co.don AG

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Information Memorandum II

Analysts

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EU Approval in Focus

The chief challenge for the future of co.don AG is approval across the EU for its lead products, medical treatment with chondrosphere®. In December 2013 the Company achieved a significant milestone with national marketing permission through the Paul Ehrlich Institute. This key recognition by German authorities serves as additional confirmation of the value of the company product. We expect this acceptance to have a decisively positive effect on the EU approval process.

Currently two studies required for general EU approval are being conducted: one regarding confirmation of dosages (phase II, patient recruitment completed) and the other for therapeutic comparison (phase III, with advanced recruitment efforts). The company expects approval by the end of 2016 at the earliest.

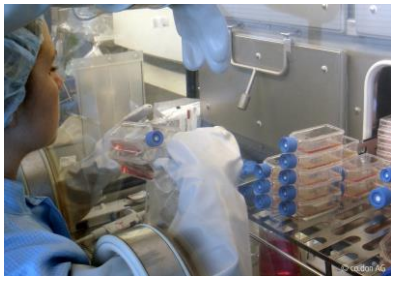
Additional efforts are being made toward the national approval of the treatment for intervertebral disk damage (co.don chondrotransplant® DISC). Marketing for this product in Germany can continue until approval under guidelines for "Hospital Exemption."

Operating results have been encouraging over the last twelve-month period, and especially in the first quarter of this year, due to marketing restructuring and cost cutting efforts: both revenues and unit sale volumes have increased significantly. Current liquidity is sufficient through June 2014, which underlines the need for additional capital.

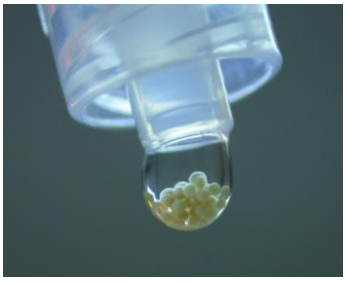
Capital increase

On April 22, 2014 a capital increase of up to €5 mln was agreed upon. The increase in capital has been structured with a 17:4 subscription rights ratio as well as oversubscription rights for existing shareholders. Remaining shares are to be offered to third parties in a private placement. The issue price is fixed at €1.90, with a subscription period from April 28 - May 13, 2014. Proceeds will be used for the continued efforts related to EU approval (€4 mln) as well as for further development of the treatment for intervertebral disk damage (€1 mln).

Cultivation of cartilage cells



3D-culture in suspended drops



Source: co.don AG

Sector	Pharma & Healthcare
WKN	A1K022
ISIN	DE000A1K0227
Bloomberg/Reuters	CNWK GY/CNWKk.DE
Accounting standard	HGB
Financial year	Dec 31
Interim report H1	Aug 1, 2014
Market segment	Regulated Market
Transparency standard	General Standard

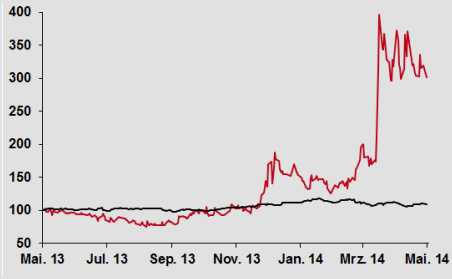
Operating figures (in € mln)

	2011	2012	2013
Revenues	2.316	2.693	3.622
EBITDA	-0.862	-2.262	-2.476
EBIT	-1.019	-2.404	-2.682
Net result	-1.010	-2.381	-2.684

No. of shares (in ths)	11,109
MarketCap / EV (in € mln)	30.25 / 29.62
Free float (in %)	45.46
Ø daily trading volume (3M, in € ths)	235.9
12M high/low (in €)	3.59 / 0.68
Price May 5, 2014 (in €; close)	2.72

Performance	**1M**	**6M**	**12M**
absolute in %	-5.4	192.5	192.5
relative in %	-2.5	182.2	166.6

Benchmark index DAXsector All Pharma & Healthcare



co.don AG (red/light) vs. DAX Sector All Pharma & Healthcare Performance Index (black)
Source: Bloomberg

Introduction

Personalized treatment is the key to the future of medicine. This means consideration not only of individual medical history and diagnosis but also treatment customized to the personal constitution of the patient. These principles not only apply to pharmacological treatments but also to regenerative, cell-based therapies.

