

ellipticlabs

2021

Q1 Report
(Unaudited)

AI Virtual Smart Sensors



Heartbeat



Breathing



Proximity



Presence



Gesture



Connection

First quarter update 2021

Elliptic Labs, a global AI software company and leader in AI Virtual Smart Sensors for the smartphone, laptop, Internet of Things (IoT), and automotive industries, reports progress from Q1 last year and operating revenues of NOK 4.5m in Q1 2021 compared to NOK 4.0m in Q1 2020. Recent announcements and progress will contribute to a stronger second half than first half 2021. EBITDA for Q1 2021 ended at NOK -8.5m compared to NOK -11.1m in Q1 2020. The development is in line with management expectations and due to solid sales revenues in Q4 2020, cash flow from operations ended slightly positive with NOK 0,2m in Q1 2021 up from NOK -6.0m in Q1 2020. Cash position at the end of the quarter ended at NOK 95.4m down from NOK 99.7m at the end of Q4 2020.

Highlights from the first quarter:

- Added one new large smartphone manufacturer to the customer base
- Announced launches on four high-volume smartphones with Xiaomi; Redmi Note 10, Redmi Note 10s, Mi 11 Lite and Mi 11 Lite 5G. In addition, the flagship phone Mi 11 launched globally during the quarter.
- Launched with a new smartphone customer, Black Shark, on their gaming phones Black Shark 4 and Black Shark 4 Pro
- Announced collaboration with Cadence Design Systems, Inc. to optimize Elliptic Labs machine learning algorithms on Cadence® Tensilica® HiFi DSPs to bring our AI Virtual Smart Sensors to more embedded systems
- Secured one more Proof-of-Concept (PoC) with new PC/laptop customer, while having good progress on PoCs with other PC/laptop manufacturers
- Two patents granted, adding to an already strong patent portfolio as we are the leader in patents using ultrasound virtual smart sensors in the consumer electronics market. Today, our portfolio consists of close to 100 patents granted/pending.

"In Q1 we continued to build our strategic foundation for broader adoption for our AI Virtual Smart Sensor platform, launching more smartphones with existing and new customers along with making solid progress to enter into new verticals.", says CEO Laila Danielsen. "Additionally, due to the ongoing tight global supply chain, hardware component prices are higher, and our customers struggle to source physical hardware parts. Fortunately, our all-software solution allows our customers to bypass issues around hardware sensor supply chain constraints. Consequently, the interest in engaging with Elliptic Labs from both partners and customers has increased. Thus, we continue to work with our global chipset partners to incorporate our AI Virtual Smart Sensor platform into their short- and long-term roadmaps. This quarter we expanded and opened an office in Taiwan to work more closely with the top PC companies and their local vendors."

We re-confirm our 2021 expectations that are based on the robust demand for our AI software platform, in particular across the smartphone and PC markets. We are excited about the opportunities ahead and very confident in our long-term strategy as we continue to execute and scale with current and new customers.

About Elliptic Labs:

Elliptic Labs is headquartered in Norway with presence in the USA, China, South Korea, Taiwan and Japan. Founded in 2006 as a research spin-off from Norway's Oslo University, it is now a global enterprise targeting the smartphone, laptop, IoT, and automotive markets. The Company's patented AI software combines ultrasound and sensor-fusion algorithms to deliver intuitive 3D gesture, proximity and presence sensing experiences. Its scalable AI Virtual Smart Sensor Platform creates software-only sensors that are sustainable, eco-friendly, and already deployed in over 150 million devices. Elliptic Labs is the only software company in the market that has delivered detection capabilities using AI software, ultrasound and sensor-fusion deployed at scale. Elliptic Labs' technology and IP are developed in Norway and solely owned by the Company.

Financial summary for the Group's first quarter 2021 (unaudited)

Comparable amounts for first quarter 2020 are presented in brackets.

