



poLight ASA Quarterly Report



2019

KEY EVENTS

- First commercial product launched in January with poLight TLens enabling advanced auto focus (AF) in new smartwatch phone
- A second commercial product launched in February, also with advanced TLens autofocus function in a new smartwatch phone
- Several other customer cases progressing in different market segments
- Increased probability of additional design-wins in 2020
- Record deliveries of TLens and ASIC drivers in the fourth quarter to support smartwatch phone launches

Øyvind Isaksen, CEO of poLight ASA:

“We are off to a good start to 2020 with two design-wins in two months and our commercial breakthrough in the consumer electronics market. Initial feedback is encouraging, and we experience increasing interest for TLens. Commercial adoption is an important proof-point of our unique products which enable new and lasting applications for both industrial and consumer segments and it supports our customer progress.”

Summarised consolidated statement of income

<i>(in NOK million)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
Revenue	2.0	0.5	3.0	1.0
Cost of sales	-1.3	-0.1	-2.1	-1.5
Research and development expenses	-3.7	-6.0	-19.9	-28.9
Sales and marketing expenses	-2.5	-2.1	-8.7	-7.6
Administrative expenses	-5.5	-6.3	-17.1	-35.8
Operational / supply chain expenses	-2.7	-1.5	-8.2	-3.4
EBITDA	-13.7	-15.5	-53.0	-76.1

MANUFACTURING, PRODUCT DEVELOPMENT AND MARKET

Manufacturing and operations

poLight works primarily with two sub-contractors – STMicroelectronics (ST) and Tong Hsing Electronic Industries, Ltd. (THEIL). ST produces the actuator, and THEIL assembles the complete product. The polymer (*i.e.* lens material) is produced at poLight HQ.

Activity at ST remained low in the fourth quarter as the wafer buffer stock is expected to meet short-term requirements. Theil continued to assemble complete products based on wafers from buffer stock to supply TLens to the smartwatch phone projects and other ongoing customer cases at various stages in several market segments.

The project to minimise supply chain risk and establish redundancy in the assembly process progressed during the quarter. Following successful engineering sample pilot-runs in the second half of 2019, final qualification is underway, and the assembly line is estimated to be in full operation during the first half of 2020.

Product Development

poLight continued early-stage dialogues with smartphone related vendors concerning the new advanced design concepts based poLight's technology platform.

The ASIC driver development project to reduce electromagnetic interference (EMI) and ease TLens system integration, progressed according to plan and is expected to go through testing during first half of 2020.

TLens Silver, Silver Premium and the ASIC driver have completed internal qualification and become mass production ready. Therefore, poLight has adjusted the organisation to reflect completion of the most resource intensive part of the product development phase. This has freed up capacity to drive commercialisation of existing products with emphasis on business development, system integration activities, manufacturing and customer support.

Market

Marketing activities have continued at a high level in the fourth quarter and into 2020 supported by commercial progress in the Wearable segment and the launch of the first two smartwatch phones with advanced auto focus (AF) enabled by TLens.

poLight is actively engaging with several segments including consumer market devices such as smartphone, wearables and augmented reality, as well as a wide range of industrial applications such as barcode and machine vision/sensor applications. Inbound interest remains high and the company continues to make progress on several projects with potential customers in these segments. The TLens technology is increasingly being recognised by a broad range of potential customers which over time may develop into a diversified revenue base for poLight.

Consumer market

The first smartwatch phone with advanced AF functionality based on poLight TLens was launched on 7 January 2020. The watch targets a growing market for devices tailored for children in China. It comes with two cameras and the main camera which is used to take pictures is based on the (AF) function delivered by poLight.

The second smartwatch phone with advanced AF from poLight TLens was launched on 10 February 2020. The XUN Smartwatch Max Pro is aimed at children in the Chinese market. It has two cameras, one main camera used to take pictures which includes an advanced autofocus (AF) function delivered by poLight, and one camera integrated in the screen used for face camera without AF.

In the second half of 2019, poLight received four purchase orders for a total of approximately 124,000 units of TLens Silver and 120,000 ASIC drivers to support Product Verification Testing (PVT) and initial mass production (MP) related to the product releases mentioned above.

The market-momentum created by the release of the smartwatch phones using TLens has enabled poLight to establish dialogues with other relevant players in the same market.

