

ellipticlabs

# 2021 Q3 Report (Unaudited)

## AI Virtual Smart Sensors



Heartbeat



Breathing



Proximity



Presence



Gesture



Connection

## Q3 2021 Highlights

Elliptic Labs, a global AI software company and leader in AI Virtual Smart Sensors for the smartphone, laptop, Internet of Things (IoT), and automotive industries, reports progress since Q3 last year, with total revenue and other operating income up from mNOK 7.1 Q3 2020 to mNOK 16.2 Q3 2021, a 127.6% increase YoY. YTD 2021 also sees an increase from the same period in 2020 from mNOK 17.5 to mNOK 28.4, a 62.4% increase. As previously disclosed, we foresee seasonality, and we expect revenue for 2H 2021 to be higher than 2H 2020. EBITDA has improved from Q3 2020 mNOK -6.2 to mNOK -0.4 Q3 2021, following the positive development in revenue. Similarly, the EBITDA improved from YTD 2020 mNOK -23.2 to mNOK -12.6 YTD 2021. Cash flow from operations is in line with expectations at mNOK -9.5 for the quarter.

The development is in line with management expectations and guidance, and we see increased demand for our software in multiple verticals.

Highlights from Q3 2021:

- Signed three new license agreements with current smartphone customers Xiaomi, Honor, and Black Shark
- Signed an enterprise license agreement with one of the top-three global PC manufacturers; on target for product launch
- Launched with the world's second-largest smartphone company, Xiaomi
- Announced collaboration with Maxime Integrated, Inc. to deliver lower-power sensing features

"In Q3, demand for our AI Virtual Smart Sensor Platform™ continued to strengthen as new and current customers chose to integrate and expand the use of our technology in their mass-volume product portfolios. Elliptic Labs signed several substantial new license agreements with current smartphone customers, as well as a solid enterprise license agreement with one of the top-three global PC manufacturers. We see accelerated interest in our unique platform solution to replace hardware sensor due inherent benefits of our core value proposition," said CEO Laila Danielsen. "We have continued to hire globally to capitalize on market demand, and we are confident we will continue to execute our customer contracts successfully. We maintain close collaborations with our partner eco-system, building our pipeline, signing more Proof-of-concept projects for technology qualification and having a strong focus on converting these into license agreements. We have an unique technology platform and are well positioned for growth."

We re-confirm our 2021 expectations, which are based on the robust demand for our AI software platform particularly across the smartphone and PC markets. We are excited about the opportunities ahead and confident in our long-term strategy as we continue to execute and scale with current and new customers.

**About Elliptic Labs:**

Elliptic Labs is headquartered in Norway with presence in the Europe, USA, China, South Korea, and Japan. Founded in 2006 as a research spin-off from Norway's Oslo University, it is now a global enterprise targeting the smartphone, laptop, IoT, and automotive markets. The Company's patented AI software combines ultrasound and sensor-fusion algorithms to deliver intuitive 3D gesture, proximity and presence sensing experiences. Its scalable AI Virtual Smart Sensor Platform creates software-only sensors that are sustainable, eco-friendly, and already deployed in hundreds of millions of devices. Elliptic Labs is the only software company in the market that has delivered detection capabilities using AI software, ultrasound, and sensor-fusion deployed at scale. Elliptic Labs' technology and IP are developed in Norway and solely owned by the Company.

## Financial summary for the Group's YTD Q3 2021 (unaudited)

Comparable amounts for Q3 2020 are presented in parentheses.

### Operating revenue

Consolidated revenue and other operating income for the YTD 2021 totaled NOK 28 367 thousand (NOK 17 471 thousand). The increase is primarily driven by strong growth in licenses, both increased sales to existing customers and new customers contributes to the growth.

### EBITDA

Year to date EBITDA is negative NOK 12 582 thousand (negative NOK 23 209 thousand). Strong focus on cost control and increased topline contributes to stronger EBITDA.

### Operating costs

Operating costs totaled NOK 47 165 thousand (NOK 44 751 thousand). Personnel expenses accounted for NOK 32 023 thousand (NOK 30 641 thousand). Increase in personnel contributes to higher personnel expenses.

