

Year-end report

XMReality 2020



XMReality AB (publ), Year-end report for 2020

A record quarter and a record year! Net Sales grew under the quarter with 119 percent and the Order Intake with 86 percent. The Net Sales growth on an annual basis was 74 percent, the corresponding number for the Annual Recurring Revenues (ARR) was 117 percent.

The quarter October – December 2020

- Net sales amounted to SEK 7,072 thousand (3,222).
- Cost totaled SEK -14,482 thousand (-12,374).
- The operating loss before appropriations was SEK -6,736 thousand (-7,676).
- Net cash used in the period was SEK -4,703 thousand (-8,414) and the equity/assets ratio at the end of the period was 59.6 (61.8) percent.

As per the previous year, the final quarter did see a strong Order Intake with an 86 percent growth to SEK 10 919 thousand (5 868). The Net Sales grew as much as 119 percent.

Full year 2020

- Net sales amounted to SEK 20,701 thousand (11,921).
- Costs totaled SEK -48,059 thousand (-45,001).
- The operating loss before appropriations was SEK -24,925 thousand (-27,364).
- Net cash used amounted to SEK 9,267 thousand (-28,451).

On an annual basis the Order Intake grew with 76 percent to SEK 25 992 thousand (14 785). The Annual Recurring Revenues (ARR) rose 117 percent to SEK 17 553 thousand (8 086), the growth in Net Sales was 74 percent. The corresponding cost growth was only 7 percent which shows a very nice scalability. The order backlog, i.e. Order Intake which at the end of the period was not yet recognized as Net Sales, grew 85 percent to SEK 12 725 thousand (6 897). The majority of the order backlog is already invoiced to customers as the subscriptions normally are invoiced one year in advance.

Notable events during the quarter, October - December 2020

- XMReality takes first step into APAC through reseller partnership with NTT Solutions, Nippon Telegraph and Telephone Solutions
- XMReality has signed a three-year contract with Saab AB, a Swedish defense and security company who serves the global market with services and solutions within military defense and civil security, for Remote Guidance. The initial order value is approximately 1 600 TSEK
- XMReality has signed a two-year Licensing and Service Agreement with health care company Baxter Medical AB. To start with the software will be deployed through the Nordic sales team for Advanced Surgery who is leading the initial pilot.
- XMReality has received an order from IMI division Hydronic Engineering for XMReality Remote Guidance and supporting hardware
- XMReality and Zebra Technologies, headquartered in Illinois, USA, have signed an agreement to offer XMReality Remote Guidance together with Zebra wearable solutions
- Cytiva, formerly part of GE Healthcare Life Sciences, increases its use of XMReality by ordering additional licenses to cover all of its geographical footprint.

- XMReality has signed a partnership agreement with Guohui Anchuang, a digital solution supplier for industrial platforms and RealWear (a major supplier of Smart Glasses).
- Esko, a global company active in the packaging sector and headquartered in Gent, Belgium, has ordered XMReality Remote Guidance for a period of at least two years.

Notable events after the end of the period

- XMReality in early January released several new features for XMReality Remote Guidance. The product development is customer driven and the new features include, amongst other, the possibility to invite non XMReality users to a multi-party call
- Panasonic Homes, a subsidiary to Panasonic Corp., are active within the housing business with an expertise in home construction. They recently undertook their first project outside of Asia with a delivery of a prefabricated prototype home to New Zealand. Due to travel restrictions, XMReality Remote Guidance was used to lead the first stage of the build remotely from Japan.

Message from the CEO



XMReality's CEO Jörgen Rimmelg

2020 has been a very strong year for XMReality. Also, a year of significant change and a testament for how powerful a good vision- and strategy work is for the positive transition of a company. Indeed, we have had the market with us and an accelerated need for Remote Guidance as a consequence of the travel restrictions we have lived with during the majority of 2020. During the year we have more or less doubled our Order Intake, Net Sales and ARR at the same time as cost grew only 7 percent. This in itself is a definition of scalability which makes me proud of the team!

We act on a very healthy market where the growth is sufficient for the current players. This in turn means that we do not to the same degree have to steel market shares from the competition, which typically is more costly. Enterprise augmented reality software, i.e. gaming and hardware excluded, is expected to have a CAGR of at least 50 percent mid-term (see figure 1). The market growth during 2021 is projected to 66 percent. The majority of this growth is expected in areas where we are active and successful such as manufacturing industry, health care, facility management and automotive. We have very good growth ideas within these areas.

