Transcript Full 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 Full Year 2020 results. We hope you are all doing well and stay safe and healthy.

I am joined today on this call by our CFO Bart Welten. We will first give an introduction regarding the two press releases of this morning. After that, we will open the line for questions. 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 Full Year results, as published on our website.

Let me first run you through the key business developments. 2020 was a very different year than what we had planned for. It should have been the year, in which we planned to achieve the high ambitions set in 2019. But with the outbreak of COVID-19, it was a year of considerable challenges, which also had its impact on Avantium. I would like to emphasise how proud I am of the way my colleagues have handled the challenges caused by this crisis. We can now conclude that our in-house programmess all made progress in 2020, but on contrast, our anticipated external progress was affected by COVID-19.

Let's begin with our Renewable Polymers business units. We promised to give you a further update on our progress towards the Final Investment Decision (FID) today. I am very pleased to announce today that there are important positive developments on the commercial side, not only on the quantity of the offtake agreements but also on the quality. This morning, we announced that we have signed additional offtake agreements for the supply of PEF resin to PEF bottles and films, bringing the total offtake commitments to four. Up till now, we have signed conditional offtake agreements with the following partners: the specialty chemical company Toyobo from Japan, specialty polyester film producer Terphane, based in the US and in Brazil, the beverage bottling company Refresco from The Netherlands and a major global food & beverage brand owner. With those commitments, we are now shaping up how we plan to introduce PEF to the market: around the globe and in various applications.

It is part of our strategy to pursue high-value applications in a range of end markets and to plant the seeds for rapid growth of this new and exciting material. Our partners are complementary and represent different parts of the supply chain. The offtake agreements signed so far represent at minimum 30% of the annual FDCA production capacity of the flagship plant. The commercial partners will purchase Avantium's FDCA at agreed price levels for a period of at least five years, depending on both the product application and the terms and conditions set by each of the commercial parties.

Next to offtake commitments, Avantium made additional commercial progress. Avantium and Carlsberg have signed a collaboration agreement to jointly develop several PEF-applications, including the Green Fibre Bottle. We expect this to lead to additional demand for FDCA from Avantium's Flagship plant. As a further sign of their commitment, Carlsberg has recently joined the PEFerence consortium.

We are pleased with the commitments and dedications of those parties, who help us to build a completely new PEF value chain. These commitments bring us one step closer to making a positive FID for our FDCA Flagship plant.

What are the next steps towards an FID? As a refresher, we communicated in January of this year that we have identified three key conditions required to make a positive FID concerning the construction of the FDCA Flagship plant. The first is obtaining offtake commitments for 50% capacity of the flagship plant. Two, finalising the engineering and establishing the necessary supply chain, and three, securing EUR 150 million of financing, excluding 20% contingency.

On the commercial side, Avantium RNP is proceeding with new negotiations with multiple potential partners for additional offtake commitments and on the engineering side, Avantium made good progress in the engineering and supply chain organisation. The engineering has reached its final stage.

On the financing side, we have conditionally secured EUR 95 million for the Flagship plant and we are in continued discussions with a number of debt providers on funding the debt portion, including funding of the 20% contingency.

We remain, of course, fully committed to reach all targets for a positive FID and we will provide a further update on the progress towards the FID in due course.

Now, let me move to the other lead technology, plant-based MEG. Our Ray Technology demonstration plants has now celebrated its first full year of operations in Delfzijl. We have commissioned and started up the plant early in 2020 and optimised its operations during the remainder of the year, refining the technology for making plant-based glycols like MEG and MPG. In parallel to this exciting technological progress, we are working on commercialisation of the Ray technology and we will report on this in due course. As we are focussing on our FDCA & PEF as well as our PlantMEG development and commercialisation, I will not go into detail this morning on our other technologies in renewable chemistries like Dawn and Volta.

Next is our Catalysis business, which was significantly impacted by the COVID-19 pandemic, especially due to the travel restrictions. In 2020, the customer service operations of Avantium Catalysis were hindered by travel restrictions and this has prevented our colleagues from Catalysis from installing, maintaining, and upgrading the Flowrence systems at the sites of our customers. In addition, many of our customers closed and scaled back their laboratories in line with the pandemic public health measures and also the turmoil in the world's oil industry has led to a reduction in orders. As a result, Avantium Catalysis recorded lower revenues of EUR 9.2 million in 2020, compared to EUR 12.5 million in 2019. Despite those challenges, the contract research services increased by 6% to EUR 3.3 million compared with 2019.

