

Sustainability and profitability

9 November 2018

Benchmark reported a confident message on FY18 trading to the end of September 2018 across all divisions, taking adjusted EBITDA earnings for the period ahead of our estimates due to the higher margin mix of revenues from Advanced Nutrition. Headline financials for the period included c. 7% revenue growth vs FY17 to over £150m and adjusted EBITDA of over £16.5m, up 65% compared to FY17. The outlook is positive across the Group and with strategic progress on key projects positioning BMK for sustained earnings growth driven by increasing recognition of the value of specialist aquaculture products.

FY18 saw improved profitability in **Advanced Nutrition** where earnings growth has been driven by sales of premium specialist diets, as opposed to lower margin live feed.

In **Genetics**, the investment in developing disease-resistant salmon eggs paid off with high client demand that exceeded supply, together with market expansion. The state-of-the-art Salten facility in Norway is now fully operational and is set to **provide year-round supply** of salmon ova, increasing production capacity by up to 75% to satisfy demand, including from BMK's recently formed earnings enhancing JV with AquaChile.

The **Health Division** made excellent progress towards the full commercial launch of Ectosan + Cleantreat, BMK's revolutionary sea lice treatment. We are encouraged by both the number of successful trials, accelerating progress ahead of full commercial launch, as well as confirmation of strong outcomes, with **100% efficacy and no environmental impact**. The treatment offers promise in helping overcome the sea lice threat, and its major economic impact on the aquaculture industry.

We adjust our forecasts for the update: guidance on FY18 revenues at £150m is lower than our expectations of £162m, although the shortfall is more than offset by higher margin mix on adjusted EBITDA. This means that FY18 adjusted EBITDA guidance at over £16.5m is higher than our forecast of £16.4m. Continuing this trend into FY19 takes our revenue forecast down to £174m (previously £183m), but again more than offset by an improving sales mix which we estimate will translate into an upgrade in FY19 adjusted EBITDA to £23.4m, 4.6% above our prior forecast of £22.4m.

Our end 2018/2019 net debt forecasts rise in line with the rise in working capital outflow as per the statement: this increase stems from the build-up in the proportion of direct sales and inventory and is in line with growth across the business. This still looks to provide BMK adequate headroom to work within its current covenants.

Looking ahead, we expect news flow across the Group relating to the rollout of Ectosan + Cleantreat, plus further detail on the progress with the AquaChile JV.

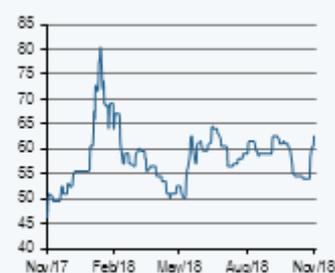
Valuation

Inputting new forecasts reflecting the improving earnings trajectory and the change in net debt gives an increased DCF valuation of £573m for Benchmark, versus £549m previously. This equates to 103p per share, having also updated for new shares in issue.

Company Data

EPIC	BMK
Price	61.5p
52 week Hi/Lo	80p / 49p
Market cap	£338m
ED value / share	103p

Share Price, p



Source: ADVFN

Description

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

Next news: FY18 results on 24 January 2019

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Forecast adjustments

Summary of changes			
y/e 30 Sept, £m	FY18	FY19	FY20
OLD			
Sales	162.2	183.9	203.2
Adjusted EBITDA*	16.4	22.4	26.8
Net cash/(debt)	-46.6	-56.4	-53.9
NEW			
Sales	150.3	173.9	203.2
Adjusted EBITDA	16.6	23.4	26.8
Net cash/(debt)	-56.0	-65.1	-63.9
CHANGE			
Sales	-7.4%	-5.5%	0.0%
Adjusted EBITDA	1.3%	4.6%	0.0%
Net cash/(debt)	-20%	-15%	-19%

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



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