EUROBIO SCIENTIFIC: a potential clearly identified

Recommendation: Buy
Closing price at 25/06/2018: €4.95

Target: €6.4

A leader in the in-vitro diagnostics field

Eurobio Scientific (ex-Diaxonhit) is a group integrated into the field of **specialty *in-vitro* diagnostics**. With an historic focus on R&D in therapeutic diagnostics and solutions combining operating losses and repeated recapitalisations, the Group undertook a strategic shift at the beginning of the 2010s aiming to integrate the distribution activity - profitable and less exposed to the risks of development - through three **structuring external growth** transactions (InGen BioSciences, Eurobio and Genbio). The Group, now integrated and having reached a **critical size**, plays a role as a strong leader in the French market and has now taken up a position as a serious player involved in the current consolidation movement in the sector.

Heading towards a model of creating significant value

A genuine pillar of our health system, the last ten years has seen the medical diagnostics sector experience a profound transformation against a backdrop of regulatory changes that have accelerated the trend of **customer** (public and private laboratories) **concentration** generating pressure on the sales prices charged by suppliers. In order to offset this effect, the presence in the buoyant diagnostic techniques market such as **molecular biology** (+12% per annum) and **rapid testing** (emerging segment) gives the Group considerable leverage to grow at a faster rate than its reference market.

A financial history now needing to be analysed closely

Eurobio Scientific recently achieved the symbolic EBITDA breakeven in 2017, opening a new page in the Group's financial history with it due to become profitable in 2019. The **anticipated acceleration** in expected aggregate **income** of 25% in three years' time (vs. 2017 pro forma figures) by the Management will be a source of **genuine leveraging on structural costs** with, above all, the sales force enabling the Group to achieve a significant increase of its margins. In addition to this, the **growing contribution of high-added value proprietary** ranges has proven to be essential. Moreover, the Group should be very active with regard to the continued **M&A operations** which will generate synergies and strengthen size.

A virtuous circle requiring a natural rerating of the stock

The vertical integration towards distribution, an activity showing growth and capable of generating profit, will have significantly **reduced the intrinsic risk** of the group's business model. The attractive development prospects (estimated revenue up by 39% CAGR) combined with faster profitability (double-digit EBITDA margin by 2020) will be genuine drivers validating value creation and catalysers for the share to be revalued on the stock market. We are starting the tracking of Eurobio Scientific with a **Buy** Recommendation combined with a price objective of **€6.4**.

Market info	
Sector	In-vitro diagnostics
Price (€)	4.95
Capitalisation (M€)	48.0
Market	Euronext Growth
Bloomberg	ALERS FP

Shareholding	
Management/employees	33%
Institutional investors	24%
Floating	43%

€m (31/12)	2017	2018e	2019e	2020e
Revenue	42.6	50.3	55.1	59.3
Var	*54.2%*	*18.2%*	*9.4%*	*7.7%*
ROC	-3.7	-1.0	0.8	2.6
Operating margin	*-8.6%*	*-2.0%*	*1.5%*	*4.4%*
Group net income	-10.0	-4.6	-2.3	-0.8
Adjusted EPS (€)*	-0.90	-0.24	0.00	0.16
Change in EPS	*n.s.*	*n.s.*	*n.s.*	*n.s.*
Dividend (€)	0.00	0.00	0.00	0.00
Yield	*0.0%*	*0.0%*	*0.0%*	*0.0%*
FCF	-1.4	-2.0	2.3	3.7
ROCE	*n.s.*	*n.s.*	*2.2%*	*8.6%*
EV/Revenue (x)		1.2	1.1	1.0
EV/ROC (x)		n.s.	n.s.	21.9
PER (x)		n.s.	n.s.	n.s.
Net financial debt	10.3	13.2	11.7	8.7
Gearing	*33.7%*	*50.9%*	*49.9%*	*38.4%*

Midcap Partners Estimates

**adjusted from amortization of goodwill*

Next event: First half 2018 revenue – 23 July 2018

History of recommendations	
Date	Recommendation
26/06/2018	Buy

Analyst:	Pierre Vaurice
Email:	pvaurice@midcapp.com
Tel:	+33(0)155356931

Contents

I. Overview

The business

Founded in 1997, Eurobio Scientific is a group operating in the specialised *in-vitro* diagnostics and life sciences sector. Working initially in R&D in the strict sense of the term under the name of Exonhit, the Group has built an integrated model by making multiple acquisitions of business entities that will provide a critical size on the French market.

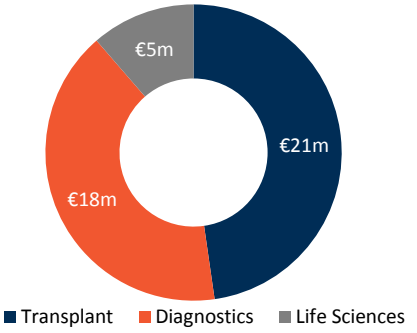
Eurobio Scientific has both a proprietary portfolio, estimated 16% of sales in 2017, generating attractive margins (60%-70% gross margins) and sales for third parties (trade) making it possible to massively reinforce the Group's financial position.

In a sector experiencing large-scale consolidation, Eurobio Scientific is an agile player that has demonstrated its ability to play a key role in this movement and strengthen its position as a market leader as a result. The share is eligible for the PEA-PME, TEPA and FCPI systems.

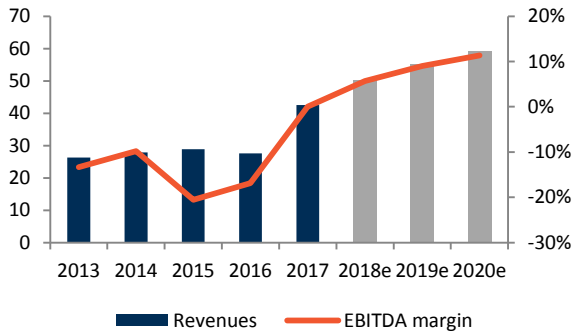
News[1]

- 25/06/2018: agreement with Quidel for the distribution of TRIAGE, a panel of cardiovascular and toxicology rapid tests (about €2.5m annual sales)
- **02/05/2018:** announcement of the renewal of the historic business partnership with One Lambda in the field of diagnostic testing for transplants for a three-year period.
- **23/04/2018:** publication of the 2017 annual results which show restated positive EBITDA of €400k, exceeding initial expectations which aimed for positive EBITDA in Q4 only. As at 31/12, the Group had cash and cash equivalents of €11.8 million before the €2.5 million bond issuance subscribed by Vatel Direct, see below).
- **17/04/2018:** announcement of bond issuance raising €2.5 million benefiting Eurobio-Ingen by the Vatel Direct fund, the Vatel Capital participatory bond financing platform.

