

KARO PHARMA

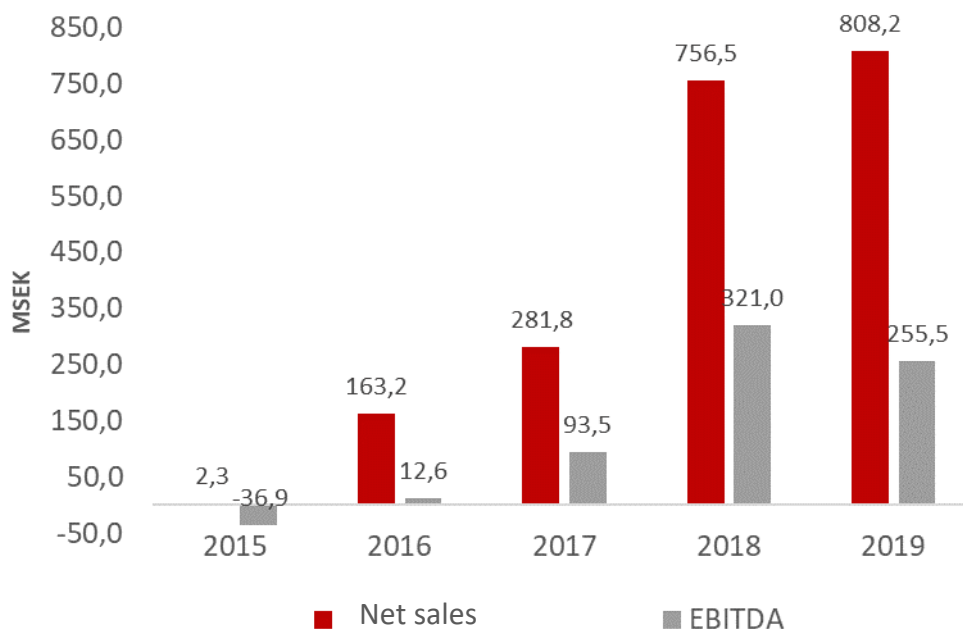
INTERIM REPORT JANUARY – JUNE 2019

THE PERIOD AND THE SECOND QUARTER

- Net sales amounted to MSEK 808.2 (756.5), whereof the second quarter MSEK 387.4 (489.4). This corresponds to an increase for the period of 7% and a decrease for the quarter of 21%. Excluding one-off income in the second quarter of 2018, net sales in the second quarter decreased by 4%.
- Adjusted EBITDA amounted to MSEK 290.8 (234.4), whereof the second quarter MSEK 137.8 (145.7). During the second quarter of 2019, the company has also had non-recurring costs related to the acquisition of Trimb and restructuring costs of MSEK 35.3. During the second quarter of 2018, the company had one-off incomes of MSEK 86.6 in the form of a milestone payment.
- The gross margin was 55.2% (55.8%) for the period, and 54.5% (55.1%) for the second quarter. Including one-off income, the gross margin in 2018 was 60.8% during the period and 63.1% during the quarter.
- Cash flow from operating activities amounted to MSEK 203.6 (136.7), whereof the second quarter was MSEK 111.8 (95.2).

- Earnings per share were SEK 0.21 (5.07), of which the second quarter amounted to SEK -0.04 (3.86). For 2019, earnings per share are affected by costs affecting comparability and for 2018 by a milestone payment from Pfizer and recognition of deferred tax assets on loss carry forwards (417,7 MSEK).
- Cash and short-term investments at period end amounted to MSEK 561.2 (398.6 as of December 31, 2018).
- On April 3, it was announced that Karo Pharma's Board had appointed Christoffer Lorenzen as the new CEO of Karo Pharma. He replaces Peter Blom. Christoffer took up his new position on July 1, 2019. During the period April 3 through June 30, Ulf Mattson served as acting CEO.
- On June 21, Karo Pharma announced that it had agreed to acquire all shares in Trimb Holding AB from Avista Capital Partners and other shareholders, for MSEK 3,400. The transaction is expected to enhance Karo Pharma's market position and is expected to create a stable platform for Karo Pharma's continued growth. The combined company had annual sales in 2018 of about MSEK 2,640.
- A rights issue of approximately MSEK 1,500 is planned. The Board of Directors of Karo Pharma intends to propose that the company's shareholders at an extraordinary general meeting resolves to authorize the Board to decide on the rights issue. Notice to the extraordinary general meeting where the authorization will be resolved upon will be published separately and will also be available on Karo Pharma's website.

