



**Asetek A/S**  
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DK9220 Aalborg East  
Denmark

## **Interim Report**

Third Quarter and Nine Months Ended September 30, 2021

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Company Registration (CVR) Number 34 88 05 22



## Highlights

- Nine-month revenue of \$61.7 million (+37%) and EBITDA adjusted of \$6.5 million
- Q3 revenue of \$13.5 million compared with \$21.6 million in Q3 2020; Q3 gross margin of 39% compared with 47% in prior year
- Q3 EBITDA adjusted of negative \$1.4 million, compared with \$5.4 million in Q3 2020
- Results are consistent with update provided on September 22
- One-time charge of \$1.7 million in operating expense for exit of the HPC data center niche
- Opening of orders for SimSports products in Q4, with R&D investment of \$0.8 million in Q3
- Asetek technology incorporated in first AIO liquid cooling solutions from global gaming leader Razer
- Expectation for 2021 Group revenue growth of 10 – 20% maintained, current revenue outlook trending toward the lower end of the range

## Key figures

Figures in USD (000's)	Nine months ended				
	Q3 2021	Q3 2020	30-Sep-21	30-Sep-20	2020
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
<b>Summary P&amp;L:</b>					
Revenue	13,534	21,629	61,734	44,900	72,750
Gross profit	5,251	10,067	25,823	21,840	34,194
Gross margin	38.8%	46.5%	41.8%	48.6%	47.0%
Operating income	(4,112)	4,259	1,333	5,338	10,928
<b>Reconciliation from IFRS to EBITDA adjusted:</b>					
Operating income	(4,112)	4,259	1,333	5,338	10,928
Add: Depreciation and amortization	730	876	2,663	2,597	3,754
Add: Share based compensation	269	235	811	736	918
Add: Special item - impairment -HPC data center	1,713	-	1,713	-	-
EBITDA adjusted (unaudited)	(1,400)	5,370	6,520	8,671	15,600
<b>Liquidity at period end:</b>					
Working capital	22,933	31,409	22,933	31,409	32,837
Cash and equivalents	25,397	26,830	25,397	26,830	27,099
Long-term debt	1,903	2,725	1,903	2,725	2,604

## Summary

- Financial results
- Asetek reported third-quarter revenue of \$13.5 million, compared with \$21.6 million in the same period of 2020. Revenue in the first nine months was \$61.7 million, representing growth of 37% compared with the same period of 2020. The changes from prior year mainly reflect fluctuation in the volume of shipments of Gaming and Enthusiast products, impacted by several factors: A global shortage of chips, particularly GPUs, has suppressed demand for Asetek's coolers. Disruption in global shipping and logistics has delayed customer shipments. Manufacturing schedules and component deliveries from suppliers have been hindered by a global component shortage, power outages and COVID-related factory shutdowns in the Tongan District in China.
  - In order to maximize the future profitability of its Data center business, the Company announced that it is exiting the High-Performance Computing (HPC) niche. Asetek plans to prioritize the general data center market and support legislation increasing adoption of its sustainable solutions, capitalizing on its liquid cooling technology and long-term investments in the segment. Asetek recorded a one-time charge of \$1.7 million to operating expense in Q3 2021 following this strategic change.
  - Gross margin was 39% for the third quarter and 42% in the first nine months, compared with 47% and 49% in the respective periods of 2020. The margin decline reflects increases in certain component costs due to the ongoing global component shortage, higher shipping costs, a change in the mix of product shipments and a weaker U.S. dollar.
  - Operating loss was \$4.1 million and adjusted EBITDA was negative \$1.4 million in the third quarter of 2021, compared with operating income of \$4.3 million and adjusted EBITDA of \$5.4 million in the third quarter of 2020. Operating income in the first nine months was \$1.3 million and adjusted EBITDA was \$6.5 million, compared with operating income of \$5.3 million and adjusted EBITDA of \$8.7 million in the same period of 2020.
  - Operating expense included R&D in the new SimSports line of business of \$0.8 million and \$2.0 million in the third quarter and first nine months of 2021, respectively, compared with zero in the same periods of 2020.
  - During the third quarter, the Company repurchased 113 thousand common shares for a total of \$1.25 million to complete the share repurchases under the April 2021 program. At September 30, 2021, Asetek had working capital of \$22.9 million including \$25.4 million of cash and cash equivalents, and long-term debt totaled \$1.9 million.
- Operations
- In September, Asetek announced the first of its sim racing products – Invicta Sim Racing Pedals – which include a throttle, brake pedal and add-on clutch pedal, along with its RaceHub software for quick and easy adjustments and calibration. This initial offering will be available for purchase in Q4 2021, with delivery to customers early next year.
  - In the third quarter, fifteen new Gaming & Enthusiast products began shipping, including one to a new customer. The Company also announced new all-in-one (AIO) coolers offered by its OEM partners – Phanteks introduced the extreme performance Glacier One 240T30 AIO CPU cooler and MSI introduced its MEG CORELIQUID S Series premium AIO CPU coolers.
  - In October, the Company announced that Asetek technology is incorporated in the first AIO liquid cooling solutions from global gaming leader Razer.
- Outlook
- Asetek's short-term outlook is affected by several factors. Manufacturing schedules and component deliveries from suppliers are hindered by power outages and COVID-related factory shutdowns in the Tongan District in China, which may continue. Significant increases in shipping and logistics costs are reducing gross margins. A global shortage of chips, particularly GPUs, is negatively impacting the market for Asetek's coolers.
  - In recognition of the above factors, Asetek on September 22 updated its 2021 revenue expectation to an increase of 10% to 20% from 2020 (previously 20% to 30%). Operating income expectation was updated to between \$0 and \$2 million in 2021 (previously \$8 to \$12 million), reflecting the effect of reduced revenue due to the shortage of GPUs, increased shipping and component costs, uncertainties regarding operations in China, and non-recurring costs associated with the exit of the HPC data center niche. Asetek's most recent revenue outlook is trending toward the lower end of the above noted range.

