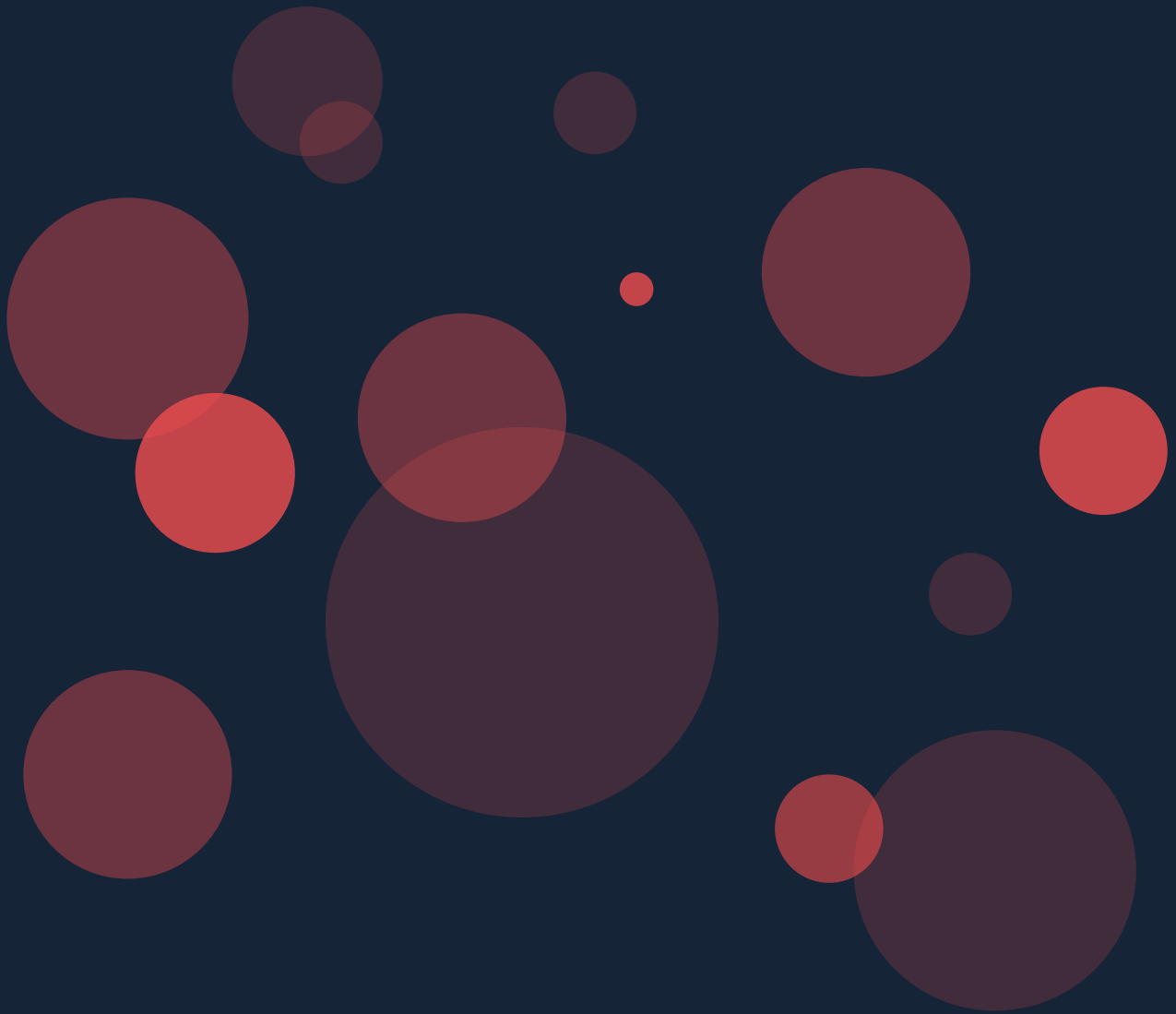


smartoptics



**QUARTERLY
REPORT Q3
2021**

QUARTERLEY REPORT Q3 2021

SMARTOPTICS GROUP

OSLO, NOVEMBER 12, 2021

Smartoptics Group AS today reported its financial results for the period ending September 30, 2021. Smartoptics Group provides innovative communication solutions based upon optical technology 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, worldwide. 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 in-house developed, by a unique and world recognized team, and consists of hardware and software, enhanced through associated services.



