



## Third Quarter Report 1 July – 30 September 2018

### Rapidly Expanding Partner Network and Market Access

#### Third Quarter 2018

- Net sales: KSEK 2 727 (6 718)
- Profit for the period: KSEK -6 550 (1 657)
- Earnings per share: SEK -0,10 (0,04)
- First European OEM order received
- Renewed position in South-East Asia

#### Period 1 January – 30 September, 2018

- Net sales: KSEK 5 495 (16 275)
- Profit for the period: KSEK -12 150 (4 668)
- Earnings per share: SEK -0,28 (0,11)

## Message from the CEO

Since January this year, my primary focus is to build a distribution partner network. We started the year without any written partner agreements and expect to have at least 20 by the end of the year. Some of our partners have started to generate recurring orders and we will see a continuous increase in revenue as more partners get trained and start participating in tenders.

Since most security tenders are not made fully public, it is often a necessity to have resellers with memberships in local defense and security supplier networks. To make sure as many of these tenders as possible are available to us, we have initiated or finalized discussions with potential partners in almost all prioritized markets around the world. We have signed three new partner agreements the last month and we expect to sign several new ones every month over the coming year. Typically, there is gap in time between a new partner and the first order and we use both sticks and carrots to help the partners shorten this gap.

We participated in several tradeshows in the third quarter and met numerous potential partners, whereof several have chosen to visit our offices in Sweden. The feedback is that our offering is very attractive – we provide one of the best, the smallest and the lowest priced Raman instrument on the market. The challenges have been and continue to be our lack of distribution and that we are still relatively unknown, but our aggressive partner growth strategy is changing this in market after market.

Serstech currently has two OEM partners, both of which are active on a global scale. We have discussions with four additional, potential OEM partners and we believe that we should be able to add several more, spread across different industry segments and geographical regions. The agreements take longer to negotiate and can require significant R&D resources, but provide scalability and market access far beyond what other channels can offer.

The industry is continuing to show significant consolidation with two manufacturers being acquired during the quarter. In July, Cobalt was acquired by the US company Agilent and our direct competitor B&W Tek was acquired by Swiss company Metrohm. Most of our competition is now multinationals unwilling to partner with other companies, which provides interesting opportunities for us in both OEM partnerships and

product partnerships, such as the one with EnviroNics. The competition is also increasingly selling directly to end-customers, which allows us to sign reseller agreements with highly competent and experienced partners that were previously inaccessible to us. We expect that our end-user pricing will still be very competitive, even as some of the competition increasingly choose to go direct.

In September, five new team members joined Serstech and we now have a strong and highly competent team with an open and collaborative corporate culture. The average number of employees will be lower in 2018 than in 2017, but the performance and output are dramatically better in both R&D and sales. The sales team now consists of two full-time members in addition to myself and we will add one more person by the end of the year.

The write-off of customer liabilities has affected the result negatively by 2.5 MSEK during the quarter and most of this was related to the cancelled agreement in Indonesia. Several agreements with poorly performing partners have been cancelled and all exclusive distribution agreements have been renegotiated as non-exclusive, which allows a more rapid expansion of the partner network and dramatically reduces the risk of having poorly performing partners blocking a market.

We remain convinced that our current strategy is the right way forward and Q3 meant a further acceleration of the implementation. With a high-performance team, a quickly growing distribution network and favorably changing market conditions, we are optimistic and confident about our continued growth and that we soon reach profitability.

Stefan Sandor, CEO



## Sales and results

Net sales for the period January to September amounted to KSEK 5 495 (16 275). The reported profit for the period was KSEK -12 150 (4 668), which is lower than last year due to the fact that Serstech has chosen to focus on developing a distribution channel through new partnership agreements, which will give the company a broader and more solid base, with increased profitability in existing operations in the long term.

Profits have been adjusted for depreciation and amortization of capitalized costs.

Earnings per share during the period January to September 2018 amounted to SEK -0.19 per share (0.11).

