medartis®

PRECISION IN FIXATION

# 2019
# Half-Year Report

# About Medartis

Founded in 1997 and headquartered in Basel, Switzerland, Medartis is one of the world's leading manufacturers and providers of medical devices for surgical fixation of bone fractures for upper and lower extremities as well as for the craniomaxillofacial region. Medartis employs around 600 individuals across its 12 locations, with products offered in over 50 countries globally. Medartis is committed to providing surgeons and operating theater personnel with the most innovative titanium implants and instruments as well as best in class services that represent advances in osteosynthesis.

For more information, please visit www.medartis.com.

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# Key Financial Figures

Sales in CHFm

64.5

+6% growth in CHF

+8% growth in local currencies

EBITDA in CHFm

8.7

13% EBITDA margin

Solid further profitable growth

8% sales growth in local currencies compared to very strong prior-year period

EBIT at 4% of sales

78 new jobs added over 12 months

| CHFm | H1 2018 | H1 2018 (1) (excl. IPO) | H1 2019 | Change (1) (excl. IPO) |
|---|---|---|---|---|
| Sales | 61.0 | 61.0 | 64.5 | 6% |
| Gross profit | 50.1 | 50.3 | 54.0 | 7% |
| Opex | 48.3 | 45.2 | 51.7 | 14% |
| Operating profit (EBIT) | 1.8 | 5.0 | 2.4 | -52% |
| EBIT margin | 3% | 8% | 4% | -4pp |
| EBITDA (2) | 5.8 | 9.0 | 8.7 | -3% |
| EBITDA margin (2) | 10% | 15% | 13% | -2pp |
| | | | | |
| Headcount (3) | 510 | 510 | 588 | 15% |

1) Excl. capital market related costs (IPO) of CHF 3.2 million in H1 2018
2) Positive effect in H1 2019 of CHF 1.8 million on EBITDA and 3 percentage points on EBITDA margin due to application of IFRS 16
3) Half-year figure as per 30.06.2019

# Business review

Medartis achieved further growth in the first half of 2019, albeit below expectations. The subsidiaries in the key European, Australian and US markets developed at a solid level. The subsidiary in Brazil did not reach its ambitious targets despite further dynamic growth in a persistently difficult market, and certain distributors in Europe held back with investments in new sets due to market uncertainties in view of the entering into force of the new EU Medical Device Regulation. In terms of products, Hand and Wrist, which are the strongest sales lines, continued their previous growth path, while newer products and the Lower Extremities segment experienced less growth than expected. In order to take greater advantage of the potential in this area, the focus is on further strengthening sales activities and completing the product portfolios.

Overall, Medartis reported sales of CHF 64.5 million in the first half of 2019. This corresponds to growth of 8% in local currencies compared with the very strong growth rate of 21% in the first half of 2018, which was positively impacted by the acquisition of the Brazilian distributor as well as early set orders placed by distributors. On a CHF basis, sales rose 6% in the first half of 2019 (H1 2018: 23%), which in particular reflects the exchange rate developments against the euro and the Australian dollar.

In line with the company's growth strategy, operating expenses rose by 14% in the first half of 2019. Medartis continued to invest in strengthening its international presence, sales activities and product innovations in a targeted manner. At the same time, it suspended certain planned expenditures due to the less dynamic sales trend. Headcount increased from 561 at the end of 2018 to 588 at mid-year 2019.

Profitability at the EBITDA level amounted to CHF 8.7 million compared with an EBITDA adjusted for IPO costs of CHF 9.0 million in the first half of 2018, whereby the result for the first half of 2019 included a positive impact of CHF 1.8 million resulting from the first-time application of IFRS 16. The EBITDA margin was 13% compared with the adjusted EBITDA margin in the prior-year period of 15%. EBIT was CHF 2.4 million versus an adjusted EBIT of CHF 5.0 million one year ago, and net profit was CHF 0.7 million compared with an adjusted net profit of CHF 4.0 million in the first half of 2018. Cash flow from operating activities was CHF 0.8 million compared with CHF 2.6 million in the first half of 2018.

