



THIRD QUARTER REPORT 1 January – 30 September 2019



Brake-even at EBITDA Level and Cash-flow Neutral

Third quarter 2019

- EDITDA: KSEK -72 (-4943)
- Net sales: KSEK 6 578 (2 727 + 141%)
- Profit for the period: KSEK -2 542 (-6 550)
- Earnings per share SEK -0,04 (-0,10)

Period 1 January - 30 September 2019

- EBITDA: KSEK -2184 (-8973)
- Net sales: KSEK 14 918 (5 495, +171%)
- Profit for the period KSEK -9 550 (-12 150)
- Earnings per share: SEK -0,15 (-0,19)

COMMENTS FROM THE CEO

The three-digit sales growth continued in the third quarter and the net sales closed at 6.6 MSEK compared to 2.6 MSEK in 2018. At EBITDA level we improved the result by almost 4.9 MSEK and essentially reached break-even, ending with -72 KSEK, compared to -4943 KSEK in 2018. The cashflow from operating activities, before changes to working capital, also improved dramatically, to -76 KSEK from -5431 KSEK in 2018. Compared to the third quarter in 2018, the team was on average 10 people stronger in 2019 in Sweden and Romania combined.

Our sales partner network is becoming ever more active and during the third quarter, we had the highest number of end-customer meetings in the history of the company. I feel confident that we have been able to attract the best possible partners in all prioritized markets and I now consider our partner network to be one of our most valuable assets. We do not expect the network to show net expansion the coming quarters and we will continue to review and, if needed, cancel agreements with those partners not performing.

To accelerate the development of our partners, most of which have been with the company for less than one year, we launched both the Serstech Partner Program and the Serstech Certified Professional training and certification program during the quarter. The partner program provides incentives for partners to behave, perform and report to us as we want them to. The idea is to reward the good partners and give them Gold and Platinum status and a number of extra benefits, whereas the less well-performing ones are to be identified and removed from the network. The training and certification program recognizes and aims to reduce the technical challenges inherent in Raman spectroscopy and the everyday sales challenges our partners are faced with. To achieve and retain the Gold level, a partner needs to have Serstech Certified staff, provide excellent technical service and repair service, reach the sales targets and a number of other predefined goals.

As previously communicated, the sales cycles are long and so far in 2019, our ten most active partners contributed with 86% of our total sales. The successful partners are the ones that have been with us the longest and we expect to see the remaining 75 partners making their initial or more significant contributions to our numbers in Q4 and onwards. Quarterly forecasting remains highly uncertain and most partners are still unable or unwilling to provide forecasts for their local market. The main reason for this is that our partners are providing an, until recently, unknown product to a market with sales cycles of several years. With limited statistical data, it is hard to predict the outcome of public tenders.

The opportunities in the market are large and the industry is currently dominated by large US instrument manufacturers. These companies are moving at a much slower pace than Serstech is, and we expect to be able to take a relatively large market share over the coming years. One of our main advantages today is that we are more agile and have shorter development cycles than the competitors. Another is our increasing solution and software focus, which still seems to be unique for Serstech. To leverage these two

advantages and accelerate both hardware and software development even further, we will in Q4 issue a little more than seven million new shares, to strengthen our balance sheet with approximately 25 MSEK before emission costs.

In September, we launched three new products, whereof two were versions of our Raman instrument and ChemDash software for the pharmaceutical production industry. These two products comply with the US FDA (Food and Drug Administration) regulations, which set the standard for pharmaceutical producers around the world. By launching these products, we opened up the 20-30 MEUR pharma market for our products and we expect to see significant sales contributions from them already in 2020.

The third product we launched in September was our first SERS kit. SERS stands for Surface Enhanced Raman Spectroscopy and the acronym is also part of our company name. The technology is based on resonance in nano-coated silicon surfaces and the resulting Raman signal is greatly amplified, which allows our instrument to identify substances with a weak Raman effect, such as heroin. In July, we applied for a patent of the solution.

Serstech continues to grow in both Romania and Lund, adding five team members during the third quarter. The feedback we receive from both the security and pharma markets is very positive and we remain confident that we have the right products, an excellent channel to market and a team that can continue to deliver a high growth and an imminent profitability.

