

Interim report

January–March 2020



A solid start to the year

Significant events during the first quarter

- Net sales rose by 14% (11% adjusted for currency changes) to SEK 158 m (SEK 138 m).
- The EBITDA margin was 19% (20%) and was negatively affected by a less favorable product mix but also increased costs in connection with a temporary disruption in production.
- Joint venture with Viva5 Corporation in new market niches.
- Expanded cooperation with major American customer.
- Three new members added to the management team in HR, Sales and Marketing, and R&D.

Financial overview

SEK m	Jan-Mar 2020	Jan-Mar 2019	Full-year 2019
Net sales	157.8	138.2	626.2
Gross margin, %	39.0%	42.0%	46.6%
EBITDA	29.9	28.2	183.4
EBITDA margin, %	18.9%	20.4%	29.3%
Operating profit (EBIT)	11.0	11.3	111.5
Net income	10.7	8.5	85.9
Earnings per share before and after dilution, SEK	0.94	0.75	7.54
Share price on closing day, SEK	161.00	338.00	222.00
Market cap on closing day	1,834.5	3,851.2	2,529.5

See note 5 for definitions of ratios not defined according to IFRS

Invitation to teleconference

Date: April 24, 2020

Time: 10:00 a.m. (CET)

Phone: +46 (0)8 50 55 83 50

Participants from Probi:

Tom Rönnlund, CEO

Henrik Lundkvist, CFO

Contact

Tom Rönnlund, CEO:

Phone: +46 (0)46 286 89 40

E-mail: trd@probi.com

Henrik Lundkvist, CFO:

Phone: +46 (0)46 286 89 41

E-mail: henrik.lundkvist@probi.com

The presentation is available at www.probi.com and www.financialhearings.com

About Probi

Probi AB is a Swedish publicly traded bioengineering company. Probi's vision is to help people live healthier lives by delivering effective, well-documented probiotics, with proven health benefits based on scientific research.

Founded by scientists in Sweden in 1991, Probi is a multinational company, active in over 40 markets around the world and holding over 400 patents worldwide. In 2019, Probi had net sales of SEK 626 m. Probi's shares are traded on Nasdaq Stockholm, Mid Cap. Probi had around 4,000 shareholders on December 31, 2019.

probi.com

This information is information that Probi AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, on April 24, 2020 at 08:00 CET. This a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.

CEO's comments

A solid start to 2020

The year has started off well for Probi with a 14% growth rate compared to last year despite the global Covid-19 crisis. Our EBITDA margin fell to 19%, which is explained by a less favorable product mix in the quarter and one-off costs, partly due to a temporary disruption in production.

During the quarter, we saw a clear increase in interest in our immune products in all markets with early and extended orders, which is probably an effect of the Covid-19 pandemic.



We have expanded our collaboration with one of our largest customers in the Americas region in connection with a major update of the customer's product range. This means a broader delivery commitment for Probi and will have a positive effect on volumes in the future but may result in increased variation in sales and gross margin between the quarters during 2020.

In our strategic work to develop business in new niche markets, we have started a long-term collaboration with the US health food company Viva5 Corporation. Our jointly-owned company VivaPro will develop scientifically validated probiotic products in an attractive and consumer-friendly format in areas that are outside Probi's current core business. The collaboration is not expected to generate any significant revenue in 2020.

Production at our facilities in the US continues with only minor disruptions in the supply chain at present, despite the Covid-19 crisis. We have taken extensive safety measures to ensure production and minimize the risk of contagion. We have also ensured delivery capacity through subcontractors in the event that additional restrictions in the areas where we operate could affect our own production. The ongoing upgrade of the Redmond manufacturing unit is proceeding according to plan with only slight delays.

We have started strategic work to review our financial goals. The intention is to present these goals along with the quarterly report for Q2.

During the quarter we also welcomed three new members to our management team.

In these turbulent and troubling times, we are happy to see increased interest in our products and that our order book looks good for the near future. At the same time, it is too early to determine how persistent demand will be. Large orders at present may be signs of stocking at consumer level and we expect revenue to vary between quarters during the year. Assuming that the Covid-19 crisis is not further aggravated and that our employees are not affected, I can still dare to say that 2020 as a whole looks bright for Probi.

Tom Rönnlund, CEO

Probi's customers

Probi offers probiotic expertise and partnership including research & development, manufacturing, product concepts and supply of finished products for customers within the consumer healthcare and food industry. Probi's manufacturing is GMP-certified and produces proven and effective probiotics in custom-made formats with value-adding delivery technologies.

