

# ADL

## Business Report 2018





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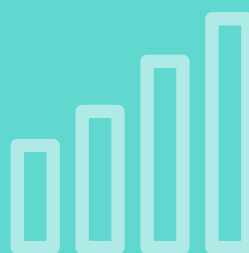
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**“We base  
our success  
on the experience  
of our staff  
and our commitment  
to innovation”**

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Pilar de la Huerta  
Chief Executive Officer

Dear Shareholder:

2018 was our first year as ADL Bionatur Solutions, a Spanish biotechnology group seeking to establish itself in a highly relevant position in the development of innovative fermentation solutions for human and animal health.

In less than twelve months, the new ADL Bionatur Solutions has become a reality with a very clear roadmap: to create sustainable value for the shareholder, our customers, employees and society overall. To this end, the company applies growth plans based on the manufacturing capacity of our facilities, the marketing of new products and the development of new lines of business through our research division.

### **A Clear Strategy**

Our group was born out of the merger of two existing companies, known until May 2018 as Bionaturis and ADL Biopharma. Both companies are now part of ADL Bionatur Solutions and are fully aligned and integrated to work towards adopting a major role in the biotech market.

This merger of the two companies has led to a clear synergy, in which the former ADL Biopharma acts as the industrialising arm and the former Bionaturis provides back-up to the R&D team with the capability of developing a proprietary product portfolio in both the human and veterinary markets.



Our first strategic objective in this new phase is to consolidate ADL Bionatur Solutions as a leading fermentation company at global level, both in its offer of third-party fermentation services (CMO/CDMO), on which we worked and made successful progress during 2018, and in the development of a proprietary innovative portfolio.

Fermentation is a booming process for the production of many known and new molecules, since it is an efficient technique that allows a wide array of products to be obtained in any geographical location, at much lower costs and in an environmentally-sustainable way.

Progress in genetics has allowed for the manipulation of bacteria, fungi or yeasts, both to optimise fermentation yields and to produce any type of product by fermentation

This has favoured a growing industry for popular products such as silk, vitamins, food supplements, polymers and plastics.

ADL Bionatur Solutions has spearheaded the development of this new twenty-first-century fermentation industry and has a very promising present and future ahead of it. The Group has one of the largest third-party fermentation facilities in southern Europe and we are convinced that we will be able to continue our differential and sustainable growth in this market. Besides our facilities, the *know-how* accumulated by a workforce with over 30 years' experience in the optimisation of fermentation processes is an asset that sets us apart from potential competitors.

And then there is the excellent track record in research and development of Bionaturis, the other company that we have integrated into ADL Bionatur Solutions. This is a key team fully focused on developing its proprietary portfolio.

Bionaturis had previously focused its attention on products for the veterinary market, particularly in the area of microbiome regulators (postbiotics, prebiotics and probiotics) and on the construction of "smart antigens" for the development of state-of-the-art vaccines.

Following the merger – and as a consequence of it – a second strategic goal was created: to extend the scope of the development capabilities of these lines of research (products) to the field of human health. And in recent months there has been some progress in this direction.

The future strategy for this vision is based on our ability to develop animal and human health products and to leverage our fermentation facilities to achieve greater margins and expand our commercial strength.

## An Attractive Investment Option

The market's reaction to the creation of ADL Bionatur Solutions in May 2018 was very positive, supporting the new business project with the subscription of a €12 million capital increase in July 2018. Within three months of the merger, the new entity successfully subscribed among institutional shareholders one of the largest capital increases to be carried out on the MaB (Alternative Stock Market).

This operation indicated the clear support of the Spanish institutional sector for the new biotechnology project embodied in ADL Bionatur Solutions.

The new company has showcased its new context and great potential from its very first year. ADL Bionatur Solutions thus closed 2018, its first financial year, with a turnover close to €26 million, compared to €13 million of the previous year. These figures show that the company is consistently and increasingly transferring its corporate and strategic vision to the business.

In this first year of the new group, the significant turnover increase has not resulted in improved EBITDA due to the extraordinary expenses associated with the corporate merger, the capital increase and the reorganisation of the companies, in addition to the increase in structural expenses needed to resize the workforce for contracts signed for third-party production over the next five years.

All of these penalising factors for the 2018 profit and loss statement are neutralised in FY 2019, with very positive prospects for earnings and profits. We predict that the company's turnover will double again, to more than €50 million.

In this turnover range, we expect the profit and loss statement to be based on a robust and positive EBITDA, which will result in the first financial year with a net profit for this large business group.

During 2018, ADL Bionatur Solutions has been sized to address the production needs associated with the contracts that it has signed. Therefore, we do not expect any significant quantitative leaps in staff or structural expenditure during FY 2019.

The signing of contracts in the Industrial area (third-party manufacturing) since November 2017 and during 2018 supports the projection of profits from 2019 and over the coming years.

In operations, the León factory has made several key investments to modernise and fine-tune the facilities. The goal is for the fermentation part to be fully modernised and operational by the end of 2019, and for the purification plant to be completely reformed and running by mid-2020.

The company began fermentation production in its main building in February 2018 with two fermenters, which were in full production by May. By October of that year, it had a further three fermenters up and running. For 2019, the goal is to have the eight 225-cubic-metre fermenters operating by the end of the year, to have validated the GMP, and for the fermentation pilot plant to be fully operational.



## Value Creation

To summarise this first year, ADL Bionatur Solutions has made a major quantitative and qualitative leap forward, creating value not only by integrating its operating units and their ensuing synergies, but also by expanding its business lines.

This is only the start of the creation of a large business group, focused on generating new and promising fermentation processes for diverse high value-added products. In the short term, this is based on generating business through the sale of services to multinationals and shifting from a profit and loss statement with recurrent losses to a sustainable and growing net profit for the coming years.

Long term, the strategy leverages the idea of developing its own product with its own market share, based on innovative fermentation processes, developed and patented by us, as a means of securing the company's future beyond the current high demand for third-party services.

I would like to pay tribute to all our staff, without whose help, support and dedication none of the developments in the different areas would have been possible. We are thankful for the confidence placed in us by customers and suppliers through these difficult early days and to government institutions for their financial support and the expression of their commitment to innovation and the future.

Lastly, I would like to mention the shareholders who have backed our new project, particularly the main shareholder, Black Toro Capital, both for its financial support over the past few years and for its help and involvement in the management, allowing this new Spanish business to take off with the necessary force to ensure its success.

Yours sincerely

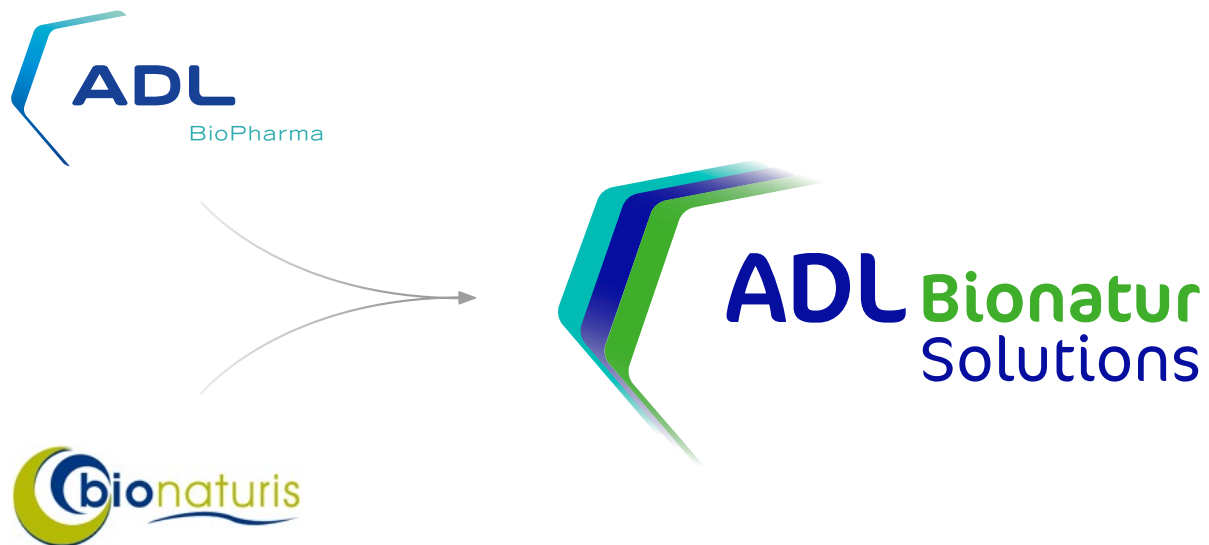
Pilar de la Huerta

Chief Executive Officer



# The Company. ADL Bionatur Solutions

ADL Bionatur Solutions is a European biotechnology company and leader in the field of fermentation. It is listed on the Alternative Stock Exchange (MAB. Ticker ADL) having emerged out of the merger of the Bionaturis Group and ADL Biopharma in April 2018

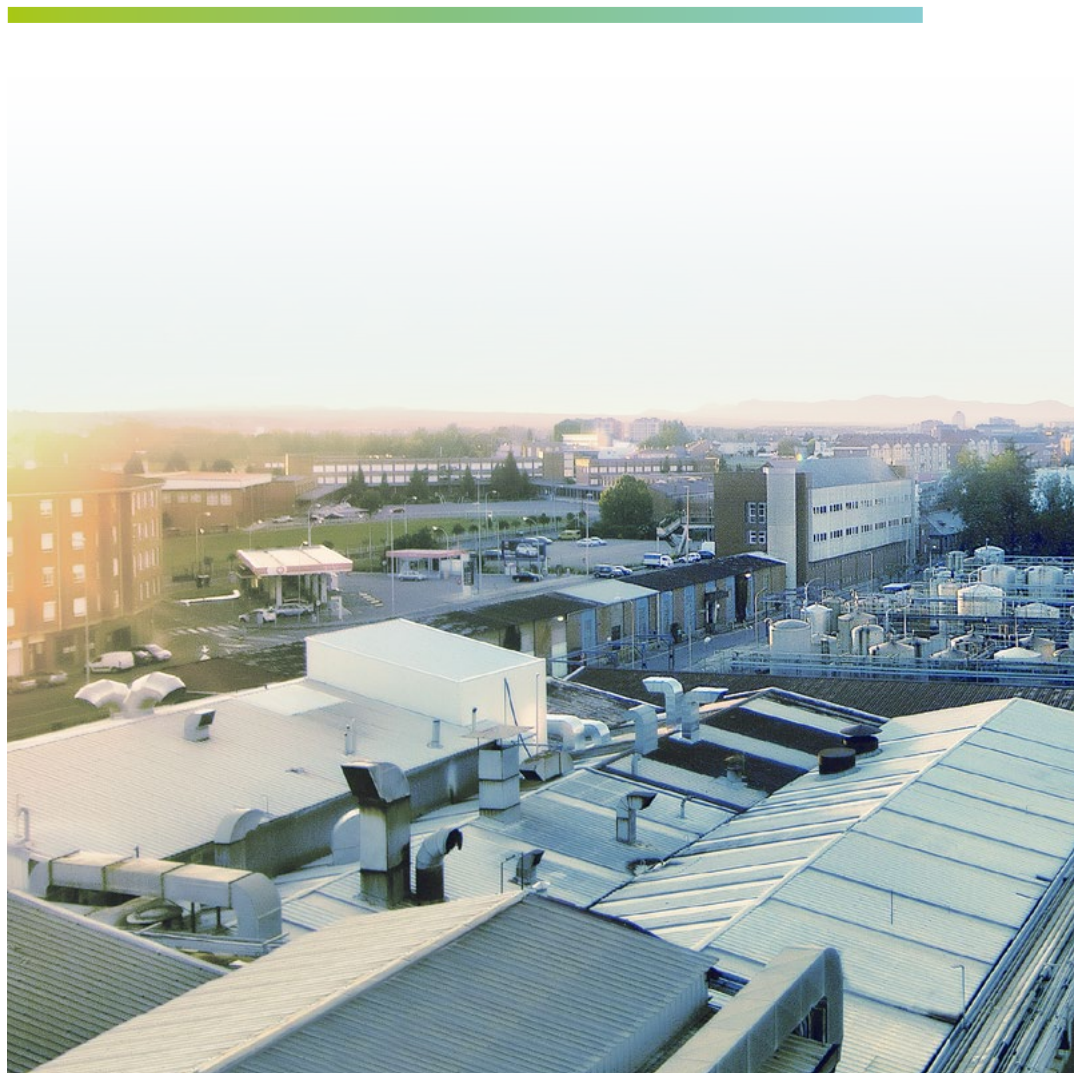


ADL Bionatur seeks to set itself apart through the excellence of its operations and the pursuit of continuous improvement and innovation, all structured in different business areas covering both the research and development of its own innovative molecules and technologies in the human and animal fields, as well as the manufacture and optimisation of third-party projects.