The Order Intake is growing at a good pace (see figure 2) and our customers are satisfied with the product, its functionality, stability and availability of the service. A clear trend during the year has been more competitive and structured procurements within our market segment. This is a sign of maturity and I am glad to note that we have won the majority of these that we have participated in. This drives new sales. Also, up-sales to existing customers is increasing where we sell more branding of the application which increases our stickiness. Also, in the Order Intake diagram you will see our typical seasonal variation with strong Q4's and less strong Q3's.

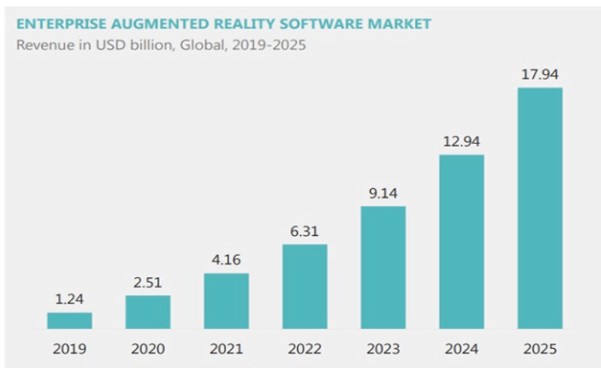
The Annual Recurring Revenus (ARR) make up some 80 percent of our business and is a central metric in the SaaS (Software as a Service) model. During the spring strategy work, we re-defined the activity formula with the objective to accelerate ARR growth. To now, for the FY2020, achieve an ARR-growth of 117 percent (see

figure 3) is extraordinary and something I believe we should be really proud of. On an annual basis our Churn has been 8 percent (ARR numbers are subtracted with any Churn). About a third of this Churn is a result of customers having financial issues as a result of the pandemic, a third is from customers that for various reasons are unsuccessful with their internal deployment and the final third from customers selecting other solutions. Our target during the year has been to keep the churn <10 percent, which we did achieve.

For the full year Net Sales grew with 74 percent (see figure 4), the corresponding cost increase was 7 percent, which I think are fantastic numbers. The basic definition of scalability, or 'synergies', is naturally a large top-line growth combined with a relatively small cost growth.

As a result of the pandemic the industry has been forced to maximize their use of digital communication aids for collaboration, knowledge transfer and problem solving. There are strong signs and expectations that this will become a permanent behavior as the financial upside is tangible and the CO2-foot-print minimal. One example is one of our new customers within the packaging industry that reduced their support travelling with 60% for a specific machine type. When we did ask our larger customer how they see the future, 70 percent answered that they did expect that their increased use of Remote Guidance to become permanent. This is bullseye for XMReality!

Jörgen Remmelg, CEO
Linköping 11 February, 2021



SOURCE: Mordor Intelligence Analysis

Figure 1 – Estimated growth within professional AR software (November 2020)

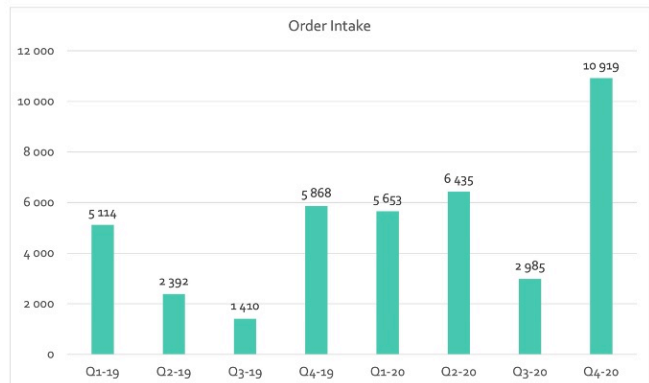


Figure 2 – XMReality order intake over time [SEKk]

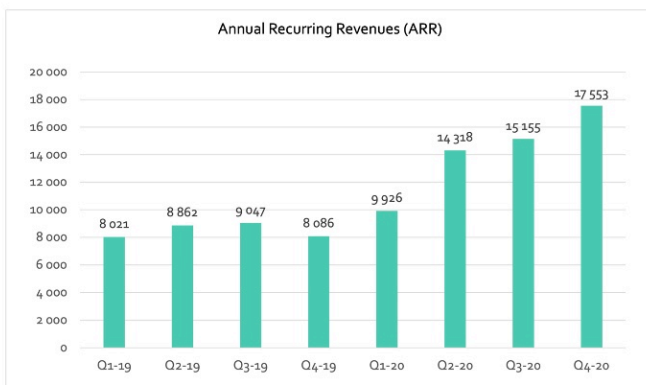


Figure 3 – XMReality ARR over time [SEKk]

