



# Q3 INTERIM REPORT

1 JULY – 30 SEPTEMBER 2019

Realfiction Holding AB (publ) | 559110-4616



REALFICTION™



## Q3 INTERIM REPORT – SUMMARY

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*“Inventing something with the potential to become a breakthrough technology is a rare achievement. In Realfiction, we are known for our visually breathtaking displays. But we have never made anything that could truly influence the daily life of people on a broad global scale – until now. With the invention of the ECHO technology, we could be standing with the chance to do just that. We are humbled by and very much dedicated to pursuing this opportunity. Realizing that we are still a small company with limited resources this leads to the natural conclusion that going forward, we will direct a larger part of our total resources in favor of ECHO.”*

Clas Dyrholm  
CEO, Realfiction

### Q3 2019 (1 July – 30 September 2019)

- Revenue totaled TSEK 4,296 (Q3 2018: TSEK 5,675)
- Gross profit totaled TSEK 1,969 (Q3 2018: TSEK 2,887)
- Gross profit margin was 45.8% (Q3 2018: 50.9%)
- Result after financial items amounted to TSEK -4,817 (Q3 2018: TSEK -1,505)
- Earnings per share SEK -0.31 (Q3 2018: SEK -0.13)
- Cash flow from operating activities was TSEK -3,942 (Q3 2018: TSEK -4,609)

### Q1-Q3 2019 (1 January – 30 September 2019)

- Revenue totaled TSEK 17,145 (Q1-Q3 2018: TSEK 17,980)
- Gross profit totaled TSEK 9,100 (Q1-Q3: TSEK 8,306)
- Gross profit margin was 53.1% (Q1-Q3: 46.2%)
- Result after financial items amounted to TSEK -10,901 (Q1-Q3 2018: TSEK -9,344)
- Earnings per share SEK -0.78 (Q1-Q3 2018: SEK -0.75)
- Cash flow from operating activities was TSEK -8,661 (Q1-Q3 2018: TSEK -15,512)

*“Realfiction” or the “Company” means the Group, namely Realfiction Holding AB (registered under company registration number 559110-4616) and its wholly owned subsidiary Realfiction ApS. Realfiction ApS, the Group’s operating subsidiary, was founded in 2008. Realfiction Holding AB was formed in April 2017 by way of a non-cash issue in which the shares in Realfiction ApS were exchanged for shares in Realfiction Holding AB, which resulted in the group relationship.*

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Picture on front page: Dreamoc Diamond visualization  
in an airport.

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## SIGNIFICANT EVENTS DURING Q3 2019

- On 4 July, Realfiction Holding announced its first Magic-as-a-Service media channel in the travel retail market, covering airport and ferry boat locations in the Nordic European region with strategic display placements in tax-free shops.
- On 30 July, Realfiction announced it had entered into an agreement with Mangold Fondkommission AB ("Mangold") for engagement as Certified Adviser at the Nasdaq First North exchange. This change is a result of Realfiction's current Certified Adviser's discontinuation of the Certified Adviser role in general.
- On 29 August, Realfiction announced that the timing of when its Sales Activities are expected to break-even has been pushed from any single month before the end of 2019 and into 2020 due to a temporary slow-down in the orders and revenue from its new Magic-as-a-Service concept.
- On 26 September, Realfiction had completed a Proof of Concept for its patent pending Project Echo ("ECHO") technology, thus reaching a major milestone in its mission to truly change the world of 3D. ECHO is a scalable display technology that makes it possible and cost effective to present high quality 3D in open air, without the use of glasses or other lenses and with look-around capability for groups of people.

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## SIGNIFICANT EVENTS AFTER THE END OF THE PERIOD

- On 27 October, Realfiction announced it had not reached an agreement with Bilka to continue its MaaS retail solution in Bilka stores in 2020. Realfiction has been creating unique Mixed Reality campaigns for consumer products in Bilka stores since November 2018 and has been negotiating terms to continue the initiative within Bilka in 2020. But since a balanced agreement could not be reached, it has been decided to end the cooperation from January 1st 2020.
- On 28 October, Realfiction announced it had been awarded up to 500,000 DKK as an InnoBooster grant from Innovation Fund Denmark to develop and test a 3D LCD display beta-version. The development of the technology is based on Realfiction's patent pending ECHO technology.
- On 30 October, Realfiction announced its ECHO technology can reduce the power consumption of TV displays by up to 80%. During the development of ECHO, it has become clear that implementation of ECHO into existing display technology, can reduce power consumption of the display by up to 80% due to the significant reduction in transmitted

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light. To secure the rights to this invention Realfiction has submitted an update to its ECHO patent application adding to the potential of its portfolio of patents pending regarding the ECHO technology.

- On 31 October, Realfiction announced the positive outcome of a novelty search regarding the patent pending ECHO technology. The Danish Patent and Trademark Office and Budde Schou, Patent Attorneys have carried out novelty searches as part of the patentability investigation of the invention behind the ECHO technology and conclude that Realfiction's

directional pixel technology is novel with respect to the known techniques identified by the Danish Patent and Trademark Office Examiner and presents distinct advantages.

- On 27 November, Realfiction announced that based on the authorization given by the annual general meeting held 11 June 2019, the board decided on a directed new issue of 1,483,705 shares at a price of 9.82 SEK per share. This means that the Company will receive net proceeds of approximately SEK 14.4m.



# CEO COMMENTS

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## OPPORTUNITIES AND LEARNINGS

Inventing something with the potential to become a breakthrough technology is a rare achievement. In Realfiction, we are known for our visually breathtaking displays. But we have never made anything that could truly influence the daily life of people on a broad global scale – until now. With the invention of the ECHO technology, we could be standing with the chance to do just that. We are humbled by and very much dedicated to pursuing this opportunity. Realizing that we are still a small company with limited resources this leads to the natural conclusion that going forward, we will direct a larger part of our total resources in favor of ECHO.

## ECHO

Realizing a successful proof of concept, demonstrating that the main principles of the technology works exactly as intended, was a hugely important milestone for Realfiction. The technology remains under development and there are still technological risks to overcome. But being able to demonstrate a completely new way of controlling the direction and accuracy of light from a display, we now have several ways we can go in our effort to bring this into the market. On this journey we are fortunate to have with us our long-term partner AmTRAN. Their inside knowledge of the industry and contacts to all the relevant producers will be of great value to us. They are also supporting us in the current development phase, which can help us speed up the process and limit costs. And by leading the directed share issue, we have just announced, they also emphasize their belief in the potential of the technology. We can't wait to showcase

the technology and we are currently preparing and finalizing demo kits on both OLED and LCD versions of the technology. In first half of 2020 we plan to be travelling with these and presenting them to selected industry players.

## MaaS for Retail

It is clear, that the current financial performance of our MaaS for Retail business is unsatisfactory and calls for reflection. We have gained a lot of valuable experience in the way our Magic-as-a-Service (MaaS) model fits into the retail world. The brand owners have been really positive about the solution and many are looking at how they can use it as part of their plans for 2020. So, it seems clear that the value proposition

works as intended. After having reviewed our activities in Bilka throughout 2019, it is also clear that we need to handle the implementation and logistical part of the solution differently. We still believe there is a large potential in

the model, also – or maybe in particular – if we look to the wider and much larger international markets, but it requires an approach that is more scalable. So, due to these observations and the added focus upon ECHO, we have refocused our plan and will continue with our local retail activities in a leaner organizational setup that requires fewer investments and resources from our side while we look for ways to scale what works in cooperation with much larger international retailers and brands.

