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PRESS RELEASE

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Seasonal Slowdown and Industry Uncertainties Affected Business Environment after Exceptional H1

- US\$ 12.1M Revenues and Gross Margin of 76% Generated Net Profit of US\$ 1.9M for Q3 2021

Hod Hasharon (Israel), 14 November 2021 - 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 and services for the evaluation, planning, processing, measurement, grading and trading of diamonds and gems, wishes to update its investing public on business conditions during Q3 2021.

Industry Backdrop

Following a strong recovery in the first half of 2021, the initial months of the second half were affected by the usual seasonal summer slowdown and by evolving uncertainties. Seasonally, the summer months in general, and August particularly, are characterised by the shutting down for vacations of most polished trading centres. This was compounded this year by the Jewish New Year and following holidays (Day of Atonement and Feast of Tabernacles) all falling mid-week in September, thus reducing the number of effective working days to fewer than 10 in trading centres in the U.S., Belgium and Israel (also affecting production capabilities at our facilities in Israel, of course). Developing circumstances in China related to the "common prosperity strategy" adopted by the government there have created uncertainties pertaining to the Chinese luxury market, the second most important market for polished diamonds. Most importantly, the rapid increase in the



pricing of rough diamonds during the first half of 2021, on the backdrop of increasing inventories of polished stones, which slowed or halted, and even reversed in certain categories, the corresponding increase in polished diamond prices, has yet again impaired the midstream polishing sector's profitability. The polished diamond supply chain has further been disrupted by the ongoing delays at the GIA's lab facilities in India, now extended to six weeks, as reported by Rapaport / Business Wire ([Rapaport Press Release: Diamond Prices Soften in Slow September Trading | Business Wire](#)). This further exemplifies the need for our e-Grading™ paradigm, now in beta-testing. These issues have cooled the Indian industry's appetite for capital spending and have, along with new forms of IP piracy, which have recently emerged in India, led to orders being postponed.

DeBeers' and Alrosa's supply of rough stones during the past few months was significantly reduced, as compared to the near-record quantities sold at the beginning of 2021 – DeBeers sights going into the second half of the year were nearly 10% less in dollar terms with per carat prices up 20% year over year (10% in Q3 alone). Supply was below the usual for this period of the year, as production usually gears up for the critical November through February holiday season (Christmas to the Chinese New Year). These reductions were reportedly due to shortages in supply stemming from Covid-19 related delays in production.

Existing Business Developments

Notwithstanding the reduced quantities of rough diamonds entering the pipeline, the expanding adoption of our inclusion mapping technologies and their application to smaller and smaller stones, even down to below 0.1 carats rough, have resulted in daily usage peaking to 110,000 stones. We are on track to surpass scanning 30 million stones during 2021, a greater than 60% increase over pre-pandemic usage. Despite this expanding appreciation of the benefits our technologies provide, the aforementioned uncertainties and piracy have led to postponed orders and lower than expected deliveries of only nine Galaxy®-family systems in the third quarter. The breakdown by model was a single Galaxy® Ultra, three Meteors™ and five Meteorites™, of the latter one Meteor™ and four Meteorites™ were sold under the one-off business model with no follow-on per-use revenues. As of 30 September 2021, our installed base was 688 Galaxy®-family systems.

To further enhance our technology's value proposition and counter ongoing and new IP infringement initiatives, especially as concerning the rapidly expanding very small stone segment, we will be introducing, both in the immediate and intermediate terms, significant new features to both our Galaxy®-family systems and Advisor® planning software. These enhancements will both



increase the benefit realised by the polishers and reduce their cost of ownership and operation of our solutions so as to render the alternative offerings pointless. Enhancements to the Meteorite™ system will increase throughput and further automation. Our Galaxy® system (and subsequently the Solaris™ model) will be augmented by the implementation of AI so as to automatically discern the scanning of low quality natural rough stones and/or lab-grown diamonds and generate billing commensurate with the goods scanned. This will enable the profitable application of our scanning technology to additional broad segments of rough stones and expand the demand for our systems. Our Advisor® 8 software will comprise new planning paradigms specifically targeted at adding value to the process for very small rough diamonds, along with enhanced counter-piracy features. Its introduction to the market will be subsequent to the Diwali break in India.

