

smartoptics

EXPANDING YOUR NETWORK HORIZONS

**Q4
REPORT
2023**

FINANCIAL HIGHLIGHTS

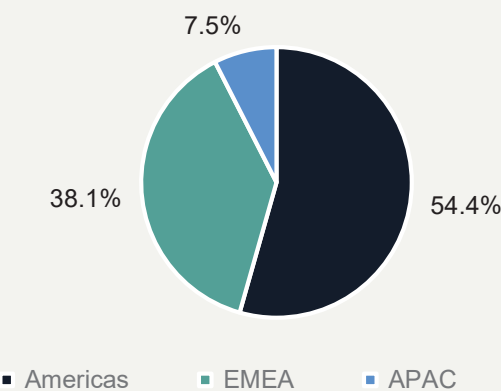
OCTOBER - DECEMBER 2023

- Revenue of USD 13.8 million compared to USD 17.5 million compared to same period 2022
- Gross Margin of 50.5% compared to 40.0% same period 2022, up 10.5 percentage points
- EBITDA of USD 2.0 million (14.7% EBITDA margin), compared to USD 2.8 million (15.9% EBITDA margin) in 2022
- Operating profit (EBIT) of USD 1.5 million (11.1% operating margin) compared to USD 2.4 million (13.5% operating margin) in 2022
- Operating cash flow of USD 2.1 million compared to USD 0.4 million in 2022

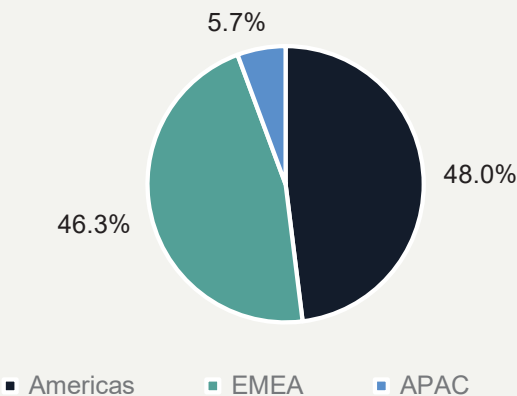
JANUARY - DECEMBER 2023

- Revenue of USD 58.5 million compared to USD 57.4 million compared to same period 2022
- Gross Margin of 50.0% compared to 44.2% same period 2022, up 5.8 percentage points
- EBITDA of USD 10.5 million (18.0% EBITDA margin), compared to USD 10.8 million (18.9% EBITDA margin) in 2022
- Operating profit (EBIT) of USD 8.7 million (14.8% operating margin) compared to USD 9.3 million (16.2% operating margin) in 2022
- Operating cash flow of USD 11.8 million compared to USD 0.1 million in 2022

GEOGRAPHICAL SPLIT OF REVENUE Q4 2023



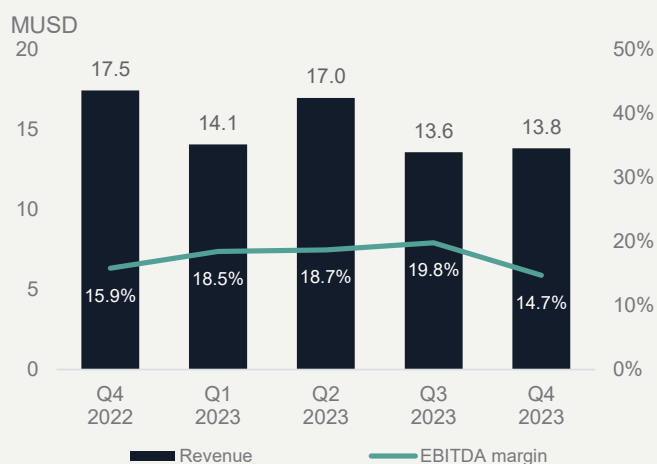
GEOGRAPHICAL SPLIT OF REVENUE JAN - DEC 2023



