Proven Fingerprint Sensor Technology for Advanced Authentication

NEXT Biometrics Group ASA

Q4-2018
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Next Biometrics – Growth Path

Established Core Technology
- Created unique large flexible sensor solution
- Established biometric solution expertise
- Achieved initial commercialization of the technology

Creating Foundation for Growth
- Strengthened operations and R&D
- Leveraged existing technology into new products and markets
- Pivoted company R&D investment to smart card and government ID solutions

Accelerate Growth
- Scaling the Business
  - Ramp smart card products
  - Leverage government certifications and begin module/reader sales
  - Drive revenue and profitability

R&D Focus
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020
Financial Highlights

Q4-2018
- **Revenue:** NOK 29.3 million compared with NOK 30.2 million in Q3-2018
- **Gross margin:** 36% compared with 30% in Q3-2018

FY 2018
- **Revenue:** growth of 10% to NOK 108.4 million
- **Gross margin:** increase to 28% (FY 2017: -6%)
Business Highlights Q4-2018

Smart Card:
• Technology Partnership with Infineon
• Joint R&D Program with MK Group, Vietnam
• Tactilis selected for 3 UN smart card pilots utilizing NEXT sensor technology

Government ID:
• Purchase order from Telpo for POS terminal solutions for the Indian market
• Purchase order from Tysso for POS terminal solutions for global use
• Cooperation agreement with Digitsecure (LastMile Mobi) for the Indian market

Access Control:
• Sampling of One Touch ID FAP20 sensor

Technology:
• Study by Carlos III University of Madrid confirms superiority of NEXT sensor technology
• UIDAI certification for NEXT L0 Registered Device Service for Android in India
Business Highlights 2019 to Date

Smart Card:
- Received and delivered purchase order for 30,000 chipsets from Tactilis
- Expanding smart card ecosystem with agreements in Asia
- Dual Interface sensor sampling starting in Q2-2019

Government ID:
- Increased customer traction in India reflected in firm awards and growing lead pipeline

Performance:
- Initiated cost reduction program
- Raised NOK 160 million in gross proceeds in private placement
- Subsequent offering with potential gross proceeds of NOK 28 million
Delivering on Gross Margin Improvement

Gross margin of 36% in Q4-2018
- Fourth consecutive quarter with positive gross margin
- Full-year gross margin of 28% (FY 2017: -6%)

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
- Long-term margin performance will depend on product and customer mix
Key Figures for Q4 and FY 2018

**Profit and loss**

<table>
<thead>
<tr>
<th></th>
<th>Q4 2017</th>
<th>Q1 2018</th>
<th>Q2 2018</th>
<th>Q3 2018</th>
<th>Q4 2018</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td><strong>NOK million</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>24.7</td>
<td>23.3</td>
<td>25.6</td>
<td>30.2</td>
<td>29.3</td>
<td>98.2</td>
<td>108.4</td>
</tr>
<tr>
<td>COGS</td>
<td>(25.6)</td>
<td>(18.8)</td>
<td>(18.9)</td>
<td>(21.1)</td>
<td>(18.8)</td>
<td>(104.0)</td>
<td>(77.6)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>(0.9)</td>
<td>4.5</td>
<td>6.7</td>
<td>9.1</td>
<td>10.5</td>
<td>(5.9)</td>
<td>30.8</td>
</tr>
<tr>
<td>Gross margin</td>
<td>(4%)</td>
<td>19%</td>
<td>26%</td>
<td>30%</td>
<td>36%</td>
<td>(6%)</td>
<td>28%</td>
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<tr>
<td>EBITDA</td>
<td>(41.8)</td>
<td>(38.8)</td>
<td>(44.4)</td>
<td>(39.1)</td>
<td>(35.5)</td>
<td>(163.3)</td>
<td>(157.8)</td>
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<tr>
<td>EBITDA adjusted*</td>
<td>(36.9)</td>
<td>(37.8)</td>
<td>(41.1)</td>
<td>(35.7)</td>
<td>(31.9)</td>
<td>(150.1)</td>
<td>(146.4)</td>
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*EBITDA adjusted for cost of options.

