

# Interim report

## January-September 2019



## Manufacturing upgrade program initiated during the quarter

### Significant events in the third quarter

- Third-quarter net sales amounted to MSEK 142 (169), a decline of 16% (adjusted for currency effects 22%) compared with the third quarter of 2018, mainly due to weaker market growth in North America
- Upgrade program of manufacturing unit in Redmond, USA initiated to further strengthen competitiveness
- New product launches of Probi® Osteo in the North American market in a plant-based drink, and Probi® Osteo and Probi FerroSorb® in Australia
- Early repayment of a loan in the amount of MSEK 20 due to strong cash flow, entailing that all bank loans are now repaid

### Financial overview

MSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Net sales	141.6	168.8	460.1	441.3
Gross margin, %	45.8%	47.5%	46.2%	45.8%
EBITDA <sup>1</sup>	45.4	50.9	130.1	110.8
EBITDA margin, % <sup>1</sup>	32.1%	30.1%	28.3%	25.1%
Operating profit (EBIT)	26.7	37.9	77.1	70.5
Net income	21.7	28.1	60.0	52.4
Earnings per share before and after dilution, SEK	1.90	2.47	5.27	4.60
Share price on closing day, SEK	304.00	413.60	304.00	413.60
Market cap on closing day	3,463.8	4,712.6	3,463.8	4,712.6

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

<sup>1</sup> See note 1 for ratio excluding IFRS 16 leasing impact

### About Probi

*Probi AB is a Swedish publicly traded bioengineering company. Probi's vision is to help people live healthier lives by delivering effective and 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 more than 40 markets around the world and holding over 400 patents worldwide. In 2018, Probi had net sales of MSEK 604. The Probi share is traded on Nasdaq Stockholm, Mid Cap. Probi had about 4,000 shareholders on December 31, 2018.*

*probi.com*

### Invitation to teleconference

**Date:** October 25, 2019

**Time:** 10:00 a.m.

**Phone:** +46 (0)8 50 55 83 66

**Participants from Probi:**

Tom Rönnlund, CEO

Henrik Lundkvist, CFO

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The presentation is available at [www.probi.com](http://www.probi.com) and [www.financialhearings.com](http://www.financialhearings.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 25 October 2019 at 8:00 a.m. CET. This a translation of the Swedish version of the interim report. When in doubt, the Swedish wording prevails.*

## CEO comments

Our sales for the first nine months of the year amounted to MSEK 460, up MSEK 19 (4%). Adjusted for positive currency effects, our sales are at the same level as the first nine months of 2018. Probi has a long-term ambition to grow faster than the global probiotics market and as communicated we are not living up to this ambition in Q3. The main reason for the lower growth rate is a slowdown in the North American probiotic supplements market, where Probi has most of its sales. However we are still confident that our strengthened US commercial resources has the ability to grow Probi's market share in the market. For other geographies, recent market data indicates that probiotic supplements are still on a growth track in Europe and Asia.



The company's profitability remains strong with an EBITDA margin of 32% in the third quarter which, adjusted for IFRS 16, is in level with the same period previous year. The EBITDA margin is well in line with our long-term objective.

We will continue to execute our strategy to build a well-positioned, global probiotic company with an R&D and scientific focus, and growth driven by geographic expansion, innovative probiotic solutions and investments in our R&D and manufacturing capacity. We see continued opportunities for growth in the US market with our increased commercial resources through launches in new market channels and a sustained strong interest in Probi's unique bacterial strains.

In our ambition to live up to our slogan "First in Probiotics", we are working intensively with launches of our latest product concept to our customers. During the quarter, we saw the first launch of a fermented oat milk "shot" containing Probi's innovative concept for strengthened bone health (Probi® Osteo) in the North American market. In Australia, both Probi® Osteo and FerroSorb® are being introduced to consumers through Australian pharmacies.

To further strengthen our competitiveness, we initiated an upgrade program in our manufacturing unit in Redmond, USA during the quarter, with the aim of further improving our manufacturing efficiency.

We see major opportunities for Probi to return to growth next year, driven by a continually growing interest in Probi's unique and well-documented bacterial strains, the expansion of new applications for probiotics and a positive trend in markets that are strategically important 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

### Market

Following a period of positive growth, Probi has seen a slowdown in the North American market. This is still the largest probiotics market in the world and accounts for the dominant share of Probi's sales. Net sales for the Americas region, which almost exclusively pertains to North America, rose 5% for the first nine months of the year compared with the year-on-year period.

