

ellipticlabs

2022

Q1 Report (Unaudited)

AI Virtual Smart Sensor Platform™



Proximity



Presence



Gesture



Positioning



Connection



Breathing



Heartbeat

Q1 Highlights

Highlights from Q1 2022:

- First PC Launch with Lenovo on Top-Selling ThinkPad^(TM) T14
- Established AMD partnership for PC
- Launched on 13 smartphone models with several customers
- Cash flow positive for the quarter

Subsequent to Q1 2022:

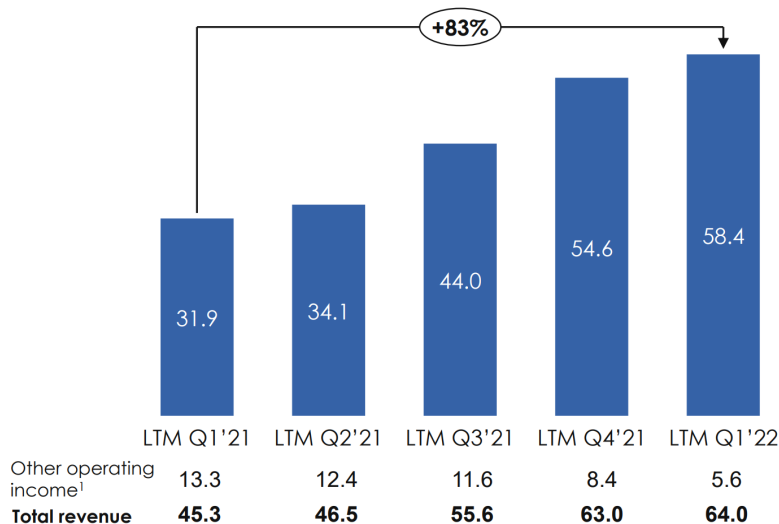
- Lenovo signed a license contract for 18 future laptop models
- Two additional expansion contracts for more laptop models
- Launched on 1 more smartphone model

Elliptic Labs, a global AI software company and leader in AI Virtual Smart Sensors for the smartphone, laptop, Internet of Things (IoT), and automotive industries, reports Total revenue and other operating income of mNOK 5.5 (4.5) for the First Quarter 2022 . This corresponds to a total revenue growth of 22% year over year. EBITDA was a negative mNOK -13.4 (-8.5) for the First Quarter 2022

Last twelve months (LTM) revenue from contracts with customers grew 83% year-over-year to mNOK 58.4, with a corresponding EBITDA of mNOK -7.8.

Revenue from contracts with customers last twelve months

NOK million, LTM



Message from the CEO

Elliptic Labs has begun 2022 with positive momentum, moving into the laptop market with a rapid pace of adoption. After launching on Lenovo's top-selling model, the ThinkPad T14, we signed an agreement for an additional 18 models, as well as two more agreements to further expand with Lenovo. The interest we are receiving from this customer and from other world-leading laptop manufacturers, combined with our solid, scalable platform, shows the potential of our AI Virtual Smart Presence Sensors to rapidly become the de facto standard Human Presence Detection solution for laptops around the globe.

Total revenue and other operating income over the last twelve months, from Q1 2021 to Q1 2022, has increased 22% year over year, and 83% year over year when considering only revenue from customer contracts last twelve months running revenue. "Revenue from customers" represents license revenue derived primarily from agreements with leading smartphone OEMs. Year to date, we have launched on 13 new smartphone models, and we continue to see strong long-term demand for our AI Virtual Smart Sensor Platform in this vertical.

Smartphone revenue recognition follows a seasonal pattern, with most of the revenue recognized towards the end of the year.

We expect to see our first laptop license revenues recognized in the second half of 2022. Our partnerships with globally-leading CPU manufacturers Intel, AMD, and Qualcomm, enable us to address and have access to close to 100% of the PC and laptop markets, and we expect to continue our expansion in the laptop market throughout 2022.



"We began 2022 with positive momentum, moving into the laptop market with a rapid pace of adoption."

Leveraging our established partnerships we are in a solid position to add more models per customer, and more AI Virtual Smart Sensors per model this will accelerate our growth.

As with previous years, we anticipate revenue will be higher in the second half of 2022 than in the first half, with positive EBITDA for the full year, continuing our strong cost control and capitalizing on the benefits of being a software company with a scalable business model.

As stated in the annual report, customers and partners are affected by the supply chain issues, and with the recent global geopolitical and pandemic related events, anticipated business is harder to predict accurately in the shorter term. The key for us has been our long-term vision of building a strong software platform while working closely with our customers and partners. We maintain our revenue target of NOK 500 million with 50% EBITDA margin in 2023, with an expectation that revenue from laptops will be the majority of the contribution.

