

Smartoptics Group

Quarterly Report Q4 – 2020

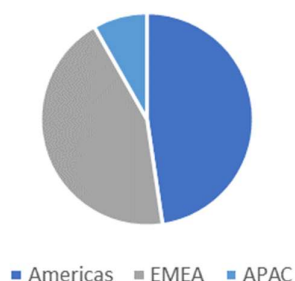
OSLO, February 20, 2021 - Smartoptics Group AS today reported its financial results for the quarter ending December 31, 2020. Smartoptics Group provides innovative optical networking solutions and devices for the new era of open networking. The company focuses on solving network challenges and increasing 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 Q4 2020

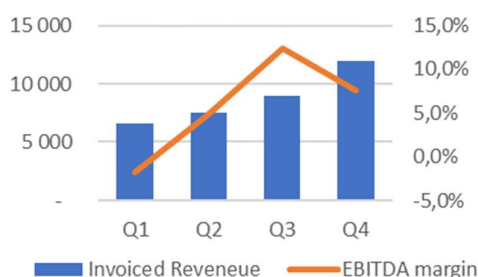
Financial Highlights

- Q4 Recognized Revenue of USD 11.5 million (Oct-Dec), USD 34.8 million Year-to-Date (Jan-Dec). Growth of 39.0% compared to Q4 2019 and growth of 30.9% full year 2020 compared to full year 2019.
- Gross Margin of 35.5% Q4 (Oct-Dec), 38.6% for the full year (Jan-Dec).
- EBITDA of USD 0.9 million and 7.7% EBITDA margin for Q4 (Oct-Dec), EBITDA USD 2.2 million and 6.4% EBITDA margin for the full year (Jan-Dec).
- Cash Flow for the period (Jan-Dec) was USD 1.5 million, whereof USD 0.9 million Operational Cash Flow.

Revenue per Region - 2020



Revenue and EBITDA margin - 2020



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 fourth quarter of 2020 was characterized by high business activity, like the third quarter. Strong order booking in late third quarter and in the first part of the fourth quarter combined with a normal component supply situation generated a revenue (recognized revenue) growth of 39% compared to the fourth quarter 2019. For the full year, the revenue growth was 31%.

The EBITDA margin for the quarter was 7.7%, compared to 12.5% same period 2019. This was mainly due to termination of the legacy M-series product range, and corresponding excess inventory write-down. In addition, Smartoptics has changed of contract manufacturers. The total extra cost for inventory write-down is around USD 0.4 million and is a non-recurring item. The gross margin in the fourth quarter reflects these extra costs.

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Financial review

All numbers are presented in thousands of US dollar.

Consolidated Profit and Loss Statement

kUSD	2020		2019		Growth		
	Q4	Q4	Q4	Q4	Jan - Dec	Jan - Dec	%
Invoiced revenue	11 433	8 077			35 680	27 110	
Deferred revenue	¹ -408	-146			-898	-531	
TOTAL Recognized Revenue	11 024	7 931	39,0%		34 783	26 579	30,9%
COGS	7 107	3 983			21 371	14 786	
Gross Profit	3 917	3 949			13 412	11 792	
Gross Margin %	35,5%	49,8%			38,6%	44,4%	
Operating Expenses	² 3 064	2 957			11 181	10 156	
EBITDA	853	992	-14,0%		2 231	1 636	36,4%
EBITDA Margin %	7,7%	12,5%			6,4%	6,2%	
Depreciation and Amortization	³ 151	26			618	592	
EBIT	701	966	-27,4%		1 613	1 044	54,5%
EBIT Margin %	6,4%	12,2%			4,6%	3,9%	
Net Financial Items	⁴ -294	-193			13	-182	
Earnings before tax	407	773	-47,4%		1 626	862	88,8%
EBT Margin	3,7%	9,8%			4,7%	3,2%	

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 39% in Q4 2020 to USD 11.0 million compared to USD 7.9 million Q4 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 full year 2020 grew by 31% compared to full year 2019.

