

Interim Report for Image Systems AB (publ) January-March 2018

Lower revenue, but larger order backlog

First quarter 2018

- Revenue amounted to MSEK 22.3 (29.0).
- The operating result EBITDA amounted to –1.5 (0.2).
- The operating result amounted to MSEK –3.4 (–1.5).
- The result after taxes amounted to MSEK –3.5 (–1.6).
- Order bookings amounted to MSEK 27.4 (31.5).
- The order backlog amounted to MSEK 44.3 (32.9).
- The gross margin was 83 (67) percent.
- Earnings per share before and after dilution was SEK –0.09 (–0.04).

President's statement

Image Systems continues to invest in its long-term strategy to create a "centre of excellence" in touch-free measurement technology. During the period we worked intensely to create opportunities for future growth on export markets. We are hoping that these efforts will bear fruit during the current year. During the first quarter Motion Analysis sold its first turn-key DIC system, which is a strong indication that the development plan is in line with customer expectations.

Order bookings in the first quarter were slightly lower compared to last year's first quarter and revenue was MSEK 6.7 lower than in the corresponding year-ago quarter. The gross margin was significantly higher than last year, largely due to fewer project deliveries, with higher revenue but a lower gross margin. The EBITDA result was MSEK 1.7 lower than in the same period the year before, MSEK –1.5 (0.2).

RemaSawco

The first quarter was distinguished by lower deliveries with a high gross margin. We have continued our efforts to strengthen our product offerings and we have put a lot of effort into internationalisation, both in terms of product design and sales channels.

Motion Analysis

Motion Analysis had a decent quarter, with slightly lower revenue and result, however. The lower result is a direct function of the lower revenue. The business area is working intensely on bringing its new products to the market and is intensifying its efforts to develop new products and new partnerships.

Financial information

First quarter

Order bookings declined to MSEK 27.4 (31.5). The order backlog as of 31 March 2018 was MSEK 44.3 (32.9). Revenue amounted to MSEK 22.3 (29.0), MSEK 1.7 (0.9) of which refers to capitalised development expenses. The gross margin grew to 83 percent (67), largely because of a higher proportion of software, which generates a higher gross margin. The operating result EBITDA amounted to MSEK –1.5 (0.2). The result after taxes amounted to MSEK –3.5 (–1.6). Revenue and operating result before depreciation, amortisation and impairment charges is reported by business area on page 4.

Image Systems is a Swedish high-technology company and a leading supplier of products and services in high resolution image processing. By continually challenging the market's concepts and instead offer new and more effective solutions, we help our customers to achieve greater success in their business. The Company caters to a large number of industries and operations are conducted in the two business areas RemaSawco and Motion Analysis. Image Systems has approximately 70 employees at offices in Linköping, Nyköping, Västerås and Sundsvall, as well as in Norway. In 2017 consolidated revenue amounted to MSEK 134. The Company's share is listed on Nasdaq Stockholm Stock Exchange Small Cap list and is traded under the symbol IS. For additional information, visit our website www.imagesystems.se

Capital expenditures and financial position

The Group's investments in non-current assets amounted to MSEK 2.1 (1.5), MSEK 1.9 (1.1) of which refers to capitalisation of development projects. As of 31 March 2018 available cash and cash equivalents, including the unutilized portion of a committed credit facility, stood at MSEK 6.8 (6.0). The operative cash flow was lower by MSEK 3.6 compared to the equivalent year-ago period by MSEK -2.5 (1.1). The equity ratio as of 31 March 2018 was 67 (62) percent. The net debt to equity ratio was 0.1 (0.1).

Research and development

RemaSawco

During the first quarter RemaSawco continued its efforts to adapt and develop existing products to the digital Sawmill. We have also developed optimisation algorithms for Sawmill as well as timber sorting. Strength certification for new export markets has been initiated.

Motion Analysis

The first variant of DIC systems in the new category built-in systems saw the light of day during the period. With this turn-key system we have the goal of creating a new market for DIC measurement with sharp focus on simplicity and short lead times from system implementation to result. This first system also is the basis for development of more complex systems in this family, with, for instance, faster cameras, better light sources and additional support for the user.

In parallel with the process dealing with built-in systems, work has begun to create the next generation of flexible DIC systems. A cornerstone of these efforts, which involves both development teams and product teams, is all about finding new system solutions to create added value.

