

smartoptics

EXPANDING YOUR NETWORK HORIZONS

Q2
REPORT
2023

FINANCIAL HIGHLIGHTS

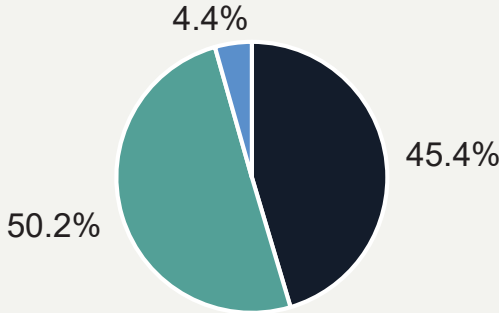
APRIL - JUNE 2023

- Revenue of USD 17.0 million compared to USD 14.6 million compared to same period 2022, a growth of 16.3%
- Gross Margin of 49.2% compared to 47.2% same period 2022, up 2.0 percentage points
- EBITDA of USD 3.2 million (18.7% EBITDA margin), compared to USD 3.3 million (22.9% EBITDA margin) in 2022
- Operating profit (EBIT) of USD 2.7 million (16.0% operating margin) compared to USD 3.0 million (20.3% operating margin) in 2022
- Operating cash flow of USD -1.6 million compared to USD 2.0 million in 2022, as high share of the revenue was invoiced in June

JANUARY - JUNE 2023

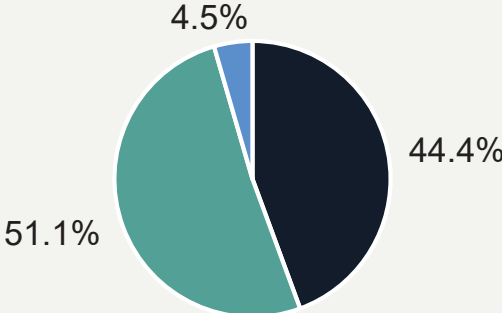
- Revenue of USD 31.1 million compared to USD 26.5 million compared to same period 2022, a growth of 17.4%
- Gross Margin of 49.9% compared to 45.3% same period 2022, up 4.6 percentage points
- EBITDA of USD 5.8 million (18.6% EBITDA margin), compared to USD 5.1 million (19.4% EBITDA margin) in 2022
- Operating profit (EBIT) of USD 4.9 million (15.8% operating margin) compared to USD 4.4 million (16.5% operating margin) in 2022
- Operating cash flow of USD 4.2 million compared to USD -1.8 million in 2022

