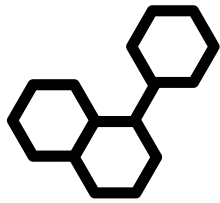


Financial Report

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20
NINE-MONTH REPORT
18



The purpose of Idorsia is to discover, develop and bring more, innovative medicines to patients.

We have more ideas, we see more opportunities and we want to help more patients.

Idorsia measures and reports its non-GAAP operating performance, which management believes more accurately reflects the underlying business performance. The Group believes that these non-GAAP financial measurements provide useful supplementary information to investors. These non-GAAP measures are reported in addition to, not as a substitute for, US GAAP financial performance.

Idorsia was incorporated on March 3, 2017 and became fully operational on June 15, 2017. The presented numbers for the comparison periods in the Financial Review refer to these time ranges and are therefore less meaningful.

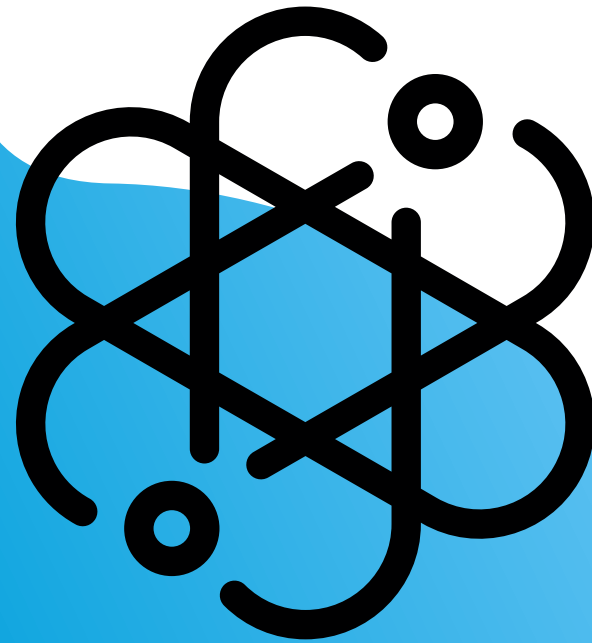
Rounding differences may occur
nm = not meaningful

Contents

4 **Financial review**

14 **Interim unaudited consolidated financial statements**

Financial review



Idorsia's key numbers

Profit and loss

(in CHF millions, except EPS)	Period ended Sep 30, 2018		Third quarter 2018	
	US GAAP	Non-GAAP	US GAAP	Non-GAAP
Net revenue				
Product sales	-	-	-	-
Contract revenue - royalties	-	-	-	-
Contract revenue - milestones	20	20	7	7
Contract revenue - others	-	-	-	-
Operating expenses				
Research and development	(245)	(227)	(106)	(100)
General and administration	(45)	(39)	(16)	(14)
Net results				
Operating income (loss)	(271)	(247)	(115)	(107)
Net income (loss)	(278)	(249)	(119)	(109)
Basic EPS	(2.27)	(2.03)	(0.92)	(0.84)
Diluted EPS	(2.27)	(2.03)	(0.92)	(0.84)

Cash flow

(in CHF millions)	Period ended Sep 30, 2018	Third quarter 2018
Cash flow		
Operating cash flow	(228)	(91)
Capital expenditure	(9)	(4)
Free cash flow	(237)	(95)

Shares

(in millions)	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
Share count			
Issued common shares	131.0	119.1	119.1
Equity derivatives	44.6	38.7	38.7
Equity instruments	5.7	5.7	4.8
Total potential issued shares	181.4	163.6	162.7

Liquidity and indebtedness

(in CHF millions)	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
Liquidity			
Cash and cash equivalents	671	615	622
Short-term deposits	132	85	218
Long-term deposits	548	250	250
Total Liquidity	1,351	949	1,091
Indebtedness			
Convertible loan	370	368	365
Convertible bond	198	-	-
Other financial debt	-	-	-
Total indebtedness	569	368	365

Revenue

Revenue

Revenue of CHF 20 m related to deferred contract revenue in connection with the collaboration agreements with Janssen (CHF 15.9 m) and Roche (CHF 3.8 m).

