

Benchmark Holdings



Progress on the road to profitability

4 December 2020

BMK transformed operations during FY20 against the challenging macro conditions brought about by Covid-19, completing a fundamental restructuring via nine disposals in a 12-month period. The latter raising up to £44m, with the closure of non-core or loss-making activities allowing a refocus of the business on aquaculture and a rebasing of the cost structure. Consequently, BMK has reinforced its financial position, boosted liquidity by £50m, and appears very well positioned to execute its growth strategy to achieve commercial returns. This leads us to upgrade our FY 21/22 AEBITDA forecasts and to expect a net profit in FY23.

- Financial results:** FY20 reflected £105.6m of continuing revenue, down 15% compared to £124m in FY 2019, with good performance in Genetics revenues up 5% (+11% on a constant currency basis), in contrast to a 22% drop in Advanced Nutrition and 5% fall in Animal Health. The pandemic has a strong impact on global demand and production across the shrimp sector for BMK, the impact was felt particularly on its Advanced Nutrition division. Salmon markets are less reliant on hospitality sector demand, and BMK's products are less sensitive to short term production swings, remaining more resilient.
- Solid financials:** with disposal proceeds of £38m, equity funding of £43m, a comprehensive review of expenditure in response to Covid-19, BMK transformed its financial position achieving a £50m improvement in liquidity, cash of £71.6m, compared to £16.1m at the end of 2019.
- Growth drivers:** with the business rebased the focus is on product launches, including BMK08 + CleanTreat® in 2021 CY, pending Market authorisation, having achieved key milestones in FY20: submission of the regulatory dossier and receipt of a positive opinion on Maximum Residue limits (MRL) from the European Medicines Agency. In Genetics, salmon eggs are set to drive further growth, leveraging profits through further increase in Salten production volumes (from 60% output), launch of Chile operations and early commercial revenues from SPR shrimp launch in FY21. In Animal Nutrition, innovation and a new distributor network in Vietnam are set to be key drivers.
- Upgraded estimates:** with market recovery timing still leaving room for uncertainty, we build in caution. Nevertheless, the net effect of new launches, cost containment and focused investment leads us to upgrade our AEBITDA forecasts for FY21 and FY22 by 5.9% and 9.7% respectively.

Conclusions

The Group is uniquely positioned to build selectively on its leading market positions in aquaculture, notably in developing innovative and sustainable products, diversifying its product range, coupled with a strong focus on profitability and from a position of improved balance sheet strength. **We also raise our retained value per share from 63p to 72p on our updated forecasts.** While the shares have performed well on the back of successful disposals, those gains look fully justified.

Summary forecasts

y/e 30 September £m	FY20	FY21e	FY22e	FY23e
Sales	105.6	121.6	149.8	167.7
AEBITDA*	14.5	14.8	24.7	27.0
Net cash/(debt)	-37.6	-65.2	-66.4	-61.6

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

Company Data

EPIC	BMK
Price	62p
52 weeks Hi/Lo	64p/25p
Market cap	£417m
ED Fair Value/share	72p

Share Price, p



Source: ADVFN

Description

Benchmark Holdings (BMK) helps deliver improved healthcare products and services to the Aquaculture industry focusing on Genetics, Advanced Nutrition and Animal 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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FY20 results

In the last year BMK has transformed operations and reinforced its financial position: to us it appears very well positioned to execute on its growth strategy.

BMK emphasises its targets of improving the return on investment, led by a fresh executive management team, Trond Wiliksen CEO, ex-Salmar and Septima Maguire formerly at Dechra Pharma. This will be achieved by both selective investment and achieving further cost savings up to £10m pa. from actions taken in 2020 including the sale of its vaccine toll manufacturing facilities.

The pandemic has had a strong impact on global demand and production for shrimp, one of the Company's main markets. For BMK, the impact was felt on its Advanced Nutrition division, which was hit by the slowdown in shrimp production and consumption, and an oversupply of core live feed product Artemia due to strong harvests and compounded by lower pricing. Salmon markets are less reliant on hospitality sector demand, remaining more resilient, and demand for the Company's genetically rich salmon eggs is also less sensitive to the short-term swings in market conditions.