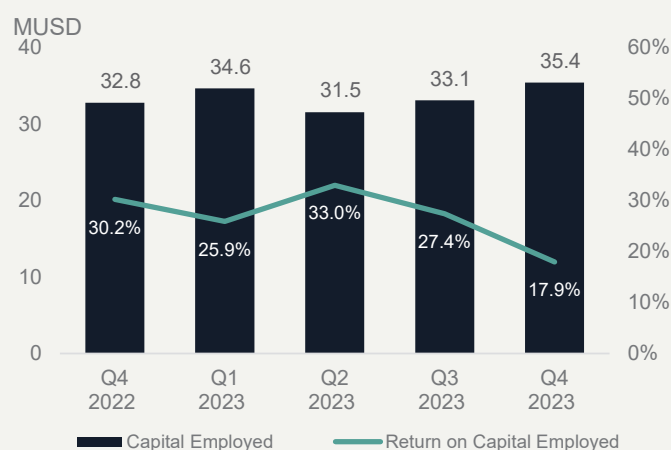
FINANCIAL HIGHLIGHTS CONT.

Amounts in USD 1,000	Q4 2023	Q4 2022	Change	12M 2023	12M 2022	Change
	Oct - Dec	Oct - Dec		Jan - Dec	Jan - Dec	
Revenue	13 831	17 460	-20.8%	58 504	57 366	2.0%
Gross profit	6 979	6 992	-0.2%	29 270	25 352	15.5%
Gross margin	50.5%	40.0%	10.5 p.p	50.0%	44.2%	5.8 p.p
EBITDA	2 039	2 767	-26.3%	10 518	10 841	-3.0%
EBITDA margin	14.7%	15.9%	-1.1 p.p	18.0%	18.9%	-0.9 p.p
Operating profit	1 536	2 358	-34.9%	8 659	9 300	-6.9%
Operating margin	11.1%	13.5%	-2.4 p.p	14.8%	16.2%	-1.4 p.p
Profit & loss for the year	1 259	1 126	11.8%	7 282	6 789	7.3%
Basic earnings per share NOK	0.155	0.112	39.0%	0.866	0.698	24.1%
Diluted earnings per share NOK	0.154	0.111	38.9%	0.858	0.697	23.0%
Basic earnings per share USD	0.013	0.012	11.8%	0.076	0.071	7.3%
Diluted earnings per share USD	0.013	0.012	11.8%	0.075	0.070	6.3%
Operating cash flow	2 071	374		11 805	90	
Return on Capital Employed	17.9 %	30.2 %	-12.2 p.p	25.4 %	31.4 %	-6.0 p.p
FTEs	114	91	23	108	84	24

EBITDA MARGIN AND REVENUE LAST 5 QUARTERS



RETURN ON CAPITAL EMPLOYED



CEO COMMENTS TO THE Q4 REPORT

In 2023, Smartoptics continued to deliver on our strategic objective, to become a recognized leader in open optical networking solutions. We continue to leverage and drive trends in how cost-efficient, flexible, open, and disaggregated networks should be built. Our innovative product offering, particularly in the areas Solutions, Software and Services are continuously developed to broaden the addressable market for the company.

The market sentiment in 2023 was weaker than previous years because of the general economic softness curbing the investment spend in the industry. This particularly affected our business related to 5G roll out in North America, which represented nearly 15% of our revenue in 2022, reduced to a minimum in 2023. Despite this, we delivered growth year over year, which proves our attractiveness within our core business segment: Smaller communication service providers, enterprises and internet content providers. The revenue growth for the full year 2023 was 2.0% compared to 2022, while revenue in the fourth quarter declined by 20.8% compared to a strong fourth quarter in 2022 where we had significant US 5G deliveries.

The fourth quarter and 2023 as a whole are clear proof points in our attractive business model and disciplined approach to cost development. Despite limited revenue growth, our EBITDA margin remained strong with 14.7% in the fourth quarter and 18.0% in 2023 as a whole. Our operating cash flow was also significantly improved in the fourth quarter compared to the same period in 2022. All in all, this means that the financial performance of the company is in line with our long-term aspirations.

