



poLight ASA Quarterly Report



2020

KEY EVENTS

- TLens used in two commercially available smartwatch phones
- poLight TLens designed into a barcode product by a Tier 1 vendor
- Several other customer cases progressing in different market segments
- Share issue carried out post Q1-20

Øyvind Isaksen, CEO of poLight ASA:

“Many years of hard work and persistence paid off when our TLens was chosen for inclusion in smartwatch phones in early 2020. Initial market feedback is encouraging, and we are experiencing increased interest in TLens. We are currently working to capitalise on the references we have established to win further contracts, not only in the smartwatch market but also in the wider wearables market. This could provide a good volume platform for us, as well as a reference platform for entry into the smartphone market.

While the consumer market will be important to establish volumes, and hence reduced cost, it will be important to tap into other, more industrial markets, in order to obtain better margins and more recurring revenue. In that respect, we are making good progress in the barcode market, and there are currently plans to use the TLens in products being developed by leading vendors.”

Consolidated income statement (condensed)

Consolidated statement of income			
<i>(in NOK million)</i>	Q1 2020	Q1 2019	FY 2019
Revenue	0.5	0.0	3.0
Cost of sales	-0.1	0.0	-2.1
Research and development expenses	-5.5	-5.6	-19.9
Sales and marketing expenses	-2.3	-2.4	-8.7
Administrative expenses	-5.3	-5.1	-17.1
Operational / supply chain expenses	-3.5	-1.3	-8.2
EBITDA	-16.1	-14.3	-53.0

MANUFACTURING, PRODUCT DEVELOPMENT AND MARKETS

Manufacturing and operations

poLight works primarily with two sub-contractors – STMicroelectronics (ST) and an assembly partner. While ST produces the actuator, the assembly partner assembles the complete product. The polymer (*i.e.* lens material) is produced at poLight HQ.

The project to establish a new assembly partner progressed during the first quarter and entered the final phase of qualification. The assembly line is expected to become fully operational during the first half of 2020. Furthermore, discussions are underway with the assembly partner the company has historically used with respect to transfer poLight's production to a lower-cost factory.

During the quarter, poLight has ordered new material from ST to meet the anticipated growth in demand from existing customers and to supply new customers.

Product Development

During the quarter, poLight continued discussions with smartphone-related vendors concerning new and advanced design concepts based on poLight's existing products and technology platform. This included integration of the company's existing products in a front-facing camera module at minimum screen size penalty, as well as realising improved back-camera solutions and other applications not directly related to imaging.

Markets

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

poLight is actively engaged in several segments. This includes consumer market devices, such as smartphones, wearables and augmented reality, as well as a wide range of industrial applications, such as barcode readers and machine vision/sensor applications. Interest in our solutions remains high, and the company continues to make progress on several projects with potential customers in these segments. TLens technology is increasingly being recognised by a broad range of potential customers. Over time, it is hoped that this will develop into a diversified revenue base for poLight.

Consumer market

During the quarter, poLight was awarded two design-wins for smartwatch phones – Xiaomi Mi Bunny 4 Pro and XUN Max Pro. The watches target a growing market for devices tailored specially for children in China. They come with two cameras and the main camera, which is used to take pictures, is based on the (AF) function delivered by poLight.

The follow-up order, worth approximately NOK 250,000, that was received during the quarter is expected to be delivered in the second quarter 2020. It is anticipated that sales of the watches have been impacted by the corona virus situation in China. Sales are expected to increase when schools are re-opened in China. It is also possible that the watches will be introduced to other Asian markets.

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 being considered in connection with the realisation of improved augmented reality (AR) glasses by several market participants. While the AR market is still at an early stage, with low volumes, it could potentially be the next "big thing" in the consumer mass market after the smartphone. TLens offers several advantages related to power

consumption, speed, compactness and no gravity sensitivity. poLight is therefore well positioned for market entry at an early stage, without having to outcompete a long-established incumbent technology as in the smartphone market.

poLight's interaction with the smartphone ecosystem increased during the quarter. This includes using an existing TLens product in an advanced add-in lens design to realise AF for an under-the-screen, front-facing camera, and using the poLight technology platform to enhance back-camera solutions and for other applications not directly related to imaging.

At the end of the quarter, poLight's TLens was used in 15 PoCs related to the consumer market (8 ongoing and 7 completed). All ongoing and completed PoCs have reported overall positive results.

