Fairness Opinion : Acino Holding AG

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Confidential

Building a better
working world

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Introduction

1. Background
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Background

Background

- Acino Holding AG (Acino or target company) is a company incorporated under Swiss law, headquartered in Aesch, Canton of Basel-Landschaft.
- Since 1994, Acino's registered shares have been listed on the SIX Swiss Exchange (Reuters ticker: ACIN.S). As of 25 September 2013, 3,460,000 registered shares, with a nominal value of CHF 0.40 per share, have been issued. The number of treasury shares is 10,501 (assigned to incentive plans). According to the SIX Swiss Exchange the free float is 92.41%.
- Pharma Strategy Partners GmbH, Reinach BL, Switzerland (offerer or Pharma Strategy Partners) intends to launch on or about 4 October 2013, a public tender offer for Acino (offer). The offer includes all listed, registered shares of Acino.
- The offer of Pharma Strategy Partners for the outstanding shares of Acino consists of a cash payment of CHF 115 per registered share with a nominal value of CHF 0.40.

Our engagement

Our engagement

- The board of directors of Acino (the board) has engaged Ernst & Young Ltd, Switzerland (EY or us) to prepare a fairness opinion. The fairness opinion serves as a basis to assess the financial adequacy of the offer of Pharma Strategy Partners.
- The fairness opinion intends to give Acino's board and Acino's public shareholders a neutral opinion and assure that the offered price per registered share is fair and reasonable, from a financial point of view.
- The fairness opinion does not constitute a recommendation regarding the acceptance or rejection of the offer. The fairness opinion does not contain any assessment of the possible impact an acceptance or rejection of the offer may have and makes no statement about the future performance of an Acino share and the price at which the Acino shares, that are not being tendered, may trade in the future.
- Since our evaluation is largely based on information obtained from Acino, our responsibility is limited to the careful and professional analysis and evaluation of the information provided to us. Furthermore, Acino confirmed to us that they are not aware of any facts or circumstances, according to which the information provided would be misleading, inaccurate or incomplete.
- The fairness opinion may be made available to the public.

Approach

Approach

- To assess the financial fairness of the offer, we performed our own valuation considerations. Essentially, the following steps were part of this fairness opinion:
  - Request relevant information;
  - Analyze the information obtained from Acino;
  - Conduct interviews with responsible persons (Acino Management). Generally, the valuation is based on Management's business plan. In scenario 2, we deviate from the original assumptions of the business plan in order to account for additional risks related to new products and product launches. The business plan does not include assumptions regarding the terminal year. Therefore, in consultation with Management, we have made the relevant assumptions for the terminal year. Further information regarding risk adjustments as well as the terminal year can be found in the Chapter DCF method;
  - Valuation considerations regarding Acino by means of stock price analysis and appropriate valuation methods, and
  - Assessment of the offer by an EY internal fairness opinion committee.
- This fairness opinion has been prepared from the point of view of all public shareholders. Individual tax and other effects as a result of the acceptance or rejection of the offer have not been considered in our analysis. Considering such elements would not be possible due to the large number of different requirements of the shareholders.

Company description

1. Company
2. Income from operations
3. Industry

Company

Company logo

Source: Acino

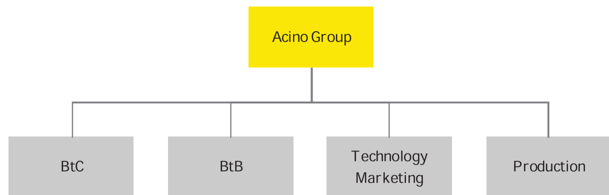
Acino

- Acino is an international pharmaceutical company, whose origins go back to 1836. The company, which is based in Aesch, Basel-Landschaft, currently employs 788 people and generated sales of EUR 257.1 million (2012) and EUR 143.4 million in the first half of 2013.
- The company is listed on the SIX Swiss Exchange (Reuters ticker: ACIN.S) and specializes in the manufacturing and marketing of prescription drugs in innovative drug delivery forms. Since the IPO, Acino has made several acquisitions. Major acquisitions are listed.
  - 2004: Cimex Pharma AG, Swiss based supplier of complex oral drug delivery forms;
  - 2006: Novosis AG, Europe's second largest manufacturer of transdermal patches and biodegradable implants, and
  - 2012: acquisition of the production and R&D site and Mepha's Middle East and North Africa (MENA), Africa, Latin America and Asia business.
- Through selected acquisitions, Acino has increasingly focused its activities in the field of advanced drug delivery (ADD). Today, Acino is technology leader in ADD with a focus on modified oral release forms, oral dispersible forms, transdermal systems and extended release parenterals, for which it also holds patents.
- As at 30 June 2013 the following companies are part of the consolidated:
  - Acino Pharma AG, Liesberg, Switzerland (100%, full consolidation)
  - Acino Supply AG, Aesch, Switzerland (100%, full consolidation)
  - Acino AG, Miesbach, Germany (100%, full consolidation)
  - Mepha Pharma GmbH, Lörrach, Germany (100%, full consolidation)
  - Acino France SAS, Alfortville, France (100%, full consolidation)
  - Acino Pharma Inc., Bridgewater New Jersey, USA (100%, full consolidation)
  - Acino Latino-Americana S.A., Panama City, Panama (100%, full consolidation)
  - Glochem Industries Ltd., India (25.4%, equity method)

Company

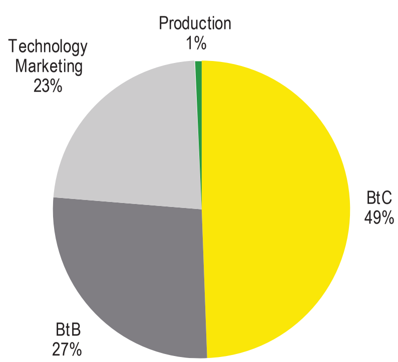
Segments

Source: Acino



Sales split by segment as at 30 July 2013

Source: Acino Half-year report 2013



Business overview

- At present, Acino operates in the business segments BtC (Direct marketing / business to consumer), BtB (Out-licensing / business to business), Technology Marketing and Production.

BtC

- Under the brand "Acino Switzerland" Acino sells medical products in emerging markets over a distribution network. So far, 80 countries in the MENA region, Latin America and Asia are being served. The private label is available everywhere in the world, where Acino's drugs are not already marketed by partners under their own brands.
- The segment BtC has particularly gained importance through the acquisition of the production and R&D site and Mepha's MENA, Africa, Latin America and Asia business.

BtB

- As a full-service contract manufacturer for the pharmaceutical industry (Contract Manufacturing Organization, CMO), Acino develops and produces finished medical products and grants licenses for such developments to leading pharmaceutical and generics companies worldwide.

Technology Marketing

- In Technology Marketing, besides being a pure CMO, Acino offers a range of integrated services such as contract research and development, life cycle management support, registration, packaging etc.

Production

- The Production segment supplies the other segments with products and services.

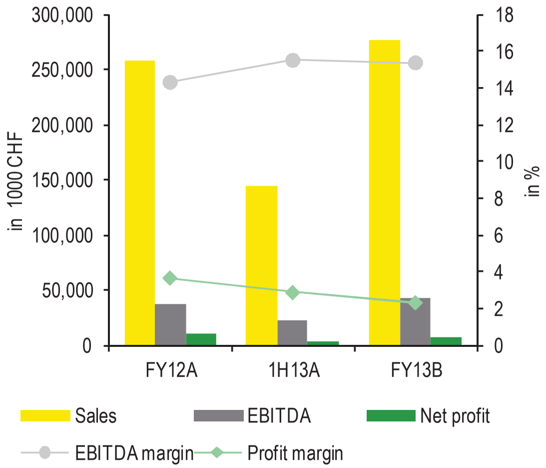
Conclusion

It is expected that the revenue share of Technology Marketing will decrease significantly and that the segments BtC and BtB will become more important. In particular, Acino expects that by 2015 more than half of its sales will be generated by BtC. Therefore, for a forward-looking valuation the segments BtC and BtB are of particular importance.

