

Corporate

Current price **1.325**

Sector **Chemicals**

Code **ITX.L**

AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m) **£5.7m**

Shares in issue (m) **432.5**

52 weeks	High	Low
	2.8p	0.35p

Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders (31/12/19)

John R Shaw (CEO) **12.6%**

IP Group **11.2%**

Guy Broadbent **5.6%**

Directors & related **5.2%**

David Shaw **3.0%**

Source: Company Data, Allenby Capital

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Itaconix plc (ITX.L)

Building long-term commercial traction

Itaconix is building a valuable and scalable technology platform manufacturing, selling, distributing and formulating bio-based products that are utilised in improving the safety and performance of home and personal care products. FY2019 results will be announced in September and will show revenues up almost 60% to c.US\$1.3m while today's trading update shows a further strong advance with H1 2020 revenues at \$1.1m. Strong trading across the Group's product portfolio is driving organic growth while costs have been reduced. A strengthened balance sheet courtesy of an oversubscribed placing concluded in July 2020, together with additional contracts and supply agreements will act as catalysts for future share price appreciation offering investors significant upside and a potentially very rewarding investment.

- An early stage company, yet a recognised leader in its industry** – Itaconix is an early stage company that has shown strong revenue growth to date by incorporating its market-leading proprietary polymer technologies, based on itaconic acid chemistry, into third party products. These products include non-phosphate dishwasher detergents, hair styling products, carpet cleaners and aluminium-free deodorants. It has already secured supply agreements with leading global companies such as Croda, Nouryon (formerly AkzoNobel Speciality Chemicals) and New Wave with more on the way.
- Current trading very strong** – Today's trading update indicates very strong organic growth with revenues in the first six months of 2020 of \$1.1m representing year on year growth of 80% and c.62% growth over H2 2019. The cost base has also been significantly reduced and is under control while the balance sheet has been strengthened by an oversubscribed placing in July which raised \$2.2m gross and should provide an adequate cash runway until at least the end of 2021.
- No forecasts offered at this stage** – Despite the Group's continuing strong growth we do not feel it appropriate at this stage to offer forecasts. As already noted, Itaconix is at an early stage of development and while trading is very positive there are many unknowns relating to the rate of project pipeline conversions as well as the uncertainty generated by COVID-19 issues that could provide headwinds in the near term.
- A great time to get on board** – Nevertheless, we believe that with the continuing development of new polymers and additives, Itaconix has the potential to leverage its market leading technology into a wide range of end products for the global consumer base. Large speciality chemical companies do not generally seek to invest in new chemistry research, rather relying on smaller niche innovators to act as nurseries and then, when successful, buy them. We believe Itaconix is one such innovator that could well be taken out for many times its current EV. Consequently, we are excited about the Group's prospects and enthusiastic regarding its medium/long-term potential.

Year End: **December**

(US\$'000)	2016A	2017A	2018A
REVENUE	356	691	825
ADJ. EBITDA	-5,853	-5,580	--4,574
ADJ. PBT	-7,048	-6,735	-5,020
NET CASH (£m)	10,986	4,508	2,604

Source: Itaconix plc. We expect functional currency to change from £ to US\$ hence we have converted historic numbers at 1.25.

Please refer to the last page of this communication for all required disclosures and risk warnings.

