



IDEX

REPORT FIRST HALF 2020

RECENT HIGHLIGHTS

- » Contactless payments have accelerated as a result of the global Covid-19 pandemic and IDEX Biometrics (IDEX) and others in the industry expect fingerprint biometrics to play a key role in a fully contactless solution
- » IDEX has received over USD 1 million in product orders to date in 2020 as the company begins its commercial ramp
- » IDEX's technology has been certified by two major global payment networks; China UnionPay and a large US based network. The networks combined have issued 70% of global branded payment cards. IDEX is the only fingerprint sensor company to have achieved certification for its system solution with two global payment networks
- » IDEX's TrustedBio™ technology was selected by IDEMIA, the global leader in Augmented Identity and a leading global payment card manufacturer, for its next generation biometric payment card
- » IDEX's sensor was selected by Zwipe, a pioneer in the biometric payment card market, to be combined with the Zwipe Pay ONE platform, to enable a complete system solution for biometric payment cards
- » IDEX has started shipping TrustedBio. The timing is consistent with IDEX's TrustedBio announcement in February 2020
- » IDEX received CARES Act or Coronavirus relief in the USA including payroll tax relief
- » IDEX raised USD 10.3 million to fund product development, meet customer production requirements and fund working capital

CEO'S COMMENTS

"Following the coronavirus outbreak, consumers want to go cashless and many businesses are discouraging the use of cash because of hygiene concerns. This drives demand for a secure and touch-free payment experience.

IDEX is in position to meet this demand with the right products, partnerships, critical certifications, orders and the start of production unit shipments.

We have achieved a key development milestone: We now have engineering samples of our next generation TrustedBio sensor. TrustedBio is a truly disruptive technology that provides industry leading biometric performance while dramatically reducing the cost of biometric payment cards.

We would like to thank our existing and new shareholders for their recent investment in May which will allow us to accelerate development and support revenue growth.

In the second half of 2020, the company expects additional design wins and continued commercial order growth for biometric payment cards leading to a projected revenue ramp-up in 2021."



Vince Graziani, CEO, IDEX Biometrics ASA

BUSINESS REVIEW

LEADERSHIP IN BIOMETRIC FINGERPRINT SENSING TECHNOLOGY

Touch-free biometric smart card applications

IDEX designs, develops, and sells fingerprint identification and authentication solutions. Its largest potential market is the biometric payment card market. IDEX's business model includes the design, development and sale or licensing of fingerprint identification and authentication products and solutions. The company maintains in-house design, testing, and supply chain management functions.

The company is an emerging growth company that has developed leading-edge products with significant performance and cost advantages compared to its competition. During 2020, the company has continued its commercialization and sale of these products.

Manufacturing is outsourced to large and established semiconductor fabrication companies as well as other providers of components and manufacturing services. IDEX is the only fingerprint biometric solution optimized for biometric payment cards, projected to be a market opportunity exceeding USD 2 billion by 2024¹.

IDEX's unique integrated solution for biometric smart cards includes the company's *off-chip* capacitive sensor technology, software matching algorithms

and energy harvesting technology that have been specifically designed and optimized for biometric payment cards. The company's *off-chip* sensor technology de-couples a low-cost polymer sensor from a leading edge and smaller ASIC. This solution has a fundamental and considerable cost and performance advantage over competitors. The IDEX solution also improves the manufacturability of biometric payment cards.

The recently launched TrustedBio™ family of products delivers an unprecedented level of integration and dramatically reduces biometric smart card costs while improving performance, security and manufacturability. IDEX is pleased that it has started shipping TrustedBio. As expected, following testing and integration of this new family of sensor solutions, IDEX is on track to roll-out multiple biometric smart card solutions for the mass market beginning this fall with the previously announced global tier 1 smart card manufacturer as well as several other global partners in both Europe and Asia.

Technology roadmap

IDEX's technology roadmap is focused on:

- » Enabling significant reductions in system costs through optimized architecture and integration
- » Improvements in convenience and performance through next-generation silicon, sensor and algorithm
- » Enhancements to security through secure end-to-end architecture, and advanced match-on-secure element algorithms

¹ IDEX estimates

- » Developing solutions for in-display sensors for next generation biometric cards and mobile devices

Market opportunities

IDEX's largest target market is the biometric payment card market. IDEX also offers its products and solutions for the access control market, as well as other adjacent verticals including access control, government and identification, healthcare, and IoT (Internet of Things).

Payment cards

The need for biometric payment cards is driven by consumers' desire for a completely touch-free secure payment transaction. Consumers want a frictionless transaction process but with enhanced security. In addition, card issuers view innovation as important to remain relevant and top of wallet with their customers.

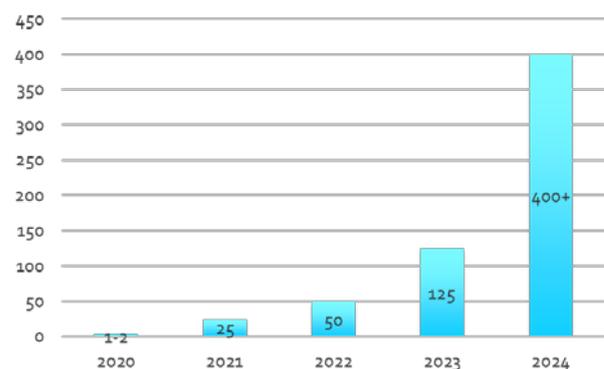
There are currently 22 billion payment cards in circulation globally, projected to grow to 29 billion by 2023². Most of these cards are smart cards, i.e. cards with a chip. The company's total addressable market includes all cards with a chip.