Income from operations

Key financials 1H13A and FY13B

Source: Half-year report 2013, Business plan



FY12A

- With the acquisition of parts of the Mepha/Cephalon business in 2012, Acino was able to increase its sales from EUR 134.9 million in FY11A to EUR 257.1 million in FY12A. EBITDA also increased by 43% to EUR 36.8 million in FY12A. In FY12A, Acino generated an operating profit of EUR 8.9 million and a net profit of EUR 9.4 million (profit margin of 3.7%). The higher net profit compared to the operating profit mainly results from a used tax loss carry-forward (resulting from the acquisition of the Iclaprim business in 2009).

1H13A

- In the first half of 2013, Acino generated sales of EUR 143.4 million, an EBITDA of EUR 22.2 million (EBITDA margin of 15.5%) and a net profit of EUR 4.1 million (net profit margin of 2.9%). See adjacent graph.
- Group sales increased by 11% and EBITDA by 36% year on year. In particular, the strong growth in BtC contributed to the good result and compensated for the weaker sales in BtB. In analogy to 2012, the higher sales and profits were mainly due to the acquisition that took place in 2012. Year on year the EBITDA margin improved from 12.7% to 15.5%. Lower R&D and SG&A (selling, general and administrative) costs as well as a lower number of employees contributed to this improvement.

2013 budget

- According to the current budget for 2013 (September 2013), a turnover of EUR 277.0 million, an EBITDA of EUR 42.5 million and a net profit of EUR 6.4 million (net profit margin of 2.3%) are expected. See adjacent chart.

Industry

Market development by industry

- Acino has developed an expertise as CMO in the rapidly evolving market for new drug delivery technologies. Within this market, the company offers new oral drug delivery forms as well as innovative transdermal systems and extended release parenterals.
  - The global drug delivery market is currently estimated to have a volume of more than EUR 100 billion. This estimate refers to the sales of finished medical products by the pharmaceutical industry. Industry experts expect an average annual growth rate (CAGR) of about 5% over the next years.
  - In the segment of transdermal systems, in which Acino is present with a wide range of products, a market volume of more than EUR 20 billion is assumed; In this sub-segment, an average annual growth rate (CAGR) of more than 10% is expected over the next years.
- In addition, Acino is also active in the pure contract manufacturing of pharmaceuticals. This global market was estimated to have a volume of about EUR 30 billion in 2011 with a strong growth in generics and continuing price pressure.

Market development by country

- In BtB and Technology Marketing, Acino is mainly active in Europe, whereas BtC focuses on emerging markets such as Iraq, Saudi Arabia, United Arab Emirates, Ecuador, etc.
- The European business is characterized by strong prices and margin pressure. On the one hand, a growing consolidation of clients (generics companies) causes that i) the production is increasingly performed in-house and ii) that the purchasing power increases due to the size of the companies. On the other hand, spending cuts in the health sector which have been imposed by the governments, causes that more and larger tenders for purchase of medicines by the health insurance companies have to be performed.
- The health sector in emerging markets is often hardly regulated. Health insurance is rare, and if at all, the health insurances are often "luxury insurances" with low cost pressure. Products are often obtainable without prescription and can be requested by the customers at the pharmacies.
- Particularly, the growing middle class in the emerging markets seeks quality pharmaceuticals. Customers are willing to pay a premium for quality products from Europe and the U.S.A over products from India or China. There is a strong brand loyalty.

Opportunities and threats

Opportunities

- We have identified the following opportunities for BtC:
  - Growth potential, due to the growing middle class and the number of countries that are being served;
  - Growth potential through Acino's unique selling proposition "Swiss quality" – Acino's products are mainly produced in the EU and also the API (Active Pharmaceutical Ingredients) are primarily from Europe;
  - Growth potential through high brand loyalty of customers and Acino's strong brand image - in emerging markets Acino has its own corporate brand as well as product brands, which customers associate with high quality;
  - Low cost pressure - BtC is characterized by small markets, but attractive margins, as customers are willing to pay for quality;
  - Investment in R&D - investments to foster further in-licensing;
  - First mover advantage with an established distribution network and competent personnel in the respective countries, and
  - Cost reduction due to distribution contracts that are about to expire.
- We have identified the following opportunities for BtB and Technology Marketing:
  - Focus on specialized customers and technical niches, thereby reduction of margin pressure, and
  - Investment in R&D - investment to further develop technologies.

Threats

- We have identified the following threats for BtC:
  - Political risk as Acino is active in the emerging markets. However, the political risk is mitigated since Acino is active in more than 80 countries;
  - Limited resources (personnel) may lead to delays of in-licensing of new products in existing countries and of existing products in new countries;
  - Corruption in the emerging markets. However, mitigation by appropriate corporate governance training, and

Opportunities and threats

  - Risk that competitors copy Acino's business model. However, Acino has a first mover advantage. The development of know-how, distribution networks and resources in emerging markets is time consuming for potential followers. Moreover, product registrations in developing countries may last from nine months up to three years.

- We have identified the following threats for BtB and Technology Marketing:
  - Continuing, respectively, increased margin pressure caused by complex tenders and consolidation of pharmaceutical and generics companies;
  - The risk that pharmaceutical and generics companies produce in-house instead of outsourcing, and
  - Start-up cost risks with regard to the co-operation project with Bayer. However, the investments are largely secured by fixed amortization payments from Bayer. Acino will manufacture contraceptive patches for Bayer. In connection with this co-operation with Bayer, Acino has built a new manufacturing facility in Germany. In case the patches will not be launched, Acino will be compensated by Bayer for most of the investment in the plant.

Valuation approach

1. Valuation approach

Valuation approach

Applied analysis and valuation methods

Item
Share price and analyst estimates with regard to target price
Discounted cash flow (DCF) method
Market multiple approach (Trading and transaction multiples)

Source: EY

Principles

- The aim of the valuation is to determine the value of one registered share of Acino including the associated companies as of 25 September 2013.
- The total number of registered Acino shares is 3,460,000 with a nominal value of CHF 0.40. The number of treasury shares is 10,501. However, these treasury shares are reserved for incentive plans and may be tendered in the offer. Therefore, the calculation of the value per share was based on the total shares outstanding of 3,460,000.

Approach

- In principle, the share price of a listed company is the best indication of the company value. This requires that the shares are traded sufficiently, i.e. are liquid. As shown in the following chapter, this is true for Acino. The Acino shares may be considered as liquid as defined by the Swiss takeover law. The market price of the Acino share is therefore a valid basis to assess the financial fairness of the offer.
- To further substantiate our analysis, further valuation methods and analyses were applied. These are listed in the adjacent table.

Conclusion

Based on the results of the various valuation methods, we have determined a range for the fair market value of one registered share of Acino.

To be fair, the offer must be within or above this range.

