

## BioGaia AB

### Interim management statement 1 January – 31 March 2014 (12 pages)

(Figures in brackets refer to the same period of last year)



#### CEO's comments:

“The quarter saw a 60 % increase in operating profit and for the past 12-month period a 45 % increase. Despite only a limited growth in costs, it is still possible for sales to rise significantly, which shows that our business model is working well. Over and above the 60 per cent increase of operating profit, a licence revenue of SEK 95.4 million from Nestlé was added during the quarter”, says Peter Rothschild, CEO of BioGaia.

#### Period from 1 January to 31 March 2014

Net sales reached SEK 188.6 million (78.1), an increase of SEK 110.5 million (141%). Net sales include license revenue of SEK 95.4 million from Nestlé. Excluding license revenue from Nestlé, net sales amounted to SEK 93.2, an improvement of 19% (excluding foreign exchange effects 17%).

Net sales in the Paediatrics business area totalled SEK 76.7<sup>1)</sup> million (61.2), up by SEK 15.5 million (25%).

Net sales in the Adult Health business area reached SEK 15.0 million (16.9), a decrease of SEK 1.9 million (-11%).

Operating profit was SEK 123.8 million (17.8), an increase of SEK 106.0 million (596 %). Excluding license revenue from Nestlé, operating profit amounted to SEK 28.4 million, up by 60%. (excluding foreign exchange effects 48%).

Profit after tax was SEK 97.0 million (17.7), an increase of SEK 79.3 million (448%). Excluding license revenue from Nestlé, profit after tax was SEK 22.6 million, an improvement of 28%.

Earnings per share totalled SEK 5.63 (0.97). Excluding license revenue from Nestlé, earnings per share were SEK 1.32.

The period's cash flow was SEK 108.4 million (22.8). Cash and cash equivalents at 31 March 2014 amounted to SEK 342.7 million (397.6). The dividend proposed for approval by the coming AGM amounts to a total of SEK 120.9 million.

#### Key events in the fourth quarter of 2013

Publication of study showing that colic can be prevented.

No significant differences in BioGaia's diabetes study.

BioGaia receives additional payment of license revenue from Nestlé of EUR 10.8 million (SEK 95.4 million).

BioGaia enters new, extended agreement Nestlé.

Publication of new study showing that it is possible to prevent common infections in children.



1) Excluding license revenue from Nestlé. Including license revenue from Nestlé, net sales in the Paediatrics business area amounted to SEK 172.1 million.

**Teleconference:** You are welcome to take part in a teleconference on the interim management statement that will be held today at 9:30 a.m. by CEO Peter Rothschild. To participate in the conference please see [www.biogaia.com/agenda](http://www.biogaia.com/agenda).

BioGaia has published this information in accordance with the Swedish Securities Market Act. The information was issued for publication on 6 May 2014, 8.00 a.m. CET.

This is a translation of Swedish version of the interim report. When in doubt, the Swedish wording prevails

## BioGaia AB (publ.)

### Interim management statement 1 January – 31 March 2014

*Figures on brackets refer to the same period of last year.*

We hereby present BioGaia AB's interim management statement for the period from 1 January to 31 March 2014. A description of the company's operations is provided on page 12.

#### CEO's comments

The quarter saw a 60 % increase in operating profit and for the past 12-month period a 45 % increase. Despite only a limited growth in costs, it is still possible for sales to rise significantly, which shows that our business model is working well. Over and above the 60 per cent increase of operating profit, a licence revenue of SEK 95.4 million from Nestlé was added during the quarter.

Adjusted for foreign exchange effects, sales were up by 17%. Component products increased by 36% and finished consumer products by 13%. Although component products account for a smaller share of our sales, they are significant since both the margin and sales are rising in this segment.

It is truly gratifying that sales of our products under the BioGaia brand now represent more than 60% (which is the target for 2014) of total sales of our finished consumer products. BioGaia is now a global brand that is starting to become well known among doctors, and paediatricians in particular.

As of this quarter we have started to report according to our new organisation in business areas. In the largest business area, Paediatrics, net sales improved by 22% (excluding foreign exchange effects) as a result of growth in both our drops and sales to Nestlé. For the past 12-month period, net sales in Paediatrics increased by 16%.

In contrast, net sales in the Adult Health business area fell by 13% (excluding foreign exchange effects), which is mainly due to lower deliveries to Finland and our tablet customer in Japan. The underlying reason is not decreased customer sales, but uneven inventory build-up. For the past 12-month period, net sales in Adult Health rose by 6%.

The new organisation will enable us to focus on the areas where we can achieve substantial improvements and I can already see that these efforts are beginning to pay off in the form of more clear positioning of our products, but also lower purchasing costs for new products.

We are working intensively along several lines to boost sales in the US market, but have still not reached the momentum we had expected. The market plan we have developed for USA should have positive effects in the second half of this year.

We are continuing to focus on a number of other large markets, including Russia, India and the UK.

Ukraine is a key market for BioGaia. With regard to the current unrest in the country, we are monitoring the situation carefully. The reports we have received indicate that sales in the first quarter were very strong, but we expect our partner in Ukraine to reduce its inventories during the second quarter for cautionary reasons.