Key developments in the Group

The market

Probi has expanded its collaboration with one of the largest customers in the US in relation to a product update carried out by the customer. This means, among other things, a broader supply of bacterial strains in the product.

In Europe, a number of product launches took place with existing customers in Italy, Germany and Iceland. A new customer has been established in France with an initial order and Probi® Osteo was launched in Poland.

The APAC region saw lower activity, but Probi nevertheless had a stable quarter with a large order of Probi Defendum® from a Korean customer and for Probi Ferrosorb® from an Australian customer.

Business development

Probi has established a strategic collaboration with the American company Viva5 Corporation through the jointly-owned company VivaPro, aimed at developing consumer-friendly probiotic products in new niche markets and expanding both companies' portfolios. The company will focus on spore-forming bacteria (*Bacillus coagulans*) whose properties are similar to those of lactic acid bacteria, but more robust and resistant to elevated temperatures. This gives the opportunity to broaden the business to more types of food products such as beverages, bars, cereals and various powder products. Together with Viva5, which has long experience of spore-forming bacteria, the company was formed to study these types of bacteria and their potential commercial applications. VivaPro is 51% owned by Viva5 Corporation and 49% by Probi, which has an option to acquire a majority interest in the company at a later stage.

Manufacturing

The manufacturing facility in Redmond, Washington experienced operational disruptions for a few weeks in February but was back at full capacity in March. Due to Covid-19, comprehensive safety measures have been taken at both manufacturing plants to ensure production and protect personnel, and so far no customer deliveries have been affected.

Organization

Basudha Bhattarai-Johansson took over as Vice President HR and Shane Judge as Vice President Global Sales & Marketing during the quarter. Hanne Risager-Romedahl will take up her position as Vice President Research & Development in the summer of 2020. All three are members of the executive management team.

Sales development

First quarter

During the first quarter of 2020, Probi's net sales amounted to SEK 157.8 m (138.2), which was an increase of SEK 19.6 m or 14% compared with the corresponding period last year. Adjusted for exchange rate effects, net sales amounted to SEK 153.6 m, corresponding to an increase of 11%.

Operating segments

Probi is divided into three operating segments, which is in line with how the company is organized. The segments are based on geography and consist of the regions Americas (North and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia-Pacific). All segments sell probiotics to pharmaceutical and health care companies, as well as customers specializing in probiotics and self-care products. Revenue is generated through sales of goods in everything from raw materials in bulk, to finished products in final consumer packaging. In addition, foods containing Probi's probiotics are developed, which is done in collaboration with leading food companies. The revenue from this comes from sales of goods but also through royalties. In the Americas, Probi has two proprietary manufacturing units, one of which is a fermentation unit in Redmond, Washington, and a manufacturing and packaging unit in Lafayette, Colorado. No monitoring of the company's assets takes place at a segmental level.

SEK 000	Jan-Mar 2020				Jan-Mar 2019			
	Americas	EMEA	APAC	Total Group	Americas	EMEA	APAC	Total Group
Net Sales	114,924	29,736	13,107	157,767	93,797	33,760	10,612	138,169
Cost of goods sold	-79,148	-11,318	-5,719	-96,185	-65,042	-11,159	-3,897	-80,098
Gross profit	35,776	18,418	7,388	61,582	28,755	22,601	6,715	58,071

During the quarter, Americas accounted for 73% of Probi's total net sales. Net sales in the region rose by SEK 21.1 m, corresponding to 22%. The growth compared to the previous year is explained by greater sales to both new and existing customers, but also because the first quarter of 2019 was weak for the region. The gross profit rose by SEK 7.0 m or 24%, which is entirely attributable to increased net sales and the gross margin was 31% (31).

Sales in EMEA fell by SEK 4.0 m, corresponding to 12%. The decrease is explained by around SEK 8 m in EMEA royalty revenue being redistributed to sales of goods and partly transferred to the Americas region, and that Q1 of last year had a positive effect from a launch by a new Turkish customer. The gross profit fell by SEK 4.2 m or 19%. The gross margin went down to 62% (67) and is explained by the margin effect arising from the redistribution of royalty revenue and sales of goods.

Asia was affected by extensive shutdowns during Q1 due to Covid-19, which meant that processing new customers was lower than normal, and some planned projects have been delayed. At the same time, demand from existing customers has been good and sales in the region rose by 24%, corresponding to an increase of SEK 2.5 m. Increased investments in launches in more Asian markets entail higher regulatory costs, affecting the gross profit, which only went up by SEK 0.7 m or 10%. The gross margin declined to 56% (63).

