

# Arcam AB

Reg no 556539-5356

Interim report January – March 2016

## Continued growth

- Net sales increased by 43% to 159.9 (111.4) MSEK
- Operating income increased to 8.9 (3.8) MSEK
- Net income increased to 8.3 (4.3) MSEK
- Earnings per share increased to 0.40 (0.23) SEK
- 14 (9) EBM systems were delivered during the period
- Order intake amounted to 6 (10) EBM systems

Telephone conference with CEO Magnus René and CFO Johan Brandt.

**April 21, 2016 at 2.00 p.m. (CET)**

Phone number to the conference:

SE: +46 8 566 426 90

UK: +44 203 008 98 16

US: +1 855 831 59 47

Link to presentation:

[Arcam Q1 conference call](#)

## Continued growth

*Arcam continues to grow and during the first quarter the increase in sales was 43%. Sales for the first quarter amounted to 159.9 (111.4) MSEK and trailing twelve months sales amounts to 624.6 (385.4) MSEK. Operating profit for the period amounts to 8.9 MSEK and trailing twelve months the operating profit is 55.3 MSEK.*

*The order intake during the period was 6 (10) EBM systems and the metal powder manufacturer AP&C doubled its order intake compared to the same period 2015.*

*We continue to pursue and develop our long-term strategy to industrialize the EBM technology and simultaneously developing the metal powder manufacturing and contract manufacturing business. We are making significant investments to continue to meet our customers' demands and growing expectations of the EBM systems' productivity and reliability.*

## Business status

During the quarter we delivered 14 EBM systems and the majority went to customers in the implant or the aerospace industry. The demand for EBM systems is driven by the aerospace industry that is now moving into production, but also by the increasing interest for Additive Manufacturing from the orthopedic industry. In the period we received 6 new orders and the order book by the end of the quarter amounts to 19 systems.

We continue to expand our production capacity at AP&C to serve the fast growing market for metal powder for additive manufacturing. In the first quarter we took a decision to invest in three new powder reactors. With this expansion AP&C will reach a capacity of approximately 500 tons of metal powder per year.

The contract manufacturer DiSanto is growing again after a weak period at the later part of 2015. During the quarter we have added several new customers to the EBM part of the contract manufacturing.

## A strengthened organization

During the quarter we strengthened our organization throughout the group.

In the beginning of January Alain Dupont assumed the position as president of the powder manufacturer AP&C. He succeeds Jacques Mallette who has been President of AP&C since 2011. Jacques continues to be involved as Chairman for AP&C.

In February Tom Barrett was appointed new president for our contract manufacturer DiSanto in the USA. Tom, who recently was Chief Commercial Officer (CCO) of Symmetry Medical, has a broad experience from leading positions within the implant industry.

With 19 machines in order, a stable aftermarket and a positive business situation we are positioned for a continued growth in 2016.

Mölnadal, Sweden, April 21, 2016

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 April 21, 2016 at 08.30 (CET).*

## Net sales, result and order intake

### Net sales

Net sales for the period increased to a total of 159.9 (111.4) MSEK.

Of the total amount of sales, EBM systems and services amounted to 93.9 (65.8) MSEK, sales of metal powders to 42.3 (24.8) MSEK and contract manufacturing to 23.7 (20.8) MSEK.

### Result

Operating income for the period increased to 8.9 (3.8) MSEK and net profit for the period amounted to 8.3 (4.3) MSEK.

### Order intake

During the period we booked 6 (10) new system orders for EBM systems. At the end of the period the order book was 19 (20) systems.