A new customer-driven project in the technology area of Machine Vision has also been initiated. This technology area is interesting and is expected to offer new opportunities for future offerings. The project is a pilot study in the ability to identify and analyse vents in images, rather than measuring movements.

Parent Company

The Parent Company's revenue amounted to MSEK 0.9 (0.6). The operating result was MSEK -1.3 (-1.4). The result after taxes was MSEK -1.4 (-1.4). Capital expenditures in non-current assets amounted to MSEK 0.0 (0.0). As of 31 March 2018, the Parent Company's available cash and cash equivalents amounted to MSEK 0.1 (0.1). The Parent Company's equity amounted to MSEK 54.9 as of 31 March 2018 (53.4) and the equity ratio was 79 (81) percent.

Personnel

The average number of employees was 72 (68).

Share capital and number of shares outstanding

As of 31 March 2018 the share capital amounted to SEK 3,823,192.20. The number of shares outstanding as of 31 March 2018 was 38,231,922.

Events after the end of the period under review

No significant events have taken place after the end of the period under review.

Accounting policies

Image Systems applies International Financial Reporting Standards (IFRS) as adopted by EU. This Interim Report for the Image Systems Group has been compiled in accordance with IAS 34 Interim financial reporting and the Swedish Annual Accounts Act. Information pursuant to IAS 34 Interim Financial Reporting is provided in notes as well as elsewhere in the Interim Report.

The new and amended standards to be applied from 1 January 2018 had no material impact on the Group's financial reports.

In all other respects the accounting policies and calculation methods are the same as those applied in the 2017 Annual Report. The introduction of IFRS 9 as of 1 January 2018 had no significant effect on the Company's financial reports. The Company has not yet analysed the effects of IFRS 16.

The Interim Report for the Parent Company Image Systems AB is compiled in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board.

Image Systems applies ESMA's (European Securities and Markets Authority) guidelines for alternative key financial indicators. Definitions of key financial indicators are found on page 7 and relevant reconciliations are found on page 9.

Risks and uncertainty factors

The Group's principal risk and uncertainty factors include business risks associated with contracts with customers and suppliers, as well as other factors in the surrounding world, such as the risk of changes in foreign currency exchange rates. A report of the Group's significant financial and business risks will be found in the Board of Director Report and under Note 3 in the Annual Report for 2017. No other significant new or changed risks were identified during the period.

This Interim Report has not been subject to review by the by the Company's auditors.

Linköping, 3 May 2018

Johan Friberg
President

Reporting schedule:

<i>Annual General Meeting</i>	<i>3 May 2018</i>
<i>Interim Report April-June 2018</i>	<i>30 August 2018</i>
<i>Interim Report July-September 2018</i>	<i>26 October 2018</i>
<i>Year-end Report 2018</i>	<i>8 February 2019</i>

The information in this year-end report is such that Image Systems AB is obliged to publish in accordance with EU's Market Abuse Regulation and the Swedish Securities Markets Act. The information herein was provided for publication at 13:00 noon (CET), 3 May 2018.

The interim reports will be available to the public at the Company's website <http://www.imagesystems.se>

Questions will be answered by:

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Summary Consolidated Income Statements

MSEK	Jan-March 2018	Jan-March 2017	Full year 2017
Revenue	22,3	29,0	133,6
Raw materials and supplies	-3.8	-9.6	-47.7
Other external costs	-5.0	-4.6	-19.4
Personnel costs	-15.1	-14.5	-57.7
Depreciation and amortisation of and impairment charges against tangible non-current assets	-1.9	-1.7	-7.4
Other operating revenue	0.1	-	-
Other operating costs	-	-0.1	-0.3
Operating result	-3.4	-1.5	1.1
Net finance items	-0.1	-0.1	-0.8
Result before taxes	-3.5	-1.6	0.3
Taxes	-	-	11.4
Result for the period	-3.5	-1.6	11.7
Of which attributable to the Parent Company's equity holders	-3.5	-1.6	11.7
Earnings per share ¹⁾	-0.09	-0.04	0.31
Earnings per share after dilution ¹⁾	-0.09	-0.04	0.31
Average number of shares outstanding	38,231,922	38,231,922	38,231,922
Average number of shares outstanding, after dilution	38,231,922	38,231,922	38,231,922

Consolidated Report of Comprehensive Result

Result for the period	-3.5	-1.6	11.7
Other comprehensive result			
Items that can later be included in the income statement			
Translation differences	0.5	-0.0	0.2
Taxes attributable to items that can be transferred	-	-	-
Total comprehensive result	0.5	0.0	0.2
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-3.0	-1.6	11.9
Of which attributable to the Parent Company's equity holders	-3.0	-1.6	11.9

¹⁾ Calculated based on the average number of shares outstanding.

