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# M

2019/20

## **QUARTERLY STATEMENT as of 30 June 2020**

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 “Natures Toolbox” 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, B.R.A.I.N. Biotechnology Research and Information Network AG (BRAIN AG; ISIN DE0005203947 / WKN 520394) in February 2016 became the first bioeconomy company to be listed in the Prime Standard of the Frankfurt Stock Exchange.

# CONTENTS

## **4 Significant events**

1 April 2020 to 30 June 2020

---

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

for the period from 1 October 2019 to 30 June 2020  
and for the period from 1 April 2020 to 30 June 2020

---

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

for the period from 1 October 2019 to 30 June 2020  
and for the period from 1 April 2020 to 30 June 2020

---

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

as at 30 June 2020

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

1 October 2019 to 30 June 2020

---

## **11 – 13 Selected notes to the consolidated financial statements [unaudited]**

1 October 2019 to 30 June 2020

---

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

---

## **15 Contact, financial calendar, disclaimer**

# SIGNIFICANT EVENTS

1 April 2020 to 30 June 2020

## **Lukas Linnig to succeed Manfred Bender as Chief Financial Officer**

Chief Financial Officer Manfred Bender shall be leaving BRAIN AG at his own request at the end of the financial year on 30 September 2020. The new Chief Financial Officer will be Mr. Lukas Linnig, the current Head of Finance, Controlling and Legal.

Manfred Bender wishes to accept a new role and consequently requested that the Supervisory Board terminate his contract early. The Supervisory Board complied with this request. His successor as Chief Financial Officer, Lukas Linnig, has been working for BRAIN AG since April 2017, and previously supported the company as a consultant during its IPO.

## **Successful placement of a capital increase to finance further growth**

On 4 June 2020, BRAIN successfully completed a cash capital increase from authorized capital at a price of € 8.30 per new share. In order to ensure timely and cost-optimized implementation, the Management Board had decided, with the Supervisory Board's approval, to exclude the subscription right.

Approximately € 15 million was raised in order to finance further growth. The utilization of the funds will focus on the following areas: investments, acceleration of R&D projects, smaller acquisitions, acquisition of minority interests and general operating expenses.

## **BRAIN AG acquired the remaining minority interests (24.7%) of WeissBioTech GmbH**

On 30 June 2020, and with effect from 1 July 2020, BRAIN AG acquired the outstanding minority interests (24.7%) in WeissBioTech GmbH from company founder Hans de Bie with effect from 1 July 2020. The parties involved did not make any public statements on the related terms and conditions.

BRAIN AG made its first strategic investment in WeissBioTech in 2014 in order to gain access to the growing and profitable enzyme market. BRAIN AG and WeissBioTech have since then worked closely together with the aim of discovering, developing and selling innovative enzyme products and solutions for customers worldwide.

# FINANCIAL POSITION AND PERFORMANCE

1 October 2019 to 30 June 2020

## GROUP BASIS AND GENERAL CONDITIONS

### **BRAIN successfully completes cash capital increase from authorized capital**

On 4 June 2020, BRAIN AG announced the completion of a successful capital increase of approximately € 15 million (the "Capital Increase"). As part of the transaction, BRAIN placed, by way of an accelerated placement process with institutional investors, approximately 1.8 million new no-par-value registered shares, each with a proportionate amount in the company's share capital of € 1.00 (the "New Shares"), corresponding to approximately 10 % of the company's outstanding share capital prior to the transaction. The New Shares were placed at an issue price of € 8.30 per New Share. The company's Management Board, with Supervisory Board approval, decided to approve the transaction and issue the New Shares. BRAIN's main shareholder participated in the capital increase.

The New Shares were admitted to trading without a prospectus on 9 June 2020 and were included in the existing listing on 11 June 2020 in the regulated market of the Frankfurt Stock Exchange (Prime Standard), among other exchanges.

The other 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 nine months of the 2019/20 financial year, the BRAIN Group generated revenue of € 29.6 million compared to € 27.9 million in the same period of the previous year, representing growth of 5.8 %. In organic terms (i.e. excluding Monteil Cosmetics International GmbH in the previous year), revenue increased by 12.2 %. In the third quarter, revenue grew by 8.4 %, from € 8.9 million in the same period of the previous year to € 9.6 million. This is 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, other income) rose by 2.0 % year-on-year, or by € 0.6 million, from € 29.7 million to € 30.3 million. In the third quarter, total operating performance grew by 2.3 % year-on-year to reach € 10.1 million. On an organic basis, total operating performance increased by € 2.3 million, or by 8.1 %, from € 28 million to € 30.3 million in the nine-month period.