Valuation considerations

1. Share price analysis and analyst estimates
2. DCF method
3. Market multiple approach

Share price analysis

Share price as of 25 September 2013

Currency: CHF	
VWAP (60)	74.9
Current price	77.0
52-week high (4 December 2012)	119.5
52-week low (23 August 2013)	67.0
Current price in % of 52-week high	64.4%
Current price in % 52-week low	114.9%

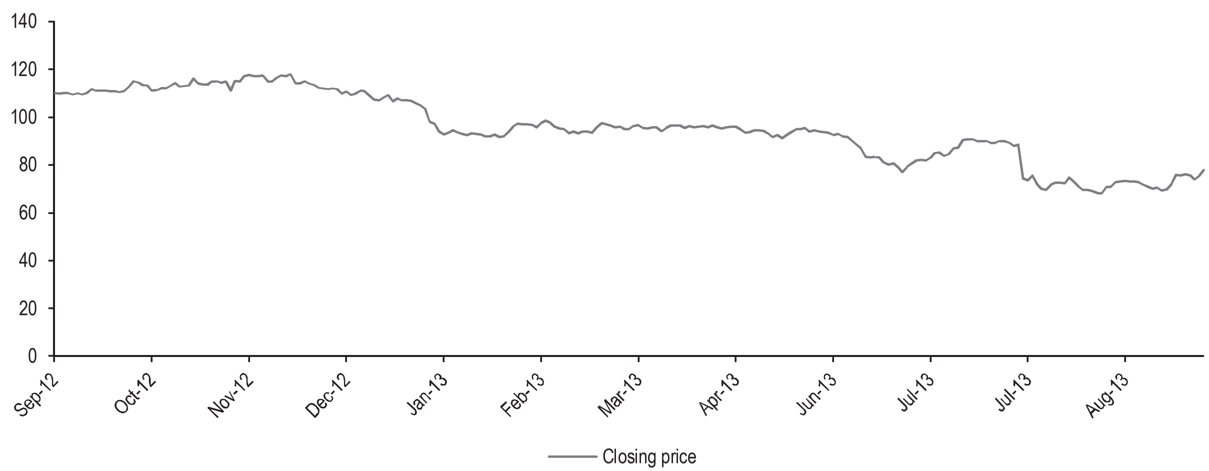
Source: Capital IQ

Share price analysis

- The graph below shows the historical share price development over a 52-week observation period. As of 25 September 2013, the closing price was CHF 77.0.
- The highest closing price during the observation period was CHF 119.5 (4 December 2012), while the lowest closing price was CHF 67.0 (23 August 2013). As of 25 September 2013, the volume weighted average price (VWAP 60) was CHF 74.9.

Share price development since 25 September 2012

Source: EY



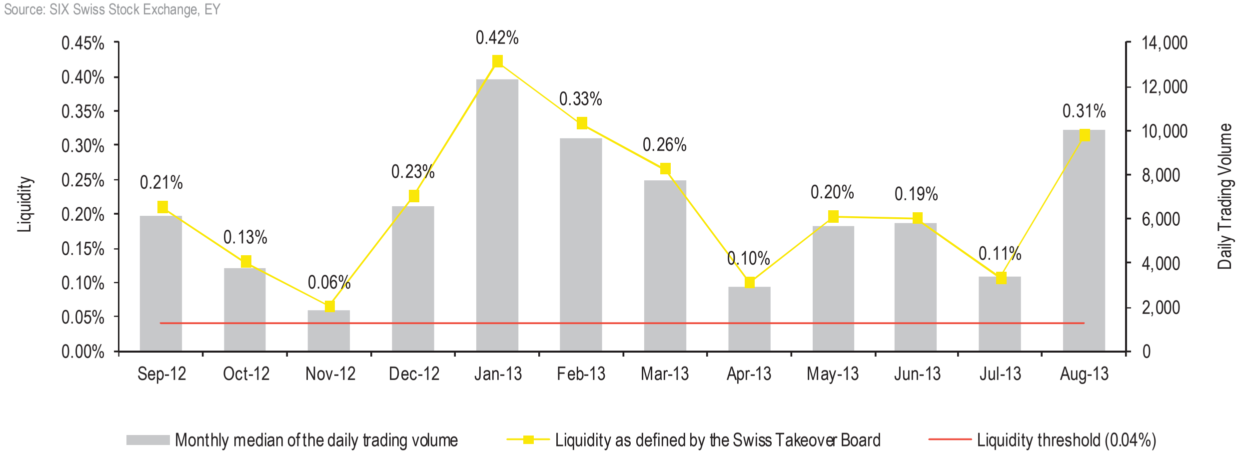
Share price analysis

Trading volume and liquidity

- The graph below shows the trading volume and liquidity over the observation period from 1 September 2012 to 31 August 2013. Over this observation period, the trading volume and liquidity analysis shows that transactions were recorded on all trading days and that the monthly trading volume in each month was above the liquidity threshold (set at 0.04% by the Swiss Takeover Board, see in particular the Circular No. 2 "liquidity in the sense of the Takeover Law").
- The data underlying the liquidity analysis was obtained from SIX Swiss Stock Exchange.

Trading volume and liquidity since 1 September 2012

Source: SIX Swiss Stock Exchange, EY



Conclusion

- Based on the fact that the Acino shares are liquid, the share price is an important pillar in assessing the financial fairness of the offer.

Conclusion

The share price is an important pillar in assessing the financial fairness of the offer. The VWAP (60) as per 25 September 2013 is CHF 74.9.

Analyst estimates on target price

Target price as at 31 July 2013

Analyst coverage	CHF
Bank Vontobel	84.0
Helvea	80.0
Zürcher Kantonalbank	80.0

Source: EY

Analyst estimates on target price

- Due to a profit warning communicated at the press conference related to the publication of the half-year figures 2013, the analysts of Bank Vontobel, Helvea and the Zürcher Kantonalbank revised their target prices down.
- According to the analyst reports dated 31 July 2013 the current target price of a registered share is between CHF 80.0 and CHF 84.0. The analysts' target prices and the actual share price as of 25 September 2013 of CHF 77.0 implies a theoretical "Upside" of 3.9% to 9.1%.

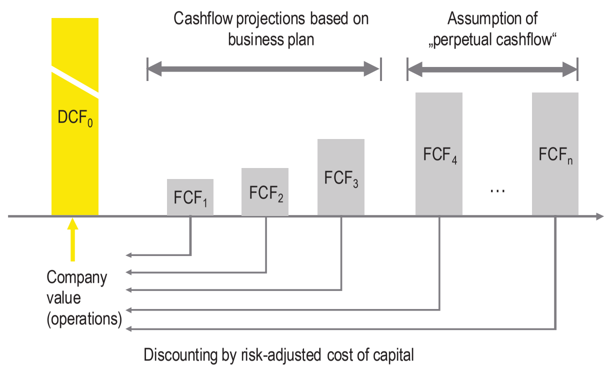
Conclusion

According to analyst reports as of 31 July 2013, a registered share of Acino is valued between CHF 80.0 and CHF 84.0.

DCF method

DCF method

Source: EY



Key assumptions of the business plan

Position in %	Average planning period	Terminal year
Scenario 1 – not adjusted		
Revenue growth	7.5	1.9
EBITDA margin	18.6	22.6
Investments in NWC % sales	(2.7)	(0.6)
Capex % sales	(9.7)	(7.8)
Scenario 2 – risk-adjusted		
Revenue growth	5.5	1.9
EBITDA margin	18.0	20.8
Investments in NWC % sales	(2.0)	(0.6)
Capex % sales	(9.8)	(8.2)

Source: Management, EY

DCF method

- The DCF method determines the operating value of a company by discounting the expected free cash flows at the weighted average cost of capital (WACC).
- The free cash flows represent the cash flows before financing activities and therefore the cash flows to which both, debt and equity holders, are entitled. To derive the equity value, the market value of the company's debt is deducted.
- If a going concern is assumed, the explicit business planning period is followed by an assumption regarding a sustainable free cash flow. This sustainable cash flow is the basis to calculate the residual value. This residual value includes the value of all future cash flows that follows the business plan period.

