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Free translation of the original report entitled "Rapport du Commissaire à la fusion sur la rémunération des apports" dated May 15, 2023. In case of discrepancies in translation or interpretation between English and French versions, only the French version shall prevail.

ERYTECH PHARMA

Limited company (*société anonyme*) with a Board of Directors and capital of
€3,101,855.30

60, avenue Rockefeller
69008, Lyon, France

Lyon Trade and Companies Register no. 479 560 013

PHERECYDES PHARMA

Limited company (*société anonyme*) with a Board of Directors and capital of €7,939,179

22, boulevard Benoni Goullin
44200, Nantes, France

Nantes Trade and Companies Register no. 493 252 266

**Merger by absorption of PHERECYDES PHARMA
by ERYTECH PHARMA**

**Merger Auditor's report
on the remuneration of the contributions**

*Order of the Presiding Judge
of the Commercial Court of Lyon
of February 28, 2023*



Merger Auditor's report on the remuneration of the contributions to be made by PHERECYDES PHARMA to ERYTECH PHARMA

Dear Sir or Madam,

In accordance with the assignment entrusted to us by the Presiding Judge of the Commercial Court of Lyon on February 28, 2023, with regard to the merger by absorption of PHERECYDES PHARMA by ERYTECH PHARMA, we have prepared this report on the assessment of the exchange ratio used to determine the remuneration of the contributions, as provided for by Article L.236-10 of the French Commercial Code, it being specified that our assessment of the value of the contributions is the subject of a separate report.

The exchange ratio was set out in the draft merger agreement signed by the representatives of the companies concerned on May 15, 2023 (hereinafter, the "Merger Agreement").

It is our responsibility to express an opinion on the fairness of the exchange ratio. To this effect, we carried out our procedures according to the professional standards issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) applicable to this assignment. These professional standards require the implementation of procedures intended both to verify that the relative values assigned to the shares of the companies taking part in the operation are relevant and to analyze the positioning of the exchange ratio compared with the relative values deemed relevant.

As our assignment will at the date this report is delivered, it is not our responsibility to update it in order to take into account events and circumstances occurring after its date of signature.

We specify that this report, prepared within the framework of French regulations, does not confer any right under any other law or regulation, even if the Merger is open to shareholders residing in other countries and in particular in the United States.

At no time did we find ourselves in any of the situations of incompatibility, prohibition or forfeiture provided for by law.



Please find our observations and conclusions below, presented in the following order:

1. Presentation of the operation
2. Verification of the relevance of the relative values assigned to the shares of the companies taking part in the operation
3. Assessment of the fairness of the proposed exchange ratio
4. Summary – Key points
5. Conclusion



1 Overview of the proposed operation and description of the contribution

1.1 Context of the operation

ERYTECH PHARMA (hereinafter, “ERYTECH” or the “Acquiring Company”) is a clinical-stage biotechnology company developing innovative therapies based on internal research and development programs, to treat patients with diseases in therapeutic areas whose needs are currently not being met, mainly based on red blood cells.

PHERECYDES PHARMA (hereinafter, “PHERECYDES” or the “Acquired Company”) is a clinical-stage biotechnology company developing innovative treatments based on internal research and development programs, to treat patients with diseases in therapeutic areas whose needs are currently not being met, mainly based on bacteriophages.

On February 15, 2023, ERYTECH and PHERECYDES signed a memorandum of understanding (hereinafter, the “MoU”) for the planned merger by absorption of PHERECYDES by ERYTECH (hereinafter, “the Merger”).

On the same date, certain PHERECYDES shareholders undertook to contribute, prior to the completion of the Merger and in accordance with the support commitments entered into when the MoU was signed, a portion of their PHERECYDES shares to the Acquiring Company, in exchange for newly issued ERYTECH shares, according to the same exchange ratio as for the Merger.

The Merger is part of a strategic combination with the aim of creating a global leader in phagotherapy. It aims to leverage the financial resources and teams of PHERECYDES and ERYTECH to simultaneously accelerate and expand PHERECYDES’ existing phagotherapy development programs, launch new candidate phages and potentially broaden the scope of application of new therapeutic modalities by using advanced technological platforms and the expertise of both companies.

The financial visibility of the merged entity would last until the third quarter of 2024, with a consolidated cash position of around €41 million as at December 31, 2022, and would enable the financing of multiple clinical stages of some of its existing and future programs.

When the Merger is complete, the former PHERECYDES shareholders will hold around 49.0% of the merged entity.



1.2 Presentation of the companies involved in the operation

1.2.1. ERYTECH, the Acquiring Company

ERYTECH is a limited company (*société anonyme*) whose registered office is located at 60, avenue Rockefeller, Lyon (69008), France. It has been entered in the Lyon Trade and Companies Register since November 22, 2004 under number 479 560 013.

Its share capital currently amounts to €3,101,855.30, divided into 31,018,553 shares, each with a nominal value of €0.10, fully paid up and all of the same class.

ERYTECH PHARMA's shares are admitted to trading on the Euronext Paris market under ISIN code FR0011471135 and on the Nasdaq Securities Market LLC in the form of American Depositary Shares (ADS).

