

NEXT Biometrics Group ASA

Q1-2019 Presentation

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Business Highlights Q1-2019

Government ID:

- Several design-in agreements signed
- New PO's for India received and revenue expected to accelerate in H2-2019

Smart Card:

- Agreement signed with tier-2 smart card manufacturer WizCard, Taiwan
- Received and delivered purchase order for 30,000 sensors from Tactilis

Subsequent events:

- Provided card specification for payment network (May)
- Partnership with Newland on biometric POS (May)
- Design-in and first shipments to KSI (April)



Key Financials Q1-2019

Key Financials:

- **Growth:** +18% to NOK 27.5 million compared with NOK 23.3 million in Q1-2018
- Revenue slightly down from NOK 29.3 million in Q4-2018 due to lower notebook build rates during Chinese New Year
- Revenue diversification showing further progress
- Gross margin: 34% compared with 19% in Q1-2018 and 36% in Q4-2018
- Most of cost reduction program executed, on track to complete restructuring by Q3-2019
- Raised NOK 179 million in net proceeds in a private placement



Key Figures Q1-2019

Profit and loss

| NOK million | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | 2018 |
|------------------|------------|------------|------------|------------|------------|---------|
| Revenue | 23.3 | 25.6 | 30.2 | 29.3 | 27.5 | 108.4 |
| COGS | (18.8) | (18.9) | (21.1) | (18.8) | (18.2) | (77.6) |
| Gross profit | 4.5 | 6.7 | 9.1 | 10.5 | 9.3 | 30.8 |
| Gross margin | 19% | 26% | 30% | 36% | 34% | 28% |
| EBITDA | (38.8) | (44.4) | (39.1) | (38.6) | (38.7) | (160.9) |
| EBITDA adjusted* | (37.8) | (41.0) | (35.7) | (35.0) | (35.4) | (149.5) |

*EBITDA adjusted for cost of options.

Q1-2019:

Revenue of NOK 27.5 million, compared with NOK 29.3 million in Q4-2018

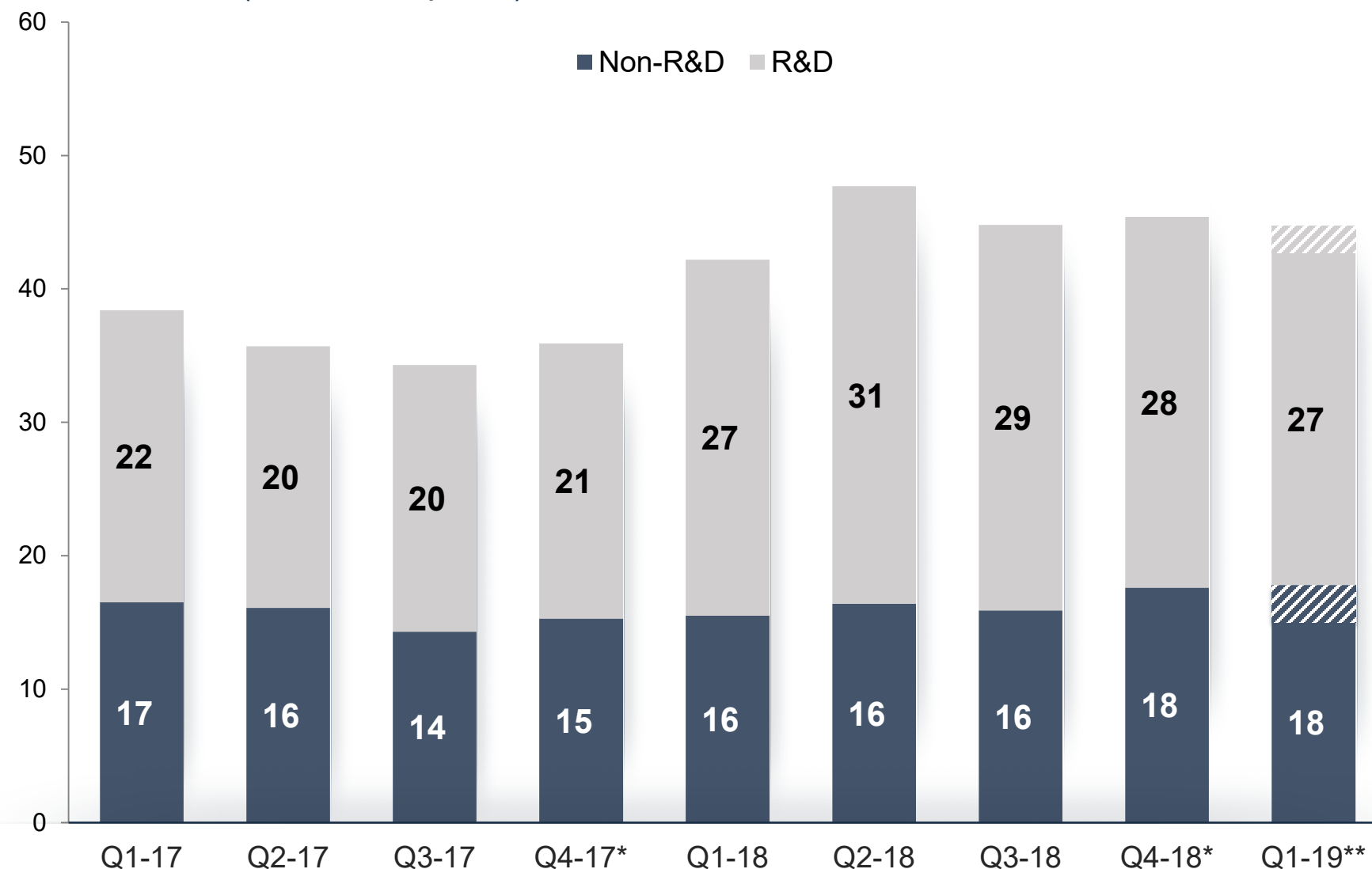
- Notebook volumes the main driver
- Announced pilot projects and design wins to take full effect in industry-typical intervals
- Revenue to increase as customers roll out their solutions
- One-off severance pay and other costs of NOK 4.8 million in Q1-2019 related to cost-down program

