

NEXT BIOMETRICS GROUP ASA

Quarterly Report | Q1 2024



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NEXT Biometrics Group ASA

Quarterly report – Q1 2024

Highlights

- Revenue of NOK 12.8 m (NOK 6.8 m Q1 2023)
- Record high gross margin at 56%
- 50 accumulated design-wins by end Q1 2024
- Adjusted EBITDA¹ of NOK -9.1 m in Q1 2024
- Cash position of NOK 54.6 m per 31 March 2024
- NEXT's FAP20 sensor received China-ID certification

CEO Statement

I am proud to report continued progress with 4 new design wins in the quarter. With our 50 accumulated customers and the important certifications we have achieved in China and India, we have a solid foundation for growth in place. Our innovative products and customer-friendly services have gained traction in the market and NEXT has managed to expand its customer base, while still maintaining a solid financial position.

NEXT's sales efforts during Q1 progressed as expected. However, Q1 revenues were below expectations.

This is due to delays in our internal product development processes, which affected and delayed the corresponding product approval processes among customers. As orders have been placed as estimated, yet approved with delay, therefore part of the revenues from these sales will be booked in Q2 instead.

For Q1 2024 we report a record-high 56% gross margin, resulting from a high share of FAP20 sensors in the product mix. This gross margin is above our targeted levels.

In January, we announced that one of our partners was awarded the China-ID certification for the FAP20 sensor. Recently, we also completed the development of our China-ID product and got approval from the first customer in China. With this new certified product, we expect to receive more orders from China.

In India, we continued to see a high volume of tenders and an increasing demand for biometric solutions during Q1. We expect this to cascade through the supply-chain and that it will result in more NEXT orders from our customers and partners. With the ongoing generational upgrade in India, we also see strong momentum for NEXT in Q2 and the second half of the year.

We have a complete network of distributors covering the world's largest biometric markets. Moreover, we have a strong foundation in our already communicated purchase orders and contract commitments, and we are working to secure even more customers and orders. Hence, we remain confident in our outlook: NEXT is well positioned for success in the high-end fingerprint sensor market.

Looking ahead, I am excited about the opportunities for our company. We will continue to invest in research and development, enhance our operational efficiency, and explore new avenues for growth. Our team is dedicated to driving innovation, delivering exceptional value to our customers, and creating long-term value for our shareholders.

I would like to express my gratitude to our shareholders, customers, partners, and employees for their continued support and dedication. Together, we will continue to build on our success and achieve new milestones in the tech industry.

Ulf Ritsvall, CEO of NEXT Biometrics Group ASA

(amounts in NOK million)	Q1 2024	Q1 2023	Full Year 2023
Total revenues	12,8	6,8	34,4
Adjusted gross margin (%) ¹⁾	56 %	21 %	33 %
Adjusted EBITDA ¹⁾	-9,1	-11,7	-43,7
Cash - closing balance	54,6	53,0	67,8

1) See definition on page 13

Operational review

4 new design-wins were added during the first quarter. The total pool of design-wins was 50 customer products as per 31 March 2024 compared to 38 as per 31 March 2023.

Q1 2024 revenues increased relative to Q1 2023 due to higher shipments of FAP20 products. The sequential growth from Q4 was negative due to unexpected delays and changes in shipment plans from Q1 to Q2.

NEXT's Q1 2024 adjusted gross margin was 56%, vs 21% in Q1 2023. The increase in gross margin is due to an increased share of FAP20 products.

Mid-March, NEXT announced the first third party sale of ACPL's L1 certified biometric module targeting the Public Distribution Segment, which represent one of the largest biometric authentication market segments in India.

Biometric Distributors expands market-reach and NEXT's sales/distribution power. NEXT has announced sizeable contract commitments and purchase orders with distributors in 2023 and 2024. The main part of the already announced orders is targeted for the market in India and China. Still, NEXT also has a few global distributors and distribution coverage in other countries in Asia, Latin America, South America, Africa and the Middle East. NEXT had 10 biometrics distributors as of 31 March 2024, of which 4 were added during the last 6 months. On a separate note, XM Holder (NEXT distributor based in China) recently communicated its intent to scale down its biometrics sensor business dealings and that it would like to cancel its remaining purchase order commitments with NEXT. NEXT plans to redirect this currently outstanding order commitment via other distributors in the region.

