

Business description

IFFE Futura (IFFE) is a small holding based in Oleiros (Galicia) whose activity is diversified in three segments: (i) services, through a business school and consultancy business, (ii) real estate development with a purchase option on various pieces of land, and (iii) industrial, with a large plant for the production of omega-3: a project which is at the funding stage and which, if successful, would imply a significant step-up in scale.

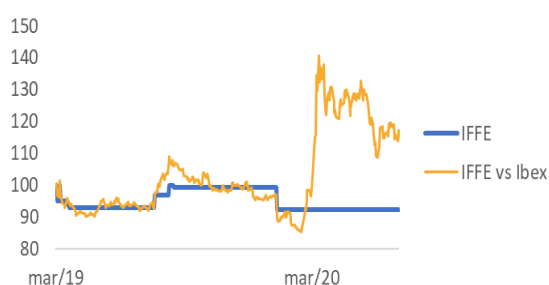
Market Data

Market Cap (Mn EUR and USD)	42.5	48.0
EV (Mn EUR and USD) ⁽¹⁾	42.8	48.2
Shares Outstanding (Mn)	23.0	
-12m (Max/Med/Mín EUR)	2.00 / 1.93 / 1.85	
Daily Avg volume (-12m Mn)	n.m.	
Rotation ⁽²⁾	0.0	
Thomson Reuters / Bloomberg	IFFE.MC / IFF SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

David Carro	58.8
Atlas Holding	9.4
Treasury stock	4.7
Jose Pavon Olid	4.5
Free Float	22.6

Relative performance -5y (Base 100)⁽³⁾



Stock performance

(%)	-1m	-3m	-12m	-5Y
Absolute	0.0	0.0	-0.5	n.a.
vs Ibex 35	7.8	-5.1	26.0	n.a.
vs Ibex Small Cap Index	1.0	-12.3	5.6	n.a.
vs Eurostoxx 50	2.4	-13.2	6.7	n.a.
vs Sector benchmark ⁽⁴⁾	-1.4	-2.5	-1.3	n.a.

(1) Please refer to Appendix 3.

(2) Rotation is the % of the capitalisation traded - 12m.

(3) IFFE is listed on MAB (growth companies' segment) since March 2019.

(4) Sector: TR Europe Food Processing.

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

A project, in the strict sense, that would imply a step-up in size

WE CONSIDER IFFE BIOTECH (IFFE'S OMEGA-3 SUBSIDIARY) TO BE THE COMPANY'S DOMINANT BUSINESS... A large project at the funding stage (with a degree of completion of c. 80%). Which, when completed, will give IFFE c. 10,000Tn of omega-3 in triglyceride format (RBD 30%, EPA/DHA).

...THAT WILL ENABLE IFFE TO ASPIRE TO A GENUINE CHANGE OF SCALE. Our central scenario at present assumes the project achieves theoretical maturity 5 years after the financing is obtained. Utilisation rates of 60% (out of a maximum theoretical capacity of 85%) would allow IFFE to obtain revenues of c. EUR 42Mn, with EBITDA of c. EUR 11Mn (EBITDA margin of 25%). A "theoretical" change of scale that explains its attraction for the market.

IN OTHER WORDS, THE MAIN EXPLANATION FOR THE CURRENT VALUE OF THE COMPANY. Utilisation rates of 60% in year 5 (our current central scenario) would allow IFFE to obtain Rec. FCF of c. EUR 7Mn (c. 60% of EBITDA). A WACC of 10.3%, gives a "strictly theoretical" present value of the project's equity of c. EUR 51Mn (vs Mkt Cap: c. EUR 43Mn).

ALTHOUGH OBTAINING THE NECESSARY CAPITAL REMAINS THE BIG UNCERTAINTY The Omega-3 project requires EUR 7Mn in total (EUR 5Mn to finish building the plant and a maximum of c. EUR 2Mn to repurchase the industrial land on which it is located). Obtaining funding is an essential pre-requisite for IFFE being able to begin its industrial activity as a manufacturer of Omega-3. The degree of success (amount, term, cost) is at present uncertain.

WITH HISTORICAL CORE BUSINESSES THAT WILL PLAY A KEY ROLE. The scenario we envisage should allow these businesses (education and consultancy) to continue growing until they reach: (i) revenue of EUR 2.3Mn in 2022e (vs EUR 1.4Mn in 2019) and (ii) a more than reasonable level of profitability (Rec. EBITDA c. EUR 0.5Mn; Rec. EBITDA margin 22%). So we think they will play a key role by bearing the costs of the "gestation" of the critical project (as they are the only ones capable of generating FCF at present).

IN CONCLUSION: POTENTIAL AND UNCERTAINTY (BOTH IN LARGE DOSES). In relation to its Mkt. Cap, IFFE is a "pure" project (still a long way from beginning to generate FCF). The big challenge is to execute stage 1 of its Omega-3 project, which should lead to a large step-up in size (and value) in an attractive subsector ("healthy" food). But there are also very important uncertainties (obtaining funding, the start-up, the commercial challenge of aspiring to significant market shares). All of which explains the title of this report: a project, in the strict sense.

IN THE SHORT TERM, THE EQUITY STORY IS STRICTLY FINANCIAL: obtaining the necessary funding is an authentic Cape Horn that the company needs to successfully navigate. It is a truism, but the entire horizon which on paper would open up with the project in progress depends today on one single factor: finishing the financing of the project. Without knowing the combination of debt and equity that will finally be taken on. And its cost in terms of servicing the debt and (potential) dilution for shareholders.

IFFE Futura (IFFE) is an Alternative Equity Market (MAB) company

MAB is owned and operated by the Spanish Stock Exchange (BME) and is subject to the CNMV supervision. MAB is not a Regulated Market but instead falls within the classification of a Multilateral Trading Facility (MTF) as defined under the Markets in Financial Instruments Directive (MiFID).

MAB is the Spanish equity market for companies of reduced capitalization which aim to grow, with a special set of regulations, designed specifically for them, and with costs and process tailored to their particular features. Operations in the MAB started in July 2009. There are currently 39 growth companies and 78 REITs listed on it.

Investment Summary

The challenge is to complete the Omega-3 plant: an absolute turning point for IFFE, and that “only” requires financing

IFFE Futura (IFFE) is a small holding (Mkt Cap: c. EUR 40Mn) with headquarters in Oleiros (A Coruña, Galicia) which since its creation in 2009 has implemented an intense policy of diversification, resulting in a varied holding (although managed by the same professional team) that includes education, consultancy, market advisory services, an industrial project for the production of Omega-3, real estate development and other minority shareholdings. After the reverse merger with the REIT Promorrent in March 2019 (via a non-cash capital increase) it trades on the Mercado Alternativo Bursatil (growth companies segment; “fixing” category).

So we need to simplify, with our sights on the market value as the best indicator of the relative value of the company’s various activities. From this enormously simplified point of view, today IFFE consists of:

A heterogeneous holding resulting from an intense diversification policy...

- **A food sector (Omega-3 for dietary supplements and functional foods) start-up**, with the development of a large plant for the production of Omega-3 (production capacity > 10,000Tn 30% EPA/DHA). And which points to a significant, but theoretical, step-up in scale. This project represents c.100% of IFFE’s Mkt Cap today (and 0% of its current FCF).
- **Small historical core businesses (education and consultancy)**, which are profitable and had turnover of c. EUR 1.4Mn in 2019. Businesses that will bear the cost of “seeking” funding for the Omega-3 project. Businesses with no impact on value but capable of paying for the “gestation” of the critical project, as they are the only ones capable of generating FCF at present.
- **Real estate development**: with a purchase option on various plots of land under development in the municipality of Oleiros (a total of 220,000 m2 of which over 70% is optioned). And ownership of a small US developer (McAllen, on the US-Mexico border) which owns 21,529 m² of land for residential use on which individual homes may be built (acquired in January 2020 for EUR 1.1Mn). The real estate development activity should be seen as an option (not a business *per se*) that neither generates nor consumes resources.
- **Other businesses without impact either on value or recurrent cash flow**. With a book value of c. EUR 1.9Mn.

And despite the multiple businesses, from a strict valuation point of view only one is dominant (Omega-3)

Now there is only one question: What can we expect from IFFE in coming years? Our view of the company can be divided in two. First, our financial projections (2020e – 2022e) for the historical core businesses (education and consultancy) against a backdrop shaped by the macro shock caused by Covid-19. And, secondly, what can be expected of an Omega-3 project of the size of the one being developed by IFFE, but which does not have a start date (at the date of this report the financing that will enable IFFE to complete its production plant is still being finalised).

A) Historical core businesses (education, consultancy, market advisory services): do not provide critical mass but will bear the cost of the wait for funding and start-up of the Omega-3 project

Traditional businesses allow to cover the costs of “gestation” of the “key” project...

IFFE’s core businesses will continue to drive the company: underpinning both its P/L and operating structure whereas the most important businesses from a strictly value generation point of view (Omega-3 and, to a lesser extent, real estate development) are still at the investment stage.

... since they are the only ones capable of generating FCF today

The scenario we envisage should see the historical core businesses continue to grow (i) revenue of at least EUR 2.3Mn in 2022e (+17.3% CAGR), (ii) consolidating a more than reasonable level of profitability (EBITDA c. EUR 0.5Mn; EBITDA margin 22%), that will bear the operating costs of starting up the projects still at the investment stage (in other words, the search for funding) and (iii) with controlled debt (ND: EUR 3.1Mn; in July 2020 EUR 2Mn of debt associated with the real estate development business was restructured, delaying its maturity until the land is classified as building plots). A “snapshot” that could improve with the sale of the non-core financial assets, with a book value of c. EUR 1.9Mn.

We consider IFFE Biotech (the Omega-3 subsidiary) to be the dominant business of the company

As it will allow to pursue a significant jump in size (and scale; Revenues > EUR 40Mn?)

Fundraising becomes a condition *sine qua non* for implementing the project

Achieving the "break even" in FCF in Year 3 (post funding)

B) IFFE Biotech (Omega-3): A "pure" project that makes sense strategically, potentially leading to a very significant step-up in size (in reality a change in scale)

What is the project we are looking at? IFFE is currently completing stage 1 of its production facilities (degree of completion of over 80%), which will enable it to produce c. 10,000Tn/year of Omega-3 in triglyceride format (RBD 30%, 18% EPA/12% DHA). In our view, the start-up of the Omega-3 project would be an absolute turning point for IFFE, as it should allow the company to aspire to:

- **A significant step-up in scale...** driven by a very attractive subsector (healthy food) with high single-digit growth rates (Omega-3: c. +8% CAGR 2019-2027). Utilisation rates of c. 60% of the total processing capacity (vs a theoretical maximum of c. 85%) would enable IFFE to achieve production of c. 6,600Tn (c. 5% of the global market in Tn for 2024) and obtain revenue of at least c. EUR 40Mn (average sale price: EUR 6.4/kg; Table 1). As a reference to put into perspective the step-up in scale, IFFE's historical core businesses have turnover of c. EUR 2Mn.
- **... that should generate levels of EBITDA > EUR 10Mn** in the mid-term (EBITDA margin > 25%). Although under pressure from rising raw material costs (due to the growing demand of the Omega-3 industry).
- **But today the big question mark is still its funding.** To finalise the project, IFFE needs to obtain at least EUR 5Mn of funding to complete construction. In addition to a maximum of c. EUR 2Mn to buy back the industrial land on which the Omega-3 plant is located (IFFE holds a purchase option on this until January 2023).

Table 1. IFFE's Omega-3 project – key figures (Lighthouse central scenario)

EUR Mn	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenues	5.2	15.6	31.9	39.4	42.5
Gross Margin	2.4	7.0	13.9	16.8	17.6
Operating expenses	(1.3)	(3.0)	(5.0)	(6.1)	(6.5)
Recurrent EBITDA	1.1	4.0	8.9	10.7	11.1
Recurrent Free Cash Flow	(1.1)	(0.7)	3.0	7.1	7.1
Rec. EBITDA/Revenues	20.4%	25.3%	28.0%	27.0%	26.2%
Sales (Tn/Year)	814.0	2,442.0	4,977.5	6,160.0	6,633.0
Utilisation rate (%)	7.4%	22.1%	45.0%	55.7%	60.0%
Sale price (EUR kg)	6.4	6.4	6.4	6.4	6.4
Raw material price (EUR kg)	2.8	2.9	2.9	3.0	3.0

Note 1: The Rec. FCF for Year 1 does not include the CAPEX required for: (i) the start-up of the project (EUR 5Mn to conclude the construction work) and (ii) the repurchase of the land (a maximum of EUR 2Mn), as these amounts are included as debt in the calculation of the project's value.

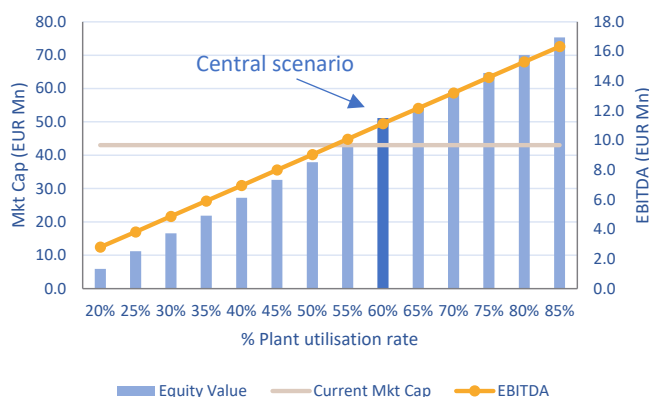
What is the theoretical value of the flows obtained by the project in our central scenario? Our central scenario at present assumes the project achieves theoretical maturity 5 years after the financing is obtained. From then we estimate it will take 8 months for the plant to come on stream (which accounts for the low level of turnover in Year 1).