Assumptions

- The following general assumptions were made:
  - Valuation date: 25 September 2013. The cost of capital was calculated as per 25 September 2013. The business plan is as of September 2013. For net working capital and net debt, we chose the 30 June 2013 as reference date, since for this date we can rely on financial figures published by Acino. In our analyses, we have incorporated all relevant information that we were aware of until 25 September 2013.
  - Planning period: 2013 to 2015 plus a terminal value
  - Currency: EUR
  - Tax rate: Effective tax rate of 20.26% (Aesch, Canton of Basel-Landschaft)
  - Exchange rate EUR / CHF at 25 September 2013: 1:229

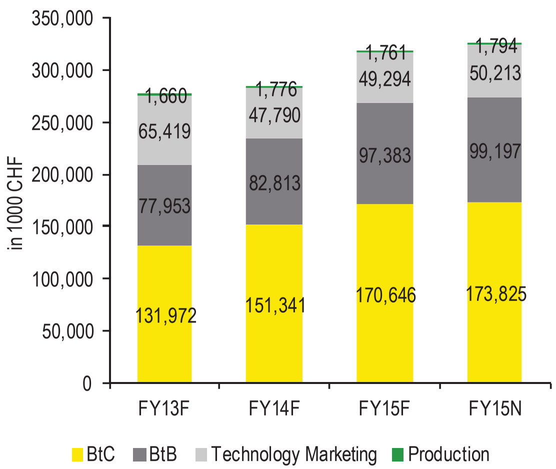
Business plan

- The DCF valuation (as of 25 September 2013) is based on a business plan, which was prepared by Acino's management. The business plan covers the second half of 2013, the fiscal years 2014 and 2015. The planning period is in line with the planning periods that have been assumed in the analysts' reports. The second half of 2013 is calculated as the difference between the forecast for FY13F and the half-year figures (1HY13A). The main assumptions of the business plan are shown in the adjacent table and are further described in the following.

DCF method

Scenario 1 – Sales growth per Segment

Source: Management



Scenarios

- For pharmaceutical companies sales strongly depend on the successful development as well as on the successful launch of new products. The probability of a successful development and launch is difficult to assess. Overall however, it is fair to assume that in the pharmaceutical industry, more than in other industries, some product developments and launches will not be successful (or will be delayed) and therefore will not generate the projected revenues (or generate the revenue only with a significant time delay).
- In order to account for this uncertainty with regard to sales, we calculated two scenarios in the DCF calculation. Scenario 1, which is based on the business plan of Acino's management, is only partly risk adjusted. Therefore, in Scenario 2 further risk adjustments were considered, in order to account for risks described earlier, meaning risks connected to the development of new products as well as product launches.

Sales

- The sales forecast in the business plan is based on a volume / sales calculation prepared by Management for each product and segment. In addition to sales generated by existing as well as in-licensed products, the business plan further assumes potential revenue generated by new products and new launches of existing products in additional countries.

Scenario 1

- In Scenario 1, the business plan prepared by Management was taken as an input to the explicit planning period 2013-2015 without any adjustments. Over the planning period, an average sales growth of 7.5% (CAGR) is expected. For FY13F, sales of EUR 277.0 million, for FY14F sales of EUR 283.7 million and for FY15F sales of EUR 319.1 million are expected. Sales in the first half of 2013 ("1HY13A") amounted to EUR 143.4 million. The sales development of each segment is shown in the adjacent graph.
- According to the BtC business plan, an average sales growth of 21.8% (CAGR) is expected over the planning period FY13F to FY15F. Based on this growth rate, BtC is expected to be the main sales driver for Acino over the planning period. According to Management, BtC is an emerging segment that has particularly gained importance with the acquisition of the Mepha business. Management considers this segment as robust and predictable. In comparison to the other segments, BtC is regarded as the most attractive segment.
- According to the BtB business plan, an average sales growth of 4.7% (CAGR) is expected over the planning period FY13F to FY15F. BtB is an established segment which, however, is confronted with increasing margin pressure and market consolidation. Therefore, Management only expects low sales growth in this segment.
- According to the Technology Marketing business plan, an average decline in sales of (13.4)% (CAGR) is expected over the planning period FY13F to FY15F. Similar to BtB, Technology Marketing is confronted with an increasing margin pressure. In addition, Management expects a decline in production of products for Teva.

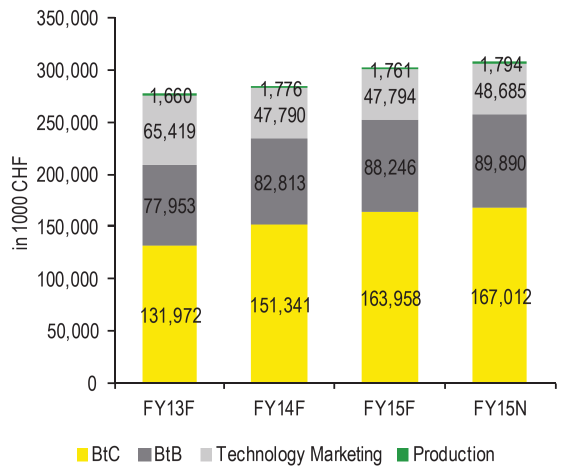
DCF method

Overall, Technology Marketing is not seen as a growth driver by Management. Rather, the segment contributes to the overall margin and currently helps to achieve an overall critical size.

DCF method

Scenario 2 – Sales growth per Segment

Source: Management



Scenario 2

- In Scenario 2, the business plan prepared by Management (Scenario 1) was adjusted with regard to FY15A. The adjustments reflect risk-adjustments for sales generated by new products and new launches. The adjustments were discussed with Management. According to Management, the figures for FY13F and FY14F are already risk-adjusted.
- For the planning period, this indicates an average sales growth of 5.5%. For FY13F sales of EUR 277.0 million, for FY14F sales of EUR 283.7 million and for FY15F sales of EUR 301.8 million are expected. The sales development per segment with regards to Scenario 2 is shown in the adjacent graph.
- For BtC, this results in an average sales growth of 20.2% (CAGR) over the period FY13F to FY15F. For FY15F, a risk-adjustment for new products and new launches is assumed to reflect risks associated with potential delays in the market launch of the new products.
- For BtB, this results in an average sales growth of 1.3% (CAGR) over the period FY13F to FY15F. In line with the segment BtC, a risk reduction is assumed for new launches. The risk adjustment reflects delays in the market launch of products, as well as the risk that products will not be launched at all.
- For Technology Marketing, an average sales decline of (14.4)% (CAGR) is expected over the planning period FY13F to FY15F. Again, for FY15F, a risk-adjustment with regards to new products and new launches is assumed to reflect risks associated with a delay in the market launch and the risks that products will not be launched at all.

DCF method

EBITDA

Scenario 1

- For the planning period, the business plan prepared by Management was assumed without any. This results in an average EBITDA margin of 18.6% over the planning period. For the second half of 2013 an EBITDA of EUR 20.3 million, for FY14F an EBITDA of EUR 51.0 million and for FY15F an EBITDA of EUR 72.2 million is expected. In 1H13A, the EBITDA amounted to EUR 22.2 million
- To calculate the residual value a sustainable EBITDA margin of 22.6% was assumed in Scenario 1. This is equal to the EBITDA margin in FY15F. According to Capital IQ, the average EBITDA margin of the last six years of Acino is around 20.6%. Given the historical EBITDA margin we deem the assumed EBITDA margin of 22.6% in the not risk-adjusted Scenario 1 as appropriate.

