Avantium 2024 Half-Year Results Analyst Call

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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 2024 Half-Year Results 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 mode. 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, Aarne Luten, Head of Investor Relations, to begin today's conference. Thank you.

Aarne Luten: Thank you, Laura, and good morning, everyone, and thank you all for joining us today. My name is Aarne Luten and 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 the 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 today to join us during the call. This morning, Avantium announced its first half-year 2024 results, and we would like to run you through the key business and financial highlights. Let me start with the key business highlights.

We made significant progress with the construction of the FDCA Flagship Plant in Delfzijl, while commissioning activities which started in March of this year remain ongoing. The construction of the project is nearing completion, and we are on track towards the most important milestone in the history of Avantium. The startup of the plant which we expect to commence in quarter four of this year.

During the phased startup process, we will start producing in campaigns before switching to continuous operations. Sales to offtake partners will start after performance testing and depending on the application- related regulatory approvals. The plant will be opened during the official opening ceremony on October 22nd, 2024. We are looking forward to welcoming all of our key partners to celebrate this landmark.

On the commercial side, we entered into a strategic collaboration with leading textile innovators, helping Monosuisse and Antex to develop PEF-based yarns for circular Auping mattresses. We also continue to actively pursue discussions with potential partners on additional offtake agreements and to explore PEF and FDCA licensing opportunities in addition to that already signed with Origin Materials.

Lastly, on the Renewable Polymers front, I'm very happy to welcome Marco Jansen on board, who will strengthen the commercial team as our Chief Commercial Officer, focusing on commercializing our FDCA and PEF technology.

Switching to the other parts of Avantium. On the R&D Solutions side, in April of this year, we entered into a partnership with TNO, The Netherlands Organisation for Applied Scientific Research, for the manufacture and sales of Proton Exchange Membrane electrolyser test stations. These electrolysers are a key technology for the production of green hydrogen.

Under the partnership with TNO, we will get access to TNO's technical knowledge and expertise on electrolysis test stations. With this knowledge, Avantium will manufacture, further develop and sell these electrolyser test stations to customers worldwide. Next to this, year over year, our R&D Solutions business witnessed an 88% higher order intake.

With respect to our carbon capture and utilization platform, Volta Technology, over the first half of 2024, further progress was made towards a decision to construct a Volta pilot plant to produce glycolic acid from CO2. Using glycolic acids together with lactic acids, PLGA, polyester can be made in existing assets.

We intend to continue the development of Volta Technology and scale up in the next two years to a pilot plant with an indicative capacity of 10 tonnes per year, provided that we can secure strategic and financial partnerships to fund this next phase of development. On the Avantium Renewable Chemistries side, a dedicated team is in discussions with potential strategic partners for the further development of our Ray Technology and to commercialize this through licensing. Our Chief Financial Officer Boudewijn van Schaïk will now run you through the financial results.

Boudewijn van Schaïk: Thank you, Tom, and good morning, everyone. I would like to begin by pointing out that Avantium has prepared the unaudited half-year figures for 2024 on a going concern basis, with a material uncertainty. For more details on this, I refer to the press release. Let me now take you through the P&L.

Revenues for the first half of 2024 increased to €9 million, versus €7.3 million in the same period last year. This was largely attributable to the revenues of €5.8 million in the R&D Solutions business unit. In the first half of 2024, Avantium Renewable Polymers recognised €3 million as revenue from the Origin Materials Technology License Agreement.

Revenue recognition under this Technology License Agreement with Origin Materials is related to the first milestone payment of €7.5 million, which we received last year, and the second milestone payment of €7 million, which is due upon delivery of the process design package to Origin Materials.

As a result of Origin's announced change in its current strategic focus, Avantium has, as of July this year, decided to take a prudent approach and to suspend the recognition of revenues under this Technology License Agreement. All revenue recognised to date is in line with the first milestone payment, and therefore the suspension of revenue recognition does not impact the revenue recognised to date.

We continue to work with Origin Materials on the development of the market for FDCA and PEF applications.

Other income decreased by 40% to €2.3 million, versus €3.9 million in the first half of 2023. This reduction in grant recognition, is largely due to the conclusion of grant programs under the Avantium Renewable Chemistries programs, and the grants that we have recognised are in relation to Avantium Renewable Polymers.

