

Second-quarter report 2020

Q2, April - June

- Net sales amounted to MSEK 688.9 (387.4). This corresponds to an increase of 78% for the period. The organic growth during the second quarter was -10%, currency impact 0% and 88% relates to the acquisition of Trimb in 2019 and the acquired product portfolios Proct[®] from Leo Pharma and Pevaryl[®] from Johnson & Johnson (see below).
- EBIT (Operating Profit) amounted to MSEK 98.6 (20.3) corresponding to a 385% growth.
- Adjusted EBITDA* amounted to MSEK 213.7 (137.8) corresponding to a 55% growth. This excluding non-recurring items related to a new valuation method of inventory (see note 1) totalling MSEK -12.4 (35.3).
- The gross margin was 60.8% (54.5%) for the quarter. The margin was affected by a positive product mix and a new valuation of inventory. The gross margin without this effect was 59,0%.
- Cash flow from operating activities amounted to MSEK 171.0 (111.8).
- Earnings per share was SEK 0.11 (-0.04).
- During the period Karo Pharma acquired Hygis SA, a Swiss distributing company with exclusive distribution rights to Karo's brands MultiGyn[®] and MultiMam[®] in Switzerland. The transaction closed on April 1, 2020
- During the period, the Pevaryl[®] portfolio was acquired from Johnson & Johnson with all related rights and assets. The transaction consolidates the ownership of the Pevaryl[®] brand portfolio in Europe with Karo Pharma. The transaction closed on May 8, 2020.

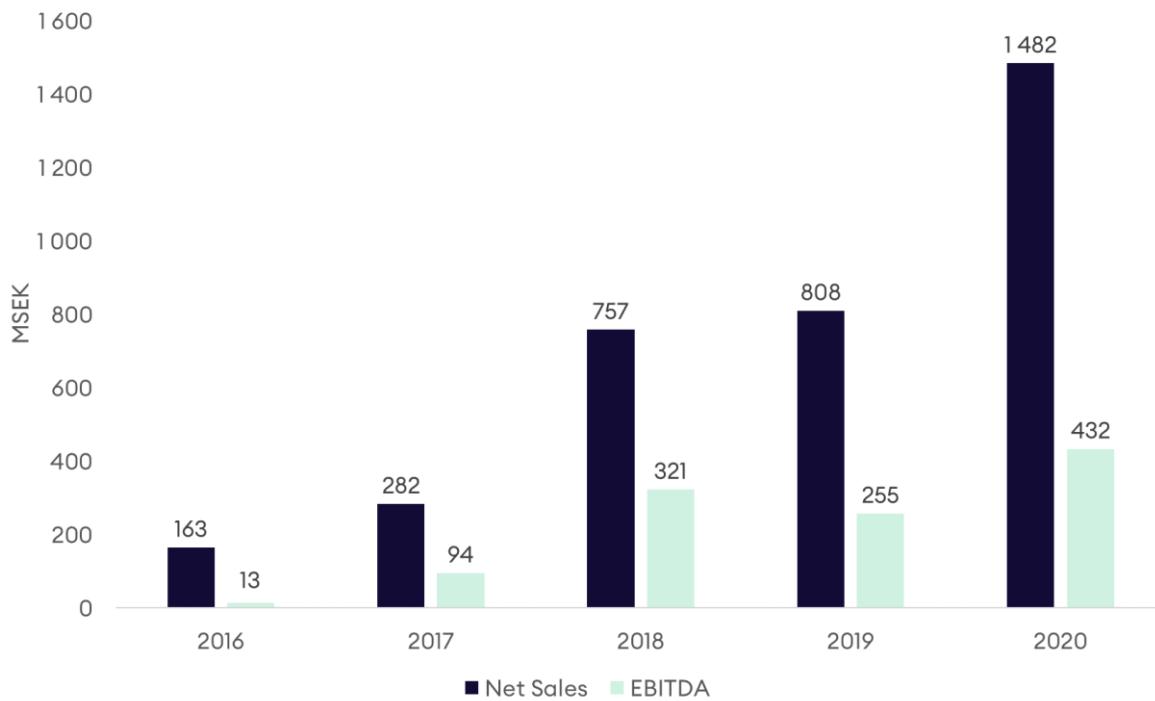
Summary of half-year result, January - June

