

QUARTERLY REPORT JANUARY TO MARCH 2021

IMPORTANT CUSTOMER WIN WITH NEW SAAS BUSINESS MODEL

JANUARY TO MARCH 2021

- Net sales amounted to 9.8 MSEK (15.3)
- Net sales adjusted*¹ amounted to 12.2 MSEK (12.9)
- Recurring revenues adjusted* amounted to 9.0 MSEK (7.7)
- Rolling 12 months recurring revenues adjusted* amounted to 34.7 MSEK (28.1)
- Usage revenues adjusted* amounted to 4.3 MSEK (1.5)
- Gross margin increased to 72% (60)
- EBITDA adjusted amounted to -13.3 MSEK (-25.1)
- Earnings per share amounted to -0.2 SEK (-0.7)

EVENTS DURING THE QUARTER

- Artificial Solutions recognized and selected as Microsoft Co-Sell Partner
- ISG nominated Artificial Solutions as a Leader in Intelligent Automation – Solutions and Services for Conversational AI
- Customers Banco BPM, Widiba and Monte dei Paschi in the banking industry extended their commitments with Teneo
- Artificial Solutions reduces annual operating run rate expenses from 178 MSEK to 105 MSEK – a 41% decrease

EVENTS AFTER THE QUARTER

- Strategically important SaaS deal with initial annual revenue value of 0.7 MSEK with large multinational US Tech company. Projected Year three ARR of 6.2 MSEK.
- Gartner highlighted Artificial Solutions as an Innovator for Conversational AI
- Teneo Platform now supports 84 official languages – most covered languages in the market
- Appointment of Marie Angselius Schönbeck as Chief Communication and Impact Officer

KEY FIGURES (For definitions please see page 17 * for adjusted revenues clarification on pages 4-5)

MSEK	JAN-MAR 2021	JAN-MAR 2020	JAN-DEC 2020
Net sales adjusted*	12.2	12.9	46.8
Recurring revenues adjusted*	9.0	7.7	33.5
Rolling 12 months recurring revenues adjusted*	34.7	28.1	33.5
Usage revenues adjusted*	4.3	1.5	10.0
Net sales reported	9.8	15.3	53.8
Gross margin %	72%	60%	66%
Adjusted EBITDA	-13.3	-25.1	-78.3
Earnings per share, SEK	-0.2	-0.7	-3.2
Cash flow from Operations	-15.5	-18.3	-75.9

¹ The company has recalculated its Usage revenues to be aligned with the new SaaS model's "pay as you consume" principles. Please see pages 4-5 for adjusted revenues clarification.

CEO STATEMENT

We entered the first quarter 2021 with a new business and delivery model, and we are now a SaaS company delivering value in the Microsoft ecosystem. We added new functionality to our Conversational AI development platform making it the most extensive Conversational AI platform in the market. In the quarter, we continued to expand our footprint with existing customers and right after the quarter close, we won our second SaaS customer, a strategically very important customer.

At the beginning of the first quarter, Artificial Solutions presented LUIS^Teneo, a SaaS-based development suite and bot engine using Microsoft LUIS. LUIS^Teneo allows enterprises to build, scale and maintain LUIS-based bots with fewer resources improving conversational bot ROI and quality.

Shortly thereafter, we became a co-sell partner to Microsoft and launched Teneo, our Conversational AI development platform, in the Microsoft Azure Marketplace, an online store providing applications and services for use on Azure.

During the quarter, we announced support for 48 additional languages to Teneo, making it the most extensive Conversational AI language solution in the market. We estimate that the built-in language support in the platform covers close to 40% of the world's population. The platform now supports 84 official languages.

After the quarter close, we announced that a large North American Tech company has signed an agreement to integrate our Conversational AI technology to elevate its customer experience. The total revenue is determined by use, API-calls, over time. The client has the potential of generating ARR of 6.2 MSEK in year 3. The solution supports both chat and voice and will be delivered on Microsoft's cloud platform Azure. The deal also validates our technology and our new SaaS business and delivery model.

New Strategy Recognized by Leading Analysts

We have been recognized as leader with our LUIS^Teneo offering by the global research firms Gartner and ISG.

Gartner, the leading analyst firm in the IT Industry, has recognized the company as an Innovator in Conversational AI in the Gartner report 'Emerging Technologies: Tech Innovators in Conversational AI and Virtual Assistants'. The report highlighted Artificial Solutions' strategy towards a modular and open platform and the recent launch of our LUIS ^ Teneo offering.

ISG is a renowned technology research and advisory firm. The 2020 ISG Provider Lens recognized Artificial Solutions' AI software solutions through its platform Teneo, and its outstanding ability for developers to build conversational AI apps. Teneo does more than leverage machine learning (ML) or linguistic approaches alone, by taking a hybrid approach that provides a meaningful context for regular linguistic actions.

