



Asetek

Asetek A/S

Assensvej 2
DK9220 Aalborg East
Denmark

Interim Report

Third Quarter and Nine Months Ended September 30, 2020

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Company Registration (CVR) Number 34 88 05 22

Highlights

- Record quarterly revenue of \$21.6 million, reflecting growth of 108% over Q3 2019
- Gross margin increased to 47% in Q3 and 49% in the first nine months, from 42% in both prior year periods
- Record quarterly EBITDA adjusted of \$5.4 million in Q3 2020, compared with \$32,000 in Q3 2019
- Year-to-date revenue grew to \$44.9 million with EBITDA adjusted of \$8.7 million compared with \$38.7 million and \$3.6 million respectively in 2019
- 2020 Group revenue expectation updated October 19 to an increase of 25% to 30% to an annual record level, compared with 2019 revenue of \$54.3 million
- Gross margin is expected to increase from 2019 and Asetek expects an income before tax of about \$9 to \$10 million, up from \$1.5 million in 2019

Key figures

Figures in USD (000's)	Nine months ended				
	Q3 2020	Q3 2019	30-Sep-20	30-Sep-19	2019
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
Summary P&L:					
Revenue	21,629	10,391	44,900	38,673	54,334
Gross profit	10,067	4,360	21,840	16,285	23,005
Gross margin	46.5%	42.0%	48.6%	42.1%	42.3%
Operating income	4,259	(1,207)	5,338	(115)	1,048
Reconciliation from IFRS to EBITDA adjusted:					
Operating income	4,259	(1,207)	5,338	(115)	1,048
Add: Depreciation and amortization	876	971	2,597	2,917	4,057
Add: Share based compensation	235	268	736	807	1,056
EBITDA adjusted (unaudited)	5,370	32	8,671	3,609	6,161
Liquidity at period end:					
Working capital	31,409	26,393	31,409	26,393	27,919
Cash and equivalents	26,830	26,261	26,830	26,261	24,505
Long-term debt	2,725	2,905	2,725	2,905	2,774

Highlights

- Financial results**
- Asetek reported record revenue of \$21.6 million in the third quarter of 2020, an increase of 108% from the same period of 2019. Revenue in the first nine months was \$44.9 million representing growth of 16% compared with the same period of 2019. The change from prior year mainly reflects increased shipments of Gaming and Enthusiast products.
 - Gross margin was 47% for the third quarter and 49% for the first nine months, up from 42% in both comparable periods of the prior year. The gross margin increase reflects a richer product mix, higher sales prices for Data center products and Asetek's business model transition for Gaming and Enthusiast OEMs that customize their liquid coolers.
 - Operating income totaled \$4.3 million and adjusted EBITDA was \$5.4 million in the third quarter of 2020, compared to operating loss of \$1.2 million and adjusted EBITDA of \$32,000 in the third quarter of 2019. Operating income in the first nine months was \$5.3 million and adjusted EBITDA was \$8.7 million, compared with operating loss of \$0.1 million and adjusted EBITDA of \$3.6 million in the same period of 2019.
 - In April, the Company initiated a share buy-back program to offset employee option grants. Under this program, the Company repurchased a total of 657 thousand shares for a total cost of \$4.5 million through to September 30. On October 22, the Company renewed this program with authorization to repurchase shares for an additional \$4 million through March 5, 2021.
 - At September 30, 2020, Asetek had working capital of \$31.4 million, of which \$26.8 million was cash and cash equivalents. Long-term debt totaled \$2.7 million.
- Operations**
- In July, the Company confirmed its collaboration with Hewlett Packard Enterprise (HPE) to deliver its premium data center liquid cooling solutions in HPE Apollo Systems targeting high performance computing and artificial intelligence applications.
 - During the quarter, Asetek announced three new orders in the data center market from existing HPC OEM partners for new high-density clusters. Total value of the orders is approximately \$1.6 million, and all are expected to be delivered in the fourth quarter.
 - Asetek began shipping nine new Gaming and Enthusiast products in the third quarter, four of which to a new DIY customer.
 - There was no significant negative impact from the COVID-19 pandemic on revenue, supply chain or overall operations during the quarter.
- Outlook**
- Asetek revised its full-year 2020 outlook on October 19. As a result of continued strong demand for the Gaming and Enthusiast products, and improvements in supply chain capabilities enabling this demand to be serviced, Group revenue is expected to increase 25% to 30% from 2019 revenue of \$54.3 million. This projection corresponds to a revenue range of \$67.9 million to \$70.6 million, implying a record annual Group revenue for the full year 2020. Gross margin is expected to increase from 2019, and Asetek expects an income before tax of about \$9 to \$10 million, compared with \$1.5 million in 2019.
 - The Company recognizes uncertainty related to potential impact from COVID-19 over time. Any such uncertainty is not included in the expectations for the remainder of 2020.

