

Benchmark Holdings



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Growth drivers aligned with aquaculture sustainability goals

BMK reported solid H1 2021 progress in line with expectations. 11% (Constant Exchange Rates) revenue growth was driven by concerted commercial efforts and early signs of recovery in market demand in Advanced Nutrition, while AEBITDA rose 13% in parallel with ongoing selective investment and cost containment measures. Strategic highlights included ratification of the Maximum Residue Level (MRL) opinion for BMK08 + CleanTreat® - taking the innovative sea lice treatment system a step closer to Marketing Authorisation – and signing of first customer agreements for CleanTreat underpinning demand. Looking forward innovation will continue to deliver sustainable solutions for the aquaculture industry.

- Financial results H1 2021:** solid performance with continuing revenue growth of 11% (CER) to £59.5m, compared to £56.2m in H1 2020, and 13% growth in H1 2021 AEBITDA from £7.7m in H1 2020 to £8.7m (CER). This reflected a strong performance in Advanced Nutrition revenues up 12% and steady trading in Genetics partially offset by lower contribution from fair value movements in biological assets and lower harvest income due to lower salmon prices in the period. Health sales were marginally lower vs H2 2020. BMK continued to manage expenditure and selective investment taking total cost savings of £6.3m in YTD. Reported net loss from continuing operations narrowed from £13.8m to £3.1m.
- Liquidity:** the company invested £6.6m of CAPEX in its core growth initiatives including adapting well boats ahead of BMK08 + CleanTreat® launch and ended the period with net debt of £56.5m, vs £55.8m at end March 2020: providing ample headroom to meet debt covenant terms.
- Growth drivers:** BMK is moving towards a key milestone. Market Authorisation of BMK08 + CleanTreat® in Norway anticipated in CY Q2 2021, having won its first customer contracts post MRL ratification in Q2 21. The system can provide a solution to one of the most pressing disease challenges while minimising the impact on the environment and life below water. BMK regained market share in Advanced Nutrition in parallel with the early signs of recovery in Asian shrimp markets. In Genetics, imminent completion of an extended incubation facility in Iceland is set to supply the high growth land based salmon farming segment which can be a key to meeting a sustainable future of the industry. It also made progress in building its multiplication facility at Fellsmere, US to support the SPR shrimp launch in parallel with gradual market recovery.
- Trading in line with expectations:** we leave our forecasts and valuation unchanged as our estimates are underpinned by growth in Advanced Nutrition, visibility on order patterns, with a shift in Genetics revenues to H2 2021, and with the progress towards Market Authorisation of BMK08 + CleanTreat® on track and supporting Health revenues.

Conclusions

BMK is making good progress towards its key growth objectives and we retain a positive stance on the shares. **Our fair value per share of 88p** represents a near 50% premium to the current price and, if the forthcoming MA outcome is positive, that reinforces potential for further rerating of the shares.

Summary forecasts

y/e 30 Sept, £m	FY20	FY21e	FY22e	FY23e
Sales	105.6	126.7	162.2	197.3
AEBITDA*	14.5	16.6	35.2	54.5
Net cash/(debt)	-37.6	-59.8	-83.1	-84.0

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 (last close)	59p
52 weeks Hi/Lo	68p/28p
Market cap	£395m
ED Fair Value / share	88p

Share Price, p



Description

Benchmark Holdings (BMK) helps deliver improved healthcare products and services to the Aquaculture industry focusing on Genetics, Advanced Nutrition and Health.

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

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Progress in H1 2021

BMK delivered H1 2021 continuing revenue growth of 11% (CER) to £59.5m, compared to £56.2m in H1 2020 and 13% (CER) growth in H1 2021 AEBITDA from £7.7m in H1 2020 to £8.7m. On a reported basis this was equivalent to 6% and 2.6% respectively.

