



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 1 2 0 2 3

One Touch.
One You.
NEXT Biometrics

NEXT Biometrics Group ASA

Quarterly report – Q1 2023

Highlights

- Revenue of NOK 6.8 m (NOK 10.2 m in Q1 2022)
- Gross margin of 21%
- 38 accumulated design-wins by end Q1 2023
- Adjusted EBITDA¹⁾ of NOK -11.7 m in Q1 2023
- Cash position of NOK 53.0 m per 31 March 2023

CEO Statement

NEXT's revenues were low during first quarter. Rebuilding a company with long sale cycles requires patience. A main contributing factor to low FAP20 shipments is the delayed market launch in India. We now receive signals regarding launch of initial tenders for partners, and this is encouraging. During the quarter there were a temporary reduction of PC-sensor shipments resulting from one-off inventory adjustments.

For Q1 we report a 21% gross margin resulting from a high share of PC-sensors in the product mix and small FAP20 sensor shipment volumes. Gross margin is expected to return to our higher targeted levels as soon as we increase quarterly FAP20 sensor shipments.

NEXT's Q1 inventory position ended at a high level due to sourcing components preparing FAP20 products for NEXT's India partners. The inventory is expected to be cleared once the India launch fully materializes.

Most important for the long-term success of NEXT is that we added two new design-wins during the first quarter, making it 38 customer products in total. We continue to target 48 design-wins by year end.

We also continue to believe NEXT is well positioned in the market for high-end fingerprint sensors, and our recent MoU with the additional India OEM as well as the partnership with Wiser Group are some of the proof points that we will be successful once all products scale in the different markets. We remain strongly focused on delivering increased volumes and revenues for our shareholders based on our current pool of design-wins.

Thank you.

Peter Heuman, CEO of NEXT Biometrics Group ASA

(amounts in NOK million)	Q1 2023	Q1 2022	Full year 2022
Total revenues	6,8	10,2	48,3
Adjusted gross margin (%) ¹⁾	21 %	21 %	30 %
Adjusted EBITDA ¹⁾	-11,7	-11,8	-38,8
Cash - closing balance	53,0	94,7	69,3

1) See definitions on page 13

Operational review

Two new design-wins were added during the first quarter. The total pool of design-wins was 38 customer products as per 31 March.

The quarterly volume of shipped FAP20 sensors was very low during the quarter mainly due to project delays from our partners in India.

Q1 2023 PC-sensor revenues were lower compared to Q1 2022. The low PC-sensors revenues in the quarter were due to lowered shipments triggered by key PC-OEM customers' inventory adjustments.

NEXT's Q1 2023 gross margin was 21%, vs 21% in Q1 2022. The gross margin was low during the quarter due to an unfavorable product mix in Q1 2023 with a high PC-sensor share.

The Group reached an OPEX ex. options of NOK 4.4 million per month during Q1 2023, which is lower than the communicated target of NOK 5 million per month.

Interim condensed financial statements as of 31 December 2022 (unaudited)

Statement of comprehensive income

Revenues for Q1 2023 were NOK 6.8 million compared to NOK 10.2 million in Q1 2022. The decrease in revenues from Q1 2022 was mainly due to lowered volume of PC sensor shipments and very low FAP20 sensor shipment volumes in the quarter triggered by further delays from NEXT's key customers.

Payroll expenses excluding stock option costs were NOK 8.4 million in Q1 2023 compared to NOK 8.4 million in Q1 2022. Net employee stock option and option social security costs were NOK 0.5 million in Q1 2023 compared to NOK 0.1 million in Q1 2022. See note 4 for further information on stock option cost.

Other operating expenses were NOK 4.8 million in Q1 2023 compared to NOK 5.6 million in Q1 2022.

Depreciation and amortization were NOK 1.9 million in Q1 2023 compared to NOK 1.7 million in Q1 2022.

Net financial items were negative NOK 0.2 million in Q1 2023 compared to negative NOK 0.6 million in Q1 2022.

Income tax gain was NOK 0.1 million in Q1 2023, compared to NOK 0.0 million income tax cost in Q1 2022.