GEOGRAPHICAL SPLIT OF REVENUE Q2 2023



■ Americas ■ EMEA ■ APAC

GEOGRAPHICAL SPLIT OF REVENUE H1 2023

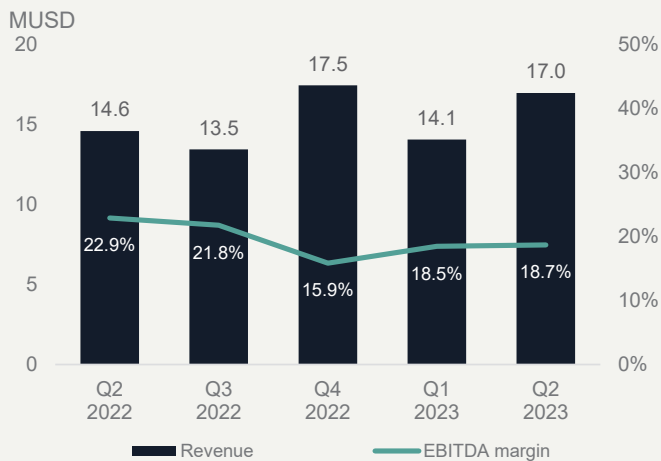


■ Americas ■ EMEA ■ APAC

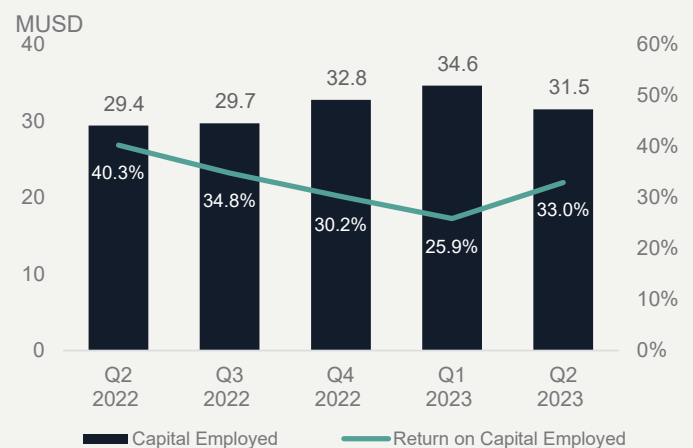
FINANCIAL HIGHLIGHTS CONT.

Amounts in USD 1,000	2023 Q2	2022 Q2	Change	2023 H1	2022 H2	Change
	Apr - Jun	Apr - Jun		Jan - Jun	Jan - Jun	
Revenue	16 989	14 608	16.3%	31 067	26 455	17.4%
Gross profit	8 353	6 895	21.2%	15 490	11 979	29.3%
Gross margin	49.2%	47.2%	2.0 p.p	49.9%	45.3%	4.6 p.p
EBITDA	3 179	3 347	-5.0%	5 780	5 145	12.3%
EBITDA margin	18.7%	22.9%	-4.2 p.p	18.6%	19.4%	-0.8 p.p
Operating profit	2 727	2 972	-8.3%	4 907	4 372	12.2%
Operating margin	16.0%	20.3%	-4.3 p.p	15.8%	16.5%	-0.7 p.p
Profit & loss for the year	2 374	2 897	-18.1%	4 851	3 169	53.1%
Basic earnings per share	0.025	0.030		0.050	0.033	
Diluted earnings per share	0.024	0.030		0.050	0.033	
Operating cash flow	-1 568	2 015		4 226	-1 819	
Return on Capital Employed	33.0%	40.3%	-7.3 p.p	30.5 %	31.3 %	-0.8 p.p
FTEs	105	81	24	103	79	24

EBITDA MARGIN AND REVENUE LAST 5 QUARTERS



RETURN ON CAPITAL EMPLOYED



CEO COMMENTS TO THE Q2 REPORT

Dear shareholders,

When summarizing the second quarter of 2023, our positive development in 2023 continues. Revenue grew by 16.3 per cent and our EBITDA margin was 18.7%, in line with our long-term aspirations.

The backdrop for the development is the ever-growing need for enterprises and operators to increase their network capacity. At the same time, we can continuously leverage these positive underlying trends efficiently. 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.

Similar to quarter one, the growth in the second quarter was mainly driven by business from Enterprises and service providers, with little impact from larger projects. A challenge in the first half of 2023 is the lack of revenue contributions from 5G mobile backhaul-related projects, which represented about 15% of our revenue in 2022. In the first half of 2023 we have managed to compensate well for this. It is reassuring that the quarter shows strong growth from high margin Solutions, Software, and Services business areas.

We have been active in the market during the second quarter and continue to win new business. EMEA contributes strongly and 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, and growth despite said lack of 5G-related revenues. Customer 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.

Software and services are increasingly important to our customer offering and business model. Our new SoSmart management software suite is necessary for our customers, particularly for larger network installations based on our DCP-R open line system family. The development of this software suite continues and will be an essential tool for future major project wins.



Magnus Grenfeldt, CEO Smartoptics Group AS

After several quarters of recovery, we can conclude that our supply chain and ability to deliver products quickly is very close to fully healed. A result of our improved lead times is that an increasing part of our revenue is booked and billed within the quarters, resulting in slightly lower visibility short term. As larger projects come back, we expect better visibility and a larger backlog coming into the quarters.

