

# INTERIM REPORT

## APRIL–JUNE 2018



## XMReality AB (publ), Interim Report, April–June 2018

*XMReality is growing and the strategy is resulting in new orders from new and existing customers in a steadily growing industrial market for Remote Guidance and Augmented Reality.*

### **The quarter, April–June 2018**

- Net sales amounted to SEK 2,186 thousand (1,400)
- Costs totalled SEK -11,620 thousand (-8,808)
- The net loss was SEK -7,840 thousand (-5,215)
- Net cash used amounted to SEK -8,333 thousand (47,498) and the equity/assets ratio at the end of the period was 79.4 percent (90.4)

The order situation was successfully changed during the period in line with the Company's strategy to increase the software component of sales. The Company allocates prepaid subscription revenue and hardware rental revenue across the period on a straight-line basis. Invoiced sales, which had not yet been recognised in revenue at the end of the period, increased by 126 percent to SEK 3,495 thousand (1,543).

### **The half year, January–June 2018**

- Net sales amounted to SEK 4,139 thousand (2,313)
- Costs totalled SEK -22,777 thousand (-15,136)
- The net loss was SEK -15,168 thousand (-9,405)
- Net cash used amounted to SEK -15,907 thousand (40,804)

The Company allocates prepaid subscription revenue and hardware rental revenue across the period on a straight-line basis. There is a positive effect on cash flow when orders are written, but the effect of orders received on profit and loss during the period is limited, which has had short-term effect on the reported equity/assets ratio and earnings. Hardware sales are recognized in income when the goods are delivered.

### **Significant events during the quarter, April–June 2018**

- Coesia Group signed general agreement with XMReality
- Vuzix entered into partnership with XMReality
- AGM held 23 May

### **Significant events after the end of the quarter**

- Haas Group expanded its collaboration with XMReality
- American defence group placed a follow-on order with XMReality
- XMReality and Novacura initiated a strategic collaboration

## Message from the CEO



XMReality is growing and the strategy is proving effective, with a constant stream of new orders from new and existing customers in a steadily growing industrial market for Remote Guidance and Augmented Reality. The global industrial market for Augmented Reality and Remote Guidance has taken off in earnest. As a pioneer in the field, we are in prime position to benefit from growing interest in including AR technology in industrial processes and a constant stream of new applications.

Upon entering into a collaboration with ABI Research, XMReality has studied their reports on market developments. According to ABI Research, the market for AR and Remote Guidance is expected to grow at an average annual rate of 107 percent over a five-year period. The market for platform companies and software vendors that sell licenses to manufacturing companies is expected to be worth about USD 7 billion by 2022. The market for the security and defence industry is expected to be worth about USD 5 billion and the market for the power and energy market is expected to be worth about USD 6 billion. These sectors currently represent the majority of XMReality's order intake and net sales. XMReality is growing in line with ABI's forecasts, as we more than doubled order intake for the quarter year-on-year. The Company's software sales that have been billed but not yet recognised in revenue increased by 126 percent year-on-year to about SEK 3.5 million.

One notable example of dedicated software business is John Bean Technologies, which will be using XMReality Remote Guidance to streamline its service operations. The deal is further proof that our

new generation software appeals to our customers and is hardware-independent.

Negotiations were held during the quarter with one of the largest defence groups in the world, which culminated in a contract signed immediately after the end of the quarter. Initially, the deal involves relatively small volumes while the customer gradually modifies its processes to utilise the new technology.

We are seeing a clear trend of intensification of general agreement dialogues with our customers. The Italian packaging group Coesia, with which we entered into a general agreement during the quarter, is one example. Under the terms of the agreement, all companies in this rapidly growing corporate group, twenty in number at the moment, now have the opportunity to easily get started with XMReality Remote Guidance™. We are also proud and delighted that Haas Group has decided to roll out our solution in its global organisation and offer XMReality Remote Guidance as a central component of Haas's service offering to its customers. Several of our customers can be considered business partners, as they resell our offering to their customers, creating opportunities for strong sales growth in this customer category.

During the quarter, we continued our efforts to strengthen our ecosystem with regard to business partners, hardware partners and technology partners. The collaboration with Vuzix has entailed several new business opportunities for us, where we have received leads on prospective business.

In summary, I am delighted to report that we have continued to invest in market, sales and product development while maintaining our cost base in a powerful market growth and ever-stronger customer relationships, I am optimistic about the second half of the year.

