

# BR

# M

2017/18

## **QUARTERLY STATEMENT as of 31 December 2017**

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Consolidated income statement · Condensed presentation of  
the Group financial position · 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 deployed successfully in the chemical industry as well as in the cosmetics and food manufacturing sectors.

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 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 2017 to 31 December 2017

## **Research project involving BRAIN AG deploys bioleaching in resource-conserving copper production**

An international research team involving BRAIN AG has succeeded in deploying a bioleaching procedure to extract copper almost entirely from slate deposits in Germany. Based on its proprietary BioArchive, BRAIN contributed its special expertise to the EcoMetals German-French research project in identifying carbonate-dissolving, metal-resistant microorganisms. The research results underscore the significance of the “Green & Urban Mining” approach BRAIN is pursuing in its mining development programme to recover metals from ores and waste flows.

## **BRAIN AG and Mannheim University of Applied Sciences develop 3D skin models for healthcare and cosmetics sector applications**

The M<sup>2</sup>Aind (Multimodal Analytics and Intelligent Sensor Technology for the Healthcare Industry) research project comprises a combined public and private sector partnership project headed by the Mannheim University of Applied Sciences. BRAIN is an active partner in the research group. Projects jointly pursued by BRAIN and Mannheim University include the development of a 3D skin model to better understand skin physiology. The research partners have published an overview article in the Journal of Cellular Biotechnology to record the project’s first milestone. The research aims to tap new potential applications in the healthcare and cosmetics sector.

## **BRAIN AG receives patent protection for biological antiperspirants development**

BRAIN AG has received patent protection from the United States Patent and Trademark Office (USPTO) for innovative screening systems aimed at biologically reducing sweat formation (WO 2014/027050). The protected molecular biological systems are based on a key molecule discovered by BRAIN researchers that enables the systematic screening of natural substances that reduce sweat formation. The protected BRAIN technology offers efficient and reliable options to meet growing demand for biological deodorants and antiperspirants.

# FINANCIAL POSITION AND PERFORMANCE

1 October 2017 to 31 December 2017

## GROUP BASIS AND CONDITIONS

The remarks made in the consolidated financial statements for the financial year ending 30 September 2017 about the Group's basis and conditions continue to be applicable.

### 1. Results of operations

During the first three months of the 2017/18 financial year, the total operating performance (revenue, research and development grant revenue, changes in inventories, and other income) of the BRAIN Group reduced by 8.7% from € 6.6 million in the prior-year period to € 6.0 million. Revenue decreased by € 0.8 million year-on-year to € 5.3 million. Based on this unexpectedly weak performance, the Management Board of BRAIN AG believes that reaching EBIT breakeven during the 2017/18 financial year is no longer realisable.

The BioScience segment reported total operating performance of € 2.9 million in the reporting period, representing an 8.5% year-on-year reduction, chiefly reflecting unexpected delays in arranging new and follow-up projects. The adjusted operating result (adjusted EBIT<sup>1</sup>) of the BioScience segment improved from € -2.3 million to € -1.5 million thanks to cost-structure optimisation.

The total operating performance of the BioIndustrial segment amounted to € 3.1 million in the reporting period, representing a € 0.3 million decrease compared with the prior-year period (€ 3.4 million), mainly due to an inventory-led reduction in revenue from a long-standing B2B customer in the cosmetics area. The Management Board of BRAIN AG expects business with this customer to normalise again prospectively. Due to this revenue reduction, this segment's operating result (EBIT) diminished by € 0.2 million to € -0.2 million in the first quarter of the 2017/18 financial year. As in the past, no EBIT adjustments were applied in the BioIndustrial segment.

The Group's adjusted operating result (EBIT), which the company believes best reflects its operating result, improved +24.5% year-on-year from € -2.3 million to € -1.7 million.