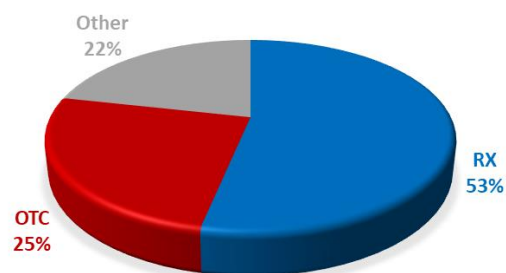
DEVELOPMENT Jan – June 2015 – 2018



KARO PHARMA'S 10 LARGEST DRUGS JAN – JUNE (KSEK)

Product	Net sales
Selexid	89 912
Paracet	71 651
Locobase	67 764
Burinex	67 733
Kaleorid	66 331
Mollipect	47 655
Ibux	45 539
Centyl	35 607
Paralgin Forte	22 993
Lithionit	20 987
Total	536 171

TURNOVER BY CATEGORY JAN – JUNE



Rx – Prescription drugs
OTC – Over the counter drugs (non-prescription)

COMMENT ON OPERATIONS

In the second quarter of 2019, Karo Pharma continued to develop in line with the long-term strategy of advancing the company by growing through acquisitions as a complement to organic growth.

On June 21, we announced the acquisition of Trimb Holding AB for MSEK 3,400 on a cash and debt free basis (Enterprise Value). Trimb is a prominent company in self-care drugs and healthcare products, which over the past few years successfully has built a Nordic business with growing presence in northern Europe. Trimb complements Karo Pharma well, both in terms of geographical presence, sales channels and product range. The merged company had annual sales in 2018 of approximately MSEK 2,640 and becomes a clear leader in its field in the Nordic region.

Regarding the development of Karo Pharma's existing business, adjusted for a milestone payment in Q2 2018, we saw a negative development in the second quarter by 4 percent. Excluding discontinued business relationships in a number of smaller markets that were obtained through the acquisition of the product portfolio from LEO Pharma, sales declined organically by 2 percent. Adjusted for currency effects, sales decreased by 3 percent.

Developments in the various markets varied, and while we saw a positive development in Denmark and Finland, the trend was negative in Sweden and Norway. In other European markets, sales increased, while we saw a negative trend in markets outside Europe primarily driven by discontinued business relationships in a number of smaller markets.

The period and the second quarter have been affected by an ongoing change of contract manufacturer, which has meant some delays and delivery problems especially in the Norwegian market. However, we expect these changes to improve our profitability and business in the long term. Unrelated thereto we faced supply issues after the close of the second quarter related to a specific product, Lithionit, which now have been resolved.

The quarter was also affected by restructuring costs as well as costs related to the acquisition of Trimble.

Christoffer Lorenzen
CEO

KEY FINANCIAL DATA (MSEK)

	April - June		January - June		Full year
	2019	2018	2019	2018	2018
Net sales	387.4	489.4	808.2	756.5	1 615.1
Gross profit	210.9	308.6	445.8	460.2	938.8
Operating costs	-190.6	-124.1	-338.1	-212.1	-524.4
EBITDA	102.5	232.3	255.5	321.0	632.2
EBITDA margin, %	26.5%	47.5%	31.6%	42.4%	39.1%
Profit before tax	-9.1	121.2	42.0	169.5	290.2
EPS ¹ , SEK	-0.04	3.86	0.21	5.07	4.63
Cash flow from operating activities	111.8	95.2	203.6	136.7	318.0
Cash	561.2	333.6	561.2	333.6	398.6

1) Taking into account the bonus element in the rights issue and that outstanding warrants do not imply any dilution.

SALES AND EARNINGS

Net sales for the period increased to MSEK 808.2 (756.5). This corresponds to an increase of 7% for the period and a decrease of 21% for the quarter. Excluding one-off revenue in the second quarter of 2018 (MSEK 86.6), sales decreased by 4% in the quarter.

Cost of goods sold amounted to MSEK 362.4 (296.3). The gross margin was 55.2% (55.8%) for the period, and 54.5% (55.1%) in the second period. Including one-off income, the gross margin in 2018 was 60.8% for the period and 63.1% for the quarter.

