

16 January 2019

## Corp

**Ticker** BYOT:AIM

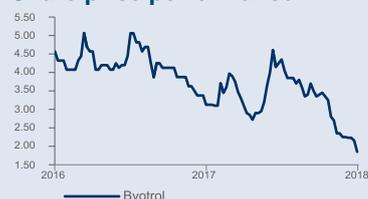
**Life Sciences**  
 Shares in issue (m) 430.9  
 Next results FY Aug

**Price** 1.9p  
 Target price 7.0p  
 Upside 278%

**Market cap** £8.0m  
 Net debt/(cash) -£3.6m  
 Other EV adjustments £0.0m  
 Enterprise value £4.4m

**What's changed?** **From** **To**  
 Adjusted EPS -0.0 n/c  
 Target Price 7.0 n/c

### Share price performance



%	1M	3M	12M
Actual	-17.8	-45.6	-40.8

### Company description

Development of products based on proprietary antimicrobial technology

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## ▶ Byotrol\*

### Interims – pointing the way to sustainable profitability

Byotrol reported substantial progress for the six months to 30 September, benefiting from an underlying improvement in operating cashflow and the one-month inclusion of Medimark Scientific. Revenues increased by 54% to £1.44m, resulting in an adjusted pre-tax loss of £0.46m (vs. -£0.74m), with period-end cash of £3.55m – down £0.3m from 31 March 2018. Confirmation that Medimark should meet its earn-out targets for FY 2019 is encouraging. A shortfall in the US, due to delays at the EPA in extending the range of Byotrol24, is expected to result in a £0.25m LBITDA for the full year, despite which we expect a profitable and cash-generative second half. With a full-year contribution from Medimark and sales synergies still to be factored into expectations, we reiterate our 7p price target.

▶ **Interims in brief.** Revenues for the period were £1.44m, up 54%, with underlying growth of 23% supplemented by the one-month consolidation of Medimark. Gross profit rose 123% to £767k (+1,660bps to 53.4% margin). Adjusted pre-tax losses fell to £455k from £740k. A £1.1m delta in operating cash flow resulted in an inflow of £0.6m, which was offset by the cash costs of the Medimark acquisition. Net cash remains robust with £3.55m at 30 September – a reduction of £0.3m in the period.

▶ **Medimark update.** Consolidated for one month, Medimark contributed £257k and £128k to revenues and gross profit, implying annualised revenues and profit of c.£3.1m and £1.6m, respectively. Integration is going to plan with revenue synergies, arising from cross-selling opportunities, yet to benefit Byotrol's business. Confirmation that Medimark is on track to achieving its earn-out targets (FY 2019 EBITDA of £0.5m) underpins the move to sustainable profitability for the group.

▶ **Outlook.** Following the Medimark acquisition, focus has returned to building the Consumer business with additional licence deals expected in H2. The three strategic initiatives (Byotrol24, Invirtu hand sanitisers and Actizone) continue to progress, although delays at the EPA to add additional Byotrol24 variants is expected to result in a FY 2019 LBITDA of c.-£0.35m in the US and -£0.25m for the group, respectively.

▶ **Forecasts and valuation.** We have reduced FY EBITDA by c.£0.35m to reflect the impact of delays in the US, despite which the group is expected to be both profitable and cash-generative in the second half with year-end net cash of c.£3.3m. We reiterate our 7p target price, which implies a FY 2020 (full year of Medimark) EV/EBITDA of 22.6x but does not include the full value of potential licence income for Byotrol24 or Actizone, which we believe could generate royalties of up to c.£6m pa.

Key estimates   Year end: Mar		2016A	2017A	2018A	2019E	2020E
Revenue	£m	2.6	3.1	3.1	4.3	7.3
Adj EBITDA	£m	-0.3	0.1	0.0	-0.3	1.2
Adj EBIT	£m	-0.4	-0.0	-0.1	-0.4	1.0
Adj PBT	£m	-0.5	-0.0	-0.2	-0.5	0.9
Adj EPS	p	-0.2	-0.0	-0.0	-0.1	0.2
DPS	p	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2016A	2017A	2018A	2019E	2020E
EV/EBIT (adj)	x	-11.7	-253.4	-33.6	-10.3	4.4
P/E (adj)	x	-11.9	-161.8	-39.4	-16.7	9.5
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-6.7%	-0.8%	-19.9%	10.3%	13.0%
Pre-tax ROCE	%	-18.7%	-0.9%	-2.0%	-6.7%	13.8%

