

## BioGaia AB

### Interim management statement 1 January – 30 September 2016

(Figures in brackets refer to the same period of last year. The comparative figures in the balance sheet refer to 31 December 2015)



#### Comments from the Managing Director:

“Third quarter sales were driven by strong growth in Asia and Europe, where the launch of EasyDropper is continuing. Net sales for the first nine months reached SEK 395.9 million. It is highly gratifying that we have now passed the level for 2015, in spite of the major inventory build-up in Brazil last year. Promising is also the trend in Business Unit Adult Health, which has shown growth for two consecutive quarters. I would also like to mention that the clinical study on reduction of pregnancy gingivitis, which we have previously reported on, has been very well received by our partners, and it is very satisfying that we have signed a sales agreement in Western and Eastern Africa”, says Axel Sjöblad, Managing Director of BioGaia AB.

#### Period from 1 January – 30 September 2016

Net sales amounted to SEK 395.9 million (378.9), an increase of SEK 17.0 million (4%). (No material foreign exchange effects arose.)

Net sales in Business Unit Paediatrics reached SEK 313.8 million (313.0), an increase of SEK 0.8 million (0 %). (No material foreign exchange effects arose.)

Net sales in Business Unit Adult Health amounted to SEK 69.4 million (54.6), an increase of SEK 14.8 million (27%) (excluding foreign exchange effects, 24%).

Operating profit excluding the distributed former subsidiary IBT was SEK 153.1 million (140.8), an increase of SEK 12.3 million (9%). Including IBT, operating profit was SEK 147.9 million (124.7). (No material foreign exchange effects arose.)

Profit after tax excluding IBT was SEK 112.4 million (112.2), an increase of SEK 0.2 million (0%).

Earnings per share from continuing operations totalled SEK 6.48 (6.49). Earnings per share including discontinued operations totalled SEK 10.42 (5.76).

The period's cash flow was SEK -27.6 million (8.0). Cash and cash equivalents at 30 September 2016 amounted to SEK 201.6 million (226.9). Cash flow includes the distribution of the subsidiary IBT, which had a negative impact on cash flow of SEK 37.6 million.

#### Third quarter 2016

Net sales amounted to SEK 126.0 million (106.0), an increase of SEK 20.0 million (19%) (excluding foreign exchange effects, 17%).

Net sales in Business Unit Paediatrics reached SEK 99.0 million (88,9), an increase of SEK 10.1 million (11%) (no material foreign exchange effects arose.)

Net sales in Business Unit Adult Health amounted to SEK 22.6 million (12.6), an increase of SEK 10.0 million (79%) (excluding foreign exchange effects, 70%).

Operating profit excluding IBT was SEK 48.4 million (36,2), an increase of SEK 12.2 million (34 %). Including IBT, operating profit was SEK 48.4 million (29.7). (No material foreign exchange effects arose.)

Profit after tax excluding IBT was SEK 35.1 million (25.7), an increase of SEK 9.4 million (37%). Including IBT, profit after tax was SEK 35.1 million (20.7).

Earnings per share excluding IBT totalled SEK 2.02 (1.49). Earnings per share including IBT totalled SEK 2.02 (1.19).

#### Key events in the third quarter of 2016

Publication of study showing that BioGaia ProDentis reduces pregnancy gingivitis.

Agreement for the sale of drops, tablets and oral rehydration solution in Kenya, Nigeria and Ghana.

**Teleconference:** You are welcome to take part in a teleconference on the interim management statement that will be held today 25 October at 8:45 a.m. by Managing Director Axel Sjöblad. To participate in the teleconference call please see [www.biogaia.com/agenda](http://www.biogaia.com/agenda) for telephone numbers. The teleconference can also be followed at <https://wonderland.videosync.fi/biogaia-q3-report>.

This information is information that BioGaia 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, at 25 October 2016, 8:00 a.m. CET.

This is a translation of the Swedish version of the interim report. When in doubt, the Swedish wording shall prevail.

## BioGaia AB (publ.)

### Interim management statement 1 January – 30 September 2016

Figures in brackets refer to the same period of last year. The comparative figures in the balance sheet refer to 31 December 2015.

We hereby present BioGaia AB's interim management statement for the period from 1 January to 30 September 2016. A description of the company's operations is provided on page 11.

### MANAGING DIRECTOR'S COMMENTS

In the third quarter we continued focusing on the expansion of our product portfolio among our existing partners, on the rollout of Prodentis and Gastrus and on the launch of EasyDropper (the new packaging solution for our drops with easier and more precise dosing). As earlier in the year, these efforts were supplemented with additional activities in our anticipated future growth markets, where we are currently concentrating mainly on the USA, Japan, India and the UK.

Internally our change process continues with the aim of increasing our speed of product launch, and we expect to start seeing the results of this work in 2017.

Our sales for the third quarter of 2016 reached SEK 126.0 million, an increase of SEK 20.0 million compared to the same period of last year. It is encouraging to note that the third quarter was stronger than normal in several of our markets.

Third quarter sales were driven by strong development in Europe and Asia, where sales increased by 49% and 52%, respectively. Sales in the USA and Canada were weaker than expected, which meant that cumulative sales growth in this region fell to 10%, compared to 21% after the first two quarters of the year. Against this background, it was very encouraging to meet doctors and our partners at the WCPGHAN Congress in Montreal and feel the large interest in BioGaia's products from both North and South America.

In Business Unit Paediatrics third quarter sales reached SEK 99.0 million, an increase of 11%. Sales were up mainly as an effect of increased royalties on Growing Up Milk for children over the age of one year, higher sales of Protectis digestive health tablets (in all regions except the USA and Canada) and strong sales of drops in Europe, where the launch of EasyDropper continues.

In Business Unit Adult Health, sales amounted to SEK 22.6 million, up by a full 70%. The main explanations for the increase were a continued successful rollout of Prodentis lozenges and higher sales of Protectis digestive health tablets.

