

epigenomics

INTERIM STATEMENT

JANUARY 1 – SEPTEMBER 30

9M 2019

QUARTERLY DEVELOPMENT OF KEY FIGURES (UNAUDITED)

in EUR thousand (unless indicated otherwise)	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Statement of Profit or Loss					
Revenue	544	218	331	348	168
Gross profit	416	66	238	276	129
EBIT	-3,038	-4,029	-3,313	-4,666	-2,844
EBITDA	-2,961	-3,949	-3,210	-4,528	-2,706
EBITDA before share-based payment costs	-2,618	-3,433	-2,958	-4,287	-2,487
Net loss for the period	-2,974	-3,944	-3,018	-4,398	-2,594
Balance Sheet (at the respective reporting dates)					
Non-current assets	3,372	3,553	4,472	4,985	5,247
Current assets	9,116	18,274	14,185	10,562	7,716
Non-current liabilities	44	47	646	851	806
Current liabilities	10,067	3,167	2,226	2,993	3,232
Equity	2,377	18,613	15,785	11,703	8,925
Equity ratio (in %)	19,0	85,3	84,6	75,3	68,8
Total assets	12,488	21,827	18,657	15,547	12,963
Statement of Cash Flows					
Cash flow from operating activities	-2,674	-3,531	-4,305	-3,468	-3,067
Cash flow from investing activities	-17	775	-27	-17	26
Cash flow from financing activities	-65	13,413	-190	-77	-73
Net cash flow	-2,755	10,656	-4,522	-3,563	-3,114
Cash consumption	-2,691	-2,756	-4,332	-3,485	-3,041
Cash and cash equivalents at the end of the period	5,829	16,487	12,126	8,437	5,501
Stock					
Weighted-average number of shares issued	24,014,360	36,021,540	36,021,540	36,021,540	36,021,540
Earnings per share (basic and diluted, in EUR)	-0.12	-0.11	-0.08	-0.12	-0.07
Share price at the end of the period (in EUR)	2.19	1.77	1.80	1.79	1.35
Number of employees at the end of the period					
	43	44	43	44	42

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME)
FOR THE PERIOD FROM JANUARY 1 TO SEPTEMBER 30 (UNAUDITED)

EUR thousand	Q3 2018	Q3 2019	9M 2018	9M 2019
Revenue	544	168	1,315	847
Cost of sales	-128	-39	-288	-204
Gross profit	416	129	1,027	643
<i>Gross margin (in %)</i>	<i>76.5</i>	<i>76.8</i>	<i>78.1</i>	<i>75.9</i>
Other income	221	993	712	1,761
Research and development costs	-1,416	-1,787	-4,459	-5,654
Selling, general and administrative costs	-2,163	-2,012	-6,046	-6,871
Other expenses	-96	-167	-102	-703
Operating result/ Earnings before interest and taxes (EBIT)	-3,038	-2,844	-8,868	-10,824
Interest income	4	43	13	155
Interest expenses	-143	-17	-423	-46
Other financial result	-1	0	-1	-1
Net loss for the period before taxes on income	-3,178	-2,818	-9,279	-10,716
Taxes on income	204	224	532	706
Net loss for the period	-2,974	-2,594	-8,747	-10,010
Items that may be reclassified subsequently to profit or loss:				
Exchange rate differences from the conversion of foreign entities	-50	-479	-248	-517
Fair value adjustment of financial instruments measured at fair value through other comprehensive income	22	76	-102	123
Other comprehensive income for the period	-28	-403	-350	-394
Total comprehensive income for the period	-3,002	-2,997	-9,097	-10,404
Earnings per share (basic and diluted, in EUR)	-0.12	-0.07	-0.36	-0.28

The earnings per share (basic and diluted) are calculated by dividing the Group's net loss for the period by the weighted-average number of shares issued and admitted to trading in the respective period. The outstanding stock options and convertible notes issued by the Company are anti-dilutive according to IAS 33.41 and 33.43. Therefore, the earnings per share (diluted) equal the earnings per share (basic). In Q3 2019, the weighted-average number of shares issued was 36,021,540 (Q3 2018: 24,014,360). In 9M 2019, the weighted-average number of shares issued was 36,021,540 (9M 2018: 24,014,360).

CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30 (UNAUDITED)

ASSETS EUR thousand	Dec 31, 2018	Sept 30, 2019
<i>Non-current assets</i>		
Intangible assets	474	368
Property, plant and equipment	701	1,626
Deferred taxes	2,378	3,253
Total non-current assets	3,553	5,247
<i>Current assets</i>		
Inventories	364	302
Trade receivables	164	282
Marketable securities	653	776
Cash and cash equivalents	16,487	5,501
Other current assets	606	855
Total current assets	18,274	7,716
Total assets	21,827	12,963

EQUITY AND LIABILITIES EUR thousand	Dec 31, 2018	Sept 30, 2019
<i>Equity</i>		
Subscribed capital	36,022	36,022
Capital reserve	68,802	69,518
Retained earnings	-73,115	-85,807
Net loss for the period	-12,692	-10,010
Other comprehensive income	-404	-798
Total equity	18,613	8,925
<i>Non-current liabilities</i>		
Liabilities from leasing contracts	0	758
Provisions	47	48
Total non-current liabilities	47	806
<i>Current liabilities</i>		
Trade payables	1,411	1,450
Liabilities from leasing contracts	0	215
Deferred income	23	16
Other liabilities	771	843
Provisions	962	708
Total current liabilities	3,167	3,232
Total equity and liabilities	21,827	12,963

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM JANUARY 1 TO SEPTEMBER 30 (UNAUDITED)

EUR thousand	9M 2018	9M 2019
Cash and cash equivalents at the beginning of the period	12,826	16,487
<i>Operating activities</i>		
Net loss for the period	-8,747	-10,010
Adjustments for:		
Share-based payment expenses	897	726
Amortization of intangible assets	145	146
Depreciation of property, plant and equipment	83	232
Losses from the disposal of assets	0	1
Foreign currency exchange results	0	-176
Financial income	-13	-155
Financial expenses	425	48
Taxes	-532	-706
Operating result before changes in operating assets and liabilities	-7,742	-9,894
<i>Changes in operating assets and liabilities</i>		
Inventories	5	61
Trade receivables	107	-106
Other assets	541	-242
Non-current and current provisions	-329	-258
Trade payables and other liabilities	574	-367
Deferred income	39	-7
Tax paid	-16	-27
Cash flow from operating activities	-6,821	-10,840
<i>Investing activities</i>		
Payments to acquire intangible fixed assets	-3	-41
Payments to acquire property, plant and equipment	-65	-71
Interest received	18	94
Cash flow from investing activities	-50	-18

EUR thousand	9M 2018	9M 2019
<i>Financing activities</i>		
Payments for the issue of new shares	-136	-179
Payments from conversion of convertible notes	-2	0
Payments from leasing contracts	0	-162
Cash flow from financing activities	-138	-341
Total net cash flow	-7,009	-11,199
Currency translation effects	12	213
Cash and cash equivalents at the end of the period	5,829	5,501

At the reporting date, EUR 87 thousand of cash and cash equivalents included restricted cash.

FINANCIALS 9M 2019

FINANCIAL POSITION AND CASH FLOW

In the first nine months of 2019, cash outflow from operating activities increased from EUR 6,821 thousand in 9M 2018 by EUR 4,019 thousand to EUR 10,840 thousand. This increase was essentially due to a larger cash outflow in the first quarter of the year in connection with costs already incurred in the previous year. In addition, the receipt of payments for third-party funding projects in the previous year led to an overall reduced net cash outflow in 9M 2018.

Net cash used in investing activities decreased in the first nine months of 2019 by EUR 32 thousand to EUR 18 thousand (9M 2018: EUR 50 thousand).

Cash outflow from financing activities amounted to EUR 341 thousand in the first nine months of 2019 (9M 2018: EUR 138 thousand). Payments for leasing contracts are included in the amount of EUR 162 thousand in accordance with the application of IFRS 16.

