ADOCIA

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PRESS RELEASE

# Adocia Presents First Half 2018 Financial Results

- Strategic alliance signed with Tonghua Dongbao, the Chinese insulin leader
- Cash position of nearly 56 million euros end of June 2018

**Lyon, France July 18th, 2018** – 6:00 pm CET – Adocia (Euronext Paris: FR0011184241 – ADOC), a clinical stage biopharmaceutical company focused on the treatment of diabetes and other metabolic diseases with innovative formulations of approved proteins, announced today its financial results for the first six months ended June 30, 2018.

Half-year consolidated financial statements, expressed according to IFRS, have been subject to a limited review by the statutory auditors and were approved at the Board of Director's meeting held today.

«*We have good reasons to celebrate this first half of 2018, marked by the strategic alliance we concluded with the Chinese company Tonghua Dongbao. This alliance has two parts, namely the commercialization of BioChaperone Lispro and BioChaperone Combo in China and the supply of insulin lispro and insulin glargine to develop and license these products in the USA, Europe and Japan. We are convinced Tonghua Dongbao is an ideal partner for both aspects due to its strong presence on the Chinese market and its large insulin manufacturing capacity.*" said Gérard Soula, Chairman and CEO of Adocia. "*Our strengthened cash position enables us to accelerate our efforts to support our long-term innovation strategy; for instance, BioChaperone Pramlintide Insulin, a breakthrough innovation for the treatment of diabetes, recently entered a first clinical trial, whose results are expected during the next quarter.*"

## Key financial results

The table below summarizes the condensed consolidated interim financial statements prepared for the six-month periods ended June 30, 2018 and June 30, 2017, respectively:

| *In (€) thousands, Consolidated financial statements, IAS/IFRS* | 06/30/2018 (6 months) | 06/30/2017 (6 months) |
|---|---|---|
| Revenue | 32 801 | 19 469 |
| Grants, research tax credits and others | 3 303 | 3 652 |
| **Operating revenue** | **36 105** | **23 121** |
| **Operating expenses** | **(21 784)** | **(15 840)** |
| **OPERATING INCOME** | **14 321** | **7 281** |
| **FINANCIAL INCOME (LOSS)** | **453** | **(210)** |
| Tax expense | (4 135) | (21) |
| **NET INCOME** | **10 639** | **7 050** |

The financial results of the Company at June 30, 2018 are characterized by:

- **Revenues of 32.8 million euros**, mostly deriving from the licensing agreements signed with Tonghua Dongbao (THDB) end of April 2018.

  The non-refundable upfront payment provided for in the contract, for an amount of 50 million dollars or 41.1 million euros, is partially recognized as revenue (32.8 million euros) over the first six months. It reflects the rights thus granted to THDB to develop, manufacture, and commercialize BioChaperone® Lispro and BioChaperone® Combo in China and other territories. The remaining non-amortized amount of the initial payment will be recognized upon provision of research and development services by Adocia, related to the transfer and development of the products.

  Last year, revenue for the first half-year of 2017 had been impacted by the end of the collaboration with Eli Lilly and had resulted in the recognition of the not yet amortized balance of the 50 million dollars upfront payment received in 2014.

- **Operating expenses** for the first six months of 2018 amount to 21.8 million euros, an increase of 6 million euros compared to the first six months of 2017. The increase is due, for 3.8 million euros, to legal expenses related to the two ongoing arbitrations procedures previously initiated against Eli Lilly, and, for 2 million euros, to increased payroll expenses.

- **Net profit before tax** reaches 10.6 million euros, leading to a tax expense of 4.1 million euros.

- **Solid financial situation:** with the receipt in April 2018 of payment from Tonghua Dongbao, in the amount of 45 million dollars or 37.1 million euros (net of withholding taxes), the Company has a cash position close to 56 million euros as of 30 June 2018, compared to 34.8 million euros as of 1st January 2018.

