Akkadian Partners Fund has acquired over a 5% shareholding and voting rights in Erytech

Paris – 12 May 2023 – 6pm – Akkadian Partners SA (“Akkadian”) has announced that Akkadian Partners Fund, a Luxemburg registered securitisation fund under its management, now holds over a 5% shareholding and voting rights in Erytech SA (“Erytech”).

Akkadian has conducted a detailed analysis of the merits of the proposed strategic alliance between Erytech and Pherecydes Pharma (“Pherecydes”) with particular focus on the strategic alignment of the expertise between the two companies, on their market competitiveness, their future prospects and the respective valuations chosen in this merger. Following this analysis, Akkadian has concluded that the merger between Pherecydes and Erytech does not serve the interests of Erytech’s shareholders.

Akkadian is willing to work constructively with Erytech’s management with a view to finalizing a strategy that will enable to Erytech’s significant cash resources to be effectively deployed.

Akkadian believes that the chosen market value of Pherecydes is unjustified and overvalued compared to that of Erytech. Pherecydes is on the verge of going into bankruptcy and had to undertake a €1.5 million capital increase, fully subscribed by its shareholders, in February 2023 before its General Assembly meeting scheduled in June 2023

This chosen market valuation appears solely dictated by the concern to protect Pherecydes shareholders, in particular Auriga IV Bioseeds: (**i**) Elaia Partners, acting on behalf of Auriga IV Bioseeds, which holds approximately 23% of the share capital of Pherecydes; (**ii**) Auriga Ventures III which holds approximately 3,70 % of the share capital of Erytech, (**iii**) the representative and joint manager of these two "Auriga" shareholdings is Mr. Franck Lescure, which constitutes a clear conflict of interest. Elaia Partners, acting on behalf of Auriga IV Bioseeds, subscribed to half of the €1.5 million capital increase of Pherecydes, i.e. well over the percentage of its shareholding in Pherecydes.

Finally, Akkadian notes that the allocation of managerial roles is entirely skewed in favour of Pherecydes, which will fill the roles of Chairman (Mr. Didier Hoch) and CEO (Mr. Thibaut du Fayet), whereas the current CEO of Erytech (Mr. Gil Beyen) would simply act as Chairman and CEO of its US entity. Specifically, he will manage seven people in the future whereas he currently manages 50 people and managed 181 people on 31 December 2021. The reasons for this are inexplicable but which might be dictated by personal and family/marital interests.

Akkadian requests that Erytech's Board of Directors immediately cease incurring costs on this transaction which clearly goes against the interests of Erytech's shareholders (already 1.2 M€ have already been spent) and focus its efforts on finding solutions that can generate short and medium term value for all Erytech's shareholders…and not for Pherecydes shareholders.

1. Concerning the lack of relevance of the alliance between Pherecydes (phagotherapy) and Erytech

Our analysis highlights the following weaknesses in Pherecydes:

- **The Pherecydes product portfolio has limited commercial potential**
  - Its positioning as a last-line therapy has resulted in:
    - A low number of patients as illustrated by the small number of treatments administered under the Compassionate Access Authorisations (ACCs) obtained in May 2022;
    - The critical clinical condition of patients with a very high mortality rate.

- ◦ Each product is extremely targeted and limited to a given species type of bacteria or to one or more strains within this species, thereby requiring very high precision and the need to combine treatments with antibiotics to produce an effective therapeutic impact which in turn entails increased risks in terms of tolerance and additional costs;
- ◦ A complicated treatment rationale: selection of the bacteria strain, phagogram, delivery of one or more active bacteriophages;
- ◦ Difficult «*in situ*» delivery, creating an obstacle to acquiring new clients;
- ◦ The need to reconstitute the product in a hospital pharmacy environment which poses an additional difficulty for new potential clients;
- ◦ The choice of targets is questionable:
  - There are no precise indications for the anti-*Pseudomonas aeruginosa* and anti-*E.col* bacteriophages;
- ◦ The low cost of treatments: the low cost of antibiotics and the major difficulty of obtaining a premium price;
- ◦ No presence on the US market.

- **The ability to complete the treatment is improbable**
  - ◦ The difficulty of obtaining the registration of the products;
  - ◦ No interest for antibacterial agents among big phara companies;
  - ◦ Its highly complex pricing making any commercial launch without a partner impossible.

- **Clinical development is complicated**
  - ◦ Infectiology trials which are typically complicated are even more so because of the abovementioned difficulties, namely: the need to select strains that respond to treatment (phagogram), the need to add active antibiotics to the treatment protocol, requiring a large cohort of patients in many hospitals at high cost; this is illustrated by the difficulties faced in the PHAGODAIR study with an initial patient recruited in a clinical trial in June 2022 and about which there has been no news since;
  - ◦ No significant results in clinical development and with Compassionate Access Authorisations (ACCs).

- **Non sustainable manufacturing**
  - ◦ Manufacturing is fully outsourced and know-how is disseminated among potential competitors («MB Pharma») with total dependency on sub-contractor manufacturers and research sub-contractors;
  - ◦ High production costs since there are no phage associations enabling cost savings in terms of quality control (QC) and manufacturing.

- **The management team is undersized**
  - ◦ The medical team is undersized, hence the long delay in launching the PHAGODAIR clinical trial;
  - ◦ A lack of commercial development or market access activities, as evidenced by the lack of results with Compassionate Access Authorisations (ACCs).

