

smartoptics

# Smartoptics Group

Quarterly Report Q1 – 2021

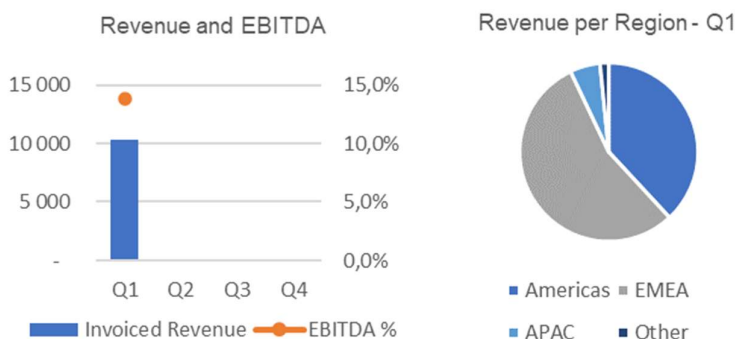
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**OSLO, May 10, 2021 - Smartoptics Group AS today reported its financial results for the quarter ending March 31, 2021. Smartoptics Group provides innovative optical networking solutions and devices for the new era of open networking. The company focuses 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 Q1 2021 (January-March)

### Financial Highlights

- Recognized Revenue of USD 10.0 million (Jan-Mar). Growth of 51.9% compared to Q1 2020 (Jan-Mar).
- Gross Margin of 44.0% (Jan-Mar), compared to 40.1% in Q1 2020 (Jan-Mar).
- EBITDA of USD 1.38 million and 13.8% EBITDA margin (Jan-Mar), compared to USD -0.1 million and -1.9% EBITDA margin in Q1 2020 (Jan-Mar).
- Operating Cash Flow for the period (Jan-Mar) was USD 0.2 million, compared to USD 0.8 million in Q1 2020 (Jan-Mar).



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 first quarter of 2021 was characterized by continued high business activity. Order backlog going into the quarter, strong order booking throughout the quarter combined with a normal component supply situation generated a revenue (recognized revenue) growth of 51.9% compared to the first quarter of 2020.

The EBITDA margin for the quarter was 13.8%, compared to -1.9% same period 2020. Gross Margin was 44.0% in the quarter, compared to 40.1% same period 2020. The increase in Gross Margin from previous quarters was due to the continued positive mix shift towards more higher-value advanced system products.

For further information, please contact:

Magnus Grenfeldt, CEO  
Phone: +46 733 668 877  
E-mail: [magnus.grenfeldt@smartoptics.com](mailto:magnus.grenfeldt@smartoptics.com)

Mikael Haag, CFO  
Phone: +46 704 264 872  
E-mail: [mikael.haag@smartoptics.com](mailto:mikael.haag@smartoptics.com)

## Financial review

All numbers are presented in thousands of US dollar.

### Consolidated Profit and Loss Statement

kUSD	2021		2020	
	Q1	Q1	Q1	Growth %
Invoiced revenue	10 267	6 617		
Deferred revenue	1	-254	-26	
<b>TOTAL Recognized Revenue</b>	<b>10 014</b>	<b>6 591</b>	<b>51,9%</b>	
COGS	5 608	3 947		
<b>Gross Profit</b>	<b>4 406</b>	<b>2 644</b>	<b>66,6%</b>	
Gross Margin %	44,0%	40,1%		
Operating Expenses	2	3 024	2 772	
<b>EBITDA</b>	<b>1 382</b>	<b>-129</b>		
EBITDA Margin %	13,8%	-1,9%		
Depreciation and Amortization	3	208	145	
<b>EBIT</b>	<b>1 174</b>	<b>-273</b>		
EBIT Margin %	11,7%	-4,1%		
Net Financial Items	4	-149	776	
<b>Earnings before tax</b>	<b>1 024</b>	<b>503</b>		
EBT Margin	10,2%	7,6%		

### 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 51.9% in Q1 2021 to USD 10.0 million compared to USD 6.6 million Q1 2020. The growth was supported by strong business momentum in terms of orders in the previous quarter, strong order intake throughout the quarter and a stable supply situation on components.

### Gross Profit

COGS (Cost of Goods Sold) was USD 5.6 million in Q1 2021, resulting in a Gross Profit of USD 4.4 million (44.0%).

