

# Quarterly Report July - September 2016

EQI Pharma AB



EQI

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

## Quarterly Report

### July - September 2016

#### Third quarter and first 9 months 2016

- Consolidated sales for the third quarter amounted to SEK 3.1 (7.5) million. a decrease of 58%. Consolidated sales for the first 9 months amounted to SEK 20.6 (20.4) million. An increase of 1%.
- Gross profit for the quarter amounted to SEK 3.5 (5.0) million and for the first 9 months SEK 15.5 (14.1) million. A decrease of 31% and an respective increase of 10%.
- EBITDA for the quarter amounted to SEK 0.4 (1.8) million, a decrease of 77%. For the first 9 months EBITDA amounted to SEK 4.9 (4.3) million, an increase of 13.6%.
- Earnings per share were 0:16 (0:17) SEK for the period January – September.
- Cash and cash equivalents was SEK 28.6 (1.8) million at the end of the period

#### Significant events during the third quarter of 2016

- EQL Pharma has in-licensed two products during the quarter and has thereby strengthened its pipe-line of niche-products. The anticipated launch of these products is second half 2018.
- During the quarter EQL Pharma Zonisamide has been approved by the Danish Authorities.
- During the quarter the Company has won a tender for supplying antibiotics to the Public Health Agency of Sweden.

## 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 five niche generics in the Swedish, Danish and Finnish markets. In addition to these, there is a significant pipeline of additional niche generics for launch in 2017 and onwards. The business is currently entirely focused on prescription pharmaceuticals in the Nordic region. EQL Pharma is based in Lund, Sweden, employs 6 (6) 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 has had a weak quarter as previously been announced. The main reason is that several products were sold out during the first quarter. The stock level is now being replenished and most products should be on full level at year end.

Developmental projects have progressed well during the quarter and the pipeline has been expanded with in-licensing by two products, with forecasted launches during second half of 2018. During the fourth quarter the company has also got a Marketing Authorization for EQL Pharma Zonisamide in Denmark.

During the quarter the company has recruited two more co-workers with focus on business development and project management respectively. They will both start in the fourth quarter 2016.

Since a significant part of the EQL Pharma value is residing in the pipe-line of products, the company will start to publish the same from 2017 and onwards. The format will likely include number of Products and forecasted Launch date. The company will also announce when it has submitted a Market Authorization Application to the Authorities.

## Product development

EQL has a pipeline of products for launch in 2017 and onwards. The vast majority of these currently have no competition. Product development is done in cooperation with partners in India, Indonesia, China and Europe.

## Financial statement

### Profit and loss

Amounts in SEK thousands	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
	Q3	Q3	jmf 9 mån	jmf 9 mån	jmf 12 mån
Net sales	3 098	7 460	20 603	20 350	26 872
Capitalized work	614	443	1 844	1 348	1 813
Other operating income	0	0	1	5	5
<b>Direct costs</b>	<b>-252</b>	<b>-2 904</b>	<b>-6 948</b>	<b>-7 559</b>	<b>-10 173</b>
<b>Gross profit</b>	<b>3 459</b>	<b>4 998</b>	<b>15 499</b>	<b>14 144</b>	<b>18 517</b>
Gross margin %	66%	61%	62%	63%	62%
Operating expenses	-3 042	-3 200	-10 589	-9 823	-13 014
<b>EBITDA</b>	<b>418</b>	<b>1 798</b>	<b>4 910</b>	<b>4 321</b>	<b>5 502</b>
Depreciation / amortization	-410	-302	-1 153	-1 155	-1 331
<b>EBIT</b>	<b>7</b>	<b>1 497</b>	<b>3 757</b>	<b>3 166</b>	<b>4 171</b>
Net financial items	-3	-124	-8	-394	-449
<b>Profit after financial items</b>	<b>5</b>	<b>1 373</b>	<b>3 749</b>	<b>2 772</b>	<b>3 722</b>
Items affecting comparability	0	0	0	0	0
Tax	0	0	0	0	0
<b>Net profit for the period</b>	<b>5</b>	<b>1 373</b>	<b>3 749</b>	<b>2 772</b>	<b>3 722</b>

During the quarter, net sales amounted to SEK 3.1 (7.5) million and for the first 9 months SEK 20.6 (20.4) million.