During the quarter we entered into an important agreement with our customer Nestlé. Under the agreement, Nestlé already now pays milestone payments of EUR 7.2 that were originally to have been received during 2015-2017, as well as additional royalties of SEK 92 million, in return for BioGaia's commitment to carry out a number of clinical studies and develop products within new areas. The royalties will be recognised over a three-year period starting from the second quarter of 2014. We are very satisfied with the agreement, which gives us opportunities to accelerate product

development and enter what we consider to be interesting new markets.

A further study showing that *Lactobacillus reuteri* Protectis protects children from common infections such as colds and stomach problems was published during the quarter. Together with earlier published studies demonstrating the protective effects of our products, we now have a sufficient number of well executed scientific studies in order to also start actively marketing our products for the use of preventative purposes.

Also during the period, a study was published showing neutral results regarding the ability of *Lactobacillus reuteri* Protectis to reduce colic. However, the study has received severe criticism on several points from respected researchers within the area. BioGaia agrees with the criticism. BioGaia's target group consists of doctors and healthcare professionals, who have sufficient scientific expertise to understand the study's serious shortcomings, and we therefore do not expect the publication of this study to have any impact on the company's sales. Even when this neutral result is added to BioGaia's three positive studies on colic, in a so-called meta-analysis, *L. reuteri* Protectis is still significantly better than placebo for treating colic in infants.

Thanks to our strong cash flow and the new agreement with Nestlé, this year we are able to pay an extraordinary dividend in addition to the 40% of net profit that is our policy. As previously announced, the Board of Directors proposes a dividend of SEK 7 per share. After payment of the year's dividend in May, BioGaia will still have very solid liquidity.

### FINANCIAL PERFORMANCE IN THE FIRST QUARTER OF 2014

#### Sales

Consolidated net sales amounted to SEK 188.6 million (78.1), which is an increase of SEK 110.5 million (141%). Net sales include license revenue from Nestlé of SEK 95.4 million.

#### License revenue

In February 2012 BioGaia signed several new agreements with Nestlé including the acquisition of a perpetual license to use BioGaia's probiotic strains in infant formula during the remaining term of the patent. The purchase price was EUR 50.8 million, of which EUR 40.0 million (SEK 356 million) was received and recognised in the first quarter of 2012. The additional payments of EUR 10.8 million were to be received during the period 2014-2017 on the achievement of predefined milestones. In March 2014 BioGaia and Nestlé signed a supplementary agreement, which means among other things that BioGaia received the remaining EUR 10.8 million (SEK 95.4 million). Following the sale of the license, culture sales to Nestlé have fallen since the third quarter of 2012.

#### Net sales excluding license revenue

Excluding license revenue from Nestlé, net sales amounted to SEK 93.2 million, an increase of 19% compared to the same period of last year. Most of the company's sales are denominated in foreign currency, primarily EUR but also USD and JPY. With unchanged exchange rates, net sales (excluding license revenue) would have been SEK 2.1 million lower. Excluding foreign exchange effects, net sales (excluding license revenue) thus rose by 17%. Exchange rate fluctuations affect both revenue and expenses. Operating profit would also have been SEK 2.1 million lower in the event of unchanged exchange rates, which means an increase (excluding license revenue from Nestlé) of 48% compared to the previous year.

For the past 12-month period, total net sales increased by 14%<sup>1)</sup> (excluding foreign exchange effects, 15%).

### Sales by segment

Since the autumn of 2013 the company is divided into three business areas, Paediatrics, Adult Health and New Business. Support functions have been retained at the central level, but the business areas are responsible for product development and sales to their respective target groups. This results in a better focus and more effective decision-making. Starting in the first quarter of 2014, the company reports sales and gross profit for these business areas. To facilitate comparison, sales and gross profit for the earlier segments, finished consumer products and component products, will also be reported during 2014.

#### PAEDIATRIC BUSINESS AREA

Sales in BioGaia's core area, Paediatrics, amounted to SEK 172.1 million (61.2), an increase of SEK 110.9 million (181%). Excluding license revenue from Nestlé, sales of paediatric products amounted to SEK 76.7 million (61.2), representing growth of 25% (excluding foreign exchange effects, 22%). The increase is primarily attributable to sales of drops, but also to sales to Nestlé.

For the past 12-month period, sales in the Paediatrics business area rose by 16%<sup>1</sup>.

Efforts in the business area are currently focused on clarifying the positioning of BioGaia's products and developing new packaging solutions.

#### ADULT HEALTH BUSINESS AREA

Net sales in the Adult Health business area amounted to SEK 15.0 million (16.9), a decrease of SEK 1.9 million (-11%) (excluding foreign exchange effects, -13%). The decrease is due to lower sales of digestive health tablets, above all in Finland where BioGaia's partner built up inventories in preparation for a campaign at the beginning of 2013. Furthermore, no deliveries of digestive health tablets were made to BioGaia's partner in Japan during the quarter, since deliveries are normally made only three times per year.

Sales of oral health tablets grew during the quarter.

For the past 12-month period, sales in the Adult Health business area increased by 6%.

Efforts in the business area are currently focused on clarifying the positioning of the new product Gastrus och reducing costs for this product and the ORS product.

#### FINISHED CONSUMER PRODUCTS

Net sales of finished consumer products rose over the same period of last year by SEK 10.2 million (16%) to SEK 75.8 million. Excluding foreign exchange effects, the increase was 13%.

Sales of finished consumer products grew in all markets.

