

YEAR-END REPORT

2019

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XMReality AB (publ), Year-end Report 2019

Order intake and billing in 2019 for software-as-a-service subscriptions (SaaS), which are now the company's dominant source of revenue, increased by 86 percent and correspond to 96 (70) percent of XM Reality's total order intake and billing. The gross margin rose to 93 (82) percent for the full year and 95 (83) percent in the fourth quarter. The company now has XMReality Remote Guidance subscription agreements with 55 customers.

The quarter: October–December 2019

- Net sales amounted to SEK 3,222 thousand (3,250).
- Costs totaled SEK -12,374 thousand (-13,124).
- The operating loss before appropriations was SEK -7,676 thousand (-8,337).
- Net cash used in the period was SEK -8,414, (13,781) and the equity/assets ratio at the end of the period was 61.8 percent (80.2).

The fourth quarter ended the year with order intake up by 35 percent compared to the same period in 2018. Subscription order intake corresponded to 96 (70) percent of total order intake and was a mix of automated renewals of previous subscription agreements and new subscription agreements. Growth in the revenue share of subscriptions also had positive impact on the gross margin, which increased to 95 (70) percent.

Full year 2019

- Net sales amounted to SEK 11,921 thousand (10,155).
- Costs totaled SEK -45,001 thousand (-45,949).
- The operating loss before appropriations was SEK -27,364 thousand (-29,317).
- Net cash used amounted to SEK -28,451 thousand (-8,443)

Total order intake increased by 24 percent compared to the preceding year. The gross margin improved to 93 percent (82), as an effect of increasing the share of subscription sales.

The company's subscription sales are billed when orders are received, but are recognized in revenue monthly in arrears. As subscriptions cover a forward-looking period of 12 months, the company allocates subscription revenues across 12 months on a straight-line basis. The effect of orders received on profit and loss is therefore limited during the billing period.

There is a positive effect on cash flow in connection with orders/billing. Invoiced order intake, which had not yet been recognized in revenue at the end of the period, increased by 71 percent to SEK 6,897 thousand (4,035). Hardware sales are recognized in revenue when the goods are delivered.

Significant events during the quarter, October–December 2019

- World-leading packaging group Sidel signed a global agreement with XMReality.
- The new CEO of XMReality was appointed and will take over in spring 2020.

Significant events after the end of the quarter

- XMReality is executing a fully guaranteed rights issue of SEK 35.8 million

Message from the CEO



The market for Remote Guidance is maturing. Increasingly, it is characterized by demand for integrated solutions in customers' existing systems, which dovetails with our positioning. XMReality chose early on to focus on practical applications with high customer value and it is increasingly clear that this is the right strategy for the company. From having previously needed to explain the Remote Guidance concept to customers and demonstrate the robustness of the technology, XMReality is now in a position where customers are looking for practical digitalisation solutions and are much quicker to buy into the advantages offered by XMReality

During the fourth quarter, XMReality broke its record for total value of new customer orders/agreements in a single quarter, which is a sign of increasing market maturity. This verifies the competitiveness of XMReality's technology and offering. Most of these customers are large, global corporations with the potential to expand their use of Remote Guidance in their operations as their methods and processes evolve. In a growing trend, customers are not only staying with XMReality and renewing their subscriptions, but also increasing the number of licenses, which shows that the Remote Guidance solution creates customer value. Sidel, Inbev and Nibe were striking examples of this phenomenon in the fourth quarter.

The deal with Sidel is particularly interesting because they have chosen to integrate the XMReality solution with their own user register in Windows, making it possible to quickly add new users as needed. This further increases the potential for rapid upscaling with Sidel.

It is fascinating to see how XMReality's customers are meeting numerous types of needs with a single solution. Nibe uses the solution primarily towards its service partners to solve the problem of their international service network having insufficient experience with Nibe's technology. XMReality's biggest customer, ABB, is investing in Remote Guidance primarily to secure the ability to rapidly connect to customers when unforeseen incidents occur.

Reducing travel is an obvious advantage of remote guidance and a future seems likely in which, for sustainability reasons, there will have to be compelling cause to fly out service personnel in the future if remote guidance can be used instead. This is only the beginning, but it is widely agreed that development can only go in that direction.

The second half of 2019 was transformative for XMReality. In addition to launching the sales operations in Germany and the US in close proximity to customers, the company also built a new way to sell its solution online. Small and medium-sized enterprises can now download, install and pay for their XMReality solution online, while larger companies that want to evaluate the solution can also be more self-supporting. This allows the XMReality sales force to concentrate exclusively on large global customers and further development of existing customers. The online offering has now given XMReality the opportunity to begin to explore new applications and customer categories at a faster pace. By working with market automation, XMReality can target and design marketing efforts towards specific customer categories and markets.

