

HLS Therapeutics Announces Q1 2020 Financial Results

- **Revenue of \$13.9 million, Adjusted EBITDA of \$6.1 million and Cash from Operations of \$5.3 million**
- **Launched Vascepa® in the Canadian market**
- **Vascepa added to Health Canada's Register of Innovative Drugs; will benefit from data protection for eight years**
- **New Drug Submissions for PERSERIS® and Trinomia® accepted by Health Canada**

TORONTO, May 7, 2020 /CNW/ - HLS Therapeutics Inc. ("HLS" or the "Company") (TSX:HLS), a specialty pharmaceutical company focusing on central nervous system and cardiovascular markets, announces its financial results for the three-month period ended March 31, 2020 ("Q1 2020"). All amounts are in thousands of United States ("U.S.") dollars unless otherwise stated.

Q1 2020 HIGHLIGHTS

- Revenue was \$13.9 million compared to \$13.2 million in Q1 2019
- Adjusted EBITDA was \$6.1 million compared to \$8.3 million in Q1 2019
- Net income was \$0.2 million, or \$0.00 per common share, compared to net loss of (\$3.7) million, or (\$0.14) per common share, in Q1 2019
- Cash from operations was \$5.3 million compared to \$8.3 million in Q1 2019
- Cash and cash equivalents were \$41.6 million at the end of Q1 2020 compared to \$47.1 million at December 31, 2019
- Launched Vascepa® in the Canadian market
- Vascepa was added to Health Canada's Register of Innovative Drugs and as a result the product will benefit from data protection for a term of eight years. A \$3.75 million milestone payment was paid to Amarin in Q1 2020 on confirmation of data protection for Vascepa
- New Drug Submission ("NDS") for PERSERIS® accepted by Health Canada
- NDS for Trinomia® accepted by Health Canada

"HLS achieved solid financial and operational results in Q1," said Greg Gubitz, CEO of HLS. "Our revenue growth, along with positive Adjusted EBITDA and cash from operations, primarily reflects the steady and reliable performance of Clozaril®, our key foundational product and one that is viewed as an essential medication for the treatment of a chronic and serious condition. On the operational side, we launched Vascepa mid-quarter, received data protection for the product for eight years and had our new drug submissions for PERSERIS and Trinomia accepted for review by Health Canada. These achievements are important steps for driving our future organic growth."

"In Q1 we took proactive measures to minimize the impact of COVID-19 to our employees, patients, and partners in the healthcare community, and I want to commend the team at HLS for its resiliency and commitment to ensuring patients receive their critical medications during this unprecedented time. We continue to move forward with the launch and roll-out for Vascepa and in the current environment we are focusing predominantly on digital-based strategies to connect and interact with physicians. Overall, we are pleased with the level of physician engagement to-date, but as expected, COVID-19 is interfering with what we would consider to be a typical launch process and will have an impact on the roll-out."

"Looking forward, we believe Vascepa has enormous potential to drive the growth of our business. In Q1, on the heels of announcing data exclusivity for Vascepa, we increased our peak-year sales forecast for the product to C\$200-300 million, from C\$150-250 million, reflecting our growing confidence in its potential to positively change the lives of many Canadians. Supported by the significant data results from the landmark REDUCE-IT Trial, the endorsement from many major medical societies around the world and the prevalence of cardiovascular disease in Canada, we believe as strongly in Vascepa's long-term potential today as we have at any time."

"Finally, yesterday, the Board of Directors approved the filing of a preliminary short-form base shelf prospectus that will enable us to raise up to C\$250.0 million over a 25-month period. We are filing the shelf prospectus as a prudent way to provide flexibility for accessing capital if presented with the appropriate growth opportunities. However, we have no current intention to issue securities under the shelf."

DIVIDEND

On May 6, 2020, the Company's Board of Directors declared a dividend of C\$0.05 per outstanding common share to be paid on September 15, 2020, to shareholders of record as of July 31, 2020.

These dividends paid on the Company's common shares are designated to be "eligible dividends" for purposes of section 89(1) of the *Income Tax Act* (Canada).

