

Transcript First Half Year 2020 results analyst call

Tom Van Aken – CEO Avantium

Bart Welten – CFO Avantium

Tom Van Aken – CEO Avantium: Good morning everyone and welcome to this conference call on our first half 2020 results. I hope you all managed to stay safe and healthy during these testing Corona times and more recently during the heatwave.

I am joined today on this call by Bart Welten, our CFO. We will start with giving a short introduction, after which we will open the line for any questions that you may have.

As always, I need to point out that this conference call may contain forward-looking statements. You can find the disclaimers about forward-looking statements in the press release about our 2020 half year Results, published on the Avantium website.

Let me now run you through the key developments. Bart, can I hand over to you to start off with the financial highlights?

Bart Welten – CFO Avantium: Thank you, Tom, the financial highlights. In the first half of 2020, our total revenues and other income increased to EUR 8.8 million from EUR 7.1 million in 2019. We define total revenues and other income as revenue earned through operations and other income by government grants. The consolidated revenues decreased by EUR 0.9 million to EUR 4.3 million, of which EUR 0.6 million relates to our Catalysis business. Avantium

Catalysis recorded EUR 4.0 million revenues in the first half of 2020. This is a 15% decline, which is attributable to the impact of COVID-19.

Other income increased to EUR 4.5 million from EUR 1.9 million in 2019, due to higher recognition of grants, specifically PEFerence, IMPRESS and the grant from the European Regional Development Fund.

Net loss for the first half amounted to EUR 11.0 million, compared to EUR 12.6 million loss in the first half of 2019. Our overall operational expenses in the first half of 2020 decreased to EUR 15.7 million. We have taken steps in the first half of 2020 to effectively manage our cash without loss of focus or compromising our progress.

At the end of the first half of 2020, our cash totalled EUR 34.7 million, with a cash outflow in the first half of EUR 10.7 million. This is in line with the guidance we provided in our previous communications of operational cash outflow of less than EUR 25 million for this year. Our cash outflow relates to investments in scaling-up and commercialising our technologies in Renewable Polymers and Renewable Chemistries.

With these highlights, Tom, I would now like to give it back to you for a short statement on key business developments.

Tom Van Aken – CEO Avantium: Thank you Bart.

Like we stated in the press release, we have kept a strong focus on scaling our plants-to-plastics technologies. We focus on commercialising our two lead products FDCA and plant-based MEG, the two key building blocks to product PEF. We focus on scaling up FDCA to commercial scale first, followed by the commercialisation of plant-based MEG.

For the planned construction of a 5 kilotons FDCA flagship plant, we continue to work towards making an investment decision by the end of this year. The plant is planned to start-up in 2023, with an estimated investment of approximately EUR 150 million. We have focused our efforts over the past six months to secure the next financing milestone by having discussions with various potential strategic partners to obtain equity commitments. We will make announcements on those discussions when appropriate. In parallel, we are in discussions with banks to secure commercial debt.

In addition to equity commitments, we are also in discussions with consumers brands and converters on the capacity allocation of the planned FDCA flagship plant. We aim to obtain offtake commitments from market parties in high-value applications.

Another pillar for a positive investment decision by the end of this year is the engineering design work of the flagship plant. In the second quarter of 2020, we decided to initiate the second phase of engineering, the so-called FEED phase. Engineering company Worley aims to complete this FEED by the end of 2020.

Now, I am moving to our other lead technology plant-based MEG. In the first half of 2020, we have successfully completed the commissioning and start-up of our plant-based MEG demonstration facility in Delfzijl and our demonstration plant is now operating. We have produced our first plant-based MEG in the demonstration plant, demonstrating the catalytic sugar conversion step at a more than 100 times larger scale than previously. With three pilot plants operational – for our FDCA technology, for our plant-based MEG technology and for our biorefinery - we have made good progress in developing and diversifying our business.

Throughout the first half of 2020, the world was dominated by the unprecedented challenges caused by the Coronavirus. The health and wellbeing of our employees have been our main priority and since the start of the virus, we adopted strict protocols in our offices, labs, and plants. I am proud that our critical activities have continued running smoothly and that the impact of COVID-19 on our business is limited. We have been able to find new ways of working in order to keep our activities going, while at the same time keeping everyone healthy and minimising the risk of transmission.

This concludes my statement for this morning. I would now like to ask the operator to open the line for questions that you may want to ask to Bart or to me.

QUESTIONS AND ANSWERS

- **Wim Hoste – KBC Securities**

Good morning, gentlemen, a couple of questions from my side. First, did I understand well from the introduction that you are still guiding for an operational cash burn of less than EUR 25 million for this year? Is that still the guidance?

Tom Van Aken – CEO Avantium: Do you want us to first answer the question?

Wim Hoste – KBC Securities: Yes, maybe one by one. That is okay for me if that is okay for you.

Tom Van Aken – CEO Avantium: Thank you and let me hand over to Bart for that.