According to its articles of association, ERYTECH has the corporate purpose, "*in France and in any country, of:*

- *the research, manufacture, import, distribution, and marketing of experimental drugs, drugs, devices, and medical equipment;*
- *the provision of all advisory services associated therewith;*
- *and generally, all financial, commercial, industrial, civil, property, or security-related transactions, such as may directly or indirectly relate to one of the purposes specified or such as may facilitate their fulfillment.*
- *The Company may act directly or indirectly and perform all these operations in any country, on its own behalf and on behalf of third parties, either alone or with third parties in a joint venture, association, grouping, or company, through the creation of new companies, contributions, partnerships, subscription, purchase of company securities or rights, merger, alliance, joint venture companies, or the obtaining or provision, under lease or management, of any assets and rights or other items."*

The financial year begins on January 1 and ends on December 31 of each year.

1.2.2. PHERECYDES, the Acquired Company

PERECYDES is a limited company with its registered office at 22, boulevard Benoni Goullin in Nantes, France (44200). It has been entered in the Nantes Trade and Companies Register since March 23, 2010, under number 493 252 266.

Its share capital currently amounts to €7,939,179, divided into 7,939,179 shares, each with a nominal value of €1.00, fully paid up and all of the same class.



The shares of PHERECYDES are admitted to trading on the Euronext Growth multilateral trading facility, under ISIN code FR0011651694.

According to its articles of association, PHERECYDES has the corporate purpose of: “*in France and abroad:*

- *Developing know-how and obtaining patents and licenses in the field of biology and medicine;*
- *and more generally in the field of life sciences, on its own behalf or on behalf of third parties, with a view to marketing and distributing its products, as well as any service activity related to the field of life sciences;*
- *And, generally, all financial, commercial, industrial, securities and real estate transactions that may be directly or indirectly related to the above purpose or to any similar or related purposes, likely to promote its extension or development, including any agreement of any kind with manufacturers or investors.”*

The financial year begins on January 1 and ends on December 31 of each year.

1.2.3. Capital ties between the Acquired Company and the Acquiring Company

As at the date of the Merger Agreement, no capital ties exist between the Acquiring Company and the Acquired Company.

However, it should be noted that, prior to the date of signature of the Merger Agreement, certain shareholders of the Acquired Company and the Acquiring Company entered into a contribution agreement, under which the aforementioned shareholders of the Acquired Company undertook to contribute 827,132 ordinary shares, i.e. around 10.42% of the capital of PHERECYDES, to ERYTECH, as set forth in Article 10.1 of the Merger Agreement. In light of this, as a Contribution Auditor, we have drawn up two reports, one on the value and the other on the remuneration of the contributions in kind. As at the date of the Merger Agreement, this prior contribution has not yet taken place.

1.3 General terms and conditions of the operation

The terms and conditions of the Merger, which are described in detail in the Merger Agreement signed by the parties on May 15, 2023 (please see this document for more information), can be summarized as follows.

1.3.1 Key characteristics of the Merger

Completion date and effective date for accounting and tax purposes



The final completion date of the Merger and of the capital increase of the Acquiring Company will be the date of fulfillment of the last of the conditions precedent set out in Article 16 of the Merger Agreement (hereinafter, the “Completion Date”).

The Acquiring Company will be the owner of the asset and liability items contributed by the Acquired Company, including any omitted either in the draft Merger Agreement or in the accounts of the Acquired Company, as of the Completion Date, and the assets of the Acquired Company will be transferred to the Acquiring Company in their present condition on that date.

Completion of the Merger will entail the dissolution without liquidation of the Acquired Company and the universal transfer of its assets to the Acquiring Company.

From an accounting and tax standpoint, the Merger will take effect retroactively on January 1, 2023 (hereinafter, the “Effective Date”). Correspondingly, the results of all asset and liability transactions carried out by the Acquired Company between January 1, 2023 and the Completion Date will exclusively benefit or be charged to the Acquiring Company and considered completed by the Acquiring Company.

Legal jurisdiction

As it is a merger between limited companies (*société anonyme*), the Merger will take place in accordance with the provisions of Articles L.236-1 to L.236-6 and L.236-8 to L.236-15 of the French Commercial Code.

Tax regime

As regards corporate tax, the parties represent that the Merger will be subject to the preferential tax regime provided for by Article 210 A of the French General Tax Code. Consequently, the unrealized capital gains on all of the fixed assets contributed, as well as the provisions (other than those that become irrelevant), will not be subject to corporate tax at the level of the Acquired Company pursuant to the provisions of Article 210 A of the French General Tax Code.

As regards registration fees, the parties represent that the Merger is subject to the regime provided for in Articles 635, paragraphs 1-5 and 816 of the French General Tax Code. Consequently, the Merger will be registered free of charge within a period of one month from the Completion Date.

Where applicable, the transfer of any real estate deed shall be subject, upon its registration, to a real estate security contribution of 0.1% of the market value of said real estate, in accordance with Articles 879 and 881 K of the same Code.

1.3.2 Conditions precedent



The completion of the Merger and the resulting capital increase of the Acquiring Company are subject to fulfillment of the conditions precedent mentioned in Article 16 of the Merger Agreement, concerning:

- the delivery by the Merger Auditor of (i) a report on the value of the contributions and (ii) a report on the terms and conditions of the Merger, confirming the fairness of the exchange ratio adopted;
- the approval by the General Meeting of Shareholders of the Acquired Company of the Merger and the consequent dissolution of the Acquired Company;
- the approval by the General Meeting of Shareholders of the Acquiring Company of the Merger and the capital increase allowing for remuneration of the Merger; and
- the approval by the General Meeting of Shareholders of the Acquiring Company of resolutions on the appointment of directors designated by PHERECYDES and the amendment of the articles of association of ERYTECH relating to the elimination of the casting vote of the Chairman of the Board of Directors.

