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IDEX.OL - Q4 2019 IDEX Biometrics ASA Earnings Call

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## CORPORATE PARTICIPANTS

**Derek P. D'Antilio** *IDEX Biometrics ASA - CFO*

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

**Vincent Graziani**

## PRESENTATION

### Operator

Good day, and welcome to the IDEX Biometrics Q4 and Preliminary 2019 Reporting Conference Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Derek D'Antilio, IDEX Biometrics CFO. Please go ahead, sir.

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**Derek P. D'Antilio** - *IDEX Biometrics ASA - CFO*

Good morning, and good afternoon, everyone. Welcome to the IDEX Biometrics conference call for the fourth quarter of 2019. This is Derek D'Antilio, the CFO of IDEX. After this short introduction, Stan Swearingen (inaudible) an update of the business and the markets, and I'll follow-up with commentary on the fourth quarter and 2019 results. We will then open the call for your questions.

Before we begin, please note that certain information that you'll hear during this call may consist of forward-looking statements. Such statements are based on current information and management's expectations as of this date.

Forward-looking statements involve certain risks, uncertainties and assumption that are difficult to predict. For more information, please refer to the company's fourth quarter report, which was published earlier today and our annual report published in May.

I'll now turn the call over to Stan.

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

Thank you, Derek, and welcome to everyone joining us today. On today's call, I'll reiterate IDEX' strategy and then elaborate on how we have implemented the strategy by reviewing some of our company's 2019 in very recent accomplishments. Finally, I'll give an update on the major markets we serve.

As we've previously stated, our strategy is to deliver fingerprint solutions to mass markets based on a unique, flexible and cost-efficient off-chip technology. We do this by our unique ability to adapt solutions and the full systems design and architecture, having a significant cost advantage by enabling superior usability and by providing a high level of systems integration. The integration of critical technology gives us better insights in the overall system performance and improvements. And the integration, coupled with our off-chip technologies solution, gives us a fundamental ability to further integrate components and drive further cost advantage.

Over the past few years, we've built a world-class engineering team with deep industry expertise, comprised of systems engineering, software engineering, silicon engineering and packaging technologists. We believe we are the technology and cost leader, and I'll provide a few examples of how this leadership has already benefited us.

Our product road map is focused on the following fundamental elements: Enabling significant reduction in system costs through optimized packaging and integration architectures to enable low card -- low-cost card manufacturing processes; driving improvements in usability, convenience and performance to next-generation silicon and sensor and algorithm design; and enhancing security through secure end-to-end architectures and advanced match-on-secure element algorithms. These efforts have already led to design wins and orders for our existing products.

In addition, our architecture and cold and full systems engineering approach has resulted in the recent launch of our next-generation product family, TrustedBio. This next-generation family of dual interface products and solutions are designed to reduce biometrics smart card costs while improving both performance and security. Unlike existing sensors, this next-generation of products removes the need to have any electronic components laminated within the card's inlay. This is expected to lead to an improvement in manufacturing processes and yield and substantially reduce the overall time to market.

As a result, we are very pleased to have been selected by a leading global Tier 1 smart card manufacturer for using their high-volume biometrics smart card platform. The agreement deepens the long-standing relationship and collaboration between IDEX and this card manufacturer to develop biometric payment cards.

IDEX' technology was chosen over its competitors for its performance, low-power consumption, advanced security features, manufacturability and cost. The current manufacturer undertook a rigorous selection process and selected IDEX after a careful analysis of our technology and cost road map as well as conducting a supplier audit to ascertain our technical and supply chain readiness.

Now I'd like to mention the highlights of some of our recent accomplishments. As we entered 2019, biometric smart card manufacturing posed a significant challenge. I'm pleased to say that a lot of progress has been made, and several of our customers are now ready and capable of mass production with both cold and hot lamination processes.

During the year, IDEX continued to build partnership with vendors, and our engineers worked closely with customers to help refine high-volume biometric card manufacturing. Our dual interface technology, including sensor software and reference design, was validated by independent labs to meet multiple global payment schemes' certification requirements.

Finally, IDEX ended 2019 by having our U.K. team EMVCo-certified. We are the first and only sensor company to achieve EMVCo certification.

Now on to smart -- smart card manufacturers can directly integrate IDEX' biometric software, use our reference designs and embed our sensors in their products, and the smart card manufacturers can experience a seamless certification process.

From a commercial and sales perspective, we continue to expand our customer list. And we had a number of firsts and large wins for IDEX that validated the development work we have completed over the last 2 years.

In April 2019, IDEX won its largest design win and supply agreement with a large IT and financial news provider. This is a NOK 50 million or USD 6 million minimum commitment for our sensors and software for information access control. Throughout 2019, we worked with this customer to customize the solution for the specific requirement. I'm proud to say we have been -- we have now received our first production orders, which are expected to begin shipping in the second quarter of 2020.

