

# KARO PHARMA

## INTERIM REPORT JANUARY – SEPTEMBER 2016

### THE PERIOD AND THE THIRD QUARTER

- o Net sales amounted to MSEK 250.8 (11.7), whereof the third quarter MSEK 85.2 (9.4)
- o EBITDA was MSEK 22.8 (-49.4), whereof the third quarter MSEK 10.2 (-13.3)
- o Earnings per share amounted to SEK 0.06 (-1.00), whereof the third quarter SEK 0.07 (-0.33)
- o Cash and cash equivalents at period end amounted to MSEK 147,8 (132.1)
- o An options program for employees was implemented

### FORECAST FOR THE FULL YEAR

- o The full year forecast for EBITDA is MSEK 35

### SIGNIFICANT EVENTS AFTER PERIOD END

- o The cancer project KB9520 was outlicensed to the Swedish research company Oasmia for 3 080 000 new Oasmia shares corresponding to MSEK 25 and 20% of all Oasmia revenues generated from the project
- o The Board of Directors decided to propose the AGM to spin-out the shares in Oasmia

#### AUDIOCAST TODAY AT 11.00 A.M. CET

A presentation of the report (in Swedish) will take place today at 11 a.m. The presentation can be attended through the corporate website [www.karopharma.se](http://www.karopharma.se) or by telephone 08-505 564 74. Questions may be submitted over the internet or by the telephone.

## COMMENT ON OPERATIONS

### THIRD QUARTER OF GROWTH

During the third quarter, operations continued to perform well, with rising sales and a positive cash-flow. The new business model and fund raising carried out in spring positions Karo Pharma to continue its transformation into a company with both product development and marketing of products.

The intention is to create a balance between pre-clinical projects, innovative business ventures close to market and established operations with stable earnings potential. New products are expected to be sourced mainly through acquiring companies and product rights as well as through collaborations with other pharmaceutical and development companies. In the Health Care area both in Sweden and abroad, there are a large number of attractive acquisition opportunities that may fit Karo Pharma's new direction.

Our efforts to identify and assess different types of acquisition opportunities continues in parallel with the organic growth of operations. Future acquisitions will be done by

combining bank financing with cash flow generated from operations.

During fall, we are carrying out aggressive marketing activities, including TV commercials for the products Mabs Allevo and Triolif.

After period end, we placed our cancer project with the Swedish research company Oasmia, resulting in two large projects being out-licensed. In addition to a down-payment of MSEK 25, Karo Pharma is entitled to 20% on all of Oasmia's future revenue generated from the project. The RORgamma project is progressing according to plan. Karo Pharma is entitled to up to more than MUSD 200 in compensation when the project reaches certain development and sales milestones, in addition to royalties on future drug sales.

We will increase the speed of the company through acquisitions to lead the consolidation in the healthcare field in Sweden

Anders Lönner  
Executive Chairman

## KEY FINANCIAL DATA

(MSEK)	July - Sept		Jan - Sept		Full year
	2016	2015	2016	2015	2015
Net sales	85.2	9.4	250.8	11.7	69.1
Gross earnings	33.9	4.2	109.3	6.5	28.6
Gross margin, %	39.8	44.7	43.6	55.6	41.4
Operating expenses	-23.7	-17.6	-86.5	-55.9	-100.3
EBITDA	10.2	-13.3	22.8	-49.4	-71.7
Earnings before tax	5.3	-13.6	5.2	-50.5	-75.3
Earnings per share (SEK)	0.08	-0.33	0.08	-1.00	-1.46
Cash flow from operating activities <sup>1)</sup>	-4.0	-14.3	-45.7	-46.7	-52.2
Cash and cash equivalents at the period end	147.8	132.1	147.8	132.1	76.5

<sup>1)</sup> Excluding settlement of non-recurrent liabilities, cash flow from operating activities from January to September 2016 amounted to MSEK -19

## SALES AND EARNINGS

Net sales for the first nine months were MSEK 250.8 (11.7), whereof the third quarter MSEK 85.2 (9.4). Since September 2015, net sales comprise mainly of product sales in acquired companies.

Cost of goods sold during the period was MSEK 141.5 (5.2), whereof the third quarter MSEK 51.3 (5.2), resulting in gross earnings of MSEK 109.3 (6.5), whereof the third quarter MSEK 33.9 (4.2) and a gross margin of 43.6 per cent for the period and 39.8 per cent for the quarter.

Operating costs, including depreciation amounted to MSEK 100.6 (57.0), whereof the third quarter MSEK 28.2 (17.8). Selling expenses was MSEK 77.4 (1.0), whereof the third quarter MSEK 22.3 (1.0). Research and development, which previously represented the majority of costs, decreased to MSEK 4.7 (29.6), whereof the third quarter MSEK 1.9 (4.2).

