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2016/17

## **QUARTERLY STATEMENT** **as of 30 June 2017**

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**B·R·A·I·N**

# ABOUT BRAIN

BRAIN AG ranks among the technologically leading companies in Europe in the bio-economy 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 deployed successfully in the chemical industry as well as in the cosmetics and food industries.

BRAIN's business model 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 market access and licensing partnerships.

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

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# SIGNIFICANT EVENTS

01.04.2017 – 30.06.2017

## **BRAIN and Roquette successfully complete multi-year research project**

The main objective of this research project – which was started 2014 – was to improve the efficiency and sustainability of manufacturing processes for food substances through lower energy and resource consumption as well as shorter production times. For this purpose, BRAIN identified, developed and optimised biological resources by making recourse to its in-house BioArchive. BRAIN and Roquette are also cooperating in the DOLCE program to develop a new generation of natural sweeteners for foods.

## **BRAIN achieves a further important milestone in its strategic partnership with Diana Pet Food**

Since April 2015, BRAIN and the globally leading developer of innovative solutions in the preparation and manufacturing of pet foods, Diana Pet Food, have been collaborating in a strategic partnership in cat taste research. During the third quarter of the 2016/17 financial year, BRAIN reached a further important milestone in this strategic partnership. The parties have agreed confidentiality about the level of the milestone payment made to BRAIN. The early achievement of a first important milestone was already published in June 2016.

## **BRAIN receives award for the content and design of its first annual report after its IPO**

The first annual report of BRAIN after its IPO has received a Silver Certificate award for its content-related design as well as for its conceptual and design implementation as part of the renowned Best of Content Marketing Award in the “Reporting” category (Print Industry Annual Report).

## **BRAIN ranks among the most innovative companies in Germany in 2017**

In May 2017, business magazine *brand eins* and online portal Statista paid tribute to BRAIN as an innovative company. Accordingly, BRAIN ranks as one of 424 German companies that significantly outshine their competitors with their services and products, smart processes or special corporate culture.

# FINANCIAL POSITION AND PERFORMANCE

01.10.2016 – 30.06.2017

## GROUP BASIS AND CONDITIONS

The remarks made in the 2015/16 consolidated financial statements about the Group's basis and conditions continue to be applicable.

### 1. Results of operations

During the first nine months of the 2016/17 financial year, the B.R.A.I.N Group grew its total operating performance (revenue, research and development grant revenue, changes in inventories, and other income) from € 19.0 million in the prior-year period to € 19.6 million. Revenue was up by € 1.4 million to € 17.9 million over the same period. In the third quarter, the Group reported an increase in sales revenue of 7.9% (€ 5.8 million in the reporting period) and in total operating performance of 4.0% (€ 6.3 million in the reporting period).

The BioScience segment achieved € 9.9 million of total operating performance in the period under review, corresponding to an increase of 8.3% year-on-year, derived from a globally growing partnership business with industrial partners such as in specialty chemicals and the food manufacturing industry. In the third quarter, the total operating performance of the BioScience segment was up by 9.9% year-on-year to € 3.0 million. The adjusted operating result (EBIT<sup>1</sup>) of the BioScience segment improved from € -4.9 million to € -4.3 million.

During the first nine months of the financial year, the BioIndustrial segment held its total operating performance stable at € 9.8 million, reflecting a slight reduction of 2.1% year-on-year. Revenue, by contrast, grew by 7.8% to € 10.0 million. Thanks to active measures to reduce capital employed and a related reduction in inventories, the slight segmental decrease in total operating performance does not reflect the operating business performance. Consequently, the BioIndustrial segment reported sales revenue up 9.2% to € 3.4 million in the third quarter. This segment's unadjusted operating result (EBIT) improved significantly in this context, and was positive in an amount of € 24 thousand (€ -312 thousand in the previous year) during the first nine months of the financial year. No EBIT adjustments were applied in the BioIndustrial segment.

Consequently, the Group's adjusted operating result (EBIT) improved year-on-year from € -5.2 million to € -4.4 million. Adjusted EBIT (€ -7.3 million in the reporting period) is mainly burdened by a share-based compensation program (€ -2.4 million in the reporting period), which does not effect the Group's cash or equity position.

<sup>1</sup> EBIT: Earnings before interest and tax

The following overview presents the full reconciliation of the reported operating result (EBIT) with the adjusted operating result (adjusted EBIT), excluding the aforementioned effects and expenses, in each case in relation to the previous year's quarter.

in thousand €	9M 2016/17	9M 2015/16
<b>Operating result (EBIT)</b>	<b>-7,345</b>	<b>-7,682</b>
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-566	-1,337
Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)	-2,352	0
IPO expenses	0	-1,101
<b>Adjusted operating result (adjusted EBIT)</b>	<b>-4,428</b>	<b>-5,244</b>

## **2. Net assets**

Non-current assets of € 15.5 million as of 30 June 2017 were almost unchanged compared with their level as of 30 September 2016. Current assets reduced by € 6.2 million to € 25.8 million. Equity stood at € 21.6 million as of 30 June 2017, compared with € 27.0 million as of 30 September 2016. Both reductions mainly reflect the result for the period.

