

## Streamlined for growth and efficiency

3 June 2020

**H1 2020 trading in Benchmark's Genetics division was resilient in face of challenges posed by the pandemic, while in Advanced Nutrition recent difficulties were compounded by the shrimp sector's exposure to the food service industry. The ongoing restructuring and cost containment program, targeting £10m+ of annual savings, are being enacted under the guidance of a newly appointed aquaculture specialist as CEO. Factoring in disposals and efficiencies, our new forecasts indicate liquidity remains well within its NOK bond-lending covenant terms. A key near term focus includes preparation for launch of BMK's innovative sea lice treatment of CleanTreat® + BMK08, providing game-changing revenue prospects.**

Group revenues fell 15% in H1 2020 to £57.0m (vs £67.4m in H119) owing to challenging conditions in **Advanced Nutrition** compounded by COVID-19. So divisional sales fell 23.5% to £31.3m (H1 2019: £40.9m) reflecting sustained weakness in shrimp markets along with competitive conditions in Artemia. Weakness in Artemia and Diets was a contrast to resilient Health sales (up 25%).

**Genetics:** H1 2020 revenues were steady at £22.5m vs the prior period, helped by bringing outsourced ova production in-house to the state-of-the-art Salten facility with higher pricing for BMK's premium, genetically rich eggs. Adjusted EBITDA rose 75% to £8.6m in H1 2020 while BMK advanced its capabilities in the world's top two salmon producing countries, Chile and Norway, as well as moving forwards with its SPR shrimp.

**Animal Health:** H1 2020 revenues fell from £7.2m to £6.7m owing to a reduction in toll manufacturing operations (now under review). Adjusted EBITDA loss widened from £6.1m to £7.7m due to lower sales and an increase in vaccine R&D and activities to prepare for the launch of CleanTreat® + BMK08, anticipated in Q2 of 2021 CY, subject to regulatory approval. The innovative treatment has annual peak sales estimate of £50m in the initial market of Norway, and is set to be transformative for the Group, driving up a rapid scale up in revenues from FY22.

After reviewing forecasts to reflect cost-cutting initiatives and ongoing restructuring (with the completion of up to £30m of disposals targeted in FY20) and with the renewed selectivity of investment in ongoing R&D to maximise returns, plus launch of CleanTreat/BMK08, our forecasts reflect a transition to positive cash flow generation from FY21/22.

**The Group is making fundamental changes to refocus and streamline the business and maximise returns, with prospects underpinned by disruptive new products and the underlying fundamental drivers of the food sector.**

### Summary Forecasts

y/e 30 Sept, £m	FY18	FY19	FY20e	FY21e	FY22e
Sales	131.6	127.3	113.1	136.7	158.2
Adjusted EBITDA*	19.1	12.1	4.1	15.6	24.0
Net cash/(debt)	-55.7	-87.1	-56.7	-82.6	-81.5

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

### Company Data

EPIC	BMK
Price (last close)	31.5p
52 weeks Hi/Lo	59p / 23p
Market cap	£200m

### Share Price, p



Source: ADVFN

### Description

Benchmark Holdings (BMK) helps deliver improved healthcare products and services to the 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.

You can see the Executive Team present to investors post results [HERE](#)

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## Steering towards growth and recovery

The Company is navigating the challenges of COVID-19 for the aquaculture industry through a business continuity plan which has resulted in continuity of supply and service to customers and a vigorous program of restructuring to ensure ongoing financial liquidity, augmented by cost containment. As a result, it is well positioned to continue to leverage its leading positioning ahead of the anticipated launch of revolutionary sea lice treatment BMK08 + Clean Treat®.