Operating profit was MSEK 8.8 (-50.5), whereof the third quarter MSEK 5.7 (-13.6) while net earnings was MSEK 5.2 (-53.5), whereof the third quarter MSEK 4.2 (-16.6).

Earnings per share was SEK 0.06 (-1.0), whereof the third quarter SEK 0.07 (-0.33).

## CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities, including settlement of non-recurrent liabilities of MSEK 26, was MSEK -45.7 (-46.7), whereof the third quarter MSEK -4.0 (-14.3). The net investment in intangible assets of MSEK 62.5 is mainly related to payment of immaterial rights to Allevo. Cash and cash equivalents at period end amounted to MSEK 147.8 (132.1).

Total shareholders' equity amounted to MSEK 628.2 (239.5) taking into account the period's earnings, translating into equity per share of SEK 9.07 (4.48). The equity ratio was 81.8 (86.7) percent.

## FORECAST FÖR THE FULL YEAR

The full year forecast for EBITDA is MSEK 35. The forecast is based on the increased demand for several of the brands within the Group during the fall. No forecast has previously been provided for 2016.

## THE PARENT COMPANY

Net sales for the Parent Company for the first nine months amounted to MSEK 15.8 (2.9), whereof the third quarter MSEK 1.8 (0.7). Loss after financial items was MSEK -17.6 (-50.8), whereof the third quarter MSEK -6.2 (-14.0). Cash and cash equivalents at period end amounted to MSEK 132.8 (131.1).

## SIGNIFICANT EVENTS AFTER PERIOD END

### *Incentive program*

An extraordinary general meeting on July 21 resolved on an incentive program for employees. Interest in participating in the program was great. In total, all available 4,600,000 warrants were subscribed to, of which 3,900,000 by senior executives. Executive Chairman Anders Lönner subscribed to 2,740,000 warrants.

Each warrant entitles the holder to subscribe for one new share in the Company at a price of SEK 74 per share. The exercise period is 18 months. At full conversion, the warrants would increase the share capital by SEK 2 079 977.10, corresponding to a dilution of approximately 7.5% of the share capital and votes.

### *Nomination committee*

In accordance with the AGMS's decision, the Chairman ensured that the company's four largest shareholders by votes, were offered to appoint one representative each to the Nomination Committee. The Nomination Committee consists of the following members:

- o Anders Lönner, Chairman
- o Per-Anders Johansson
- o Leif Edlund
- o Hans Ek

The Nomination Committee will work out a proposal to the Annual General Meeting 2017 regarding Chair at the AGM, number of board members and deputy members, remuneration to the Board and auditors, proposed Chair, other Board members and auditor.

The AGM will take place on May 11, 2017 in Stockholm.

Shareholders who wish to submit proposals to the Nomination Committee can do so by e-mail to [valberedning@karopharma.se](mailto:valberedning@karopharma.se).

### *Transactions with related parties*

After sounding out possible guarantors, the Executive Chairman Anders Lönner agreed to underwrite 92% of the new share issue of MSEK 280, for which he received MSEK 16.16 million in underwriting fee. The rights issue was partly used for repayment of the MSEK 67 debt incurred in connection with the acquisition of Allevo where Anders Lönner provided financing. Interest of MSEK 2.5 has been paid to Anders Lönner in relation to the financing of Allevo. Moreover, Anders Lönner subscribed pro rata to his own holding of 5% without compensation, which also the board member Per-Anders Johansson did for its holding of 3%. Had this not taken place, the company had not been able to finance the acquisition of Allevo since no other underwriters were available.

## SIGNIFICANT EVENTS AFTER THE END OF THE REPORTING PERIOD

In October, a collaboration was initiated with Swedish Oasmia regarding the cancer project KB9520 that has shown good effects in pre-clinical models of multiple cancers.

Oasmia acquired the project from Karo Bio for a consideration in the form of 3,080,000 new shares in Oasmia corresponding to a

value of MSEK 25, which Karo Bio Board decided to propose to the AGM to spin-out to shareholders. Karo Bio is also entitled to 20% of all of Oasmia's revenue generated from the project. Oasmia carries out the continued development and is responsible for the project's costs.

## RISKS

The Group is exposed to a number of risks and insecurities. Wrongful, delayed or missing deliveries from the Group's suppliers mean that the Group's deliveries also may be delayed, inadequate or wrong. The Group is also exposed to exchange rate fluctuations. It is not guaranteed that Group operations will not be subject to restrictions from governmental agencies or that the Group will receive necessary future authority approvals. There is a risk that the Group's ability to develop products decreases or that the products will not be launched according to set schedules. These risks may involve decreased sales and a negative effect on Group earnings.

