HLS Therapeutics Inc.

HLS Therapeutics Announces Q2 2018 Financial Results

- **Revenue of $16.3 million, Net Loss of $0.6 million and Adjusted EBITDA of $11.0 million, which were all in line with expectations**
- **Debt refinancing co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank; interest savings estimated at $10.0 million per year**
- **Establishment of a dividend policy providing for payment of quarterly dividends of CDN$0.05 per common share and declaration of initial quarterly dividend of CDN$0.05 per common share**

TORONTO, Aug. 15, 2018 /CNW/ - HLS Therapeutics Inc. ("HLS" or the "Company") (TSX-V: HLS), a specialty pharmaceutical company specializing in Central Nervous System ("CNS") and Cardiovascular markets, announces its financial results for the three- and six-month periods ended June 30, 2018. Unless otherwise noted, all dollar amounts are expressed in United States ("U.S.") dollars.

Q2 2018 and Subsequent to Quarter-End Highlights

- Revenue of $16.3 million, Net Loss of $0.6 million (loss of $0.02 per common share) and Adjusted EBITDA of $11.0 million, which were all in line with expectations
- Established a Normal Course Issuer Bid ("NCIB"), to purchase for cancellation up to 5% of the issued and outstanding common shares over a 12-month period
- Subsequent to quarter-end, refinanced outstanding senior secured debt. Interest rate on the new senior secured term loan is LIBOR plus a range of 2.75% to 3.25% compared to LIBOR plus 9% on the previous credit facility
- Subsequent to quarter-end, established a dividend policy and declared first quarterly dividend of CDN$0.05 per common share

"Q2 was another period of solid performance from our foundational products, Clozaril® and Absorica®, which again resulted in strong Adjusted EBITDA and positive cash from operations, all in line with our expectations," said Greg Gubitz, CEO of HLS. "We expect top-line results from the Reduce-IT trial by the end of September which could significantly expand the market size and organic growth opportunity for Vascepa in Canada. Vascepa is one of our two pre-registration Cardiovascular products that we believe have transformative potential for HLS. Trinomia, the second product, has already been approved in more than 30 countries. After discussion with Health Canada, we will perform a bridging study between Trinomia and the reference listed drugs in Canada as the next step in the approval process."

"Due to HLS' strong operating performance and cash generation since inception we have paid down $47.1 million, or 25%, of our original debt since 2015. This strong performance and our excellent growth prospects have allowed us to refinance our debt at a reduced principal amount that together with the lower interest rate, will generate substantial interest savings estimated at $10.0 million per year. The HLS Board has chosen to use part of these savings to establish a dividend policy for shareholders declaring an initial quarterly dividend of CDN$0.05 per common share. This highlights the Board's confidence in our current business and future prospects."

"The new debt facilities consist of a senior secured term loan of $100.0 million with an interest rate in the range of LIBOR plus 2.75% to 3.25%, depending on our leverage ratio, and a $25.0 million revolving facility. We also have the ability to request an additional term loan amount of up to $100.0 million to support acquisitions and growth opportunities."

"The refinancing transaction was co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank with the participation of National Bank of Canada, Royal Bank of Canada and ICICI Bank Canada. This outstanding syndicate of banks provides an extremely strong base for our future development of the Company."

"Our business development deal flow remains strong for potential in-licensing, product acquisition and M&A transactions. Our main focus is existing revenue streams in compatible therapeutic areas and organic growth opportunities which means in-licensing products that we can grow and promote in either Canada or the U.S. While we are working diligently to close deals, it is not possible to predict the exact timing of any transaction. We will only deploy capital when an opportunity meets our strict investment and operational criteria."

FINANCIAL REVIEW

Revenue

The following table provides revenue segmentation by revenue type and geography for the three- and six-month periods ended June 30, 2018:

	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Product sales				
Canada	7,772	7,428	14,531	13,763
United States	4,732	4,600	9,604	8,889
	12,504	12,028	24,135	22,652
Royalty revenue	3,801	6,833	5,336	11,762
Total revenue	16,305	18,861	29,471	34,414

Total revenue was lower year-over-year as royalty revenue declined in 2018 compared to 2017. Royalty revenue in 2017 benefited from competitive disruptions and the positive impact of a promotional campaign undertaken by the marketer of Absorica in the U.S. which provided windfall royalties in that year estimated at $10.0-11.0 million.

Product sales in Canada increased 5% in Q2 2018, and 6% year-to-date, benefiting from the Company's active promotion and support of Clozaril. Excluding the impact of currency fluctuations Product sales in Canada for both the Q2 2018 and year-to-date periods would have increased 1%. Product sales in the U.S. market increased 3% in Q2 2018, and 8% year-to-date, due to sales under an authorized generic supply agreement that was not in place in Q1 and Q2 2017, and lower Clozaril sales in Q1 2017.

