



Frontage Holdings Announces 2019 Annual Results

Revenue grew by 20.8% to US\$100.4 million
Net profit grew by 64.0% to US\$18.4 million
Adjusted net profit¹ grew by 28.7% to US\$21.4 million
Future contracted revenue increased by 48.6% to US\$109.5 million
New lab space of 42,000 sq.ft and 10,000 sq.ft for bioanalytical services were expanded in China and US respectively
The planned expansion of a new facility of 71,000 sq.ft used for expanding CMC² and bioanalytical services in US is on track
CMC service was newly offered in China / Creation of centers of excellences in DMPK was accelerated through acquisitions

Hong Kong, March 30, 2020 - Frontage Holdings Corporation (“Frontage” , “Frontage Holdings” or “the Group”, stock code: 1521.HK), a Contract Research Organization (“CRO”) providing integrated, scientifically-driven research, analytical and development services with presence in both North America and China, today announces its audited annual results for the year ended December 31, 2019.

Financial Highlights

- Solid revenue growth of 20.8% year-on-year to US\$100.4 million
- Revenue from operations in North America increased by 33.1% year-on-year to US\$72.8 million. Excluding the impact of currency translation, revenue from operations in China increased by 1.0% to RMB190.3 million
- Gross profit margin was 37.1%, compared to 40.8% in 2018. Gross profit margin in North America and China were 33.0% and 48.1%, compared to 31.1% and 59.4% in 2018, respectively
- EBITDA reached US\$29.6 million, representing a 57.7% growth year-on-year. Adjusted EBITDA¹ grew 34.8% to US\$32.6 million. EBITDA and adjusted EBITDA margins improved to 29.5% (vs. 22.6% in 2018) and 32.4% (vs. 29.1% in 2018) respectively
- Net profit reached US\$18.4 million, representing a 64.0% growth year-on-year. Adjusted net profit¹ grew 28.7% to US\$21.4 million. Net profit and adjusted net profit margins improved to 18.4% (vs. 13.5% in 2018) and 21.3% (vs. 20.0% in 2018) respectively
- Recorded US\$109.5 million future contracted revenue as of December 31, 2019, representing a 48.6% growth compared to US\$73.7 million as of December 31, 2018

¹ Excludes the share-based compensation expenses, listing expenses, gain on disposal of associates or subsidiary, bargain purchase gain, and gain arising from fair value change of previously held interest in an associate

² Chemistry, Manufacturing and Control

Operational Highlights

- A new laboratory facility of 42,000 sq.ft in Shanghai, dedicated to the bioanalytical services of small molecules, was launched in September 2019. Meanwhile, the upgrading of an existing bioanalytical lab facility of approximately 16,000 sq.ft, dedicated to the bioanalytical support of biologic services including proteins, cell and gene therapy, and biomarkers in Shanghai, is substantially complete.
- Expansion of an additional 10,000 sq.ft of bioanalytical lab space was completed in Exton, PA, providing further lab service capacity to enhance bioanalytical capabilities in biologics and small molecule drug development, biomarkers, cell and gene therapy, and high-throughput clinical sample management.
- A new laboratory facility of 71,000 sq.ft used for expanding CMC and Bioanalytical services was rented in Exton, PA. The facility is expected to be partially operational in the fourth quarter of 2020.
- CMC capabilities and business were expanded in China by raising shareholding in Frontage Suzhou from 49.04% to 75% in October 2019.
- Creation of centers of excellences in drug metabolism was accelerated by acquisition of RMI Laboratories, LLC (“RMI”) and BRI Biopharmaceutical Research, Inc. (“BRI”), two dedicated labs principally engage in providing science-driven drug metabolism and development services. In addition, the geographic foothold of the Group expanded into Canada and the west coast of North America through the acquisition of BRI.
- Capacities and capabilities of DMPK and Safety and Toxicology will be expanded in China following the opening of a new 215,000-square-foot facility in Suzhou, China.

Management Comments

Dr. Song Li, Founder and Honorary Chairman of Frontage Holdings, commented: “2019 was a memorable year for Frontage. We had a successful IPO on the Hong Kong Stock Exchange, providing us strong financial support in growing our business, both organically and through acquisitions.

In 2019, we continued to keep our focus on quality and compliance, science innovation and technology, efficiency and productivity, and client’s satisfaction. Through strong execution, sound business practices, strategic service offerings, and the continuous improvement of our operational process and infrastructure, we achieved record high revenue and profit in 2019. Our revenue and adjusted net profit grew 20.8% and 28.7% respectively, with US\$109.5 million of future contracted revenue, a firm foundation for our future growth.

Looking forward, the increasing approvals of innovative drugs, diversified pharmaceutical R&D models which gradually shifted from in-house R&D to external R&D services, continued expansion of biologics and emerging novel therapies for unmet medical needs, as well as the increasing investment in biotech companies, all of which obviously provide growth opportunities for pharmaceutical R&D service providers. We will continue to enhance our ability to partner with clients across the drug discovery and development continuum.”