Financial review

The figures below relate to the consolidated accounts for the third quarter and first nine months 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 \$21.6 million in the third quarter of 2020, an increase of 108% from \$10.4 million in the third quarter of 2019. Total revenue in the first nine months of 2020 was \$44.9 million compared with \$38.7 million in the same period of 2019. Sales unit volumes of sealed loop coolers increased 127% in the third quarter and 17% in the first nine months of 2020 when compared with the respective periods of 2019. Average selling price (ASP) per unit in both the third quarter and first nine months of 2020 decreased from the prior year periods. The above fluctuations reflect increased demand in the Gaming and Enthusiast market and Asetek's ongoing business model transition. 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.

Gross margin improved to 46.5% for the third quarter of 2020, from 42.0% in the same period of 2019. Gross margin for the first nine months of 2020 was 48.6% compared with 42.1% in the same period of 2019. The new business model, increased prices for Data center products and ongoing cost reductions all contributed to the margin improvement.

Total operating expense increased to \$5.8 million in the third quarter of 2020 from \$5.6 million in the same period of 2019. For the first nine months of 2020, operating expense increased slightly to \$16.5 million (\$16.4 million). Operating expense in the second quarter of 2019 was reduced by a positive effect of \$0.8 million related to a favorable patent litigation settlement.

Costs incurred for defense of existing intellectual property (IP) and securing new IP decreased to \$0.5 million and \$1.7 million in the third quarter and first nine months of 2020 (\$0.7 million and \$2.0 million in the respective periods of 2019).

Share-based compensation cost associated with warrants and options issued to employees was \$0.2 million and \$0.7 million in the third quarter and first nine months of 2020 (\$0.3 million and \$0.8 million in the respective periods of 2019).

During the third quarter 2020, the U.S. Dollar, on average, weakened versus the Danish krone. Finance expenses included net foreign exchange loss of \$0.6 million in the third quarter and of \$0.7 million in the first nine months of 2020, compared with a gain of \$0.6 million in both respective periods of 2019.

Asetek reported income before tax of \$3.7 million and \$4.6 million in the third quarter and first nine months of 2020, compared with loss before tax of \$0.6 million and income before tax of \$0.6 million for the respective periods of 2019.

Currency translation adjustment of positive \$1.0 million and positive \$1.1 million is included in other comprehensive income for the third quarter and first nine months of 2020 (negative \$0.9 million and negative \$1.0 million in the third quarter and first nine months of 2019).

Balance Sheet (Consolidated)

Asetek's total assets at September 30, 2020 increased to \$59.3 million from \$54.1 million at December 31, 2019. Trade receivables increased by \$3.4 million due to higher revenue in the third quarter compared with the fourth quarter of 2019. Cash and equivalents increased by \$2.3 million. Total liabilities increased by \$2.6 million in the first nine months due to higher production volumes in the third quarter.

Working capital (current assets minus current liabilities) totaled \$31.4 million at September 30, 2020, an increase of \$3.5 million from 2019 year-end. Total cash and cash equivalents was \$26.8 million at September 30, 2020.

Cash Flow (Consolidated)

Net cash provided by operating activities was \$6.9 million for the first nine months of 2020, compared with \$10.1 million in the same period of 2019. The decline from prior year was principally due to increased investment in inventory and trade receivables in 2020.