Should the conditions precedent not be fulfilled by midnight on July 31, 2023 at the latest, the Merger Agreement will be automatically considered null and void, with no compensation on either side, unless these conditions are waived by both parties.



1.4 Description and valuation of the contributions

1.4.1 Valuation method

As this is a regular merger involving entities under separate control, pursuant to French Accounting Standards Authority (*Autorité des normes comptables* – ANC) regulation no. 2014-03 of June 5, 2014 on the general chart of accounts, as last amended by ANC regulation no. 2022-01 of March 11, 2022, the parties have agreed to retain the actual value of the assets contributed by the Acquired Company and of the liabilities assumed by the Acquiring Company as part of the Merger, as the contribution value.

The contributions will comprise all of the items constituting the assets and liabilities of PHERECYDES as at the Completion Date.

Details of the valuation methods used to determine the actual value of the asset and liability items are provided in Annex 14.1 of the Merger Agreement and summarized in section 2.2 below.

The net asset value transferred is set at €16,537,386.

1.4.2 Remuneration of contributions

The remuneration of the contributions corresponding to the net assets of PHERECYDES is based on the exchange ratio adopted by the parties, determined by reference to the relative values of the PHERECYDES shares, on the one hand, and of the ERYTECH shares, on the other.

The relative values of the PHERECYDES shares contributed and the ERYTECH shares issued as remuneration for the contribution are the result of free negotiation between independent parties, supported by the application of a multi-criteria valuation approach.

Following their negotiation, the relative values of the PHERECYDES and ERYTECH shares were set by the parties at €2.29 and €0.61 per share, respectively, by reference to the market spot prices of the two companies as of January 19, 2023, corresponding to the date of signature of the Letter of Intent (“LOI”), and to a multi-criteria valuation approach of the two companies.

On this basis, the parties adopted, within the context of the Merger, an exchange ratio of 4 PHERECYDES shares for 15 ERYTECH shares.



Pursuant to the provisions of Article L.236-3 II of the French Commercial Code, there will be no exchange of the PHERECYDES shares held by the Acquiring Company after the contributions in kind made by certain PHERECYDES shareholders prior to the completion of the Merger and no exchange of the treasury shares held by PHERECYDES. These shares will be automatically canceled on the Completion Date.

The Acquiring Company will therefore only increase its share capital in order to remunerate the shareholders of the Acquired Company for the fraction of net assets corresponding to the shares that it does not hold in the Acquired Company on the Completion Date.

On the basis of:

- a number of PHERECYDES shares of 7,939,179 comprising the share capital at the date of this report;
- a number of treasury shares of 25,142 on the same date;
- the 827,132 PHERECYDES shares held by ERYTECH following the contribution in kind;
- the exchange ratio;

consideration will be made for the contributions via the allocation, to the shareholders of the Acquired Company, of 26,575,893 new shares with a nominal value of €0.10 each, to be issued by the Acquiring Company, which will increase its share capital by €2,657,589.30, combined with a balancing payment of €0.42.

The difference between the amount of the portion of remunerated net assets, i.e. €14,757,430.84, and the amount of the share capital increase of the Acquiring Company, with a balancing payment of €0.42, i.e. €2,657,589.72, will constitute a merger premium of €12,099,841.12, which will be accounted for as a liability of the Acquiring Company.

It should be noted that the final number of new shares to be issued, and, correspondingly, the nominal amount of the resulting share capital increase, will be automatically adjusted according to the exact number of PHERECYDES shares to be remunerated as part of the Merger, particularly if their amount is adjusted due to any operation that takes place between the date of the Merger Agreement and the Completion Date.

The newly issued ERYTECH shares will carry dividend rights as of the Completion Date, will be exactly the same as the existing ERYTECH shares and will confer the same rights and incur the same charges, including all tax withholdings, so that all ERYTECH shares without exception will confer the right to payment of the same net sum during any distributions, allocations or redemptions during the term of the Acquiring Company or during its liquidation.



2 Verification of the relevance of the relative values assigned to the shares of the companies taking part in the operation

2.1 Procedures performed

Our assignment is one of the other procedures defined by law and provided for in the conceptual framework of the professional standards of the French Institute of Statutory Auditors.

Its purpose is to inform the shareholders of the Acquiring Company and of the Acquired Company on the relative values used to determine the exchange ratio, and to assess the fairness of this exchange ratio. Consequently, it is not defined as an audit assignment or a limited review assignment. It also does not involve the validation of the tax regime applicable to the operation. It cannot be assimilated to the due diligence carried out for a lender or an acquirer and does not include all the work necessary for this type of service. Therefore, our report cannot be used in this context.

Likewise, our work is not comparable to that of an independent expert appointed by the administrative or supervisory body of one of the parties.

In carrying out the assignment entrusted to us, we performed the procedures that we considered necessary with regard to the professional standards of the French Institute of Statutory Auditors in order to assess the relevance of the relative values assigned to the shares of the Acquired Company and to the shares of the Acquiring Company and the fairness of the exchange ratio adopted on the basis of these relative values.