Operating expenses, including depreciation, other operating income and other operating expenses, amounted to MSEK 338.1 (212.1) for the period. Sales expenses amounted to MSEK 240.2 (180.3). The increase in sales costs is mainly related to costs related to the acquisition of the product portfolio from LEO Pharma and the build-up of an own organization, including subsidiaries in Denmark and Finland. Administrative expenses amounted to MSEK 97.7 (32.5). The increase is due to extraordinary expenses in the second quarter related to the acquisition of Trimb and to restructuring costs totaling MSEK 35.3. Impairment losses on intangible assets of MSEK 16.4 have been made in the second quarter.

The adjusted operating profit amounted to MSEK 290.8 (234.4).

Earnings per share were SEK 0.21 (5.07), of which the second quarter was SEK -0.04 (3.86). Earnings per share for 2019 have been affected by costs effecting comparability, and EPS for 2018 have been affected by milestone payments from Pfizer and the recognition of deferred tax assets on loss carryforwards.

CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities amounted to MSEK 203.6 (136.7). The Group's cash and cash equivalents amounted to MSEK 561.2 (333.6) at the end of the period. Cash flow during the period was MSEK 145.1 (-511.6). Total assets amounted to MSEK 7,040.8 (6,896.9) on June 30, where Intangible assets accounted for MSEK 5,347.7 (5,648.9) at the end of the period.

Group equity increased to MSEK 3,713.5 (3,657.2). The equity ratio was 52.7 (53.0) percent.

PARENT COMPANY

The Parent Company's net sales for the period amounted to MSEK 356.8 (265.4). Profit after financial items amounted to MSEK -34.7 (68.1). The parent company's cash and cash equivalents and other short-term investments amounted to MSEK 321.3 (198.0 as of December 31, 2018).

SIGNIFICANT EVENTS

On April 3, Christoffer Lorenzen was appointed new CEO of Karo Pharma, replacing Peter Blom. Christoffer took up his new position on July 1, 2019. During the period April 3 to June 30, Ulf Mattson served as acting CEO.

On June 21, Karo Pharma announced that it had agreed to acquire all shares in Trimb Holding AB from Avista Capital Partners and other shareholders for MSEK 3,400. The transaction is expected to enhance Karo Pharma's market position and is expected to create a stable platform for Karo Pharma's continued growth. The merged company had annual sales in 2018 of approx. MSEK 2,640.

RISKS

The Group is exposed to a number of risks and uncertainties.

CHANGES IN REGULATIONS AND HEALTHCARE SYSTEMS

Future changes in health care systems may be implemented in countries where the company and its partners intend to market pharmaceuticals. Such changes may affect the sales potential of these products as well as the ability to enlist new partners.

PATIENT SAFETY

Access to health care and medicine is a crucial issue for the industry. Karo Pharma applies strict standards to ensure the safety and quality of all products marketed by the company. The standard within the Good Manufacturing Practice, GMP is applicable to all pharmaceutical products and the requirements are the same regardless of where the production takes place. Also, for non-pharmaceutical products, there are different quality and safety guidelines.

SIDE EFFECTS

Any use of medicines is associated with the risk of side effects. Karo Pharma has expertise within the area and potential side effects are reported to the pharmaceutical authority. During the period there were no significant incidents in pharmacovigilance.

IT

The company is exposed to risks related to IT. These can be intrusion into the company's computer systems, e-mail and connection to networks. Viruses and spam attacks can in vulnerable situations affect the company's entire business.

DELIVERIES AND REGULATORY APPROVALS

Wrongful, delayed or missing deliveries from Group suppliers may result in that Group deliveries may be effected negatively. It cannot be guaranteed that Group operations will not be subject to restrictions by governmental agencies or that the Group will receive necessary future regulatory approvals.

OTHER

The Group is also exposed to exchange rate fluctuations. There is a risk that the Group's ability to develop products diminishes or that the products will not be launched according to set schedules. These risks may involve lower sales and negatively impact Group earnings.

SIGNIFICANT EVENTS AFTER PERIOD END

Christoffer Lorenzen took over as President and CEO on July 1.

Christoffer Lorenzen, born 1975, has been a member of Group Management and a member of the Executive Board of Chr. Hansen Holding A / S, which is listed on the Copenhagen Stock Exchange. He holds a master's degree in marketing from Copenhagen Business School and is a board member of Hamlet Protein A / S and in Schultz Holding A / S. He has previously been Head of Corporate Strategy at H. Lundbeck A / S. In February this year, he was elected to Karo Pharma's Board of Directors, a position he left in connection with Karo Pharma's Annual General Meeting.

