

Arcam AB

Reg. no 556539-5356

Interim report January – June 2014

Strong order intake

- Net sales increased by 21 % to 111.0 (92.1) MSEK
- Net profit amounted to 3.9 (7.6) MSEK
(including non-recurring costs associated with the acquisition of AP&C of 6 MSEK)
- Earnings per share amounted to 0.21 (0.48) MSEK
- Cash at the end of the period 377.1 (166.7) MSEK
- Order intake amounted to 16 (13) systems, and (11) systems were delivered in the period.
- The order book contained 16 (13) systems by the end of the period
- The acquisition of the metal powder manufacturer AP&C was completed on February 11.

For the second quarter:

- Net sales amounted to 46.1 (54.0) MSEK
- Net profit amounted to 0.4 (7.5) MSEK
- Order intake amounted to 10 (7) systems
- 4 (7) EBM systems were delivered in the second quarter

Telephone conference with CEO Magnus René and CFO Johan Brandt
July 18, 2014 at 2.00 p.m. (CET)

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Link to presentation:

<http://event.onlineseminarsolutions.com/r.htm?e=789516&s=1&k=89656CE1AD4BAC8F9342D04A89594B73>

Strong order intake

In the first 6 months we report a 21% increase in sales. Trailing twelve month sales amounts to 218.3 MSEK and earnings amount to 11.7 MSEK. The result includes non-recurring costs in the first quarter 2014 associated with the acquisition of AP&C of 6 MSEK. The order intake during the period amounts to 16 systems and the order book as of today comprises 17 systems.

Acquisition of AP&C

In February we acquired the powder producer AP&C from Raymor Industries in Canada. AP&C is a leading manufacturer of high quality metal powder and supplier of titanium powder to Arcam since 2006. Titanium powder is an important part of our offering and with this acquisition we have secured access to the best technology for the production of high quality metal powder for our customers. The acquisition is fully in line with our growth strategy and complements our EBM technology and product portfolio. The acquisition was completed on February 11, and is consolidated from this date.

Business status

We received 10 new orders during the quarter and we see a continued strong demand, particularly from the aerospace industry. The sales of our new large system, Arcam Q20, gains momentum and we have received 8 system orders.

In June we launched Inconel 718[®] as a qualified material for use in Arcam's EBM systems. With the introduction of the Inconel 718 our customers in the aerospace industry can now further expand the range of components that they produce in their EBM machines.

The work to industrialize our technology with the major players within the aerospace and implant industries continue and we can now see good opportunities for volume orders during the year. At the same time, we see that the growing interest and knowledge in Additive Manufacturing and 3D printing creates interest within new segments. This may long term give opportunities for broadening of our product applications. Of the 11 systems that were delivered during the first quarter the majority went to customers within the orthopedic implant or the aerospace industry.

The cooperation with DiSanto is progressing and DiSanto ordered two new Arcam Q10 systems to meet the demand for finished EBM products.

In the beginning of July we acquired our agent in the UK. We already have a support operation in the UK and with this new step we take responsibility for direct sales and support on the important UK market.

Growth – organic and through acquisition

In addition to the acquisition of AP&C we are in rapid organic growth. We thus continue to recruit qualified employees in order to meet the expectations from our customers. During the period we have strengthened our service office in China, the support organization in Sweden and the sales organization. Through the acquisition of AP&C and through recruitment the number of employees has increased from 55 to 113 since June 2013. We will maintain an ambitious recruitment pace in order to further develop our technology and offering and thus exploiting the present business situation.

An order book of 17 systems, increasing aftermarket sales and a positive business situation lays a solid foundation for a continued growth in 2014.

Mölnadal, July 18, 2014

Magnus René, CEO

The above information has been made public in accordance with the Securities Market Act and/or the Financial Instruments Trading Act. The information was published on July 18, 2014 at 08.30 (CET).

Net sales, result and order intake

Net sales

Net sales for the period increased to 111.0 (92.1) MSEK.

System sales

Net system sales amounted to 61.4 (60.7) MSEK.

11 (11) EBM systems were delivered during the period.

Revenue from systems sold is recognized upon delivery to the customer.

Aftermarket Sales

Aftermarket sales amounted to 49.0 (30.6) MSEK for the period. Aftermarket sales consist of metal powders, other consumables, training and services.

