

smartoptics

EXPANDING YOUR NETWORK HORIZONS

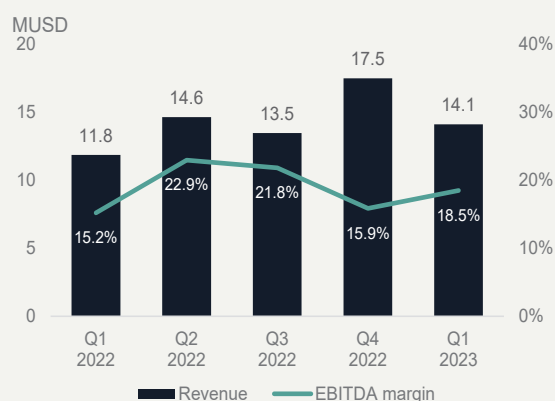
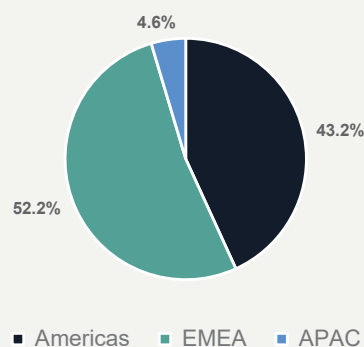
**Q1
REPORT
2023**

FINANCIAL HIGHLIGHTS

JANUARY - MARCH 2023

- Revenue of USD 14.1 million compared to USD 11.8 million compared to same period 2022, a growth of 18.8%
- Gross Margin of 50.7 % compared to 42.9% same period 2022, up 7.8 percentage points
- EBITDA of USD 2.6 million (18.5% EBITDA margin), compared to USD 1.8 million (15.2% EBITDA margin) in 2022
- Operating profit (EBIT) of USD 2.2 million (15.5% operating margin) compared to USD 1.4 million (11.8% operating margin) in 2022
- Operating cash flow of USD 5.8 million compared to USD -3.8 million in 2022

GEOGRAPHICAL SPLIT OF REVENUE Q1 2023



Amounts in USD 1,000	2023 Q1	2022 Q1	Change
Revenue	14 078	11 847	18.8%
Gross profit	7 138	5 085	40.4%
Gross margin	50.7%	42.9%	7.8 p.p
EBITDA	2 601	1 798	44.6%
EBITDA margin	18.5%	15.2%	3.3 p.p
Operating profit	2 181	1 400	55.8%
Operating margin	15.5%	11.8%	3.7 p.p
Profit & loss for the year	2 478	272	810.1%
Basic earnings per share	0.026	0.003	
Diluted earnings per share	0.025	0.003	
Operating cash flow	5 794	-3 835	
FTEs	101.0	77.0	24.0

CEO COMMENTS TO THE Q1 REPORT

Dear shareholders,

When summarizing the first quarter of 2023, we can clearly state that our positive development in 2022 continues. Revenue grew with 19 percent and our EBITDA margin improved from 15 percent in the first quarter last year to 19 percent this year.

The backdrop for the development is the ever-growing need for enterprises and operators to increase their network capacity. At the same time, we are continuously able to leverage these positive underlying trends in an efficient way. We are operating in a sweet spot of the market as a smaller and more flexible player, increasingly becoming a relevant vendor to a rapidly growing part of the market and to several new customers.

The solid growth in the first quarter was mainly driven by business as usual revenue, with little impact from larger projects. It is also reassuring to conclude that the quarter shows rapidly growing revenue from high margin Software and services business.

We have been very active in the market during the first quarter, and continue to win new business. Although EMEA shows the fastest growth in the quarter, Americas continues to be a very exciting market which is reflected by positive discussions with larger potential customers. The interest is mainly in our open line system offering and low cost 100G and 400G solutions. We are continuing to progress a number of larger opportunities.

One major project win in the first quarter was the contract for a bespoke network for the Irish Government, supplied through a Tier 1 operator and built to service several clients such as schools, hospitals, municipal and government agencies. This project is very similar to a project that was announced in a different geography in the second half of 2022. As these major networks become operational and in-service we expect to announce more details. Both projects are good proof points of our new capability to deliver more advanced and larger network solutions, with more advanced line systems built for more complex network topologies and higher speeds.

Software and services are becoming an increasingly important part of our customer offering and business model.