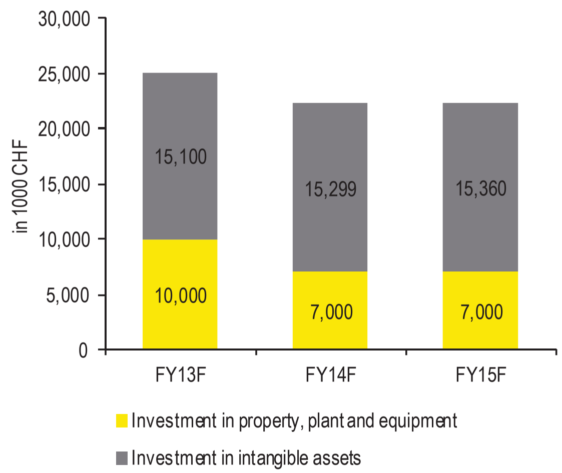
Scenario 2

- To calculate the EBITDA in scenario 2, we have reduced the cost components cost of goods sold (COGS) and selling and marketing expenses (Sales & Marketing) in proportion to the decrease in sales in the corresponding segment. We assumed that all other costs can be considered fixed costs and therefore remain unchanged by a change in sales.
- This results in a slightly lower average EBITDA margin of 18.0% over the planning period. For the second half of 2013 an EBITDA of EUR 20.3 million, for FY14F an EBITDA of EUR 51.0 million and for FY15F an EBITDA of EUR 62.7 million is expected.
- To calculate the residual value , a sustainable EBITDA margin of 20.8% was assumed. This is equal to the EBITDA margin in FY15F. Given Acino’s average EBITDA margin for the last six years of around 20.6%, we deem the assumed EBITDA margin of 20.8% in the risk-adjusted Scenario 2 as appropriate.

DCF method

Operational investments FY13F till FY15F

Source: Management



Depreciation / investment

- The adjacent graph shows the investment plan for FY13F to FY15F. During the planning period, we have assumed depreciation and capital expenditure in line with Management's business plan. In both scenarios (1 and 2), the same level of depreciation and investment were applied.
- Management expects that investments between EUR 22.0 million and EUR 25.0 million will be required in the upcoming years, of which between EUR 7.0 million and EUR 10.0 million are in relation with investments in property, plant and equipment. Between EUR 15.1 million and EUR 15.4 million are in relation with investments in intangible assets. The investments in intangible assets relate to Acino's capitalized development costs.
- Deferred purchase price payments, which will be due until FY15F, are not included in the operational investments. However, they were considered in the DCF analysis as a cash outflow in the years 2HJ 2013 (CHF 0.1 million), FY14F (CHF 4.6 million) and FY15F (CHF 4.6 million). In the market multiple approach the deferred purchase price payments were treated as "debt-like items".
- According to Management, the sustainable level of investment is around CHF 25.4 million. Assuming that the asset level at the end of the planning period will be maintained, we have set the depreciation in the terminal value equal to this long-term normalized investment level.

Investment in net working capital

- The investments in net working capital (NWC) in the planning period are expected to be between EUR 4.7 million (FY13F) and EUR 12.5 million (FY15F) in Scenario 1 and between EUR 4.7 million (FY13F) and EUR 7.0 million (FY14F) in Scenario 2. This is equal to a NWC as percentage of sales of 32.4% to 34.2% (Scenario 1) and of 32.4% to 34.1% (Scenario 2).
- To determine the NWC in the terminal value, we have assumed a NWC in percentage of sales of 34.2% (Scenario 1) and 34.0% (Scenario 2). This is equal to the NWC as a percentage of sales ratio in FY15F.

Additional valuation assumptions

Long-term growth rate

- In the DCF method, after the planning period an assumption about a sustainable free cash flow has been derived, which is used to determine the residual value. To calculate the residual value a long-term growth rate of the cash flows has been assumed. In the case at hand, a growth rate of 1.86% has been assumed. This corresponds to the average expected long-term inflation rate (Source: IHS Global Insight) for the euro zone,

DCF method

Non-operating assets

Currency: EUR 000	Jun13A
Non-operating cash	-
Deferred tax asset	6,936
Financial assets	3,900
Associated companies (Glochem Industries Ltd.)	3,255
Non-operating assets	14,091

Source: Management, EY

Net financial debt

Currency: EUR 000	Jun13A
Current financial liabilities	(17,841)
Non-current financial liabilities	(89,855)
Other non-current financial liabilities	(3,369)
Net pension scheme	(7,746)
Non-operating cash	-
Net financial debt	(118,811)

Source: Management, EY

the US and Switzerland, weighted by the sales-split in the respective currencies EUR, USD and CHF of the fiscal year 2012.

- Since Acino generates a considerable portion of its sales (especially BtC) in emerging markets and since in those countries inflation expectations are somewhat higher than those in the euro zone, the US and Switzerland, a higher terminal growth rate might be justified under certain circumstances. However, this might be offset by the developments in BtB and Technology Marketing, in which growth expectations are low or even negative. Therefore, we consider a growth rate of 1.86% as appropriate.

Non-operating assets

- Non-operating cash: Based on our analysis we considered all cash at valuation date as operational.
- Deferred tax assets: According to Management, there were deferred tax assets of EUR 6.94 million due to a tax loss carried forward as per 30 June 2013. There were no unused tax losses carried forward that have not been capitalized yet.
- Financial assets: According to the financial report from 30 June 2013, there were non-operating financial assets amounting to EUR 3.9 million.
- Investments in associated companies: According to the financial report Acino reported an investment of EUR 3.3 million (24.5 equity stake) in an associated company – Glochem Industries Ltd. The investment is non-operational.

Net financial debt

- In the DCF valuation net financial debt is deducted from the enterprise value to derive the equity value of the company. The net financial debt is the sum of all interest-bearing liabilities less non-operating cash.
- According to the half-year report, as at 30 June 2013 financial debt amounted to EUR 119 million.
- Assuming that all cash is operational as at 30 June 2013 net financial debt amounted to EUR 119 million. This is depicted in the adjacent table.

Contingent liabilities

- According to management there were no contingent liabilities.

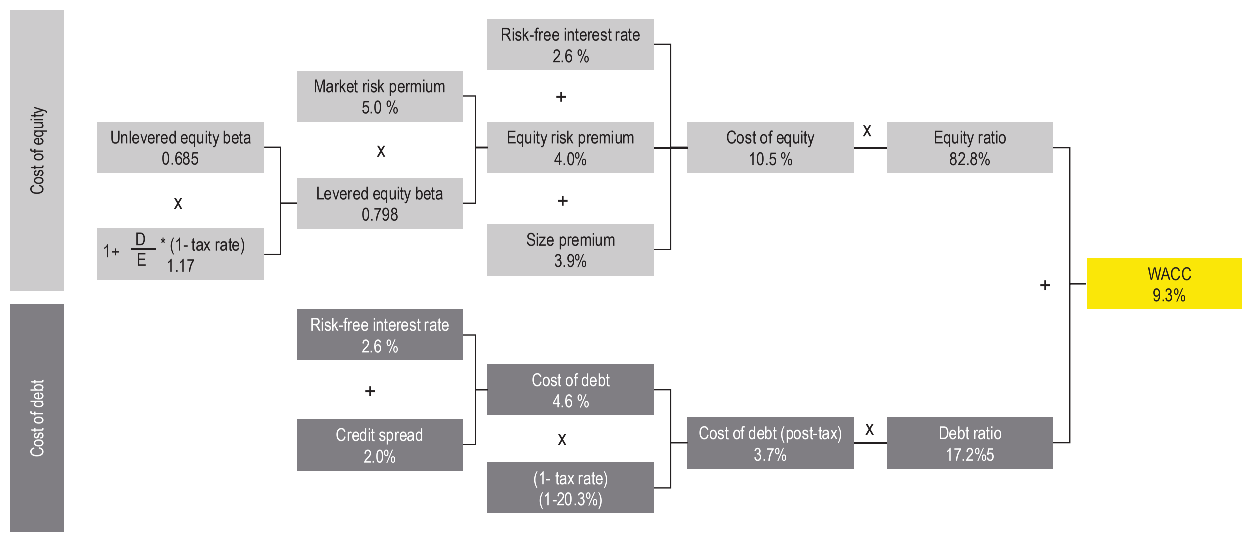
DCF method

Cost of capital

- The WACC describes the weighted average return required by debt and equity providers. Cost of equity is derived from the Capital Asset Pricing Model (CAPM). The cost of debt has been adjusted for the effective tax rate. Acino's WACC has been computed according to the graphic below.