Earnings

Operating profit (EBIT)

Operating expenses for Q1 amounted to SEK 146.8 m (126.9), which represents an increase of SEK 19.9 m. The increase is explained by higher manufacturing costs due to higher volumes, but also by a temporary disruption in production and an unfavorable product mix. In summary, this resulted in a decreased gross margin compared to Q1 last year and was 39% (42). Sales and marketing expenses decreased to SEK 25.5 m (26.9) as fewer customer activities were carried out as a result of Covid-19 restrictions. However, administrative expenses rose during the quarter as a result of increased business development expenses and stood at SEK 15.8 m (12.2). Research and development costs rose to SEK 9.3 m (7.8) as a result of greater activity in the company's research program.

The Group's operating profit for Q1 amounted to SEK 11.0 m (11.3). Adjusted for currency effects, the operating profit was SEK 11.2 m.

Financial result

The Group's financial result for Q1 was SEK 2.6 m (-0.4). Net interest income, including IFRS 16, was SEK 0.3 m (-0.6). Furthermore, bank charges amounted to SEK -0.1 m (-0.2). Exchange rate gains and losses on the translation of cash and cash equivalents in other currencies, are recognized in foreign exchange earnings from financing operations. An exchange rate gain of SEK 3.1 m (0.5) occurred in Q1 as a result of the weaker Swedish krona.

Profit after tax

The profit after tax for Q1 was SEK 10.7 m (8.5). The tax cost amounted to SEK 2.9 m (2.4).

Earnings per share

Earnings per share for Q1 amounted to SEK 0.94 (0.75).

Cash flow and financial position

Investments

During Q1, investments in intangible fixed assets amounted to SEK 2.0 m (2.1), of which SEK 1.2 m (0.6) was for patents and SEK 0.8 m (1.5) was for capitalized development costs. Investments in property, plant and equipment rose to SEK 5.0 m (2.5), primarily relating to investments in the manufacturing unit in Redmond.

Change in cash and cash equivalents

Liquid funds increased during Q1 by SEK 28.1 m (-30.5) to SEK 235.0 m (207.0). The cash flow from operating activities declined by SEK 3.8 m compared with the corresponding period last year as a result of a higher tax payment. The financing agreement was terminated prematurely in the quarter, due to strong liquidity. The agreement was due to mature in July 2020.

Employees

Probi had 165 (165) employees at the end of the period, of which 48% (48%) were women. The average number of employees during the year was 163 (163).

Transactions with related parties

During Q1, Probi's revenue from its largest owner, Symrise, amounted to SEK 2.2 m (-) and refers to sales of ingredients for a skin care product, developed through a collaboration between Probi and Symrise. No other transactions with related parties occurred during the reporting period.

Significant risks and uncertainties

In connection with Covid-19, the main current issues are the risks of changing consumer trends and the company's supply of goods that are being updated. These risks, together with other risks and uncertainties to which Probi's operations are exposed, are described on pages 44-45 of the printed annual report for 2019.

Parent company

During Q1, the parent company's operating income increased to SEK 80.0 m (75.4). The profit after tax was SEK 14.4 m (15.3). Investments in tangible and intangible fixed assets amounted to SEK 2.7 m (2.1). As for the rest, please see information for the Group.

Financial calendar

Annual General Meeting for 2019	May 13, 2020
Interim report Q2, 2020	July 17, 2020
Interim report Q3, 2020	October 21, 2020
Year-end report, 2020	February 9, 2021

Assurance by the Board of Directors

The Board of Directors and Chief Executive Officer declare that this interim report gives a true and fair view of the Parent Company and the Group's operations, financial position and results, and describes the significant risks and uncertainties facing the Parent Company and the Group.

Lund, April 24, 2020

Jean-Yves Parisot
Chairman of the Board

Jörn Andreas
Board member

Irène Corthésy Malnoë
Board member

Charlotte Hansson
Board member

Jonny Olsson
Board member

Tom Rönnlund
CEO

The report has not been subject to review by the company's auditors.