Breakdown of 2016 sales (*pro forma*)[1]



Change of revenue and EBITDA margin[1]



Strengths

- Ability to outperform the reference market (+9% pro forma in 2017 vs. +0.5% in 2017 according to Xerfi)
- Genuine leadership in France (#1 tests HLA)
- A relatively well-balanced product offering
- A growing contribution made by proprietary products (16% estimated in 2017 vs 4% in 2015)
- 31% of share capital held by two private individuals (Eurobio) with long-term ambitions
- Ability to successfully conduct strategic partnerships (e.g. One Lambda in transplants)

Weaknesses

- Business still dependent on a single market, France (88% of 2016 *pro-forma* sales)
- High supplier risk: One Lambda (Thermo Fisher) represents 45% of the Group's operational income

Opportunities

- A sector undergoing consolidation
- Very attractive levels of growth and profitability in molecular biology
- Growth relays abroad (product launches)
- The majority of purchases are made in dollars while sales are made in euros
- Favourable structural factors (e.g. ageing population, increase of chronic diseases, etc.)

Threats

- Results volatility based on €/$ parity
- A segment leader can recover the distribution of a diagnostic range (bioMérieux recovered the BioFire rights in 2013, previously distributed by Eurobio)
- Customer (public and private) concentration generates natural pressure on prices
- Test prices remain under pressure in certain ranges

[1] *Eurobio Scientific*

II. From R&D to a now profitable integrated model

Eurobio Scientific, previously named Diaxonhit, is a player initially positioned on "pure" R&D in the fields of *in-vitro* diagnostic and therapeutic medications for which the business model intrinsically generated **operational losses and repeated recapitalisations**. Through multiple external growth transactions aimed at creating an integrated model, the Group has recently acquired tangible financial credibility by reinforcing its profitable distribution activity.

This explains how the Group **surpassed, in a symbolic manner, operating breakeven in 2017**, publishing restated positive EBITDA of €400k for the whole financial year. Embracing strong sales dynamic for future financial years, Eurobio Scientific should quickly achieve **double-digit margins in the medium term** (estimated EBITDA margin of 11.4% in 2020).

This is a summary of the history of the Eurobio Scientific group through three phases, symbolising profound changes of the business model historically positioned on R&D before embracing a vertical integration movement to become the **leader in the French *in-vitro*** diagnostics market.

A. 1997-2012: innovation design, development and fine-tuning.

Started up in 1997 under the name of **ExonHit Therapeutics**, the Group's initial business was focused on developing and fine-tuning new solutions both in the field of **screening** (diagnosis) and treating patients with the contribution of **innovative medical treatments** (cancers, neurodegenerative diseases).

This business model led to **significant dependence on revenue related to partnerships** forged until that point in time with leading players: **bioMérieux** in blood diagnostics in the oncology field (breast, lung and prostate) and **Allergan** for the development of medications designed to treat ophthalmic and neurodegenerative diseases. Thus, up to 2013, operating income was essentially based on R&D income while annual losses remained significant.

Historical financial information (2008-2013)

Year	2008	2009	2010	2011	2012	2013
Sales (€m)	0.0	0.0	0.0	0.0	0.7	26.3
Other income (€m)	4.2	4.9	8.5	5.0	4.7	4.9
Purchasing costs (€m)	0.0	0.0	0.0	0.0	0.4	16.2
R&D expenditure (€m)	9.9	9.0	8.5	7.7	7.0	7.3
Marketing costs (€m)	1.1	1.2	1.3	1.5	0.9	7.9
G&A (€m)	4.6	4.3	5.6	3.9	3.5	6.5
ROC (€m)	**-11.4**	**-9.7**	**-6.9**	**-8.1**	**-6.5**	**-6.8**
EBITDA (€m)	**-10.2**	**-9.0**	**-6.2**	**-6.7**	**-5.8**	**-4.2**

Source: Eurobio Scientific

Faced with **total dependency concerning the random success of different programmes**, both therapeutic and diagnostic, thus determining the cash inflow from the different partners, the **construction of an integrated model**, i.e. adding the sales dimension, was a natural solution for ExonHit Therapeutics.

B. 2012-2017: building an integrated model through external growth

While today Eurobio Scientific is a mature, profitable model with attractive prospects, it must be underlined that the **external growth** policy conducted in recent years has formed one of the main pillars of this excellent success.

An integrated model was achieved in 2013 with the acquisition of **InGen BioSciences**. However, this could have started earlier, in 2010, through a partnership with **RedPath Integrated Pathology**, significantly speeding up its presence in the molecular diagnosis of cancers.

This transaction did not reach its conclusion, and rightly so, insofar as only a few months after this announcement, the two players **terminated the merger agreement** because Highmark, the regional Medicare reimbursement agency for the Sates of Delaware, District of Columbia, Maryland, New Jersey and Pennsylvania, had decided to **restrict the reimbursement of the RedPath PathFinderTG** range of tests to pancreatic cancer only, thus curbing all further development. The two parties failed to reach an agreement on a modification of the conditions of acquisition in this new configuration, and in consequence ended the merger.

External growth transactions

Company acquired	Date	Amount	Sales	Sales ratio	Profitability	% proprietary sales
RedPath (cancelled)	2010	$22.5m	$5.4m	4.2x	-	100%
InGen BioSciences	2012	€23.3m	€18.0m	0.8x	EBITDA margin: 6.0%	<5%
Eurobio	2017	€28.9m	€16.6m	1.9x	EBITDA margin: 12.7%	33%
Genbio	2017	$2.0m	$2.0m	1.0x	Net margin: 5.0%	100%

Source: Eurobio Scientific

However, the acquisition in 2012 of **InGen BioSciences**, the leading independent distributor of *in-vitro* diagnostics in France, resulted in making the hopes of vertical integration a reality and enabling a group to be built with ***pro forma* revenue of €28.6 million**. Distribution sales will represent 85% of operating revenues. Through this transaction, ExonHit Therapeutics, which became Diaxonhit, acquired a **sales force of over 40 people** paving the way to building a future leader in the field of *in-vitro* diagnostic distribution.

In addition to the sales force, Diaxonhit integrated within its scope - with a 65% market share - the **French leader in the field of HLA testing**, making it possible to assess the **compatibility between donors and recipients** at the time of organ and bone marrow transplants, and ensuring their follow-up. This was an **exclusive distribution agreement** entered into in 1996 for One Lambda, a Thermo Fisher Scientific subsidiary, and renewed at the beginning of May 2018 for three years. In 2017, this provided **40-45% of overall revenue**.

Nevertheless, the **proprietary products** with high gross margin (60-70%) provided by InGen remain under-represented (<5% of total revenue). This, combined with an **increase in structural costs** (sales personnel in particular) offset by a reduction in terms of R&D, will not enable the Group to significantly reduce the losses recorded beforehand.

