



poLight ASA Quarterly Report



2022

KEY EVENTS IN THE QUARTER

- Design-in¹ award and sample purchase order received for an augmented reality display case
- Follow-up order related to the scan engine EX30 (Honeywell)
- Augmented reality opportunity pipeline promising, both for short/medium-term professional use cases and longer-term consumer applications
- Despite a somewhat softer smartphone market due to the challenging situation in China, progress still being made on existing and new PoCs²
- Other application areas, such as medical and industrial are maturing

Øyvind Isaksen, CEO of poLight ASA:

“We made good progress in many areas during the quarter, although it was somewhat impacted by the challenging situation in China. Progress in the augmented reality cases we are exploring remains promising, and there are candidates for design-wins this year and onwards. With respect to smartphone cases, we see OEMs being more cautious about releasing new phone models, and we foresee this will impact the timing of the first smartphone case for poLight. That said, interest and activity related to TLens[®] has been, and remains, encouraging.”

Key figures

(in NOK million)	Q1 2022	Q1 2021	FY 2021
Revenue	1.5	1.5	10.0
Gross profit	0.8	1.2	6.2
EBITDA	-18.5	-20.2	-42.4
EBITDA ex share options	-17.9	-12.2	-31.2
Net cash flows used in operating activities	-6.0	-11.2	-49.5
Net increase/decrease in cash and cash equivalents	-7.6	-8.7	80.6

¹ Design-in means that the customer has started a product development project having the intention to use TLens in future product, and design-win means that the customer have decided to release a product to the market using TLens.

² PoC means Proof of concept projects (*i.e.* activity at the customer qualifying/testing the TLens[®] technology/product)

MANUFACTURING, PRODUCT DEVELOPMENT AND MARKETS

Manufacturing and operations

poLight works primarily with two categories of sub-contractors – a MEMS/wafer supplier (ST Microelectronics (ST) in Italy) and assembly partners. While ST produces the wafers/actuators, the assembly partners assemble the complete product. The polymer (*i.e.* lens material) is produced at poLight's headquarters.

poLight collaborates with two assembly partners in Asia. During the quarter, production has been ongoing at only one assembly partner. The focus has been on yield-improvement initiatives and securing supplies for existing and new customer projects. Major quality/yield improvements have been achieved during the quarter.

ST is currently processing a significant backlog of wafers ordered by poLight, which is scheduled to be cleared in the first half of 2023. Important changes to the wafers, intended to improve the optical performance of the TLens[®], proved successful during the quarter.

Lead-time and capacity constraints in the industry remain challenging and require long-term commitments regarding materials and capacity.

Product development / technology

During the quarter, most of the company's R&D resources were devoted to supporting ongoing customer projects and operational activities related to yield-improvement processes at assembly partners. On the development side, important improvement projects related to product performance and reliability enhancement were successfully carried out. Pre-studies related to new solutions for smartphone back camera applications progressed well and are being discussed with the ecosystem. Further new solutions related to augmented reality displays are being explored – based on same technology platform as TLens[®].

Markets

Customer-related activities continued at a high level in the first quarter. poLight is actively engaged in several segments. This includes consumer market devices, such as smartphones and accessories, as well as a broad range of professional applications, such as barcode readers, medical devices and augmented reality. 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 wide range of potential customers. Over time, this is expected to develop into a diversified revenue base for poLight.

Consumer market

The new camera module concept, based on add-in TLens[®] design, is continuing to open new opportunities for different applications. The focus during the quarter was on smartphone applications, but other applications are also being explored. These include webcam and, in the longer term, augmented reality cases. When it comes to the smartphone market, the company has increasingly started to promote solutions meant for back camera applications. Nevertheless, the selfie camera solution remains the most relevant in the short/medium term. As mentioned above, some of the Asian OEMs are suffering due to the situation in China (mainly Covid related), and this will impact the appetite to release new phone models. The first potential smartphone cases will therefore be pushed back from 2022 to 2023 and beyond. PoC projects continue, and good technical progress has been made.