Dr. Zhihe Li, Chairman and CEO of Frontage Holdings, commented: “In 2019, we continued achieving strong growth in North America. The healthcare industry in China has witnessed the introduction of several new policies issued by the government. In particular, the pilot scheme of centralized procurement of generics and inclusion of innovative drugs into the national reimbursed drug list accelerated the Chinese pharmaceutical innovative market growth by encouraging more companies to shift to the development of innovative drugs, which increased the market demand for CRO services in China. On the other hand, the implementation of centralized procurement caused uncertainty in bidding results and unprecedented price pressure for generics, which temporarily impacted market demand, motivation and execution progress of consistency evaluation for generics, so as to bring some pressure on the performance of our business related to generics in China. However, we believe the impact is temporary as we always concentrate our efforts seeking profitable growth, strengthening our core business, embracing internal expansion as well as strategic acquisitions to expand and enhance our portfolio of services, especially those services for innovative drugs, geographic presence, and client and partner relationships, building a center of excellence and delivering high quality and timely services to our clients.

In Exton, PA, we expanded an additional 10,000 sq. ft. of laboratory space which further enhances bioanalytical capabilities in biologics and small molecule drug development, biomarkers, cell and gene therapy, and high-throughput clinical sample management. In Shanghai, China, we expanded our bioanalytical laboratory space from 16,000 square feet to 58,000 square feet. In addition, we have already rented a new 71,000 square feet space used to set up new CMC and bioanalytical labs in Exton, PA. It is under renovation and expected to be partially operational in the fourth quarter of 2020.

On top of that, in March 2020, we rented a new research facility in Suzhou, China, covering an area of more than 215,000 square feet. It will be mainly used for DMPK studies and will include an animal facility for non-GLP and GLP pharmacokinetics and toxicology studies, which will enable us to offer a more comprehensive and complete set of R&D services in China.

We continued to expand our pool of talent, particularly in hiring additional research scientist staff, which allow us to maintain our high service standards, industry leading expertise and reputation for quality and innovation. We grew our employee headcount from 578 at the end of 2018 to 712 as of December 31, 2019.

In 2019, we also expanded our business through strategic acquisitions. In September, we raised our shareholding in Frontage Suzhou from 49.04% to 75% and became its controlling shareholder, which expanded our CMC capabilities and business in China. In November, we acquired RMI, a CRO located in North Wales, Pennsylvania, offering a variety of services including a full range of metabolite profiling and identification services, such as early discovery soft spot analysis, late discovery cross species comparison, and pre-clinical animal radiolabeled mass balance studies. The acquisition will enhance our DMPK capacity with additional scientists, equipment, and facilities to be used in the provision of existing and novel services to the customers, and effectively expand the current client base. In December, we enhanced the capabilities and scale of our DMPK and Bioanalytical services and our geographic foothold into Canada and the west coast of North America with the acquisition of BRI, a CRO that was established more than 20 years ago in Vancouver, Canada, which offers a variety of services to its customer base, including bioanalytical assays for measurement of drug candidates, metabolites and biomarkers, in vitro drug metabolism/ADME, in vivo DMPK/ADME,

formulation development, DS/DP stability and analytical CMC assays, and anticancer drug pharmacology assessment. The acquisition will allow us to offer our clients proximal access to our DMPK and Bioanalytical services. We are also actively working on certain potential acquisitions which are targeted to close within 2020 if they materialize.

In 2019, we have once again been named as a *CRO Leadership Awards* recipient by Life Science Leader magazine. We have won awards with Life Science Leader since 2014, which is another evidence of our leading position in terms of quality standards, scientific expertise, regulatory compliance, and client satisfaction. In addition, we continued to maintain a strong track record of successful regulatory inspections. We were successfully inspected by the U.S. Food and Drug Administration (USFDA), U.S. Department of Agriculture (USDA), U.S. Environmental Protection Agency (EPA), and the National Medical Products Administration (NMPA) in 2019, demonstrating that we met or exceeded the high standards placed on our industry.

Being a fast-growing CRO operating in a large growing market and well positioned to capitalize on strong industry growth drivers, we intend to leverage our existing strengths and expand our capacities by recruiting additional scientists, continuing to invest in state-of-the-art equipment and technologies, expanding or enhancing our existing facilities and adding new facilities, so as to pursue opportunities from anticipated increase in outsourcing by the pharmaceutical industry and the related demand for its services. Moreover, we intend to strategically extend the range of our services to offer customers more integrated solution through organic growth and potential acquisitions, aim to pursue a range of opportunities arising out of the growing demand for CRO services.

2019 Annual Results

Revenue increased by 20.8% year-on-year to US\$100.4 million in 2019. Revenue from operations in North America increased by 33.1% year-on-year to US\$72.8 million in 2019. Excluding the impact of currency translation, revenue from operations in China increased by 1.0% from RMB188.5 million in 2018 to RMB190.3 million in 2019. The growth of revenue from operations in North America was mainly attributable to (i) marketing efforts made by the Group, resulting in robust marketing performance in North America; and (ii) a gradual increase in the toxicology lab services in our Concord site. The slow increase in the China market was mainly due to the delay of some bioequivalence projects in the second half of 2019 which negatively impacted our bioequivalence and bioanalytical related services in China.

