

Benchmark Holdings



Strong performance and improving outlook

16 December 2021

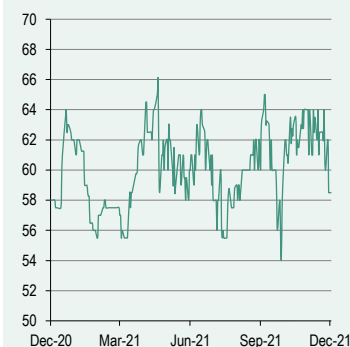
Benchmark Holdings' FY21 and particularly its Q4 (July to September) results confirmed the strong recovery in the business, led by its nutrition business, that had been indicated in the October pre-close trading update. An improving outlook in its key shrimp market and good conditions in the salmon and sea bass/bream sectors underpins a cautious upgrade of our financial forecasts for FY22 and beyond and, as a result, valuation. With £20m raised via a placing, Benchmark is now in a stronger position to invest in capital expansion projects ahead of the refinancing of its NOK bond, which falls due in 2023. A possible share listing in Norway next year may also provide better access to aquaculture-specific investors/capital. Taken together, these elements boost our overall valuation from £550m to £583m, which is equivalent to 83p per share based on the enlarged share count.

- Q4 results:** Overall revenues grew by 48% at £37.3m, with growth driven particularly by the Nutrition (+41%) and Genetics (35%) business areas, while group AEBITDA in the quarter was up by 110% at £4.4m. Both were substantially ahead of expectations earlier this year, as suggested in the October trading update, although the comparison remains against figures depressed by the first Covid lockdown in 2020. Salmon markets are reported to be solid with positive outlook for continuous growth, while shrimp markets are showing recovery, and sea bass and sea bream markets are recovered and stable.
- FY21 results:** Group revenues rose by 18% to £125.1m, driven by growth in Nutrition (19%). Within this division, sales were up by c22% for Artemia and 33% in diets. Genetics revenues rose by 13% in line the growth seen in the salmon eggs segment. Group AEBITDA was up by 34% at £319.4m (+44% excluding changes in fair value of biological assets).
- New "One Benchmark" initiatives:** An initiative to develop "One Benchmark" opportunities that exploit the synergies across the three divisions – e.g. cross-selling to common clients – is currently underway and may provide further impetus to sales growth/profitability in FY22 and beyond.
- Possible Norwegian listing:** Benchmark is considering a share listing in Norway to provide better access to the unique aquaculture-based investment environment that exists there. This seems a sensible step and we speculate this may occur in 2022 as a presage to the refinancing of the NOK855m bond, which falls due in 2023. A NED appointment announced with the placing further integrates Benchmark's management into the Norwegian aquaculture scene.
- Financial forecasts and valuation:** We have updated our model and cautiously increased our expectations. These reflect the current outlook and positive trends, as well as the placing of 33m shares at 62p/share. Our revised estimate of the fair value is now **£583m, up from £550m**, which is equivalent to **83p/share** based on the enlarged share count. New forecasts, with the prior ones in parentheses, are shown in the table below.

Company Data

EPIC	BMK
Price (last close)	58.5p
52 weeks High/Low	68p/54p
Market cap	£404m
Net debt (LBSD, pro forma fundraising)	£61.9m*
ED Fair Value / share	83p
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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Summary forecasts

y/e 30 Sept, £m	FY20	FY21	FY22e	FY23e
Sales	105.6	125.1	157.4 (138.5)	183.8 (158.7)
AEBITDA*	14.5	19.4	28.1 (26.9)	42.0 (37.3)
Net cash/(debt)	-37.6	-80.9	-75.3 (-97.0)	-72.6 (-95.7)
EV/Sales	4.1	3.6	3.0	2.5

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

Investment thesis

Benchmark offers investors a way to obtain indirect exposure to an important sector of the economy, that is a key source of protein (fish and crustaceans) for human consumption, in a vehicle that is currently emerging from an investment phase to one characterised by sustainable, and potentially profitable, growth.