- **Fiercer competition in this sector with approaches that relate to the points mentioned above.**
  - ◦ Armata Pharmaceuticals (New York Stock Exchange -USA):
    - Announcement of positive Phase I/II trial results according to good manufacturing practices (GMP) in-house internal standards in the US;
    - In-house manufacturing in a GMP plant in the US;

    - Over US$30 million in financing.
  - Adaptive Phage Therapeutics (USA):
    - 3 clinical trials in progress;
    - In-house GMP manufacturing plant in the US;
    - Major B series financing of US$61 million in 2021;
    - Partnership with Mayo Clinic;
    - Solid managerial team recently bolstered in clinic research.

2. Concerning the unbalanced terms of the strategic alliance between Erytech and Pherecydes

- **On the excessive valuation of Pherecydes**

In their joint press release dated 15 February 2023, Erytech and Pherecydes announced a proposed strategic merger, whereas in actual fact this merger involves amalgamating Pherecydes with Erytech, as mentioned three pages further on.

The joint presentation of the proposed operation (February 2023) on the Pherecydes website states that the merger is "between equals" at a "parity fixed at 4 PHERECYDES shares against 15 ERYTECH shares (49.5% / 50.5% on a fully diluted basis)", i.e. at parity of 1 to 1 in valuation terms.

However, there is no reason to set the value of Pherecydes at an amount equivalent to that of Erytech.

- Erytech was incorporated in 2004 and was floated on the French stock exchange in April 2013, with a post-IPO market value of €64.3 million; it is listed on the Compartment C Euronext market;

  Pherecydes was incorporated in 2006 and was floated on the French stock exchange in February 2021, with a post-IPO valuation of €34.9 million; it is listed on the Euronext Growth market.

- Erytech has raised funds of nearly €400 million in France and the US and has achieved a market value of nearly €400m since its IPO in 2013;

  Pheredyces has raised funds of only €25.6 million in France since it was incorporated in 2006, of which €12.6m since its IPO in 2021. It had a market value of €13.8 million in December 2022 before proposed strategic alliance with Erytech was announced.

- Erytech had a cash flow of €38.8 million on 31 December 2022 (Erytech press release of 22 March 2023);

  Pherecydes had a cash flow of €1 million on 31 December 2022, strengthened by a fundraising of €1.5 million partially subscribed by Auriga IV Bioseeds to allow the company to maintain its business activity until the merger is finalized (Pherecydes press release dated 30 March 2023).

If Pherecydes had not received the sum of €1.5 million, invested solely with a view to the merger with Erytech, Pherecydes would have lacked the financial resources to pursue its business activity.

Nothing would have prevented Erytech from considering a project to acquire Pherecydes that would serve its own interest and the interests of its shareholders based on a value of "one symbolic euro" or of considering another type of merger other than at a parity of 1 for 1, in particular by involving Erytech in the share capital of Pherecydes through a rights issue or through via the subscription of bonds convertible into shares issued by Pherecydes.

In the light of the above, there is no justification for choosing an equivalent value for Erytech and Pherecydes and no grounds for merging these two structures.

This is all the more true since this merger seems to been largely influenced by Auriga Partners, who is a shareholder of both Erytech and Pherecydes, in the interest of its own shareholding in Pherecydes.

- **Concerning the conflict of interests**

In their joint press release of 15 February 2023, the two companies stressed that the transaction has the full support of the main shareholders of Erytech and Pherecydes, namely Auriga Partners (acting on behalf of Auriga Ventures III) on the Erytech side and of Elaia Partners (acting on behalf of Auriga IV Bioseeds) on the Pherecydes side.

Elaia Partners is headed by a former Auriga Partners executive, Mr. Franck Lescure, and has financially supported Pherecydes as its historical shareholder by contributing €660,000 to its IPO (Pherecydes press release of 2 February 2021), in a fundraising of €1 million in September 2022 (Pherecydes press release of 22 September 2022) and in its most recent fundraising in February 2023 of €747,000 (Pherecydes press release of 17 February 2023).

Elaia Partners' interest in participating in Pherecydes' latest fundraising could only have been driven with a view to entering into an alliance with Erytech, as revealed in the press releases of both companies.

Indeed, Pherecydes itself acknowledges that the last fundraising of €1.5 million, in which Elaia Partners contributed one half, provided it with "*financial visibility until the completion of the merger planned for the end of the 1st half of 2023*"; "*the current level of cash flow allows Pherecydes Pharma to finance its cash requirements until the end of the first half of 2023, the date planned for the merger with Erytech*" (Pherecydes' press release of 30 March 2023).

In other words, if the merger does not go ahead, Pherecydes will no longer have the financial resources to pursue its business activity as of 1st July 2023.

Pherecydes shareholders therefore wish to proceed with this merger with Erytech in order to benefit from its cash flow.

It is therefore clear that the merger with Erytech based on an equivalent value of the two companies is in the sole interest of Pherecydes shareholders, that it disadvantages Erytech shareholders and that it solely benefits the management team of Pherecydes and Auriga Partners, Elaia Partners and the funds that the latter two companies manage through Monsieur Franck Lescure.

This constitutes a major conflict of interest which highlights a lack of loyalty and ethics towards the shareholders of Erytech in the management of the company.

Akkadian therefore intends to oppose this merger by every means at its disposal and to inform Erytech's managers that no future decision should be taken which could be contrary to the interests of the company and of each of its shareholders.

Akkadian intends to propose investment projects to Erytech's management that differ from the one which entails its disappearance that benefits Pherecydes simply to satisfy the interests of a single shareholder, Auriga Partners/Elaia Partners and a single management team, that of Pherecydes.

About Akkadian Partners

Akkadian Partners manages a multi strategy investment fund, mostly in the health sector. The fund manages shareholders in several pharmaceutical and biotechnology companies in the US and Europe. Akkadian invests the money of its managers and investors which include Family Offices and Ultra High NetWork Investors (UHNWIs).

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