SEGMENT REPORTING

Group	Jan-March 2018	Jan-March 2017	Full year 2017
Revenue and result by segment			
RemaSawco	16.8	22.3	107.0
Motion Analysis	5.5	6.7	26.6
Consolidation items and Parent Company	-	-	-
Total revenue	22.3	29.0	133.6
EBITDA			
RemaSawco	-1.3	-0.4	5.6
Motion Analysis	1.1	2.0	8.0
Administrative and consolidation items	-1.3	-1.4	-5.1
EBITDA total	-1.5	0.2	8.5
Depreciation and amortisation of and impairment charges against tangible non-current assets	-1.9	-1.7	-7.4
Operating result	-3.4	-1.5	1.1
Net finance items	-0.1	-0.1	-0.8
Result before taxes	-3.5	-1.6	0.3
Taxes	-	-	11.4
Result for the period	-3.5	-1.6	11.7

Summary Consolidated Balance Sheets

MSEK	31 March 2018	31 March 2017	31 December 2017
Non-current assets			
Intangible non-current assets	48.6	47.5	48.4
Tangible non-current assets	0.8	1.0	0.8
Financial non-current assets	11.4	-	11.4
Total non-current assets	60.8	48.5	60.6
Current assets			
Inventories	8.1	9.0	7.3
Trade receivables	19.2	21.0	20.1
Other short-term receivables	17.0	17.0	22.0
Cash and cash equivalents	1.4	0.9	0.9
Total current assets	45.7	47.9	50.3
TOTAL ASSETS	106.5	96.4	110.9
Equity (attributable in its entirety to the Parent Company's equity holders)	70.7	60.2	73.7
Current liabilities			
Loans from credit institutions	7.1	7.4	4.1
Debenture loan	5.0	-	5.0
Trade payables	6.6	9.2	8.1
Other current liabilities	17.1	19.6	20.0
Total current liabilities	35.8	36.2	37.2
TOTAL EQUITY AND LIABILITIES	106.5	96.4	110.9

Summary Report of Changes in Consolidated Equity

	31 March 2018	31 March 2017	Full year 2017
Opening equity according to the balance sheet	73.7	61.8	61.8
Result for the year	-3.5	-1.6	11.7
Other comprehensive result for the period	0.5	0.0	0.2
Total comprehensive result for the period	-3.0	-1.6	11.9
Closing equity according to the balance sheet	70.7	60.2	73.7

Summary Consolidated Cash Flow Statements	Jan-March	Jan-March	Full year
MSEK	2018	2017	2017
Cash flow from operating activities			
before changes in working capital	-1.1	0.1	7.9
Changes in working capital			
Increase (-) / Decrease (+) in inventories	-0.7	-0.1	1.6
Increase (-) / Decrease (+) in receivables	5.9	13.1	9.0
Increase (+) / Decrease (-) in short-term liabilities	-4.5	-10.5	-10.9
Total change in working capital	0.7	2.5	-0.3
Cash flow from operating activities	-0.4	2.6	7.6
Investment activities			
Acquisition of subsidiary	-	-	-0.3
Acquisition of intangible non-current assets	-1.9	-1.1	-7.4
Acquisition of tangible non-current assets	-0.2	-0.4	-0.5
Cash flow from investment activities	-2.1	-1.5	-8.2
Operative cash flow	-2.5	-1.1	-0.6
Financing activities			
Increase (+) in loans	3.0	-	16.7
Decrease (-) in loans	-	-1.3	-16.3
Cash flow from financing activities	0.5	-1.3	0.4
Cash flow for the period	0.5	-0.2	-0.2
Cash and cash equivalents at beginning of period	0.9	1.1	1.1
Translation difference in cash and cash equivalents	0.0	0.0	0.0
Cash and cash equivalents at end of period	1.4	0.9	0.9