In this context, we performed the following procedures in particular:

- We interviewed representatives of ERYTECH and PHERECYDES and their advisors, both to gain knowledge of the proposed operation and its context and to analyze the accounting, financial and legal arrangements envisaged;
- We examined the Merger Agreement and its appendices dated May 15, 2023;
- We examined the legal and financial documentation in connection with the operation, including the memorandum of understanding (MoU) and its appendices and the Draft Exemption Document to be sent to the French Financial Markets Authority (*Autorité des marchés financiers* – AMF);
- We reviewed the legal documentation relating to PHERECYDES and the Acquiring Company;
- We carefully read the consolidated financial statements of ERYTECH as at December 31, 2022, and examined the statutory auditors' report prepared as part of their audit of the consolidated financial statements for this financial year, making sure that this report did not contain any reservations;



- We carefully read the corporate financial statements of PHERECYDES as at December 31, 2022, and examined the statutory auditor’s report prepared as part of its audit of the annual financial statements, making sure that this report did not contain any reservations;
- We reviewed the budget and forecast data prepared by the management teams of PHERECYDES and ERYTECH and interviewed the managers concerned to discuss the relevance of the assumptions adopted;
- We examined Appendix 14.1 of the Merger Agreement, which defines, *inter alia*, the approaches used to determine the relative values of the shares of the Acquiring Company and of the Acquired Company;
- We analyzed and reviewed with the financial advisor mandated for the Merger (ODDO BHF) the valuation elements for PHERECYDES and ERYTECH, which appear in Appendix 14.1 of the Merger Agreement, as well as the valuation report supporting these analyses;
- We analyzed the relevance of the valuation approaches adopted by the parties and the parameters used, then implemented similar or alternative valuation methods and performed sensitivity tests on the exchange ratio used for the remuneration of the contribution for each of the valuation approaches, according to criteria deemed relevant.

We obtained a letter of representation for PHERECYDES and ERYTECH, mainly relating to the material elements used in our assignment.

2.2 Relative values used by the parties

The relative values of the PHERECYDES shares and the ERYTECH shares that serve to determine the exchange ratio as part of the Merger are the result of free negotiation between independent parties, supported by the implementation of a multi-criteria approach to the valuation of the shares of the companies involved.

2.2.1 Valuation of the shares of the Acquired Company

At the end of their negotiations, the relative value of the PHERECYDES shares was set by the parties at €2.29, by reference to the market spot price of PHERECYDES on January 19, 2023, i.e. the date of signature of the Letter of Intent (“LOI”), and to a multi-criteria valuation approach.

The parties carried out a multi-criteria valuation of PHERECYDES based on:

- Reference to the stock price;
- An intrinsic approach based on discounted cash flows



- Reference to the values expressed by the analysts who monitor the PHERECYDES share.

The parties excluded:

- Reference to the net asset value as at December 31, 2022;
- Approaches based on stock market comparables and comparable transactions;
- Recent share capital increases.

The PHERECYDES values per share obtained using the valuation methods implemented as part of the multi-criteria approach support the relative value adopted by the parties.

Approach	Value per share (in € per share)	
	Min.	Max.
Market spot price as of 01/19/2023		2.29
<i>Principal valuation methods:</i>		
Discounted cash flows	2.41	2.84
Stock price – VWAP (01/19/2023)	2.15	3.51
<i>Valuation method for information purposes:</i>		
Stock price – VWAP (02/15/2023)	2.22	3.26
Analysts' price targets	7.40	7.40

2.2.2 Valuation of the shares of the Acquiring Company

To set the number of ERYTECH shares to be issued as remuneration for the Merger, the parties adopted, at the end of their negotiation, a value per share for this company of €0.61, by reference to the ERYTECH market spot price on January 19, 2023 and to a multi-criteria valuation approach.

The parties carried out a multi-criteria valuation of ERYTECH based on:

- Reference to the stock price;
- An intrinsic approach based on discounted cash flows
- Reference to the values expressed by the analysts monitoring ERYTECH shares.

The parties excluded:

- Reference to the net asset value as at December 31, 2022;



- Approaches based on stock market comparables and comparable transactions;
- Recent share capital increases.

The ERYTECH values per share obtained using other valuation methods implemented as part of the multi-criteria approach support the relative value adopted by the parties.

Approach	Value per share (in € per share)	
	Min.	Max.
Market spot price as of 01/19/2023	0.61	
Principal valuation methods:		
Discounted cash flows	0.52	0.52
Stock price – VWAP (01/19/2023)	0.49	1.01
Valuation method for information purposes:		
Stock price – VWAP (02/15/2023)	0.74	0.97
Analysts' price targets	3.20	3.20

2.3 Assessment of the relevance of the relative values

We have the following observations to make on the assessment of the relative values assigned by the parties:

- The relative values adopted by the parties are based on the market spot prices of the two companies on January 19, 2023, corresponding to the date of signature of the Letter of Intent and the determination of the Merger parity, and on a multi-criteria valuation approach applied to the two companies;
- The DCF approach taken by the parties as the main approach and the reference to the stock price on February 15, 2023, as well as the reference to analysts' price targets as an indicative approach, support the relative values adopted.
- We examined the reasons for the exclusion of certain valuation methods and we believe that these criteria were correctly excluded.

As part of our assignment, we implemented alternative valuation approaches or approaches similar to those adopted by the parties based on our own valuation parameters and carried out sensitivity analyses.

In addition, we carried out a multi-criteria valuation of PHERECYDES and ERYTECH based on the following approaches:



Main approach:

- An approach based on the intrinsic values of PHERECYDES and ERYTECH.

