

# KARO PHARMA

## INTERIM REPORT JANUARY – SEPTEMBER 2019

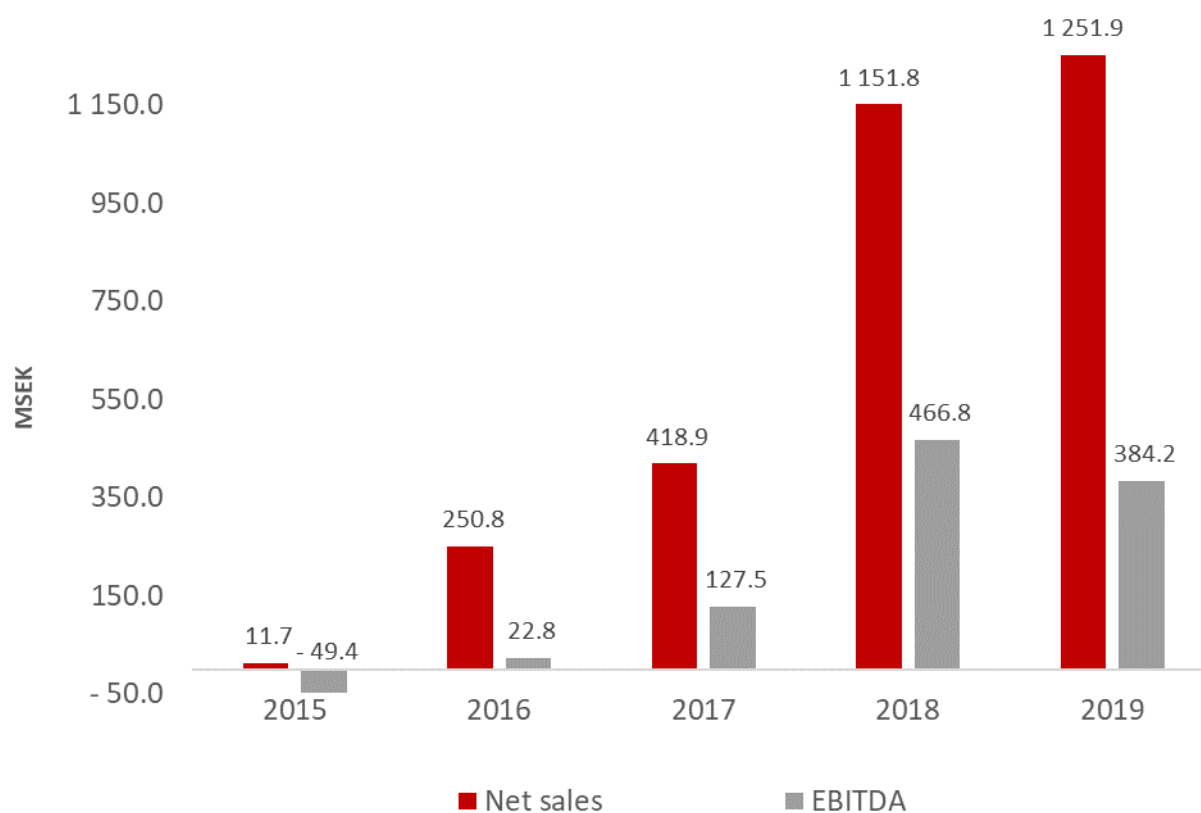
### JULY - SEPTEMBER

- Net sales amounted to MSEK 443.7 (395.3). This corresponds to an increase of 12% for the period, of which the acquired operations account for 10% (MSEK 41.0).
- Adjusted EBITDA amounted to MSEK 156.9 (145.8) excluding non-recurring items, costs related to the acquisition of Trimb and restructuring costs totalling MSEK 28.2.
- The gross margin was 52.8% (55.8%) for the period. The period has been affected by an unfavourable product mix.
- Cash flow from operating activities amounted to MSEK -85.9 (153.2). The negative cash flow has been affected by the takeover and payment of debt in the Trimb Group.
- Earnings per share was SEK -0.01 (0.34) before and after dilution.
- Cash and cash equivalents amounted to MSEK 225.0 (398.6 at December 31, 2018) and net debt amounted to 6 102 MSEK at the end of the period (following completion of the rights issue, debt of 1 500 MSEK has been repaid after the reporting period).
- The acquisition of all shares in Trimb Holding AB, which was announced on June 21, 2019, was completed on September 12. The Trimb group has been consolidated as of September 12, 2019.
- Christoffer Lorenzen took up the position as CEO on July 1.
- On September 24, under the authorization from the Extraordinary General Meeting on September 20, Karo Pharma decided to carry out a rights issue of approximately MSEK 2,003.