The beginning of 2017 saw the veritable **structuring acquisition of Eurobio** which would substantially change the Group's financial path. In addition to a contribution of revenue that drove the overall structure to **€48 million in *pro forma* data**, this transaction makes it possible to integrate a large **proprietary catalogue** (33% of Eurobio sales), in **molecular biology** in particular, a market which is literally "exploding" today, thus strongly ramping up the added value of the consolidated whole. This will make it possible amongst other things to achieve **adjusted EBITDA** (*pro forma* data) of €400k for the whole of 2017.

This acquisition also made it possible, and it is an important point, to integrate the **Eurobio Management** that found themselves at the helm of the Group represented by **Jean-Michel Carle** and **Denis Fortier** whose track record at Eurobio spoke volumes about their ability. After retaking control of Eurobio in 2010, which generated sales of €7 million, these two men **accelerated the business dynamic** at a sustained level, **averaging +14% annually**, to reach €16.6 million in 2016. In 2017 they also showed their ability to **quickly and efficiently integrate a new entity**, completing the restructuring and reorganisation plan six months ahead of schedule.

A restructuring and reorganisation plan completed six months ahead of schedule.

May 2017	The Paris site's R&D moved to the Eurobio laboratories in Les Ulis
June 2017	New governance with a new Executive Board and a new Supervisory Board.
July 2017	Unification of the InGen and Eurobio sales teams, reorganisation based on business units
H2 2017	Implementation of the plan to simplify administrative processes and enhanced allocation of resources
December 2017	Paris offices closed
January 2018	Merger of Eurobio and InGen, Head Office moved to Les Ulis

Source: Eurobio Scientific

Genbio, the latest acquisition to date, in July 2017, was bought a few months after the integration of Eurobio. Although its size may seem limited, $2 million in sales, its potential is significant. On the one hand, the Californian entity is **very profitable thanks to a 100% proprietary catalogue** comprised of specialised products for infectious and autoimmune diseases and on the other hand it generates genuine **sales synergies as an entry point to the United States** for products from the historic Diaxonhit-Eurobio sphere.

Reduced cash consumption following the integration of Eurobio (2012-2017)

Year	2012	2013	2014	2015	2016	2017
Sales (€m)	0.7	26.3	27.9	28.9	27.6	42.6
Other income (€m)	4.7	4.9	3.8	1.3	0.8	0.5
Purchasing costs (€m)	0.4	16.2	17.4	21.1	19.9	27.7
R&D expenditure (€m)	7.0	7.3	5.6	4.0	3.2	2.1
Marketing costs (€m)	0.9	7.9	9.1	8.6	8.3	11.5
G&A (€m)	3.5	6.5	4.9	4.6	4.2	5.5
ROC (€m)	**-6.5**	**-6.8**	**-5.4**	**-8.0**	**-7.1**	**-3.7**
EBITDA (€m)	**-5.8**	**-4.2**	**-3.1**	**-6.2**	**-4.8**	**0.0**
FREE CASH FLOW (€m)	**-4.5**	**-5.5**	**-4.0**	**-2.6**	**-3.5**	**-1.4**

Source: Eurobio Scientific

C. >2017: a profitable model and future M&A

As we have seen, Eurobio Scientific is consequently seen as a **mature and profitable group** boasting a critical size in France. Nevertheless, **the construction process is far from finished**. The growth dynamic should be substantial, driven by organic and external growth.

The positioning on growth markets such as **molecular biology** (20-25% of revenue in 2017 in our opinion) which is growing 12% per annum (source: Transparency Market Research), the contribution of the **proprietary portfolio** (16% in 2017, medium-term objective of 20%), and the **new launches** will all combine to support the dynamic topline in future years. In this respect, the management is aiming for **aggregate sales growth of 25% in three years' time** (see CP 2017 annual results, link) along with "**significant profitability**".

Our forecast for 2020 is an EBITDA margin of 11.4% in view of: a more favourable product mix with the increasing contribution of **proprietary sales** (20% for 2020), residual **synergies** from the construction of the new group (enhanced allocation of resources) and mastering **structural costs** with the relocation of the entire personnel to the Les Ulis site at the start of 2019.

It is worth underlining the fact that the financial data situated under EBITDA will have a better profile notably for the next two aggregates:

- **non recurring expenses** will be largely reduced compared with the 2017 financial year (€2.3 million) which recognised the costs in relation to the reduction of expenses (€478 thousand in respect of employee departures and leaving the Paris offices in Masséna) and the €1.5 million impact in relation to the waiver by the main bearer of bonds issued in 2014 ("2014 convertible bonds") with regard to its own guarantees as the lender within the framework of putting in place the new €6.0 million loan intended to finance the acquisition of Capforce Plus, the holding company of Eurobio;
- **financial expenses** as the Group bought, for €760 thousand, the balance of the stock subscription warrants linked to the 2014 convertibles 2014 ("2014 convertible bonds") in order to reduce to a minimum the number of dilutive instruments which might impact the capital over time, an effect that will not be repeated in 2018.

The significant increase in EBITDA will be a major contribution towards generating cash and will confirm the **self-financing scenario of the current business scope**. The position of cash and cash equivalents on the balance sheet, cash in hand and securities, amounted to €11.8 million as at 31 December 2017 in addition to the €2.5 million resulting from the funds raised through bonds from Vatel in April 2018.

A scenario of attractive profit-making growth (>2017)

Year	2017	2018e	2019e	2020e
Sales (€m)	42.6	50.3	55.1	59.3
Other income (€m)	0.5	0.6	0.6	0.6
Purchasing costs (€m)	27.7	31.8	34.2	36.2
R&D expenditure (€m)	2.1	1.9	1.9	2.0
Marketing costs (€m)	11.5	12.6	13.0	13.4
G&A (€m)	5.5	5.6	5.7	5.7
ROC (€m)	**-3.7**	**-1.0**	**0.8**	**2.6**
EBITDA (€m)	**0.0**	**2.9**	**5.0**	**6.8**
FREE CASH FLOW (€m)	**-1.4**	**-2.0**	**2.3**	**3.7**

Sources: Eurobio Scientific – Midcap Partners

In a **sector undergoing consolidation**, the Group should be able to take advantage of numerous opportunities in the coming years. Today, there are a host of reasons to drive external growth transactions, the first of which is:

- **"Europeanising"** a business overly dependent on its historic market, France, by acquiring products, technologies and/or sales forces;
- increasing the **share of proprietary products and**, consequently, the added value of the portfolio;
- **diversifying product** ranges insofar as more than 40% of sales were generated by HLA transplant tests, the fruit of the business partnership with One Lambda;
- and also, **harness purchasing synergies** in a "defensive logic" while sales prices remain under pressure in a sector where customers are massively concentrated.

The size of Eurobio Scientific today enables it to be **far more visible** and therefore be contacted to a greater extent when opportunities arise. Transaction multiples should be in the order of one to two times sales depending on the contribution of the targets' proprietary products.

