

Q2 2019

14 August 2019

Highlights



- Revenue of USD 17.1m in Q2 vs record level of \$19.5m in Q2 2018
- Gross margin up to 42% in Q2 and H1, from 36% in the same periods last year
- Adjusted EBITDA of USD 3.3m in Q2, up from USD 2.9m in Q2 2018
- Focus on building end-user brand, developing high-end branded products and innovation
- Group revenue expectation for 2019 adjusted to a decrease of ~20% vs 2018 due to macro conditions

Two business segments; Gaming and Enthusiast driving short-term development



Gaming and Enthusiast

Data center

95% of revenue, EBITDA margin of >30%

5% of revenue, investing for long-term growth

Strategic position: Large and long-term growing markets | Supplying global brands | Market leading solutions

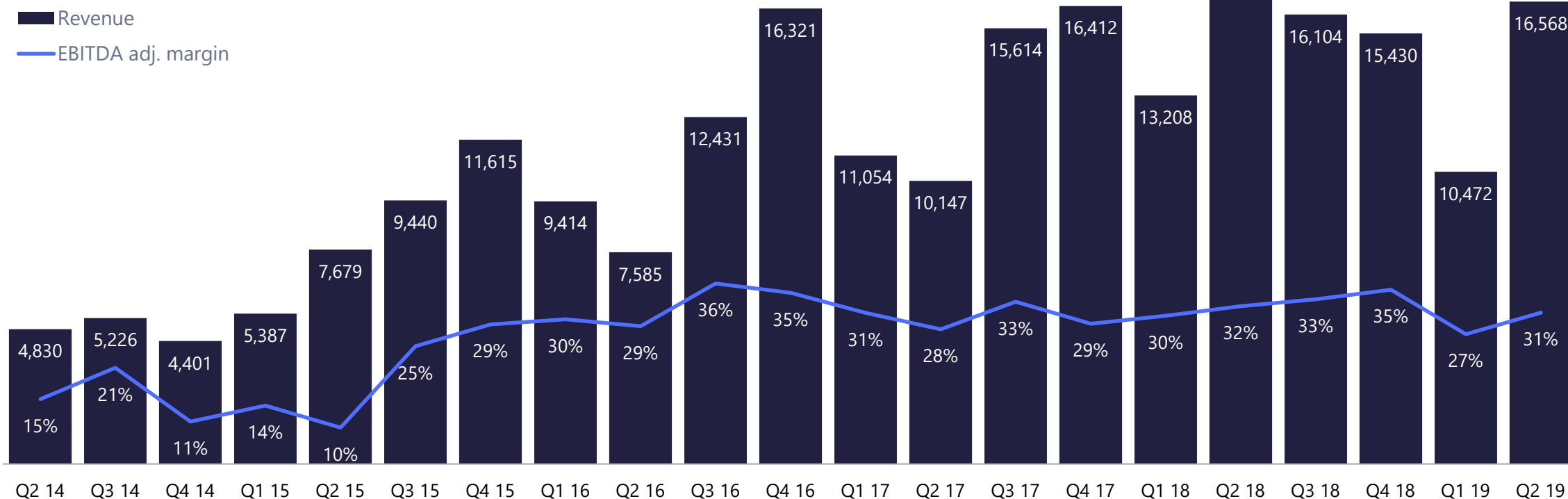
IP platform: Applications | Technology | Systems | Products | Patents | High-volume manufacturing | World wide hub infrastructure

