

Q3

bublar.

Bublar Group · Interim Report · January – September 2020



HIROSHII



WORK



SHOP



PLAY



ENTERTAIN

SUMMARY



Third quarter, July 1 - September 30, 2020

- **Net sales** amounted to SEK 48.4 million (4.0). The increase is explained by the fact that Goodbye Kansas, which is consolidated as of May 1, 2020, had net sales of SEK 46.1 million (30.7).
- **Earnings before depreciation (EBITDA)** amounted to SEK -15.1 million (-7.0). The result is affected by the summer season, which normally has a lower activity.
- **Profit after depreciation (EBIT)** amounted to SEK -28.8 million (-11.1). Amortization of SEK 13.6 million (4.1) includes goodwill amounting to SEK 9.2 million.
- **Cash on hand** amounted to SEK 31.5 million (8.7) at the end of the period. After the end of the period, an agreement for a flexible convertible financing has been settled that allows the company to raise SEK 4.2 million monthly in 12 tranches of up to SEK 50.4 million.

Period, January 1 - September 30, 2020

- **Net sales** amounted to SEK 101.0 million (11.8). Goodbye Kansas revenue growth, which is included from May 1, has been driven by revenue growth from the gaming industry by 146% compared to the same period in 2019.
- **Earnings before depreciation (EBITDA)** amounted to SEK -27.0 million (-22.3). The cost of gaming and gaming platform amounted to SEK 6.8 million for the first half of the year and has thereafter been activated.
- **Profit after depreciation (EBIT)** amounted to SEK -55.9 million (-32.8). Amortization of SEK 28.8 million (10.5) includes an item of goodwill amounting to SEK 19.8 million.

“Bublar” means Bublar Group AB (publ), org. No. 559019-7462, including subsidiaries. The Board of Directors and the Managing Director of Bublar may hereby issue the interim report for the period 1 January to 30 September 2020. All figures and comments refer to the Group and amounts are given in SEK million with the corresponding period of the previous year in parentheses, unless otherwise stated.

SUMMARY



Bublar's subsidiary Goodbye Kansas has been awarded the Government Export Prize for the Cultural and Creative Industries 2019.

Motivation:

"With effects that move the boundaries of the imagination to what is technically possible, Goodbye Kansas Studios has impressed the international animation, gaming and specialty effects industry. In just a few years, the company has become Sweden's largest provider of visual storytelling, computer-generated animations and motion capture to film and games. Excellent craftsmanship and innovation characterise the company whose headquarter in Hammarby Sjöstad attract talent from all over the world."

Key events in the third quarter

- The Board of Directors decided to award the additional consideration 1 regarding the acquisition of Goodbye Kansas. The conditions were met for the first of the two possible profit-based additional considerations.
- The Entertain business area with Goodbye Kansas increased the share of game-related assignments. Several contracts for productions for major international game developers were signed.
- Business Area Work has signed a 3-year framework agreement with Saab AB covering solutions in XR technology and 3D. The framework agreement includes Saab AB and its subsidiaries.
- License revenue for 3D product visualization for business area Shop doubled for January-September 2020 compared to the corresponding period in 2019.
- For the map-based mobile game Otherworld Heroes, the soft launch continued with more countries. The aim is to test the game based on technology, user experience and monetization.

Important events after the period

- The Work and Shop segments received several new major customers and additional assignments for existing ones. Alfa Laval and Forms+Surfaces, among others.
- Goodbye Kansas has signed an agreement for the production of a new game trailer. The order value amounts to approximately SEK 11 million.
- Goodbye Kansas won the Swedish Government's Export Prize for the cultural and creative industries 2019.
- Bublar entered into a flexible convertible loan agreement with Nice & Green S.A. of up to SEK 50.4 million. The purpose is to further accelerate business and product development. Bublar has an opportunity but not an obligation to use the agreement.

CEO'S STATEMENT

By Maria A Grimaldi

We continue to take a position in the digital industry.

We continue to deliver on our strategy. I see continued stable development with establishment in new markets and product development.

Our vision to become a leading player in the digital industry continues to drive us. We see continued stable development in the desired direction of the turn-around underway in Goodbye Kansas, increasing sales by 85% this year, and a continued strong development in the Shop business area, where licence revenues doubled compared to last year. The Group's earnings in July and August are seasonally weak. After the period, we see a positive trend in the development of the Work segment with high sales activity.

When it comes to integration, there is an ongoing review of the different business areas and the possibilities for creating new business, product development and taking advantage of competence and customer relations between the companies.

There is potential to develop the business with sharper offers for virtual training and visualization solutions for sales and marketing. In this business there were already collaborations before the acquisition of Goodbye Kansas, and as a first step, part of Goodbye Kansas and Vobling's business with the



B2B market has been coordinated.

Bublar and Goodbye Kansas have large internationally well-renowned companies in their customer portfolios. It provides opportunities for new and additional sales ahead in more areas and there is currently work underway to expand customer relationships and networks.

CEO'S STATEMENT

The closest are further business opportunities in the various advanced technologies that Goodbye Kansas possesses; Performance Capture, Digital Humans and Facial Scanning. Opportunities exist for development in each area, but also how they are used and combined with AR and VR technologies. The goal is to develop scalable products and solutions in addition to a profitable project business.

Within the **Play** part, we have several interesting dialogues with well-known brands from film, games and TV, interested in how our knowledge and technology can be used to create new gaming experiences.

We continue the soft launch in several markets for *Otherworld Heroes*[™]. The soft launch phase aims to test, calibrate and evaluate the game. We are fighting the current pandemic, which means that it takes longer to obtain reliable data from the tests. We have also identified a number of improvements to be made before commercial launch. Overall, this means that we decided to postpone the commercial launch into the new year. For our second game production, *Hello Kitty AR: Kawaii World*, we prepare together with Sanrio for commercial launch, which is planned for next summer.

The **Entertain** business area with Goodbye Kansas continued to have a good order intake and net sales for the period were 85% higher than in 2019. There is a high demand for game trailers and Performance Capture which benefits Goodbye Kansas business. The house is home to one of the most reputable studios in the world with associated expertise in the field of Performance Capture. I am also very proud that Goodbye Kansas won the Swedish Government's Export Prize. It shows the ability to deliver digital, technologically advanced productions, with creative height that gives an impact internationally.

Shop has made another good quarter both in terms of increased license revenue that doubled compared to 2019 and more new long-term licensing agreements were signed. It shows that Sayduck delivers on the strategy.