R&D expenses (excluding IBT) rose and, as earlier, I am pleased that we are stepping up the rate of clinical studies since these are vital for our future growth. This was once again apparent when we noted the interest that the latest study on reduction of pregnancy gingivitis raised among our partners.

Thanks to third quarter sales, we have increased the sales by 4% after the first nine months of the year compared to the same period of 2015. And we have achieved this despite low sales in Brazil during 2016 following last year's inventory build-up. Our Brazilian partner Aché reports continued positive development in consumer sales, which meant that we once again started to receive orders from Brazil in the third quarter. Furthermore, we are seeing a continued order intake from both South Africa and Finland, which confirms that sales have now gained good momentum in these important markets which started the year weakly.

In the fourth quarter we will continue to follow developments in the Italian market. As previously announced, our distributor Italchimici has been acquired by another of our partners, Recordati, which could lead to a short-term dip in our sales.

Nestlé is buying fewer cultures for infant formula with a very low margin at the same time as royalties from Growing Up Milk for

children over the age of one year are rising. This development has a continued positive impact on our margins and profitability.

In conclusion, I would like to highlight the third quarter signing of an agreement for the sale of drops, digestive health tablets and oral rehydration solution in Kenya, Nigeria and Ghana. For us this was an important step in Western and Eastern Africa, and our aim is for this to lay the foundation for strong future sales in the region.

### FINANCIAL PERFORMANCE, JANUARY - SEPTEMBER 2016

#### *Net sales, January-September 2016*

Consolidated net sales amounted to SEK 395.9 million (378.9), which is an increase of SEK 17.0 million (4%) compared to the same period of last year.

Most of the company's sales are denominated in foreign currency, primarily EUR but also USD, CHF and JPY. With unchanged exchange rates compared to the same period of last year, net sales would have been SEK 1.7 million lower. Changes in foreign exchange rates affect both income and expenses. With unchanged exchange rates, operating profit for January-September would have been SEK 0.4 million higher. Expenses arise mainly in SEK but also in JPY, EUR and USD.

For the past 12-month period, net sales were unchanged (excluding foreign exchange effects, -1%).

#### *Sales by segment, January - September 2016*

##### BUSINESS UNIT PAEDIATRICS

Net sales in BioGaia's core area Paediatrics amounted to SEK 313.8 million (313.0), an increase of SEK 0.8 million (0%) (no material foreign exchange effects arose).

Sales of drops declined somewhat compared to the same period of last year. Sales of drops rose sharply in Europe and modestly in the USA, Canada and Asia, but fell in Rest of the World (mainly Brazil).

Sales of digestive health tablets in Business Unit Paediatrics were down compared to the same period of last year. Tablet sales rose above all in Asia, the USA and Canada but fell slightly in Europe and sharply in Rest of the World (mainly in Brazil).

Sales of cultures for infant formula were lower than in the same period of last year.

Royalty revenue from Nestlé for the use of Lactobacillus reuteri Protectis in Growing Up Milk for children older than one year increased compared to the same period of last year.

Royalty revenue from the collaboration agreement with Nestlé (for more information, see below under other sales) in Business Unit Paediatrics amounted to SEK 7.4 million (4.7).

For the past 12-month period, sales in Business Unit Paediatrics fell by 4% (excluding foreign exchange effects, -5%).

##### BUSINESS UNIT ADULT HEALTH

Net sales in Business Unit Adult Health amounted to SEK 69.4 million (54.6), an increase of SEK 14.8 million (27%) (excluding foreign exchange effects, 24%). The increase was driven by higher sales of Protectis digestive health tablets, Prodentis oral health lozenges and the rollout of Gastrus digestive health tablets.

Sales of digestive health tablets rose in Europe, Asia and Rest of the World (South Africa) compared to the same period of last year. In the USA and Canada, no digestive health tablets are sold in the Adult Health segment.

Sales of oral health products were up in all markets except the USA and Canada.

Since 2015 Gastrus is sold in Japan and South Korea. During 2016 Gastrus has been launched in Italy, Spain, Singapore and the USA and the sales are increasing continuously from a low level.

For the past 12-month period, sales in Business Unit Adult Health grew by 15% (excluding foreign exchange effects, net sales rose by 12%).

#### OTHER SALES

Other sales amounted to SEK 12.8 million (11.3), an increase of SEK 1.5 million.

Other sales include royalty revenue of SEK 10.5 million (8.5) from the collaboration agreement that was signed with Nestlé in March 2014. The royalty revenue amounts to a total of SEK 92.0 million for the period 2014-2017 and is distributed between Business Unit Paediatrics and New Business. Under the agreement, BioGaia has undertaken to carry out clinical studies on children and develop new products in new areas. BioGaia will recognize the royalty revenue in pace with completion of the projects. As of 30 September 2016, BioGaia had recognized revenue of SEK 58.4 million of a total of SEK 92 million, of which SEK 35.2 million in Business Unit New Business and SEK 23.2 million in Business Unit Paediatrics.

#### SALES BY GEOGRAPHICAL MARKET JANUARY - SEPTEMBER

Sales in Europe were up by SEK 48.8 million (23%) To SEK 262.4 million. For the past 12-month period, sales increased by 16%.

Sales in the USA and Canada rose by SEK 2.5 million (10%) to SEK 26.9 million. For the past 12-month period, sales were up by 2%.

Sales in Asia grew by SEK 8.6 million (23%) to SEK 46.8 million. For the past 12-month period, sales increased by 21%.

Sales in Rest of the World were down by SEK 42.8 million (42%) to SEK 59.9 million. This is almost exclusively due to lower sales to Brazil resulting from the inventory buildup there in the previous year. For the past 12-month period, sales decreased by 46%.

#### THE BIOGAIA BRAND

Of total finished consumer products, (drops, digestive health tablets, oral health lozenges, oral rehydration solution, etc.), 57% (62%) were sold under the BioGaia brand, including co-branding, during the period from January to September. The decrease is mainly due to lower sales in Brazil.

#### Gross profit, January-September

Gross profit amounted to SEK 283.8 million (263.2), which is an increase of SEK 20.6 million (8%) compared to the same period of last year. The total gross margin rose from 69% to 72%.