**“ We have never made anything that could truly influence the daily life of people on a broad global scale – until now. ”**

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### **MaaS for Exhibitions**

Earlier this year, we adjusted our MaaS for Exhibitions approach to a more direct route towards industry companies that are frequent participants in trade fairs and other events. As a result, we have now successfully built a strong pipeline of orders, with many being realized already in Q4 this year and more following in early 2020. These companies have a great need for wow-factor to attract and mesmerize their customers at these expos, and Magic-as-a-Service provides exactly that in a simple and attractive one-stop-shopping model. As the solution incorporates rental of hardware, development of bespoke 3D animations and logistical services, our profit margin is much higher in this track than when we are purely selling hardware. And each company will often come back several times for a repetition, renewal or expansion of the MaaS solution.

### **Experience (Hardware)**

Our network of resellers is still doing a great job selling our solutions. And we value these cooperation's greatly as some of these partners can also play a key role in further scaling the MaaS business in other regions. There is no doubt that many of our resellers have the expertise and capacity to do more.

With the announcement of the directed share issue that will bring approximately SEK 14.4m in net proceeds to Realfiction, we are able to proceed with our plans on both MaaS and the development of ECHO. And with the strengthened support from experienced tech investors we are very optimistic about our chances for success.



**Clas Dyrholm**

CEO, Realfiction Holding AB





# INNOVATION

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Since the beginning of our journey more than a decade ago, our vision has always been about creating experiences that bring people together. At the heart of this vision sits our innovation team, a group of dedicated, like-minded individuals all sharing the belief that our technology should be about enabling magical moments that can be collectively experienced and shared with others. Positioned in the so-called field of Mixed Reality, Realfiction is dedicated to exploring and inventing technology that breaks with the current approach of head-mounted wearables, as we believe this is just the first, primitive stage. We want to create social Mixed Reality that takes back the public space and enables epic experiences that challenge the very perception of reality.

## PROJECT ECHO – TRANSFORMING SCIENCE FICTION INTO REALITY

We have intensified our investment in innovation – and we now believe that we have found the technology that will allow us to invent the holy grail of 3D experiences; free-floating holograms that require no glasses, devices or other lenses between the human eye and the effect, and where 3D objects can be viewed and interacted with from different angles. This display has for many years existed purely as an item of science fiction, deemed

improbable to ever surface in our present lifetime. However, with the recently submitted patent applications for the new directional pixel technology, referred to as Project ECHO, Realfiction is finally on the path to materialize this dream and bring it to market. Project ECHO is currently the main focus of our development department, with potential to provide significant licensing and joint cooperation opportunities in the future.

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Picture above: Steen Iversen and Morten Corell from Realfiction's R&D department.

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## VISION

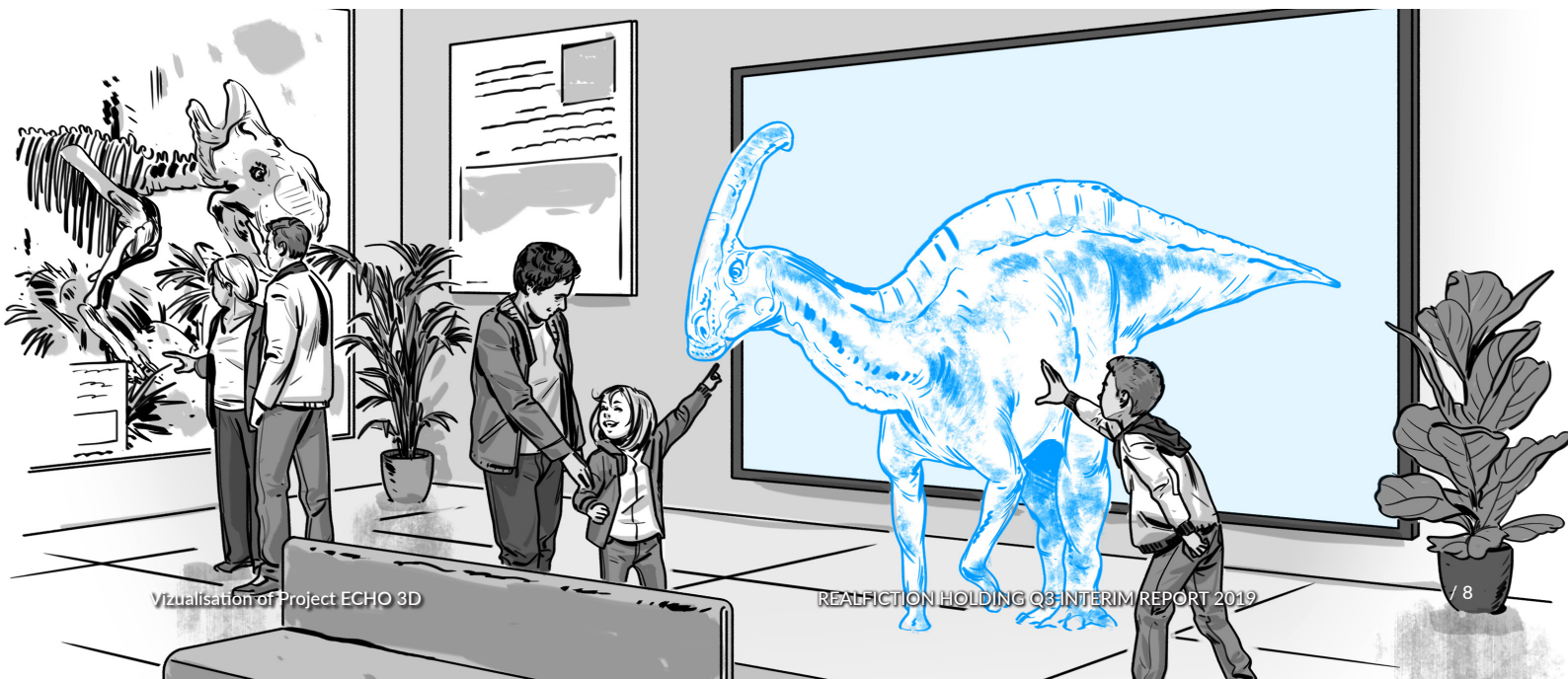
This new technology is expected to make it possible to watch, enjoy and use visual presentations in ways that so far have been exclusive to science fiction universes such as Iron Man, Minority Report, Star Wars, etc. Finally, fiction can become a natural part of social interactions between human beings in the real world. This is now within reach with the Project ECHO pixel technology. Assuming Realfiction succeeds in developing this patent pending technology, the Company believes it could potentially set a new standard for home entertainment, how we experience TV shows, series and movies on our phones, tablets and TV's, in comparison to the switch from black and white to color TV.

