Redwood Pharma AB (publ)

Year-end Report 2020

SPOTLIGHT STOCK MARKET: REDW
REDWOODPHARMA.COM

RedwoodPharma

Redwood Pharma AB (publ)
Year-end Report
January–December 2020

1 January – 31 December 2020

- Net revenue for the period was SEK 0 (0).
- Operating loss for the period amounted to SEK -14,523M (-15,512).
- Loss per share for the period was SEK -0,97 (-1,07).

Fourth quarter, 1 October – 31 December 2020

- Net revenue for the period amounted to SEK 0 (0).
- Operating loss for the period amounted to SEK -4,311M (-3,834).
- Loss per share for the period was SEK -0,28 (-0,30).

Important events during the period

- The Chinese Patent Office (CNIPA) granted a new patent in China for the portfolio licensed to Redwood Pharma from Broda International LLC.
- In March, Redwood Pharma published top-line results from the Phase II clinical trial of RP101 in which the drug candidate showed efficacy and safety in post-menopausal women with moderate-to-severe chronic dry eye problems. In December, additional data from the trials were published that showed additional clinical strengths. RP101 more than doubles the production of tear fluid. Some objective and subjective parameters showed baseline improvement, inferior corneal staining, and the SANDE scale also showed statistical improvement compared to placebo control groups.
- Warrants issued in 2018 and 2019 were fully exercised for subscription of new shares. Redwood Pharma received approximately SEK 2,1M from these transactions.
- Redwood Pharma secured bridging financing of SEK 4,5M from Formue Nord Markedsneutral A/S and issued warrants free of charge to existing shareholders. A total of 866.654 options were exercised, corresponding to 85,07% of the total number of options, which provided the company with approximately SEK 8,1M. The loan from Formue Nord must be repaid no later than 28 February 2021.
- The US Patent Office (USPTO) granted a new patent for the use of estrogens for the treatment of dry eye, which strengthens the protection of RP101 in the United States.
- As a result of positive clinical results, the company established the RP501 development program, based on the IntelliGel platform, as a new treatment for mild dry eye disease. In the RP101 Phase II clinical trial, IntelliGel on its own displayed significant activity in terms of safely easing signs and symptoms of dry eye disease. We consider RP501 to have the potential of becoming a medical technology product for the treatment of dry eye disease for men and women of all ages who need temporary relief.

Important events after the end of the period

- Redwood Pharma carried out a rights issue to finance further studies in RP101, for regulatory and other development work for RP501 and to provide additional working capital. The issue was 146% subscribed and provided the company with SEK 34,2M before administrative costs of SEK 4,8M.
- Redwood Pharma announced its intention to switch from the Spotlight Stock Market to the Nasdaq First North Growth Market in Stockholm, Sweden in the spring of 2021.

Comments from the CEO

” 2020 was an extremely eventful year for Redwood Pharma. ”

RP101 – Building value in Phase III

The year began with positive top-line results reported from the RP101 Phase II clinical trial in Europe, reflecting a significant increase in the value of the program.

Our drug candidate has proven to be safe and effective in a wide spectrum of objective efficacy measures and subjective symptoms in post-menopausal women who suffer from moderate-to-severe dry eye disease. For the Schirmer Test primary endpoint, a 10mm goal was set when the study was designed. The expectation was that tear fluid production would double from baseline. Initial values for the treatment groups were about 4mm, which was lower and thus more challenging than expected. The fact that RP101 more than doubled production to reach 9,6mm is statistically significant.

In December, we were also able to publish more data from the trial that demonstrated additional clinical strengths. Some objective and subjective parameters showed improvement from the baseline, inferior corneal staining, and the SANDE scale, also showed statistical improvement compared to a placebo control group, which is very encouraging.

We are now working intensively on the design of a larger, pivotal clinical Phase III trial. We continue to evaluate potential development and commercial partnerships through contact with major, global pharmaceutical companies in ophthalmology and women’s health. However, the ongoing pandemic is delaying and complicating these processes.

In preparation for a larger pivotal trial, Redwood Pharma will conduct complementary tests in 2021 to expand the potential scope of the use of RP101 and other IntelliGel-based products to contact lens wearers.

Developing a new product for dry eye with RP501

Innovation is our primary focus. We strive to develop new products in ophthalmology where considerable medical need exits. The latest addition to our product portfolio is RP501, an unexpected yet encouraging result of Phase II study.

Based on the apparent therapeutic benefits of IntelliGel for the treatment of dry eye disease, RP501 has the potential to be a uniquely positioned product that provides long-lasting relief as an initial treatment for dry eye disease. As the market for tear substitutes is competitive, we believe that RP501 represents a clear and unique innovation. RP501 could combine the ease of use of artificial tears with the long-acting effects of gels.