FINANCIAL HIGHLIGHTS

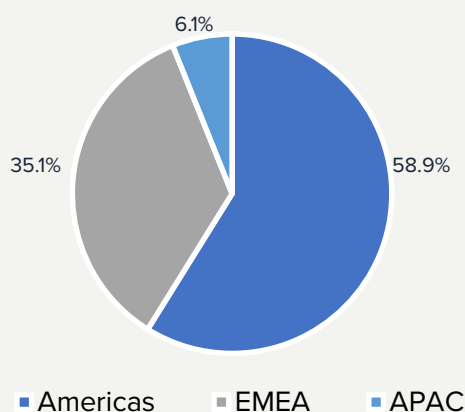
JULY - SEPTEMBER 2021

- Revenue of USD 11.1 million (Jul-Sep), a growth of 19.7% compared to same period 2020, (23.6% in constant currencies).
- Gross Margin of 42.4 % (Jul-Sep), compared to 41.0% in Q3 2020 (Jul-Sep).
- Adjusted EBITDA of USD 1.3 million and 11.3% EBITDA margin (Jul-Sep), compared to USD 1.1 million and 12.4% same period 2020.
- Operating Cash Flow was USD -3.2 million (Jul-Sep), compared to USD -0.9 million same period 2020.

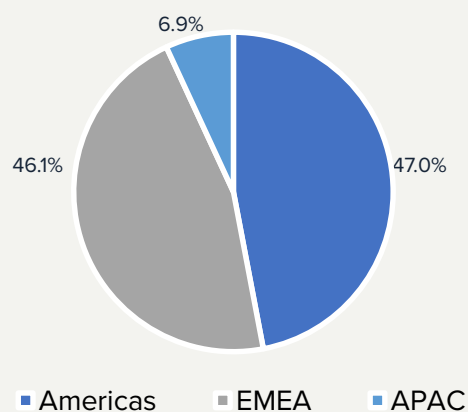
JANUARY - SEPTEMBER 2021

- Revenue of USD 33.5 million (Jan-Sep). Growth of 42.4% compared to same period 2020.
- Gross Margin of 42.1 % (Jan-Sep), compared to 40.0% same period 2020.
- Adjusted EBITDA of USD 4.1 million and 12.1% EBITDA margin (Jan-Sep), compared to USD 1.4 million and 5.9% same period 2020.
- Operating Cash Flow was USD -0.3 million (Jan-Sep), compared to USD -0.4 million same period 2020.

GEOGRAPHICAL SPLIT OF REVENUE Q3 2021



GEOGRAPHICAL SPLIT OF REVENUE 9M 2021



Amount in kUSD	Q3 2021	Q3 2020	Change	9M 2021	9M 2020	Change
Recognized Revenue	11 085	9 261	19.7%	33 479	23 511	42.4%
Gross Profit	4 704	3 795	23.9%	14 106	9 396	50.1%
Gross margin %	42.4%	41.0%	1.4 p.p	42.1%	40.0%	2.1 p.p
Adjusted EBITDA	1 258	1 145	9.9%	4 050	1 382	193.1%
Adjusted EBITDA %	11.3%	12.4%	-1.1 p.p	12.1%	5.9%	6.2 p.p
EBIT	996	978	1.8%	3 208	923	247.6%
EBIT %	9.0%	10.6%	-1.6 p.p	9.4%	3.8%	5.7 p.p
Operational cash flow	-3 224	-851		-314	-378	
Earnings per share in USD	0.008	0.009		0.025	0.014	

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).

CEO COMMENTS TO THE Q3 REPORT

The third quarter of 2021 was a continuation of the growth journey that Smartoptics is on. The period was characterized by continued high business activity. We continued to win business with 100G, 400G (DCP-M line systems) as well as our newer products (DCP-R and DCP-F) designed for a multitude of applications including 5G mobile back-haul.