Key Financial Indicators

Group	Jan-March	Jan-March	Full year
	2018	2017	2017
Order bookings, MSEK	27.4	31.5	136.1
Order backlog, MSEK	44.3	32.9	36.9
Gross margin, %	83	67	64
Operating margin, %	neg	neg	0.8
Profit margin, %	neg	neg	0.2
Return on capital employed, %	neg	neg	1.4
Return on equity, %	neg	neg	17.3
Equity ratio, %	67	62	67
Debt equity ratio	0.1	0.1	0.1
Net investment in non-current assets, MSEK	2.1	1.5	8.2
Depreciation and impairment of non-current assets, MSEK	1.9	1.7	7.4
Average number of employees	72	67	68
Number of shares outstanding at end of period, million	38.23	38.23	38.23
Average number of shares outstanding, million	38.23	38.23	38.23
Earnings per share ¹⁾ , SEK	-0.09	-0.04	0.31
Cash flow per share ¹⁾ , SEK	-0.06	0.03	-0.02
Equity per share ²⁾ , SEK	1.84	1.57	1.93

1) Calculated based on average number of shares outstanding.

2) Calculated based on number of shares outstanding at end of period.

Quarterly Survey

Group	2018			2017			2016			2015	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Order bookings, MSEK	27.4	35.3	28.2	41.1	31.5	33.9	30.1	30.7	32.9	17.0	
Revenue, MSEK	22.3	43.3	29.7	31.6	29.0	46.0	23.7	34.2	20.0	37.5	
Gross margin, %	83	63	65	63	67	59	65	65	77	68	
Operating result before depreciation, amortisation and interest (EBITDA), MSEK	-1.5	7.0	2.6	-1.3	0.2	5.5	-1.7	1.8	-4.2	5.7	
Operating result (EBIT), MSEK	-3.4	5.1	0.7	-3.2	-1.5	3.9	-3.3	0.2	-5.8	4.1	
Operating margin, %	neg	11.8	2.4	neg	neg	8.5	neg	0.6	neg	10.9	
Return on equity, %	neg	24.5	0.9	neg	neg	6.7	neg	0.0	neg	6.0	
Equity ratio, %	67	67	56	59	62	56	61	62	67	66	
Earnings per share, SEK	-0.09	0.42	0.01	-0.09	-0.04	0.11	-0.09	0.00	-0.16	0.10	
Cash flow per share, SEK	-0.06	0.24	-0.22	-0.07	0.03	-0.01	-0.01	-0.06	0.02	-0.20	
Equity per share, SEK	1.84	1.93	1.51	1.50	1.57	1.61	1.50	1.59	1.59	1.75	
Average number of shares outstanding, million	38.23	38.23	38.23	38.23	38.23	38.23	38.23	38.23	38.23	38.23	

Definitions

Performance measure

EBITDA

Operating result plus depreciation, amortisation and interest on tangible and intangible assets.

Margins

Operating margin, %

Operating result relative to net revenue.

Profit margin, %

Result before taxes relative to net revenue.

Profitability

Return on average capital employed, %

Operating result, plus interest income, relative to average capital employed. Capital employed refers to balance sheet total, less non-interest-bearing liabilities.

Return on average equity, %

Result for the period relative to average equity.

Capital structure

Equity ratio, %

Equity at end of period relative to balance sheet total.

Net debt equity ratio

Interest-bearing liabilities at end of period, less cash and cash equivalents, relative to equity.

Other

Net investment in non-current assets, MSEK

Net investments both in tangible and intangible non-current assets, as well as financial non-current assets during the period.

Average number of employees

Average number of employees during the period.

Pre-share data

Number of shares outstanding at end of period in million

Number of shares outstanding at end of period.

Average number of shares outstanding, million

Average number of shares outstanding during the period.

Earnings per share, SEK

Result after taxes divided by average number of shares outstanding.

Cash flow per share, SEK

Operative cash flow divided by average number of shares outstanding.

Equity per share, SEK

Equity divided by number of shares outstanding at end of period.

