

6m Results 2019

 Opinion ⁽¹⁾: Below expectations.

 Impact ⁽¹⁾: We have reviewed our estimates.

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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 (78% of revenues). A former subsidiary of the former EBRO-Puleva, its core shareholder remains the Lactalis group (30% of capital)

Market Data

Market Cap (Mn EUR and USD)	59.1	65.8
EV (Mn EUR and USD)	60.8	67.7
Shares Outstanding (Mn)	57.7	
-12m (Max/Med/Mín EUR)	1.88 / 1.39 / 0.97	
Daily Avg volume (-12m Mn)	0.45	
Rotation ⁽²⁾	196.2	
Thomson Reuters / Bloomberg	BIOS.MC / BIO SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

Lactalis Group	29.5
Pescaderías Coruñesas, S.A.	10.0
Free Float	60.5

Financials (Mn EUR)

	2018	2019e	2020e	2021e
Adj. nº shares (Mn)	57.7	57.7	57.7	57.7
Total Revenues	27.2	25.2	29.1	35.5
Rec. EBITDA	5.7	3.3	4.9	7.1
% growth	9.0	-41.1	46.9	44.2
% Rec. EBITDA/Rev.	20.8	13.2	16.8	19.9
% Inc. EBITDA sector ⁽³⁾	4.2	11.4	7.7	7.4
Net Profit	3.3	1.3	2.6	4.2
EPS (EUR)	0.06	0.02	0.05	0.07
% growth	64.9	-59.7	98.3	59.9
Ord. EPS (EUR)	0.06	0.03	0.05	0.07
% growth	78.8	-54.5	75.4	59.9
Rec. Free Cash Flow ⁽⁴⁾	3.7	1.5	1.7	1.8
Pay-out (%)	0.0	0.0	0.0	0.0
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	3.4	1.2	-1.3	-3.7
ND/Rec. EBITDA (x)	0.6	0.4	-0.3	-0.5
ROE (%)	15.1	5.6	10.3	14.6
ROCE (%) ⁽⁵⁾	13.6	5.6	10.7	15.8

Ratios & Multiples (x)

	2018	2019e	2020e	2021e
P/E	17.8	44.3	22.3	14.0
Ord. P/E	17.8	39.1	22.3	14.0
P/BV	2.6	2.4	2.2	1.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
EV/Sales	2.24	2.41	2.09	1.71
EV/Rec. EBITDA	10.7	18.2	12.4	8.6
FCF Yield (%) ⁽³⁾	6.2	2.6	2.9	3.0

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

- (1) The opinion about results is in respect of reported EBITDA and its relation to our estimate for the year (12m). The impact reflects whether, as a consequence of these results, we envisage a significant (>5%) upgrade or downgrade to our EBITDA estimates (for any of the estimated years).
- (2) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
- (3) Expected EBITDA growth (consensus) for the share's benchmark sector (Eurostoxx 600 Health Care).
- (4) Based on recurrent FCF. Please refer to Appendix 2.
- (5) Calculated with a theoretical tax rate. Please refer to Appendix 2.
- (6) vs Eurostoxx 600 Health Care.

A 1H "Horribilis": the potential improvement in revenues/margins in 2019 (a year of inflection) is melting away

DECLINE IN REVENUES (-16.8% YOY VS. 1H18) due to the poor performance of the probiotics division (-42.9% YoY in 1H, vs. -29.6% YoY in 1Q), that continues to be impacted by the cumulative delay to the marketing schedule agreed with Nestlé (+1y) and by the suspension of the annual orders of one of its main clients in Asia (associated with poor internal inventory management which resulted in an excess of orders in 2018). The latter accounted for c. 25% of the revenues of the probiotics line in 1H18. BIOS is negotiating new marketing agreements to mitigate this impact. Also, growth in the lipids line slowed (+4.9% YoY in 1H, vs. +16% in 1Q19), while there was an acceleration in the decline in revenues in the extracts line (-15.6% YoY in 1H, vs. -6.2% in 1Q19) reflecting an increase in competition. Both divisions have been affected by demanding comps (2Q18 accounted respectively for 32% and 30% of the 2018 revenues of these business lines).

SIGNIFICANT DETERIORATION OF THE EBITDA/REVENUES MARGIN (9.0%, -12.2 P.P. YoY), due to a worse revenue mix: probiotics (the company's most lucrative business line) contributed 19.1% of consolidated revenue (-8.8p.p. YoY), with an increase in the contribution of the lines with smaller margins (+9.3p.p. in lipids and +0.5p.p. in extracts, with 44.8% and 34.2% of revenue respectively). This mix has resulted in a 64.6% YoY decline in EBITDA, despite discipline on costs (-3.1% YoY for OPEX). The company plans to implement measures to accelerate operating cost reduction in 2H (c.6% YoY).

INCREASED DEBT (+12% YoY) which contrasts with the reduction seen in 1Q (-24% YoY), with an acceleration of Capex (0.7Mn, +1.6x vs. 1H18). Cash inflows tied to contracts (> EUR 1Mn) will reduce the gearing ratio (this was 1.1x ND/EBITDA in 1H) supporting cash generation in 2H (recurrent FCF 1.5 in 2019e).

