

Interim report, *January - March*

XMReality 2022



XMReality Interim report, Group overview, January–March 2022

Order backlog increased with 10 percent compared with the same quarter last year, Net sales decreased with 16 percent and the Gross margin increased from 90 to 94 percent.

January – March 2022, The Group

- Net sales amounted to SEK 4,810 thousand (5,757)
- Costs totaled SEK -16,593 thousand (-12,518)
- The operating loss before appropriations and taxes was SEK -10,789 thousand (-6,257)
- Cash flow for the period was SEK -9,040 thousand (50,416) and the equity/assets ratio at the end of the period was 65.0 (81.7) percent

Net sales decreased with 16 percent to SEK 4,810 thousand (5,757). The Annual Recurring Revenues (ARR) decreased with 7 percent to SEK 18,130 thousand (19,400). The absolute majority of the revenues were recurring software subscriptions. The Gross margin continued to be high at 94 (90) percent for the quarter. About half of the Net sales reduction was a result of less hardware sales, also the root cause for the increased Gross margin. The increase in cost mainly comes from additional sales resources in our wholly owned U.S. subsidiary. The Order backlog, Order intake that at the end of the period remains to be recognized as Net sales, increased 10 percent to SEK 15,532 thousand (14,117).

The Order intake for the quarter was significantly lower compared with last year and decreased 54 percent to SEK 3,259 thousand (7,137). The main reason being absence of larger deals during the quarter. The first quarter 2021 had one large three-year-order and one large two-year-order totaling some SEK 3 million in order value. The difference in Order intake from hardware was about SEK 0.5 million less in Q1 2022.

Note that the wholly owned U.S. subsidiary (XMReality Inc.) since Jan 1st 2022 has been upgraded to a profit and loss Business unit resulting in all financial reporting going forward will be at group level.

Notable events during the quarter January – March 2022

- Procurement for Housing (PfH) and XMReality signed a framework agreement for XMReality Remote Guidance. The availability of Remote Guidance has been requested by the PfH member organizations and is now a catalogue product. PfH is a respected leading brand within the UK's social housing sector with 1000+ member organizations collectively managing over 3.9 million properties.
- As of January 1st, Tim Koepl joined XMReality as its new President of XMReality Inc., the U.S. based subsidiary of XMReality AB. Tim most recently led an advanced technologies integration program to enable the US Department of Defense.
- Verisure SARL, the Swiss headquarter of Verisure, and XMReality AB have signed a global framework agreement for XMReality Remote Guidance. Verisure will initially make a deployment of XMReality Remote Guidance in their technical support function for home alarms in Sweden.
- As of March 1st, Lotta Ekerbring took over as Chief Finance Officer (CFO) at XMReality. Lotta will contribute with significant experience in the field and has previous experience as CFO in a high-tech company with subsidiaries in North America.
- XMReality has launched two new product plans available for purchase directly online. As adoption of the technology has grown, and with that user sophistication, XMReality is now launching two new product plans, Professional and Professional Plus. Both plans are more comprehensive with extended functionality compared to the previous Business version.