### Operating profit/loss

The Group generated an operating loss of NOK 18 798 thousand (NOK 27 280 thousand).

### Financial items

YTD net financial expenses amounted to NOK 1 101 thousand (financial expense NOK 2 441 thousand).

### Profit/loss

The loss before tax was YTD NOK 19 898 thousand (NOK 29 722 thousand). Income tax expense was NOK -4 361 thousand (NOK -6 320 thousand), resulting in a loss of NOK 15 538 thousand (NOK 23 402 thousand).

### Cash flow

The cash flow from operating activities YTD is NOK -22 119 thousand (NOK -18 120 thousand). Cash flow from financing was NOK 139 458 thousand (NOK -3 584 thousand). Cash and cash equivalents at the end of the period were NOK 208 705 thousand (NOK 6 617 thousand). The cash flow from operations was within management expectations. The company completed a private placement of approx. mNOK 150 in September, which further strengthened the company cash position.

### Financing and debt

The Group's equity was NOK 321 320 thousand (NOK 59 252 thousand). The Group had total long-term liabilities of NOK 12 225 thousand (NOK 18 553 thousand). The Group

maintains a sharp focus on cost and cash flows and navigates from a strong and improved position. Elliptics strategy and growth ambitions require an adequate cash position to fund the R&D activities needed to drive the technology and product roadmaps forward together with a strong balance sheet to be able to meet the thresholds of our customers.

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

### **Going concern**

In accordance with the Accounting Act § 3-3a, the financial statements have been prepared under the assumption of going concern. This assumption is based on recent announced contracts, profit forecasts for the year 2021 and the Group's long-term strategic forecasts including funding. Regarding the COVID19 situation, we refer to Note 18 in the annual report 2020, and we remain positive about the future outlook for Elliptic Labs.

# Condensed financial information

## Consolidated income statement

For the financial period ended 30 September 2021 and 2020, and 31 December 2020.

<i>(Amounts in 000 NOK)</i>	<i>Notes</i>	<b>Q3 2021</b>	<b>Q3 2020</b>	<b>YTD 2021</b>	<b>YTD 2020</b>	<b>2020</b>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Revenues from contracts with customers		13 401	3 538	19 929	6 144	30 215
Other operating income	8	2 813	3 585	8 438	11 327	14 517
<b>Total revenue and other operating income</b>	2	<b>16 213</b>	<b>7 123</b>	<b>28 367</b>	<b>17 471</b>	<b>44 732</b>
Personnel expenses		-13 606	-9 414	-32 023	-30 641	-35 866
Other operating expenses	3	-2 985	-3 929	-8 927	-10 039	-13 529
<b>EBITDA</b>		<b>-377</b>	<b>-6 220</b>	<b>-12 582</b>	<b>-23 209</b>	<b>-4 663</b>
Depreciation and amortisation	4	-2 083	-1 355	-6 215	-4 071	-5 439
<b>Operating costs</b>		<b>-18 673</b>	<b>-14 698</b>	<b>-47 165</b>	<b>-44 751</b>	<b>-54 834</b>
<b>Operating profit</b>		<b>-2 460</b>	<b>-7 575</b>	<b>-18 798</b>	<b>-27 280</b>	<b>-10 102</b>
Financial income		590	1 215	1 708	1 315	1 852
Financial expenses		-788	-1 947	-2 808	-3 756	-7 307
<b>Net financial income/(expenses)</b>		<b>-198</b>	<b>-732</b>	<b>-1 101</b>	<b>-2 441</b>	<b>-5 455</b>
<b>Profit before tax</b>		<b>-2 658</b>	<b>-8 307</b>	<b>-19 898</b>	<b>-29 722</b>	<b>-15 557</b>
Income tax expense		567	1 619	4 361	6 320	3 047
<b>Profit/(loss)</b>		<b>-2 091</b>	<b>-6 688</b>	<b>-15 538</b>	<b>-23 402</b>	<b>-12 510</b>
Foreign currency rate changes, may be reclassified to profit or loss		48	-50	51	134	-47
<b>Total comprehensive income for the period</b>		<b>-2 043</b>	<b>-6 738</b>	<b>-15 486</b>	<b>-23 268</b>	<b>-12 557</b>
Loss for the period is attributable to:						
Equity holders of the parent company		-- 2043	-6 738	-15486	-23 268	-12 557
Earnings per share outstanding		-0.02	-0.08	-0.16	-0.27	-0.14
Earnings per share fully diluted		-0.02	-0.08	-0.16	-0.27	-0.14

Earnings per share for all periods is updated to reflect share split in ratio 1:10 in September 2021.

