



OVER 30 YEARS OF INNOVATION

## PRESS RELEASE

### Solid Group Business Results in Q3 2022 Y-O-Y Despite Headwinds from Geopolitical Conditions

- Q3 2022 revenues 20% and net profit 12% higher than Q3 2021
- Sales of capital equipment in Q3 2022 up 53% y-o-y, mostly due to successful rollout of Meteorite™ Plus for high-speed automated processing of small rough diamonds (key factor in countering illicit IP-infringing competition); launched only in September, 25 delivered by quarter's end!
- Q3 2022 Trade revenues increased 23% y-o-y; 9M 2022 Trade revenues up 53% y-o-y to 11% of overall revenue; recurrent revenue from both rough and polished diamond activities comprises over 50% of overall revenue for both Q3 2022 and 9M 2022
- Special interim dividend of US 0.5 cent declared for Q3 2022; new dividend policy set to distribute 80% of net profits, subject to ongoing developments, etc.

Hod Hasharon (Israel) 13 November 2022 - 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 Q3 2022 and the nine months ended 30 September 2022.

#### Review of Q3 2022

Continuing negative geopolitical developments, the war in Ukraine, an inflationary economic environment with dramatically increased energy bills, the ongoing zero-Covid policy and lockdowns in China and the resulting equity market losses impinging on household wealth in many key markets, had an overall negative effect on consumer confidence and, by extension impaired business conditions in the discretionary diamond jewellery value chain.



Notwithstanding these headwinds, the Group realised improved results in Q3 2022 with revenues up 20% to US\$ 14.5 million. With the launch of our fundamentally improved Meteorite™ Plus in September, providing an improvement in throughput approaching 50% and, more significantly, a reduction in the requisite operational manpower, so that a single operator can control up to 5 systems, our capital equipment sales surged by 53%, as compared to Q3 2021. Midstream polishing activities decreased somewhat as uncertainties slightly reduced the quantities of rough diamonds entering the pipeline, and the summer vacations in the U.S. and European markets slowed demand. However, utilisation of our Galaxy® inclusion mapping systems remains robust, with only a minor drop of 7% in revenues, as compared to Q3 2021 (for 9M 2022, scanning revenues are virtually flat y-o-y). With a 23% y-o-y increase in Trade-related revenues in Q3 2022 (53% for 9M 2022), overall recurrent revenues for Q3 and 9M 2022 (including digital tenders, Galaxy® inclusion scanning, Quazer® services, polished diamond related services, annual maintenance contracts, etc.) were over 50% of group revenue. Trade-related revenues, within the overall recurrent revenues, were approximately 10% of Group revenue in Q3 (11% for 9M 2022, up from 7% in 9M 2021). Gross margin in Q3 2022 was down to 68%, mainly due to the rollout of the lower-margin Meteorite™ Plus. Profitability for the quarter improved 12% y-o-y to US\$ 2.2 million, due, primarily, to the increase in sales and financial income, offset by a reduced gross margin and an increase in operating expenses, as these returned to their pre-pandemic normal levels. For 9M 2022 revenues were slightly down by 5%, from an exceptionally strong 9M 2021 (driven by a post Covid-19 surge), and, with operations normalised to pre-Covid levels and expenditures expanded commensurately, profitability was down 40% y-o-y to US\$ 8.7 million.

The Group delivered 32 Galaxy®-family inclusion mapping systems in Q3 2022, equaling all deliveries realised in H1 2022, due to the well received Meteorite™ Plus model, launched in September. The mix of systems delivered was 25 Meteorite™ Plus systems (again, following its September launch!), 3 Meteor™ systems, 3 Galaxy® systems and a single Galaxy® Ultra system. Only a single Meteor™ system was sold under the one-off paradigm, with no follow-on recurrent revenues to be generated from it. As of September 30, 2022, the total installed base is 775 systems.

The Board of Directors has assessed the cash (and short term investment) reserves currently held by the Group against perceived risks and probable needs for cash, and has concluded that the funds on hand more than suffice. Therefore, the Board has adopted a new dividend policy, whereby 80% of net profit generated will be distributed to the shareholders on a quarterly basis, subject to review of ongoing developments and shareholder approval, as required. Accordingly, the Board has declared a special interim dividend of US 0.5 cent. The dividend is expected to be paid on 9 December 2022.

### Prospects

Geopolitical uncertainties are expected to continue through to the end of 2022 and quite probably into 2023. The latest data from the key U.S. market indicate the economy and consumer demand remain robust and inflation has cooled somewhat, allowing retailers to remain cautiously optimistic on prospects for the year-end holiday season.



Demand for our Galaxy® family systems is expected to increase as the new Meteorite™ Plus model alters the operational equation, significantly reducing the cost of ownership per stone scanned. We believe that this once again skews the economics in our favour competing against the illicit IP-infringing competition's perceived advantages, especially when the substantial benefits of the Advisor® 8.0 planning software package are factored in.

The flow of rough diamonds into the midstream pipeline may decrease somewhat for the rest of this year, as recently indicated by DeBeers increase of their buyback paradigm from 10% to 20%. This may reduce our recurrent revenue, but is not expected to be significant. Notably, so far this year, for 9M 2022, our scanning revenues are down only 1%, notwithstanding the sanctions on the major Russian producer, Alrosa, which were enacted the beginning of April.

Our revenues from digital tender services are expected to continue to expand, with existing and additional producers and rough diamond wholesalers, notably with the exception of Alrosa due to the currently enacted sanctions, and this ongoing adoption of digital tenders also paves the way for further collaboration on our Sarine Diamond Journey™ provenance solution.

We are continuing to see adoption for our broadening range of Trade-related services. With GIA's recent de-facto rollback of the Certificate of Origin, and its replacement with their Verified Source paradigm, a periodic audit and self-compliance paradigm applied initially to select suppliers, along with the prior rollback of DeBeers Tracr offering and its limitation to DeBeers-sourced stones only, we believe the Sarine Diamond Journey™ is, more than ever, the only viably scalable solution for actual and verifiable diamond provenance. As environmental, social and governance (ESG) issues are becoming more important considerations with consumers, leading luxury brands are increasingly considering our offering as the best workable solution. The Sarine AutoScan™, our robotic system for the high speed scanning of rough stones as an anchor to our traceability solution, has completed beta-testing in India and will commence commercial services at our Surat service centre, after the current Diwali holiday break.

Critical progress is continuing on our key Trade-related service – e-Grading™. E-Grading™ is transitioning from beta-testing to broader roll-out to midstream customers. We expect to increase our presence at major midstream polishers significantly by year's end. We continue to enhance e-Grading™'s functionality and improve its AI-based technology. Additional retailers are in the process of adopting our grading paradigm, recognising its inherent advantages of consistency and objectivity along with its commercial benefits both from its reduced direct and all but eliminated indirect costs perspective, as well as its radically faster process time.

The market for lab-grown diamonds (LGD) has expanded significantly in the last 12 months, especially in the U.S.. 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. Various estimates for 2021 indicate LGD accounted for 6 – 10% of the overall diamond jewellery market in the U.S.. Efforts are continuing to expand our business in this growing segment, with a focus also on e-Grading™, as the manual lab-oriented grading paradigms offered by other gemmological labs, are either not economically viable for LGD, or are borderline so, at best.

### **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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