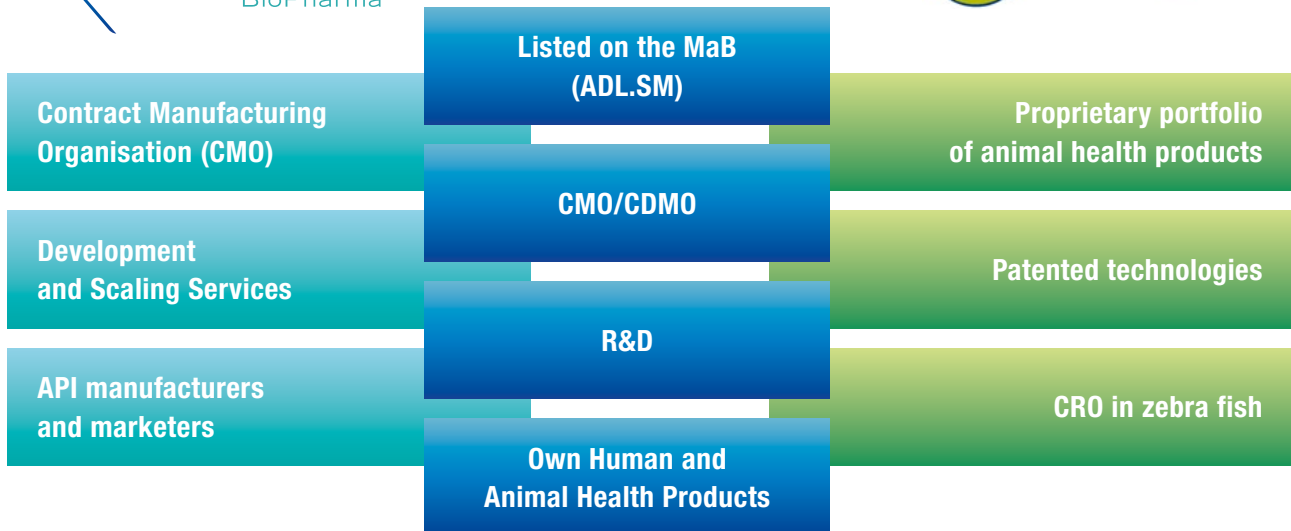


Focusing on fermentation, the new ADL Bionatur is built on a practice spanning over 60 years, incorporating intensive experience and knowledge in the fields of health, nutrition and cosmetics. The diverse divisions that have emerged out of ADL Biopharma and Bionaturis have been integrated through the creation of the business areas of ADL Bionatur. These operate under three main areas: industrial development and scaling of production for third parties (CMO/CDMO), research and development in health (R&D) and the commercial exploitation of our own products.

## Our core pillars are **Solutions, Innovation** and **Commitment**







The new biotechnology group operates under four brands, divided according to product and service.



The key to ADL Bionatur's success lies in its **commitment to excellence** based on the highest standards of **capacity, quality, innovation** and **respect for the environment**

ADL Bionatur concentrates its resources primarily on product development based on fermentation technologies, with a view to producing these on an industrial scale through the culture of cells and microorganisms, whether bacteria, fungi or yeasts, genetically and non-genetically modified. Our aims focus both on obtaining molecules and the industrial scaling of production, applied to both our customers and our own portfolio.



The key to success for any biotechnology company lies in the continuous pursuit of **Quality and Innovation**. From the purchase of raw materials to the sale of the end product to our customers, all manufacturing and distribution processes are subject to strict and rigorous quality standards.

The ADL Bionatur industrial manufacturing plant has the most stringent certifications of compliance with good manufacturing practice, including European GMPs, the GMPs of the US Food and Drug Administration, the FMA of the Japanese authorities and the KDMF of the Korean authorities. These certificates provide maximum guarantees for our partners and customers.



**331**  
employees

Innovation is the driving force behind ADL Bionatur and manifests itself through the capabilities of its excellent team. ADL has excellent **Human Talent**, with more than 300 qualified employees, 62 of whom work in its R&D area and 35 in Quality, distributed across its five locations (León, Jerez, San Sebastián, Barcelona and the representative office in Boston, USA).



ADL Bionatur is governed by respect for human rights, good work and health practices, the principles of equal opportunities, non-discrimination and respect for diversity regardless of gender, race or belief. We consider equality among men and women part of the core values of the organisation. As such, women make up 30 % of our global workforce and 50 % of the management committee. There is no pay gap at the company for reasons of diversity or gender.

**Socially Responsible.** Our commitment is not only with our employees and customers, but with society at large. ADL Bionatur has a clear **calling for permanence and commitment to society**. Since the creation of ADL Bionatur, its majority shareholder and management team have worked hard to produce a sustainable business model ensuring that the company remains committed to its setting, observing human rights and good working practices and the protection of health.

From the outset, the Group and each of its companies have focused on creating innovation, jobs and wealth in their setting and extending this to the rest of the world. Now with the merger of the companies, we are also working to pool and further develop a Corporate Social Responsibility policy for the Group.

Providing premium alternative solutions to human and animal health needs where they are needed has been the Group's vision from the outset, so **social responsibility is implicit in our origins** and our day-to-day business. Under the motto "A Global Access to Health", systems and products have been developed within the Group to bridge the geographical gap, ensuring the availability of biological products to more users and producers around the world. Our industrial production is environmentally friendly and, hence, respectful of society from the very base, given that fermentation as a manufacturing process is more environmentally friendly than other processes. Along these lines, ADL Bionatur is socially committed to solving the world's health problems, such as antibiotic resistance, probiotics and food additives, the manufacture of diverse therapeutic molecules ranging from second- and third-generation antibiotics to cannabinoids, etc.

Since its incorporation, ADL Bionatur – and ADL Biopharma and Bionaturis before it – have collaborated in regional and local development in both León and Jerez. Both companies have had an important impact in their cities on creating and maintaining employment (for example, the purchase of the León plant led not only to the recovery of the plant and its activity for the city, but also many of its former workers), developing their activity locally and attracting investment and promoting their geographical areas. The diverse companies of the Group are a benchmark for progress and development in their regions, both for society and for research, science and universities (with which they have a very close relationship). In 2018, Bionaturis was awarded the Ninth Award for Social Implication by the Social Councils Forum of the Public Universities of Andalusia, in the Internationalisation Section, as a spin-off of the University of Cádiz 2018).

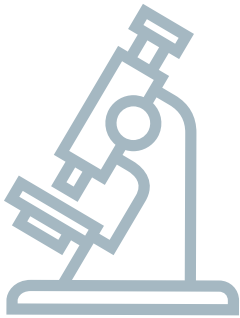


<b>R&amp;D</b>	<b>QUALITY</b>
18,5%	10,6%



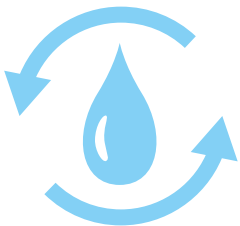
Global	70%	30%
Management	50%	50%





On a scientific level, we collaborate with various regional research institutes, research programmes and official centres for the promotion of scientific development to combat disease and improve the quality of human and animal health. Our activities include participation in studies with diverse regional research institutes such as In-biotec and we have been awarded repayable incentives under the CDTI INNOGLOBAL programme to foster international business cooperation in research and development. Our cannabinoids project, partially funded by the RETOS Programme (Ministry of Economy and Finance), was also awarded the “Excellent” rating, together with other R&D projects of the Group.

ADL Bionatur Solutions works with diverse associations of people with disabilities, in the workplace, both directly and indirectly (such as Soltra, DaviDown, ASPRONA, SORLES, among others) and has signed a collaboration agreement through Biobide with Fundación Dravet.



60k m<sup>2</sup>

A responsible, innovative and sustainable company, we believe that **respect for the environment** is the way that we can give back to today’s society and that of future generations. We have our own 60,000 m<sup>2</sup> treatment plant at the industrial production plant, which will be able to treat all our waste and other external waste from companies in the region.

We firmly believe in responsible waste management across all our sites and business lines. Segregating by level of hazard or safety, the Company goes beyond strict compliance with current regulations with the development of internal protocols for a thorough control of the traceability of this waste from generation to collection by authorised managers. These internal protocols involve several workers in the process, especially from technical areas and always under the supervision of the Quality area.

To support the sustainability of human activities, we have an **Environmental Policy** in place with the following core principles:

- Compliance with applicable Environmental Legislation and Regulations and other voluntary requirements to which the company subscribes.
- Promotion of Continuous Improvement by management bodies through planning and establishing necessary procedures, objectives and targets, in coordination with financial planning.
- Reduction in the environmental impact of our business, mitigating and, where possible, avoiding its environmental impacts and promoting the use of clean technologies.
- Promotion of the rational use of resources and sustainable consumption, encouraging reduction, reuse and recycling.
- Engaging, training and holding accountable all the individuals within the Organisation to respect, share and enforce these principles.



