



**Asetek A/S**

**Interim Report**

Three Months Ended December 31, 2018

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Company Registration (CVR) Number 34880522

## Highlights

- Record full-year revenue of \$67.3 million in 2018, representing 16% growth from 2017
- 2018 Gaming and Enthusiast (former Desktop) revenue of \$63.0 million, up 18% from 2017
- 2018 full-year adjusted EBITDA increased 38% to \$9.4 million
- Q4 revenue was \$16.5 million (Q417: \$17.9 million) and adjusted EBITDA of \$2.6 million (\$2 million)
- Gaming and Enthusiast, the renamed Desktop segment, reflects a wider corporate rebranding in Q1 2019
- Group revenue is expected to grow in the range of 0% to 10% in 2019 when compared to 2018

## Key figures

Figures in USD (000's)	Q4 2018	Q4 2017	2018	2017
<b>Total Company:</b>	<i>Unaudited</i>	<i>Unaudited</i>		
Revenue	16,505	17,924	67,314	58,194
Gross profit	6,953	6,061	26,172	20,969
Gross margin	42.1%	33.8%	38.9%	36.0%
Operating profit	1,184	785	4,419	2,757
<b>Reconciliation from IFRS to EBITDA adjusted:</b>				
Operating profit	1,184	785	4,419	2,757
Add: Depreciation and amortization	1,070	699	3,690	2,430
Add: Share based compensation	336	481	1,276	1,597
EBITDA adjusted (unaudited)	2,590	1,965	9,385	6,784
<b>By Segment (Unaudited):</b>				
<b>Gaming and Enthusiast:</b>				
<i>Gaming and Enthusiast revenue</i>	15,430	16,412	63,030	53,227
<i>Gaming and Enthusiast gross margin</i>	43.2%	35.2%	39.5%	37.1%
<i>Gaming and Enthusiast EBITDA adjusted</i>	5,432	4,732	20,737	15,991
<b>Datacenter:</b>				
<i>Datacenter revenue</i>	1,075	1,512	4,284	4,967
<i>Datacenter gross margin</i>	27.0%	18.3%	29.6%	24.2%
<i>Datacenter EBITDA adjusted</i>	(1,604)	(2,264)	(7,338)	(7,273)
<b>Headquarters:</b>				
<i>Headquarters costs*</i>	(1,238)	(503)	(4,014)	(1,934)

\*Headquarters costs include intellectual property defense, HQ admin costs, litigation settlements; Excludes share based comp.

## Highlights

- |                              |   |
|------------------------------|---|
| Financial results            | <ul style="list-style-type: none"> <li>Asetek reported record revenue of \$67.3 million for the full year 2018, reflecting growth of 16% compared with 2017 (\$58.2 million) from increased Gaming and Enthusiast shipments. Fourth quarter revenue was \$16.5 million, compared with \$17.9 million which was a record level in 2017. The change from the fourth quarter of 2017 reflects lower Enthusiast/DIY revenue associated with a decrease in units shipped and fewer data center OEM shipments.</li> <li>Gross margin for the full year of 2018 grew to 38.9% compared with 36.0% in the full year 2017, reflecting higher average selling prices (ASPs) associated with a richer mix of Gaming and Enthusiast product shipments. Gross margin rose to 42.1% in the fourth quarter of 2018, from 33.8% in 2017, due to both a richer mix of product shipments and a stronger U.S. dollar.</li> <li>Full-year group operating income for 2018 was \$4.4 million and Adjusted EBITDA was \$9.4 million, both up from 2017 operating income of \$2.8 million and Adjusted EBITDA of \$6.8 million. Operating income totaled \$1.2 million and Adjusted EBITDA was \$2.6 million in the fourth quarter of 2018, compared with operating income of \$0.8 million and Adjusted EBITDA of \$2.0 million in the fourth quarter of 2017.</li> </ul> |
| Operations                   | <ul style="list-style-type: none"> <li>Asetek's latest generation of direct-to-chip (D2C) liquid cooling, incorporated in new Intel® Compute Modules, were installed by Ace Computers in a new HPC cluster for a U.S. Defense contractor. The initial deployment utilizes Asetek InRackCDU to capture and remove heat from the system nodes.</li> <li>The November 2018 edition of the TOP500 list of fastest computers in the world includes thirteen installations that are cooled by Asetek D2C liquid cooling technology. Three of the thirteen on the list are in the world's TOP20 fastest computers.</li> <li>Today, Asetek introduced a new brand strategy to strengthen its Gaming and Enthusiast market positioning and increase awareness of Asetek and its story of innovation and of delivering the best in performance, quality and reliability. The former Desktop reporting segment was renamed Gaming and Enthusiast.</li> </ul>   |
| Financial results by segment | <ul style="list-style-type: none"> <li>Gaming and Enthusiast revenue was \$63.0 million in full year 2018, an increase of 18% from 2017. Fourth quarter revenue was \$15.4 million, compared with \$16.4 million in the same period of 2017. Operating profit from the Gaming and Enthusiast segment was \$20.7 million for the year and \$5.4 million for the fourth quarter, both reflecting improvement over the respective periods of 2017, due to improved gross margins in 2018.</li> <li>Data center revenue was \$4.3 million for the full year 2018, compared with \$5.0 million in 2017. Revenue in the fourth quarter 2018 totaled \$1.1 million, compared with \$1.5 million in the same period of 2017. Operating loss from the data center segment was \$7.3 million for the year and \$1.6 million for the fourth quarter of 2018. This compares with losses of \$7.3 million and \$2.3 million in 2017, respectively. Continued variability of data center operating results is expected while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.</li> </ul>   |
| Outlook                      | <ul style="list-style-type: none"> <li>Asetek expects Group revenue growth of 0% to 10% for 2019 compared to 2018. The group revenue expectation reflects macro-economic uncertainties that temper the Gaming and Enthusiast growth outlook compared to recent prior years and a protracted data center market adoption of liquid cooling solutions. The Company has decided to discontinue segment revenue guidance until the data center business more clearly develops into a meaningful business.</li> </ul>  |

