

12m Results 2018

Opinion⁽¹⁾: In line

Impact⁽¹⁾: We will maintain our estimates

Ana Isabel González García – + 34 91 590 42 26

ana.gonzalez@lighthouse-ieaf.com

No big surprises although impacted by an unfavourable mix

Business description

Biosearch is a small, Spanish biotech company based in Granada, specialising in the research, development and sale of functional ingredients (natural extracts, omega-3 and probiotics) for the nutrition and healthcare markets. It has an international presence (74% of revenue). A former subsidiary of the former EBRO-Puleva, its core shareholder remains the Lactalis group (30% of capital)

Market Data

Market Cap (Mn EUR and USD)	93.2	105.9
EV (Mn EUR and USD)	99.0	112.6
Shares Outstanding (Mn)	57.7	
-12m (High/Avg/Low EUR)	1.89 / 1.38 / 0.59	
Daily Avg vol. (-12m Mn EUR)	1.2	
Rotation ⁽²⁾	327.5	
Thomson Reuters / Bloomberg	BIOS.MC / BIO SM	

Shareholders Structure (%)

Grupo Lactalis	29.5
Pescaderías Coruñas, S.A.	10
Free Float	60.5

Relative performance -5y (Base 100)



Stock performance (%)

	-1m	-3m	-12m	-5Y
Absolute	2.9	31.3	173.7	77.5
vs Ibex 35	2.6	29.5	194.2	95.8
vs Ibex Small Cap Index	1.1	25.2	184.0	54.0
vs Eurostoxx 50	-0.9	26.6	188.3	69.5
vs Sector benchmark ⁽³⁾	-2.8	26.1	148.2	45.9

(1) The opinion about results is in respect of reported EBITDA and its relation to our estimate for the year (12m). The impact reflects whether, as a consequence of these results, we envisage a significant (>5%) upgrade or downgrade to our EBITDA estimates (for any of the estimated years).

(2) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.

(3) vs Eurostoxx 600 Health Care.

(* Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

REVENUE +5.6% (EUR 27.2Mn., -3.4% vs. estimates), underpinned by sales of probiotics and lipids (+27.1% and +10.3% respectively vs. 2017), which contributed 63% of revenues (-1.6p.p. over the year), but saw a significant deceleration of growth, recording declines of over 20% in 4Q18. The slowdown in demand (circumstantial in lipids) and the delay in the marketing schedule with Nestlé (probiotics) until April, with the consequent delay in collection, suggest a weak start to 2019. Revenue growth is likely to accelerate in 2H 2019, thanks to expansion of the customer portfolio and new marketing launches (in 1Q 2019 the results of the clinical study with Caronositol Fertility will be released). The one-off capitalisation made (EUR 0.13 Mn) is due to the agreement with Nestlé.

EBITDA/REVENUE MARGIN IN LINE (21.5%, -1.2P.P.), to which the fluctuation in inventories (mainly probiotics) has contributed, with a 1.7 p.p. improvement in the gross margin which translated into EBITDA, offsetting the negative impact of the mix. This impact is likely to gradually revert in 2H 2019, offset by the increase in sales.

TEMPORARY INCREASE IN DEBT (0.6X ND/EBITDA) due to the recognition of a EUR 2 Mn subsidised loan from the CDTI (Spanish Centre for the Development of Industrial Technology) to be collected in 2019. However, we would highlight the good management of working capital, which remains stable (+0.4%) despite the increase in inventories (+9%), which, together with lower than expected CAPEX (EUR 1.2 Mn., -21%), has significantly increased recurrent FCF.

ORDINARY NP +11.1% after adjusting the impact of the impairment of goodwill made in 2017 (EUR 1.1 Mn) and with a tax rate (17.7%) that was lower than expected (-1.2 p.p.).