Loss after taxes for Q1 2023 were NOK 14.4 million compared to a loss of NOK 14.2 million for Q1 2022.

Statement of financial position and cash flow

Cash amounted to NOK 53.0 million per 31 March 2023, compared to NOK 94.7 million per 31 March 2022.

Net cash flow from operating activities was negative NOK 14.9 million in Q1 2023, compared to negative NOK 7.5 million in Q1 2022. The negative cash flow in Q1 2023 is due to operating losses and negative cash flow from changes in working capital.

Net cash flow from investing activities was nil in Q1 2023, compared to positive NOK 0.2 million in Q1 2022.

Net cash flow from financing activities was negative NOK 0.5 million in Q1 2023, compared to negative NOK 0.7 million in Q1 2022.

Going concern

The Group's financial statements for Q1 2023 have been prepared on the basis of a going concern assumption.

Outlook

We expect FAP20 shipment volumes to increase, bringing increased gross margin and lower inventory. Our partners are making their preparations for launch in India. We expect end-customers to start their initial procurement processes in 2-3 months and our partners are likely to place orders shortly in advance of end-customers' order inquiries (start of procurement processes). India authorities has launched the next generation biometric standard. Accordingly, we believe the market in India will grow significantly starting from the second half of 2023 onwards.

Also, additional customers and markets are expected to become important revenue contributors for NEXT. We have identified high volume markets where our flagship FAP20 product is ideally positioned to replace existing solutions. Both in terms of performance and price we see that the FAP20 offering is an obvious choice, and we are strongly pursuing these opportunities.

We expect that NEXT's PC sensor shipment volumes will pick up in later quarters this year and that the overall 2023 PC sensor shipment level will be similar to pre-2022 demand.

The company's accumulated 38 design wins from Q4 2019 up to end of Q1 2023 will contribute to future revenue growth. The existing portfolio of design-wins alone has the potential to make NEXT profitable. We see customer activity across a wide range of industries that will continue to strengthen our pool of design-wins. Short-term, we are eager to demonstrate the full impact of our enlarged portfolio of design-wins on our quarterly revenues. Despite that several of our design-wins have low to medium potential, we believe that a few of our design-wins will develop into major successes in their respective market segments.

The continued increase in the accumulated number of design wins is forming the basis for solid revenue growth in the longer term.

Oslo, 11 May 2023

**CEO and Board of Directors
NEXT Biometrics Group ASA**

Peter Heuman (CEO)

Petter Fjellstad (Chairman)

Emine Lundkvist (Board member)

Odd Harald Hauge (Board member)

Siri Børsum (Board member)

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Interim condensed consolidated statement of comprehensive income (unaudited)

(amounts in NOK 1 000)	Notes	Q1 2023	Q1 2022	Full year 2022
Operating revenues	2	6 423	9 263	46 508
Other revenues		384	893	1 784
Cost of goods sold		-5 351	-7 986	-33 593
Inventory write downs		-	-	52
Gross margin		1 456	2 170	14 752
Payroll expenses	3,4	-8 870	-8 554	-33 385
Other operating expenses	3,4	-4 804	-5 563	-22 207
EBITDA		-12 218	-11 946	-40 840
Depreciation and amortization		-1 889	-1 736	-7 229
Operating profit (loss)		-14 107	-13 682	-48 070
Net financial items		-237	-565	1 676
Profit (loss) before taxes		-14 345	-14 247	-46 394
Income tax expenses	-	50	10	60
Profit (loss) after taxes		-14 395	-14 238	-46 333
Earnings per share (in NOK):				
Basic and diluted		-0,16	-0,16	-0,50
<i>Other comprehensive income (loss) that may be reclassified subsequently to profit and loss:</i>				
Translation differences on net investments in foreign operations		3 154	-488	2 610
Other comprehensive income (loss)		3 154	-488	2 610
Total comprehensive income (loss)		-11 241	-14 725	-43 723
Profit (loss) after taxes attributable to:				
Owners of the parent company		-14 395	-14 238	-46 333
Total comprehensive income (loss) attributable to:				
Owners of the parent company		-11 241	-14 725	-43 723