During 2023, we have taken important steps to further improve the way we are positioned for profitable growth in the years to come. The underlying demand, driven by the ever-growing demand for bandwidth and continuous needs to upgrade and expand networks remain strong. In 2024 we expect several factors to contribute to a reinstallation of growth



Magnus Grenfeldt, CEO Smartoptics Group AS

Markets to regain momentum in 2024

- Signals from industry majors and market analysts indicate that the US market is set return to growth, particularly in the second half of 2024.

New product launches through 2024

- We have planned major product launches in 2024, significantly improving our competitiveness in the more advanced parts of our addressable markets, as we to a much larger degree than before will be able to serve large, regional network deployments.

New markets contributing to growth

- We have seen meaningful revenue from LATAM as of the second half of 2023 and continued good traction in selected markets of APAC. This trend is expected to continue in 2024.

Attracting major accounts

- Through broadened product offering – both software and hardware, and strengthen organization, we are becoming a much more relevant vendor for large network operators. The quality of our dialogue with such major accounts is continuously improving, and we target to secure major accounts in 2024.

Our continuously expanded customer base implies an increasing base of recurring software and service revenue and upsell opportunities. Our strong core business is demonstrated by the increased number of ordering customers in all markets. New customers represented 14% of our revenue in the year.

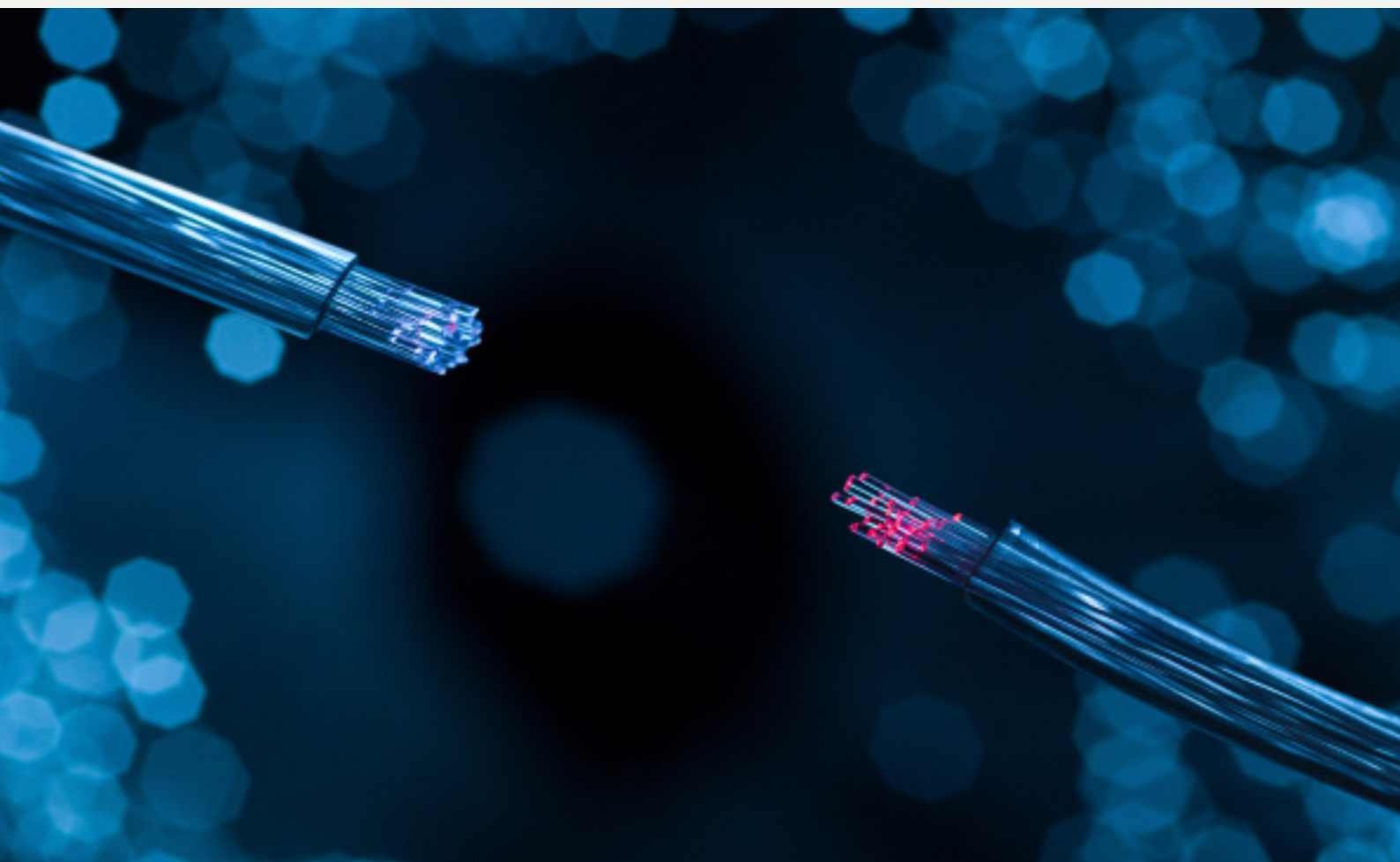
The dialogue with larger accounts is primarily driven by our ability to improve cost efficiency, innovation, and responsiveness to rapidly changing requirements and customer expectations. Specifically, IP-over-DWDM and adoption of 400Gbit/s (and emerging 800Gbit/s technology), enables lower CAPEX and OPEX for customers. These topics will continue to be the center of such discussions over the foreseeable future. Adding to this, I'm exceptionally pleased with the fact that the newly released products continue to come hot out of the gate and are in high demand from day one, and the fact that our Software suite SoSmart is now developed to a point where it contributes greatly to our attractiveness, particularly for larger network deployments and with larger accounts. All in all, these factors results in additional confidence in the second half of 2024.

