

ellipticlabs

2023

Q1 Report (Unaudited)

AI Virtual Smart Sensor Platform™



Proximity



Presence



Distance



Gesture



Positioning



Connection



Breathing



Heartbeat

Q1 2023 Highlights

Elliptic Labs delivers revenue of mNOK 4.0 in the first quarter 2023, a decline compared to mNOK 5.5 in the same period last year. At the same time, the company experiences strong commercial traction and has launched on three smartphone models and 17 laptop models to date in 2023.

Elliptic Labs has strong continued commercial traction in both the smartphone and the PC vertical.

Highlights from Q1 2023:

- Signed software license contract with new Top-5 smartphone OEM
- Signed first Proof of Concept (PoC) for new operating system (OS) with existing customer in the PC-market
- AI Virtual Human Presence Sensor launches on ThinkPad X and T Series laptops, a total of 9 models
- First launch on a foldable smartphone Transsion Tecno Phantom V Fold
- Signed software license contract with another top-5 Smartphone OEM customer for foldable phone.
- Elliptic has now contracts with 3 of the Top-5 smartphone OEMs

Subsequent to Q1 2023:

- Launch with new customer, Vivo
- AI Virtual Human Presence Sensor launches at 8 ThinkPad P Series Mobile Workstations, bringing the total launched models for Lenovo with AI Virtual Human Presence Sensor in 2023 to 17 models
- Launch new smartphone with existing customer Xiaomi

Revenues from contracts with customers of mNOK 4.0 (5.5) for the First Quarter 2023 an -27% decrease. The decrease in Q1, was a result of lower volumes and the general macro environment in both core verticals and decreasing end-user demand, that delayed time to market for units using AI Virtual Smart Sensors. As we are early in the market on few PC models we expect lumpiness quarter to quarter in the near-term.

Outlook

Successful expansion into the PC/laptop market supports Elliptic Labs' long-term growth ambitions. While customers in both the smartphone and PC/laptop markets currently face uncertain near-term demand, there is a growing trend among PC customers to incorporate Elliptic Labs' products into more of their models. This ongoing expansion is expected to contribute to additional revenue in the long run. As a result, the company sets its sights on achieving a revenue target of NOK 500 million in the 2024-25 period.

Message from the CEO

In the first quarter, despite facing market headwinds, our AI software-based sensor platform gained significant market momentum. We launched our platform on nine new Lenovo laptop models, and we signed new customer contracts with two of the top-five smartphone OEMs. We eagerly await these activities to reflect in our revenue figures. Our continued success in gaining more customers in both the smartphone and PC markets leaves us well-positioned to achieve widespread adoption.

Looking back on the first quarter, we can say with confidence that Elliptic Labs is better positioned than ever before. Our expertise in Artificial Intelligence (AI), ultrasound, and sensor fusion has been highly valued by leading global partners and customers. This shared vision has allowed us to establish strong, long-term relationships with key market players. While we remain cautious on the macroeconomic outlook, we are focused on what we can control such as consistently delivering high-performing AI Virtual Smart Sensors and creating new products closely aligned with customers and partners.

Only one year ago, we launched our AI Virtual Human Presence Sensor on Lenovo's best-selling ThinkPad T14 laptop, marking our entrance into an entirely new vertical. This collaboration was also a significant step for the PC-industry, marking the first time ever a PC/laptop was released with an AI software-only human presence detection solution. This success was followed by more model expansion contracts, including our recent announcement of eight additional models with Lenovo. We are now on a total of 18 models in the market. Moving forward, all these models are generating sales revenue per unit shipped for Elliptic Labs.

Currently we have signed enterprise license contracts with three of the top-five global PC manufacturers. Between Lenovo, HP, Dell, Apple, and ASUS, 223 million units were sold in 2022



Our launch on nine laptops in Q1 and acquisition of new smartphone customers have strengthened our position for long-term growth.

according to Gartner, making up 80% of the market. Competing hardware sensors are selling at a unit price in the range of \$2.5 to \$4.0, delivering only one feature — Human Presence Detection (HPD). Our AI Virtual Smart Sensor Platform offers not only software-only HPD, but also three other AI Virtual Smart Sensors ready for deployment in the PC/Laptop market. Our success is exciting, and yet it marks only the early stages of our entrance into this new market.