Gross margin: 34% compared with 19% in Q1-2018 and 36% in Q4-2018

Peak OPEX and R&D Investment Levels Passed

R&D related vs non-R&D related OPEX¹

NOK million (excl. cost of options)



1) OPEX = Payroll + Other operating expenses

*) Q4-2017/18 incl. NOK 5 million Skattefunn effect and Q4-2018 incl. additional NOK 3 million of R&D expense following a non-recurring reclassification of investments

**) Adjusted for NOK 4.8 million severance pay and other one-off effects

OPEX stable over last 3 quarters

R&D focused on Smart Card and Government ID

- Projects on track for expected volume market take off

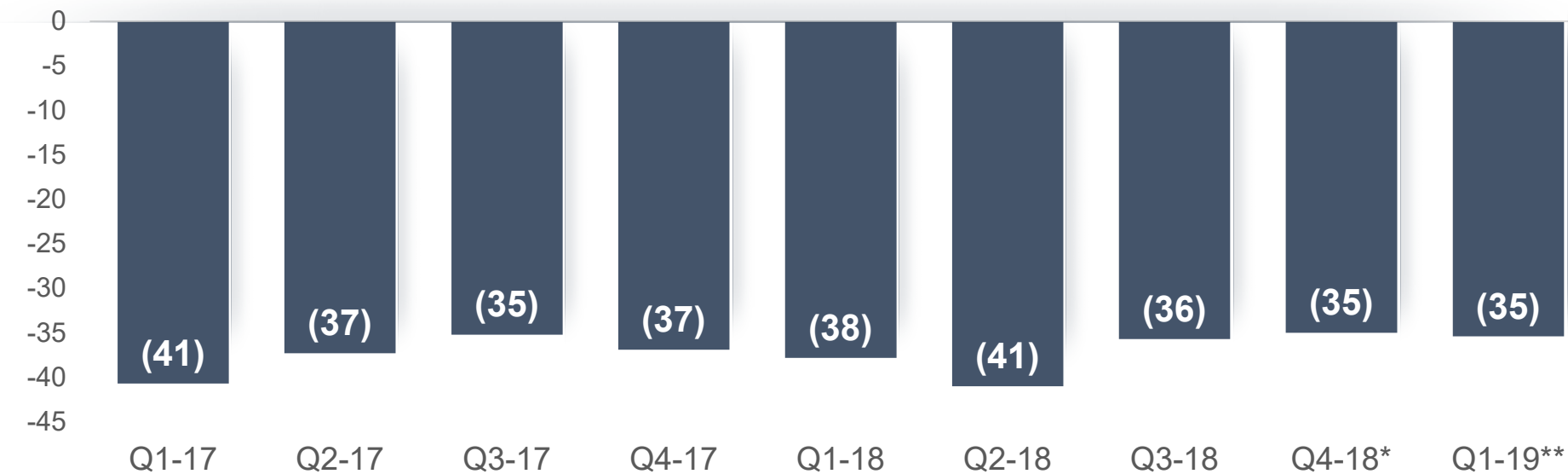
Cost reduction program

- Target of 20% decrease, full impact from Q3-2019
- One-off severance pay and other costs of NOK 4.8 million in Q1-2019
- Optimizing organization with increased focus on sales
- Commercializing payment card solution, scaling back other development processes

EBITDA and Cash Flow Performance

MNOK

EBITDA ex options

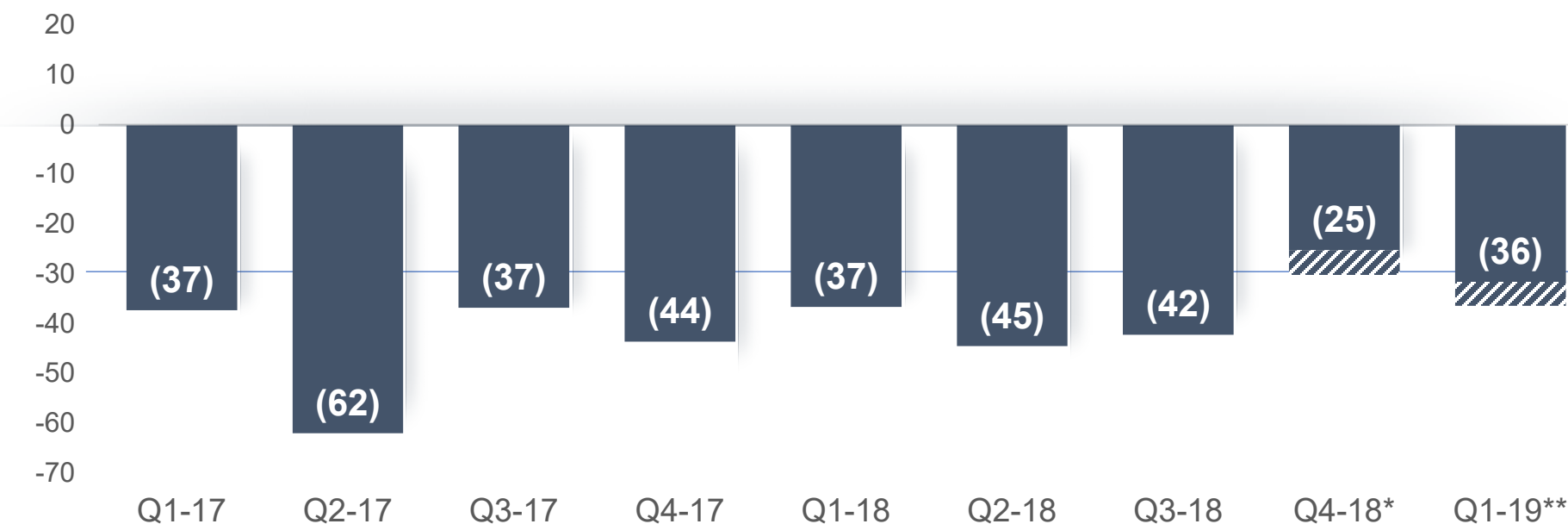


EBITDA:

- Q1-2019 EBITDA-loss excl. options includes severance and other one-off effects of NOK 4.8 million
- Q4-2018 benefitted from NOK 5 million positive tax scheme contribution (Skattefunn)

MNOK

Cash flow from operations and investment activities



Cash flow:

- Cash used for operations of NOK 31 million in Q1-2019 adjusted for severance pay and other one-off effects
- Q4-2018 cashflow included NOK 5 million Skattefunn effect
- Long-term cash flow levels to improve

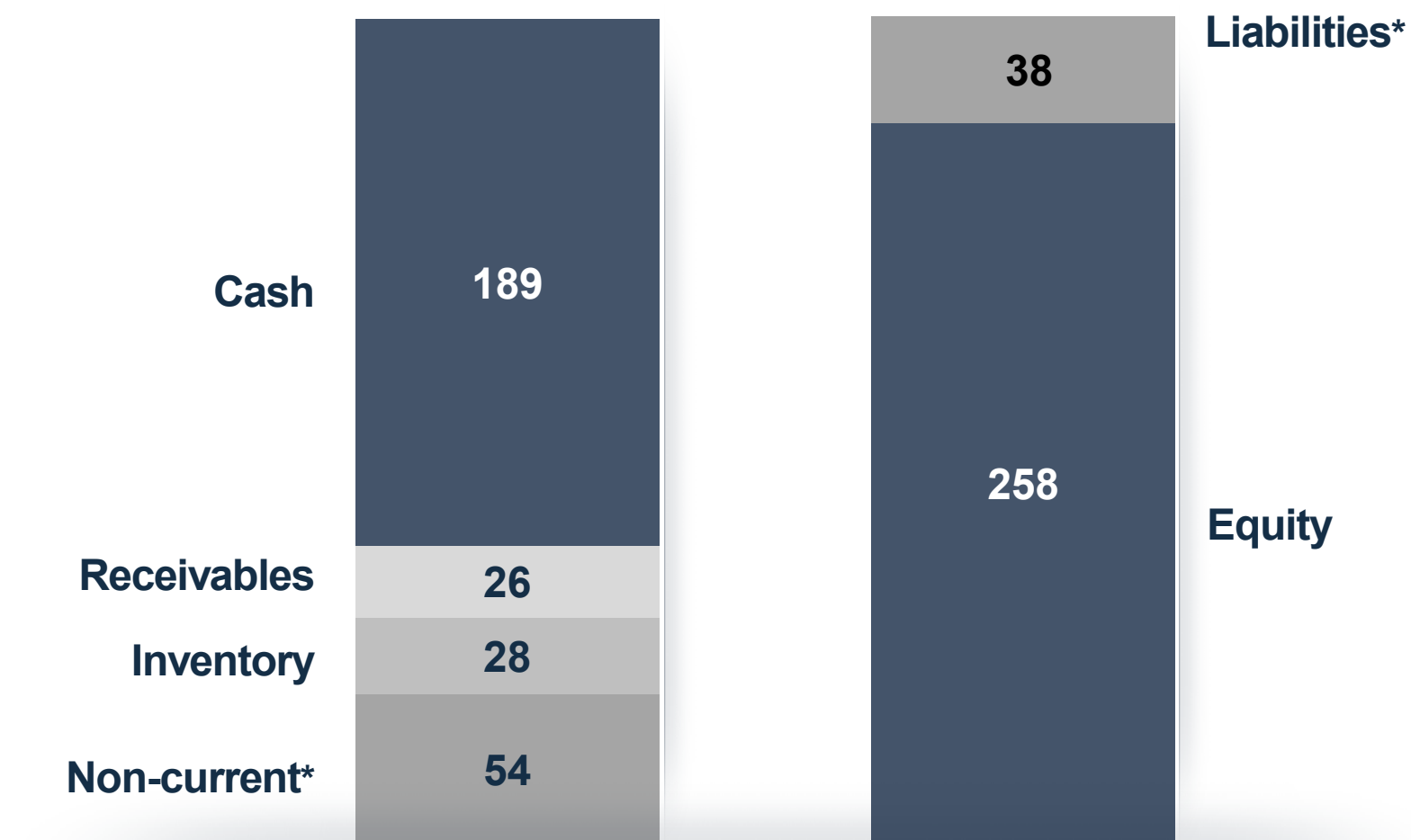
*) Q4-2018 Adjusted for Skattefunn effect of NOK 5 million