AUDITORS REVIEW

This report has not been subject to auditor's review.

FINANCIAL CALENDAR

Interim report Jan-Sept	Nov 1, 2019
Year-end report 2019	Feb 13, 2019

BOARD'S ASSURANCE

The Board of Directors and the CEO assure that the interim report provides a true and fair view of the company's and the Group's operations, position and results and describes significant risks and uncertainties that the company and the companies that are part of the Group face.

Stockholm July 19, 2019

Karo Pharma AB (publ)

Bo Jesper Hansen
Chairman of the Board

Erika Henriksson
Director

Vesa Koskinen
Director

Åsa Riisberg
Director

Eva Sjökvist Saers
Director

Håkan Åström
Director

Christoffer Lorenzen
CEO

FOR FURTHER INFORMATION, PLEASE CONTACT

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ABOUT KARO PHARMA

Karo Pharma is a specialty pharma company that develops and markets products to pharmacies and directly to healthcare providers. The share is listed on Nasdaq Stockholm in the Mid Cap segment.

The information in this report is such that Karo Pharma is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, on July 19, 2019 at 8.00 a.m. CET.

CONSOLIDATED INCOME STATEMENT SUMMARY (TSEK)

	April - June		January - June		Full year
	2019	2018	2019	2018	2018
Net sales	387 393	489 447	808 216	756 511	1 615 109
Cost of sales	-176 458	-180 822	-362 442	-296 315	-676 349
Gross profit	210 935	308 625	445 774	460 196	938 760
Operating costs					
Distribution costs	-116 803	-106 244	-240 151	-180 281	-442 970
Administration	-73 254	-18 152	-97 753	-32 508	-78 505
Research and development	0	-215	0	-615	-615
Other operating income/expenses	-549	490	-149	1 265	-2 350
Total operating costs	-190 606	-124 122	-338 053	-212 138	-524 440
Operating profit	20 329	184 503	107 721	248 058	414 320
Financial net	-29 390	-63 309	-65 745	-78 518	-124 155
Profit before tax	-9 061	121 194	41 975	169 541	290 165
Tax	2 646	405 808	-8 111	404 624	367 227
NET PROFIT	-6 416	527 002	33 865	574 164	657 392
Net earnings attributable to:					
Shareholders in the parent company	-6 415	527 002	33 866	574 166	657 376
Non-controlling interests	-1	-1	-1	-2	16
Earnings per share (SEK) ¹	-0.04	3.86	0.21	5.07	4.63
Number of shares issued (000)	164 333	164 333	164 333	164 333	164 333

¹Taking into account the bonus element in the rights issue.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (TSEK)

	April - June		January - June		Full year
	2019	2018	2019	2018	2018
NET PROFIT FOR THE PERIOD	-6 416	527 002	33 865	574 164	657 392
Other comprehensive income for the period, net of tax					
Exchange rate differences	15 303	40 714	68 606	106 611	23 482
TOTAL COMPREHENSIVE INCOME	8 888	567 716	102 471	680 776	680 875
Total comprehensive income attributable to:					
Shareholders in the parent company	8 889	567 718	102 472	680 777	680 859
Non-controlling interests	-1	-1	-1	-2	16

CONSOLIDATED REPORT OVER FINANCIAL POSITION (TSEK)

	30 June		31 December	Change
	2019	2018	2018	
Assets				
Intangible assets	5 374 651	5 648 887	5 424 689	-50 038
Equipment	17 756	15 757	16 793	963
Utilization rights	10 880	0	0	10 880
Deferred tax claim	531 176	492 630	530 950	226
Other financial assets	288	136	136	152
Other current assets	544 839	405 959	513 491	31 348
Cash and cash equivalents	561 207	333 561	398 580	162 627
TOTAL ASSETS	7 040 798	6 896 929	6 884 639	143 869
Shareholders' equity and liabilities				
Equity	3 713 472	3 657 189	3 611 001	102 471
Deferred tax	139 454	84 654	144 479	-5 025
Long term debt	1 850 549	1 992 120	1 836 083	14 466
Current liabilities	1 337 322	1 162 966	1 293 075	44 247
TOTAL EQUITY AND LIABILITIES	7 040 798	6 896 929	6 884 639	143 869

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (TSEK)

