

Well set ahead of key product launches

3 March 2021

BMK is seeing the rewards from its focus on aquaculture and a tighter cost base; continuing operations delivered Q1 2021 revenue growth of 18% to £29m, vs Q1 2020. When coupled with cost containment this provided an impressive 7.5x increase in EBITDA. This places BMK in a strong position to execute the next phase of the strategic drive to profitability through product launches and growth initiatives. Visibility is improving in Advanced Nutrition, along with early signs of recovery in some shrimp markets, solid performance in Genetics and a reduced loss in the newly restructured Health division. BMK's prospects are improving along with momentum from new product launches. We upgrade our FY2021-23 forecasts leading to a net profit of £15.4m in FY 2023.

- Financial results:** Q1 2021 reflected good momentum with 18% revenue growth from £24.7m to £29m, along with reported EBITDA up from £0.3m to £2.4m. This was driven by encouraging signs of revenue recovery in Asia for Advanced Nutrition revenues (up 32%), good performance in Genetics up 5% and stable Health. BMK sustained its close control of finances and selective investment to support innovation and forthcoming product launches; with expensed Opex down 14% to £12.8m, net loss narrowed significantly from £2.6m to £0.2m.
- Liquidity:** the company invested £4.3m of CAPEX in its core growth initiatives including to drive up maiden production at the salmon egg facility in Chile, and ended the period with net debt of £51.9m, vs £37.6m at end September 2020, providing headroom to meet debt covenant terms.
- Growth drivers:** BMK is approaching a number of key milestones including the ratification of Maximum Residue Limits (MRL) from the European Medicines Agency and Market Authorisation of BMK08 + CleanTreat® in Norway in CY Q2 2021. BMK has already invested in, and fitted out, two CleanTreat® systems ahead of launch. Advanced Nutrition is well positioned for a recovery in the shrimp markets. In Genetics, salmon eggs are the central driver, also leveraging profits through the increase in Salten production volumes, and launch of Chile operations and launch of the disease resistant SPR shrimp. Expansion into the emerging land-based salmon farming segment offers a significant growth opportunity for BMK across its product portfolio.
- Upgrades:** we increase FY2021-23 revenue forecasts by 4.2%, 8.3% and 17.6% and cost containment leads to a rise in our AEBITDA forecasts of 12.5%, 42% and 101% respectively, driven by launch of BMK08 + CleanTreat® and the improving picture in Advanced Nutrition.

Positive outlook

The Group is seeing strategic focus pay off. With encouraging signs of recovery, BMK can leverage its central position in global aquaculture markets to support the launch of innovative products. **We increase our share price value to 88p per share from 72p.** Grant of BMK08 + CleanTreat® Marketing Authorisation can provide further rerating potential.

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 * Earnings before interest, tax, depreciation, amortisation, exceptional items, and acquisition related expenditure

Company Data

EPIC	BMK
Price	57.5p
52 weeks Hi/Lo	67p/26p
Market cap	£385m
ED Fair Value/share	88p

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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Q1 2021 highlights

BMK delivered Q1 2021 continuing revenue growth of 18% to £29m, compared to £24.7m in Q1 2020, and reported that it is trading in line with market expectations. At the same time, sustaining efficiencies helped to produce a 7.5 fold increase in Q1 2021 AEBITDA from £0.4m in Q1 2020 to £3m. With revenue growth and focused expenditure, EBITDA from continuing operations rose from £0.3m to £2.4m quarter-on-quarter.

BMK is keenly focused on its strategic priorities including planned product launches of BMK08 + CleanTreat® in CY H2 2021, accelerating egg production at the biosecure Salten facility, ramp up of production in Chile and very selective investment to support product development and commercialisation including the disease resistant SPR shrimp. We are encouraged to see the remarkably resilient picture presented, given the challenging conditions in some markets.

The company reported ongoing resilience in salmon production, although the environment in many shrimp-producing markets remained challenging, notably in the Americas owing to the dependence on the food service sector, with some Asian markets now re-stocking. This translates to encouraging signs in Advanced Nutrition, with Artemia sales volumes recovering, and all other product sales growing.

All in all, a resilient picture with the benefits of diversified portfolio evident.

There was a good performance in Genetics with revenues up 4% to £12.6m, a 32% rise in Advanced Nutrition to £15.1m and steady Health revenues at £1.3m.

Group continuing and discontinued P&L summary

£m	Q1 2021	Q1 2020
Revenue from continuing operations	29.0	24.7
AEBITDA continuing operations	3.0	0.4
Exceptional items	(0.6)	(0.1)
EBITDA continuing operations	2.4	0.3
Loss for the period	(0.2)	(2.6)
Net debt	(51.9)	(91.3)

Source: Benchmark Holdings

Cost efficiencies

BMK is on track to achieve its target of annual operating cost savings of £10m, and the company sought to conserve cash where possible and remains committed to this target. In Q1 2021 total Opex fell 14% from £12.8m to £11m, (down 12% from £13.7 to £12.1m, including capitalised R&D spend).