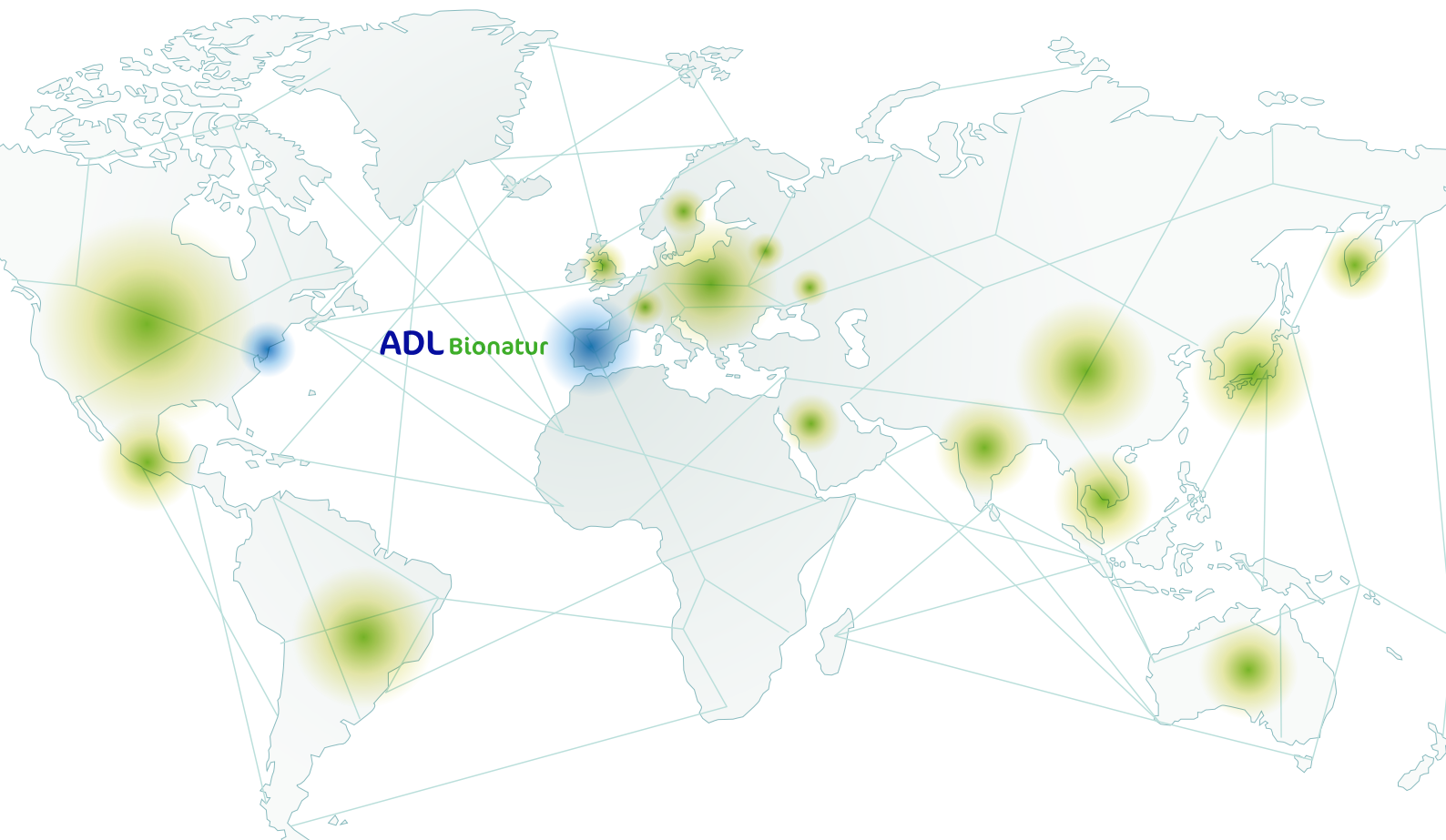


ADL Bionatur adopts a B2B (“Business to Business”) business model based on close relationships with our **Partners/Clients**, who are primarily leading companies in their respective fields of action at international level, which is the case of over 90 % of our international clients.

Our geographical location allows the company to operate in all markets and ADL Bionatur is a regular supplier to both European clients and large multinationals and innovative companies in the US and LATAM (Mexico and Brazil). We also have clients in South Korea and Japan as well as in Southeast Asia. ADL Bionatur is also present in several countries in the Middle East.

The dynamic expansion of our company, coupled with the consolidation of numerous business relations, has made ADL Bionatur a strategic partner in the international biotechnology sector, with a significant client portfolio.

These include:



# Our Business Areas and Quality Commitment

# 2



Third-party production services (CMO/CDMO)  
Research and Development (R&D)  
Product Portfolio and Developed Proprietary Technology  
Quality Commitment





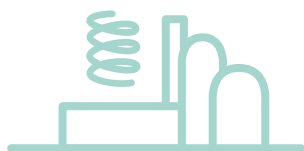
Surface area >150,000 m<sup>2</sup>



Fermentation capacity  
2,400 m<sup>3</sup>



3  
Fermentation plants



10,000 L pilot plant fermentation capacity



Pilot plant 1,200 m<sup>2</sup>



Biological laboratories



Chemical laboratories



Pilot plant

## Third-party production services (CMO/CDMO)

ADL Bionatur Solutions provides specialist development services, industrial scaling and third-party production by means of fermentation processes, for the pharmaceutical, food, cosmetic and biotechnology industries. It also has a business line for the development and production of active pharmaceutical ingredients (APIs) for the pharma industry.

### 2018 saw the consolidation of ADL Bionatur as a benchmark CMO partner.

The involvement of the human team, coupled with the company's experience and commitment in this business area, has enabled us to position ourselves as industry leaders. Major business milestones have been achieved this year and existing customers have decided to increase the number of projects carried out in our plant, thereby demonstrating their confidence in us. Agreements have also been signed with new clients who have selected ADL Bionatur as a reference partner and guarantee for the success of their projects. All of this allows us to view 2018 as a year for rewarding ADL Bionatur for the work done so far and inviting all those involved in the company's successes to continue their efforts and dedication in this project.

ADL Bionatur ends 2018 with a total production of 1,140 tonnes, compared to 70 tonnes in the first quarter, indicating a significant increase in both quantity and turnover over each quarter. This data reaffirms the company's leadership in the bioprocess industry.

The Group's CMO/CDMO services are carried out in León in **one of the largest available facilities for third-party manufacturing in southern European**, with a **current fermentation capacity of 2.400 m<sup>3</sup> distributed across several plants**. ADL Bionatur is the leading supplier of innovative molecules produced by fermentation for several leading multinationals.

We are not just another **CMO/CDMO** company. Our capacity to work in different volumes, combined with our team's extensive know-how, mean we can deliver comprehensive project support services to our clients. We have the capacity to work from the small scale of a laboratory to 2000-L fermenters in the pilot plant and **up to 225,000 L in the industrial plant**, all within the same company and with the guarantee of reliable process scaling and utmost confidentiality.

We are also a leading provider in the pharmaceutical industry of beta-lactam **active ingredients** (penicillin derivatives), both oral and sterile, for large multinationals in the pharmaceutical market, with which we have already signed several long-term supply agreements.

Particular mention must also be made in 2018 of the renovation and commissioning of a new, high-capacity and high-versatility **pilot plant** where the latest technological developments in control have been implemented for the study of fermentation from diverse microbial platforms or superior cells, taking account of the full versatility of the physicochemical parameters influencing and defining the specific techniques of each fermentative process.





The total capacity of the pilot plant is around 10,000 L, distributed into one 2,000-L fermenter, six 1,000-L units (each), two 500-L fermenters and another two 100-L fermenters. This allows each process to be developed in different volumes and the study of increasing scaling prior to migrating to the large industrial fermenters, identifying and resolving the critical parameters of each process (oxygenation or anaerobiosis, elimination of generated heat, effective mixing, etc.).



This pilot plant offers the ability to use research, knowledge and infrastructure and equipment for process and product validation. It is supplemented by a **semi-pilot plant** housing 7 fully equipped fermenters with volumes ranging from 30 to 50 L for preliminary development studies.

At ADL, we are very aware that innovation starts with protecting our environment, so we also have our own 60,000-m<sup>2</sup> **treatment plant**, the largest in the region, which can not only service our plant but also those of other companies in the area. The plant is currently in the test phase and is already recycling some of the waste from the fermentation plant in León. The company expects the treatment plant to be fully up and running by mid-2020, when it will be able to service other companies adjacent to the León factory.



60.000 m<sup>2</sup> Treatment plant





## Research and Development (R&D)

ADL Bionatur has **a large and experienced R&D team**, composed of 62 people dedicated to the optimisation of fermentation production and the development of new products for human and animal health, mainly in the field of advanced immunology and microbiome knowledge.

ADL Bionatur focuses its R&D resources on the **development of products based on fermentation technologies**, both for obtaining its own products and for studying the development of **industrial scaling for others**, in the areas of food, animal feed, fuels and functional molecules.

In the development of our **own products**, our goal is to create a broad-ranging **portfolio of high-value-added ingredients**, primarily for the human and veterinary markets, based on innovative fermentation processes. Our main research lines in this regard focus on the microbiome, with the development of products for its modulation. We concentrate on launching personalised and – in the future – individualised treatments on the market, improving quality of life and reducing the incidence of various pathologies. The company is committed to the development of personalised food products and supplements that work from a preventive perspective, with a view to obtaining substantial improvement in the quality of life of individuals in the short and long term.





parallel, we also investigate and develop new and innovative fermentation processes to manufacture different types of existing therapeutic molecules ranging from second- and third-generation antibiotics to cannabinoids. We focus on bringing value to the market by manufacturing known molecules using new **fermentation processes** that result in **significant cost reductions** and **improved molecular characteristics and specifications**, all with **respect for the environment**.

Thus, **our main strategic lines of research** are:

- Microbiome modulation
- R&D fermentation processes
- Production of semi-synthetic antibiotics
- Biotechnology vaccines and pharmacological products

**Microbiome modulation.** R&D line based on the production of scientific evidence of the benefits of restoring balance in the microbiome through the agents that modulate it, thereby encouraging positive action for health. These include:

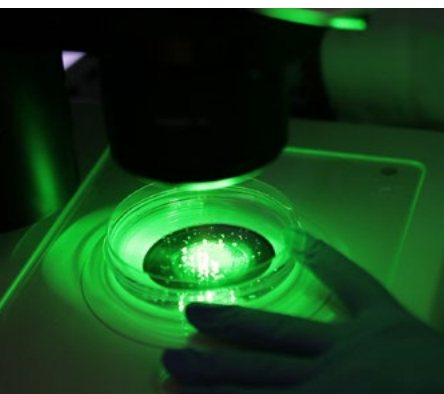
• **Development of microbiome-modulating food supplements.** Customisation of human microbiome modulation to support the efficacy of diverse treatments and/or food supplements. We currently have 18 references on the market, described in the following section. Other references are currently under development, intended to prevent the development of chronic disorders such as obesity, diabetes, metabolic syndrome, Crohn's disease, irritable bowel syndrome, rheumatoid arthritis, anxiety, depression, etc. ADL will also research new molecules and/or microorganisms with these properties in partnership with other companies of the group to define and develop a production process, their validation by food and medicine agencies (where appropriate) and their ultimate industrial exploitation.

• **Gel containing probiotic strains for prevention and treatment in dental health for professional use in pets.** This project is part of an agreement with an industry multinational and is in the final validation phase prior to implementation of the worldwide marketing license.



