3M

2018/19

QUARTERLY STATEMENT
as of 31 December 2018

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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 BioScience segment comprises mainly of the research and development business with industrial partners (the "Tailor-Made Solutions" cooperation business), and the company's own research and development. The BioIndustrial segment consists chiefly of the industrially scalable products business.

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

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SIGNIFICANT EVENTS

1 October to 31 December 2018

Suntory Beverage & Food Europe and BRAIN AG launch joint development program

BRAIN AG and Suntory Beverage & Food Europe (SBFE), the regional division of Suntory Beverage & Food operating in the non-alcoholic beverage business, announced on 26 November 2018 the start of a Joint Development Program to develop new natural beverage solutions to be applied in selected categories of SBFE's product range. The joint development activities address growing demand for new varieties of natural ingredients in beverages.

Global beverage company joins BRAIN's newly established FRESCO program for nature-based preservation ingredients

On 11 December 2018, BRAIN AG, AnalytiCon Discovery GmbH and a leading consumer product market player with a highly diverse portfolio of beverage products, headquartered in Japan, announced the start of a strategic partnership within the FRESCO program. Within this program, the BRAIN Group is developing bioactive natural ingredients with preserving or preservation-enhancing characteristics for diverse industrial applications. The program will also contribute to reducing product losses deriving from microbial decay.

FINANCIAL POSITION AND PERFORMANCE

1 October to 31 December 2018

GROUP BASIS AND CONDITIONS

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

1. Results of operations

During the first three months of the 2018/19 financial year, the total operating performance (revenue, research and development grant revenue, changes in inventories, and other income) of the BRAIN Group reported significant year-on-year growth of € 3.8 million, or 63.7 %, from € 6.0 million to € 9.9 million. Revenue was up by 78.7 % year-on-year, from € 5.3 million to € 9.4 million.

The BioScience segment recorded € 3.4 million of total operating performance in the reporting period, representing an increase of 15 % compared with the previous year's quarter. This growth is attributable to a higher number of contracts concluded for Tailor-Made Solutions projects and Strategic Product Development projects. One example is the accession of a global beverage group to BRAIN's FRESCO program with the aim of identifying natural-based preservatives. Adjusted EBITDA improved from € –1.2 million to € –0.9 million, mainly due to the higher total operating performance and an improved cost of materials ratio in the BioScience segment.

The total operating performance of the BioIndustrial segment grew by 109 % from € 3.1 million to € 6.5 million in the reporting period. Revenue increased by 117 % to € 6.6 million, partly thanks to inorganic growth from the acquisition of the Biocatalysts Group in March 2018 as well as significant organic growth in the enzymes and cosmetics businesses compared to the prior-year quarter. Adjusted EBITDA also improved significantly from € –0.1 million to € 0.8 million and thereby again reached the EBITDA breakeven level for the strategically important BioIndustrial segment. 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 € –1.3 million in the previous year to € –0.0 million in the first three months of the 2018/19 financial year.

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

€ thousand	3M 2018/19	3M 2017/18
EBITDA	**–116**	**–1,735**
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	–35	–84
Share-based employee compensation	–36	0
Acquisition and integration costs incurred in the expansion of the BRAIN Group	–5	–336
Adjusted EBITDA	**–40**	**–1,314**

Depreciation and amortization reported a significant increase from € 0.4 million in the prior-year period to € 0.7 million, mainly due to the acquisition of Biocatalysts and the related amortization of hidden reserves.

2. Net assets

Non-current assets increased slightly compared with 30 September 2018, from € 33.4 million to € 33.7 million as of 31 December 2018, due to investments in property, plant and equipment and the expansion of the production capacity in Cardiff. Current assets reduced from € 41.0 million to € 38.9 million. This reduction is mainly attributable to a decrease in trade receivables and a decline in cash and cash equivalents.

Equity reduced from € 30.6 million as at 30 September 2018 to € 29.3 million as at 31 December 2018. As a consequence, this reduction of € 1.3 million is almost entirely attributable to the result for the period. No capital measures were implemented during the reporting period.

Non-current liabilities decreased slightly from € 32.9 million to € 32.7 million, which is attributable to a slight reduction in non-current deferred tax. Current liabilities also decreased slightly from € 11 million to € 10.5 million, which is attributable to lower provisions and current financial liabilities.