The central (and critical) assumption of our model is utilisation rates of c. 60% of the total processing capacity in year 5, resulting in Rec. FCF of c. EUR 7Mn (Table 1). And which, using a WACC of 10.3%, gives a "strictly theoretical" current value of the project's equity of c. EUR 51.2Mn (vs Mkt Cap: EUR 43Mn; chart 1).

The valuation of the project hinges on three large parameters: the plant's utilisation rate, the sale price and the price of acquiring the raw material. With very high sensitivity to fluctuations in any of these assumptions.

Chart 1. Theoretical equity value sensitivity analysis to changes in the plant's processing capacity utilisation rate (%)

Our central scenario considers facility utilization rates of 60%



Note 2: Sensitivity to changes in the plant's processing capacity utilisation rate (%) maintaining the other assumptions used in our central scenario.

Note 3: Equity value = "strictly theoretical" NPV of the project at the date of this report (Year 1 = 2022) less theoretical debt (EUR 7Mn).

50% utilization rates (and stressed prices) would still allow the company to generate positive FCF...

Although perhaps the most interesting is what can be expected in a less optimistic scenario: with a utilisation rate of 50% in year 5 (vs 60% in our central scenario) and stressed price levels (sale price -10% and raw material cost +10%) we still estimate positive EBITDA (EUR 3.9Mn; -65% vs our central scenario). And even in this scenario the company would be able to maintain positive cash generation (Rec. FCF of c. EUR 1.6Mn/year).

Which should allow it to service its debt without problems. A utilisation rate of 65% (still a long way from the theoretical maximum of 85%; 11,050Tn) and favourable price levels (sale price +5% and cost of raw material -5%) would boost EBITDA > EUR 15Mn, and cash generation to c. EUR 10Mn (Table 2).

Table 2. ¿What if...? Sensitivities (year 5) to changes in the plant's processing capacity utilisation rate and prices (sale and raw material)

Main Hypotheses	Very negative	Negative	Central	Positive
Plant utilisation rate (%)	50.0%	55.0%	60.0%	65.0%
Sale price (EUR kg)	5.8	6.1	6.4	6.7
Raw material price (EUR kg)	3.3	3.2	3.0	2.9
Recurrent Free Cash Flow				
Total Revenues	31.9	37.0	42.5	48.3
Recurrent EBITDA	3.9	7.2	11.1	15.5
Rec. EBITDA/Revenues	12.2%	19.6%	26.2%	32.2%
Working Capital Increase	(0.4)	(0.5)	(0.6)	(0.7)
Recurrent Operating Cash Flow	3.5	6.7	10.6	14.9
Capex	(0.8)	(0.8)	(0.8)	(0.8)
Net Financial Result affecting the Cash Flow	(0.4)	(0.1)	(0.1)	(0.1)
Taxes	(0.7)	(1.6)	(2.6)	(3.7)
Recurrent Free Cash Flow	1.6	4.3	7.1	10.3
Rec. FCF vs central scenario	-77.1%	-39.9%	0.0%	45.3%
Equity value				
WACC	8.5%	9.8%	10.3%	10.6%
G	2.0%	2.0%	2.0%	2.0%
Residual value*	31.7	60.9	95.1	133.8
EV (NPV at the date of this report)	20.8	40.7	64.0	90.5
Project Equity value (strictly theoretical)**	12.2	30.2	51.2	75.0

... And easily face the debt service (at least EUR 5Mn)

Note: The WACC is lower in the "very negative" scenario and higher in the "positive" one due to fluctuations in the equity value in each of the scenarios (and in its weighting in the calculation of the WACC).

Note*: Residual value corresponding to the FCF "to the Firm" generated in Year 5 plus the perpetual value calculated from the Recurrent Free Cash Flow "to the Firm" of Year 5, based on an effective tax rate of 25%.

Note**: Equity value = "strictly theoretical" NPV of the project at the date of this report (Year 1 = 2022) less debt (EUR 7Mn).

C) In conclusion: potential and uncertainty (both in large doses...).

IFFE's main challenge is implementing the PHASE 1 of its Omega-3 project

From a strictly market value viewpoint, IFFE's big challenge is to materialise Stage 1 of its Omega-3 project: a large business (a utilisation rate of 60% would imply a c. 5% share of the global market). That points to a large but theoretical step-up in scale (turnover > EUR 40Mn? Rec. FCF > EUR 7Mn?) in what, in principal, is a very attractive subsector (healthy food). Roughly speaking, the "start-up" (the Omega-3 project can be described in this way) would "today" account for c. 100% of IFFE's Market Cap ("theoretical" value of the project's equity in our central scenario: EUR 51Mn vs Mkt Cap of EUR 43Mn). At the moment the project is a combination of high doses of potential and uncertainty.

On one hand the project presents 3 big opportunities:

1. **To reach (in Stage 1 of the project) utilisation rates for the plant of c.80%:** well above our 60%. This depends on the quality and commercial value of the product. But would imply levels of FCF and value generation well above those of our central scenario.
2. **To scale up ("making use of") the current industrial plant (at an additional cost of c. EUR 12Mn) to produce high concentrates of Omega-3 (HCs),** that would represent a second step-up in scale (EBITDA margin >30% That would be Stage 2 of this project (not included in our numbers but that from a theoretical point of view "exists").
3. **The large size of the project being developed by IFFE in a growing industry (c. +8% CAGR 2019-2027)** could put IFFE in the spotlight as regards corporate movements of concentration as a means of protection. We are talking about a project that even in Stage 1 implies significant market shares.

But on the other there are very important uncertainties:

Thus, the attraction of funding is "key" in this process

1. **Finding the funding required to complete the construction of the plant** (IFFE hopes to achieve this in 2020).
2. **The start-up of the plant itself.** After funding has been obtained, our base scenario envisages the plant coming on stream in eight months (six months to finish the construction work and two months of trials and tests). Any delay in the completion of the plant will inevitably delay the FCF generation.
3. **The commercial challenge of selling 5% of the current market** in a sector in which the company lacks previous experience. And in which the quality demanded by the market and regulations is very high.

In conclusion: this is a "project" in the strictest sense of the word (still a long way from beginning to generate FCF). IFFE, in relation to its Mkt Cap, is "pure project". Although it has 3 big aids to help it face the challenge of its development:

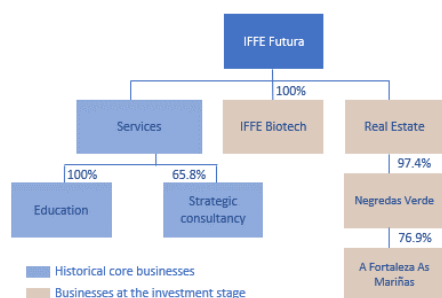
1. **The degree of completion of the plant (80% has already been built).** EUR 18Mn has already been invested (since its beginnings in 2009; IFFE acquired the plant in 2016).
2. **The strategic sense of the project in itself, and the fact that it is aimed at a dynamic sector.** Which makes the decision to invest in Omega-3 something "intuitively" correct,
3. **The project's ability to reach break even (in FCF)** with very discrete utilisation rates (c.20%) and market prices below the market average.

In our opinion, IFFE's equity story (in the short term) is strictly financial: obtaining the necessary funding is an authentic Cape Horn that the company needs to successfully navigate. It may be a truism, but the entire horizon which on paper would open up with the project in progress depends today on one single factor: finishing the financing of the project. And without knowing the combination of debt and equity that will finally be taken on and its cost in terms of servicing the debt and dilution for shareholders.

Business description

Many businesses but only one that is dominant (from a strictly valuation point of view)

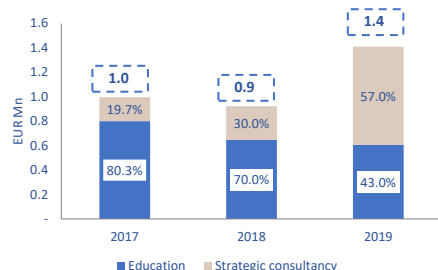
Chart 1. Corporate Structure (2020)



IFFE Futura (IFFE) is a small holding (Market Cap: EUR 42.5Mn) with headquarters in Oleiros (Galicia, Spain), which after the reverse merger with the listed company Promorrent (March 2019) trades on the Mercado Alternativo Bursatil (MAB; growth companies segment). Founded in 2009 as a business school, it began a consultancy business in 2012 with the acquisition of DCM Asesores. And in recent years has started two new business areas (Industrial and Real Estate Development), which are still at the investment stage. Today the company operates in three very different segments:

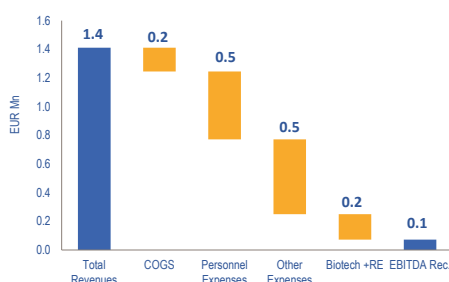
- **Services (100% of 2019 revenue).** This encompasses IFFE’s historical core businesses: i) education, with the private business school IFFE Business School (c. 40% of 2019 revenue) and ii) strategic and financial consultancy (c. 60% of revenue) through a registered advisor of the MAB and Euronext (DCM Asesores) which has advised 10 MAB/PreMAB companies and has around 12 companies in its portfolio on a recurrent basis.
- **Industrial (IFFE Biotech).** At present, IFFE is completing construction of a plant for the production of Omega-3 (from animal sources) with a production capacity of > 10,000 tonnes (> 80% of the work has been completed). We think this activity is critical as regards the valuation of the company and the “theoretical” expansion of the other businesses. In January 2020 IFFE assumed ownership of 100% of IFFE Biotech by executing the purchase option it held on the 50% of the capital it did not already own for EUR 1.3Mn.
- **Real estate development (IFFE Desarrollos).** Since 2015 IFFE has held a purchase option on various plots of land under development in the municipality of Oleiros (a total of 220,000 m² of which over 70% is optioned). In addition, in January 2020 it acquired a small US developer which owns 21,529 m² of land for residential use for EUR 1.1Mn (paid for with IFFE shares).

Chart 2. Historical core businesses revenue mix (2017-2019)



Note: 2017 and 2018 proforma.

Chart 3. From Revenues to EBITDA (2019)



Note: Biotech + RE expenses refers to the costs incurred by the businesses at the investment stage (c. EUR 0.2Mn)

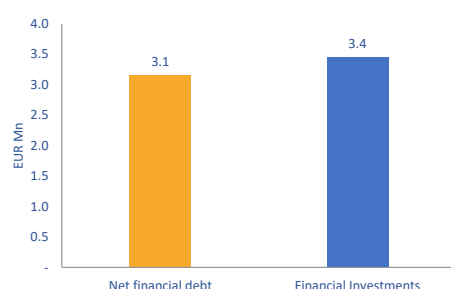
Services (historical core businesses): The company’s “fuel” (at the moment)

The core businesses of the services area (education and consultancy) have neither size nor critical mass. Neither do they explain the company’s value today (and probably won’t do so in the future either). However, in our view they play a key role as the Group’s “fuel”:

- **They underpin the company’s P/L and structure** at a time in which the most important businesses from a strictly valuation viewpoint (industrial and real estate development) are still at an investment stage, not generating revenue but incurring in costs (c. 15% of 2019 fixed costs; mainly associated with personnel costs).
- **They generate recurrent cash** which covers the expenses of the projects that are still at an investment stage (very capital-intensive), that will enable the company to aspire to a significant step-up in size when they develop.

In 2019, the core businesses generated EUR 1.4Mn in revenue (+40% vs proforma 2018), boosted by growth in the consultancy business (EUR 0.8Mn; x3 vs 2018), which, together with a cost-light structure, resulted in EBITDA break-even for the first time (chart 3).

Chart 4. Net Debt vs Financial Investments (2019)



Note: Gross debt (EUR 3.4Mn) mainly related to the pending payment for the acquisition of the real estate business in 2015 for c. EUR 2.3Mn.

The strategy of acquiring projects still at the investment stage has meant: (i) a significant level of debt that is difficult to bear with the generation of the recurrent cash of the core businesses (ND: EUR 3.1Mn; mainly explained by the amount pending payment for the acquisition of the real estate business in 2015 for c. EUR 2.3Mn) and (ii) the generation of significant goodwill (EUR 32Mn; >70% of total assets).

In parallel with the development of its core businesses, IFFE has minority interests in various unrelated businesses (book value EUR 1.9Mn; table 1) which arise as a result of its activity as an incubator and accelerator. However, IFFE's strategy today is to begin to dispose of these assets (without initiating new investments unrelated to its core businesses in the short term).

In our view, management of the balance sheet and the capital structure will be two of the company's main priorities in the short term. As they have become the main restriction for IFFE's business model: a balance sheet that is insufficient for carrying out the projects in the portfolio. In July 2020 c. EUR 2Mn of debt (c. 70% of the gross debt) associated with the real estate development business was restructured, delaying its maturity until the land is classified as building plots.