THESE POOR RESULTS LEAD US TO DOWNGRADE OUR ESTIMATES, due to the worse than expected performance of the probiotics division (EBITDA 2019e -51.7% vs. previous estimate).

Relative performance -5y (Base 100)

Stock performance (%)

	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	-19.1	-30.1	-43.1	3.2	130.1	62.5
vs Ibex 35	-19.3	-27.8	-39.1	-4.3	114.4	92.3
vs Ibex Small Cap Index	-18.6	-26.6	-35.0	-3.8	61.8	32.5
vs Eurostoxx 50	-20.3	-30.5	-43.1	-12.1	95.3	47.2
vs Sector benchmark ⁽⁶⁾	-21.2	-34.3	-46.7	-11.4	114.9	28.8

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This report has been prepared on the basis of information available to the public. The report includes a financial analysis of the company covered. The report does not propose any personalised investment recommendation. Investors should consider the contents of this report as just another element in their investment decision-making process. The final two pages of this report contain very important legal information regarding its contents.

1H19 Results and estimates review

2019 a year of inflection. We downgrade our estimates

Chart 1. Half year revenues vs. EBITDA/Revenues

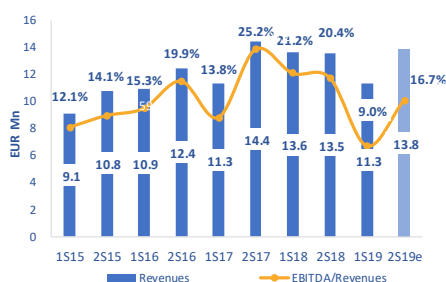
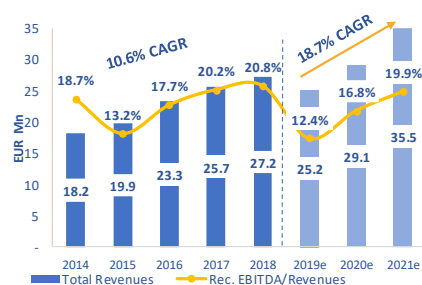
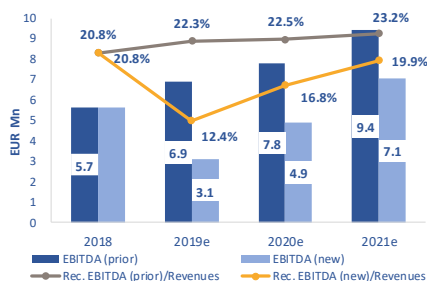


Chart 2. Revenues vs. Recurrent EBITDA/Revenues



Note: EUR -0.2Mn non recurrent impact 2019e

Chart 3. Estimates review impact in recurrent EBITDA and Rec. EBITDA/Revenues



These weak results position the biotech company at a turning point this year: 1) -16.8% YoY in 1H19 revenues, vs. +10.6% CAGR 2014-2018, with an EBITDA/Revenue margin of 9%, -12.2p.p. vs. the close to highs reached in 1H18.

The probiotics division, vital to the business model, has suffered a “perfect storm”, recording -60.8% YoY in 2Q, especially hit by the suspension of orders in Asia (responsible for c. 30% of the fall in half-year EBITDA). However, the company rules out unfair competition in that market for its products, with its client expected to renew orders in 2020e, although in a smaller amount than in 2018 (c. -40%). Moreover, the delays to the marketing schedule agreed with Nestlé have also been a serious setback for the division, with the schedule of launches being put back +1y, limiting their softening effect on the decline in revenues.

Table 1. 1H 2019 results

	1H19 (Real)	1H18	1H19 (Real) vs 1H18	2019e vs 2019e	2018	2Q19	2Q19 vs 2Q18
Total Revenues	11.3	13.6	-16.8%	25.2	-7.3%	5.7	-23%
Lipids	5.1	4.8	4.9%	10.6	15.0%	2.9	-2.3%
Probiotics	2.2	3.8	-42.9%	5.9	-25.1%	0.6	-60.8%
Extracts	3.9	4.6	-15.6%	8.0	-10.3%	2.1	-22.4%
Services	0.2	0.4	-45.2%	0.5	-62.3%	0.1	-32.3%
Rec. EBITDA	1.0	2.9	-64.6%	3.3	-41.1%	0.2	-89.3%
Rec. EBITDA / Rev.	9.0%	21.2%	-12.2 p.p.	13.2%	-7.6 p.p.	n.a.	n.a.
EBITDA	1.0	2.9	-64.6%	3.1	-44.7%	0.2	-89.3%
EBITDA / Rev.	9.0%	21.2%	-12.2 p.p.	12.4%	-8.4 p.p.	n.a.	n.a.
EBIT	0.3	2.1	-86.8%	1.6	-62.7%	n.a.	n.a.
NP	0.2	1.5	-88.5%	1.3	-59.7%	n.a.	n.a.
Ordinary NP	0.3	2.1	-86.0%	1.5	-54.6%	n.a.	n.a.
Rec. FCF	-2.2	-3.6	-37.7%	1.5	-58.4%		
Rec. FCF Yield	n.a.	n.a.	n.a.	2.2%	-3.0 p.p.		
Net Debt	4.4	4.0	12%	1.2	-65%		
ND / EBITDA	1.1 x	0.6 x	1.9 x	0.4 x	0.6 x		

For this reason we downgrade our estimates for 2019-2021e.