## Interims – pointing the way to sustainable profitability

Income statement		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Sales	£m	3.1	3.1	4.3	7.3
Gross profit	£m	1.8	2.0	2.7	5.2
EBITDA (adjusted)	£m	0.1	0.0	-0.3	1.2
<b>EBIT (adjusted)</b>	<b>£m</b>	<b>-0.0</b>	<b>-0.1</b>	<b>-0.4</b>	<b>1.0</b>
Associates/other	£m	0.0	0.0	0.0	0.0
Net interest	£m	-0.0	-0.1	-0.1	-0.1
<b>PBT (adjusted)</b>	<b>£m</b>	<b>-0.0</b>	<b>-0.2</b>	<b>-0.5</b>	<b>0.9</b>
Total adjustments	£m	-0.1	-0.1	-0.2	-0.1
PBT (stated)	£m	-0.1	-0.3	-0.7	0.8
Tax charge	£m	0.0	0.0	0.0	0.0
Minorities	£m	0.0	0.0	0.0	0.0
Reported earnings	£m	-0.1	-0.3	-0.7	0.8
<b>Adjusted earnings</b>	<b>£m</b>	<b>-0.0</b>	<b>-0.2</b>	<b>-0.5</b>	<b>0.9</b>
Shares in issue (year end)	m	268.1	402.8	430.9	441.9
EPS (stated)	p	-0.0	-0.1	-0.2	0.2
<b>EPS (adjusted, fully diluted)</b>	<b>p</b>	<b>-0.0</b>	<b>-0.0</b>	<b>-0.1</b>	<b>0.2</b>
<b>DPS</b>	<b>p</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Cash flow		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
EBITDA	£m	0.1	0.0	-0.3	1.2
Net change in working capital	£m	0.1	-1.6	1.2	-0.0
Other operating items	£m	-0.0	0.1	0.1	0.1
<b>Cash flow from op. activities</b>	<b>£m</b>	<b>0.2</b>	<b>-1.5</b>	<b>1.0</b>	<b>1.3</b>
Cash interest	£m	0.0	0.0	0.0	0.0
Cash tax	£m	0.0	0.0	0.0	0.0
Capex	£m	-0.3	-0.1	-0.2	-0.3
<b>Free cash flow</b>	<b>£m</b>	<b>-0.1</b>	<b>-1.6</b>	<b>0.8</b>	<b>1.0</b>
Acquisitions / disposals	£m	-0.0	0.0	-1.2	-0.5
Dividends	£m	0.0	0.0	0.0	0.0
Shares issued	£m	0.0	4.6	0.0	0.0
Other	£m	0.0	0.3	-0.2	-0.2
<b>Net change in cash flow</b>	<b>£m</b>	<b>-0.1</b>	<b>3.3</b>	<b>-0.6</b>	<b>0.4</b>
Opening net cash (debt)	£m	0.7	0.6	3.9	3.3
<b>Closing net cash (debt)</b>	<b>£m</b>	<b>0.6</b>	<b>3.9</b>	<b>3.3</b>	<b>3.7</b>

Balance sheet		2017A	2018A	2019E	2020E
<b>Year End: Mar</b>					
Tangible fixed assets	£m	0.0	0.0	0.1	0.1
Goodwill & other intangibles	£m	0.7	0.4	4.9	5.0
Other non current assets	£m	0.0	0.0	0.5	0.5
Net working capital	£m	0.3	2.1	-1.3	-1.0
Other assets	£m	0.0	0.0	0.0	0.0
Other liabilities	£m	0.0	0.0	-1.0	-1.0
Gross cash & cash equivs	£m	1.0	3.9	3.3	3.7
<b>Capital employed</b>	<b>£m</b>	<b>2.0</b>	<b>6.4</b>	<b>6.5</b>	<b>7.2</b>
Gross debt	£m	0.4	0.0	0.0	0.0
Net pension liability	£m	0.0	0.0	0.0	0.0
Shareholders equity	£m	1.6	6.4	6.5	7.2
Minorities	£m	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>£m</b>	<b>2.0</b>	<b>6.4</b>	<b>6.5</b>	<b>7.2</b>

Growth analysis		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Sales growth	%	18.1%	0.4%	36.9%	68.6%
EBITDA growth	%	144.6%	-61.8%	-664.3%	570.4%
EBIT growth	%	95.4%	-653.3%	-227.9%	330.7%
PBT growth	%	92.7%	-498.6%	-151.8%	280.4%
EPS growth	%	92.7%	-310.8%	-136.4%	276.2%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Gross margin	%	56.0%	64.0%	63.7%	71.1%
EBITDA margin	%	3.7%	1.4%	-5.8%	16.2%
EBIT margin	%	-0.6%	-4.2%	-10.0%	13.7%
PBT margin	%	-1.1%	-6.4%	-11.8%	12.6%
Net margin	%	-1.1%	-6.4%	-11.8%	12.6%

Cash flow analysis		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Cash conv'n (op cash / EBITDA)	%	188.5%	n/m	n/m	108.5%
Cash conv'n (FCF / EBITDA)	%	-53.8%	n/m	-327.9%	88.3%
U/lying FCF (capex = deprn)	£m	0.1	-1.6	0.8	1.1
Cash quality (u/l FCF / adj earn)	%	-252.9%	811.8%	-166.1%	121.2%
Investment rate (capex / deprn)	x	18.1	6.8	9.3	11.1
Interest cash cover	x	n/a	net cash	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/m	n/m

Working capital analysis		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Net working capital / sales	%	9.9%	66.5%	-29.4%	-14.0%
Net working capital / sales	days	36	243	-107	-51
Inventory (days)	days	23	22	21	16
Receivables (days)	days	100	281	119	91
Payables (days)	days	88	60	246	158

Leverage analysis		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Net debt / equity	%	net cash	no debt	no debt	no debt
Net debt / EBITDA	x	net cash	no debt	n/a	no debt
Liabilities / capital employed	%	19.5%	0.0%	0.0%	0.0%

Capital efficiency & intrinsic value		2017A	2018A	2019E	2020E
<b>Year end: Mar</b>					
Adjusted return on equity	%	-2.1%	-3.1%	-7.9%	12.8%
RoCE (EBIT basis, pre-tax)	%	-0.9%	-2.0%	-6.7%	13.8%
RoCE (u/lying FCF basis)	%	4.3%	-25.5%	13.0%	15.5%
NAV per share	p	0.6	1.6	1.5	1.6
NTA per share	p	0.3	1.5	0.4	0.5

## Interim results to 31 September 2018

Interims showed both underlying growth in the Byotrol business as well as a first-time contribution from Medimark, albeit only for one month having been acquired in August:

- Byotrol's existing business reported revenues of c.£1.18m, implying c.27% growth. This was attributed primarily to growth in Consumer, which benefited from higher licence/milestone payments from Solvay.
- Medimark contributed c.£257k to revenues, £128k to gross profit and an estimated £50k to EBITDA.