**) Q1-2019 Adjusted for NOK 4.8 million severance pay and other one-off effects

Balance Sheet & Cash Flow Development

Balance sheet

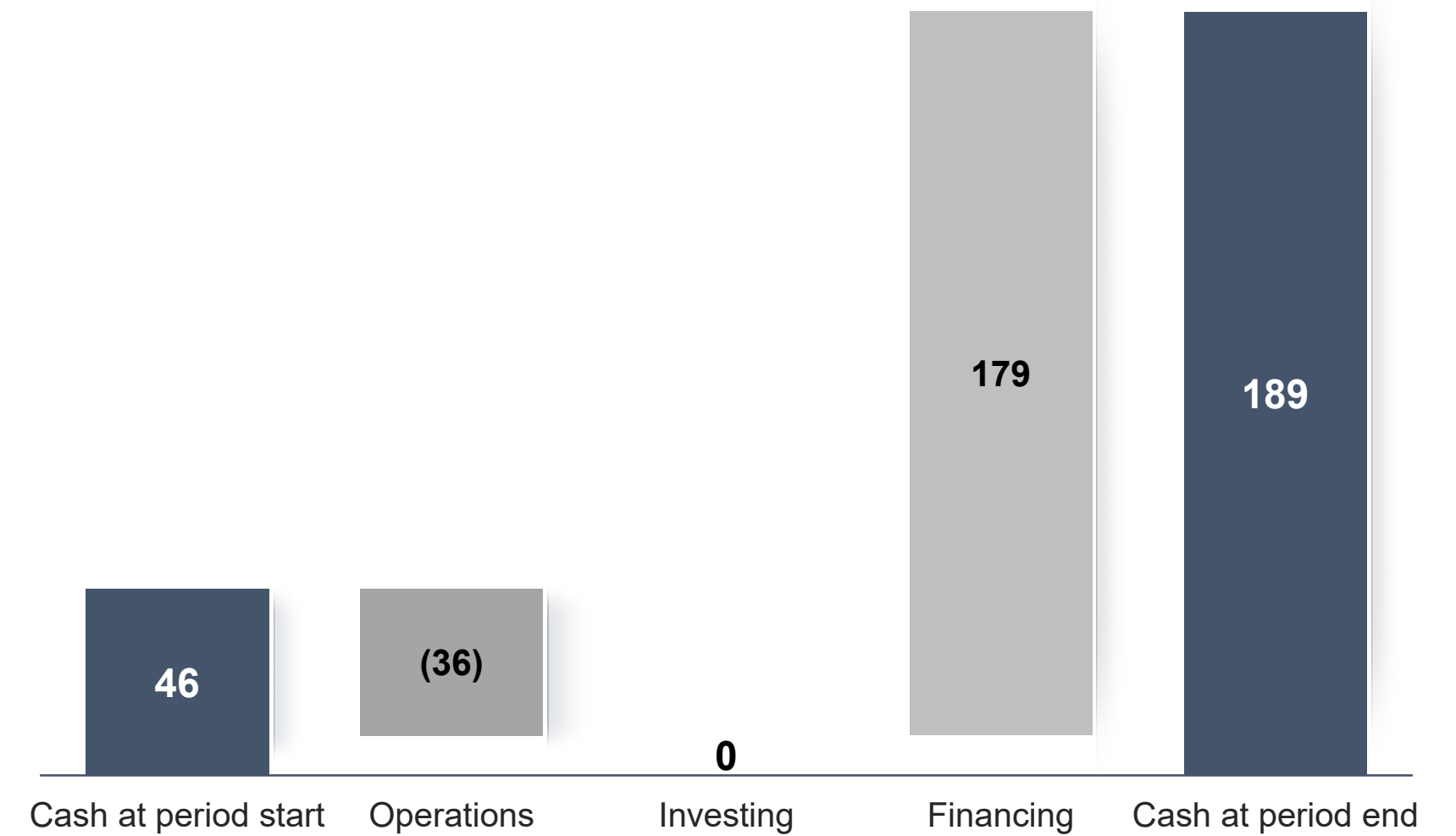
NOK million



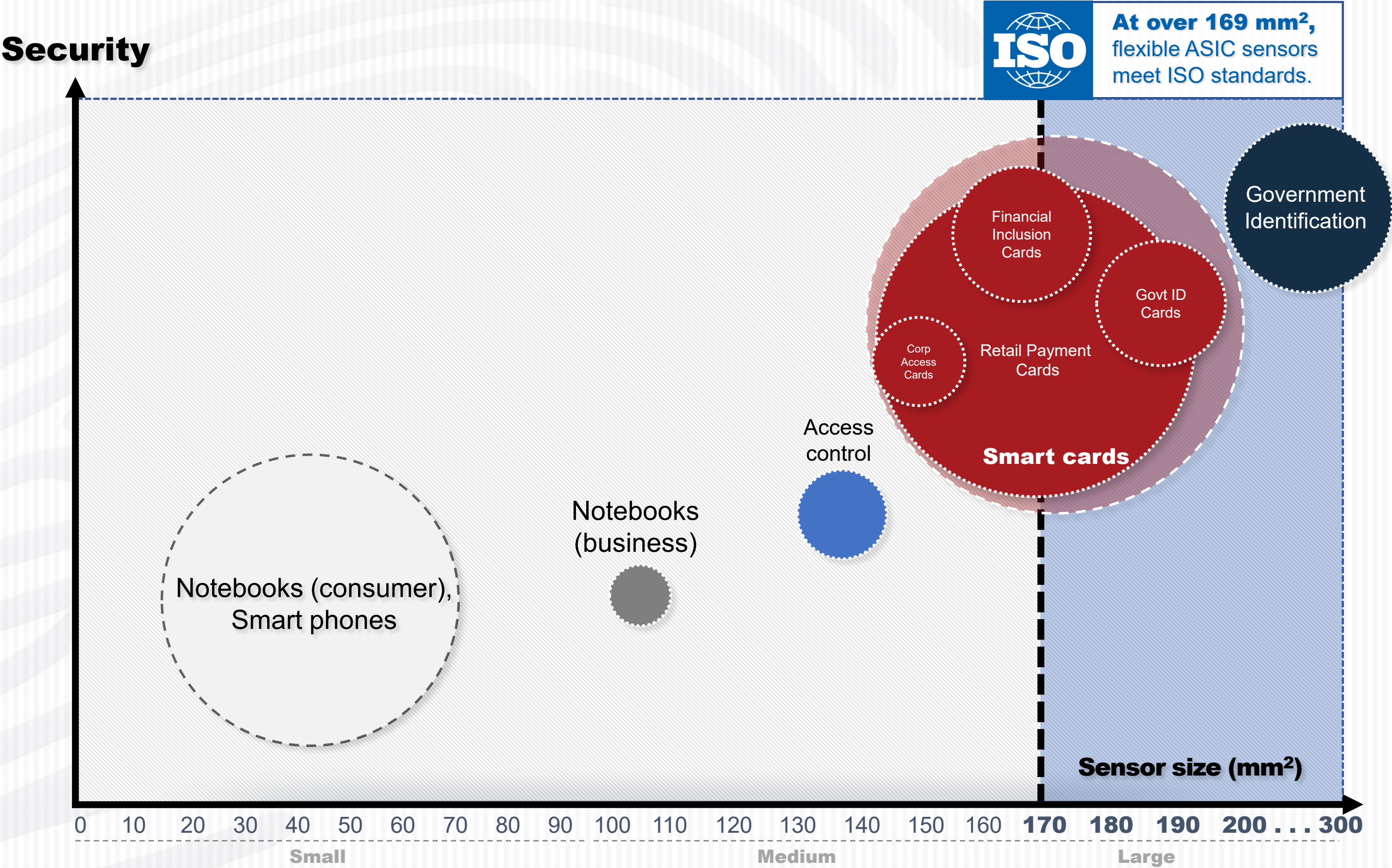
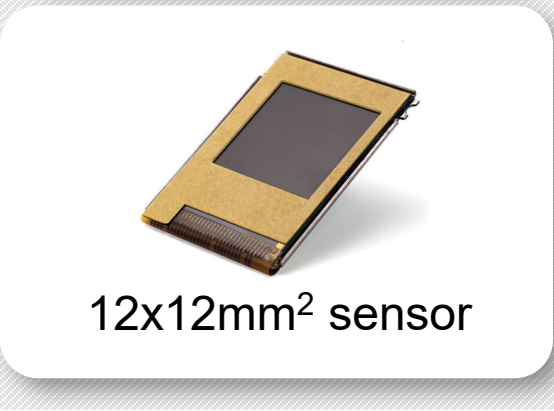
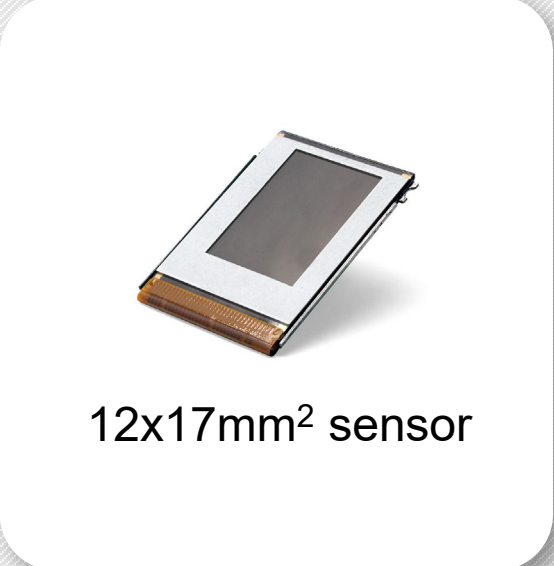
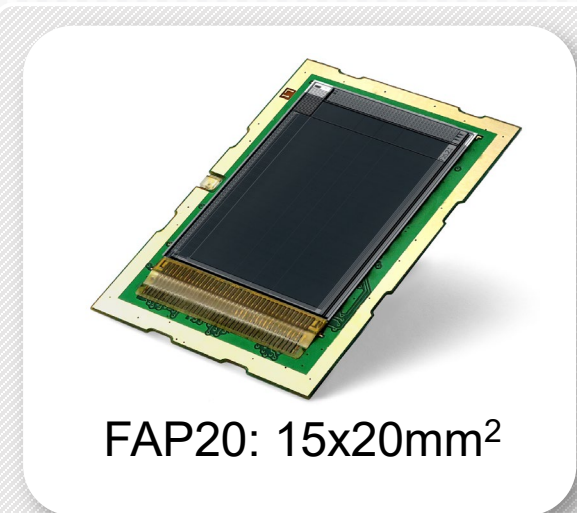
*) Included the effect of the implantation of IFRS16 - Leases

Cash flow development