For the **Work** segment the result is marked by the consequences of prolonged decision-making processes due to Covid-19 and seasonality during the quarter. However, the last month in the quarter and after the end of the period, we see an increased interest among customers. The team has also been strengthened with senior expertise in sales and business development.

We are in markets with high growth and we see an increase in demand for advanced technology and digital content. In several areas, we are at an early stage in the technology, where the shift towards more advanced digital solutions usually involves profound changes in the way large companies work and their already established processes. There is no doubt that the shift is ongoing and will change the way we work and consume. We are convinced that there are many business opportunities for our solutions in this shift.

Finally, we will continue to work remotely for a while to come and I would like to take this opportunity to thank our employees for their great efforts and the fantastic energy that exists despite this special situation.

Maria A Grimaldi,
Managing Director and CEO, Bublar Group

GOODBYE KANSAS IN THE GROUP

The trailer for Suicide Squad: Kill The Justice League.



Peter Levin,
CEO and Founder of
Goodbye Kansas

What synergies do you see between Goodbye Kansas' other sister companies?

– Even before Goodbye Kansas Studios became part of the Bublar Group, we and Vobling had a close collaboration, including in a still confidential project where Goodbye Kansas and Vobling work side by side to create a groundbreaking product that will be presented within a few months.

Now that the companies are in the same group, the collaboration has become even tighter and during the current quarter both Bublar Group and Vobling moved into the Goodbye Kansas building in Stockholm. Although a large part of the workforce is still working from home due to the ongoing pandemic, this move has as such, further developed cooperation within the group, making it faster and easier to cooperate. The development of synergies is an important part of Bublar Group's plan to move forward."

How does Goodbye Kansas fit into the Bublar Group?

– Our companies are all based on a vision where we can jointly leverage our large pool of creative and technical talent and have open channels between the companies. Employees can develop and grow while ideas and projects enrich each other.

We have world-leading expertise in Goodbye Kansas and in the rest of the group. We have extensive experience in creating digital environments for movies and game trailers. We can thus contribute our expertise to help sister companies develop environments for VR training or other solutions in AR and VR for large companies and other industries. Conversely, Vobling developers can work with Goodbye Kansas teams to strengthen development in XR and other areas such as machine learning.

KEY FIGURES

Group

SEK Thousands	2020 Q3	2019 Q3	2020 Q1-Q3	2019 Q1-Q3	2019 Full year
Net sales	48 437	3 977	101 023	11 818	17 081
Capitalized work for own account	3 481	-	11 972	-	1 000
Total revenue	52 514	4 154	115 558	12 337	18 572
Operating income (EBITDA)	-15 124	-7 025	-27 022	-22 258	-31 115
Number of employees, average	281	58	180	58	57
Balance sheet total	337 201	82 320	337 201	82 320	106 155
Cash liquidity	*111%	172%	*111%	172%	476%
Solidity	*65%	86%	*65%	86%	90%
Equity per share, SEK	2,02	1,50	2,02	1,50	1,74
Earnings per share, SEK:					
- before dilution	-0,30	-0,34	-0,60	-0,79	-0,92
- after dilution	-0,29	-0,31	-0,58	-0,73	-0,86
The number of shares at the end of the period	100 194 110	41 021 198	100 194 110	41 021 198	54 913 141
Number of shares at the end of the period after full dilution**	104 194 110	45 021 198	104 194 110	45 021 198	58 913 141
Average number of shares	92 090 021	41 021 198	77 553 626	40 536 217	51 037 998
Average number of shares after full dilution	96 090 021	44 021 198	81 553 626	44 021 198	55 037 998

* In the calculation, accounting-calculated liability related to the additional purchase price for Goodbye Kansas has been excluded.

** In the calculation, the outcome related to the additional purchase price for Goodbye Kansas has not been included.

Group relationships

In the consolidated financial statements, the parent company and subsidiaries' operations are consolidated until September 30, 2020. Subsidiaries are all companies in which the Group has the right to design the company's financial and operational strategies in order to obtain economic benefits.

Bublar Group AB has four subsidiaries with different focus areas, end customers

and revenue generation: Vobling, has focus within business area Work, Sayduck within Shop and Virtual Brains within Play. Goodbye Kansas, which is included in accounting as of May 1, 2020, is the largest area of activity. Vobling develops products and services within AR/VR. Sayduck helps e-commerce companies strengthen their business with a digital 3D/AR visualization service through its platform

such as Software-as-a-Service. Virtual Brains is the Group's game development studio in Stockholm, with a proprietary technology platform to create AR-based mobile games with GPS and multiplayer functionality. Goodbye Kansas is a provider of VFX, animation and Performance Capture services to the leading global film, gaming and streaming companies.

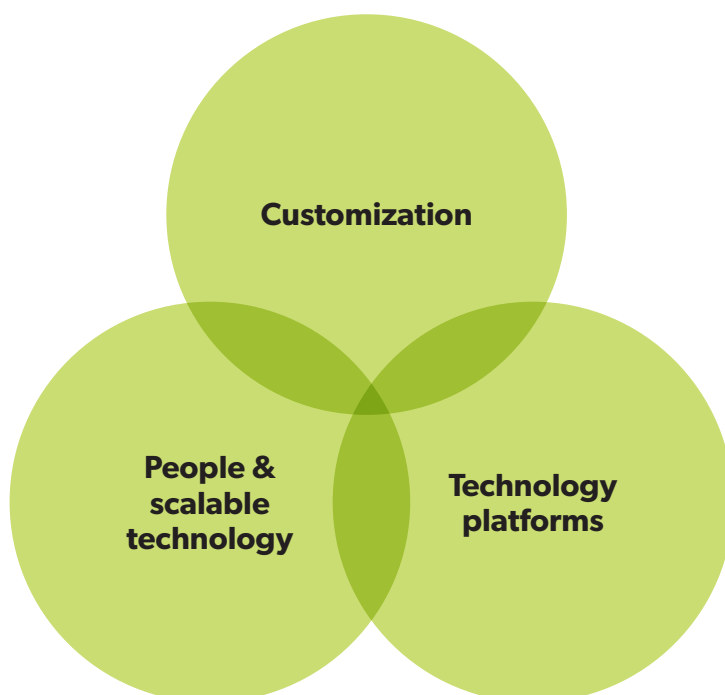
BUSINESS MODEL

	WORK	SHOP	PLAY	ENTERTAIN
Platform	<ul style="list-style-type: none"> • XL Virtual Training 	<ul style="list-style-type: none"> • 3D/AR Visualisation 	<ul style="list-style-type: none"> • XR-real-world 	<ul style="list-style-type: none"> • VFX/CGI • Facial Scanning • Performance Capture • IP Rights
Revenue model	<ul style="list-style-type: none"> • License revenue • Consulting revenue 	<ul style="list-style-type: none"> • SAAS revenue • Consulting revenue 	<ul style="list-style-type: none"> • License revenue • In-game purchases & ads 	<ul style="list-style-type: none"> • License revenue • Consulting revenue • Royalties
Customers, examples	<ul style="list-style-type: none"> • SJ • VY • SAAB • Alfa Laval 	<ul style="list-style-type: none"> • Pixels.com (USA) • Valilla (FI) • Alessi (IT) • Aritco (SE) 	<ul style="list-style-type: none"> • Otherworld Heroes • Hello Kitty AR: Kawaii world 	<ul style="list-style-type: none"> • HBO • Netflix • EA/Dice • Epic Games

World-leading position in the digital industry

The vision is to create a world-leading player in visualization and Extended Reality.