FINANCIAL REVIEW

Revenue

The following table provides revenue segmentation by revenue type and geography for the three-month period ended March 31, 2020:

	Three months ended March 31, 2020		2019
Product sales			
Canada	7,479		6,387
United States	4,147		4,275
	11,626		10,662
Royalty revenue	2,264		2,510
	13,890		13,172

Product sales for Q1 2020 increased by 9.0% year-over-year due to Clozaril's growth in Canada (up 13.1% in Canadian dollars or 11.5% on translation to U.S. dollars) and the initial sales of Vascepa in Canada, which were partially offset by a 3.0% decline in the U.S. Clozaril business. In Canada, Clozaril experienced higher demand than usual in the final two weeks of March, which was likely driven by the COVID-19 pandemic and the related demand for longer prescription refills. Conversely, Canadian Clozaril product sales in the prior period were negatively impacted by the larger than usual increase in trade inventory in the fourth quarter of 2018. The number of Canadian patients taking Clozaril grew 3.1% in Q1 2020 compared to Q1 2019.

HLS continues with its roll-out of CSAN Pronto into the Canadian market; however, this process is being impacted by the COVID-19 pandemic and the Company's activities are limited to those which are suitable in the current environment. Reception to the product and its potential remains favorable and, where appropriate, HLS is working with select mental health institutions across Canada to make this new blood testing system available to Clozaril patients. HLS has the exclusive Canadian rights to this device in the field of schizophrenia.

For the U.S. Clozaril market, in 2019, the Company conducted a pilot program with Athelas, the developer and manufacturer of the Athelas One medical device (known as CSAN Pronto in Canada), to evaluate the potential for the blood testing system for clozapine patients. HLS is now working with Athelas in the U.S. to progressively extend this program, known as the Refractory Schizophrenia Assistance Program ("RSAP"), to selected regions and settings of care.

Clozaril product sales in the U.S. market for Q1 2020 declined \$0.1 million or 3.0% compared to the same period year ago. Clozaril unit volumes and gross sales in Q1 2020 were up modestly from the same period in the prior year, attributable to the initial results from the RSAP. This growth was offset by small increases in distribution fees and government programs and our decision to stop sales of an authorized generic due to a depressed generic pricing environment. Product sales in the prior period benefited from \$0.1 million more favorable gross-to-net adjustments.

During Q1 2020, the U.S. marketer of Absorica introduced Absorica LD, a line extension to Absorica. In Q1 2020, Absorica royalty revenue was \$2.3 million, which includes royalties on the initial sales of the new product, compared with \$2.5 million in Q1 2019.

Operating Expenses

	Three months ended March 31, 2020		2019
Cost of product sales	819		387
Selling and marketing	3,616		1,193
Medical, regulatory and patient support	1,246		1,213
General and administrative	2,140		2,122
	7,821		4,915

The cost of product sales increased in Q1 2020 due primarily to higher sales of Clozaril and the initial sales of Vascepa in Canada. Q1 2020 selling and marketing expense increased by \$2.4 million year-over-year, due primarily to the addition of a 22-person sales team and other activities to support the launch of Vascepa in

Canada. Medical, regulatory, and patient support activities and general and administrative costs were stable relative to the same period in the prior year.

Adjusted EBITDA

	Three months ended	
	March 31,	
	2020	2019
Net income (loss) for the period	154	(3,703)
Stock-based compensation	(164)	597
Amortization and depreciation	8,559	8,118
Acquisition and transaction costs	89	421
Finance and related costs	(1,490)	3,217
Income tax recovery	(1,079)	(393)
Adjusted EBITDA ⁽¹⁾	6,069	8,257

Adjusted EBITDA for Q1 2020 decreased by \$2.2 million year-over-year due to the increase in selling and marketing costs, primarily to support the Vascepa launch in Canada, as well as the higher cost of product sales, offset, in part, by higher revenue from Clozaril and the initial revenue from Vascepa.

Interest Expense and Debt

Interest on the senior secured term loan in Q1 2020 was \$1.2 million compared to \$1.6 million in Q1 2019. The reduction is due to both a lower principal balance and a lower interest rate in fiscal 2020.

