



Asetek A/S

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Denmark

Interim Report

Fourth Quarter and Year Ended December 31, 2021

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Company Registration (CVR) Number 34 88 05 22

Highlights

- 2021 revenue of \$79.8 million (10% growth) and EBITDA adjusted of \$7.2 million
- Full-year Gaming & Enthusiast revenue growth of 13% to \$72.9 million
- Q4 revenue of \$18.1 million compared with record \$27.9 million in Q4 2020
- Q4 gross margin of 42% compared with 44% in prior year
- Q4 EBITDA adjusted of \$0.7 million, compared with \$6.9 million in Q4 2020; operating expense growth reflects continuing investment in SimSports
- Encouraging market debut for SimSports with pre-orders of Invicta Sim Racing Pedals and highly positive reviews, confirming Asetek's value proposition
- 2022 group revenue growth expected of -5% to +15% from 2021 and operating income is expected to be between -\$1 and +\$5 million, reflecting a volatile global situation

Key figures

Figures in USD (000's)	Q4 2021	Q4 2020	2021	2020
	<i>Unaudited</i>	<i>Unaudited</i>		
<u>Summary P&L:</u>				
Revenue	18,069	27,850	79,803	72,750
Gross profit	7,550	12,354	33,373	34,194
Gross margin	41.8%	44.4%	41.8%	47.0%
Operating income	(554)	5,590	779	10,928
<u>Reconciliation from IFRS to EBITDA adjusted:</u>				
Operating income	(554)	5,590	779	10,928
Add: Depreciation and amortization	1,087	1,157	3,750	3,754
Add: Share based compensation	170	182	981	918
Add: Special item - impairment HPC data center	-	-	1,713	-
EBITDA adjusted (unaudited)	703	6,929	7,223	15,600
<u>Liquidity at period end:</u>				
Working capital	20,603	32,837	20,603	32,837
Cash and equivalents	23,296	27,099	23,296	27,099
Long-term debt	1,540	2,604	1,540	2,604

Summary

Financial results

- Asetek reported fourth-quarter revenue of \$18.1 million, compared with \$27.9 million in the same period of 2020. Revenue for the full year was \$79.8 million, representing growth of 10% compared with 2020. The fluctuations from prior year mainly reflect changes in the volume of shipments of Gaming and Enthusiast products. Shipments were negatively impacted by the global shortage of semiconductor chips, particularly GPUs, that has suppressed demand for Asetek's coolers.
- Gross margin was 42% for both the fourth quarter and full year, compared with 44% and 47% in the respective periods of 2020. The margin decline reflects higher component costs due to a weaker U.S. dollar as well as inflated component prices due to shortage, increased shipping costs due to global supply chain disruptions, and a change in the mix of product shipments.
- Operating loss was \$0.6 million and adjusted EBITDA was positive \$0.7 million in the fourth quarter of 2021, compared with operating income of \$5.6 million and adjusted EBITDA of \$6.9 million in the fourth quarter of 2020. Operating income for the year was \$0.8 million and adjusted EBITDA was \$7.2 million, compared with operating income of \$10.9 million and adjusted EBITDA of \$15.6 million in 2020.
- Full-year results are consistent with the outlook provided on October 28, 2021.
- Operating expense included R&D in the new SimSports line of business of \$1.1 million and \$3.1 million in the fourth quarter and full year 2021, respectively, compared with zero in the same periods of 2020.
- At December 31, 2021, Asetek had working capital of \$20.6 million including \$23.3 million of cash and cash equivalents, and long-term debt totaled \$1.5 million.

Operations

- In November, the Company began accepting pre-orders for the first of its SimSports products – Invicta Sim Racing Pedals – which include a throttle, brake pedal and add-on clutch pedal, along with its RaceHub software for quick and easy adjustments and calibration. This initial offering, available in March 2022, will provide competitive SimSports gamers with full immersion and the feeling of a real racecar.
- In October, Asetek announced a licensing, marketing and product agreement with Pagani Automobili, the Italian manufacturer of exclusive racing hypercars. Asetek plans to custom design Pagani-licensed and branded SimRacing products. Asetek and its channels will be the primary go to market strategy, but additionally Pagani will market and sell to selected Pagani resellers.
- In the fourth quarter, ten new Gaming & Enthusiast products began shipping, including five to two new customers. In October, the Company announced that Asetek technology is incorporated in the first AIO liquid cooling solutions from global gaming leader Razer. The Company also announced in the quarter that SAPPHIRE Technology is offering its new NITRO+ AIO CPU coolers powered by Asetek liquid cooling technology.

Outlook

- Management has communicated a growth target that revenue will increase by an average of approximately 15% per annum over the next five years. In some years growth may exceed the average, in other years it may be lower.
- Considering the volatile global situation, revenue growth for 2022 is expected to be in the range of -5% to +15% compared with 2021, considering assumptions such as shortages of semiconductor chips, shipping cost and capacity variances, pandemic lockdowns, general geo-political tensions as well as an overall expectation that the business climate will normalize over the course of the year. Operating income is projected to be between -\$1 and +\$5 million in 2022, reflecting the above uncertainties.