## Financial review

*The figures below relate to the consolidated accounts for the third quarter and first nine months of 2021, which comprise activities within the two segments Gaming and Enthusiast (including SimSports) and Data Center. The figures are unaudited.*

### Income Statement (Consolidated)

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Asetek reported total revenue of \$13.5 million in the third quarter of 2021, compared with \$21.6 million in the same period of 2020. Total revenue in the first nine months of 2021 increased to \$61.7 million from \$44.9 million in the same period of 2020. Sales unit volumes of sealed loop coolers for the third quarter of 2021 were 237,000, a decrease of 36% from the same period of 2020 (372,000). Unit shipments for the first nine months were 1,084,000, an increase of 47% from the same period of 2020. The fluctuations in revenue and unit shipments reflect changes in shipments of Gaming and Enthusiast products, impacted by several factors: A global shortage of chips, particularly GPUs, has suppressed demand for Asetek's coolers. Disruption in global shipping and logistics has delayed customer shipments. Manufacturing schedules and component deliveries from suppliers have been hindered by a global component shortage, power outages and COVID-related factory shutdowns in the Tongan District in China. Average selling price (ASP) per unit in both the third quarter and first nine months of 2021 decreased from the prior year periods, reflecting the Company's transition to core product shipments which include fewer ancillary components.

Gross margin was 38.8% for the third quarter of 2021, compared with 46.5% in the same period of 2020. Gross margin for the first nine months of 2021 was 41.8% compared with 48.6% in the same period of 2020. The changes in margin reflect several factors. Component prices have increased due to the ongoing global component shortage – costs increased by approximately 2% to 4% in both October and December 2020. Due to global supply chain disruptions, shipping costs for a certain large customer increased by 400% in the third quarter of 2021. The reduced margins also reflect a change in the mix of product shipments and a 7% weaker U.S. dollar against the Chinese yuan renminbi (CNY).

Total operating expense increased to \$9.4 million in the third quarter of 2021 from \$5.8 million in the same period of 2020. For the first nine months of 2021, operating expense increased to \$24.5 million from \$16.5 million in the same period of 2020. Operating expense in Q3 2021 includes a gain on

sale of land of \$0.7 million and a one-time impairment charge of \$1.7 million for asset write-downs and other costs associated with Asetek's planned exit of the HPC data center niche.

Costs incurred for defense of existing intellectual property (IP) and securing new IP increased to \$1.8 million and \$3.4 million in the third quarter and first nine months of 2021 (\$0.5 million and \$1.7 million in the respective periods of 2020).

The increases in both periods also reflect investments in the new SimSports line of business. SimSports operating expense, including allocations of fixed overheads and some one-time costs, was \$1.2 million and \$4.1 million in the third quarter and first nine months of 2021, respectively (zero in both periods of 2020). Excluding the gain on sale of land, the SimSports costs and the one-time impairment charge to write down data center assets, operating expense in the first nine months increased 17% from the same period of 2020.

Finance expenses included net foreign exchange gains of \$0.3 million in the third quarter and \$0.6 million in the first nine months of 2021, compared with losses of \$0.6 million and \$0.7 million for the respective periods of 2020.

Asetek reported loss before tax of \$3.9 million and income before tax of \$1.8 million in the third quarter and first nine months of 2021, compared with income before tax of \$3.7 million and \$4.6 million for the respective periods of 2020.

Income tax benefit was \$0.9 million in the third quarter and income tax expense was \$0.3 million in the first nine months of 2021 compared with expense of \$1.2 million and \$1.5 million in the respective periods of the prior year.

During the third quarter 2021, the U.S. Dollar, on average, strengthened versus the Danish krone. Currency translation adjustment of negative \$0.8 million and negative \$1.5 million is included in other comprehensive income for the third quarter and first nine months of 2021 (positive \$1.0 million and positive \$1.1 million in the third quarter and first nine months of 2020).

## Balance Sheet (Consolidated)

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Asetek's total assets at September 30, 2021 were \$70.4 million, compared with \$71.4 million at the end of 2020.

Intangible assets increased by \$7.5 million following the purchase of assets from Granite Devices Inc. Property, plant and equipment increased by \$3.0 million due to the purchase of land for a future headquarters facility. Trade receivables decreased by \$11.9 million due to lower sales activity. Cash and equivalents declined by \$1.7 million, reflecting payments made on asset acquisitions and repurchase of common shares in the first nine months of 2021.

Total liabilities decreased by \$2.0 million in the first nine months of 2021. Trade payables decreased by

\$1.1 million due to normal variations in the timing of payments. Accrued compensation decreased by \$0.7 million reflecting payment of 2020 incentive compensation. Accrued liabilities increased \$0.7 million principally for inventory commitments. Long-term debt decreased by \$0.7 million due to payments on leases.

Working capital (current assets minus current liabilities) totaled \$22.9 million at September 30, 2021, a decrease of \$9.9 million from 2020 year-end, due to asset acquisitions and \$4.8 million paid for the repurchase of common shares in the first nine months. Total cash and cash equivalents were \$25.4 million at September 30, 2021.

## Cash Flow (Consolidated)

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Net cash provided by operating activities was \$13.4 million in the first nine months of 2021 compared with \$6.9 million provided in same period of 2020. The increase was principally due to timing of collections on receivables.

Cash used by investing activities was \$9.9 million in the first nine months compared with \$1.8 million used in same period of 2020. The increase was due to the purchase of intellectual property and other assets from Granite Devices Inc. and purchase of land for a future headquarters facility, partly offset by proceeds from the sale of a parcel of land.

Cash used by financing activities was \$4.8 million in the first nine months compared with \$3.1 million

used in the same period of 2020. In the first nine months of 2021, Asetek repurchased 400 thousand common shares for \$4.8 million and paid \$0.8 million on leases and a line of credit. These effects were partly offset by \$0.8 million received for shares issued on options exercised by employees.

Net change in cash and cash equivalents was a decrease of \$1.7 million in the first nine months of 2021, compared with an increase of \$2.3 million in 2020. The Company's cash conversion cycle improved to (3.1) days in the third quarter 2021 from 10.4 days in the same period of 2020.