Touch-free or contactless payment cards are expected to drive significant growth for the company's products. The global touch-free card transaction value will increase by 300% from USD 2 trillion to USD 6 trillion between 2020 and 2024³. Touch-free payments have accelerated significantly, and contactless limits have increased due to the global Covid-19 pandemic driven by concerns for safety.

However, these trends increases the risk of fraud and IDEX believes adding a biometric sensor meets the needs of a touch-free payment while providing a very high level of security.

IDEX and other industry participants expect demand for a contactless and secure payment solution that a biometric payment card offers, to grow in 2020. IDEX expects to see banks launching cards in 2020 and to see more pilots, launches and larger scale commercial launches in 2021. IDEX believes its TrustedBio solution offers compelling performance, security, manufacturability and cost benefits which IDEX believes will allow for large scale adoption of biometric payment cards beginning in 2021.

IDEX, industry analysts and observers all project significant and steep growth in fingerprint biometrics on payment cards. Estimates for biometric payment card shipments in 2020 are 1-2 million cards for pilots and smaller scale commercial launches. Estimates for 2021 to 2024 shows growth from 25 to 400 million units.



Projected number of biometric payment card shipments (millions of units)¹

IDEX is engaged with leading payment card manufacturers and has design wins and supply agreements with many of the industry leaders. In addition, IDEX has formed

¹ IDEX Estimates

² Nilson Report, October 2019

³ ABI Research

partnerships with key members of the biometric card ecosystem including secure element providers and expects to continue to establish new partnerships and customers.

Before a payment card can be actively offered to consumers, it must be certified by the card network. Certification involves a rigorous multi-step process carried out by third party testing institutions and the card networks. Card certification includes testing of biometric performance; the fingerprint sensor, the ASIC and the software and security testing. The card physical aspects are also tested, for flexibility and structural strength. The certification represents a high barrier to entry for new competitors.

During the second quarter IDEX's technology was certified by two major global payment networks; China UnionPay and a large US based network. The two networks combined have issued 70% of global branded payment cards. IDEX is the only fingerprint sensor company to have achieved certification, for its system solution, with two global payment networks. The certifications enable the transition from the pilot phase to commercialization and therefore broader market adoption of biometric payment cards.

IDEX's fingerprint sensor was selected by IDEMIA, the global leader in augmented identity and a leading global payment card manufacturer. In addition, an IDEX sensor was also selected by Zwipe, a pioneer in the biometric payment card market for integration with Zwipe's Pay ONE platform. IDEX expects products using this technology to be in the market in 2021.

IDEX continues to see card manufacturers and other suppliers in the ecosystem invest

significantly in biometric payments technology.

Adoption of biometric payments cards is expected to start ramping up in 2021. And IDEX is very well positioned to be a leader in biometric payment cards as the market accelerates.

Other markets

IDEX has been able to leverage its unique payment card technology into other large and growing markets with similar requirements and form factors. These other markets include access control, healthcare, identification and IoT.

The access control market opportunity includes both information access and security, and physical access control. This market is estimated to be 250 million units annually and growing at 5%⁴.

Access control devices have various form factors, including smart cards, keyboards and tokens. The adoption of biometrics in access control is driven by a business need for additional security and data privacy. This is in part mandated by regulations being enacted in various countries. IDEX also expects to see a significant interest in touch-free solutions for access control.

In 2019 IDEX secured a design win and supply agreement for a USD 6 million minimum commitment. IDEX has now passed all specifications and began shipping production units to this customer in the second quarter of 2020.

In addition, IDEX had design wins in Asia for access control applications.

⁴ ABI Research

Financial

Revenue in the second quarter was USD 149 thousand compared to USD 43 thousand in the first quarter of 2020. Gross margin in the quarter was 79% driven by high margin product sales and 100% gross margin on engineering services fees.

Operating expenses were USD 5.8 million compared to USD 7.0 million in the second quarter of 2019. Operating expenses are 27% below the fourth quarter of 2019 and approaching the targeted cost savings of 30%. Operating costs in the second quarter included USD 0.5 million of stock-based compensation.

Operating expenses in the second quarter included USD 1.0 million related to the tape-out and production of silicon for the TrustedBio product. This is a significant milestone in the product development and production process.

Also, during the second quarter, IDEX successfully claimed additional research and development (R&D) tax relief in the UK and received a cash refund of USD 550 thousand; this is in addition to USD 850 thousand received in the first quarter and the company expects additional research and development support in the U.S. in 2020.

The company completed a private placement of shares on 11 May 2020, raising USD 10.3 million to fund R&D activities, meet customer production requirements and fund working capital. As of 30 June 2020, the company had USD 11.4 million in cash and no debt.

Impact of Covid-19

In the first quarter of 2020, the World Health Organization declared Covid-19 a global pandemic. IDEX quickly adopted the

guidelines, outlined by the relevant governments where the company operates, to ensure the health of its employees and their families.

The company established an internal virus response team. Effective 16 March 2020, all travel and face-to-face meetings have been stopped and most staff work from home. Staff with specific roles, that need to work at an IDEX facility, are being supported in line with local government guidelines.

There have not been any significant delays in development projects and IDEX has not incurred any significant additional costs due to the actions taken.