Willi Miesch, CEO of Medartis: «Although our key markets and established product lines continued to deliver solid sales, I am not satisfied with our half-year results as the pace of growth decelerated, and we must develop the growth potential in newer markets and products more consistently. I am convinced that our new CEO Christoph Brönnimann, to whom I will hand over my operational responsibilities after over 20 years, will continue to drive these tasks forward and will further develop our organization accordingly. I firmly believe in the strength and the potential of Medartis, and will continue to contribute to the sustainable success of our company on the Board of Directors' new Strategy and Innovation Committee.»

### Development by region

| | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| **Sales, CHFm** | | | | | |
| H1 2019 | 34.7 | 11.5 | 7.6 | 10.7 | **64.5** |
| H1 2018 | 34.0 | 11.2 | 6.5 | 9.3 | **61.0** |
| **Growth, %** | | | | | |
| in CHF | 2% | 3% | 16% | 14% | **6%** |
| in local currencies | 5% | 8% | 21% | 11% | **8%** |

Medartis' biggest region, EMEA, recorded sales of CHF 34.7 million in the first half of 2019, which corresponds to growth of 5% in local currencies compared with an extraordinarily strong first half of the year in 2018. While Medartis' own subsidiaries, such as in Germany, are on target for the year, important distributor markets remained significantly below expectations. The introduction of the new European Medical Device Regulation (MDR) has led to a general uncertainty in the market due to which some distributors held back on investing in new sets. This was pronounced in Italy, where demand for sterile disposable packaging rose significantly due to regulatory requirements. Medartis has been offering sterile packaging solutions for implants since last year and is accordingly positioned for future demand in this area; adjustments to logistical processes, however, increase the outlays for all market participants during the transition period. In addition, Medartis plans to build a packaging facility at the company's Basel location.

In the North American market, sales increased by 11% in local currency to CHF 10.7 million. Growth was therefore above the market, but not yet in line with the envisaged growth momentum. The measures that have been introduced to strengthen management capacities and the sales force are taking effect and will be further intensified.

Sales in APAC increased 8% in local currencies to CHF 11.5 million. The subsidiary in Australia, Medartis' strongest sales market in the region, recorded solid growth but suffered as a result of a nation-wide reduction to all reimbursements in the health care system of 7%. In Japan, the distributor business in the Upper Extremities segment was below expectations, as the seasonal growth slowdown toward the end of the first half of the year was more pronounced than in the previous year. The new subsidiary in Japan, which began operations at the end of 2018, reported its first sales in the foot segment.

In LATAM, Medartis reported sales of CHF 7.6 million in a persistently challenging market environment, which corresponds to growth of 21% in local currencies. Recording 45% growth in local currencies compared to the prior-year period, the subsidiary in Brazil saw significantly improved momentum, however, like the subsidiary in Mexico, remained below expectations.

### Development of business segments

| | Upper Extremities | Lower Extremities | CMF and Others | Total |
|---|---|---|---|---|
| **Sales, CHFm** | | | | |
| H1 2019 | 45.9 | 9.0 | 9.6 | **64.5** |
| H1 2018 | 43.5 | 8.3 | 9.2 | **61.0** |
| **Growth, %** | | | | |
| in CHF | 5% | 9% | 4% | **6%** |
| in local currencies | 8% | 12% | 7% | **8%** |

For Upper Extremities, Medartis' largest business segment, sales increased 8% in local currencies in the first half of 2019 to CHF 45.9 million. Medartis has an established position for hand and wrist solutions in many key markets, which was further expanded. For the newer elbow and shoulder solutions, more time is required in order to build a similarly well-established market position. The training-intensive introduction of the new concept for the treatment of shoulder fractures launched in the market at the end of 2018 was an important step in completing the portfolio and is showing initial positive, although still modest, growth momentum.

Lower Extremities, Medartis' youngest business segment, recorded growth in local currencies of 12% and achieved sales of CHF 9.0 million. The subdued growth compared to the prior-year period reflects the fact that in the first half of 2018 – as during the phase after entering this segment in 2016 – a series of new sets were introduced in the market and distributors therefore made larger early stage investments. With a view to leveraging market potential in the future, Medartis is placing a stronger focus on gradually rounding out its product range in this segment in the coming years and adding to the existing fore- and midfoot solutions with additional solutions for foot and ankle. Sales activities, which are currently more focused on the Upper Extremities segment, are also to be specifically expanded for Lower Extremities.