Operating revenue

Consolidated operating revenue for the first quarter totalled NOK 4 532 thousand (NOK 4 014 thousand).

Operating costs

Operating costs totalled NOK 15 088 thousand (NOK 16 446 thousand). Personnel expenses accounted for NOK 10 333 thousand (NOK 12 303 thousand).

Operating profit/loss

The Group generated an operating loss of NOK 10 556 thousand (NOK 12 432 thousand).

Financial items

Net financial expenses amounted to NOK 464 thousand (NOK 1 454 thousand).

Profit/loss for the period

The loss before tax was NOK 11 020 thousand (NOK 13 886 thousand).

Income tax revenue was NOK 2 467 thousand (NOK 3 055 thousand), resulting in a loss for the period of NOK 8 553 thousand (NOK 10 831 thousand).

Cash flow

The cash flow from operating activities was NOK 239 thousand (NOK -6 037 thousand). Cash flow from financing was NOK -1 736 thousand (NOK -1 241 thousand).

Cash and cash equivalents at the end of the period were NOK 95 379 thousand (NOK 26 779 thousand).

Financing and debt

The Group's equity was NOK 180 505 thousand (NOK 70 881 thousand) and The group had total long term liabilities of NOK 13 000 thousand (NOK 14 000 thousand) end of the period.

Going concern

In accordance with the Accounting Act § 3-3a, the financial statements have been prepared under the assumption of going concern and we remain positive about the future outlook for Elliptic Labs.

First quarter consolidated financial statements

First quarter consolidated statement of comprehensive income

For the financial period ended 31 March 2021 and 2020.

<i>(Amounts in NOK)</i>	Note s	Q1 2021 (Unaudited)	Q1 2020 (Unaudited)	YTD 2021 (Unaudited)	YTD 2020 (Unaudited)	2020 (Audited)
Revenues		1 719 380	2 256	1 719 380	2 256	30 215 044
Other operating income		2 813 100	4 011 494	2 813 100	4 011 494	14 517 048
Total revenue	2	4 532 480	4 013 750	4 532 480	4 013 750	44 732 092
Personnel expenses		-10 333 444	-12 302 755	-10 333 444	-12 302 755	-35 866 003
Other operating expenses	3	-2 696 829	-2 780 543	-2 696 829	-2 780 543	-13 529 370
Depreciation, amortisation and Impairment	4	-2 057 964	-1 362 231	-2 057 964	-1 362 231	-5 438 634
Total operating costs		- 15 088 236	-16 445 528	-15 088 236	-16 445 528	-54 834 006
Operating profit		-10 555 756	-12 431 778	-10 555 756	-12 431 778	-10 101 914
Other financial income		204 680	6 750	204 680	6 750	1 852 417
Other financial expenses		-668 995	-1 460 872	-668 995	-1 460 872	-7 307 470
Net financial income/(expenses)		-464 315	-1 454 122	-464 315	-1 454 122	-5 455 053
Profit/(loss) before tax		-11 020 071	-13 885 900	-11 020 071	-13 885 900	-15 556 968
Income tax		2 466 851	3 054 898	2 466 851	3 054 898	3 046 958
Profit/(loss) for the period		-8 553 220	-10 831 002	-8 553 220	-10 831 002	-12 510 010
Other comprehensive income:						
Foreign currency changes, may be Reclassified to profit or loss		-1 601	329 197	-1 601	329 197	-47 260
Other comprehensive income, net of tax		-1 601	329 197	-1 601	329 197	-47 260
Total comprehensive income for the period		-8 554 821	-10 501 805	-8 554 821	-10 501 805	-12 557 270
Loss for the period is attributable to:						
Equity holders of the parent company		-8 554 821	-10 501 805	-8 554 821	-10 501 805	-12 557 270
Earnings per share outstanding		-1,12	-0,81	-1,12	-0,81	-1,40
Earnings per share fully diluted		-1,12	-0,81	-1,12	-0,81	-1,40