Bart Welten – CFO Avantium: Good morning, Wim. The answer is confirmative. Yes, that is still our guidance for the cash outflow of total 2020, less than EUR 25 million.

Wim Hoste – KBC Securities: And then my second question is on your MEG, your mono-ethylene glycol strategy going forward. You said your first ambition is to move forward with FDCA and then MEG will follow shortly thereafter. What does that mean for the commercialisation strategy and route to market and investments that will be needed on MEG? Can you maybe elaborate a little bit more? Is there any ambition to build a flagship plant at some stage also for MEG or will this be a kind of technology that will be sold or licensed out from the start? Any thoughts around that?

Tom Van Aken – CEO Avantium: Thank you, Wim. Let me first say that I am very pleased with the progress that we are making with our plant-based MEG technology and that the start-up of the demonstration plant in Delfzijl has gone smoothly and according to our expectations. We are indeed looking to see how we can best scale up this technology towards commercialisation. This would indeed involve the construction of a demonstration plant. We are not yet at the stage we can provide any information on how to do that, if Avantium is going to do that by itself, with a partner or if a partner will do this – we will refer to that later on – in addition to of course what scale and what capital is going to be required for such a scale-up. I would like to point out that we first need to get some experience with the process, making sure that we have the process fully under control and have gone through the learning curve and be able to translate the data of the demonstration plant for the engineering of a flexi-plant.

That will take some time. In that sense, we are not yet at a phase where we can make specific announcements on the commercialisation and scale-up strategy of plant-based MEG, but we will come back to that in due course.

Wim Hoste – KBC Securities: One final question from me. If I go back to the operational cash burn guidance, what kind of grant income does this guidance assume for the second half? Do you expect a similar level or more or less? Can you give a bit of clarity on that?

Bart Welten – CFO Avantium: Let me try and answer your question. In the press release you can see that we had about EUR 4.5 million income from grants and we gave the names of the three most important ones. You can imagine that these will not stop in the second half of this year, so there will be a continuation of the work done as it linked to the programmes and the deliverables of these subsidy grant programmes. I will leave it will that. That is included in our cash forecast of the less than EUR 25 million.

Wim Hoste – KBC Securities: Thank you very much. I will leave the floor to the other participants. Thank you very much and good luck.

Tom Van Aken – CEO Avantium: Thank you, Wim.

Reginald Watson – ING

Good morning. I noticed in the press release that you observed the impact of COVID-19 on your Catalysis business was preventing installation teams from travelling. As a result, I guess you were not able to book as much revenue as you would otherwise had been expecting. Going forward, once travel restrictions are eased or have eased – perhaps you could give us an update on that – will you be able to catch up on some of the lost revenue or is that gone forever?

Tom Van Aken – CEO Avantium: Good morning, Reg, and thank you for joining us today. With regards to the COVID-impact on catalysis indeed you are right that it is significantly impacted by travel restrictions. That revenue is not lost or gone because it basically involves installations of Flowrence systems that still have to take place because these customers would like to get their Flowrences installed and up and running. So, those activities will still take place once it is safe. Of course, we are monitoring very closely when travel restrictions will be relaxed. I think it is fair to say that travelling outside of Europe is still very restricted and we will monitor that closely to see how that is going to evolve in the second half of the year. The impact

on revenue will be pushed back in time. Of course, we do not know if that is going to be in the second half of the year or if that this is going to be pushed into the future.

Reginald Watson – ING: And once we are still on Catalysis, you mentioned in the release some further orders from Mitsubishi Chemical Corporation subsidiary. Is there anything particularly significant about that order that led you to mention it in the release?

Tom Van Aken – CEO Avantium: I do not think that we would like to make any further comment to the significance of that. I do not think it plays a significant role in the revenues for 2020, so I think in that sense we do not have much more to say about this.

Reginald Watson – ING: Okay. Thank you.

And then moving on to the various piloting programmes and renewable polymers, et cetera, thanks for the information how that is going. If I could follow up on one of Wim's questions and in terms of Ray Technology for decision making on the taking the plants to a larger scale, what do you have in mind in terms of timeline? I appreciate it is early days at the moment.

Tom Van Aken – CEO Avantium: We have said previously that you would have to assume that you need about one year of running a demonstration plants – if all goes well – to generate the data that you need for doing conceptual process design. So, if all goes well this would mean that in 2021 we can do the conceptual process design of a commercial or a flagship plant. Again, that conceptual approach work can take six to twelve months, so that would give you an idea about the timelines that we have in mind for scaling our Ray Technology?

Reginald Watson – ING: And then in terms of Ray itself. You have been very frank about the engineering tests and hurdles you need to overcome and historically for the YXY. With Ray, now that you have achieved start-up, are there any significant hurdles still to overcome in terms of engineering or chemical processes or is this just setting now about collecting the data and finetuning?