### JANUARY - SEPTEMBER

- Net sales amounted to MSEK 1,251.9 (1,151.8). This corresponds to an increase of 9% for the period, whereof 2 % is impact of positive exchange rates. The sales increase is related to the acquired LEO product portfolio in April 2018 and to Trimb in September 2019.
- Adjusted EBITDA amounted to MSEK 447.7 (466.8) excluding non-recurring items, costs related to the acquisition of Trimb and restructuring costs totalling MSEK 63.5 for 2019. In the second quarter of 2018, the company also received non-recurring revenue of MSEK 86.6 in the form of a milestone payment.
- The gross margin was 54.3% (59.1%). During the second quarter of 2018, the company received non-recurring income of MSEK 86.6. Excluding non-recurring revenue, the gross margin in 2018 was 55.8%
- Cash flow from operating activities amounted to MSEK 117.7 (289.9).
- Earnings per share was SEK 0.20 (4.69) before and after dilution. Earnings per share for 2019 was adversely affected by non-recurring items (MSEK -63.5) and 2018 was positively affected by non-recurring revenue (MSEK 86.6) and the recognition of deferred tax assets on loss carry forwards (MSEK 417.7).

# DEVELOPMENT January – September 2015 – 2019



## KARO PHARMA'S 10 BIGGEST PRODUCTS JAN – SEP (MSEK)

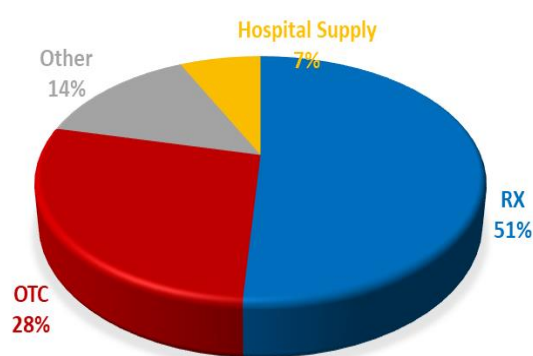
Product	2019	2018	%
Selexid 1)	139,2	88,2	158%
Paracet	111,0	107,2	103%
Locobase 1)	97,5	57,9	168%
Burinex 1)	97,5	67,3	145%
Kaleorid 1)	93,6	72,4	129%
Ibux	69,9	68,3	102%
Mollipect	62,1	63,8	97%
Centyl 1)	49,8	28,5	174%
Swereco Rehab	49,3	52,8	93%
Mabs	45,5	48,2	94%
Other producter 1), 2), 3)	436,5	497,0	88%
<b>Total sales</b>	<b>1 251,9</b>	<b>1 151,8</b>	<b>109%</b>

1) Sales of the LEO portfolio started 2018-04-04

2) Sales of the Trimb portfolio started 2019-09-12

3) 2018 include revenue of MSEK 86.6 MSEK from Pfizer

## TURNOVER BY CATEGORY JAN – SEP



Rx – Prescription drugs

OTC – Over the counter drugs (non-prescription)

## **Comments by CEO Christoffer Lorenzen**

During the third quarter of 2019, the development of Karo Pharma continued in line with the long-term strategy of developing the company by growing through strategic acquisitions as a complement to organic growth.

On September 12, the acquisition of Trimb Holding AB was completed. The transaction was financed through a combination of loans and a rights issue raising approximately SEK 2 billion, carried out in October.

The merged company is thus established as one of the leading pharmaceutical companies in the Nordic region. Our ambition is to offer products that improve people's health and quality of life. We have a commercial focus and specialize on the sales and marketing of both prescription drugs (Rx) and over the counter (OTC) products, as well as self-care products sold in pharmacies and retail outlets. Our products are available today in over 60 countries.

