

Financial Presentation and Strategy Update

Q2 2022

10 August 2022



Agenda

- Business overview
 - Financial highlights
 - Strategic update
 - Outlook
-



Magnus Grenfeldt, CEO



Mikael Haag, CFO




Kent Lidström, CTO

Strong financial performance in second quarter of 2022 and continued high demand

Revenue

Q2: 14.6 MUSD




EBITDA Margin

Q2: 22.9%¹




EBIT Margin

Q2: 20.3%¹



Gross Margin

Q2: 47.2%¹




Revenue Growth

Q2: +18.1%



Operating Cash Flow

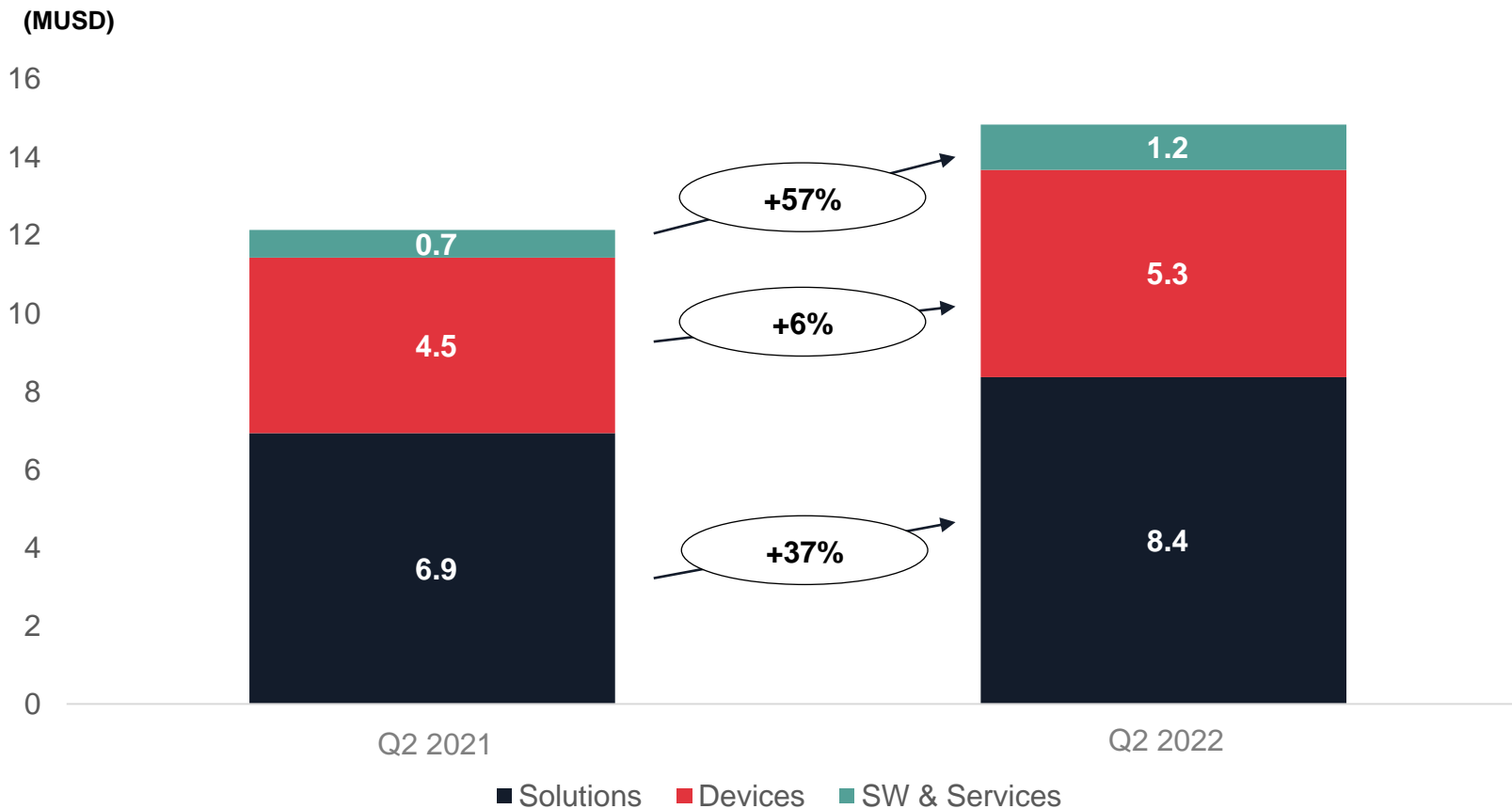
Q2: +3.4 MUSD



Note: 1) Gross Profit and Gross Margin impacted by certain one-off items during the quarter. Subsequently EBITDA and EBIT are impacted