## Consolidated statement of financial position

At 30 September 2021, and 31 December 2020 respectively

<i>(Amounts in 000 NOK)</i>	Notes	<b>30/09/21</b> (Unaudited)	<b>31/12/20</b> (Audited)
<b>Non-current assets</b>			
Deferred tax assets	7	66 129	59 807
Intangible assets	4	32 109	28 241
Right of use assets		3 348	5 023
Other non-current receivables		4 315	4 050
<b>Total non-current assets</b>		<b>105 902</b>	<b>97 121</b>
<b>Current assets</b>			
Accounts receivable		10 468	427
Other current receivables		23 599	21 451
Cash and cash equivalents	6	208 705	99 724
<b>Total current assets</b>		<b>242 772</b>	<b>121 601</b>
<b>Total assets</b>		<b>348 674</b>	<b>218 722</b>
<b>Equity and liabilities</b>			
Share capital		1 031	958
Other equity		320 289	187 146
<b>Total equity</b>		<b>321 320</b>	<b>188 104</b>
Lease liabilities		1 225	3 002
Bank borrowings, long-term		11 000	14 000
<b>Total long-term liabilities</b>		<b>12 225</b>	<b>17 002</b>
Bank borrowings, short-term		4 000	4 000
Trade and other payables		1 770	989
Tax payable		304	205
Current lease liabilities		2 433	2 203
Other short-term liabilities		6 621	6 219
<b>Total current liabilities</b>		<b>15 128</b>	<b>13 616</b>
<b>Total equity and liabilities</b>		<b>348 674</b>	<b>218 722</b>

## Consolidated statement of changes in equity

Attributable to owners of Elliptic Laboratories AS.

<b>(Unaudited)</b> <b>2021 (Amounts in 000 NOK)</b>	<b>Share capital and premium</b>	<b>Paid in equity</b>	<b>Other equity</b>	<b>Foreign currency rate differences</b>	<b>Total equity</b>
<b>Shareholders' equity at 01.01.2021</b>	<b>958</b>	<b>174 643</b>	<b>12 802</b>	<b>-299</b>	<b>188 104</b>
Profit (loss) for the period	0	0	-15 538	0	-15 538
Other comprehensive income for the period	0	0	0	51	51
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>-15 538</b>	<b>51</b>	<b>-15 486</b>
<i>Transactions with owners:</i>					
Capital increase through issuance of ordinary shares	73	152 084	0	0	152 157
Transactions costs related to issuance of ordinary shares, net of tax	0	-6 646	0	0	-6 646
Employee share schemes	0	0	3 191	0	3 191
<b>Shareholders' equity at 30.09.2021</b>	<b>1 031</b>	<b>320 081</b>	<b>456</b>	<b>-248</b>	<b>321 320</b>

The 8<sup>th</sup> of September the company completed a private placement at a subscription and sale price of NOK 223 per share, correspond to a capital increase of approx. mNOK 150 and an issue of issue 672 646 new shares. New share capital after the placement is NOK 1 031 400.70 and total number of shares: 10 314 007, subsequently split 1:10

<b>(Unaudited)</b> <b>2020 (Amounts in 000 NOK)</b>	<b>Share capital and premium</b>	<b>Paid in equity</b>	<b>Other equity</b>	<b>Foreign currency rate differences</b>	<b>Total equity</b>
<b>Shareholders' equity at 01.01.2020</b>	<b>875</b>	<b>70 323</b>	<b>9 086</b>	<b>-252</b>	<b>80 033</b>
Profit (loss) for the period	0	-23 402	0	0	-23 402
Other comprehensive income for the period	0	0	0	134	134
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>-23 402</b>	<b>0</b>	<b>134</b>	<b>-23 268</b>
<i>Transactions with owners:</i>					
Contributions of equity net of transaction costs and tax	0	0	-103	0	-103
Capital increase through issuance of ordinary shares	0	40	0	0	40
Employee share schemes	0	0	2 550	0	2 550
<b>Shareholders' equity at 30.09.2020</b>	<b>875</b>	<b>46 962</b>	<b>11 533</b>	<b>-118</b>	<b>59 252</b>



