

Proven Fingerprint Sensor Technology for Advanced Authentication



# NEXT Biometrics Group ASA

**Second Quarter 2018**

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## Fingerprint Solutions that are Secure, Accurate and Easy-to-Use



>4m

Founded 2004; IPO 2014

>4 million sensor  
modules shipped to-date

Proven biometric fingerprint  
sensor provider



Cost-efficient  
mass-production of  
large-size, rigid and  
flexible sensors

Key enabler of coming  
wave of biometrics



1bn

Worldwide  
fingerprint sensor market  
>1 billion units

Positioned for leadership  
in emerging smart card &  
government ID markets

Listed on Oslo Stock Exchange (NEXT) • Market cap NOK 780 million / \$~93 million • 2017 revenue NOK 98 million / ~\$12.5M  
HQ in Oslo, Norway • 90 employees - 50% US, 25% China & Taiwan

# Q2 2018 Highlights

- Revenue of NOK 25.6 million, up from NOK 23.3 million in Q1-18
- Gross margins of 26%, up from 19% in Q1-18 and -4% in Q4-17
- Aadhaar hardware certification represents significant achievement in Government ID market
- Strengthened sales and marketing organization now in place
- NEXT customer starts shipping first volumes of Smart Cards to key customers (August)
- First orders received for Aadhaar certified readers (August)



# Delivering on Gross Margin Improvement

Gross margin of 26% in Q2 2018

- Second consecutive quarter with positive gross margin
- Up from 19% in Q1

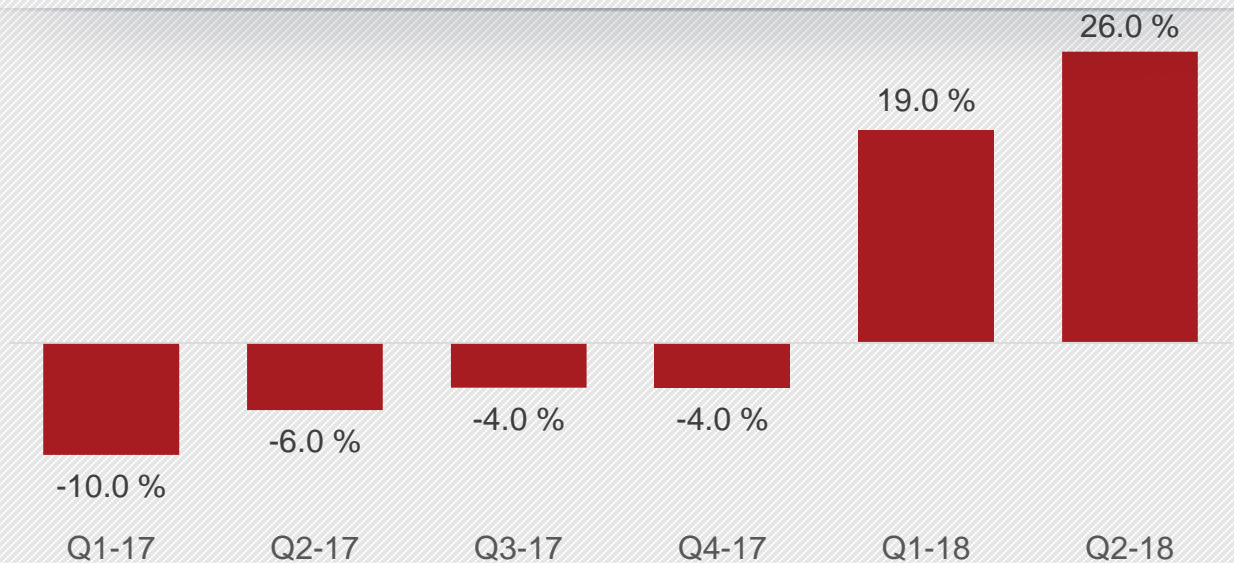
Drivers for margin improvement

- New ASIC
- Improved yields and scaling impact
- New segments with higher gross margin contribution

