

**HECHO RELEVANTE AB-BIOTICS, S.A.****10 de julio de 2019**

En virtud de lo previsto en el artículo 17 del Reglamento (UE) nº 596/2014 sobre abuso de mercado y en el artículo 228 del texto refundido de la Ley del Mercado de Valores, aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre, y disposiciones concordantes, así como en la Circular 6/2018 del Mercado Alternativo Bursátil (MAB), se pone a disposición del mercado la siguiente información relativa a AB-BIOTICS, S.A.:

En el día de ayer, 9 de julio de 2019, KANEKA EUROPE HOLDING COMPANY NV comunicó a la Compañía el anuncio de una oferta pública voluntaria de adquisición de acciones de AB-BIOTICS, S.A., cuyos términos se adjuntaron al correspondiente Hecho Relevante publicado.

En aras de facilitar el acceso a tal información en idioma inglés, se ha estimado oportuno publicar el presente Hecho Relevante con la traducción del publicado ayer y su documentación anexa.

En caso de discrepancia entre ambas versiones, prevalecerá la versión en idioma español.

Quedamos a su disposición para cuantas aclaraciones consideren oportunas.

En Barcelona, a 10 de julio de 2019

AB-BIOTICS, S.A.

Sergi Audivert Brugué

Consejero Ejecutivo

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Miquel Àngel Bonachera Sierra

Consejero Ejecutivo

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**RELEVANT FACT AB-BIOTICS, S.A.**

**July 10, 2019**

Under the provisions of Article 17 of Regulation (EU) No. 596/2014 on market abuse and Article 228 of the revised text of the Securities Market Law, approved by Royal Legislative Decree 4/2015, of 23 October, and concordant provisions, as well as in Circular 6/2018 of the Alternative Stock Market (MAB), the following information regarding AB-BIOTICS, SA is made available to the market:

Yesterday, July the 9th, 2019, KANEKA EUROPE HOLDING COMPANY NV notified the Company of the announcement of a voluntary public offering for the acquisition of shares of AB-BIOTICS, S.A., whose terms were appended to the relevant published Relevant Fact.

In order to facilitate access to such information in English, it has been considered opportune to publish this Relevant Fact with the translation of the one published yesterday and its attached documentation.

In case of discrepancy between both versions, the Spanish version will prevail.

We remain at your disposal for any clarifications deemed appropriate.

In Barcelona, on July 10, 2019

AB-BIOTICS, S.A.

Sergi Audivert Brugué

Executive director

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Miquel Àngel Bonachera Sierra

Executive director

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*RELEVANT FACT AB-BIOTICS, S.A.*

*July 9, 2019*

*Under the provisions of Article 17 of Regulation (EU) No. 596/2014 on market abuse and Article 228 of the revised text of the Securities Market Law, approved by Royal Legislative Decree 4/2015, of 23 October, and concordant provisions, as well as in Circular 6/2018 of the Alternative Stock Market (MAB), the following information regarding AB-BIOTICS, SA is made available to the market:*

*Today, KANEKA EUROPE HOLDING COMPANY NV has informed the Company of the announcement of a voluntary public offering for the acquisition of shares of AB-BIOTICS, S.A., whose terms are attached to this Relevant Fact.*

*The price of the offer is 5 euros per share and the term for acceptance begins on July 10, 2019 and ends on August 16, 2019. We remain at your disposal for any clarifications deemed appropriate.*

*In Barcelona, on July 9, 2019*

*AB-BIOTICS, S.A.*

*Sergi Audivert Brugué*

*Executive Director*

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*Miquel Àngel Bonachera Sierra*

*Executive Director*

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**ANNOUNCEMENT OF A VOLUNTARY  
PUBLIC TENDER OFFER OVER THE SHARES OF**

**AB-BIOTICS, S.A.**

**LAUNCHED BY**

**KANEKA**

**(KANEKA EUROPE HOLDING COMPANY NV)**

**Barcelona, July 9, 2019**

*Global Coordinator: EBN Banco de Negocios, S.A. / Agent Bank: Banco Santander, S.A.*

*Legal Advisor: Gómez-Acebo & Pombo Abogados, S.L.P.*

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Barcelona, July 9, 2019

This announcement (the "**Announcement**") of a **voluntary public tender offer** (the "**Offer**") to acquire all the shares of AB-Biotics, S.A. ("**AB-Biotics**" or the "**Company**"), which shares are listed on the Spanish Multilateral Trading Facility ("*Mercado Alternativo Bursatil*" –the "**MAB**"-), is published by Kaneka Europe Holding Company NV ("**Kaneka**", the "**Offeror**" or, together with the companies within its group, the "**Kaneka Group**").

## 1. BACKGROUND OF THE OFFER

On March 28, 2018, the Company and Kaneka Americas Holding, Inc. entered into a license agreement by which the exclusive right to manufacture, import, ferment, use, sell and offer of certain AB-Biotics products in Japan and North America was granted to Kaneka Americas Holding, Inc.

Likewise, and as an inseparable part of the same agreement, the Kaneka Group, through the company Kaneka Europe Holding Company NV (i.e. the Offeror), decided to invest in AB-Biotics's capital through the acquisition of a 26,859% of its share capital by means of private acquisitions. Said ownership of the Company has, since then, been increased and, as of the date of this Announcement, the Offeror owns 5,005,234 shares of AB-Biotics, representing 39.76% of its share capital, as reflected in MAB's website as of the date hereof.

The Offeror, in line with its previous acquisitions, aims to acquire 100% of the Company's share capital, for the reasons further indicated in section 10 below. In this regard, the Offeror hereby offers to all the shareholders of the Company (other than the Offeror) the acquisition of all the shares of AB-Biotics, representing 60.24% of its share capital.

The ultimate purpose of Kaneka after the Offer is to promote the delisting of AB-Biotics' shares from MAB following the procedures set out in article 34 of the Company's Bylaws (which refer to general public offer regulations with regards to delisting price), and in accordance with Section Six of MAB's Circular 2/2018 regarding the requirements and procedures applicable to the admission and exclusion of shares (*Circular 2/2018 sobre requisitos y procedimiento aplicables a la incorporación y exclusión en el Mercado Alternativo Bursátil de acciones emitidas por empresas en expansión y por Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMI)*) ("**MAB's Circular 2/2018**"). Main reasons for this intended ultimate delisting are also mentioned in section 10 below.

This Announcement explains the terms and conditions of the **voluntary public tender offer** made by the Offeror to all the shareholders of the Company.

## 2. IDENTIFICATION OF THE (TARGET) COMPANY

AB-BIOTICS, S.A. is a Spanish company with registered address at the Esade Creapolis Building, Av. de la Torre Blanca, 57, St. Cugat del Vallès (Barcelona), registered with the Commercial Registry of Barcelona under Volume 45561, Page 33 and Sheet B-293983, and provided with Spanish Tax Identification Number (NIF) A-63497473.

The share capital of AB-Biotics amounts, on the date hereof, to 629,412.95 Euros, being represented by 12,588,259 shares of 0.05 euros of nominal value each, of a sole class, fully subscribed and disbursed, and represented by book entries.

All the shares constituting the share capital of the Company are admitted to trading on the MAB. The share capital structure of the Company, according to the latest information published by the Company on the MAB's website as of the date hereof, is the following:

| <b>AB-BIOTICS' SIGNIFICANT SHAREHOLDERS</b> | <b>DIRECT % IN THE<br/>COMPANY</b> | <b>INDIRECT % IN THE<br/>COMPANY</b> | <b>%TOTAL</b> |
|---|------------------------------------|--------------------------------------|---------------|
| Kaneka Europe Holding Company NV .....      | 39.76%                             | --                                   | 39.76%        |
| D. Miquel Àngel Bonachera Sierra.....       | 8.92%                              | --                                   | 8.92%         |
| D. Sergi Audivert Brugué.....               | 8.92%                              | --                                   | 8.92%         |
| D. Luis Sánchez Lafuente-Mariol.....        | 8.87%                              | 1.28*%                               | 10.15%        |

(\*) Through the Biolittletec, S.L. and Laboratorios Neusc, S.A.

### 3. IDENTIFICATION OF THE OFFEROR

KANEKA EUROPE HOLDING COMPANY NV is a Belgian company, with registered address at Alma Court, Lenneke Marelaan, 4, Zaventem (Belgium), incorporated on October 1<sup>st</sup>, 2015 by virtue of a public deed granted in front of the Notary Public Daisy Dekegel and registered in Brussels under number 0640.747.653, and with Spanish Foreigners Identification Number (NIE) N0174239D.

The share capital of the Offeror amounts up to 62,628,935.25 Euros divided into 3,173,670 shares, fully subscribed and disbursed. Kaneka is a subsidiary 100% controlled by Kaneka Corporation, a Japanese company which common stock is traded on Tokyo's and Nagoya's Stock Exchanges.

### 4. SCOPE OF THE OFFER

The Offer is launched by Kaneka and is addressed to all shareholders of AB-Biotics (other than the Offeror) in order to acquire from them all the outstanding share capital of the Company not already owned by the Offeror. Consequently, this Offer targets 100% of the share capital of AB-Biotics, excluding the shares owned by Kaneka, which in due consideration of the current number of outstanding shares, targets a total of 7,583,025 shares in AB-Biotics, accounting for 60.24% of its share capital.

To all legal effects, it shall be considered that the publication of this Announcement fulfils the relevant obligations set forth in article 8.2 of the Company's Bylaws.

### 5. OFFER PRICE

The Offer for the acquisition of the shares of AB-Biotics is formulated as a purchase and sale of shares and shall be settled in cash in accordance with the provisions set forth in section 8 of this Announcement.

Those shareholders of AB-Biotics who accept the Offer will receive, in exchange for the sale of their shares, the amount in cash of 5.00 Euros per share (the "**Offer Price**").

Notwithstanding the fact that the Offer is (i) being voluntarily made by the Offeror, and (ii) not subject to the provisions set forth in the Spanish Law for public offerings to acquire shares in companies whose shares are listed in official markets, the Offeror states that the Offer Price (i.e. 5.00 Euros per share) shall be deemed a fair/equitable price for the purposes of article 34 of the Company' Bylaws and articles 9 and 10 of the Spanish Royal Decree on Takeover Bids

(*Real Decreto 1066/2007, de 27 de julio, sobre el régimen de las ofertas públicas de adquisición de valores*). This is supported by virtue of the report issued on July 9, 2019 by the independent appraisal firm Crowe Advisory SP, S.L. (the “**Independent Appraiser**”) on the Offer Price, which sets out a fair delisting price of Eur 4.305 per share. For information purposes, a copy of such report has been attached as **Annex 1** hereto.

In connection with the Offer Price, the Offeror deems it convenient to state the following:

- (a) mainly, the Offer Price represents a premium of 16.14% over the fair delisting value identified by the Independent Appraiser within its independent expert appraisal (equivalent to the highest parameter identified by this independent evaluator within its analysis), which the Offeror considers a good faith additional compensation to the Company's shareholders and the fact that the Offeror may take control over the Company;
- (b) the Offer Price represents a premium of 16.14% over the average share value of the Company during the previous 6 months and of 32.63% over the average share value of the Company during the previous 12 months;
- (c) the Offer Price represents a premium of 29.87% over the latest price paid by the Offeror in its latest transaction with Company's shares (acquisition dated June 13, 2019);
- (d) the Offer Price represents a premium of (*circa*) 53.85% over the price paid by the Offeror in March 2018, when acquiring its first significant stake in the Company from other directors and significant shareholders of the Company;
- (e) additionally, the Offer Price represents (i) a premium of 19.62% over the price per share identified by the Independent Appraiser following the “*discounted cash flow*” calculation method; (ii) a premium of 93.05% and of 50.15% over the price per share identified by the Independent Appraiser following the “*wide market multiples*” and the “*narrow market multiples*” calculation methods, respectively; and (iii) a premium of 113.68% over the price per share identified by the Independent Appraiser following the “*recent transactions*” calculation method. A reference to all these calculation parameters can be found in the report that has been attached as Annex 1 to this Announcement.
- (f) Without significant news about the Company and with an average daily volume of (pursuant to *Bloomberg*) 11,978 titles (which implies a daily trading of only EUR 53,350 against an average market capitalization of the Company of more than Eur 56 million), AB-Biotics' stock has experienced a significant increase in valuation from EUR 3.90 per share in early February 2019 to the current EUR 4.98 (which implies an appreciation of more than 27.69% in 6 months).

The average volume of this period has also been significantly affected by the block trade of 249,508 titles crossed on 13 June 2019, at a price of EUR 3.85 per share, among significant shareholders (Kaneka, Mr. Miquel Bonachera and Mr. Sergi Audivert).

This significant increase in the share price, driven by a very little daily volume regarding capitalisation and without any relevant corporate news or presentation of results that could have radically changed what the markets had foreseen (other than the 2019 Q1 results), has entailed a significant outperforming of the share price above the target



prices or medium-term valuations of all the respected houses of analysis that follow the value and published their Research on the official website of the MAB, based on forecasts adjusted, with realism and traceability to the evolution of the Company and to the sector trends in which AB-Biotics operates. For ease of reference, a link to these reports, as issued by Researchfly, GVC Gaesco and Morningstar, all of them currently available at the MAB's website, has been inserted hereinbelow:

[https://www.bolsasymercados.es/docs/MorningStar/MorningStar\\_ES0109659013.pdf?lNDKJA](https://www.bolsasymercados.es/docs/MorningStar/MorningStar_ES0109659013.pdf?lNDKJA);

[https://www.bolsasymercados.es/mab/documentos/Analisis/2019/07/09659\\_Analisis\\_20190708.pdf](https://www.bolsasymercados.es/mab/documentos/Analisis/2019/07/09659_Analisis_20190708.pdf);

[https://www.bolsasymercados.es/mab/documentos/Analisis/2019/06/09659\\_Analisis\\_20190610.pdf](https://www.bolsasymercados.es/mab/documentos/Analisis/2019/06/09659_Analisis_20190610.pdf);

[https://www.bolsasymercados.es/mab/documentos/Analisis/2019/03/09659\\_Analisis\\_20190306.pdf](https://www.bolsasymercados.es/mab/documentos/Analisis/2019/03/09659_Analisis_20190306.pdf);

AB-Biotics' valuation, taking the 5-euro-per share valuation as reference (the best of the analysts' target prices), results in a demanding EV/EBITDA ratio (as of closing of 2018 audited accounts) of 31.47x (*versus the 22.9x ratio in comparable sector companies*) and a PER ratio (as of closing of 2018 audited accounts) of 52.4x (*versus the 36.25x ratio in comparable sector companies*), which means incorporating very high premiums compared to comparable companies in the sector.

The report issued by the Independent Appraiser highlights this particular case of a great difference between fair (delisting) valuation and market price, which is reinforced by the effect of the lack of liquidity of the share and the over-expectations of some short-term investors.

AB-Biotics is competing in a sector that attracts more and more competitors which, while putting pressure on medium-term margins as predicted by the sector analysts of International Investment Banks and research houses, will also entail the need of significantly increasing its investments in capex, acquisitions and also increasing their effort in international and commercial exposure which could be undervalued by the short term investors compared to those with an industrial and substantial long-term vision.

In due consideration, being the ultimate purpose of Kaneka to promote the delisting of AB-Biotics' shares from MAB, the Offer Price shall initially be deemed, to all relevant legal effects, a fair delisting value in accordance with articles 10 and 9 of the Spanish Royal Decree on Takeover Bids, as referred by article 34 of the Company's Bylaws and MAB's Circular 2/2018. For the avoidance of doubt, any subsequent offer to delist the shares of the Company to be made by the Offeror (or by the Company at the request of the Offeror) after this Offer would be initially made at the same Offer Price (i.e. 5.00 Euros per share).

## **6. FUNDING OF THE OFFER**

Hypothetically, should the Offer be accepted by all the holders of AB-Biotics' shares, taking into account the Offer Price (i.e. 5.00 Euros per share), Kaneka would be obliged to pay out an aggregate amount of 37,915,125 Euros.

The Offeror holds a strong financial position and will meet the payment of the Offer Price with funds obtained from external financing.

## **7. PERIOD FOR THE ACCEPTANCE OF THE OFFER**

The period for the acceptance of this Offer will start to count from the stock market business day following the date of publication of this Announcement and will expire on (Friday) August 16, 2019 at 23:59 h (CET) (the "**Acceptance Period**").

The Offeror may extend the Acceptance Period for acceptance of the Offer, at its sole discretion, given said extension is announced in the same media as those used to publish this Announcement, at least three (3) calendar days before the date of expiry of the initial deadline (-Tuesday- August 13, 2019).

## **8. FORMALITIES FOR THE ACCEPTANCE OF THE OFFER AND PAYMENT TERMS**

### **8.1. Acceptance declarations**

Declarations of acceptance of the Offer by shareholders of the Company will be admitted from the first day of the Acceptance Period and until the last day, both inclusive. Acceptances will not be valid if they are subject to any condition and will be deemed issued on irrevocable, unconditional, firm and binding basis, so that they become actual orders to transfer the shares (with their inherent political and economic rights) as soon as the Offer is closed and settled.