Message from the CEO



Jörgen Rimmelg, XMReality's CEO

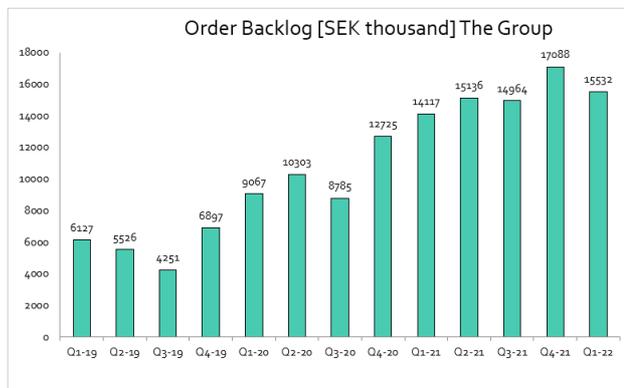
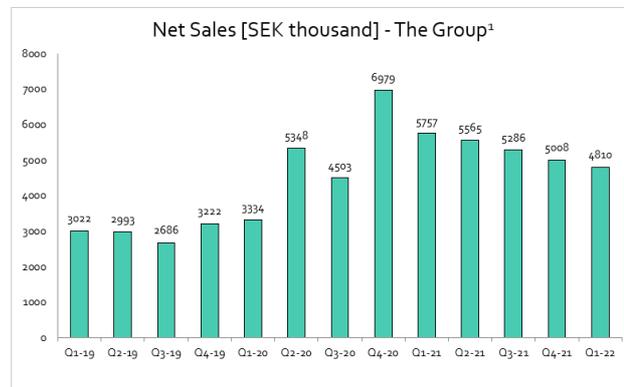
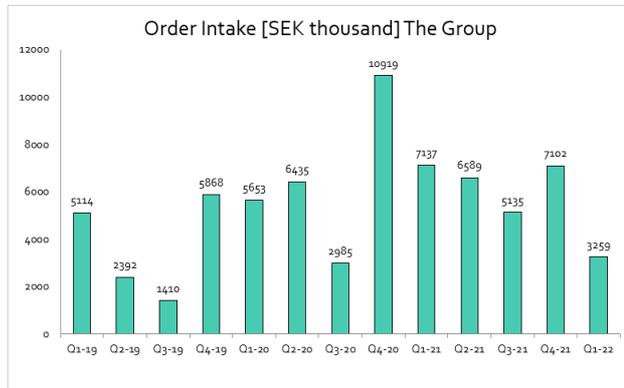
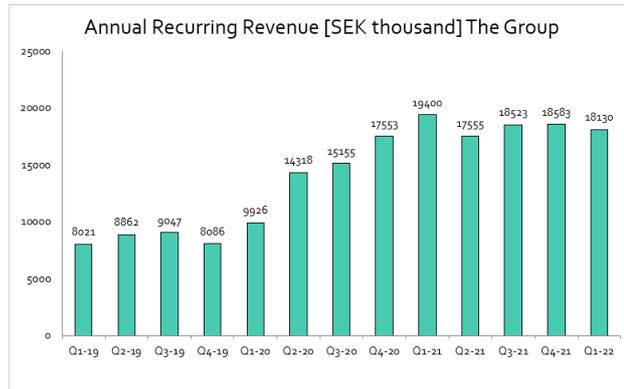
Order intake was slow the first quarter of the year as quite some potential new customers held back on their orders. However, very few opportunities have been lost. Our churn continues to be low and the gross margin high. We of course have a high focus on our sales capability and have strengthened this resource, especially in the U.S. We have a really good progress with our product development and have released a new backend during the quarter, which will enable simpler planning of calls and an increased number of participants in group calls. Thus, we are executing a long-term investment in the product and in the U.S.

The market is currently characterized by a slight hesitation and we observe several opportunities that drag out in time. If this has its origin in the pandemic that is tapering off, or the crisis in Ukraine is difficult to judge yet. As a result of the many tradeshow we executed at the end of last year, there are several discussions ongoing although orders have not yet been received. We have strengthened our capabilities in the U.S. with a significant investment in the North American market. Since January 1st we have upgraded our U.S. subsidiary to a business unit with its own profit and loss statement. Consequently, new contracts with North American customers will be signed with the U.S. legal entity going forward. I am convinced that both existing U.S. customers and new ones will appreciate our additional U.S. capabilities and presence.

Regarding the existing customer base, the quarterly net change in number of licenses was very small. Churn during the quarter was low (a few percent), as well as upsales to existing customers. Naturally we have the ambition to increase upsales to existing customers. We are currently having good discussions with some of our larger customers where the Slaesforce integration, our new backend, functionality for planned inspections, training and commissioning of new production equipment in general are well received. Connected to all this, we have a large product release within the coming quarter that we have already started to market to the existing customer base.