Q2 trends reflect seasonal fluctuations in Genetics and a lower contribution from biological asset movements due to normalised biomass growth. A key strategic highlight was progress made towards the commercialisation of BMK08 and CleanTreat® with first customer contracts and ratification of MRL opinion achieved in Q2. Advanced Nutrition revenues rose 12% based on renewed commercial efforts and a shift in pricing strategy, while Genetics and Health revenues remained steady. Quarterly revenues demonstrate the impact of currency including fluctuations in Icelandic Krona and US\$.

The Company is well on track to meet its goal of **£10m annual cost savings** having achieved total of £6.3m in the YTD, of which £1.4m generated from cost containment and £4.9m from restructuring. Conditions in end markets remain stable with upside. Salmon markets remain resilient and there are variable rates of recovery in shrimp production with Asia while markets in the Americas remain challenging. The Mediterranean sea bass and bream markets are stable.

Quarterly P&L by division			
£m	Q2 2021	Q2 2020 restated*	CER** Q2 2021
Revenue			
Advanced Nutrition	19.9	19.9	21.1
Genetics	9.5	10.4	9.7
Health	1.0	1.4	1.0
AEBITDA			
Advanced Nutrition	5.2	3.7	5.6
Genetics	2.1	5.2	2.1
Health	-1.4	-0.8	-1.4

Notes: *restated to show changes in ongoing business, **Constant Exchange Rates: restating of current year's results using previous year's exchange rates

Advanced Nutrition

A strong performance as revenues increased 12% to £35m, with recovery in some Asian markets, and renewed commercial efforts. This led to 18% growth in Artemia revenues, helped by a normalised harvest vs H1 2020, 26% growth in Diets, with Health products (probiotics), 11% lower, reflecting more challenging markets in the Americas. Gross margin rose to 47% from 46% and AEBITDA improved to £6.2m vs £3.4m in H1 2020. Margin jumped from 11% to 18% on cost containment, including a 4% reduction in Opex and a 31% drop in total R&D spend, against higher sales.

Advanced Nutrition is an area in which the Company is investing in innovation to develop sustainable solutions including products that can **reduce reliance on antibiotic use**. Its growth vectors include extending its offering into the nursery and grow-out phase of shrimp production.

Genetics

H2 2021 revenues were in line at £22.1m vs £22.5m in H1 2020, egg sales increased 5%, offset by lower harvested fish and royalty revenues on weaker pricing. Q2 2021 egg sales dropped on changed order patterns, leading to a fall in Q2 2021 revenues, as customers deferred purchasing to H2.

There was a lower margin contribution from fair value of biological assets £2m, vs fair value of £2.6m in H1 2020, due to normalised biomass growth as the Company approaches steady state production post ramp up in Salten.

BMK is building a strong position as a supplier of salmon ova to the emerging land based salmon farming segment, sealing new client wins in order to establish a leading position in this important segment. This is supported by establishing an incubation facility in Iceland (anticipated completion during FY 2021) to supply the land based aquaculture market and growth across all salmon production paradigms. Land based as opposed to open water aquaculture can minimise carbon footprint and introduces a more sustainable and less harmful impact on biodiversity.

With signs of recovery in shrimp markets, BMK continued its expansion of its SPR shrimp facility in Fellsmere, US which underpins its breeding programmes which focus on developing pathogen resistant strains suited to the specific local disease challenges of global environments.

Genetics reported AEBITDA fell from £8.6m to £6m, 6.4m at CER, after including a 15% reduction in Opex from £5.3m to £4.5m in H1 2021. CAPEX for the division stood at £4.6m.

Health

Operational focus on preparations for commercialising BMK08 + CleanTreat® with first customer agreements signed and achieving milestones in the pathway towards Marketing Authorisation by the Norwegian Medicines agency initially including ratification of the MRL opinion in Q2 - the highest level of a pesticide residue that is legally tolerated in or on food or feed when pesticides or medicinal products are applied correctly (Food and Agriculture Organisation).

The product, in combination with the CleanTreat® system ensures that **no residues are released into the environment** and can be seen as a sustainable alternative minimising impact on the environment and life below water. BMK has already signed up its first customers for the treatment solution in the initial market of Norway. Sea lice continues to be the biggest biological challenge for salmon producers and Benchmark's novel solution addresses this challenge in a sustainable way both in terms of animal welfare and environmental impact.

