

## Interim management statement 1 January – 30 September 2018

(Figures in parentheses and comparative figures in the text refer to the corresponding period of last year. The comparative figures in the balance sheet refer to 31 December 2017).



### Comments from the Managing Director:

“The third quarter of 2018 was yet another strong quarter with growth of 18% (10% after foreign exchange effects) compared to the corresponding period last year. The increase was driven by sales of BioGaia Protectis drops as well as by favorable growth for BioGaia Prodentis lozenges. Geographically, growth was strong across all three regions, EMEA, Asia Pacific and the Americas. It is worth noting that sales increased significantly in the USA and the rollout of BioGaia Gastrus tablets continues with good growth. Sales for the past 12-month period totaled SEK 702 million (584), an increase of 20% (19% after foreign exchange effects)” says Sebastian Schröder, Acting Managing Director of BioGaia.

### Third quarter 2018

Net sales amounted to SEK 174.7 million (147.7), an increase of 18% (excluding foreign exchange effects, 10%).

Net sales in the Pediatrics segment reached SEK 138.3 million (111.1), an increase of 24%.

Net sales in the Adult Health segment amounted to SEK 36.0 million (35.7), an increase of 1%.

Operating profit amounted to SEK 66.2 million (53.8), an increase of 23%. The company has changed an accounting standard as of 1 January 2018, which means that foreign exchange gains/losses attributable to forward contracts are recognized in operating profit or loss (previously among financial items). These amounted to SEK 5.0 million (0.2). With an unchanged standard, operating profit would have increased by 14%.

Profit after tax was SEK 51.4 million (42.1), an increase of 22%.

Earnings per share totaled SEK 2.97 (2.43). No dilutive effects arose.

Cash flow amounted to SEK 44.3 million (37.9).

### Key events in the third quarter 2018

At the beginning of July, BioGaia acquired an additional 30% in MetaboGen for SEK 27.8 million. The shareholding in MetaboGen thereby amounts to 92%.

### Key events after the end of the third quarter

BioGaia's subsidiary MetaboGen's first microorganisms are ready to be used in a safety study.

### 1 January – 30 September 2018

Net sales amounted to SEK 532.2 million (444.9), an increase of 20% (excluding foreign exchange effects, 16%).

Net sales in the Pediatrics segment reached SEK 438.5 million (354.0), an increase of 24%.

Net sales in the Adult Health segment amounted to SEK 92.6 million (85.2), an increase of 9%.

Operating profit amounted to SEK 202.3 million (171.1). Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, amounted to SEK 195.3 million (171.1), an increase of 14%. The company has changed an accounting standard as of 1 January 2018, which means that foreign exchange gains/losses attributable to forward contracts are recognized in operating profit or loss (previously in financial items). These amounted to SEK -8.7 million (+2.0). With an unchanged standard, operating profit would have increased by 21%.

Profit after tax was SEK 157.3 million (132.2), an increase of 19%. Excluding revaluation of the former associate shareholding in MetaboGen, profit after tax rose 14%.

Earnings per share totaled SEK 9.10 (7.63). No dilutive effects arose.

Cash flow for the period was SEK -49.8 million (-2.0). Cash and cash equivalents at 30 September 2018 amounted to SEK 257.5 million (305.9).

**Teleconference:** Investors, analysts and the media are invited to take part in a teleconference on the interim report to be held today, 24 October 2018 at 09:30 CET with Acting Managing Director Sebastian Schröder.

To participate in the teleconference, please see <https://www.biogaia.com/investors/financial-calendar/> for telephone numbers. The teleconference can also be followed at <https://tv.streamfabriken.com/biogaia-q3-2018>.

This information is information that BioGaia AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the acting Managing Director, on 24 October 2018 at 08:00 CET.

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



## **BioGaia AB (publ.)**

### **Interim management statement 1 January – 30 September 2018**

The Managing Director of BioGaia AB hereby presents the interim management report for the period 1 January – 30 September 2018.

#### **MANAGING DIRECTOR'S COMMENTS**

The third quarter of 2018 was yet another strong quarter with growth of 18% (10% after foreign exchange effects) compared to the corresponding period last year. The increase was driven by increased sales of BioGaia Protectis drops as well as by favorable growth for BioGaia Prodentis lozenges. Geographically, growth was strong across all three regions, EMEA, Asia Pacific and the Americas. It is worth noting that sales increased significantly in the USA and the rollout of BioGaia Gastrus tablets continues with good growth. Sales for the past 12-month period totaled SEK 702 million (584), an increase of 20% (19% after foreign exchange effects).

Sales in the Pediatrics segment amounted to SEK 138 million, an increase of 24% (15% after foreign exchange effects) compared to the third quarter last year. The increase was driven by strong sales growth for BioGaia Protectis drops in all markets as well as by favorable growth for BioGaia Protectis tablets. As communicated in the previous quarterly report, we foresee lower royalty revenues from Nestlé regarding Growing Up Milk (GUM) next year since they have communicated that they wish to renegotiate the agreement which expires at the end of the year. We now assess that royalty revenues under the new agreement will be SEK 40 million lower compared to 2018. The reason is that Nestlé likes to focus on a fewer number of countries. BioGaia is now free to choose new distributors for GUM for the markets that are no longer covered by Nestlé. Our cooperation with Nestlé remains very good and negotiations are underway relating to additional product sales which are expected to compensate for the decline in royalties over time. Sales of BioGaia Protectis drops to Nestlé in the USA and Australia showed a very strong growth for the nine month period compared to the corresponding period last year.

Sales in the Adult Health segment rose by only 1% (-7% after foreign exchange effects), compared to the third quarter last year, to SEK 36 million. Sales of BioGaia Prodentis lozenges and BioGaia Gastrus tablets showed a strong increase during the quarter. So far, we have launched these products in 25 and 13 countries respectively and the rollout continues. Sales of BioGaia Protectis tablets in the Adult Health segment decreased. This was due to reduced sales to one of our major tablet markets, Finland. The decline was due to aggressive marketing and price pressure from a local competitor. However, our distributor in Finland, Verman, expects a recovery in the fourth quarter and hopes to be able to regain market shares. We are monitoring developments carefully in close collaboration with our distributor. Apart from Finland, sales of BioGaia Protectis tablets in the Adult Health segment increased by 30%. For the latest 12 month period the sales in Adult health amounted to SEK 124 (101) million, an increase of 22% (excluding currency effects 21%).

Operating expenses increased by 29% during the quarter. This increase is mainly attributable to R&D costs where we are making considerable investments, among others in our subsidiaries BioGaia Pharma and MetaboGen, as well as in research projects, clinical studies and product development. We have also increased our investments in marketing activities in several countries including Sweden, Italy and Brazil. All this also results in an increased personnel requirement. We have increased the number of employees by 12 people, of which three people relates to the acquisition of MetaboGen, since the third quarter of last year.

Due to the strong sales growth, operating profit increased, despite the higher expenses, by 23% to SEK 66.2 million. If we exclude the effect of changed accounting standards, operating profit increased by 14% to SEK 61.2 million and the operating margin was 35% (36).

As communicated previously, during the second quarter we acquired additional shares in our former associated company MetaboGen. BioGaia already held 36% of the company. At the beginning of April, BioGaia increased its stake to 62% making us the majority shareholder. Just after the end of the second quarter, we acquired an additional 30% in the company, bringing the shareholding up to 92%. In the third quarter the safety study that includes two of the company's bacteria strains, received ethical approval, and the study could start in October. Future products based on these strains are intended to be used for metabolic diseases such as type 2 diabetes, gestational diabetes and non-alcoholic fatty liver disease. We are now working to integrate MetaboGen's operations with BioGaia as regards administration, research and laboratory work.

During the quarter we launched BioGaia Protectis tablets in Australia (bWellness) and BioGaia Gastrus tablets in Poland (Ewopharma) and Hungary (BG Distribution).