The step we are now taking with the product from primarily being used for intermittent problem resolution in the aftermarket process, to creating superior value in the procurement, supply, quality and production process is significant. The increased capability is requested from the general market, but also from our existing industrial customers. Our product/market fit will substantially increase, and I look positive on the future although it has taken almost two years to get to this point.

Jörgen Rimmelg, CEO
Linköping April 28, 2022



¹ As of Q1 2022 we will transition our financial reporting to group level as our wholly owned subsidiary in the U.S. has become a Business unit with its own profit and loss statement. The charts above showing Annual Recurring Revenues (ARR), Order intake, Order backlog are unchanged. The 2019 Net sales are also unchanged, while the Net sales for 2020 and 2021 are 2.6 percent and 1.6 percent lower as a result of the financial booking of Management fee. The Net sales numbers above are adjusted accordingly. See also Accounting policies on page 11.

Financial basis for the interim report, January – March 2022

Income statements in summary (SEKk), The Group

	January - March		Full year
	2022	2021	2021
Net sales	4,810	5,757	21,616
Capitalized production costs	807	499	2,211
Other operating income	186	1	150
Total income	5,804	6,257	23,977
Raw materials and consumables	-268	-556	-1,707
Other operating expenses	-6,732	-4,852	-25,040
Employee benefits expenses	-8,175	-5,784	-25,209
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-1,398	-1,319	-5,298
Other operating costs	-20	10	-385
EBIT	-10,789	-6,244	-33,662
Financial income and similar profit items	0	0	16
Financial expenses and similar loss items	-1	-13	-27
Profit(-loss) after net financial income	-10,789	-6,257	-33,672
Income tax expense for the period	0	-4	-15
Profit(-loss) for the period	-10,789	-6,261	-33,687
Earnings per share, before and after dilution (SEK)	-0.26	-0.18	-0.85
Average number of shares during the period	40 920 000	35 691 333	39 630 740
Shares outstanding at the end of the period	40 920 000	40 920 000	40 920 000

Balance sheets in summary (SEKk), The Group

	31 Mar 2022	31 Mar 2021	31 Dec 2021
Assets			
Non-current assets			
Capitalized development costs	9,855	12,681	10,430
Equipment, tools and systems	155	307	148
Total non-current assets	10,011	12,988	10,577
Current assets			
Inventories	330	370	395
Current receivables	6,675	6,399	7,993
Cash and bank balances	36,103	69,129	45,143
Total current assets	43,108	75,898	53,531
Total assets	53,119	88,886	64,109
Equity and liabilities			
Equity	34,511	72,659	45,315
Non-current liabilities	0	0	0
Current liabilities ²	18,608	16,228	18,793
Total equity and liabilities	53,119	88,886	64,109
² Of which interest-bearing liabilities	0	208	0
Collateral provided	3,700	3,700	3,700
of which in own custody	3,000	0	3,000
Contingent liabilities	None	None	None

Statements of change in equity in summary (SEKk), The Group

	January - March		Full year 2021
	2022	2021	
Balance at the beginning of the period	45,315	24,999	24,999
New share issue (net of issue costs)	0	53,902	53,805
Exchange rate difference	-16	19	198
Profit(-loss) for the period	-10,789	-6,261	-33,687
Balance at the end of the period	34,511	72,659	45,315
Average number of shares during the period, ³	40,920,000	35,691,333	39,630,740
Shares outstanding at the end of the period ³	40,920,000	40,920,000	40,920,000

³ New issue of 6,820,000 shares subscribed in February 2021.