First quarter consolidated statement of financial position

At 31 March 2021 and 2020 respectively

<i>(Amounts in NOK)</i>	Notes	31.03.2021 (Unaudited)	31.03.2020 (Unaudited)	31.12.2020 (Audited)
Non-current assets				
Deferred tax assets		62 273 885	59 223 785	59 807 034
Intangible assets	4	29 587 687	17 893 872	28 240 698
Right of use assets		4 464 658	6 696 987	5 022 739
Other non-current financial assets		4 071 885	2 092 437	4 050 298
Total non-current assets		100 398 115	85 907 080	97 120 769
Current assets				
Accounts receivable		-	4 110 727	426 621
Other current receivables		13 626 280	12 050 627	21 450 508
Cash and cash equivalents	6	95 378 640	26 778 506	99 724 175
Total current assets		109 004 920	42 939 860	121 601 304
Total assets		209 403 035	128 846 940	218 722 073
Equity and liabilities				
Share capital		958 459	875 106	958 459
Other equity		179 546 943	70 005 844	187 145 632
Total equity		180 505 402	70 880 950	188 104 091
Finance debt		2 489 503	4 557 163	3 001 929
Bank borrowings, long-term	7	13 000 000	14 000 000	14 000 000
Total long-term liabilities		15 489 503	18 557 163	17 001 929
Bank borrowings, short-term	7	4 000 000	29 429 269	4 000 000
Trade and other payables		1 302 886	1 753 796	988 804
Tax payable		197 889	179 537	204 893
Current lease liabilities		2 203 433	2 185 479	2 203 433
Other short-term liabilities		5 703 922	5 860 746	6 218 922
Total current liabilities		13 408 129	39 408 827	13 616 052
Total equity and liabilities		209 403 035	128 846 940	218 722 073

First quarter consolidated statement of changes in equity

Attributable to owners of Elliptic Laboratories AS.

2021 (Amounts in NOK) (Unaudited)	Share capital and pre- mium	Paid-in equity	Other equity	Foreign currency rate differences	Total equity
Shareholders' equity at 01.01.2021	958 459	174 642 552	12 802 077	-298 997	188 104 091
Profit (loss) for the period	-	-8 553 220	-	-	-8 553 220
Other comprehensive income for the period	-	-	-	-1 601	-1 601
Total comprehensive income for the period	-	-8 553 220	-	-1 601	-8 554 821
Transactions with owners:					
Transaction costs at listing	-	-	-	-	-
Capital increase through issuance of ordinary shares	-	-	-	-	-
Employee share schemes	-	-	956 132	-	956 132
Shareholders' equity at 31.03.2021	958 459	166 089 332	13 758 209	-300 599	180 505 402
2020 (Amounts in NOK) (Audited)					
	Share capital and premium	Paid-in equity	Other equity	Foreign currency rate differ- ences	Total equity
Shareholders' equity at 01.01.2020	875 106	70 323 490	9 085 897	-251 738	80 032 755
Profit (loss) for the period	-	-10 831 002	-	-	-10 831 002
Other comprehensive income for the period	-	-	-	329 197	329 197
Total comprehensive income for the period	-	-10 831 002	-	329 197	-10 501 805
Transactions with owners:					
Share issue	-	-	-	-	-
Employee share schemes	-	-	1 350 000	-	1 350 000
Shareholders' equity at 31.03.2020	875 106	59 492 488	10 435 897	77 459	70 880 950