The pandemic could cause certain customer delays in the short-term including contact-related activities such as biometric card pilots. On the other hand, IDEX has observed that the pandemic has increased end-user awareness of the benefits of contactless payments without PIN. The company, and other industry participants believe this could have a positive impact on business going forward. Management and the board will continue to monitor the situation closely and take further actions as appropriate.

Following the coronavirus outbreak, consumers are motivated to go cashless more than ever before. With many businesses discouraging the use of cash because of hygiene questions that surround handling money, contactless payments are front of mind to avoid touching pin pads.

In an increasingly cashless ecosystem, there is a growing threat of card fraud from the lack of authentication. Contactless payments need to be made more secure in order to ensure transactions are hygienic, convenient and free from the risk of fraud.

Summary and Outlook

IDEX made substantial progress during the first six months of 2020 including certifications by two major global payment networks despite the current Covid-19 pandemic. IDEX is the only fingerprint sensor company to have achieved certification with two global payment networks. Additional certifications are expected to follow, in different geographical regions, during the remainder of 2020. IDEX began production shipments to a major customer and ended the quarter with the highest open order reserve since 2015. The company has reduced its cost base by nearly 30%, also at the lowest level since 2015.

IDEX, other industry participants and analysts believe 2020 is the year that the biometric payment card market moves from one defined by pilots and towards commercial deployments. IDEX, analysts and other industry participants as well, also believe that Covid-19 has driven an acceleration of a fully touch-free payment solution which the company's biometric solution offers.

In the second half of 2020, IDEX expects additional design wins and continued commercial order growth for biometric payment cards leading to a projected revenue ramp-up in 2021.

12 August 2020

The board of directors of IDEX Biometrics ASA

FINANCIAL REVIEW

Statements of profit and loss

IDEX recorded revenues of USD 149 thousand in the second quarter of 2020, up from USD 43 thousand in the corresponding period of 2019. In the first six months of 2020, revenue was USD 249 thousand, compared to USD 202 thousand in the same period of 2019. Revenues are primarily related to sales of sensors and services for the company's products.

The gross margin on product sales in the second quarter was 74%, compared to 55% in same quarter of 2019. In the first half of 2020, the gross margin on product sales was 71% compared to 52% in the corresponding period of 2019. The gross margin at small volumes is not necessarily representative of the gross margin at mass volumes.

Total operating expenses in the second quarter of 2020 were USD 5.8 million, compared to USD 7.0 million in the second quarter of 2019. In the first six months of the year, total operating expenses were USD 11.7 million in 2020 and USD 14.5 million in 2019. The decrease in operating expenses compared to 2019 is mainly a result of cost reduction actions taken in the fourth quarter of 2019 as well as additional cost mitigation and control activities undertaken in 2020. The decrease in costs was largely in payroll, partially offset by costs in the second quarter of 2020 for the tape-out, a critical development milestone of our TrustedBio ASIC chip.

Payroll expenses were USD 3.5 million in the second quarter of 2020 and USD 8.2 million in the first six months of 2020, down from USD 4.8 million and USD 10.0 million in the corresponding periods of 2019. Payroll cost excluding share-based compensation was USD 3.1 million in the second quarter and USD 7.3 million in the first six months of this year, down from USD 4.2 million and USD 8.6 million in the corresponding periods of 2019. The decrease reflects that the average number of IDEX employees was 95 full-time equivalents (FTE) in the first six months of this year, down from 107 FTE in the first six months of last year.

IDEX's staff, including both employees and individual contractors, was 99 FTE at 30 June 2020, down from 110 FTE at 31 December 2019. The staff is comprised of 92 FTE employees and 7 FTE individual contractors.

Development expenses, net of received R&D tax reliefs, were USD 1.1 million in the second quarter of 2020, up from USD 0.9 million in the second quarter of 2019. The increase was due to the tape-out, a critical development milestone of our TrustedBio ASIC chip, partially offset by R&D relief in the UK of USD 550 thousand. In the first six months of 2020, development expenses were USD 1.1 million, down from USD 2.1 million in the same period of 2019. The reduction is mainly due to the R&D relief received in the first and second quarters of 2020.

Other operating expenses, mainly expenses related to sales, marketing and

administration, amounted to USD 1.2 million in the second quarter and USD 2.4 million in the first six months of 2020, compared to USD 1.3 million and USD 2.4 million in the corresponding periods last year.

As a result of cost reduction actions taken in the fourth quarter of 2019, operating expenses in the second quarter of 2020 are 36% lower than the fourth quarter of 2019 and IDEX's break-even revenue point is approximately 50% lower than in the fourth quarter of 2019. The company now projects its break even revenue to be between USD 10 and 12 million per quarter.

Amortization and depreciation charges were USD 422 thousand and USD 850 thousand in the second quarter and first six months of 2020 compared to USD 406 thousand and USD 808 thousand in the corresponding periods last year. The increase is chiefly due to IDEX's investment in high-volume test equipment and lab equipment in the second half of 2019.

Net financial items amounted to an expense of USD 329 thousand in the second quarter of 2020 and USD 494 thousand in the first six months of 2020 compared to an expense of USD 52 thousand in the second quarter of 2019 and USD 69 thousand in the first six months of 2019. The variation in net financial items between periods is mainly caused by fluctuations of the USD to NOK.

The company recorded income tax credits of USD 41 thousand and USD 142 thousand in the second quarter and first six months of 2020, respectively due to tax credits in the U.S. and UK. The company recorded tax charges of USD 155 thousand and USD 259 thousand in the second quarter and first six months of 2019.