Financial summary for the Group's YTD Q1 2022 (unaudited)

Comparable amounts for Q1 2021 are presented in parentheses.

Operating revenue

Total revenue and other operating income increased by 22% year-on-year to mNOK 5.5 in Q1 2022 (4.5). Total revenues and other operating income for the First Quarter 2021 included mNOK 2.8 in other operating income from grants whereas First quarter 2022 did not have any Other operating income. Revenue from licenses increased by 221% to mNOK 5.5 (1.7) from the First Quarter 2021 to the First Quarter 2022 .

The increase is primarily driven by strong growth in licenses, both increased sales to existing customers and new customers contributes to the growth.

Operating expenses and EBITDA

Operating expenses amounted to mNOK 19.0 (13.0) in the First quarter 2022, excluding depreciation and amortization. Employee benefits expenses amounted to mNOK 13.9 (10.3) and other operating expenses to mNOK 5.1 (2.7)

The cost increase reflects a significantly higher activity level, and effect of personnel cost related new hires.

As a result, the company reported an EBITDA of mNOK -13.4 in the First quarter (-8.5).

Continued focus on hiring new personnel, including search and hiring cost contributes to higher employee benefits expenses. The First Quarter also saw increased travel activities across the group contributing to higher other operating expenses, we expect to continue this trend for the next foreseeable quarters.

Operating profit (EBIT)

The Group generated in the First Quarter an Operating loss of mNOK -16.3 (-10.6).

Depreciation, amortization amounted to mNOK -2.9 for the First quarter (-2.1).

Financial items

First quarter net financial expenses amounted to mNOK -1.2 (-0.5). The Group has limited amounts of debt thus the primary factor for Financial items is agio/disagio, due to currency fluctuation.

Profit/loss

The loss before tax was mNOK 17.5 (negative 11.0).

The Income tax was positive mNOK 3.2 (2.5), resulting in a loss of mNOK 14.3 (8.6).

Cash flow

The cash flow from operating activities YTD is mNOK 8.5 (0.2). Change in net due outstanding account receivable contributes to positive operating cash flow for the operating activities. Cash flow from investing was mNOK -5.6 (-2.8) due to Capitalized development costs. Cash flow from financing activities was mNOK -1.7 (-1.7) due to Repayments of current borrowings, Payments of lease liabilities, classified as financing activities and interests paid.

Cash and cash equivalents at the end of the period were mNOK 219.3 (95.4 in Q1 2021 and 218.2 at year 2021). The cash flow from operations was within management expectations.

Financing and debt

The Group's equity was mNOK 331.4 (342.8 at year end 2021). The Group had total non-current liabilities of mNOK 9.5 (10.5 at year end 2021).

Total non-current liabilities and Total current liabilities was mNOK 25.6 (28.6) and continue to decline as the company repay its debt.

The Group maintains a sharp focus on expense and cash flows and navigates from a strong and improved cash position mNOK 219.3 (218.2).

Risks and uncertainty factors

Elliptic Labs strategy and growth ambitions require an adequate cash position to fund the R&D activities needed to drive the technology and product roadmaps forward together with a strong balance sheet to be able to meet the thresholds of our customers.

Elliptic is exposed to foreign exchange risk, as revenues from contracts with customers almost entirely are nominated in USD and or EURO whereas the largest portion of operating expenses primarily are in NOK. Changes in the NOK/USD/EURO may thus result in change in top line and thus may effect profit before tax on an annual basis. For other risk and uncertainty factors please see description in the annual report for 2021.

In March 2022 China is again shutting down their cities due to an out brake of the COVID 19 virus. Making it difficult to predict what kind of impact it will have on Elliptic Labs revenue. In 2020 planned launches were cancelled or postponed and volume-based contracts ended with lower volume than calculated, so far no shutdown of production has incurred. The company continue to monitor the situation.

24 February 2022 Russia invaded Ukraine. Elliptic Labs has neither customers nor suppliers in Russia nor Ukraine and have concluded that there is no need to make impairments or any other adjustments to the financial figures. However, as the war continues Ukraine's production of neon, palladium, and C4F6, three materials crucial for microchips, could be impacted by the situation and thus further delay semiconductor production, indirectly affecting Elliptic Labs through its customers. It is too early to make a reasonable estimate of the effect of these events, but the Board of Directors remains positive about the future outlook for Elliptic Labs.

Please see the annual report for walkthrough of potential operational risk and financial risk.

Consolidated financial statements

Consolidated statement of comprehensive income

For the financial period ended 31 March 2022 and 2021, and 31 December 2021.