First quarter consolidated cash flow statement

First quarter and 31 March 2021 and 2020 respectively

<i>(Amounts in NOK)</i>	Notes	Q1 2021 (Unaudited)	Q1 2020 (Unaudited)	YTD 2021 (Unaudited)	YTD 2020 (Unaudited)	2020 (Audited)
Cash flow from operating activities:						
Profit/(loss) before tax		-11 020 071	-13 885 900	-11 020 071	-13 885 900	-15 556 968
Adjustment for:						
Taxes paid in the period		-7 005	17 036	-7 005	17 036	-548 797
Depreciation and impairment	4	2 057 964	1 362 231	2 057 964	1 362 231	5 438 634
Option based payments		956 132	1 350 000	956 132	1 350 000	4 036 567
Items classified as financing activities		177 750	683 371	177 750	683 371	2 169 693
Change in accounts receivable		8 250 849	5 264 971	8 250 849	5 264 971	-450 804
Change in trade payables		314 082	919 081	314 082	919 081	154 089
Change in other accruals		-490 930	-1 747 361	-490 930	-1 747 361	-1 920 630
Net cash flow from operations		238 770	-6 036 572	238 770	-6 036 572	-6 678 217
Cash flow from investments:						
Purchase of fixed assets		-2 846 873	-2 146 099	-2 846 873	-2 146 099	-15 102 670
Net cash flow from investments		-2 846 873	-2 146 099	-2 846 873	-2 146 099	-15 102 670
Cash flow from financing:						
Bank borrowings		-1 000 000	-	-1 000 000	-	-25 000 000
Repayment lease liabilities		-558 081	-558 081	-558 081	-558 081	-2 232 324
Paid in capital from owners		-	-	-	-	125 040 050
Transaction cost listing		-	-	-	-	-8 448 011
Interests bank borrowings		-177 750	-683 371	-177 750	-683 371	-2 169 693
Net cash flow from financing		-1 735 831	-1 241 452	-1 735 831	-1 241 452	87 190 022
Net Change in Cash and Cash Equivalents		-4 343 934	-9 424 123	-4 343 934	-9 424 123	65 409 136
Cash and cash equivalents at the beginning of the period		99 724 175	35 873 432	99 724 175	35 873 432	34 362 299
Effect of foreign currency rate changes on cash and cash equivalents		-1 601	329 197	-1 601	329 197	-47 260
Cash and cash equivalents at the end of period		95 378 640	26 778 506	95 378 640	26 778 506	99 724 175

Notes to the first quarter consolidated financial statements

Note 1 – Accounting principles

1.1 General information

Elliptic Laboratories AS and its subsidiaries (together "Elliptic Labs" or the "Group") develop software that generates and interprets ultrasound using only existing device hardware. The Group targets smartphones and "Internet of Things" (IoT) devices, enabling bezel-less design, intuitive 3D gesture recognition and touchless or presence sensing. Investments in and cooperation with other companies are also part of the Group's purpose.

The domicile of Elliptic Labs is Oslo, Norway. The Group's head office is at Akersgata 32, 0180 Oslo.

1.2 Summary of significant accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2.1 Basis of preparation

The first quarter consolidated financial statements of the Group have been prepared in accordance with IAS 34 for the financial reporting of first quarter 2021 and 2020.

The consolidated financial statements have been prepared under the historical cost convention, as modified by derivatives at fair value through profit or loss. This first quarter report has not been subject to audit.

The accounting policies applied in this report are consistent with those applied and described in the 2020 annual report.

These consolidated financial statements have been prepared under the assumption of a going concern.

1.2.2 Operating revenues

The group has chosen to early apply IFRS 15 Revenue from Contracts with Customers as issued in May 2014. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue from licenses which give a right to use is recognised at point in time and licenses which give a right to access is recognised over time. Royalty based revenue is recognised as sales occur when exceeding the minimum fixed fee.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost.

Some contracts include multiple deliverables, such as the license for the IP and subsequent royalties for units sold. It is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on the expected cost-plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Elliptic Laboratories exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes a royalty for sold smart phones, revenue is recognised in the amount to which Elliptic Laboratories has a right to invoice.

1.2.3 Basis for loss provisions

When determining possible loss provision, the Group undertakes an individual assessment of each customer based on the size of the contract and various risk factors related to the customer's creditworthiness.

