

Interim report October - December 2018

EQL Pharma AB

The logo for EQL Pharma AB, consisting of the letters 'EQL' in a bold, green, sans-serif font. The letters are positioned above a horizontal line, and a faint reflection of the letters is visible below the line.

EQL Pharma AB is a pharmaceutical company specializing in niche generics, i.e. generic drugs with no or limited competition. EQL Pharma was founded in 2006 by Christer Fåhraeus and Karin Wehlin.

Interim report

EQL Pharma has split financial year, April 1st to March 31st, whereupon October 1st to December 31st, is the Group's third quarter.

October – December and April - December

- Consolidated sales for the third quarter amounted to SEK 11.4 (7.8) million, an increase of 47%. During April - December consolidated sales amounted to SEK 35.3 (21.5) million, an increase of 64%.
- Gross profit for the quarter amounted to SEK 6.1 (5.3) million, an increase of 15%. For April – December gross profit amounted to 20.0 (13.9) million, an increase of 44%.
- EBITDA for the period amounted to SEK 0.0 (0.5) million. For the period April - December EBITDA amounted to SEK 3.0 (1.5) million.
- Earnings per share were -0:06 (0:01) SEK for the quarter.
- Cash and cash equivalents was SEK 27.2 (11.5) million at the end of the period.

Significant events during the third quarter

- During the quarter, the company completed a rights issue that provided the company with SEK 24.9 million before issue costs. The capital contribution enables continued aggressive expansion of the company's pipeline and the issue proceeds will be used exclusively for the development of and applications for new niche generics and specialty pharma.
- The drug Clindamycin EQL Pharma was approved by the Swedish Medical Products Agency during the quarter. Clindamycin EQL Pharma is a bactericidal agent (antibiotic) and is expected to be launched in the second quarter of 2019.
- In December, the drug Pregabalin EQL Pharma was also approved by the Swedish Medical Products Agency. Pregabalin EQL Pharma belongs to a drug group used to treat epilepsy, neuropathic pain and generalized anxiety disorder in adults. Pregabalin EQL Pharma is expected to be launched during Q2 2019.

About EQL Pharma

EQL Pharma is specialized in developing and selling generics, i.e. drugs that are medically equivalent to the original medicines. The company currently markets twelve (12) generics in the Swedish, Danish and Finnish markets. In addition to these, there is a significant pipeline of additional niche generics (generics with little or no competition except for the original) for launch in 2018 and onwards. The business is currently entirely focused on prescription pharmaceuticals in the Nordic region. EQL Pharma is based in Lund, Sweden, employs 8 (7) people and is listed on Spotlight Stock Market (AktieTorget). EQL Pharma also conducts extensive development in cooperation with leading contract manufacturers developers and major pharmaceutical companies in, amongst other countries, India and China.

Operations

CEO's comments

The company completed a rights issue during the quarter, which enables continued expansion of our pipeline. The issue was oversubscribed by just over 60 per cent.

In terms of turnover, the company has grown by just under 50 percent in the third quarter compared with the previous year and with a retained gross margin of over 50 percent. Our focus on pipeline expansion and our growing product portfolio generates increased workload and during the period EQL has recruited a new employee. The quarterly result was affected by a conservative activation policy and a one-time write-down of approximately SEK 820 for a product where we misjudged the possibilities for substitution against the original.

Several products received marketing authorization from the Swedish Medical Products Agency during the quarter, which will be launched at the beginning of the next fiscal year.