Cash used by investing activities was \$1.8 million for the first nine months of 2020, related to additions of capital equipment and capitalized development. (\$1.6 million used in 2019).

Cash used by financing activities was \$3.1 million in the first nine months, including \$4.5 million for the

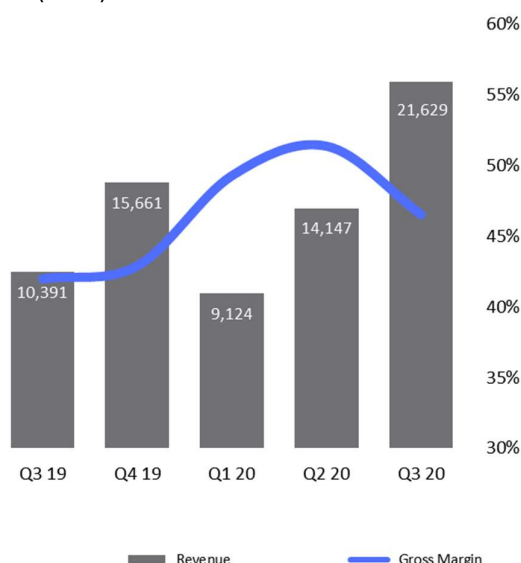
repurchase of Asetek's common shares and \$0.5 million for payments on capitalized leases. The Company also paid down its line of credit by \$0.3 million. These effects were offset by \$2.1 million received for shares issued on options exercised by employees. (Total cash used for financing in 2019 was \$0.5 million).

Net change in cash and cash equivalents was an increase of \$2.3 million in the first nine months of 2020, compared with an increase of \$7.6 million in the first nine months of 2019.

Market Update

Group revenue and margin development

USD (000's)



Gaming and Enthusiast. In the second half of 2020, Asetek has increased product development activities and the pace of new product releases. During the third quarter, nine new products began shipping, four of which to a new DIY customer. Three of the new products provide high performance liquid cooling for NVIDIA's new Ampere GPUs.



Asetek also continues to transition 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 ensures 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. 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.

Data center. Data center business activity increased in the first nine months of 2020. This effect combined with higher sales prices resulted in a year-over-year increase in financial performance.

During the third quarter, Asetek announced three new orders from existing HPC OEM partners for new high-density clusters. Total value of the orders is approximately \$1.6 million, and all of the orders are expected to be delivered in the fourth quarter.

In January, Asetek's InRackCDU™ Rack level direct to chip (D2C) liquid cooling solution was chosen by a global server OEM for a refresh of an existing server product platform. In July, Asetek announced that the new partner is Hewlett Packard Enterprise (HPE). HPE plans to incorporate Asetek's premium liquid cooling in HPE Apollo Systems, targeting high performance computing (HPC) and artificial intelligence (AI) applications. Commercial shipments began in the third quarter. 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.

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 June 2020 TOP500 fastest supercomputers in the world and the Green500 most efficient supercomputers in the world, including two systems in the top 20 of each list.

Group Outlook

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

Global economy and COVID-19. In the third quarter of 2020, the global response to fight the COVID-19 pandemic continued to adversely affect global markets due to restrictions imposed on businesses and changes in consumer behavior as a result of social distancing. While businesses are starting to adjust, the effects of the pandemic continue to have a negative impact on the global economy. To date, the pandemic has not adversely affected Asetek's business. However, the Company recognizes uncertainty related to COVID-19 over time.

Gaming and enthusiast. In recent months, the PC gaming hardware market has experienced a surge in demand. In late 2019, one of Asetek's largest OEM customers began sourcing liquid cooling products from an alternative supplier. The Company expects that continued focus of resources on 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.

Data center. Asetek anticipates continued growth in end-user adoption with deliveries to new HPC installations through OEM partners. To date in 2020, increased shipments of RackCDU™ liquid cooling to existing partners and the addition of HPE as a global partner reflect the continued success and projected long-term growth of partners' HPC deployments of Asetek liquid cooling.