With our AI Software Platform's technological leadership, we have established close strategic collaborations with top management in leading PC companies. These companies are actively utilizing our AI Virtual Smart Sensor Platform to create unique user experiences and capabilities that go beyond our current and announced products. These initiatives are enterprise-wide, are highly visible throughout the organizations, and receive enthusiastic sponsorship from executive management. We are confident in our ability to become the market's de facto standard, revolutionizing devices to be greener, smarter, and more user-friendly. Our timing and circumstances align perfectly, giving us a significant advantage.

Financial summary for the Group's YTD Q1 2023 (unaudited)

Comparable amounts for Q1 2022 are presented in parentheses.

Operating revenue

Total revenue and other operating income had a -27% decrease year-on-year to mNOK 4.0 in Q1 2023 (5.5). Total revenue and other operating income for First Quarter 2023 and 2022 only consist of revenue from licenses.

The decrease can be attributed to a combination of factors, including a downturn in our core verticals due to the broad macroeconomic conditions, decreasing end-user demand, and inventory stocking/destocking challenges. These factors have also caused delays in the market introduction of units equipped with AI Virtual Smart Sensors.

Operating expenses and EBITDA

Operating expenses amounted to mNOK 24.5 (19.0) in the First quarter 2023, excluding depreciation and amortization.

Employee benefits expenses amounted to mNOK 18.9 (13.9) in the First quarter 2023, including mNOK 3.0 (2.9) in expenses related to the Groups share option program. Other operating expenses was mNOK 5.5 (5.1).

The increase in Employee benefits expenses reflects additions of 7 FTEs vs. to First Quarter 2022 and the effect of salary increases in 2022. Other operating expenses reflect higher operational activities. Among other, increased travel activities in and to the US and Asia.

From Q1 2022 to Q1 2023 the company has added 7 FTE to a total of 72 employees.

As a result, the company reported an EBITDA of mNOK -20.4 in the First quarter 2023 (-13.4).

Operating profit (EBIT)

The Group generated in the First quarter 2023 an operating loss of mNOK -24.1 (-16.3).

Depreciation and amortization amounted to mNOK 3.7 (2.9) for the First quarter 2023. The increase mainly reflects higher amortization of patents and capitalized development intangibles.

Financial items

First quarter 2023 net financial items amounted to mNOK 5.7 (-1.2) The Group has limited amounts of debt thus the primary factor explaining changes in the Financial items is agio/disagio, due to currency fluctuation.

Profit/loss

First quarter loss before tax was mNOK -18.4(-17.5).

The tax was mNOK 3.5 (3.2), resulting in a loss after tax of mNOK -14.9 (-14.3) for the First quarter 2023.

Cash flow

The Cash flow from operating activities in First quarter was mNOK -16.6 (8.5), mainly due to the operating loss in the quarter, and negative change in current trade receivables and other accruals.

Cash flow from investing activities was mNOK -6.1 (-5.6) due to Capitalized development costs.

Cash flow from financing activities was mNOK -1.8 (-1.7) due to Repayments of current borrowings, Payments of lease liabilities, classified as financing activities and interests paid.

Cash and cash equivalents at the end of the period were mNOK 154.0 (219.3). The cash flow from operations is within management expectations.

Financing and debt

The Group's equity at quarter end was mNOK 314.0 (325.6 at year end 2022). The Group had Total non-current liabilities of mNOK 5.6 (6.5 at year end 2022) at the end of First quarter 2023.

Total non-current liabilities and Total current liabilities was mNOK 21.9 (23.7 at year end 2022) and continue to decline as the company repay its debt.

The Group maintains a sharp focus on expense and cash flows and navigates from a strong cash position mNOK 154.0 (178.2 at year end 2022).