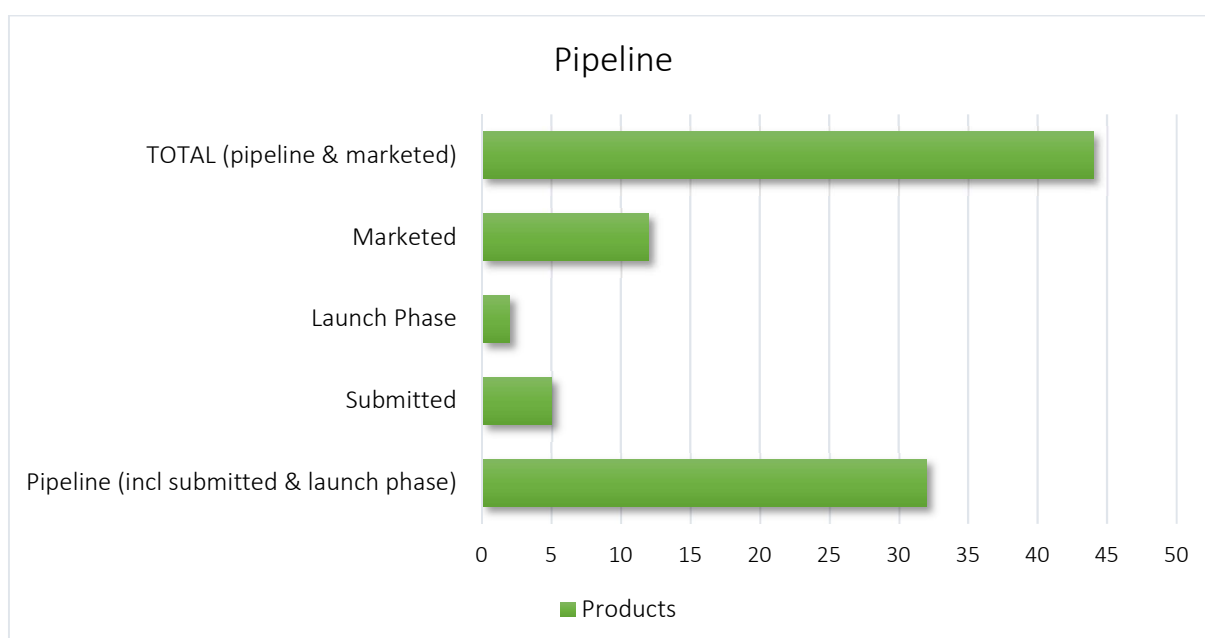
Pipeline

EQL presentation of the pipeline is at a high level and does not include the names of individual products nor the products' current or expected market size. Our intention is to provide better guidance to shareholders without divulging information to competitors and without implying that the pipeline is interpreted as a financial outlook. Our intention is to update the information regularly, mainly in the quarterly reports.

Number of marketed products and products in development phase (pipeline)

