

YEAR-END REPORT

2018



XMReality AB (publ), Year-end report 2018

2018 was another year of growth for XMReality. The year ended with order intake up by 61 percent and net sales up by 52 percent. The gross margin increased to 70 percent (58) as an effect of increasing the share of software sales. Billed software sales rose by 122 percent.

The quarter: October–December 2018

- Net sales amounted to SEK 3,250 thousand (2,735)
- Costs before net financial income/expense totaled SEK -13,125 thousand (-12,222)
- The operating loss was SEK -8,337 thousand (-7,812)
- Net cash flow amounted to SEK 13,781, (-10,168) and the equity/assets ratio was 80.2 percent (85.0) at the end of the period

As in 2017, the final quarter of the year was strong. Order intake and billing both rose and represent a mix of new orders and extensions of previously sold subscriptions. The quarter delivered a higher number of requests for quotation and added to the Company's prospect list and outstanding quotations.

Approximately 70 percent of billing during the period was for subscriptions to the Company's software. The Company allocates prepaid subscription revenue and hardware rental revenue across the term of the contract on a straight-line basis. Invoiced sales that had not yet been recognized in revenue at the end of the period increased by 76 percent to SEK 4,035 thousand (2,291).

A directed new issue executed in November raised SEK 20.1 million for the Company after issue costs.

Full year 2018

- Net sales amounted to SEK 10,155 thousand (6,683)
- Costs before net financial income/expense totaled SEK -45,882 thousand (-36,282)
- The operating loss was SEK -29,250 thousand (-22,633)
- Net cash used amounted to SEK -8,443 thousand (24,141)

Net sales increased by approximately 52 percent compared to the preceding year. The gross margin improved to 70 percent (58) as an effect of increasing the share of software sales. 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 placed, but the effect of orders received on profit and loss during the period is limited. Hardware sales are recognized in income when the goods are delivered.

More efficient organization

Aimed at meeting customer needs more efficiently, XMReality implemented a new approach employing a number of small, agile teams. This also resulted in a reorganization and reduction of executive management. The executive management team now comprises CEO Johan Castevall, CFO Claes Pettersson, CSO Marcin Szymanski, CTO Per Unell and HR Manager Sara Wennstam. In conjunction, Henrik Krohn and Åsa Davisson stepped down from executive management. As an

effect of this, profit for the year was reduced by a non-recurring transition cost of SEK 640 thousand.

Focus on total solutions without proprietary smart glasses

The Company's sharper focus on the software business is aligned with the established strategy. The software business generates the largest contribution to adding customer value. In hardware, XMReality offers third-party products. Competitive alternatives to smart glasses are currently available in the market and, in a logical progression, the Company will discontinue the development and sale of proprietary smart glasses during Q1 2019. The switch in customer interest from hardware to software combined with declining sales of proprietary smart glasses resulted in an impairment of previously capitalized hardware development costs by SEK 250 thousand, taken in connection with the close of books. The Company's reported capitalized development costs refer thereafter exclusively to proprietary software development.

Significant events during the quarter, October–December 2018

- A global leading manufacturer of gas springs launched XMReality Remote Guidance for its customers
- International manufacturing group SACMI signed an agreement with XMReality for the global roll out of XMReality Remote Guidance
- XMReality registered its trademark in the United States
- An additional order was received from a US defense group
- XMReality executed a directed new issue of approximately SEK 21 million and announced that Investment AB Spiltan would become the new major shareholder

Significant events after the end of the quarter

- Bühler Consumer Foods signed an additional order and expanded use of XMReality Remote Guidance worldwide

Message from the CEO



I am pleased to report that 2018 ended with higher order intake (+61 percent) and net sales (+52 percent). The gross margin also improved (+22 percent) and billed software sales rose by 122 percent. Growth in software subscriptions is having a stronger, positive impact on the gross margin.

XMReality's strategy of growing software sales has proven effective. In a clear trend, existing customers are increasing their subscriptions alongside the inflow of new customers. The company is also becoming more multinational. Over 50 percent of order intake now comes from companies outside Sweden. Hardware deliveries were dominated by smart glasses and PointPad. Sales of smart glasses have consisted mainly of glasses from third-party suppliers and in a logical progression, XMReality will now be exclusively supplying glasses from third parties.

Orders were received and agreements made with a long list of new customers during the year, including Ikea Industry, Nibe, Sandvik, Arcam, Minebea Intec, SAFT Batteries and Bentec.