BMK delivered £105.6m of continuing revenue, down 15% compared to £124m in FY 2019, with good performance in Genetics with revenues up 5%, in contrast to a 22% drop in Advanced Nutrition and 5% fall in Animal Health. FY19 revenues were rebased to provide like-for-like comparison, stripping out further disposals in Animal Health.

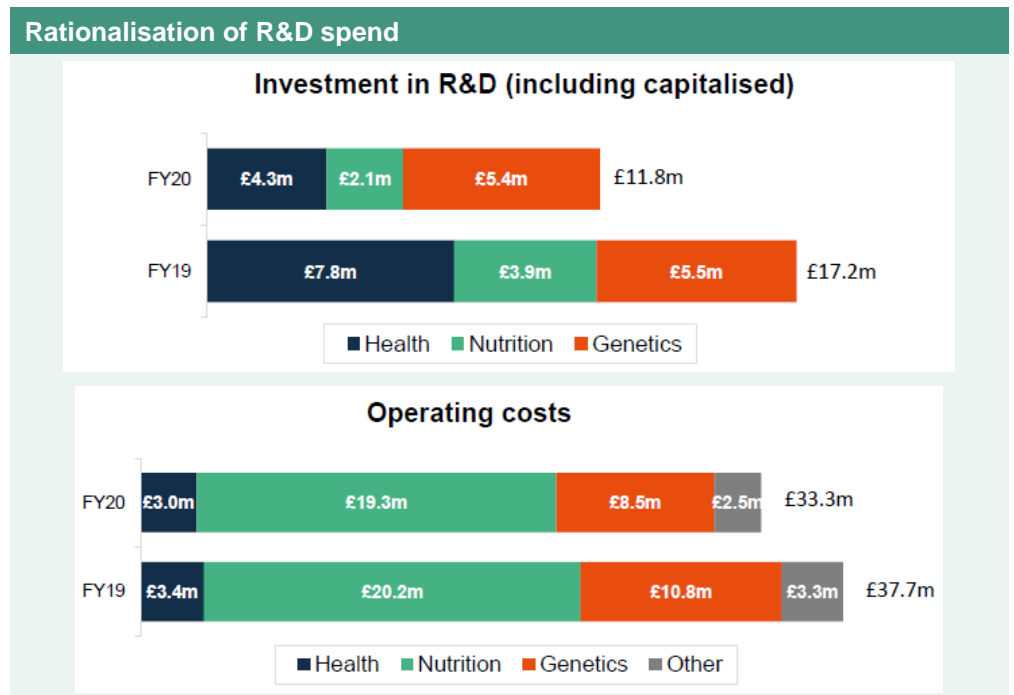
Group continuing and discontinued P&L summary

£m	FY20	FY19*
Total revenue includes discontinued operations	120.4	148.7
Revenue - continuing operations	105.6	124.0
Net loss - continuing operations	-22.8	-59.1
Net loss - discontinued operations	-9.2	-24.0
Total loss	-31.9	-83.1
AEBITDA continuing operations	14.5	21.3
Exceptional items	-2.1	-0.6

