



FIRST QUARTER REPORT 1 January – 31 March 2019



Significant comparative sales increase

First quarter 2019

Net sales: KSEK 3 251 (1 210), **+170%**

Profit for the period: KSEK -3 659 (-3 434)

Earnings per share: SEK -0,06 (-0,06)

Earnings per average number of shares: SEK -0,06 (-0,07)

COMMENTS FROM THE CEO

The first quarter of the year delivered net sales of 3.2 MSEK, a growth of 170% compared to Q1 2018. In addition, we received an order valued at 1.1 MSEK, which will be delivered and invoiced in the second quarter. The sales growth is significant, but even more significant is the distribution of customers and orders, with a continued shift to “run-rate” business with limited or no direct involvement from Serstech’s sales team. We expect the growth to continue and that what we have seen in the first quarter will be the way of the future – more frequent, smaller orders from many different partners.

Our partner network continued to expand during the first quarter and by the end of it, we had 45 partners, covering the home countries of more than 80% of the world’s population and an even larger part of the world’s security investments. Due to the rapid growth of the partner network, we have shifted focus of our sales team and now prioritize activities directed towards existing partners rather than finding new ones. We expect the goal to reach 60 partners during the year will be met well before the end of the year.

2018 was all about building a foundation for the future and 2019 will be about revenue growth and maturation of the company, the team and the processes. In February, we added one person to the sales team and one former sales person was moved into a technical role, with the primary focus on training our partners in both the applications of our technology and the sales process. We are mainly signing up partners with experience and knowledge from the industry, but we still see a strong correlation between technical training and partner activity level and eventual sales. We will introduce an on-demand learning management system over the next few months together with a technical certification program for partners, in order to further strengthen the skills of our sales network.

By the end of 2018, we finalized two major projects, aimed at improving the quality and performance of our instrument and reducing the dependency on third-party licenses. The projects were finalized successfully and we both improved our instrument dramatically and reduced the cost of goods sold. Accounting rules require us to depreciate the capitalized work for own account over a period of five years, and as can be seen in this report the depreciation cost has increased by a bit more than a million compared to the same period last year. We will maintain this higher level of depreciation for the coming years.

Due to the long sales cycles in our industry, most of the investments we make take a year or more to generate revenue. We have during the quarter therefore secured additional credit from several

sources to allow us to continue our acceleration and expansion. We believe that we now have more than enough cash for the coming twelve months, even in the unlikely case of significantly lower than forecast sales.

The sales in the first quarter is primarily the result of the work done in early 2018. The majority of our current sales partners were added during 2018 and we therefore expect a strong development in net sales in 2019, especially during the second half of the year. We remain optimistic about the future and the net sales in Q1 are further evidence that we are on the right track and can continue the rapid growth.

Stefan Sandor, CEO



FINANCIAL COMMENTS

Sales and results

The net sales for the period has increased significantly by 170% to KSEK 3 251 (1 210). The EBITDA has also improved to KSEK -1 245 (-2 342) despite higher operational expenses. Improved sales and EBITDA can be explained by Serstech's strategy to create a solid partner network with recurring business from a large number of end-customers, which was implemented in 2018. Implementing new strategies takes time, but the improved sales are a clear indication that this strategy has set a new pace for the company.

EBIT for the period was KSEK -3 715 (-3 461) and the reported net earnings for the period was KSEK -3 659 (-3 434). The lower earnings despite the increased sales are part due to an increased depreciation of capitalized development costs and part due to higher operational expenses, mainly payroll expenses.

Earnings per share during the period amounted to SEK -0.06 per share (-0.06). Earnings per average number of shares, due to the share issue in 2018, amounted to -0,06 (-0,07).

Depreciation and amortization

The result for the period has been adjusted by KSEK 2 470 (1 119) for depreciation, of which KSEK 78 (87) refers to depreciation of equipment, tools and installations, whereas KSEK 2 392 (1 032) refers to depreciation of previous year's capitalized development costs. The increase in depreciation of capitalized development costs is effective as from January 2019 as several long-term projects have been finalized and item for depreciation.

Investments

Serstech's total investments during the period amounted to KSEK 1 158 (913) and relate to intangible fixed assets of KSEK 1 142 (893), such as capitalized expenditure for development work, and tangible fixed assets of KSEK 16 (19), such as inventory, tools and installations.

Liquidity and financing

At the end of the period, the company had KSEK 2 691 (14 496) in cash and banks and KSEK 1 000 in unutilized overdraft credit.

