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# EDITED TRANSCRIPT

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## PRESENTATION

**Stanley A. Swearingen** - *IDEX ASA - CEO*

Good morning, everybody. Welcome to IDEX's Q4 presentation. Good to be back here and see friendly faces in the room.

The disclaimer, I just want to make sure people read this and understand that the presentation will contain some forward-looking statements. So in particular, I want to highlight that area.

So when we started this journey back several years ago now, I think it was 2015, we had a hypothesis that by bringing fingerprint technology to a credit card, that it would have a compelling value proposition. And really 3 elements to this: One was convenience, and we thought the removal of the cap on dual-interface or contactless transactions, no need for a PIN or a password, would make the transaction frictionless.

We also felt it would add a level of enhanced security, and so really that was all around the fact that the biometric data from your fingerprint was stored on the card and it was never stored anywhere in the network. And we also thought by doing this, it was a much more secure means of authentication and really moving from what -- model of what you know to who you are.

And then the last was really the commercial. So that was the value proposition for the end user. What was the value proposition for the commercial players in the market, for the issuers and for the schemes? And really the 4 elements there were, one was that the card was really the last physical connection that an issuer had with their customer. So if you have a card in your wallet, you'll see it's a branding opportunity, and every time you go to use a particular card, it's an opportunity that the issuer's brand is front and center, so there's an emotional connection that's established.

And the other thing that was extremely important for a new market is we wanted to make sure the technology didn't require significant investment in new infrastructure. So what we wanted to do is come up with a solution that had all the benefits of biometric but could be used with the current reader infrastructure, contact or contactless.

And then the improved customer confidence that we get from the first few bullets, we felt would increase the usage of the card, and that would be a benefit to the scheme and the issuer.

And last was really the card industry was -- is looking for, how do they continue to grow high-margin business? How they continue to bring innovation to the card? And there hasn't been much innovation in the credit card since the chip card was announced.

If that -- so we look at -- that was a hypothesis, that was why we got into the business and spent the energy to establish a relationship with Mastercard. And through the pilots over the past couple of years, we really see that's all been validated.

So when you look at -- and these are quotes from Visa or data from Visa and Mastercard pilots, but we really see that there's a -- all the hypothesis has been proven true. I think Bob's quote in a recent article, Biometric Update, kind of sums it up and he says, "If you said, 'Hey, you've been using this thing for a month now, what do you think about it?' 91% of the people said it was more secure and 81% said it was more convenient, you really believe you have something."



So that's all been proven. The issuers are now -- because multiple pilots have been run, have now seen the value proposition or are excited about it and excited about getting it in the hands of their consumers.

So with the hypothesis validated, multiple pilots have run. We continue -- we believe that the dual-interface pilots will accelerate in these coming months. So last year, it was a heavy emphasis on contact pilots, and the dual-interface pilots started in Q4. And what you're going to see is a real acceleration of a lot of high-profile dual-interface pilots in the coming months, and we're excited to be participating in those.

If we look at the traditional market, the traditional card market continues to grow, and we see it's at north of 5.5 billion, and this is for all cards. And the underlying growth is -- for all verticals is very healthy, and the strong drivers are really low cost to setup and maintain, fast authentication speeds, convenience, all the things we've talked about, biometric enhancing. These are just base, innate, fundamental reasons why the market continues to flourish for cards. And we believe that biometric represents a significant opportunity to penetrate this market.

So with this, we really, for the first time, was trying to put some numbers around where we think the market will be in the coming years. And this is because we're now getting a breadth of card issuers interacting with multiple schemes. We're starting to see, from multiple angles, where and how significant this market could be. So when we look at the overall market, the penetration rate, the exciting thing is even with very, very conservative penetration rates, this is a huge market for us. And when you look at, in 2019, 7 million; next year, 43 million; year after that, 143 million (sic) [142 million]. These are very conservative attach -- penetration rates, and we would expect that leadership share. So this is the whole market, we would expect to have leadership share of this market.

And it really comes down to the penetration rate is going to be driven by cost. So the lower we can get the cost, the lower the card integrators can get the cost, the higher the penetration rate. These penetration rates we're showing you right now is with our line of sight of our cost and our partner's costs. And we think that these are conservative. And again, Bob Reany in a recent article, summed it up perfectly, "The ones that can get their costs down are the ones that are going to win." And we believe we are uniquely positioned to have a cost advantage in this market due to our architecture.