BIOS's margins are especially vulnerable to fluctuations in the revenue of its probiotics business line, so the reduced expectations for this division lead us to adjust our projections for the company:

- **Revenues EUR 25.2Mn (-7.3% YoY and -18.7% vs. our previous estimate):** due to the delay to the marketing launches of Nestlé and the suspension of orders by its main Asian client and tougher competition in the extracts segment, together accounting for c. 90% of the revision to revenues. The decline in revenues is likely to slow in 2H, underpinned by the start of the marketing of probiotics in conjunction with its Swiss partner.
- **EBITDA EUR 3.1Mn (-41.1% YoY and -51.7% vs. previous estimate):** due to the worse revenue mix (contribution by probiotics -12p.p. vs previous estimate, lipids +10p.p. and extracts +1p.p.), the impact of which cannot be offset by lower operating costs (c.-6.5% YoY).
- **NP EUR 1.3Mn (-88.5% YoY and -67.2% vs. previous estimate):** as a result of the adjustments made, which include a 2019-2021e average effective tax rate of 16.7% (<13% in 2019e), based on the offsetting of tax losses.

The resumption of the supply of probiotics to its Asian client in 2020e, the growing contribution of Nestlé revenues, together with growth in lipids backed by favourable European regulations (increased use of omega-3 in infant formulas) will underpin revenue growth after this year of inflection (CAGR 18.7% 2019-2021e, on the back of +37.8% in probiotics, +11.8% in lipids and +14.3% in extracts, due to the growing penetration of Caronisitol).

Table 1. Review of estimates

EUR Mn	2019e (New)	2019e	Review (%)	2020e (New)	2020e	Review (%)	2021e
Total Revenues	25.2	31.0	-18.7%	29.1	34.7	-16.1%	35.5
Recurrent EBITDA	3.3	6.9	-51.7%	4.9	7.8	-37.1%	7.1
<i>Recurrent EBITDA growth</i>	<i>-41.1%</i>	<i>21.8%</i>	<i>-62.9 p.p.</i>	<i>46.9%</i>	<i>12.9%</i>	<i>34.0 p.p.</i>	<i>44.2%</i>
<i>Rec. EBITDA/Revenues</i>	<i>13.2%</i>	<i>22.3%</i>	<i>-9.0 p.p.</i>	<i>16.8%</i>	<i>22.5%</i>	<i>-5.6 p.p.</i>	<i>19.9%</i>
Net Profit	1.3	4.1	-67.2%	2.6	4.7	-43.3%	4.2
Recurrent Free Cash Flow	1.5	3.6	-58.1%	1.7	3.3	-49.2%	1.8
<i>ND / EBITDA</i>	<i>0.4 x</i>	<i>-0.2 x</i>	<i>0.5 x</i>	<i>-0.3 x</i>	<i>-0.7 x</i>	<i>0.4 x</i>	<i>-0.5 x</i>

Also, we expect good news regarding the pipeline in 2H: BIOS is carrying out clinical trials with a new strain, for target populations additional to infants and women's health. In addition, the biotech company is taking part in studies to improve the stability of its probiotics, something that will allow it to open up new vias of growth with respect to the food industry, with new pipeline products likely to be launched in the short/medium term.

	Revenues 2023e	CAGR 2018e- 2023e	EBITDA 2023e	CAGR 2018e- 2023e	Pipeline's NAV (*)	Pipeline/EV (%)(*)
Positive Scenario	51.2	14.7%	11.4	15.0%	112	184.5%
Base Scenario	51.2	14.7%	11.4	15.0%	60	98.8%
Negative Scenario	47.0	12.8%	10.5	13.1%	15	25.2%

(*) 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 (10% wacc). Success probabilities: c.55% (Base scenario), 100% (Positive scenario) & 15% (Negative scenario).

Valuation inputs

Inputs for the DCF Valuation Approach

	2019e	2020e	2021e	Terminal Value ⁽¹⁾		
Free Cash Flow "To the Firm"	2.7	2.5	2.5	30		
Market Cap	59.1	At the date of this report				
Net financial debt	3.4	Debt net of Cash (last financial year)				
					Best Case	Worst Case
Cost of Debt	2.0%	Net debt cost			2.0%	2.5%
Effective tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	1.6%	Kd = Cost of Net Debt * (1-T)			1.6%	2.0%
Risk free rate (rf)	0.4%	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	8.5%	Ke = Rf + (R * B)			8.1%	10.8%
Equity / (Equity + Net Debt)	94.5%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	5.5%	D			=	=
WACC	8.2%	WACC = Kd * D + Ke * E			7.7%	10.3%
G "Reasonable"	2.0%				2.5%	1.5%

(1) Perpetuo calculado sobre Free Cash Flow "to the Firm" recurrente del último año estimado. Para más detalle ver Anexo 2.

