Asetek A/S
Assensvej 2
DK9220 Aalborg East
Denmark

Interim Report

Fourth Quarter and Year Ended December 31, 2019

Published February 26, 2020

Company Registration (CVR) Number 34 88 05 22

Highlights

- **Q4 revenue of $15.7 million compared with $16.5 million in Q4 2018**
- **Gross margin of 43% in Q4 compared with 42% in Q4 2018**
- **Q4 EBITDA adjusted of $2.6 million, level with Q4 2018**
- **Fiscal 2019 revenue of $54.3 million and EBITDA adjusted of $6.2 million compared with $67.3 million and $9.4 million, respectively in 2018**
- **Cash increased $5.9 million in 2019 to $24.5 million at year-end**
- **Asetek to supply data center liquid cooling solution to a global Server OEM's HPC product platform**

Key figures

Figures in USD (000's)	Q4 2019	Q4 2018	2019	2018
Total Company:	*Unaudited*	*Unaudited*		
Revenue	15,661	16,505	54,334	67,314
Gross profit	6,720	6,953	23,005	26,172
Gross margin	*42.9%*	*42.1%*	*42.3%*	*38.9%*
Operating income	1,163	1,184	1,048	4,419
Reconciliation from IFRS to EBITDA adjusted:				
Operating income	1,163	1,184	1,048	4,419
Add: Depreciation and amortization*	1,140	1,070	4,057	3,690
Add: Share based compensation	249	336	1,056	1,276
EBITDA adjusted (unaudited)	2,552	2,590	6,161	9,385
By Segment (Unaudited):				
Gaming and Enthusiast:				
Gaming and Enthusiast revenue	*15,199*	*15,430*	*51,791*	*63,030*
Gaming and Enthusiast gross margin	*42.8%*	*43.2%*	*42.6%*	*39.5%*
Gaming and Enthusiast EBITDA adjusted	*4,528*	*5,432*	*14,606*	*20,737*
Datacenter:				
Datacenter revenue	*462*	*1,075*	*2,543*	*4,284*
Datacenter gross margin	*46.1%*	*27.0%*	*37.9%*	*29.6%*
Datacenter EBITDA adjusted	*(745)*	*(1,604)*	*(4,284)*	*(7,338)*
Headquarters:				
*Headquarters costs***	*(1,231)*	*(1,238)*	*(4,161)*	*(4,014)*

**Depreciation includes $145,000 and $569,000 in Q4 2019 and full year 2019, respectively, related to a lease accounting change. Refer to Note 2 - Change in Accounting Policy*

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

Highlights

Financial results

- Asetek reported fourth quarter revenue of $15.7 million compared with $16.5 million in the fourth quarter of 2018. Revenue for the full year 2019 amounted to $54.3 million, in line with previously communicated expectations, compared with $67.3 million in 2018. The fourth quarter change from the prior year reflects principally fewer shipments in the Data center market. The full year fluctuation reflects the uncertainties relating to U.S.-China trade relations, macroeconomic headwinds across other markets and one OEM customer's significant reduction in purchases affecting the Gaming and Enthusiast segment.
- Gross margin was 43% and 42% in the fourth quarter and full year, respectively, up from 42% and 39% in respective periods of 2018. The increase reflects higher ASPs on Gaming and Enthusiast products and a stronger U.S. dollar.
- Operating income was $1.2 million and adjusted EBITDA was $2.6 million in the fourth quarter of 2019, both level with respective periods of 2018.
- Full-year operating income was $1.0 million and adjusted EBITDA was $6.2 million, compared with operating income of $4.4 million and adjusted EBITDA of $9.4 million in 2018. Cash and cash equivalents increased by $5.8 million during 2019 compared with $0.2 million in the prior year. Operating expenses for 2019 included a positive effect of $0.8 million related to a favorable patent litigation settlement. Adjusted EBITDA in the fourth quarter and full year 2019 was favorably impacted by an accounting change to IFRS 16 Leases (see Note 2 to the Financial Statements).

Operations

- In December, the Company began shipping its most advanced liquid cooling technology to date for gaming PC's and enthusiasts, the NZXT Kraken Z-3 series and X-3 series CPU coolers. Asetek's latest innovations include a new performance-engineered pump and cold plate, advanced temperature sensing, and quieter operation.
- With the recent launch of its Ryzen 9 3950X processor, AMD recommended that enthusiasts utilize Asetek's powerful all-in-one coolers offered by partners such as ASUS ROG, NZXT and Thermaltake, for maximum performance and the best experience.
- In January 2020, the Company 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 segment.

