



2023

FINANCIAL REVIEW

January-September 2023

modulight

All product development projects progressed, revenue developed weakly

The figures in brackets refer to the corresponding period of the previous year. This business review is unaudited.

Highlights in July–September 2023

- ❑ The R&D pipeline stayed on a record level, customer relationships and all product development projects progressed, and the number of customer meetings continued to grow.
- ❑ The potential of Modulight's technology was confirmed by a customer project that progressed to Phase 3 and by a study published in a top scientific publication.
- ❑ Revenue was EUR 406 (1,232) thousand. The weak revenue development was due to delays in some projects.
- ❑ EBITDA was EUR -2,537 (-1,342) thousand. Profitability was burdened by planned investments in developing and growing the company's operations.
- ❑ EBITDA margin was -624.8 (-108.9) % of revenue.
- ❑ Operating result (EBIT) was EUR -3,074 (-1,812) thousand.
- ❑ Operating result (EBIT) margin was -757.1 (-147.1) % of revenue.
- ❑ Earnings per share was EUR -0.07 (-0.05).

Highlights in January–September 2023

- ❑ In January 2023, Modulight received a pre-market approval (PMA) from the U.S. Food and Drug Administration (FDA) for its laser device for the treatment of wet age-related macular degeneration (AMD) in the United States.
- ❑ In May 2023, Modulight's Board of Directors decided on a new stock option program for key persons of the company. The options entitle holders to subscribe for a total of up to 500,000 new shares in the company or shares held by the company between 31 December 2025 and 31 December 2028.
- ❑ Revenue was EUR 3,006 (3,331) thousand.
- ❑ EBITDA was EUR -5,547 (-3,936) thousand. Profitability was burdened by planned investments in developing and growing the company's operations.
- ❑ EBITDA margin was -184.5 (-118.2) % of revenue.
- ❑ Operating result (EBIT) was EUR -7,072 (-5,292) thousand.
- ❑ Operating result (EBIT) margin was -235.3 (-158.9) % of revenue.
- ❑ Earnings per share was EUR -0.16 (-0.15).

Key figures

Group EUR 1,000 unless otherwise noted	7-9/2023	7-9/2022	1-9/2023	1-9/2022	1-12/2022 ¹⁾
Revenue	406	1,232	3,006	3,331	4,599
EBITDA	-2,537	-1,342	-5,547	-3,936	-5,936
EBITDA, %	-624.8%	-108.9%	-184.5%	-118.2%	-129.1%
Operating result (EBIT)	-3,074	-1,812	-7,072	-5,292	-7,792
Operating result (EBIT), %	-757.1%	-147.1%	-235.3%	-158.9%	-169.4%
Earnings for the period	-3,062	-1,948	-6,894	-6,318	-8,552
Earnings per share (EPS, EUR)	-0.07	-0.05	-0.16	-0.15	-0.20
Acquisition of fixed and intangible assets	-2,041	-3,670	-8,786	-8,834	-13,694
Free cash flow from operating activities	-4,578	-5,012	-14,333	-12,770	-19,630
Cash and cash equivalents ²⁾	28,323	48,005	28,323	48,005	43,870
Net debt ²⁾	-21,328	-39,451	-21,328	-39,451	-35,586
Gearing ratio ²⁾	-35.2%	-56.5%	-35.2%	-56.5%	-52.7%
Equity ratio ²⁾	87.9%	85.8%	87.9%	85.8%	86.3%
Headcount (FTE) ²⁾	70	61	70	61	62

¹⁾ Audited

²⁾ Figure refers to the end of the review period

Outlook for 2023

Modulight has not issued guidance for revenue or profitability in 2023. As the company's customer projects are still distributed across varying early stages of development, and predicting developments in the market remains challenging, it is difficult to forecast performance in 2023. However, the company expects that the macroeconomic and geopolitical uncertainty will still impact its financial performance in the short term.

Seppo Orsila, CEO

In the third quarter of the year, our revenue did not develop as expected. Nevertheless, all our projects progressed, although some slower than we would have hoped for. Customers' purchasing processes have slowed down and, for example, audits of information security processes delayed our pay per treatment (PPT) business model implementation. We believe this will have a financial impact during the next year. We still estimate that several product development projects have a significant business potential.

