

Bolstering liquidity, focusing on aquaculture

8 September 2020

Benchmark is delivering on its strategic aims, having largely completed its disposals program of non-core or unprofitable operations and sharpening the focus on its core, aquaculture. The disposals will raise up to £44m, reinforcing the Company's financial position to weather uncertainties related to the pandemic, to invest selectively in its core business and to enable liquidity to remain well within the covenant terms of its NOK bond loan. Actions taken have been as the new management team had promised. The launch of CleanTreat® + BMK08, a novel medicinal treatment to combat sea lice, is set to be transformational for the Group and is on track for Q2 2021 (calendar year).

The overall market trends (continuing basis) in the Q3 and YTD period (to end June) included relative stability in salmon and seabass and bream markets, while the shrimp markets continued to face challenges, including low stocking levels in hatcheries and farms as well as price weakness, compounded by the pandemic. The Company's product and species diversification provided relative resilience. Group revenues increased 8% in Q3 2020 to £24.5m from £22.8m in Q3 2019, helped by good performance in Genetics and growth in Advanced Nutrition, owing to a partial catch up in delayed orders.

As a consequence, Q3 2020 Group adjusted EBITDA was a profit of £0.3m, vs a £1.4m loss in Q3 2019, supported by stronger margins in Genetics in particular, and a 15% overall drop in operating costs.

YTD Q3 2020 (9 month) Group revenues fell 9.4% to £81.6m from £90.1m and adjusted EBITDA fell from £5.9m to £3.2m, chiefly because of the broader impact on demand for Advanced Nutrition products caused by the weakness in shrimp markets. This was partly offset by the stronger Genetics margins as EBITDA rose from £5.7m in Q3 YTD 2019 to £9.8m in Q3 YTD 2020 (margin up from 19% to 33%) together with lower R&D spend in the Animal Health division and an overall 6% cut in Opex.

The Group is well positioned financially. Proforma net debt stood at £36m (including disposals completed post period end) providing ample headroom to meet its NOK bond-lending covenant terms and allowing focus on the launch of CleanTreat® / BMK08, plus selective investment in its core business areas. The Company is well advanced in the delivery of a cost savings program targeting £10m pa including savings associated with the disposal of its vaccine facility completed in July.

With FY20 on track to meet expectations, our forecasts and fair value of 63p / share are unchanged. We have made minor adjustments to our FY21 forecasts pending Company guidance at year end.

Summary forecasts

y/e 30 Sept, £m	FY18	FY19	FY20e	FY21e	FY22e
Sales	131.6	127.3	113.1	132.1	154.5
Adjusted EBITDA*	19.1	12.1	4.1	14.0	22.5
Net cash/debt	-55.7	-87.1	-56.7	-82.1	-82.6

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

Company Data

EPIC	BMK
Price	45p
52 weeks Hi/Lo	49.5p/26.5p
Market cap	£293m
ED value / share	63p

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.

Emma Ulker (Analyst)

0207 065 2690
emma@equitydevelopment.co.uk

Hannah Crowe

0207 065 2692
hannah@equitydevelopment.co.uk

Resilient performance in challenging markets

Overall, Q3 revenues (continuing operations) increased 8% to £24.5m from £22.8m, with sustained performance in Genetics, and a good quarter for Advanced Nutrition based on a partial catch up of orders which were delayed by Covid-19. An increase in Genetics margins and lower Group Opex which fell from £13m (£3.5m of expensed R&D) to £9.5 (£1.6m of R&D) reflecting the impact of lower marketing spend, cost containment and lower vaccines spend (now discontinued), helped to improve adjusted EBITDA, from a loss of £1.4m to a profit of £0.3m.

The broader impact of Covid-19 was felt at the YTD level, particularly in view of Advanced Nutrition, on both revenues down 9.4% and adjusted EBITDA. At the end of the period net debt stood at £54.7m, significantly narrowing post period end to £36m after execution of four further divestments.