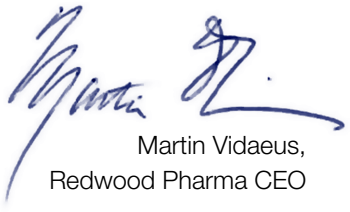
With proven clinical effect, RP501 has convincing benefits and even more promising commercial potential. Based on data from market research conducted among 350 patients in the US, UK, Germany, France, and Italy, management estimates that market penetration will be driven by therapeutic efficacy and convenience through fewer instillations per day. RP501 is positioned to compete in the market for tear substitutes and 40% of patients surveyed expressed an immediate interest in switching to RP501. The commercial outlook for RP501 is thus very good.

Redwood Pharma is now investigating and preparing RP501 for registration as a medical device on the European and US markets, respectively. The management team and board of directors are now working to maximize the value of this program, including through licensing and distributor arrangements.

The path forward

Following the completion of the RP101 Phase II trial, the company is on the threshold of a new chapter, with the development of a new ophthalmology product. The company's primary focus is to now build and capitalize on the value of its innovations. As part of these efforts, we are now broadening our product portfolio and have two product candidates with different development paths, investment needs, and financial profiles. To facilitate our expansion, the company recently completed a funding round with a new rights issue that generated approximately SEK 34,2M. We are now putting these resources to work immediately.

The company has also announced its intention to move its listing to the Nasdaq First North Growth Market in Stockholm in the spring. We are doing this to raise awareness and to better position the company among institutional investors and the sector as a whole and lay the foundations for future access to greater investment capital. Even though we are working together globally to address and overcome the current Covid-19 pandemic, at Redwood Pharma we have adapted the business to ensure that we can keep working with undiminished ambition to achieve our goals. With funding secured, and ambitious goals to maximize shareholder value, the management team looks forward to reporting on our future successes.



Martin Vidaeus,
Redwood Pharma CEO

Redwood Pharma and its market

Redwood Pharma AB develops ophthalmic drugs in areas where considerable medical demand exists. The company has two programs for the development of treatments for people suffering from different forms of dry eye disease (DED).

Our first program, RP101, involves the development of a product for the treatment of moderate to severe chronic dry eye disease in post-menopausal women with an active biological drug substance. Our second program, RP501, is being developed to help patients with mild dry eye disease using treatment with IntelliGel without an active substance. It is likely that IntelliGel can also be used to improve dosages of other established and new ophthalmic drugs. Redwood Pharma focuses on early-stage clinical development.

RP101: a drug treatment for moderate to severe chronic DED in post-menopausal women

The company is developing a low-dose, estrogen-based local eye treatment for chronically dry eyes in post-menopausal women who suffer from DED. Currently, no sufficiently reliable treatments exist for women with moderate to severe symptoms. We believe that RP101 will be the first hormone treatment of DED in this patient group. It targets specific underlying biological mechanisms and increases production of tear fluid. RP101 has recorded confirmed results from two previous clinical Phase II trials in the US. And in Redwood Pharma's recently completed Phase II trial in Europe exhibited safety and efficacy with doses of up to twice a day.

RP501: a treatment for temporary relief for all those suffering from mild DED

With an ageing population and increased screen time in front of computers and mobile devices, people are increasingly suffering from temporary dry eye. Where existing products on the market, such as artificial tears, must be used several times a day to be effective, RP501 has recently been shown in a clinical trial to help those with dry eye problems with just one or two treatments a day. RP501 has the potential to provide temporary relief for men and women of all ages.

Size of the global dry eye disease market

The total global market for DED is estimated at USD 5 billion and is expected to grow to USD 7 billion by 2025 according to TMR 2020.

IntelliGel drug delivery platform

Redwood Pharma owns the global rights to the IntelliGel platform within ophthalmology. IntelliGel is a drug delivery platform that controls the release of a drug and gives its active ingredients the opportunity to act for a longer period which in turn can reduce the number of instillations. The platform also creates additional business opportunities in that several ophthalmic drugs can hopefully be reformulated and dosed more efficiently and in a way that is perceived as more convenient and perhaps also increase the safety of patients.

Market drivers

There are several reasons why the market is expected to grow. The main drivers are the lack of effective drugs that provide patients with effective relief from chronic dry eye disease and an ageing population in which chronic dry eye disease is more prevalent.

There are several types of chronic dry eye and a single medical solution for all types of problems does not currently exist. There are several new products under development. However, these are directed at inflammation in the eye that can be a consequence of too little tear fluid. Product development is also expected to contribute to overall market growth.

Today, there is also a pronounced need for drug formulations that minimize the number of doses per day. As a drug delivery platform, IntelliGel therefore constitutes a market opportunity in and of itself.