Financial review

The figures below relate to the consolidated accounts for the fourth quarter and full year 2021, which comprise activities within the two segments Gaming & Enthusiast (including SimSports) and Data Center. The figures are unaudited.

Income Statement (Consolidated)

Asetek reported total revenue of \$18.1 million in the fourth quarter of 2021, compared with \$27.9 million in the same period of 2020. Total revenue in the full year 2021 increased to \$79.8 million from \$72.8 million in 2020. Sales unit volumes of sealed loop coolers for the fourth quarter of 2021 were 302,000, a decrease of 35% from the same period of 2020 (465,000). Unit shipments for the year were 1.4 million, an increase of 15% from 2020. Average selling price (ASP) per unit increased in the fourth quarter compared to prior year and decreased for the full year 2021 compared with 2020. The fluctuations in revenue and unit shipments reflect changes in shipments of Gaming & Enthusiast products which were negatively impacted by a global shortage of semiconductor chips, particularly GPUs, that has suppressed demand for Asetek's coolers.

Gross margin was 41.8% for the fourth quarter of 2021, compared with 44.4% in the same period of 2020. Gross margin improved from the third quarter of 2021 partly due to reduced exposure to higher logistics costs. Gross margin for the full year 2021 was 41.8% compared with 47.0% in 2020. The changes in margin reflect higher component costs due to a weaker U.S. dollar, higher component prices in general, increased shipping costs due to global supply chain disruptions, and a change in the mix of product shipments.

Total operating expense increased to \$8.1 million in the fourth quarter of 2021 from \$6.8 million in the same period of 2020. For the full year 2021, operating expense increased to \$32.6 million from \$23.3 million in 2020. Operating expense in 2021 includes a gain on sale of land of \$0.7 million and a one-time impairment charge of \$1.7 million for asset write-downs and other costs associated with Asetek's planned exit of the HPC data center niche, both recognized in the third quarter.

Costs incurred for defense of existing intellectual property (IP) and securing new IP increased to \$1.3 million and \$4.7 million in the fourth quarter and full

year 2021 (\$0.7 million and \$2.4 million in the respective periods of 2020).

The cost increases in both periods also reflect investments in the new SimSports line of business. SimSports operating expense, including allocations of fixed overheads and some one-time costs, was \$1.8 million and \$6.2 million in the fourth quarter and full year 2021, respectively (zero in both periods of 2020). Excluding the gain on sale of land, the SimSports costs and the one-time impairment charge to write down data center assets, operating expense in 2021 increased 9% from 2020.

Finance expenses included net foreign exchange gains of \$0.2 million in the fourth quarter and \$0.8 million in the full year 2021, compared with losses of \$0.7 million and \$1.4 million for the respective periods of 2020.

Asetek reported loss before tax of \$0.4 million and income before tax of \$1.4 million in the fourth quarter and full year 2021, compared with income before tax of \$4.8 million and \$9.4 million for the respective periods of 2020.

Income tax was \$0.2 million benefit in the fourth quarter and \$0.1 million expense in the full year 2021 compared with tax benefit of \$1.3 million and expense of \$0.2 million in the respective periods of the prior year.

During the fourth quarter 2021, the U.S. Dollar, on average, strengthened versus the Danish krone. Currency translation adjustment of negative \$0.2 million and negative \$1.7 million is included in other comprehensive income for the fourth quarter and full year 2021 (positive \$1.3 million and positive \$2.4 million in the fourth quarter and full year 2020).

Balance Sheet (Consolidated)

Asetek's total assets at December 31, 2021 were \$75.4 million, compared with \$71.4 million at the end of 2020. The principal components of this change are as follows: Intangible assets increased by \$7.7 million following the purchase of assets from Granite Devices Inc. Property, plant and equipment increased by \$4.7 million due to the purchase of land and building construction for a future headquarters facility. Inventory grew by \$3.0 million in preparation for projected future deliveries to customers. Trade receivables decreased by \$7.9 million due to lower sales activity. Cash and equivalents declined by \$3.8 million, reflecting payments made on asset acquisitions and repurchase of common shares in 2021.

Total liabilities increased by \$3.1 million in 2021, due to offsetting factors. Trade payables increased by \$4.4 million due to proactive management of suppliers and changes in timing of payments. Accrued compensation decreased by \$1.1 million due to timing of related disbursements.

Working capital (current assets minus current liabilities) totaled \$20.6 million at December 31, 2021, a decrease of \$12.2 million from 2020 year-end, due to long-term asset acquisitions and \$4.8 million paid for the repurchase of common shares during the year. Total cash and cash equivalents were \$23.3 million at December 31, 2021.