<i>(Amounts in 000 NOK)</i>	Notes	Q1 2022 (Unaudited)	Q1 2021 (Unaudited)	2021 (Audited)
Revenues from contracts with customers		5 516	1 719	54 598
Other operating income	8	—	2 813	8 438
Total revenue and other operating income	2	5 516	4 532	63 036
Employee benefits expenses		-13 898	-10 333	-50 807
Other operating expenses	3	-5 059	-2 697	-15 058
EBITDA	4	-13 441	-8 498	-2 829
Depreciation and amortisation	4	-2 868	-2 058	-8 311
Operating expenses		-21 825	-15 088	-74 176
Operating profit		-16 309	-10 556	-11 140
Financial income		632	205	3 730
Financial expenses		-1 793	-669	-5 683
Net financial income/(expenses)		-1 161	-464	-1 953
Profit/(loss) before tax		-17 470	-11 020	-13 092
Income tax expense		3 176	2 467	1 878
Profit/(loss)		-14 294	-8 553	-11 214
Other comprehensive income:				
Foreign currency rate changes, may be reclassified to profit or loss		-32	-2	59
Other comprehensive income, net of tax		-32	-2	59
Total comprehensive income for the period		-14 325	-8 555	-11 156
Loss for the period is attributable to:				
Equity holders of the parent company		-14 325	-8 555	-11 156
Earnings per share outstanding*		-0.14	-0.09	-0.11
Earnings per share fully diluted*		-0.14	-0.09	-0.11

*Earnings per share for all periods is updated to reflect share split in ratio 1:10 in September 2021.

Consolidated statement of financial position

At 31 March 2022, and 31 December 2021 respectively

<i>(Amounts in 000 NOK)</i>	<i>Notes</i>	31/03/22 <i>(Unaudited)</i>	31/12/21 <i>(Audited)</i>
Non-current assets			
Deferred tax assets	7	65 710	62 534
Intangible assets	4	38 899	36 564
Right of use assets		2 232	2 790
Other non-current receivables		4 765	4 517
Total non-current assets		111 606	106 406
Current assets			
Current trade receivables		16 598	29 025
Other current receivables		9 500	17 773
Cash and cash equivalents	6	219 296	218 151
Total current assets		245 394	264 949
Total assets		357 000	371 356
Equity and liabilities			
Share capital		1 038	1 038
Other equity		330 319	341 731
Total equity		331 358	342 769
Non-current lease liabilities		530	530
Non-current borrowings		9 000	10 000
Total non-current liabilities		9 530	10 530
Current borrowings		4 000	4 000
Trade and other current payables		3 208	3 029
Current tax liabilities		—	—
Current lease liabilities		2 061	2 611
Other current liabilities		6 843	8 416
Total current liabilities		16 112	18 056
Total equity and liabilities		357 000	371 356

Consolidated statement of changes in equity

Attributable to owners of Elliptic Laboratories ASA.

2022 (Amounts in 000 NOK)	Share capital	Other paid in capital	Other equity	Translation reserve	Total equity
Shareholders' equity at 01.01.2022	1 038	342 545	-574	-240	342 769
Profit (loss) for the period	—	—	-14 294	—	-14 294
Other comprehensive income for the period	—	—	—	-32	-32
Total comprehensive income for the period	—	—	-14 294	-32	-14 325
<i>Transactions with owners:</i>					
Capital increase through issuance of ordinary shares	—	—	—	—	—
Transactions costs related to issuance of ordinary shares, net of tax	—	—	—	—	—
Employee share schemes	—	—	2 914	—	2 914
Shareholders' equity at 31.03.2022	1 038	342 545	-11 953	-272	331 358

2021 (Amounts in 000 NOK)	Share capital	Other paid in capital	Other equity	Translation reserve	Total equity
Shareholders' equity at 01.01.2021	958	187 153	292	-299	188 104
Profit (loss) for the period	—	—	-8 553	—	-8 553
Other comprehensive income for the period	—	—	—	-2	-2
Total comprehensive income for the period	—	—	-8 553	-2	-8 555
<i>Transactions with owners:</i>					
Capital increase through issuance of ordinary shares	—	—	—	—	—
Transactions costs related to issuance of ordinary shares, net of tax	—	—	—	—	—
Employee share schemes	—	—	956	—	956
Shareholders' equity at 31.03.2021	958	187 153	-7 305	-301	180 505

