BIOSEARCH

EQUITY - SPAIN
Sector: Biotechnology - Functional Ingredients

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Biosearch is a small, Spanish biotech company based in Granada, specialising in the research, development and sale of functional ingredients (natural extracts, omega-3 and probiotics) for the nutrition and healthcare markets. It has an international presence (74% of revenue). A former subsidiary of the former EBRO-Puleva, its core shareholder remains the Lactalis group (30% of capital).

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Market Data		
Market Cap (Mn EUR and USD)	90.0	103.3
EV (Mn EUR and USD)	95.9	110.0
Shares Outstanding (Mn)	57.7	
-12m (High/Avg/Low EUR)	1.89 / 1.30 / 0.56	
Daily Avg vol.(-12m Mn EUR)	1.2	
Rotation[(1)]	330.8	
Thomson Reuters / Bloomberg	BIOS.MC / BIO SM	

Shareholders Structure (%)	
Lactalis Group	29.5
Pescaderías Coruñesas, S.A.	10.0
Free Float	60.5

Financials (Mn EUR)	2017	2018e	2019e	2020e
Total Revenues	25.7	28.1	31.0	34.7
Rec. EBITDA	5.2	6.0	6.9	7.8
% growth	*26.6*	*15.2*	*15.1*	*12.5*
% Rec. EBITDA/Rev.	*20.4*	*21.5*	*22.4*	*22.5*
% Inc. EBITDA sector [(2)]	*1.5*	*7.7*	*7.4*	*7.1*
Net profit	2.0	3.1	4.1	4.7
EPS (EUR)	0.04	0.05	0.07	0.08
% growth	*n.a.*	*49.8*	*33.2*	*15.9*
Ord.EPS (EUR)	0.03	0.05	0.07	0.08
% growth	*n.a.*	*62.2*	*33.2*	*15.9*
Rec. Free Cash Flow[(3)]	1.4	3.2	4.2	3.2
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	4.5	1.1	-4.0	-8.0
ND/Rec. EBITDA (x)	0.9	0.2	-0.6	-1.0
ROE (%)	*10.3*	*13.8*	*15.8*	*15.7*
ROCE (%)[(4)]	*9.9*	*12.6*	*15.6*	*17.6*

Ratios & Multiples (x)				
P/E	44.1	29.4	22.1	19.1
Ord. P/E	47.8	29.4	22.1	19.1
P/BV	4.4	3.8	3.2	2.8
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	3.72	3.41	3.09	2.76
EV/Rec. EBITDA	18.3	15.9	13.8	12.3
FCF Yield (%)[(3)]	*1.5*	*3.6*	*4.6*	*3.6*

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

(1) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
(2) Expected EBITDA growth (consensus) for the share's benchmark sector (Eurostoxx 600 Health Care).
(3) Based on recurrent FCF. Please refer to Appendix 2.
(4) Calculated with 20% of the theoretical tax rate.
(5) vs Eurostoxx 600 Health Care.

Ready to accelerate growth

STRONG ORGANIC GROWTH (2013-2017) THANKS TO ITS POSITIONS IN THREE EXPANDING MARKETS... The company's triple play on value added products in the probiotics, omega-3 and extracts industries, together with an international focus (74% of revenue in 2017) have allowed it to report a high single-digit CAGR (-5y) in revenues, which have increased by 38%, unaffected by the economic backdrop. The good top line performance has been accompanied by an improvement of 2.3 p.p. in the EBITDA/Revenue margin, underpinned by the change in mix (growing contribution of products with higher added value; 57% in 2017, vs. 36% in 2013).

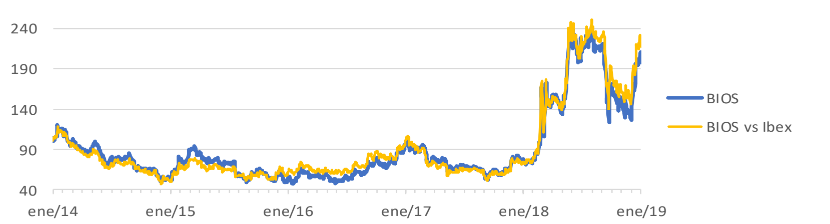
...WHICH WILL CONTINUE DURING THE NEXT THREE YEARS (2018E-2020E), supported by the strategic agreement signed with Nestlé, that will accelerate growth in the (more lucrative) probiotics business line from 2019, and by the launch of new products. The revenue mix will lead to a gradual improvement in the EBITDA/Revenue margin (22.5% in 2020e, +2.1 p.p. vs. 2017).

MORE DISCIPLINE, enabling the company to contain operating costs, accelerating margin improvement, and reduce the high debt incurred by the Exxentia acquisition (0.9x ND/EBITDA in 2017, vs. 3.7x in 2013). Accordingly, we expect BIOS to end 2019 with a net cash position.

AFTER THE WRITE-OFF OF INTANGIBLES AN ATTRACTIVE BUSINESS APPEARS. Financial de-leveraging and the write-off of the entire goodwill from the Exxentia acquisition in recent years will allow the good business performance to be translated into NP (CAGR 2018-2020e +19.5%), projecting a growing ROE (15.7% in 2020e, +5.4 p.p. vs. 2013), with an average FCF Yield of 4.2% (2018-2020e), 3.9% in recurrent terms.

ALL OPTIONS ARE ON THE TABLE. The current position leaves open the possibility of inorganic growth (a reasonable option for a company without debt and with high product diversification) or of the company itself being the object of corporate transactions (in a sector which naturally tends towards concentration).

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	52.2	16.0	151.6	57.3	262.8	97.5
vs Ibex 35	42.5	12.6	189.2	48.0	252.6	116.9
vs Ibex Small Cap Index	37.6	11.4	159.5	43.2	127.6	57.7
vs Eurostoxx 50	43.8	15.4	187.0	49.3	249.4	89.1
vs Sector benchmark[(5)]	48.2	16.3	154.9	53.5	270.5	61.9

Investment Summary

Free from the shackles of the past, now it's time to grow

In the past, BIOS' position in three different markets (probiotics, fatty acids and extracts) has enabled the company to avoid the specific difficulties experienced by the corresponding industries and the economic downturn, evidencing the success of the strategy implemented by the management team. Now the question is what to expect of this new phase the company is entering.

A) 2013 – 2018: sound organic growth eclipsed by financial costs and the write-off of intangibles

Revenues and EBITDA, +8.6% and +12.4% (CAGR 2013 – 2018e) with an increase in the EBITDA margin of +3.4p.p.

Despite the beginning of this period seeing a temporarily bad performance by the fatty acids industry (omega-3 EPA/DHA) and the impact of the economic crisis on the most vulnerable markets (nutraceuticals), BIOS managed to record a CAGR (-5y) of 8.6% in revenues and 12.4% in EBITDA (EUR 6,0Mn 2018e).

However, it wasn't until 2017 that the effects of the good business performance were reflected in the lower part of the P/L, due to the excesses of the previous decade (the acquisition of Exxentia -extracts- took debt to over 6x ND/EBITDA in the middle of the economic crisis), with financial costs consuming all the operating profit. Earnings were also impacted by the subsequent write-off of the large amount of goodwill generated on that acquisition, the final effects of which were felt in 2016 and 2017. This period was characterised by:

1. **A focus on the most lucrative segments with the consolidation of business diversification** led to double-digit growth in probiotics (CAGR 2013-2017 +31.4%, thanks to the signing of a strategic agreement with Nestlé at the end of 2017) and lipids (fatty acids, CAGR +16.1% in the same period), which contributed 24% and 33% of the revenue generated in 2017 respectively.

2. **An international focus, reducing the dependence on Lactalis.** With international turnover accounting for 74% of the revenue generated in 2017 (+12 p.p. vs. 2013), and the reduction of the contribution from associated companies to 15% (-10 p.p.), trends that will continue thanks to the Nestlé contribution.

A comfortable financial position: 0.2x ND/EBITDA 2018e after a reduction in ND of 92% in 2013-2018e.

3. **Cost control discipline,** has accelerated the improvement in the EBITDA/Revenues margin by +3.4 p.p. (21.5% in 2018e).

4. **Maximum attention on reducing ND,** having cut the debt ratio to 0.2x ND/EBITDA 2018e (vs. 3.7x in 2013). It is likely that BIOS will have a net cash position in 2019.

B) 2019 – 2020: Continuing to grow under Nestlé's wing

This new stage will be shaped by the strategic alliance signed with Nestlé, enabling BIOS to grow its probiotics business (CAGR for revenues 2018-2020e: +37%), while the other businesses see more moderate growth (+6% and +4% respectively for fatty acids and extracts), resulting in double-digit growth in both revenue and EBITDA (+11.1% and +13.8% respectively). Earnings will reflect the attractive return offered by the business mix, with a ROE of 15.7% at the end of the period. We expect the company to double investment to capture market growth (CAPEX EUR 2.6Mn in 2020e), assigning 9% of revenues to the development of the pipeline.

Revenues and EBITDA, +11.1% and +13.8% (CAGR 2018e – 2020e) with an improvement in the EBITDA margin of 1.1p.p. driving EPS (+19.5%)

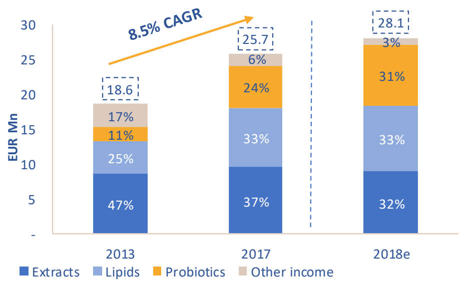
However, the combination of BIOS's accumulated know-how, its portfolio of probiotics and the good momentum expected in those markets in which it operates, could put the company in the spotlight of corporate transactions, which in turn could encourage it to take part in sector concentration movements as a form of protection, accelerating its growth. It is worth taking into account that, despite a lack of shareholder agreements, the presence of Lactalis (29.5% of share capital) could dampen potential third party interest.

At the start of 2019, the snapshot is that of a company without debt and in a position to capture growth opportunities: both organic and non-organic. FCF should rise sharply in the next 3 years.

Triple positioning in growth markets

Biosearch is a small domestic biotechnology company (EUR 90 Mn Market Cap), specialising in the research, development and marketing of natural functional ingredients aimed at solid growth markets: nutritional, pharmaceutical and nutraceutical[1]. Its strategy of diversification based on three product platforms, probiotics (Hereditum), omega-3 fatty acids (Eupoly-3) and natural extracts (Exxentia), has resulted in high single-digit growth rates in recent years (CAGR 2013-2017: 8.5%).