III. A mature market rich in growth opportunities

A. IVD, a central pillar of our health system

In-vitro diagnostics (IVD) play a role in **all stages of the care process** and, according to SIDIV, the sector's French federation, they are used in 70% of cases of medical decision-making in doctor's surgeries and in over 80% of cases in hospitals. In some cases, IVD makes it possible to **detect certain infections or pathologies before clinical signs appear** (e.g. HIV). IVD plays a role before, during and after an accompanied diagnosis or otherwise of a treatment: 1/ upstream, as a **preventive** measure, 2/ during, to **specify** the pathology and adapt the therapy, and 3/ afterwards, for patient **monitoring**.

IVD in the care path

Source: SIDIV

The in-vitro diagnostics market can be described as **mature** with its growth limited to approximately 5% per annum on a global scale but less than 2% in France (source: Xerfi). While the volume of IVD use is continually increasing due to **favourable structural factors** (ageing population, increase in chronic illnesses, national public health plans, etc.), **pressure on prices** and **reimbursement conditions** are restricting the growth of the market.

Nevertheless, there are niches among the different specialisations with volumes showing significant growth e.g. **rapid tests** and **molecular biology**. Eurobio Scientific enjoys a strong positioning in these two areas that have attractive potential, providing it with **a permanent lever to** outperform its reference market.

Buoyed by pro forma revenue of €48 million in 2017, Eurobio Scientific is **a leader in the French *in vitro* diagnostics market** through an offering comprised of three catalogues:

- **Diagnostics** (41% of revenue in H1 2017) with a diversified offering with regard to **infectious diseases** (2/3 of Diagnostic sales) such as **TQS** tests for tetanus and the **EurobioPlex range** (Dengue, Hépatite Delta, Chikungunya, etc.). Eurobio Scientific also propose products concerning allergies, quality control, bacteriology, etc. The **proprietary portfolio** represented 12% of Diagnostics sales in 2017 and is experiencing **astonishing growth** driven by the **molecular biology** dynamic;

- **Transplants** (48% of revenue in H1 2017), activity mainly inherited through the acquisition of InGen BioSciences which is the historic distributor of the **HLA test** in France (92% of Transplant revenue) used to assess the compatibility between donors and recipients at the time of organ and bone marrow transplants. Eurobio Scientific also distributes **cornea transport** and **preservation environments** which represent 7% of proprietary sales in the transplant segment;

- **Life Sciences** (11% of revenue in H1 2017), is a business aimed at R&D activities that is totally complementary to diagnostics and a source of significant **synergies**. We will return to this segment later.

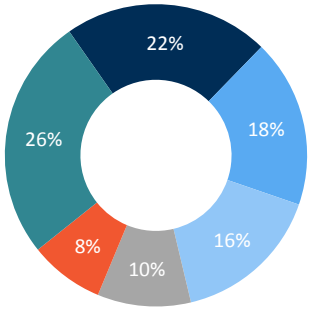
EUROBIO SCIENTIFIC 2016 pro forma sales: €44m/ proprietary sales: 13%		
Transplants	**Diagnostics**	**Life Sciences**
2016 sales: €21m - 48% total revenue	2016 sales: €18m - 41% total revenue	2016 sales: €5m - 11% total revenue
Proprietary sales: 7%	Proprietary sales: 12%	Proprietary sales: 40%

Source: Eurobio Scientific

B. Anchorage in dynamic niche markets

The global *in-vitro* diagnostics market is estimated at just under $70 billion. In Europe, the market was estimated at **€10.6 billion** in 2014 by SIDIV. **France**, Eurobio Scientific's historic market, is in second place representing 18% of the market (€1.8 million).

The IVD market in Europe



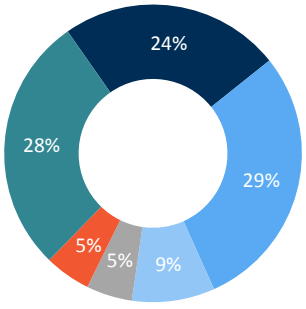
Europe (27+EFTA): €10,638m
Five main markets:
Germany: €2,189m
France: €1,785m
Italy: €1,656m
Spain: €972m
United Kingdom: €812m

Source: SIDIV 2014

We decided to break down the techniques used in IVD in the following manner:

- **Clinical biochemistry** (24% of the global market) measures the molecules contained in bodily fluids (blood, cerebro-spinal fluid, etc.). This is a technique largely used for diabetes monitoring tests;
- **Immunoassays** (29% of the market) make it possible to detect different infectious agents (bacteria, viruses, parasites) based on antigen and/or antibody reactions in different types of samples;
- **Molecular biology** (9% of the market) is a rapidly-growing market that is developing at the fast pace of progress made with regard to genome decoding. This discipline is destined to play a very important role in the development of new medications by making it possible to predict the response to a treatment;
- **Microbiology** (5% of the market): specialisation studying germs and their resistance to antibiotics. This discipline is based on the bacterial culture technique. In addition to its offering of specific tests, Eurobio Scientific, through its Life Sciences BU, also provides different culture environments intended above all for the R&D activities of customers (Inserm, biotechs, pharma, etc.);
- **Haematology** (5% of the market) which refers to the specialisation studying blood and its pathologies.

Global breakdown of clinical in-vitro diagnostics (2017)