In the third quarter, Probi continued to launch new products to both new and existing customers in the North American market. Probi's latest premium concept, Probi® Osteo for improved bone health, was launched in a non-dairy on-the-go beverage. The drink is a flavoured probiotic oat-based drink with no added sugar and sold by a leading multinational food chain. The new concept follows market trends in regard to the growing consumer focus on self-health and requests for more plant-based foods. The concept's efficacy is well-documented, and a large clinical trial has shown that probiotics can reduce bone loss. This is one example of how Probi is using innovation to expand its probiotic product range in line with changing consumer demands.

During the period, an agreement was concluded with one of Probi's key customers in the North American market. The agreement provides long-term security, while strengthening the relationship between the parties.

The EMEA region reported 21% growth for the first nine months of the year compared with the year-on-year period. This is a result of the company's targeted efforts in the region, with a focus on broadening the customer base. The 2019 Probiotics, Prebiotics & New Foods was held in Rome in September. Probi's presentation, which included results from clinical trials and a product concept for women's health, attracted major interest from both researchers and potential customers.

The launch of the new product range that includes Probi® Baby, Probi® Gravid, Probi® Family and Probi® Active 50+ is ongoing and the products have received good exposure in Swedish pharmacy chains. The new product range is being launched in partnership with Probi's partner in the Nordic market for consumers of all ages, from infants to seniors.

Despite strong growth in the preceding year, the APAC region showed a weak trend in the first nine months of this year, which was also reflected in a 25% lower net sales year-on-year. This was mainly due to delayed launches of planned products at customer level. In China, increased regulatory reviews of the probiotic market have led to a more cautious launch climate. In the long term, these reviews are expected to benefit Probi, which has products that are clinically documented. During the quarter, Probi launched Probi® Osteo and Probi FerroSorb® in Australia together with a new partner. The products will be distributed to consumers through Australian pharmacies.

## Research and development

During the quarter, results from the recently completed celiac disease study were published in a special issue of the open-access journal *Nutrients*. The trial showed that Probi's probiotics support the immune system and can delay the onset of celiac disease in children who are susceptible to developing this intolerance. The project won a 2018 NutraIngredients Award in the Nutrition Research Project category. The project was conducted within the framework of Probi's innovation work and is aimed at building knowledge in new areas for tomorrow's probiotic products.

The research collaboration with Dr. Karen Scott from the Rowett Institute at the University of Aberdeen has been extended in order to address the next step in next-generation probiotics and to lay the foundation for the development of new, unique products. The leading probiotics currently available are usually derived from a narrow selection of organisms and there is considerable potential in microorganisms from the other microbiota (gut flora). The collaboration has successfully identified and characterised a library with potentially unique, next-generation probiotics, isolated from humans. The project has the potential to supply a wide range of research programmes with strains for a variety of indications.

The collaboration project with partner company Cilag, with the aim of developing an OTC (over the counter) product for the global market, was completed after the initial evaluation stage. Probi worked closely with the partner company on the project and captured valuable information for similar OTC projects in the future, and the company's ambition to develop an OTC solution for our most well-documented probiotic concepts in the future remains firm.

## Sales development

### Third quarter

In the third quarter of 2019, Probi's net sales totalled MSEK 141.6 (168.8), down MSEK 27.2 or 16% year-on-year. The decline was mainly due to lower growth in the North American market. Adjusted for currency effects, net sales in the third quarter totalled MSEK 131.8, down 22% year-on-year.

### Net sales by segment

Probi's business operations are organised in two business segments: Consumer Healthcare (CHC) and Functional Food (FF). Consumer Healthcare develops, manufactures and markets Probi's probiotics to pharmaceutical and healthcare companies and customers specialised in probiotics and self-care products. Revenue is derived from sales of goods ranging from raw materials in bulk to finished products in consumer packaging. Functional Food develops food containing Probi's probiotics. Development takes place in partnership with leading food companies. No business transactions are conducted between the two business segments.