- Net sales amounted to MSEK 1 482.5 (808.2). This corresponds to an increase of 83% for the period. The organic growth during the first half of the year was 7%, currency impact -1% and 77% relates to the acquisition of Trimb in 2019 and the acquired product portfolios Proct[®] from Leo Pharma and Pevaryl[®] from Johnson & Johnson (see below).
- EBIT (Operating Profit) amounted to MSEK 202.6 (107.7) corresponding to 88% growth.
- Adjusted EBITDA* amounted to MSEK 426.9 (290.8) corresponding to a 47% growth. This excluding non-recurring items related to the acquisitions and the valuation of inventory (see note 1) totalling MSEK -8.5 (35.3).
- The gross margin was 57.1% (55.2%) for the period. The margin was affected by a positive product mix and a new valuation of inventory. The gross margin without this effect was 56,3%.
- Cash flow from operating activities amounted to MSEK 161.3 (203.6).
- Earnings per share was SEK 0.50 (0.21).
- During the period, the Proct[®] portfolio was acquired from Leo Pharma with all related rights and assets. The transaction closed on March 2, 2020.
- During the period Karo Pharma acquired Hygis SA, a Swiss distributing company with exclusive distribution rights to Karo's brands MultiGyn[®] and MultiMam[®] in Switzerland. The transaction closed on April 1, 2020

- During the period, the Pevaryl[®] portfolio was acquired from Johnson & Johnson with all related rights and assets. The transaction consolidates the ownership of the Pevaryl[®] brand portfolio in Europe with Karo Pharma. The transaction closed on May 8, 2020.
- At the end of the period, cash and cash equivalents and other current investments amounted to MSEK 390.4 (248.8 at December 31, 2019) and net debt to MSEK 5 536.4 (5028.9 at December 31, 2019).

* Alternative Financial Ratios (APM), note 4 for further information.

Key financials development Jan-June, 2016 – 2020


Karo Pharma's 10 largest products
Jan-June 2020 (MSEK)

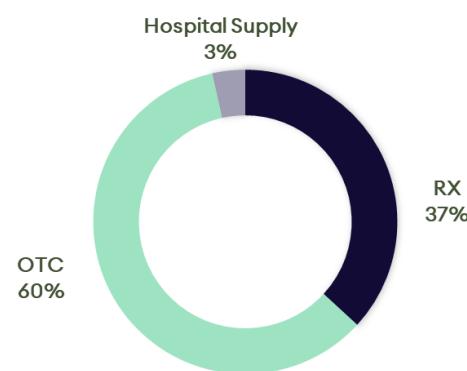
Products	2020	2019	Change
Solexid	105,1	89,9	17%
Paracet	95,1	71,7	33%
Kaleorid	74,9	66,3	13%
Locobase	73,2	67,8	8%
Burinex	72,2	67,7	7%
Flux 1)	67,0	0,0	n/a
Pevaryl 1,3)	62,1	0,0	n/a
Multi-Gyn 1)	59,5	0,0	n/a
Ibx	52,6	45,5	16%
Scheriproct 2)	48,4	0,0	n/a
Övriga produkter	772,3	399,3	93%
Total försäljning	1482,5	808,2	83%

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

2) Sales of the Leo portfolio started 2020-03-02

3) Sales of the Pevaryl portfolio started 2020-05-08

Turnover by category Jan-June 2020



RX – Prescription drugs

OTC – Over the counter drugs (non-prescription)

Comments by CEO Christoffer Lorenzen

Karo Pharma realized growth of 78% in Q2. The growth was driven by the acquisitions completed over the last 12 months: Trimb (September 2019), Proct[®] brand portfolio (March 2020) and the Pevaryl[®] brand portfolio (April 2020). Karo Pharma generated organic growth of 7% during H1 2020.

The Q2 performance was negatively impacted by the COVID-19 pandemic. As anticipated, and as communicated in the Q1 financial report, Q1 was positively impacted by a one-off build-up of inventories across the supply chain at the wholesaler, pharmacy, and consumer level. The Q1 build-up was partially rebalanced in Q2, particularly in the pain, cough & cold category and in the specialty Rx category. We expect to see further rebalancing in H2, but to a lesser extent than during Q2. Further normalization of inventories will of course depend on the development of COVID-19 across geographies.

