

Interim report July - September 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, semi-transparent 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 decided at the AGM 2017-05-15 to extend the fiscal year 2017 to 2018-03-31. The second quarter of the current fiscal year, July - September 2018, is compared in this report, to July - September 2017, the third quarter of last fiscal year.

July – September and April - September

- Consolidated sales for the second quarter amounted to SEK 13.3 (7.0) million, an increase of 89%. During the first six months consolidated sales amounted to SEK 23.9 (13.8) million, an increase of 74%.
- Gross profit for the quarter amounted to SEK 8.0 (4.7) million, an increase of 70%. For April – September (first and second quarter) gross profit amounted to 13.9 (8.5) million, an increase of 63%.
- EBITDA for the period amounted to SEK 2.1 (0.9) million. For the first six months EBITDA amounted to SEK 3.0 (1.0) million.
- Earnings per share were 0:05 (0:03) SEK for the quarter.
- Cash and cash equivalents was SEK 0.4 (15.7) million at the end of the period.

Significant events during the second quarter

- In August, the drug Magnesium EQL Pharma was approved for sale by the Swedish Medical Products Agency (MPA). Magnesium EQL Pharma is used in diagnosed or suspected magnesium deficiency as well as prophylaxis in idiopathic recurrent renal disease. The drug is a typical niche generic where EQL Pharma becomes the only, and first, generic in the Swedish market for more than 35 years.
- During the quarter, the company has begun a new collaboration with one of the largest banks in the Swedish market. The collaboration means that the company has agreed on a financing solution for its ongoing business with a reduction of working capital as its main objective. The solution is expected to be in full operation in October.

Significant events after the second quarter

- On October 17th, the Board decided to carry out a rights issue with subscription during November. The background to the decision is that EQL Pharmas intends to continue to strongly expand its pipeline of niche-generics and specialty pharma. See separate press release for further details about dates and motives

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 ten (10) 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 (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 second quarter of 2018/2019 is EQL Pharma's best quarter ever with a sales revenue of SEK 13.3 (7.0) million. Profitability also developed well during the quarter with a gross margin of 60 percent (57). For the company's long-term growth, the bank financing we have agreed on is important. It means a significantly lower bond of capital during our growth trip, capital that can be used for accelerated growth.

In parallel with expanding and launching our pipeline of niche-generics and specialty pharma, the company has a lot of activities in the field of outsourcing of our own medicines to markets outside the Nordic region. Over time, this can be a significant part of EQL Pharma's revenue.

The company aims to continue investing in the development of its product portfolio. This requires capital and the company has therefore decided to carry out a rights issue.

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, for example, two smaller products disappeared last spring, sold on license from Glenmark. EQL's total pipeline currently consists of 26 products, out of which 6 are under review by the authorities, 3 are approved and in launch phase, and the other 17 are under development. In addition to our pipeline we have 10 approved and marketed products. Our pipeline is under continuous development and new products are expected to be added during the year.

