

NEXT Biometrics Group ASA

Q4 2019 Presentation

26 February 2020

Peter Heuman, Chief Executive Officer
Eirik Underthun, Acting Chief Financial Officer

Oslo Børs: NEXT

This presentation includes and is based, inter alia, on forward-looking information and statements that are subject to risks and uncertainties that could cause actual results to differ. Such forward-looking information and statements are based on current expectations, estimates and projections about global economic conditions, the economic conditions of the regions and industries that are major markets for NEXT Biometrics Group ASA (NEXT Biometrics) and its subsidiaries. These expectations, estimates and projections are generally identifiable by statements containing words such as "expects", "believes", "estimates" or similar expressions. Important factors that could cause actual results to differ materially from those expectations include, among others, economic and market conditions in the geographic areas and industries that are or will be major markets for the NEXT Biometrics businesses, market acceptance of new products and services, changes in governmental regulations, interest rates, fluctuations in currency exchange rates and such other factors as may be discussed from time to time.

Although NEXT Biometrics believes that its expectations and the information in this presentation were based upon reasonable assumptions at the time when they were made, it can give no assurance that those expectations will be achieved or that the actual results will be as set out in this presentation. NEXT Biometrics Group ASA nor any other company within the NEXT Biometrics Group ASA is making any representation or warranty, expressed or implied, as to the accuracy, reliability or completeness of the information in the presentation, and neither NEXT Biometrics Group ASA, any other company within the NEXT Biometrics Group ASA nor any of their directors, officers or employees will have any liability to you or any other persons resulting from your use of the information in this presentation. NEXT Biometrics Group ASA undertakes no obligation to publicly update or revise any forward-looking information or statements in this presentation.

Highlights

Revenue for 2019 of NOK 84.4 million, down 22% compared to same period last year

Revenue of NOK 9.2 million in Q4-2019, down 68% from Q4-2018

Revenues to date 2020 already higher than revenues reported in Q4 2019

Gross margin of -2% in Q4-2019 (36% in Q4-2018) resulting from reduced sales volume and product mix in the quarter

EBITDA ex options of NOK -49.3 million in Q4-2019 (NOK -34.7 million in Q4-2018)

Cash position NOK 88.5 million as per 31 December 2019 (NOK 46.3 million per 31 December 2018)

Accelerated cost reduction program and reduced headcount

Large-size FAP20 sensor module granted US PIV certification

New CEO 100 day program completed



100 Day program completed - Analysis shows

Background:

Analysed internal data and business processes and external input from market data, customers/prospects and shareholders.

Conclusions related to: Strengths, Areas of improvement and Market realities

Strengths:

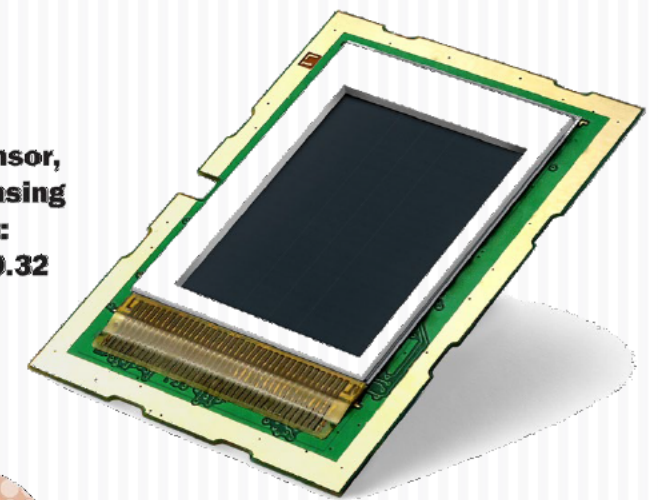
- Core hardware skills from architecture to productification
- IPs that addresses broad markets
- Proven execution delivering to multiple Tier 1 global customers
- Roadmap, example FAP 20 that competes across multiple market segment (cost-and form factor advantages)

Areas of improvement where Next Biometrics need to:

