

Financing underpins near-term strategy

9 March 2020

BMK's recently completed £43m equity financing is a signal of confidence in its ongoing focused strategic aims, its leadership, along with ground-breaking product launches in sight.

The funding provides a buffer for BMK to enable scale-up and pursue an independent launch strategy of its novel sea lice treatment, CleanTreat® + BMK08. It also supports Genetics operations scale-up in Chile the world's second largest salmon producing nation, and ongoing ramp-up of production and commercialisation of its disease resistant 'SPR' shrimp and Advanced Nutrition's expansion into nursery and grow-out segments in shrimp, diversifying the product range.

Q120 results reflect the impact of well-flagged challenges in Advanced Nutrition markets owing to ongoing conditions in shrimp and Mediterranean fin fish markets, as well as a positive outlook in Genetics. The Company is advancing its program of disposals leading to estimated gross **proceeds of up to £35m**, with £1.5m completed in Q120. Looking forward, BMK intends to out-license or divest the Companion Animal health pipeline and is also undertaking a comprehensive review of its cost base.

Notably, the **independent launch strategy** of CleanTreat® + BMK08, targets a maximum return on investment while maintaining control for a planned rapid roll out. The treatment combination has a peak sales estimate of £50m in Norway alone, and its estimated 60% gross margin makes a material impact on our Animal Health forecasts over the launch period. Sustainability, 99% efficacy, high welfare profile, and the ability to overcome resistance are some of the key features it addresses to meet the huge and costly industry challenge and to differentiate the treatment from current approaches.

With the Company anticipating FY20 in line with expectations, we have made a full review of our forecasts post FY20 based on the use of proceeds. We have **increased our sales and EBITDA forecasts in FY21/22** by c 4% and 1% respectively, upgrading sales and adjusted EBITDA for Genetics by c 14%. Even after adding in additional CAPEX and working capital to support product launches, we factor in an **improved financial position**.

The cash boost facilitates the Company's strategic aims and improves its financial headroom, leading to an improvement in our near-term cash flow forecasts and a tighter, more focused business. **We have increased our valuation from £382m to £479m, equivalent to 72 pence per share**, including the 107m new shares. Investors can look forward to news on key product launches and execution of the disposals program.

Summary forecasts

y/e 30 Sept, £m	FY18	FY19	FY20e	FY21e	FY22e
Sales	131.6	127.3	140.9	161.6	187.5
Adjusted EBITDA*	19.1	12.1	10.2	17.3	31.0
Net cash/debt	-55.7	-87.1	-65.7	-87.1	-78.5

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

Company Data

EPIC	BMK
Price	33p
52 weeks Hi / Lo	55p / 32p
Market cap	£217m
ED Value / Share	72p

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.

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Q1 results, financing and outlook

The Company expects to deliver on expectations in FY20, with a positive outlook in Genetics (leading us to upgrade our FY21/22 forecasts) and in Animal Health for its sea lice treatments. Overall, with challenges in Advanced Nutrition already well-flagged, **we have made no changes to our FY20 forecasts**. On a continuing basis, Q120 revenues fell 15.5% from £29.6m to £25m and adjusted EBITDA was a loss of £2m vs £2.3m in FY19.

Q1 summary segmental P&L			
£'000s	Q120	Q119	YTD 2019
Revenue			
Animal Health	3,420	3,542	17,742
Genetics	12,120	11,835	39,696
Advanced Animal Nutrition	11,396	15,866	76,776
All other segments	3,373	3,534	15,881
Corporate	1,538	1,399	6,534
Inter segment sales	(1,793)	(1,810)	(7,890)
Total	30,054	34,366	148,739
Continuing revenues	25,019	29,615	126,776
EBITDA			
Animal Health	(4,021)	(3,456)	(10,197)
Genetics	3,455	3,215	10,075
Advanced Animal Nutrition	(405)	2,665	15,406
All other segments	196	(107)	1,264
Corporate	(812)	(765)	(2,823)
Total	(1,587)	1,552	13,725
Total	(1,587)	1,552	13,725
Continuing EBITDA	(1,997)	2,325	12,950

Source: Benchmark Holdings

Transformational product launches, realignment of the business

Notably, the Company completed the regulatory submission in Q120 for BMK08 and looks forward to launching potentially transformational products in Genetics and Animal Health, as well as ramping up its Genetics division's salmon ova production capacity at the Salten land-based facility and in its Ensenada facility in Chile. It is also working to reduce its cost base and improving its strategic focus, including through the ongoing disposals program. Advancing this process already with disposals of £2m completed in the period and with discussions advancing.