In H1 2021, reported revenue and AEBITDA fell marginally to £2.3m vs £2.5m and to a loss of £2.6m vs a loss of £2.7m. Revenues consist primarily of sales of sea lice treatment Salmosan to the largest market of Chile. BMK increased Opex (on a continuing basis) from £2.2m to £3m in preparation for launch of BMK08 + CleanTreat® including appointing operational teams, and increasing in capacity while total R&D investment fell 26%. CAPEX of £1.9m included initial spend on adapting well boats.

Outlook

With trading in line with expectations and visibility good, we make no change to our forecasts.

- Advanced Nutrition: ongoing market-by-market recovery, with pond restocking and normalisation of GSL harvest levels underpinning our forecasts.
- Genetics: deferred purchasing patterns with salmon ova ordering expected to fall into H2 2021. Completion of the Iceland incubation facility on track.
- Health: Company progresses towards Marketing Authorisation of BMK08 + CleanTreat® – launch on track for launch set for H2 2021 CY.

Divisional P&L forecasts		
£m	FY 2021e	FY 2020
Revenue		
Advanced Nutrition	65.0	59.4
Genetics	46.1	41.5
Health	15.6	5.2
Adjusted EBITDA		
Advanced Nutrition	9.8	6.4
Genetics	10.5	14.4
Health	-0.3	-3.7

Source: Equity Development forecasts/Company reported figures

A key role in delivering sustainable solutions for critical issues

BMK is committed to ensuring it utilises its far-reaching position in global aquaculture markets to continue addressing the issues generated by farming, balanced against the need to provide **sustainable long-term answers** to feeding the growing population.

This includes reduction of greenhouse gas emissions and building in further measures to improve the sustainability of the supply chain. It continues to see innovation as a key driver of sustainability and its positioning enables it to address the key challenges of Antimicrobial resistance, biodiversity, sustainability of foodstuffs and animal welfare.

BMK is making good progress towards key growth objectives and we retain a positive stance on the shares. Our fair value per share stands well above the current market cap and if the forthcoming MA outcome is positive this has potential for rerating the shares in our view.

We note that after the results Chairman Peter George bought shares on the market at 62.5p taking his personal holding to over 3 million shares.

Financials

We forecast a FY20-23 revenue CAGR of 23%, alongside a growth in AEBITDA which increases from £14.5m to £54.5m in FY 2023, with the higher margin product launch in Health, the recovery in sales and AEBITDA in Advanced Nutrition, increase in Genetics capacity leading us to a forecast net profit of £15.4m in FY 2023.

Income Statement				
y/e 30 September, £'000s	2020	2021E	2022E	2023E
Revenues	105,565	126,708	162,215	197,252
Cost of goods sold	-50,603	-59,788	-73,368	-86,749
Gross Profit	54,962	66,920	88,847	110,502
Admin Expenses	-33,337	-42,033	-45,273	-47,418
Share based payments	-1,669	-1,669	-1,669	-1,669
R&D	-7,282	-8,263	-8,420	-8,583
Share of profit of equity-accounted investees - net	150	0	0	0
Exceptional items/impairment	-2,114	0	0	0
EBITDA	12,379	16,625	35,154	54,502
Adjusted EBITDA	14,493	16,625	35,154	54,502
Operating (Loss)/profit	-10,874	-11,875	6,854	28,202
Depreciation	-6,640	-11,970	-11,886	-11,046
Amortisation	-16,613	-16,530	-16,414	-15,254
Interest income/(expense)	-11,697	-6,846	-6,791	-6,842
(Loss)/profit before tax	-22,571	-18,721	63	21,360
Current tax expense	-204	-6,000	-6,000	-6,000
Net loss discontinued ops	-9,174	0	0	0
Net (loss)/profit continuing operations	-31,949	-24,721	-5,937	15,360
(Loss)/earnings per share (p)	-5.3	-3.7	-0.9	2.3
Gross margin	52%	53%	55%	56%
EBITDA margin	12%	13%	22%	28%
Adjusted EBITDA margin	14%	13%	22%	28%

Source: Company historic figures/Equity Development estimates

Cash and liquidity remain **well within the covenants** of the \$95m NOK bond, which matures in June 2023. Our forecasts assume that the Company will refinance the bond.