TLens is also considered for realising improved augmented reality (AR) glasses by several market participants. While the AR market still is in an early stage with low volumes, it is considered to potentially be the next “big thing” in the consumer mass-market after the smartphone. TLens offers several advantages related to power consumption, speed, compactness, no gravity sensitivity which position poLight for market entry at an early stage without having to outcompete a long-established incumbent technology as in the smartphone market.

poLight continued to engage with the smartphone eco-system for various applications based in new advanced design concepts. This will continue into 2020 but it will likely take time before these discussions mature to concrete projects.

At the end of the fourth quarter, poLight’s TLens was used in twelve PoC’s related to consumer market either ongoing (7) or completed (5). All ongoing and completed PoCs have reported overall positive performance results.

Industrial

At the end of December, a leading barcode maker had successfully progressed a real product project through the initial EVT (engineering verification test) phases. Product development continues with planned market release in mid-2020. In addition, five potential barcode customers continued to evaluate TLens for real product projects.

A barcode product may last for 5-10 years with a potential annual volume ranging from some 10,000 units and up to 3 million units per account. Revenue and cash flow generated from a successful entry to this market could cover a significant part of the company’s cost base.

The company is also involved in other cases within the industrial segment such as machine vision and sensors.

At the end of the fourth quarter, poLight’s TLens was used in nine PoC’s related to industrial market either ongoing (7) or completed (2). All ongoing and completed PoCs have reported overall positive performance results.

Other applications

The TLens technology continues to be subject to interest from other applications such as medical and iris scanning.

FINANCIAL REVIEW

Summarised consolidated statement of income

<i>(in NOK million)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
Revenue	2.0	0.5	3.0	1.0
Cost of sales	-1.3	-0.1	-2.1	-1.5
Research and development expenses	-3.7	-6.0	-19.9	-28.9
Sales and marketing expenses	-2.5	-2.1	-8.7	-7.6
Administrative expenses	-5.5	-6.3	-17.1	-35.8
Operational / supply chain expenses	-2.7	-1.5	-8.2	-3.4
EBITDA	-13.7	-15.5	-53.0	-76.1

Profit and loss

Revenue of NOK 2.0 million in the fourth quarter was related to delivery of TLens units and PDA50 drivers (ASIC) to customers to support testing and to prepare for the smartphone watch market launch.

R&D expenses amounted to NOK 3.7 million, compared with NOK 8.2 million in the fourth quarter of 2018 (including NOK 2.2 million capitalised). The decline was due to internal R&D resources directed to customer support projects and supply chain related tasks, in addition to lower external development activity compared with the same period of 2018.

Sales and marketing expenses were NOK 2.5 million in the fourth quarter (NOK 2.1 million). Operational / supply chain expenses were NOK 2.7 million (NOK 1.5 million) and reflects an increase in related activities including development of assembly redundancy.

Administration expenses were NOK 5.5 million in the quarter compared to NOK 6.3 million in the fourth quarter of 2018. A provision of NOK 1.5 million was recognised in the fourth quarter of 2019 related to severance packages for 6 FTE (full time equivalent) employees. The fourth quarter of 2018 was influenced by IPO related expenses.

EBITDA was NOK -13.7 million, compared with EBITDA of NOK -15.5 million in the fourth quarter of 2018. Depreciation and amortisation amounted to NOK 3.0 million (NOK 0.2 million) for the quarter. poLight started amortising previously capitalised R&D investments for TLens Silver and the related driver in the second quarter of 2019 as they became ready for commercial shipments.

Summarised consolidated statement of financial position

<i>(in NOK million)</i>	FY 2019	FY 2018
Intangible assets	72.2	75.8
Cash and cash equivalents	73.5	127.4
Total equity	146.7	201.5
Total current liabilities	15.9	18.1
Total non-current liabilities	0.8	0.0
Total equity and liabilities	163.3	219.5

Total assets at 31 December 2019 were NOK 163.3 million, compared with NOK 219.5 at 31 December 2018.

Intangible assets amounted to NOK 72.2 million at 31 December, a decrease from NOK 75.8 million at year-end 2018 due to amortisation. The cash position was NOK 73.5 million, compared with NOK 127.4 at 31 December 2018.

Summarised consolidated statement of cash flow

<i>(in NOK million)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
Net cash flow from/(used in) operating activities	-5.9	-42.1	-49.5	-79.9
Net cash flow from/(used in) investing activities	-0.3	-2.4	-2.7	-9.2
Net cash flow from/(used in) financing activities	-0.3	4.1	-1.7	122.8
Net increase in cash and cash equivalents	-6.4	-40.4	-54.0	33.7

Cash flow

Net cash flow used in operating activities was NOK 5.9 million in the fourth quarter compared with NOK 42.1 million used in in the same period of 2018. The decrease reflects lower external expenses and non-recurring payments in the fourth quarter of 2018 comprising of a NOK 12.3 million VAT claim and IPO-related expenses of NOK 12.9 million.