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 19e	EPS 19e-21e	EV/EBITDA 19e	EBITDA 19e-21e	EV/Sales 19e	Revenues 19e-21e	EBITDA/Sales 19e	FCF Yield 19e	FCF 19e-21e
Probi AB	PROB.ST	336.0	25.0	3.1%	13.5	2.0%	4.6	8.7%	33.8%	2.2%	-8.1%
Biogaia AB	BIOGb.ST	631.6	26.5	23.0%	22.7	21.9%	7.8	18.0%	34.4%	3.3%	15.9%
Christian Hansen	CHRH.CO	10,731.0	38.0	8.7%	26.9	7.7%	9.6	6.7%	35.7%	1.9%	5.0%
Pobiotic Industry			29.9	11.6%	21.0	10.6%	7.3	11.1%	34.6%	2.5%	4.2%
DSM	DSMN.AS	20,610.8	14.4	11.8%	13.0	9.5%	2.3	5.4%	17.5%	3.2%	5.1%
Omega 3 Industry			14.4	11.8%	13.0	9.5%	2.3	5.4%	17.5%	3.2%	5.1%
Biosearch	BIOS.MC	59.1	52.9	78.1%	21.70	50.1%	2.87	18.7%	12.4%	2.4%	0.7%

Free Cash Flow sensitivity analysis (2020e)

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

Scenario	EBITDA/Sales 20e	EBITDA 20e	EV/EBITDA 20e
Max	17.8%	5.2	11.7x
Central	16.8%	4.9	12.4x
Min	15.8%	4.6	13.2x

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

Rec. FCF EUR Mn	CAPEX/Sales 20e			Scenario	FCF/Yield 20e		
	EBITDA 20e	6.7%	7.7%		8.7%	Max	Central
5.2	2.3	2.0	1.7	Max	3.9%	3.4%	2.9%
4.9	2.0	1.7	1.4	Central	3.4%	2.9%	2.4%
4.6	1.7	1.4	1.1	Min	2.9%	2.4%	1.9%