Chart 1. Revenues Mix



The markets in which the company operates are highly fragmented, with the presence of numerous private operators, where it competes with larger European players such as Naturex, in the natural extracts industry, and DSM and Pronova (BASF) in Omega-3, the latter also being present in the probiotics industry together with companies such as Danisco (Dupont group), Christian Hansen, BioGaia and Probi.

An international profile

As an integrated biotech company, it has three production centres in Spain: Granada (probiotics and omega-3, where research is carried out), Cáceres (natural extracts), both GMP certified[2], and Valladolid (purified active compounds).

The company's strategy to focus on the international market (74% of its revenues at the end 2017, +21 p.p. vs 2010), has resulted in an average growth rate (-5Y) of 6.9%, exceeding growth recorded at the domestic and European levels (1.1% and 1.4% respectively). Its main clients are European (52% of 2017 revenue, ex Spain).

Table 1. Geographic Revenues Split vs. Growth Rates (revenues and GDP)

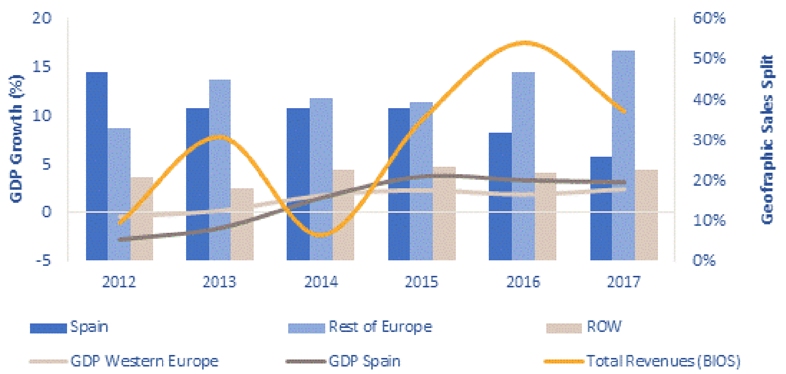
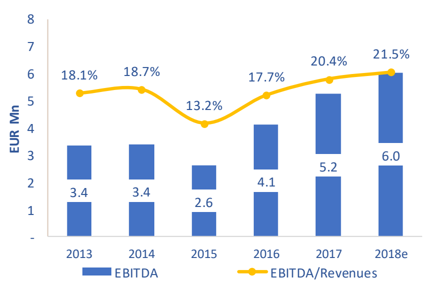


Chart 2. EBITDA vs. EBITDA/Revenues



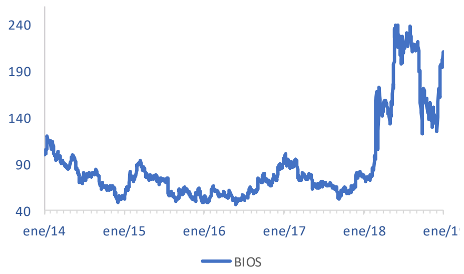
The favourable revenue mix has been reflected in improved margins

The more profitable probiotics and lipids business lines (23.6% and 32.7% of 2017 revenue, respectively) have been the main drivers of this improvement (20.4% EBITDA/Revenue in 2017, thanks to the agreement with Nestlé). The performance of probiotics stands out, this division showing the highest growth (CAGR of 31.4% since 2013), followed by the lipids division (CAGR of 16.1%), whose turnover is approaching that generated by the natural extracts division, which has recorded more moderate growth (+2.6% in the same period). This last division, the main source of revenue in the past (with an average contribution to revenue of 43% since the beginning of the decade), has seen its weighting decline to 37.3% in 2017. The company's triple bet on added value products in expanding industries together with an international focus has led to:

[1] The Spanish Medical Nutraceuticals Society (Sociedad Española de Nutracéutica Médica) defines nutraceuticals as natural products with active biological properties, beneficial to health and with preventive and/or therapeutic properties.

[2] Good Manufacturing Practices.

Chart 3. BIOS' Relative Shareprice performance (rebased, -5y)



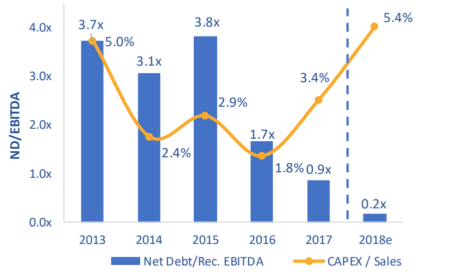
1) An increase of c. 50% in revenue in five years (CAGR of 8.3% in 2012-2017, to EUR 25.7Mn), offsetting the slowdown in the domestic business (CAGR +1.3% in the same period), which has seen a decline of 10% in the last year.
2) The resumption of margin growth (+2.3p.p. vs 2013).
3) A reduction of debt (0.9x ND / EBITDA 2017 vs. 3.7x 2013).
4) The diversification of the client base, with a +10 p.p. increase in the contribution from sales to third parties (not associated companies) in the same period (85% of 2017 turnover).
5) Progress on the pipeline (the company, which in 1Q 2019 expects to publish the results of a new clinical study of its natural extracts line, has over 200 strains of probiotics whose development is protected).

The share price has largely priced in the success of the business strategy implemented by the company, having gained 152% in the last 12 months.

Partnerships to ensure success: the agreement with Nestlé is a significant qualitative step forward

At the end of 2017, Biosearch announced it had signed an important licence agreement with Nestlé for the marketing in 41 countries of its "Hereditum® Lactobacillus Fermentum LC40®" probiotic (for the prevention and treatment of mastitis), for a period of ten years (renewable). Its launch, delayed until 1Q 2019, will generate revenue of EUR 25-30Mn in the first five years of sales (c. 160% of the revenue generated in 2017). However, the transformational effect of the agreement will not be felt until well into 2021e (we estimate peak sales of EUR 11.8Mn in 2023e, in the middle of the range provided by the company). Nevertheless, an agreement of this size should attract new clients.

Chart 4. ND/EBITDA vs. CAPEX/Sales

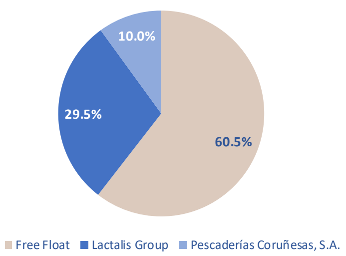


"House cleaning" before the big step: accelerated de-leveraging and write-off of intangibles

The acquisition of Exxentia (natural extracts segment) at the end of 2008, raised debt to over 6x ND/EBITDA, and turned out to be an expensive transaction (the goodwill generated amounted to almost 67% of the cost of the acquisition). In fact, Biosearch took advantage of the improvement of margins seen in 2016-2017 to write off all the goodwill generated by said acquisition (EUR -5.5Mn and EUR -0.9Mn respectively). This accounting policy explains the operating losses recorded by the company in 2016 (EUR -1.4Mn).

Debt has gradually been reduced to a level of 0.4x ND/EBITDA at 9M 2018. In addition, the agreement with Nestlé will lever the probiotics business accelerating cash generation, so despite the expected increase in CAPEX, the company will likely end 2019 with a positive cash position.

Chart 5. Shareholder structure

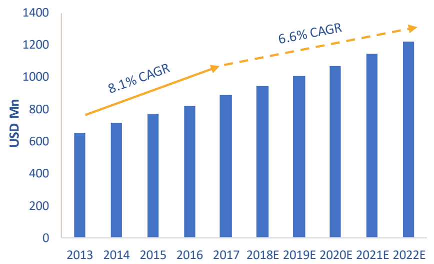


Stable shareholder structure after Ebro's exit

Biosearch (formerly Puleva Biotech) belonged to the Ebro-Puleva group until 2011, when Ebro relinquished control via the sale of 21.9% of its stake to Lactalis, as part of the disinvestment of Puleva. After that, Ebro (which reported a 9.95% shareholding in 2013) gradually reduced its interest and by 2016 no longer held shares in the company. The Lactalis stake has remained stable, while Pescaderías Coruñesas doubled its shareholding to 10% by 2016 (vs. 2007). Historically, both shareholders have been passive with respect to business management. The free-float is over 60%.

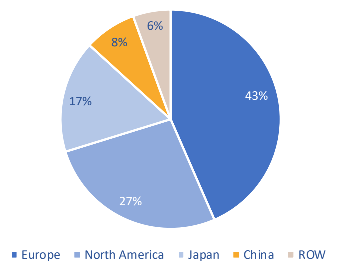
Favourable macro-trends and regulatory context

Chart 6. Global Probiotic Ingredients Sales



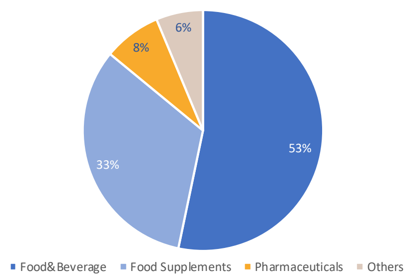
Source: Industry sources.

Chart 7. Probiotic Ingredients' Geographical Sales Split (2017)



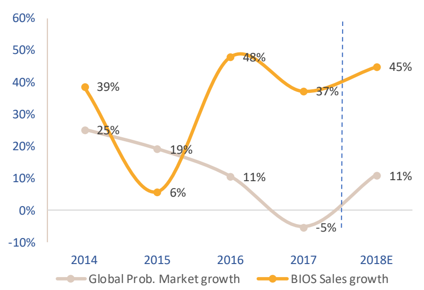
Source: Industry sources.

Chart 8. Probiotics' Main Destination



Source: Industry sources.

Chart 9. Revenues growth (BIOS vs Industry)



Source: Industry (forex applied: average annual EUR/USD exchange rate) and Lighthouse estimates.

BIOS operates in the natural ingredients industry, focusing on the nutrition (infant nutrition and functional dairy products) and health (pharma/nutraceuticals: women's health) markets. Among these markets, nutraceuticals is the most vulnerable to a cyclical downturn.

Despite the economic downturn, expected growth for these markets remains at mid single-digit: CAGR 2017-2022 of 4.7% for the pharmaceutical industry to USD 1,430Bn[3] (with developed countries contributing two-thirds of expected growth); 7.5% in the same period for the nutraceuticals market (to c. USD 45.6Bn, underpinned mainly by growth in demand in developing countries) and 6.4% in the functional food ingredients segment (exceeding USD 88Bn in 2022[4]).