In line with our ambition to expand our business outside the Nordic region, we have bought out German distributor, Ardo, and established our own subsidiary in Munich.

The work with integrating Trimb and utilizing and executing on the synergies in the new company continues according to plan. We have announced a new management team, which contains representatives from both Karo and Trimb, and welcome our new CFO, Jon Johnsson, who joined the company on October 1.

Sales increased by 12 percent during the quarter. As previously mentioned, the Trimb Group was consolidated as of September 12, contributing with 10 percent to the increase in sales. The quarter was also affected by restructuring costs and costs related to the acquisition of Trimb.

**Christoffer Lorenzen**

*CEO*

## KEY FINANCIAL DATA (MSEK)

	July-September		January-September		Full year
	2019	2018	2019	2018	2018
Net sales	443.7	395.3	1 251.9	1 151.8	1 615.1
Gross profit	234.2	220.5	679.9	680.7	938.8
Operating costs	-177.9	-122.4	-516.0	-334.5	-524.4
EBITDA	128.7	145.8	384.2	466.8	632.2
EBITDA margin, %	29.0%	36.9%	30.7%	40.5%	39.1%
Profit before tax	3.5	74.2	45.5	243.8	290.2
EPS, SEK	-0.01	0.34	0.20	4.69	4.63
Cash flow from operating activities	-85.9	153.2	117.7	289.9	318.0
Cash	225.0	443.1	225.0	443.1	398.6

## SALES AND EARNINGS

Net sales for the period increased to SEK 1,251.9 (1,151.8), corresponding to an increase of 9% for the period and an increase of 12% for the third quarter. The acquired operations, the Trimb Group, had sales of MSEK 41.0 during the period September 12 to September 30.

Cost of goods sold amounted to MSEK 572.0 (471.1). The gross margin was 54.3% (59.1%) in the period, and 52.8% (55.8%) in the third quarter. The third quarter of 2019 was adversely affected by an unfavourable product mix. During the second quarter of 2018, the company received non-recurring revenue of MSEK 86.6. Excluding non-recurring revenue, the gross margin in the 2018 period was 55.8%.

Operating expenses, including depreciation, other operating income and other operating expenses, amounted to MSEK 515.7 (334.5) in the period. Sales costs amounted to MSEK 370.8 (283.7). The increase in sales costs is related to costs for taking over the product portfolio from LEO Pharma, the establishment of an own organization, including own subsidiaries in Denmark and Finland, and the acquisition of Trimb. Administrative expenses amounted to MSEK 115.4 (51.4). The increase is mainly due to non-recurring items in the second and third quarters related to the acquisition of Trimb and to restructuring costs totalling MSEK 63.5.

The adjusted operating profit amounted to MSEK 447.7 (466.8). During the second quarter of 2018, the company received non-recurring revenue of MSEK 86.6.

	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net sales	443,7	395,3	1 251,9	1 151,8
Cost of goods sold	-209,6	-174,8	-572,0	-471,1
Gross profit	234,2	220,5	679,9	680,7
Costs before amortization and depreciation	-105,4	-74,7	-295,7	-213,9
EBITDA	128,7	145,8	384,2	466,8
Non-recurring costs	28,2	0,0	63,5	0,0
Adjusted EBITDA	156,9	145,8	447,7	466,8
Amortization and depreciation related to operating costs	-72,5	-47,6	-220,3	-120,6
EBIT	56,2	98,2	163,9	346,2

For additional information on performance measures - see note 4 Definitions

Earnings per share was SEK 0.20 (4.69), of which SEK -0.01 (0.34) in the third quarter. Earnings per share in 2019 was adversely affected by non-recurring items and 2018 was positively affected by non-recurring revenue from Pfizer and the recognition of deferred tax assets on loss carryforwards.

## CASH FLOW AND FINANCIAL POSITION

Cash flow from operating activities during the quarter was MSEK -85.9 (153.2) and during the period MSEK 117.9 (289.9). Group cash and cash equivalents amounted to MSEK 225.0 (MSEK 398.6 as of December 31, 2018) at the end of the period. During the third quarter, the company raised loans totaling MSEK 3,500 for the acquisition of Trimb.