Bublar develops products and solutions based on the latest hardware and software within the ecosystem of XR technology, VFX and Performance Capture. Through our customer projects, we build a strong structural capital in the form of competence and software that is built into our platforms and enables the development of product portfolios and scalable applications.





Increased interest in VR solutions

Net sales for operations amounted to SEK 1.4 million (3.4) for the third quarter and earnings before depreciation (EBITDA) amounted to SEK -1.0 million (-0.7). The lower net sales is a result of postponed purchasing decisions from customers due to the Corona pandemic.

The result is explained by the lower order situation and seasonality as the summer period means a lower activity among potential customers. During the last month of the quarter and after the end of the peri-

od, interest in VR solutions has increased and there is high activity in sales. Several new customers and additional orders for existing customers have been received. We see signs that the market situation has turned.

VR training is a focus area that has taken off and during the quarter the new and innovative product "VR Fire Trainer" has been launched. In addition to the already established cooperation with Dafo, work is ongoing to build the re-seller network. The

development of our own virtual training platform has progressed according to plan. The next step is to present the possibilities of the developed platform with concrete applications for customers.

A three-year framework agreement has been signed with Saab and additional projects for Saab were delivered during the quarter. More projects are being implemented for Alfa Laval and their separators in the food segment. An agreement has been signed with a new customer in the pulp industry in virtual training with a focus on safety.

During the quarter, the team was also strengthened with cutting-edge expertise in sales and development of scalable platforms. David Logg has been appointed as Deputy Managing Director of Vo-

bling. He comes most recently from a role as Senior Managing Partner at Gartner, for Gartner Retail and Manufacturing Nordic. David Logg has more than 30 years of experience from various senior positions in Gartner, Tieto, IBM, Connecta and Nordea. He has extensive experience of successful sales strategies, extensive expertise in customer-focused business development, software and digital solutions, and driven transformations and development of businesses that have resulted in strong customer values.

Jonathan Tiedtke, who most recently had a role as CTO for 3D Interactive, becomes the product owner of Vobling's Virtual Training Platform and possesses in-depth expertise in VR/AR and related technologies.

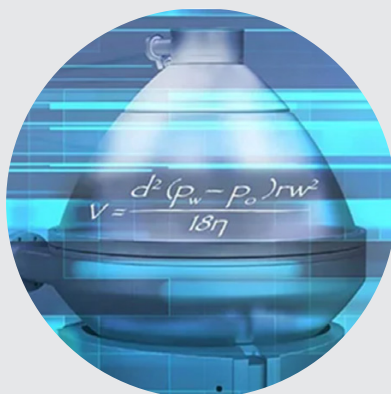
Development of advanced sales support in 3D/AR for Alfa Laval

The project comprise visualization of Alfa Laval's latest separators for the food sector. The application builds on the 3D/AR platform from the previous delivery for biopharma. The visualization technology makes it possible to display the separator's functionality digitally, via 3D/AR in physical or digital customer meetings.

Bublar's unique application means that technologically advanced, large or unwieldy products that are difficult to move, can be presented in as good a way as to get a demo of the real product in place. There are then several possibilities to expand the application to include several steps in the product life cycle.

Alfa Laval has a world-leading range of separators for different applications. Their centrifugal separators are used by breweries all over the world. Alfa

Laval's business unit, Business Unit High Speed Separators, sells separators for a wide range of applications in food, biopharma, chemical/manufacturing and marine industries. The products are sold in about 100 countries. The Alfa Laval Group had nearly 17,400 employees and a turnover of SEK 46.5 billion in 2019.



“The AR application supports our strategy to ensure that marketing and sales process can be done digitally and that the product easily can be displayed in a realistic way to the customer without bringing it with them. Our goal of achieving the same effect as a real demo has been met, which means that we now want to add additional products”

Anette Nord Holfve,
Market Communication Manager
at Business Unit High Speed
Separators, Alfa Laval



Springfree Trampoline is one of the customers that uses *Sayduck Platform*.

License revenue doubles

Sales within Shop during the third quarter amounted to SEK 1.0 million and the segment makes SEK -0.2 million in EBITDA. The share representing license revenue increased to 77%. For the period Jan-Sept, the proportion is now 68% compared to 32% in 2019.

License revenue for the period January to September 2020 increased by 113% compared to the corresponding period of 2019.

The development shows that there is a good momentum for the Shop and Sayduck business area to deliver on the strategy to increase license revenue.

The number of 3D and AR views on the platform increased by 76% compared to the same period last year and totaled 2 million views. The increase shows that customers are beginning to discover and also actively use the features that the technology enables.

During the period, 573 new customer accounts were created on the platform. Several new customers and additional assignments were added during and after the period, including the American furniture company Forms+Surfaces. Another example is Umage, a Danish design company that since its founda-

tion in 2008 has grown and expanded and the range is now available in over 2000 stores in 40 countries around the world.

Continued investments in the development of Sayduck Platform have been made, including a development of 3D Viewer to improve the visual quality of the web interface.

Several interesting further developments for existing customers have been carried out. Among other things, a new plug-in solution for Shopify has been launched that allows the Sayduck configurator to be easily integrated with stores built on the Shopify platform.

Zound Industries has launched "annotations" on adidasheadphones.com.

In this area, there is an increased demand as companies strengthen their e-commerce solutions with more opportunities to better present their products in a digital environment. The production of the projects for 3D, among other things, is carried out in collaboration with the development team in Manila.



We are really excited about our continued cooperation with Sayduck. We knew we were only scratching the surface for business opportunities when Forms+Surfaces introduced AR technology to architects and designers for selected products back in 2013. This new 3D configurator project is a natural extension of our digital establishment and helps streamline the specification process for our entire outdoor product line for our customers.”