Bart, can I ask you to run us through the financial highlights of our annual results?

Bart Welten – CFO Avantium: Thank you, Tom, and hello everybody. Let me start off with the going concern. Avantium 2020 financial reporting numbers are prepared on a going concern basis. Due to being a technology development company with significant R&D expenses and negative cashflow, Avantium is dependent on external funding and regularly needs to access new source of finance. Given Avantium's cash balance on December 31, 2020 of EUR 26.6 million and a negative forecast of cash flow over 2021 – 2020 was EUR 18.8 million – Avantium has to obtain new external funding to finance the ongoing operations and further development of its technologies, such as the FDCA Flagship plant. Failure to achieve new funding in a timely fashion could result in the company being unable to fulfil all its obligations. This indicates the existence of a material uncertainty that may cast significant doubt on Avantium's ability to continue as a going concern.

In 2020, our total revenue and other income increased to EUR 18.3 million. We defined 'total revenue' as revenue earned through operations and 'other income' by government grants. Our revenues decreased by 29% to EUR 9.9 million. Last year that was EUR 13.8 million. This is mainly attributable to the impact of COVID-19 on Avantium Catalysis. Other income increased by 99% – so almost doubled – to EUR 8.4 million, due to the higher recognition of grants, especially PEFerence impressed, CHAPLIN XL and the grant from the European Regional Development Fund.

At the end of 2020, our cash totalled EUR 26.6 million with a cash outflow of EUR 18.8 million in 2020. This is much better than the guidance we provided in our previous communications of operational cash outflow of less than EUR 25 million in 2020. The cash outflow relates to investments in scaling up and commercialising our technologies in Renewable Polymers and Renewable Chemistries.

Net loss for the period amounted to EUR 22.8 million negative, compared to EUR 23.5 million in 2019.

Overall, our operational costs in 2020 decreased to ER 33.2 million.

We have taken steps in 2020 to effectively manage our cash without loss of focus or compromising our progress.

With this, Tom, I would like to hand it over to your again for a short statement about our business outlook.

Tom Van Aken – CEO Avantium: Thank you, Bart. For the coming year, we continue to closely monitor both the impact of COVID-19 and in particular developments in the petroleum industry. The ultimate impact of COVID-19 on Avantium's business going forward makes it impossible to accurately forecast implications on our business. Our focus on our Renewable Polymers business units is meeting the conditions for a positive FID. Our Renewable Chemistries business units will concentrate on establishing new partnerships and investigating additional licensing opportunities.

In Catalysis, we strive for improved profitability by, among other things, pursuing strategic growth initiatives in the field of batch testing and absorption.

The focus of the company in 2021 will be on securing financing. Avantium is exploring multiple options to strengthen its financial position and to provide the company with strategic choices.

We are not in a position to forecast the timing of an FID, so this makes it hard to provide guidance on our cash flow for 2021.

Excluding the impact of an FID decision this year concerning the construction of the FDCA Flagship plant and bearing unforeseen circumstances, we aim for an operational cash flow in 2021 of around EUR 20 million.

I would like to conclude my statement with the following. The important of our work in Avantium has never been more apparent than it was in 2020. More than ever, people started to realise that the chemical and plastics industries need disruptive innovations to bring real change in the way we produce, use, and discard plastics. It is noteworthy that also in the United States entrepreneurs, companies, and investors have embraced ESG as a theme that is here to stay.

We are please to see how the market is warming up to the innovations we are working to commercialise. In the beginning of this year, we unveiled our sustainability plan, Chain Reaction 2030. This commits Avantium to a series of goals and targets, which have the greatest impact on social and environmental issues. We will regularly report on our progress in meeting these outlined targets. You can find our sustainability plan on our website, of course.

That concludes my statement. I would now like to ask the operator to open the line for questions.

