

Smart Eye Interim Report 1 January–30 June 2017



Summary

Q2 2017

- Net revenue amounted to TSEK 12,114 (10,486), equivalent to an increase of just over 15%.
- The operating result was TSEK -9,306 (-3,867), which is in line with the determined expansion with investments in primarily personnel, marketing and sales activities.
- The result after financial items was TSEK -9,435 (-4,240).
- Profit per share was negative.
- Cash and cash equivalents amounted to TSEK 43,244 as at the end of June.
- During the period, the establishment of a sales office in the USA proceeded according to plan, with the recruitment of two sales executives with considerable experience from sale of advanced technical systems.
- Smart Eye was awarded a new design win from a European premium vehicle manufacturer after the end of the period.

January–June 2017

- Net revenue amounted to TSEK 19,747 (16,077), equivalent to an increase of just over 22% compared to the previous year.
- Operating profit amounted to TSEK -18,469 (-7,688).
- The result after financial items was TSEK -18,717 (-8,464).
- The result after tax per share was negative.

Financial Summary

TSEK	April–June		January–June		Full year
	2017	2016	2017	2016	2016
Net revenue	12,114	10,486	19,747	16,077	40,743
Operating costs	-24,828	-17,987	-44,970	-30,481	66,708
Operating profit/loss	-9,306	-3,867	-18,469	-7,688	-11,159
Operating margin, %	neg.	neg.	neg.	neg.	neg.
Profit/loss after tax	-9,435	-4,224	-18,717	-8,464	-12,403
Profit per share*, SEK	neg.	neg.	neg.	neg.	neg.
Profit per share after full dilution*, SEK	—	—	—	—	neg.
Return on total capital	—	—	—	—	neg.
Equity per share*, SEK	—	—	9.75	6.35	14.13
Equity per share after full dilution*, SEK	—	—	9.51	6.14	13.71
Equity ratio	—	—	—	—	83%
Number of shares*	9,910,892	6,817,842	9,910,892	6,817,842	8,160,892
Number of shares after full dilution*	10,160,892	7,052,842	10,160,892	7,052,842	8,410,892

* Concerns the 2016 full year: does not include shares from the new issue before listing on Nasdaq First North, which took place in December 2016 and was registered in January 2017.

Comments from the CEO

Q2 2017 shows that Smart Eye is continuing to develop according to plan. Thanks to intensive cooperation with our customers, we achieved a 74% revenue increase for the Applied Solutions business area. After the end of the reporting period, we were awarded our third design win.

The automotive industry is making major investments to develop technology to improve active safety. A large number of procurement procedures are being held by strategically important vehicle manufacturers. The companies which win these contracts in these early development phases have good opportunities to continue to develop together with OEM. We consider Smart Eye to be well-positioned to be one of the nominated companies, which in turn indicates stable income flows for the Applied Solutions business area for many years to come.

For many years, the automotive industry has worked to increase traffic safety. The initial focus was on developing passive safety, which concerns minimising the consequences of any accidents that occur. Today, there is also focus on increasing active safety by implementing systems to reduce the risk of accidents even occurring. The aim is for traffic accidents to be something we can read about in the history books. This will require autonomous vehicles.

Autonomous vehicles are defined at five levels, of which level 1 means that the vehicle alerts the driver of any risks, and level 5 signifies that the vehicle is completely autonomous, with no interaction with the driver being required. Until recently, no vehicles had achieved higher than level 2, but this year the first level-3 vehicles were presented by the

automotive industry. This major new step means that in certain specific situations, the driver does not have to steer the car at all. Smart Eye believes that driver monitoring will be a central element of autonomous vehicles up to and including level 3. The result will be cars that can adjust their rhythm and distance to other vehicles, but that are also completely autonomous in certain traffic situations. The system is a major step forward for traffic safety.

The work on Smart Eye's two design wins is running according to plan and we are an attractive collaboration partner, thanks to good access to and knowledge of the latest AI technology. In August, Smart Eye was awarded a third design win from an OEM in the premium segment that Smart Eye previously has not worked with. Together with a leading Tier 1 supplier, we will deliver a Driver Monitoring system for a vehicle model based on the vehicle manufacturer's next production platform. The model is expected to go into production in 2019.