Second-highest quarterly revenue to date for Gaming and Enthusiast segment in Q2



Quarterly Gaming and Enthusiast segment revenue and adjusted EBITDA

USD thousands and %-margin

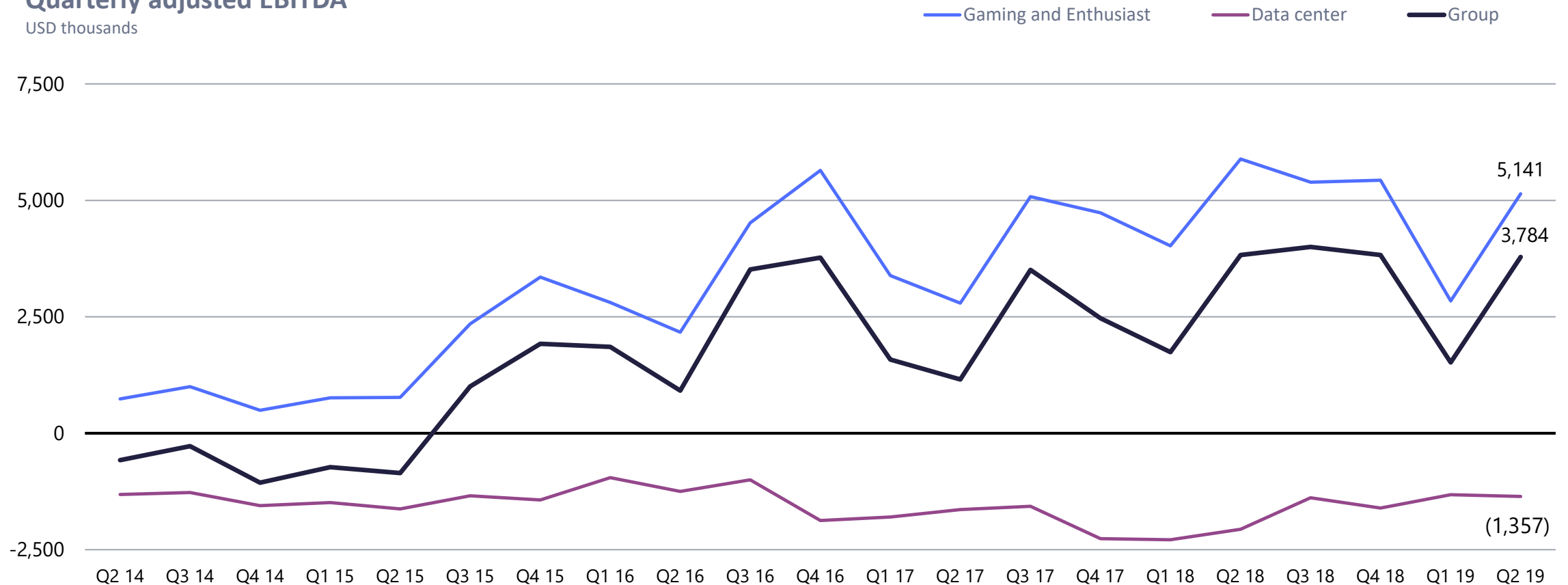


Continued sharp focus on profitable growth



Quarterly adjusted EBITDA

USD thousands





Gaming and Enthusiast segment



27 Gaming and Enthusiast OEM customers represent 95% of Group revenue

Top 5 Gaming and Enthusiast customers

ALIENWARE 

ASUS

 **CORSAIR**

NZXT

 **Thermaltake**

- Top 5 contributes with approximately 85% of total Gaming and Enthusiast revenue
- +20 additional Gaming and Enthusiast customers
- US the largest single-market with 45%-50% share of Gaming and Enthusiast revenue

Full-year 2019 impacted by macro headwinds



Asetek footprint



- Protracted degradation of US-China trade relations, 25% tariff imposed on US imports from China in May
- Brexit an additional source of uncertainty
- Impacting Gaming and Enthusiast segment due to China manufacturing and consumer exposure



The US tariff raise in May has increased uncertainty

OEM impact

- Cash flow effect of paying 25% upfront US tariff on China imports
- May 2019 increase from 10% to 25% reduces ability to internally absorb extra cost
- Incentive to minimize inventory as tariff longevity is uncertain



End user effects

- Increased economic uncertainty will typically impact retail spending
- Retail prices likely to increase as OEMs seek to offset margin impact from higher tariffs
- Likely to impact end-user demand



Asetek impact

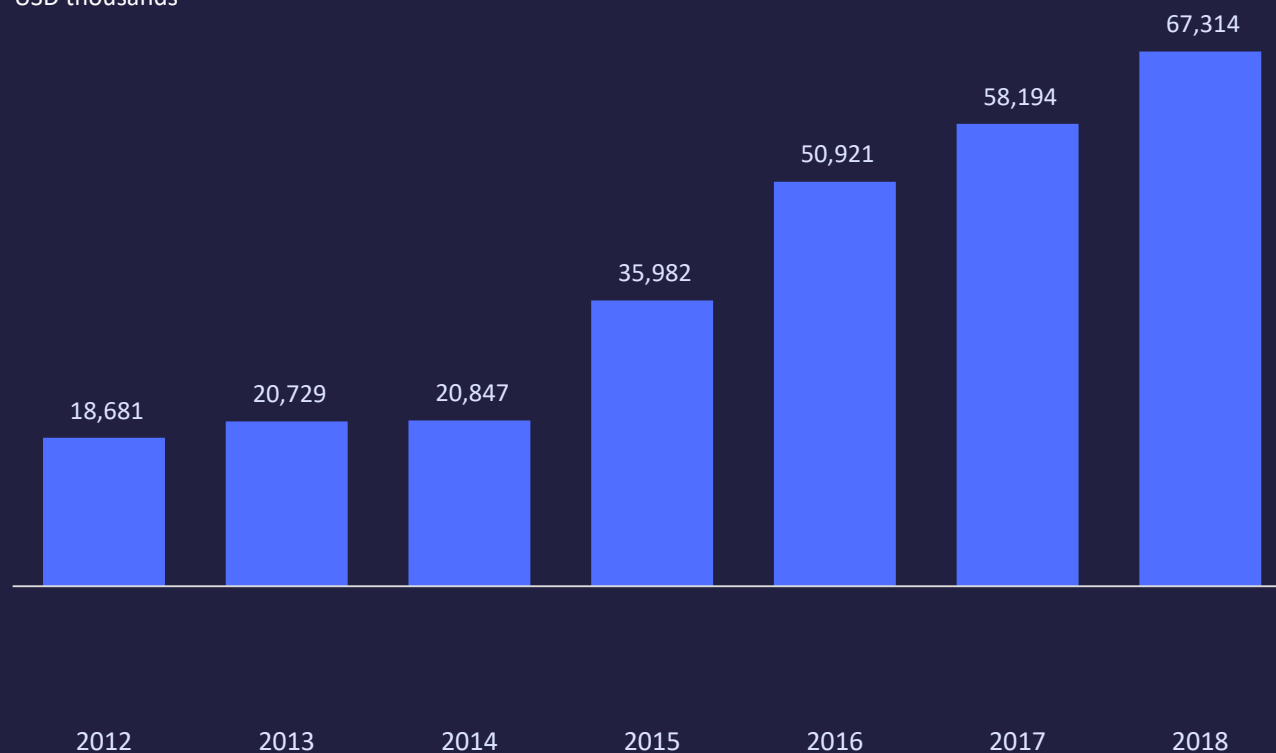
- Changes to OEM purchasing patterns
- Reduced OEM forecasts for second half 2019 demand
- Revised Group revenue expectation