Statements of cash flow (SEKk), The Group

	January - March		Full year 2021
	2022	2021	
Den löpande verksamheten			
Cash flow (-used) before changes in working capital	-9,399	-5,242	-28,799
Change in working capital	1,206	2,237	3,496
Rörelsens kassaflöde	-8,194	-3,005	-25,303
Cash flow from (-used in) investing activities	-831	-499	-2,271
Cash flow from (-used in) financing activities	0	53,902	53,805
Exchange rate difference	-16	18	198
Cash flow from (-used in) the period	-9,040	50,416	26,430
Cash and cash equivalents at the beginning of period	45,143	18,714	18,714
Cash and cash equivalents at the end of period	36,103	69,129	45,143

Parent company income statements in summary (SEKk)

	January - March		Full year 2021
	2022	2021	
Net sales	5,117	5,845	21,975
Capitalized production costs	807	499	2,211
Other operating income	186	1	150
Total income	6,110	6,344	24,337
Raw materials and consumables	-268	-556	-1,707
Other operating expenses	-8,913	-5,361	-27,002
Employee benefits expenses	-6,728	-5,360	-23,393
Depreciation, amortization and impairment of property, plant and equipment and intangible assets	-1,398	-1,319	-5,287
Other operating costs	-20	10	-385
EBIT	-11,216	-6,243	-33,436
Financial income and similar profit items	42	0	16
Financial expenses and similar loss items	-1	-11	-20
Profit(-loss) after net financial income	-11,175	-6,254	-33,440
Group contribution received	0	0	0
Income tax expense for the period	0	0	0
Profit(-loss) for the period	-11,175	-6,254	-33,440
Earnings per share, before and after dilution (SEK)	-0.27	-0.18	-0.84
Average number of shares during the period	40,920,000	35,691,333	39,630,740
Shares outstanding at the end of the period	40,920,000	40,920,000	40,920,000

Parent company balance sheets in summary (SEKk)

	31 Mar 2022	31 Mar 2021	31 Dec 2021
Assets			
Non-current assets			
Capitalized development costs	9,855	12,681	10,430
Equipment, tools and systems	138	296	131
Financial assets	51	51	51
Total non-current assets	10,044	13,028	10,612
Current assets			
Inventories	330	370	395
Current receivables	6,675	6,394	7,993
Cash and bank balances	35,646	69,023	45,098
Total current assets	42,651	75,786	53,486
Total assets	52,696	88,814	64,098
Equity and liabilities			
Equity	34,038	72,495	45,212
Non-current liabilities	50	50	50
Current liabilities ⁴	18,608	16,269	18,835
Total equity and liabilities	52,696	88,814	64,098
⁴ Of which interest-bearing liabilities	0	208	0
Collateral provided	3,700	3,700	3,700
of which in own custody	3,000	0	3,000
Contingent liabilities	None	None	None

Parent company statements of change in equity in summary (SEKk)

	January - March		Full year 2021
	2022	2021	
Balance at the beginning of the period	45,212	24,847	24,847
New share issue (net of issue costs)	0	53,902	53,805
Profit(-loss) for the period	-11,175	-6,254	-33,440
Balance at the end of the period	34,038	72,495	45,212
Average number of shares during the period ⁵	40,920,00	35,691,333	39,630,740
Shares outstanding at the end of the period ⁵	40,920,00	40,920,000	40,920,000

⁵New issue of 6 820 000 shares subscribed in February 2021.

Parent company statements of cash flow (SEKk)

	January - March		Full year 2021
	2022	2021	
Operating activities			
Cash flow (-used) before changes in working capital	-9,827	-5,235	-28,545
Change in working capital	1,164	2,240	3,494
Cash flow from (-used in) operating activities	-8,663	-2,995	-25,051
Cash flow from (-used in) investing activities	-831	-499	-2,271
Cash flow from (-used in) financing activities	42	53,902	53,805
Cash flow from (-used in) the period	-9,452	50,408	26,483
Cash and cash equivalents at the beginning of period	45,098	18,615	18,615
Cash and cash equivalents at the end of period	35,646	69,023	45,098

The Group Overview of financial performance in summary (SEKk)

Below is a summary of XMReality Group financial development of the years 2018 – 2021. All information for the financial years 2019-2021 (pro forma) based on material taken from the parent company's officially published annual reports and the subsidiaries' accounts converted to group level. 2018 is based on material taken from the published annual report for XMReality AB (publ).

