

# Interim report January – December 2017

EQL Pharma AB

The logo for EQL Pharma AB, featuring the letters 'EQL' in a bold, green, sans-serif font. The letters are positioned above a horizontal line, and a faint, lighter green 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

### October – December and January – December 2017

- Consolidated sales for the fourth quarter amounted to SEK 7.8 (7.6) million, an increase of 2%. For the period January – December the consolidated sales amounted to SEK 26.9 (28.2) million, a decrease of 5%.
- Gross profit for the quarter amounted to SEK 5.3 (4.2) million, an increase of 26%. For the period January - December gross profit amounted to SEK 17.9 (19.7) million, a decrease of 9%.
- EBITDA for the quarter amounted to SEK 0.5 (0.2) million, an increase of 171%. EBITDA for January – December amounted to SEK 1.9 (5.1) million, a decrease of 63%.
- Earnings per share were 0:01 (-0:01) SEK for the quarter.
- Cash and cash equivalents was SEK 11.5 (27.2) million at the end of the period.

### Significant events during the fourth quarter of 2017

- In October, Katarina Wallentin was employed as Senior Regulatory Affairs Manager. Katarina has a B.Sc in Chemistry from Lund University and over 10 years of experience in Regulatory Affairs from various positions in addition to 14 years as an analytical chemist.
- During the fourth quarter, EQL Pharma signed a three-year cooperation agreement with a leading generic company regarding the drug Potassium chloride. The agreement means that the sales of the drug in the Norwegian, Danish and Finnish markets will be handled by the partner.

EQL estimates that the profitability will be similar, whether EQL Pharma sells on its own or through the partner. However, other benefits such as reduced working capital need and a better penetration on the market, speaks in favour of the cooperation.

### Significant events after the fourth quarter of 2017

- In mid-January, Axel Schörling took over the position of COO at EQL Pharma. Axel has a background as management consultant at BearingPoint and comes from a role as Director of Perstorp's Business Controlling team. Altogether, he has extensive experience from several industries and assignments within the logistics and supply chain from an operational / financial perspective. He holds a MEng in Engineering Physics from Chalmers and a MSc in Financial Economics from the Gothenburg's School of Economics. Axel will play a key role in EQL's continued development and expansion.

### 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 eight (8) 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 7 (8) people and is listed on 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

EQL Pharma has extended the current fiscal year 2017 through 31 March 2018, why the fiscal year will contain five quarters. Therefore, EQL Pharma's year-end report will be presented in conjunction with the Q5 report in May 2018.

The period January - December 2017 shows figures that are broadly consistent with our financial targets for the calendar year.

During the quarter, EQL Pharma signed a three-year cooperation agreement with a leading generic company regarding the drug Potassium chloride. The cooperation means benefits for EQL Pharma in terms of reduced working capital and higher penetration in the market. The cooperation takes place through a profit sharing where the parties get a predefined percentage.

The launch of potassium chloride in Sweden and Denmark is expected to take place during the first six (6) months of 2018, followed by Norway and Finland in 2019.

The quarter is characterized by continued development of our portfolio, and in total our pipeline has been expanded with two products. Here, both licensed products and development products are represented.

EQL Pharma has for many years been representing the Mometason Glenmark product on the Swedish market. Glenmark themselves will gradually take over the product on the Swedish market. At the end of the year one of the strengths sold out from our warehouse. The remaining strengths will be phased out during the first quarter of 2018. The phase over is in line with EQL's long-term strategy to hold our own marketing permits for our products.

