

INTERIM REPORT

JULY-SEPTEMBER 2020



XMReality AB (publ), Interim Report, July–September 2020

Order intake grew by 112 percent and net sales by 71 percent since last period. The company's ARR increased with 87 percent during the first three quarters of the year.

July–September 2020

- Net sales amounted to SEK 4,597 thousand (2,686)
- Costs totaled SEK -9,419 thousand (-10,278)
- The loss after net financial income and expenses was SEK -4,430 thousand (-6,369)
- Net cash used in the period amounted to SEK -3,419 thousand (-9,214)
- Equity/assets ratio at the end of the period was 73.5 percent (73.9)

During the period order intake grew by 112 percent, compared to same period last year, and totaled SEK 2,985 thousand (1,411). Order backlog, i.e. order intake that has not been recognized in net sales at the end of the period, increased by 107 percent to SEK 8,785 thousand (4,251). Costs for the period decreased slightly compared to previous year at the same time as net sales increased significantly, a positive development in both cases and the loss after net financial income and expenses improved as a consequence. Net cash used in the period was notably improved compared to previous period.

January–September 2020

- Net sales amounted to SEK 13,629 thousand (8,700)
- Costs totaled SEK -33,577 thousand (-32,627)
- The loss after net financial income and expenses was SEK -18,190 thousand (-19,687)
- Net cash used in the period amounted to SEK 13,971 thousand (-20,037)

Net sales increased during the first three quarters with 57 percent at the same time as costs increased only by 3 percent compared to same period last year. The Annual Recurring Revenues, ARR, have increased 87 percent during the first nine months of the year and amounted to SEK 15,155 thousand (8,086 per 2019-12-31).

Notable events during the period of July–September 2020

- XMReality AB has signed contracts with two additional companies within the Coesia Group during August for the usage of XMReality Remote Guidance
- MULTIVAC Group, a leading provider worldwide of packaging solutions, has selected and ordered XMReality Remote Guidance

Notable events after the period

- XMReality AB (publ) has signed a reseller partnership agreement with Nippon Telegraph and Telephone Solutions, commonly known as NTT
- Two new board members, Åsa Arvidsson and Peter Gille, were elected to join the board at the extra general meeting October 7th, 2020
- Two new stock option plans were decided during the extra general meeting October 7th, 2020. Both plans were fully subscribed to shortly after the meeting.
- XMReality AB (publ) 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 SEK 1,600 thousand.

Message from the CEO



In relative terms – a satisfied CEO

The increased interest we experienced from the market during the second quarter remains. The third quarter growth rate continued to be strong and similar to the second quarter when the company took off, partly accelerated by Covid-19 effects. The number of customer inquiries remain high, despite our own travel restrictions and all physical events being cancelled. I also note that we are in discussions with several larger companies where our potential to scale the number of licenses is good after the initial order. Also positive, our US office has closed about half a dozen orders independently, although the orders themselves are not significant in terms of amounts. During the quarter we also signed two new contracts within the food and beverage ecosystem, Coesia and Multivac, which further strengthens our position within this segment. Important for us is for sure the contract with Saab that will open the door for similar opportunities within Europe. Our board has also been strengthened by two new members, Åsa Arvidsson and Peter Gille, with a deep knowledge within market segments where we do have obvious possibilities.

The Product

We have a good, reliable and scalable product which is well received by the market. From doing business with our large customers the past year, we have obtained a good understanding of how these large companies use our product. I am very satisfied with the Product Road Map which we have established. Also, the execution rate is strong and during

the last two quarters we have delivered new features and functions as per plan to the market which is very appreciated by the customers. We have a customer driven product development strategy which in the shorter term can be summarized as 'give our larger customers what they ask for and clone the contract to new and similar customers', of course given our available resources.

Seasonality

After a very strong second quarter we now observe a third quarter, obviously containing the summer months, which is weaker (net sales SEK 4,597 vs 5,549 thousand). However, the current quarter is our second strongest ever. When I compare the seasonal effects with previous years, I note that both the character and the variation are comparable. Furthermore, the historical comparison also shows the fourth quarter strong, which we do see clear signs of also this year. Hence, the increased growth rate we experienced this spring seems to remain as we previously have predicted.