### A renewed and focused Management team

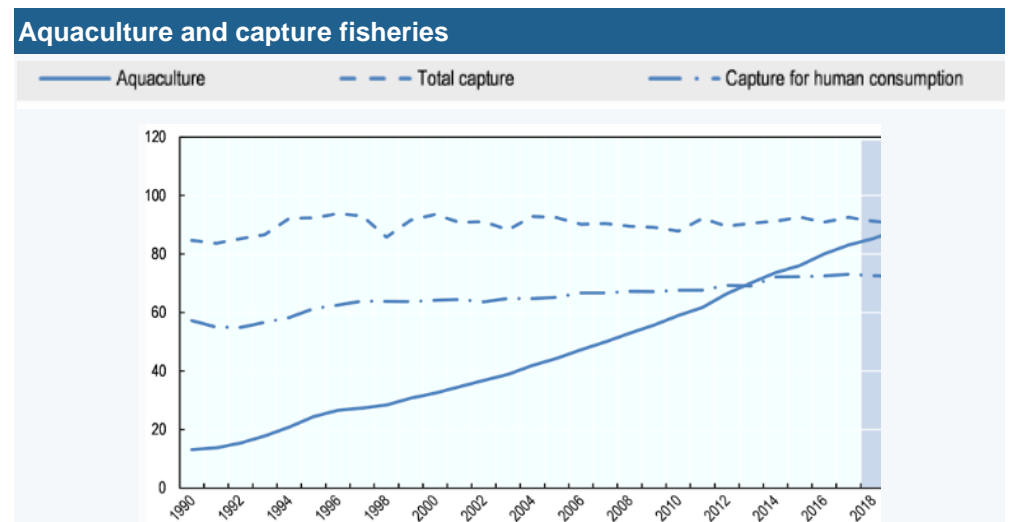
BMK recently reinforced its Management team, appointing **Trond Williksen** as CEO, who brings extensive experience in the international aquaculture and seafood industries, including most recently as CEO of Norwegian aquaculture specialist, SalMar ASA. Significantly, he was closely involved in initial trials of Clean Treat® + BMK08.

He joins CFO **Septima Maguire** (ex-Dechra Pharma) who has brought in swift measures to ensure the ongoing liquidity of the Group as well as a much more selective focus on future investment to optimise returns since taking the reins in November. Williksen also joins pharma industry veteran and Chairman **Peter George** who has won respect in his career for 'walking the talk': overall the prospects for successful execution look encouraging.

### Underlying drivers and market backdrop

Underlying aquaculture industry drivers remain firmly in place, including the growth of farmed fish overtaking wild catch fish as a major source of protein. 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 are all factors supporting the sector.

**Sustainability** remains a headline theme in health and agricultural policy, echoing the current concerns over environmental issues, animal welfare and the over-use of antibiotics. Collectively, the Group's products fall into categories that address these key concerns including providing solutions to help clients meet regulatory standards and goals.



Source: OECD/FAO (2018)

BMK has a leading position and platform to meet some of the biggest demands of the salmon and shrimp industry including addressing sea lice - one of the most economically damaging threats to the salmon production sector and eliminating water pollution from medicinal residues.

Hence its growth strategy is via organic means, participating in the long-term fundamental drivers of the food supply chain by maximising its prospects in current products in all markets. It is also strategically well positioned to diversify into new species.

## Strategic aims

The Group's immediate commercial and financial aims are:

- Completion of restructuring process including up to £30m in disposals during FY20, plus further exits. The Company has announced a review of its vaccine operations including its toll manufacturing activities at its Braintree facility
- A vigorous cost reduction program to target £10m+ of annual savings
- Focus on the commercial delivery of BMK08 + CleanTreat® initially in the key Norwegian market
- Ramp up production of salmon eggs in Norway and expand in Chile – the world's first and second largest salmon producing countries.

As shrimp markets recover the Company will launch its disease resistant shrimp and its artemia replacement product.

**The clear aim is to strengthen the Aquaculture focus by exiting all non-core operations.**

## H1 2020 summary

The 15% H120 fall in Group revenue from continuing operations to £57.0m (vs £67.4m in H119) was caused by a fall in Advanced Nutrition revenues due to weak shrimp markets and Artemia oversupply – down from £41m in H119 to £31m.

Genetics remained more defensive owing to the larger balance of retail demand in salmon: meaning that short term swings in demand for salmon from the catering sector are not affecting egg sales today owing to the longer (2.5-3 year) production cycle of salmon. Gross margins were boosted by the scale up at the Salten land-based ova facility which drove an increase in margin from 54% to 72% for the division, and from 49% to 51% for the Group as a whole.