At the close of the quarter, poLight's TLens[®] is being used in 10 ongoing Proof-of-Concept (PoC) projects relating to the consumer market. Three of the ongoing PoCs are consumer-oriented augmented reality cases.

Augmented reality (AR) market

During the quarter, the company received a design-in confirmation, including design of a custom package, and purchase order for TLens[®] worth in excess of NOK 3,500,000 to support the development of a display solution to be used in AR applications. This design-in award gives the company an important opportunity to position TLens[®] for another use case in the AR space.

TLens® is being considered by several other market players for use in next generation AR headsets, and testing/prototype building is continuing. The TLens® technology's low power consumption, no gravity sensitivity, high speed, and compactness are highlighted as key technical benefits. Currently, the company has one confirmed design-win and is engaged in five projects/design-ins (of which one is for a consumer application) and four ongoing PoCs (three of which are for consumer applications). The use case for TLens® mainly relates to world-facing cameras, but the company is also involved in display applications.

The AR market is entering a very important phase, and poLight expects to see several companies releasing new AR products in the coming years. Most of the initial customer cases relate to the professional/enterprise market, so the initial volumes will be relatively low. However, it is expected that over time AR devices will address the consumer market, prompting a significant increase in demand. However, this is likely to be some years down the road. In the longer term, the AR market is expected to be an important market for the company.

Industrial market

During the quarter, the company received a repeat order related to the EX30/Honeywell reader product. The customer is reporting good market feedback. This case represents an important reference for poLight and is clearly generating a lot of interest from other players in the market.

The company is currently involved in two projects (design-ins) and seven ongoing PoCs (two of which are for barcode applications).

Medical/Research

The Kavli design-win has generated a lot of activity, and the company is working on several similar new cases. This activity is mainly seen in terms of brand building and support for important research. The announced design-in related to the compact surgical device is progressing slowly but has the potential to be released to market this year. The company has identified other similar opportunities and sees this an important application area going forward.

The company is currently involved in one design-win (Kavli), one project (design-in) and 10 ongoing PoCs.

FINANCIAL REVIEW

Profit and loss

(in NOK million)	Q1 2022	Q1 2021	FY 2021
Revenue	1.5	1.5	10.0
Cost of sales	-0.7	-0.3	-3.9
Research and development expenses ¹⁾	-11.8	-9.2	-25.4
Sales and marketing expenses	-3.9	-1.3	-7.2
Operational / supply chain expenses	-1.6	-2.5	-9.1
Administrative expenses	-2.0	-8.4	-6.9
EBITDA	-18.5	-20.2	-42.4
Share option plan expense	1.4	1.1	4.4
Accrued employer's NICs re. share option plan	-0.8	6.9	6.9
EBITDA ex share options	-17.9	-12.2	-31.2
Depreciation and amortisation	-3.0	-3.0	-11.9
EBIT ex share options	-20.9	-15.3	-43.1

1) R&D expenses, net of government grants (see details of grants in Note 8)

Total revenue of NOK 1.5 million in Q1 2022 (NOK 1.5 million in Q1 2021) reflects deliveries of TLens® and ASICs for commercial use and deliveries of TLens® and ASICs for customer development projects.

R&D expenditures, net of government grants, amounted to NOK 11.8 million, compared with NOK 9.2 million in Q1 2021. The increase is attributable to increased use of internal resources on R&D projects, such as customer development projects and final test methodology development, but also increased use of materials for TLens® improvements.

Sales and marketing expenses came to NOK 3.9 million in Q1 2022 (NOK 1.3 million), mainly due to increased internal resource usage. Operational/supply chain expenses totalled NOK 1.6 million (NOK 2.5 million). The decrease is attributable to less material used for qualification runs at assembly lines.

Administrative expenses totalled NOK 2.0 million in the quarter compared with NOK 8.4 million in Q1 2021. The decrease is attributable to accrued employer's national insurance contributions (NICs) in Q1 2021, relating to the vested share options, whereof NOK 5.5 million has been recognised as administration expenses.

EBITDA totalled NOK -18.5 million (NOK -20.2 million).