Note 2 – Revenue from contracts with customers

Revenue from contracts with customers consists of the following entries as set forth in the table below.

<i>(Amounts in NOK)</i>	Q1 2021 (Unaudited)	Q1 2020 (Unaudited)	YTD 2021 (Unaudited)	YTD 2020 (Unaudited)	2020 (Audited)
Revenues from contracts with customers	1 719 380	2 256	1 719 380	2 256	30 215 044
Revenue from other sources	2 813 100	4 011 494	2 813 100	4 011 494	14 517 048
Total revenue	4 532 480	4 013 750	4 532 480	4 013 750	44 732 092

Revenue from other sources consists in total of government grants, which are recognised over time on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate.

<i>Amounts in NOK</i>	YTD 2021	YTD 2020
Revenues recognised over time	-	-
Revenue recognised at point in time	1 719 380	2 256
Total revenue	1 719 380	2 256

Revenues from contracts with customers consists of two significant revenue streams:

License for IP and subsequent royalties are recognised at point in time when the software has been made available to the customer, and then in increments as minimum production thresholds are met if royalty based revenue exceed the minimum fixed fee if any. For the financial years 2021 and 2020, the majority of the contracts from which revenue was recognized were of the minimum fixed fee character.

Development and testing of software (Proof of concept) is considered as a separate performance obligation and is recognized over time based on the actual services provided to the end of the reporting period as a proportion of the total services to be provided.

As of 31.03.21 and 31.03.2020 all contracts were completed and performance obligations were fully satisfied.

Note 3 – Other operating expenses

(Amounts in NOK)	Q1 2021 (Unaudited)	Q1 2020 (Unaudited)	YTD 2021 (Unaudited)	YTD 2020 (Unaudited)	2020 (Audited)
Sales and marketing expenses	998 565	901 058	998 565	901 058	3 733 573
Short-term lease expenses	174 390	281 868	174 390	281 868	757 565
Electricity, heating and other property expenses	251 427	207 103	251 427	207 103	1 114 194
Consultants	229 732	874 340	229 732	874 340	2 446 696
Auditor	189 795	107 870	189 795	107 870	558 331
Legal	278 770	-	278 770	-	2 584 899
Patents	9 141	101 897	9 141	101 897	356 386
IT/Software	497 822	432 941	497 822	432 941	1 558 382
Other expenses	67 188	-126 535	67 188	-126 535	419 343
Total other operating expenses	2 696 829	2 780 543	2 696 829	2 780 543	13 529 370

Note 4 - Intangible assets

2021 (Amounts in NOK) (Unaudited)	Patents	Trademark	Capitalized R&D	Total intangible assets
Cost at 01.01.2021	15 002 641	23 505	28 513 020	43 539 166
Additions	446 873	-	2 400 000	2 846 873
Disposals	-	-	-	-
Cost at 31.03.2021	15 449 514	23 505	30 913 020	46 386 039
Accumulated amortisation and impairment charges 01.01.2021	10 946 238	5 669	4 346 561	15 298 469
Amortisation charges in the period	74 232	-	1 425 650	1 499 883
Accumulated amortisation and impairment charges 31.03.2021	11 020 471	5 669	5 772 212	16 798 352
Net booked value as at 31.03.2021	4 429 043	17 837	25 140 808	29 587 687
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

IFRS 16 Leases depreciation for the period 1 January to 31 March 2021 was NOK 558 081 (NOK 558 081).