Finally, I would like to extend a warm welcome to Isabelle Ducellier who will take over as Managing Director on 5 November. Isabelle is a member of the Board of BioGaia and we are now working to ensure that she can take her place in the operations in the best possible way.

**Sebastian Schröder**  
**Acting Managing Director of BioGaia**  
**24 October 2018**



## FINANCIAL PERFORMANCE IN THIRD QUARTER OF 2018

### Sales, third quarter

Consolidated net sales amounted to SEK 174.7 million (147.7) which is an increase of SEK 27.0 million (18%) (excluding foreign exchange effects 10%) compared to the third quarter of last year.

Sales were driven by growth in the Pediatrics segment where sales increased by 24% (excluding foreign exchange effects, 15%) to SEK 138.3 million. This was mainly due to higher sales of BioGaia Gastrus tablets drops which increased in all regions. Sales of BioGaia Protectis tablets in the Pediatrics segment also rose during the quarter.

In the Adult Health segment, sales rose by 1% (excluding foreign exchange effects, -7%) to SEK 36.0 million. This was due to higher sales of BioGaia Prodentis oral health tablets (primarily in Asia Pacific but also in Europe) and increased sales of BioGaia Gastrus tablets (primarily in APAC but also in other markets). Sales of BioGaia Protectis tablets decreased during the quarter. This was due to lower sales in Europe attributable to Finland, which is a major market for Protectis tablets (for further comments – see above under Managing Director's comments), while sales increased in other markets. Sales in the previous year included culture for yoghurt ahead of a launch in Japan. Yoghurt sales in Japan have been lower than expected and culture deliveries have therefore ceased. However, this does not affect royalty payments which are based on minimum sales.

### Gross margin, third quarter

The total gross margin for the quarter was 75% (74%). The gross margin for the Pediatrics segment was 76% (77%). The gross margin for the Adult Health segment was 71% (61%). The increase is mainly explained by a sales increase in Japan where margins are higher.

### Operating expenses and operating profit, third quarter

Operating expenses (selling, administrative and R&D expenses) rose by SEK 14.9 million (29%) compared to the third quarter of last year to SEK 65.9 million. The increase is due to several factors. During the quarter, major marketing activities were carried out in a number of countries (including Italy, Brazil and Sweden). In addition, foreign exchange effects contributed to higher expenses in Japan. Expenses also include a provision for the incentive program of SEK 1.5 million (0.9) (see below under Employees). Furthermore, R&D costs rose due to research projects and a large number of clinical studies now underway as well as expenses of SEK 3.0 million (0.4) for the new subsidiaries BioGaia Pharma and MetaboGen (which have been consolidated in the Group since 6 April 2018).

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating nature and amounted to SEK 1.5 million (-3.8). The company changed its accounting standard as of 1 January 2018, after which all exchange gains/losses attributable to forward exchange contracts are recognized in other operating expenses/income (previously in financial items). These amounted to SEK 5.0 million (0.2).

Operating profit amounted to SEK 66.2 million (53.8), an increase of 23%. The operating margin was 38% (36%). Excluding the effect of changed accounting standards, operating profit rose 14% to SEK 61.2 million and the operating margin was 35% (36%).

### Profit after tax and earnings per share, third quarter

Profit after tax amounted to SEK 51.4 million (42.1) an increase of SEK 9.0 million (22%). The effective tax rate was 22% (22%). The quarter also includes a tax expense attributable to fiscal year 2016 of SEK 1.4 million.

Earnings per share amounted to SEK 2.97 (2.43). No dilutive effects arose during the quarter.

## KEY EVENTS IN THE THIRD QUARTER OF 2018

### Launches in the third quarter

Distributor/licensee	Country	Product
Aché	Brazil	BioGaia Protectis tablets with strawberry flavor
BG Distribution	Hungary	BioGaia Gastrus tablets
bWellness	Australia	BioGaia Protectis tablets with strawberry flavor
Ewopharma	Poland	BioGaia Gastrus tablets
Philips Pharma	Mauritius	BioGaia Protectis drops and BioGaia Protectis tablets with lemon flavor
Pediact	France	BioGaia Protectis tablets with vitamin D BioGaia Protectis tablets with strawberry flavor

### BioGaia invests further in MetaboGen AB

In early April, BioGaia decided to acquire additional shares in the associated company MetaboGen AB and invested SEK 11.7 million in shares in the company. BioGaia's shareholding thus increased from 36% to 62% making BioGaia the majority shareholder.

During the second quarter the set milestones were achieved, which related to new agreements with the University of Gothenburg and Chalmers University of Technology. These agreements will give BioGaia and MetaboGen more extensive and closer cooperation with the universities. At the beginning of July, BioGaia therefore acquired a further 30% of the shares in MetaboGen for SEK 27.8 million. The higher valuation of the shares, compared to the deal in April, is attributable to the new agreements. The shareholding thereby amounted to 92%. BioGaia will acquire the remaining 8% in the company within a three-year period. The additional purchase price can amount to a maximum of SEK 12 million depending on how many milestones are achieved.

Research on the microbiome is developing very rapidly and pharmaceutical companies are making major investments in this area. Through the investment in MetaboGen, BioGaia can maintain its strong position in the field of probiotic research. BioGaia will initiate a number of research projects in MetaboGen. The cost of these projects is estimated at around SEK 22 million and the projects will be implemented over a three-year period starting in the third quarter of 2018. In addition, operations and developments that are already taking place in the company today are estimated to cost approximately SEK 10 million per year, if no license agreements with third parties are made. The base for the company's business model is to find licensees.



## KEY EVENTS AFTER THE END OF THE THIRD QUARTER OF 2018

### **MetaboGen's first microorganisms ready for a safety study**

BioGaia's subsidiary MetaboGen has achieved a key development goal. The first version of the next generation's probiotics is ready to be used in a safety study.

Two strains, *Faecalibacterium prausnitzii* (DSM 32379) and *Desulfovibrio piger* (DSM 32187), derived from the human gut microbiome, have been chosen in this project. Because of the oxygen sensitive properties of the strains, MetaboGen has developed, and patented, a unique production technology, allowing the bacteria to survive in a commercial product. This has been a crucial step in the product development and one that may also potentially be suitable for other similar strains.

The two selected strains have been thoroughly examined regarding properties, safety and antibiotic resistance. The strains have been produced and the product formulation successfully completed. The first version of the product is thereby ready to be used. Recently the ethical application for the first human safety trial was approved and the clinical study started in October.

Future products based on these strains aim to be used in the management of metabolic diseases, such as type 2 diabetes, gestational diabetes and non-alcoholic fatty liver disease.

## FINANCIAL PERFORMANCE 1 January – 30 September 2018

### **Sales, January - September 2018**

Consolidated net sales amounted to SEK 532.2 million (444.9) which is an increase of SEK 87.3 million (20%) (excluding foreign exchange effects, 16%) compared to the corresponding period last year. For the past 12-month period, sales totaled SEK 702.4 million (583.6), an increase of 20% (excluding foreign exchange effects, 19%).

### **PEDIATRICS SEGMENT**

Sales in the Pediatrics segment amounted to SEK 438.5 million (354.0) an increase of SEK 84.5 million (24%) (excluding foreign exchange effects, 21%). The increase was driven mainly by sales of BioGaia Protectis drops. For the past 12-month period, sales in the Pediatrics segment rose by 22% (excluding foreign exchange effects, 20%).

Sales of drops, which make up the bulk of sales, increased in all regions - in EMEA (in most countries but primarily in Eastern European countries, Italy, Turkey, France and Spain), in the Americas (primarily the USA) and in Asia Pacific (primarily China but also Indonesia and India). The highly positive sales trend for drops continued over the past 12-month period.

Sales of BioGaia Protectis tablets in the Pediatrics segment increased compared to the corresponding period last year, particularly in EMEA (primarily the Eastern European countries and Spain) but also in Asia Pacific (primarily Taiwan) while sales in the Americas decreased slightly. For the past 12-month period, sales growth for tablets in the Pediatrics segment was good.

