
Q3

Irisity AB (publ)

INTERIM FINANCIAL REPORT

July – September 2019



IRISITY

The Group's summary of the period

1 July – 30 September 2019

- Net sales amounted to MSEK 8.0 (9.4).
- Work performed for own account amounted to MSEK 3.5 (4.5).
- Gross margin amounted to 62.6 percent (75.6).
- EBITDA amounted to MSEK -0.6 (2.6).
- Loss after tax amounted to MSEK -3.9 (1.2).
- SaaS income amounted to MSEK 6.9.
- MRR at the end of the quarter amounted to MSEK 2.4.

1 January – 30 September 2019

- Net sales amounted to MSEK 26.0 (23.0).
- Work performed for own account amounted to MSEK 12.5 (12.5).
- Gross margin amounted to 60.3 percent (70.8).
- EBITDA amounted to MSEK -4.5 (-5.4).
- Loss after tax amounted to MSEK -14.1 (-9.8).
- SaaS income amounted to MSEK 18.6.
- MRR at the end of the period amounted to MSEK 2.4.
- The company Visionists AB was acquired on 21 January 2019.
- In connection with the acquisition, a non-cash issue was carried out. Through the issue, the number of shares has increased by 1,494,007 to 19,069,351, and the share capital has increased to kSEK 1,716.

Sales and results

Sales and results, Group (kSEK)	July- September 2019	July- September* 2018	January- September 2019	January- September* 2018	January- December 2018
Net sales	8,042	9,382	26,040	23,010	30,061
Work performed for own account	3,474	4,473	12,456	12,502	15,350
EBITDA	-600	2,554	-4,485	-5,371	-7,973
EBIT	-3,735	1,337	-13,693	-9,262	-13,557
Operating margin %	neg	9.65	neg	neg	neg
Result after financial items	-3,878	1,183	-14,175	-9,767	-14,262
Result for the period	-3,868	1,183	-14,148	-9,767	-14,245

*Refers to the parent company, Irisity AB (publ). The Group was formed on January 21 2019 and includes Visionists AB and D.A.R.C AB, the latter with no active operations.

Irisity in brief

Irisity AB (publ) is a leader in AI-based video analytics. Our proactive and self-learning algorithms can upgrade new and existing surveillance systems and cameras to actively alerting units. Irisity's SaaS solution IRIS™ allows attention to be focused on actual incidents instead of false alarms. Irisity's AI algorithms offer high precision and are able to detect human activity at long distances and in all light conditions.

The IRIS™ algorithms are adapted for a number of applications, including surveillance of critical infrastructure and schools, night-time supervision of elderly in their homes, and guarding various kinds of restricted areas.

The machine learning employed by Irisity's algorithms is one of the most substantial on the market, with a learning experience of more than ten years and millions of situations.

With an offensive growth strategy in one of the world's largest and fastest growing segments, we are increasing our pace of innovation and expanding our SaaS offer IRIS™ internationally.

Products and services

We provide a number of intelligent camera surveillance concepts based on Irisity's patented AI algorithms. School Guard™, Construction Guard™, Area Guard™, the IRIScare™ e-health service for night-time supervision, the intelligent parking solution IRIS Parking™, and PeopleMetrics™.



Comments from our CEO

With a strong offer in the SaaS service Iris, the Company continues to solidify its position on the growing international high-accuracy video analytics market. Irisity's market strategy is to establish market presence and build trust in delivery with the largest global security groups, methodically and far-sightedly. This is a long-haul endeavour, but one that we expect will generate substantial volumes moving forward.

Thus far, merely about 6 percent of the world's security companies have adopted video analytics that incorporate some amount of deep learning – but this percentage is projected to grow to 50 percent within 5 years.

During the period, we have conducted several new pilot projects; concluded pilots continue to provide good results, and are moving into a commercial phase. We are noticing a slightly higher rollout rate with our SaaS customers, and the period further saw a substantial volume increase from one of our major international SaaS customers. There is a slight delay, however, in the revenue gain from new SaaS customers since we always grant them initial discounts and free months.

The Company continues its effort to make the transition to the SaaS business model, and during the period, unprofitable contracts that were entered into under the old business model were either converted or terminated. This conversion will eventually have a positive influence on results, but in the short term, gross sales and MRR have been penalized. The conversion effort is expected to be completed during the upcoming period, and the ambition is to implement a pure SaaS model at the turn of the year.

