Benchmark Holdings

Financial update highlights strong outlook

9 June 2022

Benchmark has reported a fourth sequential quarter of revenue and AEBITDA profit growth in the January-March (Q2) period, highlighting the continued favourable trends in its three business areas. The group has, so far, been largely unaffected by the post February economic shock and maintains that it continues to have a strong outlook in its important salmon egg and nutrition businesses for the remainder of the year. We have updated our financial model to reflect new medium-term financial guidance/objectives and revised the DCF-based valuation additionally to assume a higher cost of capital appropriate to the present interest rate/inflation environment.

Although this change results in a modest downward adjustment to fair value to 68p/share, we consider the investment case to remain strong relative the current share price –all the more so because Benchmark's attributes as a safe haven should command a premium in the current stockmarket environment.

- **Q2 results:** revenues were up by 29% at £39.3m, reflecting strong growth in the three divisions of Nutrition (+16%), Genetics (+20%) and Health (+390%). These were broadly consistent with or ahead of our expectations.
- **Safe haven status:** Benchmark's alignment to the aquaculture segment should mean it is largely insulated from economic disruption caused by the Russian invasion of Ukraine and associated sanctions.
- **Balance sheet**: Benchmark has a strong balance sheet with cash of £46.2m and net debt of £81.4m on 31st March, which is a positive element in the investment case. We expect the company will look to refinance its NOK855m bond in the second half of 2022.
- **Norwegian listing:** Benchmark intends to list its shares later his year in Norway, initially on the Oslo Growth market, with a plan to later up-list to the main market within the next year. This should provide it with better access to the aquaculture investment ecosystem centred there.
- **Financial forecasts:** We have updated our financial model to reflect new medium-term financial guidance/objectives issued by the company. Updated forecasts are summarised in the table below.
- **Valuation:** We have also revised our DCF-valuation to reflect these and now assume a higher cost of capital that we consider appropriate to the current inflation/interest rate environment. Based on a 12% WACC and 3% long term growth rate (previously 11% and 2.5%), **our model yields a valuation of £478m or 68p/share** vs the previously published £606m or 86p/share. The change in valuation is almost entirely the result of the use of an assumed higher cost of capital.

Summary forecasts

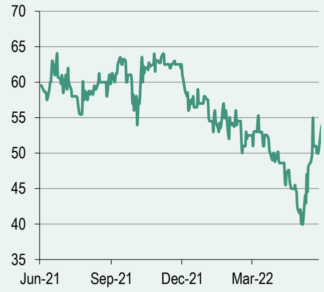
y/e 30 Sept, £m	FY20	FY21	FY22e	FY23e
Sales	105.6	125.1	157.0	172.6
AEBITDA*	14.5	19.4	29.0	35.9
Net cash/(debt)	-37.6	-80.9	-85.0	-101.6
EV/Sales	3.5	2.8	2.5	2.3

*Source: Company historic data/Equity Development forecasts * Adjusted earnings before interest, tax, depreciation, amortisation, exceptional items, and acquisition related expenditure*

Company Data

EPIC	BMK
Price	51p
52 weeks High/Low	65p/39p
Market cap	£345m
Net debt (LBSD)	£81.4m
ED fair value/share	68p
Sector	Pharma & Biotech

Share Price, p



Source: ADVFN

Description

Benchmark Holdings is a UK-headquartered company that provides advanced genetics, health and nutrition products to the global aquaculture industry. These products are designed to help customers manage productivity and animal health/welfare, while reducing environmental impact.

Benchmark has market leadership positions in the supply of salmon eggs and in live feed (Artemia) used in shrimp farming.

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Investment thesis

Benchmark offers investors exposure to the global aquaculture industry, a sector that provide an important and sustainable source of protein (ie fish and crustaceans) for human consumption. Farmed fish has seen consistent growth with expansion in its share relative to other protein sources (beef, poultry, dairy etc) over time. The extent to which aquaculture may be affected by current macro-economic uncertainties and inflationary pressures is difficult to predict, but food-related sectors are likely to be resilient compared to almost all other activities in the economy.