To capture the growth, we are continuing to invest in our product organization, which will result in a broader product offering in the Solutions business area 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 the first half of 2024. In addition, we will also increase our focus in the business area Devices. Our financial position is solid, with a steady underlying business with good cash flow.

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

Q2 2023

REVENUE

Revenue grew by 16.3% in Q2 2023 to USD 17.0 million compared to USD 14.6 million in Q2 2022.

GROSS PROFIT

Direct cost of sales (COGS) was USD 8.6 million in Q2 2023, resulting in a Gross Profit of USD 8.4 million. Gross Margin was 49.2%, compared to 47.2% 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 3.9 million in Q2 2023, compared to USD 2.8 million in Q2 2022. Employee benefit expenses is increasing primarily due to continued increase of R&D resources and Sales resources.

EBITDA AND OPERATING PROFIT

EBITDA in Q2 2023 was USD 3.2 million (EBITDA Margin of 18.7%) compared to USD 3.3 million (22.9%) in Q2 2022.

Operating profit was USD 2.7 million, or 16.0%, compared to USD 3.0 million same period 2022.

NET FINANCIAL ITEMS

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

The group has a natural hedge from exchange risk in having both Revenue and COGS to a very large extent in USD.

CASH FLOW

The Operating Cash Flow was USD -1.6 million for Q2 2023 compared USD 2.0 million same period 2022

The Operating Cash Flow was negatively impacted by the large build-up of Trade Receivable at the end of Q2 that will translate into cash in Q3.

REVENUE SPLIT

Solutions revenue accounted 63%, Devices 28% 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 Q2

Consolidated statement of profit or loss	Q2 2023	Q2 2022	H1 2023	H1 2022	FY 2022
Amounts in USD 1.000	Apr - Jun	Apr - Jun	Jan - Jun	Jan - Jun	Jan - Dec
Revenue from contracts with customers	16 990	14 608	31 068	26 455	57 366
Other operating income	-1	-	-1	-0	-1
Total revenue and other operating income	16 989	14 608	31 067	26 455	57 366
Direct cost of sales	-8 637	-7 713	-15 577	-14 476	-32 014
Employee benefit expenses	-3 889	-2 845	-7 390	-5 631	-11 958
Other operating expenses	-1 285	-703	-2 320	-1 203	-2 552
Total operating expenses	-13 810	-11 261	-25 287	-21 310	-46 524
Depreciation	-386	-292	-738	-603	-1 218
Amortization of intangible assets	-66	-82	-135	-170	-324
Total depreciation and amortization	-452	-375	-872	-773	-1 542
Operating profit/(loss)	2 727	2 972	4 907	4 372	9 300
Financial income	2	0	2	0	40
Financial expenses	-52	-99	-96	-141	-229
Net foreign exchange gains (losses)	367	550	1 407	25	-253
Net financial items	316	451	1 312	-117	-442
Profit/(loss) before income tax	3 043	3 423	6 220	4 256	8 858
Estimated income tax	-670	-527	-1 368	-1 087	-2 069
Profit/(loss) for the period	2 374	2 897	4 851	3 169	6 789

Earnings per share in USD					
Basic earnings per share	0.025	0.030	0.050	0.033	0.071
Diluted earnings per share	0.024	0.030	0.050	0.033	0.070
Weighted average number of shares					
Basic	96 286 593	96 286 593	96 286 593	96 286 593	96 286 593
Diluted	97 250 275	96 286 593	97 258 023	96 286 593	96 322 038

Consolidated statement of comprehensive income					
Profit/(loss) for the year	2 374	2 897	4 851	3 169	6 789
Other comprehensive income:					
Items that might be subsequently reclassified to profit or loss:					
Exchange differences on translation of foreign operations	12	89	-152	36	60
Item that are not reclassified to profit or loss:					
Exchange differences on translation to another presentation currency	789	-2 676	-131	-1 841	-2 395
Total comprehensive income for the year	3 175	310	4 569	1 364	4 454