Net operating expenses were €27.6 million in the first half of the year, compared to €23.3 million last year. This increase is primarily the result of the planned increase in FTE for the FDCA Flagship Plant over this reporting period. So during the first half of this year, we've had the plant fully staffed, which we obviously did not have in the first half of last year.

Our EBITDA loss for the first half of the year was €16.3 million, versus €12.2 million over the same period in the year before. Due to the absence of commitment fees under the financing that we have in place and higher interest that we've received on our cash balance, we generated a net finance income over the first six months of this year of €0.4 million, versus a net finance cost of €0.3 million over the first half of 2023.

Our net loss for the first half of 2024 decreased to €14.8 million, compared to €16.6 million in the period last year. This was mainly due to a fair value measurement gain of €3.7 million on the outstanding warrants that we have granted to our lenders.

Turning to our cash position, this was €41.8 million at the end of June 2024. The opening cash balance at 31st December was €35.2 million, and in February 2024, we successfully raised €64.4 million in capital. And over the first six months of this year, we've utilised €16.3 million. In EBITDA, we spent €26 million on capital expenditure. Our working capital increased by €11.8 million, and we utilised €3.8 million in lease payments, interest and other expenses.

The cash position, as per 30 June 2024, does not include the additional €15 million loan from our lenders for Avantium Renewable Polymers, which we drew down at the beginning of August of this year after successfully meeting all of the conditions precedent, which were mainly linked to project progress for the FDCA Flagship Plant. In addition, we issued 559,000 warrants to the lenders in lieu of cash interest payments and commitment fees over this additional €15 million.

Turning to CapEx, according to our latest estimates, the total capital expenditure for the FDCA Flagship Plant will be €175 million, which is a €26 million, or 17% increase over the previously communicated forecast that we provided in December 2023. This increase is primarily due to additional materials that are required in connection with the Electrical and Instrumentation part of the FDCA Flagship Plant, as well as additional labour that is needed to complete the installation of the plant.

Finally, Avantium is in active discussions with the lenders on the existing €105 million Debt Financing Facilities. This includes the possibility of an extension of these facilities beyond the current maturity date of 31 March 2025. The company continues to explore various funding options to ensure that the company has sufficient working capital funding throughout the startup of the FDCA Flagship Plant, and this includes equity, debt and subsidy instruments. This concludes the financial part. I'd like to hand back to you, Tom.

Tom van Aken: Thank you, Boudewijn. In conclusion of the first half of 2024, we've seen good progress on the construction of the FDCA Flagship Plant, we are nearing completion and are on track for startup in the fourth quarter of 2024, which is the most important milestone for the company. Looking ahead, Avantium continues to pursue additional offtake agreements for the FDCA Flagship Plant, and we also continue to actively pursue discussions with potential partners to explore FDCA and PEF licensing opportunities. This concludes our prepared remarks. I would like to hand back to the operator to 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 will now take our first question from Usama Tariq of ABN AMRO. Your line is open. Please go ahead.

Usama Tariq: Hi. Good morning team. Thank you for the opportunity. I have a few set of questions. Number one, being on royalties. Do I understand correctly that going forward, you will not record any sales for the Origin Materials royalty payments? And secondly, is there a legal contractual agreement or something where in case they don't pay you royalty, you get some payments from them in case they don't end up paying? Is there some contractual liability that they are in with regards to those royalty payments? That would be my first set of questions.

Boudewijn van Schaïk: Okay. Thanks, Usama, for the questions. I'll try and answer this for you as best as I can. So what we've disclosed right now is merely a suspension of recognizing revenue under the next milestone payment, which is due under the Technology License Agreement. So it doesn't impact the actual underlying agreement or the work that we're doing with Origin, both in terms of the milestone payments but also potential future royalties.

Clearly, we're in close discussions with Origin on what are the steps forward and looking at their short-term strategic focus versus their long-term plans and their overall business model. But this is more driven by IFRS, and the only way we can continue to recognise revenue is if we have certainty on when that next milestone will be payable. And right now, we cannot make that judgment or that assessment, so we've taken a prudent approach to suspend recognising revenue purely for those milestone payments under the License Agreement. So the legal agreement or the contract remains in place. So we still have a license agreement with them and that hasn't changed.

