (Nano Dimension plus Desktop Metal plus Markforged) had pro forma revenue of \$340m for FY23, with Markforged generating revenue of \$93.8m. Combined EBITDA for FY23 was a loss of \$215m (Markforged loss of \$45.8m), but all three businesses have cost reduction plans in place, and we would expect further cost synergies once the acquisitions complete. Tracking EBITDA so far this year, the three businesses combined have reduced their EBITDA losses from the levels reported in FY23. Annualising Q224 EBITDA, the total loss has reduced to \$161m. The charts below show revenue and EBITDA on a quarterly basis for all three companies from Q123 to Q224.

Exhibit 2: Quarterly revenue



Source: Company reports

Exhibit 3: Quarterly adjusted EBITDA



Source: Company reports

We note that Markforged had non-GAAP gross margins of 51.9% in Q224 and 48.6% in FY23, compared to 29.2% and 27.0% for Desktop Metal and 46.6% and 48.4% for Nano Dimension. We estimate that on a pro forma basis, the combined entity had a non-GAAP gross margin of 36.5%. With management initially targeting a non-GAAP gross margin of at least 50% and ultimately closer to 60%, efficiencies in costs of sale should make a material contribution to reaching break-even at the EBITDA level.

In terms of operating cost synergies, management noted that all three companies have facilities in Boston and the plan is for the combined entity's headquarters to be located there. Removing listing costs for two companies should be an immediate cost saving.

The table below summarises the cash position of each company and the combined pro forma net cash position at the end of Q224. The company estimates that post completion of both deals, it would have gross cash of \$475m including marketable securities (ie its stake in Stratasys, which is currently worth \$74m).

Exhibit 4: Financial position at end Q224

\$m	Cash & cash equivalents	Borrowings	Lease liabilities	Net cash/(debt)	Notes
Nano Dimension	764.8	(0.5)	(11.2)	753.1	Does not include \$79m stake in Stratasys
Desktop Metal	46.7	(113.2)	(28.3)	(94.8)	Borrowings mainly convertible bonds due May 2027
Markforged	92.5	0.0	(40.8)	51.7	\$19.1m of cash is restricted for use in settlement agreement
Total	903.9	(113.7)	(80.3)	710.0	

Source: Company reports

Markforged patent litigation settled

On 23 September, Markforged announced it had settled its IP litigation case with Continuous Composites. Markforged will make an upfront payment of \$18m to Continuous Composites in Q424 and three additional instalment payments of \$1m in Q425, \$2m in Q426 and \$4m in Q427. All claims have been dismissed and the parties' respective patent portfolios have been cross-licensed. The settlement agreement is subject to review by the District Court for Delaware. At the end of Q224, Markforged had \$19.1m in restricted cash to cover the initial payment and related costs.

Update on Desktop Metal acquisition

The process [to acquire Desktop Metal](#) is ongoing. The Hart-Scott-Rodino waiting period in the US expired without any further investigation by US authorities. The company still requires CFIUS approval in the US, filing under the Investment Canada Act and approval of foreign direct investment regulators in Germany and Italy. The deal also requires Desktop Metal shareholder approval (a majority of voting rights); a special shareholder meeting is scheduled for 2 October for this. Proxy advisor Institutional Shareholder Services (ISS) has recommended that shareholders vote to support the merger agreement.

Subject to these approvals being received, the company expects the deal to close in Q424.

As a reminder, Nano Dimension will pay \$5.50 in cash per Desktop Metal share for a total value of \$183m. This will be reduced by the following:

- Desktop Metal's transaction costs, up to a maximum of \$0.63 per Desktop Metal share.
- Desktop Metal's utilisation of a \$20m bridge loan from Nano Dimension. Nano Dimension has offered to provide a bridge loan if closure of the deal extends into 2025. This could reduce the share price by a maximum of \$0.80.

Overall, the maximum reduction would result in an offer price of \$4.07 per share or \$137m in cash. Desktop Metal is currently trading at \$4.69 per share.

Both companies have already started working closely together to produce post-merger integration plans, with the intention of enacting them as soon as the deal closes.

The company does not anticipate making further acquisitions of a similar size to Desktop Metal or Markforged in the foreseeable future, but may continue to make small bolt-on acquisitions to fill out its product portfolio.