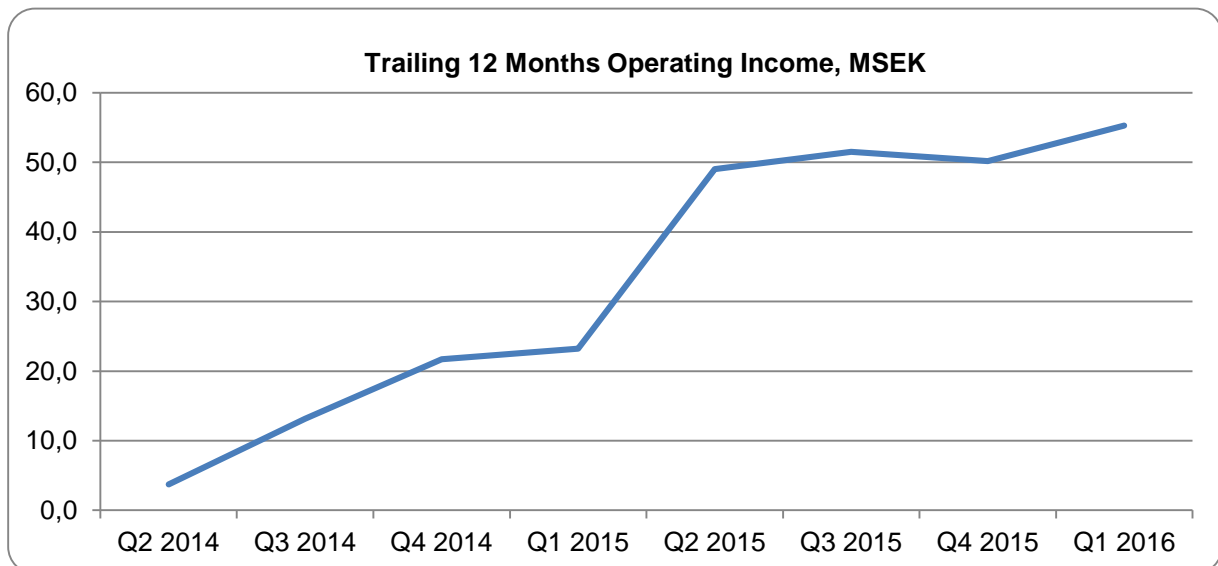
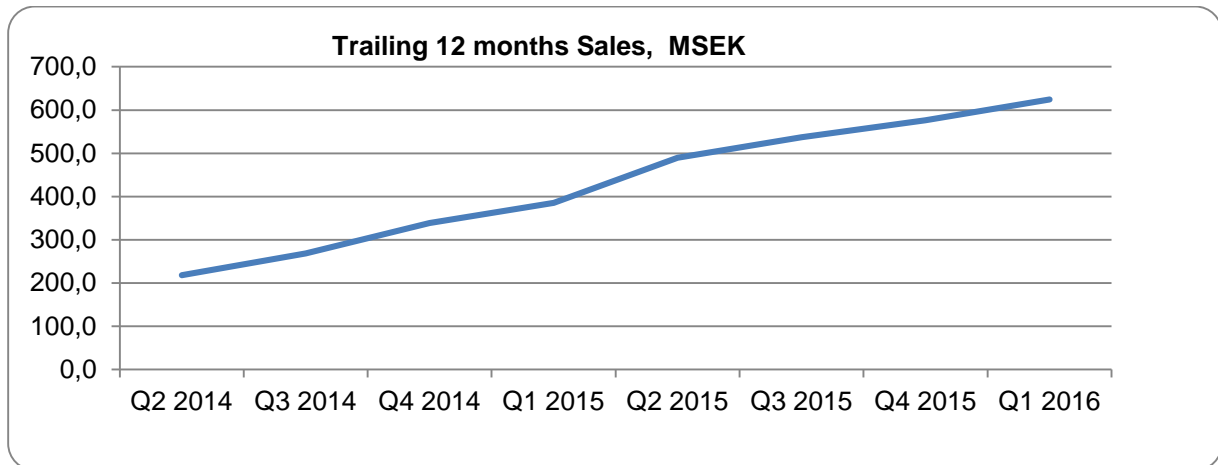
Amounts in MSEK

<b>Quarterly</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>
Net Sales	159,9	176,0	138,1	150,6	111,4	137,1	90,8	46,1	64,9
Operating income	8,9	14,0	12,6	19,7	3,8	15,3	10,2	-6,1	2,3
System orders	6	29	12	7	10	21	5	10	6
<b>Trailing Twelve Months</b>	<b>Q1 2016</b>	<b>Q4 2015</b>	<b>Q3 2015</b>	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014</b>	<b>Q3 2014</b>	<b>Q2 2014</b>	<b>Q1 2014</b>
Net Sales	624,6	576,1	537,3	490,0	385,4	339,0	268,8	218,3	226,2
Operating income	55,3	50,2	51,5	49,0	23,2	21,7	13,2	3,7	16,3
System orders	54	58	50	43	46	42	31	30	27

*Quarterly and trailing 12-months sales, operating income and system orders.*

Income statements and balance sheets are recalculated with respect to the final purchase price allocation (PPA) regarding the acquisition of DiSanto Technology Inc.

Operating profit was positively impacted due to lower depreciation for 2014 by 2.1 MSEK, Q1 2015 by 1.7 MSEK and Q2 2015 by 1.5 MSEK.



## Investments, depreciation and financial status

### Investments and depreciation

Investments in fixed assets amounted to 8.3 (4.4) MSEK of which intangible amounted to 1.3 (0.5) MSEK and tangible to 7.0 (3.9) MSEK. Investments in intangible assets for the period relates to investments in patents.