<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 special effects and expenses, in each case in relation to the previous year's quarter.

in thousand €	3M 2017/18	3M 2016/17
<b>Operating result (EBIT)</b>	<b>-2,128</b>	<b>-4,430</b>
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	-84	-391
Personnel expenses from the Post IPO Framework Agreement for key individuals at BRAIN AG (one-off effect)	0	-1,778
Acquisition and integration costs incurred in the expansion of the BRAIN Group	-336	0
<b>Adjusted operating result (adjusted EBIT)</b>	<b>-1,708</b>	<b>-2,262</b>

## **2. Net assets**

Non-current assets of € 14.9 million as of 31 December 2017 were almost unchanged compared with their level as of 30 September 2017. Current assets reduced by € 2.2 million to € 51.4 million. Equity stood at € 45.0 million as of 31 December 2017, compared with € 47.4 million as of 30 September 2017. Both reductions mainly reflect the result for the period.

Non-current liabilities of € 12.7 million as of 31 December 2017 remain at the same level as on 30 September 2017. Current liabilities increased slightly from € 8.4 million to € 8.5 million.

## **3. Financial position**

The Group's gross cash flow decreased slightly year-on-year, by € 0.2 million to € -2.5 million, mainly reflecting the negative net result incurred for the period.

By contrast, cash flow from operating activities registered a marked rise from € -0.1 million to € 1.4 million, attributable to significant improvements in the amount of capital tied up in the form of receivables and the high receivables position as of 30 September 2017.

Cash-effective investments (€ 0.2 million) comprise mainly cash outflows for laboratory and technical infrastructure. The picture in the prior-year period was distorted by term-deposit investments with an original term of longer than three months. Cash flow from investing activities adjusted for this amount (€ 3.0 million) was almost unchanged.

Cash flow from financing activities of € –0.6 million chiefly comprises scheduled payments to repay financial liabilities and is slightly above the previous year's level (€ –0.5 million).

The Group's liquid funds increased by € 0.5 million during the first three months of the current financial year, from € 39.0 million to € 39.5 million.

#### **4. Update of the outlook**

Given the weak first quarter of the current financial year, the company already communicated the necessary adjustment to its earnings forecast in its announcement on 15 February 2018. Accordingly, the company no longer assumes that EBIT breakeven will be reached at Group level during the current financial year. However, the Management Board continues to budget overall double-digit, albeit lower, revenue growth for the 2017/18 financial year, taking planned acquisitions into consideration.

# CONSOLIDATED INCOME STATEMENT

## [UNAUDITED] 1 October 2017 to 31 December 2017

in thousand €	3M 2017/18	3M 2016/17
Revenue	5,283	6,079
Research and development grant revenue	495	515
Change in inventories of finished goods and work in progress	-104	-179
Other income	348	179
	<b>6,023</b>	<b>6,594</b>
<b>Cost of materials</b>		
Costs of raw materials and supplies, and purchased merchandise	-2,008	-2,224
Cost of purchased services	-659	-512
	<b>-2,667</b>	<b>-2,736</b>
<b>Personnel expenses</b>		
Wages and salaries	-2,671	-3,351
Share-based payment	0	-1,938
Social security and post-employment benefit costs	-553	-569
	<b>-3,224</b>	<b>-5,857</b>
Depreciation and amortisation	-394	-375
Other expenses	-1,866	-2,055
	<b>-2,128</b>	<b>-4,430</b>
<b>Operating result (EBIT)</b>		
Finance income	3	132
Finance costs	-145	-91
	<b>-142</b>	<b>41</b>
<b>Pretax loss for the reporting period</b>		
	<b>-2,271</b>	<b>-4,389</b>
<b>Income tax expense/income</b>		
a) Current tax expense/income	-117	-162
b) Deferred tax expense/income	46	-38
	<b>-72</b>	<b>-200</b>
<b>Net loss for the reporting period</b>		
	<b>-2,343</b>	<b>-4,588</b>
Of which attributable to:		
Non-controlling interests	-33	-27
Shareholders of BRAIN AG	-2,309	-4,561
Earnings per share, basic (undiluted)	-0.13	-0.28
Number of shares taken as basis	18,055,782	16,414,348
Earnings per share, diluted	-0.13	-0.28
Number of shares taken as basis	18,055,782	16,414,348