## Financial review

*The figures below relate to the consolidated accounts for the fourth quarter and full year of 2018, which comprise activities within the two segments Gaming and Enthusiast (previously named Desktop segment), and Data Center. The figures are unaudited.*

### Income Statement (Consolidated)

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Asetek reported total revenue for the full year 2018 of \$67.3 million, an increase of 15.7% over 2017 (\$58.2 million). The increase in full-year revenue reflected principally growth in shipments of Enthusiast/DIY products. Total revenue was \$16.5 million in the fourth quarter of 2018, a decrease from the fourth quarter record level in 2017 (\$17.9 million) due to reduced unit shipments in the Enthusiast/DIY market and fewer data center OEM shipments.

Gaming and Enthusiast sales unit volumes increased 10% in the full year of 2018 compared with 2017. The growth in unit shipments was a function of strong demand in the Enthusiast/DIY market. Unit shipments for the fourth quarter of 2018 were 276,000, a 9% decrease from the same period of 2017 (304,000), reflecting a softer Enthusiast/DIY market in the fourth quarter of 2018. ASP per unit in the fourth quarter and full year of 2018 increased from the prior year and reflected the Company proactively raising sales prices and a change in the mix of products sold.

Gross margin for the full year 2018 was 38.9% compared with 36.0% in 2017. Gross margin was 42.1% for the fourth quarter of 2018, an increase from 33.8% in the same period of 2017. The increased gross margin reflects higher average selling prices on Gaming and Enthusiast products for both periods, as well as a stronger U.S. dollar in fourth quarter 2018. The change in gross margin for the year was partly offset by the weakening of the U.S. dollar relative to 2017 in the first half of the year and higher manufacturing costs.

Total operating expense increased in the fourth quarter and full year when compared with the same periods of 2017. The increases in 2018 were due to several factors. Compared with the full year of 2017, the U.S. dollar weakened by 3.5% against the Danish krone (DKK). Approximately 71% of the Company's operating expense in 2018 was denominated in

DKK. Depreciation and amortization expense in 2018 increased by \$1.3 million compared with 2017. The full year of 2017 operating expense included an offset of \$1.0 million for settlements awarded to Asetek in patent infringement lawsuits. Legal costs incurred associated with defense of existing intellectual property (IP) and securing new IP was \$0.8 million and \$2.1 million in the fourth quarter and full year of 2018 (\$0.2 million and \$1.8 million in the same periods of 2017), respectively. In recent periods, the Company has added personnel resulting in higher compensation costs for the full year of 2018, when compared with 2017.

Share based compensation costs associated with warrants and options issued to employees was \$0.3 million and \$1.3 million in the fourth quarter and full year of 2018 (\$0.5 million and \$1.6 million in the same periods of 2017), respectively.

Finance expenses included net foreign exchange loss of \$2,000 in the fourth quarter and net gain of \$0.3 million in the full year 2018 (net losses of \$0.2 million and \$1.2 million in the respective periods of 2017). Currency translation adjustments of positive \$0.2 million and negative \$0.2 million are included in equity for the fourth quarter and full year 2018, respectively.

Asetek reported income before tax of \$1.2 million and \$4.9 million in the fourth quarter and full year of 2018, compared with income before tax of \$0.6 million and \$1.5 million for the respective periods of 2017.

Income tax expense was \$0.4 million and \$1.2 million in the fourth quarter and full year 2018, compared with \$3.0 million income tax benefit in both the fourth quarter and full year 2017. The increase in income tax expense for both periods was due to the growth in income before tax in 2018 and utilization of the deferred tax asset generated in 2017.