## Investments

Serstech's total investments during the period January to September 2018 amounted to KSEK 2 535 (5 257) and relate to intangible fixed assets of KSEK 2 415 (5 247), such as capitalized expenditure for development work, and tangible fixed assets of KSEK 120 (9), such as inventory, tools and installations.

## Depreciation and amortization

The result for the period January to September 2018 has been adjusted by KSEK 3 359 (3 353) for depreciation, of which KSEK 453 (10) depreciation of equipment, tools and installations, KSEK 2 415 (5 246) depreciation of previous year's capitalised development costs and KSEK 0 (0) in goodwill amortization.

## Liquidity and financing

At the end of the period, the company had KSEK 5 558 (315) in cash and banks and KSEK 500 in unutilized overdraft credit.

The Board has concluded that the company has sufficient liquidity to implement its strategic plan. At the reporting date the company had long-term interest-bearing liabilities of KSEK 1 188 (1 167).

## Equity, share capital and number of shares

As of September 30, 2018, Serstech's equity amounted to KSEK 42 490 (41 633).

The company's equity ratio amounted to 89 percent (79) on September 30, 2018.

The share capital is divided into 64 119 306 shares with a quota value of SEK 0.11. All shares belong to the same series and have the same voting and profit rights in the company.

## Listing

The shares have been traded since September 29, 2016 on Nasdaq OMX First North under the shortname SERT and with ISIN code SE0005365095. As of June 30, 2018 the company had approximately 2000 shareholders.

## Personnel

As of September 30, 2018, Serstech had 12 employees (12): 11 men and 1 woman.

## Significant events during the period

At the end of August, Serstech terminated the distribution agreement with the partner International Outsourcing Services Pte Ltd (IOS). The total value of delivered products and services so far to Indonesia is 30 MSEK, with the latest shipment in August 2017. By terminating the distribution agreement, the initial order, valued at 67 MSEK and received in May 2016, is also terminated. The termination will not have an impact on earlier reported results, but since full payment have not been received, we have made a write-off of 2 MSEK in the third quarter.

Serstech renews its position in the Indonesian market and has appointed Wellcrown International Resources as new distribution partner for Indonesia. Wellcrown has extensive experience from the region and local representation in Indonesia and will focus on developing current and new business in the country. The new partner has established itself as a trusted supplier to both civilian and military customers throughout the region and will therefore have a greater reach than IOS, which focused only on civilian customers.

The last week of August, Serstech received its initial order from its first European OEM partner, which signed an agreement with Serstech in May 2018. The order was the first of a series of recurring orders and several orders have been placed during Q3.

On Monday, September 3 2018, Johan Raneke started at Serstech and is responsible for the acquisition and development of strategic partners. Johan has acquired 200 000 Serstech shares and now holds 200 000 shares in Serstech.

Stefan Sandor has during the period acquired an additional 200 000 shares in Serstech and now owns 800 000 shares, or approximately 1.25% of the company.

## Significant events after the period

In October 2018, Serstech has received orders, valued at in total 1 MSEK, from US and European partners. The orders will be delivered and invoiced in October and include both hardware and software.

## The future

The goal is still to reach SEK 150 million in profitable revenue on a 12-month rolling basis by the end of 2019.

## Accounting principles

The report has been prepared in accordance with BFNAR 2012: 1 Annual Report and Consolidated Financial Statements, K3. However, the transition to K3 did not entail any significant change in the accounting principles applied by the company, with the exception of the classification of items under equity. Figures given for comparison have therefore not been recalculated.

The company's assets and liabilities are stated at cost or nominal value respectively unless otherwise stated.

This report has not been subject to review by the company's auditor.

## Future reports

The company will provide continuing financial information according to the following schedule:

2019-02-27 Yearend report Jan - Dec 2018

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The information in this report is such as Serstech AB (publ.) is required to publish under the EU Market Abuse Regulation. The information was provided by the above contact persons for publication at 8.45 am on November 7, 2018.