	The Group Jan - Mar 2022	2019 – 2021 XMReality, The Group Full year			XMR AB Full year 2018
		2021	2020	2019	
Net sales	4,810	21,616	20,164	11,921	10,155
Operating profit (-loss)	-10,789	-33,662	-24,420	-27,205	-29,250
Profit (-loss) after net financial income	-10,789	-33,672	-24,471	-27,243	-29,317
Taxes	0	-15	-35	0	0
Profit (-loss) after taxes	-10,789	-33,687	-24,506	-27,243	-29,317
Profit margin, %	neg	neg	neg	neg	neg
Intangible assets	9,855	10,430	13,452	16,039	14,754
Tangible assets	155	148	355	405	528
Financial assets	0	0	0	8	8
Inventories	330	395	255	184	261
Current receivables	6,675	7,993	8,934	6,792	5,978
Cash and bank balances	36,103	45,143	18,714	9,417	37,798
Equity	34,511	45,315	24,999	20,339	47,608
Non-current liabilities	0	0	0	333	844
Current liabilities	18,608	18,793	16,711	12,172	10,875
Total assets	53,119	64,109	41,710	32,844	59,327
Return on average capital employed, %	neg	neg	neg	neg	neg
Return on average equity, %	neg	neg	neg	neg	neg
Equity/assets ratio, %	65.0	70.7	59.9	61.9	80.2
Debt/equity ratio, multiple	0,00	0,00	0,01	0,04	0,04
Interest coverage ratio, %	neg	neg	neg	neg	neg
Quick ratio, %	229,9	282,7	165,5	133,2	402,5
Number of employees (end of period)	32	26	20	19	23
Investments					
Intangible assets	807	2,211	2,224	5,289	5,478
Tangible assets	23	59	139	91	140
Deposits	0	0	-8	0	8
Basic earnings (-loss) per share, before and after dilution, SEK	-0.26	-0.85	-0.79	-1.60	-1.72
Average number of shares during the period	40,920,000	39,630,740	31,063,699	17,050,000	14,982,648
Shares outstanding at the end of the period	40,920,000	40,920,000	34,100,000	17,050,000	17,050,000

Definition av nyckeltal

Profit margin	Profit after net financial items divided by sales
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. (Provided no changes are made in the agreement).
The Group	The Parent company (XMReality AB (Publ.) and all subsidiaries, XMReality Inc., XMReality Värdepapper AB and XMReality GmbH (liquidated January 2022)
The Parent Company	XMReality AB (publ.)
Churn	The value of terminated subscriptions in relation to the Annual Recurring Revenue (ARR)
Upsales	Additional subscriptions (ARR) with existing customers
Contraction	Reduction of existing subscriptions (ARR) with existing customer

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. But, from this report going forward also the group, including the wholly owned subsidiaries and mainly the US XMReality Inc. will be reported. 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 a negative impact on the business of XMReality Group. It is therefore imperative to consider relevant risks alongside the Group Company's growth potential. Refer to the XMReality Annual Report 2021, pages 20-21, "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 40,920,000 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 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 April 28th 2022

Board of Directors

Financial reporting calendar:

Interim report Q2 2022	Thursday August 11 th , 2022
Interim report Q3 2022	Thursday October 20 th , 2022
Year-end report 2022	Thursday February 16 th , 2023
Annual General Meeting (AGM)	Wednesday May 4 th , 2022

All reports and minutes of the AGM will be published www.xmreality.com/investors/

The information was released by the contact person listed below for publication on April 28th 2022 at 08:30 CEST.

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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 prevails. This report is only an internal translation of the Swedish report.