Exhibit 5: Financial summary

	\$m	2019	2020	2021	2022	2023
Year-end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		7.1	3.4	10.5	43.6	56.3
Cost of Sales (including amortisation of capitalised IP)		(5.1)	(2.3)	(9.4)	(29.6)	(30.9)
Gross Profit		2.0	1.1	1.1	14.1	25.5
EBITDA		(11.7)	(12.6)	(38.4)	(91.3)	(99.9)
Operating profit (before amort. and excepts.)		(14.4)	(15.2)	(48.3)	(98.5)	(106.4)
Intangible Amortisation		0.0	0.0	0.0	0.0	0.0
Exceptionals		0.0	0.0	(145.2)	(40.4)	1.6
Share-based payments		(0.4)	(20.5)	(29.8)	(32.6)	(20.1)
Operating Profit		(14.8)	(35.7)	(223.2)	(171.5)	(124.9)
Net Interest		6.5	0.2	3.8	2.2	47.4
Exceptionals		0.0	(13.0)	13.7	(58.7)	21.9
Profit Before Tax (norm)		(7.9)	(15.0)	(44.5)	(96.4)	(59.0)
Profit Before Tax (FRS 3)		(8.4)	(48.5)	(205.7)	(228.0)	(55.6)
Tax		0.0	0.0	4.9	(0.3)	(0.1)
Profit After Tax (norm)		(7.9)	(15.0)	(44.5)	(96.4)	(59.0)
Profit After Tax (FRS 3)		(8.4)	(48.5)	(200.8)	(228.3)	(55.7)
Average Number of Shares Outstanding (m)		3.5*	42.9*	247.3	257.8	248.0
EPS - normalised (\$)		(2.25)	(0.35)	(0.18)	(0.37)	(0.23)
EPS (normalised, fully diluted (\$))		(2.25)	(0.35)	(0.18)	(0.37)	(0.23)
EPS - (IFRS) (\$)		(2.38)	(1.13)	(0.81)	(0.88)	(0.22)
Dividend per share (\$)		0.00	0.00	0.00	0.00	0.00
Gross margin (%)		28.1%	31.3%	10.7%	32.2%	45.2%
EBITDA margin (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		13.0	13.1	78.1	139.1	170.4
Intangible Assets		5.2	4.4	0.0	0.0	2.2
Tangible Assets		7.4	8.3	12.2	22.4	28.8
Deferred tax and other		0.0	0.0	1.0	0.9	0.0
Bank deposits/securities		0.0	0.0	64.4	115.0	138.4
Restricted deposits		0.4	0.4	0.5	0.9	0.9
Current Assets		9.9	676.1	1,311.9	1,064.3	894.0
Stocks		3.5	3.3	11.2	19.4	18.4
Debtors		2.4	1.8	9.3	12.8	24.0
Cash		3.9	585.3	853.6	685.4	309.6
Bank deposits		0.0	85.6	437.6	346.7	542.0
Restricted deposits		0.0	0.1	0.1	0.1	0.1
Current Liabilities		(4.4)	(6.7)	(32.0)	(37.0)	(34.5)
Creditors		(4.4)	(6.7)	(16.7)	(27.9)	(30.0)
Short-term borrowings		0.0	0.0	0.0	0.0	(4.5)
Other		0.0	0.0	(15.3)	(9.2)	(0.0)
Long-Term Liabilities		(6.8)	(15.5)	(13.7)	(16.1)	(14.1)
Long-term borrowings		(2.1)	(2.6)	(4.4)	(13.1)	(9.3)
Other liabilities		(4.7)	(12.8)	(9.3)	(3.0)	(4.7)
Net Assets		11.6	667.1	1,344.2	1,150.3	1,015.8
CASH FLOW						
Operating Cash Flow		(11.7)	(12.6)	(38.4)	(91.3)	(99.9)
Working capital		(0.8)	2.9	2.7	(1.2)	(7.3)
Exceptionals and other		(0.2)	(0.0)	(7.0)	0.4	2.0
Tax		0.0	0.0	0.0	0.0	0.0
Net Operating Cash Flow		(12.7)	(9.6)	(42.6)	(92.1)	(105.1)
Net Interest		0.0	0.2	3.7	17.5	41.5
Investment in intangible & tangible assets		(0.6)	(1.4)	(9.8)	(9.4)	(10.6)
Acquisitions/disposals		0.0	0.0	(74.6)	(219.5)	(9.3)
Equity financing		14.6	679.0	805.7	0.0	(96.4)
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	(1.7)	(1.6)
Net Cash Flow		1.4	668.1	682.4	(305.3)	(181.4)
Opening net debt/(cash)		(3.8)	(1.8)	(668.3)	(1,351.2)	(1,018.9)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0
Other		(3.3)	(1.6)	0.4	(15.0)	1.3
Closing net debt/(cash)		(1.8)	(668.3)	(1,351.2)	(1,018.9)	(837.7)

Source: Company data. Note: *Adjusted for 1:50 reverse split effective June 2020.

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