The aforementioned developments are explained in more detail below.

The **“BioScience”** segment generated revenue of € 10.5 million in the reporting period, up 37.5% from the prior-year period. This growth is attributable to higher volumes generated with existing customers, and entering into new contracts for Tailor Made Solutions projects. Adjusted EBITDA improved from € –4.4 million to € –3.1 million. This improvement in the adjusted EBITDA occurred mainly as a result of the higher revenue, as well as improved ratios for the cost of materials, personnel expenses and other expenses in the BioScience segment.

Revenue generated by the **“BioIndustrial”** segment reported a decrease of 5.9% from € 20.3 million to € 19.1 million in the reporting period. On an organic basis, revenue rose by € 0.4 million or by 2.1% from € 18.7 million to € 19.1 million. Total operating performance reduced by 7.5% from € 20.8 million to € 19.2 million. On an organic basis, total operating performance increased by € 0.1 million or by 0.6% from € 19.1 million to € 19.2 million. Adjusted EBITDA rose by 9.2%, from € 2.3 million to € 2.6 million. Despite start-up costs for the start-up of the new production facilities in Cardiff (UK) and Büttelborn, the adjusted EBITDA margin increased from 11.5% to 13.3%. A reduction in sales of enzymes for starch processing (bioethanol) and wine yeast also resulted in a negative impact.

Adjusted Group EBITDA consequently improved by 73.3% in the nine-month period, from € –2.1 million in the previous year to € –0.6 million in the first nine months of the 2019/20 financial year.

Undiluted (basic) and diluted earnings per share during the first nine months of the financial year amounted to € –0.36, compared with € –0.45 in the previous year’s period.

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

€ thousand	9M 2019/20	9M 2018/19	Q3 2019/20	Q3 2018/19
<b>EBITDA</b>	<b>-907</b>	<b>-2,263</b>	<b>-38</b>	<b>-507</b>
Personnel expenses from the employee share scheme at AnalytiCon Discovery GmbH	0	-35	0	0
Personnel expenses from share-based payment components	-354	-136	-199	-95
Acquisition and integration costs incurred in the expansion of the BRAIN Group	0	-20	0	-14
<b>Adjusted EBITDA</b>	<b>-553</b>	<b>-2,071</b>	<b>161</b>	<b>-398</b>

## **2. Net assets**

Non-current assets increased from € 35.2 million as at 30 September 2019 to € 40.8 million as at 30 June 2020, primarily due to the 41% increase in property, plant and equipment. As a consequence of the first-time application of IFRS 16, property, plant and equipment rose by € 5.7 million. Additionally capital expenditure on property, plant and equipment and on investments in expanded production capacities at the Cardiff, UK and Büttelborn, Germany sites contributed to the above mentioned increase. Current assets rose from € 31.0 million to € 34.9 million. This increase mainly reflects the inflow of cash from the capital increase and other effects, as explained in more detail in the section "Financial position".

Equity rose from € 17.1 million as at 30 September 2019 to € 25.9 million as at 30 June 2020. This increase of € 8.8 million is the net effect of the capital increase from authorized capital of € 14.6 million, and the negative comprehensive income of € -6.4 million.

Non-current liabilities rose from € 34.2 million to € 38.5 million, primarily reflecting the first-time application of IFRS 16. Further details can be found in the section IFRS 16 "Leases" in the selected notes to this document.

Current liabilities decreased from € 14.9 million to € 11.3 million. The reduction is mainly due to the decrease in deferred income from € 2.6 million to € 0.3 million, and the reduction in current financial liabilities from € 3.6 million to € 2.3 million in connection with the scheduled repayment of financial liabilities.

## **3. Financial position**

The Group's gross cash flow improved slightly from € -4.9 million in the previous year to € -4.6 million in the reporting period. This change mainly reflects the € 1.3 million positive result from equity-accounted investments, and the receipt of deferred income of € -0.9 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. As a consequence, cash flow from operating activities was € 0.8 million lower than in the same period of the previous year.

