Avantium 2023 Full-Year Results

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Participants

Tom van Aken – CEO

Boudewijn van Schaïk – CFO

Aarne Luten – Head of Investor Relations

Operator: Hello, and welcome to the Avantium 2023 full year results call. My name is Laura, and I will be your coordinator for today's event. Please note, this call is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

Today, we have Tom van Aken, CEO; Boudewijn van Schaïk, CFO; and Aarne Luten, Head of Investor Relations as our presenters.

I will now hand you over to your host, Aarne Luten, the Head of Investor Relations, to begin today's conference. Thank you.

Aarne Luten: Yes. Thank you, operator, and good morning, everyone. And thank you all for joining us today. My name is Aarne Luten. I'm Avantium's Head of Investor Relations. Today's prepared remarks will be delivered by our CEO, Tom van Aken, and our CFO, Boudewijn van Schaïk, followed by a Q&A session.

This call is being recorded, and a transcript of the call will be made available on Avantium's website soon after the call.

Before we begin, I would like to point out the disclaimer at the bottom of our press release and remind participants that some of our comments today may include forward-looking statements reflecting Avantium's view of future events. These matters involve risks and uncertainties that could cause our results to materially differ from our forward-looking statements.

I would like to hand over now to Tom van Aken. The floor is yours, Tom.

Tom van Aken: Thank you, Aarne. Good morning, everyone, and thank you for taking the time to join us during this call. Yesterday evening, Avantium announced its full year 2023 results, and we would like to run you through the key business and financial highlights.

Let me start with the key business highlights. Two years ago, we celebrated the First Piling Ceremony for our FDCA Flagship Plant, and now we are in the completing stages of the construction of the facility. This quarter, as per plan, we started the first commissioning activities.

To give you an example, we have already commissioned the electrical systems of our FDCA Flagship Plant. As said before, we plan to commission the FDCA Flagship Plant in phases, followed by the sequential start-up of the different subsystems of the Flagship Plant. In line with previous guidance, we expect to start FDCA production in the second half of 2024. This will enable the launch of PEF products at commercial scale.

We have made good progress on the recruitment of the Flagship Plant Team and the Flagship Plant organisation is now fully staffed. On the side note, yesterday evening, we launched a new video where we elaborate on the full year 2023 results, and which gives you a good impression of where we stand with the FDCA Flagship Plant construction. I invite you to check it out online.

Looking at the commercial progress, in 2023, Avantium signed additional offtake agreements for the FDCA Flagship Plant with adhesive producer, Henkel, interior textile manufacturer, Kvadrat, and sustainable fashion brand, PANGAIA. This takes the total offtake agreements to 15.

In November 2023, Avantium announced a collaboration with Albert Heijn, the largest supermarket chain in the Netherlands via our offtake partnership with bottler Refresco. Once the FDCA Flagship Plant is operational, the collaboration will see new fruit juice bottles made from PEF hit the shelves. Under this collaboration, we're planning to do more packaging projects with Albert Heijn and its suppliers.

In 2023, we also signed our first technology license agreement, and we are conducting promising discussions with other discussions to explore additional licensing opportunities. As explained at our Capital Markets Day in December 2023, we believe that the realisation of an operating FDCA Flagship Plant, together with the implementation of our technology license strategy, would mark a significant inflection point for Avantium.

If we switch to the other parts of Avantium, 2023 was a strong year for our Volta Technology, our carbon capture and utilisation solution. We signed two long-term strategic collaborations with SCG Chemicals and Norsk Hydro. Avantium and SCG Chemicals announced a joint development agreement in June for the further development of the promising polymer PLGA produced by Volta Technology.

Over the next two years, Avantium and SCG will collaborate on the construction of a pilot plant with an indicative capacity of 10 tons per year. Avantium aims to attract more strategic partnerships to support the scale up and financing of the pilot plant for Volta.

Our Ray Technology for the production of plant-based MEG took significant steps in 2023 from both the technical and the commercial perspective. Nonetheless, we decided to prioritise the commercialisation and licensing of our FDCA and PEF technology. Therefore, we’ve put further investments in our Ray Technology on hold until one or more appropriate strategic equity partners with the required resources have been secured.