2020 (Amounts in NOK) (Unaudited)	Patents	Trademark	Capitalized R&D	Total intangible assets
Cost at 01.01.2020	13 791 728	23 505	14 828 851	28 644 085
Additions	521 098	-	1 625 001	2 146 100
Disposals	-	-	-	-
Cost at 31.03.2020	14 312 827	23 505	16 453 852	30 790 184
Accumulated amortisation and impairment charges 01.01.2020	10 705 699	5 669	1 380 793	12 092 160
Amortisation charges in the period	62 708	-	741 443	804 151
Accumulated amortisation and impairment charges 31.03.2020	10 768 407	5 669	2 122 236	12 896 312
Net booked value as at 31.03.2020	3 544 419	17 837	14 331 616	17 893 872
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

Note 5 – Share option programs

As of 31.03.2021, the Group has option programs that includes a total of 43 employees in parent and subsidiary companies. The employees must work in the Group to be entitled to exercise the options at the time of vesting. The options are settled in shares at the time of vesting.

The purpose of the establishment of the option programs is to attract and retain key personnel. The fair value of the options is calculated at the grant date, based on the Black-Scholes model, and expensed over the vesting period of 4 years.

Note 6 – Cash and cash equivalents

<i>Amounts in NOK</i>	Q1 2021	Q1 2020
Cash and cash equivalents	95 378 640	26 778 506
Of which are restricted cash:		
Restricted bank deposits for employee tax withholdings	483 116	556 837
Not restricted cash	94 895 524	26 221 669

Note 7 – Interest-bearing liabilities

<i>(Amounts in NOK)</i>	1 January – 31 March 2021	1 January – 31 March 2020	1 January – 31 December 2020
Long-term liabilities due > 1 year			
Bank borrowings, long-term	14 025 000	15 838 100	15 025 000
Interest expense and fees	-1 025 000	-1 838 100	-1 025 000
Bank borrowings, long-term net of loan costs	13 000 000	14 000 000	14 000 000
Long-term liabilities due < 1 year			
Bank borrowings	4 525 137	4 736 050	4 656 000
Interest expense and fees	-525 137	-736 050	-656 000
Bank borrowings, long-term net of loan costs	4 000 000	4 000 000	4 000 000
Short-term liabilities due < 1 year			
Overdraft credit facility	-	26 750 019	1 358 824
Interest expense and fees	-	-1 320 750	-1 358 824
Bank borrowings, short-term net of loan costs	-	25 429 269	-

The fair value of the liability is considered to be equal to its book value according to the amortised cost as shown above.

Loan facility 31.03.2021 <i>(Amount in NOK)</i>	Loan origina- tion date	Principle in local cur- rency	Fixed interest loan	Termination date	Carrying value
Innovasjon Norge	27.03.2015	NOK	4.1% effective interest	10.06.2024	17 000 000

Loan facility 31.03.2020 <i>(Amount in NOK)</i>	Loan origina- tion date	Principle in local cur- rency	Fixed interest loan	Termination date	Carrying value
Innovasjon Norge	27.03.2015	NOK	5,57% effective interest	27.03.2022	18 000 000
Pareto Bank	31.05.2018	NOK	6.0% interest rate 0.25% commission rate 1% establishment rate	31.10.2020	25 429 269

Undiscounted payment profile to credit institutions

The following tables present the undiscounted payment profile to credit institutions of the Group's debt per 31 March 2021 and 31 March 2020, based on the remaining loan period at the balance sheet date.

Payment profile per 31.03.2021						
<i>Amounts in NOK</i>	2021	2022	2023	2024	After 2024	Total
Innovation Norway	3 000 000	4 000 000	4 000 000	4 000 000	2 000 000	17 000 000
Interest	525 137	492 000	328 000	164 000	41 000	1 550 137
Total instalment and interests	3 525 137	4 492 000	4 328 000	4 164 000	2 041 000	18 550 137

Payment profile per 31.03.2020						
<i>Amounts in NOK</i>	2020	2021	2022	2022	After 2023	Total
Innovation Norway	-	4 000 000	4 000 000	4 000 000	6 000 000	18 000 000
Pareto Bank	25 429 269	-	-	-	-	25 429 269
Interests	2 056 800	779 800	557 000	334 200	167 100	3 894 900
Total instalment interests	27 486 069	4 779 800	4 557 000	4 334 200	6 167 100	47 324 169

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