Usama Tariq: Okay. Thank you. I would like to ask one add-on question with regards to the higher CapEx. Do I understand correctly that you had in the previous capital raise indicated that a €33 million increase was done in the CapEx, and now it's around €20 million? What went wrong in the first few months? It has not even been a year. Do you think that your prognosis with regards to extra funding required for CapEx was not correct? Could you give a little bit more colour as to labour costs were higher, a little bit more colour on that regard?

Tom van Aken: Yes, Usama. So this is Tom speaking. Yes, so the previous update that we gave was at the Capital Markets Day in December 2023. At that time, the CapEx that we communicated was €149 million versus the Original CapEx that we communicated at the Final Investment Decision of €116 million. We've given an update today of what we think the capital expenditure estimate is, and that is €175 million. So that has gone up by €26 million. As we have communicated, that is mainly related to additional materials for electrical components and instrumentation and additional manpower.

In a project like this, if you are finalising a project the E&I part, the electrical instrumentation part comes as the last part. You can only connect everything if everything has been already installed, and then you basically connect it with electricity, but also with data cables. That is always the last part of the project. We've seen with comparable projects that this is one of the most complex parts of the project.

This is where we have encountered additional costs that we clearly hadn't anticipated when we were in December. We are now really, in the final phase of the project. So in that sense, we think we have a good understanding of where the cost will come out. This was the appropriate date for us to communicate the CapEx, which unfortunately is higher than what we had expected. But we think we are well in control to bring this to a close and starting up the plant according to the timetable that we have previously communicated.

Usama Tariq: So, if I understand correctly, you have high probability with regards to this would be the last CapEx figure required for the starting up the plant.

Tom van Aken: Yes. Because we are so close to completing the project, that is what we expect.

Usama Tariq: Okay. Thank you. And maybe one last question, if I may, that would be regards to the cash. You've already indicated that you're in discussion with potential parties. Could you possibly give a little bit of colour on what you expect your cash outflow to be this year? And if you have any preference with regards to the way of raising any potential cash. Do you really think you would go somewhere towards an equity raise, or would you still prefer a bit more on the debt side, if you could say something on that? Thank you.

Boudewijn van Schaïk: Thanks, Usama. So let me start with the first part. If I look at our cash, clearly, we are now in a phase where we're finalising the construction of the plant, where the CapEx has largely been incurred, as of today. So the CapEx spend, the cash burn on the CapEx will ramp down rapidly. We then obviously have our stable operating base, and as I mentioned, during my prepared notes, the plant has been fully staffed for a while, so the cash operating costs are fairly stable from that perspective and will continue to be there. And then we will start incurring some additional costs as we start up the plant on utilities, on materials to run the campaigns, as Tom explained, until we are fully producing and actually selling FDCA and PEF to customers. So we're going to see a much lower cash burn because the CapEx goes away, and then we'll see a slight increase in cash burn as we go through the startup and start building up inventory on the plant.

So right now, we don't have an immediate need for any additional capital. We're well-funded. But Avantium always has and always will continue to explore and evaluate funding options whether that may be debt, equity, subsidies, grants. Until we're actually selling FDCA and PEF, until we have revenue coming in from licenses, we will be spending more than what's coming in. That is the nature of the company that we are, but we do, as a reminder, have an 8% approval from our shareholders that we obtained at the AGM. So if the market is good, if the timing is right, we could look to use that to raise additional funding.

Usama Tariq: Thank you. That would be all from my side.

Boudewijn van Schaïk: Okay.

Operator: Thank you. And we'll now move on to our next question from Reg Watson of ING. Your line is open. Please go ahead.

Reg Watson: Good morning, all. Boudewijn, I'd like to follow up on that last question, on that last answer you gave. So just to be clear, then until you start selling licenses, the mere sale of FDCA from the plant is not enough to cover the cash burn. Is that correct? Even once you're producing, you're still going to remain cash flow negative. Is that the correct interpretation of what you just said?

Boudewijn van Schaïk: Yeah. As a consolidated company, that's correct.

Reg Watson: Right. Okay. Thank you. That's useful. And then in terms of progress, I'll say clearly license sales are crucial. What else can you tell us about the likely timing of license sales? And how has the change in Origin Materials' focus impacted your negotiations with other parties?