### **8.2. Acceptance procedure**

Any shareholder of the Company willing to accept the Offer must contact the bank or financial entity with which their shares are deposited, and state in writing their wish to accept the Offer.

AB-Biotics' shareholders may accept the Offer with respect of all or part of the Company's shares held by them.

The shares with respect to which the Offer is accepted must include all the voting rights and economic rights attached thereto. These shares must be transferred free of charges, encumbrances and any rights in favour of third parties which may limit the voting rights or economic rights or their free transferability, and shall be transferred by an authorised signatory, in such a way that the Offeror acquires full, unrestricted and non-contestable ownership of the shares.

The declarations of acceptance shall be accompanied by sufficient documentation to enable the shares to be transferred, and must include all the identification data required by the applicable regulations for this type of transactions, including, but not limited to, the full name or company name of the shareholder, its address and tax number or, in the case of shareholders who are not resident in Spain and do not have a tax number, its passport number or identity card number, nationality and address.

During the Acceptance Period, Iberclear participants and MAB participants receiving acceptance declarations will dispatch on a daily basis with the Offeror, through the representative designated for this purpose as stipulated below, on information concerning

the number of shares included in the declarations of acceptance submitted by the Company's shareholders.

The representative designated by Kaneka for this purpose is Banco Santander, S.A. (the "**Agent**"), with the following contact details:

**Banco Santander, S.A.**

*Mr. Carlos Lopez Villa / Mr. Carlos Sanz Bautista  
emisores.madrid@gruposantander.com*

Likewise, to all relevant effects, including consultation and contacts about this Offer, it is stated that the Offeror has appointed EBN Banco de Negocios, S.A. as its Global Coordinator and Advisor on this Offer (the "**Global Coordinator**"). Shareholders can contact the Global Coordinator in order to ask any questions or clarify any points related to this Offer. Global Coordinator's contact details are hereby set out:

**EBN Banco de Negocios, S.A.**

*Mr. Sergio García Sendón – Head of Debt/Equity Capital Markets and M&A  
(ssendon@ebnbanco.com)  
Mr. Finbar Murray – Head of Treasury and Capital Markets (fmurray@ebnbanco.com)  
Mr. Enrique Díez - Associate Treasury and Capital Markets (ediez@ebnbanco.com)  
+34 917009844*

Under no circumstances will the Offeror accept shares acquired after the Acceptance Period. In other words, any shares offered for sale must have been acquired by the accepting shareholder no later than the last day of the Acceptance Period.

### **8.3. Publication of the outcome**

Following expiry of the Acceptance Period, or of any period arising from an extension or modification of said period pursuant to section 7 above, the Agent will notify the Offeror and AB-Biotics, within a maximum of five (5) trading days after the expiry of the Acceptance Period, about the total acceptances validly received during the Acceptance Period and, therefore, about the outcome of the Offer. The outcome of the Offer will be published on the MAB's website ([www.bolsasymercados.es/mab/esp/MaB/Boletin.aspx](http://www.bolsasymercados.es/mab/esp/MaB/Boletin.aspx)) and on the website of the Company (<http://www.ab-biotics.com>).

### **8.4. Management of the acquisition and settlement of the Offer**

Acquisition of the shares will be managed by the Agent, acting as intermediary in the acquisition and settlement operation on behalf of Kaneka.

The price of the shares will be settled and paid no later than the eighth (8<sup>th</sup>) trading day after the expiry of the Acceptance Period (the "**Payment Date**"), in accordance with the procedure established to this end on regulation 11 of MAB's Circular 7/2017 ("*Normas de contratación de acciones de Empresas en Expansión y de Sociedades Anónimas Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMI) a través del Mercado Alternativo Bursátil*").

## **9. COSTS RELATED TO THE ACCEPTANCE AND SETTLEMENT OF THE OFFER**

The Offeror will bear the expenses originated by the processing of the Offer and those that, in relation to its settlement, correspond to the Offeror in accordance with the regulatory rules set out by MAB. In no case shall the Offeror be responsible nor bear the commissions and/or

expenses that the depository entities of the shares may charge their clients (accepting shareholders) for the processing of the declarations of acceptance of the Offer.

Any other expenses other than those previously outlined will be borne by whoever incurs in them.

The shareholders of the Company shall seek proper advice on the exact amount of the expenses that they will have to satisfy in case of acceptance of the Offer.

## **10. PURPOSE OF THE TRANSACTION**

As anticipated, the first purpose sought by the Offeror with this Offer is to reach control over the Company, once it has had the opportunity to consolidate its position and joint venture during the previous year and to confirm the synergies between both entities. Likewise, this Offer is also aimed to (a) help to further develop the business of the Company; (b) achieve a mutual consolidation within Kaneka Group with stronger links between the Company, on the one side, and Kaneka, on the other side; and (c) improve synergies and make internal policies more efficient in terms of management and corporate governance.

Likewise, as a subsequent and immediate next step, the ultimate goal of the Offeror under this Offer is to promote the delisting of AB-Biotics' shares from MAB following provisions in article 34 of the Company's Bylaws and in accordance with Section Six of MAB's Circular 2/2018. This decision has been adopted by the Offeror based on the following reasons:

- (a) The industry of Probiotics is thriving, and the market is tending to, consolidation due to the increase of competition, which is leading to, on the one side, an increase in costs (CAPEX, R&D, etc.) and, on the other side, a progressive margin reduction as it is foreseen by most of sector participants and analysts. Due to that, the Company will need to tackle a vertical integration to compete fiercely with new products, new market niches and potential acquisitions (M&A) which will likely require substantial funding and investments in capital (through the relevant mechanisms set out under Spanish law for equity contribution and/or capitalisation) to maintain the financial orthodoxy *vis-a-vis* clients, suppliers and employees.

Kaneka, currently the majority shareholder and strategic partner of the Company, with a market capitalization as of July 9 of [Yen 275.074 billion billion][Eur **2.26 billion**], has the resources and a clear vocation to participate into this corporate process in a decisive way by providing capital in better conditions than those that capital markets may offer, but which could harm those other shareholders who cannot or don't want to face these material challenges and a potential dilution in the long term.

- (b) Listing in MAB entails certain costs, formalities and expenses that the Company would be able to avoid in order to optimize margins and concentrate efforts in the execution of the challenging business plan without the volatility and pressure of the capital markets, especially in a secondary market with reduced liquidity.
- (c) Kaneka Group has a great recognition and respect for all the Company's shareholders and their strong support during the last years, especially for those who supported the several capital increases in 2011, 2012, 2013 and 2016. This Offer, including the Offer Price, represents an opportunity for those shareholders to benefit from a symmetric offer

that has been carefully calculated to reflect a solid premium over the fair delisting price identified by the Independent Appraiser in their independent valuation appraisal.

- (d) The Company and Kaneka Group have had to make significant economic and timing efforts during the previous months in order to align reporting of both companies with their relevant regulators, a circumstance that would not be required in case the Company is finally delisted from MAB.

Once the Offer is settled, the Offeror would implement delisting following the corporate mechanisms legally available to that purpose.

## **11. SUPPORT TO THIS OFFER**

It is stated that Mr. Miquel A. Bonachera and Mr. Sergi Audivert, founders and significant shareholders of the Company, have expressed their support to this Offer and the ultimate intention to delist the shares of the Company, and to the conditions set out hereto as well as they have verbally informed the Offeror about their intention to transfer shares under this Offer pursuant to the procedures set out in section 8 above.

## **12. BYLAWS**

The Offeror does not intend to amend the Corporate Bylaws of the Company or of any other company in its group as a consequence of the Offer. However, should the exclusion of AB-Biotics' shares from MAB be agreed by the Company's General Shareholders' Meeting after the Offer, the relevant amendments to the Company Bylaws will be made.

This Announcement is issued on July 9, 2019 on behalf of Kaneka Europe Holding Company NV

Mr. Shinji Mizusawa  
President and Managing Director of  
**KANEKA EUROPE HOLDING COMPANY NV**

**Annex I**  
**Independent Appraiser's Report**

# Project AB

Independent Valuation

July 09<sup>th</sup>, 2019



July 09<sup>th</sup>, 2019

Kaneka Europe Holding  
Lenneke Marelaan 4, Zaventem,  
Flanders 1932,  
Belgium

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F. +34 913 990 641  
www.crowe.es

Dear Sirs,

According to our understanding of the transaction, Kaneka Europe Holding Company NV (hereinafter the "Client") is considering to promote a takeover bid over AB-Biotics, S.A. ("Target" or the "Company" or "Business") over which already owns 39.8% of the total shares.

In accordance with your instructions, we have performed a valuation of the fair value of the Target according to the Royal Decree 1066/2007 for delisting TOB purposes.

As set out in our engagement letter dated June 5<sup>th</sup> 2019, we were required to perform valuation procedures over the Target and report to you on the matters set out in the Scope of Work as detailed in our engagement letter.

The information contained in this report is based primarily on public information and industry experts explanations, however we do not had access to the Management of the Target and hence we could not verify some of this information.

In no event shall we be liable for any loss or expense arising in any way from fraudulent acts, misrepresentation or wilful default on the part of Target, its directors, employees or agents.

We point out that the scope of our work did not include a review of Target's markets or its competitive position within these markets, nor any operational or technical due diligence.

This report has not been updated for any subsequent information which may have become available after this date.

This report is intended for the sole use of the directors of our client acting in relation to the Proposed Transaction . If others choose to rely in any way on the contents of this report they do so entirely at their own risk. Copies of this report, or extracts therefrom, should not be provided to third parties without our prior written consent or if specifically stated in this report .

Events and circumstances occurring after the date of our report will, in due course, render our report out of date and, accordingly, we will not accept a duty of care nor assume responsibility for decisions and actions which are based upon such an out of date report. Additionally, we have no responsibility to update this report for events and circumstances occurring after this date.

If there are any matters upon which you require clarification or further information, please contact the partner of the engagement.

Yours faithfully,



Fernando Segú  
**Crowe I Financial Advisory**

# Glossary

|                               |   |                      |  |
|-------------------------------|---|----------------------|--|
| <b>#</b>                      | Number  | <b>MaB</b>           | Alternative Investment Market / Mercado Alternativo Bursatil |
| <b>%</b>                      | Percentage  | <b>n.a.</b>          | Not available  |
| <b>€</b>                      | Euros   | <b>n.q.</b>          | Not quantified   |
| <b>€k</b>                     | Euros in thousands  | <b>n/a</b>           | Not applicable   |
| <b>€m</b>                     | Euros in millions   | <b>NOL</b>           | Net Operating Loss   |
| <b>Adjs.</b>                  | Adjustments   | <b>NV</b>            | Anonymous Society / Naamloze Vennootschap / Sociedad Anonima |
| <b>β</b>                      | Leveraged Beta  | <b>OPEX</b>          | Operating expenses   |
| <b>BS</b>                     | Balance Sheet   | <b>P&amp;L</b>       | Profit and Loss  |
| <b>c.</b>                     | Circa/ approximately  | <b>p.p.</b>          | Percentage points  |
| <b>CAGR</b>                   | Compound Annual Growth Rate   | <b>R&amp;D</b>       | Research and Development                                     |
| <b>CAPEX</b>                  | Capital expenditure   | <b>Rc</b>            | Risk- country  |
| <b>CIT</b>                    | Corporate Income Tax  | <b>RD</b>            | Royal Decree /Real Decreto                                   |
| <b>CNAE</b>                   | National Classification of Economic Activities / Clasificación Nacional de Actividades Económicas | <b>Rd</b>            | Cost of Debt   |
| <b>COGS</b>                   | Cost of Goods Sold  | <b>Re</b>            | Cost of equity   |
| <b>CPI</b>                    | Consumer Price Index  | <b>Rf</b>            | Risk- free rate of return                                    |
| <b>Crowe</b>                  | Crowe Advisory SP, S.L.   | <b>Rm</b>            | Rate market  |
| <b>D</b>                      | Debt  | <b>Rr</b>            | Regulatory risk  |
| <b>D&amp;A</b>                | Depreciation and Amortization   | <b>ROCE</b>          | Return on capital employed                                   |
| <b>DCF</b>                    | Discounted cash flow  | <b>Ru</b>            | Individual risk  |
| <b>DIO</b>                    | Days inventories outstanding  | <b>S.A.</b>          | Anonymous Society / Sociedad Anonima                         |
| <b>DPO</b>                    | Days payable outstanding  | <b>S.L.</b>          | Limited responsibility company / Sociedad limitada           |
| <b>DSO</b>                    | Days sales outstanding  | <b>SH</b>            | Shareholder  |
| <b>DTA/DTL</b>                | Deferred tax assets /Deferred tax liabilities   | <b>Sp</b>            | Size premium   |
| <b>E</b>                      | Equity  | <b>ST/LT</b>         | Short term/Long term   |
| <b>EBIT</b>                   | Earnings before interest and income taxes   | <b>Tc</b>            | Corporate tax rate   |
| <b>EBITDA</b>                 | Earnings before interest, income taxes, depreciation and amortisation                             | <b>The Business</b>  | AB - Biotics S.A.  |
| <b>EBT</b>                    | Earnings before income tax  | <b>The Client</b>    | Kaneka Europe Holding  |
| <b>EU</b>                     | European Union  | <b>The Company</b>   | AB - Biotics S.A.  |
| <b>EV</b>                     | Enterprise value  | <b>The Recipient</b> | Person with access to this report                            |
| <b>FCF</b>                    | Free Cash Flow  | <b>The target</b>    | AB - Biotics S.A.  |
| <b>FTE</b>                    | Full Time Equivalents   | <b>TOB</b>           | TakeOver Bid   |
| <b>FX</b>                     | Foreign Exchange  | <b>TV</b>            | Terminal Value   |
| <b>FY16, FY17, FY18, etc.</b> | Fiscal Years ended in December 16, December 17 and December 18, etc.                              | <b>US SIC</b>        | United States Standard Industrial Classification             |
| <b>GDP</b>                    | Gross Domestic Product  | <b>USD</b>           | United States Dollar / Dólar Americano                       |
| <b>KPI</b>                    | Key Performance Indicator   | <b>Var.</b>          | Variation  |
| <b>LTM</b>                    | Last Twelve Months  | <b>WACC</b>          | Weighted average cost of capital                             |
| <b>L6M</b>                    | Last Six Months   | <b>WCR</b>           | Working Capital Requirements                                 |

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## Appendices

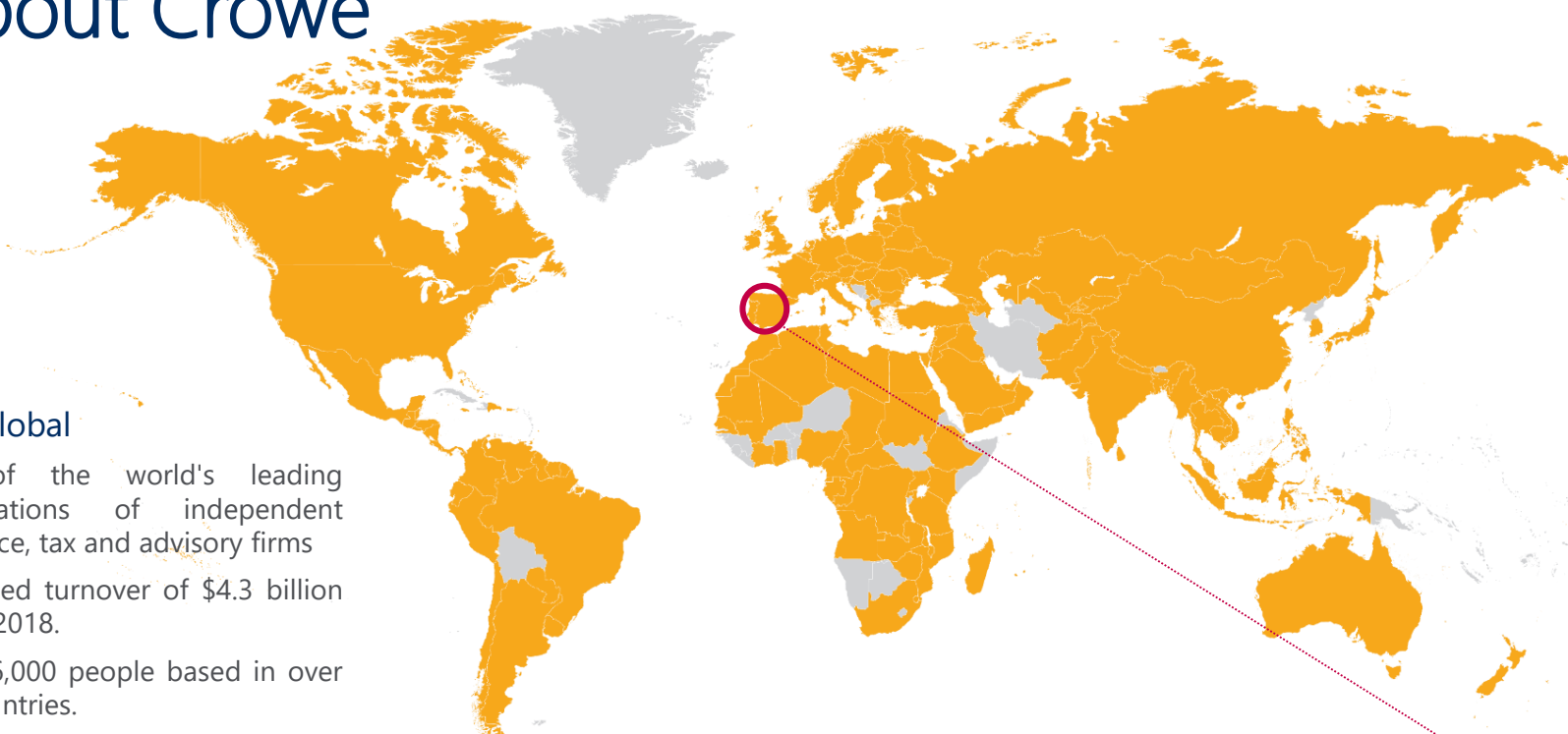
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# About Crowe

## Crowe Global

- One of the world's leading organisations of independent assurance, tax and advisory firms
- Combined turnover of \$4.3 billion during 2018.
- Over 36,000 people based in over 130 countries.