NOK million

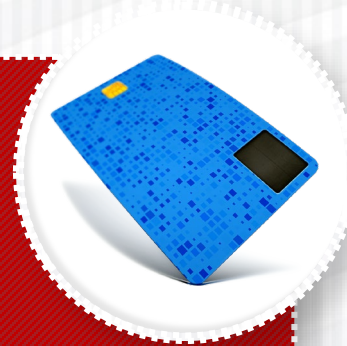


NEXT Technology Position: Higher Security with Larger Sensor Size



Leveraging NEXT's Large Size, Cost Benefit in Four Target Markets

Smart Card
#1 priority



Government ID
Win market share



Notebook
Be relevant and Stay strong



Access control
Leverage existing portfolio through distribution channels

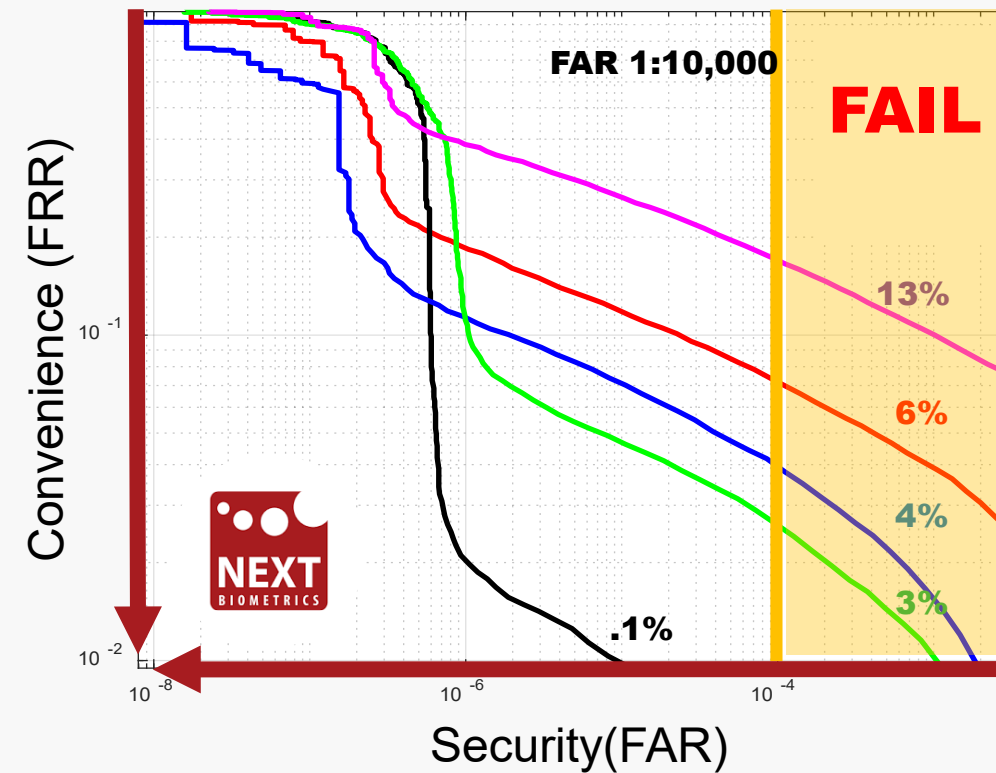


Physics Matters!