Gross margin for Business Unit Paediatrics increased from 68% to 72%. This is due to higher royalty revenue for the use of cultures in Growing Up Milk for children over the age of one year (with a 100% margin) and lower sales of cultures for infant formula with a very low margin.

Gross margin for Business Unit Adult Health fell from 70% to 64%. This is partly because Gastrus has a lower margin during the launch period and partly because the margin on both digestive and oral health tablets has decreased slightly as a result of higher costs for bacteria cultures.

#### Operating expenses, January-September

Total operating expenses excluding discontinued operations (IBT) rose by 8% to SEK 135.6 million. For the past 12-month period, total operating expenses were up by 2%.

Selling expenses, excluding IBT, increased compared to the same period of last year by SEK 4.1 million (6%) and amounted to SEK 74.3 million (70.2), which is equal to 19% (19%) of net sales. The increase is attributable to higher costs for marketing activities such as market samples and congress costs as well as personnel costs. For the past 12-month period, selling expenses were up by 1%.

Administrative expenses amounted to SEK 15.7 million (13.5), which is equal to 4% (4%) of net sales. The increase of SEK 2.2 million (16%) is mainly explained by higher personnel costs. For the past 12-month period, the Group's administrative expenses increased by 10%.

R&D expenses excluding IBT are reported at SEK 45.7 million (41.7), which is equal to 12% (11%) of net sales. The increase of SEK 4.0 million (10%) is mainly attributable to higher personnel costs and increased costs for research projects and clinical studies, but also higher patent costs. For the past 12-month period, R&D expenses were unchanged.

Other operating income/expenses refer to foreign exchange gains/losses on operating receivables and liabilities. These amounted to SEK 5,4 million (3.0).

#### Operating profit, January-September

Operating profit excluding IBT was SEK 153.1 million (140.8), an increase of SEK 12.3 million (9%) and operating margin excluding IBT was 39% (37%). Including the subsidiary IBT, operating profit was SEK 153.1 million (124.7).

#### Share in profit of associates

Share in profit of associates refers to BioGaia's share of profit in MetaboGen AB.

#### Financial items and profit before tax, January-September

Profit before tax was SEK 148.7 million (142.5), an increase of SEK 6.2 million (4%). Net financial items include a foreign exchange loss of SEK 5.6 million on forward exchange contracts in EUR and USD. The figures for the previous year include a corresponding foreign exchange gain of SEK 1.6 million.

At 30 September 2016 the company had outstanding forward exchange contracts for EUR 11.3 million at an average exchange rate of SEK 9.39 and USD 1.6 million at an average exchange rate of SEK 8.39. The actual exchange gain/loss depends on the exchange rate on the maturity date of the contracts.

#### Profit after tax, January-September

Profit after tax excluding IBT was SEK 112.4 million (112.2), an increase of SEK 0.2 million (0%).

The tax rate for the Group was 24% (21%). The Group pays tax on profits in the Swedish companies. The loss in Japan is not deductible against the Swedish profits. Tax loss carryforwards in the Japanese subsidiary amounted to approximately SEK 32 million at 30 September 2016. The deferred tax asset for these has not yet been recognized, since a sustainable profit level has not yet been shown in the Japanese subsidiary. That explains the higher tax rate in the Group.

### **Earnings per share, January-September**

Earnings per share excluding IBT amounted to SEK 6.48 (6.49). Earnings per share including discontinued operations amounted to SEK 10.42 (5.76). No dilutive effects arose during the period.

### **Cash flow, January-September**

Cash flow for the period amounted to SEK -27.6 million (8.0). BioGaia's former subsidiary IBT was distributed to BioGaia's shareholders on 29 March 2016. At that time, IBT's cash and cash equivalents amounted to SEK 37.6 million, compared to SEK 44.4 million at year-end 2015. Excluding IBT, cash flow for the period was SEK 16.8 million. Cash flow includes dividends of SEK 86.7 million (86.3). In addition, working capital increased by SEK 13.7 million during the period, compared to a decrease of SEK 8.8 million in the same period of last year. It is mainly trade receivables that have increased since year-end. Cash and cash equivalents at 30 September 2016 amounted to SEK 201.6 million (226.9).

### **Equity**

Consolidated equity at 30 September 2016 amounted to SEK 369.4 million (395.8). The Group's equity/assets ratio was 82% (83%).

### **Investments in property, plant and equipment, January-September**

Investments in property, plant and equipment amounted to SEK 3.5 million (15.4), of which SEK 3.3 million (15.3) refers to the subsidiary TwoPac.

Investments in capitalized development expenditure amounted to SEK 0.0 million (9.0). Investments during 2015 referred to development of a product for the NEC project in the former subsidiary IBT, which was distributed to the shareholders in March 2016.

### **Subsidiary in Japan, January-September**

Net sales in the wholly owned subsidiary in Japan reached SEK 17.4 million (16.7). Operating profit/loss in the Japanese subsidiary was SEK -2.4 million (-1.4).

### **Subsidiary TwoPac AB, January-September**

TwoPac AB is a wholly owned subsidiary of BioGaia that manufactures and develops products, such as drops, exclusively for BioGaia.

Net sales in TwoPac totalled SEK 53.1 million (36.1). Operating profit was SEK 14.1 million (6.0). Profit after tax was SEK 10.6 million (4.2).

### **Subsidiary CapAble AB, January-September**

CapAble, which is owned 90.1% by BioGaia and 9.9% by CapAble's President, was started in November 2008 to manufacture and sell the patented LifeTop Cap. Net sales in CapAble amounted to SEK 0.0 million (1.1) during the period. Operating profit was SEK -2.6 million (-1.6).

### **Parent Company, January-September**

Net sales in the Parent Company amounted to SEK 382.4 million (369.7) and profit before tax was SEK 137.9 million (134.1). The Parent Company's profit includes the write-down of the loan to the subsidiary in Japan by SEK 14.4 million. No new loans have been paid, and the write-down refers to currency adjustment of the existing loan. Cash flow in the Parent Company totalled SEK 3.2 million (-41.3).