Historical revenue development



Annual Group revenue

USD thousands



Full-year 2019 outlook

**Group revenue expectation for 2019
adjusted to a decrease of ~20%**

**Based on current revenue and cost
outlook, Asetek expects to report a
pre-tax profit for 2019**



Market driven by enthusiasts seeking new hardware and immersive experiences

Core customers



New hardware platforms



Immersive experiences



4K and UHD



Virtual reality



Triple-A
games



eSports



Rollout of co-branding strategy



EVGA
LIQUID COOLED
PERFECTION

Cooled by
Asetek

Why Asetek is the CLC leader for quality and reliability:

- Helium Integrity Testing to ensure each individual cooler is virtually immune to leaks.
- Automated sub-assembly stations to enhance consistency.
- 100% trace-ability throughout our production process to provide valuable insight and feedback.
- Vacuum Precision Filling to ensure optimal liquid levels.

<https://www.evga.com/articles/01081/evga-clc-liquid-cpu-cooler/>

Recent Gaming and Enthusiast product launches



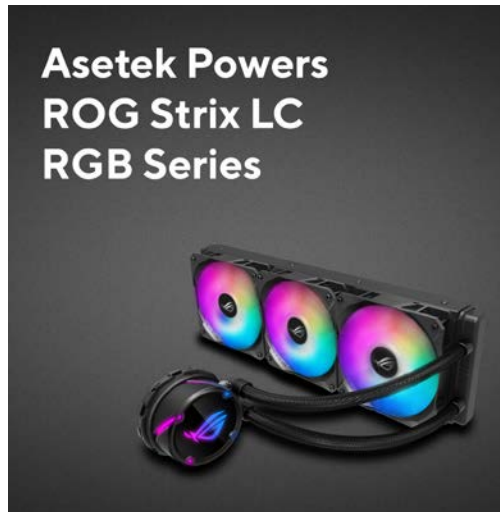
Ultra high-end GPU hybrid cooler
from EVGA



“With Asetek’s Gen6 liquid coolers powering EVGA’s new GeForce RTX 2080 Ti KINGPIN Hybrid GPU Cooler, gamers and DIY enthusiasts get it all – extreme performance combined with silent operation with plenty of room for overclocking...”

“High-end GPUs are often the most exciting component for gamers and this is the cream of the crop...”

- John Hamill, Asetek COO



“Whether you are a professional gamer or play when you can, performance and overclocking potential are key to the gaming experience...”

“We’ve partnered with Asetek, whose latest generation of hardware is trusted, reliable, and very effective...”

“Our strategic partnership allows us to grow our AIO cooler family...”

- Joe Hsieh, Chief Operating Officer at ASUS



“At Falcon, we’re focused on the performance and reliability of our cooling solutions. So, we decided to design our new Talon PC case around the highest performing All-In-One radiator and pump combination we could find...”

“We partnered again with Asetek based on their proven track record of reliability, and the stunning thermal performance of the 680LS Gen6 CPU cooler...”