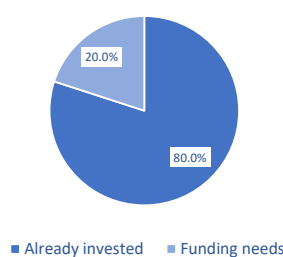
Table 1. Financial Investments breakdown (2019)

EUR Mn	Amount	% Ownership
Available for sale financial assets	1.9	
Milimex Developments	1.1	95.0%
Comptes Perks, PFP	0.2	99.0%
Other financial assets	0.3	
Financial Investments	3.4	

Note 1: Comptes Perks PFP is not included in the scope of consolidation as 90% of the shareholding was sold via a private agreement of 26 December that was converted into a public document on 16 January 2020.

Note 2: Short-term loans and receivables are mainly loans with related parties (EUR 0.1Mn).

Chart 5. Omega-3 plant percentage of completion



Note: EUR 18Mn has already been invested in the plant construction (since its beginning in 2009). To complete the construction of the plant, IFFE requires closet c. EUR 5Mn in funding.

IFFE Biotech: The "critical project" from a strictly valuation point of view (in other words, the main explanation behind the current market value of the company)

In 2016, IFFE acquired the assets, equipment and technology of an Omega-3 production plant that was in the middle of insolvency proceedings (and still being built) for a total amount of EUR 2.3Mn (EUR 1.0Mn paid in 2016 and EUR 1.3Mn in January 2020). Part of the team responsible for developing the original project was also incorporated (Ricardo Blanco, a member of IFFE's board of directors, was the Managing Director of the original project from 2009 until 2014, when it began insolvency proceedings due to a lack of the liquidity needed to finish construction).

Currently, IFFE Biotech is completing construction of the plant located in As Somozas (Ferrol, Spain), with the work at an advanced stage (> 80%). To complete the construction of the plant, IFFE requires close to EUR 5Mn in funding (Table 2), with the logical way and management's priority being bank financing (although a capital increase has not been ruled out; current Market Cap > EUR 40Mn).

Once financing has been obtained and construction of the plant completed, IFFE Biotech will have a fish oil refinery (human grade) capable of processing > 10,000Tn/year of raw material (hydraulic maximum of 13,000 Tn/year in 330 days) that will produce (after refining, bleaching and deodorizing; RBD) c. 10,000Tn of Omega-3 in triglyceride format (RBD 30%, 180 EPA + 120 DHA): the one that is most used to meet demand for human consumption.

Table 2. Total investment required

Use	EUR Mn
Engineering and facilities	1.5
Civil work	1.3
Electric systems	1.1
Computer systems	0.3
Other connections and licenses	0.5
Funding needs for the plant	4.7
Industrial land repurchase*	2.0
Total investment required	6.7

Note*: IFFE retains a purchase option on the land on which the Omega-3 plant is located for three years (until 15 January 2023; max. cash out estimated of c. EUR 2Mn).

Chart 6. Manufacturing process (Fase 1)



The main consumers and potential clients for the Omega-3 produced by IFFE are: (i) food companies, (ii) nutritional supplement companies and (iii) the pharmaceutical industry.

Once the first stage of the project has been completed, IFFE intends to upgrade the current plant to produce high concentrates of Omega-3 (IFFE's formula enables a very high concentration to be achieved, of up to 92%), which should increase margins to > 30% (vs 20-30% for stage 1 and the target market). However, stage 2 requires an additional investment of EUR 12Mn and so has not been included in this report.

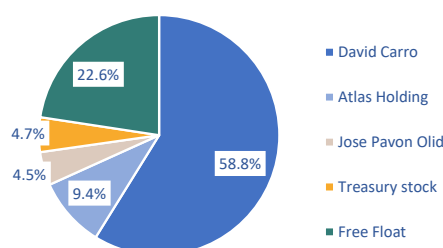
In conclusion: A project on which over EUR 18Mn has already been invested (since its beginnings in 2009), but which remains on "stand by" due to a lack of capital. With a production capacity of > 10,000Tn, the Omega-3 plant enables IFFE to aspire to a very significant step-up in size over a period of five years from start-up, with the theoretical potential to generate: (i) revenue of > EUR 40Mn, (ii) EBITDA of c. EUR 11Mn and (iii) recurrent cash generation > EUR 7Mn/year. Figures which IFFE will be able to lever to develop the other Group business still at the investment stage: Real estate development (not included in this report due to the large amount of capital required). But IFFE's step-up in size depends on obtaining the necessary funds to complete the start-up of the Omega-3 plant.

Table 3. Main qualitative and quantitative aspects of IFFE's Omega-3 project

What?	<ul style="list-style-type: none"> • Stage 1: Omega-3 (RBD 30%, 180 EPA + 120 DHA) • Stage 2: Omega 3, high concentrates (HCs), ethyl ester (EE) and triglyceride (TG) 	Production capacity?	<ul style="list-style-type: none"> • Refinery (Stage 1): 11,700Tn RBD • Concentration plan (Stage 2): 800Tn HCs
How?	<ul style="list-style-type: none"> • Stage 1: Refining, bleaching and deodorizing of human grade fish oil (RBD) • Stage 2: Ethanolysis, distillation and transesterification 	Price range?	<ul style="list-style-type: none"> • Stage 1: 6-10 €/Kg (according to quality) • Stage 2: From 10€/kg
For whom? Stage 1:	<ul style="list-style-type: none"> • Food companies • Nutritional supplements • Pharmaceutical industry • Infant formulas 	Margins?	<ul style="list-style-type: none"> • Global high quality and organoleptic positioning • Stage 1: EBITDA margin c. 20-30% • Stage 2: EBITDA margin > 30%
Situation? Stage 1:	<ul style="list-style-type: none"> • Degree of completion: > 80% • Investment made: EUR 18Mn • Additional financing needs: EUR 5Mn 	Market position?	<ul style="list-style-type: none"> • Focus on functional foods • Full range: RBD, high concentrates... • B2B sales
Timing? Stage 1:	<ul style="list-style-type: none"> • From obtaining the necessary funding: 6 months to conclude construction + 2 months of trials 	Industry drivers?	<ul style="list-style-type: none"> • Growth industry: +7.7% CAGR (2019-2027) • Macro trends (health through diet) • Regulatory requirements growing

After this general description of IFFE's project, there is only one question to be asked: How does it compare to one that is fully operational? Although an enormous simplification, we can use as a reference Biosearch (BIOS.MC), a Spanish biotech company (Mkt. cap of c. EUR 60Mn) that operates in the Omega-3 industry (c. 43% of total revenues) and has a production capacity of c. 2,500Tn whose lipids division generated total turnover of c. EUR 10Mn in 2019 (c. +10% vs 2018).

Chart 7. Shareholder structure



Shareholder structure: a free float with the potential to reach c.30%.

From its origins the Group has been controlled by its founder (David Carro; 58.8% of capital), who is the CEO and Chairman of the Board of Directors, which ensures the interests of the bodies of governance are fully aligned with those of minority shareholders. In addition, the company has treasury stock of close to 5% of capital (which could be used to generate liquidity if necessary) which would increase the free float to c. 30%.

The controlling shareholders have not changed in recent years and seem to be in it for the long run. Although we do not rule out the funding for the Omega-3 project (c. EUR 5Mn) being obtained via a capital increase (resulting in the dilution of current shareholders' stakes) with the entry of new shareholders.

In conclusion: What is IFFE today?

The intense diversification carried out by IFFE since its creation (only 10 years ago) has resulted in a mixed group with a complexity which is unusual in a small company. The result is a holding with a large variety of businesses, with few synergies among them, although driven by the same professional team which is the basis of IFFE's value proposition. A holding that includes education, consultancy, market advisory services, the production of Omega-3, real estate development, etc.

So we need to simplify things with a view to the market value. Which businesses "are" the company today? From an enormously simplified point of view, IFFE can be seen as:

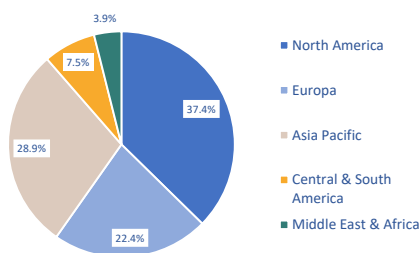
- **A food sector start-up (Omega-3 for dietary supplements and functional foods)**, with a large project (c.4x the production capacity of Biosearch) which points to a large but "theoretical" step-up in scale (eventual turnover of > EUR 40Mn?) in what on paper is a very attractive subsector (healthy food). Roughly speaking, the start-up accounts for c.100% of IFFE's Market Cap.
- **Real estate development:** with a purchase option on various plots of land under development in the municipality of Oleiros (a total of 220,000 m2 of which over 70% is optioned). And ownership of a small US developer (McAllen, on the US-Mexico border) which owns 21,529 m² of land for residential use on which individual homes may be built (acquired in January 2020 for EUR 1.1Mn).
- **A number of small businesses (education, consultancy)**, which are profitable and have turnover of c. EUR 1.5Mn. Businesses that will bear the cost of "seeking" funding for the "start up". Businesses with no impact on value but capable of paying for the "gestation" of the Omega-3 project.
- **And other businesses without impact either on value or recurrent cash flow.**

From the market's point of view IFFE amounts, almost exclusively, to a "pure" Omega-3 production project (that is a long way yet from generating FCF). A sensible project as regards its drivers (sector, momentum) and of a size to aspire to a huge step-up in scale (which explains its great attraction for the market). But 100% dependent on its financing (and subsequent start up).

Industry overview

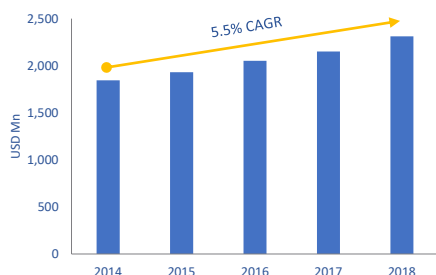
Omega-3: A growth industry that will continue to attract investment

Chart 8. Omega-3 market share by country (2019)



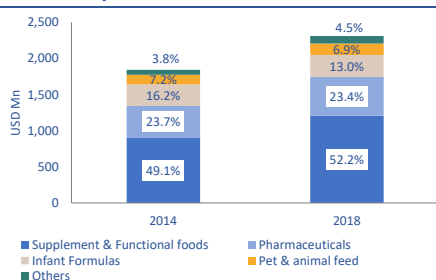
Source: Company data

Chart 9: Omega-3 market growth (2014-2018)



Source: Company data

Chart 10: Omega-3 market by applications (2014-2018)



Source: Company data

Currently, IFFE operates through two consolidated businesses (education, with the IFFE Business School, and consultancy) and two still at the development stage (Omega-3 and real estate development). However, we consider that the Omega-3 project (IFFE Biotech), with which IFFE intends to produce omega-3 from animal sources (fish), is the dominant business as regards the current market value of the company (Mkt Cap), so this section of the report will concentrate exclusively on an analysis of the omega-3 as a functional ingredient of food industry.

The Omega-3 fatty acids (ALA, EPA and DHA) are polyunsaturated acids essential for the organism that cannot be produced by the body. And so must be included in the diet, either through foods that contain them or through enriched foods or supplements. The main sources of these fatty acids are purified fish oil (93% of the total), algae (5%) and krill (2%).

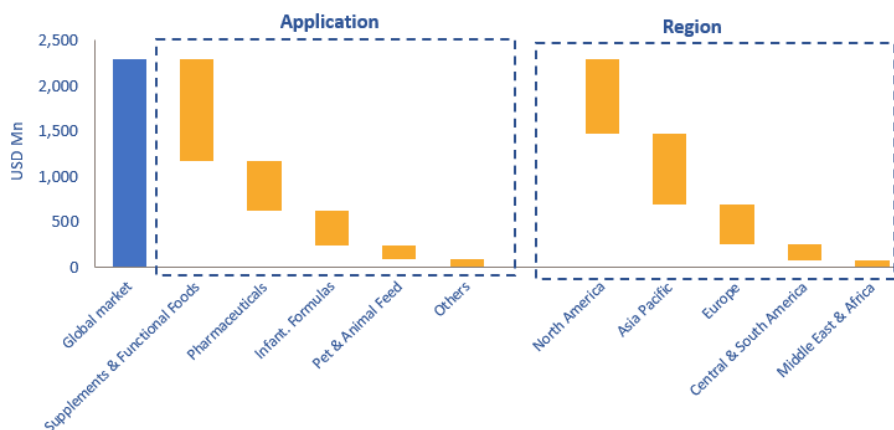
Omega-3, strong demand: +5.5% CAGR 2014-2018

Although the industry has been penalised by negative reports in the media (especially the Brasky report, 2013), both the FDA (U.S. Food and Drug Administration) and the EFSA (European Food Safety Authority) have approved the efficacy of Omega-3 in the cardiovascular area, the maintaining of vision and the development of the cognitive function, which has boosted consumption in recent years.

The backing of favourable regulations, together with the gradual ageing of the population and the chronification of disease have led to greater awareness in society regarding the need to adopt eating habits with preventive functions, resulting in significant changes in consumer habits with a switch towards what is deemed “healthy”: Historical data reflect the strength of growth in demand for Omega-3, with a CAGR in 2014-2018 of 5.5% (chart 9). Industry growth accelerated in 2018, exceeding USD 2,286Mn in value at the global level (+7.4% vs 2017; chart 9) as a result of: (i) the continuous increase in demand for Omega-3 for dietary supplements (+7.4% vs 2017) and (ii) greater penetration in the pharmaceutical ingredients market (+7.7% vs 2017).