Asetek's Direct-to-chip liquid cooling enables power savings and CO2 emission reductions from the reuse of data center waste heat. Significant long-term revenue growth is expected, though public standards are needed to trigger wider data center adoption of liquid cooling. 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. On October 19, Asetek updated its full-year revenue outlook following increased sales expectations for the rest of 2020, primarily driven by strong demand for the Gaming and Enthusiast product group and improvements in supply chain capabilities enabling the demand to be serviced.

The full year Group revenue is expected to increase 25% to 30% from 2019 revenue of \$54.3 million. This projection corresponds to a revenue range of \$67.9 million to \$70.6 million anticipated in 2020. The previous expectation communicated in August was for an increase of 15% to 25%, corresponding to between \$62.5 million and \$67.9 million.

Gross margin is expected to increase from 2019. While the fourth quarter gross margin is expected to increase compared with the same period of 2019, it is likely to decrease from the first nine months of 2020 due to product mix changes and some additional costs. Full-year 2020 gross margin is expected to approximate 47%. Asetek expects an income before tax of about \$9 to \$10 million, compared with \$1.5 million in 2019. Asetek expects overhead to increase going forward due to increased product innovation and R&D activity.

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:

On September 17, 2020, Asetek filed a patent infringement lawsuit against Corsair in the Northern District of California seeking judgment that Corsair infringes Asetek U.S. Patent Nos. 10,078,354; 10,078,355; 10,613,601; and 10,599,196. The case is in its earliest stages and no trial date has been set.

In January 2019, Asetek filed a patent infringement lawsuit against CoolIT in the Northern District of California seeking judgment that CoolIT infringes Asetek's U.S. Patent Nos. 8,240,362; 8,245,764; 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 filed counterclaims asserting infringement of four CoolIT patents, which Asetek denies. Asetek also filed review petitions in the U.S. Patent and Trademark Office (USPTO) to challenge the validity of two of the CoolIT patents asserted in the litigation, and CoolIT filed review petitions in the USPTO to challenge the validity of

three of the five Asetek patents asserted in the litigation. The USPTO determined it will consider both parties challenges. Asetek will vigorously prosecute its challenges to CoolIT's patents and vigorously defend against CoolIT's challenges to Asetek's patents.

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 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 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. The infringement and enforcement proceedings have been stayed until a final decision on the validity of the patent is rendered by the 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 nine months of 2020, two customers accounted for 41% and 11% 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.

In December 2019, a novel strain of coronavirus (SARS-CoV-2) causing the COVID-19 disease surfaced in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a global 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 regulations and recommendations 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. 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 address these matters.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of September 30, 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)	Nine months ended				
	Q3 2020	Q3 2019	30-Sep-20	30-Sep-19	2019
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
Revenue	\$ 21,629	\$ 10,391	\$ 44,900	\$ 38,673	\$ 54,334
Cost of sales	11,562	6,031	23,060	22,388	31,329
Gross profit	10,067	4,360	21,840	16,285	23,005
Research and development	1,453	1,241	3,959	3,696	4,889
Selling, general and administrative	4,355	4,326	12,543	13,457	17,821
Other expense (income)	-	-	-	(753)	(753)
Total operating expenses	5,808	5,567	16,502	16,400	21,957
Operating income	4,259	(1,207)	5,338	(115)	1,048
Foreign exchange (loss) gain	(560)	551	(671)	589	218
Finance income (costs)	(48)	55	(76)	159	188
Total financial income (expenses)	(608)	606	(747)	748	406
Income before tax	3,651	(601)	4,591	633	1,454
Income tax (expense) benefit	(1,211)	127	(1,536)	(181)	(2,082)
Income for the period	2,440	(474)	3,055	452	(628)
<i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i>					
Foreign currency translation adjustments	1,041	(909)	1,099	(1,003)	(444)
Total comprehensive income	\$ 3,481	\$ (1,383)	\$ 4,154	\$ (551)	\$ (1,072)
Income per share (in USD):					
Basic	\$ 0.10	\$ (0.02)	\$ 0.12	\$ 0.02	\$ (0.02)
Diluted	\$ 0.09	\$ (0.02)	\$ 0.12	\$ 0.02	\$ (0.02)