On September 30, total assets amounted to MSEK 10,999.2 (7,029.3), whereof intangible assets accounted for MSEK 9,230.7 (5,583.9).

Group equity amounted to MSEK 3,699.6 (3,651.0). The equity ratio was 33.6 (51.9) percent.

## PARENT COMPANY

The Parent Company's net sales for the period amounted to MSEK 523.9 (438.3). Profit after financial items amounted to MSEK -31.1 (63.2). The parent company's cash, cash equivalents and other current investments amounted to MSEK 68.7 (198.0 as of December 31, 2018).

## SIGNIFICANT EVENTS

Christoffer Lorenzen took up the position as CEO on July 1.

Christoffer Lorenzen, born 1975, has been a member of Group Management and the Executive Board of Chr. Hansen Holding A/S, listed on the Copenhagen Stock Exchange. He has a master's degree in marketing from Copenhagen Business School and is a board member of Hamlet Protein A/S and of Schultz Holding A/S. He has previously been Head of Corporate Strategy at H. Lundbeck A/S. In February 2019, he was elected to Karo Pharma's Board of Directors, an assignment he left in connection with Karo Pharma's annual general meeting.

Jon Johnsson was appointed new CFO of Karo Pharma. He replaces Mats-Olof Wallin, who will retire at the end of the year. Jon took up his new position on October 1, 2019. Mats-Olof will work alongside Jon until mid-December to ensure a smooth transition. Jon Johnsson, born in 1975, joins Karo Pharma from Atlas Copco where he held the position of Vice President Finance for one of the Group's divisions.

The acquisition of all shares in Trimb Holding AB, which was announced on June 21, 2019, was completed on September 12. The Trimb Group has been consolidated as of September 12, 2019.

A new management group and organizational structure was appointed, which reflects the corporate strategy. The new management team consists of members from the old Karo Pharma as well as the old Trimb management teams.

An Extraordinary General Meeting on September 20 resolved, in accordance with the Board of Directors' proposal, to mandate the Board to on one or more occasions during the period leading up to the Annual General Meeting 2020, decide on a rights issue.

On September 24, Karo Pharma decided to carry out a rights issue under the mandate of approximately MSEK 2,003.

Karo Pharma published its prospectus on the rights issue on September 30.

## RISKS AND UNCERTAINTIES

As an international group, Karo Pharma is exposed to various risks, which affect the opportunities to achieve the set goals. These are operational risks, such as the risk that competitive situations affect price levels and sales volumes and the risk that the economic development in the markets and in the segments where the Group operates is not stable. These include financial risks such as currency risks, interest rate risks and credit risks. No significant change in material risks or uncertainties has occurred during the period. Our assessment is thus unchanged compared to the account of Karo Pharma's risks, uncertainties and the management of the same in the company's Annual Report for 2018. Readers who wish to consult the annual report can download this from KaroPharma's website [www.karopharma.com](http://www.karopharma.com), or request it from Karo Pharma AB, PO Box 16 184, 103 24 Stockholm, Sweden.

## SIGNIFICANT EVENTS AFTER PERIOD END

On October 21, the result of the rights issue in Karo Pharma was announced showing that 60,556,339 shares had been subscribed for by virtue of subscription rights. The remaining 144,083 shares had been allotted to persons who subscribed for shares without subscription rights. The rights issue was thus fully subscribed, and Karo Pharma raised approximately MSEK 2,003 prior to issue costs. Following completion of the rights issue, the company has repaid MSEK 1,500 of debt.

On October 31, it was announced that the number of shares and votes in Karo Pharma prior to the rights issue amounted to 164,332,782. 60,556,339 new shares subscribed for with subscription rights and 144,083 new shares subscribed without subscription rights were registered with the Swedish Companies' Registration Office. As of October 31, 2019, the number of shares and votes in Karo Pharma was thus 225,033,204.

Karo Pharma entered in December 2011 into a research collaboration and licensing agreement reference to ROR-gamma with Pfizer. Pfizer has informed Karo Pharma of its decision to terminate a specific development project under this collaboration. As a result, Karo Pharma will not receive any additional development or sales milestone payments related to the project. In May 2018, Karo Pharma communicated about potential milestone payments amounting to up to about MUSD 200.