Stefan Sandor, CEO



FINANCIAL COMMENTS

Sales and results

The net sales for the period January 1 to September 30 has increased significantly SEK 14 918 (5 495). The EBITDA has also improved to KSEK -2 184 (-8 973) 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 is a clear indication that this strategy has set a new pace for the company.

EBIT for the nine-month period was KSEK -9 591 (-12 332) and the reported net earnings for the period was KSEK -9 550 (-12 150). The lower earnings despite the increased sales is due to an increased depreciation of capitalized development costs and higher operational expenses.

Earnings per share during the period amounted to SEK -0.15 per share (-0.19). Earnings per average number of shares, due to the new share issue, amounted to -0,15 (-0,23).

Depreciation and amortization

The result for the period has been adjusted by KSEK 7 407 (3 359) for depreciation, of which KSEK 229 (277) refers to depreciation of equipment, tools and installations, whereas KSEK 7 178 (3 082) 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 become item for depreciation.

Investments

Serstech's total investments during the period amounted to KSEK 3 350 (2 535) and relate to intangible fixed assets of KSEK 3 300 (2 415) such as capitalized expenditure for development work, tangible fixed assets of KSEK 0 (120) such as inventory, tools and installations, and financial assets of KSEK 50 (0) for all shares in the

company Serstech Förvaltning AB, related to the employee incentive program.

Liquidity and financing

At the end of the period, the company had KSEK 2 772 (5 558) 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 present strategic plan.

At the reporting date the company had long-term interest-bearing liabilities of KSEK 2 356 (1 188).

Equity, share capital and number of shares

At the end of the period Serstech's equity amounted to KSEK 32 759 (42 490) and the company's equity ratio amounted to 82 percent (90).

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.

We have been working with our Romanian colleagues for more than a year now, with high efficiency and well-working integration with our Swedish team. We are happy to have been able to make this expansion at a time when companies in our geographical vicinity are struggling to find skilled labor

Serstech CEO Stefan Sandor on expanding the R&D team.

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 First North Growth Market under the short name SERT and with ISIN code SE0005365095. As of June 30, 2019, the company had approximately 2200 shareholders.



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

SIGNIFICANT EVENTS DURING THE PERIOD

In late August Serstech appointed Joakim Nyström as new CFO. Joakim had been acting CFO since Thomas Pileby took over as Chairman of the Board at the annual general meeting in May.

On the second of September Serstech launched new versions of the Serstech 100 Indicator and the ChemDash software, both of which to target the pharmaceutical and life-science market. The instrument and software are compliant with the FDA (US Food and Drug Administration) regulatory framework that most pharmaceutical producers around the world adhere to.

In addition to the press release Stefan Sandor, Serstech CEO stated: "The FDA compliance is an absolute requirement for sales to this segment and the feedback we have from our partners and their customers is very promising".

On the second of September, Serstech also launched its Heroin ID Kit, which is targeted at the security industry and is sold as an accessory to the Serstech 100 Indicator. During the summer, Serstech

applied for a patent for the solution, which uses SERS technology (Surface Enhanced Raman Spectroscopy) to greatly amplify the Raman signal in substances with a weak signal or high noise, such as heroin. The Heroin ID Kit solves a problem inherent in the underlying Raman technology and allows for quick and easy identification of heroin street samples.

In addition to the pressrelease, Johan Diedrich, Serstech VP R&D stated: "This is our second patent application in less than a year and we are confident that our Heroin ID Kit is one of the best in the market".

At the end of September Anna Werntoft left the board of directors to enter a new senior operational position with terms that exclude external assignments. The Serstech board will consist of three board members until the vacant position is filled. The search for a replacement started immediately and is to be concluded before the next annual general meeting.

SIGNIFICANT EVENTS AFTER THE PERIOD

On October 30, the board of directors decided to call for an extra general shareholders meeting, which will be held on November 20, to confirm the board decision to issue new shares to finance an increased sales and development effort. The reason for this is to take advantage of Serstech's unique market position and accelerate growth even further. The new share issue of 7.1 million shares will add 25 MSEK before issue cost to the company.

The share issue is guaranteed to 100% by Fårö Capital AB, today one of Serstech's largest shareholders, which is owned by Mr Christer Fähræus, a well-known entrepreneur, who also have accepted a nomination to the board of directors.



Since September 2019, Serstech now have access to the pharmaceutical production market, which is demanding handheld devices for rapid identification of incoming goods.