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

Consolidated Balance Sheet

Figures in USD (000's)	30 Sept 2020	31 Dec 2019
ASSETS	<i>Unaudited</i>	
<i>Non-current assets</i>		
Intangible assets	\$ 1,927	\$ 1,920
Property and equipment	6,130	6,115
Deferred income tax assets	4,454	5,521
Other assets	354	307
Total non-current assets	12,865	13,863
<i>Current assets</i>		
Inventory	2,206	1,657
Trade receivables and other	17,375	14,080
Cash and cash equivalents	26,830	24,505
Total current assets	46,411	40,242
Total assets	\$ 59,276	\$ 54,105
EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	\$ 433	\$ 423
Retained earnings	44,127	38,197
Translation and treasury share reserves	(3,011)	388
Total equity	41,549	39,008
<i>Non-current liabilities</i>		
Long-term debt	2,725	2,774
Total non-current liabilities	2,725	2,774
<i>Current liabilities</i>		
Short-term debt	1,346	1,518
Accrued liabilities	1,403	1,022
Accrued compensation & employee benefits	2,533	1,526
Trade payables	9,720	8,257
Total current liabilities	15,002	12,323
Total liabilities	17,727	15,097
Total equity and liabilities	\$ 59,276	\$ 54,105

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
Equity at January 1, 2020	\$ 423	\$ 392	\$ (4)	\$ 38,197	\$ 39,008
Total comprehensive income - nine months ended Sept 30, 2020					
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
Transactions with owners - nine months ended Sept 30, 2020					
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)
Equity at September 30, 2020	\$ 433	\$ 1,491	\$ (4,502)	\$ 44,127	\$ 41,549
Equity at January 1, 2019	\$ 422	\$ 836	\$ (4)	\$ 37,704	\$ 38,958
Total comprehensive income - nine months ended September 30, 2019					
Income for the period	-	-	-	452	452
Foreign currency translation adjustments	-	(1,003)	-	-	(1,003)
Total comprehensive income - nine months ended Sept 30, 2019	-	(1,003)	-	452	(551)
Transactions with owners - nine months ended Sept 30, 2019					
Shares issued	-	-	1	59	60
Share based payment expense	-	-	-	807	807
Transactions with owners - nine months ended Sept 30, 2019	-	-	1	866	867
Equity at September 30, 2019	\$ 422	\$ (167)	\$ (3)	\$ 39,022	\$ 39,274

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

Consolidated Cash Flow Statement

Figures in USD (000's)	Nine months ended		2019
	30 Sept 2020	30 Sept 2019	
	<i>Unaudited</i>	<i>Unaudited</i>	
Cash flows from operating activities			
Income for the period	\$ 3,055	\$ 452	\$ (628)
Depreciation and amortization	2,597	2,917	4,057
Finance income recognized	(50)	(282)	(359)
Finance costs recognized	126	124	171
Finance income, cash received	50	282	359
Finance costs, cash paid	(70)	(57)	(84)
Income tax expense	1,536	181	2,082
Cash receipt (payment) for income tax	-	(147)	(172)
Share based payments expense	736	807	1,056
Changes in trade receivables, inventories, other assets	(3,015)	7,915	2,234
Changes in trade payables and accrued liabilities	1,964	(2,043)	154
Net cash provided by (used in) operating activities	6,929	10,149	8,870
Cash flows from investing activities			
Additions to intangible assets	(1,008)	(1,013)	(1,441)
Purchase of property and equipment	(823)	(565)	(713)
Net cash used in investing activities	(1,831)	(1,578)	(2,154)
Cash flows from financing activities			
Funds drawn (paid) against line of credit	(313)	17	22
Repurchase of common shares	(4,500)	-	-
Proceeds from issuance of share capital	2,149	58	64
Principal payments on capitalized leases	(471)	(585)	(734)
Net cash provided by (used in) financing activities	(3,135)	(510)	(648)
Effect of exchange rate changes on cash and cash equivalents	362	(427)	(190)
Net changes in cash and cash equivalents	2,325	7,634	5,878
Cash and cash equivalents at beginning of period	24,505	18,627	18,627
Cash and cash equivalents at end of period	\$ 26,830	\$ 26,261	\$ 24,505
Supplemental disclosures -			
Property and equipment acquired under leases	\$ 593	\$ 259	\$ 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 September 30, 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