Cash Flow (Consolidated)

Net cash provided by operating activities was \$14.3 million in 2021 compared with \$11.4 million provided in 2020. The change was principally due to changes in the timing of collections of receivables and disbursements on trade payables, partly offset by lower net income in 2021.

Cash used by investing activities was \$13.2 million in 2021 compared with \$4.8 million used in 2020. The increase was due to the purchase of land and building for a future headquarters facility and purchase of intellectual property and other assets from Granite Devices Inc., partly offset by proceeds from the sale of a parcel of land.

Cash used by financing activities was \$4.6 million in the 2021 compared with \$5.1 million used in 2020. During 2021, Asetek repurchased 400 thousand common shares for \$4.8 million and paid \$0.9 million on leases. These effects were partly offset by \$0.9 million received for shares issued on options exercised by employees and funds drawn on a line of credit.

Net change in cash and cash equivalents was a decrease of \$3.8 million in 2021, compared with an increase of \$2.6 million in 2020. The Company's cash conversion cycle improved to (35.0) days in the fourth quarter 2021 from 7.5 days in the same period of 2020.

Income Tax

Asetek moved from USA to Denmark in 2013. However, USA still considers Asetek A/S a U.S. tax subject, resulting in double taxation of Group earnings. Asetek has approached both countries' tax authorities with the aim of resolving the situation per an existing double taxation treaty. However, a determination may take several years, and the authorities are not obligated to resolve it. The Company has made progress recently in working with the tax authorities of Denmark and U.S. to possibly resolve this issue.

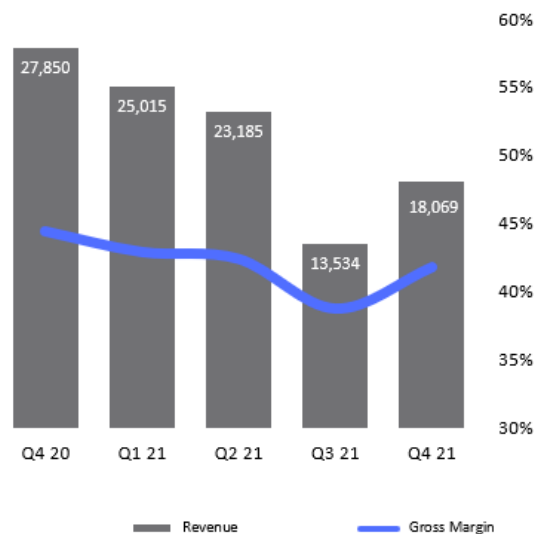
In June 2019, the U.S. released regulation for its Global Intangible Low-Taxed Income (GILTI) inclusion for U.S. taxation, effective beginning with tax year 2018. The GILTI regulation requires U.S.

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 zero in 2021 and \$0.4 million in 2020. 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 address these matters.

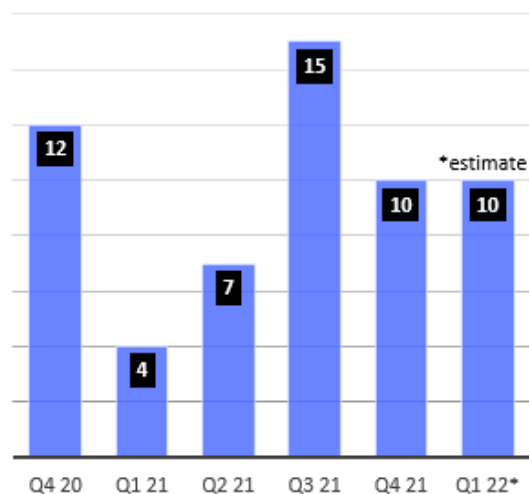
Market Update

Group revenue and Gross margin development

USD (000's)



New Gaming & Enthusiast Products begin shipping (no. of products)



Gaming & Enthusiast. In October, Asetek announced that Razer, a global gaming leader, introduced its first AIO CPU coolers, incorporating Asetek's advanced liquid cooling technology. When defining its initial component solutions, Razer looked to Asetek to provide targeted liquid cooling of CPUs through the Razer Hanbo RGB AIO Series designed for maximum thermal performance, silent operation, and improved reliability. Also, during the quarter, the Company announced that SAPPHIRE Technology is offering its new NITRO+ AIO CPU coolers powered by Asetek technology.

During the fourth quarter, ten new products began shipping, including five to two new customers. Due to changes to OEM release schedules, some introductions originally expected in the fourth quarter were moved to 2022, with ten new products expected to begin shipping in the first quarter.

SAPPHIRE and Asetek co-branding:



To support its entrance into the sim racing market, the Company in early 2021 acquired intellectual property and other assets from Finland-based Granite Devices, in addition

to acquiring the UK-based JMH Gallows Pound Ltd, owner of the UltimateGameTech brand in late 2020. Asetek has invested over \$10 million to advance the development of its SimSports offerings, including software, hardware, mechanical designs and operational proficiency. Operating expenditures for SimSports totaled \$1.8 million in the fourth quarter of 2021, including amortization.