The CMF and Others segment, which comprises solutions for the craniomaxillofacial region as well as instruments and containers, recorded sales growth in local currencies of 7% to CHF 9.6 million in the first half of 2019. As a result of the planned introduction of a new generation of the CMF product line in 2020, distributors are currently holding back on investing in additional sets in the current product line.

### 2019 outlook

In light of the half-year results that were below expectations, Medartis considers it difficult to achieve the originally envisaged double-digit sales growth for 2019 and from today's perspective, expects to see growth of 8-10% in local currencies. At the EBITDA level, Medartis aims to achieve a margin on par with the first half for the full-year 2019.

With its products and networks of physicians, Medartis continues to see itself as very well positioned and will further invest to build out its market position and complete its offering in a targeted manner. Specifically, Medartis plans to increase its focus on dedicated sales activities, as well as further expanding its product range with innovative solutions, on the one hand by completing the plates and screws portfolio and on the other hand through complementary third-party products. The new Board of Directors' Strategy and Innovation Committee, led by Willi Miesch, will also be paying particular attention to the product offering. As announced on 27 May 2019, Christoph Brönnimann will assume his role as Chief Executive Officer effective 1 September 2019.

In terms of the regions, further strengthening Medartis' market position in the US remains an important area of focus. In the fourth quarter of 2019, Medartis plans to introduce additional, innovative wrist plates to the market, which have been developed specifically for the US. In Japan, the new subsidiary is further building its sales forces in the Lower Extremities segment, which it began at the end of 2018. In China, Medartis continues to expect that it will receive product authorization in the second half of 2019, and in a next step, begin to collaborate with distributors. The expansion of Medartis' presence in Brazil with own sales forces continues, although developments in the regional market situation will be taken into consideration on an ongoing basis when determining the pace and scope thereof.

Implementation of the new Medical Device Regulation, which will come into force in the European Union in May 2020, continues to proceed according to plan. Given the current political debate surrounding a potential future framework agreement between Switzerland and the EU, the fact that Medartis already has an authorized and certified representative in the EU with its subsidiary in Umkirch, Germany, is beneficial, as the subsidiary can act as an authorized EU partner if required. Medartis is therefore also in a position to potentially supply the EU area as a third-country manufacturer.

# Medartis Group Interim Consolidated Financial Statements

## Interim Consolidated Balance Sheet

| (CHF) | Unaudited<br>30 June 2019 | Audited<br>31 Dec 2018 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash & Cash equivalents | 105'443'369 | 116'262'594 |
| Accounts receivable trade | 24'328'697 | 20'965'687 |
| Accounts receivable other | 4'002'127 | 3'059'692 |
| Income tax receivables | 1'343'070 | 2'744'249 |
| Inventories | 40'828'641 | 37'952'389 |
| Prepaid expenses | 1'445'112 | 1'741'834 |
| **Total current assets** | **177'391'015** | **182'726'444** |
| **Non-current assets:** | | |
| Property, plant and equipment | 65'845'694 | 37'042'454 |
| Intangible assets | 10'608'655 | 9'201'408 |
| Financial assets | 846'384 | 1'090'363 |
| Deferred tax assets | 26'448'375 | 25'743'645 |
| **Total non-current assets** | **103'749'108** | **73'077'870** |
| **Total assets** | **281'140'123** | **255'804'314** |
| **Liabilities and equity** | | |
| **Current liabilities:** | | |
| Accounts payable trade | 5'674'441 | 6'631'406 |
| Accounts payable other | 9'755'118 | 9'350'971 |
| Income tax payables | 373'335 | 580'546 |
| Accrued expenses | 1'633'061 | 1'624'537 |
| Current financial debt and other financial liabilities | 4'212'623 | 1'723'269 |
| Provisions | 298'728 | 266'276 |
| **Total current liabilities** | **21'947'305** | **20'177'005** |
| **Non-current liabilities:** | | |
| Financial debt and other non-current liabilities | 24'123'712 | 1'654'647 |
| Provisions | 2'176'290 | 2'241'454 |
| Employee benefit obligation | 16'192'754 | 13'325'519 |
| Deferred tax liabilities | 91'728 | 172'702 |
| **Total non-current liabilities** | **42'584'484** | **17'394'322** |
| **Total liabilities** | **64'531'790** | **37'571'327** |
| Shareholders' equity | | |
| Issued share capital | 2'348'201 | 2'348'201 |
| Retained earnings | -41'451'338 | -39'765'125 |
| Capital Reserves | 252'451'944 | 252'451'944 |
| Currency translation adjustment | 3'259'527 | 3'197'967 |
| **Total shareholder's equity** | **216'608'334** | **218'232'987** |
| **Total liabilities and equity** | **281'140'123** | **255'804'314** |

