Asetek A/S

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Interim Report

Three Months Ended March 31, 2020

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Company Registration (CVR) Number 34880522

Highlights

- **Q1 revenue of $9.1 million, a decrease of 18% from Q1 2019**
- **Gross margin increased to 49% from 43% in Q1 2019, driven by higher Data center prices, business model transition and a stronger U.S. dollar**
- **Q1 EBITDA adjusted of $0.2 million compared to $0.3 million in Q1 2019**
- **Cash position increased to $26.2 million at the end of Q1 from $24.5 million at end of 2019**
- **No substantial supply chain- or operational impact from COVID-19 beyond the effects of the lock-down in China in mid-Q1**
- **Group expectations for 2020 maintained**
- **Share buy-back program launched to offset employee option grants**

Key figures

Figures in USD (000's)	**Q1 2020**	**Q1 2019**	**2019**
Summary P&L:	*Unaudited*	*Unaudited*	
Revenue	9,124	11,179	54,334
Gross profit	4,498	4,769	23,005
Gross margin	*49.3%*	*42.7%*	*42.3%*
Operating income	(921)	(1,026)	1,048
Reconciliation from IFRS to EBITDA adjusted:			
Operating income	(921)	(1,026)	1,048
Add: Depreciation and amortization	873	1,023	4,057
Add: Share based compensation	221	318	1,056
EBITDA adjusted (unaudited)	173	315	6,161
Liquidity at period end:			
Working capital	27,408	24,282	27,919
Cash and equivalents	26,159	21,279	24,505
Long-term debt	2,511	3,276	2,774

Highlights

Financial results

- Asetek reported first-quarter revenue of $9.1 million compared with $11.2 million in the same period of 2019. The change from prior year reflects the previously communicated effects of macroeconomic headwinds including COVID-19, Asetek's transition to a new business model and declining sales to one OEM customer.
- Specific COVID-19 impact to revenue in the first quarter comprised $0.6 million of orders scheduled for March that were delayed to the second quarter. Supply chain and general company operations have to date not been significantly impacted by COVID-19.
- Gross margin for the first quarter was 49%, an increase from 43% in the same quarter of 2019. The gross margin increase reflects increased prices for Data center products, a stronger U.S. dollar and Asetek's business model transition for Gaming and Enthusiast OEMs that do their own customization of their liquid coolers. Shipments under the new model have lower ASPs as Asetek delivers only the principal core technology with improved margins, while the customer adds their unique features with ancillary components.
- Operating loss totaled $0.9 million and adjusted EBITDA was positive $0.2 million in the first quarter of 2020, compared with operating loss of $1.0 million and adjusted EBITDA of positive $0.3 million in the first quarter of 2019. Operating expense decreased 6% from the prior year period as a result of reduced amortization expense, lower share-based compensation and a stronger U.S. dollar.
- At March 31, 2020, Asetek had working capital of $27.4 million, of which $26.2 million is cash and cash equivalents. Long-term debt totaled $2.5 million.
- Today, Asetek announced a share buy-back program to offset employee option grants. The Company may purchase up to 1.0 million shares on the open market for a maximum cost of $4.5 million through September 2020.

Operations

- In January, the Company announced its most advanced liquid cooling technology to date with the launch of the NZXT Kraken Z-3 and X-3 series. This latest cooling technology includes a new performance-engineered pump and cold plate, advanced temperature sensing, and even quieter operation.
- In February, Asetek began delivering waste heat from its in-house data center to Aalborg Forsyning, the city's municipal district heating network. Asetek's RackCDU™ liquid cooling systems capture and deliver heat to the network to help warm homes and businesses in the city of Aalborg. This connection demonstrates the viability of Asetek's technology in enabling power savings and reducing CO2 emissions.
- In April 2020, Asetek announced its largest data center order to date from an existing OEM partner, to supply InRackCDU™ liquid cooling for a new high-density HPC cluster in North America. The total order value will be between $0.6 to $0.8 million and is expected to be delivered in the second quarter.

Outlook

- While first-quarter revenue partly reflected COVID-19 effects, the pandemic has not had a significant impact on the Company's business environment and outlook to date. However, the Company recognizes significant uncertainty related to COVID-19 over time.
- Considering current macroeconomic developments, the ongoing business model transition and reduced demand from one OEM customer, the Company maintains its outlook for 2020. Asetek expects a decline in Group revenue of 5% to 10% in 2020 compared with 2019. Asetek is executing against its full-year 2020 operating plan, and the timing of orders and shipments will vary when compared with prior year quarterly results. Gross margin is expected to increase from 2019 and the Company expects a positive income before tax.

