

Arcam AB

Reg. no 556539-5356

Year-end report 2014

Strong growth and strategic acquisitions

- Net sales increased by 70% to 339.0 (199.4) MSEK
- Operating income increased to SEK 19.6 (14.5) MSEK (including non-recurring costs of approximately 9.3 (5) MSEK)
- Net income increased to 57.1 (15.4) MSEK (including tax effects of approximately 15.8 MSEK)
- Earnings per share increased to 3.10 (0.96) SEK
- 35 (25) EBM systems were delivered during the period
- Order intake increased to 42 (27) systems
- Acquisition of the metal powder manufacturer AP&C in Canada
- Acquisition of the contract manufacturer DiSanto Technology Inc.

For the fourth quarter:

- Sales increased by 105% to 137.1 (66.9) MSEK
- Operating income increased to 13.2 (6.9) MSEK
- Net income increased to 15.0 (7.6) MSEK
- Order intake increased to 21 (10) systems
- 15 (9) EBM systems were delivered in the third quarter

Significant events after the end of the period:

- Order for 5 new EBM systems in January 2015

Telephone conference with CEO Magnus René and CFO Johan Brandt
February 5, 2015 at 3.00 p.m. (CET)

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Link to presentation:

[Arcam Q4 Report](#)

Strong growth and strategic acquisitions

2014 was another eventful year for Arcam and during the past twelve months Arcam has developed significantly. While sales of our EBM systems continue to increase, we have also expanded our business with the metal powder manufacturer AP&C in Canada and the contract manufacturer DiSanto in the US.

We now have an offering to our clients with our EBM systems as a hub and metal powders and contract manufacturing being important supplementary products, broadening our offering to the market and providing recurring revenue.

After a strong fourth quarter, we closed the year with a turnover of almost 339 MSEK and an operating income of 19.6 MSEK. Sales increased by more than 70% and operating income increased by 35%. The operating profit includes non-recurring costs associated with the acquisition of AP&C and DiSanto of about 9.3 MSEK.

Acquisition of AP&C

In February 2014 we acquired the metal 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.

Acquisition of DiSanto Technology

In September 2014 Arcam acquired DiSanto, a strategic partner since February 2013. The acquisition combines Arcam's cutting-edge Additive Manufacturing technology with DiSanto's full-service contract manufacturing services for orthopedic implants. Through DiSanto we offer manufacturing of advanced EBM based implants and other components.

The combination of Arcam's EBM technology and DiSanto's know-how in orthopedic implant manufacturing will accelerate the market adoption of Additive Manufacturing in the implant industry.

DiSanto is a fully equipped and certified production facility for the production of finished orthopedic implants with approximately 100 employees. The acquisition was finalized on September 2, 2014 and DiSanto is consolidated from this date.

During the year we have expanded our operations at DiSanto with a newly built facility for the production of EBM based implants.

Through these acquisitions we now have a broad offering for our customers; metal powders through AP&C, acquired earlier this year, EBM systems and services through Arcam AB and contract manufacturing through DiSanto. The acquisition is thus in line with our growth strategy, and complements our technology and product portfolio.

Business status

During the year we received 42 new system orders, an increase by over 50% compared to the previous year. We see a continued strong demand, particularly from the aerospace industry and order intake for our new large system, the Arcam Q20, is strong. We enter 2015 with an order book of 19 systems.

The Asian market continues to grow and over one third of the order intake in 2014 comes from Asia.

The work to industrialize our technology with the major players within the aerospace and implant industries continue and we can see good business opportunities forward. Of the 35 systems that were delivered during the period the majority went to customers within the medical implant or the aerospace industry.

Growth – organic and through acquisitions

In addition to the acquisition of AP&C and DiSanto we are in rapid organic growth. We thus continue to recruit qualified employees in order to meet the expectations from our customers. During the year we have strengthened our service office in China and the support and sales organization in Sweden. We also have strengthened our Key Account organization and appointed a Chief Operating Officer (COO) for the EBM business. We will maintain an ambitious recruitment pace in order to further develop our technology and offering and thus exploiting the present business situation.

A stable order book, stable finances and a positive business situation lay a solid foundation for a continued strong growth in 2015.

Mölnadal, February 5, 2015

Magnus René, President & CEO

The information has been made public in accordance with the Securities Market Act and/or the Financial Instruments Trading Act. The information was published on February 5, 2015 at 14.00 (CET).

