



# IDEX

INTERIM REPORT THIRD QUARTER 2020

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## RECENT HIGHLIGHTS

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- » Commercial momentum for biometric payment cards is accelerating with issuers and banks
  - Covid-19 rapidly accelerating contactless payments
  - Multiple new orders from new integrators and geographies suggest broad demand
- » Payment card market
  - Production orders for the TrustedBio™ solution from a tier 1 global payment card manufacturer
  - Large volume order from ZWIPE
  - Volume orders from Hengbao, one of the largest smart card companies based in China, covering the banking, telecom and security sectors
  - Design wins and orders from new global card manufacturers
  - Added additional secure element partnership; Collaborating with Shanghai Fudan Microelectronics Group Co.Ltd (FMSH) to integrate IDEX's biometric solution with FMSH's latest generation secure element targeted at multiple market segments
- » Other markets
  - Ramping up production shipments to the large IT and financial services customer
  - Received volume production orders for both current and next generation products from Doongwan Anatech, a South Korean smart card manufacturer
- » Banking industry executives added to the board and the strategic advisory committee
- » To broaden the investor base, IDEX filed a registration statement with the U.S. Securities and Exchange Commission to achieve dual listing on Nasdaq

## CEO'S COMMENTS

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*I am pleased to say our teams, as well as our customers, have remained healthy and productive. We have now begun shipping TrustedBio™ to our leading customers. We continue to build strategic partnerships with card manufacturers and secure element providers.*

*We have begun volume shipments and have volume orders from several customers.*

Vince Graziani, CEO, IDEX Biometrics ASA



## BUSINESS REVIEW

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### LEADERSHIP IN BIOMETRIC FINGERPRINT SENSING TECHNOLOGY FOR PAYMENT CARDS

IDEX is a biometrics company specializing in the design, development and sale of fingerprint identification and authentication solutions.

IDEX's business model includes the design, development and sale or licensing of fingerprint identification and authentication products and solutions. Manufacturing is outsourced to large and established semiconductor fabrication companies as well as other providers of components and manufacturing services.

#### Products and Technology

The company's portfolio of products includes fingerprint sensors, fingerprint modules with software and algorithms and remote enrollment devices. The company's fingerprint sensors can be used in dual interface, contactless-only and contact only payment cards. The company's fingerprint modules offer a complete biometric solution that integrates fingerprint sensing with additional biometric processing and system power management functions. Additionally, with the company's remote enrollment solutions, cardholders can easily enroll their fingerprints at home and without the need to visit a bank branch.

The company's sensors use a patented off-chip design, which separates the fingerprint sensor into two key components; the sensor array and the silicon chip (Application Specific Integrated Circuit, or ASIC). This off-chip design architecture allows the sensor array to be made from a flexible and cost-efficient polymer substrate while minimizing the silicon area needed for the ASIC.

This year, the company launched TrustedBio™, the next generation of products and solutions designed to reduce biometric payment cards cost while improving both performance and security. TrustedBio™ utilizes advanced semiconductor technology to transform the sensor ASIC into a complete biometric system on chip, while maintaining all the benefits of the capacitive off-chip sensor architecture.

#### Markets

The company's sensors and biometric solutions are used in dual interface and contactless or touch-free smart cards, including payment cards, and in a broad range of other markets, including identification, access control, healthcare and the Internet of Things, or IoT.

Based on an analysis by Zion Market Research in February 2020, the size of the global fingerprint sensor market is estimated to be \$3.6 billion in 2020 and is projected to expand at a compound annual growth rate of nearly 15% to \$6.7 billion by 2025.

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%<sup>1</sup>.

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.

## Payment Cards

IDEX is targeting a massive addressable and growing market, with 22 billion payment cards in circulation globally, projected to grow to 29 billion by 2023<sup>2</sup>. The company's addressable market includes chip enabled cards which also include contactless payment cards. According to EMVCo, the industry standard organization, there are more than 8.2 billion chip-enabled consumer cards—credit and debit—now in use across the world. IDEX believes the addition of a biometric sensor to the payment cards will significantly reduce the opportunity for fraud while making the transaction more convenient while using existing point of sale infrastructure.