**R&D Fermentation Processes.** Projects for the **definition of specific technologies and their development and scaling for production through fermentation**, in food, animal feed, fuels and functional molecules, including:

- **Cannabisyn.** Own project using fermentation to obtain specific cannabinoid molecules such as Cannabidiol (CBD) and delta-9-Tetrahydrocannabinol ( $\Delta$ 9-THC), or their corresponding acids, for therapeutic purposes. This innovative three-year project was launched in October 2018 and is co-developed with the Instituto de Biotecnología de León (Inbiotec) and partially funded by the Ministry of Economy and Finance as part of the RETOS programme.
- Development of the manufacture through fermentation of **existing microbial molecules having a nutraceutical and therapeutic effect**: Probiotics, Postbiotics or Products generated during the development of these microorganisms composing the individual's microbiome with immunomodulatory and antibacterial effects (Bacteriocins), making them attractive for use as a natural substitute for the indiscriminate and, in some cases, inefficient use (resistance) of antibiotics in the treatment of bacterial infections.
- Obtaining **molecules to combat bacterial resistance**: The proliferation of bacterial resistance to the most effective or commonly used antibiotics in the treatment of bacterial infections poses a serious medium- and long-term health problem, requiring the search for or restoration of effective antibiotics against resistant species. ADL, considering its development and manufacturing experience, wishes to include in its pipeline the implementation of several molecules, obtained through fermentation, with antibiotic activity that are particularly effective against this bacterial resistance. It proposes to include in its pipeline as its own projects three antibiotics with proven efficacy against the multi-drug bacterial resistance of other antibiotics: pristinamycin, daptomycin and fidaxomicin.





- Other processes carried out in co-development and technology scaling with other group companies and external CMOs include the isolation of proteins of diverse origin and applications, including the **inteins or protein antigens** used in specific vaccines, already described in other sections of this document.

- **CDMO processes**, including the third-party development of specific technologies or their industrial transfer and scaling. Examples include: Milk proteins, amino acids, polysaccharides, lactic acid, plastic polymers, fuel oil, etc.

**Production of semi-synthetic antibiotics.** Development of specific technologies for semi-synthetic antibiotic production using organic synthesis. New procedures: Another aspect of R&D activity that draws on our capacity and experience in the generation of methodologies for the synthesis of molecules with antibiotic activity, especially in semi-synthetic derivatives of beta-lactams.

ADL's goal in this area is to generate new, effective and financially viable production techniques to supply these molecules to the human and veterinary markets. These antibiotics are mainly sterile semi-synthetic penicillin antibiotics and mixtures of these molecules offering more effective antibacterial activity and preventing certain resistance mechanisms developed by diverse pathogenic bacteria.

**Biotechnology vaccines and pharmacological products.** These include R&D projects for the development and registration of products for application in production animals and pets. The Company has a wide range of new generation vaccine antigens at varying stages of development, and medicines:



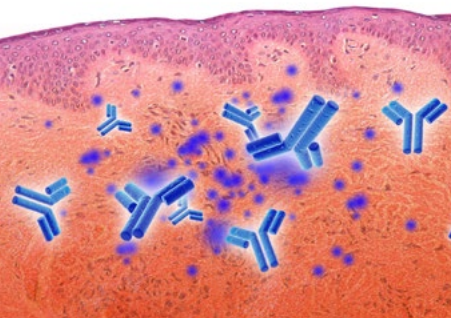
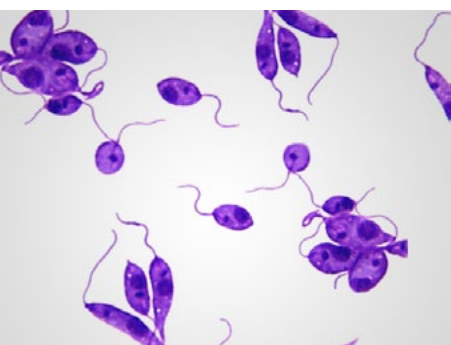


These products are primarily intended for high-impact diseases in swine livestock and pets. They include:

- **BNT005:** second-generation vaccine for the treatment and prevention of canine visceral leishmaniasis. The Company has reached a sub-licensing agreement for the development, registration, manufacture and marketing of this ingredient in Argentina and Paraguay with the Argentine laboratory Biotandil, as well as an agreement with a multinational partner. The product has already been presented to the National Food Safety and Quality Service of Argentina (SENASA) for the marketing authorisation application. This product is protected by an international patent family, already granted in the US and China.

- Development of **vaccine antigens targetting programmes to combat the main diseases in swine livestock**, such as circovirus and PRRS. In these programmes, the diverse candidates are evaluated in *in vivo* and *in vitro* models, as well as in safety and efficacy tests on the target species. Once the PoC is obtained in the target species, the candidates are licensed for their final development, registration and marketing.

- **MUPIPET:** under licensing for the co-development, registration and marketing in Europe of Mupipet® with Ojer Pharma, which would make it the first antibiotic to be used in a bioadhesive and transparent formulation registered in Europe to treat bacterial skin infections in pets. Work is currently being completed on the package of evidence to prepare the regulatory dossier required for the marketing authorisation application. In early 2019, it was awarded the “MUMS” rating by the European Medicines Agency (EMA), which is an important regulatory milestone for its marketing authorisation in Europe.





## Product Portfolio and Developed Proprietary Technology

The Company's R&D programmes are aimed at both human and animal health ( "*One Health*") and harness the synergies and integration of R&D teams and the industrial production division, a fermentation expert. This is already taking shape in different joint initiatives for the development of proprietary products for human health, such as dietary supplements (probiotics and postbiotics/antibiotic targets) and their effect on microbiome modulation.

Given these strategic lines of action, the R&D division of the Company is directing its efforts towards the development and marketing of **its own innovative services and products with high value-added, all able to be obtained through fermentation processes** and, hence, to be manufactured at the premises of the biotechnology group.

Once a certain degree of development is achieved, ADL Bionatur Solutions brings its products **to market through licensing agreements with world-class companies**. Each licensing agreement can include advance payments upon signing, milestone payments (time-based or technical), payments for research and development activities, royalty payments on sales or direct marketing payments. Thus, the company can earn revenues from these programmes before the product actually reaches the final market or even without it being registered and/or marketed.

**ADL Bionatur's portfolio contains proprietary products aimed at:**

- Pharmaceutical industry (APIs)
- Microbiome modulation for human and animal health
- Technology platforms

**The company currently has 10 patent families.****The products already in the marketing phase include:**

- Beta-lactam active ingredients
- Microbiome modulation
- Proprietary technology platforms

**Beta-lactam active ingredients.** Penicillin-derived APIs, both oral and sterile, for large multinational companies in the pharma market.

- High-value-added sterile products: Amoxicillin and Ampicillin Sodium, sterile Ampicillin Trihydrate, Benzathine Benzylpenicillin, Procaine and Potassium.

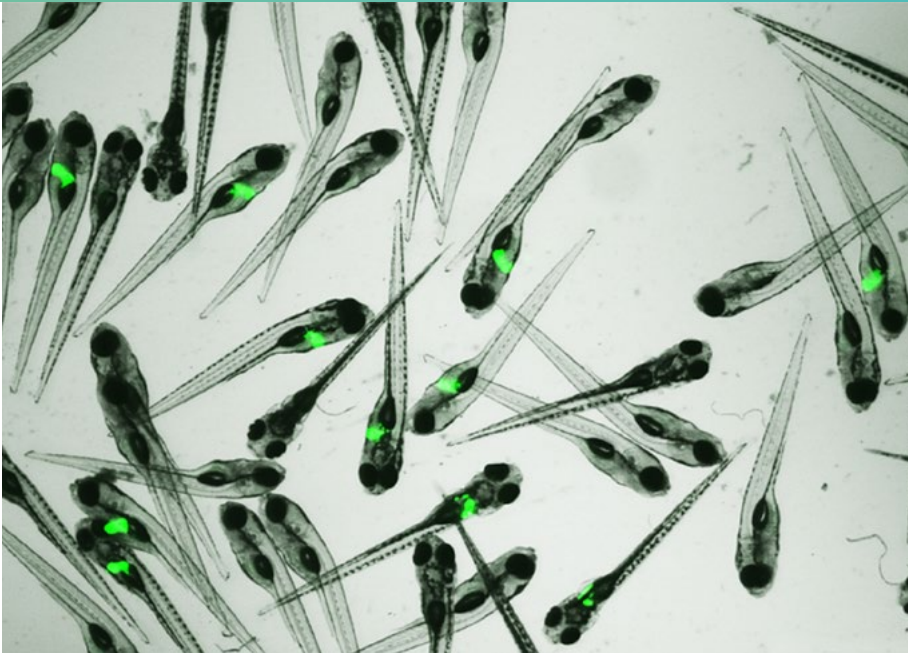
- Own oral products, Amoxicillin and Ampicillin powder.

**Microbiome modulation.** Products based on the benefits of restoring microbiome balance through the agents that act on it.

The Company has now developed 18 references in three age ranges and six indications, aimed primarily at increasing the effectiveness of weight control and fluid retention treatments, marketed by NC Salud through the pharmacy and parapharmacy channel in Spain and Portugal.







**Proprietary technology platforms.** The R&D division of the Company also develops its own Technology used internally both for its own developments and to offer to third parties through service (CRO, CDMO) and/or licensing agreements.

- **Zebra fish platform for CRO services.** unit that conducts toxicity and efficacy tests on animal models of zebra fish, including R&D services offered by the Company to public and private research entities. The purpose of this unit is to speed up the R&D process, adding value primarily to the preclinical area, for developments of pharmaceutical, biotechnological, chemical, cosmetic and nutraceutical companies, minimising risks through its zebra fish services.

- **Splittera:** proprietary system for high-yield expression and purification of protein-based products. SPLITTERA is exclusively and globally licensed with a multinational leader in the purification of biological products. At the request of the multinational (licensee) customer, concept tests are being conducted by the industrial division of ADL Biopharma for the manufacture of the proteins that form part of the SPLITTERA resins. This platform is also licensed exclusively for application in automatic diagnosis systems.

- **Zera Vaccines:** patented technology that currently has two main applications. One allowing optimisation of the production parameters of expression and purification of recombinant antigens in the different standard expression systems, and a second one designed to standardise the mechanism of action of new DNA vaccines. Zera Vaccines is currently undergoing a series of proof-of-concept evaluations by external companies.

- **Flylife:** system for the development and manufacture of biological products at industrial and laboratory level. FLYLIFE introduces greater flexibility and versatility in scaling by optimising production parameters. It was specially designed for the expression of antigens for industrial vaccines.





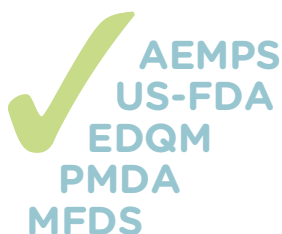
## Quality Commitment

The Quality Unit is of special note as part of our commitment to our partners and society. It is structured around three main functions: Quality Control, Quality Assurance and Registrations.