Operating expenses

Operating expenses

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Operating expenses				
Non-GAAP research	82	34	28	30
Non-GAAP development	145	23	72	20
Non-GAAP general and administrative	39	14	14	11
Non-GAAP milestones paid	-	-	-	-
Non-GAAP operating expenses	266	71	114	61
Depreciation and amortization	14	5	5	5
Share-based compensation	10	3	3	3
Other	-	-	-	-
Other operating expenses	24	8	8	7
US GAAP operating expenses	290	79	122	68

US GAAP operating expenses of CHF 290 m included non-GAAP operating expenses of CHF 266 m, depreciation and amortization of CHF 14 m and share-based compensation of CHF 10 m.

Operating results

Research and development ("R&D") expenses

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
R&D expenses				
Research	82	34	28	30
Development	145	23	72	20
Milestones paid	-	-	-	-
Non-GAAP R&D expenses	227	57	100	50
Depreciation and amortization	13	5	4	4
Share-based compensation	6	2	2	2
Other	-	-	-	-
US GAAP R&D expenses	245	64	106	55

Research expenses amounted to CHF 82 m for biology, chemistry and preclinical activities.

Development expenses amounted to CHF 145 m, mainly driven by clinical and CMC (chemistry, manufacturing and controls) activities as four compounds (nemorexant, apocitentan, clazosentan and lucerastat) advanced into Phase 3 clinical development.

General and administrative ("G&A") expenses

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Non-GAAP G&A expenses	39	14	14	11
Depreciation and amortization	2	0	1	0
Share-based compensation	4	1	1	1
Other	-	-	-	-
US GAAP G&A expenses	45	15	16	13

Non-GAAP and US GAAP operating results

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Non-GAAP operating results				
Contract revenues	20	-	7	-
Operating expenses	(266)	(71)	(114)	(61)
Non-GAAP operating income (loss)	(247)	(71)	(107)	(61)
US GAAP operating results				
Contract revenues	20	-	7	-
Operating expenses	(290)	(79)	(122)	(68)
US GAAP operating income (loss)	(271)	(79)	(115)	(68)

The CHF 24 m difference between non-GAAP and US GAAP operating loss related to depreciation and amortization of CHF 14 m and share-based compensation of CHF 10 m.

Financial results

Financial results

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Financial results				
Interest income (expense), net	(2)	(1)	(1)	(1)
Other financial income (expense), net	(1)	(1)	(2)	(1)
Non-GAAP financial income (expense)	(2)	(2)	(2)	(1)
Accretion expense	(6)	(2)	(2)	(2)
US GAAP financial income (expense)	(8)	(4)	(4)	(3)

Non-GAAP financial expense related to currency losses of CHF 0.9 m, mainly on US dollar deposits, and interest expense of CHF 1.6 m, mainly on Swiss franc deposits and convertible bonds.

US GAAP financial expense included the non-cash accretion expense of CHF 5.8 m relating to the convertible instruments.

Income tax

Income tax

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Income tax				
Income tax benefit (expense)	0	0	0	0
Other tax benefit (expense)	-	-	-	-
Non-GAAP tax benefit (expense)	0	0	0	0
Other tax benefit (expense)	(0)	0	0	0
US GAAP income tax benefit (expense)	(0)	0	0	0

Non-GAAP tax expense included a valuation allowance against the deferred tax asset arising from the operating losses which can be carried forward and utilized in the coming 7 years.