## Balance Sheet (Consolidated)

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Asetek's total assets at December 31, 2018 amounted to \$51.4 million, a \$2.2 million increase from December 31, 2017. The change resulted principally from revenue growth which drove operating income and growth of current assets.

Total liabilities decreased by \$3.3 million in 2018, principally due to a reduction in trade payables associated with the timing of inventory receipts and

vendor payments. Working capital (current assets minus current liabilities) increased by \$6.3 million during the full year to \$25.3 million at December 31, 2018. Total cash and cash equivalents was \$18.6 million at December 31, 2018.

## Cash Flow (Consolidated)

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Net cash provided by operating activities was \$3.8 million in 2018, compared with \$6.1 million provided by operating activities in 2017. The change from 2017 was principally due to the increase in receivables and payment of current liabilities with operating cash flow.

Cash used by investing activities was \$3.7 million in 2018, mainly related to additions in manufacturing equipment and software, and capitalized development. This figure compares to \$4.3 million used in 2017.

Cash provided by financing activities was \$0.5 million in 2018, principally from the issuance of shares upon exercise of warrants, partly offset by payments on finance leases. This figure compared with \$2.1 million used in 2017, which included a dividend payment of NOK1.00 per share.

Net change in cash and cash equivalents was an increase of \$0.2 million in 2018, compared with an increase of \$0.8 million in 2017.

## Segment breakdown

The company is reporting on two distinct segments; the **Gaming and Enthusiast** segment (previously named Desktop segment) and the **Data Center** segment.

The two segments are identified by their specific sets of products and specific sets of customers. The splitting of operating expenses between segments is based on the company's best judgment and done by using the company's employee/project time tracking system and project codes from the accounting system. Operating expenses that are not divisible by nature (rent, telecommunication expenses, etc.) have been split according to actual time spent on the two businesses, and the company's best estimate for attribution. Costs incurred for intellectual property defense, financing, foreign exchange and headquarters administration have been classified separately as headquarters costs and excluded from segment operating expenses as indicated.

### Unaudited breakdown of the income statement

#### Operations - Fourth Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	Q4 2018	Q4 2017	Q4 2018	Q4 2017
Revenues	15,430	16,412	1,075	1,512
Cost of sales	8,767	10,627	785	1,236
Gross Profit	6,663	5,785	290	276
Gross Margin	43.2%	35.2%	27.0%	18.3%
Total operating expenses	1,231	1,053	1,894	2,540
EBITDA adjusted	5,432	4,732	(1,604)	(2,264)
EBITDA margin	35.2%	28.8%	N/A	N/A

#### Operations - Full Year

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	2018	2017	2018	2017
Revenues	63,030	53,227	4,284	4,967
Cost of sales	38,128	33,459	3,014	3,766
Gross Profit	24,902	19,768	1,270	1,201
Gross Margin	39.5%	37.1%	29.6%	24.2%
Total operating expenses	4,165	3,777	8,608	8,474
EBITDA, adjusted	20,737	15,991	(7,338)	(7,273)
EBITDA margin	32.9%	30.0%	N/A	N/A

#### Headquarters Costs

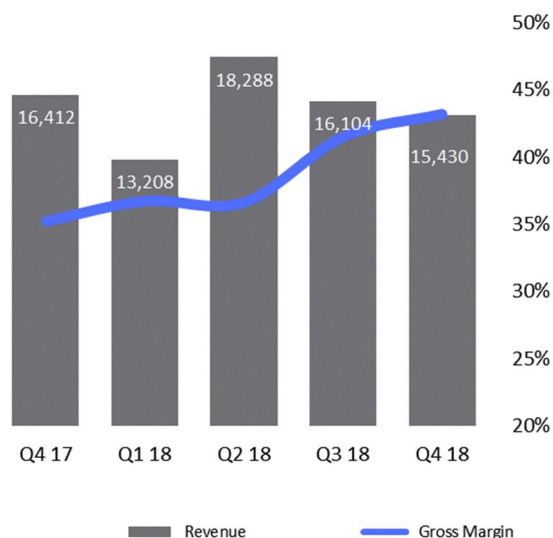
Figures in USD (000's)	Q4 2018	Q4 2017	2018	2017
Litigation costs	787	236	2,052	1,833
Litigation settlements	-	84	-	(913)
Other headquarters costs	451	183	1,962	1,014
Total headquarters costs	1,238	503	4,014	1,934

See reconciliation to statement of comprehensive income in Key Figures on page 1.