IDEX also entered into license agreements for our remote enroll technology with 2 leading our smart card manufacturers, IDEMIA and Chutian Dragon. We believe remote enroll will become the de facto standard for enrollment and help enable mass adoption of biometric smart cards. These license agreements further validate our thesis.

Another important achievement is that IDEX has been selected by Feitian, a leading Chinese smart card manufacturers. They're the exclusive sensor provider for biometric payment cards.

Finally, as I mentioned, just this week, we announced IDEX' TrustedBio's technology was selected by a leading global Tier 1 smart card manufacturer for using their high-volume biometric smart card platform.

These are important wins as they will result in orders, revenue and cash.

Now turning to the markets we serve. While we and others talk a lot about biometric payment card market due to its large potential size, it's important to note that our authentication technology and products are applicable to a broad range of applications.



In multiple large and growing markets, these include access control, healthcare, identification, IoT and, of course, payment cards.

I'll now provide an update on 2 of our largest markets: payment and access control.

**Payment.** The payment card market is a very large and growing market. There are currently 8.2 billion smart cards or chip-based cards in circulation today, which has grown over 35% from 2016 to 2018 and continues to expand globally.

From a comparison perspective, the total addressable market for biometrics in smartphones is approximately 3.5 billion units. Forecasted biometric adoption, smart grids varied but generally show growth from pilots and soft launches in 2019 and '20 to significant volume in 2021 and beyond. IDEX believes biometric adoption on smart cards will be significant particularly as costs continue to be reduced. And some analysts' projections show biometric adoption nearing 10% or more than 500 million units within a few years.

Biometric authentication continues to gain commitment. And large industry participants are preparing for the market to materialize by making substantial investments in technology and the supply chain. A lot of progress we've made within the entire ecosystem during 2019, including development of business models, improvements in manufacturing, pilots, the first commercial launch of a biometric payment card, and finally, the first biometric dual-interface card was certified by a global payment scheme.

Certification of biometric smart cards using IDEX' existing products and technology is in the final phases and nearing completion, with both European and Asian card manufacturers.

Industry participants and analysts believe 2020 will be the year where the biometric smart card market moves from one defined by pilots towards commercial deployments, and we expect our existing products and platforms will support this commercialization phase. Most analysts and industry participants believe significant volume will fall in 2020 and beyond, and we believe that our TrustedBio platform and next-generation technology will enable significantly larger volume.

I want to also touch on access control market. The access control market is another large and growing market that industry analysts estimate -- estimated 250 million units and growing at more than 5% annually. Access control includes both information security access and physical access control. The market has shorter design in cycles, no certification requirements and provides a good near -- good near-term revenue opportunity and gross margin opportunity for IDEX.

As I previously mentioned, our sensors and software were selected by a leading global news and IT service provider from USD 6 million multiyear commitment for an information security application. In addition, IDEX has been chosen by 2 customers in Asia for inclusion into a secure access control smart card. These design wins are expected to lead to additional orders in 2020 and to lead to larger follow-on orders in other access card markets.

These design wins and orders are an important market indicator that our customers are choosing our technology and solutions over our competitors. We expect to begin volume shipments from existing contracts and orders in second quarter 2020. And we expect additional design wins and orders thereafter.

Before I turn the call back over to Derek to take you through our financial results, I'd like to introduce Vince Graziani, our recently announced new CEO. We're very excited to have an executive of Vince's caliber joining IDEX.

Over the past 2 years, I'm proud that we built world-class engineering team and go-to-market teams. And as IDEX now transitions to larger scale commercialization, I made the decision that it was best for myself and the company to move into a strategic and advanced technology role. This role is consistent with ones that I've held at other companies before joining IDEX and aligns well with my passion to drive next-generation technology.

I'm excited about the company's prospects and look forward to working closely with Vince and the team to maximize market opportunity that delivers significant shareholder value.

I'd like to thank the board, our shareholders and our employees for the support and opportunity to serve as the CEO of IDEX over the past 2 years.

I'd like to turn it over to Vince, so Vince can say a few words.

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**Vincent Graziani**

Thanks a lot, Stan. And obviously, I'm very excited to join IDEX, going through the process and deciding to join. I was impressed with the technology of the company, and the strong team, the board and sort of our unique position in the market. Also we have very significant markets to address, as Stan had mentioned earlier.

I'm really looking forward to getting engaged here in meeting the employees, the customers and the support of shareholders. And obviously, I have a lot more to say on the next call. And I'll turn this back over to Derek to go through the financials.

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**Derek P. D'Antilio** - IDEX Biometrics ASA - CFO

Thank you, Vince, and thank you, Stan, and welcome to IDEX, Vince.

I'll discuss the financial results for the fourth quarter and 2019, and then we'll open the call up to your questions.

Revenue in the fourth quarter was NOK 0.7 million, and revenue in 2019 was NOK 3.7 million. We continue to make progress throughout 2019 with product design wins, IP licensing agreements and product orders. These are clearly very important achievements because now we have multiple revenue and cash flow streams.