Attributable to shareholders of the parent company	Share capital	Ongoing rights issue	Other contributed capital	Retained earnings/ accumulated losses	Non-controlling interest	Total equity
Amount at 1 January 2018	32 866	8 501	2 627 015	-1 081 907	40	1 586 515
Total comprehensive income				680 859	16	680 875
Dividend				-32 867	-	-32 867
Rights issue, net proceeds	32 867	-8 501	1 429 063			1 453 429
Rights issue paid in, not registered equity net of transaction costs				-76 951		-76 951
Amount at 31 December 2018	65 733	-	4 056 078	-510 866	56	3 611 001
Amount at 1 January 2019	65 733	-	4 056 078	-510 866	56	3 611 001
Total earnings				102 472	-1	102 470
Dividend				0	-	0
Repurchasing own shares				0		0
Rights issue, net proceeds	0	-	0			0
Rights issue paid in, not registered equity net of transaction costs						
Amount at 30 June 2019	65 733	0	4 056 078	-408 394	55	3 713 472

CONSOLIDATED STATEMENT OF CASH FLOWS (TSEK)

	April - June		January - June		Full year
	2019	2018	2019	2018	2018
Operating activities					
Operating income/loss before financial items	20 329	184 503	107 721	248 058	414 320
Depreciation	82 202	47 544	147 776	72 940	217 869
Other items not affecting liquid assets	20 734	0	20 734	1	-1 443
	123 265	232 048	276 231	320 999	630 747
Financial items received and paid					
Financial items received and paid	-18 185	-31 476	-47 997	-55 489	-156 850
Income tax paid	-515	-489	-990	-1 613	-257
Cash flow from operating activities before changes in working capital	104 565	200 082	227 244	263 897	473 639
Changes in working capital	7 244	-104 894	-23 634	-127 181	-155 608
Cash flow from operating activities	111 809	95 188	203 609	136 716	318 031
Investing activities					
Net investment in company acquisitions	0	-2 673 216	0	-2 673 216	-2 673 216
Net investment in intangible assets	-7 498	26	-14 414	-1 328	-14 881
Net investment in financial assets	-152	0	-152	0	0
Net investment in other financial instruments	0	0	0	0	0
Net investment in equipment	-147	-1 123	-1 679	-1 826	-4 033
Cash flow from investing activities	-7 796	-2 674 313	-16 245	-2 676 370	-2 692 130
Financing activities					
Net proceeds from share issues	0	1 314 662	0	1 492 642	1 492 642
Transaction costs share issue	0	-49 462	0	-98 340	-98 340
Share buy-backs	0	-19 605	0	-19 605	-76 951
Dividend	0	-32 867	0	-32 867	-32 867
Warrants	0	0	0	0	0
Borrowings	0	4 243 507	0	4 243 507	4 243 507
Repayment of loans	-41 152	-2 837 638	-42 297	-3 557 281	-3 596 753
Transactions with minorities	0	0	0	0	0
Cash flow from financing activities	-41 152	2 618 597	-42 297	2 028 057	1 931 238
Cash flow for the period	62 861	39 472	145 067	-511 598	-442 861
Cash at the beginning of the period	493 569	295 189	398 580	838 586	838 586
Exchange rate differences in cash	4 777	-1 100	17 560	6 574	2 855
Cash at the end of the period	561 207	333 561	561 207	333 561	398 580

PARENT COMPANY INCOME STATEMENT SUMMARY (TSEK)

	31 March		31 December
	2019	2018	2018
Assets			
Intangible assets	2 585 402	76 486	2 625 210
Equipment	1 101	8	152
Deferred tax receivables	480 229	75 000	481 814
Other financial assets	362 806	371 944	358 587
Shares in group companies	2 565 982	2 646 768	2 565 982
Other current assets	253 646	35 524	283 840
Cash	298 589	165 339	198 004
TOTAL ASSETS	6 547 755	3 371 070	6 513 589
Shareholders' equity and liabilities			
Equity	3 505 962	1 766 569	3 500 111
Deferred taxes	0	0	0
Long term debt	1 880 370	1 467 756	1 847 889
Current liabilities	1 161 423	136 745	1 165 589
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	6 547 755	3 371 070	6 513 589

PARENT COMPANY BALANCE SHEET SUMMARY (TSEK)