Financial results by segment

- Gaming and Enthusiast revenue was $15.2 million in the fourth quarter, compared with $15.4 million in the same period of 2018. Full-year revenue was $51.8 million, compared with $63.0 million in 2018. Adjusted EBITDA was $4.5 million for the quarter and $14.6 million for the full year, compared with $5.4 million and $20.7 million in 2018, respectively, reflecting increased investment in the Gaming and Enthusiast segment in 2019, consistent with plans communicated at Asetek's capital markets update in March 2019.
- Data center revenue was $0.5 million in the fourth quarter, compared with $1.1 million in the fourth quarter of 2018. Full-year revenue was $2.5 million, compared with $4.3 million in 2018. Adjusted EBITDA was negative $0.7 million in the fourth quarter and negative $4.3 million for the full year 2019, an improvement for both periods compared to 2018 and reflects the Company's planned reduction of segment operating expenses in 2019.

Outlook

- Asetek has recently evolved its business model for customers who want to customize their liquid coolers. This new model will over time reduce ASPs as Asetek delivers only the principal core technology with improved margins, while the customer adds their unique features with ancillary components. Reflecting the business model change, the effects of macro-economic headwinds and declining sales to one OEM customer, Asetek expects a decline in Group revenue of 5% to 10% in 2020 compared with 2019. Gross margin is expected to increase from 2019 and the Company expects a positive income before tax. Due to uncertainties regarding the effects of the coronavirus, its potential impact to Asetek's operating results is not included in the current financial outlook.

Financial review

The figures below relate to the consolidated accounts for the fourth quarter and full year 2019, which comprise activities within the two segments Gaming and Enthusiast (previously named Desktop segment), and Data Center. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of $15.7 million in the fourth quarter of 2019, a decrease from $16.5 million in the fourth quarter of 2018. Total revenue for the full year 2019 was $54.3 million compared with $67.3 million in 2018. The fourth quarter change reflects principally fewer shipments in the Data center market. The full year fluctuation reflects uncertainties relating to U.S.-China trade relations, macroeconomic headwinds across other markets and one OEM customer's significant reduction in purchases affecting the Gaming and Enthusiast segment.

Gaming and Enthusiast sales unit volume for the fourth quarter of 2019 was 265,000, a decline of 3.9% from the same period of 2018 (276,000). Unit shipments for the full year were 895,000, a decrease of 20.0% from 2018. Average selling price (ASP) per unit in the fourth quarter increased from the same period of 2018 due to change in the product mix. ASP for the full year 2019 increased from the prior year due to higher prices on high-performance products and a change in the mix of products sold.

Gross margin was 42.9% for the fourth quarter of 2019, an increase from the fourth quarter of 2018 (42.1%). Gross margin for the full year 2019 improved to 42.3% from 38.9% in the same period of 2018. The increase reflects higher ASPs on Gaming and Enthusiast products as well as a stronger U.S. dollar in 2019.

Total operating expense was $5.6 million in the fourth quarter of 2019, a decrease of 3.7% from $5.8 million in the same period of 2018. In the full year 2019, operating expense increased to $22.0 million ($21.8 million in 2018).

Operating expense included costs incurred for defense of existing intellectual property (IP) and securing new IP of $0.7 million and $2.7 million in the fourth quarter and full year 2019 ($0.8 million and $2.1 million in the respective periods of 2018). Operating expense for the full year 2019 was reduced by a favorable patent litigation settlement of $0.8 million in the second quarter, reported separately as other income on the income statement.

A 6% stronger U.S. Dollar, on average, against the Danish krone (DKK) had a favorable impact on operating expense during the full year 2019 compared with the same period of 2018.

Share-based compensation cost associated with warrants and options issued to employees was $0.2 million and $1.1 million in the fourth quarter and full year 2019 ($0.3 million and $1.3 million in the respective periods of 2018).

On January 1, 2019, the Company adopted IFRS 16 Leases, which requires the recognition of operating leases on the balance sheet. The accounting change resulted in depreciation recorded of $145,000 and $569,000 in the fourth quarter and full year 2019, respectively, which was previously considered other operating expense. Refer to Note 2 to the Financial Statements.

Finance expenses included net foreign exchange loss of $0.4 million and gain of $0.2 million in the fourth quarter and full year 2019, respectively. This compares with a loss of $2,000 and gain of $0.3 million for the respective periods of 2018.

Asetek reported income before tax of $0.8 million and $1.5 million in the fourth quarter and full year 2019, compared with income before tax of $1.2 million and $4.9 million for the respective periods of 2018.

Income tax expense was $1.9 million and $2.1 million in the fourth quarter and full year 2019, compared with $0.4 million and $1.2 million in the respective periods of 2018. The increase in 2019 is due principally to the effect of a recently issued U.S. tax regulation on foreign corporation income resulting in a non-cash charge that reduced the Company's deferred tax assets. Refer to the Income Tax section on the following page.