The company made a net loss of USD 6.4 million in the second quarter of 2020 and USD 12.7 million in the first six months of 2020 compared to a net loss of USD 7.5 million in the second quarter of 2019 and USD 15.4 million in the first six months of 2019.

Loss per weighted average number of basic shares was USD 0.009 in the second quarter, compared to USD 0.013 in the second quarter of 2019. In the first six months of 2020, the loss per share was USD 0.017 compared to USD 0.026 per share in the first six months of 2019.

Financial position

The main assets held on the balance sheet are cash and acquired intangible assets representing 58% and 15% of total assets, respectively.

The acquired intangible assets and intellectual property rights have been capitalized in accordance with IFRS and included goodwill of USD 848 thousand and amortizing assets with a net book value of USD 2.2 million at 30 June 2020. The corresponding values at 31 December 2019 were USD 941 thousand and USD 2.6 million respectively. The assets amortize over the economic life of the respective assets. IDEX's self-developed intellectual property rights and product development costs are generally not held on the balance sheet because they do not satisfy the IFRS criteria for capitalization. No development expenses were capitalized during 2020 or 2019.

Tangible fixed assets were USD 1.7 million at 30 June 2020, down from USD 2.0 million at 31 December 2019. The decrease was mainly due to depreciation. Fixed assets are comprised of scientific and test equipment,

engineering tools, leasehold outfitting, office equipment and furniture with useful lives of 3-7 years.

Inventory was USD 676 thousand at 30 June 2020 compared to USD 686 thousand at 31 December 2019. Inventory consists mainly of components and fingerprint sensors for cards. As a result of significant lead times for certain components, IDEX holds inventory to satisfy expected demand for deliveries with short notice.

There were customer receivables of USD 150 thousand at 30 June 2020 compared to USD 31 thousand at 31 December 2019.

At 30 June 2020 the company had a cash balance of USD 11.4 million compared to USD 14.1 million at 31 December 2019. On 11 May 2020 IDEX completed a private placement of shares, raising USD 10.3 million before expenses.

Equity was USD 15.2 million at 30 June 2020 compared to USD 17.8 million at 31 December 2019. In the first six months of 2020, new equity in a net amount of USD 10.3 million was added. The overall decrease is mainly caused by net losses.

The company has no debt to financial institutions or lenders.

Total short-term liabilities were USD 4.1 million at 30 June 2020 compared to USD 5.7 million at 31 December 2019. Variations between quarters are caused by activity level, payment terms and timing of deliveries.

Net working capital, defined as short-term assets less short-term liabilities was USD 9.7 million at 30 June 2020 compared to USD

11.4 million at 31 December 2019. The company expects an increase in inventory, customer receivables and trade payables as revenues increase.

Liquidity

The company's cash outflow from operating activities was USD 5.7 million and USD 10.9 million in the second quarter and first six months of 2020, compared to USD 6.9 million and USD 15.0 million in the corresponding periods of 2019. The main operating cash items are the operating losses in each period, less non-cash expenses like share-based compensation, depreciation and amortization. The working capital varies between quarters, mainly due to fluctuating payables to suppliers and accrued liabilities. Future planned growth of revenue is expected to cause an increase in working capital in the form of inventory and receivables, partly funded by payables.

The company invested USD 18 thousand and USD 540 thousand in assets during the second quarter and first six months of 2020 compared to USD 261 thousand and USD 292 thousand in the corresponding periods of 2019. The cash flow to investments in the first half of 2020 was mainly the final payment on intellectual property acquired in 2015.

IDEX's balance sheet solvency, which is the cash position less the net of receivables and short-term liabilities, amounted to USD 9.0 million at 30 June 2020 compared to USD 10.7 million at 31 December 2019. The decrease was mainly caused by the net loss in the period, largely offset by the private placement in May.

INTERIM CONSOLIDATED FINANCIAL INFORMATION

STATEMENTS OF COMPREHENSIVE INCOME

Amounts in USD 1,000	Note	Quarters		First six months		Full year
		Q2 2020	Q2 2019	2020	2019	2019
Operating revenue						
Product sales		121	42	174	52	159
Other operating income		28	1	75	150	265
Total revenue		149	43	249	202	423
Cost of goods sold		32	19	51	25	62
Gross margin		117	24	198	177	361
Operating expenses						
Payroll expenses	4	3 515	4 780	8 192	10 036	21 749
Development expenses		1 069	919	1 110	2 059	4 385
Other operating expenses	5, 6	1 218	1 254	2 409	2 386	4 641
Total operating expenses		5 802	6 952	11 710	14 481	30 774
Profit (loss) before interest, tax, depreciation and amortization (EBITDA)		(5 685)	(6 929)	(11 512)	(14 304)	(30 413)
Amortization and depreciation	6, 7	422	406	850	808	1 633
Profit (loss) before interest and tax (EBIT)		(6 107)	(7 335)	(12 363)	(15 112)	(32 047)
Net financial items	6, 8	(330)	(52)	(494)	(69)	(216)
Net result before tax (EBT)		(6 436)	(7 387)	(12 857)	(15 182)	(32 263)
Income taxes	9	(41)	155	(142)	249	160
Net loss for the period		(6 396)	(7 542)	(12 715)	(15 431)	(32 423)
Profit (loss) per share, basic and diluted (USD)	10	(0.0087)	(0.0126)	(0.0172)	(0.0264)	(0.0585)