- Improve resource and capital allocation to secure short/mid and long-term company potential.
- Improve and create a clear growth agenda incl Sales management, competence and target customers
- Increase customer centricity - customer demand should fund future of company
- Optimise organisation and cost efficiency
- Secure that the company delivers on its promises in all dimensions, employee's, customers, partners and shareholders

Market Realities

- Sales Lead-times are relatively long (6-18 months) while working with/in HW installation industry
- Certain market segments require a broader SW portfolio



FAP20 sensor,
Active sensing
area (mm):
15.24 x 20.32

Key Q4 actions taken based on 100 days program

Tangible Growth agenda

- Sales organisation changed with new management, competence and focus
- Developed a more robust sales pipeline and added new opportunities
- Improved conversion of leads to commercial contracts
- Announced major order for biometrics readers in India (January) and first FAP 20 commercial purchase order (February)

Customer centric

- Completed PIV certification of FAP 20 sensor to unlock new opportunities
- Established Task Forces, governed by CEO, working with partners and customers to improve solutions, accelerate design-in projects and proactively support sales with customer activities

Resource and Capital allocation

- Executed cost reduction program related to both headcount and indirect cost reducing annual OPEX by minimum NOK 45 million
- Changes implemented in executive management
- Reallocated resources and capital to better meet both short/mid and long term growth potential (example, FAP 20 vs Smart Card)

Key Figures Q4-2019

Profit and loss

NOK million	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2018	2019
Revenue	29.3	27.5	30.1	17.6	9.2	108.4	84.4
COGS	(18.8)	(18.2)	(18.2)	(15.8)	(9.4)	(77.6)	(63.9)
Gross profit	10.5	9.3	9.6	1.9	(0.2)	30.8	20.6
Gross margin	36%	34%	32%	27% ¹	-2%	28%	24%
EBITDA	(38.6)	(38.7)	(32.8)	(31.8)	(50.1)	(160.9)	(152.8)
EBITDA adjusted ²	(35.0)	(35.4)	(30.5)	(34.7)	(49.3)	(149.5)	(149.9)

1) Before inventory write-down

2) EBITDA adjusted for cost of options.

Revenue of NOK 9.2 million, down from NOK 29.3 million in Q4-2018

- Reduced notebook volumes to US tier-1 customer; not sufficiently offset by increased revenue from other customers
- Q4 2019 expected to be low point in revenue per quarter