Key collaborations

The company's core competence lies within drug development. To develop RP101, RP501, and new ophthalmic drugs, the company uses its extensive network of experts in manufacturing, pre-clinical and clinical development as well as experts in ophthalmology, endocrinology, and women's health.

Business goals

The company has completed the RP101 Phase II clinical trial and now intends to identify a commercial partner to maximize value. The company is currently evaluating future strategies regarding RP501.

Business/revenue model

Through business agreements with major drug companies, the company will receive payments for achieving milestones and as future royalties. Such agreements may mean that the company receives an initial payment upon signing an agreement and subsequently for achieved milestones such as completion of Phase III clinical trials, market approvals, and initial sales. Redwood Pharma is, however, open to other types of agreement to maximize the value of the company.

Financial results

Revenues and expenses

The company did not generate any income between 1 January – 31 December 2020. Reported Other Operating Income refers to exchange rate gains. The company's expenses are primarily related to development, project-related, and administrative costs.

Operating profit

Operating loss for the period 1 January – 31 December 2020 was SEK -14,523M (-15,512). Operating loss for the period 1 October – 31 December 2020 was SEK -4,311M (-3,834).

Financial position and liquidity

As of 31 December 2020, the company's liquid assets amounted to SEK 6,606M (8,162). The ratio of shareholder equity to total assets was 55% (84). The company's shareholder equity amounted to SEK 7,080M (12,151).

The company received SEK 4,5M through a bridging loan in June. The maturity date for the loan has been postponed to 28 February 2021.

Cashflow from day-to-day operations for the period amounted to SEK -11,010M (-16,536).

Investments

During the period 1 January – 31 December 2020, the company did not invest in tangible or intangible fixed assets.

Dividend

The Board of Directors proposes that no dividend is paid.

Accounting principles

This interim report has been prepared in line with the Annual Accounts Act (1995:1554) and Swedish Accounting Standards Board's BFNAR 2012:1 guidelines, Annual Accounts and Corporate Auditing ("K3").

Risks and uncertainty

In conjunction with the preferential rights issue that was completed in February 2021, a detailed review of the risks associated with the company's operations was carried out. No new risks have subsequently been identified. Risks and uncertainty are reported in the information memorandum produced in conjunction with the issue and has been published on the Redwood Pharma website, redwoodpharma.com.

Change in the number of outstanding shares

Opening amount 1 January 2019	**12,499,874**
Share subscription exchange in January	184,636
Rights issue registered in October	2,014,183
Closing amount 31 December 2019	**14,698,693**
Share subscription exchange in June	293,716
Share subscription exchange in November	866,654
Closing amount 31 December 2020	**15,859,063**

Stockholm 17 February 2021

Gunnar Mattsson
Chairman

Martin Vidaeus
CEO

Hans Ageland

Ingrid Atteryd-Heiman

Mats Lidgard

This interim report has not been audited by the company's auditors.

For further information, please contact:

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Upcoming reports

First Quarter Quarterly Report, January – March 2021	**11 May 2021***
Annual General Meeting	**11 May 2021***

*Due to the ongoing pandemic, the format of the Annual General Meeting has not yet been decided. The company will publish additional information as soon as the necessary decisions have been taken. The annual report and other documents will be made available on the company's website, (redwoodpharma.se), and at the company's office no later than three weeks before the Annual General Meeting.

Results in brief	2020 Oct–Dec	2019 Oct–Dec	2020 Jan–Dec	2019 Jan-Dec
Net revenue	0	0	0	0
Other operating income	174	6 793	31 661	34 526
Operating expenses				
Other external costs	–3 600 859	–3 130 180	–11 249 023	–12 321 645
Personnel costs	–709 863	–710 134	–3 305 332	–3 224 926
Total operating expenses	**–4 310 722**	**–3 840 314**	**–14 554 355**	**–15 546 571**
Operating profit	**–4 310 548**	**–3 833 521**	**–14 522 694**	**–15 512 045**
Gains/losses from financial investments				
Interest income	0	0	0	0
Interest expenses	0	–247	–2 513	–245 753
Consolidated profit/loss from financial items	**–4 310 548**	**–3 833 768**	**–14 525 207**	**–15 757 798**
Income tax expense	0	0	0	0
Profit/loss after tax	**–4 310 548**	**–3 833 768**	**–14 525 207**	**–15 757 798**