Financial review

The figures below relate to the consolidated accounts for the first quarter of 2020. Beginning in 2020, the Company's results are reported as one segment. Refer to Note 7 in the Consolidated Interim Financial Statements. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of $9.1 million in the first quarter of 2020, an 18% decrease from the first quarter of 2019 ($11.2 million). Sales unit volumes of sealed loop coolers for the first quarter of 2020 were 143,000, compared with 182,000 in the same period of 2019. Both fluctuations were due to the effects of macroeconomic headwinds including COVID-19, Asetek's transition to a new business model and declining sales to one OEM customer.

Gross margin increased to 49.3% for the first quarter of 2020, from 42.7% in the same period of 2019. The increase was due to price increases on Data center products introduced in 2019, a stronger U.S. dollar and the ongoing transition of Gaming and Enthusiast OEM customers to the new business model.

Asetek's new business model focuses on shipping high-margin core technology with fewer low-margin ancillary components. The ongoing transition to this business model resulted in a higher gross margin and lower average selling price (ASP) per unit in the first quarter compared with prior year.

Total operating expense decreased to $5.4 million in the first quarter of 2020 from the same period of 2019 ($5.8 million), mainly due to lower amortization of capitalized development costs and reduced share-based compensation cost related to employee options. A 3% stronger U.S. dollar versus the Danish krone, on average, also favorably impacted expense in the first quarter of 2020 compared with the same period last year.

Legal costs associated with defense of existing intellectual property (IP) and securing new IP totaled $0.8 million in the first quarter of 2020 ($0.7 million in the same period of 2019).

Finance expenses included net foreign exchange gain of $0.2 million in the first quarter (gain of $0.2 million in first quarter of 2019). Currency translation adjustment of negative $0.4 million was included in equity for the first quarter 2020 ($0.3 million negative translation adjustment in the first quarter of 2019).

Asetek reported a loss before tax of $0.7 million in the first quarter of 2020, compared with a loss of $0.8 million before tax in the first quarter of 2019.

Balance Sheet (Consolidated)

Asetek's total assets at March 31, 2020 amounted to $48.4 million, compared with $54.1 million at December 31, 2019. Trade receivables decreased by $6.5 million due to lower revenue in the first quarter compared with the fourth quarter of 2019. Property and equipment and inventory also decreased during the quarter. Total liabilities decreased by $4.6 million in the first quarter as a result of payment of trade payables and accrued liabilities.

Working capital (current assets minus current liabilities) totaled $27.4 million at March 31, 2020, a decrease of $0.5 million from prior quarter. Total cash and cash equivalents was $26.2 million at March 31, 2020.

Cash Flow (Consolidated)

Net cash provided by operating activities was $2.5 million in the first quarter, compared with $3.6 million provided by operating activities in the same period of 2019. The decline from prior year was principally due to lower shipment volumes.

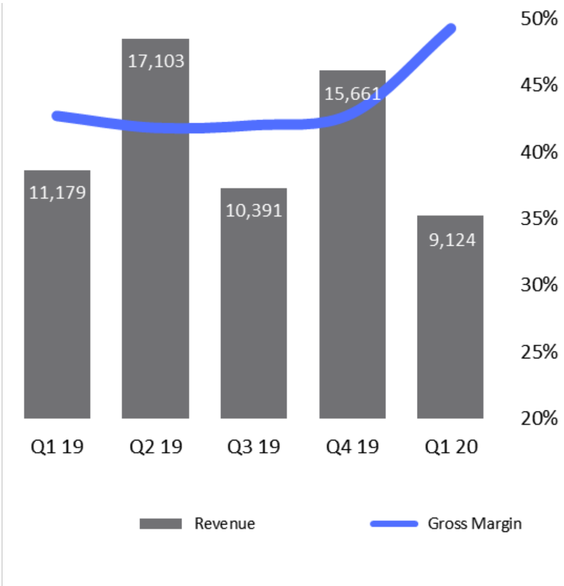
Cash used by investing activities was $0.5 million in the first quarter, mainly for additions of capital equipment and capitalized development ($0.8 million used in 2019).

