

BR

M

2019/20

QUARTERLY STATEMENT as of 31 December 2019

Significant events · Financial position and performance · Consolidated income statement · Condensed presentation of the Group financial position · Condensed consolidated cash flow statement · Selected information about the Group · Events after the end of the quarter · Contact · Financial calendar

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 includes mainly the research and development business with industrial partners (“Tailor-Made Solutions” cooperation business), and the company’s own research and development. The BioIndustrial segment comprises mainly the industrially scalable Products business.

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 October 2019 to 31 December 2019

5 – 7 Financial position and performance 1 October 2019 to 31 December 2019

8 Consolidated income statement [unaudited] 1 October 2019 to 31 December 2019

9 Condensed presentation of the Group financial position (consolidated balance sheet) [unaudited] 31 December 2019

Condensed consolidated cash flow statement [unaudited] 1 October 2019 to 31 December 2019

10 – 13 Selected notes to the consolidated financial statements [unaudited] 1 October 2019 to 31 December 2019

14 Events after the end of the quarter

15 Contact, financial calendar, disclaimer

SIGNIFICANT EVENTS

1 October 2019 to 31 December 2019

Change at the top of the Management Board – Adriaan Moelker takes over from Dr. Jürgen Eck

On 2 December 2019, BRAIN AG announced that the Supervisory Board had appointed Adriaan (Aryan) Moelker to the Management Board with effect from 1 February 2020, and also as the future Chairman of the Management Board (CEO). Dr. Jürgen Eck, co-founder of BRAIN, Chief Technology Officer (CTO) for approximately 26 years, and also CEO since 1 August 2015, stepped down from the Management Board as of 31 December 2019 and left the company by mutual agreement. Dr. Eck will continue to be available to BRAIN as a consultant, especially for the innovation pipeline.

FINANCIAL POSITION AND PERFORMANCE

1 October 2019 to 31 December 2019

GROUP BASIS AND GENERAL CONDITIONS

The remarks made in the consolidated financial statements for the financial year ending 30 September 2019 about the Group's basis and general conditions continue to be applicable.

1. Results of operations

In the first three months of the 2019/20 financial year, the BRAIN Group's revenue increased by 9.4% year-on-year from € 9.4 million (or by 15.9% from € 8.9 million excluding Monteil Cosmetics International GmbH) to € 10.3 million. Total operating performance (revenue, research and development grant revenue, changes in inventories, and other income) also rose by € 0.5 million (5.4%) year-on-year from € 9.9 million to € 10.4 million. Organically – excluding Monteil Cosmetics International GmbH in the previous year – total operating performance increased by € 1.1 million, or by 11.4%, from € 9.3 million to € 10.4 million.

The BioScience segment generated a revenue of € 4.0 million in the reporting period, up 42.8% from the prior-year quarter. This growth is attributable to higher volumes generated with existing customers and the conclusion of contracts for Tailor Made Solutions projects. Adjusted EBITDA improved from € –0.9 million to € –0.6 million. This improvement in underlying EBITDA occurred mainly due to the higher revenue as well as the improved personnel expense ratio and other expense ratio in the BioScience segment.

Revenue generated by the BioIndustrial segment declined slightly by 4.9% from € 6.6 million to € 6.3 million in the reporting period. Organically, revenue increased by € 0.2 million or by 3.4% from € 6.1 million to € 6.3 million. Total operating performance decreased slightly by 5.2% from € 6.5 million to € 6.2 million. Excluding Monteil Cosmetics International GmbH, total operating performance rose by € 0.2 million (3.3%) from € 6.0 million to € 6.2 million. Adjusted EBITDA fell accordingly by 55.5%, from € 0.8 million to € 0.4 million. The changes in this segment reflect start-up costs for the start-up of the new production facilities in Cardiff and Büttelborn.

As a result of the factors mentioned above, the adjusted Group EBITDA reduced slightly from € –0.0 million in the previous year to € –0.2 million in the first three months of the 2019/20 financial year.

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

€ thousand	3M 2019/20	3M 2018/19
EBITDA	-313	-116
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	0	-35
Share-based employee compensation	-79	-36
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-8	-5
Adjusted EBITDA	-226	-40

Depreciation and amortization increased from € 0.7 million in the same period of the previous year to € 0.9 million, which is mainly due to the first-time application of IFRS 16 as detailed in the selected notes to the consolidated financial statements below.

2. Net assets

Total assets rose from € 66.1 million to € 70.4 million as at 31 December 2019. The first-time application of IFRS 16 is a significant influence in this change. In accordance with IFRS 16 "Leases", rights-of-use are recognized as non-current assets, with corresponding lease liabilities being recognized.

Non-current assets increased from € 35.2 million as at 30 September 2019 to € 42.3 million as at 31 December 2019, which is attributable to the first-time application of IFRS 16. Current assets reduced from EUR 31.0 million to EUR 28.1 million, mainly due to the reduction in cash and cash equivalents.

Equity decreased from € 17.1 million as at 30 September 2019 to € 15.2 million as at 31 December 2019. This reduction of € 1.9 million is almost entirely attributable to the result for the period. No capital measures were implemented during the reporting period.