Royalty revenues for Q2 2018 were $3.8 million, up from $1.5 million in Q1 2018, indicative of a return to levels more consistent with the period prior to the start of the 2017 promotional campaign. This also reflects normal softer summertime seasonal impact on Absorica demand.

Operating Expenses

Operating expenses, which consist of cost of product sales, selling and marketing expense, medical, regulatory and patient support expense, and general and administrative expense, were $5.3 million in Q2 2018, compared to $4.3 million in Q2 2017. For the six-month period ended June 30, 2018, operating expenses were $9.8 million, compared to $8.3 million in the same period last year.

Cost of product sales increased in 2018 due to the additional product supplies made in the first quarter of 2018 under an authorized generic supply agreement.

The year-over-year increase in operating expenses was driven primarily by the addition of public company costs, the development of the HLS team to support the Company's growth plans, a return to more typical patient support and regulatory compliance costs in the U.S. after lower costs last year, and the costs associated with initial work to develop commercial plans for potential new cardiovascular product launches.

Adjusted EBITDA

The year-over-year change in Adjusted EBITDA is due to lower royalty revenue from Absorica and additional operating costs related to the expansion of the business partially offset by the increase in Clozaril product sales described above. Adjusted EBITDA is a non-IFRS measure and is defined below.

	Three months ended June 30,		**Six months ended June 30,**	
	2018	**2017**	**2018**	**2017**
Net loss for the period	(563)	(734)	(5,439)	(3,766)
Stock-based compensation	123	101	217	177
Amortization and depreciation	8,134	7,884	16,275	15,815
Acquisition and transaction costs	98	18	533	18
Finance and related costs	3,557	6,247	9,124	11,952
Provision for (recovery of) income taxes	(310)	1,085	(1,079)	1,953
Adjusted EBITDA	11,039	14,601	19,631	26,149

Interest Expense and Debt

Interest on the senior secured term loan was $4.0 million in Q2 2018, compared to $4.1 million in Q2 2017. For the six-month period ended June 30, 2018, interest on the senior secured term loan was $8.1 million, compared to $8.3 million in the same period last year. The decrease in interest expense is primarily due to the Company's debt reduction, off-set in part by increases in the LIBOR rate.

A total of $6.3 million of debt was repaid in Q2 2018 bringing the total amount of debt repaid up to June 30, 2018, to $47.1 million. As at June 30, 2018, the total outstanding principal on the senior secured term loan stood at $137.9 million, down from $185.0 million at the Company's inception.

Cash from Operations and Financial Position

Cash generated from operations was $1.7 million in Q2 2018, compared to $5.6 million in Q2 2017. Cash generated from operations for the six-month period ended June 30, 2018 was $15.2 million, compared to $8.9 million in the same period last year. The increase for the year-to-date period is due primarily to the timing of collection of royalty revenue generated from Absorica in Q4 2017 as well as stable cash generation from the Clozaril business.

As at June 30, 2018, the Company had cash and cash equivalents of $45.2 million, up from $36.2 million at December 31, 2017.

SUBSEQUENT EVENT – DEBT REFINANCING

On August 15, 2018, the Company entered into a new senior secured term loan with a syndicate of bank lenders co-led by JPMorgan Chase Bank, N.A. and Silicon Valley Bank. The principal amount of the new senior secured term loan is $100.0 million. In addition, there is a $25.0 million revolving facility that is undrawn on closing. The Company may also request to be provided with incremental loans, for a maximum additional loan amount of $100.0 million to support acquisitions and growth opportunities. The maturity date is August 15, 2023. Interest on the new senior secured term loan accrues at a rate per annum equal to the sum of LIBOR plus a range of 2.75% to 3.25% depending on the leverage ratio of the Company at the time.

Under the terms of the new senior secured term loan, the lenders have security over substantially all the assets of the Company. The Company will be required to repay principal starting at 5% of the principal amount in the first year and increasing to 10% in the fifth year of the term. The Company may also be required to make additional payments from surplus cash-flow, or the Company could choose to repay some or all of the amount outstanding at any time during the term.

Under the terms of the senior secured term loan, the Company is required to comply with financial covenants related to the maintenance of liquidity and coverage ratios.

On closing, the proceeds from the new senior secured term loan and available cash balances were used to repay the Company's existing senior secured term loan in full. The existing senior secured term loan was scheduled to expire on August 11, 2021 and carried interest at a rate per annum equal to the sum of (i) 9.0% plus (ii) the higher of (a) the LIBOR rate for the applicable interest period and (b) 1.0%. Repayment of the existing senior secured term loan ahead of expiration resulted in a repayment premium of $4.1 million.

Concurrent with the refinancing transaction HLS also repurchased for $6.0 million an existing royalty obligation on its future sales from one of the Company's initial lenders.