The increase in the number of users at Swiss Bühler and the Italian Sacmi group is particularly gratifying. Within these corporate groups, XMReality Remote Guidance is deployed as a key component of customer efforts to streamline field service processes and service offerings.

XMReality is well on the way to an exciting future. The XMReality Remote Guidance software is an ideal fit for many more applications than those addressed thus far, such as customer service-guided help and support. Development over the past year has made the software considerably more flexible and suitable to be sold and used in many new areas of application.

The software was also upgraded during the year with several value-adding features that were welcomed by customers. For example, the response to the innovative Web Client launched in the fall was enthusiastic. According to Martin Forsberg, Global Support, Arcam: *"The web client will be perfect for our single-case customers. You can set up a remote call without them having to pre-install anything."*

In order to take more effective advantage of the new business opportunities, XMReality established several small, agile teams with the capacity to optimally meet the respective needs of the customer segment. Executive management was also concentrated to a fewer number of people, effective at year-end.

XMReality executed a directed new issue of SEK 20.1 million during the quarter. This has provided the capacity to maintain the fast pace of product development and sales generation.

With a strong finish to the year, sharper focus on the core business and a more flexible, agile approach, XMReality is charging up for an eventful 2019.

Johan Castevall, CEO
Linköping, 15 February 2018

Financial basis for the year-end report 2018

Income statements (SEKk)

	January–December		October–December	
	2018	2017	2018	2017
Net sales	10,155	6,683	3,250	2,735
Capitalized production costs	5,478	6,687	1,399	1,540
Other operating income	999	279	139	135
Total income	16,632	13,649	4,788	4,410
Raw materials and supplies	-3,023	-2,797	-815	-1,074
Other external expenses	-16,856	-17,645	-4,772	-5,569
Personnel costs	-20,404	-13,889	-5,392	-4,495
Depreciation and amortization of tangible and intangible assets	-4,069	-1,928	-1,282	-1,070
Other operating expenses	-1,530	-23	-864	-14
Operating profit (-loss)	-29,250	-22,633	-8,337	-7,812
Interest income and similar profit items	21	11	21	0
Interest expenses and similar loss items	-88	-119	-20	-27
Profit (-loss) after net financial income	-29,317	-22,741	-8,336	-7,839
Tax on profit or loss for the period	0	0	0	0
Profit (-loss) for the period	-29,317	-22,741	-8,336	-7,839
Earnings per share (SEK)	-1.72	-1.56	-0.49	-0.54
Fully diluted earnings per share (SEK)	-1.70	-1.52	-0.48	-0.52
Average number of shares during the period	14,982,648	13,175,227	16,094,428	14,607,982
Number of shares at the end of the period	17,050,000	14,607,982	17,050,000	14,607,982
Average number of fully diluted shares during the period	15,257,634	13,565,227	16,334,428	14,997,982
Average number of fully diluted shares at the end of the period	17,290,000	14,997,982	17,290,000	14,997,982

Balance sheets (SEKk)

	31 Dec 2018	31 Dec 2017
Assets		
Non-current assets		
Capitalized development costs	14,754	12,458
Machinery and plant	0	1,023
Equipment, tools, fixtures and fittings	528	682
Financial assets	8	0
Total non-current assets	15,290	14,163
Current assets		
Inventories	261	306
Current receivables	5,978	6,014
Cash and bank balances	37,798	46,241
Total current assets	44,037	52,561
Total assets	59,327	66,724
Equity and liabilities		
Equity	47,608	56,827
Non-current liabilities	844	1,535
Current liabilities ¹	10,875	8,362
Total equity and liabilities	59,327	66,724
¹ Of which interest-bearing liabilities	692	725
Pledged assets	3,700	3,700
Contingent liabilities	None	None

Statements of changes in equity (SEKk)

	31 Dec 2018	31 Dec 2017
Balance at the beginning of the period	56,827	26,557
New share issue (less issue costs)	20,098 ⁴	53,011 ³
Profit (-loss) for the period	-29,317	-22,741
Balance at the end of the period	47,608	56,827
Average number of shares during the period ²	14,982,648 ⁴	13,175,227 ³
Number of shares at the end of the period ²	17,050,000 ⁴	14,607,982 ³
Average number of fully diluted shares during the period ²	15,257,634 ⁴	13,565,227 ³
Average number of fully diluted shares at the end of the period ²	17,290,000 ⁴	14,997,982 ³

² Restated after 20:1 split registered 21 January 2017.

