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# M

2018/19

**QUARTERLY STATEMENT**  
**as of 30 June 2019**

Significant events · Financial position and performance ·  
Consolidated income statement · Condensed consolidated  
balance sheet · Condensed consolidated cash flow statement ·  
Selected notes to the consolidated financial statements ·  
Financial calendar and contact

**B·R·A·I·N**

# ABOUT BRAIN

BRAIN AG ranks among the technologically leading companies in Europe in the bioeconomy area, and operates in industrial – so-called “white” – biotechnology with its key technologies. BRAIN identifies previously untapped high-performing enzymes, microbial producer organisms and natural materials derived from complex biological systems to transform them into industrially usable applications. Innovative solutions and products developed from this “Toolbox of Nature” are successfully deployed in the chemicals sector, as well as in the cosmetics and food manufacturing industries.

The business model of BRAIN stands on two pillars: “BioScience” and “BioIndustrial”. The “BioScience” pillar includes the company’s collaboration business with industrial partners, usually arranged on an exclusive basis. The second pillar, “BioIndustrial”, comprises the development and marketing of the company’s own products and product components through direct access to markets and licensing partnerships.

As part of its growth-oriented industrialization strategy, in February 2016 B.R.A.I.N. Biotechnology Research and Information Network AG (BRAIN AG; ISIN DE0005203947 / WKN 520394) became the first bioeconomy company to list in the Prime Standard of the Frankfurt Stock Exchange.

# CONTENTS

## **4 Significant events**

1 April 2019 to 30 June 2019

---

## **5 – 8 Financial position and performance**

1 October 2018 to 30 June 2019

---

## **9 Consolidated income statement [unaudited]**

for the period from 1 October 2018 to 30 June 2019  
and for the period from 1 April 2019 to 30 June 2019

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## **10 Condensed presentation of the Group financial position (consolidated balance sheet) [unaudited]**

as at 30 June 2019

## **Condensed Consolidated cash flow statement [unaudited]**

1 October 2018 to 30 June 2019

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## **11 Selected notes to the consolidated financial statements [unaudited]**

1 October 2018 to 30 June 2019

---

## **12 Events after the end of the quarter**

---

## **13 Contact, financial calendar, disclaimer**

# SIGNIFICANT EVENTS

1 April 2019 to 30 June 2019

## **Disposal of the entire interest in Monteil Cosmetics International AG**

On 30 June 2019, BRAIN AG concluded an agreement with Wilde Cosmetics GmbH, Oestrich-Winkel, concerning the disposal of the entire 68.3% interest held by BRAIN AG in the loss-making company Monteil Cosmetics International GmbH. The aim of the divestiture is to relieve the BRAIN Group both financially and in terms of capacity so that it can focus fully on the further expansion of its B2B business.

# FINANCIAL POSITION AND PERFORMANCE

1 October 2018 to 30 June 2019

## GROUP BASIS AND GENERAL CONDITIONS

### **SolasCure gains new investors**

In the third quarter, the management of SolasCure issued 273,100,000 new preference shares at GBP 0.01 per preference share. As planned, BRAIN did not participate in this capital increase and the increase enabled the company to generate further funds to develop its product Aurase®.

The transaction reduced BRAIN's interest from 66.67% to 45.81%. With this capital increase, some non-controlling shareholders increased their shareholding, new investors were acquired, and the management itself was given the opportunity to invest cash funds.

The transaction increased the value of BRAIN's investment by a total of € 430 thousand, which was recognized in the share of profit or loss from equity-accounted investments. The 45.81% interest shall continue to be accounted for as an associate in the consolidated financial statements.

### **BRAIN AG divests its entire interest in Monteil Cosmetics International GmbH**

BRAIN AG has concluded an agreement with Wilde Cosmetics GmbH, Oestrich-Winkel, disposing the entire interest held by BRAIN in the loss-making company Monteil Cosmetics International GmbH. The transaction was completed on 30 June 2019 and the company was deconsolidated accordingly as at that balance sheet date.

Düsseldorf-based Monteil Cosmetics International GmbH is represented as a brand company in the cosmetics B2C business. It had formed part of the BRAIN Group since 2011. Most recently, BRAIN AG held a 68.3% interest in Monteil, while Wilde Cosmetics GmbH acted as a non-controlling shareholder.

The disposal led to a goodwill impairment charge of € 1.8 million.