## Gaming and Enthusiast financials

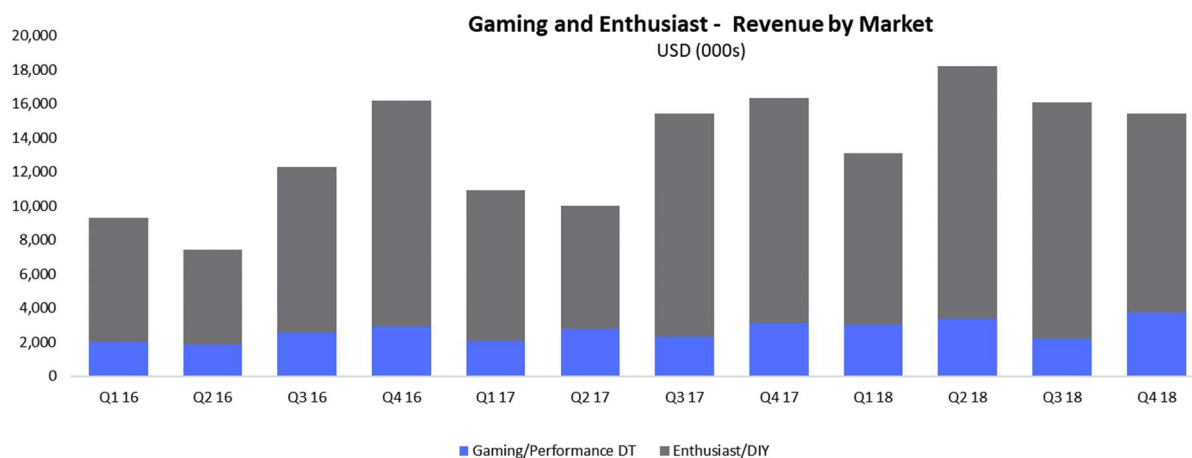
### Gaming and Enthusiast revenue and margin development

USD (000's)



Asetek's Gaming and Enthusiast revenue was \$15.4 million in the fourth quarter of 2018, compared with \$16.4 million in the same period of 2017. Full-year Gaming and Enthusiast revenue increased 18% in 2018 and reflected significant demand in the Enthusiast/DIY market, despite a relatively softer market in Q4 2018 as expected. In the fourth quarter of 2018, revenue from the Enthusiast/DIY and Gaming/Performance Desktop PC markets comprised 76% and 24% of total Gaming and Enthusiast revenue, respectively.

In recent quarters, Asetek has proactively raised sales prices to compensate for manufacturing cost pressure, and the U.S. dollar has strengthened. As a result, Gaming and Enthusiast gross margin increased in the fourth quarter of 2018.



### Gaming and Enthusiast market update

During the fourth quarter, eight new Gaming and Enthusiast products began shipping, four in the Enthusiast/DIY market and four in the Gaming/Performance Desktop PC market.

In the first quarter of 2019, Asetek executed a rebranding as part of its strategy to strengthen its Gaming and Enthusiast market positioning. Building on its market leadership in liquid cooling, the Company targets gamers and enthusiasts, engaging the community and implementing marketing initiatives to increase awareness of Asetek and its

story of innovation and of delivering the best in performance, quality and reliability.

The growing popularity of PC gaming and eSports has fueled revenue growth in recent years. To meet the demands of competitive gamers, the powerful machines in use today require advanced cooling for both CPUs and graphics processing units (GPUs). Asetek's Gaming and Enthusiast liquid cooling products are well positioned to fulfill the needs of both technologies, as evidenced by the recent launch of the Alienware Area-51 R5 SKU, that

includes liquid cooling for the two GPUs as well as the CPU.

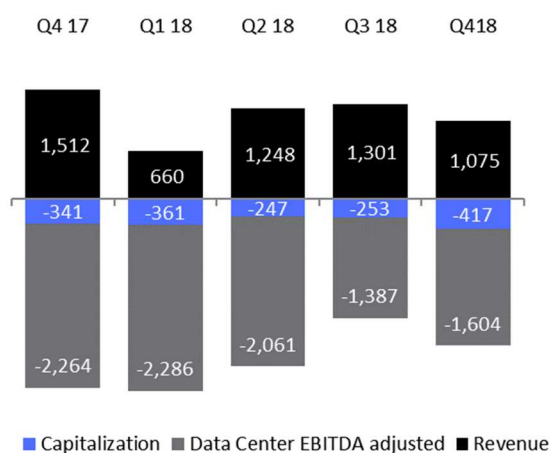
The worldwide high-end gaming population is expected to exceed 29 million users by 2020<sup>1</sup>, representing annual growth of more than 5%. A

growing market and potential for increased market penetration for liquid cooling support Asetek's expectations of continued growth from its Gaming and Enthusiast segment in the future.

## Data center financials

### Financial development

USD (000's)



Asetek's data center revenue was \$1.1 million in the fourth quarter of 2018, compared with \$1.5 million in the same period of 2017. The decline in the fourth quarter reflects fewer shipments to OEMs. Revenue variability is expected to continue while the Company secures new OEM partners and growth of end-user adoption through existing OEM partners.

Data center gross margin improved in the fourth quarter and full year of 2018 compared with the respective periods of 2017 due to previously high component costs that reduced the margin in 2017. Gross margin has also fluctuated in part due to variability in the mix of deliverables on government contracts relative to the volume of product shipments to OEMs.