**Figure 1: Summary income statement**

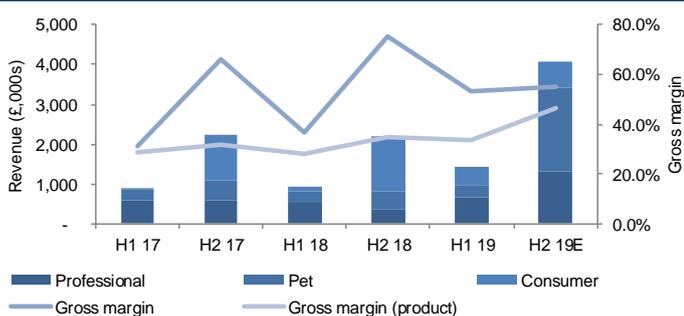
6 months to 30 September (£m)	2017	2018	Delta (£m)	Growth (%)
Professional	0.55	0.67	0.12	23%
Petcare	0.28	0.32	0.04	15%
Consumer	0.11	0.45	0.34	307%
<b>Revenues</b>	<b>0.93</b>	<b>1.44</b>	<b>0.50</b>	<b>54%</b>
Cost of goods sold	-0.59	-0.67	-0.08	13%
<b>Gross profit</b>	<b>0.34</b>	<b>0.77</b>	<b>0.434</b>	<b>123%</b>
<i>Gross margin (%)</i>	36.8%	53.4%	+1660bp	
Admin costs	-0.42	-0.44	-0.02	6%
Sales & marketing	-0.32	-0.40	-0.08	25%
R&D	-0.19	-0.27	-0.07	37%
Total Opex	-0.93	-1.11	-0.18	19%
Exceptional items	-0.03	-0.12	-0.09	352%
Share based payments	-0.04	-0.04	0.00	-5%
<b>EBIT</b>	<b>-0.76</b>	<b>-0.61</b>	<b>0.15</b>	<b>-20%</b>
<b>Adjusted EBIT</b>	<b>-0.70</b>	<b>-0.46</b>	<b>0.24</b>	<b>-34%</b>
Depreciation	-0.01	-0.01	0.00	23%
Amortisation	-0.09	-0.10	0.00	5%
<b>Adjusted EBITDA</b>	<b>-0.59</b>	<b>-0.35</b>	<b>0.25</b>	<b>-41%</b>
<i>EBITDA margin (%)</i>	-63.3%	-24.1%		
Stated Pre-tax Profit	-0.80	-0.58	0.22	-28%
<b>Adj Pre-tax Profit</b>	<b>-0.740</b>	<b>-0.43</b>	<b>0.31</b>	<b>-42%</b>
<b>Adjusted Net Income</b>	<b>-0.74</b>	<b>-0.43</b>	<b>0.31</b>	<b>-42%</b>
Av. Shares in issue (m)	290.4	408.5	118.1	
<b>Adj EPS (p)</b>	<b>-0.26</b>	<b>-0.11</b>	<b>0.15</b>	
Stated EPS (p)	-0.28	-0.14	0.14	

Source: finnCap

### Revenues and gross profit

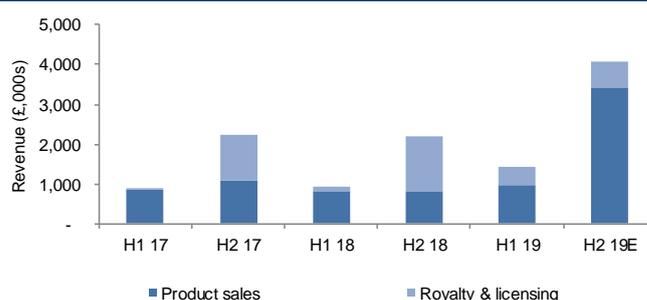
Revenues increased 54% to £1.44m (Figure 7), driven by a 307% increase in consumer revenues (licence payments) and a 23% increase in Professional. Medimark contributed c.£0.26m, without which revenue growth was c.27%.

**Figure 2: Revenues by division**



Source: finnCap

**Figure 3: Revenues – product sales and royalties**



Source: finnCap

Gross profit increased 123% to £767k (£424k) in the period, with gross margins rising 1660bps to 53.4% from 36.8%. This was due to two factors:

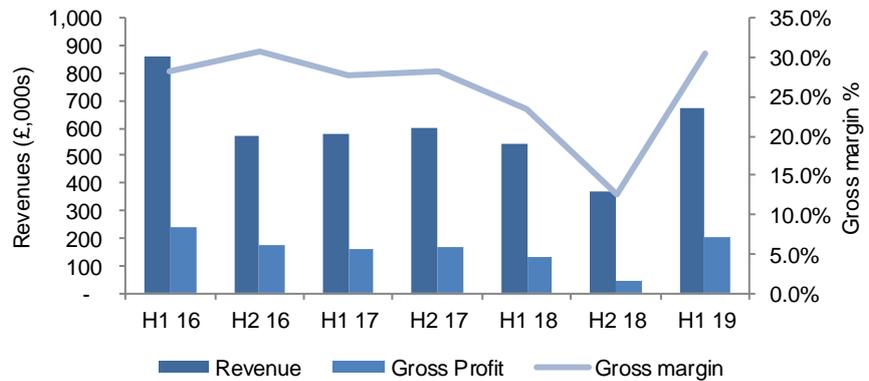
- ▶ A milestone payment from Solvay for Actizone IP, which is estimated to have been c.£0.3m.
- ▶ The inclusion of Medimark, which contributed £128k to gross profits (49.8% gross margin), representing 30% of the gross profit increase.

*Professional revenues increased 23% to £669k*

Professional revenues increased 23% to £669k (vs. £546k), with gross profit rising 58% to £204k (£129k) and comprising (Figure 4):

- ▶ A one-month contribution from Medimark, which reported revenues of £257k, implying annualised revenues of c.£1.8m. Our estimates include revenues of £1.5m. Gross profits were £128k, implying a gross margin of 49.5%.
- ▶ Byotrol's underlying revenues fell 25% to £412k, with gross profit down 41% to £76k. This implied a 520bp decline in gross margin to 18.4% and continues the trend that has been seen over the past year as Byotrol has faced competition for its commoditised product lines.

