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ADL BIONATUR
Pharmaceuticals and Biotechnology

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ADL's Reverse Integration in Bionaturis

KEY INFORMATION

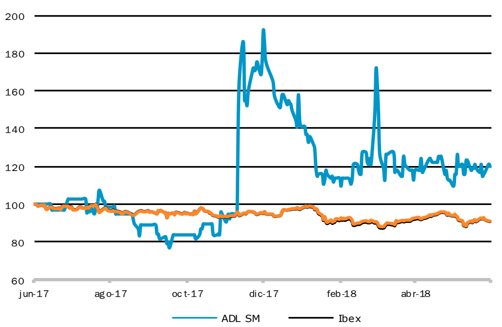
Reuters / Bloomberg:	ADLB.MC/ADL SM
Market Cap / EV	75 M
# shares:	33.9 M
12M Max/Min:	3.65/1.46
Rel. Perf. IBEX (1, 3, 6 months):	10.5%/-1.4%/-25.4%
Average volume €M/M shares	0.032/0.013
5 yrs. Beta	0.92
Free-float:	8.0%
Rating(S&P, M, F)	NR / NR / NR

Main shareholders
Black Toro Capital 84,99%, Victor Infante 5,89%, Inveready 1%

BS(e)	2017	2018e	2019e
Sales	14	30	50
YoY %	*n.a.*	*115.8%*	*66.4%*
EBITDA	-10	-1	9
YoY %	*n.a.*	*n.a.*	*n.a.*
EBITDA Margin	*-73.9%*	*-3.9%*	*18.2%*
EBIT	-13	-3	6
YoY %	*n.a.*	*n.a.*	*n.a.*
EBIT Margin	*-89.6%*	*-11.1%*	*12.6%*
Net Profit	-13	-4	3
YoY %	*n.a.*	*n.a.*	*n.a.*
PER SHARE	**2017**	**2018e**	**2019e**
EPS	-2.52	-0.12	0.10
YoY %	*n.a.*	*n.a.*	*n.a.*
Adjusted EPS	-2.52	-0.12	0.10
YoY %	*n.a.*	*n.a.*	*n.a.*
DPS	0.00	0.00	0.00
YoY %	*n.a.*	*n.a.*	*n.a.*
CFPS	-3.50	-0.61	-0.09
YoY %	*n.a.*	*n.a.*	*n.a.*
RATIOS	**2017**	**2018e**	**2019e**
P/E	-0.86x	-19.19x	21.85x
Adjusted P/E	-0.86x	-19.19x	21.85x
PCF	-0.62x	-3.60x	-25.73x
P/BV	0.44x	2.09x	1.91x
ROE	*-51.8%*	*-10.9%*	*8.7%*
Yield	*0.0%*	*0.0%*	*0.0%*
EV/Sales	3.08x	3.77x	2.30x
EV/EBITDA	-4.17x	-97.94x	12.65x
EV/EBIT	-3.44x	-34.01x	18.27x

Source: BS Research

Company vs. Country and vs. Reference index



Source: Bloomberg

- **ADL Bionatur Solutions** (ADL SM Equity) is the result of a combination of businesses agreed upon in November 2017 between **Antibióticos de León** (not listed, specialised in fermentation production) and **Bioorganic Research and Services** (BNT, mainly specialising in the development of animal health products), listed on the MAB (Alternative Equity Market). The former carried out a reverse integration in the latter, and the deal was carried out through a capital increase by BNT in April 2018 that was fully subscribed by Black Toro Capital, which owns 100% of Antibióticos de León, by means of a non-monetary contribution of 100% of the shares representing its capital. **According to the valuation of the independent expert** (€ 2.64/sh.), the exchange ratio set left a 15% stake in the combined group for BNT's original shareholders and 85% for Antibióticos de León's shareholders. Thus, **Black Toro Capital** (100% Antibióticos de León) **became the main shareholder in the new company with 84.99% of the shares,** followed by Víctor Infante (43% BNT) with 5.89%. The free float stands at 8%.

- **ADL plans to carry out a cash capital increase of up to € 15 M** (~20% market cap)/**max. 6.85 M new shares** (+20% vs. current capital) at a minimum price of € 2.20/sh. (-4% discount vs. share price). This capital increase is explained by the company's liquidity needs in the short-term due to:

  - **The fact that ADL is currently enlarging its production capacity** and it will earmark a significant percentage of its resources to investments in its facilities. In 2018, over € 18 M is expected to be earmarked to this purpose (around 95% of the total estimated CAPEX for FY2018).
  - The company is currently incurring operating losses due to an **oversized fixed-cost structure**. Nevertheless, over the past few months four new contracts have been signed, ensuring 65% of the turnover in the medium-term.

- The company's main shareholder, Black Toro Capital, has already invested more than € 40 M in the group since 2014, and in the framework of this operation it has announced its **intention to support ADL if the funds raised through the capital increase do not reach the amount expected** by granting a loan under market conditions.

- **Valuation range yielding upside.** Through a DCF model (9% WACC, 2% g) based on an EBITDA'22 level -29% below the recurring EBITDA forecasted by the company…

  - … We obtain a valuation range of **€ 147.5-211.0 M EV**, which means between 7.3x-7.4x EBITDA. Although the industry's weighted EV/EBITDA average stands at 20.6x, some direct peers such as Wacker are much more in line with our valuation (7.2x EBITDA).
  - In order to obtain an equity valuation range, we have performed a sensitivity analysis of our € 147.5-211.0 M EV range to the capital increase amount, obtaining a **valuation range per share post-money of between € 2.67-4.24/sh.**, with an average of € 3.52/sh., yielding 50% upside.

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1. A BRIEF DESCRIPTION OF THE COMPANY AND THE CAPITAL INCREASE

BIRTH OF THE COMPANY: REVERSE INTEGRATION IN APRIL, 2018

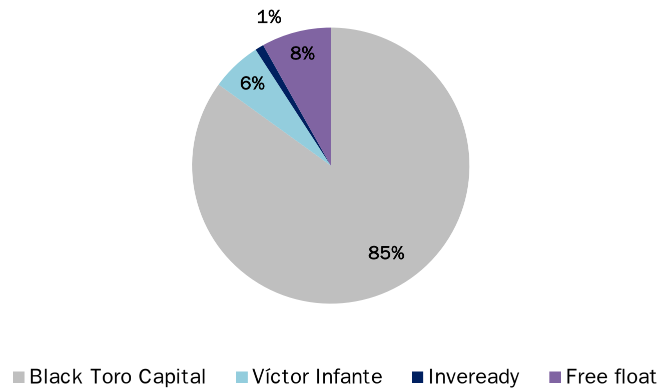
ADL Bionatur Solutions is the result of a combination of businesses between Antibióticos de León and Bioorganic Research and Services

ADL Bionatur Solutions (ADL SM Equity in Bloomberg) is the result of a combination of businesses agreed upon in November 2017 between **Antibióticos de León** (not listed) and **Bioorganic Research and Services** (BNT, listed on the MAB, Alternative Equity Market). The former carried out a **reverse integration** in the latter. The deal was carried out through a capital increase by BNT in April 2018 that was fully subscribed by Black Toro Capital (100% Antibióticos de León) by means of a non-monetary contribution of 100% of the shares representing its capital.