## Income Tax

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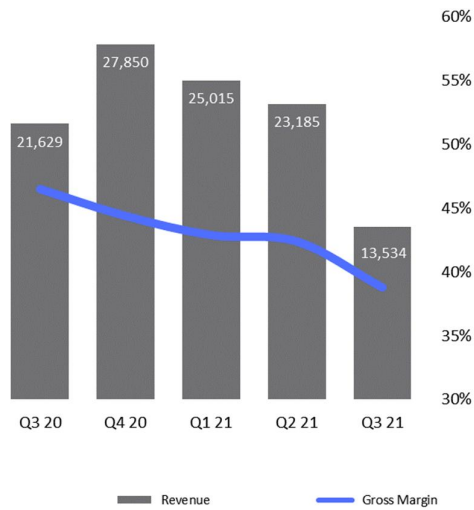
Asetek moved from USA to Denmark in 2013. However, USA still considers Asetek A/S a U.S. tax subject, resulting in double taxation of Group earnings. Asetek has approached both countries' tax authorities with the aim of resolving the situation per an existing double taxation treaty. However, a determination may take several years, and the authorities are not obligated to resolve it. The Company has made progress recently in working with the tax authorities of Denmark and U.S. to possibly resolve this issue.

In June 2019, the U.S. released regulation for its Global Intangible Low-Taxed Income (GILTI) inclusion for U.S. taxation, effective beginning with tax year 2018. The GILTI regulation requires U.S.

companies to report foreign corporation intangible income that exceeds 10% return on foreign invested assets. Under prior law, U.S. owners of foreign corporations were able to defer recognizing taxable income until there was a distribution of earnings back to U.S. owners. The impact of the GILTI regulation caused incremental utilization of the Company's available deferred tax assets of approximately \$0.4 million in 2020. Because of Asetek's U.S. tax status as described above, management believes that the impact of the GILTI regulation as it applies to the Company could be reformed in the future, however, such reform is not certain. The Company continues to work with its tax advisors to clarify and address these matters.

## Market Update

**Group revenue and Gross margin development**  
USD (000's)



Group gross margins are expected to normalize in the 40-45% range in 2021 from a record high in 2020.

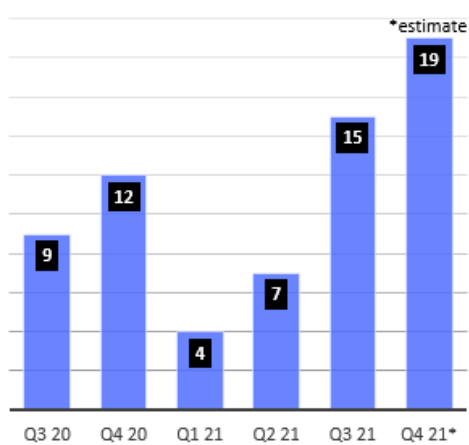
**Gaming and Enthusiast.** During the quarter, the Company announced new all-in-one (AIO) coolers offered by its OEM partners – Phanteks introduced the extreme performance Glacier One 240T30 AIO CPU cooler and MSI introduced its MEG CORELIQUID S Series premium AIO CPU coolers.

In recent quarters, Asetek has increased product development activities and the pace of new product releases. During the third quarter, fifteen new products began shipping, including one to a new customer. The growth in the third quarter was partly attributable to preparation for the upcoming holiday season. In the fourth quarter of 2021, nineteen new products are expected to begin shipping, including shipments to three new customers.

*Phanteks Glacier One retail package co-branding:*



**Quantity of new Gaming and Enthusiast products begin shipping**



On October 21, Asetek announced that Razer, a world-leading provider of gaming hardware, software and services, has introduced its first AIO CPU coolers, incorporating Asetek’s advanced liquid cooling technology. When defining its initial component solutions, Razer looked to Asetek to provide targeted liquid cooling of CPUs through the Razer Hanbo RGB AIO Series designed for maximum thermal performance, silent operation, and improved reliability.

Asetek continues to build its brand with gamers and enthusiasts. Co-branding with OEM customers has expanded the Company’s marketing reach, utilizing brand-behind-the-brand initiatives to feature the Asetek logo on box packaging, websites, forums, and packaging inserts. Initiatives also include written features about Asetek on partners’ websites, participation in live events and live streams to communicate the commitment to performance, quality and reliability that the “Cooled by Asetek” mark represents.

SimSports. Asetek is entering the fast-growing SimSports gaming market. The Company plans to enable a next-level immersive gaming experience by leveraging its core mechatronics, global supply chain and innovation capabilities. In September, the Company announced the first of its sim racing products – Invicta Sim Racing Pedals – which include a throttle, brake pedal and add-on clutch pedal, along with its RaceHub software for quick and easy adjustments and calibration. This initial offering will

provide competitive SimSports gamers with full immersion and the feeling of a real racecar. Operating expenditures for SimSports totaled \$1.2 million in the third quarter of 2021, including amortization.

To support its entrance into the SimSports market, the Company in January acquired intellectual property and other assets from Finland-based Granite Devices, in addition to acquiring the UK-based JMH Gallows Pound Ltd, owner of the

UltimateGameTech brand in late 2020. Asetek has invested over \$10 million to advance the development of its SimSports offerings, including software, hardware, mechanical designs and operational proficiency.

**Data center.** Data center revenue performance declined in the third quarter of 2021 and represents less than 10% of the Company's consolidated revenue. For additional information, refer to the Group Outlook section.

## Group Outlook

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**China economy and COVID-19.** In recent months, while the global response to fight COVID-19 and the growth in vaccinations has helped to mitigate the negative economic impact in many countries, effects of the pandemic continue to disrupt commerce in China. Asetek's operations in Xiamen, China, as well as customer demand, have been negatively affected by power outages and COVID-related shutdowns in the Tongan District, hindering sub-suppliers' deliveries of components to the Company's contract manufacturers and consequently their shipments to Asetek. The Company's operations team is closely managing the status of each affected supplier in order to minimize disruption to Asetek's customer order deliveries. The situation is fluid, and the timing of resolution is not known.

