



## **IMPACT COATINGS AB (PUBL), INTERIM REPORT APRIL-JUNE 2018**

### **FINANCIAL RESULTS SECOND QUARTER 2018**

- Net sales amounted to SEK 2 648 thousand (2 783)
- Operating profit amounted to SEK -13 528 thousand (-13 998)
- Net income after financial items amounted to SEK -13 527 thousand (-14 403)
- Cash flow amounted to SEK -11 698 thousand (3 937)
- Equity-to-assets ratio amounted to 77.9% (77.6%)

### **FINANCIAL RESULTS FIRST HALF 2018**

- Net sales amounted to SEK 9 788 thousand (21 234)
- Operating profit amounted to SEK -19 628 thousand (-14 402)
- Net income after financial items amounted to SEK -19 647 thousand (-14 408)
- Cash flow amounted to SEK -15 464 thousand (-8 222)
- Equity-to-assets ratio amounted to 77.9% (77.6%)

### **SIGNIFICANT EVENTS SECOND QUARTER 2018**

- New board members elected at the AGM
- New interim CEO, Torbjörn Sandberg
- Delivery of coating machine to Xin Point (China)

### **SIGNIFICANT EVENTS AFTER PERIOD-END**

- Machine order from Varioplast (Germany)
- Orders from China Hydrogen Energy and Huaqing Power Technology treated as no longer valid following thorough review
- Former CEO terminated after preliminary findings of independent investigation

*Impact Coatings develops and delivers world-leading technology for industrial PVD-coatings with a focus on fuel cell, decorative, metallization, and reflector applications. PVD is a method of, under vacuum, producing thin layers of metals and ceramics – surface coatings that maximize performance and durability. Impact Coatings markets coating equipment under the trade name INLINECOATER™ and coatings under MAXPHASE™. The company's shares trade on the Nasdaq First North exchange (Nasdaq OMX Nordic). The company's Certified Adviser is Redeye AB.*

For more information visit [www.impactcoatings.com](http://www.impactcoatings.com).

## CEO's COMMENTARY

I started as interim CEO of Impact Coatings at the end of May. During the more than two months that have passed, my conviction has grown stronger that the company has very good potential to establish itself as a leading supplier of coatings for fuel cells, reflectors and exclusive consumer products. I am very impressed by the competence, energy, and ambition of the Impact Coatings team.

Our customers are clearly satisfied with our offering and with us as a company. The German company Varioplast has after the period end ordered an additional coating machine from us, and at the end of the quarter we delivered a coating machine to Xin Point in southern China – in both cases the result of several years' evaluation of our production solution for metallization on plastic.

At the same time one can see that better commercial processes and a more efficient organization will be required to increase value creation over time. To this end, a review of the company's customers, partners and suppliers is being carried out.

In connection with my starting, an objective review of the company was carried out to identify both strengths and areas needing development. Given that there were two major orders from China that had been delayed on several occasions, it was necessary to initiate a dedicated investigation concerning their status. The conclusion was that they can no longer be considered valid, since the customers could not demonstrate when payment could take place. In one case, a deposit had been paid, which will not be refunded. The situation with the two orders is highly regrettable, and is a clear signal to the company about the importance of risk assessment and commercial discipline that we will carry forward into future negotiations.

We see great interest in our offering for Decorative, Metallization and Reflective coatings. We estimate that the potential in the short and medium term is high in this segment, and that it offers the fastest path to profitability. We will therefore add additional resources in this area to be able to capitalize on the opportunities.

We will continue to work strategically with fuel cells, focusing on the industry-leading companies in the fuel cell industry, car manufacturers, and those suppliers on which car manufacturers have chosen to focus. We will not, however, work with companies that lack long-term financing, have an appreciably high commercial risk profile, or otherwise cannot be considered a strategic future customer or business partner.

A renewed contact at management level has been initiated with Optorun (Japan), with which we have distribution and supply agreements, to evaluate the future business potential. Previously communicated sales estimates connected to these agreements are being reviewed.