Industrial

As announced during the quarter, a leading barcode maker has designed TLens into its next generation barcode scan engine. The vendor has placed an order worth NOK 0.5 million for TLenses and drivers to support final development, product qualification and preparation for mass production. The product is expected to go onto the market in the third-quarter 2020, depending on successful testing and other external factors.

poLight is involved in other barcode cases and expects that this market will be important over time. A barcode product may last for several years, with a potential annual volume ranging from some thousands of units up to more than a million per account. Revenue and cash flow generated from a successful entry into 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 first quarter, poLight's TLens was used in 9 PoCs related to the industrial market, either ongoing (7) or completed (2). All ongoing and completed PoCs have reported overall positive results.

Other applications

The TLens technology continues to be of interest for a range of other applications, such as medical (5 PoCs), robotics and iris scanning.

FINANCIAL REVIEW

When the condensed interim financial statements for the first quarter were prepared, the Covid-19 pandemic had not significantly affected the group's operations. All employees are in good health, fully utilized and the supply chain is operational. However, customer/end-user demand in China has most likely been impacted by the Covid-19 pandemic.

Consolidated income statement (condensed)

Consolidated statement of income			
<i>(in NOK million)</i>			
	Q1 2020	Q1 2019	FY 2019
Revenue	0.5	0.0	3.0
Cost of sales	-0.1	0.0	-2.1
Research and development expenses	-5.5	-5.6	-19.9
Sales and marketing expenses	-2.3	-2.4	-8.7
Administrative expenses	-5.3	-5.1	-17.1
Operational / supply chain expenses	-3.5	-1.3	-8.2
EBITDA	-16.1	-14.3	-53.0

Profit and loss

Revenue of NOK 0.5 million in the first quarter reflects sales of TLens, ASICs, evaluation kits and services to customers for product testing.

R&D expenses amounted to NOK 5.5 million, compared with NOK 6.9 million in the first quarter of 2019 (including NOK 1.3 million capitalised). The decrease is attributable to a reduction in the use of external and internal resources due to development projects being finalised and products made ready for mass production.

Sales and marketing expenses came to NOK 2.3 million in the first quarter (NOK 2.4 million). Operational/supply chain expenses totalled NOK 3.5 million (NOK 1.3 million) and reflect an increase in mass production-related activities, including development and qualification process of a new assembly line.

Administration expenses were NOK 5.3 million in the quarter compared to NOK 5.1 million in the first quarter of 2019.

EBITDA was NOK -16.1 million, compared with EBITDA of NOK -14.3 million in the first quarter of 2019. The decrease is attributable to bonus achievement of NOK 3.6 million (including social securities) triggered by the design-wins, offset by reduced salary expenses of NOK 1.9 million due to reduced head count.

Depreciation and amortisation amounted to NOK 3.1 million (NOK 0.6 million) for the quarter. poLight started amortising previously capitalised development investments related to TLens Silver and ASIC driver in the second quarter of 2019 as they became ready for commercial shipments.

Consolidated statement of financial position (condensed)

Consolidated statement of financial position

(in NOK million)	Q1 2020	Q1 2019	FY 2019
Intangible assets	51.4	77.0	53.9
Cash and cash equivalents	50.9	107.5	73.5
Total equity	110.4	188.1	128.4
Total current liabilities	9.9	16.5	15.9
Total non-current liabilities	0.4	0.4	0.8
Total equity and liabilities	120.7	205.1	145.0

As at 31 March 2020, total assets came to NOK 120.7 million, compared with NOK 205.1 million as at 31 March 2019 and NOK 145.0 million as at 31 December 2019.

Intangible assets amounted to NOK 51.4 million as at 31 March 2020, compared with NOK 77.0 million as at 31 March 2019, reflecting amortisation and impairment losses, and NOK 53.9 million at year-end 2019 due to amortisation. As at 31 March 2020 poLight had cash of NOK 50.9 million, compared with NOK 107.5 million as at 31 March 2019 and NOK 73.5 as at December 2019.

Consolidated statement of cash flow (condensed)

Consolidated statement of cash flows

(in NOK million)	Q1 2020	Q1 2019	FY 2019
Net cash flow from/(used in) operating activities	-22.2	-18.3	-49.5
Net cash flow from/(used in) investing activities	-0.2	-1.3	-2.7
Net cash flow from/(used in) financing activities	-0.3	-0.3	-1.7
Net increase in cash and cash equivalents	-22.7	-19.9	-54.0

Cash flow

Net cash flow used in operating activities totalled NOK 22.2 million in the first quarter compared with NOK 18.3 million used in the same period of 2019. The net cash flow used in investing activities totalled NOK 0.2 million (NOK 1.3 million). Net cash flow used in financing activities totalled NOK 0.3 million (NOK 0.3 million in 2019).

The net decrease in cash was NOK 22.7 million for the quarter, compared with NOK 19.9 million in the same period of 2019.