On this positive backdrop, assuming the market sentiment in our main markets return to normal during 2024, we maintain our long-term ambitions of growing our revenue up to USD 100 million by 2025/2026 and continue to produce strong profitability with an EBITDA margin of 17-20% and EBIT margin of 13-16%.

For further information, please contact:

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FINANCIAL REVIEW

Q4 2023

REVENUE

Revenue declined by 20.8% in Q4 2023 to USD 13.8 million compared to USD 17.5 million in Q4 2022.

GROSS PROFIT

Direct cost of sales (COGS) was USD 6.9 million in Q4 2023, resulting in a Gross Profit of USD 7.0 million. Gross Margin was 50.5%, compared to 40.0% 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 4.1 million in Q4 2023, compared to USD 3.8 million in Q4 2022. Employee benefit expenses is increasing primarily due to continued increase of R&D resources.

EBITDA AND OPERATING PROFIT

EBITDA in Q4 2023 was USD 2.0 million (EBITDA Margin of 14.7%) compared to USD 2.8 million (15.9%) in Q4 2022.

Operating profit was USD 1.5 million, or 11.1%, compared to USD 2.4 million (13.5%) 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 2.1 million for Q4 2023 compared to USD 0.4 million same period 2022.

REVENUE SPLIT

Solutions revenue accounted for 59%, Devices for 25% and Software & Services for 11%.

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 Q4

Consolidated statement of profit or loss	Q4 2023	Q4 2022	12M 2023	12M 2022
Amounts in USD 1.000	Oct - Dec	Oct - Dec	Jan - Dec	Jan - Dec
Revenue from contracts with customers	13 803	17 460	58 474	57 366
Other operating income	28	-1	30	-1
Total revenue and other operating income	13 831	17 460	58 504	57 366
Direct cost of sales	- 6 852	- 10 468	- 29 234	- 32 014
Employee benefit expenses	- 3 871	- 3 648	- 14 449	- 11 958
Other operating expenses	- 1 069	- 577	- 4 303	- 2 552
Total operating expenses	- 11 793	- 14 692	- 47 986	- 46 524
Depreciation	- 438	- 333	- 1 592	- 1 218
Amortization of intangible assets	- 65	- 76	- 267	- 324
Total depreciation and amortization	- 503	- 409	- 1 859	- 1 542
Operating profit/(loss)	1 536	2 358	8 659	9 300
Financial income	157	39	164	40
Financial expenses	-79	-52	-241	-229
Net foreign exchange gains (losses)	0	-733	754	-253
Net financial items	78	-746	677	-442
Profit/(loss) before income tax	1 614	1 613	9 336	8 858
Estimated income tax	-355	- 486	-2 054	- 2 069
Profit/(loss) for the period	1 259	1 126	7 282	6 789