Balance Sheet (Consolidated)

Asetek's total assets at December 31, 2019 amounted to $54.1 million, up $2.7 million from December 31, 2018. Cash increased by $5.9 million and an accounting policy change resulted in $3.2 million of additional capitalized leased assets at the beginning of 2019 (see Note 2 to the Financial Statements). These increases were partially offset by lower deferred tax assets, trade receivables, and inventory.

Total liabilities increased by $2.7 million in 2019, resulting from an increase in capitalized lease liabilities related to an accounting change (see Note 2 to the Financial Statements), partly offset by decreases in accrued liabilities.

Working capital (current assets minus current liabilities) increased by $2.6 million to $27.9 million at December 31, 2019. Total cash and cash equivalents was $24.5 million at December 31, 2019.

Cash Flow (Consolidated)

Net cash provided by operating activities was $8.9 million for the full year 2019, compared with $3.8 million in the same period of 2018. The change from 2018 was principally due to reductions in trade receivables and inventory in 2019 compared with 2018.

Cash used by investing activities was $2.2 million for the full year 2019, mainly related to capitalized development and purchase of equipment. This figure compares to $3.7 million used in 2018.

Cash used by financing activities was $0.6 million in the full year 2019, mainly for payments on capitalized leases. Principal payments on capitalized leases increased as a result of a change in accounting policy (see Note 2 to the Financial Statements) and due to equipment acquired under leases. In 2018, cash provided by financing activities was $0.5 million, mainly reflecting proceeds from the issuance of shares following the exercise of warrants.

Net change in cash and cash equivalents was an increase of $5.9 million in the full year 2019, compared with an increase of $0.2 million in 2018.

Income Tax

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 this 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 June 2019, the U.S. released regulation for its Global Intangible Low-Taxed Income (GILTI) inclusion for U.S. taxation, effective beginning with tax year 2018. The GILTI regulation requires U.S. companies to report foreign corporation intangible income that exceeds 10% return on foreign invested assets. Under prior law, U.S. owners of foreign corporations were able to defer recognizing taxable income until there was a distribution of earnings back to U.S. owners. The impact of the GILTI regulation caused incremental utilization of the Company's available deferred tax assets of approximately $1.1 million in total for 2018 and 2019. Because of Asetek's U.S. tax status as described above, management believes that the impact of the GILTI regulation as it applies to the Company could be reformed in the future; however, such reform is not certain. The Company continues to work with its tax advisors to clarify and resolve this matter.

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 2019	Q4 2018	Q4 2019	Q4 2018
Revenues	15,199	15,430	462	1,075
Cost of sales	8,692	8,767	249	785
Gross Profit	6,507	6,663	213	290
Gross Margin	42.8%	43.2%	46.1%	27.0%
Total operating expenses	1,979	1,231	958	1,894
EBITDA adjusted	4,528	5,432	(745)	(1,604)
EBITDA margin	29.8%	35.2%	N/A	N/A

Operations - Fiscal Year

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	2019	2018	2019	2018
Revenues	51,791	63,030	2,543	4,284
Cost of sales	29,750	38,128	1,579	3,014
Gross Profit	22,041	24,902	964	1,270
Gross Margin	42.6%	39.5%	37.9%	29.6%
Total operating expenses	7,435	4,165	5,248	8,608
EBITDA, adjusted	14,606	20,737	(4,284)	(7,338)
EBITDA margin	28.2%	32.9%	N/A	N/A

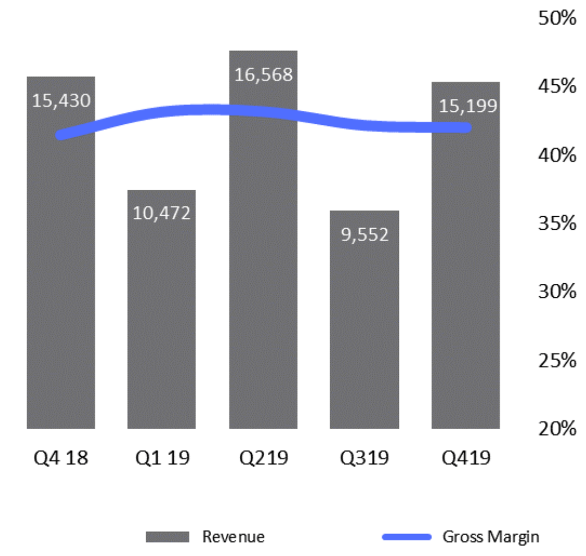
Headquarters Costs

Figures in USD (000's)	Q4 2019	Q4 2018	2019	2018
Litigation costs	668	787	2,695	2,052
Litigation settlements	-	-	(753)	-
Other headquarters costs	563	451	2,219	1,962
Total headquarters costs	1,231	1,238	4,161	4,014