Tom Van Aken – CEO Avantium: It is very hard to comment to that because clearly, we do not want to disclose any type of technological information that would either harm us from a competitive viewpoint or that would limit our opportunities to protect the technology by patent. So, we are quite reluctant to share further technological information but so far, everything goes according to plan and that is very encouraging for us. Why we are really putting a lot of focus on is that is going to be the next technology after FDCA that we plan to scale up and to commercialise.

I would just like to remind you that plant-based MEG is going to be a different type of challenge than commercialising FDCA because MEG is an existing product. So, we just have to make sure that the product that we make meets the specifications of the MEG that is being used within the polyester industry and we do not have to develop new applications or markets. In that sense, it is a more straightforward line to commercialisation as it is in existing products. That does not mean it is not going to be challenging because it is an existing product. It also means that there is an existing price level that people are used to and it is not like with FDCA and PEF where they are coming to the market first and then can also be the first to set the price. There is a very clear reference point regarding the price with the MEG that is currently on the market and a limited volume of sugar-based MEG, which is on the market by this company from India. That being said, the challenge will primarily be on the technology and the engineering side, and that is really where the focus of the company will be for the coming twelve months.

Reginald Watson – ING: Okay. And then finally on Avantium Renewable Polymers. Obviously, the second half of 2020 is the deadline you set yourselves for concluding discussions with your strategic partners. What further colour can you give us on the progress you have there?

Tom Van Aken – CEO Avantium: Reg, I think it is logical that you ask that question. We have been very clear before on how important it is that we secure these commitments from our strategic partners, next to of course the commercial offtake, which I think is also highly relevant. We have clearly decided within the team here that we are not going to provide further information about this. Providing information or colour on this may backfire on us in the negotiations. That is the reason why we are not in a position this morning to give you that information. Once we have secured these commitments, clearly, we will communicate about it and provide you with more information about how we plan to complete the financing of this flagship plant in the year 2020. So, that is still in the pipeline.

Reginald Watson – ING: Okay. And then a final question on that funding then. You also mentioned the release that you are still in discussion with the banks about the debt funding for the plants as well. Would it be reasonable to assume that the banks are also waiting on the outcome of your negotiations with strategic partners? Or is this actually a parallel stream?

Tom Van Aken – CEO Avantium: It is a logical line of thinking, Reg.

Reginald Watson – ING: Okay. Thank you.

- **Patrick Roquas – Kepler Cheuvreux**

Good morning, from an airconditioned room here in Amsterdam. I have a couple of questions. First, on the grants. What kind of visibility do you have for 2021 and onwards and is there a kind of minimum amount that you expect for the next few years?

Bart Welten – CFO Avantium: Thank you, Patrick. You know that we have quite a substantial number of government grants where we look into. We mentioned just a few important ones, which were communicated also last year, where we are now getting the benefits from. I mentioned that these programmes are never short-term, so not for a few months. We expect to really use them to the max. We also see that a lot of the topics that we are covering in our company are getting a lot more attention from European initiatives as well, so there is a lot happening in the outside world that even will support new grants if we can apply for those. In time, we will make our assumptions on 2021 but for the time being, we cannot say a lot about that, but we continue to believe that grants are an important source of income for our company.

Patrick Roquas – Kepler Cheuvreux: Thank you. That is helpful. Then on the financing for FDCA, so a follow-up on Reg's questions. It is easy to ask from the outside but why is it taking so long to get some of these strategic partners on board? This is the plan since the break-up with BASF; why is it taking so long?

Tom Van Aken – CEO Avantium: It is very hard to comment to that, Patrick. I understand that you really would like to get that information, but it is impossible for me to give more information because then I would actually say more than what we agreed to. So, unfortunately, I cannot comment to that this morning.

Patrick Roquas – Kepler Cheuvreux: No worries. Could you remind us about the remaining cash burn of Avantium when you have the funding for the flagship completed?

Bart Welten – CFO Avantium: Let me take that question. As it is extremely important to get the funding of the flagship, equity partners and banks, because that will put this tremendous opportunity in a safe world. Tom also mentioned that we are advancing well with bioMEG, which will be very important to us to also drive that. He just gave some timelines. So, we will be looking for the cash burn of the company. It will be in line or a little lower, because of the funding will be in the RNP flagship plant taken on. So, we will be looking for funding those initiatives moving forward. I think that will be very important for us in defining the next step of our financing plans.

Patrick Roquas – Kepler Cheuvreux: Thank you. That is it from my side.



Tom Van Aken – CEO Avantium: Thank you, Patrick.

Operator: There are no more questions, sir.

Tom Van Aken – CEO Avantium: Then I would like to conclude the call by thanking everyone for participating in this conference call on the first half year results for Avantium. Clearly, we look forward to share with you further information on the financing of the flagship plant in the second half of this year. We look forward to then provide you with further details that I am sure many of you would like to hear more about. Thank you again for listening in this morning and we look forward to working with you. See you soon! Thank you.

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End of call