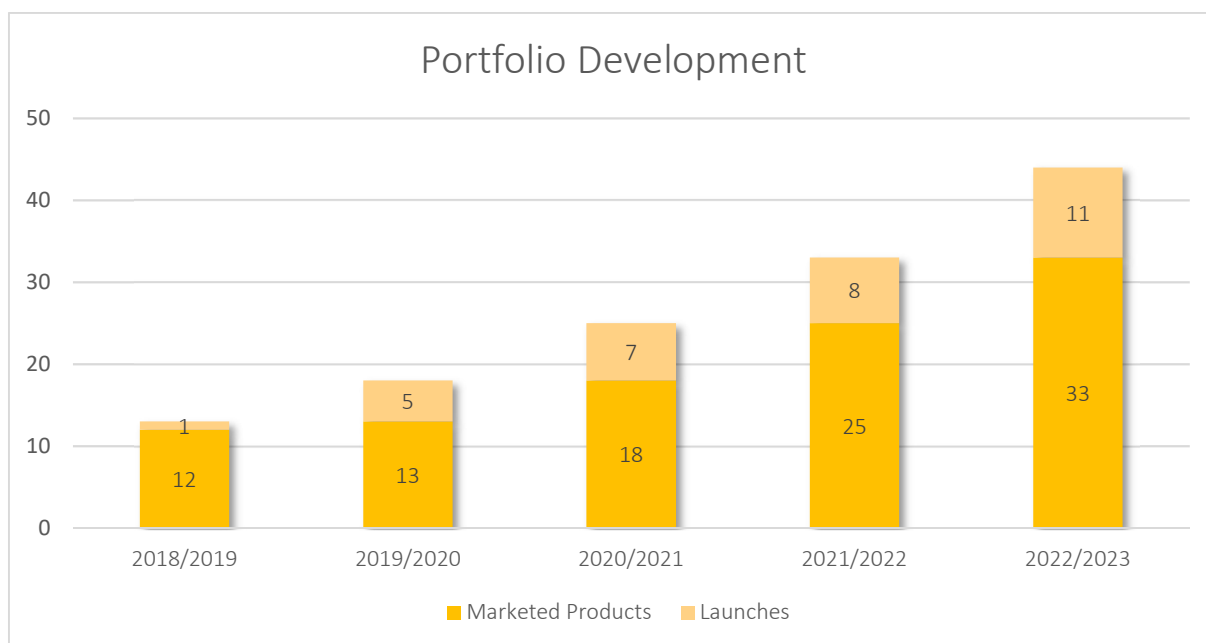
EQL's Pipeline is constantly changing. Products are added and disappear as the product evaluation process progresses. EQL's total pipeline currently consists of 32 products, out of which 5 are under review by the authorities, 2 are approved and in launch phase, and the other 25 are under development. In addition to our pipeline we have 12 approved and marketed products. Our pipeline is under continuous development and new products are expected to be added during the year.

Pipeline February 2019	Products
Pipeline (incl submitted & launch phase)	32
<i>Submitted</i>	5
<i>Launch Phase</i>	2
Marketed	12
TOTAL (pipeline plus marketed)	44



Number of marketed and launched products year by year

Most of our 32 contracted products are expected to be launched during the next three years. At the beginning of February 2019 we have 12 products on the market, and we plan to have 13 products on the market at the beginning of our next fiscal year, 2019/2020. As shown in the chart, we plan to have 25 marketed products by March 2021. New in-licensing and new product development projects are expected to be added during the year, some may be shut down and some may be delayed.



Year	Marketed products	Launches
2018/2019	12	1
2019/2020	13	5
2020/2021	18	7
2021/2022	25	8
2022/2023	33	11

Financial statement

Profit and loss

Amounts in SEK thousands	2018-10-01	2017-10-01	2018-04-01	2017-04-01	2017-01-01
	2018-12-31	2017-12-31	2018-12-31	2017-12-31	2018-03-31
	Q3	Q4	comp 9 mo	comp 9 mo	comp 15 mo
Net sales	11 426	7 770	35 341	21 535	33 905
Capitalized work	0	1 212	0	2 565	4 312
Other operating income	0	0	0	0	0
					0
Direct costs	-5 287	-3 651	-15 300	-10 225	-16 578
Gross profit	6 139	5 332	20 041	13 876	21 639
<i>Gross margin</i>	54%	53%	57%	53%	51%
Operating expenses	-6 113	-4 786	-17 051	-12 345	-20 373
EBITDA	27	545	2 990	1 530	1 266
Depreciation / amortization	-1 818	-323	-3 443	-833	-1 781
EBIT	-1 791	222	-453	698	-514
Net financial items	-26	0	-27	-1	-2
Profit after financial items	-1 817	222	-480	697	-516
Items affecting comparability / Appropriations	0	0	0	0	0
Tax	0	0	0	0	0
Net profit for the period	-1 817	222	-480	697	-516

During the third quarter, net sales amounted to SEK 11.4 (7.8) million. For April – December net sales amounted to SEK 35.3 (21.5) million.

Gross profit for the period amounted to SEK 6.1 (5.3) million and gross margin amounted to 54 (53) % for the quarter. Gross profit for April - December amounted to SEK 20.0 (13.9) and gross margin to 57 (53) % for the same period.

