

Transcript Full year 2019 results analyst call

Tom Van Aken – CEO Avantium

Bart Welten – CFO Avantium

Tom Van Aken – CEO Avantium: Good morning everyone and thank you for calling in today. Bart Welten, our CFO, is also in the call. We can both answer any of your questions after my opening statement. Let me first say a few words about the Coronavirus pandemic, which dominates the news and creates big challenges to all of us.

The health and safety of our employees has always been the most important to how we operate. Avantium is therefore taking all necessary steps to ensure the wellbeing of our employees, our partners and the wider communities in which we operate.

Since March 16, we have implemented extraordinary measures including having our employees working from home until at least April 6, 2020. Our critical operations at the plant sites, the laboratories and offices, continue running. We have taken all appropriate safety measures for our colleagues who still work in our plants and labs, including steps to split presence at our critical operations, guidance on hygiene and social distancing and extra cleaning. We also deferred all business travel inside and outside Dutch borders.

A crisis team at the management team level coordinates all relevant aspects for operations and the health and safety on a daily basis. We are closely monitoring the impact of both the Coronavirus and the consequences of the recent turmoil in the petroleum industry on our business.



At present, we have not experienced material negative changes to our business but it is still too early to predict how the next weeks and months will unfold. If travel restrictions are extended for a longer period of time, this may impact our Catalysis business, as we are unable to travel to customers to install and maintain Flowrence systems. In addition, development projects in our renewable chemistry and renewable polymer business units could experience delays in achieving technical and commercial milestones. In case of closure of all our operations is required, in offices, labs and pilot plants, we expect this will further impact operations and our ability to make progress as a company. Obviously, we are conducting alternative scenario analyses and we are looking for possibilities to implement cost reductions and delay certain capital expenditures but it is too early to quantify or specify such actions.

We will continuously monitor the situation and we will communicate any material changes to our operational outlook, which may occur as a result of this pandemic. Let me assure you that we are strongly focused on our business continuity.

Let's now move on to the annual results 2019 that we announced this morning. I would like to take you quickly through the key developments and after that there will be room for your questions.

Last year, consolidated revenues from operations increased by 22% to EUR 13.8 million. This was mainly driven by the increased systems sales in our Catalysis business unit. Catalysis recorded 15% higher revenues in 2019.

In our Renewable Chemistries business higher revenues related to collaboration agreements with partners. And revenues in Avantium Renewable Polymers rose from agreements allowing customers to validate our technology.

Net loss for the year 2019 amounted to EUR 23.5 million. Overall operational cost in 2019 amounted to EUR 41 million, compared to EUR 39.3 million in 2018. In 2019 we included Avantium Renewable Polymers in our cost base, which resulted in an additional EUR 10.5 million of operational cost. The increase in operational cost in 2019 was partially offset by the provision for the onerous contract expenses of EUR 13.1 million made in 2018.

Our cash position was EUR 45.4 million as of December 31, 2019. The 2019 cash outflow resulted primarily from investments in our technology programmes. As you may remember, we

paid EUR 17.4 million in January 2019 to regain full ownership of Avantium Renewable Polymers.

We maintained focus on our promising technologies last year and advancing them towards commercialisation. We made good progress with the implementation of the revised commercialisation strategy of Avantium Renewable Polymers. We have started the preparations for the planned construction of the 5 kilotonnes FDCA flagship plant in Delfzijl, currently planned to start up in 2023 with an estimated investment of approximately EUR 150 million.

In December 2019, we confirmed the first important financing milestone to support the building of the FDCA flagship plant, with the reconfirmation of the EUR 25 million European BBI subsidy, the so-called PEference grant.

In early January 2020, the second key financing milestone was achieved when we announced to choose for Chemie Park Delfzijl as the location for the flagship plant and a regional consortium confirmed a related financing package of EUR 30 million.

Another highlight in 2019 was the opening of the Ray demonstration plant to produce plant-based mono-ethylene glycol. Moreover, Avantium secured more than EUR 9 million in European Union and regional grants last year to support further developments of our Ray Technology and Dawn Technology.

For the coming year, we will focus on attracting the funding for the FDCA flagship plant in Delfzijl, which we plan to have in place before the end of the year 2020. We furthermore plan to obtain off-take commitments from our partners and our Renewable Chemistries business will concentrate on exploring partnership opportunities for our three lead programmes Ray, Dawn and Volta.

In Catalysis we aim for profitable growth by, amongst other things, broadening our portfolio with new products and services.

The focus of the company in 2020 will be on securing financing to accelerate towards commercialisation of our lead programmes. We aim for an operational cash outflow of less than EUR 25 million.



I would like to conclude my statement with the following. 2019 was a pivotal year for Avantium and we continue to focus on our commitment to becoming a leader in renewable chemistry. We are encouraged by the continuing trend to move towards a circular bio-based economy. 2019 saw us re-affirm our commitments to a fossil-free world. In 2019, we therefore also conducted an analysis of our sustainability performance and we agreed on a pathway to achieving ambitious 2030 sustainability targets for our company, which we laid out in our Sustainability Manifesto. We have published this Sustainability Manifesto today on our website.