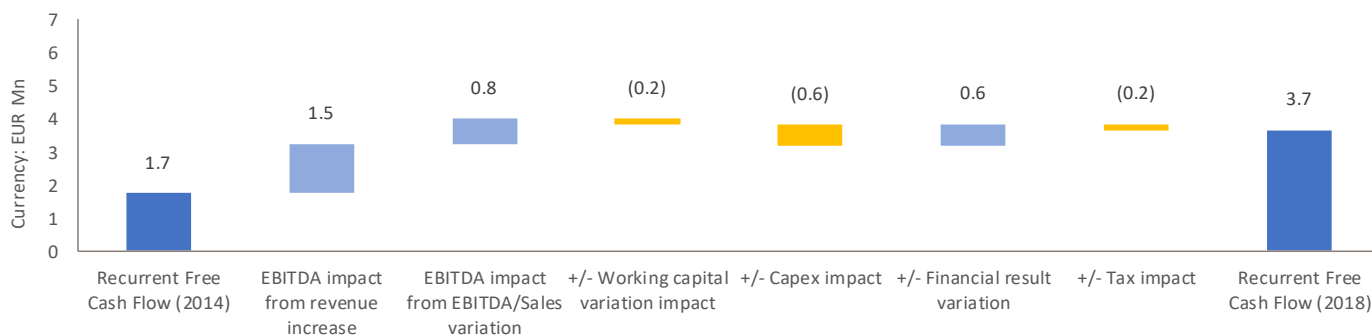
Appendix 1. Financial Statements

Balance Sheet (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e		
Intangible assets	1.5	1.2	0.8	0.8	1.0	1.5	2.1	2.8		
Fixed assets	11.5	10.2	8.9	8.7	8.1	8.0	8.0	8.4		
Other Non Current Assets	6.3	6.3	7.3	5.7	5.1	4.9	4.9	4.9		
Financial Investments	0.1	0.1	0.1	0.1	2.1	2.1	2.1	2.1		
Goodwill & Other Intangibles	7.5	7.5	1.3	-	-	-	-	-		
Current assets	11.0	12.9	13.5	15.4	14.9	15.3	16.4	18.9		
Total assets	37.9	38.1	31.8	30.7	31.2	31.7	33.4	37.1		
Equity	22.6	22.5	18.8	20.7	23.1	24.3	26.9	31.1		
Minority Interests	-	-	-	-	-	-	-	-		
Provisions & Other L/T Liabilities	0.9	1.0	1.2	0.6	0.3	1.2	2.0	2.7		
Net financial debt	10.4	10.0	6.9	4.5	3.4	1.2	(1.3)	(3.7)		
Current Liabilities	3.9	4.6	4.8	4.9	4.3	5.0	5.8	7.0		
Equity & Total Liabilities	37.9	38.1	31.8	30.7	31.2	31.7	33.4	37.1		
									CAGR	
P&L (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e	14-18	18-21e
Total Revenues	18.2	19.9	23.3	25.7	27.2	25.2	29.1	35.5	10.6%	9.3%
<i>Total Revenues growth</i>	-2.4%	9.5%	17.4%	10.3%	5.6%	-7.3%	15.5%	22.0%		
COGS	(5.1)	(6.4)	(7.1)	(8.4)	(7.7)	(9.2)	(9.7)	(11.2)		
Gross Margin	13.0	13.5	16.3	17.3	19.4	16.0	19.3	24.2	10.6%	7.6%
<i>Gross Margin/Revenues</i>	71.7%	67.8%	69.7%	67.3%	71.5%	63.6%	66.5%	68.3%		
Personnel Expenses	(4.9)	(5.4)	(6.2)	(6.7)	(7.6)	(7.5)	(7.5)	(7.8)		
Other Operating Expenses	(4.7)	(5.5)	(5.9)	(5.4)	(6.2)	(5.2)	(7.0)	(9.3)		
Recurrent EBITDA	3.4	2.6	4.1	5.2	5.7	3.3	4.9	7.1	13.6%	7.6%
<i>Recurrent EBITDA growth</i>	0.9%	-22.6%	57.5%	25.5%	9.0%	-41.1%	46.9%	44.2%		
<i>Rec. EBITDA/Revenues</i>	18.7%	13.2%	17.7%	20.2%	20.8%	13.2%	16.8%	19.9%		
Restructuring Expenses	-	-	-	-	-	-	-	-		
Other non-recurrent Income / Costs	-	-	-	-	-	(0)	-	-		
EBITDA	3.4	2.6	4.1	5.2	5.7	3.1	4.9	7.1	13.6%	7.6%
<i>EBITDA growth</i>	0.9%	-22.6%	57.5%	25.5%	9.0%	-44.7%	56.3%	44.2%		
<i>EBITDA/Sales</i>	18.7%	13.2%	17.7%	20.2%	20.8%	12.4%	16.8%	19.9%		
Depreciation & Provisions	(2.4)	(2.3)	(3.0)	(1.9)	(1.6)	(1.6)	(1.6)	(1.7)		
Capitalized Expense	-	-	-	-	0.1	-	-	-		
EBIT	1.0	0.4	1.1	3.3	4.2	1.6	3.2	5.3	42.3%	8.0%
<i>EBIT growth</i>	43.9%	-64.8%	208.5%	192.7%	29.0%	-62.7%	105.7%	64.0%		
<i>EBIT/Revenues</i>	5.7%	1.8%	4.8%	12.7%	15.6%	6.3%	11.2%	15.0%		
Impact of Goodwill & Others	(0.1)	(0.0)	(5.5)	(1.1)	(0.0)	-	-	-		
Net Financial Result	(0.8)	(0.5)	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)		
Income by the Equity Method	-	-	-	-	-	-	-	-		
Ordinary Profit	0.2	(0.2)	(4.7)	2.0	4.1	1.5	3.2	5.3	<i>n.a.</i>	9.1%
<i>Ordinary Profit Growth</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	103.3%	-62.6%	109.2%	66.1%		
Extraordinary Results	(0.1)	0.0	0.0	0.2	-	-	-	-		
Profit Before Tax	0.1	(0.2)	(4.7)	2.2	4.1	1.5	3.2	5.3	<i>n.a.</i>	9.1%
Tax Expense	(0.6)	(0.2)	1.4	(0.2)	(0.8)	(0.2)	(0.5)	(1.1)		
<i>Effective Tax Rate</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	7.8%	18.9%	12.6%	17.2%	20.3%		
Minority Interests	-	-	-	-	-	-	-	-		
Discontinued Activities	-	-	-	-	-	-	-	-		
Net Profit	(0.5)	(0.3)	(3.3)	2.0	3.3	1.3	2.6	4.2	<i>n.a.</i>	8.5%
<i>Net Profit growth</i>	628.8%	-40.6%	955.1%	<i>n.a.</i>	64.9%	-59.7%	98.3%	59.9%		
Ordinary Net Profit	0.2	(0.2)	(4.7)	1.9	3.3	1.5	2.6	4.2	<i>n.a.</i>	8.5%
<i>Ordinary Net Profit growth</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	78.8%	-54.5%	75.4%	59.9%		
									CAGR	
Cash Flow (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e	14-18	18-21e
Recurrent EBITDA						3.3	4.9	7.1	13.6%	7.6%
Working Capital Increase						0.3	(0.3)	(1.4)		
Recurrent Operating Cash Flow						3.7	4.5	5.7	12.2%	0.6%
CAPEX						(1.9)	(2.2)	(2.8)		
Net Financial Result affecting the Cash Flow						(0.1)	(0.1)	(0.0)		
Tax Expense						(0.2)	(0.5)	(1.1)		
Recurrent Free Cash Flow						1.5	1.7	1.8	20.6%	-21.3%
Restructuring Expense & Others						(0.2)	-	-		
- Acquisitions / + Divestures of assets						1.1	0.8	0.7		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						2.4	2.5	2.4	-8.2%	11.4%
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						(2.4)	(2.5)	(2.4)		