The objective is to manufacture new directional pixels to present a clear path towards commercial mass production of displays comprising millions of such directional pixels. In its final and fully commercial form, the technology and related content effects will be available at scale and at price points that enable consumer adoption (B2C). However, it is expected that the first working products will target certain industrial (B2B) applications with very specific requirements

## PROOF OF CONCEPT AND PATENTABILITY

The Proof of Concept was announced on 26 September 2019. The essence of the Proof of Concept is the demonstration that directional pixels can be constructed using the ECHO technology, that is much more precise, faster and scalable to larger displays than other types of directional pixels.

In order to evaluate the patentability, it is common practice that the European patent authorities research databases all over the world, to search for existing and filed patents similar to ECHO's. However, this is a process that commonly takes several years to complete. Realfiction therefore requested novelty searches from Budde Schou and the Danish Patent and Trademark Office to obtain an early assessment of ECHO's position. A firm conclusion presents that Realfiction's directional pixel technology (ECHO) is indeed novel concerning the known techniques identified.







## POTENTIAL

During the recent development process, a new discovery has shown that the ECHO principle can be implemented into existing display technologies, and significantly reduce the overall power consumption with up to 80%. This new and groundbreaking feature potentially paves the way for a faster time to market for ECHO, as the core technology behind the add-on power reduction could be licensed to key industry manufacturers of commercial television displays.

Project ECHO represents a licensing opportunity to Realfiction, due to materialize gradually. However, as with all other development projects, it should be noted that a risk exists that the development of

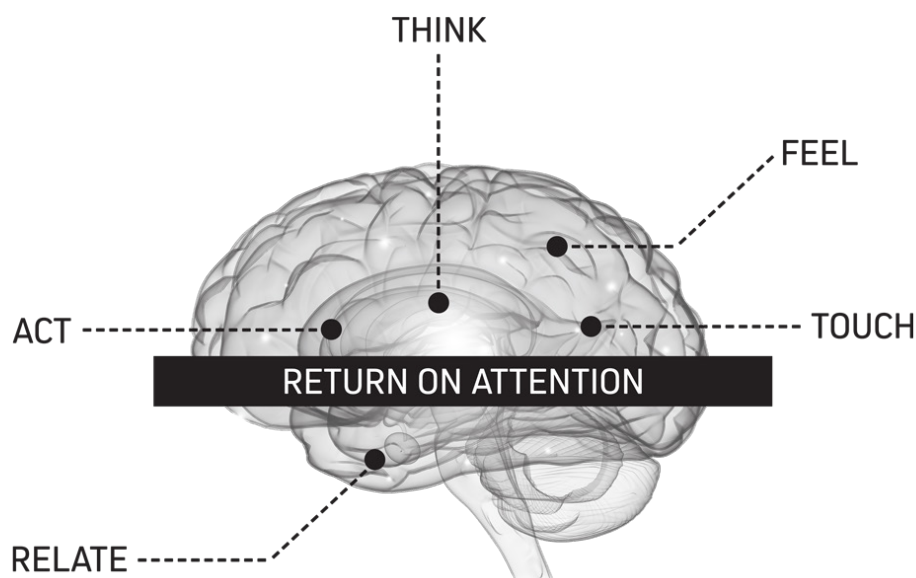
Project ECHO may be delayed, impeded or challenged by others and other, currently unknown technologies.

## INNOVATION FUND DENMARK

In late October, we were pleased to announce that we'd been awarded a grant from the Innovation Fund Denmark, as part of their InnoBooster program. The grant totals a value of up to 500.000 DKK and will cover approximately 33% of the expected cost of developing and testing a beta-version of a 3D LCD display that will allow us to demonstrate the features and benefits of incorporating the new technology into a flat screen display.

# REALFICTION'S BUSINESS AND CONCEPT

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## ABOUT THE COMPANY

Realfiction develops, sells and rents out market leading Mixed Reality (MR) products and services based on innovative, as well as patent and design protected, hardware platforms that have been developed over more than a decade. All of the above is packaged into a simple, profitable and powerful service concept that we call “Magic-as-a-Service”. The company’s MR displays are especially well-suited for social environments as they do not require special glasses or other accessories.

## RELEVANT ACROSS MANY INDUSTRIES

Examples of customer groups that can benefit from the company's products and services are shopping centers and department stores, car manufacturers, experience-based businesses such as amusement parks and museums, natural meeting points such as airports and travel centers as well as sectors such as education, architecture, manufacturing and construction, where there is a strong demand for real-time 3D visualizing.

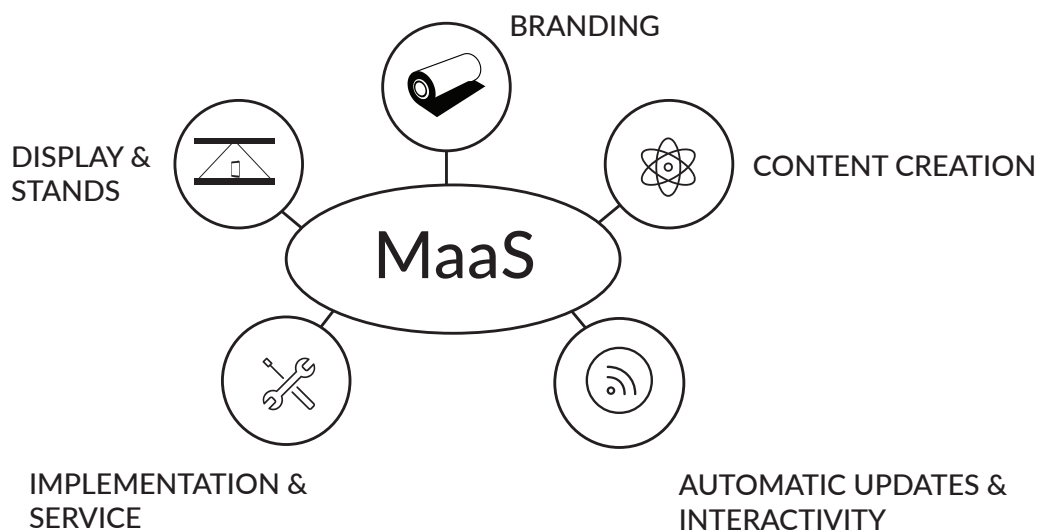
## BRAND AWARENESS AND CUSTOMER CONVERSION

Realfiction's MR solutions can create interest for a brand or a specific product in a very visual and engaging way. Based on this attention, concrete value can be delivered, for example in the form of increased sales of a product and/or the conversion of visitors into members of bonus or loyalty programs. The company calls this method “Return on Attention”.



## SALES AND BUSINESS MODEL

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### MAGIC-AS-A-SERVICE (MaaS)

Realfiction continues to accelerate its Magic-as-a-Service (MaaS) business model, offering the Company's full-solution concept as turnkey campaigns or event installations. The MaaS model provides retailers and brand owners with a very flexible way of utilizing Realfiction's portfolio of Mixed Reality displays, without the need for long-term investments in the hardware or involve external creative agencies.

With the MaaS business model, Realfiction provides domestic and international companies with a new and attractive way of showcasing their products and services towards customers. By delivering complete end-to-end solutions, Realfiction takes ownership of the entire value chain and customer journey from the creative storyboard, development of 3D content, holographic display rental, branding, and on-site installation. To deliver time and cost-efficient 3D content to a variety of different clients, the Company

is continuously optimizing the content creation method. The high-quality 3D content is developed and customized for each client by Realfiction's in-house team of 3D artists and external developers.