Gross profit for July - September amounted to SEK 3.5 (5.0) million and for the first 9 months SEK 15.5 (14.1) million. Gross margin amounted to 66 (61) % for the quarter and 62 (63)% for the first 9 months.

Calculation of the gross margin for the quarter and January-September, have been adjusted by 0.8 million relating to a reversal of provision against a supplier and reserve for incurrent stock.

EBITDA for the quarter amounted to SEK 0.4 (1.8) million and the profit amounted to SEK 0.0 (1.4) million. EBITDA for the first 9 months amounted to SEK 4.9 (4.3) million and the profit amounted to SEK 3.7 (2.8) million.

Earnings per share were 0:16 (0:17) SEK for the first 9 months.

Total operating expenses, excluding depreciation and amortization, amounted to SEK -3.0 (-3.2) million during the third quarter and SEK -10.6 (-9.8) million for the first 9 months.

Depreciation and amortization during July - September amounted to SEK -0.4 (-0.3) million and for the period January – September to SEK -1.2 (-1.2) million.

Net financial items amounted to SEK -0.0 (-0.1) million for the third quarter and SEK -0.0 (-0.4) million for the first 9 months.

## Cash flow, investments and financing

Amounts in SEK thousands	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
	Q3	Q3	jmf 9 mån	jmf 9 mån	jmf 12 mån
Cash flow from operations during the period	415	1 674	4 902	3 927	5 053
Change in working capital	-128	-5 450	2 468	-7 397	-5 520
<b>Cash flow from operating after change in working capital</b>	<b>287</b>	<b>-3 775</b>	<b>7 371</b>	<b>-3 470</b>	<b>-467</b>
Cash flow from investments	-3 014	-952	-5 876	-2 249	-7 042
Cash flow from financing operations	2	4 675	3	7 252	34 318
<b>Cash flow during period</b>	<b>-2 726</b>	<b>-52</b>	<b>1 497</b>	<b>1 532</b>	<b>26 809</b>
Cash / cash equivalents at beginning of period	31 031	1 584	26 809	0	0
<b>Cash / cash equivalents at end of period</b>	<b>28 306</b>	<b>1 532</b>	<b>28 306</b>	<b>1 532</b>	<b>26 809</b>

### Cash Flow

Cash flow from operating activities before changes in working capital amounted to SEK 0.4 (1.7) million for the quarter and SEK 4.9 (3.9) million for the first 9 months. Changes in working capital was SEK -0.1 (-5.5) million for the quarter and SEK 2.5 (-7.4) million for the first 9 months.

### Investments

Cash flow from investments amounted to SEK -3.0 (-1.0) million for the third quarter and SEK -5.9 (-2.2) million for January - September.

### Financing

Cash flow from financing operations amounted to SEK 0 (4.7) million for the quarter and SEK 0 (7.3) for the first 9 months.

## Financial position as of September 30<sup>th</sup> 2016

### Cash and cash equivalents

Cash and cash equivalents amounted to SEK 28.6 (1.8) million at the end of September.

### Equity

Equity amounted on September 30th to SEK 51.2 (14.3) million and equity per share amounted to SEK 2:14 (0:87).

#### Equity ratio

The equity ratio was 88.6 (54.6) % 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 23,938,666.

The company has at the end of the quarter 2.000.000 pieces of outstanding warrants of series TO 3. Each TO 3 entitles to subscribe for one new share of EQL Pharma AB during the subscription period:

- 2016-04-01 - 2016-12-15

### Parent company

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

Net sales during the third quarter amounted to SEK 3.1 (7.5) million and for the first 9 months to SEK 20.6 (20.4) million. EBITDA amounted to SEK 0.4 (1.8) million for the third quarter and to SEK 5.1 (4.5) for the first 9 months.