STATEMENTS OF OTHER COMPREHENSIVE INCOME

Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax):

Amounts in USD 1,000	Quarters		First six months		Full year
	Q2 2020	Q2 2019	2020	2019	2019
Net loss for the period	(6 396)	(7 542)	(12 715)	(15 431)	(32 423)
Exchange differences on foreign operations	(305)	(55)	413	(72)	34
Total comprehensive income (loss) for the period, net of tax	(6 700)	(7 597)	(12 302)	(15 503)	(32 389)

STATEMENTS OF FINANCIAL POSITION

Amounts in USD 1,000	Note	30 June 2020	30 June 2019	31 December 2019
Assets				
Long-term assets				
Goodwill		848	970	941
Other intangible assets		2 160	2 931	2 605
Total intangible assets		3 007	3 900	3 545
Fixed assets		1 710	1 713	2 013
Right-of-use assets	6	1 022	940	1 375
Total fixed assets		2 732	2 653	3 388
Long-term receivables		124	145	152
Total financial assets		124	145	152
Total long-term assets	7	5 863	6 698	7 086
Current assets				
Inventory		676	1 701	686
Customer receivables		150		31
Prepaid expenses		688	647	769
Other short-term receivables		928	848	772
Total receivables		1 767	1 495	1 572
Cash and bank deposits		11 401	18 206	14 126
Total current assets		13 845	21 402	16 385
Total assets		19 708	28 100	23 470
Equity and liabilities				
Equity				
Share capital	10	16 376	13 386	15 386
Share premium		206 636	189 731	197 639
Other paid-in capital		16 160	14 142	15 285
Total paid-in capital		239 172	217 258	228 310
Retained earnings (losses)		(223 968)	(192 761)	(210 497)
Total equity		15 204	24 498	17 813
Long-term liabilities				
Deferred tax liabilities			25	31
Long-term lease liabilities		352	273	610
Total long-term liabilities		352	298	641
Short-term liabilities				
Accounts payable		975	756	463
Income tax payable		97	254	129
Short-term lease liabilities		698	681	788
Public duties payable		549	252	357
Notional employer's tax on subscription rights	11	20		3
Other short-term liabilities		1 813	1 362	3 277
Total short-term liabilities		4 152	3 305	5 016
Total liabilities		4 504	3 603	5 657
Total equity and liabilities		19 708	28 100	23 470

STATEMENTS OF CHANGES IN EQUITY

Amounts in USD 1,000	Note	Share capital	Share premium	Other paid-in capital	Ret earnings (losses) and other equity	Total equity
Balance at 1 January 2020		15 386	197 639	15 285	(210 497)	17 813
Share issue 19 May		983	8 999			9 982
Share issue 12 June		7				7
Cost of prior share issue			(1)			(1)
Share issue (board remun.)				39		39
Share-based remuneration	5			836		836
Profit (loss) for the period					(12 715)	(12 715)
Currency translation adj.					(1 170)	(1 170)
Other comprehensive income					413	413
Balance at 30 June 2020		16 376	206 636	16 160	(223 968)	15 204
Balance at 1 January 2019		12 442	166 420	12 735	(177 413)	14 184
Share issue 25 January	4	940	23 310			24 250
Share issue (board remun.)		4				4
Share-based remuneration	5			1 407		1 407
Profit (loss) for the period					(15 431)	(15 431)
Currency translation adj.					156	156
Other comprehensive income					(72)	(72)
Balance at 30 June 2019		13 386	189 730	14 142	(192 761)	24 497
Balance at 1 January 2019		12 442	166 420	12 735	(177 413)	14 184
Share issue 25 January		940	23 310			24 250
Share issue 2 December		904	3 569			4 474
Share issue 24 December		1 096	4 339			5 435
Share issue (board remun.)		4		63		67
Share-based remuneration	5			2 488		2 488
Profit (loss) for the period					(32 423)	(32 423)
Currency translation adj.					(694)	(694)
Other comprehensive income					34	34
Balance at 31 December 2019		15 386	197 639	15 285	(210 497)	17 813

STATEMENTS OF CASH FLOWS

Amounts in USD 1,000	Quarters		First six months		Full year
	Q2 2020	Q2 2019	2020	2019	2019
Operating activities					
Profit (loss) before tax	(6 436)	(7 387)	(12 857)	(15 182)	(32 263)
Amortization and depreciation	422	406	850	808	1 633
Share-based remuneration (equity part)	404	610	917	1 399	2 531
Change in inventories	(42)	(312)	(58)	(502)	470
Change in accounts receivables	(63)	159	(122)	69	8
Change in accounts payable	329	237	546	153	(124)
Change in other working capital items	(695)	(371)	(682)	(1 424)	395
Other operating activities	325	4	522	(2)	13
Net financial items	0	(51)	(20)	(84)	(135)
Change in income taxes	43	(195)	27	(192)	(226)
Net cash flows from operating activities	(5 713)	(6 901)	(10 877)	(14 956)	(27 698)
Investing activities					
Investments in assets	(18)	(261)	(540)	(292)	(850)
Change in long-term receivables	19	(0)	19	2	(6)
Interest income receipts	0	51	19	84	135
Net cash flows used in investing activities	0	(209)	(502)	(205)	(691)
Financing activities					
Net proceeds from issue of shares	10 251	(506)	10 249	24 008	33 627
Payments on lease liabilities	(200)	(165)	(392)	(329)	(675)
Net cash flows from financing activities	10 051	(671)	9 858	23 679	32 952
Net change in cash and bank deposits	4 339	(7 781)	(1 522)	8 518	4 563
Effect of foreign exchange rate changes	62	(29)	(1 203)	(32)	(72)
Opening cash and bank deposits balance	7 001	26 016	14 126	9 721	9 635
Closing cash and bank deposits balance	11 401	18 206	11 401	18 206	14 126