**Global chip shortage.** The global economy is currently subject to an unprecedented shortage of semiconductor chips due to production constraints and the accelerated digital transformation brought upon by the pandemic. This has both increased component costs and negatively impacted demand – Asetek customers waiting for components are limited in their ability to build products with Asetek coolers; and end users who are waiting for new GPUs are delayed in purchasing new liquid coolers. This has limited Asetek's revenue growth in the short term, though the Company is seeing some near-term improvement in demand due to Intel's launch of new CPUs and an anticipated stronger holiday sales season. The time and manner in which the global chip shortage may ease is currently unclear.

**Gaming and enthusiast.** Asetek will continue to invest in and launch innovative new high-

performance liquid coolers for gamers and enthusiasts. The Company plans to invest in the development of its new SimSports offerings for the foreseeable future with the goal of regular product launches. Consistent with prior years, Asetek will continue to focus its resources on the Gaming and Enthusiast segment, growing market share through existing and new OEMs, and building the Asetek brand. In conjunction with efforts to build its SimSports business, Asetek plans to enhance its direct sales channels.

**Data center.** In September, in order to maximize future profitability of its data center business, the Company announced that it is exiting the High-Performance Computing (HPC) niche. Asetek plans to prioritize the general data center market and support legislation increasing adoption of the Company's sustainable solutions, capitalizing on its liquid cooling technology and long-term investments in the business segment. Though Asetek is exiting the HPC niche, it is maintaining its long-term dedication and exposure to sustainable data centers. Asetek is encouraged by proposed legislation in the July 2021 Energy Efficiency Directive from the European Commission that would require the reuse of heat created in data centers. Asetek's Direct-to-chip liquid cooling enables power savings and CO<sub>2</sub> emission reductions from the reuse of data center waste heat.

**Group results.** In recognition of the above factors, Asetek on September 22 updated its 2021 revenue expectation to an increase of 10% to 20% from 2020 (previously 20% to 30%). Operating income expectation was updated to between \$0 and \$2 million in 2021 (previously \$8 to \$12 million), reflecting the effect of reduced revenue due to the

shortage of GPUs, increased shipping and component costs, uncertainties regarding operations in China, and non-recurring costs associated with the exit of the HPC data center niche. Asetek's most recent revenue outlook is trending toward the lower end of the above noted range.

## Intellectual Property

Asetek holds a portfolio of intellectual property (IP) rights including patents providing competitive advantages and high barriers to entry for competitors. Currently Asetek has pending patent and utility model applications worldwide, with additional applications under preparation.

As part of efforts to build and maintain its market share, the Company continues to review and assess all competitive offerings for infringement of its patents. The Company has strengthened its intellectual property platform and competitiveness via several positive lawsuit outcomes in prior years.

The Company is involved in various ongoing legal disputes, including the following matters:

In May 2021, Asetek filed a patent infringement lawsuit against Shenzen Apaltek Co. Ltd., and Apalcool (Guangdong Ang Pai Liquid Cooling Technology Co., Ltd.) in the Western District of Texas seeking judgment that Apaltek and Apalcool infringe Asetek's U.S. Patent Nos. 8,240,362 ("the '362 patent), 8,245,764 ("the '764 patent), 10,078,355 ("the '355 patent"), and 10,599,196 ("the '196 patent). Apaltek and Apalcool have been served the complaint and their attorneys have agreed to respond in October 2021. The defendants intend to file review petitions in the U.S. Patent and Trademark Office (USPTO) to challenge the validity of the Asetek patents. If such petitions are filed, Asetek will vigorously defend against them.

In January 2019, Asetek filed a patent infringement lawsuit against CoolIT in the Northern District of California seeking judgment that CoolIT infringed Asetek's '362 patent, '764 patent, '355 patent, '681 patent, and U.S. Patent 10,078,354. CoolIT filed counterclaims asserting infringement of four CoolIT patents, which Asetek denies. Asetek also contends

The Company recognizes continued uncertainty related to potential impact from COVID-19 and the global chip shortage over time. Any such uncertainty is not included in the expectations for 2021.

that CoolIT's asserted patents are invalid. On September 17, 2020, Asetek filed a related patent infringement lawsuit against Corsair in the same court seeking judgment that Corsair infringes Asetek's '354 patent, '355 patent, '196 patent, and U.S. Patent No. 10,613,601. The court consolidated the two cases and set a trial date for July 2022 on three Asetek patents and three CoolIT patents. Asetek also filed review petitions in the USPTO to challenge the validity of two of the CoolIT patents asserted in the above litigation, and the USPTO ruled that certain claims by CoolIT are unpatentable, and that additional evidence is needed for certain claims. CoolIT filed review petitions in the USPTO to challenge the validity of five Asetek patents that will be asserted at the trial. The USPTO found that the challenged claims of the '681 patent are patentable; has not determined whether to entertain CoolIT's challenges to the '601 and '196 patents; and that the challenged claims of the '354 and '355 patents are unpatentable. Following these rulings from the USPTO, Asetek intends to assert its '362, '601, and '196 patents at trial, and to vigorously defend against CoolIT's remaining patent claims.

In June 2021, Cooler Master Co., Ltd. and CMI USA, Inc. filed in the Northern District of California an action requesting declaratory judgment that certain Cooler Master products do not infringe Asetek's '362, '764, '354, '355, '681, '196, and '601 patents. Asetek's response to that complaint is due in December 2021. Asetek intends to file counterclaims that Cooler Master products infringe the patents-in-suit.

In 2017, Coolergiant GmbH filed suit against Asetek Danmark A/S in Mannheim District Court requesting declaration of non-infringement in Germany of an



Asetek patent. The Company disputed the allegations and filed counterclaim motions. In 2018, the Court ruled that the named Coolergiant products infringe on Asetek's patent and granted Asetek claims for injunctive relief, rendering of accounts, recall and destruction. Coolergiant appealed the decision and initiated an action to nullify Asetek's patent. In the nullity proceedings, the German Patent Court revoked the German part

of Asetek's patent in February 2020. In September 2020, Asetek initiated its appeal of the decision to the German Supreme Court, and a hearing is scheduled for May 2022. The infringement and enforcement proceedings have been stayed until a final decision on the validity of the patent is rendered by the Supreme Court, which is expected by the end of 2022.