The group has global leadership positions in two businesses - salmon eggs and Artemia (a live feed used in shrimp farming) – and has strong market positions in a number of others (e.g. feed used in salmon farming etc). It is also unique in offering an environmentally responsible therapeutic treatment for sea lice, addressing a major problem in salmon farming. These markets have attractive dynamics, as fish/crustaceans are growing their share of total protein for human consumption driven by health and economic trends. Farmed fish have a higher feed conversion rate and lower environmental impact than other major protein sources for human consumption (beef, pork, poultry, dairy etc) and thus are arguably more sustainable. Benchmark operates to high ESG standards and thus it may be a choice for this type of investor. We illustrate three investment cases:

- **Base case:** The nutrition and genetics businesses grow in line with, or better than, end-markets, while the new business ventures (tilapia, SPR shrimp) develop in accordance with business plans. Ectosan/CleanTreat adoption is consistent with plans, with no major impediments.
- **Bull case:** The genetics/nutrition businesses gain share and increase profitability through operating leverage. Ectosan/CleanTreat adoption is faster than envisaged, allowing entry into new markets. Under this scenario, Benchmark could become attractive as an M&A target.
- **Bear case:** Profitability in the salmon egg, diets or Artemia businesses deteriorates for competitive or other reasons and/or new business ventures struggle to achieve projections. Adoption of EctosanVet/CleanTreat is slow or adversely affected by consumer or regulatory pressures.

Sensitivities/risks

The key upside/downside risks are illustrated in bull and bear cases above. We have previously highlighted, as a possible risk, the fact that the European Commission has had a request to remove (or alter) the MRL for imidacloprid in the EU (by the European Parliament). However, there does not seem to be any recent activity on this matter and we are of the view this theoretical risk is now diminishing. Other key risks are operational/financial, principally relating to the ability to refinance the NOK855m senior bond.

Valuation

Based on our updated financial model, our base case fair value has been increased from £550m to £583m, equivalent to 83p/share based on the enlarged share count post fundraising.

This is based on NPV of cash flows, adjusted for debt, using a WACC of 11% and long-term growth rate of 2.5%. The bull case illustrated above could add 15-25% to this figure, whereas the bear case would be a similar proportion below this.

Financials

Benchmark's strong recovery in Q4 was considerably ahead of expectations and allowed a fundraising of just over £20m gross (we estimate £19m net of costs). The positive outlook in three key fish markets (salmon, shrimp and sea bream/bass) supports an upgrade in forecasts for FY2022 and beyond. We have updated our model to reflect the current outlook as well as the placing of 33m shares at 62p/share.

FY21 results update

Benchmark Holdings' FY21 results, which were reported last week, showed strong revenue and profit growth that was attributed to a renewed commercial focus and recovery in the shrimp markets. This was particularly evident in the Q4 (June-September) results, where sales and profit contribution were well ahead of expectations, albeit indicated in the earlier October trading update. Details are shown in the table below.

Exhibit 1: FY21/Q4 Results summary				
£m	Q4 2021	Change (CER)	FY21	Change (CER)
Revenue				
Advanced Nutrition	£17.1m	41% (49%)	£70.5m	19% (27%)
<i>of which Artemia</i>	£8.4m	9%	£33.1m	+22%
... Diets	£6.4m	7%	£29.6m	+33%
Genetics	£15.9m	35% (34%)	£46.8m	13% (15%)
<i>of which salmon eggs</i>	£12.8m	124%	£35.6m	+14%
Health	£2.3m	207% (203%)	£7.8m	+50% (50%)
Group Revenue	£37.3m	48% (51%)	£125.1m	18% (24%)
AEBITDA				
Advanced Nutrition	£3.6m	1700% (1781%)	£13.8m	116% (132%)
Genetics	£3.3m	-28% (-33%)	£11.5m	-20% (-20%)
<i>of which FV of bio assets</i>	£2.3m	-23% (-33%)	£8.2m	-26% (-27%)
excluding FV movements	£1.0m	N/A	£3.3m	N/A
Health	£1.1m	450% (633%)	(-2.7)	27% (30%)
Group AEBITDA	£4.4m	110% (123%)	£19.4m	+34% (43%)