The development funded by grants from the FP7 is not included in the figures above.

The amortization of intangible and tangible assets amounted to 5.9 (5.5) MSEK, of which group amortizations relating to the acquisitions amounted to 1.7 (1.8) MSEK.

## Financial status

Cash and cash equivalents at the end of the period amounted to 407.9 (223.1) MSEK. Cash includes 7.3 (3.1) MSEK that the company disposes and operates for the two FP7 programs.

The company has a strong cash position and a very strong equity ratio, 83 (79) %.

## Product development and industrialization

The company's development work on the EBM technology is focused on industrialization and automatization to fulfil 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.

The development work going forward is focused on adopting the technology for industrial production environment, i.e. increased productivity and reliability. Automation and industrialization of the product range is thus highly prioritized and during the last year the Q-platform has been modernized. The EBM machines have, for example, been equipped with more powerful computing capability and automatic beam calibration. This gives increased performance in terms of both productivity and precision of the produced parts. The increased computing capacity has also enabled more advanced process monitoring and process control. The development work has resulted in new patent applications and today Arcam has around 100 granted patents spread over 50 patent families.

The two EU-funded projects that Arcam led through the Seventh Framework Program (FP7) have now been completed. These projects have resulted in two important patent applications for EBM technology systems with higher power than current systems. Work is underway to industrialize and implement these findings in Arcam's future products.

Arcam continues to cooperate with Oak Ridge National Lab (ORNL) to further develop the Inconel process and quality control through LayerQam.

Metal powders manufacturer AP&C conducts long-term work to develop and industrialize the Plasma Atomization technology. During the last year, progress has been made in terms of the efficiency of the Plasma technology and several of the inventions have been patented.

## Staff

The number of employees in the group at the end of the period is 302 (237) persons.

## Arcam share

Arcam's largest shareholders as of March 31 are:

<b>Owner</b>	<b>Shares</b>	<b>(%)</b>
OPPENHEIMER GLOB OPPORTUNITY FUND	3 148 808	15,3%
FORSTA AP-FONDEN	1 799 999	8,7%
HANDELSBANKEN FONDER AB RE JPMEL	1 136 763	5,5%
CBLDN-UBS FINANCIAL SERVICES INC	686 847	3,3%
STATE STREET BANK & TRUST COM., BOSTON	576 709	2,8%

**Total number of shares** **20 638 227**

## Annual General Meeting (AGM)

The AGM was held on March 22, 2016 and decided to re-elect the board members Göran Malm, Jan-Olof Brüer, Lars Bergström, Henrik Hedlund and Anna Malm Bernsten. Malin Ruijsenaars and Joakim Westh were newly elected as members of the Board. Göran Malm was elected Chairman of the Board.

The AGM authorized the board to decide on the issues of new shares, convertible debentures and subscription options. The authorization covers and overall increase of the share capital not exceeding SEK 2 000 000. The shares shall be issued at market stock price.

The AGM decided according to a suggestion from the board to establish a long term incentive program for management in the Arcam group.

The AGM decided that the Nomination Committee will consist of Thomas Carlström, Rolf Ekedahl and Olof Jonasson.

Olof Jonasson, who represents Första AP-fonden, was elected Chairman. The other members in the Nomination Committee are independent of major shareholders of the company.

## Accounting principles

This report has not been reviewed by the auditors.

The applied accounting principles are the same as for the Annual Report of 2015. 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 as of January 1, 2016.

## Significant risks and uncertainties

The company sells complex systems in limited quantities. The sales process is long, and it takes 6-18 months to complete a deal. Changes in timing of transactions or deliveries may therefore have a major impact on the results for individual quarters.

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 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 development is delayed, either due to insufficient resources or because of technical challenges.

The business risks and risk management of the Group and the Parent Company, along with the management of financial risks, are further described in the Annual Report for 2015.

## Information policy

Arcam follows the rules for disclosure of information stipulated in NASDAQ Stockholm rules for issuers. The company publishes business events that the company believes are critical and thus affect the valuation. Orders with a value exceeding 20 MSEK will always be published.

## Financial Calendar

Interim reports for the quarters 2 and 3 will be published on July 21 and October 21.

Year-end report for 2016 will be published on February 8, 2017.

The Annual General Meeting for 2016 will take place on March 28, 2017 at 5.00 pm (CET).

Mölnadal, Sweden, April 21, 2016  
 Arcam AB (publ)

The Board

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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 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. In 2014 Arcam acquired AP&C in Canada and DiSanto in the USA, broadening the company offering to metal powders and contract manufacturing of orthopedic implants.