**FY 2018:**
- Revenue growth of 10%
- Gross margin of 28% (FY 2017: -6%)

**Q4-2018:**
- Revenue of NOK 29.3 million, compared with NOK 30.2 million in Q3-2018
  - Notebook volumes the main driver
  - Passed 6 mill sensors shipped in Q4-2018
  - Pilot projects and samples have limited impact
  - Revenue to increase as customers roll out their solutions
**Passing Peak OPEX and R&D Investments**

**Non-R&D related OPEX** stable

**R&D related OPEX** reflecting high activity
- Focus on Smart Cards and Government ID
- Projects on track for expected volume market take off
- 5 MNOK skattefunn, included in Q4-2018 and Q4-2017

**Cost reduction program**
- Initiated with target of 20% decrease
- Full impact from Q3-2019
- Optimizing organization
- Commercializing payment card solution; Scaling back other development processes

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

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Non-R&amp;D</th>
<th>R&amp;D</th>
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<tbody>
<tr>
<td>Q1-17</td>
<td>17</td>
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<td>Q2-17</td>
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<td>Q3-17</td>
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<td>Q3-18</td>
<td>18</td>
<td>29</td>
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<tr>
<td>Q4-18</td>
<td>18</td>
<td>25</td>
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*OPEX = Payroll + Other OPEX

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Improved EBITDA Performance and Reduced Cash Burn

**EBITDA:**
- Q4-2018 EBITDA-loss excl. options reduced by NOK 5 million compared to Q4-2017
- 5 MNOK skattefunn, included in Q4-2018 and Q4-2017

**Cash flow:**
- Cash used for operations of NOK 25 million in Q4-2018 compared to NOK 44 million in Q4-2017
- Long-term cash flow levels to improve
### Balance Sheet & Cash Flow Development

#### Balance sheet

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (NOK million)</th>
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<tbody>
<tr>
<td>Cash</td>
<td>46</td>
</tr>
<tr>
<td>Receivables</td>
<td>28</td>
</tr>
<tr>
<td>Inventory</td>
<td>29</td>
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<tr>
<td>Non-current</td>
<td>49</td>
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#### Cash flow development

<table>
<thead>
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<th>Category</th>
<th>Amount (NOK million)</th>
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<tr>
<td>Cash at period start</td>
<td>71</td>
</tr>
<tr>
<td>Operations</td>
<td>(22)</td>
</tr>
<tr>
<td>Investing</td>
<td>(3)</td>
</tr>
<tr>
<td>Financing</td>
<td>0</td>
</tr>
<tr>
<td>Cash at period end</td>
<td>46</td>
</tr>
<tr>
<td>Net Private placement Q1-19</td>
<td>180*</td>
</tr>
<tr>
<td>Adjusted cash position Q1-19</td>
<td>226</td>
</tr>
</tbody>
</table>

*Assumes completion of subsequent offering*
Leveraging NEXT's Large Size, Cost Benefit in Four Target Markets

- **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 channels
Focused on Smart Cards and Completing Payment Card Solution

**Expected smart card segment inflection point**

Estimated smart card revenue/volume development – TAM (Total addressable market)

**Technology roadmap**

- **Chipset**
  - Chipset for Closed loop projects
  - Flexibility to adapt to complex projects
  - Large rigid and flexible sensors
  - Contact cards

- **One Touch Connect CS**

- **One Touch Flex CT – Payment**
  - Ready to integrate
  - Large Flexible sensor
  - Turnkey solution
  - Contact cards

- **One Touch Flex CL – Payment**
  - Low power
  - Large flexible sensor
  - Turnkey solution
  - Contactless

- **Sampling from Q2 2019**

- **Government Grade**

- **Closed loop systems**

- **Government Grade / Mass market**

- **Financial inclusion payment cards**

- **Enterprise cards**

- **Retail banking payment cards**

- **2017**

- **2018**

- **2019**

- **2020**

- **2021**

Highly integrated, cost-optimized dual interface smart card solution
Building Payment Card Traction