In April, the Company announced a share buy-back program to offset employee option grants. The program authorized the purchase of up to 1.0 million Asetek common shares on the open market for a maximum cost of \$4.5 million through September 30, 2020. Under this program, the Company repurchased a total of 657 thousand shares for a total cost of \$4.5 million.

On April 21, 2020, the Company granted a total of 320,300 equity options to employees. Each option has an exercise price of NOK38.33 per share and becomes exercisable gradually over a period of four years. Using the Black-Scholes pricing model, the estimated fair value of these options granted is approximately \$0.5 million. The fair value was calculated using the following assumptions: risk-free interest rate of 0.3% to 0.4%; expected volatility of approximately 60%; expected option life of 3.5 to 5.5 years; dividend yield of 0%.

At September 30, 2020, there were 26.4 million common shares outstanding including 0.8 million shares held in treasury. Treasury shares may be used to fulfill employee options exercised. At September 30, 2020, there were a total of 2.26 million warrants and options outstanding.

Funds received by the Company from employee exercises of warrants and options totaled \$2.1 million in the first nine months of 2020 (\$58,000 in the same period of 2019). Share based payment expense associated with total warrants and options outstanding was \$0.7 million and \$0.8 million in the nine months ended September 30, 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 nine months of 2020, the Company capitalized approximately \$1.0 million of development costs and recorded amortization of approximately \$1.0 million (capitalized costs of \$1.0 million and amortization of \$1.3 million in the first nine months 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.

Third Quarter

USD (000's)	Q3 2020	Q3 2019
Income attributable to equity holders of the Company (USD 000's)	\$ 2,440	\$ (474)
Weighted average number of common shares outstanding (000's)	25,457	25,601
Basic income per share	\$ 0.10	\$ (0.02)
Weighted average number of common shares outstanding (000's)	25,457	25,601
Instruments with dilutive effect:		
Warrants and options	1,166	-
Weighted average number of common shares outstanding, diluted	26,623	25,601
Diluted income per share	\$ 0.09	\$ (0.02)

First Nine Months

	Nine Months	
	YTD 2020	YTD 2019
Income attributable to equity holders of the Company (USD 000's)	\$ 3,055	\$ 452
Weighted average number of common shares outstanding (000's)	25,536	25,576
Basic income per share	\$ 0.12	\$ 0.02
Weighted average number of common shares outstanding	25,536	25,576
Instruments with dilutive effect:		
Warrants and options	955	459
Weighted average number of common shares outstanding, diluted	26,491	26,035
Diluted income per share	\$ 0.12	\$ 0.02

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 nine months of 2020, the Group purchased services totaling approximately \$472,000 (\$402,000 in first nine months of 2019) from this vendor. At September 30, 2020 and 2019, the Group had outstanding payables to this vendor of \$55,000 and \$20,000 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 September 30, 2020, the Company has deferred tax assets of \$4.45 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, based on the regions where Asetek delivers products to its customers:

USD (000's)	Q3 2020	Q3 2019	Nine Months	
			YTD 2020	YTD 2019
Asia	18,077	9,357	37,739	34,332
Americas	1,049	746	3,417	3,352
Europe	2,503	288	3,744	989
Total revenue	21,629	10,391	44,900	38,673

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 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, 22 October 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

Contact:

André S. Eriksen, CEO: +45 2125 7076

Peter Dam Madsen, CFO: +45 2080 7200

Company Information:

Asetek A/S
Assensvej 2
DK9220 Aalborg East
Denmark

Phone: +45 9645 0047
Fax: +45 9645 0048
Web site: www.asetek.com
Email: investor.relations@asetek.com