Net results, EPS and shares

Net results

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Non-GAAP operating income (loss)	(247)	(71)	(107)	(61)
Financial income (expense)	(2)	(2)	(2)	(1)
Income tax benefit (expense)	0	0	0	0
Non-GAAP net income (loss)	(249)	(73)	(109)	(62)
US GAAP operating income (loss)	(271)	(79)	(115)	(68)
Financial income (expense)	(8)	(4)	(4)	(3)
Income tax benefit (expense)	(0)	0	0	0
US GAAP net income (loss)	(279)	(83)	(119)	(71)
Net loss attributable to non-controlling interests	1	1	0	1
US GAAP net income (loss) attributable to Idorsia's shareholders	(278)	(82)	(119)	(71)

The CHF 30 m difference between non-GAAP and US GAAP net loss was mainly due to depreciation and amortization of CHF 14 m, share-based compensation of CHF 10 m and the financial accretion expense of CHF 6 m relating to the convertible instruments.

Earnings per share (EPS)

(in millions), except per share amounts	Period ended Sep 30,		Third quarter	
	2018	2018	2018	2018
	US GAAP	Non-GAAP	US GAAP	Non-GAAP
Net income (loss)	(278)	(249)	(119)	(109)
Weighted average number of basic shares	122.7	122.7	129.6	129.6
Basic EPS (in CHF)	(2.27)	(2.03)	(0.92)	(0.84)
Weight average number of dilutive shares	122.7	122.7	129.6	129.6
Diluted EPS (in CHF)	(2.27)	(2.03)	(0.92)	(0.84)

There is no difference between basic and dilutive EPS since no shares were considered dilutive due to the net loss.

Shares

(in millions)	Issued	Equity derivatives	Equity awards	Total
Outstanding shares Dec 31, 2017	119.1	38.7	4.8	162.7
Equity instruments - issuance	0.0	-	1.1	1.1
Equity instruments - forfeitures	-	-	(0.2)	(0.2)
Issuance of new shares	11.9	5.9	-	17.8
Outstanding shares Sep 30, 2018	131.0	44.6	5.7	181.4

Equity derivatives of 44.6 million related to the convertible loan issued in June 2017 to Cilag Holding AG (38.7 million potential shares) and the convertible bonds issued in July 2018 (5.9 million potential shares).

Equity awards of 5.7 million consisted of 5.4 million stock options and 0.3 million restricted share units, of which 1.1 million were granted to eligible employees and members of the Board of Directors during the first nine months of 2018.

Cash flow and liquidity

Operating cash flow

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Operating cash flow				
US GAAP net income (loss)	(279)	(83)	(119)	(71)
Deferred contract revenue	(5)	-	(7)	-
Depreciation and amortization	14	5	5	5
Accretion of convertible loan discount	6	2	2	2
Share-based compensation	10	3	3	3
Funds from operations	(254)	(72)	(116)	(62)
Net change in receivables	1	(2)	1	(2)
Net change in trade and other payables	4	7	(2)	(8)
Net change in other operating assets and liabilities	21	18	26	18
Decrease (increase) in net working capital	26	22	25	8
Decrease (increase) in deferred taxes	(0)	(0)	(0)	(0)
Operating cash flow	(228)	(50)	(91)	(55)

Free cash flow

(in CHF millions)	Period ended Sep 30,		Third quarter	
	2018	2017	2018	2017
Free cash flow				
Operating cash flow	(228)	(50)	(91)	(55)
Acquisition of tangible, intangible and other assets	(9)	(1)	(4)	(1)
Operating free cash flow	(237)	(51)	(95)	(56)

Liquidity

(in CHF millions)	Liquidity
Liquidity Dec 31, 2017	1,091
Liquidity movements Q1	(75)
Liquidity Mar 31, 2018	1,016
Liquidity movements Q2	(67)
Liquidity Jun 30, 2018	949
Liquidity movements Q3	402
Liquidity Sep 30, 2018	1,351

Liquidity consisted of cash and cash equivalents (CHF 671 m), short-term deposits (CHF 132 m) and long-term deposits (CHF 548 m).