Tom van Aken: Good morning, Reg. Some of the things that we're seeing are going to be repetition of what we've said in previous discussions. Like Boudewijn said, if you look at the Flagship Plant itself, that's not going to be sufficient to cover the cash burn of the total consolidated company, something we've always communicated. We need license sales, and regarding licensing I think we are making progress with some of the discussions that we're having with partners. But we do expect that people will be looking for a number of key elements of the business case. Most importantly, they want to see the Flagship Plant operating. Because they want to see that the technology works at scale, and that is why the startup of the plant is so incredibly important to us because that is the most important validation that we can provide to partners that the technology works as we have designed it. And that is why the startup of the plant is so important for our licensees.

The second thing that they are looking for is the commercial side, they want to basically see proof of the market. Now clearly, we have so far signed 15 commercial offtake agreements. I think in that sense, for the loading of the Flagship Plant, everyone is convinced about that.

We're also in the process of discussing with potential partners capacity reservations for our licensees to provide them also with a commercial loading for the licensed plants. These discussions are all ongoing, but I think it is also fair to say from the brand owners' and the retailers' perspective, they really would like to see the materials coming out of the plant and being on the shelf. And that is really, of course, why the coming year is going to be critical because then we expect the plant to come on stream. We expect to see FDCA and PEF coming to our customers and ultimately coming into the hands of the consumer, which will be a demonstration of the technology. But it will also be a commercial validation of what the company is doing. We think that is really going to be determining the speed of licensing. So it's a bit of a long story to say. I don't expect license deals tobe executed before the Flagship Plant is operational.

Reg Watson: Okay. And now you're expecting operation in Q4, and you've mentioned initial batch campaigns before going to the continuous process. Can you give us some colour, please, on your expected ramp-up schedule? Because I'm guessing you aren't going to sell a lot or sign a license sale until continuous process is established for a period of time?

Tom van Aken: I think that's a fair comment. I think we've given in the press release an idea of how the process goes from commissioning to starting up the plant. So when we start up the plant, first, that doesn't mean that the plant is going to be directly fully operational, because we are doing it in phases. First, we will start it up in campaigns, meaning that we will be producing batches of FDCA. Subsequently, the FDCA will have to be polymerized at Selenis in Portugal to make PEF. We then do all kinds of testing on PEF to make sure that it meets the quality standards, that we do performance testing, and ultimately, in particular if it's for food contact applications, we have to make sure that we are obtaining the regulatory approvals. And that is really when the PEF will be coming into the hands of our customers. And then separately, there is, of course, a plan for ramping up the plant to continuous operation and then to ramp it up to design capacity.

We have decided to not provide specifics on the timelines because, that is something which is very difficult to plan for because it's a first-of-a-kind plant, and also because it's not only the expectation of the analysts that we then need to manage, but we also need to manage the expectations of our customers. In that sense, we very much believe in demonstrating how this is going and reporting the progress to the external markets. And that is going to be a better, tactic than making predictions and having to continuously manage the predictions that we've made vis-a-vis what is going to be realised.

So we have decided to do that in a bit more sensible way, which is we're going to be reporting progress to you, and then you will see where we are in that process, all the way to continuous operation and meeting design capacity.

Reg Watson: Okay. That's great. Thank you. And then, Tom, just final question for you, please. On the Origin Materials relationship, obviously, you've changed your recognition of the revenues. What have you actually seen that has changed in your relationship with Origin? Because we've seen the press release from Origin, but how has that affected your working relationship with them, and therefore, what is it that's led to the change in revenue recognition?

Tom van Aken: Thank you, Reg. So just to make sure that everyone is up to speed with this. Origin basically has communicated that they have a near-term strategic focus on what they call caps and closures business. This is not directly related to their CMF platform, which is the core technology platform that they have been working on for the past 10, 15 years. And I think that near-term strategy is very much focused to generate cash flows for the company. We understand what they're doing, but clearly, what we are interested in is their CMF technology platform because that makes a strategic fit with our FDCA and PEF business.

So what this change in short-term strategic focus means for us, it means basically delay and uncertainty. And that delay and uncertainty, that combination, has basically caused us, as Boudewijn was saying, under IFRS, to say, then it's more prudent to stop recognising revenues at this moment. But we continue to work with Origin on the development of the market and the development of the technology.