Group Outlook

China economy and COVID-19. While the global response to COVID-19 along with the growth in vaccinations has helped to mitigate the negative economic impact in many countries, effects of the pandemic continue to disrupt commerce in China. Asetek's operations in Xiamen, China have been negatively affected by COVID-related shutdowns as well as power outages, hindering sub-suppliers' deliveries of components to the Company's contract manufacturers and consequently their shipments to Asetek's customers. The Company's operations team is closely managing the status of each affected supplier to minimize disruption to Asetek's customer order deliveries. The situation is fluid, and the timing of resolution is not known.

Global chip shortage. The global economy is currently subject to an unprecedented shortage of semiconductor chips due to production constraints and the accelerated digital transformation brought on by the pandemic. This has both increased component costs and negatively impacted demand from OEMs and end users. Asetek's OEM customers waiting for components have limited ability to build products with Asetek coolers, and end users waiting for new GPUs delay purchases of new liquid coolers. This has limited Asetek's revenue growth in the short term. The time and manner in which the global chip shortage may ease is currently unclear.

Gaming & enthusiast. Asetek will continue to invest in and launch innovative new high-performance liquid coolers for gamers and enthusiasts. The Company plans to invest in the development of its new SimSports offerings for the foreseeable future with the goal of regular product launches. Consistent with prior years, Asetek will continue to

Data center. Data center revenue declined in the fourth quarter of 2021 and represents less than 10% of the Company's consolidated revenue. For additional information, refer to the Group Outlook section.

focus its resources on the Gaming & Enthusiast segment, growing market share through existing and new OEMs, and building the Asetek brand. In conjunction with efforts to build its SimSports business, Asetek plans to enhance its direct sales channels.

Data center. In September, in order to maximize future profitability of its data center business, the Company announced that it is exiting the High-Performance Computing (HPC) niche. Asetek plans to prioritize the general data center market and support legislation increasing adoption of the Company's sustainable solutions, capitalizing on its liquid cooling technology and long-term investments in the segment.

Group results. Management has communicated a target that revenue will increase by an average of approximately 15% per annum over the next five years. In some years growth may exceed the average, in other years it may be lower.

Considering the volatile global situation, revenue growth for 2022 is expected to be in the range of -5% to +15% compared with 2021, considering assumptions such as shortages of semiconductor chips, shipping cost and capacity variances, pandemic lockdowns, general geo-political tensions as well as an overall expectation that the business climate will normalize over the course of the year. Operating income is projected to be between -\$1 and +\$5 million in 2022, reflecting the above uncertainties.

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 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 May 2021, Asetek filed a patent infringement lawsuit against Shenzhen Apaltek Co. Ltd., and Apalcoo (Guangdong Ang Pai Liquid Cooling Technology Co., Ltd.) in the Western District of Texas seeking judgment that Apaltek and Apalcoo infringe Asetek's U.S. Patent Nos. 8,240,362 ("the '362 patent") and 8,245,764 ("the '764 patent"). The defendants have answered the complaint and a jury trial is set for May 2023. Although defendants previously stated in November 2021 that they intended to file that same month review petitions in the U.S. Patent and Trademark Office (USPTO) to challenge the validity of the '362 and '764 patents, defendants have not filed any such challenges to date. Assuming such petitions are filed, Asetek will vigorously defend against them.

In June 2021, Cooler Master Co., Ltd. and CMI USA, Inc. filed in the Northern District of California an action requesting declaratory judgment that certain Cooler Master products do not infringe Asetek's '362 and '764 patents, or Asetek's U.S. Patent Nos. 10,078,354 ("the '354 patent"), 10,078,355 ("the '355 patent"), 10,599,196 ("the '196 patent"), and 10,613,601 ("the '601 patent"). Asetek filed counterclaims that Cooler Master products infringe the '362 and '764 patents, and contends that the Court lacks subject matter jurisdiction to adjudicate Cooler Master's claims regarding the other patents. Asetek has also filed a motion to stay Cooler Master's declaratory judgment suit, which is scheduled to be heard on June 9, 2022.

In January 2019, Asetek filed a patent infringement lawsuit against CoolIT in the Northern District of California seeking judgment that CoolIT infringed Asetek's '362, '764, '355 and '681 patents. CoolIT filed counterclaims asserting infringement of four CoolIT patents, which Asetek denies. Asetek also contends that CoolIT's asserted patents are invalid. On September 17, 2020, Asetek filed a related patent infringement lawsuit against Corsair in the same court seeking judgment that Corsair infringes Asetek's '354, '355, '196 and '601 patents. The court consolidated the two cases. Asetek also filed review petitions in the USPTO to challenge the validity of two of the CoolIT patents asserted in the above litigation, and the USPTO ruled that certain claims by CoolIT are unpatentable, and that additional evidence is needed for certain claims. CoolIT filed review petitions in the USPTO to challenge the validity of five Asetek patents that will be asserted at the trial. The USPTO found that the challenged claims of the '681 patent are patentable; instituted intellectual property rights on the '601 and '196 patents; and that the challenged claims of the '354 and '355 patents are unpatentable. Asetek is appealing the USPTO's findings for the '354 and '355 patents.