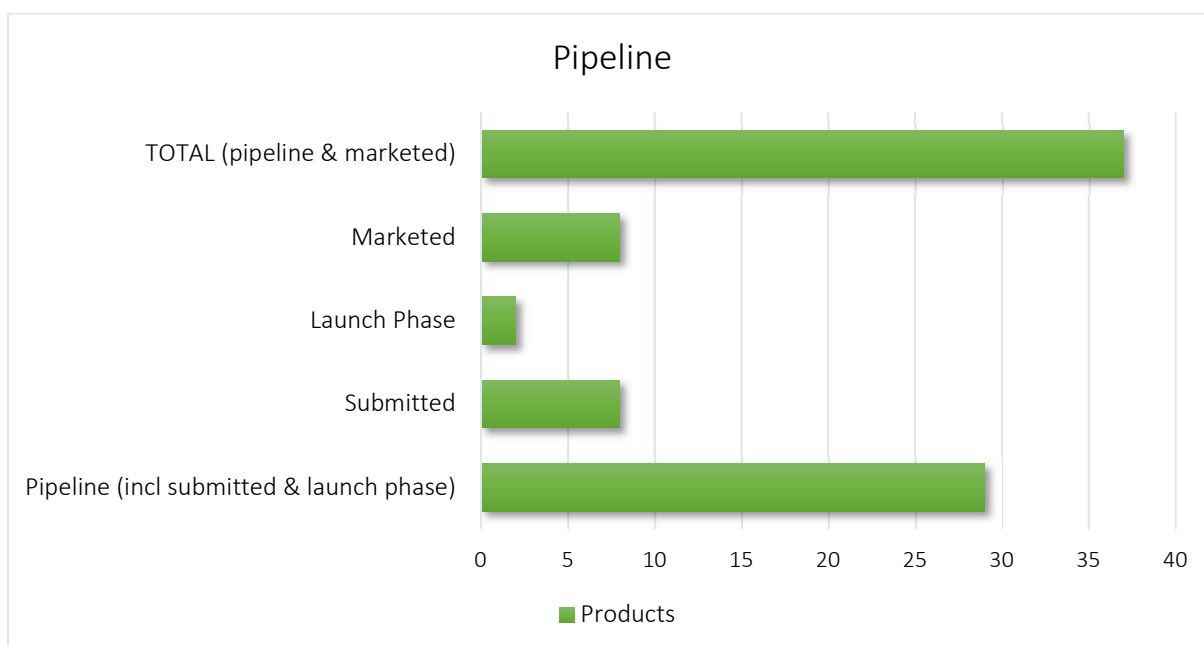
### Pipeline

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)

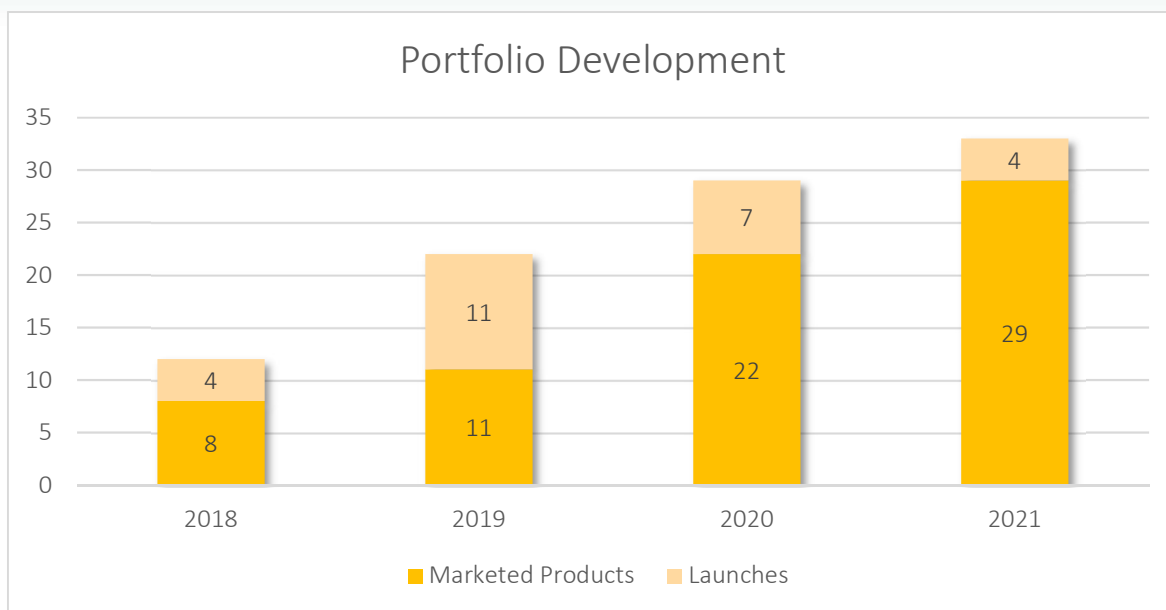
EQL's Pipeline has been expanded during the quarter with two new products. EQL's total pipeline currently consists of 29 products, out of which eight (8) are under review by the authorities, and two (2) are approved and in launch phase, the other nineteen (19) are under development. In addition to our pipeline, we have 8 approved and marketed products. Our pipeline is under continuous development and new products are expected to be added during the year.