“*Serstech offers products and technical expertise that are rare in the industry and we are thrilled to include a version of their instrument in our portfolio. Our trace detection customers are asking for the ability to identify any found threats and Serstech's Raman device will complete our portfolio*”

RS Dynamics CEO, George Blaha on entering an OEM partnership with Serstech”.

THE FUTURE

The goal to reach SEK 150 million in profitable revenue on a 12-month rolling basis, starting from the end of 2019, remains.

PERSONNEL

As of September 30, 2019, Serstech had 17 employees, among which 13 men and 4 women.

INCOME STATEMENT

	2019-07-01 2019-09-30	2018-07-01 2018-09-30	2019-01-01 2019-09-30	2018-01-01 2018-09-30	2018-01-01 2018-12-31
Amounts in KSEK					
Revenue					
Net sales	6 578	2 727	14 918	5 495	10 588
Capitalized work for own account	974	684	3 300	2 415	3 563
Total revenue	7 552	3 411	18 218	7 910	14 151
Expenses					
Raw materials and consumables	-2 506	-1 690	-5 155	-3 158	-5 147
Other external costs	-2 707	-4 795	-6 178	-7 349	-7 812
Payroll expenses	-2 411	-1 869	-9 069	-6 376	-9 154
EBITDA	-72	-4 943	-2 184	-8 973	-7 962
Depreciation of tangible and intangible assets	-2 466	-1 119	-7 407	-3 359	-4 484
EBIT	-2 538	-6 062	-9 591	-12 332	-12 446
Interest and similar, net	-69	-28	-118	-268	-293
Exchange gains and losses	65	-460	159	450	408
EBT	-2 542	-6 550	-9 550	-12 150	-12 331
Net Earnings	-2 542	-6 550	-9 550	-12 150	-12 331

BALANCE SHEET – ASSETS

	2019-09-30	2018-09-30	2018-12-31
Amounts in KSEK			
ASSETS			
Intangible assets			
Intangible assets	29 967	33 736	33 845
Total intangible assets	29 967	33 736	33 845
Tangible assets			
Equipment, tools, fixtures and fittings	542	821	771
Total tangible assets	542	821	771
Financial assets	50	0	0
Total financial assets	50	0	0
Total fixed assets	30 559	34 557	34 615
Current assets			
Inventories etc.			
Inventories	1 875	484	951
Total	1 875	484	951
Current receivables			
Accounts receivable - trade	1 667	3 114	3 022
Current tax assets	222	214	122
Other receivables	2 396	3 281	3 020
Prepaid expenses and accrued income	308	217	1 246
Total Current receivables	4 593	6 826	7 410
Cash and bank balances	2 772	5 558	5 454
Total current assets	9 240	12 868	13 815
TOTAL ASSETS	39 799	47 425	48 430

BALANCE SHEET – EQUITY AND LIABILITIES

	2019-09-30	2018-09-30	2018-12-31
Amounts in KSEK			
Equity			
Equity	32 759	42 490	42 309
Total equity	32 759	42 490	42 309
Provisions	259	306	259
Non-current liabilities			
Liabilities to credit institutions	2 356	1 188	1 469
Total non-current liabilities	2 356	1 188	1 469
Current liabilities			
Liabilities to credit institutions	1 175	750	375
Accounts payable	1 753	1 626	2 538
Other current liabilities	403	474	479
Accrued expenses and deferred income	1 094	591	1 001
Total current liabilities	4 425	3 441	4 393
TOTAL EQUITY AND LIABILITIES	39 799	47 425	48 430

CHANGE IN EQUITY

	2019-07-01 2019-09-30	2018-07-01 2018-09-30	2019-01-01 2019-09-30	2018-01-01 2018-09-30	2018-01-01 2018-12-31
Amounts in KSEK					
Equity brought forward	35 301	49 041	42 309	34 418	34 418
Rights issue	0	0	0	24 579	24 579
Issue costs	0	0	0	-4 357	-4 357
Profit for the period	-2 542	-6 550	-9 550	-12 150	-12 331
Amount at end of period	32 759	42 490	32 759	42 490	42 309

