

NEXT BIOMETRICS GROUP ASA

Quarterly Report | Q4 2023



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NEXT Biometrics Group ASA

Quarterly report – Q4 2023

Highlights

- Revenue of NOK 14.3 m (NOK 12.0 m Q4 2022)
- Gross margin of 45%
- 46 accumulated design-wins by end Q4 2023
- Adjusted EBITDA¹⁾ of NOK -8.3 m in Q4 2023
- Cash position of NOK 67.8 m per 31 December 2023
- Strong progress in China and India during the quarter

CEO Statement

Dear shareholders, during the fourth quarter we strengthened our sales and marketing team. I am excited that we are already seeing the progress in terms of new design wins, contracts and purchase orders from customers and partners.

As a leader in the development and manufacturing of high-security fingerprint sensors, NEXT and its products has become synonymous with security and performance. Late last year, I travelled to meet with our customer and staff in Asia, and I am encouraged by the number of promising products where we have a NEXT design-win in place. In China, security remains a strong market driver and being the world's most biometrics enabled country, the interest for our FAP20 sensor, including our liveness feature, has been strong. In line with our strategy, we have continued to make progress on the rapidly evolving Asian biometric market. We announced NEXT's breakthrough contract with the Asian distributor in May 2023, and the first purchase order in December. We started delivering on this order in Q4 and will continue in the first half of 2024. In January, we announced that one of our other partners got awarded the China ID certification for the FAP20 sensor. Now that we have the certification in place, we expect to receive more orders from China.

Our marketing and sales efforts on the Indian market is progressing well. Our partner ACPL has already received its L1 certificate, and we have two other partners that are applying for the same certificate. Meanwhile, we are already starting to see the effects the of the Indian authorities' generational upgrade of India's national Aadhaar program. In short, all current so called "L0 devices" would need to be upgraded to the next security level, the so-called "L1 level". The volume of tenders in India is increasing and we expect to see a strong increase in end-customer demand, which will cascade through the supply chain resulting in more NEXT orders.

Outside China and India, we are working with multiple partners in Africa, the Americas and South-East Asia to introduce NEXT sensors into new products and accelerate the sales of our current design-wins. These individual design-wins and promising new and existing products have small to medium sized volume potential, and we expect these products to contribute to NEXT revenue growth in the medium term.

With our newly extended management team and strengthened organization we are ready to take on the challenges ahead of us. I strongly believe NEXT is well positioned to reach the communicated targets, and I am looking forward to the rest of 2024.

Ulf Ritsvall, CEO of NEXT Biometrics Group ASA

(amounts in NOK million)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Total revenues	14,3	12,0	34,4	48,3
Adjusted gross margin (%) ¹⁾	45 %	24 %	33 %	30 %
Adjusted EBITDA ¹⁾	-8,3	-9,1	-43,7	-38,8
Cash - closing balance	67,8	69,3	67,8	69,3

1) See definition on page 12

Operational review

Two new design-wins were added during quarter four. The total pool of design-wins was 46 customer products as per 31 December 2023 compared to 36 as per 31 December 2022.

Q4 2023 revenues increased relative to Q4 2022 due to higher shipments of FAP20 products.

NEXT's Q4 2023 adjusted gross margin was 45%, vs 24% in Q4 2022. The increase in gross margin is due to higher share of FAP20 products.

NEXT announced new purchase orders amounting to NOK 20 million during the quarter. The orders are targeted to the market in India and China.

The Group reached an OPEX ex. options of NOK 4.9 million per month for Q4 2023.

Subsequent to quarter end, NEXT announced that FAP20 has now received the prestigious China ID certification through a local Chinese partner. China ID is a nationwide security requirement similar to India's Aadhaar program, providing NEXT's customers access to otherwise closed market segments.

Moreover, NEXT has prepared a plan to start developing FAP30 fingerprint sensors. These products have generally higher prices and margins than the FAP20 market and NEXT is already in advanced discussions with prospective customers to secure future orders and be involved in the development project providing feedback and testing of prototypes.

Interim condensed financial statements as of 31 December 2023 (unaudited)

Statement of comprehensive income

Revenues for Q4 2023 were NOK 14.3 million compared to NOK 12.0 million in Q4 2022. The increase in revenues relative to Q4 2022 was mainly due to higher FAP20 sensor shipments.