## **FINANCIAL PERFORMANCE IN THE THIRD QUARTER OF 2016**

### **Net sales, third quarter 2016**

Consolidated net sales amounted to SEK 126.0 million (106.0), which is an increase of SEK 20.0 million (19%). Excluding foreign exchange effects, net sales were up by 17%.

Compared to the previous quarter, net sales declined by SEK 10.0 million, which is normal for the third quarter when there is lower activity among the distributors and suppliers as a result of the customary summer vacation period in Europe.

### **Sales by segment, third quarter 2016**

#### **BUSINESS UNIT PAEDIATRICS, THIRD QUARTER**

Net sales in BioGaia's core area Paediatrics amounted to SEK 99.0 million (88.9), an increase of SEK 10.1 million (11%) (no material foreign exchange effects arose during the period). This is mainly due to increased sales of Protectis digestive health tablets and higher royalties on Growing Up Milk for children over the age of one year.

Sales of drops were up slightly compared to the same period of last year. Drop sales rose dramatically in Europe, were largely unchanged in the USA and Canada and fell sharply in Rest of the World (Brazil) and somewhat in Asia.

Sales of Protectis digestive health tablets increased compared to the same period of last year. Tablet sales were up in all markets except the USA and Canada.

Sales of cultures for infant formula rose compared to the same period of last year.

Royalty revenue from Nestlé for the use of *Lactobacillus reuteri* Protectis in Growing Up Milk for children over the age of one year increased compared to the same period of last year.

Royalty revenue from the collaboration agreement with Nestlé (for more information see above under other sales January-September) in Business Unit Paediatrics amounted to SEK 2.6 million (0.4).

Compared to the previous quarter, net sales in Paediatrics were down by SEK 7.7 million.

#### **BUSINESS UNIT ADULT HEALTH, THIRD QUARTER**

Net sales in Business Unit Adult Health amounted to SEK 22.6 million (12.6), an increase of SEK 10.0 million (79%) (excluding foreign exchange effects, 70 %) compared to the same period of last year. The increase is mainly attributable to higher sales of Protectis digestive health tablets and Prodentis oral health lozenges.

Sales of Protectis digestive health tablets rose in Europe, Asia and Rest of the World (South Africa) compared to the same period of last year. In the USA and Canada, no digestive health tablets are sold in the Adult Health segment.

Sales of Prodentis oral health lozenges increased primarily in Asia but also in Europe. In the USA, Canada and Rest of the World, sales of oral health lozenges declined.

Sales of Gastrus were low during the quarter. Gastrus has been launched in Italy, Spain, Singapore and the USA during 2016. As earlier, Gastrus is also sold in Japan and South Korea.

Compared to the previous quarter, sales in Adult Health were down by SEK 3.1 million.



## OTHER SALES, THIRD QUARTER

Other sales amounted to SEK 4.5 million (4.5).

Other sales include royalty revenue of SEK 3.5 million (3.5) from the collaboration agreement that was signed with Nestlé in March 2014. For more information, see above under sales for January-September 2016

## SALES BY GEOGRAPHICAL MARKET, THIRD QUARTER

Sales in Europe increased by SEK 26.0 million (49%) to SEK 79.5 million.

Sales in the USA and Canada fell by SEK 1.6 million (33%) to SEK 3.2 million.

Sales in Asia rose by SEK 5.9 million (52%) to SEK 17.4 million.

Sales in Rest of the World declined by SEK 10.4 million (28%) to SEK 26.0 million.

### Gross profit, third quarter

Gross profit amounted to SEK 91.3 million (71.8), which is an increase of SEK 19.5 million (27%). The total gross margin rose from 68% to 72%.

Gross margin for Business Unit Paediatrics increased from 67% to 73%. This is attributable to higher royalty revenue for the use of bacteria cultures in Growing Up Milk for children over the age of one year (with a margin of 100%) and a somewhat higher margin for drops.

Gross margin for Business Unit Adult Health fell from 66% to 64%. This is because the margin on digestive health tablets and oral health lozenges has decreased somewhat as a result of higher costs for bacteria cultures.

### Operating expenses, third quarter

Total operating expenses (excluding IBT) were up by 22% to SEK 46.0 million compared to the same period of last year.

Selling expenses (excluding IBT) amounted to SEK 24.7 million (21.3), an increase of SEK 3.4 million (16%) mainly owing to higher costs for marketing activities and increased personnel costs.

Administrative expenses amounted to SEK 4.9 million (3.9), an increase of SEK 1.0 million (26%) due to higher personnel costs.

R&D expenses (excluding IBT) are reported at SEK 16.4 million (12.4), an increase of SEK 4.0 million (32%) resulting mainly from higher costs for patents, research projects and clinical studies.

Other operating income refers to foreign exchange gains on operating receivables and liabilities. This amounted to SEK 3.0 million (2.0) during the quarter.

### Operating profit, third quarter

Operating profit (excluding IBT) was SEK 48.4 million (36.2), an increase of SEK 12.2 million (34%), and operating margin was 38% (34%). Including the subsidiary IBT, operating profit was SEK 48.4 million (29.7).

### Profit before tax, third quarter

Profit before tax (excluding IBT) was SEK 45.9 million (33.5), up by SEK 12.4 million (37%).

### Profit after tax, third quarter

Profit after tax (excluding IBT) was SEK 35.1 million (25.7), an increase of SEK 9.4 million (37%).

## KEY EVENTS IN THE THIRD QUARTER

### Launches in the third quarter

Distributor/licensee	Country	Product
Age D'or	Singapore	Gastrus digestive health tablets
Unilab	The Philippines	Protectis digestive health tablets with strawberry flavour

### Publication of study showing that BioGaia Prodentis reduces pregnancy gingivitis

A double-blind, randomized, placebo-controlled study on 45 women with pregnancy gingivitis showed that supplementation of *L. reuteri* Prodentis significantly reduced inflammation and plaque compared to placebo. The women with pregnancy gingivitis were enrolled in the study at the beginning of their third trimester. Participants were randomly provided with a supply of lozenges to be consumed twice daily until birth (approximately three months), containing either Prodentis or placebo. At the end of the treatment period, both the gingival index and plaque index of the probiotics group were significantly lower than in the placebo group. The study was published in [Journal of Clinical Periodontology](#) on 27 July 2016.