CONSOLIDATED STATEMENT FINANCIAL POSITION

Consolidated statement of financial position	30/06/2023	31/12/2022	30/06/2022
Amounts in USD 1.000			
	Notes		
Assets			
Non-current assets			
Intangible assets	897	941	826
Property, plant and equipment	2 654	1 787	1 301
Right-of-use assets	2 149	2 380	1 693
Non-current receivables against related party	-	-	-
Deferred tax assets	1 215	1 326	2 880
Total non-current assets	6 916	6 433	6 700
Current assets			
Inventories	14 123	15 423	13 220
Trade receivable	17 949	15 915	10 085
Receivable to related party	0	0	0
Other current assets	1 472	943	1 586
Cash and cash equivalents	2 918	5 660	5 749
Total current assets	36 462	37 941	30 640
Total assets	43 378	44 374	37 341
Equity and liabilities			
Equity			
Share capital	179	195	193
Share premium	11 715	12 801	12 665
Other paid in capital	139	152	151
Foreign currency translation reserves	36	188	169
Retained earnings	13 745	14 269	11 373
Total equity	25 815	27 606	24 551
Non-current liabilities			
Lease liabilities (non-current portion)	1 243	1 759	1 201
Contract liabilities (non-current portion)	2 958	2 297	1 974
Other non-current liabilities	1 517	1 120	1 673
Total non-current liabilities	5 719	5 176	4 848
Current liabilities			
Lease liabilities (current portion)	695	674	535
Trade payable	4 340	5 831	4 593
Contract liabilities (current portion)	2 480	1 818	1 427
Current tax liabilities	2 057	868	607
Other current liabilities	2 272	2 401	780
Total current liabilities	11 845	11 592	7 941
Total liabilities	17 563	16 769	12 790
Total equity and liabilities	43 378	44 374	37 341

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

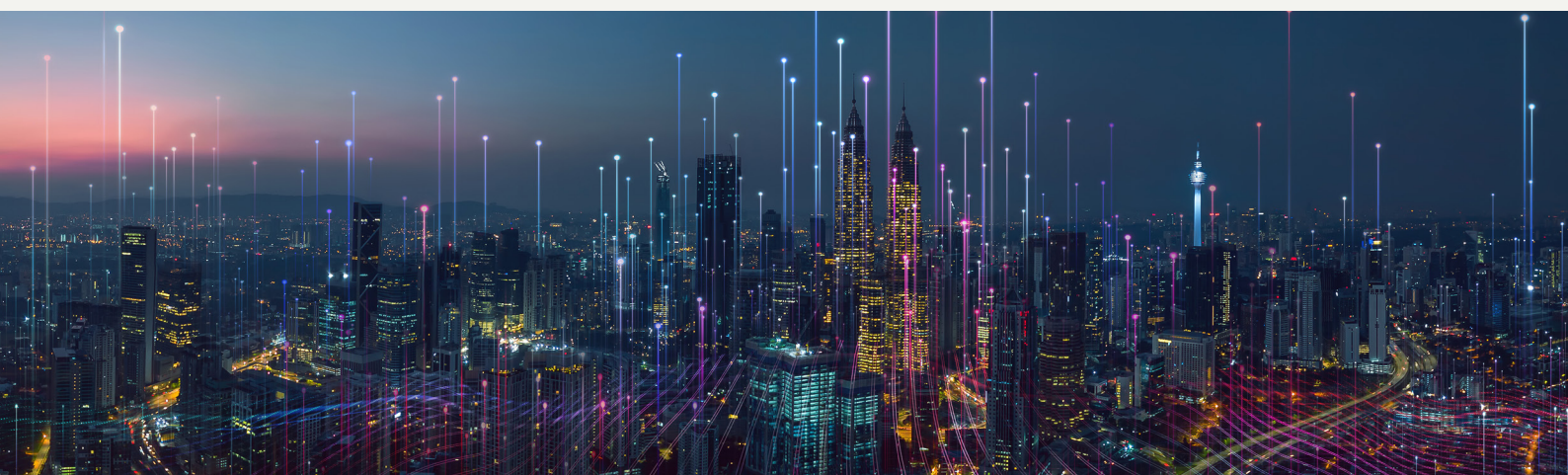
Consolidated statement of changes in equity	Share capital	Share premium	Other paid in capital	Translation difference reserves	Retained earnings	Total equity
Amounts in USD 1.000						
Balance at 1 January 2022	218	14 307	170	133	8 359	23 187
Profit/(loss) for the period					3 169	3 169
Exchange differences on translation of foreign operation				36		36
Exchange differences on translation on translation to another presentation currency	-25	-1 641	-20		-155	-1 841
Total comprehensive income/(loss) for the period	-25	-1 641	-20	36	3 014	1 364
Balance at 30 June 2022	193	12 665	151	169	11 373	24 551
Profit/(loss) for the period					3 620	3 620
Exchange differences on translation of foreign operation				19		19
Exchange differences on translation on translation to another presentation currency	2	136	2		-724	-585
Total comprehensive income/(loss) for the period	2	136	2	19	2 896	3 054
Balance at 31 December 2022	195	12 801	152	188	14 269	27 606
Profit/(loss) for the period					4 851	4 851
Exchange differences on translation of foreign operation				-152		-152
Exchange differences on translation on translation to another presentation currency	-17	-1 086	-13		984	-131
Total comprehensive income/(loss) for the period	-17	-1 086	-13	-152	5 836	4 569
Dividend					-4 391	-4 391
Balance at 30 June 2023	179	11 715	139	36	13 745	25 815