## Market

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

## Strategy in brief

Arcam focuses on two target groups in the manufacturing industries; 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 filed 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**

	2016-01-01 2016-03-31	2015-01-01 2015-03-31	2015-01-01 2015-12-31
<b>Net sales</b>	<b>159,9</b>	<b>111,4</b>	<b>576,1</b>
Cost of sales	-111,0	-81,4	-383,8
<b>Gross income</b>	<b>48,9</b>	<b>30,0</b>	<b>192,3</b>
Research and development expenses	-16,2	-12,0	-60,9
Selling, general & administrative expenses	-22,5	-15,2	-81,1
Other operating income and expenses	-1,3	1,0	0,0
<b>Operating income</b>	<b>8,9</b>	<b>3,8</b>	<b>50,2</b>
Net financial items	5,0	4,8	-11,8
Tax	-5,6	-4,2	-14,0
<b>Net profit for the period</b>	<b>8,3</b>	<b>4,3</b>	<b>24,3</b>
<b>Other comprehensive income</b>			
Items that can be reclassified into profit or loss			
Translation differences on foreign operations	3,7	8,6	-5,3
Translation differences on hedge instruments	-	-	0,0
<b>Other comprehensive income for the period</b>	<b>3,7</b>	<b>8,6</b>	<b>-5,3</b>
<b>Total comprehensive profit for the period</b>	<b>12,0</b>	<b>12,9</b>	<b>19,0</b>
Earnings per share, SEK	0,40	0,23	1,18
Earnings per share after dilution, SEK	0,40	0,23	1,18

**BALANCE SHEET, MSEK  
GROUP**

	2016-03-31	2015-03-31	2015-12-31
Goodwill	194,4	208,8	189,4
Other intangible fixed assets	42,2	52,4	42,6
Tangible fixed assets	77,3	59,7	69,4
Financial fixed assets	23,6	32,2	27,6
<b>Total non-current assets</b>	<b>337,5</b>	<b>353,0</b>	<b>329,0</b>
Inventory	173,2	128,4	157,4
Current receivables	189,6	128,5	193,1
Blocked funds	-	31,5	31,5
Cash and cash equivalents	407,9	191,6	428,7
<b>Total current assets</b>	<b>770,8</b>	<b>480,0</b>	<b>810,6</b>
<b>Total assets</b>	<b>1 108,3</b>	<b>833,0</b>	<b>1 139,6</b>
<b>Stockholders' equity &amp; liabilities</b>			
Share capital	20,6	18,7	20,6
Other reserves	923,3	679,8	925,2
Translation reserve	18,5	26,3	11,7
Retained earnings	-41,6	-70,1	-49,5
<b>Total equity</b>	<b>920,9</b>	<b>654,7</b>	<b>908,0</b>
Other long term liabilities, interest bearing	3,8	6,5	4,0
Other long term liabilities, non-interest bearing	7,6	7,9	7,0
Current liabilities, interest bearing	2,5	1,3	2,5
Current liabilities, non-interest bearing	173,6	162,6	218,0
<b>Total equity and liabilities</b>	<b>1 108,3</b>	<b>833,0</b>	<b>1 139,6</b>
<b>Assets pledged</b>			
Floating charges	0,4	1,6	0,4
Contingent liabilities	-	-	-

<b>CASH FLOW STATEMENT, MSEK GROUP</b>	<b>2016-01-01</b>	<b>2015-01-01</b>	<b>2015-01-01</b>
	<b>2016-03-31</b>	<b>2015-03-31</b>	<b>2015-12-31</b>
<b>Cash flow from operations before changes in working capital</b>	<b>12,9</b>	<b>12,6</b>	<b>67,2</b>
Total change in working capital	-25,5	-41,1	-72,2
<b>Cash flow from operations</b>	<b>-12,6</b>	<b>-28,4</b>	<b>-4,9</b>
Investments in intangible assets	-1,3	-0,5	-3,2
Investments in tangible assets	-7,0	-3,9	-24,5
Supplementary purchase consideration paid	-31,4	-65,2	-71,4
<b>Cash flow from investments activities</b>	<b>-39,6</b>	<b>-69,6</b>	<b>-99,0</b>
New share issue	-	-	245,4
Other	-	-	-2,4
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-</b>	<b>243,0</b>
<b>Increase/decrease in cash and cash equivalents</b>	<b>-52,2</b>	<b>-98,1</b>	<b>139,0</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>460,2</b>	<b>321,1</b>	<b>321,1</b>
<b>Cash and cash equivalents at end of the period</b>	<b>407,9</b>	<b>223,1</b>	<b>460,2</b>

Cash related to the EU project amounts to 7,3 MSEK end of period.