The termination of the project has no impact on ongoing operations or the company's future prospects.

FINANCIAL CALENDAR

Year-end report 2019	Feb 19, 2020
Interim report Jan-Mar 2020	April 29, 2020
Interim report Jan-June 2020	July 21, 2020
Interim report Jan-Sept 2020	Oct 31, 2020



## 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 on November 15, 2019

Bo Jesper Hansen  
Chairman of the Board

Erika Henriksson  
Director

Vesa Koskinen  
Director

Åsa Riisberg  
Director

Eva Sjökvist Saers  
Director

Håkan Åström  
Director

Flemming Örnkov  
Director

Christoffer Lorenzen  
CEO

FOR FURTHER INFORMATION, PLEASE CONTACT

Christoffer Lorenzen, CEO, + 46 73 501 76 20, christoffer.lorenzen@karopharma.com

Jon Johnsson, CFO, + 46 73 507 88 61, jon.johnsson@karopharma.com

## ABOUT KARO PHARMA

Karo Pharma is a pharmaceutical company specializing in the sale and marketing of both prescription and non-prescription drugs as well as self-care products sold in pharmacies and retail. Karo Pharma is listed on the Nasdaq Stockholm Stock Exchange's 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 November 15, 2019 at 8.00 a.m. CET.*

## REVIEW REPORT

To the board of directors of Karo Pharma Aktiebolag (Publ), corporate identity number 556309-3359

### **Introduction**

We have reviewed the interim report for Karo Pharma Aktiebolag (Publ) as at September 30, 2019 and for the nine months period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

### **Scope of review**

We conducted our review in accordance with the International Standard on Review Engagements, ISRE 2410 *Review of Interim Financial Statements Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act regarding the Group, and in accordance with the Swedish Annual Accounts Act regarding the Parent Company.

Stockholm, November 15, 2019

Ernst & Young AB

Björn Ohlsson  
Authorized Public Accountant

## CONSOLIDATED INCOME STATEMENT SUMMARY (TSEK)

	July - September		January - September		Full year
	2019	2018	2019	2018	2018
Net sales	443 722	395 325	1 251 937	1 151 836	1 615 109
Cost of sales	-209 562	-174 784	-572 003	-471 098	-676 349
Gross profit	234 160	220 542	679 934	680 738	938 760
Operating costs					
Distribution costs	-130 622	-103 453	-370 773	-283 733	-442 970
Administration	-17 638	-18 852	-115 390	-51 360	-78 505
Research and development	0	0	0	-615	-615
Other operating income/expenses	-29 675	-65	-29 824	1 200	-2 350
Total operating costs	-177 934	-122 370	-515 988	-334 508	-524 440
Operating profit	56 226	98 171	163 946	346 229	414 320
Financial net	-52 710	-23 931	-118 456	-102 448	-124 155
Profit before tax	3 515	74 241	45 491	243 781	290 165
Tax	-5 323	-18 483	-13 433	386 141	367 227
NET PROFIT	-1 807	55 757	32 058	629 922	657 392
Net earnings attributable to:					
Shareholders in the parent company	-1 804	55 759	32 061	629 925	657 376
Non-controlling interests	-3	-1	-4	-3	16
Earnings per share before and after dilution (SEK) <sup>1</sup>	-0,01	0,34	0,20	4,69	4,63
Number of shares issued (000)	164 333	164 333	164 333	164 333	164 333

<sup>1</sup>Taking into account the bonus element in the rights issue.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (TSEK)

	July - September		January - September		Full year
	2019	2018	2019	2018	2018
NET PROFIT FOR THE PERIOD	-1 807	55 757	32 058	629 922	657 392
Other comprehensive income for the period, net of tax					
Exchange rate differences	-13 550	-15 685	55 055	90 927	23 482
TOTAL COMPREHENSIVE INCOME	-15 358	40 073	87 113	720 849	680 875
Total comprehensive income attributable to:					
Shareholders in the parent company	-15 352	40 075	87 117	720 851	680 859
Non-controlling interests	-3	-1	-4	-3	16