QUESTIOND AND ANSWERS

- **Wim Hoste – KBC Securities**

Good morning, gentlemen, a couple of questions from my side. Can you maybe elaborate a little bit on the outlook for Catalysis? What was your order book looking like? Is it mainly the COVID-impact that is holding you back or do you see significant hesitation in the petroleum market, given the low oil prices, although those have significantly recovered in the last few months? So, a bit more clarity on that. That is my first question.

My second question is with regard to potential financing from grants. Is there anything important that might come up and that you could flag to us in terms of additional grants you might secure?

Then thirdly, on the offtake agreements for the FDCA Flagship. You did not disclose a fourth party. I guess there is some NDA in place, but can you maybe just highlight whether this is a party that you know well and you know from previous interactions? Could you just comment a little bit around that as well, please?

Tom Van Aken – CEO Avantium: Thank you, Wim. Let me take the first one and then I will hand over to Bart for the second one and I will come back with the third.

The Catalysis pipeline: you rightfully point out that it is very much affected by two things, COVID and the oil price, which has been quite volatile. We started this year well with the oil price trending up. When you look at our business outlook it is actually quite simple; if we are not allowed to travel this year, then clearly that will further impact our business because we have a team of people here that need to go out and install systems and maintain systems at our customers. So far, we have not been able to do that. Of course, we are looking to do that remotely as much as we can but that is significantly hampering our business. Also, the COVID pandemic with the uncertainty of the oil price is having an impact on our customers, who are depending on the global economic developments but also on the oil price. We have also seen that on the services side it is going quite well. So, I think it is a bit of a mixed picture; we expect that we can resume travelling some time half this year. Of course, we do not know whether that will be feasible given the uncertainty of travel restrictions. But if that would be feasible, I think we would be aiming for a somewhat similar result in comparison to 2020. Of course, that is highly uncertain given the current COVID and petroleum market conditions.

Bart Welten – CFO Avantium: Let me take the second question on the grants. Of course, we are always actively scouting for government support programs that can help us with our goals, but it is not easy for us to comment on the possibility of more grounds on specific programs. We are delighted with the PEFerence consortium under the coordination of Avantium Renewable Polymers, where we received a EUR 20 million PEFerence grant and we were also awarded by the Nationaal Programme Groningen with EUR 7.5 million grant. The Netherlands Enterprise Agency awarded us EUR 5.4 million, designated for the FDCA pilot plant in Geleen. This shows we are very successful in securing grants, as you can also see from the doubling of grant income in 2020.

Tom Van Aken – CEO Avantium: Let me then come back to your third question Wim, about this fourth party, which is a major food & beverage company. You asked if this is a party we know well from the past. I think that is actually a very interesting question Wim, because I know what you are alluding to. Let me say the following. We have been working with this partner for a longer period of time to actually show how PEF works in the bottling applications they are interested in. I am going to be in great difficulty if I would make any further statements about since we know them, that could be seen as extracting information from me about their nature and then I would violate the agreements we have with them. Let me be very clear about why they have decided to not announce it at this stage. It is something they want to keep under their own control. I think it is fair to say that with brand owners this is a delicate thing; they are under a microscope from NGOs and from the public. They want to keep strict control over these types of communications themselves. That is the background, Wim.

Wim Hoste – KBC Securities: I understand. Thank you for the colour provided.

- **Reginald Watson – ING**

Good morning, just to come back on that as yet unnamed brand owner. I think one of the things we discussed in the past in terms of offtake is that you have been dealing mainly with the other parts of the value chain. So, I am interested to understand how and why you managed to secure a brand owner's commitment to a certain amount of offtake from the FDCA plant. Previously, it was a bit like your suggestion brand owners would be out of scope.