The net cash flow used in investing activities was NOK 0.3 million (NOK 2.4 million) and reflected capitalised development expenses. Net cash flow used in financing activities was NOK 0.3 million compared to a positive cash flow of NOK 4.1 million in the corresponding period last year, reflecting the over-allotment option of the IPO proceeds.

The net decrease in cash was NOK 6.4 million for the quarter, compared with NOK 40.4 million in the same period of 2018. poLight received NOK 5.1 million in government grants in the quarter (NOK 3.1 million).

OUTLOOK

The design-win for smartwatch phone cases in early 2020 validates poLight's unique polymer-based camera-lens solution and its supply chain, both important for ongoing marketing and customer dialogues. The market-momentum created by the release of the smartwatch phones using TLens, has enabled poLight to establish dialogues with other relevant players in the same and other market segments.

poLight is having good progress in the barcode market, and the TLens is currently being planned used in several products by leading vendors. The estimated earliest market launch for this segment is mid-2020.

In addition poLight supports several other customer cases, for industrial and consumer markets, at PoC stage and at early design stage. This progress supports increased confidence in the continued commercialisation of poLight's technology and a likely diversified future revenue base with TLens used in various market segments.

The current available liquidity will likely fund the company's operations into the first quarter of 2021.

CONDENSED INTERIM FINANCIAL STATEMENTS

Interim consolidated statement of income (unaudited)

NOK 000	Note	Q4 2019	Q4 2018	FY 2019	FY 2018
Revenue		2 017	533	2 988	1 038
Cost of sales		-1 335	-79	-2 075	-1 488
Gross profit		682	455	913	-450
Research and development expenses	7	-3 654	-5 988	-19 874	-28 918
Sales and marketing expenses		-2 523	-2 119	-8 729	-7 586
Administrative expenses		-5 475	-6 302	-17 073	-35 770
Operational / supply chain expenses		-2 682	-1 496	-8 216	-3 384
Depreciation, amortisation and net impairment losses	8	-3 046	-235	-7 911	-1 025
Operating profit		-16 699	-15 685	-60 890	-77 133
Net financial items	6	621	276	1 430	211
Profit before tax		-16 078	-15 409	-59 460	-76 922
Income tax expense		-50	-88	-124	-243
Profit for the period		-16 128	-15 497	-59 584	-77 165
Attributable to:					
Equity holders of the parent		-16 128	-15 497	-59 584	-77 165
Non-controlling interests		0	0	0	0
Earnings per share:					
Basic, attributable to ordinary equity holders of the parent (NOK)		-1.99	-1.91	-7.34	-12.66
Diluted, attributable to ordinary equity holders of the parent (NOK)		-1.98	-1.91	-7.33	-12.66

Interim consolidated statement of other comprehensive income (unaudited)

NOK 000	Note	Q4 2019	Q4 2018	FY 2019	FY 2018
Profit for the period		-16 128	-15 497	-59 584	-77 165
Other comprehensive income					
Exchange differences on translation of foreign operations		-23	101	-92	-74
Income tax effect		0	0	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-23	101	-92	-74
Total comprehensive income for the period, net of tax		-16 151	-15 396	-59 676	-77 239
Attributable to:					
Equity holders of the parent		-16 151	-15 396	-59 676	-77 239
Non-controlling interests		0	0	0	0

Interim consolidated statement of financial position (unaudited)

NOK 000	Note	2019	2018
ASSETS			
Property, plant and equipment		1 235	1 605
Intangible assets	8	72 216	75 829
Right-of-use assets	3	1 923	0
Total non-current assets		75 374	77 434
Inventories		7 728	7 372
Trade and other receivables		6 147	6 399
Other current assets		565	901
Cash and cash equivalents		73 463	127 424
Total current assets		87 903	142 095
Total assets		163 277	219 529
EQUITY AND LIABILITIES			
Issued capital		1 623	1 623
Share premium		142 665	270 935
Other equity		2 369	-71 103
Equity attributable to equity holders of the parent		146 658	201 456
Non-controlling interests		0	0
Total equity		146 658	201 456
Lease liabilities	3	766	0
Total non-current liabilities		766	0
Trade and other payables		11 911	15 172
Interest-bearing loans and borrowings		0	600
Current lease liabilities	3	1 241	0
Income tax payable		0	225
Provisions		2 701	2 076
Total current liabilities		15 853	18 073
Total liabilities		16 619	18 073
Total equity and liabilities		163 277	219 529

