



Idorsia
Financial Review
Half Year 2017

idorsia

Welcome to the first Financial Review of Idorsia Ltd!

Idorsia Ltd (“Idorsia”) shares have been successfully listed on the SIX, Swiss Stock Exchange on 16 June 2017.

Idorsia was spun-off on 15 June 2017 from Actelion Ltd (“Actelion”) and distributed to Actelion shareholders as part of the transaction announced on 26 January 2017 by Johnson & Johnson (“J&J”) to acquire all publicly held registered shares of Actelion at a cash price of USD 280 per Actelion share. For more details on the transaction, visit the Idorsia website by following the link: <https://www.idorsia.com/investors/our-equity-story/company-strategy>.

Idorsia was incorporated on 3 March 2017 but became fully operational on 15 June 2017 with a rich clinical development pipeline, a drug discovery engine, state-of-the-art facilities, almost 650 employees and a starting cash balance of CHF 1 billion.

The relationship with J&J and its subsidiaries holds several material transactions described in the paragraphs below:

Funding and shareholders’ agreement

Cilag Holding AG (“Cilag”) provided the Group with a CHF 580m convertible loan and a CHF 243m credit facility.

The convertible loan has a maturity of 10 years ending 15 June 2027, does not bear interest and entitles Cilag to own a potential 32% of the share capital of Idorsia. On 17 June 2017, Cilag converted a first tranche of CHF 135m into 9.9% of Idorsia’s share capital. The remaining principal amount of CHF 445m may be converted into Idorsia shares as follows: (i) up to an aggregate shareholding of 16% of Idorsia shares if another shareholder holds more than 20% of Idorsia shares and (ii) up to the balance of the remaining amount 20 business days prior to maturity. In case of a takeover of Idorsia, Cilag has the right to convert the convertible loan in full. If the remaining amount has not yet been converted before maturity, Idorsia may elect to settle the remaining convertible loan either in cash or in Idorsia shares.

The credit facility has a term of 15 years, ending 19 June 2032, and bears an interest of LIBOR plus 2% p.a. It includes certain customary affirmative and negative covenants relating to, inter alia, the delivery of financial statements, the incurrence of additional indebtedness, the incurrence of liens and the entry into transactions with affiliates (in each case, subject to customary exceptions).

Idorsia and Cilag entered into a shareholders’ agreement which, among other things, imposes a standstill of 5 years prohibiting Cilag from acquiring more than 32% of Idorsia share capital and a lock-up of 2 years prohibiting Cilag from selling any Idorsia shares, in each case subject to certain exceptions.

Collaboration and revenue sharing

Pursuant to the collaboration agreement, Janssen Biotech Inc. (“Janssen”) has the option to collaborate with Idorsia to jointly develop and solely commercialize apocritentan, an orally active dual endothelin receptor antagonist. If the option is exercised, Idorsia will be entitled to receive a milestone payment of USD 230m. The costs for the phase 3 program for the initial indication will be shared equally.

Pursuant to the revenue sharing agreement with Actelion, Idorsia will be entitled to payments of 8% of the aggregate net sales of products containing ponesimod and cadazolid.

Operational

To ensure uninterrupted operations Idorsia and Actelion have entered into a series of transitional and long-term service agreements. While transitional services are to be provided for a maximum period of up to 18 months, the long-term services are to be provided in most cases to the end of the year 2020 and are mainly related to the facilities in Allschwil.

Idorsia's key numbers

Profit and loss

(in CHF millions, except EPS)	Period ended June 30, 2017	
	US GAAP	Non-GAAP
Net revenue		
Product sales	-	-
Contract revenue - royalties	-	-
Contract revenue - milestones	-	-
Contract revenue - others	-	-
Operating expenses		
Research and development	(8)	(8)
General and administration	(2)	(2)
Net results		
Operating income (loss)	(11)	(10)
Net income (loss)	(11)	(10)
Basic and diluted EPS	(0.11)	(0.10)

Cash flow

(in CHF millions)	Period ended June 30, 2017	
Cash flow		
Operating cash flow		4
Capital expenditure		(0)
Free cash flow		4

Liquidity and indebtedness

(in CHF millions)	June 30, 2017
Liquidity	
Cash and cash equivalents	607
Short-term deposits	150
Long-term deposits	250
Total Liquidity	1,007
Indebtedness	
Convertible loan	361
Other financial debt	-
Total indebtedness	361

Shares

(in millions)	June 30, 2017
Share count	
Issued common shares	119.1
Equity derivatives	38.7
Total potential issued shares	157.8

Disclaimer and notes to this financial report:

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.