From February 11 the acquired operation at AP&C is consolidated and is part of the aftermarket sales.

Result

Net result amounted to 3.9 (7.6) MSEK, including non-recurring costs associated with the acquisition of AP&C of about 6 MSEK and financial income from interest and currency effects of about 8 MSEK.

Order intake

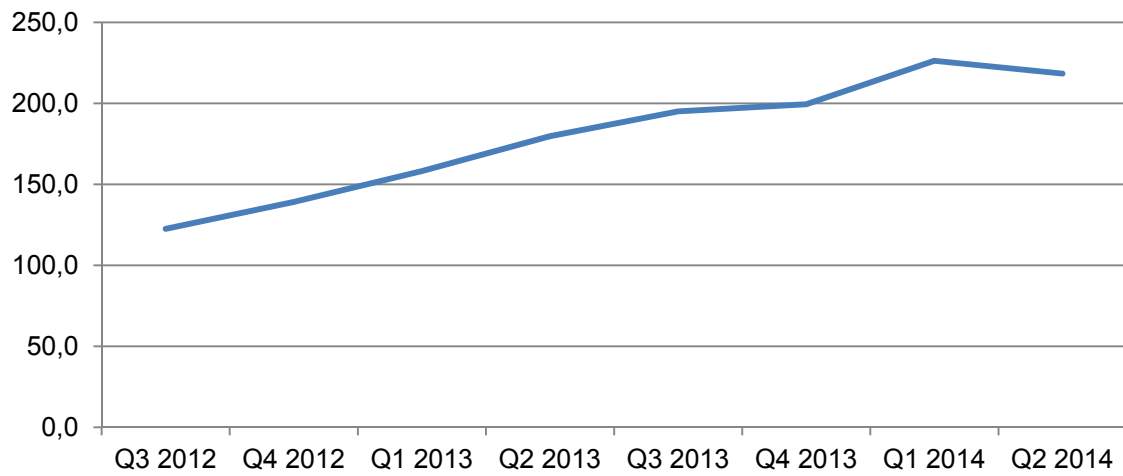
During the period we booked 16 (13) new orders for EBM systems. At the end of the period the order book consists of 17 (12) systems. The order book as of today comprises 17 (13) systems.

Amount in MSEK

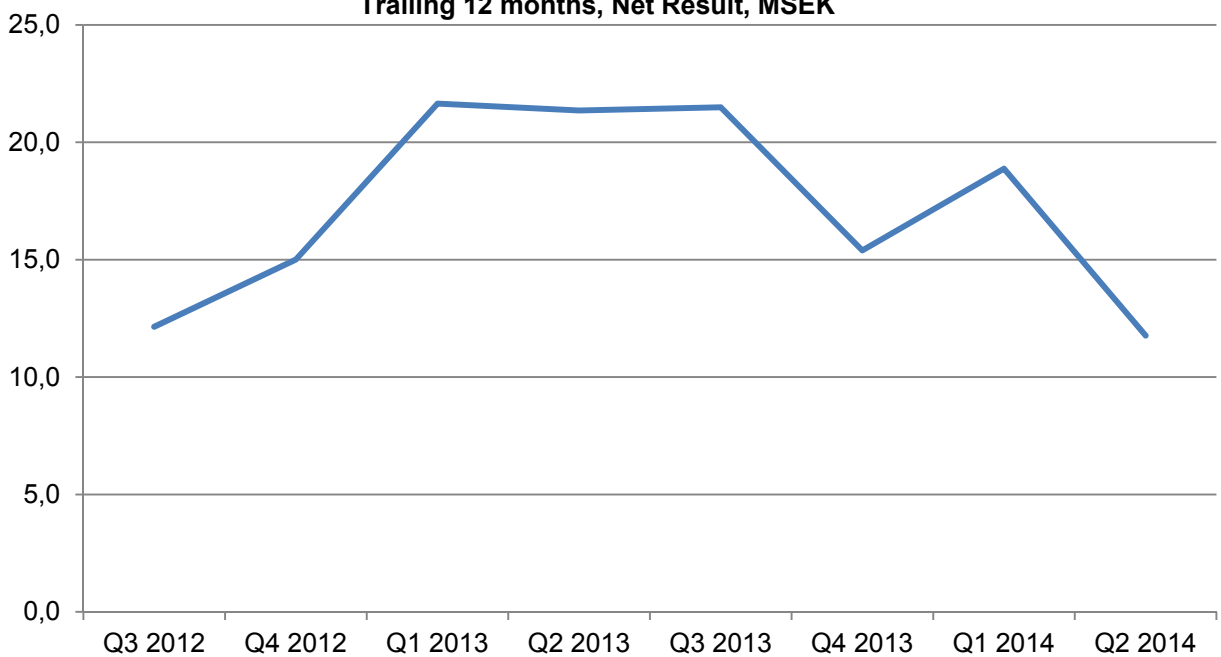
QUARTER	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Sales	46,1	64,9	66,9	40,4	54,0	38,1	62,5	25,1	32,4	18,9
Net Sales	0,4	3,6	7,6	0,2	7,5	0,1	13,7	0,1	7,8	-6,6
System Orders	10	6	10	4	7	6	12	5	5	2
RULLANDE 12 MÅNADER	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Sales	218,3	226,2	199,4	195,0	179,8	158,2	139,1	122,5	115,0	109,6
Net result	11,8	18,9	15,4	21,5	21,4	21,6	15,0	12,1	10,7	3,9
System orders	30	27	27	29	30	28	24	16	14	11