Interim consolidated statement of changes in equity (unaudited)

NOK 000	Note	Attributable to equity holders of the parent					Non-controlling interest	Total equity
		Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total		
As at 1 January 2018		542	148 036	425	993	149 996	0	149 996
Profit for the period				-77 165		-77 165	0	-77 165
Other comprehensive income					-74	-74	0	-74
Total comprehensive income		0	0	-77 165	-74	-77 239	0	-77 239
Value of share option plan				4 719		4 719	0	4 719
Increase of share capital		542	-542			0		0
Issue of share capital		539	134 150			134 689	0	134 689
Transaction costs			-10 709			-10 709	0	-10 709
Allocation to retained earnings			-72 187	72 187		0	0	0
At 31 December 2018		1 623	198 748	166	919	201 456	0	201 456
As at 1 January 2019		1 623	198 748	166	919	201 456	0	201 456
Profit for the period				-59 584		-59 584	0	-59 584
Other comprehensive income					-92	-92	0	-92
Total comprehensive income		0	0	-59 584	-92	-59 676	0	-59 676
Value of share option plan				4 877		4 877	0	4 877
Allocation to retained earnings			-56 083	56 083		0	0	0
At 31 December 2019		1 623	142 665	1 542	827	146 658	0	146 658

Interim Consolidated statement of cash flows (unaudited)

NOK 000	Note	Q4 2019	Q4 2018	FY 2019	FY 2018
Operating activities					
Profit before tax		-16 078	-15 409	-59 460	-76 922
Non-cash adjustment to reconcile profit before tax to net cash flows:					
Depreciation and impairment of property, plant and equipment and right-of-use assets		473	226	1 895	966
Amortisation and impairment of intangible assets		2 573	9	6 017	59
Share option plan expense		863	1 520	4 877	4 719
Other items related to operating activities		-1 514	-158	-1 459	-300
Net foreign exchange differences		-10	-87	-112	-183
Movements in provisions and government grants		1 763	-928	3 230	-3 456
Working capital adjustments:					
Decrease (+) in trade and other receivables and prepayments		231	505	-560	532
Decrease (+) in inventories		808	123	-356	-5 591
Increase (+) in trade and other payables		3 787	-27 948	-4 718	57
Interest received	6	1 327	786	1 584	1 057
Interest paid	6	-69	-697	-107	-740
Income tax paid		-34	-27	-367	-118
Net cash flows from operating activities		-5 879	-42 084	-49 537	-79 919
Investing activities					
Purchase of property, plant and equipment		-180	-207	-319	-749
Development capital expenditures	7	-619	-4 160	-2 931	-10 433
Receipt of government grants		526	1 989	526	1 989
Net cash flows used in investing activities		-273	-2 378	-2 724	-9 193
Financing activities					
Issue of share capital		0	4 689	0	134 689
Transaction costs on issue of shares		0	0	0	-10 709
Repayment of lease liabilities		-279	0	-1 120	0
Repayment of borrowings		0	-600	-600	-1 200
Net cash flows from/(used in) financing activities		-279	4 089	-1 720	122 780
Net increase in cash and cash equivalents		-6 430	-40 373	-53 981	33 667
Effect of exchange rate changes on cash and cash equivalents		-14	187	20	110
Cash and cash equivalents at the start of the period		79 907	167 610	127 424	93 648
Cash and cash equivalents at the end of the period		73 463	127 424	73 463	127 424

Notes to the condensed interim consolidated financial statements

1 General

poLight ASA is a limited company founded in 2005 and is incorporated and domiciled in Norway. The address of its registered office is Kongeveien 77, N-3188 Horten, Norway.

poLight offers a new autofocus lens which "replicates" the human eye for use in devices such as smartphones, wearables, barcode, machine vision systems and various medical equipment. poLight's TLens® enables better system performance and new user experiences due to benefits such as extremely fast focus, small footprint, no magnetic interference, low power consumption and constant field of view. For more information, visit www.polight.com.

2 Basis of preparation

The consolidated interim financial statements of the Group for the fourth quarter ended 31.12.2019 (unaudited) have been prepared in accordance with IAS 34. The financial statements do not include all the information required for the full annual financial statements of the Group and should be read in conjunction with the consolidated financial statements for 2018.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Norwegian kroner (NOK) and all values are rounded to the nearest thousand (NOK 000), except when otherwise indicated.