As a result, we've significantly scaled down our Ray Technology team. This was obviously a tough decision, but I'm pleased that we're able to redeploy more than 80% of the employees working on our Ray Technology either to positions at the FDCA Flagship Plant or to vacancies in other business segments. In this way, we were able to retain key talent, know-how, and expertise related to the Ray Technology within the company.

For our R&D Solutions business, we're on the right track to profitable growth after the first full year of pursuing our new strategic direction, focusing on four sustainable currency areas. As a refresher, those areas include: green hydrogen, chemical plastic recycling, absorption, and sustainable chemical building blocks. There were promising activities across those four areas in 2023, which resulted in a €2.2 million increase in revenues for Avantium R&D solutions.

Our Chief Financial Officer, Boudewijn van Schaïk will tell you more about this, and he will run you through the financial results in more detail. Bo, please go ahead.

Boudewijn van Schaïk: Thank you, Tom, and good morning, everyone. So last night, we published our unaudited financial results for 2023, and we expect to publish our annual report in the coming days, but in any event, no later than the middle of next week.

Despite the significant effort from everybody involved, the auditor was unable to conclude on the final audit procedures yesterday, and this resulted in a delay in the publication of our annual report.

So let me begin by highlighting the progress that we have made on our financial position in 2023. It was another challenging year from geopolitical, inflationary and economic perspective. With persistently high inflation and high interest rates in 2023 as well as continued supply chain constraints, we experienced increased costs across all activities in the company, which in particular impacted the construction of our FDCA Flagship Plant. I'm very pleased that we were able to secure a €64.5 million financing package from the existing lenders and the shareholders in Avantium Renewable Polymers to cover the anticipated cost increase.

In order to cover Avantium's share of the financing package, we successfully completed an equity raise of €70 million in February 2024. With this funding secured, we have further solidified our financial profile, and we expect to remain well-capitalised through the commissioning and start-up of our FDCA Flagship Plant.

Moving to our key financials in 2023. Total revenues amounted to €19.7 million, an 11% increase compared to 2022. This increase is mainly a result of 20% higher revenues from our R&D solutions business, following new orders, the delivery of several Flowrence systems, as well as contract R&D projects during the year.

Upon entering into the technology license agreement with Origin Materials in February 2023, Avantium Renewable Polymers received the first milestone payment of €7.5 million. And under IFRS 15, we recognised €4.6 million in revenues under this contract in 2023. As a reminder, in 2022, we already received a €5 million payment from Origin Materials, which was related to due diligence.

Our net operating expenses for the year were €52.9 million, which is an increase of 27% compared to last year. This increase is mainly delivered by the anticipated 20% increase in employees over the year as well as increased business activities, including additional costs relating to compliance assessments of PEF and FDCA needed for the use as food contact material and its registration in jurisdictions of interest.

As a result of the higher operating expenses, we reported EBITDA of minus €27.5 million in 2023 versus minus €16.3 million in 2022.

Turning to our cash position. On 31 December 2023, this was €35.2 million. Over the year, we invested €90 million in planned CapEx, which was primarily for the engineering and construction of the FDCA Flagship Plant. This cash outflow was partly offset by drawdowns of €75 million from the existing debt facility agreement and the €2.5 million loan from Fonds Nieuwe Doen, which was secured in February 2023 as well as €6.7 million from our minority shareholders in Avantium Renewable Polymers under the shareholder loan agreement that we entered into in December last year.

The cash position as per 31st December does not include an additional €15 million loan from our lenders for Avantium Renewable Polymers, which we anticipate to draw down in the second quarter of this year. In our annual report, we will also report on our ESG performance and our targets, including our CO2 emissions, and I invite you to take a look at this once it is published.

Back to you, Tom.

Tom van Aken: Thank you, Boudewijn. So in conclusion, 2023 has been a good year for Avantium from both a commercial and execution perspective. Our most significant project, the construction of our FDCA Flagship Plant remains on track.