For PHERECYDES, we used a DCF approach based on management projections, which take into account, in particular (i) the capacity of PHERECYDES to finance its development on a standalone basis in view of the cash consumption expected at the start of the period, and (ii) the probability of the successful development and marketing of the various treatments.

As regards ERYTECH, the company has no projects in progress and is therefore not expected to generate any revenues in the next few years on a standalone basis (i.e. without taking into account the envisaged merger with PHERECYDES). Under these conditions, we favored a liquidation-based approach to the value of ERYTECH, considering that on a standalone basis, the value that would accrue to shareholders would correspond to the cash (liquidation bonus) that could be distributed to them after the sale of the company's assets, collection of receivables and payment of all liabilities and costs relating to the liquidation.

This theoretical approach makes it possible in this context to maximize the value of the company for the shareholders, compared with a DCF approach, which does not appear relevant in a standalone situation, in the absence of new projects, as it would result in a financial imbalance due to an absence of turnover and ongoing high structural costs.

- An approach based on the stock prices of PHERECYDES and ERYTECH on January 19, 2023 (1-month, 60-day, 6-month and 12-month spot prices and VWAPs).

Secondary approach:

- An approach based on the stock prices of PHERECYDES and ERYTECH on February 15, 2023 (1-month, 60-day, 6-month and 12-month spot prices and VWAPs), the date on which the operation was announced to the market (after close of trading).

The analysis of the stock price on February 15, 2023 is presented on a secondary basis due to the substantial increase in the ERYTECH stock price between late January and early February 2023 (€0.51 at the close of trading on January 25, 2023 and €1.14 at close of trading on February 3, 2023), with higher than average trading volumes. This sudden and unexplained change in the stock price without any announcement about company's activity or any specific event affecting it appears likely to limit the relevance of the analysis at February 15, 2023.

It should also be mentioned that, between the date on which the operation was announced (February 15, 2023) and the date of this report, the ERYTECH stock price was very volatile, with trading volumes in certain periods much higher than those historically observed, including 6.9 million shares traded in a three-day period in May 2023. This level of volatility was not observed in the PHERECYDES stock price. ERYTECH's stock price is therefore, from our point of view,



speculative and does not seem to be a relevant reference point after the announcement of the operation.

Indicative approach:

- An approach based on the latest target prices published by analysts before February 15, 2023 (the date on which the operation was announced to the market, after close of trading), it being specified that the companies involved are subject to limited and irregular monitoring, which is why this approach is presented on an indicative basis only.

2.3.1 Excluded methods

Our work led us to exclude the same methods as those not adopted by the parties, i.e.:

2.3.2 Net asset value

Net asset value is not generally considered representative of the intrinsic value of a company, as it does not include growth outlook and profitability, or any capital gains on asset items. Accordingly, this valuation criterion was not adopted in our analyses.

For information purposes, the net asset value of PHERECYDES as at December 31, 2022 was €7,522,157, i.e. a value per share of €1.04 (on the basis of the number of shares comprising the share capital on that date).

The consolidated net asset value of ERYTECH as at December 31, 2022 was €23,487 k, i.e. a value per share of €0.76 (on the basis of the number of shares comprising the share capital on that date). It should be noted that ERYTECH announced on May 9, 2023 that its cash position as at March 31, 2023 amounted to €30.5 million, representing a decrease of €8.3 million compared with the figure as at December 31, 2022, on the basis of which our work was performed. Therefore, the value per share based on the net asset value as at December 31, 2022, adjusted for this decrease in cash in the first quarter of 2023, would be approximately €0.52 per share.

2.3.3 Revalued net asset value

The revalued net asset value method consists of correcting the net asset value for unrealized capital gains or losses identified in assets, liabilities or off the balance sheet. This method, often used to value companies in certain sectors (holding companies, real estate companies), is particularly suitable for companies whose main assets have a value



on a market regardless of whether they are part of an operating process, which is not the case for PHERECYDES and ERYTECH.

2.3.4 Approaches based on stock market comparables and comparable transactions

Methods based on stock market comparables and comparable transactions consist of determining the value of a company by applying multiples observed on a sample of other companies listed in the same business segment, or multiples externalized during total or partial takeovers of listed or unlisted companies in the business segment of the entity being valued.

As PHERECYDES' activity is being developed and as ERYTECH currently has no projects in progress, neither of these companies has normal aggregates (turnover, EBITDA or EBIT) that would enable the application of stock market or transaction multiples. These methods are therefore not applicable.

2.3.5 Reference to recent share capital increases

This method consists of valuing a company by referring to recent material transactions on its share capital (excluding analysis of the stock price, which constitutes a separate valuation criterion examined elsewhere).

This method was not adopted, as ERYTECH's last share capital increase took place a relatively long time ago (subscription in December 2021 for 769,608 shares with stock warrants (ABSA), with each ABSA comprising four ADSs and three share subscription warrants (BSA), at a price of €2.26 per share), and the company has since ended its main clinical development projects. In these circumstances, a comparison with the last share capital increase of PHERECYDES, which took place in September 2022 at a price of €2.32 per share, does not seem relevant.

2.3.6 Common parameters in the valuation methods used

We performed our valuation work on the basis of the financial statements of the two companies for the period ended December 31, 2022 (corporate financial statements for PHERECYDES and consolidated financial statements for ERYTECH).

The impact of dilutive instruments in the money that may exist within the two companies was also incorporated into our work.