The MaaS model can also function as a subscription-based service, where customers receive 3D content updates and rebranding on a monthly basis. This allows for regular in-store marketing promotions or a global tour of exhibition venues.

The Company's go-to-market strategy for the MaaS model currently focuses on the two main verticals being (1) short-term rentals targeted towards the exhibition and event market, and (2) in-store advertising in retail. However, the concept can be expanded to address several additional market segments where added revenue can be attained in the future.

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## SALES AND RENTAL VIA A WORLDWIDE NETWORK OF PARTNERS

Realfiction's global network of partners consists of more than 150 resellers and/or 3D content developers located in Europe, North and South America, Asia, Australia, the Middle East, and other regions. Despite an increased focus on driving the MaaS offering, the Company will continue to let partners purchase its portfolio of Mixed Reality displays and accessories.

Furthermore, the option for renting the displays for short-term periods will also remain. The production of the displays will continue to be outsourced to third-party manufacturers, as this allows Realfiction to continuously adapt the production according to local market demands.





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## MAGIC-AS-A-SERVICE: IN-STORE ADVERTISING IN RETAIL

Throughout 2019, Realfiction has been focused on refining the Magic-as-a-Service retail concept in Denmark, and in the past few months in Sweden as well. The Magic-as-a-Service concept can deliver targeted in-store advertising to consumers, at the most vital part of the customer journey. This enables suppliers and brand owners with a time-efficient way of bringing below-the-line (BTL) campaigns to market, as well as present a unique way of generating attention and brand awareness.

We continue to see a growing demand for our offering in retail, primarily in Denmark, but also from our neighboring countries Sweden and Germany. Currently, we are exploring various options on how to further customize the offering to cater to specific client needs, such as additional branding, interactive elements, and other features to elevate the in-store experience further. The continuous positive results and feedback that we are receiving from our clients

and consumers alike are a firm reminder that our concept works, and indeed satisfy a market need in brick-and-mortar retail.

After having revised our activities with the Bilka hypermarket chain throughout 2019, it is evident that the implementation and logistical part of our retail offering needs to be handled in a different way going forward. In order to accomplish that, we will carry out our activities in a leaner and simpler organizational setup that utilizes external collaborating partners and industry agents when needed.

Our ambition is still to continue the expansion of the MaaS concept in the remaining part of 2019 and 2020 going forward, with a structured focus on the FMCG (fast-moving consumer goods) and travel retail market as the primary industry sectors.



Pictured above: Dreamoc HD3 at Anthon Bergs booth at TFWA 2019 in Cannes.

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## MAGIC-AS-A-SERVICE: EVENTS AND EXHIBITIONS

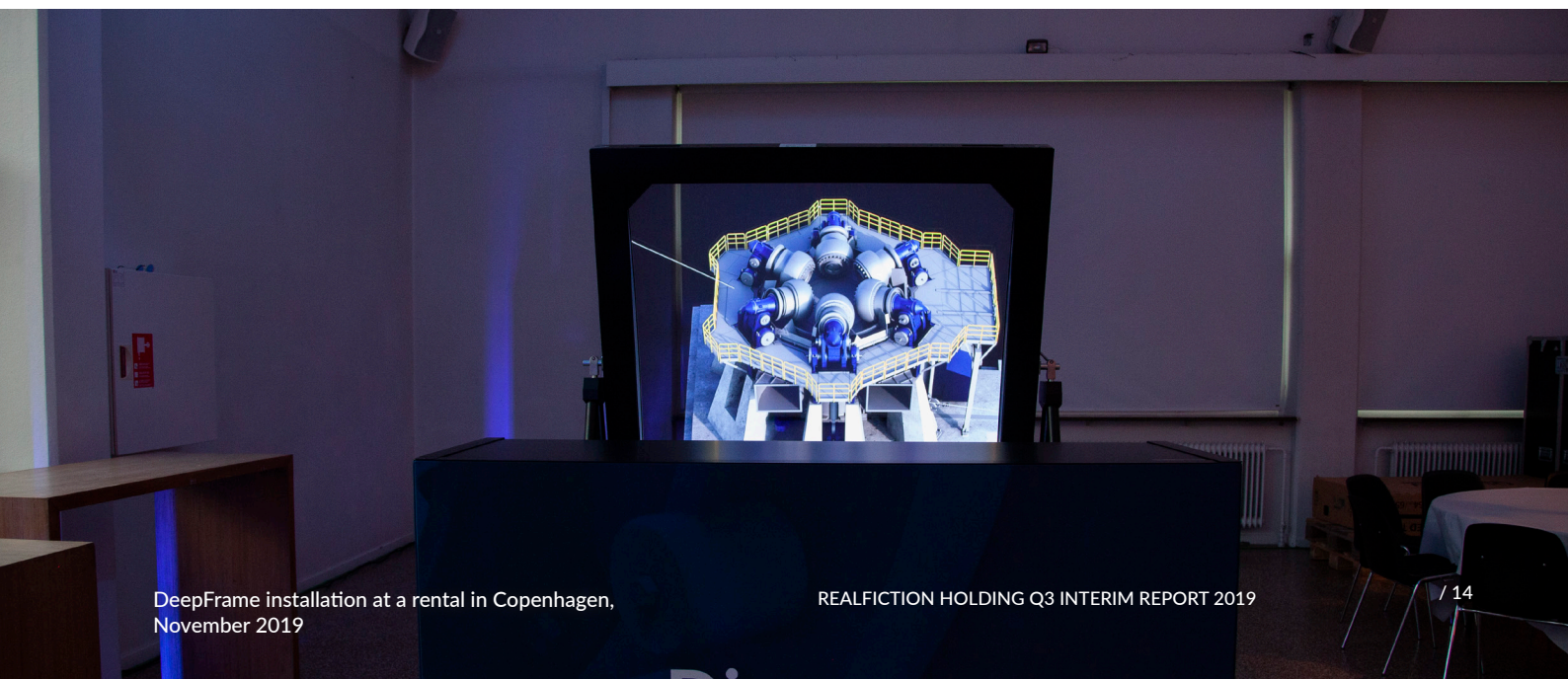
Despite the drop in Exhibition related sales in Q2 and Q3, 2019, Realfiction continues to see a growing demand for renting the Company's portfolio of holographic displays for exhibitions and events. The targeted sales and marketing activities are primarily focused on driving awareness and attracting clients in the Nordic countries and the United States. With the Magic-as-a-Service concept for event and exhibitions, Realfiction is directly targeting larger industrial SME's and global corporations with local satellite organizations that use exhibitions and fairs as one of their main promotional activities.

By renting a display solution from Realfiction, companies can elevate the brand experience they provide to fair attendees, generate attention in their market space, and communicate their often-complex value proposition in a highly visual way. Realfiction delivers a full-solution that includes display rental, custom 3D content animation, external/internal display branding as well as logistics and installation at the exhibition.

Realfiction's rental concept offers the three largest display models from the portfolio: The Dreamoc Diamond, DeepFrame, and Dreamoc XL3. To accommodate for market needs, certain technical adjustments and add-on

products have been developed in the first half of 2019. To generate additional engagement at the exhibitions, an interactive and customizable touchscreen can be added to all rental display models. Additionally, all of the displays now feature heavy-duty flight cases that can support the wear and tear of continuous transportation and handling.