## Crowe Global Services

|                          |                                   |
|--------------------------|-----------------------------------|
| <b>Audit</b>             | <b>Business Plan Assessment</b>   |
| <b>Forensic Services</b> | <b>Strategic Consulting</b>       |
| <b>Tax</b>               | <b>Management Support</b>         |
| <b>Restructuring</b>     | <b>Mergers &amp; Acquisitions</b> |
| <b>Legal</b>             | <b>Capital Markets</b>            |
| <b>Due Diligence</b>     | <b>Valuation</b>                  |

## Crowe Spain

Spanish member firm of Crowe Global

- Turnover of around c.€35million.
- Led by over 40 partners, with 400 people.
- Operating from 10 offices.





# About Crowe

The values that inspired the creation of our firm guide us in all our decisions.



## Care

We take care of all our clients, our firm and our stakeholders and we aspire to convert our efforts into value.



## Share

We choose to work as a family, sharing responsibilities and successes. Collaboration, training and mutual support define our relationships.



## Invest

We invest in people and develop our resources to expand the value we bring to our customers. We embrace change and encourage continuous learning.



## Grow

We seek growth and profitability sustained over time to reach a higher level as professionals and respond to the challenges posed by our customers and communities.



# About Crowe

**Wide team experience** with valuable expertise in many industries.

**High quality** of work resulting from the acquired experience and from the exhaustive quality controls established internally worldwide.

**Knowledge**, thanks to the extensive Crowe **network**, of the various accounting plans and local laws with a guaranteed standard service.

Perfect **coordination** of international and multidisciplinary teams for cross-border operations.

**Senior interlocution** always available, giving **quick answers** at critical moments of decision making.

Proactive approach aimed at detecting the **risks** of the transaction and proposing **solutions** to mitigate them



# About Crowe

## Recent valuation credentials

 Crowe

Advised

 EDF  
energies nouvelles

In the Due Diligence and valuation process of the acquisition of different projects in France, Germany, UK, USA and Poland.

 Crowe

Advised

 voltaia

In the valuation of 40 renewable projects at different development stages.

 Crowe

Advised

 eurona  
telecom

In the valuation of the Company and synergies assessment of Stoneworks during a transaction.

 Crowe

Advised

 MAGNETAR CAPITAL

Strategy appraisal Eurona Telecom (commercial & strategic Due Dilligence)

 Crowe

Advised

 ÁGORA  
Asesores Financieros EAFI

In the valuation of the Company Beloud Technologies

 Crowe

Advised

 eurona  
telecom

In the valuation of the Company and synergies assessment of Quantis España and Quantis Marruecos during a transaction.

 Crowe

Advised

 REYNASA  
RECAMBIOS

 DANJOA  
GRUCEMA


In the valuation of both companies during a merger process.

 Crowe


Advised

 eurona  
telecom


PPA and impairment test of the companies: Sultan, Hablaya, Stoneworks, Quantis España, Quantis Marruecos and Kubi

 Crowe

Advised

 COPE

In the valuation of minority stakes in audiovisual companies.

 Crowe

Advised

























Confidential

In the valuation of two professional services companies in their merger process.



# About Crowe

## Other credentials

|  |   |   |  |   |  |
|--|---|---|--|---|--|
|  <p>Advised</p>  <p>In the buy-side Due Diligence for the acquisition an engineering group.</p>                    |  <p>Advised</p>  <p>In the buy-side Due Diligence for the acquisition of a perfumery group.</p> |  <p>Advised</p>  <p>In the buy side Due Diligence for the entry in the share capital of Iris Group.</p>                           |  <p>Advised</p>  <p>In the MaB listing operation Due Diligence for several SOCIMI as registered advisor.</p> |  <p>Advised</p>  <p>In the buy-side due diligence for the acquisition of PEVAFERSA Group assets</p>   |  <p>Advised</p>  <p>In the buying Due Diligence and valuation process of Infaimon Group.</p> |
|  <p>Advised</p>  <p>In the buy-side Due Diligence for the acquisition of Alimentación Solo Seafoods group.</p> |  <p>Advised</p>  <p>In the buy-side Due Diligence for the acquisition of Tarbis.</p>        |  <p>Advised</p>  <p>In the buy-side Due Diligence for the acquisition of a telecommunication group in the south of Spain.</p> |  <p>Advised</p>  <p>In the vendor assistance during the investment process in a food sector company.</p> |  <p>Advised</p>  <p>In the buy-side due diligence for the acquisition of an engineering group</p> |  <p>Advised</p>  <p>In the buying Due Diligence of Pangea. The travel store</p>          |



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# Scope and limitations

Any person who is not an addressee of this report or who has not signed and returned to Crowe Advisory SP, S.L. ("Crowe") an Access Letter in Crowe's prescribed form is not authorized to have access to this report.

Should any unauthorized person obtain access to this report, such person (the "Recipient"), by reading this report, accepts and agrees to the following terms:

1. The work performed by Crowe was performed in accordance with instructions provided by our addressee client and was performed exclusively for our addressee client's sole benefit and use.
2. This report was prepared at the direction of our addressee client and may not include all procedures deemed necessary for the purposes of the reader.
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4. The recipient shall make no claims whatsoever against Crowe, its partners, employees or agents arising out of, relating to, or in connection with this report or any of the contents herein.

Our work and observations included herein were based primarily on the following sources of information:

- All the information used for the elaboration of this report is of public knowledge and was mainly originated in industry reports such as GVC Gaesco and report published by the MaB.
- Additionally we used the Audited Annual Accounts for the years 2017 and 2018.
- All the financial information, valuation ratios and share prices were extracted from Infront analytics, Yahoo Finance, Thomson Reuters and Bloomberg.
- No information was provided by the Target

**Important scope comments:**

- Given that we had no access to the Management of the Target, we could not contrast with them some of the growth hypothesis established by the industry experts analysis. Hence we applied our best professional criteria to contrast and verify the reasonability of these hypothesis among several industry reports and analyst opinions.
- We would like to emphasize that we are not legal experts and any reference in the report to legal matters have been included in accordance to the client advisors.
- Our work has focused on the 2018 audited financial statements prepared in Spanish GAAP, the projections until 2022 and the review of main inputs included during all the period.
- Once received the 1Q19 real figures we proceeded to update the FY19F figures and onwards projections.

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# Executive Summary | Profit and loss

The Company increased its EBITDA from €(1.5)m in FY16 to €2m in FY18 mainly driven by the revenues increase and the cost savings process

## Profit and Loss - AB-Biotics

| € in thousand                        | FY16           | FY17         | FY18         | Var. % FY17 ·   | CAGR %       |
|--------------------------------------|----------------|--------------|--------------|-----------------|--------------|
|                                      |                |              |              | FY18            | FY16 - FY18  |
| Revenues                             | 3,961          | 7,208        | 11,892       | 65.0%           | 73.3%        |
| Capitalised costs                    | 1,137          | 512          | 701          | 37.0%           | (21.5%)      |
| COGS                                 | (1,853)        | (4,014)      | (7,280)      | 81.4%           | 98.2%        |
| <b>Gross margin</b>                  | <b>3,245</b>   | <b>3,706</b> | <b>5,314</b> | <b>43.4%</b>    | <b>28.0%</b> |
| Other operating income               | 289            | 259          | 633          | 144.7%          | 48.0%        |
| Personnel expenses                   | (2,035)        | (1,674)      | (1,839)      | 9.9%            | (4.9%)       |
| OPEX                                 | (2,304)        | (1,811)      | (2,046)      | 13.0%           | (5.8%)       |
| Bad debt                             | (848)          | (267)        | (99)         | (62.9%)         | (65.9%)      |
| Other result                         | 199            | 0            | 39           | 22779.1%        | (55.5%)      |
| <b>EBITDA</b>                        | <b>(1,454)</b> | <b>212</b>   | <b>2,002</b> | <b>842.3%</b>   | <b>n.a.</b>  |
| D&A                                  | (1,090)        | (1,137)      | (1,190)      | 4.7%            | 4.5%         |
| Impairments and sale of Fixed Assets | -              | 216          | 1            | (99.8%)         | n.a.         |
| <b>EBIT</b>                          | <b>(2,544)</b> | <b>(708)</b> | <b>812</b>   | <b>(214.7%)</b> | <b>n.a.</b>  |
| Financial income                     | 19             | 20           | 8            | (61.5%)         | (35.8%)      |
| Financial expenses                   | (271)          | (236)        | (243)        | 2.8%            | (5.4%)       |
| <b>EBT</b>                           | <b>(2,797)</b> | <b>(924)</b> | <b>577</b>   | <b>(162.5%)</b> | <b>n.a.</b>  |
| CIT                                  | (3,192)        | 29           | 641          | 2082.1%         | n.a.         |
| <b>Net result</b>                    | <b>(5,989)</b> | <b>(895)</b> | <b>1,218</b> | <b>(236.1%)</b> | <b>n.a.</b>  |
| <b>As a % of revenues</b>            |                |              |              |                 |              |
| Gross Margin                         | 81.9%          | 51.4%        | 44.7%        | -6.73p.p.       |              |
| Other operating income               | 7.3%           | 3.6%         | 5.3%         | 1.73p.p.        |              |
| Personnel expenses                   | (51.4%)        | (23.2%)      | (15.5%)      | 7.76p.p.        |              |
| OPEX                                 | (58.2%)        | (25.1%)      | (17.2%)      | 7.93p.p.        |              |
| Bad debt                             | (21.4%)        | (3.7%)       | (0.8%)       | 2.87p.p.        |              |
| EBITDA                               | (36.7%)        | 2.9%         | 16.8%        | 13.89p.p.       |              |

Source: Audited Annual report

## Profit and loss

- The Target increased its **revenues** a 73.3% CAGR between FY16 and FY18 mainly due to the organic growth of the Company related to the increase of approved products in Europe, Latam and Asia. The 54.6% of the total revenues are generated in Europe and 31.1% in Asia & Pacific.
- During 2018, the exports increased 80% mainly driven by the sales in Asia Pacific and Latam (121% and 123% respectively) with the opening of new markets such as Russia and China.
- COGS** caption mainly comprises merchandises purchase amounting to €4.5m in FY18 (€2.2m in FY17) mainly in EU and raw material consumption amounting to €2.5m in FY18 (€1.4m in FY17). This caption increased 98.2% CAGR in line with the revenues growth. Note that the Target benefited from scale economies and cost savings.
- Other operating income** comprises subsidiaries income and other non-core operating income. The subsidiaries income correspond to the implicit interest subsidised by the granted of zero-interest loans granted for R&D project.
- Personnel expenses** decreased from 51.4% as % of revenue in FY16 to 15.5% FY18 due to cost savings process introduces by the Target during the period. The employees average headcount decreased from #38 in FY16 to #30 in FY18. However, the average cost per employee increased from €53.6k in FY16 to €61.3k in FY18.
- The cost savings process developed by the Company decreased **OPEX** caption as a % of revenues from 58.2% in FY16 to 17.2% in FY18, mainly driven by the R&D outsourcing and the sponsorship of the projects.
- The Company increased its **EBITDA** from €(1.5)m in FY16 to €2m in FY18 mainly driven by the revenues increase and the cost savings process. In FY18 the EBITDA represented 16.8% as a % of revenues.
- The main below EBITDA caption was **D&A** amounting to €(1.2)m as at FY18, mainly comprising R&D capitalised costs amortisation amounting to €(945)k in FY18.



# Executive Summary | Balance Sheet

The Company maintains loans in connection to R&D projects granted by public administration and credit institutions amounting to €3.9m and €335k respectively as at Dec-18

## Balance Sheet Annual Account - Project AB

| € in thousands                             | Dec-16         | Dec-17         | Dec-18         |
|--|----------------|----------------|----------------|
| Intangible assets                          | 7,223          | 6,290          | 6,430          |
| Tangible assets                            | 341            | 284            | 204            |
| Long-term financial investments            | 525            | 683            | 669            |
| <b>Fixed assets</b>                        | <b>8,090</b>   | <b>7,258</b>   | <b>7,303</b>   |
| Inventories                                | 333            | 276            | 609            |
| Trade receivables                          | 1,201          | 2,149          | 3,724          |
| Trade payables                             | (1,411)        | (2,147)        | (2,583)        |
| ST accruals                                | (68)           | (550)          | (131)          |
| <b>Working capital</b>                     | <b>55</b>      | <b>(273)</b>   | <b>1,619</b>   |
| Long-term debt                             | (3,714)        | (3,481)        | (3,151)        |
| Short-term debt                            | (1,559)        | (1,053)        | (1,045)        |
| Short-term financial investments           | 48             | 24             | 1,004          |
| Cash and cash equivalents                  | 2,688          | 2,430          | 1,769          |
| <b>Net debt</b>                            | <b>(2,538)</b> | <b>(2,079)</b> | <b>(1,423)</b> |
| DTA  | 87             | -              | 652            |
| DTL  | (127)          | (165)          | (128)          |
| Provisions                                 | -              | -              | (9)            |
| LT accruals                                | -              | -              | (1,155)        |
| <b>Other assets and liabilities</b>        | <b>(40)</b>    | <b>(165)</b>   | <b>(640)</b>   |
| Share capital                              | 629            | 629            | 629            |
| Share premium                              | 18,732         | 18,574         | 18,586         |
| Legal reserves                             | 4              | 4              | 4              |
| Other reserves                             | 26             | 26             | 26             |
| Negative results of previous years         | (6,761)        | (12,750)       | (13,645)       |
| Subsidies, donations and legacies received | 382            | 496            | 384            |
| Owns shares                                | (1,456)        | (1,345)        | (309)          |
| Net profit/Loss for the year               | (5,989)        | (895)          | 1,218          |
| Adjustments for value change               | -              | -              | (35)           |
| <b>Equity</b>                              | <b>5,567</b>   | <b>4,740</b>   | <b>6,859</b>   |
| DPO (days)                                 | 82             | 96             | 74             |
| DSO (days)                                 | 33             | 78             | 85             |
| DIO (days)                                 | 66             | 25             | 31             |

Source: Annual report

## Balance sheet

- The **Fixed assets** of the Company as at Dec-18 comprise (i) intangible assets including development projects related to clinical studies amounting to €5.7m and patents, licenses, software and advances amounting to €712k (ii) tangible assets amounting to €204k related to technical facilities and machinery and (iii) long-term financial investments amounting to €669k related to deposits and bails, guarantees, bond funds and yield funds.
- The **Inventories** of the Company mainly comprise by raw materials and other supplies amounting to €407k, trade products amounting to €156k and advances made to suppliers amounting to €46k as at Dec-18.
- Trade receivables** mainly corresponding to (i) customers receivables for sales and customers of group companies and associates amounting to €3.5m, (ii) public administration creditor amounting to €152k and (iii) personnel amounting to €27k as at Dec-18.
- The **Trade payables** of the Company comprise (i) short-term suppliers amounting to €1.0m, (ii) other creditors amounting to €1.3m, (iii) public administration debts amounting to €155k and (iv) outstanding remunerations of personnel amounting to €43k as at Dec-18.
- The **Net debt** of the Company comprises (i) loans in connection to R&D projects granted by public administration amounting to €3.9m, (ii) debts with credit institutions amounting to €335k, (iii) short-term financial investments amounting to €1.0m related to equity instruments, loans to companies and other financial assets and (iv) cash and cash equivalents amounting to €1.8m as at Dec-18.
- Other assets and liabilities** mainly comprise long-term accruals related to the exclusive distribution license agreement with Kaneka and deferred taxes of the Company.
- The **Equity** of the Company mainly comprises share capital amounting to (i) €629k (12,588,259 shares amounting to €0.05 per share), (ii) share premium amounting to €18.6m, (iii) reserves amounting to €30k, (iv) subsidies received amounting to €384k and (v) own shares amounting to €(309)k as at Dec-18.