## Data center market update

Asetek's liquid cooling technology offers a strong value proposition to high-performance computing (HPC) data centers with increased performance, higher density and lower cooling costs. Asetek's strategy in this market is to increase end-user adoption with existing OEM customers, and to add new OEM customers. The Company plans to achieve this by continuing to develop and defend its market-leading technology and leverage the successful performance achieved at its installed base of universities and government entities.

During the fourth quarter, Asetek's latest generation of direct-to-chip (D2C) liquid cooling, incorporated in new Intel® Compute Modules, were installed by Ace Computers in a new HPC cluster for

a U.S. Defense contractor. The initial deployment utilizes Asetek InRackCDU to capture and remove heat from the system nodes.

Asetek's contract with the U.S. Department of Defense (DoD) was substantially completed in the fourth quarter, with final installation activities at an unnamed data center.

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 2018 Top500 and Green500, including three systems in the Top20.

<sup>1</sup> Source: John Peddie Research



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. Recent projects have included the fastest supercomputer in Japan and No. 7 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, which is No.

14 in the Top500 and one of the most powerful supercomputers in Japan.

Penguin Computing incorporates RackCDU D2C™ liquid cooling into its Tundra™ Extreme Scale (ES) HPC and Relion 2900 servers. Penguin's end customers include the U.S. National Nuclear Security Administration's CTS-1 systems deployment at three national laboratories. Ten of these CTS-1 systems incorporate Asetek's liquid cooling, and four of them are in the Top500.

## Group and segment outlook

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Asetek expects group revenue growth of 0% to 10% for 2019 compared with 2018. The revenue expectation reflects macro-economic uncertainties that temper the Gaming and Enthusiast growth outlook and a protracted data center market adoption of liquid cooling solutions.

**Gaming and Enthusiast.** The current visibility into the overall PC industry outlook is reduced by uncertainties related to trade relations between U.S. and China, the impact from the Brexit process, and the economic development across other markets. Factoring in macroeconomic, market segment and Asetek-specific factors, the Company expects Gaming and Enthusiast revenue growth in 2019 to be tempered compared with recent years' strong growth. The resource consumption, as expressed in overhead expenses, is expected to increase in 2019 compared to 2018.

Due to the above-mentioned factors, first-quarter 2019 Enthusiast/DIY and Gaming/Performance Desktop PC revenue is expected to decline from the respective levels achieved in the first quarter of 2018. Revenue variability by quarter is expected to continue.

The Company expects Gaming and Enthusiast gross margin in the first quarter of 2019 to approximate the gross margin in the fourth quarter of 2018.

**Data center.** Through partnerships with data center OEMs, Asetek anticipates continued growth of end-user adoption with deliveries to new HPC installations and shipments of less complex products.

However, Data center market adoption of liquid cooling solutions takes time and is lagging Company expectations despite its strong value proposition. The Company has decided to discontinue segment revenue guidance until the data center business more clearly develops into a meaningful business. Data center investments will also be scaled down pending such a change.

There is an apparent need for public standards to trigger wider data center adoption of liquid cooling. The Company will participate in targeted campaigns to influence politicians and support wider understanding of the significant circular economy benefits enabled by liquid cooling.

Segment revenue and operating results are expected to fluctuate as partnerships with OEMs are developed.

## 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 April 2016, Asetek initiated patent infringement proceedings against Cooler Master and Coolergiant before the District Court The Hague, pertaining to commerce in The Netherlands. In the case against Cooler Master, by decision on September 20, 2017, the Court dismissed Asetek's claim. Asetek appealed the decision, and a court hearing is scheduled for March 18, 2019. The case against

Coolergiant has been stayed, pending final judgment in the Cooler Master case.

On September 30, 2014, Asia Vital Components Co., Ltd. filed suit against Asetek Danmark A/S in the Eastern District of Virginia, requesting a declaratory judgment of non-infringement and invalidity of Asetek's U.S. Patents 8,240,362 and 8,245,764. Asetek disputes these allegations. In December 2016 the court granted Asetek's motion to transfer the case to the Northern District of California. A jury trial is scheduled to begin in May 2019.

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 has appealed the decision. The appeal is pending, and the next hearing date has not yet been set.

## Corporate Matters

On October 23, 2018, the Company announced that its chairman, Mr. Samuel Szeinbaum, had notified the board of directors of his decision to retire and leave the board to pursue other endeavors. The decision was effective immediately, and the vice chairman, Mr. Chris Christopher assumed the role of

chairman until the next ordinary general meeting in April 2019.

On January 14, 2019, an Extraordinary General Meeting elected Ms. Maria Hjorth to the Board of Directors.

## Risk Factors

The Company has historically incurred operating losses and is in the development stages of its data center business.