Cash used by financing activities was $0.2 million in the first quarter, mainly for payments on capitalized leases ($0.1 million used in 2019).

Net change in cash and cash equivalents was an increase of $1.7 million in the first quarter of 2020, compared with an increase of $2.7 million in the first quarter of 2019.

Market Update

Group revenue and margin development
USD (000's)



Gaming and Enthusiast. During the quarter, one new product began shipping in the Gaming/Performance PC market. The liquid cooler features an all new innovative design for space-constrained PC cases. Additional information about this product will be released in the second quarter.

In January, the Company announced its most advanced liquid cooling technology to date with the launch of the NZXT Kraken Z-3 and X-3 series. This latest cooling technology includes a new performance-engineered pump and cold plate, advanced temperature sensing, and even quieter operation.

Asetek is transitioning its business model to better fit customer requirements and to increase margins. Under the new model, OEM customers can purchase the core liquid cooler and then develop and implement their own unique features and industrial design for both the product and packaging. This change helps to ensure that Asetek's products stay competitive in the market. Shipments under this new business model have lower ASPs and revenue as Asetek delivers a subset of its typical finished product while improving margins from sale of the Company's core technology. This change also frees up R&D resource to focus on innovation and development of the core liquid cooling solutions and IP in support of long-term competitiveness and profitable growth.

Over the past year, Asetek has increased investments in Gaming and Enthusiast product development and branding. Work continues with key customers on several brand-behind-the-brand initiatives to feature the Asetek logo on box packaging, websites, forums, and packaging inserts (Figure 1). 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.

Figure 1:

Data center. In January 2020, Asetek announced that its InRackCDU™ Rack level direct to chip (D2C) liquid cooling solution has been chosen by a global server OEM for an upcoming refresh of an existing server product platform targeting the HPC market. Launch is expected later this year. A server product platform is typically upgraded every 18 to 24 months. Early estimates indicate a revenue potential of $4 to $5 million over the course of the product life. Additionally, the Company announced an order from an existing Global Data Center OEM Partner, for an undisclosed end customer. The order has a value of between $500k and 600k, depending on final configuration, with delivery to be completed by second quarter 2020.

In February, Asetek began delivering waste heat from its in-house data center to Aalborg Forsyning, the city's municipal district heating network. Asetek's RackCDU liquid cooling systems capture and deliver heat to the network to help warm homes and businesses in the city of Aalborg. This connection demonstrates the viability of Asetek's technology in enabling power savings and reducing CO_2 emissions.

Today, Asetek has major liquid cooling installations at multiple HPC sites in North America, Asia and Europe and is liquid cooling thirteen of the world's most powerful and efficient supercomputers listed in the November 2019 Top500 and Green500, including two systems in the Top20.

Fujitsu is using Asetek's liquid cooling to remove heat from processors and other high-power components in its PRIMERGY servers to cost effectively deliver maximum performance and high cluster density. Projects have included the fastest supercomputer in Japan and No. 8 in the Top500, the AI Bridging Cloud Infrastructure system installed at the National Institute of Advanced Industrial Science and Technology (AIST). Another Fujitsu project is the Oakforest-PACS system, which is No. 15 in the Top500 and one of the most powerful supercomputers in Japan.

Group Outlook

Asetek has historically experienced significant quarterly revenue fluctuations which impacts short-term predictability. Therefore, the Company has discontinued quarterly- and segment financial guidance and will instead guide on expected Group annual results only.

Global economy and COVID-19. In early 2020, the overall PC industry outlook continued to be negatively affected by uncertainties relating to U.S.-China trade relations, the Brexit process and macroeconomic headwinds across other markets. In late February, the global response to fight the COVID-19 pandemic began to adversely affect markets as a result of widespread business closures and shelter-in-place orders in major economies of the world, including the U.S. and Europe. The extensive shutdowns intensified in March and continue today.

While first-quarter revenue partly reflected COVID-19 effects, the pandemic has not had a significant impact on the Company's business environment and outlook to date. However, the Company recognizes significant uncertainty related to COVID-19 over time.

Gaming and enthusiast. In late 2019, one of Asetek's largest OEM customers began sourcing liquid cooling products from an alternative supplier. The OEM is expected to continue purchases from Asetek, but at a materially lower level than in recent years. The Company expects that continued focus of resources to the Gaming and Enthusiast market, growing market share of new and existing OEMs, the rebranding program and launch of innovative new products to partly mitigate the effects of this customer transition.