So if we look at our cost advantage, you've seen this slide before. It really is the advantage of being off-chip and the fact that we can integrate functions because we can ride Moore's law. And now with advanced packaging approaches, we can leverage the packaging technology that's been deployed in the billions. So with these 2 vectors, we really believe we're in a unique position to drive the cost of the implementation, putting biometric and a smartcard down to it being, over time, just a modest incremental ladder.

So if we look at the block diagram of a smartcard today, a payment card, what you have is energy harvesting, you have a biometric MCU, you have something called a secure element. It is kind of the Fort Knox of the card where all the secure information is stored and then you have a fingerprint sensor.

With our technology, we can integrate all the biometric MCU, the energy harvesting and our fingerprint sensing into one chip as the first step. And when I show you the road map, the next step is a single-chip biometric solution, which is today -- what your chip card has in it is a secure element as a single chip. So you can envision with a single-chip biometric solution, it's going to be a modest cost adder to what's today's cards are. The cost adder in essence would be the cost of the sensor, which we're driving down due to the packaging technology and other innovation we're working on.

So if you look at our road map, and we've shown this before, we really are maniacally focused in 2 vectors: One is drive the costs down as fast as we can. The other is provide the optimum security for the solution. So we continue to innovate with our matcher, we continue to innovate with end-to-end security for all the links, communication links, and we have other ideas of making a step function even beyond doing the things we're talking about with our matcher and our communication links. And then in 2021 is the one-chip biometrics solution.

So if we look at the evolution of market, really, I would categorize 2015, 2017, it was in its embryonic phase, which was really working on the core technology, testing, piloting, learning all about the need for remote enroll, the need for

energy harvesting and what transactions speeds need to be. And we learned a lot in that phase, and we're quite proud that we were the leaders in this phase.

And now we're in a phase where I'll call it ecosystem formation. And in ecosystem formation, I'll show a slide following this, this is a very complex ecosystem for payment card. And so that ecosystem, all the members of the ecosystem have to come up to speed on this complex solution. So we saw initial orders, we saw end-user trials, learned a lot, and this was the initial phase of industrialization, learning how to manufacture this card in volume, learning how to do it with yield and costs that would enable the penetration rate we talked about.

Certification, I'm going to talk a bit more in the next slide about certification because I think there's a lot of confusion in the market of what is certification? Who establishes certification? And how does that play out in ecosystem? And what we're really focused on now is industrialization, manufacturing, business models are emerging. Who pays for the card? Is it subsidized? And how the economics are sorted out is being worked through.

And then multi-vendor interoperability, I'll talk a bit about this. And when you see us make an announcement of Wata as an example, Wata is a top provider of secure -- Chinese secure element provider. Well, having our technology in a system that can work with a lot of solution is exceptionally important. Same for Infineon, NXP, STM, Tongfang, which you'll see here, all players in the secure element. And the more players we're interoperable with, the more opportunity we'll get because particular card integrators will have legions to particular secure element providers. So you have to make sure if your particular card integrator says, "Well, we want you to work with Wata," that you've done that work ahead of time, so that it's just a turnkey solution.

And then mass adoption. So we really believe the back half of this year, we're going to see an acceleration. And what we're seeing now is with the industrialization, manufacturing, we'll talk a bit more about that in the next slide, there is a learning curve happening with the card integrators, but they are working to it expeditiously, and we have good line of sight to them solving the last few kind of remaining issues to build this card in high volume.

So the ecosystem. So along the top, you have the schemes, Mastercard, Visa, American Express, China UnionPay, RuPay, and the schemes are the ones that set the certification. So Mastercard, as an example, will set the criteria for certification. That criteria is a set of specifications that outline manufacturability for reliability. It outlines security, biometric performance, a whole range of performance metrics, and it sets that criteria. It's up to the card integrators to then create solutions, run those solutions through testing facilities, some in house, some external, and then submit a report that says, "Here's proof, we've passed your certification." Once the certification is complete, then the card integrators can start shipping to issuers.

Today, Mastercard has the certification structure spec in place. The other schemes, they're forming new specs, as we speak, and that's accelerating, and we expect multiple schemes to have certifications, documentation and process established in the next 6 to 9 months.

If we look below that, you have card component providers, and I talked about these. Those are the NXPs, Infineons, Tongfang, Wata, the list goes on, STMicro. And all of these are, when I showed you the block diagram, they're the providers of secured elements, biometric MCUs and discrete components from energy harvesting.