# Executive Summary | Current trading

## Profit and Loss - AB-Biotics

| € in thousand                        | FY17         | FY18         | YTD18        | YTD19        | Var. %          | Var. %          |
|--------------------------------------|--------------|--------------|--------------|--------------|-----------------|-----------------|
|                                      |              |              |              |              | FY17 - FY18     | YTD18 - YTD19   |
| Revenues                             | 7,208        | 11,892       | 1,770        | 2,702        | 65.0%           | 52.6%           |
| Capitalised costs                    | 512          | 701          | 157          | 261          | 37.0%           | 66.6%           |
| COGS                                 | (4,014)      | (7,280)      | (1,122)      | (1,519)      | 81.4%           | 35.4%           |
| <b>Gross margin</b>                  | <b>3,706</b> | <b>5,314</b> | <b>805</b>   | <b>1,443</b> | <b>43.4%</b>    | <b>79.3%</b>    |
| Other operating income               | 259          | 633          | 140          | 82           | 144.7%          | (41.7%)         |
| Personnel expenses                   | (1,674)      | (1,839)      | (351)        | (512)        | 9.9%            | 45.8%           |
| OPEX                                 | (1,811)      | (2,046)      | (473)        | (558)        | 13.0%           | 18.1%           |
| Bad debt                             | (267)        | (99)         | (95)         | 8            | (62.9%)         | (108.4%)        |
| Other result                         | 0            | 39           | 33           | 34           | 22779.1%        | 1.9%            |
| <b>EBITDA</b>                        | <b>212</b>   | <b>2,002</b> | <b>60</b>    | <b>497</b>   | <b>842.3%</b>   | <b>730.8%</b>   |
| D&A                                  | (1,137)      | (1,190)      | (281)        | (310)        | 4.7%            | 10.3%           |
| Impairments and sale of Fixed Assets | 216          | 1            | -            | (2)          | (99.8%)         | n.a.            |
| <b>EBIT</b>                          | <b>(708)</b> | <b>812</b>   | <b>(221)</b> | <b>186</b>   | <b>(214.7%)</b> | <b>(184.0%)</b> |
| Financial income                     | 20           | 8            | 1            | 2            | (61.5%)         | 250.3%          |
| Financial expenses                   | (236)        | (243)        | (67)         | (22)         | 2.8%            | (66.8%)         |
| <b>EBT</b>                           | <b>(924)</b> | <b>577</b>   | <b>(287)</b> | <b>165</b>   | <b>(162.5%)</b> | <b>(157.6%)</b> |
| CIT                                  | 29           | 641          | -            | (42)         | 2082.1%         | n.a.            |
| <b>Net result</b>                    | <b>(895)</b> | <b>1,218</b> | <b>(287)</b> | <b>124</b>   | <b>(236.1%)</b> | <b>(143.1%)</b> |
| <b>As a % of revenues</b>            |              |              |              |              |                 |                 |
| Gross Margin                         | 51.4%        | 44.7%        | 45.5%        | 53.4%        | -6.73p.p.       |                 |
| Other operating income               | 3.6%         | 5.3%         | 7.9%         | 3.0%         | 1.73p.p.        |                 |
| Personnel expenses                   | (23.2%)      | (15.5%)      | (19.8%)      | (18.9%)      | 7.76p.p.        |                 |
| OPEX                                 | (25.1%)      | (17.2%)      | (26.7%)      | (20.7%)      | 7.93p.p.        |                 |
| Bad debt                             | (3.7%)       | (0.8%)       | (5.4%)       | 0.3%         | 2.87p.p.        |                 |
| EBITDA                               | 2.9%         | 16.8%        | 3.4%         | 18.4%        | 13.89p.p.       |                 |

Source: Audited Annual report

## Balance Sheet - AB-Biotics

| € in thousands                             | Dec-16         | Dec-17         | Dec-18         | Mar-19       |
|--|----------------|----------------|----------------|--------------|
| Intangible assets                          | 7,223          | 6,290          | 6,430          | 6,516        |
| Tangible Assets                            | 341            | 284            | 204            | 194          |
| Long-term financial investments            | 525            | 683            | 669            | 669          |
| <b>Fixed assets</b>                        | <b>8,090</b>   | <b>7,258</b>   | <b>7,303</b>   | <b>7,379</b> |
| Inventories                                | 333            | 276            | 609            | 1,069        |
| Trade receivables                          | 1,201          | 2,149          | 3,724          | 2,706        |
| Trade payables                             | (1,411)        | (2,147)        | (2,583)        | (2,685)      |
| Accruals ST                                | (68)           | (550)          | (131)          | (107)        |
| <b>Working capital</b>                     | <b>55</b>      | <b>(273)</b>   | <b>1,619</b>   | <b>983</b>   |
| Long-term debt                             | (3,714)        | (3,481)        | (3,151)        | (2,705)      |
| Short-term debt                            | (1,559)        | (1,053)        | (1,045)        | (1,078)      |
| Short-term financial investments           | 34             | 24             | 1,004          | 965          |
| Short-term group companies investments     | 14             | -              | -              | -            |
| Cash and cash equivalents                  | 2,688          | 2,430          | 1,769          | 2,208        |
| <b>Net debt</b>                            | <b>(2,538)</b> | <b>(2,079)</b> | <b>(1,423)</b> | <b>(611)</b> |
| DTA  | 87             | -              | 652            | 604          |
| DTL  | (127)          | (165)          | (128)          | (120)        |
| Provisions                                 | -              | -              | (9)            | (12)         |
| LT accruals                                | -              | -              | (1,155)        | (1,099)      |
| <b>Other assets and liabilities</b>        | <b>(40)</b>    | <b>(165)</b>   | <b>(640)</b>   | <b>(627)</b> |
| Share capital                              | 629            | 629            | 629            | 629          |
| Share premium                              | 18,732         | 18,574         | 18,586         | 18,586       |
| Legal reserves                             | 4              | 4              | 4              | 126          |
| Other reserves                             | 26             | 26             | 26             | 26           |
| Negative results of previous years         | (6,761)        | (12,750)       | (13,645)       | (12,548)     |
| Subsidies, donations and legacies received | 382            | 496            | 384            | 360          |
| Owns shares                                | (1,456)        | (1,345)        | (309)          | (164)        |
| Net profit/Loss for the year               | (5,989)        | (895)          | 1,218          | 124          |
| Adjustments for value change               | -              | -              | (35)           | (14)         |
| <b>Equity</b>                              | <b>5,567</b>   | <b>4,740</b>   | <b>6,859</b>   | <b>7,125</b> |
| DPO (days)                                 | 82             | 96             | 74             | 147          |
| DSO (days)                                 | 33             | 78             | 85             | 108          |
| DIO (days)                                 | 66             | 25             | 31             | 32           |

Source: Annual report



# Executive Summary | Cash flow

Between FY16 and FY18, the main cash flow movements of the Target are related to revenues increase, working capital, CAPEX and financial debt.

## Cash Flow FY16-FY18 - Project AB

| € in thousand              | FY17         | FY18           |
|----------------------------|--------------|----------------|
| EBITDA cash                | 315          | 3,077          |
| CAPEX                      | (348)        | (1,250)        |
| Working Capital            | 141          | (1,923)        |
| Other result               | 416          | 1              |
| CIT                        | 97           | (47)           |
| <b>Operating Cash Flow</b> | <b>622</b>   | <b>(143)</b>   |
| Financial debt             | (739)        | (338)          |
| Financial investments      | (134)        | (965)          |
| Financial results          | (216)        | (235)          |
| <b>Financial Cash Flow</b> | <b>(467)</b> | <b>(1,681)</b> |
| <b>Changes in Equity</b>   | <b>209</b>   | <b>1,020</b>   |
| <b>Total Cash Flow</b>     | <b>(258)</b> | <b>(661)</b>   |
| Initial cash               | 2,688        | 2,430          |
| Final cash                 | 2,430        | 1,769          |
| <b>Cash variation</b>      | <b>(258)</b> | <b>(661)</b>   |

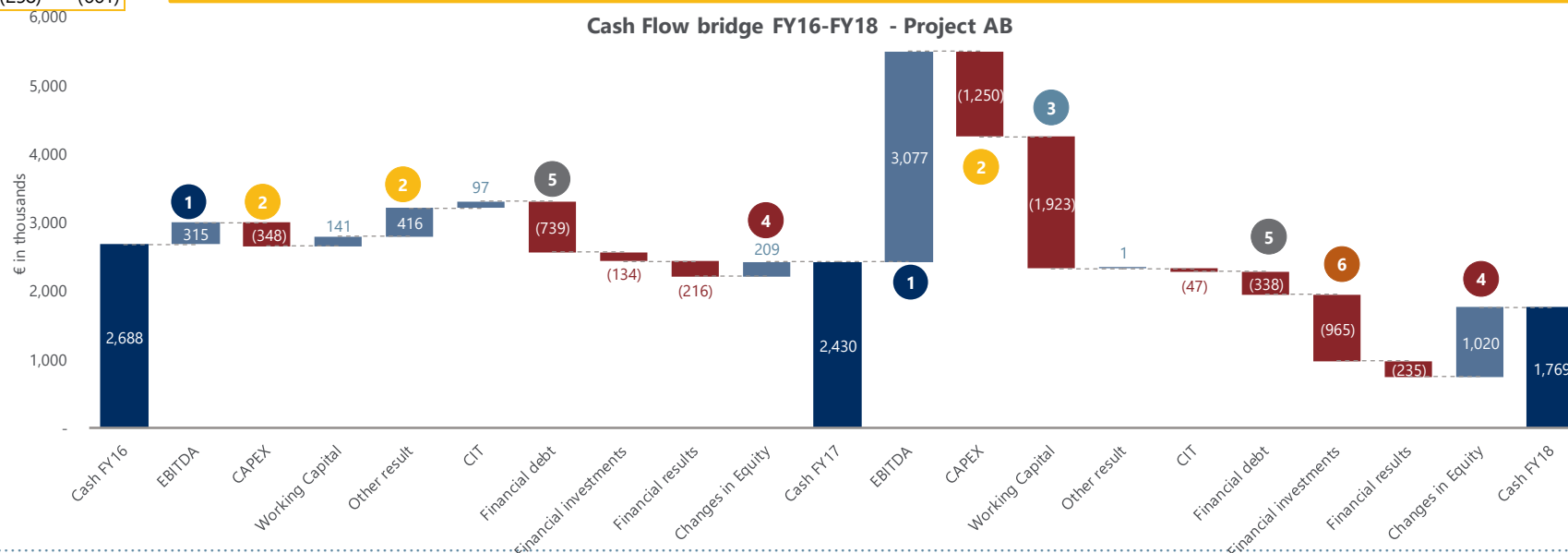
Source: Audited Annual Accounts

## Cash flow

- 1 During FY18, the Target significantly increased the cash revenues mainly due to the Asia and LATAM markets expansion and the LT accrual of the agreement with Kaneka amounting to €1.2m.
- 2 The Target's CAPEX is mainly related to R&D development. Additionally, during FY17 the Company sold the development of a product to Frutaron group amounting to €416k.
- 3 The WC variation decrease during FY18 is mainly due to the DSO and DIO increase (from 78 to 85 days and from 25 to 31 days respectively)
- 4 The equity increase are mainly related to subsidies received by the Target related to R&D projects.
- 5 The financial debt movement is related to the debt repayment and guarantees return during FY17.
- 6 The financial investments are mainly related to ST investments in investment funds.

Note that, the estimated ratio of FCF/EBITDA for the Company amounts to c.72% in average all along the projection, in line with the Biogaia and Probi estimated ratios. *Please refer discounted cash flow for further details.*

## Cash Flow bridge FY16-FY18 - Project AB



# Executive Summary

## Recommendations

### Observation Recommendation

| Valuation                                     | Valuation options according to article of RD 1066/2007 |                   |                       |                         |                     |                     |                   |
|---|--|-------------------|-----------------------|-------------------------|---------------------|---------------------|-------------------|
|   | €  | DCF               | Wide market multiples | Narrow market multiples | Recent transactions | Average share price | Last transaction  |
| EV/EBITDA                                     |  | 26.98             | 17.98                 | 22.90                   | 16.34               | 27.78               | 24.92             |
| EBITDA  |  | 2,002,243         | 2,002,243             | 2,002,243               | 2,002,243           | 2,002,243           | 2,002,243         |
| <b>Enterprise Value</b>                       |  | <b>54,010,866</b> | <b>36,005,335</b>     | <b>45,851,365</b>       | <b>32,718,252</b>   | <b>55,619,554</b>   | <b>49,887,436</b> |
| Size/liquidity adjustment                     |  | n/a               | 5.50%                 | 5.50%                   | 5.50%               | n/a                 | n/a               |
| <b>Enterprise Value after size adjustment</b> |  | <b>54,010,866</b> | <b>34,025,041</b>     | <b>43,329,540</b>       | <b>30,918,749</b>   | <b>55,619,554</b>   | <b>49,887,436</b> |
| Net debt                                      |  | (1,422,639)       | (1,422,639)           | (1,422,639)             | (1,422,639)         | (1,422,639)         | (1,422,639)       |
| <b>Equity Value</b>                           |  | <b>52,588,227</b> | <b>32,602,402</b>     | <b>41,906,901</b>       | <b>29,496,110</b>   | <b>54,196,915</b>   | <b>48,464,797</b> |
| Number of shares                              |  | 12,588,259        | 12,588,259            | 12,588,259              | 12,588,259          | 12,588,259          | 12,588,259        |
| <b>Price per share</b>                        |  | <b>4.18</b>       | <b>2.59</b>           | <b>3.33</b>             | <b>2.34</b>         | <b>4.305</b>        | <b>3.85</b>       |

Source: Crowe analysis, Annual Accounts, Infront analytics and Yahoo finance

- Given that the purpose of the valuation is to determine a fair price for the takeover bid that the Client is planning to promote over the shares of AB-Biotics and considering that the ultimate purpose of the Client is to promote the delisting of the Company, in accordance with its legal advisors, we should take into consideration the *Royal Decree 1066/2007* which establish rules governing the determination of a fair value and the delisting takeover bids regime in Spain.
- The law establish several valuation methods to be used in order to determine the fair value of the share and the delisting price in a delisting TOB. An hypothetically delisting TOB offer should not be lower in any case to the higher value obtained applying these methods.
- Considering that the share price significantly raised during the last months, **the highest value obtained considering all the valuation methods set in article 9 and 10.5 of Royal Decree 1066/2007 is the average share price of the last 6 months with a price per share of €4.305** as at 9<sup>th</sup> of July 2019.
- In this regard, the highest value amongst all the parameters referred to above would be the one corresponding to the "Average Share Price" (i.e. price per share amounting to €4.305).
- Based on that, and for the avoidance of any doubt about the value, **we conclude that the delisting value for the analysed scenario should not be lower than the highest parameter identified hereto ("Average Share Price"), this is, price per share amounting to €4.305."**

### Discounted cash flow

- The DCF is the most complete method to calculate the price per share given that it considers the future growth of the Target and takes into consideration different inputs contained within the WACC and size and liquidity adjustments.
- The discounted cash flow method entails an equity value of €52,588k with a price per share of €4.18. This value is lower than other industry analysis such as GVC Gaesco or Researchfy. The difference mainly arise from the projected revenues increase which we have estimated applying the percentage of increase of GVC Gaesco and Management over the 2018 real figures. *Please refer to DCF section for further details.*





# Executive Summary

## Recommendations

| Observation                                 | Recommendation   |
|---|--|
| <b>Multiples</b>                            | <ul style="list-style-type: none"> <li>One of the methods generally accepted for the determination of the fair value is the similar listed companies multiples and recent transactions.</li> <li>The price per share of market multiples range from €2.59 to €3.33 depending if we use a wider sample of companies or a narrowed one taking into consideration only the most similar companies (Probi, Biogai, Biosearch and CHR Hansen). Please consider that the Target does not have clear competitors and some of the companies of the same industry may have different financial ratios.</li> <li>We considered that this method could be used for contrast purposes but do not take into consideration the potential growth of the Target in comparison with the comparable companies.</li> <li>In the case of recent transactions, the obtained price per share is €2.34 after considering the size/liquidity adjustment, which is lower than the market multiples. We considered that this method could be used for contrast purposes but do not take into consideration the potential growth of the Target in comparison with the recent transactions in the industry and do not offer a wide sample of similar companies.</li> </ul> |
| <b>Previous price per share acquisition</b> | <ul style="list-style-type: none"> <li>Note that Kaneka acquired as at Mar-18 the 26.9% of the Company at a price of €3.25 per share and as at June 13<sup>th</sup> performed another acquisition at a price of €3.85. According to the RD 1066/2007, the offered price should not be lower than this last transaction.</li> </ul>   |
| <b>Alliance with Kaneka</b>                 | <ul style="list-style-type: none"> <li>According to a Company annual reports, Kaneka has signed a license agreement with AB Biotics to grant Kaneka the exclusive rights for production, fermentation and distribution of ABB's products in North America (USA and Canada) and Japan.</li> <li>The initial agreement between both companies has a seven years duration and with this agreement Kaneka expects to develop and launch differentiated new products. Kaneka's goal is reaching US\$90m by 2022.</li> <li>On the other hand, the potential growth coming from Kaneka in North America and Japan would not be significant at least until 2020.</li> <li>In its medium-term management plan, Kaneka stated that it was expecting a strong growth in its food supplements business line. The Japanese Company has an investment target of €1,630m at the current euro/dollar rate including M&amp;A transactions, being US a key market for the Group.</li> <li>The main strategies for the Kaneka/AB-Biotics are the following:</li> </ul>  |

### Americas

- Create and expand new business in the healthcare industry.
- Aggressively conduct M&As and open innovations.
- Further strengthen production and sales in existing businesses.