The revenue growth for the quarter was a solid 19.7% (23.6% in constant currencies) compared to third quarter of 2020, a strong quarter boosted by business delayed by the outbreak of Covid-19. For the first nine months, the revenue growth was 42.4% compared to the same period in 2020. The Gross Margin strengthened to 42.4% during the quarter and the Adjusted EBITDA for the quarter was USD 1.1 million, equal to an Adjusted EBITDA-margin of 11.3%. Operating Cash Flow was negative USD 3.2 million, due to usual working capital seasonality, increased inventory to mitigate the semiconductor shortage and revenues coming later than usual in the quarter resulting in higher-than-normal accounts receivable.

The global shortage of semiconductors has been highlighted in previous quarterly reports. Even though the shortage has been affecting our day-to-day operations for some time, the impact on revenue until the third quarter was negligible. Long delivery times affected certain customers, but we could reprioritize and focus production on products with better availability. In the third quarter, the impact on revenue that has been delayed corresponds to less than 5% of reported revenue in the quarter, which is a testament to the success of our strategy and the agility of our operating model.

The underlying strong demand for Smartoptics' products is reflected in the record-high order booking figures in the third quarter. Orders booked amounts to USD 15.2 million, and a growth compared to same period last year of around 73%. For the first nine months the order booking is up 51% compared to the same period 2020. The increase in orders booked is predominantly driven by good traction with large accounts, while a smaller part is attributable to customers placing advance orders, for 2022 delivery, spurred by uncertainties regarding component lead times.

We are prepared for a situation where the component shortage impact could increase in the coming quarter resulting in delayed revenue. We estimate that already-bo-



Magnus Grenfeldt, CEO Smartoptics Group AS

ked orders in the range of USD 3-5 million will be pushed into 2022. Even with this expected delay of shipments and revenues, we expect that the 2021 full-year revenue growth compared with 2020 will end comfortably within the communicated 20-35% range.

We do, however, believe that the component shortage will continue to impact us in the first half of 2022, but given the high level of business activity and strong underlying demand in the market driven by increased demand for data traffic and higher capacity, we have no reason to adjust our long-term goals of growing our revenue up to around USD 100 million by 2025/2026, combined with increased profitability and EBITDA margin of 15-18%.

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FINANCIAL REVIEW

ALL NUMBERS ARE PRESENTED IN THOUSANDS OF US DOLLAR AND THOUSANDS OF NOK.

CONSOLIDATED PROFIT AND LOSS STATEMENT Q3

	kUSD		kNOK	
	2021	2020	2021	2020
	Jul - Sep	Jul - Sep	Jul - Sep	Jul - Sep
Invoiced revenue	11 389	9 565	99 782	87 308
Deferred revenue 1	-304	-305	-2 662	-2 782
TOTAL Recognized Revenue	11 085	9 261	97 120	84 526
COGS	-6 382	-5 465	-55 911	-49 883
Gross Profit	4 704	3 795	41 209	34 643
Gross Margin %	42.4%	41.0%	42.4%	41.0%
Operating Expenses 2, 10	-3 446	-2 651	-30 513	-24 194
Adjusted EBITDA	1 258	1 145	11 067	10 449
EBITDA Margin %	11.3%	12.4%	11.4%	12.4%
Depreciation and Amortization 3	-225	-167	-1 973	-1 524
EBIT	996	978	8 723	8 926
EBIT Margin %	9.0%	10.6%	9.0%	10.6%
Net Financial Items 4	-14	-163	-120	-1 488
Earnings before tax	982	815	8 603	7 437
EBT Margin	8.9%	8.8%	8.9%	8.8%
Estimated tax	-216	4	-1 893	39
Earnings after tax	766	819	6 710	7 476
Exchanges rates	8.7612	9.1275		
Shares outstanding	96 286 593	89 721 076	96 286 593	89 721 076
Earnings per share	0.008	0.009	0.070	0.083

REVENUE

Recognized Revenue grew by 19.7% in Q3 2021 to USD 11.1 million compared to USD 9.3 million Q3 2020. Constant currency growth was 23.6%. The growth was supported by strong business momentum in terms of orders in the previous quarter, strong order intake throughout the quarter.