As described in the Market Update section of this report, the Company is transitioning to a new business model in which Asetek delivers a subset of its typical finished product, excluding ancillary components. Employing this model results in lower ASPs and revenue while improving margins from sale of the Company's core technology.

Data center. Asetek anticipates continued growth in end-user adoption with deliveries to new HPC installations through OEM partners. Recent shipments of RackCDU™ liquid cooling to existing partners and the announcement of a new global partner reflect the continued success and projected long-term growth of partners' HPC deployments of Asetek liquid cooling.

However, data center market adoption of liquid cooling solutions takes time and is lagging Company expectations despite its strong value proposition. Though significant long-term revenue growth is expected, Asetek has reduced its investment in this product line. Some short-term variability in spending may occur to support the introduction of products for the new Global Partner.

There is an apparent need for public standards to trigger wider data center adoption of liquid cooling. Direct-to-chip liquid cooling enables power savings and CO2 emission reductions from the reuse of data center waste heat and is one of, if not the most impactful and significant technologies available in the world to address these issues. Asetek continues to participate in targeted campaigns to influence and educate politicians and support wider understanding of the significant environmental and circular economy benefits enabled by liquid cooling.

Group results. Considering current macroeconomic developments, the ongoing business model transition and reduced demand from one OEM customer, the Company maintains its outlook for 2020. Asetek expects a decline in Group revenue of 5% to 10% in 2020 compared with 2019. Asetek is executing against its full-year 2020 operating plan, and the timing of orders and shipments will vary when compared with prior year quarterly results. Gross margin is expected to increase from 2019 and the Company expects a positive income before tax.

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 closely 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 January 2019, Asetek filed a patent infringement lawsuit against CoolIT in the Northern district of California seeking judgment that CoolIT infringes Asetek's '362 and '764 patents as well as Asetek's U.S. Patent Nos. 9,733,681; 10,078,354; and 10,078,355. The litigation is in a relatively early stage and no trial date has been set. CoolIT has filed counterclaims asserting infringement of four CoolIT patents, which Asetek denies. Asetek recently filed review petitions in the U.S. Patent and Trademark Office (USPTO) to challenge two CoolIT patents. CoolIT recently filed review petitions in the USPTO to challenge three Asetek patents asserted in the litigation. Asetek will vigorously defend these challenges.

In April 2016, Asetek initiated patent infringement proceedings against CoolerMaster and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against CoolerMaster, the Courts have dismissed Asetek's claim. Asetek appealed the most recent decision to the Dutch Supreme Court which has not yet ruled. The proceedings against Coolergiant have been stayed, pending final judgment in the Cooler Master case.

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 November 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 Court revoked the German part of Asetek's patent in February 2020. Asetek plans to appeal the decision to the German Supreme Court.

Risk Factors

The Company has historically incurred operating losses. 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 in the marketplace of offerings from Asetek's customers, and timely releases of powerful new technologies and high-profile computer games in the PC industry. Asetek's Data center business is in its development stages and revenue growth is dependent on market acceptance of its liquid cooling products, increased demand from existing OEMs and Asetek's ability to obtain and build partnerships with new OEMs.

In the first quarter of 2020, three customers accounted for 33%, 12% and 11% of total revenue. Shipments to one of these customers reflects a significant decline compared with recent prior quarters and is not expected to increase in the future. The Company is actively working with several of its customers to grow their respective market shares and order volumes.

In December 2019, a novel strain of coronavirus (SARS-CoV-2) causing the COVID-19 disease surfaced in Wuhan, China, and has since spread to many other countries. In March 2020, the World Health Organization declared COVID-19 a pandemic. The U.S., Denmark and other countries have enacted temporary closures of businesses, issued quarantine orders and taken other restrictive measures. The Company's operating sites are complying with the laws imposed by local governments for minimizing the virus' spread. If production must be stopped or a critical number of employees 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. The impact of the COVID-19 pandemic is fluid and continues to evolve, and therefore 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 and the recent decline in Asetek's revenue. The Company continues to work to minimize the impact of the tariff on Asetek and its customers.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. 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 – in a unilateral tax treaty override – still considers Asetek A/S a U.S. tax subject, effectively creating a double taxation situation. Asetek has approached both countries' tax authorities with the aim of resolving the double tax situation as per the double taxation treaty. However, a determination may take several years, and the authorities are not obligated to resolve the problem. 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 investigate and resolve these matters.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of March 31, 2020, its principal cash holdings are maintained in deposit accounts in U.S. dollars and Danish krone.