	2018 (Real)	2018 (Est.)	Real vs Est	2017	2018 (Real) vs 017	2018 (Est.) vs 017	4T018	4T017
Total Revenues	27.2	28.1	-3.4%	25.7	5.6%	9.3%	n.d.	n.d.
Lipids	9.2	9.3	-1.6%	8.5	8.6%	10.3%	2.0	-21.6%
Probiotics	7.9	8.8	-10.1%	6.2	27.1%	41.4%	2.9	-22.7%
Extracts	8.9	9.0	-1.5%	9.6	-7.4%	-6.0%	1.4	-9.4%
Services	0.7	0.5	51.0%	1.0	-23.5%	-49.3%	0.3	96.1%
Other income	0.4	0.5	-6.4%	0.5	-6.4%	0.0%	n.d.	n.d.
Rec. EBITDA	5.8	6.0	-3.3%	5.3	10.5%	14.3%	1.7	-35.2%
Rec. EBITDA / Rev.	21.5%	21.5%	0.0 p.p.	20.5%	1.0 p.p.	0.9 p.p.	n.d.	n.d.
EBITDA	5.8	6.0	-3.3%	5.3	10.5%	14.3%	1.7	-35.2%
EBITDA / Rev.	21.5%	21.5%	0.0 p.p.	20.5%	1.0 p.p.	0.9 p.p.	n.d.	n.d.
EBIT	4.1	4.1	-1.3%	2.2	87.6%	90.1%	n.d.	n.d.
NP	3.3	3.1	8.4%	2.0	64.9%	52.1%	n.d.	n.d.
Ordinary NP	3.4	3.1	10.1%	3.0	11.1%	0.9%	n.d.	n.d.
Rec. FCF	3.7	3.2	15%	1.4	166.4%	130.7%		
Rec. FCF Yield	4.0%	3.4%	0.5 p.p.	1.5%	2.5 p.p.	2.0 p.p.		
Net Debt	3.4	1.1	226%	4.5	-24%	-77%		
ND / EBITDA	0.6 x	0.2 x	0.4 x	0.9	-0.3 x	-0.7 x		

IMPORTANT LEGAL INFORMATION REGARDING THIS REPORT

LIGHTHOUSE

Lighthouse is a project of IEAF Servicios de Análisis S.L.U. Lighthouse is a research project funded by Bolsas y Mercados Españoles S.A. Lighthouse aims to improve the research coverage of the "orphan stocks" of the Spanish market: those which lack real and continuous research coverage. Lighthouse reports will not include valuation and target price. Lighthouse does not seek to provide investment advice to any natural or legal person. For this reason, Lighthouse will not provide a valuation, target price or investment recommendation for any of the securities analysed.

IEAF Servicios de Análisis S.L.U. is a Spanish company whose corporate purpose is:

- 1º) To provide information and financial analysis regarding securities issued by any class of legal person traded on official secondary markets, and specifically those securities which are not the object of the recurrent provision of information and analysis by financial analysts who participate in the markets.
- 2º) To publicise and update the aforementioned financial reports and analysis, in addition to the monitoring and following of the securities on which the information and analysis is provided.
- 3º) To prepare studies and projects aimed at proposing and implementing measures to improve the information and financial analysis of securities traded on official secondary markets.

IEAF Servicios de Análisis S.L.U. is a company whose sole shareholder is the Instituto Español de Analistas Financieros (IEAF), a professional, not for profit association.

DISCLAIMER

The Instituto Español de Analistas Financieros (IEAF) hereby certifies that the analyst of IEAF Servicios de Análisis S.L.U. whose name figures as the author of this report, expresses views that reflect their personal and independent opinion of the company analysed without these implying, either directly or indirectly, a personalised recommendation of the company analysed for purposes of providing investment advice. This report is based on the preparation of detailed financial projections from information available to the public and following traditional fundamental research methodology (i.e. it is not a technical or quantitative analysis report). For the analysis methodology used in the preparation of this report, please contact the analyst directly; contact details are included on the front page of this report.

The report includes basic information regarding the main parameters to be used by an investor when making their own valuation (whether by discounted cash flows or multiples). These parameters are the personal opinion or estimate of the analyst. The person receiving this report should use their own judgement when using these parameters and should consider them as another element in their decision-making process in respect of investment. These parameters do not represent a personalised investment recommendation.