That concludes my statement and I would now like to turn back to the operator to open the floor for questions. Thank you.

QUESTIONS AND ANSWERS

- **Wim Horsten – KBC Securities**

Good morning, gentlemen, I have a couple of questions. Can you maybe first talk about the operational performance of the Ray and Dawn demonstration units? How is that going? Is that going according to plan? Do you see yields improving? Any commentary on that would be helpful.

My second question is on the financing of the FDCA plant. Can you offer an update on how you see the remainder of the financing to be organised? Is there any change from the previous communication that was made at the time of the Capital Markets Day? Any update there would also be helpful. Thank you.

Tom Van Aken – CEO Avantium: Thank you for your questions. I will try to address your questions on the operational performance of the Renewable Chemistries Ray and Dawn demonstration plants. Let me start off with Ray. We opened this plant in November, followed by the commissioning of the demonstration plant and today we are in the starting-up process of the Ray demo plant. This is completely worked out in terms of how to do this in an appropriate and safe manner and that is completely on track. We expect to be able to provide more insight in how the Ray demo plant is going towards the end of the year, after we have had sufficient ability to run the process, run trials and analyse the data that are coming out of the Ray demonstration plant. But so far, everything is on track.

On the Dawn demonstration side, we have now completed our first year of operation. We have done a large number of trials using feedstocks from customers from different places around the globe. In that sense, the technology is working. What is more challenging on the Dawn side is that the business case is more challenging as we look at the worldwide sugar prices, which are not at very high levels, to put it mildly. That of course is putting some pressure on the business case for Dawn but we continue to operate the Dawn demonstration plant as we have planned and that is going according to our expectations.

Then your question on the FDCA plant, whether there are any changes. The answer to that is that there are no changes. We are currently focusing on securing the commitment of strategic equity partners. Those discussions are progressing. Clearly, we are monitoring this very closely to ensure that the Coronavirus pandemic is not causing any impact for our partners. So far, I think this is going as we have planned but clearly we are monitoring this very closely. Right now, we think that we can get commitments for the remainder of the EUR 150 million financing in the year 2020. That would allow us to make a positive investment decision by the end of the year.

Wim Horsten – KBC Securities: Okay. And your part in the financing is still guided to be EUR 30 million to EUR 35 million?

Tom Van Aken – CEO Avantium: Yes, it is. Keep in mind that part of the EUR 150 million is the operational cost of our Renewable Polymers business. We paid that in 2019 and we continue to pay in 2020. So, that is included in these EUR 30 million to EUR 35 million that we are allocating to this investment project.

Wim Horsten – KBC Securities: Clear. Thanks!

- **Reginald Watson – ING**

Good morning. Can I just come back to what you mentioned on Dawn, that the business case is challenging? In the press release you mention the fact that you are exploring licensing agreements on Dawn already. Where does that cross-over work? If the business case is challenging I would not expect you really to be making much progress on the licensing agreements.

Tom Van Aken – CEO Avantium: Of course, that makes sense. We are in discussions with partners on this. We do not plan to commit our own capital to build larger scale plants on the basis of the Dawn technology. Therefore, we are looking for partners that are interested in the technology and that are also willing to put the capital on the table to build larger-scale bio-refineries on the basis of our technology. Clearly, these decisions are also influenced by what the business case looks like. As I said in my previous statement, the worldwide sugar prices are not helping in this sense. Of course, partners are taking a longer-term look at this but this is where we are and therefore, this is certainly playing an important role in those discussions.



Reginald Watson – ING: And where do you need the sugar price to be for Dawn technology to make sense?

Tom Van Aken – CEO Avantium: We have decided to not make that public because that would actually influence our discussions with our potential clients.

Reginald Watson – ING: Thank you. Can I look at this in another way? From memory, in the lab, Dawn technology had a massive cost advantage over 1g sugar. So, where in the piloting bit have you discovered that actually costs, the economics have changed versus what was taking place in the lab?

Tom Van Aken – CEO Avantium: I understand the question, Reg, but it is difficult to answer because we are now looking at the conceptual designs that are coming out of the pilot plant data. We are using that in the models. In that sense, we are not really looking back to say that this is how it worked in lab scale. We just look at the data as they are coming out of the pilot plant. Of course, we are using real-time data in terms of feedstock cost, energy cost, raw material cost, et cetera. The only thing I am saying right now is that it makes it more challenging compared to when we were in lab phase. The sugar prices have come down and that is not helping this business case.

Reginald Watson – ING: And do you see any immediate avenues that you can explore to improve the economics of this process or do you really feel that because it is such a simple and well understood process that you are there and that the only way the economies work now is if the delta with the sugar price is improving?