According to the valuation of the independent expert:

- **The exchange ratio set left a 15% stake** in the combined group for BNT's original shareholders and **85% for Antibióticos de León's shareholders**. Thus, Black Toro Capital (100% Antibióticos de León) became the main shareholder in the new company with 84.99% of the shares, followed by Víctor Infante (43% BNT) with 5.89% and Inveready with 1% of the capital. There are no indications for the time being that other shareholders hold significant stakes.

ADL Bionatur Solutions shareholding structure



Source: Sabadell Research

- **This operation set a value per share of € 2.64/sh.,** compared to BNT's average price of € 3.00/sh. in the past two years and € 4.00/sh. since it went public in 2012. Thus, BNT was valued at € 13.4 M equity, ADL at € 76.1 M and the combined group at € 89.6 M.

THE COMBINED GROUP PROPOSES A CAPITAL INCREASE

ADL plans to carry out a cash capital increase of up to € 15 M (~20% market cap)

ADL plans to carry out a cash capital increase of **up to € 15 M** (~20% market cap)/ **max. 6.85 M new shares** (+20% vs. current capital) at a **minimum price of € 2.20/sh.** (-4% discount vs. share price). This capital increase addresses the **company's liquidity needs in the short-term** due to:

- The fact that ADL Bionatur Solutions is currently ramping up its production capacity, and it will earmark a significant percentage of its resources to **investments in its facilities**. In 2018, over € 18 M are expected to be earmarked to this purpose (around 95% of the total estimated CAPEX for FY2018).
- The company is currently incurring **operating losses** due to an oversized fixed-cost structure compared to the current business size.

We also highlight that the capital increase is aimed at improving the company's free float (currently at ~8%) by increasing the stock's liquidity, which would make it easier to achieve its **target of being listed on the Spanish Continuous Market in the medium-term.**

The company's main shareholder, **Black Toro Capital**, has already invested more than € 40 M in the group since 2014 (€ 34 M of capital and € 7 M in loans), and within the framework of this deal it has announced its intention of supporting ADL if the funds raised through the capital increase do not reach the amount expected by **granting a loan under market conditions.**

2. DESCRIPTION OF THE BUSINESSES AND OPERATING ESTIMATES

BUSINESS BY COMPANY

Before going over our estimates, we will describe the businesses carried out by each of the companies taking part in the combined group:

- **Antibióticos de León**

Founded in 1949 under the name of **Antibióticos, S.A.** it initiated its activity packing penicillin and streptomycin. It became one of the main pharmaceutical companies in Spain with a production of 500 tons of antibiotics annually, employing some 1,500 workers.

Antibióticos, S.A. became one of the main pharmaceutical companies in Spain

In 2014 it was **acquired by Black Toro Capital** with the aim of resuming its operations after it filed for bankruptcy in 2013 as a result of several frauds from the former management.

The price paid for its assets was € 9 M and included the commitment of keeping the workforce of 170 employees. The new company was renamed Antibióticos de León, S.L.U., and its sales'17 totaled €~12 M, generated mostly in Europe (87%), America (7.6%) and the Middle East (4.5%). It currently has **two business lines**:

– **Contract Manufacturing Organization Services** (CMO) (56% of sales'17), including the production of high value-added fermentations for third-party products such as antitumor compounds, enzymes, vitamins, antibiotics, food supplements or biofuels. Additionally, ADL offers services to its clients to optimise production and product escalation processes through the manufacturing of compounds, thanks to the experience of its workforce in this kind of technology and its capacity in laboratories, in the pilot plant and on an industrial level. Furthermore, it also provides technological assessment, enhancement and technology transfer services.

– **Manufacturing and commercialisation of** (penicillin-derived) **beta-lactam active pharmaceutical ingredients for the production of** (oral or injectable) **API antibiotics** (44% of sales'17).

The company has more than 150,000 m^2 in León, including 4 fermentation plants with **2,370 m^3 of production capacity, making it one of the largest fermentation plants in Europe** (the largest in southern Europe), along with those of Capua Bioservices and Lonza.

The production capacity in the **facilities** follow GMP (Good Manufacturing Practices) standards, **certified by authorities in the US** (FDA-- Food and Drug Administration) and **Europe** (EDQM-- European Directorate for the Quality of Medicine and Healthcare, and EMA-- European Medicines Agency), among others (FMA in Japan and KFDA in Korea), which allows it to market its products in the main global markets.

Likewise, ADL has a ~1,100 m^2 **pilot plant** and a **full waste treatment plant** with the capacity to treat 3.2 million m^3 of waste. The latter is currently being renovated, and after it is ready (expected by August'18), Grupo Suez (through its subsidiary, Agbar) will operate and maintain the facility. Currently, the waste treatment service is outsourced, and the reactivation of the plant is expected to generate between € 0.8-1.0 M of annual cost savings.

Antibióticos de León has one of the largest fermentation plants in Europe

In our opinion, the company's main **strengths** are:

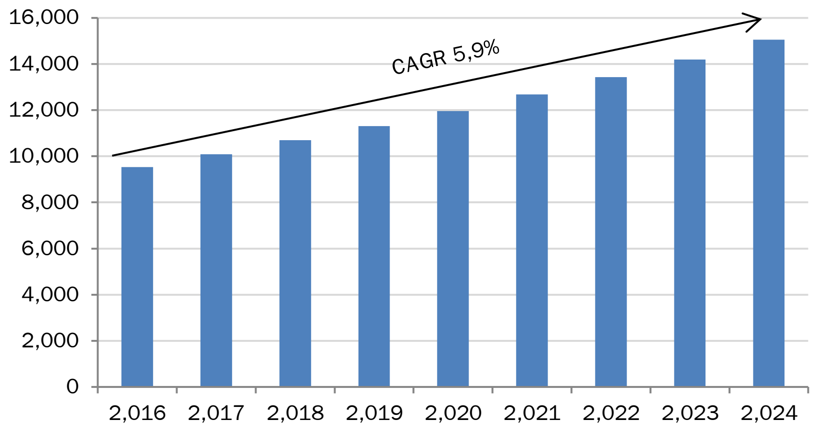
– Its know-how in producing a wide range of fermentation-based products.

– Its production capacity, which generates significant economies of scale and can be used by the company itself or third parties.