Higher Number of Features

- Easy, one-touch enrollment
- Better security through capture of more features



Size Makes the Difference

- NEXT sensors work 20x more often than best competitor and 100x more often than the worst -> higher user convenience
- Better User Experience – lower frustration from having to retry on false rejections



LTPS Advantages

- LTPS (plastics) flexes and doesn't break at larger size – glass (silicon) does!
- Easy & cost efficient in production
- Supports standard smart card manufacturing flow

Smart Card – Build Traction for Success in the Evolving Payment Market

Achievements

- ✓ Biometric payment card specification phase-1 delivered to US payment network
- ✓ Agreement with Taiwan-based WizCard on the development of biometric smart card solutions
- ✓ 30,000 sensors shipped to Tactilis under existing PO

Pipeline 2019

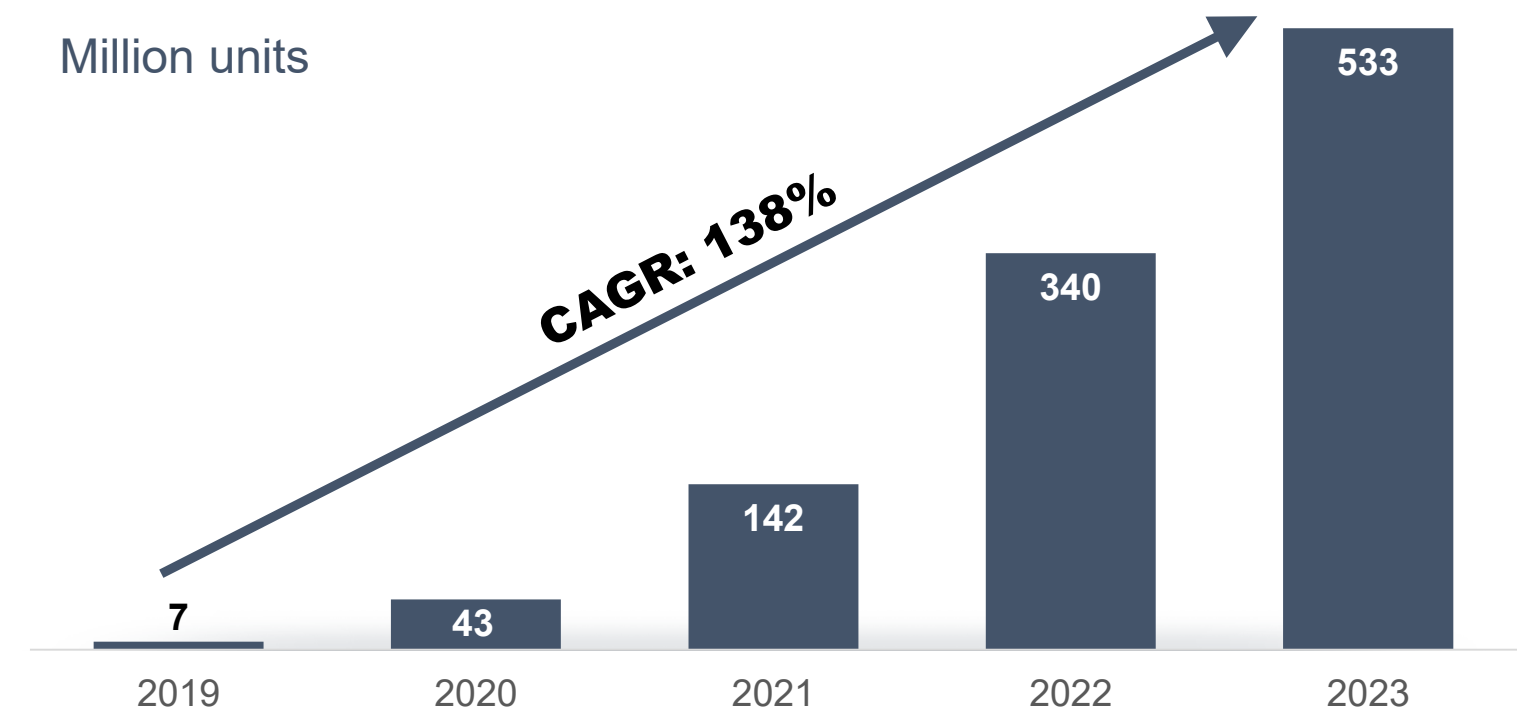
- Additional tier-2 card manufacturers
- Deliver phase-2 biometric payment card specification to US-payment network
- Dual Interface sensor demonstrations from Q2-2019

Priorities

- Close alignment with all major players in the smart card ecosystem
- Further develop ongoing technology partnership with Infineon
- Target new wins to start using biometric dual interface technology from 2020

Fingerprint Recognition Smart Card*

Million units



*) Source: ABI Research; Goode Intelligence; Edgar Dunn & Company; NEXT estimates



WIZCARD

Government ID India – Win Market Share

Achievements

- ✓ Signed 3 agreements out of 4 forecasted in January
- ✓ Started shipments in February
- ✓ Delivered customized product to customer
- ✓ Design-in with POS vendor Basewin

Pipeline 2019

- Open new distributor while continuing with historic channel
- Close agreement with customer D in H2-2019
- Revenue to accelerate from H2-2019 as elections conclude