* restated to exclude vaccine activities discontinued in 2020

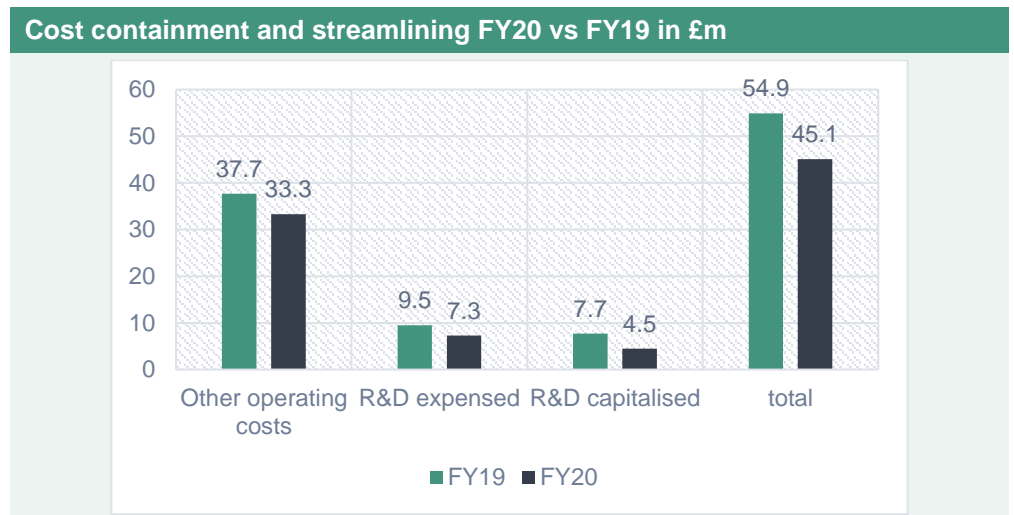
Overall adjusted EBITDA from continuing operations fell from £21.3m in FY19 to £14.5m in FY20, from £18.6m to £11.2m stripping out fair value assessment of biological assets (£3.3m/£2.7m, FY20/FY19) based on lower revenues and margins in Advanced Nutrition, partly offset by the strong Genetics performance, as well as cost containment measures to mitigate against the pandemic and arising from restructuring.

R&D streamlining led to an overall £5.4m or 31% reduction in R&D spend:



Source: company data/Equity Development

In FY20, Other Opex fell from £37.7m in FY19 to £33.3m and expensed R&D fell from £9.5m to £7.3m, so that total Opex fell 12%, or 18% including capitalised R&D.



Source: company data/Equity Development

Disposals and restructuring

The company has gone through a period of fundamental transformation during FY20 achieved via restructuring to focus on aquaculture and to divest non-performing and non-core assets including Knowledge Services and a significant part of the activities in Animal Health, including the vaccine facility to Catapult Gene and Cell Therapy and closure of in-house vaccine development for Companion Animals.

This took total disposal proceeds to £38.5m in FY20, out of a total up to £44m.

Cost containment and lower levels of activity were key contributors to a contained cash outflow of £7.2m in FY20. Across the board, the Company addressed comprehensively each line of expenditure, paused discretionary spend and exercised caution on investment in CAPEX and intangible assets. As a result, BMK transformed its financial position - the bridge to **an overall £50m reduction in net debt** is illustrated as follows:



Source: Company data

Adding in the proceeds of BMK's £43m February gross equity raise with disposal proceeds, meant that end of year **cash and equivalents stood at £71.6m**, compared to £16.1m at end 2019. Liquidity including the £11.6m RCF facility rose to £83.2m and as a consequence, **net debt fell substantially to £37.6m** from £87.1m.

Given the renewed focus, selective investment in organic drivers working towards self-sustaining business is the target, and the disposals and exit from loss making activities, have kick-started the path towards annual cost savings of up to £10m pa.

Divisional summary

Continuing revenues / AEBITDA		
£m	FY20	FY19
Revenue		
Advanced Nutrition	59.4	76.4
Genetics	41.5	39.7
Health	5.2	8.7
All other segments	-0.5	-0.8
TOTAL	105.6	124.0
Adjusted EBITDA		
Advanced Nutrition	6.4	16
Margin	11%	21%
Genetics	14.4	10.1
Margin	35%	25%
Health	-3.7	-2.1
All other segments	-2.6	-2.7
TOTAL	14.5	21.3

Source: Company

Advanced Nutrition

The division maximised its commercial prospects in a challenging year and, despite the 22% fall in revenues, it remained profitable. That was because of its product portfolio spread, consisting of Artemia and the more resilient health products / specialist diets.

Looking ahead to potential market recovery, BMK adopted a pricing strategy in Artemia to maintain its share and strengthen its position, with lower pricing in certain markets. Health products, notably proprietary probiotics and pond management products remained more resilient, a product segment that is a target for growth in the hatchery and grow out segments. BMK ran successful trials of probiotics and environmental protocols with Vietnam's leading hatchery producer with a view to building up the segment. The company also made further advances in the development of its 100% Artemia replacement diet in FY20.