**Figure 4: Professional – revenues and gross profit**

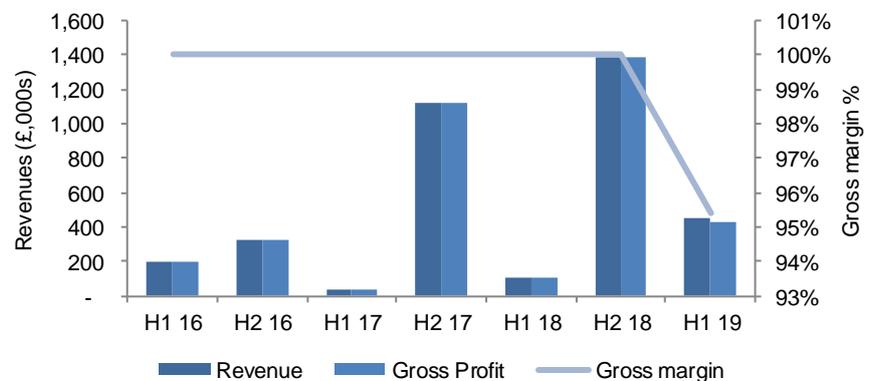


Source: finnCap

*Consumer revenues increased 307% to £448k*

Consumer revenues increased 307% to £448k (vs £110k), with gross profits up 289% to £427k, implying gross margins of 96.5% (Figure 5).

**Figure 5: Consumer – revenues and gross profit**



Source: finnCap

The key drivers to growth were:

- ▶ The second annual payment from the sale of Actizone patents and IP to Solvay in March 2018. We estimate that recognised revenues were c.£0.3m in the first half, although the cash payment of c.£0.5m is due before the financial year end. A further

## Interims – pointing the way to sustainable profitability

similar-sized payment from Solvay is expected in the second half with guaranteed minimum payments (lower than FY 2019) due in FY 2020, 2021 and 2022, the latter based on sales levels in FY 2021. In addition, Byotrol will receive royalties, estimated to be in the low to mid-single digit range, on sales of Actizone.

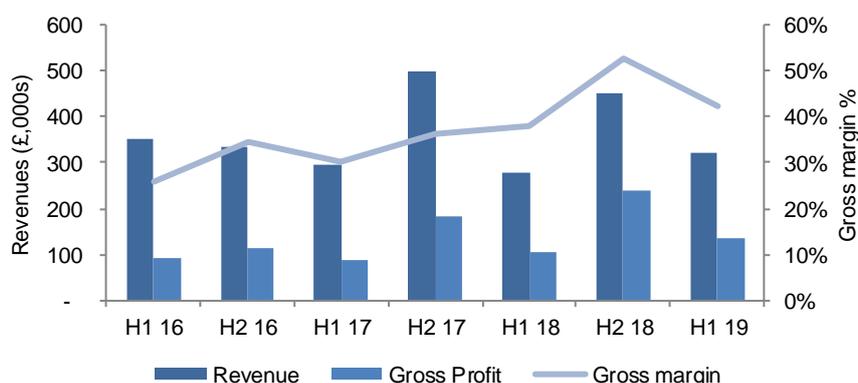
- ▶ McBride/Tesco's own-label range of sprays.
- ▶ Boots' range of Byotrol-based hand sanitisers.
- ▶ Target's test launch of Byotrol24 (24-hour action surface disinfectant spray for the consumer market) in the US. Byotrol24 is currently ranged in 150 Target supermarket stores. Byotrol will launch new fragrance variants in 2019 once additional EPA approval has been granted, which is expected during Q1 2019.

*Petcare revenues increased by 15% to £320k*

Petcare revenues increased by 15% to £320k (£278k) with gross profit rising 24% to £136k (£105k) and implying a 460bp improvement in gross margins to 42.4%. Growth was driven by:

- ▶ Continental Europe and Asia.
- ▶ Both animal grooming and pet environment products.

**Figure 6: Petcare – revenues and gross profit**



Source: finnCap

### Operating profits

Total operating expenses increased 25% to £1.38m (Figure 12).

**Figure 7: Operating costs**

6 months to 30 September (£m)	2017	2018	Delta (£m)	Growth (%)
Administrative expenses	-0.42	-0.44	-0.02	6%
Sales & marketing	-0.32	-0.40	-0.08	25%
Research & Development	-0.19	-0.27	-0.07	37%
Acquisition-related costs	-0.03	-0.12	-0.09	352%
Share based payments	-0.04	-0.04	0.00	-5%
Depreciation	-0.01	-0.01	0.00	23%
Amortisation	-0.09	-0.10	0.00	5%
<b>Total costs</b>	<b>-1.10</b>	<b>-1.38</b>	<b>-0.28</b>	<b>25%</b>
<b>Company stated EBIT</b>	<b>-0.76</b>	<b>-0.61</b>	<b>0.15</b>	<b>-20%</b>
Exceptional costs	0.03	0.12	0.09	352%
Share based payments	0.04	0.04	0.00	-5%
<b>Adjusted EBIT</b>	<b>-0.70</b>	<b>-0.46</b>	<b>0.24</b>	<b>-34%</b>
<b>Adjusted EBITDA</b>	<b>-0.59</b>	<b>-0.35</b>	<b>0.25</b>	<b>-41%</b>

Source: finnCap

This included the costs (both exceptional acquisition-related and ongoing costs) from the Medimark acquisition. Underlying cash expenses increased by 22% to £1.14m, of which

c.£0.1m was attributed to Medimark, with the balance largely due to an increase in research & development expenses relating to: development of finished product versions of Actizone, regulatory-oriented technical work, developing the technology behind the seaweed patent and the development of additional fragrance variants for Byotrol24.

This resulted in an adjusted EBIT (excluding share-based payments of £37k) loss of £457k, a reduction of 34% or £238k from the £695k loss in the comparable period. This resulted in a £245k (41%) reduction in adjusted LBITDA of £346k, compared with previous £592k loss. Included in these figures were losses of £170k from US operations.