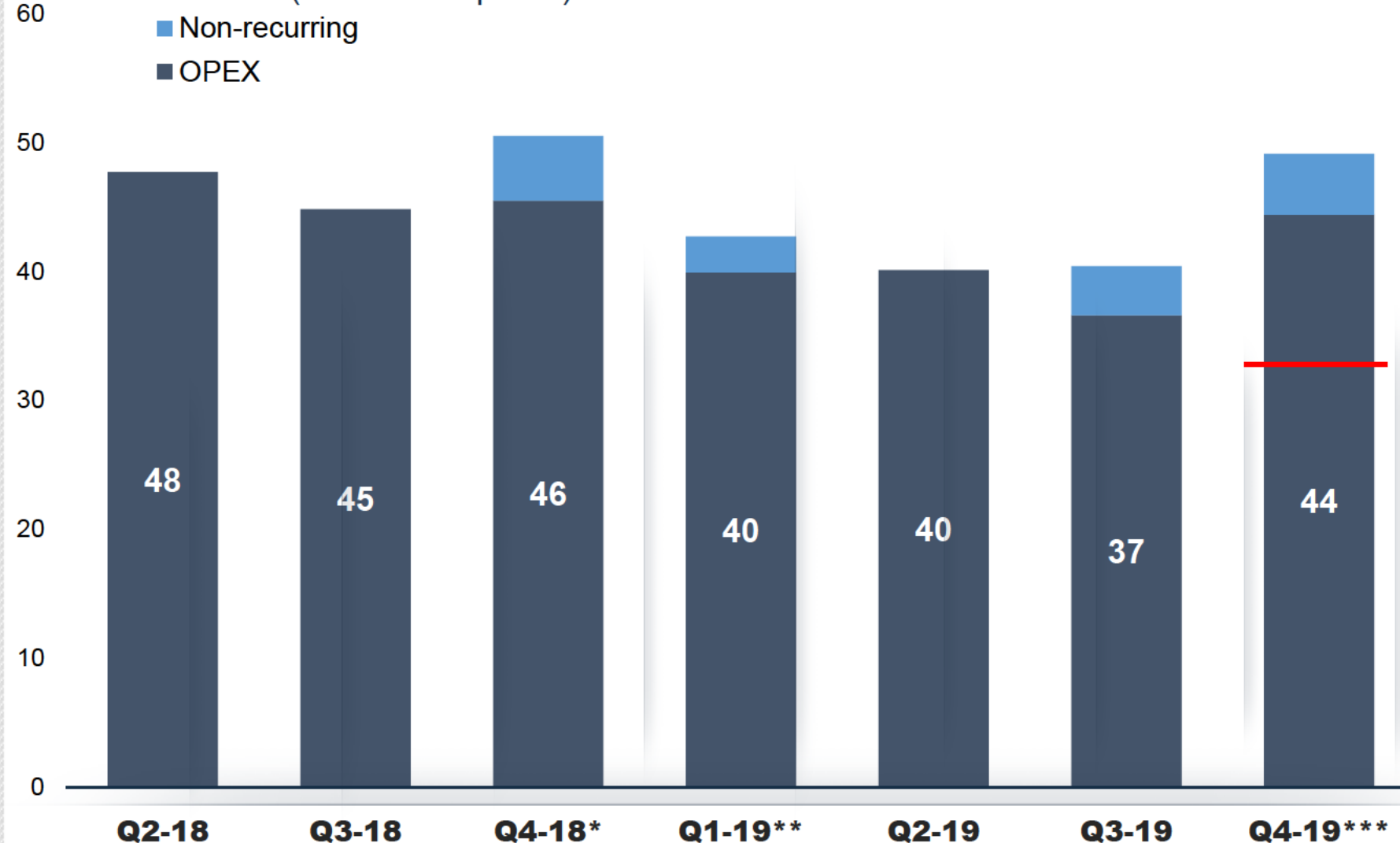
Gross margin of -2% vs. 36% in Q4-2018

- Margin impacted by reduced sales volume, timing effects and product mix

Optimizing organization and cost base

NEXT OPEX¹

NOK million (excl. cost of options)



1) OPEX = Payroll + Other operating expenses

Q4-2019 program to optimise organisation and cost base executed

More than 20% reduction in FTEs to less than 65

Non-recurring costs of NOK 4.7 million in Q4-2019

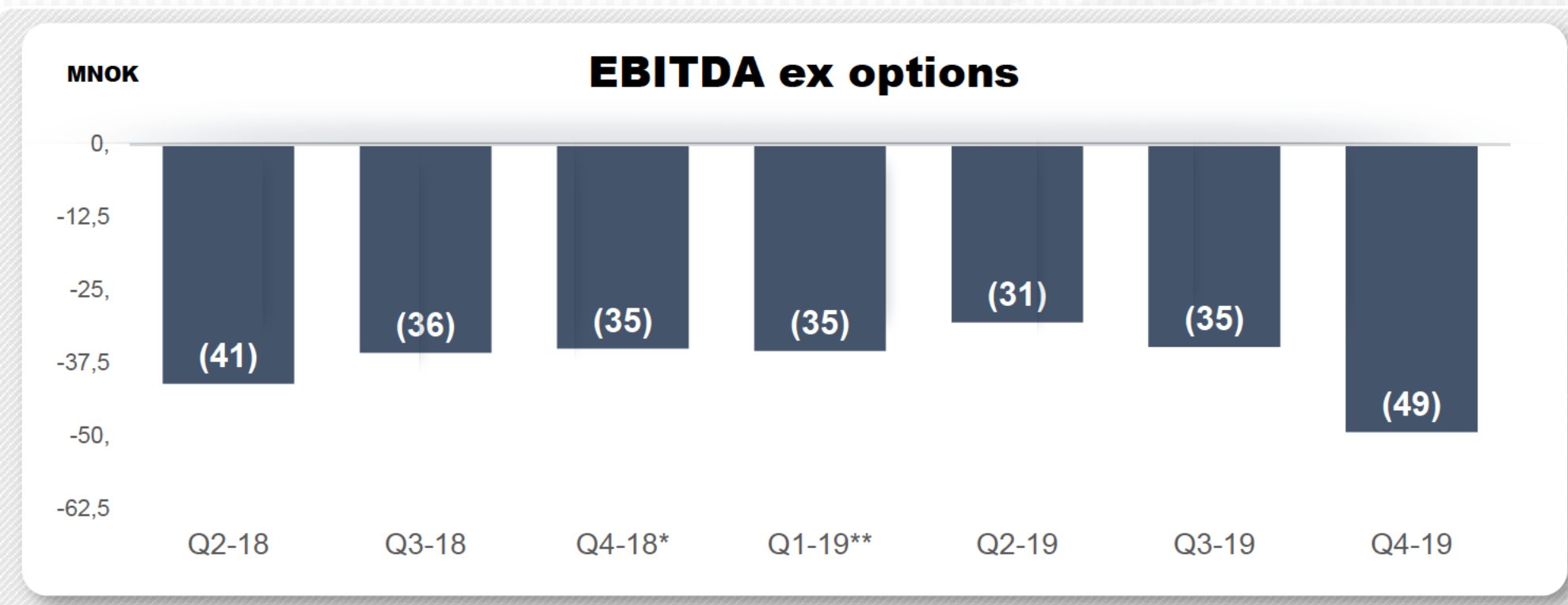
Expected annual cost saving of minimum NOK 45 million compared to 2019 OPEX of NOK 173 million