CASH FLOW ANALYSIS

	2019-07-01 2019-09-30	2018-07-01 2018-09-30	2019-01-01 2019-09-30	2018-01-01 2018-09-30	2018-01-01 2018-12-31
Amounts in KSEK					
OPERATING ACTIVITIES					
Operating profit	-2 474	-6 522	-9 433	-10 774	-12 038
Adjustment for items not included in cash flow	2 466	1 119	7 407	3 359	4 437
Interest paid	-68	-28	-117	-268	-293
CASHFLOW FROM OPERATING ACTIVITIES BEFORE CHANGES TO WORKING CAPITAL	-76	-5 431	-2 143	-7 683	-7 894
CASHFLOW FROM CHANGES IN OPERATING PROFIT					
increase (-)/decrease (+) inventory	-122	-88	-924	-134	-601
increase (-)/decrease (+) account receivables	-158	7 009	1 355	5 406	5 498
increase (-)/decrease (+) other short-term receivables	-24	198	1 461	163	-513
increase (+)/decrease (-) account payables	605	3 697	-785	494	1 407
increase (+)/decrease (-) other short-term liabilities	-472	78	17	-10 468	-9 720
CASHFLOW FROM OPERATING ACTIVITIES	-247	-2 087	-1 019	-12 222	-11 823
INVESTMENT ACTIVITIES					
Acquisition of property, plant and equipment	0	-100	0	-120	-155
Acquisition of intangible fixed assets	-974	-683	-3 300	-2 415	-3 564
Acquisition of financial assets	0	0	-50	0	0
CASHFLOW FROM INVESTMENT ACTIVITIES	-974	-783	-3 350	-2 535	-3 719
FINANCING ACTIVITIES					
Loans	-125	-187	1 687	-1 670	-989
Share issue costs paid	0	0	0	-3812	0
Rights issue	0	0	0	24 034	20 222
CASHFLOW FROM FINANCING ACTIVITIES	-125	-187	1 687	18 552	19 233
CASHFLOW FOR THIS PERIOD					
Cash and cash equivalents at beginning of period	4 118	8 616	5 454	1 763	1 763
Cash and cash equivalents at end of period	2 772	5 558	2 772	5 558	5 454

KEY FIGURES

	2019-01-01 2019-09-30	2018-01-01 2018-09-30	2018-01-01 2018-12-31
(SEK)			
PROFITABILITY AND RETURN			
Revenue growth (%)	172%	-66%	37%
Operating margin (%)	neg	neg	neg
Profit margin (%)	neg	neg	neg
Return on equity (%)	neg	neg	neg
CAPITAL STRUCTURE			
Equity (KSEK)	32 759	42 490	42 309
Balance sheet (KSEK)	39 799	47 425	48 430
Capital employed (KSEK)	36 290	44 428	44 153
Interest-bearing net debt (KSEK)	759	-3 620	-3 610
Capital turnover rate (times)	0,34	0,11	0,22
Equity ratio (%)	82%	90%	87%
Gearing ratio (%)	10,8%	4,6%	4%
Interest coverage	neg	neg	neg
CASH FLOW AND LIQUIDITY			
Cash flow before investments (KSEK)	-1 019	-12 222	-11 823
Cash flow after investments (KSEK)	-2 226	14 757	-15 542
Liquid funds (KSEK)	2 772	5 558	5 454
INVESTMENTS			
Acquisition of property, plant and equipment (KSEK)	0	-453	-155
Acquisition of intangible fixed assets (KSEK)	-3 300	-2 415	-3 564
Sales of property, plant and equipment (KSEK)	0	0	0
Acquisition of subsidiaries (KSEK)	-50	0	0
Acquisition of shares and holdings (KSEK)	0	0	0
PERSONNEL			
Average number of employees	14	13	11
Revenue per employee (KSEK)	1 301	728	1 404
Number of employees	17	18	14
DATA PER SHARE			
Number of shares	64 119 306	64 119 306	64 119 306
Earnings per share	-0,15	-0,19	-0,20
Equity per share (SEK)	0,51	0,66	0,66
Average number of shares	64 119 306	53 432 755	53 432 755
Earnings per average number of shares	-0,15	-0,23	-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

Future reports

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

2020-02 -27

Year End report (Jan-Dec)

2020-04-27

Annual shareholders meeting

2020-04-27

Quarterly report (Jan-Mar)

2020-07-20

Half Year report (Jan-Jun)

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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 first responders. 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 Growth Market and more information about the company can be found at www.serstech.com