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Interim condensed consolidated statement of financial position (unaudited)

(amounts in NOK 1 000)	31 Mar 2023	31 Mar 2022	31 Dec 2022
Deferred tax assets	40	31	38
Intangible assets	2 237	3 621	2 579
Property, plant and equipment	11 535	14 585	12 347
Total non-current assets	13 813	18 237	14 964
Inventories	27 088	18 507	22 935
Accounts receivables	7 003	4 283	6 261
Other current assets	9 528	7 956	8 387
Cash	53 010	94 708	69 302
Total current assets	96 629	125 453	106 886
Total assets	110 441	143 691	121 850
Share capital	91 981	91 681	91 981
Share premium	4 049	47 335	4 049
Other reserves	26 759	72 601	26 069
Accumulated losses	-37 340	-90 930	-26 099
Total equity	85 449	120 686	96 000
Non-current lease liabilities	848	1 543	1 218
Other non-current liabilities	-	124	61
Total non-current liabilities	848	1 667	1 279
Accounts payables	4 809	3 824	7 776
Income tax payables	153	285	143
Current lease liabilities	1 734	2 068	1 748
Other current liabilities	17 449	15 160	14 904
Total current liabilities	24 145	21 338	24 571
Total equity and liabilities	110 441	143 691	121 850

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Interim condensed consolidated statement of cash flow (unaudited)

(amounts in NOK 1 000)	Q1 2023	Q1 2022	Full year 2022
Profit (loss) before taxes	-14 345	-14 247	-46 394
Share based remuneration	690	1 158	4 733
Accrued share option social security cost	-169	-1 021	-2 663
Income taxes paid	-	42	56
Depreciation and amortization	1 889	1 736	7 229
Change in working capital items and other	-2 995	4 794	4 660
Net cash flow from operating activities	-14 929	-7 537	-32 378
Proceeds from disposal of property, plant and equipment and intangible assets	-	-	-
Purchases of property, plant and equipment and intangible assets	-	-6	-70
Proceeds from lease receivables	-	176	696
Net cash flow from investing activities	-	169	626
Net proceeds from issue of shares	-	-	738
Proceeds from interest-bearing loans	-	-	-
Repayments of interest-bearing loans	-	-	-
Payments of lease liabilities	-547	-655	-2 738
Net cash flow from financing activities	-547	-655	-2 000
Net change in cash flow	-15 476	-8 024	-33 751
Cash balance at beginning of period	69 302	102 706	102 706
Effects of exchange rate changes on cash	-817	25	347
Cash balance at end of period	53 010	94 708	69 302
Comprising of:			
Cash	53 010	94 708	69 302

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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 2023		91 981	4 049	26 069	-26 099	96 000
Profit (loss) after taxes					-14 395	-14 395
Other comprehensive income (loss)					3 154	3 154
Total comprehensive income (loss)					-11 241	-11 241
Share issues net	4					
Share based remuneration	4			690		690
Share based remuneration reclassification						
Transfer of loss to share premium						
As of 31 March 2023		91 981	4 049	26 759	-37 340	85 449
As of 1 January 2022		91 681	47 335	71 442	-76 205	134 253
Profit (loss) after taxes					-14 238	-14 238
Other comprehensive income (loss)					-488	-488
Total comprehensive income (loss)					-14 725	-14 725
Share issues net						
Share based remuneration				1 158		1 158
As of 31 March 2022		91 681	47 335	72 601	-90 930	120 686

Notes to the interim consolidated financial statements

Note 1 – General information and accounting principles

NEXT (the Group) consists 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 substantial 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 2022 (Annual Report for 2022). The Annual Report for 2022 is available at www.nextbiometrics.com.

The accounting policies applied in the preparation of the interim financial statements are consistent with those applied in the preparation of Annual Report for 2022. There are no new standards and interpretations effective from 1 January 2023 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 Q1 2023 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 11 May 2023.