### Agreement for the sale of drops, tablets and oral rehydration solution in Kenya, Nigeria and Ghana

In September BioGaia signed an exclusive distribution agreement with Phillips Pharma Group for the right to sell BioGaia ProTectis drops, tablets and oral rehydration solution Kenya, Nigeria and Ghana. The products will be sold under the BioGaia's brand and the launch is planned to start in Kenya at the end of 2016.

## EMPLOYEES

The number of employees in the Group at 30 September 2016 (excluding IBT) was 105 (100).

## SIGNIFICANT RISKS AND UNCERTAINTIES; GROUP AND PARENT COMPANY

Significant risks and uncertainties are described in the administration report of the annual report for 2015, on pages 6 and 7 and in Notes 29 and 30. No significant changes in these risks and uncertainties are assessed to have taken place at 30 September 2016 aside from the fact that the subsidiary IBT, which is developing a drug for premature newborns, is no longer part of the Group following the distribution of the shares in the company to BioGaia's shareholders at the end of March.

## **ACCOUNTING POLICIES**

In all material aspects, this interim management statement has been prepared in accordance with Nasdaq OMX Stockholm's Guidelines for preparing interim management statements. Disclosures according to IAS 34 Interim Financial Reporting are provided both in the notes and in other parts of the interim management statement. The accounting policies applied in the consolidated profit and loss account and balance sheet are consistent with those used in preparation of the most recent annual report. The financial statements and segment information are consistent with the presentation used in the interim reports presented in compliance with IAS 34, in order to achieve comparability in presentation between quarters. The interim management statement contains, among other things, comments from the Managing Director, although this is not required according to Nasdaq OMX Stockholm's Guidelines for preparing interim management statements. This information is nonetheless considered important in meeting the users' needs.

The company applies IFRIC 17, which means that the distribution of the subsidiary IBT is carried at the fair value of the assets that have been distributed. The difference between the carrying amount of the net assets distributed and the carrying amount of the unpaid distribution at settlement is recognized in the income statement. The profit in the income statement reflects the difference between the fair value (based on the average price of the share on the first day of trading on 29 March 2016) and the company's recorded value in the consolidated balance sheet on 18 March 2016.

### ***New accounting standards***

The applied accounting policies correspond to those presented in the annual report for 2015. A number of new standards and interpretations have been published but are not yet effective.

## **FUTURE OUTLOOK**

BioGaia's goal is to create strong value growth and a good return for the shareholders. This will be achieved through a greater emphasis on the BioGaia brand, increased sales to both existing and new customers and a controlled cost level.

The financial target is a sustainable operating margin (operating profit in relation to sales) of at least 30% with continued strong growth and increased investments in research, product development, brand building and the sales organization.

BioGaia's dividend policy is to pay a shareholder dividend equal to 40% of profit after tax.

In view of the Company's strong portfolio consisting of an increased number of innovative products that are sold under the BioGaia brand to a growing extent, successful clinical trials and an expanding distribution network that covers a large share of the key markets, BioGaia's future outlook is bright.

**Consolidated statements of comprehensive income**

**Continuing operations**

(Amounts in SEK 000s)

	Jan- Sept 2016	Jan-Sept 2015	July- Sept 2016	July- Sept 2015	Jan-Dec 2015	Oct 2015- Sept 2016	Oct 2014- Sept 2015
Net sales	395,946	378,850	126,049	105,984	483,241	500,337	500,224
Cost of goods sold	-112,191	-115,629	-34,769	-34,154	-146,657	-143,219	-160,802
Gross profit	283,755	263,221	91,280	71,830	336,584	357,118	339,422
Selling expenses	-74,295	-70,202	-24,734	-21,323	-93,735	-97,828	-96,394
Administrative expenses	-15,673	-13,534	-4,946	-3,938	-18,475	-20,614	-18,815
Research and development expenses	-45,670	-41,694	-16,383	-12,362	-53,283	-57,259	-57,255
Shares of profit of associates	-400	-	123	-	-65	-465	-
Other operating expenses/expenses	5,362	3,032	3,037	1,971	1,773	4,103	6,825
Operating profit	153,079	140,823	48,377	36,178	172,799	185,055	173,783
Financial income	1,364	282	41	14	331	1,413	528
Foreign exchange gains/losses, forward exchange contracts	-5,583	1,578	-2,501	-2,639	5,106	-2,055	-2,313
Financial expenses	-130	-194	-10	-32	-259	-195	-214
Profit before tax	148,730	142,489	45,907	33,521	177,977	184,218	171,784
Tax	-36,356	-30,287	-10,845	-7,792	-40,594	-46,663	-38,640
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>	<b>112,374</b>	<b>112,202</b>	<b>35,062</b>	<b>25,729</b>	<b>137,383</b>	<b>137,555</b>	<b>133,144</b>
<b>Discontinued operations (Distribution of IBT)</b>							
<b>PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS</b>	<b>67,935</b>	<b>-12,612</b>	<b>-</b>	<b>-5,061</b>	<b>-16,092</b>		
<b>PROFIT FOR THE PERIOD</b>	<b>180,309</b>	<b>99,590</b>	<b>35,062</b>	<b>20,668</b>	<b>121,291</b>		
<b>Items that may be reclassified subsequently to profit or loss</b>							
Gains/losses arising on translation of the financial statements of foreign operations	2,116	556	788	439	462		
<b>Comprehensive income for the period</b>	<b>182,425</b>	<b>100,146</b>	<b>35,850</b>	<b>21,107</b>	<b>121,753</b>		
<b>Profit from continuing operations attributable to:</b>							
Owners of the Parent Company	112,374	112,203	35,062	25,730	137,497		
Non-controlling interests	0	-1	0	-1	-114		
	112,374	78,922	35,062	35,692	137,383		
<b>Profit for the period attributable to:</b>							
Owners of the Parent Company	180,593	78,923	35,062	35,693	121,408		
Non-controlling interests	-284	-1	0	-1	-117		
	180,309	78,922	35,062	35,692	121,291		
<b>Comprehensive income for the period attributable to:</b>							
Owners of the Parent Company	182,709	79,040	35,850	35,128	121,870		
Non-controlling interests	-284	-1	0	-1	-117		
	182,425	79,039	35,850	35,127	121,753		
<b>Earnings per share</b>							
Earnings per share in continuing operations (average number of shares), SEK	6.48	6.49	2.02	1.49	7.94		
Earnings per share including discontinued operations (average number of shares), SEK	10.42	5.76	2.02	1.19	7.01		
Number of shares (thousands)	17,336	17,336	17,336	17,336	17,336		
Average number of shares (thousands)	17,336	17,282	17,336	17,293	17,309		