Payroll expenses excluding stock option costs were NOK 7.9 million in Q4 2023 compared to NOK 6 million in Q4 2022. Net employee stock option and option social security costs were NOK 2.7 million in Q4 2023 compared to NOK 1.2 million in Q4 2022. See note 4 for further information on stock option cost.

Other operating expenses were NOK 6.9 million in Q4 2023 compared to NOK 5.9 million in Q4 2022.

Depreciation and amortization were NOK 1.5 million in Q4 2023 compared to NOK 1.8 million in Q4 2022.

Net financial items were positive NOK 0.5 million in Q4 2023 compared to negative 0.1 million in Q4 2022.

Income tax expense was NOK 0.09 million in Q4 2023, compared to positive NOK 0.3 million in Q4 2022.

Adjusted EBITDA was negative NOK 8.3 million in Q4 2023, compared to negative NOK 9.1 million in Q4 2022. The improvement in Q4 2023 adjusted EBITDA is due to higher revenues and increased gross margin partly offset by higher OPEX ex options cost.

Loss after taxes for Q4 2023 were NOK 12.15 million compared to a loss of NOK 11.9 million for Q4 2022. The slightly increased loss was mainly related to Q4 2023 increased options cost offset by the improvement in gross margin.

Statement of financial position and cash flow

Cash amounted to NOK 67.8 million per 31 December 2023, compared to NOK 69.3 million per 31 December 2022.

Net cash flow from operating activities was negative NOK 18.5 million in Q4 2023, compared to negative NOK 3.7 million in Q4 2022. The negative cash flow in Q4 2023 is mainly due to increased receivables resulting from higher revenues and operating losses.

Net cash flow from investing activities was negative 0.05 million in Q4 2023, compared to positive NOK 0.1 million in Q4 2022.

Net cash flow from financing activities was negative NOK 0.4 million in Q4 2023 compared to negative NOK 0.7 million in Q4 2022.

Going concern

The Group's financial statements for Q4 2023 have been prepared on the basis of a going concern assumption.

Outlook

Based on signed orders and the further market opportunities we see in India, China and the rest of the world; we expect strong growth in FAP20 revenues and total revenues in the coming quarters. NEXT's PC sensor shipment volumes in 2024 is expected to be similar to 2023.

The FAP20 share in the product mix is expected to increase and NEXT's gross margin is expected to increase as a result of this. Moreover, Q1 FAP20 revenues from India will be significantly higher compared to earlier quarters. We expect revenues for Q1 2024 to grow approximately 20% compared to Q4 2023.

The company could reach EBITDA break-even in Q2 2024, and for 2024 in total we target a positive result.

Oslo, 13 February 2024
CEO and Board of Directors
NEXT Biometrics Group ASA

Ulf Ritsvall (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	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Operating revenues	2	14 009	11 478	33 717	46 508
Other revenues		282	547	666	1 784
Cost of goods sold		-7 795	-9 163	-22 962	-33 593
Inventory write downs		-3	52	-4 042	52
Gross margin		6 492	2 914	7 379	14 752
Payroll expenses	3,4	-10 584	-7 224	-42 370	-33 385
Other operating expenses	3,4	-6 918	-5 939	-23 218	-22 207
EBITDA		-11 010	-10 249	-58 209	-40 840
Depreciation and amortization		-1 547	-1 834	-7 068	-7 229
Impairment losses		-	-	-1 139	-
Operating profit (loss)		-12 557	-12 083	-66 416	-48 070
Net financial items		499	-109	918	1 676
Profit (loss) before taxes		-12 058	-12 192	-65 498	-46 394
Income tax expenses		-92	261	-234	60
Profit (loss) after taxes		-12 150	-11 931	-65 732	-46 333
Earnings per share (in NOK):					
Basic and diluted		-0,12	-0,13	-0,69	-0,50
<i>Other comprehensive income (loss) that may be reclassified subsequently to profit and loss:</i>					
Translation differences on net investments in foreign		-1 765	-3 686	1 170	2 610
Other comprehensive income (loss)		-1 765	-3 686	1 170	2 610
Total comprehensive income (loss)		-13 915	-15 617	-64 562	-43 723
Profit (loss) after taxes attributable to:					
Owners of the parent company		-12 150	-11 931	-65 732	-46 333
Total comprehensive income (loss) attributable to:					
Owners of the parent company		-13 915	-15 617	-64 562	-43 723

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Interim condensed consolidated statement of financial position (unaudited)