Note 2 – Revenue and segment reporting

(amounts in NOK 1 000)	Q1 2023	Q1 2022	Full year 2022
Fingerprint sensor technology	6 423	9 263	46 508
Total operating revenues	6 423	9 263	46 508

NEXT targets four markets for the technology;

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

The available technology is applied in 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)	Q1 2023	Q1 2022	Full year 2022
Salaries, fees	-6 884	-6 999	-27 025
Share based remuneration (salary part)	-668	-1 158	-4 728
Share based remuneration (employer's tax)	169	1 021	2 663
Social security taxes	-1 016	-907	-2 598
Other personnel expenses	-471	-510	-1 698
Total payroll expenses	-8 870	-8 554	-33 385
Product and marketing costs	-274	-604	-2 657
R&D and business services costs	-3 414	-3 163	-12 309
R&D and government grants	373	423	224
Fees to auditors, consultants, lawyers and others	-1 066	-1 648	-4 615
Other expenses	-401	-570	-2 845
Share based remuneration (operating part)	-22	-	-5
Total other operating expenses	-4 804	-5 563	-22 207

Note 4 – Shares and incentive options

Note 4 - Shares

Numbers of shares outstanding

As of 1 January 2023	91 980 763
Share issues	-
As of 31 March 2023	91 980 763

There was no change in the number of shares outstanding during the first quarter.

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 0.7 million in stock option cost relating to employees and contractors. The Group's stock option social security cost was negative NOK 0.2 million due to the decrease in the parent company's stock price during Q1 2023. The net costs related to stock options and option social security costs were NOK 0.5 million for Q1 2023.

The number of outstanding options decreased by 285,833 options during Q1 2023. The decrease is due to cancellation of options for former employees holding option grants. The Group had 11,646,395 options outstanding as per 31 March 2023.

Note 5 – Subsequent events

Between 31 December 2022 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 Q1 2023 period nor on the value of the Group's assets and liabilities as per 31 December 2022.

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.

Revenues adjusted for unfulfilled order backlog

Revenues for the period adjusted for unfulfilled order backlog (orders booked) is defined as revenues for the period plus unfulfilled purchase orders received by the company with requested customer delivery in the same period or in prior periods/year(s). In most cases such unfulfilled orders were not delivered due to supply chain delays.

Gross margin/Adjusted Gross margin / Adjusted Gross margin (%)

Gross margin is defined as operating revenue plus other income less cost of goods. Gross margin (%) is expressed as a percentage of operating revenue and other income.

(amounts in NOK 1 000)	Q1 2023	Q1 2022	Full year 2022
Operating revenues	6 423	9 263	46 508
Other revenues	384	893	1 784
Cost of goods sold	-5 351	-7 986	-33 593
Inventory write-downs	-	-	52
Gross margin	1 456	2 170	14 752
Gross margin	1 456	2 170	14 752
Divided by operating revenues and other revenues	6 808	10 156	48 293
Gross margin (%)	21 %	21 %	31 %

Adjusted Gross margin is defined as operating revenue plus other revenue less cost of goods sold plus inventory write-downs. Adjusted Gross margin (%) is expressed as a percentage of operating revenue and other revenue.

(amounts in NOK 1 000)	Q1 2023	Q1 2022	Full year 2022
Operating revenues	6 423	9 263	46 508
Other revenues	384	893	1 784
Cost of goods sold	-5 351	-7 986	-33 593
Inventory write-downs	-	-	52
Added back inventory write-downs	-	-	-52
Adjusted gross margin	1 456	2 170	14 700
Adjusted Gross margin	1 456	2 170	14 700
Divided by operating revenues and other revenues	6 808	10 156	48 293
Adjusted gross margin (%)	21 %	21 %	30 %

EBITDA / Adjusted EBITDA

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

Adjusted EBITDA is equal to EBITDA excluding “share-based remuneration” (salary part, employer’s part and operating part) and inventory write-downs.