Continued strong growth for Solutions, Software and Services

Revenue (invoiced) by business area



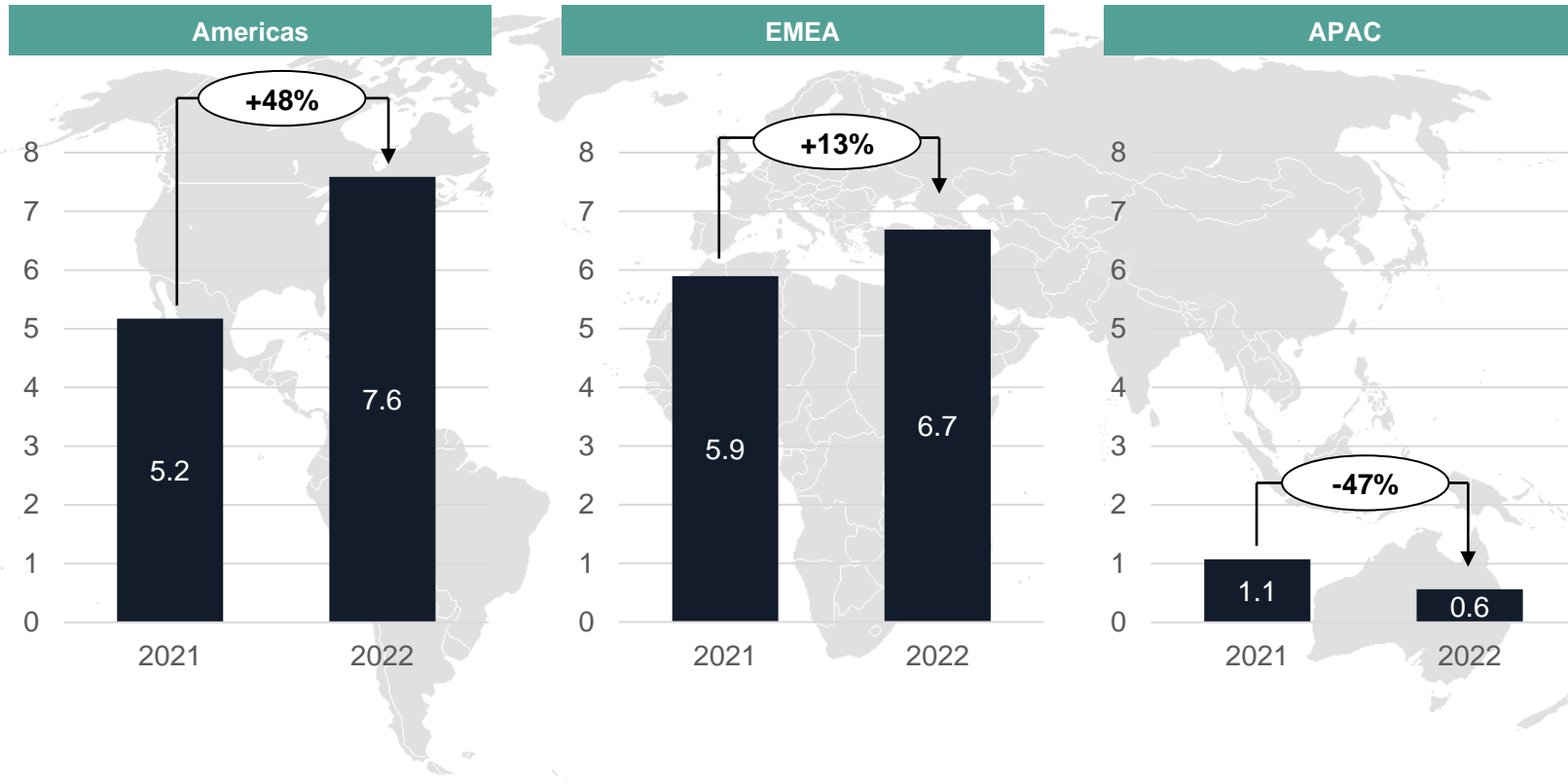
Comments

- Solutions account for 56% of the business in Q2 2022
- SW & Services increased from 5.8% in Q2 2021 to 7.8% in Q2 2022
- Stable performance of Device business

Americas grew by 48%, while EMEA grew by 13%, as shipments to customers in America have dominated Q2

Invoiced Revenue per Region and Quarter – Q2 2022

(MUSD)



Comments

- Shipments to key customers in Americas have dominated Q2, resulting in a growth of 48% (affecting other markets)
- EMEA growing 13% compared to Covid-boosted comparables
- APAC is still a developing market, however, good traction in Japan with e.g. order from NTT Communications. 2021 was boosted by one major deal in Australia.

Strategic review shows higher potential going forward

Market Development

- Recent years' market success has put Smartoptics in a new position in our market
- Emerging pluggable 400G technology is driving adoption of an IP over DWDM philosophy, requiring Open Line Systems

Insights

- Smartoptics is now a relevant challenger in Tier 1 and Tier 2 accounts
- The opportunity ahead is larger than we previously thought

Actions

- Maintain investment plan
 - Product organization to prioritize new SW platform
 - Capture the opportunity with major accounts
- Prepare company for new requirements from major accounts

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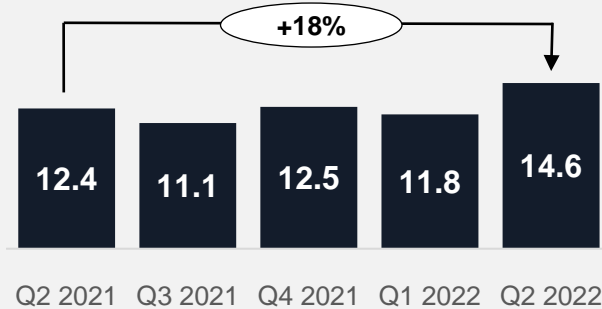
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Summary of financial performance 2022 and 2021