Risks and uncertainty factors

Elliptic Labs strategy and growth ambitions require an adequate cash position to fund the R&D activities needed to drive the technology and product roadmaps forward. In addition, a strong balance sheet is required to be able to meet thresholds set by customers. Elliptic Labs' cash position was mNOK 154.0 at the end of Q1 2023, and the Board of Directors assess this as sufficient to carry out Elliptic Labs' business plans.

The global semi-conductor market, along with major global Original Equipment Manufacturers (OEMs), experiencing decrease in end-user demand, which has resulted in inventory imbalances affecting the entire value chain. The fallout is noticeably impacting our clients in the smartphone and laptop sectors. The company continues to monitor the situation

The war in Ukraine has currently no direct impact of Elliptic Labs current operations. The company continues to monitor the situation.

Elliptic Labs is exposed to foreign exchange risk, as revenues from contracts with customers almost entirely are nominated in USD and or EUR whereas the largest portion of operating expenses are in NOK. Changes in the NOK/USD/EUR may result in change in top line and may effect profit before tax on an annual basis.

Please see the annual report for walkthrough of other potential operational risk and financial risk.

Consolidated financial statements

Consolidated statement of comprehensive income

For the financial period ended 31 March 2023 and 2022, and 31 December 2022.

<i>(Amounts in 000 NOK)</i>	Notes	Q1 2023 (Unaudited)	Q1 2022 (Unaudited)	2022 (Audited)
Revenues from contracts with customers		4 050	5 516	52 062
Other operating income	8	—	—	—
Total revenue and other operating income	2	4 050	5 516	52 062
Employee benefits expenses		-18 939	-13 898	-62 802
Other operating expenses	3	-5 518	-5 059	-20 073
EBITDA	4	-20 407	-13 441	-30 814
Depreciation and amortization	4	-3 718	-2 868	-11 317
Operating expenses		-28 175	-21 825	-94 193
Operating profit		-24 126	-16 309	-42 131
Financial income		6 545	632	17 317
Financial expenses		-853	-1 792	-14 488
Net financial income/(expenses)		5 692	-1 161	2 829
Profit/(loss) before tax		-18 434	-17 469	-39 302
Income tax expense		3 537	3 176	6 303
Profit/(loss)		-14 897	-14 294	-32 999
Other comprehensive income:				
Foreign currency rate changes, may be reclassified to profit or loss		297	-32	416
Other comprehensive income, net of tax		297	-32	416
Total comprehensive income for the period		-14 600	-14 325	-32 583
Loss for the period is attributable to:				
Equity holders of the parent company		-14 600	-14 325	-32 583
Earnings per share outstanding*		-0.14	-0.14	-0.31
Earnings per share fully diluted*		-0.14	-0.14	-0.31

Consolidated statement of financial position

At 31 March 2023, 31 December 2022 and 31 March 2022 respectively

<i>(Amounts in 000 NOK)</i>	<i>Notes</i>	31/03/23 <i>(Unaudited)</i>	31/12/22 <i>(Audited)</i>	31/03/22 <i>(Unaudited)</i>
Non-current assets				
Deferred tax assets	7	72 374	68 837	65 710
Intangible assets	4	49 714	47 574	38 899
Right of use assets		1 636	2 256	2 232
Other non-current receivables		8 164	5 038	4 765
Total non-current assets		131 889	123 704	111 606
Current assets				
Current trade receivables		41 203	40 495	16 598
Other current receivables		8 869	6 905	9 500
Cash and cash equivalents	6	153 951	178 219	219 296
Total current assets		204 023	225 619	245 394
Total assets		335 912	349 324	357 000
Equity and liabilities				
Share capital		1 041	1 041	1 038
Other equity		312 969	324 581	330 319
Total equity		314 010	325 622	331 358
Non-current lease liabilities		558	523	530
Non-current borrowings		5 000	6 000	9 000
Total non-current liabilities		5 558	6 523	9 530
Current borrowings		4 000	4 000	4 000
Trade and other current payables		1 023	1 668	3 208
Current tax liabilities		—	—	—
Current lease liabilities		1 489	2 184	2 061
Other current liabilities		9 833	9 327	6 843
Total current liabilities		16 345	17 179	16 112
Total equity and liabilities		335 912	349 324	357 000

Consolidated statement of changes in equity

Attributable to owners of Elliptic Laboratories ASA.

