



OVER 30 YEARS OF INNOVATION

## PRESS RELEASE

### Macro-economic Headwinds Continued to Impact Business Results in Q1 2023

- "Teething" issues, now rectified, with the new Meteorite™ Plus model impaired sales of capital equipment, resulting in a 12% drop in revenues sequentially from Q4 2022.

**Hod Hasharon (Israel) 16 May 2023** - Singapore Exchange Mainboard and Tel Aviv Exchange listed Sarine Technologies Ltd ("**Sarine**" and along with its subsidiaries "**the Group**") (**U77:SI; SARN.TA**), a worldwide leader in the development, manufacturing, marketing and sale of precision technology products for the evaluation, planning, processing, measurement, grading and trading of diamonds and gems, is pleased to update its investing public on business results for Q1 2023 ended 31 March 2023.

#### Review of Q1 2023

The negative macro-economic environment, driven by as yet un-tamed inflation and dramatically increasing interest rates, continues to take its toll on consumer confidence in the U.S., the key global market for diamond jewellery. The expected resurgence in consumer spending in China, following the lifting of the zero-Covid policy late last year, has not yet fully manifested itself (though Richemont has reported a recovery in their mainland China sales), leaving consumer demand in the second most important market for diamonds still weaker than hoped for. This lack of strong consumer demand has impaired business conditions in the entire diamond jewellery value chain, as already seen late last year. Consequently, the inventory of polished diamonds has risen significantly over the past 12 months, as evidenced by the ~1.8 million diamonds currently on Rapaport' RapNet website. Appropriately, the flow of new rough diamonds into the pipeline has decreased, as demonstrated by the three initial DeBeers sights this year – down some 20% in value (more in carat quantity) from the corresponding period of 2022. In general, the geopolitical and macro-economic conditions in Q1 2023 are so dramatically different than those in the same quarter of 2022, as to make comparisons all but meaningless.



The Group realised 12% lower revenues in Q1 2023 as compared to Q4 2022, US\$ 11.5M as compared with US\$ 13.1M. This decrease was also due to initial real-world use "teething" issues with our newly launched Meteorite™ Plus, which, we believe, have since been rectified (testing on site in India continues). As a result, only 6 Galaxy®-family inclusion mapping systems were delivered in Q1 2023, bringing the total installed base to 809 systems, as of 31 March 2023. The drop in sales of Meteorite™ Plus systems into the smaller stones segments, also reduced sales of our legacy planning systems into this market segment. However, utilisation of our installed Galaxy® inclusion mapping systems remains robust, with an increase of some 40% in revenues, as compared to Q4 2022, during which the Diwali break occurred. Trade-related revenues in Q1 2023 were up 12% overall as compared to Q4 2022, with a drop in digital tender related revenues, due to the decrease in the inflow of rough diamonds into the value chain, offset by higher revenues from other trade categories. Due to the increase in recurring revenues as compared to capital equipment sales, which fell, overall recurring revenues (including digital tenders, Galaxy® inclusion scanning, Quazer® services, polished diamond related services, annual maintenance contracts, etc.) were 65% of Group revenue in Q1 2023, as compared to 44% in Q4 2022 (and the usual ratio of around a half of all revenues). Accordingly, our gross margin was over 71%, and our gross profit decreased only by 4%, as compared to Q4, 2022. Operational profitability was down 13%, in line with the drop in revenues. However, as taxes in Q4 2022 were exceptionally high, due to a one-time charge related to the drawing of a dividend from Sarin India to the parent company in Israel, net profit for Q1 2023 was US\$ 0.8M, as compared to only US\$ 0.1M in Q4 2022.

## Prospects

Negative macro-economic conditions are expected to continue to affect our business in 2023. The duration of these negative conditions and the degree of their impact on consumer confidence, in general, and the diamond jewellery market, specifically, are dependent on many factors, all of which are at the forefront of economic news, almost on a daily basis.

Demand for our Galaxy® family systems is expected to rebound, once the issues with the Meteorite™ Plus model are resolved. This rebound should also drive higher sales of our legacy planning systems, as the customers for the Meteorite™ Plus model, utilised on very small stones, have typically not been prior customers of our solutions, and hence acquire complete suites of scanning-planning systems.

As noted in our previous full-year update, as the conflict in Ukraine has entered its second year, the G7, led by the U.S., is looking to tighten sanctions on Russian diamonds. They are calling to implement a traceability system for diamonds as a way to preclude importation of Russian gems in significant values. With the GIA's de-facto rollback of its Certificate of Origin and Everledger's recent failure and deterioration into administered receivership, effectively only DeBeers' Tracr® remains as a contender for documenting a diamond's provenance. Given its inherent limitation of a lack of verifiable information relating to the polishing sequence of the rough diamond, subsequent to its actual sourcing, we believe the Sarine Diamond Journey™ is, more than ever, the most viable scalable solution for actual and verifiable diamond provenance.

Additionally, the Sarine AutoScan™ II, currently in beta testing, our newly revised robotic system for the high-speed scanning of rough stones, with a smaller footprint and higher throughput, provides the capability to economically document the source of extracted rough diamonds at the mine, as an entry data-point for their subsequent traceability by our Sarine Diamond Journey™. Thus, the technological means for the mandated screening of provenance exists, so that the industry can, if needed, comply with new government requirements with minimal disruption.

Critical progress is continuing on our key Trade-related service – e-Grading™. E-Grading™ continues its broader roll-out to midstream customers, with over 25 installations expected by the end of this quarter (Q2 2023). We continue to enhance e-Grading™'s functionality and improve its AI-based technology. With the recent closing of the acquisition of 70% of New York's GCAL highly-respected grading lab, we believe we now have a robust channel into the key U.S. retail market. Ongoing pilot programs with retailers continue, and the GCAL merger/acquisition is driving additional interest and has already generated new concrete business.

The market for lab-grown diamonds (LGD) expanded significantly in 2022, especially in the U.S., with over a third of solitaire engagement rings there now LGD. Retailers have embraced LGD as an alternative product, offered side by side with natural stones at a lower price point per carat, and with more attractive margins. The GCAL merger/acquisition will also facilitate the expansion of our e-Grading™, business into this fast-growing segment in the U.S., as the manual lab-oriented grading paradigms offered by other gemmological labs are simply not economically viable long-term for LGD.

### **About Sarine Technologies**

Established in 1988, Sarine Technologies Ltd. is a worldwide leader in the development and manufacturing of advanced modeling, analysis, evaluation, planning, processing, finishing, grading and trading systems for diamonds. Sarine products include the Galaxy® family of inclusion and tension mapping systems, rough diamond planning and optimisation technologies, laser cutting and shaping tools, laser-marking, inscription and fingerprinting equipment, automated (AI-derived) Clarity, Color, Cut and light performance grading systems and traceability, visualisation and retailing services. Sarine systems have become standard tools in every modern manufacturing plant, properly equipped gemology lab and diamond appraisal business, and are essential aids for diamond polishers, dealers and retailers. For more information about Sarine and its products and services, visit <http://www.sarine.com>

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