Tom Van Aken – CEO Avantium: With technology like this there are always things we can improve on and see where we can further reduce costs and capex and, on the other hand, how we can further valorise everything that is coming out of the plant. Clearly, this is a bio-refinery so if you look for example at lignin, you can burn the lignin and take the calorific value or you can pursue higher value applications. If you succeed in that, it helps the business case. So, we are looking on all ends to see how we can improve this.

Reginald Watson – ING: Okay, thank you. I would like to move on to the Catalysis business, if I may. I have several questions here. In the press release you mentioned new avenues of exploration, so recycling and absorption. Do I understand 'absorption' correctly that it is adhesives? From the description it look like it? Could you please quantify the potential scale

of the businesses relative to your existing oil and gas Catalysis business? And then related to that, given what is happening to the oil price, what feedback are you getting from customers and what are your expectations in terms of revenue streams from that part of your Catalysis business?

Tom Van Aken – CEO Avantium: Let me first try to answer your question on absorption. Absorption is not adhesives; it is actually a sort of separation technology that helps to clean certain product streams, which is used both in petrochemical processes but also in renewable chemical processes. We believe that absorption is actually a sort of emerging technology. We are still in early days, so this is certainly well below 10% of our revenues for the year if you look at these new technologies. I think it is holding a lot of promise and a lot of potential for the future, which is why we are expanding into this new area.

Coming back to your question on the oil price and how this is affecting our business. We are monitoring this very closely. Clearly, we have seen that the major oil companies are announcing significant cost reduction programmes. So far, it is not affecting our business. We have not seen anything in our existing projects or discussions with customers on how this is affecting us. We know from the past that sometimes it takes a bit longer before this type of cost reduction programmes actually trickle down into their research and technology organisations and we see it in our business. In that sense, it is hard to forecast on what this will mean for the 2020 results. The only thing is that we are monitoring this very closely.

Reginald Watson – ING: Thank you.

- **Patrick Roquas – Kepler Cheuvreux**

Good morning, I have a few questions. First, in your opening statement you talked about potential delays in achieving technical milestones. Is that applicable to all your technologies or in particular to the ones that you have started up?

Secondly, you mentioned the operational cash flow in 2020 to be less than EUR 25 million. My line was a bit disturbed and I am not sure if I got that completely right. Could you clarify that a bit for me, please?

Tom Van Aken – CEO Avantium: Yes, in the opening statement I talked about potential delay in technical milestones. That is applicable to all our business units. As I said, in our Catalysis business the travel restrictions are really a burden because we cannot travel to customers to install Flowrence systems or to do maintenance of our Flowrence systems. We are monitoring this very closely. The fact that we have only critical operations going on in our labs and pilot plants means that not all projects are continuing as they would have done normally, if we would have the normal number of people in the labs and plants. Again, we monitor this very closely to make sure that we keep all critical projects execute. But clearly, we see it as a potential risk for our company if we take longer in executing these projects and these trials. People have to work from home or they are calling in sick.

Another thing I would like to point out is that if you are looking at our trials we are doing together with customers on the PEF-side, these trials are happening around the globe in the area of films, bottles and other applications. Typically, we would have our own people there to witness these trials and to help and support customers with executing these trials but due to travel restrictions that is currently not possible. This means that some of these trials are delayed or impacted by this. That is what I mean by ‘potential delays in technical milestones’.

On the operational cash flow let me turn to Bart. Bart, can you explain that?

Bart Welten – CFO Avantium: Good morning Patrick. I confirm that what you heard was correct. We say that we expect an operational cash flow of less than EUR 25 million in 2020 and I would like to add that the operational cash flow in 2019 was minus EUR 20.4 million excluding the one-off of the Synvina cash out to BASF of EUR 17.4 million. We think we give you the right expectations for 2020.

Patrick Roquas – Kepler Cheuvreux: Thank you.

- **Reginald Watson – ING**

I just want to follow up on that last point you made. Obviously, we can look at the math and see that you had a EUR 20.4 million of cash burn in in 2019.

Bart Welten – CFO Avantium: Correct.



Reginald Watson – ING: What is the reason for less than EUR 25 million? Is that to give yourself a buffer or is it reasonable to expect that 20.4 million number to grow a little bit but to a number less than 25?

Bart Welten – CFO Avantium: With the EUR 25 million we gave the upper limit and in that there are many elements coming together. We took this in such a way that we will deliver on the promise. In there, there are clearly things like capex and working capital elements and also some of the uncertainty that Tom referred to. We feel very confident about the EUR 25 million.

Reginald Watson – ING: Okay. This brings me to the second assumption which is that also current business conditions and Tom's warning on business disruption are also included in that. I would just like to confirm that they are.

Bart Welten – CFO Avantium: Yes, but I also would like to say that year to date we do not have a real impact from Corona on our figures.

Reginald Watson – ING: Understood. Thank you.

Tom Van Aken – CEO Avantium: As there are no further questions, thank you all for calling in today. I know these are extraordinary times. I am sure they are also extraordinary for all of you. Thank you for your continued interest in the company and we will keep you updated on important developments from the Avantium side.

That's it for now. Thank you and good morning!

End of call