



N E X T B I O M E T R I C S G R O U P A S A

Q U A R T E R L Y R E P O R T - Q 3 2 0 2 1

One Touch.
One You.
NEXT Biometrics

NEXT Biometrics Group ASA

Quarterly report – Q3 2021

Highlights

- Initial NOK 5.5 million FAP20 purchase order from major partner
- PC sensor design win with large Asia based tech company
- 21 accumulated design wins during last 21 months
- Orders booked for the quarter of NOK 17.4 m while revenues of NOK 12.4 m in Q3 2021
- Gross margin of 22% in Q3 2021
- EBITDA ex options¹⁾ of NOK -9.2 m in Q3 2021
- All-time best operational cash flow of NOK -1.7 m in Q3 2021
- Cash position of NOK 116.9 m per 30 September 2021

CEO Statement

We believe the market for biometric solutions has very favorable long-term growth prospects. Biometrics solutions increase its presence in current and new market segments. As an example, the PC sensor segment is growing both due to increased shipment volumes relative to pre-pandemic volumes, but primarily because the share of computers with fingerprint sensors has been growing and is expected to continue to grow. Microsoft announced in September this year that the company now permits users of the company's products to replace passwords with biometric authentication and authentication apps. Other leading tech companies are likely to follow, which will increase demand for biometric products and solutions.

During this quarter we received the first purchase order from a major partner under the frame agreement that was announced in March this year. We will start delivering sensors in Q4. This is a very important milestone for NEXT. Moreover, we are scheduled to make another Q4 shipment to Credence ID under the purchase order that was announced in February 2021. With these deliveries we will enter the mass production phase of our FAP20 sensor product in quarter four.

More important, we continue to secure design wins, and have now accumulated 21 design wins during the last 21 months. We announced a new PC sensor design win from an Asia tech group during the quarter, which is connected to a new PC design scheduled to enter the market in 2022.

Q3 operational cash flow was negative NOK 1.7 million. The improvement relative to earlier quarters is significant and can be explained by strong collection of receivables and our lower cost base. We are now reaping the benefits of having ended expensive service contracts and paid off most of our legacy commitments. We will maintain our cost discipline on our journey towards making NEXT a profitable company.

Our performance in Q3 was hampered by the supply chain challenges affecting so many industries. We have worked hard to overcome these difficulties, but the obstacles remain beyond our control and continued to affect both our customers and us. Several of our new customers face challenges securing components for their products, and hence they also delay their purchase orders with NEXT.

This also affected our gross margins in Q3, as a large part of the delayed deliveries are for FAP20 sensors with considerably higher margins.

Similar to quarter two, orders booked for the third quarter were forty percent higher than we were able to deliver, due to the same supply chain challenges. Our backlog of orders would have taken us to more than NOK 17 million in Q3 revenues, and with considerably higher margins.

We have a strong cash position and our OPEX spending will remain at the present, low level. The supply chain challenges are expected to ease in the medium term, both due to internal efforts and external factors. Going forward we expect to continue to secure further design wins on a consistent basis, which is the basis for future revenue growth.

Despite the present challenges we remain very confident that we are on the right track to make this company successful.

Thank you.

Peter Heuman, CEO of NEXT Biometrics Group ASA

(amounts in NOK million)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
Total revenues	12.4	15.2	37.1	49.3	58.1
Gross margin (%)	22 %	14 %	24 %	15 %	15 %
EBITDA ex options ¹⁾	-9.2	-14.2	-23.8	-70.9	-78.9
Cash and cash equivalents - closing balance	116.9	86.8	116.9	86.8	67.9

1) See definition on page 14

Operational review

NEXT announced a NOK 5.5 million FAP20 purchase order in early September, which is the first purchase under the General Frame Agreement announced on March 10, 2021. Delivery will take place in Q4 this year and during Q1 2022. NEXT continues its dialogue with current and prospective customers to introduce the FAP20 sensor technology for Point of Sales (POS), Government ID and Access control applications. Sample orders have been shipped to multiple customers for technical evaluation, which is a precondition for announcement of NEXT design wins.

NEXT revenues continue to be impacted by the semi-conductor industry shortage of microchips, which had a negative impact on both some of NEXT's customers' ability to place orders with NEXT and NEXT's ability to fulfil orders in a timely manner. Q3 shipments of FAP20 sensors continued to be low as a result of this development. Q3 PC sensor shipments increased relative to Q2, but NEXT ended the quarter with an unfulfilled backlog of NOK 5.0 million, which is at similar level as per Q2.