OUTLOOK

poLight's TLens product is attracting growing attention from a wide range of industries representing multiple applications.

The market release of two smartwatch phones during the first quarter validates poLight's unique polymer-based camera-lens solution and its supply chain, and position poLight for a growing market. In addition, it has created good overall market momentum and serves as a relevant reference for the smartphone market.

The company experienced increased activity in the smartphone segment during the quarter, and it is involved in several studies related to new and advanced design concepts based on poLight's technology and product platform. Although these processes are at an early stage, significant progress has been made and they could potentially become key to poLight's entry into the smartphone market.

poLight is also making good progress in the barcode market, and TLens is currently being considered for use in several products.

In addition, poLight is supporting several other customer cases, for both industrial and consumer markets, at the PoC stage and at the early design stage.

Current cash deposits, together with the private placement that took place in April 2020 and that raised NOK 40 million, could potentially fund group activities into 2022.

CONDENSED INTERIM FINANCIAL STATEMENTS

Interim consolidated statement of income (unaudited)

NOK 000	Note	Q1 2020	Q1 2019	FY 2019
Sale of goods		428	30	2 988
Rendering of services		107	0	0
Revenue		536	30	2 988
Cost of sales		-61	-4	-2 075
Gross profit		475	26	913
Research and development expenses	7	-5 507	-5 600	-19 874
Sales and marketing expenses		-2 264	-2 388	-8 729
Administrative expenses		-5 327	-5 114	-17 073
Operational / supply chain expenses		-3 498	-1 267	-8 216
Depreciation, amortisation and net impairment losses	8	-3 052	-629	-26 191
Operating profit		-19 174	-14 972	-79 170
Net financial items	6	-95	254	1 430
Profit before tax		-19 269	-14 718	-77 740
Income tax expense		1	-2	-124
Profit for the period		-19 269	-14 720	-77 864
Attributable to:				
Equity holders of the parent		-19 269	-14 720	-77 864
Non-controlling interests		0	0	0
Earnings per share:				
Basic, attributable to ordinary equity holders of the parent (NOK)		-2.37	-1.81	-9.59
Diluted, attributable to ordinary equity holders of the parent (NOK)		-2.37	-1.81	-9.59

Interim consolidated statement of other comprehensive income (unaudited)

NOK 000	Note	Q1 2020	Q1 2019	FY 2019
Profit for the period		-19 269	-14 720	-77 864
Other comprehensive income				
Exchange differences on translation of foreign operations		291	-105	-92
Income tax effect		0	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		291	-105	-92
Total comprehensive income for the period, net of tax		-18 978	-14 825	-77 956
Attributable to:				
Equity holders of the parent		-18 978	-14 825	-77 956
Non-controlling interests		0	0	0

Interim consolidated statement of financial position (unaudited)

NOK 000	Note	Q1 2020	Q1 2019	FY 2019
ASSETS				
Property, plant and equipment		1 209	1 297	1 235
Intangible assets	8	51 365	77 123	53 936
Right-of-use assets		1 625	1 618	1 923
Total non-current assets		54 199	80 038	57 094
Inventories		8 967	9 500	7 728
Trade and other receivables		6 399	7 515	6 147
Other current assets		299	585	565
Cash and cash equivalents		50 870	107 470	73 463
Total current assets		66 535	125 070	87 903
Total assets		120 734	205 108	144 997
EQUITY AND LIABILITIES				
Issued capital		1 623	1 623	1 623
Share premium		124 385	198 748	124 385
Other equity		-15 581	-12 238	2 369
Equity attributable to equity holders of the parent		110 427	188 133	128 378
Non-controlling interests		0	0	0
Total equity		110 427	188 133	128 378
Lease liabilities		440	432	766
Total non-current liabilities		440	432	766
Trade and other payables		7 160	13 543	11 911
Interest-bearing loans and borrowings		0	600	0
Current lease liabilities		1 262	1 211	1 241
Provisions	10	1 444	1 189	2 701
Total current liabilities		9 866	16 543	15 853
Total liabilities		10 307	16 975	16 619
Total equity and liabilities		120 734	205 108	144 997

Interim consolidated statement of changes in equity (unaudited)