Group financial highlights Q3 and YTD

£m	Q3 2020	Q3 2019	YTD Q3 2020	YTD Q3 2019	FY2019 restated*
Continuing operations					
Revenue	24.5	22.8	81.6	90.1	126.8
Adj EBITDA	0.3	-1.4	3.2	5.9	13.5
Margin	1%	-6%	4%	7%	11%
EBITDA	-0.2	-1.5	2.4	5.9	13
Margin	-1%	-7%	3%	7%	10%
Discontinued operations					
Adj EBITDA	0.04	0.3	0.4	0.4	0.2

Source: Company/*stripping out changes made since year end

Core divisions in detail

Overview (continuing and discontinued operations)

£m	Q3 2020	Q3 2019	YTD Q3 2020	YTD Q3 2019
Advanced Nutrition				
Revenue	15.9	13.6	47.3	54.5
Adjusted EBITDA	2.8	1.4	6.1	10.9
Margin	17%	10%	13%	20%
Genetics				
Revenue	7.2	7.1	29.7	29.7
Adjusted EBITDA	1.2	0.8	9.8	5.7
Margin	17%	11%	33%	19%
Animal Health				
Revenue	2.7	4.0	9.4	11.1
Of which discontinued ops	1.3	1.6	4.3	4.5
Adjusted EBITDA	-2.8	-3.2	-10.5	-9.4
Of which discontinued ops	0.2	0.1	0.1	-0.1

Source: Company

Advanced Nutrition: ongoing challenges, including weak shrimp markets and an oversupply of Artemia after very strong harvests, had an impact on demand for nutrition products. These factors contributed to lower volumes and pricing of Artemia and YTD Q3 revenues fell 13% to £47.3m (diets up 1% and health down 10%).

However, Q3 2020 revenues increased 18% to £16m, helped by a partial recovery in orders delayed by Covid-19. Consequently, divisional adjusted EBITDA fell from £10.9m to £6.1m on a YTD Q3 2020 basis, although in Q3 2020 it doubled to £2.8m from £1.4m and margin rose from 10% to 17%.

Genetics: resilient performance with flat revenues in Q3 2020 at £7.2m (vs £7.1m) helped by higher pricing driven by demand for the Company's genetically rich salmon ova, partly offset by forex movements. YTD Q3 2020 revenues were also flat at £29.7m. Profitability rose strongly and Q3 adjusted EBITDA rose to £1.2m from £0.8m with a margin increment from 11% to 17% helped by a reduction in Opex to mitigate the impact of Covid-19. On a year to date basis, adjusted EBITDA rose to £9.8m from £5.7m on a margin up from 19% to 33%, due to in house production at Salten, higher egg prices and royalties. Test marketing of BMK's disease resistant SPR shrimp are ongoing to enable an eventual launch corresponding with signs of shrimp market recovery.

Animal Health: Q3 revenues fell to £2.7m from £4m in Q3 2019 based on the fall away in revenues from BMK08 trials, as well as a drop in Salmosan and toll manufacturing revenues. On a YTD Q3 2020 basis revenues fell to £9.4m from £11.1m in the prior period.

Of these totals, discontinued revenues principally derived from the Company's veterinary and diagnostics business are shown in the table above, showing a small EBITDA profit contribution of £0.2m in Q3 2020, against a total EBITDA loss of £2.8m, and £0.1m of a total YTD Q3 2020 EBITDA loss of £10.5m for the Division.

The Company's Opex containment for the division led to a narrowing loss in Q3 FY20 from £3.2m to £2.8m, despite lower revenues and investment in preparation for CleanTreat®/BMK08 launch, and on a YTD 2020 basis adjusted EBITDA loss rose to £10.5m vs £9.4m in YTD Q3 2019.