Irisity works on a long term approach with regard to marketing, R&D and organizational development. For the marketing strategy, this entails that we focus primarily on the larger international and leading national security companies. We do this in spite of the fact that these companies generally are characterized by longer lead times to sale and rollout; the justification is instead the big potential volume in the longer term. Within R&D, we are also working over the long term, by guiding development towards the growing future demand for efficient and precise algorithms and machine learning solutions.



Gothenburg, 2019-11-05

A handwritten signature in blue ink, appearing to be 'M. Bäcklund', written over a white background.

Marcus Bäcklund



Share and ownership

The ten major owners, 2019-09-30:

Shareholders	Number of shares	Ownership interest
Chalmers Innovation Seed Fund AB	2,454,634	12.87%
Försäkringsaktiefbolaget, Avanza Pension	1,450,600	7.61%
Pixelwise Holding AB	1,136,895	5.96%
Nordnet Pensionsförsäkring AB	1,014,885	5.32%
Ulf Runmarker	903,000	4.74%
Chalmers University of Technology Foundation	859,162	4.51%
Hans Andersson Holding AB	647,857	3.40%
Niklas Larsson	590,000	3.09%
Aktiefbolaget Westergyllen	417,824	2.19%
Sätilla SSBI AB	338,620	1.78%
The ten major shareholders in total	9,813,477	51.47%
Others	9,255,874	48.53%
Total	19,069,351	100.00%

Number of shares

Irisity AB (publ) has 19,069,351 shares outstanding as of September 30, 2019.

Ownership

Irisity AB (publ), org. nr./Reg. No. 556705-4571 is a public company listed on Nasdaq First North under the ticker IRIS. The shareholder overview describes the situation as of September 30, 2019, when 3,335 shareholders were registered.

Risk factors

The group's key risks and uncertainty factors include operational risks as well as risks that relate to market and technology development, patents, competitors and future funding (such as risks related to securities, for example share price development, volatility and liquidity). Investors are urged to make their own assessments of each risk factor and their respective impact on the group's future potential. The above-

mentioned risk factors are presented in no particular order and the list should not be regarded as exhaustive.

Incentive scheme

In August 2015, an extraordinary general meeting decided to approve the suggestion made by the main owners and the board to implement an incentive scheme for the staff, the board, key management personnel and future recruitments. A conversion has taken place to reflect the issues of new shares registered with the Swedish Companies Registration Office in 2018. The schemes are fully subscribed by the staff and the Management Board. The "2015 Syntetiska optioner" (2015 Share Appreciation Rights) and "2015/2018 Teckningsoptioner" (2015/2018 Warrants) schemes have been terminated, and the "2015/2020 Teckningsoptioner" (2015/2020 Warrants) is the only one that remains. If fully exercised, the dilutive effect would be 1.4 percent.

Significant events after the end of the period

No significant events that are not already communicated to the market have taken place since the end of the interim period.

Accounting policies

The interim financial report is prepared in accordance with the recommendations and statements from the Swedish Accounting Standards Board, as well as the Swedish Annual Accounts Act. The accounting policies applied in this interim report are the same as those used in the most recent annual report. The accounting policies applied are the same for the Group and for the Parent Company. Goodwill arising on the acquisition of Visionists AB is depreciated over five years.

The financial result and position of the Group and the Parent Company

The financial result and position of the Group and the Parent Company in general is set out in the income statement and balance sheet below.