Strategically, the company aims to diversify its sources of revenue by strengthening the CMO business until it accounts for 75% of sales, as well as manufacturing and marketing niche sterile and oral penicillin-derived drugs (APIs).

As we can see in the graph below, over the next few years **+6% annual growth is expected in the pharmaceutical and nutrition-based fermentation market.**

Nutritional and pharmaceutical fermentation market trends (M dollars)



Source: Grand View Research. Fermentation Chemicals Market

- **Bionaturis**

Bionaturis is a biotech company offering **products and services** to the **veterinary pharmaceutical sector.** It has been **listed on the MAB** since 2012, and in 2017 it reached €~2.4 M of sales, generated mainly in Europe (79.7%) and America (19.9%). It has approximately **50 patents** and carries out its activities through **3 companies/divisions:**

- **Bioorganic Research and Services, S.A.** (Jerez de la Frontera) (35% of sales'17) specialises in the animal healthcare segment by developing products (mainly antigens, food additives and probiotics, obtained through the fermentation process), both prescription and over-the-counter, for both livestock and pets. The revenue model is based on signing third-party licensing agreements on the products in the development portfolio. Each agreement may include down payments at the time of signing, milestone payments and/or R&D payments, among other things, meaning the group can obtain revenues from these programmes before the products hit the market, or without being registered or marketed.
- **BBD Biophenix, S.L.U. - Biobide** (San Sebastián) (58% of sales'17) develops efficacy and toxicity trials, applying the zebrafish model for third parties (Contract Research Organisation-- CRO), which include pharmaceutical, biotech, petrochemical and cosmetic companies.
- **Zera Intein Protein Solutions, S.L.U. – ZIP Solutions** (Barcelona) (8% of sales'17) heads the CDMO division (Contract Development and Manufacturing Organization) through the development of biological product purification technologies in the biotech, pharmaceutical, veterinarian and industrial sectors. Its business model is based on holding licenses for systems developed for other companies.

The combination will allow Antibióticos de León's facilities to be used to manufacture Bionaturis products, currently under third-party operation

- **Strategic sense behind integrating Antibióticos de León and BNT**

The main reason to integrate the two companies is to obtain **greater vertical integration** of both by offering a comprehensive development and production solution for the biotech and pharmaceutical industry:

In the case of BNT:

- **The new structure will allow Antibióticos de León's facilities** (with production capacity under GMP standards and certified by the European EDQM-EMA and US FDA regulators) **to be used to manufacture its products, which is currently under third-party operation.**
- Likewise, BNT will be able to take advantage of Antibióticos de León's **distribution and marketing network** to get its products to the market.
- It will allow the company to use Antibióticos de León's structure to complete the registration of new products.

For Antibióticos de León:

- The integration will allow it to take better advantage of its manufacturing capacity.
- **It will broaden and complement its R&D capacities** through BNT, betting on the development of its own portfolio focused on prescription food supplements (probiotics and postbiotics)
- Being listed on the MAB will provide visibility and capacity to gain additional resources, which will allow it to boost growth in the medium term and will serve as an initial step towards its goal of being listed on the Continuous Market.

BUSINESSES BY DIVISION AND SALES ESTIMATES

We must consider that Antibióticos de León resumed business in 2015 following the aforementioned bankruptcy, and therefore any mention of growth rates could seem disproportionate. Thus, in our estimates we expect ADL to post a **CAGR'17-22 of +40% in sales, eventually reaching € 75 M** (vs. € 14 M in 2017), **-21% below the company's target** (€~18 M).

Our estimates through 2022 are -21% below ADL's business plan in sales and -29% in EBITDA

There are three main drivers:

- **Contracts signed, which justify ~65% of our sales estimate over the 2018-22 period.** It is public knowledge that the company has recently signed 4 new contracts with clients in its CMO and API divisions, which have helped increase visibility. These are the main characteristics of these contracts:
  - **The biggest one is a 6-year CMO contract for a cumulative € 146 M** (average of more than € 24 M/year) to produce flucosil-lactose, a component needed to make breastmilk substitutes for a German company, a leader in the field.
  - **The second-largest is also a CMO** representing € 5 M a year for two years, this contract with an important US client in the chemical sector.
  - **The third is another CMO contract** renewed annually with guaranteed billing of € 4.6 M/year to produce beta carotene (food colouring).
  - **And lastly, in the API division,** a 2-year renewable contract (€ 4 M/year) to produce penetamate (sterile antibiotic used in animals).

ADL has ~65% idle capacity in CMO

- **Idle capacity in CMO of around 65% that should allow the company to increase activity without any additional investments/fixed costs.** The company's aim is not only to use this capacity, but also to redirect it towards higher value-added products vs. traditional penicillin derivatives (amoxicillin and ampicillin). In our estimates we expect **€ 18 M of sales in CMO in 2018 and € 48 M in 2022.** We highlight that the 3 CMO contracts already signed by the company mean 3 of the 8 225 m^3 fermenters set aside for this activity will be used (37.5% of theoretical capacity), meaning there is **enough infrastructure to easily handle the growth** we estimate. As of this report's release, the company has **at least 3 advanced-stage negotiations with current and other potential clients for agreements to produce several drugs** that would mean the use of an additional 2 fermenters (which would bring the theoretical utilisation level to 62.5%). However, out of caution we have not included these potential sales in our estimates.

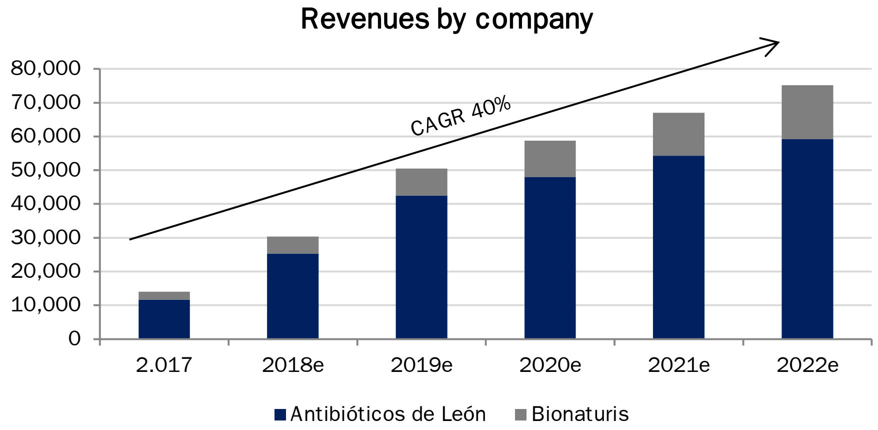
- ADL should be able to take advantage of the **growing animal healthcare market** (BNT's main division), which has benefited from the signing of several significant agreements with clients that include royalty payments. This would be the second-most important growth source, where we expect some € 3 M of sales in 2018 and € 12 M in 2022.