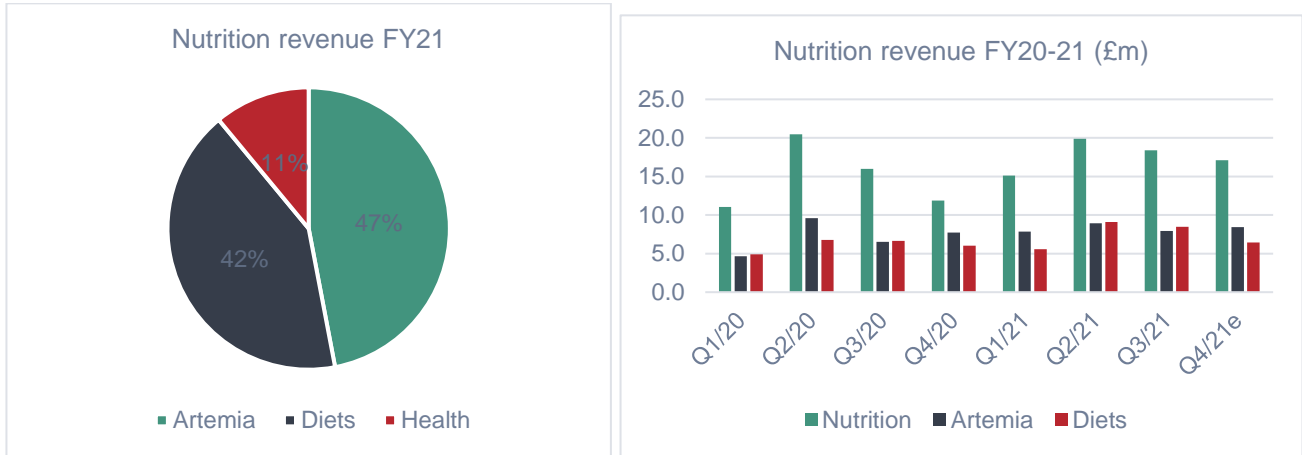
Notes: % change is compared with restated 2020 figures adjusted to reflect current businesses, CER compared with restated figures at constant exchange rates. % change for Artemia, Diets and salmon eggs businesses calculated by Equity Development.

Upgrade to forecasts

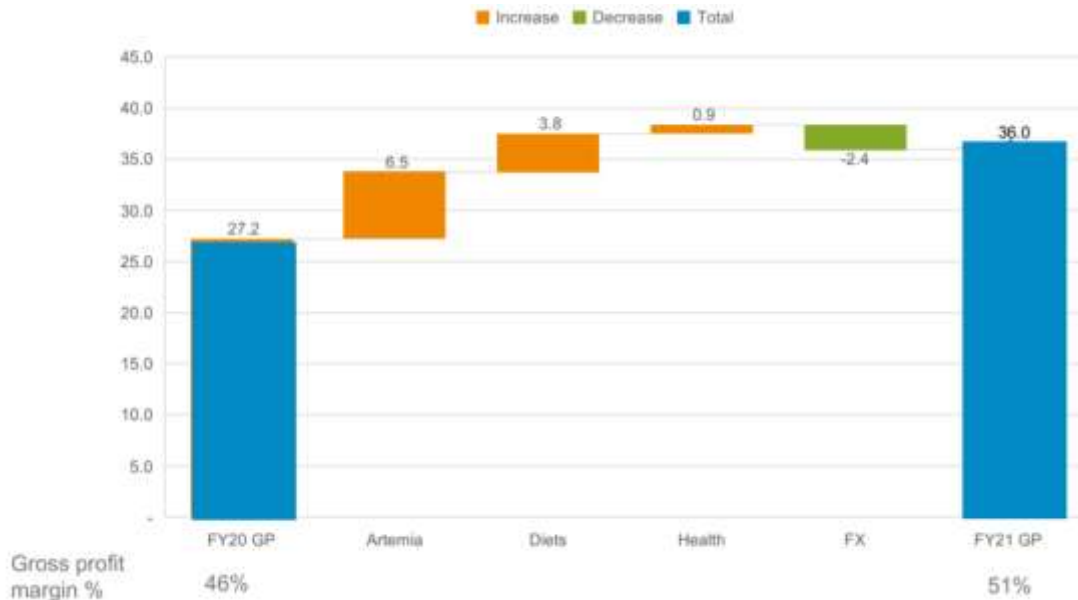
An improving outlook in its key shrimp, and good conditions in the salmon sector, underpins a cautious upgrade of our financial forecasts for FY22 and beyond. These are detailed in the table below (with prior published forecasts are shown in parentheses).