Total Opex of £20m fell 1% vs H119 with R&D broadly flat at £8.7m – and as a result adjusted EBITDA from continuing operations fell to £2.8m from £7.3m. A wider pre-tax loss of £18.9m (H1 2019: £6.2m) was partly due to an increase in net finance costs to £9.6m (H1 2019: £2.1m).

Net debt at the half year was £55.8m (FY 2019: £87.1m) arising from operational cash outflow of £1.8m and Capex of £6.1m, offset by receipt of the final £6.9m instalment from the dissolution of the Chile JV, and the £42m net proceeds from the February equity raise. Overall liquidity, including cash of £51.6m plus a £16m loan facility, stood at £67.6m as at 27 May 2020.

The emphasis remains on the Group restructuring with four disposals now completed, including two in H120 generating £1.5m out of a total of £27-30m, as well as a review of its vaccine strategy and vaccine manufacturing activities.

The target for commercial launch of BMK08 and CleanTreat® is Q2 of 2021 (calendar year). The regulatory process is ongoing despite the pandemic and commissioning of infrastructure has commenced.

#### Group financial highlights H120

£m	H120	H119 restated	Q220	Q219
Revs continuing	57.0	67.4	32.0	37.7
Adjusted EBITDA	2.8	7.3	4.6	5.2
Loss before tax	-18.9	-6.2	-13.2	-0.2
Loss continuing ops	-19.3	-7	-14.2	-0.7
Loss discontinuing ops	-18.8	-9.1	-13.4	-1.4
Basic loss per share, p	-3.25	-1.71	-2.18	-0.29
Net debt	-55.8	-65.5		

Source: Company

### Impact of the pandemic

COVID-19 has had a significant impact on both global seafood demand and pricing, which interrupted supply in some markets. BMK's diversified position has provided some insulation from the pandemic.

The drop in demand resulted in over-supply of live fish stocks and a knock-on effect on costs, notably in feed. For BMK this exacerbated ongoing challenges in Advanced Nutrition owing to the excess supply of Artemia and a material price fall in shrimp markets where over 60% of demand is related to food service sector. The response to the pandemic led to a radical destocking in ponds for some producers.

The outlook in shrimp is for a very gradual recovery, which some analysts estimate will take years to take effect, although there are currently some early signs of growth in demand in China and Italy. However, a combination of hatcheries still operating at very limited capacity and low inventories provides potential for some price recovery in markets where the food service and catering sector are beginning to emerge from lockdown.

As we have said, Genetics has been more resilient owing to its retail exposure and longer production cycle which those buying eggs today looking to the long-term. Production and distribution of salmon eggs has been **uninterrupted** through the Covid-19 pandemic and the Company has a strong order book 'with 100% of our Salten capacity for off-season eggs sold-out'.

The company moved quickly to contain risks for its staff and customers by implementing staggered shift patterns and working from home for office based staff. It also implemented cost containment measures either by furloughing staff where possible or seeking voluntary salary reductions in other cases.

### H120 and Q2 - Divisional P&L summary

£m	H120	H119 restated	Q220	Q219
<b>Revenue</b>				
Advanced Nutrition	31.3	40.9	19.9	25
Genetics	22.5	22.6	10.4	10.8
Animal Health	6.7	7.2	3.3	3.6
<b>Adj EBITDA</b>				
Advanced Nutrition	3.3	9.6	3.7	6.9
Genetics	8.6	4.9	5.2	1.7
Animal Health	-7.7	-6.1	-3.7	-2.7

Source: Company

### Advanced Nutrition

H1 revenues fell 23.5% to £31.3m from £40.9m in the previous period, due to ongoing weakness in shrimp markets which depressed prices, and continued competition in Artemia leading to significant price and volume erosion. Artemia revenues fell 32%, Diets fell 23% while Health sales remained resilient and increased by 25%.

### Genetics

H1 2020 revenues were steady at £22.5m (H1 2019: £22.6m) and margins significantly higher driven by bringing outsourced salmon ova production in-house to the Salten facility in Norway, leading to higher pricing for BMK's premium, genetically rich eggs, partly offset by adverse forex movements. Adjusted EBITDA rose 75% to £8.6m in H1 2020 despite the rise in R&D invested £3.6m (H1 2019: £1.9m) in breeding programs including the SPR shrimp. Operational highlights included:

- The signature of a lease on a new grow-out facility in Chile paving the way for initiation of local production of salmon eggs in 2021.
- Initial test market sales of SPR shrimp in China and Indonesia with trials ongoing in China, Thailand, Vietnam and Peru. Construction of the multiplication centre with a local partner in Thailand in preparation for commencement of production in 2020 CY.