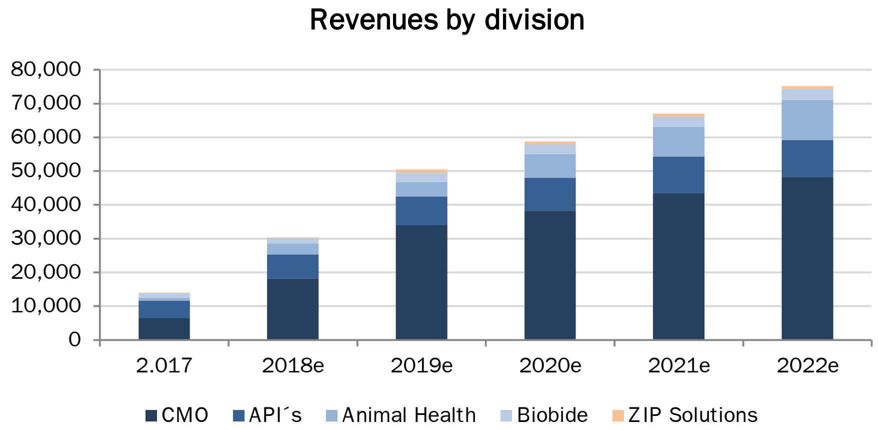
In addition to the two important growth sources for ADL, **we highlight others of less importance, such as: (i) APIs** that produce penicillin derivatives used in the production of antibiotics, and where we estimate +16% CAGR'18-22 to € 11 M (vs. € 5.1 M in 2017); **(ii) Biobide,** specialising in clinical trials based on the zebrafish model, where we expect an +18% CAGR'18-22 to € 3.2 M; and lastly **(iii) ZIP Solutions,** a division charged with developing purification technologies for biological products, where we expect a +37% CAGR'18-22 to € 0.8 M.

Next we show our sales estimates by divisions, boosted by the recent contracts signed, as we have mentioned above:

Estimated Turnover

€ thousands	2,017	2018e	2019e	2020e	2021e	2022e	CAGR'17-22
CMO	6,529	18,234	34,012	38,223	43,594	48,299	49%
API´s	5,133	7,076	8,491	9,764	10,742	10,956	16%
Animal Health	833	3,239	4,316	7,087	8,772	11,854	70%
Biobide	1,376	1,593	2,770	2,909	3,054	3,207	18%
ZIP Solutions	180	180	866	811	835	861	37%
Revenues	**14,051**	**30,322**	**50,455**	**58,793**	**66,996**	**75,176**	**40%**
Var. %	*n.a*	*116%*	*66%*	*17%*	*14%*	*12%*	





Source: Sabadell Research

The most relevant risk in our estimates: **one of the contracts signed means ~40% of the revenues expected for the 2018-2020 period,** which implies significant concentration levels, but which we do not expect to pose a problem in terms of client credit risk, as it is a reliable, top-notch company.

MARGINS

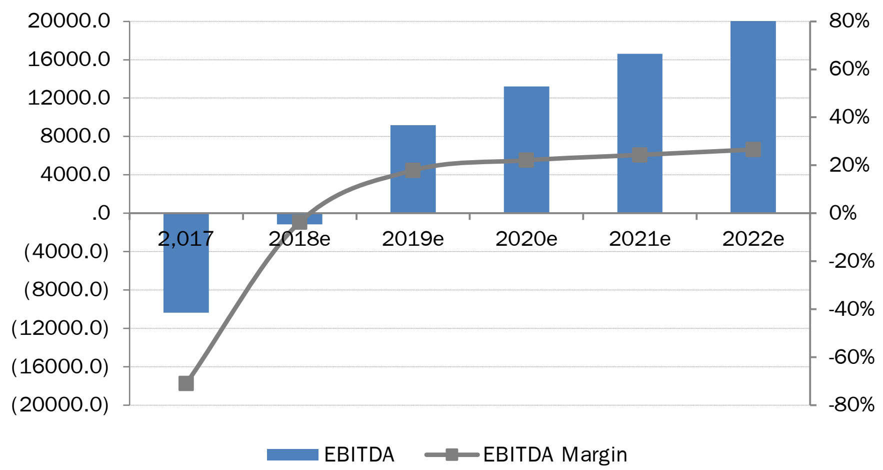
In terms of **EBITDA,** our estimates factor in **operating losses of €-1.2 M in 2018e** (vs. €-10.4 M in 2017), which will gradually improve to **€ 20 M of EBITDA in 2022e.** In our view, this will be achieved thanks to:

In our view, the business' fixed-cost structure will allow the EBITDA margin to rise to levels of 27%

- a **more favourable revenue mix,** with a higher weight of CMO activities, where gross margins are higher (>45%) and where the client provides the raw materials used in the production process.
- the company's **operating leverage,** with a significant fixed-cost structure in which indirect personnel costs (~50% of sales 2017) would grow at a pace of +2.6% CAGR'17-22 vs. 39.2% for sales.

Thus, the business' fixed-cost structure will allow the EBITDA margin to rise to levels of 27%, which is below its peers' average, as can be seen in the table below.

Estimated EBITDA and EBITDA Margin



Estimated Fixed/Variable costs and EBITDA

€ thousands	2017	2018e	2019e	2020e	2021e	2022e	CAGR '17-22
Revenues	14,051	30,322	50,455	58,793	66,996	75,176	40%
Other income	567	850	1,010	1,170	1,331	1,357	19%
Total income	**14,618**	**31,172**	**51,465**	**59,964**	**68,327**	**76,533**	**39%**
Total COGS	(9,221)	(17,014)	(26,488)	(30,723)	(35,294)	(39,387)	34%
Gross Margin	**5,397**	**14,158**	**24,977**	**29,241**	**33,033**	**37,146**	**47%**
% of revenues	*38.4%*	*46.7%*	*49.5%*	*49.7%*	*49.3%*	*49.4%*	
Indirect personnel cost	(7,267)	(7,030)	(7,346)	(7,662)	(7,989)	(8,273)	3%
OPEX	(10,801)	(9,904)	(10,077)	(10,007)	(10,126)	(10,265)	-1%
Capitalized R&D	2,292	1,608	1,634	1,661	1,688	1,716	-6%
EBITDA	**(10,379)**	**(1,168)**	**9,187**	**13,232**	**16,607**	**20,324**	**-214%**
% of revenues	*-73.9%*	*-3.9%*	*18.2%*	*22.5%*	*24.8%*	*27.0%*	

Gross margin by divisions

% of revenues	2018e	2019e	2020e	2021e	2022e
CMO	48%	50%	50%	50%	51%
API´s	27%	27%	27%	27%	27%
Animal Health	31%	24%	32%	31%	33%
Biobide	90%	90%	90%	90%	90%
ZIP Solutions	100%	100%	100%	100%	100%
Gross Margin	**47%**	**50%**	**50%**	**49%**	**49%**