EBITDA for the quarter amounted to SEK 0.0 (0.5) million. The net profit for the quarter amounted to SEK -1.8 (0.2) million. For April – December EBITDA amounted to SEK -0.5 (0.7) million and net profit for the period amounted to SEK -0.5 (0.7) million.

Earnings per share were -0:06 (0:01) SEK for the quarter.

Total operating expenses, excluding depreciation and amortization, amounted to SEK -6.1 (-4.8) million during the quarter and SEK -17.0 (-12.3) million for April – December.

Depreciation and amortization, including write-downs, during the quarter amounted to SEK -1.8 (-0.3) million. For April - December depreciation and amortization, including write-downs, amounted to SEK -3.4 (-0.8) million.

Net financial items amounted to SEK -0,0 (0,0) million for the quarter.

Cash flow, investments and financing

Amounts in SEK thousands	2018-10-01 2018-12-31 Q3	2017-10-01 2017-12-31 Q4	2018-04-01 2018-12-31 comp 9 mo	2017-04-01 2017-12-31 comp 9 mo	2017-01-01 2018-03-31 comp 15 mo
Cash flow from operations during the period	1	545	2 963	1 529	1 264
Change in working capital	10 824	-406	3 114	-7 485	-1 085
Cash flow from operating after change in working capital	10 825	139	6 077	-5 955	179
Cash flow from investments	-6 981	-4 303	-10 697	-9 102	-18 468
Cash flow from financing operations	22 985	2	22 983	-8	-19
Cash flow during period	26 829	-4 162	18 364	-15 066	-18 308
Cash / cash equivalents at beginning of period	405	15 703	8 870	26 607	27 179
Cash / cash equivalents at end of period	27 234	11 541	27 234	11 541	8 870

Cash Flow

Cash flow from operating activities before changes in working capital amounted to SEK 0.0 (0.5) million for the quarter. Changes in working capital was SEK 10.8 (-0.4) MSEK for the period. For April – December cash flow from operating activities before changes in working capital amounted to SEK 3.0 (1.5) million and changes in working capital was SEK 3.1 (-7.5) million.

Investments

Cash flow from investments amounted to SEK -7.0 (-4.3) million for the third quarter. For April – December cash flow from investments amounted to SEK -10.7 (-9.1) million.

Financing

Cash flow from financing operations amounted to SEK 23.0 (0.0) million for the quarter as well as for the period April – December.

Financial position as of December 31st, 2018

Cash and cash equivalents

Cash and cash equivalents amounted to SEK 27.2 (11.5) million at the end of the quarter.

Equity

Equity amounted on December 31st, 2018 to SEK 79.2 (58.0) million and equity per share amounted to SEK 2:73 (2:33).

Equity ratio

The equity ratio was 78.4 (90.1) % at the end of the period.

EQLs share

The share is listed on Spotlight Stock Market (AktieTorget) since December 17th, 2013. The total number of shares at the end of the period was 29.063.610 (24.911.666).

Parent company

EQL Pharma AB is the parent company of the Group EQL Pharma.

Net sales during the third quarter amounted to SEK 10.1 (5.4) million. EBITDA amounted to SEK -0.1 (-0.0) million for the period.

Additional information

Personnel

The Group employs 8 (7) persons, out of whom 5 (4) are women. The number of full-time employees is 8 (7) at the Swedish parent company.

In addition to the permanent staff, there are long-term consultants with expertise in GMP, pharmacovigilance and wholesale operations tied to the group.

Risk factors

Several risk factors may have a negative impact on the operations of EQL Pharma. It is therefore important to consider the relevant risks alongside the Company's growth opportunities. The following text describes risk factors in no particular order and with no claim to be exhaustive.

Delays in launch new products can mean deterioration in earnings for the company and it cannot be excluded that the EQL Pharma in the future may need to raise additional capital. An aggressive investment strategy from competition could pose risks in the form of slower sales and weaker profitability. Increased competition could lead to negative sales and earnings effects for the Company in the future.