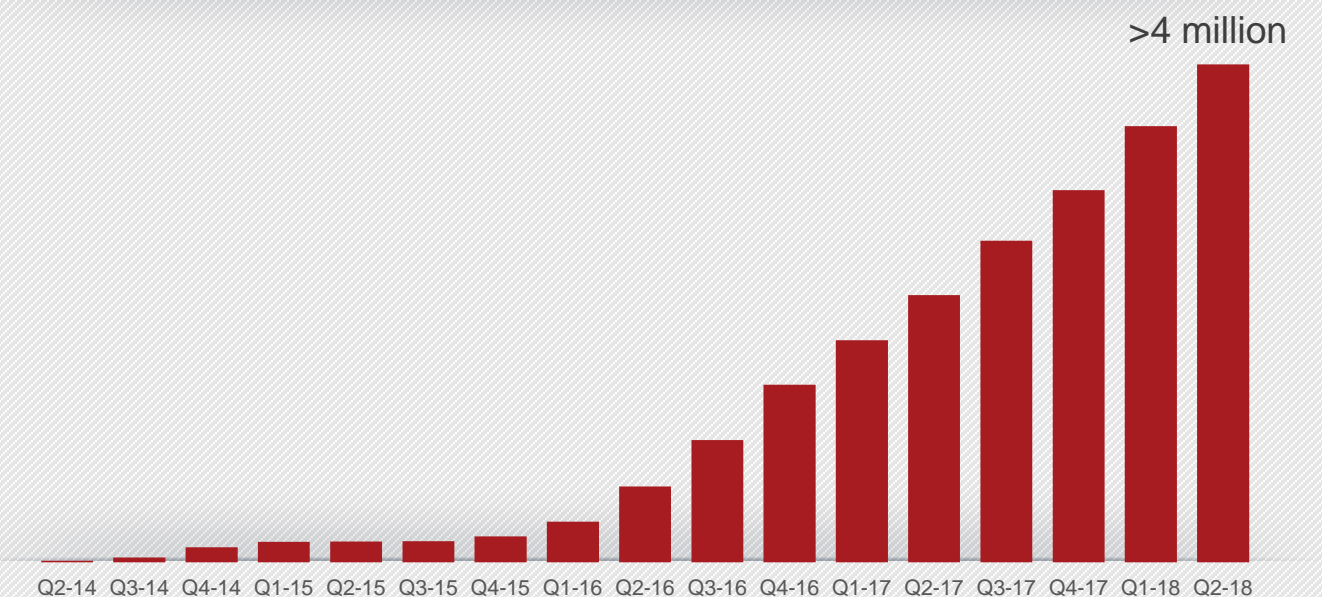
Future gross margin

- Expect to move towards long-term target over time
- Driven by shipments into higher margin Access Control, Govt ID and Smart Card segments

## Gross margin



## Accumulated sensor shipments





# Significant Breakthrough in Government ID Segment

Hardware certification for sales into India's Aadhaar government ID program

- Received in May
- Initial revenue expected in Q4 2018
- Ramp of volumes and revenue in 2019

First orders for fingerprint readers received early August

- In line with the communicated product plan calling first for sales of Scallop fingerprint readers
- The readers are sold through distribution partner AqTronics Technologies, Pvt. Ltd.

Additional product development and software certification ongoing

NEXT well-positioned to meet requirements of Government ID programs globally





# Building India Organization to Drive Growth



The world's biggest Government ID program with 1.2 billion people enrolled

- Leading use case: ID verification at Point of Sale
- Total available market estimates:
  - 3 to 4 million units annually in 2018 - 2019
  - Growing to 5 to 10 million units annually by 2020 – 2022
  - Total of 30 million units over next 3 to 5 years
- New use cases emerging

NEXT is a full system provider for Aadhaar

- Hardware certification validates reliability, security and convenience of NEXT's sensor technology

Local subsidiary created in India

- Responsible for developing product features specifically for India
- Building NEXT's presence and recruiting local talent

Leveraging experienced and well-connected sales team

- Led by Ameya Bhagwat who has extensive experience from companies such as Crossmatch, Safran and Gemalto
- Sanjith Sundaram, head of customers and compliance, with strong sector background and five years of highly relevant experience from the Unique Identification Authority of India (UIDAI) National Identity Project

Positioned to rapidly address customer requirements and address new market opportunities

# A Clearly Defined Plan for Growth in India

Aadhaar hardware certification enables NEXT to accelerate sales activity into India

- First step: sell “Scallop” (3023-U) fingerprint readers (initial orders received)
- Second step: sell sensor modules (2023-U) that integrate into Point of Sales (POS) terminals

Software certification process ongoing, required for each platform

- Software development and documentation underway

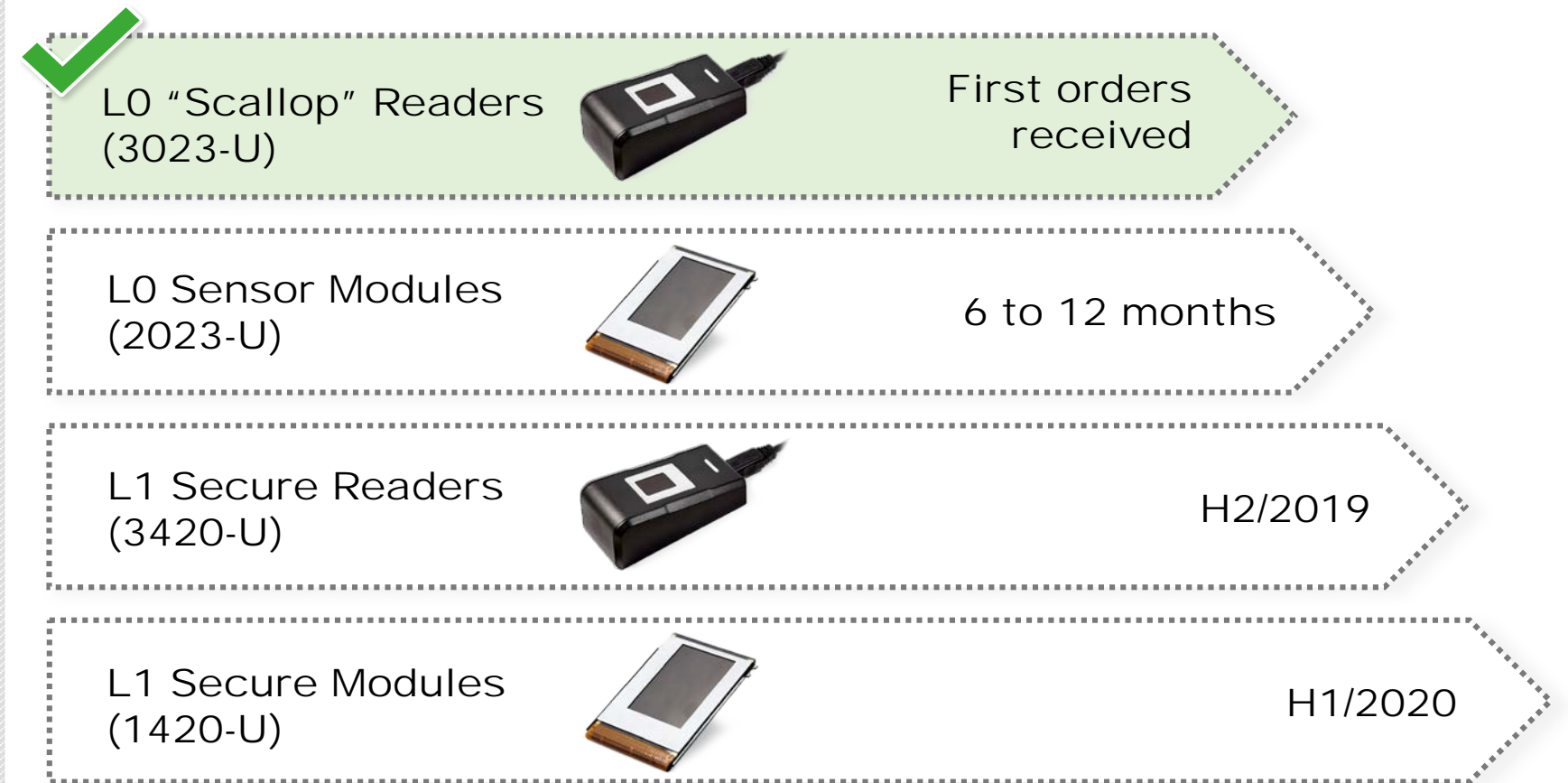
NEXT step is to introduce Level 1 compliant products