Investment summary

- **Itaconix offers an exceptional opportunity to invest** in a world leader in itaconic acid chemistry, a chemistry that has been recognised by the United States Department of Energy as a one of the most promising chemicals available from biomass.
- **Consumer products are increasingly being reformulated** with safer ingredients to meet new consumer buying behaviours and regulations. In many instances this involves the need for itaconic acid polymers.
- **Itaconix's products are disruptive ingredients** that have unique benefits in terms of product performance, comparative cost advantages from bio-based sustainable sources.
- **Management estimate a revenue potential over \$300 million** for applications in home and personal care products.
- **In a short space of time Itaconix has assembled** a portfolio of novel polymers, a growing customer base, effective production facilities and a blue-chip list of commercial collaborations, including Croda, Nouryon and New Wave Global Services.
- **Increasing and sticky revenues**, albeit from a low base but being generated from recurring orders and a growing customer pipeline, once incorporated and designed-in to end products it is difficult and expensive for the customer to change supplier.
- **Growing pipeline of active customer projects** believed to be around \$20m will generate more growth in the forecast period and dilute operational risk profile and revenue volatility.
- **Established facilities in the USA** with low cap ex needs that can generate around \$15 million of revenue with the potential to double capacity at modest cost.
- **Strong operational gearing** as capacity utilisation increase with relatively high fixed overhead.
- **New product potential** from additional itaconic acid chemistry and new applications for existing formulations. Patent protected multi-layer intellectual property protection.
- **Balance sheet strengthened by oversubscribed placing** to fund further growth and provide working capital until end 2021.

Investment proposition

Market leader in bio-based polymers derived from itaconic acid

Itaconix is a market leading manufacturer of bio-based polymers derived from itaconic acid chemistry of which the Group is a world leading authority with significant and valuable IP. Through the marketing and sale of its products, both through direct channels and commercial partnerships with some of the world's leading FMCG manufacturers, Itaconix is seeking to establish itself as a high margin, capital efficient speciality chemicals company built around its proprietary itaconate chemistries.

Demand for its polymers is driven partly by the requirement for safer and more sustainable end products

The bio-based functionality of its polymers speaks to the current consumer trends that seek to source products from sustainable resources, a trend supported by increasing government regulation for safer and more sustainable products such as the replacement of phosphates in detergents. Consequently, global and private label brands are increasingly being required to reformulate their products in order to support these trends and legislation. Itaconix's bio-based polymers act as effective substitutes in a growing number of end-products which can also compete with traditional formulations on both price and performance.

Although still a small company, Itaconix is showing strong growth and a blue-chip list of multinational FMCG customers

Itaconix is still a small company in the early stages of growth but nevertheless has already established impressive collaborations with some global FMCG multinationals such as Croda and Nouryon (formerly AkzoNobel Speciality Chemicals) and including supply agreements, licence agreements and joint development programmes. Such collaborations are a clear endorsement of the Group's technology platform and a recognition of the value of its bio-based polymers in a wide range of end-products.

Currently, these are included in a range of products within the home and personal care sector including automatic dishwasher (ADW) detergents, odour removal in carpet cleaners, weightless styling in hair care products and underarm deodorants. Its itaconic polymers offer functional improvements to existing personal and home care products. For instance, in ADW detergents, its polymers have multi-functionality that can obviate the need for separate chelants and acrylate polymer that inhibit scale.

Bulk of business transferred to Itaconix's manufacturing facility and HQ in USA

Sales, marketing and back office support was moved in 2018 from the UK to the Company's manufacturing facility and headquarters in New Hampshire, USA. Currently, the manufacturing facility is running at just 10-15% capacity but has the potential to generate revenues of around \$15m (£11.5m) per annum. Operational leverage is substantial and with modest capital investment of circa \$0.5m this capacity could be doubled to \$30m.

Gaining sales traction can be slow due to significant and lengthy customer testing and evaluation

Revenue to date has been generated from a relatively low base and it is fair to say that growth at times has been below the best expectations of management. However, dealing with large multinational FMCG organisations can be a prolonged exercise and as Itaconix polymers are critical components in customer end products it is unsurprising that prospective customers conduct extensive testing to verify the claimed benefits and also confirm that there are no unexpected side effects resulting from the use of new ingredients. However, once incorporated into customers' products revenues are likely to be very "sticky"

Significant potential for long term growth

Consequently, with an addressable global market for its products worth an estimated \$1.4bn the potential is significant and we believe that many of the Group's customers are now moving through that evaluation process and thus revenues over the next two years will begin to reflect full scale, enterprise level supply agreements and/or licencing deals. In summary, we believe that Itaconix is an attractive investment at current price levels.

