



HLS Therapeutics Inc.

News Release

HLS Therapeutics Announces Q2 2024 Financial Results

8/8/2024

TORONTO, Aug. 8, 2024 /CNW/ - HLS Therapeutics Inc. ("HLS" or the "Company") (TSX: HLS), a pharmaceutical company focused on addressing unmet needs in the treatment of psychiatric disorders and cardiovascular disease, announces its financial results for the three and six months ended June 30, 2024. All amounts are in thousands of United States ("U.S.") dollars unless otherwise stated.

KEY HIGHLIGHTS

- Q2 2024 revenue was \$14.5 million, Adjusted EBITDA¹ was \$4.3 million and cash from operations was \$2.5 million, compared to \$16.4 million, \$5.5 million and \$2.7 million, respectively, in Q2 2023.
- Sold the Xenpozyme royalty asset in a transaction valued at up to \$45.75 million.
- Excluding royalty portfolio revenue, Q2 2024 revenue increased 9% to \$14.1 million and Adjusted EBITDA increased 86% to \$3.8 million, compared to \$13.0 million and \$2.1 million, respectively, in Q2 2023.
- Completed a Product Listing Agreement with the province of Alberta, for the listing and public reimbursement of Vascepa, effective August 1, 2024.

"In Q2 we generated solid growth from our marketed products - Clozaril and Vascepa - particularly in Canada where sales grew 11% in local currency over prior year," said Craig Millian, CEO at HLS. "We also made progress against our strategic initiatives to drive future revenue growth and profitability, in part through effective cost management; of note, we reduced operating expenses by 13% while still generating growth from our marketed products. In addition, we strengthened our balance sheet and long-term financial flexibility by completing the sale of the Xenpozyme royalty interest, a non-strategic asset."

Q2 2024 OTHER HIGHLIGHTS

- Clozaril revenue in Canada increased by 5% in local currency compared to Q2 2023.
- A study demonstrating the positive impact of pharmaceutical support programs on persistence with clozapine treatment was published in the Journal of Clinical Pharmacology and Therapeutics.
- Vascepa revenue in Canada increased 21% in local currency compared to Q2 2023.
- Vascepa unit demand increased by 45% compared to Q2 2023.
- The number of consistent prescribers² for Vascepa increased 76% compared to Q2 2023.
- Finalized termination agreement with Pfizer to transition Vascepa primary care sales responsibilities back to HLS by August 31, 2024.

BOARD OF DIRECTORS UPDATE

Effective August 7, 2024, Laura Brege has decided to step down from the Board to focus on other endeavors. The Company is evaluating its board composition and will determine whether to fill the vacant position in due course. Norma Beauchamp, one of the Company's current Compensation and Governance Committee members, will replace Ms. Brege as Chair of that Committee.

"On behalf of the Board and HLS Management, I want to thank Laura for the insights, guidance and leadership she provided during her five years on the Board. We wish her the best in all her future pursuits," said John Welborn, Chair of the Board at HLS.

2024 OUTLOOK

With the release of its Q2 2024 results, the Company reiterates its 2024 guidance, which was updated following the sale of the Xenpozyme royalty interest.

2024 consolidated revenue guidance is \$58.5 to \$59.7 million. Comprising that number is Vascepa revenue of \$17 to \$18 million (C\$22.5 to \$24.5 million), Clozaril revenue of approximately \$40 million and royalty portfolio revenue of \$1.5 to \$1.7 million.

2024 Adjusted EBITDA is expected to be \$15.5 to \$16.7 million. As communicated previously HLS expects Vascepa to make a positive contribution to Adjusted EBITDA starting in the fourth quarter, which would position the Company to enter 2025 with a growth portfolio of two profitable products, Clozaril and Vascepa.

Mr. Millian added: "We look to build-on the positive momentum generated in Q2 to drive a strong second half of the year for our marketed products. With Clozaril, our regional strategies are having a positive impact, and, in Canada, we are seeing encouraging growth trends. Additionally, we expect Vascepa to benefit over the remainder of the

year driven by the evolution of our go-to-market model as well as the recent public plan listings in BC and Alberta."

Q2 2024 FINANCIAL REVIEW

The Company's Management's Discussion and Analysis and Consolidated Financial Statements for the three and six months ended June 30, 2024, are available at the **Company's website** and at its profile at **SEDAR+**.