Moreover, we secured the necessary funding in the beginning of 2024, and the company is now well-capitalised for the next phase of commercialisation. Looking ahead, Avantium continues to pursue additional offtake agreements for the FDCA Flagship Plant and capacity reservations to support licensees.

We are also in advanced discussions with major feedstock suppliers for the supply of high fructose syrup to licensed plants for the production of FDCA and PEF. We're looking forward to another exciting year where we expect to bring the FDCA Flagship Plant onstream, laying the foundation for anticipated revenue streams to materialise in 2025 and beyond.

For our Ray Technology, a core team continues to pursue funding from strategic investors to enable the long-term continuation of the Ray Technology. For our Volta Technology platform, Avantium aims to attract more external funding to support the scale up of Volta Technology towards the pilot plant and its key products.

Finally, our R&D Solutions business aims to continue to deliver double-digit top line growth in 2024 compared to 2023.

This concludes our prepared remarks. And operator, you may now open the line for questions, please. Thank you.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll now take our first question from Usama Tariq from ABN AMRO - ODDO BHF. Your line is open. Please go ahead.

Usama Tariq: My first question would be, could you comment on CapEx for next year? And how do you see it for the first half and the second half? If you could provide some colour there? And just a second small question would be, you just indicated that you were in advanced discussions with suppliers for the fructose syrup agreement. Wasn't it already done from my understanding? Or could you just provide a little bit more colour as to which ones or if you could provide some names there? Thank you.

Tom van Aken: Thank you.

Boudewijn van Schaïk: Usama, thanks for your questions. I'll start with the first one on the CapEx for 2024. So we are progressing well with the construction of the FDCA Flagship Plant. We disclosed in 2022 what our investments in PPE were, as well as 2023. And we've given guidance on the expected final CapEx number, which we disclosed also during the Capital Markets Day.

So I can't give you a forward-looking statement in terms of exact number, but if you look at what we spent to-date and what the guidance is, I think from there, you can deduce what the remaining cost should be in 2024. What I can tell you is that we anticipate to incur those costs significantly all of them in the first half of this year as we work towards completion of the flagship and then start up in the second half of the year.

Tom van Aken: Okay. Let me then move on to the second question on the high fructose syrup suppliers. So just to be clear, the contract is in place for the supply of high fructose syrup to the flagship plants. That is a contract that we've signed with the French company Tereos. So that is not what I refer to. I refer to the discussions for license facilities.

And if you look at the discussion with potential licensees, basically, there are three major topics that form the base of these discussions. It is a supply of feedstock that they want to secure, it's about the technology and where are they going to build an FDCA plant under our technology license, and they want to of course make sure that the market demand is fulfilled and that there is sufficient demand for the products that they're going to be producing.

What we have done is in order to basically accommodate our licensees, we have initiated discussions with fructose suppliers. Of course, we have good context with all the major fructose suppliers in the world. And we basically are moving them to make sure that we have their commitment that they can supply sufficient volumes of high fructose syrup to licensees to make sure that the supply of raw materials is not going to be seen as a risk to our licensees.

So that is where we want to make sure that we can provide them with the commitment of these fructose suppliers so that they feel like that part is being sufficiently covered. Is that a sufficient answer, Usama?

Usama Tariq: Yes, it is. Thank you.

Operator: And we'll now move on to our next question from Paul de Froment from Bryan, Garnier & Co. Your line is open. Please go ahead.

Paul de Froment: Good morning, everyone. Two questions from me. The first one regarding your legacy business externalised R&D solutions. Do you expect some new momentum over the next quarter or the next year? So that's my first question. And my second question is regarding your current license discussions. Is there any strong interest coming from one of your 15 offtakers? Thank you very much.

Tom van Aken: Okay. Thank you, Paul. So first to our R&D Solutions business or legacy business as you call it, Paul. So we have set a new strategy, which is focusing on those four sustainable chemistry areas, and last year, we've seen that we've made roughly €2 million of revenue on those areas that is in line with what we had expected.

But this is really the start of a new business and we expect that that business is going to further grow. And I think in that sense, it's also important to look at the bottom line impact of that because in 2023, we have made significant expansion of the team and investments in our capability, which is why our expenses in that part of the business have gone up. And that is really an investment that we've made for the future as we expect to further grow this business.