(amounts in NOK 1 000)	Notes	31 Dec 2023	31 Dec 2022
Deferred tax assets		-	38
Intangible assets		1 530	2 579
Property, plant and equipment		6 738	12 347
Total non-current assets		8 268	14 964
Inventories		23 126	22 935
Accounts receivables		12 303	6 261
Other current assets		7 451	8 387
Cash		67 753	69 302
Total current assets		110 632	106 886
Total assets		118 900	121 850
Share capital	4	104 025	91 981
Share premium		49 021	4 049
Other reserves		31 965	26 069
Accumulated losses		-90 661	-26 099
Total equity		94 351	96 000
Non-current lease liabilities		194	1 218
Other non-current liabilities		-	61
Total non-current liabilities		194	1 279
Accounts payables		5 984	7 776
Income tax payables		33	143
Current lease liabilities		1 745	1 748
Other current liabilities		16 594	14 904
Total current liabilities		24 355	24 571
Total equity and liabilities		118 900	121 850

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Interim condensed consolidated statement of cash flow (unaudited)

(amounts in NOK 1 000)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Profit (loss) before taxes	-12 058	-12 192	-65 498	-46 394
Share based remuneration	755	749	5 896	4 733
Accrued share option social security cost	1 968	485	4 611	-2 663
Income taxes paid	44	47	-26	56
Depreciation and amortization	1 547	1 834	7 068	7 229
Impairment losses	-	-	1 139	-
Inventory write-downs	3	-52	4 042	-52
Change in working capital items and other	-10 763	5 474	-13 497	4 713
Net cash flow from operating activities	-18 504	-3 655	-56 264	-32 377
Purchases of property, plant and equipment and intangible assets	-45	-35	-45	-70
Proceeds from lease receivables	-	162	-	696
Net cash flow from investing activities	-45	127	-45	626
Net proceeds from issue of shares	83	11	57 016	738
Payments of lease liabilities	-528	-687	-2 078	-2 738
Net cash flow from financing activities	-446	-677	54 938	-2 000
Net change in cash flow	-18 995	-4 205	-1 371	-33 751
Cash balance at beginning of period	86 150	72 540	69 302	102 706
Effects of exchange rate changes on cash	597	967	-178	347
Cash balance at end of period	67 753	69 302	67 753	69 302
Comprising of:				
Cash	67 753	69 302	67 753	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					-65 732	-65 732
Other comprehensive income (loss)					1 170	1 170
Total comprehensive income (loss)					-64 562	-64 562
Share issues net	4	12 044	44 972			57 016
Share based remuneration	4			5 896		5 896
As of 31 December 2023		104 025	49 021	31 965	-90 661	94 351
As of 1 January 2022		91 681	47 335	71 442	-76 205	134 253
Profit (loss) after taxes					-46 333	-46 333
Other comprehensive income (loss)					2 610	2 610
Total comprehensive income (loss)					-43 723	-43 723
Share issues net	4	300	438			738
Share based remuneration	4			4 733		4 733
Share based remuneration reclassification				-50 106	50 106	
Transfer of loss to share premium			-43 723		43 723	
As of 31 December 2022		91 981	4 049	26 069	-26 099	96 000

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. (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 IFRS® Accounting Standards as adopted by the EU(IFRS) and 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 Q4 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 13 February 2024.

Note 2 – Revenue and segment reporting

(amounts in NOK 1 000)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Fingerprint sensor technology	14 009	11 478	33 717	46 508
Total operating revenues	14 009	11 478	33 717	46 508

NEXT targets four markets for the technology;

- (i) Office & Notebooks
- (ii) Payment & Fintech
- (iii) Access control
- (iv) Public Security

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.

In 2020, NEXT provided biometric products to a former client. The client failed to meet the agreed-upon payments, leading NEXT to decide to pursue these payments through the courts, citing a breach of contract. The arbitration court proceedings are ongoing. The book value of the NEXT receivable relating to this claim is zero as per 31 December 2023. Subsequent to the year-end, the former client countersued NEXT for breach of contract and is seeking damages from NEXT. NEXT's management, in consultation with its legal advisors, considers this countersuit to be without merit and with an extremely low likelihood of succeeding. As such, in accordance with IAS 37, no provision has been recognized for this potential liability in the financial statements as of 31 December 2023.