The company and Research Instruments products enable customers to measure, monitor and analyse human behaviour in various interesting situations. Development in the university world, space research and the aviation industry, for example, is positive, and Smart Eye is continuing to consolidate itself as a reliable supplier of eyetracking systems to help customers to understand human behaviour. The high investment rate within Research Instruments is in accordance with the long-term plan. This plan requires us to be there for our customers, in order to give on-site support when needed. This means that we are very happy to welcome our first American employees in Detroit!

Group Summary

Income and results

April–June 2017

The net revenue for the period from April to June 2017 was TSEK 12,114 (10,846), which is an increase of just over 15%. The increase is related mainly to increased project revenue within the Applied Solutions business area. Research Instruments underperformed slightly compared to Q2 of the previous year due to orders which customers have required to be deferred until Q3.

Other operating revenue, mainly related to external research projects, amounted to TSEK 0 (26). Capitalised work for own account amounted to TSEK 3,407 (3,608) for the period.

The company's total revenue amounted to TSEK 15,521 (14,119) during the period.

The operating result for the period was TSEK –9,306 (–3,867). The change in the result is mainly attributable to the adopted expansion, with an increase in the number of new staff recruitments, as well as geographical expansion.

During the period, the company started up its activities in the USA and incurred moderate costs in Smart Eye International Inc. In future, consolidated accounts will therefore be presented.

The net revenue for the Applied Solutions business area was TSEK 7,211 for Q2 2017, compared with TSEK 4,128 for Q2 2016. The intensification of existing projects is the basis for the increase in income.

The net revenue for the Research Instruments business area was TSEK 4,909 for Q2 2017, compared with TSEK 6,356 for Q2 2016. This is a reduction from the same quarter of the previous year and is based on orders which customers have required to be deferred until Q3.

January–June 2017

The net revenue for the period from January to June 2017 was TSEK 19,747 (16,077), which is an increase of just over 22%. The increase is related mainly to increased project revenue within the Applied Solutions business area. Research Instruments showed rather slower development at the end of the period, compared to the previous year, due to orders which customers have required to be deferred until Q3.

Other operating revenue, mainly related to external research projects, amounted to TSEK 344 (144). Capitalised work for own account amounted to TSEK 6,410 (6,572) for the period.

The company's total revenue amounted to TSEK 26,501 (22,793) during the period.

The operating result for the period from January to June was TSEK –18,469 (–7,688). The change in the result is mainly attributable to the adopted expansion, with an increase in the number of new staff recruitments, as well as geographical expansion.

The net revenue of the Applied Solutions business area for the period from January to June was TSEK 10,360, compared with TSEK 6,584 for the equivalent period of 2016. The intensification of existing projects is the basis for the increase in income.

The net revenue of the Research Instruments business area for the period from January to June was TSEK 9,211, compared with TSEK 9,493 for the equivalent period of 2016. The business area developed positively during the first half-year compared to the previous year, and was affected negatively by customer orders that, as requested by customers, were deferred until Q3.

Financial position

On 30 June the Group had a non-utilised overdraft facility for MSEK 7.

Important events during the period

During the period, the work to establish Smart Eye International Inc., Smart Eye's sales office in the USA, which is focused on the North American market, intensified. The recruitment of two sales executives with extensive experience from sales of advanced technical system solutions was completed.

During the period the company's CFO, Ulrika Drotz Molin, gave notice in order to take up new challenges.

Employees

The average number of employees during the period from April to June was 48 (44), of whom 9 (8) are women. The number of employees as at the end of June was 57 persons. The increase in the number of employees is mainly related to development and sales staff.

Summary of significant risks and uncertainty factors

Operative risks

There are risk factors in the operative activities that can have a negative impact on the company's commercial and financial position. The risks are related to the development activities running according to plan, and to the company being able to recruit qualified personnel to the extent required.

Financial risks

The company is financed with share capital and loans. If the company fails to generate revenue on the scale and in the time perspective deemed necessary by the Board of Directors, further capital requirements may arise.

As sales increase, the company is subject to increased currency exposure, since most of the company's sales take place in another currency than Swedish kronor.

Market risks

Eyetracking is an emerging technology in which the company's products are used today for behavioural analysis and as integrated products in the automotive industry. The delayed or failed introduction of eyetracking in the automotive industry may lead to the risk of a lower growth rate than expected.

See Annual Report 2016 for complete description of risks and uncertainty factors.

Transactions with related parties

No transactions with related parties took place during the period.

Accounting policies

The company applies the Swedish Annual Accounts Act and the Swedish Accounting Standards Board's recommendation BFNAR 2012:1 Annual accounts and consolidated

accounts ("K3"). The same accounting policies are applied as in the Annual Report for 2016.