By delivering a complete end-to-end solution, the rental program positions Realfiction as a one-stop service provider, successfully bypassing the client's need for hiring installation workforce or an external creative agency for developing the bespoke 3D content. Having the ability to directly demonstrate the effect of the Mixed Reality displays in front of potential customers has proven very important for accelerating the sales process. As such, Realfiction is establishing local showroom facilities in key locations in Denmark, the United States, and the United Kingdom, where a majority of the target companies are situated. The showroom facilities are located within the premises of external partners. Additionally, Realfiction will continue to fuel the lead generation by exhibiting at industry-specific fairs and accelerate its B2B appointment setting via external agencies.





# DISPLAY PORTFOLIO

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## DREAMOC AND DEEPFRAME – MARKET LEADING MIXED REALITY (MR) DISPLAYS

All our products are sold individually and packaged into a simple and powerful service concept that we call “Magic-as-a-Service”. Realfiction’s line of Dreamoc and DeepFrame displays is at the center of the company’s MR solutions offered to end-clients through its worldwide partner network.

### DREAMOC – WORLD CLASS HOLOGRAPHIC EFFECTS

Dreamoc is a series of MR displays with a diamond shaped glass chamber where pictures and 3D animations appear to be floating together with real products. Different models have chambers of different size and design, and the content can be seen either from the front or from several directions simultaneously.

**Dreamoc HD3** is the smallest and most flexible model for single products that can be experienced from several directions simultaneously. **Dreamoc POP3** can only be experienced from the front and

is especially well suited for displays on shelves and for displaying several objects together. **Dreamoc XL3** and **Dreamoc XXL3** are, as their names suggest, larger models that make it possible to create attention for really large objects, for instance at airports or in shopping malls.

**Dreamoc Diamond** is one of Realfiction's biggest Dreamoc displays, and the most elegant. A Dreamoc Diamond creates an extraordinary experience that fits brilliantly into exclusive boutiques.



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## DEEPFRAME - THE WORLD'S LARGEST MIXED REALITY DISPLAY

With the patent pending product series DeepFrame, that was launched in 2017, Realfiction has once again broken the barriers for what can be achieved with Mixed Reality. DeepFrame is the world's largest MR display and can create unbelievable real time experiences where holographic images and animations are projected over existing surfaces and objects. It was awarded the "CES 2018 Innovation Awards Honoree" title at CES, the world's largest consumer electronics show.

**DeepFrame One** is the first plug and play model in the DeepFrame series that makes it possible to create unforgettable experiences for shopping

malls and showrooms, amusement parks, museums, conferences, events and car showrooms. Other possible use cases include visualization in education and research as well as in architecture, manufacturing and construction.

The DeepFrame technology also has potential to be **built into consumer products**, and Realfiction is cooperating with LEGO, among others, to evaluate the potential within this field. For instance, smaller products, all the way down to a mobile phone in size, could be developed and then connected to an app-based ecosystem.







# FINANCIAL REVIEW

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## GROUP STRUCTURE & SHAREHOLDING

Realfiction Holding AB owns 100% of the shares in its subsidiary Realfiction ApS. All activities are carried out in the subsidiary, and Realfiction Holding AB's only operational activity is to own and manage the subsidiary Realfiction ApS. Otherwise, Realfiction Holding AB does not own any shares in other companies.

## DEVELOPMENT IN Q3 AND Q1-Q3 2019

### Income Statement

Group net revenue amounts to TSEK 4,296 for Q3, 2019, representing a decline of 24% from Q3, 2018, while TSEK 17,145 for Q1-Q3, 2019 represents a decline of 5% compared to Q1-Q3, 2018. The primary part of net revenue in Q3 and Q1-Q3, 2019 consists of product sales from the Dreamoc and DeepFrame category, while sales from our Magic-as-a-Service concept account for TSEK 524 and TSEK 2,842 for Q3 and Q1-Q3 respectively. In Q3 and Q1-Q3, 2018, net revenue accounted for TSEK 590.

Adjusted for currency conversion effects, the Company's revenue in the third quarter of 2019, declined by 30% to TDKK 3,014 compared to the average quarterly revenue of 2018 (TDKK 4,304).

Cost of goods sold amounts to TSEK 2,327 and 8,045 for Q3 and Q1-Q3, 2019 respectively. Thus, our gross profit in Q3, 2019 decreased to TSEK 1,969 from 2,887 in Q3, 2018 and resulted in gross profit margin in Q3, 2019 of 45.8% compared to 50.9% in Q3, 2018. The decrease in the gross profit margin is caused by differences in product sales mix and increased distribution costs. The gross profit in Q1-Q3, 2019 compared to Q1-Q3, 2018 increased

to TSEK 9,100 compared to TSEK 8,306 in Q1-Q3, 2018 with gross profit margins of 53.1% in Q1-Q3, 2019 and 46.2% in Q1-Q3, 2018. The increase in the gross profit margin in Q1-Q3, 2019 is primarily attributable to the increase in sales from our Magic-as-a-Service concept, but also due to a negative impact to gross profit in Q1, 2018 from sales of new products offered at lower prices.

In Q3, 2019 the Company has capitalized development expenditure relating to Project Echo that fulfills the requirements of the capitalization accounting principle. As such, the operating result is positively impacted by TSEK 980 from the capitalization of salaries and internal expenses relating to Project Echo.

Other external costs increased to TSEK 2,723 in Q3, 2019 from TSEK 1,870 in Q3, 2018 and decreased slightly to TSEK 7,592 in Q1-Q3, 2019 from 7,611 in Q1-Q3, 2018. The increase in Q3, 2019 is primarily due to increased product development costs.

Personnel costs are at a high level in Q3 and Q1-Q3, 2019 due to onboarding of sales resources and continuous investments in product and market development and innovation.

Group net financial costs consist of interest on the loan with Vækstfonden and interest until June on the bridge loan that was converted to share capital in June 2019.

The net result for the Group in Q3 and Q1-Q3, 2019 amounts to TSEK -4,350 and TSEK -9,660 compared to TSEK -1,505 and -8,723 in Q3 and Q1-Q3, 2018.



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### Supplementary Income Statement

On page 26 Realfiction's supplementary income statement is presented with our two main activities; Sales and Innovation & Development. In Q3, 2019, we continued the acceleration of our Innovation & Development Activities, with primary focus on Project Echo. Project Echo aims at inventing the holy grail of 3D experiences; freefloating holograms that require no glasses, devices or other lenses between the human eye and the effect, and where 3D objects can be viewed and interacted with from different angles. Our gross expenditure in Innovation & Development Activities increased to TSEK 1,922 in Q3, 2019 from TSEK 900 in Q3, 2018 and to TSEK 5,876 in Q1-Q3, 2019 from TSEK 4,106 in Q1-Q3, 2018. The operating result from our Sales Activities decreased from a loss of TSEK 6,231 in Q1-Q3, 2018 to a loss of TSEK 7,753 in Q1-Q3 2019, and the Q3, 2019 operating result from our Sales Activities deteriorated to a loss of TSEK 3,798 compared to a loss of TSEK 1,052 in Q3, 2018.