2.3.7 Intrinsic approach based on discounted cash flows and net asset value (main approach)

PHERECYDES



This method consists of determining the intrinsic value of a company by discounting the cash flows resulting from its business plan at a rate which reflects the profitability requirement of the market vis-à-vis the company, taking into account an exit value at the end of this plan.

This method makes it possible to recognize the value attributable to the development outlook of the company being valued and seems to us appropriate for the situation of PHERECYDES.

Our work was carried out on the basis of management projections for the period 2023–2042, which take into account, in particular (i) the capacity of PHERECYDES to finance its development on a standalone basis in view of the cash consumption expected at the start of period, and (ii) the probability of the successful development and marketing of the various treatments.

The bridge from enterprise value to equity value used in the context of our work is based on the financial statements as at December 31, 2022 and mainly includes financial borrowings and debt items, from which are deducted cash and cash equivalents, as well as various adjustments regarded as potentially affecting cash or financial debt and not reflected in the aforementioned management projections.

The cash flows were discounted at the weighted average cost of capital, reflecting the risk of execution of the projections. It should be noted that these include probability of success for the development and marketing of treatments undergoing clinical studies. Sensitivity tests were carried out on the discount rate and the long-term growth rate.

ERYTECH

As previously mentioned, this company has no projects in progress and is therefore not expected to generate any revenues in the next few years on a standalone basis (i.e. without taking into account the envisaged merger with PHERECYDES).

In these circumstances, a DCF approach does not appear relevant in the absence of new projects, as this would result in a financial imbalance due to an absence of turnover and high structural costs.

We therefore favored a liquidation approach to the value of ERYTECH, consisting of determining the cash (liquidation bonus) that may be distributed to shareholders after the sale of the company's assets, collection of receivables and payment of all liabilities and costs relating to the liquidation.

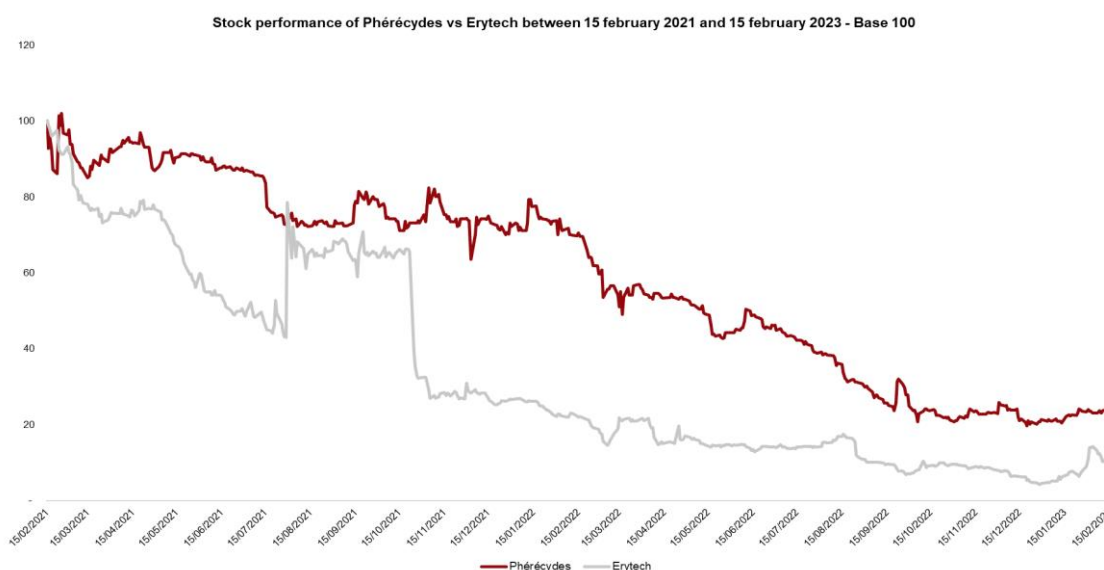
Our work was carried out on the basis of the assets and liabilities recognized as at December 31, 2022, of an estimate of the costs to be incurred for the liquidation (in particular for delisting) and of an estimate of the proceeds likely to be collected by the company (in particular for the sale of the Adénine building and intellectual property).



According to this approach, the PHERECYDES share price ranges between €2.13 and €2.46 and the ERYTECH share price is €0.57, which appears favorable in view of the decrease in cash in the first quarter of 2023¹.

2.3.8 Stock prices of PHERECYDES and ERYTECH

The change in the PHERECYDES stock price and the ERYTECH stock price rebased to 100 over the 24 months preceding the operation (i.e. up to February 15, 2023) is shown below.



In the period from February 15, 2021 to February 15, 2023, a decrease in the share prices of the two companies can be observed of 76% and 94% respectively for PHERECYDES and ERYTECH.

The change in the ERYTECH stock price should be viewed in light of the announcement, on October 25, 2021, of the failure of the phase III clinical study and its consequences for the activity of the company, which has no more projects in development.

We can also see that the PHERECYDES stock price was relatively stable between October 2022 and the date on which the operation was announced, even though the market had been informed of the short-term cash situation² and company's financing requirements.

¹ A decrease of €8.3 million, i.e. an impact of approximately €0.24 per share, all other things being equal.

² On September 22, 2022, PHÉRECYDES announced, via a [press release](#), a share capital increase of €3.1 million, providing it with financing until March 31, 2023, and estimated additional cash requirements of €4 million to finance its operations until September 31, 2023.

On October 31, 2022, in its [half-year financial report](#), PHÉRECYDES adjusted its projected financing requirements to between €5 million and €6 million in order to continue operating until the end of October 2023.