Earnings per share in USD				
Basic earnings per share	0.013	0.012	0.076	0.071
Diluted earnings per share	0.013	0.012	0.075	0.070
Weighted average number of shares				
Basic	96 286 593	96 286 593	96 286 596	96 286 593
Diluted	96 758 986	96 732 899	97 235 329	96 322 038

Consolidated statement of comprehensive income				
Profit/(loss) for the year	1 259	1 126	7 282	6 789
Other comprehensive income:				
<i>Items that might be subsequently reclassified to profit or loss:</i>				
Exchange differences on translation of foreign operations	-37	89	-152	60
<i>Item that are not reclassified to profit or loss:</i>				
Exchange differences on translation to another presentation currency	940	1 047	-678	-2 395
Total comprehensive income for the year	2 162	2 262	6 452	4 454

CONSOLIDATED STATEMENT FINANCIAL POSITION

Consolidated statement of financial position	31/12/2023	31/12/2022
Amounts in USD 1.000		
Assets		
Non-current assets		
Intangible assets	1 075	941
Property, plant and equipment	2 906	1 787
Right-of-use assets	1 912	2 380
Other non-current assets	-	-
Deferred tax assets	1 284	1 326
Total non-current assets	7 177	6 433
Current assets		
Inventories	14 196	15 423
Trade receivable	17 254	15 915
Receivable to related party	0	0
Other current assets	1 239	943
Cash and cash equivalents	9 232	5 660
Total current assets	41 921	37 941
Total assets	49 099	44 374
Equity and liabilities		
Equity		
Share capital	189	195
Share premium	12 404	12 801
Other paid in capital	20	152
Foreign currency translation reserves	36	188
Retained earnings	17 017	14 269
Total equity	29 667	27 606
Non-current liabilities		
Lease liabilities (non-current portion)	1 271	1 759
Contract liabilities (non-current portion)	3 430	2 297
Other non-current liabilities	1 032	1 120
Total non-current liabilities	5 732	5 176
Current liabilities		
Lease liabilities (current portion)	716	674
Trade payable	4 487	5 831
Contract liabilities (current portion)	3 133	1 818
Current tax liabilities	3 042	868
Other current liabilities	2 322	2 401
Total current liabilities	13 700	11 592
Total liabilities	19 432	16 769
Total equity and liabilities	49 099	44 374