Royalty revenue from the sale of growing up milk with *Lactobacillus reuteri* Protectis for children over the age of one increased compared with the corresponding period last year. For the past 12-month period, the increase in revenue was good. As mentioned above, BioGaia's royalty agreement with Nestlé expires at the end of the year. Nestlé has communicated that they wish to renegotiate the royalty agreement. The company assesses that this will lead to a reduction in royalty revenues of approximately SEK 40 million compared with 2018. For further comments, please see above under Managing Director's comments.

Sales of culture, at low margins, for use in Nestlé's infant formula decreased compared to the corresponding period last year and for the past 12-month period.

Royalty revenue from the collaboration agreement with Nestlé amounted to SEK 7.2 million (11.4). The collaboration agreement with Nestlé was signed in March 2014. Royalty revenue totaling SEK 91.8 million has been divided between the Pediatrics segment and Other Sales over the period 2014-2018. Up to 30 September 2018, BioGaia has recognized SEK 88.9 million of this revenue, of which SEK 42.2 million in Other Sales and SEK 46.7 million in the Pediatrics segment. The remaining revenue of SEK 2.9 million will be recognized as revenue in the Pediatrics segment during 2018.

### **ADULT HEALTH SEGMENT**

Net sales in the Adult Health segment amounted to SEK 92.6 million (85.2), an increase of SEK 7.4 million (9%) (excluding foreign exchange effects, 5%) compared to the corresponding period of last year. Revenue in the previous year included compensation from the agreement with Kabaya Ohayo in Japan, for knowhow, education and preparations for the launch. Adjusted for this revenue, sales were up by 19%. For the past 12-month period, sales in the Adult Health segment rose by 22% (excluding foreign exchange effects, 21%).

Sales growth was driven by oral health products which increased substantially compared to the corresponding period of last year. Sales increased in Asia Pacific (Japan) and in EMEA (several countries). No oral health products are sold in the Americas at present. The company is making active efforts to find additional distribution partners for the products. Development has been very positive over the past 12-month period.

Sales of BioGaia Protectis tablets decreased compared to the corresponding period of last year. Sales increased in Asia Pacific (primarily Japan but also Hong Kong) while declining sharply in EMEA (Finland) – for comments see the Managing Director's comments above. In Sweden and Italy, on the other hand, sales increased. In the Americas, sales of tablets were unchanged but remain at a low level.



For the past 12-month period, sales development has been very favorable for Asia Pacific but has decreased in Europe due to the decline in Finland.

Sales of BioGaia Gastrus tablets remain at a low level but rose sharply compared to the corresponding period of last year. Sales increased in all regions in countries such as the USA, Japan, Spain, China and Hong Kong. The company is making active efforts to find additional distribution partners for this product. Development in the past 12-month period was good.

#### OTHER SALES

Other sales amounted to SEK 1.1 million (5.7), a decrease of SEK 4.6 million (81%). No foreign exchange effects arose. Other Sales included royalty revenue of SEK 0 million (3.5) from the collaboration agreement with Nestlé (see above under Pediatrics).

#### SALES BY GEOGRAPHIC MARKET

Sales in EMEA amounted to SEK 318.6 million (278.5), an increase of 14%. The increase was attributable to the Pediatrics segment. For the past 12-month period, sales rose by 17%.

Sales in Asia Pacific amounted to SEK 84.3 million (60.2), an increase of 40%. The increase was mainly attributable to the Pediatrics segment but Adult Health sales also rose. For the past 12-month period, sales increased by 62%.

In the Americas, sales amounted to SEK 129.4 million (106.1), an increase of 22%. The increase was mainly attributable to the Pediatrics segment. For the past 12-month period, sales increased by 8%.

#### THE BIOGAIA BRAND

Of total finished consumer products (drops, gut health tablets, oral health tablets, oral rehydration solution, etc.) sold during the period January - September 2018, 68% (69%) were sold under the BioGaia brand, including co-branding.

#### Gross margin, January-September

Total gross margin was unchanged at 75% (75%).

Gross margin for Pediatrics was unchanged at 76% (76%).

Gross margin for the Adult Health segment was 71% (66%). The increase is mainly due to higher sales in Japan where the margin is higher than in other markets.

#### Operating expenses, January-September

Operating expenses (selling, administrative and R&D expenses) amounted to SEK 197.5 million (155.5), an increase of 27%. During the period major marketing activities were carried out in a number of countries (including Italy, Brazil and Sweden). In addition, personnel expenses increased due to a higher number of employees and a one-time expense of SEK 3.1 million for the outgoing Managing Director. Expenses also include a provision for the incentive program of SEK 6.5 million (2.6) (see below under Employees). Furthermore, R&D costs increased due to research projects and a large number of ongoing clinical studies. In addition, the Group includes two new companies since last year, BioGaia Pharma AB and MetaboGen AB. Expenses for these companies amount to SEK 6.1 million (0.4).

Other operating expenses/income refer to exchange gains/losses on receivables and liabilities of an operating nature. These amounted to SEK -5.0 million (-4.5). The Group has changed its accounting standard (see below under New accounting standards) and with effect from 2018 (and including comparative figures for the previous year) reports exchange gains/losses on forward exchange contracts in operating profit or loss since the assessment is that they are attributable to operations. Other operating expenses/income include an exchange loss/gain relating to forward exchange contracts of SEK -8.7 million (+2.0). At 30 September 2018, the company had outstanding forward contracts for EUR 15.1 million at an average exchange rate of SEK 9.88 and for USD 9.2 million at an average exchange rate of SEK 8.18. The actual exchange loss/gain depends on the exchange rate on the maturity date of the contracts.

#### Share of profits of associates, January-September

MetaboGen was an associated company in BioGaia until 6 April 2018. The share of profits of associates refers to BioGaia's share (36%) of MetaboGen AB's profits up to 6 April 2018 and amounted to SEK -0.5 million (-1.2).

#### Operating profit and operating margin, January-September

Operating profit amounted to SEK 202.3 million (171.1), an increase of 18%. Operating profit, excluding revaluation of the former associate shareholding in MetaboGen, amounted to SEK 195.3 million (171.1), an increase of SEK 24.2 million (14%) after a change of accounting standard (see below under New accounting standard). Operating margin was 37% (38%). With an unchanged accounting standard, operating profit would have amounted to SEK 203.9 million (169.1), an increase of 21% with an operating margin of 38% (38%).

In a step acquisition, all previous equity interests in the acquiree are adjusted to fair value and all gains and losses thus arising are recognized in profit or loss. As a result of this, a gain of SEK 7.0 million is recognized in operating profit regarding the previous associate shareholding in MetaboGen. Since BioGaia increased its holding to 62% and thereby obtained a controlling interest in MetaboGen, the company is consolidated as a subsidiary as of 6 April 2018.

#### Profit after tax, January-September

Profit after tax was SEK 157.3 million (132.2), an increase of SEK 25.1 million (19%). Excluding revaluation of the former associate shareholding in MetaboGen, profit after tax increased by 14%. The effective tax rate for the Group was 22% (23%).

Owing to the distribution and license agreement that was signed in Japan at the end of 2016 (see annual reports for 2016 and 2017), it will be possible to utilize a large share of the earlier loss carryforward in Japan in the Japanese company. In the Group, the exclusivity fees for product rights will be recognized successively over the term of the agreement and a deferred tax asset was therefore recognized in 2016. At 30 September 2018, the deferred tax asset amounted to SEK 8.6 million (9.3). The Group thus has no loss carryforwards for which deferred tax is recognized.

#### Earnings per share, January-September

Earnings per share amounted to SEK 9.10 (7.63). No dilutive effects arose during the period.