The other remarks made in the consolidated financial statements for the financial year ending 30 September 2018 concerning the Group's basis and conditions continue to be applicable

## 1. Results of operations

In the first nine months of the 2018/19 financial year, revenue increased by 54.0% year-on-year from € 18.1 million to € 27.9 million. The acquisition of the Biocatalysts Group in March 2018 led to both inorganic as well as significant organic growth. In the third quarter, revenue grew by 26.6%, from € 7.4 million in the same period of the previous year to € 9.4 million. This is a purely organic growth, which was achieved in both the BioScience and BioIndustrial segments.

Total operating performance (revenue, research and development grant revenue, changes in inventories, and other income) rose by 44.6% year-on-year, or by € 9.2 million, from € 20.5 million to € 29.7 million. In the third quarter, total operating performance grew by 20.3% year-on-year to reach € 9.9 million.

Consolidated adjusted EBITDA improved by 50.0% from € –4.1 million to € –2.1 million in the first nine months. This was mainly due to the positive earnings contributed by the BioIndustrial segment.

The aforementioned developments are explained in more detail below.

The **“BioScience”** segment generated revenue of € 7.6 million in the reporting period, an increase of 29.4% over the previous year (€ 5.9 million). Third-quarter revenue increased by 35.9% from € 1.8 million to € 2.4 million. Total operating performance amounted to € 9.0 million, 10.7% higher than in the same period of the previous year (€ 8.1 million). This growth in revenue and total operating performance is attributable to a higher number of contracts concluded for Tailor-Made Solutions projects and Strategic Product Development projects. Examples in this context include a global beverages group joining BRAIN's FRESCO program with the aim of identifying natural-based preservatives, and the addition of a further consumer goods company to BRAIN's DOLCE development program. Total operating performance growth was lower than revenue growth, as various receivables from strategic alliances were paid as scheduled.

Adjusted EBITDA for this segment remained at the previous year's level of € –4.4 million. The constancy in adjusted EBITDA while revenue reported a significant increase is mainly due to the expansion of the Management Board of BRAIN AG and the recruitment of additional sales staff.

Revenue in the **“BioIndustrial”** segment improved by 65.2% in the period under review, from € 12.3 million in the previous year to € 20.3 million. Total operating performance grew by 66.7% from € 12.4 million to € 20.8 million in the reporting period, and by 24.8% to € 7.1 million in the third quarter (previous year: € 5.7 million).

The increases in the segment during the nine-month period are partly due to the inorganic growth from the acquisition of the Biocatalysts Group in March 2018 and to the significant organic growth in the enzymes and cosmetics business compared to the prior-year period. Growth in the third quarter was not affected by acquisitions and was consequently entirely organic.

Adjusted EBITDA for this segment also improved significantly from € 0.2 million to € 2.3 million. The strategically important BioIndustrial segment thereby made a significant positive contribution to the improved adjusted consolidated EBITDA. In addition to the higher total operating performance, this improvement is attributable to a significantly improved cost of materials ratio.

Adjusted Group EBITDA consequently improved from € –4.1 million in the previous year to € –2.1 million in the first nine months of the 2018/19 financial year.

The following table shows the reconciliation of the reported EBITDA to the adjusted EBITDA.

€ thousand	9M 2018/19	9M 2017/18	Q3 2018/19	9M 2017/18
<b>EBITDA</b>	<b>-2,263</b>	<b>-5,193</b>	<b>-507</b>	<b>-1,474</b>
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-35	-155	0	-36
Share-based employee compensation	-136	0	-95	0
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-20	-893	-14	-94
<b>Adjusted EBITDA</b>	<b>-2,071</b>	<b>-4,144</b>	<b>-398</b>	<b>-1,344</b>

Depreciation and amortization costs increased significantly from € 1.6 million in the prior-year period to € 3.9 million, mainly due to the aforementioned goodwill impairment charge of Monteil amounting to € 1.8 million, and the amortization of the disclosed hidden reserves from the acquisition of Biocatalysts (€ 0.6 million).

## **2. Net assets**

Non-current assets increased from € 33.4 million as at 30 September 2018 to € 34.3 million as of 30 June 2019, due to investments in property, plant and equipment and the expansion of production capacity in Cardiff. Intangible assets reduced by € 3.0 million, from € 19.1 million to € 16.1 million. This is mainly due to a goodwill impairment charge relating to the disposal of Monteil as well as the amortization of hidden reserves from purchase price allocations. Current assets reduced from € 41.0 million to € 30.9 million. This decrease is mainly due to a reduction in inventories and a decrease in cash and cash equivalents.

Equity reduced from € 30.6 million as at 30 September 2018 to € 22.8 million as at 30 June 2019. This reduction of € 7.8 million is attributable to the result for the period.