Certified Adviser to Serstech AB is Västra Hamnen Corporate Finance AB.

## About Serstech

Serstech's products identify, handle and analyze chemicals that can affect safety in society - chemicals that are present in, for example, explosives, narcotics and other hazardous chemicals. Distributors and partners are located throughout the world. Serstech's head office is in Lund, and production takes place in Sweden.

Serstech is listed on Nasdaq First North. For further information, visit [www.serstech.com](http://www.serstech.com).

## Income Statement

	2018-07-01 2018-09-30	2017-07-01 2017-09-30	2018-01-01 2018-09-30	2017-01-01 2017-09-30	2017-01-01 2017-12-31
Amounts in KSEK					
<b>Operating income</b>					
Net sales	2 727	6 718	5 495	16 275	16 806
Capitalized work for own account	684	1 320	2 415	5 227	6 035
Other operating income	295	0	1 558	0	43
<b>Total operating income</b>	<b>3 706</b>	<b>8 038</b>	<b>9 468</b>	<b>21 502</b>	<b>22 884</b>
<b>Operating expenses</b>					
Raw materials and consumables	-1 690	-1 998	-3 158	-2 586	-5 812
Other external costs	-4 795	-875	-7 349	-3 862	-6 689
Employee benefit expenses	-1 869	-2 048	-6 376	-6 430	-8 230
Depreciation/amortization of tangible and intangible assets	-1 119	-1 117	-3 359	-3 353	-4 473
<b>Total operating costs</b>	<b>-9 473</b>	<b>-6 038</b>	<b>-20 242</b>	<b>-16 231</b>	<b>-25 203</b>
<b>Operating profit</b>	<b>-5 767</b>	<b>2 000</b>	<b>-10 774</b>	<b>5 271</b>	<b>-2 320</b>
<b>Profit from financial items</b>					
Interest income and similar	0	0	0	0	0
Interest expenses and similar	-28	-42	-268	-155	-228
Exchange gains and losses	-755	-301	-1 108	-448	0
<b>Profit after financial items</b>	<b>-6 550</b>	<b>1 657</b>	<b>-12 150</b>	<b>4 668</b>	<b>-2 547</b>
Tax on this period's profit	0	0	0	0	0
Tax adjustments on previous results	0	0	0	0	0
<b>Net profit for the period</b>	<b>-6 550</b>	<b>1 657</b>	<b>-12 150</b>	<b>4 668</b>	<b>-2 547</b>

## Balance Sheet – Assets

(Amounts in KSEK)

	2018-09-30	2017-09-30	2017-12-31
<b>ASSETS</b>			
Current new issue	0	0	0
<b>Intangible assets</b>			
Goodwill	0	0	0
Intangible assets	33 736	34 642	34 417
<b>Total intangible assets</b>	<b>33 736</b>	<b>34 642</b>	<b>34 417</b>
<b>Tangible assets</b>			
Equipment, tools, fixtures and fittings	821	1 052	964
<b>Total tangible assets</b>	<b>821</b>	<b>1 052</b>	<b>964</b>
<b>Financial assets</b>			
Financial assets	0	0	0
<b>Total financial assets</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fixed assets</b>	<b>34 557</b>	<b>35 694</b>	<b>35 381</b>
<b>Current assets</b>			
Inventories etc.			
Inventories	484	1 103	350
<b>Total</b>	<b>484</b>	<b>1 103</b>	<b>350</b>
<b>Current receivables</b>			
Accounts receivable - trade	3 114	11 808	8 520
Current tax assets	214	0	104
Other receivables	3 281	3 385	3 605
Prepaid expenses and accrued income	217	206	166
<b>Total Current receivables</b>	<b>6 826</b>	<b>15 399</b>	<b>12 395</b>
Cash and bank balances	5 558	315	1 763
<b>Total current assets</b>	<b>12 867</b>	<b>16 817</b>	<b>14 508</b>
<b>TOTAL ASSETS</b>	<b>47 425</b>	<b>52 511</b>	<b>49 889</b>