3. Financial position

The Group's gross cash flow improved significantly from € –2.5 million in the previous year to € –0.8 million in the reporting period, which is mainly attributable to the € 1.1 million improvement in the net result for the period and a € 0.3 million higher level of depreciation and amortization. The increase in this item results from the amortization of the disclosed hidden reserves from the acquisition of the Biocatalysts Group in March 2018.

Although the reduction in capital employed in the 2018/19 financial year exerted a clearly positive effect on cash flow from operating activities in the current financial year, it was not possible to repeat the substantial reduction in capital employed in the previous year[1] compared with 30 September, which benefited from one-off effects. In consequence, although cash flow from operating activities was € 0.7 million better than gross cash flow, it deteriorated year-on-year from € 1.4 million to € –0.1 million.

Cash flow from investing activities in the reporting period was characterized by the aforementioned investments in a production facility in Cardiff, and increased from € –0.2 million in the previous year to € –1.3 million in the reporting period.

As in the previous year, cash flow from financing activities mainly reflects the repayment of financial liabilities in the reporting period and amounted to € –0.2 million in the first quarter compared to € –0.6 million in the previous year.

Compared with 30 September 2018, cash and cash equivalents decreased from € 25.5 million to € 23.8 million, which is attributable to the aforementioned effects.

1 After cash flow from operating activities in the previous year reported a significant one-off improvement in working capital thanks to an extraordinarily large receivable settled in the amount of € 1.9 million, the previous year's cash flow was correspondingly positive.

CONSOLIDATED INCOME STATEMENT [UNAUDITED] 1 October to 31 December 2018

€ thousand	3M 2018/19	3M 2017/18
Revenue	9,440	5,283
Research and development grant revenue	423	495
Change in inventories of finished goods and work in progress	–213	–104
Other income	211	348
	9,861	**6,023**
Cost of materials		
Cost of raw materials and supplies, and purchased merchandise	–3,122	–2,008
Cost of purchased services	–391	–659
	–3,513	**–2,667**
Personnel expenses		
Wages and salaries	–3,457	–2,671
Share-based employee compensation	–36	0
Social security and post-employment benefit costs	–749	–553
	–4,242	**–3,224**
Other expenses	–2,222	–1,866
EBITDA	**–116**	**–1,735**
Depreciation and amortization	–723	–394
Operating result (EBIT)	**–839**	**–2,128**
Share of profit or loss from equity-accounted investments	–98	0
Finance income	2	3
Finance costs	–306	–145
	–402	**–142**
Pretax loss for the reporting period	**–1,241**	**–2,271**
Income tax expense/income		
a) Current tax expense	–93	–117
b) Deferred tax income	70	46
	–23	**–72**
Net loss for the reporting period	**–1,264**	**–2,343**
of which attributable to:		
Non-controlling interests	54	–33
Shareholders of BRAIN AG	–1,317	–2,309
Earnings per share, basic (undiluted)	–0.07	–0.13
Number of shares taken as basis	18,055,782	18,055,782
Earnings per share, diluted	–0.07	–0.13
Number of shares taken as basis	18,055,782	18,055,782

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

31 December 2018

€ thousand	31.12.2018	30.09.2018
Non-current assets	33,730	33,448
Current assets	38,888	41,016
ASSETS	**72,618**	**74,464**
Equity	**29,349**	**30,639**
Non-current liabilities	32,724	32,852
Current liabilities	10,545	10,973
EQUITY AND LIABILITIES	**72,618**	**74,464**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

1 October 2018 to 31 December 2018

€ thousand	3M 2018/19	3M 2017/18
Gross cash flow	–824	–2,472
Cash flow from operating activities	–138	1,350
Cash flow from investing activities	–1,315	–239
Cash flow from financing activities	–233	–601
Net change in cash and cash equivalents	–1,686	510
Cash and cash equivalents at start of reporting period	25,539	38,954
Cash and cash equivalents at end of reporting period[2]	23,823	39,463

2 A € 29 thousand change in the cash position arose as of 31 December 2018, reflecting changes in currency exchange rates.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

1 October to 31 December 2018

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 effects of the introduction of these standards on the financial reporting are presented below. Further adjustments to standards and new interpretations that are also mandatory for BRAIN AG for the first time as of 1 October 2018 have no material impact on the financial position and performance of BRAIN AG. The company has not voluntarily applied accounting standards that have been published but are not yet mandatory.