		Attributable to equity holders of the parent						
		Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
NOK 000	Note							
As at 1 January 2019		1 623	198 748	166	919	201 456	0	201 456
Losses for the period				-14 720		-14 720	0	-14 720
Other comprehensive income					-105	-105	0	-105
Total comprehensive income		0	0	-14 720	-105	-14 825	0	-14 825
Value of share option plan				1 501		1 501	0	1 501
At 31 March 2019		1 623	198 748	-13 053	814	188 133	0	188 133
As at 1 January 2020		1 623	124 385	1 542	827	128 378	0	128 378
Losses for the period				-19 269		-19 269	0	-19 269
Other comprehensive income					291	291	0	291
Total comprehensive income		0	0	-19 269	291	-18 978	0	-18 978
Value of share option plan				1 027		1 027	0	1 027
At 31 March 2020		1 623	124 385	-16 699	1 118	110 427	0	110 427

Interim Consolidated statement of cash flows (unaudited)

NOK 000	Note	Q1 2020	Q1 2019	FY 2019
Operating activities				
Profit before tax		-19 269	-14 718	-77 740
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		481	619	1 895
Amortisation and impairment of intangible assets	8	2 571	10	24 297
Share option plan expense		1 027	1 501	4 877
Other items related to operating activities		-25	229	-1 459
Net foreign exchange differences		187	-60	-112
Movements in provisions and government grants		-4 820	-3 150	3 230
Working capital adjustments:				
Decrease (+) in trade and other receivables and prepayments		695	37	-560
Increase (-) in inventories		-1 239	-2 128	-356
Decrease (-) in trade and other payables		-1 868	-429	-4 718
Interest received	6	95	0	1 584
Interest paid	6	-21	0	-107
Income tax paid		-52	-227	-367
Net cash flows from/(used in) operating activities		-22 239	-18 314	-49 538
Investing activities				
Purchase of property, plant and equipment		-153	-10	-319
Development capital expenditures	7	0	-1 304	-2 931
Receipt of government grants		0	0	526
Net cash flows from/(used in) investing activities		-153	-1 315	-2 724
Financing activities				
Repayment of lease liabilities		-305	-279	-1 120
Repayment of borrowings		0	0	-600
Net cash flows from/(used in) financing activities		-305	-279	-1 720
Net increase in cash and cash equivalents		-22 697	-19 908	-53 982
Effect of exchange rate changes on cash and cash equivalents		104	-45	20
Cash and cash equivalents at the start of the period		73 463	127 424	127 424
Cash and cash equivalents at the end of the period		50 870	107 470	73 463

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 first quarter ended 31.03.2020 (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 2019.

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 2019.

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 2019.

5 Specification of operating expenses by nature

<i>(in NOK 000)</i>	Q1 2020	Q1 2019	FY 2019
Capitalised intangible assets in progress	0	-1 304	-2 405
Employee benefits expense	11 666	9 897	35 701
Depreciation, amortisation and net impairment losses	3 052	629	26 191
Other operating expenses	4 931	5 777	20 596
Total operating expenses	19 649	14 998	80 084

6 Financial items

<i>(in NOK 000)</i>	Q1 2020	Q1 2019	FY 2019
Net foreign exchange gain (losses)	-285	-116	-30
Interest income	213	406	1 600
Interest expense on debts and borrowings	0	-1	-16
Interest expense on lease liabilities	-21	0	-91
Finance expenses	-2	-35	-32
Net financial items	-95	254	1 430

7 Research and development expense

<i>(in NOK 000)</i>	Q1 2020	Q1 2019	FY 2019
Employee benefits expense	3 295	4 330	14 867
Other operating expenses	2 878	3 915	14 564
Grants	-666	-1 341	-7 122
Capitalized	0	-1 304	-2 435
Total	5 507	5 600	19 874

8 Intangible assets

<i>(in NOK 000)</i>	Q1 2020	Q1 2019	FY 2019
At period beginning	53 937	75 829	75 829
Additions — internal development	0	515	915
Additions	0	790	1 490
Amortisation	-2 571	-10	-6 017
Impairment losses	0	0	-18 280
At period end	51 365	77 123	53 936

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 March 2020, 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 14 September 2018, the Norwegian Tax Administration (Skatt Sør) excluded poLight ASA from the Norwegian VAT Register and claimed repayment of refunded VAT, with effect from 1 January 2013, of total NOK 13.6 million. The Norwegian Tax Administration claimed that the company was not capable of being profitable and does therefore not qualify as a "business" pursuant to the Norwegian laws and regulations regarding VAT. In September 2018, the decision was appealed, and the Tax Appeals Board (Skatteklagenemda) received the documents needed to adjudicate the matter in February 2019.

The entire claim was paid in 2018, except the additional associated taxes of NOK 1.2 million that will not be payable until a final decision is made. As per 31 March 2020, the monetary impact of the ruling amounted to NOK 19.0 million. The monetary effect of not being VAT registered was NOK 0.5 million in the quarter, increasing the expenditures recognised in the income statement.