2023 (Amounts in 000 NOK)	Share capital	Other paid in capital	Other equity	Translation reserve	Total equity
Shareholders' equity at 01.01.2023	1 041	345 514	-21 109	175	325 622
Profit (loss) for the period	—	—	-14 897	—	-14 897
Other comprehensive income for the period	—	—	—	297	297
Total comprehensive income for the period	—	—	-14 897	297	-14 600
<i>Transactions with owners:</i>					
Capital increase through issuance of ordinary shares	—	—	—	—	—
Transactions costs related to issuance of ordinary shares, net of tax	—	—	—	—	—
Employee share schemes	—	—	2 988	—	2 988
Shareholders' equity at 31.03.2023	1 041	345 514	-33 018	472	314 010
<i>Transactions with owners:</i>					
Capital increase through issuance of ordinary shares	—	—	—	—	—
Transactions costs related to issuance of ordinary shares, net of tax	—	—	—	—	—
Employee share schemes	—	—	2 914	—	2 914
Shareholders' equity at 31.03.2022	1 038	342 545	-11 953	-272	331 358

Consolidated statement of cash flows

For the financial period ended 31 March 2023 and 2022, and 31 December 2022.

(Amounts in 000 NOK)	(Unaudited) Q1 2023	(Unaudited) Q1 2022	(Audited) 2022
Cash flow from operating activities			
Profit/(loss) before tax	-18 434	-17 469	-39 302
Adjustment for:			
Taxes paid in the period	—	-2	745
Depreciation and amortization	3 718	2 868	11 317
Share-based payments	2 988	2 914	12 464
Items classified as financing activities	166	140	571
Change in current trade receivable	-708	12 427	-11 469
Change in trade payables	-645	179	-1 361
Change in other accruals	-3 715	7 395	14 276
Net cash flows from operating activities	-16 630	8 452	-12 758
Cash flow from investing activities			
Capitalized development costs	-6 092	-5 577	-23 327
Net cash flows from investing activities	-6 092	-5 577	-23 327
Cash flow from financing activities			
Payments of lease liabilities, classified as financing activities	-677	-558	-2 662
Repayments of current borrowings	-1 000	-1 000	-4 000
Proceeds from issuing shares	—	—	2 972
Payments for share issue costs	—	—	—
Interests paid, classified as financing activities	-166	-140	-571
Net cash flows from financing activities	-1 843	-1 698	-4 261
Net Change in Cash and Cash Equivalents	-24 565	1 177	-40 347
Cash and cash equivalents at the beginning of the period	178 219	218 151	218 151
Effect of foreign currency rate changes on cash and cash equivalents	297	-32	416
Cash and cash equivalents at the end of period	153 951	219 296	178 219

Notes to the consolidated financial accounts

Note 1 – Accounting principles

1.1 General information

Elliptic Laboratories ASA and its subsidiaries, Elliptic Laboratories Inc and Healthy Pointers AS (together "Elliptic Labs" or the "Group") develop and sell technical solutions, which enable the interaction and information exchanges between individuals and technical devices, based on ultrasound software technology. Such devices are mobile phones, laptops, devices within the IoT-market and various other devices that could deploy the Group's software technology to enhance the user experience. Investments in and cooperation with other companies are also part of the Group's purpose.

The domicile of the Group is Oslo, Norway. The Group's head office is at Akersgata 32, 0180 Oslo.

1.2 Summary of significant accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2.1 Basis of preparation

The First quarter consolidated financial statements of the Group have been prepared in accordance with IAS 34 for the financial reporting of the First quarter of 2023 and 2022.