Jeffrey Stork, President of Forms+Surfaces, Inc



Three-year 3D/AR license agreement with Forms+Surfaces, Inc.

The collaboration with one of Sayduck’s first customers is expanding. The new agreement includes building an online 3D configurator for over 80 of the design and manufacturing company Forms +Surfaces’ various interior design products for public environments.

The 3D configurator makes it possible to realistically present complex products that come in a variety of variations and combinations that are usually not easy to present digitally. It also allows customers to visualize their

product choices in Augmented Reality (AR), one of the basic features of the Sayduck Platform.

The Platform enables companies to create unique 3D and AR experiences on the web for their customers – it drives product engagement and builds trust among customers.

Forms+Surfaces designs and manufactures architectural products that are used in public environments around the world. From walls and elevator interiors to location interiors and lighting, the company manufac-

tures premium products for a wide range of environments and markets. In addition to their large customer service and manufacturing facilities in the US, Forms+Surfaces has offices and branches in Europe, Asia, India, and the Middle East, as well as International sales teams with offices in London, Dubai, Singapore, Bangkok and Hong Kong. The company has several offices in the United States, headquartered in Pittsburgh, Pennsylvania, and had a turnover of \$115 million in 2019.



Bublar's MMO Games: *Otherworld Heroes* and *Hello Kitty AR: Kawaii World*.

Two innovative games take shape and new IP's in pipeline

Within the Play part, we have four different real-world games business opportunities based on our strategy: our own free-to-play titles, game development based on well-known brands/IPs that we are currently working with. But we also see potential for assignments of global publishers and collaborations with other game studios.

We have developed a unique platform that provides the ability to create game worlds based on real map data and GPS locations. We also have systems for bringing together all players in a single game world. All in all, this provides good conditions for future new business in the segment.

We are currently evaluating a number of different IPs and have interesting dialogues with well-known brands from film, games and TV who are interested in how our knowledge and technology can be used to create new gaming experiences.

During the period, continued development and testing of the proprietary games has been ongoing and the Play team has also been strengthened with cutting-edge expertise in the development and launch of mobile games.

As previously communicated, Japanese IP rights-holder Sanrio together with Bublar, decided to move the commercial launch of the Hello Kitty AR: Kawaii

World until 2021 due to the uncertainty of Covid-19. We are now preparing together with Sanrio for commercial launch, scheduled for next summer. We are utilizing the time unintentionally provided by further developing and improving the game based on the feedback and data we have collected.

For Otherworld Heroes™ the soft launch continues in several markets besides Sweden and Asia to get a larger base to evaluate from. The soft launch phase aims to test, calibrate and evaluate the game and, above all, the technology behind a geo-based multiplayer game.

We are fighting the current pandemic, which means that it takes longer to obtain reliable data from

the tests. Based on feedback during the testing phases, we have identified a number of improvements that need to be made before commercial launch is possible. These include clarifying the game design, ensuring that relevant game content is auto-generated worldwide in the areas where players physically exist, and adding additional levels to the game. As expected, the test results also show that the Covid-19 limits players' ability to move around unhindered and we need to reinforce parts that allow some gaming from home without the need for physical movement. All in all, this means that we need to postpone the commercial launch into the new year.

Hello there Vineeth Sethu



Vineeth Sethu is Head of Product for Otherworld Heroes at Virtual Brains.

You have extensive experience as Executive Producer and the launch phase of different games. What do you think is the most exciting thing in your job?

"It's a tough question - there are so many things! One is the challenge of transforming an idea, or an existing game into a high-engaging product played by millions of users worldwide. Another is the ability to push my creative boundaries and have the privilege of working with very talented cross-functional and multinational teams.

What do you bring from your previous experience to Bublar and to Otherworld Heroes?

"With over 20 years in the gaming industry, I have gained a broad expertise and experience in strategy, free-to-play games, production management, technology, business intelligence, marketing and leading creative, crossfunctional and multinational teams.

I've had the opportunity to work with some of the leading game developers and publishers and delivered profitable

launches for top-rated games, franchises & IPs - Glorious Games Group (Stardoll), Rovio (Angry Birds, Angry Birds 2) and EA/Playfish (Franchise Worms, Hasbro IPs, Pet Society, The Sims Social).

I look forward to contribute in building a scalable and profitable gaming business for Bublar.

What do you think playing games could contribute to for the individual and society in terms of, for example, education and sustainability?

"I think games are an excellent medium for delivering edutainment. Important issues in sustainability and climate can be presented as interactive controlled simulations where you can experience the consequences of your actions and learn how these can contribute to a better tomorrow. At the moment, I think there are only a handful of games that make an effort in this direction and the gaming industry can take a more active role in educating and highlighting these issues.



The trailer for *Suicide Squad: Kill The Justice League*.

Stable ongoing turnaround

The Entertain business area in Goodbye Kansas continued to have a good order intake and net sales for the period January 1 to September 30 amounted to SEK 190 million (102.7), up 85% against the corresponding period of 2019. Operating profit (EBITDA) amounted to SEK -0.3 million (-83), adjusted for transaction costs for the transaction with Bublar. The result for the Bublar Group includes Goodbye Kansas' result from May 1 in the consolidation with SEK 92.5 million in net sales and EBITDA of SEK -6.1 million.

Net sales for the quarter amounted to SEK 47 M (30.6). EBITDA amounted to SEK -10.3 million (-32.1), adjusted for transaction costs.

The third quarter is a seasonally weak quarter due to the holiday period July-August, which largely explains the negative result. For September, EBIT-

DA was back to a positive level. Personnel costs remained unchanged and other external costs were lower than in the same period in 2019. All in all, this shows a stable trend and that the turn-around that has begun continues.

The gaming industry is one of the sectors not adversely affected by the ongoing pandemic and the share of gaming-related assignments has increased. It has driven Goodbye Kansas order intake, currently working on three major game related assignments are for large international game developers. Recently, the company released the company's new trailer for the game "Cyberpunk 2077", produced for CD Projekt Red and the trailer for "Suicide Squad: Kill the Justice League" for Warner Bros. Games.

Film and television production companies have suffered delays in planned recordings, which has led



The trailer for *Suicide Squad: Kill The Justice League*.

to postponement of Goodbye Kansas productions for contracts already won in these areas.

Goodbye Kansas has during the quarter continued to deliver VFX to several TV series, including Season 2 of Amazon's "Carnival Row", Netflix's Sherlock Holmes spinoff "The Irregulars" and a BBC thriller called "Vigil". The company also supplies VFX to the international spy thriller "The 355", featuring stars such as Jessica Chastain, Penélope Cruz, Diane Kruger, Lupita Nyong'o and Bingbing Fan. The film is directed by Simon Kinberg, a director/producer with, among other things, "The Martian" and several "X-men" films on his CV.