- Modules and Readers with digital signing / encryption in hardware to enable secure payments to be introduced in 2019 and 2020
- Followed by new round of certifications

## NEXT Product Roadmap for India

Product:

Expected time to market:



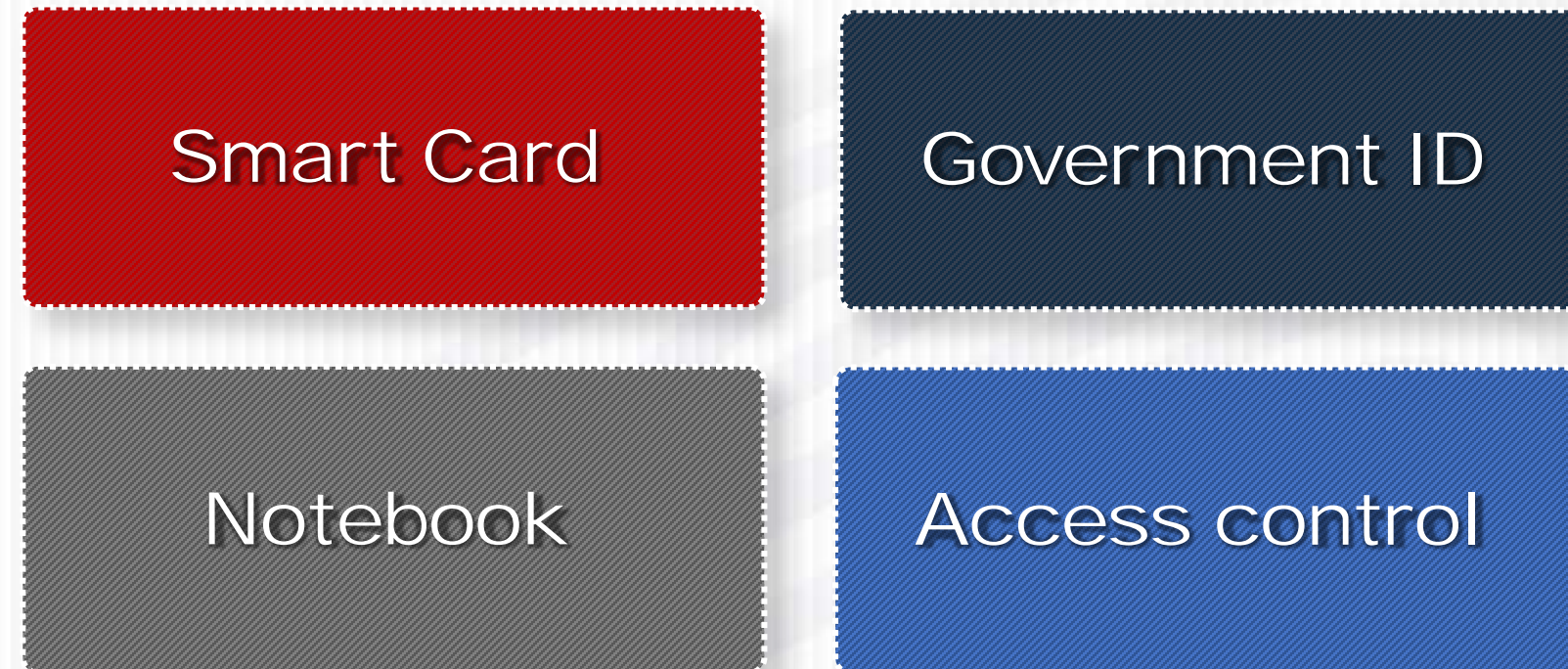


# Enhancing Global Sales and Marketing Capabilities



Alain Faburel - Chief Sales and Marketing Officer - NEXT Biometrics

# Multi segment strategy, Smart Card vision



- Unique positioning
- Demonstrated technology
- Products delivered in millions

## Smart Card opportunities

- ~3 billion cards banking only, an immense market
- Contactless trend but still 43% contact only by 2021
- High price niche market, multi-application
- Tier 1 to Tier 3 players
- Biometric Smart Cards