Consolidated statement of cash flows

For the financial period ended 31 March 2022 and 2021

(Amounts in 000 NOK)	(Unaudited) Q1 2022	(Unaudited) Q1 2021	(Audited) 2021
Cash flow from operating activities			
Profit/(loss) before tax	-17 470	-11 020	-13 092
Adjustment for:			
Taxes paid in the period	-2	-7	-12
Depreciation	2 868	2 058	8 311
Share-based payments	2 914	956	10 349
Items classified as financing activities	140	178	653
Change in current trade receivable	12 427	8 251	-28 599
Change in trade payables	179	314	2 040
Change in other accruals	7 395	-491	9 528
Net cash flows from operating activities	8 452	239	-10 822
Cash flow from investing activities			
Capitalized development costs	-5 577	-2 847	-17 610
Net cash flows from investing activities	-5 577	-2 847	-17 610
Cash flow from financing activities			
Payments of lease liabilities, classified as financing activities	-558	-558	-2 232
Repayments of current borrowings	-1 000	-1 000	-4 000
Proceeds from issuing shares	0	0	162 218
Payments for share issue costs	0	0	-8 533
Interests paid, classified as financing activities	-140	-178	-653
Net cash flows from financing activities	-1 698	-1 736	146 800
Net Change in Cash and Cash Equivalents	1 177	-4 344	118 368
Cash and cash equivalents at the beginning of the period	218 151	99 724	99 724
Effect of foreign currency rate changes on cash and cash equivalents	-32	-2	59
Cash and cash equivalents at the end of period	219 296	95 379	218 151

Notes to the consolidated financial accounts

Note 1 – Accounting principles

1.1 General information

Elliptic Laboratories ASA and its subsidiaries, Elliptic Laboratories Inc and Healthy Pointers AS (together "Elliptic Labs" or the "Group") develop and sell technical solutions, which enable the interaction and information exchanges between individuals and technical devices, based on ultrasound software technology. Such devices are mobile phones, devices within the IoT-market and various other devices that could deploy the Group's software technology to enhance the user experience. Investments in and cooperation with other companies are also part of the Group's purpose.

The domicile of the Group is Oslo, Norway. The Group's head office is at Akersgata 32, 0180 Oslo.

1.2 Summary of significant accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2.1 Basis of preparation

The First quarter consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) as required for financial years beginning 1 January 2022.

The consolidated financial statements have been prepared under the historical cost convention, as modified by derivatives at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

These consolidated financial statements have been prepared under the assumption of a going concern.

1.2.2 Operating revenues

Revenue from providing services is recognised in the accounting period in which the services are rendered.

Revenue from licenses which give a right to use is recognised at point in time and licenses which give a right to access is recognised over time. Royalty based revenue is recognised as sales occur when exceeding the minimum fixed fee.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost.

Some contracts include multiple performance obligations, such as an engineering service and the subsequent licensing of IP, which are accounted for as separate performance obligations. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Elliptic Laboratories exceed the payment, a contract asset or a receivable is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes a royalty for mobile devices sold, revenue is recognised in the amount to which Elliptic Laboratories has a right to invoice.

1.2.3 Basis for loss provisions

When determining possible loss provision, the Group undertakes an individual assessment of each customer based on the size of the contract and various risk factors related to the customer's creditworthiness.

Note 2 – Total revenue and other operating income

Revenues from contracts with customers have the following distribution as recognized over time or at point in time:

(Amounts in 000 NOK)	Q1 2022	Q1 2021	2021
Revenues recognised over time	—	—	4 809
Revenue recognised at point in time	5 516	1 719	49 789
Total revenue	5 516	1 719	54 598

Revenues from contracts with customers consists of two significant revenue streams:

License for IP and subsequent royalties are recognized at point in time when the software has been made available to the customer, and then in increments as minimum production thresholds are met if royalty-based revenue exceed the minimum fixed fee if any. For the financial years 2022 and 2021, the majority of the contracts from which revenue was recognized were of the minimum fixed fee character.

Development and testing of software (Proof of Concept) is considered as a separate performance obligation and is recognized over time based on the actual services provided to the end of the reporting period as a proportion of the total services to be provided.

As at 31.03 all recognised revenues are unconditional as the related performance obligations have been satisfied.

Other operating income consists in total of government grants, which are recognized over time on a systematic basis over the periods in which the entity recognizes expenses for the related costs for which the grants are intended to compensate.