#### Balance sheet, 30 September 2018

Total assets amounted to SEK 598.1 million (576.1). During the period cash and cash equivalents and equity decreased as a result of dividends, see below under Cash flow, while inventories and trade receivables increased. The increase is due to higher sales. Furthermore, a surplus value due to the acquisition of MetaboGen increased total assets by SEK 52.2 million.

#### Cash flow, January-September

Cash flow amounted to SEK -49.8 million (-1.9). Cash flow includes dividends of SEK 158.7 million (130.0), as well as the net investment in MetaboGen of SEK 33.9 million (0). Cash and cash equivalents at 30 September 2018 amounted to SEK 257.5 million (305.9).

#### Investments in property, plant and equipment, January-September

Investments in property, plant and equipment amounted to SEK 10.6 million (25.1) of which the majority relates to the subsidiary BioGaia Production.



### ***Parent Company, January-September***

Net sales in the Parent Company amounted to SEK 500.6 million (427.2) and profit before tax was SEK 169.6 million (152.5). The figure for the previous year included the reversal of a previously impaired receivable on a loan to the subsidiary in Japan of SEK 23.3 million since the subsidiary repaid part of the loan in the first quarter of 2017. Cash flow amounted to SEK -62.4 million (2.7).

### ***Subsidiary in Japan, January-September***

Net sales in the Japanese subsidiary amounted to SEK 41.6 million (26.7) during the period. Operating profit for the Japanese operations amounted to SEK 8.1 million (4.2). The figure for the previous year included compensation for knowhow, etc. (see above under the Adult Health segment) from the agreement with Kabaya Ohayo.

### ***Subsidiary BioGaia Production AB, January-September***

BioGaia Production is a wholly owned subsidiary of BioGaia that manufactures the company's products, primarily drops.

Net sales amounted to SEK 81.1 million (59.2). Operating profit amounted to SEK 29.2 million (19.4).

### ***Subsidiary CapAble AB, January-September***

CapAble is owned 90.1% by BioGaia and 9.9% by CapAble's Managing Director. Net sales in CapAble amounted to SEK 1.0 million (1.8). Operating result was SEK -1.2 million (-0.5).

### ***Subsidiary BioGaia Pharma AB, January-September***

In June 2017, BioGaia announced that the company had established a subsidiary, BioGaia Pharma, to take advantage of the opportunities to develop drugs identified in the R&D activities conducted as part of the company's normal operations. BioGaia Pharma is owned 96% by BioGaia and 4% by the company's Managing Director. The company has no revenues. Operating profit for the period amounted to SEK -3.8 million (-0.4). The company has received shareholder contributions of SEK 6.0 million from the Parent Company, of which SEK 4.0 million in the period January-September 2018.

### ***Subsidiary MetaboGen AB***

MetaboGen is a research-driven company that was founded in 2011 in Gothenburg. The company's founders include Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology. These researchers still work with the company. MetaboGen conducts research in the microbiome area including sequencing of all genes in the microflora, for example in the human intestine, to find previously unknown components and patterns in the microbial diversity and link this to health and disease.

Since the beginning of April, BioGaia owned 62% of the company (see above). During the second quarter the set milestones were achieved, which related to new agreements with the University of Gothenburg and Chalmers University of Technology. These agreements will give BioGaia and MetaboGen more extensive and closer cooperation with the universities. At the beginning of July, BioGaia therefore acquired additional shares for SEK 27.8 million, after which BioGaia's holding amounts to 92%.

Operating profit for MetaboGen starting from 6 April 2018, amounted to SEK -2.4 million.

### **EMPLOYEES**

The number of employees in the Group at 30 September 2018 was 127 (120). The company has an incentive program for all employees based on the company's sales and profits. The maximum bonus amounts to 12% of salary. One-third of the bonus relates to a long-term incentive program where the employee is required to reinvest the yearly paid-out compensation (after tax) in BioGaia class B shares and hold these for at least three years. The company made provisions to a reserve for the costs of the incentive program of SEK 6.5 million (2.6) for the period January-September 2018.

### **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 long-term financial target is an operating margin (operating profit in relation to sales) of at least 34% with continued strong growth and increased investments in research, product development, brand building and the sales organization.

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 predominantly under the BioGaia brand, successful clinical trials and an expanding distribution network that covers a large share of the key markets, BioGaia's future outlook remains bright.

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

Significant risks and uncertainties are described in the administration report of the annual report for 2017, on pages 40 and 41 and in Notes 28 and 29. No significant changes in these risks and uncertainties are assessed to have taken place at 30 September 2018.



## ACCOUNTING POLICIES

This interim management statement has in all material respects been prepared in accordance with Nasdaq OMX Stockholm's Guidelines for preparing interim management statements. Disclosures in accordance with IAS 34 Interim Financial Reporting are provided both in notes and elsewhere in the interim report. The consolidated financial statements have been prepared in compliance with the accounting policies applied in preparation of the most recent annual report with the addition of new accounting standards as set out below.

The financial statements and segment information correspond to the presentation used in the interim reports prepared in accordance with IAS 34 in order to achieve comparability in the presentation between the quarters. The interim report also includes Managing Director's comments although this is not a requirement according to Nasdaq Stockholm's Guidelines for preparing interim management statements. This information is still judged important to meet user requirements.

### New accounting standards

The accounting standards applied concur with those set out in the 2017 Annual Report with the exception of those applying to "Financial instruments" (IFRS 9 replaces IAS 39) and "Revenue from Contracts with customers" (IFRS 15 replaces IAS 18 and IAS 11).

### IFRS 9

The Group has reviewed its financial assets and liabilities and assessed that the effects of IFRS 9 on the consolidated financial statements at 1 January 2018 amounts to SEK 0.3 million. According to IFRS 9 entities shall recognize a reserve that corresponds to expected credit losses within the next 12 months. This means that BioGaia's trade receivables are written down at initial application of IFRS 9. In assessment of the credit risk, incurred credit losses and an adjustment for expected future losses provide the basis for the reserve. BioGaia has no incurred credit losses. Default rate shall be evaluated each quarter.

The adjustment relates to a reserve for uncertainty in trade receivables and has been recognized in changes in equity. At 30 September 2018 the reserve amounted to SEK 0.3 million. The difference compared to 1 January 2018 is recognized in profit or loss. The Group has also changed policy from recognition of all derivatives in net financial items to recognition based on the item they hedge. Changes in value in relation to operating receivables, liabilities and derivatives are recognized in operating profit or loss while changes in value of financial receivables, liabilities and derivatives are recognized in net financial items. Forward contract hedges are recognized at fair value through profit or loss in accordance with the items they hedge. This means the company's exchange gains and losses relating to forward exchange contracts are recognized in operations with effect from 1 January 2018.

New accounting standards for financial instruments are provided below.

### Financial instruments

Financial instruments recognized in the statement of financial position include on the assets side cash and cash equivalents, trade receivables, other current receivables and currency derivatives to the extent these have a positive fair value. On the liabilities side, there are trade payables, other current liabilities, loans and currency derivatives to the extent these have a negative fair value. The category to which the Group's financial assets and liabilities belong is specified in the note Financial assets and liabilities – classification and measurement of fair value.

### Recognition and derecognition from the statement of financial position

A financial asset or liability is recognized in the statement of financial position when the company become party to the contractual terms of the instrument. A receivable, except trade receivables, is recognized when the company has performed and a contractual obligation exists for the counterparty to pay, even if no invoice has yet been sent. Trade receivables are recognized in the statement of financial position when an invoice has been sent. Liabilities, except trade payables, are recognized when the counterparty has performed and a contractual obligation to pay exists, even if an invoice has not yet been received. Trade payables are taken up when an invoice is received. A financial asset is derecognized from the statement of financial position when the contractual rights are realized, expire or the company has relinquished control. The same applies to part of a financial asset. A financial liability is derecognized from the statement of financial position when the contractual obligations are met or otherwise extinguished. The same applies to part of a financial liability. No currency derivatives or other financial assets and liabilities are offset in the statement of financial position since the terms for offsetting are not met. Acquisition and disposal of financial assets are recognized on the transaction date. The transaction date is the day the company undertakes to acquire or dispose of the asset.