Updated version of IFRS 9 – Financial Instruments

IFRS 9 provides regulations for the accounting treatment of financial instruments and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 pursues a new approach for the classification and measurement of financial assets. Accordingly, the classification and measurement of financial assets are determined on the basis of the cash flow characteristics and the business model operated. IFRS 9 was adopted at BRAIN AG by applying the retrospective method and without adjusting the comparative figures for the previous year.

Classification

Financial assets held within a business model, whose objective is to hold assets in order to collect contractual cash flows, are measured at amortized cost. If the business model provides for the recognition of contractual cash flows and the sale of financial assets, such assets are measured at fair value through equity. If neither of the two business models applies, or if the financial assets do not exclusively contain interest and principal payments, the financial assets are measured at fair value through profit or loss.

As per the Standard, investments in equity instruments are to be measured at fair value through profit or loss. Here, the option to report fair value changes in other comprehensive income exists solely at the start and is subsequently irrevocable.

At BRAIN, loans and trade receivables continue to meet the criteria for recognition at amortized cost.

Measurement

IFRS 9 introduces a new impairment model applicable to all financial assets measured either at amortized cost or at fair value through profit or loss. This model provides for the recognition of expected credit losses at the time of initial recognition. This therefore leads to an increase in risk provisions. For trade receivables, the simplified impairment model of IFRS 9 has been applied, which takes into account an expected credit loss over the lifetime of the respective financial assets. To assess the expected credit risk, receivables are grouped based on the existing credit risk and the respective term structure.

The effect of the new impairment model on trade receivables amounting to € 41 thousand was recognized directly in equity for the first time, so that accumulated impairment losses increased from € 143 thousand as at 30 September 2018 to € 184 thousand as at 1 October 2018.

The regulations governing the classification and measurement of financial liabilities in accordance with IFRS 9 are essentially in line with the previous regulations in IAS 39, so that this does not result in any changes.

The Group held no hedged items in the 2017/18 financial year. If hedges exist, the Group does not apply hedge accounting. For this reason, hedge accounting regulations have no effect on the financial position and performance of BRAIN AG.

The transition effects resulting from the first-time application led to a reduction of € 41 thousand in retained earnings as at 1 October 2018 excluding deferred tax.

Summary

The following table shows the reconciliation of the original IAS 39 measurement categories and carrying amounts of financial assets and liabilities as at 30 September 2018 to the new IFRS 9 measurement categories and carrying amounts as at 1 October 2018.

3 LaR: Loans and Receivables, OL: Other Liabilities measured at (amortized) cost
4 AC: Amortized Cost

RECONCILIATION: IFRS 9 – CLASSIFICATION AND MEASUREMENT

€ thousand	IAS 39 measurement category[3]	IAS 39 carrying amount 30.09.2018	Re-classifications	Not in IFRS 9 application scope	Measurement adjustments	IFRS 9 measurement category[4]	IFRS 9 carrying amount 01.10.2018
Assets							
Trade receivables	LaR	6,451			41	AC	6,410
Other current and non-current assets	LaR	252				AC	252
Other financial assets	LaR	301				AC	301
Cash and cash equivalents	LaR	25,539				AC	25,539
Total		32,543	0	0	41		32,502
Equity and liabilities							
Trade payables	OL	2,872				AC	2,872
Financial liabilities	OL	25,385				AC	25,385
Other liabilities	OL	155				AC	155
Total		28,412	0	0	0		28,412

IFRS 15 – "Revenue from Contracts with Customers" including published clarifications

The IFRS 15 regulations and definitions relating to revenue recognition replace the contents of both IAS 18 Revenue and IAS 11 Construction Contracts, as well as related interpretations. Pursuant to IFRS 15, revenue is to be recognized if the customer attains control over the agreed goods and services, and can draw benefits from them. Revenue is to be measured at the amount of consideration that the company expects to receive. The new standard includes a five-step method to calculate revenue to be recognized:

- Step 1: Identify the contract(s) with the customer,
- Step 2: Identify the separate performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the individual performance obligations,
- Step 5: Recognize revenue at the level of the allocated proportional transaction price as soon as the agreed performance is rendered, or the customer has gained control over the goods or services.

The new IFRS 15 also includes numerous disclosure requirements relating to the type, amount, occurrence and uncertainty of revenue, as well as cash flows arising from contracts with customers.