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1 IDEX Biometrics and its business

IDEX designs, develops and sells fingerprint identification and authentication solutions. IDEX's largest potential market is the biometric payment card market. The company has developed an off-chip sensor architecture and embedded biometric algorithms suited to capacitive fingerprint sensors. The company is a public limited liability company incorporated and domiciled in Norway. The address of the head office is Dronning Eufemias gate 16 at NO-0191 Oslo. IDEX Biometrics ASA's shares are listed at Oslo Børs, the stock exchange in Oslo, under ticker IDEX, and are traded in the United States on the OTCQB Venture Market under ticker IDXAF.

IDEX Biometrics ASA holds a subsidiary group in the United States of America, a subsidiary in the People's Republic of China and a subsidiary in the United Kingdom. The subsidiaries provide technical development services, sales facilitation, marketing assistance and/or logistics processing for IDEX Biometrics ASA.

2 Basis of preparation and accounting policies

These interim financial statements for the first half of 2020 have been prepared in accordance with IAS 34 Interim financial reporting. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the interpretations set out by the International Accounting Standards Board, as approved by the European Union. The going concern assumption has been applied when preparing this interim financial report. See note 3. This interim financial report has not been subject to audit. The report was approved by the board of directors on 13 August 2020.

The accounting policies applied are consistent with those applied in the previous financial year.

As of the first quarter of 2020, IDEX changed to presenting its consolidated results in USD. The change in presentation currency has no impact on the net income/loss or the net equity. Comparison numbers for prior periods have been converted to USD consistently.

3 Risks

It is the duty of the board of directors to duly present the principal risks of IDEX and its business. The company's major risk is its business risk, meaning its ability to generate revenue and earn profit. The future revenue generation will depend, among other factors, on IDEX's ability to market and deliver technically sound, cost-effective and competitively differentiated products, and the company's ability to legally protect its intellectual property rights. The ability to generate future revenue is also highly dependent on the development of a market for biometric payment cards. IDEX considers that its fingerprint sensor technology has one of the best biometric performances, and that its fingerprint sensor products offer unique properties, particularly well-suited for the payment card and access control markets as well as other markets.

IDEX currently generates immaterial revenue and operates at a significant loss. Net equity amounted to USD 15.2 million and the balance sheet solvency amounted to USD 9.0 million at 30 June 2020. As of 30 June 2020, the company had USD 11.4 million in cash and no financial debt. The company expects to

significantly increase revenue generation through sales of its products and monetization of intellectual property. On 11 May 2020 IDEX completed a private placement of shares, raising USD 10.3 million before expenses. Proceeds from this capital raise will be used to fund the product development, meet customer commitments and working capital.

The biometric payment card market is an emerging growth market, and, as is common in most emerging growth markets, the timing of revenue is difficult to predict with any precision. IDEX monitors its cash position very closely, including the expense and working capital requirements. IDEX will continue to review opportunities to optimally capitalize the business, while minimizing shareholder dilution.

IDEX does not have any significant assets or liabilities with financial risk. IDEX's balance sheet comprises mainly cash and working capital and the company is fully funded on equity. IDEX does not hold financial instruments or significant financial assets or liabilities and has limited financial risks related to currency and interest rates. USD is the dominant currency of the company's payables.

4 Payroll expenses

Amounts in USD 1,000	Quarters		First six months		Full year
	Q2 2020	Q2 2019	2020	2019	2019
Salary, payroll tax, benefits, other	4 163	4 161	8 544	8 628	19 124
Capitalised cost of development work			9		9
Share-based remun., notional cost	513	609	1 399	1 399	2 531
Accr. (rev.) payr. tax on share-based remun.	1		84		85
Payroll expenses	3 515	4 780	10 036	10 036	21 749

The fair value at grant date of subscription rights granted to employees is expensed over the vesting period of each tranche. The fair value of the subscription rights is determined using the Black-Scholes option pricing model. Employer's social security tax related to share-based remuneration is calculated on the balance sheet date based on the earned intrinsic value of the subscription rights, and the adjustment to the accrued amount is charged or credited to cost.

5 Related party transactions

The chair Morten Opstad is a partner in Advokatfirma Ræder AS. Ræder provided services to the company amounting to USD 231 thousand in the first half of 2020. The amount includes work related to the private placement completed in May 2020. Mr Opstad's work beyond board duty has been invoiced by Ræder.

Lawrence Ciaccia, who was elected board member at the annual general meeting on 12 May 2015 and later re-elected, has served on IDEX's Strategy Advisory Committee (SAC) since 2014 and continues his tenure on the SAC. The SAC service fee is USD 15 thousand per year. Mr Ciaccia also provides consulting services beyond board duty to IDEX for a fixed fee of USD 50 thousand per year.

On 27 February 2020, the board granted 5,000,000 incentive subscription rights to the new CEO, Vince Graziani. The exercise price of the subscription rights is NOK 1.11 per share and 25 percent of the subscription rights vest per year. The subscription rights expire on 9 May 2024.