And if you want to be able to do these type of projects, you need to have the capabilities both from a human resource perspective, but also from a technical perspective. And that is where we've invested in, in 2023, which is why you've seen that the, let's say, the bottom line impact of the R&D Solutions business was lower than in previous years, but it is really something that we see as an investment for the future.

In terms of our licensing discussions, we don't believe one of our current 15 offtake agreements as logical partners for buying a technology license from us. They are more interested in taking the product. So we're absolutely involving them in discussions to make sure that there is a sufficient demand for the material so that if people build larger scale FDCA plants that there are going to be customers to take those products.

But if you look at the licensing discussions that we have, it is predominantly with companies that are in the production of chemicals or the production of plastics, polymer producers, or companies that are active in the supply of feedstock for this. So from plant-based sugars. And they look at these offtakers to really cover the commercial risk. But if you look at these brand owners, they typically don't like to invest in building large field chemical operations, and therefore, they see themselves more as the off-takers of the product covering the commercial risk while they're looking for chemical companies to be producing this, and in that sense, taking the operational and technical risk.

Paul de Froment: Okay. That is very clear. Thank you very much.

Operator: Thank you. Ladies and gentlemen, as a reminder, once again, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We will now take our next question from Fernand de Boer with Degroof Petercam. Thank you. Please go ahead.

Fernand de Boer: Yes, good morning, and thank you for taking my questions. A few. One is coming back on the CapEx question. Of course, the CapEx thing is one thing, but I think now also on the liability side, and there are some in the working capital, there is some buildup for Worley. So could you tell us when do you expect to pay those bills for Worley? That's one thing because that also means get out above CapEx?

And then the second one is on your gross profit of cost of goods sold. If I look at that, step-up in the second half in the cost of goods sold, looks to me quite substantially given the step-up in your revenues, I mean, the sales. So could you elaborate a little bit on that? Because I think the sales growth in solutions doesn't require a lot of cost of goods sold. So what exactly happened here?

And then the last one, if you look at your financial expenses, first half, I think it was minus €4.4 million, and then you had a financial income in the second half of the year to fully offset that minus €4.4 million in the first half. So what was driving that? Because, your net debt is moving up.

Boudewijn van Schaïk: Good morning, Fernand. Thank you. Thanks for your questions. So I'll answer your three questions. So the first one, indeed, we had - at the end of the year, we had quite a big liability for a Worley invoice. There was an invoice that we received in December but wasn't due for payment yet. So we did have to accrue for that, but we hadn't actually paid it.

So we have a rolling payment cycle between receiving invoice and actually paying it. That invoice has long been paid. So we typically have about a month of when we receive invoices and when we actually pay them. So it won't have a significant impact this year, because as I mentioned on the previous question, we expect to finalise all the CapEx costs in the coming months in relation to the flagship plant.

Then on the COGS, it's a difficult one to explain because we've chosen for a P&L presentation, whereby we do revenues and then we include all of our raw materials and cost of sales as net operating expenses. We are - as the company is maturing and going from an R&D company more to an operating company, we are looking to change the presentation of our P&L to a more traditional revenue cost of sales, gross margin presentation style. I think it will also be easier to then understand what is actual operating expenses and what is revenue related expenses.

So this number is raw materials and contract costs, but also includes, for example, laboratory consumables. So as we've been ramping up activities also in the R&D Solutions business, that also requires quite a bit of lab work related to that revenue. We have contract R&D work that requires a lot of lab work particularly upfront, while these are quite long contracts that we have with major customers for this R&D work.

We have costs related to the production in the pilot plant, where we did quite a bit of work in the second half of the year, also for materials that we've been selling. And for R&D solutions, we did see a back-ended activity during the year. So you'll recall at half year, we presented lower results for R&D solutions. We have recovered that in the second half of the year, but that did mean quite substantial activities, which also there related to an increase in costs.

So that number is a combination of all of that. I understand it's difficult to really break that down and to understand how that is allocated. So as I mentioned, we will be looking going forward to provide better disclosure on that.