Orders from existing PC customers was strong during Q2 and Q3, and has grown significantly relative to Q1 2021 and last year. Still, shipments of notebook sensors have lagged due to shortage of microchips.

NEXT announced a new PC design win with an Asia based tech group towards the end of the quarter. The customer will be using the sensor in a PC product that is expected to be launched early 2022 while the initial production is expected to start in Q4 2021.

NEXT's gross margin was 22% for Q3 2021, up from 14% in Q3 2020. The margin has improved relative to 2020 due to improved product mix in Q3 2021 with increased portion of high margin products.

The Group reached an adjusted OPEX of NOK 4.1 million per month (excluding share-based remuneration and estimated SkatteFUNN grant) during the quarter, which is a 25% reduction compared to Q3 2020.

Interim condensed financial statements as of 30 September 2021 (unaudited)

Statement of comprehensive income

Revenues for Q3 2021 were NOK 12.4 million compared to NOK 15.2 million in Q3 2020. The decrease in revenues from Q3 2020 was due to lower sensor shipment volumes due to supply chain constraints.

Payroll expenses excluding stock option costs were NOK 7.2 million in Q3 2021 compared to NOK 9.9 million in Q3 2020. The reduction was mainly related to reduced number of employees and lower share of employees in high-cost countries. Employee stock option costs were NOK 4.8 million in Q3 2021 compared to NOK 4.4 million in Q3 2020. See note 4 for further information on stock option cost.

Other operating expenses excluding stock option costs were NOK 4.7 million in Q3 2021 compared to NOK 6.4 million in Q3 2020. The reduction in costs is mainly related to savings in business services and office related costs. The Group also booked a NOK 0.4 million cost reduction as a result of recognizing estimated SkatteFUNN grant during the quarter.

Depreciation and amortization were NOK 1.8 million in Q3 2021 compared to NOK 3.6 million in Q3 2020.

Net financial items were positive NOK 1.2 million in Q3 2021 compared to negative NOK 1.0 million in Q3 2020.

Income tax expense was NOK 1.3 million in Q3 2021, compared to NOK 0.0 million in Q3 2020.

Loss after taxes for Q3 2021 were NOK 15.6 million compared to a loss of NOK 23.1 million for Q3 2020.

Statement of financial position and cash flow

Cash and cash equivalents amounted to NOK 116.9 million per 30 September 2021, compared to NOK 86.8 million per 30 September 2020.

Net cash flow from operating activities was negative NOK 1.7 million in Q3 2021, compared to negative NOK 20.3 million in Q3 2020. The negative cash flow in Q3 2021 is mainly due to operating losses offset by change in working capital items.

Net cash flow from investing activities was positive NOK 0.2 million in Q3 2021, compared to negative NOK 0.1 million in Q3 2020.

Net cash flow from financing activities was negative NOK 0.5 million in Q3 2021 compared to positive NOK 9.8 million in Q3 2020. The decrease in cash flow is due to the comparably smaller share issues completed in Q3 2021 relative to Q3 2020 and repayment of the remaining outstanding balance of the US COVID-19 loan by NOK 0.6 million.

Going concern

The Group's financial statements for Q3 2021 have been prepared on the basis of a going concern assumption.

Outlook

The Q3 announcement of the first FAP20 order from a major partner is an important milestone for NEXT. We anticipate more orders relating to this specific customer, but also others who understands the benefits of our technology. The Group's main focus is to increase the number of customers choosing to design-in NEXT FAP20 sensors, Notebook sensors and India Aadhaar related program products.

A new PC design win was announced in Q3. Moreover, the Group has achieved multiple new FAP20 design-wins during the last 21 months, which is the first and most important step towards future, recurring high margin revenue growth.

The markets for NEXT's fingerprint sensor technology are expected to grow in 2022 and beyond. The Board's view is that NEXT's unique products and patented technology has considerable long-term revenue potential. Sales of the NEXT FAP20 sensor has the highest priority. Due to its many competitive advantages, it has a high market potential.

NEXT Notebook sensor customer orders are at an all-time high for 2021. The limiting factor for our shipments to PC customers is the inadequate production capacity among the world's semiconductor manufacturers. We are continuously working with our suppliers to secure additional components. However, we see challenges related to component shortages that is likely to impact NEXT's ability to meet this increased PC-segment demand in the short term. We expect to carry a backlog with unfulfilled orders at the end of Q4 largely at the same level as we had at the end of Q3. Longer term, we expect to solve the supply chain challenges during first half of 2022 and catch up with increased customer demand.