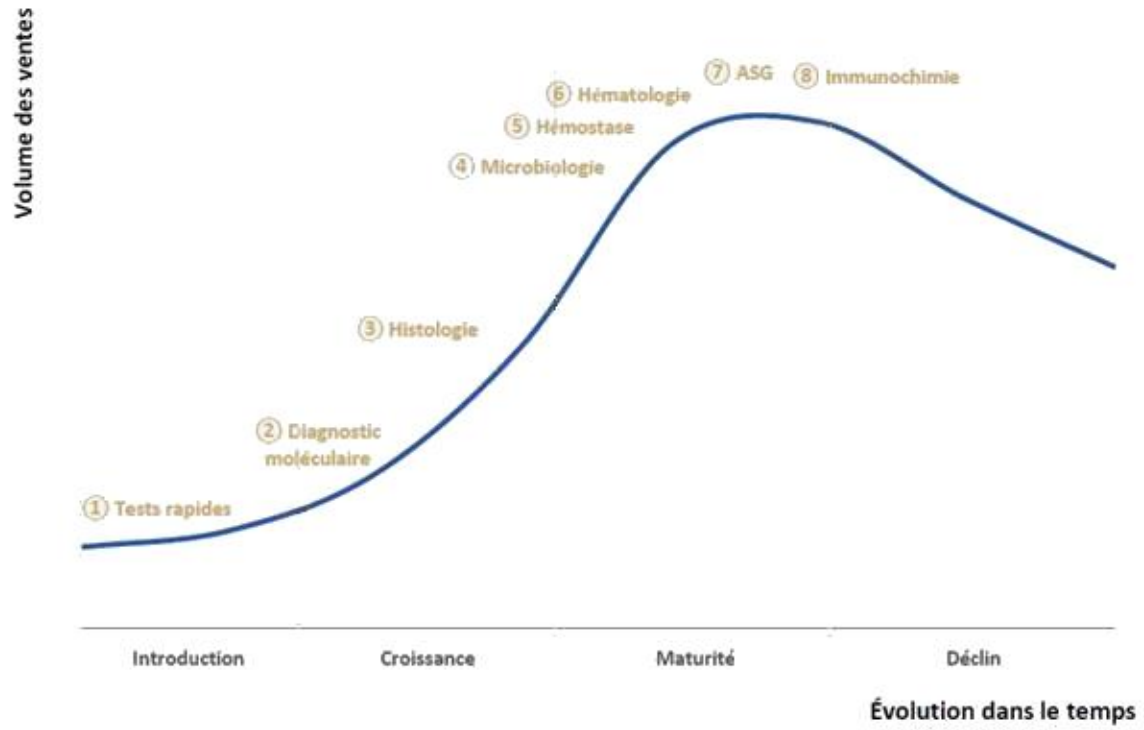


Growth trends by range:	
• Clinical biochemistry:	=/-
• Immunoassays:	=
• Molecular biology:	+++
• Microbiology:	+
• Haematology:	+

Source: bioMérieux – Midcap Partners

The dynamic of the different *in-vitro* diagnostics reflects the positioning in their respective life cycle. While immunochemistry is a mature technique, considered as a commodity product that has suffered considerable falls in prices, innovative techniques have been unveiled, some being more **sophisticated** (molecular biology) or **more accessible for patients** (rapid tests).

In-vitro diagnostics life cycles



Source: Frost & Sullivan

Positioned to seize growth opportunities

Molecular biology is a mature field, reserved for R&D for a long time, whose competitive cost sales application is recent. This technique makes it possible to detect specific DNA or RNA sequences which could be (or not) related to diseases. It is used at several levels: it makes it possible to detect pathogens and antibiotics resistance mechanisms, measure the quantity of a virus in the blood, and guide, personalise and test a treatment.

In comparison with more mature diagnostic techniques, molecular biology considerably reduces waiting times for results (in the same day). Transparency Market Research anticipates **average annual growth of 12% for the next three years**.

According to the sector literature, over 75% of tests concerned bacteriology and virology, and 12% targeted oncology which represents a huge growth area. Indeed, oncology is a sector in which the **rate of response** to traditional treatments is still low, 20% on average, resulting in the need to increase the predictability of success thanks to personalised medicine and the advent of diagnostic companions.

Molecular biology is highly represented at Eurobio Scientific and plays a key role in increasing the growth of the Group's sales through the **Eurobio proprietary range** (Dengue, Chickungunya, Zika, Hépatite Delta, etc.) and of tests resulting from **distribution partnerships** (notably AlloMap for identifying cellular rejection in heart transplant recipients). The acquisition at the beginning of 2018 of the exclusive distribution rights of the VERIGENE molecular biology range marketed by Luminex, an automated solution targeting, in particular, blood and respiratory tract infections, will also represent an excellent source of growth.

Rapid tests represent a fast-growing segment which counts among its major advantages the reduced time required to obtain results which enables tests to be administered as close as possible to patients i.e. **point-of-care**, and does not therefore require the use of a centralised technical platform, public or private, and consequent treatment periods.

Rapid tests are only at the start of the development period, and are a lever for significant future growth. This segment is so **strategically** important that Abbott acquired Alere end 2017 - not without difficulty - as Alere specialises in rapid tests for cardiometabolic diseases, infectious diseases and toxicology. The transaction amounted to $5.8 billion, representing a multiple of 2.4x of 2016 sales.

A proprietary product, **TQS** (Tétanos Quick Stick) is just one of the rapid test products considered to have excellent potential. In just 10 minutes, this test makes it possible to determine the **vaccinal status** of patients vis-à-vis tetanus in the event of wounds. In emergency situations, this test makes it possible to avoid hyperimmunisations and therefore limits needless immunoglobulin injections if the patient has already been vaccinated.

The acquisition of Genbio in July 2017 also makes it possible to boost proprietary sales through the integration of the **ImmunoDOT** range featuring multiple applications (e.g. autoimmunal diseases such as Lupus and infectious diseases such as mononucleosis and Lyme disease).

The reform of medical biology in 2010 and **the obligation to obtain accreditation** by 2020 for all tests conducted inevitably created a market for diagnostics suppliers. Obtaining and maintaining this accreditation requires the daily use of **independent quality control** enabling instruments to be recalibrated directly if a deviation in the results in question is observed.

Eurobio Scientific is relatively well positioned to benefit from the new regulatory requirements thanks to its very broad range in its fields where the Group has been historically present through its diagnostics ranges such as **infectious diseases, clinical chemistry, toxicology and autoimmunal diseases**. The integrated offering proposed contributes largely to simplifying implementation (putting in place systems, consultancy) and managing quality control in laboratories (provision of independent tests in particular). In 2015, sales generated in quality control reached **€2.2 million**.

Life Sciences: an additional historic activity

Eurobio Scientific generates approximately €5 million in sales in **life sciences**. As already mentioned, the customers are above all R&D units, both public (Inserm, universities) and private (biotechs, pharmas). The Group's expertise is not limited to diagnostics alone as it has a rich portfolio enabling it to support customers with their research work. Its product range includes applications for **cell culture** (animal serum, disinfection agents, antibiotics, etc.) and **molecular biology** (purification of DNA fragments, amplification reagents, etc.), **instrumentation** and related **reagents**, **dosage kits** used by the ELISA (reference technology for immunology) platform.

Fruit of the acquisition of Eurobio, the Eurobio Scientific life sciences portfolio perfectly **complements** the rest of the catalogue with **proprietary products being significantly represented** (approx. 40%).

C. A trend of customer concentration

In-vitro diagnostics products designed for medical applications are aimed at four main categories of users: **private** medical biology **laboratories** (52% in France according to SIDIV in 2015), **hospital centres** (41%), **French blood establishments** (5%) and **other clients** such as research centres and military laboratories (2%).

A drastic and permanent drop in the number of laboratories since 2010

The medical diagnostic market has been undergoing a profound transformation since 2010 following **the medical biology reform**. The Order of 13 January 2010 introduced a mandatory accreditation system for all public and private laboratories to reinforce the quality and security of examinations. This accreditation will be obtained in stages and will concern **50% of interventions in 2016, 70% in 2018 and, lastly, 100% in 2020**.

The **exorbitant cost of this accreditation** for small-sized companies has had the effect of creating a **vast consolidation process**. Whereas in 2010, there were more than 4,000 private laboratories conducting medical analyses, the number fell to 805 in 2017 according to SIDIV. The main players involved in this movement are major groups such as **Synlab/Labco** (2017 revenue of around €418 million in France), **Eurofins Scientific** (2017 revenue of around €680 million in France), and **Cerba** (global revenue >€600 million).