Cash flow from investing activities in the first nine months of the current financial year mainly reflects investments in property, plant and equipment, investments in expanded production capacities at the sites in Cardiff, UK, and Büttelborn, Germany, as well as the

investment in the capital increase in SolasCure Ltd., leading to cash flow from investing activities of € -4.5 million.

Cash flow from financing activities, which in the reporting period mainly reflects the contribution to equity, amounted to € 13.9 million.

Compared to 30 September 2019, cash and cash equivalents rose from € 15.2 million to € 18.8 million, which is attributable to the aforementioned effects.



# CONSOLIDATED INCOME STATEMENT

**[UNAUDITED]** 1 October 2019 to 30 June 2020 and 1 April 2020 to 30 June 2020

€ thousand	9M 2019/20	9M 2018/19	Q3 2019/20	Q3 2018/19
Revenue	29,554	27,934	9,625	9,415
Research and development grant revenue	616	1,191	169	388
Change in inventories of finished goods and work in progress	-304	-20	158	-75
Other income	444	600	169	160
	<b>30,310</b>	<b>29,705</b>	<b>10,121</b>	<b>9,889</b>
<b>Cost of materials</b>				
Costs of raw materials and supplies, and purchased merchandise	-10,259	-10,820	-3,620	-3,573
Cost of purchased services	-1,980	-1,743	-571	-436
	<b>-12,239</b>	<b>-12,563</b>	<b>-4,192</b>	<b>-4,009</b>
<b>Personnel expenses</b>				
Wages and salaries	-11,218	-10,821	-3,830	-3,572
Share-based employee compensation	-354	-136	-199	-95
Social security and post-employment benefit costs	-2,253	-2,166	-625	-655
	<b>-13,825</b>	<b>-13,124</b>	<b>-4,654</b>	<b>-4,323</b>
Other expenses	-5,153	-6,281	-1,313	-2,064
<b>EBITDA</b>	<b>-907</b>	<b>-2,263</b>	<b>-38</b>	<b>-507</b>
Depreciation and amortization and impairment	-2,604	-3,942	-864	-2,493 <sup>1</sup>
<b>Operating result (EBIT)</b>	<b>-3,511</b>	<b>-6,205</b>	<b>-902</b>	<b>-3,000</b>
Share of profit or loss from equity-accounted investments	-2,025	-697	-526	-447
Finance income	127	6	112	2
Finance costs	-537	-934	-143	-357
	<b>-2,436</b>	<b>-1,624</b>	<b>-557</b>	<b>-803</b>
<b>Pretax loss for the reporting period</b>	<b>-5,946</b>	<b>-7,829</b>	<b>-1,459</b>	<b>-3,802</b>
<b>Income tax expense / income</b>				
a) Current tax expense	-429	-391	-184	-191
b) Deferred tax income	268	252	88	88
	<b>-162</b>	<b>-138</b>	<b>-96</b>	<b>-103</b>
<b>Net loss for the reporting period</b>	<b>-6,108</b>	<b>-7,968</b>	<b>-1,555</b>	<b>-3,905</b>
of which attributable to:				
Non-controlling interests	397	153	198	83
Shareholders of BRAIN AG	-6,504	-8,120	-1,753	-3,988
Earnings per share, basic (undiluted)	-0.36	-0.45	-0.10	-0.22
Number of shares taken as basis	18,253,473	18,055,782	18,253,473	18,055,782
Earnings per share, diluted	-0.36	-0.45	-0.10	-0.22
Number of shares taken as basis	18,253,473	18,055,782	18,253,473	18,055,782

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

30 June 2020

€ thousand	30.06.2020	30.09.2019
Non-current assets	40,830	35,167
Current assets	34,906	30,957
<b>ASSETS</b>	<b>75,736</b>	<b>66,123</b>
<b>Equity</b>	<b>25,909</b>	<b>17,091</b>
Non-current liabilities	38,545	34,160
Current liabilities	11,283	14,873
<b>EQUITY AND LIABILITIES</b>	<b>75,736</b>	<b>66,123</b>

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT [UNAUDITED]

1 October 2019 to 30 June 2020

€ thousand	9M 2019/20	9M 2018/19
Gross cash flow	-4,610	-4,897
Cash flow from operating activities	-5,734	-4,893
Cash flow from investing activities	-4,548	-4,521
Cash flow from financing activities	13,914	-749
Net change in cash and cash equivalents	3,632	-10,163
Cash and cash equivalents at start of reporting period	15,160	25,539
Cash and cash equivalents at end of reporting period <sup>2</sup>	18,787	15,402

<sup>1</sup> The increase in this item was the result of the amortization of disclosed hidden reserves of € 0.6 million from the acquisition of the Biocatalysts Group in March 2018, and the amortization of goodwill of Montell Cosmetics International GmbH in the amount of € 1.8 million.