Gross profit increased by 10.0% year-on-year to US\$37.3 million while gross profit margin was 37.1%, compared to 40.8% in 2018. Gross profit margin in North America and China were 33.0% and 48.1%, compared to 31.1% and 59.4% in 2018, respectively. The increase in the gross profit margin in North America operations was mainly attributable to the robust revenue growth in North America. The decrease in the gross profit margin in Chinese operations was mainly due to Group's Chinese operations entering into new leases for several leased properties and acquisition of lab equipment for business expansion, which have not been fully utilized for the year ended December 31, 2019.

Net profit increased significantly by 64.0% year-on-year to US\$18.4 million in 2019. Net profit margin increased from 13.5% in 2018 to 18.4% in 2019. The significant increase in the net profit and net profit margin was primarily due to (i) the solid revenue growth as a result of the Group's continuing position as a leader in the CRO industry and competitive execution track record,

coupled with efficiency in business operations and enhanced capacity utilization; (ii) a considerable increase in interest income from unused IPO proceeds; and (iii) decreased listing expenses recorded in 2019 following our successful IPO on May 30, 2019. This was partially offset by (iv) expansion of sales and marketing expenses and administrative expenses in line with the Group's business growth; and (v) increase in share based compensation expense due to the new grant of a total 79,900,000 share options under the 2015 share incentive plan to the eligible employees on February 28, 2019.

Adjusted net profit, (excluding the share-based compensation expenses, listing expenses, gain on disposal of associates or subsidiary, bargain purchase gain and gain arising from fair value change of previously held interest in an associate) increased by 28.7% year-on-year to US\$21.4 million in 2019. Adjusted net profit margin increased from 20.0% in 2018 to 21.3% in 2019. The increase of adjusted net profit margin was primarily due to (i) the solid revenue growth as a result of the Group's continuing position as a leader in the CRO industry and competitive execution track record, coupled with efficiency in business operations and enhanced capacity utilization; (ii) a considerable increase in interest income from unused IPO proceeds; partially offset by (iii) expansion of sales and marketing expenses and administrative expenses in line with the Group's business growth.

Basic and diluted EPS in 2019 amounted to US\$0.0102 and 0.0099, representing an increase of 36.0% and 33.8% year-on year respectively.

Adjusted basic and diluted EPS in 2019 amounted to US\$0.0119 and 0.0115, representing an increase of 8.2% and 5.5% year-on year respectively.

About Frontage Holdings Corporation

Frontage Holdings Corporation is a fast-growing CRO providing integrated, scientifically-driven research, analytical and development services throughout the drug discovery and development process to enable pharmaceutical companies to achieve their drug development goals. The Company benefits greatly from having operations in both North America and China - the two largest markets for CRO services in the world and is well placed to capture growth opportunities in both markets.

Forward-Looking Statements

This presentation may contain certain "forward-looking statements" which are not historical facts, but instead are predictions about future events based on our beliefs as well as assumptions made by and information currently available to our management. Although we believe that our predictions are reasonable, future events are inherently uncertain and our forward-looking statements may turn out to be incorrect. Our forward-looking statements are subject to risks relating to, among other things, the ability of our service offerings to compete effectively and our ability to meet timelines for the expansion of our service offerings. Our forward-looking statements in this presentation speak only as of the date on which they are made, and we assume no obligation to update any forward-looking statements except as required by applicable law or listing rules. Accordingly, you are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. All forward-looking statements contained herein are qualified by reference to the cautionary statements set forth in this section.

Use of Adjusted Financial Measures

We have provided adjusted net profit, adjusted net profit margin, adjusted EBITDA, adjusted EBITDA margin and adjusted basic and diluted earnings per share (excluding the share-based compensation expenses, Listing expenses and gain on disposal of associates or subsidiary, bargain purchase gain, and gain arising from fair value change of previously held interest in an associate) as additional financial measures, which are not required by, or presented in accordance with, the IFRS. We believe that the adjusted financial measures used in this presentation are useful for understanding and assessing underlying business performance and operating trends, and we believe that management and investors may benefit from referring to these adjusted financial measures in assessing our financial performance by eliminating the impact of certain unusual, non-recurring, non-cash and/or non-operating items that we do not consider indicative of the performance of our business. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. You should not view adjusted results on a stand-alone basis or as a substitute for results under IFRS, or as being comparable to results reported or forecasted by other companies.

For Enquires:

Mr. Yifeng Gao
Chief Financial Officer
Frontage Holdings Corporation
Email: ir@frontagelab.com.cn

Mr. Le Min
IR Director
Frontage Holdings Corporation
Email: ir@frontagelab.com.cn