Non-current liabilities rose from € 10.2 million to € 12.4 million in the period under review. Current liabilities, by contrast, reduced from € 10.4 million to € 7.3 million. This shift arises chiefly from a reclassification from current financial liabilities to non-current financial liabilities, as financial liabilities actually classified as non-current were recognised as current liabilities as of 30 September 2017 due to a termination right existing as of 30 September 2017. This reclassification was already implemented in the first quarter and noted in the first quarterly statement of the financial year.

## **3. Financial position**

The Group's gross cash flow improved by € 2.6 million to € -4.9 million, compared with the previous year's € -7.5 million. This improvement of the gross cash flow, beyond the improvement of the (unadjusted) EBIT, mainly reflects the one-off, non-cash personnel expenses (see below Share-based payment) of € 2.3 million (nil during prior year period). In this context, see also the reconciliation between unadjusted and adjusted operating results in the section "Results of operations".

Cash flow from operating activities improved accordingly from € -6.9 million to € -4.2 million, whereby a positive effect from the reduced working capital (€ 0.7 million) compared with the previous period is also reported.

Cash-effective investments (€ 0.9 million) comprise mainly cash outflows for laboratory and technical infrastructure. Whereas investment activities in the previous year's accounting period were still burdened by € -2.0 million of investments in short-term deposits with a fixed term of more than three months, this item was positive overall (€ +4.1 million) thanks to cash inflows from disposals of such term deposits (€ +5.0 million).

Cash flow from financing activities in the previous year was characterised by the IPO proceeds. During the first nine months of the current financial year, cash flow from financing activities was almost at breakeven (€ -0.04 million)

The Group's liquid funds reduced slightly from € 8.3 million to € 8.1 million during the first nine months of the financial year. Adding current term deposits, which are reported among other financial assets on the balance sheet, liquid funds stood at € 13.5 million compared with € 18.3 million as of 30 September 2016.

# CONSOLIDATED INCOME STATEMENT

## [UNAUDITED] 1 October 2016 to 30 June 2017

in thousand €	9M 2016/17	9M 2015/16	Q3 2016/17	Q3 2015/16
Revenue	17,910	16,525	5,790	5,365
Research and development grant revenue	1,618	1,563	505	321
Change in inventories of finished goods and work in progress	-653	247	-204	225
Other income	699	658	191	131
	<b>19,573</b>	<b>18,993</b>	<b>6,282</b>	<b>6,041</b>
<b>Cost of materials</b>				
Costs of raw materials and supplies, and purchased merchandise	-6,072	-6,314	-2,215	-2,339
Cost of purchased services	-1,757	-1,987	-616	-516
	<b>-7,829</b>	<b>-8,301</b>	<b>-2,831</b>	<b>-2,855</b>
<b>Personnel expenses</b>				
Wages and salaries	-8,511	-7,627	-2,582	-2,621
Share-based payment	-2,352	-1,337	-90	-446
Social security and post-employment benefit costs	-1,624	-1,504	-517	-506
	<b>-12,487</b>	<b>-10,468</b>	<b>-3,189</b>	<b>-3,572</b>
Depreciation and amortisation	-1,140	-1,091	-384	-364
Other expenses	-5,462	-6,815	-1,589	-1,662
<b>Operating result (EBIT)</b>	<b>-7,345</b>	<b>-7,682</b>	<b>-1,711</b>	<b>-2,412</b>
Finance income	151	29	-11	18
Finance costs	-269	-554	-87	-129
	<b>-118</b>	<b>-525</b>	<b>-98</b>	<b>-111</b>
<b>Pretax loss for the reporting period</b>	<b>-7,463</b>	<b>-8,207</b>	<b>-1,809</b>	<b>-2,523</b>
<b>Income tax expense/income</b>				
a) Current tax expense/income	-220	-92	52	-26
b) Deferred tax expense/income	91	-357	56	18
	<b>-130</b>	<b>-449</b>	<b>107</b>	<b>-8</b>
<b>Net loss for the reporting period</b>	<b>-7,593</b>	<b>-8,656</b>	<b>-1,701</b>	<b>-2,531</b>
Of which attributable to:				
Non-controlling interests	-65	-103	-44	-40
Shareholders of BRAIN AG	-7,528	-8,553	-1,657	-2,491
Earnings per share, basic (undiluted)	-0.46	-0.58	-0.10	-0.15
Number of shares taken as basis	16,414,348	14,697,553	16,414,348	16,414,348
Earnings per share, diluted	-0.46	-0.58	-0.10	-0.15
Number of shares taken as basis	16,414,348	14,697,553	16,414,348	16,414,348



