

# 1Q22

January - March 2022

**BUSINESS REVIEW**

**modulight**

A man's torso is shown from the chest up, facing forward. Overlaid on his body is a white wireframe grid. In the chest area, there are two glowing, semi-transparent anatomical structures, possibly lungs or heart chambers, outlined in red and blue. A red line extends from the 'modulight' logo at the bottom left, pointing towards the glowing structures in the chest.

# Good progress with project pipeline and investments, lower Q1 revenue and profitability

## January–March 2022 highlights

- ❑ Modulight continued to execute the growth strategy and invest in increasing its production capacity and improving other capabilities to realize the company's long-term potential.
- ❑ Two new projects were initiated during the quarter, bringing the total number of projects to 26 (16) - brain diagnostics and bladder cancer projects are examples of good progress within existing projects.
- ❑ Overall, good progress continued to be made with the project pipeline, despite prolonged delays, which continued to impact revenues. Especially therapy-related projects and onsite support services continue to be affected by COVID-19 related organization-specific policies limiting Modulight's as well as some of its customers' ability to conduct visits to necessary facilities.
- ❑ Profitability was impacted by lower revenue and higher level of operational costs driven by the implementation of the growth strategy.
- ❑ Revenues were EUR 1,601 (2,204) thousand
- ❑ EBITDA was EUR -418 (1,379) thousand
- ❑ Operating result (EBIT) was EUR -869 (1,128) thousand
- ❑ Operating result margin (EBIT) was -54 (51) % of revenue

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

## Outlook

Modulight has not issued guidance for revenue or profitability in 2022. 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 2022.

## Webcast

Modulight's CEO Seppo Orsila will present the result in an English-language webcast, which will be held on April 28, 2022 at 10:30 am. The broadcast can be followed at

<https://modulight.videosync.fi/2022-q1-results>. Questions are requested to be submitted in writing on the webcast portal. CFO Anca Guina is also present to answer questions.

Presentation materials will be available before the start of the event on the company's website at [www.modulight.com/reports-presentations/](http://www.modulight.com/reports-presentations/).

## Seppo Orsila, CEO

Modulight's first quarter in 2022 was twofold in terms of our performance. We continued to implement our investment program, made clear progress with existing projects and expanded our project portfolio by two to 26 significant projects. We received orders from new large enterprises, including two Fortune 500 companies, one of which is among the largest pharmaceutical companies in the world and another is a large company developing quantum computers. Both of these wins highlight the recognition of Modulight's expertise and the broadening potential of the company's technology platforms. They also support our future sales by providing new tier-1 customer references. As emphasized previously, the evolution of our product development pipeline is Modulight's most important strategic performance indicator.

The number of new indications and applications our technology can be applied to has increased faster than we anticipated. This creates a solid foundation for the coming years. On the other hand, the USD 3.9 million purchase order we announced after the period-end in April is a great demonstration of progress within our existing projects.

That said, our quarterly revenue and profitability were lower than during the previous year. Revenue was EUR 1,601 (2,204) thousand and EBITDA was EUR -418 (1,379) thousand. Profitability reflected the lower level of revenue as well as Modulight's primarily fixed cost base. Our costs are now at a significantly higher level compared to the previous year, as we have continued to accelerate the execution of our growth strategy. In addition to business and cost-related drivers, the first quarter's revenue and profitability were also affected by the Board's earlier (March 15, 2022) decision to write off certain receivables, which directly impacted also 1Q22 figures (for more information, see "Write-off related to trade receivables").

As previously emphasized, significant variation in quarterly revenue is to be expected in the short term. In our line of business, sales cycles are typically very long, ranging often from six months to two years. Also, both positive and negative changes in the operating environment – for example Covid-19 related changes in restrictions, corporate policies, geopolitical risks or individual behavior – can take several months to be reflected in our business performance.