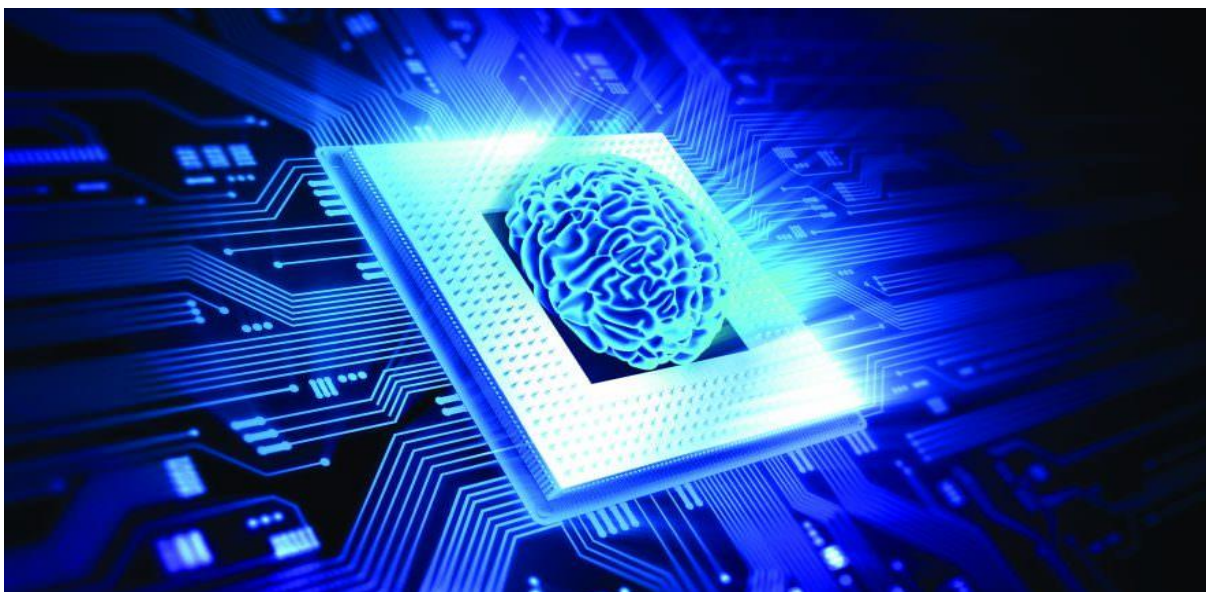
Related party transactions

No transaction with related parties which significantly affected the result or financial position of the Group took place during the period. The related party transactions that took place in the Group and its companies during 2018 are provided in the last annual report (note number 5).

True and fair view

The Managing Board has mandated the CEO to publish the report. The Managing Board and the CEO confirm that this report provides a true and fair view of the Group's operations, position and performance, and describes material risks and uncertainties faced by the Group.

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



Financial overview

Net sales and result

The Group's net sales during the quarter amounted to MSEK 8.0 (9.4), and the work performed for own account amounted to MSEK 3.5 (4.5).

EBITDA amounted to MSEK -0.6 (2.6) and the result after tax amounted to MSEK -3.9 (1.2). Depreciation charges of MSEK -1.3 are related to goodwill arising on the acquisition of Visionists AB.

During the quarter, the Group has continued to invest in software development in the amount of MSEK 3.5. Meanwhile, geographical expansion and supportive sales efforts still impose significant costs for the Group. The development effort has focused on developing the next version of the system, development associated with specific pilot projects, and further development of the SaaS model.

Investments and financial position

The Group's cash flow from operating activities before changes in working capital amounted to MSEK -0.7 (2.3) during the quarter. The cash flow from operating activities was MSEK 0.6 (-6.1).

During the same period, the cash flow from investing activities amounted to MSEK -3.5 (-4.6). For the most part, this can be attributed to the acquisition and to investments in newly developed software. From financing activities, the cash flow was MSEK -1.1 (3.9).

The cash flow for the period amounted to MSEK -4.0 (-6.8).

The balance sheet total amounted to MSEK 84.9 (57.7) on 30 September 2019 with a 71.6 percent (47.7) solidity. The company's net debt amounted to MSEK 4.2 (-0.0). The group has an overdraft facility up to MSEK 10 in total, which on the balance sheet date remained unused.

Staff and organization

At the end of the period, the company had 36 (29) employees, 6 of whom were women (6).