Note 3 – Other operating expenses

(Amounts in 000 NOK)	Q1 2022	Q1 2021	2021
Sales and marketing expenses	1 304	999	4 750
Short-term lease expenses	199	174	730
Electricity, heating and other property expenses	266	251	899
Consultants	922	230	2 834
Auditor	330	190	1 193
Legal	693	279	1 564
Patents	96	9	520
IT/Software	903	498	2 504
Other expenses	436	67	1 041
Government grants recognized as other cost reduction	-91	0	-977
Total other operating expenses	5 059	2 697	15 058

Note 4 - Intangible assets

2022 (Amounts in 000 NOK)	Patents	Trademark	Capitalized development	Total intangible assets
Cost at 01.01.2022	17 213	24	40 705	57 942
Additions	769	0	3 876	4 645
Cost at 31.03.2022	17 983	24	44 581	62 588
Accumulated amortization charges 01.01.2021	11 322	6	10 049	21 377
Amortization charges	114		2 195	2 309
Accumulated amortization charges 31.12.2021	11 436	6	12 244	23 686
Net booked value as at 31.03.2022	6 546	18	32 336	38 899

IFRS 16 Leases depreciation for the period 1 January to 31 March 2022 was NOK 558 081.

2021 (Amounts in 000 NOK)	Patents	Trademark	Capitalized development	Total intangible assets
Cost at 01.01.2021	15 003	24	28 513	43 539
Additions	447	0	2 400	2 847
Cost at 31.03.2021	15 450	24	30 913	46 386
Accumulated amortization charges 01.01.2021	10 946	6	4 347	15 298
Amortization charges	376	0	5 703	6 078
Accumulated amortization charges 31.12.2021	11 322	6	10 049	21 377
Net booked value as at 31.12.2021	5 891	18	30 656	36 564
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

Note 5 – Share option programs

As of 31 March 2022, the Group has option programs that includes a total of 61 employees in parent and subsidiary companies. The employees must work in the Group to be entitled to exercise the options at the time of vesting.

There was no exercise of share options by option holders during Q1 2022.

In Q1 2022 the board of directors decided on a new long-term share option program whereas upward to 2,5% of outstanding shares may be distributed yearly to the employees and management. In Q1 2022 the board awarded 54 employees and management the right to acquire 2 335 862 shares in aggregate.

As of 31 March 2022, the total number of outstanding options for both employees and management equal in shares were 5 727 861 whereas 1 691 750 were vested. The option program gives the employees the right to approx. 5,5% of outstanding shares.

The purpose of the establishment of the option programs is to attract and retain key personnel. The fair value of the options is calculated at the grant date, based on the Black-Scholes model, and expensed over the vesting period of 4 years.

Note 6 – Cash and cash equivalents

<i>(Amounts in 000 NOK)</i>	31.03.2022	31.12.2021
Cash and cash equivalents	219 296	218 151
Of which are restricted cash:		
Restricted bank deposits for employee tax withholdings	942	1 324
Not restricted cash	218 354	216 827

Note 7 – Estimates

The deferred tax assets include an amount of mNOK 65.7 which relates to carried forward tax losses of Elliptic Laboratories ASA. Elliptic Laboratories ASA has incurred the losses over the last several years mainly due to expenses relating to research and development of intangible assets which do not meet the capitalization criteria. The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on profitability, its scalable business model, entered into contracts with customers and expectations of future growth of business opportunities based on already established customer relations in several market verticals. Elliptic Laboratories ASA expects the carried forward tax loss to be utilized within a few years. The losses can be carried forward indefinitely and have no expiry date.

Note 8 – Government grants

The table below sets forth the treatment of government grants.

<i>(Amounts in 000 NOK)</i>	Q1 2022	Q1 2021	2021
Recognized as income from other sources	—	2 813	8 438
Reduction of capitalized patents	—		6
Reduction of capitalized development	932	—	3 208
Recognized as payroll cost reduction	164	1 200	565
Recognized as other cost reduction	91		977
Total government grants	1 188	4 013	13 194

Note 9 – Alternative performance measures (APMs)

Earnings before interest, taxes, depreciation and amortizations. EBITDA is a key performance indicator that the Group considers relevant for understanding the generation of profit before investments in fixed assets.

<i>(Amounts in 000 NOK)</i>	<i>Notes</i>	Q1 2022	Q1 2021	2021
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Revenues from contracts with customers		5 516	1 719	54 598
Other operating income	8	—	2 813	8 438
Total revenue and other operating income	2	5 516	4 532	63 036
Employee benefits expenses		-13 898	-10 333	-50 807
Other operating expenses	3	-5 059	-2 697	-15 058
EBITDA	9	-13 441	-8 498	-2 829

Note 10 – Subsequent events

The 22nd of April Elliptic Labs announced an agreement with Lenovo for Future Laptop Integration of 18 additional models with Lenovo.

The 27nd of April Elliptic Labs and Xiaomi announced the Poco F4 GT Gaming Smartphone for Global Market.

The 10th and 19th of May Elliptic Labs announced the third and fourth expansion of agreements with current laptop customer.

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