The Company's revenue growth is dependent on the market acceptance of its data center offerings and the release of new products from server OEM customers to facilitate its trial system deployments. Revenue in the Gaming and Enthusiast segment is subject to fluctuations and is dependent, in part, on the popularity and new releases of end user products by Asetek's customers.

In the full year of 2018, two customers in the Enthusiast/DIY segment accounted for 39% and 21% of total revenue. In the event of a decline or loss of these significant customers, replacement of the revenue streams would be difficult for Asetek to achieve in the short term. In order to mitigate such a decline, the Company would work with its other DIY customers to grow their respective market shares and order volumes.

The U.S. is imposing new tariffs on imports of goods manufactured in China, which include Asetek products. The impact from these tariffs is unclear, as the industry is proceeding in efforts to mitigate their effects. The Company is currently working to minimize the impact of the new tariffs 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 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 recent 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 operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. As of December 31, 2018, 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 2018, available from the Company's website: [www.asetek.com](http://www.asetek.com)

## Condensed Interim Financial Statements

### Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q4 2018		Q4 2017		2018		2017
	<i>Unaudited</i>		<i>Unaudited</i>				
Revenue	\$	16,505	\$	17,924	\$	67,314	\$ 58,194
Cost of sales		9,552		11,863		41,142	37,225
<b>Gross profit</b>		6,953		6,061		26,172	20,969
Research and development		980		1,231		4,764	4,220
Selling, general and administrative		4,789		3,961		16,989	14,905
Other expense (income)		-		84		-	(913)
<b>Total operating expenses</b>		5,769		5,276		21,753	18,212
<b>Operating income</b>		1,184		785		4,419	2,757
Foreign exchange (loss) gain		(2)		(248)		342	(1,239)
Finance income (costs)		46		15		109	(19)
<b>Total financial income (expenses)</b>		44		(233)		451	(1,258)
<b>Income before tax</b>		1,228		552		4,870	1,499
Income tax (expense) benefit		(361)		3,021		(1,198)	2,976
<b>Income for the period</b>		867		3,573		3,672	4,475
<i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i>							
Foreign currency translation adjustments		184		36		(169)	1,253
<b>Total comprehensive income</b>	\$	1,051	\$	3,609	\$	3,503	\$ 5,728
<b>Income per share (in USD):</b>							
Basic	\$	0.03	\$	0.14	\$	0.14	\$ 0.18
Diluted	\$	0.03	\$	0.13	\$	0.14	\$ 0.17

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

## Consolidated Balance Sheet

Figures in USD (000's)	31 Dec 2018	31 Dec 2017
<b>ASSETS</b>		
<i>Non-current assets</i>		
Intangible assets	\$ 2,414	\$ 2,754
Property and equipment	4,103	3,856
Deferred income tax assets	7,458	7,778
Other assets	309	794
<b>Total non-current assets</b>	<b>14,284</b>	<b>15,182</b>
<i>Current assets</i>		
Inventory	2,862	2,316
Trade receivables and other	15,625	13,280
Cash and cash equivalents	18,627	18,398
<b>Total current assets</b>	<b>37,114</b>	<b>33,994</b>
<b>Total assets</b>	<b>\$ 51,398</b>	<b>\$ 49,176</b>
<b>EQUITY AND LIABILITIES</b>		
<i>Equity</i>		
Share capital	\$ 422	\$ 419
Retained earnings	37,704	31,976
Translation and other reserves	832	999
<b>Total equity</b>	<b>38,958</b>	<b>33,394</b>
<i>Non-current liabilities</i>		
Long-term debt	641	816
<b>Total non-current liabilities</b>	<b>641</b>	<b>816</b>
<i>Current liabilities</i>		
Short-term debt	980	1,051
Accrued liabilities	2,185	2,432
Accrued compensation & employee benefits	1,512	1,335
Trade payables	7,122	10,148
<b>Total current liabilities</b>	<b>11,799</b>	<b>14,966</b>
<b>Total liabilities</b>	<b>12,440</b>	<b>15,782</b>
<b>Total equity and liabilities</b>	<b>\$ 51,398</b>	<b>\$ 49,176</b>