Tom Van Aken – CEO Avantium: Good morning, Reg. What I really like about where we are today is that if you look at the four offtake agreements that we have signed is that we present basically all parts of the value chain. In all fairness, that is what I always believed was going to be most important, is that we do not only have the brand owners but that we also have the various parties that are providing the materials and the converters that are in between. So, I think that the line-up that we have today shows that. Of course, that is something that we want to strengthen by adding other partners to it but clearly, the access to the consumer is basically decided by brand owners and retailers. So, for us it is really important that we also include them in the offtake. I do not think last time – maybe you have misunderstood or maybe I have not expressed it well – I said I was excluding them; it just took more time than we had anticipated. I think that is a fair thing to say. If you look at where we are, we are very pleased with the progress. I think we have tremendous momentum, and it gives us great confidence that we are going to be able to bring this to the percentage that we are looking for. I think that we now have a major brand owner in there also and that is going to make it easier for other parties to sign up as well. If you look at the agreement for example with Carlsberg, which is a collaboration agreement, it shows the interest of major brands around the globe in different applications on how they are translating the pressure they feel for consumers into adapting and embracing this innovative concept. The fact that we have something that is both plant-based but also fully circular makes it really attractive for brand owners to go into these types of commitment. I think it is a very positive development. It took a bit longer than expected, I absolutely admit that. But I am very pleased with the progress.

Reginald Watson – ING: Can I just follow up? Although you are prevented from disclosing the brand owner's name to us publicly, are you prevented from doing so in private discussions with other brand owners as well?

Tom Van Aken – CEO Avantium: I am now looking at the agreement here! The only think I can say is that we are allowed to show these names to the debt providers because ultimately, the next step after we have secured sufficient offtake is that we secure the debt financing, and we are going to be allowed to announce this to the debt providers. I do not think we are allowed to show it to other brand owners.

Reginald Watson – ING: If I go back in history, I think this is the first time – correct me if I am wrong – you mentioned the names of the other three parties who have signed the offtake agreements, so I am just wondering if this builds a critical mass of success where people say that there are plenty of blue-chip names here and there must be something going on. People are afraid to make the first move. Now that somebody has then you unleash a sort of tide.

Tom Van Aken – CEO Avantium: I think that is a correct conclusion, because that is what we have seen. It is clearly what held us back at the end of January when we made the announcement. In that sense, the flood is starting.

Reginald Watson – ING: Good. Thank you.

- **Patrick Roquas – Kepler Cheuvreux**

Good morning, gentlemen. I have three questions. The first one is on securing the funding. I can understand you do not want to talk about Carlsberg specifically but why in general are brand owners not willing to commit equity or debt whereas they have done so with regard to the funding of other bioplastic initiatives?

Secondly, in the funding you have secured for FDCA so far; are there any amounts that are conditional on the financial situation of Avantium, so commitments you might lose if Avantium turns for example into a situation of debt?

Thirdly, can you give us more insight into the main hurdles in securing the remaining EUR 55 million in funding? Does it for example relate to the terms or are there not enough institutions willing to finance the plant?

Tom Van Aken – CEO Avantium: Thanks Patrick. The first question is about securing funding and brand owners not willing to provide equity or debt. I am not sitting here and saying that this is impossible. I think you are right; they have done this with other companies. The only thing I can say is that we have really focussed the discussion very much on these offtake agreements because ultimately that is the most important thing of getting us to the point where we can introduce PEF to the market. Ultimately, it is a combination of equity and debt and debt is, as we all know, is dependent on having sufficient commercial coverage. That is really where we wanted to focus and spend time with our brand owner partners on this part. It is also something that we have deliberately done because we think that it is something that is focusing on the most important topic and also with the possibility that we have to give up certain exclusivities or other things, other strings that will be attached to such an equity investment. In that sense, it has provided us with a cleaner sheet of negotiating these agreements.

For your second question I look at Bart. This is about the conditionality and whether it has to do with the funding or the financial situation of Avantium.

Bart Welten – CFO Avantium: Good morning, Patrick. If I understand well, the question is about the conditionality of the offtake agreements that we have signed, whether there is a link with the funding of the company. In general, we can say that if we do not secure funding of our Flagship that is now FID and that such conditionality is there because it is fully linked to having a positive FID. Next to that, I am not aware of other conditional items in these offtake agreements that you can refer to. So, I hope to leave it with this question.

Your third question was on our funding of the debt of which the remaining is indeed EUR 55 million. As we have said and continue to say, we think it is prudent practice to also include the contingency of 20% on these discussions we are having with banks. As we are now approaching the banks on this, we also clearly think it is very relevant to share with them all these offtake agreements. I think that is the most important item for banks also to engage with us on the optimal funding situation and funding plant for the Flagship. At that stage, we will share all these offtake agreements and at that moment we will also share all the terms that are part of those offtake agreements to show the banks that the funding is solid, and that the offtake is solid.