ARR – Annual Recurring Revenues

In the corresponding quarterly report last year we reported the Contracted Monthly Recurring Revenues, CMRR, at SEK 789 thousand. Since some time we have now tracked our Annual Recurring Revenues (ARR). Going forward, we will report the ARR on a quarterly basis as per the SaaS model. The definition of ARR can be found at the end of the report. Our ARR stood at SEK 15,155 thousand coming out of the third quarter, representing an 87 percent growth since the beginning of the year.

Summary

After the three first quarters of this year, we have exceeded last year's total net sales (SEK 13,629 vs 11,921 thousand). For sure, I do think we are on the right path!

Jörgen Rimmelg, CEO
Linköping 29 oktober, 2020

Income statement (Amounts in SEKk)

	July–September		January–September		Full year
	2020	2019	2020	2019	2019
Net sales	4,597	2,686	13,629	8,700	11,921
Capitalized production costs	368	1,199	1,614	4,081	5,289
Other operating income	24	24	144	159	427
Total income	4,989	3,908	15,387	12,939	17,637
Raw materials and consumables	-286	-254	-1,458	-1,043	-1,282
Other operating expenses	-3,884	-4,749	-14,681	-14,140	-19,890
Employee benefits expenses	-3,766	-4,180	-13,411	-14,356	-19,456
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-1,268	-1,076	-3,707	-3,022	-4,160
Other operating costs	-204	-6	-287	-14	-149
EBIT	-4,420	-6,356	-18,157	-19,635	-27,300
Financial income and similar profit items	0	0	0	0	0
Financial expenses and similar loss items	-11	-13	-33	-52	-64
Profit (-loss) after net financial income	-4,430	-6,369	-18,190	-19,687	-27,364
Group contribution received	0	0	0	0	29
Profit (-loss) before tax	-4,430	-6,369	-18,190	-19,687	-27,335
Income tax expense for the period		0	0	0	0
Profit (-loss) for the period	-4,430	-6,369	-18,190	-19,687	-27,335
Earnings per share, before and after dilution (SEK)	-0.13	-0.37	-0.61	-1.15	-1.60
Average number of shares during the period	34,100,000	17,050,000	30,040,476	17,050,000	17,050,000
Shares outstanding at the end of the period	34,100,000	17,050,000	34,100,000	17,050,000	17,050,000

Balance sheet (Amounts in SEKk)

	30 Sep 2020	30 Sep 2019	31 Dec 2019
Assets			
Non-current assets			
Capitalized development costs	14,082	15,928	16,039
Equipment, tools and systems	393	413	405
Financial assets	312	58	59
Total non-current assets	14,787	16,399	16,503
Current assets			
Inventories	231	179	184
Current receivables	4,651	3,419	6,792
Cash and bank balances	23,318	17,761	9,347
Total current assets	28,199	21,360	16,323
Total assets	42,987	37,759	32,826
Equity and liabilities			
Equity	31,583	27,920	20,273
Non-current liabilities	50	458	383
Current liabilities ¹	11,354	9,381	12,169
Total equity and liabilities	42,987	37,759	32,826
¹ Of which interest-bearing liabilities	458	542	510
Collateral provided	3,700	3,700	3,700
Contingent liabilities	None	None	None

Statement of changes in equity (Amounts in SEKk)

	July-September		January-September		Full year
	2020	2019	2020	2019	2019
Balance at the beginning of the period	36,013	34,290	20,273	47,608	47,608
New share issue (net of issue costs)	0	0	29,500 ²	0	0
Profit (-loss) for the period	-4,430	-6,369	-18,190	-19,687	-27,335
Balance at the end of the period	31,583	27,920	31,583	27,920	20,273
Average number of shares during the period	34,100,000	17,050,000	30,040,476	17,050,000	17,050,000
Shares outstanding at the end of the period	34,100,000	17,050,000	34,100,000	17,050,000	17,050,000