Karo Pharma's business continues to prove robust and resilient despite the difficult market environment. In collaboration with our partners across contract manufacturing, logistics and distribution, we have been able to address the challenges as they have emerged. The supply chain has only been affected by minor disruption and thanks to a close dialogue with our suppliers, we have kept delivery performance at acceptable levels, in line with targets.

We continue to execute in accordance with our long-term strategy and vision for the business. In the beginning of Q2 we announced the acquisition of the remaining European rights to the Pevaryl[®] brand portfolio from Johnson & Johnson. The acquisition confirms our commitment to M&A driven growth and business building. The transaction was 100% debt financed by our partner banks, Swedbank, SEB and DNB NOR.

The Pevaryl[®] brand portfolio adds approximately 20 MEUR of sales to our business, consolidates European ownership of the Pevaryl[®] brand with Karo Pharma and expands Karo Pharma's European reach outside of the Nordic region, in particular in Italy. Additionally, the acquisition adds critical mass in two focus categories, intimate health, and foot care.

We are also continuing to streamline and optimize our business. The explorations of strategic alternatives for the Hospital Supply business, Swereco AB, which were previously announced are progressing to plan and we expect to conclude that evaluation during H2. Post transaction our business will be more streamlined and focused. We are also taking steps on a product portfolio level to optimize. In early July we divested three smaller brands - Suscard[®], Digoxin[®] and Egazil[®] to Evolan AB. The brands generated 13 MSEK in revenues in 2019 and are not material to our results, but we believe the brands have found a better owner.

Christoffer Lorenzen

CEO

Key financial data (MSEK)

	April - June 2020	2019	January - June 2020	2019
Net Sales	688,9	387,4	1482,5	808,2
Gross Profit	419,1	210,9	846,8	445,8
Operating Cost	-320,5	-190,6	-644,2	-338,1
EBITDA	226,1	102,5	435,4	255,5
EBITDA margin %	32,8%	26,5%	29,4%	31,6%
Profit before tax	31,4	-9,1	138,6	42,0
EoS, SEK	0,11	-0,04	0,50	0,21
Cash Flow from operating activities	213,4	111,8	203,6	203,6
Cash	440,4	561,2	440,4	561,2

Sales and earnings

	April - June 2020	2019	January - June 2020	2019
Net sales	688,9	387,4	1482,5	808,2
Cost of goods sold	-269,9	-176,5	-635,7	-362,4
Gross Profit	419,1	210,9	846,8	445,8
Cost before amortization and depreciation	-193,0	-108,4	-411,4	-190,3
EBITDA	226,1	102,5	435,4	255,5
Non-recurring costs	-12,4	35,3	-8,5	35,3
Adjusted EBITDA	213,7	137,8	426,9	290,8
Amortization and depreciation related operating costs	-127,5	-82,2	-232,7	-147,8
Adjusted EBIT	86,2	55,6	194,1	143,0

Net sales for the period increased to MSEK 1 482.5 (808.2). This corresponds to an increase of 83% for the period. Net sales for the second quarter was MSEK 688.9 (387.4) corresponding to an increase with 78%.

Cost of goods sold amounted to MSEK 635.7 (362.4). The gross margin was 57.1% (55.2%) during the same period. The gross margin in the quarter was 60,8% (54.5%) and has been positively impacted by a changed product mix and a change of evaluation in inventory (see note 1).

Operating costs including depreciation, other operating income and other operating expenses amounted to MSEK 644.2 (338.1) during the period (increase of 91%). Sales costs doubled to MSEK 484.8 (240.2) driven by costs for taking over the product portfolios from LEO Pharma and Johnson & Johnson, the establishment of an own organization with, among other things, own subsidiaries in Denmark, Finland and Germany, and the acquisition of Trimb. Administration costs amounted to MSEK 152.4 (97.7). The increase (56%) is mainly due to cost related to the acquisition of Trimb, the acquired product portfolios and restructuring costs totaling MSEK 3.9.