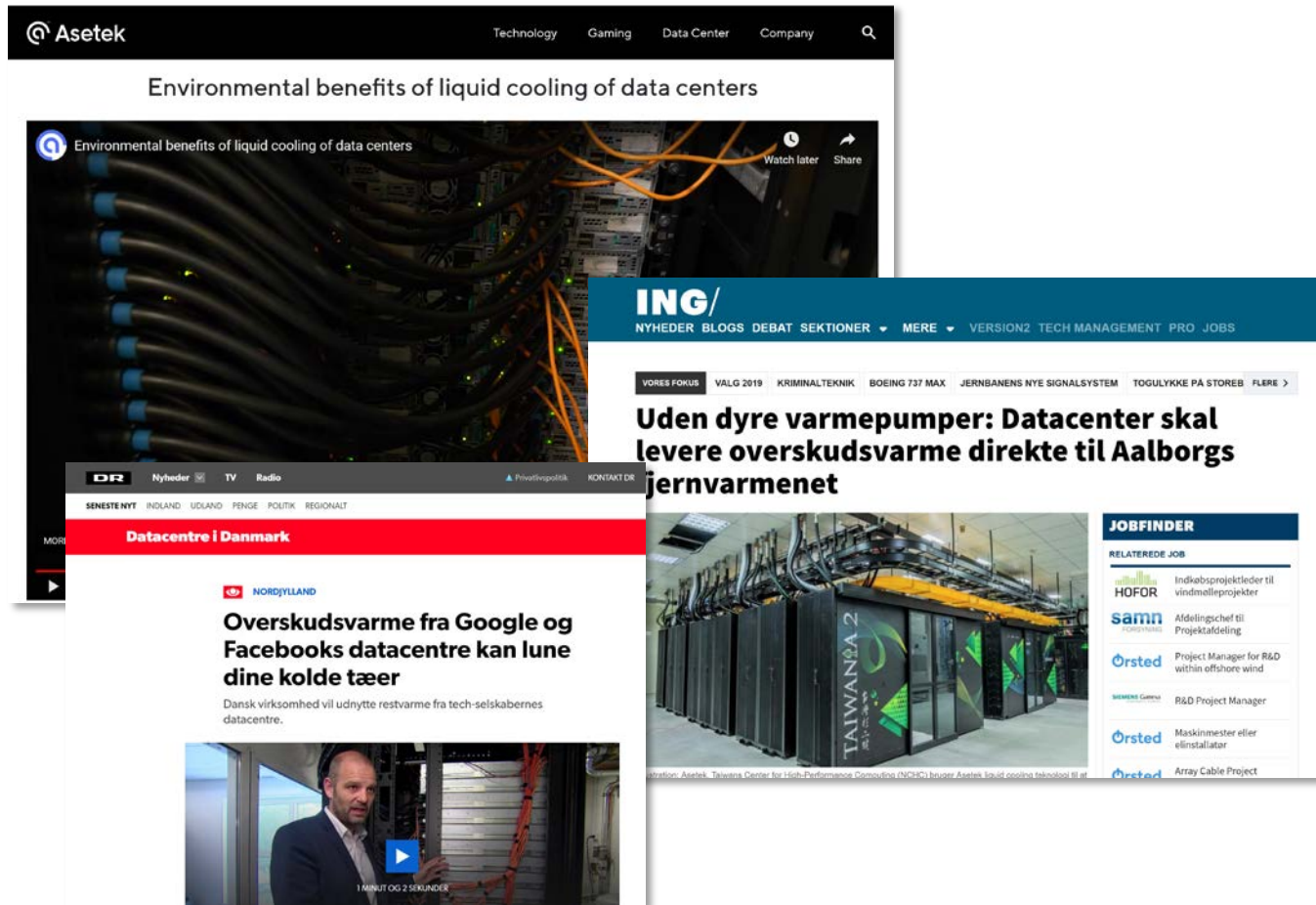
- Kelt Reeves, President of Falcon Northwest



Data center segment

- Orders received in Q2 from existing OEM partners for RackCDU™ liquid cooling installations
- USD 0.35-0.4 million order in July from existing Global Data Center OEM Partner to be completed by Q4 2019 for an undisclosed end customer and location
- Wider market adoption remains slow – need for public standards to trigger wider use of liquid cooling

Targeting influencers of data center energy efficiency regulations



- Larger-than-expected potential identified for waste heat-recycling and reduction of carbon emissions
- Increased long-term likelihood of EU legislation to regulate data center energy efficiency