XMReality today is a fully fledged SaaS company with considerably greater scalability than in previous years.

Johan Castevall, CEO
Linköping, 7 February 2020

Financial basis for the year-end report 2019

Income statement (SEKk)

	October–December		January–December	
	2019	2018	2019	2018
Net sales	3,222	3,250	11,921	10,155
Capitalized production costs	1,208	1,399	5,289	5,478
Other operating income	268	139	427	999
Total income	4,698	4,788	17,637	16,632
Raw materials and consumables	-239	-815	-1,282	-3,023
Other operating expenses	-5,750	-4,772	-19,890	-16,856
Employee benefits expenses	-5,099	-5,392	-19,456	-20,404
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-1,138	-1,282	-4,160	-4,069
Other operating costs	-136	-864	-149	-1,530
EBIT	-7,664	-8,337	-27,300	-29,250
Financial income and similar profit items	0	21	0	21
Financial expenses and similar loss items	-12	-20	-64	-88
Profit (-loss) after net financial income	-7,676	-8,336	-27,364	-29,317
Group contribution received	29	0	29	0
Income tax expense for the period	0	0	0	0
Profit (-loss) for the period	-7,647	-8,336	-27,335	-29,317
Earnings per share (SEK)	-0.45	-0.49	-1.60	-1.72
Earnings per share, fully diluted (SEK)	-0.44	-0.48	-1.59	-1.70
Average number of shares during the period	17,050,000	16,094,428	17,050,000	14,982,648
Shares outstanding at the end of the period	17,050,000	17,050,000	17,050,000	17,050,000
Average shares outstanding during the period, fully diluted	17,270,000	16,334,428	17,228,630	15,257,634
Shares outstanding at the end of the period, fully diluted	17,270,000	17,290,000	17,270,000	17,290,000

Balance sheet (SEKk)

	31 Dec 2019	31 Dec 2018
Assets		
Non-current assets		
Capitalized development costs	16,039	14,754
Machinery and plant	0	0
Equipment, tools and systems	405	528
Financial assets	59	8
Total non-current assets	16,503	15,290
Current assets		
Inventories	184	261
Current receivables	6,792	5,978
Cash and bank balances	9,347	37,798
Total current assets	16,323	44,037
Total assets	32,826	59,327
Equity and liabilities		
Equity	20,273	47,608
Non-current liabilities	383	844
Current liabilities ¹	12,169	10,875
Total equity and liabilities	32,826	59,327
¹ Of which interest-bearing liabilities	510	692
Collateral provided	3,700	3,700
Contingent liabilities	None	None

Statement of changes in equity (Amounts in SEKk)

	31 Dec 2019	31 Dec 2018
Balance at the beginning of the period	47,608	56,827
New share issue (net of issue costs)	0	20,098 ²
Profit (-loss) for the period	-27,335	-29,317
Balance at the end of the period	20,273	47,608
Average number of shares during the period ²	17,050,000	14,982,648 ²
Shares outstanding at the end of the period ²	17,050,000	17,050,000 ²
Average number of fully diluted shares during the period ²	17,228,630	15,257,634 ²
Average number of fully diluted shares at the end of the period ²	17,270,000	17,290,000 ²

²New issue of 2,442,018 shares subscribed in October and registered on 6 November 2018.

Statement of cash flows (SEKk)

	October–December		January–December	
	2019	2018	2019	2018
Operating activities				
Cash flow (-used) before changes in working capital	-6,516	-7,084	-23,456	-25,367
Changes in working capital	-610	2,177	809	2,714
Cash flow from (-used in) operating activities	-7,126	-4,907	-22,647	-22,653
Cash flow from (-used in) investing activities	-1,240	-1,253	-5,321	-5,196
Cash flow from (-used in) financing activities	-47	19,941	-482	19,406
Cash flow for (-used in) the period	-8,414	13,781	-28,451	-8,443
Cash and cash equivalents at beginning of period	17,761	24,017	37,798	46,241
Cash and cash equivalents at end of period	9,347	37,798	9,347	37,798

Overview of financial performance (SEK)

The financial performance of XMReality AB (publ) for the period of 2015–2019 is summarized below. All figures for the financial years of 2015-2019 are based on material taken from official, published annual reports.