<sup>2</sup> A € -6 thousand change in the cash position arose as at 30 June 2020, reflecting changes in currency exchange rates.

# SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS [UNAUDITED]

1 October 2019 to 30 June 2020

The accounting policies on which the consolidated financial statements as at 30 September 2019 were based were also applied for the first nine months of 2019/20.

## **Application of new accounting standards**

BRAIN applied IFRS 16 "Leases" for the first time with effect from 1 October 2019. The effects of the introduction of this standard 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 on its balance sheet a lease liability 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 on the consolidated balance sheet as at 1 October 2019.

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

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

### 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<sup>3</sup> are presented in the following overview.

€ thousand	BioScience		BioIndustrial		Consolidation 9M 2019/20	
	9M 2019/20	9M 2018/19	9M 2019/20	9M 2018/19	Reconciliation	Group
Revenue	10,476	7,620	19,127	20,321	-48	29,554
Adjusted EBITDA	-3,119	-4,411	2,553	2,339	13	-553

### Number of employees in the Group<sup>4</sup>

Average for the reporting period	9M 2019/20	FY 2018/19
<b>Total employees, of which</b>	<b>275</b>	<b>281</b>
Salaried employees <sup>5</sup>	252	256
Industrial employees	24	25

Furthermore, BRAIN employs scholarship/grant holders (6, FY 18/19: 4), temporary employees (14, FY 18/19: 12) and trainees (7, FY 18/19: 7).

<sup>3</sup> After partial elimination within the segment

<sup>4</sup> Excluding the members of the parent company's Management Board and the subsidiaries' managing directors

<sup>5</sup> The previous year 2018/19 figures include 11 employees of Monteil Cosmetics International GmbH

# EVENTS AFTER THE END OF THE QUARTER

## **Chief Business Officer Ludger Roedder steps down from the Management Board on 7 July 2020**

By mutual agreement, the Chief Business Officer Ludger Roedder stepped down from the Management Board of BRAIN AG on 7 July 2020 due to differing strategic ideas. Mr. Roedder will leave BRAIN AG as of the end of the calendar year.

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 2020.

## **Covid-19 update - business progress and forecast**

BRAIN AG is focusing its measures to contain negative effects of the pandemic primarily on the safety of its employees, the stability of its supply chains, the timely fulfilment of customer contracts, and the maintenance as far as possible of normal business operations.

To date, BRAIN AG has been largely successful in curbing the negative effects of the coronavirus pandemic. Only our equity investment in SolasCure was affected to the extent that test centers for non-Covid-19 patients were closed, leading to delays in the timing of clinical trials. A reduction in sales revenues from enzymes for starch processing (bioethanol) and wine yeast also had a negative impact.

Travel restrictions and social distancing are also making it difficult for our team to visit clients in order to acquire new projects. Our business development team is deploying creative approaches in order to minimize negative effects on new business. However, a medium-term effect cannot be ruled out.

No significant changes are identifiable concerning the business outlook compared with the outlook report presented in the 2018/19 annual report (page 120). Despite the coronavirus pandemic, BRAIN is confident that it will be able to achieve the targets it has set for this year.

Zwingenberg, 31 August 2020

The Management Board



Adriaan Moelker



Manfred Bender

# CONTACT

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

**Investor Relations Manager**

**Michael Schneiders**

**+49 (0) 62 51 / 9331-86**

# FINANCIAL CALENDAR

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

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**15.09.2020** BRAIN Capital Markets Day

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**14.01.2021** Publication of the annual report  
as at 30.09.2020 (12M)

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**26.02.2021** Publication of the quarterly statement  
as at 31.12.2020 (3M)

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**10.03.2021** Annual General Meeting, 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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**B·R·A·I·N**

Biotechnology Research and Information Network AG

Darmstädter Straße 34–36

64673 Zwingenberg · Germany

+49 (0) 62 51 / 9331-0

[public@brain-biotech.com](mailto:public@brain-biotech.com)

[www.brain-biotech.com](http://www.brain-biotech.com)