As a result, total loss narrowed significantly from £2.6m to £0.2m quarter-on-quarter on a continuing basis. The Company invested £4.3m in Capex to support organic growth, and there was a £7.5m outflow of working capital associated with higher levels of operating activity and planned working capital investments. Overall the Company had a net outflow of £14.6m compared to an inflow of £2.2m in Q1 2020, which included a £6.7m credit from investment in the Chilean salmon egg JV.

This took net debt from £37.6m at the year-end September 2020 to £51.9m at the end of Q1 2021 (calculated as cash and equivalents less loans and borrowings).

Divisional summary

Continuing operations / AEBITDA			
£m	Q1 2021 (unaudited)	Q1 2020 (unaudited) **	FY20
Revenue			
Advanced Nutrition	15.1	11.4	59.4
Genetics	12.6	12.1	41.5
Health	1.3	1.4	5.2
Adjusted EBITDA			
Advanced Nutrition	1.0	(0.3)	6.4
Genetics	3.9	3.5	14.4
Health	(1.1)	(1.8)	-3.7

Source: Benchmark Holdings/**restated

Genetics

Steady performance with revenues up 4% to £12.6m, driven by sale of premium priced salmon egg products and a sustained AEBITDA margin improvement to £3.9m or 31% (Q1 2020: £3.5m at 29%) reflecting tight control of operating costs and R&D expenditure. The positive trends included increased volumes of eggs sold from Salten as the facility continued to ramp up capacity for year-round supply of eggs, but partially offset by lower sales in Scotland due to the lifting of import restrictions from Norway to EU which had previously been diverted to Scotland, and lower harvest revenues due to lower salmon prices.

There was a £0.6m impact on margin due to biological challenges which reduced yield at the Norwegian JV site. BMK invested £2m Capex to drive growth, bolstering the incubation capacity at the Company's bio-secure breeding facility in Iceland as well as in the new Chile facility, which launched local production post period end. Chile is the world's second largest salmon market after Norway.

The Company also invested in the SPR shrimp roll out in preparation for H2 2021 launch, supplying Asian producers from the Fellsmere facility in Florida in the test market stage. However, COVID did impact the construction of the multiplication centre in Thailand with its JV partner, which will mean a more gradual roll-out than planned. With the focus on selective investment for commercial returns, R&D expenditure was £1.8m, including £0.6m capitalised, ahead of market launch of the SPR shrimp.

Advanced Nutrition

Encouraging signs of **demand recovery** based on improvement in underlying shrimp markets in certain geographies. Revenue increased 32% to £15.1m, with product growth across the portfolio of Artemia, diets and health products generating positive AEBITDA of £1m at a 6.6% margin, derived from operational leverage, efficiencies and cost control.

With regional performance uneven in terms of COVID-19 impact, Asia, notably India saw some market recovery, while the Americas still faced challenging conditions, and Europe trading was flat quarter on quarter.

BMK invested £1.4m capex to enhance safety at its Thailand facility.

Health

On a continuing basis, Health revenues **remained resilient** at £1.3m in Q121 vs £1.4m in Q120 while AEBITDA loss continued to narrow from £1.8m to £1.1m, with costs lower due to effects of restructuring and further efficiencies. Divisional revenue was derived chiefly from sea lice treatment Salmosan in Chile. BMK invested £0.5m in Animal Health R&D in Q1 21 (vs £1.3m), and £5m in operating expenses (vs £5.2m in Q1 20).

BMK08 + CleanTreat® is the key focus as the product approaches launch, anticipated in H2 2021, contingent on achieving Maximum Residue Limits (MRL) ratification and Marketing Authorisation grant by the Norwegian Medicines agency, with planning progressing well and maiden revenues factored in for FY 2021.

Encouraging reports of customer interest in this treatment system which is set to provide a sustainable solution to the persistent and devastating issue of sea lice. The initial launch plan is based on two **CleanTreat®** units with the Capex investment in the fit out completed and further additions to be rolled-out on a case by case basis in line with demand.

Outlook and growth prospects

With operations firmly rooted around Aquaculture, plus game-changing products due for launch and industry recovery still in its early stages, we are encouraged by strong drivers across the business, supported by targeted investment.