Revenue pushed ahead due to component shortage situation is about USD 0.5 million during the quarter.

ORDER BOOKING

Orders booked was USD 15.2 million during Q3 2021, an increase of 73% compared to Q3 2020. For the first 9 months the order booking was USD 40.5 million, an increase of 51% compared to the same period 2020.

GROSS PROFIT

COGS (Cost of Goods Sold) was USD 6.4 million in Q3 2021, resulting in a Gross Profit of USD 4.7 million. Gross Margin was 42.4%, up from 41.0% in Q3 2020.

OPERATING EXPENSES

Operating Expenses was USD 3.4 million in Q3 2021, compared to USD 2.7 million in Q2 2020. Operating Expenses 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 78.4% of the Operating Expenses in Q3 2021.

EBITDA

Adjusted EBITDA in Q3 2021 was USD 1.3 million (Adjusted EBITDA Margin of 11.3%) compared to USD 1.1 million (12.4%) in Q3 2020.

The increase in EBITDA is a result revenue growth and improved Gross Margin, however, slightly offset by higher Operating Expenses. The revenue growth was primarily driven by stronger solutions and software & services 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.

CASH FLOW

The operating cash flow was USD -3.2 million for Q3 2021 compared USD -0.9 million same period 2020.

The negative operating cash flow was attributable to increase in Accounts Receivable due to large portion of the revenue coming at the end of the quarter and an increase in Inventory related to ramp-up for deliveries in the fourth quarter and the general growth trend. In addition, the Inventory increase is related to larger purchases of components in order to mitigate the general component shortage. Normally Q3 has a weaker Cash Flow due to seasonality effects, and 2021 is no exception.

The Smartoptics group has a deferred tax asset which consists of historical net operating losses, and amounts to NOK 35 million. The estimated tax expense for the group is less than this asset, therefore the cash flow effect from taxes is negligible for 2021.

OUTLOOK

The outlook for full year 2021 is unchanged, we iterate the guidance that the revenue growth for 2021 will be in the range of 20-35% compared to 2020. All growth is organic. Gross Margin expected to be 41-44% for 2021 and Adjusted EBITDA margin expected to be 9-12%.

Supply constraints expected to continue during first half of 2022, however, many constraints should ease off and supply should normalize during mid 2022.

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

CONSOLIDATED BALANCE SHEET

		kUSD		kNOK	
		2021	2020	2021	2020
		Sep 30.	Sep 30.	Sep 30.	Sep 30.
Non-Current Assets		6 229	5 917	54 251	55 853
Capitalized Development Cost		877	964	7 634	9 098
Deferred Tax Asset	5	4 019	3 685	34 999	34 786
Property Plant and Equipment		1 334	550	11 617	5 190
Financial Assets		0	718	0	6 779
Other Non-Current Assets		0	0	0	0
Current Assets		27 088	15 005	235 921	141 632
Inventory		8 350	6 517	72 727	61 516
Accounts Receivables		8 845	6 049	77 033	57 101
Prepaid Expenses		1 361	833	11 849	7 861
Cash and Cash Equivalents		8 532	1 504	74 312	14 192
Other Current Asset		0	102	0	963
TOTAL Asset		33 317	20 922	290 171	197 485
TOTAL Equity	9, 11	23 454	10 798	204 272	101 921
Non-Current Liabilities		3 655	3 033	31 833	28 632
Liabilities to Financial Institutions	6	2 057	2 075	17 917	19 583
Deferred Revenue	1	1 598	959	13 916	9 049
Other Non-Current Liabilities		0	0	0	0
Current Liabilities		6 208	7 091	54 067	66 932
Liabilities to Financial Institutions	6	0	1 297	0	12 245
Deferred Revenue	1	1 229	753	10 706	7 109
Accounts Payable		3 619	2 944	31 522	27 793
Public Duties	7	127	795	1 105	7 504
Other Current Liabilities		1 233	1 301	10 735	12 282
TOTAL Liability		9 863	10 124	85 900	95 564
TOTAL Liability and Equity		33 317	20 922	290 171	197 485
Exchange rates		8.7095	9.4392		