The **public sector** has not avoided this large-scale movement. The number of hospital platforms has fallen from 857 to 677 during the same period (Source: SIDIV). Putting in place **"Groupments Hospitaliers de Territoires"** (GHT) [Area Hospital Groups] will speed up this phenomenon. After Law no. 2016-41 came into force on 26 January 2016 concerning the modernisation of our health system, each GHT will benefit from either a **multi-site laboratory**, or an **inter-establishment centre**. In total, it is estimated that the industry has had to cope with a **fall of almost 70%** in the number of structures (public, private) forming the reference market.

A direct consequence of this consolidation trend, analytical laboratories have reached a **sufficiently significant** size to impose a reduction in their sourcing costs through **the massification of purchases**. It was from that moment on that medical diagnostics moved from a world of biologists to a **world of buyers**.

Nevertheless, customer concentration provides numerous new **opportunities** for Eurobio Scientific insofar as the **analytical platforms being larger**, the consequent amount of purchases enables the Group to place its products where it was more difficult previously in smaller laboratories that were not sufficiently equipped to amortise new analytical systems requiring heavy investment and, as a result, had to seek collaboration agreements.

D. A necessary development of business models

The consolidation of the customer base, combined with the increased R&D costs (e.g. in molecular biology) and the broadening of product lines has resulted in an intensification of intra-sector competition with the consequence of **greater aggressiveness in terms of sale prices**. It is against this backdrop that achieving a **critical size** is necessary in order to adapt to an increasingly demanding environment.

As far as Eurobio Scientific is concerned, building a role as a **distribution leader in France** following several cases of external growth (InGen BioSciences, Eurobio) meets this requirement. Synergies, whether they are **related to sales**, with the capacity to find openings for products in terms of new accounts, or structural **costs** (rationalisation the sales force, pooling of resources) make it possible to avoid suffering from different constraining dynamics.

The consolidation trend therefore also concerns suppliers of medical devices and should be maintained in the coming years. For the reasons previously stated (part II.C), **Eurobio Scientific should play an active role in the consultation process** by showing it can be proactive concerning transactions creating high value through significant sales and industrial synergies.

IV. Profiting from revaluation potential

Eurobio Scientific now presents a **far more attractive risk/reward pairing** than was previously the case. The situation is now positive and we are expecting an EBITDA margin of 5.7%, 9.1% and 11.4% for 2018, 2019 and 2020 respectively which would confirm the future profitable growth scenario.

As the risk profile has been substantially reduced, we consider that the rerating begun since the lowest level was recorded at the end of March 2018 should continue under the effect of 1/ **financial reporting** that should validate the financial scenario, 2/ the **business newsflow** (new partnerships) and 3/ potentially **external growth** that would reinforce the European positioning and/or increase the share of proprietary products in the portfolio.

A. DCF Method

In order to establish our valuation through the DCF method, we have used the following assumptions:

- aggregate sales growth of 39% on a like-for-like basis for the 2017-2020 period and +24% vs. pro forma sales in 2017, in line with the objectives set by the management (+25%), and then an average annual increase of 4.3% between 2020 and 2027; an indefinite rate of growth of 2% justified by the structural change of the market (ageing population, national public health plans, etc.), a positioning that favours the higher added value offering (higher prices, greater growth levels);
- an EBITDA margin reaching 17% by 2023 taking into account a higher added value product mix (contribution of proprietary products), leveraging structural costs and, in particular, the sales force as the volumes sold increase;
- a standardised income tax rate of 25%;
- CAPEX that should not change with the exception of large-scale investments in 2018 (estimated €3.5 million) to finance a new clean room and the extension of the offices situated in Les Ulis;
- a relatively controlled working capital requirement of 8% in relation to revenue in view of the anticipated sales growth;
- a 9.8% discount rate, lower than its historic levels insofar as the intrinsic risk of the business model represents a far lower risk today thanks to a recurring and profitable business.

DCF scenario

Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Revenue	**50.3**	**55.1**	**59.3**	**62.1**	**65.5**	**68.8**	**71.9**	**74.8**	**77.4**	**79.7**
Variation	*18.2%*	*9.4%*	*7.7%*	*6.0%*	*5.5%*	*5.0%*	*4.5%*	*4.0%*	*3.5%*	*3.0%*
EBITDA	**2.9**	**5.0**	**6.8**	**8.4**	**10.5**	**11.7**	**12.2**	**12.7**	**13.2**	**13.6**
Margin	*5.7%*	*9.1%*	*11.4%*	*13.5%*	*16.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*	*17.0%*
IS	0.3	0.0	-0.4	-1.3	-2.6	-2.9	-3.1	-3.2	-3.3	-3.4
EBITDA af. tax	3.1	5.0	6.4	7.1	7.9	8.8	9.2	9.5	9.9	10.2
CAPEX	-3.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
WC change	-1.0	-1.2	-1.2	-0.6	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2
FCF	-1.4	2.3	3.7	5.1	6.1	7.0	7.4	7.8	8.2	8.5
Updated FCF	**-1.3**	**2.0**	**2.9**	**3.6**	**4.0**	**4.2**	**4.0**	**3.9**	**3.7**	**3.5**

Source: Midcap Partners

It should be noted that the number of shares chosen (10.0 million) takes into account the potential **dilution incurred by the balance of the stock subscription warrants** 1/ attached to the convertible bonds issued in June 2014 (20,454 new shares), 2/ allotted to CareDx (136,500 new shares) and to 3/ Harbert European Growth (181,818 new shares). All the stock subscription warrants mentioned are placed in money with a strike price of €4.40 per warrant for Harbert and the 2014 convertible bonds/stock subscription warrants and €4.72 for CareDx, and therefore could be exercised.

Value/share calculation

FCF amount updated	30.5
V/P updated	45.2
Enterprise value	**75.6**
Net financial debt	10.3
Provisions	1.3
Minority interests	0.0
Equity	**64.0**
Number of shares (m)	10.0
Value/share (€)	**6.4**

Source: Midcap Partners

WACC parameters

Risk-free rate	1.0%
Beta	1.0
Market premium	5.9%
Specific premium	5.0%
Equity yield	11.3%
Net financial debt	10.3
Interest rate	4.0%
Income tax rate	25.0%
WACC	**9.8%**

Source: Midcap Partners

Our valuation using the DCF method results in a **prospective level of equity of €64.0 million**, i.e. €6.4 per share (dilution included), revealing an upside of almost 30% on current price levels.