2018 achievements
• 4 new agreements signed with tier-2 customers in APAC
• Technology partnership with Infineon

Lead pipeline
• Advanced discussions with 3 additional tier-2 players
• Engaged in payment card specification project

Strategic priorities
• Build payment card traction with the new solution
• Target new wins to start using biometric dual interface technology from 2020
• Close alignment with all major players in the smart card ecosystem
• Further develop ongoing technology partnership with Infineon

*) Market estimates are based on latest available data and subject to change without further notice
Smart Card: Ready to Support Tactilis’ Ramp-up

**Shipped 30k chipsets in Q1-2019**
- Call-off under previously received open purchase order for 250k chipsets
- Over 60k sets of fingerprint sensors and ASICs shipped to date for product development, pilots and initial production

**Tactilis contract backlog and pilots represent significant volume potential for NEXT**
- 3xUN pilots
- Madeira Smart City
- US Veterans card

**Ready to provide additional chipsets to support Tactilis’ ramp-up**

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Building World-Wide Government ID Position

**INDIA**

**2018 achievements**
- Aadhaar L0 certification for modules, readers & software
- Start of discussion with all relevant terminal vendors
- First PO’s received in early 2019

**Lead pipeline**
- 3 additional agreements in advanced negotiations

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

**RoW**

**2018 achievements**
- 4 agreements won and supply started
- Start of FAP 20 sensor sampling to customers

**Lead pipeline**
- 3 additional agreements in advanced discussions
- FAP 20 sensor available for volume sales from Q3-2019

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

- MobiOcean order of NEXT STQC and UIDAI certified sensors for the Indian market
- Mobile POS platform for Aadhaar authentication and payments
- Supports credit card, debit card, UPI (Unified Payments Interface), wallet and a range of other payment forms.

- Purchase order for NEXT STQC and UIDAI certified fingerprint sensors for the Indian market
- Sold through distribution partner Aqtronics Technologies, Pvt. Ltd.
- For use in Aadhaar based applications such as Jeevan Pramaan, AEPS, and AEBAS

*Note: Market estimates are based on latest available data and subject to change without further notice.*
Access Control Volumes Emerging

2018 achievements
- License algorithm providing easy customization, superior performance and faster time-to-market
- Segmentation for effective, tailored market cultivation and extended regional coverage

Lead pipeline
- 3 new distribution agreements in very advanced negotiations to broaden regional footprint

Strategic priorities
- Increase market penetration with existing product portfolio
- Leverage new FAP 20 solution for physical access control, and time and attendance applications
- Extend geographic presence

*) Market estimates are based on latest available data and subject to change without further notice

Prima Technology Inc. integration of NEXT One Touch Access 100 sensor module in high-quality display panels
- Initial sensor modules shipped to be used in display solutions for the educational market in North America
Notebook – Achievements & Outlook

2018 achievements
• Sensor and ASIC development completed and solutions in mass production
• New sensor and ASIC driving gross margin improvement
• Record shipments to US tier-1 customer
• Initial volumes to Fujitsu in 2018, further ramp in 2019

Lead pipeline
• Ongoing technology evaluation with additional notebook manufacturers

Strategic priorities
• Maintain strong relationship with current customers
• Further market penetration with existing product portfolio
• Leverage new FAP 20 solution

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Secure Authentication for Identity Management

6m
- Founded 2004; IPO 2014
- >6 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
- Rapidly growing fingerprint sensor market
  >1 billion units
- Positioned for leadership in emerging smart card & government ID markets
Outlook

- Increase in design wins and revenue
- Volume shipment of high-end smart card sensors
- Sampling of Dual Interface solution planned from Q2-19
- Expand and capitalize on network in payment smart-card ecosystem
- Ramp India sales
- Increased interest for FAP20 products
- Significant increase of sensor module shipments to Fujitsu expected in Notebook segment
- OPEX to decline in H2-19
One Touch.
One You.
NEXT Biometrics