Activities and background

Unique products with high customer value...

...protected by patent families covering manufacturing, composition and applications

Founded in 2008 and merged with Revolymer in 2016

Name changed in 2017 following divestment of Revolymer's legacy businesses

Activities

Itaconix is a specialty polymer company based in New Hampshire, US, that develops and commercialises a portfolio of bio-based polymer products with unique functionality and high customer value based on its proprietary production processes for novel polymers of itaconic acid. Its products are high margin and are currently used in over 20 home care brand products found in major and specialty retailers across North America and Europe.

Itaconix has established a world-leading position in itaconic acid and its technology is protected by patent families covering manufacturing processes, product compositions and applications of itaconic acid. Itaconic acids have differentiated functionality and high customer value across a broad range of industries. The commercial potential for these formulations' stems from the unique functionalities available through the chemical structure of itaconic acid and its derived polymers, and from the bio-based production of itaconic acid through fermentation using renewable sugar sources. The Group's manufacturing process represents a breakthrough in terms of low capital and operating costs, with fast polymerisation rates and high yields exceeding 95%.

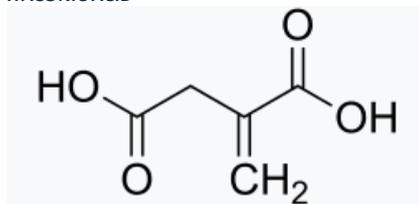
Background

Itaconix was founded in 2008 by its CEO John R. Shaw and its CTO Dr. Yvon G. Durant, with initial technology developed at the University of New Hampshire's Nanostructured Polymer Laboratory Research Centre (see below). In June 2016, the Company was merged with AIM-listed Revolymer plc, a business whose vision was to be a specialty chemicals group focused on controlled release delivery systems based on its expertise in the synthesis of polymers that improve the functional performance of customer products.

In November 2016, Revolymer announced the divestment of its nicotine gum business to Danish company Alkalon and in March 2017 the Group's name was changed to Itaconix plc leaving the Group focusing solely on its bio-based, itaconic acid polymers. In May 2018, Itaconix announced that it was implementing a restructuring of its business whereby most of its activities would be consolidated into its US operations with only key individuals in marketing and product support being retained in the UK operations.

Itaconic acid chemistry

ITACONIC ACID



Itaconic acid is an organic compound that is soluble in water, ethanol and acetone. It is produced via large-scale fermentation of carbohydrates using the fungus *Aspergillus terreus*.

The cost-effective polymerisation process of itaconic acid was initially a challenge but the barrier was overcome by Dr Durant at the University of New Hampshire (UNH) and the technology was subsequently licensed to Itaconix. While UNH still holds the initial core patent, Itaconix has several layers of patents on top that are their own. The Group pays a small percentage of the cost of the itaconic acid as a licensing fee to UNH.

In 2004, itaconic acid was listed as one of the 12 most promising chemicals available from biomass according to the United States Department of Energy report (Werpy and Petersen 2004).

The Manufacturing Process

Raw material sourced from two major suppliers in China

Itaconix sources its principal raw material, itaconic acid, in crystal form from large scale producers in China where the bulk of the world's supply of itaconic acid is manufactured. The Company has firm supply agreements in place with its main vendors but does not enter into contractual commitments.

The global use of itaconic acid is growing strongly, driven by the increasing requirement for safe and sustainable raw materials and is being supported by new regulations and legislation. Itaconic acid, as noted above was listed by the United States Department of Energy as one of the 12 most promising chemicals available from biomass and as a bio-based chemical has significant potential for the chemical market with attractive end use applications.

No supply chain constraints

According to reports¹, the Qingdao Kehai Biochemistry Company is responsible for about 50% of the total capacity of itaconic acid production in China and exports the product mainly to North and South America, and Western and Eastern Europe.