Events occurring after the end of the period

After the period Smart Eye was awarded a new design win with a European premium vehicle manufacturer.

Share information

The company is listed on Nasdaq First North. Its Certified Advisor is Erik Penser Aktiebolag.

Number of shares

In conjunction with the listing on Nasdaq First North in December 2016, a new issue took place, which was registered in January 2017. The number of shares is now 9,910,892.

Share-based incentive programme

At the Annual General Meeting on 17 June 2016, the company decided to arrange an incentive programme for senior executives and personnel. On full utilisation of the company's incentive programme, 250,000 shares will be issued, which will result in a total dilution effect of maximum around 3% of the share capital and number of votes. The subscription price of shares subscribed for using warrants is SEK 45 per share. The premium per warrant, calculated according to the Black & Scholes model, was SEK 1.40. Share subscription may take place during the period from 1 November 2017 up to and including 28 February 2018. On full utilisation of the warrants, the company's share capital will increase by SEK 25,000.

Dividend policy

The company is in a development phase and it is planned to re-invest any profit in the development of the company.

This interim report has not been subject to review by the company's auditors.

Gothenburg, 22 August 2017

Board of Directors
Smart Eye Aktiebolag (publ)

Statement of Income

TSEK	Q2 2017	Q2 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Operating revenue					
Net revenue	12,114	10,486	19,747	16,077	40,743
Capitalised work for own account	3,407	3,608	6,410	6,572	13,990
Other operating revenue	0	26	344	144	816
Total operating revenue, etc.	15,521	14,119	26,501	22,793	55,549
Operating costs					
Other external costs	-10,409	-7,083	-17,837	-10,137	-23,154
Personnel costs	-11,883	-9,079	-22,400	-16,719	-36,331
Depreciation and write-down of tangible and intangible assets	-2,536	-1,824	-4,733	-3,625	-7,223
Total operating costs	-24,828	-17,987	-44,970	-30,481	-66,708
Operating profit/loss	-9,306	-3,867	-18,469	-7,688	-11,159
Result of financial items					
Other interest income and similar items	0	0	0	0	0
Interest costs and similar items	-129	-372	-248	-776	-1,243
Total result of financial items	-129	-372	-248	-776	-1,243
Result after financial items	-9,435	-4,240	-18,717	-8,464	-12,403
Tax on the result for the period	0	0	0	0	0
Result for the period	-9,435	-4,224	-18,717	-8,464	-12,403

Balance Sheet

TSEK	2017-06-30	2016-06-30	2016-12-31
ASSETS			
Intangible assets	54,860	42,701	48,279
Property, plant and equipment	4,339	657	713
Financial assets	396	396	396
Total fixed assets	59,595	43,755	49,388
Inventories	3,035	2,036	2,985
Trade receivables	9,875	8,165	9,696
Receivables from Group companies	1,102	124	0
Current tax receivables	477	371	525
Other current receivables	2,187	2,338	11,841
Prepaid expenses and accrued income	3,948	142	2,953
Current receivables	17,589	11,140	25,014
Cash and cash equivalents	43,244	15,766	62,088
Total current assets	63,869	28,942	90,087
TOTAL ASSETS	123,464	72,697	139,475

Balance Sheet

TSEK	2017-06-30	2016-06-30	2016-12-31
Equity			
Restricted equity			
Share capital	991	793	816
Non-registered share capital.	—	3,104	—
Fund for development costs	20,400	6,572	13,990
Share premium fund	21,914	21,914	21,914
	43,304	32,383	36,720
Unrestricted equity			
Share premium fund	139,737	60,883	139,912
Retained profit	-67,729	-41,500	-48,917
Profit/loss for the year	-18,717	-8,464	-12,403
	53,290	10,919	78,592
Total equity	96,595	43,302	115,312
Other debt to credit institutions	6,500	8,000	7,500
Other non-current liabilities	0	8,817	0
Non-current liabilities	6,500	16,817	7,500
Advance payments from customers	625	0	1,471
Trade payables	7,523	2,497	5,067
Overdraft facility	0	0	0
Debt to Group companies	380	505	380
Other current debt	797	624	733
Accrued expenses and prepaid income	9,544	8,952	8,512
Other debt to credit institutions	1,500	0	500
Current liabilities	20,369	12,578	16,663
TOTAL EQUITY AND LIABILITIES	123,464	72,697	139,475
OFF-BALANCE SHEET ITEMS			
Security pledges			
For own debt and provisions	15,000	19,500	15,000
Total security pledges	15,000	19,500	15,000
Contingent liabilities	None	None	None