Sales in Europe were up in the majority of countries but primarily in Eastern Europe, above all in Turkey, Bulgaria, Romania and the Czech Republic. Sales also improved in Germany but weakened in Finland, which is due to a large inventory build-up in preparation for a campaign at the beginning of 2013. In Italy, where growth faltered somewhat last year, sales strengthened slightly during the quarter compared to the same period of last year.

The increase in Asia is attributable to the Middle East, Japan, Indonesia and Hong Kong.

In North America, sales rose in Canada but fell in the USA. The decrease in the USA is explained by the fact that BioGaia's distributor Fleet has had high inventories following earlier large purchases and that Gerber's sales efforts have not yet resulted in major purchases from BioGaia.

The increase in "Rest of world" is mainly attributable to South Africa, but also Libya and Colombia.

For the past 12-month period, sales of finished consumer products improved by 7% (excluding foreign exchange effects, 8%).

#### COMPONENT PRODUCTS

Net sales of component products rose by SEK 100.3 million to SEK 112.2 million (842%) compared to the same period of last year. These sales include license revenue from Nestlé of SEK 95.4 million (see above for more information).

Excluding license revenue from Nestlé, sales of component products amounted to SEK 16.8 million (11.9), an increase of 41% (excluding foreign exchange effects, 36%).

Sales were up primarily in Europe but were down in Asia and largely unchanged in the other markets. In Europe, the increase consisted mainly of sales to Nestlé. Since the third quarter of 2012, sales of component products in Europe have fallen as a consequence of the agreement with Nestlé in 2012 (see above), but due to revenue arising from a new agreement with Nestlé for a product that has not yet been published, net sales from Nestlé have increased compared to the same period of last year. The agreement now in force gives Nestlé the right to manufacture *L. reuteri* for use in infant nutrition, which would result in lower sales of cultures. BioGaia has no information about if and when Nestlé will exercise this right and, if so, to what extent this will affect BioGaia's sales.

For the past 12-month period, sales of component products have increased by 61%<sup>1</sup> (excluding foreign exchange effects, 59%).

#### Sales by geographical market

In Europe, sales excluding license revenue from Nestlé increased by SEK 10.5 million (17%) Both sales of finished consumer products and component products improved (see above). For the past 12-month period, sales in Europe rose by 12%.

Sales in North America were up by SEK 0.5 million (22%), which is attributable to sales of finished consumer products in Canada. For the past 12-month period, sales in North America fell by 10%.

Sales in Asia grew by SEK 2.0 million (24%). The increase is attributable to sales of finished consumer products (see above). For the past 12-month period, sales in Asia rose by 30%.

Sales in "Rest of world" increased by SEK 2.0 million (28%), which is due to higher sales of finished consumer products (see above). For the past 12-month period, sales in "Rest of world" improved by 36%.

#### The BioGaia brand

Of total finished consumer products, 64% (52) were sold under the BioGaia brand, including co-branding.

#### **Gross profit**

Gross profit amounted to SEK 156.9 million (52.0), including license revenue from Nestlé. Excluding license revenue, gross profit was SEK 61.5 million (52.0), which is an increase of SEK 9.5 million (18%) compared to the same period previous year.

The total gross margin was unchanged at 66%.

The gross margin for finished consumer products decreased from 71% to 69% due to lower margin for yoghurt products that were launched in Japan during the second half of the previous year.

The gross margin for component products increased from 41% to 49%<sup>1</sup>. This is due to a higher margin for a new product category that is covered by the agreement signed with Nestlé in May 2013.

### **Operating expenses**

Selling expenses fell by SEK 0.3 million (-2%) and reached SEK 19.0 million (19.3), which is equal to 20% (25)% of net sales. It was primarily expenses for marketing campaigns that decreased compared to the same period of last year. For the past 12-month period, selling expenses were largely unchanged.

Administrative expenses amounted to SEK 3.6 million (3.5), which is equal to 4% (4) of net sales. The increase of SEK 0.1 million (3%) is explained by higher personnel expenses. For the past 12-month period, administrative expenses increased by 4 %.

R&D expenses are reported at SEK 11.5 million (10.2), which is equal to 12% (13) of net sales. The increase of SEK 1.3 million (13%) is mainly due to higher personnel expenses and partly to increased costs for the NEC project (see below). For the past 12-month period, R&D expenses increased by 11%.

The amortisation component of R&D expenses was SEK 0.1 million (0.1). Investments in capitalised development expenses totalled SEK 0 million (0).

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities.

### **Operating profit**

Operating profit was SEK 123.8 million (17.8), an increase of SEK 106.0 million (596%). Excluding license revenue from Nestlé, operating profit was SEK 28.4 million (17.8), an improvement of 60% (excluding foreign exchange effects, 48%).

### **Financial items and profit before tax**

Profit before tax was SEK 124.7 million (22.7), up by SEK 102.0 million (449%). Excluding license revenue from Nestlé, profit before tax was SEK 29.3 million (22.7), an increase of 29% compared to the same period of last year.

Net financial items include a foreign exchange gain of SEK 0.1 million (3.2) on forward exchange contracts in EUR. At 31 March 2014 the company had outstanding forward exchange contracts for EUR 13.7 million at an average exchange rate of SEK 8.82. Forward exchange contracts amounting to EUR 7.3 million will mature for payment in 2014, EUR 6.1 million in 2015 and the remaining EUR 0.3 million in 2016. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts. If the EUR rate on the maturity date is lower/higher than that at 31 March 2014 (8.94), an exchange gain/loss will be recognised in the future.