Early in the quarter, NEXT announced that its FAP20 sensor received the prestigious China ID certification. China ID is a nationwide security requirement similar to India's Aadhaar program, providing NEXT's customers access to otherwise closed market segments. During the quarter NEXT delivered China-ID prototype products to selected end-customers. Subsequent to quarter end, NEXT completed the product development process for its China-ID product. NEXT is expecting to receive its first China-ID purchase order targeted for mass production in Q2.

NEXT continued its R&D activities developing FAP30 fingerprint sensors and has been working with its suppliers to secure manufacturing capacity and components availability. The FAP30 products can be applied in high-end applications (high security demands) and have generally higher prices and margins than the FAP20 market. The planned launch of FAP30 product broadens NEXT's product portfolio and makes NEXT a more attractive partner to international OEMs (Original Equipment Manufacturers).

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

Statement of comprehensive income

Revenues for Q1 2024 were NOK 12.8 million compared to NOK 6.8 million in Q1 2023. The increase in revenues relative to Q1 2023 was mainly due to higher FAP20 sensor shipments.

Payroll expenses excluding stock option costs were NOK 8 million in Q1 2024 compared to NOK 8.4 million in Q1 2023. Net employee stock option and option social security costs were NOK 5.0 million in Q1 2024 compared to NOK 0.5 million in Q1 2023. See note 4 for further information on stock option cost.

Other operating expenses were NOK 8.4 million in Q1 2024 compared to NOK 4.8 million in Q1 2023. The increase in costs in Q1 2024 relative to Q1 2023 is mainly due to increased sales and marketing team headcount and intensified R&D efforts.

Depreciation and amortization were NOK 1.5 million in Q1 2024 compared to NOK 1.9 million in Q1 2023.

Net financial items were positive NOK 0.3 million in Q1 2024 compared to negative 0.2 million in Q1 2023.

Income tax expense was NOK 0.1 million in Q1 2024, compared to income tax expense NOK 0.1 million in Q1 2023.

Adjusted EBITDA was negative NOK 9.1 million in Q1 2024, compared to negative NOK 11.7 million in Q1 2023. The improvement in Q1 2024 adjusted EBITDA is due to higher revenues and increased gross margin partly offset by higher OPEX ex options cost.

Loss after taxes for Q1 2024 were NOK 15.5 million compared to a loss of NOK 14.4 million for Q1 2023. The slight increase in loss after taxes was mainly related to Q1 2024 increased options social security cost offset by the improvement in gross margin.

Statement of financial position and cash flow

Cash amounted to NOK 54.6 million per 31 March 2024, compared to NOK 53.0 million per 31 March 2023.

Net cash flow from operating activities was negative NOK 14.2 million in Q1 2024, compared to negative NOK 14.9 million in Q1 2023. The negative cash flow in Q1 2024 is mainly due to operating losses and increased receivables resulting from higher revenues and delayed payments on accounts receivables from customers.

Net cash flow from investing activities was nil million in Q1 2024, compared to nil in Q1 2023.

Net cash flow from financing activities was positive NOK 1.5 million in Q1 2024 compared to negative NOK 0.5 million in Q1 2023.

Going concern

The Group's financial statements for Q1 2024 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 Q2 and in 2024. 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 remain at high levels and NEXT's gross margin is expected to stay above 50% as a result of this. Moreover, FAP20 revenues from India and China will be significantly higher in 2024, compared to 2023.

We expect revenues for 2024 to grow by at least 250%, compared to 2023. Moreover, we expect revenues for Q2 2024 to grow significantly compared to Q1 2024, and we maintain our conviction that the company could reach EBITDA adjusted break-even in Q2 2024, and for 2024 in total we target a positive adjusted EBITDA.

Oslo, 6 May 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 Gommæs Børsum (Board member)

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Interim condensed consolidated statement of comprehensive income (unaudited)

(amounts in NOK 1 000)	Notes	Q1 2024	Q1 2023	Full Year 2023
Operating revenues	2	12 804	6 423	33 717
Other revenues		-	384	666
Cost of goods sold		-5 608	-5 351	-22 962
Inventory write downs		-27	-	-4 042
Gross margin		7 170	1 456	7 379
Payroll expenses	3,4	-12 920	-8 870	-42 370
Other operating expenses	3,4	-8 442	-4 804	-23 218
EBITDA		-14 192	-12 218	-58 209
Depreciation and amortization		-1 528	-1 889	-7 068
Impairment losses		-	-	-1 139
Operating profit (loss)		-15 721	-14 107	-66 416
Net financial items		292	-237	918
Profit (loss) before taxes		-15 428	-14 345	-65 498
Income tax expenses		-59	-50	-234
Profit (loss) after taxes		-15 487	-14 395	-65 732
Earnings per share (in NOK):				
Basic and diluted		-0,15	-0,16	-0,69
<i>Other comprehensive income (loss) that may be reclassified subsequently to profit and loss:</i>				
Translation differences on net investments in foreign		2 896	3 154	1 170
Other comprehensive income (loss)		2 896	3 154	1 170
Total comprehensive income (loss)		-12 591	-11 241	-64 562
Profit (loss) after taxes attributable to:				
Owners of the parent company		-15 487	-14 395	-65 732
Total comprehensive income (loss) attributable to:				
Owners of the parent company		-12 591	-11 241	-64 562