After the quarter, further investments have been made in the Performance Capture business to meet increased demand, maintaining competitive advantage and ensuring continued growth. The work on game trailers means that efforts are being made to sharpen the cutting-edge expertise in the field

of "Digital Humans", i.e. life like digital characters, which can be used for games and Film/TV.

Currently, Goodbye Kansas works primarily against the gaming industry when it comes to Digital Humans. But the high level of competence in Digital Humans also offers great opportunities in other segments, such as various forms of customer service or virtual training applications in "virtual training" and "e-learning".

Infinite Entertainment, which works with the development of IP and co-productions of Film/TV projects, has moved forward its position in several of its projects. Infinite has now been established in Los Angeles as the next step. The project portfolio includes a new thriller created together with artist/author Simon Stålenhag, whose book "From the Notice Ball" ("Tales from the Loop") became an acclaimed TV series for Amazon earlier this year.



The need for Digital Humans and facial scanners will continue to increase, especially as technology is constantly evolving. By using AI and machine learning, we can become even faster and create even more realistic characters.

Goran Milic,
Head of Facial Animation



Goodbye Kansas “Digital Human Factory”

Just a few years ago, it was considered almost impossible to build digital characters that were realistic enough to resemble a real person. But as technology improves, the creation of digital people has not only become possible, but has also evolved into a true art form. Goodbye Kansas creates lots of virtual humans every year to meet the growing need in games, movies and other areas. Creating this data-driven “techno sapiens” requires a complex production process that includes Motion Capture to record actors’ movements, facial scanners to create realistic facial expressions and digital skeletons for the character to move in a natural way. Here’s what three of the top artists at Goodbye Kansas Studios are telling you about this exciting and innovative “Digital Humans Factory,” where they build all these artificial people.

Senior Concept & Character Artist

Jonas Törnqvist started working with Digital Humans at WETA in New Zealand on films such as “Hobbit” and “Tintin”. He was deeply involved in the construction of the Goodbye Kansas 3D facial scanner, a project that began as a collaboration with KTH and he is now head of Facial Modeling at Goodbye Kansas.

“Goodbye Kansas has delivered upwards of 500 human faces and we create hundreds of digital people every year – so I guess you might call us a “Digital Humans factory,”” says Jonas. Every human being is unique and every face is completely different. So it is a huge challenge to create convincing simulations of human faces. We always analyze all our data to see how we can improve the process, including our scanner. We strive for perfection.”

Jonas Skoog, Lead Character Artist, works to combine and build on all the data from the scanner. “That includes

putting together body, clothing and facial simulations to create the illusion of a real person,” says Jonas

“It is the combination of all parts together that creates realism. Actors don’t just use their face. They also express themselves with body language and gestures to convey emotions or tell a story. So we use everything from facial scanner data to Motion Capture to create digital characters that feel like they’re actually living and breathing like real people.”

Goran Milic, Head of Facial Animation, says

“The need for Digital Humans and facial scanners will continue to grow, especially as technology is constantly evolving. By using AI and machine learning, we can become even faster and create even more realistic characters. That is why research and development are so important. For me, the really big challenge is to create credible animations. All parts must be right!”

TRENDS & OUTLOOK

Bublzar operates in high-growth markets. Common to Bublzar's business is that it is based on innovative applications of advanced technology in the different business areas. Technology in Virtual Reality, Augmented Reality and Virtual Productions is still early in its development, providing potential for business development in Bublzar. The technologies can also represent a disruptive change to the customers' core business or way of working.

Virtual Reality

In a study from PwC, one of the largest conducted so far in terms of the effectiveness of VR training in leadership development, a majority of participants, 78%, preferred VR training over more traditional types of training.

In the study, the majority of CEOs believe that teleworking is a trend that will last even after the Covid - 19 pandemic.

The digitization of companies' core businesses and processes also means that companies' business models need to adapt, which takes time but also provides opportunities for more business in the VR field.

In addition, the study also showed the cost of training and training employees in classrooms was eight times higher than a VR workout for the same number of people.

Augmented Reality

Augmented Reality is still early in technological development, but it is clear that AR will revolutionize retailing. Today there are a billion mobile phones and tablets that can manage an AR experience. A study by Deloitte expects 100 million customers already in a year's time to shop using AR, either online or in-store. And already this year, 46% of e-retailers plan to use AR or VR.

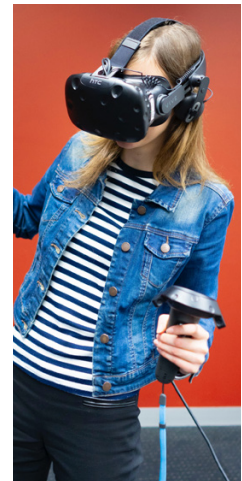


PHOTO BY FIDEL FERNANDO

LEARNING VIA VR

4x

faster than traditional classroom learning.

275%

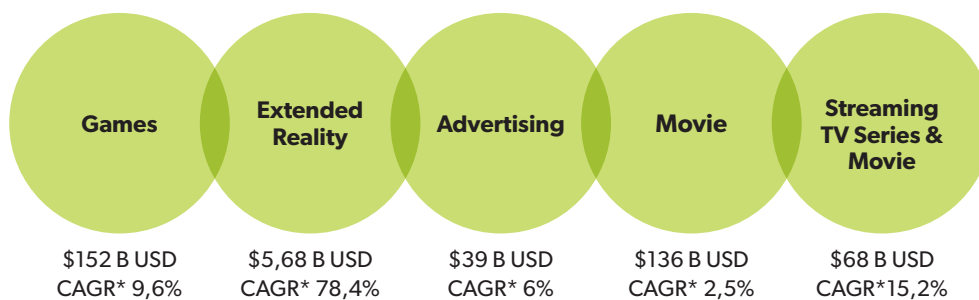
higher confidence to apply knowledge learning after training with VR.

3.75x

more emotionally linked to content than through classroom learning.

SOURCE: PWC

BUBLAR IS AVAILABLE IN THE FOLLOWING GROWTH MARKETS



CAGR: COMPOUND ANNUAL GROWTH RATES

TRENDS & OUTLOOK

The value for e-retailers is how well the technology can present the products in the most realistic way possible. Companies that have product categories in e.g. interior design has come furthest. This category also includes many of the Shop business area's customers.