## ACCOUNTING AND VALUATION PRINCIPLES

This interim report has been prepared in accordance with International Accounting Standards (IAS) 34 for interim reports and International Financial Reporting Stand-

Stockholm on October 27, 2016

**Anders Lönner**  
*Executive Chairman*

FOR FURTHER INFORMATION, PLEASE CONTACT:

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## ABOUT KARO PHARMA

Karo Pharma is a healthcare company that develops and markets products to pharmacies and directly to healthcare providers. The share is listed on Nasdaq Stockholm.

ards IFRS as adopted by the EU. The accounting and valuation principles applied are unchanged compared to those applied in 2014.

For the parent company, this interim report has been prepared in accordance with the Swedish Annual Accounts Act and compliance with RFR 2 *Accounting for legal entities*. The accounting principles applied for the parent company differ from those applied for the Group only regarding accounting of leasing agreements.

## AUDIOCAST

The report will be presented (in Swedish) today at 11:00 at an audiocast with slides that can be followed on [www.karopharma.se](http://www.karopharma.se) as well as over telephone + 46 8-505564 74. Questions can be both over the Internet and over the phone.

## FINANCIAL REPORTS

Year-End Report 2016	Feb 16, 2017
Annual report 2016	March 2017
Interim Report Jan-March	May 10, 2017
Annual General Meeting	May 11, 2017

*The information in this report is such that Karo Pharma is required to disclose under the Swedish Securities Market Act. The information was disclosed on October 27, 2016 at 8.00 a.m. CET.*

## CONSOLIDATED INCOME STATEMENT SUMMARY (KSEK)

	July - Sept		Jan - Sept		Full year
	2016	2015	2016	2015	2015
Net sales	85 164	9 406	250 807	11 664	69 095
Cost of sales	-51 280	-5 169	-141 458	-5 169	-40 494
Gross earnings	33 884	4 237	109 349	6 495	28 601
Operating expenses					
Distribution costs	-22 324	-989	-77 448	-989	-26 718
Administration	-4 197	-5 555	-18 524	-19 209	-27 150
Research and development	-1 859	-4 188	-4 673	-29 592	-34 957
Other operating income/expenses	158	-7 113	86	-7 212	-14 639
	-28 222	-17 845	-100 559	-57 002	-103 464
Operating result	5 662	-13 608	8 790	-50 507	-74 863
Financial net	-403	-13	-3 630	-4	-434
Earnings before Tax	5 259	-13 621	5 160	-50 511	-75 297
Tax	-1 023	-2 962	-1 023	-2 962	-2 894
NET EARNINGS	4 236	-16 583	4 137	-53 473	-78 191
Net earnings attributable to:					
Shareholders in the parent company	4 265	-16 583	4 188	-53 473	-77 632
Non-controlling interests	-29	-	-51	-	-559
Earnings / loss per share (SEK)	0,07	-0,33	0,06	-1,00	-1,46
Number of shares issued (000)	63 907	50 325	63 907	53 465	53 465

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (KSEK)

	July - Sept		Jan-Sept		Full year
	2016	2015	2016	2015	2015
NET EARNINGS FOR THE YEAR	4 236	-16 583	4 137	-53 473	-78 191
Other comprehensive income for the year, net of tax					
Exchange rate differences	714	-263	300	-263	-315
TOTAL COMPREHENSIVE INCOME	4 950	-16 846	4 437	-53 736	-78 506
Total comprehensive income attributable to:					
Shareholders of the parent company	4 979	-16 846	4 488	-53 736	-77 947
Non-controlling interests	-29	-	-51	-	-556

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (KSEK)

	30 Sept		31 Dec
	2016	2015	2015
Intangible assets	468 694	122 326	475 655
Equipment	9 434	1 753	5 701
Other financial assets	21	21	21
Other current assets	140 478	20 159	84 670
Cash and cash equivalents	147 832	132 064	76 490
<b>TOTAL ASSETS</b>	<b>766 459</b>	<b>276 323</b>	<b>642 537</b>
Shareholders' equity	627 127	239 545	364 581
Deferred tax <sup>1)</sup>	31 549	6 343	31 740
Non-current liabilities	21 026	-	21 026
Current liabilities	86 757	30 435	225 190
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>766 459</b>	<b>276 323</b>	<b>642 537</b>

<sup>1)</sup> Attributable to depreciable product rights in connection with business acquisitions

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (KSEK)

