

12m Results 2019

Opinion ⁽¹⁾: Below expectations

Impact ⁽¹⁾: We will have to trim our estimates

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Business description

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)

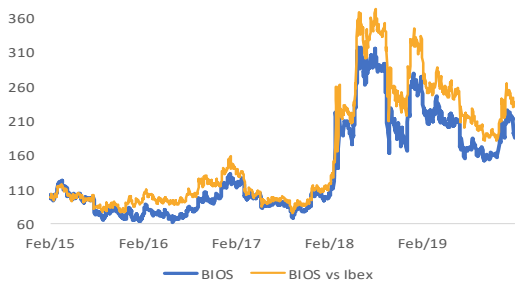
Market Data

| | | |
|------------------------------------|--------------------|------|
| Market Cap (Mn EUR and USD) | 63.6 | 70.1 |
| EV (Mn EUR and USD) ⁽²⁾ | 66.9 | 73.8 |
| Shares Outstanding (Mn) | 57.7 | |
| -12m (Max/Med/Min EUR) | 1.56 / 1.15 / 0.90 | |
| Daily Avg volume (-12m Mn) | 0.25 | |
| Rotation ⁽³⁾ | 100.0 | |
| 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 |

Relative performance -5y (Base 100)



Stock performance

| (%) | -1m | -3m | -12m | -5Y |
|------------------------------------|-------|------|-------|-------|
| Absolute | -17.8 | 14.8 | -29.1 | 85.2 |
| vs Ibex 35 | -10.6 | 23.2 | -24.6 | 137.3 |
| vs Ibex Small Cap Index | -12.1 | 17.2 | -26.4 | 51.2 |
| vs Eurostoxx 50 | -8.1 | 27.7 | -29.8 | 100.2 |
| vs Sector benchmark ⁽⁴⁾ | -10.8 | 19.1 | -36.8 | 72.2 |

(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) Please refer to Appendix 2.

(3) Rotation represents the % of the capitalisation traded - 12m.

(4) vs Eurostoxx 600 Health Care.

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

After a difficult year (2019), an easier one (2020)

2019 RESULTS: REVENUES IN LINE (EUR 23.3Mn, -14.3%), with a slowdown in the decline (+1.7p.p. vs. 9M) thanks to the good performance of lipid sales (+10.2%, with +18.1% in 4Q) and the deceleration of the fall in probiotics (-39.5%, vs. -44.8% at 9M), the latter still affected by the reduction in stocks by Asian clients and by the cumulative commercial delay with Nestlé. Conversely, extracts suffered from stiffer competition, despite the good performance of the most recent launches (+22% in Caronositol), with the decline in revenues accelerating (-15.8% in 2019, -1.6p.p. vs. 9M).

ACCOMPANIED BY A SHARP FALL IN REC. EBITDA (EUR 2.2Mn, -61.8%) BECAUSE OF THE WORSE REVENUE MIX: -8.6p.p. in the contribution from probiotics (the most lucrative) and + 9.7p.p. in that from lipids, which was not offset by lower operating costs (c.-5%). These worse results were translated to the bottom of the P/L (-81% in NP).

AND AN INCREASE IN DEBT "IN LINE" DUE TO HIGHER CAPEX (ND +22.8% y/y, -7.8p.p. vs. 9M), maintaining a reasonable leverage: 1.7x ND/EBITDA despite the increase in CAPEX (EUR 2.6Mn, c. +2.5x y/y, < 2019e), and favoured by lower than estimated financial expenses (due to a larger contribution of subsidised loans).

WE WILL DOWNGRADE OUR ESTIMATES (2020) DUE TO THE LOWER GROWTH EXPECTED IN PROBIOTICS: as a result of the further delay in executing the agreement with Nestlé (+1y) and the potential impact of the coronavirus crisis (Asia represents c.10% of Group revenues, and is critical to business expansion).

BUT DESPITE THE COMMERCIAL SETBACK, THE COMPANY'S FUNDAMENTALS REMAIN INTACT (POSITIONING IN EXPANDING MARKETS): 1) the global omega 3 market (valued at USD 4.1Bn 2019e), will continue to record double-digit growth in the long term (CAGR >10% +5y), being dominated by omega-3 from marine sources; 2) the probiotics market will maintain mid single-digit growth rates (CAGR +5y c. +7%) and 3) there is growth potential in extracts via differentiation (CAGR +5y c. 5%-6% for the medicinal herbs market).

COMMITTED TO THE RENEWAL OF THE PIPELINE: After the recent patent application for a combination of vegetable extracts with DHA (Docosahexaenoic acid) for the prevention and/or reduction of cognitive impairment associated with ageing (on the basis of pre-clinical studies), the commercialisation (<12m) and/or the signing of a potential strategic agreement for the clinical development of this product cannot be ruled out. The recent agreement between Nestlé Health Science and Valvotis for the development of a combination of extracts for the treatment of diabetes, reflects industry interest in the development of natural treatments.