On February 17, 2023, PHÉRECYDES announced that it had carried out [an additional capital increase](#) of €1.5 million, enabling it to continue operating until June 30, 2023, the scheduled completion date for the Merger.



Analysis of January 19, 2023 (main analysis)

As our main analysis, we examined the change in the respective stock prices of PHERECYDES and ERYTECH in the 12 months prior to the signing of the letter of intent and the determination of the parity for the Merger (i.e. before January 19, 2023).

During this period, the volume-weighted average prices (VWAPs) of the shares were as follows:

Valuation method	Pherecydes share value (€)	Erytech share value (€)
Spot price at signature of LOI – 01/19/2023	2.29	0.61
1-month VWAP	2.15	0.48
60-day VWAP	2.21	0.50
6-month VWAP	2.51	0.64
1-year VWAP	3.51	1.02

Using this approach, the PHERECYDES share price ranges between €2.15 and €3.51 and the ERYTECH share price between €0.48 and €1.02.

Analysis of February 15, 2023 (secondary analysis)

The analysis of changes in the respective stock prices of PHERECYDES and ERYTECH in the 12 months leading up to the announcement of the operation (i.e. up to February 15, 2023) gives the following VWAPs:

Valuation method	Pherecydes share value (€)	Erytech share value (€)
Spot price at announcement of the operation – 02/15/2023	2.63	0.875
1-month VWAP	2.37	0.89
60-day VWAP	2.24	0.74
6-month VWAP	2.39	0.74
1-year VWAP	3.25	0.97

It should be noted that this is presented as a secondary analysis for the reasons provided above (see section 2.3).



Using this approach, the PHERECYDES share price ranges between €2.24 and €3.25 and the ERYTECH share price between €0.74 and €0.97.

2.3.9 Analyst target prices (for information purposes)

PHERECYDES and ERYTECH are subject to limited and irregular monitoring by analysts, reason why this criterion is presented for information purposes only.

We performed our analysis on the basis of the last price targets published between October 25, 2021 and February 15, 2023, in order to take into account the adjustments to the ERYTECH share price targets following the announcement on October 25, 2021, of the failure of ERYTECH's phase III clinical study and before the operation was announced to the market after close of trading on February 15, 2023.

In this period, only one analyst published a price target for PHERECYDES and two analysts published targets for ERYTECH.

Latest analyst price targets	Date	Erytech	Pherecydes
ODDO BHF	11/22/2022	3.60 €	N/A
Portzamparc	10/28/2022	N/A	7.40 €
Jefferies	11/02/2021	2.80 €	N/A
Average		3.20 €	7.40 €

According to this approach, the PHERECYDES share price is €7.40 and the ERYTECH share price is €3.20.

In summary, our work does not call into question the relative values adopted by the parties, i.e. €2.29 per PHERECYDES share and €0.61 per ERYTECH share.

3 Assessment of the fairness of the proposed exchange ratio

3.1 Proposed remuneration of the contribution

In a context of negotiation between independent third parties, and on the basis of the multi-criteria analysis performed, the parties have set an exchange ratio of 4 PHERECYDES shares for 15 ERYTECH shares (i.e. 1 PHERECYDES share for 3.75 ERYTECH SHARES).

3.2 Procedures performed



We performed the procedures that we deemed necessary in order to comply with the professional standards issued by the French Institute of Statutory Auditors to assess the fairness of the proposed exchange ratio. To this end, we have:

- Analyzed the positioning of the exchange ratio in relation to the relative values deemed relevant, determined by reference to a multi-criteria approach.

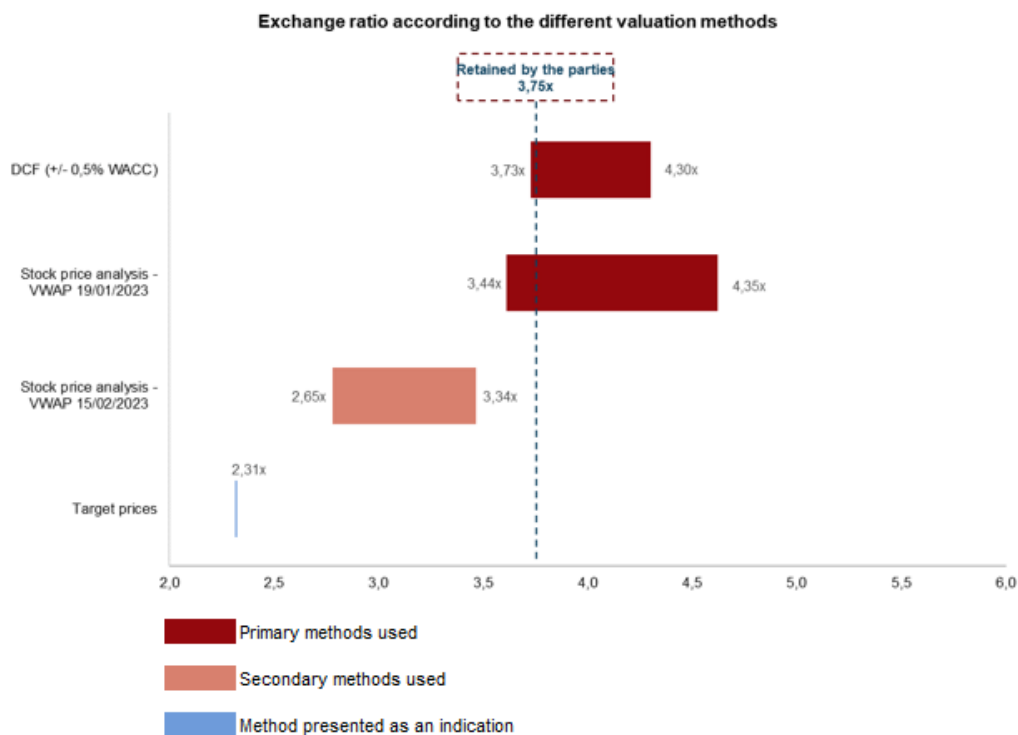
In particular, we relied on the work described in section 2.3 above, which we carried out in order to verify the relevance of the relative values attributed to the shares of the Acquired Company and of the Acquiring Company.