### Animal Health

H1 2020 revenues fell from £7.2m to £6.7m owing to a reduction in toll manufacturing, now under review. H1 2020 adjusted EBITDA losses on this basis widened from £6.1m to £7.7m. The Company made good progress towards commercial launch for BMK08, development of the operating model for CleanTreat® and regulatory submission for BMK08 and prepared for procurement of the next CleanTreat® system. BMK also initiated a review of its vaccine strategy with a view to prioritising commercial prospects and maximising returns.

### Outlook

Group prospects are linked to the continued strength of the salmon markets and a recovery in the shrimp markets underpinned by the ongoing growth in aquaculture, coupled with a drive to combat and prevent disease.

## Divisional Review

### Advanced Nutrition

BMK is a leading producer and distributor of Artemia which is a staple live hatchery feed for the shrimp industry sourced from primarily from the Great Salt Lake in the US.

The broader outlook for the shrimp sector is for continuing professionalisation and adoption of new technologies and feed ingredients to ensure optimal nutrition, at an acceptable cost and with adequate sustainability standards.

The growth prospects lie in expanding into the nursery and grow-out segments with the Company’s health products and continuing to diversify into specialist diets and replacement feed. BMK can also continue to innovate to increase its product range in health – for example, probiotics are remarkably resilient value add products.

The nutrition market is dominated by large corporations including Skretting (a Nutreco company) diversified across 7 species including shrimp, focusing on hatchery feed and salmon. BioMar is a manufacturer of feed for industrial fish farming and part of the Danish conglomerate Schouw & Co. EWOS the aquaculture feed specialist was acquired by animal nutrition giant Cargill for €1.4bn in 2015.

### Genetics

BMK is a leading producer of genetically enriched salmon ova; SalmoBreed Salten which was officially opened in May 2019 and is BMK’s world leading state of the art land-based facility, provides **all year-round** supply of ova. Based in Norway the world’s largest salmon producing country the plant has capacity to deliver 150 million ova per year.

Salten production facility, Norway



Source: Company

The site uses genomic selection techniques to breed fish with traits including high resistance to some of the most prevalent salmon diseases as well as to sea lice, using innovative techniques. **Just 12 months after opening, the facility is on track to reach full capacity during CY 2020 coupled with a strong visibility on future orders.**

In Chile, BMK’s Ensenada land-based, bio-secure salmon breeding facility is in **the world’s second largest salmon producing country**. It works in conjunction with the Company’s land-based breeding operations in Stofnfiskur in Iceland and with Akvaforsk Genetics.

The Ensenada facility is fully operational and provides capacity for maturation of broodstock, spawning and fertilisation of eggs, and it is expected that production from the new facility will commence in 2021 providing a local supply for this important market.

The Company also meets demand from Scotland for its genetically rich salmon ova produced at its biosecure land-based facility in Iceland.