Note 3 – Operating expenses

(amounts in NOK 1 000)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Salaries, fees	-6 759	-6 228	-26 507	-27 025
Share based remuneration (salary part)	-689	-744	-5 729	-4 728
Share based remuneration (employer's tax)	-1 968	-485	-4 611	2 663
Social security taxes	-172	565	-3 515	-2 598
Other personnel expenses	-996	-333	-2 008	-1 698
Total payroll expenses	-10 584	-7 224	-42 370	-33 385

(amounts in NOK 1 000)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Product and marketing costs	-526	-364	-1 190	-2 657
R&D and business services costs	-4 984	-2 889	-16 476	-12 309
R&D and government grants	600	-787	1754	224
Fees to auditors, consultants, lawyers and others	-1 156	-1 420	-4 331	-4 615
Other expenses	-785	-474	-2 807	-2 845
Share based remuneration (operating part)	-66	-5	-167	-5
Total other operating expenses	-6 918	-5 939	-23 218	-22 207

Note 4 – Shares and incentive options

Numbers of shares outstanding

As of 1 January 2023	91 980 763
Share issues	12 044 166
As of 31 December 2023	104 024 929

In September 2023, NEXT successfully completed a private placement issuing 12,000,000 new shares at a subscription price of NOK 5.0 per share, corresponding to gross proceeds of NOK 60.0 million. Direct expenses and underwriting commission in relation to the private placement was NOK 3.1 million.

In November 2023, 29,166 share options were exercised at an average subscription price of NOK 3.87 per share, corresponding to gross proceeds of NOK 0.1 million. The number of shares outstanding increased by 29,166 during quarter four.

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 0.8 million in stock option cost relating to employees and contractors. The Group's stock option social security cost was NOK 2.0 million due to the increase in the parent company's stock price during Q4 2023. The net costs related to stock options and option social security costs were 2.7 million for Q4 2023.

The number of outstanding options increased by net 178,457 options during Q4 2023. The increase is principally due to new options awarded to management during the quarter. The Group had 14,048,519 options outstanding as per 31 December 2023.

Note 5 – Subsequent events

Between 31 December 2023 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 Q4 2023 period nor on the value of the Group's assets and liabilities as per 31 December 2023.

Alternative performance measures

NEXT's financial information has been prepared in accordance with IFRS® Accounting Standards as adopted by the EU. 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)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Operating revenues	14 009	11 478	33 717	46 508
Other revenues	282	547	666	1 784
Cost of goods sold	-7 795	-9 163	-22 962	-33 593
Inventory write-downs	-3	52	-4 042	52
Gross margin	6 492	2 914	7 379	14 752
Gross margin	6 492	2 914	7 379	14 752
Divided by operating revenues and other revenues	14 291	12 025	34 383	48 293
Gross margin (%)	45 %	24 %	21 %	31 %

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

(amounts in NOK 1 000)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Operating revenues	14 009	11 478	33 717	46 508
Other revenues	282	547	666	1 784
Cost of goods sold	-7 795	-9 163	-22 962	-33 593
Inventory write-downs	-3	52	-4 042	52
Added back inventory write-downs	3	-52	4 042	-52
Adjusted gross margin	6 495	2 862	11 421	14 700
Adjusted Gross margin	6 495	2 862	11 421	14 700
Divided by operating revenues and other revenues	14 291	12 025	34 383	48 293
Adjusted gross margin (%)	45 %	24 %	33 %	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)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Operating profit (loss)	-12 557	-12 083	-66 416	-48 070
Added back depreciation and amortization	1 547	1 834	7 068	7 229
Added back impairment losses	-	-	1 139	-
EBITDA	-11 010	-10 249	-58 209	-40 840
Added back share-based remuneration (salary part)	689	744	5 729	4 728
Added back share-based remuneration (employer's tax)	1 968	485	4 611	-2 663
Added back share-based remuneration (operating part)	66	5	167	5
Added back inventory write-downs	3	-52	4 042	-52
Adjusted EBITDA	-8 284	-9 067	-43 659	-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)	Q4 2023	Q4 2022	Full Year 2023	Full Year 2022
Operating expenses (OPEX)	17 502	13 163	65 588	55 592
Deducted share-based remuneration (salary part)	-689	-744	-5 729	-4 728
Deducted share-based remuneration (employer's tax)	-1 968	-485	-4 611	2 663
Deducted share-based remuneration (operating part)	-66	-5	-167	-5
Operating expenses ex. options (OPEX ex. options)	14 779	11 929	55 081	53 522



NEXT BIOMETRICS GROUP ASA

ABOUT

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

CONTACT

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