## Consolidated statement of cash flows

For the financial period ended 30 September 2021 and 2020

Amounts in 000 NOK	(Unaudited) YTD 2021	(Unaudited) YTD 2020
Cash flow from operating activities		
<b>Profit/(loss) before tax</b>	<b>-19 898</b>	<b>-29 722</b>
<i>Adjustment for:</i>		
Taxes paid in the period	12	-501
Depreciation and impairment	6 215	4 071
Option based payments	3 191	2 550
Items classified as financing activities	505	1 984
Change in accounts receivable	-12 190	1 561
Change in trade payables	781	1 974
Change in other accruals	-735	-37
<b>Net cash flows from operating activities</b>	<b>-22 119</b>	<b>-18 120</b>
Capitalized development costs	-8 410	-7 687
<b>Net cash flows from investing activities</b>	<b>-8 410</b>	<b>-7 687</b>
Repayment of lease liabilities	-1 674	-1 537
Repayment of bank borrowings, short-term	-2 000	0
Paid in capital from owners	152 157	40
Transaction cost listing	-8 520	-103
Payment of interests from bank borrowings	-505	-1 984
<b>Net cash flows from financing activities</b>	<b>139 458</b>	<b>-3 584</b>
Net Change in Cash and Cash Equivalents	108 929	-29 391
Cash and cash equivalents at the beginning of the period	99 724	35 873
Effect of foreign currency rate changes on cash and cash equivalents	51	134
<b>Cash and cash equivalents at the end of period</b>	<b>208 705</b>	<b>6 617</b>

# Notes to the condensed consolidated financial statements

## Note 1 – Accounting principles

### 1.1 General information

Elliptic Laboratories AS and its subsidiaries (together "Elliptic Labs" or the "Group") develop software that generates and interprets ultrasound using only existing device hardware. The Group targets smartphones, PC market and "Internet of Things" (IoT) devices, enabling bezel-less design, intuitive 3D gesture recognition, and touchless or presence sensing. Investments in and cooperation with other companies are also part of the Group's purpose.

The of Elliptic Labs 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 third quarter consolidated financial statements of the Group have been prepared in accordance with IAS 34 for the financial reporting of the third quarter of 2021 and 2020.

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 been subject to audit.

The accounting policies applied in this report are consistent with those applied and described in the 2020 annual report.

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

#### 1.2.2 Operating revenues

Revenue from providing services is recognized in the accounting period in which the services are rendered. Revenue from licenses which give a right to use is recognized at point in time and licenses which give a right to access is recognized over time. Royalty based revenue is recognized as sales occur when exceeding the minimum fixed fee.

For fixed-price contracts, revenue is recognized 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 deliverables, such as the license for the IP and subsequent royalties for units sold. It is accounted for as a separate performance obligation. 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 the 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 Labs exceed the payment, a contract asset is recognized. If the payments exceed the services rendered, a contract liability is recognized.

If the contract includes a royalty for sold smart phones, revenue is recognized in the amount to which Elliptic Labs 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 – Revenue from contracts with customers

Revenue from contracts with customers is set forth in the table below.

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.

(Amounts in 000 NOK)	Q3 2021	Q3 2020	YTD 2021	YTD 2020	2020
Revenues recognised over time	0	0	4 809	0	441
Revenue recognised at point in time	13 401	3 538	15 120	6 144	29 774
<b>Total revenue</b>	<b>13 401</b>	<b>3 538</b>	<b>19 929</b>	<b>6 144</b>	<b>30 215</b>

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 years 2021 and 2020, the majority of the contracts from which revenue was recognized were of the minimum fixed fee character.

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.

As of 30.09.2021, the majority of all contracts were completed, with some performance obligations expected to be fully satisfied in Q4. At 30.09.2020, all contracts were completed and performance obligations were fully satisfied.