## CONSOLIDATED REPORT OVER FINANCIAL POSITION (TSEK)

	30 September		31 December
	2019	2018	2018
<b>Assets</b>			
Intangible assets	9 230 706	5 583 937	5 424 689
Equipment	21 095	15 642	16 793
Utilization rights	24 167	0	0
Deferred tax claim	581 418	560 694	530 950
Other financial assets	17 825	136	136
Other current assets	898 924	425 736	513 491
Cash and cash equivalents	225 017	443 112	398 580
<b>TOTAL ASSETS</b>	<b>10 999 151</b>	<b>7 029 256</b>	<b>6 884 639</b>
<b>Shareholders' equity and liabilities</b>			
Equity	3 699 645	3 650 975	3 611 001
Deferred tax	447 448	155 449	144 479
Long term debt	3 764 324	1 980 226	1 836 083
Current liabilities	3 087 735	1 242 606	1 293 075
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10 999 151</b>	<b>7 029 256</b>	<b>6 884 639</b>

## 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				720 851	-3	720 849
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 30 september 2018	65 733		4 056 078	-470 873	38	3 650 975
Total comprehensive income				-39 993	19	-39 974
Amount at 31 december 2018	65 733		4 056 078	-510 866	56	3 611 002
Amount at per 1 januari 2019	65 733		4 056 078	-510 866	56	3 611 002
Total comprehensive income				87 116	-4	87 111
Dividend						
Changes in group ownership					1 531	1 531
Amount at 30 September 2019	65 733		4 056 078	-423 750	1 584	3 699 645

## CONSOLIDATED STATEMENT OF CASH FLOWS (TSEK)

	July - September		January - September		Full year
	2019	2018	2019	2018	2018
<b>Operating activities</b>					
Operating income/loss before financial items	56 226	98 171	163 946	346 229	414 320
Depreciation	72 485	47 636	220 261	120 575	217 869
Other items not affecting liquid assets	-4 609	-2	16 125	0	-1 443
	124 102	145 805	400 333	466 805	630 747
<b>Financial items received and paid</b>					
Income tax paid	-50 287	-49 960	-98 284	-105 449	-156 850
	-404	-478	-1 395	-2 090	-257
Cash flow from operating activities before changes in working capital	73 410	95 368	300 654	359 266	473 639
Changes in working capital	-159 326	57 787	-182 961	-69 394	-155 608
Cash flow from operating activities	-85 916	153 155	117 693	289 871	318 031
<b>Investing activities</b>					
Net investment in company acquisitions	-2 456 377	0	-2 456 377	-2 673 216	-2 673 216
Net investment in intangible assets	-7 157	-76	-21 572	-1 404	-14 881
Net investment in financial assets	-432	0	-584	0	0
Net investment in other financial instruments	37	0	37	0	0
Net investment in equipment	-262	-390	-1 941	-2 216	-4 033
	20	0	20	0	0
Cash flow from investing activities	-2 464 171	-466	-2 480 416	-2 676 836	-2 692 130
<b>Financing activities</b>					
Net proceeds from share issues	0	0	0	1 492 642	1 492 642
Transaction costs share issue	0	0	0	-98 340	-98 340
Share buy-backs	0	-57 346	0	-76 951	-76 951
Dividend	0	0	0	-32 867	-32 867
Borrowings	3 500 000	0	3 500 000	4 243 507	4 243 507
Repayment of loans	-1 273 747	0	-1 316 044	-3 557 281	-3 596 753
Cash flow from financing activities	2 226 253	-57 346	2 183 956	1 970 710	1 931 238
Cash flow for the period	-323 834	95 342	-178 766	-416 255	-442 861
Cash at the beginning of the period	561 207	333 562	398 580	838 586	838 586
Exchange rate differences in cash	-12 356	14 207	5 203	20 780	2 855
Cash at the end of the period	225 017	443 111	225 017	443 111	398 580