<b>EQUITY, MSEK GROUP</b>	<b>2016-01-01</b>	<b>2015-01-01</b>	<b>2015-01-01</b>
	<b>2016-03-31</b>	<b>2015-03-31</b>	<b>2015-12-31</b>
<b>Opening balance</b>	<b>908,0</b>	<b>641,7</b>	<b>641,7</b>
New share issue	-	-	252,9
Issue expenses	-	-	-7,5
Incentive program	0,9	-	1,9
Net profit for the period	8,3	4,3	24,3
Other comprehensive income for the period	3,7	8,6	-5,3
<b>Closing balance</b>	<b>920,9</b>	<b>654,7</b>	<b>908,0</b>

<b>BUSINESS AND FINANCIAL RATIOS GROUP</b>	<b>2016-03-31</b>	<b>2015-03-31</b>	<b>2015-12-31</b>
	Equity ratio %	83,1	78,6
Return on equity %	0,9	0,7	3,1
Return on capital employed %	1,5	1,3	5,5
Equity per share, SEK	44,6	35,0	44,0
Earnings per share, SEK	0,40	0,23	1,18
Earnings per share after dilution, SEK	0,40	0,23	1,18
Cash flow from operating activities per share	-0,61	-1,52	-0,24
Number of employees by period end	302	237	285
Number of shares by period end	20 638 227	18 665 240	20 638 227
Number of warrants by period end	360 000	465 000	360 000
Market value per share by period end	175,50	158,00	184,50

<b>INCOME STATEMENT, MSEK PARENT COMPANY</b>	<b>2016-01-01 2016-03-31</b>	<b>2015-01-01 2015-03-31</b>	<b>2015-01-01 2015-12-31</b>
<b>Net sales</b>	<b>106,0</b>	<b>76,7</b>	<b>423,5</b>
Cost of sales	-68,8	-48,3	-263,6
<b>Gross income</b>	<b>37,2</b>	<b>28,4</b>	<b>159,9</b>
Research and development expenses	-15,9	-11,5	-60,4
Selling, general & administrative expenses	-12,7	-8,3	-47,9
Other operating income and expenses	-0,6	-	-2,0
<b>Operating income</b>	<b>8,0</b>	<b>8,6</b>	<b>49,6</b>
Net financial items	6,1	6,3	-5,8
Tax	-2,9	-3,3	-8,3
<b>Net profit for the period</b>	<b>11,2</b>	<b>11,5</b>	<b>35,5</b>
<b>Other comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive profit for the period</b>	<b>11,2</b>	<b>11,5</b>	<b>35,5</b>
Earnings per share, SEK	0,54	0,62	1,72
Earnings per share after dilution, SEK	0,54	0,62	1,71

<b>BALANCE SHEET, MSEK PARENT COMPANY</b>	<b>2016-03-31</b>	<b>2015-03-31</b>	<b>2015-12-31</b>
Intangible fixed assets	7,5	7,9	7,1
Tangible fixed assets	6,1	2,7	5,0
Financial assets	197,1	187,7	187,9
Receivables from group companies	203,6	133,3	124,8
<b>Total fixed assets</b>	<b>414,4</b>	<b>331,6</b>	<b>324,8</b>
Inventory	95,7	70,1	92,1
Current receivables	136,6	93,8	146,8
Receivables from group companies	25,4	39,0	68,6
Blocked funds	-	31,5	31,5
Cash and cash equivalents	391,9	179,9	409,3
<b>Total current assets</b>	<b>649,6</b>	<b>414,3</b>	<b>748,2</b>
<b>Total assets</b>	<b>1 064,0</b>	<b>746,0</b>	<b>1 073,0</b>
<b>Stockholders' equity &amp; liabilities</b>			
Share capital	20,6	18,7	20,6
Statutory reserve	62,3	62,3	62,3
Retained earnings	843,9	563,3	832,1
<b>Total equity</b>	<b>926,9</b>	<b>644,3</b>	<b>915,0</b>
Liabilities to group companies	11,0	3,1	4,6
Current liabilities, non-interest bearing	126,0	98,6	153,4
<b>Total stockholders' equity &amp; liabilities</b>	<b>1 064,0</b>	<b>746,0</b>	<b>1 073,0</b>
<b>Assets pledged</b>			
Floating charges	0,4	1,6	0,4
Contingent liabilities	26,6	65,8	58,8