*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	Q2 2023	Q2 2022	H1 2023	H1 2022
Amounts in USD 1.000	Apr - Jun	Apr - Jun	Jan - Jun	Jan - Jun
Cash flows from operating activities				
Profit/(loss) before income tax	3 043	3 423	6 220	4 256
Adjustments for:				
Taxes paid	0	0	-173	0
Depreciation and amortization	452	375	592	773
Interest	28	80	47	101
Change in inventory	1 245	-1 343	1 300	-1 124
Change in trade receivable	-6 454	-543	-2 034	-2 273
Change in contract liabilities (deferred revenue)	603	-64	1 323	449
Change in trade payable	-834	1 740	-1 491	-1 622
Change in other current assets and other liabilities	348	-1 653	-1 560	-2 377
Interest received	2	0	2	0
Net cash inflow from operating activities	-1 568	2 015	4 226	-1 819
Cash flows from investing activities				
Payment for property, plant and equipment	-951	-192	-1 342	-327
Payment for development cost				
Net cash (outflow) from investing activities	-951	-192	-1 342	-327
Cash flows from financing activities				
Repayment of borrowing	-97	-42	-165	-89
Paid interest on borrowing	-29	-80	-49	-101
Repayments of lease liabilities	-200	-181	-404	-379
Dividend paid out	-4 391	0	-4 391	0
Net cash inflow from financing activities	-4 718	-302	-5 009	-570
Net increase/(decrease) in cash and cash equivalents	-7 237	1 520	-2 125	-2 716
Cash and cash equivalents beginning of period	10 419	5 077	5 660	9 380
Effects of exchange rate changes on cash and cash equivalents	-264	-848	-617	-915
Cash and cash equivalents end of period	2 918	5 749	2 918	5 749



SHARE INFORMATION

TABLE OF THE 20 LARGEST SHAREHOLDERS AS 30TH OF JUNE 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	3 551 164	3.69 %
5	Nordnet Bank AB	2 283 096	2.37 %
6	Avanza Bank AB	2 183 281	2.27 %
7	Rasmussengruppen AS	2 150 000	2.23 %
8	Swedbank Robur Ny Teknik	2 136 792	2.22 %
9	Ålandsbanken Fonder	2 121 631	2.20 %
10	Janus Henderson Investors	2 100 000	2.18 %
11	Magnus Grenfeldt	1 857 489	1.93 %
12	Handelsbanken Microcap Norden	1 700 000	1.77 %
13	Arrowhead AS	1 510 440	1.57 %
14	Toluma Norden AS	1 000 000	1.04 %
15	Varner AS	963 391	1.00 %
16	AS Clipper	963 391	1.00 %
17	Schroders	690 000	0.72 %
18	Nore Invest AS	537 598	0.56 %
19	Karl Thedéen	493 078	0.51 %
20	Protean Funds Scandinavia	475 000	0.49 %
	Others	7 838 025	8.14 %
	Total number of shares	96 286 593	100.00 %