# Interim Consolidated Income Statement

| (CHF) | | Unaudited<br>H1 2019 | Unaudited<br>H1 2018 |
|---|---|---|---|
| Net sales | | 64'478'879 | 61'035'215 |
| Cost of goods sold | | -10'444'987 | -10'941'371 |
| **Gross profit** | | **54'033'892** | **50'093'844** |
| Selling and distribution | | -33'698'806 | -29'827'347 |
| Administration | | -10'436'110 | -11'590'846 |
| Research and development | | -7'519'040 | -6'862'733 |
| **Operating profit** | | **2'379'935** | **1'812'918** |
| Finance income | | 62'313 | 89'632 |
| Finance expense | | -1'998'855 | -1'031'814 |
| **Income before taxes** | | **443'394** | **870'737** |
| Income tax income | | 221'921 | 311'094 |
| **Net income** | | **665'315** | **1'181'831** |
| Attributable to: | | | |
| Medartis shareholders | a) | **665'315** | **1'181'831** |
| **Earnings per share (CHF):** | | | |
| Basic earnings per share | | 0.06 | 0.12 |

a) There is no dilution effect.

# Interim Consolidated Statement of Comprehensive Income

| (CHF) | Unaudited H1 2019 | Unaudited H1 2018 |
|---|---|---|
| Net income | **665’315** | **1’181’831** |
| Components of other comprehensive income (OCI)<br>Items that will not be reclassified to profit or loss: | | |
| Remeasurements of defined benefit post-employment plans | -2’633’008 | 1’026’904 |
| Income tax relating to items that will not be reclassified to profit or loss | -93’055 | -227’767 |
| | **-2’726’063** | **799’137** |
| Items that may be reclassified subsequently to profit or loss: | | |
| Currency translation effects | 61’560 | -782’825 |
| Income tax relating to items that may be reclassified subsequently to profit or loss | - | - |
| | **61’560** | **-782’825** |
| **Total other comprehensive income/(loss)** | **-2’664’502** | **16’311** |
| **Total comprehensive income** | **-1’999’188** | **1’198’142** |
| Attributable to: | | |
| Medartis shareholders | -1’999’188 | 1’198’142 |

# Interim Consolidated Cash Flow Statement

| (CHF) | unaudited H1, 2019 | unaudited H1, 2018 |
|---|---|---|
| **Net profit** | **665'315** | **1'181'831** |
| Adjustments for: | | |
| Income tax income | -221'921 | -311'094 |
| Interest income | -62'313 | -89'632 |
| Interest expenses | 586'714 | 463'647 |
| Gain/Loss on disposal of property, plant and equipment | 193'649 | |
| Depreciation and amortization of: | | |
| Property, plant and equipment | 5'817'039 | 3'524'371 |
| Intangible assets | 499'300 | 460'777 |
| Change in provisions and pension obligations | 201'515 | 260'888 |
| Share based compensation and other non-cash items | 520'277 | 1'466'705 |
| Changes in net working capital: | | |
| Inventories | -2'876'252 | -1'137'033 |
| Trade and other receivables, Prepaid expenses and accrued income | -4'008'723 | -875'779 |
| Trade and other payables | -544'295 | -476'194 |
| Interest received | 62'313 | 89'632 |
| Interest paid | -586'714 | -481'725 |
| Income tax received/paid | 591'739 | -1'432'453 |
| **Cash flow from operating activity** | **837'644** | **2'643'942** |
| | | |
| Cash payments to acquire property, plant and equipment | -7'422'288 | -5'581'594 |
| Proceeds from disposals of property, plant and equipment | 8'644 | 578'886 |
| Cash payments to acquire intangible assets | -1'950'284 | -650'591 |
| Proceeds from disposals of intangible assets | - | 24'287 |
| Additions/Disposals to financial assets | 243'980 | -58'462 |
| **Cash flow used for investing activities** | **-9'119'949** | **-5'687'473** |
| | | |
| Proceeds from capital increases | - | 142'648'963 |
| Transaction costs | - | -7'609'082 |
| Repayment current financial debt | -3'087 | -10'024'620 |
| Repayment non-current financial debt | - | 13'059 |
| Repayment of finance lease | -2'278'867 | -1'114'214 |
| **Cash flow used for financing activities** | **-2'281'954** | **123'914'107** |
| | | |
| **Net change in cash and cash equivalents** | **-10'564'258** | **120'870'575** |
| Cash and cash equivalents at the beginning of the year (1 January) | 116'262'594 | 1'973'308 |
| Net effect of currency translation on cash and cash equivalents | -254'967 | -27'999 |
| **Cash and cash equivalents at the end of the half-year (30 June)** | **105'443'369** | **122'815'884** |