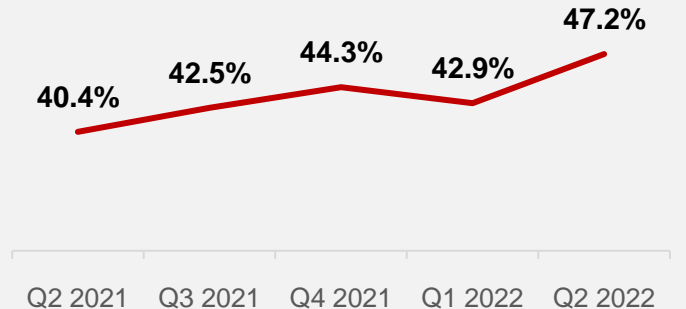
Revenue (MUSD)



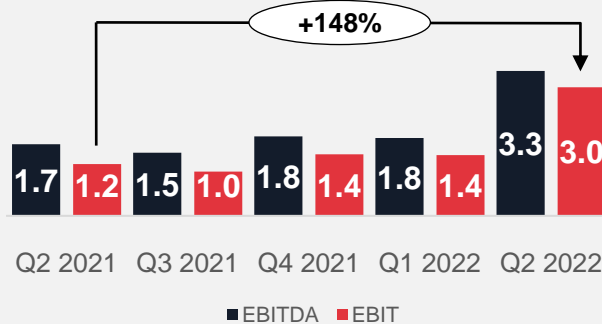
Gross Profit (MUSD)¹



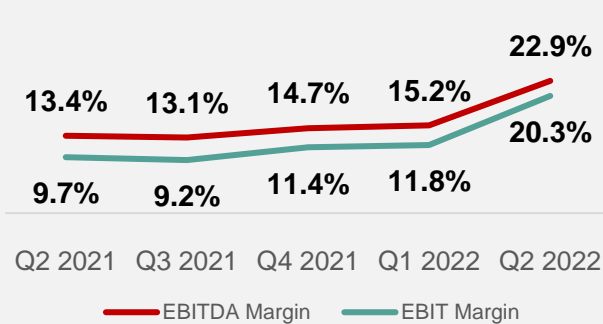
Gross Margin (%)¹



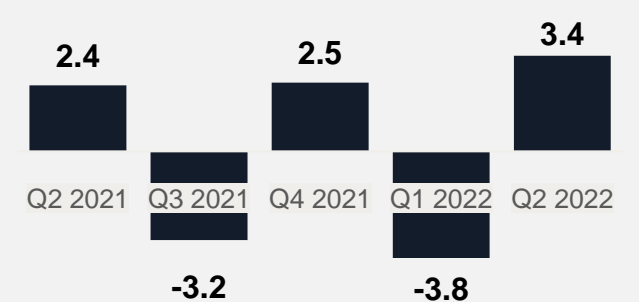
EBITDA & EBIT (MUSD)



EBITDA & EBIT Margin (%)



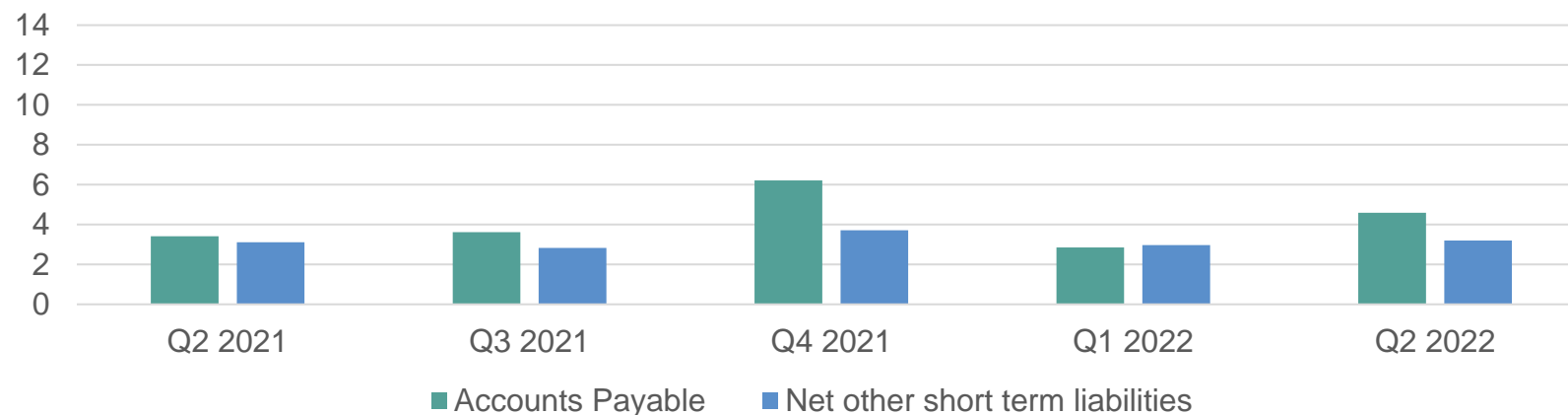
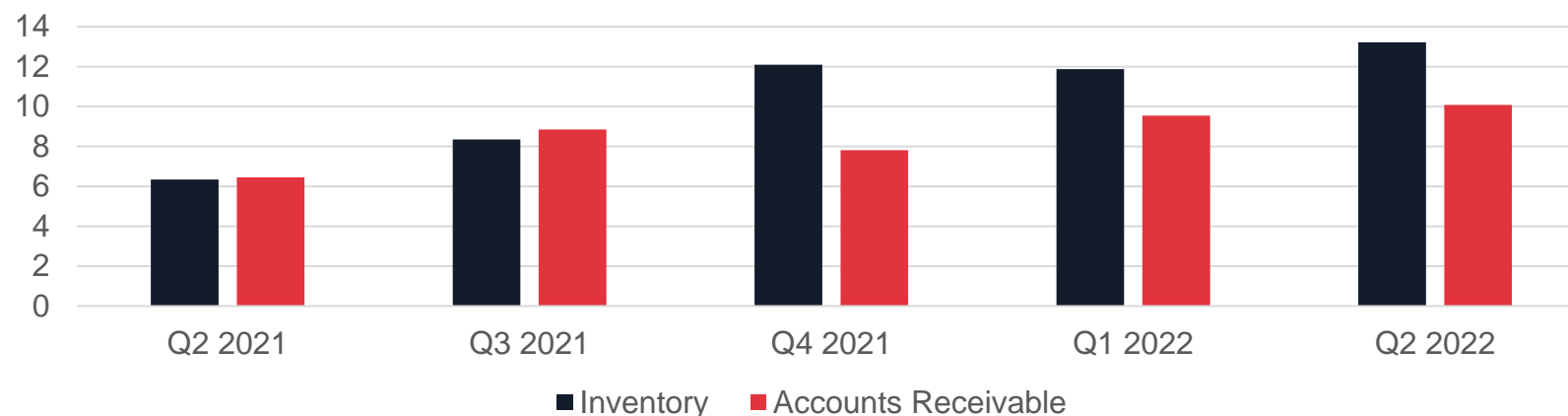
Operating Cash Flow (MUSD)