Net sales, result and order intake

Net sales

Net sales for the year increased by 70% to a total of 339.0 (199.4) MSEK, of which sales in the fourth quarter amounted to 137.1 (66.9) MSEK.

Of the total sales EBM systems and services amounted to 237 MSEK, sales of metal powders 79 MSEK and contract manufacturing to 23 MSEK.

Result

The operating income for the year increased to 19.6 (14.5) MSEK of which the fourth quarter amounted to 13.2 (6.9) MSEK. The operating income for the year includes non-recurring costs related to the acquisitions of AP&C and DiSanto totaling approximately 9.3 (5.0) MSEK.

Net income for the year increased to 57.1 (15.4) MSEK of which the fourth quarter amounted to 15.0 (7.6) MSEK. Net income for the year includes, in addition to above non-recurring costs, capitalization of tax loss carry forwards of 15.8 MSEK.

Capitalization of tax loss carry forwards is done according to IAS 12 and based on recent year's earnings.

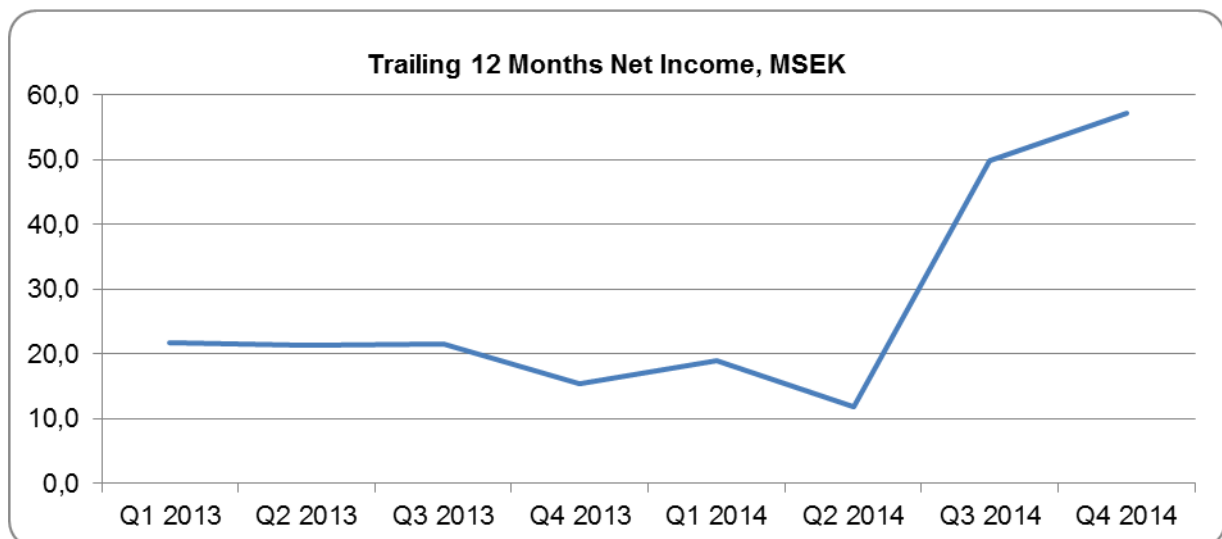
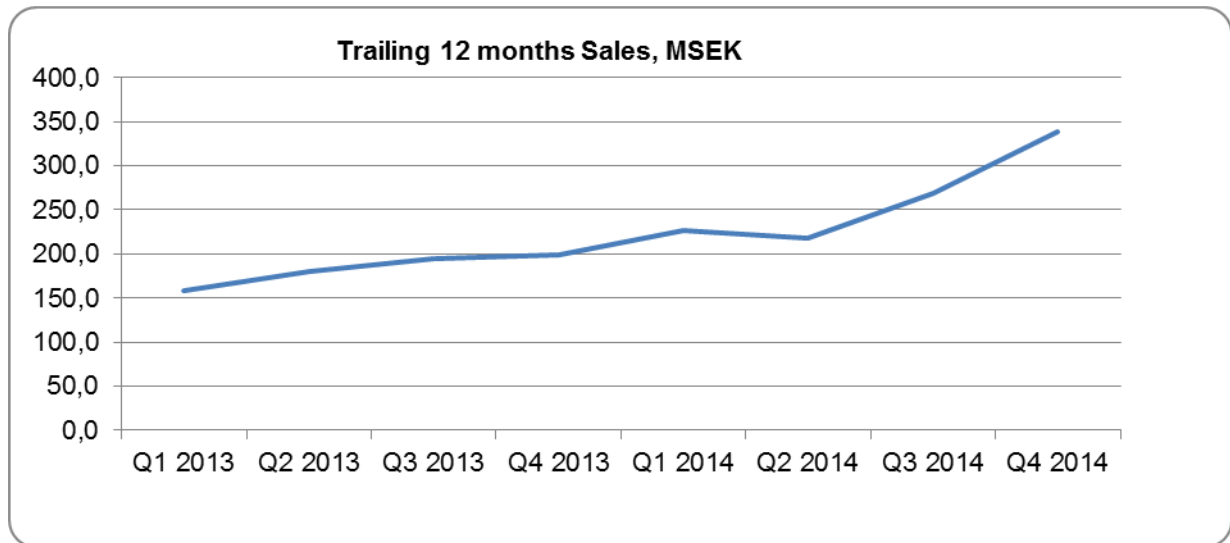
Order intake