Revenue

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Product sales				
Canada	10,637	9,791	19,791	18,602
United States	3,462	3,179	6,104	6,391
	14,099	12,970	25,895	24,993
Royalty revenue	420	3,447	1,097	6,181
	14,519	16,417	26,992	31,174

Revenue for the three and six months ended June 30, 2024, decreased 12% and 13%, respectively, due to lower royalty revenues and offset, in part, by growth of the Company's marketed products. Excluding royalties, revenue for the Company's marketed products (Vascepa, and Clozaril) for the three and six months ended June 30, 2024, increased 9% and 4%, respectively, from the prior year periods.

Product sales – Canada

000's of CAD	Three months ended June 30,			Six months ended June 30,		
	2024	2023	% change	2024	2023	% change
Clozaril	9,131	8,665	5.4 %	16,996	17,083	(0.5) %
Vascepa	5,407	4,481	20.7 %	9,878	7,996	23.5 %
Other	14	—		27	—	
	14,552	13,146	10.7 %	26,901	25,079	7.3 %

Canadian product sales of Vascepa and Clozaril in Q2 2024 increased 11% in local currency, compared to Q2 2023. Q2 2024 revenue in Canada from Vascepa and Clozaril increased 21% and 5% year-over-year, respectively, in local

currency.

For the six months ended June 30, 2024, Canadian product sales of Vascepa and Clozaril increased 7% in local currency, compared to the same period in 2023. For the six months ended June 30, 2024, in local currency, revenue in Canada from Vascepa and Clozaril increased 23.5% and decreased 0.5%, respectively, compared to the same period last year.

Product Sales – United States

In the U.S., Clozaril revenue in Q2 2024 increased 9% compared to Q2 2023. For the six months ended June 30, 2024, Clozaril revenue in the U.S. decreased 5% compared to the same period in 2023. Key demand fundamentals remain in place with the year-to-date revenue variance to the prior year period largely due to wholesalers in the U.S. ending 2023 with an unusually high level of inventory, which impacted sales in Q1 2024.

Royalty revenues

Royalty revenues for the three and six months ended June 30, 2024, were down 88% and 82%, respectively, compared to the prior year periods as the term for what was the largest royalty in the portfolio came to an end midway through Q4 2023. Following the sale of the Xenpozyme royalty interest in Q2 2024, HLS has one remaining royalty interest, which is for Obizur. Obizur is a treatment to help control bleeding in acquired "Hemophilia A" and is marketed by Takeda Pharmaceuticals.

Operating Expenses

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Cost of product sales	2,303	1,777	4,077	3,221
Selling and marketing	4,561	5,325	9,087	10,132
Medical, regulatory and patient support	1,420	1,437	2,685	2,513
General and administrative	1,977	2,373	4,178	4,724
	<u>10,261</u>	<u>10,912</u>	<u>20,027</u>	<u>20,590</u>

Excluding cost of product sales, operational expenses for the three and six months ended June 30, 2024, decreased 13% and 8%, respectively, compared to the prior year periods. This was due to the Company's focus on cost management while continuing to support the growth potential of its marketed products.

"With the primary care sales function transition to HLS expected to be completed by the end of August, we anticipate a further reduction in operational expenses for Q4 this year and beyond," said John Hanna, CFO at HLS. "Overall, this transition is projected to save the Company around \$5 million annually. Most of these savings will fall directly to our bottom line, after accounting for some modest reinvestment in expanding the Vascepa salesforce and supporting other reimbursement and retention initiatives."

Cost of product sales was up for the for the three and six months ended June 30, 2024, due to higher Vascepa sales volumes.

Adjusted EBITDA¹

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net loss for the period	(5,682)	(9,437)	(11,788)	(15,229)
Stock-based compensation	427	137	683	82
Amortization and depreciation	5,856	8,366	11,775	16,685
Finance and related costs, net	2,942	2,471	5,609	4,905
Other costs (income)	(3,361)	3,851	(3,361)	4,064
Income tax expense	4,076	117	4,047	77
Adjusted EBITDA	4,258	5,505	6,965	10,584

Adjusted EBITDA for the three and six months ended June 30, 2024, decreased \$1.2 million and \$3.6 million, respectively, compared to the prior year periods. The decrease was due to the decline in royalty revenue and was offset in part by growth in the Company's marketed products. Excluding royalty revenue, Adjusted EBITDA for the three and six months ended June 30, 2024, would have been approximately \$3.8 million and \$5.9 million, respectively, compared to \$2.1 million and \$4.4 million in the prior year periods, representing increases of 86% and 33%.