As at March 31, 2020, the principal debt balance outstanding under the new senior secured term facility was \$92.4 million compared to \$93.8 million at December 31, 2019. This compares with the original senior secured loan borrowing of \$185.0 million at the Company's inception and the \$137.9 million loan balance at the end of Q2 2018 just prior to the Company restructuring its debt.

Net Income (Loss)

Net income in Q1 2020 was \$0.2 million, or \$0.00 per share, compared to a net loss of (\$3.7) million, or (\$0.14) per share in Q1 2019. Despite the decrease in Adjusted EBITDA, net income improved year-over-year primarily due to \$6.1 million of income recorded as a result of the non-cash decrease in the carrying value of lender warrants, which was partially offset by the increase in operating expenses to support the introduction of Vascepa.

Cash from Operations and Financial Position

Cash generated from operations was \$5.3 million in Q1 2020, compared to \$8.3 million in Q1 2019. As at March 31, 2020, the Company had cash and cash equivalents of \$41.6 million, compared to \$47.1 million at December 31, 2019. Factors impacting the change in cash balance from the end of fiscal 2019 to the end of Q1 2020 include the \$3.75 million milestone payment to Amarin upon Vascepa being granted data protection in Canada as well as additional selling and marketing costs to support the launch of Vascepa.

HLS has a strong financial position with \$41.6 million of cash and cash equivalents, a \$25.0 million revolving facility that was undrawn at March 31, 2020, and the Company may also request to be provided with incremental loans, up to a maximum amount of \$100.0 million, to support acquisitions and other growth opportunities.

In addition, the Company has also filed a preliminary short-form base shelf prospectus with the securities commissions in each of the provinces and territories of Canada, other than Quebec. Upon issuance of a receipt for the corresponding final base shelf prospectus, the base shelf prospectus will qualify the issuance by HLS of up to C\$250.0 million of debt securities, preferred shares, common shares, subscription receipts, warrants, units, or any combination thereof, over the 25-month period when the base shelf prospectus is effective. At the time any such securities are offered for sale, a prospectus supplement containing specific information about the terms of such an offering will be filed with the applicable Canadian securities commissions.

Q1 2020 CONFERENCE CALL

HLS will hold a conference call today at 8:30 am Eastern Time to discuss its Q1 2020 financial results. The call will be hosted by Mr. Greg Gubitz, Chief Executive Officer, Mr. Gilbert Godin, President and Chief Operating Officer and Mr. Tim Hendrickson, Chief Financial Officer. **To participate on the call, please enter a dial-in number below and then enter the Conference ID when prompted.**

CONFERENCE ID: 6457646

DATE: Thursday, May 7, 2020

TIME: 8:30 am ET

DIAL-IN NUMBER: 1-877-267-7318 or 631-485-5848

WEBCAST LINK: https://produceredition.webcasts.com/starthere.jsp?ei=1311902&tp_key=59c36737e9

TAPED REPLAY: 1-855-859-2056 or 404-537-3406

REPLAY
PASSCODE: 6457646

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. For more information visit: www.hlstherapeutics.com

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 income (loss) for the period with Adjusted EBITDA, each of (i) "stock-based compensation", (ii) "amortization and depreciation", (iii) "acquisition and transaction costs", (iv) "finance and related costs", and (v) "income tax 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 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 Company's Annual Information Form dated March 18, 2020 and Management's Discussion and Analysis dated May 6, 2020, 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.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

[in thousands of U.S. dollars]

	As at March 31, 2020	As at December 31, 2019
ASSETS		
Current		
Cash and cash equivalents	41,649	47,078
Accounts receivable	13,477	11,858
Inventories	8,690	2,055
Derivative financial instruments	660	271
Prepaid expenses and other current assets	2,048	1,838
Total current assets	66,524	63,100
Property, plant and equipment	1,154	1,276
Intangible assets	235,669	252,050
Restricted assets	1,971	2,188
Deferred income tax asset	1,090	1,057
Total assets	306,408	319,671
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	22,087	13,466
Provisions	5,383	5,471
Debt and other financial liabilities	21,012	27,855
Income taxes payable	426	347
Total current liabilities	48,908	47,139
Debt and other financial liabilities	87,060	91,822
Deferred income tax liability	948	2,511
Total liabilities	136,916	141,472
Shareholders' equity		
Share capital	256,250	248,687
Contributed surplus	10,301	11,517
Accumulated other comprehensive loss	(14,581)	(537)
Deficit	(82,478)	(81,468)
Total shareholders' equity	169,492	178,199
Total liabilities and shareholders' equity	306,408	319,671