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

31 December 2017

in thousand €	31.12.2017	30.09.2017
Non-current assets	14,903	14,947
Current assets	51,371	53,557
<b>ASSETS</b>	<b>66,273</b>	<b>68,504</b>
<b>Equity</b>	<b>45,019</b>	<b>47,362</b>
Non-current liabilities	12,721	12,717
Current liabilities	8,533	8,425
<b>EQUITY AND LIABILITIES</b>	<b>66,273</b>	<b>68,504</b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

1 October 2017 to 31 December 2017

in thousand €	3M 2017/18	3M 2016/17
Gross cash flow	-2,472	-2,241
Cash flow from operating activities	1,350	-68
Cash flow from investing activities	-239	-3,239
Cash flow from financing activities	-601	-483
Net change in cash and cash equivalents	510	-3,791
Cash and cash equivalents at start of reporting period	38,954	8,261
Cash and cash equivalents at end of reporting period	39,463	4,470

# SELECTED INFORMATION ABOUT THE GROUP

## [UNAUDITED] 1 October 2017 to 31 December 2017

### Segment reporting

Compared with the consolidated financial statements as of 30 September 2017, no changes have occurred in relation to segment reporting. The following overview presents the segment results.

in thousand €	BioScience		BioIndustrial		Consolidation 3M 2017/18	
	3M 2017/18	3M 2016/17	3M 2017/18	3M 2016/17	Reconciliation	Group
Total operating performance	2,918	3,189	3,111	3,433	-7	6,023
Adjusted EBIT	-1,466	-2,252	-242	-9	0	-1,708

### Number of employees in the Group

Average for the reporting period <sup>2</sup>	3M 2017/18	FY 2016/17
<b>Employees</b>	<b>215</b>	<b>212</b>
of which scholarship/grant holders	202	199
of which temporary employees	13	13

Furthermore, BRAIN employs scholarship/grant holders (4, FY 16/17: 8), temporary employees (9, FY 16/17: 13) and trainees (5, FY 16/17: 6).

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

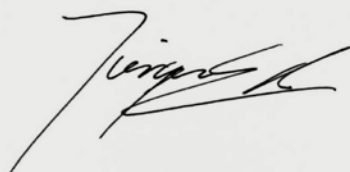
# EVENTS AFTER THE END OF THE QUARTER

## BRAIN AG expands patent protection for unique taste bud technology to Europe

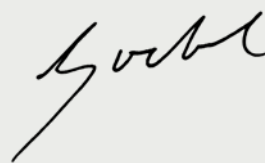
The European Patent Agency (EPA) awarded patent protection to BRAIN AG for innovative taste bud technologies (EP 2841565 B1), with the company consequently holding rights-of-use for highly innovative screening technologies for new natural taste modulators for the important markets of Europe and the USA. This technology has already been successfully applied in strategic industrial partnerships such as the DOLCE programme to develop natural sugar substitutes and sweetness enhancers. Expanding patent protection represents an important step for the development and marketing of various BRAIN offerings for the global food and beverages industry.

Zwingenberg, 28 February 2018

The Management Board



Dr Jürgen Eck



Frank Goebel

# CONTACT

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# FINANCIAL CALENDAR

**28.02.2018** Publication of the quarterly statement  
for the period ending 31.12.2017 (3M)

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**08.03.2018** AGM  
in Zwingenberg

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**30.05.2018** Publication of the half-year report  
for the period ending 31.03.2018 (6M)

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**31.08.2018** Publication of the quarterly statement  
period ending 30.06.2018 (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 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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