Source: Bloomberg and Sabadell Research

Peers' EBITDA margin

	Market Cap. (€K)	EBITDA Margin 2017	2018e	2019e	2020e	2021e	2022e
LONZA GROUP AG-REG	19,950	25%	26%	27%	28%	29%	30%
CATALENT INC	5,164	22%	22%	23%	24%	25%	25%
NOVOZYMES A/S-B SHARES	96,050	35%	36%	36%	36%	37%	37%
EVONIK INDUSTRIES AG	14,143	16%	17%	17%	17%	17%	17%
KONINKLIJKE DSM NV	15,428	17%	19%	18%	18%	18%	18%
CHR HANSEN HOLDING A/S	80,087	34%	35%	36%	36%	37%	n.d
WACKER CHEMIE AG	7,661	21%	22%	22%	22%	23%	23%
WEIGHTED AVERAGE		**31%**	**32%**	**32%**	**32%**	**33%**	**31%**
ADL BIONATUR		-74%	-4%	18%	23%	25%	27%

Source: Bloomberg and Sabadell Research

Out of caution, our estimates do not assume any impact from synergies linked to the integration of both companies, which would mainly come from: **(i)** ADL's production of products previously manufactured by Bionaturis (BNT), and **(i)** overhead cost savings, the latter with a negligible impact according to our estimates.

Nor do we include revenues from the **possible success of any of its R&D projects,** even though the company plans to invest in this regard an average of €~2.7 M per year (4.7% sales) and currently has 50 patents (4 granted in 2017), which is a sign of its positive R&D performance in the past.

With this in mind, **our EBITDA estimate** for the 2018-22 period **stands -29% below the company's business plan.**

3. CONSOLIDATED ESTIMATES

We would like to stress that in our consolidated estimates for the company's P&L statement, cash flows and balance sheet for the 2018-22 period, we have assumed a cash capital increase of € 15 M (the company's target). As the price (€ 2.20/sh. minimum) and the number of shares to be issued in the capital increase (up to 6.85 M shares) have not yet been decided, **we cannot estimate the figures per share.**

At the close of 2017, the company had NFD of € 32.2 M, with an average cost of 3.2%

P&L STATEMENT

Below the EBITDA line, we highlight **financial costs.** At the close of 2017, the company had a **NFD of € 32.2 M** (~67% of public organisms), with an **average cost of 3.2%.** Looking to the future, we expect financial costs to increase +60% (€ 0.7 M) in 2018 as a result of a rise in gross debt of €~10 M (+27%, as a response to CAPEX needs of €~20 M in 2018) to later gradually decrease by -14% on average over the 2019-22 period.

As regards taxes, we assume an effective rate of 25% of the company's EBT, which in principle should not translate into cash outflows until 2022, as can be seen in our cash flow estimates (see next section).

Consolidated P&L Statement

€ thousands	2017	2018e	2019e	2020e	2021e	2022e	CAGR'17-22
Revenues	14,051	30,322	50,455	58,793	66,996	75,176	40%
Other income	567	850	1,010	1,170	1,331	1,357	19%
Total income	**14,618**	**31,172**	**51,465**	**59,964**	**68,327**	**76,533**	**39%**
COGS	(9,221)	(17,014)	(26,488)	(30,723)	(35,294)	(39,387)	34%
Gross Margin	**5,397**	**14,158**	**24,977**	**29,241**	**33,033**	**37,146**	**47%**
% of revenues	*38%*	*47%*	*50%*	*50%*	*49%*	*49%*	
Other operating costs	(15,776)	(15,326)	(15,790)	(16,008)	(16,426)	(16,822)	1%
EBITDA	**(10,379)**	**(1,168)**	**9,187**	**13,232**	**16,607**	**20,324**	**-214%**
Margin	*-73.9%*	*-3.9%*	*18.2%*	*22.5%*	*24.8%*	*27.0%*	
Var %	*n.a*	*n.a*	*n.a*	*44%*	*26%*	*22%*	
Depreciation and Amortization	(2,212)	(2,196)	(2,826)	(3,176)	(3,554)	(3,962)	12%
EBIT	**(12,591)**	**(3,364)**	**6,361**	**10,056**	**13,053**	**16,362**	**-205%**
Finacial result	(1,151)	(1,847)	(1,784)	(1,726)	(1,514)	(1,021)	-2%
Other financial results	523	0	0	0	0	0	-100%
EBT	**(13,220)**	**(5,211)**	**4,577**	**8,330**	**11,539**	**15,341**	**-203%**
Tax	375	1,303	(1,144)	(2,083)	(2,885)	(3,835)	-259%
Tax rate	*-2.8%*	*-25.0%*	*-25.0%*	*-25.0%*	*-25.0%*	*-25.0%*	55%
Net Profit	**(12,844)**	**(3,909)**	**3,433**	**6,248**	**8,654**	**11,506**	**-198%**

Source: Sabadell Research

CASH FLOW

On the operating level, **we highlight that the company has a positive working capital structure,** which we expect to consume around €-4.2 M in cash over the 2018-22 period, as a result of the sharp sales growth expected (+40% CAGR'17-22). However, this rise in working capital (to levels of ~2% of sales) will be alleviated for the following reasons:

- **the higher weight of CMO in fermentation,** where inventory levels are low, as clients provide their own raw materials and withdraw stocks of finished products as soon as they are available.
- **the reduction of API stocks** (mainly amoxicillin, ampicillin) **expected in the short-term.** The company increased its API stocks throughout 2016 and 2017 awaiting the approval from the FDA, and in 2018 it has started to commercialise them.

Separately, **the company's expected CAPEX, included in our estimates, assumes cash outflows of €~20 M in 2018,** of which €~1 M would correspond to R&D, and the rest to the gradual remodelling of the company's facilities, meaning that 100% of its fermentation capacity in CMO would be available. Once the investments are made, we estimate an average maintenance CAPEX of € 2.5 M/year (~4% of sales).

In the long term, and after reaching full capacity, ADL expects **to make additional investments** of around € 14 M in new production fermenters to **raise CMO capacity by +75%. Our estimates, however, do not assume** these additional investments, nor their possible contribution to the results, as the plans would be carried out in 2023 (which falls outside the scope of our estimates).