The liquidity movement in Q3 2018 comprised net proceeds of CHF 498 m relating to the issuance of new shares and convertible bonds, and the negative operating free cash flow of CHF 95 m.

Balance sheet

Balance sheet

	Sep 30, 2018	Jun 30, 2018	Dec 31, 2017
(in CHF millions)			
Assets			
Liquidity ¹	1,351	949	1,091
Tangible assets	150	152	157
Other assets	26	27	44
Total assets	1,527	1,128	1,292
Liabilities and equity			
Financial debt	569	368	365
Deferred revenue	64	71	69
Other liabilities	124	103	119
Total liabilities	758	542	552
Total equity	770	586	740
Total liabilities and equity	1,527	1,128	1,292

¹ Liquidity includes cash, cash equivalents, short- and long-term deposits

Tangible assets of CHF 150 m mainly included the building and R&D equipment.

Other assets of CHF 26 m comprised prepayments of CHF 11 m, receivables of CHF 7 m and non-current assets of CHF 8 m.

Financial debt of CHF 569 m related to the debt component of CHF 370 m of the outstanding convertible loan (CHF 445 m) and CHF 198 m related to the convertible bonds (CHF 200 m).

Other liabilities of CHF 124 m included current and non-current liabilities of CHF 72 m and CHF 52 m respectively. Current liabilities mainly comprised accrued expenses of CHF 56 m and payables of CHF 16 m. Non-current liabilities mainly comprised pension liability of CHF 29 m, CHF 13 m subordinated liability of Vaxxilon, asset retirement liability of CHF 4 m and deferred tax liabilities of CHF 7 m.

Cash raise Q3, 2018

In July 2018 the Group raised CHF 505 m through the concurrent issuance of new shares and convertible bonds resulting in net proceeds of CHF 498 m due to issuance costs (CHF 4 m) and stamp duty (CHF 3m)

With its current levels of investment in R&D, the Group wanted to secure the funding of its late-stage pipeline through to completion.

The table below shows the impact of this cash raise on the share count:

	Jun 30, 2018	Cash raise	Total
(in millions)			
Share count			
Issued common shares	119.1	11.9	131.0
Equity derivatives	38.7	5.9	44.6
Equity instruments	5.7	-	5.7
Total potential issued shares	163.6	17.8	181.4

Reconciliation of US GAAP to non-GAAP results

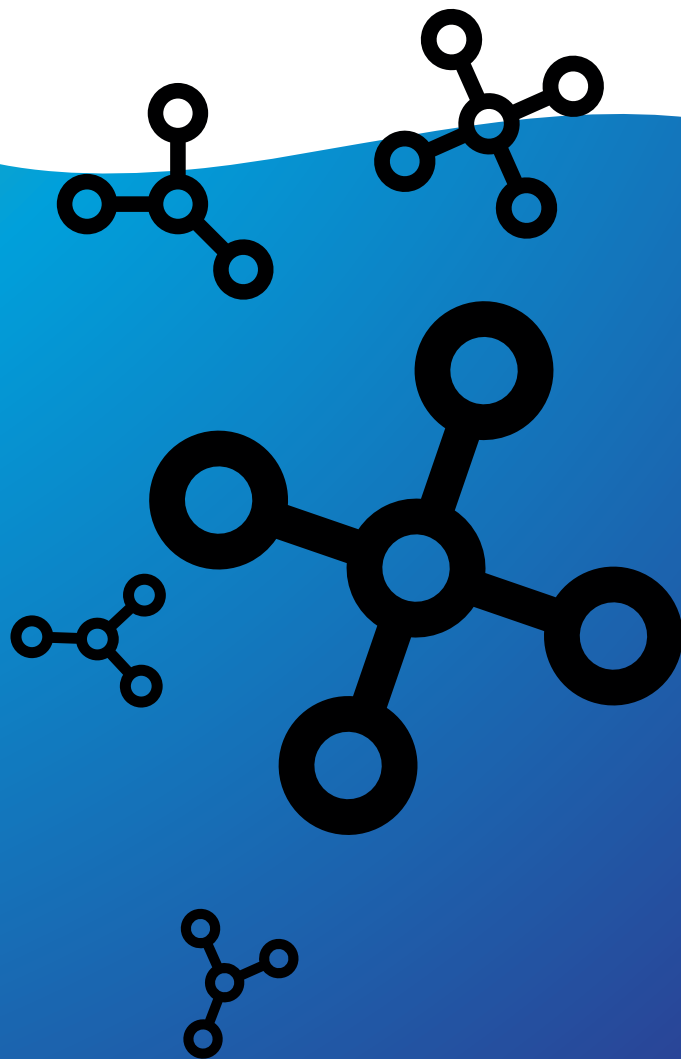
Reconciliation of US GAAP to non-GAAP results for the period ended September 30, 2018