Attributable to shareholders of the parent company	Share capital	Other contributed capital	Accumulated losses	Non-controlling interest	Total
Amount at January 1, 2015	13 525	1 079 562	-1 052 180	-	40 907
Total comprehensive income for the period	-	-	-53 736	-	-53 736
Issue of shares related to business combination	270	19 730	-	-	20 000
Issue of shares related to reverse split	4	-	-	-	4
Rights issue, net of transaction costs	4 998	227 372	-	-	232 370
Amount at September 30, 2015	18 797	1 326 664	-1 105 916	0	239 545
Amount at January 1, 2016	19 970	1 473 614	-1 130 127	1 124	364 581
Total comprehensive income for the period	-	-	4 488	-20	4 468
Acquisition of non-controlling interest	-	1 004	-	-1 004	0
Rights issue, net of transaction costs	5 592	251 966	-	-	257 558
Warrant exercise	-	520	-	-	520
Amount at September 30, 2016	25 562	1 727 104	-1 125 639	100	627 127



## CONSOLIDATED STATEMENT OF CASH FLOWS (KSEK)

	July - Sept		Jan - Sept		Full year
	2016	2015	2016	2015	2015
<b>Operating activities</b>					
Operating income/loss before financial items	5 662	-13 608	8 790	-50 507	-74 863
Depreciation	4 583	282	14 043	1 097	3 153
Other items not affecting liquid assets	684	3 602	97	4 988	4 996
	10 929	-9 724	22 930	-44 422	-66 714
Financial items received and paid	-403	-13	-3 630	-6	-322
Cash flow from operating activities before changes in working capital	10 526	-9 737	19 300	-44 428	-67 036
Changes in working capital	-14 476	-4 598	-64 991	-2 271	14 825
Cash flow from operating activities	-3 950	-14 335	-45 691	-46 699	-52 211
<b>Investing activities</b>					
Net investment in company acquisitions	-	-104 937	-1 557	-104 937	-220 570
Net investment in intangible assets	-165	-	-62 484	-	-
Net investment in other financial instruments	-	1	-	-6	-6
Net investment in equipment	-4 717	-126	-5 504	-277	-261
Cash flow from investing activities	-4 882	-105 062	-69 545	-105 220	-220 837
<b>Financing activities</b>					
Net proceeds from share issues	-	249 919	279 628	249 919	249 919
Transaction costs share issue <sup>1)</sup>	-	-17 545	-22 070	-17 545	-17 545
Warrants	520	-	520	-	-
Borrowings	-	-	-	-	67 055
Repayment of borrowings	-1 500	-	-71 500	-	-1 500
Cash flow from financing activities	-980	232 374	186 578	232 374	297 929
Cash flow for the period	-9 812	112 977	71 342	80 455	24 881
Cash at the beginning of the period	157 644	19 087	76 490	51 609	51 609
Cash at the end of the period	147 832	132 064	147 832	132 064	76 490

<sup>1)</sup> Comprises the portion of transaction related costs that has been paid during the period.

## PARENT COMPANY INCOME STATEMENT SUMMARY (KSEK)

	July - Sept		Jan - Sept		Full year
	2016	2015	2016	2015	2015
Net sales	1 815	673	15 818	2 931	3 923
Cost of sales	-1 635	-	-10 755	-	-
Gross earnings	180	673	5 063	2 931	3 923
Operating expenses					
Distribution costs	-1 020	-	-3 084	-	-
Administration	-3 446	-5 555	-12 113	-19 209	-25 354
Research and development	-1 859	-4 126	-4 673	-29 487	-34 851
Other operating income/expenses	9	8	17	-91	-141
	-6 316	-9 673	-19 853	-48 787	-60 346
Operating result	-6 136	-9 000	-14 790	-45 856	-56 423
Financial net	-98	-4 998	-2 836	-4 986	-5 263
Earnings before Tax	-6 234	-13 998	-17 626	-50 842	-61 686
Tax	-	-	-	-	-
NET EARNINGS	-6 234	-13 998	-17 626	-50 842	-61 686

## PARENT COMPANY BALANCE SHEET SUMMARY (KSEK)

	30 Sept		31 Dec
	2016	2015	2015
Intangible assets	72 360	15 000	73 965
Equipment	842	1 617	1 372
Other financial assets	21	21	21
Shares in group companies	399 345	124 435	397 788
Other current assets	40 251	3 668	9 301
Cash and cash equivalents	132 841	131 138	68 732
TOTAL ASSETS	645 660	275 879	551 179
Total restricted equity	S	18 797	19 970
Total non-restricted equity	594 617	223 652	359 758
Non-current liabilities	13 940	15 116	15 341
Current liabilities	11 540	18 314	156 110
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	645 660	275 879	551 179