# Revenue and Gross Margin Development

## Profit and loss

NOK million	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	1H 2017	1H 2018
Revenue	24.0	25.4	24.7	23.3	25.6	48.1	48.9
COGS	25.5	26.4	25.6	18.8	18.9	52.0	37.7
Gross profit	(1.6)	(1.0)	(0.9)	4.5	6.7	(3.9)	11.2
Gross margin	-6%	-4%	-4%	19%	26%	-8%	23%
EBITDA	(40.1)	(38.6)	(41.8)	(38.8)	(44.4)	(82.9)	(83.2)
EBITDA adjusted*	(37.3)	(35.2)	(36.9)	(37.8)	(41.0)	(78.0)	(78.8)
Operating result	(40.9)	(40.0)	(54.8)	(40.8)	(47.0)	(86.2)	(87.7)

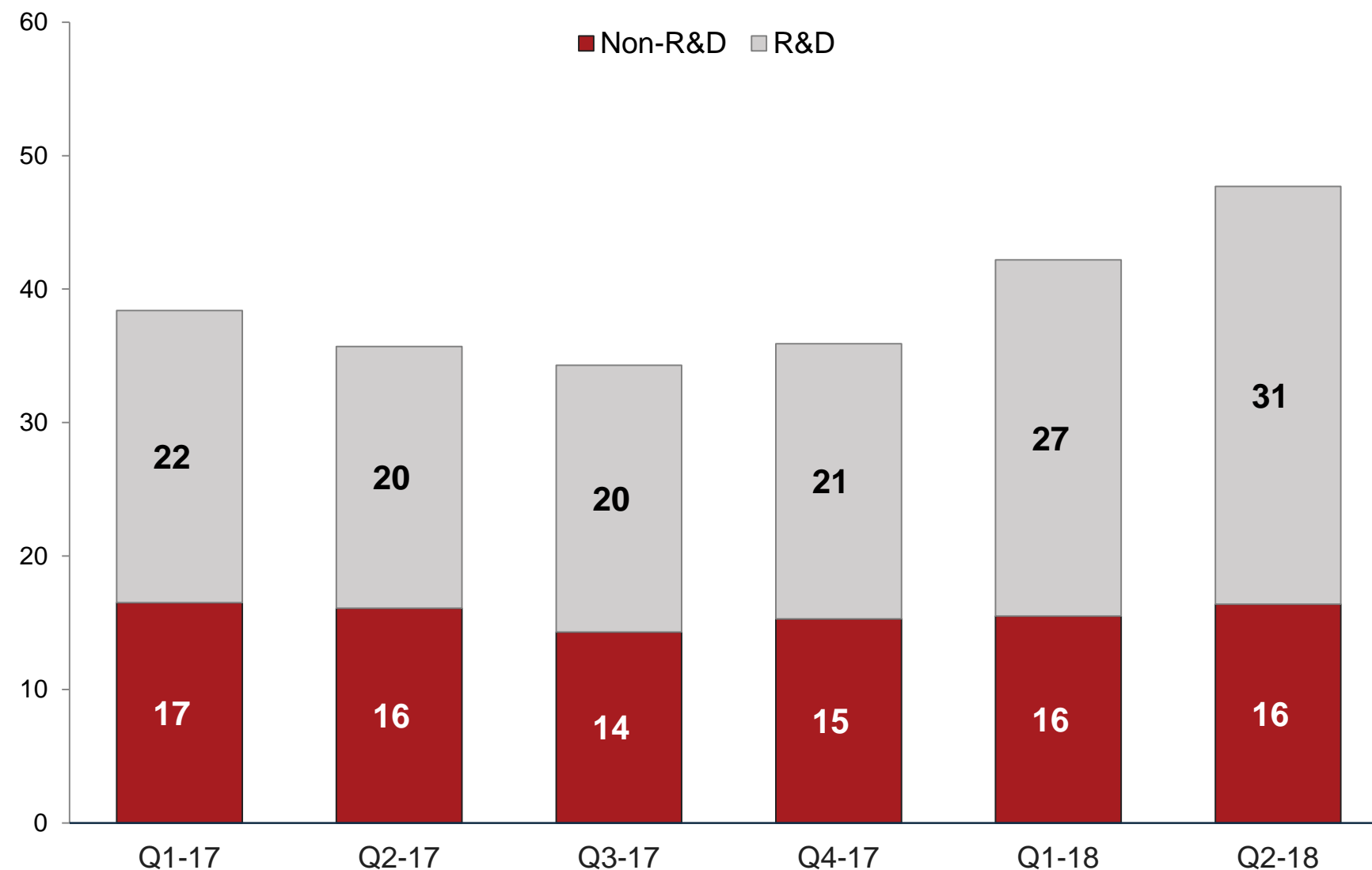
\*EBITDA adjusted for cost of options.

- Increased Q2-18 revenue vs. recent quarters
  - Shipments of the new sensor module to the Tier-1 U.S. notebook customer
  - Increased sales of the “Scallop” and “Oyster” fingerprint readers
- Gross profit improvements according to plan
- EBITDA reflects increased R&D investments as previously communicated
- Gross margin expected to increase and OPEX to flatten out

# OPEX Discipline Maintained while Increasing R&D Activities

R&D related vs non-R&D related OPEX\*

NOK million (excl. cost of options)