In view of the USPTO and appeal proceedings, the judge has stayed the litigation on one of CoolIT's patents and Asetek's '354, '355, '601 and '196 patents, and in the interim will allow the litigation to proceed on Asetek's '362 patent and the remaining CoolIT patents. Summary judgment motions are scheduled in May 2022.

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 the nullity proceedings, the German Patent Court revoked the German part of Asetek's patent in February 2020. In September 2020, Asetek initiated its appeal of the decision to the German Supreme Court, and a hearing is scheduled for May 2022. The infringement and enforcement proceedings have been stayed until a final decision on the validity of the patent is rendered by the Supreme Court, which is expected by the end of 2022.

Risk Factors

Asetek's revenue is subject to fluctuations and is dependent on its ability to develop new, high-performance products; the popularity of offerings from Asetek's customers; timely releases and availability of new GPUs and CPUs; and recurring releases of high-profile computer games in the PC industry.

In 2021, three customers accounted for 37%, 18% and 11% of total revenue. In the event of a decline or loss of any of these customers, replacement of the revenue stream would be difficult for Asetek to achieve in the short term. The Company is actively working with several of its customers to grow their respective market shares and order volumes.

COVID-19. In 2021, Asetek's operations in Xiamen, China were negatively affected by COVID-related shutdowns hindering sub-suppliers' deliveries of components to contract manufacturers and consequently their shipments to Asetek. The Company's operations team has closely managed the situation to minimize disruption. There has not been significant impact to Asetek's operations thus far in Q1 2022; however, such disruptions could occur in the future.

The Company is complying with regulations imposed by local governments for minimizing spread of the coronavirus. If production must be stopped or a critical number of employees are quarantined or become too ill to work, business operations could be adversely affected. If suppliers experience closures or reductions in capacity utilization, Asetek may have difficulty sourcing materials needed to fulfill production requirements. If customers experience adverse business consequences, demand for Asetek's products could decline. The impact of the COVID-19 pandemic is fluid, and as a result, management cannot predict the extent to which Asetek's results of operations or financial condition will ultimately be impacted.

The U.S. has imposed a 25% tariff on imports of goods manufactured in China, which include Asetek products. The existence of the tariff has contributed to the uncertainties in the Gaming & Enthusiast market. The Company continues to work to minimize the impact of the tariff on Asetek and its customers.

Asetek has recently acquired external assets to support a new venture in the SimSports market. To date, the Company has principally developed its products internally. Acquiring technology externally represents a new avenue for Asetek. The newly acquired assets may be challenging to develop into successful products for the SimSports market.

Asetek relies upon suppliers and partners to supply products and services at competitive prices. Supply constraints, such as the current global chip shortage and disruptions in the global supply chain could have a material adverse impact on the Company's ability to fulfill customer demand. Asetek's Gaming & 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.

Asetek has filed and defended lawsuits against competitors for patent infringement. While some of the 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 still considers Asetek A/S a U.S. tax subject, resulting in double taxation of Group earnings. Asetek has approached both countries' tax authorities with the aim of resolving the situation per the double taxation treaty. However, the authorities are not obligated to resolve it. In addition, recent U.S. regulations on taxation of foreign earnings have increased Asetek's tax liability. The Company is working with its tax advisors to address these matters.

Asetek operates internationally in Denmark, USA, China, and Taiwan and is subject to foreign exchange risk. Asetek's principal cash holdings are maintained in U.S. Dollar and Danish Krone.

For more information, refer to the Company's Annual Report for 2021, available at the Company's website: www.asetek.com

Condensed Interim Financial Statements

Consolidated Statement of Comprehensive Income

Figures in USD (000's)	Q4 2021	Q4 2020	2021	2020
	Unaudited	Unaudited		
Revenue	\$ 18,069	\$ 27,850	\$ 79,803	\$ 72,750
Cost of sales	10,519	15,496	46,430	38,556
Gross profit	7,550	12,354	33,373	34,194
Research and development	1,807	1,759	7,092	5,718
Selling, general and administrative	6,297	5,005	24,503	17,548
Special items	-	-	1,713	-
Other expense (income)	-	-	(714)	-
Total operating expenses	8,104	6,764	32,594	23,266
Operating income	(554)	5,590	779	10,928
Foreign exchange (loss) gain	249	(690)	832	(1,361)
Finance income (costs)	(64)	(65)	(214)	(141)
Total financial income (expenses)	185	(755)	618	(1,502)
Income before tax	(369)	4,835	1,397	9,426
Income tax (expense) benefit	215	1,305	(60)	(231)
Income for the period	(154)	6,140	1,337	9,195
<i>Other comprehensive income items that may be reclassified to profit or loss in subsequent periods:</i>				
Foreign currency translation adjustments	(186)	1,293	(1,709)	2,392
Total comprehensive income	\$ (340)	\$ 7,433	\$ (372)	\$ 11,587
Income per share (in USD):				
Basic	\$ (0.01)	\$ 0.24	\$ 0.05	\$ 0.36
Diluted	\$ (0.01)	\$ 0.23	\$ 0.05	\$ 0.35