In the third quarter, we focused especially on projects based on the SaaS business model and on improving our productivity. Revenue amounted to EUR 0.4 million, while in the year before the corresponding figure was EUR 1.2 million. Our operating margin (EBITDA) decreased to EUR -2.5 million from EUR -1.3 million in the third quarter last year. Our costs have increased due to our investments in developing our operations, which is shown, for example, in the increased number of personnel and new product development projects. Most of the increase in costs is related to the commissioning of new production equipment acquired in accordance with our investment program. The share of these costs is decreasing, and the effects on profitability will be visible to some extent already during the current year – in their entirety, they will be visible next year.

Our R&D pipeline continues to have 27 projects in different stages, some of which are close to the commercialization phase. Overall, our R&D pipeline progressed well in the third quarter, and the synergy between different projects is constantly increasing. For example, our laser platform approved by the FDA in January is now also used in clinical trials of new indications. During the quarter, we filed one new patent application and identified a few new blanks that could lead to patents.

Research projects are long-term investments for our customers, so projects with experts in the field show confidence in Modulight's technology. One example of this is our customer project that has been going on for 10 years and that has progressed to a Phase 3 clinical trial phase with a large population. We also consider it proof of confidence that the customer has chosen our technology for their new indications based on the long experience. This confirms the potential of our technology as a generic solution in the treatment of various cancers. Positive progress is also illustrated by the fact that the transition to a pay per treatment model has been agreed with a client already in the clinical trial phase.

Further confirmation of the potential of our technology came from a study that was impressively published in Science Advances, a top scientific publication. A study conducted in collaboration with the University of Maryland demonstrates the benefits of our ML7710 laser device not only in treating cancer patients, but also in prolonging drug lifespan. Extending the lifespan of existing medicines and

expanding their use to new indications is a very significant part of pharmaceutical companies' business. We talked about this already two years ago, and now we have one more important scientific proof. Our cooperation with the University of Maryland continues on several fronts. Among other things, an FDA-funded project is underway to validate Modulight's solution for quality assurance of other drugs and markers used in photoimmunotherapy and fluorescent imaging.

With FDA's market approval, our goal is to expand our business in the United States, and our plans are progressing well in this regard. We have actively continued our customer visits and hired a Sales Director responsible for the North American market, who will start in his position at the turn of the year.

Due to global challenges, our own semiconductor factory is an increasingly valuable contributor to the growth we are aiming for and reducing the impact of global challenges on our business. Thanks to our independence, we can manufacture exactly the laser equipment that our customers need. We believe that supply chain security is an increasingly important issue for our customers.

We will continue to actively develop SaaS business models and promote the transition to pay per treatment pricing, as using our treatment with this pricing model can reduce the total cost of treatment in addition to other benefits it brings to patients. We will focus on implementing actions in line with our growth strategy and believe that our business will return to strong, profitable growth.

Progress of the R&D pipeline

The R&D pipeline, which the company considers the most important measure of its progress, stayed on the level of the second quarter of 2023, and at the end of September 2023, Modulight had a total of 27 (26) projects related to individual indications and applications. All product development projects progressed, but some projects progressed slower than expected. The company estimates that the revenue potential from several projects in the pipeline is significant. The company has identified a promising opportunity to accelerate its cloud strategy in the short term based on U.S. clinician feedback.