We then have the biometric players, and the biometric players are the experts on the sensing, the matcher and understand the biometric subsystem. And those players are IDEX, FPC, NEXT. I've spoken a lot, I think, very consistent since I became the CEO, this market needs multiple suppliers. It's not going to flourish and be as big as the potential is unless there's multiple players supplying this across the spectrum.

The next is the card integrators. The card integrators as example are Gemalto, IDEMIA, Eastcompeace, Goldpac, Feitian. I think a lot of people know the IDEMIAs and Gemaltos. Some of the names, the Chinese names, may not be as familiar for our investors in Norway. It's important to understand Goldpac as an example. Goldpac, #5 in the world. They are on the same stage with Gemalto and IDEMIA, and they're #1 in China. So #1 in China for China UnionPay, #5 in the world. So when we announced last Friday, I was quite proud that we now have 2 of the top 5 announced, and you'll see this list grow from us.

The issuers, we've listed the issuers, and these are the banks that actually issue the card to the consumer. The issuer list here is just known pilots. These are not only our pilots, these are pilots by our competitors as well. This list will grow, and in this coming year, you're going to see much more household names on this list. So you're starting to see with dual-interface, really top-flight issuers really getting engaged in embracing the technology.

So if we look at that ecosystem when we talk about, well, what's IDEX doing to position itself to be the leader in this market? It really comes down to these fundamental elements. We believe we're unique in our off-chip capacitive sensing, we believe that gives us a superior cost structure ability to integrate as well as the ability to do innovative things like integrated displays.

We use a full systems approach. So back when we talked about Wata as an example, we do all the systems work to ensure our reference design works with Wata. So if a card integrator wants to use Wata as their secure element, we give them a turnkey solution. And so that's taking ownership for the total solution, ensuring that whatever component players, our customers, the card integrators want to use, that, that -- our technology works seamlessly with theirs.

And the turnkey biometrics solution has proven, we're seeing in China, in particular. A lot of the Chinese providers don't have the biometric sophistication. So they're looking for a partner to help them. And all they want to be is the card manufacturer, they want to have the sales channel, they want a technology partner who can do all the heavy lifting on the integration and the technical solution in totality. And then ecosystem partners, Mastercard, we've talked quite a bit, we're quite proud to be a partner, a strategic partner of Mastercard. And where -- this list is growing and will continue to grow. You'll see subsequent announcements in the coming quarter. And they range from the card integrators to technology partners, as I mentioned, Infineon, Wata, Visionox.

And then the innovation pipeline, talking about single chip, we continue to innovate in our algorithm, we continue to innovate in power management and in energy harvesting, and we continue to innovate in packaging technology to drive the cost down.

So if we look at that, our offering and our strategic elements, how is it playing out in the market? So we're seeing an acceleration of our market opportunity, so we're seeing strong interest across all integrators. We have multiple verticals, so something that's important to note. Some of the announcements we made of card integrators, they are not only serving the payment industry, they also are prolific and some of the top providers of insurance cards, access control and so forth. So we'll see in the coming months us showing great penetration into some of these other verticals.

The other verticals, what are nice about these other verticals, they don't have the certification and some of the complexities of the payment cards, so they're a bit -- a lot faster time to market for us and time to revenue for us.

And as I mentioned, we have a high confidence we'll convert these into orders, and the numbers are accelerating each month that goes by. So today, we have over 30 qualified. And so in the sales pipeline, you'll tend to get identified leads. Those identified leads may be 3, 4x the number of your qualified. So what you do is you then qualify the opportunity and say, yes, this is a bona fide opportunity and will result in a real business for us. And then those qualified opportunities then turn into real solid you're doing designing work, you're doing day-to-day work with the technical team at your customer, and we have 16 active.

So an example, an IDEMIA is an active, Goldpac is active. And when you look at the leverage of this model, you look at somebody like Goldpac, Goldpac has dozens of issuers they serve. So one customer for us, one card integrator will serve dozens of issuers, so there's an amplification effect. And as we mentioned in last presentation, we're continuing to see high growth in China, and -- which is of high interest to us because mobile payment is prolific in China. But even though mobile payment is prolific in China, we're seeing great penetration -- great growth in card issuance by China UnionPay, and this is China UnionPay's data.