NOTES

GENERAL

These interim condensed consolidated financial statements for the period ended 30 June 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
Jun 30	10.7712	9.9629

Profit and loss statement	2023	2022
Apr	10.5064	8.9013
May	10.7764	9.5875
Jun	10.8099	9.7645

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	Jun 30. 2023	Jun 30. 2022
Amounts in USD 1,000		
Contract Liabilities (Current)	2 958	1 974
Contract Liabilities (Non-current)	2 480	1 427
Total Contract Liabilities	5 439	3 402

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 Apr - Jun was USD 159 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 June) is USD 1.4 million.

NOTE 5 – LIABILITIES TO FINANCIAL INSTITUTIONS

There are two loans from Innovasjon Norge of combined NOK 13.5 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 (USD 4.7 million) and a non-current loan of NOK 4.1 million (USD 0.4 million) scheduled to be fully repaid by 2026 Q2. As of June 30th 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 first quarter of 2023.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT SPLIT

Property, plant and equipment	Jun 30. 2023	Jun 30. 2022	Change
Amounts in USD 1,000			
R&D equipment	855	417	438
Production equipment	244	133	111
Office & warehouse furniture and fixtures	789	229	560
Demo pool equipment	767	522	245
Total	2 654	1 301	1 354

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	Q2-2023	Q2-2022
Amounts in USD 1,000		
Property, plant and equipment	202	126
Product development	66	82
Right of use assets / leasing	185	167
Total	452	375

ALTERNATE PERFORMANCE MEASURES (APM'S)

GROSS PROFIT

Total revenue and other operating income deducted Direct cost of sales

Amounts in USD 1,000	Q2 2023	Q2 2022	H1 2023	H1 2022
Total revenue and other operating income	16 989	14 608	31 067	26 455
Direct cost of sales	8 637	7 713	15 577	14 476
Gross Profit	8 353	6 895	15 490	11 979

GROSS MARGIN

Gross profit divided by total revenue

Amounts in USD 1,000	Q2 2023	Q2 2022	H1 2023	H1 2022
Total revenue and other operating income	16 989	14 608	31 067	26 455
Gross Profit	8 353	6 895	15 490	11 979
Gross Margin	49.2 %	47.2 %	49.9 %	45.3 %

EBITDA

Earnings before interest, tax, depreciation and amortization

Amounts in USD 1,000	Q2 2023	Q2 2022	H1 2023	H1 2022
Operating Profit	2 727	2 972	4 907	4 372
Depreciation and Amortization	452	375	872	773
EBITDA	3 179	3 347	5 780	5 145