Go to Market

We are driving our pipeline building based on three pillars:

1. Our customers find us and download our software on our developer's site. To support this, we added features to make our software easier to use and we made the signup process easy and free. We also remade our documentation and made it easily accessible to the developers.
2. In our outbound efforts we have developed campaigns that started going live towards the end of Q1.
3. Our Direct Sales organization is focused on making sure our existing customers continue to grow and to work on the larger, strategic opportunities we have defined.

These three pillars are coming together and after the quarter-end we inked our first strategic deal, and we are building a promising pipeline for the rest of the year.

High Activity in M&A – Consolidation to Continue

I wanted to take the opportunity to comment on Microsoft's acquisition of Nuance and Nordic Capital entering the Conversational AI market. The interest in Natural Language solutions and our strategy increased with Microsoft's announcement of a 19.7 BUSD acquisition of Nuance. Microsoft has stated that its focus is on expanding cloud-based services in Healthcare. Due to compliance and regulations, much of US Healthcare is still run in old on-prem IT-infrastructure. This opens up a large market for Microsoft, where competing ecosystems like Apple and Google have focused on B2C – Microsoft now gets the doctors as customers and can build a B2B presence.

Nuance's revenues rely on producing journals from Natural Language interactions between doctors and patients, and their technology is not mentioned by Microsoft. As their customers will likely need to migrate to Azure-based solutions, LUIS^Teneo can make that migration easier as all needed integrations are ready made and conversations can be imported. It is not expected by any analysts that Nuance will have any negative effect on the platform-based model of Artificial Solutions.

Leading European private equity firm, Nordic Capital, also entered the Conversational AI market with the growth investment of 1 BNOK in Norwegian company Boost.ai in the first quarter of 2021. My view is that the consolidation will continue to materialize in the industry, and this is just the beginning.

Adding Marketing Competence to Our World-Class Management Team

It is my pleasure to announce that we are further strengthening our world-class management team with the appointment of our new Chief Impact Officer Marie Angselius who started right at the beginning of Q2. Marie comes from IPsoft (now Amelia) and brings a deep experience of market communication in our industry.

With Marie onboard, we have a solid management team in place with highly relevant expertise from building and scaling SaaS companies that will accelerate Artificial Solutions growth journey.

Cost Base Reset and Aligned with New Strategy

As communicated in the Q4 2020 interim report, we have changed the company's internal organization and structure to align our operations with our new business and delivery model. This work has been executed on plan and has been well-received internally as well as externally by customers, suppliers, and shareholders.

In the first quarter of 2021, we reported operating expenses of 26.3 MSEK compared with 44.4 MSEK in the same period 2020, a reduction of 41 %. With this cost base, we also meet our guidance to report annual run-rate operating expenses of 105 MSEK in the first quarter of 2021. This reset of our cost base enables the company to continue the business financed from operations or increase the investment pace to follow the market.

Technology Multiplying the Power of Conversational AI

Artificial Solutions' technology speeds up the development of advanced solutions for conversational AI, regardless of platform. Solutions based on our technology have higher scalability, a more significant number of languages and larger transaction volumes. With the strong development team that makes this possible we have a real opportunity to establish ourselves as an accelerator with leading players in conversational AI, including Microsoft.

Our technology can scale from a simple chatbot to handle hundreds of thousands of sessions every day in different languages. This can also be applied horizontally, which opens an even larger market. With one of the most technologically advanced platforms on the market, our SaaS-based model will help our customers become productive and competitive. The team at Artificial Solutions will accelerate the growth that Teneo deserves.

We believe we have a strong foundation for the future. We can see this in the increased number of customer discussions we are involved in, and we are very happy that one of the strategic deals we have identified was closed

right after the closing of the first quarter.

Per Ottosson, CEO

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About Artificial Solutions

[Artificial Solutions](#)® (SSME:ASAI) is the leading specialist in Conversational AI. We enable communication with applications, websites, and devices in everyday, humanlike natural language via voice, text, touch, or gesture input.

Artificial Solutions' advanced conversational AI Teneo®, allows business users and developers to create sophisticated, highly intelligent applications that run across 84 languages and dialects, multiple platforms, and channels in record time. The ability to analyse and make use of the enormous quantities of conversational data is fully integrated within Teneo, delivering unprecedented levels of data insight that reveal what customers are truly thinking.

Artificial Solutions' conversational AI technology makes it easy to implement a wide range of natural language applications such as virtual assistants, conversational bots, speech-based conversational UIs for smart devices and more. It is already used daily by millions of people across hundreds of private and public sector deployments worldwide.

Artificial Solutions International is listed on Nasdaq First North Growth Market in Stockholm with short name ASAI. Erik Penser Bank is the Company's Certified Adviser (www.penser.se, tel. +46 (0) 8-463 83 00, e-post certifiedadviser@penser.se).

For more information, please visit www.artificial-solutions.com.