**Innovation**

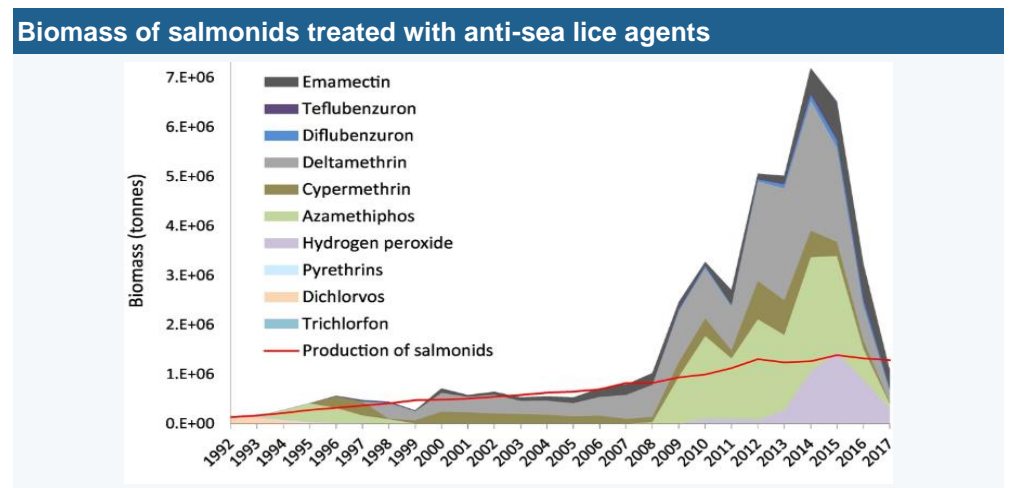
Future products include the disease resistant **SPR shrimp** with trials underway and potential peak sales seen of £35m. The launch timing and strategy has been pushed back, dependent on shrimp market recovery. Prospects are linked to the potential to improve on a relative lack of professional genetics within shrimp production compared to salmon production.

BMK is one of four key players in salmon genetics along with Hendrix, AquaGen and Mowi.

**Animal Health**

A key opportunity is the forthcoming launch of CleanTreat® + BMK08 a novel medicinal treatment to combat sea lice, anticipated in Q2 2021 CY, one of the main biological challenges in salmon farming. CleanTreat® is a proprietary system that removes medicinal residues from treatment water, and which is integral to the delivery of product candidate BMK08.

Sea lice (*Lepeophtheirus salmonis*) have plagued salmon aquaculture for years affecting profits and wild salmon stocks while causing devastating cross-farm infections. Sea lice are a major contributor to the cost of production and excess fish mortality, **costing Norway’s salmon sector alone over £460m per annum**.



Source: Anti-sea lice agents in Norwegian aquaculture; surveillance, treatment trends and possible implications for food safety; Hannisdal et al, Aquaculture, May 2020

Government policy treads a balance between maintaining the permitted threshold of lice per salmon and over-treatment. This is because many treatments cause stress, residue and eventually resistance. **However, CleanTreat® + BMK08 addresses all these concerns, while still being 99% effective in trials to date.**

For this reason, it offers a ground-breaking solution to the sea lice issue as it addresses **environmental contamination**, one of most pressing societal concerns in sustainability as well as welfare and treating the disease safely. The industry has seen a rapid change in the treatment approach in the past decade moving away from harsh and invasive chemical treatments, also reflecting concerns over food safety.

### **Pipeline under review**

We await news on the outcome of BMK's review of its vaccines strategy. The emphasis is on selective investment in R&D as well as a focus on aquaculture. This includes ongoing discussions on out-licensing its companion animal products.



## Financials

We have reviewed and reinstated our FY20-22 forecasts. The following table illustrates the change compared to our last published forecasts. Headline changes include lowering our **Advanced Nutrition** revenue estimates based on the cautious outlook and a very gradual recovery in shrimp markets. However, we also factor in a £10m drop in Opex in the period for the division reflecting the company's cost cutting and wait-and-see policy on investment.

We trim our **Genetics** revenue forecasts by average 7% per annum, but also cutting an aggregate of £9m in costs across the division over the forecast period, resulting from the Company's decision to push back the commercial launch of the SPR shrimp to coincide with the recovery in the market.

In **Animal Health** the outlook reflects the ramp up in CleanTreat® + BMK08, with an aggregate £4m increase in revenues seen over the period.

In FY20 the relatively high COGs in relation to revenue is a result of the drop in revenue and fixed costs in the company's manufacturing footprint. We factor in a £12m cut in Opex, largely due to reduced R&D spend over the forecast period FY20-22.

