



Transcript Analyst Call Final Investment Decision

17 August 2022

Operator:

Welcome to the Avantium Half-Year Results Analyst Call. Today's call is being recorded. I would now like to hand this conference over to CEO Tom van Aken. Please go ahead, sir.

Tom van Aken – CEO Avantium:

Good morning everyone and welcome to this conference call on our half-year 2022 results. I hope you are doing well.

Our CFO Bart Welten is also in the call and we will answer any of your questions after our opening statements.

As always, I would like 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 2022 Half Year Results, published on the Avantium website.

Let us run you through the key developments. We have made significant positive strides across our business over the last six months. We are very pleased that we have started constructing our FDCA Flagship Plant in the spring of 2022. We have also expanded our offtake agreements, reinforcing both the value and huge potential of PEF. Furthermore, the equity offering in April 2022 has allowed us to invest further in our other technologies. But before I provide you with more detail on the key business developments, Bart will first run you through the financial highlights.

Bart Welten – CFO Avantium:

Thank you, Tom and good morning everyone.

In the first half of 2022, our **revenues** increased to €5.0 million (versus HY 2021: €4.7 million). Our Catalysis business unit recorded revenues of €4.5 million in the first half of 2022.

Other income from government grants decreased slightly to €3.2 million (versus €3.3 million in the first half of 2021). The grant income in the first half of 2022 is predominantly the result of the previously awarded grant programmes PEFerence, IMPRESS and DEI+. I am pleased that Avantium successfully secured

an additional grant of €3.0 million in the first half of 2022, to support its participation in the 4-year research and development programme WaterProof related to our Volta Technology.

Our **operating expenses** increased, as planned by €4.1 million in the first half of 2022 to €19.2 million (compared to €15.1 million in the first half of 2021). Of the increase, €1.8 million is related to non-recurring items.

Cash and cash equivalents totalled €72.1 million as of 30 June 2022. This was €34.9 million on 31 December 2021. The improved cash position is primarily due to the successful €45 million capital increase by means of a public offering in April 2022. Of the €72.1 million cash position, €20.7 million is ringfenced cash for the Avantium Renewable Polymers business unit to utilize for its operations and construction of the Flagship Plant.

The **net cash outflow** resulting from operating, investing and lease activities in the first half of the year was €24.4 million (HY 2021: €9.6 million). The increase in cash outflow predominantly relates to higher CAPEX expenditure and higher direct costs. CAPEX increased to €10.2 million (versus €1.5 million in HY 2021) as a result of investments in the FDCA Flagship Plant. In Avantium Renewable Polymers, we accelerate CAPEX spending and we expect that we will start drawing on the debt facility in the second half of 2022.

Inflation and supply chain disruptions pose uncertainties for our business and society as a whole and are putting substantial pressures on costs and time schedules. Avantium anticipates that the Flagship Plant CAPEX will be materially higher, due to predominantly inflation as well as scope changes.

We are closely monitoring and managing the situation as effectively as possible. With Worley, we have a strong and professional partner who has the same incentive as Avantium to avoid overspending due to the risk sharing mechanism in the EPC contract. We have contingency in our €115 million capex budget. And we also manage the anticipated overspent by mitigating actions like improving our topline and reducing our costs and cash-out.

We expect that our full year 2022 **cash spending**, excluding Avantium Renewable Polymers, will be in the range of €15 million annually in line with the three years funding guidance that was given during the equity offering.

With this, I would now like to hand over again to Tom for a short statement about our key business highlights during the first half of 2022.

Tom Van Aken – CEO Avantium:

Thank you Bart.

Let me start by saying that we have recorded exciting developments in the first half of 2022, which allowed our **Renewable Polymers** business unit to enter into the execution phase. As you know, we met all the financial conditions and reached Financial Close for our FDCA Flagship Plant in March 2022. The First Piling Ceremony at the Chemie Park Delfzijl site on 20 April 2022 represented the start of the construction of the FDCA Flagship Plant. This construction is progressing according to plan. By the end of June 2022, approximately 700 piles had been driven into the ground to prepare the foundation. In July 2022, subcontractors started laying the pipes and pouring the concrete for the ground floor. Avantium expects that construction of the Flagship Plant will be completed by the end of 2023 and that the plant will be fully operational during 2024.