Financials

Income statement



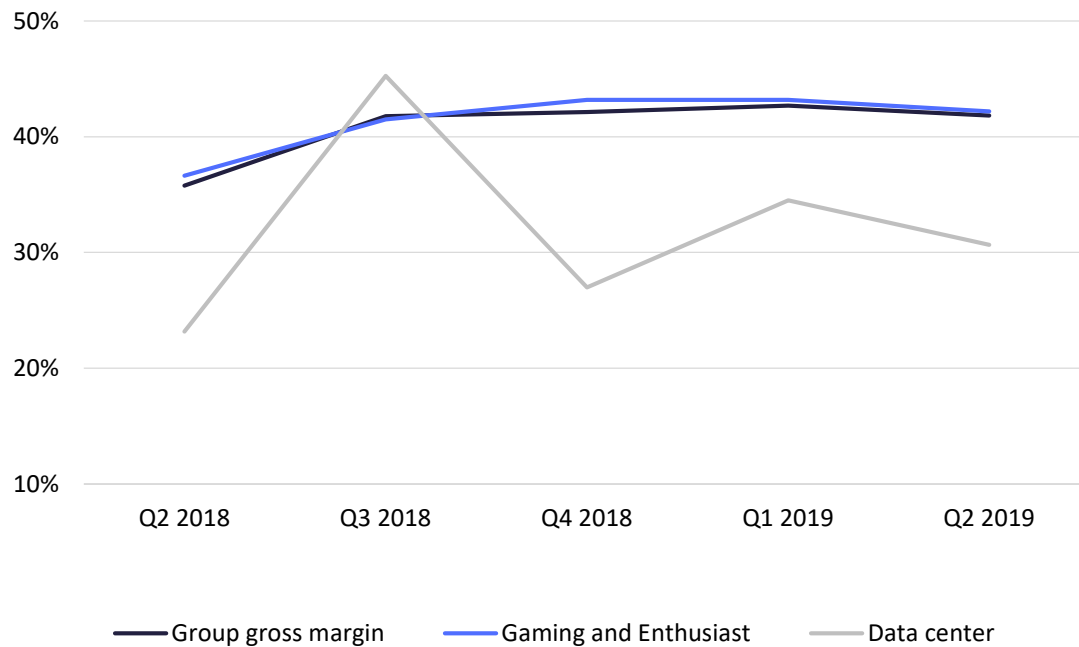
USD thousands	Q2 2019			Q2 2018		
	Group	Gaming and Enthusiast	Data center	Group	Gaming and Enthusiast	Data center
Revenue	17,103	16,568	535	19,536	18,288	1,248
Gross margin	41.8%	42.2%	30.7%	35.8%	36.6%	23.2%
Gross profit	7,156	6,992	164	6,991	6,702	289
Total operating expenses*	3,372	-1,851	-1,521	3,163	- 813	-2,350
EBITDA adjusted	3,784	5,141	-1,357	3,828	5,889	-2,061
Depreciation*	923	404	519	993	367	626
Share based compensation	153	76	77	169	42	127
EBIT	2,708	4,661	-1,953	2,666	5,480	-2,814
EBIT margin	15.8%	28.1%	N/A	13.6%	30.0%	N/A
HQ, Litigation expenses, net	669			344		
HQ, Settlement received	-753			0		
HQ, Share based compensation	68			78		
HQ, Other	606			580		
Headquarters costs	590			1,002		
EBIT, total	2,118			1,664		

- Revenue reflected fewer unit shipments in the Gaming and Enthusiast segment due to a softer market for PC's and components, as expected
- Gaming and Enthusiast sales unit volumes for Q2 2019 were 284,000, down 11% from Q2 2018 (319,000)
- Gross margins improved, driven by higher average sales price and stronger USD
- Operating expenses continue to portray a transition from Data center towards Gaming and Enthusiast as expected
- Q2 2019 HQ expenses were reduced by a favorable patent litigation settlement of USD 0.8 million

Margin development



Quarterly gross margin development



- Q2 2019 group gross margin of 41.8% (35.8%) driven by increased sales prices on Gaming and Enthusiasts products and a stronger USD
- Gaming and Enthusiast gross margin increased to 42.2% (36.6%)
- Data center gross margin increased to 30.7% (23.2%)

Cash flow statement



USD thousands	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Income (loss) for the period	1,747	-821	867	1,624	2,143
Depreciation, amortization and impairment	923	1,023	1,070	779	993
Finance cost (income) and taxes	245	-41	211	479	271
Share based compensation	222	317	336	280	247
Changes in current assets other than cash	-1,386	5,244	-2,839	1,445	-5,520
Changes in payables and accrued liabilities	3,298	-2,127	1,293	-1,932	2,379
Net cash provided (used) in operating activities	5,049	3,595	938	2,675	513
Additions to intangible assets and other assets	-356	-360	-621	-329	-313
Purchase of property and equipment & other assets	-79	-420	-349	-352	-464
Net cash used in investing activities	-435	-780	-970	-681	-777
Cash flows on credit lines/debt/lease	-254	-132	-127	-46	-63
Issuance of capital / conv debt / dividend	33	25	-2	85	289
Net cash provided (used) in financing activities	-221	-107	-129	39	226
Effect of exchange rate changes on cash	90	-56	-10	-123	-806
Net changes in cash and cash equivalents	4,483	2,652	-171	1,910	-844
Cash and cash equivalents at beginning of period	21,279	18,627	18,798	16,888	17,732
Cash and cash equivalents at end of period	25,762	21,279	18,627	18,798	16,888