Note: 1) Gross Profit and Gross Margin impacted by one-off items during the quarter. Net effect is positive 160 KUSD, whereof +866 KUSD is a revaluation of stock, correcting values impacted by currency effects, -404 KUSD is related to extraordinary purchase costs (spot purchases) and -302 KUSD is inventory write-downs of items held for product replacements and older stock. Subsequently EBITDA and EBIT are impacted

Positive operating cash flow of 3.4 MUSD in Q2 2022, as increase in Inventory & Receivables were offset by Payables increase

Working Capital development (MUSD)



Comments

- General trend of increasing inventory, as an effect of semiconductor shortage
- Inventory levels still at a high level to mitigate the component shortage and certain components have long lead-times
- Accounts Receivables increased inline with Accounts Payable
- EBITDA for the quarter matched operational cash flow

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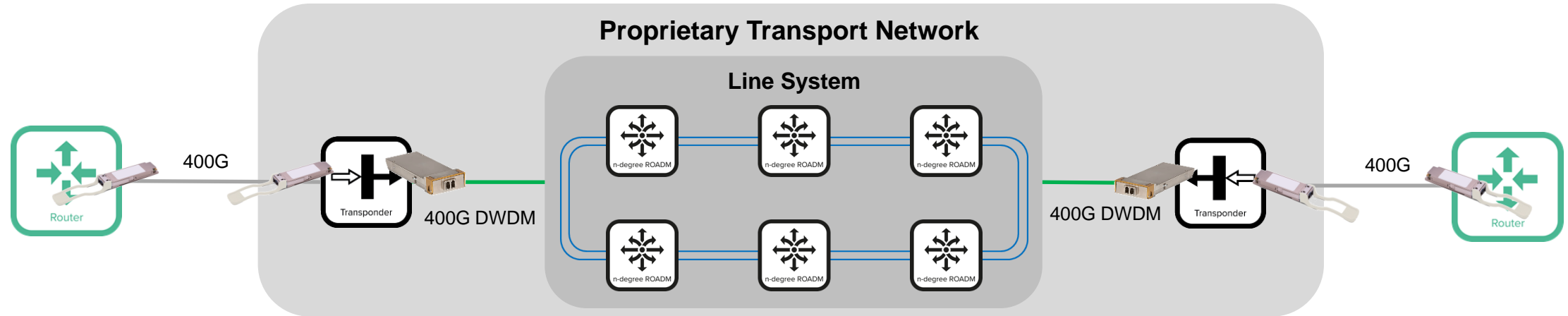
IP over DWDM – so what?

- Traditionally, the Transport Network has serviced client technologies with capacity, now almost all being IP based
- Metro Area Network architecture is collapsing into one “IP over DWDM” network
 - Open Line Systems becomes essential
 - DWDM capable interfaces (transceivers) now resides in the IP routers
- Architectural shift is driven by introduction of 400G optical transceivers in small form factor
 - Standardized and adopted by all