### Europe

- Expand production capacity and inorganic growth.
- Actively expand solutions business into new businesses and fields.

### Asia

- Maximize returns on large-scale capital expenditure.
- Aggressively expand sales in China, ASEAN and India markets.
- Expand healthcare business.

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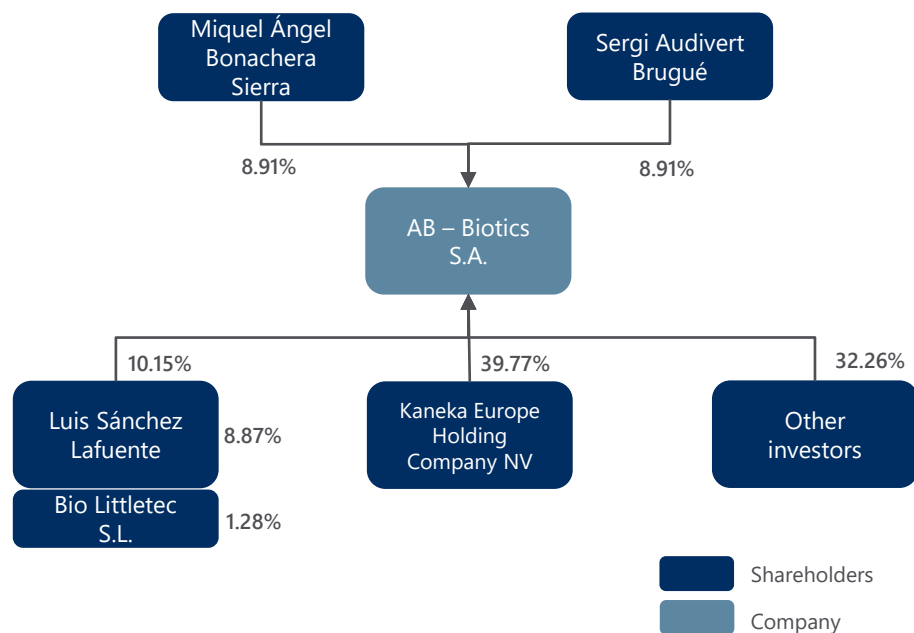
## Appendices

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# Business overview | The Business

AB-Biotics, S.A. is a thriving Company with revenues amounting to €11,892k with an EBITDA increase of 842.3% between FY17 and FY18



|               | FY16    | FY17  | FY18   | 1Q19  | FY19F  |
|---------------|---------|-------|--------|-------|--------|
| Revenues (€k) | 3,961   | 7,208 | 11,892 | 2,702 | 14,181 |
| Net debt (€k) | 2,538   | 2,079 | 1,423  | 611   | n/a    |
| FTE (#)       | 38      | 35    | 30     | 37    | n/a    |
| EBITDA (€k)   | (1,454) | 212   | 2,002  | 497   | 2,620  |

Source: Annual accounts

## Brief history of the Company

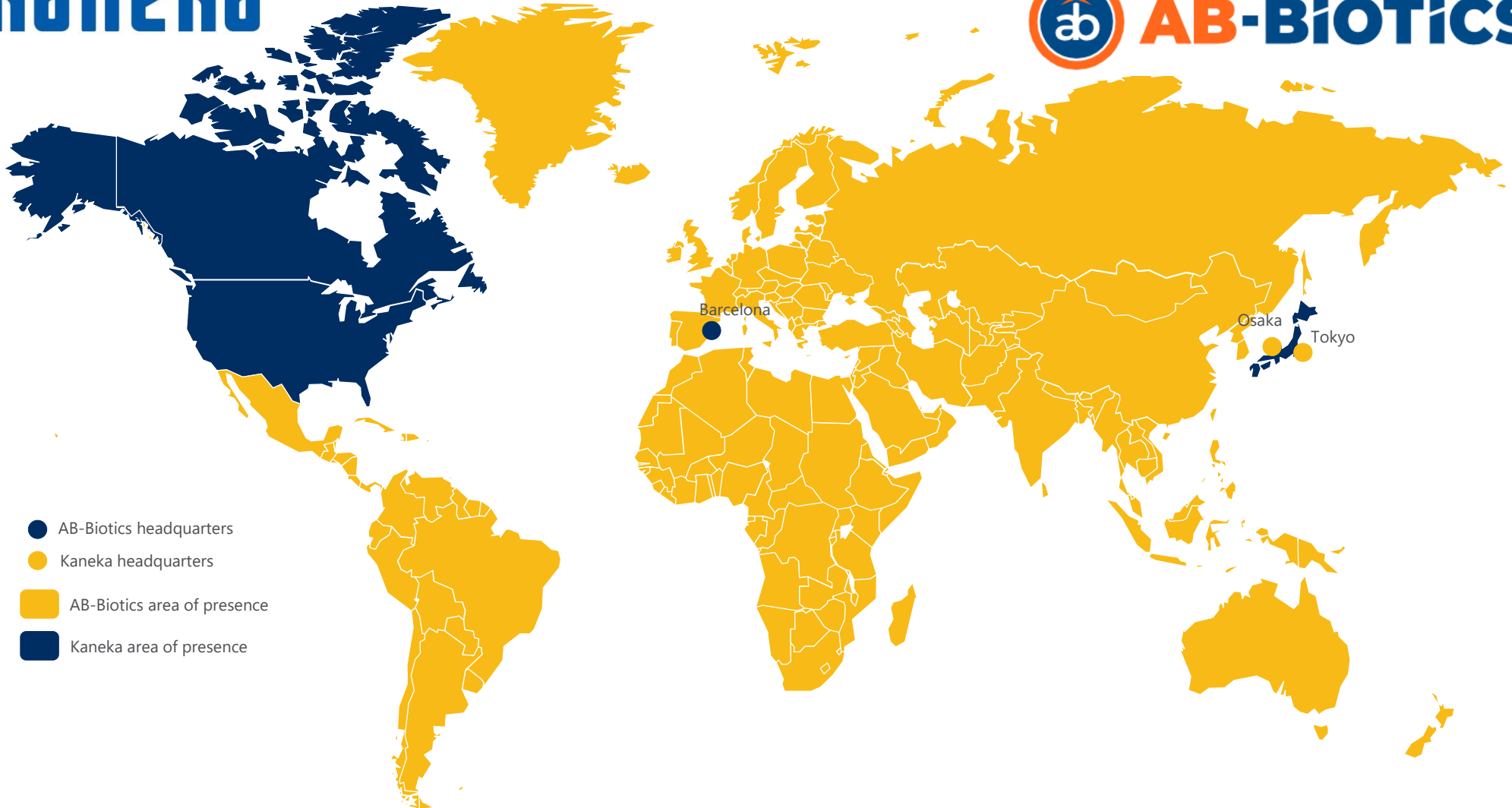
- AB Biotics, S.A. was founded in April 2004 as a spin-off of the Autonomous University of Barcelona. The Company is specialised in the research, development, innovation and production of biotechnological solutions which improve people's health and welfare.
- The Company is divided in three main business areas (i) AB - Biotics functional ingredients, devoted to the development of probiotics and nutraceuticals, (ii) AB - Genotyping, devoted to the genetic analyses for preparation of pharmacogenetics studies and (iii) AB – Biotics R&D outsourcing, a consultancy area which is in charge of the integral management of research projects for the food and pharmaceutical industry.
- Nowadays the Company is a leading biotechnology company, with an international vocation around the world. The headquarter of the company is located in Esade-Creàpolis, Barcelona.
- The main shareholders of the Company are (i) Miquel Àngel Bonachera Sierra with a 8.91% , (ii) Sergi Audivert Bruqué with a 8.91%, (iii) Luis Sánchez Lafuente with 10.15% (8.87% directly and 1.28% through BioLittletec, S.L.) and (iv) since Jun-2018, Kaneka Europe Holding Company NV with a 39.77%. As a result, Kaneka Holding has become the main shareholder of AB - Biotics.
- The Company significantly grew during the last years up to a total revenues of €11.9m during 2018 with an EBITDA of €2m representing a variation of 65.0% in comparison with the 2017 revenues (€7.2m). The analysts projections estimates an EBITDA increase of 39.5% until 2022.
- The Company signed more than 80 license agreements with different pharmaceutical and food supplements companies all over the world, most of them during the last 4 years.
- The Company aspires to establish state of the art solutions by developing microbiome modulators to improve people's health and prevent diseases.
- The Company counts with a team of professionals who are highly qualified in a variety of fields.



# Business overview | The Business

AB Biotics, S.A. headquarters are located in Barcelona and has presence in all the continents, while Kaneka Holding Inc. headquarters are located in Tokyo and mainly has presence in Japan and North America

# Kaneka





# Business overview | The Business

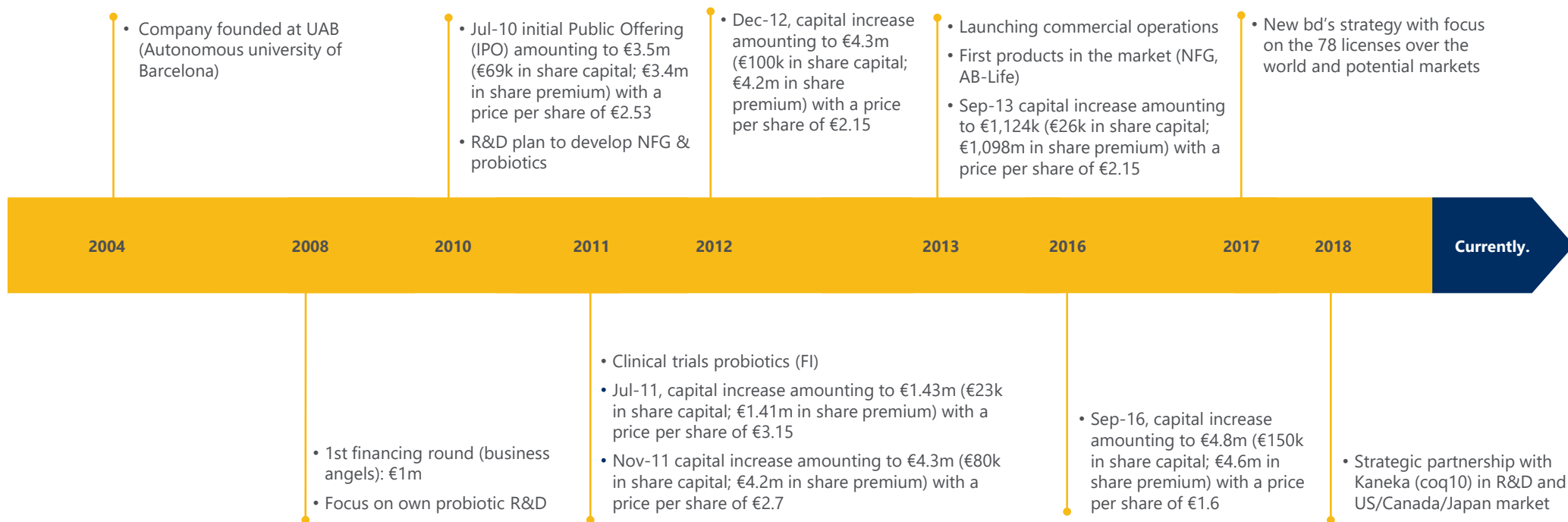


Source: GVC Gaesco and Researchfy



# Business overview | History

AB Biotics, S.A. was founded in 2004 as a spin-off of the Autonomous University of Barcelona. In 2018 Kaneka Holding Inc. became a partner of the company and developed its market in USA, Canada and Japan



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# Agenda

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# Methodology

We performed valuation procedures based on the methods established in the RD 1066/2007 including DCF and similar companies multiples

## Valuation

- The scope of the assignment is the determination of the market value of the 100% of the listed Company AB-Biotics, S.A. to the date determined by the Client in order to quantify the future expectations of generating business wealth that are likely to be estimated.
- Based on valuation purposes, the Value Standard that must be applied is the Market Value or Fair Market Value.
- Fair Market Value is defined as the highest possible price in the open market without restrictions between informed and prudent parties, acting under arm's length conditions and under no coercion expressed in terms of currency or currency value.
- Do not confuse value and price. While the value is the potential benefit in relation to the expectations of asset wealth creation, the price is the cost of the asset acquisition and is determined in the negotiation between the buyer and the seller, under certain circumstances.

## Methodology

- Given that the purpose of the valuation is to determine a fair price for the delisting takeover bid that the Client is planning to promote over the shares of AB-Biotics, we should take into consideration the rules established in the *Royal Decree 1066/2007* governing the takeover bids regime in Spain.
- In compliance with the article 10 of the RD 1066/2007, the delisting of the Target would be performed after approval of the Ordinary General Shareholder's meeting through the offering of the takeover shareholders that did not vote in favour of said delisting.
- The article 10.5 of RD 1066/2007, establish that a valuation report must be presented by the Company promoting the takeover bid to the shareholders in order to justify the price offered.

- This report should include a rational justification of the valuation performed and the price offered based on the following valuation methods:

- 1) Net book value:** This is the value resulting of dividing the equity of the Company and the total number of shares. We do not consider this method to be representative given that it does not consider the Target as an operating Company but use an static focus.
- 2) Liquidation value:** This is the value resulting of adding to the equity value of the Target the estimation of liquidating assets and liabilities. We do not consider this to be a suitable method given that it is focused on companies which will be liquidated after the takeover and the resulting price would be significantly lower than the obtained through other methods.
- 3) Weighted average share price during the previous semester:** This is the value resulting of the average share price during the last 6 months previous to the takeover. The value resulting of this method is usually lower than the ones obtained though the application of other methods. However, in the case of the Target, the share price has been significantly raising during the last 6 months (c.64.1% over the last 6 months at the date of this report) and this value could be similar to a valuation using other methods.
- 4) Previously offered consideration:** In the case other transactions between the buyer and the seller were performed during the last 12 months, the delisting TOB offer should not be lower than the higher of these transactions. In the case of the Target, no takeover bid was promoted during the last 12 months. However, Kaneka acquired as at Mar-18 the 26.9% of the Company at a price of €3.25 per share and as at June 13<sup>th</sup> performed another acquisition at a price of €3.85.
- 5) Other valuation methods:** The RD 1066/2007 established additional methods generally accepted which should be used for valuation purposes such as:
  - i. Discounted cash flow:** Since we were not provided with access to the Management of the Target, we projected the financial statements based on industry reports.





# Methodology

The final price is the result of the higher valuation among the methods established in articles 9 and 10 of the RD 1066/2007

## Methodology (cont.)

- ii. **Similar companies multiples:** We used multiples of similar companies in the industry listed in liquid markets. Given that the companies found have different size, we adjusted the multiples based on size.
  - iii. **Recent industry transactions:** We performed database research to find recent industry transactions to contrast the multiples found in the previous criteria.
- Additionally, according to the article 9 of the RD 1066/2007, the takeover bid must not be lower to any previous offer promoted during the last 12 months between the takeover bidder and any other shareholder affected by the delisting process.
  - The offered price **must not be lower to the higher price resulting of the methodology established in article 10 of the RD 1066/2007 and the fair price established in article 9 of the RD 1066/2007.**
  - It is important to understand that a correct valuation plays a key role in many areas to accurately understand the value of an asset and what drives that value, and in this way make effective business decisions.
  - However, the assessment necessarily involves a certain degree of subjectivity. The value is influenced by a variety of factors: such as: (i) Preconceived ideas and bias of the owner of the asset, (ii) the understanding of the market valuer, (iii) the methodology being used and (iv) the complexity of the underlying business.
  - We believe that the assumptions contained in this report are appropriate, are not overly optimistic or unnecessarily pessimistic and have a strong argumentation base that provides a strong point of reference in understanding the basis of assumptions.

## Methodology (cont.)

- The market value of 100% of the shares of AB Biotics is the result of those of the following values:
  - (+) Business Valuation
  - (+/-) Net Debt
  - (-) Debts to LP and CP with third parties as of December 31, 2018.
  - (+) Financial investments to LP and CP as of December 31, 2018.
  - (+) Treasury as of December 31, 2018.