# Interim Consolidated Statement of Changes in Equity

| (CHF) | Attributable to Medartis AG shareholders | | | | |
|---|---|---|---|---|---|
| unaudited | Share capital | Capital reserves | Currency translation difference | Retained earnings | Total shareholders' equity |
| **1 January 2018** | **1'457'897** | **58'717'103** | **3'065'622** | **-46'202'350** | **17'038'271** |
| Net profit | | | | 1'181'831 | 1'181'831 |
| Other comprehensive income | | | -782'825 | 799'137 | 16'311 |
| **Total comprehensive income** | **-** | **-** | **-782'825** | **1'980'967** | **1'198'142** |
| Conversion of financial debt into shares | 291'346 | 59'143'279 | | | 59'434'625 |
| Capital increase IPO | 598'958 | 142'050'005 | | - | 142'648'963 |
| Transaction costs IPO (after tax) | | -7'458'443 | | | -7'458'443 |
| Share based compensation | | | | 1'466'705 | 1'466'705 |
| **30 June 2018** | **2'348'201** | **252'451'944** | **2'282'796** | **-42'754'678** | **214'328'263** |

| unaudited | | | | | |
|---|---|---|---|---|---|
| **1 January 2019** | **2'348'201** | **252'451'944** | **3'197'967** | **-39'765'125** | **218'232'987** |
| Net profit | | | | 665'315 | 665'315 |
| Other comprehensive income | | | 61'560 | -2'726'063 | -2'664'502 |
| **Total comprehensive income** | **-** | **-** | **61'560** | **-2'060'748** | **-1'999'188** |
| Share based compensation | | | | 374'535 | 374'535 |
| **30 June 2019** | **2'348'201** | **252'451'944** | **3'259'527** | **-41'451'338** | **216'608'334** |

# Notes to the Interim Condensed Consolidated Financial Statements

## 1. Corporate information

Medartis Holding AG is a public company domiciled and incorporated in Switzerland, whose shares are publicly traded on the SIX Swiss Exchange. The interim condensed consolidated financial statements of the Medartis Group for the six months ending 30 June 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 13 August 2019.

## 2. Basis of preparation and accounting policies

The interim condensed consolidated financial statements for the six months ending 30 June 2019 have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018. The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

**IFRS 16 Leases**

The new standard was issued on 13 January 2016, and the group has initially adopted IFRS 16 Leases from 1 January 2019. The new standard replaces IAS 17 and introduces a single, on-balance sheet accounting model for lessees and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

At transition, the Group has applied IFRS 16 using the modified retrospective approach measuring the lease liability based on present value of the remaining lease payments discounted at the incremental borrowing rate as at 1 January 2019 and the right-of-use asset as an equal amount to the present value of the lease liabilities adjusted for any accrued or prepaid amount recognized under IAS 17. Accordingly, the comparative information presented for 2018 has not been restated. When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Group applied the following expedients: Exemption for leases with less than twelve-month of lease term, exclusion of initial direct cost from measuring the right-of-use asset, using hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

| (CHF) | |
|---|---|
| **Operating lease commitments as at 31 December 2018** | **32'813'349** |
| Less: Commitments relating to short-term leases | -600'780 |
| Discounting effect using the lessee's incremental borrowing rate at the date of initial application | -5'002'588 |
| **Discounted operating lease commitments at 1 January 2019** | **27'209'980** |
| Add: Commitments relating to leases previously classified as finance leases | 3'365'756 |
| **Lease liabilities as at 1 January 2019** | **30'575'737** |

At 1 January 2019 the group recognized additional rights-of-use assets amounting to CHF 27.2 million and additional lease liabilities amounting to CHF 27.2 million.