After the emergence of the omicron variant, COVID-19 related restrictions on on-site visits have become increasingly unpredictable. This has affected especially the support we can provide for clinical trials and thus their progress. Rules may differ within the same project and between hospitals and companies, or often vary from one week to the next. This has led to a number of research projects being repeatedly delayed. These same limitations affect authorities, whose role is critical in medical projects. The limitations frustrate also our customers, who typically are keen to continue working on our projects. On the other hand, we see that in less regulated projects related to e.g. diagnostics we have been able to progress better and these now account for a larger share of the revenue. Many customers have also grown accustomed to Zoom meetings and are not limited in their traveling.

We continue making solid progress on many fronts. We remain committed to increasing both our production capacity as well as other capabilities through our investment program. Our investments are on track and within the budget. In fact, we have been able to take advantage of the temporarily lowered demand for certain specialized equipment caused by recent global turmoil, and negotiate better prices. These investments will bear fruit for 20 years. We have expectedly continued to successfully attract new talent, especially for analytics and software engineering. This should help us to continue tapping into the significant opportunities in the market. We continue to target a high rate of revenue growth, and given our high gross margins, growth should also enable us to retain our historically high degree of profitability.

## Key figures <sup>1)</sup>

(EUR 1,000)	1-3/2022	1-3/2021	Change	1-12/2021 <sup>2)</sup>
Revenue	1,601	2,204	-27.4 %	9,071
EBITDA	-418	1,379	-130.3 %	461
EBITDA-%	-26.1%	62.6 %	-77.0 %	5.1 %
Operating result (EBIT)	-869	1,128	-177.0 %	- 753
Operating result (EBIT), % of revenue	-54.3 %	51.2 %	-93.8 %	-8.3 %
Earnings from the period	-1,224	877	-239.6 %	-5,061
Earnings per share (EUR)	-0.03	0.03	-200.7 %	-0.15
Acquisition & scrapping of fixed and intangible assets	-3,628	-815	345.3 %	9,617
Free cash flow from operating activities	-4,046	564	-817.1 %	-9,156
Cash & cash equivalents (at the end of the period)	58,185	1,615	3,502.0 %	62,978
Net debt	-48,968	4,749	-1,131.2%	-53,415
Gearing ratio	-65.4 %	44.7 %	-109.9 %	-70.1 %
Equity ratio	86.6 %	50.0 %	36.7 %	87.0 %
Staff at the end of period average (FTE)	55	44	25.0 %	52

<sup>1)</sup> Unaudited

<sup>2)</sup> Audited

## Progress of the product development pipeline

Good progress continued with the product pipeline, which the company considers the most important measure of its progress. During the quarter, two new significant projects were initiated. One of these is related to developing new treatments for lung cancer with one of the five largest pharmaceutical companies in the world. In both of these projects, the customer is a publicly listed company. Both projects highlight the recognition of Modulight's expertise and the broadening potential and diverse usability of the company's technology platforms, as well as further support Modulight's sales by providing new tier-1 customer references. At the end of the first quarter, Modulight had a total of 26 projects (16) related to individual indications and applications. Generally, the projects have significant