Johan Castevall, CEO  
Linköping, 17 August 2018

## Income statements (SEKk)

	January–June		April–June		Full year
	2018	2017	2018	2017	2017
Net sales	4,139	2,313	2,186	1,400	6,683
Capitalized production costs	3,052	3,468	1,344	2,193	6,687
Other operating income	418	-6	250	0	279
<b>Total income</b>	<b>7,609</b>	<b>5,775</b>	<b>3,780</b>	<b>3,593</b>	<b>13,649</b>
Raw materials and supplies	-1,707	-754	-737	-410	-2,797
Other external expenses	-8,801	-7,702	-3,940	-4,514	-17,645
Personnel costs	-10,305	-6,332	-5,914	-3,699	-13,889
Depreciation and amortisation of tangible and intangible assets	-1,757	-340	-933	-177	-1,928
Other operating expenses	-159	-8	-73	-8	-23
<b>Operating profit (-loss)</b>	<b>-15,120</b>	<b>-9,361</b>	<b>-7,817</b>	<b>-5,215</b>	<b>-22,633</b>
Interest income and similar profit items	0	19	0	11	11
Interest expenses and similar loss items	-48	-63	-23	-30	-119
<b>Profit (-loss) after net financial income</b>	<b>-15,168</b>	<b>-9,405</b>	<b>-7,840</b>	<b>-5,234</b>	<b>-22,741</b>
Tax on profit or loss for the period <sup>1</sup>	-	-	-	-	0
<b>Profit (-loss) for the period</b>	<b>-15,168</b>	<b>-9,405</b>	<b>-7,840</b>	<b>-5,234</b>	<b>-22,741</b>

<sup>1</sup> Tax is calculated only on the results of operations for the full year in conjunction with preparation of the annual accounts.

## Balance sheets (SEKk)

	30 Jun 2018	30 Jun 2017	31 Dec 2017
<b>Assets</b>			
<b>Non-current assets</b>			
Capitalised development costs	14,174	10,062	12,458
Machinery and plant	421	1,214	1,023
Equipment, tools, fixtures and fittings	605	221	682
Financial assets	8	0	0
<b>Total non-current assets</b>	<b>15,208</b>	<b>11,497</b>	<b>14,163</b>
<b>Current assets</b>			
Inventories	257	1,228	306
Current receivables	6,670	2,016	6,014
Cash and bank balances	30,334	62,904	46,241
<b>Total current assets</b>	<b>37,261</b>	<b>66,148</b>	<b>52,561</b>
<b>Total assets</b>	<b>52,469</b>	<b>77,645</b>	<b>66,724</b>
<b>Equity and liabilities</b>			
Equity	41,659	70,162	56,827
Non-current liabilities	1,173	2,315	1,535
Current liabilities <sup>2</sup>	9,637	5,168	8,362
<b>Total equity and liabilities</b>	<b>52,469</b>	<b>77,645</b>	<b>66,724</b>
<sup>2</sup> Of which interest-bearing liabilities	725	725	725
Pledged assets	3,700	3,700	3,700
Contingent liabilities	None	None	None

## Statements of changes in equity (SEKk)

	30 Jun 2018	30 Jun 2017	31 Dec 2017
Balance at the beginning of the period	56,826	26,556	26,556
New share issue (less issue costs)	-	53,011	53,011
Profit (-loss) for the period	-15,168	-9,405	-22,741
<b>Balance at the end of the period</b>	<b>41,659</b>	<b>70,162</b>	<b>56,826</b>
Average number of shares during the period	14,607,982	11,718,724 <sup>3,4</sup>	13,175,227 <sup>3,4</sup>
Number of shares at the end of the period	14,607,982	14,607,982 <sup>3,4</sup>	14,607,982 <sup>3,4</sup>
Average number of fully diluted shares during the period	14,922,568	12,173,365	13,565,227
Average number of fully diluted shares at the end of the period	14,847,982	15,387,365	14,997,982

<sup>3</sup> Issue of 1,860,000 new shares subscribed in December 2016 and registered 21 January 2017.

<sup>4</sup> Issue of 4,379,562 new shares subscribed in April and registered on two dates, 21 April and 1 June 2017, respectively.

## Statements of cash flows (SEKk)

	January–June		April–June		Full year
	2018	2017	2018	2017	2017
<b>Operating activities</b>					
Cash flow before changes in working capital	-13,391	-9,443	-6,938	-5,234	-22,817
Changes in working capital	649	1,325	22	693	981
<b>Cash flow from operating activities</b>	<b>-12,742</b>	<b>-8,118</b>	<b>-6,916</b>	<b>-4,541</b>	<b>-21,836</b>
Cash flow from investing activities	-2,803	-3,976	-1,236	-2,851	-6,642
Cash flow from financing activities	-362	52,898	-181	54,890	52,619
<b>Cash flow for (-used in) the period</b>	<b>-15,907</b>	<b>40,804</b>	<b>-8,333</b>	<b>47,498</b>	<b>24,141</b>
Cash and cash equivalents at the beginning of the period	46,241	22,100 <sup>5</sup>	38,667	15,405 <sup>5</sup>	22,100 <sup>5</sup>
<b>Cash and cash equivalents at the end of period</b>	<b>30,334</b>	<b>62,904<sup>5</sup></b>	<b>30,334</b>	<b>62,903<sup>5</sup></b>	<b>46,241<sup>5</sup></b>

<sup>5</sup> In addition to cash and cash equivalents at the end of the period, the company had access to a bank overdraft of SEK 1,500k until 30 June 2017.