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Interim condensed consolidated statement of financial position (unaudited)

(amounts in NOK 1 000)	Notes	31 Mar 2024	31 Mar 2023	31 Dec 2023
Deferred tax assets		-	40	-
Intangible assets		1 341	2 237	1 530
Property, plant and equipment		5 524	11 535	6 738
Total non-current assets		6 865	13 813	8 268
Inventories		23 169	27 088	23 126
Accounts receivables		22 372	7 003	12 303
Other current assets		7 503	9 528	7 451
Cash		54 569	53 010	67 753
Total current assets		107 613	96 629	110 632
Total assets		114 478	110 441	118 900
Share capital	4	104 443	91 981	104 025
Share premium		32 515	4 049	30 858
Other reserves		32 525	26 759	31 965
Accumulated losses		-85 088	-37 340	-72 498
Total equity		84 395	85 449	94 351
Deferred tax liabilities		59	-	-
Non-current lease liabilities		80	848	194
Total non-current liabilities		138	848	194
Accounts payables		4 583	4 809	5 984
Income tax payables		35	153	33
Current lease liabilities		1 381	1 734	1 745
Other current liabilities		23 946	17 449	16 594
Total current liabilities		29 945	24 145	24 355
Total equity and liabilities		114 478	110 441	118 900

NEXT BIOMETRICS GROUP ASA**Interim condensed consolidated statement of cash flow (unaudited)**

(amounts in NOK 1 000)	Q1 2024	Q1 2023	Full Year 2023
Profit (loss) before taxes	-15 428	-14 345	-65 498
Share based remuneration	560	690	5 896
Accrued share option social security cost	4 460	-169	4 611
Income taxes paid	-	-	-26
Depreciation and amortization	1 528	1 889	7 068
Impairment losses	-	-	1 139
Inventory write-downs	27	-	4 042
Change in working capital items and other	-5 333	-2 995	-13 863
Net cash flow from operating activities	-14 187	-14 929	-56 630
Purchases of property, plant and equipment and intangible assets	-	-	-13
Net cash flow from investing activities	-	-	-13
Net proceeds from issue of shares	2 130	-	60 150
Payments of transaction costs equity transactions	(56)	-	-3 134
Payments of lease liabilities	-533	-547	-2 078
Net cash flow from financing activities	1 542	-547	54 938
Net change in cash flow	-12 645	-15 476	-1 705
Cash balance at beginning of period	67 753	69 302	69 302
Translation differences from subsidiaries and effects of exchange rate changes on cash and cash equivalents	-539	-817	156
Cash balance at end of period	54 569	53 010	67 753
Comprising of:			
Cash	54 569	53 010	67 753

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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 2024		104 025	30 858	31 965	-72 498	94 351
Profit (loss) after taxes					-15 487	-15 487
Other comprehensive income (loss)					2 896	2 896
Total comprehensive income (loss)					-12 591	-12 591
Share issues net	4	418	1 657			2 074
Share based remuneration	4			560		560
As of 31 March 2024		104 443	32 515	32 525	-85 088	84 395
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

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 financial statements have been prepared in accordance with IFRS[®] Accounting Standards as adopted by the EU per 31 March 2024 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 2023 (Annual Report for 2023). The Annual Report for 2023 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 2023. There are no new standards and interpretations effective from 1 January 2024 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 2024 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 6 May 2024.

Note 2 – Revenue and segment reporting

(amounts in NOK 1 000)	Q1 2024	Q1 2023	Full Year 2023
Fingerprint sensor technology	12 804	6 423	33 717
Total operating revenues	12 804	6 423	33 717

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.