Non-current liabilities decreased from € 32.9 million to € 31.2 million, which reflects a reduction in non-current financial liabilities. Non-current financial liabilities reduced by € 1.4 million due to a reclassification of a liability to current financial liabilities to reflect the passage of time. Accordingly, current liabilities increased slightly from € 11.0 million to € 11.1 million, which is due to the net effect of the aforementioned reclassification, and lower deferred income.

### **3. Financial position**

The Group's gross cash flow improved significantly from € -6.7 million in the previous year to € -4.9 million in the reporting period. This improvement is mainly attributable to the € 1.2 million improvement in the net result for the period and the € 2.4 million higher level of depreciation and amortization costs. The increase in this item is the result of the amortization of the disclosed hidden reserves from the acquisition of the Biocatalysts Group in March 2018 and the € 1.8 million goodwill impairment charge relating to Monteil.

Cash flow from operating activities improved from € -6.2 million in the previous year to € -4.9 million. This improvement is the result of the reduction in capital employed in the 2018/19 financial year.

The cash flow from investing activities in the first nine months of the current financial year is mainly determined by the aforementioned investments in a production facility in Cardiff. Cash flow from investing activities amounted to € -4.5 million.

The cash flow from financing activities in the previous year mainly reflected the proceeds from the drawing down of financial liabilities. In the reporting period, cash flow from financing activities primarily reflects the repayment of financial liabilities, and amounted to € -0.8 million in the reporting period, compared to € 4.9 million in the previous year.

Compared to 30 September 2018, cash and cash equivalents decreased from € 26.0 million to € 15.4 million, which is attributable to the aforementioned effects.



# CONSOLIDATED INCOME STATEMENT

## [UNAUDITED]

1 October 2018 to 30 June 2019 and 1 April 2019 to 30 June 2019

€ thousand	9M 2018/19	9M 2017/18	Q3 2018/19	Q3 2017/18
Revenue	27,934	18,143	9,415	7,437
Research and development grant revenue	1,191	1,479	388	523
Change in inventories of finished goods and work in progress	-20	83	-75	45
Other income	600	844	160	216
	<b>29,705</b>	<b>20,548</b>	<b>9,889</b>	<b>8,221</b>
<b>Cost of materials</b>				
Costs of raw materials and supplies, and purchased merchandise	-10,820	-7,668	-3,573	-3,397
Cost of purchased services	-1,743	-1,754	-436	-476
	<b>-12,563</b>	<b>-9,422</b>	<b>-4,009</b>	<b>-3,873</b>
<b>Personnel expenses</b>				
Wages and salaries	-10,821	-8,738	-3,572	-3,294
Share-based employee compensation	-136	-10	-95	-10
Social security and post-employment benefit costs	-2,166	-1,767	-655	-678
	<b>-13,124</b>	<b>-10,516</b>	<b>-4,323</b>	<b>-3,982</b>
Other expenses	-6,281	-5,803	-2,064	-1,840
<b>EBITDA</b>	<b>-2,263</b>	<b>-5,193</b>	<b>-507</b>	<b>-1,474</b>
Depreciation and amortization	-3,942	-1,585	-2,493	-769
<b>Operating result (EBIT)</b>	<b>-6,205</b>	<b>-6,778</b>	<b>-3,000</b>	<b>-2,243</b>
Share of profit or loss from equity-accounted investments	-697	0	-447	0
Finance income	6	28	2	-2
Finance costs	-934	-328	-357	-114
	<b>-1,624</b>	<b>-300</b>	<b>-803</b>	<b>-116</b>
<b>Pretax loss for the reporting period</b>	<b>-7,829</b>	<b>-7,078</b>	<b>-3,802</b>	<b>-2,358</b>
<b>Income tax expense / income</b>				
a) Current tax expense	-391	-40	-191	3
b) Deferred tax income	252	238	88	150
	<b>-138</b>	<b>198</b>	<b>-103</b>	<b>153</b>
<b>Net loss for the reporting period</b>	<b>-7,968</b>	<b>-6,880</b>	<b>-3,905</b>	<b>-2,206</b>
of which attributable to:				
Non-controlling interests	153	-77	83	-70
Shareholders of BRAIN AG	-8,120	-6,803	-3,988	-2,135
Earnings per share, basic (undiluted)	-0.45	-0.38	-0.22	-0.12
Number of shares taken as basis	18,055,782	18,055,782	18,055,782	18,055,782
Earnings per share, diluted	-0.45	-0.38	-0.22	-0.12
Number of shares taken as basis	18,055,782	18,055,782	18,055,782	18,055,782