	30 June		31 December	Change
	2019	2018	2018	
Assets				
Intangible assets	2 529 534	2 726 723	2 625 210	-197 189
Equipment	1 108	0	152	1 108
Deferred tax receivables	481 814	492 662	481 814	-10 848
Other financial assets	354 054	385 099	358 587	-31 045
Shares in group companies	2 563 162	2 647 153	2 565 982	-83 991
Other current assets	276 019	141 068	283 840	134 951
Cash	321 260	148 743	198 004	172 517
TOTAL ASSETS	6 526 951	6 541 448	6 513 589	-14 497
Shareholders' equity and liabilities				
Equity	3 464 770	3 483 144	3 500 111	-18 373
Long term debt	1 856 357	2 003 360	1 847 889	-147 003
Current liabilities	1 205 823	1 054 944	1 165 589	150 879
TOTAL EQUITY AND LIABILITIES	6 526 951	6 541 448	6 513 589	-14 497

Note 1

ACCOUNTING AND VALUATION PRINCIPLES

This report has been prepared in accordance with International Accounting Standards 34 regarding interim reports and international accounting standards IFRS as adopted by the EU. The accounting and valuation principles that have been used are unchanged compared to those that were applied in 2017, with the exception of what is stated below in this note under new accounting principles for 2018.

Regarding the Parent Company, this annual report has been prepared in accordance with the Annual Accounts Act and RFR 2 Accounting for Legal Entities. The accounting principles applied for the Parent Company differ from those applied for the Group solely with respect to the accounting of leasing agreements.

Note 2

LOSS CARRYFORWARDS

As of the balance sheet date, Karo Pharma AB has unutilized loss carryforwards of MSEK 2,335 and in Karo Pharma AS of MSEK 772. With regards to the Group's expected profit development, the deficits are fully valued in the balance sheet.

Note 3

DEFINITIONS

In the report, a number of financial performance measures are referred to which are not defined by IFRS. These measures are used to help investors, management and other stakeholders to analyze the company's operations. These measures may differ from measures with similar names at other companies.

Below are a number of financial performance measures and how these are used to analyze the company's goals.

For further definitions, see the Annual Report 2018 under the heading definitions.

Financial performance measure	Definition	Purpose
Average number of shares	Weighted average number of shares	
Earnings per share	Earnings per average number of shares	
Equity ratio	Equity as a percentage of Total assets	The equity ratio is relevant for investors and other stakeholders who want to assess the company's financial stability and ability to manage long term.
Gross margin	Gross earnings as a percentage of Net sales.	Gross earnings is used to show the company's margin before the impact of costs such as sales and administration costs and R & D.

Adjusted EBITDA	Operating earnings before depreciation excluding items affecting comparability	The financial performance measure shows the underlying earnings from operations, adjusted for effect of depreciation and items that affect comparisons over time. It provides a picture of earnings generated from ongoing operations.
Adjusted EBITDA margin	Adjusted EBITDA in relation to Net sales	The ratio is used to measure the profitability of ongoing operations.

Note 4

NEW ACCOUNTING PRINCIPLES FOR 2019

Karo Pharma has begun to apply the new accounting standard IFRS 16 Leasing as of January 1, 2019.

IFRS 16 is applied retroactively without recalculation of comparative figures. Thus, the incoming balance for 2019 has been recalculated in accordance with the new standard.

When applied in a forward-looking period, the debt is based on the remaining lease term.

As a lessee, Karo Pharma has carried out a detailed review and analysis of the Group's leasing agreements, whereby rental contracts for premises were identified as the single most significant. In addition to rental contracts, only a number of minor lease agreements have been identified, such as for vehicles.

Recognized utilization rights have not had the same value as the reported lease debt as of January 1, 2019 due to advance payment.

In the calculations made, leasing debt is expected to have an initial value of MSEK 11.9, as well as utilization rights of MSEK 11.5. The difference consists of prepaid expenses and thus no transition effect is presented in equity.

Karo Pharma's assessment is that the transition to IFRS 16 has had no significant impact on the Group's earnings and financial position and cash flow statement.

The first time IFRS 16 is put into practice, Karo Pharma will also use the following exceptions:

- The same discount rate has been applied to leasing portfolios with similar characteristics
- Operating leases with a remaining lease term of less than 12 months as of January 1, 2019 have been reported as short-term lease agreements and removed from the lease liability
- Direct acquisition costs for utilization rights have not been included in the transition
- Historical information has been used in the assessment of the length of a lease in cases where there are preferential rights to extend or terminate an agreement.