Looking forwards, we have revised our forecasts to reflect the use of proceeds outlined by the Company in line with its recent placing and open offer (completed post period-end): BMK has raised a total of £43m gross, or £42m net. The summary breakdown of use for proceeds is:

- £19m to cover CleanTreat® scale up and launch of BMK08,
- £16m to boost ongoing working capital needs, notably regarding Advanced Nutrition and Genetics product launches, to cover until disposal proceeds are received,

- And £6m of general working capital.

Encouragingly, proprietary CleanTreat® + BMK08 treatment has already won **considerable industry recognition** including an award for innovation. The features of the treatment combine a lower environmental impact and higher welfare standards compared to other treatments in the market, likely to drive uptake in a market. The annual cost to the salmon production industry from sea lice is estimated at over \$1bn. To date, the treatment has been tested in over 400,000m³ of water, for over 35,000 tonnes of salmon by five top Norwegian producers. The non-medical treatments, such as mechanical or purification based systems that dominate the market, cause fish distress and mortality. They also have a much lower efficacy rate in treatment compared to the **99% success** seen in CleanTreat® + BMK08 to date.

The novel treatment combination is likely to be **more cost-effective** than standard treatments based on company estimates. BMK anticipates launch in Norway in H121 subject to regulatory approval. Thereafter, additional marketing approvals as well as potentially use of the CleanTreat® system in other aquaculture treatment processes provide upside potential to the **peak sales estimate of £50m**.

P&L

We have left FY20 P&L largely unchanged in line with Company progress in Q120 and outlook, except for adding in £9.5m of restructuring costs regarding discontinued Animal Health and Knowledge Services Operations, as well as to cover redundancy costs. We have already factored in CleanTreat® / BMK08 revenues from FY21, although at this stage prefer to remain conservative ahead of Market Approval – with scope for upside given initial indications of the demand and profile of the product, as well as margin improvements owing to the independent launch strategy being pursued.

In FY21 we add in £7m of Genetics revenues associated with Salten salmon ova scale-up and developing production capacity in Chile, as well as funding scale-up and commercial efforts for the ongoing SPR shrimp launch (peak sales estimate; £40m). We have also added c £1m in admin costs in FY21 and in FY22 regarding CleanTreat® / BMK08 launch, including the cost of vessel leasing, hiring of new operational staff, as well as in establishing additional sales channels into the broader grow out and nursery market segments in Advanced Nutrition, offset against cost savings. The Company has guided that the total cost per CleanTreat® system should be £1.5m - £2m.

Balance Sheet

A favourable change in the fair valuation of biological assets, considering economic factors as well as production value, gives an estimated non-cash addition of £9m in FY20 and £5m in FY21. Cash changes to working capital include additions to inventory regarding the FY20/FY21 product launches, notably Clean Treat + BMK08 and ramp up in SPR shrimp and Nutrition, we add in £4m in FY20 and £14m in FY21.

The change in working capital also covers inventory increase regarding the Company's contractual arrangement with Great Salt Lake to supply live Artemia (BMK is committed to acquiring a contractual percentage of the harvest). The near all-time high stock levels are associated with record Artemia harvests and market dynamics in shrimp, although the Company is looking to alleviate this commitment.

Cash flow

We increase our tangible CAPEX estimates by an aggregate £12m in FY20/FY21 regarding CleanTreat® and SPR shrimp, mostly to cover infrastructure, including CT systems and installation and to a lesser extent, vessel leasing. Intangible CAPEX is rising because of capitalisation of Advanced Nutrition and Animal Health products, including vaccines, by an aggregate £12m over FY21/22 as these products also near launch.