These three markets share a common underlying trend: a change of focus in healthcare towards prevention, providing opportunities for the pharmaceutical, nutraceutical and food industries. The ageing of the population and the chronification of diseases are causing a greater awareness in society of the need to adopt eating habits that have preventive functions. This change in consumption habits explains the strong growth in recent years in the functional foods and dietary supplements segment.

Probiotics, still a fledgling industry

Probiotics are living organisms beneficial to health[5], their clinical efficacy having been proven for the treatment of gastrointestinal disorders, allergies, cancer and infections.

Despite the significant growth recorded by the market, this remains an embryonic industry. The IPA (International Probiotics Association) valued the global (finished) probiotics products market at USD 42.5Bn in 2017 (vs. USD 34.6Bn in 2015). In this market, the revenues generated by probiotic ingredients amounted to USD 0.9Bn (c. 2% of the market value), according to industry sources, which points to a slight slowing of growth until 2022 (+6.6%, -1.6p.p. vs. the growth recorded since 2013). By type, lactobacilli (a segment in which BIOS operates) are the most common probiotics in the industry (c. 52%), followed by bifidobacteria (36%). The principal markets for these products are food (53%) and dietary supplements (33%). Europe is the industry's main market, the largest individual markets being in Asia, principally Japan (17%) and China (8%).

After the strong growth seen at the beginning of the last decade, the coming into force of European regulations in the functional ingredients field (EC regulation 1924/2006 of the European Parliament and of the Council of December 2006), restricting the use of the term "probiotic" in the industry, has resulted in a slowdown of growth, especially in the nutraceutical segment.

Prevailing regulations demand scientific documentation guaranteeing the efficacy of their use, requiring a research function of functional ingredient producers similar to that in the pharmaceutical industry. However, research periods and investment requirements are less demanding (shorter and smaller clinical tests), with regulations being less strict than for the approval of medicines (dietary supplements). The EFSA (European Food Safety Authority) is the body responsible for verifying and validating the scientific documentation supporting claims regarding the nutritional aspects and health properties of food. This body rejected around 90% of requests in relation to such claims presented in 2008-2011.

The growing scientific documentation proving the efficacy of these micro-organisms in the control and prevention of illness, together with greater awareness of their beneficial effects on health and their significant potential in applications involving both functional foods and dietary supplements will continue to favour growth in demand. Also, regulatory tightening should

[3] *IQVIA: "2018 and Beyond: Outlook and Turning Points"*
[4] *Markets and Markets: "Functional Food Ingredients Market " and "Nutraceutical Ingredients Market"*
[5] *OMS (World Health Organisation) and FAO (Food and Agriculture Organisation)*

benefit those companies with proven scientific expertise. However, the industry is not immune to the publication of reports questioning the efficacy of these products.

This industrial segment is highly lucrative, the average EBITDA/Sales margin being over 30%. The main industry players are: Christian Hansen Holdings (Denmark), Probiotics International (UK), Dupont (Danisco -US), BioGaia and Probi (Sweden), who compete with numerous small private companies (AB-Biotics - Spain). Global food industry companies such as Danone (France), Nestlé (Switzerland), and Yakult Honsha (Japan) also operate in the industry.

Lipids (omega-3), growth backed by favourable regulations

This business line sells omega-3 polyunsaturated fatty acids (EPA and DHA), for the food industry (as a functional ingredient), especially in the infant nutrition segment. The main sources of these fatty acids are purified fish, algae and krill oil.

In 2015 the GOED[6] valued the global Omega-3 ingredients market at USD 1.16Bn (EUR 1.07Bn), in which concentrates (ethyl ester: used mainly in the nutraceuticals industry) had the largest market share (38%), followed by refined anchovy and algae oil (18% and 13% respectively). Tuna oil (used in infant nutrition) represented 10% of the market. Geographically, the US was the main market (32%), followed by Europe (22%) and China (15%).

The industry has suffered as a result of numerous negative publications in the media, most notably the Brasky report (2013)[7], which has led to a decline of almost 11% p.a. from 2012 highs (-16.6% in USD), with a special impact on concentrates. In an attempt to counter this negative media impact, GOED has promoted various studies since 2016 aimed at demonstrating the benefits of Omega-3 consumption, resulting in a recovery of sales that same year. Both the FDA and the EFSA have approved its efficacy in the cardiovascular area, for the maintenance of eyesight and in the development of cognitive function. GOED predicts 7% growth in the industry in the mid/long term, underpinned by growing demand from Asia and increased penetration of these products in what are deemed mature markets (Europe and North America).

BIOS' market strategy (focusing on the infant nutrition segment), has enabled the company to disassociate itself from the industry trend, recording a CAGR of 4.8% in 2012-2015 (+15 p.p. vs figures reported by the industry), with an acceleration of growth in the last two years (CAGR 2015-2017: +22%). The favourable regulatory backdrop, with two European directives approved in 2016 coming into force from 2020[8] (that practically require the minimum amount of DHA in infant formulas to be doubled), will back industry expectations. A similar regulatory movement can be expected in other countries.

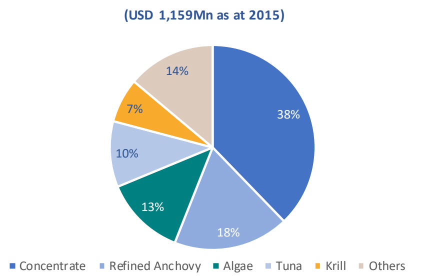
Companies operating in this segment include global diversified players which control the largest market share: DSM, BASF (Pronova) and Croda, together with, among others, Marine Ingredients, Polaris and Aker BioMarine. The industry offers high returns: to give some indication, the US company Omega Protein reported an EBITDA margin of 24.5% in 2017 (the year in which it was de-listed).

Natural extracts: growth underpinned by new applications

Historically, the ingredients division has generated the bulk of BIOS' turnover (45-47% in 2013-2015). However, its contribution has been gradually declining in recent years (finishing 2017 at 37% of revenues). Markets and Markets valued the plant extracts market at USD 3.6Bn in 2016, projecting a CAGR of 9.0% to USD 6.03Bn in 2022. The growing demand for healthy products from natural sources and for clean labels, together with a greater awareness of the side-effects related to the use of synthetic products will be the main drivers of industry growth.

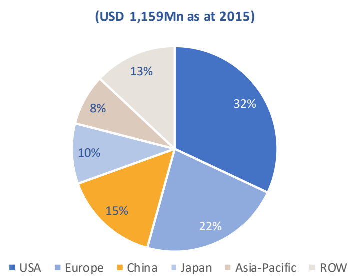
The lack of listed specialist competitors makes it difficult to compare figures in an industry lacking in transparency, and in which private companies operate, such as Finzelberg (Germany) and Naturex (France). The later, a benchmark in the European market, was acquired by the Swiss company Guivaudan at the end of 2017.

Chart 10. Global Omega-3 EPA/DHA Ingredientes Market



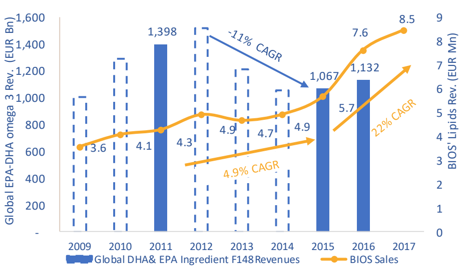
Source: GOED.

Chart 11. Omega-3 EPA/DHA Market Geographic Split



Source: GOED.

Chart 12. Global Omega-3 EPA/DHA ingredientes Sales



Source: GOED and DSM Global and BIOS..

Note: The blue bars are billing data provided by GOED, while the discontinued bars are data taken from DSM (Both data have been converted into EUR by applying the average annual EUR/USD exchange rate). The orange line indicates the revenues performance of BIOS' Lipids division.

[6] GOED: Global Organization for EPA and DHA Omega-3S
[7] A report which warned of an increase in the incidence of prostate cancer due to consumption of omega-3.
[8] European directive 2016/127 (in infant formulas) and directive 2016/128 (in formulas for specific medical purposes).

As does the French company, BIOS offers innovative and clinically proven solutions based on plant extracts, aimed at the health and wellness market. Although historically, revenue growth in extracts has been lower than for its French rival (CAGR 2013-2017 of 2.6% vs 6%), the latter's margins (with a reported average in the last five years of close to 15%) should serve as a benchmark for the longer term. Leverage generated by the launch of new products with higher added value will be crucial.

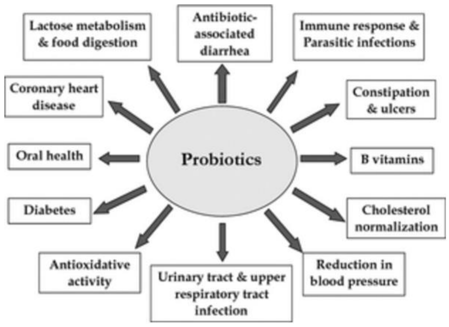
Table 2. BIOS' EBITDA/Revenues vs. main peers

Company	Country	2013	2014	2015	2016	2017
Pobiotic Industry						
Probi AB	Sweden	22.3%	32.7%	51.7%	65.0%	36.9%
Biogaia AB	Sweden	12.8%	58.0%	38.1%	40.1%	43.9%
Christian Hansen	Denmark	34.8%	37.9%	37.7%	38.8%	36.1%
Omega 3 Industry						
DSM	Netherlands	13.7%	11.5%	12.1%	16.3%	17.8%
Natural Extracts Industry						
Naturex SA[1]	France	16.4%	10.8%	12.8%	14.2%	14.1%
Biosearch	Spain	18.1%	18.7%	13.2%	17.7%	20.4%
Special Foods&Wellness Prods.[2]	**n.a.**	**18.3%**	**10.8%**	**14.1%**	**14.6%**	**14.2%**
Eurostoxx 600 Health Care[3]	**n.a.**	**27.8%**	**27.3%**	**27.7%**	**28.7%**	**28.2%**

[1] Thomson Reuters Sector Category (aggregated data)

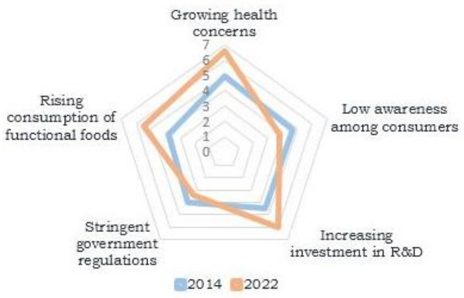
[2] Thomson Reuters (aggregated data)