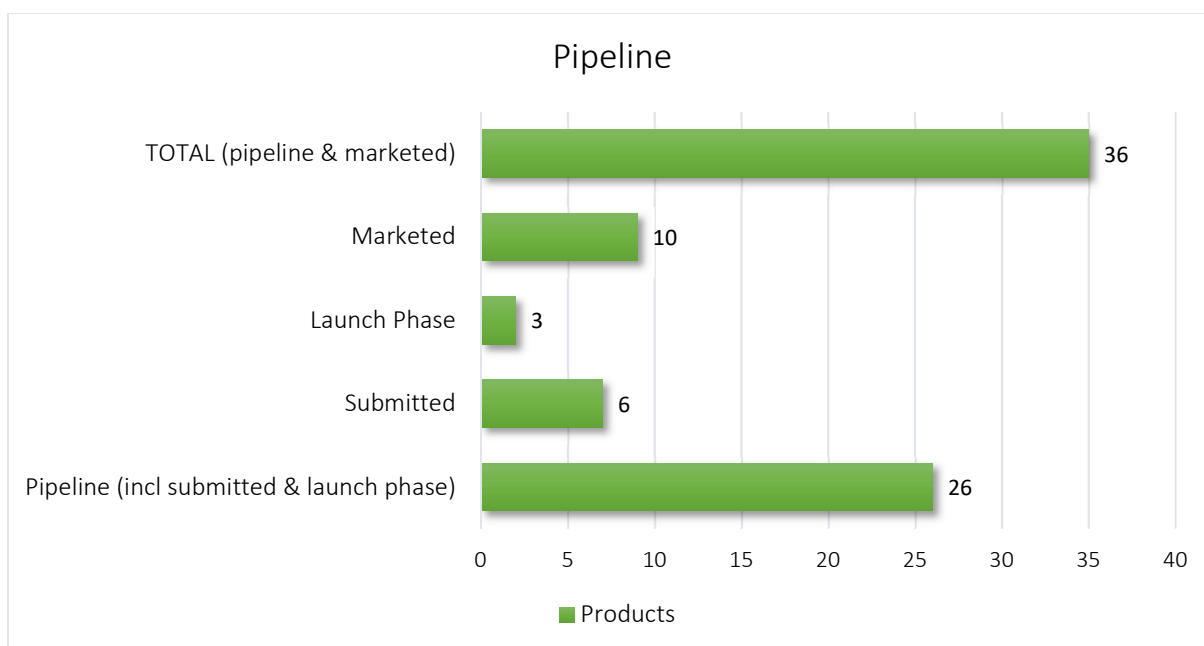
Pipeline August 2018

Products

Pipeline (incl submitted & launch phase)

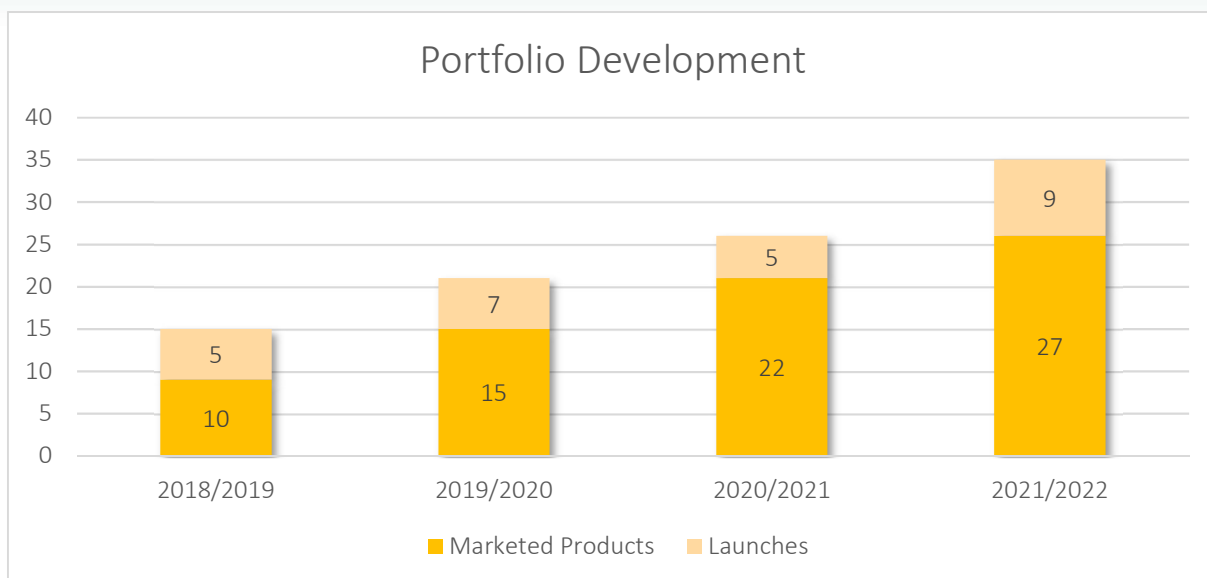
26

<i>Submitted</i>	6
<i>Launch Phase</i>	3
Marketed	10
TOTAL (pipeline plus marketed)	36



Number of marketed and launched products year by year

Most of our 36 contracted products are expected to be launched during the next three years. At the beginning of the fiscal year 2018/2019, we have 10 products on the market, and we plan to have 15 products on the market at the beginning of our next fiscal year, 2019/2020. As shown in the chart, we plan to have 27 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	10	5
2019/2020	15	7
2020/2021	22	5
2021/2022	27	9

Financial statement

Profit and loss

Amounts in SEK thousands	2018-07-01 2018-09-30 Q2	2017-07-01 2017-09-30 Q3	2018-04-01 2018-09-30 comp. 6 mo	2017-04-01 2017-09-30 comp. 6 mo	2017-01-01 2018-03-31 comp. 15 mo
Net sales	13 258	7 028	23 915	13 765	33 905
Capitalized work	0	663	0	1 352	4 312
Other operating income	0	0	0	0	0
Direct costs	-5 300	-3 007	-10 013	-6 574	-16 578
Gross profit	7 958	4 685	13 902	8 544	21 639
<i>Gross margin</i>	<i>60%</i>	<i>57%</i>	<i>58%</i>	<i>52%</i>	<i>51%</i>
Operating expenses	-5 881	-3 767	-10 939	-7 559	-20 373
EBITDA	2 077	918	2 963	985	1 266
Depreciation / amortization	-849	-255	-1 625	-510	-1 781
EBIT	1 228	663	1 338	475	-514
Net financial items	-1	0	-1	0	-2
Profit after financial items	1 227	663	1 337	475	-516
Items affecting comparability /					
Appropriations	0	0	0	0	0
Tax	0	0	0	0	0
Net profit for the period	1 227	663	1 337	475	-516

During the second quarter, net sales amounted to SEK 13.3 (7.0) million. For April – September net sales amounted to SEK 23.9 (13.8) million.