³ Issue of 4,379,562 new shares subscribed in April and registered on two dates, 21 April and 1 June 2017, respectively.

⁴ New issue of 2,442,018 shares subscribed in October and registered on 6 November 2018.

Statements of cash flows (SEKk)

	January–December		October–December	
	2018	2017	2018	2017
Operating activities				
Cash flow before changes in working capital	-25,367	-20,889	-7,084	-6,788
Changes in working capital	2,714	981	2,177	-1,080
Cash flow from operating activities	-22,653	-19,908	-4,907	-7,868
Cash flow from investing activities	-5,196	-8,570	-1,253	-2,119
Cash flow from financing activities	19,406	52,619	19,941	-181
Cash flow for (-used in) the period	- 8,443	24,141	13,781	-10,168
Cash and cash equivalents at the beginning of the period ⁵	46,241	22,100	24,017	56,409
Cash and cash equivalents at the end of period⁵	37,798	46,241	37,798	46,241

⁵ 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)

The financial performance of XMReality AB (publ) for the period of 2015–2018 is summarized below. All figures for the financial years of 2015-2017 are based on material taken from official, published annual reports.

	2018	2017	2016	2015
Net sales	10,155	6,683	5,155	3,532
Operating profit (-loss)	-29,250	-22,633	-9,976	-4,195
Profit (-loss) after net financial income	-29,317	-22,741	-10,041	-4,275
Profit margin, %	neg	neg	neg	neg
Intangible assets	14,754	12,458	6,595	4,592
Tangible assets	528	1,705	901	0
Financial assets	8	0	25	25
Inventories	261	306	587	1,589
Current receivables	5,978	6,014	2,297	1,592
Cash and bank balances	37,798	46,241	22,100	1,184
Equity	47,608	56,827	26,556	2,749
Non-current liabilities	844	1,535	2,428	4,212
Current liabilities	10,875	8,362	3,521	2,021
Total assets	59,327	66,724	32,505	8,982
Return on average capital employed, %	neg	neg	neg	neg
Return on average equity, %	neg	neg	neg	neg
Equity/assets ratio, %	80.2	85.2	81.7	30.6
Debt/equity ratio, multiple	3.2	4.0	9.9	156.8
Interest coverage ratio, %	neg	neg	neg	neg
Quick ratio, %	402.5	624.9	693.0	137.4
Number of employees (end of the period)	23	19	14	5
Investments				
Intangible assets	5,478	6,687	2,999	2,121
Tangible assets	140	1,908	901	0
Earnings per share, SEK	-1.72	-1.56	-1.20	-0.83
Fully diluted earnings per share, SEK	-1.70	-1.52	-1.15	-0.81
Average number of shares during the period ⁶	14,982,648 ¹¹	13,175,227 ¹⁰	7,202,593 ^{7,8}	4,822,763 ⁹
Number of shares at the end of the period ⁶	17,050,000 ¹¹	14,607,982 ¹⁰	8,368,420 ^{7,8}	5,133,280 ⁹
Average number of fully diluted shares during the period ⁶	15,257,634 ¹¹	13,565,227 ¹⁰	7,463,085 ^{7,8}	4,972,763 ⁹
Average number of fully diluted shares at the end of the period ⁶	17,290,000 ¹¹	14,997,982 ¹⁰	8,758,420 ^{7,8}	5,283,280 ⁹

⁶ Restated after 20:1 split registered 21 January 2017.

⁷ Issue of 2,889,200 new shares registered 11 May 2016 and 345,940 shares subscribed against convertible debt instrument registered 12 May 2016

⁸ Issue of 1,860,000 new shares subscribed in December, registered 21 January 2017

⁹ Issue of 697,680 new shares registered 18 June 2015

¹⁰ Issue of 4,379,562 new shares subscribed in April and registered on two dates, 21 April and 1 June 2017, respectively.

¹¹ New issue of 2,442,018 shares subscribed in October and registered on 6 November 2018.

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 AB (publ) is a listed company traded 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, 15 February 2019

Board of Directors

Financial reporting calendar:

Interim report, Q1 2019	24 April 2019
Annual General Meeting 2019	25 April 2019
Interim report, Q2 2019	16 August 2019
Interim report, Q3 2019	25 October 2019
Year-end report 2019	14 February 2020

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