Growing demand therefore poses a question regarding the security and continuity of supply given the worldwide growth in demand for the chemical. However, Itaconix management believes that there is 60,000 million tonnes per year (Mt/y) of fermentation capacity between the two largest scale producers in China with currently less than 60% capacity utilisation.

Currently, and for the near future, Itaconix has a requirement for around 1,000 Mt/y so supply is unlikely to be a problem, even though demand for the raw materials is growing rapidly. The Company buys from the distributors' safety stock as needed and maintains a finished goods inventory in the US and EU for delivery within 72 hours based on customer forecasts and purchasing history.

30,000 sq. ft facility in New Hampshire USA with capacity to generate \$15m of sales with significant operational leverage

Itaconix manufactures its proprietary polymers at its c.30,000 sq ft facility in New Hampshire, USA where it processes the imported itaconic acid. The facility has the capacity to generate around \$15m of product, possibly with some minor upgrades for certain polymers, and is currently running at 10-15% capacity. However, the revenue generating capability could be doubled at a modest expenditure of around \$0.5m offering significant operational leverage.

¹ World market and biotechnological production of itaconic acid – NCBI – March 2018

Product range

Market research estimates the bio-based chemicals market was worth c.\$59 billion in 2018 and will see projected growth of 10.5 per cent per annum over the next five years to 2023.

Of the bio-based chemicals market, Itaconix operates within the bio-based organic acids segment, which currently represents approximately \$13.5 billion of the overall market, with projected growth of 11.8 per cent per annum over the same period. Management estimates that, with Itaconix's current ingredients offerings, the future revenue potential to Itaconix of this market could be approximately \$300 million per annum. Management also estimates that, in the next five to ten years, Itaconix has the potential to capture annual revenues of \$75 million of this future potential market.

The Company has a growing portfolio of bio-based functional ingredients for use in a range of consumer products, including non-phosphate detergents, odour neutralisation products, and hair styling products, all of which address unmet needs and offer enhanced product performance at a competitive price to its customers.

The Company develops its products with the intention that they will match or exceed the performance of traditional ingredients. Reformulation of existing products and formulation of new products are key to capitalising on the trends in the markets that the Company operates in. These long-term trends are being driven by consumers' changing behaviour and increasing expectations, reducing the cost of products through new channels, regulatory changes and growing concerns for human and environmental safety.

Market segments

Non-phosphate detergent ingredients

A particular area of focus for Itaconix is the replacement of phosphates in laundry and ADW (automatic dishwasher) detergent applications.

Phosphates are banned in North America, Europe and Australia and Itaconix expects that the trend is likely to continue into other countries, particularly in Asia. The removal of phosphates, which were a key ingredient in detergents, created a major reformulation need and the Group believes that the ADW detergent market is still seeking comparable products.

Phosphates are multi-functional, combining both chelation (management of water hardness) and scale inhibition (preventing the deposition of calcium salts on surfaces such as glasses and fabrics). There have been several reformulations as the detergent industry has moved away from phosphates. When the phosphate bans came into force, phosphates were replaced by citrates and amino polycarboxylates together with acrylate polymers.

Itaconix has developed various products to address these growing unmet needs including DSP, CHT, and TSI which offer real advantages in the ADW and laundry detergent markets.

The ADW detergent tablet and pod market is highly competitive, with public performance comparisons driving constant change with major, private-label and specialty brands at risk of losing market share if their formulae do not perform. Itaconix has been actively working in the ADW detergent market for some years and has a strong pipeline of active customer projects in Europe and North America. Itaconix has active projects with major, specialty

and private label brands in North America and Europe with an aggregate annual revenue potential of \$20 million.

ITACONIX TSI 322

Properties: Water soluble polymer. Low molecular weight linear copolymer of itaconic acid partially neutralized with sodium salt. 75% bio-based.