3 Accounting policies

The accounting policies adopted in the preparation of the interim Consolidated Financial Statements are consistent with the Consolidated Financial Statements for the year ended 31 December 2018, with the following exception;

IFRS 16 *Leases* was adopted from 1 January 2019. poLight has entered into commercial leases with regards to premises and office equipment. poLight used the modified retrospective approach and the 'low-value' and short-term leases exemptions. For the first time adoption of this standard the group determined the value of the right-to-use assets equal to the liabilities of the leases at 1.1.2019. The effect on the consolidated financial statement at January 1, 2019 was increased assets and liabilities of NOK 1.9 million. The right-to-use assets are depreciated over the leasing period of 19 months.

4 Significant accounting judgements, estimates and assumptions

The management makes accounting judgements on i) impairment of intangible assets ii) share option plans and iii) development costs, described in the Consolidated Financial Statements for the year ended 31 December 2018.

The Norwegian practices under the Skattefunn research and development incentive scheme have been questioned in relation to certain clauses under the EEA agreement concerning public support to companies. Skattefunn is a government program designed to stimulate R&D in Norwegian trade and industry. poLight participates in the Skattefunn scheme and has received NOK 5.2 million under the program for 2018. Total NOK 7.3 million have been recognised as governmental grants in the consolidated statement of income for 2019 hereof NOK 4.7 million related to Skattefunn.

The book value of intangible assets as at 31 December 2019 is under consideration in relation to documentation requirements for future sales volume and profitability in accordance with international accounting standards (IAS). The process reflects that commercialisation of the TLens technology has taken more time than assumed when the recognition criteria for capitalisation of development expenditures was considered met in 2016. The ongoing process may lead to no, a partial or a full impairment of intangible assets as a reflection of not meeting documentation requirements according to IAS in the final 2019 accounts. Such impairment would not affect cash levels nor would it imply that the assets have no commercial value.

5 Specification of operating expenses by nature

<i>(in NOK 000)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
Capitalised intangible assets in progress	-92	-2 171	-2 405	-8 444
Employee benefits expense	9 756	10 437	35 701	37 538
Depreciation, amortisation and net impairment losses	3 046	235	7 911	1 025
Other operating expenses	4 671	7 639	20 596	46 564
Total operating expenses	17 381	16 139	61 804	76 683

6 Financial items

<i>(in NOK 000)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
Net foreign exchange gain (losses)	62	-228	-30	-292
Interest income	519	424	1 600	1 057
Finance income	0	255	0	255
Interest expense on debts and borrowings	-67	-159	-107	-202
Interest expense on repaid VAT	0	0	0	-539
Finance expenses	107	-17	-32	-68
Net financial items	620	276	1 430	211

7 Research and development expense

<i>(in NOK 000)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
Employee benefits expense	3 495	5 004	14 863	21 070
Other operating expenses	2 809	6 185	14 538	24 113
Grants	-2 558	-3 030	-7 122	-7 821
Capitalized	-92	-2 171	-2 405	-8 444
Total	3 654	5 988	19 874	28 918

8 Intangible assets

<i>(in NOK 000)</i>	Q4 2019	Q4 2018	FY 2019	FY 2018
At period beginning	74 698	73 670	75 829	67 444
Additions — internal development	35	-962	915	2 706
Additions	57	3 130	1 490	5 738
Amortisation	-2 573	-9	-6 017	-59
Impairment losses	0	0	0	0
At period end	72 216	75 829	72 216	75 829

9 Related party transactions

poLight ASA is the ultimate parent. None of the shareholders of poLight ASA has control of the company. As of 31 December 2019, the largest shareholder was Investinor AS, with an ownership of 19.8%.

Intercompany agreements are entered into with all the group subsidiaries. All sales in the subsidiaries are made with parent company. All transactions are considered to be on an arm's length basis. No transactions have been made with other related parties for the relevant financial period.

10 Claims

On September 14, 2018, the Norwegian Tax Administration (Skatt Sør) claimed repayment of refunded VAT, with effect from 1 January 2013. The Norwegian Tax Administration claims that the company is not capable of being profitable and does therefore not qualify as a "business" pursuant to the Norwegian laws and regulation regarding VAT. poLight has appealed the decision to The Tax Appeals Board (Skatteklagenemda).

As per 31 December 2019 the monetary impact of the ruling amounted to NOK 18.5 million, that have been recognised in the consolidated statement of income in 2018 and 2019. The monetary effect of not being VAT registered was NOK 1.6 million for the full year 2019, increasing the expenditures recognised in the consolidated statement of income.