### **Profit after tax**

Profit after tax was SEK 97.0 million (17.7), an increase of SEK 79.3 million (448%). Excluding license revenue from Nestlé, profit after tax was SEK 22.6 million (17.7), which is SEK 4.9 million (28%) better than in the same period of last year.

The tax rate for the Group was 23% (22). The Group pays tax on profits in the Swedish companies. The loss in Japan is not deductible against the Swedish profits. Loss carryforwards in the Japanese subsidiary at 31 March 2014 amounted to SEK 51.6 million. The deferred tax asset for these has not been recognised, since a sustainable profit level has not yet been shown in the Japanese subsidiary.

### **Earnings per share**

Earnings per share were SEK 5.63 (0.97). Excluding license revenue from Nestlé, earnings per share amounted to SEK 1.32.

### **Cash flow**

The Group's cash and cash equivalents at 31 March 2014 totalled SEK 342.7 million (397.6). Cash flow for the period amounted to SEK 108.4 million (22.8). Cash flow for the first quarter of 2014 included the payment of SEK 95.4 million in licence revenue from Nestlé.

### **Equity**

Consolidated equity amounted to SEK 414.0 million (473.9). The Group's equity/assets ratio was 85% (88).

In June 2012 BioGaia carried out the warrant programme that was resolved on by the Annual General Meeting the same year. A total of 87,000 warrants were subscribed for, of which the management subscribed for 41,000. The warrants were issued at a market price of SEK 14.27 each following valuation according to the Black & Scholes formula, which provided the Parent Company with proceeds of SEK 1.3 million. Each warrant entitles the holder to subscribe for one class B share for SEK 241.90 on 1 June 2015. Volatility was estimated at 40%. If all of the subscription warrants are exercised, the company's equity will be increased by SEK 21.0 million. This represents a dilutive effect of approximately 0.5% on the share capital and 0.4% on the total number of votes upon the full exercise of warrants.

In order to achieve a high level of participation, the AGM decided to pay a subsidy of SEK 10 per warrant (after 1 June 2015) to the employees who have subscribed for subscription warrants but have not exercised the right to buy shares. No provisions for this obligation have yet been made, since the assessment is that with the applicable market price, all holders should exercise the right to buy shares. The need for provisions will be continuously evaluated.

### **Dividend**

In connection with the year-end report, the Board of BioGaia AB proposed that the upcoming AGM on 6 May 2014 approve an ordinary dividend of SEK 3.35 and an extraordinary dividend of SEK 3.65, for a total dividend of SEK 7.00 per share. This is equal to a total distribution of SEK 120.9 million.

### **Investments in property, plant and equipment**

Investments in property, plant and equipment amounted to SEK 4.4 million (1.4), of which SEK 4.4 million (1,2) refers to TwoPac AB.

### **Subsidiary in Japan**

Net sales in the Japanese subsidiary reached SEK 5.1 million (2.1). Operating profit in the Japanese subsidiary was SEK -1.3 million (-2.0). This growth in sales is primarily attributable to yoghurt and dental products. It is BioGaia's assessment that profitability will be attained in 2014.

### **Subsidiary TwoPac AB**

Net sales in TwoPac amounted to SEK 11.0 million (9.2). Operating profit was SEK 2.5 million (2.9). Profit after tax was SEK 1.8 million (2.1). TwoPac manufactures and develops products on behalf of BioGaia.

### **Subsidiary CapAble AB**

CapAble, which is owned 90.1% by BioGaia AB and 9.9% by the company's president, was started in November 2008 to manufacture and sell the patented LifeTop Cap. Net sales in CapAble totalled SEK 0.0 million (0.0). Operating profit was SEK -0.9 million (-0.7). After the end of the quarter, CapAble received a new order from the company's customer in the USA for delivery during the second quarter.

### Subsidiary IBT AB

In November 2013, the Board of BioGaia made a decision to invest in a first phase of a long-term project aimed at developing a drug with rigorous hygiene, analysis and documentation requirements, to treat the highly fatal disease Necrotising Enterocolitis (NEC), which affects premature infants. BioGaia will invest up to SEK 42 million in the project over a two-year period. The project will be driven by BioGaia's subsidiary Infant Bacterial Therapeutics (IBT), of which 9% is owned by the company's President, Staffan Strömberg, and its Research Director, Eamonn Connolly. The remaining 91% is owned by BioGaia.

The board of IBT AB consists of Eamonn Connolly, Research Director IBT, Peter Rothschild, CEO BioGaia, Jan Annwall, Board member BioGaia and Anders Ekblom, former global director for R&D Science & Technology Integration at AstraZeneca AB and also MD for AstraZeneca AB.

It is the company's assessment that approximately SEK 26 million of the SEK 42 million will be capitalisable in IBT as development costs, which will result in a cost burden of around SEK 8 million per year in 2014 and 2015. No costs have yet been capitalised, but this will be continuously evaluated.

Operating profit in IBT amounted to SEK -1.5 million during the first quarter of 2014. The company has no sales revenue.

### Parent Company

Net sales in the Parent Company reached SEK 184.3 million (77.0) and profit before tax was SEK 125.6 million (20.7).

Since it is uncertain whether the receivable from BioGaia Japan will be recovered in the foreseeable future, a provision has been made for the amount in question. This has resulted in an impairment loss of SEK 1.1 million (2.7), which has had a negative impact on profit.

Profit after tax amounted to SEK 98.5 million (16.3).

