

HLS Therapeutics Announces Q1 Fiscal 2023 Financial Results

TORONTO, May 11, 2023 /CNW/ - HLS Therapeutics Inc. ("HLS" or the "Company") (TSX: HLS), a pharmaceutical company focusing on central nervous system ("CNS") and cardiovascular markets, announces its financial results for the three-month period ended March 31, 2023. All amounts are in thousands of United States ("U.S.") dollars unless otherwise stated.

KEY HIGHLIGHTS

- Appointed Craig Millian as Chief Executive Officer of the Company.
- The Board of Directors cancelled the Company's dividend policy to focus on share buybacks through the Company's Normal Course Issuer Bid (NCIB) as the preferred method for returning capital to shareholders.
- Q1 2023 revenue was \$14.8 million and Adjusted EBITDA was \$5.1 million, compared to \$14.6 million and \$6.3 million, respectively, in Q1 2022

"Q1 results reflect the steady revenue and cash flow contribution from Clozaril and the royalty portfolio, as well as the continued growth of Vascepa," said Craig Millian, CEO of HLS. "On a constant currency basis, product sales in Canada were up 12% in Q1, led by Vascepa, which grew 43%."

"Having just started as CEO on May 1, I have already had an opportunity to meet with many of my HLS colleagues and have been impressed by their passion and commitment along with the potential of our product portfolio. My near-term goals are to accelerate the growth of Vascepa, maintain the durability of our CNS business and focus on resource optimization and efficiency."

Mr. Millian added: "After careful consideration, the board has decided to cancel the Company's dividend policy. HLS is a growth-oriented company, and this decision was made in the context of our capital allocation strategy and the desire to, among other things, return capital to shareholders via stock buybacks at a time when we believe that the share price does not reflect the underlying value of our business."

The final dividend will be paid on June 15, 2023, to shareholders of record on April 28, 2023, as was previously announced in the Company's March 16, 2023, press release.

VASCEPA 2023 OUTLOOK

The Company expects revenue growth for Vascepa to increase over the course of the year. The positive impact from strong prescription growth in Q1 2023 was partly offset by the payer mix being more weighted to public plans than was expected. As a result of the near-term impact of this payer mix, HLS is now guiding to the low end of its previously issued C\$22-28 million revenue range for Vascepa in 2023.

Q1 2023 FINANCIAL & OPERATIONAL HIGHLIGHTS

- Clozaril net revenue in Canada in Q1 2023 was C\$8.4 million, up 3% from Q1 2022, which was just ahead of the patient growth rate.
- Q1 2023 Vascepa net revenue was C\$3.5 million, up 43% compared to C\$2.5 million in Q1 2022.
- Vascepa total prescriptions in Q1 2023 grew 94% year-over-year.
- Vascepa total prescriptions written by general practitioners grew 114% year-over-year and general practitioners now account for half of all new prescriptions written.
- More than 3,700 physicians have prescribed Vascepa, up 85% year-over-year.

Q1 FISCAL 2023 FINANCIAL REVIEW

The Company's Management's Discussion and Analysis and Consolidated Financial Statements for the three-month period ended March 31, 2023 are available at the [Company's website](#) and at its profile at [SEDAR](#).

| Revenue | Three months ended | |
|------------------------|--------------------|-------------------|
| | March 31, 2023 | 2022 |
| Product sales | | |
| Canada | 8,811 | 8,403 |
| United States | 3,212 | 3,443 |
| | 12,023 | 11,846 |
| Royalty revenue | 2,734 | 2,710 |
| | 14,757 | 14,556 |

Product sales

Q1 2023 revenue increased 1% compared to Q1 2022. Q1 2023 revenue increased 5% in constant currency terms, compared to Q1 2022, as the decline in the Canadian dollar had an impact on the reported values, which are in U.S. dollars. Q1 2023 product sales in Canada increased 5% compared to Q1 2022. Q1 2023 product sales in Canada grew 12% in constant currency, compared to Q1 2022, led by increased sales of Vascepa, which grew 43% in Q1 2023 in constant currency compared to Q1 2022. The Vascepa net revenue growth rate trails the growth rate in prescriptions as net pricing adjusts to increased public sector volume.

In Canada, Clozaril continues to be the leading medication for treatment-resistant schizophrenia with a growing number of patients and a growing market share. Revenue declined 4% in Q1 2023, compared to Q1 2022, due to the weaker Canadian dollar during the period. On a constant currency basis, revenue in Q1 2023 increased 3% compared to Q1 2022.

In the U.S., Q1 2023 Clozaril net sales decreased 7% compared to Q1 2022. An increase in units sold and a price increase implemented mid-year 2022 resulted in higher gross revenues for Clozaril in the U.S. in Q1 2023, however, this was more than offset by larger one-time benefits realized in Q1 2022 related to expired product returns.