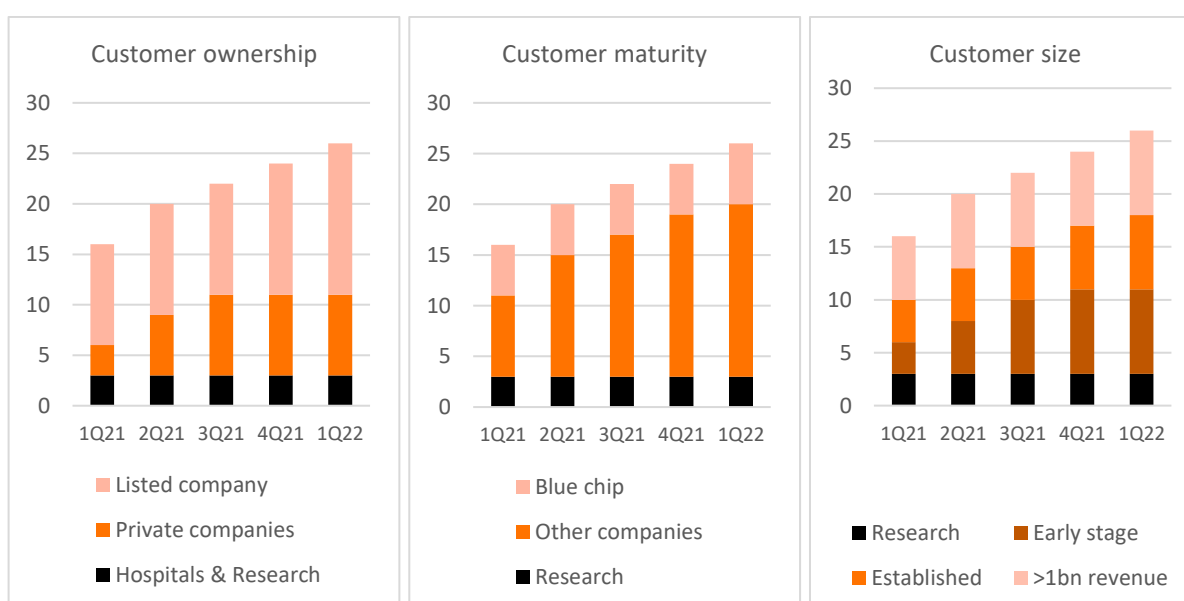
synergies with each other. Good examples of the progress of existing projects include our projects on brain diagnostics and bladder cancer.

As previously communicated, Modulight is currently approaching the regulatory approval phase for a new eye photodynamic therapy (PDT) laser in partnership with a major pharmaceutical company listed on the New York stock exchange. Modulight currently expects to receive FDA approval during 2022. After the period-end in April, the FDA officials made their first audit-related visits to the company headquarters in Tampere.

	2019				2020				2021				2022
	1Q	2Q	3Q	Q1	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	Q1
Total number of projects*	12	12	13	13	13	13	15	16	16	20	22	24	26
Number of new projects* (compared to the previous quarter)	0	0	1	0	0	0	2	1	0	4	2	2	2

\* To be listed here, a project needs to fulfill strict criteria related to its potential for commercial roll-out as well as 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 mature into projects.

## More information about our customers





# Financial development

## Revenue

Revenue for January-March was EUR 1,601 (2,204) thousand. Especially therapy-related projects continue to be affected by COVID-19 related organization-specific policies limiting Modulight's and customers' ability to conduct visits to necessary facilities. The new phase in the pandemic, which started with the emergence of the omicron variant, has made customer-specific on-site and traveling restrictions increasingly unpredictable, causing prolonged delays in certain projects. Other projects, for example related to diagnostics, have been less impacted.

Modulight continues to see significant mid- and long-term demand in the market for Modulight's expertise and technology, and all project-related work during the quarter continued to be aimed at the targeted extensive commercializations. However, most of Modulight's current revenues come from projects related to early-phase product development with customers. Invoicing is tied to the progress of project milestones, and, especially in life sciences, there is significant uncertainty associated with each intermediate phase. Due to these factors, significant seasonal and sequential variation in quarterly revenue is to be expected before Modulight enters the commercial stage with one or more of its products. The recent USD 3.9 million (approx. EUR 3.6 million) purchase order from an existing customer (announced after period-end on 20 April 2022) is an example of how revenue flows are gradually maturing. Geopolitical risks and the uncertainties associated with the pandemic, as well as their development, cause uncertainty in our business, especially if we are unable to physically meet our customers and meeting opportunities are delayed contrary to our expectations.

