



## PRESS RELEASE

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# **Probi to acquire Nutraceutix, strongly expanding its North American presence and capabilities, and announces rights issue of ca SEK 600 million**

Probi AB (publ) (“Probi”) today announces that its US subsidiary Probi USA, Inc. has signed an asset purchase agreement under which Probi will acquire the operations of the US probiotic company TNTGamble, Inc., doing business as Nutraceutix (“Nutraceutix”), for a preliminary cash purchase price of USD 105 million (corresponding to SEK 873 million<sup>1</sup>) on a cash and debt free basis (the “Acquisition”). With this Acquisition, Probi will increase its market share in North America – the largest and fastest growing probiotic dietary supplements market in the world – more than three-fold, add important new technologies, manufacturing capabilities and customers, and create a strong platform for further acquisitions. The cash purchase price will be financed through available cash reserves, a credit facility and a bridge facility. The bridge facility will be repaid by proceeds from a proposed new share issue with preferential rights for existing shareholders of approximately SEK 600 million (the “Rights Issue”).

## TRANSACTION HIGHLIGHTS

- Probi to acquire Nutraceutix for a preliminary cash purchase price of USD 105 million (corresponding to SEK 873 million<sup>1</sup>) on a cash and debt free basis.
- A transforming transaction that makes Probi a top tier integrated probiotics player<sup>2</sup> with dramatically enhanced scale, geographic footprint, capability base and value chain presence:
  - Results in preliminary combined 2015 net sales of approximately SEK 506 million<sup>3</sup>, more than double Probi’s current size;
  - More than triples Probi’s net sales in the large, fast-growing North American probiotics market to approximately SEK 418 million<sup>3</sup> based on preliminary combined 2015 figures;
  - Combines proven, proprietary and patented delivery technology from Nutraceutix with Probi’s well documented strain portfolio, enabling novel, differentiated probiotics products;
  - Secures access to established, GMP-compliant and versatile manufacturing capabilities with important strategic and financial benefits;

<sup>1</sup> Converted at an exchange rate of USD/SEK 8.3169, the exchange rate as of June 3, 2016.

<sup>2</sup> Probi estimates that this group of companies also includes Chr. Hansen, Lallemand and DuPont.

<sup>3</sup> Converted at an exchange rate of USD/SEK 8.4350, corresponding to the period average of Jan 1 – Dec 31 2015. Nutraceutix and the preliminary combined figures are for illustrative purposes. The presented financial information has not been reviewed or audited by Probi’s auditors and should be regarded as hypothetical and should not be seen as pro forma financial information. Nutraceutix figures are preliminary and according to US GAAP.

- Adds an attractive and highly complementary base of approximately 200 US customers and partners;
- Propels Probi into the top tier of integrated players<sup>1</sup> in the global probiotics sector and creates a platform for further acquisitions.
- The cash purchase price will be financed through available cash reserves, a credit facility of approximately USD 35 million and a bridge facility of approximately USD 63 million. Handelsbanken has committed to provide the credit facility and the bridge facility. The bridge facility will be repaid by proceeds from the Rights Issue of approximately SEK 600 million. After completion of the Acquisition and the Rights Issue and the repayment of the bridge facility, Probi expects to have a leverage ratio (Net Debt/EBITDA) of approximately 1x on a preliminary combined basis.
- Symrise AG and Fjärde AP-fonden, controlling approximately 51.4 per cent and 5.9 per cent respectively of the outstanding share capital and votes in Probi, have committed to, subject to customary conditions, vote in favour of the Rights Issue at the Extraordinary General Meeting on June 29, 2016 (the “EGM”), and subscribe for their pro rata shares in the Rights Issue. In addition, Swedbank Robur Fonder and Handelsbanken Fonder, together controlling approximately 11.8 per cent of the outstanding share capital and votes in Probi, have indicated their intention to vote in favour of the Rights Issue at the EGM and to subscribe for their pro rata shares in the Rights Issue. Consequently, in aggregate, commitments and indications of intent to vote in favour of the Rights Issue at the EGM and to subscribe for pro rata shares in the Rights Issue have been obtained from current Probi shareholders controlling approximately 69.1 per cent of the outstanding share capital and votes in Probi.<sup>2</sup>
- The Acquisition is expected to close within four months and the Rights Issue is expected to be completed during the second half of 2016.