The Group's 21 design-wins from Q4 2019 up to September 2021 will contribute to future revenue growth. Additional design wins and purchase orders from both existing and new customers are expected to be announced during the remaining part of 2021.

Oslo, 2 November 2021
CEO and Board of Directors
NEXT Biometrics Group ASA

Peter Heuman (CEO)

Petter Fjellstad (Chairman)

Emine Lundkvist (Board member)

Live Haukvik (Board member)

Odd Harald Hauge (Board member)

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of comprehensive income (unaudited)

(amounts in NOK 1 000)	Notes	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
Operating revenues	2	11 681	15 229	36 187	49 340	57 770
Other revenues		756	-	869	-	363
Cost of goods sold		-9 755	-13 163	-28 335	-42 040	-49 387
Gross margin		2 682	2 065	8 721	7 300	8 746
Payroll expenses	3,4	-11 972	-14 267	-35 059	-53 169	-63 228
Other operating expenses	3,4	-4 351	-6 403	-8 673	-28 263	-28 857
EBITDA		-13 640	-18 604	-35 012	-74 132	-83 339
Depreciation and amortization		-1 811	-3 555	-5 285	-12 613	-15 279
Impairment losses		-	-	-	-6 577	-6 577
Operating profit (loss)		-15 452	-22 159	-40 297	-93 322	-105 195
Net financial items		1 156	-957	1 396	356	411
Profit (loss) before taxes		-14 295	-23 117	-38 901	-92 966	-104 784
Income tax expenses		-1 278	-10	-1 307	-66	2 990
Profit (loss) after taxes		-15 573	-23 126	-40 208	-93 032	-101 794
<i>Other comprehensive income (loss) that may be reclassified subsequently to profit and loss:</i>						
Translation differences on net investments in foreign operations		375	168	258	3 161	3 129
Other comprehensive income (loss)		375	168	258	3 161	3 129
Total comprehensive income (loss)		-15 197	-22 959	-39 950	-89 871	-98 665
Profit (loss) after taxes attributable to:						
Owners of the parent company		-15 573	-23 126	-40 208	-93 032	-101 794
Total comprehensive income (loss) attributable to:						
Owners of the parent company		-15 197	-22 959	-39 950	-89 871	-98 665
Earnings per share (in NOK):						
Basic and diluted		-0.17	-0.31	-0.45	-1.54	-1.58

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of financial position (unaudited)

(amounts in NOK 1 000)	Notes	30 Sep 2021	30 Sep 2020	31 Dec 2020
Deferred tax assets		37	14	58
Intangible assets		4 385	6 748	5 446
Property, plant and equipment		17 672	20 053	17 197
Other non-current assets		163	-	704
Total non-current assets		22 257	26 816	23 404
Inventories		22 471	21 995	21 725
Accounts receivables		7 823	6 144	4 056
Other current assets		8 592	11 191	14 342
Cash and cash equivalents		116 927	86 779	67 950
Total current assets		155 813	126 109	108 072
Total assets		178 070	152 924	131 477
Share capital	4	91 681	75 944	75 944
Share premium		127 576	76 940	56 633
Other reserves		70 237	61 485	62 637
Accumulated losses		-137 977	-109 539	-98 027
Total equity		151 516	104 830	97 188
Deferred tax liabilities		70	-	135
Non-current interest-bearing loans		-	3 078	5 609
Other non-current liabilities		2 562	1 058	1 164
Total non-current liabilities		2 632	4 136	6 908
Current interest-bearing loans		-	6 321	2 346
Accounts payables		7 250	14 903	11 047
Income tax payables		5	61	60
Other current liabilities		16 668	22 674	13 928
Total current liabilities		23 922	43 959	27 381
Total equity and liabilities		178 070	152 924	131 477

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of cash flow (unaudited)