### Classification and measurement

Financial assets are classified on the basis of the business model in which the asset is held and its cash flow characteristic. If the financial asset is held within the framework of a business model whose objective is collecting contractual cash flows and the financial assets at identified dates gives rise to cash flows that are solely payments of principal and interest on the principal, the asset is recognized at amortized cost.

If the financial asset is held in a business model whose objective can be achieved both by collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal at identified dates, the asset is recognized at fair value through other comprehensive income.

All other business models where the purpose is speculation, held for trading or where the cash flow characteristic excludes other business models result in recognition at fair value through profit or loss.

### Amortized cost and effective interest method

Amortized cost for a financial asset is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus the cumulative amortization using the effective interest method of any difference between that principal and the outstanding

principal, adjusted for any impairment. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjustment for any loss allowance.

### Financial liabilities

Financial liabilities are recognized at amortized cost using the effective interest method or at fair value through profit or loss.

### Financial liabilities at amortized cost

Loans and other financial liabilities, e.g. trade payables, are included in this category. Liabilities are measured at amortized cost.

### Financial liabilities at fair value through profit or loss

This category consists of financial liabilities held for trading. This category includes the Group's derivatives with negative fair value.

### Impairment

Effective from 1 January 2018 the Group recognizes a loss allowance for expected credit losses on a financial asset measured at amortized cost or fair value through other comprehensive income, for a lease receivable or for a contract receivable. At each closing date, the Group shall recognize in profit or loss the change in expected credit losses since the initial recognition date.

For trade receivables, contract assets and lease receivables there is a simplified model which mean that the Group recognizes directly expected credit losses for the remaining term of the assets. The expected credit losses for these financial assets are calculated with the aid of a provision matrix which is based on historical events, current conditions and forecasts for future economic conditions and the time value of the money if applicable. For all other financial assets the Group shall measure a loss allowance to an amount that corresponds to 12 months' expected credit losses. For financial instruments for which significant increase in credit risk has occurred since the initial recognition date, an allowance is recognized based on credit losses for the entire term to maturity of the asset. Equity instruments are not subject to these impairment rules.

### IFRS 15

BioGaia has conducted a review of the Group's current policies for revenue recognition and compared these with IFRS 15. IFRS 15 means that revenue is recognized when control is transferred to a purchaser compared with the current method that is based on risks and rewards. The analysis of the introduction of IFRS 15 has been based on a detailed review of BioGaia's revenue streams. BioGaia has chosen to apply the modified retrospective method for transfer to IFRS 15. According to IFRS 15 this means that BioGaia recognized the combined effect of initial application of this standard as an adjustment to the opening balance of retained earnings for the financial year that includes the initial date of application, i.e. 1 January 2018 for BioGaia. This means that IFRS 15 is only applied retrospectively for contracts that are not completed at 1 January 2018. BioGaia has chosen to apply this practical solution to all contract changes that take place before the date of initial application (i.e. 1 January 2018) to not retroactively recalculate the contract for these contract changes.

After its completed analysis, BioGaia assesses that the effect on the consolidated financial statements will not have an impact on BioGaia's consolidated financial statements for 2018.

IFRS 15 includes a new model for revenue recognition (the five-step model) that is based on when control of a good or service is transferred to the customer. The basic principle is that an entity recognizes revenue to differentiate between the transfer of promised goods or services to customers and an amount that reflects the compensation to which the entity is expected to be entitled in exchange for such goods or services.

Step 1. Identify the contract with a customer

Step 2. Identify the performance obligations in the contract

Step 3. Determine the transaction price

Step 4. Allocate the transaction price to each performance obligation

Step 5. Recognize revenue when a performance obligation is satisfied

Revenue is recognized on the basis of the amount specified in a contract with a customer and does not include any amounts received on account of a third party. BioGaia recognizes revenue when the Group transfers control of a product or service to a customer. Details of these new requirements and BioGaia's revenue streams are provided below.

### Revenue recognition

BioGaia's revenues mainly comprise sales of goods. No commitment for BioGaia remains after delivery since BioGaia does not provide customers with any extended guarantees or the option to return. Control is transferred to the customer when the good is placed at the disposal of the purchaser. In addition to the sales of goods the other revenue consists of royalties or exclusivity rights linked to product distribution in a defined market/territory. These contracts include obligations over time and revenue is recognized in pace with fulfilment of BioGaia's performance obligations. The transaction price, i.e. the compensation BioGaia expects to receive in exchange for the goods and services is in most cases fixed and therefore easy to determine. Variable compensation exists in individual cases often in combination with minimum levels relating to compensation which simplifies assessment of the transaction price. In summary, the transfer to IFRS 15 will result in no change in BioGaia's accounting as regards the timing of revenue recognition

### IFRS 16

IFRS 16 is effective from 1 January 2019. The company has started a review of existing leasing agreement. The company's assessment is that this will not have a material effect on the company's earnings and financial position.

### Exchange rate differences

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD and JPY. With unchanged exchange rates, compared with the corresponding period last year, net sales would have been SEK 15.0 million lower for the nine-month period. Exchange rate differences affect both revenues and expenses.



## Consolidated statements of comprehensive income

(Amounts in SEK 000s)	Jan-Sept 2018	Jan-Sept 2017	July-Sept 2018	July-Sept 2017	Jan-Dec 2017	Oct 2017-Sept 2018	Oct 2016-Sept 2017
Net sales (Note 1)	532,197	444,855	174,673	147,676	615,003	702,345	583,605
Cost of sales	-133,864	112,625	-44,096	-38,853	-151,655	-172,894	-147,323
<i>Gross profit</i>	<b>398,333</b>	332,230	<b>130,577</b>	108,823	463,348	529,451	436,282
Selling expenses	-106,850	-87,466	-34,522	-28,334	-127,115	-146,499	-121,279
Administrative expenses	-20,767	-16,032	-6,187	-5,154	-22,063	-26,798	-21,252
Research and development expenses	-69,920	-51,957	-25,164	-17,490	-75,700	-93,663	-70,082
Share of profit of associates	-500	-1,200	-	-200	-820	-120	-1,984
Revaluation of former associate shareholding (Note 2)	7,004	-	-	-	-	7,004	-
Other operating income/expenses	-5,049	-4,473	1,487	-3,818	-4,659	-5,235	-3,327
<i>Operating profit</i>	<b>202,251</b>	171,102	<b>66,191</b>	53,827	232,991	264,140	218,358
Interest income	274	-	0	-	112	386	65
Financial expenses	-201	-154	204	-24	-192	-239	-146
<i>Profit before tax</i>	<b>202,324</b>	170,948	<b>66,395</b>	53,803	232,911	264,287	218,277
Deferred tax	-693	-	0	-	-1,094	-1,787	10,433
Tax expense	-44,351	-38,736	-15,023	-11,657	-51,253	-56,868	-49,523
<b>PROFIT FOR THE PERIOD</b>	<b>157,280</b>	132,212	<b>51,372</b>	42,146	180,564	205,632	179,187
<u>Items that may be subsequently reclassified to profit or loss</u>							
Gains/losses arising on translation of the statements of foreign operations	-272	854	46	421	565		
<b>Comprehensive income for the period</b>	<b>157,008</b>	133,066	<b>51,418</b>	42,567	181,129		
<b>Profit for the period attributable to:</b>							
Owners of the Parent Company	157,842	132,212	51,455	42,146	180,564		
Non-controlling interests	-562	0	-83	0	0		
	157,280	132,212	51,372	42,146	180,564		
<b>Comprehensive income for the period attributable to:</b>							
Owners of the Parent Company	157,570	133,066	51,501	42,567	181,129		
Non-controlling interests	-562	0	-83	0	0		
	157,008	133,066	51,418	42,567	181,129		
<b>Earnings per share</b>							
Earnings per share (SEK)	9.10	7.63	2.97	2.43	10.42		
Number of shares (thousands)	17,336	17,336	17,336	17,336	17,336		
Average number of shares (thousands)	17,336	17,336	17,336	17,336	17,336		