### Net cashflow

Year-end net cash was £3.55m, which compared with £3.85m at 31 March 2018. Key factors included:

- ▶ A £245k improvement in adjusted LBITDA to -£346k.
- ▶ Working capital inflow of £813k, which included a decrease in receivables relating to the timing of Solvay's payment that accrued to the FY 2018 income statement (c.£0.75m) but was paid in April. Underlying working capital inflows were c.£178k, which compared with an inflow of £9k in FY 2018.
- ▶ A consequent £1.1m improvement in operating cash flow, in which an inflow of £512k compared with an outflow of £583m in the comparable period.
- ▶ Acquisition cash costs for Medimark of £554k, which were the cash costs net of c.£0.35m of debt. As a reminder, the maximum consideration for Medimark is up to £4.5m (including £0.4m of debt). The initial consideration of £2.3m comprised £1.15m in cash (the balance of c.£0.6m to be paid in the second half) and £1.15m from the issue of c.28m shares at 4.1p per share. A deferred payment of up to £1.8m will be payable subject to achieving EBITDA targets in FY 2019 and FY 2020, to be paid half in cash and half in new ordinary shares. The company is on track to achieving its earn-out targets for the current financial year.

**Figure 8: Cashflow summary**

6 months to 30 September (£m)	2017	2018	Delta (£m)
EBITDA	-0.592	-0.346	0.245
Net change in working capital	0.009	0.822	0.813
Share based payments	0.039	0.037	-0.002
Other items	-0.039	0.000	0.039
<b>Cash flow from operating activities</b>	<b>-0.583</b>	<b>0.512</b>	<b>1.095</b>
Cash interest	0.000	0.004	0.004
Tax paid	0.000	0.000	0.000
Capex	-0.079	-0.095	-0.016
<b>Free cash flow</b>	<b>-0.662</b>	<b>0.421</b>	<b>1.083</b>
Acquisitions	0.000	-0.554	-0.554
Dividends on ord shares	0.000	0.000	0.000
Other cash flow items	0.006	-0.168	-0.174
Issue of share capital	4.576	0.000	-4.576
<b>Net change in cash flow</b>	<b>3.920</b>	<b>-0.301</b>	<b>-4.222</b>
Opening net cash (debt)	0.562	3.853	3.291
<b>Closing net cash (debt)</b>	<b>4.482</b>	<b>3.552</b>	<b>-0.930</b>

Source: finnCap

*Underlying profit in non-US businesses offset by delays in US to get additional approvals from EPA*

## Outlook

We believe the company to be on track to generate an adjusted EBITDA of c.£0.1m in its non-US business, which is in line with our previous forecasts. Losses in the US of c.£350k as Byotrol launches Byotrol24 into the market, however, are expected to result in an adjusted LBITDA of c.£250k.

Whereas FY 2018's performance was driven by the c.£1.3m milestone payment from Solvay, FY 2019 should benefit from the seven-month contribution from Medimark and underlying growth in its Consumer and Petcare divisions that offsets a smaller milestone payment from Solvay (c.£0.6m). Key points to note include:

- ▶ Medimark is on track to meet its earn-out obligations, which is for EBITDA of £0.5m in the year to March 2019.
- ▶ Building on the trial launch of Byotrol24 with Target in the US and McBride/Tesco and Boots in the UK, management are hopeful of securing additional licences in FY 2019 and beyond. Confidence arises from the incoming interest from other US retail outlets that have noted the presence of Byotrol24 in Target stores as well as from other potential partners in Professional market. The outcome for the Consumer division in FY 2019 will depend on which larger deals are closed prior to the year-end and what investments are made in the US for longer-term growth.
- ▶ Following the trial launch into 150 of Target's 1,800+ stores in June, uptake has been constrained by the lack of product SKUs. To that extent, Byotrol expects to launch three additional fragrance variants in the New Year, pending EPA clearance, demand for which should determine whether or not it is ranged in up to 500 stores and, therefore, justify the commensurate increase in marketing spend. However, the delay to EPA approvals, which had been expected by calendar year-end, is expected to result in an EBITDA loss of c.£0.35m in the US.
- ▶ Petcare is expected to continue to grow, benefiting in due course from cross-selling opportunities that Medimark's presence in animal hygiene technologies and markets brings. Management will invest more into Petcare, particularly to drive international export growth but only as resources allow.
- ▶ Despite the shortfall in the US, we expect the group to be both profitable (+c.£0.1m EBITDA) and operationally cash-generative (+c.£0.1m, excluding c.£0.5m milestone from Solvay) in the second half.

## Forecast changes

We have made the following change to forecasts:

- ▶ Reduced revenues by £1.2m in FY 2019 and FY 2020, to reflect loss of lower-margin commoditised revenues.
- ▶ Reduced gross profit by £0.3m in FY 2019 and £0.2m.
- ▶ Left operating expenses broadly unchanged, the increased expenses in the US offsetting lower expenses in the remainder of the business.
- ▶ Reduction in EBITDA of £0.35m and £0.2m in FY 2019 and 2020, respectively, resulting in a LBITDA of -£0.25m in FY 2019 and an EBITDA of c£1.2m in FY 2020.
- ▶ Adjusted LPS rises from 0.06p to 0.17p in FY 2019, with EPS 21% lower in FY 2020 at 0.19p.