Pipeline January 2018	Products
Pipeline (incl submitted & launch phase)	29
<i>Submitted</i>	8
<i>Launch Phase</i>	2
Marketed	8
TOTAL (pipeline plus marketed)	37



### Number of marketed and launched products year by year

Most of our 37 contracted products are expected to be launched during the next three years. At the beginning of 2018, we have 8 products on the market, and we plan to have 11 products on the market at the beginning of 2019. From the chart, it also follows that we plan to have 29 marketed products in 2020. 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	8	4
2019	11	11
2020	22	7
2021	29	4

## Financial statement

### Profit and loss

Amounts in SEK thousands	2017-01-01	2016-01-01	2017-10-01	2016-10-01
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
	comp. 12 mo	comp. 12 mo	Q4	Q4
Net sales	26 860	28 200	7 770	7 597
Capitalized work	3 621	2 470	1 212	627
Other operating income	0	1	0	0
<b>Direct costs</b>	<b>-12 541</b>	<b>-10 951</b>	<b>-3 651</b>	<b>-4 003</b>
<b>Gross profit</b>	<b>17 940</b>	<b>19 720</b>	<b>5 332</b>	<b>4 221</b>
<b>Operating expenses</b>	<b>-16 070</b>	<b>-14 609</b>	<b>-4 786</b>	<b>-4 019</b>
<b>EBITDA</b>	<b>1 869</b>	<b>5 112</b>	<b>545</b>	<b>201</b>
Depreciation / amortization	-1 088	-1 562	-323	-410
<b>EBIT</b>	<b>782</b>	<b>3 549</b>	<b>222</b>	<b>-208</b>
Net financial items	-1	-8	0	0
<b>Profit after financial items</b>	<b>781</b>	<b>3 541</b>	<b>222</b>	<b>-208</b>
Items affecting comparability	0	0	0	0
Tax	0	0	0	0
<b>Net profit for the period</b>	<b>781</b>	<b>3 541</b>	<b>222</b>	<b>-208</b>

During the fourth quarter, net sales amounted to SEK 7.7 (7.6) million and during January – December net sales amounted to SEK 26.7 (28.2) million.

Gross profit for the period amounted to SEK 5.3 (4.2) million and gross margin amounted to 53 (47) % for the quarter. For January - December, gross profit amounted to SEK 17.9 (19.7) million and gross margin to 53 (61) %.

EBITDA for the quarter amounted to SEK 0.5 (0.2) million and SEK 1.9 (5.1) million for January-December. The net profit for the quarter amounted to SEK 0.2 (-0.2) million and for January - December, SEK 0.8 (3.5) million.

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

Total operating expenses, excluding depreciation and amortization, amounted to SEK -4.8 (-4.0) million during the quarter and during January – December, SEK -16.1 (-14.6) million.

Depreciation and amortization during the quarter amounted to SEK -0.3 (-0.4) million and for January - December, SEK -1.1 (-1.6) million.

Net financial items amounted to SEK 0,0 (0,0) million for the quarter as well as for the period January - December.

## Cash flow, investments and financing

Amounts in SEK thousands	2017-01-01	2016-01-01	2017-10-01	2016-10-01
	2017-12-31 comp. 12 mo	2016-12-31 comp. 12 mo	2017-12-31 Q4	2016-12-31 Q4
Cash flow from operations during the period	1 868	5 104	545	201
Change in working capital	-6 109	-4 059	-406	-6 527
<b>Cash flow from operating after change in working capital</b>	<b>-4 241</b>	<b>1 045</b>	<b>139</b>	<b>-6 325</b>
Cash flow from investments	-11 374	-7 002	-4 303	-1 126
Cash flow from financing operations	-23	6 328	2	6 324
<b>Cash flow during period</b>	<b>-15 638</b>	<b>370</b>	<b>-4 162</b>	<b>-1 127</b>
Cash / cash equivalents at beginning of period	27 179	26 809	15 703	28 306
Cash / cash equivalents at end of period	11 541	27 179	11 541	27 179

### Cash Flow

Cash flow from operating activities before changes in working capital amounted to SEK 0.5 (0.2) million for the quarter. Changes in working capital was SEK -0.4 (-6.5) MSEK for October - December. During January – December cash flow from operating activities before changes in working capital amounted to SEK 1.9 (5.1) million and changes in working capital amounted to -6.1 (-4.1) million for the period.

