

# INTERIM REPORT

## APRIL–JUNE 2019



## XMReality AB (publ), Interim Report, April–June 2019

XMReality delivered sales growth of 37 percent for the second quarter of the year compared with the previous year and strong improvement in the gross margin to 87 (59) percent. Change was successfully implemented during the period in line with its strategy to increase subscription revenue.

### The quarter: April–June 2019

- Net sales increased by 37 percent to SEK 2,993 thousand (2,186)
- Costs totaled SEK -11,997 thousand (-11,620)
- The net loss was SEK -7,585 thousand (-7 817).
- Net cash used in the period was SEK -4,233 thousand (-8,333) and the equity/assets ratio at the end of the period was 72.6 (79.4) percent.

Costs and the operating loss for the period are on par with the previous. The cash flow for the period decreased to SEK -4,233 thousand (-8,333).

### The half year: January–June 2019

- Net sales increased by 45% to SEK 6,014 thousand (4,139)
- Costs totaled SEK -22,349 thousand (-22,777)
- The net loss was SEK -13,279 thousand (-15,120)
- Net cash used in the period was SEK -10,823 thousand (-15,907)

Billing rose by 41 percent compared to the first half of 2018 to SEK 7,505 thousand (5,343), of which approx. 80 percent was generated by software subscriptions. Total subscription charges\* that have been billed but not yet recognized in income were up by 58 percent to SEK 5,526 thousand (3,495). Revenue from subscriptions with contracted automatic extensions, which are reported on a monthly basis, rose by 32 percent to SEK 785 thousand (593) at the end of the period.

### Significant events, April–June 2019

- XMReality signed additional customer orders with a global engineering group.
- Pre-release edition of SaaS offered to small and midsize companies.
- Annual general meeting of shareholders in XMReality AB (publ) was held 25 April.

### Significant events after the end of the quarter

- XMReality Business, a web-based offering targeting small and midsize companies, was pre-released online.

*\* XMReality subscriptions normally run for 12 months with automatic extension. They are billed in advance and recognized in income on a straight-line basis over the term of the contract. Revenue from sales of hardware and services is recognized after delivery is complete, which coincides with the billing date. Billed subscription charges that have not yet been recognized in income are reported on the balance sheet.*

## Message from the CEO



### Higher sales and gross margin

Driven by steadily increasing subscription revenue, the gross margin improved markedly in the second quarter.

### New customer offering

The company reached an important milestone at mid-year when XMReality Business was pre-released to selected customers. XMReality Business, which will be sold online, opens the market to small and midsize companies – an entirely new market for the company. XMReality Business provides these companies with fast and easy access to XMReality Remote Guidance. Because the solution is web-based, it will also become available to a global market without requiring additions to the sales force. XMReality Business frees up time for the XMReality's sales resources in Germany and the US and provides outstanding scalability and cost-efficiency.

### XMReality customers continuing to increase subscriptions

I am delighted to report that software sales to XMReality's largest customers increased steeply and negotiations on framework agreements are in progress with global industrial companies.

In addition, pilot projects in which the software is being tested with several new customers, including Rolls Royce MTU in Singapore and Essity in the US, began during the quarter.

XMReality won a contract bid during the quarter with a large Finnish industrial group in competition with eight other suppliers, which is clear evidence of the competitiveness of the application. As a result of the contract, a more in-depth technological evaluation of the XMReality solution will be performed in the third quarter. According to the customer's feedback, XMReality won the contract on the basis of user-friendliness and the web client, which facilitates the option to connect calls to non-registered users.

### XMReality is doing business in a hot market

The global market has been characterized in recent months by several industry players that have successfully raised investor capital. This indicates confidence in the return potential of the technology.

### XMReality Remote Guidance promotes sustainability

Sustainability is important to XMReality and I have seen how the software makes it possible for companies to reduce their climate impact, e.g., by reducing travel. Supported by XMReality Remote Guidance, companies can cut travel while enabling more efficient use of skills.

Finally, I am seeing increasing opportunities to accelerate the growth of sales to XMReality's largest customers. The company also developed a new online offering during the quarter for small and midsize companies, which substantially increases the size of the addressable market.