# CONDENSED PRESENTATION OF THE GROUP FINANCIAL POSITION (BALANCE SHEET) [UNAUDITED] 30 June 2017

in thousand €	30.06.2017	30.09.2016
Non-current assets	15,453	15,511
Current assets	25,826	32,001
<b>ASSETS</b>	<b>41,279</b>	<b>47,512</b>
<b>Equity</b>	<b>21,584</b>	<b>26,926</b>
Non-current liabilities	12,366	10,173
Current liabilities	7,328	10,413
<b>EQUITY AND LIABILITIES</b>	<b>41,279</b>	<b>47,512</b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED] 1 October 2016 to 30 June 2017

in thousand €	9M 2016/17	9M 2015/16
Gross cash flow	-4,916	-7,543
Cash flow from operating activities	-4,199	-6,944
Cash flow from investing activities	4,125	-2,772
Cash flow from financing activities	-45	25,304
Net change in cash and cash equivalents	-119	15,588
Cash and cash equivalents at start of reporting period	8,261	3,247
Cash and cash equivalents at end of reporting period	8,140	18,835

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

1 October 2016 to 30 June 2017

## Segment reporting

Compared with the consolidated financial statements as of 30 September 2016, no changes have occurred in relation to segment reporting. The following overview presents the segment results.

in thousand €	BioScience		BioIndustrial		Consolidation 9M 2016/17	
	9M 2016/17	9M 2015/16	9M 2016/17	9M 2015/16	Reconciliation	Group
Total operating performance	9,880	9,126	9,751	9,964	-58	19,573
Adjusted EBIT <sup>2</sup>	-4,340	-4,932	24	-312	-112	-4,428

## Number of employees in the Group

Average for the reporting period <sup>3</sup>	9M 2016/17	FY 2015/16
<b>Employees</b>	<b>228</b>	<b>218</b>
of which scholarship/grant holders	8	6
of which temporary employees	14	11

## Share-based payment

The "Post IPO Framework Agreement for key individuals at BRAIN AG" (pages 199 et seq. of the annual report), which was already recognised on the balance sheet and described in the annual financial statements as of 30 September 2016, was signed by all parties in the second quarter (as already described in the half-year report) and came into force on the grant date as a consequence. The commitments have now fully vested in the third quarter, with the entire expense thereby being recognised. Finally, an expense of € 90 thousand was incurred in the third quarter. This program is not expected to incur any further expense requiring recognition. This program has no effect on the equity or the cash position for BRAIN as a company, as the previous shareholders established this program to incentivise key personnel.

<sup>2</sup> Adjusted operating result / Adjusted for expenses from an employee share scheme for Group company AnalytiCon Discovery GmbH, the share-based compensation for BRAIN AG listed in the notes to the financial statements (page 202 of the annual report) and the costs of the IPO in the previous year

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

# EVENTS AFTER THE END OF THE QUARTER

## Global beverages group joins DOLCE

BRAIN AG, AnalytiCon Discovery GmbH and Roquette announced on 12 July that a globally operating US beverages group had been acquired as a new member for the strategic DOLCE partnership. The beverages group receives global exclusive access to DOLCE sweeteners in the "non-alcoholic beverages" category, as well as non-exclusive global access to the "milk and yoghurt beverages" and "ginger ale and tonic" categories. The two product categories "breakfast cereals" and "snacks" were already acquired for the DOLCE program in November 2016. The objective is to reduce the sugar and calorie content in foods.

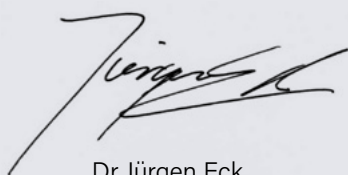
## Successful arrangement of a joint research project between BRAIN and BASF

The research collaboration aims to identify and develop new substances for cosmetics applications. BRAIN contributed expertise in identifying natural active molecules with the help of special receptor technology. BASF provided extensive expertise in the product development, production process and marketing strategy areas. A first product has already been launched to the market.

The Management Board is not aware of any further events of particular significance, or with considerable effects on the financial position and performance, after the balance sheet date on 30 June 2017.

Zwingenberg, 31 August 2017

The Management Board



Dr Jürgen Eck



Frank Goebel

# CONTACT

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

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# FINANCIAL CALENDAR

**31. 08. 2017**      **Publication of the quarterly statement  
for the period ending 30. 06. 2017 (9M)**

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**11. 01. 2018**      **Publication of the annual report  
for the period ending 30. 09. 2017 (12M)**

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**08. 03. 2018**      **AGM  
in 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 as 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, preference is given to the original German version.

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