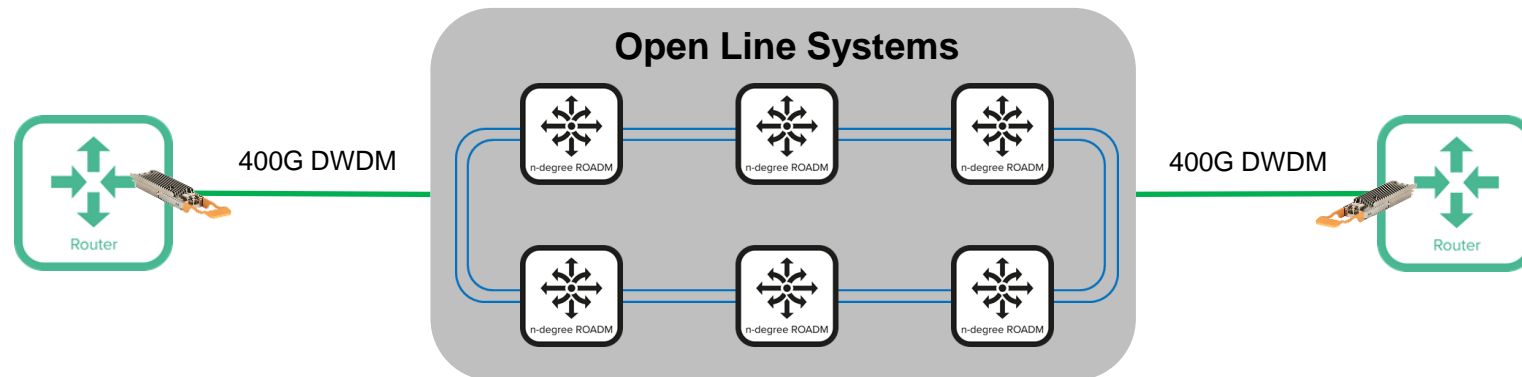
Saves CAPEX, OPEX and simplifies deployments

IP over DWDM – Simplifying networks and reducing costs

Traditional building concept

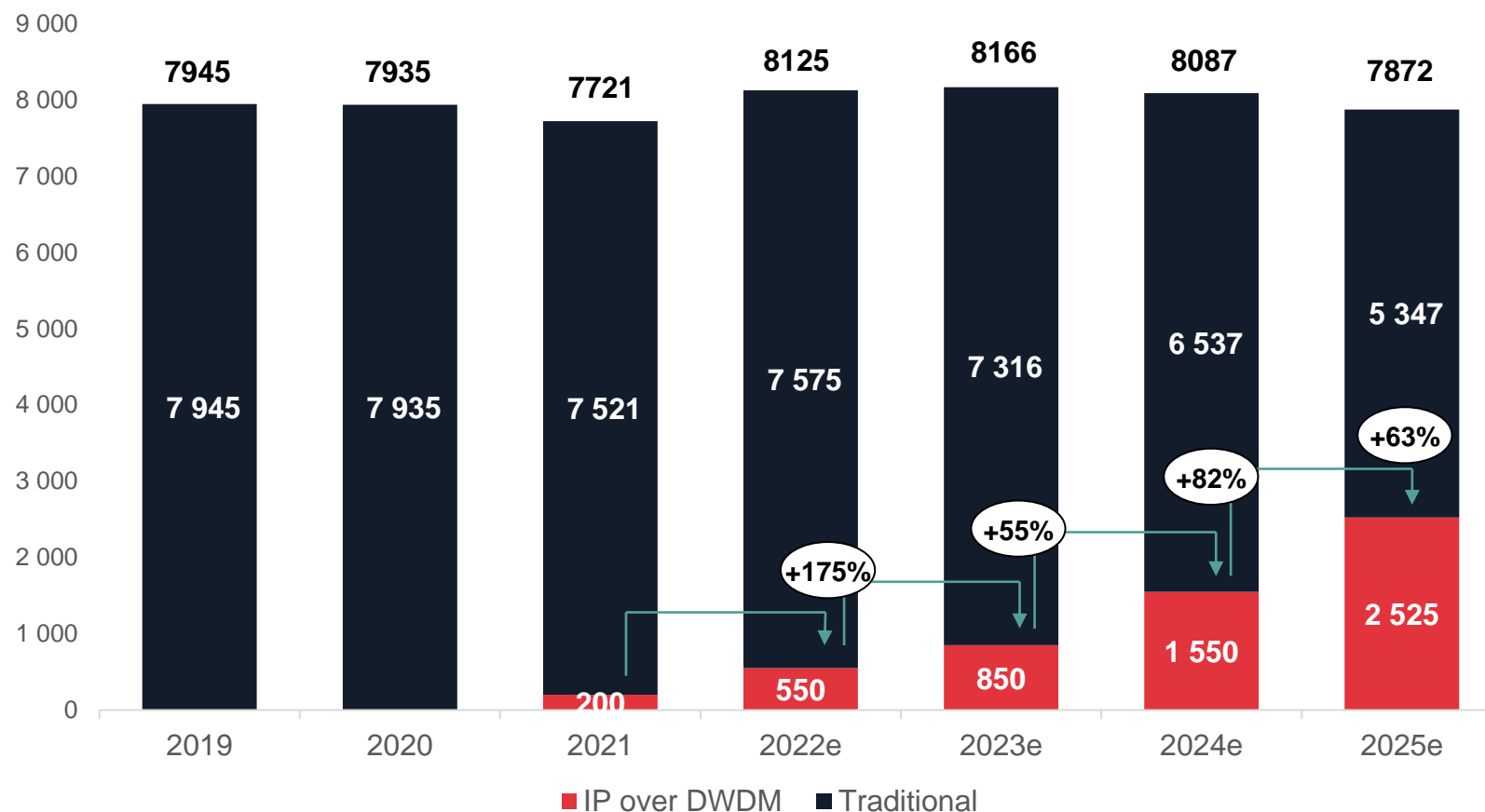


IP over DWDM



IP over DWDM will take over the metro WDM market – primarily in North America and EMEA