Fernand de Boer: But in your P&L, you simply split out all those costs. So you have the raw materials and contract costs, which moved up and the lab cost is a different line. So I'm not sure if I fully understand your answer.

Boudewijn van Schaïk: We have lab consumables, which is related to revenue-generating activities, and that is included in the raw materials costs. And the lab expenses are more lab overhead expenses that are not directly allocatable to revenue contracts. So again there, there is a split.

Okay? And then on the financial expenses. Remember, we have done some restatements. One of the key restatements actually does relate to interest expense. In the past, we took the decision to expense the interest related costs to the flagship. We've now taken the decision to capitalise those under IFRS. So in half year, you would have still seen it going through the P&L. In full year, we're now capitalising all of the interest expenses. So it's not actually going through the P&L. You do see it in the cash flow statement, but you don't actually see the borrowing costs going through the P&L now.

Fernand de Boer: What's the reason then behind that to capitalise interest costs? Because I think you are the first company where I see this.

Boudewijn van Schaïk: We’ve been working with an external accounting firm. We were initially of the view that it's better to expense because it's also clearer for the reader. But under IFRS now, under the IAS statements, you actually have to capitalise borrowing costs if the borrowing is directly related to the activities to actually construct the asset. So there's a direct relationship between the two of them, you actually do have to capitalise that now. You cannot expense it.

Fernand de Boer: But then it means that in the second half of this year, when you start production in the Flagship Plant, how is this going to - is then those costs coming back in the P&L? Or going forward, this means that it will be capitalised always as long as you have the debt all related to the Flexi plant?

Boudewijn van Schaïk: That's a very good question, Fernand. And that was one of the reasons why we initially chose to have these costs going through the P&L for a consistency perspective because you're absolutely right. As soon as the flagship becomes operational, then the financing costs will go through the P&L and no longer in the balance sheet.

Fernand de Boer: And those costs which are capitalised will be amortised.

Boudewijn van Schaïk: Correct.

Operator: Thank you. And we will now take our next question from Reg Watson with ING. Your line is open. please go ahead.

Reg Watson: Morning, all. Just to come back on the balance sheet bottom line and the cash burn. So if I add it all up, you had €35 million of cash at December. You've got another €15 million coming in post that balance date from the loan extension. And you've got another €70 million coming in from the equity issue. So we get up to a ground total of €120 million. So please, can you confirm that? And then also, I appreciate you don't have the finalisation of the CapEx costs for the plant yet. But could you give us an indication of cash burn, please, going forward for: A, OpEx; B, working capital; and C, some sort of range for the CapEx would be helpful. Thanks.

Boudewijn van Schaïk: Okay. Thanks, Reg. Good morning. So I do have to start by saying I can't make forward-looking statements. So I'm not going to be able to give you exact numbers, but I can confirm that the sum is correct. So we have received the proceeds of the equity raise. It's obviously not the full €70 million because we do have to deduct the costs for the banks, the lawyers and all the other costs involved in that.

But largely speaking, that is let's call it €115 million total cash. So that's the cash in. So we do have CapEx investments on the flagship. I would say it's certainly not what we spent this year. It's - if I look at what we expect, it will be less than half of what we spent this year. But as I mentioned, if we just add that we spent in '22, '23, and then deduct that from the guidance we gave that should give you a pretty good indication of what we still have to spend this year.

Net cash in operations will go up. And the reason I say that is not because of necessarily the net operating expenses, but we have a full operational team now in Delfzijl. We have a team of roughly 80 people on the flagship plant. They're going to be busy with the start-up. So we will have costs for the start-up, operational cost, consumables. So that's not Amsterdam corporate costs, that really is cost related to the start-up of the flagship, but you will see that back in our operating expenses. So I do expect those to go up significantly compared to 2023.

As I mentioned earlier, we will look on giving more disclosure on the allocation of those costs. Financing costs will also go up from a cash perspective, again not P&L, because we have a facility fully drawn. We did the majority of the drawdowns sort of mid last year. So we will have the full financing cost during the course of the year.

So that number is going to increase as well. But it's still - when I add those all up, we still have a good cash position left at the end of this year, yeah, so '24.