We had earlier announced that we signed five conditional offtake agreements for the supply of PEF resin to manufacture bottles and films. I am very pleased that this morning, we announced that we have signed additional offtakes with LVMH Group (also known as Louis Vuitton Moët Hennessy) and with AmBev, the Brazilian company that is part of the AB InBev Group, the largest brewing company in the world. In the half-year results press release, you can also read that we have signed an additional offtake agreement with another undisclosed brand owner. This brings the total number of offtake agreements to ten, across a variety of product applications and locations, effectively doubling our key brand partnerships.

Carlsberg Group, which signed an offtake agreement with Avantium in June 2022, launched a trial of its latest Fibre Bottle. This Fibre Bottle contains an inner layer of PEF produced in Avantium's current Pilot Plant. Carlsberg is sampling this Fibre Bottle with 8,000 consumers and other selected stakeholders in eight pilot markets in Western Europe throughout the summer. This is an exciting milestone, as this is the very first time that a PEF-lined beer bottle is put in the hands of consumers.

In addition, we have initiated work on PEF-fibre applications with a group of companies based in the field of apparel and fibres.

Now I am moving to our other lead technology: our **Ray Technology** to produce plantMEG and plantMPG. Avantium successfully restarted operations at the RAY demonstration plant in Delfzijl, after operation had been halted due to an accident in 2021. Avantium announced in 2021 that we plan to form a joint venture with the Cosun Beet Company for the construction and operation of a commercial plant to convert sugar beet to glycols using our Ray Technology. Together with Cosun Beet Company, we are currently in discussions with interested partners to prepare for commercial validation and to potentially establish offtake agreements. We are

also conducting engineering studies for the commercial plant and we are exploring financial support programmes.

Despite challenges caused by supply chain disruptions and the continuing travel restrictions (particularly in China), our **Catalysis** business unit received several new orders for Flowrence systems and contract R&D projects from companies and academic institutions around the world. Order intake for H1 2022 was higher than in the first half of 2021, at €5.1 million (compared to €4.2 million in H1 2022), a clear signal that the Catalysis business is recovering after the COVID-19 lockdown.

This was my statement. I would now like to ask the operator to open the line for questions to Bart or to me.

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask questions, please press star one on your telephone key pad. If you are using a speaker phone, please make sure your mute function is turned off. Please also state your name and company name before posing your question. So once again, that is *1 for your questions today.

QUESTIONS AND ANSWERS

- **Reginald Watson – ING**

Morning Tom, morning everyone. I am curious to learn more about the scope changes you mentioned on the FDCA plant. And also in particular “the materially higher” costs due to that scope change and higher raw materials and cost inflation.

Tom van Aken – CEO Avantium

Good morning, Reg. Regarding scope changes, those are predominantly related to emissions and environmental considerations. The company received the environmental permit not very long before we made the Final Investment Decision and therefore we need to make sure that we operate within this environmental permit. And that is the main factor for implementing a number of scope changes. The cost that Bart indicated, that we expect to be materially higher is predominantly caused by inflation, as of course we are faced with higher energy costs, higher raw materials costs and also higher labour costs than we had anticipated when we made the Final Investment Decision. It is in that sense a tricky thing for the company to provide you with guidance here, because the situation is so uncertain and the situation is continuously changing. And therefore the company is not providing an accurate number on this. But we want to make

clear to the market that we expect materially higher CAPEX as a result of predominantly inflation.

Reginald Watson – ING

Ok, I didn't quite get the EUR 15 million a year cash spending guidance that Bart gave. You said EUR 15 million a year at the time of the capital raise. But if the CAPEX is now higher, I'm not sure how you can then stick to the EUR 15 million a year guidance?

Bart Welten – CFO Avantium

Let me also try to answer you on this question. The EUR 15 million cash spending guidance I gave was for all other technologies, excluding our Renewable Polymers business unit. So that is the business unit which constructs the FDCA Flagship Plant. So this guidance is very much related to our Ray Technology, Volta Technology, Avantium Catalysis and all the other business, excluding Renewable Polymers.