External factors such as inflation, currency and interest rate fluctuations, supply and demand as well as booms and recessions may have an impact on operating costs, selling prices and equity valuations. EQL Pharma's future revenues and valuation of shares may be adversely affected by these factors, which are beyond the Company's control. A large part of the purchases is made in euro whose value can change significantly.

EQL Pharma will continue to develop new products in its field. Time and cost aspects of product development can be difficult to pre-determine with accuracy. This entails the risk that a proposed product is more costly than planned or takes longer than planned.

All risk factors can naturally not be described without a complete evaluation of additional information, together with a general assessment has been made. For a more detailed list of the risks, we refer to the EQL's memorandum of 20 August 2014, pages 8-9.

Legal disclaimer

This financial report includes statements that are forward looking but actual future results may differ materially from those anticipated. In addition to the factors discussed, the earnings can be affected by delays and difficulties in the various phases of development, such as formulation, stability, preclinical and clinical trials, but also potentially competition, economic conditions, patent protection and the exchange rate and interest rate fluctuations, and political risks.

Upcoming reports

Financial calendar:	
Year-end Report and Q4	2019-05-08

Accounting principles

This interim report has been prepared in accordance with K3 for 2018/2019. For the Parent Company this interim report has been prepared in accordance with K3 for 2018/2019. The accounts of subsidiaries are translated to Swedish kronor using the current method. The current method means that all assets, provisions and other liabilities are translated at the closing rate and all income statement items are translated at the average rate. Any translation differences are recognized directly against equity. Amounts are expressed in MSEK (millions of Swedish Kronor) unless otherwise indicated. KSEK is an abbreviation for thousands of Swedish kronor.

The Company's financial goals

Financials goals

The company continues to retain its target of growing at least 30% on average per annum over the 5-year period 2016 to 2020/2021, and aims at operating profit to grow at least the same rate as revenue growth. The assumed growth of 30% per annum will be distributed uneven over the 5-year period.

We estimate that sales for 2018/2019 will increase by more than 30% compared with the corresponding period last year.

EQL Pharma applies a more restrictive accounting principle regarding development costs during the financial year 2018/2019, which means we expense large parts of these directly. This will have an impact on EBIT of around -10 MSEK. Nevertheless, we expect a result just above the zero line for the current fiscal year.

The auditors' review

This interim report has not been audited by the auditor.

Christer Fåhraeus, VD

For further information, please contact Christer Fåhraeus, +46 705 609 000

Lund, February 27th, 2019

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Ingemar Kihlström

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Maria Öhlander

The Group

Balance sheet

Amounts in SEK thousands

	2018-12-31	2017-12-31	2018-03-31
Assets			
Intangible assets	44 501	30 752	37 176
Tangible fixed assets	227	321	298
Financial assets	296	296	296
Total fixed assets	45 024	31 369	37 770
Total current assets	56 106	33 057	29 270
Total assets	101 130	64 426	67 040

Liabilities and equity

Total equity	79 236	58 027	56 733
Long-term liabilities	0	0	0
Current liabilities	21 894	6 399	10 307
Total equity and liabilities	101 130	64 426	67 040