The adjusted EBITDA amounted to MSEK 426.9 (290.8), equivalent to a 47% increase.

Earnings per share was 0.50 (0.21) SEK.

Cash flow and financial position

Cash flow from operating activities during the period was MSEK 161.3 (203.6) and MSEK 171.0 (111.8) in the quarter. Group cash and cash equivalents amounted to MSEK 390.4 (MSEK 248.8 as of December 31, 2019) at the end of the period. As part of COVID-19 Karo Pharma has stress tested its financial position, including cash reserves, and have concluded that we have adequate reserves.

On June 30, total assets amounted to MSEK 12 451.9 (10 898.5 as of December 31, 2019), whereof intangible assets accounted for MSEK 10 410.8 (9 090.1 as of December 31, 2019).

Group equity amounted to MSEK 5 644.2 (5 641.9 as of December 31, 2019). The equity ratio was 45.3% (51.8% as of December 31, 2019).

Parent company

The Parent company's net sales for the period amounted to MSEK 542.3 (356.8). Profit after financial items amounted to MSEK 83.0 (-34.7). The parent company's cash, cash equivalents and other current investments amounted to MSEK 326.3 (61.6 as of December 31, 2019).

Significant events

April 1, 2020 Karo Pharma acquired Hygis SA, a Swiss distributing company with exclusive distribution rights to Karo's brands MultiGyn[®] and MultiMam[®]. Hygis' operations are limited to the distribution of these brands and the acquisition gives Karo Pharma control over the direct sales of these brands. Karo Pharma expects to reach annual net sales related to the two brands of MEUR 1.3 in Switzerland.

May 8, 2020 the acquisition of the remaining European rights to the Pevaryl[®] brand portfolio from Cilag GmbH International, one of the Janssen Pharmaceutical Companies of Johnson & Johnson, was closed for 58 MEUR.

The transaction consolidates the ownership of the Pevaryl[®] brand portfolio, comprised of Pevaryl[®], Epi-Pevaryl[®], Gyno-Pevaryl[®] and Pevisone[®] in Europe with Karo Pharma. The acquired portfolio generated net sales of around 20 MEUR in 2019.

Karo Pharma already owns and commercializes Pevaryl[®], Gyno-Pevaryl[®] and Epi-Pevaryl[®] in certain European markets, as a result of a transaction between Karo Pharma's subsidiary, Trimb Healthcare AB, and Johnson & Johnson's consumer business in June 2017. This business generated net sales of approximately 10 MEUR in 2019 and the combined Pevaryl[®] brand portfolio will thereby reach net sales of around 30 MEUR.

Consolidating Pevaryl[®] provides benefits in terms of maintaining and developing a focused and clear brand offering across the European markets and provides economies of scale that can be leveraged across manufacturing, regulatory and commercial areas. The acquisition expands Karo Pharma's European reach outside of the Nordic region. In particular, the acquisition provides added scale in Italy, a market which accounted for approximately half of the added 20 MEUR sales in 2019. Additionally, the acquisition adds scale and scope to two of Karo Pharma's existing focus categories, intimate care and foot care.

The acquisition is a pure asset deal. No personnel or manufacturing sites are included in the agreement and the technology transfer risks are limited. Johnson & Johnson and Karo Pharma will collaborate to secure a seamless transfer of the portfolio, including relevant approvals. Karo Pharma expects that the products are fully transferred and operated by Karo Pharma by the end of Q1, 2021. Karo Pharma expects to add running costs over time by approx. 2-3 MEUR per year as a direct consequence of the transaction. This is primarily linked to further build-up of the organizational capabilities within sales, marketing, operations and regulatory.

The transaction is financed by a new loan facility.

COVID-19

During the first quarter Karo Pharma recorded significant revenue growth from certain product categories mainly through stock build up orders among distributors, pharmacies and households. At the same time, the company also experienced a slow-down in demand from other product categories, as a consequence of the spread of COVID-19 across Europe.

During the second quarter the brands and products which grew through stock build up has been normalized in demand as expected and as a result the organic growth has been negative as the consumption has caught up with demand.