## Overview of financial performance (SEK)

An overview of the financial performance of XMReality AB (publ) for the period of January–June 2018 and for the full years of 2014–2017 is presented below. All figures for the financial years of 2014–2017 are based on material taken from official, published annual reports.

	Jan–Jun 2018	Full year 2017	Full year 2016	Full year 2015	Full year 2014
Net sales	4,139	6,683	5,155	3,532	816
Operating profit (-loss)	-15,120	-22,633	-9,976	-4,195	-3,943
Profit (-loss) after net financial income	-15,168	-22,741	-10,041	-4,275	-3,956
Profit margin, %	neg	neg	neg	neg	neg
Intangible assets	14,174	12,458	6,595	4,592	2,471
Tangible assets	1,025	1,705	901	0	0
Financial assets	8	0	25	25	25
Inventories	257	306	587	1,589	251
Current receivables	4,811	5,645	2,297	1,592	758
Cash and bank balances	30,334	46,241	22,100	1,184	2,082
Equity	41,659	56,826	26,556	2,749	4,025
Non-current liabilities	1,173	1,535	2,428	4,212	367
Current liabilities	9,637	7,994	3,521	2,021	1,195
Total assets	52,469	66,355	32,505	8,982	5,586
Return on average capital employed, %	neg	neg	neg	neg	neg
Return on average equity, %	neg	neg	neg	neg	neg
Equity/assets ratio, %	79.4	85.6	81.7	30.6	72.0
Debt/equity ratio, multiple	3.9	4.0	9.9	156.8	11.6
Interest coverage ratio, %	neg	neg	neg	neg	neg
Quick ratio, %	384.0	649.1	693.0	137.4	237.6
Number of employees (end of the period)	23	19	14	5	4
Investments					
Intangible assets	3,052	6,630	2,003	2,121	2,471
Tangible assets	-257	994	901	0	0
Earnings per share, SEK	neg	neg	neg	neg	neg
Average number of shares during the period <sup>6</sup>	14,607,982	13,175,227 <sup>7</sup>	7,202,593 <sup>8,9</sup>	4,822,763 <sup>10</sup>	3,406,498 <sup>11</sup>
Number of shares at the end of the period <sup>6</sup>	14,607,982	14,607,982 <sup>7</sup>	8,368,420 <sup>8,9</sup>	5,133,280 <sup>10</sup>	3,474,000 <sup>11</sup>
Average number of fully diluted shares during the period <sup>6</sup>	14,922,568	13,565,227 <sup>7</sup>	7,463,085 <sup>8,9</sup>	4,972,763 <sup>10</sup>	3,556,498 <sup>11</sup>
Average number of fully diluted shares at the end of the period <sup>6</sup>	14,847,982	14,997,982 <sup>7</sup>	8,758,420 <sup>8,9</sup>	5,283,280 <sup>10</sup>	3,624,000 <sup>11</sup>

<sup>6</sup> Restated after 20:1 split registered 21 January 2017.

<sup>7</sup> Issue of 4,379,562 new shares subscribed in April and registered on two dates, 21 April and 1 June 2017, respectively.

<sup>8</sup> Issue of 2,889,200 new shares registered 11 May 2016 and 345,940 shares subscribed against convertible debt instrument registered 12 May 2016

<sup>9</sup> Issue of 1,860,000 new shares subscribed in December, registered 21 January 2017

<sup>10</sup> Issue of 697,680 new shares registered 18 June 2015

<sup>11</sup> Issues of 720,000 new shares registered 6 March 2014 and 961,600 new shares registered 9 December 2014

## Notes

The annual report is prepared in compliance with the Swedish Annual Accounts Act and BFNAR 2012:1 Annual and Consolidated Accounts (K3). The accounting policies have not changed compared to the preceding year.

## Definitions of key data

Profit margin	Profit after net financial income or expense divided by sales
Equity	The sum of shareholders' equity, restricted reserves and non-restricted equity
Return on average capital employed	Profit or loss before interest expense divided by average capital employed
Return on average equity	Profit or loss after tax divided by average equity
Equity/assets ratio	Equity divided by total assets
Debt/equity ratio	Interest-bearing liabilities divided by equity
Interest coverage ratio	Earnings before interest divided by interest expenses
Earnings per share	Profit or loss after tax divided by average number of shares outstanding
Quick ratio	Cash and current assets excluding inventories divided by current liabilities

.XMReality is listed on Nasdaq First North (ticker: XMR). The company's Certified Adviser is Redeye AB.

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

The board of directors and chief executive officer certify that this interim report provides a true and fair view of the company's operations, financial position and earnings.

Linköping, 17/08/2018

Board of Directors

The next financial report will be published 26 October 2018.

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