Magnus Grenfeldt, CEO Smartoptics Group AS

Our new SoSmart management software suite is a necessary tool for our customers, in particular for larger network installations based on our DCP-R open linesystem family.

The development of this software suite is progressing well, and we will release the third release of SoSmart in the first half of 2023. I'm expecting this release to be well received in the market, and that it will initiate more in-depth testing and qualification by several existing and potential customers.

To capture the growth, we are continuing to invest in our product organization, which will result in a broader product offering allowing us to target more network applications. Several new initiatives have been launched aiming at products to be released in the second half of 2023 and first half of 2024. We are also increasing our investments in building a stronger Smartoptics through new initiatives in the areas Supporting systems and ESG. Our financial position is solid, with a steady underlying business with good cash flow. This is the backdrop of the Board's proposal to pay an inaugural dividend for 2022 of NOK 0.50 per share.

All in all, we are well positioned for continued strong performance, and we have no reason to adjust our goals of growing our revenue up to around USD 100 million by 2025/2026, combined with profitability and EBITDA margin of 17-20% and EBIT margin of 13-16%.

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FINANCIAL REVIEW

Q1 2023

REVENUE

Revenue grew by 18.8% in Q1 2023 to USD 14.1 million compared to USD 11.8 million in Q1 2022.

GROSS PROFIT

Direct cost of sales (COGS) was USD 6.9 million in Q1 2023, resulting in a Gross Profit of USD 7.1 million. Gross Margin was 50.7%, compared to 42.9% same period 2022.

The Gross Margin improvement was an effect of business mix, price management initiatives, customer mix and procurement savings.

OPERATING EXPENSES

Employee benefit expenses was USD 3.5 million in Q1 2023, compared to USD 2.8 million in Q1 2022. Employee benefit expenses is increasing primarily due to continued increase of R&D resources and Sales resources.

EBITDA AND OPERATING PROFIT

EBITDA in Q1 2023 was USD 2.6 million (EBITDA Margin of 18.5%) compared to USD 1.8 million (15.2%) in Q1 2022.

The increase in EBITDA is a result of revenue growth and improved Gross Margin.

Operating profit was USD 2.2 million, or 15.5%, compared to USD 1.4 million same period 2022.

NET FINANCIALS ITEMS

Interest payments and foreign exchange gains/-losses are the main components of Net Financials Items.

The group has a natural hedge in having both Revenue

and COGS to a very large extent in USD.

CASH FLOW

The Operating Cash Flow was USD 5.8 million for Q1 2023 compared USD -3.5 million same period 2022

The Operating Cash Flow was positively impacted by the large build-up of Trade Receivable at the end of Q4 2022, which was paid during Q1 2023.

REVENUE SPLIT

Solutions revenue accounted 62%, Devices 27% and Software & Services for 10%.

OUTLOOK

Long term ambition to reach USD 100 million in 2025/26 timeframe is maintained.

DIVIDEND POLICY

Goal is to propose a yearly dividend of 25 - 50% of Smartoptics' profit for the previous financial year.

When proposing dividend for a financial year, the Board of Directors will consider Smartoptics' financial position, one-off item impacts, growth trajectory, investment plans, financial targets, and flexibility.

FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS STATEMENT Q1

Consolidated statement of profit or loss	Q1 2023	Q1 2022	Full year 2022
Amounts in USD 1.000	Notes		
Revenue from contracts with customers	14 078	11 847	57 366
Other operating income	-1	-0	-1
Total revenue and other operating income	14 078	11 847	57 366
Direct cost of sales	6 940	6 763	32 014
Employee benefit expenses	3 502	2 786	11 958
Other operating expenses	1 035	500	2 552
Total operating expenses	11 477	10 049	46 524
Depreciation	351	311	1 218
Amortization of intangible assets	69	88	324
Total depreciation and amortization	420	398	1 542
Operating profit/(loss)	2 181	1 400	9 300
Financial income	1	0	40
Financial expenses	-44	-42	-229
Net foreign exchange gains (losses)	1 040	-525	-253
Net financial items	996	-568	-442
Profit/(loss) before income tax	3 177	832	8 858
Estimated income tax	-699	-560	-2 069
Profit/(loss) for the period	2 478	272	6 789