Performance: Offers superior shine for non-phosphate automatic dishwashing detergents. Effective management of water hardness for better and more cost-effective shine. Simpler, more compact formulations.

Applications: Bulk powder automatic dishwasher detergents. Monodose powder automatic dishwasher detergents.

ITACONIX DSP 2K

Properties: Water soluble polymer. Low molecular weight linear polyitaconic acid partially neutralized with sodium salt. Environmentally friendly, Low toxicity. 100% bio-based and biodegradable.

Performance: Excellent binding capacity with metal ions, particularly polycationic ions, especially with calcium.

Applications: Industrial, institutional & household cleaners. Laundry detergents & stain treatments. Vehicle wash products. Automatic dish detergents. Other aqueous applications above pH 7.

ITACONIX CHT 122

Properties: Water soluble polymer. Low molecular weight linear copolymer of itaconic acid partially neutralized with sodium salt. 85% bio-based.

Performance: Better shine for non-phosphate automatic dishwashing detergents. Effective management of water hardness for better & more cost-effective shine.

Applications: Bulk powder automatic dishwashing detergents. Monodose powder automatics dishwashing detergents.

Malodour neutralisation

Malodour control continues to be a growing area as products with less fragrances become more desirable as a new product performance claim. This market trend is present in a wide range of segments including carpet cleaners, air fresheners, fabric care, surface cleaners, personal care and pet care. VELAFRESH™ and ZINADOR are bio-based polymeric zinc complexes that neutralise malodour molecules from being detected by the human nose and reduce the need for fragrances to mask malodours.

Formulators have long used zinc-based products to neutralise malodour molecules. Zinc compounds that are known to neutralise odours can be difficult and expensive to formulate into water-based products. The Company's polymeric zinc complexes can offer formulation and cost advantages over current zinc-based products.

ITACONIX ZINADOR 22L (from Croda)

Properties: Water soluble odour neutralizer. Complex of polyitaconic acid & zinc, 100% bio-based.

Performance: Easy to formulate & cost-effective odour neutraliser.

Applications: Air fresheners. Carpet and upholstery cleaners. Bathroom and surface cleaners. Pet care. Wastewater and sewage treatment. Waste treatment and landfill facilities. Animal and agricultural waste containment sites

ITACONIX ZINADOR 35L (from Croda)

Properties: Water soluble odour neutralizer. Complex of polyitaconic acid copolymer and zinc, 85% bio-based.

Performance: Easy to formulate & cost-effective odour neutraliser. Higher zinc content and lower cost.

Applications: Liquid laundry detergents, especially for sportswear and industrial clothing. Air fresheners. Carpet and upholstery cleaners. Bathroom and surface cleaners.

ITACONIX VELAFRESH ZP20

Properties: Water soluble fixating complex that traps & absorbs odour causing substances. 100% bio-based.

Performance: Zinc complexes are widely used to neutralise odours caused by body sweat, feet, ammonia from hair treatments and base odours. This product offers an easy-to-use approach to formulating zinc complexes for personal care products.

Applications: Non-aerosol pump sprays. Deodorants: stick, roll-ons, creams and wipes. Skin care. Hair care.

ITACONIX VELAFRESH ZP30

Properties: Water soluble fixating complex that traps & absorbs odour causing substances. 100% bio-based. Complex of polyitaconic acid copolymer and zinc, 85% bio-based.

Performance: Easy formulating of zinc complexes for personal care products. Higher zinc content and lower cost.

Applications: Non-aerosol pump sprays. Deodorants: stick, roll-ons, creams and wipes. Skin care. Hair care.

Hair styling

Increasing concerns over the disclosure and the origin of ingredients in consumer products are reflected in a strong trend towards bio-based products in personal care. Itaconix generated initial demand for its polymers as water-soluble hair styling ingredients based on their performance and bio-based content.