For Q2 2024, the direct brand contribution from Clozaril to Adjusted EBITDA was \$7.6 million, while the direct brand contribution from Vascepa to Adjusted EBITDA was a loss of \$1.6 million. For the 2024 year-to-date period, the direct brand contribution from Clozaril to Adjusted EBITDA was \$13.7 million, while the direct brand contribution from Vascepa to Adjusted EBITDA was a loss of \$3.2 million.

Net Loss

Net loss for the three months ended June 30, 2024, was (\$5.7) million, or (\$0.18) per share, compared to a net loss

of (\$9.4) million, or (\$0.29) per share, in Q2 2023. Net loss for the six months ended June 30, 2024, was (\$11.8) million, or (\$0.37) per share, compared to a net loss of (\$15.2) million, or (\$0.47) per share, in the same period last year. Net loss improved in the year-over-year periods due primarily to lower operating expenses and lower amortization and depreciation expense as well as recording other income versus other costs in the prior year periods, which were offset, in part, by lower royalty revenue.

Cash from Operations and Financial Position

Cash generated from operations for the three and six months ended June 30, 2024, was \$2.5 million and \$3.3 million, respectively, compared to \$2.7 million and \$6.7 million in the prior year periods. Cash was \$32.5 million at June 30, 2024 compared to \$22.0 million at December 31, 2023. Cash at June 30, 2024, included \$13.25 million received in the sale of the Xenpozyme royalty interest.

Total borrowings under the credit agreement at June 30, 2024, was \$84.9 million compared to \$88.5 million at December 31, 2023. Subsequent to quarter end, HLS made a \$14 million principal payment on its term loan, reducing the term loan outstanding at the time of payment to approximately \$71 million. This principal payment will save the Company approximately \$1.5 million annually in interest expense.

Q2 2024 CONFERENCE CALL

HLS will hold a conference call today at 8:30 am Eastern Time to discuss its Q2 2024 financial results. The call will be hosted by Mr. Craig Millian, CEO, and Mr. John Hanna, Interim CFO. To view the slides that accompany management's discussion, please use the webcast link.

CONFERENCE ID: 58793

DATE: Thursday, August 8, 2024

TIME: 8:30 a.m. ET

WEBCAST LINK: <https://app.webinar.net/Bo1rqAKyNm9>

TRADITIONAL DIAL-IN NUMBER: 1-800-836-8184 or 1-289-819-1350

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/3xE2DI5>

TAPED REPLAY: 1-888-660-6345 or 1-289-819-1450

REPLAY CODE: 58793#

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 before the conference call to ensure enough time for any software download 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, net", (iv) "other costs (income)", and (v) "income tax expense"

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.

²CONSISTENT PRESCRIBER

A consistent prescriber is a physician that has prescribed Vascepa in at least 4 of the past 5 weeks.

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 13, 2024, and Management's Discussion and Analysis dated August 7, 2024, both of which have been filed on SEDAR and can be accessed at www.sedarplus.ca. 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]

	June 30, 2024	As at December 31, 2023	As at
ASSETS			
Current			
Cash	32,515		21,952
Accounts receivable	9,115		10,608
Inventories	8,796		9,534
Income taxes recoverable	95		86
Other current assets	2,338		1,915
Total current assets	52,859		44,095
Property, plant and equipment	701		965
Intangible assets	136,387		162,344
Deferred tax asset	777		1,037
Other non-current assets	598		619
Total assets	191,322		209,060
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	12,317		14,107
Provisions	7,054		5,424
Debt and other liabilities	6,591		6,876
Income taxes payable	158		281
Total current liabilities	26,120		26,688
Debt and other liabilities	78,514		84,233
Deferred tax liability	3,982		442
Total liabilities	108,616		111,363
Shareholders' equity			
Share capital	260,595		262,127
Contributed surplus	14,598		13,865
Accumulated other comprehensive loss	(6,174)		(2,838)
Deficit	(186,313)		(175,457)
Total shareholders' equity	82,706		97,697
Total liabilities and shareholders' equity	191,322		209,060