**CONSOLIDATED BALANCE SHEETS**

	30 Sept 2018	31 Dec 2017	30 Sept 2017
Summary (amounts in SEK 000s)			
<b>ASSETS</b>			
Property, plant and equipment	104,963	102,465	103,061
Intangible assets (Note 2)	52,242	-	-
Shares in associates	-	9,932	9,552
Deferred tax asset	8,646	9,339	10,010
Other non-current receivables	43	39	39
<i>Total non-current assets</i>	<b>165,894</b>	<b>121,775</b>	<b>122,662</b>
Current assets excl. cash and cash equivalents	174,713	148,481	160,014
Cash and cash equivalents	257,491	305,856	240,154
<i>Total current assets</i>	<b>432,204</b>	<b>454,337</b>	<b>400,168</b>
<b>TOTAL ASSETS</b>	<b>598,098</b>	<b>576,112</b>	<b>522,830</b>

**EQUITY AND LIABILITIES**

Equity attributable to owners of the Parent Company	447,849	463,904	418,239
Non-controlling interests	3,234	-16	-16
Total equity (note 3)	451,083	463,888	418,223
Provision for deferred tax	7,633	778	332
Current liabilities	139,382	111,446	104,275
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>598,098</b>	<b>576,112</b>	<b>522,830</b>

Other current liabilities include forward exchange contracts with a fair value of SEK 9.6 million. All forward exchange contracts are attributable to level 2 of the fair value hierarchy. The fair values of other receivables, cash and cash equivalents, trade payables and other liabilities are estimated to be equal to their carrying amounts (amortized cost) due to the short maturity.

**CONSOLIDATED CASH FLOW STATEMENTS**

	Jan-Sept 2018	Jan-Sept 2017	July-Sept 2018	July-Sept 2017	Jan-Dec 2017
Summary (amounts in SEK 000s)					
<i>Operating activities</i>					
Operating profit	202,251	171,102	66,191	53,827	232,991
Depreciation/amortization	5,615	4,377	1,880	1,608	6,573
Unrealized gains/losses on forward exchange contracts	8,679	-1,983	-4,966	-195	842
Revaluation of former associate shareholding in MetaboGen	-7,004	-	-	-	-
Other non-cash items	-556	2,245	1,958	620	1,716
	<b>208,985</b>	<b>175,741</b>	<b>65,063</b>	<b>55,860</b>	<b>242,122</b>
Paid tax	-38,336	-37,160	-12,803	-12,386	-49,547
Interest received and paid	72	-155	204	-24	-157
<b>Cash flow from operating activities before changes in working capital</b>	<b>170,721</b>	<b>138,426</b>	<b>52,464</b>	<b>43,450</b>	<b>192,418</b>
Changes in working capital	-17,305	14,759	22,195	97	30,197
<b>Cash flow from operating activities</b>	<b>153,416</b>	<b>153,185</b>	<b>74,659</b>	<b>43,547</b>	<b>222,615</b>
Acquisition of property, plant and equipment	-10,581	-25,126	-2,537	-5,694	-26,624
Acquisition of subsidiary	-33,922	-	-27,835	-	-
Reduction of non-current receivables	-	-	-	-	-19
<b>Cash flow from investing activities</b>	<b>-44,503</b>	<b>-25,126</b>	<b>-30,372</b>	<b>-5,694</b>	<b>-26,643</b>
Dividends	-156,028	-130,023	-	-	-130,023
Provision to the Foundation to Prevent Antibiotic Resistance	-2,700	-	-	-	-2,400
Formation of BioGaia Pharma	-	-	-	-	2
<b>Cash flow from financing activities</b>	<b>-158,728</b>	<b>-130,023</b>	<b>0</b>	<b>0</b>	<b>-132,421</b>
<b>Cash flow for the period</b>	<b>-49,815</b>	<b>-1,964</b>	<b>44,287</b>	<b>37,853</b>	<b>63,551</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>305,856</b>	<b>243,069</b>	<b>215,477</b>	<b>202,582</b>	<b>243,069</b>
Exchange differences in cash and cash equivalents	1,450	-951	-2,273	-281	-764
<b>Cash and cash equivalents at end of period</b>	<b>257,491</b>	<b>240,154</b>	<b>257,491</b>	<b>240,154</b>	<b>305,856</b>



## NOTE 1 REPORTING BY SEGMENT - GROUP

The Executive Management has analyzed the Group's internal reporting system and established that the Group's operations are governed and evaluated based on the following segments:

- **Pediatrics segment** (drops, gut health tablets, oral rehydration solution (ORS) and cultures to be used ingredients in licensee products (such as infant formula), as well as royalty revenue for pediatric products.)
- **Adult Health segment** (gut health tablets, oral health lozenges and cultures as an ingredient in a licensee's dairy products).
- **Other segment** (Smaller segments such as revenue from packaging solutions.)

For the above segments BioGaia reports revenue and gross profit, which are monitored regularly by the Managing Director (who is regarded as the chief operating decision maker) together with the Executive Management. There is no monitoring of the company's total assets against the segments' assets.

	Jan-Sept 2018	Jan-Sept 2017	July-Sept 2018	July-Sept 2016	Jan-Dec 2017	Oct 2017-Sept 2018	Oct 2016-Sept 2017
<b>Revenue by segment (SEK 000s)</b>							
Pediatrics	438,476	353,960	138,255	111,118	492,550	577,066	473,196
Adult Health	92,577	85,179	36,041	35,652	116,176	123,574	101,059
Other	1,144	5,716	377	906	6,277	1,705	9,350
<b>Total</b>	<b>532,197</b>	444,855	<b>174,673</b>	147,676	615,003	702,345	583,605
<b>Gross profit by segment</b>							
Pediatrics	331,919	270,437	104,594	86,097	378,936	440,418	362,247
Adult Health	65,436	56,077	25,759	21,820	78,173	87,532	64,719
Other	978	5,716	224	906	6,239	1,501	9,316
<b>Total</b>	<b>398,333</b>	332,230	<b>130,577</b>	108,823	463,348	529,451	436,282
Selling, administrative and R&D expenses	-197,537	155,455	-65,873	-50,978	224,878	-	-
Share of profits of associates	-500	-1,200	-	-200	-820	-	-
Revaluation of former associate shareholding	7,004	-	-	-	-	-	-
Other operating expenses	-5,049	-4,473	1,487	-3,818	-4,659	-	-
<b>Operating profit</b>	<b>202,251</b>	171,102	<b>66,191</b>	53,827	232,991	-	-
Net financial items	73	-154	204	-24	-80	-	-
<b>Profit before tax</b>	<b>202,324</b>	170,948	<b>66,395</b>	53,803	232,911	-	-
<b>Asia Pacific</b>							
Pediatrics	32,289	16,417	11,741	4,706	31,237	-	-
Adult Health	51,806	43,586	24,541	17,872	63,992	-	-
Other	172	246	74	20	246	-	-
<b>Total Asia Pacific</b>	<b>84,267</b>	60,249	<b>36,356</b>	22,598	95,475	-	-
<b>EMEA</b>							
Pediatrics	280,862	234,599	86,708	69,294	338,716	-	-
Adult Health	36,751	39,036	10,046	16,461	49,395	-	-
Other	966	4,860	303	494	5,359	-	-
<b>Total EMEA</b>	<b>318,579</b>	278,495	<b>97,057</b>	86,249	393,470	-	-
<b>Americas</b>							
Pediatrics	125,325	102,944	39,806	37,118	122,597	-	-
Adult Health	4,020	2,557	1,454	1,319	2,789	-	-
Other	6	610	0	392	672	-	-
<b>Total Americas</b>	<b>129,351</b>	106,111	<b>41,260</b>	38,829	126,058	-	-
<b>Total</b>	<b>532,197</b>	444,855	<b>174,673</b>	147,676	615,003	-	-
<b>Date of recognition</b>							
Performance obligations met on specific date (Product sales)	477,645	381,429	156,878	131,028	522,093	-	-
Performance obligations met over time (Royalties)	54,552	63,426	17,795	16,648	92,910	-	-
<b>Total</b>	<b>532,197</b>	444,855	<b>174,673</b>	147,676	615,003	-	-