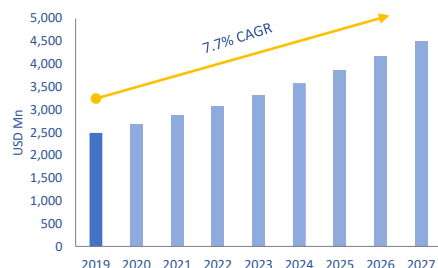
Although in recent years there has been an increase in the number of uses of Omega-3, dietary supplements and functional food remain the core market (49% in 2018), followed by the pharmaceutical industry (24%) and infant nutrition (17%). By geography, North America is the biggest market (37.4%), followed by Asia (28.9%; with the highest growth rates) and Europe (22.4%).

Chart 11. Omega-3 market: by applications and region (2018)



Source: Company data

Chart 12: Omega-3 global market growth (2019-2027)



Source: Company data

With high single-digit growth being likely in the mid term: +7.7% CAGR 2019-2027

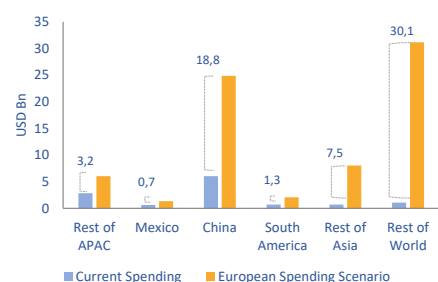
The global Omega-3 market was worth c. USD 2,500Mn in 2019, with high single-digit annual growth estimated for the mid/long term to USD 4,500Mn in 2027 (+7.7% CAGR 2019-2027).

In coming years, the market will continue to be underpinned by macro trends (health through diet) and favourable regulations, the main drivers being: (i) greater consumer interest in healthy products, (ii) the gradual ageing of the population and (iii) the increase in cardiovascular disease as a result of a sedentary lifestyle.

Looking at the main applications, although all show high single-digit growth, expected growth in infant nutrition stands out (c. +8.4% CAGR 2019-2027), followed by the pharmaceutical industry (c. +7.9%) and demand for dietary supplements and functional food (c. +7.6% CAGR). By geography, the Asian market is expected to show the highest growth rate (c. +8.4% CAGR 2020-2027), driven by its high birth rates and increased life expectancy, followed by North America (c. +7.7%) and Europe (c. +7.1%).

Another growth lever will be the growth rate of the main developing economies, which could triple global Omega-3 consumption if their per capita spending reaches European levels (chart 13; GOED).

Chart 13: Increase in Omega-3 Intake in Developing Countries



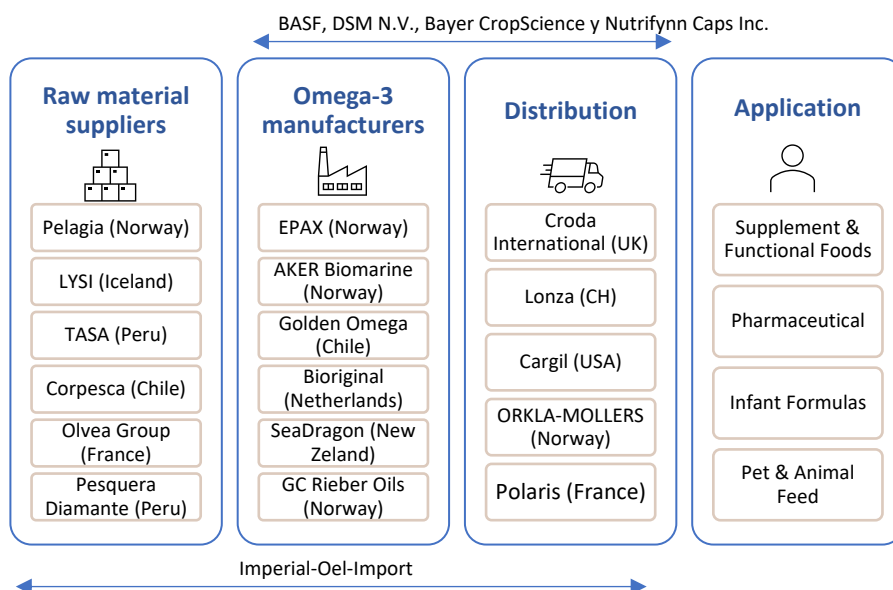
Source: GOED (data at end product level)

In a sector which tends towards concentration in which M&A is on the rise

The prospects for growth together with the high returns offered by the sector (by way of example, Omega Protein reported an EBITDA margin of 24.5% in 2017; the year in which it was de-listed) have driven concentration among the market's main players. In 2017, Aker BioMarine acquired the krill oil division of Neptune Technologies & Bioresources Inc. for USD 34Mn with the goal of increasing its share as a supplier of this product. In 2018 DSM and Evonik announced the creation of a joint venture (Veramaris) to produce Omega-3 (EPA/DHA) from algae (destined for animal nutrition). In April 2019, Unilever announced the acquisition of OLLY Nutrition.

Among the companies operating in the Omega-3 value chain, and which we consider to be industry benchmarks, we find large diversified global operators who control the biggest share of the market such as BASF (Pronova), DSM, Axellus and Croda Omega Protein. In general these are "large companies", with downstream integration to the distribution business, for whom Omega-3 is just one more business in a very large portfolio of products and services. Together with these large players we find a large variety of companies that are present in one of the links of the value chain (raw material, manufacturing, distribution; Table 4).

Table 4. Main players within the Omega-3 value chain



Within the value chain, IFFE is positioned as a manufacturer of Omega-3, its main direct peers being: (i) EPAX (100% owned by the Pelagia Group) which manufactures Omega-3 from fish oil (obtained from the Pelagia Group's fishing fleet), a company that is investing c. EUR 27Mn on increasing its production capacity in Norway, (ii) GC Rieber Oils, which produces medium concentrates (30%) and high concentrates, (iii) Biosearch Life, a Spanish Biotech company (Mkt Cap: EUR 60Mn) with a lipids division (c. 43% of total revenue) with turnover in 2019 of c. EUR 10Mn, and (iv) Solutex, which produces high concentrates of Omega-3 (via supercritical fluids) and medium concentrates (30%) in Zaragoza, Spain.

In conclusion: tailwinds are blowing for the Omega-3 sector

The main trends underpinning growth in Omega-3 as a functional ingredient of food in the coming years will be:

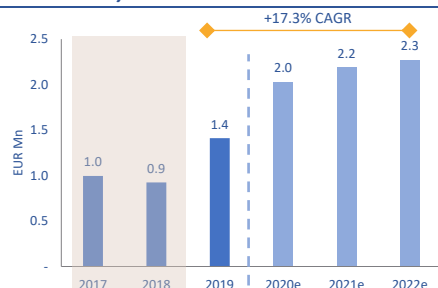
1. An ageing population and the chronification of cardiovascular disease.
2. A shift in favour of preventive treatment which reduces health spending.
3. Increased scientific evidence regarding the clinical benefits for the control and prevention of illnesses.
4. The penetration of premium products in higher growth economies (Asia).
5. A regulatory backdrop that encourages the consumption of "healthy" foods: according to GOED, most governments recommend a daily consumption (regardless of age), of 250mg of EPA and DHA.

In addition, the Covid-19 crisis has impacted consumers' behaviour, encouraging the consumption of products considered "healthy" (such as Omega-3), a factor which could boost the market even more.

While the sector has strong growth rates and the outlook remains favourable, it is not free of risks, among which we would highlight: (i) the price of its main supplies, linked, mainly, to the availability of Omega-3 oil from fishing resources (finite and not always available) and (ii) exposure to the negative impact which the publication of negative reports questioning the efficacy and/or quality of these products could have on the sector.

A logical project on paper, “only” requiring funding to get started

Chart 14. Historical core businesses revenues (2017-2022e)



Note: Historical core businesses (Education and Strategic and financial consultancy). 2017 and 2018 proforma.

Given the significance of the Omega-3 project for the Group’s valuation and the scant visibility about its start-up, we have decided to divide our financial analysis into two parts. IFFE is an unusual company in that its historical core businesses account for current FCF but have virtually no impact in terms of value. A *contrario sensu*, practically the entire EUR 42,5Mn Mkt Cap is accounted for by an Omega-3 production project whose plant is still being built (pending investment of EUR 7Mn; c. EUR 5Mn for complete the plant and a maximum of c. EUR 2Mn to repurchase the land on which the Omega-3 plant is located) and whose funding has not been completed. In other words, it is at least 12m away from beginning to generate FCF.

First, we provide our financial projections (2020e – 2022e) for the core businesses (education and consultancy) which make up our financial projections (Annexes 1 and 2) and exclude the Omega-3 project, simply because we do not know when this will come on stream. This is 100% dependent on obtaining the funding to finish the plant (the company expects this to happen in the next six months, after which completion of the plant will commence leading to its start-up over an estimated additional period of eight months).

Secondly, we analyse in detail what can be expected of the Omega-3 project and its main figures. We also provide a value reference in the “Valuation Inputs” section of this report (page 20). An in-depth analysis of what is a key project for IFFE, but without assuming a start date.

Historical core businesses: do not provide critical mass but will bear the cost of the wait for funding and start-up of the Omega-3 project

Results for 2019 (the starting point with consolidation of the Group’s businesses for the first time) showed strong revenue growth (+52.7% vs 2018) with a total of EUR 1.4Mn (vs EUR 0.9Mn in 2018 proforma) as a result of: (i) the sharp increase in the consultancy business (revenues x3 vs 2018) and (ii) the education business, with a similar level of revenues to 2018 (c. EUR 0.6Mn). All this, together with a light variable cost structure, enabled IFFE to achieve EBITDA break-even for the first time (EUR 0.1Mn; chart 16) after bearing the costs associated with the businesses under development (c. EUR 0.2Mn).

Now there is only one question: What can we expect from IFFE’s core businesses in coming years? Our financial projections envisage:

- **Strong revenue growth (+17.3% CAGR 2019-2022e)**, underpinned mainly by the education business which we expect to double its turnover in 2020e (EUR 1.2Mn vs EUR 0.6Mn in 2019), thanks to the creation of the online business school at the end of 2019 that we estimate will contribute revenue of c. EUR 0.6Mn (given strong demand for this kind of education as a result of the Covid-19 health crisis).

For the other services offered by IFFE we estimate revenues in line with those obtained in 2019 (classroom education and consultancy; EUR 0.6Mn and EUR 0.8Mn, respectively), which together with the revenue estimated for the online education business (EUR 0.6Mn), takes total revenue to c. EUR 2.0Mn in 2020e (+45% vs 2019). In 2021e and 2022e, our projections suggest this growth will moderate to mid single digit rates (+5.8% CAGR 2020e-2022e), boosting revenue to EUR 2.3Mn in 2022e.

- **With EBITDA remaining above break-even throughout the projected period...** Personnel and other operating costs (with a high fixed cost component) will continue to account for a very significant part of the company’s total costs (c. 70% in 2019).

An obvious strength of IFFE’s core businesses is their high operating gearing, enabling the generation of large economies of scale by leveraging the new online education business (c. EUR 0.6Mn in 2020e) on the current cost structure. This should enable the company to consolidate EBITDA of c. EUR 0.5Mn (EUR 0.7Mn Recurrent EBITDA) over the projected period (EBITDA margin: c. 20%; chart 17).

Chart 15. Core business revenue mix (2017-2022e)

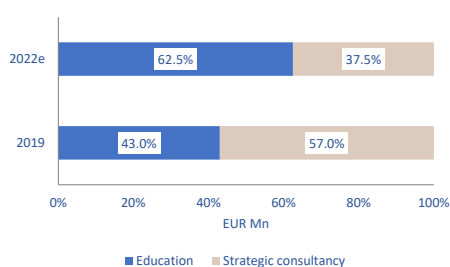
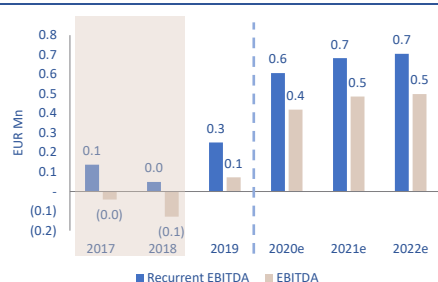
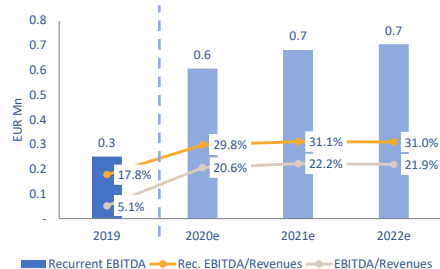


Chart 16. Core business EBITDA Rec. and EBITDA (2017-2022e)



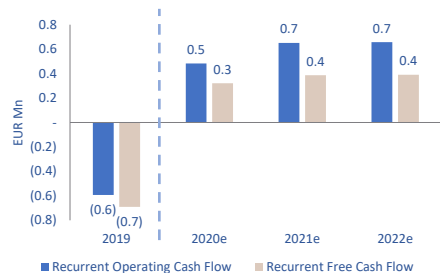
Note: The difference between Rec. EBITDA and EBITDA is explained by the expenses incurred in the business at investment stage (Omega-3 and Real Estate).

Chart 17. Rec. EBITDA and EBITDA Rec. Mg.