Cash flow in the Parent Company totalled SEK 105.8 million (22.0).

## KEY EVENTS IN THE FIRST QUARTER OF 2014

### Launches in the first quarter of 2014

Distributor/Licensee	Country	Product
BG Distribution	Hungary	Drops with Vitamin D and digestive health tablets with Vitamin D
Cube Pharmaceutical	Greece	Drops with Vitamin D
EwoPharma	Slovenia	Drops with Vitamin D
Exeer	Libya	Drops and ORS product
Infectopharm	Germany	Drops with Vitamin D
Nestlé	Ukraine, Russia and the CIS countries	Infant formula with <i>Lactobacillus reuteri</i> Protectis
Placebo Control	Greece	Oral Health tablets
Semper	Norway	Drops and digestive health tablets

### Publication of study showing that colic can be prevented

A study on 468 healthy newborns, which was published in January 2014, shows that infants given the probiotic *Lactobacillus reuteri* Protectis cried less than half as long as infants given a placebo. The infants given *Lactobacillus reuteri* Protectis also had significantly fewer daily regurgitations and were less constipated compared to infants in the placebo group. The study was published in the highly regarded medical journal JAMA on 13 January 2014.

### No significant differences in BioGaia's diabetes study

In May 2012 BioGaia initiated a double-blind, placebo-controlled study to investigate the effects of *Lactobacillus reuteri* Protectis on blood glucose in type 2 diabetics. Despite positive results from an earlier pilot study, no significant differences between the groups were seen in this study.

Continued efforts are being made to analyse if a change in some of the essential parameters in the study or in the study design may be a possible approach for a solution.

### New major agreement with Nestlé including payment of contingent consideration

In February 2012 BioGaia sold the rights for the use of *Lactobacillus reuteri* Protectis in infant formula to Nestlé for the remainder of the patent lifetime. BioGaia received EUR 40 million up front and a commitment for a further EUR 10.8 million during the period from 2014 to 2017 upon the achievement of certain milestones. The first milestone payment of EUR 3.6 million was received in February this year.

Nestlé and BioGaia and have further broadened and strengthened the cooperation and in March this year entered into a supplementary agreement to the original. The agreement will provide BioGaia with royalties of around SEK 92 million (approximately EUR 10.4 million) over a three-year period, starting in the second quarter of 2014, for which BioGaia will carry out specific clinical studies in the paediatric area. In addition, BioGaia will develop new products for Nestlé in whole new areas.

Furthermore, the agreement means that BioGaia immediately received the remaining milestone payments of EUR 7.2 million from the 2012 agreement. Consequently, the entire contingent consideration of EUR 10.8 million (SEK 95.4 million) has been recognised as income for the quarter.

### Publication of study showing that it is possible to prevent common infections in children

Healthy children attending daycare centres have a significantly lower risk of getting diarrhoea or respiratory tract infections when given a daily supplement of *Lactobacillus reuteri* Protectis, as shown by a study on 336 children that was conducted in Mexico.

The study confirms previously published data and proves that preventative treatment with *L. reuteri* Protectis in healthy children reduces episodes of diarrhoea. Furthermore, the study demonstrated a reduction in respiratory tract infections among the children given supplements of Protectis. Moreover, the children receiving *Lactobacillus reuteri* Protectis had fewer days with fever, used less antibiotics and had fewer days of absence from daycare.

The study was published in the medical journal Pediatrics on 17 March 2014.

## EMPLOYEES

The number of employees in the Group (including TwoPac AB) at 31 March 2014 was 88 (80).

### Incentive scheme for the employees

In June 2012 BioGaia carried out the subscription warrant programme for all employees in the BioGaia Group that was resolved on by the AGM the same year. For more information, see above under "Equity".

## **SIGNIFICANT RISKS AND UNCERTAINTIES: GROUP AND PARENT COMPANY**

The Japanese subsidiary has operated at a loss since the start in 2006. The business model previously used was found to be unsuccessful and in 2010 a decision was made to change the business model in Japan to that which is used in the other markets. On the balance sheet date, assets in the Japanese subsidiary were reported at SEK 8.5 million in the Group. BioGaia's assessment is that there is no indication of impairment of these assets. In the Parent Company, all receivables and participations in the Japanese subsidiary have been written down to zero.

CapAble, which is 90.1% owned by BioGaia AB, was started in November 2008 to manufacture and sell the patented LifeTop Cap. The shares in the subsidiary CapAble amount to a total of SEK 6.9 million in the Parent Company. CapAble has operated at a loss since the start in 2008. BioGaia made total conditional shareholder contributions of SEK 6 million to CapAble in 2009 and 2010. BioGaia AB has made total group contributions of SEK 9.2 million during the period from 2010 to 2013. Profit before tax for the first quarter of 2014 amounted to SEK -0.9 million (-0.8). On the balance sheet date, assets in CapAble were reported at SEK 3.6 million in the Group. BioGaia's assessment is that CapAble will show profitability in coming years, for which reason there was no indication of impairment on the balance sheet date.

For further information see the administration report and Notes 28 and 29 of the annual report for 2013.

### **Accounting policies**

This interim management statement has in all material aspects been prepared in accordance with NASDAQ OMX Stockholm's Guidelines for preparing interim management statements.

The financial statements and segment information for the Group have been prepared in accordance with IAS 34, Interim Financial Reporting, and the Annual Accounts Act in order to achieve comparability in presentation between quarters.