Worldwide Metro WDM market (MUSD) & Estimated IP over DWDM share of market

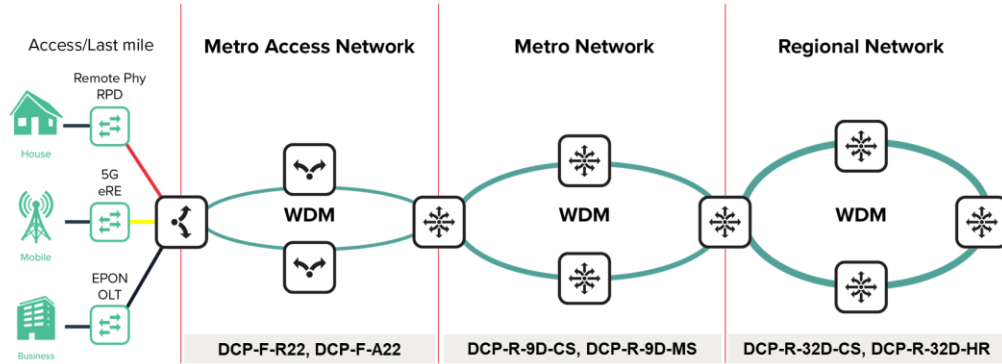


Comment

- Worldwide Metro WDM to remain flat over the coming years, as spending shifts toward more cost-efficient IP over DWDM systems
- Off-set in market due to shift of spending toward IP over DWDM
- The IP over DWDM market, as a subset of the overall market, is growing by 88% per year on average between 2021 and 2025
- The fastest adoption of IP over DWDM will be in North America and EMEA

Roadmap to capture increased market potential

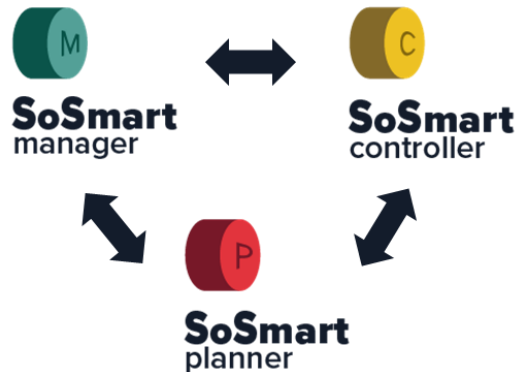
Complete ROADM solution



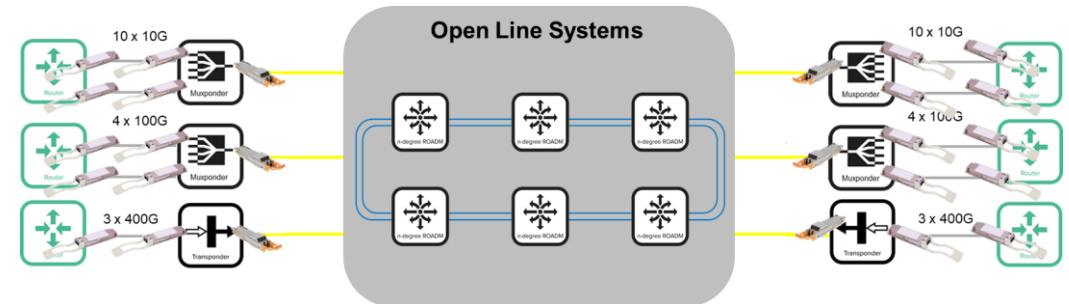
Future proof DCI Open Line System



Modern management solution



Low-cost Transponder/Muxponder portfolio



Continuing expansion of addressable market with new products that target larger customers smartoptics

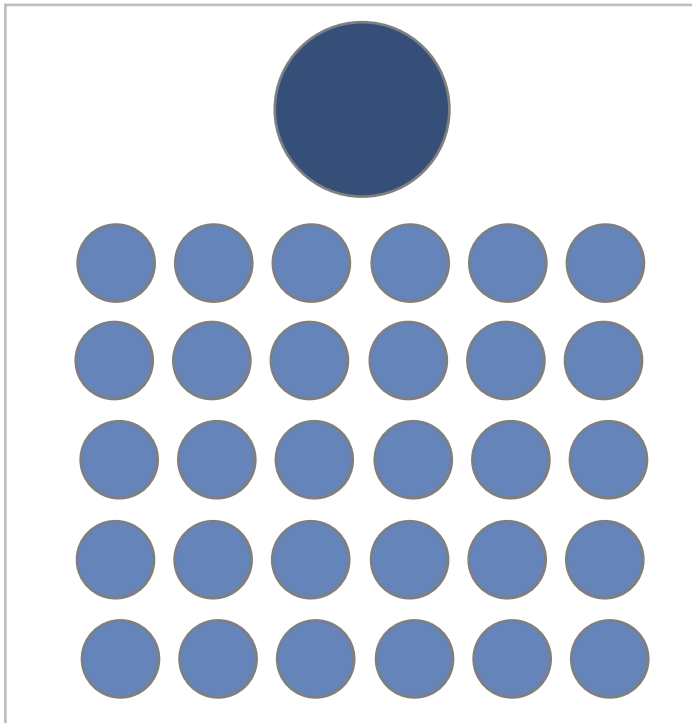
Segment	Internet Content Providers (ICPs)	Enterprise Data Center Interconnect	Communication Service Providers (CSPs)
Main offering	Datcenter interconnect for WAN	Datcenter Interconnect for SAN and WAN	Datcenter interconnect for WAN and SAN Metropolitan Area Networks Backhaul networks
Product focus areas	Future proof DCI Open Line Systems Competitive 100/400G offering Software and services suite	Future proof DCI Open Line Systems Competitive 100/400G offering Fiber Channel solutions Software and services suite	Future proof DCI Open Line Systems Competitive 100/400G offering Fiber Channel solutions ROADMs for all relevant network applications Modern network management solution Low cost muxponder/transponder portfolio Software suite and enhanced services package

