HLS Therapeutics Inc.

HLS Therapeutics Announces Q1 2018 Financial Results

- **Commenced trading on the TSX Venture Exchange (Toronto Stock Exchange)**
- **Revenue of $13.2M in Q1 2018 vs $15.6M in Q1 2017. Clozaril generates year-over-year growth; Absorica royalties reflect distributor destocking to bring supplies in-line with future normalized demand**
- **As at the end of Q1, debt repaid since inception totaled $40.8 million and debt outstanding was $144.2 million**
- **Cash and cash equivalents $53.8 million at end of Q1**
- **Established Normal Course Issuer Bid post quarter-end**

TORONTO, May 16, 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 financial results for the three-month period ended March 31, 2018. Unless otherwise noted, all financial results referenced are in United States ("US") dollars.

Q1 2018 HIGHLIGHTS

- Revenue of $13.2 million, compared to $15.6 million in Q1 2017, was affected by the completion of the promotional campaign conducted by the marketer of Absorica in 2017 and Q1 inventory destocking
- Net loss was ($4.9) million, or ($0.19) per common share, compared to a net loss of ($3.0) million, or ($0.12) per common share in Q1 2017
- Cash generated from operations was $13.5 million, compared to $3.3 million in Q1 2017
- Adjusted EBITDA was $8.6 million, compared to $11.5 million in Q1 2017
- Repaid $7.1 million of debt, reducing the debt balance outstanding to $144.2 million at March 31, 2018, and increasing the total amount of debt repaid from inception to the end of Q1 to $40.8 million
- Cash and cash equivalents were $53.8 million at March 31, 2018, compared to $36.2 million at December 31, 2017
- Completed reverse take-over onto the TSX Venture Exchange and commenced trading March 14, 2018
- On May 9, 2018, established a Normal Course Issuer Bid ("NCIB") over the next 12 months, to purchase for cancellation up to an aggregate of 1,371,495 of the Company's issued and outstanding common shares, representing 5% of the issued and outstanding Common Shares as of May 7, 2018.

"Q1 results were in-line with our expectations and demonstrate how our two foundational assets – Clozaril and Absorica - combine to generate reliable cash flows that we draw-on to pursue our organic growth opportunities and pay down debt," said Greg Gubitz, CEO of HLS. "Clozaril's year-over-year growth reflects our ability to acquire, invest in and grow established products, while Absorica royalties, which collectively have far exceeded our forecasts to-date, were lower in Q1, but for the remainder of 2018 are expected to resume at quarterly levels that are more in-line with our original outlook for the product."

"In 2018, we expect important developments for Vascepa and Trinomia, both pre-registration Cardiovascular products that are strong performers internationally - Vascepa in the U.S. and Trinomia in more than 30 countries. We believe these products have transformative potential for HLS. They will establish Cardiovascular as HLS' second key specialty area after CNS. In addition, Vascepa's already strong market potential could expand significantly depending on results from the REDUCE-IT clinical trial. Top-line results from this trial, being conducted by Amarin Corporation, are expected to be announced before the end of Q3 2018."

"HLS has a rich pipeline of business development opportunities and we are making good progress on bringing transactions to fruition. As always, it is difficult to predict the exact timing of any transaction, but the breadth of opportunities we are seeing and the receptivity of counterparties to HLS gives me great confidence in our plan."

"From time to time the value of HLS' stock in the public market may provide the opportunity to acquire our common shares at prices that we do not believe reflect the true underlying value of the business. We have established an NCIB to enable us to take advantage of these opportunities."

FINANCIAL REVIEW

Revenue

Total revenue for the three-month period ended March 31, 2018 ("Q1 2018") was $13.2 million, compared to $15.6 million in the same period last year. Product Sales, which is revenue related to Clozaril, for Q1 2018 was $11.6 million, compared to $10.6 million in the same period last year. Royalty Revenue, which is revenue related to Absorica, for Q1 2018 was $1.5 million, compared to $4.9 million in the same period last year.