Note 3 – Operating expenses

(amounts in NOK 1 000)	Q1 2024	Q1 2023	Full Year 2023
Salaries, fees	-6 493	-6 884	-26 507
Share based remuneration (salary part)	-502	-668	-5 729
Share based remuneration (employer's tax)	-4 460	169	-4 611
Social security taxes	-956	-1 016	-3 515
Other personnel expenses	-510	-471	-2 008
Total payroll expenses	-12 920	-8 870	-42 370

(amounts in NOK 1 000)	Q1 2024	Q1 2023	Full Year 2023
Product and marketing costs	-1 653	-1 221	-4 434
R&D and business services costs	-4 744	-2 466	-13 232
R&D and government grants	317	373	1 754
Fees to contractors, auditors, lawyers and others	-1 703	-1 066	-4 331
Other expenses	-601	-401	-2 807
Share based remuneration (operating part)	-58	-22	-167
Total other operating expenses	-8 442	-4 804	-23 218

Total payroll expenses were NOK 12.9 million in Q1 2024 compared to NOK 8.9 million in Q1 2023. The difference in costs in Q1 2024 relative to Q1 2023 is mainly the increase in share-based remuneration (social security) cost from net gain NOK 0.2 million in Q1 2023 to NOK 4.5 million cost in Q1 2024.

Total other operating expenses were NOK 8.4 million in Q1 2024 compared to NOK 4.8 million in Q1 2023. The difference in costs in Q1 2024 relative to Q1 2023 is mainly the increase in R&D and business service costs and Fees to auditors, consultants, lawyers, and others. The increase in costs is mainly due to an enlarged sales team and intensified R&D efforts.

Note 4 – Shares and incentive options

Numbers of shares outstanding

As of 1 January 2024	104 024 929
Share issues	418 083
As of 31 March 2024	104 443 012

In February 2024, 418,083 share options were exercised at an average subscription price of NOK 5.1 per share, corresponding to gross proceeds of NOK 2.1 million. The number of shares outstanding increased by 418,083 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 0.56 million in stock option cost relating to employees and contractors. The Group's stock option social security cost was NOK 4.46 million due to the increase in the parent company's stock price during Q1 2024. The net costs related to stock options and option social security costs were 5.0 million for Q1 2024.

There was a decrease of 651,417 outstanding options during Q1 2024. The decrease is due to exercises of options and cancellation of outstanding options held by employees leaving the group during the quarter. The Group had 13,397,102 options outstanding as per 31 March 2024.

Note 5 – Subsequent events

Between 31 March 2024 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 2024 period nor on the value of the Group's assets and liabilities as per 31 March 2024.

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)	Q1 2024	Q1 2023	Full Year 2023
Operating revenues	12 804	6 423	33 717
Other revenues	-	384	666
Cost of goods sold	-5 608	-5 351	-22 962
Inventory write-downs	-27	-	-4 042
Gross margin	7 170	1 456	7 379
Gross margin	7 170	1 456	7 379
Divided by operating revenues and other revenues	12 804	6 808	34 383
Gross margin (%)	56 %	21 %	21 %

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)	Q1 2024	Q1 2023	Full Year 2023
Operating revenues	12 804	6 423	33 717
Other revenues	-	384	666
Cost of goods sold	-5 608	-5 351	-22 962
Inventory write-downs	-27	-	-4 042
Added back inventory write-downs	27	-	4 042
Adjusted gross margin	7 196	1 456	11 421
Adjusted Gross margin	7 196	1 456	11 421
Divided by operating revenues and other revenues	12 804	6 808	34 383
Adjusted gross margin (%)	56 %	21 %	33 %

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 2024	Q1 2023	Full Year 2023
Operating profit (loss)	-15 721	-14 107	-66 416
Added back depreciation and amortization	1 528	1 889	7 068
Added back impairment losses	-	-	1 139
EBITDA	-14 192	-12 218	-58 209
Added back share-based remuneration (salary part)	502	668	5 729
Added back share-based remuneration (employer's tax)	4 460	-169	4 611
Added back share-based remuneration (operating part)	58	22	167
Added back inventory write-downs	27	-	4 042
Adjusted EBITDA	-9 145	-11 697	-43 659

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 2024	Q1 2023	Full Year 2023
Operating expenses (OPEX)	21 362	13 674	65 588
Deducted share-based remuneration (salary part)	-502	-668	-5 729
Deducted share-based remuneration (employer's tax)	-4 460	169	-4 611
Deducted share-based remuneration (operating part)	-58	-22	-167
Operating expenses ex. options (OPEX ex. options)	16 342	13 153	55 081



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

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