#### Statement by Peter Nählstedt, CEO, Probi

“I am very excited about this transforming acquisition. Nutraceutix is an excellent match for us. Probi and Nutraceutix have complementary business models, limited customer overlap and share strong entrepreneurial values. The acquisition creates a strong platform to continue the growth story in the US and in the global market.”

#### Statement by Tim Gamble, CEO, Nutraceutix

“I cannot imagine a better combination of two well-respected organizations. With highly complementary expertise, assets, product offerings, and a shared strategic focus on quality-conscious growth, I envision an outstanding future for the new entity. The transaction will result in the creation of a global leader in the probiotics and probiotic dietary supplement space, and will open up a wealth of new opportunities for the company, its employees and its customers.”

## BRIEF DESCRIPTION OF NUTRACEUTIX

Nutraceutix is a leading, highly regarded and customer service focused US manufacturer and supplier of probiotics with net sales of approximately USD 34 million (SEK 290 million<sup>3,4</sup>) and EBITDA of approximately USD 8 million (SEK 70 million<sup>3</sup>) in 2015. Over recent years the business has shown double digit percentage sales growth.

Nutraceutix was established in 1983 and is today among the top five probiotic producers in North

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<sup>4</sup> In 2015 ca USD 7 million sales were lost due to a withdrawn product with one customer. Over recent years the business has shown double digit percentage sales growth.

America. The company was awarded the North American Probiotic Company of the Year Award in 2015 by Frost and Sullivan. Nutraceutix has its headquarters and fermentation plant in Redmond, near Seattle in the State of Washington, and operates a packaging facility in Lafayette, near Denver in Colorado. Both manufacturing sites are audited and registered as GMP-compliant. The company produces around 340 million tablets and 4.3 million bottles of products a year for its customers and in 2015 had 460 active Stock Keeping Units (SKUs) in production. Nutraceutix has more than 30 different industrialized probiotic strains.

Nutraceutix manufactures its products as bottled products (finished products; 57 per cent of sales in 2014), bulk and blended powder (20 per cent and seven per cent respectively) and tablets and capsules (16 per cent). Nutraceutix' proprietary delivery technology BIO-tract<sup>®</sup> is a key differentiator and loyalty creating product feature and is patent protected in more than 30 countries. Nutraceutix also has a collection of expertise and patented manufacturing processes known as LiveBac<sup>®</sup>-processing that enables the expert manufacture of tablets containing sensitive ingredients like probiotics.

Nutraceutix' customer base is composed of US and global brand distribution companies, retailers and direct-sellers as well as other contract manufacturers, mainly in the dietary supplement area. As of 2015, Nutraceutix maintains 173 active customer relationships (up from 141 customer relationships in 2013). A strong portfolio of e-commerce based clients has contributed to significant growth in recent years. The company employs 145 people including an experienced sales and marketing team of five individuals.

## TRANSACTION RATIONALE

From a strong base in research and development, Probi has grown its well documented and differentiated product platforms to become a significant player in the global probiotics market. Probi's objective is to generate growth that exceeds the market average. To achieve this, Probi pursues the following strategic priorities: 1) secure and enhance the existing product offering and customer relationships, 2) enter new markets with focus on the fast-growing markets in Asia and North and South America, 3) launch new products and platforms and 4) enter new product areas and indications.

The Acquisition of Nutraceutix is highly aligned with these strategic priorities as it will strongly enhance Probi's presence in the attractive North American probiotics market, add important new technologies, manufacturing capabilities and customers, and creates a platform for further acquisitions. The key attractions of the Acquisition are:

### **Strengthened presence in North America**

- The North American market is the largest and fastest growing probiotic dietary supplements market in the world with strong double digit growth of 13 per cent in 2015 (vs. approximately nine per cent growth for the global probiotics market)<sup>1</sup>
- By establishing a direct presence in North America, customer relationships will be developed further. Nutraceutix more than triples Probi's net sales in North America to approximately SEK 418 million<sup>2</sup> in preliminary combined 2015 net sales
- Nutraceutix is a unique opportunity to acquire a fully integrated and profitable probiotic company with strong growth prospects in this market

### **Broadened capability to enhance the product offering**

- Nutraceutix brings the proprietary BIO-tract<sup>®</sup> delivery technology that can be applied to Probi's

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<sup>1</sup> Euromonitor and Probi's estimates.