Royalty revenues

Representing a steady contribution to Adjusted EBITDA and cash flows, royalty revenues were \$2.7 million in Q1 2023, which was a 1% increase from Q1 2022.

| Operating Expenses | Three months ended March 31, | |
|---|---|--------------|
| | 2023 | 2022 |
| Cost of product sales | 1,444 | 953 |
| Selling and marketing | 4,807 | 3,829 |
| Medical, regulatory and patient support | 1,076 | 1,276 |
| General and administrative | 2,351 | 2,182 |
| | 9,678 | 8,240 |

Q1 2023 operating expenses increased 17% compared to Q1 2022, which was driven by a 52% increase in cost of sales due to the growth in shipments and sales of Vascepa, and a 26% increase in selling and marketing costs for Vascepa. Support costs and strong gross margins remain stable across the Company's key Clozaril franchises in Canada and the United States.

| Adjusted EBITDA¹ | Three months ended March 31, | |
|------------------------------------|---|--------------|
| | 2023 | 2022 |
| Net loss for the period | (5,792) | (3,616) |
| Stock-based compensation | (55) | 815 |
| Amortization and depreciation | 8,319 | 8,387 |
| Finance and related costs, net | 2,434 | 320 |
| Transaction and other costs | 213 | 345 |
| Income tax expense (recovery) | (40) | 65 |
| Adjusted EBITDA | 5,079 | 6,316 |

Q1 2023 Adjusted EBITDA was \$5.1 million compared to \$6.3 million in Q1 2022. The decrease is due primarily to increased selling and marketing expenses and increased cost of product sales related to the growth in sales of Vascepa. Clozaril and royalty revenues continue to generate strong Adjusted EBITDA and cash flow for the business.

¹ See "Cautionary Note Regarding Non-IFRS Measures" section of this press release.

Net Loss

Net loss for Q1 2023 was (\$5.8 million), or (\$0.18) per share, compared to a net loss of (\$3.6 million), or (\$0.11) per share, in Q1 2022. Net loss increased as revenue growth was offset by higher cost of product sales and selling and marketing expenses related to the expansion of Vascepa, as well as more typical finance and related costs in the current year.

Cash from Operations and Financial Position

Cash generated from operations was \$4.0 million in Q1 2023, compared to \$5.8 million in Q1 2022. Cash and cash equivalents were \$21.2 million at March 31, 2023 up from \$20.7 million at December 31, 2022.

As at March 31, 2023, HLS has a strong financial position with \$21.2 million of cash and cash equivalents, \$26.5 million of undrawn revolving facility, and the Company may also request to be provided with incremental loans, up to a maximum amount of \$70.0 million, to support acquisitions and other growth opportunities.

Q1 FISCAL 2023 CONFERENCE CALL

HLS will hold a conference call today at 8:30 am Eastern Time to discuss its Q1 2023 financial results. The call will be hosted by Mr. Craig Millian, CEO, and Mr. Tim Hendrickson, CFO. **To view the slides that accompany management's discussion, please use the webcast link.**

CONFERENCE ID: 63444923

DATE: Thursday, May 11, 2023

TIME: 8:30 a.m. ET

WEBCAST LINK: <https://app.webinar.net/r3gVAnoY2xo>

TRADITIONAL 1-888-664-6392 or 416-764-8659

DIAL-IN

NUMBER:

RAPIDCONNECT: To instantly join the conference call by phone, please use the following URL to easily register and be connected into the conference call automatically: <https://emportal.ink/3Gg7EBw>

TAPED REPLAY: 1-888-390-0541 or 416-764-8677

REPLAY CODE: 444923#

The taped replay will be available for 14 days and the archived webcast will be available for 365 days.

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.

ABOUT HLS THERAPEUTICS INC.

Formed in 2015, HLS is a 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. For more information visit: www.hlstherapeutics.com

¹CAUTIONARY 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 income (loss) for the period with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) ("finance and related costs", (iv) "transaction and other costs", and (v) "income tax expense (recovery)" appearing in the Consolidated Statement of Net Income (Loss) are added to net income (loss) for the period 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, expectations regarding financial performance, and the NCIB and ASPP. 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 Company's Annual Information Form dated March 15, 2023, and Management's Discussion and Analysis dated May 10, 2023, both of which have 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.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

[in thousands of U.S. dollars]

| | As at March 31, 2023 | As at December 31, 2022 |
|-------------------------------|-------------------------|----------------------------|
| ASSETS | | |
| Current | | |
| Cash | 21,214 | 20,723 |
| Accounts receivable | 10,096 | 10,999 |
| Inventories | 10,709 | 8,902 |
| Income taxes recoverable | 58 | 195 |
| Other current assets | 2,966 | 3,555 |
| Total current assets | 45,043 | 44,374 |
| Property, plant and equipment | 936 | 1,127 |
| Intangible assets | 186,984 | 195,018 |
| Deferred tax asset | 537 | 465 |
| Other non-current assets | 655 | 668 |
| Total assets | 234,155 | 241,652 |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

| | | |
|--|---------|---------|
| Accounts payable and accrued liabilities | 14,433 | 12,785 |
| Provisions | 3,167 | 2,934 |
| Debt and other liabilities | 12,798 | 15,471 |
| Total current liabilities | 30,398 | 31,190 |
| Debt and other liabilities | 84,405 | 84,578 |
| Deferred tax liability | 461 | 566 |
| Total liabilities | 115,264 | 116,334 |