Our net cash flow for the first nine months of 2019 was EUR -11,199 thousand (9M 2018: EUR -7,009 thousand). Cash consumption increased to EUR 10,858 thousand in the first nine months of 2019, compared to EUR 6,871 thousand in the same period of the previous year.

Cash and cash equivalents amounted to EUR 5,501 thousand as of the reporting date (December 31, 2018: EUR 16,487 thousand).

RESULTS OF OPERATIONS

In the third quarter of 2019, we recorded revenue of EUR 168 thousand, a decrease compared to the third quarter of 2018 (EUR 544 thousand). In the first nine months of 2019, total revenue decreased from EUR 1,315 thousand in 9M 2018 to EUR 847 thousand. This was due to lower licensing revenue, which could not be fully offset by higher product revenue.

Product sales were down from EUR 283 thousand in the third quarter of 2018 to EUR 158 thousand in the third quarter of 2019. As the main reason it must be considered that some customers in the USA had already stocked up on test kits in the first half of the year, which they had not yet been able to completely sell off due to the reimbursement decision that had not yet been issued, and were therefore reluctant to place repeat orders. In the nine-month period, revenue from product sales increased by 28% from EUR 641 thousand to EUR 818 thousand. Licensing revenue was down to EUR 10 thousand in the third quarter of 2019 from EUR 213 thousand in the third quarter of 2018 and to EUR 29 thousand (9M 2019) from EUR 626 thousand (9M 2018). The main reason for the decline was the termination of our Chinese licensing agreement.

Cost of sales amounted to EUR 39 thousand in the third quarter of 2019 (Q3 2018: EUR 128 thousand) and to EUR 204 thousand in the first nine months of 2019 (9M 2018: EUR 288 thousand). Our gross margin remained constant at 77% quarter-on-quarter and decreased slightly from 78% in the first nine months of 2018 to 76% in the first nine months of 2019.

Other income of EUR 993 thousand in the third quarter of 2019 (Q3 2018: EUR 221 thousand) was mainly due to exchange rate gains from currency translation.

The main cost driver were again our R&D activities. R&D costs rose from EUR 1,416 thousand in the third quarter of 2018 to EUR 1,787 thousand in the third quarter of 2019. In the nine-month period, R&D costs increased by EUR 1,195 thousand from EUR 4,459 thousand in the previous year to EUR 5,654 thousand in the reporting period due to expenses in connection with the post-approval study for Epi proColon and the liver cancer study in the U.S.A..

Our selling, general and administrative costs decreased to EUR 2,012 thousand in the third quarter of 2019 from EUR 2,163 thousand in the comparable period of 2018. In the nine-month period, selling, general and administrative costs increased by EUR 825 thousand from EUR 6,046 thousand in the previous year to EUR 6,871 thousand in the reporting period, due to increased expenses in the first quarter for market preparation in the U.S.A..

Other expenses of EUR 167 thousand in the third quarter of 2019 (Q3 2018: EUR 96 thousand) were due to exchange rate losses from currency translation and a write-down of receivables.

Overall, our operating costs rose to EUR 4.0 million in the third quarter of 2019 for the reasons mentioned above, compared to EUR 3.8 million in the same period of the previous year. Total operating costs rose year-on-year from EUR 10.9 million to EUR 13.4 million.

The reported tax income of EUR 224 thousand in the third quarter of 2019 (Q3 2018: EUR 204 thousand) and of EUR 706 thousand in the first nine months (9M 2018: EUR 532 thousand) relates exclusively to deferred taxes on loss carryforwards recognized by our U.S. subsidiary.

A net loss of EUR 2.6 million (Q3 2018: EUR 3.0 million) was recognized in the third quarter of 2019; this resulted in a net loss of EUR 10.0 million (9M 2018: EUR 8.7 million) for the first nine months of 2019. The net loss per share for the third quarter decreased from EUR 0.12 in 2018 to EUR 0.07 in 2019 and for the first nine months to EUR 0.28 in 2019 (9M 2018: EUR 0.36), based on the increase in the number of shares after our capital increase in the second half of 2018.