KSEK	Jan-Sep 2019			Jan-Sep 2018		
	CHC	FF	Total	CHC	FF	Total
Net sales	427,136	32,919	<b>460,055</b>	412,866	28,401	<b>441,267</b>
Operating expenses	-365,285	-17,714	<b>-382,999</b>	-352,446	-18,279	<b>-370,725</b>
<b>Operating profit (EBIT)</b>	<b>61,851</b>	<b>15,205</b>	<b>77,056</b>	<b>60,420</b>	<b>10,122</b>	<b>70,542</b>
Financial net	—	—	<b>-528</b>	—	—	<b>-2,867</b>
<b>Earnings before income taxes</b>	—	—	<b>76,528</b>	—	—	<b>67,675</b>

For the first nine months of the year, net sales for Consumer Healthcare rose MSEK 14.3, corresponding to 3%. The increase was largely due to the normalisation of a major customer's order flow in the US. Net sales in Functional Food rose MSEK 4.5, or 16%, mainly due to a non-recurring payment from the concluded collaboration with a global FMCG (fast-moving consumer goods) customer.

### Net sales by region

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
	EMEA	20,239	25,151	83,801
Americas	111,282	130,775	340,868	324,711
APAC	10,069	12,896	35,386	47,290
<b>Total</b>	<b>141,590</b>	<b>168,822</b>	<b>460,055</b>	<b>441,267</b>

During the first nine months of the year, the Americas region (North and South America) accounted for 74% of Probi's total net sales. Net sales in this region rose MSEK 16.2, corresponding to 5% year-on-year, largely driven by the normalisation of a major customer's order flow. Net sales in the APAC region (Asia Pacific) declined MSEK 11.9, corresponding to 25% year-on-year, due to delayed launches at customer level, primarily in the Chinese market. Sales in the EMEA region (Europe, the Middle East and Africa) rose MSEK 14.5, corresponding to 21% year-on-year. The increase was attributable to new customers, as well as growth for Probi's key customers in Consumer Healthcare.

## Earnings

### Operating profit (EBIT)

Operating expenses for the first nine months amounted to MSEK 383.0 (370.7), mainly driven by higher cost of goods sold as volumes increased, but also higher investment in commercial resources in the Americas and APAC regions. The gross margin is in line with the corresponding period of the preceding year and amounted to 46% (46) of net sales. Sales and marketing costs totalling MSEK 80.5 (63.5) rose as a result of expanded commercial resources in the Americas and APAC regions, but also due to higher variable costs associated with the increase in net sales. Administrative expenses amounted to MSEK 34.2 (43.4). The comparative figures include employee-related provisions of MSEK 4.5. Research and development costs amounted to MSEK 23.0 (26.1).

EBIT for the Consumer Healthcare business segment totalled MSEK 61.9 (60.4) for the first nine months of the year, corresponding to an operating margin of 15% (15). EBIT for the Functional Food segment was MSEK 15.2 (10.1), corresponding to an operating margin of 46% (36). The improved operating margin was due to a non-recurring payment received in connection with the concluded collaboration with a global FMCG customer.

Consolidated EBIT for the first nine months of the year totalled MSEK 77.1 (70.5). Adjusted for currency effects, EBIT totalled MSEK 78.7.

#### Financial results

The Group's financial results for the first nine months of the year amounted to MSEK -0.5 (-2.9). Interest expense of MSEK -1.9 (-4.5) was charged to earnings. Gains or losses on the translation of loans and cash and cash equivalents denominated in other currencies are recognised in exchange rate gains or losses from financing activities. A currency gain of MSEK 1.8 (1.7) arose during the first nine months of the year.

#### Profit after tax

Profit after tax for the first nine months of the year totalled MSEK 60.0 (52.4). Tax expense was MSEK 16.5 (15.3).

#### Earnings per share

Earnings per share for the first nine months of the year amounted to SEK 5.27 (4.60).

## Cash flow and financial position

#### Investments

During the first nine months of the year, investments in intangible assets amounted to MSEK 6.7 (8.2), of which MSEK 2.7 (2.2) pertained to patents and MSEK 4.0 (6.0) to capitalised development costs. Investments in tangible assets amounted to MSEK 18.8 (2.8), and primarily pertained to investments in the manufacturing plant in Redmond, USA.

#### Change in cash and cash equivalents

Cash and cash equivalents declined MSEK 13.7 (+27.4) to MSEK 185.6 (182.9) during the first nine months of the year. This included a bank loan repayment of MSEK 119.0 (57.2), which was recognised in cash flow from financing activities. Cash flow from operating activities rose MSEK 36.3 year-on-year, whereof MSEK 10.9 amounted from the effect of adopting IFRS 16 (Leases) and the residual value from a positive trend for EBIT together with a favourable working capital.

