



Avantium Full Year Results 2022 Analyst Call

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Participants

Tom van Aken – CEO

Boudewijn van Schaik – CFO

Operator: Hello and welcome to the Avantium Full Year Results 2022 Analyst 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. I will now hand you over to your host, Caroline, to begin today's conference. Thank you.

Caroline van Reedt Dortland (Director Communications Avantium): Good morning, everyone, and welcome to this call. My name is Caroline van Reedt Dortland and I am responsible for communications and investor relations at Avantium. I'm joined here today by our CEO, Tom van Aken, and CFO Boudewijn van Schaik. We will start with Tom and Boudewijn running you through the press release on our full-year results over 2022. And after their presentation, there will be the opportunity to ask questions.

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, also published on the Avantium website. I would like to hand over now to Tom van Aken. The floor is yours, Tom.

Tom van Aken (CEO Avantium): Thank you, Caroline. Good morning, everyone, and thank you for dialing this morning. Let me run you through the highlights of the press release regarding our 2022 results.

I'm very proud of what the company has accomplished in 2022, which we call a transformational year for the company and a breakthrough year for Avantium Renewable Polymers. We have evolved from a company primarily focused on R&D towards one with large-scale manufacturing and commercialisation capabilities.

Looking back at the key achievements in last year, we satisfied the conditions for Financial Close on the 31st of March 2022, which allowed us to begin the construction of our FDCA Flagship Plant. Upon Financial Close, our engineering partner, Worley, and Bioplastic Investment Groningen, formerly under the name Groningen Consortium, became minority shareholders in the Avantium Renewable Polymers B.V. They now own a combined share of 22.6% in this entity, while Avantium N.V. retains 77.4% of the equity. At Financial Close, Avantium also entered into a 90 million Debt Facilities Agreement with a consortium of Dutch banks comprising ABN Amro Bank, ASN Bank, ING Bank, and Rabobank, as well as Invest-NL.

In November 2022, the first drawdown of €15 million under the Debt Facilities Agreement took place, followed by a second drawdown of €15 million in January 2023. We expect to drawdown the remaining €60 million under the Debt Facilities Agreement for the FDCA Flagship Plant in the course of 2023. The start of the construction of our FDCA Flagship Plant in April 2022 was a significant milestone, and the construction of the FDCA Flagship Plant is progressing well. By

the end of 2022, more than 700 piles had been driven into the ground and the civil works had been completed, including installing the foundations, floors, piping roads, and walls. In addition, a significant portion of the steel construction and storage tanks have already been erected. This morning we posted a video on our website that was shot last Saturday by a drone showing the progress of the construction in Delfzijl. In 2022, Avantium already contracted over 80% of the procurement and construction of the FDCA Flagship Plant.

We continue to see robust demand for FDCA and PEF, as illustrated by us signing nine new FDCA offtake agreements with major brand owners for a range of applications, including Carlsberg, Louis Vuitton, and Beth and Henkel. I'm very pleased that we announced this morning that we have signed another offtake agreement with the Danish company Kvadrat, a leader in design, innovation, and producer of quality contemporary textiles. Kvadrat will use PEF for its high-quality interior textiles. Over the past year, Avantium is increasing its focus on the development of PEF for fibres and yarns which can be used in different segments and applications. Now, this is starting to pay off.

The FDCA Flagship Plant is a key component of our licensing strategy. The progress in constructing this facility was an important catalyst in establishing the recently announced licensing agreement with Origin Materials to accelerate the mass production of FDCA and PEF. Under this agreement, Origin Materials gets access to relevant parts of our YXY[®] Technology to enable the conversion of origin-produced CMF derivatives into FDCA at a 100-kilo-tonne per year scale facility. We have now clearly demonstrated the exciting potential to license our proprietary technology.