Gross Profit

COGS (Cost of Goods Sold) was USD 7.1 million in Q4, resulting in a Gross Profit of USD 3.9 million (35.5%). The Gross Margin was negatively affected by extra costs related to discontinuation of the legacy M-series product range and change of contract manufacturer. The total one-off effect was USD 0.4 million.

Gross Profit for the full year was USD 13.4 million (38.6%) compared to USD 11.8 million in 2019 (44.4%).

Operating Expenses

Operating Expenses was USD 3.1 million in Q4 2020, compared to USD 3.0 million in 2019. Operating costs is increasing primarily due to continued increase of R&D resources.

Operating expenses for the full year was USD 11.2 million, compared to USD 10.2 million in 2019.

Salaries and consultant costs is the largest cost component in Operating Expenses, representing 76% of the Operating Expenses in Q4 2020 and 78% for the full year 2020.

EBITDA

EBITDA in Q4 2020 was USD 0.9 million (EBITDA Margin of 7.7%) compared to Q4 2019 USD 1.0 million (12.5%).

EBITDA for the full year was USD 2.2 million (EBITDA Margin of 6.4%) compared to USD 1.6 million (6.0%) same period last year.

The increase in EBITDA is a result revenue growth. The inventory write-downs related to the discontinuation of the legacy M-series product range and change of contract manufacturer impacts the EBITDA by USD 0.4 million and is a non-recurring item.

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

kUSD	2020	2019
	31-Dec	31-Dec
Non-Current Assets	6 583	6 506
Capitalized Development Cost	1 040	1 062
Deferred Tax Asset	5 4 053	3 952
Property Plant and Equipment	676	552
Financial Assets	0	941
Other Non-Current Assets	814	0
		0
Current Assets	18 830	12 494
Inventory	8 103	4 844
Accounts Receivables	6 112	4 753
Prepaid Expenses	949	806
Cash and Cash Equivalents	3 628	2 094
Other Current Asset	38	-4
TOTAL Assets	25 413	19 001
TOTAL Equity	12 201	10 175
Non-Current Liabilities	3 537	1 860
Liabilities to Financial Institution:	6 2 233	1 136
Deferred Revenue	1 1 304	724
Other Non-Current Liabilities	0	0
Current Liabilities	9 676	6 966
Liabilities to Financial Institutions	2 163	2 278
Deferred Revenue	1 974	566
Accounts Payable	4 010	2 282
Public Duties	7 945	507
Other Current Liabilities	1 583	1 333
TOTAL Liability	13 213	8 825
TOTAL Liability and Equity	25 413	19 001

Consolidated Cash Flow Statement

kUSD	2020	2019
Cash at the Beginning of Period	2 094	1 943
EBITDA	2 267	1 636
Changes in Accounts Receivables	-1 359	-888
Changes in Accounts Payable	1 728	753
Changes in Inventory	-3 259	-2 298
Changes in Deferred Revenue	988	518
Other Working Capital Changes	504	543
Cash Flow from Operating Activities	870	264
Changes in Non-Current Assets	-595	-518
Other Changes		42
Cash Flow from Investing Activities	-595	-476
Changes in short term financing	-114	-445
Changes in long term financing	1 097	1 136
Interest paid	-154	-152
Cash Flow from Financing Activities	829	538
Translation Differences	431	-175
Net Cash Flow	1 534	151
Cash at the End of Period	3 628	2 094

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
Q4	9,0708	9,4146
Jan - Dec	8,7989	9,4146

Balance sheet	2019	2020
Dec 31	8,8024	8,5828

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 2020 was USD 279 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 2020 consultancy services have been purchased Coretech AS (owns 49,95% of Smarter Holding AS) for NOK 1.470 thousand compared to NOK 1.654 thousand 2019 and from Smarter Holding AS (majority owner of Ignis AS) NOK 550 thousand compared to NOK 995 thousand 2019.