- ... enabling the company to support the costs of waiting for the Omega-3 project: the consolidation of levels of Recurrent EBITDA > EUR 0.5Mn from 2020e and very small investment requirements (CAPEX < EUR 0.1Mn) will enable the company to bear the costs of looking for financing for the businesses at the investment stage in coming years (c. EUR 0.2Mn; mainly personnel costs) generating Rec. FCF of, at least, EUR 0.3Mn/year (chart 18).
- With debt associated mainly with non-organic growth.** At the 2019 close IFFE had net debt of EUR 3.1Mn comprised mainly of the amount pending payment for the acquisition of the real estate business in 2015 of EUR 2.3Mn, of which EUR 1.7Mn were short-term maturities (putting pressure on the company's capital structure and on the obtaining of funding for the Omega-3 project).

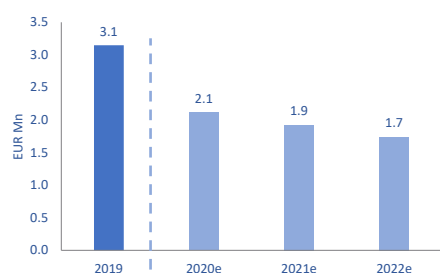
Chart 18. Operating Cash flow and Rec FCF



At the date of this report the debt associated with the real estate the real estate development business was restructured: (i) delaying its maturity until the land is classified as building plots) and (ii) changing its repayment conditions, with the option to pay with land.

In our view, the restructuring of debt gives IFFE the "oxygen" necessary to maintain its balance sheet free of significant payment obligations in the short term, enabling it to concentrate 100% on the funding for the Omega-3 project.

Chart 19. Net debt (2019-2022e)



What about the real estate business? No contribution to results (at least in the short term)

IFFE has a purchase option on various plots of land under development in the municipality of Oleiros (a total of 220,000 m² of which over 70% is optioned). And ownership of a small US developer (McAllen, on the US-Mexico border) which owns 21,529 m² of land for residential use on which individual homes may be built (acquired in January 2020 for EUR 1.1Mn).

The initial partial plans of the land for development in the municipality of Oleiros (SUD-6 and SUD-21) were approved in April 2018, so the outstanding administrative procedure requires the approval of the Definitive Partial Plan (which the company expects in 2H20 or 1H21). In other words, it will be at least 18-24m before development can begin (so this has not been included in our financial projections).

Note: 2020e Net Debt includes a cash-in of EUR 0,9Mn related to the transaction carried out in January 2020 in which IFFE delivered c. EUR 2Mn of IFFE shares and the land on which the Omega-3 plant is located in exchange of: (i) 50% of IFFE Biotech (EUR 1,3Mn) and (ii) c. EUR 0,9Mn in cash.

Note 2: Please note that Net Debt does not consider the funding needs of the Omega-3 project. For more details, please refer to the Omega-3 project analysis within Financial Analysis.

Omega-3: A "pure" project potentially leading to a significant step-up in size...

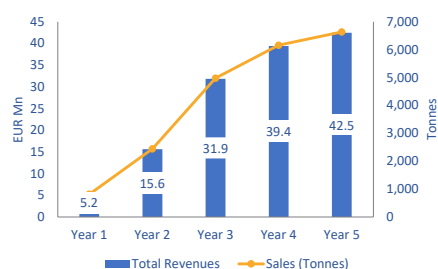
IFFE is completing the first part of its IFFE Biotech project with work at an advanced stage (> 80%). Once construction has been completed, IFFE will be able to process over 10,000Tn/year of raw material (hydraulic maximum of 13,000 Tn/year in 330 days) and produce (after refining, bleaching and deodorizing; "RBD") c. 10,000Tn/year of Omega-3 in triglyceride format (RBD 30%, 18% EPA + 12% DHA): the one that is most used to satisfy demand for human consumption.

As we don't know when IFFE will obtain the financing needed to complete the development of the Omega-3 plant (c. EUR 5Mn), we have carried out an abstract analysis of the numbers of the project, taking as the starting point (Year 1) the moment immediately after the funding is obtained, which should enable IFFE to put the plant into production within eight months (six to finish the construction work and two months of trials and tests).

The Omega-3 project raises three critical questions: What can be expected from the project today? What would its theoretical equity value be in our central scenario? What would happen in the event of fluctuations in prices and in the speed of start up?

In our view, the completion of the Omega-3 plant would be an absolute turning point for IFFE, enabling the company to aspire to:

Chart 20. IFFE's Omega-3 project revenues (year 1 – year 5)



Note: Our central scenario at present assumes the project achieves theoretical maturity 5 years after the financing is obtained. From then we estimate it will take 8 months for the plant to come on stream (which accounts for the low level of turnover in Year 1).

Chart 21. IFFE's Omega-3 project EBITDA vs EBITDA Mg. (year 1 – year 5)

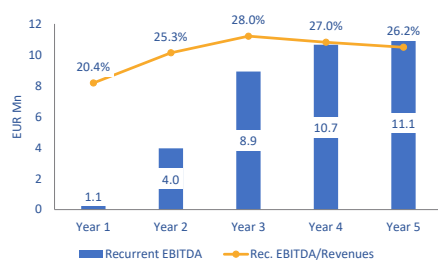
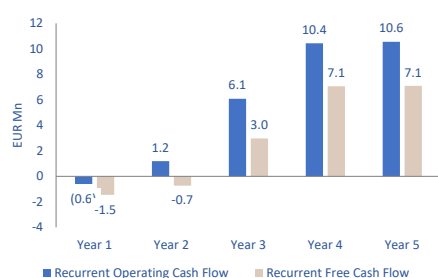
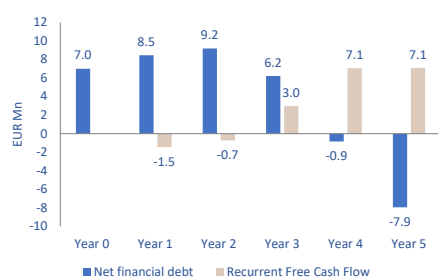


Chart 22. IFFE's Omega-3 project Operating CF and FCF Rec.



Note: the Rec. FCF for Year 1 does not include the CAPEX required for: (i) the start-up of the project (EUR 5Mn to conclude the construction work) and (ii) the repurchase of the land (a maximum of EUR 2Mn), as these amounts are included as debt in the calculation of the project's value.

Chart 23. IFFE's Omega-3 project Net debt vs Rec. FCF (year 0 – year 5)



- **A significant step-up in scale (turnover >EUR 40Mn?)...** Our central scenario envisages IFFE's Omega-3 plant reaching a level of raw material processing of close to 60% (out of a theoretical maximum capacity of 85%) in five years. This would represent production of c. 6,000Tn/year of Omega-3 (RBD 30%, 18% EPA + 12% DHA; a c. 5% share of the global market), that, with an average sale price of c. EUR 6.4/kg, towards the lower end of the range of average prices for the functional food, nutritional supplements and pharmaceutical industry (which, depending on the quality of the product, fluctuates from EUR 6-12/kg for Omega-3 with a guaranteed minimum of DHA/EPA of 30%) would take IFFE's total turnover to around EUR 40Mn (chart 20). This represents a huge step-up in scale in what, on paper, is a very dynamic subsector (with healthy food consumption seeing strong growth) that explains the attraction of the project for the market.

- **... that should generate levels of EBITDA > EUR 10Mn (in the mid term).** The main raw material of Stage 1 of the project is pre-refined, winterized and blanketed fish oil (human grade), with an envisaged cost in 2021 of c. EUR 2.8/kg (for oils with a similar performance to those required by IFFE). And largely depends on the availability of fishing resources (mainly from South America). In coming years, raw material prices will remain under pressure due to growing demand from the Omega-3 industry. According to GOED, in recent years, prices have risen from EUR 2.4/kg in 2018 to EUR 2.5/kg in 2019 and are expected to increase further to EUR 2.6/kg in 2020.

As the prices of the raw material will remain under pressure from the lack of fishing resources (and the growing demand from the Omega-3 industry), we estimate a loss of c. 4p.p. in gross margin. We expect the plant to be able to operate at a total cost (cost of sales + personnel + other operating costs) of EUR 5.1 per kg processed in its first year, decreasing to EUR 4.7/kg when the plant is functioning at 60% of its production capacity (Year 5). This would boost EBITDA to > EUR 10Mn (EBITDA margin of 26.2% vs 20% initially; chart 21).

- **And generate significant cash (c. EUR 7Mn; c. 60% of EBITDA),** even though during the first two years of operations the project's FCF will be under pressure from working capital management (with an average gap between collection and payment periods of c. 80 days). However, plant utilisation rates of over 55%, and CAPEX/sales under control at c.3% would drive Rec. FCF to c. EUR 7Mn.

...Although obtaining the necessary funding remains the big uncertainty

The IFFE Biotech project has invested over EUR 18Mn since the beginning of its development (2009; it was acquired by IFFE in 2016) but remains on "stand by" due to the lack of capital.

The small critical mass of IFFE's core businesses prevents the self-financing of the amount required to complete the remaining work. Obtaining funding is an essential pre-requisite for IFFE being able to begin its industrial activity as a manufacturer of Omega-3. This is a "pure" project (that will come on stream in 12m in the best-case scenario) and obtaining the necessary funding will totally determine the company's future in terms of activity, profitability and size.

IFFE's goal is to wrap up the financing of the plant in 2H 2020, with a preference for: (i) ordinary debt with banks (or investment funds), (ii) maturity in seven years, (iii) at least one year's grace period (ideally two) and (iii) a cost of c. 2.5%. The high degree of completion of the plant (> 80%) is one of its main advantages, reducing the amount pending in order to start its activity to EUR 7Mn (EUR 5Mn to finish building the plant and a maximum of EUR 2Mn to acquire the industrial land on which it is located; vs c. EUR 25Mn for a plant of the same characteristics). Once the plant is up and running, a utilisation rate of c. 45% of its processing capacity should enable the generation of FCF > EUR 3Mn (c. 35% of EBITDA) and underlines: (i) the importance of obtaining at least a one year grace period, and (ii) that debt of c. EUR 7Mn will not be a problem for the plant if this achieves capacity utilisation rates of, at least, 45% (from Year 3 in our central scenario).

Table 5. IFFE's Omega-3 project financial projections (Lighthouse central scenario)

Balance Sheet (EUR Mn)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Intangible assets	0.2	0.2	0.2	0.2	0.2	0.2
Fixed assets	7.8	7.8	7.8	7.8	7.8	7.8
Other Non Current Assets	-	-	-	-	-	-
Financial Investments	-	-	-	-	-	-
Goodwill & Other Intangibles	2.0	2.0	2.0	2.0	2.0	2.0
Current assets	-	1.7	5.0	9.6	10.4	11.2
Total assets	10.0	11.7	15.0	19.6	20.4	21.2
Equity	3.0	3.2	5.3	11.1	18.3	26.0
Minority Interests	-	-	-	-	-	-
Provisions & Other L/T Liabilities	-	-	-	-	-	-
Other Non Current Liabilities	-	-	-	-	-	-
Net financial debt	7.0	8.5	9.2	6.2	(0.9)	(7.9)
Current Liabilities	-	-	0.6	2.3	2.9	3.1
Equity & Total Liabilities	10.0	11.7	15.0	19.6	20.4	21.2
P&L (EUR Mn)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Total Revenues		5.2	15.6	31.9	39.4	42.5
<i>Total Revenues growth</i>		<i>n.a.</i>	<i>200.0%</i>	<i>103.8%</i>	<i>23.8%</i>	<i>7.7%</i>
COGS		(2.8)	(8.6)	(17.9)	(22.6)	(24.8)
Gross Margin		2.4	7.0	13.9	16.8	17.6
<i>Gross Margin/Revenues</i>		<i>45.8%</i>	<i>44.7%</i>	<i>43.7%</i>	<i>42.6%</i>	<i>41.5%</i>
Personnel Expenses		(0.5)	(1.0)	(1.1)	(1.3)	(1.4)
Other Operating Expenses		(0.8)	(2.0)	(3.9)	(4.8)	(5.1)
Recurrent EBITDA		1.1	4.0	8.9	10.7	11.1
<i>Recurrent EBITDA growth</i>		<i>n.a.</i>	<i>271.5%</i>	<i>125.5%</i>	<i>19.4%</i>	<i>4.5%</i>
<i>Rec. EBITDA/Revenues</i>		<i>20.4%</i>	<i>25.3%</i>	<i>28.0%</i>	<i>27.0%</i>	<i>26.2%</i>
Depreciation & Provisions		(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
Capitalized Expense		-	-	-	-	-
Rentals (IFRS 16 impact)		-	-	-	-	-
EBIT		0.7	3.2	8.1	9.9	10.3
<i>EBIT growth</i>		<i>n.a.</i>	<i>366.3%</i>	<i>157.3%</i>	<i>21.3%</i>	<i>4.9%</i>
<i>EBIT/Revenues</i>		<i>13.0%</i>	<i>20.2%</i>	<i>25.5%</i>	<i>25.0%</i>	<i>24.3%</i>
Impact of Goodwill & Others		-	-	-	-	-
Net Financial Result		(0.4)	(0.4)	(0.4)	(0.1)	(0.1)
Income by the Equity Method		-	-	-	-	-
Ordinary Profit		0.3	2.7	7.7	9.7	10.2
<i>Ordinary Profit Growth</i>		<i>n.a.</i>	<i>834.1%</i>	<i>184.9%</i>	<i>25.6%</i>	<i>5.3%</i>
Extraordinary Results		-	-	-	-	-
Profit Before Tax		0.3	2.7	7.7	9.7	10.2
Tax Expense		(0.1)	(0.7)	(1.9)	(2.4)	(2.6)
<i>Effective Tax Rate</i>		<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>
Minority Interests		-	-	-	-	-
Discontinued Activities		-	-	-	-	-
Net Profit		0.2	2.0	5.8	7.3	7.7
<i>Net Profit growth</i>		<i>n.a.</i>	<i>834.1%</i>	<i>184.9%</i>	<i>25.6%</i>	<i>5.3%</i>
Cash Flow (EUR Mn)	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
Recurrent EBITDA		1.1	4.0	8.9	10.7	11.1
Rentals (IFRS 16 impact)		(1.7)	(2.8)	(2.8)	(0.2)	(0.6)
Working Capital Increase		-	-	-	-	-
Recurrent Operating Cash Flow		(0.6)	1.2	6.1	10.4	10.6
CAPEX		(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
Net Financial Result affecting the Cash Flow		(0.4)	(0.4)	(0.4)	(0.1)	(0.1)
Tax Expense		(0.1)	(0.7)	(1.9)	(2.4)	(2.6)
Recurrent Free Cash Flow		(1.5)	(0.7)	3.0	7.1	7.1
Restructuring Expense & Other non-rec.		-	-	-	-	-
- Acquisitions / + Divestures of assets		-	-	-	-	-
Extraordinary Inc./Exp. Affecting Cash Flow		-	-	-	-	-
Free Cash Flow		(1.5)	(0.7)	3.0	7.1	7.1
Capital Increase		-	-	-	-	-
Dividends		-	-	-	-	-
Net Debt Variation		(1.5)	(0.7)	3.0	7.1	7.1

