

## Seeking a Nordic capital injection

5 June 2019

**BMK reports good H119 performance: Group revenues increased 3.4% overall to £78.3m from £75.7m and with adjusted EBITDA growing ahead of sales, up 25% from £6m in H118 to £7.5m. Animal Health, Genetics and Knowledge Services' performance was robust, driven by progress with the field trials of the next generation sea lice treatment as well as delivery on key milestones with the specific pathogen resistant (SPR) shrimp. Sales in these divisions helped to offset weaker than expected trading in Advanced Nutrition caused by oversupply and price weakness in the shrimp and sea bass markets.**

The proposed refinancing of the Group's existing \$90m credit facility via a NOK 850m (\$95m) bond issue, underwritten by DNB Bank ASA, is a decision taken to increase financial headroom and provide greater flexibility for the Company's growth strategy. As a reminder, growth initiatives include commercialisation plans for both the disease resistant, Specific Pathogen Resistant (SPR) shrimp (with initial launch planned by year end 2019) and the sea lice treatment (peak sales estimated >£45m) for 2020 launch. BMK is also progressing the development of its vaccine and probiotics pipeline.

BMK's technology and knowhow is likely to prove attractive to specialist Nordic aquaculture markets, and investor marketing for the bond is due to commence imminently. **The listed NOK financing would provide access to, and raise the Group's visibility in, the world's largest aquaculture market.** Their overall financial position for the period to end March 2019 stood at net debt of £65m up from £55.7m (end 2018) illustrating sustained investment in both tangible and intangible assets. With key product launches in view as well as potential news on commercial deals for Animal Health products and further rationalisation of the business, **the outlook remains largely buoyant**, except for Nutrition where weaker markets could continue in H219.

In the light of the recently announced discussions for the Chile JV, as well as news on the outcome of marketing the NOK Bond, we leave our financial forecasts unchanged ahead of greater visibility at the interim results on 25 June. **We reiterate our DCF valuation of BMK of £585m - or 105p per share** and look forward to further news on the Company's forthcoming product launches, as well as on commercial partnering discussions for the companion animal pipeline.

### Summary financials

Y/E 30 Sept, £m	FY17	FY18	FY19e	FY20e	FY21e
Sales	140.2	151.5	172.7	193.4	215.4
Adjusted EBITDA*	10.1	17.0	22.1	27.0	43.7
Net cash/(debt)	-23.9	-55.7	-64.1	-61.2	-43.0
EV/sales	1.6	2.2	1.9	1.7	1.5

Source: Company historic figures / ED forecasts\* Earnings before interest, tax, depreciation, amortisation, exceptional items and acquisition related expenditure

### Company Data

EPIC	BMK
Price	41p
52 week Hi/Lo	65p/40p
Market cap	£229m
ED valuation/share	105p

### Share Price, p



Source: ADVFN

### Description

Benchmark Holdings (BMK) helps deliver improved healthcare products and services to the Animal Health and Aquaculture industry. Rising demand from clients for its products and services to manage sustainability practice in worldwide production and supply chains underlines BMK's opportunity for significant organic and external growth.

**Next news:** interim results 25 June

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## Delivering on strategic and financial targets

The Company reports that trading is broadly in line with expectations and with growth in Animal Health, Genetics and Knowledge Services offsetting weaker than expected trading in Advanced Nutrition. Group revenues increased 3.4% overall in H119 to £78m from £75.3m and with adjusted EBITDA growing ahead of sales up 25% from £6m in H118 to £7.5m. Adjusted EBITDA margin expansion from 8% to 10% reflected cost efficiencies and change in product mix.

Headline drivers for the Animal Health division where sales increased 76% to £7.2m included a good performance for Salmosan, the Company's sea lice treatment and progress on the roll out of commercial field trials for BMK's next generation sea lice treatment.

The Genetics division made good progress with revenue up 8% to £22.6m. The Company delivered on strategic milestones including advancing field trials of its SPR shrimp and we are encouraged to hear that feedback is positive in Asia with indications of significant commercial potential. BMK aims to roll out the product in the five main shrimp producing countries in Asia starting in late 2019 – and established a supply chain to facilitate this during the period, including a broodstock production facility in Florida.