"When we think about AR shopping, it's not just about seeing what something looks like in your space and seeing the size of it, it's also about seeing the materials and the details of that product," comments Daniel Beauchamp, Head of VR at Shopify.

Levi's CEO also gives the following comment: "In 10 years there would be no more sizing—soon we would replace this aging retail artifact with custom fit apparel, enabled by body scanning and made-to-order finishing"

Levi's vision for the future indicates that the entire manufacturing and distribution chain will be revolutionized, hence a valid statement for several industries.

Virtual Productions

The crippling effect of the pandemic on travel and global mobility has increased

interest in so-called Virtual Production, i.e. a technology where actors in a studio can be placed in real-time digital environments at the time of recording. Technology is constantly improving and fits the new reality where many are forced to work from home. In addition, the need to move large recording teams between different physical recording locations is drastically reduced, and thus both costs and carbon footprints. In Disney's series "The Mandalorian", over half of all scenes were filmed in a single Virtual Production studio, which could offer over 60 digital environments. Post-production is moved to pre-production and subcontractors such as VFX companies get a more prominent position in production.

The gaming market

The gaming sector has continued to make up a significant part of Europe's digital and creative success with a turnover of EUR 21.6 billion. Since 2014, the increase has been 55% in Europe in key markets.

Of the total gaming market, mobile devices account for 40% of total revenue of €14 billion in the corresponding markets.



PHOTO BY ROCCO DIPOPPA

GAMING MARKET

21.6€

...billion of the total EU market

+55%

since 2014 in Europe's main markets: France, UK, Germany and Spain.

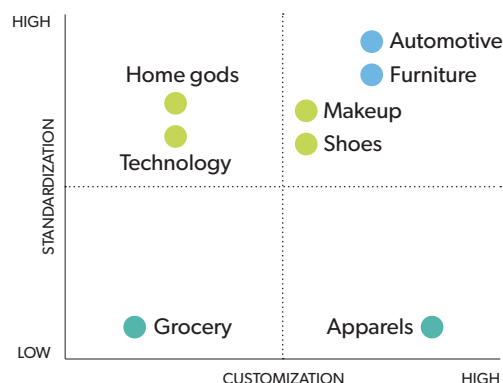
SOURCE: GAME TRACK 2019 AND NEWZOO 2019 GLOBAL DATA REPORT

AR WITHIN E-COMMERCE 2020

A positive ROI is achieved today with AR shopping functions for products that have high standardization and many customer choices.

- Experimentation
- Early technical successes
- Positive ROI, spreading adoption

SOURCE: DELOITTE ANALYSIS



FINANCIAL DEVELOPMENT

Quarter **July 1 - September 30 2020**

Net sales during the period amounted to SEK 48.4 million (4.0). The increase is mainly due to the inclusion of Goodbye Kansas as of May 1.

Earnings before depreciation (EBITDA) amounted to SEK -15.1 million (-7.0). The costs for development of the games have not been activated until July 2020 because the requirements of K3 18:12 were not met. Since July 2020, the costs of game development of Otherworld Heroes and Hello Kitty have been activated as activation requirements have now been met. The negative EBITDA result should be seen in the perspective that Goodbye Kansas and also Vobling have seasonally weak July and August months in Q3.

Profit after depreciation (EBIT) amounted to SEK -28.8 m (-11.1) and includes depreciation (non-cash impact) related to goodwill of SEK 9.2 m and to development costs of SEK 0.9 m.

Earnings per share amounted to SEK -0.30 (-0.34).

Period **January 1 - September 30 2020**

Net sales during the period amounted to SEK 101.0 million (11.8). Earnings before depreciation (EBITDA) amounted to SEK -27.0 million (-22.3). The costs for development of the games have not been activated until July 2020 because the requirements of K3 18:12 were not met. Development costs of SEK 6.8 million related to the games have hence been charged fully up until July. Since July 2020, the costs of game development of Otherworld Heroes and Hello Kitty have been activated as activation requirements have now been met.

Profit after depreciation (EBIT) amounted to SEK -55.9 m (-32.8) and includes depreciation (non-cash impact) related to goodwill of SEK 19.8 m and to

development costs of SEK 2.5 m.

Earnings per share amounted to SEK -0.60 (-0.79).

Investment

The acquisition of Goodbye Kansas represents the major investment during the year, which was recorded in the second quarter. The acquisition was made through a non-cash issue, where a fixed purchase price and an additional conditional purchase price have so far been paid (in shares). An additional conditional consideration (in shares) based on earnings throughout 2020 may be paid.

In total, investments in Bublar during January-September amounted to SEK 134.5 million (15.6). The acquisition of Goodbye Kansas explains just over 90% of the value. Other items consist of product development and technical equipment for the business. The investments historically mainly relate to the acquisition of Vobling and activation of programming and product development costs for Bublar's software platform.

Cash flow and cash position

At the end of the period, 30 September 2020, the Group's cash and cash equivalents amounted to approximately SEK 31.5 million (8.7). Cash flow was SEK -SEK 5.8 million (-11.6). After the period, the company has secured access to a flexible convertible financing of SEK 50.4 million before expenses divided into 12 monthly tranches of SEK 4.2 million.

Staff

The number of employees in the Group including subsidiaries Sayduck Oy, Vobling AB, Vobling Asia Ltd, Virtual Brains AB and Goodbye Kansas was 296 (58) on 30 September.

It is gratifying that there was great interest from em-

FINANCIAL DEVELOPMENT

ployees in Goodbye Kansas as well as new employees in Sayduck and Vobling to subscribe for the outstanding options in Bublar that were available under the incentive program until August 31, 2020. The total of four million warrants in the program are now distributed. The options expire on May 31, 2022 and have a strike price of SEK 8.80.

Share

Bublar's share (BUBL) was listed on the Nasdaq First North Growth Market on November 11, 2019 after previously having been on NGM MTF from November 6, 2017. The share has ISIN code SE0010270793. G & W Fondkommission, phone +46 8 503 000 50 is the company's Certified Adviser.

As of September 30, 2020, there were a total of 100,194,110 outstanding shares distributed among more than 4,700 owners. During the quarter, the number of shares increased through payment of the additional conditional purchase price that has so far been paid for the acquisition of Goodbye Kansas.

The financing agreement with Nice & Green means that they undertake to subscribe for convertible bonds with a nominal value totaling up to SEK 50.4 million, in 12 tranches of SEK 4.2 m each monthly over a period of up to 14 months. Bublar, on the other hand, has no obligation to call any tranche. The convertibles can be converted into shares at a 7% discount in relation to the volume-weighted market price of the shares at the time of the request for conversion. Bublar has the right to redeem the convertibles in cash.