In response to market conditions, BMK also enhanced technical support for its products and its online market presence and launched an improved sustainable Artemia nauplii separation tool Sep-Art.

Genetics

An exceptional year for Genetics division which grew revenues to £41.5m from £39.7m while driving up a substantial **jump in adjusted EBITDA margin from 19% to 27%** (adjusting for the fair value uplift in biological assets). There were a number of factors driving Genetics growth, notably its products remain more resilient to short term swings in output and demand, given that they form part of longer production cycle. In addition, salmon demand remained relatively resilient compared to shrimp for example. So growth in Genetics was driven by sale of premium priced salmon egg products on flat overall volumes. This included a pick-up in exports to Scotland from Stofnfiskur, the company's bio-secure facility in Iceland during import restrictions from Norway to EU.

FY20 was also the first year of year round salmon egg supply from Salten, Norway, with 79 million eggs sold reaching breakeven, as BMK leveraged its fixed cost base which helped boost gross margin for the Division. The company also invested in completion of infrastructure at its Chile facility in advance of launch target in FY2021, strategically significant for the group given that Chile is the world's second largest producer of salmon after Norway.

BMK delayed launch of its disease resistant SPR shrimp ahead of an eventual recovery in markets, but made further preparations ahead of full market launch, including completing the first test market sales of broodstock shrimp, continued trials in China, Indonesia and Thailand while moving forward with construction of a multiplication centre in Thailand, with a JV partner, ahead of anticipated commercial launch in 2021.

With the focus on selective investment for commercial returns, R&D expenditure was £5.4m, including £1.6m of capitalised spend ahead of market launch of the SPR shrimp. BMK also continued investment in a Tilapia breeding programme, and seeks partners to scale up development plans. Tilapia has relatively low production costs compared to other species, and its growing popularity among consumers are among the incentives for investment.

Animal Health

This division was the key focus of Company restructuring, a total of five businesses divested for a total proceeds of up to £44m including the sale of veterinary business FishVet to Zoetis in July 2020 for c £14.5m and the sale of the vaccine manufacturing facility to Catapult Gene and Cell Therapy in July 2020 for net proceeds of £12m. The company also exited its companion animal vaccines in the period.

A restructuring programme aiming to deliver **£10m in annual savings from 2021** is well advanced following the sale of the vaccine manufacturing facility. With disposals complete, this leaves room for a keen focus on its core aquaculture operations, notably on innovative sea lice treatment CleanTreat® + BMK08 which

is **on track for launch in Q2 2021 CY**. Advances included submission of the regulatory dossier and receipt of a positive opinion on MRL from the European regulator, a key milestone in the pathway towards Marketing Authorisation by the Norwegian Medicines agency initially. In preparation for launch, the Company constructed a second CleanTreat® unit.

Animal Health continuing revenues fell from £8.7m in FY 2019 to £5.2m in FY20, while EBITDA loss widened from £2.1m to £3.7m, owing to the fall in toll manufacturing revenues (discontinued operations), as well as a fall away in trial revenue for BMK08 (paid trials were completed during 2019). Divisional revenue was derived chiefly from Salmosan in Chile, although in FY20 the product encountered generic competition as well as lower industry demand. BMK invested £4.3m in Animal Health R&D in FY20. With CleanTreat approaching launch, the outlook is firmly on selective investment including in a salmon vaccines pipeline, likely through partnerships.

Outlook and growth prospects

With revenues now rebased, macro prospects are firmly rooted around the timing of a market recovery and with timing uncertain impacting Advanced Nutrition in particular. The main growth drivers are:

Genetics – continuing growth, with industry outlook relatively stable and driven by salmon egg sales, notably continuing ramp up of production at Salten and initial sales from the Chile facility in FY21. We also build in early commercial revenues from SPR shrimp launch in FY21.

Advanced Nutrition – despite a cautious outlook in FY21, rebuilding of market share and margins in Artemia, and growth of the diversified portfolio into hatchery and nursery via high margin products, can be key drivers of recovery. Participation in a broader distribution network in Vietnam can be the source of additional revenue streams along with launch of an 100% Artemia replacement diet.