Table 6. IFFE's Omega-3 project. FCF to the Firm (Lighthouse central scenario)

"FCF to the Firm" (pre debt service) (EUR Mn)	Year 1	Year 2	Year 3	Year 4	Year 5
EBIT	0.7	3.2	8.1	9.9	10.3
* Theoretical Tax rate	25.0%	25.0%	25.0%	25.0%	25.0%
= Taxes (pre- Net Financial Result)	(0.2)	(0.8)	(2.0)	(2.5)	(2.6)
Recurrent EBITDA	1.1	4.0	8.9	10.7	11.1
- Rentals (IFRS 16 impact)	-	-	-	-	-
+/- Working Capital increase	(1.7)	(2.8)	(2.8)	(0.2)	(0.6)
= Recurrent Operating Cash Flow	(0.6)	1.2	6.1	10.4	10.6
- CAPEX	(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
- Taxes (pre- Financial Result)	(0.2)	(0.8)	(2.0)	(2.5)	(2.6)
= Recurrent Free Cash Flow (To the Firm)	(1.2)	(0.4)	3.3	7.2	7.2

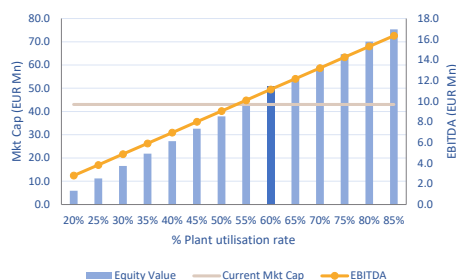
Table 7. IFFE's Omega-3 project. Lighthouse central scenario (main hypotheses)

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues					
Months of activity	4.0	12.0	12.0	12.0	12.0
Sales (Tn/year)	814.0	2.442.0	4.977.5	6.160.0	6.633.0
Sale price (EUR/Kg)	6.4	6.4	6.4	6.4	6.4
IFFE's Omega-3 project total revenues (EUR Mn)	5.2	15.6	31.9	39.4	42.5
Cost of sales					
Refine rate (%)	85%	85%	85%	85%	85%
Raw material (Tn/year)	957.6	2.872.9	5.855.9	7.247.1	7.803.5
% o/plant utilisation rate	7.4%	22.1%	45.0%	55.7%	60.0%
Raw material price (EUR/Kg)	2.8	2.9	2.9	3.0	3.0
Raw material (EUR Mn)	2.7	8.2	17.1	21.6	23.7
Other cost of sales (EUR Mn)	0.1	0.4	0.8	1.1	1.1
% increase in raw material price	n.a.	2%	2%	2%	2%
% other cost of sales o/raw material	5.2%	5.1%	5.0%	4.9%	4.8%
Cost of sales o/sales	54.2%	55.3%	56.3%	57.4%	58.5%
Personnel expenses					
Avg. headcount	24.0	27.0	29.0	36.0	36.0
Avg. Cost per employee	37.7	37.7	37.7	37.2	38.2
Personnel expenses	0.5	1.0	1.1	1.3	1.4
Other operating expenses					
% o/Sales	-15.2%	-12.9%	-12.3%	-12.2%	-12.1%
Other operating expenses	(0.8)	(2.0)	(3.9)	(4.8)	(5.1)
Cash Flow					
CAPEX (EUR Mn)	(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
CAPEX/Sales	7.4%	5.1%	2.5%	2.0%	1.9%
DSO	90.0	90.0	76.5	65.0	65.0
DPO	0.0	15.0	30.0	30.0	30.0
DIO	15.0	15.0	30.0	30.0	30.0

What would happen if...? Reasonable/theoretical growth and value scenarios for IFFE's Omega-3 project

Given that uncertainty regarding the timing of the obtaining of funds (a genuine turning point for the company) and the speed of the start up of the Omega-3 project is maximum at present, we need to ask what can be expected of the numbers in Year 5 (when we think the project will reach a reasonable level of maturity) under various scenarios for the main assumptions used in our model: (i) % utilisation (of processing capacity), (ii) sale price and (iii) raw material procurement price.

Chart 24. Theoretical equity value sensitivity to changes in the plant's processing capacity utilisation rate (%)



Note: Equity value = "strictly theoretical" NPV of the project at the date of this report (Year 1 = 2022; knowing that the start-up date is uncertain) less theoretical debt (EUR 7Mn). For more details, please refer to valuation inputs (page 20).

Table 8. ¿What if...? Sensitivities (year 5) to changes in the plant's processing capacity utilisation rate (5) and prices (sale and raw material)

Main Hypotheses	Very negative	Negative	Central	Positive
Plant utilisation rate (%)	50.0%	55.0%	60.0%	65.0%
Sale price (EUR kg)	5.8	6.1	6.4	6.7
Raw material price (EUR kg)	3.3	3.2	3.0	2.9
Recurrent Free Cash Flow				
Total Revenues	31.9	37.0	42.5	48.3
Recurrent EBITDA	3.9	7.2	11.1	15.5
Rec. EBITDA/Revenues	12.2%	19.6%	26.2%	32.2%
Working Capital Increase	(0.4)	(0.5)	(0.6)	(0.7)
Recurrent Operating Cash Flow	3.5	6.7	10.6	14.9
Capex	(0.8)	(0.8)	(0.8)	(0.8)
Net Financial Result affecting the Cash Flow	(0.4)	(0.1)	(0.1)	(0.1)
Taxes	(0.7)	(1.6)	(2.6)	(3.7)
Recurrent Free Cash Flow	1.6	4.3	7.1	10.3
Rec. FCF vs central scenario	-77.1%	-39.9%	0.0%	45.3%
Equity value				
WACC	8.5%	9.8%	10.3%	10.6%
G	2.0%	2.0%	2.0%	2.0%
Residual value*	31.7	60.9	95.1	133.8
EV (NPV at the date of this report)	20.8	40.7	64.0	90.5
Project Equity value (strictly theoretical)**	12.2	30.2	51.2	75.0

Note: The WACC is lower in the very negative scenario and higher in the positive one due to fluctuations in the equity value in each of the scenarios (and in its weighting in the calculation of the WACC).

Note*: Residual value corresponding to the FCF "to the Firm" generated in Year 5 plus the perpetual value calculated from the Recurrent Free Cash Flow "to the Firm" of Year 5, based on an effective tax rate of 25%.

Note**: Theoretical value of the project's equity at the date of this report (assuming that 2022 is Year 1 of the project) and a Net Debt of EUR 7Mn.

With a utilisation rate of 50% (vs 60% in our central scenario) and stressed price levels (sale price -10% and raw material cost +10%; "very negative" scenario) we still estimate positive EBITDA (EUR 3.9Mn; -65% vs our central scenario). And, perhaps most interestingly, even in this scenario the company would be able to maintain positive cash generation (c. EUR 1.6Mn/year) which should enable it to bear the cost of the funding necessary to bring the plant on stream without problems (EUR 5Mn; EUR 7Mn if we include the value of the land in the amount to be financed). A utilisation rate of 65% (still a long way from the theoretical maximum of 85%; 11,050Tn) and favourable price levels (sale price +5% and cost of raw material -5%) would boost EBITDA to > EUR 15Mn and cash generation to c. EUR 10Mn.

In conclusion: Potential and uncertainty (both in large doses...). The basic idea is one of a large project (a utilisation rate of 60% would imply a share of c. 5%) that points to a large but theoretical step-up in scale (turnover > EUR 40Mn?; Rec. FCF > EUR 7Mn?) in what, in principal, is a very attractive subsector (healthy food). Roughly speaking, the "start-up" (the Omega-3 project can be described in this way) would "today" account for c. 100% of IFFE's Market Cap ("theoretical" value of the project's equity in our central scenario: EUR 51Mn vs Mkt Cap EUR 42,5Mn).

But we also need to bear in mind that this is a "project" in the strictest sense of the word (still a long way from generating FCF) that needs to resolve three big uncertainties if it is to realise all the growth potential it has "on paper": (i) the obtaining of the funding required to complete construction of the plant (IFFE expects to obtain this in 2020), (ii) the start-up of the plant; and (iii) the commercial challenge of selling 5% of the current market in a sector in which the company lacks previous experience.

Valuation inputs

Inputs for the DCF Valuation Approach (historical core businesses) ⁽¹⁾

	2020e	2021e	2022e	Terminal Value ⁽¹⁾		
Free Cash Flow "To the Firm"	1.3	0.4	0.4	5.6		
Market Cap	42.5	At the date of this report				
Net financial debt	3.1	Debt net of Cash (12m Results 2019)				
					Best Case	Worst Case
Cost of Debt	3.0%	Net debt cost			2.5%	3.0%
Tax rate (T)	20.0%	T (Normalised tax rate)			=	=
Net debt cost	2.4%	Kd = Cost of Net Debt * (1-T)			2.0%	2.4%
Risk free rate (rf)	0.4%	Rf (10y Spanish bond yield)			=	=
Equity risk premium	9.0%	R (own estimate)			8.5%	9.5%
Beta (B)	1.1	B (Thomson Reuters and Lighthouse)			1.0	1.2
Cost of Equity	10.3%	Ke = Rf + (R * B)			8.9%	11.8%
Equity / (Equity + Net Debt)	93.1%	E (Market Cap as equity value)			=	=
Net Debt / (Equity + Net Debt)	6.9%	D			=	=
WACC	9.8%	WACC = Kd * D + Ke * E			8.4%	11.2%
G "Fair"	1.5%				2.0%	1.0%

- (1) Terminal value calculated on the recurrent Free Cash Flow "to the Firm" of the last estimated year using the normalised tax rate (T) indicated in the upper table. eurrent FCF "to the firm" for the historical core businesses (as they are the only ones capable of generating FCF at present. Terminal value does not include the IFFE's Omega-3 project.
- (2) IFFE has non-strategic assets (minority interests; book value: EUR 1.9Mn).

Inputs for the Multiples Valuation Approach (IFFE's Omega-3 project) ⁽²⁾

Company	Ticker	Reuters	Mkt. Cap	P/E 20e	EPS 20e-22e	EV/EBITDA 20e	EBITDA 20e-22e	EV/Sales 20e	Revenues 20e-22e	EBITDA/Sales 20e	FCF Yield 20e	FCF 20e-22e
Austevoll Seafood	AUSS.OL	1,513.3	13.9	26.0%	8.3	21.4%	1.4	5.2%	16.6%	4.8%	66.0%	
Amarin	AMRN.O	2,304.2	n.a.	n.a.	n.a.	n.a.	3.2	3.1%	n.a.	1.4%	272.4%	
Croda International	CRDA.L	7,641.2	30.4	8.7%	18.7	7.0%	5.5	4.6%	29.5%	3.2%	5.8%	
Koninklijke DSM	DSMN.AS	22,650.3	27.7	13.5%	14.6	8.6%	2.7	6.2%	18.6%	3.2%	8.7%	
BASF	BASFn.DE	45,694.0	21.4	32.5%	9.5	15.1%	1.2	5.3%	12.3%	7.3%	-21.0%	
Grandes holdings con presencia en Omega-3			23.3	20.2%	12.8	13.0%	2.8	4.9%	19.2%	4.0%	66.4%	
Biosearch	BIOS.MC	58.0	50.5	73.2%	17.4	34.2%	2.2	10.9%	12.4%	3.8%	4.4%	

- (3) The direct comparables of IFFE Biotech are unlisted companies such as: (i) EPAX (100% owned by the Pelagia Group; joint venture between Austevoll Seafood and Kvefi) and (ii) GC Rieber Oils. And Biosearch Life within listed companies (lipids; c. 43% s / total income). For comparative purposes we include other large integrated companies with a presence in Omega-3 (although this activity is not their main business).