Impact Coatings is a company with great potential, and we will work hard over the long term, in a structured and goal-oriented manner, to grow and become profitable. To succeed, we will do all we can to recruit employees who have the same capacity and professionalism as our staff today.

Torbjörn Sandberg

## FINANCIAL RESULTS

### Second quarter 2018

Revenue for the second quarter amounted to SEK 2,648 thousand (2,783) and operating profit was SEK -13,258 thousand (-13,998). Profit before depreciation and other operating expenses was SEK -12,717 thousand (-13,493). Profit before tax amounted to SEK -13,527 thousand (-14,403). Cash flow amounted to SEK -11 698 thousand (3 937).

Cash flow from operating activities during the period amounted to SEK -11 698 thousand (3 937).

Cash flow from investing activities amounted to SEK 0 thousand (-1 340).

Cash flow from financing activities amounted to SEK 0 (0). Total cash flow for the period was SEK -11,698 thousand (-3,937).

During the period, a machine under production and part of the inventory of raw materials and consumables have been revalued. The net effect of the revaluation has been a reduction in operating profit for the period by SEK -2,780 thousand.

Provisions for deferred tax assets have, as in previous years' accounts, not been made.

### First half 2018

Revenue for the period January-June amounted to SEK 9 788 thousand (21 234). Gross profit amounted to SEK 4,097 thousand, 41.9% of sales (3,352, 15.8%). Operating expenses amounted to SEK -29,416 thousand (-35 636). Earnings before depreciation and other operating expenses amounted to SEK -18,004 thousand (-13,498). Profit before tax amounted to SEK -19,647 thousand (-14,408). Cash flow amounted to SEK -15,446 thousand (-8,222).

Cash flow from operating activities amounted to SEK -15,394 thousand during the period (-6,882).

Cash flow from investing activities amounted to SEK 0 thousand (-1 340).

Cash flow from financing activities amounted to SEK -70 thousand (0). Total cash flow for the period amounted to SEK -15,464 thousand (-8,222).

Provisions for deferred tax assets have, as in previous years' accounts, not been made.

### Financial position and liquidity

Liquid assets at period end amounted to SEK 49 922 thousand (13 925).

Equity-to-assets ratio amounted to 77.9% (77.6%).

## EVENTS DURING THE SECOND QUARTER

The AGM was held in Linköping on May 17. At the AGM three new members were elected to the board of directors, Mark H. Shay (Chairman), Tanja Vainio and Lars-Gunnar Skötte, and two members were re-elected, Jan-Eric Sundgren and Christian Sahlén.

With the goal of helping the company become financially self-sufficient, the board of directors on May 27 replaced the company CEO and co-founder Henrik Ljungcrantz. Torbjörn Sandberg was appointed interim CEO, with qualifications as CEO of both publicly listed and privately-owned technology companies. The process to recruit a permanent CEO has started, with the goal of filling the role by year-end.

During June, an INLINECOATER™M was delivered according to plan to the Chinese producer of automotive components Xin Point. The coating machine, which was ordered in October 2017, will be used for decorative plastic components. The customer paid upon delivery in accordance with the sale agreement. Final acceptance and final payment will occur after completed installation.

## EVENTS AFTER PERIOD END

After the period end, Varioplast GmbH (Germany) ordered an INLINECOATER™M coating machine. Varioplast has since 2013 been using coating equipment from Impact Coatings for metallization of plastic components for the automotive industry, which is the intended purpose of the new machine as well.

Under Impact Coatings' new leadership, the previously communicated orders from China Hydrogen Energy and Huaqing Power Technology were subject to review. The review concluded that the likelihood of the customers fulfilling their obligations in the agreements is sufficiently low that the orders should be considered no longer valid. This was communicated in a press release on July 12.