# CONDENSED PRESENTATION OF THE GROUP FINANCIAL POSITION (BALANCE SHEET) [UNAUDITED]

30 June 2019

€ thousand	30.06.2019	30.09.2018
Non-current assets	34,256	33,448
Current assets	30,913	41,016
<b>ASSETS</b>	<b>65,168</b>	<b>74,464</b>
<b>Equity</b>	<b>22,843</b>	<b>30,639</b>
Non-current liabilities	31,204	32,852
Current liabilities	11,121	10,973
<b>EQUITY AND LIABILITIES</b>	<b>65,168</b>	<b>74,464</b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

1 October 2018 to 30 June 2019

€ thousand	9M 2018/19	9M 2017/18
Gross cash flow	-4,897	-6,688
Cash flow from operating activities	-4,893	-6,207
Cash flow from investing activities	-4,521	-11,636
Cash flow from financing activities	-749	4,901
Net change in cash and cash equivalents	-10,163	-12,943
Cash and cash equivalents at start of reporting period	25,539	38,954
Cash and cash equivalents at end of reporting period <sup>1</sup>	15,402	25,992

<sup>1</sup> A € 26 thousand change in the cash position arose as at 30 June 2019, reflecting changes in currency exchange rates.

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

1 October 2018 to 30 June 2019

The accounting policies on which the consolidated financial statements as at 30 September 2018 were based were also applied for the first nine months of 2018/19.

## Application of new accounting standards

With effect from 1 October 2018, BRAIN AG applied the accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers for the first time. The first-time application did not have any significant effects on BRAIN's financial position and performance. The details of the effects are presented in the half-year report as at 31 March 2019. The company has not voluntarily applied accounting standards that have been published but are not yet mandatory.

## Segment reporting

Compared with the consolidated financial statements as at 30 September 2018, no changes have occurred in relation to segment reporting. The segment results<sup>2</sup> are presented in the following overview.

€ thousand	BioScience		BioIndustrial		Consolidation 9M 2018/19	
	9M 2018/19	9M 2017/18	9M 2018/19	9M 2017/18	Reconciliation	Group
Total operating performance	9,009	8,139	20,755	12,450	-59	29,705
Adjusted EBITDA	-4,411	-4,356	2,339	211	1	-2,071

## Number of employees in the Group<sup>3</sup>

Average for the reporting period	9M 2018/19	FY 2017/18
<b>Total employees, of which</b>	<b>283</b>	<b>247</b>
Salaried employees <sup>4</sup>	258	230
Industrial employees	25	17

Furthermore, BRAIN employs 3 scholarship/grant holders (FY 17/18: 6), 12 temporary employees (FY 17/18: 11) and 7 trainees (FY 17/18: 6).

<sup>2</sup> After partial elimination within the segment

<sup>3</sup> Excluding the members of the parent company's Management Board and the subsidiaries' managing directors

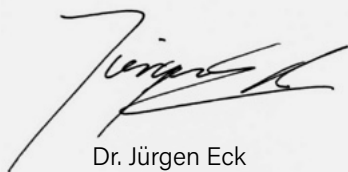
<sup>4</sup> The 9M figures include 11 employees of Monteil Cosmetics International GmbH

# EVENTS AFTER THE END OF THE QUARTER

The Management Board is not aware of any events of particular significance, or with considerable effects on the financial position and performance, after the balance sheet date on 30 June 2019.

Zwingenberg, 30 August 2019

The Management Board



Dr. Jürgen Eck



Manfred Bender



Ludger Roedder

# CONTACT

The following contact person is available to respond to your queries:

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# FINANCIAL CALENDAR

**30.08.2019** Publication of the quarterly statement  
as at 30.06.2019 (9M)

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**14.01.2020** Publication of the annual report  
as at 30.09.2019 (12M)

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**28.02.2020** Publication of the quarterly statement  
as at 31.12.2019 (3M)

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**05.03.2020** AGM, Zwingenberg

## Disclaimer

This interim report might contain certain forward-looking statements that are based on current assumptions and forecasts made by the management of the BRAIN Group and other currently available information. Various known and unknown risks and uncertainties as well as other factors can cause the company's actual results, financial position, development or performance to diverge significantly from the estimates provided here. BRAIN AG does not intend and assumes no obligation of any kind to update such forward-looking statements and adapt them to future events or developments. The interim report can include information that does not form part of accounting regulations. Such information is to be regarded as a supplement to, but not a substitute for, information prepared according to IFRS. Due to rounding, it is possible that some figures in this and other documents do not add up precisely to the stated sum, and that stated percentages do not reflect the absolute figures to which they relate. This document is a translation of a document originally prepared in German. Where differences occur, precedence is given to the original German version.

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