Share option plan expenses amounted to NOK 1.4 million in Q1 (NOK 1.1 million), while accrued employer's national insurance contributions (NICs) amounted to NOK -0.8 million (NOK 6.9 million). The company pays employer's NICs on the difference between the share's market value and the option's strike price, at the date of exercise. The increase in accrued employer NICs in Q1 2021 was mainly attributable to the increase in poLight's share price in the period.

Depreciation and amortisation primarily related to non-current intangible assets totalled NOK 3.0 million in the quarter (NOK 3.0 million).

Balance sheet

(in NOK million)	Q1 2022	Q1 2021	FY 2021
Property, plant and equipment	3.6	0.9	2.4
Intangible assets	30.8	41.1	33.4
Right-of-use assets	4.5	0.6	4.8
Inventories	20.7	8.9	16.8
Receivables and prepayments	10.8	13.1	23.5
Cash and cash equivalents	150.2	68.4	157.8
Total equity	193.9	110.1	213.4
Total current liabilities	23.0	23.0	21.3
Total non-current liabilities	3.7	0.0	3.9
Total equity and liabilities	220.6	133.1	238.7

As at 31 March 2022, total assets came to NOK 220.6 million, compared with NOK 133.1 million as at 31 March 2021 and NOK 238.7 million as at 31 December 2021.

At the reporting date, intangible assets totalled NOK 30.8 million, compared with NOK 41.1 million as at 31 March 2021, reflecting amortisation during the year, and NOK 33.4 as at 31 December 2021. As at 31 March 2022, poLight had cash and cash equivalents totalling NOK 150.2 million, compared with NOK 68.4 million as at 31 March 2021 and NOK 157.8 million as at 31 December 2021.

At the close of the period, right-of-use assets amounted to NOK 4.5 million, compared with NOK 0.6 million as at 31 March 2021 and NOK 4.8 million as at 31 December 2021. The increase is attributable to a new lease for the company's headquarters in Horten, which was signed in the second quarter 2021. A corresponding liability was recognised in the second quarter 2021, increasing both current and non-current liabilities.

Total current liabilities amounted to NOK 23.0 as at 31 March 2022, compared with NOK 23.0 million as at 31 March 2021 and NOK 21.3 million as at 31 December 2021.

Cash flow

(in NOK million)	Q1 2022	Q1 2021	FY 2021
Net cash flow used in operating activities	-6.0	-11.2	-49.5
Net cash flow used in investing activities	-1.4	-0.2	-2.1
Net cash flow from/(used in) financing activities	-0.2	2.7	132.3
Net increase/decrease in cash and cash equivalents	-7.6	-8.7	80.6

The net cash flow used in operating activities totalled NOK -6.0 million in Q1 2022, compared with NOK -11.2 million in Q1 2021. The outstanding amount of the VAT claim (NOK 11 million) were received in the quarter in addition to government grants of NOK 2.5 million (NOK 0 million).

The net cash outflow from investing activities in Q1 2022 totalled NOK 1.4 million, compared with net cash outflow of NOK 0.2 million in Q1 2021. The net cash used in financing activities in Q1 2022 totalled NOK 0.2 million, compared with net cash flow received of NOK 2.7 million in Q1 2021.

The net decrease in cash and cash equivalents came to NOK 7.6 million for the quarter, compared with a decrease of NOK 8.7 million in the same period in 2021.

RISK FACTORS AND COVID-19

The risk factors associated with the Covid-19 pandemic relate the supply chain, inability to move employees/competence between Europe and Asia, and delays in customer qualification programmes and release plans. The above has been offset by strengthening the local organisation in Asia and take material commitment well in advance of customer needs.

Since polLight does not have any operations, customers or direct suppliers in Russia or Ukraine, except a consultant in Moscow, the war has so far not led to any direct consequences of significance for the operations in polLight, other than the general impact the war has on the global situation.