Earnings per share in USD			
Basic earnings per share	0.026	0.003	0.071
Diluted earnings per share	0.025	0.003	0.070
Weighted average number of shares			
Basic	96 286 593	96 286 593	96 286 593
Diluted	97 250 275	96 286 593	96 322 038

Consolidated statement of comprehensive income			
Profit/(loss) for the year	2 478	272	6 789
Other comprehensive income:			
Items that might be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	-164	-53	60
Item that are not reclassified to profit or loss:			
Exchange differences on translation to another presentation currency	-920	835	-2 395
Total comprehensive income for the year	1 394	1 054	4 454

CONSOLIDATED STATEMENT FINANCIAL POSITION

Consolidated statement of financial position	31/03/2023	31/12/2022	31/03/2022
Amounts in USD 1.000	Notes		
Assets			
Non-current assets			
Intangible assets	904	941	926
Property, plant and equipment	2 014	1 787	1 352
Right-of-use assets	2 342	2 380	2 039
Non-current receivables against related party	-	-	
Deferred tax assets	1 249	1 326	3 281
Total non-current assets	6 509	6 433	7 597
Current assets			
Inventories	15 368	15 423	11 876
Trade receivable	11 495	15 915	9 543
Receivable to related party	0	0	0
Other current assets	1 097	943	1 471
Cash and cash equivalents	10 419	5 660	5 077
Total current assets	38 380	37 941	27 967
Total assets	44 889	44 374	35 564
Equity and liabilities			
Equity			
Share capital	184	195	220
Share premium	12 049	12 801	14 424
Other paid in capital	143	152	172
Foreign currency translation reserves	24	188	80
Retained earnings	16 895	14 269	9 346
Total equity	29 295	27 606	24 241
Non-current liabilities			
Lease liabilities (non-current portion)	1 685	1 759	1 457
Contract liabilities (non-current portion)	2 663	2 297	1 995
Other non-current liabilities	987	1 120	1 953
Total non-current liabilities	5 334	5 176	5 405
Current liabilities			
Lease liabilities (current portion)	717	674	623
Trade payable	5 174	5 831	2 852
Contract liabilities (current portion)	2 173	1 818	1 470
Current tax liabilities	608	868	486
Other current liabilities	1 588	2 401	485
Total current liabilities	10 260	11 592	5 917
Total liabilities	15 594	16 769	11 323
Total equity and liabilities	44 890	44 374	35 564