## Profitability

EBITDA for January-March was EUR -418 (1,379) thousand, and -26.1 % (62.6) of revenue. The operating result (EBIT) was EUR -869 (1,128) thousand, and -54.3% (51.2) of revenue. The lower level of profitability was the result of a lower level of revenue, increased operational costs and the EUR 0.5 million write-off (see below).

Since the comparison period, Modulight has determinedly continued to implement its growth strategy which has increased total salaries, marketing costs and costs for external services, mainly related to rented workforce. Depreciations increased by EUR 200 thousand from the comparison period, and amounted to EUR 451 thousand during January-March, due to newly acquired equipment taken into use. The increased operating costs are in line with the company's plans. Earnings for the period were EUR -1.224 (877) thousand, and Earnings per share (EPS) were EUR -0.03 (0.03).

## Write-off related to trade receivables

As previously communicated, on 15 March 2022, the company announced it had recorded a EUR 4.0 million write-off of trade receivables related to certain customers for the year 2021. In line with this earlier decision, the company has now recorded a EUR 0.5 million write-off related to receivables accumulated from the same customers prior to the decision, between 1 January and 15 March 2022.

As previously communicated, write-offs have been executed due to the increased risks related to debt collection, while the related projects continue. Management considers continuing these projects to be in the best interest of Modulight. To ensure prudent accounting, after 15 March 2022 all sales to these customers have been recognized as revenue only based on cash received. In all other cases, revenue recognition is based on deliveries or reaching certain specified project milestones.

On 31 March 2022, the total amount of trade receivables was EUR 5,412 thousand (EUR 7,489 thousand). The company considers risks related to trade receivables as reasonable.

## Events after the reporting period

### Proposals of the Shareholders' Nomination Board

On 4 April 2022, the Shareholders' Nomination Board of Modulight submitted its proposal on the composition and remuneration of the Board of Directors to the Annual General Meeting 2022 to be held on May 2, 2022.

### Notice to the Annual General Meeting

On 11 April 2022, Modulight published the Notice to the Annual General Meeting to be held on Monday, 2 May 2022, at 2:00 p.m. at Hermiankatu 22, 33720 Tampere. The company's shareholders and their proxy representatives may participate in the meeting and exercise their shareholder rights only by voting in advance and by submitting counterproposals and questions in advance. Shareholders may not attend the meeting in person. More information is available on the company website at <https://www.modulight.com/agm2022/>.

### Modulight receives a 3.9 million US dollar purchase order

On 20 April 2022, Modulight announced the company had received a purchase order from an existing neurology customer. The customer's application is in the field of diagnostics, while Modulight has already other customers using the same technology for the treatment of brain cancer. The customer is a private US company. The total value of the order is 3.9 million US dollars (approx. EUR 3.6 million).



Monthly deliveries are planned for the period 3Q22 – 2Q23 and the order is recognized as revenue based on the deliveries during this period.

## Financial reporting in 2022

During the year 2022, Modulight will publish the financial information as follows:

- ❑ 1H22 Half-year Financial Report (1-6/2022): 19 August 2022
- ❑ 3Q22 Business review (1-9/2022): 20 October 2022

## Annual General Meeting 2022

The Annual General Meeting will be held on 2 May 2022. More information is available on the company website at <https://www.modulight.com/agm2022/>.

Tampere, 28 April 2022

Board of Directors

Modulight Corporation

## For further information, please contact:

CEO: Seppo Orsila m. +358 40 830 4671

IR: Ulla Haapanen m. +358 40 830 4676

Email: [ir@modulight.com](mailto:ir@modulight.com)

Certified Adviser: Danske Bank A/S, Finland Branch, m. +358 40 414 5358

[www.modulight.com](https://www.modulight.com)

Twitter: [@modulight](https://twitter.com/modulight)

## 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, international pharmaceutical companies, and well-known cancer centers and universities. Modulight was founded in 2000 and is headquartered in Tampere, Finland. [www.modulight.com](https://www.modulight.com)

**modulight**

[www.modulight.com](http://www.modulight.com)