Growth going forward driven by additional large customers

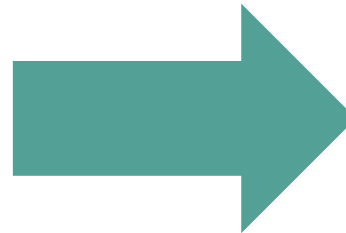
Shift from "many small" toward "many small and some large"

Previous situation

Many small accounts
Few large accounts

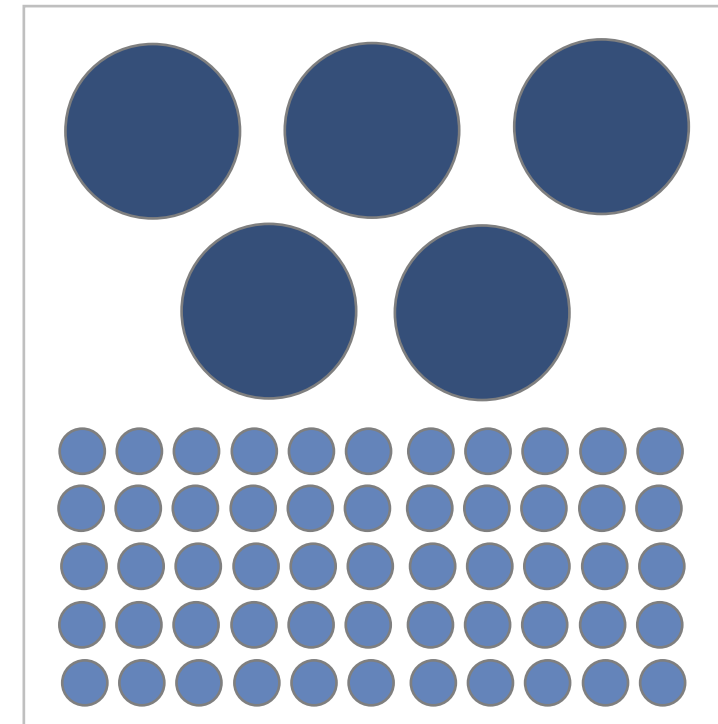


Illustrative share of revenue profile



Current plan and development

Continued many small accounts
Several large accounts



Illustrative share of revenue profile

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Long term ambitions

	2022 Q2	2025/26 aspirations
Revenue	YoY Growth +18.1% (50.0 MUSD LTM ¹)	~100 MUSD
Gross margin	47.2%	~45%
EBITDA margin	22.9%	~17-20%
EBIT margin	20.3%	~13-16%

Note: 1) Revenue for the 12 months Q3 2021 – Q2 2022

Profit and Loss Statement

Profit and Loss Statement Q2 2022, 2021, 2020

	kUSD			kNOK		
	2022	2021	2020	2022	2021	2020
	Q2	Q2	Q2	Q2	Q2	Q2
Total revenue	14 608	12 364	7 863	139 387	103 473	78 642
Cost of Goods Sold	7 713	7 371	4 904	73 495	61 682	48 995
Gross Profit	6 895	4 993	2 959	65 892	41 790	29 647
Gross Margin %	47.2%	40.4%	37.6%	47.3%	40.4%	37.7%
Operating Expenses	3 552	3 339	2 497	33 502	27 925	24 988
EBITDA	3 342	1 654	462	32 390	13 865	4 660
EBITDA Margin %	22.9%	13.4%	5.9%	23.2%	13.4%	5.9%
Depreciation and Amortization	375	458	241	3 526	3 835	2 401
EBIT	2 968	1 196	221	28 864	10 030	2 259
EBIT Margin %	20.3%	9.7%	2.8%	20.7%	9.7%	2.9%
Net Financial Items	451	122	-286	4 130	1 015	-2 902
Earnings before Tax	3 419	1 318	-65	32 994	11 045	-644
EBT Margin	23.4%	10.7%	-0.8%	23.7%	10.7%	-0.8%
Estimated Tax	752	290	-14	7 259	2 430	-142
Net Profit after Tax	2 667	1 028	-50	25 735	8 615	-502

Exchange rates

Shares outstanding (Basic)	96 286 593	89 721 076	89 721 076	96 286 593	89 721 076	89 721 076
Shares outstanding (Diluted)	96 286 593	89 721 076	89 721 076	96 286 593	89 721 076	89 721 076

Earnings per share (Basic)	\$	0.028	\$	0.011	\$	-0.001	kr	0.267	kr	0.096	-kr	0.006
Earnings per share (Diluted)	\$	0.028	\$	0.011	\$	-0.001	kr	0.267	kr	0.096	-kr	0.006