Reginald Watson – ING

Thanks, so they are all okay, but we should expect increased cost guidance at some point on RNP, is that correct?

Bart Welten – CFO Avantium

Yes, that is the guidance we gave today. I'd also like to highlight two other aspects related to this. We believe that what we have announced today is comparable to other chemical industry companies and other CAPEX project happening in the world. We are not unique in that sense. From that, you can also get some flavour on how much higher this can be. And of course, we are also very much managing this impact. I'd like to highlight that we have, as we indicated before, a very strong partner as our EPC contractor, Worley. We have a risk sharing mechanism with them. We also have contingencies. And we are also looking at all options to compensate in cash spending. That can be for example in improving our topline. It can also be on reducing costs and other items to mitigate the impact of this.

Reginald Watson – ING

Okay. And within the scope of the EPC, is it just a straight 50%-50% risk sharing of cost overruns, or are there other mechanisms for you to pay some of it in equity or for Worley to take additional equity stake?

Bart Welten – CFO Avantium

No, there is no equity element involved in this, but we do say, also in the press release, that the 50%-50% risk sharing mechanism excludes scope changes, because that is of course what we trigger and therefore it is not part of a risk sharing mechanism.

Reginald Watson – ING

Okay, but Tom just made clear that that is quite a small element of the additional cost increase.

Bart Welten – CFO Avantium

That is correct.

Reginald Watson – ING

I noticed that the Catalysis margin is a lot weaker this half than it was in previous half. Can you please talk us through that please?

Bart Welten – CFO Avantium

That is a good point. There is this inflation element getting into the Costs Of Goods Sold. And of course that impacts the margin. And secondly, the business unit is also increasing its travel and marketing expenses in order to refill the pipeline. This is also visible in our cost overview. And thirdly, we sold a little more systems and that has an impact on the mix between systems and services. All those three elements relate to a lower margin. What I want to say as a final point is that of course we are also looking to pass some of those higher costs related to inflation to our customers. There is a timing delay related to that, but we are in discussions with our Catalysis business unit to make sure that some of those costs are passed on to customers.

Paul de Froment – Bryan Garnier

Good morning all. My first question was related to CAPEX increase, but it was already asked. Could you please give us more colour on the Catalysis business in H2, how do you see it?

Bart Welten – CFO Avantium

Good morning Paul, let me answer your question. We do foresee, and Tom gave already some hints about the order portfolio, that in the second half we expect a further increase. There is still that uncertainty on travel, especially in China. And we have quite some systems that are waiting for final release. And for this, we

need our people to travel to kick in that final part of closing those contracts and therefore booking the revenues. So we are positive, but also prudent. We are positive that the market is regaining speed, also supported by high oil prices, to be honest. And at the same time we are cautious, because the impact on travel because of COVID in the second half of the year is for us not fully known.

Andrés Castanos-Mollor - Berenberg

Hello, good morning everyone. My question is about the EUR 20 million ringfenced cash. What is the mechanism to expand this in case the CAPEX due to inflation get higher?

Bart Welten – CFO Avantium

Ringfenced in this case means that this cash is owned by our Renewable Polymers legal entity, in which we also have two minority shareholders, Worley and the Bio Plastics Groningen Consortium. So the cash in that legal entity cannot be used for other purposes and is owned by a larger group of shareholders. And it is specifically dedicated for all operation activities in Renewable Polymers and related to constructing the Flagship Plant. So our Renewable Polymers business unit has its own legal entity and as such, operates within that legal structure.

Tom van Aken – CEO Avantium

Does that sufficiently answer your question, Andrés?

Andrés Castanos-Mollor - Berenberg

My question is so in case a CAPEX increase hits the subsidiary, would a special process be needed here?

Bart Welten – CFO Avantium

Our Renewable Polymers business has its own funding plan, as we communicated in the past. That is the total funding plan of EUR 192 million. And that's a mix of government grants, equity of minority shareholder, but also capital that was given by Avantium. And also the lenders' agreement that we signed with the banks of EUR 90 million. And that provides the full funding for the Renewable Polymers business unit to conduct its own operations and construct the Flagship Plant. So in itself it is a fully funded business. And so the impact of the CAPEX increase will be in Renewable Polymers. And as we indicated we are working on quite many mitigating actions to address the increase that we foresee due to inflation and scope changes.