But it is very difficult for us to have a good view on the timelines that will be applicable to their commercialisation timelines because ultimately, we need, for the license plant, their CMF plant to be built, and that is something which is clearly taking longer than originally planned.

Reg Watson: My understanding was that the stage payments were for engineering work that you were conducting in order to effectively bridge the gap between CMF and FDCA. So I don't understand – unless they've actually taken people off the project or closed it down, I don't understand why that changes the revenue recognition on your part if you can continue to proceed at the same pace as you did before.

Tom van Aken: They have, of course, also gone through a bit of a restructuring, so the number of people that are working at Origin, has been significantly reduced. And let's say that allocation of resources and reduction in staff has an impact also on the partnership that we are pursuing.

I just want to avoid that people think that this is just now off the table because I think Usama in the beginning, also said, "So does it mean it's off the table? " That is not what we're communicating. I think it's much more being realistic and being prudent with regard to revenue recognition. To avoid that, we have to come back to our shareholders in the future that we have to, let's say, restate revenues that have been recognised while there was significant uncertainty about the speed of the deployment. So that is something which is really driving this decision now, Reg.

Boudewijn van Schaïk: So we did indeed previously communicate on the bridge program and developing that bridge technology. The work that we could progress has largely been completed from our side. So now Origin needs to continue to develop their plans so that we can continue with engineering based on how they plan to develop their technology and where they want to build the plants and how they want to do that.

Reg Watson: Okay. Understood. So to use the tennis analogy, the ball is in their court.

Boudewijn van Schaïk: Yes.

Reg Watson: Okay. Thank you.

Operator: Thank you. As a reminder, once again, if you would like to ask a question, please press star one on your telephone keypad. Thank you. And we will now take our next question from Patrick Roquas of Kepler Cheuvreux. Your line is open. Please go ahead.

Patrick: Hi gentlemen, good morning, thanks for taking my question. I've got one. Given the size of the CapEx increase and the timing of the capital raise last February, my question is, when did you became aware of this, increase of €26 million? And also, does this mean that the required CapEx for a larger scale plants, or let's say 50 or 100 kilotons would go up by a similar or pro-rata percentage? Thank you.

Tom van Aken: Hi, Patrick. Good morning, and thank you for asking the question. So with regard to the CapEx, this is something that was gradually built up over recent months, but is certainly something that is more back-end loaded. And that is also because the way this project has been organised. We have Worley as our EPC contractor, but Worley is actually working with a number of subcontractors who are actually executing the work. So all invoices, ultimately, and project close-outs are being coordinated by Worley but also it takes a bit of time before they are consolidated, and are subsequently becoming clear to us. So that is why it was more recent that we got clarity on the recent CapEx increase that we are now communicating.

So that is something that we have seen over the recent weeks and months, and as I said at the beginning when we saw that we, of course, realised this is something that we communicate to the market. And this was the right moment for us as we now have a full understanding of what it means.

Patrick: Okay.

Tom van Aken: Was that the full answer to the question?

Patrick: The larger plants…

Tom van Aken: Yes, what does it mean for the larger-scale plants? I think that is something which is too early to tell if this is something which is specific for the flagship plants or if it has consequences for the, let's say larger scale CapEx numbers. Of course, we are continuously looking at what do the data of our Flagship project mean for larger scale assets? But I think we need a bit more time to redo some of the process engineering and design work, and work with our partners to understand it. In that sense, it is difficult to say whether that also applies to the Electrical and Instrumentation part, that is not so much the scaling part. It doesn't matter if it's a five-kiloton plant or a 100-kiloton plant. The fibre cables and electrical components are still going to be of the same complexity. So I think in that sense, it's not something that there is a scaling factor that also the E&I costs are going up with a certain factor. So that's why it's a bit of a tricky question for me to answer.

Patrick: Okay. That's clear, Tom, thank you very much.

Tom van Aken: Thank you, Patrick.

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

Aarne Luten: Thank you all for your questions and listening in today. For any other questions you may have, please feel free to reach out to us. We're looking forward to welcoming our partners, shareholders and other stakeholders to the official opening ceremony of the FDCA Flagship Plant on 22nd October, and to the Retail Investor Day on 23rd October of this year. And that's to celebrate, of course, this historic milestone with us. We hope we will see you all in Delfzijl in October. Thank you everyone, and have a nice day.

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