Benchmark has three businesses that support the aquaculture industry, in two of which - salmon eggs and early stage (hatchery) specialist nutrition for shrimp and bass/bream including Artemia – it holds global leadership positions. It also has a strong market position in medicinal treatments for sea lice, addressing a major problem for salmon farmers.

Benchmark has now reported four consecutive quarters of strongly improving results in all three of its business areas. This post-lockdown period has coincided with it emerging from a phase of both investment and restructuring in 2019-2020 it expects this to lead to a period of sustainable and profitable growth. Key customer end-markets, such as farmed salmon, have shown a strong recovery from previous pandemic-affected levels and prices have continued to rise this year including after the Russian invasion of Ukraine in late February.

Sensitivities/risks

We consider that the key risks to investment case to be the potential for some knock-on changes in consumer behaviour towards farmed fish and crustaceans caused by cost-of-living increases. Benchmark has itself seen price rises on fuel costs, utilities, logistics (shipping etc), feed and other important inputs and like all businesses, will try to recover these in the form of higher selling prices with potential for some short-term impact on margins. The new financial guidance/objectives are, however, intended to reflect this.

Benchmark has a strong balance sheet and should turn operationally cash flow positive this year. The company will have to refinance its NOK855m senior bond, which falls due on in July 2023. This may occur in connection with or after the planned dual listing on the Oslo Growth Exchange later this year and should remove something that may otherwise become an overhang going into 2023.

Valuation

We have updated our financial model to reflect new medium-term financial guidance/objectives and revised the DCF-based valuation additionally to use a higher cost of capital appropriate to the present interest rate/inflation environment. Based on a 12% cost of capital (WACC) and 3% long term growth rate (previously 11% and 2.5%), our model now yields a valuation of £478m (or 68p/share) vs the previously published £606m (86p/share).

It is important to stress also that the financial projections that support this DCF figure have not materially changed. It is difficult to estimate an appropriate long-term cost of capital with rising interest rates and inflation having spiked to c9%, but we have assumed to be prudent to use higher figures. The DCF valuation is very sensitive to WACC and assumed long term growth rates.

Financials

Benchmark's Q2 FY22 results were broadly consistent with or ahead of our expectations and we have updated our model to reflect the company's long term financial guidance/objectives. It should be noted that our financial model is broadly consistent with the mid-point (or below) of the implied guided range, so should be considered conservative.

Q2 results summary

Benchmark's January-March (Q2) results showed consistent revenue growth across all three divisions with profit growth in the larger Nutrition and Genetics. The profit contribution in the Animal Health division was impacted by poor weather in January that prevented Cleantreat operation. Details are shown in Exhibit 1 below.

Exhibit 1: Q2 FY22 results summary (£m)

	Revenue	change (CER)	AEBITDA	change (CER)
Advanced Nutrition	£23.0m	15% (12%)	£7.2m	36% (32%)
of which Artemia	*£10.4m*	*16%*		
... Diets	*£10.6m*	*16%*		
Genetics	£11.4m	20% (18%)	£2.4m	15% (14%)
Net FV movement biological assets			£1.3m	-7% (-9%)
Animal Health	£4.9m	371% (372%)	(£0.5m)	N/M
Group Revenue	**£39.2m**	**39% (26%)**	**£8.4m**	**72% (68%)**

Notes: % change in parentheses is at constant exchange rates (CER). Percentage change for Artemia and Diets has been calculated by Equity Development.

Benchmark issued updated financial guidance in respect of the medium term (three-to-five year) with projected growth rates and margins overall and for its three divisions. This is summarised in Exhibit 2 below, with Equity Development's interpretation (calculated based on FY2021 as the base year).