Balance sheet	2020 31 Dec	2020 30 Sep	2020 30 Jun	2020 31 Mar	2019 31 Dec
Assets					
Non-current assets					
Intangible fixed assets					
Patent, licenses and development costs	5 938 275	5 938 275	5 938 275	5 938 275	5 938 275
Financial assets					
Other long-term assets	43 780	43 780	43 780	43 780	43 780
Total non-current assets	**5 982 055**	**5 982 055**	**5 982 055**	**5 982 055**	**5 982 055**
Current assets					
Current receivables					
Other receivables	139 668	146 784	192 426	146 455	159 072
Prepaid costs and accrued revenue	119 026	595 842	492 280	142 612	115 074
Cash and cash equivalents	6 606 326	2 725 970	6 344 700	6 504 552	8 162 115
Total current assets	**6 865 020**	**3 468 596**	**7 029 406**	**6 793 619**	**8 436 261**
Total assets	**12 847 075**	**9 450 651**	**13 011 461**	**12 775 674**	**14 418 316**

Balance sheet	2020 31 Dec	2020 30 Sep	2020 30 Jun	2020 31 Mar	2019 31 Dec
Equity and liabilites					
Equity					
Restricted equity	3 171 813	2 998 482	2 998 482	2 536 902	2 939 739
Unrestricted equity					
Share premium reserve	9 222 068	16 668 290	1 717 573	24 269 432	37 871 020
Retained earnings	9 211 629	–5 353 031	9 597 685	–12 901 593	–12 901 593
Profit/loss for the period	–14 525 206	–10 214 659	–8 026 265	–3 296 437	–15 757 798
Total equity	**7 080 304**	**4 099 082**	**6 287 475**	**10 608 304**	**12 151 368**
Current liabilities					
Accounts payable	706 605	298 771	1 689 161	748 516	969 186
Other current liabilities	4 748 564	4 741 196	4 723 223	184 701	257 087
Accrued costs and prepaid costs	311 602	311 602	311 602	1 234 153	1 040 675
Total current liabilities	**5 766 771**	**5 351 569**	**6 723 986**	**2 167 370**	**2 266 948**
Total equity and current liabilities	**12 847 075**	**9 450 651**	**13 011 461**	**12 775 674**	**14 418 316**

Changes in shareholder equity

	Share capital	Unregistered share capital	Share premium reserve	Retained earnings and earnings for the period	Total equity
Shareholder equity January, 2019	**2 499 975**	**-**	**23 306 359**	**–12 901 593**	**12 904 741**
Exchange convertible bonds	36 927		963 073		1 000 000
Offset issure bridge loans		85 724	3 021 776		3 107 500
Preferential rights issue		317 113	11 178 220		11 495 333
Issue expenses			–598 408		–598 408
Registration	402 837	–402 837			
Moved share premium			–23 306 359	23 306 359	
Profit/loss for the period				–15 757 798	–15 757 798
Closing balance December 31 2019	**2 939 739**	**-**	**14 564 660**	**–5 353 032**	**12 151 368**
Warrants	58 743		2 103 631		2 162 374
Issue expenses					
Moved share premium					
Profit/loss for the period				–10 214 659	–10 214 659
Closing balance 2020-12-31	**2 998 482**	**-**	**16 668 291**	**–15 567 691**	**4 099 082**

Key ratios

	12 months Jan–Dec 2020	12 months Jan–Dec 2019
Adjusted equity	7 080 304	12 151 368
Equity ratio, %	55,1	84,3
Cash liquidity	1,2	3,7
Dividend	0,00	0,00
Profit/loss per share	–0,97	–1,07
Equity per share	0,47	0,83
Number of employees at the end of the period	2	2
Net investment, tangible fixed assets	0	0
Net investment, intangible fixed assets	0	0

DEFINITIONS

Adjusted equity	Equity plus 78% of untaxed reserves
Equity ratio	Adjusted equity/total assets
Cash liquidity	Current assets excluding inventory/current liabilities

Cash flow statement	2020 Jan–Dec	2019 Jan–Dec
Operating activities		
Profit/loss after financial items	–14 525 207	–15 757 798
Cash flow before changes in working capital	**–14 525 207**	**–15 757 798**
Changes in operating receivables	15 452	58 549
Changes in operating liabilites	3 499 823	–837 195
Changes in working capital	**3 515 275**	**–778 646**
Cash flow from operating activities	**–11 009 932**	**–16 536 444**
Investment activities		
Cash flow from investment activities	**0**	**0**
Financing activities		
Rights issue	9 454 143	14 004 423
Cash flow from financing activities	**9 454 143**	**14 004 423**
Cash flow for the period	**–1 555 789**	**–2 532 021**
Cash and cash equivalens at the beginning of the period	8 162 115	10 694 136
Cash and cash equivalents at the end of the period	6 606 326	8 162 115

This report is a translation of the original Swedish version. In the event of a conflict between the two, the Swedish version will take precedence.

This is information that Redwood Pharma AB is obliged to publish in accordance with the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person mentioned above, on February 17 2021.