Non-current liabilities rose from € 34.2 million to € 40.7 million, reflecting the first-time application of IFRS 16. Current liabilities decreased slightly from € 14.9 million to € 14.5 million due to the net effect of the first-time application of IFRS 16 and a reduction in deferred income.

3. Financial position

The Group's gross cash flow decreased from € –0.8 million in the previous year to € –1.7 million in the reporting period. This change is mainly due to the € 1.0 million reduction in the net result for the period and to the receipt of deferred income of € 0.5 million.

Owing to the sharp reduction in capital employed in the previous year, it was not possible to repeat the positive effect on cash flow from operating activities. In consequence, although cash flow from operating activities was € 1.1 million better than gross cash flow, it worsened year-on-year from € –0.1 million to € –0.6 million.

Cash flow from investment activities increased slightly from € –1.3 million in the previous year to € –1.6 million in the period under review. This was due to capital expenditure on property, plant and equipment and investments in expanded production capacities at the Cardiff, UK and Büttelborn, Germany sites.

Cash flow from financing activities which in the reporting period mainly reflects the proceeds from borrowings made, amounted to € 0.2 million in the first quarter, compared with € –0.2 million in the previous year.

Compared to 30 September 2019, cash and cash equivalents decreased from € 15.2 million to € 13.2 million, which is attributable to the aforementioned effects.

CONSOLIDATED INCOME STATEMENT

[UNAUDITED] 1 October 2019 to 31 December 2019

€ thousand	3M 2019/20	3M 2018/19
Revenue	10,323	9,440
Research and development grant revenue	177	423
Change in inventories of finished goods and work in progress	-231	-213
Other income	122	211
	10,390	9,861
Cost of materials		
Cost of raw materials and supplies, and purchased merchandise	-3,292	-3,122
Cost of purchased services	-899	-391
	-4,191	-3,513
Personnel expenses		
Wages and salaries	-3,673	-3,457
Share-based employee compensation	-79	-36
Social security and post-employment benefit costs	-737	-749
	-4,488	-4,242
Other expenses	-2,024	-2,222
EBITDA	-313	-116
Depreciation, amortization and impairment	-874	-723
Operating result (EBIT)	-1,186	-839
Share of profit or loss from equity-accounted investments	-879	-98
Finance income	7	2
Finance costs	-186	-306
	-1,058	-402
Pretax loss for the reporting period	-2,244	-1,241
Income tax expense/income		
a) Current tax expense	-82	-93
b) Deferred tax income	92	70
	10	-23
Net loss for the reporting period	-2,234	-1,264
of which attributable to:		
Non-controlling interests	24	54
Shareholders of BRAIN AG	-2,258	-1,317
Earnings per share, basic (undiluted)	-0,13	-0,07
Number of shares taken as basis	18,055,782	18,055,782
Earnings per share, diluted	-0,13	-0,07
Number of shares taken as basis	18,055,782	18,055,782

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

31 December 2019

€ thousand	31.12.2019	30.09.2019
Non-current assets	42,292	35,167
Current assets	28,118	30,957
ASSETS	70,410	66,123
Equity	15,227	17,091
Non-current liabilities	40,657	34,160
Current liabilities	14,527	14,873
EQUITY AND LIABILITIES	70,410	66,123

CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

1 October 2019 to 31 December 2019

€ thousand	3M 2019/20	3M 2018/19	3M 2017/18
Gross cash flow	-1,690	-824	-2,472
Cash flow from operating activities	-574	-138	1,350
Cash flow from investing activities	-1,572	-1,315	-239
Cash flow from financing activities	199	-233	-601
Net change in cash and cash equivalents	-1,947	-1,686	510
Cash and cash equivalents at start of reporting period	15,160	25,539	38,954
Cash and cash equivalents at end of reporting period ¹	13,249	23,823	39,463

¹ A € 36 thousand change in the cash position arose as at 31 December 2019, reflecting changes in currency exchange rates.

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

1 October 2019 to 31 December 2019

Application of new accounting standards

With effect from 1 October 2019, BRAIN applied IFRS 16 "Leases" for the first time. The effects of the introduction of this 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 from 1 October 2019 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.

IFRS 16 - "Leases"

On 13 January 2016, the International Accounting Standards Board (IASB) published its new accounting standard on lease accounting (IFRS 16 "Leases"). According to this standard, all leases and accompanying contractual rights and obligations are to be recognized on the lessee's balance sheet. For leases with a term of up to one year and low-value leases, the lessee has the option to apply accounting in accordance with current operating leases.

For all leases, the lessee recognizes a lease liability on its balance sheet for the obligation to render lease payments in the future. At the same time, the lessee capitalizes a right-of-use to the underlying asset corresponding to the present value of the future lease payments, including any directly attributable costs. During the term of the lease agreement, the lease liability is carried forward applying a financial-mathematical method similar to IAS 17 "Leases" regulations for financing leases, while the right-of-use is amortized on a straight-line basis over the term of the lease contract, which generally leads to higher expenses at the start of a lease term. The regulations on lease accounting on the lessor's side remain largely unchanged.