Calculation scheme of the tax-adjusted WACC for Acino

Source: EY



DCF method

Cost of equity (rounded values)

Parameter	Input	Description	Source
Weighted risk-free interest rate	2.6%	The risk free rate describes the expected nominal return on risk free investments. As a nominal value, the risk free rate accounts for expected real interest rates and inflation.	Implied yield on 10-year government bond in the euro zone, Switzerland and the U.S.A. as at 25 September 2013, 5-year average, weighted according to the sales split in fiscal year 2012 in the respective currencies EUR, USD and CHF (Capital IQ)
Adjusted unlevered beta	0.685x	The beta reflects the systematic risk of a share, derived from the CAPM. This has been observed on the capital markets, and unlevered, according to their capital structure. This process of unlevering adjusts for the effects of different capital structures. We deem taking the same beta for all segments to be appropriate. Formula: Beta (unlevered) = adjusted Beta / (1+ D/E * (1 - tax rate)).	The adjusted unlevered beta has been derived from peer group median value (Capital IQ). Adjusted according to Blume.
Adjusted levered beta	0.798x	To calculate the systematic risk of Acino, the adjusted unlevered beta has been relevered, according to the target capital structure.	Relevering according to Hamada: Beta (relevered) = Beta (unlevered) * (1+ D/E * (1 – tax rate))
Market risk premium	5.0%	The market risk premium corresponds to the difference between the return of the underlying capital market and the risk free rate over a meaningful period of time.	Average market risk premium (market studies)
Size premium	3.9%	Empirical studies have shown that smaller companies (w.r.t. market capitalization) realize higher returns as compared to larger companies. These higher returns cannot be explained by the CAPM and can only be achieved through taking higher risks. Capital providers require to be compensated for these risks. A size premium, which increases the cost of equity accounts for this higher expected return.	Size premium for Micro-Cap (Ibbotson SBBI Valuation Yearbook 2013 – Morningstar)
Cost of equity	10.5%		

Source: EY

DCF method

Cost of debt (rounded values)

Parameter	Input	Description	Source
Weighted risk-free interest rate	2.6%	See above	See above
Credit spread	2.0%	Based on the creditworthiness of Acino, lenders require a risk premium on top of the risk-free interest rate. The credit spread was derived from local benchmark return (BBB) and local interest swap rate.	Credit spread based on Barclays Global Aggregate Index - BBB
Cost of debt	4.6%		

Source: EY

Capital structure and income tax (rounded values)

Parameter	Input	Description	Source
Debt ratio	17.2%	The debt ratio covers the average proportion of debt of the peer group. It is used to derive the weight of the cost of debt in the WACC calculation.	Derived from peer group median value (Capital IQ)
Equity ratio	82.8%	The equity ratio covers the equity proportion based on market values of the peer group at the valuation date. It is used to derive the weight of the cost of equity in the WACC calculation.	Derived from peer group median value (Capital IQ
Corporate income tax rate Acino	20.3%	The tax rate corresponds to the tax rate of a corporation in Aesch – Basel-Landschaft. The tax rate is utilized in the process of relevering the beta calculation and to calculate the tax shield due to borrowing costs.	Tax expert EY

Source: EY

DCF method

Scenario 1 – Valuation Acino (DCF)

Currency: EUR 000	EUR 000	CHF 000
Present value of free cash flows (2HJ13A-FY15F)	39,148	48,126
Present value of terminal value (from FY15N)	416,796	512,384
Enterprise value	455,944	560,510
Net financial debt	(118,811)	(146,059)
Equity value	337,133	414,451
Non-operating assets	14,091	17,323
Equity value	351,224	431,774
Number of shares issued	3,460,000	3,460,000
Equity value per share EUR / CHF	101.5	124.8

Source: Management, EY

Scenario 2 – Valuation Acino (DCF)

Currency: EUR 000	EUR 000	CHF 000
Present value of free cash flows (2HJ13A-FY15F)	38,470	47,292
Present value of terminal value (from FY15N)	330,117	405,826
Enterprise value	368,587	453,118
Net financial debt	(118,811)	(146,059)
Equity value	249,776	307,059
Non-operating assets	14,091	17,310
Equity value	263,867	324,382
Number of shares issued	3,460,000	3,460,000
Equity value per share EUR / CHF	76.3	93.8

Source: Management, EY

Valuation results Acino

- Based on the information received, our discussions with Management and our own considerations, we have calculated an equity value of EUR 351 million in Scenario 1 and an equity value of EUR 264 million in the risk-adjusted Scenario 2 as of 25 September 2013. Applying an exchange rate of EUR / CHF 1.229 (as of 25 September 2013) has yielded an equity value of approximately CHF 432 million in Scenario 1 and an equity value of approximately CHF 324 million in Scenario 2.
- Taking into account 3,460,000 registered shares outstanding, we have calculated an equity value per share of CHF 124.8 in scenario 1 and CHF 93.8 in scenario 2.
- The adjacent tables show the calculation of Acino's equity value based on the DCF method for Scenario 1 and Scenario 2

Conclusion

We have determined a value range between CHF 93.8 and CHF 124.8 per registered share.

DCF method

Sensitivity analysis

- A sensitivity analysis on the equity value per share was performed, whereby the WACC and the long-term growth rate were modified. The analysis demonstrates the sensitivity of the calculated value in relation to changes in the model's underlying assumptions.
- As illustrated in the following table, altering the WACC by ± 1.0% and the long-term growth rate by ± 0.5% causes the equity value per share to fluctuate between CHF 101.2 and CHF 160.3 in Scenario 1.

Sensitivity analysis Scenario 1: WACC and long-term growth rate

		Long-term growth rate				
		0.9%	1.4%	1.9%	2.4%	2.9%
	7.3%	151.1	163.9	179.1	197.3	219.7
	8.3%	127.7	137.0	147.7	160.3	175.1
WACC	9.3%	109.8	116.8	124.8	133.9	144.4
	10.3%	95.8	101.2	107.3	114.1	121.9
	11.3%	84.4	88.7	93.5	98.8	104.7

Source: EY

- As illustrated in the following table, altering the WACC by + 1.0% and the long-term growth rate by + 0.5% causes the equity value per share to fluctuate between CHF 75.3 and CHF 121.5 in Scenario 2.

Sensitivity analysis Scenario 2: WACC and long-term growth rate

		Long-term growth rate				
		0.9%	1.4%	1.9%	2.4%	2.9%
	7.3%	115.3	125.1	136.8	150.7	167.8
	8.3%	96.7	103.8	111.9	121.5	132.7
WACC	9.3%	82.5	87.8	93.8	100.6	108.5
	10.3%	71.3	75.3	79.9	85.0	90.8
	11.3%	62.2	65.4	68.9	72.9	77.3

Source: EY

Market multiple approach

Valuation with trading multiples based on EBITDA FY12A

Currency: EUR 000	EBITDA
Basis EBITDA FY12A	36,761
R&D adjustment (investment in intangible assets)	(12,617)
Adjusted EBITDA FY12A	24,144
Multiple FY12A	10.3x
Enterprise value (excl. cash and banks)	248,762
Cash and banks	7,108
Enterprise value (incl. cash and banks)	255,870
Net financial debt	(118,811)
Equity value	137,059
Non-operating assets	14,091
Deferred purchase price payments (discounted)	(8,345)
Equity value	142,805
Number of shares issued	3,460,000
Equity value per share EUR	41.3
FX rate	1.229
Equity value per share CHF	50.7

Source: Capital IQ, EY

Trading and transaction multiples

- The market multiple approach generally comprises two methods: the trading multiple approach (based on comparable public companies) and the transaction multiple approach (based on transactions of comparable public companies). The market multiple approach is a relative valuation method, which is usually used as backup method only, to corroborate the findings obtained through primary valuation methods.