During the year we booked 42 (27) new orders for EBM systems. At the end of the year the order book was 19 (12) systems.

Amounts in MSEK

Quarterly	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net Sales	137,1	90,8	46,1	64,9	66,9	40,4	54,0	38,1
Net income	15,0	38,2	0,4	3,6	7,6	0,2	7,5	0,1
System orders	21	5	10	6	10	4	7	6
Trailing Twelve Months	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Net Sales	339,0	268,8	218,3	226,2	199,4	195,0	179,8	158,2
Net income	57,1	49,7	11,8	18,9	15,4	21,5	21,4	21,6
System orders	42	31	30	27	27	29	30	28

Quarterly and trailing 12-months sales, earnings and system orders



Investments, depreciation and financial status

Investments and depreciation

Investments in fixed assets amounted to 11.2 (2.7) MSEK of which intangible fixed assets amounted to 2.2 (1.3) MSEK and tangible fixed assets to 9.0 (1.4) MSEK. The investments in intangible fixed assets during the year refer to investments in patents.

Depreciations on intangible and tangible fixed assets amounted to SEK 18.6 (6.4) MSEK.

Cash flow related to payment for the acquisitions of AP&C and DiSanto, and AMS (the acquired agent in the UK) amounted to 200.3 MSEK. See further information in Note 1.

Financial status

Cash and cash equivalents at the end of the year amounted to 321.1 (503.3) MSEK. Cash includes 6.3 (4.8) MSEK which the company disposes and operates for the two FP7 programs. The Group has no bank financing. All figures relates to the Group. Operating cash flow for the period was positive, and the company has a strong cash position and a very strong equity ratio.

Staff

The number of employees in the group at the end of the period is 228 (73) persons.

Arcam share

Arcam's largest shareholders as of December 31, 2014 are:

Owner	Shares	(%)
STIFTELSEN INDUSTRIFONDEN	1 948 808	10,4%
OPPENHEIMER GLOB OPPORTUNITY FUND	1 200 000	6,4%
STATE STREET BANK & TRUST COM., BOSTON	1 004 388	5,4%
CITIBANK NA NEW YORK	709 414	3,8%
SIX SIS AG, W8IMY	606 251	3,2%
Total number of shares	18 665 240	100,0%

During the year warrants were exercised to subscribe for a total of 323 608 new shares.

In January 2014 there was a share split 4:1.

Long term development work

The company's development work on EBM technology is focused on fulfilling the very high standards expected within the aerospace and orthopedic implant industries. The work is often done in close collaboration with leading customers to match their specific system requirements.

Arcam is also active in several international research collaborations in Europe and in the USA and Canada, some of them in a leading role. The co-operations aim to further develop Arcam's core technologies and also to develop new materials and applications for the EBM technology. An example is the co-operation with Oak Ridge National Labs (ORNL), where Arcam together with ORNL conducted a project to develop parameters for Inconel, a nickel-based alloy, for use in the Arcam EBM systems. Other than developing parameters for the EBM systems the project also entailed a new powder manufacturing process at AP&C. The Inconel alloy is now in use with several EBM customers.

Another example is the two EU-financed projects which Arcam led through the Seventh Framework Program (FP7). The FastEBM project aims to develop Arcam's EBM

technology for significant higher power and thus build rate and the *HiResEBM* project, aims to develop Arcam's EBM technology for higher beam quality. The work in the FP7 projects has resulted in two important patent applications covering technology for EBM systems with higher power than today's systems. Work is now in progress to industrialize and implement the knowledge in future EBM products.