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

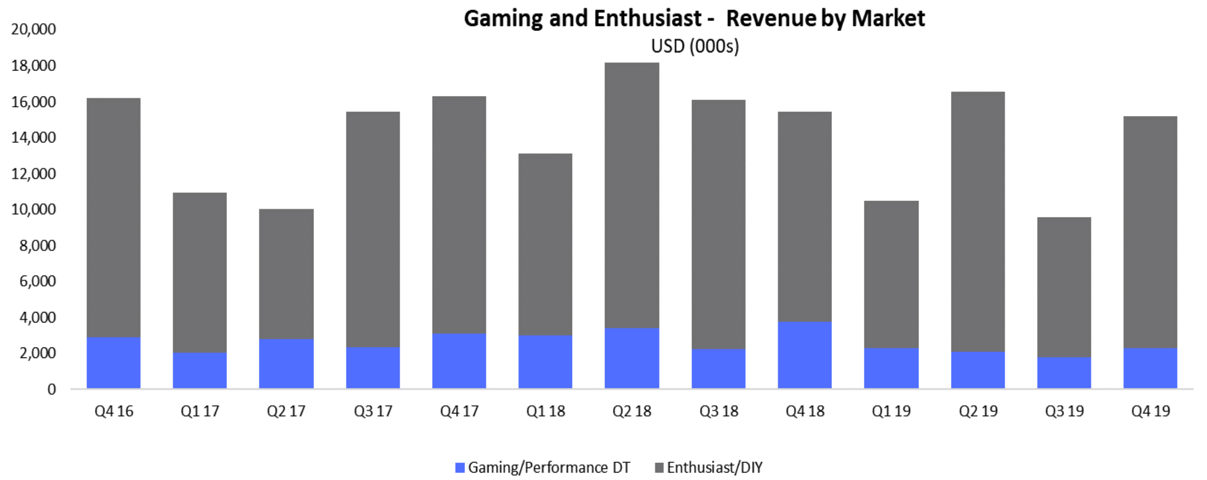
Gaming and Enthusiast financials

Gaming and Enthusiast revenue and margin development
USD (000's)



Asetek's Gaming and Enthusiast revenue in the fourth quarter decreased slightly from the prior year quarter. The revenue fluctuations in 2019 reflect the uncertainties relating to U.S.-China trade relations, macroeconomic headwinds across other markets and a significant reduction in one OEM customer's purchases. Revenue from the Enthusiast/DIY and Gaming/Performance PC markets in the fourth quarter comprised 85% and 15% of total Gaming and Enthusiast revenue, respectively.

Gaming and Enthusiast profitability has in recent quarters benefitted from higher average selling prices on new, high-performance products and a stronger US dollar. As a result, Gaming and Enthusiast gross margin has remained at 41% or higher over the past five quarters.



Gaming and Enthusiast market update

During the fourth quarter, thirteen new Gaming and Enthusiast products began shipping, all in the Enthusiast/DIY market. The new products include the Asus ROG Strix RTX Ti white edition, as well as Asetek's most advanced liquid cooling technology to date, 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.

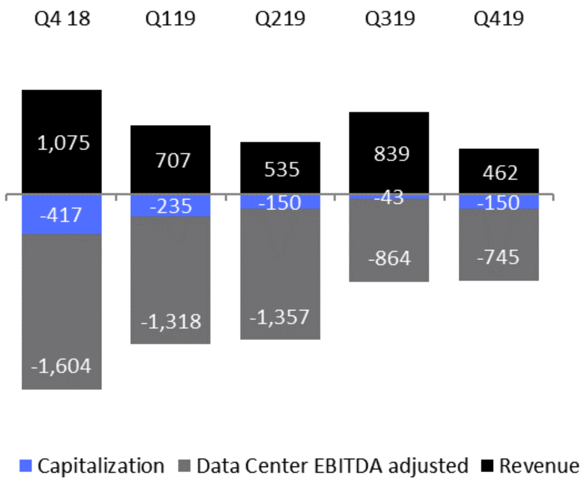
With the recent launch of its Ryzen 9 3950X processor, AMD recommended that enthusiasts utilize Asetek's powerful all-in-one coolers offered by partners such as ASUS ROG, NZXT and Thermaltake, for maximum performance and the best experience.