Exhibit 2: New financial guidance/objectives and ED interpretation

	FY21	Medium term objective (3-5 yrs)	ED Comment/interpretation
Revenue	£125.1m	15-18% growth	Suggests range of £197-238m by 2026, per sum of divisional guidance.
Adj. EBITDA margin	16%	25-30% at period end	Suggests AEBITDA of £49-87m in 2026, per sum of divisional revenue guidance.
Genetics revenue	£46.8m	10-15% growth/year	Suggests £75-94m in 2026.
Genetics adj EBITDA	£11.5m	22-27% margin by period end	Suggests AEBITDA if £17-25m by 2026.
Nutrition revenue	£70.5m	7-10% growth/year	Suggests £99-130m by 2026.
Nutrition Adj. EBITDA	£13.8m	20-25% margin at period end	Suggests AEBITDA of £21-35m by 2026
Health revenue	£7.8m	£50-70m	Suggests 17-24% p.a growth to 2027
Health Adj EBITDA	-2.7m	30-60% margin*	Suggests AEBITDA of £11-27m by 2026

Notes: Ranges for high and low scenarios have been calculated by ED based on management guidance using FY21 actuals. * max margin reached in 2027 (ED assumption).

We have developed "high" and "low" scenarios for group revenue and EBITDA informed by the above bands. These are summarised for FY23-24 in Exhibit 3. As can be seen, Equity Development's forecasts are mostly consistent with (or below) the mid-point of these two scenarios; hence we consider our model to be conservative basis for valuation.

Exhibit 3: Implied high and low scenarios and variance with ED forecasts

	FY21a	FY22e	FY23e	FY24e
Advanced Nutrition (£m)				
Revenue (high)	70.5	77.6	85.3	98.1
Revenue (low)	70.5	75.4	80.7	86.4
ED forecast revenue	**70.5**	**80.5**	**87.5**	**94.9**
Adjusted AEBITDA (high)	13.8	17.1	19.6	23.5
Adjusted AEBITDA (low)	13.8	15.1	16.5	18.1
margin (high)	19.5%	22.0%	23.0%	24.0%
margin (low)	19.5%	20.0%	20.5%	21.0%
ED Forecast Adj EBITDA	**13.8**	**19.2**	**21.0**	**22.8**
margin ED forecast	19.6%	23.8%	24.0%	24.0%
Genetics				
Revenue (high)	46.8	53.8	61.9	71.2
Revenue (low)	46.8	51.5	56.6	62.3
ED forecast revenue	**46.8**	**54.3**	**61.1**	**68.7**
Adj EBITDA (high)	11.5	11.8	14.9	17.4
Adj AEBITDA (low)	11.5	11.8	12.5	13.7
margin (high)	24.6%	21.9%	24.0%	24.5%
margin (low)	24.6%	22.9%	22.0%	22.0%
ED Forecast Adj EBITDA	**11.5**	**11.8**	**14.1**	**16.2**
margin ED Forecast	24.6%	21.7%	23.0%	23.5%
Health				
revenue (high)	7.8	22.2	27.8	34.7
revenue (low)	7.8	22.2	26.0	30.4
ED forecast revenue	**7.8**	**22.2**	**24.0**	**27.0**
Ad EBITDA (high)	-2.7	1.25	5.6	10.4
Adj EBITDA (low)	-2.7	1.25	5.2	6.8
margin (high)	-34.6%	5.6%	20.0%	30.0%
margin (low)	-34.6%	5.6%	20.0%	22.5%
ED forecast Adj EBITDA	**-2.7**	**1.3**	**3.6**	**6.8**
margin ED forecast	-34.6%	5.6%	15.0%	25.0%

Source: Equity Development based on own interpretation of financial guidance/objectives.