  Net cash flow, excluding the cash payment received from Tonghua Dongbao, was 16 million euros for the first six months of 2018, compared to 13.6 million euros for the first six months of 2017 (once deducted 7.8 million euros of research tax credit generated during the 2016 fiscal year). The increase in use of cash was mainly driven by the legal fees incurred as a result of the two ongoing arbitrations.

  The collection of the research and tax credit ("*Crédit d'Impôt Recherche*") generated from 2017 expenses, for an amount of 7.5 million euros, is expected in Q3 2018.

- **Financial debts** as of 30 June 2018 amount to 7.9 million euros, which represents a net increase of 0.6 million euros compared to the beginning of the year. This increase stems from a 0.8 million euro increase in the credit line originally established to finance legal costs deriving from ongoing legal procedures and is partially offset by the payments of the loans contracted to finance the acquisition and renovation of the building bought in 2016.

*"The upfront payment received from Tonghua Dongbao in April strengthens our cash position and provides us with greater financial visibility,"* said Valérie Danaguezian, Chief Financial Officer of Adocia "*By maintaining our rigorous expense management, our solid financial situation enables us to invest in our portfolio development, in order to rapidly achieve the targeted milestones."*

## Key events for the first half of 2018

The first half of 2018 was very eventful for Adocia; the Company not only further advanced its key diabetes programs, but also entered a strategic alliance with Tonghua Dongbao, including both licensing and insulin supply agreements. The Company also expanded the use of BioChaperone® technology to new therapeutic indications.

**In January 2018**, Adocia reported positive topline results of a dose-proportionality study of BioChaperone Combo, the combination of basal insulin glargine with prandial insulin lispro. These positive data are a key regulatory milestone for the development of this innovative insulin combination. To date, BioChaperone Combo has been tested in 5 Phase 1/2 clinical trials in people with type 1 and type 2 diabetes and has consistently shown a faster prandial action and longer basal action than standard premix insulin (Humalog® Mix25, Eli Lilly).

**In early April 2018**, Adocia launched the first-in-human clinical trial of BioChaperone Pramlintide Insulin, a breakthrough combination of the amylin analog pramlintide (approved in the USA for the treatment of diabetes under the brand name Symlin®, AstraZeneca) and recombinant human insulin. In people without diabetes, amylin is co-secreted with insulin and has a synergetic effect to manage blood glucose. While insulin acts by promoting glucose uptake from the blood into the cells, amylin acts at different levels to regulate the appearance of glucose in the blood; indeed, amylin promotes satiety, slows down gastric emptying and inhibits glucagon secretion. By combining an amylin analog and a prandial insulin in the same therapy, Adocia aims to provide much tighter prandial glucose control for people with diabetes than can be achieved with insulin alone, without adding to the daily injection burden. Topline results for this study, which enrolled 24 people with type 1 diabetes, are expected in Q3 18.

**In late April 2018**, Adocia announced that it was entering a strategic alliance with the Chinese insulin leader Tonghua Dongbao (THDB), whereby Adocia granted to THDB the exclusive rights to develop and commercialize BioChaperone Combo, its fixed-ratio combination of insulin glargine and insulin lispro, and BioChaperone Lispro, its ultra-rapid prandial insulin formulation, in China and other territories of interest for THDB. Under the terms of the licensing agreements, THDB is responsible for the future development, manufacturing, and commercialization of BioChaperone

Combo and BioChaperone Lispro in China and other territories. The agreement provides for a total upfront payment of 50 million dollars, including 40 million dollars for BioChaperone Combo and 10 million dollars for BioChaperone Lispro. Additionally, Adocia is entitled to receive development milestone payments of up to 85 million dollars, including 50 million dollars for BioChaperone Combo and 35 million dollars for BioChaperone Lispro. Finally, Adocia is expected to receive double-digit royalties on the sales of both products in the agreed territories. THDB will also reimburse some of Adocia's expenses for research and development activities performed during the term of the agreements. Adocia remains responsible for the development and the manufacturing of BioChaperone® pharmaceutical excipients.