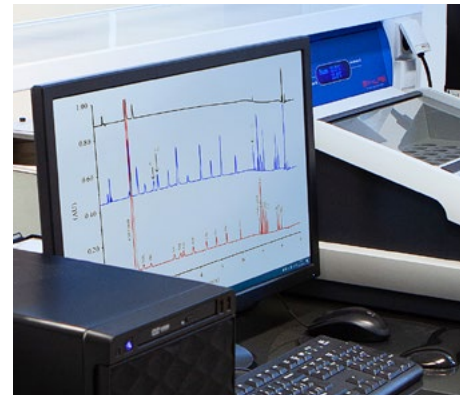
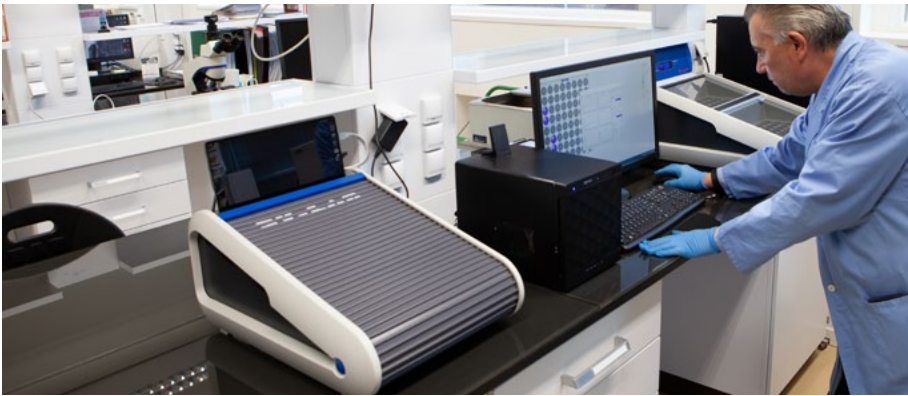
The ADL Bionatur industrial manufacturing plant has **the most stringent certifications of compliance with good manufacturing practice** including European GMPs, the GMPs of the US Food and Drug Administration, the FMA of the Japanese authorities and the KDMF of the Korean authorities, providing maximum guarantees for our partners and customers.

The **Quality Control**, laboratory, with physicochemical analysis, chromatology and microbiology areas, has a team of 27 people working closely with all departments linked to R&D and production. This laboratory monitors the quality of raw materials and in-process controls, and checks that the product is of the required standard prior to release, in accordance with our clients' requirements and the applicable regulations.

**Quality Assurance**, has a 5-person team and is responsible for the maintenance and monitoring of the quality system in place and regulatory compliance. It ensures that the production and control of the products are appropriate for the level of quality required for their intended use and that they meet marketing authorisation requirements or customer specifications. It regularly assesses the effectiveness and application of the quality system by conducting internal audits and proposing relevant changes, providing practical tools for integrated management. It also represents the Quality System in customer audits and inspections by the health authorities for the maintenance of ADL's certifications.



Expert  
consultants



A **regulatory strategy** and conscientious planning are essential for a) obtaining marketing authorisation for a product by demonstrating adequate safety, quality and efficacy; and b) bringing the product to market as quickly as possible, from the initial stages with proper R&D development to its final industrial production. The registrations department has a team of 5 people and acts as the main contact with the health authorities for obtaining and maintaining marketing authorisation for our products. It also supports our customers with these requirements, from proper R&D development to final industrial production and release to the customer/market, ensuring compliance with the conditions and specifications of the authorisation.



>30

Customer audits  
in the past 3 years



>100%

Audits  
approved



Quality Control  
Team 25

Quality Assurance  
Team 5

Registrations  
Department 5



# Creating Shareholder Value

# 3



In April 2018, the Bionaturis company (listed on the Alternative Stock Market, MaB, with the ticker BNT) purchased ADL Biopharma by means of a capital increase fully subscribed by the Black Toro Capital (BTC) fund with the contribution of all ADL Biopharma shares. Black Toro Capital was the owner of 100 % of the shares of the latter company

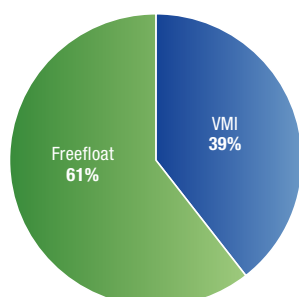
Following this corporate operation, known as a “**reverse acquisition**” the legally acquiring company is Bionaturis but the accounting acquirer is ADL Biopharma. After the reverse acquisition, the sole shareholder of ADL Biopharma, the Black Toro Capital Fund, became the controlling shareholder of the new company, holding 85 % of its shares, while the remaining capital is in the hands of the shareholders of Bionaturis. Victor Manuel Infante (VMI), former CEO of Bionaturis, continues to hold a relevant position. Following this operation, the resulting company **changed its name to ADL Bionaturis Solutions and was listed on the MaB market under the ticker ADL.**

Later, in July 2018, ADL Bionatur Solutions **increased its capital** by attracting EUR 12 million from Spanish institutional investors. The company attracted these funds for CAPEX financing (investment in modernization and implementation of different parts of the plant) at its León plant.

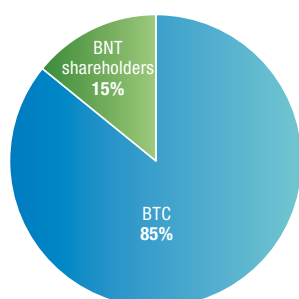
## Value Creation

### Changes in shareholder structure from BNT to ADL and Market Capitalisation

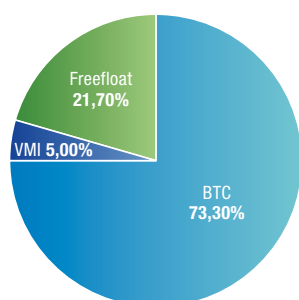
**BNT**  
Dec. 2017  
Mkt Cap: €15,16 m



**ADL**  
May 2018  
Mkt Cap: €74,65 m



**ADL**  
March 2019  
Mkt Cap: €79,56 m



Following the capital increase of July 2018, the, **freefloat capital** increased from 15 % to approximately 22 %, the majority of which is owned by institutional investors that contributed to the capital increase. The stake of the majority shareholder Black Toro Capital rose to approximately 73 %, while that of VMI stood at 5 %.

The original shareholder of the former Bionaturis Group (BNT) became a shareholder of ADL Bionatur Solutions, **a company with higher market capitalisation** (from €15m before the operation to €79m at the end of March 2019), **with a higher turnover and greater potential for value creation**, not only because of ADL Biopharma's contribution, but also because of the synergies resulting from the merger. More importantly, however, it has become a shareholder of a company with **a new, strengthened business model**, with an industrial division **heading towards full consolidation** whose respective revenues are set out in signed contracts that support the business plan for the next five years. The new company can also produce most of the products from the R&D portfolio of the former Bionaturis because, prior to the merger, all the industrial manufacturing of its portfolio had to be subcontracted, with the loss of value that this entailed.

Furthermore, ADL Bionatur brings to its R&D spectrum extensive experience and knowledge in animal health, which is easily transferred to human health, among others in the field of the microbiome. ADL Bionatur Solutions not only benefits from a more rounded R&D team to reinforce its business model for the future and allow the expansion of the development and production of its own product portfolio, but also directly incorporates a portfolio and developments that are very close to the commercial phase, with 10 patent families standing by.

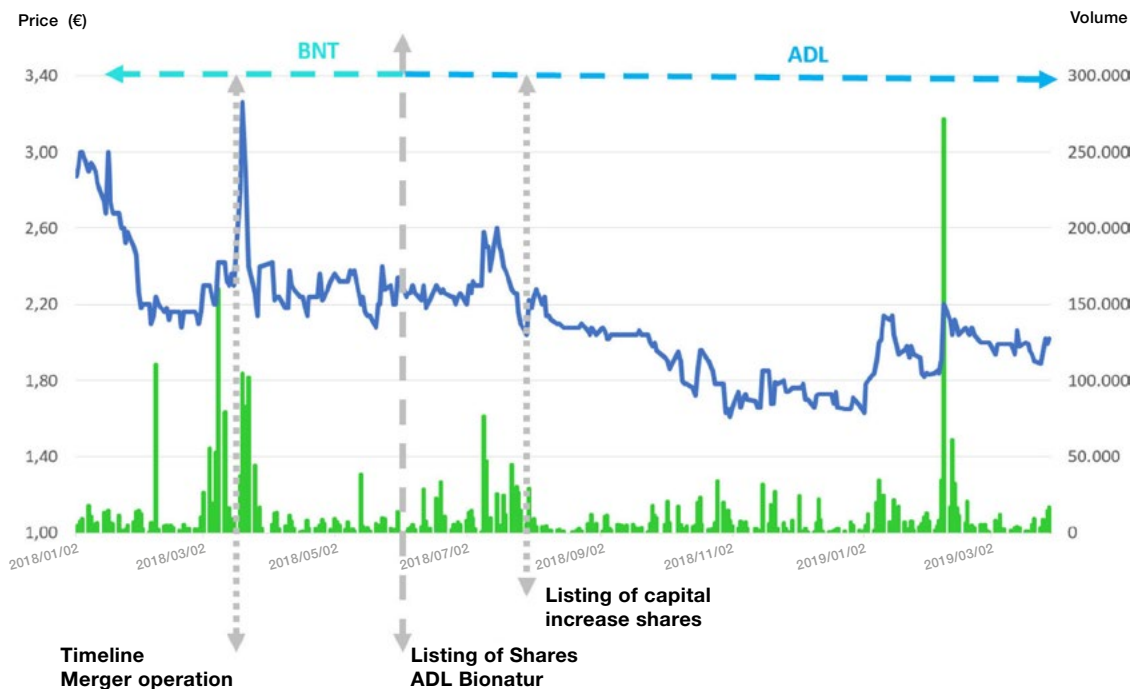
For ADL Bionatur, 2018 has been **a turning point** in which the investments and efforts made to fine-tune the company, combined with the implementation of its strategy and business vision, are starting to show signs of consolidation. **We expect 2019 to be the Group's first year with a net profit.**





## Performance in the MaB

**After the corporate transactions** of 2018, the incorporation of the shares of ADL Bionatur and the subsequent capital increase by institutional investors, the **transactional volume is significantly higher** than in the previous stage, despite remaining at **low parameters due to the small percentage of retail investors** in the shareholders.

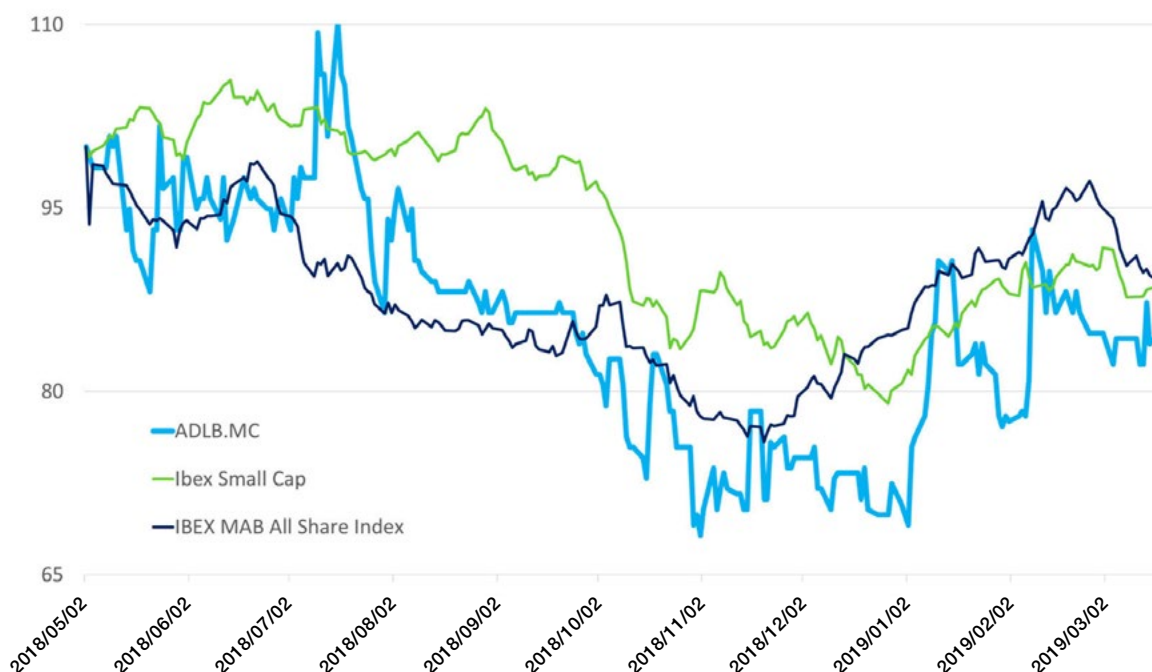


**The support of the institutional investor** for the model and business plan submitted by the new Company allowed its successful placement even in the middle of July.