\*OPEX = Payroll + Other OPEX

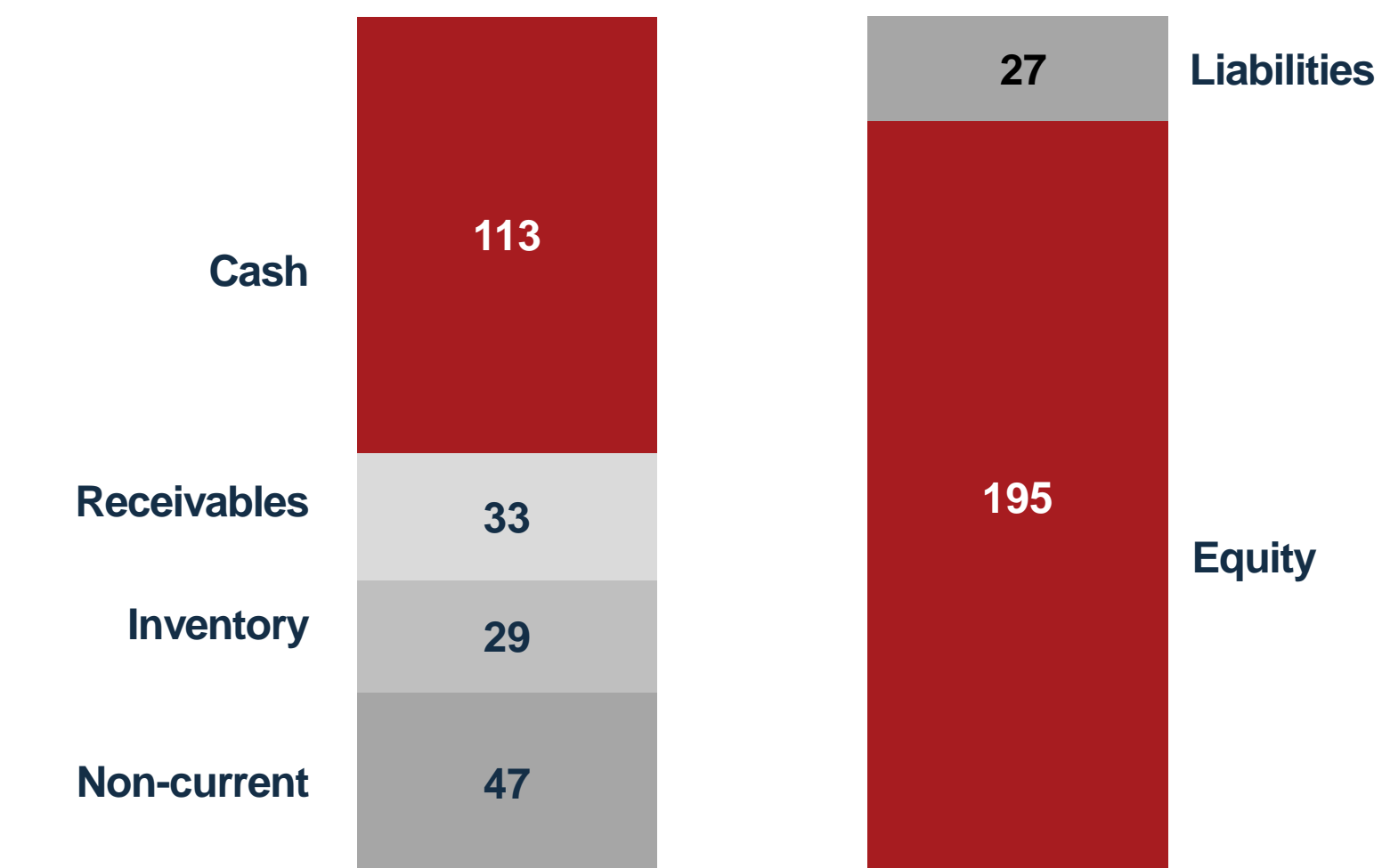
- Non-R&D related payroll and other OPEX stable over recent quarters
- R&D related payroll and OPEX increased reflecting higher activity
  - Focus on Smart Cards and Government ID
  - Full impact of R&D recruitments in Q1
- Payroll and OPEX expected to stabilize in coming quarters