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- patented, well documented strains to develop novel, differentiated product offerings
- Probi's patented and documented strains can strengthen the competitiveness of Nutraceutix' offering
- Probi gains access to production and packaging capacity and end-to-end probiotic manufacturing knowledge

#### **Strengthened position in the value chain**

- Nutraceutix offers a flexible and quality driven turn-key solution for business-to-business customers in the probiotic area
- Enables delivery of improved customer value
- Significantly expanded, highly complementary US customer/partner base with approximately 200 new customers and partners and dedicated sales team of five people
- Complementary positioning of product portfolios broadens coverage of relevant price range and enhances offering for existing customers

#### **Significant synergy opportunities**

- Complementary customer footprint and the broadened product portfolio creates significant cross-selling and up-selling opportunities
- Novel product offerings from combined strength and expertise in strains, development and formulations
- Cost reduction potential from increased utilization of production capacity as well as purchasing and sourcing synergies

#### **Platform for further probiotics acquisitions**

- The Acquisition establishes Probi as one of the top-tier integrated probiotics players<sup>1</sup> and secures presence in the entire value chain, creating a platform for future acquisitions to bring additional market presence, growth opportunities and potential synergies
- Priority areas for future potential acquisitions include building further market presence in North America, APAC and Europe and adding new capabilities and intellectual property

The combined company will retain the current Probi name and stock market listing and continue to promote each company's brand. The head office will remain in Lund, Sweden. The main manufacturing location will be in the US while R&D and global marketing will be based in Lund.

Highly complementary businesses are expected to facilitate integration, which will be driven by an integration team with work stream leaders from both organisations and entail relocation of key executive positions to the US. The current Nutraceutix CEO is expected to remain employed as head of the North American entity during a transition period.

Together, Probi and Nutraceutix will have approximately 180 employees. Probi's management estimates that no significant staff changes will be made as a result of the Acquisition and that the bolstered operational and financial resources of the combined company will enable further commercial investments and expansion.

Probi expects integration costs of approximately SEK 10 million to affect 2016.

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## FINANCIAL EFFECTS FOR PROBI

The Acquisition of Nutraceutix will add net sales of approximately SEK 290 million<sup>1</sup> and EBITDA of approximately SEK 70 million<sup>1</sup>. Sales growth for Nutraceutix is expected to support Probi's financial objective to generate growth that exceeds the market average.

The preliminary combined net sales for Probi and Nutraceutix will be approximately SEK 506 million<sup>1</sup> and the preliminary combined EBITDA will amount to approximately SEK 139 million<sup>1</sup>, representing a preliminary combined EBITDA margin of 27 per cent.

The acquisition multiple (Enterprise Value/EBITDA 2015) is approximately 12.7x.

After completion of the Acquisition and the Rights Issue and the repayment of the bridge facility, Probi expects to have outstanding bank loans of approximately SEK 291 million<sup>2</sup> and a leverage ratio (Net debt/EBITDA) of approximately 1x on a preliminary combined basis.

Key financials 2015<sup>1</sup>:

SEKm	Probi	Nutraceutix	Preliminary Combined
Net sales	216	290	506
Gross profit	153	96	249
<i>Gross margin</i>	<i>71%</i>	<i>33%</i>	<i>49%</i>
EBITDA	69	70	139
<i>EBITDA margin</i>	<i>32%</i>	<i>24%</i>	<i>27%</i>

The above figures are for illustrative purposes and do not include any impact from synergies, integration costs, transaction costs and amortization of surplus values resulting from the purchase price allocation. The presented financial information has not been reviewed or audited by Probi's auditors, should be regarded as hypothetical and should not be seen as pro forma accounts.

## TRANSACTION TERMS AND FINANCING

On June 6, 2016, Probi signed an asset purchase agreement under which Probi will acquire the operations of Nutraceutix for a preliminary cash purchase price of USD 105 million (SEK 873 million<sup>2</sup>) on a cash and debt free basis.

The Acquisition is subject to approval by the US competition authorities and customary third party consents and confirmations that the Nutraceutix assets have been assigned to Probi and is expected to close within four months.

The cash purchase price will be financed through available cash reserves, a credit facility of approximately USD 35 million, and a bridge facility of approximately USD 63 million. Handelsbanken has committed to provide the credit facility and the bridge facility. The bridge facility will be repaid by

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proceeds from the Rights Issue of approximately SEK 600 million.

## RIGHTS ISSUE

The Board of Directors of Probi proposes that the EGM on June 29, 2016 authorises the Board of Directors, during the period until the next Annual General Meeting, to issue new shares through the Rights Issue. The proceeds from the Rights Issue shall amount to approximately SEK 600 million before issue costs. The net proceeds from the Rights Issue will primarily be used to repay the bridge facility and to further support future financial flexibility.