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# Market multiples

The most similar industry companies at an international level have an average EV/EBITDA ratio amounting to 22.9x

## Industry listed companies

- We performed a database research of listed companies within the same industry in order to obtain a range of multiples which could be applicable to the Target. Most of the selected companies have a significantly higher EBITDA and market capitalisation than the Target Company. However, an adjustment will be applied to compensate the potential deviation which may arise from this. We excluded from the calculation the companies with negative EBITDA given that the Target have positive EBITDA.
- The breakdown of selected industry companies is the following:

### Industry listed Companies

| € estimated                    | Market Cap     | Country | Beta | EBITDA (USD)   | EV/EBITDA | ROCE   |
|--------------------------------|----------------|---------|------|----------------|-----------|--------|
| Amgen Inc                      | 95,660,013,408 | USA     | 0.93 | 10,958,140,680 | 9.3       | 18.32% |
| CHR Hansen                     | 12,972,045,100 | DNK     | 0.98 | 342,944,256    | 29.0      | 15.52% |
| BioGaia AB                     | 695,712,436    | SWE     | 1.36 | 19,660,009     | 27.1      | 38.78% |
| Biosearch S.A.                 | 72,768,484     | SPA     | 1.86 | 5,776,450      | 12.5      | 15.23% |
| Celgene Corporation            | 59,716,954,744 | USA     | 1.24 | 6,867,815,960  | 10.4      | 20.95% |
| Emergent BioSolutions Inc      | 2,058,558,620  | USA     | 1.43 | 150,752,579    | 17.7      | 3.28%  |
| Exelixis Inc                   | 5,362,969,420  | USA     | 1.10 | 369,897,531    | 12.6      | 61.19% |
| Probi AB                       | 360,805,936    | SWE     | 0.83 | 15,338,144     | 23.1      | 7.61%  |
| Regeneron Pharmaceuticals, Inc | 28,824,286,100 | USA     | 1.03 | 2,330,949,240  | 11.6      | 27.21% |
| Repligen Corporation           | 3,215,102,400  | USA     | 1.10 | 42,609,038     | 73.5      | n/a    |

Note that the ROCE of the Target amounts to 12.19% in comparison with the 19.3% average of most similar companies.

Extreme values to be excluded from the calculation

Source: Infront analytics, Yahoo Finance and Bloomberg

|                                       |             |              |
|---------------------------------------|-------------|--------------|
| <b>Median</b>                         | <b>15.1</b> | <b>18.3%</b> |
| <b>Average without extreme values</b> | <b>18.0</b> | <b>23.7%</b> |
| <b>Most similar companies average</b> | <b>22.9</b> | <b>19.3%</b> |

Most comparable companies

- Note that the market capitalisation included was the one at the date of the report and the EBITDA included was calculated as at the date of the report for the last twelve months.
- We obtained an average EV/EBITDA of 18.0x and a median of 15.1x. Note that in the case of the average we excluded the extreme values from the calculation.
- If taken into consideration the considered most similar companies, the EV/EBITDA average would amount to 22.9x.
- We contrasted these results with the multiples provided by Damodaran in Jan-19 in the Drugs (Biotechnology) sector amounting to 13.4x in the Global market, 12.8x in Europe and 12.0x in USA. *Please refer to appendices for further details.*
- It is important to highlight that the products of the Target are scientifically well differentiated from those of their competitors, hence, the competition is not about the same active principle, but rather about the same therapeutic concepts. The similar companies selected in this report does not exactly have the same products than the Target.

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## Recent transactions

The recent transactions at an international level have an average and median EV/EBITDA ratio amounting to 16.3x and 13.2x respectively excluding extreme values

### Recent industry transactions

- We performed a database research of the recent transactions in the Biotechnological industry (CNAE code 7211 and US SIC code 8731) with the following result:

#### Recent industry transactions

| Date Announced                        | Date Effective | Target Name                   | Acquiror Name                    | EV/EBITDA   |
|---------------------------------------|----------------|-------------------------------|----------------------------------|-------------|
| 29/10/2018                            | 14/02/2019     | Karo Pharma AB                | Karo Intressenter AB             | 13.79       |
| 29/06/2018                            | 29/06/2018     | ADM                           | Probiotics International Limited | 16.20       |
| 30/06/2017                            | 30/06/2017     | CCSTEAM Srl                   | Tech-Value SpA                   | 6.18        |
| 31/05/2017                            | 08/06/2017     | Oxford Gene Technology IP Ltd | Sysmex Corp                      | 26.67       |
| 03/06/2016                            | 15/09/2016     | Source BioScience PLC         | Sherwood Holdings Ltd            | 12.35       |
| 06/06/2016                            | 06/06/2016     | Nutraceutix                   | Probi AB                         | 12.70       |
| <b>Median</b>                         |                |                               |                                  | <b>13.2</b> |
| <b>Average without extreme values</b> |                |                               |                                  | <b>16.3</b> |

Source: Thomson Reuters

Extreme values to be excluded from the calculation

- All the transactions were performed in the industry of the Target between 2016 and 2019. We considered necessary to exclude from the calculation the extreme values, in this case only the acquisition of CCSTeam Srl from Tech-Value Spa given its significant lower value.
- The average without extreme values and median of EV/EBITDA amounts to 16.3x and 13.2x respectively which is lower than the market multiples (18.0x and 15.1x) and even lower than the multiples of the most similar companies (22.9x).
- All the transactions are performed in the industry of the target "Research and experimental development on biotechnology" and "Commercial physical and biological research".
- Note that, according to expert analysis, the industry is thriving and the market is tending to consolidation due to the competition increase which will lead to an increase in costs (CAPEX, R&D, etc...) and might decrease the multiples paid for this kind of companies in the future. The Company might need to invest in competitiveness for new products, market niches and potential acquisitions.
- The industry has relevant margins and it is attracting an increasing number of players which will push back the profitability and the intrinsic companies valuation.
- During the last couple of years, additional non-disclosed transactions were performed such as the acquisition of **Life-Space Group (LSG) by By-Health Co Ltd** during 2018, acquisition of **Ganeden by Kerry Group** during 2017 and the acquisition of **BioCare Copenhagen A/S by Royal DSM** during 2017.

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# Average share price

The average of the price share during the last six months (up to 9<sup>th</sup> of July 2019) amounts to €4.305 per share

## Average share price during the last 12 and 6 months

### Last twelve and six months, trading per day- AB-Biotics

| €                        | Open | High | Low  | Close | Daily average |
|--------------------------|------|------|------|-------|---------------|
| <b>Average (LTM)</b>     | 3.77 | 3.82 | 3.71 | 3.77  | 3.768         |
| <b>Average (Last 6M)</b> | 4.30 | 4.38 | 4.23 | 4.31  | 4.305         |

Source: Yahoo finance

- According to the article 10 of the RD 1066/2007, this is the value resulting of the average share price during the last 6 months previous to the takeover. The value resulting of this method is usually lower than the ones obtained though the application of other methods. However, in the case of the Target, the share price has been significantly raising during the last six months (c.64.1% over the last 6 months at the date of this report) and this value could be similar to a valuation using other methods. *Please refer to appendices for further details regarding the daily share price.*
- The share price fluctuated between a minimum of €3.24 and a maximum of €6.10 per share, with an average of €4.305 during the last 6 months as at 09<sup>th</sup> of July 2019.
- Note that the MaB is not a high liquid market and small daily trading could significantly affect the share price, which is the reason of the difference between this and other accepted methods which could better reflect the valuation of the target. During the last 6 months, the day with a higher volume was June 13<sup>th</sup> with 267,394 (due to the additional acquisition of 2% from Kaneka) but with a daily average of 10,496. *Refer to appendices for further details regarding the daily trading volume.*

### Last six months, volume trading per day- AB-Biotics

| Date                     | Open | High | Low  | Close | Volume  | Daily average |
|--------------------------|------|------|------|-------|---------|---------------|
| <b>Average (Last 6M)</b> | 4.30 | 4.38 | 4.23 | 4.31  | 10,496  | 4.305         |
| <b>Max. (Last 6M)</b>    | 5.70 | 6.10 | 5.60 | 5.70  | 267,394 | 5.70          |
| <b>Min. (Last 6M)</b>    | 3.24 | 3.30 | 3.24 | 3.30  | -       | 3.27          |

Source: Yahoo finance

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| <b>9.</b> | <b>Discounted cash flow</b>  | <b>32</b> |
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# Discounted cash flow | Current trading

The YTD19 (Mar-19) revenues and EBITDA increased 52.6% and 730.8% respectively in comparison with YTD18.

## Profit and Loss - AB-Biotics

| € in thousand                        | FY17         | FY18         | YTD18        | YTD19        | Var. %<br>FY17 -<br>FY18 | Var. %<br>YTD18 -<br>YTD19 |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------------------|----------------------------|
| Revenues                             | 7,208        | 11,892       | 1,770        | 2,702        | 65.0%                    | 52.6%                      |
| Capitalised costs                    | 512          | 701          | 157          | 261          | 37.0%                    | 66.6%                      |
| COGS                                 | (4,014)      | (7,280)      | (1,122)      | (1,519)      | 81.4%                    | 35.4%                      |
| <b>Gross margin</b>                  | <b>3,706</b> | <b>5,314</b> | <b>805</b>   | <b>1,443</b> | <b>43.4%</b>             | <b>79.3%</b>               |
| Other operating income               | 259          | 633          | 140          | 82           | 144.7%                   | (41.7%)                    |
| Personnel expenses                   | (1,674)      | (1,839)      | (351)        | (512)        | 9.9%                     | 45.8%                      |
| OPEX                                 | (1,811)      | (2,046)      | (473)        | (558)        | 13.0%                    | 18.1%                      |
| Bad debt                             | (267)        | (99)         | (95)         | 8            | (62.9%)                  | (108.4%)                   |
| Other result                         | 0            | 39           | 33           | 34           | 22779.1%                 | 1.9%                       |
| <b>EBITDA</b>                        | <b>212</b>   | <b>2,002</b> | <b>60</b>    | <b>497</b>   | <b>842.3%</b>            | <b>730.8%</b>              |
| D&A                                  | (1,137)      | (1,190)      | (281)        | (310)        | 4.7%                     | 10.3%                      |
| Impairments and sale of Fixed Assets | 216          | 1            | -            | (2)          | (99.8%)                  | n.a.                       |
| <b>EBIT</b>                          | <b>(708)</b> | <b>812</b>   | <b>(221)</b> | <b>186</b>   | <b>(214.7%)</b>          | <b>(184.0%)</b>            |
| Financial income                     | 20           | 8            | 1            | 2            | (61.5%)                  | 250.3%                     |
| Financial expenses                   | (236)        | (243)        | (67)         | (22)         | 2.8%                     | (66.8%)                    |
| <b>EBT</b>                           | <b>(924)</b> | <b>577</b>   | <b>(287)</b> | <b>165</b>   | <b>(162.5%)</b>          | <b>(157.6%)</b>            |
| CIT                                  | 29           | 641          | -            | (42)         | 2082.1%                  | n.a.                       |
| <b>Net result</b>                    | <b>(895)</b> | <b>1,218</b> | <b>(287)</b> | <b>124</b>   | <b>(236.1%)</b>          | <b>(143.1%)</b>            |
| <b>As a % of revenues</b>            |              |              |              |              |                          |                            |
| Gross Margin                         | 51.4%        | 44.7%        | 45.5%        | 53.4%        | -6.73p.p.                |                            |
| Other operating income               | 3.6%         | 5.3%         | 7.9%         | 3.0%         | 1.73p.p.                 |                            |
| Personnel expenses                   | (23.2%)      | (15.5%)      | (19.8%)      | (18.9%)      | 7.76p.p.                 |                            |
| OPEX                                 | (25.1%)      | (17.2%)      | (26.7%)      | (20.7%)      | 7.93p.p.                 |                            |
| Bad debt                             | (3.7%)       | (0.8%)       | (5.4%)       | 0.3%         | 2.87p.p.                 |                            |
| EBITDA                               | 2.9%         | 16.8%        | 3.4%         | 18.4%        | 13.89p.p.                |                            |

Source: Audited Annual report

## Current trading

- The 1Q19 results published by the Company shows a significant increase in comparison with YTD18, with a 52.6% increase in revenues and 730.8% increase in EBITDA.
- In order to project the future revenues of the Company we have considered that the YTD19 amount correspond to the 19.1% of the total year revenues, which is the result of considering the average of the main three competitors (Biogaia, Probi and CHR Hansen) and the YTD18 percentages over the total FY18 revenues.
- During FY19F, we considered an EBITDA/revenues ratio amounting to 18.5% which is in line with the 1Q19 EBITDA ratio.
- According to the Annual Accounts of 1Q19, the first 1Q19 results are mainly driven by:
  - Exports increased 78% (national sales amounting to 4% in YTD19 in comparison with 18% in YTD18) with China as the most significant market.
  - The alliance with Kaneka in Japan and Northamerica is starting to have impact in the financial statements of the Company.
  - The area of functional ingredients continues to be the main driver of revenues from the Society, while the area of Precision Medicine NeuroPharmaGen continues being a high potential technology in which the Company focuses its strategy of generating solid scientific documentation.

# Discounted cash flow | Projections (1 of 3)

The projected EBITDA of the Target might increase by a 39.5% CAGR until FY22 based on 2018 financial statements, industry estimations and expert reports

## Profit and Loss projections - AB Biotics

| € in thousand                        | FY18         | FY19e        | FY20e        | FY21e         | FY22e         | CAGR %<br>FY18-FY22 |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------------|
| Revenues                             | 11,892       | 14,181       | 18,866       | 21,848        | 23,677        | 18.8%               |
| Capitalised costs                    | 701          | -            | -            | -             | -             | (100.0%)            |
| COGS                                 | (7,280)      | (7,535)      | (9,346)      | (10,088)      | (10,300)      | 9.1%                |
| <b>Gross margin</b>                  | <b>5,314</b> | <b>6,646</b> | <b>9,519</b> | <b>11,760</b> | <b>13,377</b> | <b>26.0%</b>        |
| Other operating income               | 633          | 696          | 766          | 842           | 927           | 10.0%               |
| Personnel expenses                   | (1,839)      | (2,022)      | (2,216)      | (2,445)       | (2,685)       | 9.9%                |
| OPEX                                 | (2,046)      | (2,587)      | (2,943)      | (3,365)       | (3,841)       | 17.1%               |
| Bad debt                             | (99)         | (113)        | (151)        | (175)         | (189)         | 17.6%               |
| Other result                         | 39           | -            | -            | -             | -             | (100.0%)            |
| <b>EBITDA</b>                        | <b>2,002</b> | <b>2,620</b> | <b>4,975</b> | <b>6,618</b>  | <b>7,589</b>  | <b>39.5%</b>        |
| D&A                                  | (1,190)      | (1,150)      | (1,030)      | (930)         | (830)         | (8.6%)              |
| Impairments and sale of Fixed Assets | 1            | 0            | -            | -             | 0             | (100.0%)            |
| <b>EBIT</b>                          | <b>812</b>   | <b>1,470</b> | <b>3,945</b> | <b>5,688</b>  | <b>6,759</b>  | <b>69.8%</b>        |
| Financial income                     | 8            | 50           | 60           | 100           | 140           | 105.4%              |
| Financial expenses                   | (243)        | (40)         | (30)         | (20)          | (10)          | (55.0%)             |
| <b>EBT</b>                           | <b>577</b>   | <b>1,480</b> | <b>3,975</b> | <b>5,768</b>  | <b>6,889</b>  | <b>85.9%</b>        |
| CIT                                  | 641          | (150)        | (350)        | (820)         | (1,120)       | n.a.                |
| <b>Net result</b>                    | <b>1,218</b> | <b>1,330</b> | <b>3,625</b> | <b>4,948</b>  | <b>5,769</b>  | <b>47.5%</b>        |
| <b>As a % of revenues</b>            |              |              |              |               |               |                     |
| Gross Margin                         | 44.7%        | 46.9%        | 50.5%        | 53.8%         | 56.5%         | 11.82p.p.           |
| Other operating income               | 5.3%         | 4.9%         | 4.1%         | 3.9%          | 3.9%          | -1.41p.p.           |
| Personnel expenses                   | (15.5%)      | (14.3%)      | (11.7%)      | (11.2%)       | (11.3%)       | 4.13p.p.            |
| OPEX                                 | (17.2%)      | (18.2%)      | (15.6%)      | (15.4%)       | (16.2%)       | 0.98p.p.            |
| Bad debt                             | (0.8%)       | (0.8%)       | (0.8%)       | (0.8%)        | (0.8%)        | 0.03p.p.            |
| EBITDA                               | 16.8%        | 18.5%        | 26.4%        | 30.3%         | 32.1%         | 15.22p.p.           |

Source: Crowe and industry analysis and GVC Gaesco

Note that the projections we used for FY19e are higher than the Management estimations. (Revenues amounting to €14m vs. revenues amounting to €13m according to the Management). Note that we were provided with the 1Q19 and we updated the FY19e based on it.