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
<b>Equity at January 1, 2018</b>	\$ 419	\$ 1,005	\$ (6)	\$ 31,976	\$ 33,394
<b>Total comprehensive income - year ended December 31, 2018</b>					
Income for the period	-	-	-	3,672	3,672
Foreign currency translation adjustments	-	(169)	-	-	(169)
Total comprehensive income - year ended December 31, 2018	-	(169)	-	3,672	3,503
<b>Transactions with owners - year ended December 31, 2018</b>					
Shares issued	3	-	2	780	785
Share based payment expense	-	-	-	1,276	1,276
Transactions with owners - year ended December 31, 2018	3	-	2	2,056	2,061
<b>Equity at December 31, 2018</b>	\$ 422	\$ 836	\$ (4)	\$ 37,704	\$ 38,958
<b>Equity at January 1, 2017</b>	\$ 417	\$ (248)	\$ (9)	\$ 28,130	\$ 28,290
<b>Total comprehensive income - year ended December 31, 2017</b>					
Income for the period	-	-	-	4,475	4,475
Foreign currency translation adjustments	-	1,253	-	-	1,253
Total comprehensive income - year ended December 31, 2017	-	1,253	-	4,475	5,728
<b>Transactions with owners - year ended December 31, 2017</b>					
Shares issued	2	-	3	684	689
Share based payment expense	-	-	-	1,597	1,597
Dividends	-	-	-	(2,910)	(2,910)
Transactions with owners - year ended December 31, 2017	2	-	3	(629)	(624)
<b>Equity at December 31, 2017</b>	\$ 419	\$ 1,005	\$ (6)	\$ 31,976	\$ 33,394

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

## Consolidated Cash Flow Statement

Figures in USD (000's)	2018	2017
<b>Cash flows from operating activities</b>		
Income for the period	\$ 3,672	\$ 4,475
Depreciation and amortization	3,690	2,430
Finance income	(205)	(84)
Finance costs	96	103
Income tax expense (benefit)	1,198	(2,976)
Impairment of intangible assets	-	5
Cash receipt (payment) for income tax	(118)	(43)
Share based payments expense	1,276	1,597
Changes in trade receivables, inventories, other assets	(3,502)	693
Changes in trade payables and accrued liabilities	(2,264)	(112)
<b>Net cash provided by (used in) operating activities</b>	<b>3,843</b>	<b>6,088</b>
<b>Cash flows from investing activities</b>		
Additions to intangible assets	(1,745)	(2,426)
Purchase of property and equipment	(1,914)	(1,872)
<b>Net cash used in investing activities</b>	<b>(3,659)</b>	<b>(4,298)</b>
<b>Cash flows from financing activities</b>		
Funds drawn (paid) against line of credit	(6)	295
Proceeds from issuance of share capital	782	686
Payment of dividends	-	(2,910)
Principal payments on finance leases	(321)	(162)
<b>Net cash provided by (used in) financing activities</b>	<b>455</b>	<b>(2,091)</b>
Effect of exchange rate changes on cash and cash equivalents	(410)	1,089
<b>Net changes in cash and cash equivalents</b>	<b>229</b>	<b>788</b>
Cash and cash equivalents at beginning of period	18,398	17,610
<b>Cash and cash equivalents at end of period</b>	<b>\$ 18,627</b>	<b>\$ 18,398</b>
<b>Supplemental disclosures -</b>		
Property and equipment acquired under finance leases	\$ 134	\$ 868

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 December 31, 2018 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 2018 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, 2018.

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 December 31, 2018, there were 25.5 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 2.2 million. Share based payment expense associated with total warrants and options outstanding was \$1.3 million and \$1.6 million in the year ended December 31, 2018 and 2017, 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 2018, the Company capitalized approximately \$1.7 million of development costs and recorded amortization of approximately \$2.1 million (capitalized costs of \$2.4 million and amortization of \$1.5 million in 2017).



#### 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.

<b>Fourth Quarter</b>		
	<b>Q4 2018</b>	<b>Q4 2017</b>
Income attributable to equity holders of the Company (USD 000's)	\$ 867	\$ 3,573
Weighted average number of common shares outstanding (000's)	25,540	25,228
Basic income per share	\$ 0.03	\$ 0.14
Weighted average number of common shares outstanding (000's)	25,540	25,228
Instruments with potentially dilutive effect:		
Warrants and options	617	1,360
Weighted average number of common shares outstanding, diluted	26,157	26,588
Diluted income per share	\$ 0.03	\$ 0.13
<b>Full Year</b>		
	<b>2018</b>	<b>2017</b>
Income attributable to equity holders of the Company (USD 000's)	\$ 3,672	\$ 4,475
Weighted average number of common shares outstanding (000's)	25,447	25,129
Basic income per share	\$ 0.14	\$ 0.18
Weighted average number of common shares outstanding	25,447	25,129
Instruments with potentially dilutive effect:		
Warrants and options	940	1,372
Weighted average number of common shares outstanding, diluted	26,387	26,501
Diluted income per share	\$ 0.14	\$ 0.17

#### 5. Transactions with related parties

The Company's former chairman (retired October 2018) was a member of the board of directors of a reseller of Company products during his tenure on the Asetek board. In the ten-month period of 2018 during which he was associated with Asetek, the Company had sales to this reseller of \$23.2 million, which represented 43% of Asetek's total revenues during the period (\$22.7 million representing 39% of total revenues in the full year 2017).

The Company's CEO serves as Chairman of the Board for a vendor that supplies information technology services to the Company. In 2018, the Company purchased services totaling approximately \$0.5 million (\$0.4 million in 2017) from this vendor. At December 31, 2018 and 2017, the Company had outstanding payables to this vendor of \$36,000 and \$24,000, respectively.