A more thorough elaboration on risk factors can be found in the Company's Annual Report for 2019, available from the Company's website: www.asetek.com

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)		Q1 2020		Q1 2019		2019
		Unaudited		*Unaudited*		
Revenue	$	9,124	$	11,179	$	54,334
Cost of sales		4,626		6,410		31,329
Gross profit		4,498		4,769		23,005
Research and development		1,167		1,255		4,889
Selling, general and administrative		4,252		4,540		17,821
Other expense (income)		-		-		(753)
Total operating expenses		5,419		5,795		21,957
Operating income		(921)		(1,026)		1,048
Foreign exchange (loss) gain		212		164		218
Finance income (costs)		9		48		188
Total financial income (expenses)		221		212		406
Income before tax		(700)		(814)		1,454
Income tax (expense) benefit		-		(7)		(2,082)
Income for the period		(700)		(821)		(628)
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:						
Foreign currency translation adjustments		(399)		(330)		(444)
Total comprehensive income	$	(1,099)	$	(1,151)	$	(1,072)
Income per share (in USD):						
Basic	$	(0.03)	$	(0.03)	$	(0.02)
Diluted	$	(0.03)	$	(0.03)	$	(0.02)

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

Consolidated Balance Sheet

Figures in USD (000's)		31 Mar 2020		31 Dec 2019
ASSETS		*Unaudited*		
Non-current assets				
Intangible assets	$	1,928	$	1,920
Property and equipment		5,592		6,115
Deferred income tax assets		5,409		5,521
Other assets		301		307
Total non-current assets		13,230		13,863
Current assets				
Inventory		1,386		1,657
Trade receivables and other		7,596		14,080
Cash and cash equivalents		26,159		24,505
Total current assets		35,141		40,242
Total assets	$	48,371	$	54,105
EQUITY AND LIABILITIES				
Equity				
Share capital	$	423	$	423
Retained earnings		37,718		38,197
Translation and other reserves		(14)		388
Total equity		38,127		39,008
Non-current liabilities				
Long-term debt		2,511		2,774
Total non-current liabilities		2,511		2,774
Current liabilities				
Short-term debt		1,519		1,518
Accrued liabilities		982		1,022
Accrued compensation & employee benefits		1,143		1,526
Trade payables		4,089		8,257
Total current liabilities		7,733		12,323
Total liabilities		10,244		15,097
Total equity and liabilities	$	48,371	$	54,105

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

Consolidated Statement of Changes in Equity

Figures in USD (000's)	Share capital	Translation reserves	Other reserves	Retained earnings	Total
Equity at January 1, 2020	$ 423	$ 392	$ (4)	$ 38,197	$ 39,008
Total comprehensive income - quarter ended March 31, 2020					
Income for the period	-	-	-	(700)	(700)
Foreign currency translation adjustments	-	(399)	-	-	(399)
Total comprehensive income - quarter ended March 31, 2020	-	(399)	-	(700)	(1,099)
Transactions with owners - quarter ended March 31, 2020					
Share activity	-	-	(3)	-	(3)
Share based payment expense	-	-	-	221	221
Transactions with owners - quarter ended March 31, 2020	-	-	(3)	221	218
Equity at March 31, 2020	$ 423	$ (7)	$ (7)	$ 37,718	$ 38,127

Equity at January 1, 2019	$ 422	$ 836	$ (4)	$ 37,704	$ 38,958
Total comprehensive income - quarter ended March 31, 2019					
Income for the period	-	-	-	(821)	(821)
Foreign currency translation adjustments	-	(330)	-	-	(330)
Total comprehensive income - quarter ended March 31, 2019	-	(330)	-	(821)	(1,151)
Transactions with owners - quarter ended March 31, 2019					
Shares issued	-	-	-	26	26
Share based payment expense	-	-	-	318	318
Transactions with owners - quarter ended March 31, 2019	-	-	-	344	344
Equity at March 31, 2019	$ 422	$ 506	$ (4)	$ 37,227	$ 38,151