(amounts in NOK 1 000)	Q1 2023	Q1 2022	Full year 2022
Operating profit (loss)	-14 107	-13 682	-48 070
Added back depreciation and amortization	1 889	1 736	7 229
Added back impairment losses	-	-	-
EBITDA	-12 218	-11 946	-40 840
Added back share-based remuneration (salary part)	668	1 158	4 728
Added back share-based remuneration (employer's tax)	-169	-1 021	-2 663
Added back share-based remuneration (operating part)	22	-	5
Added back inventory write-downs	-	-	-52
Adjusted EBITDA	-11 697	-11 809	-38 822

Cost of goods sold (COGS)

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

Inventory write-downs

Inventory write-downs are costs related to excess inventory in relation to raw materials, semi-finished goods, products and product lines that are discontinued and/or in the process of being discontinued.

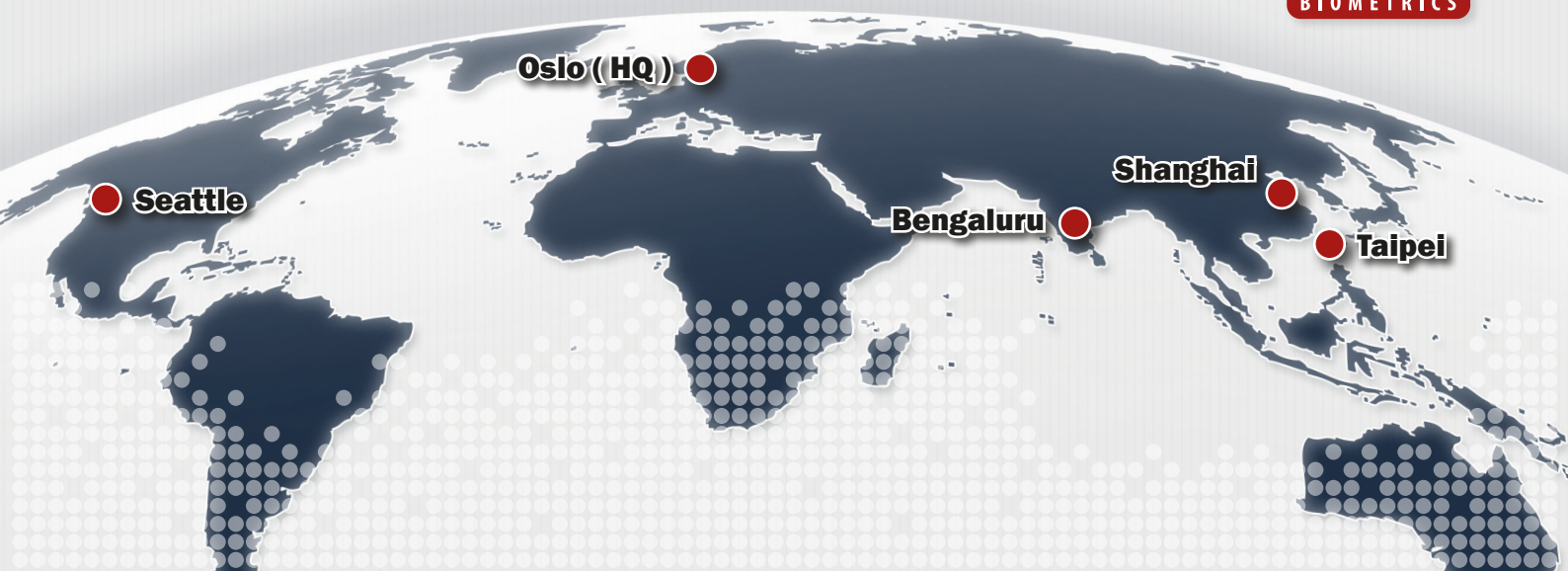
Operating expenses (OPEX)

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

Operating expenses ex. options (OPEX ex. Options)

Operating expenses excluding options (OPEX ex options) is defined as salaries and personnel cost and other operating expenses excluding share-based remuneration.

(amounts in NOK 1 000)	Q1 2023	Q1 2022	Full year 2022
Operating expenses (OPEX)	13 674	14 116	55 592
Deducted share-based remuneration (salary part)	-668	-1 158	-4 728
Deducted share-based remuneration (employer's tax)	169	1 021	2 663
Deducted share-based remuneration (operating part)	-22	-	-5
Operating expenses ex. options (OPEX ex. options)	13 153	13 979	53 522



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

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