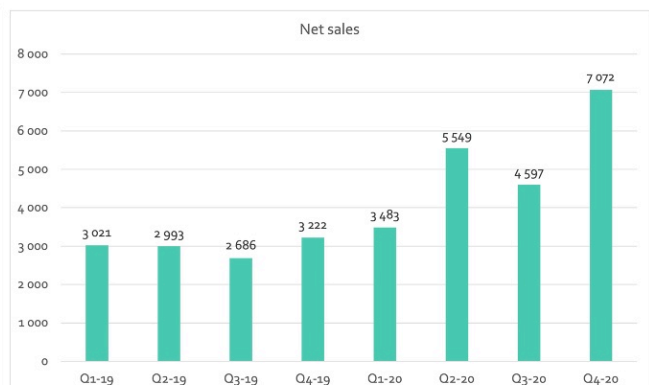


Figure 4 – XMReality net sales over time [SEKk]

Financial basis for the year-end report 2020

Income statement (SEKk)

	October – December		January - December	
	2020	2019	2020	2019
Net sales	7,072	3,222	20,701	11,921
Capitalized production costs	610	1,208	2,224	5,289
Other operating income	65	268	209	427
Total income	7,746	4,698	23,133	17,637
Raw materials and consumables	-542	-239	-2,000	-1,282
Other operating expenses	-5,609	-5,750	-20,290	-19,890
Employee benefits expenses	-6,442	-5,099	-19,853	-19,456
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-1,289	-1,138	-4,996	-4,160
Other operating costs	-331	-136	-618	-149
EBIT	-6,466	-7,664	-24,623	-27,300
Financial income and similar profit items	0	0	0	0
Financial expenses and similar loss items	-269	-12	-302	-64
Profit(-loss) after net financial income	-6,736	-7,676	-24,925	-27,364
Group contribution received	0	29	0	29
Income tax expense for the period	0	0	0	0
Profit(-loss) for the period	-6,736	-7,647	-24,925	-27,335
Earnings per share, before and after dilution (SEK)	-0,20	-0,45	-0,80	-1,60
Average number of shares during the period	34,100,000	17,050,000	31,063,699	17,050,000
Shares outstanding at the end of the period	34,100,000	17,050,000	34,100,000	17,050,000

Balance sheet (SEKk)

	31 Dec 2020	31 Dec 2019
Assets		
Non-current assets		
Capitalized development costs	13,452	16,039
Equipment, tools and systems	345	405
Financial assets	51	59
Total non-current assets	13,847	16,503
Current assets		
Inventories	255	184
Current receivables	8,964	6,792
Cash and bank balances	18,615	9,347
Total current assets	27,834	16,323
Total assets	41,681	32,826
Equity and liabilities		
Equity	24,847	20,273
Non-current liabilities	50	383
Current liabilities ¹	16,784	12,169
Total equity and liabilities	41,681	32,826
¹ Of which interest-bearing liabilities	333	510
Collateral provided	3,700	3,700
Contingent liabilities	Inga	Inga

Statement of change in equity (SEKk)

	31 Dec 2020	31 Dec 2019
Balance at the beginning of the period	20,273	47,608
New share issue (net of issue costs)	29,500	0
Profit(-loss) for the period	-24,925	-27,335
Balance at the end of the period	24,847	20,273
Average number of shares during the period, ²	31,063,699	17,050,000
Shares outstanding at the end of the period ²	34,100,000	17,050,000

²New issue of 17,050,000 shares subscribed in March 2020..

Statement of cash flow (SEKk)

	October - December		January - December	
	2020	2019	2020	2019
Operating activities				
Cash flow (-used) before changes in working capital	-5,122	-6,516	-20,081	-23,456
Change in working capital	1,029	-610	2,784	809
Cash flow from (-used in) operating activities	-4,093	-7,126	-17,297	-22,647
Cash flow from (-used in) investing activities	-610	-1,240	-2,341	-5,321
Cash flow from (-used in) financing activities	0	-47	28,906	-482
Cash flow from (-used in) the period	-4,703	-8,414	9,267	-28,451
Cash and cash equivalents at the beginning of period	23,318	17,761	9,347	37,798
Cash and cash equivalents at the end of period	18,615	9,347	18,615	9,347

Overview of financial performance (SEKk)

An overview of the financial performance of XMReality AB (publ) for the period of January-December 2020 and for the full years of 2016-2019 is presented below. All figures for the financial years 2016-2019 are based on material taken from official, published annual reports.