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 Br er, Lars Bergstr m, Henrik Hedlund, Anna Hultin Stigenberg and Thomas Carlstr m. G ran 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 1800 KSEK. 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  sa Knutsson.  sa 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. The Nomination Committee can be reached through  sa Knutsson, asa.knutsson@industrifonden.se.

Dividend

The Board and the CEO propose that no dividend is paid for the fiscal year 2014.

Accounting principles

This report has not been audited.

The applied accounting principles 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 the Group accounting. Acquisition expenses are reported as expenses in the Group but have been capitalized in the parent company. Hedge accounting is applied in the Group but not in the parent company.

Significant risks and uncertainties

The company sells complex system in limited quantities. The sales process is long, and it takes 6-18 months to complete a deal. 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 4-5.

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 exploit the potential of the product requires a continuous development work on the application side with the aim to introduce new materials. Whilst product development is expected to provide Arcam with additional competitive advantages, it cannot be excluded that the development is delayed, either due to insufficient resources or because of unforeseen technical problems.

Arcam has in 2014 completed two major acquisitions, AP&C and DiSanto. While these two acquisitions are expected to contribute to Arcam's development it cannot be excluded that challenges in conjunction with the acquisition of the companies or a delay in leveraging the businesses of the new group may have a negative impact on Arcam's results.

Information policy

The Arcam Group is growing and although sales of the EBM systems are important for the Group, each individual EBM order is now not critical. The Board considers that each individual EBM order thus does not affect the valuation of the company. Hence, from February 6th Arcam is changing its information policy, which means that each EBM system order will not be published. The Company will continue, of course, to publish business events that the company considers crucial, and thus affect the valuation.

The Year End Report gives a true and fair view of the operations, financial position and results and also describes significant risks and uncertainties for the Group.

Mölnadal, February 5, 2015

Arcam AB (publ)
 The Board

Financial Calendar

The Annual General Meeting for 2014 will take place on March 23, 2015.

Interim report for the quarter 1-4 is published on April 21, July 21, October 21, and February 5, 2016.

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This is Arcam

Operations

Arcam provides cost-efficient Additive Manufacturing solutions for production of metal components. Arcam's Electron Beam Melting (EBM[®]) technology offers design freedom combined with excellent material properties and high productivity. Arcam is, through our solution orientation and comprehensive product offering, an innovative partner for advanced manufacturing, primarily in the aerospace and medical industries.

Arcam provides Electron Beam Melting systems through Arcam AB in Sweden, powder metals through AP&C in Canada and implant contract manufacturing through DiSanto in the U.S.

The company is listed on Nasdaq Stockholm and the Head Office is located in Mölndal, Sweden.

History

Arcam was established in 1997, and in 2002 the first commercial EBM system, EBM S12 was introduced. In early 2007, Arcam A2 was introduced; a system of double construction volume compared with EBM S12. In late 2009 launched Arcam A1, an EBM system adapted for the production of orthopedic implants. In early 2013 Arcam Q10 was launched, a new EBM system with a focus on the implant market. With Arcam Q10 also LayerQam was introduced, a system for quality control in production. In late 2013 Arcam launched Arcam Q20, an EBM system based on Arcam Q10 and adapted for the aerospace industry.

Market

Arcam's market is global with customers primarily in orthopedic implants and aerospace industries that take advantage of Arcam's technology's for cost efficient manufacturing of products with advanced functionality.

Strategy in brief

Arcam focuses on two target groups in the manufacturing industry - orthopedic implant and aerospace industries. The focus 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 are applied for in 11 key countries.

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

Business in brief

Arcam provides Electron Beam Melting systems through Arcam AB in Sweden, powder metals through AP&C in Canada and implant contract manufacturing through DiSanto in the U.S. Arcam's EBM systems is a hub in the offering to the market with metal powders and contract manufacturing being important supplementary products, broadening our offering to the market and providing recurring sales.