Divisional forecast changes				
y/e 30 Sept, £m		FY20e	FY21e	FY22e
<b><u>Advanced Nutrition</u></b>				
Old	Rev	85.0	88.0	95.0
	Adj EBITDA	14.3	15.0	17.0
New	Rev	62.0	64.5	68.4
Change		-27%	-27%	-28%
	Adj EBITDA	7.3	6.2	7.6
Change		-49%	-59%	-55%
<b><u>Genetics</u></b>				
Old	Rev	44.1	55.1	61.7
	Adj EBITDA	10.6	12.2	13.1
New	Rev	42.1	50.9	56.0
Change		-5%	-8%	-9%
	Adj EBITDA	11.4	12.9	14.6
Change		8.4%	6.2%	11.3%
<b><u>Animal Health</u></b>				
Old	Rev	13.7	20.4	30.6
	Adj EBITDA	-10.8	-8.2	-1.8
New	Rev	9.5	23.8	35.8
Change		-30%	17%	17%
	Adj EBITDA	-11.1	-1.7	3.6
Change		-2%	79%	295%

Source: Equity Development / \*includes discontinued revenues / \*\*excludes discontinued revenues

Over time, CleanTreat®/BMK08 has the potential to achieve mid 60% adjusted EBITDA margins that can drive up the profitability of the Animal Health division, particularly given the further opportunity to launch in markets beyond Norway.

<b>Summary of revised Divisional forecasts</b>			
<b>y/e 30 Sept, £m</b>	<b>FY20e</b>	<b>FY21e</b>	<b>FY22e</b>
<b><u>Advanced Nutrition</u></b>			
Revenue	62.0	64.5	68.4
Growth	-19%	4%	6%
Gross Profit	29.1	30.2	32.3
Gross Margin	47%	47%	47%
Adjusted EBITDA	7.3	6.2	7.6
Adjusted EBITDA Margin	12%	10%	11%
<b><u>Genetics</u></b>			
Revenue	42.1	50.9	56.0
Growth	6%	21%	10%
Gross Profit	26.5	30.8	33.6
Gross Margin	63%	60%	60%
Adjusted EBITDA	11.4	12.9	14.6
Adjusted EBITDA Margin	27%	25%	26%
<b><u>Animal Health</u></b>			
Revenue	9.5	23.8	35.8
Growth	-22%	150%	50%
Gross Profit	0.0	8.9	19.7
Gross Margin	0%	37%	55%
Adjusted EBITDA	-11.1	-1.7	3.6
Adjusted EBITDA Margin	-116%	-7%	10%

Source: Equity Development

## Group forecasts

At a Group level, the summary of changes is shown as follows.

Summary of Group Forecast changes			
y/e 30 Sept, £m	FY20e	FY21e	FY22e
<b>OLD</b>			
Sales	141	162	187
Adjusted EBITDA	10.2	17.3	31.0
Net cash/(debt)	-65.7	-87.1	-78.5
<b>NEW</b>			
Sales	113.1	136.7	158.2
Adjusted EBITDA	4.1	15.6	24.0
Net cash/(debt)	-56.7	-82.6	-81.5
<b>CHANGE</b>			
Sales	-19.7%	-15.4%	-15.6%
Adjusted EBITDA	-59.7%	-9.6%	-22.4%
Net cash/(debt)	14%	5%	-4%

Source: Equity Development forecasts/company historic figures

Our expensed operating cost estimates are significantly lower after the amendments FY20-22 a total c £38m drop in expenses, including capitalised R&D, £32m excluding capitalised R&D, and these cost containment measures leave our **forecast net debt levels materially unaffected** by the loss of revenues from Advanced Nutrition.

Notably, we factor in significant scale-up in revenue from FY22 based on the rapid roll out of CleanTreat® + BMK08, with a material contribution in FY22 after initial launch in 2021, assuming a timely marketing approval.

Our detailed Group forecasts translate as follows, starting with the income statement illustrating the overall impact of selective investment in R&D, gradual recovery in markets as well as the positive impact on margins driven by CleanTreat® + BMK08.