Quarterly and trailing 12-month sales, net result and system orders

Trailing 12 months Sales, MSEK



Trailing 12 months, Net Result, MSEK



Investments, depreciation and financial status

Investments and depreciation

Investments in fixed assets amounted to 4.7 (0.9) MSEK.

In addition to the investments above the company had expenses for research and development work amounting to a total of 21.6 (16.4) MSEK for the period.

Depreciation on fixed assets amounted to SEK 5.8 (2.9) MSEK.

Acquisition related cash flow related to payment for the acquisition of AP&C, amounted to 125.4 MSEK. See further information in Note 1.

Financial status

Cash and cash equivalents at end of period amounted to 377.1 (166.7) MSEK.

The cash account contained 5.0 MSEK which the company disposes and operates for the two FP7 programs. The Group has no bank financing.

The company has unchanged a strong cash position and a very strong equity ratio.

Development work in close cooperation with customers

Customer in the implant industry manufacturers CE and FDA approved orthopedic implants in larger volumes in Europe and in the US. The implants are sold worldwide as high-end products and are used within medical care on a regular basis. To accelerate the progress in the implants market, the company continues to pursue development together with our customers.

Arcam Q10 was introduced in March 2013. Arcam Q10 is the first of a new generation of EBM systems, developed for industrial production. Arcam Q10 offers higher productivity and resolution, improved ergonomics, and Arcam LayerQam™, a proprietary and patented camera-based system for inline quality control of manufactured parts. Arcam Q10 is designed to meet the high standards for efficient volume production of orthopedic implants in an industrial environment

Arcam Q20, introduced in December 2013, is an EBM system designed for industrial production in the aerospace industry. Arcam Q20 is based on the same technology platform and contains the same basic technology as Arcam Q10.

Two research projects led by Arcam started the second half of 2011. The *FastEBM* project, aiming to developing Arcam's EBM technology for significant higher power and thus build rate, was finalized in 2013. The results and deliverables from the project will be used in Arcam's future EBM systems for substantially increased productivity. The *HiResEBM* project, aiming to develop Arcam's EBM technology for higher beam quality and precision has been extended.

Arcam is also engaged in collaborations in the aerospace industry, and an example of this is the development project with the aerospace company Avio, owned by GE Aviation. This work will put EBM systems in production and jointly develop the market for turbine components in titanium aluminide.

Staff

The number of employees in the group at the end of period is 113 (55) persons.

Arcam share

Arcam's largest shareholders as of June 30 are:

Owner	Shares	
STIFTELSEN INDUSTRIFONDEN	2 873 808	15,7%
OPPENHEIMER GLOB OPPORTUNITY FUND	1 100 000	6,0%
STATE STREET BANK & TRUST COM., BOSTON	827 244	4,5%
MELLON US TAX EXEMPT ACCOUNT	735 417	4,0%
MORGAN STANLEY AND CO LLC, W9	564 074	3,1%
Total number of shares	18 341 632	100,0%

Annual General Meeting (AGM) and Nomination Committee

The AGM was held on March 27, 2014 and decided to re-elect the Board members Jan-Olof Brüer, Lars Bergström, Henrik Hedlund, Anna Hultin Stigenberg and Thomas Carlström. Göran Malm was newly elected as Chairman of the Board.