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

Consolidated Balance Sheet

Figures in USD (000's)	31 Dec 2021		31 Dec 2020	
ASSETS				
Non-current assets				
Intangible assets	\$	10,938	\$	3,217
Property, plant and equipment		11,732		7,049
Deferred income tax assets		6,293		6,421
Other assets		362		605
Total non-current assets		29,325		17,292
Current assets				
Inventory		5,532		2,531
Trade receivables and other		17,201		24,471
Cash and cash equivalents		23,296		27,099
Total current assets		46,029		54,101
Total assets	\$	75,354	\$	71,393
EQUITY AND LIABILITIES				
Equity				
Share capital	\$	442	\$	433
Retained earnings		58,077		50,681
Translation and treasury share reserves		(10,131)		(3,589)
Total equity		48,388		47,525
Non-current liabilities				
Long-term debt		1,540		2,604
Total non-current liabilities		1,540		2,604
Current liabilities				
Short-term debt		1,703		1,525
Accrued liabilities		3,157		2,429
Accrued compensation & employee benefits		2,074		3,193
Trade payables		18,492		14,117
Total current liabilities		25,426		21,264
Total liabilities		26,966		23,868
Total equity and liabilities	\$	75,354	\$	71,393

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	Treasury share reserves	Retained earnings	Total
Equity at January 1, 2021	\$ 433	\$ 2,784	\$ (6,373)	\$ 50,681	\$ 47,525
Total comprehensive income - year ended December 31, 2021					
Income for the period	-	-	-	1,337	1,337
Foreign currency translation adjustments	-	(1,709)	-	-	(1,709)
Total comprehensive income - year ended December 31, 2021	-	(1,709)	-	1,337	(372)
Transactions with owners - year ended December 31, 2021					
Shares issued for purchase of assets	6	-	-	4,216	4,222
Shares issued for options exercised	3	-	-	862	865
Shares repurchased	-	-	(4,833)	-	(4,833)
Share based payment expense	-	-	-	981	981
Transactions with owners - year ended December 31, 2021	9	-	(4,833)	6,059	1,235
Equity at December 31, 2021	\$ 442	\$ 1,075	\$ (11,206)	\$ 58,077	\$ 48,388
Equity at January 1, 2020	\$ 423	\$ 392	\$ (4)	\$ 38,197	\$ 39,008
Total comprehensive income - year ended December 31, 2020					
Income for the period	-	-	-	9,195	9,195
Foreign currency translation adjustments	-	2,392	-	-	2,392
Total comprehensive income - year ended December 31, 2020	-	2,392	-	9,195	11,587
Transactions with owners - year ended December 31, 2020					
Shares issued	10	-	-	2,371	2,381
Shares repurchased	-	-	(6,369)	-	(6,369)
Share based payment expense	-	-	-	918	918
Transactions with owners - year ended December 31, 2020	10	-	(6,369)	3,289	(3,070)
Equity at December 31, 2020	\$ 433	\$ 2,784	\$ (6,373)	\$ 50,681	\$ 47,525

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

Consolidated Cash Flow Statement

Figures in USD (000's)	2021	2020
Cash flows from operating activities		
Income for the period	\$ 1,337	\$ 9,195
Depreciation and amortization	3,750	3,754
Gain on sale of property, plant and equipment	(688)	-
Special items	1,713	-
Finance income recognized	(2)	(51)
Finance costs recognized	216	192
Finance income, cash received	2	51
Finance costs, cash paid	(141)	(112)
Income tax expense	60	231
Cash receipt (payment) for income tax	(446)	10
Share based payments expense	981	918
Changes in trade receivables, inventories, other assets	2,957	(10,121)
Changes in trade payables and accrued liabilities	4,578	7,363
Net cash provided by (used in) operating activities	14,317	11,430
Cash flows from investing activities		
Acquisition of business	-	(1,316)
Additions to intangible assets	(5,974)	(1,571)
Purchase of property, plant and equipment	(8,322)	(1,929)
Disposal of property, plant and equipment	1,092	-
Net cash used in investing activities	(13,204)	(4,816)
Cash flows from financing activities		
Funds drawn (paid) against line of credit	260	(269)
Repurchase of common shares	(4,833)	(6,369)
Proceeds from issuance of share capital	865	2,381
Principal payments on capitalized leases	(928)	(831)
Net cash provided by (used in) financing activities	(4,636)	(5,088)
Effect of exchange rate changes on cash and cash equivalents	(280)	1,068
Net changes in cash and cash equivalents	(3,803)	2,594
Cash and cash equivalents at beginning of period	27,099	24,505
Cash and cash equivalents at end of period	\$ 23,296	\$ 27,099
Supplemental disclosures -		
Assets acquired under leases	\$ 108	\$ 668
Shares issued for purchase of assets	\$ 4,222	\$ -

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 'ASTK'.