Cash Flows

€ thousands	2017	2018e	2019e	2020e	2021e	2022e
EBITDA	(10,379)	(1,168)	9,187	13,232	16,607	20,324
Working capital	324	702	(1,758)	(1,133)	(1,113)	(818)
Tax	(1)	0	0	0	(2)	(3,835)
Other operating cash flows	(0)	0	0	0	0	0
CASH FLOW FROM OPERATIONS	**(10,056)**	**(466)**	**7,429**	**12,100**	**15,492**	**15,671**
CAPEX	(7,499)	(19,851)	(7,416)	(3,176)	(3,554)	(3,962)
Tangible	*(5,077)*	*(18,855)*	*(6,400)*	*(2,140)*	*(2,497)*	*(2,884)*
Intangible	*(2,421)*	*(996)*	*(1,016)*	*(1,036)*	*(1,057)*	*(1,078)*
Disposals	36	0	0	0	0	0
CASH FLOW FROM ACTIVITIES	**(7,463)**	**(19,851)**	**(7,416)**	**(3,176)**	**(3,554)**	**(3,962)**
Interest payment	(841)	(1,257)	(1,177)	(1,070)	(960)	(858)
Dividend payment	0	0	0	0	0	0
Capital increase	0	15,000	0	0	0	0
Other	13,293	(590)	(607)	(656)	(554)	(163)
CHANGE IN NET DEBT	**(5,067)**	**(7,164)**	**(1,771)**	**7,197**	**10,424**	**10,688**
FCF	(17,519)	(20,317)	13	8,924	11,939	11,709
FCF Yield	-23%	-26%	0%	12%	16%	15%
FCFE	(18,360)	(22,164)	(1,771)	7,197	10,424	10,688
FCFE Yield	-24%	-29%	-2%	9%	14%	14%

Source: Sabadell Research

Excluding the heavy investments expected for 2018 and 2019, the company would generate average FCFE levels of 9% yield over the 2018-22 period. Including them, we would have to wait until **2020 to see FCFE levels of 9% yield** (14% in 2022), which, as we will explain next, compares quite well to the sector's 2% average in 2022.

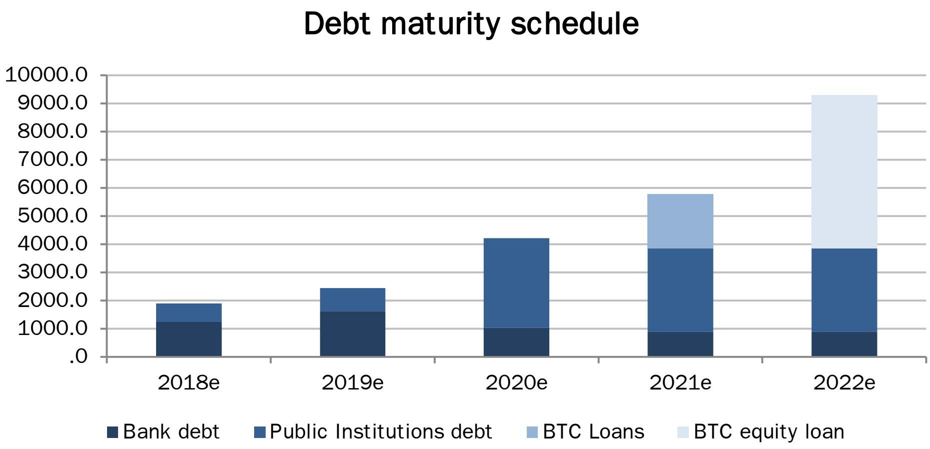
Peers' FCFE yield

	Market Cap. (€K)	FCFE 2017	2018e	2019e	2020e	2021e	2022e
LONZA GROUP AG-REG	19,950	-10%	2%	3%	3%	5%	4%
CATALENT INC	5,164	1%	-9%	n.a.	n.a.	n.a.	n.a.
NOVOZYMES A/S-B SHARES	96,050	-1%	0%	0%	0%	3%	1%
EVONIK INDUSTRIES AG	14,143	-25%	2%	3%	0%	-3%	12%
KONINKLIJKE DSM NV	15,428	10%	2%	3%	3%	-9%	-3%
CHR HANSEN HOLDING A/S	80,087	0%	0%	0%	0%	0%	0%
WACKER CHEMIE AG	7,661	5%	2%	1%	2%	7%	11%
WEIGHTED AVERAGE		**-2%**	**0%**	**0%**	**0%**	**1%**	**2%**
ADL BIONATUR	75	-24%	-29%	-2%	9%	14%	14%

Source: Bloomberg and Sabadell Research

Taking into account the **debt maturity schedule for the next five years** (with a scheduled amortization of principal of € 23.5 M), the company will have to increase its financing for an additional €~5 M until 2019. From 2020 onwards, the cash generated will be enough to reduce debt gradually to levels of 0.6x NFD/EBITDA in 2022.

Debt maturity schedule (thousand €)



Source: Sabadell Research

BALANCE SHEET

As can be seen on the balance sheet and in the financial debt performance chart, according to our estimates, the company would have enough capacity to deleverage below 3x NFD/EBITDA from 2020 onwards.

Balance Sheet

€ thousands	2017	2018e	2019e	2020e	2021e	2022e
Intangible assets	13,049	13,826	14,419	14,826	15,042	15,063
Tangible fixed assets	29,093	45,970	49,967	49,560	49,344	49,323
Other non current assets	736	736	736	736	736	736
Non current financial assets	1,658	1,658	1,658	1,658	1,658	1,658
Deferred tax assets	4,806	6,110	4,966	2,883	0	0
Inventories	7,225	4,607	5,362	5,937	6,541	6,880
Receivables	5,820	4,881	8,302	9,667	11,197	12,545
Current financial assets	3,352	3,352	3,352	3,352	3,352	3,352
Cash and cash equivalents	3,008	5,535	1,927	5,567	10,770	12,329
TOTAL ASSETS	68,747	86,675	90,687	94,185	98,639	101,886
Shareholder´s equity	24,801	35,892	39,325	45,573	54,227	65,733
Grants	1,165	1,165	1,165	1,165	1,165	1,165
Financial debt	35,257	44,948	43,111	39,553	34,332	25,203
Deferred tax liabilities	409	409	409	409	409	409
Current provisions	53	53	53	53	53	53
Payables	7,062	4,207	6,624	7,432	8,453	9,323
TOTAL LIABILITIES	68,747	86,675	90,687	94,185	98,639	101,886

Source: Sabadell Research

As for financial debt, we stress that in February 2018, Black Toro Capital (BTC) granted a four-year € 4 M loan to Antibióticos de León at an 8% interest rate payable at maturity, which was converted into an equity loan in April. For the calculation of Net Financial Debt and NFD/EBITDA, this loan has been excluded to show a more accurate image of the company's financial situation.

On another note, we highlight that >50% of the expected debt as of YE'18 stems from loans with public institutions (Industry Ministry and EIB, among others), which were granted under favourable terms for the company (long-term maturity, grace periods and interest rates below 3%).