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

Consolidated Cash Flow Statement

Figures in USD (000's)	Q1 2020	Q1 2019	2019
	Unaudited	*Unaudited*	
Cash flows from operating activities			
Income for the period	$ (700)	$ (821)	$ (628)
Depreciation and amortization	873	1,023	4,057
Finance income recognized	(49)	(92)	(359)
Finance costs recognized	40	44	171
Finance income, cash received	49	92	359
Finance costs, cash paid	(21)	(21)	(84)
Income tax expense	-	7	2,082
Cash receipt (payment) for income tax	-	-	(172)
Share based payments expense	221	317	1,056
Changes in trade receivables, inventories, other assets	6,490	5,244	2,234
Changes in trade payables and accrued liabilities	(4,425)	(2,198)	154
Net cash provided by (used in) operating activities	2,478	3,595	8,870
Cash flows from investing activities			
Additions to intangible assets	(357)	(360)	(1,441)
Purchase of property and equipment	(109)	(420)	(713)
Net cash used in investing activities	(466)	(780)	(2,154)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	(4)	33	22
Proceeds from issuance of share capital	-	25	64
Principal payments on capitalized leases	(226)	(165)	(734)
Net cash provided by (used in) financing activities	(230)	(107)	(648)
Effect of exchange rate changes on cash and cash equivalents	(128)	(56)	(190)
Net changes in cash and cash equivalents	1,654	2,652	5,878
Cash and cash equivalents at beginning of period	24,505	18,627	18,627
Cash and cash equivalents at end of period	$ 26,159	$ 21,279	$ 24,505
Supplemental disclosures -			
Property and equipment acquired under leases	$ -	$ 119	$ 413

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 'ASETEK'.

These condensed consolidated financial statements for the quarter ended March 31, 2020 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 2019 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, 2019.

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

2. Equity

At March 31, 2020, there were 25.6 million common shares outstanding and 0.2 million shares in treasury. Treasury shares may be used to fulfill a portion of share options and warrants outstanding which total approximately 2.6 million. Share capital did not change materially in the first quarter 2020 (increase of $26,000 in first quarter 2019) as a result of funds received from employee exercises of warrants and options. Share based payment expense associated with total warrants and options outstanding was $0.2 million and $0.3 million in the quarter ended March 31, 2020 and 2019, respectively.

3. 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 first quarter of 2020, the Company capitalized approximately $0.4 million of development costs and recorded amortization of approximately $0.3 million (capitalized costs of $0.4 million and amortization of $0.5 million in the first quarter of 2019).

4. 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, warrants and debt or preferred shares that are convertible to common shares, to the extent their inclusion in the calculation would be dilutive.

First Quarter

USD (000's)		Q1 2020		Q1 2019
Income attributable to equity holders of the Company (USD 000's)	$	(700)	$	(821)
Weighted average number of common shares outstanding (000's)		25,604		25,544
Basic income per share	$	(0.03)	$	(0.03)
Weighted average number of common shares oustanding (000's)		25,604		25,544
Instruments with dilutive effect:				
Warrants and options		-		-
Weighted average number of common shares oustanding, diluted		25,604		25,544
Diluted income per share	$	(0.03)	$	(0.03)

Potentially dilutive instruments are not included in the calculation of diluted loss per share for the periods presented because the effect of including them would be anti-dilutive.

5. 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 quarter of 2020, the Group purchased services totaling approximately $138,000 ($159,000 in first quarter of 2019) from this vendor. At March 31, 2020 and 2019, the Group had outstanding payables to this vendor of $15,000 and $40,000, respectively.

6. 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 March 31, 2020, the Company has deferred tax assets of $5.4 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 2019 Annual Report regarding critical accounting estimates and assumptions.

7. Segment and geographical information

Beginning in 2020, due to the insignificance of the data center business which represented less than 5% of Group revenue in 2019, the Company no longer identifies the data center business as a separate segment. The Group operates as one business segment in several geographical areas, principally in Asia, Europe and the Americas. The following table presents the Group's revenue in each of the principal geographical areas:

USD (000's)	Q1 2020	Q1 2019
Asia	8,239	9,922
Americas	652	891
Europe	233	366
Total revenue	9,124	11,179

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 – 31 March 2020. 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 2019.

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. The Interim Report has not been audited or reviewed by the auditors.

Asetek A/S
Aalborg, 21 April 2020

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Jukka Pertola
Chairman

Chris J. Christopher
Vice chairman

Maria Hjorth
Member

Jørgen Smidt
Member

Erik Damsgaard
Member

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