Over 6,000 patients in more than 150 clinics

For roughly two decades, co.don AG has specialized in cartilage tissue regeneration, developing a patented methodology for the extraction, cultivation, and re-implantation of the patient's own (autologous) cartilage cells. Since 1997 this treatment has been marketed primarily in Germany and applied at over 150 clinics, private practices and hospitals. Over 6,000 patients have been successfully treated, to date. Currently, the treatment methodology (Matrix associated Autologous Chondrocyte Transplantation, M-ACT) is applied chiefly to cartilage defects of the knee or ankle, while it is increasingly also applied to hip, elbow and shoulder treatments. The number of patients treated for intervertebral disk damage is currently around 600. However, of the roughly 100,000 cases of intervertebral disk ailments in Germany requiring treatment every year, up to approximately 20% could, in fact, be treated with the co.don methodology. Since 2007, the treatment has been reimbursed by both state and private insurance companies for knee and hip treatments, which has led to a significant increase in revenues. Since 2008, the methodology has also been accepted for intervertebral disk defects.

Due to the minimally invasive approach of M-ACT we see a general increase in its application as an alternative to conventional treatments relying on joint replacement.

Technological State of the Art

Latest methods and the highest quality standards

Company research and development has resulted in the third generation of cell-based, autologous cartilage replacement therapy. With this approach, cartilage cells extracted from the patient are cultivated as spheroid, i.e. three-dimensional, cell clusters in the patient's own blood serum without the necessity of additional substrates. For this approach, co.don AG has developed unique proprietary cell cultivation and clean room technology which meets the highest quality standards and regulatory requirements. The Company's spheroid technology avoids the necessity of external biological or synthetic substrates, since the cells produce their own matrix in three-dimensional framework. This demonstrates how closely the methodology resembles natural biological processes. Within just about 20 minutes the spheroids stably adhere to the cartilage defect. No additional adhesives, fixatives or additional covering is required for the treated area.

First and second generation treatments, which are occasionally offered by competitors, consist of individual-cell transplants which are applied with cell suspensions or biological/synthetic substrates. With such approaches, the cells require an additional fixative over the defective area consisting of periosteum (bone membrane) or other biological membranes.

Benefits of the co.don approach confirmed through clinical data

The spheroid methodology of co.don AG permits a minimally invasive, often purely arthroscopic procedure while first and second generation procedures almost always require more significant, more invasive operations. Clinical data with over five years of observation attests to the fact that spheroid technology yields more rapid rehabilitation as well as reduced pain and swelling. Controlled clinical studies one year after treatment reveal that patients enjoying the benefit of the spheroid methodology are more active and experience improved quality of life. Furthermore, in contrast to alternative procedures, the exclusive use of autologous tissue, i.e. the patient's own cells (cartilage as well as serum for cell cultivation), is virtually devoid of unwanted side effects.

Market Potential

According to the Barmer Insurance Hospital Report 2010, "Trends in Hip and Knee Joint Replacement" (*Barmer GEK Report Krankenhaus 2010, „Trends in der Endoprothetik des Hüft- und Kniegelenks*") each year 210,000 hip replacement operations and 175,000 knee replacement operations are performed in Germany (status: 2010). Company projections assume that 15% of these operations may take advantage of co.don products [a conservative estimate compared to expert opinions citing a 20% rate (e.g. Dr. W. Zinser 2011, Dinslaken Clinic, Chief Surgeon Orthopedics)]. This amounts to a market of 58,000 treatments annually. Based on Company planning (average price of €5,000 per treatment), market potential in the German arena amounts to approximately €290 mln annually (peak sales).

Even conservative estimates point to enormous market potential

With EU-wide approval, this potential quadruples to approximately €1.2 billion annually. With co.don targets of 20% market share, annual revenue volume for the Company´s products approaches roughly €240 mln.

With the achievement of the decisive milestone at co.don AG, i.e. approval across the entire EU, in our opinion the potential for market leadership - even with conservative projections - increases significantly along with significant growth and revenue potential.

Similar importance for financial success may be placed on the insurance conditions in each of the region's individual countries. Even in Germany, such conditions are in flux, although recent events have been advantageous for the company. In particular, application of Chondrocyte Transplantation entails an attractive contribution margin for the clinics.