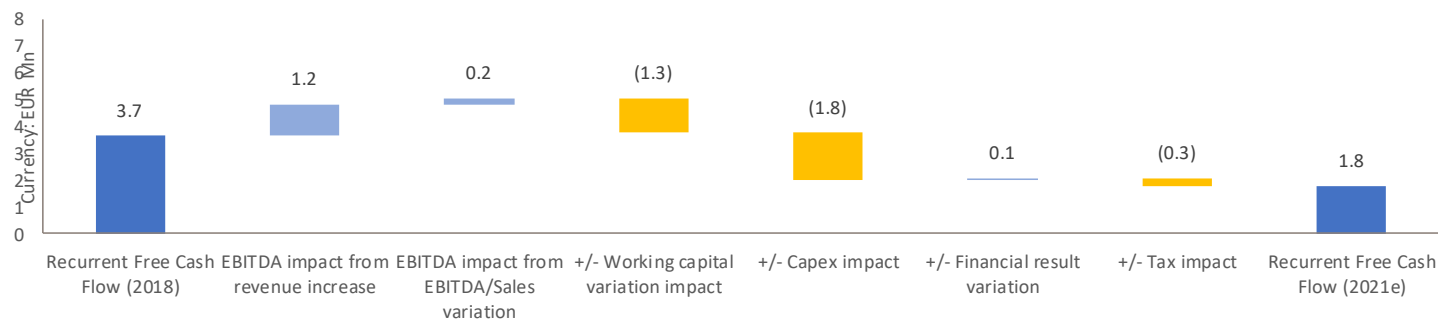
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR	
								15-18	18-21e
Recurrent EBITDA	2.6	4.1	5.2	5.7	3.3	4.9	7.1	29.1%	7.6%
<i>Recurrent EBITDA growth</i>	-22.6%	57.5%	25.5%	9.0%	-41.1%	46.9%	44.2%		
<i>Rec. EBITDA/Revenues</i>	13.2%	17.7%	20.2%	20.8%	13.2%	16.8%	19.9%		
+/- Working Capital increase	(1.2)	-0.3	(1.9)	(0.1)	0.3	(0.3)	(1.4)		
= Recurrent Operating Cash Flow	1.4	3.8	3.3	5.6	3.7	4.5	5.7	58.5%	0.6%
<i>Rec. Operating Cash Flow growth</i>	-60.2%	171.9%	-13.8%	69.9%	-34.8%	24.3%	25.4%		
<i>Rec. Operating Cash Flow / Sales</i>	7.1%	16.4%	12.8%	20.6%	14.5%	15.6%	16.1%		
- CAPEX	(0.6)	(0.4)	(0.9)	(1.1)	(1.9)	(2.2)	(2.8)		
- Net Financial Result affecting Cash Flow	(0.5)	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)	(0.0)		
- Taxes	(0.2)	1.4	(0.2)	(0.8)	(0.2)	(0.5)	(1.1)		
= Recurrent Free Cash Flow	0.1	4.5	2.1	3.7	1.5	1.7	1.8	<i>n.a.</i>	-21.3%
<i>Rec. Free Cash Flow growth</i>	-91.6%	n.a.	-52.9%	73.6%	-58.4%	11.6%	5.0%		
<i>Rec. Free Cash Flow / Revenues</i>	0.7%	19.2%	8.2%	13.5%	6.0%	5.8%	5.0%		
- Restructuring expenses & others	-	-	-	(0.1)	(0.2)	-	-		
- Acquisitions / + Divestments	0.0	(1.7)	0.0	(1.7)	1.1	0.8	0.7		
+/- Extraordinary Inc./Exp. affecting Cash Flow	0.0	0.0	0.2	-	-	-	-		
= Free Cash Flow	0.2	2.8	2.3	1.8	2.4	2.5	2.4	<i>n.a.</i>	11.4%
<i>Free Cash Flow growth</i>	-93.1%	n.a.	-15.7%	-23.9%	36.3%	3.1%	-1.6%		
<i>Recurrent Free Cash Flow - Yield (s/Mkt Cap)</i>	0.2%	7.6%	3.6%	5.2%	2.2%	2.4%	2.5%		
<i>Free Cash Flow Yield (s/Mkt Cap)</i>	0.3%	4.7%	3.3%	2.5%	3.4%	3.5%	3.5%		
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)									
	2015	2016	2017	2018	2019e	2020e	2021e		
Recurrent FCF(FY - 1)	1.7	0.1	4.5	2.1	3.7	1.5	1.7		
EBITDA impact from revenue increase	0.3	0.5	0.4	0.3	(0.4)	0.5	1.1		
EBITDA impact from EBITDA/Sales variation	(1.1)	1.1	0.6	0.2	(1.9)	1.0	1.1		
= Recurrent EBITDA variation	(0.8)	1.5	1.1	0.5	(2.3)	1.6	2.2		
+/- Working capital variation impact	(1.4)	0.9	(1.6)	1.8	0.4	(0.7)	(1.0)		
= Recurrent Operating Cash Flow variation	(2.1)	2.4	(0.5)	2.3	(2.0)	0.9	1.2		
+/- CAPEX impact	(0.2)	0.2	(0.4)	(0.2)	(0.8)	(0.4)	(0.6)		
+/- Financial result variation	0.2	0.2	0.1	0.0	0.1	-	0.0		
+/- Tax impact	0.4	1.5	(1.5)	(0.6)	0.6	(0.4)	(0.5)		
= Recurrent Free Cash Flow variation	(1.6)	4.3	(2.4)	1.6	(2.1)	0.2	0.1		
Recurrent Free Cash Flow	0.1	4.5	2.1	3.7	1.5	1.7	1.8		
C) "FCF to the Firm" (pre debt service) (EUR Mn)									
	2015	2016	2017	2018	2019e	2020e	2021e	CAGR	
EBIT	0.4	1.1	3.3	4.2	1.6	3.2	5.3	<i>n.a.</i>	8.0%
* Theoretical tax rate	0.0%	0.0%	7.8%	18.9%	12.6%	17.2%	20.3%		
= Taxes (pre- Net Financial Result)	-	-	(0.3)	(0.8)	(0.2)	(0.6)	(1.1)		
Recurrent EBITDA	2.6	4.1	5.2	5.7	3.3	4.9	7.1	29.1%	7.6%
+/- Working Capital increase	(1.2)	(0.3)	(1.9)	(0.1)	0.3	(0.3)	(1.4)		
= Recurrent Operating Cash Flow	1.4	3.8	3.3	5.6	3.7	4.5	5.7	58.5%	0.6%
- CAPEX	(0.6)	(0.4)	(0.9)	(1.1)	(1.9)	(2.2)	(2.8)		
- Taxes (pre- Financial Result)	-	-	(0.3)	(0.8)	(0.2)	(0.6)	(1.1)		
= Recurrent Free Cash Flow (To the Firm)	0.8	3.4	2.2	3.8	1.6	1.7	1.8	65.6%	-21.8%
<i>Rec. Free Cash Flow (To the Firm) growth</i>	-71.0%	311.4%	-35.9%	72.1%	-58.3%	11.1%	3.1%		
<i>Rec. Free Cash Flow (To the Firm) / Revenues</i>	0.0	0.1	0.1	0.1	0.1	0.1	0.1		
- Acquisitions / + Divestments	0.0	(1.7)	0.0	(1.7)	1.1	0.8	0.7		
+/- Extraordinary Inc./Exp. affecting Cash Flow	0.0	0.0	0.2	-	-	-	-		
= Free Cash Flow "To the Firm"	0.9	1.7	2.4	2.0	2.7	2.5	2.5	33.1%	6.9%
<i>Free Cash Flow (To the Firm) growth</i>	-76.4%	98.1%	42.1%	-16.2%	31.9%	-4.8%	-2.8%		
<i>Rec. Free Cash Flow To the Firm Yield (o/EV)</i>	1.4%	5.6%	3.6%	5.2%	2.2%	2.4%	2.5%		
<i>Free Cash Flow "To the Firm" - Yield (o/EV)</i>	1.4%	2.8%	3.3%	2.8%	3.7%	3.5%	3.4%		