## Employees

At the end of the period, Probi had 157 (160) employees, of whom 50% (49) were women. The average number of employees during the first nine months of the year was 164 (162).

## Related-party transactions

During the first nine months of the year, Probi's expenses from its largest owner, Symrise AG, amounted to KSEK 116.5 (246.8) and revenues amounted to KSEK 43.7 (45.4). During the first nine months of the year, consulting costs of KSEK 44.9 (134.2) were paid to the then Board member Scott Bush, in addition to Board fees. There were no other related-party transactions during the reporting period.

## Significant risks and uncertainties

The risks and uncertainties to which Probi's operations are exposed are described on pages 47-48 of the printed 2018 Annual Report. At 30 September 2019, there were no significant changes in these risks or uncertainties.

## Parent Company

During the first nine months of the year, the Parent Company's operating income rose to MSEK 273.9 (212.0). Profit after tax totalled MSEK 74.8 (43.8). Investments in tangible and intangible assets amounted to MSEK 6.8 (8.3). Otherwise, please refer to the information for the Group.

## Financial calendar

Year-end report, 2019	11 February 2020
Interim report Q1, 2020	24 April 2020
2019 Annual General Meeting	7 May 2020
Interim report Q2, 2020	17 July 2020
Interim report Q3, 2020	21 October 2020
Year-end report, 2020	9 February 2021

## Annual General Meeting

The Annual General Meeting for 2019 will be held in Lund, Sweden, on Thursday, 7 May 2020 at 3:00 p.m. The venue will be announced later. Shareholders who wish to have matters considered at the AGM are requested to notify the Chairman of the Board by Friday, 28 February 2020. Such proposals should be e-mailed to [bolagsstamma@probi.com](mailto:bolagsstamma@probi.com), or posted to: Probi AB, General Meeting, Ideon Gamma 1, SE-223 70 Lund, Sweden.

Shareholders who wish to contact the Nomination Committee may do so by sending an e-mail to [bolagsstamma@probi.com](mailto:bolagsstamma@probi.com) or by posting a letter to: Probi AB, Nomination Committee, Ideon Gamma 1, SE-223 70 Lund, Sweden.



## Assurance by the Board of Directors

The Board of Directors and Chief Executive Officer assure 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, 25 October 2019

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*

This report has not been audited.



## Consolidated statement of comprehensive income

KSEK	Notes	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
<b>Net sales</b>	2	<b>141,590</b>	<b>168,822</b>	<b>460,055</b>	<b>441,267</b>
Cost of goods sold	3	-76,675	-88,697	-247,282	-238,981
<b>Gross profit</b>		<b>64,915</b>	<b>80,125</b>	<b>212,773</b>	<b>202,286</b>
Sales and marketing expenses		-22,259	-21,780	-80,548	-63,547
Research and development expenses		-6,513	-8,181	-22,998	-26,085
Administration expenses		-9,509	-12,540	-34,184	-43,417
Other operating income		31	304	2,013	1,305
<b>Operating profit (EBIT)</b>		<b>26,665</b>	<b>37,928</b>	<b>77,056</b>	<b>70,542</b>
Financial income		278	422	948	962
Financial expenses		-977	-1,950	-3,289	-5,563
Exchange result financing activities	4	1,647	-210	1,813	1,734
<b>Financial result</b>		<b>948</b>	<b>-1,738</b>	<b>-528</b>	<b>-2,867</b>
<b>Earnings before income taxes</b>		<b>27,613</b>	<b>36,190</b>	<b>76,528</b>	<b>67,675</b>
Income taxes		-5,936	-8,087	-16,482	-15,310
<b>Net income</b>		<b>21,677</b>	<b>28,103</b>	<b>60,046</b>	<b>52,365</b>
<b>Other comprehensive income</b>					
Components to be reclassified to net income					
Exchange rate differences resulting from the translation of foreign operations		54,373	-7,846	85,478	55,359
Cash flow hedge (currency hedges)		-461	645	-1,372	-225
Income taxes payable on these components		98	-142	293	49
<b>Sum of other comprehensive income</b>		<b>54,010</b>	<b>-7,343</b>	<b>84,399</b>	<b>55,183</b>
<b>Total comprehensive income</b>		<b>75,687</b>	<b>20,760</b>	<b>144,445</b>	<b>107,548</b>
Number of outstanding shares at end of the reporting period		11,394,125	11,394,125	11,394,125	11,394,125
Average number of shares		11,394,125	11,394,125	11,394,125	11,394,125
Earnings per share before and after dilution		1.90	2.47	5.27	4.60

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.

