



OVER 30 YEARS OF INNOVATION

PRESS RELEASE

Amidst Increasingly Challenging Market Conditions, H2 2022 Group Revenue Rose 5.5%

- Sales of capital equipment improved in H2 2022 due to very successful rollout of Meteorite™ Plus for high-speed automated processing of small rough diamonds.
- Full year FY2022 revenues declined 5% against FY2021, affected by a high base in H1 2021 due to post-Covid spike in U.S. jewellery spending.
- Full year FY2022 net profit declined 46% against FY2021, due to lower sales, product mix and as operational expenditures returned to pre-Covid norms.
- Trade revenues continued to grow strongly in FY2022 and accounted for 11% of overall FY2022 revenue. In FY2023 Trade will benefit from the pending GCAL acquisition and a broadening use of the Group's traceability and grading technologies also by additional luxury brands.
- Final dividend of US 1.0 cent declared - the third dividend for FY2022. Total dividend payout for FY2022 will be US\$10.5 million (US\$ 8.8 million in FY2021).

Hod Hasharon (Israel) 26 February 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 business results for the year ended 31 December 2022.

Review of FY2022

Market conditions were challenging throughout most of FY2022. Negative geopolitical developments, commencing with the onset of the war in Ukraine, an inflationary economic environment with dramatically increasing interest rates and the zero-Covid policy related lockdowns in China resulted in equity market and housing value losses. Consequently, household wealth was eroded in many key markets, and the overall negative effect on consumer confidence impaired business conditions in the discretionary diamond jewellery value chain.



In addition, the price increases of rough diamonds throughout 2022 by a cumulative average of 35%, primarily due to the fear of disrupted supplies of rough diamonds from U.S. sanctioned Russian producer Alrosa, combined with the gradual decline in the prices of polished diamonds in 2022 as consumer sentiment worsened, resulted in impaired margins in the polishing segment and a higher inventory of polished diamonds. This reduced the level of diamond manufacturing in Q4 2022 in general, and especially so for the larger more expensive rough stones. With reduced manufacturing, the Group's revenue from Galaxy® scanning was lower in H2 2022.

Despite these challenges, Group revenue rose 5.5% to US\$27.6 million in H2 2022 mainly on higher sales of capital equipment due to the successful roll-out in September of the upgraded Meteorite™ Plus, which significantly improves throughput and reduces the necessary operational manpower. However, full year FY2022 revenue declined 5% compared to FY2021 due to a high base in H1 2021, caused by a post-Covid spike in jewellery spendings in the U.S. coinciding with widespread cash handouts by the federal and state governments.

With lower revenue and a change in product mix, gross margin in FY2022 declined to 69%. The product mix effect was mainly due to the rollout of the lower-margin Meteorite™ Plus. Profitability was further affected with the overall increase in operating expenses as activities returned to normal in a post Covid era, and higher tax expenses associated with a one-time repatriation of funds from the Group's wholly owned Indian subsidiary.

A total of 61 Galaxy®-family inclusion mapping systems were delivered in H2 2022, comprising 2 Galaxy® Ultra models, 5 Galaxy® models, 8 Meteor™ models and 46 Meteorite™ and Meteorite™-plus models. Only one Meteor™ systems was sold under the one-off paradigm with no follow-on per-use revenues. With the latest deliveries, our installed base has increased to 803 systems as at 31 December 2022. Despite lower inclusion scanning revenues in H2 2022, overall recurring revenues rose to 50% of Group revenue in FY2022, as compared to 46% in FY2021. Trade revenues, the new sources of recurring revenues, continued to grow strongly in FY2022 to account for about 11% of Group revenue.

The Board of Directors has declared a final dividend of US 1.0 cent, the third dividend for FY2022. With three dividends, the Group will have paid out about US\$10.5 million in FY2022 (US\$ 8.8 million in FY2021), exceeding somewhat the net profit of the Group for the full year.

Prospects

Geopolitical uncertainties are expected to continue into 2023. There is little end in sight for the conflict in Ukraine and with inflation lower, but still not tamed, global interest rates will stay elevated and could rise further in the months ahead. These uncertainties will continue to affect sentiments and demand for jewelery in the United States. However a bright spot is the abrupt end of the zero-Covid policy in China rebooting demand for polished diamonds in this important market.



The divergence of rough and polished diamond prices especially in the latter part of 2022 eroded polishers' margins and with the weaker than expected year end holiday buying in the United States, inventories of polished diamonds rose to higher than usual levels. Rough diamond prices have now started declining in certain categories (DeBeers cut prices of larger stones by 10% at their January sight), and with the expected return of Chinese buyers to add to demand, this divergence could normalise in 2023. We expect the level of manufacturing in the midstream to increase in the coming months.

The continuing adoption of our Sarine Diamond Journey™ provenance and traceability solution by leading luxury brands and key industry players have strengthened our position as the only viable scalable solution for end-to-end diamond provenance based on actual data and not just self-declarations and sporadic audits. As environmental, social and governance (ESG) issues are becoming core considerations with consumers and investors, we expect the current pool of retailers in the key US, Chinese and other markets who are currently evaluating and executing pilot programmes of our solution to increase.

As the conflict in Ukraine enters its second year, the U.S. is reportedly looking to tighten its sanctions on Russian diamonds. It is expected that the proviso that allowed the importation into the U.S. of Russian-mined diamonds cut and polished elsewhere (e.g., India) will be eliminated. It is apparent that the E.U. and the U.S. are aiming to develop a “watertight” traceability system” for diamonds as a way to preclude any importation of Russian gems. “The Belgium government has suggested an international traceability requirement,” reported Tom Neys, spokesperson for Antwerp World Diamond Centre, a key Belgian industry group. Their proposal would mean that every company who wants access to the U.S., E.U., and other G-7 markets would need to provide definitive (“watertight”) provenance information. We are confident that the Sarine AutoScan™, our robotic system for the high-speed scanning of rough stones, which provides the capability to economically document the extraction of rough diamonds at their mined source, and the rough stones' subsequent traceability by our Sarine Diamond Journey™, can provide the entire value chain with the means with which to fully and transparently comply with these new government requirements with minimal disruption. A faster version of the Sarine AutoScan™, which will also handle smaller rough stones economically, is already in alpha-testing and will make our solution's ability to meet these new government statutes even more robust.

We continue to generate strong interest in our e-Grading™ as our broader roll-out to midstream customers, both for natural and lab-grown diamonds, continues. We are seeing more retail brands adopting our AI-derived grading platform and expect our planned acquisition and cooperation with the New-York based GCAL lab to accelerate the process of market penetration into the U.S. market.

This press release should be read in conjunction with Sarine’s full year FY2022 results announcement released on 26 February 2023 to the Singapore Exchange.



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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