Comments

- YoY revenue growth 2022 vs 2021 of 18.1%
- Non-recurring items has impacted Gross Profit in Q2. Inventory revaluation was 866 KUSD, due to an exchange rate correction. Write-down of products either held for warranty replacements or becoming obsolete was 302 KUSD. Extra component cost was 404 KUSD, related to spot purchases to mitigate component shortage.
- Net financial items are largely currency translation differences
- Smartoptics has adopted IFRS, all year are showing IFRS
- The noticeable effect from IFRS is that EBITDA-margin has improved by about 2%-points as office rent is moved to depreciation (IFRS 16)

Cash Flow Statement

Cash Flow Statement for Q2 of 2022, 2021 and 2020

	2022	kUSD 2021	2020	2022	kNOK 2021	2020
	Q2	Q2	Q2	Q2	Q2	Q2
Cash at the Beginning of Period	5 077	2 393	1 786	44 414	20 391	18 934
EBITDA	3 342	1 654	462	32 390	13 865	4 660
Changes in Trade Receivables	-543	-818	-561	-17 003	-7 348	-1 480
Changes in Trade Payable	1 740	759	-208	20 805	6 666	-4 397
Changes in Inventory	-1 343	299	-693	-27 812	2 168	-2 737
Changes in Contract Liabilities (Deferred Revenue)	-64	2	249	3 573	164	1 335
Other Working Capital Changes	300	648	487	2 378	5 550	4 016
Cash Flow from Operating Activities	3 432	2 544	-265	14 331	21 066	1 398
Payment for PPE and Development Costs	-57	-115	-249	-3 216	-1 090	-547
Other Investing Activities	0	0	0	1	136	6
Cash Flow from Investing Activities	-57	-115	-249	-3 216	-954	-541
Dividend	0	-704	0	0	-5 900	0
New Shares Issued	0	11 159	0	0	95 662	0
Changes in Credit Facility	0	-2 710	422	0	-23 075	2 777
Repayments of Lease Liabilities	-181	-248	-95	-1 699	-2 074	-956
Repayments of Borrowing	-280	-64	91	-417	-417	0
Paid Interest on Borrowing	-80	-26	-33	-723	-215	-318
Cash Flow from Financing Activities	-541	7 406	385	-2 839	63 981	1 503
Exchange Rate Changes	-2 163	-41	467	4 584	-9	-759
Net Cash Flow	673	9 794	338	12 860	84 084	1 601
Cash at the End of Period	5 750	12 187	2 124	57 275	104 475	20 535

Comments

- Operating Cash Flow is positive 3.4 MUSD
- Smartoptics Group has an unused credit facility of ~2.8 MUSD

Balance Sheet

Balance Sheet for June 30, 2022, 2021, 2020

	kUSD			kNOK		
	2022	2021	2020	2022	2021	2020
	Q2	Q2	Q2	Q2	Q2	Q2
Non-Current Assets	5 809	9 281	6 305	57 877	79 568	60 940
Intangible Assets	826	922	930	8 227	7 908	8 986
Property, Plant and Equipment	1 301	1 216	499	12 959	10 426	4 825
Right of Use Asset	1 693	2 711	576	16 872	23 245	5 564
Financial Assets	0	349	701	0	2 989	6 779
Deferred Tax Asset	1 989	4 083	3 599	19 820	34 999	34 786
Current Assets	30 892	26 744	12 661	307 773	229 276	122 371
Inventory	13 220	6 343	4 928	131 706	54 379	47 629
Trade Receivables	10 085	6 455	4 777	100 480	55 341	46 170
Other Current Assets	1 838	1 759	832	18 310	15 081	8 037
Cash and Cash Equivalents	5 749	12 187	2 125	57 276	104 476	20 535
TOTAL Asset	36 701	36 025	18 966	365 650	308 844	183 311
Exchange rates	9.9629	8.5729	9.6654			

	kUSD			kNOK		
	2022	2021	2020	2022	2021	2020
	Q2	Q2	Q2	Q2	Q2	Q2
TOTAL Equity	23 660	22 866	9 755	235 723	196 032	94 283
Non-Current Liabilities	4 848	5 479	2 019	48 304	46 970	19 510
Other non-current liabilities	0	0	0	0	0	0
Non-current deferred revenue	1 974	1 449	761	19 671	12 422	7 352
Non-current interest-bearing debt	1 673	2 139	1 035	16 667	18 333	10 000
Non-current lease liability	1 201	1 891	223	11 967	16 215	2 158
Current Liabilities	8 193	7 680	7 192	81 623	65 842	69 518
Credit facility	0	0	1 812	0	0	17 516
Current lease liability	535	840	358	5 329	7 203	3 461
Current deferred revenue	1 427	1 097	631	14 219	9 408	6 103
Trade Payable	4 593	3 416	2 338	45 757	29 289	22 598
Public Duties	607	311	841	6 044	2 662	8 124
Other Current Liabilities	1 031	2 016	1 212	10 275	17 281	11 716
TOTAL Liability	13 041	13 159	9 211	129 927	112 813	89 028
TOTAL Liability and Equity	36 701	36 025	18 966	365 650	308 844	183 311
Exchange rates	9.9629	8.5729	9.6654			

Thank you