Summary Parent Company Income Statements

MSEK	Jan-March 2018	Jan-March 2017	Full year 2017
Revenue	0.9	0.6	2.8
Other external costs	-0.9	-0.7	-3.1
Personnel costs	-1.3	-1.3	-4.8
Other operating costs	-	-	-
Operating result	-1.3	-1.4	-5.1
Result from Group companies	-	-	-
Net finance items	-0.1	-0.0	-0.3
Result before taxes	-1.4	-1.4	-5.4
Year-end appropriations	-	-	5.0
Taxes	-	-	1.9
Result for the period	-1.4	-1.4	1.5

Report of Parent Company Comprehensive Result

Result for the period	-1.4	-1.4	1.5
Other comprehensive result	-	-	-
Total other comprehensive result	-	-	-
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-1.4	-1.4	1.5

Summary Parent Company Balance Sheets

MSEK	31 March 2018	31 March 2017	31 December 2017
Non-current assets			
Financial non-current assets	58.1	56.1	58.0
Total non-current assets	58.1	56.1	58.0
Current assets			
Trade receivables	0.4	0.4	0.4
Due from Group companies	5.8	3.3	6.7
Other short-term receivables	5.3	5.8	4.9
Cash and cash equivalents	0.1	0.1	0.0
Total current assets	11.6	9.6	12.0
TOTAL ASSETS	69.7	65.7	70.0
Equity	54.9	53.4	56.3
Current liabilities			
Debenture loan	5.0	-	5.0
Due to Group companies	7.2	9.0	6.9
Trade payables	0.6	0.5	0.1
Other current liabilities	2.0	2.8	1.7
Total current liabilities	14.8	12.3	13.7
TOTAL EQUITY AND LIABILITIES	69.7	65.7	70.0

Summary Report of Changes in the Parent Company's Equity

MSEK	31 March 2018	31 March 2017	31 December 2017
Opening equity according to the balance sheet	56.3	54.8	54.8
Result for the period	-1.4	-1.4	1.5
Other comprehensive result for the period	-	-	-
Total comprehensive result for the period	-1.4	-1.4	1.5
Closing equity according to the balance sheet	54.9	53.4	56.3

Summary Parent Company Cash Flow Statements

MSEK	Jan-March 2018	Jan-March 2017	Full year 2017
Cash flow from operating activities before changes in working capital	-1.4	-1.4	-0.4
Changes in working capital			
Increase (-) / Decrease (+) in receivables	-0.5	-0.4	0.5
Increase (+) / Decrease (-) in current liabilities	0.7	-0.3	-1.7
Total change in working capital	0.2	-0.7	-1.2
Cash flow from operating activities	-1.2	-2.1	-1.6
Investment activities			
Loans from (+) / to (-) subsidiaries	1.3	2.2	-3.4
Cash flow from investment activities	1.3	2.2	-3.4
Operative cash flow	0.1	0.1	-5.0
Financing activities			
Increase (+) in loans	-	-	10.0
Decrease (-) in loans	-	-	-5.0
Cash flow from financing activities	-	-	5.0
Cash flow for the period	0.1	0.1	0.0
Cash and cash equivalents at beginning of period	0.0	0.0	0.0
Cash and cash equivalents at end of period	0.1	0.1	0.0

Relevant reconciliations with non-IFRS-based key financial indicators Group

Alternative key financial indicators

In addition to the financial indicators compiled in accordance with IFRS, Image Systems presents key financial indicators not defined by IFRS, such as for example EBITDA, Net liabilities.

These alternative key ratios are considered to be important result and performance indications for investors and other users of the interim report. The alternative key ratios should be regarded as a complement, but not a replacement for, the financial information compiled in accordance with IFRS.

Image Systems' definitions of these measures not defined by IFRS are described on page 7 under the heading Definitions.

These terms can be defined in other ways by other companies and are therefore not always comparable to similar metrics used by other companies.

EBITDA

Image Systems is of the opinion that EBITDA is a relevant metric for investors to understand the earnings generation before investment in tangible and intangible non-current assets.

Net liabilities

Image Systems is of the opinion that Net liabilities is a relevant metric for investors to understand the Group's indebtedness.

Operating result before depreciation, amortisation and interest EBITDA

MSEK	Jan- March 2018	Jan- March 2017	Full year 2017
Operating result	-3.4	-1.5	1.1
Depreciation and amortisation of and impairment charges against tangible and intangible non-current assets	1.9	1.7	7.4
Operating result before depreciation, amortisation and interest EBITDA	-1.5	0.2	8.5
Net liabilities			
MSEK	31 March 2018	31 March 2017	31 Dec 2017
Cash and cash equivalents	1.4	0.9	0.9
Interest-bearing liabilities	12.1	7.4	9.1
Net liabilities	10.7	6.5	8.2