The Group's TLens[®] technology and products derived from this technology are involved in various qualification tests with the TLens[®] product family for various applications by potential customers. There can be no assurance that the TLens[®] products (or other products produced by the Group) will meet the performance parameters set by the potential customers, or by parties testing the Group's products at a later time. If the Group's products do not meet such performance parameters, the Group may be required to implement changes to its products or may not be able to enter into commercial agreements with potential customers. Any requirement to implement changes to the Group's products may imply a delay in the commercialisation of the Group's technology and may also entail significant costs that may not be recovered. Furthermore, there can be no assurance that changes to the Group's products will be sufficient to satisfy the demands of the Group's potential customers. Failure to enter into commercial agreements will have a material adverse effect on the Group's revenues, profitability and financial position.

Over the next 12 months, the Group's principal source of liquidity will still be cash generated from financing, equity and/or debt, in addition to net cash flows generated from sales. Accordingly, these consolidated financial statements have been prepared on the assumption that both the Group and the parent company are going concerns, and management confirms that this is an appropriate assumption.

OUTLOOK

The quarter has confirmed the potential in several market segments for both current and possible new products based on the same technology platform.

Activity within the AR area is strong and promising. A first design-win has been achieved and several design-in projects and PoCs are underway. poLight's technology seems to be a good fit for different AR applications. In the short/medium term, AR cases relate to professional applications and therefore smaller volumes. However, it is likely that AR use cases will eventually penetrate the consumer market, offering a significantly higher volume potential. The AR market is expected to be an important market for the company over time.

poLight continues to position itself with respect to smartphone applications, and good technical progress has been achieved during the quarter, even though all issues likely have not yet surfaced/been resolved. The situation in China (mainly Covid related) seems to be impacting commercial opportunities in the short term but has not changed poLight's view of the opportunities in this market. The potential smartphone cases will be pushed back from 2022 to 2023 and beyond.

Barcode and medical market opportunities are promising, and new opportunities are maturing. These are slow-moving markets and it will take time to establish a strong foothold. Tunable optics are gaining increased attention, and poLight is one of the key players in this important technology space. The focus area going forward will be smartphone, AR, barcode and medical applications.

FORWARD-LOOKING STATEMENTS

This report contains statements regarding the future. In particular, the section *"Outlook"* contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual results and developments deviating substantially from what has been expressed or implied in such statements. These factors include the risk factors relating to the Group's activities described in the section *"Risk factors and Covid-19"* above and in poLight's Annual Report for 2021, including the section *"Risks and risk management"* in the Board of Directors' Report.

CONDENSED INTERIM FINANCIAL STATEMENTS

Interim condensed consolidated statement of income

NOK 000	Note	Q1 2022	Q1 2021	FY 2021
Sale of goods		1 471	823	8 683
Sale of services		0	722	1 350
Revenue		1 471	1 545	10 032
Cost of sales		-685	-314	-3 851
Gross profit		786	1 230	6 182
Research and development expenses net of governmental grants	7,8	-11 750	-9 219	-25 360
Sales and marketing expenses		-3 876	-1 301	-7 224
Operational / supply chain expenses		-1 632	-2 505	-9 139
Administrative expenses	12	-1 980	-8 409	-6 868
Earnings before depreciation and amortisation (EBITDA)		-18 452	-20 204	-42 409
Depreciation and amortisation	9	-2 987	-3 032	-11 923
Operating loss (EBIT)		-21 439	-23 236	-54 332
Net financial items	6	546	225	944
Loss before tax		-20 893	-23 011	-53 388
Income tax expense		-1	-7	-93
Loss for the period		-20 895	-23 018	-53 481
Attributable to:				
Equity holders of the parent		-20 895	-23 018	-53 481
Earnings per share:				
Basic, attributable to ordinary equity holders of the parent (NOK)		-2.01	-2.54	-5.65
Diluted, attributable to ordinary equity holders of the parent (NOK)		-2.01	-2.54	-5.65

Interim consolidated statement of other comprehensive income

NOK 000	Note	Q1 2022	Q1 2021	FY 2021
Loss for the period		-20 895	-23 018	-53 481
Other comprehensive income				
Exchange differences on translation of foreign operations		-12	-39	-5
Income tax effect		0	0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-12	-39	-5
Total comprehensive income for the period, net of tax		-20 906	-23 057	-53 486
Attributable to:				
Equity holders of the parent		-20 906	-23 057	-53 486