Disposals and restructuring

The company has largely completed its disposal programme having executed five divestments in the year to date (including four post the Q3 period end June 2020) generating total net proceeds up to £44m:

- In June 2020 sale of Improve International to RJD Partners for up to £12.75m;
- In July sale of FishVet to Zoetis for c £14.5m;
- In July sale of vaccine manufacturing to Gene and Cell Therapy Catapult for £12m; and
- In August the Company agreed to exit its equine vaccine joint development agreement for £1m upfront plus up to £1m deferred payment.

The divestment programme has been executed in a manner that protects as many jobs for the departing employees as possible.

The quantum of the proceeds **more than meets our estimates** and provides the company with a strong financial base from which to execute its ongoing strategy, including selective investment in its core aquaculture divisions. Notably this includes the launch of CleanTreat and BMK08 anticipated in Q2 2021 CY. Clearly this strong balance sheet also provides resilience to the ongoing challenges posed by Covid-19.

End of Q3 net debt stood at £54.7m after a £38.5m increase in cash to £54.5m, including the February equity raise of £42m net, and net receipts from disposals of £6.8m, well within the covenant terms of the NOK bond.

On a proforma basis, assuming receipt of proceeds from the disposals executed post period end, net debt stood at £36m and liquidity (undrawn £12m RCF facility plus cash) at £84m.

Changes to forecasts

The Company is operating in line with our FY20 estimates and our forecasts are unchanged. We are making minor adjustments to our FY21 estimates (-9% in FY21 / -7% in FY22) reflecting ongoing market environment and pending Company guidance at year end.

Summary of Group forecast changes			
y/e 30 Sept, £m	FY20	FY21	FY22
OLD			
Sales	113	137	158
Adjusted EBITDA	4.1	15.6	24.0
Net cash/(debt)	-56.7	-82.6	-81.5
NEW			
Sales	113.1	132.1	154.5
Adjusted EBITDA	4.1	14.0	22.5
Net cash/(debt)	-56.7	-82.1	-82.6
CHANGE			
Sales	0.0%	-3.4%	-2.3%
Adjusted EBITDA	0.0%	-10.8%	-6.4%

Source: Equity Development

We intend to take a fresh look at FY21 estimates at the time of the Company’s FY 2020 results, so as to include the full impact of the disposals. Planned additional exits include the out-licensing of the Company’s companion animal vaccines as well as its strategic plan for its aquaculture vaccines, including potential partnering with an industry player.

Conclusions

Benchmark's prospects remain underpinned by the increasing momentum for sustainable food sources and underlying aquaculture industry drivers remain firmly in place. 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 factors supporting the sector.

The Group is uniquely positioned to build selectively on its leading market positions in aquaculture, notably in the 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.

The shares have performed well recently on the back of successful disposals, but still remain well below our retained value of 63p / share derived from a DCF updated for the changes discussed above.

FINANCIALS

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, underpinned by resilience of the salmon industry.

Income Statement					
y/e 30 Sept, £'000s	2018	2019	2020e	2021e	2022e
Revenues	131,643	127,343	113,150	132,095	154,454
Cost of goods sold	-63,150	-61,348	-57,683	-65,492	-73,319
Gross Profit	68,493	65,995	55,466	66,603	81,135
Admin Expenses	-37,012	-40,700	-40,752	-44,731	-48,718
Share based payments	-1,511	-1,181	-1,216	-1,280	-1,344
R&D	-12,040	-12,830	-10,587	-7,918	-9,927
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	13,954	22,491
Adjusted EBITDA	19,079	12,051	4,127	13,954	22,491
Operating Loss	-3,831	-61,250	-28,473	-9,346	-1,109
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	-5,936
Loss before tax	-8,426	-73,304	-34,907	-15,898	-7,045
Current tax income	8,906	13	-4,000	-4,500	-4,000
Net loss from discontinued operations	-4,869	-9,789	0	0	0
Net loss continuing operations	-4,389	-83,080	-38,907	-20,398	-11,045
EPS (p)	- 0.94	- 15.03	- 6.35	- 3.06	- 1.65
Average no. shares, m	532	558	613	668	668
Gross margin	52%	52%	49%	50%	53%
EBITDA margin	14%	9%	N/A	11%	15%
Adjusted EBITDA margin	14%	9%	4%	11%	15%

Source: Equity Development forecasts/Company historic figures

Our balance sheet forecasts reflect the estimated ongoing financial strength and liquidity levels of the Company.