Balance Sheet				
y/e 30 Sept, £'000s	2020	2021E	2022E	2023E
Current assets	145,750	121,914	114,096	125,999
Cash and cash equivalents	71,605	38,961	15,652	14,689
Accounts receivable	39,371	41,310	49,775	54,042
Inventories	18,926	21,294	24,121	28,520
Biological & agricultural assets	15,848	20,348	24,548	28,748
Non-current assets	343,285	339,985	342,089	346,323
PP&E	65,601	73,590	83,967	93,034
Right of use assets	10,347	14,588	21,729	31,170
Intangible assets	247,003	231,473	216,059	201,785
Equity-accounted investees	3,690	3,690	3,690	3,690
Other non-current assets	16,644	16,644	16,644	16,644
Current liabilities	-55,375	-52,291	-52,645	-53,553
Short-term debt	-2,856	-2,856	-2,856	-2,856
Lease liabilities	-2,483	-2,483	-2,033	-883
Accounts payable	-45,692	-42,608	-43,412	-45,470
Other current liabilities	-4,344	-4,344	-4,344	-4,344
Non-current liabilities	-138,220	-137,220	-135,420	-133,620
Long-term debt	-95,863	-95,863	-95,863	-95,863
Lease liabilities	-7,956	-6,956	-5,156	-3,356
Other non-current liabilities	-34,401	-34,401	-34,401	-34,401
Equity	295,440	272,388	268,120	285,149

Source: Company historic figures/Equity Development estimates

Key cashflow features include the improving operating result, with additional working capital to support growth and a level of CAPEX in line with the launch progression of BMK08 + CleanTreat®. We express net debt according to the following conventions:

- Cash and equivalents less loans and borrowings.
- Cash and equivalents less lease liabilities, loans and borrowings.

The former is the calculation used for the purposes of the company's \$95m NOK bond covenants, showing adequate headroom on cash and liquidity.

Cashflow				
y/e 30 Sept, £'000s	2020	2021E	2022E	2023E
Operating cash flow	-4,056	-2,258	13,395	36,571
Profit before tax	-31,949	-11,875	6,854	28,202
Tax credit	314	0	0	0
Non-cash adjustments	14,496	29,855	29,969	27,969
Change in working capital	5,475	-7,391	-10,488	-6,608
Interest paid	9,695	-6,846	-6,941	-6,992
Taxes paid	-2,087	-6,000	-6,000	-6,000
Investing cash flow	30,376	-24,386	-26,704	-24,534
CAPEX on tangible assets	-5,851	-19,200	-21,504	-19,354
CAPEX on intangible assets/capitalised R&D	-5,563	-1,000	-1,000	-980
Acquisitions/disposals	42,201	0	0	0
Other investing cash flows	-411	-4,186	-4,200	-4,200
Financing cash flow	30,133	-6,000	-10,000	-13,000
Proceeds from equity	41,666	0	0	0
Increase in loans	-1,754	0	0	0
Other financing includes payment of lease liabilities	-9,779	-6,000	-10,000	-13,000
Net increase in cash	56,453	-32,644	-23,309	-963
Exchange rate effects	-899	0	0	0
Cash at start of year	16,051	71,605	38,961	15,652
Cash at end of year	71,605	38,961	15,652	14,689
Net cash/(debt) at end of year cash less loans and borrowings	-27,114	-59,758	-83,067	-84,030
Net cash/(debt) at end of year, cash less loans, borrowings and lease liabilities	-37,553	-69,197	-90,256	-88,269

Source: Company historic figures/Equity Development estimates



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