INCOME STATEMENT, MSEK GROUP	2014-10-01	2013-10-01	2014-01-01	2013-01-01
	2014-12-31	2013-12-31	2014-12-31	2013-12-31
Net sales	137,1	66,9	339,0	199,4
Cost of sales	-92,5	-37,3	-221,1	-115,7
Gross income	44,6	29,6	117,9	83,7
Research and development expenses	-14,7	-11,9	-48,1	-36,2
Selling, general & administrative expenses	-20,7	-11,0	-56,4	-32,9
Other operating income and expenses	3,9	0,2	6,3	-0,1
Operating income	13,2	6,9	19,6	14,5
Net financial items	6,7	0,7	20,2	0,9
Tax	-4,9	-	17,3	-0,1
Net profit for the period	15,0	7,6	57,1	15,4
Other comprehensive income				
Items that can be reclassified into profit or loss				
Translation differences on foreign operations	8,2	-0,1	16,5	-
Translation differences on hedge instruments	-	-2,5	2,5	-2,5
Other comprehensive income for the period	8,2	-2,7	19,1	-2,5
Total comprehensive profit for the period	23,2	4,9	76,2	12,9
Earnings per share, SEK	0,80	0,45	3,10	0,96
Earnings per share after dilution, SEK	0,80	0,44	3,09	0,95

BALANCE SHEET, MSEK GROUP

	2014-12-31	2013-12-31
Goodwill	204,3	-
Other intangible fixed assets	70,9	11,2
Tangible fixed assets	61,2	1,9
Financial fixed assets	18,2	6,4
Total non-current assets	354,6	19,5
Inventory	115,4	46,7
Current receivables	142,6	64,4
Blocked funds	31,5	-
Cash and cash equivalents	289,6	503,3
Total current assets	579,1	614,5
Total assets	933,7	633,9
Stockholders' equity & liabilities		
Share capital	18,7	16,7
New share issue in progress	-	348,0
Other reserves	679,8	321,4
Translation reserve	17,3	-1,8
Retained earnings	-74,4	-131,5
Total equity	641,4	552,9
Other long term liabilities	64,8	-
Current liabilities	227,5	81,0
Total equity and liabilities	933,7	633,9
Corporate mortgages	1,6	25,0
Contingent liabilities	-	-

CASH FLOW STATEMENT, MSEK GROUP

	2014-10-01	2013-10-01	2014-01-01	2013-01-01
	2014-12-31	2013-12-31	2014-12-31	2013-12-31
Cash flow from operations before changes in working capital	14,7	6,6	37,2	19,3
Total change in working capital	28,8	6,0	-10,5	9,1
Cash flow from operations	43,5	12,6	26,7	28,4
Investments in intangible assets	-0,7	-0,4	-2,2	-1,3
Investments in tangible assets	-4,0	-0,3	-9,0	-1,4
Investments in financial assets	-	-	-	-5,7
Acquired and divested operations, net	1,4	-	-200,3	-
Cash flow from investments activities	-3,4	-0,7	-211,5	-8,4
Cash flow from financing activities	-	337,5	2,7	456,4
Increase/decrease in cash and cash equivalents	40,1	349,4	-182,2	476,4
Cash and cash equivalents at the beginning of the period	281,0	153,9	503,3	26,9
Cash and cash equivalents at end of the period	321,1	503,3	321,1	503,3

Cash related to the FP7 projects amounts to 6,3 MSEK end of period.

EQUITY, MSEK GROUP

	2014-01-01	2013-01-01
	2014-12-31	2013-12-31
Opening balance	552,9	83,6
New share issue	350,7	122,6
New share issue in progress	-348,0	348,0
Issue expenses	-	-14,2
Offset issue	9,7	-
Net profit for the period	57,1	15,4
Other comprehensive income for the period	19,1	-2,5
Closing balance	641,4	552,9

BUSINESS AND FINANCIAL RATIOS GROUP¹

	2014-12-31	2013-12-31
Equity ratio %	68,7	87,2
Return on equity %	9,6	10,7
Return on capital employed %	6,7	10,7
Equity per share, SEK	34,4	12,24
Earnings per share, SEK	3,10	0,96
Earnings per share after dilution, SEK	3,09	0,95
Cash flow from operating activities per share	1,45	1,77
Number of employees by period end	228	73
Number of shares by period end	18 665 240	16 741 632
Number of warrants by period end	465 000	628 856
Market value per share by period end	145,00	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	2014-10-01	2013-10-01	2014-01-01	2013-01-01
	2014-12-31	2013-12-31	2014-12-31	2013-12-31
Net sales	107,8	66,7	277,8	198,2
Cost of sales	-60,5	-37,7	-164,7	-116,7
Gross income	47,3	29,0	113,1	81,5
Research and development expenses	-14,4	-11,6	-47,1	-35,4
Selling, general & administrative expenses	-13,3	-8,8	-34,0	-28,9
Other operating income and expenses	2,0	0,2	4,4	-0,1
Operating income	21,7	8,8	36,4	17,1
Net financial items	-0,5	-1,7	11,1	-0,5
Tax	-7,0	-	15,8	-
Net profit for the period	14,2	7,1	63,3	16,5
Other comprehensive income for the period	-	-	-	-
Total comprehensive profit for the period	14,2	7,1	63,3	16,5
Earnings per share, SEK	0,76	0,43	3,44	1,03
Earnings per share after dilution, SEK	0,76	0,42	3,43	1,02