## 6. New accounting standards

In June 2017, the International Accounting Standards Board (IASB) issued IFRS interpretation IFRIC 23 — Uncertainty over Income Tax Treatments. This standard clarifies how to apply the recognition and measurement requirements of International Accounting Standard 12, *Income Taxes*, when there is uncertainty in income tax treatments. According to IFRIC 23, an entity must determine the probability of the relevant tax authority accepting each tax treatment used in their income tax filing, including considering the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The effective date for adoption of IFRIC 23 is annual periods beginning on or after January 1, 2019, though early adoption is permitted. The Company does not expect that IFRIC 23 will have a material impact on the consolidated financial statements.

## 7. 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 December 31, 2018, the Company has deferred tax assets of \$7.5 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 2018 Annual Report regarding critical accounting estimates and assumptions.

## 8. IFRS accounting compared with U.S. GAAP

Since 2011, the Company's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Previously, the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (GAAP). The following represent the principal effects to Asetek's financial statements as a result of this change:

*Intangible assets.* Capitalization of costs associated with product development is required under IFRS but is not required under GAAP. Intangible assets of \$2.4 million on the Company's balance sheet at December 31, 2018 represent the capitalization of product development costs, net of amortization. The associated amortization over the products' lifecycle is charged as an operating expense.

*Share based compensation.* IFRS requires that each installment of a share based payment award be treated as a separate grant and separately measured and attributed to expense over the vesting period. As a result, calculation of share based payment expense under IFRS generally results in recognition of a greater amount of expense earlier in the life of the option grant than the comparable calculation under GAAP.

## 9. Segment reporting

The Company disaggregates revenue based on business segments and the markets within each business segment, as follows:

### Revenue Disaggregation:

<u>Figures in USD (000's)</u>	<u>Q4 2018</u>	<u>Q4 2017</u>	<u>2018</u>	<u>2017</u>
Gaming and Enthusiast segment:				
Enthusiast/DIY	11,667	13,107	50,438	42,467
Gaming/Performance PCs	3,763	2,507	12,592	10,760
Data center segment:				
OEM	777	1,775	3,866	3,682
Government	298	263	418	1,285
Total revenue	16,505	17,652	67,314	58,194

**Unaudited breakdown of the income statement**
**Operations - Fourth Quarter**

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	<u>Q4 2018</u>	<u>Q4 2017</u>	<u>Q4 2018</u>	<u>Q4 2017</u>
Revenues	15,430	16,412	1,075	1,512
Cost of sales	8,767	10,627	785	1,236
Gross Profit	6,663	5,785	290	276
Gross Margin	43.2%	35.2%	27.0%	18.3%
Total operating expenses	1,231	1,053	1,894	2,540
EBITDA adjusted	5,432	4,732	(1,604)	(2,264)
EBITDA margin	35.2%	28.8%	N/A	N/A

**Operations - Full Year**

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues	63,030	53,227	4,284	4,967
Cost of sales	38,128	33,459	3,014	3,766
Gross Profit	24,902	19,768	1,270	1,201
Gross Margin	39.5%	37.1%	29.6%	24.2%
Total operating expenses	4,165	3,777	8,608	8,474
EBITDA, adjusted	20,737	15,991	(7,338)	(7,273)
EBITDA margin	32.9%	30.0%	N/A	N/A

**Headquarters Costs**

Figures in USD (000's)	<u>Q4 2018</u>	<u>Q4 2017</u>	<u>2018</u>	<u>2017</u>
Litigation costs	787	236	2,052	1,833
Litigation settlements	-	84	-	(913)
Other headquarters costs	451	183	1,962	1,014
Total headquarters costs	1,238	503	4,014	1,934

See reconciliation to statement of comprehensive income in Key Figures on page 1.

**Reconciliation to Operating Income**

Figures in USD (000's)	<u>Q4 2018</u>	<u>Q4 2017</u>	<u>2018</u>	<u>2017</u>
EBITDA, adjusted - Gaming and Enthusiast	5,432	4,732	20,737	15,991
EBITDA, adjusted - Data center	(1,604)	(2,264)	(7,338)	(7,273)
Headquarters costs	(1,238)	(503)	(4,014)	(1,934)
Share based compensation	(336)	(481)	(1,276)	(1,597)
Depreciation and amortization	(1,070)	(699)	(3,690)	(2,430)
Operating income	1,184	785	4,419	2,757

## 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 December 2018. 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 2018.

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, 4 March 2019**

### **Management:**

André S. Eriksen  
CEO

Peter Dam Madsen  
CFO

### **Board of Directors:**

Chris J. Christopher  
Chairman

Jørgen Smidt  
Member

Maria Hjorth  
Member

Jim McDonnell  
Member

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