Cost program will not affect near-term revenue generation or critical development activities

*) 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

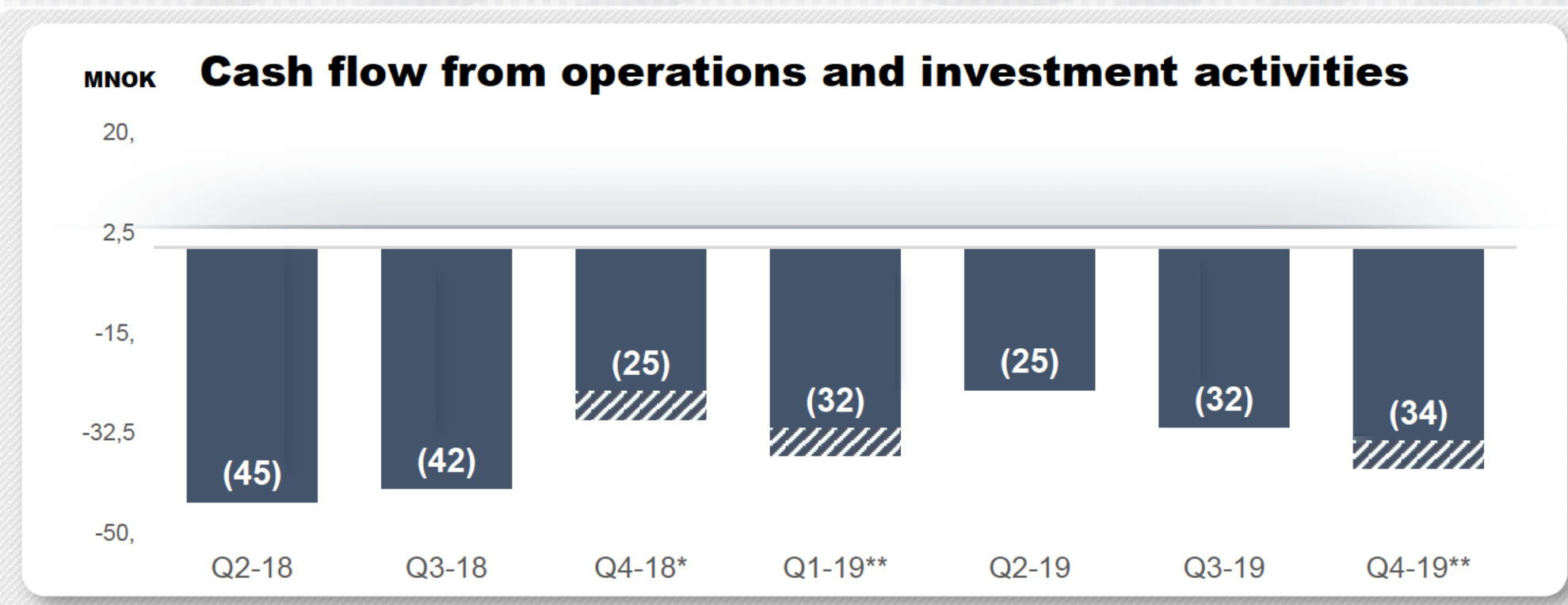
**) Adjusted for NOK 4.8 million severance pay and other one-off effects