Adocia retains the rights to develop and license BioChaperone Lispro and BioChaperone Combo in worldwide markets outside of the territories covered by these agreements, including the United States, Europe and Japan.

**In June 2018**, Adocia announced an expansion of the strategic alliance with THDB to include the global supply of insulin lispro and insulin glargine active pharmaceutical ingredients (API) from THDB to Adocia to support the development of Adocia's products in territories outside China. As the local leader in the Chinese insulin market, THDB commercializes human-insulin-based products and also develops multiple insulin analogs. Notably, THDB's insulin glargine has been filed for commercial approval in China and insulin lispro is expected to shortly enter Phase 3 testing there. THDB insulin lispro is manufactured in the same plant as the human insulin in its currently marketed products. Importantly, this manufacturing facility passed a cGMP audit enabling Phase 3 studies of THDB human insulin in Europe.

**Early in January 2018**, Adocia had also announced the expansion of the BioChaperone technology platform to enable the development of innovative treatments in the gastrointestinal (BioChaperone GLP-2) and obesity (BioChaperone Glucagon GLP-1) fields. Both preclinical projects leverage the expertise the Company has developed in protein formulation through its diabetes programs.

**On the legal front**, Adocia proceeded with the two arbitrations previously initiated against Eli Lilly & Co ("Lilly"). The first arbitration proceeding seeks an award of approximately 11 million dollars, and other specific relief, relating to Lilly's change of the product development plan during the collaboration. The procedure is completed, and the Company is awaiting the decision.

The second set of arbitration claims against arise out of Lilly's misappropriation and improper use of confidential information and discoveries owned by Adocia, as well as Lilly's breaches of development and confidentiality agreements. Adocia seeks damages of over 200 million dollars, as well as other specific remedies. Adocia now expects a decision on the second quarter of 2019.

## About Adocia

Adocia is a clinical-stage biotechnology company that specializes in the development of innovative formulations of already-approved therapeutic proteins and peptides for the treatment of diabetes and other metabolic diseases. In the diabetes field, Adocia's portfolio of injectable treatments is among the largest and most differentiated of the industry, featuring six clinical-stage products. Additionally, Adocia recently expanded its portfolio to include the development of treatments of obesity and short bowel syndrome.

The proprietary BioChaperone® technological platform is designed to enhance the effectiveness and/or safety of therapeutic proteins while making them easier for patients to use. Adocia customizes BioChaperone to each protein for a given application. Adocia's clinical pipeline includes five novel insulin formulations for the treatment of diabetes: two ultra-rapid formulations of insulin analog lispro (BioChaperone® Lispro U100 and U200), a combination of basal insulin glargine and rapid-acting insulin lispro (BioChaperone® Combo), a rapid-acting formulation of human insulin (HinsBet® U100), and a prandial combination of human insulin with amylin analog pramlintide (BioChaperone® Pramlintide Insulin). It also includes an aqueous formulation of human glucagon (BioChaperone® Glucagon) for the treatment of hypoglycemia. Adocia preclinical pipeline includes combinations of insulin glargine with GLP-1 receptor agonists (BioChaperone® Glargine GLP-1) for the treatment of diabetes, a ready-to-use combination of glucagon and a GLP-1 receptor agonist BioChaperone® Glucagon GLP1) for the treatment of obesity and a ready-to-use aqueous formulation of teduglutide (BioChaperone® Teduglutide) for the treatment of short bowel syndrome.

Adocia and Chinese insulin leader Tonghua Dongbao recently entered into a strategic alliance. In April 2018, Adocia granted Tonghua Dongbao licenses to develop and commercialize BioChaperone Lispro and BioChaperone Combo in China and other Asian and Middle-Eastern territories. The licensing included 50 million dollars upfront and up to 85 million dollars development milestones, plus double-digit royalties on sales. In June 2018, Tonghua Dongbao agreed to manufacture and supply active pharmaceutical ingredients insulin lispro and insulin glargine to Adocia globally, excluding China, to support Adocia's portfolio development in these territories.