Exhibit 2: New divisional P&L forecasts			
	FY 2021	FY2022e	FY 2023e
Revenue			
Advanced Nutrition	£70.5m (£67.4m)	£77.6m (£74.2m)	£85.3m (£81.6m)
Genetics	£46.8m (£43.8m)	£54.3m (£45.6m)	£64.2m (£47.9m)
Health	£7.8m (£4.3m)	£25.5m (£30.0m)	£36.0m (£45.2m)
Adjusted EBITDA			
Advanced Nutrition	£13.8m (£13.1m)	£15.5m (£15.6m)	£18.8m (£17.9m)
Genetics	£11.5m (£11.6m)	£13.0m (£11.9m)	£15.0m (£14.4m)
Health	£-2.7m (£-0.3m)	£7.8m (£5.9m)	£14.8m (£12.4m)

Source: Equity Development forecasts. Note Divisional AEBITDA figures do not sum to Group forecast figures, because of central costs, intra-group sales and eliminations. Figures in parentheses represent last published ED forecasts (prior to the 18th October trading statement).

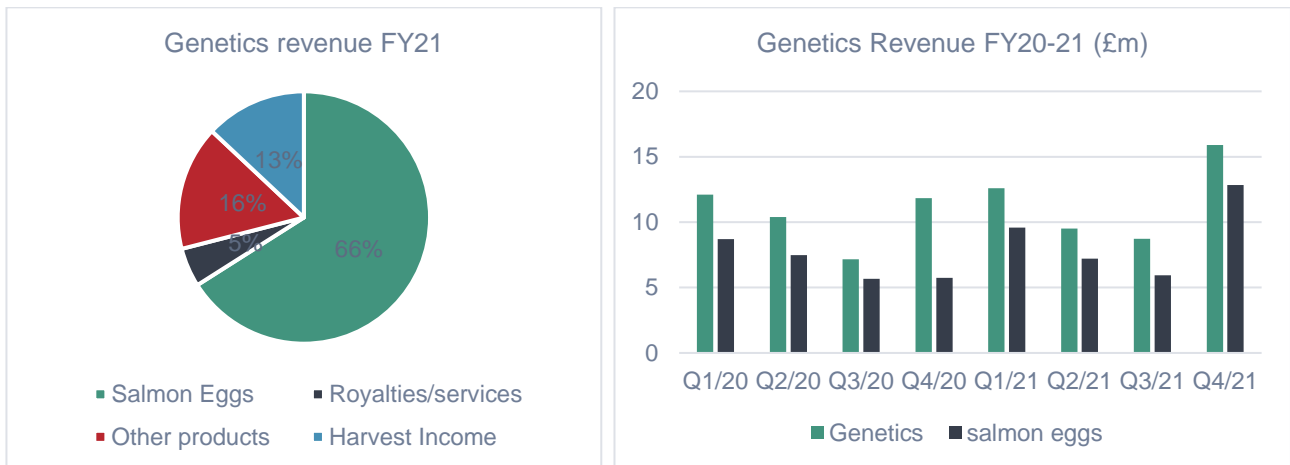
Exhibit 3: Advanced Nutrition profile

Highlights

- Revenue growth was seen in all three product lines with stronger market position in diets and health.
- Artemia sales rose by 23%, despite a drop in price. Market share was regained, mainly GSL Artemia, with harvest normalising.
- Asia performed strongly but Americas remain challenging because of pandemic-related/logistical difficulties.
- Recovery in shrimp and seabass/seabream markets with reopening of hospitality sector.
- Launch of Natura pRo and ExL feed protocol to substitute rotifers (live feed) for sea bass/bream in October 2021.
- Salmon performed well and maintained a strong market position in the northern hemisphere. Salmon market positive with price recovery and favourable demand/supply dynamics.
- Shrimp market recovering with the potential to bounce back to pre-Covid levels, although conditions in some shrimp producing countries (eg India) remain difficult.
- Recovery of AEBITDA margin to 20% (vs 11%).