NET ASSET POSITION

As of the reporting date, non-current assets rose from EUR 3.6 million as of December 31, 2018 to EUR 5.2 million due to the increase in deferred tax assets and the first-time application of the new accounting standard IFRS 16, under which rights of use from rental agreements were capitalized. Current assets decreased from EUR 18.3 million at the beginning of the reporting period to EUR 7.7 million as of September 30, 2019 - largely due to the utilization of cash and cash equivalents during this period.

Total equity decreased by EUR 9.7 million to EUR 8.9 million as of the reporting date (December 31, 2018: EUR 18.6 million) due to the net loss for the period. The equity ratio decreased to 68.8% as of the reporting date (December 31, 2018: 85.3%).

Compared to the closing balance sheet of 2018, non-current liabilities increased to EUR 806 thousand as of September 30, 2019 (December 31, 2018: EUR 47 thousand) - this includes liabilities from rental and leasing agreements in the amount of EUR 758 thousand following the first-time application of IFRS 16.

Current liabilities remained nearly unchanged at EUR 3.2 million as of September 30, 2019 compared to December 31, 2018.

OPPORTUNITIES AND RISKS

The opportunities and risks to which the business activities of our Company are exposed are described in detail in the Group management report, which we published together with the consolidated financial statements for 2018, and are also updated in the securities prospectus for the rights issue announced in October 2019. Both documents are available on the Company's website (www.epigenomics.com).

OUTLOOK

Based on the known factors and assumptions and the related uncertainties, we expect product revenue to increase in 2019 compared to 2018, but to remain low in full year 2019 between EUR 1.0 million and EUR 1.5 million due to delays in the reimbursement decision and a licensing agreement, which we could not close as anticipated.

With regard to our operating costs, we expect higher R&D expenses in 2019 compared to 2018 due to substantial costs from the post-approval study for Epi proColon required by the FDA, but also from the ongoing cross-sectional study in liver cancer and further development activities. Furthermore marketing and sales activities (e.g. preparation of the broader marketing of Epi proColon in the U.S. market) and increased supporting activities in connection with the expected reimbursement determination in the U.S.A. led to higher costs on the marketing and sales side. Based on the revenue and cost forecasts, we continue to expect an operating loss for 2019. On this basis, we continue to expect adjusted EBITDA for the full year 2019 to range between EUR -12.5 million and EUR -14.0 million.

REPORT ON POST-BALANCE SHEET DATE EVENTS

At November 7, 2019, after the end of the reporting period Q3 2019, we announced that we have placed the new shares from the capital increase resolved on October 17, 2019 in an amount of EUR 7,506,152.00. Accordingly, the Company's share capital will be increased from currently EUR 36,021,540.00 by EUR 7,506,152.00 to EUR 43,527,692.00 by 7,506,152 new registered shares of the Company against cash contributions.

The shares from the private placement were allocated to multiple investors, including, in particular, institutional investors from the U.S.A. and Germany.

The gross proceeds from the capital increase amount to approximately EUR 8.3 million.

This interim statement was approved and cleared for publication by the Executive Board of the Company on November 14, 2019.

Berlin, November 14, 2019

The Executive Board

DISCLAIMER

This interim report expressly or implicitly contains certain forward-looking statements concerning Epigenomics AG and its business. Such statements are not historical facts and sometimes are expressed by the words “will”, “believe”, “expect”, “predict”, “plan”, “want”, “assume” or similar expressions. Forward-looking statements are based on the current plans, estimates, forecasts and expectations of the Company and on certain assumptions, and they involve certain known and unknown risks, uncertainties and other factors which could cause the actual results, financial position, performance or achievements of Epigenomics AG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Readers of this interim report are explicitly warned not to place undue reliance on these forward-looking statements, which are only valid as of the date of this interim report. Epigenomics AG does not intend to and will not undertake to update any forward-looking statements contained in this interim report as a result of new information, future events or otherwise.

CORPORATE CALENDAR 2020

Annual Report 2019 – January 1–December 31, 2019 Friday, March 27, 2020

Annual General Shareholders' Meeting 2020 in Berlin Thursday, May 14, 2020



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