Animal Health – CleanTreat + BMK08 launch for one quarter of FY21 (in Q2 2021 CY), helping to drive up margin for the division, with full year effect in FY22.

Factoring in the above, the changes illustrate the Company's sustained policy on cost containment mean that despite the fall in our revenue estimates in Advanced Nutrition AEBITDA estimates remain 6% higher in FY21 compared to our previous forecasts. Genetics, on the other hand, is forecast to continue its strong trajectory with both revenue and AEBITDA rising while in Animal Health we factor in some caution along with market conditions and recovery.

Divisional P&L forecast changes			
£m		FY21	FY22
Advanced Nutrition			
<u>Old</u>	Rev	64.5	68.4
	Adj EBITDA	6.2	7.6
<u>New</u>	Rev	60.0	65.6
	Change	-7%	-4%
	Adj EBITDA	6.5	8.4
	Change	6%	11%
Genetics			
<u>Old</u>	Rev	46.3	52.3
	Adj EBITDA	11.2	13.0
<u>New</u>	Rev	48.5	64.0
	Change	5%	22%
	Adj EBITDA	11.7	15.1
	Change	4.3%	15.9%
Animal Health			
Old	Rev	23.8	35.8
	Adj EBITDA	-1.7	3.6
New	Rev	15.6	22.2
	Change	-35%	-38%
	Adj EBITDA	-1.7	2.9
	Change	-1%	-19%

Source: Equity Development

Costs – we estimate that the Company will retain costs in line with revenues and with some additional expensed R&D, to maintain a level of investment at c 9% of revenues, with a switch from capitalised to expensed revenue (market launch of SPR Shrimp in 2021).

Despite the drop in revenues, Company cash conservation and the focus on continuing aquaculture operations allows investment in organic growth, maintenance of the level of innovation needed to sustain future growth, and investment in product launches.

This translates to a 5.9% improvement in FY21 AEBITDA against an 8% drop in Group revenues.

We also note that the proportion of higher margin Genetics revenues is forecasts to grow compared to total revenues – as well as projected improvement in gross margin in Animal Health – along with CleanTreat/BMK08 launch, helping to drive the improvement in group margin, and cashflow generation.

Furthermore, our estimate changes provide a 21% and 20% improvement in our year end 2021/2022 net debt forecasts.

Group forecast changes		
£m	FY21	FY22
OLD		
Sales	132.1	154.5
Adjusted EBITDA	14.0	22.5
Net cash/(debt)	-82.1	-82.6
NEW		
Sales	121.6	149.8
Adjusted EBITDA	14.8	24.7
Net cash/(debt)	-65.2	-66.4
CHANGE		
Sales	-8.0%	-3.0%
Adjusted EBITDA	5.9%	9.7%
Net Cash/(Debt)	21%	20%

Source: Equity Development

Group Summary

We forecast a 16% increase in FY21 revenues, to £121.6m up to £167.7m in FY23 at a FY20-23 CAGR of 17%. Along with the rise, FY21 AEBITDA increases to £14.8m at a margin of 12% and to £24.7m in FY22 alongside higher margin product launches in Animal Health and given the % margin improvement in Advanced Nutrition and the ramp up in capacity in Genetics.

We estimate that Group cost containment alongside revenue growth leads to a net profit in FY23 of £3.6m.

INCOME STATEMENT				
y/e 30 September, £'000s	2020	2021E	2022E	2023E
Revenues	105,565	121,566	149,768	167,743
Cost of goods sold	-50,603	-57,124	-70,155	-79,683
Gross Profit	54,962	64,442	79,613	88,060
Admin Expenses	-33,337	-41,385	-46,056	-51,400
Share based payments	-1,669	-1,669	-1,669	-1,669
R&D	-7,282	-8,279	-8,877	-9,621
Net share of profit of equity-accounted investees	150	0	0	0
Exceptional items	-2,114	0	0	0
EBITDA	12,379	14,779	24,681	27,038
Adjusted EBITDA	14,493	14,779	24,681	27,038
Operating Loss	-10,874	-8,521	1,081	10,906
Depreciation	-6,640	-8,155	-6,372	-5,201
Amortisation	-16,613	-15,145	-17,228	-10,932
Interest income	-11,697	-6,707	-5,911	-5,823
Loss before tax	-22,571	-15,228	-4,829	5,083
Current tax income	-204	-4,500	-4,000	-1,525
Net loss from discontinued operations	-9,174	0	0	0
Net loss continuing operations	-31,949	-19,728	-8,829	3,558
EPS (p)	- 5.26	- 2.95	- 1.32	0.53
Average no. of shares	625	668	668	668
Gross margin	52%	53%	53%	52%
EBITDA margin	12%	12%	16%	16%
Adjusted EBITDA margin	14%	12%	16%	16%