Consider that the industry has relevant margins and it is attracting an increasing number of players which will push back the profitability and the intrinsic companies valuation

## Financial statements projections

- In order to perform a discounted cash flow analysis, we projected the financial statements of the Target from the 2018 Audited Annual Accounts.
- Given that no information was provided by the Management, our projections were based on analysis and reports from industry experts and the 1Q19 results.
- Between FY18 and FY22 we considered a CAGR increase of 18.8% mainly based on the following:
  - The global demand of probiotics ingredients is estimated to have a growth of between 6.5% and 8.5% of CAGR. Around a 7.7% CAGR according to most reports.
  - According to industry analysts, Probi and Biogaia, which are the most similar companies in terms of product portfolio and size, will have a CAGR increase between FY18 and FY21 amounting to 15.7% and 16.4% respectively, in line with the AB-Biotics estimations.

## Similar companies sales estimations increase- AB Biotics

| %            | FY19e | FY20e | FY21e | CAGR % FY18 -<br>FY21 |
|--------------|-------|-------|-------|-----------------------|
| Probi        | 6.0%  | 24.0% | 18.0% | 15.7%                 |
| BioGaia      | 9.7%  | 17.3% | 22.7% | 16.4%                 |
| CHR Hansen   | 7.1%  | 9.9%  | 8.9%  | 8.6%                  |
| <b>Sales</b> |       |       |       |                       |

Source: ABG Sundal Collier, JP Morgan and Market Screener

- In the case of CHR Hansen, the CAGR between FY18 and FY21 is lower than the other similar companies due to its size and market share.
- Note that companies such as AB-Biotics, Probi and Biogaia have much more room for growth than CHR Hansen given their current market share. However, in absolute terms, CHR Hansen growth at a very significant pace.



## Discounted cash flow | Projections (2 of 3)

The projected EBITDA of the Target might increase by a 39.5% CAGR until FY22 based on 2018 financial statements, industry estimations and expert reports

### Profit and Loss projections - AB Biotics

| € in thousand                        | FY18         | FY19e        | FY20e        | FY21e         | FY22e         | CAGR %<br>FY18-FY22 |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------------|
| Revenues                             | 11,892       | 14,181       | 18,866       | 21,848        | 23,677        | 18.8%               |
| Capitalised costs                    | 701          | -            | -            | -             | -             | (100.0%)            |
| COGS                                 | (7,280)      | (7,535)      | (9,346)      | (10,088)      | (10,300)      | 9.1%                |
| <b>Gross margin</b>                  | <b>5,314</b> | <b>6,646</b> | <b>9,519</b> | <b>11,760</b> | <b>13,377</b> | <b>26.0%</b>        |
| Other operating income               | 633          | 696          | 766          | 842           | 927           | 10.0%               |
| Personnel expenses                   | (1,839)      | (2,022)      | (2,216)      | (2,445)       | (2,685)       | 9.9%                |
| OPEX                                 | (2,046)      | (2,587)      | (2,943)      | (3,365)       | (3,841)       | 17.1%               |
| Bad debt                             | (99)         | (113)        | (151)        | (175)         | (189)         | 17.6%               |
| Other result                         | 39           | -            | -            | -             | -             | (100.0%)            |
| <b>EBITDA</b>                        | <b>2,002</b> | <b>2,620</b> | <b>4,975</b> | <b>6,618</b>  | <b>7,589</b>  | <b>39.5%</b>        |
| D&A                                  | (1,190)      | (1,150)      | (1,030)      | (930)         | (830)         | (8.6%)              |
| Impairments and sale of Fixed Assets | 1            | 0            | -            | -             | 0             | (100.0%)            |
| <b>EBIT</b>                          | <b>812</b>   | <b>1,470</b> | <b>3,945</b> | <b>5,688</b>  | <b>6,759</b>  | <b>69.8%</b>        |
| Financial income                     | 8            | 50           | 60           | 100           | 140           | 105.4%              |
| Financial expenses                   | (243)        | (40)         | (30)         | (20)          | (10)          | (55.0%)             |
| <b>EBT</b>                           | <b>577</b>   | <b>1,480</b> | <b>3,975</b> | <b>5,768</b>  | <b>6,889</b>  | <b>85.9%</b>        |
| CIT                                  | 641          | (150)        | (350)        | (820)         | (1,120)       | n.a.                |
| <b>Net result</b>                    | <b>1,218</b> | <b>1,330</b> | <b>3,625</b> | <b>4,948</b>  | <b>5,769</b>  | <b>47.5%</b>        |
| <b>As a % of revenues</b>            |              |              |              |               |               |                     |
| Gross Margin                         | 44.7%        | 46.9%        | 50.5%        | 53.8%         | 56.5%         | 11.82p.p.           |
| Other operating income               | 5.3%         | 4.9%         | 4.1%         | 3.9%          | 3.9%          | -1.41p.p.           |
| Personnel expenses                   | (15.5%)      | (14.3%)      | (11.7%)      | (11.2%)       | (11.3%)       | 4.13p.p.            |
| OPEX                                 | (17.2%)      | (18.2%)      | (15.6%)      | (15.4%)       | (16.2%)       | 0.98p.p.            |
| Bad debt                             | (0.8%)       | (0.8%)       | (0.8%)       | (0.8%)        | (0.8%)        | 0.03p.p.            |
| EBITDA                               | 16.8%        | 18.5%        | 26.4%        | 30.3%         | 32.1%         | 15.22p.p.           |

Source: Crowe and industry analysis and GVC Gaesco

### Financial statements projections (cont.)

- The Target is one of the top 10 leader in the documented strain market. This industry is estimated to grow from the current 35% to the 65% in the next five years. Documented strains also have a higher price and the Target has a bank of unique 550 bacteria strain (unlike most of its competitors).
  - The products of the Target are scientifically well differentiated from those of their competitors, hence, the competition is not about the same active principle, but rather about the same therapeutic concepts. The similar companies selected in this report do not exactly have the same products as the Target.
  - The increase in the European regulatory requirements regarding probiotics might make a difference regarding the products of the Target in comparison with the lack of clinical documentation of some its competitors.
- All along the period but specially between FY18 and FY19, the revenues' increase of the Target took into consideration the exponential increase of licence and the strategic agreement with Kaneka which will open the North-American market.
  - Considering this, we applied over the real 2018 figures the estimated percentage growth estimated by the analysts.
  - According to the GVC Gaesco analysis, the main growth leverage of the Company are relate to:
    - i. **Pipeline:** AB-Biotics would currently be in the pre-commercialisation phase of most of its pipeline given the development of the R&D projects. This is the phase were the cash might start to be generated given that the remaining CAPEX needed would be lower than the revenues originated with this pipeline.
    - ii. **Operating leverage:** Due to the cost structure of the Target and the operating leverage most of the operating profit will directly increase the EBITDA.

# Discounted cash flow | Projections (3 of 3)

The Target have a large pipeline and a cost structure which could allow it to significantly increase EBITDA in the following years

## Profit and Loss projections - AB Biotics

| € in thousand                        | FY18         | FY19e        | FY20e        | FY21e         | FY22e         | CAGR %<br>FY18-FY22 |
|--------------------------------------|--------------|--------------|--------------|---------------|---------------|---------------------|
| Revenues                             | 11,892       | 14,181       | 18,866       | 21,848        | 23,677        | 18.8%               |
| Capitalised costs                    | 701          | -            | -            | -             | -             | (100.0%)            |
| COGS                                 | (7,280)      | (7,535)      | (9,346)      | (10,088)      | (10,300)      | 9.1%                |
| <b>Gross margin</b>                  | <b>5,314</b> | <b>6,646</b> | <b>9,519</b> | <b>11,760</b> | <b>13,377</b> | <b>26.0%</b>        |
| Other operating income               | 633          | 696          | 766          | 842           | 927           | 10.0%               |
| Personnel expenses                   | (1,839)      | (2,022)      | (2,216)      | (2,445)       | (2,685)       | 9.9%                |
| OPEX                                 | (2,046)      | (2,587)      | (2,943)      | (3,365)       | (3,841)       | 17.1%               |
| Bad debt                             | (99)         | (113)        | (151)        | (175)         | (189)         | 17.6%               |
| Other result                         | 39           | -            | -            | -             | -             | (100.0%)            |
| <b>EBITDA</b>                        | <b>2,002</b> | <b>2,620</b> | <b>4,975</b> | <b>6,618</b>  | <b>7,589</b>  | <b>39.5%</b>        |
| D&A                                  | (1,190)      | (1,150)      | (1,030)      | (930)         | (830)         | (8.6%)              |
| Impairments and sale of Fixed Assets | 1            | 0            | -            | -             | 0             | (100.0%)            |
| <b>EBIT</b>                          | <b>812</b>   | <b>1,470</b> | <b>3,945</b> | <b>5,688</b>  | <b>6,759</b>  | <b>69.8%</b>        |
| Financial income                     | 8            | 50           | 60           | 100           | 140           | 105.4%              |
| Financial expenses                   | (243)        | (40)         | (30)         | (20)          | (10)          | (55.0%)             |
| <b>EBT</b>                           | <b>577</b>   | <b>1,480</b> | <b>3,975</b> | <b>5,768</b>  | <b>6,889</b>  | <b>85.9%</b>        |
| CIT                                  | 641          | (150)        | (350)        | (820)         | (1,120)       | n.a.                |
| <b>Net result</b>                    | <b>1,218</b> | <b>1,330</b> | <b>3,625</b> | <b>4,948</b>  | <b>5,769</b>  | <b>47.5%</b>        |
| <b>As a % of revenues</b>            |              |              |              |               |               |                     |
| Gross Margin                         | 44.7%        | 46.9%        | 50.5%        | 53.8%         | 56.5%         | 11.82p.p.           |
| Other operating income               | 5.3%         | 4.9%         | 4.1%         | 3.9%          | 3.9%          | -1.41p.p.           |
| Personnel expenses                   | (15.5%)      | (14.3%)      | (11.7%)      | (11.2%)       | (11.3%)       | 4.13p.p.            |
| OPEX                                 | (17.2%)      | (18.2%)      | (15.6%)      | (15.4%)       | (16.2%)       | 0.98p.p.            |
| Bad debt                             | (0.8%)       | (0.8%)       | (0.8%)       | (0.8%)        | (0.8%)        | 0.03p.p.            |
| EBITDA                               | 16.8%        | 18.5%        | 26.4%        | 30.3%         | 32.1%         | 15.22p.p.           |

Source: Crowe and industry analysis and GVC Gaesco

## Financial statements projections (cont.)

- iii. **Cost savings:** Mainly driven by (i) personnel restructuring process and (ii) outsourcing of R&D including sponsors which significantly reduce the R&D expenses.
  - iv. **Debt/equity** ratio in decrease due to the capacity of the Target to have benefits without external financing.
- The remaining operating expenses were projected following the estimations of GVC Gaesco and the Management of the Target.
  - We additionally projected the Working Capital of the Company based on the P&L projections and the average DSO, DPO and DIO of the historical financial statements of the Target.

## Working Capital projections - AB Biotics

| € in thousand          | Dec-18       | Dec-19     | Dec-20       | Dec-21       | Dec-22       |
|------------------------|--------------|------------|--------------|--------------|--------------|
| Inventories            | 609          | 857        | 1,063        | 1,147        | 1,171        |
| Trade receivables      | 3,724        | 2,927      | 3,767        | 4,302        | 4,631        |
| Trade payables         | (2,583)      | (2,645)    | (3,155)      | (3,427)      | (3,587)      |
| Accruals ST            | (131)        | (250)      | (250)        | (250)        | (250)        |
| <b>Working capital</b> | <b>1,619</b> | <b>888</b> | <b>1,425</b> | <b>1,772</b> | <b>1,965</b> |

Source: Crowe and industry analysis and GVC Gaesco

- Note that the main WC captions estimations evolution are in line with the most similar companies estimations (Probi and Biogaia).



# Discounted cash flow | WACC Calculation

The cost of equity of the Company amounts to 12.79% including a size premium amounting to 5.5%

## Cost of equity - Project AB

| Abbreviation | Concept                  | data          | Source  |
|--------------|--------------------------|---------------|---|
| Rf           | Risk-free rate of return | 1.42%         | 10 years Spanish treasury bonds as at Dec-18, Expansión                       |
| Rc           | Risk-country             | 0.81%         | (Spanish CDS as at Dec-18)<br>Worldgovernmentbonds.com                        |
| $\beta$      | Beta                     | 0.96          | Thomson Reuters and Damodaran, average Beta for the Company and the industry. |
| Rm - Rf      | Rate market return       | 5.28%         | Statista, Expansion or Infobolsa market risk premium as at Dec-18             |
| Sp           | Size premium             | 5.50%         | Damodaran   |
| Ru           | Individual risk          | 0.00%         | Damodaran   |
| <b>Re</b>    | <b>Cost of Equity</b>    | <b>12.79%</b> |   |

Source: Crowe analysis

## WACC Calculation

### Cost of equity

- We calculated the cost of equity as at Dec-18 for AB-Biotics using the following formula:

$$R_e = R_f + R_c + \beta(R_m - R_f) + S_p + R_u + R_r$$

- Risk-free rate of return (Rf):** Corresponding to the rate of an investment whose risk is minimal for the reference market. The zero coupon bond of the Treasury of the Government of Spain to 10 years is usually used as an indicator. This indicator amounted to 1.42% at the date of analysis (Dec-18).
- Risk-country (Rc):** This is the risk rate based on the perception of the real market, including, among others, volatility risk, currency risk, national regulatory risk and other expectations of the financial markets. The spread of Credit Default Swap (CDS) (Insurance contracts in which financial instruments are insured in case of default by the issuer) for the Spanish market is usually used as an indicator. For the calculation, the CDS has been used for 5 years to the date amounting to 0.81%, according to the historical information published by World Government Bonds.
- Leveraged Beta ( $\beta$ ):** This is the risk of the industry (in the reference market) that measures the unitary impact on the value of the assets of a given industry with respect to the unitary movement of the domestic (or national) market. For its determination, the leveraged beta of comparable companies in the industry is used.
  - According to the information published by Damodaran in the New York University for the "Drugs (biotechnology)" industry, the Beta in the global market would amount to 1.44.
  - Note that, given that the individual Beta for the Target amounted to 0.49 according to Thomson Reuters and Infront analytics, we considered reasonable to use an average of 1.44 and 0.49 for the cost of equity beta calculation amounting to 0.96.



# Discounted cash flow | WACC Calculation

The cost of equity of the Company amounts to 12.79% including a size premium amounting to 5.5%

## Cost of equity - Project AB

| Abbreviation | Concept                  | data          | Source  |
|--------------|--------------------------|---------------|---|
| Rf           | Risk-free rate of return | 1.42%         | 10 years Spanish treasury bonds as at Dec-18, Expansión                       |
| Rc           | Risk-country             | 0.81%         | (Spanish CDS as at Dec-18)<br>Worldgovernmentbonds.com                        |
| $\beta$      | Beta                     | 0.96          | Thomson Reuters and Damodaran, average Beta for the Company and the industry. |
| Rm - Rf      | Rate market return       | 5.28%         | Statista, Expansion or Infobolsa market risk premium as at Dec-18             |
| Sp           | Size premium             | 5.50%         | Damodaran   |
| Ru           | Individual risk          | 0.00%         | Damodaran   |
| <b>Re</b>    | <b>Cost of Equity</b>    | <b>12.79%</b> |   |

Source: Crowe analysis

## WACC Calculation (cont.)

### Cost of equity (cont.)

- **Rate market return /market risk premium:** The market risk premium is defined as what investors expect to earn by investing in a business activity with respect to a risk-free investment. It is calculated as the spread between the Spanish market risk at the date of the valuation against the spread of the lower risk market, in this case the Spanish bond. As at Dec-18, this premium amounted to 5.28% based on the market premium risk according to Statista (6.7%) and the 10 years Spanish bond (1.42%).
- **Size premium (Sp):** Given the lack of liquidity of the Target market (MaB) in comparison with other similar companies and given the size differences with some of its competitors, we considered that a size premium may be considered for the cost of equity calculation:
  - \_ According to Damodaran models, a Company such as AB-Biotics with revenues amounting to €11.892k, positive net results, with a cash amounting to €1,769k and an average monthly volume trading amounting to €452k, the size and liquidity premium discount might amount to c.5.5%.