# Private Placement Provides Growth Financing

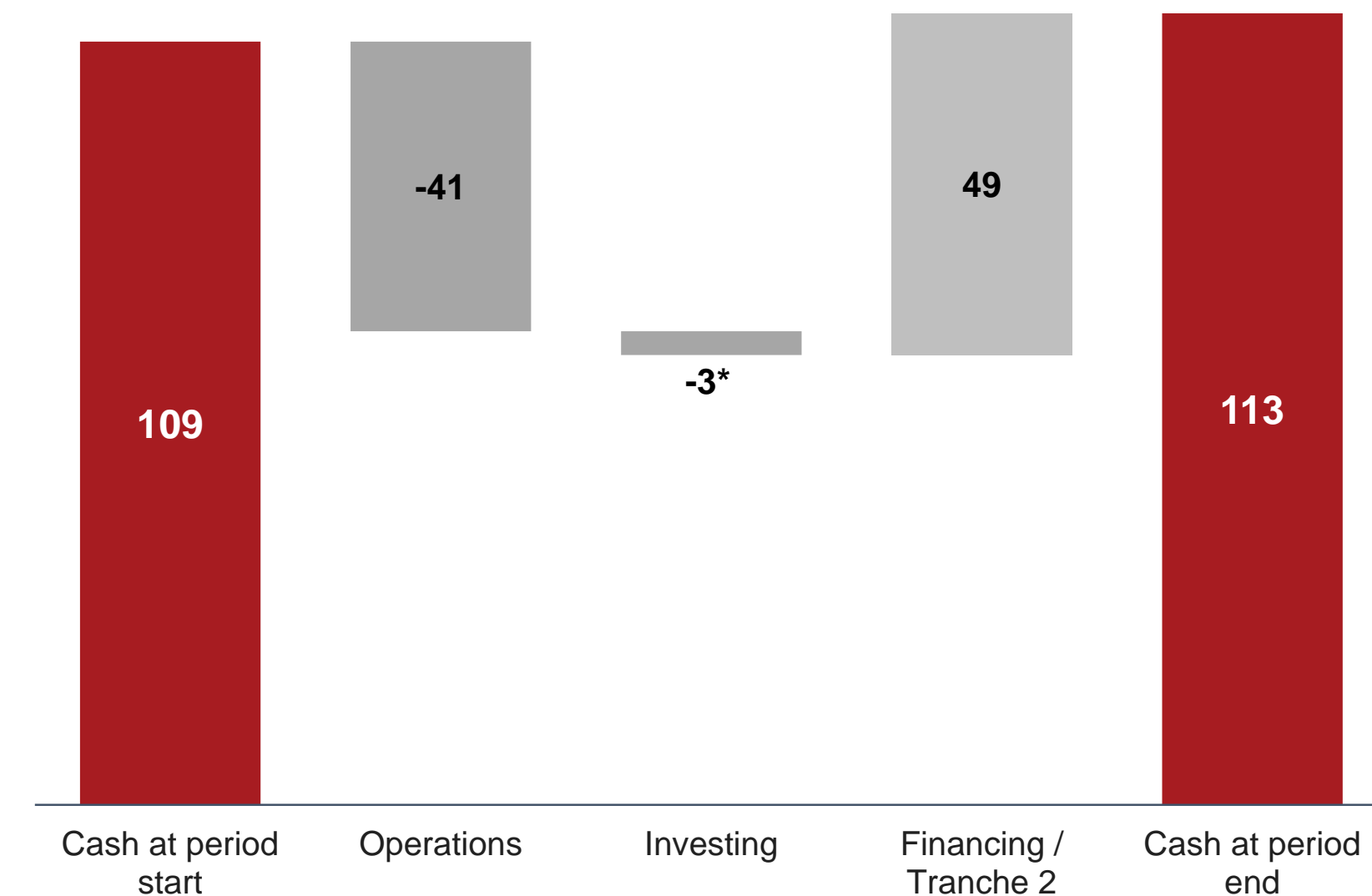
## Balance sheet

NOK million



## Cash flow development

NOK million

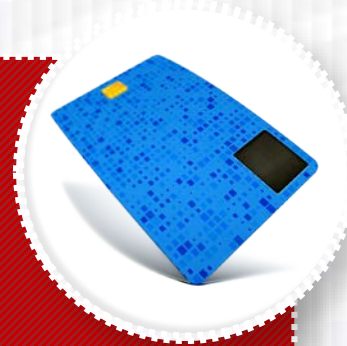


\* Includes license acquisition for industry-leading algorithm enabling NEXT to offer turnkey solutions that shorten customers' time to market. Main benefits are increased standardization and efficiency while strengthening offer in key market segments.

# Targeting Markets that Leverage Large Size Cost Benefit

Smart Card

**#1 priority**



Government ID

**Certification of  
existing products;  
Expanding sensor  
portfolio**



Notebook

**Stay strong  
and relevant**



Access control

**Leverage existing  
portfolio through  
distribution channel**





# Smart Card Early Adoption: Closed Loop and Contact Cards

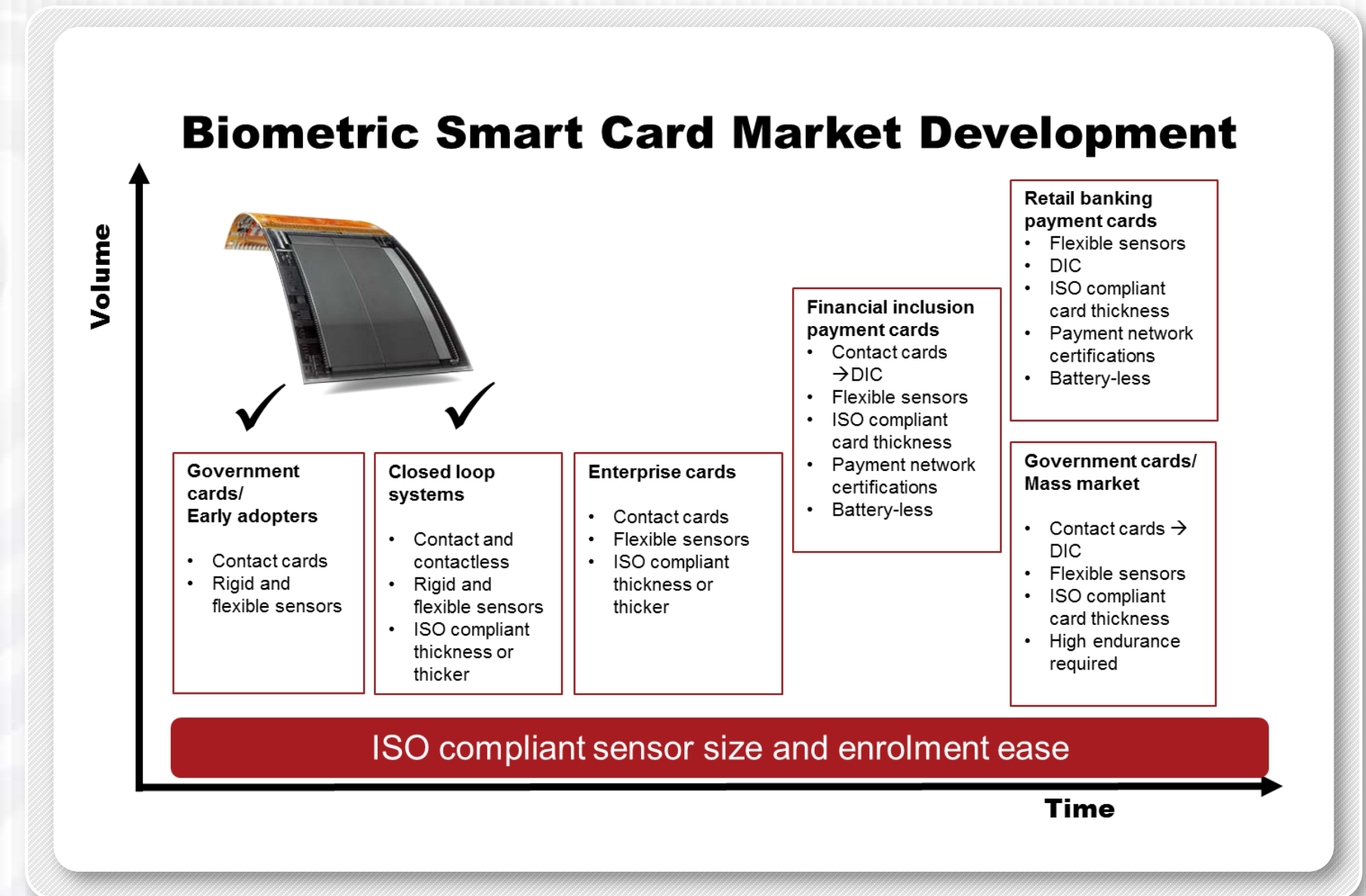
Closed loop and contact cards: early programs in smart cards