Priorities

- Increase market share in India through 2019
- Aadhaar L-1 certification in line with market development

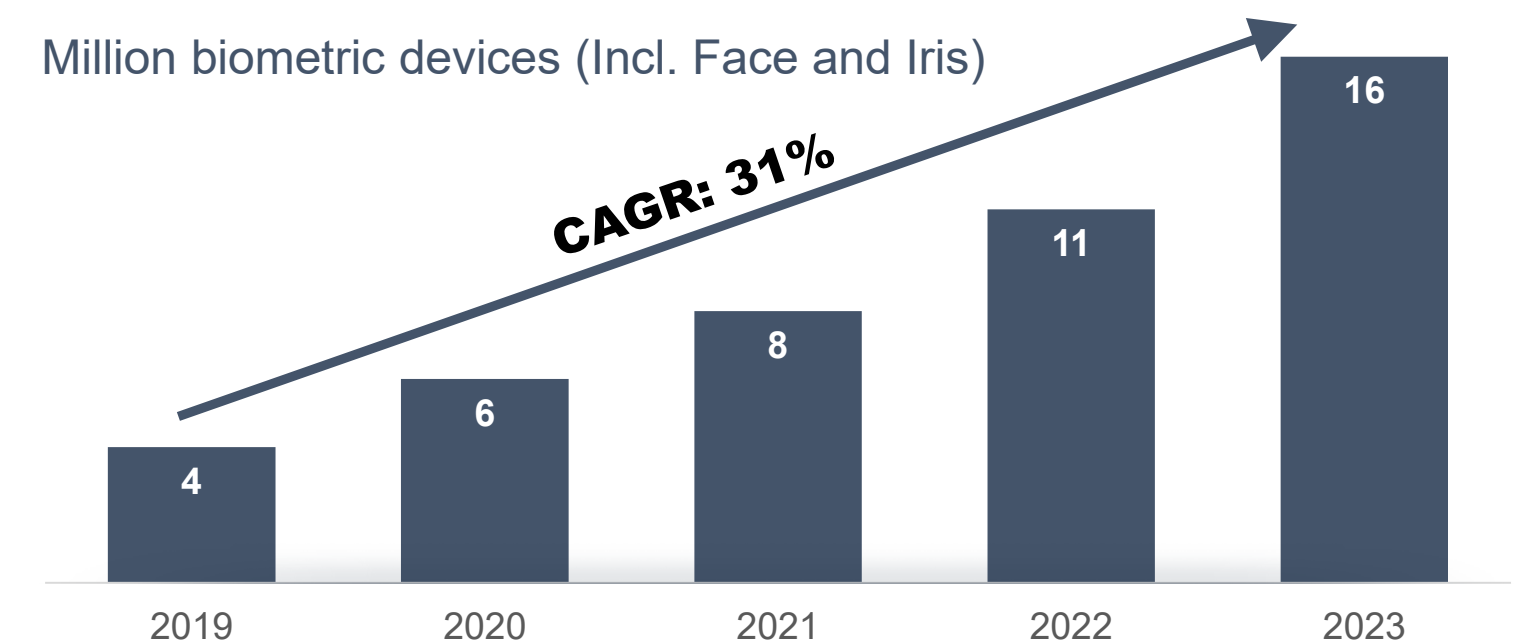
India Pipeline

Thousand sensors

| Customer | Contract Status |
|-----------------|-----------------|
| AqTronics (A) | ✓ |
| Digitsecure (B) | ✓ |
| Oxygen (C) | ✓ |
| D | |
| Sum: 140 | |

Biometric Market India*

Million biometric devices (Incl. Face and Iris)



*) Source: TechSci Research: India Biometric Market; NEXT estimates

Government ID General Market – Build Global Position

Achievements

- ✓ Partnership and supply agreement with Newland for biometric POS (May)

Pipeline 2019

- Sign supply agreements following design-in for general Government ID market (POS, m-POS, ATM, etc.)
- FAP20 sensor available for volume sales from Q3-2019

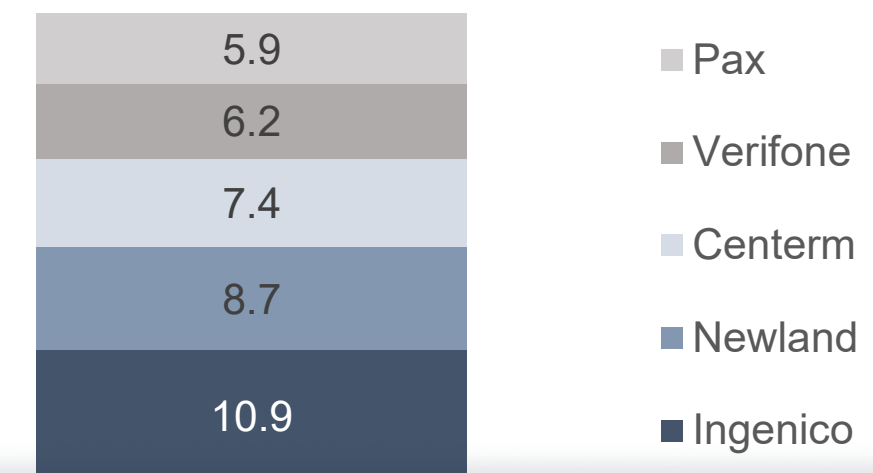
Priorities

- Expansion of product portfolio alongside market growth
- Further market penetration in APAC

"With millions of terminals deployed globally, highest quality, reliability and mass production capability are decisive factors," said Mr. Shen, CTO of Newland. "We have evaluated several options and NEXT Biometrics' excellent sensor technology and performance have won us over."