Operating expenses in the fourth quarter were NOK 83.4 million compared to NOK 62.2 million in the third quarter of 2019 and NOK 61.5 million in the fourth quarter of 2018. The increase in expenses was primarily related to severance costs related to the cost-reduction action that we took in the fourth quarter of 2019 and incentive compensation cost recorded during the fourth quarter of 2019.

Operating expenses for the full year 2019 were NOK 270.3 million compared to NOK 238.7 million in 2018. The increase in year-over-year expenses was primarily related to higher average headcount during the years. However, during the fourth quarter of 2019, we completed cost reduction actions. These cost reduction activities resulted in reduction of approximately 20% of our worldwide workforce in areas that we're focused on in the completed development activities or in regions where we've not seen near-term sales opportunities. We do expect to continue and have invested to reinvest some of these savings into critical development activities such as TrustedBio, which will lead to additional revenue in the future and focus on activities, which are expected to result in near-term revenue opportunities.

During 2019, we completed 2 private placement fundraisings for a total of NOK 304 million, including NOK 90 million in the fourth quarter of 2019. We ended 2019 with NOK 124 million or USD 14.1 million in cash, and we have no financial debt. We do monitor our cash position every quarter and every month very closely, including the expenses and working capital requirements. The company continues to review multiple funding opportunities, which include cash flow from operations, strategic partnerships and capital.

Finally, in the fourth quarter, IDEX shares were listed on the OTCQB in the United States, shareholders approved an employee stock purchase plan, and just recently, we amended our employee stock trading [when] it could be more market-based. All these actions are intended to broaden our global investor reach and make it easier for employees, directors and other potential investors to purchase IDEX shares.

We'll now open the call up for your questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We will now take the first question from Han Hanson from (inaudible).

### Unidentified Analyst

I have a question about your funding now, because it seems like there will be no more less than in May or June this year. So it's pretty critical to [raise money] and the share is dramatically full. Do you have any plans for how to get order of the financial remarks?

### Derek P. D'Antilio - IDEX Biometrics ASA - CFO

Yes. So this is Derek, the CFO. So May or June is not correct on the cash one way. And so the plans are -- we've done a couple of things. One is we have reduced our cost spend last year, so we could take those funds and reinvest it in activities that we need to do on critical development activities. So rather than just incrementally spending, we've done that.

We've also done some things with incentive compensation that'll be noncash incentive compensation. And then we're continuing to work with both partners on strategic partnership opportunities as well as existing shareholders as well as these multiple capital raising opportunities that we talked about in the fourth quarter, and we'll continue to (inaudible) those.

### Unidentified Analyst

Okay. And then last question for me is in the payment card markets. You obviously have a very interesting product that was mentioned 2 days ago, I think, from mass production in Q4. But is it -- do you think it's possible to get the order in the payment market before Q4 on the old solution? Or is every eyes on the new solution now?

### Derek P. D'Antilio - IDEX Biometrics ASA - CFO

Yes. So there are 2 different things. Yes, good question. So the new solution that we announced, which is TrustedBio, was the next-generation of our platform, and Stan can talk a little bit about that. But we actually have an existing platform that's being sold today. So there are sales and orders on the existing platform today. The new platform is a higher volume platform with better performance, better cost, better manufacturability. So it's the next-generation of our existing platforms. So there are 2 different things. The current platform today is being sold today. But I'll turn it over to Stan to talk about the next generation.

### Stanley A. Swearingen - IDEX Biometrics ASA - CEO

Yes. Well, I'll add a little color, right? So as we've been consistently saying, a market doesn't go from 0 to tens of millions, hundreds of millions overnight. And so the first phase is really a phase where you're going into tens of thousands, hundreds of thousands, single millions. And that phase is traditionally where the technology is introduced into less price-sensitive segments. So in the payment card market, as an example, there are millions of cards being -- metal cards being shipped that have a cost structure well above what our current cost structure is for the card we have in the market today.

So we do expect -- we do expect, as we said in our prepared comments, that the market will materialize this year. And we do believe that the segments will be ones that are less price-sensitive. When we use the term mass adoption, when we -- that's referring to tens of millions and hundreds of millions of units. And that's where we've positioned TrustedBio to really dramatically reduce the cost to include biometrics in a payment card, enabling that level of volume.



So again, we're in the market today. We expect to drive revenue in 2020 with our existing products that are nearing the end of -- and completion of certification. And then in 2021, we'll start -- TrustedBio will come to market. And there will be a dramatic shift in cost, enabling the implementation of biometrics to be just a fractional cost out of today's cards.

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**Operator**

There are currently no further questions in the queue at this time.

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**Derek P. D'Antilio** - IDEX Biometrics ASA - CFO

Okay. Well, thank you, everybody, for participating. And thank you for the people who did ask questions. So with that, we'll conclude the conference call. Thank you.

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

Thank you.

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**Operator**

Thank you. This concludes our call. Thank you for your participation. You may now disconnect.

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