Accordingly, BRAIN AG applied the provisions of IFRS 15 for the first time from the financial year beginning on 1 October 2018. The modified retrospective method was used for the transition to IFRS 15. Under the modified retrospective method, the cumulative adjustment amounts from the first-time adoption are recognized in retained earnings with no effect on the profit or loss. Comparative figures for prior-year periods are not adjusted under this transition method. The option for simplified initial application was also utilized, with IFRS 15 being applied solely to contracts that had not yet been fulfilled as at 1 October 2018.

The first-time application of IFRS 15 did not result in a material need for retrospective adjustments within the Group. The material effects relate to the disclosures in the notes to the financial statements at the end of the year. In accordance with the option under IFRS 15.109, contractual liabilities continue to be reported in the statement of financial position as deferred income and are disclosed in the notes to the consolidated financial statements. As at 31 December 2018, current contract liabilities under current deferred income amounted to € 1,024 thousand and non-current contract liabilities under non-current deferred income amounted to € 1,192 thousand.

BioScience

The first-time application of IFRS 15, and the related evaluation of the accounting treatment of research, development and licensing agreements, necessitated several discretionary decisions. The initial analysis concerned the extent to which such agreements fall into the application scope of IFRS 15. An analysis was subsequently performed in order to establish whether the promises identified result in individual performance obligations and how they are satisfied (at a point in time or over time). In addition, the determination of the transaction price required discretionary decisions and estimates in light of uncertainties typical of the sector, which are associated with future milestone and license payments. One-off prepaid license payments are recognized immediately if the license grants a right-of-use and the licensed technology is not developed further (static licenses). One-off prepaid license payments are realized over time if and to the extent that the license grants access rights to the technology, and the licensed technology is developed further (dynamic licenses). License income from royalties will continue to be recognized when the relevant products are sold. In the accounting treatment for revenues from research and development projects, no changes were identified in relation to previous accounting treatment.

The first-time application of IFRS 15 does not have any significant effects on the Group's revenues or net income in relation to existing research, development and license agreements.

BioIndustrial

Under IFRS 15, revenue from product sales is also recognized when the control over the products transfers to the customer. As previously, this will continue to occur when the product is delivered to the customer.

Due to the generally simply structured contracts and typically short contract terms, the application of IFRS 15 does not to have a significant effect on the Group's revenues or results.

The new IFRS 15 regulations have no or very minor significance for BRAIN in the following areas:

- Separable performance obligations from warranty obligations, transport and other logistics services
- Sales with rights of return
- Consignment arrangements
- Principal versus agent considerations
- Bill-and-hold arrangements
- Financing components
- Costs of obtaining and fulfilling a contract

Segment reporting

Compared with the consolidated financial statements as at 30 September 2018, no changes have occurred in relation to segment reporting. The following overview presents the segment results.

	BioScience		BioIndustrial		Consolidation 3M 2018/19	
€ thousand	3M 2018/19	3M 2017/18	3M 2018/19	3M 2017/18	Reconciliation	Group
Total operating performance	3,366	2,918	6,500	3,111	–5	9,861
Adjusted EBITDA	–861	–1,204	823	–111	–2	–40

Number of employees in the Group

Average for the reporting period [5]	3M 2018/19	FY 2017/18
Total employees, of which	**284**	**247**
Salaried employees	260	230
Industrial employees	24	17

Furthermore, BRAIN employs scholarship/grant holders (3, FY 17/18: 6), temporary employees (11, FY 17/18: 11) and trainees (8, FY 17/18: 6).

5 Excluding the members of the parent company's Management Board (3) and the subsidiaries' managing directors

EVENTS AFTER THE END OF THE QUARTER

Scheduled exercise of put option rights of shareholders of a subsidiary

After the end of the first quarter, BRAIN AG increased its share in the capital of AnalytiCon Discovery GmbH to 99.70 % through exercising the put option rights of the minority shareholders. BRAIN AG will pay out the purchase price in the lower seven-digit range over a period of three years to the shareholders.

Zwingenberg, 28 February 2019

The Management Board

Dr. Jürgen Eck   Manfred Bender   Ludger Roedder

CONTACT

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FINANCIAL CALENDAR

28.02.2019	**Publication of the quarterly statement as of 31.12.2018 (3M)**
07.03.2019	**AGM, Zwingenberg**
31.05.2019	**Publication of the half-year report as of 31.03.2019 (6M)**
30.08.2019	**Publication of the quarterly statement as of 30.06.2019 (9M)**

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