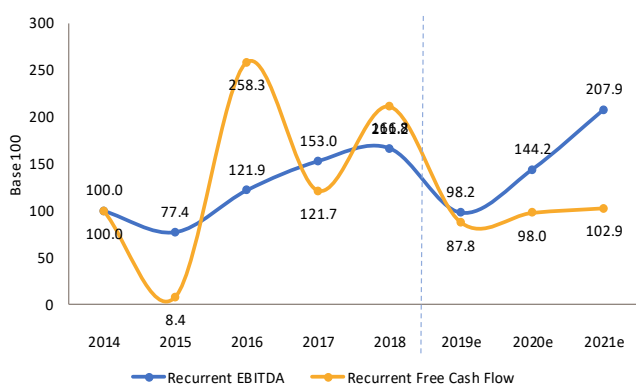
Recurrent Free Cash Flow accumulated variation analysis (2014 - 2018)



Recurrent Free Cash Flow accumulated variation analysis (2018 - 2021e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward



Appendix 3. Historical performance ⁽¹⁾

Historical performance (EUR Mn)													CAGR			
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	08-18	18-21e
Total Revenues	21.5	20.0	20.5	17.5	17.3	18.6	18.2	19.9	23.3	25.7	27.2	25.2	29.1	35.5	2.3%	9.3%
Total Revenues growth	108.1%	-7.2%	2.7%	-14.9%	-1.1%	7.7%	-2.4%	9.5%	17.4%	10.3%	5.6%	-7.3%	15.5%	22.0%		
EBITDA	2.9	2.6	4.8	2.2	2.5	3.5	3.4	2.6	4.1	5.2	5.7	3.1	4.9	7.1	6.7%	7.6%
EBITDA growth	-19.3%	-10.2%	79.4%	-52.9%	13.3%	39.4%	-4.0%	-22.6%	57.5%	25.5%	9.0%	-44.7%	56.3%	44.2%		
EBITDA/Sales	13.7%	13.2%	23.1%	12.8%	14.7%	19.0%	18.7%	13.2%	17.7%	20.2%	20.8%	12.4%	16.8%	19.9%		
Net Profit	(0.1)	(9.4)	0.6	(4.1)	(0.9)	(0.1)	(0.5)	(0.3)	(3.3)	2.0	3.3	1.3	2.6	4.2	n.a.	8.5%
Net Profit growth	n.a.	n.a.	n.a.	n.a.	-77.5%	-92.1%	628.8%	-40.6%	955.1%	n.a.	64.9%	-59.7%	98.3%	59.9%		
Adjusted number shares (Mn)	57.5	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7	57.7		
EPS (EUR)	n.a.	n.a.	0.01	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.03	0.06	0.02	0.05	0.07		
EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	64.9%	-59.7%	98.3%	59.9%		
Ord. EPS (EUR)	n.a.	n.a.	0.01	n.a.	n.a.	n.a.	0.00	n.a.	n.a.	0.03	0.06	0.03	0.05	0.07		
Ord. EPS growth	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	78.8%	-54.5%	75.4%	59.9%		
CAPEX	-	2.1	2.7	0.7	1.1	0.9	(0.4)	(0.6)	(0.4)	(0.9)	(1.1)	(1.9)	(2.2)	(2.8)		
CAPEX/Sales %	0.0%	n.a.	n.a.	n.a.	n.a.	n.a.	2.4%	2.9%	1.8%	3.4%	3.9%	7.5%	7.7%	8.0%		
Free Cash Flow	(15.7)	8.2	1.4	(2.4)	(0.6)	2.1	2.5	0.2	2.8	2.3	1.8	2.4	2.5	2.4	n.a.	11.4%
ND/EBITDA (x) ⁽²⁾	6.0x	-0.1x	2.8x	6.5x	6.0x	3.5x	3.1x	3.8x	1.7x	0.9x	0.6x	0.4x	-0.3x	-0.5x		
P/E (x)	n.a.	n.a.	56.2x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17.1x	17.3x	44.3x	22.3x	14.0x		
EV/Sales (x)	3.2x	2.7x	2.4x	2.2x	2.1x	2.8x	1.8x	1.8x	1.8x	1.5x	2.1x	2.4x	2.1x	1.7x		
EV/EBITDA (x) ⁽²⁾	23.5x	20.3x	10.3x	16.9x	14.5x	14.8x	9.6x	13.5x	10.0x	7.3x	10.1x	19.4x	12.4x	8.6x		
Absolute performance	-58.0%	5.6%	-34.0%	-34.7%	-7.4%	84.0%	-44.2%	22.1%	26.6%	0.0%	66.7%	3.2%				
Relative performance vs Ibex 35	-30.7%	-18.7%	-20.1%	-24.8%	-2.9%	51.5%	-46.2%	31.5%	29.2%	-6.9%	96.1%	-4.3%				