## PARENT COMPANY INCOME STATEMENT SUMMARY (TSEK)

	July - September		January - September		Full year
	2019	2018	2019	2018	2018
Net sales	167 009	172 894	523 851	438 277	655 551
Cost of sales	-72 240	-71 346	-228 498	-146 099	-235 254
Gross profit	94 768	101 548	295 353	292 178	420 297
Operating costs					
Sales costs	-50 296	-76 764	-156 394	-111 792	-166 874
Administration	60	-9 474	-67 451	-24 519	-40 509
Research and development	0	0	0	-615	-615
Other operating income/expenses	262	-85	587	1 870	-1 438
Total operating costs	-49 974	-86 323	-223 258	-135 055	-209 435
Operating profit	44 795	15 226	72 096	157 123	210 861
Financial net	-41 239	-20 176	-103 225	-93 931	-113 419
Profit/loss before tax	3 556	-4 950	-31 129	63 192	97 442
Group contributions paid	28 270	0	28 270	0	55 862
Tax	327	-10 468	-329	407 194	395 754
NET PROFIT/LOSS	32 154	-15 418	-3 187	470 386	549 058

## PARENT COMPANY BALANCE SHEET SUMMARY (TSEK)

	30 September	31 December	
	2019	2018	2018
<b>Assets</b>			
Intangible assets	2 489 824	2 658 786	2 625 210
Equipment	1 103	0	152
Deferred tax receivables	481 485	493 254	481 814
Other financial assets	337 568	380 068	358 587
Shares in group companies	5 128 302	2 647 153	2 565 982
Other current assets	1 530 956	146 065	283 840
Cash	68 746	208 499	198 004
<b>TOTAL ASSETS</b>	<b>10 037 984</b>	<b>6 533 825</b>	<b>6 513 589</b>
<b>Shareholders' equity and liabilities</b>			
Equity	3 496 924	3 421 439	3 500 111
Long term debt	3 633 876	1 991 375	1 847 889
Current liabilities	2 907 184	1 121 011	1 165 589
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>10 037 984</b>	<b>6 533 825</b>	<b>6 513 589</b>

## **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 2018, with the exception of what is stated below in these notes under new accounting principles for 2019.

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, Karo Pharma AS of MSEK 746 and Trimb Group of MSEK 251. With regards to the Group's expected profit development, the deficits are fully valued in the balance sheet.

## **Note 3**

### ACQUISITIONS

The acquisition of all shares in Trimb Holding AB, which was announced on June 21, 2019, was completed on September 12. The Trimb Group has been consolidated as of September 12, 2019.

Revenues during the period September 12 to September 30 2019 for the acquired operation amounted to 41,0 MSEK. The operating profit was -9,7 MSEK and the profit before tax was -16,1 MSEK.

Transaction costs of MSEK 30.5 have been expensed and are included in operating expenses in the income statement and are part of the operating cash flow in the cash flow analysis.

<b>Assets and Liabilities</b>	<b>Amount, KSEK</b>
Intangible assets	2 569 070
Equipment	3 846
Utilization rights	13 261
Deferred tax claim	419
Other financial assets	18 289
Other current assets	350 686
Cash and cash equivalents	78 300
Deferred tax	-259 834
Long term debt	-1 219 213
Current liabilities	-381 749
Acquired net assets	1 173 074
Goodwill	1 361 602
<b>Acquisition value</b>	<b>2 534 677</b>
<b>Cash flow to acquire affiliate after deduction of acquired cash</b>	<b>Amount, KSEK</b>
Cash purchase price	-2 534 677
Cash in acquired affiliate	78 300
Net cash flow in investment activities	-2 456 377

## Note 4

### DEFINITIONS

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

See also schedule on page 5.

Below are several financial performance measures and how these are used to analyse the company's goals.

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



<b>Financial performance measure</b>	<b>Definition</b>	<b>Purpose</b>
<b>Equity ratio</b>	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.
<b>Gross margin</b>	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.
<b>Adjusted EBITDA</b>	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.
<b>Adjusted EBITDA margin</b>	Adjusted EBITDA in relation to Net sales	The ratio is used to measure the profitability of ongoing operations.

## Note 5

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The group holds no derivative instruments or other financial instruments measured at fair value.

The fair value of long or short-term interest-bearing liabilities is not considered to deviate materially from their carrying amount. For financial instruments recognized at amortized cost; accounts receivable, other receivables, cash and cash equivalents, accounts payable and other interest-free liabilities, the fair value is assessed to be in accordance with the carrying amount.

## Note 6

### 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 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.