**Figure 9: Forecast changes**

Year end March (£m)

	Old	New	Delta (£m)	Delta (%)	Old	New	Delta (£m)	Delta (%)
<b>Revenues</b>	<b>5.50</b>	<b>4.30</b>	<b>-1.20</b>	<b>-22%</b>	<b>8.40</b>	<b>7.25</b>	<b>-1.15</b>	<b>-14%</b>
Cost of goods sold	-2.49	-1.56	0.93	-37%	-3.02	-2.09	0.93	-31%
<b>Gross profit</b>	<b>3.02</b>	<b>2.74</b>	<b>-0.28</b>	<b>-9%</b>	<b>5.38</b>	<b>5.16</b>	<b>-0.23</b>	<b>-4%</b>
<i>Gross margin (%)</i>	<i>54.8%</i>	<i>63.7%</i>			<i>64.1%</i>	<i>71.1%</i>		
Operating expenses	-2.92	-2.99	-0.08	3%	-3.98	-3.98	0.00	0%
<b>Adjusted EBITDA</b>	<b>0.10</b>	<b>-0.25</b>	<b>-0.35</b>	<b>-350%</b>	<b>1.40</b>	<b>1.18</b>	<b>-0.23</b>	<b>-16%</b>
<i>EBITDA margin (%)</i>	<i>2%</i>	<i>-6%</i>			<i>17%</i>	<i>16%</i>		
Adjusted EBIT	-0.07	-0.43	-0.36	516%	1.23	0.99	-0.24	-19%
<b>Adj Pre-tax Profit</b>	<b>-0.16</b>	<b>-0.51</b>	<b>-0.35</b>	<b>218%</b>	<b>1.14</b>	<b>0.92</b>	<b>-0.22</b>	<b>-20%</b>
Stated Pre-tax Profit	-0.26	-0.70	-0.44	170%	1.04	0.82	-0.22	-21%
<b>Adjusted Net Income</b>	<b>-0.16</b>	<b>-0.51</b>	<b>-0.35</b>	<b>218%</b>	<b>1.14</b>	<b>0.92</b>	<b>-0.22</b>	<b>-20%</b>
<b>Adj EPS (p)</b>	<b>-0.03</b>	<b>-0.11</b>	<b>-0.08</b>	<b>218%</b>	<b>0.24</b>	<b>0.20</b>	<b>-0.05</b>	<b>-20%</b>
Stated EPS (p)	-0.06	-0.17	-0.11	171%	0.24	0.19	-0.05	-21%

Source: finnCap

## Valuation

We are retaining our target price of 7p. At this price, the enterprise value of the company would be c.£28.3m, which compares with the current c.£9m. Based on our 2020 forecasts, in which Medimark is consolidated for a full year, this would place Byotrol on an EV/Sales of 3.6x, an EV/EBITDA of 22.6x and an adjusted P/E of 36.3.

**Figure 10: Valuation multiples at target price**

Year end March	2018A	2019E	2020E
<b>Target share price (p)</b>	<b>7</b>		
Number of shares in issue (m)	430.9		
<b>Market capitalisation (£m)</b>	<b>30.2</b>		
add net debt/(cash) (£m)	3.9	3.3	3.8
<b>Enterprise value (£m)</b>	<b>26.3</b>	<b>26.8</b>	<b>26.3</b>
EV/Sales	8.4	6.2	3.6
EV/EBITDA	593.8	-107.3	22.6
EV/EBIT	-200.2	-62.2	26.5
EV/CE	4.1	4.2	3.7
P/E	-91.8	-40.6	38.0
P/E (adjusted)	-152.8	-61.5	36.3
Dividend yield	n/a	n/a	n/a
Free cash yield	-5.6%	1.7%	3.1%

Source: finnCap

This excludes the long-term value for both Actizone and its Byotrol24, both of which represent significant commercial opportunities, which we have estimated could generate annual licence revenues (gross profit) of c.\$8m (£6m) in due course, assuming a 5% and 10% share of their respective addressable markets.

## Interims – pointing the way to sustainable profitability

Income statement		2016A	2017A	2018A	2019E	2020E
Year end: Mar						
<b>Sales</b>	£m	<b>2.6</b>	<b>3.1</b>	<b>3.1</b>	<b>4.3</b>	<b>7.3</b>
Cost of sales	£m	-1.5	-1.4	-1.1	-1.6	-2.1
<b>Gross profit</b>	£m	<b>1.2</b>	<b>1.8</b>	<b>2.0</b>	<b>2.7</b>	<b>5.2</b>
Operating expenses	£m	-1.4	-1.6	-2.0	-3.0	-4.0
<b>EBITDA (adjusted)</b>	£m	<b>-0.3</b>	<b>0.1</b>	<b>0.0</b>	<b>-0.3</b>	<b>1.2</b>
Depreciation	£m	-0.0	-0.0	-0.0	-0.0	-0.0
Amortisation	£m	-0.1	-0.1	-0.2	-0.2	-0.2
<b>EBIT (adjusted)</b>	£m	<b>-0.4</b>	<b>-0.0</b>	<b>-0.1</b>	<b>-0.4</b>	<b>1.0</b>
Associates/other	£m	0.0	0.0	0.0	0.0	0.0
Net interest	£m	-0.1	-0.0	-0.1	-0.1	-0.1
<b>PBT (adjusted)</b>	£m	<b>-0.5</b>	<b>-0.0</b>	<b>-0.2</b>	<b>-0.5</b>	<b>0.9</b>
<i>restructuring costs</i>	£m	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>share based payments</i>	£m	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>
<i>other adjustments</i>	£m	<i>-0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-0.1</i>	<i>0.0</i>
Total adjustments	£m	-0.1	-0.1	-0.1	-0.2	-0.1
<b>PBT (stated)</b>	£m	<b>-0.5</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.7</b>	<b>0.8</b>
Tax charge	£m	0.0	0.0	0.0	0.0	0.0
<i>tax rate</i>	%	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>0.0</i>
Minorities	£m	0.0	0.0	0.0	0.0	0.0
<b>Reported earnings</b>	£m	<b>-0.5</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.7</b>	<b>0.8</b>
Tax effect of adjustments / other	£m	0.0	0.0	0.0	0.0	0.0
<b>Adjusted earnings</b>	£m	<b>-0.5</b>	<b>-0.0</b>	<b>-0.2</b>	<b>-0.5</b>	<b>0.9</b>
<i>shares in issue (year end)</i>	m	<i>268.1</i>	<i>268.1</i>	<i>402.8</i>	<i>430.9</i>	<i>441.9</i>
<i>shares in issue (weighted average)</i>	m	<i>250.6</i>	<i>268.1</i>	<i>346.3</i>	<i>415.7</i>	<i>436.4</i>
<i>shares in issue (fully diluted)</i>	m	<i>294.8</i>	<i>294.8</i>	<i>429.6</i>	<i>457.6</i>	<i>468.6</i>
<b>EPS (adjusted, fully diluted)</b>	p	<b>-0.2</b>	<b>-0.0</b>	<b>-0.0</b>	<b>-0.1</b>	<b>0.2</b>
EPS (stated)	p	-0.2	-0.0	-0.1	-0.2	0.2
<b>DPS</b>	p	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Growth analysis (adjusted basis where applicable)						
Sales growth	%	34.9%	18.1%	0.4%	36.9%	68.6%
EBITDA growth	%	90.3%	144.6%	-61.8%	-664.3%	570.4%
EBIT growth	%	86.5%	95.4%	-653.3%	-227.9%	330.7%
PBT growth	%	83.7%	92.7%	-498.6%	-151.8%	280.4%
EPS growth	%	93.1%	92.7%	-310.8%	-136.4%	276.2%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	43.6%	56.0%	64.0%	63.7%	71.1%
EBITDA margin	%	-9.8%	3.7%	1.4%	-5.8%	16.2%
EBIT margin	%	-14.2%	-0.6%	-4.2%	-10.0%	13.7%
PBT margin	%	-17.4%	-1.1%	-6.4%	-11.8%	12.6%
Net margin	%	-17.4%	-1.1%	-6.4%	-11.8%	12.6%