The impact on supply chain, productivity among employees and the business model has so far been limited. The long-term consequences of a general economic downturn in Europe may however have a negative impact on growth and profitability in the remaining quarters of 2020 as also mentioned in the previous interim report.

Karo Pharma management therefore monitors the situation and regularly update the stress test in collaboration with the Board of Directors in which sales, costs and cash items are evaluated. Karo Pharma is fully prepared to take further actions if the situation should change in any direction.

The COVID-19 outbreak has introduced uncertainty in the conduct of most businesses but until now no significant risk of material adjustment to the carrying amounts of assets and liabilities have arisen in Karo Pharma. In this assessment, all available information about the next twelve months have been considered, including the expected profitability and any restrictions to readily access financial resources.

The impact of COVID-19 on financial performance, financial position and cash-flows has also been limited and the outbreak has not triggered additional financial risks for Karo Pharma, like for example, debt renegotiations, new financial arrangements outside the recent acquisitions, and the breach of debt covenants.

Measures taken to address and mitigate potential future impacts and risks of COVID-19 on operations and performance are taken in applicable areas but has also been limited until now.

There are no indications that an asset should be impaired on the basis of a set of internal and external sources of information. In making this assessment, we have carefully considered the effects of the COVID-19 outbreak and concluded that there are no write-downs or value adjustments required as a consequence of COVID-19.

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. Besides the COVID-19 crisis, which is covered above, no additional 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 2019. Readers who wish to consult the annual report can download this from Karo Pharma's website www.karopharma.com, or request it from Karo Pharma AB, PO Box 16 184, 103 24 Stockholm, Sweden.

Significant events after period end

July 1, 2020 Karo Pharma divested the three brands Digoxin, Egazil and Suscard to Evolan due to production challenges. From both a patient as well as a society perspective it is better to divest than to prune these products. The total turnover of the three brands 2019 was 13 MSEK.

Auditors' review

The interim report has not been the subject to auditors' review.

Financial Calendar

Interim report Jan-Sep 2020 Oct 30, 2020

Year-end report 2020 Feb 18, 2021

The Annual Report 2019 was released April 1, 2020 and the Annual General Meeting was held May 25, 2020 at Näringslivets Hus, Stockholm.

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 21, 2020

Bo Jesper Hansen
Chairman of the Board

Erika Henriksson
Director

Uta Kemmerich-Keil
Director

Vesa Koskinen
Director

Kristofer Tonström
Director

Håkan Åström
Director

Flemming Örnskov
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 offers "Smart choices for everyday healthcare". We own and commercialize reliable original brands within prescription drugs and over-the-counter consumer products. Our products are available in over 60 countries with the core in Europe and the Nordics region. The headquarter of Karo Pharma is in Stockholm and the company is listed on Nasdaq Stockholm, Mid Cap.

This information is information that Karo Pharma AB 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 21, 2020 at 08.00 CET.

Consolidated income statement summary (KSEK)

	April - June 2020	2019	January - June 2020	2019	Full Year 2019
Net sales	688 914	387 393	1482 499	808 216	1901 196
Cost of goods sold	-269 851	-176 458	-635 713	-362 442	-917 165
Gross Profit	419 063	210 935	846 787	445 774	984 030
Operating cost					
Distribution cost	-248 967	-116 803	-484 794	-240 151	-600 264
Administration	-79 300	-73 254	-152 382	-97 753	-188 361
Research and Development	0	0	0	0	0
Other operating income/ expenses	7 758	-549	-6 984	-149	-23 304
Total operating costs	-320 509	-190 606	-644 159	-338 053	-811 928
Operating Profit	98 554	20 329	202 627	107 721	172 102
Financial Net	-67 118	-29 390	-64 064	-65 745	-155 512
Profit/loss before tax	31 436	-9 061	138 563	41 975	16 590
Tax	-5 752	2 646	-26 101	-8 111	-7 649
Net profit/loss	25 684	-6 416	112 462	33 865	8 941
Net earnings attributable to:					
Shareholders in the parent company	25 395	-6 415	112 064	33 866	8 890
Non-controlling interests	288	-1	398	-1	51
Earnings per share (SEK) ¹	0,11	-0,04	0,50	0,21	0,05
Number of shares issued (000)	225 033	164 333	225 033	164 333	225 033