Calculation of the equity value based on market multiples

- For the multiple approach we identified comparable companies (peer group) and transactions with the help of Capital IQ. The comparable companies and corresponding trading multiples are presented in the appendix. As part of the transaction multiple approach, we identified 18 transactions which we deemed suitable for the present analysis. Further details to the transactions are also presented in the appendix.
- Our valuation considerations were based on the EBITDA as reference figure. Basis of the multiple approach was FY12A.
- Since the selected comparable companies expense R&D costs, whereas Acino capitalizes R&D costs, the EBITDA of Acino was adjusted in order to ensure comparability. Therefore, investments in intangible assets in FY12A were deducted from the EBITDA
- The acquisition of Mepha took place on 17 February 2012 (closing). Thus, the EBITDA FY12A only reflects the operating result of Mepha from that date onwards. Assuming that Mepha had achieved a positive operating profit in January and February 2012, the EBITDA FY12A, which is the basis of the market multiple approach, is slightly too low. A higher EBITDA would, all else equal, increase the value per registered share based on the market multiple approach.
- Non-operating assets, consisting of deferred tax asset, financial assets and investments in associated companies were added.
- Furthermore, the discounted deferred purchase price payments for the second half 2013 to FY15F were deducted (future cash out, debt like item).

Market multiple approach

Valuation with transaction multiples based on EBITDA FY12A

Currency: EUR 000	EBITDA
Basis EBITDA FY12A	36,761
R&D adjustment (investment in intangible assets)	(12,617)
Adjusted EBITDA FY12A	24,144
Multiple FY12A	10.4x
Enterprise value (exkl. cash and banks)	251,818
Cash and banks	7,108
Enterprise value (incl. cash and banks)	258,926
Net financial debt	(118,811)
Equity value	140,115
Non-operating assets	14,091
Deferred purchase price payments (discounted)	(8,345)
Equity value	145,861
Number of shares issued	3,460,000
Equity value per share EUR	42.2
FX rate	1.229
Equity value per share CHF	51.8

Source: Capital IQ, EY

- The calculation of the per share value based on trading and transaction multiples is depicted in the two tables on the previous and on this page. Using the market multiple approach with the EBITDA as reference, we derived a value range between CHF 50.7 and CHF 51.8 per registered share.
- The valuation based on the market multiple approach yielded a comparably low equity value per share. This is mainly due to the comparatively low (adjusted) EBITDA value for FY12A. The expected EBITDA growth in the upcoming years is not reflected in the market value approach (as this is the case for the DCF method), as the approach is based on the EBITDA value in FY12A.

Conclusion

The market multiple approach resulted in a value range between CHF 50.7 and CHF 51.8 per registered share of Acino.

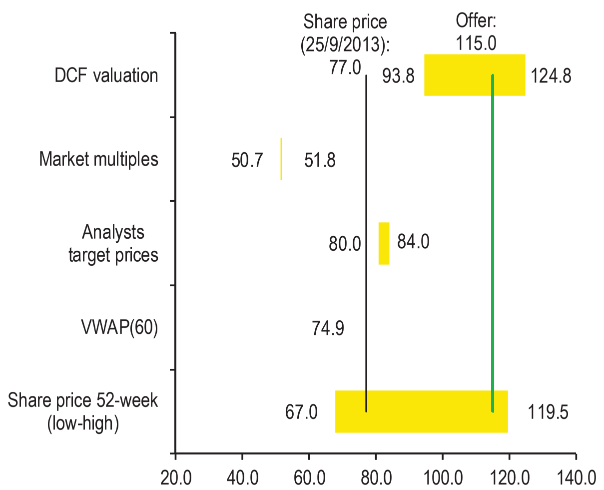
Overall assessment/fairness opinion

1. Overall assessment/fairness opinion

Overall assessment/fairness opinion

Overview valuation results Acino

Source: EY



Fairness opinion

- The adjacent graph summarizes the results of our analyses per registered share. Based on our valuation considerations, a value range of CHF 50.7 to CHF 124.8 was determined for one registered share with a nominal value of CHF 0.4.
- The valuation based on the market multiples (as compared to the DCF method) yielded a comparably low value range for one registered share of Acino. As mentioned earlier, this is primarily due to comparably low (adjusted) EBITDA in FY12A, which was the basis for the multiple calculation. The expected EBITDA growth is not reflected in the market multiples approach.
- As of 25 September 2013, the VWAP (60) (volume weighted average price) was CHF 74.9. The closing price was CHF 77.0 as of 25 September 2013.
- Therefore, the offer of Pharma Strategy Partners of CHF 115 per registered share corresponds to a premium of 53.5% over the VWAP (60) and a premium of 49.4% over the current closing price.
- From a financial point of view, the offer price of CHF 115 of Pharma Strategy Partners is considered fair.
- The fairness opinion has been completed on 25 September 2013.

Conclusion

From a financial point of view, the offer of CHF 115 of Pharma Strategy Partners is considered fair.

V. Rösch - Rütsche

Stefan Rösch-Rütsche
Partner

Louis Siegrist
Partner

Appendix

Abbreviations

1HJ 2013	First Half-year 2013
2HJ 2013	Second Half-year 2013
Acino	Acino Holding AG, Dornacherstrasse 114, CH-4147 Aesch
AG	Joint stock company ("Aktiengesellschaft")
API	Active pharmaceutical ingredients
BtB	Segment Business to Business of Acino
BtC	Segment Business to Consumers of Acino
CAPEX	Investments (Capital expenditures)
CAPM	Capital Asset Pricing Model
CHF	Swiss franc
CMO	Contract Manufacturing Organization
D	Debt
DCF	Discounted cash flow
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
E	Equity
EUR	Euro, Currency of the Eurozone
EY	Ernst & Young AG, Maagplatz 1, CH-8010 Zurich
FCFF	Free cash flows to the firm
FYXXA / FYXXF / FYXXN	Financial year 20XX actual / forecast / normalized
LFY	Last financial year
LTM	Last twelve months
MENA	Middle East and North Africa
NFY	Next financial year

Abbreviations

NWC	Net working capital
R&D	Research and development
USD	US American Dollar, Currency of the USA
EV	Enterprise value
VWAP	Volume weighted average price
WACC	Weighted average costs of capita)

Basis of our valuation

Contact person

Name	Position
Mr. Peter Burema	CEO Acino
Mr. Martin Gertsch	CFO Acino
Mr. Markus Strebel	Head Group Controlling
Mr. Alain Schaffter	Head Group Finance

Overview of received documents

Document name	Date	File type
Acrobat_ACIN Budget 2013 BP 2014-2018_EY.xls	30. August 2013	MS Excel
Acrobat_ACIN Budget 2013 BP 2014-2018_working version BilanzEY.pdf	2. September 2013	PDF File
Acrobat_Businessplan inkl. BGT13 und LE2_2012_angepasst EY.xls	8. September 2013	MS Excel
Acrobat_Businessplan inkl. BGT13 und LE2_2012_EY.xlsx	30. August 2013	MS Excel
fairness opinion_EY_version2.xlsx	6. September 2013	MS Excel
P&L für die Segmente BtC, BtB und Technologiemarketing	3. September 2013	Hardcopy
FX-Effekt auf Umsatz HY2013 EY.pdf	2. September 2013	PDF File
fairness opinion_EY_version3.xlsx	9. September 2013	MS Excel