On July 24 the company communicated that former CEO Henrik Ljungcrantz was terminated with immediate effect and without further severance payments. The reason was an ongoing investigation by PWC, at the request of the board of directors, which indicates that Henrik Ljungcrantz violated rules concerning reimbursement of expenses during several years. The board will hand over the final investigation report, expected during September 2018, to the Swedish Economic Crime Authority and will call shareholders to an extraordinary general meeting whose purpose will be the replacement of the company auditor.

## BUSINESS DEVELOPMENT

The Impact Coatings board of directors has together with the executive management following the AGM in May updated the company's strategy. The new direction can be summarized in three main points:

- 1) Impact Coatings will build a **profitable and long-term sustainable business around Decorative, Metallization, and Reflective coatings (D/M/R)**, where the company has a clear offering and competitive advantages. The company has satisfied customers, of which several are repeat-customers, and a good balance of price vs. costs, which means the board and management see the potential to realize margins that can help the company become financially self-sufficient.
- 2) The Fuel Cell (FC) segment has significant growth potential, which we will exploit leveraging the unique qualities of Impact Coatings' technology. **The company will focus its sales activities on a prioritized group of fuel cell industry leaders.**
- 3) **Production capacity, final assembly, and test will be developed internally** to build knowledge and retain margins.

The updated strategy will be presented in further detail via a webcast during September. A separate invitation will be published in the coming weeks.

The internal coating business is increasing in importance, both with respect to coating services and customer samples. Order flow and inquiries about coating of fuel cell plates are increasing. To meet demand, one of the INLINECOATER FC machines that was initially built for delivery to China has been moved to the internal coating operation.

The coating machine developed under the EuroStar Pro-FC program continues to be optimized at Impact Coatings' premises and will be relocated to Borit NV (Belgium) at a time still to be determined.

## AUDIT AND ACCOUNTING POLICIES

With the transition to serial production, revenue and profit from machine sales will be recognized upon delivery to the customer.

This interim report has not been subject to auditor review.

## UPCOMING FINANCIAL EVENTS

Strategy webcast: September 2018 (date TBD)

Interim report for the third quarter 2018: 26 October 2018

Year-end report for 2018: 15 February 2019

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*Impact Coatings AB (publ) is required to disclose this information in accordance with EU market abuse regulations. The information was delivered, via the contact persons named above, for publication on 17 August 2018, 8:00 a.m. CET.*

**INCOME STATEMENT**

| <i>(All amounts in SEK '000)</i>                              | Apr-Jun<br>2018 | Apr-Jun<br>2017 | Jan-Jun<br>2018 | Jan-Jun<br>2017 | Jan-Dec<br>2017         |
|---|-----------------|-----------------|-----------------|-----------------|-------------------------|
| Nett revenue  | 2 612           | 1 305           | 9 788           | 19 745          | 25 014                  |
| Capitalized work for own account                              | 0               | 1 340           | 0               | 1 340           | 5 360                   |
| Other operating income  | 36              | 138             | 0               | 149             | 44                      |
| <b>Total income</b>   | <b>2 648</b>    | <b>2 783</b>    | <b>9 788</b>    | <b>21 234</b>   | <b>30 418</b>           |
| Cost of goods sold  | -5 446          | -7 424          | -5 691          | -17 882         | -23 425                 |
| Gross margin  | -2 798          | -4 641          | 4 097           | 3 352           | 6 993                   |
| Gross margin%   | -105,7          | -166,8          | 41,9            | 15,8            | 23,0                    |
| Other external cost   | -4 673          | -3 847          | -11 668         | -7 998          | -14 752                 |
| Personnel cost  | -5 246          | -5 005          | -10 433         | -8 852          | -20 663                 |
| Write offs and depreciation of tangible and Intangible assets | -452            | -307            | -904            | -614            | -1 216                  |
| Other operating expenses                                      | -359            | -198            | -720            | -290            | -473                    |
| <b>Operating profit</b>                                       | <b>-13 528</b>  | <b>-13 998</b>  | <b>-19 628</b>  | <b>-14 402</b>  | <b>-30 111</b>          |
| Interest income and similar items                             | 1               | 0               | 0               | 0               | 1 777                   |
| Interest expenses and similar items                           | 0               | -5              | -19             | -6              | -1 553                  |
| <b>Operating profit after financial items</b>                 | <b>-13 527</b>  | <b>-14 003</b>  | <b>-19 647</b>  | <b>-14 408</b>  | <b>-29 887</b>          |
| Tax expense on profits in the period <sup>1</sup>             | 0               | 0               | 0               | 0               | 0                       |
| <b>Net income for the period</b>                              | <b>-13 527</b>  | <b>-14 003</b>  | <b>-19 647</b>  | <b>-14 408</b>  | <b>-29 887</b>          |
| Earnings per share (SEK)                                      | Neg             | Neg             | Neg             | Neg             | Neg                     |
| Average shares outstanding during the period                  | 42 551908       | 32 479 180      | 42 551908       | 32 479 180      | 32 479180               |
| Shares outstanding at period end                              | 42 551908       | 32 479 180      | 42 551908       | 32 479 180      | 42 551 908 <sup>2</sup> |