Conversion of a tranche at the current market price (SEK 3.23) would mean a dilution of approximately 1.4%. If all the tranches are utilized and converted and the share price remains the same, the dilution would be about 16%. Bublar has a right but not an obligation to use the agreement.

Risks and uncertainties

The acquisition of Goodbye Kansas has meant that the business has grown significantly in size and gained an established business as a driving force in

the company's development. Goodbye Kansas on the other hand has a larger cost base, which means that the company depends on being able to reach a certain level of capacity utilisation in order to ensure coverage of fixed costs. This has been a challenge in 2018 and 2019 for the company. Quarter 3 is seasonally the weakest quarter due to holidays in July and August, but capacity utilisation in September is back at levels in line with the profitable Quarter 1. For the full year, capacity utilisation is 73% compared to 57% in 2019. It is Bublar's assessment that Goodbye Kansas has now reached such an established market position that the work can focus on delivering long-term sustainable profitability. However, the profitability of the business may be affected by, for example, fluctuations in orders received, project shifts, unfavourable currency movements, etc.

The market for the services and products developed by Bublar is in a strong development phase. Market dynamics mean that there is a risk that the projects Bublar has invested in will be received with little interest from end customers and that therefore expected revenues will not be generated with the subsequent negative effect on earnings and cash flows. Activated development costs may also need to be written down. If a commercial launch of a project is delayed or results in lower revenue than assessed, this may have a material negative effect on the company's operations, results and financial position.

Delays in planned and ongoing customer or gaming projects can have a negative effect on cash flow, revenue and operating margin. Delaying one or more of the Company's developed games may result in a material negative impact on the company's operations, results and financial position. Both the mobile game and XR markets are characterized by rapid technological and innovative development and great competition. Several of Bublar's current and future competitors may have competitive advantages in the form of longer history, a more established brand and greater financial, technical and marketing resources.

The Group consists of an organisation with limited

FINANCIAL DEVELOPMENT

resources and can therefore be considered to be heavily dependent on a few key personnel. Furthermore, the partners with whom the company has chosen to cooperate may be forced to set priorities other than the company's own, with the resulting risk of delay and completion of the projects. See the Annual Report 2019 for further description of the risk factors Bublar faces.

Accounting policy comment

The quarterly report has been prepared in accordance with the Annual Accounts Act (ÅRL) and BFNAR 2012:1 (K3).

The acquisition of Goodbye Kansas, which is much larger in terms of turnover and structure than Bublar's previous operations, partly brings new considerations to Bublar as a group. Accounting for shares in so-called associates (shareholdings between 20 and 50%) is new.

The principles of revenue recognition in Goodbye Kansas are the same as those found in Vobling. Goodbye Kansas provides services at both fixed and variable prices, in the form of consultant and project fees, for visual effects, animation, Performance Capture for film and TV productions, game trailers and the development of own IP rights. Revenue from the services delivered is recognised in the period in which they are provided. Most of the contracts that are concluded are at a fixed price, and then the revenue is recognised based on the proportion of the total agreed service delivered during the period when the customer receives and uses the services. This is determined based on the actual working time compared to the total expected working time of the assignment.

Comment on profit and loss account and balance sheet effects

The acquisition has changed the structure of Bublar's profit and loss account and balance sheet. The acquisition is expected to take place in three stages where Bublar has estimated the expected purchase price, based on an assessment of Goodbye Kansas'

performance and thus the outcome of the number of shares that will need to be issued when the additional conditional considerations will be paid in fixed number of shares. The shares that have not yet been issued (deferred consideration 2) have been held in debt. Together, this explains the higher value on the assets side (under goodwill of approximately SEK 160 m) and interim liabilities (of approximately SEK 56 m). The interim liabilities, together with an accounting liability linked to the lease (SEK 24 m), explain the increase in liabilities for the Group. The old financial liabilities that existed in Goodbye Kansas are not burdening the new group.

Structurally, Bublar has acquired both shares and claims for Goodbye Kansas. The claims include convertible debentures and other liabilities that were in Goodbye Kansas before April 30. The transaction replaces previous financing and conversion terms to those in the offer from Bublar Group. The acquisition of Goodbye Kansas increases the value of the item goodwill included in fixed assets. In the past, goodwill items have been created related to Sayduck and Vobling. The total goodwill value amounted to approximately SEK 200 m as of September 30. Goodwill is amortized on a straight-line basis in the 5-year consolidated financial statements starting from the date of entry.

The item's intangible assets are also increased through the acquisition due to the intangible values found in Goodbye Kansas. They represent values for proprietary software and proprietary IP. Software solutions represent tools to increase productivity in Goodbye Kansas work processes. The IP can be a concept for TV series, movies or games where the goal is to resell them for projects that generate revenue for the service business but also part of the success of the projects.

Bublar's intangible assets have previously reflected development costs for the software platforms for mobile games and the XR platforms. A straight-line depreciation model of 5 years is applied here. The costs for game development until July 2020 have

FINANCIAL DEVELOPMENT

not been activated as we considered that the game development did not meet the requirements of K3 18:12. Since July 2020, we consider the requirements fully met and the costs of game development of Otherworld Heroes and Hello Kitty AR:Kawai World hence are activated accordingly. Costs for more functions for the software platforms are activated according to the work done and depreciated.

Capital requirements

Cash on hand amounted to approximately SEK 31.5 million at the end of the period.

After the end of the quarter, a flexible convertible financing agreement has been reached with the Swiss investment company Nice & Green. This gives Bublar the possibility of financing of a total of SEK 50.4 million divided into 12 monthly tranches of SEK 4.2 million that Bublar can call off as long as the conditions in the agreement are fulfilled.

The acquisition of Goodbye Kansas broadens and increases the revenue base. The transaction also means that previous financial liabilities of approximately SEK 72 million have been converted into equity for Goodbye Kansas, thereby improving both solvency and earnings in the future as interest expenses do not burden the business. Collaborative projects between parts of Bublar and Goodbye Kansas against large international companies show new interesting and possible joint deals. We therefore believe that the new Bublar is on a more stable basis should the need arise to seek financing for growth and development projects or strengthen working capital.

We believe that there is significant global commercial potential in both the Bublar games and the IP projects that come with the acquisition. The development of the Hello Kitty game will burden the liquidity and earnings until commercial launch takes place. However, we cannot with certainty predict the revenue levels in the game projects. The revenue generation ability of the games and IP projects will also in the new structure directly affect the company's future capital needs.