So we look at our footprint now in this ecosystem, we've announced Infineon, Wata, Visionox, the card integrators, I won't read them all, but you're seeing this list is really growing quite significantly, and we're now engaged with multiple pilots across the globe on both contact and contactless.

And so really continue to drive the ecosystem, so you're going to see more announcements from the card component side, more announcements from card integrators and announcements on pilots in the coming months. And what this does for us is it really diversifies our risk. So instead of just having 1 or 2 integrators, we now have quite a few integrators, and each one of these integrators is working through manufacturing,

industrialization, finalization of their offering. And we're starting -- we're at a point now, we're starting to really feel good about expanding our footprint, even in the schemes. And then we have ongoing discussions with strategic partners, and this was in our press release.

And so each one of these, whether it be a card integrator, a component supplier, there's an opportunity to form a tighter bond. And what I mean by a tighter bond is to maybe have one of these entities make an investment in IDEX. And by doing so we then bring the companies closer together. Of course, it's a very complicated thing to work through, so we have had discussions, and we'll continue to have discussions around this. But first and foremost, we want to make sure we do it and add value to our shareholders.

So we're in a good position where we're going to have these dialogues, and there are some very interesting business models that we're looking at, and we'll continue to do this. So we look at opportunities in China. To put the names we have in context, you're looking at Goldpac, Hengbao, Chutian Dragon are 1, 3 and 6. You'll see this list grow. Those are the only -- those are the ones that we've disclosed to date. So we're really excited to have this kind of footprint this early in an emerging market in China.

So the outlook. We've made good progress in Q4. I'd like to get up in front of you in each quarter and say, here's what we said would happen, here's what happened and be transparent about the progress we've made. So the first additional shipments in support of production, we put a check there but we put it in parentheses. To be honest, it was very disappointing because we had expected much more volume to materialize, and the issue we faced with our customer was dealing with some industrialization challenges. So the demand was there, and -- but the complexity of the card in getting through the last remaining things that need to be worked through from an industrialization perspective were not where we had expected them to be. Quite pleased to report that those are being worked through expeditiously. And we're now getting the leverage learning across multiple card integrators so we're quite confident this will be behind us this coming quarter. But we gave ourselves partial credit because we did ship against the initial order, so we did meet the definition of the commitment, but the spirit of the commitment, we didn't meet that.

So for me, I feel like an expectant father. We really are doing everything possible in the ecosystem with our partners to turn this opportunity into great business and great value for our shareholders. And the last thing we've got to get through is this industrialization -- comp industrialization challenge that we faced in Q4, the industry is facing it, I think. In a recent, that same Biometric Update article an executive from Gemalto said it is the most complex card that they have ever manufactured for a bank card.

So we don't -- this isn't unique to our customers and our partners, it's across the industry, and we believe this will be solved in the coming months.

New customers ecosystems, we -- I think we did real well there, multiple pilots of dual-interface as well, we made great progress there. Commercial remote enroll, we're in commercial dialogue now with multiple parties on IP licensing. And then we continue to strengthen our IP portfolio.

As far as the dual-interface certification and volume delivery by mid-2019, we see that tracking to plan. Our technology is ready, the industrialization issues I just spoke about are being worked through. So these coming opportunities in 2019, we see the further evolution, more announcements around the ecosystem and continued ongoing investment by multiple issuers. Pilots of several issuers using IDEX dual-interface sensors, new customers in multiple verticals overspending now quite a bit of energy in bringing up the other verticals, and then developing strategic partnerships in smartcard ecosystem.

So with that, I'd like to call up Henrik. And he'll walk you through some of the financials.

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**Henrik Knudtzon** - IDEX ASA - CFO

Nice. So as Stan said in his presentation, we do expect 2019 to see significant increase in revenue opportunities. And what we're basing that on is obviously, we're seeing a lot of movement in the ecosystem that Stan talked about.

Lots of card integrators who are our customers. So the entity actually we're doing the financial transaction with, that's the card integrators. And as you saw from the list, we've announced lots of them, and we're talking to even more. So there's a lot of movement from our customers side.

There's also movement in the ecosystem, in general, so the secure element guys making -- ensuring interoperability. But most importantly, it's the end customers. So that's the issuers, the banks, et cetera. We're seeing a lot of demand there. And we have a clear line of sight on several specific opportunities. And as Stan said, it's really all about now making sure that the cards are manufacturable. So that gives us comfort about 2019.