## Balance sheet – Equity and liabilities

(Amounts in KSEK)

	2018-09-30	2017-09-30	2017-12-31
<b>Equity</b>			
Equity	42 490	41 633	34 418
<b>Total equity</b>	<b>42 490</b>	<b>41 633</b>	<b>34 418</b>
Provisions	306	175	306
Deferred tax liability	0	0	0
<b>Non-current liabilities</b>			
Liabilities to credit institutions	1 188	1 167	1 750
<b>Total non-current liabilities</b>	<b>1 188</b>	<b>1 167</b>	<b>1 750</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	750	1 667	1 083
Work in progress on behalf of others	0	5 621	4 964
Accounts payable	1 626	2 100	1 131
Other current liabilities	474	- 515	5 117
Accrued expenses and deferred income	591	663	1 119
<b>Total current liabilities</b>	<b>3 441</b>	<b>9 536</b>	<b>13 415</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>47 425</b>	<b>52 511</b>	<b>49 889</b>

## Change in Equity

(KSEK)

	2018-07-01	2017-07-01	2018-01-01	2017-01-01	2017-01-01
	2018-09-30	2017-09-30	2018-09-30	2017-09-30	2017-12-31
<b>Equity brought forward</b>	<b>49 041</b>	<b>39 976</b>	<b>34 418</b>	<b>36 965</b>	<b>36 965</b>
Rights issue	0	0	24 034	0	0
Issue costs	0	0	-3 812	0	0
Profit for the period	-6 550	1 657	-12 150	4 668	-2 547
<b>Amount at end of period</b>	<b>42 490</b>	<b>41 633</b>	<b>42 490</b>	<b>41 663</b>	<b>34 418</b>

## Cash Flow Analysis

(Amounts in KSEK)

	2018-01-01 2018-09-30	2017-01-01 2017-09-30	2017-01-01 2017-12-31
<b>OPERATING ACTIVITIES</b>			
Operating profit	-10 774	5 271	-2 319
Adjustment for items not included in cash flow	3 359	3 355	4 604
Tax paid	0	0	0
Interest received	0	- 603	0
Interest paid	-268	0	-228
<b>CASHFLOW FROM OPERATING ACTIVITIES BEFORE CHANGES TO WORKING CAPITAL</b>	<b>-7 683</b>	<b>8 023</b>	<b>2 057</b>
<b>CASHFLOW FROM CHANGES IN OPERATING PROFIT</b>			
increase (-)/decrease (+) inventory	-134	217	970
increase (-)/decrease (+) receivables	5 569	-3 859	-795
increase (-)/decrease (+) current liabilities	-10 135	-1 856	3 516
increase (+)/decrease (-) supplier liabilities	494	1 114	145
increase (+)/decrease (-) loans	-333	0	-584
<b>CASHFLOW FROM OPERATING ACTIVITIES</b>	<b>-12 222</b>	<b>3 639</b>	<b>5 309</b>
<b>INVESTMENT ACTIVITIES</b>			
Acquisition of subsidiaries	0	0	0
Acquisition of property, plant and equipment	-120	-10	-9
Refundable security deposits	0	0	0
Acquisition of intangible fixed assets	-2 415	-5 246	-6 054
Contributions received development projects (change)	0	0	0
<b>CASHFLOW FROM INVSETMENT ACTIVITIES</b>	<b>-2 535</b>	<b>-5 256</b>	<b>-6 063</b>
<b>FINANCING ACTIVITIES</b>			
Overdrafts	0	0	0
Loans	-1 670	-1 020	-437
Share issue costs paid	-3 812	0	0
Rights issue	24 034	0	0
<b>CASHFLOW FROM FINANCING ACTIVITIES</b>	<b>18 552</b>	<b>-1 020</b>	<b>-437</b>
<b>CASHFLOW FOR THIS PERIOD</b>	<b>3 795</b>	<b>-2 637</b>	<b>-1 191</b>
Cash and cash equivalents at beginning of period	1 763	2 952	2 954
Cash and cash equivalents at end of period	5 558	315	1 763