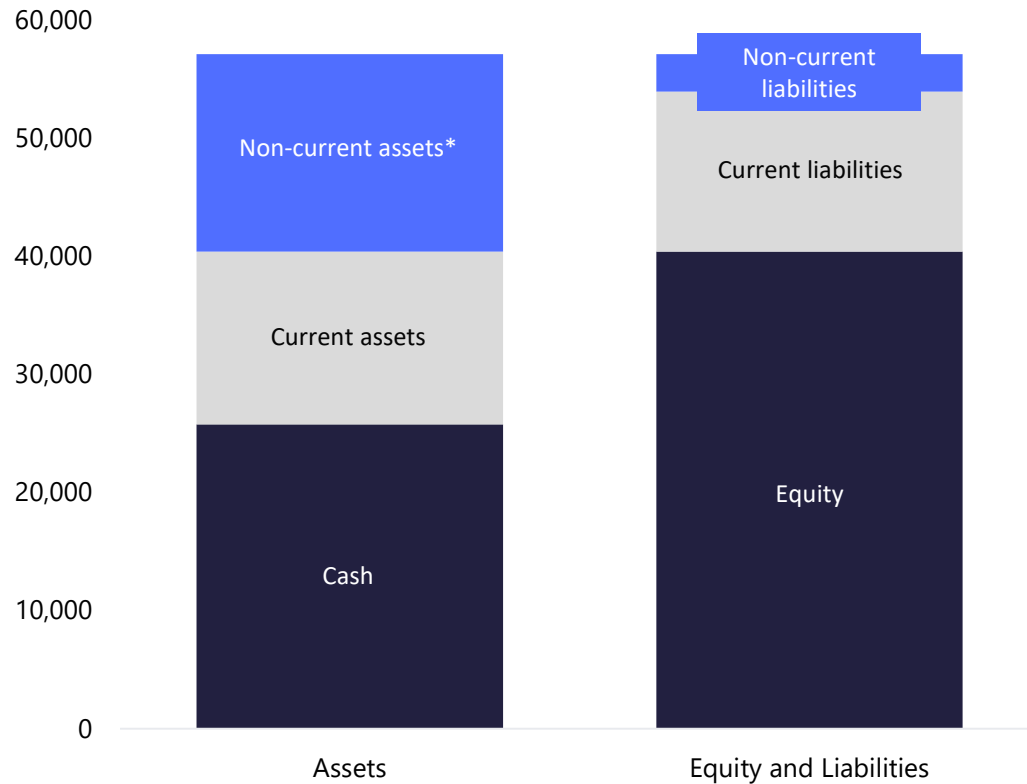
- Strong cash flow performance in H1 2019 primarily due to optimizations of accounts receivables and accounts payables

Balance sheet



Balance sheet composition

USD thousands



- Strong cash position
- Low interest-bearing debt
- Lean balance sheet enables growth and financial flexibility
- USD 3.2 million in leases capitalized following IFRS 16 implementation

* Non-current assets contain mainly capitalized R&D and deferred taxes

Financial priorities



Priorities

Continued
profitable growth
and solid financial
platform

Gaming and Enthusiast leadership

Maintaining Data center
market position

Cost base optimization

Cash flow improvement



Value drivers

- Rebranding to strengthen market position
- Revenue growth
- Diversification of revenue streams
- Margin protection and optimization

- Ensuring efficient data center operations
- OEM and end-user adoption

- Targeted IP and R&D investments
- Manufacturing
- Sales and marketing efficiency

- Cash conversion
- Continued balance sheet optimization

Summary and outlook



- Gaming and Enthusiast market improved in Q2 as expected
- Macroeconomic and industry headwinds persist, 2019 Group revenue expectation down ~20% vs 2018
- Balance sheet remains solid with a strong cash position and, given the current revenue and cost outlook, Asetek expects to deliver net profits before tax in 2019
- Focused on building end-user gaming and enthusiast brand, developing high-end branded products and innovation

Q&A





For more than 20 years, thermal solutions from Asetek have been cooling processors around the globe...

Our AIO coolers can be found in the latest high-end gaming PCs and are sought-after by enthusiasts for their reliable operation, ease-of-use and pervasive cooling. They are also used in some of the fastest computers in the world to enable advances that drive our everyday lives.

Asetek will be an end-user centric brand



Hardcore gamers

Gamers know they can count on us. We're gamers too, who love to squeeze every bit of performance from our systems. AIO coolers powered by Asetek enable GPU or CPU overclocking to ensure you get the most out of your high-end gaming PC.

Enthusiasts

We know that top-shelf performance is a must when building your own monster rig. That's why we continue to innovate and push the envelope of what's possible.