## Additional information

### Personnel

The Group employs 6 (6) persons, out of whom 3 (3) are women. The number of full-time employees is six (6) 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

A number of 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 are 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.  
na 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

Annual report will be available on the company's homepage April 13<sup>th</sup> 2016. The AGM will be held at the company premises at Stortorget 1 in Lund on May 13<sup>th</sup>, at 1600. Future reports for 2016 will be published:

<b>The current financial year:</b>	
Year-end report and Q4 2016:	2017-02-08

## The Company's operating and financial goals

### Accounting principles

This interim report has been prepared in accordance with K3 for 2016. For the Parent Company this interim report has been prepared in accordance with K3 for 2016. 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

### Finansiella mål - uppdatering

Compared to 2015 the company believes that the Sales and Profit will be comparable. As communicated before, a condition for the previously announced growth was that launches of new products EQL took place in time. EQL Pharma can now conclude that most of the expected revenue in Q4 will actually spill over into 2017. This applies to Zonisamide for example.

Since a significant part of the EQL Pharma value is residing in the pipe-line of products, the company will start to publish the same from 2017 and onwards. The format will likely include number of Products and forecasted Launch date. The company will also announce when it has submitted a Market Authorization Application to the Authorities.

The company aims to grow by at least 30% on average per year during the next 5 - year period and operating profit is expected to grow at the same rate as sales growth. The average growth of 30% will be unevenly distributed over the 5-year period.

## The auditors' review

This interim report has not been audited by the auditor.

Christer Fåhraeus, VD

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Lund October 25<sup>th</sup>, 2016

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## The Group

### Balance sheet

Amounts in SEK thousands				
	2016-09-30	2015-09-30	2015-12-31	
<b>Assets</b>				
Intangible assets	19 987	10 654	15 266	
Tangible fixed assets	83	75	80	
Financial assets	296	296	296	
<b>Total fixed assets</b>	<b>20 366</b>	<b>11 026</b>	<b>15 643</b>	
<b>Total current assets</b>	<b>37 398</b>	<b>15 146</b>	<b>37 473</b>	
<b>Total assets</b>	<b>57 764</b>	<b>26 172</b>	<b>53 116</b>	
<b>Liabilities and equity</b>				
Total equity	51 152	14 284	47 400	
Long-term liabilities	0	5 100	0	
Current liabilities	6 612	6 788	5 716	
<b>Total equity and liabilities</b>	<b>57 764</b>	<b>26 172</b>	<b>53 116</b>	

### Income statement

Amounts in SEK thousands					
	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
	Q3	Q3	jmf 9 mån	jmf 9 mån	jmf 12 mån
Net sales	3 098	7 460	20 603	20 350	26 872
Capitalized work	614	443	1 844	1 348	1 813
Other operating income	0	0	1	5	5
Direct costs	-252	-2 904	-6 948	-7 559	-10 173
<b>Gross profit</b>	<b>3 459</b>	<b>4 998</b>	<b>15 499</b>	<b>14 144</b>	<b>18 517</b>
<i>Gross margin %</i>	<i>66%</i>	<i>61%</i>	<i>62%</i>	<i>63%</i>	<i>62%</i>
Operating expenses	-3 042	-3 200	-10 589	-9 823	-13 014
<b>EBITDA</b>	<b>418</b>	<b>1 798</b>	<b>4 910</b>	<b>4 321</b>	<b>5 502</b>
Depreciation / amortization	-410	-302	-1 153	-1 155	-1 331
<b>EBIT</b>	<b>7</b>	<b>1 497</b>	<b>3 757</b>	<b>3 166</b>	<b>4 171</b>
Net financial items	-3	-124	-8	-394	-449
<b>Profit after financial items</b>	<b>5</b>	<b>1 373</b>	<b>3 749</b>	<b>2 772</b>	<b>3 722</b>
Items affecting comparability	0	0	0	0	0
Tax	0	0	0	0	0
<b>Net profit for the period</b>	<b>5</b>	<b>1 373</b>	<b>3 749</b>	<b>2 772</b>	<b>3 722</b>