<sup>1</sup> Tax is calculated solely for the full year results in conjunction with closing of the annual accounts

<sup>2</sup> Share issuance of 10 415 144 shares, subscribed 19 December 2017 and registered 15 January 2018

**BALANCE SHEET**

| <i>(All amounts in SEK'000)</i>                 | 2018-06-30     | 2017-06-30    | 2017-12-31     |
|---|----------------|---------------|----------------|
| <b>ASSETS</b>                                   |                |               |                |
| <b>Long term assets</b>                         |                |               |                |
| Capitalized development expenditures            | 5 309          | 3 417         | 5 931          |
| Machines and technical equipment                | 3 476          | 4 040         | 7 235          |
| Inventory, tools and finished goods             | 0              | 23            | 0              |
| <b>Financial assets</b>                         |                |               |                |
| Shares in subsidiary                            | 100            | 100           | 100            |
| <b>Total long term assets</b>                   | <b>8 885</b>   | <b>7 580</b>  | <b>13 266</b>  |
| <b>Short term assets</b>                        |                |               |                |
| Raw materials                                   | 10 798         | 6 950         | 4 395          |
| Work in progress                                | 5 162          | 5 500         | 5 500          |
| Accrued revenue                                 | 14 105         | 10 280        | 7 371          |
| Other short term receivables                    | 16 782         | 3 734         | 26 386         |
| Cash and liquid assets                          | 49 922         | 13 925        | 65 386         |
| <b>Total short term assets</b>                  | <b>96 769</b>  | <b>40 389</b> | <b>109 038</b> |
| <b>TOTAL ASSETS</b>                             | <b>105 654</b> | <b>47 969</b> | <b>122 304</b> |
| <b>SHAREHOLDERS EQUITY AND LIABILITIES</b>      |                |               |                |
| Shareholder equity                              | 82 270         | 22 798        | 101 987        |
| Deffered revenue                                | 13 617         | 3 897         | 9 778          |
| Other short term liabilities <sup>3</sup>       | 9 767          | 21 274        | 10 539         |
| <b>TOTAL SHAREHOLDER EQUITY AND LIABILITIES</b> | <b>105 654</b> | <b>47 969</b> | <b>122 304</b> |
| <sup>3</sup> of which interest bearing debts    | 0              | 11 000        | 2 061          |
| Pledged assets                                  | 0              | 0             | 8 000          |
| Contingent liabilities                          | 100            | 100           | 100            |