# Discounted cash flow | WACC Calculation

Taken into consideration the actual equity/debt proportion, the WACC would amount to 11.42%

## WACC calculation - Project AB

| Abbreviation | concept                                 | data          | Source  |
|--------------|---|---------------|---|
| E            | Equity                                  | 6,859         | Financial statements (equity value)             |
| D            | Debt                                    | 4,196         | Financial statements (long and short term debt) |
| D+E          | Debt and Equity                         | 11,055        | n/a   |
| E/(D+E)      | Equity over D+E                         | 85.0%         | Industry and targeted Equity/Debt               |
| D/(E+D)      | Debt over D+E                           | 15.0%         | Industry and targeted Equity/Debt               |
| Re           | Costs of Equity                         | 12.8%         | n/a   |
| Rd           | Costs of Debt                           | 4.82%         | n/a   |
| Tc           | Corporate tax rate                      | 25%           | n/a   |
| <b>WACC</b>  | <b>Weighted Average Cost of Capital</b> | <b>11.42%</b> |   |

Source: Crowe analysis

## WACC Calculation (cont.)

- Once obtained the cost of equity, the WACC calculation is defined as follows:

$$W.A.C.C = \frac{E}{D+E} \times R_e + \frac{D}{D+E} \times R_d \times (1 - T_c)$$

- According to the information included in the latest Audited Annual Accounts dated December 31, 2018, the Target's equity amounts to €6,859m and the debt amounts to €4,196k.
- In this case, we consider more appropriate to use the targeted Debt/Equity ratio which is in line with the industry proportion according to Damodaran, amounting to 85,0% equity and 15,0% debt.
- The **cost of debt** is estimated taken into account the 2018 current debt level and payment of interest amounting to €4,196k and €202k respectively.
- Given the above aspects, we consider reasonable to determine a WACC amounting to 11.42% for the Target as of December 31, 2018.

# Discounted cash flow

Based on discount free cash flow, method the Company net present value would amount to €54.01m with a 1.5% of perpetual growth and a WACC of 11.42%

## Discounted Cash flow

| € in thousand            | FY18         | FY19         | FY20         | FY21         | FY22          |
|--------------------------|--------------|--------------|--------------|--------------|---------------|
| <b>EBIT</b>              | <b>812</b>   | <b>1,470</b> | <b>3,945</b> | <b>5,688</b> | <b>6,759</b>  |
| D&A                      | 1,190        | 1,150        | 1,030        | 930          | 830           |
| CAPEX                    | -            | (677)        | (707)        | (738)        | (771)         |
| <b>FCF Before WCR</b>    | <b>2,003</b> | <b>1,943</b> | <b>4,268</b> | <b>5,880</b> | <b>6,818</b>  |
| WCR                      | 1,891        | (706)        | 542          | 350          | 194           |
| CIT                      | 641          | (153)        | (358)        | (840)        | (1,153)       |
| <b>Free Cash flow</b>    | <b>4,535</b> | <b>1,084</b> | <b>4,453</b> | <b>5,389</b> | <b>5,859</b>  |
| Terminal value           | -            | -            | -            | -            | <b>59,963</b> |
| Periods to be discounted | -            | 0.5          | 1.5          | 2.5          | 3.5           |
| Discount factor          | 1            | 0.95         | 0.85         | 0.76         | 0.68          |
| <b>Discounted FCF</b>    |              | <b>1,027</b> | <b>3,786</b> | <b>4,113</b> | <b>45,084</b> |

Source: Crowe analysis and GVC Gaesco inputs

|                          |               |
|--------------------------|---------------|
| WACC                     | 11.42%        |
| Perpetual Growth         | 1.50%         |
| <b>Net present value</b> | <b>54,011</b> |
| Number of shares         | 12,588        |
| Price per share          | 4.18          |

## Price per share sensibility table

|                  |      | WACC |       |        |        |        |        |        |        |
|------------------|------|------|-------|--------|--------|--------|--------|--------|--------|
|                  |      | 4.18 | 9.92% | 10.42% | 10.92% | 11.42% | 11.92% | 12.42% | 12.92% |
| Perpetual growth | 0.5% | 4.52 | 4.27  | 4.05   | 3.85   | 3.67   | 3.50   | 3.35   |        |
|                  | 1.0% | 4.73 | 4.47  | 4.22   | 4.01   | 3.81   | 3.63   | 3.46   |        |
|                  | 1.5% | 4.98 | 4.68  | 4.42   | 4.18   | 3.96   | 3.77   | 3.59   |        |
|                  | 2.0% | 5.25 | 4.92  | 4.63   | 4.37   | 4.13   | 3.92   | 3.73   |        |
|                  | 2.5% | 5.57 | 5.20  | 4.87   | 4.58   | 4.32   | 4.09   | 3.88   |        |

Source: Crowe analysis

## Discounted Free Cash Flow

- In order to obtain the enterprise value through the discounted cash flow method we calculated the free cash flow for the projected financial statements applying the following formula to each of the periods:

$$DFCF = \frac{FCF_{19}}{(1+WACC)^1} + \frac{FCF_{20}}{(1+WACC)^2} + \frac{FCF_{21}}{(1+WACC)^3} + \frac{FCF_{22}+TV}{(1+WACC)^4}$$

- The terminal value was estimated based on a perpetual growth of 1.50% taken into account the Spanish GDP 2019 variation amounting to 0.7%, the CPI fluctuation in Spain of 0.8% and the GVC Gaesco estimation of 2.0%. Considering this, the terminal value amounts to €59,963k.

$$TV = \frac{FCF \times (1+g)}{(WACC-g)}$$

- The selected WACC amount to 11.42% as at Dec-18 (*Please refer to in WACC calculation section*) which entails a net present value amounting to €54,011k and a price per share of €4.18.
- The estimated CAPEX is based on GVC Gaesco and other analysts projections amounting to c.3.5% of yearly revenues, which is in line which the CAPEX estimations of Probi AB (c.3.5% per year). Note that the CAPEX of FY19 represents a 4.8% of revenues given that R&D project are being developed during FY19. According to expert analysis, the industry is thriving and the market is tending to consolidation due to the competition increase which will lead to an increase in CAPEX/R&D costs.
- Note that, the estimated ratio of FCF/EBITDA amounts to c.72% in average during the projected period, in line with the Biogaia and Probi estimated ratios.
- The opposite sensibility table shows that, considering a WACC between 9.92% and 12.92% and a perpetual growth between 0.5% and 2.5%, the price per share would fluctuate between 3.35 and 5.57.



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## Valuation (1 of 2)

According to the RD 1066/2007 the TOB price must amount at least the higher price obtained by applying the different methods established in the art.9 and 10 of the RD1066/2007. In this case, the highest price per share amounts to €4.305

| Valuation                                     | Valuation options according to article of RD 1066/2007 |                   |                       |                         |                     |                     |                   |
|---|--|-------------------|-----------------------|-------------------------|---------------------|---------------------|-------------------|
|   | €  | DCF               | Wide market multiples | Narrow market multiples | Recent transactions | Average share price | Last transaction  |
| EV/EBITDA                                     |  | 26.98             | 17.98                 | 22.90                   | 16.34               | 27.78               | 24.92             |
| EBITDA  |  | 2,002,243         | 2,002,243             | 2,002,243               | 2,002,243           | 2,002,243           | 2,002,243         |
| <b>Enterprise Value</b>                       |  | <b>54,010,866</b> | <b>36,005,335</b>     | <b>45,851,365</b>       | <b>32,718,252</b>   | <b>55,619,554</b>   | <b>49,887,436</b> |
| Size/liquidity adjustment                     |  | n/a               | 5.50%                 | 5.50%                   | 5.50%               | n/a                 | n/a               |
| <b>Enterprise Value after size adjustment</b> |  | <b>54,010,866</b> | <b>34,025,041</b>     | <b>43,329,540</b>       | <b>30,918,749</b>   | <b>55,619,554</b>   | <b>49,887,436</b> |
| Net debt                                      |  | (1,422,639)       | (1,422,639)           | (1,422,639)             | (1,422,639)         | (1,422,639)         | (1,422,639)       |
| <b>Equity Value</b>                           |  | <b>52,588,227</b> | <b>32,602,402</b>     | <b>41,906,901</b>       | <b>29,496,110</b>   | <b>54,196,915</b>   | <b>48,464,797</b> |
| Number of shares                              |  | 12,588,259        | 12,588,259            | 12,588,259              | 12,588,259          | 12,588,259          | 12,588,259        |
| <b>Price per share</b>                        |  | <b>4.18</b>       | <b>2.59</b>           | <b>3.33</b>             | <b>2.34</b>         | <b>4.305</b>        | <b>3.85</b>       |

Note that the Net debt adjustment includes the ST financial instruments maintained by the Target.

Source: Crowe analysis, Annual Accounts, Infront analytics and Yahoo finance

- Given that the purpose of the valuation is to determine a fair price for the delisting that the Client is planning to promote over the shares of AB-Biotics, we should take into consideration the rules established in the *Royal Decree 1066/2007* governing the takeover bids regime in Spain.
- The multiple valuation method usually uses EBITDA when valuing a company. This multiple is shown as a ratio between the value of the company and EBITDA ( $EV / EBITDA = X$ ). This method allows us to estimate the value of the company based on the multiple obtained by comparing similar companies and the EBITDA obtained by adjusting the reported figure.
- The discounted cash flow method entails an equity value of €52,588k with a price per share of €4.18. This value is lower than other industry analysis such as GVC Gaesco or Researchfy. The difference mainly arise from the projected revenues increase which we have estimated applying the percentage of increase of GVC Gaesco and Management over the 2018 real figures.
- The price per share of market multiples range from €2.59 to €3.33 depending if we use a wider sample of companies or a narrowed one taking into consideration only the most similar companies (Probi, Biogai, Biosearch and CHR Hansen). Please consider that the Target does not have clear competitors and some of the companies of the same industry may have different financial ratios.
- The price per share of recent transactions method amount to €2.34 respectively. Among all the valuation methods, this one shows the lowest EV/EBITDA and price per share given that the biotechnological industry ratios have a wide dispersion.
- Note that as at 13<sup>th</sup> of June 2019, Kaneka acquired a share package with a share price of €3.85, which must also be considered in the methods established in the RD 1066/2007.
- The average price over the last 6 months entails **an equity value of €54,196k and a price per share of €4.305 as at 9<sup>th</sup> of July 2019 which represent the higher value of the options established by the RD 1066/2007**, mainly due to the significant increase of the shares during the last months previous to the TOB.



## Valuation (2 of 2)

According to the RD 1066/2007 the TOB price must amount at least the higher price obtained by applying the different methods established in the art.9 and 10 of the RD1066/2007. In this case, the highest price per share amounts to €4.305

| Valuation                                     | Valuation options according to article of RD 1066/2007 |                   |                       |                         |                     |                     |                   |
|---|--|-------------------|-----------------------|-------------------------|---------------------|---------------------|-------------------|
|   | €  | DCF               | Wide market multiples | Narrow market multiples | Recent transactions | Average share price | Last transaction  |
| EV/EBITDA                                     |  | 26.98             | 17.98                 | 22.90                   | 16.34               | 27.78               | 24.92             |
| EBITDA  |  | 2,002,243         | 2,002,243             | 2,002,243               | 2,002,243           | 2,002,243           | 2,002,243         |
| <b>Enterprise Value</b>                       |  | <b>54,010,866</b> | <b>36,005,335</b>     | <b>45,851,365</b>       | <b>32,718,252</b>   | <b>55,619,554</b>   | <b>49,887,436</b> |
| Size/liquidity adjustment                     |  | n/a               | 5.50%                 | 5.50%                   | 5.50%               | n/a                 | n/a               |
| <b>Enterprise Value after size adjustment</b> |  | <b>54,010,866</b> | <b>34,025,041</b>     | <b>43,329,540</b>       | <b>30,918,749</b>   | <b>55,619,554</b>   | <b>49,887,436</b> |
| Net debt                                      |  | (1,422,639)       | (1,422,639)           | (1,422,639)             | (1,422,639)         | (1,422,639)         | (1,422,639)       |
| <b>Equity Value</b>                           |  | <b>52,588,227</b> | <b>32,602,402</b>     | <b>41,906,901</b>       | <b>29,496,110</b>   | <b>54,196,915</b>   | <b>48,464,797</b> |
| Number of shares                              |  | 12,588,259        | 12,588,259            | 12,588,259              | 12,588,259          | 12,588,259          | 12,588,259        |
| <b>Price per share</b>                        |  | <b>4.18</b>       | <b>2.59</b>           | <b>3.33</b>             | <b>2.34</b>         | <b>4.305</b>        | <b>3.85</b>       |

Note that the Net debt adjustment includes the ST financial instruments maintained by the Target.

Source: Crowe analysis, Annual Accounts, Infront analytics and Yahoo finance

- In summary, pursuant to art. 10.6 of RoyalDecree1066/2007, fair delisting value shall not be lower than the higher value between (i) the fair value under mandatory takeover bids (art. 9 of Royal Decree 1066/2007), and (ii) that resulting from an evaluation, in a joint form and with justification of their respective relevance, of the five (5) parameters above explained.
- In this regard, the highest value amongst all the parameters referred to above would be the one corresponding to the "Average Share Price" (i.e. price per share amounting to €4.305).
- Based on that, and for the avoidance of any doubt about the value, **we conclude that the delisting value for the analysed scenario should not be lower than the highest parameter identified hereto ("Average Share Price"), this is, price per share amounting to €4.305."**

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## Appendices | Price per share of previous Kaneka acquisition

### Previous price per share paid by Kaneka

| Seller                                    | N° of shares     | % of total shares | Price per share | Total price       |
|---|------------------|-------------------|-----------------|-------------------|
| Seed Capital Fund, S.L.                   | 662,750          | 5.3%              | 3.25            | 2,153,938         |
| Capital MAB, FCR de régimen Simplificado  | 413,341          | 3.3%              | 3.25            | 1,343,358         |
| INFEMA, S.A.                              | 213,542          | 1.7%              | 3.25            | 694,012           |
| Corporación Ivamosa, S.A.                 | 650,000          | 5.2%              | 3.25            | 2,112,500         |
| Gestión y Administración Mobiliaria, S.A. | 650,000          | 5.2%              | 3.25            | 2,112,500         |
| D.R. Masclans                             | 6,000            | 0.0%              | 3.25            | 19,500            |
| D.F.X. Tey                                | 19,762           | 0.2%              | 3.25            | 64,227            |
| D.M. Tey                                  | 18,059           | 0.1%              | 3.25            | 58,692            |
| Narrows, S.L.                             | 59,288           | 0.5%              | 3.25            | 192,686           |
| D.Buenaventura Guamis                     | 189,074          | 1.5%              | 3.25            | 614,491           |
| AB Biotics                                | 500,000          | 4.0%              | 2.27            | 1,135,000         |
| Miquel Angel Bonachera                    | 124,754          | 1.0%              | 3.85            | 480,303           |
| Sergi Audivert                            | 124,754          | 1.0%              | 3.85            | 480,303           |
| <b>Total</b>                              | <b>3,631,324</b> | <b>28.8%</b>      |                 | <b>11,461,508</b> |

Source: MaB information

Please note that we do not had access to the acquisition price of the remaining shares until the 39.8% owned by Kaneka.



# Appendices | Shareholder's evolution

| <b>Shareholders Mar-18</b> | <b>%</b> |
|----------------------------|----------|
| Kaneka                     | 26.9%    |
| Miquel Angel Bonachera     | 10.1%    |
| Sergi Audivert             | 10.1%    |
| Luis Sánchez               | 10.1%    |
| Other shareholders         | 42.8%    |

| <b>Shareholders Apr-18</b> | <b>%</b> |
|----------------------------|----------|
| Kaneka                     | 34.1%    |
| Miquel Angel Bonachera     | 10.1%    |
| Sergi Audivert             | 10.1%    |
| Luis Sánchez               | 10.1%    |
| Other shareholders         | 35.6%    |

| <b>Shareholders Jul-18</b> | <b>%</b> |
|----------------------------|----------|
| Kaneka                     | 37.8%    |
| Miquel Angel Bonachera     | 9.9%     |
| Sergi Audivert             | 9.9%     |
| Luis Sánchez               | 9.8%     |
| Biolittletec, S.L          | 1.2%     |
| Other shareholders         | 31.5%    |

| <b>Shareholders Jan-19</b> | <b>%</b> |
|----------------------------|----------|
| Kaneka                     | 37.8%    |
| Miquel Angel Bonachera     | 9.9%     |
| Sergi Audivert             | 9.9%     |
| Luis Sánchez               | 10.2%    |
| Other shareholders         | 32.3%    |

| <b>Shareholders Jun-19</b> | <b>%</b> |
|----------------------------|----------|
| Kaneka                     | 39.8%    |
| Miquel Angel Bonachera     | 8.9%     |
| Sergi Audivert             | 8.9%     |
| Luis Sánchez               | 10.2%    |
| Other shareholders         | 32.3%    |



# Appendices | Damodaran multiples

## Damodaran multiples by sector

|                                 | EV/EBITDAR&D | Beta | EV/EBITDA | EV/EBIT |
|---------------------------------|--------------|------|-----------|---------|
| Drugs (Biotechnology) (Global)  | 7.4          | 1.44 | 13.4      | 30.6    |
| Drugs (Biotechnology) (Europe)  | 7.7          | 1.43 | 12.8      | 39.3    |
| Drugs (Biotechnology) (USA)     | 6.5          | 1.51 | 12.0      | 26.1    |
| <i>Other similar industries</i> |              |      |           |         |
| Drugs (Pharmaceutical)          | 8.7          |      | 13.5      | 20.0    |

Source: NY University and Damodaran analysis.





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