The support of the institutional investor also entails a **value holding** for an average term that does not contribute liquidity, since they are medium to long term investors. **Greater liquidity will require shareholders that combine different types of investment philosophy and/or investors and greater freefloat.** ADL has changed its liquidity provider over the year as a result of the corporate operation. The Company and its majority shareholder are currently studying different options to **reinforce liquidity and reduce the volatility of its shares**, including extending its freefloat to accommodate other shareholders **by targetting retail investors**.

**Market moment for Small & Mid-Cap Stocks and Equity.** 2018 started out as a very good year for Spanish small cap companies and the investment funds specialising in these stocks, but all this changed in the second half of the year, **coinciding with ADL Bionatur's debut on the MaB.** This led to a widespread migration of capital from this type of **small cap company and specialised funds, a downward trend** that was maintained until the end of the year. The first quarter of the year saw a slight recovery of the interest in this type of stock.

### Comparison of ADL with the Ibex Small Cap and MaB Indexes



Thus, **despite the volatility** inherent to its lack of liquidity, ADL Bionatur followed a **very similar trend to its market indexes.**

In December 2018, **ADL Bionatur**, now **part of the MaB-15 index**, is included in the **MSCI Global micro Cap Spain index.**

## Commitment to Transparency, Clarity, Accountability and Communication

ADL Bionatur and its management team have made a **firm commitment** to Transparency, Clarity, Responsibility and Communication **with the investment community and the market.** Following the incorporation of ADL into the market, it set up the Investor Relations and Corporate Communication Department, which reports directly to the CEO.





The **Boards of Directors** is responsible for the highest monitoring of information provided to shareholders, institutional investors and markets in general and for contact and communication with them, overseeing, protecting and allowing the exercise of their rights and interests within the context of defence of social interest.

We are currently working on an **Investor Relations Policy**, which will include the actions and initiatives implemented by the Company to **extend knowledge of ADL Bionatur Solutions and its development through communication with its shareholders and investors, and promoting transparency in the information that it makes public**. This lays down the principles and criteria governing investor and shareholder relations, particularly with regard to shareholders not represented on the Board of Directors.

To ensure compliance with the above principles and the correct circulation of information about ADL Bionatur Solutions to shareholders and the market in general, various **communication channels** have been set up for them (MaB website, JGA, corporate website, IR section, conferences and meetings, conference calls, investor mail, etc).

The **Investor Relations** Department coordinates, reviews and manages relations and contact with shareholders and investors. Its basic aim is to act as a **channel of open, permanent and transparent communication** with shareholders, institutional investors and other stakeholders.

We currently have over 900 institutional and retail shareholders and **analysis** monitoring carried out by four prestigious firms.

From the last quarter of 2018 to date, ADL Bionatur has presented its new business model to more than 50 national and international potential shareholders and investors at one-to-one meetings and at several public presentations.

ADL Bionatur has in place a **Corporate Communication Policy and Rules of Procedure on Insider Information**, as well as **Rules of Procedure relating to the General Shareholders' Meeting**, both in force and in line with the Company's context. These were approved by the Board of Directors in July 2018 and the Policy was modified to suit the new context of the Company at the Board Meeting of March 2019.

**This policy reconciles three core aims:** (i) the generation of reputational capital through recognition by our stakeholders: shareholders, customers, suppliers, competitors, public authorities; (ii) the need for transparency, and (iii) compliance with the rules of the stock market.

The **Rules of Procedure** seek to systematise and develop the rules governing the organisation and the functioning of the General Meeting of Shareholders of the Company. Ultimately, it seeks to facilitate shareholder participation in the General Meeting by promoting the transparency and publicity of the procedures for preparing, holding and conducting the General Meeting, specifying, developing and expanding the forms of exercise of the political rights of the Company shareholders.



The reports  
may be viewed  
by clicking  
on the images

## Key milestones of 2018

### January 2018

ADL Biopharma began **CMO operations in the main industrial unit** of its León facilities, following the refurbishment required for its commissioning. After several months of investments in modernising and starting up the oldest of its industrial units, at the end of January the new unit began operating and the company migrated production to the premises. In this regard, the company did not begin standardising production in the new building with two fermenters until May and it was not until October that it had 5 fermenters in production. Despite these setbacks, the level of **sales associated with its CMO activities increased by 126 % in 2018 from 2017 figures**.

Bionaturis R&D began **the registration phase to obtain marketing authorisation for MUPIPET** with Ojer Pharma and the validation of porcine vaccine candidates in field trials in collaboration with Vaxdyn, Bio-nanoplus, the University of Córdoba and the Higher Council for Scientific Research.

### February 2018

ADL Biopharma **signs a two-year CMO contract** (fermentation) **with the US company Amyris** for the sum of EUR 5 million a year (plus the amounts for the raw materials, approximately a further EUR 5 million a year). In May, the transactions associated to this contract and, as of September, production for Amyris returned to normal and acquired the speed necessary to fulfil the contracts signed with the listed US company over the next two years.

The Patent and Trademark Office ("USPTO") notifies Bionaturis of the **US patent BNT005**. This product is of great importance as a second-generation vaccine for the treatment and prevention of canine visceral leishmaniasis, for which the Company has already reached several sub-licensing and strategic agreements with third parties.

As part of the Programme to promote international business cooperation in research and development (INNOGLOBAL Programme), the Centre for Industrial Technological Development (**CDTI**) **granted a non-repayable incentive to Bionaturis** amounting to EUR 196.300 for implementation of the project entitled **"Development of a novel leishmaniasis vaccine (BNT005)"**.



## March-April 2018

The Patent Offices of Australia and Israel notified ZIP Solutions of its award of the patent entitled “Split inteins and uses thereof” in these countries. These new patents **are in addition to those already granted in Europe, China and Japan** to this same group of patents, thus establishing its validity and protection in the main international regions. The **Splittera** system is globally and exclusively licensed to an industry multinational for its commercial development in the industrial purification of proteins and their derivatives.

## April 2018

The **Indian** Patent Office (Intellectual Property India) informed **ZIP Solutions of the award of the patent** entitled “Production of biologically active protein” under patent number 293103. These new patents **are in addition to those already granted in Europe, United States, Australia, China, Mexico and Canada** to this same group of patents, thus establishing its validity and protection in the main international regions. Vaccines based on the **Zera Vaccines** system are currently being evaluated by major veterinary companies for licensing agreements.

The corporate operation for the **merger of ADL Biopharma and Bionaturis** is approved. As part of the resolutions of the Extraordinary General Meeting of Shareholders approving the corporate operation, the capital increase and incorporation of the new shares of ADL Bionatur Solutions (ADL ticker) into the Alternative Stock Market is agreed. The **composition of the new Board of Directors** is likewise agreed and its structure and rules of procedure updated to reflect the new situation of the company and corporate governance. **Its corporate name is changed to ADL Bionatur Solutions, S.A.**

## May 2018

Recorded The new shares of ADL Bionatur Solutions are listed and incorporated on to the Alternative Stock Market, following its capital increase due to the merger of ADL Biopharma and Bionaturis.

## June 2018

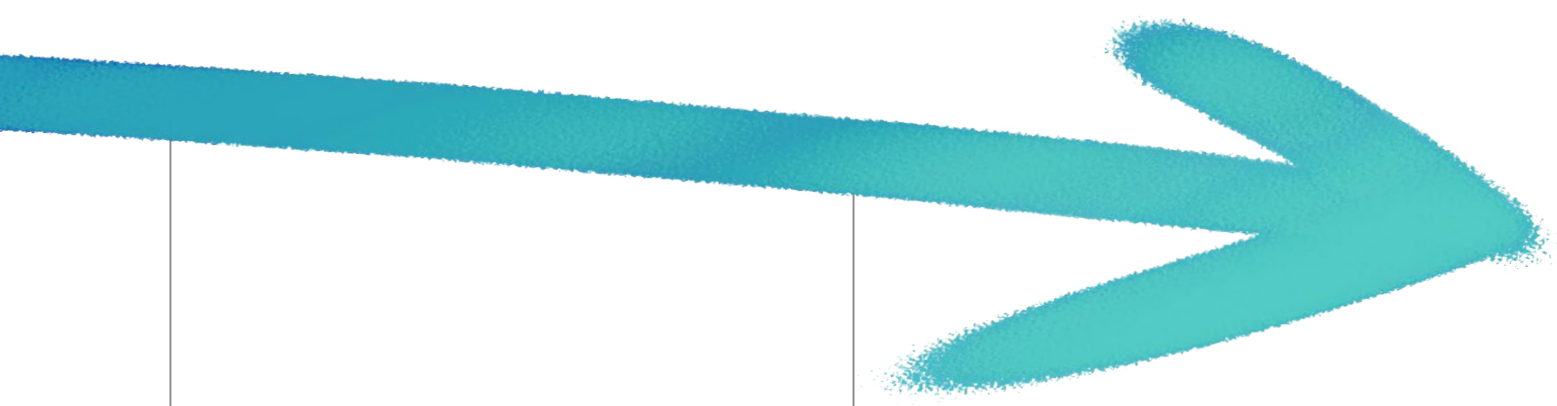
ADL Bionatur Solutions signs an **addendum to the contract with the aforementioned company, extending the production contracted by Amyris** for a further 15 months as of September 2018 for another EUR 6.2 million, approximately (plus the amounts of the raw materials).

## July 2018

ADL Bionatur Solutions **increases its capital by attracting €12 million from Spanish institutional investors**. The company attracts this funding for CAPEX financing (investment in modernization and implementation of different parts of the plant) at its León plant. The position of Black Toro Capital drops to 73 %.

The Company signs an **agreement of binding intentions (fermentation CMO) with the French company Fermentalg** for the industrial scaling and subsequent production of DHA (Omega 3) for a period of three to five years. The optimisation phase of the industrial process (yield) began in early 2019, which means that the company is currently in the process of negotiating the final contract.





## October 2018

The Company receives an **equity loan from SO-DICAL** for the sum of EUR 5 million for CAPEX financing in the León factory. This is specifically for the construction of the media preparation plant and supplementary fermentation facilities.

The Group obtained a positive monthly operating EBITDA and improved its production capacity.

## November 2018

ADL Bionatur Solutions launches an **innovative project to obtain cannabinoids through fermentation** for therapeutic pharmacological use in conjunction with INBIOTEC and obtained funding from the RETOS programme.

## December 2018

A **second addendum to the contract with Amyris** is announced, by which production will be increased by an additional fermenter, extending the production capacity previously agreed with this client in order to meet its growing demand.

The British analysis firm and biotech experts **Edison published their coverage initiation report on ADL Bionatur**, giving it a target price of EUR 2.37 per share.