*Adocia aims to deliver "Innovative medicine for everyone, everywhere."*

To learn more about Adocia, please visit us at www.adocia.com

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## Disclaimer

*This press release contains certain forward-looking statements concerning Adocia and its business. Such forward-looking statements are based on assumptions that Adocia considers to be reasonable. However, there can be no assurance that the estimates contained in such forward-looking statements will be verified, which estimates are subject to numerous risks including the risks set forth in the "Risk Factors" section of the Reference Document filed with the French Autorité des marchés financiers on April 19, 2018 (a copy of which is available on www.adocia.com) and to the development of economic conditions, financial markets and the markets in which Adocia operates. The forward-looking statements contained in this press release are also subject to risks not yet known to Adocia or not currently considered material by Adocia. The occurrence of all or part of such risks could cause actual results, financial conditions, performance or achievements of Adocia to be materially different from such forward-looking statements.*
*This press release and the information contained herein do not constitute an offer to sell or the solicitation of an offer to buy Adocia shares in any jurisdiction.*

## APPENDIX: Financial results at June 30, 2018

### Operating revenue

The table below provides details on operating revenue for each period:

| *In (€) thousands* | 06/30/2018 (6 months) | 06/30/2017 (6 months) |
|---|---|---|
| **Revenue (a)** | **32 801** | **19 469** |
| Research and collaborative agreements | 0 | 650 |
| Licencing revenues | 32 801 | 18 819 |
| **Grants, public financing, others (b)** | **3 303** | **3 652** |
| **OPERATING REVENUE (a) + (b)** | **36 105** | **23 121** |

Operating revenue mainly resulted from the licensing and research agreements and also from the public financing of research and development expenses. At June 30, 2018, they amounted to 36.1 million euros versus 23.1 million euros last year over the same period.

**Revenue** of 32.8 million euros at June 30, 2018 resulted primarily from the licensing agreements signed with Tonghua Dongbao (THDB) in april 2018.

The non-refundable upfront payment of 50 million dollars, or 41.1 million euros, upon signature of the contract was partially recognized as revenue (32.8 million euros) over the first semester. It reflects the rights of use granted to THDB for the development, manufacturing and commercialization of BioChaperone Lispro and BioChaperone Combo in China and other designated countries. The remaining part of the upfront payment will be recognized upon provision of research and development services by Adocia, related to the transfer and development of the products .

Last year, revenue for the first half-year of 2017 was impacted by the end of the collaboration with Eli Lilly and resulted in the recognition of the not yet amortized balance of the 50 million dollars upfront payment received in 2014.

**Other operating income** consisted primarily of the French research and development tax credit amounting to 3.2 million euros for the first half of 2018, compared to 3.6 million during the first half of 2017. This decrease reflects lower operational expenses compared to the same period last year.

## Operating expenses

The table below provides details on operating expenses by function for each period:

| *In (€) thousands* | 06/30/2018 (6 months) | 06/30/2017 (6 months) |
|---|---|---|
| Research and development expenses | (13 134) | (12 547) |
| General and administrative expenses | (8 650) | (3 293) |
| **CURRENT OPERATING EXPENSES** | **(21 784)** | **(15 840)** |

**Research and development costs** mainly include payroll costs assigned to research and development operations, subcontracting costs (including preclinical and clinical studies), intellectual property rights expenses, purchases of materials (reagents and other consumables), of pharmaceutical products and other raw materials. These expenditures remain stable compared to the same period 2017 totaling approximately 13 million euros. Excluding legal fees spent for the two on-going arbitrations, the research and development costs represent close to 75% of the total operating expenses over the first six months of 2018.