These condensed consolidated financial statements for the quarter and year ended December 31, 2021 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 2021 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, 2021.

The Group operates in an industry where seasonal or cyclical variations in total sales are not normally experienced during the financial year.

2. Accounting for special items; HPC data center impairment charge

The Company may identify special items that are significant non-recurring items that management does not consider to be part of the Group's ordinary activities. Such special items may include one-time impairment costs, restructuring, and strategic considerations regarding the future of the business, and are presented separately in the Consolidated Statement of Comprehensive Income to provide a more comparable basis for the Company's operations. Management assesses which items are to be identified as special items and shown separately, in order to give a correct presentation of the statement of profit or loss and other comprehensive income.

In September 2021, in order to maximize future profitability of its Data center business, the Company announced that it is exiting the High-Performance Computing (HPC) niche. Asetek plans to prioritize the general data center market and support legislation increasing adoption of its sustainable solutions, capitalizing on its liquid cooling technology and long-term investments in the data center segment. In the third quarter of 2021, Asetek recorded an impairment charge of \$1.7 million representing impairment of inventory, intangible assets and equipment relating to this strategic change. This charge is presented separately as a special item in operating expense on the Consolidated Statement of Comprehensive Income.

3. Equity

At December 31, 2021, there are 26.97 million common shares issued including 1.26 million shares held in treasury. Treasury shares may be used to fulfill employee options exercised.

Beginning in 2020, the Company announced share buy-back programs to offset employee option grants. During 2021, the Company repurchased a total of 400 thousand common shares for a total cost of \$4.8 million. In 2020, the Company repurchased a total of 844 thousand shares for a total cost of \$6.4 million.

In January 2021, the Company issued 348,003 of new common shares to Granite Devices Inc. for purchase of intellectual property and other assets. Refer to Note 4.

On April 21, 2021, the Company granted a total of 216,300 equity options to employees. Each option has an exercise price of NOK100.15 per share and becomes exercisable gradually over a period of three years. Using the Black-Scholes pricing model, the estimated fair value of these options granted is approximately \$1.0 million. The fair value was calculated using the following assumptions: risk-free interest rate of 0.2%

to 0.4%; expected volatility of approximately 67%; expected option life of 2.5 to 4.0 years; dividend yield of 0%. At December 31, 2021, there were a total of 2.1 million warrants and options outstanding.

Funds received by the Company from employee exercises of warrants and options totaled \$0.9 million in 2021 (\$2.4 million in 2020). Share based payment expense associated with total warrants and options outstanding was \$1.0 million and \$0.9 million in 2021 and 2020, respectively.

4. Asset purchase and sale of land

In January 2021, the Company purchased intellectual property and other assets from Finland-based Granite Devices Inc. for a total of \$8.3 million. Asetek paid \$4.1 million in cash and the remainder in 348,003 newly issued shares of Asetek common stock. The assets acquired do not meet the definition of a business combination under IFRS 3. The transaction is accounted for under IFRS 2 Share-based payments, which requires that share transactions with non-employees be measured at fair value of the assets received. The shares issued had an estimated fair value of \$4.2 million on the Oslo Børs exchange at the transaction date. The asset purchase included intangible assets with estimated fair value of approximately \$7.8 million, the majority of which are in development. At the time they are placed in service, the assets will be amortized over their estimated useful lives ranging from 6 to 10 years.

In September 2021, the Company sold a parcel of land for \$1.1 million and recognized a gain on the sale totaling \$0.7 million, which is included as other income as an offset to total operating expense in the Consolidated Statement of Comprehensive Income.

5. Acquisition of business

In November 2020, the Company acquired 100% of the voting shares of JMH Gallows Pound Technologies Ltd. ("JMH"), a UK-based developer of hardware and software technology and the owner of the Ultimate Game Tech brand, for a sum of GBP 1 million (\$1.4 million). This acquisition will support the Company's entrance into the SimSports market. The acquisition of JMH was for cash consideration, paid in three installments over one year.

The acquisition is accounted for according to IFRS 3 Business Combinations. The fair value of the assets acquired was allocated as follows:

(USD 000's)	Fair value at date
Net assets and goodwill recognized:	of acquisition
Customer contracts	256
Developed technology	444
Other, net	11
Net assets acquired	711
Fair value of consideration transferred	(1,316)
Goodwill recognized	605

The customer contracts are fully amortized at December 31, 2021 and the developed technology is being amortized over the estimated useful lives ranging from 18 to 36 months. The goodwill is not amortized but reviewed for impairment once a year and also if events or changes in circumstances indicate the carrying value may be impaired. For additional information about this transaction, refer to Note 14 of Asetek A/S 2021 Annual Report.