Finally, we have increased our estimate of disposal proceeds adding a total of £11m in FY21 regarding receipts from the anticipated licensing or divestment of the Companion Animal products, and completion of the disposals program. This takes our estimate of total net proceeds from these sources to £34m in FY20/21, including £5m from the Companion Animal products and £29m from discontinued operations. We illustrate the resulting changes on a divisional basis, showing the rise in Genetics revenues in FY21/22 from SPR and the Salten facility, feeding through into adjusted EBITDA, even after considering the Opex increase.

Divisional changes to forecasts, £m				
Advanced Nutrition		FY20	FY21	FY22
Old	Rev	85.0	88.0	95.0
	Adj EBITDA	14.3	15.8	17.0
New	Rev	85.0	88.0	95.0
Change		0%	0%	0%
	Adj EBITDA	14.3	15.0	17.0
Change		0%	-6%	0%
Genetics				
Old	Rev	44.1	48.5	54.3
	Adj EBITDA	10.6	10.7	11.5
New	Rev	44.1	55.1	61.7
Change		0%	14%	14%
	Adj EBITDA	10.6	12.2	13.1
Change		0.0%	13.6%	13.6%
Animal Health				
Old	Rev	13.7	20.4	30.6
	Adj EBITDA	-10.8	-7.9	-1.8
New	Rev	13.7	20.4	30.6
Change		0%	0%	0%
	Adj EBITDA	-10.8	-8.2	-1.8
Change		0%	-4%	0%

Source: Company historic figures/Equity Development forecasts

At Group level, changes to our forecasts are as follows:

Changes to Group forecasts, £m			
	FY20	FY21	FY22
OLD			
Sales	140.9	155	180
Adjusted EBITDA	10.2	17.1	29.4
Net cash/(debt)	-85.7	-98.9	-99.4
NEW			
Sales	140.9	161.6	187.5
Adjusted EBITDA	10.2	17.3	31.0
Net cash/(debt)	-65.7	-87.1	-78.5
CHANGE			
Sales	0.0%	4.3%	4.1%
Adjusted EBITDA	0.3%	1.1%	5.4%
Net cash/(debt)	23%	12%	21%

Source: Company historic figures/Equity Development forecasts

The result is an increase in FY21/22 Group EBITDA BY 1% and 5%, and revenue of c 4%. The Company's financial position is now firmly shored up prior to disposal process completion, and with a relatively good degree of confidence of its execution, leads to an improvement in net debt levels, which are forecast to fall in FY20-22 by 23%, 12% and 21% respectively.

Liquidity levels (£12.1m RCF plus cash) are therefore well within the lending covenants of its NOK Bond (requiring £10m minimum liquidity).

Conclusion

The recent funding signals a strong message of confidence in management and their strategic aims. We increase our valuation of BMK from £382m to £479m, equivalent to 72 pence per share including new shares in issue. With Q120 trading in line with expectations, investors can look for news on divestments as well as product launches across all divisions and with the financial headroom boosted.