HLS THERAPEUTICS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Unaudited

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

	Three months ended March 31,	
	2020	2019
Revenue	13,890	13,172
Expenses		
Cost of product sales	819	387
Selling and marketing	3,616	1,193

Medical, regulatory and patient support	1,246	1,213
General and administrative	2,140	2,122
Stock-based compensation	(164)	597
Amortization and depreciation	8,559	8,118
Operating loss	(2,326)	(458)
Acquisition and transaction costs	89	421
Finance and related costs, net	(1,490)	3,217
Loss before income taxes	(925)	(4,096)
Income tax recovery	(1,079)	(393)
Net income (loss) for the period	154	(3,703)
Net income (loss) per share:		
Basic and diluted	\$0.00	\$(0.14)

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

[in thousands of U.S. dollars]

Three months ended
March 31,
2020 2019

Net income (loss) for the period	154	(3,703)
Item that may be reclassified subsequently to net loss		
Unrealized foreign currency translation adjustment	(14,044)	2,958
Comprehensive loss for the period	(13,890)	(745)

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, 2019	248,687	11,517	(537)	(81,468)	178,199
Warrants exercised	7,544	(1,652)	—	—	5,892
Stock options exercised	19	(5)	—	—	14
Stock option expense	—	441	—	—	441
Net income for the period	—	—	—	154	154
Dividends declared	—	—	—	(1,164)	(1,164)
Unrealized foreign currency translation adjustment	—	—	(14,044)	—	(14,044)
Balance, March 31, 2020	256,250	10,301	(14,581)	(82,478)	169,492
Balance, December 31, 2018	210,360	12,973	(7,455)	(57,389)	158,489
Stock option expense	—	234	—	—	234
Net loss for the period	—	—	—	(3,703)	(3,703)
Dividends declared	—	—	—	(1,022)	(1,022)
Unrealized foreign currency translation adjustment	—	—	2,958	—	2,958
Balance, March 31, 2019	210,360	13,207	(4,497)	(62,114)	156,956

HLS THERAPEUTICS INC.**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****Unaudited**

[in thousands of U.S. dollars]

	Three months ended	
	March 31,	
	2020	2019
OPERATING ACTIVITIES		
Net income (loss) for the period	154	(3,703)
Adjustments to reconcile net loss to cash provided by operating activities		
Stock-based compensation	(164)	597
Amortization and depreciation	8,559	8,118
Accreted interest	356	568
Fair value adjustment on financial assets and liabilities	(3,471)	1,273
Foreign exchange	176	—
Deferred income taxes	(1,411)	(655)
Net change in non-cash working capital balances related to operations	1,150	2,084
Cash provided by operating activities	5,349	8,282
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(26)	(37)
Asset acquisitions	(6,575)	(2,825)
Other additions to intangible assets	(448)	(213)
Cash used in investing activities	(7,049)	(3,075)
FINANCING ACTIVITIES		
Stock options exercised	14	—
Warrants exercised	1,590	—
Dividends paid	(1,141)	(1,001)
Repayment of senior secured term loan	(1,382)	(1,250)
Cash portion of debt refinancing costs	—	(1,000)
Lease payments	(121)	(113)
Cash used in financing activities	(1,040)	(3,364)
Net increase (decrease) in cash and cash equivalents during the period	(2,740)	1,843
Foreign currency translation	(2,689)	39
Cash and cash equivalents, beginning of period	47,078	10,930
Cash and cash equivalents, end of period	41,649	12,812

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

<https://hlstherapeutics.investorroom.com/2020-05-07-HLS-Therapeutics-Announces-Q1-2020-Financial-Results>