I'd like to turn over to our other business units, and I'm pleased to report a positive year across the company. In the first half of 2022, Avantium restarted the Ray demonstration plant as operations had been temporarily paused. The plant operated successfully throughout the rest of the year, generating important data to feed into the engineering plants for the proposed Ray Technology Flagship Plant. Discussions are underway with interested partners to prepare for commercial validation and to potentially establish off-take agreements for this Flagship Plant. Meanwhile, Avantium also initiated activities to explore additional partnerships using other feedstock sources and targeting markets outside of Europe.

2022 was also an exciting year for the Volta Technology, Avantium's carbon capture and utilisation solution. We successfully operated two demonstration units in real-world conditions and used a third to explore opportunities for producing carbon-negative plastic from CO₂ called PLGA.

Our catalysis business not only saw its revenues return to growth, but also underwent a transformation of its own. The business unit adopted a new growth strategy in 2022 and is now called Avantium R&D Solutions. In addition to its existing offering, the business unit focuses on R&D solutions to accelerate growth in the area of sustainable chemistry, such as electrolysis to

make green hydrogen, plastics recycling, and absorption. We're confident that this new direction, which has been positively received by our stakeholders, marks a logical and exciting step forward of the business. I would now like to give the floor to Boudewijn to run you through the financial results in more detail.

Boudewijn van Schaik (CFO Avantium): Thank you, Tom, and good morning, everyone. I would like to begin by pointing out that the 2022 financial report for Avantium has been prepared on a going-concern basis as we have resolved the material uncertainty from 2021. I'd like to take you through some of the key financial figures.

In 2022, our consolidated revenues showed an increase of 63% to €17.8 million. This is mainly the result of increasing revenues in Avantium R&D Solutions and the initial payment of €5 million that we received from Origin Materials in 2022 as part of the transaction that we announced earlier in February. Other income from government grants increased 14% to €7.6 million in 2022, primarily due to the recognition of grants related to the start of construction of the FDCA Flagship Plant.

Net operating expenses amounted to €43.1 million in 2022, which is an increase of €9.4 million compared to the year before. This was as a result of the planned increase in staffing during 2022, whereby our headcount increased by 37. In addition, we had an increase in costs associated with new patent filings as well as a number of one-off legal and advisory expenses related to the financial close, the equity raise, and the Debt Facilities Agreement.

EBITDA slightly decreased in 2022 to €17.7 million negative. This was a combined result of higher revenue, which was then offset by the increasing operating expenses. At the end of 2022, our cash, which includes restricted cash, totaled €64.9 million. The increase in Avantium's cash position was due to the successful capital raise of €45 million, with net proceeds of €41.6 million, the €20 million cash investment from Bioplastics Investment Groningen for the shareholding it acquired in Avantium Renewable Polymers, and the first drawdown of €15 million under the Debt Facilities Agreement in November 2022.

Net cash outflow, which is the cash outflow excluding the capital raise and debt drawdown for the year, was €46.6 million negative. The cash flow in 2022, mainly related to a €38.1 million increase in planned investments in capital expenditure for the engineering and construction of the Flagship Plant. With this, I'd like to hand over to Tom again for a short statement about our business outlook.

Tom van Aken: Thank you, Boudewijn. After a thorough review of the project execution plans and the expected delivery and installation of equipment, mechanical completion of the Flagship Plant is now expected to be the first quarter of 2024. This will be followed by commissioning and start-up activities during the second quarter of 2024.

The total cost decrease for Avantium after the risk-sharing mechanism with Worley is expected to be in the range of €15 to €25 million. This increase is partially covered by contingency and additional funding, including the payments by Origin Materials. An additional loan of €2.5 million was provided in February 2023 by Fonds Nieuwe Doen to Avantium Renewable Polymers. Since significant income growth from Avantium's own operations and licensing activities are expected to be a few years away, the company continues to explore and evaluate various funding options to strengthen its financial position.

Based on its current order book for the R&D Systems business, Avantium R&D Solutions believes it can deliver significant and profitable revenue growth in 2023, and we expect to see the first results of the new growth strategy of RDS this year.