Current Studies / EU Approval

Currently two studies are running in conjunction with EU approval, which could be obtained as early as 2016. A Phase II study serves to confirm dosage; results thus far provide evidence of efficacy after one year as well as treatment safety. A comparative Phase III study (chondrosphere® vs. microfracturing) is currently in the advanced stages of recruiting.

With successful approval, co.don AG anticipates being the only German enterprise able to offer M-ACT across the entire EU. Current cost projections for the studies are estimated at a total of approximately €9 mln, of which €5 mln have already been incurred; the remaining €4 mln are to be covered by the current corporate action.

Corporate Development

Although the company has yet to turn a profit, revenues have consistently increased over the years. Furthermore, costs per procedure have continuously been improved over the last several years.

In the 2013 annual report, the Management Board projects financing to be sufficient through June 2014. These circumstances attest to the urgent necessity to carry out another round of financing. In the previous report, funding was seen as secure to cover the period until November of this year, however, more expensive strategic investments (EU approval) have contracted this timeframe. Furthermore, delays in a planned licensing agreement have led to additional financial bottlenecks.

New marketing structure - single source solution

After terminating an agreement with Ormed GmbH effective 30 June 2013, the Company embarked on the restructuring of marketing activities, now conducting direct marketing internally. This strategy has led to positive results, taking advantage of hands-on, internal expertise which allows improved, on-site support of the customer base. Supplemental marketing efforts include specialized congresses and conventions such as the Berlin Cartilage Symposium (*Berliner Knorpelsymposium*). These events serve as a forum for presentations to and discussions with experts in the field, in particular the practitioners of regenerative cartilage treatments.

Since June 2011 the company has had contractual agreements with Asklepios Clinics, licensing them to apply the co.don methodology (co.don chondrosphere®). In addition, several large-scale clinical groups such as Charité and Vivantes have been won over as clients. Currently co.don AG now commands a customer base of over 150 treatment providers in Germany from university clinics to private practices.

Operations in 2013 and 1Q14 reliably on target

In the business year just concluded, both unit volume (+14%) as well as revenues (+34%) have been increased significantly. However, costs have increased by roughly 13% over previous year's results to €2.7 mln. This is due to strategic commitments such as EU approval efforts, an increase in personnel costs (+7 new employees over the previous year's total of 43) as well as costs associated with the marketing restructuring described here.

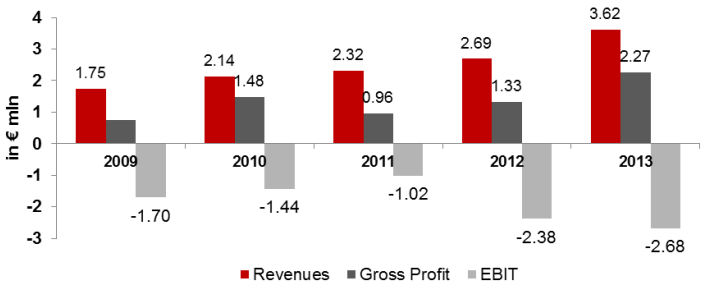
Operating cash outflow could be reduced by €770,000 in 2013, which translates into an impressive 33% savings. Free cash flow also showed significant positive signs with improvement of € 561,000 or 28%, even despite considerable investments in R & D, quality control and production. Total outflow amounted to €1.63 mln, leaving cash on hand at the year end amounting to €1.20 mln.

The company bears no long-term liabilities and according to the 2013 annual report, fixed assets are fully covered by equity (158%).

The latest quarterly report is reason for optimism. Marketing restructuring and improved pricing policies seem to be bearing fruit: revenue increased by 26% to €1.1 mln and shortfalls for the period (€303,000) were cut almost in half (-43%).

As of 30 March 2014 the company commands liquid assets amounting to € 688,000.

Historical Key Figures



Source: co.don AG, Capital IQ

Competition

We have identified three competitors for cartilage regeneration in the German and European market:

TiGenix NV, Leuven, Belgium

The company has been listed on the Euronext exchange since 2007, marketing a cell-based product, ChondroCelect, which has been approved across Europe for autologous cartilage regeneration of the knee. Currently the product is marketed in the Benelux region as well as Germany, the UK, Finland and Spain. ChondroCelect applies first and second generation technology, i.e. a cell suspension is implanted in the treated area with or without the aid of a substrate.