SUBSEQUENT EVENT – DIVIDEND

On August 15, 2018, the Company's Board of Directors established a dividend policy providing for payment of quarterly dividends of CDN$0.05 per common share.

The Company's Board of Directors declared an initial dividend of CDN$0.05 per outstanding common share to be paid on December 14, 2018, to shareholders of record as of October 24, 2018.

Q2 2018 CONFERENCE CALL

HLS will hold a conference call Wednesday, August 15, 2018 at 8:30 am Eastern Time hosted by Mr. Greg Gubitz, Chief Executive Officer, Mr. Gilbert Godin, President and Chief Operating Officer and Mr. Tim Hendrickson, VP Finance and Administration. A question and answer session will follow the corporate update.

DATE: Wednesday, August 15, 2018

TIME: 8:30 am ET

DIAL-IN NUMBER: (888) 231-8191 or (647) 427-7450

TAPED REPLAY: (855) 859-2056 or (416) 849-0833

REPLAY PASSCODE: 7083287

WEBCAST LINK: https://event.on24.com/wcc/r/1798005/94248FE18719FC5D278D06A5D5B86451

A link to the live audio webcast of the conference call will also be available on the events page of the investors section of HLS Therapeutics' website at www.hlstherapeutics.com. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to hear the webcast. The taped replay will be available for 14 days and the archived webcast will be available for 90 days.

ABOUT HLS THERAPEUTICS INC.

Formed in 2015, HLS is a specialty pharmaceutical company focused on the acquisition and commercialization of late stage development, commercial stage promoted and established branded pharmaceutical products in the North American markets. HLS's focus is on products targeting the central nervous system and cardiovascular therapeutic areas. HLS's management team is composed of seasoned pharmaceutical executives with a strong track record of success in these therapeutic areas and at managing products in each of these lifecycle stages.

CAUTIONARY NOTE REGARDING NON-IFRS MEASURES

This press release refers to certain non-IFRS measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of HLS's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of HLS's financial information reported under IFRS. HLS uses non-IFRS measures to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. HLS also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. HLS's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess HLS's ability to meet its future debt service, capital expenditure and working capital requirements.

In particular, management uses Adjusted EBITDA as a measure of HLS's performance. To reconcile net loss for the year with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) "acquisition costs", (iv) "finance and related costs", and (v) "provision for (recovery of) income taxes" appearing in the Consolidated Statement of Net Loss are added to net loss for the year to determine Adjusted EBITDA. Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Adjusted EBITDA should not be considered in isolation or as a substitute for net income (loss) prepared in accordance with IFRS as issued by the IASB.

FORWARD LOOKING INFORMATION

This release includes forward-looking statements regarding HLS and its business. Such statements are based on the current expectations and views of future events of HLS's management. In some cases the forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "plan", "anticipate", "intend", "potential", "estimate", "believe" or the negative of these terms, or other similar expressions intended to identify forward-looking statements, including, among others, statements with respect to HLS's pursuit of additional product and pipeline opportunities in certain therapeutic markets, statements regarding growth opportunities and expectations regarding financial performance. The forward-looking events and circumstances discussed in this release may not occur and could differ materially as a result of known and unknown risk factors and uncertainties affecting HLS, including risks relating to the specialty pharmaceutical industry, risks related to the regulatory approval process, economic factors and many other factors beyond the control of HLS. Forward-looking statements and information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause HLS's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statement or information. Accordingly, readers should not place undue reliance on any forward-looking statements or information. A discussion of the material risks and assumptions associated with this release can be found in the joint information circular of HLS and Automodular Corporation dated February 5, 2018 in respect of the merger of the two companies by way of a plan of arrangement, effective March 12, 2018, which has been filed on SEDAR and can be accessed at www.sedar.com. Accordingly, readers should not place undue reliance on any forward-looking statements or information. Except as required by applicable securities laws, forward-looking statements speak only as of the date on which they are made and HLS undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited
[in thousands of U.S. dollars]

	As at June 30, 2018	As at December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	45,237	36,219
Accounts receivable	17,711	25,846
Inventories	1,895	1,354
Foreign currency forward contract	419	—
Prepaid expenses and other current assets	1,343	1,617
Total current assets	66,605	65,036
Property, plant and equipment	429	441
Intangible assets	289,463	312,659
Foreign currency forward contract	100	—
Restricted assets	10,573	5,555
Deferred tax asset	888	955
Total assets	368,058	384,646
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	10,911	12,596
Provisions	6,264	6,976
Other financial liabilities	11,421	14,160
Income taxes payable	380	870
Total current liabilities	28,976	34,602
Other financial liabilities	145,536	158,114
Deferred tax liability	9,016	11,548
Total liabilities	183,528	204,264
Shareholders' equity		
Share capital	211,148	192,743
Contributed surplus	11,690	12,330
Accumulated other comprehensive income (loss)	(2,247)	5,941
Deficit	(36,061)	(30,632)
Total shareholders' equity	184,530	180,382