The new regulations are to be applied to the entire contract portfolio, whereby with some practical expedients the initial application is to be implemented either fully retrospectively, or with a cumulative effect in equity at the start of the year of first-time application, without restating the previous year's figures. IFRS 16 also includes a number of further regulations on reporting and

in relation to disclosures to be made in the notes to the financial statements, as well as on sale-and-leaseback transactions.

The new regulations of IFRS 16 apply to BRAIN AG primarily as a lessee and in connection with leasing agreements for buildings and vehicles. The transition to IFRS 16 was made using the modified retrospective approach with recognition of the cumulative transition effect as at 1 October 2019. Comparative figures for the previous year were not adjusted.

On transition to IFRS 16, payment obligations from existing operating leases were discounted at the corresponding incremental borrowing rates. The interest rates were determined on the basis of the leases' remaining terms. The weighted average interest rate applied to discount the leases existing as at 1 October 2019 was 3.3%. The resulting present values were recognized as lease liabilities. The leased assets' rights-of-use were adjusted to reflect the amount of the lease liabilities, with directly attributable costs being capitalized. In determining the term of the leases, hindsight information was taken into account in determining the probability of extension or termination options being exercised.

BRAIN AG has made use of the following IFRS 16 practical expedients:

- Rights-of-use and corresponding lease liabilities with a term of up to one year have not been, and will not be, recognized on the balance sheet;
- Rights-of-use and corresponding liabilities from low-value leases have not been, and will not be, recognized on the balance sheet;
- For some asset classes the rights-of-use relating to assets, a separation of leasing and non-leasing components has not been, and will not be, applied;
- Leases that previously fell within the scope of IAS 17 and its associated interpretations were, and will continue to be, treated as leases in the meaning of IFRS 16;
- No impairment testing of the right-of-use was performed as part of initial application; instead, existing provisions for onerous contracts were offset against the right-of-use.

Summary

The following table shows the adjustments resulting from the first-time application of IFRS 16 in the consolidated balance sheet as of 1 October 2019.

€ thousand	
Opening balance sheet – IFRS 16 adjustments	01.10.2019
Property, plant, and equipment	
Land and buildings	3,010
Operating and office equipment	54
Rights-of-use	3,064
Total assets	3,064
Retained earnings	62
Non-current liabilities	
Leasing liabilities	2,727
Current liabilities	
Leasing liabilities	275
Total equity and liabilities	3,064

Based on the payment obligation for operating leases (IAS 17) as at 30 September 2019, the opening balance sheet value of the lease liability as at 1 October 2019 was reconciled as follows:

€ thousand	
Opening balance sheet – reconciliation of leasing liabilities	01.10.2019
Payment obligations for operating leases as at 30.09.2019 (IAS 17)	1,714
Low-value leases	33
Extension options	1,628
Other	-92
Undiscounted lease liabilities as at 01.10.2019	3,284
Discounting	-270
IFRS 16 leasing liabilities as at 01.10.2019	3,003
Liabilities from finance leases as at 30.09.2019 (IAS 17)	1,351
Leasing liabilities as at 01.10.2019	4,354

Segment reporting

Compared with the consolidated financial statements as at 30 September 2019, no changes have occurred in relation to segment reporting. The segment results are presented in the following overview.

€ thousand	BioScience		BioIndustrial		Consolidation 3M 2019/20	
	3M 2019/20	3M 2018/19	3M 2019/20	3M 2018/19	Reconciliation	Group
Revenue	4,021	2,817	6,302	6,626	0	10,323
Adjusted EBITDA	-637	-861	366	823	45	-226

Number of employees in the Group

Average for the reporting period ²	3M 2019/20	FY 2018/19
Total employees, of which	273	281
Salaried employees	249	256
Industrial employees	24	25

Furthermore, BRAIN employs scholarship/grant holders (7, FY 18/19: 4), temporary employees (13, FY 18/19: 12) and trainees (6, FY 18/19: 7).

² Excluding the members of the parent company's Management Board (3) and the subsidiaries' managing directors

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 end of the quarter on 31 December 2019.

Zwingenberg, 28 February 2020

The Management Board



Adriaan Moelker



Manfred Bender



Ludger Roedder

CONTACT

For questions please contact:

Investor Relations

ir@brain-biotech.com

Fon: +49 (0) 6251/9331-0

FINANCIAL CALENDAR

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

05.03.2020 **Annual General Meeting,
Zwingenberg**

29.05.2020 **Publication of the half-year report
as at 31.03.2020 (6M)**

31.08.2020 **Publication of the quarterly statement
as at 30.06.2020 (9M)**

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.

Publication date: 28 February 2020

Published by:

B·R·A·I·N

Biotechnology Research And Information Network AG

Darmstädter Straße 34-36

64673 Zwingenberg · Germany

phone +49 (0) 62 51 / 9331-0

fax +49 (0) 62 51 / 9331-11

e-mail public@brain-biotech.com

web www.brain-biotech.com