In Renewable Chemistries, Avantium expects to be able to take the next stage gate decision in our journey to commercialise our plantMEG technology and initiate the next phase of engineering: : the development of the Process Development Package (PDP) for the Ray Technology™ Flagship Plant For our Volta Technology, we wish to advance the technology to a stage-gate decision to construct a pilot plant. We're also exploring industrial partnerships and funding options for the longer term.

That concludes our statement. I would now like to ask the operator to open the line for questions to Boudewijn and myself. Thank you.

Operator: Thank you very much. As a reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll give just a moment while they queue for questions. We'll now take our first question from Patrick at Kepler Cheuvreux Your line is open. Please go ahead.

Patrick Roquas (Kepler Cheuvreux): Yes. Good morning, all. I've got a couple of questions. The first one is, can you explain the working capital inflow of €17 million? Second, what is now the total expected investment in the FDCA Plant and how much CapEx do you foresee for 2023 for the construction? And then if you could comment on, let's say, the expected cash position by the year-end of 2023? And then I got another question, but let's start with these, please.

Boudewijn van Schaik: Okay. Thanks, Patrick. Let me take your first question. Can I just ask you to clarify what you mean by inflow of working capital? You mean the changing working capital?

Patrick Roquas: Yes

Boudewijn van Schaik: Yeah. So that's primarily driven by invoices that we received in December for the construction of the FDCA Flagship Plant that were then settled early in 2023. So that was a predominant portion of the increase in our working capital.

Patrick Roquas: Thank you.

Boudewijn van Schaik: Okay. Sorry, Patrick, I missed your second question. Do you mind repeating it?

Patrick Roquas: No, I wrongly stated that, but that is clear. So how much do you expect to invest in the FDCA Flagship Plant in 2023? And what is the total amount that is required to complete it, or what will you have invested including the €15 to €25 million increase?

Boudewijn van Schaik: Okay. So as I just mentioned during the call, we've invested just under €40 million in 2022 in the flagship plant. For this year, we will invest significantly more to get to completion. I'm hesitant to give you a specific number on that because part of that is obviously the CapEx investment and some of that is a contribution to owners costs. So that is, for example, staffing, getting everything ready for operations, and some of the logistics around the Flagship Plant. So it will be a significant increase this year compared to last year.

Tom van Aken: Patrick, can I add to this? Because I think if I understand your question correctly, you're basically asking, so what was the original number if you compare the €15 to €25 million? So, the original number that we were looking was €130 million as CapEx, and that number has gone up with €15 to €25 million. And €130 million includes owners costs as that's been referred to in projects like this, which includes staffing but also other costs that are not part of the investment project by Worley. So, I don't think we've specifically mentioned that €130 million in the past, but you need to compare the €15 to €25 million extra to the €130 million CapEx.

Patrick Roquas: Yes, that's clear.

Tom van Aken: All right.

Operator: Thank you. We'll now take our next question from Andrés Castanos at Berenberg. Your line is open. Please go ahead.

Andrés Castanos (Berenberg): Hello. Good morning. Two questions for me. Can I please get a clarification on these €15 to €25 million extra? Is this the part that corresponds to Avantium or this is the part that corresponds to both Avantium and Worley as partners? And the second one is about grants. I see you keep increasing the amount you're getting from government grants, which is really great news. Can you guide going forward what amount should we expect to see there? And also, there is a mention that the work for some of the

grants received has been performed. Is that an issue or this is just normal? Nothing to be concerned and you will still see new grants in 2023? Thank you.

Boudewijn van Schaik: All right. Thanks for your question. The increase on the CapEx is indeed after the risk-sharing mechanism with Worley. This is an increase for Avantium that we expect to be around €15 to €25 million extra. And as Tom mentioned, some of this is related to owners costs as well. So not just the actual plant CapEx.

Andrés Castanos: Okay. Clear. Thank you.

Boudewijn van Schaik: Okay. Then in relation to grants, yes, we are actively looking at and pursuing new grants. I find it very difficult to give guidance on that because some of these packages they are quite large and lumpy, and there's obviously a lot of interest in the market for grants. So while we're applying for a lot of grants, there is a lot of interest in competition in the market. We are dependent on being selected for these grants. There's also a slight difference in the accounting recognition of the grants versus the timing of the cash from these grants. That's also an important consideration for us with these grants. But we do anticipate to see additional grants this year. And as I started with, we are actively applying for grants that we do think we are eligible for.