**General and administrative expenses** primarily include expenses for employees not directly working on research and development, as well as services related to management and business development of the Company and its subsidiary in the US. They amounted to 8.7 million euros at June 30, 2018 versus 3.3 million euros at June 30, 2017. The 5.4 million euros increase is mainly explained by the increase of legal services supporting the ongoing arbitrations, with an impact of 3.8 million euros, and by the increase of the payroll expenses of 1 million euros due primarily to the payment of performance bonuses to employees, following the license agreements signed with Tonghua Dongbao. At the end of 2017, considering the Company's financial situation and the context of a careful wage policy, salaries and bonuses were frozen.

The table below provides details on operating expenses by nature for each period:

| *In (€) thousands* | 06/30/2018 (6 months) | 06/30/2017 (6 months) |
|---|---|---|
| Purchases used in operations | (1 122) | (909) |
| Payroll expense | (7 668) | (5 441) |
| Share-based payments | (658) | (1 051) |
| External expenses | (11 477) | (7 824) |
| Taxes and contributions | (234) | (100) |
| Depreciation, amortization & provisions | (623) | (515) |
| **OPERATING EXPENSES** | **(21 784)** | **(15 840)** |

**Purchases used in operations** increased by nearly 24% to reach 1.1 million euros. This increase is primarily due to raw material expenses necessary to the production of clinical batches.

**Payroll expenses** totaled 7.7 million euros at June 30, 2018 compared to 5.4 million euros at June 30, 2017. The average workforce remained at a similar level, at 126.1 Full Time Equivalents (FTE) in 2017 and 125.1 FTE in 2018. The increase of payroll expense is primarily due to the payment of

performance bonuses to employees, resulting from the signing of the partnership with Tonghua Dongbao.

**The 0.7 million euros share-based payments** item at June 30, 2018 mainly includes the impact of the plans introduced in previous years. The 0.4 million euros decrease is explained by the vesting of several share-based plans in 2017. In accordance with IFRS 2, share-based payments are recognized at the fair value of the equity instruments granted to the executives and employees. These elements had no impact on the Company's corporate financial statements or cash position.

**External charges** mainly included the costs of preclinical studies, clinical trials, subcontracting expenses, intellectual property costs, professional fees and administrative expenses. These expenses amounted to 11.5 million euros at June 30, 2018, increasing by 3.7 million euros compared to the same period in 2017. It is primarily explained by the intensification of legal services incurred for the procedures against Eli Lilly.

**Taxes** totaled 0.2 million euros at June 30, 2018 compared to 0.1 million euros at June 30, 2017.

**Depreciation and amortization** amounted to 0.6 million euros at June 30, 2018, increasing by 0.1 million compared to the first half of 2017 because of the reclassification of the provision for unrealized foreign exchange in the operating expenses.

## Balance sheet items

| *In (€) thousands, Consolidated financial statements, IAS/IFRS* | 06/30/2018 | 12/31/2017 |
|---|---|---|
| Net cash and cash equivalents | 55 885 | 34 778 |
| Total assets | 81 889 | 53 761 |
| Equity | 48 045 | 36 857 |
| Financial debts | 7 876 | 7 336 |

Given the collection in April 2018 of the payment made by Tonghua Dongbao for 45 million dollars or 37.1 million euros (withholding tax excluded), the amount of cash and cash equivalents held by the Company was close to 56 million euros at June 30, 2018 compared to 34.8 million euros at January 1, 2018.

Consolidated shareholder's equity decreased from 36.9 million euros at January 1, 2018 to 48 million euros at June 30, 2018. The increase reflects the positive result at the end of June 2018.

Financial liabilities of 7.9 million euros at June 30, 2018, increasing by 0.5 million euros compared to the end of 2017, reflect the increase by 0.8 million euros of the credit lines in dollar to finance some of the legal expenses in connection with the two on-going arbitrations. It is partially offset by the reimbursement of the loan contracted in 2016 to finance the acquisition and the renovation of the building.