(in CHF millions, except per share amounts and EPS)	US GAAP results	Depreciation, amortization, impairment	Share-based compensation	Other items	Non-GAAP results
Net revenue					
Product sales	-	-	-	-	-
Contract revenue - royalties	-	-	-	-	-
Contract revenue - milestones	20	-	-	-	20
Contract revenue - others	-	-	-	-	-
Total net revenue	20	-	-	-	20
Operating expenses					
Cost of sales	-	-	-	-	-
Research and development	(245)	13	6	-	(227)
General and administrative	(44)	1	4	-	(39)
Amortization of intangible assets	(0)	0	-	-	-
Total operating expenses	(290)	14	10	-	(266)
Operating results	(271)	14	10	-	(247)
Total financial income (expense)	(8)	-	-	6	(2)
Income before income tax benefit (expense)	(279)	14	10	6	(249)
Income tax benefit (expense)	(0)	(0)	1	(0)	0
Noncontrolling interest	1	-	-	(1)	-
Net income (loss)	(278)	14	11	5	(249)
Basic net income (loss) per share (CHF)	(2.27)	0.12	0.09	0.04	(2.03)
Weighted-average number of shares (millions)	122.7	-	-	-	122.7
Diluted net income (loss) per share (CHF)	(2.27)	0.12	0.09	0.04	(2.03)
Weighted-average number of shares (millions)	122.7	-	-	-	122.7

Reconciliation of US GAAP to non-GAAP results for the third quarter 2018

(in CHF millions, except per share amounts and EPS)	US GAAP results	Depreciation, amortization, impairment	Share-based compensation	Other items	Non-GAAP results
Net revenue					
Product sales	-	-	-	-	-
Contract revenue - royalties	-	-	-	-	-
Contract revenue - milestones	7	-	-	-	7
Contract revenue - others	-	-	-	-	-
Total net revenue	7	-	-	-	7
Operating expenses					
Cost of sales	-	-	-	-	-
Research and development	(106)	4	2	-	(100)
General and administrative	(15)	0	1	-	(14)
Amortization of intangible assets	(0)	0	-	-	-
Total operating expenses	(122)	5	3	-	(114)
Operating results	(115)	5	3	-	(107)
Total financial income (expense)	(4)	-	-	2	(2)
Income before income tax benefit (expense)	(120)	5	3	2	(110)
Income tax benefit (expense)	0	(0)	0	(0)	0
Noncontrolling interest	0	-	-	(0)	-
Net income (loss)	(119)	5	4	1	(109)
Basic net income (loss) per share (CHF)	(0.92)	0.04	0.03	0.01	(0.84)
Weighted-average number of shares (millions)	129.6	-	-	-	129.6
Diluted net income (loss) per share (CHF)	(0.92)	0.04	0.03	0.01	(0.84)
Weighted-average number of shares (millions)	129.6	-	-	-	129.6

Interim
unaudited
consolidated
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statements