Shareholders' equity

| | | |
|--|-----------|-----------|
| Share capital | 265,165 | 265,206 |
| Contributed surplus | 14,281 | 13,821 |
| Accumulated other comprehensive loss | (5,167) | (5,260) |
| Deficit | (155,388) | (148,449) |
| Total shareholders' equity | 118,891 | 125,318 |
| Total liabilities and shareholders' equity | 234,155 | 241,652 |

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF LOSS

Unaudited

[in thousands of U.S. dollars, except per share amounts]

Three months ended

**March 31,
2023 2022**

| | | |
|---|----------------|----------------|
| Revenue | 14,757 | 14,556 |
| Expenses | | |
| Cost of product sales | 1,444 | 953 |
| Selling and marketing | 4,807 | 3,829 |
| Medical, regulatory and patient support | 1,076 | 1,276 |
| General and administrative | 2,351 | 2,182 |
| Stock-based compensation | (55) | 815 |
| Amortization and depreciation | 8,319 | 8,387 |
| Finance and related costs, net | 2,434 | 320 |
| Transaction and other costs | 213 | 345 |
| Loss before income taxes | (5,832) | (3,551) |
| Income tax expense (recovery) | (40) | 65 |
| Net loss for the period | (5,792) | (3,616) |
| Net loss per share: | | |
| Basic and diluted | \$(0.18) | \$(0.11) |

**HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Unaudited**

[in thousands of U.S. dollars]

**Three months ended
March 31,
2023 2022**

| | | |
|--|----------------|----------------|
| Net loss for the period | (5,792) | (3,616) |
| Item that may be reclassified subsequently to net loss | | |
| Unrealized foreign currency translation adjustment | 93 | 2,438 |
| Comprehensive loss for the period | (5,699) | (1,178) |

**HLS THERAPEUTICS INC.
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, 2022 | 265,206 | 13,821 | (5,260) | (148,449) | 125,318 |
| Stock options exercised | 178 | (44) | — | — | 134 |
| Shares repurchased | (219) | — | — | 35 | (184) |
| Share purchase obligation | — | 185 | — | — | 185 |
| Stock option expense | — | 319 | — | — | 319 |
| Net loss for the period | — | — | — | (5,792) | (5,792) |
| Dividends declared | — | — | — | (1,182) | (1,182) |
| Unrealized foreign currency translation adjustment | — | — | 93 | — | 93 |
| Balance, March 31, 2023 | 265,165 | 14,281 | (5,167) | (155,388) | 118,891 |
| Balance, December 31, 2021 | 265,917 | 11,717 | 2,959 | (119,857) | 160,736 |
| Stock options exercised | 227 | (62) | — | — | 165 |
| Shares repurchased | (15) | — | — | (6) | (21) |
| Stock option expense | — | 609 | — | — | 609 |

| | | | | | |
|--|----------------|---------------|--------------|------------------|----------------|
| Net loss for the period | — | — | — | (3,616) | (3,616) |
| Dividends declared | — | — | — | (1,282) | (1,282) |
| Unrealized foreign currency translation adjustment | — | — | 2,438 | — | 2,438 |
| Balance, March 31, 2022 | 266,129 | 12,264 | 5,397 | (124,761) | 159,029 |

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

[in thousands of U.S. dollars]

| | Three months ended March 31, | |
|---|---------------------------------|----------------|
| | 2023 | 2022 |
| OPERATING ACTIVITIES | | |
| Net loss for the period | (5,792) | (3,616) |
| Adjustments to reconcile net loss to cash provided by operating activities | | |
| Stock-based compensation | (55) | 815 |
| Amortization and depreciation | 8,319 | 8,387 |
| Accreted interest | 191 | 207 |
| Fair value adjustment on financial assets and liabilities | 551 | (1,474) |
| Deferred income taxes | (177) | 409 |
| Net change in non-cash working capital balances related to operations | 983 | 1,030 |
| Cash provided by operating activities | 4,020 | 5,758 |
| INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | — | (9) |
| Additions to intangible assets | — | (26) |
| Cash used in investing activities | — | (35) |
| FINANCING ACTIVITIES | | |
| Stock options exercised | 134 | 165 |
| Shares repurchased | (184) | (21) |
| Dividends paid | (1,182) | (1,282) |
| Repayment of credit agreement borrowing | (2,121) | (3,000) |
| Lease payments | (161) | (159) |
| Cash used in financing activities | (3,514) | (4,297) |
| Net increase in cash during the period | 506 | 1,426 |
| Foreign currency translation | (15) | 59 |
| Cash, beginning of period | 20,723 | 21,179 |
| Cash, end of period | 21,214 | 22,664 |

SOURCE HLS Therapeutics Inc.

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<https://hlstherapeutics.investorroom.com/2023-05-11-HLS-Therapeutics-Announces-Q1-Fiscal-2023-Financial-Results>