The consolidated financial statements have been prepared under the historical cost convention, as modified by derivatives at fair value through profit or loss. This report has not been subject to audit.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

These consolidated financial statements have been prepared under the assumption of a going concern.

1.2.2 Operating revenues

Revenue from providing services is recognised in the accounting period in which the services are rendered.

Revenue from licenses which give a right to use is recognised at point in time and licenses which give a right to access is recognised over time. Royalty based revenue is recognised as sales occur when exceeding the minimum fixed fee.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost.

Some contracts include multiple performance obligations, such as an engineering service and the subsequent licensing of IP, which are accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Elliptic Laboratories exceed the payment, a contract asset or a receivable is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes a royalty for devices sold, revenue is recognised in the amount to which Elliptic Laboratories has a right to invoice.

1.2.3 Basis for loss provisions

When determining possible loss provision, the Group undertakes an individual assessment of each customer based on the size of the contract and various risk factors related to the customer's creditworthiness.

Note 2 – Total revenue and other operating income

Revenues from contracts with customers have the following distribution as recognized over time or at point in time:

(Amounts in 000 NOK)	Q1 2023	Q1 2022	2022
Revenue recognised over time			
Revenue recognised at point in time	4 050	5 516	52 062
Total revenue	4 050	5 516	52 062

Revenues from contracts with customers consists of two significant revenue streams:

License for IP and subsequent royalties are recognized at point in time when the software has been made available to the customer, and then in increments as minimum production thresholds are met if royalty-based revenue exceed the minimum fixed fee if any. For the financial year and 2022 and YTD2023, the majority of the contracts from which revenue was recognized were of the minimum fixed fee character. Starting But a growing share of reported revenue comes from royalties on shipped units, and is expected to increase going forward.

Development and testing of software (Proof of Concept) is considered as a separate performance obligation and is recognized over time based on the actual services provided to the end of the reporting period as a proportion of the total services to be provided. No such revenue has been recognized in 2022 or YTD 2023.

As at 31 March 2023 all recognized revenues are unconditional as the related performance obligations have been satisfied.

Other operating income consists in total of government grants, which are recognized over time on a systematic basis over the periods in which the entity recognizes expenses for the related costs for which the grants are intended to compensate.

Note 3 – Other operating expenses

(Amounts in 000 NOK)	Q1 2023	Q1 2022	2022
Sales and marketing expenses	1 959	1 304	5 385
Short-term lease expenses	385	199	966
Electricity, heating and other property expenses	527	266	1 399
Consultants	956	922	3 527
Auditor	418	330	1 087
Legal	145	693	1 361
Patents	351	96	578
IT/Software	798	903	4 430
Other expenses	81	436	1 782
Government grants recognized as other cost reduction	-103	-91	-441
Total other operating expenses	5 518	5 059	20 073

Note 4 - Intangible assets

2023 (Amounts in 000 NOK)	Patents	Trademark	Capitalized development	Total intangible assets
Cost at 01.01.2023	19 646	24	57 937	77 607
Additions	392		4 790	5 182
Cost at 31.03.2023	20 037	24	62 727	82 788
Accumulated amortization charges 01.01.2023	11 836	6	18 190	30 032
Amortization charges	144		2 897	3 041
Accumulated amortization charges 31.12.2022	11 980	6	21 087	33 073
Net booked value as at 31.03.2023	8 057	18	41 640	49 714
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

IFRS 16 Leases depreciation for the period 1 January to 31 March 2023 was TNOK 677.

2022 (Amounts in 000 NOK)	Patents	Trademark	Capitalized development	Total intangible assets
Cost at 01.01.2022	17 213	24	40 705	57 942
Additions	769	0	3 876	4 645
Cost at 31.03.2022	17 983	24	44 581	62 587
Accumulated amortization charges 01.01.2021	11 322	6	10 049	21 377
Amortization charges	114		2 195	2 310
Accumulated amortization charges 31.12.2021	11 436	6	12 244	23 687
Net booked value as at 31.03.2022	6 546	18	32 336	38 899
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

Note 5 – Share option programs

As of 31 March 2023, the Group has option programs that includes a total of 50 employees in parent and subsidiary companies. The employees must work in the Group to be entitled to exercise the options at the time of vesting.