Total liabilities and shareholders' equity	368,058	384,646

HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS
Unaudited
[in thousands of U.S. dollars, except per share amounts]

	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Revenues	16,305	18,861	29,471	34,414
Expenses				
Cost of product sales	536	527	1,116	952
Selling and marketing	1,046	880	2,010	1,666
Medical, regulatory and patient support	1,176	828	2,153	1,734
General and administrative	2,508	2,025	4,561	3,913
Stock-based compensation	123	101	217	177
Amortization and depreciation	8,134	7,884	16,275	15,815
Operating income	2,782	6,616	3,139	10,157
Acquisition and transaction costs	98	18	533	18
Finance and related costs, net	3,557	6,247	9,124	11,952
Income (loss) before income taxes	(873)	351	(6,518)	(1,813)
Income tax expense (recovery)	(310)	1,085	(1,079)	1,953
Net loss for the period	(563)	(734)	(5,439)	(3,766)
Net loss per share:				
Basic and diluted	$(0.02)	$(0.03)	$(0.20)	$(0.15)

HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Unaudited
[in thousands of U.S. dollars]

	Three months ended June 30, 2018	2017	Six months ended June 30, 2018	2017
Net loss for the period	(563)	(734)	(5,439)	(3,766)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	(3,568)	3,091	(8,188)	4,453
Comprehensive income (loss) for the period	(4,131)	2,357	(13,627)	687

HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Unaudited
[in thousands of U.S. dollars]

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total
Balance, December 31, 2017	192,743	12,330	5,941	(30,632)	180,382
Common shares issued	19,905	—	—	—	19,905
Share issuance costs	(1,252)	—	—	—	(1,252)
Shares repurchased	(248)	—	—	10	238
Share purchase obligation	—	(857)	—	—	(857)
Stock-based compensation	—	217	—	—	217
Net loss for the period	—	—	—	(5,439)	(5,439)
Unrealized foreign currency translation adjustment	—	—	(8,188)	—	(8,188)
Balance, June 30, 2018	211,148	11,690	(2,247)	(36,061)	184,530
Balance, December 31, 2016	192,743	11,967	(4,611)	(24,535)	175,564
Stock-based compensation	—	177	—	—	177
Net loss for the period	—	—	—	(3,766)	(3,766)
Unrealized foreign currency translation adjustment	—	—	4,453	—	4,453
Balance, June 30, 2017	192,743	12,144	(158)	(28,301)	176,428

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

[in thousands of U.S. dollars]

	Three months ended June 30		Six months ended June 30,	
	2018	2017	2018	2017
OPERATING ACTIVITIES				
Net loss for the period	(563)	(734)	(5,439)	(3,766)
Add (deduct) items not involving cash				
Stock-based compensation	123	101	217	177
Amortization and depreciation	8,134	7,884	16,275	15,815
Accreted interest	1,603	1,704	3,232	3,432
Fair value adjustment on financial assets and liabilities	(2,225)	888	(2,675)	898
Listing expense	—	—	435	—
Deferred income taxes	(779)	504	(1,668)	506
Net change in non-cash working capital balances	(4,606)	(4,758)	4,810	(8,137)
Cash provided by operating activities	1,687	5,589	15,187	8,925
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(66)	(36)	(90)	(36)
Additions to intangibles	(212)	—	(212)	—
Acquisitions	(2,325)	(1,825)	(6,650)	(3,650)
Cash used in investing activities	(2,603)	(1,861)	(6,952)	(3,686)
FINANCING ACTIVITIES				
Common shares issued	—	—	19,470	—
Share issuance costs	(123)	—	(1,699)	—
Shares repurchased	(238)	—	(238)	—
Repayment of senior secured term loan	(6,277)	(1,531)	(13,381)	(5,401)
Increase in restricted cash	(500)	(1,002)	(2,500)	(1,702)
Lender royalty payment	(125)	(121)	(237)	(226)
Cash provided by (used in) financing activities	(7,263)	(2,654)	1,415	(7,329)
Net increase (decrease) in cash and cash equivalents during the period	(8,179)	1,074	9,650	(2,090)
Foreign exchange	(409)	(263)	(632)	(335)
Cash and cash equivalents, beginning of period	53,825	34,527	36,219	37,763
Cash and cash equivalents, end of period	45,237	35,338	45,237	35,338

SOURCE HLS Therapeutics Inc.

For further information: HLS CONTACT INFORMATION: Dave Mason, Investor Relations, HLS Therapeutics Inc., (416) 247-9652, dave.mason@loderockadvisors.com; Gilbert Godin, President and Chief Operating Officer, HLS Therapeutics Inc., (484) 232-3400 ext101, g.godin@hlstherapeutics.com

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