WACC/normalised growth sensitivity table

WACC g	7%	8%	9%	9.8%	10%	11%	12%
0%	8.7	7.3	6.2	5.4	5.3	4.5	3.9
1%	9.9	8.1	6.7	5.8	5.7	4.9	4.2
2%	11.5	9.1	7.4	**6.4**	6.2	5.2	4.5
3%	13.8	10.6	8.4	7.1	6.9	5.7	4.8
4%	17.8	12.8	9.8	8.0	7.8	6.3	5.3

Source: Midcap Partners

B. Analogy with sector comparables

The main listed groups operating in the medical diagnostic sector are as follows:

- **bioMérieux** (market capitalisation: €9.1 billion - €2.3 billion in revenue in 2017). Founded in 1963 by Alain Mérieux, this group is a pure player in the in-vitro diagnostics field and is the largest competitor in France (2017 revenue of approximately €206 million), an historic market of DIAXONHIT;
- **Bio-Rad Laboratories** (market capitalisation of €7.5 billion - 2017 revenue of €1.9 billion). Founded in 1952, the group's initial business was R&D in specialised chemistry for biochemistry, pharma and life sciences before switching to clinical diagnostics (63% of 2017 revenue). Bio-Rad generated 35% of its sales in Europe in 2017 (approximately €670 million);
- **DiaSorin** (market capitalisation: €4.9 billion - €637 billion in revenue in 2017). Created over 40 years ago, the Italian group develops, produces and markets diagnostic tests relating to infectious diseases and hormonal disorders. Operating in the immunology and molecular diagnostic markets, DiaSorin generated 44% of its revenue in the Europe/Africa zone in 2017 (approx. €278 million);
- **Qiagen** (market capitalisation: €7.1 billion - €1.3 billion in revenue in 2017). Founded in 1986, Qiagen is a leading player in the sale of molecular biology kits designed mainly for DNA and RNA purification. The group generated a third of its 2017 sales in the EMEA region (approx. €410 million);
- **Thermo Fisher Scientific** (market capitalisation of €75 billion - €18.5 billion in revenue in 2017). With annual sales exceeding $20 billion in 2017, of which 25% in Europe, Thermo Fisher Scientific is the leading supplier of laboratory research and analysis equipment;
- **Becton Dickinson** (market capitalisation of €53.4 billion - €11 billion in revenue in 2017) is an international group operating in two separate lines of business: BD Medical ($8.1 million in 2017) is a supplier of a vast range of medical technologies and devices and BD Life Sciences ($4 billion in 2017) which makes a vast range of products for gathering and transporting diagnostic samples, instruments and reagents for infectious diseases and cancers;
- **Abbott Laboratories** (market capitalisation of $94.8 billion - revenue of €24.3 billion in 2017) is a diversified pharmaceutical group operating in four main segments: nutrition (25% of revenue), diagnostics (21%), pharmaceutical products (16%) and medical devices (38%). Abbott has significantly strengthened its IVD offering and, in particular, rapid tests through the acquisition of Alere in 2017 increasing Diagnostics revenue to $5.6 billion;
- **DiaSorin** (market capitalisation: €27 million - €31 million in revenue in 2017). Founded in 2005, Biosynex is a company specialising in the design and distribution of rapid tests targeting both health professionals (infections, immunity status, acute pathologies, etc.) and the general public (pregnancy tests, detecting urinary infections, etc.). The company generated sales of €30.5 million in 2017, of which 70% in France and 30% internationally.

Multiples of medical diagnostic players

Company	Market Cap (€m)	EV/revenue 2018	EV/revenue 2019	EV/revenue 2020	EV/EBITDA 2018	EV/EBITDA 2019	EV/EBITDA 2020	EBITDA margin 2020
bioMérieux	9,078	3.8x	3.5x	3.2x	18.2x	16.0x	14.0x	22.7%
Bio-Rad	7,441	3.5x	3.3x	3.0x	21.3x	17.9x	14.9x	20.4%
DiaSorin	4,937	6.9x	6.2x	5.8x	18.0x	16.1x	14.9x	38.8%
Qiagen	7,083	5.8x	5.2x	4.6x	17.1x	15.1x	13.0x	35.3%
Thermo Fisher	74,784	4,4x	4,1x	3,7x	17.0x	15.3x	13.6x	27.3%
BD Inc	53,399	5,1x	4,4x	4,1x	15,7x	13.0x	11.7x	35.0%
Abbott Lab.	94,747	4,0x	3,7x	3,4x	16,3x	14,5x	12,9x	26.5%
Biosynex*	27	-	-	-	-	-	-	-
Average		**5.0x**	**4.6x**	**4.2x**	**19.0x**	**16.7x**	**14.6x**	**28.9%**
Median		**4.4x**	**4.1x**	**3.7x**	**18.8x**	**16.9x**	**15.0x**	**27.3%**
Eurobio Sc.	48	1.2x	1.1x	1.0x	21.2x	12.0x	8.4x	11.4%

*Sources: Factset, Midcap Partners - *no estimates because there is no monitoring, 4.8%EBITDA margin in 2017*

Making comparisons with the above-mentioned players does not seem appropriate insofar as the gap in sizes (market cap., sales) is significant and the activity of Eurobio Scientific is almost exclusively French (>85% of total sales). Moreover, some groups are pure players (bioMérieux, Bio-Rad, DiaSorin, Qiagen, Biosynex) whereas Thermo Fisher, Abbott and Becton Dickinson are diversified.

Furthermore, the far greater profitability of the big players that benefit from their **massive** size make comparisons difficult with smaller players like Eurobio Scientific. This explains why the comparables method does not seem pertinent in this particular case.

C. A consolidation trend with flattering multiples

As we stated previously, the sector is currently undergoing consolidation. A quick glance at recent transactions highlights attractive transaction multiples. For example, the takeover of **Cepheid by Danaher** in 2016 for $4 billion (6.4x sales), **Affymetrix by Thermo Fisher** also in 2016 for $1.3 billion (3.6x sales) and, in 2017, **Alere by Roche** for $5.8 billion (2.4x sales) and **Exiqon by Qiagen** for $103.5 billion (4.2x sales).

Applying a ratio of 4x sales reduced by a 40% control premium given the size of the Group, we obtain an equity valuation of €109 million, i.e. €10.8 per share.

However, given the **long-term vision** of the current Eurobio Scientific management, we will not consider any speculative dimension in our investment case.

D. A valuation objective of €6.4 per share

Our valuation work has led us to establish a price objective of €6.4 per share concerning value, by applying only the DCF Method.