FINANCIALS

Income Statement					
£'000s	2018	2019	2020e	2021e	2022e
Revenues	131,643	127,343	140,900	161,638	187,500
Cost of goods sold	(63,150)	(61,348)	(70,788)	(77,751)	(86,930)
Gross Profit	68,493	65,995	70,112	83,887	100,569
Admin Expenses	(37,012)	(40,700)	(46,921)	(50,400)	(53,274)
Share based payments	(1,511)	(1,181)	(1,216)	(1,280)	(1,344)
R&D	(12,040)	(12,830)	(12,957)	(16,195)	(16,316)
Share of profit/loss of equity-accounted investees	(362)	(414)	0	0	0
Exceptional items/impairment	0	0	(9,500)	0	0
Acquisition related costs	(1,239)	(581)	0	0	0
EBITDA	17,840	11,470	734	17,293	30,979
Adjusted EBITDA	19,079	12,051	10,234	17,293	30,979
Operating Loss	(3,831)	(61,250)	(21,866)	(5,807)	8,379
Depreciation	(4,869)	(8,466)	(6,102)	(6,237)	(6,102)
Amortisation	(16,802)	(64,254)	(16,498)	(16,863)	(16,498)
Interest income	(4,595)	(12,054)	(6,435)	(5,873)	(6,021)
Loss before tax	(8,426)	(73,304)	(28,301)	(11,681)	2,358
Current tax income	8,906	13	(4,000)	(5,000)	(4,000)
Net loss from discontinued operations	(4,869)	(9,789)	0	0	0
Net loss continuing operations	(4,389)	(83,080)	(32,301)	(16,681)	(1,642)
EPS (p)	(1)	(15)	(5)	(2)	(0)
Average no. of shares	532	558	613	667	667
Gross margin	52%	52%	50%	52%	54%
Adjusted EBITDA margin	14%	9%	7%	11%	17%

Source: Company historic figures/Equity Development forecasts

Balance Sheet

£'000s	2018	2019	2020e	2021e	2022e
Current assets	97,802	122,790	145,426	149,045	164,379
Cash and cash equivalents	24,090	16,051	37,461	16,107	24,705
Assets held for sale	0	15,970	0	0	0
Accounts receivable	41,337	52,136	54,044	62,441	66,781
Inventories	20,483	22,609	28,897	40,473	42,870
Biological & agricultural assets	11,892	16,024	25,024	30,024	30,024
Non-current assets	455,046	380,591	358,347	345,447	332,217
Property, plant & equipment	99,527	88,900	95,798	107,761	108,029
Intangible assets	325,386	275,744	249,102	224,239	210,741
Equity-accounted investees	17,457	3,453	953	953	953
Other non-current assets	12,676	12,494	12,494	12,494	12,494
Current liabilities	(49,277)	(52,207)	(42,332)	(48,453)	(50,855)
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)	(35,994)	(42,115)	(44,517)
Other current liabilities	(2,699)	(3,107)	(3,107)	(3,107)	(3,107)
Non-current liabilities	(121,724)	(140,708)	(140,708)	(140,708)	(140,708)
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)
Equity	381,847	310,466	320,732	305,331	305,033
Share capital	557	559	41,909	41,909	41,909
Other	381,290	309,907	278,823	263,422	263,124

Source: Company historic figures/Equity Development forecasts

Cash Flow					
£'000s	2018	2019	2020e	2021e	2022e
Operating cash flow	(3,480)	(8,764)	(24,921)	(11,154)	17,968
Profit before tax	(4,389)	(83,080)	(21,866)	(5,807)	8,379
Tax credit	(9,270)	111	0	0	0
Non-cash adjustments/ impairment	26,682	89,652	23,816	24,380	23,944
Change in working capital	(13,037)	(18,967)	(16,436)	(18,853)	(4,334)
Interest paid	2,432	7,773	(6,435)	(5,873)	(6,021)
Taxes paid	(5,898)	(4,253)	(4,000)	(5,000)	(4,000)
Investing cash flow	(38,776)	(15,768)	4,980	(10,200)	(9,370)
CAPEX on tangible assets	(25,072)	(7,850)	(16,000)	(18,200)	(6,370)
CAPEX on intangible assets/capitalised R&D	(7,581)	(7,964)	(8,920)	(3,000)	(3,000)
Acquisitions/ disposals	233	7,066	29,900	11,000	0
Other investing cash flows	(6,356)	(7,020)	0	0	0
Financing cash flow	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)	21,410	(21,354)	8,598
Exchange rate effects	447	508	0	0	0
Cash at start of year	18,779	24,090	16,051	37,461	16,107
Cash at end of year	24,090	16,051	37,461	16,107	24,705
Net cash/(debt) at end of year	(55,676)	(87,141)	(65,731)	(87,085)	(78,487)

Source: Company historic figures / Equity Development forecasts



Investor Access

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