### Balance Sheet

Realfiction's total assets at 30 September 2019 amounts to TSEK 27,473 compared to TSEK 20,821 at 31 December 2018. Inventory at 30 September 2019 amounts to TSEK 8,027 compared to TSEK 8,909 at 31 December 2018. The decrease in inventory is a result of sales of units and transfer to tangible assets to support our "STEP-UP-2019" strategy.

Trade receivables are higher than last year due to longer credit terms with new Magic-as-a-Service costumers.

Current liabilities decreased to TSEK 7,062 at 30 September 2019 from TSEK 14,090 at 31 December 2018, primarily as a result of conversion to share capital of bridge loans granted in October 2018. In addition, Vækstfonden has deferred the Company's 2019 instalments.

The Group's solvency ratio at 30 September 2019 is 62,9% compared to 22.5% at 31 December 2018.

### Investments

In Q3, 2019, the Company has capitalized additional development expenditure of TSEK 1,525 relating to the patent-pending Project Echo. Development projects that fulfil the requirements of the capitalization accounting principle are presented as intangible assets and are measured at cost (or fair value if lower) until the project has been completed. In Q3, 2019, Realfiction rolled out additional Magic-as-a-Service displays. These displays have been capitalized as tangible assets which increased to TSEK 1,870 at 30 September 2019 compared to 1,707 at 31 December 2018.

### Cash Flow and Liquidity

The Company's liquid funds and cash equivalents at 30 September 2019 amount to TSEK 7,912 compared to 5,140 at 31 December 2018. Cash flow from operating activities for Q3 and Q1-Q3 2019 amounts to TSEK -3,942 and -8,661 showing improvement compared to Q3 and Q1-Q3 2018 of TSEK -4,609 and TSEK -15,512 respectively. The 2018 figures were negatively impacted by increases to inventory.

To ensure that sufficient liquidity is available to continue with the business plan including the further

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development of the ECHO technology the Company announced on 27 November its decision to carry out a directed share issue through a private placement of approximately 14.6 MSEK.

### The Share

Realfiction Holding AB's share was listed on Nasdaq Stockholm First North 14 July 2017. The share is traded with the ticker REALFI and its ISIN-code is SE0009920994. On 30 September 2019, the number of shares in Realfiction Holding AB amounts to 14,057,908. The Company has one share class. All shares have equal dividend rights.

### Operational risks & uncertainties

The risks and uncertainties that Realfiction's operations are exposed to are concentrated in the categories of competition, technology development, patents, government requirements, capital requirements, currencies and interest rates. During the current period, no significant changes regarding risk or uncertainty factors have occurred. For more detailed reporting of risks and uncertainties, refer to the previously published company description, published in the 2018 Annual Report.

## OWNERSHIP STRUCTURE

The table below shows key shareholders in Realfiction Holding AB at 30 September 2019.

Name	Number of shares	Ownership (in %)
Ceranco Equity S.C.S <sup>1</sup>	3,194,447	22.72
Clape Holding ApS <sup>2</sup>	2,875,000	20.45
AmTRAN Technology Co. Ltd.	1,508,663	10.73
Nordnet Pensionsförsäkring AB	1,035,379	7.37
Försäkringsaktiebolaget, Avanza Pension	760,118	5.41
Other shareholders (more than 1,500)	4,684,301	33.32
<b>Total</b>	<b>14,057,908</b>	<b>100.0</b>

1. Ceranco Equity S.C.S is an investment company with private investors, with board member Søren Jonas Bruun as its general partner and main owner of the associated management company.

2. 50 % owned by CEO and board member Clas Dyrholm and 50 % owned by board member Peter Simonsen.

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### Audit review

The Q3 Interim Report has not been audited or reviewed by the Company's independent auditors. The Annual Report 2018 for Realfiction ApS has been audited.

### Accounting policies

Realfiction Holding AB applies the Annual Accounts Act and the Board of Directors' General Advice BFNAR 2012.1 (K3) in the preparation of its Swedish financial reports.

### Financial Calendar:

Year-End Report 2019: 26 March 2020

The above reports will be available for download from the company's website ([www.realfiction.com](http://www.realfiction.com)). A printed copy can be ordered via [investor@realfiction.com](mailto:investor@realfiction.com).

### Certified Adviser

Mangold Fondkommission AB is Realfiction Holding AB's Certified Adviser and can be contacted via [ca@mangold.se](mailto:ca@mangold.se) or +46 8 503 015 50.

### For further information, please contact:

Clas Dyrholm, CEO

Telephone: +45 70 20 64 90

E-mail: [investor@realfiction.com](mailto:investor@realfiction.com)

*The Board of Directors and the CEO declare that to the best of their knowledge, the Q3 Interim Report 2019 presents a fair view of the financial position of the Company at 30 September 2019 as well as of the results of the group operations and cash flows for the period 1 January– 30 September 2019.*

**Helsingborg, 28 November 2019**  
**Realfiction Holding AB**  
**Board of Directors and CEO**



# FINANCIAL HIGHLIGHTS AND KEY RATIOS

## Selected Financial Highlights and Key Ratios – Group

	Q3-2019 01-07-2019 - 30-09-2019 3 months	Q3-2018 01-07-2018 - 30-09-2018 3 months	Q1-Q3-2019 01-01-2019 -30-09-2019 9 months	Q1-Q3-2018 01-01-2018 -30-09-2018 9 months	2018 01-01-2018 -31-12-2018 12 months
SEK '000					
Net revenue	4,296	5,675	17,145	17,980	23,799
Gross profit	1,969	2,887	9,100	8,306	11,370
Result after financial items	-4,817	-1,505	-10,901	-9,344	-12,733
Total Assets	27,473	17,932	27,473	17,932	20,821
Cash flow from operating activities	-3,942	-4,609	-8,661	-15,512	-14,323
Cash at bank and in hand	7,912	506	7,912	506	5,140
Solvency ratio (%)	62.9	44.2	62.9	44.2	22.5
Average number of employees	19	16	17	15	15
Gross profit margin (%)	45.8	50.9%	53.1	46.2%	47.8
Earnings per share (SEK)	-0.31	-0.13	-0.78	-0.75	-1.01
Average number of shares	14,057,908	11,633,135	12,441,393	11,633,135	11,633,135
Number of shares at the end of the period	14,057,908	11,633,135	14,057,908	11,633,135	11,633,135

## Definitions

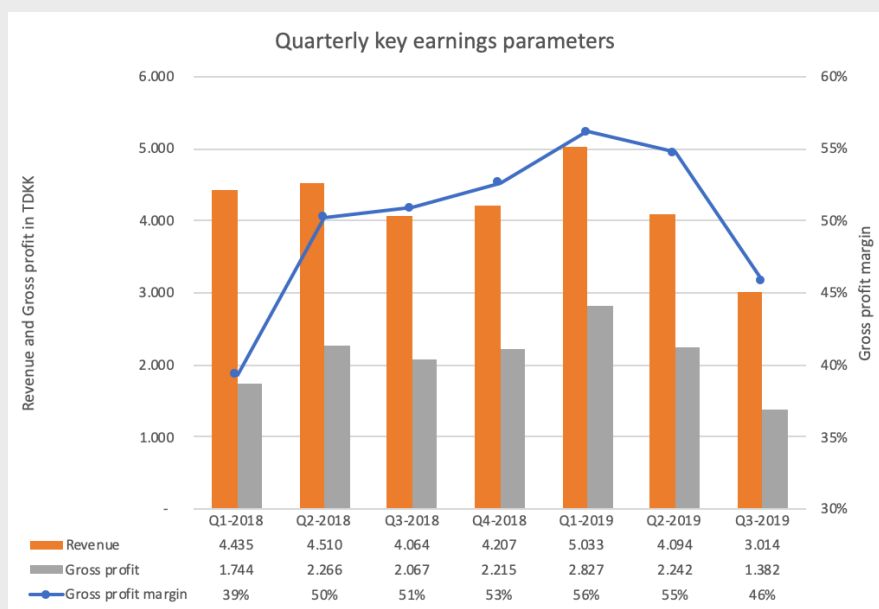
**Solvency ratio:** Equity as a percentage of the balance sheet total. Key ratios of equity are presented to provide a better understanding of Realfiction's long-term ability to pay its debt.