Consolidated income statement

	Period ended September 30,	
	2018	2017
(in CHF thousands, except per share amounts)	(unaudited)	(unaudited)
Net revenue		
Product sales	-	-
Contract revenue	19,674	-
Total net revenue	19,674	-
Operating (expenses) ¹		
Research and development	(245,364)	(63,663)
General and administrative	(44,464)	(15,211)
Amortization of intangible assets	(403)	(61)
Total operating (expenses)	(290,231)	(78,934)
Operating income (loss)	(270,557)	(78,934)
Interest income (expense), net	(1,562)	(1,196)
Accretion of convertible debt discount	(5,815)	(2,199)
Other financial income (expense), net	(864)	(626)
Total financial income (expense)	(8,240)	(4,021)
Income (loss) before income tax benefit (expense)	(278,797)	(82,956)
Income tax benefit (expense)	(151)	264
Net income (loss)	(278,948)	(82,692)
Less: Net loss attributable to the noncontrolling interests	791	603
Net income (loss) attributable to Idorsia's shareholders	(278,157)	(82,089)
Basic net income (loss) per share attributable to Idorsia's shareholders	(2.27)	(0.73)
Weighted-average number of common shares	122,660	111,792
Diluted net income (less) per share attributable to Idorsia's shareholders	(2.27)	(0.73)
Weighted-average number of common shares	122,660	111,792
¹ Includes share-based compensation as follows:		
Research and development	5,879	1,584
General and administrative	3,866	1,212
Total share-based compensation	9,746	2,797

Consolidated statement of comprehensive income

(in CHF thousands)	Period ended September 30,	
	2018	2017
	(unaudited)	(unaudited)
Net income (loss)	(278,948)	(82,692)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(14)	(2)
Change of unrecognized components of net periodic benefit costs	-	-
Other comprehensive income (loss), net of tax	(14)	(2)
Comprehensive income (loss)	(278,962)	(82,694)
Less: Comprehensive income (loss) attributable to noncontrolling interests	791	603
Comprehensive income (loss) attributable to Idorsia's shareholders	(278,171)	(82,091)

Consolidated balance sheet (1/2)

	Sep 30, 2018	Dec 31, 2017
	(unaudited)	(audited)
(in CHF thousands, except number of shares)		
ASSETS		
Current assets		
Cash and cash equivalents	670,638	622,452
Short-term deposits	132,429	218,302
Receivables from related parties	2,810	20,198
Other current assets	15,056	20,347
Total current assets	820,933	881,299
Noncurrent assets		
Long-term deposits	548,203	250,000
Property, plant and equipment, net	150,320	156,738
Intangible assets, net	3,657	1,815
Other noncurrent assets	4,223	2,025
Total noncurrent assets	706,403	410,578
TOTAL ASSETS	1,527,337	1,291,877
LIABILITIES		
Current liabilities		
Trade and other payables	11,192	4,252
Payables to related parties	4,750	20,465
Deferred revenue	26,232	21,232
Accrued expenses	56,153	47,253
Total current liabilities	98,328	93,202
Noncurrent liabilities		
Convertible loan	370,439	364,683
Convertible bond	198,373	-
Deferred revenue	38,098	47,772
Pension liability	28,703	21,770
Deferred tax liability	7,293	7,329
Other noncurrent liabilities	16,365	17,615
Total noncurrent liabilities	659,271	459,168
Total liabilities	757,598	552,371

Consolidated balance sheet (2/2)

	Sep 30,	Dec 31,
	2018	2017
	(unaudited)	(audited)
<i>(in CHF thousands, except number of shares)</i>		
EQUITY		
Idorsia's shareholders' equity		
Common shares (par value CHF 0.05 per share, issued and outstanding 131,049,744 and 119,123,430 in 2018 and 2017 respectively; authorized 52,985,686 and 53,000,000 in 2018 and 2017 respectively)	6,552	5,956
Additional paid in capital	1,068,344	759,747
Accumulated profit (loss)	(292,426)	(14,269)
Accumulated other comprehensive income (loss)	(6,004)	(5,990)
Total Idorsia's shareholders' equity	776,467	745,444
Equity attributable to noncontrolling interests	(6,728)	(5,937)
Total equity	769,738	739,506
TOTAL LIABILITIES AND EQUITY	1,527,337	1,291,877

