



OVER 30 YEARS OF INNOVATION

PRESS RELEASE

FOR IMMEDIATE RELEASE

**Notwithstanding Unprecedented Covid-19 Circumstances
Sarine Records Net Profit of US\$1.2M in H1 2020**

- **A strong start to H1 2020 and aggressive cost management contributed to profitability**

Hod Hasharon (Israel), 6 August 2020 - Singapore Exchange Mainboard listed Sarine Technologies Ltd (“**Sarine**” and along with its subsidiaries “**the Group**”) (**U77:SI**), 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, is pleased to announce its financial results for the six months ended 30 June 2020.

H1 2020 Financial Results Review

The operations of the Group in H1 2020 were impacted by Covid-19 throughout the half year, and significantly so from March onwards. The curtailing of retail activities in the Asia Pacific region from January 2020, followed by Europe and the United States, substantially reduced demand for polished diamonds. The lockdown in India for over two months from March halted all polishing activities in this crucial diamond manufacturing centre. However, the Group recorded strong sales of capital equipment and service income in India before the March lockdown and, coupled with aggressive cost management since the onset of Covid-19, was able to report revenues of US\$22.4 million and net profit of US\$1.2 million in H1 2020. This compares favourably with revenues of US\$22.5 million and a net loss of US\$2.8 million reported in H1 2019.

The deliveries of Galaxy[®]-family systems in the first three months of H1 2020 boosted the Group’s



capital equipment sales. A total of 59 Galaxy[®]-family inclusion mapping systems were delivered in H1 2020 (a record 50 in Q1 2020 and 9 in Q2 2020) comprising 37 Meteorites[™], 15 Meteors[™], 6 Solaris[™] and 1 Galaxy[®] Ultra model. All but one of these systems were delivered in India and over two thirds of them were sold under the one-off paradigm with no follow-on per use revenues. As of 30 June 2020, we have 614 Galaxy[®]-family systems in our installed base.

The cessation of midstream diamond polishing activities during the lockdown and government-restricted operations thereafter throughout the second half of H1 2020 resulted in a 40% decline in recurring revenues from inclusion mapping activities in H1 2020. Total recurring revenues for H1 2020 (including Galaxy[®]-related scanning, Quazer[®] services, polished diamond related ("Trade") services and annual maintenance contracts) were over 35% of group revenue. Our polished diamond retail-related revenues, currently mostly derived from Sarine Profile[™] and its various components (Sarine Light[™], Sarine Loupe[™], etc.) were approximately 2.5% of our overall revenue for H1 2020.

Prospects

The recovery of the global diamond industry will depend on factors such as the ability of jewellery retailers worldwide (and particularly in the United States) to reopen their stores, the ability of diamond miners like DeBeers and Alrosa to conduct the sale of their rough diamonds in a safe and accessible environment, as well as the key diamond manufacturing centre in India remaining open for business.

Jewellery retailing activities have reopened, at least partially, throughout the world. In China, the second largest market for polished diamonds accounting for nearly a fifth of global demand, retail activity has practically rebounded to near normal levels. Some major retailers have even announced their intension to resume their expansion plans. Due to the global travel restrictions and the cessation of Chinese tourism overseas, there are early indications that domestic luxury retail activity in China may have actually risen over the previous corresponding period. However, any growth in China would most likely have come at the expense of demand in overseas markets frequented by Chinses tourists.

In the United States, the level of retail activity varies from state to state but data show that overall retail activity rebounded strongly in May and June after the March and April lockdowns, with overall retail sales figures in June 2020 reportedly up a percentage point over the overall retail figures of



June 2019. However, the renewed Covid-19 outbreaks in many states in the US could affect consumer sentiment and the uncertainty could affect luxury spending in this crucial market, which accounts for nearly two fifths of global polished diamond consumption.

Sales of rough diamonds by DeBeers and Alrosa in H1 2020 were severely disrupted by the drop in demand, international travel restrictions and the lockdown in India. Alrosa, empowered by Sarine's technologies, has accelerated its digital tender initiative as an alternative channel, offering stones from 2 to over 10 carats for sale on its digital platform. DeBeers is contemplating alternative channels and effectively shifting its sights from Botswana to more accessible locations like Antwerp and Dubai. With many sightholders and midstream manufacturers having offices in either or both of these locations, this initiative should facilitate easier access to future sights and to a large degree alleviate issues of travel restrictions and self-quarantines, allowing more substantial buying of rough diamonds once the demand rebounds.

If no further lockdowns in India, a recovery in retail activity globally, and specifically in the United States, will strengthen demand and result in a reduction in existing midstream inventories of rough and polished diamonds in the second half of 2020. As major diamond producers implement alternative channels to conduct sales of their rough diamonds, these steps should support a gradual recovery of diamond manufacturing activities in India going forward.

Steps taken from March 2020 to reduce our cost structure has resulted in our total expenses in H1 2020 being nearly 20% lower than H1 2019. By prudently focusing our R&D efforts, we have achieved an approximate one-third reduction in our R&D costs over a three year period. Going forward, we will continue to review our cost structure even as we pursue our ongoing business development and marketing related activities to achieve our long-term goals with Sarine Profile™, Sarine Diamond Journey™ and E-Grading™.



Sarine Profile™, our umbrella term for our digital paradigms providing “profiling” data of polished diamonds to consumers, continues to gain traction in the APAC market with retailers launching new programmes as well as additional major retailers evaluating the service. Major wholesalers supplying polished diamonds and jewellery to Chinese retailers are negotiating to implement light performance grading to meet retailers' requirements. We are also picking up some customers in the United States and Europe, with one of our U.S. customers using Sarine Profile™ to engage out-of-state customers over the digital platform, a major online advantage during the Covid-19 pandemic.

Our Sarine Diamond Journey™ traceability solution continues to garner strong interest from the industry. Key miners are cooperating with Sarine providing us documentary scanned data of their mined stones, as an initial verification point of the source (“birth certificate”) of the rough diamond. Other miners are evaluating pilot implementations. In addition to programs already running with major retailers in China, Japan and Australia, other retailers, including leading global luxury brands are evaluating and/or running pilot tests of the Sarine Diamond Journey™. Our traceability solution has clear advantages over competing offerings due to our strong presence in the midstream polishing phase, which enables us to collect verifiable documentary data with very little overhead or disruption to existing workflow patterns.

E-Grading™, our new initiative for polished diamonds, allows the onsite grading of a polished diamond's 4Cs, immediately after the diamonds have been cut and polished. The CEO of Sarine Technologies, Mr. David Block commented, "Our automated, technology-enabled, E-Grading™ is an objective, consistent and repeatable process, with far fewer errors incurred compared to today's manual subjective processes. This has, according to their latest announcements, also led the GIA to seek a technology-based paradigm currently in limited beta-use at its labs. However, by our enabling grading onsite, the midstream manufacturers and wholesalers will shave weeks off their work flow as well as eliminate all the indirect costs (shipping, insurance, customs handling, etc.) involved in transferring the polished stones offsite to gemmological laboratories." We expect to start initial beta-site testing with leading manufacturers in the second half of this year.

This press release should be read in conjunction with Sarine's H1 2020 results announcement released on 6 August 2020 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 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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