## Consolidated statement of financial position

KSEK	30 September 2019	31 December 2018
Capitalised Development Cost	44,105	44,294
Customer base	320,088	311,177
Technology and other intangible assets	140,861	138,424
Goodwill	332,607	304,561
Property, plant and equipment	110,205	29,162
Deferred tax assets	6,350	1,530
<b>Non-current assets</b>	<b>954,216</b>	<b>829,148</b>
Inventories	81,564	68,676
Trade receivables	85,680	106,188
Other assets and receivables	6,740	6,119
Cash and cash equivalents	185,618	199,299
<b>Current assets</b>	<b>359,602</b>	<b>380,282</b>
<b>Total assets</b>	<b>1,313,818</b>	<b>1,209,430</b>
<b>Total equity</b>	<b>1,174,567</b>	<b>1,028,398</b>
Other non-current liabilities	57,093	6,772
<b>Non-current liabilities</b>	<b>57,093</b>	<b>6,772</b>
Borrowings	–	118,481
Trade payables	28,518	31,459
Other current liabilities	53,640	24,320
<b>Current liabilities</b>	<b>82,158</b>	<b>174,260</b>
<b>Total liabilities</b>	<b>139,251</b>	<b>181,032</b>
<b>Liabilities and equity</b>	<b>1,313,818</b>	<b>1,209,430</b>

## Consolidated changes in equity

KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Opening balance, 1 January 2018	58,221	600,205	-43,073	-271	269,653	<b>884,735</b>
Net income	–	–	–	–	52,365	52,365
Other comprehensive income	–	–	55,360	-176	–	55,184
Total Comprehensive Income	–	–	<b>55,360</b>	<b>-176</b>	<b>52,365</b>	<b>107,549</b>
Dividends	–	–	–	–	–	–
Total transactions with shareholders	–	–	–	–	–	–
<b>Closing balance, 30 September 2018</b>	<b>58,221</b>	<b>600,205</b>	<b>12,287</b>	<b>-447</b>	<b>322,018</b>	<b>992,284</b>
KSEK	Share capital	Other contributions received	Cumulative translation differences	Other reserves	Accumulated profit	Total equity
Closing balance, 31 December 2018	58,221	600,205	23,930	139	345,903	<b>1,028,398</b>
Impact of implementing IFRS 16	–	–	–	–	1,723	<b>1,723</b>
Opening balance, 1 January 2019	58,221	600,205	23,930	139	347,627	<b>1,030,122</b>
Net income	–	–	–	–	60,046	60,046
Other comprehensive income	–	–	85,478	-1,079	–	84,399
Total Comprehensive Income	–	–	<b>85,478</b>	<b>-1,079</b>	<b>60,046</b>	<b>144,445</b>
<b>Closing balance, 30 September 2019</b>	<b>58,221</b>	<b>600,205</b>	<b>109,408</b>	<b>-940</b>	<b>407,673</b>	<b>1,174,567</b>