THE GROUP'S INCOME STATEMENT (kSEK)	July- September 2019	July- September* 2018	January- September 2019	January- September* 2018	January- December* 2018
Net sales	8,042	9,382	26,040	23,010	30,061
Work performed for own account	3,474	4,473	12,456	12,502	15,350
Cost of sales	-3,004	-2,287	-10,346	-6,730	-9,343
Gross result	8,512	11,568	28,150	28,782	36,068
Other external charges	-3,083	-4,152	-12,476	-12,966	-18,202
Personnel costs	-6,029	-4,862	-20,159	-21,187	-25,839
Depreciation of tangible and intangible assets	-3,135	-1,217	-9,208	-3,890	-5,584
Operating result	-3,735	1,337	-13,693	-9,261	-13,557
Interest income	0	0	3	1	1
Interest costs	-143	-154	-485	-507	-706
Result after financial items	-3,878	1,183	-14,175	-9,767	-14,262
Income taxes	10	-	27	-	17
Net profit or loss for the period	-3,868	1,183	-14,148	-9,767	-14,245

THE GROUP'S BALANCE SHEET (kSEK)	September 2019	September* 2018	December* 2018
Assets			
Intangible fixed assets	60,010	22,722	24,681
Tangible fixed assets	5,501	4,271	7,784
Financial fixed assets	131	608	491
Total fixed assets	65,642	27,601	32,956
Accounts receivable	5,561	14,230	8,584
Other current assets	2,528	2,233	2,738
Cash and bank balances	11,175	13,614	32,285
Total current assets	19,264	30,077	43,607
Total assets	84,906	57,678	76,563
Equity and liabilities			
Share capital	1,716	1,451	1,582
Other contributed capital	140,547	88,900	112,631
Other equity including result for the period	-81,491	-62,864	-67,343
Total equity	60,772	27,487	46,870
Long-term liabilities	2,992	7,771	5,920
Deferred tax liabilities	481	0	0
Short-term financial liabilities	3,949	5,830	5,222
Accounts payable	3,050	3,618	4,391
Other short-term liabilities	13,662	12,972	14,160
Total short-term liabilities	20,661	22,420	23,773
Total equity and liabilities	84,906	57,678	76,563

Pledged assets

Business mortgages	13,000	3,000	8,000
Pledged account	1,500	1,500	1,500
Total	14,500	4,500	9,500

Contingent liabilities

none none none

*Refers to the parent company, Irisity AB (publ). The Group was formed on January 21 2019 and includes Visionists AB and D.A.R.C AB, the latter with no active operations.

THE GROUP'S CHANGES IN EQUITY (kSEK)

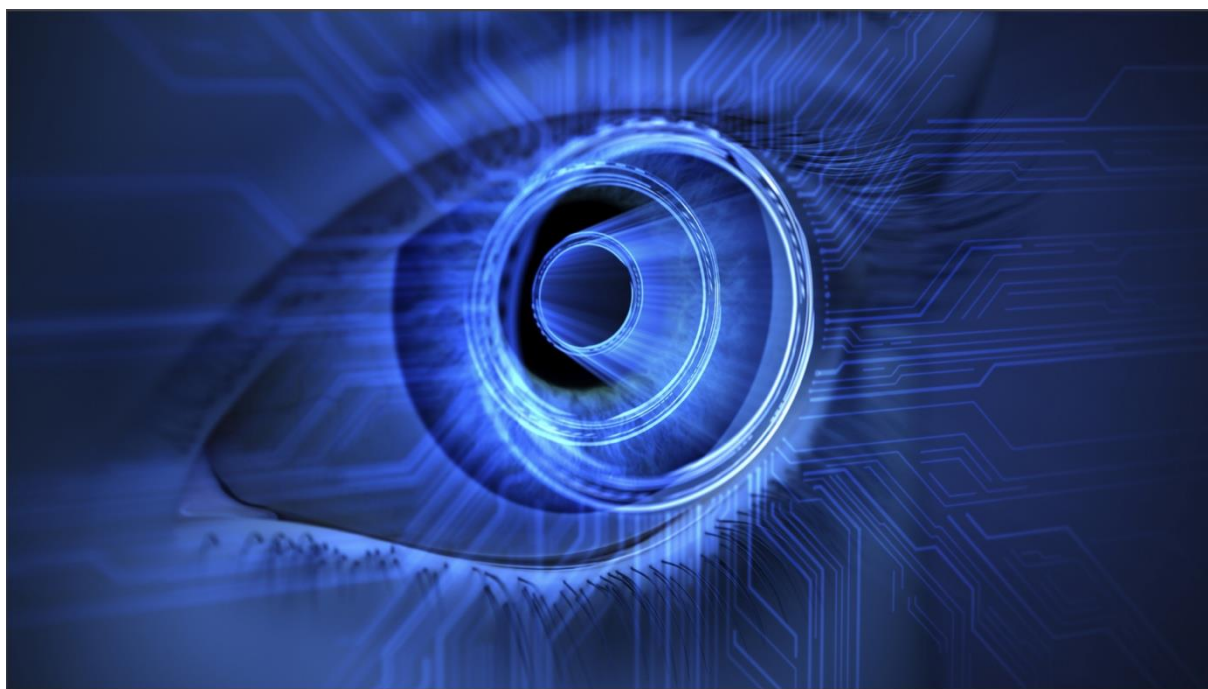
	Share capital	Other contributed capital	Other equity including result for the period	Total
Opening balance equity 2018-01-01	1,439	87,928	-52,981	36,386
<i>Transactions with owners:</i>				
New share issue	143	24,703		24,846
Subscription warrants			-117	-117
Result for the period			-14,245	-14,245
Closing balance equity 2018-12-31	1,582	112,631	-67,343	46,870
Opening balance equity 2018-01-01	1,439	87,928	-52,981	36,386
<i>Transactions with owners:</i>				
New share issue	12	972		984
Subscription warrants			-116	-116
Result for the period			-9,767	-9,767
Closing balance equity 2018-09-30	1,451	88,900	-62,864	27,487
Opening balance equity 2019-01-01	1,582	112,631	-67,343	46,870
<i>Transactions with owners:</i>				
New share issue	134	27,916		28,050
Subscription warrants				0
Result for the period			-14,148	-14,148
Closing balance equity 2019-09-30	1,716	140,547	-81,491	60,772