<b>Income statement</b>					
<b>y/e 30 Sept, £000s</b>	<b>2018*</b>	<b>2019*</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
<b>Revenues</b>	<b>131,643</b>	<b>127,343</b>	<b>113,150</b>	<b>136,723</b>	<b>158,157</b>
Cost of goods sold	-63,150	-61,348	-57,683	-67,232	-74,905
Gross Profit	68,493	65,995	55,466	69,491	83,252
Admin Expenses	-37,012	-40,700	-40,752	-45,564	-48,927
Share based payments	-1,511	-1,181	-1,216	-1,280	-1,344
R&D	-12,040	-12,830	-10,587	-8,288	-10,297
Share of equity-accounted investees	-362	-414	0	0	0
Exceptional items	0	0	-9,500	0	0
Acquisition related costs	-1,239	-581	0	0	0
EBITDA	17,840	11,470	-5,373	15,639	24,029
<b>Adjusted EBITDA</b>	<b>19,079</b>	<b>12,051</b>	<b>4,127</b>	<b>15,639</b>	<b>24,029</b>
Operating Loss	-3,831	-61,250	-28,473	-7,661	429
Depreciation	-4,869	-8,466	-6,930	-8,155	-6,372
Amortisation	-16,802	-64,254	-16,170	-15,145	-17,228
Interest income	-4,595	-12,054	-6,435	-6,552	-5,944
Loss before tax	-8,426	-73,304	-34,907	-14,214	-5,515
Current tax income	8,906	13	-4,000	-4,500	-4,000
Net loss discontinued operations	-4,869	-9,789	0	0	0
Net loss continuing operations	-4,389	-83,080	-38,907	-18,714	-9,515
Loss Per Share (p)	- 0.94	- 15.03	-6.35	- 2.80	- 1.43
Average no. of shares	532	558	613	668	668
Gross margin	52%	52%	49%	51%	53%
EBITDA margin	14%	9%	N/A	11%	15%
Adj EBITDA margin	14%	9%	4%	11%	15%

Source: Company historic figures/Equity Development forecasts \*historical figures are rebased continuing basis

## Balance sheet

Working capital is forecast to remain in line with growth, partly unwinding the £19m increase seen in FY19. Our FY20-22 cash forecasts are £46.5m, £20.6m and £21.7m including disposal proceeds as well as the £42m net proceeds of the February placing.

Balance Sheet summary					
y/e 30 Sept, £'000s	2018	2019	2020e	2021e	2022e
<b>Current assets</b>	<b>97,802</b>	<b>122,790</b>	<b>147,935</b>	<b>137,029</b>	<b>149,164</b>
Cash & equivalents	24,090	16,051	46,477	20,606	21,732
Assets held for sale	0	15,970	0	0	0
Accounts receivable	41,337	52,136	52,700	59,559	67,163
Inventories	20,483	22,609	26,234	29,840	33,245
Biological & agricultural assets	11,892	16,024	22,524	27,024	27,024
<b>Non-current assets</b>	<b>455,046</b>	<b>380,591</b>	<b>342,265</b>	<b>339,165</b>	<b>323,935</b>
PP&E	99,527	88,900	84,370	94,415	94,413
Intangible assets	325,386	275,744	244,448	231,303	216,075
Equity-accounted investees	17,457	3,453	953	953	953
Other non-current assets	12,676	12,494	12,494	12,494	12,494
<b>Current liabilities</b>	<b>-49,277</b>	<b>-52,207</b>	<b>-35,367</b>	<b>-38,795</b>	<b>-43,871</b>
Short-term debt	-898	-3,231	-3,231	-3,231	-3,231
Liabilities re assets held for sale	0	-10,634	0	0	0
Accounts payable	-45,680	-35,235	-29,029	-32,457	-37,533
Other current liabilities	-2,699	-3,107	-3,107	-3,107	-3,107
<b>Non-current liabilities</b>	<b>-121,724</b>	<b>-140,708</b>	<b>-140,708</b>	<b>-140,708</b>	<b>-140,708</b>
Long-term debt	-78,868	-99,961	-99,961	-99,961	-99,961
Other non-current liabilities	-42,856	-40,747	-40,747	-40,747	-40,747
<b>Equity</b>	<b>381,847</b>	<b>310,466</b>	<b>314,125</b>	<b>296,691</b>	<b>288,520</b>
Share capital	557	559	41,909	41,909	41,909
Other	381,290	309,907	272,216	254,782	246,611

Source: Company historical figures/Equity Development forecasts

### Cash flows set for positive returns

Our CAPEX forecasts are driven by the scale-up of CleanTreat® projected over the next 12 to 18 months, with a cost per system of £2.5m to support the launch of BMK08.

With completion of the disposals program included in our FY20 forecasts, and the recent £42m net fundraising, the Group maintains liquidity and fulfils its NOK bond covenant terms.