- Fragmented market
- NEXT flexible sensors well suited for these opportunities
- Customer designs continuing to progress

Payment card programs will ramp later in the biometric smart card market

- Financial inclusion is a driver in contact-only countries

Several projects ongoing (e.g Tactilis and First Biometrics)



# Smart Card Customer Tactilis Starts End-User Shipments



Initial shipments underway of Smart Cards featuring NEXT's unique sensor technology

- First units based on rigid sensors
- Flexible sensors to be included

Follows opening of Tactilis' Smart Card factory in Malaysia in early April

- Projected capacity of 5 million cards annually
- Additional capacity expansions planned
- Multiple projects in process based on NEXT's chipsets

NEXT gearing up to ship sensors and chips when Tactilis ramp up output

- More than 30,000 chipsets delivered to Tactilis
- Support of product development and start-up of manufacturing

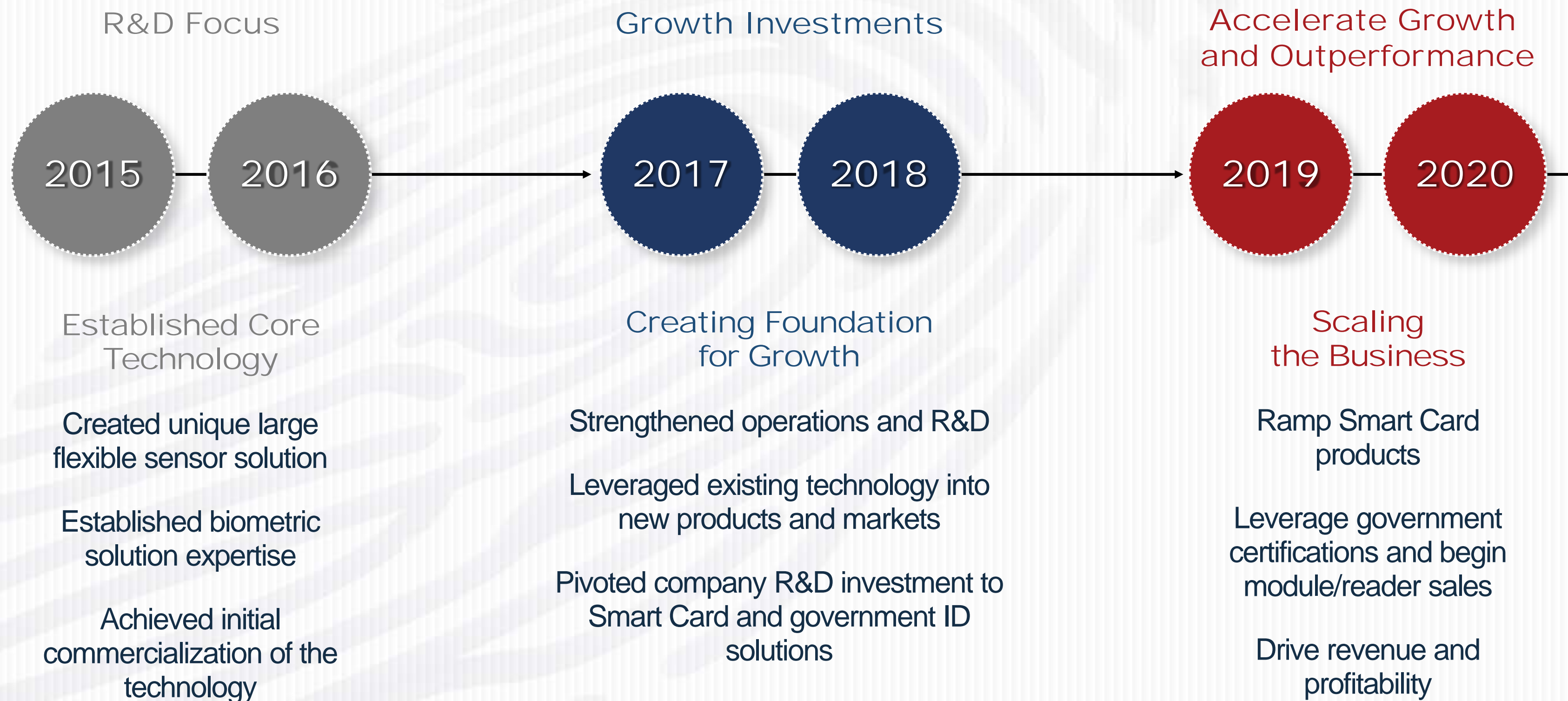
## Tactilis smart card with NEXT sensor\*