### Divisional revenue breakdown

£m	H119	H118	LTM 2019	FY 2018
Animal Health	7.2	4.1	19.2	16.2
<i>Growth</i>	76%			
Genetics	22.6	21	37.4	35.8
<i>Growth</i>	8%			
Advanced Nutrition	40.9	44.1	82.6	85.7
<i>Growth</i>	-7%			
All other segments	8.3	7.5	16.6	15.8
<i>Growth</i>	11%			
Corporate	3.6	2.3	6.6	5.3
Inter-segment sales	-4.3	-3.2	-8.3	-7.3
<b>Total</b>	<b>78.3</b>	<b>75.7</b>	<b>154</b>	<b>151.5</b>
<i>Growth</i>	3.4%			

Source: Benchmark Holdings

Advanced Nutrition revenues were 7% lower in H119 owing to continuing issues with oversupply in global shrimp and sea bass and bream markets.

Consequently, weaker pricing led to a shrinkage in industry production levels and a knock-on effect on sales of the Company's nutritional products, notably live feed Artemia which accounts for over 55% of sales mix. The oversupply could continue to have an impact in H219.

**Divisional adjusted EBITDA**

£m	H119	H118	LTM 2019	FY 2018
Animal Health	-6.1	-7.9	-9.2	-11
Genetics	4.9	2.9	9.9	7.9
Advanced Nutrition	9.6	11.3	19.9	21.6
All other segments	0.7	0.4	0.5	0.2
Corporate	-1.6	-0.6	-2.8	-1.8
Inter-segments sales	-	-	0.1	0.1
<b>Total</b>	<b>7.5</b>	<b>6</b>	<b>18.5</b>	<b>17</b>

Source: Benchmark Holdings

Net debt stood at £65.5m at the end of March 2019 – including £23.8m of cash – up from £55.7m at the end of 2018. The increase was driven by investment in both tangible and intangible assets which included establishing a supply chain for the SPR as well as a rise in capitalised R&D from £2.2m in H118 to £2.9m in H119.

BMK took further steps towards enacting its strategic review during the period – notable measures included streamlining of Asia Nutrition and of its lumpfish operations with the closure of one site and the sale of another. Further rationalisation, prioritisation and cost efficiencies including redirecting capital and resources are a feature of the ongoing structural review process.

## Post period end events

The proposed refinancing of BMK's \$90m credit facility by means of a NOK 850m (\$95m), 4-year senior secured floating rate listed bond issue, underwritten by DNB Bank ASA would increase available funds from \$90m up to \$110m (adding in a proposed \$15m RCF facility by DNB). BMK's technology and knowhow is likely to prove attractive to these specialist markets and investor marketing is due to commence imminently. Key drivers for opting for refinancing include;

- The original £69m credit facility matures at the end of 2020 therefore refinancing is a necessary step;
- The new financing provides additional flexibility – it is not governed by banking covenants – potentially enabling BMK further headroom to fund its product launches and growth strategy;
- The Bond provides access to and raises Group visibility in the world's largest aquaculture market.

The use of funds as previously flagged includes investment in the commercialisation of the disease resistant SPR shrimp with plans to commence roll out during 2019 in initial Asian markets as well as investment associated with the roll-out of the Company's next generation sea lice treatment. This will also help finance ongoing maintenance of state-of-the art facilities.

As previously reported – BMK is in discussions to unwind its Chilean Breeding and Genetics JV and to take control of a facility available following the acquisition of JV partner Empresas AquaChile by Agrosuper. This move is likely to entail a return of BMK's original £12m cash equity stake, IP rights, genetic stock, biomass and resources, with the cash to be reinvested in the facility.

**This is likely to provide BMK with significant advantages over time**, including the opportunity to take a dominant role in shaping the strategy of its operations in Chile, which might include the higher level of influence in cross-selling Group products and services, and potentially eventual ownership of any resulting new IP.

### Key product launches in view

With key product launches in view as well as potential news on deals in Animal Health's companion animal products and further rationalisation of the business, the outlook remains largely buoyant except for Nutrition where weaker markets could continue in H219.

In light of the ongoing discussions for the Chile JV, which could alter the near-term net debt profile, as well as news on the outcome of marketing the NOK Bond, we leave our financial forecasts unchanged ahead of potential greater visibility at the interim results on 25 June.



## **Investor Access**

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