Valuation overview

Method	Valuation
DCF	€6.4
Sector comparables	Not used
Transaction multiples	Not used
Valuation	**€6.4**

Source: Midcap Partners

V. Financial tables

P&L (€m)		2015	2016	2017	2018e	2019e	2020e
Sales		28.9	27.6	42.6	50.3	55.1	59.3
	Chg	*3.6%*	*-4.4%*	*54.2%*	*18.2%*	*9.4%*	*7.7%*
Operating expenses		-8.8	-8.3	-8.1	-9.5	-11.8	-14.1
	Chg	*89.8%*	*-6.0%*	*-2.2%*	*17.6%*	*23.9%*	*19.1%*
EBITDA		-6.2	-4.8	0.0	2.9	5.0	6.8
	% sales	*n.s.*	*n.s.*	*n.s.*	*5.7%*	*9.1%*	*11.4%*
D&A		-1.8	-2.3	-3.7	-3.9	-4.2	-4.2
EBIT		-8.0	-7.1	-3.7	-1.0	0.8	2.6
	% sales	*n.s.*	*n.s.*	*n.s.*	*n.s.*	*1.5%*	*4.4%*
Financial result		1.7	-0.4	-1.7	-0.9	-0.8	-0.7
Non recurring items		0.1	-0.5	-1.8	-0.7	0.0	0.0
Corporate tax		0.6	0.5	-0.7	0.3	0.0	-0.4
Goodwill amortization		-0.3	-0.3	-2.1	-2.3	-2.3	-2.3
Net Income		-5.9	-7.7	-10.0	-4.6	-2.3	-0.8
Minorities		0.0	0.0	0.0	0.0	0.0	0.0
NI-Group		-5.9	-7.7	-10.0	-4.6	-2.3	-0.8

Balance sheet (€m)	2015	2016	2017	2018e	2019e	2020e
Goodwill	2.1	1.8	24.1	21.7	19.4	17.0
Intangible assets	10.5	9.1	11.6	8.8	6.0	3.2
Tangible assets	1.2	1.2	4.4	6.8	6.9	7.0
Deferred tax assets	0.1	0.0	0.1	0.1	0.1	0.1
Deferred expenses	0.2	0.1	0.2	0.2	0.2	0.2
Other non current assets	0.2	1.0	0.8	0.8	0.8	0.8
WC	0.1	-1.3	1.0	2.0	3.2	4.4
ASSETS	14.5	12.0	42.1	40.4	36.6	32.7
Equity	17.1	11.4	30.5	25.9	23.5	22.7
Provisions	1.3	1.1	1.3	1.3	1.3	1.3
Net debt	-3.9	-0.5	10.3	13.2	11.7	8.7
LIABILITIES	14.5	12.0	42.1	40.4	36.6	32.7

Cash flow statement (€m)	2015	2016	2017	2018e	2019e	2020e
Operating cash flow before ΔWC	-3.2	-4.7	-1.0	2.5	5.0	6.4
ΔWC	0.8	1.4	3.5	-1.0	-1.2	-1.2
Operating cash flow	-2.4	-3.3	2.5	1.5	3.8	5.2
CAPEX	-0.2	-0.2	-3.9	-3.5	-1.5	-1.5
Free Cash Flow	-2.6	-3.5	-1.4	-2.0	2.3	3.7
Financial acquisitions/disposals	0.1	-0.8	-0.3	0.0	0.0	0.0
Other change	0.0	0.0	-7.1	0.0	0.0	0.0
Investing cash flow	0.0	-1.0	-11.4	-3.5	-1.5	-1.5
Capital increase/decrease	3.1	2.0	8.2	0.0	0.0	0.0
Debt change - Bonds	-1.9	-2.5	4.0	0.7	-1.8	-1.8
Change in repayable loans	-0.1	-0.1	-0.1	0.0	0.0	0.0
Debt change - Bank	-0.5	1.5	1.5	0.0	0.0	0.0
Debt change - Leasing	-0.3	-0.3	1.1	0.0	0.0	0.0
Financial interests paid	-0.3	-0.1	-1.9	-0.9	-0.9	-0.7
Own treasury shares	0.0	0.0	0.0	0.0	0.0	0.0
Other change	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	0.0	0.5	12.8	-0.2	-2.7	-2.5
Other change	0.0	0.0	0.0	0.0	0.0	0.0
Change in cash	-2.4	-3.8	3.9	-2.2	-0.4	1.2

Sources: Eurobio Scientific – Midcap Partners

Disclaimer

This document may refer to valuation methods defined as follows:

1/DCF Method: discounting future cash flows generated by the business's operations. Cash flows are determined using the analyst's financial forecasts and models. The discount rate used is the weighted average cost of capital, defined as the weighted average cost of the company's borrowings and the theoretical cost of its equity as estimated by the analyst.
2/Comparables method: application of stock-market valuation multiples, or multiples observed for recent transactions. These multiples may be used as benchmarks and be applied to the company's financial aggregates to determine its valuation. The sample is constituted by the analyst according to the company's characteristics (size, growth, profitability, etc.). The analyst may also apply a premium/discount based on his perception of the company's characteristics.
3/Asset-based method: estimation of the value of the equity on the basis of the revalued assets and corrected for the value of the liability
4/Discounted dividend method: discounted future value of estimated dividend flows. The discount rate used is generally the cost of capital.
5/The sum of the parts: this method consists of estimating the different activities of a company, by using the most appropriate assessment method for each, then calculating the total.

Recommendation scale:

Buy: expected over-performance above 10% compared to the market within 6 to 12 months
Neutral: expected to outperform or under-perform the market within a range of +10% and -10%, within 6 to 12 months
Sell: expected to under-perform the market by more than 10% within 6 to 12 months

Detection of conflicts of interest:

Business	Closing price (€)	Recommendation	Warning
EUROBIO SCIENTIFIC	€4.95	Buy	G

A LOUIS CAPITAL MARKETS – MCP or any legal entity related to it holds more than 5% of the issuer's total issued capital; B The issuer holds over 5% of the totality of capital issued by LOUIS CAPITAL MARKETS - MCP or a related legal entity;
C LOUIS CAPITAL MARKETS - MCP, alone or with other related legal entities, is related to the issuer through other significant financial interests;
D LOUIS CAPITAL MARKETS - MCP or any legal entity related to it is a market maker or a liquidity provider with which a liquidity contract has been concluded in relation to the issuer's financial instruments;
E LOUIS CAPITAL MARKETS - MCP or any legal entity related to it has, within the last twelve months, acted as lead manager or joint lead manager for an offer relating to the issuer's financial instruments, and that offer has been made public;
F LOUIS CAPITAL MARKETS - MCP or any legal entity related to it is a party to any other agreement with the issuer concerning the provision of investment services relating to the corporate activity;
G LOUIS CAPITAL MARKETS - MCP and the issuer have agreed on the supply by the former to the latter of a service for the production and circulation of the investment recommendation concerning the said issuer.

Breakdown of recommendations

At 01/06/2018, the recommendations issued by the Midcap research team at LOUIS CAPITAL MARKETS – MCP break down as follows:

Recommendation	Businesses tracked	of which "Corporate" businesses
Buy	64%	77%
Neutral	33%	23%
Sell	3%	0%

The reference prices used in this document are the closing prices. Any opinion given in this document reflects our current judgement and may be modified at any time without prior notice. LOUIS CAPITAL MARKETS - MCP has adopted effective administrative and organisational arrangements, including information barriers to prevent and avoid conflicts of interest in relation to investment recommendations. The remuneration of the financial analysts involved in drafting the recommendation is not tied to the corporate finance business. Past performance cannot be relied on as an indicator of future performance.