Top 5 Global POS Terminal Vendors 2017*

Million units



*) Source: The Nilson Report, Issue 1138, Sept 2018

Access Control – Volumes Emerging

Achievements

- ✓ Market entry into Russia through new distributor UniComm
- ✓ Expanded regional coverage through existing distributor
- ✓ 2 design-in projects with end customers in Turkey
- ✓ Design-in and first shipments to KSI (April)

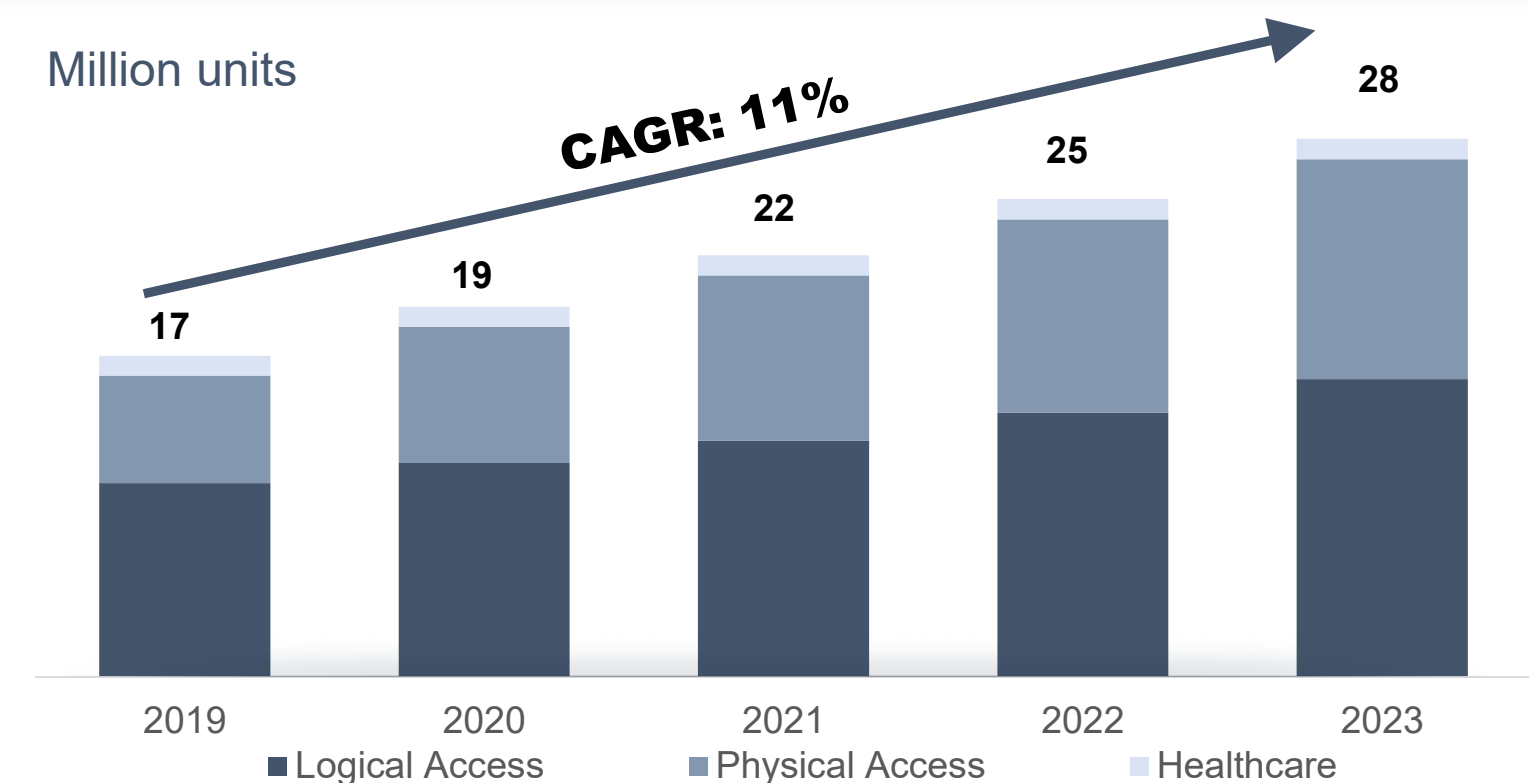
Pipeline 2019

- Sign 2 additional distribution agreements
- Extend indirect sales network in China
- Revenue to materialize from H2-2019 onwards

Priorities

- Increase market penetration with existing product portfolio
- Leverage new FAP20 solution for physical access control, and time & attendance applications
- Extend geographic presence

Access Control Fingerprint Recognition*



*) Source: ABI Research, Biometric Technologies and Applications, 2019; NEXT estimates



Targeting the high-security commercial rugged notebook market

Achievements

- ✓ Further ramp of Fujitsu volumes over the course of 2019
- ✓ Positive customer feedback for new FAP20 solution

Priorities

- Maintain strong customer relationships
- Leverage existing product portfolio and FAP20 in target notebook segments (high security / commercial)
- Advance ongoing technology evaluations with additional notebook manufacturers

Outlook

- The number of US tier-1 platforms using NEXT sensors will decline. During that time, the number of Fujitsu platforms using NEXT sensors will increase
- Good visibility H1-2019, less visibility for H2-2019



NEXT Biometrics Strategic Priorities

TECHNOLOGY

- Mass production of entire portfolio
- Further commercialization of payment smart card (dual interface) solution

FOUNDATION

- Stay lean and focused



GROWTH & PROFITABILITY

- Revenue growth in government ID, access control, notebook
- Further gross margin improvement
- OPEX reduction program with full impact from Q3-2019
- Disciplined and targeted R&D spend

MARKET

- Stay strong in notebook
- Expand market share in Government ID
- Grow access control through distribution channels
- Be ready when payment card market takes off

Key Business Steps 2019

- **Increase design wins and revenue across product range**
- **Ramp India sales and capitalize contracts and order backlog**
- **Further expand smart card ecosystem partnerships and network**
- **Demonstration and sampling of Dual Interface solution**
- **Volume production start of FAP20 sensor**
- **Significant increase of sensor module shipments to Fujitsu expected**
- **OPEX to decline in H2-2019**





One Touch.
One You.
NEXT Biometrics