Andrés Castanos: Okay. That's helpful. Thank you very much.

Operator: Thank you. There are no questions currently in queue. Once again, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll once again take our next question from Patrick at Kepler Cheuvreux. Your line is open. Please go ahead.

Patrick: Yes. I'm still interested to hear your view about the expected cash position by year-end 2023. And then secondly, in the press release, you indicate that significant income from licenses are still a few years away. To me, that sounds a bit more cautious compared to previous indications, which I thought was more in 2024. Obviously, we saw the license deal with Origin Materials. And then I got the third question. But let's start with the first two, please.

Boudewijn van Schaik: Thanks, Patrick. If you take a look at the presentation that we've uploaded on our website, we've tried to give some guidance on our liquidity for 2023, both in terms of the sources of that liquidity and the uses. But you'll also see we didn't put euro figures in there. We are going to be investing significantly in 2023, particularly in the construction of the FDCA Flagship Plant. I think about three-quarters of our cash flow for the year will go into the FDCA Flagship Plant. But we started the year with a great cash balance. We have another €60 million to drawdown under the Debt Facilities Agreement after the drawdown we did in January. So, we have plenty of liquidity to see us through all of our planned investments and operational costs for 2023.

As Tom mentioned in the first part of the call, we do continue to evaluate and look into alternative sources of funding. We need to have a robust balance sheet and we need to have a robust liquidity outlook not just for our ongoing operations, but also the way the market looks at us, such as potential licensees, partners, clients. People need to see Avantium as a substantial player who's going to be around for the long term. We're incredibly confident in that, and we have to continue looking at how our balance sheet is sized, and how our liquidity outlook is, to make sure that our financial position is robust enough.

I know it's a bit of a vague answer to your question. I can't specifically tell you where we will be at the end of this year, but I can tell you that we're very actively managing that and we have a lot of confidence in delivering for the future.

Regarding the licensing business, you also alluded to the timing of that. We need to be clear on that, that the licensing strategy and our initial expectations were to start securing licenses once the FDCA Flagship Plant was operational. We exceeded those expectations with the Origin Materials license agreement. And with this transaction we have created momentum in the market for the licensing business. But we have to be realistic as well that we are still constructing the FDCA Flagship Plant. And while we have a lot of confidence from what we achieved with Origin, it may take some time in the market for us to gain traction for the licensing model to really take off.

Patrick Roquas: Why don't you first generate cash with Renewable Polymers and fund the other opportunities with the proceeds from that? Why try to invest in the different other activities knowing that these things tend to take longer than expected, require more cash than expected, while licensed income could be uncertain? So why not? The question is why not focus on Renewable Polymers, first generate cash there, and then fund the other business with this?

Tom van Aken: Patrick, thank you for asking the question. The company has been clear from the IPO onwards that we have ambitions to deploy technologies in different fields of the renewable chemistry arena. FDCA is the first, PEF is the first. I think we're making incredible progress despite the headwinds of inflation and supply chain issues due to geopolitical situation. We are managing the project very well in Delfzijl, also in terms of timing. In that sense I'm very pleased to see that progress and I'm also very pleased that we see that in combination with very strong commercial momentum and the first license being sold, as Boudewijn referred to. If you look at the other technologies, if we would slow it down and basically wait until we have the funding from FDCA business, it's also going to impact our competitive position towards what other companies are doing. We want to build a company in renewable chemistry, we want to license our proprietary technologies. It's not going to be just one technology, but it's going to be multiple technologies. And I think that is also making it an attractive case for investors to be participating in a company that has a range of technologies that will be scaled and will be deployed through the licensing model. Compared to some of our American competitors,

they have access to significantly more capital than what we have been able to get access to. – We should avoid that we become undercapitalised. And I think that Boudewijn made it very clear that also in discussions with licensing partners, we want to make sure that the company is well capitalised and therefore we will make sure that we do what ever is needed to make sure that we have a strong balance sheet to execute the strategy.