Financial Debt & NFD/EBITDA ratio

FINANCIAL DEBT (€ thousands)	2017	2018e	2019e	2020e	2021e	2022e
Bank debt	10,100	8,860	7,253	6,223	5,334	4,446
Public Institutions debt	23,657	22,998	22,161	18,977	16,015	13,053
Other financial debt	0	5,500	5,500	5,500	5,500	5,500
BTC Loans	1,500	3,270	3,532	3,814	2,041	2,204
BTC equity loan	0	4,320	4,666	5,039	5,442	0
TOTAL	35,257	44,948	43,111	39,553	34,332	25,203
NET DEBT*	32,249	35,093	36,518	28,948	18,120	12,874
NET DEBT* / EBITDA	n.a	n.a	4.0x	2.2x	1.1x	0.6x

* Does not include a 4 M euros equity loan granted by BTC in 2018

Source: Sabadell Research

4. VALUATION RANGE

EV VALUATION

Bearing in mind the importance of the results delivery on a yearly basis, we believe that the the company is best valued through a DCF model. We assume **2% g,** which might be too conservative considering the outlook for the business.

Estimated DCF

€ thousands	2019e	2020e	2021e	2022e
EBIT	6,361	10,056	13,053	16,362
Tax	-1,590	-2,514	-3,263	-4,091
Depreciation and amortization	2,826	3,176	3,554	3,962
Working capital	-1,758	-1,133	-1,113	-818
CAPEX	-7,416	-3,176	-3,554	-3,962
FCF	**-1,577**	**6,410**	**8,677**	**11,454**

Source: Sabadell Research

Based on the DCF model above, **our scenario** (which is conservative per se, as it stands -29% below the recurring EBITDA levels estimated by the company) **shows a floor valuation for ADL of € 147.5 M EV/7.3x EV/implied recurring EBITDA.** If we assumed the company's estimates, we would obtain a valuation of € 211 M EV/7.4x EBITDA. In this regard, our valuation **ranges from € 147.5 M to € 211.0 M EV.**

Sensitivity analysis of EV to EBITDA'2022 and WACC

WACC \ EBITDA 2022	12.6	15.8	20.3	23.7	28.4
10.0%	75.6	96.5	126.7	148.8	180.2
9.5%	80.9	103.6	136.4	160.5	194.6
9.0%	86.9	111.8	147.5	173.8	211.1
8.5%	93.9	121.2	160.5	189.3	230.2
8.0%	102.1	132.2	175.6	207.5	252.7

Implied EV/EBITDA

WACC \ EBITDA 2022	12.6	15.8	20.3	23.7	28.4
10.0%	6.0x	6.1x	6.2x	6.3x	6.3x
9.5%	6.4x	6.6x	6.7x	6.8x	6.9x
9.0%	6.9x	7.1x	7.3x	7.3x	7.4x
8.5%	7.4x	7.7x	7.9x	8.0x	8.1x
8.0%	8.1x	8.4x	8.6x	8.8x	8.9x

Source: Sabadell Research

- **Peer multiples**

Next we show the main multiples from other companies in the industry. We highlight that the **EBITDA margins** we have assumed in 2022 are conservative, standing at **27% vs. 32% sector over the 2018-22 period.**

Operating level

		Revenues		EBITDA		EBITDA Margin	
	Market Cap. (€K)	CAGR 13-17	CAGR 17-22	CAGR 13-17	CAGR 17-22	13-17	18-22
LONZA GROUP AG-REG	19,950	8%	8%	20%	12%	21%	28%
CATALENT INC	5,164	n.a.	8%	n.a.	11%	23%	24%
NOVOZYMES A/S-B SHARES	96,050	6%	5%	9%	6%	34%	36%
EVONIK INDUSTRIES AG	14,143	3%	4%	4%	5%	16%	17%
KONINKLIJKE DSM NV	15,428	-2%	5%	3%	6%	15%	18%
CHR HANSEN HOLDING A/S	80,087	9%	8%	10%	n.a.	34%	36%
WACKER CHEMIE AG	7,661	2%	4%	12%	6%	18%	22%
WEIGHTED AVERAGE		**6%**	**6%**	**10%**	**7%**	**30%**	**32%**
ADL BIONATUR	75	n.a	40%	n.a	-214%	n.a	18%

Source: Bloomberg

That said, although the weighted average of the sector's EV/EBITDA ratio is 20.6x, some of ADL's closest peers, such as Wacker, show levels more in line with our valuation (7.2x EBITDA).

Peer EV/EBITDA Multiples

	Market Cap. (€K)	EV/EBITDA 2017	EV/EBITDA 2018e	EV/EBITDA 13-17	EV/EBITDA 17-22
LONZA GROUP AG-REG	19,950	18.7x	15.4x	26.6x	13.7x
CATALENT INC	5,164	17.0x	13.8x	18.3x	12.6x
NOVOZYMES A/S-B SHARES	96,050	19.2x	19.2x	21.9x	17.3x
EVONIK INDUSTRIES AG	14,143	7.2x	6.9x	8.2x	6.5x
KONINKLIJKE DSM NV	15,428	11.2x	8.9x	13.2x	9.3x
CHR HANSEN HOLDING A/S	80,087	31.5x	29.9x	37.7x	26.6x
WACKER CHEMIE AG	7,661	7.9x	7.2x	9.6x	6.7x
WEIGHTED AVERAGE		21.7x	20.6x	25.8x	18.5x
ADL BIONATUR	75	n.a	n.a	n.a	8.5x

Source: Bloomberg and Sabadell Research

POST-MONEY EQUITY VALUATION

To obtain our valuation range of the stock we have conducted a sensitivity analysis of our € 147.5/211.0 M EV range to both the amount of the capital increase and the discount to the issue, thus obtaining a post-money T.P. range between € 2.67/sh. and € 4.24/sh., with an average of € 3.52/sh., meaning 50% upside potential.