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

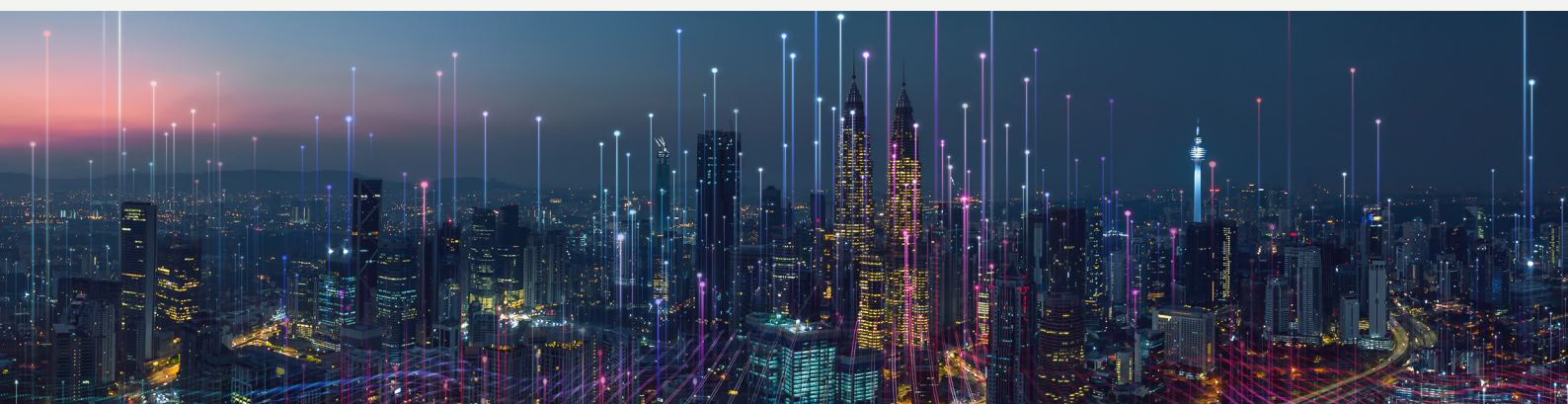
Consolidated statement of changes in equity	Share capital	Share premium	Other paid in capital	Translation difference reserves	Retained earnings	Total equity
Amounts in USD 1.000						
Balance at 1 January 2022	218	14 307	170	128	8 328	23 152
Profit/(loss) for the period					6 789	6 789
Exchange differences on translation of foreign operation				60		60
Exchange differences on translation to another presentation currency	-23	-1 506	-18		-848	-2 395
Total comprehensive income/(loss) for the period	-23	-1 506	-18	60	5 941	4 454
Balance at 31 December 2022	195	12 801	152	188	14 269	27 606
Profit/(loss) for the period					7 282	7 282
Exchange differences on translation of foreign operation				-152		-152
Exchange differences on translation to another presentation currency	-6	-396	-132		-144	-678
Total comprehensive income/(loss) for the period	-6	-396	-132	-152	7 139	6 452
Dividend					-4 391	-4 391
Balance at 31 December 2023	189	12 404	20	36	17 017	29 667

*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	Q4 2023	Q4 2022	12M 2023	12M 2022
Amounts in USD 1,000	Oct - Dec	Oct - Dec	Jan - Dec	Jan - Dec
Cash flows from operating activities				
Profit/(loss) before income tax	1 614	1 613	9 336	8 858
<i>Adjustments for:</i>				
Taxes paid	-	-	-240	-
Depreciation and amortization	503	409	1 859	1 542
Interest	-98	-12	164	109
Change in inventory	-1 238	-3 572	1 227	-3 328
Change in trade receivable	-1 669	-5 174	-1 340	-8 103
Change in contract liabilities (deferred revenue)	814	782	2 447	1 163
Change in trade payable	1 148	2 683	-1 344	-384
Change in other current assets and other liabilities	840	3 606	-468	194
Interest received	157	39	164	40
Net cash inflow from operating activities	2 071	374	11 805	91
Cash flows from investing activities				
Payment for property, plant and equipment	-304	-512	-1 889	-1 121
Payment for development cost	-440	-457	-440	-457
Net cash (outflow) from investing activities	-744	-969	-2 329	-1 578
Cash flows from financing activities				
Proceeds from new borrowings	-	-	393	-
Repayment of borrowing	-116	-110	-438	-238
Paid interest on borrowing	-59	-27	-153	-149
Repayments of lease liabilities	-197	-194	-805	-743
Dividend paid out	-	-	-4 391	-
Net cash inflow from financing activities	-372	-331	-5 394	-1 130
Net increase/(decrease) in cash and cash equivalents	956	-926	4 082	-2 616
Cash and cash equivalents beginning of period	7 826	6 116	5 660	9 380
Effects of exchange rate changes on cash and cash equivalents	451	470	-510	-1 104
Cash and cash equivalents end of period	9 232	5 660	9 232	5 660



SHARE INFORMATION

TABLE OF THE 20 LARGEST SHAREHOLDERS AS 31ST OF DECEMBER 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	13 426 422	13.94 %
4	Danske Invest	3 549 164	3.69 %
5	Handelsbanken Fonder	3 300 000	3.43 %
6	Janus Henderson Investors	2 614 317	2.72 %
7	Avanza Bank AB	2 183 361	2.27 %
8	Nordnet Bank AB	2 168 933	2.25 %
9	Rasmussengruppen AS	2 150 000	2.23 %
10	Swedbank Robur Fonder	2 136 800	2.22 %
11	Magnus Grenfeldt	1 857 489	1.93 %
12	John Even Øveraasen	1 510 625	1.57 %
13	Ålandsbanken Fonder	1 376 631	1.43 %
14	Toluma Norden AS	1 000 000	1.04 %
15	AS Clipper	963 391	1.00 %
16	Varner AS	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	Case Kapitalförvaltning	432 998	0.45 %
	Others	7 298 367	7.57 %
Total number of shares		96 286 593	100.00 %