Chart 13. Probiotics' Potential Therapeutic targets



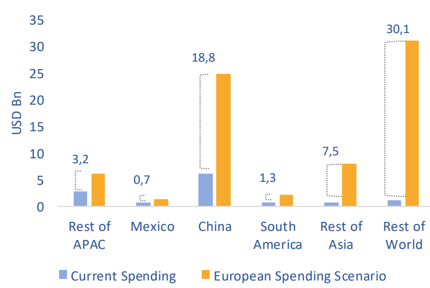
Source: FEMS (Federation of European Microbiological Societies)

Chart 14. Probióticos Industry Main Trends



Source: Allied Market Research "World Probiotics Market"

Chart 15. Increase in Omega-3 Intake in Developing Countries



Source: GOED (data at end product level)

Main drivers: tailwinds are blowing

The main trends underpinning growth in BIOS' industries are:

1) Population growth.
2) An ageing population and the chronification of diseasess.
3) A shift in favour of less costly preventive treatment which reduces health spending.
4) Increased scientific evidence regarding the clinical benefits for the control and prevention of illnesses.
5) The potential of new applications (such as ingredients and/or supplements).
6) The commoditisation of the products (mature countries) and the increased penetration of premium products in high growth economies (Asia).
7) The favourable regulatory backdrop:
   - Support for formulas enriched with DHA (according to GOED, most governments recommend a daily consumption, regardless of age, of 250 mg of EPA and DHA).
   - Regulatory toughening for the approval of health claims.

M&A: an industry rife with corporate movements

The period 2016 to 2018 saw a host of corporate movements in the three industries. In the extracts area the acquisitions of Naturex and Frutarom at the end of 2017 by global operators (Givaudan and IIF, respectively) stand out. In probiotics, we would highlight the friendly acquisition of the biotech company Probiotics International (ADM) in 2018 and the de-listing of Omega Probiotics (an industry benchmark). In the fatty acids area, 2016 saw the merger of KD Pharma with Marine Ingredients, creating the industry's third largest player; a year later, FMC sold its omega-3 division to the UK company Pelagia, and in the same year sold its "Health and Nutrition" business to DuPont (parent of the probiotics company Danisco).

2018 was just as busy. At the beginning of the year, DSM and Evonik announced the creation of a joint venture (Veramaris) to produce omega-3 (EPA/DHA) from algae (destined for animal nutrition) and at the end of 2018 the US company Tauriga Sciences signed a MOU to acquire a Californian company in the omega-3 industry.

The economic slowdown is causing a shift in corporate movements, with growing interest in small companies with growth potential and a return to strategic alliances.

Table3. BIOS vs. main peers

Company	Mkt. Cap	EV	Country	Rev. Growth 12-17	EBITDA/Rev 2017	ND/EBITDA 2017	EV/EBITDA
Pobiotic Industry							
Probi AB	408.2	404.3	Sweden	6.1%	27.5%	0.1	23.6
Biogaia AB	584.5	561.5	Sweden	2.3%	39.2%	-1.3	22.9
Christian Hansen	10,926.3	11,685.3	Denmark	0.6%	35.0%	1.7	30.4
Omega 3 Industry							
DSM	14,837.7	15,552.7	Netherlands	1.7%	16.3%	0.5	11.0
Natural Extracts Industry							
Naturex SA(1)	1,283.0	1,450.6	France	9.8%	14.1%	2.9	25.4
Biosearch	90.0	95.9	Spain	8.3%	20.4%	0.9	18.3
Special Foods&Wellness Prods.(2)	**n.a.**	**n.a.**	**n.a.**	**12.5%**	**14.2%**	**0.2**	**19.8**
Eurostoxx 600 Health Care(3)	**n.a.**	**n.a.**	**n.a.**	**3.3%**	**28.2%**	**1.2**	**20.8**

(1) As at Dec. 2017 (due to delisting)

(2) Thomson Reuters Sector Category (aggregated data)

(3) Thomson Reuters

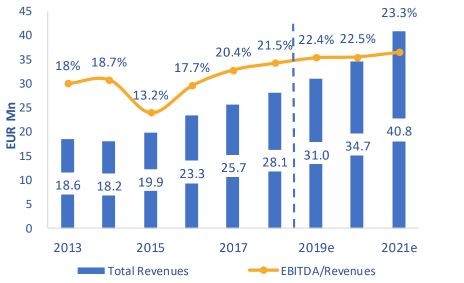
Well positioned for further growth

Cumulative 9M2018 results showed an acceleration of growth in BIOS's revenues (+16.6% to EUR 20.1Mn, +13.2p.p. vs. 9M 2017, and +5.9% vs. the end of 2017), consolidating almost three years of double-digit growth.

Growth has been underpinned mainly by the expansion of the international business (EUR 15.7 Mn, +26% vs. 9M2017), to which the European market contributed 52.7% (EUR 10.4 Mn at 9M 2018). The good performance of the international business contrasts with the stagnation of product sales at the national level, with the decline (-7.9% in respect of local revenues), being due to the smaller contribution of revenues from the provision of R+D services to domestic clients (EUR 0.5 Mn, 2.5% of revenue at 9M 2018 vs. 4.9% at 9M 2017). 9M results confirm the good momentum of both the probiotics (+65% YoY) and lipids (21.7% YoY) segments which offset the decline suffered by the extracts division (-8% YoY) due to one-off commercial reasons.

However, 4Q 2018 will be negatively affected by tougher comps, associated, among other factors, with the impact of the agreement with Nestlé (4Q2017). We expect a moderation of growth in revenues, to EUR 28.1 Mn at the end of the year (+9.3% YoY).

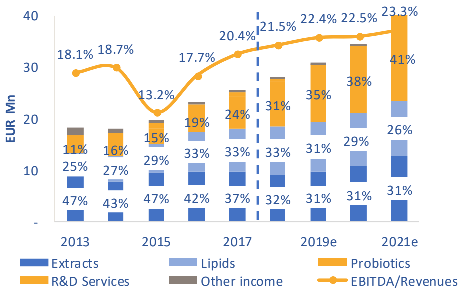
Chart 16. EBITDA/Revenues vs. Revenues



2018-2021: Improvement in margins due to the revenue mix and enhanced operational efficiency

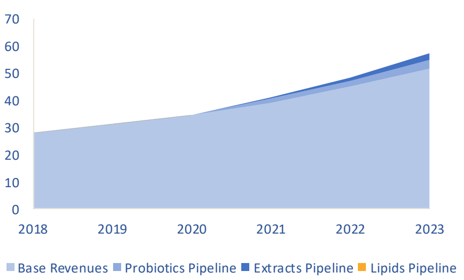
Our estimates envisage a CAGR of 13.2% for revenue in 2018-2021e, mainly on the back of the current product portfolio, the launch of a new extracts product and progress on the pipeline (this last factor will contribute 5% of revenues at the end of the period).

Chart 17. Revenues Mix vs. EBITDA/Sales



Probiotics will lead growth (CAGR of +23.6% in the period, to which the licence agreement with Nestlé will contribute 53%), followed by the extracts line, for which we estimate a CAGR of 12.2% in the same period, supported by the launch of Caronositol Fertility[9] in 2019e. In 1Q 2019 BIOS expects to publish the results of clinical tests proving its efficacy in increasing the rate of embryo implantation in polycystic ovary syndrome[10], and in treating the symptoms of this disease. The signing of a licence agreement could speed up the marketing of this product. Our estimates include the start of marketing in 2019, with peak sales of EUR 7 Mn in five years. However, alternatives available on the market[11] and the tough competition inherent to the nutraceuticals market could limit its commercial potential.

Chart 18. Pipeline's Revenue Contribution



Growth in the lipids business line will be more moderate (CAGR of +4.5%), favoured by the coming into force of European directives (1Q 2020). Our projections may seem somewhat conservative (-1.5 p.p. vs. the growth expected by the industry consensus), as they reflect technological changes in the production process and tougher competition (growing demand for plant based ingredients: algae).

Given the nature of the company, R+D spending is significant (c. 9% of revenues in 2018e), with 21% of the workforce working in this area (9M2018). Although the company does not provide information about the progress of the pipeline, an increase in spending to accelerate its development is likely[12].

We forecast an R+D spend of close to 9% of revenues in the short/mid term, with a decreasing weighting in the long term (to around 8% of revenues), excluding capitalisations, in line with the previous accounting policy.

[9] Caronositol Fertility (combination of myoinositol / D-chiro-inositol).
[10] Polycystic ovary syndrome (PCOS) is the most prevalent endocrinopathy in women, affecting 4-8% of those who are of childbearing age.
[11] Such as myoinositol (Lamberts).
[12] The Strategic Program for National Business Research Consortiums (CIEN) funded by the Center for Industrial & Technological Development (CDTI) (IDI-20150571): research, development and innovation in new multi-functional foods for Metabolic Syndrome (METASIN).

Chart 19. NP vs. ROE

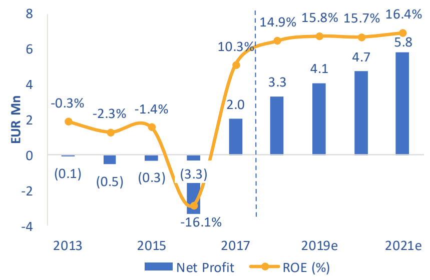


Chart 20. CAPEX/Sales vs Sales

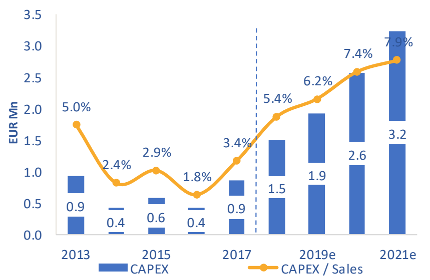


Chart 21. Recurrent FCF vs NWC/Sales

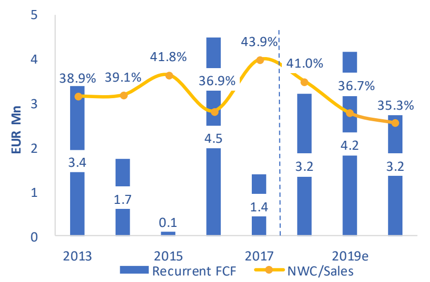
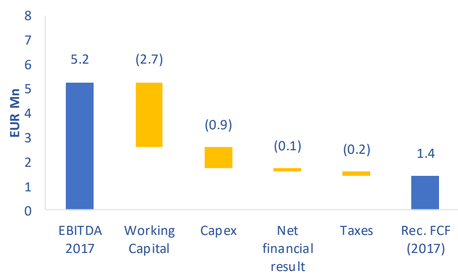


Chart 22. Free Cash Flow effects 2017



The cost control policy has reduced the weighting of overheads and administration costs by 4.9p.p. of revenue in the last five years (48.7% of revenues at the end of 2018e) despite the increase in the workforce (+32% in that period). The revenue mix (with a 17 p.p. increase in the contribution of the probiotics business at the end of the period) together with technological improvements, will be the main drivers of the expected improvement in margins (23.3% EBITDA/Revenues in 2021e, +1.8p.p. vs. 2018), in a scenario which includes a 20% increase in the workforce.