6. 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 the third quarter of 2021, an impairment loss of \$0.7 million was recognized in operating expense pertaining to capitalized development costs associated with the HPC data center business (see Note 2). A reconciliation of intangible assets activity is as follows:

Intangible assets		
Unaudited, USD (000's)	2021	2020
Balance, January 1	3,217	1,920
Additions to capitalized development costs	2,442	2,015
Intellectual property acquired	7,754	278
Amortization	(1,151)	(1,601)
Impairment loss	(651)	-
Exchange rate effects and other	(673)	605
Balance, December 31	10,938	3,217

7. 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

Unaudited, USD (000's)	Q4 2021	Q4 2020
Income attributable to equity holders of the Company (USD 000's)	\$ (154)	\$ 6,140
Weighted average number of common shares outstanding (000's)	25,669	25,572
Basic income per share	\$ (0.01)	\$ 0.24
Weighted average number of common shares outstanding (000's)	25,669	25,572
Instruments with dilutive effect:		
Warrants and options	-	1,356
Weighted average number of common shares outstanding, diluted	25,669	26,928
Diluted income per share	\$ (0.01)	\$ 0.23

Full Year

Unaudited, USD (000's)	2021	2020
Income attributable to equity holders of the Company (USD 000's)	\$ 1,337	\$ 9,195
Weighted average number of common shares outstanding (000's)	25,731	25,547
Basic income per share	\$ 0.05	\$ 0.36
Weighted average number of common shares outstanding	25,731	25,547
Instruments with dilutive effect:		
Warrants and options	245	566
Weighted average number of common shares outstanding, diluted	25,976	26,113
Diluted income per share	\$ 0.05	\$ 0.35

8. 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 2021, the Group purchased services totaling approximately \$847,000 (\$662,000 in 2020) from this vendor. At December 31, 2021 and 2020, the Group had outstanding payables to this vendor of \$59,000 and \$30,000 respectively.

The Company sponsors and occasionally purchases equipment and other services from Valdemar Eriksen Racing A/S, an organization partially owned by the Company's CEO. In 2021 and 2020, the Company paid \$102,000 and \$72,000 to VER, including purchases of equipment, etc. for \$20,000 and \$10,000, respectively.

9. Deferred income tax

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, 2021, the Company has recorded deferred tax assets of \$6.3 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.

10. Segment information and disaggregated revenue

In 2021, the Company reports on two segments, Gaming & Enthusiast (including SimSports) and Data center. The Group's chief operating decision-maker, the CEO, assesses the performance of each segment principally on measures of revenue and adjusted EBITDA. The following tables present unaudited results by operating segment. Disaggregation of revenue is also presented for the major markets with each segment:

Fourth Quarter

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>Q4 2021</u>	<u>Q4 2020</u>
Revenue	17,542	24,074	527	3,776
EBITDA adjusted	3,084	8,406	(523)	(215)
EBITDA margin	17.6%	34.9%	N/A	N/A

Full Year

Figures in USD (000's)	Gaming and Enthusiast		Data center	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenue	72,938	64,719	6,865	8,031
EBITDA, adjusted	16,634	21,405	(4,374)	(1,205)
EBITDA margin	22.8%	33.1%	N/A	N/A

Reconciliation to Income before tax

<u>Figures in USD (000's)</u>	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>2021</u>	<u>2020</u>
EBITDA, adjusted - Gaming and Enthusiast	3,084	8,406	16,634	21,405
EBITDA, adjusted - Data center	(523)	(215)	(4,374)	(1,205)
Headquarters costs	(1,858)	(1,262)	(6,750)	(4,600)
Share based compensation	(170)	(182)	(981)	(918)
Depreciation and amortization	(1,087)	(1,157)	(3,750)	(3,754)
Total financial income (expenses)	185	(755)	618	(1,502)
Consolidated income before tax	(369)	4,835	1,397	9,426

Revenue Disaggregation:

<u>Figures in USD (000's)</u>	<u>Q4 2021</u>	<u>Q4 2020</u>	<u>2021</u>	<u>2020</u>
Gaming and Enthusiast segment:				
Enthusiast/DIY	11,605	20,460	55,487	54,889
Gaming/Performance PCs	5,936	3,614	17,451	9,830
Data center segment:				
OEM	528	3,776	6,865	8,031
Total revenue	18,069	27,850	79,803	72,750

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 2021. 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 2021.

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, which are described in further detail in the Group's Annual Report for 2021. The Interim Report has not been audited or reviewed by the auditors.

Asetek A/S
Aalborg, 3 March 2022

Management:

André S. Eriksen
CEO

Peter Dam Madsen
CFO

Board of Directors:

Jukka Pertola
Chairman

Erik Damsgaard
Vice chairman

Maria Hjorth
Member

Jørgen Smidt
Member

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