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

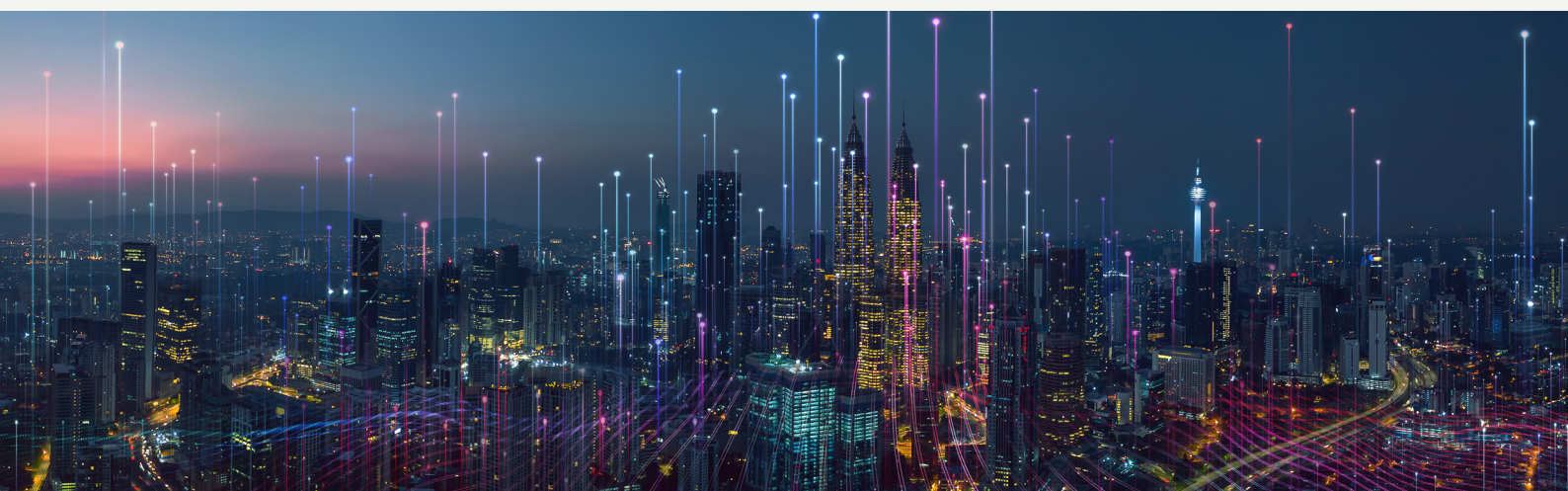
Consolidated statement of changes in equity	Share capital	Share premium	Other paid in capital	Translation difference reserves	Retained earnings	Total equity
Amounts in USD 1.000						
Balance at 1 January 2022	218	14 307	170	133	8 359	23 187
Profit/(loss) for the period					272	272
Exchange differences on translation of foreign operation				-53		-53
Exchange differences on translation on translation to another presentation currency	2	117	1		715	835
Total comprehensive income/(loss) for the period	2	117	1	-53	987	1 054
Balance at 31 March 2022	220	14 424	172	80	9 346	24 241
Profit/(loss) for the period					6 516	6 516
Exchange differences on translation of foreign operation				108		108
Exchange differences on translation on translation to another presentation currency	-25	-1 623	-19		-1 593	-3 260
Total comprehensive income/(loss) for the period	-25	-1 623	-19	108	4 923	3 364
Balance at 31 December 2022	195	12 801	152	188	14 269	27 606
Profit/(loss) for the period					2 478	2 478
Exchange differences on translation of foreign operation				-164		-164
Exchange differences on translation on translation to another presentation currency	-11	-751	-9		-148	-920
Total comprehensive income/(loss) for the period	-11	-751	-9	-164	2 330	1 394
Balance at 31 March 2023	184	12 049	143	24	16 895	29 295

*The currency translation differences arising from the translation to the presentation currency is not included as a translation differences reserves, but presented as part of the different categories of the equity. These translation differences cannot be recycled through profit and loss.



CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement	2023 Q1	2022 Q1
Amounts in USD 1.000		
Cash flows from operating activities		
Profit/(loss) before income tax	3 177	832
Adjustments for:		
Taxes paid	-173	-
Depreciation and amortization	140	398
Interest	19	21
Change in inventory	55	219
Change in trade receivable	4 419	-1 730
Change in contract liabilities (deferred revenue)	721	513
Change in trade payable	-657	-3 363
Change in other current assets and other liabilities	-1 907	-724
Interest received	1	0
Net cash inflow from operating activities	5 794	-3 835
Cash flows from investing activities		
Payment for property, plant and equipment	-391	-134
Payment for development cost	-	-
Net cash (outflow) from investing activities	-391	-134
Cash flows from financing activities		
Repayment of borrowing	-68	-48
Paid interest on borrowing	-20	-21
Repayments of lease liabilities	-203	-199
Net cash inflow from financing activities	-291	-267
Net increase/(decrease) in cash and cash equivalents	5 112	-4 236
Cash and cash equivalents as of 1 January	5 660	9 380
Effects of exchange rate changes on cash and cash equivalents	-353	-67
Cash and cash equivalents as of 31 December	10 419	5 077



SHARE INFORMATION

TABLE OF THE 20 LARGEST SHAREHOLDERS AS 31ST OF MARCH 2023

#	Shareholders	Holding	Stake
1	Coretech AS	31 783 599	33.01 %
2	Kløvingen AS	15 850 429	16.46 %
3	K-Spar Industrier AS	14 098 189	14.64 %
4	Danske Invest Norge Vekst	3 553 564	3.69 %
5	Nordnet Bank AB (nominee)	3 071 403	3.19 %
6	Ålandsbanken Fonder	2 381 631	2.47 %
7	Rasmussengruppen AS	2 250 000	2.34 %
8	Avanza Bank AB	2 230 090	2.32 %
9	Janus Henderson Investors	2 000 000	2.08 %
10	Swedbank Robur Ny Teknik	1 886 792	1.96 %
11	Magnus Grenfeldt	1 857 489	1.93 %
12	Handelsbanken Microcap Norden	1 684 500	1.75 %
13	Arrowhead AS	1 510 125	1.57 %
14	DNB Bank ASA	1 240 106	1.29 %
15	Toluma Norden AS	1 000 000	1.04 %
16	AS Clipper	963 391	1.00 %
17	Varner Invest AS	963 391	1.00 %
18	Schroders	690 000	0.72 %
19	DNB Luxembourg S.A.	550 000	0.57 %
20	Nore-Invest AS	537 598	0.56 %
	Others	6 184 296	6.42 %
Total number of shares		96 286 593	100.00 %