Following the annual general meeting of IDEX on 15 May 2020, board members Deborah Davis and Steve Skaggs elected to receive part of the board remuneration in shares. Board member Deborah Davis acquired 227,073 shares against payment of NOK 0.15 per share, instead of NOK 280,000 of the board remuneration. Ms Davis took the remainder of the board remuneration in cash. Board member Steve Skaggs

acquired 214,909 shares against payment of NOK 0.15 per share, instead of NOK 265,000 of the board remuneration. Mr. Skaggs took the remainder of the board remuneration in cash.

6 Leases

Effect in the statements of income	Quarters		Full year
	Q2 2020	Q2 2019	2019
Amounts in USD 1,000			
Other operating expense increased (reduced)	(207)	(177)	(721)
EBITDA	207	177	721
Depreciation of right-of-use assets	201	171	698
EBITA	5	6	23
Interest expense on lease liabilities	13	12	50
EBIT	(7)	(6)	(27)

Effect of leases in the statements of financial position

Amounts in USD 1,000	30 June 2020	30 June 2019	31 December 2019
Assets			
Right-of-use-assets - office buildings	1 022	940	1 375
Total lease assets	1 022	940	1 375
Liabilities			
Long-term liabilities	352	273	610
Short-term liabilities	698	681	788
Total lease liabilities	1 050	953	1 398

The lease liabilities have been discounted by the respective incremental borrowing rates as of the later of commencement of lease or 1 January 2018. The weighted average discount rate was 4.23% in the first half of 2020 (first half 2019: 4.89%).

Leases in the statements of cash flows

In the statements of cash flows the cash payments for the principal are classified within cash flows from financing activities. The interest portion of the lease liability is classified as net financial items within cash flows from operating activities.

7 Long-term assets

Amounts in USD 1,000	Goodwill	Oth. intang assets	Tangible fixed assets	Right-of-use assets	Long-term receivables	Total long-term assets
Balance at 1 January 2020	941	2 605	2 013	1 375	152	7 085
Additions			40	104		144
Disposals and retirements at cost			37		(19)	19
Depreciation and impairment losses		(187)	(270)	(393)		(850)
Depreciation on disposed and retired as:			(37)			(37)
Effects of changes in foreign currency	(93)	(258)	(73)	(64)	(9)	(497)
Balance at 30 June 2020	848	2 160	1 710	1 022	124	5 863
Balance at 1 January 2019	951	3 080	1 679		146	5 856
Additions			295	1 300		1 595
Disposals and retirements at cost		0	(26)		(2)	(28)
Depreciation and impairment losses		(211)	(259)	(346)		(817)
Depreciation on disposed and retired as:			24			24
Effects of changes in foreign currency	19	62	1	(14)	1	68
Balance at 30 June 2019	970	2 931	1 713	940	145	6 698

Balance at 1 January 2019	951	3 080	1 679		146	5 856
Additions			852	2 050		2 902
Disposals and retirements at cost		(33)	(112)			(145)
Depreciation and impairment losses		(416)	(521)	(700)		(1 637)
Depreciation on disposed and retired assets		6	109			115
Effects of changes in foreign currency	(10)	(32)	6	24	6	(6)
Balance at 31 December 2019	941	2 605	2 013	1 375	152	7 085

Acquired intangible assets and intellectual property rights have been capitalized in accordance with IFRS, and included goodwill amounting to USD 848 thousand and depreciating assets in an original acquisition amount of USD 4.5 million. The assets depreciate over the economic life of the respective assets. The major items depreciate over 9.5 years and 17.3 years from acquisition, through July 2024 and to the end of 2030 respectively. Under IFRS, goodwill is not amortized but impairment tested at each year end. Intangible assets that are fully depreciated are retired. IDEX's self-developed patents and other intellectual property rights are not held in the balance sheet because they do not satisfy the IFRS criteria for capitalization. Development costs have largely been expensed for the same reason. IDEX has not capitalized any development expenses in 2020 or 2019.

8 Financial items

Amounts in USD 1,000	Quarters		First six months		Full year
	Q2 2020	Q2 2019	2020	2019	2019
Interest income	0	51	19	84	135
Currency exchange gain	(431)	61	249	208	322
Other financial income					
Total financial income	(430)	113	268	292	456
Interest expenses	0	0	0	0	0
Interest expenses on lease liabilities	13	12	26	25	50
Interest expenses on deferred settlement		13		27	
Currency exchange loss	(113)	139	736	309	623
Other financial expenses					
Total financial expense	(101)	165	762	361	673
Net financial items	(330)	(52)	(494)	(69)	(216)

9 Income tax expense

The tax credit in the first half of 2020 was due to refund of taxes in the U.S. and UK for prior years. Income tax expense in 2019 related to estimated income tax on profit in IDEX America and IDEX UK.

10 Profit (Loss) per share

	First six months		Full year
	2020	2019	2019
Profit (loss) attributable to the shareholders (USD 1,000)	(12 715)	(15 431)	(32 423)
Weighted average basic number of shares	736 017 382	597 830 174	542 795 969
Weighted average diluted number of shares	742 633 880	597 828 876	543 117 924
Profit (loss) per share, basic and diluted	USD (0.0172)	USD (0.0258)	USD (0.0585)

When the period result is a loss, the loss per diluted number of shares is not reduced by the higher number of shares but equals the result per basic number of shares. The diluted number of shares has been calculated by the treasury stock method. If the exercise price of subscription rights or warrants exceeds the average share price in the period, the subscription rights or warrants are not counted as being dilutive.