NP: double-digit organic growth underlining the attractive business yield

Earnings for 2016 and 2017 were negatively impacted by the write-off of goodwill associated with Exxentia (EUR -5.5 Mn and EUR -0.9 Mn respectively, 23.6% and 3.5% of the revenue generated in those years respectively), causing BIOS to incur pre-tax losses in 2016 (EUR -4.7Mn). We do not expect further negative impacts in this respect.

The continual financial de-leveraging has been reflected in lower financial expenses (3% of EBITDA at the end of 2017, -20 p.p. vs. 2013), with the contribution of financial items being immaterial in the mid/long term. In addition, the use of tax losses (the company had EUR 4.5 Mn off balance sheet at the 2017 close) will keep the tax rate below 22% over the estimated period (we include a growing average rate of 20.4% until 2021e).

In this scenario, double-digit organic growth in operating profit is likely (CAGR 2018-2021e: +21.3%), with similar growth in EPS (CAGR 2018-2021e: +20.7%), pointing to a gradual improvement in the ROE, exceeding 16% at the end of the period.

CAPEX: accelerating investment to capture growth

BIOS has on average invested 2.6% of revenue generated in 2013-2017 (EUR 0.9Mn in 2017). Investment has mainly been allocated to increasing production capacity (probiotics) and technological improvements (lipids). The company also plans to begin the production of omega-3 from algae, in line with the industry trend. The aims are twofold: to diversify sources of raw material and to meet the potential shift in demand arising from greater sensitivity in respect of sustainable production. This will be a gradual process and will not replace current production processes (given its higher production costs).

We expect investment to intensify in the short/mid term (EUR 1.5Mn in 2018e, 5.4% of estimated revenues) to around EUR 3Mn in 2021 (7.9% CAPEX/Sales), above the sector average (5% in 2020e).

Working capital: the revenue mix is crucial to improving the ratio

Historically, BIOS' investment in working capital has been high, affected on occasions by the procurement of inventories prior to product launches. The working capital requirements of the three businesses are different, with the extracts division being the most intensive due to the nature of the business (its competitor, Naturex, reported c. 40% Working Capital/Sales in 2017) and probiotics the least intensive (industry references report around 20% of revenues). The lipids division is somewhere in between. After highs of 2017 (with a ratio of 44% of revenues, mainly due to a reduction of the average payment period), we expect a gradual moderation of the ratio (41% in 2018e), envisaging an increase of c. 30% in inventories prior to the product launches expected in 2019.

The revenue mix will drive a gradual improvement in the ratio, to below 35% in 2021. The high level of competition in the industry leaves little room for manoeuvre in the management of payments to suppliers, so an improvement in collection management policy will also be crucial.

Free Cash Flow impacted by the increase in CAPEX.

While cash flow generation was mainly affected by the increase in working capital investment in 2017 (37% of the EBITDA generated), in 2018 the biggest impact came from the increase in CAPEX (c. EUR 1.5 Mn, reducing the EBITDA generated that year by 25%). We do not expect any dividend payments, in line with the policy maintained by the company. We project FCF of EUR 3.5 Mn in 2018e (EUR 3.2 in recurrent terms), and EUR 4 Mn in 2020e (EUR 3.2 Mn in recurrent terms, due to the increase in investment), resulting in an average FCF Yield of 4.2%

Chart 23. Free Cash Flow effects 2018

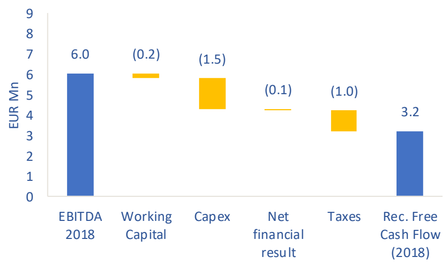
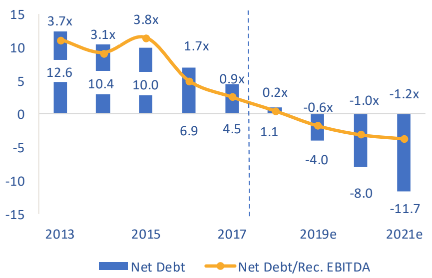


Chart 24. ND/EBITDA vs Net Debt



and 3.9% in recurrent terms (below the sector's 5%), peaking in 2019 (c. 5,6%, and 4.6% in recurrent terms).

A comfortable financial position from which to accelerate growth

After peaking in 2008 (6x ND/EBITDA), the company's financial discipline has resulted in a gradual reduction in debt. After reporting a ratio of 0.4x ND/EBITDA in cumulative figures at 9M2018, we expect a ratio of 0.2x at the year end. The company will have a positive cash position from 2019, with cash generation accelerating in the following years due to the agreement signed with Nestlé and the new product launches.

Given BIOS' healthy financial situation and the current environment of sector concentration, we do not rule out potential corporate movements in strategic segments with the aim of accelerating growth in synergistic businesses while maintaining business diversification and a reasonable level of debt.

Our base scenario envisages growth of 18% in EBITDA over the next five years, with the gradual launch of two products in the probiotics and fatty acids segments with a probability of success of c. 60%. In this base scenario, the value of the current pipeline (NAV) accounts for c. 80% of BIOS' EV.

Table 4. EBITDA and revenues (2018-2023e) / Pipeline's NAV

	Revenues 2023e	CAGR 2018e-2023e	EBITDA 2023e	CAGR 2018e-2023e	Pipeline's NAV (*)	Pipeline/EV (%)(*)
Positive Scenario	60.0	18.4%	14.8	19.6%	135	141.3%
Base Scenario	**57.5**	**17.4%**	**13.8**	**18.0%**	**76**	**79.6%**
Negative Scenario	53.2	15.6%	11.3	13.3%	21	21.8%

(*) The Pipeline's NAV is calculated based on the discount of the CF net of taxes generated with the execution of the pipeline in the different scenarios (9.2% wacc). Success probabilities: c.60% (Base scenario), 100% (Positive scenario) & 15%(Negative scenario).

Valuation inputs

Inputs for the DCF Valuation Approach

	2018e	2019e	2020e	Terminal Value
Free Cash Flow "To the Firm"	**3.8**	**5.2**	**4.1**	**139**

			Best Case	Worst Case
Market Cap	**90.0**	At the date of this report		
Net financial debt	**4.5**	Debt net of Cash (last financial year)		
Cost of Debt	2.0%	Net debt cost	2.0%	2.5%
Effective tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Cost of Net Debt	**1.6%**	**Kd = Cost of Net Debt * (1-T)**	**1.6%**	**2.0%**
Risk free rate (rf)	1.4%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	6.0%	R (own estimate)	5.5%	6.5%
Beta (B)	1.4	B (Thomson Reuters)	1.4	1.6
Cost of Equity	**9.5%**	**Ke = Rf + (R * B)**	**9.1%**	**11.8%**
Equity / (Equity + Net Debt)	95.2%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	4.8%	D	=	=
WACC	**9.2%**	**WACC = Kd * D + Ke * E**	**8.7%**	**11.3%**
G "Razonable"	**2.0%**		**2.5%**	**1.5%**

Inputs for the Multiples Valuation Approach

Company	Mkt. Cap	P/E 18e	EPS 18e-20e	EV/EBITDA 18e	EBITDA 18e-20e	EV/Sales 18e	Revenues 18e-20e	EBITDA/Sales 18e	FCF Yield 18e	FCF 18e-20e
Probi AB	408.2	60.2	0.0%	24.8	0.0%	6.7	0.0%	27.0%	1.9%	0.0%
Biogaia AB	584.5	35.2	0.4%	20.6	0.8%	8.0	0.5%	38.7%	2.8%	0.0%
Christian Hansen	10,926.3	48.1	0.0%	27.6	0.0%	9.8	0.0%	35.5%	1.7%	0.0%
Pobiotic Industry		47.8	0.1%	24.3	0.3%	8.2	0.2%	33.7%	2.1%	0.0%
DSM	14,837.7	8.1	0.0%	8.7	0.0%	1.7	0.1%	19.4%	5.5%	-4.6%
Omega 3 Industry		8.1	0.0%	8.7	0.0%	1.7	0.1%	19.4%	5.5%	-4.6%
Naturex SA[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Natural Extracts Industry		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Biosearch	90.0	29.4	19.5%	15.89	13.8%	3.41	11.1%	21.5%	3.6%	7.7%

[1] Delisted (Dec. 2017)

Free Cash Flow sensitivity analysis (2019e)

A) EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 19e	EBITDA 19e	EV/EBITDA 19e
Max	23.4%	7.3	13.2x
Central	22.4%	6.9	13.8x
Min	21.4%	6.6	14.5x

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

	CAPEX/Sales 19e		
EBITDA 19e	5.2%	6.2%	7.2%
7.3	4.8	4.5	4.2
6.9	4.5	4.2	3.8
6.6	4.2	3.8	3.5

Scenario	FCF/Yield 19e		
Max	5.3%	5.0%	4.6%
Central	5.0%	4.6%	4.3%
Min	4.6%	4.3%	3.9%

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Risk Analysis

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **Products are very sensitive to negative media coverage.** Both the IPA (probiotics) and the the GOED (omega-3 EPA/DHA) have warned about the negative impact on the industry of the publication of studies[13] questioning the efficacy and/or quality of these products. The work of these bodies has become increasingly important in mitigating the negative impact that the inaccuracy of these publications may have on the industry.