## Risk Factors

Revenue in the Gaming and Enthusiast market is subject to fluctuations and is dependent on Asetek's ability to develop new, high performance products; the popularity of offerings from Asetek's customers; timely releases and availability of new GPUs and CPUs; and recurring releases of high-profile computer games in the PC industry. Asetek's Data center business is dependent on market acceptance of its products, demand from existing OEMs and Asetek's ability to obtain and build partnerships with new OEMs.

In the first nine months of 2021, two customers accounted for 40% and 18% of total revenue. In the event of a decline or loss of either of these customers, replacement of the revenue stream would be difficult for Asetek to achieve in the short term. The Company is actively working with several of its customers to grow their respective market shares and order volumes.

COVID-19. The Company is complying with regulations imposed by local governments for minimizing spread of the coronavirus. If production must be stopped or a critical number of employees are quarantined or become too ill to work, business operations could be adversely affected. If suppliers experience closures or reductions in capacity utilization, Asetek may have difficulty sourcing materials needed to fulfill production requirements. If customers experience adverse business consequences, demand for Asetek's products could decline. In recent weeks, Asetek operations in China

have been affected by forced shutdowns and power outages related to effects from the pandemic. The impact of the COVID-19 pandemic is fluid, and as a result, management cannot predict the extent to which Asetek's results of operations or financial condition will ultimately be impacted.

The U.S. has imposed a 25% tariff on imports of goods manufactured in China, which include Asetek products. The existence of the tariff has contributed to the uncertainties in the Gaming & Enthusiast market. The Company continues to work to minimize the impact of the tariff on Asetek and its customers.

Asetek has recently acquired external assets to support a new venture in the SimSports market. To date, the Company has principally developed its products internally. Acquiring technology externally represents a new avenue for Asetek. The newly acquired assets may be challenging to develop into successful products for the SimSports market.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. Supply constraints, such as the current global chip shortage and disruptions in the global supply chain could have a material adverse impact on the Company's ability to fulfill customer demand. Asetek's Gaming and Enthusiast products have been historically assembled in Xiamen, China by a single contract manufacturer which may be difficult to substitute in the short term if the need should arise.

Asetek has filed and defended lawsuits against competitors for patent infringement. While some of the cases have been settled or dismissed, some may continue, and new cases may be initiated. Such cases may proceed for an extended period and could potentially lead to an unfavorable outcome to Asetek. Asetek has incurred significant legal costs associated with litigation and may continue to do so in the future to the extent management believes it is necessary to protect intellectual property.

Asetek moved from USA to Denmark in 2013. However, USA still considers Asetek A/S a U.S. tax subject, resulting in double taxation of Group earnings. Asetek has approached both countries' tax authorities with the aim of resolving the

situation per the double taxation treaty. However, a determination may take several years, and the authorities are not obligated to resolve it. In addition, recent U.S. regulations on taxation of foreign earnings have increased Asetek's tax liability. The Company is working with its tax advisors to address these matters.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. Asetek's principal cash holdings are maintained in U.S. Dollar and Danish Krone.

For more information, refer to the Company's Annual Report for 2020, available at the Company's website: [www.asetek.com](http://www.asetek.com)

## Condensed Interim Financial Statements

### Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q3 2021		Q3 2020		YTD 2021		YTD 2020		2020
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
Revenue	\$ 13,534	\$ 21,629	\$ 61,734	\$ 44,900	\$ 72,750				
Cost of sales	8,283	11,562	35,911	23,060	38,556				
<b>Gross profit</b>	<b>5,251</b>	<b>10,067</b>	<b>25,823</b>	<b>21,840</b>	<b>34,194</b>				
Research and development	1,789	1,453	5,285	3,959	5,718				
Selling, general and administrative	6,575	4,355	18,206	12,543	17,548				
Special items	1,713	-	1,713	-	-				
Other expense (income)	(714)	-	(714)	-	-				
<b>Total operating expenses</b>	<b>9,363</b>	<b>5,808</b>	<b>24,490</b>	<b>16,502</b>	<b>23,266</b>				
<b>Operating income</b>	<b>(4,112)</b>	<b>4,259</b>	<b>1,333</b>	<b>5,338</b>	<b>10,928</b>				
Foreign exchange (loss) gain	287	(560)	583	(671)	(1,361)				
Finance income (costs)	(51)	(48)	(150)	(76)	(141)				
<b>Total financial income (expenses)</b>	<b>236</b>	<b>(608)</b>	<b>433</b>	<b>(747)</b>	<b>(1,502)</b>				
<b>Income before tax</b>	<b>(3,876)</b>	<b>3,651</b>	<b>1,766</b>	<b>4,591</b>	<b>9,426</b>				
Income tax (expense) benefit	887	(1,211)	(275)	(1,536)	(231)				
<b>Income for the period</b>	<b>(2,989)</b>	<b>2,440</b>	<b>1,491</b>	<b>3,055</b>	<b>9,195</b>				
<i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i>									
Foreign currency translation adjustments	(751)	1,041	(1,523)	1,099	2,392				
<b>Total comprehensive income</b>	<b>\$ (3,740)</b>	<b>\$ 3,481</b>	<b>\$ (32)</b>	<b>\$ 4,154</b>	<b>\$ 11,587</b>				
<b>Income per share (in USD):</b>									
Basic	\$ (0.12)	\$ 0.10	\$ 0.06	\$ 0.12	\$ 0.36				
Diluted	\$ (0.12)	\$ 0.09	\$ 0.06	\$ 0.12	\$ 0.35				

These financial statements should be read in conjunction with the accompanying notes.