The consolidated financial statements are presented in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations published by the IFRS Interpretations Committee (IFRIC) that have been endorsed by the European Commission for application in the EU. Unless otherwise stated below, the accounting policies applied for the Group and the Parent Company are the same as those used in preparation of the latest annual report.

### **New accounting policies**

The applied accounting policies correspond to those described in the annual report for 2013, aside from a number of minor amendments to existing standards and new interpretations that are effective as of 1 January 2014. These are not assessed to have any significant impact on the Group's or the Parent Company's profit or financial position aside from increased disclosures.

### **New segment reporting as of 2014**

Since the autumn of 2013 the company is divided into three business areas, Paediatrics, Adult Health and New Business. At the central level BioGaia has retained its support functions, but the business areas are responsible for product development and sales to their respective target groups. This will result in a better focus and more effective decision-making. Starting in the first quarter of 2014 the company will report sales and gross profit for these business areas. To facilitate comparison, sales and gross profit for finished consumer products and component products will also be reported during 2014.

### **FUTURE OUTLOOK**

BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level.

The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30% with continued strong growth and increased investments in research, product development and brand building.

BioGaia's dividend policy is to pay a shareholder dividend equal to 40% of profit after tax.

In view of the Company's strong portfolio consisting of an increased number of innovative products that are sold under the BioGaia brand to a growing extent, successful clinical trials and an expanding distribution network that covers a large share of the key markets, BioGaia's future outlook is bright.

1) Excluding license revenue from Nestlé of SEK 95.4 million. Including license revenue from Nestlé, total net sales for the first quarter of 2014 amounted to SEK 188.6 million, net sales of component products to SEK 112.2 million, net sales in the Paediatrics business area to SEK 172.1 million, gross profit to SEK 156.9 million, operating profit to SEK 123.8 million, profit before tax to SEK 124.7 million and profit after tax to SEK 97.0 million. Earnings per share amounted to SEK 5.63.

## Statements of comprehensive income - Group

(Amounts in SEK 000s)

	Jan-Mar 2014	Jan-Mar 2014 <sup>1)</sup>	Jan-Mar 2013	Jan-Dec 2013	April 2013- March 2014	April 2012- March 2013
Net sales	93,218	93,218	78,142	315,875	330,951	289,101
License revenue	95,397	-	-	-	95,397	-
Cost of goods sold	-31,713	-31,713	-26,181	-101,711	-107,243	-91,596
<i>Gross profit</i>	<i>156,902</i>	<i>61,505</i>	<i>51,961</i>	<i>214,164</i>	<i>319,105</i>	<i>197,505</i>
Selling expenses	-18,995	-18,995	-19,324	-79,396	-79,067	-79,008
Administrative expenses	-3,588	-3,588	-3,524	-14,356	-14,420	-13,794
Research and development expenses	-11,524	-11,524	-10,216	-40,555	-41,863	-37,590
Other operating income	984	984	-	1,796	3,923	-
Other operating expenses	-	-	-1,143	-	-	-3,370
<i>Operating profit</i>	<i>123,779</i>	<i>28,382</i>	<i>17,754</i>	<i>81,653</i>	<i>187,678</i>	<i>63,743</i>
Interest income	843	843	1,850	5,081	4,074	9,003
Foreign exchange gain/loss, forward contracts	77	77	3,146	-2,882	-5,951	7,383
Financial expenses	-43	-43	-47	-92	-88	-98
<i>Profit before tax</i>	<i>124,656</i>	<i>29,259</i>	<i>22,703</i>	<i>83,760</i>	<i>185,713</i>	<i>80,031</i>
Tax	-27,689	-6,702	-5,026	-19,572	-42,235	-15,678
<b>PROFIT FOR THE PERIOD</b>	<b>96,967</b>	<b>22,557</b>	17,677	64,188	143,478	64,353
<b><u>Items that will be reclassified to profit or loss</u></b>						
Gains/losses arising on translation of the financial statements of foreign operations	170	170	-579	-1,419	-670	-942
<b>Comprehensive income for the period</b>	<b>97,137</b>	<b>22,727</b>	17,098	62,769	142,808	63,411
<b><u>Profit for the period attributable to:</u></b>						
Owners of the Parent Company	97,207	22,797	16,709	61,722	142,220	60,871
Non-controlling interests	-240	-240	968	2,466	1,258	3,482
	96,967	22,557	17,677	64,188	143,478	64,353
<b><u>Comprehensive income for the period attributable to:</u></b>						
Owners of the Parent Company	97,377	22,967	16,130	60,303	141,550	59,929
Non-controlling interests	-240	-240	968	2,466	1,258	3,482
	97,137	22,727	17,098	62,769	142,808	63,411
<b><u>Earnings per share</u></b>						
Basic earnings per share (average number of shares), SEK	5.63	1.32	0.97	3.57	8.23	3.52
Diluted earnings per share, SEK	5.63	1.32	0.97	3.56	8.23	3.52
Number of shares, thousands	17,271	17,271	17,271	17,271	17,271	17,271
Average number of shares, thousands	17,271	17,271	17,271	17,271	17,271	17,271
Number of outstanding warrants, thousands	87	87	87	87	87	87
Number of outstanding warrants with a dilutive effect, thousands	-	-	-	87	-	-
Number of shares after dilution, thousands	17,271	17,271	17,271	17,358	17,271	17,271