### Note 3 – Other operating expenses

(Amounts in 000 NOK)	Q3 2021	Q3 2020	YTD 2021	YTD 2020	2020
Sales and marketing expenses	995	872	3140	2 407	3 734
Short-term lease expenses	162	144	513	588	758
Electricity, heating and other property expenses	231	379	662	821	1 114
Consultants	305	139	1093	1 337	2 447
Auditor	0	220	485	448	558
Legal	250	1 661	601	2 520	2 585
Patents	179	51	317	228	356
IT/Software	498	408	1719	1 384	1 558
Other expenses	365	54	396	307	419
<b>Total other operating expenses</b>	<b>2 985</b>	<b>3 929</b>	<b>8 927</b>	<b>10 039</b>	<b>13 529</b>

### Note 4 - Intangible assets

2021 (Amounts in 000 NOK)	Patents	Trademark	Capitalized development	Total intangible assets
Cost at 01.01.2021	15 003	24	28 513	43 539
Additions	1 210	0	7 200	8 410
Disposals	0	0	0	0
<b>Cost at 30.09.2021</b>	<b>16 212</b>	<b>24</b>	<b>35 713</b>	<b>51 949</b>
Accumulated amortization charges 01.01.2021	10 946	6	4 347	15 298
Amortization charges in the period	264	0	4 277	4 541
<b>Accumulated amortization charges 30.09.2021</b>	<b>11 210</b>	<b>6</b>	<b>8 624</b>	<b>19 840</b>
<b>Net booked value as at 30.09.2021</b>	<b>5 002</b>	<b>18</b>	<b>27 090</b>	<b>32 109</b>
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

IFRS 16 Leases depreciation for the period 1 January to 30 September 2021 was NOK 1 674 243.

2020 (Amounts in 000 NOK)	Patents	Trademark	Capitalized Development	Total intangible assets
Cost at 01.01.2020	13 792	24	14 829	28 644
Additions	1 137	0	4 875	6 012
Disposals	0	0	0	0
<b>Cost at 30.09.2020</b>	<b>14 929</b>	<b>24</b>	<b>19 704</b>	<b>34 657</b>
Accumulated amortization charges 01.01.2020	10 706	6	1 381	12 092
Amortization charges in the period	172	0	2 224	2 397
<b>Accumulated amortization charges 30.09.2020</b>	<b>10 878</b>	<b>6</b>	<b>3 605</b>	<b>14 489</b>
<b>Net booked value as at 30.09.2020</b>	<b>4 051</b>	<b>18</b>	<b>16 099</b>	<b>20 168</b>
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

## Note 5 – Share option programs

As of 30.09.2021, the Group has option programs that includes a total of 53 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. The options are settled in shares at the time of vesting.

As of 30.09.2021, the total number of outstanding options were 397 930, and 186 194 were vested. After the share split in September 2021 each option equals 10 share equivalents.

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.

## Note 6 – Cash and cash equivalents

(Amounts in 000 NOK)	30.09.2021	31.12.2020
Cash and cash equivalents	208 705	99 724
<i>Of which are restricted cash:</i>		
Restricted bank deposits for employee tax withholdings	650	1 155
<b>Not restricted cash</b>	<b>208 055</b>	<b>98 569</b>

## Note 7 – Estimates

The deferred tax assets include an amount of mNOK 66 which relates to carried forward tax losses of Elliptic Laboratories AS. Elliptic Laboratories AS 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 criterias. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on profitability shown in second half 2020 and further development in 2021, 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 AS 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.

(Amounts in 000 NOK)	Q3 2021	Q3 2020	YTD 2021	YTD 2020	2020
Recognized as income from other sources	2 813	3 585	8 438	11 327	14 517
Reduction of capitalized patents	0	0	0	0	208
Recognized as payroll cost reduction	1 200	938	3 600	2 813	4 007
Recognized as other cost reduction	0	0	0	0	536
<b>Total government grants</b>	<b>4 013</b>	<b>4 522</b>	<b>12 038</b>	<b>14 139</b>	<b>19 267</b>

# ellipticlabs

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