(amounts in NOK 1 000)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
Profit (loss) before taxes	-14 295	-23 117	-38 901	-92 966	-104 784
Share based remuneration (equity part)	3 967	4 367	7 600	3 224	4 376
Income taxes paid	1 967	-	1 922	-207	-408
Depreciation and amortization	1 811	3 555	5 285	12 613	15 279
Impairment losses	-	-	-	6 577	6 577
Change in working capital items and other	4 806	-5 122	-10 999	6 191	-1 409
Net cash flow from operating activities	-1 745	-20 317	-35 093	-64 567	-80 369
Proceeds from disposal of property, plant and equipment and intangible assets	2	-	2	6	11
Purchases of property, plant and equipment and intangible assets	-2	-88	-149	-88	-88
Proceeds from lease receivables	170	-	518	-	117
Net cash flow from investing activities	171	-88	372	-82	40
Net proceeds from issue of shares	739	9 940	86 679	55 720	55 720
Proceeds from interest-bearing loans	-	-	-	10 152	10 152
Repayments of interest-bearing loans	-626	-	-626	-	-
Payments of lease liabilities	-596	-176	-2 313	-2 380	-4 574
Net cash flow from financing activities	-483	9 764	83 740	63 491	61 297
Net change in cash flow	-2 056	-10 641	49 019	-1 158	-19 032
Cash balance at beginning of period	118 991	97 775	67 950	88 541	88 541
Effects of exchange rate changes on cash and cash equivalents	-7	-355	-42	-604	-1 559
Cash balance at end of period	116 927	86 779	116 927	86 779	67 950
Comprising of:					
Cash and cash equivalents	116 927	86 779	116 927	86 779	67 950

NEXT BIOMETRICS GROUP ASA

Interim condensed consolidated statement of changes in equity (unaudited)

(amounts in NOK 1 000)	Notes	Share capital	Share premium	Other reserves	Accumulated losses	Total equity
As of 1 January 2021		75 944	56 633	62 637	-98 027	97 188
Profit (loss) after taxes					-40 208	-40 208
Other comprehensive income (loss)					258	258
Total comprehensive income (loss)		-	-	-	-39 950	-39 950
Share issues net	4	15 736	70 943			86 679
Share based remuneration	4			7 600		7 600
As of 30 September 2021		91 681	127 576	70 237	-137 977	151 516
As of 1 January 2020		42 931	53 278	58 261	-19 668	134 801
Profit (loss) after taxes					-93 032	-93 032
Other comprehensive income (loss)					3 161	3 161
Total comprehensive income (loss)		-	-	-	-89 871	-89 871
Share issues net		33 014	23 662			56 676
Share based remuneration				3 224		3 224
As of 30 September 2020		75 944	76 940	61 485	-109 539	104 830

Notes to the interim consolidated financial statements

Note 1 – General information and accounting principles

NEXT (the Group) consist of NEXT Biometric Group ASA (the parent company) and its subsidiaries. NEXT Biometrics Group ASA is a public limited liability company incorporated and domiciled in Norway and is listed at Oslo Stock Exchange under the ticker NEXT.

The Group's operations are carried out by the operating subsidiaries. The Group has five wholly owned active operating subsidiaries: NEXT Biometrics AS (Oslo, Norway), NEXT Biometrics Inc. (Seattle, USA), NEXT Biometrics China Ltd. (Shanghai, China), NEXT Biometrics Taiwan Ltd. (Taipei, Taiwan) and NEXT Biometrics Solutions India Pvt. Ltd. (Bengaluru, India).

The Group provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets.

This report contains forward-looking statements that are based on, among other things, the management current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for the Group. All such forward-looking statements are subject to inherent risks and uncertainties, and many factors can cause substantially deviations from what has been expressed or implied in such statements.

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim financial reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for 2020 (Annual Report for 2020). The Annual Report for 2020 is available at www.nextbiometrics.com.

The accounting policies applied in preparation of the interim financial statements are consistent with those applied in the preparation of Annual Report for 2020. There are no new standards and interpretations effective from 1 January 2021 that had a significant impact on the Group's consolidated interim financial statements.

As a result of rounding differences, numbers or percentages may not add up to the total.

The Group's interim financial statements for Q3 2021 have been prepared on the basis of a going concern assumption.

This interim financial report has not been subject to audit.

The Board of Directors approved the report on 2 November 2021.

Note 2 – Revenue and segment reporting

(amounts in NOK 1 000)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
Fingerprint sensor technology	11 681	15 229	36 187	49 340	57 770
Total operating revenues	11 681	15 229	36 187	49 340	57 770

NEXT targets four markets for the technology;

- (i) Smart cards
- (ii) Government ID
- (iii) Access control
- (iv) Notebooks

The available technology is generic into the four markets. Most of NEXT's key IP, including our *NEXT Active Thermal™* is shared and used in all four markets.