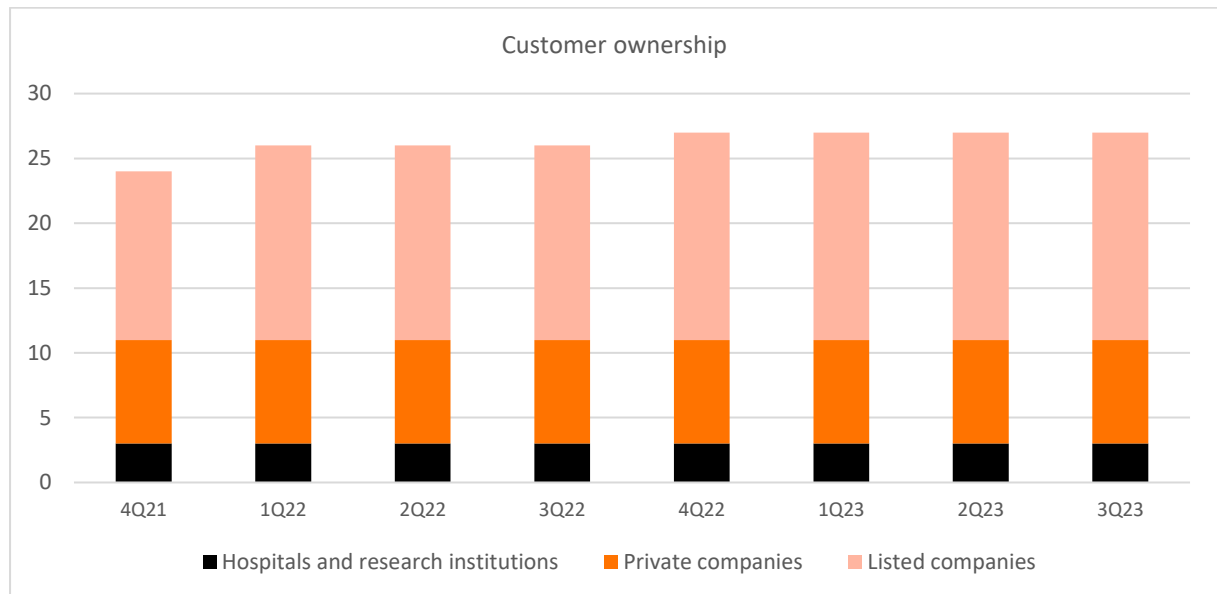
Ongoing projects in the R&D pipeline progressed well in the first nine months of the year. A concrete indication of the progress of the R&D pipeline was the pre-market approval received in January 2023 for a laser device for the treatment of wet age-related macular degeneration (AMD) in the United States. The FDA pre-market approval is also of great importance to the company's cloud strategy. In addition, the clinical study of treatment of glioblastoma continued to recruit patients also during the third quarter of the year. The company's new growth strategy also produces projects that are estimated to have significant short-term potential.

Several customers have progressed with their projects. This was reflected in a significant number of installed medical laser systems in the US.

	2019				2020				2021				2022				2023		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Total number of projects*	12	12	13	13	13	13	15	16	16	20	22	24	26	26	26	27	27	27	27

* To be listed here, a project needs to fulfill strict criteria related to its potential for commercial roll-out and to fit the company strategy and technological focus areas. In addition to the official projects listed in the above table, Modulight continues to work on several other initiatives, and eventually, some of these are expected to mature into projects. Classifying projects into customer groups and including or excluding them from the R&D pipeline is not just the result of numerical analysis but ultimately a subjective process.

Additional information about Modulight's customers



Financial development

Revenue

July–September 2023

Revenue in the third quarter of the year was EUR 406 (1,232) thousand. The year-on-year change in revenue was EUR -826 thousand or -67.0%. The weak revenue development was due to delays in some projects.

January–September 2023

Revenue in January–September was EUR 3,006 (3,331) thousand. The year-on-year change in revenue was EUR -325 thousand or -9.8%. The weak revenue development was due to delays in some projects.

Profitability

July–September 2023

EBITDA in July–September 2023 was EUR -2,537 (-1,342) thousand, or -624.8 (-108.9) % of revenue. Operating result (EBIT) was EUR -3,074 (-1,812) thousand, or -757.1 (-147.1) % of revenue. Earnings for the reporting period were EUR -3,062 (-1,948) thousand, and earnings per share were EUR -0.07 (-0.05). Profitability was burdened by planned investments in developing and growing the company's operations.

January–September 2023

EBITDA in January–September 2023 was EUR -5,547 (-3,936) thousand, or -184.5 (-118.2) % of revenue. Operating result (EBIT) was EUR -7,072 (-5,292) thousand, or -235.3 (-158.9) % of revenue. Earnings for the reporting period were EUR -6,894 (-6,318) thousand, and earnings per share were EUR -0.16 (-0.15). Profitability was burdened by planned investments in developing and growing the company's operations.

On September 30, 2023, the total amount of trade receivables was EUR 926 (5,393) thousand. The company considers risks related to trade receivables as reasonable.

Shares and shareholders

Modulight has one class of shares, and all shares have the same voting rights and the right to a dividend and the company's assets. On September 30, 2023, the number of the company's shares was 42,616,936 (42,616,936). At the end of the reporting period, the company owned 51,123 (0) of its own shares.

Financial reporting in 2024

Modulight will publish its financial reporting schedule for 2024 in December 2023.

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Modulight in brief

Modulight Corporation is a biomedical laser company that designs and manufactures products for oncology, ophthalmology and genetics. The company also provides solutions for selected high value-add applications including quantum computing and digital press. The company's products include medical devices, subsystems, software, cloud services and specialized semiconductors. Modulight's products are used worldwide by many Fortune 500 companies, pharmaceutical companies, and well-known cancer centers and universities. Modulight was founded in 2000 and is headquartered in Tampere, Finland. www.modulight.com

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