Patrick Roquas: All right. Thank you very much.

Operator: Thank you. We'll now take our next question from Fernand de Boer at Degroof Petercam. Your line is open. Please go ahead.

Fernand de Boer (Degroof Petercam): Yes. Good morning. Does the €15 to 25 million additional costs come on top of the contingency of 20%. That's the first question. And then the second one, maybe more accounting-wise. But the debt you draw, the €15 million and probably the entire €90 million, is this booked as equity and not as debt? Why is it booked as equity

Boudewijn van Schaik: Thanks for your questions. On the contingency: it is in addition to the contingency. The contingencies we took for the construction were specifically earmarked for certain parts of the EPC. And as Tom mentioned, part of the cost increase is related to the owners costs, which is an increase in costs related to the preparations we're making for operations. So, there is still some contingency from the original budget that remains.

Fernand de Boer: So contingency is still open? Is there still a possibility that that's not going to be used?

Boudewijn van Schaik: That is correct.

Fernand de Boer: Okay. And then the second question.

Boudewijn van Schaik: Yeah. So, I just want to understand. The actual Debt Facilities Agreement will be seen as a liability on the balance sheet.

Fernand de Boer: But you already took €15 million in 2022. And maybe I miss it, but I don't see €15 million of debt on the balance sheet. So where did it go then?

Boudewijn van Schaik: It's in the liabilities, there's €12.7 million recognition of the debt which is the accounting treatment of the €15 million, and the difference between the €12.7 million and the €15 million is in the recognition of the warrants. So, you won't find it back one

for one, the cash drawdown of €15 million versus the way this has been treated for from an accounting perspective.

Fernand de Boer: But if you say we have €65 million cash, that's the cash on the balance sheet, but that's not the same as your net debt position. That's right, yeah?

Boudewijn van Schaïk: That's correct.

Fernand de Boer: Okay. Thank you.

Operator: Thank you. We'll take our next question from Reg Watson from ING. Your line is open. Please go ahead.

Reg Watson (ING): Morning, all. Just a quick question on the delay in completion. I appreciate it's only one quarter, but my original understanding was that you would have the FDCA Flagship Plant completed by the end of this year and commissioned by the end of this year with production ramping to pretty much full in 2024. So, Tom, please, could you give us the reasons for the delay and also perhaps a little more color on when you expect to be at full production?

Tom van Aken: Thanks for the question. So, we've previously said that we were expecting the FDCA Flagship Plant to be mechanical complete by the end of 2023. If I look at the timeline we're communicating right now, the timeline is related to pieces of equipment that are coming in later than originally scheduled and subsequently need to be installed in the plant. In a project like this, the initial focus was very much on cost, which is in my opinion very much under control. But then the focus goes to timelines and that is what we need to manage well.

I am actually regretting that we have spoken about mechanical completion because I think mechanical completion is something which is not so relevant. It's more relevant when the plant is going to be commercially operational. And we expect that commercial operation date to be by the end of the first half of 2024. You said that we expected the plant to be fully operational in 2024, I don't think that we have ever said that, and I think it would be too aggressive for a timeline related to ramping up a new facility like this. I think it is logical that to go to full production capacity is more something that you could expect in the range of 12 to 24 months and not so much in, let's say, six months' time.

Reg Watson: I appreciate that. I think the 12 to 24 months was extrapolating forward from physical completion and commissioning in 2023. So, I guess, although you never explicitly stated it, 12 months later would have been 2024.

Tom van Aken: Okay. It's not that we're communicating right now that things are going wrong - absolutely not. But it's something that the company will have to manage very carefully to make sure that we keep the timeline on track and that is clearly what the focus is right now. In particular, after we've now contracted 80% of the plant, I think it is a logical moment in time to start be fully focused on timelines and to be less concerned about the CapEx.