The Rights Issue is expected to be completed during the second half of 2016.

### **Commitments and indications of intent**

The largest shareholder in Probi, Symrise AG controlling approximately 51.4 per cent of the outstanding share capital and votes, and Fjärde AP-fonden controlling approximately 5.9 per cent of the outstanding share capital and votes, have entered into agreements with Probi under which they have committed to, subject to customary conditions, vote in favour of the Rights Issue at the EGM and subscribe for their pro rata shares in the Rights Issue.<sup>1</sup>

In addition, Swedbank Robur Fonder and Handelsbanken Fonder, together controlling approximately 11.8 per cent of the outstanding share capital and votes in Probi, have indicated their intention to vote in favour of the Rights Issue at the EGM and to subscribe for their pro rata shares in the Rights Issue.<sup>1</sup>

Consequently, in aggregate, commitments and indications of intent to vote in favour of the Rights Issue at the EGM and to subscribe for pro rata shares in the Rights Issue have been obtained from current Probi shareholders controlling approximately 69.1 per cent of the outstanding share capital and votes in Probi.<sup>1</sup>

## ADVISORS

Handelsbanken Capital Markets is acting as financial advisor and Mannheimer Swartling Advokatbyrå AB is acting as legal advisor to Probi in relation to the Rights Issue. Hjalmarsson & Partners Corporate Finance AB is acting as financial advisor and Wiggin and Dana LLP is acting as legal advisor to Probi in relation to the Acquisition. Cascadia Capital is acting as financial advisor and Perkins Coie LLP is acting as legal advisor to Nutraceutix in relation to the Acquisition.

## INVITATION TO TELECONFERENCE (ENGLISH):

Time: June 7 at 10:00 a.m.. Participants from Probi: Peter Nählstedt, CEO and Niklas Brandt, CFO. The presentation will be made available at [www.probi.se](http://www.probi.se).

To participate in the teleconference, please use the following link and telephone numbers:

[http://cloud.magneetto.com/wonderland/2016\\_0607\\_Financial\\_Hearing\\_Probi/view](http://cloud.magneetto.com/wonderland/2016_0607_Financial_Hearing_Probi/view)

From Sweden: +46 8 566 426 90  
From the UK: +44 203 008 98 04  
From the US: +1 855 753 22 35

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<sup>1</sup> The stated holdings are calculated as of June 3, 2016.



The information is such that Probi AB must disclose in accordance with the Swedish Securities Market Act and/or the Financial Instruments Trading Act.

## FOR FURTHER INFORMATION, CONTACT:

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## ABOUT PROBI

*Probi AB is a Swedish publicly traded bioengineering company that develops effective and well-documented probiotics. Through its world-leading research, Probi has created a strong product portfolio in the gastrointestinal health and immune system niches. Probi's products are available to consumers in more than 30 countries worldwide. Probi's customers are leading food, health-product and pharmaceutical companies in the Functional Food and Consumer Healthcare segments. In 2015 Probi had sales of MSEK 216. The Probi share is listed on Nasdaq Stockholm, Small Cap. Probi has about 4,000 shareholders. Read more at [www.probi.se](http://www.probi.se).*

## IMPORTANT NOTICE

The information in this press release does not contain or constitute an offer to acquire, subscribe or otherwise trade in shares, subscription rights or other securities in Probi. Any invitation to the persons concerned to subscribe for shares in Probi will only be made through the prospectus to be published in connection with the Rights Issue.

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No subscription rights, paid subscribed shares or shares in Probi have been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the securities legislation of any state or other jurisdiction in the United States and no subscription rights, paid subscribed shares or shares may be offered, subscribed for, sold, resold, delivered or otherwise transferred, directly or indirectly, in or into the United States except under an available exemption from, or transaction not subject to, the registration requirements under the Securities Act and in compliance with the securities legislation in the relevant state or any other jurisdiction of the United States. There is no intention to register any securities referred to herein in the United States or to make a public offering of the securities in the United States.

This press release contains certain forward-looking information that reflects Probi's present view of future events as well as financial and operational development. Words such as "intend", "assess", "expect", "may", "plan", "believe", "estimate" and other expressions entailing indications or predictions of future development or trends, not based on historical facts, constitute forward-looking information. Forward-looking information is inherently associated with both known and unknown risks and uncertainties as it depends on future events and circumstances. Forward-looking information is not a guarantee of future results or development and actual outcomes may differ materially from the statements set forth in the forward-looking information.