**CHANGES OF SHAREHOLDER EQUITY**

| <i>(All amounts in SEK'000)</i>              | 2018-06-30              | 2017-06-30    | 2017-12-31              |
|--|-------------------------|---------------|-------------------------|
| Opening balance                              | 101 987                 | 37 206        | 37 206                  |
| Share issuance                               | -70                     | 0             | 94 668                  |
| Net income for the period                    | -19 647                 | -14 408       | -29 887                 |
| <b>Ending balace</b>                         | <b>82 270</b>           | <b>22 798</b> | <b>101 987</b>          |
| Average shares outstanding during the period | 42 551 908              | 32 136 764    | 32 479 180              |
| Shares outstanding at period end             | 42 551 908 <sup>2</sup> | 32 136 764    | 42 551 908 <sup>2</sup> |

<sup>2</sup> Share issuance of 10 415 144 shares, subscribed 19 December 2017 and registered 15 January 2018

**STATEMENT OF CASH FLOWS**

| <i>(All amounts in SEK'000)</i>                                   | Apr-Jun<br>2018 | Apr-Jun<br>2017 | Jan-Jun<br>2018 | Jan-Jun<br>2017 | Jan-Dec<br>2017 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Operating profit after depreciation                               | -13 527         | -13 998         | -19 628         | -14 402         | -30 111         |
| Financial items (net)   | 1               | -5              | -19             | -6              | -1 553          |
| Adjustment for non-cash items                                     | 452             | 307             | 3 684           | 615             | 1 216           |
| <b>Cash flow from operations before change in working capital</b> | <b>-13 074</b>  | <b>-13 696</b>  | <b>-15 963</b>  | <b>-13 793</b>  | <b>-30 448</b>  |
| Change in working capital   | 1 376           | 18 973          | 569             | 6 911           | -13 353         |
| <b>Cash flow from operations</b>                                  | <b>-11 698</b>  | <b>5 277</b>    | <b>-15 394</b>  | <b>-6 882</b>   | <b>-43 801</b>  |
| Cash flow from investments  | 0               | -1 340          | 0               | -1 340          | -7 628          |
| Cash flow from financing activities                               | 0               | 0               | -70             | 0               | 94 668          |
| <b>Cash flow for the period</b>                                   | <b>-11 698</b>  | <b>3 937</b>    | <b>-15 464</b>  | <b>-8 222</b>   | <b>43 239</b>   |
| Liquid assets, opening balance                                    | 61 620          | 9 988           | 65 386          | 22 147          | 22 147          |
| <b>Liquid assets ending balance</b>                               | <b>49 922</b>   | <b>13 925</b>   | <b>49 922</b>   | <b>13 925</b>   | <b>65 386</b>   |
| <b>Liquidity ratio, %</b>   | <b>346</b>      | <b>315</b>      | <b>346</b>      | <b>315</b>      | <b>457</b>      |

## SUMMARY OF FINANCIAL DEVELOPMENT

The financial development of Impact Coatings AB for the period January to June 2018 and 2014 - 2017 is summarized below.

All figures related to the operating years 2014 -2017 are based on material from previously published annual reports.