The management has secured additional financing if needed. 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 1 375 (1 312).

Equity, share capital and number of shares

As of December 31, 2018, Serstech's equity amounted to KSEK 38 650 (51 206).

The company's equity ratio amounted to 90 percent (83) on March 31, 2019.

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.



Hazardous chemicals can pose serious threats to humans and first responders need to quickly understand what they are dealing with.

SIGNIFICANT EVENTS DURING THE PERIOD

In July 2018, Serstech cancelled the agreement with International Outsourcing Services (IOS) in Indonesia and wrote off the remaining payment due for delivered products. After a legal process, Serstech repossessed products with a sales value of more than 2 MSEK. The value of the repossessed products is higher than the amount owed by IOS and covers all costs Serstech has had related to the matter. The products were included as an asset, valued at production cost, in the numbers for 2018 and has since turned into inventory used in the business.

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.

PERSONNEL

As of March 31, 2018, Serstech had 13 (10) employees, among which 11 men and 2 women.

ACCOUNTING PRINCIPLES

The report has been prepared in accordance with BFNAR 2012: 1 Annual Report and Consolidated Financial Statements, K3.

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.

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 March 31, 2019, the company had approximately 2200 shareholders.



Quickly identifying illegal and dangerous substances is an integral part of efficient border control.



In 2019, Serstech will start to address the pharmaceutical market, which is demanding handheld devices for rapid identification of incoming goods.

INCOME STATEMENT

	2019-01-01 2019-03-31	2018-01-01 2018-03-31	2018-01-01 2018-12-31
Amounts in KSEK			
Revenue			
Net sales	3 251	1 210	10 588
Capitalized work for own account	1 142	894	3 563
Total revenue	4 393	2 104	14 151
Expenses			
Raw materials and consumables	-1 122	-733	-5 147
Other external costs	-1 148	-1 473	-7 812
Payroll expenses	-3 368	-2 240	-9 154
EBITDA	-1 245	-2 342	-7 962
Depreciation of tangible and intangible assets	-2 470	-1 119	-4 484
EBIT	-3 715	-3 461	-12 446
Interest and similar, net	-24	-209	-293
Exchange gains and losses	79	237	408
EBT	-3 659	-3 434	- 12 331
Net Earnings	-3 659	-3 434	-12 331

BALANCE SHEET – ASSETS

	2019-03-31	2018-03-31	2018-12-31
Amounts in KSEK			
ASSETS			
Intangible assets			
Intangible assets	32 595	34 279	33 845
Total intangible assets	32 595	34 279	33 845
Tangible assets			
Equipment, tools, fixtures and fittings	709	896	771
Total tangible assets	709	896	771
Financial assets			
Total financial assets	0	0	0
Total fixed assets	33 304	35 176	34 615
Current assets			
Inventories etc.			
Inventories	1 685	899	951
Total	1 685	899	951
Current receivables			
Accounts receivable - trade	2 431	8 339	3 022
Current tax assets	155	0	122
Other receivables	2 656	2 925	3 020
Prepaid expenses and accrued income	216	153	1 246
Total Current receivables	5 458	11 417	7 410
Cash and bank balances	2 691	14 496	5 454
Total current assets	9 834	26 811	13 815
TOTAL ASSETS	43 138	61 987	48 430

BALANCE SHEET – EQUITY AND LIABILITIES

	2019-03-31	2018-03-31	2018-12-31
Amounts in KSEK			
Equity			
Equity	38 650	51 206	42 309
Total equity	38 650	51 206	42 309
Provisions	259	306	259
Non-current liabilities			
Liabilities to credit institutions	1 375	1 312	1 469
Total non-current liabilities	1 375	1 312	1 469
Current liabilities			
Liabilities to credit institutions	375	1 083	375
Work in progress on behalf of others	0	4 964	0
Accounts payable	793	1 788	2 538
Other current liabilities	418	255	479
Accrued expenses and deferred income	1 268	1 072	1 001
Total current liabilities	2 854	9 162	4 393
TOTAL EQUITY AND LIABILITIES	43 138	61 987	48 430

CHANGE IN EQUITY

	2019-01-01 2019-03-31	2018-01-01 2018-03-31	2018-01-01 2018-12-31
Amounts in KSEK			
Equity brought forward	42 309	34 418	34 418
Rights issue	0	24 034	24 579
Issue costs	0	-3 812	-4 357
Profit for the period	-3 659	-3 434	-12 331
Amount at end of period	38 650	51 206	42 309