The share capital consists of 19,069,351 shares, each with a quota value of SEK 0.09.

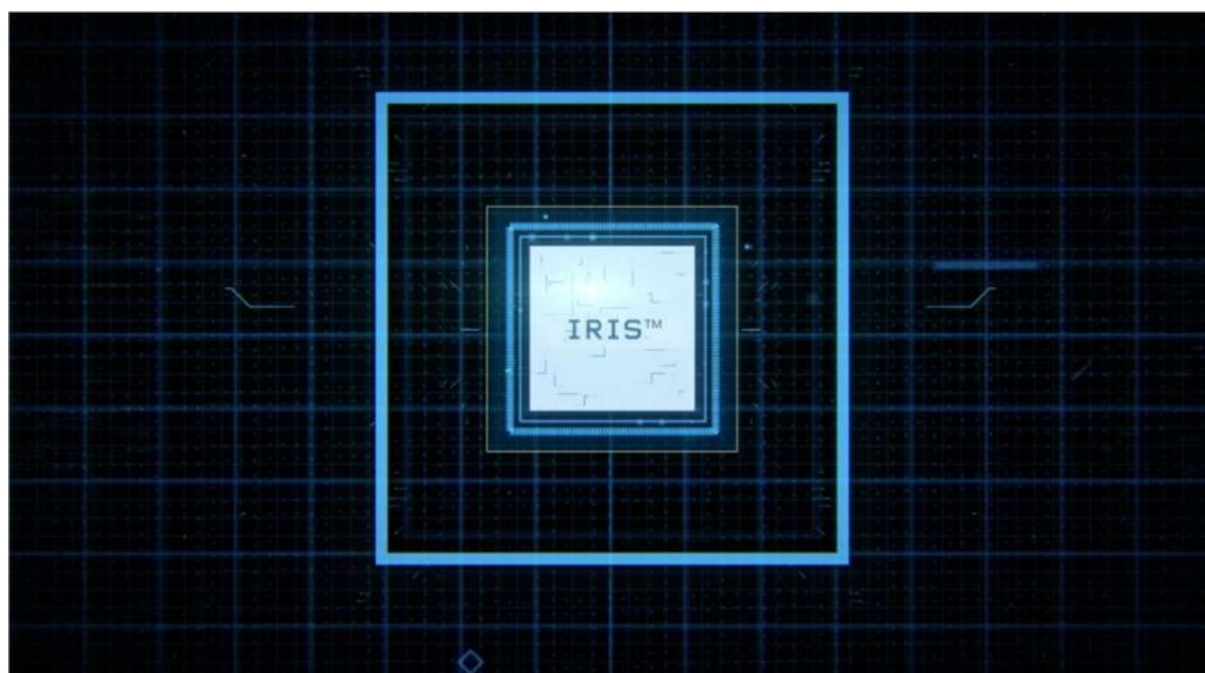
	July-September	July-September*	January-September	January-September*	January-December*
THE GROUP'S CASH FLOW STATEMENT (kSEK)	2019	2018	2019	2018	2018
Cash flow from operating activities before change in working capital	-724	2,316	-4,940	-5,908	-8,713
Cash flow from operating activities	606	-6,090	-3,547	-10,352	-6,982
Cash flow from investing activities	-3,496	-4,576	-42,254	-13,221	-20,386
Cash flow from financing activities	-1,133	3,888	24,691	31,178	53,644
Cash flow for the period	-4,023	-6,778	-21,110	7,605	26,276
Cash and cash equivalents at the beginning of the period	15,198	20,393	32,285	6,009	6,009
Cash and cash equivalents at the end of the period	11,175	13,614	11,175	13,614	32,285