## Consolidated changes in equity 2016-01-01 - 2016-09-30

Amounts in SEK thousands	Share capital	Restricted reserves	Unrestricted reserves	Profit for the period
<b>Balance at beginning of period</b>	<b>1 077</b>	<b>0</b>	<b>42 601</b>	<b>3 722</b>
Reclassification of results			3 722	-3 722
Fund development expenses		1 517	-1 517	
New share issue				
Share issue costs				
Translation differences			3	
Profit for the period				3 749
<b>Balance at end of period</b>	<b>1 077</b>	<b>1 517</b>	<b>44 808</b>	<b>3 749</b>

## Parent company

### Balance sheet

Amounts in SEK thousands	2016-09-30	2015-09-30	2015-12-31
<b><u>Assets</u></b>			
Intangible assets	19 514	10 429	15 041
Tangible fixed assets	83	75	80
Financial assets	91	91	91
<b>Total fixed assets</b>	<b>19 688</b>	<b>10 596</b>	<b>15 212</b>
<b>Total current assets</b>	<b>37 927</b>	<b>15 285</b>	<b>37 573</b>
<b>Total assets</b>	<b>57 615</b>	<b>25 880</b>	<b>52 786</b>
<b><u>Liabilities and equity</u></b>			
Total equity	51 052	14 006	47 085
Long-term liabilities	0	5 100	0
Current liabilities	6 563	6 774	5 700
<b>Total equity and liabilities</b>	<b>57 615</b>	<b>25 880</b>	<b>52 786</b>

## Income statement

Amounts in SEK thousands	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
	Q3	Q3	jmf 9 mån	jmf 9 mån	jmf 12 mån
Net sales	3 098	7 460	20 603	20 350	26 872
Capitalized work	560	443	1 646	1 348	1 813
Other operating income	0	0	1	5	5
<b>Direct costs</b>	-252	-2 904	-6 923	-7 559	-10 173
<b>Gross profit</b>	<b>3 405</b>	<b>4 998</b>	<b>15 327</b>	<b>14 144</b>	<b>18 517</b>
Gross margin %	66%	61%	63%	63%	62%
Operating expenses	-2 934	-3 166	-10 199	-9 684	-12 914
<b>EBITDA</b>	<b>472</b>	<b>1 832</b>	<b>5 128</b>	<b>4 460</b>	<b>5 603</b>
Depreciation / amortization	-410	-302	-1 153	-1 155	-1 331
<b>EBIT</b>	<b>62</b>	<b>1 531</b>	<b>3 975</b>	<b>3 305</b>	<b>4 272</b>
Net financial items	-3	-124	-8	-494	-549
<b>Profit after financial items</b>	<b>59</b>	<b>1 407</b>	<b>3 967</b>	<b>2 811</b>	<b>3 722</b>
Items affecting comparability	0	0	0	0	0
Tax	0	0	0	0	0
<b>Net profit for the period</b>	<b>59</b>	<b>1 407</b>	<b>3 967</b>	<b>2 811</b>	<b>3 722</b>

## Cash flow

Amounts in SEK thousands	2016-07-01	2015-07-01	2016-01-01	2015-01-01	2015-01-01
	2016-09-30	2015-09-30	2016-09-30	2015-09-30	2015-12-31
	Q3	Q3	jmf 9 mån	jmf 9 mån	jmf 12 mån
Cash flow from operations during the period	469	1 708	5 120	4 066	5 154
Change in working capital	-238	-5 486	1 997	-7 504	-5 591
<b>Cash flow from operating after change in working capital</b>	<b>231</b>	<b>-3 778</b>	<b>7 117</b>	<b>-3 439</b>	<b>-437</b>
Cash flow from investments	-2 960	-952	-5 629	-2 349	-7 142
Cash flow from financing operations	0	4 674	0	7 252	34 319
<b>Cash flow during period</b>	<b>-2 729</b>	<b>-56</b>	<b>1 488</b>	<b>1 464</b>	<b>26 741</b>
Cash / cash equivalents at beginning of period	30 958	1 520	26 741	0	0
<b>Cash / cash equivalents at end of period</b>	<b>28 229</b>	<b>1 464</b>	<b>28 229</b>	<b>1 464</b>	<b>26 741</b>