Interim consolidated statement of financial position

NOK 000	Note	Q1 2022	Q1 2021	FY 2021
ASSETS				
Property, plant and equipment		3 566	937	2 356
Intangible assets	9	30 811	41 079	33 377
Right-of-use assets		4 512	645	4 778
Total non-current assets		38 889	42 661	40 511
Inventories		20 695	8 852	16 836
Trade and other receivables	8	8 122	8 727	22 078
Prepayments		2 706	4 421	1 456
Cash and cash equivalents		150 151	68 417	157 810
Total current assets		181 674	90 417	198 180
Total assets		220 563	133 077	238 691
EQUITY AND LIABILITIES				
Share capital		2 077	1 826	2 077
Share premium		813 664	683 411	813 632
Reserves		1 023	1 001	1 035
Retained earnings		-622 864	-576 178	-603 335
Equity attributable to equity holders of the parent		193 901	110 060	213 409
Non-controlling interests		0	0	0
Total equity		193 901	110 060	213 409
Lease liabilities		3 686	0	3 934
Total non-current liabilities		3 686	0	3 934
Trade and other payables	10	21 515	21 242	19 906
Current lease liabilities		961	586	942
Provisions		500	1 189	500
Total current liabilities		22 976	23 018	21 349
Total liabilities		26 662	23 018	25 282
Total equity and liabilities		220 563	133 077	238 691

Interim consolidated statement of changes in equity

NOK 000	Note	Attributable to equity holders of the parent				Total
		Share capital	Share premium	Retained earnings	Translation reserve	
As at 1 January 2021		1 810	680 229	-554 238	1 040	128 840
Loss for the period				-23 018		-23 018
Other comprehensive income					-39	-39
Total comprehensive income		0	0	-23 018	-39	-23 057
Issue of ordinary shares						0
Share options exercised		16	3 188			3 204
Transaction costs			-6			-6
Equity-settled share-based payment				1 078		1 079
As at 31 March 2021		1 826	683 411	-576 178	1 001	110 060
As at 1 January 2022		2 077	813 632	-603 335	1 035	213 409
Loss for the period				-20 895		-20 895
Other comprehensive income					-12	-12
Total comprehensive income		0	0	-20 895	-12	-20 906
Share options exercised		0	33			33
Equity-settled share-based payment				1 366		1 366
As at 31 March 2022		2 077	813 664	-622 864	1 023	193 901

Interim consolidated statement of cash flows

NOK 000	Note	Q1 2022	Q1 2021	FY 2021
Operating activities				
Loss before tax		-20 893	-23 011	-53 388
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets		420	465	1 654
Amortisation of intangible assets	9	2 567	2 567	10 269
Net finance income		-546	-225	-944
Equity-settled share-based payments		1 366	1 079	4 385
Other non-cash items		-173	219	937
Changes in unrealised net foreign exchange rate differences/fluctuations		37	73	21
Changes in working capital:				
Decrease (+) in trade and other receivables and prepayments		10 942	-546	-11 332
Increase (-) in inventories		-3 860	314	-7 669
Increase (+) in trade and other payables	10	1 609	10 558	9 223
Changes in provisions and government grants		1 764	-2 665	-2 954
Interest received	6	808	19	585
Interest paid	6	-89	-11	-203
Income tax paid		-1	-7	-129
Net cash flows used in operating activities		-6 049	-11 170	-49 546
Investing activities				
Purchase of property, plant and equipment		-1 365	-247	-2 142
Net cash flows used in investing activities		-1 365	-247	-2 142
Financing activities				
Proceeds from issue of ordinary shares		0	0	137 803
Proceeds from exercise of share options		33	3 204	3 397
Transaction costs on issue of shares		0	-6	-7 530
Payment of lease liabilities		-229	-462	-1 355
Net cash flows from/(used in) financing activities		-196	2 736	132 315
Net increase in cash and cash equivalents		-7 610	-8 681	80 627
Effect of exchange rate changes on cash and cash equivalents		-49	-112	-26
Cash and cash equivalents at the start of the period		157 810	77 209	77 209
Cash and cash equivalents at the close of the period		150 151	68 417	157 810

