

The logo for Smartoptics, featuring the word "smartoptics" in a white, lowercase, sans-serif font. The background is dark blue with several overlapping circles in shades of teal and dark blue.

Smartoptics Group

Quarterly Report Q3 – 2020

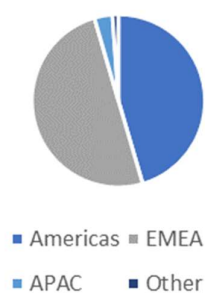
OSLO, October 20, 2020 - Smartoptics Group AS today reported its financial results for the quarter ending September 30, 2020. Smartoptics Group provides innovative optical networking solutions and devices for the new era of open networking. The company focuses on solving network challenges and increasing the customers efficiency. Smartoptics customer base includes thousands of enterprises, governments, cloud providers, Internet exchanges as well as cable and telecom operators. Smartoptics Group leverages modern software design principles and expand network horizons by having an open networking approach. This allows the customers the freedom to remain flexible and reduce costs. The products are based on in-house developed hardware and software, enhanced through associated services.

Summary of Quarter Q3 2020

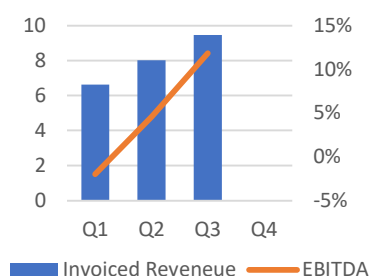
Financial Highlights

- Q3 Revenue of USD 9.3 million (Jul-Sep), USD 23.6 million Year-to-Date (Jan-Sep). Growth of 40,9% compared to Q3 2019.
- Gross Margin of 40.9% Q3 (Jul-Sep), 39.8% YTD (Jan-Sep).
- EBITDA of USD 1.2 million and 12.4% Q3 (Jul-Sep), USD 1.4 million and 5.8% YTD (Jan-Sep).
- Cash Flow for the period (Jan-Sep) was USD -0.7 million.

Revenue per Region - Q3



Revenue and EBITDA \$ mn



All figures are presented on a consolidated basis for the Group in USD as the presenting currency. The financial figures are prepared in accordance with the Norwegian Generally Accepted Accounting Principles (NGAAP).

Business Highlights & Significant Events

The third quarter of 2020 was characterized by higher business activity than the two previous quarters. Higher order booking toward the summer, with sustained momentum throughout the third quarter, combined with a normal component supply situation generated a revenue (recognized revenue) growth of 41% compared to the third quarter 2019. For the first nine months the revenue growth is 28%.

With stronger revenue the profitability has increased. The EBITDA margin for the quarter was 12.4%, compared to 2.5% same period 2019.

Commercially the third quarter has been successful with major contract wins with the DCP-platform.

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Financial review

All numbers are presented in thousands of US dollar.

Consolidated Profit and Loss Statement

kUSD	2020		2019		Growth	
	Q3	Q3	Q3	Q3	Jan - Sep	Jan - Sep
Invoiced revenue	9 620	6 709			24 037	18 794
Deferred revenue	¹ -298	-92			-477	-379
TOTAL Recognized Revenue	9 321	6 616	40,9%		23 560	18 415
COGS	5 512	3 937			14 176	10 775
Gross Profit	3 810	2 680	42,2%		9 384	7 640
Gross Margin %	40,9%	40,5%			39,8%	41,5%
Operating Expenses	² 2 652	2 513			8 008	7 075
EBITDA	1 158	166			1 375	565
EBITDA Margin %	12,4%	2,5%			5,8%	3,1%
Depreciation and Amortization	³ 166	227			459	564
EBIT	991	-60			916	1
EBIT Margin %	10,6%	-0,9%			3,9%	0,0%
Net Financial Items	⁴ -163	177			303	52
Earnings before tax	828	117			1 219	54
EBT Margin	8,9%	1,8%			5,2%	0,3%

Revenue

Recognized revenue is Invoiced Revenue less Deferred Revenue. Invoiced revenue is revenue which has been invoiced during the period. Deferred revenue is related to service contracts over a period of months (typically 24-36 months), where the service revenue is recognized over the contract period.

Recognized Revenue grew by 41% in Q3 2020 to USD 9.6 million compared to Q3 2019. The growth was supported by strong business momentum in terms of orders in the previous quarter and a stable supply situation on components.

Recognized Revenue for the first nine months grew by 28% compared to the same period last year.

Gross Profit

COGS (Cost of Goods Sold) was USD 5.5 million in Q3, resulting in a Gross Profit of USD 3.8 million (40.9%). The increase in Gross Profit was driven by higher share of revenue from larger projects in Q3.

Gross Profit for the first nine months was USD 9.4 million (39.8%) compared to USD 7.6 million in 2019 (41.5%).

Operating Expenses

Operating Expenses was USD 2.7 million in Q3 2020, compared to USD 2.5 million in 2019. Operating costs is primarily increasing due to continued investment in R&D resources.

Operating expenses for the first nine months was USD 8.0 million, compared to USD 7.1 million in 2019.

Salaries and consultant costs is the largest cost component in Operating Expenses, representing 81% of the Operating Expenses in Q3 2020 and 82% for the first nine months 2020.