BALANCE SHEET, MSEK PARENT COMPANY	2014-12-31	2013-12-31
	Intangible fixed assets	8,4
Tangible fixed assets	2,5	1,9
Financial assets	164,4	5,9
Financial assets	86,6	-
	261,9	19,0
Inventory	67,7	41,3
Current receivables	107,7	62,7
Receivables from group companies	39,9	14,6
Blocked funds	31,5	-
Cash and cash equivalents	274,8	500,5
	521,6	619,1
Total assets	783,5	638,0
Stockholders' equity & liabilities		
Share capital	18,7	16,7
New share issue in progress	-	348,0
Statutory reserve	62,3	62,3
Retained earnings	551,8	130,0
Total equity	632,8	557,1
Liabilities to group companies	8,1	-
Current liabilities	142,6	80,9
Total stockholders' equity & liabilities	783,5	638,0
Corporate mortgages	1,6	25,0
Contingent liabilities	128,8	-

Note 1 Acquisitions

AP&C

On February 11, 2014 Arcam acquired the powder division, AP&C, from Raymor Industries Inc. Canada. The total purchase consideration was MCAD 35 divided into an initial cash payment of 20 MCAD at takeover and an additional purchase price totaling maximum 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.

The business has contributed with a net sales of 39.9 MSEK and a profit of 5.2 MSEK after expenses with depreciation of 4.5 MSEK in intangible assets attributable to the asset acquisition. It is considered impossible to present its contribution in respect of revenue and earnings of the business (assets and liabilities) included in the Group throughout the year.

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

Net assets MSEK:

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.

Additive Manufacturing Solutions UK Ltd

On July 1, Arcam AB acquired, through its subsidiary Arcam CAD to Metal Ltd., the agent in the UK (Additive Manufacturing Solutions UK Ltd), and will now be responsible for sales in this market themselves.

The total purchase price is estimated at 1,0 MGBP, divided into an initial cash payment of 0,3 MGBP at access, and an additional purchase price at balance day is estimated at 0,7 MGBP. The additional purchase price, to be paid in 2015 and 2016, provided that certain goals are achieved, is maximized to 3 MGBP. The initial cash payment is equivalent to the net asset value. The operations consist of an agent right without employees and has therefore not contributed to any sales or earnings after the acquisition. It is considered impossible to present its contribution in respect of revenue and earnings of the business included in the Group throughout the year.

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

Net assets	3,4
Goodwill	8,4
Total purchase	11,8
Supplementary purchase consideration	-8,2
Impact of the acquisition on the Group's cash flow	3,6

Goodwill is mainly explained by future sales growth

DiSanto Technology Inc

On September 2, Arcam AB acquired the strategic partner DiSanto Technology Inc. in the US. The acquisition combines Arcam EBM technology with DiSanto's full-service contract manufacturing of orthopedic implants. The total purchase price is estimated to 12.5 MUSD, divided between a cash payment of 10.2 MUSD, an offset issue of 1.4 MUSD (current subscription payment at the sellers' redemptions of warrants of Arcam AB), and the conversion of convertible loans to DiSanto of 0.9 MUSD. The transaction is financed with Arcam's existing funds. The business has contributed net sales of 23.2 MSEK and profit of -8.9 MSEK after a charge for depreciation of 2.5 MSEK in intangible assets attributable to the acquisition. If the business part of the Group throughout the year would have contributed to a net sales of 88.8 MSEK and earnings of -8.2 MSEK after loading with depreciation of 7.5 MSEK in intangible assets attributable to the acquisition.

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

Net assets MSEK

Net assets	44.2
Goodwill	22.3
Intangible fixed assets	28.2
Tangible fixed assets	5.6
Deferred tax liabilities	-12.9
Total purchase	87.5
Convertibles	-6.5
Offset share issue	-9.7
Impact of the acquisition on the Group's cash flow	71.3

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