Product Sales in Canada increased 7% year-over-year benefiting from the Company's active promotion and support of Clozaril as well as favorable currency exchange fluctuations in the quarter. Excluding the impact of currency fluctuations, Product Sales in Canada would have increased 2%. Product Sales in the U.S. market increased 14% year-over-year due to Q1 2018 sales under an authorized generic supply agreement that was not in place in Q1 2017, as well as lighter than usual Clozaril sales in Q1 2017 resulting from trade inventory stocking at the end of 2016.

A year-over-year difference for Royalty Revenue was expected and resulted from: 1) as previously communicated, Royalty Revenue in 2017 benefited by approximately $10.0 to $11.0 million due to certain competitive disruptions and the positive impact of a promotional campaign undertaken by the marketer of Absorica in the U.S., which ran from early 2017 until November 2017; and, 2) due to the higher sales volumes in 2017, trade inventory levels expanded by the end of the promotional period, resulting in a period of trade inventory destocking in Q1 2018. Within Q1 itself, results for the month of March had already begun to show a return to levels that would be consistent with the period before the start of the 2017 promotional campaign.

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 $4.6 million in Q1 2018, compared to $4.0 million in the same period last year.

Cost of product sales were $0.6 million in Q1 2018, compared to $0.4 million in the same period last year. The increase was due primarily to the additional product supplies made under an authorized generic supply agreement. Other expense items experienced modest increases as the Company enhances its team and promotional efforts in support of existing foundational products and upcoming growth-oriented products, as well as to support its transition to a public company.

Adjusted EBITDA

Adjusted EBITDA for Q1 2018 was $8.6 million, compared to $11.5 million in the same period last year. The year-over-year change in Adjusted EBITDA is due to lower Royalty Revenue from Absorica as described above, which was partially offset by the increase in Clozaril Product Sales (also described above). Adjusted EBITDA is a non-IFRS measure and is defined below.

	Three months ended	
	March 31, 2018	**March 31, 2017**
Net loss for the period	(4,876)	(3,032)
Stock-based compensation	94	76
Amortization and depreciation	8,141	7,931
Acquisition and transaction costs	435	—
Finance and related costs	5,567	5,705
Provision for (recovery of) income taxes	(769)	868
Adjusted EBITDA	8,592	11,548

Interest Expense and Debt

Interest on the senior secured term loan was $4.1 million in Q1 2018, compared to $4.2 million in the same period last year. The decrease in interest expense is due to the Company's debt reduction.

A total of $7.1 million of debt was repaid in Q1 2018 bringing the total amount of debt repaid up to March 31, 2018, to $40.8 million. As at March 31, 2018, total outstanding principal on the senior secured term loan stood at $144.2 million, down from $185.0 million at the Company's inception.

Cash from Operations and Financial Position

Cash generated from operations was $13.5 million in Q1 2018, compared to $3.3 million in the same period last year. The increase 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 March 31, 2018, the Company has cash and cash equivalents of $53.8 million, up from $36.2 million at December 31, 2017.

Going-Public Transaction and TSX Venture Exchange Listing

On December 21, 2017, HLS entered into a definitive agreement providing for the amalgamation of the Company and Automodular Corporation ("AMD") by way of a plan of arrangement (the "Arrangement") in accordance with Section 183 of the Business Corporations Act (Ontario). On March 8, 2018, the Company announced that shareholders of both companies had voted in favor of the Arrangement, which was then completed on March 12, 2018. The cash position at March 31, 2018 includes CDN $25.0 million acquired in the amalgamation transaction with AMD. The common shares of HLS commenced trading on the Exchange under the ticker symbol 'HLS' on March 14, 2018.

Q1 2018 CONFERENCE CALL

HLS will hold a conference call Wednesday, May 16, 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, May 16, 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
REFERENCE NUMBER:	8591149

A link to the live audio webcast of the conference call will also be available on the events page of the investors section of the HLS 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. An archived webcast will be available for one year.