Margin development in Advanced nutrition (£m)


Source: Benchmark Holdings' presentation, historic figures and Equity Development forecasts.

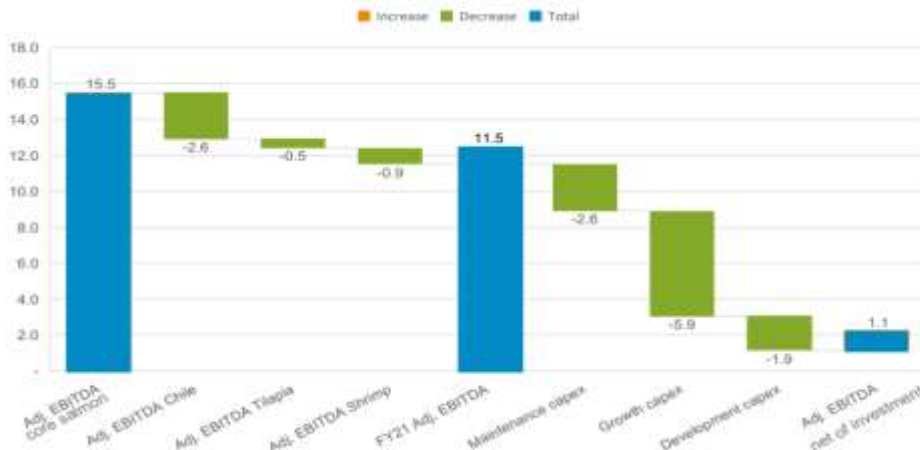
Exhibit 4: Genetics profile



Highlights in FY21

- Salmon egg revenues up 14%, driven by higher volumes (242m eggs sold) and stable gross margin. AEBITDA from “core” salmon egg activities (excluding start up activity in Chile) was £15.5m.
- Harvest income from R&D licenses with slaughter of excess broodstock (+59%), reflecting first full year of broodstock license
- Continued ramp-up in Chile (second largest salmon farming market) with first local salmon egg production and sales.
- Genetics services revenue steady at £1.3m.
- Lower royalty income due to phasing out of customer contracts.
- Construction/expansion of the incubation facility in Iceland underway.
- Capacity increase at SPR shrimp breeders facility (Fellsmere, Florida US) expected to allow phased entry into Asian markets.
- R&D costs for SPR shrimp shift from capitalised to expensed, which will affect margins from FY23
- Tilapia investment expected to start to deliver in H2FY22

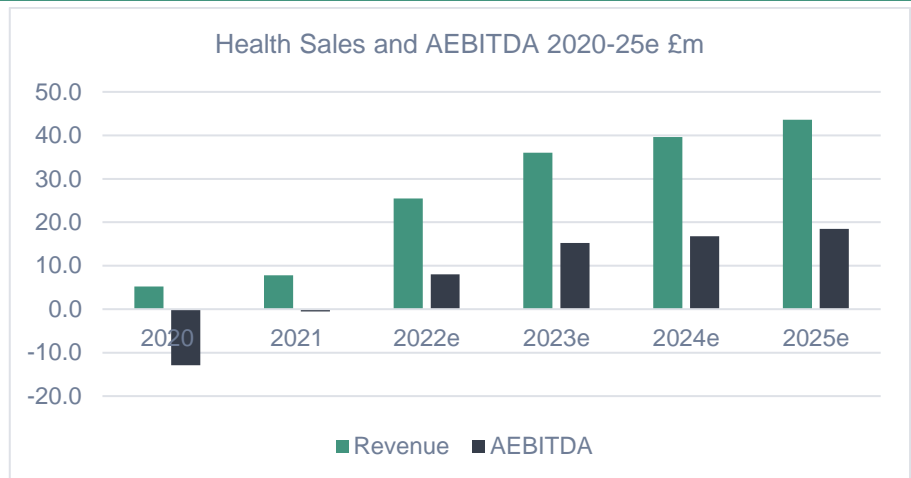
Profitability profile and capex in genetics