CONSOLIDATED CASH FLOW STATEMENT

Q3 (JULY - SEPTEMBER)

	kUSD		kNOK	
	2021	2020	2021	2020
	Jul - Sep	Jul - Sep	Jul - Sep	Jul - Sep
Cash at the Beginning of Period	12 187	2 124	104 475	20 535
EBITDA	1 258	1 145	11 067	10 449
Changes in Accounts Receivables	-2 389	-1 272	-21 692	-10 931
Changes in Accounts Payable	203	606	2 233	5 195
Changes in Inventory	- 2 007	-1 589	-18 348	-13 887
Changes in Deferred Revenue 1	281	320	2 792	2 703
Other Working Capital Changes 8	-568	-60	-4 872	-841
Cash Flow from Operating Activities	-3 224	-851	-28 820	-7 311
Changes in Non-Current Assets	52	-263	99	-2 001
Other Changes	0	0	0	1
Cash Flow from Investing Activities	52	-263	99	-2 000
Changes in short term financing 6	0	-515	0	-5 271
Changes in long term financing	-81	1 040	-417	9 583
Interest paid	-1	-34	-11	-323
Cash Flow from Financing Activities	-82	491	-427	3 989
Dividend 9	0	0	0	0
New shares issued	0	0	0	0
Translation Differences	-400	3	-1 016	-1 020
Net Cash Flow	-3 653	-620	84 096	-6 343
Cash at the End of Period	8 532	1 504	104 475	14 192

CONSOLIDATED PROFIT AND LOSS STATEMENT

Q1 - Q3 (JANUARY - SEPTEMBER)

		kUSD		kNOK	
		2021	2020	2021	2020
		Jan - Sep	Jan - Sep	Jan - Sep	Jan - Sep
Invoiced revenue		34 048	23 999	290 866	228 412
Deferred revenue	1	-569	-488	-4 921	-4 605
TOTAL Recognized Revenue		33 479	23 511	285 945	223 807
COGS		-19 373	-14 115	-165 428	-134 450
Gross Profit		14 106	9 396	120 517	89 357
Gross Margin %		42.1%	40.0%	42.1%	39.9%
Operating Expenses	2, 10	-10 056	-8 015	-86 259	-76 466
Adjusted EBITDA		4 050	1 382	34 258	12 891
EBITDA Margin %		12.1%	5.9%	12.0%	5.8%
Depreciation and Amortization	3	-662	-459	-5 655	-4 373
EBIT		3 208	923	28 604	8 518
EBIT Margin %		9.6%	3.9%	10.0%	3.8%
Net Financial Items	4	-70	317	-613	2 915
Earnings before tax		3 138	1 240	27 990	11 432
EBT Margin		9.4%	5.3%	9.8%	5.1%
Estimated tax		-690	11	-6 158	103
Earnings after tax		2 447	1 251	21 832	11 536
Shares outstanding		96 286 593	89 721 076	96 286 593	89 721 076
Earnings per share		0.025	0.014	0.227	0.129

CONSOLIDATED CASH FLOW STATEMENT

Q1 - Q3 (JANUARY - SEPTEMBER)

		kUSD		kNOK	
		2021	2020	2021	2020
		Jan - Sep	Jan - Sep	Jan - Sep	Jan - Sep
Cash at the Beginning of Period		3 625	2 094	31 134	18 431
EBITDA		4 050	1 382	34 630	12 978
Changes in Accounts Receivables		-2 732	-1 296	-24 572	-15 259
Changes in Accounts Payable		-391	662	-2 896	7 705
Changes in Inventory		-247	-1 673	-3 182	-18 875
Changes in Deferred Revenue	1	550	442	5 075	4 808
Other Working Capital Changes	8	-1 543	124	-13 240	1 831
Cash Flow from Operating Activities		-314	-378	-4 184	-6 812
Changes in Non-Current Assets		-342	-144	-3 188	-2 977
Other Changes		0	0	137	7
Cash Flow from Investing Activities		-342	-144	-3 051	-2 970
Changes in short term financing	6	-2 163	-980	-18 567	-7 804
Changes in long term financing		-176	939	-1 250	9 583
Interest paid		-46	-115	-385	-1 080
Cash Flow from Financing Activities		-2 385	-156	-20 202	700
Dividend	9	-2 231	0	-18 900	0
New shares issued		11 159	0	95 662	0
Translation Differences		-980	89	-6 147	4 845
Net Cash Flow		4 907	-590	43 178	-4 239
Cash at the End of Period		8 532	1 504	74 312	14 192