I hope I answered your questions.

Patrick Roquas – Kepler Cheuvreux: Yes, that is clear. Thanks a lot.

- **Fernand De Boer – Degroof Petercam**

Good morning. I have one question on the guidance. Tom, did you say that you expect a EUR 20 million of cash flow this year, in 2021?

Bart Welten – CFO Avantium: Tom said it and it is clearly connected that in this it is assumed that we do not have FID. When we will do FID clearly our cash outflow will be bigger as we are going to build a factory. So, in that sense it is conditional to that element but then we also will have the full funding of that Flagship facility. But in going operations, the comment that you made is right. Therefore, it is in the range of the cash outflow we had in 2020 of EUR 18.8 million.

Tom Van Aken – CEO Avantium: And let me just highlight that we do not want to provide guidance on the timing of the FID. Clearly, that is something we are working very hard on and I think we are excited about the progress that we are making. But the timing of FID will have of course a major impact on when we start with the investments of the Flagship plant and then of course, as we cannot provide guidance on that timing, it is therefore not in our ability to provide guidance on the cash flow that is related to the consequences of such an investment decision.

Fernand De Boer – Degroof Petercam: To be clear: you are guiding, excluding the FID, for a cash outflow of around EUR 20 million.

Tom Van Aken – CEO Avantium: Correct.

Fernand De Boer – Degroof Petercam: You still have the ongoing Opex …of EUR 35 million, of which for the FDCA plant still EUR 11 million has to be done. There will be no FID, but you still have to make this OpEx. Is that then included in the EUR 20 million or is that coming then on top of the EUR 20 million cash outflow?

Bart Welten – CFO Avantium: I think I understand what you are trying to point to. We have been and we are still funding Renewable Polymers with basically financing or paying their ongoing operational costs and indeed, out of the EUR 35 million we so far have contributed EUR 24 million, so still EUR 11 million to go. So, as we speak, this figure becomes lower. The moment we are in FID – and the purpose is to have fully funded financing plans for Renewable Polymers. As of that moment, Avantium does not need to continue funding RNP because it is already fully funded. For sure, we will have to deliver our commitment to the 35 at the moment we take FID. I do not know how much then will still have to be funded but that is as we move into the year. I think with the progress that you see how our amounts decrease year by year. I think you can get a kind of estimate how much that is month by month and year by year.

Fernand De Boer – Degroof Petercam: Okay. And could you remind me how much you already did of this EUR 35 million at the half year results? Is that EUR 22 million?

Bart Welten – CFO Avantium: At the end it was 24. At the half year? I think we never gave that figure at the half year figures. I owe you that. Everything I am now saying might be wrong, but I do not think at the half year figures 2020 that we gave that figure. So, let me check that and come back to you.

Fernand De Boer – Degroof Petercam: And then, to come back on the offtake agreements, in January you had two offtake agreements for 20%. So, the additional two are only 5% each or let's say 10% in total? That is correct to understand?

Tom Van Aken – CEO Avantium: I am actually happy that you bring that up, Fernand, because these offtakes are not 'points'; they are ranges. I think it is fair to say that the 30% that we have now is the minimum. I think that is what I said in my opening statement. And I think it is effectively a doubling of where we were at the end of January. In that sense you cannot say that the two will add 10%. That is something that would not do justice to the offtake that has been signed. I think we have doubled in terms of volume, but we now take a conservative number with the 30% because ultimately, we believe for debt financing that people are going to be looking at the minimum numbers and not at numbers that are higher than this, if you understand what I mean.

Fernand De Boer – Degroof Petercam: It is tough to understand but I will work on that. Because if you are at 40 or around 40 and you write down 30, how is that then going to work with your 50% hurdle rate? Is that going to be impacted at 60?

Tom Van Aken – CEO Avantium: Let me clear about that. The bottom of the range should then be 50%. That is what we are aiming for. So, we are aiming to bring the bottom of the range to 50%.

