

Management overview of Q3

iLOQ's new iLOQ S5 product line has been well received in all geographies in which the company operates, which also is beginning to be seen as growing volumes. The digital launch of iLOQ S5 for Euro profile lock cylinders has been a success despite the COVID-19 situation and has received a positive market response. iLOQ announced in October that in a less than a year after its introduction to the market, the 1000th iLOQ S5 system had already been delivered.

Organizing face to face meetings with customers continued to be challenging in the third quarter in most of the countries in which iLOQ operates. As meetings have been held digitally there has only been a few projects, which have been postponed due to COVID-19. With the next generation product lines, iLOQ S50 and iLOQ S5, being well received by the customers, management believes that iLOQ is well positioned to further grow its leadership within electromechanical locking systems and continue to drive replacement of mechanical locking systems.

To support its leadership within electromechanical locking systems, iLOQ announced to have strengthened its management team with Thomas Thörewik being appointed as iLOQ's CSO and Timo Pirskanen being appointed as CFO of iLOQ during the third quarter. After the third quarter in November iLOQ announced to have extended its operations to Canada, which will allow iLOQ to introduce the benefits of its battery-free digital locking and mobile access sharing technology to a huge new market.

iLOQ continued to successfully mitigate the potential risks of possible supply chain disruptions due to COVID-19 by the company's sourcing strategy, which distributes purchases and manufacturing across several geographies. Management continued measures to secure delivery capability and to mitigate possible unforeseen supply chain disruptions in the third quarter to be able to meet customer demand. This has resulted in higher inventory levels compared to 2019.

iLOQ has continued to actively pursue new opportunities by moving to more digital ways of conducting sales and marketing, in addition to supporting our partner network in these unprecedented times. Management believes that, by being able to keep the organization fully employed and active, iLOQ is well positioned to continue executing its long-term growth strategy also in the fourth quarter of 2020, as well as in the coming years.

The company had stable cashflow situation in Q3 and hence did not need to utilize any of the drawn MEUR 10 SSRCF. The MEUR 10 SSRCF, originally drawn in March as a precaution for any unforeseen COVID-19 related issues, was paid back fully in September.

Third quarter 2020 (iLOQ Oy Consolidated)

Total revenue grew 38% compared to Q3 2019, driven by strong sales across all regions. The management team believes that, with the launch of the iLOQ S5 product line in Central Europe in Q2 and the decision to not lay off any employees during Q2 and Q3 the company has been able to take market share in Q3 and is well positioned to continue the growth momentum in all regions during Q4 2020.

Gross profit amounted to MEUR 9.2 (6.7), an increase by 39% compared to the same period last year. The gross margin amounted to 56% (56%). The management decision done in Q2 to build own production capability in our Oulu HQ and with that, guarantee the production capability in the case of an unforeseen COVID-19 related production issues contributed negatively to the gross profit development. This negative impact was offset by productivity improvements and the continued ramp up of our dual sourcing strategy.

Adjusted OPEX grew by 8% in Q3 y-o-y to MEUR 5.9 (5.4). The OPEX increase was mainly driven by increased R&D expenses related to the iLOQ S5 launch. The higher R&D OPEX was mostly offset by COVID-19 related impacts e.g. lower traveling, cancelled physical sales events and exhibitions. Q3 2020 Adjusted OPEX did not include any adjustments for items affecting comparability.

Adjusted EBITDA amounted to MEUR 3.5 (1.4), corresponding to 22% (12%) EBITDA margin, an increase of 155% compared to the same period last year.

Adjusted Operational cash flow was MEUR 0.3 (-1.7). The increase was mainly caused by the improved profitability. The company is expected to continue to have higher than normal inventories during the COVID-19 pandemic to guarantee our ability to produce and ship iLOQ products to our customers. These higher inventory levels may have a negative impact to the operational cashflow in Q4.