In 2019, Asetek executed a rebranding as part of its strategy to strengthen its position in the Gaming and Enthusiast market. 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 in delivering the best in performance, quality and reliability. More resources have been invested in Gaming and Enthusiast product development resulting in new innovative solutions scheduled for market introduction in 2020 and beyond.

As part of this rebranding, Asetek is working 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 financials

Financial development
USD (000's)



Asetek's Data center revenue was $0.5 million in the fourth quarter of 2019, compared with $1.1 million in the same period of 2018. Revenue in the fourth quarter reflects a decline in revenue from government contracts and fewer shipments to OEMs compared with the prior year quarter. Revenue variability is expected to continue while the Company generates growth of end-user adoption through its OEM partners.

Data center gross margin improved in the fourth quarter of 2019 compared with the same period of 2018. In early 2019, Asetek decided to scale back its investment in the data center business and reduced related manufacturing and operating expense. Gross margin and operating results are expected to continue to fluctuate until the Company grows and maintains meaningful unit volumes of revenue and production.

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 historical strategy in this market has been to focus on growing the business through OEM customers. However, growth in this segment has not met Company expectations. As such, until legislative changes are made requiring the re-use of waste heat in data centers, the Company's strategy is to continue to sell to existing and new OEM partners and proactively work with political leaders to develop a wider understanding of the significant environmental benefits enabled by liquid cooling.

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 segment. 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.

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. Recent 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 fluctuation which impacts short-term predictability. Therefore, the Company has discontinued quarterly- and segment financial guidance and will instead guide on expected consolidated annual results only.

Gaming and Enthusiast. In 2019, the overall PC industry outlook was negatively affected by uncertainties relating to U.S.-China trade relations which included a 25% tariff on U.S. imports from China. The Brexit process and the macroeconomic headwinds across other markets also had a negative impact.

In late 2019, it became apparent that one of Asetek's largest OEM customers had chosen to source liquid cooling products from an alternative supplier. The OEM is expected to continue purchases from Asetek, but at an expected materially lower level than in recent years. These factors, along with potential effects of the coronavirus, continue to influence market developments and visibility in early 2020. The Company expects that continued focus of resources to the Gaming and Enthusiast segment, growing market share of new and existing OEMs, the rebranding program and launch of innovative new products to partly mitigate these effects.

Asetek recently evolved its business model to better fit customer requirements and to increase margins. Under the new model, 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 will help ensure Asetek's products stay competitive in the market.

This new business model will over time reduce ASPs and revenue as Asetek delivers a subset of its typical finished product while improving margins from sale of the Company's core technology. It will free 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. The Company's strategy of growing the Asetek brand with end users is unaffected.

Data center. Asetek anticipates continued growth in end-user adoption with deliveries to new HPC installations through OEM partners. Shipments of RackCDU™ liquid cooling to existing partners in the fourth quarter and the announcement of a new global partner in the first quarter 2020 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 Asetek anticipates significant long-term revenue growth in this segment, Asetek reduced its investment in this segment in 2019. This is likely to increase in the short term as the company works to support the introduction of products for the new Global Partner. Segment revenue and operating results are expected to fluctuate as partnerships with OEMs are developed.

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.

Consolidated results. With the decline in revenue in both of the Company's business segments, the consolidated results for 2019 did not meet management's expectations communicated in the prior year report. In mid-2019, management communicated adjusted goals for the year, which were met by the Company in late 2019.

Overall, considering all macroeconomic, political and industry effects and uncertainties the Company expects revenue to decline 5% to 10% for 2020 with higher gross margins than for 2019. The Company expects no growth in spending. As such, management expects the Company to report a positive income before tax for 2020. Due to uncertainties regarding the effects of the coronavirus, its potential impact to Asetek's operating results is not included in the current financial outlook.

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. CoolIT has filed counterclaims asserting infringement of three CoolIT patents, which Asetek denies. The litigation is in the early stages and no trial date has been set. CoolIT recently filed for review of three Asetek patents asserted in the litigation. Asetek will vigorously defend these challenges.

In September 2016, Asetek filed two patent infringement lawsuits against CoolerMaster Shanghai and its distributor Shenzhen Xinhua in Shenzhen City accusing various CoolerMaster products of infringing Asetek's Chinese Patent 201210266143.8. In October 2018, the court ruled in Asetek's favor on both cases, entering an injunction against CoolerMaster and awarding RMB1 Million in damages. CoolerMaster appealed the judgment to a higher court, and oral arguments were heard on this appeal in March 2019. CoolerMaster also initiated an action to invalidate Asetek's patent in the Beijing IP Court; a trial on this matter in September 2019 is awaiting decision by the court. In June 2019, CoolerMaster filed an invalidation request on the same Asetek Chinese patent with the China National Intellectual Property Administration. In a decision in February 2020, Asetek's claims were not upheld. Asetek is evaluating next steps, which may include appeal.