THE PARENT COMPANY'S INCOME STATEMENT (kSEK)	April-June 2019	July- September 2018	January- June 2019	January- September 2018	January- December 2018
Net sales	8,426	9,382	26,162	23,010	30,061
Work performed for own account	3,474	4,473	12,456	12,502	15,350
Cost of sales	-4,164	-2,287	-13,867	-6,730	-9,343
Gross result	7,736	11,568	24,751	28,782	36,068
Other external charges	-4,535	-4,152	-15,792	-12,966	-18,202
Personnel costs	-4,782	-4,862	-15,445	-21,187	-25,839
Depreciation of tangible and intangible assets	-1,673	-1,217	-5,326	-3,890	-5,584
Operating result	-3,254	1,337	-11,812	-9,261	-13,557
Interest income	0	0	1	1	1
Interest costs	-152	-154	-502	-507	-706
Result after financial items	-3,406	1,183	-12,313	-9,767	-14,262
Income taxes	-	-	-	-	17
Net profit or loss for the period	-3,406	1,183	-12,313	-9,767	-14,245

Basic earnings per share (SEK)	-0.18	0.07	-0.65	-0.61	-0.81
Diluted earnings per share (SEK)	-0.18	0.07	-0.65	-0.61	-0.81
Number of shares at the end of the period	19,069,351	16,126,430	19,069,351	16,126,430	17,575,344
Fully diluted shares outstanding	19,334,476	16,391,555	19,334,476	16,391,555	17,840,469
Weighted average number of shares	16,660,380	15,759,816	16,660,380	15,759,816	15,966,706



THE PARENT COMPANY'S BALANCE SHEET (kSEK)	September 2019	September 2018	December 2018
Assets			
Intangible fixed assets	34,272	22,722	24,681
Tangible fixed assets	5,501	4,271	7,784
Financial fixed assets	31,904	608	491
Total fixed assets	71,677	27,601	32,956
Accounts receivable	7,085	14,230	8,584
Other current assets	2,951	2,233	2,738
Cash and bank balances	10,664	13,614	32,285
Total current assets	20,700	30,077	43,607
Total assets	92,377	57,678	76,563
Equity and liabilities			
Restricted equity	34,983	22,467	24,707
Non-restricted equity	27,625	5,020	22,163
Total equity	62,608	27,487	46,870
Long-term liabilities	2,992	7,771	5,920
Short-term financial liabilities	3,950	5,830	5,222
Accounts payable	9,414	3,618	4,391
Other short-term liabilities	12,934	12,972	14,160
Total short-term liabilities	26,298	22,420	23,773
Total equity and liabilities	91,898	57,678	76,563
Pledged assets			
Business mortgages	13,000	3,000	8,000
Pledged account	1,500	1,500	1,500
Total	14,500	4,500	9,500
Contingent liabilities	none	none	none



THE PARENT COMPANY'S
CHANGES IN EQUITY (kSEK)

	Share capital	Fund for development costs	Share premium reserve	Retained earnings	Result for the period	Total
Opening balance equity 2018-01-01	1,439	8,944	87,928	-58,454	-3,471	36,386
Change in fund for development costs		14,181		-14,181		0
New share issue	143					143
Share premium reserve			26,198			26,198
New issue costs			-1,495			-1,495
Transfer of previous year's result				-3,471	3,471	0
Subscription warrants				-117		-117
Result for the period					-14,245	-14,245
Closing balance equity 2018-12-31	1,582	23,125	112,631	-76,223	-14,245	46,870