## Consolidated statement of cash flows

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
<b>Net income</b>	<b>21,677</b>	<b>28,103</b>	<b>60,046</b>	<b>52,365</b>
Adjustments to reconcile net income to cash from operating activities				
Income taxes	5,936	8,087	16,482	15,310
Interest result	511	1,489	1,911	4,452
Amortisation, depreciation and impairment of non-current assets	18,752	12,940	53,060	40,212
Other non-cash expenses and income	236	4,938	804	5,507
<b>Cash flow before working capital changes</b>	<b>47,112</b>	<b>55,557</b>	<b>132,303</b>	<b>117,846</b>
Change in trade receivables and other current assets	43,494	-1,884	21,945	-15,153
Change in inventories	-8,599	2,987	-6,759	-1,365
Change in trade payables and other current liabilities	-1,929	2,683	-903	16,903
Income taxes paid	-4,252	-4,636	-12,055	-20,005
<b>Cash flow from operating activities</b>	<b>75,826</b>	<b>54,707</b>	<b>134,531</b>	<b>98,226</b>
Payments for investing in intangible assets	-1,997	-2,484	-6,711	-8,159
Payments for investing in property, plant and equipment	-14,345	-419	-18,842	-2,803
Divestments of tangible assets	6	–	27	–
<b>Cash flow from investing activities</b>	<b>-16,336</b>	<b>-2,903</b>	<b>-25,526</b>	<b>-10,962</b>
Interest paid	-644	-1,794	-2,437	-5,009
Interest received	278	422	948	962
Redemption of bank borrowings	-20,000	-57,200	-119,000	-57,200
Repayments for lease obligations	-3,130	–	-9,239	–
Dividends paid	–	–	–	–
<b>Cash flow from financing activities</b>	<b>-23,496</b>	<b>-58,572</b>	<b>-129,728</b>	<b>-61,247</b>
Net change in cash and cash equivalents	35,994	-6,768	-20,723	26,017
Effects of changes in exchange rates	4,898	-4,870	7,042	1,360
<b>Total changes</b>	<b>40,892</b>	<b>-11,638</b>	<b>-13,681</b>	<b>27,377</b>
<b>Cash and cash equivalents at opening balance</b>	<b>144,726</b>	<b>194,562</b>	<b>199,299</b>	<b>155,547</b>
<b>Cash and cash equivalents at closing balance</b>	<b>185,618</b>	<b>182,924</b>	<b>185,618</b>	<b>182,924</b>

## Condensed Parent Company financial statements

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
<b>Operating revenue</b>	<b>83,965</b>	<b>90,477</b>	<b>273,907</b>	<b>212,014</b>
Operating costs	-27,748	-30,904	-87,159	-69,384
Gross profit	56,217	59,573	186,748	142,630
<b>Operating profit (EBIT)</b>	<b>32,570</b>	<b>30,715</b>	<b>95,476</b>	<b>54,342</b>
Result from financial income and expenses	1,240	-191	245	2,085
Income before tax	33,810	30,524	95,721	56,427
<b>Net income</b>	<b>26,490</b>	<b>23,764</b>	<b>74,782</b>	<b>43,769</b>

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
<b>Net income</b>	<b>26,490</b>	<b>23,764</b>	<b>74,782</b>	<b>43,769</b>
Cash flow hedge (currency hedges)	-462	644	-1,373	-226
Income taxes payable on these components	99	-142	294	50
Sum of other comprehensive income	-363	502	-1,079	-176
<b>Total comprehensive income</b>	<b>26,127</b>	<b>24,266</b>	<b>73,703</b>	<b>43,593</b>

KSEK	30 September 2019	31 December 2018
Fixed assets	967,815	968,122
Current assets	159,795	205,806
<b>Total assets</b>	<b>1,127,610</b>	<b>1,173,928</b>
Equity	1,080,241	1,006,539
Total long-term liabilities	4,035	4,076
Current liabilities	43,334	163,313
<b>Total equity and liabilities</b>	<b>1,127,610</b>	<b>1,173,928</b>

## Notes

### 1. Accounting and measurement policies

#### 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 9-17. Disclosures according to 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 presented periods, unless otherwise stated. The complete accounting policies can be found on pages 60-63 of the printed 2018 Annual Report.

IFRS 16 Leases superseded IAS 17 on 1 January 2019. Probi has only identified a limited number of leases affected by the new standard. These leases are mainly related to rental fees for premises and company cars, but also to production equipment. Probi applied the simplified approach, which is described in more detail on page 60 of the printed 2018 Annual Report.

The following table shows the effects of IFRS 16 on the opening balances at 1 January 2019:

KSEK

<b>Assets</b>	
Property, plant and equipment (right of use assets)	71,729
Prepayments	-1,071
<b>Liabilities</b>	
Lease liabilities	70,658
Deferred tax assets	237
Other non-current liabilities	-1,960
<b>Net impact on equity</b>	<b>1,723</b>
<b>Minimum lease payments under operating leases as of December 31, 2018</b>	<b>78,589</b>
Recognition exemption	-1,081
for short-term leases	-135
for leases of low-value assets	-946
Effect from discounting at the incremental borrowing rate as of January 1, 2019	-6,850
<b>Liabilities recognized based on the initial application of IFRS 16 as of January 1, 2019</b>	<b>70,658</b>
Liabilities from finance leases as of December 31, 2018	–
<b>Liabilities from leases as of January 1, 2019</b>	<b>70,658</b>

The following table shows the effects of IFRS 16 on the income statement for 2019:

KSEK	Jul-Sep 2019	Jan-Sep 2019
Depreciation lease obligations	-3,618	-10,561
Lease expenses	3,616	10,928
<b>Operating profit (EBIT)</b>	<b>-2</b>	<b>367</b>
Financial expenses	-569	-1,721
Income taxes	144	330
<b>Impact on net income for the period</b>	<b>-427</b>	<b>-1 024</b>
EBITDA	45,417	130,116
EBITDA margin, %	32.1%	28.3%
Adjustment IFRS 16 leasing	-3,616	-10,928
<b>EBITDA excluding IFRS 16 leasing impact</b>	<b>41,801</b>	<b>119,188</b>
<b>EBITDA margin, % excluding IFRS 16 leasing impact</b>	<b>29.5%</b>	<b>25.9%</b>

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 year-earlier period. Amounts are stated in Swedish kronor (SEK), thousands of Swedish kronor (KSEK) or millions of Swedish kronor (MSEK) 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 from Customers

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

KSEK	Jan-Sep 2019			Jan-Sep 2018		
	CHC	FF	Total	CHC	FF	Total
<b>Revenue distribution, category</b>						
Goods	423,328	3,271	<b>426,599</b>	409,192	2,790	<b>411,982</b>
Royalty, licences, etc.	3,808	29,648	<b>33,456</b>	3,674	25,611	<b>29,285</b>
<b>Total net sales from contracts with customers</b>	<b>427,136</b>	<b>32,919</b>	<b>460,055</b>	<b>412,866</b>	<b>28,401</b>	<b>441,267</b>
<b>Revenue distribution, geographical markets</b>						
EMEA	62,793	21,008	<b>83,801</b>	47,840	21,426	<b>69,266</b>
Americas	330,570	10,298	<b>340,868</b>	319,391	5,320	<b>324,711</b>
APAC	33,773	1,613	<b>35,386</b>	45,635	1,655	<b>47,290</b>
<b>Total net sales from contracts with customers</b>	<b>427,136</b>	<b>32,919</b>	<b>460,055</b>	<b>412,866</b>	<b>28,401</b>	<b>441,267</b>

### 3. Currency translation from operating activities

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

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Exchange gains operating activities	5,523	1,707	8,816	6,377
Exchange losses operating activities	-4,228	-1,965	-6,521	-3,968
<b>Exchange result operating activities</b>	<b>1,295</b>	<b>-258</b>	<b>2,295</b>	<b>2,409</b>

### 4. Currency translation from financing activities

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

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Exchange gains financing activities	1,724	-18,612	2,738	16,360
Exchange losses financing activities	-77	18,402	-925	-14,626
<b>Exchange result financing activities</b>	<b>1,647</b>	<b>-210</b>	<b>1,813</b>	<b>1,734</b>

### 5. Definition of the alternative performance measures not defined in IFRS

The company presents some financial measures 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 performance measures 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 performance measures are presented in the interim report:

#### Operating profit (EBIT)

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 company's profitability.

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Net income	21,677	28,104	60,046	52,365
Income taxes	5,936	8,087	16,482	15,310
Financial result	-948	1,738	528	2,868
<b>Operating profit (EBIT)</b>	<b>26,665</b>	<b>37,929</b>	<b>77,056</b>	<b>70,543</b>

#### EBITDA

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

KSEK	Jul-Sep 2019	Jul-Sep 2018	Jan-Sep 2019	Jan-Sep 2018
Operating profit (EBIT)	26,665	37,928	77,056	70,542
Depreciation and amortisation	18,752	12,940	53,060	40,212
<b>EBITDA</b>	<b>45,417</b>	<b>50,868</b>	<b>130,116</b>	<b>110,754</b>



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 capitalisation 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 capitalisation at the end of the period
EBITDA excluding effect from IFRS 16 Leases	Defined as EBITDA excluding effects from the implementation of IFRS 16 Leases	Used to compare EBITDA between periods
EBITDA margin	Defined as EBITDA divided by net sales	Used to measure the company's profitability before depreciation/amortisation and impairment of tangible and intangible assets
EBITDA margin excluding effect from IFRS 16 Leases	Defined as EBITDA excluding effect from implementation of IFRS 16 Leases divided by net sales	Used to compare the EBITDA margin between periods
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 financial result and tax
Operating margin	Defined as operating profit divided by net sales	Used to measure the company's profitability