**Earnings per share:** Net result of the period divided with average number of shares for the period. Earnings per share for periods are negative, therefore no dilution.

**Gross profit:** Net turnover after costs for goods sold.

**Gross profit margin:** Gross profit as a percentage of Net revenue.

The development in the Company's quarterly revenue, gross profit and gross profit margin is illustrated below:



The Group's revenue and gross profit is fully earned in the Danish subsidiary Realfiction ApS. As such, and to avoid that currency fluctuations between DKK and SEK distort the presentation of revenue and gross profit, the above illustration is prepared on the basis of Realfiction ApS' DKK figures.

## Income Statement (condensed) – Group

SEK '000	Q3-2019 01-07-2019 - 30-09-2019 3 months	Q3-2018 01-07-2018 - 30-09-2018 3 months	Q1-Q3-2019 01-01-2019 -30-09-2019 9 months	Q1-Q3-2018 01-01-2018 -30-09-2018 9 months	2018 01-01-2018 -31-12-2018 12 months
Net revenue	4,296	5,675	17,145	17,980	23,799
Cost of goods sold	-2,327	-2,788	-8,045	-9,674	-12,429
<b>Gross profit</b>	<b>1,969</b>	<b>2,887</b>	<b>9,100</b>	<b>8,306</b>	<b>11,370</b>
Capitalized own work performed	980	0	2,242	0	0
Other external costs	-2,723	-1,870	-7,592	-7,611	-9,184
Personnel costs	-4,703	-3,090	-13,478	-10,393	-14,768
Depreciation of tangible fixed assets	-372	-46	-891	-101	-290
Other income and expenses	126	912	353	1,133	1,126
<b>Operating result</b>	<b>-4,723</b>	<b>-1,207</b>	<b>-10,266</b>	<b>-8,666</b>	<b>-11,746</b>
Other financial income	27	40	76	188	219
Other financial costs	-121	-338	-711	-866	-1,206
<b>Result after financial items</b>	<b>-4,817</b>	<b>-1,505</b>	<b>-10,901</b>	<b>-9,344</b>	<b>-12,733</b>
Tax on the profit of the period	467	0	1,241	621	940
<b>Net result for the period</b>	<b>-4,350</b>	<b>-1,505</b>	<b>-9,660</b>	<b>-8,723</b>	<b>-11,793</b>

## Balance Sheet (condensed) - Group

SEK '000	30-09-2019	30-09-2018	31-12-2018
<b>Assets</b>			
<b>Non-current assets</b>			
Development projects under construction	3,168	351	0
<b>Total intangible assets</b>	<b>3,168</b>	<b>351</b>	<b>0</b>
Other property, plant and equipment	1,870	0	1,707
<b>Total tangible assets</b>	<b>1,870</b>	<b>0</b>	<b>1,707</b>
Other long-term receivables	1,580	877	317
<b>Total financial assets</b>	<b>1,580</b>	<b>877</b>	<b>317</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>6,618</b>	<b>1,228</b>	<b>2,024</b>
<b>Current assets</b>			
Inventories	8,027	10,714	8,909
<b>Total inventories</b>	<b>8,027</b>	<b>10,714</b>	<b>8,909</b>
Trade receivables	2,453	2,016	1,551
Other short-term receivables	869	2,563	648
Prepaid expenses	617		1,610
Tax receivable	977	905	939
<b>Total short-term receivables</b>	<b>4,916</b>	<b>5,484</b>	<b>4,748</b>
<b>Cash at bank and in hand</b>	<b>7,912</b>	<b>506</b>	<b>5,140</b>
<b>TOTAL CURRENT ASSETS</b>	<b>20,855</b>	<b>16,704</b>	<b>18,797</b>
<b>TOTAL ASSETS</b>	<b>27,473</b>	<b>17,932</b>	<b>20,821</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Equity</b>			
Share capital	1,406	1,163	1,163
Other reserves incl. retained earnings	15,886	6,765	3,517
<b>TOTAL EQUITY</b>	<b>17,292</b>	<b>7,928</b>	<b>4,680</b>
<b>Non-current liabilities</b>			
Credit institutions	3,119	2,539	2,051
<b>Non-current liabilities</b>	<b>3,119</b>	<b>2,539</b>	<b>2,051</b>
<b>Current liabilities</b>			
Short-term of non-current liabilities	941	1,819	1,848
Trade payables	2,349	2,461	1,320
Other payables	3,772	3,185	10,922
<b>Total current liabilities</b>	<b>7,062</b>	<b>7,465</b>	<b>14,090</b>
<b>TOTAL LIABILITIES</b>	<b>10,181</b>	<b>10,004</b>	<b>16,141</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>27,473</b>	<b>17,932</b>	<b>20,821</b>



## Cash Flow Statement (condensed) – Group

SEK '000	Q3-2019 01-07-2019 - 30-09-2019 3 months	Q3-2018 01-07-2018 - 30-09-2018 3 months	Q1-Q3-2019 01-01-2019 -30-09-2019 9 months	Q1-Q3-2018 01-01-2018 -30-09-2018 9 months	2018 01-01-2018 -31-12-2018 12 months
<b>Operating result</b>	<b>-4,723</b>	<b>-1,207</b>	<b>-10,266</b>	<b>-8,666</b>	<b>-11,746</b>
Depreciation	372	46	891	101	290
Paid financial costs	-94	-310	-606	-592	-1,079
Tax payments	0	0	0	0	903
<b>Cashflow from operating activities before changes in operating capital</b>	<b>-4,445</b>	<b>-1,471</b>	<b>-9,981</b>	<b>-9,157</b>	<b>-11,632</b>
<b>Operating activities</b>					
Change in trade receivables	518	-382	-845	-1,523	-1,062
Change in inventories	-389	231	1,237	-5,648	-3,940
Change in other receivables	-135	481	827	-46	929
Change in short-term part of long-term payables	0	0	0	11	11
Change in other payables	-897	119	-524	535	1,430
Change in trade payables	1,406	-3,587	625	316	-59
<b>Cash flow from operating activities</b>	<b>-3,942</b>	<b>-4,609</b>	<b>-8,661</b>	<b>-15,512</b>	<b>-14,323</b>
Purchase of financial assets	0	0	0	-7	-70
Purchase of tangible assets	-132	0	-986	-277	-1,831
Purchase of intangible assets	-1,503	0	-3,179	0	0
<b>Cash flow from investing activities</b>	<b>-1,635</b>	<b>0</b>	<b>-4,165</b>	<b>-284</b>	<b>-1,901</b>
<b>Financing activities</b>					
Payment of long-term liabilities	0	-436	0	-1,280	-1,724
Bridge loan	0	0	-6,405	0	5,447
Capital increase, net of costs	-110	0	21,975	0	0
<b>Cash flow from financing activities</b>	<b>-110</b>	<b>-436</b>	<b>15,570</b>	<b>-1,280</b>	<b>3,723</b>
<b>Cash flow for the period</b>	<b>-5,687</b>	<b>-5,045</b>	<b>2,744</b>	<b>-17,076</b>	<b>-12,501</b>
<b>Cash and cash equivalents at period start</b>	<b>13,581</b>	<b>5,601</b>	<b>5,140</b>	<b>17,137</b>	<b>17,137</b>
Exchange rate recalculation difference – cash and cash equivalents	19	-50	29	445	504
<b>Cash and cash equivalents at period end</b>	<b>7,912</b>	<b>506</b>	<b>7,912</b>	<b>506</b>	<b>5,140</b>