Opening balance equity 2018-01-01	1,439	8,944	87,928	-58,454	-3,471	36,386
Change in fund for development costs		12,071		-12,071		0
New share issue	12					12
Share premium reserve			972			972
Transfer of previous year's result				-3,471	3,471	0
Subscription warrants				-116		-116
Result for the period					-9,767	-9,767
Closing balance equity 2018-09-30	1,451	21,015	88,900	-74,112	-9,767	27,487

Opening balance equity 2019-01-01	1,582	23,125	112,631	-76,223	-14,245	46,870
Change in fund for development costs		10,141		-10,141		0
Non-cash issue	134					134
Share premium reserve			27,916			27,916
Transfer of previous year's result				-14,245	14,245	0
Result for the period					-12,312	-12,312
Closing balance equity 2019-09-30	1,716	33,266	140,547	-100,609	-12,312	62,608

The share capital consists of 19,069,351 shares, each with a quota value of SEK 0.09.

	July-September	July-September	January-September	January-September	January-December
THE PARENT COMPANY'S CASH FLOW STATEMENT (kSEK)	2019	2018	2019	2018	2018
Cash flow from operating activities before change in working capital	-1,818	2,316	-7,295	-5,908	-8,713
Cash flow from operating activities	1,356	-6,090	-1,508	-10,352	-6,982
Cash flow from investing activities	-3,487	-4,576	-44,356	-13,221	-20,386
Cash flow from financing activities	-1,187	3,888	24,243	31,178	53,644
Cash flow for the period	-3,318	-6,778	-21,621	7,605	26,276
Cash and cash equivalents at the beginning of the period	13,982	20,393	32,285	6,009	6,009
Cash and cash equivalents at the end of the period	10,664	13,614	10,664	13,614	32,285

Definitions



OPERATING RESULTS

Profit or loss before financial items.

OPERATING MARGIN (PERCENT)

Operating result divided by net turnover (since the operating margin is calculated in accordance with the definition of net turnover in the Annual Accounts Act, work performed for own account is not included in the margin calculation).

SOLIDITY (PERCENT)

Adjusted equity capital in relation to the balance sheet total, expressed in percent.

BALANCE SHEET TOTAL

The total of assets or the total of debts and equity.

NET DEBT

Interest-bearing liabilities less interest-bearing assets and liquid assets.

NUMBER OF SHARES

The number of outstanding shares at the end of the period.

RESULT PER SHARE (SEK)

The result after taxes for the period divided by the number of shares.

THE OBJECT

The object refers to the physical location where a client has installed Irisity's surveillance solution. A municipality may for instance use the system in a number of schools. Each school would then be considered a separate object.

SAAS INCOME

Recurring revenue from the IRIS service.

MRR

Monthly recurring revenue

NET SALES

Net sales reflect the company's revenue from goods sold and services performed, with deductions directly linked to the sales for the period taken into account.

R&D

Research and Development.

INVOICING

The invoicing is the sum of invoices issued during the period. To arrive at the net sales affecting the result, adjustments are made for the payments made in advance or in arrears.

PAYMENT MODEL

Depending on their needs, the company's customers can choose between the following payment models:

- Subscription – the customer pays a continuous subscription fee for the IRIS service.
- Purchase – the customer purchases the equipment and the licenses from Irisity.
- Lease – the customer leases the equipment and licences from Irisity for an indefinite period.
- Payment by instalments – the customer pays the licence by instalments and leases the equipment from Irisity.

Financial calendar

Publication dates for interim reports

2020-02-12 Year end report / Interim report 4

2020-03-16 Annual report

2020-04-21 Annual General Meeting



The cerebral cortex – the outer layer of the cerebrum of the brain, responsible for many of the most complex brain functions, such as memory, attention and consciousness

Certified adviser for the company:

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This information is information that Irisity AB is obliged to make public pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out above, at 08:00 CET on November 5, 2019.



IRISITY

SECURITY BEYOND HUMAN
INTELLIGENCE

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