The personal care market is a highly fragmented market, however, with a very large number of companies that often only reformulate one SKU at a time. Therefore, in February 2019, Itaconix signed an exclusive global supply agreement with Nouryon for its bio-based polymers used in hair care, skin care, body wash, sun care, and cosmetics.

Under the terms of the agreement, Itaconix produces and supplies its proprietary polymers for Nouryon to market to its customers under the brand Amaze SP. The partnership with Nouryon is expected to enable faster market penetration on a global scale. Management estimates that Itaconix's polymers can potentially access a \$117 million market with this partnership. Current sales are focused in North America and Europe whilst the Asian and South American markets offer substantial growth potential.

ITACONIX VELASOFT

Properties: Water soluble polymer. It is a low molecular weight linear polyitaconic acid partially neutralised with sodium salt. Preservative and additive free. 100% bio-based.

Performance: Natural conditioning, better foam texture and stability and enhanced viscosity.

Applications: Foam stabilizer. Bar soap. Liquid soap.

NOURYON AMAZE SP

Properties: High performance hair styling ingredient. 100% bio-based. Environmentally friendly.

Applications: Non-aerosol pump sprays. Non-aerosol pump sprays. Aerosol and non-aerosol mousse. Styling gels. Styling aids such as pomades, putty's, lotions and creams.

Other product developments

BIO*ASTERIX – Represents a line of functional additives based on a new range of bio-based chemistries derived from itaconic acid. Developed by the Group over the past three years and announced in February 2020, the additives are targeted for a wide range of potential uses from biodegradable plastics to decorative paints. Itaconix plans to launch the new product line in stages over the next two years.

The Company's initial focus will be on targeting the biodegradable plastics market where the new BIO*Asterix additives have had positive results in early field trials with potential customers. The BIO*Asterix additives can add valuable properties or overcome performance deficiencies that currently limit the use of biodegradable plastics. The additive is likely to be evaluated by potential customers in the packaging, films, personal care, adhesives and coatings industries.

On 4 March 2020, Itaconix announced that it had signed its first joint development agreement with a leading innovator in biodegradable packaging to collaboratively evaluate BIO*Asterix additives as key ingredients in a range of biodegradable packaging solutions.

Licences and supply agreements

Over the past few years, Itaconix has successfully signed several supply and joint marketing agreements with leading global players in the FMCG space as noted above. Below we provide a brief analysis of these arrangements. However, most are at an early stage in terms of revenue contribution and we estimate that c.80% of revenue is still derived from the group's own sales and marketing efforts.

Croda – supply agreement

In January 2017, the Company signed an exclusive supply and joint marketing agreement with Croda in respect of its polymer-based odour removal additive, Itaconix ZINADOR 22L (ZINADOR). Under the terms of the agreement, the parties will work together to grow and supply worldwide demand for ZINADOR. Itaconix will produce ZINADOR for Croda and Croda will market and sell ZINADOR in household, municipal, animal and industrial applications, subject to certain terms and conditions. Itaconix will continue providing its technical and marketing expertise to jointly expand applications and geographic opportunities for ZINADOR with Croda.

Nouryon - joint development agreement

Also, in January 2017, Itaconix signed a joint development agreement with Nouryon (formerly AkzoNobel Speciality Chemicals) to advance commercial collaborations in certain applications for the Itaconix itaconic acid polymer technology platform. The agreement was designed to establish a broad operating framework for the parties to jointly identify, develop and commercialise new polymers using Itaconix's patented technology. By July Itaconix had finalised the first application agreement with Nouryon for the use of its polymers in the coatings and construction industries.

New Wave – licence agreement for ADW detergent

December 2018 saw the signing of a licence agreement with New Wave for a new proprietary non-phosphate automatic dishwasher (ADW) detergent formula based on Itaconix CHT polymer. New Wave will use the formula to market and produce a new triple-chamber ADW detergent sachet for North American retailers in the private label market. Under the arrangement with New Wave, Itaconix developed and licensed a proprietary formula for New Wave's exclusive use. Itaconix will receive revenues from this formula through the sale of its polymer to produce the new detergent.