## **NOTE 2 ACQUISITION OF SUBSIDIARY**

On 6 April 2018, BioGaia acquired 26% of MetaboGen AB for SEK 11.7 million. The purchase consideration was paid in cash. BioGaia already held 36% of the company and recognized it as an associated company. In a step acquisition, all previous equity interests in the acquiree are adjusted to fair value and all gains and losses thus arising are recognized in profit or loss. As a result of this, a gain of SEK 7.0 million is recognized in operating profit regarding the previous associate shareholding in MetaboGen. Since BioGaia increased its holding to 62% and thereby obtained a controlling interest in MetaboGen, the company is consolidated as a subsidiary as of 6 April 2018.

There were no contractual obligations for additional purchase considerations, but an agreement was signed to acquire the remaining shares in MetaboGen in two steps. During the second quarter the set milestones were achieved, which related to new agreements with the University of Gothenburg and Chalmers University of Technology. These agreements will give BioGaia and MetaboGen more extensive and closer cooperation with the universities. At the beginning of July, BioGaia therefore acquired a further 30% of the company for SEK 27.8 million. This has been recognized in equity as a transaction between owners with an effect on Equity attributable to owners of the Parent Company of SEK -14.6 million, as a result of a higher valuation of the acquisition of the further 30% of MetaboGen's shares.

BioGaia will also acquire the remaining 8% of the company within a three-year period. The additional purchase consideration can amount to a maximum of SEK 12 million depending on the number of milestones achieved.

MetaboGen was founded in 2011 by Professor Fredrik Bäckhed at the University of Gothenburg and Professor Jens B. Nielsen at Chalmers University of Technology, together with GU Ventures, which commercializes research results and develops companies with ties to the University of Gothenburg. The company is domiciled in Gothenburg, Sweden. Aside from assignments for BioGaia, MetaboGen collaborates with the pharmaceutical company Ferring and holds a number of patents and patent applications in the microbiome area. The company has a laboratory in Gothenburg where development of new probiotic strains takes place.

Research on the microbiome is advancing very rapidly and pharmaceutical companies are making major investments in this area. Through the investment in MetaboGen, BioGaia will be able to maintain its strong position in the field of probiotic research.

### **Net assets in the acquired company on the acquisition date (SEK 000s):**

Property, plant and equipment	364
Current assets	261
Cash and cash equivalents	5,600
Trade payables and other operating liabilities	-6,426
Net identifiable assets and liabilities	-201
Less non-controlling interests	-17,062
Less fair value of previously held equity interests	-16,436
Ongoing research and development projects	52,242
Less provision for deferred tax	-6,855
<b>Consideration transferred</b>	<b>11,688</b>

### **Revenue and profit attributable to the acquired company**

The acquisition was carried out on 6 April 2018 and the acquired company has contributed net sales of SEK 0 million and a net loss of SEK 2.4 million. If the acquisition had taken place on 1 January 2018, management's assessment is that during the period 1 January – 30 September 2018 the acquired company would have contributed SEK 0 million to the Group's net sales and SEK -3.4 to the Group's net profit.

### **Ongoing research and development projects**

Work on the purchase price allocation will be finally completed in the fourth quarter but according to the analysis carried out to date, most of the surplus value is attributable to ongoing research and development projects as well as a small amount attributable to goodwill. Deferred tax has been taken into account.

MetaboGen has a number of research and development projects currently underway. The company has made the assessment that when these are commercialized they will have a useful life of at least 10 years.

### **Cash flow impact**

The effect on the Group's cash flow consists of the paid purchase consideration of SEK 11.7 million and acquired cash and cash equivalents of SEK 5.6 million. No other acquisition-related costs exist. During the third quarter BioGaia further acquired 30% of the company for SEK 27.8 million, which give a total effect on cashflow of SEK 33.9 million.

## **NOTE 3 SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<b>Jan-Sept</b>	Jan-Sept	Jan-Dec
	<b>2018</b>	2017	2017
Opening balance	<b>463,888</b>	415,180	415,180
Remeasurement under IFRS 9	<b>-313</b>	-	-
Opening balance after remeasurement under IFRS 9	<b>463,575</b>	415,180	415,180
Dividend	<b>-156,028</b>	-130,023	-130,023
Provision to the Foundation to Prevent Antibiotic	<b>-2,700</b>	-	-2,400
Formation of BioGaia Pharma	-	-	2
Non-controlling interests related to the acquisition of MetaboGen	<b>17,062</b>	-	-
Transaction between owners related to further investment of shares in MetaboGen	<b>-27,834</b>	-	-
Comprehensive income for the period	<b>157,008</b>	133,066	181,129
<b>Closing balance</b>	<b>451,083</b>	418,223	463,888



## CONSOLIDATED KEY RATIOS

### CONSOLIDATED KEY RATIOS

	Jan-Sept 2018	Jan-Sept 2017	Jan-Dec 2017
Net sales, SEK 000s	532,197	444,855	615,003
Growth, %	20%	10%	15%
Operating profit, SEK 000s	202,251	171,102	232,991
Profit after tax, SEK 000s	157,280	132,212	180,564
Return on			
- average equity	35%	32%	41%
- average capital employed	44%	41%	53%
Capital employed, SEK 000s	458,716	418,555	464,666
Number of shares, thousands <sup>1)</sup>	17,336	17,336	17,336
Number of shares, thousands	17,336	17,336	17,336
Earnings per share, SEK <sup>1) 2)</sup>	9.10	7.63	10.42
Equity per share, SEK <sup>1)</sup>	25.86	24.13	26.76
Equity/assets ratio	75%	80%	81%
Operating margin	38%	38%	38%
Profit margin	38%	38%	38%
Average number of employees	125	113	115

1) No dilutive effects arose during the period

2) Key ratio defined according to IFRS

### Definition of key ratios

Key ratios	Definition/Calculation	Purpose
Return on equity	Profit attributable to the owners of the Parent Company in relation to average equity attributable to the owners of the Parent Company.	Return on equity is used to measure profit generation, over time, given the resources attributable to the owners of the Parent Company.
Return on capital employed	Profit before net financial items plus financial income as a percentage of average capital employed.	Return on capital employed is used to analyze profitability, based on the amount of capital used.
Equity per share	Equity attributable to the owners of the Parent Company divided by the average number of shares.	Equity per share measures the company's net value per share and indicates whether a company will increase the shareholders' wealth over time.
Operating profit (EBIT margin)	Operating profit expressed as a percentage of net sales.	The operating profit margin is used to measure operational profitability.
Equity/assets ratio	Equity at the end of the period as a percentage of total assets.	A traditional measure to show financial risk expressed as the share of total assets financed by the shareholders. Shows the company's stability and ability to withstand losses.
Capital employed	Total assets less interest-free liabilities.	Capital employed measures the total amount of investment needed to keep a company running and includes both equity and debt.
Growth	Sales for the current period less sales for the corresponding period of the previous year divided by sales for the previous period.	Shows the company's realized sales growth over time.
Earnings per share (EPS)	Profit for the period attributable to the owners of the Parent Company divided by average number of shares outstanding (definition according to IFRS).	EPS measures how much of net profit is available for payment to shareholders as dividends per share.
Profit margin	Profit before tax in relation to net sales.	This key ratio makes it possible to compare profitability regardless of corporate income tax rate.