### Operating Expenses

Operating Expenses was USD 3.0 million in Q1 2021, compared to USD 2.8 million in Q1 2020. Operating costs is increasing primarily due to continued increase of R&D resources and Sales resources.

Salaries and consultant costs is the largest cost component in Operating Expenses, representing 85.2% of the Operating Expenses in Q1 2021.

### EBITDA

EBITDA in Q1 2021 was USD 1.4 million (EBITDA Margin of 13.8%) compared to Q1 2020 USD -0.1 million (-1.9%).

The increase in EBITDA is a result revenue growth and improved Gross Margin. The revenue growth was primarily driven by stronger solutions revenue.

### 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 natural hedge in having both Revenue and COGS to a very large extent in USD.

## Consolidated Balance Sheet

	kUSD	
	2021	2020
	Jan-Mar	Jan-Mar
<b>Non-Current Assets</b>	<b>6 773</b>	<b>5 414</b>
Capitalized Development Cost	974	898
Deferred Tax Asset	5 4 173	3 384
Property Plant and Equipment	806	493
Financial Assets	821	640
Other Non-Current Assets	0	0
<b>Current Assets</b>	<b>16 395</b>	<b>10 744</b>
Inventory	6 642	4 235
Accounts Receivables	5 637	4 216
Prepaid Expenses	1 745	379
Cash and Cash Equivalents	2 395	1 786
Other Current Asset	-24	128
<b>TOTAL Asset</b>	<b>23 168</b>	<b>16 158</b>
<b>TOTAL Equity</b>	<b>11 457</b>	<b>8 893</b>
<b>Non-Current Liabilities</b>	<b>3 628</b>	<b>1 555</b>
Liabilities to Financial Institution:	6 2 202	943
Deferred Revenue	1 1 426	611
Other Non-Current Liabilities	0	0
<b>Current Liabilities</b>	<b>8 084</b>	<b>5 711</b>
Liabilities to Financial Institutions	2 710	1 390
Deferred Revenue	1 1 119	532
Accounts Payable	2 657	2 547
Public Duties	7 471	251
Other Current Liabilities	1 126	991
<b>TOTAL Liability</b>	<b>11 712</b>	<b>7 265</b>
<b>TOTAL Liability and Equity</b>	<b>23 168</b>	<b>16 158</b>

## Consolidated Cash Flow Statement

	kUSD	
	2021	2020
	Jan-Mar	Jan-Mar
<b>Cash at the Beginning of Period</b>	<b>3 625</b>	<b>2 094</b>
EBITDA	1 382	-129
Changes in Accounts Receivables	475	538
Changes in Accounts Payable	-1 353	264
Changes in Inventory	1 461	609
Changes in Deferred Revenue	267	-146
Other Working Capital Changes	-1 622	-303
<b>Cash Flow from Operating Activities</b>	<b>610</b>	<b>834</b>
Changes in Non-Current Assets	-279	376
Other Changes	0	0
<b>Cash Flow from Investing Activities</b>	<b>-279</b>	<b>376</b>
Changes in short term financing	547	-887
Changes in long term financing	-31	-193
Interest paid	-19	-47
<b>Cash Flow from Financing Activities</b>	<b>498</b>	<b>-1 127</b>
Dividend	-1 527	0
Translation Differences	-536	-391
<b>Net Cash Flow</b>	<b>-1 234</b>	<b>-308</b>
<b>Cash at the End of Period</b>	<b>2 391</b>	<b>1 786</b>

## 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. The group consists of Smartoptics Group AS and the wholly owned subsidiaries Smartoptics AS, Smartoptics Sverige AB and Smartoptics US Corp.

The numbers in this report have not been audited and may be subject to change.

### 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	2020	2021
Jan-Mar	9,4887	8,5140

Balance sheet	2020	2021
Mar 31	10,6006	8,5137

### 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 selected development projects. Capitalization for the period Jan - Mar was USD 70 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 35 million.

### Note 6 – Liabilities to Financial Institutions

There are two loans from Innovasjon Norge of combined NOK 18.8 million, 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 3 million per March 31, 2021.

### Note 8 – Other Working Capital Changes

Other Working Capital Changes relates to pre-payments of certain components and inventory, pay-out of accrued bonuses for 2020, pay-out of sales commission for the fourth quarter of 2020 and down-payment of postponed Social Charges in Sweden.

### Note 9 – Dividend

Dividend of NOK 13 million was paid in March, 2021.