Nouryon – exclusive global supply agreement for personal care

In February 2019, Itaconix signed an exclusive global supply agreement with Nouryon for Itaconix's innovative bio-based polymers used in hair care, skin care, body wash, sun care, and cosmetics. This resulted from the joint development agreement signed by the companies in 2017 (see above). Under the terms of the supply agreement, Itaconix supplies certain proprietary polymers that Nouryon will market to its customers in personal care applications. The agreement does not include Itaconix's polymers for odour control.

European customer – initial order for ADW detergent polymer

In May 2019, following successful trials, Itaconix received its first order from a European customer for its latest bio-based detergent polymer and has since received follow-on orders from the same customer. The customer is a major private label producer of non-phosphate ADW detergent products. The expansion of use into the European market represents a significant milestone for the Company due to the higher performance demands for ADW detergents in Europe as the region presents special challenges for detergent formulators. Hard water conditions and high-temperature dishwashing machine cycles create difficult barriers for new detergent ingredients to gain acceptance.

Nouryon – first purchase order for AMAZE product

Following on from the above exclusive supply agreement to market its polymers in personal care applications, Nouryon placed its first purchase order for incorporation into its new AMAZE SP product in May 2019.

Itaconix had marketed and sold its own personal care polymer since 2017 under its own RevCare NE100S brand. However, as a result of the purchase order the Company agreed to withdraw its brand from the market and transition its accounts and projects for RevCare NE100S to Nouryon and its Amaze SP product.

RevCare NE100S had achieved use across a broad range of hair and skin care applications during its initial launch by Itaconix. Starting from a small base in 2017, demand in Europe, North America and Asia progressed steadily through 2018 and year-to-date 2019, indicating accelerating uptake in customer formulations. Thus, the transition from RevCare NE100S to Amaze SP was an important step for Itaconix and the broader use of its polymers in personal care.

Itaconix management is pleased with the progress that Nouryon has made with sampling and marketing Amaze SP. The difference is the hair and skin formulation expertise that Nouryon brings for promoting novel formulations with the material which provides a unique weightless hold while enabling a very natural look and feel on the hair. It offers humidity resistant style retention, volume and anti-frizz performance comparable to synthetic polymers.

Croda – expansion of supply agreement

Following on from the Croda agreement in 2017, the Company announced in October 2019 an expansion of this agreement to include an additional polymeric zinc complex to the Itaconix product line already supplied to Croda. As part of the expanded agreement, Itaconix received a milestone payment of \$60,000 from Croda as a partial contribution toward the completed development of the new polymeric zinc complex.

The current agreement with Croda began in 2017 for ZINADOR™ 22L in home and industrial applications. The new ZINADOR™ 35L is a more concentrated version of the polymeric zinc complex, which delivers significant performance and cost advantages in detergent and industrial applications.

New Wave – supply agreement extension

In February 2020 Itaconix announced an extension to its commercial relationship with New Wave (see above), with a supply agreement for a new dishwashing detergent formulation which will support the growth in the Company's polymer volumes used in New Wave products.

The new dishwashing formulation is based on the Itaconix TSI 322 detergent polymer which the Company introduced in January 2020. New Wave has gained new accounts and grown its volumes, with the formula now used in private label brands at retailers throughout North America.

Roll-out into an expanded customer base for New Wave is expected to commence later in 2020. The supply agreement provides New Wave with certainty on the pricing and supply of up to 1,000,000 lbs. of the Company's detergent polymers over the next two years as New Wave volumes are expected to ramp-up from both existing and new customers.

Financials

Itaconix's history as a listed company, effectively starts in 2018 following the disposal of the residual Revolymer business and the consolidation of operations to its USA facility in New Hampshire, but in that short time it has shown strong revenue growth, albeit from a low base.