Andrés Castanos-Mollor - Berenberg

Okay thank you. Is there a point in which the inflation and CAPEX makes it necessary to delay, you think?

Bart Welten – CFO Avantium

Let me also try to answer that. Our strategy is to build this factory as fast as we can. We want to get our product in the market. We have customers who signed offtake agreements, you have just heard quite a few new ones. So all our efforts is on building this Flagship Plant in time and bring the product to the market. And we will do everything to avoid delay. Delay normally is also costly. So this is not a preferred option.

Tom van Aken – CEO Avantium

I would like to add that if you look at the longer term plan, to sell licenses out of the Flagship Plant. So if we would delay the construction of the Flagship Plant, clearly we would also push back the anticipated income from licensing agreements. So all in all that is not a very attractive scenario to be pushing back on this. We understand of course that we have some headwinds in terms of inflation, energy prices, labour costs, that make it more difficult to construct the plant in these times. But nevertheless, we are progressing and we plan to finalise the construction of the plant by the end of next year, in order to start it up in 2024.

Andrés Castanos-Mollor - Berenberg

Thank you very much, this was it for me, very clear. Congratulations on the latest offtake additions, very high profile. Thank you.

Tom van Aken – CEO Avantium

Thank you Andrés.

Reginald Watson – ING

It's Reg again. I just wanted to check again with you on the potential materiality of these cost increases. I appreciate that it is difficult right now, but we as analysts are looking at general inflation rising to 10%, energy costs which in the case of gas goes ten times and steel costs that, depending on where you are, could be as high as 70% up versus a year ago. I am not asking you to hold you to a hard and fast number, but could you give us a range of indication where you think these CAPEX costs can increase by, even after mitigating actions.

Bart Welten – CFO Avantium

Thank you Reg. Of course this is a hard question for us, because we said in the beginning that we don't want to be specific because of all the uncertainty that is still in the market. But to help you a little, we indicated that we are in line with other chemical companies in the industry having CAPEX projects. And that would mean that you can consider 5% as too low. But it would also mean that we would go to a higher percentage, let's say 20%, then we would consider that high and it would exclude all our mitigating actions. And with that, it gives a kind of feel where it could land. But we are, as I indicated, extremely careful with ranges, because next call you will ask me again what happened with that range.

Reginald Watson – ING

I appreciate that, that is very helpful. I have a follow-up question on Ray. Obviously, after the terrible accident last year, the press release stated that you are back in operations again. How has the time table for Ray being affected, and when do you think we know more about the arrangement that you have with Cosun for the commercialisation of Ray.

Tom van Aken – CEO Avantium

Thank you Reg. We are pleased that the plant is back online. And we are now running all kinds of trials, we are actually making samples to be validated and tested by customers. So I think it's important to emphasize that the project is back on full swing. But it's also fair to say that we have lost some time. The last time we spoke, we indicated that the Final Investment Decision for the commercial plant will be in 2024. That is something that we want to reiterate. If you look at what needs to be done, it's predominantly the engineering of the plant that has to take place before that. We clearly need the demonstration plant to be operational in order to generate the data. We are now doing that engineering. So in that sense, it will be 2024 and a year ago we thought it would be 2023. So there is a clear impact on the timeline, but that is a time shift that we have already communicated to the market earlier. So we want to reiterate that it will be an anticipated Final Investment Decision in 2024.

Reginald Watson – ING

Okay, thank you.

Operator

At this time, there are no further questions in the queue.

Tom van Aken – CEO Avantium



Okay, thank you everyone for calling into the Analyst Call this morning on the half-year results. Of course, the team here is available for any other questions you may have. Please feel free to reach out to us and we'll be happy to provide more information wherever it's needed. We will keep you informed about further progress but for now I wish you all a good day and we look forward to talk to you again. Thank you everyone. Good morning.

End of call