## Milestones after the end of financial year 2018

### February 2019

The independent Spanish analysis firm **CheckPoint** published its coverage initiation report on ADL Bionatur, giving it a target price of EUR 3.20 per share.

ADL Bionatur Solutions and Nutrición Center NC announce an agreement to **launch the first weight management product solution based on microbiome rebalancing**. They also launch a product range with 18 references on the market, positioning them in the pharmacy channel

### March 2019

**Biobide signs a collaboration agreement with Asociación Dravet and Fundación Dravet Argentina** to promote the search for new medicinal products for Dravet syndrome.

The Committee for Medicinal Products for Veterinary Use of the European Medicines Agency (**EMA**) **informed Bionaturis that it had obtained the “MUMS” classification for MUPIPET products**. This is a very significant regulatory milestone for working towards the product's marketing authorisation in the European Union. In March 2017, a licensing agreement was signed with Ojer Pharma for the co-development, registration and marketing of MUPIPET in Europe, with the expectation that the product would be the first veterinary treatment for topical infections in pets.



The Board of Directors approves the Annual Accounts of ADL Bionatur Solutions and Subsidiaries. The Board reports that, with a view to aligning the corporate governance system of the Group with the highest standards of Good Governance, the functions and duties of the Audit Committee and the Appointments and Remunerations Committee are currently being reviewed. This review will be reflected in the relevant changes to the Rules of Procedure of the Board. The purpose of these improvements is to **incorporate certain criteria set out in the Code of Good Governance** of Companies listed on the Continuous Market and in the Technical Guidelines of the Spanish National Securities Market Commission (CNMV), in order to adapt the operation of these bodies to the best practices and standards of Corporate Governance.



# Corporate Governance

# 4





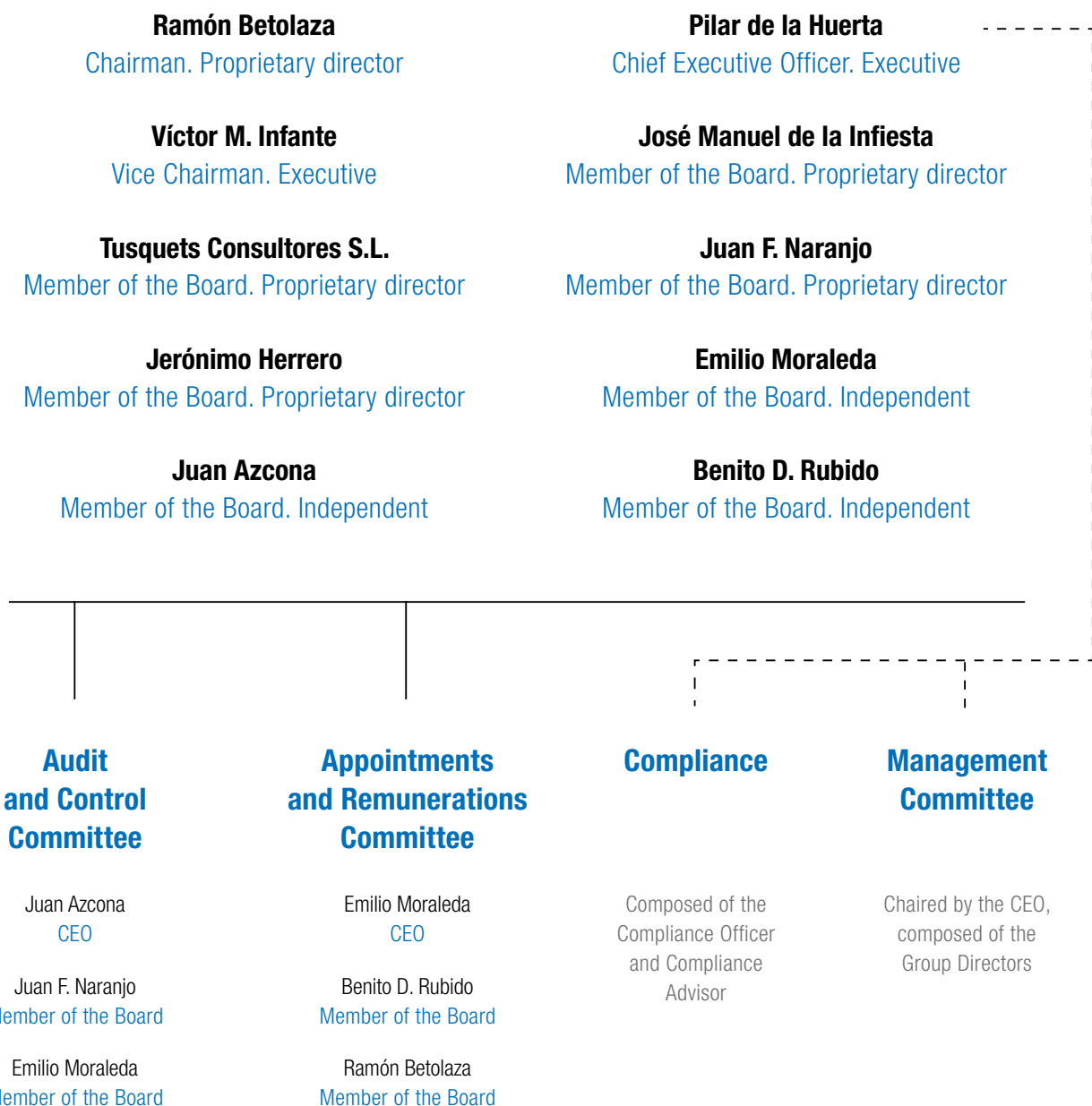
The corporate governance system of ADL Bionatur Solutions, established in accordance with national and international best practices and standards, guides the structure, organisation and functioning of its corporate bodies in the interest of the company and its shareholders, and is based on the principles of **Transparency, Independence and Accountability**

**The structure of governance** adequately differentiates the Company's management functions from the functions of oversight, control and strategic definition.

The General Shareholders' Meeting is the highest corporate body through which the shareholders participate in the Company's key decision-making. The Board of Directors is responsible, both directly and through its diverse committees, for the drafting of general policies, the Company strategy and basic management guidelines, and the general function of oversight and consideration of matters of particular relevance not reserved for the competence of the General Meeting.

## General Shareholders' Meeting

## Board of Directors





# Corporate Governance Policies and Rules of Procedure

The **Rules of Procedure of the General Shareholders' Meeting** seek to systematise and develop the rules governing the organisation and the functioning of the General Meeting of Shareholders of the Company. Ultimately, it seeks to facilitate shareholder participation in the General Meeting by promoting the transparency and publicity of the procedures for preparing, holding and conducting the General Meeting, specifying, developing and expanding the forms of exercise of the political rights of the Company shareholders. The rules in force were signed in July 2018.

## **The Rules of Procedure of the Board of Directors.**

Except in matters reserved for the competence of the General Shareholders' Meeting, the Board of Directors is the highest decision-making body in the Company and holds the functions attributed to it by the Corporations Act. These Rules of Procedure also set out its qualitative and quantitative composition and structure the rules of the Audit Committee and the Appointments and Remunerations Committee, the functioning of the Board, information, duties and remuneration of directors, and Board relations with shareholders, auditors and the market. The rules in force were signed in April 2018.

Although the Company shares are not admitted to trading on the continuous market, for the purpose of aligning the Company's corporate governance system with the highest standards, generally adopted by companies listed on this market, the functions and duties of the **Audit Committee** and the **Appointments and Remu-**

**nerations Committee** are undergoing review in 2019, which will be reflected in the relevant changes to the Rules of Procedure of the Board. The purpose of these improvements is to incorporate certain criteria set out in the Code of Good Governance of Listed Companies and in the Technical Guidelines of the Spanish National Securities Market Commission (CNMV) on audit committees and appointments and remunerations committees, in order to tailor the functioning of these bodies to the best practices and standards of Corporate Governance.

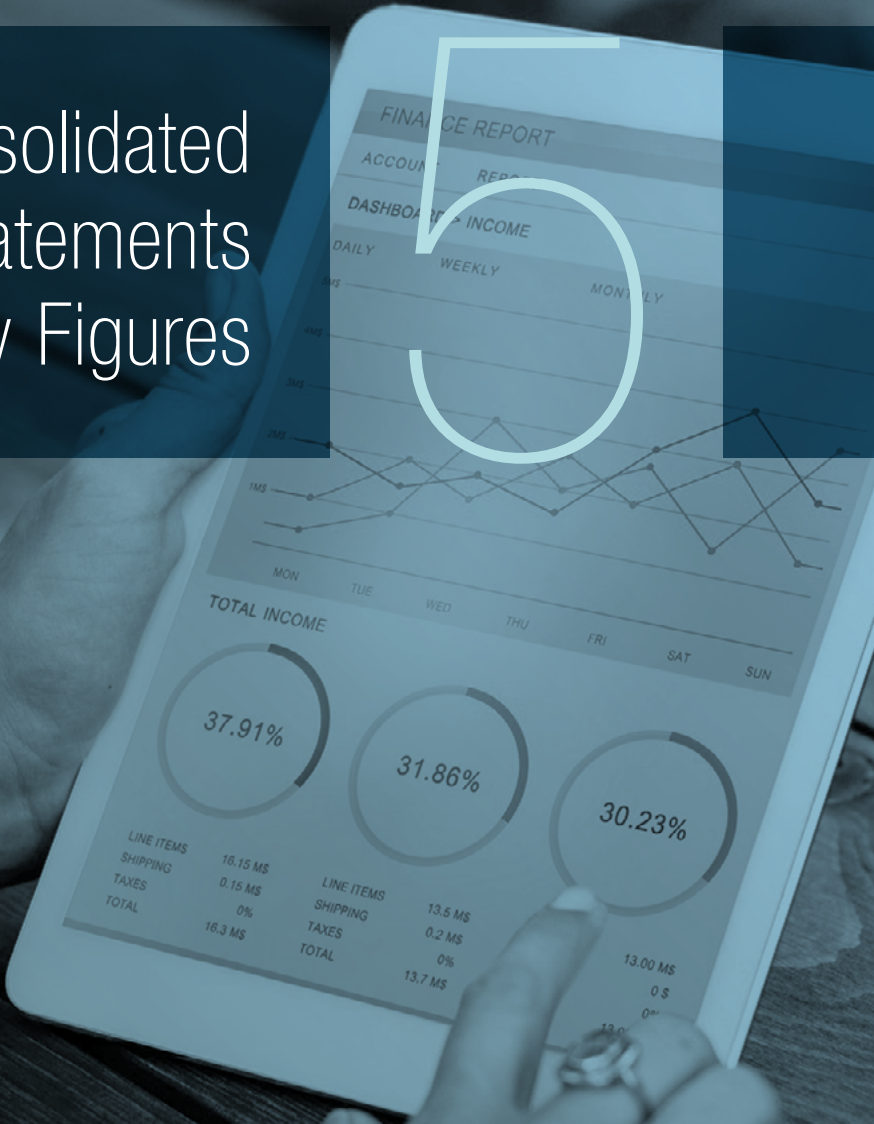
## **The Internal Code of Conduct and the Communication and Insider Information Policy**

lay down the rules for the management and control of the body for Compliance for Insider Information, the Transparent Communication of Relevant Information, the conduct of treasury transactions, and the detection and handling of conflicts of interest, placing certain obligations, restrictions and prohibitions on the Persons Concerned, Insiders and Treasury Stock Managers. The purpose of the above is to safeguard investor interests in the securities of the ADL Bionatur Group to prevent and avert situations of abuse, while encouraging and facilitating the participation of its Directors and employees in the Group's capital in strict compliance with the law in force.