H1 2020 revenues rose by 80%

In the half-year to June 2020, revenue rose by 80% against the comparative period and c.62% sequentially, driven by higher volumes of its polymers, supported by the successful supply agreements noted earlier in this report.

Gross margin showing strong growth but with more to come as overhead absorption improves

Gross margin in the half year to June 2019 rose from 20% to 29% but was still not fully reflective of the potential as the absorption of overheads is restricted by the current low level of capacity utilisation. Clearly, as revenues rise and the underlying economics and operational leverage kick in then gross margin will increase. We believe gross margin has the potential to rise to circa 40% in the longer term.

Cost base has fallen dramatically

Operational expenditure reduced substantially in H1 2019 falling from £2.5m (pre depreciation) to £1.1m, a reduction of 54%. This reflected the cost reductions associated with the transfer of operations to its North American facility. Looking forward and with a relatively fixed cost base, we would expect little change to overheads with the exception of higher staffing levels commensurate with rising revenues.

Fund raise of \$2.2m gross

Net cash balances as at end June 2020 was \$0.5 million. Given the early stage position of the Company and ongoing losses, Itaconix raised \$2.2m gross in July 2020 via an accelerated book build and US subscription.

The proceeds of the placing will be utilised as follows:

- To provide over 12 months funding for the business
- To fund working capital requirements
- To provide additional growth capital

Further funding is likely before internal cash generation results in positive cash flow from 2023 onwards.

Due to COVID-19 publication of the 2019 annual report has been deferred until September

Due to the COVID-19 pandemic, the Company was unable to post its 2019 Annual Report to shareholders by the 30 June 2020 deadline pursuant to Rule 19 of the AIM Rules. Further to the guidance provided by AIM Regulation in "Inside Aim" on 26 March 2020, the Company requested an additional period of up to three months to publish its 2019 Annual Report. AIM Regulation granted the extension, and therefore the Company will publish its 2019 Annual Report by 30 September 2020.

Functional currency changing from £ to US\$

We understand that when FY2019 results are published in September, the functional and reporting currency will switch from £ to US\$ with historic results being restated.

Conclusion

Growing from a low base due to long and sometimes protracted sales process...

Itaconix has shown solid revenue growth since it consolidated its business to its North American operation in May 2018. However, this growth has been achieved from a low base and will in the short/medium term reflect the inevitably slow sales process and adoption of its formulations by its global customers and partners. These can and usually are protracted, often requiring extensive customer testing to substantiate performance and quality claims.

...but will accelerate as sales traction improves

We remain sanguine with regards to the length of time taken to begin to deliver substantial sales and revenues and believe that these will be forthcoming, thus rewarding investors' patience. As an example, the sales pipeline potential is running at around \$20m and longer term Itaconix has a year 7 revenue target of \$79m with an addressable ingredient market of \$705m.

Important supply agreements with multinationals indicates its progress...

Importantly for investors, we would rather highlight the fact that as a market leader in itaconic acid chemistry, the Group has a dominant position to exploit and to date has successfully assembled a broad range of polymers utilising its proprietary technology platform to create bio-based functional ingredients that meet the needs of consumers. So far, it has executed this strategy with Croda in odour control, Nouryon in hair styling and with New Wave for non-phosphate detergents in ADWs.

...and serves as an important endorsement to the efficacy of its products

The success achieved in having such global players adopt its formulations is a testament to the efforts of the Group's R&D team and is an important indicator that the Group is progressing satisfactorily. We are quite clear that higher revenue streams will follow.

This progress is all the more impressive when one considers that it was not until June 2018 that the Board transferred its operations to the US and refocused its efforts away from the development of new ingredients to rather emphasise the sales and marketing of existing products.

No forecasts offered for the moment

For the moment, in spite of the strong growth being achieved across the Group's product portfolio, we deem it inappropriate to offer forecasts. However, we expect this situation to change in the short/medium term as revenue visibility improves and hope to be able to introduce forecasts for both 2021 and 2022.

Disclaimer

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