Tetec AG, Reutlingen, Germany

As a subsidiary of B. Braun, Tetec AG has the advantage of established marketing channels. The cell-based product line NOVOCART is marketed through the business unit "Aesculap," a medical technology and product vendor focusing on surgery and orthopedics. The product line is provided in Germany for the treatment of knee cartilage defects as well as herniated disks.

Genzyme/Verigen, Neu-Isenburg, Germany (now Sanofi SA)

With the acquisition of Verigen AG in 2005, Genzyme gained access to M-ACT technology. Marketing efforts for the product include Germany. As a result of a hostile takeover, at the beginning of 2011 the company became a wholly-owned subsidiary of the Sanofi conglomerate.

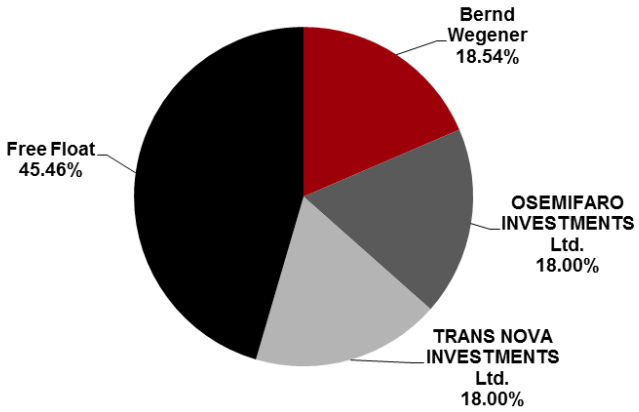
Given the significant market potential, we regard a competitive playing field among just three vendors to be highly manageable. With its already well advanced studies for product approval across Europe, co.don AG has a clear marketing advantage, at least over its German rivals. Particularly in the lucrative market for cell-based intervertebral disk regeneration the Company considers itself to be in head-to-head competition with the NOVOCART Disc product of the company TETEC.

co.don AG´s Stock

Since the beginning of the year, stock prices for co.don AG have virtually doubled (+89.6%) even in the absence of significant announcements (close May 5, 2014) while the relevant comparable index (DAXsector All Pharma & Healthcare) retreated by 2.5%. The rapid increase for the stock began in March and peaked at €3.59. This increase was also associated with a relatively high trading volume: Average daily trading volume since beginning of the year amounts to 64,050 shares. On April 7, 2014 the company announced that Quinarius AG reduced its stake in voting shares from 7.35% to 2.67%. There are currently no other announcements regarding voting shares.

Annualized volatility based on daily return since the beginning of the year reflects a clear advance, rising to 128%.

Shareholders



Source: co.don AG, BankM

Dr. Bernd Wegener has been Chairman of the Supervisory Board since 2010. As Chairman of the Federal Association of the Pharmaceutical Industry (*Bundesverband der Pharmazeutischen Industrie*) and as an investor he plays a vital role in the Company. In our opinion, the involvement of Dr. Wegener further confirms the potential of the co.don methodology.

Important information, disclosures and disclaimer

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Authors: Dr. Roger Becker, CEFA und David Szabadvari, CEFA, Analysts

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Notice according to sec. 4 §. 4 N^{o} 4 FinAnV (previous publications regarding the issuer at least within the last 12 months):

Analysts	Date	Valuation Result	Fair Value
Dr. Roger Becker, David Szabadvari	October 14, 2013	No valuation	n.a.

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Main sources of information for the compilation of this document are publications in national and international media and information services (e.g. Reuters, VWD, Bloomberg, dpa-AFX and others), financial newspapers and magazines (e.g. Börsenzeitung, Handelsblatt, Frankfurter Allgemeine Zeitung, Financial Times and others), specialist media, published statistics, rating agencies as well as publications by peer group companies and the company itself. Furthermore talks with the management of the issuer have been held. This document was made available to the issuer before publication according to DVFA Standards to ensure the accuracy of the information provided. This resulted in some textual changes.

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3. Date of first publication of this document:

May 6, 2014

4. Date and time of prices of the instruments quoted in this document:

Prices as of May 5, 2014

5. Updates:

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