In line with the Board's proposal, the AGM approved to launch a stock options program targeted at employees and business partners. The program comprises an issuance of 200 000 options.

The AGM authorized the Board to decide on the issues of new shares, convertible debentures and subscription options. The authorization covers an overall increase of the share capital not exceeding KSEK 1 800. The shares shall be issued at market stock price.

The AGM decided that the Nomination Committee shall consist of Anna Bernsten, Gunnar Ek, Rolf Ekedahl and Åsa Knutsson. Åsa Knutsson, who represents the major shareholder of the company, was elected Chairman. The other members in the Nomination Committee are independent of the company and its major shareholders.

Accounting principles

This report has not been audited. The accounting principles applied are the same as in the Annual Report for 2013.

The P&L report is from January 2014 presented based on functions.

This report has been prepared in accordance with IAS 34 Interim Financial Reporting and for the parent company in accordance with the Annual Accounts Act and RFR 2

Accounting for Legal Entities. New IFRS rules have not affected Group accounting.

Acquisition expenses are reported as expenses in the group but have been capitalized in the parent company.

Significant risks and uncertainties

The company sells complex system in limited quantities. The sales process is long - it takes 6-18 months to complete a sale. Changes in time of business or deliveries may therefore have a major impact on the results in individual quarters. See also the compilation of sales and earnings by quarter and for rolling 12 months, on page 5-6.

The long-term development of the company is at this time also dependent on how the industrial economy develops. Although Arcam's priority markets are less cyclical than other sectors of the economy, it cannot be excluded that the current macro-economic and credit problems can have a negative impact on investment in machinery also in Arcam's key market segments.

Arcam has developed a commercially viable product. To fully utilize the potential of the product requires continuous development, in applications and introducing new material. As product development is estimated to generate added competitive advantages for Arcam, it is not impossible that development could be delayed, either due to insufficient resources or due to unforeseen technical problems.

Mölnadal, July 18, 2014
Arcam AB (publ)

The Board

Interim reports for the quarters 3 and 4 will be published on:
17 October 2014 and 7 February 2015.

The Annual General Meeting for 2014 will take place on March 26, 2015.

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This is Arcam

Operations

Arcam provides a cost-efficient Additive Manufacturing solution for production of metal components. The technology offers freedom in design combined with excellent material properties and high productivity. Arcam's market is global with customers mainly in the orthopedic and aerospace industries. The company was founded in 1997 and is listed on NASDAQ OMX Stockholm, Sweden. Head office and production facilities are located in Mölndal, Sweden. Support offices are located in the United States, Italy, UK and China.

Mission

Arcam designs and manufactures equipment and methods to directly from digital three-dimensional models produce solid components from metal powder. Marketing is focused on the manufacturing industry in implants and aerospace.

Market

Arcam's market is global with customers primarily in orthopedic implants and aerospace industries that take advantage of Arcam's technology's capacity for cost effective manufacturing of products with advanced functionality. Since its introduction, approximately 100 EBM systems have been delivered to demanding customers in Europe, USA and Asia.

Strategy in brief

Arcam focuses on two target groups in the manufacturing industry - orthopedic implant and aerospace industries. The focus of development in the short to medium term is to increase machine productivity precision and accuracy.

Arcam protects its technology with strong patent protection where process knowledge are key components, for both hardware and software. Patents have been granted in 11 key countries.

Arcam works closely with customers to better understand their needs and to meet their expectations.

Business in brief

Arcam's main strategy is to offer complete EBM (Electron Beam Melting) systems, both hardware and software. Each system sale is recognized in full when dispatched from Arcam. Arcam typically enters into a service agreement where Arcam maintains the system. Arcam also undertakes to provide the customer with metal powder.