CASH FLOW ANALYSIS

	2019-01-01 2019-03-31	2018-01-01 2018-01-31	2018-01-01 2018-12-31
Amounts in KSEK			
OPERATING ACTIVITIES			
Operating profit	-3 714	-3 224	-12 038
Adjustment for items not included in cash flow	2549	1 119	4 437
Interest paid	-24	-209	-293
CASHFLOW FROM OPERATING ACTIVITIES BEFORE CHANGES TO WORKING CAPITAL	-1 189	-2 314	-7 894
CASHFLOW FROM CHANGES IN OPERATING PROFIT			
increase (-)/decrease (+) inventory	-734	-549	-601
increase (-)/decrease (+) account receivables	591	874	5 498
increase (-)/decrease (+) other short-term receivables	1 360	-4 807	-513
increase (+)/decrease (-) account payables	-1 745	657	1 407
increase (+)/decrease (-) other short-term liabilities	206	0	-9 720
CASHFLOW FROM OPERATING ACTIVITIES	-1 511	-6 139	-11 823
INVESTMENT ACTIVITIES			
Acquisition of property, plant and equipment	-16	-19	-155
Acquisition of intangible fixed assets	-1 142	-893	-3 564
CASHFLOW FROM INVESTMENT ACTIVITIES	-1 158	-913	-3 719
FINANCING ACTIVITIES			
Loans	-94	-437	-989
Share issue costs paid	0	-3 812	0
Rights issue	0	24 034	20 222
CASHFLOW FROM FINANCING ACTIVITIES	-94	19 785	19 233
CASHFLOW FOR THIS PERIOD	-2 763	12 733	3 691
Cash and cash equivalents at beginning of period	5 454	1 763	1 763
Cash and cash equivalents at end of period	2 691	14 496	5 454

KEY FIGURES

	2019-01-01 2019-03-31	2018-01-01 2018-03-31	2018-01-01 2018-12-31
(SEK)			
PROFITABILITY AND RETURN			
Revenue growth (%)	169%	-92%	37%
Operating margin (%)	neg	neg	neg
Profit margin (%)	neg	neg	neg
Return on equity (%)	neg	neg	neg
CAPITAL STRUCTURE			
Equity (KSEK)	44 976	51 206	42 309
Balance sheet (KSEK)	43 138	61 987	48 430
Capital employed (KSEK)	40 401	59 591	44 153
Interest-bearing net debt (KSEK)	-941	2 396	-3 610
Capital turnover rate (times)	0,07	0,02	0,22
Equity ratio (%)	90%	83%	87%
Gearing ratio (%)	4,5%	5%	4,4%
Interest coverage	neg	neg	neg
CASH FLOW AND LIQUIDITY			
Cash flow before investments (KSEK)	-1 511	-6 139	-11 823
Cash flow after investments (KSEK)	-2 669	-7 052	-15 542
Liquid funds (KSEK)	2 691	14 496	5 454
INVESTMENTS			
Acquisition of property, plant and equipment (KSEK)	-16	-19	-155
Acquisition of intangible fixed assets (KSEK)	-1 142	-893	-3 564
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
PERSONNEL			
Average number of employees	15	11	11
Revenue per employee (KSEK)	300	110	1 404
Number of employees	16	10	14
DATA PER SHARE			
Number of shares	64 119 306	64 119 306	64 119 306
Earnings per share	-0,06	-0,06	-0,20
Equity per share (SEK)	0,60	0,80	0,66
Average number of shares	64 119 306	53 432 755	53 432 755
Earnings per average number of shares	-0,06	-0,07	-0,23

DEFINITIONS

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)	Net revenue for the year divided by average balance sheet total
Capital turnover rate (times)	Equity as a percentage of total assets
Equity ratio (%)	Interest-bearing liabilities divided by equity
Gearing ratio (%)	Profit after financial items plus financial expenses divided by financial expenses
Interest coverage	

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

FOR FURTHER INFORMATION, PLEASE CONTACT:

Future reports

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

2019-04-24

Annual shareholders meeting

2019-08-20

Half Year report (Jan-Jun)

2019-11-13

Quarterly report (Jan-Aug)

2020-02-27

Year End report (Jan-Dec)

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ABOUT SERSTECH

Serstech delivers solutions for chemical identifications and has customers across the world, mainly in the safety and security industry. Typical customers are customs, police authorities, security organizations and United Nations. The solutions and technology are however not limited to security applications and potentially any industry using chemicals of some kind could be addressed by Serstech's solution. Serstech is traded at Nasdaq First North and you find more information about the company at: www.serstech.com