Theoretical value of the IFFE's Omega-3 project equity at the date of this report (based on Lighthouse central scenario)

EUR Mn	Year 1 ⁽⁴⁾	Year 2	Year 3	Year 4	Year 5	Residual
Free Cash Flow "To the Firm"	-1.2	-0.4	3.3	7.2	7.2	87.9
First cash flow date ⁽⁵⁾	30-jun.-22					
Valuation date	8-jul.-20					
Net financial debt	7.0					
Cost of Debt	5.0%					
Tax rate (T)	25.0%					
Risk free rate (rf)	0.4%					
Equity risk premium	9.0%					
Beta (B)	1.2					
Equity / (Equity + Net Debt)	88.0%					
Net Debt / (Equity + Net Debt)	12.0%					
WACC	10.3%					
G "Fair"	2.0%					
Enterprise value NPV	64.0					
NPV at the date of this report (EV)	58.2					
Adjustments						
= NPV at the date of this report (EV)	58.2					
- Project net debt	7.0					
= Theoretical value of the equity	51.2					

- (4) Rec. FCF for Year 1 does not include the CAPEX required for: (i) the start-up of the project (EUR 5Mn to conclude the construction work) and (ii) the repurchase of the land (a maximum of EUR 2Mn), as these amounts are included as debt in the calculation of the project's value.

- (5) The Omega-3 project has no start date (as its financing is not closed as of the date of this report). For the purposes of a theoretical valuation it has been assumed that Year 1 = 2022 (knowing that the start-up date is uncertain).

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash flow:

1. **Culmination of the Omega-3 project**, in which the lion's share of the company's value resides. Although construction of the plant is very advanced (c. 80%; EUR 18Mn already invested), it is still at the investment stage. In consequence, the success of the project hinges crucially on obtaining the capital necessary to finish the plant (c. EUR 5Mn). The macro backdrop obviously makes access to funding more difficult and could result in the project "returning to square one". The Omega-3 project was initiated at the worst possible time for financing (2009) and was negatively impacted by the crisis until it filed for insolvency in 2014. Now, over ten years later, the project's principal bottleneck remains its funding (which, depending on its equity component, will also impact the share price via dilution).
2. **Execution of the project and start-up of the Omega-3 plant**: After funding has been obtained, our base scenario envisages the plant coming on stream in eight months (six months to finish the construction work and two months of trials and tests). We identify several risks that could delay the start of the plant's activity: (i) the rate of execution of the remaining construction work, (ii) an increase in investment requirements due to possible budget overruns, (iii) a delay in obtaining the administrative licences and permissions required to carry out industrial activity, and (iv) the ability to develop a product that meets the standards of quality required to begin selling it in the expected price range (depending on quality, Omega-3 prices can range from six to twelve Euros/Kg).
3. **Ownership of the industrial land**. In January 2020 IFFE transferred the ownership of the land on which the Omega-3 plant is located to Eurousa Capital, S.L. (which holds a stake in IFFE's capital, not just for this operation, of < 10%). IFFE retains a purchase option on the land for three years (until 15 January 2023).
4. **Fluctuations in the price of its main procurements**: which mainly depends on the availability of Omega-3 oil from fishing resources. A scarcity of supply (which, moreover, is uneven over the course of the year) and/or less efficient processing, could cause cost increases (in the event of increased demand). Although the sector is able to pass on fluctuations in the price of Omega-3 oil, this could result in temporary falls in the estimated margin.
5. **Changes in consumer habits**: Greater awareness of sustainable production and consumption could accelerate the shift in the industry towards Omega-3 oils obtained from algae and plant sources. This could cause fluctuations in the demand (and price) of Omega-3 obtained from fish oil.
6. **Competitive backdrop**: High margin and demand businesses such as EPA/DHA Omega-3 (recurrent EBITDA margin of c. 30%) attract new market players, increasing supply and the commercial risk of a loss of customers and share. This could also have a possible impact on margins as a result of price wars to retain customers and cause an increase in the price of the raw material.
7. **Capital increases and dilution over the long term**: Given IFFE's size/sector/business situation, access to new capital to fund growth will very probably mean additional equity increases (and dilution). Upgrading the current plant (oil refinery) to produce a product with a high concentration of Omega-3 (which would significantly increase IFFE's margins and its target market), would require an additional investment of c. EUR 12Mn, so the company might have to turn to capital markets to obtain the necessary funding. This implies a significant risk of dilution in the long term.

- 8. Evolution of core businesses.** Although IFFE's equity story is in itself and almost uniquely the Omega-3 project, the P/L is still underpinned exclusively by the cash generated by the company's core businesses (education and consultancy).

The diverse portfolio of activities carried out by IFFE is, in itself, a risk: a lack of sufficient management resources to attend to all the company's businesses could hinder their appropriate allocation between the consolidated businesses (cash generators) and those in development (Omega-3 and real estate development). Which could result in bottlenecks hindering the development of the "key" project: Omega-3 (in which the lion's share of the company's value resides). The dispersion of businesses could generate a risk of resources/efforts not being concentrated on the key project, hindering its start up.

- 9. Risk associated with the valuation of historical assets:** The non-cash capital increase carried out in 2019 via the transfer of the assets of IFFE Futura to the listed company Promorrent (now IFFE) generated EUR 32Mn of goodwill on first consolidation (c. 70% of total assets). The company's other assets include: (i) other intangible assets (EUR 5.2Mn) and (ii) financial investments in equity instruments (EUR 3.2Mn). Any variation in the valuation of these assets would have a significant impact on IFFE's equity. And would compromise its ability to obtain the funding necessary to development its other projects.
- 10. Real estate development:** The initial partial plans were approved in April 2018, so the outstanding administrative procedure requires the approval of the Definitive Partial Plan (which the company expects in 2H20 or 1H21). Delays to the public administration's approval of the pending administrative procedures for urbanisation and construction could lead to costs not envisaged in our estimates.

Corporate Governance

The Board is focused on the Omega-3 project. And will evolve with it

Table 9. Board of directos

Name	Category	Date	% Ownership
David Carro Meana	CEO	mar-20	58.8%
Manuel Carneiro Caneda	Ejecutivo	mar-20	0.0%
Ricardo Blanco Domínguez	Ejecutivo	mar-20	0.0%
José Manuel Gredilla Bastos	Independiente	mar-20	0.0%
Total			58.8%

- A personality-driven project...** David Carro (the founder of IFFE in 2009) remains the controlling shareholder (58.8% of capital) and heads the management team, holding the positions of Chairman of the Board and CEO. This means the governing bodies have high exposure to the share price. Full alignment of interests with minority shareholders.
- ... with a very broad portfolio of businesses.** Despite being a small company, IFFE has grown via diversification by “opportunity”, assuming the “cost” of managing very different businesses. This has impacted the company’s governance by penalising a correct allocation of resources (management), generating bottlenecks among the various business lines through which it operates: (i) Business school and consultancy, (ii) Omega-3 and (iii) real estate development.
- The Board of Directors has a high financial profile.** The Board is very efficient in terms of size and cost, comprised of only four members, three executive directors and one independent (an auditor of accounts). The Board was totally renewed in March 2020, while maintaining a strong financial profile. According to the company’s bylaws, the position of director is held for a maximum term of six years, with no limit to the number of terms.

From an industrial point of view, the presence of Ricardo Blanco stands out (he has an intellectual background and is the former manager of the Omega-3 project acquired by IFFE). And knows it very well, having held the posts of Chairman and CEO of Nutra Omega from 2009 until its winding up in 2014.
- Performance incentives for the Board:** The maximum annual compensation for the directors as a whole may not exceed EUR 38.3k for the fixed part, and EUR 2k for per diems. The total amount of the compensation of the directors in 2019 was EUR 27.8k gross.
- Currently there are no incentives for the management team in the shape of bonuses.** The compensation system does not include long term savings plans. And there are no bonus or stock option plans for the management team that act as an incentive for the start-up of the Omega-3 project.
- Related party transactions:** In 2019 David Carro granted a loan of IFFE shares valued at EUR 3.8Mn in order to provision treasury stock which was subsequently used to make the following acquisitions: (i) the outstanding 50% of IFFE Biotech and (ii) the US developer Milimex (both transactions in January 2020). At the date of this report, the company has capitalised liabilities with related parties for a total of EUR 4.2Mn (EUR 2.1Mn of new shares at a par value of 2 euros each).
- No shareholder remuneration.** Our projections envisage the continuation of the dividend policy (Pay Out, 0%) and the Group has made no commitment as regards beginning to pay dividends. However, IFFE has expressed an intention to pay dividends so potential dividend payments cannot be ruled out once a reasonable level of profitability is reached (a factor associated with the moment at which the Omega-3 production plant comes on stream).

Appendix 1. Financial Projections (historical core businesses); exclude the Omega-3 project⁽¹⁾

Balance Sheet (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	CAGR	
Intangible assets			1.0	1.2	5.4	5.4	5.4	5.4		
Fixed assets			1.1	1.8	1.8	3.0	3.1	3.1		
Other Non Current Assets			0.2	0.2	0.3	0.3	0.3	0.3		
Financial Investments			4.4	3.5	3.4	3.4	3.4	3.4		
Goodwill & Other Intangibles			-	-	32.5	32.5	32.5	32.5		
Current assets			1.1	1.0	2.0	2.5	2.7	2.8		
Total assets			7.8	7.8	45.4	47.2	47.4	47.5		
Equity			5.8	6.2	36.0	43.2	43.4	43.7		
Minority Interests			-	-	1.4	0.5	0.5	0.5		
Provisions & Other L/T Liabilities			0.0	0.0	3.8	0.0	0.0	0.0		
Other Non Current Liabilities			-	-	-	-	-	-		
Net financial debt			1.4	0.6	3.1	2.1	1.9	1.7		
Current Liabilities			0.6	0.9	1.1	1.5	1.6	1.6		
Equity & Total Liabilities			7.8	7.8	45.4	47.2	47.4	47.5		
P&L (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	17-19	19-22e
Total Revenues			1.0	0.9	1.4	2.0	2.2	2.3	18.5%	17.3%
<i>Total Revenues growth</i>			<i>n.a.</i>	<i>-8.1%</i>	<i>52.7%</i>	<i>44.0%</i>	<i>7.9%</i>	<i>3.8%</i>		
COGS			(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)		
Gross Margin			0.9	0.8	1.2	1.8	1.9	2.0	17.1%	17.2%
<i>Gross Margin/Revenues</i>			<i>90.4%</i>	<i>82.8%</i>	<i>88.3%</i>	<i>88.1%</i>	<i>88.1%</i>	<i>88.1%</i>		
Personnel Expenses			(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)		
Other Operating Expenses			(0.3)	(0.2)	(0.5)	(0.7)	(0.7)	(0.7)		
Recurrent EBITDA			0.1	0.0	0.3	0.6	0.7	0.7	35.3%	41.2%
<i>Recurrent EBITDA growth</i>			<i>n.a.</i>	<i>-64.1%</i>	<i>410.3%</i>	<i>141.8%</i>	<i>12.6%</i>	<i>3.3%</i>		
<i>Rec. EBITDA/Revenues</i>			<i>13.6%</i>	<i>5.3%</i>	<i>17.8%</i>	<i>29.8%</i>	<i>31.1%</i>	<i>31.0%</i>		
Restructuring Expense & Other non-rec.			(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)		
EBITDA			(0.0)	(0.1)	0.1	0.4	0.5	0.5	94.1%	90.1%
Depreciation & Provisions			(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)		
Capitalized Expense			-	-	-	-	-	-		
Rentals (IFRS 16 impact)			-	-	-	-	-	-		
EBIT			(0.1)	(0.2)	0.0	0.4	0.4	0.4	55.9%	n.a.
<i>EBIT growth</i>			<i>n.a.</i>	<i>-130.9%</i>	<i>118.7%</i>	<i>n.a.</i>	<i>17.3%</i>	<i>3.1%</i>		
<i>EBIT/Revenues</i>			<i>n.a.</i>	<i>n.a.</i>	<i>2.0%</i>	<i>17.3%</i>	<i>18.8%</i>	<i>18.7%</i>		
Impact of Goodwill & Others			-	-	0.3	-	-	-		
Net Financial Result			(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)		
Income by the Equity Method			-	-	-	-	-	-		
Ordinary Profit			(0.1)	(0.2)	0.2	0.3	0.3	0.4	n.a.	13.7%
<i>Ordinary Profit Growth</i>			<i>n.a.</i>	<i>-146.9%</i>	<i>210.7%</i>	<i>7.6%</i>	<i>29.8%</i>	<i>5.3%</i>		
Extraordinary Results			(0.1)	0.0	0.1	-	-	-		
Profit Before Tax			(0.2)	(0.2)	0.4	0.3	0.3	0.4	n.a.	0.1%
Tax Expense			0.0	0.0	(0.0)	(0.1)	(0.1)	(0.1)		
<i>Effective Tax Rate</i>			<i>n.a.</i>	<i>n.a.</i>	<i>2.6%</i>	<i>25.0%</i>	<i>25.0%</i>	<i>25.0%</i>		
Minority Interests			-	-	(0.0)	-	-	-		
Discontinued Activities			-	-	-	-	-	-		
Net Profit			(0.1)	(0.1)	0.3	0.2	0.3	0.3	n.a.	-6.1%
<i>Net Profit growth</i>			<i>n.a.</i>	<i>-30.8%</i>	<i>324.8%</i>	<i>-39.4%</i>	<i>29.8%</i>	<i>5.3%</i>		
Ordinary Net Profit			0.1	(0.0)	0.4	0.3	0.4	0.4	n.a.	3.0%
<i>Ordinary Net Profit growth</i>			<i>n.a.</i>	<i>-151.5%</i>	<i>965.5%</i>	<i>-13.1%</i>	<i>19.6%</i>	<i>5.2%</i>		
Cash Flow (EUR Mn)	2015	2016	2017	2018	2019	2020e	2021e	2022e	17-19	19-22e
Recurrent EBITDA						0.6	0.7	0.7	35.3%	41.2%
Rentals (IFRS 16 impact)						-	-	-		
Working Capital Increase						(0.1)	(0.0)	(0.0)		
Recurrent Operating Cash Flow						0.5	0.7	0.7	-22.6%	45.9%
CAPEX						(0.0)	(0.1)	(0.1)		
Net Financial Result affecting the Cash Flow						(0.1)	(0.1)	(0.1)		
Tax Expense						(0.1)	(0.1)	(0.1)		
Recurrent Free Cash Flow						0.3	0.4	0.4	-39.6%	36.9%
Restructuring Expense & Other non-rec.						(0.2)	(0.2)	(0.2)		
- Acquisitions / + Divestures of assets						0.9	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						1.0	0.2	0.2	-69.4%	28.5%
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						(1.0)	(0.2)	(0.2)		

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.