Rounding differences may occur

nm = not meaningful

Operating expenses

Operating expenses

(in CHF millions)	Period ended June 30, 2017
Operating expenses	
Non-GAAP research	4
Non-GAAP development	4
Non-GAAP general and administrative	2
Non-GAAP milestones paid	-
Non-GAAP operating expenses	10
Depreciation and amortization	1
Stock-based compensation	-
Other	-
Other operating expenses	1
US GAAP operating expenses	11

Idorsia was created on 3 March 2017 but only commenced its operations on 15 June 2017 at demerger. The CHF 11m operating expenses reported were actually incurred in the second half of June. Since the demerger Idorsia continued to perform without any interruption.

No stock-based compensation expenses were recorded as no grants were made until the end of June. Going forward, Idorsia will grant standard share options as stock-based compensation to its employees and members of the board of directors.

Research and development ("R&D") expenses

(in CHF millions)	Period ended June 30, 2017
R&D expenses	
Research	4
Development	4
Milestones paid	-
Non-GAAP R&D expenses	8
Depreciation and amortization	1
Stock-based compensation	-
Other	-
US GAAP R&D expenses	8

Idorsia's early stage pipeline includes ten product candidates in several therapeutical areas. At the end of June, the headcount for the R&D engine comprised 545 employees, thereof 376 in drug discovery and 169 in clinical and pharmaceutical development.

General and administrative ("G&A") expenses

(in CHF millions)	Period ended June 30, 2017
Non-GAAP G&A expenses	2
Depreciation and amortization	0
Stock-based compensation	-
Other	-
US GAAP G&A expenses	2

The headcount for G&A comprised 82 employees.

Operating results

Non-GAAP and US GAAP operating results

(in CHF millions)	Period ended June 30, 2017
Operating results	
Non-GAAP revenues	-
Non-GAAP operating expenses	(10)
Non-GAAP operating income (loss)	(10)
Other revenues	-
Other operating expenses	(1)
US GAAP operating income (loss)	(11)

Financial results

Financial results

(in CHF millions)	Period ended June 30, 2017
Financial results	
Interest income (expense), net	(0)
Other financial income (expense), net	(0)
Total financial income (expense)	(1)

Interest expense of CHF 0.3m was mainly due to negative interest charges on the cash and cash deposits.

Other non-cash financial expenses of CHF 0.4m were related to the accretion of the convertible loan discount.

Under US GAAP the remaining CHF 445m nominal value of the convertible loan at the commitment date was split into a CHF 84m beneficial conversion feature recorded in equity and a CHF 361m financial debt recorded as a non-current liability. The Group will accrete the loan discount over a period of ten years using an implied compounded interest rate of 2.12% p.a.

Income tax

Income tax

(in CHF millions)	Period ended June 30, 2017
Income tax	
Total income tax benefit (expense)	(0)

The Group incurred operating losses which may be carried forward and utilized in the coming 7 years. The Group recorded a valuation allowance against the deferred tax assets due to the lack of sufficient positive evidence related to the realization of these deferred tax assets.

Net results, EPS and shares

Net results

	Period ended June 30, 2017	
(in CHF millions)		
Net results		
Non-GAAP operating income (loss)		(10)
Financial income (expense)		(0)
Income tax benefit (expense)		-
Non-GAAP net income (loss)		(10)
Other operating income (loss)		(1)
Other financial income (loss)		(0)
Other income tax benefit (expense)		(0)
US GAAP net income (loss)		(11)
Net loss attr. to the non controlling interests		0
US GAAP net income (loss) attr. to Idorsia's shareholders		(11)

EPS

	Period ended June 30, 2017	
	US GAAP	Non-GAAP
(in CHF millions, unless otherwise indicated)		
Net income (loss)	(11)	(10)
Weighted avg no. of basic shares (in millions)	106	106
Basic earnings per share (in CHF)	(0.11)	(0.10)
Weighted avg no. of dilutive shares (in millions)	106	106
Diluted earnings per share (in CHF)	(0.11)	(0.10)

The weighting of the shares in the EPS calculation is based on the period starting from the incorporation of Idorsia Ltd, 3 March 2017. No dilutive shares were considered due to the net loss.