EBITDA and Cash Flow Performance



EBITDA:

- Q4-2019 adjusted EBITDA-loss of NOK 49.3 million vs. NOK 35.0 million in Q4-2018
- Reflects lower revenue, negative gross margin, non-recurring cost of NOK 4.7 million and no Skattefunn recognition in 2019



Cash flow:

- Cash used for operations of NOK 38.6 million in Q4 2019

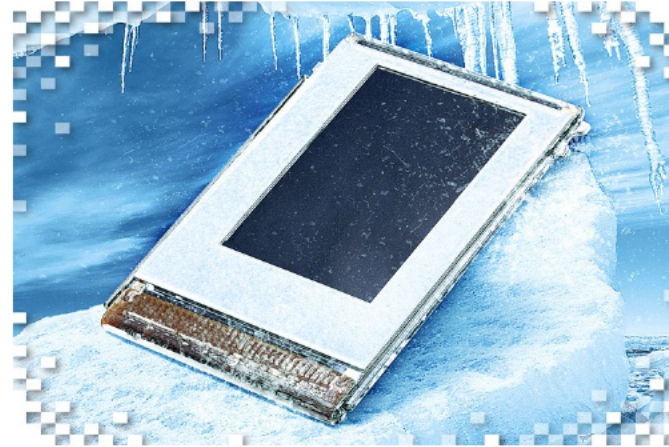
*) Q4-2018 Adjusted for Skattefunn effect of NOK 5 million

**) Q1 and Q4 2019 adjusted for NOK 4.8 million and NOK 4.7 million, respectively, of non-recurring costs

Targeting existing growth markets

Access Control

- USD 100k sensor module purchase order for delivery in Q4 2019 and into 2020
- Launched new module for harsh conditions (October)
- Promoting PIV certified One Touch ID FAP20



Government ID

- Design-in contracts (POS)
- Several orders received in Q4 and YTD
- Promoting One Touch ID FAP20
- High tendering activity in India



Notebook

- Stable Fujitsu volumes
- Target to close design-in agreements with additional notebook manufacturers for One Touch ID FAP20



Smart card

- Completed development and readiness of dual Interface solution
- Opportunistically following payment card eco-system
- Long-term focus on broader Smart Card market



Outlook - Q1-Q2 2020

A hand in a blue suit pointing at a glowing blue line graph on a dark background. The graph shows an upward trend with several data points connected by lines. The text "Tangible Growth agenda" is overlaid in white.

Tangible Growth agenda

- Q4 2019 to be the low point in terms of quarterly revenues
- Revenues to date 2020 already higher than revenues reported in Q4 2019
- Strengthened and improved Sales organisation to yield results from Q1 2020
- Announced Q1 major order for biometrics readers in India (January) and first FAP 20 commercial purchase order (February)

A group of three people (two men and one woman) in a professional setting, looking at a screen. The text "Customer centric" is overlaid in white.

Customer centric

- Task Forces, governed by CEO will continue for top priority customers and partner opportunities that are depending on internal technology resources.
- Establish a more proactive customer support

Two blue spheres on a white platform, with a blue ring in the center. The text "Resource and Capital allocation" is overlaid in white.

Resource and Capital allocation

- Continued focus on cost program related yielding reduced annual OPEX with minimum NOK 45 million
- Continued allocation of resources and capital to mainly short/mid-term growth potential

Two hands in business suits shaking hands. The text "Capital" is overlaid in white.

Capital

- CEO/CFO working with BoD related to future funding options





One Touch.
One You.
NEXT Biometrics