Fernand De Boer – Degroof Petercam: Thank you.

- **Reginald Watson – ING**

Is the top end of the range 40% at the moment? So, it is 30 – 40 rather than just plain 30? Is that correct?

Tom Van Aken – CEO Avantium: We have not communicated the upper limit. We basically now communicate the bottom of the range because ultimately, we can all talk about things that may be better, which are great, but ultimately, I think people are going to be looking at these offtake commitments and look at what is the minimum that will be purchased under these offtake agreements. Also, next time we will communicate about the minimum and after that, I am going to stop with that because I think it does not do justice to what we have agreed to what are ranges. But it gives us a bit of time to think about how we can do that better in the future.

Reginald Watson – ING: It is helpful to know the maximum as well. Let's say you get to a minimum of 50 if FID goes ahead but if the maximum is 80, then actually you only have 20% left to sell in the open market. And if the range is 50 – 100 then that's it; it is done and dusted.

Tom Van Aken – CEO Avantium: Well, let me think about that for next time, Reg!

Reginald Watson – ING: Sure, no problem! My original question was a follow-up on Fernand's and that was to step away from FDCA for a moment and talk about Bio-MEG. How have the results of that gone, given that you have now had a full year of piloting? Where have been the positive surprises and where have been the negative surprises on that?

Tom Van Aken – CEO Avantium: We are really excited with the progress that we have made. Of course, when you start up a pilot plant you always run into certain technological and operating challenges. By the way, that is why we build such a plant because if you would not face them you just wasted quite a bit of money. In that sense, it is something that we foresaw. We have overcome all main challenges that we saw in 2020 and therefore, we are really excited about where we are with this process. Of course, it is not only about the technological process; it is also about the commercial process, the commercialisation process, as you well know, Reg. It is not something we can provide any news on today except that we are in discussions with partners about this. We will come back to this in due course when we are ready. The excitement is really there when it comes to the Ray Technology. We have not had any surprises that we were not able to address in this past year.

Reginald Watson – ING: Okay. But if I assume that Ray Technology is a more cost-effective alternative to the existing Bio-MEG process because that was certainly the promise on paper, the next question then comes whether or not it is also more cost effective than petroleum-based MEG? But I will leave that to one side. Assuming it is more cost effective, what are the barriers then to rapid commercialisation? I understand that FDCA obviously is a new molecule but with Bio-MEG it is a straight drop in. So, provided the process and technology work and economically, I would expect people to be queuing up and bang down your door in order to license this technology. So, what is holding things back right now?

Tom Van Aken – CEO Avantium: I like the challenge, Reg. There are a couple of things. First of all, we had to prove the process and parameters to make sure that we achieve the yields, the selectivities that we are looking for in the process set-up that we have been building this demonstration plant for. Now, we are also in the process where the quality of the product needs to be proven, which is not just some chemical analysis. You actually have to prove that in applications because it has a different raw material. Then, we are of course also looking at further scaling and that means we are now looking at the timetable for the engineering of a commercial manufacturing plant. In that sense, as you have seen in the past, you basically go through the different stages of pre-engineering, engineering and in the different two phases before you reach an FID point. On the basis of the data that we have so far, we can now really move to more preparing for the engineering work and in parallel negotiate with partners. That is clearly important to us.

Reginald Watson – ING: Okay. And is it a different team that is running all those negotiations with partners or is it the same team that is also responsible for FDCA negotiations?

Tom Van Aken – CEO Avantium: It is a different team.

Reginald Watson – ING: So, the work on FDCA is not holding up the work on Ray?

Tom Van Aken – CEO Avantium: That is correct.

Reginald Watson – ING: Thank you.

Tom Van Aken – CEO Avantium: As there are no more questions, thank you everyone. It was good to talk to you this morning. Thank you for your continued interest in Avantium. We are pleased with the progress we are reporting today. Of course, in parallel to the annual results for 2020, we made important commercial progress that we have shared with you. We look forward to coming back to you in due course, when we are making progress towards our final investment decision progress in RNP and commercialisation of our Ray Technology.

For that, thank you. If you have any further questions, then you know where to find us. Thank you so much. Goodbye!

End of call