### Investments

Cash flow from investments amounted to SEK -4.3 (-1.1) million for the fourth quarter and for January - December, SEK -11.4 (-7.0) million.

### Financing

Cash flow from financing operations amounted to SEK 0,0 (6.3) million for the quarter and for January – December SEK -0.0 (6.3) million.

## Financial position as of December 31<sup>st</sup>, 2017

### Cash and cash equivalents

Cash and cash equivalents amounted to SEK 11.5 (27.2) million at the end of December. The change in cash and cash equivalents is approximately two thirds attributable to investments in development projects and one third attributable to changes in working capital.

### Equity

Equity amounted on December 31<sup>st</sup>, 2017 to SEK 58.0 (57.3) million and equity per share amounted to SEK 2:33 (2:30).

### Equity ratio

The equity ratio was 90,0 (90,0) % at the end of the period.

### EQLs share

The share is listed on AktieTorget since December 17th, 2013. The total number of shares at the end of the period was 24.911.666 (23.938.666 and 973.000 subscribed shares, not registered).

### Parent company

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

Net sales during the fourth quarter amounted to SEK 5.4 (6.9) million. EBITDA amounted to SEK -0.0 (0.0) million for the quarter. During the January - December net sales amounted to SEK 19.1 (27.5) million and EBITDA to -0.5 (5.2) million.

## Additional information

### Personnel

The Group employs 7 (8) persons, out of whom 4 (3) are women. The number of full-time employees is 7 (8) persons at the Swedish parent company.

In addition to the permanent staff, there are long-term consultant 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 costlier 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

Future reports for 2017/2018 will be published:

Financial calendar:	
Q5 and Year End report:	2018-05-23

### Accounting principles

This interim report has been prepared in accordance with K3 for 2017/2018. For the Parent Company this interim report has been prepared in accordance with K3 for 2017/2018. 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 long term financial goal is to grow by at least 30% on average per year over the five-year period beginning 2016 and ending 2020. The company aims to growing profitability at least at the same rate as sales growth. The growth will be distributed unevenly over the 5-year period.

An update of the company's target for the financial year 2018/2019 (April 1<sup>st</sup>, 2018 to March 31<sup>st</sup>, 2019) will come in conjunction with the 2017/2018 Year End report in May.

For Q5 (January 1<sup>st</sup>, 2018 to March 31<sup>st</sup>, 2018), the quarter is expected to be in line with a quarterly average in 2017.

### The auditors' review

This interim report has not been audited by the auditor.

Christer Fåhraeus, VD

For further information, please contact Christer Fåhraeus, ph. +46 755 55 12 95

Lund, February 6th, 2018

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## The Group

### Balance sheet

Amounts in SEK thousands		
	2017-12-31	2016-12-31
<b>Assets</b>		
Intangible assets	30 752	20 711
Tangible fixed assets	321	75
Financial assets	296	296
<b>Total fixed assets</b>	<b>31 369</b>	<b>21 083</b>
<b>Total current assets</b>	<b>33 057</b>	<b>42 505</b>
<b>Total assets</b>	<b>64 426</b>	<b>63 588</b>
<b>Liabilities and equity</b>		
Total equity	58 027	57 269
Long-term liabilities	0	0
Current liabilities	6 399	6 319
<b>Total equity and liabilities</b>	<b>64 426</b>	<b>63 588</b>

## Income statement

Amounts in SEK thousands	2017-01-01	2016-01-01	2017-10-01	2016-10-01
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
	comp. 12 mo	comp. 12 mo	Q4	Q4
Net sales	26 860	28 200	7 770	7 597
Capitalized work	3 621	2 470	1 212	627
Other operating income	0	1	0	0
<b>Direct costs</b>	<b>-12 541</b>	<b>-10 951</b>	<b>-3 651</b>	<b>-4 003</b>
<b>Gross profit</b>	<b>17 940</b>	<b>19 720</b>	<b>5 332</b>	<b>4 221</b>
<b>Operating expenses</b>	<b>-16 070</b>	<b>-14 609</b>	<b>-4 786</b>	<b>-4 019</b>
<b>EBITDA</b>	<b>1 869</b>	<b>5 112</b>	<b>545</b>	<b>201</b>
Depreciation / amortization	-1 088	-1 562	-323	-410
<b>EBIT</b>	<b>782</b>	<b>3 549</b>	<b>222</b>	<b>-208</b>
Net financial items	-1	-8	0	0
<b>Profit after financial items</b>	<b>781</b>	<b>3 541</b>	<b>222</b>	<b>-208</b>
Items affecting comparability	0	0	0	0
Tax	0	0	0	0
<b>Net profit for the period</b>	<b>781</b>	<b>3 541</b>	<b>222</b>	<b>-208</b>