Divisional P&L forecast changes				
£m		FY21	FY22	FY23
Advanced Nutrition				
Old	Rev	60.0	65.6	70.9
	Adj EBITDA	6.5	8.4	9.1
New	Rev	65.0	71.5	78.5
	Change	8%	9%	11%
	Adj EBITDA	9.8	10.9	14.4
	Change	49%	29%	57%
Genetics				
Old	Rev	48.5	64.0	72.9
	Adj EBITDA	11.7	15.1	17.2
New	Rev	46.1	50.7	58.3
	Change	-5%	-21%	-20%
	Adj EBITDA	10.5	13.3	17.9
	Change	-10.1%	-11.7%	3.9%
Health				
Old	Rev	15.6	22.2	25.9
	Adj EBITDA	-1.7	2.9	4.4
New	Rev	15.6	40.1	60.5
	Change	0%	81%	133%
	Adj EBITDA	-0.3	14.5	25.6
	Change	84%	-402%	-486%

Source: Equity Development

Genetics – continuing growth, good visibility and a relatively stable industry outlook, benefiting from the longer production cycle of salmon eggs, with prospects driven by continuing ramp up of production at Salten, and initial revenue contribution from the Chile facility in FY21. Gradual roll out and initial commercial revenues from the SPR shrimp launch in FY 2021. The development of land-based and recirculating aquaculture systems (RAS), which is still at an early stage, opens up significant growth opportunities for the salmon production industry which the Company aims to leverage, having already established itself as a leader in this segment and signing up new customers in Q1 2021.

We move our sales forecasts in line with the Q1 2021 run rate, down 5%, 21% and 20% FY21-23 owing to a more gradual ramp in revenues from SPR shrimp and Chile, taking AEBITDA to £10.5m in FY21 up to £17.9m in FY23 on stable Opex.

Advanced Nutrition – improvements in Asia, but the Americas are still challenging markets, with some recovery in market share and margins in Artemia, and the benefit of diversified portfolio evident. There is further product innovation in the pipeline including replacement diets and in the grow out segment. We upgrade our FY 2021-23 revenue estimates by 8%, 9% and 11% respectively and AEBITDA by 49%, 29% and 57% based on scope for continuing market recovery in the period.

Health – BMK08 + CleanTreat® launch is set to contribute for one quarter of FY 2021 (launch set for H2 2021 CY), helping to drive up margin for the division, with full year effect in FY 2022 contingent on regulatory approvals. Therefore we upgrade revenue our forecasts by 81% and 133% in FY22/23 to £40m and £60.5m at a gross margin of 60%, from 50% in FY21, based solely on BMK08 + CleanTreat®, and with a lighter R&D spend of an aggregate £1.4m FY21-23 due to restructuring and cost containment.

Divisional changes – the net effect of these changes is a 4.2%, 8.3% and 17.6% increase in our group revenue forecasts FY2021-23.

Overall this growth along with the Company's sustained policy on cost containment translates into a 12.5% increase in our FY 2021 AEBITDA forecast to £16.6m, up 42% in FY2022 to £35.2m and up 101% to £54.5m in FY2023 as the launch of BMK08 + CleanTreat® in Norway kicks in.

Group forecast changes			
£m	FY21	FY22	FY23
OLD			
Sales	121.6	149.8	167.7
Adjusted EBITDA	14.8	24.7	27.0
Net cash/(debt)	-65.2	-66.4	-61.6
NEW			
Sales	126.7	162.2	197.3
Adjusted EBITDA	16.6	35.2	54.5
Net cash/(debt)	-59.8	-83.1	-84.0
CHANGE			
Sales	4.2%	8.3%	17.6%
Adjusted EBITDA	12.5%	42.4%	101.6%
Net cash/(debt)	8%	-25%	-36%

Source: Equity Development/ note net debt defined as cash less loans and borrowings

We have factored in some additional Capex in FY 2021/22 to support investment in incubation centres in Iceland, ramp up in Chile production, expansion in Florida and completion of new fire suppression systems in Thailand, additional investment in CleanTreat®, peaking in FY2022.

In addition, we add in payments for the Chile right to purchase lease and **CleanTreat®** vessel leases totalling £6m in FY2021 and £10m in FY2022 and £13m in FY2023, respectively, assuming rollout in support of planned revenue growth.

We have restated our balance sheet to include Right of Use assets and the corresponding liabilities and lease payments.

Conclusion – considerable inherent value

The Group is uniquely positioned to build selectively on its leading market positions in aquaculture, notably in developing innovative and sustainable solutions as well as diversifying its product range, coupled with a strong focus on profitability. We increase our retained value per share from 72p to 88p, updating for the changes discussed above, including shares in issue and net debt forecasts.

There is ongoing rerating potential once BMK08 + CleanTreat® Marketing Authorisation is achieved and risk further decreases.

Financials

We forecast a 20% increase in FY21 revenues, to £126.7m, £197.3m in FY23 at a FY20-23 CAGR of 23%. Similarly, FY 2021 AEBITDA increases from £16.5m to £54.5m in FY 2023 alongside higher margin product launch in Health, the recovery in sales and AEBITDA in Advanced Nutrition, plus the ramp up in capacity in Genetics 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 add an aggregate £30m CAPEX over the forecast period. In parallel with the change in treatment of lease liabilities, 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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