Appendix 2. Free Cash Flow (historical core businesses); exclude the Omega-3 project (1) (2) (3)

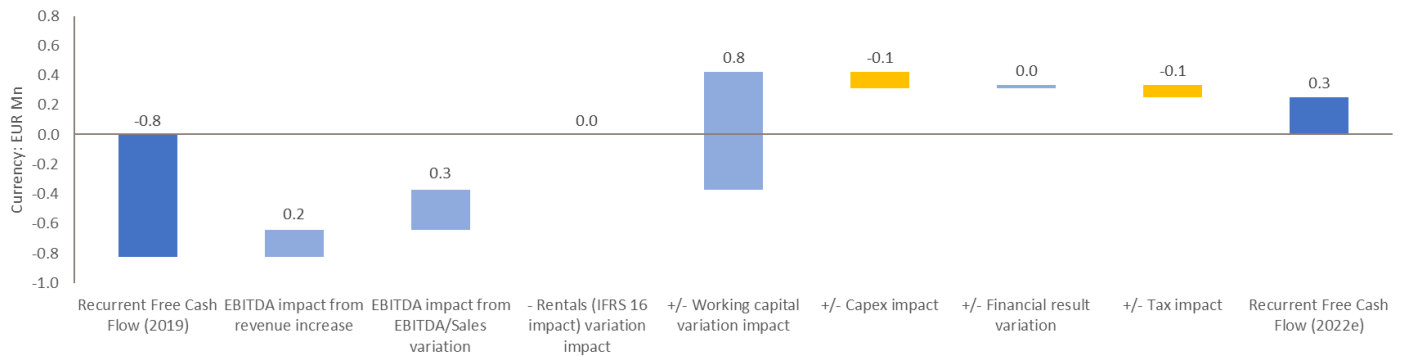
	2016	2017	2018	2019	2020e	2021e	2022e	CAGR 19-22e
A) Cash Flow Analysis (EUR Mn)								
Recurrent EBITDA			0.0	0.3	0.6	0.7	0.7	41.2%
<i>Recurrent EBITDA growth</i>			-64.1%	410.3%	141.8%	12.6%	3.3%	
<i>Rec. EBITDA/Revenues</i>			5.3%	17.8%	29.8%	31.1%	31.0%	
- Rentals (IFRS 16 impact)			-	-	-	-	-	
+/- Working Capital increase			0.4	(0.8)	(0.1)	(0.0)	(0.0)	
= Recurrent Operating Cash Flow			0.5	(0.6)	0.5	0.7	0.7	<i>n.a.</i>
<i>Rec. Operating Cash Flow growth</i>			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	34.7%	1.0%	
<i>Rec. Operating Cash Flow / Sales</i>			51.9%	<i>n.a.</i>	23.8%	29.7%	28.9%	
- CAPEX			(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	
- Net Financial Result affecting Cash Flow			(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	
- Taxes			0.0	(0.0)	(0.1)	(0.1)	(0.1)	
= Recurrent Free Cash Flow			0.5	(0.7)	0.3	0.4	0.4	<i>n.a.</i>
<i>Rec. Free Cash Flow growth</i>			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	20.7%	0.9%	
<i>Rec. Free Cash Flow / Revenues</i>			49.4%	<i>n.a.</i>	15.8%	17.7%	17.2%	
- Restructuring expenses & others			(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	
- Acquisitions / + Divestments			-	0.7	0.9	-	-	
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	(1.3)	-	-	-	
= Free Cash Flow			0.3	(1.5)	1.0	0.2	0.2	<i>n.a.</i>
<i>Free Cash Flow growth</i>			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-81.5%	-3.4%	
<i>Recurrent Free Cash Flow - Yield (s/Mkt Cap)</i>			1.1%	<i>n.a.</i>	0.8%	0.9%	0.9%	
<i>Free Cash Flow Yield (s/Mkt Cap)</i>			0.7%	<i>n.a.</i>	2.4%	0.4%	0.4%	
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)								
Recurrent FCF(FY - 1)			(0.4)	0.5	(0.7)	0.3	0.4	
EBITDA impact from revenue increase			(0.0)	0.0	0.1	0.0	0.0	
EBITDA impact from EBITDA/Sales variation			(0.1)	0.2	0.2	0.0	(0.0)	
= Recurrent EBITDA variation			(0.1)	0.2	0.4	0.1	0.0	
- Rentals (IFRS 16 impact) variation impact			-	-	-	-	-	
+/- Working capital variation impact			1.0	(1.3)	0.7	0.1	(0.0)	
= Recurrent Operating Cash Flow variation			0.9	(1.1)	1.1	0.2	0.0	
+/- CAPEX impact			(0.0)	0.0	(0.0)	(0.1)	(0.0)	
+/- Financial result variation			(0.1)	(0.0)	0.0	0.0	0.0	
+/- Tax impact			0.0	(0.1)	(0.1)	(0.0)	(0.0)	
= Recurrent Free Cash Flow variation			0.8	(1.1)	1.0	0.1	0.0	
Recurrent Free Cash Flow			0.5	(0.7)	0.3	0.4	0.4	
C) "FCF to the Firm" (pre debt service) (EUR Mn)								CAGR 19-22e
EBIT			(0.2)	0.0	0.4	0.4	0.4	<i>n.a.</i>
* <i>Theoretical Tax rate</i>			0.0%	2.6%	25.0%	25.0%	25.0%	
= Taxes (pre- Net Financial Result)			-	(0.0)	(0.1)	(0.1)	(0.1)	
Recurrent EBITDA			0.0	0.3	0.6	0.7	0.7	41.2%
- Rentals (IFRS 16 impact)			-	-	-	-	-	
+/- Working Capital increase			0.4	(0.8)	(0.1)	(0.0)	(0.0)	
= Recurrent Operating Cash Flow			0.5	(0.6)	0.5	0.7	0.7	<i>n.a.</i>
- CAPEX			(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	
- Taxes (pre- Financial Result)			-	(0.0)	(0.1)	(0.1)	(0.1)	
= Recurrent Free Cash Flow (To the Firm)			0.5	(0.6)	0.4	0.4	0.4	<i>n.a.</i>
<i>Rec. Free Cash Flow (To the Firm) growth</i>			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	13.7%	-0.2%	
<i>Rec. Free Cash Flow (To the Firm) / Revenues</i>			51.8%	<i>n.a.</i>	18.9%	20.0%	19.2%	
- Acquisitions / + Divestments			-	0.7	0.9	-	-	
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	(1.3)	-	-	-	
= Free Cash Flow "To the Firm"			0.5	(1.3)	1.3	0.4	0.4	<i>n.a.</i>
<i>Free Cash Flow (To the Firm) growth</i>			<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	-65.9%	-0.2%	

Note 1: Financial projections include IFRS 16 adjustments. FY 19 EBITDA is c. EUR 0.0Mn higher due to IFRS 16.

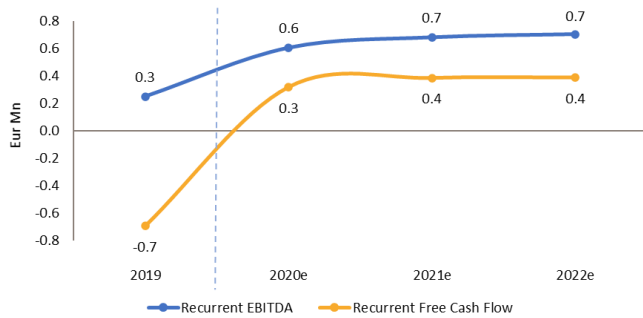
Note 2: As detailed in the financial analysis section, our financial projections are exclusively for the businesses that generate FCF (historical core businesses). The Omega-3 project and its metrics are excluded of our projections (as its financing is not closed as of the date of this report) and explained in detail in the financial analysis (see pages 17 and 18 of this document).

Note 3: Proforma figures for 2017 and 2018.

Recurrent Free Cash Flow accumulated variation analysis (2019 - 2022e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Appendix 3. EV breakdown at the date of this report

	EUR Mn	Source
Market Cap	42.5	
+ Minority Interests	0.5	Lighthouse
+ Provisions & Other L/T Liabilities	0.0	Lighthouse
+ Net financial debt	3.1	12m Results 2019
- Financial Investments	3.4	12m Results 2019
+/- Others		
Enterprise Value (EV)	42.8	

Appendix 4. Main Competitors 2020e

		España	Grandes operadores globales integrados					
EUR Mn		Biosearch	Austevoll Seafood	Amarín	Croda International	Koninklijke DSM	BASF	Average
Market data	Ticker (Reuters)	BIOS.MC	AUSS.OL	AMRN.O	CRDA.L	DSMN.AS	BASFn.DE	
	Country	Spain	Norway	Ireland	UK	Netherlands	Germany	
	Market cap	58.0	1,513.3	2,304.2	7,641.2	22,650.3	45,694.0	
	Enterprise value (EV)	61.0	3,137.6	1,877.5	8,259.8	24,082.3	65,336.0	
Basic financial information	Total Revenues	28.2	2,278.8	589.3	1,493.6	8,899.9	55,812.8	
	Total Revenues growth	23.6%	-3.8%	53.7%	-8.3%	-1.2%	-5.9%	6.9%
	2y CAGR (2020e - 2022e)	10.9%	5.2%	3.1%	4.6%	6.2%	5.3%	4.9%
	EBITDA	3.5	379.0	(10.0)	440.6	1,653.5	6,845.0	
	EBITDA growth	45.5%	-12.9%	52.1%	-6.2%	0.2%	-23.8%	1.9%
	2y CAGR (2020e - 2022e)	34.2%	21.4%	n.a.	7.0%	8.6%	15.1%	13.0%
	EBITDA/Revenues	12.4%	16.6%	n.a.	29.5%	18.6%	12.3%	19.2%
	EBIT	1.5	227.7	(44.8)	362.2	1,026.7	3,201.6	
	EBIT growth	63.6%	-22.5%	-107.0%	-7.5%	-4.8%	-33.9%	-35.1%
	2y CAGR (2020e - 2022e)	71.3%	34.9%	n.a.	7.6%	12.3%	27.3%	20.5%
	EBIT/Revenues	5.3%	10.0%	n.a.	24.3%	11.5%	5.7%	12.9%
	Net Profit	1.1	109.7	(37.0)	256.2	776.0	2,025.2	
	Net Profit growth	74.3%	-50.9%	83.1%	-3.2%	8.8%	-20.5%	3.5%
	2y CAGR (2020e - 2022e)	80.9%	34.5%	n.a.	8.2%	13.6%	34.3%	22.7%
	CAPEX/Sales %	-7.1%	-8.0%	-0.1%	-6.5%	-8.0%	-5.3%	-5.6%
	Free Cash Flow	2.2	69.9	34.4	247.6	733.3	3,338.1	
Net financial debt	2.5	475.6	(228.6)	523.8	2,025.8	14,855.8		
ND/EBITDA (x)	0.7	1.3	n.a.	1.2	1.2	2.2	1.5	
Pay-out	0.0%	52.7%	0.0%	54.6%	55.6%	139.7%	60.5%	
Multiples and Ratios	P/E (x)	50.5	13.9	n.a.	30.4	27.7	21.4	23.3
	P/BV (x)	n.a.	1.0	3.8	6.8	2.8	1.1	3.1
	EV/Revenues (x)	2.2	1.4	3.2	5.5	2.7	1.2	2.8
	EV/EBITDA (x)	17.4	8.3	n.a.	18.7	14.6	9.5	12.8
	EV/EBIT (x)	40.7	13.8	n.a.	22.8	23.5	20.4	20.1
	ROE	4.5	6.8	n.a.	25.0	10.0	4.8	11.6
	FCF Yield (%)	3.8	4.8	1.4	3.2	3.2	7.3	4.0
	DPS	0.00	0.29	0.00	1.08	2.45	3.08	1.38
	Dvd Yield	0.0%	3.8%	0.0%	1.8%	2.0%	6.2%	2.7%

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters).

Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
09-Jul-2020	n.a.	1.85	n.a.	n.a.	Initial Coverage	David López Sánchez