### Definition of key ratios, continued

	Jan-Sept 2018	Jan-Sept 2017	Jan-Dec 2017
<b>Return on equity</b>			
Profit attributable to owners of the Parent Company (A)	157,842	132,212	180,564
Equity attributable to owners of the Parent Company	447,849	418,239	463,904
Average equity attributable to owners of the Parent Company (B)	455,876	416,719	439,551
Return on equity (A/B)	35%	32%	41%



## Definition of key ratios, continued

	Jan-Sept 2018	Jan-Sept 2017	Jan-Dec 2017
<b>Return on capital employed</b>			
Operating profit	202,251	171,102	232,991
Financial income	274	-	112
Profit before financial items + financial income (A)	202,525	171,102	233,103
Total assets	598,098	522,830	576,112
Interest-free liabilities	-139,382	-104,275	-111,446
Capital employed	458,716	418,555	464,666
Average capital employed (B)	461,691	417,034	440,089
Return on capital employed (A/B)	44%	41%	53%

	30 Sept 2018	30 Sept 2017	31 Dec 2017
<b>Equity/assets ratio</b>			
Equity (A)	451,083	418,223	463,888
Total assets (B)	598,098	522,830	576,112
Equity/assets ratio (A/B)	75%	80%	81%

	Jan-Sept 2018	Jan-Sept 2017	Jan-Dec 2017
<b>Operating margin</b>			
Operating profit (A)	202,251	171,102	232,991
Net sales (B)	532,197	444,855	615,003
Operating margin (A/B)	38%	38%	38%

## Change in sales by segment (including and excluding foreign exchange effects)

Description	Pediatrics		Adult Health		Other		Total	
	Jan-Sept	July-Sept	Jan-Sept	July-Sept	Jan-Sept	July-Sept	Jan-Sept	July-Sept
	2018	2018	2018	2018	2018	2018	2018	2018
A Previous year's net sales according to the average rate	353,960	111,118	85,179	35,652	5,716	906	444,855	147,676
B Net sales for the year according to the average rate	438,476	138,255	92,577	36,041	1,144	377	532,197	174,673
C Reported change (B-A)	84,516	27,137	7,398	389	-4,572	-529	87,342	26,997
Percentage change (C/A)	24%	24%	9%	1%	-80%	-58%	20%	18%
D Net sales for the year according to the previous year's average rate (D)	426,803	128,220	89,230	33,200	1,144	377	517,177	161,797
E Foreign exchange effects (C-F)	11,673	10,035	3,347	2,841	0	0	15,020	12,876
Percentage change (E/A)	3%	9%	4%	8%	0%	0%	3%	
F Organic change (D-A)	72,843	17,102	4,051	-2,452	-4,572	-529	72,322	14,121
Organic change percent (F/A)	21%	15%	5%	-7%	-80%	-58%	16%	10%

Average key exchange rates	Jan-Sept	July-Sept	Jan-Sept	July-Sept	Jan-Dec
	2018	2018	2017	2017	2017
EUR	10.23	10.41	9.58	9.56	9.63
USD	8.58	8.95	8.61	8.14	8.54
JPY	7.82	8.03	7.69	7.33	7.61

Key exchange rates on closing date	30 Sept	31 Dec	30 Sept
	2018	2017	2017
EUR	10.29	9.85	9.57
USD	8.86	8.23	8.11
JPY	7.81	7.31	7.21



**Change of accounting standard (for more information see above)**

**Effects on assets, 1 January 2018**

Category	IAS 39 Recognized at 31 Dec 2017			IFRS 9 Recognized at 1 Jan 2018	
	Fair value through profit or loss	Loans and trade receivables	Remeasurement due to IFRS 9	Business model Other	Business model Hold to Collect
Trade receivables <sup>1)</sup>		80,101	-313		79,788
Short-term investments <sup>1)</sup>	5,000			5,000	
Cash and cash equivalents <sup>1)</sup>	305,856				305,856

1) Hold to collect.

**Effects on the income statement due to change of accounting standard**

	2017 according to Annual Report	Reclassification	2017 according to new accounting standard
Other operating expenses	-3,817	-842	-4,659
Net financial items	-922	842	-80

  

	Jan-Sept 2017 according to IAS 39	Reclassification	Jan-Sept 2017 according to new accounting standard
Other operating expenses	-6,456	1,983	-4,473
Net financial items	1,829	-1,983	-154

  

	July-Sept 2017 according to IAS 39	Reclassification	July-Sept 2017 according to new accounting standard
Other operating expenses	-4,013	195	-3,818
Net financial items	171	-195	-24

  

	Jan-Sept 2018 according to IAS 39	Reclassification	Jan-Sept 2018 according to new accounting standard
Other operating income/expenses	3,630	-8,679	-5,049
Net financial items	-8,606	8,679	73

**Pledged assets and contingent liabilities**

	GROUP		PARENT COMPANY	
	30 Sept 2018	31 Dec 2017	30 Sept 2018	31 Dec 2017
Floating charges	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>
Total	<b>2,000</b>	2,000	<b>2,000</b>	2,000
Contingent liabilities	<b>None</b>	None	<b>None</b>	None



## **RELATED-PARTY TRANSACTIONS**

The Parent Company owns 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc, BioGaia Production AB and Tripac AB. The Parent Company also owns 90.1% of the shares in CapAble AB as well as 96% of the shares in BioGaia Pharma AB. With effect from 4 July 2018, BioGaia owns 92% of the former associated company MetaboGen AB (see above under Key Events in the Third Quarter).

Annwall & Rothschild Investment AB owns 740,668 class A shares and 509,332 class B shares which is equal to 7.2% of the share capital and 33% of the voting rights in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild and Jan Annwall. Peter Rothschild is Chairman of the Board of BioGaia AB. The only transaction that took place during the period was the payment of a dividend of SEK 9.00 per share.

## **FINANCIAL CALENDAR**

24 October 2018, 09:30	Teleconference with Acting Managing Director Sebastian Schröder. To participate in the teleconference, please see <a href="https://www.biogaia.com/investors/financial-calendar/">https://www.biogaia.com/investors/financial-calendar/</a> for telephone numbers. The teleconference can also be followed at <a href="https://tv.streamfabriken.com/biogaia-q3-2018">https://tv.streamfabriken.com/biogaia-q3-2018</a> .
7 February 2019, 08:00	Year-end report 2018
March 2019	Annual Report 2018
8 May 2019, 08:00	Interim report 1 January – 31 March 2019
8 May 2019, 16:00	Annual General Meeting in Stockholm
8 August 2019, 08:00	Interim report 1 January – 30 June 2018

### **Stockholm, 24 October 2018**

**Sebastian Schröder**  
Acting Managing Director

**This interim report has not been reviewed by the company's auditors.**



## **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* in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

The class B shares of the Parent Company BioGaia AB are quoted on the Mid Cap list of Nasdaq OMX Nordic Exchange Stockholm.

BioGaia has 127 employees, of whom 116 are based in Sweden (Stockholm, Lund and Eslöv), two in the USA, one in Singapore and eight in Japan.

### **Business model**

BioGaia is working with three international networks within the areas of research, production and distribution.

BioGaia's revenue comes mainly from the sale of drops, gut health tablets, oral rehydration solution (ORS) and oral health products to distributors, but also of revenue from the sale of bacteria cultures to be used in licensee products (such as infant formula and dairy products), as well as royalty revenue for the use of *Lactobacillus reuteri* in licensee products and sales of delivery systems such as straws and caps.

The products are sold through nutrition and pharmaceutical companies in approximately 100 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. On these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor.

BioGaia's licensees add *Lactobacillus 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, 184 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on around 15,500 individuals of all ages. The results have been published in 159 articles in scientific journals.

Studies have been performed on:

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

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

8 October 2018 MetaboGen reached development goal – first product ready for safety study  
17 September 2018 bWellness launches BioGaia Protectis tablets in Australia  
17 August 2018 BioGaia AB Interim report 1 January – 30 June 2018

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