INCOME STATEMENT, MSEK GROUP	2014-04-01 2014-06-30	2013-04-01 2013-06-30	2014-01-01 2014-06-30	2013-01-01 2013-06-30	2013-01-01 2013-12-31
Net sales	46,1	54,0	111,0	92,1	199,4
Cost of sales	-31,8	-30,3	-70,9	-52,4	-115,7
Gross income	14,3	23,7	40,1	39,7	83,7
Research and development expenses	-12,1	-8,9	-21,6	-16,4	-36,2
Selling, general & administrative expenses	-9,7	-7,3	-23,4	-16,2	-32,9
Other operating income and expenses	1,4	-1,0	1,1	-0,1	-0,1
Operating income	-6,1	6,5	-3,8	7,0	14,5
Net financial items	7,2	0,9	8,1	0,6	0,9
Tax	-0,7	0,1	-0,4	0,0	-0,1
Net profit for the period	0,4	7,5	3,9	7,6	15,4
Other comprehensive income					
Items that can be reclassified into profit or loss					
Translation differences on foreign operations	3,9	-0,3	4,6	-0,3	0,0
Translation differences on hedge instruments	0,0	-	2,5	-	-2,5
Other comprehensive income for the period	3,9	-0,3	7,1	-0,3	-2,5
Total comprehensive profit for the period	4,3	7,2	11,0	7,3	12,9
Earnings per share, SEK	0,02	0,48	0,21	0,49	0,96
Earnings per share after dilution, SEK	0,02	0,47	0,21	0,48	0,95

**BALANCE SHEET, MSEK
GROUP**

	2014-06-30	2013-06-30	2013-12-31
Goodwill	164,0	-	-
Other intangible fixed assets	43,8	13,5	11,2
Tangible fixed assets	18,4	1,3	1,9
Financial fixed assets	6,8	6,4	6,4
Total non-current assets	233,0	21,2	19,5
Inventory	86,8	33,3	46,7
Current receivables	83,7	57,8	64,4
Blocked funds	30,0	-	-
Cash and cash equivalents	347,1	166,7	503,3
Total current assets	547,5	257,9	614,5
Total assets	780,4	279,1	633,9
Stockholders' equity & liabilities			
Share capital	18,3	16,5	16,7
New share issue in progress	1,0	-	348,0
Other reserves	667,8	330,2	321,4
Translation reserve	5,4	0,5	-1,8
Retained earnings	-127,6	-139,3	-131,5
Total equity	564,9	208,0	552,9
Deferred tax liabilities	0,8	-	-
Other long term liabilities	52,6	-	-
Current liabilities	162,2	71,1	81,0
Total equity and liabilities	780,4	279,1	633,9
Pledged assets			
Corporate mortgages	-	25,0	25,0
Contingent liabilities	-	-	-

CASH FLOW STATEMENT, MSEK GROUP	2014-04-01	2013-04-01	2014-01-01	2013-01-01	2013-01-01
	2014-06-30	2013-06-30	2014-06-30	2013-06-30	2013-12-31
Cash flow from operations before changes in working capital	-0,3	8,7	7,6	10,2	19,3
Total change in working capital	11,2	10,3	-4,7	19,2	9,1
Cash flow from operations	10,9	19,0	2,8	29,4	28,4
Investments in intangible assets	-0,5	-0,2	-0,9	-0,6	-1,3
Investments in tangible assets	-2,4	0,0	-3,7	-0,3	-1,4
Investments in financial assets	-	-5,7	-	-5,7	-5,7
Acquired and divested operations, net	-	-	-125,4	-	-
Cash flow from investments activities	-2,9	-6,0	-130,0	-6,6	-8,4
Cash flow from financing activities	1,0	115,3	1,0	117,0	456,4
Increase/decrease in cash and cash equivalents	9,0	128,4	-126,3	139,8	476,4
Cash and cash equivalents at the beginning of the period	368,1	38,3	503,3	26,9	26,9
Cash and cash equivalents at end of the period	377,1	166,7	377,1	166,7	503,3

Cash related to the FP7 projects amounts to 5,0 MSEK end of period.