- Understood the impact of the exchange ratio on the future situation of the shareholders of the two companies.

On this basis, we assessed the fairness of the proposed exchange ratio.

3.3 Assessment and positioning of the proposed exchange ratio

At the end of their discussions, the parties agreed to set the exchange ratio by directly comparing the relative values derived (i) from the market spot prices of the two companies as at January 19, 2023, and (ii) a multi-criteria valuation approach applied to the two companies.





The exchange ratio agreed between the parties falls within the range of the analysis of the stock price as at January 19, 2023 (spot price and 1-month to 12-month VWAPs) and is supported by the intrinsic approach and the analysis of the stock price as at February 15, 2023.

On completion of our work, we have no observations to make on the exchange rate of 4 PHERECYDES shares for 15 ERYTECH shares (i.e. 1 PHERECYDES share for 3.75 ERYTECH SHARES) adopted by the parties.



3.4 Consequences of the Merger for the shareholders of the Acquiring Company and of the Acquired Company

The aim of the Merger is to give financial visibility to the new entity, with a consolidated cash position of around €41 million as at December 31, 2022, and to leverage the teams of PHERECYDES and ERYTECH to simultaneously accelerate and expand the existing phagotherapy development programs of PHERECYDES, launch new candidate phages and potentially broaden the scope of application of new therapeutic modalities by using advanced technological platforms and the expertise of both companies.

To assess the fairness of the operation, it is useful to examine, in addition to its industrial interest, the operational synergies that it is likely to generate.

The parties believe that the operation should generate cost synergies, the full effect of which is expected from the second year after the completion of the Merger, after having incurred implementation costs in the first year.

These synergies correspond to the savings that may be made by optimizing structural costs and the delisting of PHERECYDES.

These synergies are not included in our assessment of the relative values of PHERECYDES and ERYTECH, and will benefit all shareholder groups.

We simulated the impact of these synergies on the value per share on the basis of a combined business plan for the two companies, taking into account the number of shares comprising the share capital of ERYTECH after completion of the Merger.

The analysis shows significant potential value creation for the two groups of shareholders compared with the 12-month VWAPs as at January 19, 2023, it being specified that these analyzes are based on the synergy projections and estimates communicated by the management teams of the Acquiring Company and the Acquired Company.

It should be noted that we have not carried out any analysis of accretion or dilution of net earnings per share, as neither of the companies in question generates a net profit.



4 Summary – Key points

The aim of this Merger operation is to enable ERYTECH to contribute to the development of the projects of the merged entity, potentially creating value for its shareholders.

For the PHERECYDES shareholder, the aim of the operation is to enable the development program to continue with the benefit of the financial and human resources of ERYTECH. It is recalled that, before the MoU was signed, PHERECYDES was seeking financing for its clinical development programs, a situation that was known by the market.

According to the press release published jointly by the two companies on February 15, 2023, the financial visibility of the new entity created by the Merger will last until the third quarter of 2024, with a consolidated cash position of around €41 million as at December 31, 2022, enabling the financing of multiple clinical stages of some of its existing and future programs.

The two parties negotiated the financial terms of the Merger independently. The proposed exchange ratio was determined according to a share price for PHERECYDES of €2.29 and a share price for ERYTECH of €0.61. We have the following observations to make on these financial terms:

- The exchange ratio adopted by the parties is based in particular on the market spot prices of the two companies as at January 19, 2023, corresponding to the date of signature of the Letter of Intent and the determination of the Merger parity;
- The exchange ratio is within the range of the volume-weighted average prices as at January 19, 2023;
- The exchange ratio falls between the valuation range of our valuation approach, based on the discounted future cash flows of PHERECYDES and the liquidation approach for ERYTECH, which are, in our opinion, the most relevant approaches;
- The exchange ratio is also at the top end of the range of the analysis of the stock price as at February 15, 2023, which we are presenting on a secondary basis due to the limitations described above. It should also be noted that reference to the stock price after this date of February 15, 2023 does not seem relevant to us, given the volatility observed in the ERYTECH stock price since this date.

Furthermore, according to the analyses performed, the Merger should enable value creation through the implementation of synergies and the pooling of the merged entity's development programs and the financial resources and know-how of the two companies, which will benefit the shareholders of both parties.



5 Conclusion

On the basis of our work at as at the date of this report, we are of the opinion that the exchange ratio of 4 PHERECYDES shares for 15 ERYTECH shares is fair.

Paris, May 15, 2023

The Merger Auditor

FINEXSI EXPERT & CONSEIL FINANCIER

Christophe Lambert

Statutory Auditor

Member of the Paris Regional Association of Statutory Auditors
(Compagnie Régionale de Paris)