	2020	2019	2018	2017	2016
Net sales	20,701	11,921	10,155	6,683	5,155
Operating profit (-loss)	-24,623	-27,300	-29,250	-22,633	-9,976
Profit (-loss) after net financial income	-24,925	-27,364	-29,317	-22,741	-10,041
Group contribution received	0	29	0	0	0
Profit (-loss) after appropriations	-24,925	-27,335	-29,317	-22,741	-10,041
Profit margin, %	neg.	neg.	neg.	neg.	neg.
Intangible assets	13,452	16,039	14,754	12,458	6,595
Tangible assets	345	405	528	1,705	901
Financial assets	51	59	8	0	25
Inventories	255	184	261	306	587
Current receivables	8,964	6,792	5,978	6,014	2,297
Cash and bank balances	18,615	9,347	37,798	46,241	22,100
Equity	24,847	20,273	47,608	56,826	26,556
Non-current liabilities	50	383	844	1,535	2,428
Current liabilities	16,784	12,169	10,875	8,362	3,521
Total assets	41,681	32,826	59,327	66,724	32,505
Return on average capital employed, %	neg.	neg.	neg.	neg.	neg.
Return on average equity, %	neg.	neg.	neg.	neg.	neg.
Equity/assets ratio, %	59,6	61,8	80,2	85,2	81,7
Dept/equity ratio, multiple	0,01	0,04	0,04	0,04	0,1
Interest coverage ratio, %	neg.	neg.	neg.	neg.	neg.
Quick ratio, %	164,3	132,6	402,5	624,9	693,0
Number of employees (end of period)	18	17	23	19	14
Investments					
Intangible assets	2,224	5,289	5,478	6,687	2,999
Tangible assets	125	32	140	1,908	901
Deposits	-8	51	8	0	0
Basic earnings (-loss) per share, before and after dilution, SEK	-0,80	-1,60	-1,72	-1,56	-1,20
Average number of shares during the period	31,063,699	17,050,000	14,982,648	13,175,227	7,202,593
Shares outstanding at the end of the period	34,100,000	17,050,000	17,050,000	14,607,982	8,368,420

Definition of key data

Equity	The sum of shareholder's equity, restricted reserves and non-restricted equity
Return on average capital employed	Profit or loss before interest expenses divided by average capital employed
Return on average equity	Profit or loss after tax divided by average equity
Equity/assets ratio	Equity divided by total assets
Dept/equity ratio	Interest-bearing liabilities divided by equity
Interest coverage ratio	Earnings before interest divided by interest expenses
Earnings per shares	Profit or loss after tax divided by average number of shares outstanding
Quick ratio	Cash and current assets excluding inventories divided by current liabilities
ARR (Annual Recurring Revenue)	The annual value of subscriptions subscribed with automatic renewal (provided no changes are made in the agreement).

Accounting policies

The year-end report is prepared in compliance with the Swedish Annual Accounts Act and BFAR 2012:1 Annual and Consolidated Accounts (K3). The accounting policies have not changed compared to previously reported periods. Assets, provisions and liabilities have been valued at cost unless otherwise specified. Transactions denominated in foreign currency are converted at the spot rate in effect on the transaction date.

Risk factors and uncertainties

A number of risk factors could have negative impact on the business of XMReality AB (publ). It is therefore imperative to consider relevant risks alongside the Company's growth potential. Refer to the XMReality Annual Report 2019, pages 22-23, "risk factors" for a more detailed description of the risks associated with the Company and its stock.

The board of directors has assessed current and available liquidity as sufficient to assure continuing operation.

Stock

Shares in XMReality AB (publ) are listed on Nasdaq First North Growth Market. The stock ticker is XMR and the ISIN code is SE0009664188. At the end of the period, there were 34,100,000 shares outstanding in XMReality AB (publ). There is only one share class. Each share carries one vote.

There are three outstanding stock option plans, 2019/2022 carrying rights to subscribe for up to 107 748 shares, 2020/2023L carrying the rights to subscribe for up to 600 000 shares and 2020/2024S carrying rights to subscribe for up to 560 000 shares.

Appropriation of profits

The board have the attention not to propose any dividend at the Annual General Meeting.

Auditor review

This year-end report has not been reviewed by the company's auditor.

Submission of year-end report

The board of directors and chief executive officer certify and assure that this year-end report provides a true and fair view of the company's operations, financial position and earnings.

Financial reporting calendar:

Interim report Q1 2021	Wednesday 28 April, 2021
Interim report Q2 2021	Thursday 12 August, 2021
Interim report Q3 2021	Thursday 21 October 2021
Year-end report 2021	Wednesday 16 February, 2022

Annual General Meeting (AGM)	Tuesday 4 may, 2021
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All reports and minutes of the AGM will be published on www.xmreality.com/investors/

Linköping February 11th 2021

Board of Directors

Contact person at XMReality AB (publ):

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Disclaimer

As the company is noted in Sweden; should there be any discrepancies between this report and its Swedish version, the Swedish version prevail.