- Core salmon = salmon egg sales from Norway and Icela harvest income, royalties, and JV profits and genetic service
- Growth capex = incubation centre in Iceland, SPR shrimp and tilapia

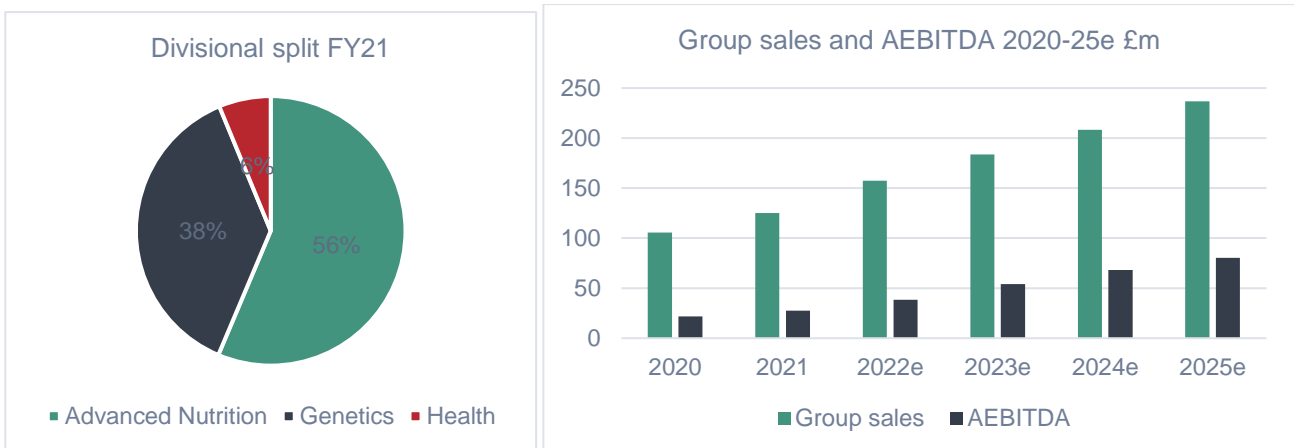
Species/location	Current capacity	max capacity	Planned expansion/comment
Salmon			
Salten, Norway	110m eggs	150m eggs	Planned to reach capacity in 2026
Iceland	160m eggs	160m eggs	New incubation centre removes capacity constraint
Chile	20m eggs	50m eggs	Planned to reach capacity in 2025
SPR Shrimp			
Fellesmere, US	50k breeders	100k breeders	First phase of a 40% capacity expansion completed
Nonthaburi, Thailand	0	30k breeders	Opened Sept 21, first shrimp stocked
Tilapia			
Miami, US	1.4m larvae	6.0m larvae	capacity increase to facilitate year-round production.

Source: Historic figures and Equity Development forecasts.

Exhibit 5: Health segment sales and EBITDA forecast

Highlights

- Commercial launch of Ectosan, with good feedback on efficacy and customer satisfaction; volumes of fish treated are increasing.
- Progress towards extension of MA label to allow reuse of process water.
- EctosanVet patent approved providing 20 years of IP protection
- First CleanTreat vessel is fully booked out.
- Risk of any EU regulatory action on imidacloprid MRL appears to be diminishing.

Source: Historic figures and Equity Development forecasts

Exhibit 6: Group quarterly/annual sales and EBITDA forecast


Source: Historic figures and Equity Development forecasts

Net debt

Net debt at the year-end was £80.9m (2020: £37.6m), which includes £24.0m relating to lease obligations, with cash and equivalents of £39.5m (2020: £71.6m). Adjusting for the £20m gross (we estimate £19m net) raised in the placing, pro forma year end net debt would be £61.9mn, which our model suggests will fall to £55.7m at the end of next year.