## Interims – pointing the way to sustainable profitability

Cash flow		2016A	2017A	2018A	2019E	2020E
<b>Year end: Mar</b>						
EBITDA	£m	-0.3	0.1	0.0	-0.3	1.2
Net change in working capital	£m	-0.1	0.1	-1.6	1.2	-0.0
Share based payments	£m	0.1	0.1	0.1	0.1	0.1
Profit/(loss) on sale of assets	£m	0.0	0.0	0.0	0.0	0.0
Net pensions charge	£m	0.0	0.0	0.0	0.0	0.0
Change in provision	£m	0.0	0.0	0.0	0.0	0.0
Other items	£m	-0.1	-0.1	0.0	0.0	0.0
<b>Cash flow from operating activities</b>	<b>£m</b>	<b>-0.4</b>	<b>0.2</b>	<b>-1.5</b>	<b>1.0</b>	<b>1.3</b>
Cash interest	£m	0.0	0.0	0.0	0.0	0.0
Tax paid	£m	0.0	0.0	0.0	0.0	0.0
Capex	£m	-0.2	-0.3	-0.1	-0.2	-0.3
<b>Free cash flow</b>	<b>£m</b>	<b>-0.5</b>	<b>-0.1</b>	<b>-1.6</b>	<b>0.8</b>	<b>1.0</b>
Disposals	£m	0.0	0.0	0.0	0.0	0.0
Acquisitions	£m	-0.0	-0.0	0.0	-1.2	-0.5
Dividends on ord shares	£m	0.0	0.0	0.0	0.0	0.0
Other cashflow items	£m	-0.0	0.0	0.3	-0.2	-0.2
Issue of share capital	£m	1.3	0.0	4.6	0.0	0.0
<b>Net change in cash flow</b>	<b>£m</b>	<b>0.7</b>	<b>-0.1</b>	<b>3.3</b>	<b>-0.6</b>	<b>0.4</b>
Opening net cash (debt)	£m	-0.0	0.7	0.6	3.9	3.3
<b>Closing net cash (debt)</b>	<b>£m</b>	<b>0.7</b>	<b>0.6</b>	<b>3.9</b>	<b>3.3</b>	<b>3.7</b>

<b>Cash flow analysis</b>						
Cash conversion (op cash flow / EBITDA)	%	n/m	188.5%	n/m	n/m	108.5%
Cash conversion (free cash flow / EBITDA)	%	205.0%	-53.8%	n/m	-327.9%	88.3%
Underlying free cash flow (capex = depreciation)	£m	-0.5	0.1	-1.6	0.8	1.1
Cash quality (underlying FCF / adjusted earnings)	%	107.6%	-252.9%	811.8%	-166.1%	121.2%
Investment rate (capex / depn)	x	3.9	18.1	6.8	9.3	11.1
Interest cash cover	x	net cash	n/a	net cash	n/a	n/a
Dividend cash cover	x	n/a	n/a	n/a	n/m	n/m

## Interims – pointing the way to sustainable profitability

Balance sheet		2016A	2017A	2018A	2019E	2020E
Year End: Mar						
Tangible fixed assets	£m	0.0	0.0	0.0	0.1	0.1
Goodwill	£m	0.0	0.0	0.0	0.0	0.0
Other intangibles	£m	0.6	0.7	0.4	4.9	5.0
Other non current assets	£m	0.0	0.0	0.0	0.5	0.5
<i>inventories</i>	£m	0.2	0.2	0.2	0.2	0.3
<i>trade receivables</i>	£m	0.8	0.9	2.4	1.4	1.8
<i>trade payables</i>	£m	-0.6	-0.8	-0.5	-2.9	-3.1
Net working capital	£m	0.4	0.3	2.1	-1.3	-1.0
Other assets	£m	0.0	0.0	0.0	0.0	0.0
Other liabilities	£m	0.0	0.0	0.0	-1.0	-1.0
Gross cash & cash equivalents	£m	1.0	1.0	3.9	3.3	3.7
<b>Capital employed</b>	<b>£m</b>	<b>2.0</b>	<b>2.0</b>	<b>6.4</b>	<b>6.5</b>	<b>7.2</b>
Gross debt	£m	0.4	0.4	0.0	0.0	0.0
Net pension liability	£m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	£m	1.7	1.6	6.4	6.5	7.2
Minorities	£m	0.0	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>£m</b>	<b>2.0</b>	<b>2.0</b>	<b>6.4</b>	<b>6.5</b>	<b>7.2</b>
<b>Leverage analysis</b>						
Net debt / equity	%	net cash	net cash	no debt	no debt	no debt
Net debt / EBITDA	x	n/a	net cash	no debt	n/a	no debt
Liabilities / capital employed	%	17.8%	19.5%	0.0%	0.0%	0.0%
<b>Working capital analysis</b>						
Net working capital / sales	%	15.6%	9.9%	66.5%	-29.4%	-14.0%
Net working capital / sales	days	57	36	243	-107	-51
Inventory (days)	days	30	23	22	21	16
Receivables (days)	days	108	100	281	119	91
Payables (days)	days	81	88	60	246	158
<b>Capital efficiency &amp; intrinsic value</b>						
Adjusted return on equity	%	-27.7%	-2.1%	-3.1%	-7.9%	12.8%
RoCE (EBIT basis, pre-tax)	%	-18.7%	-0.9%	-2.0%	-6.7%	13.8%
RoCE (underlying free cash flow basis)	%	-24.5%	4.3%	-25.5%	13.0%	15.5%
NAV per share	p	0.6	0.6	1.6	1.5	1.6
NTA per share	p	0.4	0.3	1.5	0.4	0.5