In terms of the costs side, we want to be

prudent and have cost discipline. So in 2018, you saw a pretty constant cost level throughout the quarters. We expect to see the same level in

2019. The biggest driver of OpEx for IDEX is headcount and people, that's by far about 3/4 of our cost. We have the organization we need now to secure the revenue ramp, which means we won't be growing that organization significantly. And we have strengthened that organization, so it's more targeted towards front-end sales, business development, customer support to make sure that we can actually achieve the revenue targets we have.

In terms of external development spend, that's the second biggest part, that's an area where we expect to see stable levels or a slight decline because we're taking more in house. And another OpEx, that's really driven by activity and headcount, so expect that to be flat also.

So what does this mean in sum is that we do expect a stable cost level in 2019 as we have the organization we need to capture this market.

An important event which was fairly recent to us was, obviously, the raising of NOK 214 million. That money has been fully paid in, and I just saw from the company register then assume that they have made the notification, so that's completed. And this was something we were very pleased about. We did this raise at a 26% premium to the closing price when we announced, and that indicates our shareholders' confidence in IDEX's ability to actually deliver on what we believe we will deliver, and that's becoming a market leader in this huge biometric smartcard market.

So with this balance sheet and the costs I talked about on the previous slide, we do expect this to be sufficient to better bring us to profitability. And then doing that maths, that would've mean sometime in 2020 we expect to see that happen. And it's only low double-digit million number of units shipped on an annual level which is required to take us there. And you saw from the chart that Stan presented that's a pretty modest penetration. And based on what we're seeing, the interest and all the investment, which is made in the ecosystem, we're very optimistic about that.

And with that we'll open up for questions.

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## QUESTIONS AND ANSWERS

**Trygve Dommersnes** - *Carnegie Investment Bank AB, Research Division - Analyst Assistant*

Trygve Dommersnes, junior analyst, Carnegie. So what's the reason for the increase in payrolls? You may have answered my question, but -- and also the 11 contractors, are they hired beyond Q4?

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**Henrik Knudtzon** - *IDEX ASA - CFO*

So we haven't increased in staff from Q3 to Q4, but that's ...

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**Trygve Dommersnes** - *Carnegie Investment Bank AB, Research Division - Analyst Assistant*

I'm sorry, but like year-over-year from Q4 of '17?

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**Henrik Knudtzon** - *Idex ASA - CFO*

Sorry?

**Trygve Dommersnes** - *Carnegie Investment Bank AB, Research Division - Analyst Assistant*

Yes, so I mean, like the payroll increase from last year. Yes, just sorry.

**Henrik Knudtzon** - *Idex ASA - CFO*

Yes, the driver behind the payroll increase is that we have the composition of people compared to last year. It's the number of people, and it's also some year-end accruals. So I mean, an adjustment for accruals throughout the year. So it's really -- but I think, fundamentally, what we expect going forward is to have, I guess, about the same level perhaps the pure payroll. If you look at payroll, excluding the subscription rights costs or the noncash costs, we expect to have a -- from Q4 level, we do expect that to go down slightly, but it will be about the same level going forward. And that's -- we have the -- as we said, we have the organization we need. And I think in terms of what the increase of costs compared to the fourth quarter of 2017, that's really some year-end effects, but it's really the composition of people. And also since we hired 11 people in the quarter, there were also some recruitment costs, which are accounted for in the payroll.

**Unidentified Analyst**

Can you tell us a bit more about the deal you've made with the Fransabank, and what we can expect from that orders we have to deliver there?

**Stanley A. Swearingen** - *Idex ASA - CEO*

Yes, I'll take that one. So Fransabank is not a deal we made, Fransabank is a deal that was done with the card integrator, right? So we're supporting that card integrator, and that demand is real, and Fransabank is anxious to launch. So as far as our role in that is our technology is ready, we've provided that. And it's really the card integrator working to the industrialization challenges I spoke about in my presentation, but the demand is there, and Fransabank is clear, you just look at their website, they're launching the card and they're really eager to go to market with the card.

**Unidentified Analyst**

And is it the contact-based card or the dual-interface?

**Stanley A. Swearingen** - *Idex ASA - CEO*

Initially, contact but it's not limited.

**Henrik Knudtzon** - *Idex ASA - CFO*

Okay. I guess ...

**Stanley A. Swearingen** - *Idex ASA - CEO*

Okay. Thank you for your time, everybody, and have a great day.





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