Exhibit 7: Income Statement

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Revenues	105,565	125,110	157,360	183,761
Cost of goods sold	-50,603	-59,477	-74,147	-83,560
Gross Profit	54,962	65,633	83,213	100,201
Admin Expenses	-33,337	-38,221	-44,672	-46,083
Share based payments	-1,669	-830	-830	-830
R&D	-7,282	-7,010	-8,000	-9,551
EBITDA	12,379	18,236	28,100	42,026
Adjusted EBITDA	14,493	18,052	28,100	42,026
Operating Loss	-16,161	-6,416	3,625	16,715
Depreciation	-6,995	-5,017	-6,025	-6,641
Amortisation	-19,402	-16,293	-15,108	-15,328
Interest income	-11,697	-3,802	-7,426	-7,205
Loss before tax	-27,858	-10,218	-3,801	9,511
Adj. PBT	9,928	23,562	75,226	92,214
Current tax income	-204	-70	-512	-1,902
Net loss from discontinued operations	-9,174	0	0	0
Adj. net income	-4,403	9,163	14,137	26,278
Net loss continuing operations	-37,236	-10,288	-4,313	7,608
EPS (p)	-5.4	-1.5	-0.6	1.0

Source: Company historic figures/Equity Development estimates.

Exhibit 8: Balance Sheet

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Current assets	145,750	124,026	154,147	176,979
Cash and cash equivalents	71,605	39,460	52,134	61,801
Accounts receivable	39,371	46,498	58,484	68,296
Inventories	18,926	20,947	26,409	29,761
Biological assets	15,848	17,121	17,121	17,121
Non-current assets	343,285	357,964	356,869	355,554
Property, plant & equipment	65,601	78,780	87,755	96,730
right of use assets	10,347	25,531	25,531	25,531
Intangible assets	247,003	229,040	218,970	208,680
Equity- 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	-75,549	-85,397
Short-term debt	-2,856	-1,612	-1,612	-1,612
Accounts payable	-2,483	-9,042	-9,042	-9,042
Other current liabilities	-45,692	-46,668	-58,698	-68,546
Non-current liabilities	-4,344	-6,197	-6,197	-6,197
Long-term debt	-138,220	-138,872	-145,872	-152,872
Lease liabilities	-103,819	-109,737	-109,737	-109,737
Other non-current liabilities	0	0	-7,000	-14,000
Equity	-34,401	-29,135	-29,135	-29,135

Source: Company historic figures/Equity Development estimates

Exhibit 9: Cashflow statement £m

y/e 30 Sept, £'000s	2020	2021	2022E	2023E
Operating cash flow	-6,199	2,448	23,174	37,194
Profit before tax	-31,949	-11,576	3,625	16,715
Tax credit	314	2,397	2,397	2,397
Non-cash adjustments incl. impairment	12,353	19,839	20,521	20,741
Change in working capital	5,475	-11,612	-10,845	-8,744
Interest paid	9,695	7,987	7,987	7,987
Taxes paid	-2,087	-4,587	-512	-1,902
Investing cash flow	30,637	-23,090	-20,528	-20,528
CAPEX on tangible assets	-5,851	-17,683	-15,000	-15,000
CAPEX on intangible assets/capitalised R&D	-5,563	-5,038	-5,038	-5,038
Acquisitions/disposals	261	0	0	0
Other investing cash flows	41,790	-369	-490	-490
Financing cash flow	30,133	-14,669	12,089	-7,000
Proceeds from equity	41,666	750	19,089	0
Increase in loans	-1,754	-3,106	0	0
Other financing cash flow, lease liabilities	-9,779	-12,313	-7,000	-7,000
Net increase in cash	61,783	-35,309	14,735	9,666
Exchange rate effects	-899	-4,227	0	0
Cash at start of year	16,051	76,935	37,399	52,134
Cash at end of year	76,935	37,399	52,134	61,801
Net cash/debt at end of year	-37,553	-80,931	-75,257	-72,590

Source: Company historic figures/Equity Development estimates



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