Income statement

Amounts in SEK thousands	2018-10-01 2018-12-31 Q3	2017-10-01 2017-12-31 Q4	2018-04-01 2018-12-31 comp 9 mo	2017-04-01 2017-12-31 comp 9 mo	2017-01-01 2018-03-31 comp 15 mo
Net sales	11 426	7 770	35 341	21 535	33 905
Capitalized work	0	1 212	0	2 565	4 312
Other operating income	0	0	0	0	0
Direct costs	-5 287	-3 651	-15 300	-10 225	-16 578
Gross profit	6 139	5 332	20 041	13 876	21 639
<i>Gross margin</i>	<i>54%</i>	<i>53%</i>	<i>57%</i>	<i>53%</i>	<i>51%</i>
Operating expenses	-6 113	-4 786	-17 051	-12 345	-20 373
EBITDA	27	545	2 990	1 530	1 266
Depreciation / amortization	-1 818	-323	-3 443	-833	-1 781
EBIT	-1 791	222	-453	698	-514
Net financial items	-26	0	-27	-1	-2
Profit after financial items	-1 817	222	-480	697	-516
Items affecting comparability / Appropriations	0	0	0	0	0
Tax	0	0	0	0	0
Net profit for the period	-1 817	222	-480	697	-516

Consolidated changes in equity 2018-04-01 – 2018-12-31

Amounts in SEK thousands	Share capital	Other contributed capital	Other capital including profit for the period
Balance at beginning of period	1 121	43 334	12 278
New share issue / Share issue costs	187	22 799	
Translation differences			-2
Profit for the period			-480
Balance at end of period	1 308	66 133	11 795

Parent company

Balance sheet

Amounts in SEK thousands	2018-12-31	2017-12-31	2018-03-31
Assets			
Intangible assets	44 102	30 368	36 593
Tangible fixed assets	227	321	298
Financial assets	391	391	391
Total fixed assets	44 720	31 080	37 282
Total current assets	55 177	29 745	28 705
Total assets	99 897	60 824	65 986
Liabilities and equity			
Total equity	78 306	55 618	56 306
Long-term liabilities	0	0	0
Current liabilities	21 591	5 206	9 681
Total equity and liabilities	99 897	60 824	65 986

Income statement

Amounts in SEK thousands	2018-10-01 2018-12-31 Q3	2017-10-01 2017-12-31 Q4	2018-04-01 2018-12-31 comp 9 mo	2017-04-01 2017-12-31 comp 9 mo	2017-01-01 2018-03-31 comp 15 mo
Net sales	10 105	5 420	30 149	15 043	24 698
Capitalized work	0	1 212	0	2 565	4 312
Other operating income	0	0	0	0	0
Direct costs	-4 452	-2 316	-11 831	-6 315	-11 292
Gross profit	5 653	4 316	18 318	11 293	17 718
<i>Gross margin</i>	<i>56%</i>	<i>57%</i>	<i>61%</i>	<i>58%</i>	<i>54%</i>
Operating expenses	-5 726	-4 366	-16 018	-11 516	-19 321
EBITDA	-73	-49	2 300	-223	-1 603
Depreciation / amortization	-1 756	-313	-3 259	-803	-1 690
EBIT	-1 829	-362	-959	-1 025	-3 293
Net financial items	-26	0	-27	-1	-2
Profit after financial items	-1 855	-362	-985	-1 026	-3 295
Items affecting comparability / Appropriations	0	0	0	0	2 400
Tax	0	0	0	0	0
Net profit for the period	-1 855	-362	-985	-1 026	-895

Cash flow

Amounts in SEK thousands	2018-10-01 2018-12-31 Q3	2017-10-01 2017-12-31 Q4	2018-04-01 2018-12-31 comp 9 mo	2017-04-01 2017-12-31 comp 9 mo	2017-01-01 2018-03-31 comp 15 mo
Cash flow from operations during the period	-98	-49	2 273	-224	795
Change in working capital	10 776	-2 215	6 463	-7 576	-3 992
Cash flow from operating after change in working capital	10 678	-2 265	8 736	-7 800	-3 197
Cash flow from investments	-6 981	-4 198	-10 697	-8 960	-18 062
Cash flow from financing operations	22 986	0	22 986	-10	-24
Cash flow during period	26 683	-6 463	21 025	-16 770	-21 284
Cash / cash equivalents at beginning of period	131	15 250	5 788	25 557	27 072
Cash / cash equivalents at end of period	26 813	8 788	26 813	8 788	5 788