¹Taking into account the bonus element in the rights issue

Consolidated statement of comprehensive income (KSEK)

	April - June 2020	2019	January - June 2020	2019	Full Year 2019
NET PROFIT FOR THE PERIOD	25 684	-6 416	112 462	33 865	8 941
Other comprehensive income for the period, net of tax					
Exchange rate differences	26 740	15 303	-110 137	68 606	41 971
TOTAL COMPREHENSIVE INCOME	52 424	8 888	2 325	102 471	50 912
Total comprehensive income attributable to:					
Shareholders in the parent company	52 135	8 889	1927	102 472	50 861
Non-controlling interests	288	-1	398	-1	51

Consolidated report over financial position (KSEK)

	30 June 2020	31 December 2019	31 December 2019
Assets			
Intangible Assets	10 410 756	5 374 651	9 090 094
Equipment	18 258	17 756	20 626
Utilization rights*	56 564	10 880	9 407
Deferred tax claim	569 718	531 176	600 598
Other financial assets	1730	288	2 745
Other current assets	1004 489	544 839	926 253
Cash and cash equivalents	390 406	561 207	248 806
TOTAL ASSETS	12 451 921	7 040 798	10 898 530
Shareholders' equity and Liabilities			
Equity	5 644 234	3 713 472	5 641 908
Deferred tax	451 031	139 454	469 384
Long term debt	2 149 847	1 850 549	1 251 119
Current Liabilities	4 206 810	1 337 322	3 536 119
TOTAL EQUITY AND LIABILITIES	12 451 921	7 040 798	10 898 530

* Signing of a new rental contract for offices in April 2020

Consolidated statement of changes in equity (KSEK)

Attributable to shareholders of the parent company	Share capital	Other contributed capital	Retained earnings/ accumulated losses	Non-controlling interests	Total equity
Amount at 1 January 2019	65 733	4 056 078	-510 866	56	3 611 002
Total earnings			102 472	-1	102 471
Amount at 30 June 2019	65 733	4 056 078	-408 394	55	3 713 472
Amount at 1 January 2020	90 013	6 010 261	-460 005	1 639	5 641 908
Total earnings			1927	398	2 325
Amount at 30 June 2020	90 013	6 010 261	-458 077	2 037	5 644 234

Consolidated statement of cash flows (KSEK)

	April - June 2020	2019	January - June 2020	2019	Full Year 2019
Operating activities					
Operating income/loss before financial items	98 554	20 329	202 627	107 721	172 102
Depreciation	126 432	82 202	231 658	147 776	319 755
Other items not affecting liquid assets	-264	20 734	0	20 734	-207
	224 721	123 265	434 285	276 231	491 650
Financial items received and paid	-54 693	-18 185	-96 697	-47 997	-134 033
Income taxes paid	-7 823	-515	-28 024	-990	-6 093
Cash flow from operating activities before changes in working capital	162 206	104 565	309 564	227 244	351 525
Changes in working capital	8 830	7 244	-148 292	-23 634	-244 681
Cash flow from operating activities	171 036	111 809	161 272	203 609	106 844
Investing activities					
Net investments in company acquisitions	0	0	0	0	-2 456 377
Net investments in intangible assets	-673 649	-7 498	-1650 764	-14 414	-31 896
Net investments in financial assets	-6	-152	-678	-152	-806
Net investments in property, plant and equipment	-2 142	-147	-6 617	-1679	-2 651
Sale of intangible fixed assets	0	0	0	0	50 000
Sale of property, plant and equipment	0	0	0	0	20
Cash flow from investing activities	-675 698	-7 796	-1657 960	-16 245	-2 441 710
Financing activities					
Net proceeds from share issues	0	0	0	0	2 003 114
Transaction costs share issue	0	0	0	0	-23 999
Borrowings	750 000	0	1775 000	0	3 500 000
Repayment of loans	-124 947	-41 152	-131 634	-42 297	-3 294 469
Cash flow from financing activities	625 053	-41 152	1643 366	-42 297	2 184 646
Cash flow from the period	120 391	62 861	146 678	145 067	-150 220
Cash at the beginning of the period	277 727	493 569	248 806	398 580	398 580
Exchange rate differences in cash	-7 712	4 777	-5 078	17 560	446
Cash at the end of the period	390 406	561 207	390 406	561 207	248 806