EBITDA MARGIN

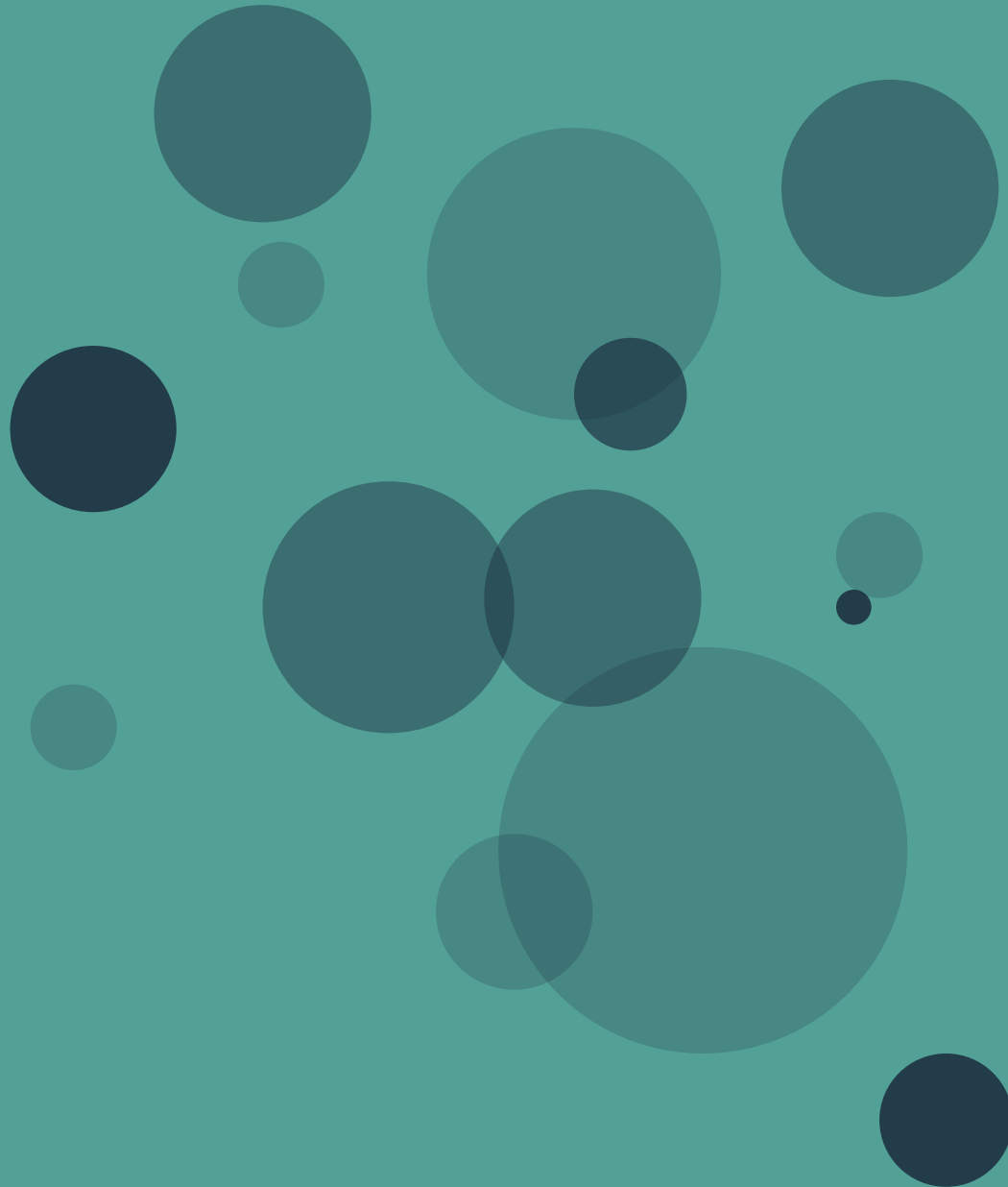
EBITDA divided by total revenue

Amounts in USD 1,000	Q2 2023	Q2 2022	H1 2023	H1 2022
EBITDA	3 179	3 347	5 780	5 145
Total Revenue	16 989	14 608	31 067	26 455
EBITDA Margin	18.7 %	22.9 %	18.6 %	19.4 %

RETURN ON CAPITAL EMPLOYED

Annualized EBIT for actual period divided by average capital employed at beginning and end of period. Capital Employed equals total assets deducted current liabilities.

Amounts in USD 1,000	Q2 2023	Q2 2022	H1 2023	H1 2022
Operating Profit (EBIT)	2 727	2 972	4 907	4 372
Annualized EBIT	10 907	11 889	9 815	8 744
Average Capital Employed*				
Capital employed at beginning of period	34 629	29 647	32 782	26 485
Capital employed at end of period	31 534	29 400	31 534	29 400
Average capital employed	33 081	29 523	32 158	27 942
Return on capital employed	33.0 %	40.3 %	30.5 %	31.3 %



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