EBITDA

EBITDA in Q3 2020 was USD 1.2 million (EBITDA Margin of 12.4%) compared to Q3 2019 USD 0.2 million (2.5%).

EBITDA for the first nine months was USD 1.4 million (5.8%) compared to USD 0.6 million (3.1%) same period last year.

The increase in profitability is a result of higher share of revenue from larger projects.

Net Financials

Interest payments and currency effects are the main components of Net Financials. Currency effects arises as underlying reporting is done in NOK, while the communication of the financial results is done in USD. Cash, Receivables and Payables all have a currency component.

Most of the Revenue and COGS is in USD. The company policy is not to engage in any currency hedging, as the company has a good natural hedge in having both Revenue and COGS to a very large extent in USD.

Consolidated Balance Sheet

Closing balance at the end of the period

kUSD	2020	2019
	Q3	Q3
Non-Current Assets	5 917	6 177
Capitalized Development Cost	964	951
Deferred Tax Asset	5 3 685	3 977
Property Plant and Equipment	550	527
Financial Assets	718	722
Other Non-Current Assets	0	0
Current Assets	15 005	10 702
Inventory	6 517	3 420
Accounts Receivables	6 049	5 060
Prepaid Expenses	833	805
Cash and Cash Equivalents	1 504	1 420
Other Current Asset	102	-3
TOTAL Asset	20 922	16 879
TOTAL Equity	10 798	9 194
Non-Current Liabilities	3 033	1 739
Liabilities to Financial Institution:	6 2 075	1 103
Deferred Revenue	1 959	636
Other Non-Current Liabilities	0	0
Current Liabilities	7 091	5 946
Liabilities to Financial Institutions	1 297	1 894
Deferred Revenue	1 753	480
Accounts Payable	2 944	2 239
Public Duties	7 795	417
Other Current Liabilities	1 301	916
TOTAL Liability	10 124	7 685
TOTAL Liability and Equity	20 922	16 879

Consolidated Cash Flow Statement

kUSD	Q1	Q2	Q3	Jan - Sep
Cash at the Beginning of Period	2 094	1 786	2 125	2 094
EBITDA	-119	368	1 158	1 407
Changes in Accounts Receivables	538	-561	-1 273	-1 296
Changes in Accounts Payable	264	-208	606	662
Changes in Inventory	609	-693	-1 589	-1 673
Changes in Deferred Revenue	-146	249	320	422
Other Working Capital Changes	-303	487	-60	124
Cash Flow from Operating Activities	843	-359	-838	-353
Changes in Non-Current Assets	377	-247	-268	-137
Other Changes				
Cash Flow from Investing Activities	377	-247	-268	-137
Changes in short term financing	-887	422	-515	-980
Changes in long term financing	-193	91	1 040	939
Interest paid	-46	-32	-35	-113
Cash Flow from Financing Activities	-1 126	481	490	-155
Translation Differences	-402	463	-89	-28
Net Cash Flow	-308	339	-705	-674
Cash at the End of Period	1 786	2 125	1 420	1 420

Notes

General

Smartoptics Group AS is a Norwegian company and the parent company of the Smartoptics Group. The Financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Exchange Rates

The interim financial statements are all translated from NOK to USD. For the Profit and Loss statement average exchange rate for the period is used. For the Balance sheet, the monthly ending exchange rate is used.

Profit and Loss	2019	2020
Q3	8,8634	9,1275
Jan - Sep	8,6957	9,5450

Balance sheet	2019	2020
Sep 30	9,0662	9,4392

Note 1 – Deferred Revenue

Service revenues are invoiced in advance and covers a contract period of typically 24-36 months. The service revenue is recognized during the contract period. “Current Deferred Revenue” will be recognized within the next 12 months.

Note 2 – Research and Development

Parts of the development cost is capitalized and depreciated over 3 years. The principle is to capitalize no more than 30% of direct salary costs in the development projects. Capitalization for the first nine months was USD 216 thousand.

Note 3 – Depreciation and Amortization

Fixed assets are depreciated over a period of 3 to 5 years. There is no goodwill in the group.

Note 4 – Financial Items

Currency effects comes from the cash position, which is made of NOK, SEK and USD, Accounts Receivables which is mostly in USD and Accounts Payable which is mostly in USD.

Note 5 – Deferred Tax Assets

Deferred tax assets consist of historical net operating losses and amounts to NOK 34.8 million.

Note 6 – Liabilities to Financial Institutions

There are two loans from Innovasjon Norge of NOK 10 million each and a credit line with Nordea of NOK 19 million.

Note 7 – Public Duties

Under the Covid-19 relief measures the Swedish Government has allowed for postponing of payment of Social Charges, this amounts to SEK 5.1 million.

Note 8 – Related Party Transactions

During the first nine months consultancy services have been purchased Coretech AS (owns 49,95% of Smarter Holding AS) for NOK 970 thousand compared to NOK 987 thousand Jan-Sep 2019 and from Smarter Holding AS (majority owner of Ignis AS) NOK 496 thousand compared to NOK 500 thousand Jan-Sep 2019.