Change in equity

SEK	Share capital	Share premium fund (restricted)	Fund for development costs (restricted)	Share premium fund (unrestricted)	Other unrestricted equity	Total equity
Opening balance 2016-01-01	681,784	21,913,575	—	25,259,042	-34,927,092	12,927,309
New issue	134,305			37,213,096		37,347,401
Ongoing new issue, subscribed and paid in, not registered	0			77,090,000		77,090,000
Warrants 2016				350,000		350,000
Fund for development costs			13,990,292		-13,990,292	0
Profit/loss for the year					-12,402,545	-12,402,545
Equity 2016-12-31	816,089	21,913,575	13,990,292	139,912,138	-61,319,929	115,312,165
Opening balance 2017-01-01	816,089	21,913,575	13,990,292	139,912,138	-61,319,929	115,312,165
New issue						0
Ongoing new issue, registered	175,000			-175,000		0
Fund for development costs			6,410,000		-6,410,000	
Profit/loss for the year					-18,717,390	-18,717,390
Equity 2017-06-30	991,089	21,913,575	20,400,292	139,737,138	-86,447,319	96,594,775

The share capital consists of 9,910,892 shares with a quota value of SEK 0.1.

During the period an ongoing new issue was registered and the share capital increased by SEK 175,000 from the share premium fund.

Cash flow analysis

TSEK	2017-06-30	2016-06-30	2016-12-31
Current activities			
Operating profit after depreciation	-18,469	-7,688	-11,159
Reversal of depreciation	4,733	3,625	7,223
Financial payments received	0	0	0
Financial disbursements	-248	-776	-1,243
Tax	0	0	0
Change in operating capital			
Change in stocks	-50	-71	-1,020
Change in trade receivables	-178	-1,354	-2,885
Change in other current receivables*	7,604	-593	-13,017
Change in trade payables	2,456	-1,724	846
Change in other current liabilities	1,250	-2,873	-1,277
<i>Cash flow, current activities</i>	-2,903	-11,453	-22,533
Investment activities			
Intangible assets	-10,968	-7,633	-16,636
Property, plant and equipment	-3,972	-96	-324
Financial assets	0	-25	-25
<i>Cash flow, investment activities</i>	-14,941	-7,755	-16,986
Financing activities			
New issue*	0	38,839	114,787
Distribution			
Non-current liabilities	-1,000	-4,450	-13,767
<i>Cash flow, financing activities</i>	-1,000	34,389	101,021
Cash flow	-18,843	15,181	61,503
Opening cash and cash equivalents	62,088	585	585
Closing cash and cash equivalents	43,244	15,766	62,088

* Concerning 2016: Short-term receivables and new issue include a receivable from Erik Penser Bank AB totalling MSEK 10.8 for the element of the new issue from December 2016 not yet paid out to the company, and which was paid out in January 2017.

Definitions of key ratios

Equity ratio

Equity as a ratio of total assets.

Earnings per share

Profit for the period divided by the number of outstanding shares at the end of the period.

Equity per share

Equity divided by the number of shares at the end of the period.

Dividend per share

The amount distributed for the period divided by the number of outstanding shares at the time of distribution.

Operating profit/loss

Profit/loss before financial items, costs and tax.

Return on total capital

Profit after tax as a ratio of average total capital during the period.

Operating margin

Operating profit as a ratio of net operating revenue.

Calendar

Interim report July–September
Year-end report 2017

24 October 2017
27 February 2018

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The company in brief

Smart Eye develops and markets eyetracking systems that can measure and calculate a person's gaze. Today the company has two business areas: Research Instruments and Applied Solutions. Within Research Instruments, Smart Eye provides advanced eyetracking systems to measure and analyse human behaviour. Within Applied Solutions, Smart Eye provides eyetracking software for integration in vehicles.

Smart Eye was founded in 1999, since when it has become established as one of the leading players for eyetracking analysis of human behaviour. This is based on advanced technical software for eyetracking systems, as well as longstanding experience in this industry. From an early stage, Smart Eye has focused on developing eyetracking for the automotive industry and today is one of the few companies in the world with eyetracking systems for integration in vehicles that live up to the extensive requirements set by the automotive industry. Smart Eye currently has two design wins concerning serial delivery for passenger vehicles from two global automotive Groups.