Consolidated statement of cash flows

(in CHF thousands)	Period ended September 30,	
	2018	2017
	(unaudited)	(unaudited)
Cash flow from operating activities		
Net income (loss)	(278,948)	(82,692)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	14,194	5,282
Share-based compensation	9,745	2,797
Accretion of convertible debt discount	5,815	2,199
Deferred revenue	(4,674)	-
Deferred taxes	(110)	(318)
Changes in operating assets and liabilities:		
Receivables	1,123	(2,188)
Trade and other payables	3,628	6,890
Accrued expenses	8,614	20,830
Changes in other operating cash flow items	12,465	(3,048)
Net cash flow provided by (used in) operating activities	(228,148)	(50,248)
Cash flow from investing activities		
Purchase of short-term deposits	(146,967)	(150,000)
Proceeds from short-term deposits	233,923	-
Purchase of long-term deposits	(299,050)	(250,000)
Purchase of property, plant and equipment	(7,228)	(861)
Purchase of intangible assets	(2,039)	(218)
Net cash flow provided by (used in) investing activities	(221,359)	(401,079)
Cash flow from financing activities		
Issuance of new shares, net	299,449	5,367
Proceeds from issuance of convertible debt, net	198,315	578,644
Proceeds from demerger	-	418,873
Net cash flow provided by (used in) financing activities	497,764	1,002,884
Net effect of exchange rates on cash and cash equivalents	(70)	15
Net change in cash and cash equivalents	48,186	551,572
Cash and cash equivalents at beginning of period	622,452	-
Cash and cash equivalents at end of period	670,638	551,572

Consolidated Statement of Changes in Equity

	Idorsia's shareholders				Noncontrolling interests		Total equity
	Common shares		Additional paid-in capital	Accum. profit (loss)	Accum. other comprehensive income (loss)	Equity attrib. to noncontrolling interests	
(in CHF thousands, except number of shares)	Shares	Amount					
Incorporation March 3, 2017	104,000,000	5,200	-	-	-	-	5,200
Comprehensive income (loss):							
Net income (loss)				(82,089)		(603)	(82,692)
Other comprehensive income (loss)					(2)		(2)
Comprehensive income (loss)							(82,694)
Issuance of new shares	3,330,210	166					166
Convertible equity, net ¹	11,793,220	590	133,558				134,148
Capitalization from demerger from Actelion			542,869			(4,923)	537,946
Intrinsic value of beneficial conversion feature ²			77,459				77,459
Share-based compensation expense			2,797				2,797
At September 30, 2017 (unaudited)	119,123,430	5,956	756,683	(82,089)	(2)	(5,526)	675,022
Comprehensive income (loss):							
Net income (loss)				67,820		(412)	67,408
Other comprehensive income (loss)					(5,988)		(5,988)
Comprehensive income (loss)							61,420
Share-based compensation expense			3,064				3,064
At December 31, 2017 (audited)	119,123,430	5,956	759,747	(14,269)	(5,990)	(5,937)	739,506
Comprehensive income (loss):							
Net income (loss)				(278,157)		(791)	(278,948)
Other comprehensive income (loss)					(14)		(14)
Comprehensive income (loss)							(278,962)
Issuance of new shares	11,926,314	596	298,853				299,449
Share-based compensation expense	-	-	9,745				9,745
At September 30, 2018 (unaudited)	131,049,744	6,552	1,068,344	(292,426)	(6,004)	(6,728)	769,738

¹Conversion of convertible loan of nominal CHF 135 m minus CHF 1 m stamp tax

²Intrinsic value of CHF 84 m less a deferred tax liability of CHF 7 m

Curious to learn more?
Reach out to us.

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