As of 30 June 2019 the rights of use assets are CHF 25.4 million and the lease liabilities are CHF 25.9 million.

In regard to the leases under IFRS 16, the Group has recognized depreciation and interest expense instead of operating lease expense. During the six months ended 30 June 2019, the Group recognized CHF 1.8 million of depreciation charges and CHF 0.4 million of interest expense.

**New accounting policies for leases**

**Right-of-use assets**

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

**Lease liabilities**
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.
In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**Short-term leases and leases of low-value assets**
The Group applies the short-term lease recognition exemption (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below CHF 5’000). Lease payments on short term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Significant judgement in determining the lease term of contracts with renewal options**
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The preparation of consolidated financial statements under IFRS requires management to make estimates and assumptions that affect the reported amounts. Because of the inherent uncertainties, actual outcomes and results may differ from these estimates and assumptions.

## 3. Seasonality of operations
The Group operates in an industry where significant seasonal or cyclical variations in the total sales are not experienced during the financial year.

## 4. Changes in the scope of consolidation
The Group did not complete any business combinations in the half-year ended 30 June 2019.

## 5. Impairment test of goodwill and development costs
As of the reporting date there are no internal or external indicators that goodwill could be impaired.

## 6. Shareholder’s equity
Medartis Holding AG has been listed at SIX Swiss Exchange in Zurich (ticker symbol ’MED’) since 23 March 2018.
There were no changes on share capital during the first six months of 2019.
In the six-month period ending 30 June 2018, Medartis Holding AG increased its share capital by issuing a total of 4’451’522 new shares to 11’741’007 registered shares. The corresponding share capital amounts to CHF 2.3 million.
Of the total newly issued shares, 2’994’791 were issued on 23 March 2018 in the context of the IPO for a total consideration of CHF 142.7 million, resulting in a share premium of CHF 142.1 million.
1’456’731 newly issued shares relate to the conversion on 23 March 2018 of the convertible loan of nominal CHF 59.4 million including interest due resulting in a share premium of CHF 59.1 million.

A total of CHF 10.8 million in IPO costs were incurred from 1 January until 30 June 2018. CHF 3.2 million were expensed through profit and loss mainly in administration expenses and CHF 7.6 million were deducted from equity (before tax adjustment of CHF 0.2 million).
The capital reserve has accordingly increased by CHF 193.8 million, from CHF 58.7 million to CHF 252.5 million.

## 7. Financial instruments / Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the most advantageous market, if a principal market does not exist. The principal or the most advantageous market must be accessible by the Group.
The following tables show the carrying amounts and fair values of financial assets and liabilities by category of financial instrument in the balance sheet at 30 June 2019 and 31 December 2018. The fair value hierarchy level is shown for those financial assets and liabilities that are carried at fair value in the balance sheet.

| | Carrying amount (based on measurement basis) | | | | | |
|---|---|---|---|---|---|---|
| **30 June 2019** | **Amortized cost** | **Fair value level 1** | **Fair value level 2** | **Fair value level 3** | **Total** | |
| **Financial Assets** | | | | | | |
| Cash & Cash equivalents | 105’443’369 | | | | 105’443’369 | 1) |
| Accounts receivable trade | 24’328’697 | | | | 24’328’697 | 1) |
| Other non-current financial assets | 846’384 | | | | 846’384 | 1) |
| **Total** | **130’618’449** | | | | **130’618’449** | |
| Financial liabilities | | | | | | |
| Accounts payable trade | 5’674’441 | | | | 5’674’441 | 1) |
| Accounts payable other | 386’740 | | | | 386’740 | 1) |
| Accrued expenses | 1’633’061 | | | | 1’633’061 | 1) |
| Current financial debt | 4’212’623 | | | | 4’212’623 | 1) |
| Non-current financial debt | 24’123’712 | | | | 24’123’712 | 1) |
| **Total** | **36’030’577** | | | | **36’030’577** | |