11 Shares and subscription rights

Number of financial instruments	Incentive subscription rights	Shares
Balance at 1 January 2020	52 875 043	717 988 732
11 May: Share issue		65 341 413
Granted incentive subscription rights	5 899 800	
Expired/forfeited incentive subscription rights	(4 161 750)	
28 May: Issued shares in lieu of board remuneration		441 982
Balance at 30 June 2020	54 613 093	783 772 127
Balance at 1 January 2019	37 471 050	544 314 537
25 January: Share issue		53 437 500
Granted incentive subscription rights	1 455 400	
Expired/forfeited incentive subscription rights	(2 806 025)	
28 May: Issued shares in lieu of board remuneration		236 695
Balance at 30 June 2019	36 120 425	597 988 732
Balance at 1 January 2019	37 471 050	544 314 537
25 January: Share issue		53 437 500
2 December: Share issue		55 425 407
24 December Share issue		64 574 593
Granted incentive subscription rights	20 414 143	
Expired/forfeited incentive subscription rights	(5 010 150)	
28 May: Issued shares in lieu of board remuneration		236 695
Balance at 31 December 2019	52 875 043	717 988 732

The annual general meeting on 15 May 2020 approved an employee stock purchase plan (ESPP), whereby employees may elect to invest a portion of their compensation in IDEX shares. The ESPP also authorized the board to offer to employees to take a part of their salary in shares instead of cash.

IDEX from time to time grants incentive subscription rights (SRs) to employees and individual contractors. Unless specifically resolved otherwise, 25% of each grant of subscription rights vest per year and expire on the fifth anniversary following the general meeting that resolved the program. Unvested subscription rights terminate on the holder's last day of employment. Vested subscription rights may be exercised up to 90 days after the holder's last day of employment. The weighted average exercise price of outstanding incentive SRs on 30 June 2020 was NOK 3.55 per share.

The annual general meeting of IDEX Biometrics ASA on 15 May 2020 resolved that the board members could elect to receive all or part of the board remuneration in the form of shares in IDEX. Two board members took board remuneration partly in shares in lieu of cash against a payment of par value NOK 0.15 per share. See note 5.

12 Inventory

Amounts in USD 1,000	30 June 2020	30 June 2019	31 December 2019
Inventory at cost	1 561	2 739	1 840
Inventory reserve	(884)	(1 038)	(1 154)
Total	676	1 701	686

Inventory, consisting mainly of components and fingerprint sensors which are manufactured for sale, is held at cost, which is less than recoverable value. Inventory value has been reduced to reflect aging, obsolescence and estimated shrinkage.

13 Events after the balance sheet date

The annual general meeting on 15 May 2020 resolved that the company could offer to employees to take a part of their salary in shares instead of cash. 59 employees elected to convert cash compensation of NOK 5.4 million or USD 0.6 million into 4,318,523 shares. When converting cash compensation to shares, a 15% discount on the share price was applied. The shares are subject to a 6-months lockup period. After the issue of the shares to the employees, the company's share capital amounted to NOK 118,213,597.50 divided into 788,090,650 registered shares each with a nominal value of NOK 0.15. The following primary insiders participated in the program: CFO Derek D'Antilio acquired 136,479 shares, CTO Anthony Eaton 181,041 shares, SVP Sales & Marketing David Orme 186,640 shares, and EVP Advanced Technology and Strategy Stan Swearingen 718,464 shares.

The board resolved on 12 August 2020 to issue 1,993,100 incentive subscription rights (SRs) to employees and individual contractors in the IDEX group. The grant was made under the company's 2020 SR plan as resolved at the annual general meeting on 15 May 2020. The exercise price of the SRs is NOK 1.71 per share. The SRs vest by 25% per year and expire on 15 May 2025. Following the grant there will be 56,606,193 SRs outstanding.

There have been no events between 30 June 2020 and the resolution of these interim financial statements that have had any material impact on IDEX's results in the first half of 2020 or the value of the company's assets and liabilities at 30 June 2020.

RESPONSIBILITY STATEMENT

The board of directors and the managing director have today reviewed and approved the IDEX Biometrics ASA group consolidated unaudited interim condensed financial statements as of 30 June 2020.

To the best of our knowledge, we confirm that:

- The interim condensed consolidated financial statements with notes for the first half of 2020 have been prepared in accordance with IAS 34 - Interim Financial Reporting and additional disclosure requirements as stated in the Norwegian Securities Trading Act section 5-6.
- The interim condensed consolidated financial statements for the first half year of 2020 give a true and fair view of IDEX's assets, liabilities, financial position and results for the period viewed in their entirety.
- The report from the board of directors issued in concert with these condensed financial statements gives a true and fair view of the development, performance and financial position of the group, and a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated financial statements.
- A description of the principal risks and uncertainties for the remaining six months of the financial year have been disclosed in note 3 to the financial statements.
- Major related party transactions have been disclosed in note 5 to the financial statements.
- The report from the board of directors have been prepared in accordance with the Norwegian accounting act and generally accepted accounting practice in Norway.

12 August 2020

The board of directors of IDEX Biometrics ASA

Morten Opstad
Chair

Lawrence John Ciaccia
Deputy chair

Deborah Davis
Board member

Hanne Høvding
Board member

Stephen Skaggs
Board member

Vincent Graziani
CEO

Get in touch



Be part of the fingerprint authentication revolution

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