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 has appealed the decision and initiated an action to nullify Asetek's patent. The appeal and nullify actions are pending.

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 2019, two customers in the Enthusiast/DIY segment accounted for 31% and 27% of total revenue. Shipments to one of these customers are expected to decline significantly in 2020. The Company is actively working with its other Enthusiast/DIY customers to grow their respective market shares and order volumes.

The U.S. has imposed a 25% tariff on imports of goods manufactured in China, which include Asetek products. The existence of the tariff, and the likelihood that the tariff may increase, has contributed to the uncertainties in the Gaming & Enthusiast market and the decline in Asetek's revenue in 2019. 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. While there has not been significant impact to date, the effects of the coronavirus could negatively impact the Company's supply chain operations.

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 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, new U.S. regulations on taxation of foreign earnings beginning in 2018 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 December 31, 2019, 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)	Q4 2019	Q4 2018	2019	2018
	Unaudited	*Unaudited*		
Revenue	$ 15,661	$ 16,505	$ 54,334	$ 67,314
Cost of sales	8,941	9,552	31,329	41,142
Gross profit	6,720	6,953	23,005	26,172
Research and development	1,193	980	4,889	4,764
Selling, general and administrative	4,364	4,789	17,821	16,989
Other expense (income)	-	-	(753)	-
Total operating expenses	5,557	5,769	21,957	21,753
Operating income	1,163	1,184	1,048	4,419
Foreign exchange (loss) gain	(371)	(2)	218	342
Finance income (costs)	29	46	188	109
Total financial income (expenses)	(342)	44	406	451
Income before tax	821	1,228	1,454	4,870
Income tax (expense) benefit	(1,901)	(361)	(2,082)	(1,198)
Income for the period	(1,080)	867	(628)	3,672
Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:				
Foreign currency translation adjustments	559	184	(444)	(169)
Total comprehensive income	$ (521)	$ 1,051	$ (1,072)	$ 3,503
Income per share (in USD):				
Basic	$ (0.04)	$ 0.03	$ (0.02)	$ 0.14
Diluted	$ (0.04)	$ 0.03	$ (0.02)	$ 0.14

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

Consolidated Balance Sheet

Figures in USD (000's)		31 Dec 2019		31 Dec 2018
ASSETS				
Non-current assets				
Intangible assets	$	1,920	$	2,414
Property and equipment		6,115		4,103
Deferred income tax assets		5,521		7,458
Other assets		307		309
Total non-current assets		13,863		14,284
Current assets				
Inventory		1,657		2,862
Trade receivables and other		14,080		15,625
Cash and cash equivalents		24,505		18,627
Total current assets		40,242		37,114
Total assets	$	54,105	$	51,398
EQUITY AND LIABILITIES				
Equity				
Share capital	$	423	$	422
Retained earnings		38,197		37,704
Translation and other reserves		388		832
Total equity		39,008		38,958
Non-current liabilities				
Long-term debt		2,774		641
Total non-current liabilities		2,774		641
Current liabilities				
Short-term debt		1,518		980
Accrued liabilities		1,022		2,185
Accrued compensation & employee benefits		1,526		1,512
Trade payables		8,257		7,122
Total current liabilities		12,323		11,799
Total liabilities		15,097		12,440
Total equity and liabilities	$	54,105	$	51,398

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, 2019	$ 422	$ 836	$ (4)	$ 37,704	$ 38,958
Total comprehensive income - year ended December 31, 2019					
Income for the period	-	-	-	(628)	(628)
Foreign currency translation adjustments	-	(444)	-	-	(444)
Total comprehensive income - year ended December 31, 2019	-	(444)	-	(628)	(1,072)
Transactions with owners - year ended December 31, 2019					
Shares issued	1	-	-	65	66
Share based payment expense	-	-	-	1,056	1,056
Transactions with owners - year ended December 31, 2019	1	-	-	1,121	1,122
Equity at December 31, 2019	$ 423	$ 392	$ (4)	$ 38,197	$ 39,008

Equity at January 1, 2018	$ 419	$ 1,005	$ (6)	$ 31,976	$ 33,394
Total comprehensive income - year ended December 31, 2018					
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
Transactions with owners - year ended December 31, 2018					
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
Equity at December 31, 2018	$ 422	$ 836	$ (4)	$ 37,704	$ 38,958