2. **Slowdown in probiotics revenues.** The improvement in the EBITDA/Revenues margin (+2.3 p.p. vs. 2013) is based on a more profitable revenue mix (especially probiotics). A 2 p.p. decrease in this line's contribution to revenues in 2019 (33% vs. 35% estimated) would reduce the margin for the year by 0.8 p.p. vs. the estimated 22.4% and FCF by 1.3 p.p.

3. **Regulatory risk.** A further toughening of the requirements for the scientific documentation needed to support product health claims would increase the cost of product development, affecting the R+D budget (currently c. 9% of revenue) and the pipeline calendar.

4. **High client concentration.** Although the company has gradually increased the diversification of its client portfolio, reducing its dependence on related parties (15% of sales at the end of 2017, vs. 33% at the beginning of the decade), 7 clients account for almost 50% of revenues, exposing BIOS both to commercial risk (pressure on margins) and to potential problems in the production processes of those clients.

5. **Scant order book visibility.** Most contracts are for less than a year, with multi-year contracts, such as the one signed with Nestlé, being a rarity.

6. **Raw material.** The lipids line (35.7% of revenues at 9M 2018) depends on the availability of omega-3 oil from fishing resources. A shortage of supply (due to the implementation of restrictive fishing policies) and/or lower yields on extraction (due to pollution and climate change) could increase its cost and/or affect the production process. Although the industry usually passes on price increases immediately, this could cause disturbances in demand and temporary declines in the margin.

7. **Environmental risk.** To which its lipids division is exposed. Greater awareness of sustainable production could accelerate the shift in the industry towards omega-3 oils from plant sources. In order to mitigate this risk, the company is investing in installations for the extraction of omega-3 from algae.

8. **Competition.** Growing demand for omega-3 EPA/DHA has led to the appearance of unlisted oils in China, which could harm the image of these products and consumer confidence in them in addition to increasing supply.

9. **Forex risk.** The company hedges raw material procurements which has proven to be effective in the past in minimising the forex impact on the lower part of the P&L statement. Increased exposure to clients from countries outside the Eurozone would imply greater forex risk.

10. **M&A risk.** The growing corporate activity in these industries, together with the interest in small players with growth potential, may result in increased competition in acquisition processes, generating significant goodwill for buyers with the risk of value destruction.

[13] CELL journal (September 2018), calling into question the efficacy of the use of probiotics and even suggesting they have an adverse effect on the recolonisation of gut bacteria.

Change is in the air

While BIOS' management team has remained relatively stable (two-thirds of executives have been with the company for over ten years and the rest an average of three years), the Board was completely renewed in 2016 (the previous board members had been in their positions for over twelve years). BIOS does not have executive directors, the Chair having been appointed by co-option (June 2017).

1. **The Board of Directors has been renewed,** with 60% of its members being proprietary directors (related to Lactalis and Pescaderías Coruñesas). The independent directors usually have broad experience in mass market companies, the media and/or marketing, the appointment of a director with significant experience in FMCG[14] and pharmacy, areas of interest to the company, being a new development. According to the company's bylaws, the position of director is held for a maximum term of four years, renewable for periods of equal duration (in accordance with prevailing legislation), without the bylaws stipulating a limit to the number terms of office, nor to the process of renewal of this organ (maximum percentage of members to be renewed simultaneously and/or temporary restrictions).

2. **The Board controls 40% of share capital,** with the Lactalis group (29.5% of share capital and two directors) and Pescaderías Coruñesas (10% and one director) being the core shareholders, whose interests are aligned with those of minority shareholders.

3. **New performance incentives for the Board.** The compensation scheme has remained unchanged to date, with a fixed payment (limited to independent directors) and a variable one, consisting of a per diem for attending meetings. Historically, the amount paid in respect of these items has been around 3% of personnel costs, this having decreased to 1% in 2017. In order to comply with recommendations in respect of corporate governance, the Board recently approved a variable compensation plan dependent on the company's results. It remains for shareholders to approve at a general meeting (in accordance with applicable regulations) the maximum amount of the compensation to be paid the Board as a whole.

4. **Executive incentives via bonuses.** BIOS has a variable compensation scheme for key personnel, which seeks to increase their focus on the company's results, both as regards short-term achievements and mid/long term corporate profitability (practically all the workforce has variable incentives linked to performance). The executive committee is aware of the burden on the company's accounts of the only major corporate operation carried out in the past (the acquisition of Exxentia in 2008). The incentive scheme, based both on short-term growth and mid and long term profitability, acts as a deterrent against "strategies" aimed at meeting objectives via unprofitable, non-organic growth. However, the compensation scheme lacks long term savings plans and resignation or severance indemnity clauses.

5. **No shareholder remuneration in the short/mid term.** Our projections envisage the continuation of the dividend policy (Pay Out 0%) to accelerate business growth. The company has made no commitment to initiate dividend payments.

[14] *Fast moving consumer goods*

Appendix 1. Financial Statements

Balance Sheet (EUR Mn)	2013	2014	2015	2016	2017	2018e	2019e	2020e
Intangible assets	2.3	1.5	1.2	0.8	0.8	0.9	1.2	1.7
Fixed assets	13.0	11.5	10.2	8.9	8.7	8.3	8.0	8.1
Other Non Current Assets	7.0	6.3	6.3	7.3	5.7	5.4	5.4	5.4
Financial Investments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Goodwill & Other Intangilbles	7.5	7.5	7.5	1.3	-	-	-	-
Current assets	10.2	11.0	12.9	13.5	15.4	17.0	17.4	18.9
Total assets	**40.1**	**37.9**	**38.1**	**31.8**	**30.7**	**31.7**	**32.1**	**34.3**
Equity	23.4	22.6	22.5	18.8	20.7	23.7	27.8	32.5
Minority Interests	-	-	-	-	-	-	-	-
Provisions & Other L/T Liabilities	1.1	0.9	1.0	1.2	1.5	1.5	2.4	3.2
Net financial debt	12.6	10.4	10.0	6.9	4.5	1.1	(4.0)	(8.0)
Current Liabilities	3.0	3.9	4.6	4.8	4.1	5.4	6.0	6.6
Equity & Total Liabilities	**40.1**	**37.9**	**38.1**	**31.8**	**30.7**	**31.7**	**32.1**	**34.3**

									CAGR	
P&L (EUR Mn)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**	**2019e**	**2020e**	**13-17**	**17-20e**
Total Revenues	**18.6**	**18.2**	**19.9**	**23.3**	**25.7**	**28.1**	**31.0**	**34.7**	***8.5%***	***10.5%***
Total Revenues growth	*7.7%*	*-2.4%*	*9.5%*	*17.4%*	*10.3%*	*9.3%*	*10.4%*	*11.7%*		
COGS	(5.3)	(5.1)	(6.4)	(7.1)	(8.1)	(8.4)	(9.0)	(10.0)		
Gross Margin	**13.3**	**13.0**	**13.5**	**16.3**	**17.6**	**19.7**	**22.0**	**24.7**	***7.3%***	***11.8%***
Gross Margin(o / Revenues)	*71.7%*	*71.7%*	*67.8%*	*69.7%*	*68.6%*	*70.2%*	*71.0%*	*71.2%*		
Personnel Expenses	(4.7)	(4.9)	(5.4)	(6.2)	(6.7)	(7.4)	(7.8)	(8.6)		
Other Operating Expenses	(5.2)	(4.7)	(5.5)	(5.9)	(5.8)	(6.3)	(7.3)	(8.3)		
Recurrent EBITDA	**3.4**	**3.4**	**2.6**	**4.1**	**5.2**	**6.0**	**6.9**	**7.8**	***11.7%***	***14.2%***
Recurrent EBITDA growth	*34.3%*	*0.9%*	*-22.6%*	*57.5%*	*26.6%*	*15.2%*	*15.1%*	*12.5%*		
Rec. EBITDA/Revenues	*18.1%*	*18.7%*	*13.2%*	*17.7%*	*20.4%*	*21.5%*	*22.4%*	*22.5%*		
Restructuring Expenses	-	-	-	-	-	-	-	-		
Other non-recurrent Costs	-	-	-	-	-	-	-	-		
EBITDA	**3.4**	**3.4**	**2.6**	**4.1**	**5.2**	**6.0**	**6.9**	**7.8**	***11.7%***	***14.2%***
EBITDA growth	*34.3%*	*0.9%*	*-22.6%*	*57.5%*	*26.6%*	*15.2%*	*15.1%*	*12.5%*		
EBITDA/Revenues	*18.1%*	*18.7%*	*13.2%*	*17.7%*	*20.4%*	*21.5%*	*22.4%*	*22.5%*		
Depreciation & Provisions	(2.6)	(2.4)	(2.3)	(3.0)	(1.9)	(1.9)	(1.9)	(1.9)		
Capitalized Expense	-	-	-	-	-	-	-	-		
EBIT	**0.7**	**1.0**	**0.4**	**1.1**	**3.3**	**4.1**	**5.1**	**5.9**	***46.5%***	***21.3%***
EBIT growth	*n.a.*	*43.9%*	*-64.8%*	*208.5%*	*194.1%*	*25.7%*	*22.8%*	*15.7%*		
EBIT/Revenues	*3.9%*	*5.7%*	*1.8%*	*4.8%*	*12.8%*	*14.7%*	*16.4%*	*17.0%*		
Impact of Goodwill & Others	(0.1)	(0.1)	(0.0)	(5.5)	(1.1)	-	-	-		
Net Financial Result	(0.8)	(0.8)	(0.5)	(0.3)	(0.1)	(0.1)	0.0	0.1		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	**(0.1)**	**0.2**	**(0.2)**	**(4.7)**	**2.1**	**4.1**	**5.1**	**6.0**	***n.a.***	***42.7%***
Ordinary Profit Growth	*-89.8%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*98.9%*	*25.0%*	*17.0%*		
Extraordinary Results	(0.1)	(0.1)	0.0	0.0	0.2	-	-	-		
Profit Before Tax	**(0.2)**	**0.1**	**(0.2)**	**(4.7)**	**2.2**	**4.1**	**5.1**	**6.0**	***n.a.***	***39.0%***
Tax Expense	0.1	(0.6)	(0.2)	1.4	(0.2)	(1.0)	(1.0)	(1.2)		
Effective Tax Rate	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*8.1%*	*25.0%*	*20.1%*	*20.8%*		
Minority Interest	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	**(0.1)**	**(0.5)**	**(0.3)**	**(3.3)**	**2.0**	**3.1**	**4.1**	**4.7**	***n.a.***	***32.3%***
Net Profit growth	*-92.1%*	*628.8%*	*-40.6%*	*955.1%*	*n.a.*	*49.8%*	*33.2%*	*15.9%*		
Ordinary Net Profit	**(0.1)**	**0.2**	**(0.2)**	**(4.7)**	**1.9**	**3.1**	**4.1**	**4.7**	***n.a.***	***35.8%***
Ordinary Net Profit growth	*-89.8%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*62.2%*	*33.2%*	*15.9%*		