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 2019e

		Probiotics Industry				Omega-3	
EUR Mn		Probi AB	Biogaia AB	Christian Hansen	Average	DSM	Biosearch
Market data	Ticker (Reuters)	PROB.ST	BIOGb.ST	CHRH.CO		DSMN.AS	BIOS.MC
	Country	Sweden	Sweden	Denmark		Netherlands	Spain
	Market cap	336.0	631.6	10,731.0	3,899.5	20,610.8	59.1
	Enterprise value (EV)	324.6	605.3	11,489.5	4,139.8	21,092.2	60.8
Basic financial information	Total Revenues	71.2	77.6	1,197.6	448.8	9,262.8	25.2
	Total Revenues growth	19.6%	6.2%	9.1%	11.6%	0.0%	-7.3%
	2y CAGR (2019e - 2021e)	8.7%	18.0%	6.7%	11.1%	5.4%	18.7%
	EBITDA	24.0	26.7	427.8	159.5	1,621.7	3.1
	EBITDA growth	47.1%	-2.7%	11.4%	18.6%	-10.0%	-44.7%
	2y CAGR (2019e - 2021e)	2.0%	21.9%	7.7%	10.6%	9.5%	50.1%
	EBITDA/Revenues	33.8%	34.4%	35.7%	34.6%	17.5%	12.4%
	Net Profit	16.0	20.0	265.1	100.4	862.2	1.3
	Net Profit growth	112.5%	-5.1%	16.2%	41.2%	-9.2%	-59.7%
	2y CAGR (2019e - 2021e)	0.9%	22.1%	8.6%	10.5%	9.7%	78.1%
	Capex	1.5	1.8	112.9	38.7	645.9	-1.9
	CAPEX/Sales %	2.1%	2.3%	9.4%	4.6%	7.0%	-7.5%
	Free Cash Flow	18.7	20.2	217.9	85.6	726.6	2.4
Net financial debt	12.4	(29.3)	661.8	215.0	1,086.4	1.2	
ND/EBITDA (x)	0.5	(1.1)	1.5	0.3	0.7	0.4	
Outstanding Shares	11.4	17.3	131.8		176.3	57.7	
Pay-out	11.5%	78.7%	74.9%	55.0%	49.1%	0.0%	
Multiples and Ratios	P/E (x)	25.0	26.5	38.0	29.9	14.4	52.9
	P/BV (x)	3.1	12.8	12.5	9.4	2.6	2.9
	EV/Revenues (x)	4.6	7.8	9.6	7.3	2.3	2.9
	EV/EBITDA (x)	13.5	22.7	26.9	21.0	13.0	21.7
	ROE	8.4	39.7	31.3	26.4	11.5	5.6
	FCF Yield (%)	2.2	3.3	1.9	2.5	3.2	2.2
	DPS	0.2	0.9	1.5	0.9	2.4	-
	Price Close	28.9	38.1	81.5		113.8	1.0
	Dvd Yield	0.6%	2.4%	1.8%	1.6%	2.1%	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
29-Jul-2019	n.a.	1.02	n.a.	n.a.	6m Results 2019	Ana Isabel González García
14-May-2019	n.a.	1.24	n.a.	n.a.	3m Results 2019	Ana Isabel González García
28-Feb-2019	n.a.	1.62	n.a.	n.a.	12m Results 2018	Ana Isabel González García
31-Jan-2019	n.a.	1.56	n.a.	n.a.	Initial Coverage	Ana Isabel González García