Consolidated statement of comprehensive income

SEK 000	Notes	Jan-Mar 2020	Jan-Mar 2019
Net sales	2	157,767	138,169
Cost of goods sold	3	-96,185	-80,098
Gross profit		61,582	58,071
Sales and marketing expenses		-25,540	-26,944
Research and development expenses		-9,324	-7,807
Administration expenses		-15,759	-12,172
Other operating income		—	157
Operating profit (EBIT)		10,959	11,305
Financial income		203	351
Financial expenses		-669	-1,228
Exchange result financing activities	4	3,072	504
Financial result		2,606	-373
Earnings before income taxes		13,565	10,932
Income taxes		-2,897	-2,399
Net income		10,668	8,533
Other comprehensive income			
Components to be reclassified to net income			
Exchange rate differences resulting from the translation of foreign operations		76,946	32,103
Cash flow hedge (currency hedges)		-1,392	-1,131
Income taxes payable on these components		298	242
Sum of other comprehensive income		75,852	31,214
Total comprehensive income		86,520	39,747
Number of outstanding shares at end of the reporting period		11,394,125	11,394,125
Average number of shares		11,394,125	11,394,125
Earnings per share before and after dilution		0.94	0.75

The profit for the period and comprehensive income are attributable in their entirety to the Parent Company's shareholders. The company has no outstanding convertible loans or warrants, so dilution does not occur.

In 2011, Probi bought back company shares and owned 250,000 treasury shares at the end of the reporting period, corresponding to 2.1% of the total number of shares. The quotient value per share is SEK 5.00.

Condensed consolidated statement of financial position

SEK 000	31 March 2020	31 December 2019
Capitalised Development Cost	41,186	42,775
Customer base	315,274	297,832
Technology and other intangible assets	147,129	141,139
Goodwill	341,771	316,202
Property, plant and equipment	53,227	46,785
Right-of-use assets	61,543	60,535
Deferred tax assets	7,988	6,008
Non-current assets	968,118	911,276
Inventories	76,751	79,497
Trade receivables	83,643	83,341
Other assets and receivables	7,728	8,534
Cash and cash equivalents	235,029	206,960
Current assets	403,151	378,332
Total assets	1,371,269	1,289,608
Total equity	1,238,646	1,152,126
Lease liabilities non-current	47,206	46,612
Other non-current liabilities	5,291	4,952
Non-current liabilities	52,497	51,564
Trade payables	36,864	37,631
Lease liabilities current	15,438	14,556
Other current liabilities	27,824	33,731
Current liabilities	80,126	85,918
Total liabilities	132,623	137,482
Liabilities and equity	1,371,269	1,289,608

Consolidated changes in equity

SEK 000	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2019	58,221	600,205	23,930	139	347,627	1,030,122
Net income	–	–	–	–	8,533	8,533
Other comprehensive income	–	–	32,103	-889	–	31,214
Total Comprehensive Income	–	–	32,103	-889	8,533	39,747
Dividends	–	–	–	–	–	–
Total transactions with shareholders	–	–	–	–	–	–
Closing balance, 31 March 2019	58,221	600,205	56,033	-750	356,160	1,069,869
SEK 000	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2020	58,221	600,205	59,969	217	433,514	1,152,126
Net income	–	–	–	–	10,668	10,668
Other comprehensive income	–	–	76,946	-1,094	–	75,852
Total Comprehensive Income	–	–	76,946	-1,094	10,668	86,520
Closing balance, 31 March 2020	58,221	600,205	136,915	-877	444,182	1,238,646

Consolidated cash flow statement

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Net income	10,668	8,533
Adjustments to reconcile net income to cash from operating activities		
Income taxes	2,897	2,399
Interest result	320	784
Amortisation, depreciation and impairment of non-current assets	18,907	16,912
Other non-cash expenses and income	899	229
Cash flow before working capital changes	33,691	28,857
Change in trade receivables and other current assets	4,663	3,838
Change in inventories	8,244	1,385
Change in trade payables and other current liabilities	1,937	4,746
Income taxes paid	-17,022	-3,493
Cash flow from operating activities	31,513	35,333
Payments for investing in intangible assets	-2,020	-2,148
Payments for investing in property, plant and equipment	-5,049	-2,505
Cash flow from investing activities	-7,069	-4,653
Interest paid	-498	-1,000
Interest received	95	351
Redemption of bank borrowings	—	-60,000
Repayments for lease obligations	-3,331	-3,002
Dividends paid	—	—
Cash flow from financing activities	-3,734	-63,651
Net change in cash and cash equivalents	20,710	-32,971
Effects of changes in exchange rates	7,359	2,473
Total changes	28,069	-30,498
Cash and cash equivalents at opening balance	206,960	199,299
Cash and cash equivalents at closing balance	235,029	168,801

Parent company's condensed financial statements

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Operating revenue	79,974	75,420
Operating costs	-29,006	-23,955
Gross profit	50,968	51,465
Operating profit (EBIT)	15,448	19,937
Result from financial income and expenses	3,033	-148
Income before tax	18,481	19,789
Net income	14,413	15,272

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Net income	14,413	15,272
Cash flow hedge (currency hedges)	-1,392	-1,131
Income taxes payable on these components	298	242
Sum of other comprehensive income	-1,094	-889
Total comprehensive income	13,319	14,383