Rules governing confidentiality and conflicts of interest

None of the following rules governing confidentiality and conflicts of interest (12) is applicable to this report:

1. This report is non-independent research as it has been commissioned by the company analysed (issuer).
2. In the last 12 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., has had Investment Banking mandates or has managed or co-managed a public offering of the securities of the issuer, or has received compensation from said issuer for Investment Banking services, that exclude brokerage services for prepaid fees.
3. In the next 6 months, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., expects to receive or intends to obtain compensation for Investment Banking services provided to this company that exclude brokerage services for prepaid fees.
4. The Investment Analyst or a member of the Research Department or a member of their household has a long position in the shares or derivatives of the corresponding issuer.
5. The Investment Analyst or a member of the Research Department or a member of their household has a short position in the shares or derivatives of the corresponding issuer.
6. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a long position of over 0.5% of the issuer's capital.
7. At the date of publication, the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U. held a short position of over 0.5% of the issuer's capital.
8. At the end of the month immediately prior to the publication of this report, or of the previous month if the report is published in the ten days following the end of the month, the company analysed (the issuer) or any of its subsidiaries held 5% or more of any class of equity security of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U.
9. A senior director or officer of the Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., or a member of their department is a director, officer, advisor or member of the Board of Directors of the issuer and/or one of its subsidiaries.
10. The Instituto Español de Analistas Financieros or its subsidiary, IEAF Servicios de Análisis S.L.U., acts as broker for the Issuer for the corresponding prepaid fees.
11. The contents of this report have been reviewed by the issuer prior to its publication.
12. The issuer has made changes to the contents of this report prior to its distribution.

The Investment Analysts who have prepared this Investment Analysis are employees of IEAF Servicios de Análisis S.L.U. These analysts have received (or will receive) compensation according to the general earnings of IEAF Servicios de Análisis S.L.U. To obtain a copy of the Code of Conduct of IEAF Servicios de Análisis S.L.U. (in respect of the Management of Conflicts of Interest in the research department), please use the e-mail address secretaria@ieaf.es or consult the contents of this Code at www.ieaf.es.

IEAF Servicios de Análisis S.L.U. is compensated by Bolsas y Mercados Españoles, S.A. for the preparation of this report. This report should be considered as just another element in the taking of investment decisions.

A report issued by IEAF servicios de análisis S.L.U.

All rights reserved. The unauthorised use or distribution of this report is prohibited. This document has been prepared and distributed, according to the provisions of the MiFID II by IEAF Servicios de Análisis S.L.U. Its corporate activity is regulated by the CNMV (the Spanish Securities Exchange Commission). The information and opinions expressed in this document do not represent nor are they intended to represent an offer or a solicitation to buy or sell the securities (in other words, the securities mentioned in this report and related warrants, options, rights or interests). The information and opinions contained in this document are based upon information available to the public and have been obtained from sources believed to be reliable by IEAF Servicios de Análisis S.L.U., but no guarantee is given regarding their accuracy or completeness. All comments and estimates reflect solely the opinion of IEAF Servicios de Análisis S.L.U. and do not offer any implicit or explicit guarantee. All the opinions expressed are subject to change without prior warning. This document does not take into account the specific investment objectives, financial position, risk profile or other specific aspects of the person who receives this document, and accordingly they should exercise their own judgement in this respect. Neither the Instituto Español de Analistas Financieros nor its subsidiary, IEAF Servicios de Análisis S.L.U., assumes any responsibility for direct or indirect losses arising from the use of the published research, except in the event of negligent conduct by IEAF Servicios de Análisis S.L.U. The information contained in this report is approved for distribution to professional clients, eligible counterparties and professional advisers, but not for distribution to private individuals or retail clients. Its reproduction, distribution or

publication for any purpose without the written authorisation of IEAF Servicios de Análisis S.L.U. is prohibited. The Instituto Español de Analistas Financieros (IEAF) and/or its subsidiary IEAF Servicios de Análisis S.L.U., their employees and directors, may hold a position (long or short) in an investment knowing that this issuer will be the object of analysis and that this analysis will be distributed to institutional investors. Any further information regarding the contents of this report will be provided upon request. IEAF Servicios de Análisis S.L.U. intends to publish (at least) one quarterly report or note updating the information on the company analysed.

United States. IEAF Servicios de Análisis S.L.U. is not registered in the United States and, consequently, is not subject to the regulations of that country governing the preparation of research and the independence of analysts. This report is distributed solely to major US institutional investors, in reliance on the exemption from registration provided by Rule 15a-6 of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"), and interpretations of this made by the US Securities Exchange Commission.

Major US Institutional Investors. This report will be distributed to "major US institutional investors", as defined by Rule 15a-6 of the US Securities Exchange Commission and of the US Securities Exchange Act of 1934.

Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
02/28/2019	n.a.	1,62	n.a.	n.a	12m Results 2018	Ana Isabel González García
01/31/2019	n.a.	1,56	n.a.	n.a	Initiation of Coverage	Ana Isabel González García