AND WITH POTENTIALLY FAVOURABLE NEWSFLOW: 1) a bad 2019 will in itself create favourable comps for 2020; 2) growing interest in natural therapies (after the coronavirus); 3) the potential registration of new patents and 4) the potential announcement of strategic alliances enabling the client portfolio to be diversified.

Appendix 1. Results table

| | 2019 (Real) | 2018 | 2019 (Real) vs 2018 | 2019 (Est) | 2019 (Real) vs 2019e | 4Q19 | 4Q19 vs 4Q18 |
|-----------------------------------|----------------|-------------|---------------------------|---------------|----------------------------|------------|-----------------|
| Total Revenues | 23.3 | 27.2 | -14.3% | 23.2 | 0.5% | 6.4 | -9.4% |
| Lipids | 10.1 | 9.2 | 10.2% | 10.1 | 0.2% | 2.4 | 18.1% |
| Probiotics | 4.8 | 7.9 | -39.5% | 4.6 | 4.4% | 1.5 | -23.4% |
| Extracts | 7.5 | 8.9 | -15.8% | 7.7 | -2.9% | 1.9 | -20.0% |
| Services & others | 0.9 | 1.2 | -25.9% | 0.8 | 15.8% | 0.6 | -13.7% |
| Rec. EBITDA ⁽¹⁾ | 2.2 | 5.7 | -61.8% | 2.7 | -20.0% | 0.7 | -54.2% |
| Rec. EBITDA / Rev. | 9.3% | 20.8% | -11.5 p.p. | 11.8% | -2.5 p.p. | 10.8% | -0.1 p.p. |
| EBITDA | 2.5 | 5.7 | -56.4% | 2.7 | -8.7% | 1.0 | -33.9% |
| EBITDA / Rev. | 10.6% | 20.8% | -10.2 p.p. | 11.8% | -1.2 p.p. | 15.6% | -0.1 p.p. |
| EBIT | 0.9 | 4.2 | -77.6% | 1.5 | -38.2% | | |
| PBT | 0.8 | 4.1 | -79.2% | 1.0 | -17.9% | | |
| NP | 0.6 | 3.3 | -81.0% | 0.9 | -30.7% | | |
| Ordinary NP | 0.4 | 3.3 | -87.9% | 0.9 | -55.7% | | |
| Rec. FCF | -4.0 | 4.7 | n.a. | -2.2 | 79.7% | | |
| Rec. FCF Yield | n.a. | 7.3% | n.a. | n.a. | n.a. | | |
| Net Debt | 4.2 | 3.4 | 343% | 4.2 | 1% | | |
| ND / EBITDA | 1.7 x | 0.6 x | 0.6 x | 1.5 x | 0.2 x | | |

(1) EBITDA and Rec. EBITDA adjusted (EUR 0.3Mn provisions excess linked to remunerations). It excludes capitalized expense. Without IFRS-16 impact (BIOS reports according to the national accounting standards).

Appendix 2. EV breakdown at the date of this report

| | EUR Mn | Source |
|--------------------------------------|-------------|-------------|
| Market Cap | 63.6 | |
| + Minority Interests | - | 12m Results |
| + Provisions & Other L/T Liabilities | 0.0 | 12m Results |
| + Net financial debt | 4.2 | 12m Results |
| - Financial Investments | 0.9 | 12m Results |
| +/- Others | - | 12m Results |
| Enterprise Value (EV) | 66.9 | |

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Recommendation History

| Date of report | Recommendation | Price (EUR) | Target price (EUR) | Period of validity | Reason for report | Analyst |
|----------------|----------------|-------------|--------------------|--------------------|-------------------|----------------------------------|
| 02-Mar-2020 | n.a. | 1.10 | n.a. | n.a. | 12m Results 2019 | Ana Isabel González García, CIIA |
| 29-Oct-2019 | n.a. | 0.95 | n.a. | n.a. | 9m Results 2019 | Ana Isabel González García, CIIA |
| 30-Jul-2019 | n.a. | 1.02 | n.a. | n.a. | 6m Results 2019 | Ana Isabel González García, CIIA |
| 14-May-2019 | n.a. | 1.24 | n.a. | n.a. | 3m Results 2019 | Ana Isabel González García, CIIA |
| 28-Feb-2019 | n.a. | 1.62 | n.a. | n.a. | 12m Results 2018 | Ana Isabel González García, CIIA |
| 31-Jan-2019 | n.a. | 1.56 | n.a. | n.a. | Initial Coverage | Ana Isabel González García, CIIA |