

May 8, 2015

Dear clients and colleagues,

In recent years, the rapid acceleration of innovation in the biotechnology space has contributed to human enhancement. BioGaia, a company we initiated in our International portfolios this year, addresses the growing trend of health care demand and the emerging market consumer.

BioGaia is a Swedish-based producer of probiotic supplements for infants and adults. It owns patent applications for one type of probiotic bacteria called *Lactobacillus Reuteri* (L. Reuteri). This probiotic strain was discovered in the 1980s, but its commercial application really intensified in 2000. Although there are approximately 500 different probiotic strains in the human body, individuals do not necessarily carry all of them. That is why dietary supplements are required.

BioGaia's probiotic products help the digestive and the immune systems. The probiotics prevent and treat gastrointestinal disorders, infections such as diarrhea and colic, and any other stomach related issues. Product formulations include chewable tablets, drops, caps, and straws. The majority of BioGaia's revenues are derived from its own brand name products. The in-house product line generates strong profitability as well.

Founded in 1991, BioGaia has been listed on the Stockholm Stock Exchange since 1998. Its co-founder and current CEO, Peter Rothschild, owns approximately 9% of the company.

Market Size

The probiotic supplements market reached \$2.8B in 2012 and is expected to grow to \$4.3B by 2017. Demand for probiotic supplements has continued to grow strongly throughout the world. Europe and Asia represent 54% of the market, but the U.S. (17%) and Latin America (12%) are growing fast as well.

Growth Strategy

Opening up new markets and improving performance in certain key markets, such as the U.S. and Japan, are core elements of the strategy that should continue. In addition, BioGaia should continue to innovate and introduce new products. As an example, BioGaia announced in February that its probiotic strains were incorporated into Nestlé's formula for children aged one year and older.

Another growth area stems from clinical studies conducted by a network of R&D collaborators working to unveil new applications. A few years ago, clinical studies showed that the L. Reuteri bacteria effectively reduced both gingivitis and dental plaque. Following these studies, BioGaia launched new probiotic products designed to help balance the oral bacterial flora.

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Competitive Advantages

Despite the growing competition in the probiotic supplements market, BioGaia has outpaced its peers historically. Thanks to its strong focus on a few niche segments, such as colic in young children, BioGaia has successfully differentiated itself. By supporting its products with strong clinical evidence, it has gained a respectable reputation. As of now, BioGaia's marketing is well supported by 137 completed clinical trials and 117 scientific articles and theses.

Moreover, the company runs its operations very effectively by relying solely on distributors to market its products. BioGaia's margin levels are amongst the highest in this industry. The company has no debt on its balance sheet and holds a solid cash position of SEK 210 million.

Risk

The probiotic supplements market is very appealing to new entrants; therefore, BioGaia remains vulnerable to increasing competition.

We expect that the probiotic supplements market will continue to grow in the years to come. BioGaia should clearly benefit.

Have a great weekend.

The Global Alpha Team

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