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

Consolidated Cash Flow Statement

Figures in USD (000's)	2019	2018
Cash flows from operating activities		
Income for the period	$ (628)	$ 3,672
Depreciation and amortization	4,057	3,690
Finance income recognized	(359)	(205)
Finance costs recognized	171	96
Finance income, cash received	359	205
Finance costs, cash paid	(84)	(96)
Income tax expense	2,082	1,198
Cash receipt (payment) for income tax	(172)	(118)
Share based payments expense	1,056	1,276
Changes in trade receivables, inventories, other assets	2,234	(3,611)
Changes in trade payables and accrued liabilities	154	(2,264)
Net cash provided by (used in) operating activities	8,870	3,843
Cash flows from investing activities		
Additions to intangible assets	(1,441)	(1,745)
Purchase of property and equipment	(713)	(1,914)
Net cash used in investing activities	(2,154)	(3,659)
Cash flows from financing activities		
Funds drawn (paid) against line of credit	22	(6)
Proceeds from issuance of share capital	64	782
Principal payments on capitalized leases	(734)	(321)
Net cash provided by (used in) financing activities	(648)	455
Effect of exchange rate changes on cash and cash equivalents	(190)	(410)
Net changes in cash and cash equivalents	5,878	229
Cash and cash equivalents at beginning of period	18,627	18,398
Cash and cash equivalents at end of period	$ 24,505	$ 18,627
Supplemental disclosures -		
Property and equipment acquired under leases	$ 413	$ 134

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 and year ended December 31, 2019 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. Change in accounting policy – Leases

On January 1, 2019, the Group adopted IFRS 16 Leases on a modified retrospective basis without restatement of the prior year, as permitted under the standard. Upon adoption of IFRS 16, Asetek recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities was 3.0%. The associated right-of-use assets for the leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as of December 31, 2018. For leases previously classified as finance leases, the Group recognized the carrying amount of the lease asset and lease liability at the date of initial application. The Company has elected not to apply IFRS 16 recognition on short-term and low value leases, as permitted under the standard. Asetek has elected not to reassess whether a contract is a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

Through 2018, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From January 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of: fixed lease payments, amounts expected to be payable under residual value guarantees, any purchase options that are reasonably expected to be exercised, and any penalties for termination reflected in the lease term. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to reflect a constant periodic rate of interest on the remaining balance of the liability for each period.

Asetek leases equipment, its principal office facilities and some motor vehicles. Contracts are typically for fixed periods of five years or more for office facilities, five years for equipment, and two years or less for motor vehicles. The leased asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

As a result of this change in accounting policy, the Group's lease liabilities and corresponding leased assets recorded on the balance sheet increased by $3.2 million as of January 1, 2019, when compared with the balance at December 31, 2018. In fiscal year 2019, the accounting change resulted in recognition of depreciation expense of $569,000 and interest expense of $87,000. These increases are substantially offset by a reduction in associated facilities and automobile expense for the same period. Cash flow from operating activities increased by $506,000 and cash flow from financing activities decreased by $506,000 in fiscal year 2019 as a result of this change in accounting policy. The change in accounting policy did not have a material impact on net income or earnings per share.

	(USD 000's)
Operating lease commitments disclosed at December 31, 2018	3,376
Discounted using the incremental borrowing rate at January 1, 2019	3,238
Add: finance lease liabilities recognized at December 31, 2018	879
Less: short-term leases recognized on a straight-line basis as expense	(4)
Lease liability recognized at January 1, 2019	4,113

Lease liabilities:	December 31, 2018	January 1, 2019
Current lease liabilities	239	751
Non-current lease liabilities	640	3,362
Total lease liabilities	879	4,113

Leased assets:	December 31, 2018	January 1, 2019
Properties	-	3,204
Machinery and equipment	1,538	1,538
Motor vehicles	-	34
Gross value, leased assets	1,538	4,776
Less: accumulated depreciation	(839)	(839)
Net value, leased assets	699	3,937

3. Equity

In September 2019, the Company granted a total of 494,900 equity options to employees. Each option has an exercise price of NOK24.70 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 $0.6 million. The fair value was calculated using the following assumptions: risk-free interest rate of 1.49% to 1.51%; expected volatility of approximately 55%; expected option life of 3.5 to 5.5 years; dividend yield of 0%.

At December 31, 2019, 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 increased by approximately $66,000 in fiscal year 2019 ($0.8 million in 2018) 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 $1.1 million and $1.3 million in the year ended December 31, 2019 and 2018, respectively.

4. 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 2019, the Company capitalized approximately $1.4 million of development costs and recorded amortization of approximately $1.9 million (capitalized costs of $1.7 million and amortization of $2.1 million in 2018).