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

	Three months ended		Six months ended	
	June 30, 2024	2023	June 30, 2024	2023
Revenue	14,519	16,417	26,992	31,174
Expenses				
Cost of product sales	2,303	1,777	4,077	3,221
Selling and marketing	4,561	5,325	9,087	10,132
Medical, regulatory and patient support	1,420	1,437	2,685	2,513
General and administrative	1,977	2,373	4,178	4,724
Stock-based compensation	427	137	683	82
Amortization and depreciation	5,856	8,366	11,775	16,685
Finance and related costs, net	2,942	2,471	5,609	4,905
Other costs (income)	(3,361)	3,851	(3,361)	4,064
Loss before income taxes	(1,606)	(9,320)	(7,741)	(15,152)
Income tax expense	4,076	117	4,047	77
Net loss for the period	(5,682)	(9,437)	(11,788)	(15,229)

Net loss per share:

Basic and diluted	\$(0.18)	\$(0.29)	\$(0.37)	\$(0.47)
-------------------	----------	----------	----------	----------

HLS THERAPEUTICS INC.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Unaudited
[in thousands of U.S. dollars]

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Net loss for the period	(5,682)	(9,437)	(11,788)	(15,229)
Item that may be reclassified subsequently to net loss				
Unrealized foreign currency translation adjustment	(963)	2,297	(3,336)	2,390
Comprehensive loss for the period	(6,645)	(7,140)	(15,124)	(12,839)

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 loss	Deficit	Total
Balance, December 31, 2023	262,127	13,865	(2,838)	(175,457)	97,697
Shares repurchased	(1,532)	—	—	932	(600)
Share purchase obligation	—	300	—	—	300
Stock option expense	—	433	—	—	433
Net loss for the period	—	—	—	(11,788)	(11,788)
Unrealized foreign currency translation adjustment	—	—	(3,336)	—	(3,336)
Balance, June 30, 2024	260,595	14,598	(6,174)	(186,313)	82,706
Balance, December 31, 2022	265,206	13,821	(5,260)	(148,449)	125,318
Stock options exercised	178	(44)	—	—	134
Shares repurchased	(623)	—	—	254	(369)
Share purchase obligation	—	(305)	—	—	(305)
Stock option expense	—	679	—	—	679
Net loss for the period	—	—	—	(15,229)	(15,229)
Dividends declared	—	—	—	(1,182)	(1,182)
Unrealized foreign currency translation adjustment	—	—	2,390	—	2,390
Balance, June 30, 2023	264,761	14,151	(2,870)	(164,606)	111,436

HLS THERAPEUTICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

[in thousands of U.S. dollars]

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	2024	2023
OPERATING ACTIVITIES				
Net loss for the period	(5,682)	(9,437)	(11,788)	(15,229)
Adjustments to reconcile net loss to cash provided by operating activities				
Stock-based compensation	427	137	683	82
Amortization and depreciation	5,856	8,366	11,775	16,685
Gain on royalty sale	(3,381)	—	(3,381)	—
Impairment charge	—	2,352	—	2,352
Accreted interest	277	190	559	381
Fair value adjustment on financial assets and liabilities	318	570	505	1,121
Deferred income taxes	3,861	(85)	3,800	(262)
Net change in non-cash working capital balances related to operations	843	575	1,144	1,558
Cash provided by operating activities	2,519	2,668	3,297	6,688
INVESTING ACTIVITIES				
Proceeds from royalty sale	13,250	—	13,250	—
Additions to property, plant and equipment	—	(27)	(2)	(27)
Additions to intangible assets	—	(108)	—	(108)
Cash provided by (used in) investing activities	13,250	(135)	13,248	(135)
FINANCING ACTIVITIES				
Stock options exercised	—	—	—	134
Shares repurchased	(317)	(185)	(600)	(369)
Dividends paid	—	(1,216)	—	(2,398)
Repayment of borrowing under credit agreement	(1,493)	(1,389)	(3,568)	(3,510)
Debt costs	(658)	—	(1,191)	—
Lease payments	(112)	(158)	(255)	(319)
Cash used in financing activities	(2,580)	(2,948)	(5,614)	(6,462)
Net increase (decrease) in cash during the period	13,189	(415)	10,931	91
Foreign exchange on cash	(117)	133	(368)	118
Cash, beginning of period	19,443	21,214	21,952	20,723
Cash, end of period	32,515	20,932	32,515	20,932

SOURCE HLS Therapeutics Inc.