## Consolidated Balance Sheet

Figures in USD (000's)	30 Sept 2021	31 Dec 2020
<b>ASSETS</b>	<i>Unaudited</i>	
<i>Non-current assets</i>		
Intangible assets	\$ 10,760	\$ 3,217
Property, plant and equipment	10,071	7,049
Deferred income tax assets	6,253	6,421
Other assets	344	605
<b>Total non-current assets</b>	<b>27,428</b>	<b>17,292</b>
<i>Current assets</i>		
Inventory	5,077	2,531
Trade receivables and other	12,458	24,471
Cash and cash equivalents	25,397	27,099
<b>Total current assets</b>	<b>42,932</b>	<b>54,101</b>
<b>Total assets</b>	<b>\$ 70,360</b>	<b>\$ 71,393</b>
<b>EQUITY AND LIABILITIES</b>		
<i>Equity</i>		
Share capital	\$ 441	\$ 433
Retained earnings	57,962	50,681
Translation and treasury share reserves	(9,945)	(3,589)
<b>Total equity</b>	<b>48,458</b>	<b>47,525</b>
<i>Non-current liabilities</i>		
Long-term debt	1,903	2,604
<b>Total non-current liabilities</b>	<b>1,903</b>	<b>2,604</b>
<i>Current liabilities</i>		
Short-term debt	1,258	1,525
Accrued liabilities	3,251	2,429
Accrued compensation & employee benefits	2,456	3,193
Trade payables	13,034	14,117
<b>Total current liabilities</b>	<b>19,999</b>	<b>21,264</b>
<b>Total liabilities</b>	<b>21,902</b>	<b>23,868</b>
<b>Total equity and liabilities</b>	<b>\$ 70,360</b>	<b>\$ 71,393</b>

These financial statements should be read in conjunction with the accompanying notes.

## Consolidated Statement of Changes in Equity

*Unaudited*

Figures in USD (000's)	Share capital	Translation reserves	Treasury share reserves	Retained earnings	Total
<b>Equity at January 1, 2021</b>	\$ 433	\$ 2,784	\$ (6,373)	\$ 50,681	\$ 47,525
<b>Total comprehensive income - nine months ended Sept 30, 2021</b>					
Income for the period	-	-	-	1,491	1,491
Foreign currency translation adjustments	-	(1,523)	-	-	(1,523)
Total comprehensive income - nine months ended Sept 30, 2021	-	(1,523)	-	1,491	(32)
<b>Transactions with owners - nine months ended Sept 30, 2021</b>					
Shares issued for purchase of assets	6	-	-	4,216	4,222
Shares issued for options exercised	2	-	-	763	765
Shares repurchased	-	-	(4,833)	-	(4,833)
Share based payment expense	-	-	-	811	811
Transactions with owners - nine months ended Sept 30, 2021	8	-	(4,833)	5,790	965
<b>Equity at September 30, 2021</b>	\$ 441	\$ 1,261	\$ (11,206)	\$ 57,962	\$ 48,458
<b>Equity at January 1, 2020</b>	\$ 423	\$ 392	\$ (4)	\$ 38,197	\$ 39,008
<b>Total comprehensive income - nine months ended Sept 30, 2020</b>					
Income for the period	-	-	-	3,055	3,055
Foreign currency translation adjustments	-	1,099	-	-	1,099
Total comprehensive income - nine months ended Sept 30, 2020	-	1,099	-	3,055	4,154
<b>Transactions with owners - nine months ended Sept 30, 2020</b>					
Shares issued	10	-	-	2,139	2,149
Shares repurchased	-	-	(4,498)	-	(4,498)
Share based payment expense	-	-	-	736	736
Transactions with owners - nine months ended Sept 30, 2020	10	-	(4,498)	2,875	(1,613)
<b>Equity at September 30, 2020</b>	\$ 433	\$ 1,491	\$ (4,502)	\$ 44,127	\$ 41,549

*These financial statements should be read in conjunction with the accompanying notes.*

## Consolidated Cash Flow Statement

Figures in USD (000's)	Nine Months ended		2020
	30 Sept 2021	30 Sept 2020	
	Unaudited	Unaudited	
<b>Cash flows from operating activities</b>			
Income for the period	\$ 1,491	\$ 3,055	\$ 9,195
Depreciation and amortization	2,663	2,597	3,754
Gain on sale of property, plant and equipment	(714)	-	-
Special items	1,713	-	-
Finance income recognized	(1)	(50)	(51)
Finance costs recognized	152	126	192
Finance income, cash received	1	50	51
Finance costs, cash paid	(101)	(70)	(112)
Income tax expense	275	1,536	231
Cash receipt (payment) for income tax	-	-	10
Share based payments expense	812	736	918
Changes in trade receivables, inventories, other assets	8,171	(3,015)	(10,121)
Changes in trade payables and accrued liabilities	(1,087)	1,964	7,363
<b>Net cash provided by (used in) operating activities</b>	<b>13,375</b>	<b>6,929</b>	<b>11,430</b>
<b>Cash flows from investing activities</b>			
Acquisition of business	-	-	(1,316)
Additions to intangible assets	(5,170)	(1,008)	(1,571)
Purchase of property, plant and equipment	(5,848)	(823)	(1,929)
Disposal of property, plant and equipment	1,137	-	-
<b>Net cash used in investing activities</b>	<b>(9,881)</b>	<b>(1,831)</b>	<b>(4,816)</b>
<b>Cash flows from financing activities</b>			
Funds drawn (paid) against line of credit	(114)	(313)	(269)
Repurchase of common shares	(4,833)	(4,500)	(6,369)
Proceeds from issuance of share capital	768	2,149	2,381
Principal payments on capitalized leases	(666)	(471)	(831)
<b>Net cash provided by (used in) financing activities</b>	<b>(4,845)</b>	<b>(3,135)</b>	<b>(5,088)</b>
Effect of exchange rate changes on cash and cash equivalents	(351)	362	1,068
<b>Net changes in cash and cash equivalents</b>	<b>(1,702)</b>	<b>2,325</b>	<b>2,594</b>
Cash and cash equivalents at beginning of period	27,099	24,505	24,505
<b>Cash and cash equivalents at end of period</b>	<b>\$ 25,397</b>	<b>\$ 26,830</b>	<b>\$ 27,099</b>
<b>Supplemental disclosures -</b>			
Property and equipment acquired under leases	\$ -	\$ 593	\$ 668

These financial statements should be read in conjunction with the accompanying notes.

## Notes to the quarterly financial statements

### 1. General information

Asetek A/S ('the Company'), and its subsidiaries (together, 'Asetek Group', 'the Group' or 'Asetek') designs, develops and markets thermal management solutions used in computers and data center servers. The Group's core products utilize liquid cooling technology to provide improved performance, acoustics and energy efficiency. The Company is based in Aalborg, Denmark with offices in USA, China and Taiwan. The Company's shares trade on the Oslo Stock Exchange under the symbol 'ASTK'.