NOTES

GENERAL

These interim condensed consolidated financial statements for the year ended 31 March 2023, have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for 2022, prepared in accordance with International Financial Reporting Standards (IFRS).

EXCHANGE RATES

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

Balance Sheet	2023	2022
Mar 31	10.4723	8.7479

Profit and loss statement	2023	2022
Jan	9.9506	8.8450
Feb	10.2231	8.8651
Mar	10.5425	8.8367

NOTE 1 - DEFERRED REVENUE

Service revenues are invoiced in advance and covers a contract period of typically 24-48 months. The service revenue is recognized during the contract period. "Current Deferred Revenue" will be recognized within the next 12 months.

Deferred Revenue	Mar 31. 2023	Mar 31. 2022
Amounts in USD 1,000		
Contract Liabilities (Current)	2 663	1 995
Contract Liabilities (Non-current)	2 173	1 470
Total Contract Liabilities	4 836	3 466

NOTE 2 – RESEARCH AND DEVELOPMENT

Parts of the development cost is capitalized and depreciated over 5 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 128 thousand.

NOTE 3 – FINANCIAL ITEMS

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

NOTE 4 – DEFERRED TAX ASSETS

Deferred tax assets consist of historical net operating losses and amount to USD 1.2 million. The estimated tax for the period (January to March) is USD 0.7 million.

NOTE 5 – LIABILITIES TO FINANCIAL INSTITUTIONS

There are two loans from Innovasjon Norge of combined NOK 14.5 million. The loans are repaid on a quarterly basis and will be fully repaid by 2026 Q3. The group also has a credit facility with Nordea of NOK 50 million. As of March 31st 2023, NOK 0 of the credit line from Nordea was utilized.

NOTE 6 – OTHER WORKING CAPITAL CHANGES

Other Working Capital Changes relates to pre-payments of certain components and inventory, pay-out of sales commission for the fourth quarter of 2022.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT SPLIT

Property, plant and equipment	Mar 31. 2023	Mar 31. 2022	Change
Amounts in USD 1,000			
R&D equipment	878	416	462
Production equipment	271	158	113
Office & warehouse furniture and fixtures	280	219	61
Demo pool equipment	586	559	26
Total	2 014	1 352	662

NOTE 8 – DEPRECIATION AND AMORTIZATION SPLIT

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

Depreciation and amortization	Q1-2023	Q1-2022
Amounts in USD 1,000		
Property, plant and equipment	165	127
Product development	69	88
Right of use assets / leasing	186	184
Total	420	398

ALTERNATE PERFORMANCE MEASURES (APM'S)

Smartoptics has the following APMs that are often used by analysts and the group to measure the performance of the group.

GROSS PROFIT (TOTAL REVENUE AND OTHER OPERATING INCOME DEDUCTED DIRECT COST OF SALES)

Amounts in USD 1,000	2023Q1	2022Q1
Total revenue and other operating income	14 078	11 847
Direct cost of sales	6 940	6 763
Gross Profit	7 138	5 085

GROSS MARGIN (GROSS PROFIT DIVIDED BY TOTAL REVENUE)

Amounts in USD 1,000	2023Q1	2022Q1
Total revenue and other operating income	14 078	11 847
Gross Profit	7 138	5 085
Gross Margin	50.7 %	42.9 %

EBITDA (EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION)

Amounts in USD 1,000	2023Q1	2022Q1
Operating Profit	2 181	1 400
Depreciation and Amortization	420	398
EBITDA	2 601	1 798

EBITDA MARGIN (EBITDA DIVIDED BY TOTAL REVENUE)

Amounts in USD 1,000	2023Q1	2022Q1
EBITDA	2 601	1 798
Total Revenue	14 078	11 847
EBITDA Margin	18.5 %	15.2 %



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