1) Excluding license revenue of SEK 95.4 million.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	31 Mar	31 Dec	31 Mar
(Amounts in SEK 000s)	2014	2013	2013
<b>ASSETS</b>			
Property, plant and equipment	63,331	60,286	49,319
Other non-current receivables	17	17	17
<i>Total non-current assets</i>	<b>63,348</b>	60,303	49,336
Current assets excl. cash and cash equivalents	81,547	88,845	90,656
Cash and cash equivalents	342,693	234,271	397,624
<i>Total current assets</i>	<b>424,240</b>	323,116	488,280
<b>TOTAL ASSETS</b>	<b>487,588</b>	383,419	537,616
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Parent Company	414,719	317,341	469,432
Non-controlling interests	-725	-484	4,460
Total equity	413,994	316,857	473,892
Provision for deferred tax	85	85	24,649
Interest-free current liabilities	73,509	66,477	39,075
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>487,588</b>	383,419	537,616
<b>Pledged assets</b>	<b>2,000</b>	2,000	2,000

**CONSOLIDATED CASH FLOW STATEMENTS**

	Jan-Mar	Jan-Mar	Jan-Dec
(Amounts in SEK 000s)	2014	2013	2013
<i>Operating activities</i>			
Operating profit	123,779	17,754	81,653
Depreciation/amortisation	1,369	1,262	5,541
Other non-cash items	-29	105	-308
	<b>125,119</b>	19,121	86,886
Gains/losses on realised forward exchange contracts	181	351	193
Paid tax	-31,315	-2,456	-10,799
Interest received and paid	800	1,803	4,996
Cash flow from operating activities before changes in working capital	94,785	18,819	81,276
Changes in working capital	17,993	5,369	-2,835
<i>Cash flow from operating activities</i>	<b>112,778</b>	24,188	78,441
<i>Cash flow from investing activities</i>	<b>-4,409</b>	-1,410	-46,538
<i>Cash flow from financing activities</i>		-	-172,710
Cash flow for the period	108,369	22,778	-140,807
Cash and cash equivalents at beginning of period	234,271	374,974	374,974
Exchange difference in cash and cash equivalents	53	-128	104
Cash and cash equivalents at end of period	<b>342,693</b>	397,624	234,271

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Amounts in SEK 000s)

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
At beginning of period	316,857	456,794	456,794
Dividends	-	-	-172,710
Sale of shares in IBT AB	-	-	4
Acquisition of TwoPac	-	-	-30,000
Comprehensive income for the period	97,137	17,098	62,769
<b>At end of period</b>	<b>413,994</b>	473,892	316,857

**REPORTING BY SEGMENT – GROUP**

(Amounts in SEK 000s)

**Revenue by segment**

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013	April 2013- - March 2014	April 2012- - March 2013
Finished consumer products	75,840	65,628	256,164	266,376	248,440
Component products	16,788	11,943	58,592	63,437	39,513
License revenue (component products) 1)	95,397	-	-	95,397	-
Other products	590	571	1,119	1,138	1,148
	<b>188,615</b>	78,142	315,875	426,348	289,101

**Gross profit by segment**

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013	April 2013- - March 2014	April 2012- - March 2013
Finished consumer products	52,678	46,596	180,088	186,170	177,407
Component products	8,237	4,927	33,384	36,694	19,185
License revenue (component products) 1)	95,397	-	-	95,397	-
Other products	590	438	692	844	913
	<b>156,902</b>	51,961	214,164	319,105	197,505

**Income by segment – business area**

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013	April 2013- - March 2014	April 2012- - March 2013
Paediatrics	76,680	61,192	243,658	259,146	224,283
License revenue (Paediatrics)	95,397	-	-	95,397	-
Adult Health	15,037	16,897	70,414	68,554	64,428
Other	1,501	53	1,803	3,251	391
Total	<b>188,615</b>	78,142	315,875	426,348	289,102

**Gross profit by segment – business area**

	Jan-Mar 2014	Jan-Mar 2013
Paediatrics	51,372	41,602
License revenue (Paediatrics)	95,397	-
Adult Health	8,938	10,308
Other	1,195	51
Total	<b>156,902</b>	51,961

**Revenue by geographical market**

	<b>Jan-Mar</b>	Jan-Mar	Jan-Dec	April 2013-	April 2012-
<u>Net sales</u>	<b>2014</b>	<u>2013</u>	<u>2013</u>	<u>- March 2014</u>	<u>- March 2013</u>
Europe	<b>70,802</b>	60,255	218,301	228,848	204,034
License revenue (Europe) 1)	<b>95,397</b>	-	-	95,397	-
USA and Canada	<b>2,814</b>	2,301	22,412	22,925	25,420
Asia	<b>10,523</b>	8,457	40,100	42,166	32,483
Rest of world	<b>9,079</b>	7,129	35,062	37,012	27,164
	<b>188,615</b>	78,142	315,875	426,348	289,101