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	30 Sept	31 Dec	30 Sept
Summary (Amounts in SEK 000s)	2016	2015	2015
<b>ASSETS</b>			
Intangible assets	-	16,225	15,112
Property, plant and equipment	82,395	83,934	84,199
Investments in associates	7,535	7,936	4,000
Other non-current receivables	-	22	22
<i>Total non-current assets</i>	<b>89,930</b>	<b>108,117</b>	<b>103,333</b>
Current assets excl. cash and cash equivalents	159,841	138,179	129,219
Cash and cash equivalents	201,554	226,882	219,803
<i>Total current assets</i>	<b>361,395</b>	<b>365,061</b>	<b>349,022</b>
<b>TOTAL ASSETS</b>	<b>451,325</b>	<b>473,178</b>	<b>452,355</b>
<b>EQUITY AND LIABILITIES</b>			
Equity attributable to owners of the Parent Company	369,450	395,851	374,129
Non-controlling interests	-18	-18	97
Total equity	369,432	395,833	374,226
Provision for deferred tax	351	351	192
Other provisions	-	-	3,900
Interest-free current liabilities	81,542	76,994	74,037
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>451,325</b>	<b>473,178</b>	<b>452,355</b>
<b>Pledged assets</b>	<b>2,253</b>	<b>2,690</b>	<b>4,626</b>

**CONSOLIDATED CASH FLOW STATEMENTS**

	Jan-Sept	Jan-Sept	July-Sept	July-Sept	Jan-Dec
Summary (Amounts in SEK 000s)	2016	2015	2016	2015	2015
<b>Operating activities</b>					
Operating profit (including discontinued operations)	147,917	124,662	48,377	29,690	152,184
Depreciation/amortization	5,051	3,949	1,674	1,259	6,548
Other non-cash items	-1,672	-983	-954	-199	-813
	151,296	127,628	49,097	30,750	157,919
Gains/losses on realized forward exchange contracts	-1,393	1,651	-806	687	2,203
Paid tax	-37,096	-35,267	-12,387	-11,409	-50,124
Interest received and paid	1,122	79	-78	-18	63
<b>Cash flow from operating activities before changes in working capital</b>	<b>113,929</b>	<b>94,091</b>	<b>35,826</b>	<b>20,010</b>	<b>110,061</b>
Changes in working capital	-13,726	8,784	17,163	4,106	7,440
<b>Cash flow from operating activities</b>	<b>100,203</b>	<b>102,875</b>	<b>52,989</b>	<b>24,116</b>	<b>117,501</b>
Acquisition of intangible assets	-	-9,037	-	-1,337	-10,150
Acquisition of property, plant and equipment	-3,510	-15,373	-836	-6,016	-17,780
Acquisition of financial assets	-	-	-	-	-4,000
<b>Cash flow from investing activities</b>	<b>-3,510</b>	<b>-24,410</b>	<b>-836</b>	<b>-7,353</b>	<b>-31,930</b>
Dividends	-86,682	-86,355	-	-	-86,355
Distribution of shares in IBT	-37,629	-	-	-	-
New share issue, warrant programme	-	15,844	-	-	15,844
<b>Cash flow from financing activities</b>	<b>-124,311</b>	<b>-70,511</b>	<b>0</b>	<b>-</b>	<b>-70,511</b>
<b>Cash flow for the period</b>	<b>-27,618</b>	<b>7,954</b>	<b>52,153</b>	<b>16,763</b>	<b>15,060</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>226,882</b>	<b>210,666</b>	<b>148,205</b>	<b>202,752</b>	<b>210,666</b>
Exchange difference in cash and cash equivalents	2,290	1,183	1,196	288	1,156
<b>Cash and cash equivalents at end of period</b>	<b>201,554</b>	<b>219,803</b>	<b>201,554</b>	<b>219,803</b>	<b>226,882</b>



**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

(Amounts in SEK 000s)	Jan-Sept 2016	Jan-Sept 2015	Jan-Dec 2015
At beginning of period	395,833	344,591	344,591
Dividends	-86,682	-86,355	-86,355
Distribution of shares in IBT*)	-122,144	-	-
New share issue, warrants	-	15,844	15,844
Comprehensive income for the period	182,425	100,146	121,753
<b>At end of period</b>	<b>369,432</b>	<b>374,226</b>	<b>395,833</b>

**REPORTING BY SEGMENT – GROUP**

(Amounts in SEK 000s)	Jan-Sept 2016	Jan-Sept 2015	July-Sept 2016	July-Sept 2015	Jan-Dec 2015	Oct 2015- Sept 2016	Oct 2014- Sept 2015
<b>Revenue by segment – business units</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Paediatrics	313,792	312,957	99,007	88,900	389,561	390,396	406,595
Adult Health	69,394	54,626	22,567	12,569	74,667	89,435	77,624
Other	12,760	11,267	4,475	4,515	19,013	20,506	16,005
<b>Total</b>	<b>395,946</b>	<b>378,850</b>	<b>126,049</b>	<b>105,984</b>	<b>483,241</b>	<b>500,337</b>	<b>500,224</b>