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 AMD dated February 5, 2018 in respect of the Arrangement, 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 March 31, 2018	As at December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	53,825	36,219
Accounts receivable	13,057	25,846
Inventories	1,088	1,354
Prepaid expenses and other current assets	1,563	1,617
Total current assets	69,533	65,036
Property, plant and equipment	421	441
Intangible assets	300,396	312,659
Restricted assets	14,635	5,555
Deferred tax asset	862	955
Total assets	385,847	384,646
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	11,029	12,596
Provisions	5,697	6,976
Other financial liabilities	12,724	14,160
Income taxes payable	153	870
Total current liabilities	29,603	34,602
Other financial liabilities	156,768	158,114
Deferred tax liability	9,757	11,548
Total liabilities	196,128	204,264
Shareholders' equity		
Share capital	211,482	192,743
Contributed surplus	12,424	12,330
Accumulated other comprehensive income	1,321	5,941
Deficit	(35,508)	(30,632)
Total shareholders' equity	189,719	180,382
Total liabilities and shareholders' equity	385,847	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 March 31, 2018	March 31, 2017
Revenues	13,166	15,553
Expenses		
Cost of product sales	580	425
Selling and marketing	964	786
Medical, regulatory and patient support	977	906
General and administrative	2,053	1,888
Stock-based compensation	94	76
Amortization and depreciation	8,141	7,931
Operating income	357	3,541
Acquisition and transaction costs	435	—
Finance and related costs, net	5,567	5,705
Loss before income taxes	(5,645)	(2,164)
Income tax expense (recovery)	(769)	868
Net loss for the period	(4,876)	(3,032)
Net loss per share:		
Basic and diluted	$(0.19)	$(0.12)

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

	Three months ended March 31, 2018	March 31, 2017
Net loss for the period	(4,876)	(3,032)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	(4,620)	1,362
Comprehensive loss for the period	(9,496)	(1,670)

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	(1,166)	—	—	—	(1,166)
Stock-based compensation	—	94	—	—	94
Net loss for the period	—	—	—	(4,876)	(4,876)
Unrealized foreign currency translation adjustment	—	—	(4,620)	—	(4,620)
Balance, March 31, 2018	211,482	12,424	1,321	(35,508)	189,719
Balance, December 31, 2016	192,743	11,967	(4,611)	(24,535)	175,564
Stock-based compensation	—	76	—	—	76
Net loss for the period	—	—	—	(3,032)	(3,032)
Unrealized foreign currency translation adjustment	—	—	1,362	—	1,362

Balance, March 31, 2017	192,743	12,043	(3,249)	(27,567)	173,970

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
[in thousands of U.S. dollars]

	Three months ended	
	March 31, 2018	**March 31, 2017**
OPERATING ACTIVITIES		
Net loss for the period	(4,876)	(3,032)
Add (deduct) items not involving cash		
Stock-based compensation	94	76
Amortization and depreciation	8,141	7,931
Accreted interest	1,629	1,728
Fair value adjustment on financial assets and liabilities	(450)	10
Listing expense	435	—
Deferred income taxes	(889)	2
Net change in non-cash working capital balances	9,416	(3,379)
Cash provided by operating activities	13,500	3,336
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(24)	—
Acquisitions	(4,325)	(1,825)
Cash used in investing activities	(4,349)	(1,825)
FINANCING ACTIVITIES		
Common shares issued	19,470	—
Share issuance costs	(1,576)	—
Repayment of senior secured term loan	(7,104)	(3,870)
Increase in restricted cash	(2,000)	(700)
Lender royalty payment	(112)	(105)
Cash provided by (used in) financing activities	8,678	(4,675)
Net increase (decrease) in cash and cash equivalents during the period	17,829	(3,164)
Foreign exchange	(223)	(72)
Cash and cash equivalents, beginning of period	36,219	37,763
Cash and cash equivalents, end of period	53,825	34,527

SOURCE HLS Therapeutics Inc.

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