**CONSOLIDATED KEY RATIOS 2)**

	<b>Jan-Mar</b>	<b>Jan-Mar</b>	Jan-Mar	Jan-Dec
	<b>2014</b>	<b>2014 <sup>1)</sup></b>	<u>2013</u>	<u>2013</u>
Net sales, SEK 000s	<b>188,615</b>	<b>93,218</b>	78,142	315,875
Operating profit, SEK 000s	<b>123,779</b>	<b>28,382</b>	17,754	81,653
Profit after tax, SEK 000s	<b>96,967</b>	<b>22,557</b>	17,677	64,188
Return on				
- average equity	<b>27%</b>	<b>7%</b>	4%	16%
- average capital employed	<b>34%</b>	<b>9%</b>	5%	22%
Capital employed, SEK 000s	<b>414,079</b>	<b>339,669</b>	498,541	316,942
Number of shares, thousands	<b>17,271</b>	<b>17,271</b>	17,271	17,271
Average number of shares, thousands	<b>17,271</b>	<b>17,271</b>	17,271	17,271
Number of outstanding warrants, thousands	<b>87</b>	<b>87</b>	87	87
Average number of outstanding warrants with a dilutive effect, thousands	<b>-</b>	<b>-</b>	-	87
Number of shares after dilution, thousands	<b>17,271</b>	<b>17,271</b>	17,271	17,358
Basic earnings per share, SEK	<b>5.63</b>	<b>1.32</b>	0.97	3.57
Diluted earnings per share, SEK	<b>5.63</b>	<b>1.32</b>	0.97	3.56
Basic equity per share, SEK	<b>24.01</b>	<b>19.70</b>	27.18	18.37
Diluted equity per share, SEK	<b>24.01</b>	<b>19.70</b>	27.18	18.28
Equity/assets ratio	<b>85%</b>	<b>87%</b>	88%	83%
Operating margin	<b>66%</b>	<b>30%</b>	23%	26%
Profit margin	<b>66%</b>	<b>31%</b>	29%	27%
Average number of employees	<b>87</b>	<b>87</b>	78	82

1) Excluding license revenue from Nestlé. License revenue is included in the Paediatrics business area, in the component products segment and in the European market. The definitions of key ratios correspond to those in the annual report.

## **RELATED PARTY TRANSACTIONS**

The Parent Company holds 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc, TwoPac AB and Tripac AB. The Parent Company holds 90.1% of the shares in CapAble AB and 91% of the shares in Infant Bacterial Therapeutics (IBT) AB.

Annwall & Rothschild Investment AB hold 740,668 class A shares and 759,332 class B shares, which is equal to 8.7% of the share capital and 34.1% of the votes in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild, CEO of BioGaia, and Jan Annwall, who is a member of the Board of BioGaia AB. No transactions between BioGaia and Annwall & Rothschild Investment AB have taken place during the period.

## **FINANCIAL CALENDAR**

6 May 2014	9:30 a.m. Teleconference on the interim report with CEO Peter Rothschild. To take part in the conference please see <a href="http://www.biogaia.com/agenda">www.biogaia.com/agenda</a>
6 May 2014	4:00 p.m. Annual General Meeting at Lundqvist & Lindqvist Klara Strand Konferens, Klarabergsviadukten 90 in Stockholm.
20 August 2014	Interim report 1 January – 30 June 2014
22 October 2014	Interim report 1 January – 30 September 2014

**Stockholm, 6 May 2014**

**Peter Rothschild  
President & CEO**

This interim management statement has not been examined by the company's independent auditor.

## BioGaia AB

### **The company**

BioGaia is a healthcare company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* (Reuteri) in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

The class B share of the Parent Company BioGaia AB is quoted on the Mid Cap list of NASDAQ OMX Nordic Exchange Stockholm.

BioGaia has 88 employees, of whom 34 are based in Stockholm, 22 in Lund, 23 in Eslöv, two in Raleigh, USA, six in Hiroshima, Japan and one in Shanghai, China.

### **Business model**

BioGaia's revenue comes mainly from the sale of finished consumer products (digestive health tablets, drops, oral rehydration solution (ORS) and oral health tablets) to distributors, but also of revenue from the sale of component products such as Reuteri cultures, straws and caps.

The products are sold through nutrition, food, natural health and pharmaceutical companies in more than 80 countries worldwide. BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

### **The BioGaia brand**

At the beginning of 2006 BioGaia launched its own consumer brand and today there are a number of distribution partners that sell finished products under the BioGaia brand in a large number of markets. One central part of BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

Some of BioGaia's distributors sell finished consumer products under their own brand names. For these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor.

BioGaia's licensees add Reuteri culture to their products and sell these under their own brand names. On these products, the BioGaia brand is most often shown on the package as the licensor/patent holder.

### **Research and clinical studies**

BioGaia's strains of *Lactobacillus reuteri* are some of the world's most well researched probiotics, especially in young children. To date, 125 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 10,600 individuals of all ages. The results have been published in 92 articles in scientific journals.

Studies have been performed on:

- Infantile colic and digestive health in children
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium)
- Necrotising enterocolitis (NEC)

### **REPORTING OF CLINICAL STUDIES**

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and this has now become a prerequisite for publication of trial outcomes in major medical journals. ClinicalTrials.gov is a registry of clinical trials provided by the U.S. National Institutes of Health and BioGaia encourages all clinicians working with BioGaia products to register their trials on this site. Many of the trials are registered at an early stage, which means that some of the registered trials will not be performed as planned. Consequently, BioGaia takes no responsibility for ensuring that the registered trials reach completion or are successfully reported in the register or the scientific literature. When clinical trial results of significance for the company's operations do become available, BioGaia will report these through press releases.

#### **Latest press releases from BioGaia:**

2014-04-07	Notice to attend the Annual General Meeting of BioGaia AB
2014-03-26	Sale of shares in BioGaia AB
2014-03-17	New study shows that it is possible to prevent common infections in children

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