Johan Castevall, CEO  
Linköping, 16 August 2019

## Condensed income statement (Amounts in SEKk)

	January–June		April–June		Full year
	2019	2018	2019	2018	2018
Net sales	6,014	4,139	2,993	2,186	10,155
Capitalized production costs	2,882	3,052	1,320	1,344	5,478
Other operating income	135	418	78	250	999
<b>Total income</b>	<b>9,031</b>	<b>7,609</b>	<b>4,391</b>	<b>3,780</b>	<b>16,632</b>
Raw materials and consumables	-789	-1,707	-319	-737	-3,023
Other operating expenses	-9,391	-8,801	-5,478	-3,940	-16,856
Employee benefits expenses	-10,176	-10,305	-5,164	-5,914	-20,404
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-1,946	-1,757	-1,011	-933	-4,069
Other operating costs	-8	-159	-4	-73	-1,530
<b>EBIT</b>	<b>-13,279</b>	<b>-15,120</b>	<b>-7,585</b>	<b>-7,817</b>	<b>-29,250</b>
Financial income and similar profit items	0	0	0	0	21
Financial expenses and similar loss items	-39	-48	-21	-23	-88
<b>Profit (-loss) after net financial income</b>	<b>-13,318</b>	<b>-15,168</b>	<b>-7,606</b>	<b>-7,840</b>	<b>-29,317</b>
Income tax expense for the period		-		-	0
<b>Profit (-loss) for the period</b>	<b>-13,318</b>	<b>-15,168</b>	<b>-7,606</b>	<b>-7,840</b>	<b>-29,317</b>
Earnings per share (SEK)	-0.78	-1.04	-0.45	-0.54	-1.72
Earnings per share, fully diluted (SEK)	-0.77	-1.02	-0.44	-0.52	-1.70
Average number of shares during the period	17,050,000	14,607,982	17,050,000	14,607,982	14,982,648
Shares outstanding at the end of the period	17,050,000	14,607,982	17,050,000	14,607,982	17,050,000
Average shares outstanding during the period, fully diluted	17,229,669	14,922,568	17,170,000	14,847,982	15,257,634
Shares outstanding at the end of the period, fully diluted	17,170,000	14,847,982	17,170,000	14,847,982	17,290,000

**Condensed balance sheet (Amounts in SEKk)**

	30 June 2019	30 Jun 2018	31 Dec 2018
<b>Assets</b>			
<b>Non-current assets</b>			
Capitalized development costs	15,767	14,174	14,754
Machinery and plant	0	421	0
Equipment, tools and systems	451	605	528
Deposits	58	8	8
<b>Total non-current assets</b>	<b>16,276</b>	<b>15,208</b>	<b>15,290</b>
<b>Current assets</b>			
Inventories	124	257	261
Current receivables	3,840	6,670	5,978
Cash and bank balances	26,976	30,334	37,798
<b>Total current assets</b>	<b>30,940</b>	<b>37,261</b>	<b>44,037</b>
<b>Total assets</b>	<b>47,216</b>	<b>52,469</b>	<b>59,327</b>
<b>Equity and liabilities</b>			
Equity	34,290	41,659	47,608
Non-current liabilities	583	1,173	844
Current liabilities <sup>1</sup>	12,343	9,637	10,875
<b>Total equity and liabilities</b>	<b>47,216</b>	<b>52,469</b>	<b>59,327</b>
<sup>1</sup> Of which interest-bearing liabilities	590	725	692
Collateral provided	3,700	3,700	3,700
Contingent liabilities	None	None	None

## Statement of changes in equity (SEKk)

	January–June		April–June		Full year
	2019	2018	2019	2018	2018
Balance at the beginning of the period	47,608	56,826	41,895	49,499	56,827
New share issue (net of issue costs)	-	-	-	-	20,098 <sup>2</sup>
Profit (-loss) for the period	-13,318	-15,168	-7,606	-7,840	-29,317
<b>Balance at the end of the period</b>	<b>34,290</b>	<b>41,659</b>	<b>34,290</b>	<b>41,659</b>	<b>47,608</b>
Average number of shares during the period	17,050,000	14,607,982	17,050,000	14,607,982	14,982,648 <sup>2</sup>
Shares outstanding at the end of the period	17,050,000	14,607,982	17,050,000	14,607,982	17,050,000 <sup>2</sup>
Average shares outstanding during the period, fully diluted	17,229,669	14,922,568	17,170,000	14,847,982	15,257,634
Shares outstanding at the end of the period, fully diluted	17,170,000	14,847,982	17,170,000	14,847,982	17,290,000

<sup>2</sup>New issue of 2,442,018 shares subscribed in October and registered on 6 November 2018.

## Condensed statement of cash flow (Amounts in SEKk)

	January–June		April–June		Full year
	2019	2018	2019	2018	2018
<b>Operating activities</b>					
Cash flow (-used) before changes in working capital	-11,472	-13,391	-6,649	-6,938	-25,367
Changes in working capital	3,842	649	3,911	22	2,714
<b>Cash flow from (-used in) operating activities</b>	<b>-7,630</b>	<b>-12,742</b>	<b>-2,738</b>	<b>-6,916</b>	<b>-22,653</b>
Cash flow from (-used in) investing activities	-2,882	-2,803	-1,370	-1,236	-5,196
Cash flow from (-used in) financing activities	-310	-362	-125	-181	19,406
<b>Cash flow for (-used in) the period</b>	<b>-10,823</b>	<b>-15,907</b>	<b>-4,233</b>	<b>-8,333</b>	<b>-8,443</b>
Cash and cash equivalents at the beginning of the period	37,798	46,241	31,208	38,667	46,241
<b>Cash and cash equivalents at the end of the period</b>	<b>26,976</b>	<b>30,334</b>	<b>26,976</b>	<b>30,334</b>	<b>37,798</b>

## Overview of financial performance (SEK)

An overview of the financial performance of XMReality AB (publ) for the period of January–June 2019 and for the full years of 2015–2017 is presented below. All figures for the financial years of 2015–2018 are based on material taken from official, published annual reports.