5. Earnings (losses) per share

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

Fourth Quarter

	Q4 2019	Q4 2018
Income attributable to equity holders of the Company (USD 000's)	$ (1,080)	$ 867
Weighted average number of common shares outstanding (000's)	25,603	25,540
Basic income per share	$ (0.04)	$ 0.03
Weighted average number of common shares oustanding (000's)	25,603	25,540
Instruments with dilutive effect:		
Warrants and options	-	617
Weighted average number of common shares oustanding, diluted	25,603	26,157
Diluted income per share	$ (0.04)	$ 0.03

Fiscal Year

	2019	2018
Income attributable to equity holders of the Company (USD 000's)	$ (628)	$ 3,672
Weighted average number of common shares outstanding (000's)	25,582	25,447
Basic income per share	$ (0.02)	$ 0.14
Weighted average number of common shares oustanding	25,582	25,447
Instruments with dilutive effect:		
Warrants and options	-	940
Weighted average number of common shares oustanding, diluted	25,582	26,387
Diluted income per share	$ (0.02)	$ 0.14

6. 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 2019, the Group purchased services totaling approximately $0.5 million ($0.5 million in 2018) from this vendor. At December 31, 2019 and 2018, the Group had outstanding payables to this vendor of $45,000 and $36,000 respectively.

7. New accounting standard –Income tax

In June 2018, 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 adopted IFRIC 23 as of January 1, 2019, and its adoption does not have a material impact on the consolidated financial statements.

8. Income tax and deferred tax asset

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, 2019, the Company has deferred tax assets of $5.5 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 2019 Annual Report regarding critical accounting estimates and assumptions.

In June 2019, the U.S. released regulation for its Global Intangible Low-Taxed Income (GILTI) inclusion for U.S. taxation, effective beginning with tax year 2018. The GILTI regulation requires U.S. companies to report foreign corporation intangible income that exceeds 10% return on foreign invested assets. Under prior law, U.S. owners of foreign corporations were able to defer recognizing taxable income until there was a distribution of earnings back to U.S. owners. The impact of the GILTI regulation caused incremental utilization of the Company's available deferred tax assets of approximately $1.1 million in total relating to 2018 and 2019.

9. Other (expense) income

The Company recognized other income of $0.8 million related to settlements received from intellectual property litigation in the second quarter of 2019. Income from such settlements are reported as an offset to operating expense in the Consolidated Statement of Comprehensive Income.

10. Segment reporting

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

Revenue Disaggregation:

Figures in USD (000's)	Q4 2019	Q4 2018	2019	2018
Gaming and Enthusiast segment:				
Enthusiast/DIY	12,893	11,667	43,312	50,438
Gaming/Performance PCs	2,306	3,763	8,479	12,592
Data center segment:	-	-	-	-
OEM	462	777	2,233	3,866
Government	-	298	310	418
Total revenue	15,661	16,505	54,334	67,314

Unaudited breakdown of the income statement

Operations - Fourth Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	Q4 2019	Q4 2018	Q4 2019	Q4 2018
Revenues	15,199	15,430	462	1,075
Cost of sales	8,692	8,767	249	785
Gross Profit	6,507	6,663	213	290
Gross Margin	42.8%	43.2%	46.1%	27.0%
Total operating expenses	1,979	1,231	958	1,894
EBITDA adjusted	4,528	5,432	(745)	(1,604)
EBITDA margin	29.8%	35.2%	N/A	N/A

Operations - Fiscal Year

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	2019	2018	2019	2018
Revenues	51,791	63,030	2,543	4,284
Cost of sales	29,750	38,128	1,579	3,014
Gross Profit	22,041	24,902	964	1,270
Gross Margin	42.6%	39.5%	37.9%	29.6%
Total operating expenses	7,435	4,165	5,248	8,608
EBITDA, adjusted	14,606	20,737	(4,284)	(7,338)
EBITDA margin	28.2%	32.9%	N/A	N/A

Headquarters Costs

Figures in USD (000's)	Q4 2019	Q4 2018	2019	2018
Litigation costs	668	787	2,695	2,052
Litigation settlements	-	-	(753)	-
Other headquarters costs	563	451	2,219	1,962
Total headquarters costs	1,231	1,238	4,161	4,014

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

Reconciliation to Operating Income

Figures in USD (000's)	Q4 2019	Q4 2018	2019	2018
EBITDA, adjusted - Gaming and Enthusiast	4,528	5,432	14,606	20,737
EBITDA, adjusted - Data center	(745)	(1,604)	(4,284)	(7,338)
Headquarters costs	(1,231)	(1,238)	(4,161)	(4,014)
Share based compensation	(249)	(336)	(1,056)	(1,276)
Depreciation and amortization	(1,140)	(1,070)	(4,057)	(3,690)
Operating income	1,163	1,184	1,048	4,419

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 2019. 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, 25 February 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