Share price's sensitivity to the amount and price of the capital increase

For an EV of € 147.5 M

Discount \ Capital increase amount	5.0	7.5	10.0	12.5	15.0
4%	2.72	2.71	2.70	2.70	2.69
2%	2.72	2.71	2.70	2.69	2.68
0%	2.71	2.70	2.69	2.68	2.67
-2%	2.71	2.70	2.68	2.67	2.66
-4%	2.71	2.69	2.68	2.66	2.65

For an EV of € 211.0 M

Discount \ Capital increase amount	5.0	7.5	10.0	12.5	15.0
4%	4.49	4.43	4.37	4.32	4.27
2%	4.48	4.42	4.36	4.31	4.25
0%	4.47	4.41	4.35	4.29	4.24
-2%	4.47	4.40	4.34	4.28	4.23
-4%	4.46	4.39	4.33	4.27	4.21

Source: Sabadell Research

5. FINANCIAL DATA

PROFIT & LOSS	2017	2018e	2019e	2020e	2021e	2022e	TACC 17/22
Sales	14.1	30.3	50.5	58.8	67.0	75.2	**39.9%**
YOY%	*n.a.*	*115.8%*	*66.4%*	*16.5%*	*14.0%*	*12.2%*	
EBITDA	-10.4	-1.2	9.2	13.2	16.6	20.3	**-214.4%**
YOY%	*n.a.*	*n.a.*	*n.a.*	*44.0%*	*25.5%*	*22.4%*	
EBITDA Margin	*-73.9%*	*-3.9%*	*18.2%*	*22.5%*	*24.8%*	*27.0%*	
EBIT	-12.6	-3.4	6.4	10.1	13.1	16.4	**-205.4%**
YOY%	*n.a.*	*n.a.*	*n.a.*	*58.1%*	*29.8%*	*25.4%*	
EBIT Margin	*-89.6%*	*-11.1%*	*12.6%*	*17.1%*	*19.5%*	*21.8%*	
Net Financial Expenses	-1.2	-1.8	-1.8	-1.7	-1.5	-1.0	**-2.4%**
YOY%	*n.a.*	*60.4%*	*n.a.*	*-3.2%*	*-12.3%*	*-32.6%*	
Taxes	0.4	1.3	-1.1	-2.1	-2.9	-3.8	**-259.2%**
Tax Rate(%)	-2.8%	-25.0%	-25.0%	-25.0%	-25.0%	-25.0%	
Minority / EBIT (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net Profit	-12.8	-3.9	3.4	6.2	8.7	11.5	**-197.8%**
Shares	5.1	33.9	33.9	33.9	33.9	33.9	
EPS	-2.52 €	-0.12 €	0.10 €	0.18 €	0.26 €	0.34 €	**-166.9%**
YOY%	*n.a.*	*-95.4%*	*-187.8%*	*82.0%*	*38.5%*	*33.0%*	
Adjusted EPS	-2.52 €	-0.12 €	0.10 €	0.18 €	0.26 €	0.34 €	**-166.9%**
YOY%	*n.a.*	*-95.4%*	*-187.8%*	*82.0%*	*38.5%*	*33.0%*	
DPS	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	**n.a.**
Payout (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	
Yield (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	
Capex	-7.5	-19.9	-7.4	-3.2	-3.6	-4.0	**-12.0%**

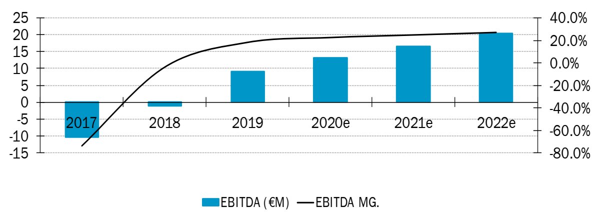
CASH FLOW (€ M)	2017	2018e	2019e	2020e	2021e	2022e	TACC 17/22
NET PROFIT	-12.8	-3.9	3.4	6.2	8.7	11.5	**-197.8%**
Depreciation	2.2	2.2	2.8	3.2	3.6	4.0	**12.4%**
Changes in working capital	-0.3	-0.7	1.8	1.1	1.1	0.8	**-220.3%**
Investments	-7.5	-19.9	-7.4	-3.2	-3.6	-4.0	**-12.0%**
Adjustments	12.7	13.7	1.1	2.1	2.9	0.0	**-100.0%**
Free Cash Flow	9.9	32.5	13.1	13.5	17.5	18.6	**13.4%**
- Dividends	0.0	0.0	0.0	0.0	0.0	0.0	**n.a.**
Free Cash Flow (ex dividends)	9.9	32.5	13.1	13.5	17.5	18.6	**13.4%**

BALANCE SHEET (€ M)	2017	2018e	2019e	2020e	2021e	2022e	TACC 17/22
Fixed Assets	42.1	59.8	64.4	64.4	64.4	64.4	**8.8%**
Net Current Assets	6.0	5.3	7.0	8.2	9.3	10.1	**11.0%**
% Net Current Assets / Sales	*42.6%*	*17.4%*	*14.0%*	*13.9%*	*13.9%*	*13.4%*	**-20.6%**
Shareholders Equity	24.8	35.9	39.3	45.6	54.2	65.7	**21.5%**
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	**n.a.**
Net Debt	32.2	39.4	41.2	34.0	23.6	12.9	**-16.8%**
Net Debt / Equity	*1.3x*	*1.1x*	*1.0x*	*0.7x*	*0.4x*	*0.2x*	
NetDebt / EBITDA	*-3.1x*	*-33.7x*	*4.5x*	*2.6x*	*1.4x*	*0.6x*	
ROE	*-51.8%*	*-10.9%*	*8.7%*	*13.7%*	*16.0%*	*17.5%*	
ROCE	*-21.4%*	*-3.4%*	*5.9%*	*9.5%*	*12.6%*	*15.6%*	

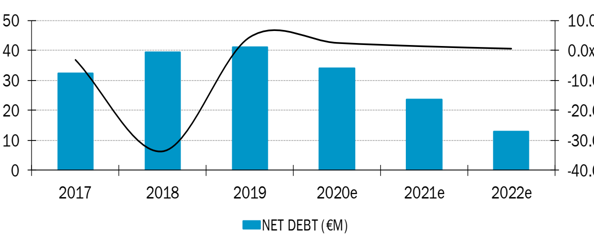
MARKET RATIOS	2017	2018e	2019e	2020e	2021e	2022e
EV/Sales	*3.08x*	*3.77x*	*2.30x*	*1.85x*	*1.47x*	*1.17x*
EV/EBITDA	*-4.17x*	*-97.94x*	*12.65x*	*8.24x*	*5.93x*	*4.32x*
ROCE/WACC	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*
P/E	*-0.86x*	*-19.19x*	*21.85x*	*12.00x*	*8.67x*	*6.52x*
Adjusted P/E	*-0.86x*	*-19.19x*	*21.85x*	*12.00x*	*8.67x*	*6.52x*
P/CF	*-0.62x*	*-3.60x*	*-25.73x*	*14.66x*	*9.95x*	*7.02x*
P/BV	*0.44x*	*2.09x*	*1.91x*	*1.65x*	*1.38x*	*1.14x*
FCF Yield	*-40.5%*	*-17.8%*	*0.0%*	*8.2%*	*12.1%*	*13.3%*

6. OPERATIONS DATA

EBITDA and EBITDA MG.

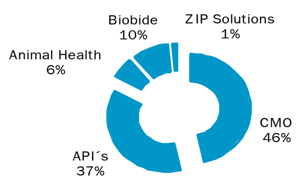


NET DEBT and NET DEBT/EBITDA



SALES BY DIVISION 2017

SALES BY REGION 2017



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