Reg Watson: Okay. Thank you. And then I'd like to move on to Ray Technology and the decision to put it on ice for now. How does that leave you with the Cosun Beet partnership? Why was it not possible to proceed with them? And then related to that, you're now looking for partners in Volta. So it seems a little inconsistent to put Ray on ice in order to save cost and then continue to expand Volta, which will incur additional costs.

Tom van Aken: Thank you, Reg. On the Ray side, we put further investments on hold. Of course, it's also been done in close consultation with Cosun Beet Company. And that is done because we did foresee that we would have to raise money multiple times in order to basically bring this to a stage of commercialisation. And that is something that we thought was really going to be too difficult, and we wanted to make sure that we are going to focus our resources, our financial capital, but also our brain power on FDCA and PEF first before we're going to take on other substantial projects like the Ray Technology.

If you look at what we have in Ray, it's actually a good running pilot plant. And we’ve made good progress in 2023. We are now in discussions with other companies about this to see if they want to further fund the development, in particular the engineering of a flagship plant, but of course also the investments related to building a flagship plant.

We have still the Groei Fonds €50 million subsidy in place for the construction of such a flagship plant provider it is going to be built in the Netherlands. So we have a core team that is going to pursue this. That team is actually in active discussions with strategic partners about this. And if that is something that is going to deliver the type of a good outcome for the company, then we'll inform you about that in due course. But if that does not provide the type of commitment that we're looking for, then it indeed means that this project is going to be put on ice. And we will then have to evaluate later on if that is something that we can revitalise.

Reg Watson: Yes. So Tom, I'll stop you there before we move on to Volta. Does that mean that you would actually shut down the Ray pilot plant, or is it viable on its own to continue running, making small batches of bio-MEG?

Tom van Aken: Well, the plant - we're not planning to decommission it. So the plant is going to be stopped in the first half of this year. And only if we have partners that want to continue, we have it in a state where we can easily restart it. But Avantium doesn't want to use its financial resources to further develop the Ray Technology. We have redeployed the people that were working in the pilot plant to the FDCA Flagship Plant. And that is why we've been able to now fill all the vacancies we had on the Flagship organisation. It's only if we have other partners in place that we will continue.

Reg Watson: Okay. And I note that it's now moved to available for sale in the accounts. Is that purely an accounting requirement? Or does it - would you actually consider selling the technology if somebody came along and offer – made you an offer for it?

Tom van Aken: Why this is reflected in the numbers as asset held for sale is purely an accounting treatment as you call it. Avantium is open for all strategic options that present themselves to us and we'll evaluate what is the best way forward for this technology. We can't rule out other strategic scenarios, Reg.

Reg Watson: Okay. Thank you.

Tom van Aken: So on the Volta side, it is somewhat different, because this is of course something which is significantly early in development and therefore also is not as cost intensive or capital intensive as the Ray Technology. But to be very clear, also here, we have decided we're going to be supporting this business in 2024, but we are looking to find strategic and financial partners to fund this moving forward, in particular as this business is coming to a stage where we need to go to piloting this, and that will require further capital.

And at the Capital Markets Day, we have indicated that Avantium will not use its balance sheet for funding that investment because we have prioritised the FDCA and PEF technology. So we do believe that there is a strong interest from both strategic partners but also from financial partners as carbon capture utilisation is something which is a very hot segment in the industry, but we've been very clear that Avantium doesn't have, let's say, the capacity and the bandwidth to pursue this in parallel to FDCA and PEF, and therefore, we're going to be looking for ways to do that together with partners.

Reg Watson: Okay. Understood.

Operator: Thank you. There are no further questions in queue. I will now hand it back to Tom for closing remarks. Thank you.

Tom van Aken: Yes. So thank you for attending today's call. And thank you for your continued interest in Avantium. If you have any further questions beyond what we've discussed in the call, you know where to find us, and we'll keep you posted on our further progress. And we look forward to seeing you in the second half of the year, in particular of course once we are planning for the opening ceremony. I look forward to see you all in the Northeastern part of the Netherlands.

Thank you for now, and see you soon. Bye.

Operator: Thank you. This concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

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