SHARE INFORMATION

AT THE END OF Q3 2021, SMARTOPTICS GROUP AS HAD 96 286 593 SHARES

TABLE OF THE 20 LARGEST SHAREHOLDERS AS OF 30TH SEPTEMBER

#	Shareholders	Holding	Stake
1	CORETECH AS	31 783 599	33.01%
2	K-SPAR INDUSTRIER AS	17 871 773	18.56%
3	KLØVNINGEN AS	15 850 429	16.46%
4	Nordnet Bank AB	5 026 593	5.22%
5	Danske Invest Norge Vekst	3 853 564	4.00%
6	Ålandsbanken	3 700 000	3.84%
7	Arrowhead AS	1 872 303	1.94%
8	PORTIA AS	1 800 000	1.87%
9	Avanza Bank AB	1 322 099	1.37%
10	DNB Asset Management	1 156 069	1.20%
11	TOLUMA NORDEN AS	963 391	1.00%
11	AS CLIPPER	963 391	1.00%
11	VARNER INVEST AS	963 391	1.00%
14	VIOLA AS	958 477	1.00%
15	FOUNTAIN VENTURE AS	481 695	0.50%
15	JAKOB HATTELAND HOLDING AS	481 695	0.50%
15	JAHATT AS	481 695	0.50%
15	BERGEN KOMMUNALE PENSJONSKASSE	481 695	0.50%
19	Swedbank AB	465 478	0.48%
20	Smartoptics Group AS	355 098	0.37%
	Other	5 454 158	5.66%
Total number of shares		96 286 593	100.0%

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. The Cash Flow statement is translated using both the average exchange rates for Balance sheet items and the monthly ending exchange rate for Profit and Loss statement items.

Profit and Loss	2021	2020
Jan - Mar	8.5140	9.4887
Apr - Jun	8.3658	10.0190
Jul - Sep	8.7612	9.1275
Balance Sheet	2021	2020
Mar 31.	8.5137	10.6006
Jun 30.	8.5729	9.6654
Sep 30.	8.7095	9.4392

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.

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 Jul - Sep was USD 68 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 18.3 million, and a credit line with Nordea of NOK 26 million. As of 30th September 2021, NOK 0 of the credit line from Nordea was utilized.

NOTE 7 – PUBLIC DUTIES

Under the Covid-19 relief measures the Swedish Government has allowed for postponing of payment of Social Charges. The social charges were paid back in full as of 30th June 2021.

NOTE 8 – OTHER WORKING CAPITAL CHANGES

Other Working Capital Changes relates to pre-payments of certain components and inventory, pay-out of sales commission for the second quarter of 2021 and down-payment of postponed Social Charges in Sweden.

NOTE 9 – DIVIDEND

A dividend of NOK 13.0 million was paid in March, 2021 and a dividend of NOK 5.9 million was paid in May, 2021.

NOTE 10 – IPO BONUS

A one-time management bonus for successful listing of the company equal to NOK 1.2 million (USD 0.14 million) is recognized during Q2. Adjusted EBITDA presented does not include this cost.

NOTE 11 – EMPLOYEE STOCK OPTION PROGRAM

Employee stock option programmes active at the time of this report's publication are:

Number of Warrants	Corresponding number of shares	Proportion of total shares	Exercise price (NOK)	Expiration period
2 601 092	2 601 092	2.7%	12.98	June 2024



smartoptics

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