(Amounts in SEK 000s)	Jan-Sept 2016	Jan-Sept 2015	July-Sept 2016	July-Sept 2015	Jan-Dec 2015	Oct 2015- Sept 2016	Oct 2014- Sept 2015
<b>Gross profit by segment – business units</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Paediatrics	227,001	213,786	72,293	59,334	266,391	279,606	269,882
Adult Health	44,275	38,678	14,517	8,265	51,907	57,504	54,258
Other	12,478	10,757	4,469	4,231	18,286	20,007	15,282
<b>Total</b>	<b>283,754</b>	<b>263,221</b>	<b>91,279</b>	<b>71,830</b>	<b>336,584</b>	<b>357,117</b>	<b>339,422</b>

(Amounts in SEK 000s)	Jan-Sept 2016	Jan-Sept 2015	July-Sept 2016	July-Sept 2015	Jan-Dec 2015	Oct 2015- Sept 2016	Oct 2014- Sept 2015
<b>Revenue by geographical market</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Europe	262,376	213,586	79,502	53,493	284,729	333,519	287,002
USA and Canada	26,898	24,370	3,222	4,763	35,231	37,759	37,139
Asia	46,814	38,247	17,361	11,377	52,130	60,697	50,262
Rest of the World	59,858	102,647	25,964	36,351	111,151	68,362	125,821
<b>Total</b>	<b>395,946</b>	<b>378,850</b>	<b>126,049</b>	<b>105,984</b>	<b>483,241</b>	<b>500,337</b>	<b>500,224</b>

**Profit from discontinued operations (distribution)**

(Amounts in SEK 000s)	Jan-Sept 2016	Jan-Sept 2015	July-Sept 2016	July-Sept 2015	Jan-Dec 2015
Net sales	-	-	-	-	-
Selling expenses	-	-2,600	-	-2,600	-2,600
Research and development expenses	-5,101	-13,502	-	-3,890	-17,974
Other operating income/expenses	-61	-58	-	3	-41
<b>Operating profit</b>	<b>-5,162</b>	<b>-16,160</b>	<b>-</b>	<b>-6,487</b>	<b>-20,615</b>
Financial expenses	-2	-8	-	-1	-9
Difference between fair value of IBT's shares and the carrying amount	73,099	-	-	-	-
<b>Profit for the period before tax</b>	<b>67,935</b>	<b>-16,168</b>	<b>-</b>	<b>-6,488</b>	<b>-20,624</b>
Tax relief due to group contributions	-	3,556	-	1,427	4,532
<b>Profit for the period after tax</b>	<b>67,935</b>	<b>-12,612</b>	<b>-</b>	<b>-5,061</b>	<b>-16,092</b>

**Cash flow from discontinued operations:**

(Amounts in SEK 000s)	Jan-Sept 2016	Jan-Sept 2015	Jan-Dec 2015
Operating activities	-6,781	-7,798	-30,895
Investing activities	-	-7,700	-10,150
<b>Total cash flow</b>	<b>-6,781</b>	<b>-15,498</b>	<b>-41,045</b>

CONSOLIDATED KEY RATIOS	Jan-Sept	Jan-Sept	Jan-Dec
	2016	2015	2015
Net sales, SEK 000s <sup>1)</sup>	395 946	378 850	483 241
Operating profit, SEK 000s <sup>1)</sup>	153 079	140 823	172 799
Profit after tax, SEK 000s <sup>1)</sup>	112 374	112 202	137 383
Return on			
- average equity	47%	28%	32%
- average capital employed <sup>1)</sup>	40%	39%	48%
Capital employed, SEK 000s	369 783	374 418	396 184
Number of shares, thousands <sup>2)</sup>	17 336	17 336	17 336
Average number of shares, thousands	17 336	17 300	17 309
Earnings per share in continuing operations, SEK <sup>1)</sup>	6,48	6,49	7,94
Earnings per share, SEK <sup>3)</sup>	10,42	5,76	7,01
Equity per share, SEK	21,30	20,43	22,87
Equity/assets ratio	82%	83%	84%
Operating margin <sup>1)</sup>	39%	37%	36%
Profit margin <sup>1)</sup>	38%	38%	37%
Average number of employees <sup>1)</sup>	104	96	98

1) Excluding discontinued operations (distribution of IBT)

2) No dilutive effect arose during the period

3) The ratios are defined according to IFRS

#### Definition of key ratios

The company presents certain financial ratios in the interim report that are not defined according to IFRS. The company is of the opinion that these performance measures provide valuable supplementary information to investors and the company's management since they enable evaluation and benchmarking of the company's performance. Since not all companies calculate financial ratios in the same manner, these are not always comparable to the performance measures used by other companies. Consequently, these financial ratios should not be seen as a replacement for performance measures that are defined according to IFRS. The following key ratios are not defined according to IFRS unless otherwise stated.

**Average number of shares:** Weighted average number of shares during a certain period.

**Capital employed:** Total assets less interest-free liabilities.

**Earnings per share:** Profit attributable to owners of the Parent Company divided by the average number of shares (definition according to IFRS).

**Earnings per share in continuing operations:** Profit from continuing operations attributable to owners of the Parent Company divided by the average number of shares.

**Equity/assets ratio:** Shareholders' equity divided by total assets.

**Equity per share:** Shareholders' equity attributable to the owners of the Parent Company divided by the number of shares.

**Growth:** Sales for the current year less sales for the previous year divided by sales for the previous year.

**Net financial items:** The result from financial income and financial expenses.

**Operating margin:** Operating profit in relation to net sales.

**Operating profit:** Sales less cost of goods sold, selling expenses, administrative expenses, R&D expenses and other operating expenses plus other operating income.