The Board therefore considers it crucial that Goodbye Kansas can continue to operate with positive cash flows and that the games will be able to generate revenue. If revenues do not develop in accordance with the Board's assessments, Bublar would need to consider measures that save costs and/or additional capital raisings.

There is a substantial interest in investing in companies that develop applications and products based on XR technology and other visual technology solutions both among institutional and individual investors, which means that the Board considers the possibilities to obtain additional financing favourable. That situation can of course change not least because of events such as covid-19. We see the agreement after the quarter with Nice & Green as a sign that investor interest in the market continues to be there.

The Board of Directors has a mandate from the Annual General Meeting to issue shares and/or convertibles and/or warrants in order to handle the financing issue with flexibility.

Report calendar 2021

Year-end report 2020, Jan–Dec	February 25
Annual General Meeting	April 14
Interim report, Jan–March	May 20
Interim report, Jan–June	July 21
Interim report, Jan–Sept	November 10

Bublar's reports and annual report are available on www.bublar.com

Review

This report has not been reviewed by the company's auditor.

Stockholm, November 10, 2020

Board of Directors, Bublar Group AB (publ)

PROFIT & LOSS

Condensed Consolidated Income Statement

SEK Thousands	2020 Q3	2019 Q3	2020 Jan-sept	2019 Jan-sept	2019 Full year
REVENUE					
Net sales	48 437	3 977	101 023	11 818	17 081
Capitalized work for own account	3 481	-	11 972	-	1 000
Other operating income	596	177	2 563	519	491
Total income	52 514	4 154	115 558	12 337	18 572
OPERATING EXPENSES					
Other external costs	-32 626	-4 438	-69 066	-13 983	-21 393
Employee costs	-35 012	-6 742	-73 515	-20 612	-28 123
Earnings before depreciation and amortization (EBITDA)	-15 124	-7 025	-27 022	-22 258	-31 115
Depreciation and amortization	-13 643	-4 083	-28 834	-10 527	-14 629
Earnings before interest and tax (EBIT)	-28 767	-11 108	-55 857	-32 785	-45 744
FINANCIAL ITEMS					
Interest income	0	0	1	0	0
Interest expense	-1 541	-6	-4 640	-18	-27
Currency differences	-163	34	-82	88	101
Total financial items	-1 704	28	-4 721	70	-74
Profit after financial items	-30 471	-11 067	-60 578	-32 715	-45 669
Tax	0	-	0	-	-53
Deferred tax	-8	-4 744	-8	-4 744	-4 744
Profit/loss for the period	- 30 479	-15 811	-60 586	-37 459	-50 467

BALANCE SHEET

Consolidated Statement of Financial Position

SEK Thousands	20200930	20190930	20191231	20181231
ASSETS				
Intangible assets	212 624	63 610	61 032	57 725
Material assets	32 282	838	1 012	527
Long-term financial assets	357	609	353	4 908
Total non-current assets	245 264	65 058	62 397	63 489
Short-term receivables	60 470	8 604	6 534	9 503
Cash and cash equivalents	31 468	8 659	37 224	20 309
Total current assets	91 937	17 263	43 758	29 812
Total assets	337 201	82 320	106 155	92 972
EQUITY AND LIABILITIES				
Share capital	2 862	1 347	1 569	1 144
Unregistered share capital	-	-	-	28
Share premium and other equity	256 868	106 910	144 495	108 322
Retained earnings	-60 586	-37 459	-50 467	-25 121
Holdings w-out significant influence	1 641	-	-	-
Equity	200 345	70 798	95 597	84 373
Provision for taxes	330			
Long-term liabilities	26 099	1 512	1 371	122
Current liabilities	108 786	10 010	9 187	8 477
Total liabilities	134 885	11 522	10 558	8 599
Total equity and liabilities	337 201	82 320	106 155	92 972
Company mortgage	13 320	3 000	-	3 000
Contingent liabilities*	130 164	None	None	None

* represents mainly the lease for the office space

CASH FLOW

Consolidated Statement of Cash Flow

SEK Thousands	2020 Q3	2019 Q3	2020 Jan-sept	2019 Jan-sept	2019 Helår
OPERATING ACTIVITIES					
Income before taxes	-27 305	-11 068	-55 856	-32 697	-45 642
Adjustment for non-cash flow items	14 425	4 059	29 642	10 585	14 905
Interest income	-	-	1	-	-
Interest expense	-3 132	-	-4 722	-18	-27
Income taxes paid	42	7	659	-659	-1 364
Changes in working capital	-58 683	-484	7 605	3 685	5 612
Net cash from operated activities	-74 653	-7 486	-22 672	-19 097	-26 516
INVESTMENT ACTIVITIES					
Purchase of plant and equipment	-1 005	-48	-1 406	-509	-865
Purchase of group companies	-	-14 139	-124 668	-14 139	-14 139
Capitalisation of product costs	-9 417	-487	-18 829	-487	-2 106
Changes in investments and other assets	-	-	-	-454	-186
Net cash from investment activities	-10 442	-14 782	-144 903	-15 589	-17 296
FINANCING ACTIVITIES					
New share issue	58 050	23 859	164 270	23 887	61 709
Shareholder contribution	-	-	-	-	-
Proceedings from borrowings	-	19	-	19	19
Repayment of borrowings	-834	-125	-2 445	-875	-1 000
Net cash from financing activities	57 216	23 753	161 825	23 031	60 728
In-/decrease of cash	-27 859	1 485	-5 750	-11 655	16 916
Cash at the beginning of the period	59 331	7 169	37 224	20 309	20 309
Currency difference in cash holdings	-5	5	-7	5	-1
Cash at the end of the period	31 467	8 659	31 467	8 659	37 224

EQUITY

Consolidated Statement of Changes in Equity

SEK Thousands	Share capital	Other reserves incl. retained earnings	Total equity
Balance at January 1, 2019	1 144	83 229	84 373
Registration of share issue	28	-28	-
New share issue (cash and Sayduck)	175	23 263	23 438
New share issue october	221	40 235	40 456
Share warrants		437	437
Issue expenses		-2 674	-2 674
Currency translation differences		32	32
Net income		-50 467	-50 467
Balance at December 31, 2019	1 569	94 028	95 597
Balance at January 1, 2020	1 569	94 028	95 597
Net income		-60 586	-60 586
New share issue 2020	367	49 794	50 161
Non-cash issue, Goodbye Kansas Group	463	57 734	58 197
Non-cash issue, additional consideration 1	463	57 729	58 192
Issue expenses		-2 281	-2 281
Correction acquisition, Sayduck		2	2
Currency translation differences		1 063	1 063
Balance at September 30, 2020	2 862	197 483	200 345