SEK 000	31 March 2020	31 December 2019
Fixed assets	975,332	976,497
Current assets	191,590	186,145
Total assets	1,166,922	1,162,642
Equity	1,121,253	1,107,933
Total long-term liabilities	4,035	4,035
Current liabilities	41,634	50,674
Total equity and liabilities	1,166,922	1,162,642

Notes

1. Accounting and measurement policies

The Group

This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The condensed financial statements in the interim report encompass pages 8-15. Disclosures in accordance with IAS 34 Interim Financial Reporting are provided both here and elsewhere in the interim report. ESMA's guidelines apply to alternative performance measures.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently for all periods reported, unless otherwise stated. The complete accounting policies can be found on pages 60-63 of the printed 2019 Annual Report.

The Parent Company's functional currency is the Swedish krona (SEK), which is also the reporting currency for both the Parent Company and the Group. All amounts stated have been rounded to the nearest thousand kronor, unless otherwise stated.

Amounts and figures in parentheses pertain to comparative figures for the equivalent period in the previous year. Amounts are stated in Swedish kronor (SEK), thousands of Swedish kronor (SEK 000) or millions of Swedish kronor (SEK m) according to that which is stated.

Parent company

The Parent Company applies the same accounting policies as the Group, with the exception of IFRS 16 Leases and the exemptions and supplements stipulated in RFR 2, Accounting for Legal Entities. The interim report complies with the Swedish Annual Accounts Act.

2. Revenue from contracts with customers

A breakdown of the Group's net sales from contracts with customers is presented below:

SEK 000	Jan-Mar 2020				Jan-Mar 2019			
	Americas	EMEA	APAC	Total	Americas	EMEA	APAC	Total
Revenue distribution, category								
Goods	113,133	29,331	13,089	155,553	91,506	25,807	10,612	127,925
Royalty	1,791	405	18	2,214	2,291	7,953	–	10,244
Total net sales from contracts with customers	114,924	29,736	13,107	157,767	93,797	33,760	10,612	138,169

3. Currency translation from operating activities

The following table shows the exchange rate gains and losses from operating activities that are recognised under cost of goods sold:

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Exchange gains operating activities	4,281	2,110
Exchange losses operating activities	-2,700	-767
Exchange result operating activities	1,581	1,343

4. Currency translation from financing activities

The following table shows the exchange gains and losses from financing activities recognized in the financial results:

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Exchange gains financing activities	3,215	611
Exchange losses financing activities	-143	-107
Exchange result financing activities	3,072	504

5. Definition of alternative KPIs not defined in IFRS

The company presents certain financial KPIs in the interim report that are not defined in IFRS. The company believes that these measures provide valuable supplementary information to investors and company management. Since not all companies calculate alternative KPIs in the same way, they are not always comparable with the measures used by other companies. However, these non-IFRS measures should not be considered substitutes for financial reporting measures prepared in accordance with IFRS.

The following alternative KPIs are presented in the interim report:

Operating profit (EBIT)

The operating profit (EBIT) is defined as net income before financial income and expenses and tax for the period and is used as a measure of the company's profitability.

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Net income	10,668	8,533
Income taxes	2,897	2,399
Financial result	-2,606	373
Operating profit (EBIT)	10,959	11,305

EBITDA

EBITDA is defined as the operating profit (EBIT) before depreciation/amortization and impairment, and is used as a measure of the company's profitability.

SEK 000	Jan-Mar 2020	Jan-Mar 2019
Operating profit (EBIT)	10,959	11,305
Depreciation and amortisation	18,907	16,912
EBITDA	29,866	28,217

Other alternative performance measures:	Definition/Bases of calculation	Purpose
Gross margin	Defined as gross profit divided by net sales	Used to measure product profitability
Market capitalization on the closing date	Defined as the share price at the end of the period multiplied by the number of shares outstanding	Used to measure the company's market capitalization at the end of the period
EBITDA margin	Defined as EBITDA divided by net sales	Used to measure the company's profitability before depreciation/amortization and impairment of tangible and intangible assets
Net sales growth adjusted for currency effects	Defined as net sales for the year translated at the preceding year's exchange rates divided by the preceding year's net sales	Used to measure underlying net sales growth
Operating expenses	Defined as the sum of cost of goods sold, sales and marketing costs, research and development costs, administration expenses, other operating income and other operating expenses	Used to measure the sum of the company's total expenses before the financial result and tax
Operating margin	Defined as operating profit divided by net sales	Used to measure the company's profitability