	2019	2018	2017	2016	2015
Net sales	11,921	10,155	6,683	5,155	3,532
Operating profit (-loss)	-27,300	-29,250	-22,633	-9,976	-4,195
Profit (-loss) after net financial income	-27,364	-29,317	-22,741	-10,041	-4,275
Group contribution received	29	0	0	0	0
Profit (-loss) after appropriations	-27,335	-29,317	-22,741	-10,041	-4,275
Profit margin, %	neg	neg	neg	neg	neg
Intangible assets	16,039	14,754	12,458	6,595	4,592
Tangible assets	405	528	1,705	901	0
Financial assets	59	8	0	25	25
Inventories	184	261	306	587	1,589
Current receivables	6,792	5,978	6,014	2,297	1,592
Cash and bank balances	9,347	37,798	46,241	22,100	1,184
Equity	20,273	47,608	56,827	26,556	2,749
Non-current liabilities	383	844	1,535	2,428	4,212
Current liabilities	12,169	10,875	8,362	3,521	2,021
Total assets	32,826	59,327	66,724	32,505	8,982
Return on average capital employed, %	neg	neg	neg	neg	neg
Return on average equity, %	neg	neg	neg	neg	neg
Equity/assets ratio, %	61.8	80.2	85.2	81.7	30.6
Debt/equity ratio, multiple	0.04	0.04	0.04	0.1	1.57
Interest coverage ratio, %	neg.	neg	neg	neg	neg
Quick ratio, %	132.6	402.5	624.9	693.0	137.4
Number of employees (end of the period)	17	23	19	14	5
Investments					
Intangible assets	5,289	5,478	6,687	2,999	2,121
Tangible assets	32	140	1,908	901	0
Deposits	51	8	0	0	0
Basic earnings per share, SEK	-1.60	-1.72	-1.56	-1.20	-0.83
Earnings per share, fully diluted, SEK	-1.14	-1.70	-1.52	-1.15	-0.81
Average number of shares during the period	17,050,000	14,982,648 ⁷	13,175,227 ⁶	7,202,593 ^{3,4}	4,822,763 ⁵
Shares outstanding at the end of the period	17,050,000	17,050,000 ⁷	14,607,982 ⁶	8,368,420 ^{3,4}	5,133,280 ⁵
Average shares outstanding during the period, fully diluted	17,228,630	15,257,634 ⁷	13,565,227 ⁶	7,463,085 ^{3,4}	4,972,763 ⁵
Shares outstanding at the end of the period, fully diluted	17,270,000	17,290,000 ⁷	14,997,982 ⁶	8,758,420 ^{3,4}	5,283,280 ⁵

³ Issue of 2,889,200 new shares registered 11 May 2016 and 345,940 shares subscribed against convertible debt instrument registered 12 May 2016.

⁴ Issue of 1,860,000 new shares subscribed in December, registered 21 January 2017.

⁵ Issue of 697,680 new shares registered 18 June 2015.

⁶ Issue of 4,379,562 new shares subscribed in April and registered on two dates, 21 April and 1 June 2017, respectively.

⁷New issue of 2,442,018 shares subscribed in October and registered on 6 November 2018.

Definitions of key data

Debt/equity ratio	Interest-bearing liabilities divided by equity
Earnings per share	Profit or loss after tax divided by average number of shares outstanding
Equity	The sum of shareholders' equity, restricted reserves and non-restricted equity
Equity/assets ratio	Equity divided by total assets
Interest coverage ratio	Earnings before interest divided by interest expenses
Profit margin	Profit after net financial income or expense divided by sales
Return on average capital employed	Profit or loss before interest expense divided by average capital employed
Return on average equity	Profit or loss after tax divided by average equity
Quick ratio	Cash and current assets excluding inventories divided by current liabilities

Accounting policies

The interim report is prepared in compliance with the Swedish Annual Accounts Act and BFNAR 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 2018, page 19, "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, combined with the liquidity raised in the current rights issue, 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 17,050,000 shares outstanding in XMReality AB (publ) (unchanged since 31 December 2018). There is only one share class. Each share carries one vote. There is an outstanding stock option plan 2016/2020 carrying rights to subscribe for up to 120,000 shares. This stock options plan, for which the exercise period was 1-31 January 2020, expired with no shares having been subscribed. The 2019 Annual General Meeting resolved in favor of a further stock option plan 2019/2022 carrying rights to subscribe for up to 500,000 shares. Options from this plan corresponding to the right to subscribe for 100,000 shares were allocated equally between two members of executive management, Marcin Szymanski and Per Unell. A further offer to acquire options within the framework of this plan will be offered to employees at or near the end of Q1 2020. The Board of Directors proposes no dividend.

Certified advisor

XMReality's Certified Adviser is Redeye AB.

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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 the year-end report provides a true and fair view of the company's operations, financial position and earnings.

Financial reporting calendar:

Annual report	Week 14, 2020
Interim report, Q1 2020	24 April 2020
Annual general meeting	27 April 2020
Interim report Q2 2020	14 August 2020
Interim report Q3 2020	20 October 2020
Year-end report 2020	12 February 2021

Linköping, 7 February 2020

Board of Directors

The information was released by the contact person listed below for publication on 7 February 2020 at 08:30 CET.

Contact person at XMReality AB (publ):

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