These condensed consolidated financial statements for the quarter and first nine months ended September 30, 2021 have been prepared on a historical cost convention in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting' as adopted by the European Union (EU) and do not include all of the information and disclosure required in the annual consolidated financial statements. These statements should be read in conjunction with the Asetek A/S 2020 Annual Report.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2020, and includes the additional policy adopted as specified in Note 2.

The Group operates in an industry where seasonal or cyclical variations in total sales are not normally experienced during the financial year.

### 2. Accounting for special items; HPC data center impairment charge

The Company may identify special items that are significant non-recurring items that management does not consider to be part of the Group's ordinary activities. Such special items may include one-time impairment costs, restructuring, and strategic considerations regarding the future of the business, and are presented separately in the Consolidated Statement of Comprehensive Income to provide a more comparable basis for the Company's operations. Management assesses which items are to be identified as special items and shown separately, in order to give a correct presentation of the statement of profit or loss and other comprehensive income.

In September 2021, in order to maximize future profitability of its Data center business, the Company announced that it is exiting the High-Performance Computing (HPC) niche. Asetek plans to prioritize the general data center market and support legislation increasing adoption of its sustainable solutions, capitalizing on its liquid cooling technology and long-term investments in the data center segment. In the third quarter of 2021, Asetek recorded an impairment charge of \$1.7 million representing impairment of inventory, intangible assets and equipment relating to this strategic change. This charge is presented separately as a special item in operating expense on the Consolidated Statement of Comprehensive Income.

### 3. Equity

At September 30, 2021, there are 26.9 million common shares issued including 1.3 million shares held in treasury. Treasury shares may be used to fulfill employee options exercised.

Beginning in 2020, the Company announced share buy-back programs to offset employee option grants. In April 2021, the Company authorized repurchase of 237 thousand common shares on the open market for a maximum cost of \$3.0 million. In the third quarter of 2021, the Company repurchased 113 thousand common shares for a total cost of \$1.25 million. In the first nine months of 2021, the Company has repurchased a total of 400 thousand common shares for a total cost of \$4.8 million. In the full year 2020, the Company repurchased a total of 844 thousand shares for a total cost of \$6.4 million.

In January 2021, the Company issued 348,003 of new common shares to Granite Devices Inc. for purchase of intellectual property and other assets. Refer to Note 4.

On April 21, 2021, the Company granted a total of 216,300 equity options to employees. Each option has an exercise price of NOK100.15 per share and becomes exercisable gradually over a period of three years. Using the Black-Scholes pricing model, the estimated fair value of these options granted is approximately \$1.1 million. The fair value was calculated using the following assumptions: risk-free interest rate of 0.2% to 0.4%; expected volatility of approximately 67%; expected option life of 2.5 to 4.0 years; dividend yield of 0%. At September 30, 2021, there were a total of 2.2 million warrants and options outstanding.

Funds received by the Company from employee exercises of warrants and options totaled \$0.8 million in the first nine months of 2021 (\$2.1 million in the same period of 2020). Share based payment expense associated with total warrants and options outstanding was \$0.8 million and \$0.7 million in the nine months ended September 30, 2021 and 2020, respectively.

#### 4. Asset purchase and sale of land

In January 2021, the Company purchased intellectual property and other assets from Finland-based Granite Devices Inc. for a total of \$8.3 million. Asetek paid \$4.1 million in cash and the remainder in 348,003 newly issued shares of Asetek common stock. The assets acquired do not meet the definition of a business combination under IFRS 3. The transaction is accounted for under IFRS 2 Share-based payments, which requires that share transactions with non-employees be measured at fair value of the assets received. The asset purchase included intangible assets with estimated fair value of approximately \$7.8 million, the majority of which are in development. At the time they are placed in service, the assets will be amortized over their estimated useful lives ranging from 6 to 10 years.

In September 2021, the Company sold a parcel of land for \$1.1 million and recognized a gain on the sale totaling \$0.7 million, which is included as other income as an offset to total operating expense in the Consolidated Statement of Comprehensive Income.

#### 5. Acquisition of business

In November 2020, the Company acquired 100% of the voting shares of JMH Gallows Pound Technologies Ltd. ("JMH"), a UK-based developer of hardware and software technology and the owner of the Ultimate Game Tech brand, for a sum of GBP 1 million (\$1.4 million). This acquisition will support the Company's entrance into the SimSports market. The acquisition of JMH was for cash consideration, paid in three installments over one year.

The acquisition is accounted for according to IFRS 3 Business Combinations. The fair value of the assets acquired was allocated as follows:

(USD 000's)	Fair value at date
Net assets and goodwill recognized:	of acquisition
Customer contracts	256
Developed technology	444
Other, net	11
<u>Net assets acquired</u>	<u>711</u>
<u>Fair value of consideration transferred</u>	<u>(1,316)</u>
<u>Goodwill recognized</u>	<u>605</u>

The customer contracts are being amortized over 18 months and the developed technology is being amortized over the estimated useful lives ranging from 18 to 36 months. The goodwill is not amortized but reviewed for impairment once a year and also if events or changes in circumstances indicate the carrying value may be impaired. For additional information about this transaction, refer to Note 14 of Asetek A/S 2020 Annual Report.



## 6. Intangible assets

The Group's business includes a significant element of research and development activity. Under IAS 38, there is a requirement to capitalize and amortize development spend to match costs to expected benefits from projects deemed to be commercially viable. Costs capitalized are recorded on the balance sheet as intangible assets, net of amortization. In the third quarter of 2021, an impairment loss of \$653 thousand was recognized in operating expense pertaining to capitalized development costs associated with the HPC data center business (see Note 2). A reconciliation of intangible assets activity in the first nine months of 2021 and 2020 is as follows:

Intangible assets	Nine Months ended	
	30-Sep-21	30-Sep-20
Unaudited, USD (000's)		
Balance, January 1	3,217	1,920
Additions to capitalized development costs	1,775	960
Intellectual property acquired	7,753	-
Amortization	(888)	(989)
Impairment loss	(653)	-
Exchange rate effects and other	(444)	36
Balance, June 30	10,760	1,927

## 7. Earnings (losses) per share

IAS 33 requires disclosure of basic and diluted earnings per share for entities whose shares are publicly traded. Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting the number of common shares outstanding used in the Basic calculation for the effect of dilutive equity instruments, which include options and warrants to the extent their inclusion in the calculation would be dilutive.