**Profit margin:** Profit before tax in relation to net sales.

**Return on capital employed:** Profit before financial items plus financial income divided by average capital employed.

**Return on equity:** Profit attributable to the owners of the Parent Company divided by average shareholders' equity attributable to the owners of the Parent Company

#### Reconciliation against IFRS

	Jan-Sept 2016	Jan-Sept 2015	Jan-Dec 2015
<b>Return on capital employed</b>			
Operating profit	153,079	140,823	172,799
Financial income	1,364	1,860	5,437
Profit before financial items plus financial income	154,443	142,683	178,236
Total assets	451,325	452,355	473,178
Interest-free liabilities	-81,542	-77,937	-76,994
Capital employed	369,783	374,418	396,184
Average capital employed	382,984	361,551	370,500
<b>Return on capital employed</b>	40%	39%	48%

	Paediatrics		Adult Health		Other		Total	
	Jan-Sept 2016	%	Jan-Sept 2016	%	Jan-Sept 2016	%	Jan-Sept 2016	%

#### Change in sales by segment

Organic growth	902	0%	9,404	11%	13,029	24%	8,775	70%	1,493	13%	-40	1%	15,424	4%	18,139	17%
Foreign exchange effects	-67	0%	703	1%	1739	3%	1223	10%	-	-	-	-	1,672	0%	1,926	2%
Reported change	835	0%	10,107	11%	14,768	27%	9,998	79%	1,493	13%	-40	1%	17,096	4%	20,065	19%

#### RELATED PARTY TRANSACTIONS

The Parent Company holds 100% of the shares in BioGaia Biologics Inc. USA, BioGaia Japan Inc, TwoPac AB and Tripac AB.

The Parent Company holds 90.1 % of the shares in CapAble AB.

On 29 March 2016, the shares in IBT were distributed to BioGaia's shareholders (see above).

Annwall & Rothschild Investment AB holds 740,668 class A shares and 759,332 class B shares, which is equal to 8.7% of the share capital and 34.1% of the votes in BioGaia AB. Annwall & Rothschild Investment AB is owned by Peter Rothschild, Group President of BioGaia, and Jan Annwall, a member of the Board of BioGaia AB. The only transaction that took place during the period was a dividend of SEK 5 per share.

#### FINANCIAL CALENDAR

10 February 2017	Year-end report 2016
3 May 2017	Interim management statement, 1 January – 31 March 2017
3 May 2017	Annual General Meeting in Stockholm
18 August 2017	Interim report, 1 January – 30 June 2017
25 October 2017	Interim management statement, 1 January – 30 September 2017

Stockholm, 25 October 2016

Axel Sjöblad  
Managing Director

This interim management statement has not been reviewed by the company's auditor.

## BioGaia AB

### **The company**

BioGaia is a healthcare company that develops, markets and sells probiotic products with documented health benefits. The products are primarily based on different strains of the lactic acid bacterium *Lactobacillus reuteri* in combination with unique packaging solutions that make it possible to create probiotic products with a long shelf life.

The class B share of the Parent Company BioGaia AB is quoted on the Mid Cap list of Nasdaq OMX Nordic Exchange Stockholm.

BioGaia has 105 employees, of whom 38 are based in Stockholm, 30 in Lund, 28 in Eslöv, one in Raleigh, USA, seven in Hiroshima, Japan, and one in Shanghai, China.

### **Business model**

BioGaia's revenue comes mainly from the sale of drops, digestive health tablets, oral rehydration solution and oral health products to distributors, but also of revenue from the sale of bacteria cultures to be used in licensee products (such as infant formula and dairy products), and to a certain degree also royalty revenue for the use of *Lactobacillus reuteri* in licensee products and sales of delivery systems such as straws and caps.

The products are sold through nutrition, food, natural health and pharmaceutical companies in some 90 countries worldwide.

BioGaia holds patents for the use of *Lactobacillus reuteri* and certain packaging solutions in all major markets.

### **The BioGaia brand**

At the beginning of 2006 BioGaia launched its own consumer brand and today there are a number of distribution partners that sell finished products under the BioGaia brand in a large number of markets. One central part of BioGaia's strategy is to increase the share of sales consisting of BioGaia-branded products.

Some of BioGaia's distributors sell finished consumer products under their own brand names. For these products, the BioGaia brand is shown on the consumer package since BioGaia is both the manufacturer and licensor.

BioGaia's licensees add Reuteri culture to their products and sell these under their own brand names. On these products, the BioGaia brand is most often shown on the package as the licensor/patent holder.

### **Research and clinical studies**

BioGaia's strains of *Lactobacillus reuteri* are some of the world's most well researched probiotics, especially in young children. To date, 163 clinical studies using BioGaia's human strains of *Lactobacillus reuteri* have been performed on 14,000 individuals of all ages. The results have been published in 143 articles in scientific journals.

Studies have been performed on:

- Infantile colic and digestive health in children
- Antibiotic-associated diarrhoea (AAD)
- Acute diarrhoea
- Gingivitis (inflammation of the gums)
- Periodontal disease
- General health
- *Helicobacter pylori* (the gastric ulcer bacterium)
- Necrotizing enterocolitis (NEC)

### **REPORTING OF CLINICAL STUDIES**

Publication of clinical trial results is a key success factor for BioGaia. The International Committee of Medical Journal Editors has initiated a policy requiring clinical investigators to deposit information about trial design into an accepted clinical trials registry before the onset of patient enrolment, and this has now become a prerequisite for publication of trial outcomes in major medical journals. ClinicalTrials.gov is a registry of clinical trials provided by the U.S. National Institutes of Health and BioGaia encourages all clinicians working with BioGaia products to register their trials on this site. Many of the trials are registered at an early stage, which means that some of the registered trials will not be performed as planned. Consequently, BioGaia takes no responsibility for ensuring that the registered trials reach completion or are successfully reported in the register or the scientific literature. When clinical trial results of significance for the company's operations do become available, BioGaia will report these through press releases.

#### **Latest press releases from BioGaia:**

2016-09-14 BioGaia's probiotic launched in Kenya, Nigeria and Ghana

2016-08-17 BioGaia Interim report 1 January – 30 June 2016

2016-08-08 BioGaia's oral health probiotic reduces pregnancy gingivitis

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