Notes to the condensed interim consolidated financial statements

1 General

polight ASA is a public limited liability company. It was founded in 2005 and is incorporated and domiciled in Norway. The address of its registered office is Innlaget 230, 3185 Skoppum, Norway.

polight offers a new autofocus lens, which "replicates" the human eye, for use in devices such as smartphones, wearables, barcode readers, machine vision systems and various types of 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 interim condensed consolidated financial statements for the quarter ended 31 March 2022 are unaudited and have been prepared in accordance with IAS 34. These interim condensed consolidated 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 2021.

These interim consolidated financial statements have been prepared on a historical cost basis, 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 these interim condensed consolidated financial statements are consistent with the consolidated financial statements for the year ended 31 December 2021.

4 Significant accounting judgements, estimates and assumptions

Management makes accounting judgements on development costs. Key significant estimates are made regarding impairment of intangible assets and the accounting for share option plans, described in the Consolidated Financial Statements for the year ended 31 December 2021.

5 Specification of operating expenses by nature

<i>(in NOK 000)</i>	Q1 2022	Q1 2021	FY 2021
Employee benefits expense ¹⁾	10 628	16 116	46 866
Depreciation and amortisation	2 987	3 032	11 923
Other operating expenses	8 610	5 317	1 726
Total operating expenses	22 225	24 465	60 514

1) Including consultants engaged on long-term contracts

6 Financial items

(in NOK 000)	Q1 2022	Q1 2021	FY 2021
Net foreign exchange gain (loss)	169	104	-134
Interest income	465	133	1 365
Interest expense on lease liabilities	-89	-11	-203
Financial expenses	0	-1	-83
Net financial items	546	225	944

7 Research and development expenses

(in NOK 000)	Q1 2022	Q1 2021	FY 2021
Employee ²⁾ benefits expense	5 497	5 357	19 500
Other operating expenses	7 019	6 527	17 747
Government grants	-765	-2 665	-11 886
Total	11 751	9 219	25 360

2) Including consultants engaged on long-term contracts

8 Government grants

(in NOK 000)	Q1 2022	Q1 2021	FY 2021
Net receivables at the start of the period	7 280	5 014	5 014
Grants received	-2 530	0	-9 621
Released to the statement of profit and loss	765	2 665	11 886
Net receivables at the close of the period	5 515	7 679	7 280

9 Intangible assets

(in NOK 000)	Q1 2022	Q1 2021	FY 2021
At the start of the period	33 377	43 646	43 646
Amortisation	-2 567	-2 567	-10 269
At the close of the period	30 811	41 079	33 377

polLight's operations constitute one single cash generating unit (CGU) for impairment assessment purposes, the TLens[®] technology platform. Indicators of impairment of the TLens[®] technology have been assessed, and none identified.

10 Trade and other payables

(in NOK 000)	Q1 2022	Q1 2021	FY 2021
Trade payables	7 607	3 003	4 518
Other payables	5 848	9 300	6 490
Accrued employer's NICs on share option plan	8 061	8 940	8 898
At the close of the period	21 515	21 242	19 907

11 Related party transactions

poLight ASA is the ultimate parent company. None of the shareholders of poLight ASA has control of the company. As at 31 March 2022, the largest shareholder was Investinor Direkte AS, which owned 17.14 per cent of the shares.

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

12 Events after the reporting date

No significant events have occurred after the reporting date that have a material effect on the financial statements.

ALTERNATIVE PERFORMANCE MEASURES (APMs)

poLight uses the following alternative performance measures for interim and annual financial reporting, in order to provide a better understanding of the Group's underlying financial performance:

EBITDA	Earnings before interest, taxes, depreciation and amortisation.
EBITDA ex share options	EBITDA excluding share option plan expense incl. changes in accrued employer's NICs
EBIT	Earnings before interest and taxes
EBIT ex share options	EBIT excluding share option plan expense incl. changes in accrued employer's NICs