Our forecasts reflect the transition to positive cash flow generation from FY 2021/22.

<b>Cashflow summary</b>					
<b>y/e 30 Sept, £'000s</b>	<b>2018</b>	<b>2019</b>	<b>2020e</b>	<b>2021e</b>	<b>2022e</b>
<b>Operating cash flow</b>	-3,741	-9,211	-24,986	-1,171	9,495
Profit before tax	-4,389	-83,080	-28,473	-7,661	429
Tax credit	-9,270	111	0	0	0
Non-cash adjustments/ impairment	26,682	89,652	24,316	24,580	24,944
Change in working capital	-13,298	-19,414	-10,395	-7,037	-5,933
Interest paid	2,432	7,773	-6,435	-6,552	-5,944
Taxes paid	-5,898	-4,253	-4,000	-4,500	-4,000
<b>Investing cash flow</b>	-38,515	-15,321	14,062	-24,700	-8,370
CAPEX tangible assets	-25,072	-7,850	-10,000	-18,200	-6,370
CAPEX intangible assets/capitalised R&D	-7,581	-7,964	-4,938	-2,000	-2,000
Acquisitions/ disposals	233	7,066	35,500	0	0
Other investing cash flows re biological assets	-6,095	-6,573	-6,500	-4,500	0
<b>Financing cash flow</b>	47,120	15,985	41,350	0	0
Proceeds from equity	18,498	2	41,350	0	0
Increase in loans	31,315	21,354	0	0	0
Other financing cash flow	-2,693	-5,371	0	0	0
Net increase in cash	4,864	-8,547	30,426	-25,871	1,126
Exchange rate effects	447	508	0	0	0
Cash at start of year	18,779	24,090	16,051	46,477	20,606
Cash at end of year	24,090	16,051	46,477	20,606	21,732
<b>Net cash/(debt) at end of year</b>	-55,676	-87,141	-56,715	-82,586	-81,460

Source: Company historical figures/Equity Development forecasts

## Key sensitivities

- Recovery of BMK's major markets following COVID-19
- Disease and environmental challenges
- Timely regulatory approval and launch of CleanTreat® + BMK08

## Valuation

Our DCF valuation of BMK is **£421m or 63 pence per share**, using an 11% discount rate and 2.5% long-term growth - factoring in average Group revenue growth of 20% per annum 2021-25. The Group's prospects are underpinned by the launch of CleanTreat® + BMK08, initially in Norway.

This is supported by our peer group evaluation, which provides a sum-of-the-parts comparison.

Peer comparators						
	Market cap (m)	EV	Net debt/cash	Sales next	EV/Sales	Currency
<b>Breeding Genetics</b>						
Genus	2,270	2349	-79	524	4.5	£
<b>Health</b>						
Elanco	8,540	10541	-2001	3100	3.4	US\$
Dechra	2,860	3091	-231	522	5.9	£
Average					<b>4.7</b>	
<b>Nutrition</b>						
Anpario	84	70	14	29	5.1	£

Source: FT dated 1 June 2020

On this basis we calculate a sum of the parts valuation of BMK of £496m as follows.

SOTP valuation			
£m	Valuation	Multiple	FY20e rev
<b>Nutrition</b>	316	5.1	62
<b>Genetics</b>	189	4.5	42
<b>Animal Health</b>	47	4.7	10
Sub total	552		
Net cash (last rep)	-56		
<b>Market cap</b>	<b>496</b>		

Source: Equity Development

Clearly this valuation does not fully reflect the possible upside from CleanTreat® + BMK08 which on successful execution *could* yield a 2022 valuation for Animal Health of £168m with initial launch of the sea lice treatment in Norway alone, on an EV/sales multiple basis. Launch in additional geographies is anticipated to expand annual peak sales along with margins, providing substantial future upside potential for the division.

### **Conclusion**

The launch of CleanTreat® + BMK08 is set to be a game-changer for Benchmark, driving positive cash flow generation in the forecast period.

We think that its current initiatives, focusing solely on aquaculture and streamlining the business, can provide a myriad of opportunities by building on its existing strengths and strategic products once the restructuring is complete. All overseen by a fresh, but highly experienced Management team.





## Investor Access

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