| | Carrying amount (based on measurement basis) | | | | | |
|---|---|---|---|---|---|---|
| **31 December 2018** | **Amortized cost** | **Fair value level 1** | **Fair value level 2** | **Fair value level 3** | **Total** | |
| **Financial Assets** | | | | | | |
| Cash & Cash equivalents | 116’262’594 | | | | 116’262’594 | 1) |
| Accounts receivable trade | 20’965’687 | | | | 20’965’687 | 1) |
| Other non-current financial assets | 1’090’363 | | | | 1’090’363 | 1) |
| **Total** | **138’318’644** | | | | **138’318’644** | |
| **Financial liabilities** | | | | | | |
| Accounts payable trade | 6’631’406 | | | | 6’631’406 | 1) |
| Accounts payable other | 487’516 | | | | 487’516 | 1) |
| Accrued expenses | 1’624’537 | | | | 1’624’537 | 1) |
| Current financial debt | 1’723’269 | | | | 1’723’269 | 1) |
| Non-current financial debt | 1’654’647 | | | | 1’654’647 | 1) |
| **Total** | **12’121’375** | | | | **12’121’375** | |

1) Carrying amount approximates the estimated fair value due to the short- term nature of the financial instruments.

## 8. Segment information

Operating segments requiring to be reported are determined on the basis of the management approach. Accordingly, external segment reporting reflects the internal organizational and management structure used within the Group as well as the internal financial reporting to the Chief Operating Decision Maker (CODM), which has been identified as the Executive Management Board (EMB). The EMB is responsible for the operational management of the Group, in line with the instructions issued by the Board of Directors.
Due to the structure of the Group, Medartis' only entity which performs production and procurement is located in Switzerland. All other entities are retail entities only and are not able to operate on a stand-alone basis. Medartis therefore constitutes only one operating segment which is represented by the whole Group itself.
The following table illustrates revenue from contracts with customers by regions and business segments.

| 30 June 2019 (CHF) | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| Net sales | 34'683'056 | 11'547'763 | 7'567'800 | 10'680'260 | **64'478'879** |
| Non-current assets 1) | 63'731'410 | 3'696'798 | 6'456'585 | 2'569'556 | **76'454'349** |

| 30 June 2018 (CHF) | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| Net sales | 33'971'750 | 11'164'328 | 6'549'882 | 9'349'256 | **61'035'215** |

| 31 December 2018 | EMEA | APAC | LATAM | North America | Total |
|---|---|---|---|---|---|
| Non-current assets 1) | 36'822'653 | 1'746'209 | 5'704'280 | 1'970'720 | **46'243'862** |

1) Property, plant and equipment and intangible assets

| (CHF) | 30 June 2019 | 30 June 2018 |
|---|---|---|
| Upper Extremities | 45'878'722 | 43'472'720 |
| Lower Extremities | 9'037'913 | 8'321'972 |
| CMF and Others | 9'562'244 | 9'240'523 |
| **Total** | **64'478'879** | **61'035'215** |

## 9. Legal claim contingency

As for the legal claim contingency there has been no change to note 10.2 in the 2018 annual report, except for a request for indemnification of Medartis' distributor in Japan received in July 2019 in connection with a patent infringement complaint filed by a third party. After a first analysis by the management and the lawyers, Medartis has the opinion that there are solid arguments for a successful defence.

## 10. Events after the reporting period

There have been no events occurring after the reporting period which would have a material effect on the Medartis Group financials as at 30 June 2019.

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To the Board of Directors of
**Medartis Holding AG, Basel**

Basle, 13 August 2019

## Report on the review of interim condensed consolidated financial statements

**Introduction**
We have reviewed the interim condensed consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes, pages 7 to 15) of Medartis Holding AG for the period from 1 January 2019 to 30 June 2019. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

**Scope of Review**
We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**
Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting”.

Ernst & Young Ltd

Elisa Alfieri
Licensed audit expert
(Auditor in charge)

André Schaub
Licensed audit expert

**Enclosure**
- Interim condensed consolidated financial statements

# Financial Calendar

| | |
|---|---|
| 3 March 2020 | 2019 full-year results |
| 17 April 2020 | Annual General Meeting |
| 18 August 2020 | 2020 half-year results |

# Contact

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