Balance Sheet					
y/e 30 Sept, £'000s	2018	2019	2020e	2021e	2022e
Current assets	97,802	122,790	147,935	134,751	145,789
Cash & equivalents	24,090	16,051	46,477	21,117	20,634
Assets held for sale	0	15,970	0	0	0
Accounts receivable	41,337	52,136	52,700	57,543	65,590
Inventories	20,483	22,609	26,234	29,068	32,541
Biological & agricultural assets	11,892	16,024	22,524	27,024	27,024
Non-current assets	455,046	380,591	342,265	339,165	323,935
Property, plant & equipment	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
Current liabilities	-49,277	-52,207	-35,367	-38,201	-43,711
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	-31,863	-37,373
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	314,125	295,006	285,305

Source: Equity Development forecasts/Company historic figures

Cash flows set for positive returns

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

Cash flow					
y/e 30 Sept, £'000s	2018	2019	2020e	2021e	2022e
Operating cash flow	-3,741	-9,211	-24,986	-660	7,887
Profit before tax	-4,389	-83,080	-28,473	-9,346	-1,109
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	-4,842	-6,012
Interest paid	2,432	7,773	-6,435	-6,552	-5,936
Taxes paid	-5,898	-4,253	-4,000	-4,500	-4,000
Investing cash flow	-38,515	-15,321	14,062	-24,700	-8,370
CAPEX on tangible assets	-25,072	-7,850	-10,000	-18,200	-6,370
CAPEX on 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 cash flows re biological assets	-6,095	-6,573	-6,500	-4,500	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	30,426	-25,360	-483
Exchange rate effects	447	508	0	0	0
Cash at start of year	18,779	24,090	16,051	46,477	21,117
Cash at end of year	24,090	16,051	46,477	21,117	20,634

Source: Equity Development forecasts/Company historic figures



Investor Access

Hannah Crowe

Direct: 0207 065 2692

Tel: 0207 065 2690

hannah@equitydevelopment.co.uk

Equity Development Limited is regulated by the Financial Conduct Authority

Equity Development Limited ('ED') is retained to act as financial adviser for various clients, some or all of whom may now or in the future have an interest in the contents of this document and/or in the Company. In the preparation of this report ED has taken professional efforts to ensure that the facts stated herein are clear, fair and not misleading, but make no guarantee as to the accuracy or completeness of the information or opinions contained herein.

This document has not been approved for the purposes of Section 21(2) of the Financial Services & Markets Act 2000 of the United Kingdom ('FSMA'). Any person who is not a relevant person under this section should not act or rely on this document or any of its contents. Research on its client companies produced and distributed by ED is normally commissioned and paid for by those companies themselves ('issuer financed research') and as such is not deemed to be independent, as defined by the FCA, but is 'objective' in that the authors are stating their own opinions. This document is prepared for clients under UK law. In the UK, companies quoted on AIM are subject to lighter due diligence than shares quoted on the main market and are therefore more likely to carry a higher degree of risk than main market companies.

This report is being provided to relevant persons by ED to provide background information about Benchmark Holdings. This document does not constitute, nor form part of, and should not be construed as, any offer for sale or purchase of (or solicitation of, or invitation to make any offer to buy or sell) any Securities (which may rise and fall in value). Nor shall it, or any part of it, form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

ED may in the future provide, or may have in the past provided, investment banking services to the Company. ED, its Directors or persons connected may have in the future, or have had in the past, a material investment in the Company.

More information is available on our website

www.equitydevelopment.co.uk

Equity Development, 15 Eldon Street, London, EC2M 7LD. Contact: info@equitydevelopment.co.uk 0207 065 2690