Note 3 – Operating expenses

(amounts in NOK 1 000)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
R&D related payroll expenses	-1 479	-4 533	-5 422	-24 291	-28 948
Other payroll expenses	-5 717	-5 367	-18 370	-25 654	-30 329
Share based remuneration (salary part)	-4 287	-4 367	-7 683	-3 224	-3 882
Share based remuneration (employer's tax)	-489	-	-3 585	-	-69
Total payroll expenses	-11 972	-14 267	-35 059	-53 169	-63 228

(amounts in NOK 1 000)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
R&D related operating expenses	-888	-1 761	3 983	-9 106	-6 983
Other expenses	-3 783	-4 642	-12 740	-19 157	-21 381
Share based remuneration (operating part)	320	-	83	-	-494
Total other operating expenses	-4 351	-6 403	-8 673	-28 263	-28 857
Total R&D expenses	-2 367	-6 295	-1 439	-33 397	-35 930

R&D related operating expenses in Q3 2021 includes changes in estimated SkatteFUNN grant of NOK 0.4 million.

Note 4 – Shares and incentive options

Numbers of shares outstanding

As of 1 January 2021	75 944 489
Share issues	15 736 274
As of 30 September 2021	91 680 763

In September 2021, 167,877 share options were exercised at an average subscription price of NOK 5.06 per share, corresponding to gross proceeds of NOK 0.8 million. Direct expenses related to the share issue were NOK 0.0 million.

Share options:

NEXT has entered into and plans to continue to enter into stock option agreements in order to attract talented and experienced employees.

During the quarter, NEXT booked NOK 4.3 million in stock option cost relating to employees and a gain (negative cost) of NOK 0.3 million in stock option costs for contractors. The Group also booked a NOK 0.5 million in stock option social security cost due to the increase in the parent company's stock price during Q3 2021.

The number of outstanding options decreased by net 260,878 options during Q3 2021. The decrease is mainly due to exercise of options and cancellation of options for former employees holding option grants. The Group had 9,707,823 options outstanding as per 30 September 2021.

Note 5 – Subsequent events

Between 30 September 2021 and the resolution of these condensed consolidated interim financial statements, there has not been any other event which would have had any noticeable impact on NEXT's result for the Q3 2021 period nor on the value of the Group's assets and liabilities as per 30 September 2021.

Alternative performance measures

NEXT's financial information has been prepared in accordance with International Financial Reporting Standards (IFRS). In addition, it is management's intent to provide alternative performance measures that are regularly reviewed by management to enhance the understanding of NEXT's performance, but not instead of, the financial statements prepared in accordance with IFRS. The alternative performance measures presented may be determined or calculated differently by other companies.

Definitions

Most of these key figures are alternative performance measures according to ESMA's definition. How these key figures are used is described below, as is how they are calculated. The alternative performance measures are used to provide a more comprehensive description of how the operational activities are developing, such as gross margin and EBITDA ex options.

Orders booked for the quarter

Orders booked for the quarter is defined as purchase orders received by the company with requested customer delivery in the same quarter.

Gross margin / gross margin (%)

Gross margin is defined as operating revenue plus other income less cost of goods sold.

Gross margin (%) is expressed as a percentage of operating revenue and other income.

(amounts in NOK 1 000)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
Operating revenues	11 681	15 229	36 187	49 340	57 770
Other revenues	756	-	869	-	363
Cost of goods sold	-9 755	-13 163	-28 335	-42 040	-49 387
Gross margin	2 682	2 065	8 721	7 300	8 746
Gross margin	2 682	2 065	8 721	7 300	8 746
Divided by operating revenues and other revenues	12 437	15 229	37 056	49 340	58 133
Gross margin (%)	22 %	14 %	24 %	15 %	15 %

EBITDA / EBITDA ex options

EBITDA is earnings before interest, taxes, depreciation, amortization and impairment losses.

EBITDA ex options is equal to EBITDA excluding "share-based remuneration" (salary part, employer's part and operating part).