The current Code of Conduct and the Communication and Insider Information Policy were updated to suit the new context of the ADL Bionatur Solutions Group and approved by the Board of Directors in March 2019.



# Analysis of the Consolidated Financial Statements and Key Figures







Consolidated Profit and Loss  
Consolidated Balance Sheet

## Consolidated Profit and Loss

	31.12.2018	31.12.2017	Variation	Variation %
Net turnover	23,317	12,229	11,088	91 %
Other operating income	1,944	561	1,383	247 %
Changes in inventories of finished goods and work in progress	(1,931)	150	(2,082)	(1,384 %)
Sourcing	(8,686)	(4,960)	3,726	75 %
<b>GROSS MARGIN</b>	<b>14,643</b>	<b>7,980</b>	<b>6,663</b>	<b>83 %</b>
	<b>58 %</b>	<b>62 %</b>		
In-house work on assets	1,915	979	937	96 %
Personnel costs	(13,379)	(9,589)	3,790	40 %
Other operating expenses	(15,707)	(9,779)	5,928	61 %
Depreciation of fixed assets	(2,732)	(877)	1,855	212 %
Non-financial and other capital grants recognised in profit and loss	523	53	470	888 %
Excess provisions	-	15	(15)	(100 %)
Impairment losses and income/loss on disposal of assets	(187)	(11)	176	1,592 %
Other profit or loss	(22)	188	(210)	(112 %)
<b>OPERATING INCOME</b>	<b>(14,946)</b>	<b>(11,043)</b>	<b>(3,904)</b>	<b>(35 %)</b>
Financial income	3	3	0	0
Financial expenses	(1,019)	(1,012)	7	1 %
Change in fair value on financial instruments	(0)	(391)	391	100 %
Exchange differences	(30)	(43)	13	31 %
Impairment losses and gains (losses) on disposal of financial instruments	(815)	407	(1,221)	(300 %)
<b>FINANCIAL PROFIT/(LOSS)</b>	<b>(1,861)</b>	<b>(1,037)</b>	<b>(824)</b>	<b>(79 %)</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>(16,807)</b>	<b>(12,079)</b>	<b>(4,728)</b>	<b>(39 %)</b>
Corporate income tax	90	(82)	172	210 %
<b>PROFIT/(LOSS) FOR THE YEAR</b>	<b>(16,717)</b>	<b>(12,161)</b>	<b>(4,555)</b>	<b>(37 %)</b>
Profit/(Loss) attributable to the Controlling Company	(16,695)	(12,161)	(4,534)	(37 %)
Profit/(Loss) attributable to minority interests	(22)			
<b>Standardised EBITDA*</b>	<b>(8,715)</b>	<b>(10,166 )</b>	<b>1,451</b>	<b>14 %</b>

\* Standardised EBITDA: EBITDA without extraordinary expenses not associated with the Company's recurring business.



ADL Bionatur Solutions has made progress in its business plan by meeting the goal of being **a flexible, innovative and high-growth company, demonstrating its capacity to continue to grow and improve its results and financial strength**. The Company's consolidated income rose to EUR 23M in 2018, representing an increase of more than 90 % on the revenues obtained in 2017, with a growth in activity in all the company's business areas.

	Thousands of euros	
	31/12/2018	31/12/2017
Fermentation	15,671	6,946
Pharma	5,591	5,143
R&D and Licensing Services	1,715	0
Other	340	141
Other operating income	1,944	561
<b>Total</b>	<b>25,261</b>	<b>12,790</b>

## Fermentation

This area accounts for 67 % of total income in financial year 2018, representing an increase of 125 % on the income obtained in financial year 2017. The significant increase in income is due to the company's boost to this area, with the attraction of new international clients and continuous improvement of its facilities, which have continued to expand its production capacity.

## Pharma

Pharma, which witnessed an 8.71 % increase in 2018 on 2017 figures, is currently undergoing consolidation, with formalised and highly recognised clients. The Company has continued the regulatory process of dossier approvals (DMF, CEP) for its products with pharma clients, with a view to starting the commercial phase by mid-2019 for the vast majority of its API portfolio.

## R&D and Licensing Services

Following the business combination carried out in financial year 2018, the Group records income in this area amounting to EUR 1,715 thousand, representing 7 % of total sales. This income was chiefly obtained by third-party R&D services, CRO services (zebra fish), and licensing revenues.

	Thousands of euros	
	31/12/2018	31/12/2017
<b>Total Income</b>	<b>25,261</b>	<b>12,790</b>
<b>Supplies</b>	<b>(10,618)</b>	<b>(4,810)</b>
<b>GROSS MARGIN</b>	<b>14,643</b>	<b>7,980</b>
	58 %	62 %
<b>Total Other Income</b>	<b>2,438</b>	<b>1,031</b>
In-house work on assets	1,915	979
Allocation of grants	523	53
<b>Total Operating Expenses</b>	<b>(25,797)</b>	<b>(19,177)</b>
Personnel expenses	(13,379)	(9,589)
Other operating expenses	(12,417)	(9,588)
<b>Adjusted EBITDA</b>	<b>(8,715)</b>	<b>(10,166)</b>
Non-recurring expenses	(3,499)	-
<b>EBITDA</b>	<b>(12,214)</b>	<b>(10,166)</b>

### In-house work on assets

The amount in this item relates to the capitalisation of development expenses incurred by the Group amounting to EUR 1,915 thousand, an increase of 95.70 % from figures for 2017, highlighting the new company's focus on the development of new products and services and its commitment to the future growth of the company.

### Other operating income

The Group provides services to other international companies based on binding long-term contracts. These generated an income of EUR 1,944 thousand, an increase of 246 % on figures for 2017.

### Supplies

In 2018, sourcing amounted to EUR 10,618 thousand, a very significant increase compared to the same period of the previous year. This increase is directly related to the increase in Group turnover.





## Gross margin

Gross margin fell slightly due to the effect of the chargeback on the profit and loss statement to one of ADL Biopharma's main customers for raw materials related to its activity. This chargeback has a minimum margin, lowering the average of the consolidated group. The purpose of transferring our raw materials cost directly to a key customer is to eliminate the risk of price volatility with a very specific raw material, fluctuation of which is a risk factor that we sought to eliminate from our relationship with the customer.

The overall gross margin remains within industry standards.

## Personnel expenses

In 2018, personnel costs amounted to EUR 13,379 thousand, an increase of 39 % compared to the same period of the previous year. This increase was necessary to reinforce the company's production structure in order to meet growing production needs arising from contracts signed for the coming years. The total number of employees rose from 240 in 2017 to 331 in 2018, largely due to increased fermentation activity in addition to the business combination described earlier. The Group has been sized to be able to handle CDMO/CMO contracts during 2019. No substantial increases in workforce are expected during the year.

## Other operating expenses

In 2018, Operating Expenses amounted to EUR 12.4 million, an increase of 29.50 % compared to the same period of the previous year. This is mainly due to the increase in expenses associated with the increased production capacity, primarily supplies and the maintenance of facilities.

## Non-recurring expenses

This item includes the expenses associated with trading on the Alternative Stock Market (MAB), extraordinary provisions not linked to operations, compensation arising from the reorganisation and optimisation of structures after the merger, expenses associated with the capital increase of July and other non-ordinary and non-recurring expenses.

## Adjusted EBITDA (without non-recurring expenses)

The Group recorded an improvement of EUR 1,451 thousand in its Standardised EBITDA, i.e. without considering non-recurring expenses, which represents an increase of 14 % on the previous year's figure.

## Consolidated Balance Sheet

ASSETS	31.12.2018	31.12.2017
A) NON-CURRENT ASSETS	58,628	30,839
I. Intangible fixed assets	14,095	1,302
II. Tangible fixed assets	37,370	25,963
III. Property investments	1,070	736
IV. Long-term investments in group and associated companies	5	5
V. Non-current financial investments	1,281	1,562
VI. Deferred tax assets	4,806	1,270
B) CURRENT ASSETS	20,611	16,339
I. Stocks	6,558	7,181
II. Trade and other accounts receivable	8,930	4,191
III. Current financial investments	1,150	2,459
IV. Current accruals and deferred income	23	5
V. Cash and cash equivalents	3,951	2,503
<b>TOTAL ASSETS</b>	<b>79,239</b>	<b>47,178</b>

EQUITY AND LIABILITIES	31.12.2018	31.12.2017
A) SHAREHOLDER EQUITY	21,195	14,524
A-1) Shareholders' funds	19,910	14,492
I. Share capital	1,969	255
II. Share premium	86,434	-
III. Reserves	(35,949)	29,798
IV. (Shares and equity interests)	(375)	-
V. Profit/(loss) from prior years	(16,091)	(3,930)
VI. Other shareholders' contributions	616	531
VII. Profit (loss) for the year	(16,695)	(12,161)
A-2) Subsidies, donations and legacies received	1,434	31
A-3) Minority interests	(149)	-
B) NON-CURRENT LIABILITIES	38,158	21,541
I. Non-current payables	30,665	21,530
II. Long-term debts with group and associated companies	7,000	-
III. Deferred tax liabilities	493	10
C) CURRENT LIABILITIES	19,886	11,113
I. Short-term provisions	218	53
II. Short-term payables	8,844	5,772
III. Short-term debts with group and associated companies	294	-
IV. Trade and other accounts payable	10,530	5,288
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>79,239</b>	<b>47,178</b>



Balance sheet comparisons are not uniform because 2017 shows the balance sheet of ADL Biopharma (accounting acquirer) and 2018 shows the consolidated balance sheet of the two companies.

## Non-current assets

2018 saw a 64 % increase from 2017 figures, mainly due to the sum of the assets of the two companies. For 2017, only ADL Biopharma figures are available, while in 2018, the aggregate figures of the different headings for non-current assets of all Group companies appear. Under property, plant and equipment, the León company ADL Biopharma has made numerous investments to modernise and update its facilities, which have increased the total sum of the Group's investment in tangible fixed assets.

## Current assets

In these sections, besides the knock-on effect of the increase in scope of consolidated companies, the company has decreased its total stock by changing its storage policy for certain products. Over 50 % of stocks are raw materials and semi-finished products, as the company has implemented a stock reduction policy to optimise its working capital requirements.

CMO/CDMO activities, on the other hand, do not generate relevant stocks of finished product because the customer picks up their product within a week of the completion of production.

## Equity

This figure has increased both due to the consolidation effect and the capital increase of July 2018.

## Non-current liabilities

Over 2018, the sum of the long-term debt of ADL Biopharma (2017 data) together with the rest of the group is recorded (2018 data). Overall, the Group managed to increase its long-term debt with a loan under preferential conditions with Sodical (Regional Government of Castile and León) for the sum of EUR 5 M, and with its main shareholder BTC, for EUR 7M.

## Current liabilities

The incremental effect is in line with the consolidation effect plus the increase in the group's short-term loan facilities.

# Consolidated and Invidividual Financial Statements and Notes

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**Business  
Report  
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**Consolidated and  
Invidividual Financial  
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**Annual Report 2018  
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