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	125,783	138,682	152,961
Cash and cash equivalents	71,605	44,007	42,737	47,534
Accounts receivable	39,371	40,300	49,649	55,608
Inventories	18,926	21,128	25,948	29,472
Biological & agricultural assets	15,848	20,348	20,348	20,348
Non-current assets	332,938	328,838	313,258	305,106
Property, plant & equipment	65,601	74,646	74,294	75,113
Intangible assets	247,003	233,858	218,630	209,659
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	-49,367	-53,846	-54,746
Short-term debt	-5,339	-5,339	-5,339	-5,339
Accounts payable	-45,692	-39,684	-44,163	-45,063
Other current liabilities	-4,344	-4,344	-4,344	-4,344
Non-current liabilities	-138,220	-138,220	-138,220	-138,220
Long-term debt	-103,819	-103,819	-103,819	-103,819
Other non-current liabilities	-34,401	-34,401	-34,401	-34,401
Equity	295,440	277,381	270,221	275,448

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 CleanTreat – BMK08.

Cashflow				
y/e 30 Sept, £'000s	2020	2021E	2022E	2023E
Operating cash flow	-4,056	-3,898	6,749	12,777
Profit before tax	-31,949	-8,521	1,081	10,906
Tax credit	314	0	0	0
Non-cash adjustments	14,496	24,969	25,269	11,252
Change in working capital	5,475	-9,139	-9,690	-8,582
Interest paid	9,695	-6,707	-5,911	727
Taxes paid	-2,087	-4,500	-4,000	-1,525
Investing cash flow	30,376	-23,386	-8,020	-7,980
CAPEX on tangible assets	-5,851	-17,200	-6,020	-6,020
CAPEX on intangible assets/capitalised R&D	-5,563	-2,000	-2,000	-1,960
Acquisitions/disposals	42,201	0	0	0
Other investing cash flows	-411	-4,186	0	0
Financing cash flow	30,133	0	0	0
Proceeds from equity	41,666	0	0	0
Increase in loans	-1,754	0	0	0
Other financing cash flow	-9,779	0	0	0
Net increase in cash	56,139	-27,284	-1,271	4,797
Exchange rate effects	-899	0	0	0
Cash at start of year	16,051	71,291	44,007	42,737
Cash at end of year	71,291	44,007	42,737	47,534
Net cash/(debt) at end of year	-37,553	-65,151	-66,421	-61,624

Source: Company historic figures/Equity Development estimates

Inherent value

While the pandemic has interrupted the dynamics of the industry, notably in the food service sector, the fundamental drivers of the food sector and the ongoing trend for farmed as opposed to wild catch fish remain firmly in place supporting Benchmark's prospects.

The Group is uniquely positioned to build selectively on its leading market positions in aquaculture, notably in developing innovative and sustainable products as well as diversifying its product range, coupled with a strong focus on profitability and from a position of improved balance sheet strength.

We increase our retained value per share from 63p to 72p, updating for net debt, and the changes discussed above. So, while the shares have performed well recently on the back of successful disposals, they still remain below our retained value per share. Furthermore, we note that peer group including Dechra Pharma, veterinary pharmaceuticals and Genus, animal genetics, are attracting valuations of EV/FY21 Sales of 6.6x and 4.8x respectively compared to BMK at c 3x, illustrating the rerating potential once CleanTreat® + BMK08 Marketing Authorisation is achieved and risk unwinds further and as Animal Health and Genetics sales grow in proportion to total sales.

Lastly, we are encouraged by Director and related party share purchases in recent days.



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