## Consolidated changes in equity 2017-01-01 - 2017-12-31

Amounts in SEK thousands	Share capital	Other contributed capital	Other capital including profit for the period
<b>Balance at beginning of period</b>	<b>1 077</b>	<b>43 402</b>	<b>12 789</b>
Fund development expenses		-3 621	3 621
New share issue	44	-44	
Share issue costs		-24	
Translation differences			2
Profit for the period			781
<b>Balance at end of period</b>	<b>1 121</b>	<b>39 713</b>	<b>17 193</b>

## Parent company

### Balance sheet

Amounts in SEK thousands		
	2017-12-31	2016-12-31
<b>Assets</b>		
Intangible assets	30 368	20 443
Tangible fixed assets	321	75
Financial assets	391	391
<b>Total fixed assets</b>	<b>31 080</b>	<b>20 909</b>
<b>Total current assets</b>	<b>29 745</b>	<b>42 255</b>
<b>Total assets</b>	<b>60 824</b>	<b>63 164</b>
<b>Liabilities and equity</b>		
Total equity	55 618	57 225
Long-term liabilities	0	0
Current liabilities	5 206	5 939
<b>Total equity and liabilities</b>	<b>60 824</b>	<b>63 164</b>

## Income statement

Amounts in SEK thousands	2017-01-01	2016-01-01	2017-10-01	2016-10-01
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
	comp. 12 mo	comp. 12 mo	Q4	Q4
Net sales	19 061	27 473	5 420	6 870
Capitalized work	3 621	2 278	1 212	632
Other operating income	0	1	0	0
<b>Direct costs</b>	<b>-8 089</b>	<b>-10 468</b>	<b>-2 316</b>	<b>-3 544</b>
<b>Gross profit</b>	<b>14 593</b>	<b>19 284</b>	<b>4 316</b>	<b>3 957</b>
Operating expenses	-15 128	-14 099	-4 366	-3 900
<b>EBITDA</b>	<b>-535</b>	<b>5 185</b>	<b>-49</b>	<b>57</b>
Depreciation / amortization	-1 047	-1 362	-313	-210
<b>EBIT</b>	<b>-1 582</b>	<b>3 823</b>	<b>-362</b>	<b>-152</b>
Net financial items	-1	-8	0	0
<b>Profit after financial items</b>	<b>-1 583</b>	<b>3 815</b>	<b>-362</b>	<b>-152</b>
Items affecting comparability	0	0	0	0
Tax	0	0	0	0
<b>Net profit for the period</b>	<b>-1 583</b>	<b>3 815</b>	<b>-362</b>	<b>-152</b>

## Cash flow

Amounts in SEK thousands	2017-01-01	2016-01-01	2017-10-01	2016-10-01
	2017-12-31	2016-12-31	2017-12-31	2016-12-31
	comp. 12 mo	comp. 12 mo	Q4	Q4
Cash flow from operations during the period	-535	5 177	-49	57
Change in working capital	-6 507	-4 111	-2 215	-6 108
<b>Cash flow from operating after change in working capital</b>	<b>-7 042</b>	<b>1 066</b>	<b>-2 265</b>	<b>-6 051</b>
Cash flow from investments	-11 218	-7 059	-4 198	-1 431
Cash flow from financing operations	-24	6 325	0	6 325
<b>Cash flow during period</b>	<b>-18 284</b>	<b>331</b>	<b>-6 463</b>	<b>-1 157</b>
Cash / cash equivalents at beginning of period	27 072	26 741	15 250	28 229
<b>Cash / cash equivalents at end of period</b>	<b>8 788</b>	<b>27 072</b>	<b>8 788</b>	<b>27 072</b>