As of 31 March 2023, the total number of outstanding options for both employees and management equal in shares were 5 147 273 whereas 2 840 785 were vested. The option program gives the employees the right to approx. 4,7% of total outstanding shares, including outstanding options.

The purpose of the establishment of the option programs is to attract and retain key personnel. The fair value of the options is calculated at the grant date, based on the Black-Scholes model, and expensed over the vesting period of 4 years.

The board of directors has decided that a long-term share option program whereas upward to 2,5% of outstanding shares may be distributed yearly to the employees and management. It is expected that distribution of options will happen after the Q1 2023 presentation.

Note 6 – Cash and cash equivalents

<i>(Amounts in 000 NOK)</i>	31.03.2023	31.12.2022
Cash and cash equivalents	153 951	178 219
Of which are restricted cash:		
Restricted bank deposits for employee tax withholdings	1 311	1 324
Not restricted cash	152 640	176 895

Note 7 – Estimates

The deferred tax assets include an amount of mNOK 72.4 which relates to carried forward tax losses of Elliptic Laboratories ASA. Elliptic Laboratories ASA has incurred the losses over the last several years mainly due to expenses relating to research and development of intangible assets which do not meet the capitalization criteria. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on profitability. Its scalable business model, entered into contracts with customers and expectations of future growth of business opportunities based on already established customer relations in several market verticals. Elliptic Laboratories ASA expects the carried forward tax loss to be utilized within a few years. The losses can be carried forward indefinitely and have no expiry date.

Note 8 – Government grants

The table below sets forth the treatment of government grants.

<i>(Amounts in 000 NOK)</i>	Q1 2023	Q1 2022	2022
Recognized as income from other sources	—	—	—
Reduction of capitalized patents	—	—	4
Reduction of capitalized development	910	932	3 659
Recognized as payroll cost reduction	175	164	646
Recognized as other cost reduction	103	91	441
Total government grants	1 188	1 188	4 750

Note 9 – Alternative performance measures (APMs)

Earnings before interest, taxes, depreciation and amortizations. EBITDA is a key performance indicator that the Group considers relevant for understanding the generation of profit before investments in fixed assets.

<i>(Amounts in 000 NOK)</i>	Notes	Q1 2023 (Unaudited)	Q1 2022 (Unaudited)	2022 (Audited)
Revenues from contracts with customers		4 050	5 516	52 062
Other operating income	8	—	—	—
Total revenue and other operating income	2	4 050	5 516	52 062
Employee benefits expenses		-18 939	-13 898	-62 802
Other operating expenses	3	-5 518	-5 059	-20 073
EBITDA	9	-20 407	-13 441	-30 814

Last twelve months (LTM) refers to the timeframe of the immediately preceding 12 months.

<i>(Amounts in 000 NOK)</i>	Q1 2023	Q4 2022	Q3 2022	Q2 2022	LTM
Revenues from contracts with customers	4 050	9 848	27 077	9 621	50 596
EBITDA	-20 407	-12 643	6 234	-10 964	-37 780

Note 10 – Subsequent events

On the 27th of April 2023, Elliptic Labs announced the First Launch with Vivo, a Leading Smartphone Manufacturer.

On the 5th of May 2023, Elliptic Labs announced it had signed a New Expansion Contract with an Existing Smartphone Customer.

On the 12th of May 2023, Elliptic Labs announced the Launch of its AI Virtual Human Presence Sensor™ on ThinkPad™ P Series Mobile Workstations.

The 19th of May 2023, it was announced that Elliptic Labs was Launching on Xiaomi's Latest Redmi Note 12S Smartphone.

In late April; A former client has failed to meet the agreed-upon payment of \$425.000USD for software delivered in 2022. Elliptic Labs deems the dispute as a breach of contract and has thus decided to pursue the payments through the ICC International Court of Arbitration as regulated in the contract.

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