Reg Watson: And the 20% that's not contracted, which areas are those in?

Tom van Aken: There are always certain things which are coming at the last moment, such as analytical equipment and smaller equipment. Basically all the major parts of the plant have been contracted. So in that sense, the project is very much going according to plan.

Reg Watson: Okay. Great. Thank you.

Operator: Thank you. We'll now take our next question from Daniël Delodder at ABN AMRO - ODDO BHF. Please go ahead.

Daniël Delodder (ABN AMRO – ODDO BHF): Thank you and good morning, all. I have two questions. First one relates to the €90 million Debt Facilities Agreement of which you communicated the drawdowns of twice €15 million leaving room of €60 million. Could you provide us some guidance about how much more you are expecting to draw from the Debt Facility in 2023? And secondly, regarding R&D Solutions, if I understood correctly that growth in 2022 has not yet been attributable to the new growth strategy. What growth guidance can we expect going forward for this business unit?

Boudewijn van Schaïk: Thanks, Daniel and good morning. On the facility, we expect to draw the remaining full balance during the course of this year. So, we're on track to realise that this year. We do have a drawdown schedule; we do have provisions with the banks for that. We are confident we'll have full access to the facility during the course of this year.

Daniël Delodder: Clear.

Boudewijn van Schaïk: On RDS: because we initiated the growth strategy during the course of last year, the growth that we see during 2022 is related to the original catalysis business. We've seen strong progress from the team in executing the new strategy and we do expect to see gains this year from that new strategy. So, the guidance that I can give you is certainly revenue growth in 2023 compared to 2022. I can't give you a specific order of magnitude of that growth.

Daniël Delodder: That's understood. Thanks.

Operator: We'll now take our next question from Paul de Froment at Bryan Garnier and Co. Your line is open. Please go ahead.

Paul de Froment (Bryan Garnier): Good morning, everyone, I have two questions. The first one is, could you give us some color on the catalysis business in 2022 and for the next two years? And then just a follow-up question to be sure I understood you well. Regarding this alternatives funding options you mentioned in the press release. So, do you confirm that it's not related to ongoing operations? It's just a matter of balance sheet. I mean, you want to reinforce your balance sheet in light of licensing deal discussions with counterpart. Am I right? Thank you.

Tom van Aken: Like Boudewijn said, the RDS business growth in 2022 was related to the catalysis business, in particular to the Flowrence business, meaning Flowrence systems that we are selling. In the previous years, we had impact of COVID, and that impact is now largely gone. We still had some supply chain issues in 2022, in particular related to the markets in China because we were having difficulty with traveling into the Chinese market to install machines and that actually is something that has recently changed. So, we're now able again to completely eliminate the backlog that we had in terms of installing equipment in the Chinese market. So, we have teams that are installing Flowrences that we've been building over the past two and a half years and installing that right now in labs throughout the Chinese market.

We have adopted a new growth strategy in what we now call RDS, R&D Solutions. And that is very much focused on markets like electrolysis for making hydrogen, chemical plastics recycling, adsorption. We've started talking to customers about this in the final months in 2022, but it's also dependent on the ability to recruit people to execute these projects. We expect to be seeing the first results in 2023 of this new growth strategy. But it's difficult for us to give quantification of that growth, given that we're really starting off with that new strategy as we speak.

Boudewijn van Schaik: So, looking at our funding. We have a robust liquidity pipeline. But as Tom and I eluded to earlier, we need to look at how robust our balance sheet is for the long term, how robust our liquidity position is, and how particularly the external market looks at us. We need to be able to demonstrate that we have a financially sound and robust balance sheet for the long term. We don't have any concerns about that today. Let me be very clear about that. But this is something we're looking at: how can we optimise and improve our balance sheet with various funding options?

Paul de Froment: Okay. Thank you very much.

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

Caroline van Reedt Dortland: Thank you all for your questions and listening in. Of course, we are available for any other questions you may have. And please feel free to reach out to us, and we'll be happy to provide more information wherever it's needed. And thank you, everyone, and have a nice day.

Operator: Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

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