| <i>(All amounts in SEK'000)</i>              | 2018    | 2017       | 2016                     | 2015                    | 2014                    |
|--|---------|------------|--------------------------|-------------------------|-------------------------|
| Revenue                                      | 9 788   | 25 014     | 24 201                   | 22 496                  | 5 966                   |
| Operating profit                             | -19 628 | -30 111    | -6 912                   | -12 039                 | -20 772                 |
| Result after financial items ( net)          | -19 647 | -29 887    | -6 917                   | -12 524                 | -20 663                 |
| Operating margin                             | %       | Neg        | Neg                      | Neg                     | Neg                     |
| Intangible assets                            | 5 309   | 5 932      | 2 091                    | 40                      | 66                      |
| Tangible assets                              | 3 476   | 7 235      | 4 664                    | 7 087                   | 11 526                  |
| Financial assets                             | 100     | 100        | 100                      | 100                     | 100                     |
| Inventory                                    | 15 960  | 9 895      | 9 627                    | 7 243                   | 7 311                   |
| Short term accruals                          | 30 887  | 35 485     | 17 251                   | 5 285                   | 2 129                   |
| Cash and liquid assets                       | 49 922  | 65 386     | 22 147                   | 1 956                   | 10 260                  |
| Shareholder equity                           | 82 270  | 101 987    | 37 206                   | 14 551                  | 27 075                  |
| Long term liabilities                        | 0       | 0          | 0                        | 0                       | 0                       |
| Short term liabilities                       | 23 384  | 20 317     | 18 674                   | 7 160                   | 4 317                   |
| Total assets                                 | 105 654 | 124 032    | 55 880                   | 21 711                  | 31 392                  |
| Return on assets                             | %       | Neg        | Neg                      | Neg                     | Neg                     |
| Return on equity                             |         | Neg        | Neg                      | Neg                     | Neg                     |
| Equity/asset ratio                           |         | 77,9       | 85,4                     | 66,6                    | 67,0                    |
| Debt ratio                                   | times   | 0          | 0,02                     | 0                       | 0                       |
| Interest coverage ratio                      |         | Neg        | Neg                      | Neg                     | Neg                     |
| Liquidity ratio                              | %       | 346        | 457                      | 211                     | 101                     |
| Employees                                    |         | 21         | 21                       | 19                      | 18                      |
| Investments                                  |         |            |                          |                         |                         |
| Intangible assets                            |         | 0          | 4 151 <sup>9</sup>       | 2 077 <sup>8</sup>      | 0                       |
| Tangible assets                              |         | 0          | 3 477                    | 0                       | -2 708 <sup>6</sup>     |
| Financial assets                             |         | 0          | 0                        | 0                       | 100                     |
| Earnings per share                           | SEK     | Neg        | Neg                      | Neg                     | Neg                     |
| Average shares outstanding during the period |         | 42 551 908 | 32 479 180               | 31 193 526              | 30 250 288              |
| Shares outstanding at period end             |         | 42 551 908 | 42 551 908 <sup>10</sup> | 32 136 764 <sup>7</sup> | 30 250 288 <sup>5</sup> |

<sup>4</sup> Of the year's investments of 5 373 ,5 282 represents a re-classification from short term accruals to machines and technical equipment.

<sup>5</sup> Share issuance of 3 952 227 shares, subscribed and registered June 2013.

<sup>6</sup> Share issuance of 10 083 429 shares subscribed 13 June 2014 and registered 3 July 2014.

<sup>7</sup> Share issuance of 1 886 476 shares subscribed 23 March 2016 and registered 1 April 2016

<sup>8</sup> Investment of 2 077 TSEK represents a re-classification from development expenses to intangible assets.

<sup>9</sup> Investments of 4 151 TSEK represents a re-classification from development expenses to intangible assets.

<sup>10</sup> Share issuance of 10 415 144 subscribed 19 December 2017 and registered 15 January 2018

**Definition of terms**

|                                |   |
|--------------------------------|---|
| <i>Operating margin</i>        | <i>Operating profit after financial items divided by revenue</i>                      |
| <i>Shareholder equity</i>      | <i>Sum total of shareholder equity, restricted reserves and non-restricted equity</i> |
| <i>Return on assets</i>        | <i>Operating profit before interest divided by average capital employed</i>           |
| <i>Return on equity</i>        | <i>Net income after tax divided by average shareholder equity</i>                     |
| <i>Equity/assets ratio</i>     | <i>Shareholder equity divided by balance sheet total</i>                              |
| <i>Debt ratio</i>              | <i>Interest bearing debts divided by shareholder equity</i>                           |
| <i>Interest coverage ratio</i> | <i>Operating profit before interest expenses divided by interest expenses</i>         |
| <i>Earnings per share</i>      | <i>Net income after tax divided by average number of shares</i>                       |
| <i>Liquidity ratio</i>         | <i>Cash and short term assets excl. inventory divided by short term liabilities</i>   |