## Interims – pointing the way to sustainable profitability

## Key shareholders

	%
Ruffer	12.9%
Walker Crips	5.8%
Hargreaves Lansdown	6.2%
Amati Global Investors	5.8%
Fidelity International	5.8%
Bricon Byotrol	3.5%
Maven Capital Partners	3.3%
?What If! Holdings	3.4%
Fiske	3.0%

Source: Byotrol

## Board of directors

Name	Description
John Langlands	Non-executive Chairman
David Traynor	Chief Executive Officer
Trevor Francis	Chief Technology Officer
Till Medinger	Non-executive Director

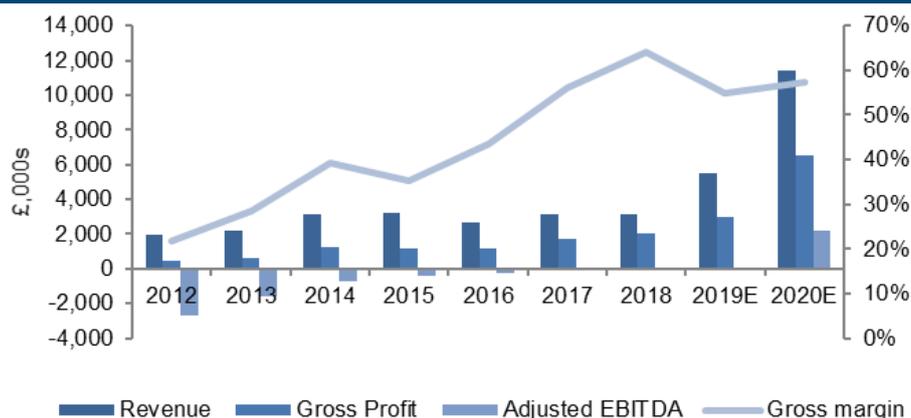
Source: finnCap

## Company description

Byotrol develops and sells a range of proprietary antimicrobial technologies (disinfectants) for both business and consumer use, focused on professional, consumer and Petcare markets. It is in the middle of significant change, replacing legacy biocidal products that no longer comply with EU regulations with new formulations. The primary focus of the business lies in (i) the development of its consumer surface formula, which was approved by the EPA in the US (June 2017), (ii) the development and commercialisation, through Solvay, of its consumer-targeted surface care formulation (IP and marketing rights (ex-US) were sold to Solvay in March 2018), and (iii) the commercialisation of its novel non-alcohol-based hand sanitiser in the UK and global markets. The acquisition of Medimark brings established sales & marketing capabilities into Byotrol along with experienced management and a new technology disinfectant that will enable Byotrol to sell disinfectants into the Animal and Human Health markets with sporicidal claims.

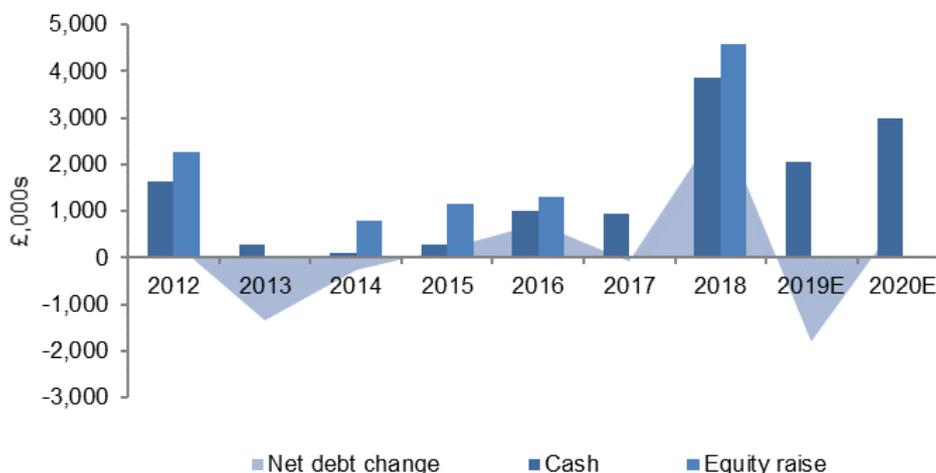
Source: finnCap

## Key income indicators



Source: finnCap

## Net cash and cash flow



Source: finnCap

## Interims – pointing the way to sustainable profitability

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The recommendation system used for this research is as follows. We expect the indicated target price to be achieved within 12 months of the date of this publication. A 'Hold' indicates expected share price performance of +/-10%, a 'Buy' indicates an expected increase in share price of more than 10% and a 'Sell' indicates an expected decrease in share price of more than 10%.

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