Divisional forecasts

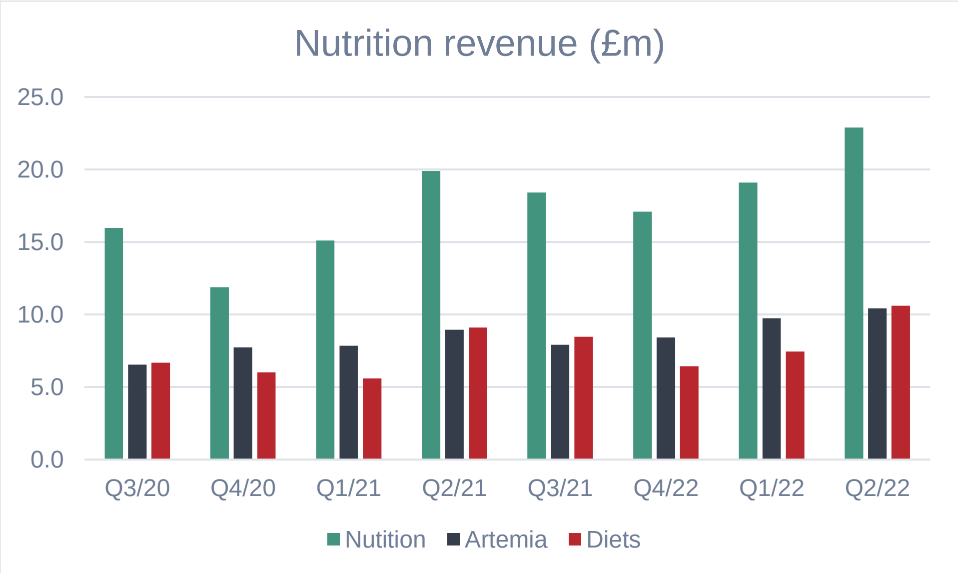
Updates to Equity Development's divisional forecasts are shown in Exhibit 5.

Exhibit 5: Updated ED divisional P&L forecasts FY22-23

	FY2022e (old)	FY2022e (new)	FY 2023e (old)	FY2023 (new)
Revenue				
Adv Nutrition	£77.6m	£80.5m	£85.3m	£87.5m
Genetics	£54.3m	£54.8m	£64.2m	£61.6m
Health	£25.5m	£22.2m	£36.0m	£24.0m
Total	£157.1m	£157.0m	£185.5m	£172.6m
Adjusted EBITDA				
Adv Nutrition	£15.5m	£19.2m	£18.8m	£21.0m
Genetics	£13.0m	£11.8m	£15.0m	£14.1m
Health	£7.8m	£1.3m	£14.8m	£3.6m
Total (before central costs)	£36.3m	£32.3m	£48.6m	£38.7m

Source: Equity Development forecasts. Note Divisional AEBITDA figures do not sum to Group forecast figures, because of central costs, intra-group sales and eliminations.

Exhibit 6: Advanced Nutrition segment



Source: Equity Development

Valuation

In the current inflation/interest rate environment, we have revised our DCF-valuation and now assume a higher cost of capital (WACC). Based on a 12% WACC and 3% long term growth rate, our model yields a valuation of £478m (or 68p/share) vs the previously published £606m or (86p/share), which was struck using a WACC of 11% and 2.5%.

It is important to stress that the financial projections that support this DCF figure have not materially changed, but the DCF valuation is very sensitive to WACC and assumed long term growth rates. Currently, it is difficult to estimate an appropriate long-term cost of capital given the rising interest and inflation rates.