## Statement of Changes in Equity (condensed) - Group

	Q3-2019 01-07-2019 - 30-09-2019 3 months	Q3-2018 01-07-2018 - 30-09-2018 3 months	Q1-Q3-2019 01-01-2019 -30-09-2019 9 months	Q1-Q3-2018 01-01-2018 -30-09-2018 9 months	2018 01-01-2018 -31-12-2018 12 months
<b>SEK '000</b>					
<b>Equity at period start</b>	<b>21,643</b>	<b>9,487</b>	<b>4,680</b>	<b>16,223</b>	<b>16,223</b>
Exchange adjustments	109	-54	297	428	250
Capital increase, net of costs	-110	0	21,975	0	0
Net result for the period	-4,350	-1,505	-9,660	-8,723	-11,793
<b>Equity at period end</b>	<b>17,292</b>	<b>7,928</b>	<b>17,292</b>	<b>7,928</b>	<b>4,680</b>

## Supplementary Income Statement (condensed) - Group

Key figures from the income statement for the Group are presented below on the basis of the underlying activities. Realfiction has two main activities; 1) Innovation & development activities, including all directly related expenses incurred in connection with the innovation & development activities in the Group and 2) Sales activities, including all other activities in the Group.

<b>Sales Activities</b>	<b>Q3-2019 01-07-2019 - 30-09-2019 3 months</b>	<b>Q3-2018 01-07-2018 - 30-09-2018 3 months</b>	<b>Q1-Q3-2019 01-01-2019 -30-09-2019 9 months</b>	<b>Q1-Q3-2018 01-01-2018 -30-09-2018 9 months</b>	<b>2018 01-01-2018 -31-12-2018 12 months</b>
<b>SEK '000</b>					
<b>Gross profit</b>	<b>1,969</b>	<b>2,887</b>	<b>9,100</b>	<b>8,306</b>	<b>11,370</b>
Other external costs	-1,990	-1,662	-6,291	-6,419	-7,750
Personnel costs	-3,520	-2,398	-9,997	-8,339	-12,026
Depreciation of tangible fixed assets	-366	-46	-873	-101	-290
Other income and expenses	109	167	308	322	315
<b>Operating result</b>	<b>-3,798</b>	<b>-1,052</b>	<b>-7,753</b>	<b>-6,231</b>	<b>-8,381</b>

<b>Innovation &amp; Development Activities</b>	<b>Q3-2019 01-07-2019 - 30-09-2019 3 months</b>	<b>Q3-2018 01-07-2018 - 30-09-2018 3 months</b>	<b>Q1-Q3-2019 01-01-2019 -30-09-2019 9 months</b>	<b>Q1-Q3-2018 01-01-2018 -30-09-2018 9 months</b>	<b>2018 01-01-2018 -31-12-2018 12 months</b>
<b>SEK '000</b>					
Capitalized own work performed	980	0	2,242	0	0
Other external costs	-733	-208	-1,301	-1,192	-1,434
Personnel costs	-1,183	-692	-3,481	-2,054	-2,742
Depreciation of tangible fixed assets	-6	0	-18	0	0
Other income and expenses	17	745	45	811	811
<b>Operating result</b>	<b>-925</b>	<b>-155</b>	<b>-2,513</b>	<b>-2,435</b>	<b>-3,365</b>

## Income Statement (condensed) – Parent company

SEK '000	Q3-2019 01-07-2019 - 30-09-2019 3 months	Q3-2018 01-07-2018 - 30-09-2018 3 months	Q1-Q3-2019 01-01-2019 -30-09-2019 9 months	Q1-Q3-2018 01-01-2018 -30-09-2018 9 months	2018 01-01-2018 -31-12-2018 12 months
<b>Operating income</b>					
Net revenue (group internal)	150	450	450	450	600
<b>Operating costs</b>					
External costs	-237	-254	-602	-893	-1,145
Personnel costs	-194	-126	-477	-389	-516
<b>Operating result</b>	<b>-281</b>	<b>70</b>	<b>-629</b>	<b>-832</b>	<b>-1,061</b>
Other financial income	0	49	0	53	133
Other financial costs	-17	0	-410	-4	-275
<b>Net result for the period</b>	<b>-298</b>	<b>119</b>	<b>-1,039</b>	<b>-783</b>	<b>-1,203</b>

## Balance Sheet (condensed) – Parent company

SEK '000	30-09-2019	30-09-2018	31-12-2018
<b>Non-current assets</b>			
<b>Financial assets</b>			
Shares in subsidiary	26,911	19,000	26,911
<b>Total financial assets</b>	<b>26,911</b>	<b>19,000</b>	<b>26,911</b>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>26,911</b>	<b>19,000</b>	<b>26,911</b>
<b>Current assets</b>			
Intercompany receivable	11,406	5,072	0
Other receivables	65	394	76
Prepaid expenses	116	148	810
<b>Total short-term receivables</b>	<b>11,587</b>	<b>5,614</b>	<b>886</b>
<b>Cash at bank and in hand</b>	<b>6,926</b>	<b>10</b>	<b>2,937</b>
<b>TOTAL CURRENT ASSETS</b>	<b>18,513</b>	<b>5,624</b>	<b>3,823</b>
<b>TOTAL ASSETS</b>	<b>45,424</b>	<b>24,624</b>	<b>30,734</b>
<b>Liabilities and Equity</b>			
<b>Equity</b>			
Share capital	1,406	1,163	1,163
Other reserves	44,269	23,741	23,740
Net result for the period	-1,039	-783	-1,203
<b>TOTAL EQUITY</b>	<b>44,636</b>	<b>24,121</b>	<b>23,700</b>
Trade payables	0	19	11
Other payables	788	484	7,023
<b>Total short-term liabilities</b>	<b>788</b>	<b>503</b>	<b>7,034</b>
<b>TOTAL LIABILITIES</b>	<b>788</b>	<b>503</b>	<b>7,034</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>45,424</b>	<b>24,624</b>	<b>30,734</b>