Peer group to derive betas and trading multiples

Peer group, beta and trading multiple

Company	Ticker	Country	Currency	Market cap	Minority interests	Debt	Debt / total capital	Adjusted beta	Corporate income tax rate	Unlevered beta	EV / EBITDA LFY
ALK-Abelló A/S	CPSE:ALK B	Denmark	DKK	4,926	-	330	6.28%	0.751	25.0%	0.715	16.8x
Acino Holding AG	SWX:ACIN	Switzerland	EUR	219	-	108	32.98%	0.600	18.0%	0.428	14.2x
Galenica Ltd.	SWX:GALN	Switzerland	CHF	4,912	23	901	15.45%	0.787	18.0%	0.685	13.8x
Lonza Group AG	SWX:LONN	Switzerland	CHF	3,894	-	2,790	41.74%	0.979	18.0%	0.617	10.3x
Stada-Arzneimittel AG	DB:SAZ	Germany	EUR	2,184	28	1,523	40.76%	1.043	29.8%	0.703	9.6x
Siegfried Holding AG	SWX:SFZN	Switzerland	CHF	528	-	53	9.18%	0.838	18.0%	0.773	13.1x
Teva Pharmaceutical Industries Limited	NYSE:TEVA	Israel	USD	32,718	95	12,461	27.52%	0.596	25.0%	0.464	7.3x
Dr. Reddy's Laboratories Ltd.	BSE:500124	India	INR	413,295	16	43,995	9.62%	0.753	32.4%	0.702	16.6x
MPH Mittelständische Pharma Holding AG	DB:93MV	Germany	EUR	102	23	36	22.11%	0.171	29.8%	0.143	7.3x
Veropharm Co. Ltd.	MICEX:VRPH	Russia	RUB	9,050	-	1,885	17.24%	0.637	17.8%	0.544	6.9x
Antibiotice S.A.	BVB:ATB	Romania	RON	268	-	-	0.00%	0.876	16.0%	0.876	5.6x
Mylan, Inc.	Nasdaqgs:MYL	United States	USD	14,558	17	6,220	29.91%	0.873	35.0%	0.683	10.8x
Torrent Pharmaceuticals Ltd.	BSE:500420	India	INR	74,566	4	-	0.00%	0.778	32.4%	0.778	9.2x
High							0.00%			0.143	5.6x
Low							41.74%			0.876	16.8x
Average							19.45%			0.624	10.9x
Median							17.24%			0.685	10.3x

Source: Capital IQ
Values are in millions

Peer group to derive betas and trading multiples

Short description of peer group

ALK-Abelló A/S ALK-Abelló A/S, a pharmaceutical company, engages in the research and development, production, and sale of products for the diagnosis, prevention, and treatment of allergies.	**Acino Holding AG** Acino Holding AG develops, manufactures, and markets pharmaceuticals in novel drug delivery forms worldwide.	**Galenica Ltd.** Galenica Ltd. develops, manufactures, and markets pharmaceutical products primarily in Switzerland, Europe, and the United States.
Lonza Group AG Lonza Group AG supplies products and services to the pharmaceutical and biotechnology, healthcare, and life-science industries worldwide.	**Stada-Arzneimittel AG** STADA Arzneimittel Aktiengesellschaft engages in the development and marketing of active pharmaceutical ingredients for the health care and pharmaceutical markets worldwide.	**Siegfried Holding AG** Siegfried Holding AG engages develops and manufactures active pharmaceutical ingredients (APIs) and their intermediates worldwide.
Teva Pharmaceutical Industries Limited Teva Pharmaceutical Industries Limited develops, manufactures, markets, and distributes pharmaceutical products worldwide.	**Dr. Reddy's Laboratories Ltd.** Dr. Reddy's Laboratories Limited operates as an integrated pharmaceutical company. It operates in three segments: Pharmaceutical services and Active Ingredients (PSAI), Global Generics, and Proprietary Products. It primarily operates in India, the United States, Russia and other countries of the former Soviet Union, Europe, and others.	**MPH Mittelständische Pharma Holding AG** MPH Mittelständische Pharma Holding AG operates in the pharmaceutical and healthcare activities in Germany.
Veropharm Co. Ltd. Veropharm Co. Ltd. manufactures and sells pharmaceutical products.	**Antibiotice S.A.** Antibiotice SA engages in the manufacture of active ingredients and biofertilizers in Romania.	**Mylan, Inc.** Mylan Inc. engages in the development, manufacture, marketing, licensing, and distribution of generic and branded generic pharmaceuticals, specialty pharmaceuticals, and active pharmaceutical ingredients (APIs) worldwide.
Torrent Pharmaceuticals Ltd. Torrent Pharmaceuticals Limited, a pharmaceutical company, engages in the manufacture and sale of branded and unbranded generic pharmaceutical products.		

Source: Capital IQ

Overview transaction multiples

Overview transaction multiples

Closing Date	Percent sought(%)	Status transaction	Transaction value (EURm, Historical rate)	Target country	Target	Buyer / Investors	Implied EV / EBITDA
09/30/11	100.0%	Closed	9,653	Switzerland	Nycomed SICAR S.C.A.	Takeda Pharmaceutical Company Limited (TSE:4502)	10.9x
10/31/12	100.0%	Closed	4,536	Iceland	Actavis Group Hf.	WATSON PHARMA S.à r.l.	14.5x
11/16/10	45.9%	Closed	359	France	Stallergenes SA (ENXTPA:GENP)	Ares Life Sciences SA	14.3x
08/19/11	87.2%	Closed	324	Lithuania	Sanitas AB (DB:ZA5)	Valeant Pharmaceuticals International, Inc. (TSX:VRX)	10.8x
05/11/11	100.0%	Closed	294	Switzerland	Novartis AG, Global rights to Elidel	Meda AB (OM:MEDA A)	5.0x
03/11/11	27.3%	Closed	214	France	Stallergenes SA (ENXTPA:GENP)	Ares Life Sciences SA	12.7x
06/16/11	100.0%	Closed	81	Sweden	Biophausia AB	Medivir AB (OM:MVIR B)	10.4x
02/27/13	100.0%	Closed	75	United Kingdom	Kent Pharmaceuticals Limited	DCC Healthcare Ltd.	7.0x
12/31/10	100.0%	Closed	21	Sweden	BioPhausia, OTC Products	Meda AB (OM:MEDA A)	6.6x
11/30/11	100.0%	Closed	13	United Kingdom	Sinclair IS Pharma plc, Mysoline	SERB S.A.S.	6.5x
04/21/11	100.0%	Closed	365	United Kingdom	ProStrakan Group plc	Kyowa Hakko Kirin Co., Ltd. (TSE:4151)	25.3x
05/20/11	100.0%	Closed	59	United Kingdom	IS Pharma plc	Sinclair IS Pharma plc (AIM:SPH)	9.4x
04/09/10	100.0%	Closed	12	Latvia	Joint Stock Company "Grindeks" (RISE:GRD1R)	OJSC Pharmstandard (LSE:PHST)	15.8x
10/27/10	100.0%	Closed	12	Latvia	Joint Stock Company "Grindeks" (RISE:GRD1R)	SIA AB.LV Private Equity Management	9.0x
06/12/12	99.4%	Closed	543	Turkey	Mustafa Nevzat Ilaç Sanayii A.S.	Amgen Ilac Ticaret Limited Sirketi	n/a
09/14/11	100.0%	Closed	90	Turkey	Dr. F. Frik Ilac San. A.S.	Recordati SpA (BIT:REC)	n/a
10/03/11	63.9%	Closed	82	Morocco	Societe de Promotion Pharmaceutique du Maghreb SA (CBSE:PRO)	Hikma Pharmaceuticals plc (LSE:HIK)	n/a
01/21/13	100.0%	Closed	705	Norway	Pronova BioPharma ASA	BASF AS	6.0x
Low							5.0x
High							25.3x
Average							10.9x
Median							10.4x

Source: Capital IQ