Third Quarter		
Unaudited, USD (000's)	Q3 2021	Q3 2020
Income attributable to equity holders of the Company (USD 000's)	\$ (2,989)	\$ 2,440
Weighted average number of common shares outstanding (000's)	25,663	25,457
Basic income per share	\$ (0.12)	\$ 0.10
Weighted average number of common shares outstanding (000's)	25,663	25,457
Instruments with dilutive effect:		
Warrants and options	-	1,166
Weighted average number of common shares outstanding, diluted	25,663	26,623
Diluted income per share	\$ (0.12)	\$ 0.09

First Nine Months		
Unaudited, USD (000's)	YTD 2021	YTD 2020
Income attributable to equity holders of the Company (USD 000's)	\$ 1,491	\$ 3,055
Weighted average number of common shares outstanding (000's)	25,751	25,536
Basic income per share	\$ 0.06	\$ 0.12
Weighted average number of common shares outstanding	25,751	25,536
Instruments with dilutive effect:		
Warrants and options	1,034	955
Weighted average number of common shares outstanding, diluted	26,785	26,491
Diluted income per share	\$ 0.06	\$ 0.12

#### 8. Transactions with related parties

The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In the first nine months of 2021, the Group purchased services totaling approximately \$647,000 (\$472,000 in first nine months of 2020) from this vendor. At September 30, 2021 and 2020, the Group had outstanding payables to this vendor of \$84,000 and \$55,000 respectively.

The Company provides sponsorship support for Valdemar Eriksen Racing A/S, an organization partially owned by the Company's CEO. In the nine months ended September 30, 2021 and 2020, the Company paid \$102,000 and \$82,000 respectively, to this organization.

#### 9. Deferred income tax

The Company recognizes deferred income tax assets only to the extent that the realization of the tax benefit to offset future tax liabilities is considered to be probable. As of September 30, 2021, the Company has recorded deferred tax assets of \$6.25 million, representing the value of the estimated amount of net operating losses that will be utilized to offset future taxable income. In future periods, management will continue to assess the probability of realization of the assets' value and adjust the valuation in accordance with IAS 12. Refer to the Asetek A/S 2020 Annual Report regarding critical accounting estimates and assumptions.

#### 10. Segment information and disaggregated revenue

The Company reports on two segments, Gaming and Enthusiast (including SimSports) and Data center. The Group's chief operating decision-maker, the CEO, assesses the performance of each segment principally on measures of revenue and adjusted EBITDA. The following tables present unaudited results by operating segment. Disaggregation of revenue is also presented for the major markets with each segment:

##### Third Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	Q3 2021	Q3 2020	Q3 2021	Q3 2020
Revenue	11,944	20,085	1,590	1,544
EBITDA adjusted	1,216	7,059	(1,858)	(634)
EBITDA margin	10.2%	35.1%	N/A	N/A

##### First Nine Months

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	YTD 2021	YTD 2020	YTD 2021	YTD 2020
Revenue	55,396	40,645	6,338	4,255
EBITDA, adjusted	13,550	12,999	(3,137)	(990)
EBITDA margin	24.5%	32.0%	N/A	N/A

**Reconciliation to Income before tax**

<u>Figures in USD (000's)</u>	<u>Q3 2021</u>	<u>Q3 2020</u>	<u>First Nine Months</u>	
			<u>YTD 2021</u>	<u>YTD 2020</u>
EBITDA, adjusted - Gaming and Enthusiast	1,216	7,059	13,550	12,999
EBITDA, adjusted - Data center	(1,858)	(634)	(3,137)	(990)
Headquarters costs	(2,471)	(1,055)	(5,606)	(3,338)
Share based compensation	(269)	(235)	(811)	(736)
Depreciation and amortization	(730)	(876)	(2,663)	(2,597)
Total financial income (expenses)	236	(608)	433	(747)
Consolidated income before tax	(3,876)	3,651	1,766	4,591

**Revenue Disaggregation:**

<u>Figures in USD (000's)</u>	<u>Q3 2021</u>	<u>Q3 2020</u>	<u>First Nine Months</u>	
			<u>YTD 2021</u>	<u>YTD 2020</u>
Gaming and Enthusiast segment:				
Enthusiast/DIY	8,453	17,674	43,882	34,429
Gaming/Performance PCs	3,492	2,411	11,515	6,216
Data center segment:				
OEM	1,589	1,544	6,337	4,255
Total revenue	13,534	21,629	61,734	44,900

## Statement by the Board of Directors and Management

The Board of Directors and the Management have considered and adopted the Interim Report of Asetek A/S for the period 1 January – 30 September 2021. The Interim Report is presented in accordance with the International Accounting Standard IAS 34 on Interim Financial Reporting and additional Danish disclosure requirements. The accounting policies applied in the Interim Report are unchanged from those applied in the Group's Annual Report for 2020.

We consider the accounting policies appropriate, the accounting estimates reasonable and the

overall presentation of the Interim Report adequate. Accordingly, we believe that the Interim Report gives a true and fair view of Asetek's consolidated financial position, results of operations and cash flows for the period.

In our opinion, the Interim Report includes a true and fair account of the matters addressed and describes the most significant risks and elements of uncertainty facing Asetek, which are described in further detail in the Group's Annual Report for 2020. The Interim Report has not been audited or reviewed by the auditors.

**Asetek A/S**  
**Aalborg, 27 October 2021**

### Management:

André S. Eriksen  
CEO

Peter Dam Madsen  
CFO

### Board of Directors:

Jukka Pertola  
Chairman

Erik Damsgaard  
Vice chairman

Maria Hjorth  
Member

Jørgen Smidt  
Member

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