Gross profit for the period amounted to SEK 8.0 (4.7) million and gross margin amounted to till 60 (57) % for the quarter. Gross profit for the first six months amounted to SEK 13.9 (8.5) and gross margin to 58 (52) % for the same period.

EBITDA for the quarter amounted to SEK 2.1 (0.9) million. The net profit for the quarter amounted to SEK 1.2 (0.7) million. For April – September EBITDA amounted to SEK 3.0 (1.0) million and net profit for the period amounted to SEK 1.3 (0.5) million.

Earnings per share were 0:05 (0:03) SEK for the quarter.

Total operating expenses, excluding depreciation and amortization, amounted to SEK -5.9 (-3.8) million during the quarter and SEK -10.9 (-7.6) million for April – September.

Depreciation and amortization during the quarter amounted to SEK -0.8 (-0.3) million. For the first six months depreciation and amortization amounted to SEK -1.6 (-0.5) million.

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

Cash flow, investments and financing

Amounts in SEK thousands	2018-07-01 2018-09-30 Q2	2017-07-01 2017-09-30 Q3	2018-04-01 2018-09-30 comp. 6 mo	2017-04-01 2017-09-30 comp. 6 mo	2017-01-01 2018-03-31 comp. 15 mo
Cash flow from operations during the period	2 076	918	2 962	985	1 264
Change in working capital	-2 098	-3 926	-7 709	-7 079	-1 085
Cash flow from operating after change in working capital	-22	-3 008	-4 748	-6 094	179
Cash flow from investments	-3 114	-2 526	-3 716	-4 799	-18 468
Cash flow from financing operations	-2	-1	-2	-10	-19
Cash flow during period	-3 138	-5 535	-8 465	-10 904	-18 308
Cash / cash equivalents at beginning of period	3 543	21 238	8 870	26 607	27 179
Cash / cash equivalents at end of period	405	15 703	405	15 703	8 870

Cash Flow

Cash flow from operating activities before changes in working capital amounted to SEK 2.1 (0.9) million for the quarter. Changes in working capital was SEK -2.1 (-3.9) MSEK for the period. For April – September cash flow from operating activities before changes in working capital amounted to SEK 3.0 (1.0) million and changes in working capital was SEK -7.7 (7.1) million.

Investments

Cash flow from investments amounted to SEK -3.1 (-2.5) million for the second quarter. For April – September cash flow from investments amounted to SEK -3.7 (-4.8) million.

Financing

Cash flow from financing operations amounted to SEK 0,0 (-0.0) million for the quarter as well as for the period April – September.

Financial position as of September 30th, 2018

Cash and cash equivalents

Cash and cash equivalents amounted to SEK 0.4 (15.7) million at the end of the quarter.

Equity

Equity amounted on September 30th, 2018 to SEK 58.1 (57.8) million and equity per share amounted to SEK 2:33 (2:32).

Equity ratio

The equity ratio was 85,6 (92,1) % 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 24.911.666.

Parent company

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

Net sales during the second quarter amounted to SEK 10.7 (5.4) million. EBITDA amounted to SEK 1.5 (0.5) million for the period.

Additional information

Personnel

The Group employs 7 (7) persons, out of whom 4 (4) are women. The number of full-time employees is 7 (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:	
Interim report April - December (Q3)	2019-02-27
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 be more than 30% higher than for comparable period April 2017 – March 2018.