Management



Founder and CEO

André S. Eriksen

- Long-term entrepreneur and founder of Asetek
- Previously employed at Danfoss in their management trainee program
- Holds an engineering degree from Aalborg University
- Several MBA level executive management programs from Right, Stanford, MIT and Wharton



CFO

Peter Dam Madsen

- Previous positions include International Controller (DK) and Chief Financial Officer (US) at Martin Professional, Inc.
- Also served as CFO of Dantax Radioindustri A/S listed on the Copenhagen Stock Exchange
- MBA from Fort Lauderdale Metropolitan University



COO

John Hamill

- 30+ years of high tech industry sales, sales management and marketing experience
- Previously held position as VP of Global Sales at nVidia and AMD
- Has managed global sales teams
- BSc in Electronics and Electrical Engineering from the University of Glasgow in Scotland



VP Global Operations

Csaba Vesei

- 14+ years with IBM in numerous leadership roles, where he managed fulfillment, logistics, manufacturing planning, procurement, and supply chain functions
- MBA from Buckinghamshire Chilterns University, as well as a BSc in Information Technology from the College of Dunaujvaros



VP Global Sales and Marketing

Dipak Rao

- 15 years+ experience leading global teams and managing global accounts in the high-tech industry
- Prior to joining Asetek, Dipak held senior sales and product marketing roles at AMD
- B.A. (Honors) in Marketing from De Montfort University, Leicester in the U.K



VP Global R&D

Thomas Ditlev

- 15+ years of experience with Vestas and Grundfos he has an intimate background in sophisticated pumping and cooling systems designed for global markets
- M.Sc.EE degree from Aalborg University as well as an EMBA in Business Psychology from Business Institute in Aalborg



VP Global Quality

Magnus Hakanen

- 20+ years of experience from quality management positions within international organizations like VELUX, Grundfos, Vestas, Nilfisk and automotive companies
- M.Sc. in Mech. Engineering from the KTH Royal Institute of Technology in Stockholm, Sweden. In addition he also has a Six-Sigma Black Belt certification



Director Branding and Outbound Marketing

Solveig Malvik

- Long-term entrepreneur and founder of Asetek
- Previously employed at Danfoss in their management trainee program
- Holds an engineering degree from Aalborg University
- Several MBA level executive management programs from Right, Stanford, MIT and Wharton

Board of Directors



Chairman
Jukka Pertola

- 20+ years of management experience in ICT, energy, industry, infrastructure and healthcare sectors
- 10+ years of international experience in board positions at private and public companies and organizations
- Solid technological background in telecommunications, IT, digitalization and electrical engineering.
- Experience in R&D funding and technology transfer projects



Vice Chairman
Chris Christopher

- 40+ years of leadership, management and tech industry experience
- Most recent Senior VP and GM at HP for an USD 18bn portfolio consisting of blades based client systems, workstations and desktop PCs
- BSEE and MSEE from Colorado State University and an Executive MBA from Insead School of Business



Director
Maria Hjorth

- 20+ years of consulting and financial sector experience covering business development, M&A, investor relations and operational optimization
- Currently Deputy CEO of VP Securities
- MSc and BSc in Economics from University of Copenhagen and a MSc in Business Psychology from University of Westminster in London



Director
Jørgen Smidt

- 25 years of international operational and business management experience from the mobile telecoms industry.
- Analysis and implementation of investment and international marketing, market positioning and communication strategies.
- Mr. Smidt is currently a partner in Sunstone Technology Ventures Fund I, prior which his career includes 13 years with Nokia 6 years with Motorola
- Holds an engineering degree in computer science from the Engineering College of Copenhagen.



Director
Erik Damsgaard

- Experienced Managing Director from the electrical and electronic manufacturing industry
- 19 years as leader at OJ Industries in the HVAC and Floor heating industry. He is also Chairman of Danish service and distributor company Masentia A/S and Masentia Holding AB
- Holds M.Sc. in Electronics and a diploma in Business Economics, both from Aarhus University. Has graduated an Executive Management Program at INSEAD

Update on Share buyback program



- Given the company's strong cash position, sound balance sheet with limited debt and profitability over time, work has been ongoing to develop a path to pay funds back to the shareholders. Despite these initiatives, a solution to avoid double tax withholding from payments to shareholders has not yet been found
- 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. To date, this has not had a material impact on Asetek, but for the shareholders it has the implication that Asetek must withhold dividend taxes on certain payments
- Both dividend payments and payments resulting from share buyback programs require tax withholdings to the U.S. authorities. In the case of share buyback programs, U.S. tax citizens and shareholders selling more than a certain percentage of their holdings may be exempt. Scandinavian banks have not been able to offer a solution for the transaction allowing for identification of the selling shareholders. U.S. banks have not been able to offer a solution for Asetek, a Danish entity
- 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
- Asetek will continue to seek to solve the matter and establish a path for repayment of funds to investors should the company wish to do so, but does not expect at this stage to find a solution short term

Income statement



USD thousands	Q2 2019	Q2 2018	H1 2019	H1 2018	2018
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
Revenue	17,103	19,536	28,282	33,404	67,314
Cost of sales	9,947	12,545	16,357	21,458	41,142
Gross profit	7,156	6,991	11,925	11,946	26,172
Research and development	1,200	1,437	2,455	2,559	4,764
Selling, general and administrative	4,591	3,890	9,131	8,105	16,989
Other expense (income)	-753	0	-753	0	0
Total operating expenses	5,038	5,327	10,833	10,664	21,753
Operating income	2,118	1,664	1,092	1,282	4,419
Foreign exchange (loss) gain	-126	764	38	194	342
Finance income (costs)	56	53	104	43	109
Total financial income (expenses)	-70	817	142	237	451
Income before tax	2,048	2,481	1,234	1,519	4,870
Income tax (expense) benefit	-301	-338	-308	-338	-1,198
Income for the period	1,747	2,143	926	1,181	3,672
<i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i>					
Foreign currency translation adjustments	236	-1,088	-94	-171	-169
Total comprehensive income	1,983	1,055	832	1,010	3,503
Earnings per share (in USD):					
Basic	0.07	0.08	0.04	0.05	0.14
Diluted	0.07	0.08	0.04	0.04	0.14