Parent company income statement summary (KSEK)

	April - June 2020		January - June 2020		Full Year 2019
	2020	2019	2020	2019	
Net sales	319 844	167 897	542 337	356 843	701 042
Cost of sales	-88 462	-73 705	-194 732	-156 258	-324 074
Gross profit	231 382	94 192	347 605	200 585	376 969
Operating costs					
Sales costs	-90 339	-50 652	-150 625	-106 098	-247 492
Administration	-46 962	-57 498	-72 222	-67 511	-94 246
Research and development	0	0	0	0	0
Other operating income/ expenses	-5 022	-5	-4 726	325	-1 192
Total operating costs	-142 323	-108 155	-227 572	-173 284	-342 929
Operating profit/ loss	89 059	-13 963	120 033	27 301	34 039
Financial net	-37 669	-28 412	-37 026	-61 986	-123 724
Profit/ loss before tax	51 389	-42 375	83 007	-34 685	-89 685
Group contributions paid	0	0	0	0	157 380
Tax	-17 100	1 183	-17 100	-656	-15 799
Net profit	34 289	-41 192	65 907	-35 341	51 895

Parent company balance sheet summary (KSEK)

	30 June 2020	31 December 2019	31 December 2019
Assets			
Intangible assets	3 980 054	2 529 534	2 453 690
Equipment	26	1108	1097
Utilization rights	477 615	481 814	494 715
Other financial assets	167 996	354 054	304 223
Participation in group companies	5 141 950	2 563 162	5 128 404
Other current assets	1 658 442	276 019	1 682 486
Cash and cash equivalents	326 250	321 260	61 557
TOTAL ASSETS	11 752 331	6 526 951	10 126 173
Shareholders' equity and liabilities			
Equity	5 596 377	3 464 770	5 530 470
Deferred tax	21 989	0	21 989
Long term debt	2 014 161	1 856 357	1 141 190
Current liabilities	4 119 805	1 205 823	3 432 525
TOTAL EQUITY AND LIABILITIES	11 752 331	6 526 951	10 126 173

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 2019 with the complementary description of changes described below.

During the second quarter Karo Pharma has continued the progress to integrate Karo Pharma and Trimb into one ERP system. One of the steps completed during Q2 was the integration of Karo Pharma's inventory into the new ERP system. This led to the use of an updated valuation model for the standard cost estimate that had a positive impact on the inventory value (a reduction of cost of goods sold) in the quarter of 12.4 MSEK. The effect is adjusted for in the alternative performance measure 'Adjusted EBITDA'. Non-IFRS measures are also presented in the report since they are considered to be important supplemental measures of the company's performance. For further information about these measures and how they have been calculated, please see Note 4 below.

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 December 31, 2019, Karo Pharma AB has unutilized loss carryforwards of MSEK 2 402, Karo Pharma AS of MSEK 724 and Trimb Group of MSEK 304. In light of the Group's expected profit development, the deficits are fully valued in the balance sheet.

Note 3

Net Asset Acquisition

On March 2, 2020, a product portfolio was acquired from Leo Pharma and all related intellectual property rights and assets, including required licenses and permits and existing inventories.

On May 8, 2020, a product portfolio was acquired from Johnson & Johnson and all related intellectual property rights and assets, including required licenses and permits and existing inventories.

Both acquisitions are described more in details in the section, significant events.

Note 4

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 analyse the company's operations. These measures may differ from measures with similar names at other companies. See also table on page 5.

Below are a number of financial performance measures and how these are used to analyse the company's goals. For further definitions, see the Annual Report 2019 under the heading definitions.

Financial performance measure	Definition	Purpose
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 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.
Adjusted EBIT	Operating earnings excluding items affecting comparability	The financial performance measure provides a picture of earnings generated from ongoing operations.

Note 5

Fair value of financial instruments

The Group holds no derivative instruments or other financial instruments valued at fair value.

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