From this fiscal year, EQL will apply a much more restrictive accounting principle regarding development costs, which means we will expense large parts of these directly. This will have an impact on earnings 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, October 18th, 2018

Björn Beermann

Christer Fåhraeus

Lars Holmqvist

Anders Månsson

Ingemar Kihlström

Rajiv I Modi

Maria Öhlander

The Group

Balance sheet

Amounts in SEK thousands				
	2018-09-30	2017-09-30	2018-03-31	
Assets				
Intangible assets	39 314	27 037	37 176	
Tangible fixed assets	251	56	298	
Financial assets	296	296	296	
Total fixed assets	39 861	27 389	37 770	
Total current assets	27 967	35 364	29 270	
Total assets	67 828	62 752	67 040	
Liabilities and equity				
Total equity	58 068	57 802	56 733	
Long-term liabilities	0	0	0	
Current liabilities	9 760	4 950	10 307	
Total equity and liabilities	67 828	62 752	67 040	

Income statement

Amounts in SEK thousands					
	2018-07-01	2017-07-01	2018-04-01	2017-04-01	2017-01-01
	2018-09-30	2017-09-30	2018-09-30	2017-09-30	2018-03-31
	Q2	Q3	comp. 6 mo	comp. 6 mo	comp. 15 mo
Net sales	13 258	7 028	23 915	13 765	33 905
Capitalized work	0	663	0	1 352	4 312
Other operating income	0	0	0	0	0
Direct costs	-5 300	-3 007	-10 013	-6 574	-16 578
Gross profit	7 958	4 685	13 902	8 544	21 639
<i>Gross margin</i>	<i>60%</i>	<i>57%</i>	<i>58%</i>	<i>52%</i>	<i>51%</i>
Operating expenses	-5 881	-3 767	-10 939	-7 559	-20 373
EBITDA	2 077	918	2 963	985	1 266
Depreciation / amortization	-849	-255	-1 625	-510	-1 781
EBIT	1 228	663	1 338	475	-514
Net financial items	-1	0	-1	0	-2
Profit after financial items	1 227	663	1 337	475	-516
Items affecting comparability / Appropriations	0	0	0	0	0
Tax	0	0	0	0	0
Net profit for the period	1 227	663	1 337	475	-516

Consolidated changes in equity 2018-04-01 – 2018-09-30

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			
Translation differences			-2
Profit for the period			1 337
Balance at end of period	1 121	43 334	13 613

Parent company

Balance sheet

Amounts in SEK thousands	2018-09-30	2017-09-30	2018-03-31
Assets			
Intangible assets	38 854	26 748	36 593
Tangible fixed assets	251	56	298
Financial assets	391	391	391
Total fixed assets	39 495	27 194	37 282
Total current assets	26 570	33 026	28 705
Total assets	66 066	60 221	65 986
Liabilities and equity			
Total equity	57 175	55 980	56 306
Long-term liabilities	0	0	0
Current liabilities	8 891	4 240	9 681
Total equity and liabilities	66 066	60 221	65 986

Income statement

Amounts in SEK thousands	2018-07-01	2017-07-01	2018-04-01	2017-04-01	2017-01-01
	2018-09-30	2017-09-30	2018-09-30	2017-09-30	2018-03-31
	Q2	Q3	comp. 6 mo	comp. 6 mo	comp. 15 mo
Net sales	10 667	5 419	20 044	9 623	24 698
Capitalized work	0	663	0	1 352	4 312
Other operating income	0	0	0	0	0
Direct costs	-3 727	-2 005	-7 379	-3 999	-11 292
Gross profit	6 939	4 077	12 665	6 977	17 718
<i>Gross margin</i>	<i>65%</i>	<i>63%</i>	<i>63%</i>	<i>58%</i>	<i>54%</i>
Operating expenses	-5 472	-3 574	-10 292	-7 150	-19 321
EBITDA	1 468	504	2 373	-174	-1 603
Depreciation / amortization	-788	-245	-1 502	-490	-1 690
EBIT	680	259	871	-664	-3 293
Net financial items	-1	0	-1	0	-2
Profit after financial items	680	259	869	-664	-3 295
Items affecting comparability / Appropriations	0	0	0	0	2 400
Tax	0	0	0	0	0
Net profit for the period	680	259	869	-664	-895

Cash flow

Amounts in SEK thousands	2018-07-01	2017-07-01	2018-04-01	2017-04-01	2017-01-01
	2018-09-30	2017-09-30	2018-09-30	2017-09-30	2018-03-31
	Q2	Q3	comp. 6 mo	comp. 6 mo	comp. 15 mo
Cash flow from operations during the period	1 467	504	2 372	-174	795
Change in working capital	-280	-2 512	-4 313	-5 361	-3 992
Cash flow from operating after change in working capital	1 187	-2 008	-1 941	-5 535	-3 197
Cash flow from investments	-3 114	-2 506	-3 716	-4 762	-18 062
Cash flow from financing operations	0	0	0	-10	-24
Cash flow during period	-1 927	-4 514	-5 657	-10 307	-21 284
Cash / cash equivalents at beginning of period	2 058	19 764	5 788	25 557	27 072
Cash / cash equivalents at end of period	131	15 250	131	15 250	5 788