Shares

	Issued	Equity derivatives	ESOP	Total
(in millions)				
Outstanding dilutive shares March 3, 2017	104.0	-	-	104.0
Increase due to share issuance ¹	3.3	-	-	3.3
Convertible loan - issuance		50.5		50.5
Convertible loan - conversion first tranche	11.8	-11.8		-
Outstanding dilutive shares June 30, 2017	119.1	38.7	-	157.8

¹ Prior to the demerger distribution on 15 June 2017, where every Actelion shareholder received one Idorsia share for one Actelion share, Idorsia created 3,310,220 additional shares in order to have exactly the same number of outstanding shares as Actelion (107,310,220 shares)

Cash flow and cash position

Operating cash flow

(in CHF millions)	Period ended June 30, 2017
Operating cash flow	
US GAAP net income (loss)	(11)
Depreciation and amortization	1
Accretion of convertible loan discount	0
Stock-based compensation	-
Other non cash items	-
Funds from operations	(10)
Net change in receivables	(0)
Net change in trade and other payables	15
Net change in other operating assets and liabilities	0
Decrease (increase) in net working capital	15
Decrease (increase) in deferred taxes	0
Operating cash flow	4

In connection with the demerger Idorsia will reimburse certain costs to Actelion. Without these transactions the operating cash flow would have been CHF 6m negative.

Free cash flow

(in CHF millions)	Period ended June 30, 2017
Free cash flow	
Operating cash flow	4
Acquisition of tangible, intangible and other assets	(0)
Operating free cash flow	4

Balance sheet

Balance sheet

(in CHF millions)	June 30, 2017
Assets	
Liquidity ¹	1,007
Tangible assets	159
Other assets	27
Total assets	1,193
Liabilities and equity	
Financial debt	361
Other liabilities	88
Total liabilities	449
Total equity	743
Total liabilities and equity	1,193

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

Idorsia is well funded with an equity of CHF 743m and liquidity of CHF 1,007m.

The equity of CHF 743m mainly comprised the equity from the demerger (CHF 538m - See Note 2. of the Financial Statements), the conversion of the convertible loan (CHF 135m gross, minus CHF 1m stamp tax), the equity component of the convertible loan (CHF 84m gross, minus CHF 7m deferred tax) and the share capital upon incorporation (CHF 5m) and reduced by the loss of the period of CHF 11m.

The liquidity of CHF 1,007m mainly resulted from the demerger (CHF 420m) and the convertible loan underwritten by Cilag (CHF 580m).

Tangible assets of CHF 159m mainly included the building and R&D equipment transferred from Actelion through the demerger.

Other assets of CHF 27m mainly included receivables from Actelion in connection with the demerger.

Financial debt of CHF 361m related to the debt component of the outstanding CHF 445m convertible loan.

Other liabilities of CHF 88m included current and noncurrent liabilities of CHF 41m and CHF 47m respectively. Current liabilities related to payables of CHF 17m (mainly to Actelion in connection with the demerger CHF 15m) and to accruals of CHF 23m (mainly employee related CHF 19m). Noncurrent liabilities related to pension obligations of CHF 24m, a subordinated liability of Vaxxilon of CHF 12m, deferred tax liability of CHF 7m and asset retirement obligations in rented facilities of CHF 4m.

Reconciliation US GAAP to non-GAAP results

Reconciliation

(in CHF millions, except per share amounts and EPS)	US GAAP results	Depreciation, amortization, impairment	Stock-based compensation	Other items	Non-GAAP results
Net revenue					
Product sales	-	-	-	-	-
Contract revenue - royalties	-	-	-	-	-
Contract revenue - milestones	-	-	-	-	-
Contract revenue - others	-	-	-	-	-
Total net revenue	-	-	-	-	-
Operating expenses					
Research and development	(8)	1	-	-	(8)
General and administrative	(2)	0	-	-	(2)
Amortization of intangible assets	(0)	0	-	-	-
Total operating expenses	(11)	1	-	-	(10)
Operating results	(11)	1	-	-	(10)
Total financial income (loss)	(1)	-	-	0	(0)
Income before income tax benefit (expense)	(11)	1	-	0	(10)
Income tax benefit (expense)	(0)	-	-	0	-
Noncontrolling interest	0	-	-	(0)	-
Net income (loss)	(11)	1	-	0	(10)
Basic net income (loss) per share (CHF)	(0.11)	0.01	-	0.00	(0.10)
Weighted-average number of shares (millions)	106.023	-	-	-	106.023
Diluted net income (loss) per share (CHF)	(0.11)	0.01	-	0.00	(0.10)
Weighted-average number of shares (millions)	106.023	-	-	-	106.023

The non-GAAP metrics are reported in addition to, not as a substitute for, US GAAP financial performance as management believes that they provide useful supplementary information to investors and more accurately reflect the underlying business performance.