Financial Highlights

On the backdrop of the aforementioned business conditions, the Group realised revenues of US\$12.1 million in the third quarter of 2021. Due to the product mix our gross margin was again high – 76%. Our operating expenses are still slightly under normal running levels. Research and Development (R&D) costs were less than planned due to a competitive market delaying recruitment plans. Sales and Marketing (S&M) expenses are also still less than in pre-pandemic periods due to only one reduced-scope (JCK) trade show and overall less travel. We do expect operating expenses to trend slightly upwards, as we expand both R&D and S&M staff in line with our strategic goals. Our Profit from Operations for the period was US\$ 2.6 million and our Net Profit was US\$ 1.9 million. Cash and short-term deposits tallied some US\$ 32.3 million at quarter's end, following our paying off all remaining pandemic-related Israeli-government-subsidised bank loans (roughly US\$ 0.9 million) and an interim dividend of US\$ 5.2 million. Receivables declined modestly to US \$26.6 million, with most due receivables having been collected.

New Business Rollout

We are excited by the ongoing developments in the adoption of our Sarine Diamond Journey™ provenance and traceability solution by high-end luxury brands. Programs for leading luxury brands are expected to roll out in 2022. The ability to actually show the intriguing polishing process the diamond undergoes, as well as provide consumers with verifiable documentation that their purchase is of a gem which was responsibly and sustainably created, is driving the Journey™'s adoption, as retailers view these two unique capabilities of the paradigm as the winning proposition. A number of these collaborations encompass the utilisation of our AI-driven automated 4Cs grading as well. We should be able to disclose more information on these initiatives soon.



We are continuing to work with key producers (Alrosa, Lucara, Grib and others) to augment the Journey™ proposition with at-source mining data. We will be introducing in early 2022 a high-speed robotic scanner to enable the cost-effective onsite scanning of a much broader range of the mined output of rough diamonds below one carat rough. This will enable us to substantially increase the scope of our traceability paradigm, and will provide our retail customers with unique mine-to-retail documentation on an expanded range of their offered polished diamonds. As the technology evolves, we expect to be able to provide this ability for smaller and smaller stones. This system will also provide producers with additional substantial tangible benefits to their own operations, pertaining to inventory control and rough diamond sorting. As producers will be able to scan a broad range of rough output at source, even before the stones arrive at their sorting centres, this will provide insight earlier and more accurately into their projected inventories, and also provide for their better oversight of the rough goods, as they move from mine to back office.

Our on-site e-Grading™ is currently in beta-testing with a number of leading manufacturers. Its broader introduction to the market has been delayed somewhat into early 2022, due to operational delays stemming from third-party generated issues. Notwithstanding these minor delays, as described in previous announcements our lab-based AI-derived 4Cs grading is already being implemented by a growing number of wholesalers and retailers. Enhancements to the grading paradigm continue to be implemented with both improved hardware (e.g., Sarine Clarity™ Gen II) and software, as its expanding usage provides additional input to the fine-tuning process.

Short-Term Outlook

Current expectations are overall positive for a robust end-of-year holiday season in the U.S. Expectations are also for a strong holiday season in the APAC market as well, though uncertainties pertaining to the Chinese market do persist. The main concern currently is, once again, the disparity between rough diamond price increases (20% y-o-y) and polished diamond prices, which have seemingly peaked as inventories have been replenished. Currently the midstream is absorbing this disparity, having benefited from a very strong first half of 2021, but with the narrowing of the profit margins realised by the polishers, we do not expect this to be sustainable in the long-term. The lab grown diamonds (LGD) market is increasing significantly, but indications are that as quantities grow and prices continue to decline, LGD for the most part, and definitely outside the U.S., are creating a new niche of fashion jewellery, offered by the likes of Pandora and Swarovski.



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 finger-printing 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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