Exhibit 6: Income Statement

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Revenues	**105,565**	**125,062**	**157,043**	**172,585**
Cost of goods sold	-50,603	-59,477	-78,596	-82,841
Gross Profit	54,962	65,585	78,446	89,744
Admin Expenses	-33,337	-38,221	-41,907	-46,000
R&D	-7,282	-7,010	-6,474	-6,798
Share of equity-accounted investees	150	-905	-1,056	-1,056
adjusted EBITDA	**14,493**	**19,449**	**29,009**	**35,891**
Exceptionals/impairment charge	-2,114	-184	908	0
EBITDA (incl. excepts)	12,379	19,265	29,917	35,891
Depreciation	-9,138	-8,359	-20,104	-20,104
Amortisation	-19,402	-16,293	-17,744	-15,004
Operating profit (loss)	-16,161	-5,387	-7,931	783
Interest income	-11,697	-3,802	-5,956	-8,633
Loss before tax	-25,715	-5,847	-10,545	-4,508
Current tax	-204	-2,525	-7,224	-4,827
Net income	**-35,093**	**-8,372**	**-17,769**	**-9,335**
Adj. EPS	-5.6	-1.3	-2.6	-1.3
EPS (p)	-6.1	-1.3	-2.6	-1.3

Source: Company historic figures/Equity Development estimates.

Exhibit 7: Balance sheet

y/e Sept 20 (£'000)	2020	2021	2022E	2023E
Current assets	**145,750**	**124,026**	**146,563**	**146,781**
Cash and cash equivalents	71,605	39,460	43,061	35,987
Accounts receivable	39,371	46,498	58,388	64,167
Inventories	18,926	20,947	27,993	29,505
Biological & agricultural assets	15,848	17,121	17,121	17,121
Non-current assets	**343,285**	**357,964**	**351,396**	**344,745**
Property, plant & equipment	65,601	78,780	86,910	92,217
right of use assets	10,347	25,531	25,531	25,531
Intangible assets	247,003	229,040	214,342	202,384
Equity-accounted investees	3,690	3,354	3,354	3,354
Other non-current assets	16,644	21,259	21,259	21,259
Current liabilities	**-55,375**	**-63,519**	**-74,514**	**-80,314**
Short-term debt	-2,856	-1,612	-673	-673
Lease liabilities	-2,483	-9,042	-9,042	-9,042
Accounts payable	-45,692	-46,668	-58,602	-64,402
Other current liabilities	-4,344	-6,197	-6,197	-6,197
Non-current liabilities	**-138,220**	**-138,872**	**-146,796**	**-156,334**
Long-term debt	-103,819	-109,737	-108,798	-108,798
Lease liabilities	0	0	-9,538	-19,076
Other non-current liabilities	-34,401	-29,135	-28,460	-28,460
Equity	**295,440**	**279,599**	**276,649**	**254,878**
Share capital	668	670	704	708
Other	294,772	278,929	275,945	254,170

Source: Company historic figures/Equity Development estimates.

Exhibit 8: Cashflow statement

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Operating cash flow	**-6,199**	**2,448**	**19,433**	**30,638**
Operating profit	-31,949	-11,576	-4,589	4,125
Tax credit	314	2,397	2,397	2,397
Non-cash adjustments incl. impairment	12,353	19,839	37,740	35,000
Change in working capital	5,475	-11,612	-12,430	-6,918
Interest paid	9,695	7,987	3,538	861
Taxes paid	-2,087	-4,587	-7,224	-4,827
Investing cash flow	**30,637**	**-23,090**	**-28,317**	**-28,173**
CAPEX on tangible assets	-5,851	-17,683	-28,234	-25,411
CAPEX on intangible assets/capitalised R&D	-5,563	-5,038	-3,046	-3,046
Acquisitions/disposals	261	0	0	0
Other investing cash flows	41,790	-369	2,963	283
Financing cash flow	**30,133**	**-14,669**	**9,698**	**-9,538**
Proceeds from equity	41,666	750	20,175	0
Increase in loans	-1,754	-3,106	-939	0
Other financing cash flow, lease liabilities	-9,779	-12,313	-9,538	-9,538
Net increase in cash	**61,783**	**-35,309**	**814**	**-7,073**
Exchange rate effects	-899	-176	796	0
Cash at start of year	16,051	76,935	41,450	43,061
Cash at end of year	76,935	41,450	43,061	35,987
Net cash/(debt) at end of year	-37,553	-80,931	-84,990	-101,602

Source: Company historic figures/Equity Development estimates

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