	Jan–Jun 2019	2018	2017	2016	2015
Net sales	6,014	10,155	6,683	5,155	3,532
Operating profit (-loss)	-13,280	-29,250	-22,633	-9,976	-4,195
Profit (-loss) after net financial income	-13,318	-29,317	-22,741	-10,041	-4,275
Profit margin, %	neg.	neg	neg	neg	neg
Intangible assets	15,767	14,754	12,458	6,595	4,592
Tangible assets	451	528	1,705	901	0
Financial assets	58	8	0	25	25
Inventories	124	261	306	587	1,589
Current receivables	3,840	5,978	6,014	2,297	1,592
Cash and bank balances	26,976	37,798	46,241	22,100	1,184
Equity	34,290	47,608	56,826	26,556	2,749
Non-current liabilities	583	844	1,535	2,428	4,212
Current liabilities	12,343	10,875	8,362	3,521	2,021
Total assets	47,216	59,327	66,724	32,505	8,982
Return on average capital employed, %	neg.	neg	neg	neg	neg
Return on average equity, %	neg.	neg	neg	neg	neg
Equity/assets ratio, %	72.6	80.2	85.6	81.7	30.6
Debt/equity ratio, multiple	3.4	3.4	4.0	9.9	156.8
Interest coverage ratio, %	neg.	neg	neg	neg	neg
Quick ratio, %	249.7	402.5	649.1	693.0	137.4
Number of employees (end of the period)	21	23	19	14	5
Investments					
Intangible assets	2,882	5,478	6,687	2,999	2,121
Tangible assets	0	140	1,908	901	0
Financial assets	50	-	-	-	-
Basic earnings per share, SEK	-0.78	-1.72	-1.56	-1.20	-0.83
Earnings per share, fully diluted, SEK	-0.77	-1.70	-1.52	-1.15	-0.81
Average number of shares during the period	17,050,000	14,982,648	13,175,227	7,202,593	4,822,763
Number of shares at the end of the period	17,050,000	17,050,000	14,607,982	8,368,420	5,133,280
Average number of fully diluted shares during the period	17,290,000	15,257,634	13,565,227	7,463,085	4,972,763
Average number of fully diluted shares at the end of the period	17,290,000	17,290,000	14,997,982	8,758,420	5,283,280





## Definitions of key data

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

### Accounting policies

The interim 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 previously reported periods. Assets, provisions and liabilities have been valued at cost unless otherwise specified. Transactions denominated in foreign currency are converted at the spot rate in effect on the transaction date.

### Risk factors and uncertainties

A number of risk factors could have negative impact on the business of XMReality AB (publ). It is therefore imperative to consider relevant risks alongside the Company's growth potential. Refer to the XMReality Annual Report 2018, page 19, "Risk factors" for a more detailed description of the risks associated with the Company and its stock.

### Stock

Shares in XMReality AB (publ) are listed on Nasdaq First North. The stock ticker is XMR and the ISIN code is SE0009664188. At the end of the period, there were 17,050,000 shares outstanding in XMReality AB (publ) (unchanged since 31 December 2018). There is only one share class. Each share carries one vote.

There is an outstanding stock option plan 2016/2020 carrying rights to subscribe for up to 120,000 shares. The 2019 Annual General Meeting resolved in favor of a further stock option plan 2019/2022 carrying rights to subscribe for up to 500,000 shares. This plan had not yet been implemented at the end of the period.

### Certified advisor

XMReality's Certified Adviser is Redeye AB.

[certifiedadviser@redeye.se](mailto:certifiedadviser@redeye.se)

+46 (0)8 - 121 576 90

[www.redeye.se](http://www.redeye.se)

**Auditor review**

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

**Translation**

This interim report in English is an internal translation of the Swedish interim report. In the event of discrepancy, the Swedish interim report shall prevail.

**Submission of interim report**

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

Linköping, 16 August 2019

Board of Directors

**Financial reporting calendar:**

Interim report, Q3 2019

25 October, 2019

Year-end report 2019

14 February, 2020

**Contact person at XMReality AB (publ):**

Johan Castevall, CEO

+46 (0)73 356 04 81; johan.castevall@xmreality.se