Balance sheet



USD thousands	30.06.2019	31.12.2018
ASSETS	<i>Unaudited</i>	
<i>Non-current assets</i>		
Intangible assets	2,228	2,414
Property and equipment	7,011	4,103
Deferred income tax assets	7,148	7,458
Other assets	307	309
Total non-current assets	16,694	14,284
<i>Current assets</i>		
Inventory	2,251	2,862
Trade receivables and other	12,370	15,625
Cash and cash equivalents	25,762	18,627
Total current assets	40,383	37,114
Total assets	57,077	51,398
EQUITY AND LIABILITIES		
<i>Equity</i>		
Share capital	422	422
Retained earnings	39,228	37,704
Translation and other reserves	739	832
Total equity	40,389	38,958
<i>Non-current liabilities</i>		
Long-term debt	3,159	641
Total non-current liabilities	3,159	641
<i>Current liabilities</i>		
Short-term debt	1,544	980
Accrued liabilities	1,393	2,185
Accrued compensation & employee benefits	1,305	1,512
Trade payables	9,287	7,122
Total current liabilities	13,529	11,799
Total liabilities	16,688	12,440
Total equity and liabilities	57,077	51,398

Cash flow statement



USD thousands	Q2 2019	Q2 2018	H1 2019	H1 2018	2018
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
Cash flows from operating activities					
Income for the period	1,747	2,143	926	1,181	3,672
Depreciation and amortization	923	993	1,946	1,841	3,690
Finance income	-128	-81	-187	-95	-205
Finance costs	72	28	83	52	96
Income tax expense (benefit)	301	338	308	338	1,198
Cash receipt (payment) for income tax	-	-14	0	-14	-118
Share based payments expense	222	247	539	660	1,276
Changes in trade receivables, inventories, other assets	-1,386	-5,520	3,858	-2,108	-3,502
Changes in trade payables and accrued liabilities	3,298	2,379	1,171	-1,625	-2,264
Net cash provided by (used in) operating activities	5,049	513	8,644	230	3,843
Cash flows from investing activities					
Additions to intangible assets	-356	-313	-716	-795	-1,745
Purchase of property and equipment	-79	-464	-499	-1,213	-1,914
Net cash used in investing activities	-435	-777	-1,215	-2,008	-3,659
Cash flows from financing activities					
Funds drawn (paid) against line of credit	-10	-3	23	9	-6
Proceeds from issuance of share capital	33	289	58	699	782
Principal payments on capitalized leases	-244	-61	-409	-163	-321
Net cash provided by (used in) financing activities	-221	225	-328	545	455
Effect of exchange rate changes on cash and cash equivalents	90	-805	34	-277	-410
Net changes in cash and cash equivalents	4,483	-844	7,135	-1,510	229
Cash and cash equivalents at beginning of period	21,279	17,732	18,627	18,398	18,398
Cash and cash equivalents at end of period	25,762	16,888	25,762	16,888	18,627
Supplemental disclosures -					
Property and equipment acquired under leases	152	0	271	0	134

Statement of equity



USD thousands

	Share capital	Translation reserves	Other reserves	Retained earnings	Total
Equity at January 1, 2019	422	836	-4	37,704	38,958
Total comprehensive income - six months ended June 30, 2019					
Income for the period	0	0	0	926	926
Foreign currency translation adjustments	0	-94	0	0	-94
Total comprehensive income - six months ended June 30, 2019	0	-94	0	926	832
Transactions with owners - six months ended June 30, 2019					
Shares issued	0	0	1	59	60
Share based payment expense	0	0	0	539	539
Transactions with owners - six months ended June 30, 2019	0	0	1	598	599
Equity at June 30, 2019	422	742	-3	39,228	40,389
Equity at January 1, 2018	419	1,005	-6	31,976	33,394
Total comprehensive income - six months ended June 30, 2018					
Income for the period	0	0	0	1,181	1,181
Foreign currency translation adjustments	0	-171	0	0	-171
Total comprehensive income - six months ended June 30, 2018	0	-171	0	1,181	1,010
Transactions with owners - six months ended June 30, 2018					
Shares issued	3	0	2	693	698
Share based payment expense	0	0	0	660	660
Transactions with owners - six months ended June 30, 2018	3	0	2	1,353	1,358
Equity at June 30, 2018	422	834	-4	34,510	35,762

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