\* Incorporates NEXT NB610 flexible fingerprint sensors compliant with ISO 17839 defining the implementation of biometric system-on-a-card devices



# The Transformation of NEXT Biometrics



# Q2 Summary and outlook

## Achievements

- ✓ Increased gross margin
- ✓ More than 4 million sensors shipped
- ✓ Delivering on our Smart Card product roadmap
- ✓ Aadhaar hardware certification, first orders received

## Outlook (3-9 months)

Shipments in Smart Card and Government ID markets

Increased number of new smart card integration projects

Closing orders and deliver products to fulfill India certification

Sample FAP20, new high end government sensor, in Q4-18

Gross Margins to increase and OPEX to flatten out







One Touch.  
**One You.**  
NEXT Biometrics



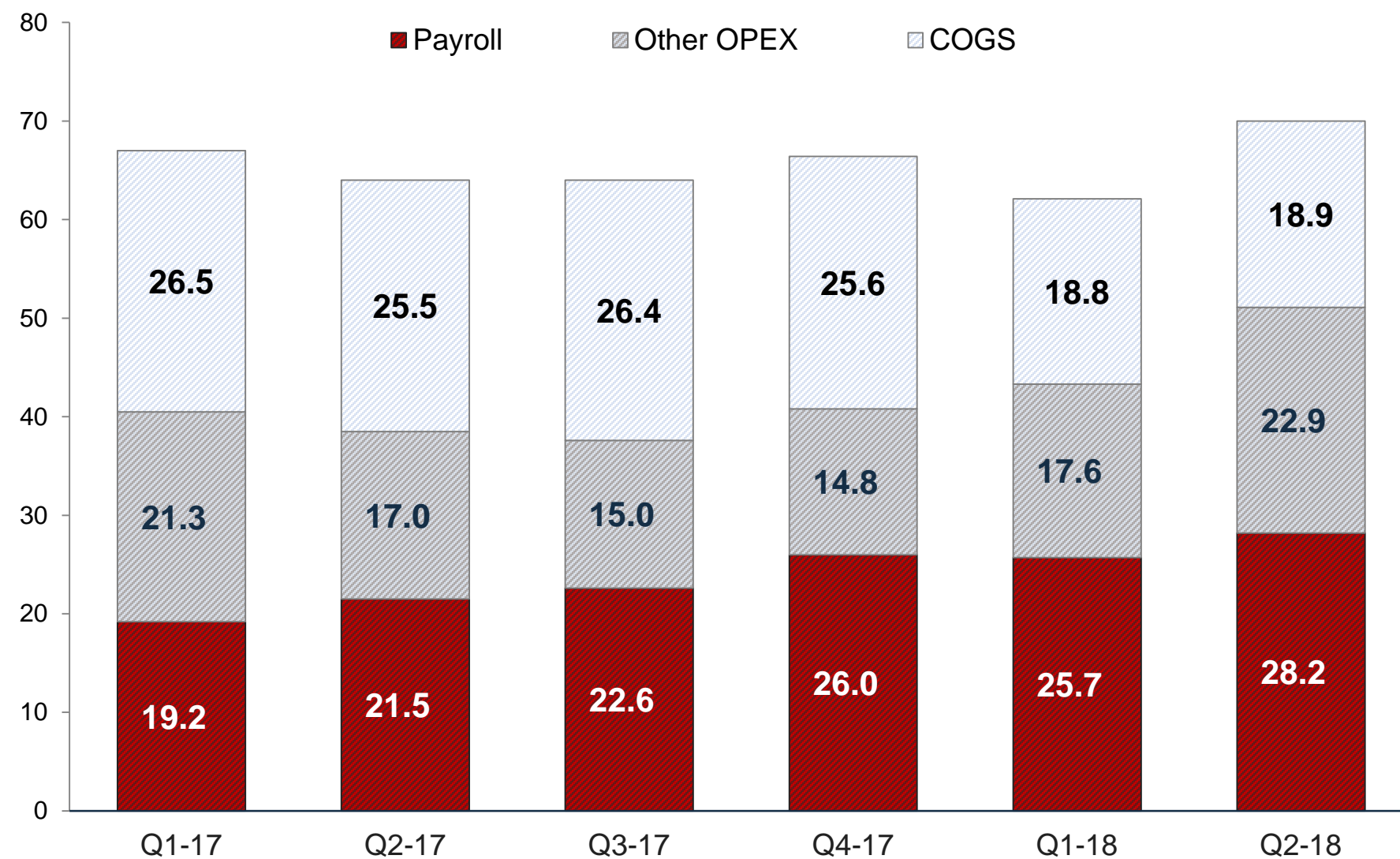


# Appendix



# Investing for Growth: Smart Card and Government ID R&D

Total operating expenses  
NOK million



- Payroll increase since Q2-17 reflects
  - Increased R&D activities with focus on Smartcards and government ID
  - Full impact of R&D recruitments in Q1
- Growth in other OPEX a function of R&D activities
- Total Q2-18 option costs NOK 3.4 million vs NOK 1.0 million in Q1-18