## Key Figures

(SEK)	2018-01-01 2018-09-30	2017-01-01 2017-09-30	2017-01-01 2017-12-31
<b>PROFITABILITY AND RETURN</b>			
Revenue growth (%)	-66,24%	76,79%	-3,94%
Operating margin (%)	neg	24,51%	neg
Profit margin (%)	neg	21,71%	neg
Return on equity (%)	neg	11,88%	neg
<b>CAPITAL STRUCTURE</b>			
Equity (KSEK)	42 490	41 633	34 418
Balance sheet (KSEK)	47 425	52 511	49 889
Capital employed (KSEK)	44 428	45 809	37 252
Interest-bearing net debt (KSEK)	-3 620	2 834	1 070
Capital turnover rate (times)	0,11	0,42	0,34
Equity ratio (%)	89,59%	79%	68,99%
Gearing ratio (%)	4,56%	7,%	8,23%
Interest coverage	neg	34	neg
<b>CASH FLOW AND LIQUIDITY</b>			
Cash flow before investments (KSEK)	-11 889	3 639	5 309
Cash flow after investments (KSEK)	14 757	-1 617	-754
Liquid funds (KSEK)	5 558	315	1 763
<b>INVESTMENTS</b>			
Acquisition of property, plant and equipment (KSEK)	-453	-10	-9
Acquisition of intangible fixed assets (KSEK)	-2 415	-5 246	-6 054
Sales of property, plant and equipment (KSEK)	0	0	0
Acquisition of subsidiaries (KSEK)	0	0	0
Acquisition of shares and holdings (KSEK)	0	0	0
<b>PERSONNEL</b>			
Average number of employees	13	12	11
Revenue per employee (KSEK)	728	1 792	2 080
Number of employees	18	12	11
<b>DATA PER SHARE</b>			
Number of shares	64 119 306	42 746 204	42 746 204
Earnings per share	-0,19	0,11	-0,06
Equity per share (SEK)	0,66	0,97	0,81
Average number of shares	53 432 755	42 746 204	42 746 204
Earnings per average number of shares	-0,23	0,11	-0,06

## PROFITABILITY AND RETURN

Revenue growth (%)	Change in revenue as a percentage of previous period revenue
Operating margin (%)	Operating profit as a percentage of turnover
Profit margin (%)	Profit for the period as a percentage of turnover
Return on equity (%)	Profit for the period as a percentage of average equity

## CAPITAL STRUCTURE

Equity (KSEK)	Equity at the end of the period
Balance sheet (KSEK)	Total assets or total liabilities and equity
Capital employed (KSEK)	Balance sheet total less non-interest-bearing liabilities, including deferred tax
Interest-bearing net debt (KSEK)	Net interest-bearing provisions and liabilities less financial assets including liquid assets Capital turnover rate (times)
Capital turnover rate (times)	Net revenue for the year divided by average balance sheet total
Equity ratio (%)	Equity as a percentage of total assets
Gearing ratio (%)	Interest-bearing liabilities divided by equity
Interest coverage	Profit after financial items plus financial expenses divided by financial expenses

## CASH FLOW AND LIQUIDITY

Liquid funds (KSEK)	Bank balances and cash
Cash flow before investments (KSEK)	Profit before financial items plus items that do not affect cash flow less change in working capital
Cash flow after investments (KSEK)	Profit after financial items plus items that do not affect cash flow less changes in working capital and investments

## PERSONNEL

Average number of employees	Average number of employees during the period
Revenue per employee (KSEK)	Turnover divided by the average number of employees
Number of employees	Number of employees at the end of the period

## DATA PER SHARE

Number of shares	Number of outstanding shares at the end of the period
Earnings per share (SEK)	Profit for the period divided by the number of shares
Equity per share (SEK)	Equity divided by the number of shares