									CAGR	
Cash Flow (EUR Mn)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018e**	**2019e**	**2020e**	**13-17**	**17-20e**
Recurrent EBITDA						**6.0**	**6.9**	**7.8**	***11.7%***	***14.2%***
Working Capital Increase						(0.2)	0.1	(0.9)		
Recurrent Operating Cash Flow						**5.8**	**7.1**	**6.9**	***-15.2%***	***39.3%***
CAPEX						(1.5)	(1.9)	(2.6)		
Net Financial Result affecting the Cash Flow						(0.1)	0.0	0.1		
Taxes						(1.0)	(1.0)	(1.2)		
Recurrent Free Cash Flow						**3.2**	**4.2**	**3.2**	***-20.0%***	***32.3%***
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestures of assets						0.3	0.9	0.8		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**3.5**	**5.1**	**4.0**	***-4.5%***	***17.9%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**(3.5)**	**(5.1)**	**(4.0)**		

Appendix 2. Free Cash Flow

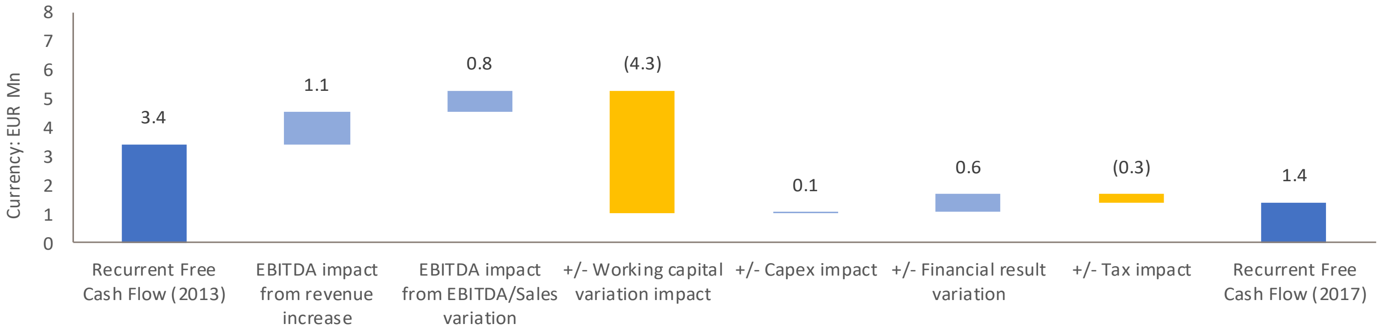
A) Cash Flow Analysis (EUR Mn)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 14-17	CAGR 17-20e
Recurrent EBITDA	**3.4**	**2.6**	**4.1**	**5.2**	**6.0**	**6.9**	**7.8**	***15.6%***	***14.2%***
Recurrent EBITDA growth	*0.9%*	*-22.6%*	*57.5%*	*26.6%*	*15.2%*	*15.1%*	*12.5%*		
Rec. EBITDA/Revenues (%)	*18.7%*	*13.2%*	*17.7%*	*20.4%*	*21.5%*	*22.4%*	*22.5%*		
+/- Working Capital increase	0.1	-1.2	(0.3)	(2.7)	(0.2)	0.1	(0.9)		
= Recurrent Operating Cash Flow	**3.5**	**1.4**	**3.8**	**2.6**	**5.8**	**7.1**	**6.9**	***-10.1%***	***39.3%***
Rec. Operating Cash Flow growth	*-29.0%*	*-60.2%*	*171.9%*	*-32.9%*	*125.7%*	*22.0%*	*-1.9%*		
Rec. Operating Cash Flow / Sales	*19.5%*	*7.1%*	*16.4%*	*10.0%*	*20.6%*	*22.8%*	*20.0%*		
- CAPEX	(0.4)	(0.6)	(0.4)	(0.9)	(1.5)	(1.9)	(2.6)		
- Net Financial Result affecting Cash Flow	(0.8)	(0.5)	(0.3)	(0.1)	(0.1)	0.0	0.1		
- Taxes	(0.6)	(0.2)	1.4	(0.2)	(1.0)	(1.0)	(1.2)		
= Recurrent Free Cash Flow	**1.7**	**0.1**	**4.5**	**1.4**	**3.2**	**4.2**	**3.2**	***-7.0%***	***32.3%***
Rec. Free Cash Flow growth	*-49.0%*	*-91.6%*	*n.a.*	*-68.9%*	*130.7%*	*29.4%*	*-22.5%*		
Rec. Free Cash Flow / Revenues	*9.5%*	*0.7%*	*19.2%*	*5.4%*	*11.4%*	*13.4%*	*9.3%*		
- Restructuring expenses & others	-	-	-	-	-	-	-		
- Acquisitions / + Divestments	0.9	0.0	(1.7)	0.9	0.3	0.9	0.8		
+/- Extraordinary Inc./Exp. affecting Cash Flow	(0.1)	0.0	0.0	0.2	-	-	-		
= Free Cash Flow	**2.5**	**0.2**	**2.8**	**2.4**	**3.5**	**5.1**	**4.0**	***-0.6%***	***17.9%***
Free Cash Flow growth	*-15.5%*	*-93.1%*	*n.a.*	*-11.3%*	*41.3%*	*46.1%*	*-20.7%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)	*1.9%*	*0.2%*	*5.0%*	*1.5%*	*3.6%*	*4.6%*	*3.6%*		
Free Cash Flow Yield (s/Mkt Cap)	*2.8%*	*0.2%*	*3.1%*	*2.7%*	*3.8%*	*5.6%*	*4.5%*		

B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2014	2015	2016	2017	2018e	2019e	2020e
Recurrent FCF(FY - 1)	**3.4**	**1.7**	**0.1**	**4.5**	**1.4**	**3.2**	**4.2**
EBITDA impact from revenue increase	(0.1)	0.3	0.5	0.4	0.5	0.6	0.8
EBITDA impact from EBITDA/Sales variation	0.1	(1.1)	1.1	0.7	0.3	0.3	0.1
= Recurrent EBITDA variation	**0.0**	**(0.8)**	**1.5**	**1.1**	**0.8**	**0.9**	**0.9**
+/- Working capital variation impact	(1.5)	(1.4)	0.9	(2.4)	2.4	0.4	(1.0)
= Recurrent Operating Cash Flow variation	**(1.4)**	**(2.1)**	**2.4**	**(1.3)**	**3.2**	**1.3**	**(0.1)**
+/- CAPEX impact	0.5	(0.2)	0.2	(0.4)	(0.6)	(0.4)	(0.7)
+/- Financial result variation	(0.0)	0.2	0.2	0.2	0.1	0.1	0.1
+/- Tax impact	(0.7)	0.4	1.5	(1.5)	(0.8)	(0.0)	(0.2)
= Recurrent Free Cash Flow variation	**(1.7)**	**(1.6)**	**4.3**	**(3.1)**	**1.8**	**0.9**	**(0.9)**
Recurrent Free Cash Flow	**1.7**	**0.1**	**4.5**	**1.4**	**3.2**	**4.2**	**3.2**

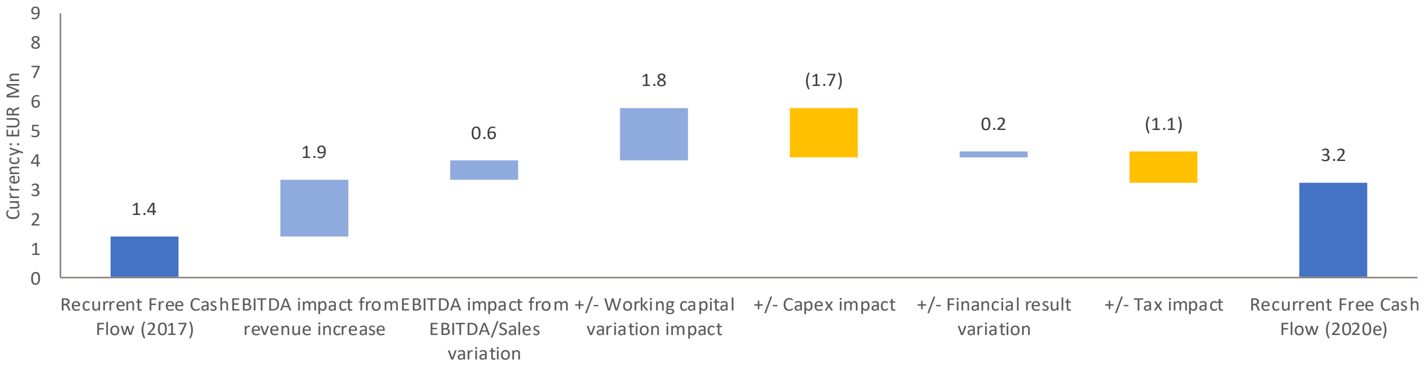
C) "FCF to the Firm" (pre debt service) (EUR Mn)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR 14-17	CAGR 17-20e
EBIT	**1.0**	**0.4**	**1.1**	**3.3**	**4.1**	**5.1**	**5.9**	***47.3%***	***21.3%***
** Theoretical tax rate*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*		
= Taxes (pre- Net Financial Result)(1)	(0.2)	(0.1)	(0.2)	(0.7)	(0.8)	(1.0)	(1.2)		
Recurrent EBITDA	**3.4**	**2.6**	**4.1**	**5.2**	**6.0**	**6.9**	**7.8**	***15.6%***	***14.2%***
+/- Working Capital increase	0.1	(1.2)	(0.3)	(2.7)	(0.2)	0.1	(0.9)		
= Recurrent Operating Cash Flow	**3.5**	**1.4**	**3.8**	**2.6**	**5.8**	**7.1**	**6.9**	***-10.1%***	***39.3%***
- CAPEX	(0.4)	(0.6)	(0.4)	(0.9)	(1.5)	(1.9)	(2.6)		
- Taxes (pre- Financial Result)	(0.2)	(0.1)	(0.2)	(0.7)	(0.8)	(1.0)	(1.2)		
= Recurrent Free Cash Flow (To the Firm)	**2.9**	**0.8**	**3.2**	**1.0**	**3.5**	**4.1**	**3.2**	***-28.8%***	***45.1%***
Rec. Free Cash Flow (To the Firm) growth	*-25.7%*	*-74.0%*	*321.2%*	*-67.1%*	*230.5%*	*19.7%*	*-22.8%*		
Rec. Free Cash Flow (To the Firm) / Revenues	0.2	0.0	0.1	0.0	0.1	0.1	0.1		
- Acquisitions / + Divestments	0.9	0.0	(1.7)	0.9	0.3	0.9	0.8		
+/- Extraordinary Inc./Exp. affecting Cash Flow	(0.1)	0.0	0.0	0.2	-	-	-		
= Free Cash Flow "To the Firm"	**3.8**	**0.8**	**1.6**	**2.1**	**3.8**	**5.2**	**4.1**	***-17.5%***	***24.0%***
Free Cash Flow (To the Firm) growth	*4.3%*	*-78.6%*	*95.8%*	*33.9%*	*78.9%*	*35.0%*	*-21.2%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)	*3.0%*	*0.8%*	*3.3%*	*1.1%*	*3.6%*	*4.3%*	*3.3%*		
Free Cash Flow "To the Firm" - Yield (o/EV)	*4.0%*	*0.9%*	*1.7%*	*2.2%*	*4.0%*	*5.4%*	*4.3%*		