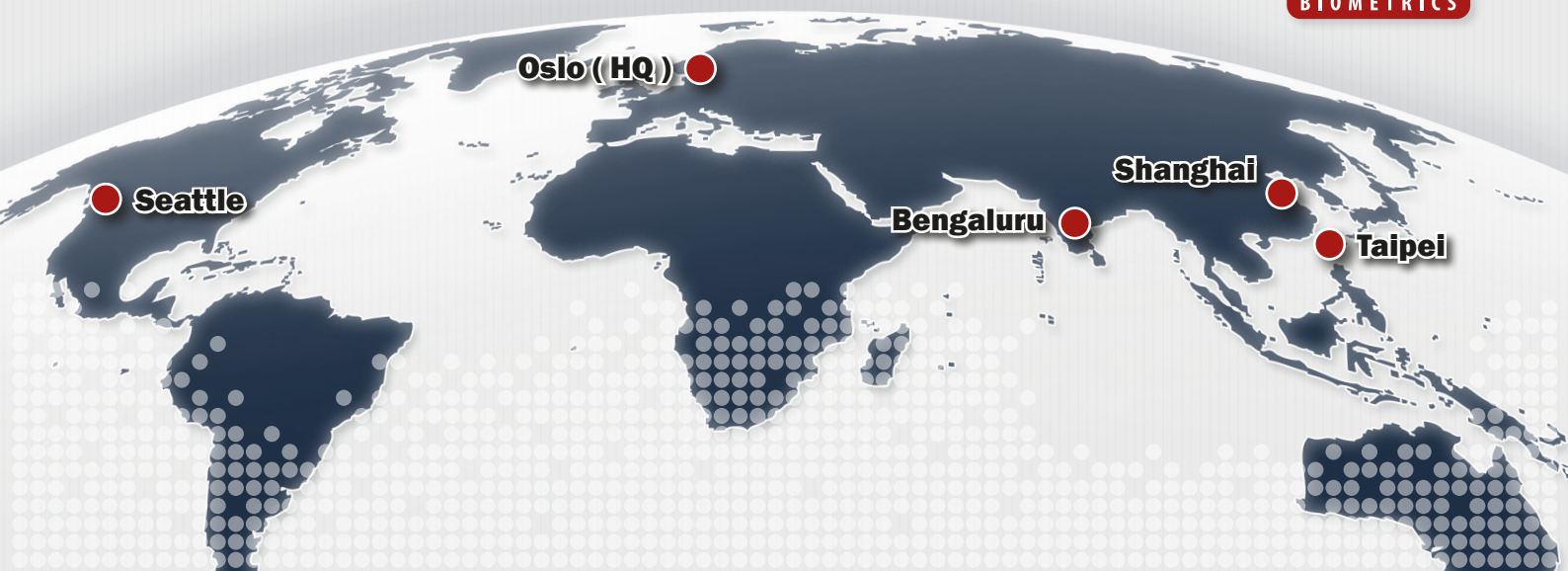
(amounts in NOK 1 000)	Q3 2021	Q3 2020	9 months 2021	9 months 2020	Full year 2020
Operating profit (loss)	-15 452	-22 159	-40 297	-93 322	-105 195
Added back depreciation and amortization	1 811	3 555	5 285	12 613	15 279
Added back impairment losses	-	-	-	6 577	6 577
EBITDA	-13 640	-18 604	-35 012	-74 132	-83 339
Added back share-based remuneration (salary part)	4 287	4 367	7 683	3 224	3 882
Added back share-based remuneration (employer's tax)	489	-	3 585	-	69
Added back share-based remuneration (operating part)	-320	-	-83	-	494
EBITDA ex. options	-9 184	-14 237	-23 827	-70 908	-78 894

Cost of goods sold (COGS)

Cost of goods sold (COGS) is cost of materials and production service expenses.

Operating expenses (OPEX)

Operating expenses (OPEX) consist of salaries and personnel cost and other operating expenses.



Visit **www.nextbiometrics.com** or contact us:

ABOUT NEXT BIOMETRICS:

NEXT provides advanced fingerprint sensor technology that delivers uncompromised security and accuracy for the best possible user experience in the smart card, government ID, access control and notebook markets. The company's patented *NEXT Active Thermal™* principle allows the development of large, high quality fingerprint sensors in both rigid and flexible formats. NEXT Biometrics Group ASA (www.nextbiometrics.com) is headquartered in Oslo, with sales, support and development operations in Seattle, Taipei, Bengaluru and Shanghai.

NEXT INVESTOR CONTACT:

Peter Heuman (CEO), peter.heuman@nextbiometrics.com
Eirik Underthun (CFO), eirik.underthun@nextbiometrics.com

HOME PAGE: www.nextbiometrics.com

Copyright© 2020 NEXT BIOMETRICS GROUP ASA, all rights reserved. Specifications are subject to change without notice. The NEXT Biometrics logo and NEXT Active Thermal™ are trademarks of NEXT BIOMETRICS GROUP ASA in Norway and other countries. All other brand and product names are trademarks or registered trademarks of their respective owners.