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

Statement of cash flow (Amounts in SEKk)

	July-September		January-September		Full year
	2020	2019	2020	2019	2019
Operating activities					
Cash flow (-used) before changes in working capital	-3,242	-5,348	-14,959	-16,820	-23,456
Changes in working capital	544	-2,543	1,755	1,299	809
Cash flow from (-used in) operating activities	-2,697	-7,891	-13,204	-15,521	-22,647
Cash flow from (-used in) investing activities	-368	-1,199	-1,739	-4,081	-5,321
Cash flow from (-used in) financing activities	-83	-125	28,914	-435	-482
Cash flow for (-used in) the period	-3,149	-9,214	13,971	-20,037	-28,451
Cash and cash equivalents at beginning of period	26,467	26,976	9,347	37,798	37,798
Cash and cash equivalents at end of period	23,318	17,761	23,318	17,761	9,347

Overview of financial performance (SEKk)

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

	Jan–Sep 2020	2019	2018	2017	2016
Net sales	13,629	11,921	10,155	6,683	5,155
Operating profit (-loss)	-18,157	-27,300	-29,250	-22,633	-9,976
Profit (-loss) after net financial income	-18,190	-27,364	-29,317	-22,741	-10,041
Group contribution received	0	29	0	0	0
Profit margin, %	neg.	neg	neg	neg	neg
Intangible assets	14,082	16,039	14,754	12,458	6,595
Tangible assets	393	405	528	1,705	901
Financial assets	312	59	8	0	25
Inventories	231	184	261	306	587
Current receivables	4,651	6,792	5,978	6,014	2,297
Cash and bank balances	23,318	9,347	37,798	46,241	22,100
Equity	31,583	20,273	47,608	56,826	26,556
Non-current liabilities	50	383	844	1,535	2,428
Current liabilities	11,354	12,169	10,875	8,362	3,521
Total assets	42,987	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, %	73,5	61,8	80,2	85,6	81,7
Debt/equity ratio, multiple	0,01	0,04	0,04	0,04	0,1
Interest coverage ratio, %	neg.	neg	neg	neg	neg
Quick ratio, %	246,3	132,6	402,5	649,1	693,0
Number of employees (end of the period)	18	17	23	19	14
Investments					
Intangible assets	1,614	5,289	5,478	6,687	2,999
Tangible assets	125	32	140	1,908	901
Deposits	252	51	8	0	0
Basic earnings per share, SEK	-0,61	-1,60	-1,72	-1,56	-1,20
Basic earnings per share, fully diluted SEK	-0,53	-1,14	-1,70	-1,52	-1,15
Average number of shares during the period	30,040,476	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

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
ARR	Abbreviation of Annual Recurring Revenue, i.e. the annual value of subscriptions subscribed with automatic renewal (provided that the customer does not cancel this subscription)

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 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 is an outstanding stock option plan 2019/2022 carrying rights to subscribe for up to 107,748 shares (in accordance with the terms and conditions of the warrants, subscription rights have been recalculated as a result of the share issue executed in 2020).

After end of reporting period an EGM in October 2020 decided on additional two new stock option plans 2020/2023L and 2020/2024S comprising the rights to sign up to 600,000 respective 560,000 shares. All these stock options were signed shortly after the EGM decision by persons in leading positions and board members.



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Certified advisor

XMReality's Certified Adviser is Redeye AB.

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Auditor review

This interim report has not been reviewed by the company's auditor.

Submission of interim report

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

Linköping, October 29th 2020

Board of Directors

Financial reporting calendar:

Year-end report 2020	11 February 2021 (one day earlier than previously communicated)
Interim report Q1 2021	28 April 2021
AGM	4 May 2021
Interim report Q2 2021	12 August 2021
Interim report Q3 2021	21 October 2021
Year-end-report 2021	16 February 2022

The information was released by the contact person listed below for publication on October 29th 2020 at 08:30 CET.

This interim report in English is an internal translation of the Swedish interim report. In the event of discrepancy, the original Swedish interim report shall prevail.

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