Nota 1: Calculated with 20% of the theoretical tax rate.

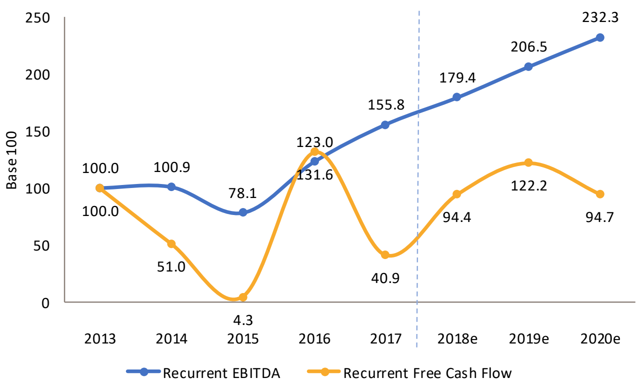
Recurrent Free Cash Flow accumulated variation analysis (2013 - 2017)



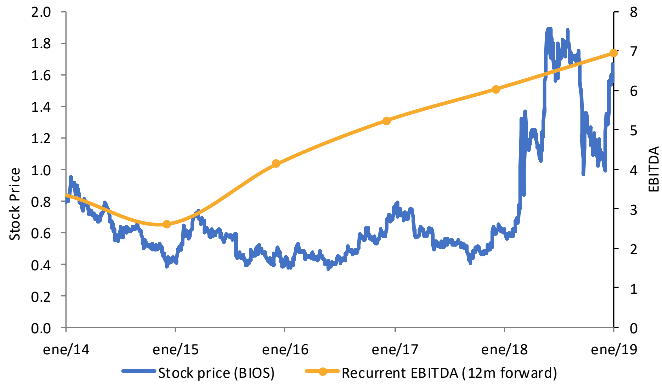
Recurrent Free Cash Flow estimated variation analysis (2017 - 2020e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. Historical performance (1)

Historical performance (EUR Mn)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018e	CAGR 07 - 17
Total Revenues	**10.3**	**21.5**	**20.0**	**20.5**	**17.5**	**17.3**	**18.6**	**18.2**	**19.9**	**23.3**	**25.7**	**28.1**	*9.5%*
Total Revenues growth	*20.7%*	*108.1%*	*-7.2%*	*2.7%*	*-14.9%*	*-1.1%*	*7.7%*	*-2.4%*	*9.5%*	*17.4%*	*10.3%*	*9.3%*	
EBITDA	**3.7**	**2.9**	**2.6**	**4.8**	**2.2**	**3.1**	**3.4**	**3.4**	**2.6**	**4.1**	**5.2**	**6.0**	*3.7%*
EBITDA growth	*49.6%*	*-19.3%*	*-10.2%*	*79.4%*	*-52.9%*	*37.5%*	*9.2%*	*0.9%*	*-22.6%*	*57.5%*	*26.6%*	*15.2%*	
EBITDA/Revenues	*35.3%*	*13.7%*	*13.2%*	*23.1%*	*12.8%*	*17.8%*	*18.1%*	*18.7%*	*13.2%*	*17.7%*	*20.4%*	*21.5%*	
Net Profit	**2.5**	**(0.1)**	**(9.4)**	**0.6**	**(4.1)**	**(0.9)**	**(0.1)**	**(0.5)**	**(0.3)**	**(3.3)**	**2.0**	**3.1**	*-2.0%*
Net Profit growth	*63.5%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*-77.5%*	*-92.1%*	*628.8%*	*-40.6%*	*955.1%*	*n.a.*	*49.8%*	
CAPEX	n.a.	n.a.	(2.1)	(2.7)	(0.7)	(1.1)	(0.9)	(0.4)	(0.6)	(0.4)	(0.9)	(1.5)	
CAPEX/Sales %	*n.a.*	*n.a.*	*10.5%*	*13.1%*	*4.1%*	*6.2%*	*5.0%*	*2.4%*	*2.9%*	*1.8%*	*3.4%*	*5.4%*	
Free Cash Flow	**4.6**	**(15.7)**	**8.2**	**1.4**	**(2.4)**	**(0.6)**	**2.9**	**2.5**	**0.2**	**2.8**	**2.4**	**3.5**	*-6.1%*
ND/EBITDA (x)(2)	-7.7x	6.0x	-0.1x	2.8x	6.5x	4.9x	3.7x	3.1x	3.8x	1.7x	0.9x	0.2x	
P/E (x)	49.4x	n.a.	n.a.	56.2x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	16.8x	29.4x	
EV/Sales (x)	9.1x	3.2x	2.7x	2.4x	2.2x	2.1x	2.8x	1.8x	1.9x	1.8x	1.5x	3.4x	
EV/EBITDA (x) (2)	25.8x	23.5x	20.3x	10.3x	16.9x	11.9x	15.5x	9.6x	14.1x	10.0x	7.2x	15.9x	
Absolute performance	*-9.0%*	*-58.0%*	*5.6%*	*-34.0%*	*-34.7%*	*-7.4%*	*84.0%*	*-44.2%*	*22.1%*	*26.6%*	*0.0%*	*66.7%*	
Relative performance vs Ibex 35	*-15.2%*	*-30.7%*	*-18.7%*	*-20.1%*	*-24.8%*	*-2.9%*	*51.5%*	*-46.2%*	*31.5%*	*29.2%*	*-6.9%*	*96.1%*	

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

Appendix 4. Main Competitors 2018e

	2018	Probiotics Industry				Omega-3	
	EUR Mn	*Probi AB*	Biogaia AB	Christian Hansen	Average	DSM	
Market data	Ticker (Reuters)	PROB.ST	BIOGb.ST	CHRH.CO		DSMN.AS	BIOS.MC
	Country	Sweden	Sweden	Denmark		Netherlands	Spain
	Market cap	408.2	584.5	10,926.3	3,973.0	14,837.7	90.0
	Enterprise value (EV)	404.3	561.5	11,685.3	4,217.0	15,552.7	95.9
Basic financial information	Total Revenues	60.3	70.4	1,192.0	440.9	9,255.0	28.1
	Total Revenues growth	*-3.1%*	*12.7%*	*8.6%*	*6.1%*	*7.2%*	*9.3%*
	2y CAGR (2018e - 2020e)	*0.0%*	*0.5%*	*0.0%*	*0.2%*	*0.1%*	*11.1%*
	EBITDA	16.3	27.2	423.6	155.7	1,793.8	6.0
	EBITDA growth	*-4.8%*	*11.0%*	*10.3%*	*5.5%*	*27.2%*	*15.2%*
	2y CAGR (2018e - 2020e)	*0.0%*	*0.8%*	*0.0%*	*0.3%*	*0.0%*	*13.8%*
	EBITDA/Revenues	*27.0%*	*38.7%*	*35.5%*	*33.7%*	*19.4%*	*21.5%*
	Net Profit	9.4	20.6	261.2	97.0	1,020.1	3.1
	Net Profit growth	*33.2%*	*12.2%*	*14.5%*	*20.0%*	*56.5%*	*49.8%*
	2y CAGR (2018e - 2020e)	*-4.3%*	*0.7%*	*0.0%*	*-1.2%*	*-0.1%*	*19.5%*
	Capex	*1*	*3.3*	*120.3*	*41.7*	*610.4*	*-1.5*
	CAPEX/Sales %	*2.3%*	*4.7%*	*10.1%*	*5.7%*	*6.6%*	*5.4%*
	Free Cash Flow	7.9	16.5	184.7	69.7	823.4	3.5
	Net financial debt	4.7	(29.4)	653.1	209.5	643.5	1.1
	ND/EBITDA (x)	0.3	(1.1)	1.5	0.2	0.4	0.2
	Outstanding Shares	11.4	17.3	131.8	53.5	175.5	57.7
	Pay-out	*17.1%*	*74.3%*	*76.8%*	*56.1%*	*37.8%*	*0.0%*
Multiples and Ratios	P/E (x)	47.2	29.8	42.4	39.8	14.1	29.4
	P/BV (x)	4.3	12.2	13.0	9.8	1.9	3.8
	EV/Revenues (x)	6.7	8.0	9.8	8.2	1.7	3.4
	EV/EBITDA (x)	24.8	20.6	27.6	24.3	8.7	15.9
	ROE	*9.5*	*43.4*	*31.6*	*28.2*	*14.3*	*13.8*
	FCF Yield (%)	*1.9*	*2.8*	*1.7*	*2.1*	*5.5*	*3.6*
	DPS	*0.1*	*0.9*	*1.5*	*0.8*	*2.2*	*-*
	Price Close	*35.1*	*35.3*	*83.2*	*51.2*	*82.1*	*1.6*
	Dvd Yield	*0.4%*	*2.5%*	*1.8%*	*1.6%*	*2.7%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
31/01/2019	n.a.	1.56	n.a.	n.a	Initiation of Coverage	Ana Isabel González García