NOTES

GENERAL

These interim condensed consolidated financial statements for the period ended 31 December 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
Dec 31	10.17	9.86

Profit and loss statement	2023	2022
Oct	11.01	10.58
Nov	10.92	10.14
Dec	10.58	9.87

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	Dec 31. 2023	Dec 31. 2022
Amounts in USD 1,000		
Contract Liabilities (Current)	3 430	2 297
Contract Liabilities (Non-current)	3 133	1 818
Total Contract Liabilities	6 563	4 116

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 Oct - Dec was USD 215 thousand.

NOTE 3 – FINANCIAL ITEMS

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

NOTE 4 – DEFERRED TAX ASSETS

Deferred tax assets consist of historical net operating losses and amount to USD 1.3 million. The estimated tax for the period (January to December) is USD 2.1 million.

NOTE 5 – LIABILITIES TO FINANCIAL INSTITUTIONS

There are two loans from Innovasjon Norge of combined USD 1.1 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 75 million (USD 4.7 million) and a non-current loan of USD 0.4 million scheduled to be fully repaid by 2026 Q2. As of December 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 third quarter of 2023.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT SPLIT

Property, plant and equipment	Dec 31. 2023	Dec 31. 2022	Change
Amounts in USD 1,000			
R&D equipment	1 137	774	363
Production equipment	253	229	24
Office & warehouse furniture and fixtures	711	244	467
Demo pool equipment	805	539	265
Total	2 906	1 787	1 119

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	Q4 2023	Q4 2022
Amounts in USD 1,000		
Property, plant and equipment	258	153
Product development	65	76
Right of use assets / leasing	180	180
Total	503	409

ALTERNATE PERFORMANCE MEASURES (APM'S)

GROSS PROFIT

Total revenue and other operating income deducted with Direct cost of sales

Amounts in USD 1,000	Q4 2023	Q4 2022	12M 2023	12M 2022
Total revenue and other operating income	13 831	17 460	58 504	57 366
Direct cost of sales	-6 852	-10 468	-29 234	-32 014
Gross Profit	6 979	6 992	29 270	25 352

GROSS MARGIN

Gross profit divided by total revenue

Amounts in USD 1,000	Q4 2023	Q4 2022	12M 2023	12M 2022
Total revenue and other operating income	13 831	17 460	58 504	57 366
Gross Profit	6 979	6 992	29 270	25 352
Gross Margin	50.5 %	40.0 %	50.0 %	44.2 %

EBITDA

Earnings before interest, tax, depreciation and amortization

Amounts in USD 1,000	Q4 2023	Q4 2022	12M 2023	12M 2022
Operating Profit	1 536	2 358	8 659	9 300
Depreciation and Amortization	503	409	1 859	1 542
EBITDA	2 039	2 767	10 518	10 841

EBITDA MARGIN

EBITDA divided by total revenue and other operating income

Amounts in USD 1,000	Q4 2023	Q4 2022	12M 2023	12M 2022
EBITDA	2 039	2 767	10 518	10 841
Total Revenue and other operating income	13 831	17 460	58 504	57 366
EBITDA Margin	14.7 %	15.9 %	18.0 %	18.9 %

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	Q4 2023	Q4 2022	12M 2023	12M 2022
Operating Profit (EBIT)	1 536	2 358	8 659	9 300
Annualized EBIT	6 144	9 433	8 659	9 300
Average Capital Employed*				
Capital employed at beginning of period	33 068	29 700	32 782	28 005
Capital employed at end of period	35 399	32 782	35 399	32 782
Average capital employed	34 233	31 241	34 090	30 394
Return on capital employed	17.9 %	30.2 %	25.4 %	30.6 %



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