EQUITY, MSEK GROUP	2014-01-01	2013-01-01	2013-01-01
	2014-06-30	2013-06-30	2013-12-31
Opening balance	552,9	83,6	83,6
New share issue	348,0	120,7	122,6
New share issue in progress	-347,0	0,0	348,0
Issue expenses	0,0	-3,7	-14,2
Net profit for the period	3,9	7,6	15,4
Other comprehensive income for the period	7,1	-0,3	-2,5
Closing balance	564,9	208,0	552,9

BUSINESS AND FINANCIAL RATIOS GROUP¹

	2014-06-30	2013-06-30	2013-12-31
Equity ratio %	72,4	74,5	87,2
Return on equity %	0,7	5,2	10,7
Return on capital employed %	0,8	5,3	10,7
Equity per share, SEK	30,80	12,58	12,24
Earnings per share, SEK	0,02	0,49	0,96
Earnings per share after dilution, SEK	0,02	0,48	0,95
Cash flow from operating activities per share	0,15	1,92	1,77
Number of employees by period end	113	55	73
Number of shares by period end	18 341 632	16 526 380	16 741 632
Number of warrants by period end	733 608	733 608	628 856
Market value per share by period end	221,50	87,50	239,50

¹ All key ratios per share have been restated with respect to the split and have been adjusted by a factor of 4.

INCOME STATEMENT, MSEK PARENT COMPANY	2014-04-01	2013-04-01	2014-01-01	2013-01-01	2013-01-01
	2014-06-30	2013-06-30	2014-06-30	2013-06-30	2013-12-31
Net sales	35,6	53,4	99,2	90,9	198,2
Cost of sales	-24,0	-29,5	-63,4	-53,1	-116,7
Gross income	11,6	23,8	35,8	37,8	81,5
Research and development expenses	-11,9	-8,7	-21,2	-16,1	-35,4
Selling, general & administrative expenses	-7,3	-6,7	-14,0	-15,0	-28,9
Other operating income and expenses	1,4	-1,0	1,1	-0,1	-0,1
Operating income	-6,1	7,5	1,8	6,5	17,1
Net financial items	8,4	1,0	5,3	1,3	-0,5
Tax	-	-	-	-	-
Net profit for the period	2,4	8,5	7,1	7,8	16,5
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive profit for the period	2,4	8,5	7,1	7,8	16,5
Earnings per share, SEK	0,13	0,54	0,39	0,51	1,03
Earnings per share after dilution, SEK	0,13	0,53	0,38	0,50	1,02

BALANCE SHEET, MSEK PARENT COMPANY	2014-06-30	2013-06-30	2013-12-31
	Intangible fixed assets	9,7	13,5
Tangible fixed assets	2,0	1,3	1,9
Financial assets	71,6	5,9	5,9
Inventory	56,2	28,8	41,3
Current receivables	73,9	56,1	62,7
Receivables from group companies	95,9	8,3	14,6
Blocked funds	30,0	-	-
Cash and cash equivalents	339,9	165,9	500,5
Total assets	679,2	279,8	638,0
Stockholders' equity & liabilities			
Share capital	18,3	16,5	16,7
New share issue in progress	1,0	-	348,0
Statutory reserve	62,3	62,3	62,3
Retained earnings	483,6	130,2	130,0
Total equity	565,2	209,0	557,1
Liabilities to group companies	1,6	-	-
Current liabilities	112,5	70,8	80,9
Total stockholders' equity & liabilities	679,2	279,8	638,0
Pledged assets			
Corporate mortgages	-	25,0	25,0
Contingent liabilities	100,6	-	-

Note 1 – Acquisition of AP&C

On February 11, 2014 Arcam acquired the powder division, AP&C, from Raymor Industries Inc. The total purchase consideration was MCAD 35 divided into an initial cash payment of MCAD 20 at takeover and a supplementary purchase consideration totaling not more than MCAD 15 to be paid during 2015 and 2016, on condition that certain targets are achieved. The transaction is being financed with Arcam's existing funds.

AP&C manufactures metal powders using a proprietary technology for plasma atomization and titanium powder is currently its largest product area. 3D printing accounts for a significant part of AP&C's sales. Other markets include Metal Injection Molding (MIM), powders for plasma sprays and powders for HIP components.

During Q1 charged Arcam result of costs directly attributable to the acquisition of 6.0 MSEK. The acquisition is expected to have a positive effect on Arcam Group's operating profit (EBIT) from 2014 onwards.

Preliminary values for acquired assets and assumed liabilities (net assets) on the date of acquisition:

Net assets	28.3
Goodwill	153.6
Intangible fixed assets	35.2
Total purchase	217.1
Supplementary purchase consideration	-91.7
Impact of the acquisition on the Group's cash flow	125.4

Goodwill is mainly attributable to synergism, future sales growth and the knowledge of existing personnel.