The continued migration towards contactless payment cards will provide additional opportunities for the company's technologies. A report, Contactless Payment Market Global Forecast to 2025, published by Markets and Markets indicates that the global contactless credit/debit card payment market size is expected to grow from \$10.3 billion in 2020 to \$18.0 billion by 2025. This represents a compound annual growth rate of 11.7% during the forecast period.

In addition, following the Covid-19 outbreak, IDEX believes consumers increasingly are motivated to go cashless. With many businesses discouraging the use of cash, in part due to hygiene questions linked to handling money, the prevalence of contactless payments has increased significantly in 2020.

A survey in March 2020 in 19 countries around the world indicated a 25% increase in contactless payments (out of all credit card payments) compared to March 2019, and approximately 79% of consumers worldwide are now using tap and go payments. In an increasingly cashless and contactless society, there is a growing risk of card fraud. We, and other industry participants, believe that this could have a positive impact on the sale of biometric solutions going forward.

These trends increase 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, as well as industry observers and analysts all project significant and steep growth in fingerprint biometrics on payment cards. In 2020 multiple card manufacturers

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<sup>1</sup> ABI Research

<sup>2</sup> Nilson Report

were certified by multiple payment card networks and there were several soft launches in the market. The company's expectations are that in 2021 we will continue to see additional certifications and card launches and estimates show the addressable market for biometric cards to steadily grow to more than 3 billion units by 2024.

## Business Update

Throughout 2020 and despite the Covid-19 pandemic, IDEX has made significant progress across all aspects of the business; Most importantly in commercialization but also development and engineering, and administration.

The commercial activity is accelerating and volume shipments are ramping up. During the first nine months of 2020, the company earned USD 420 thousand in product revenue, nearly four times the first nine months of 2019. Third quarter product revenue was USD 246 thousand, double the second quarter of 2020 and expected to continue to grow.

The company has recently received several production orders for both current and next generation fingerprint sensors. These orders have been placed from European and Asia customers.

IDEX's products have been included in payment cards certified by two major global payment networks representing 70% of global branded payment cards. IDEX has begun shipping samples to our largest customers. In addition, during the third quarter, IDEX's sensors were selected by ZWIPE, a leading biometric fintech company, who placed an order for 300,000 units to

support the roll-out of ZWIPE's pay ONE platform.

The company has added payment card CEO and payment industry veteran Thomas Quindlen as board observer and added two additional senior payment card executives to the strategic advisory committee.

## Financials

Revenue in the third quarter was USD 248 thousand compared to USD 149 thousand in the third quarter of 2019. Product revenue was USD 246 thousand in the third quarter of 2020 compared to USD 53 thousand in the third quarter of 2019 because of ramp up of shipments to the largest customers.

Gross margin on products sold in the quarter was 82% compared to 60% in the same quarter of 2019. Operating expenses were USD 6.6 million compared to USD 7.0 million in the third quarter of 2019. Excluding one-time costs associated with a U.S. stock listing filing, operating costs were USD 6,0 million. Operating costs in the third quarter included USD 1.1 million of stock-based compensation costs.

IDEX had USD 5.7 million in cash and no debt to financial institutions at the end of the third quarter. The board is considering various options for strengthening the balance sheet and is confident that the company will obtain funding for its planned growth and working capital requirements.

Also, in order to broaden the investor base and reflect the global nature of the company, IDEX has filed a registration statement with the U.S Securities and Exchange Commission to facilitate a listing on Nasdaq.

## Impact of Covid-19

Effective 16 March 2020, all travel and face-to-face meetings have been stopped and most staff continue to work from home. Staff that need to work at an IDEX facility, do so in line with local government guidelines.

There have not been any significant delays in development projects. However, the pandemic has caused certain customer delays in the short-term including contract-related activities such as biometric card pilots.

## Summary and Outlook

IDEX has made significant progress across all aspects of the business; Most importantly in

commercialization but also development and engineering, and administration.

In 2020 multiple card manufacturers have been certified on multiple payment networks and there have been several soft launches in the market. IDEX has seen commercial activity accelerating and volume shipments have begun to our major customers.

IDEX and industry observers all project significant and steep growth in fingerprint biometrics on payment cards, IDEX expects that in 2021 there will be additional certifications and card launches. Estimates show the addressable market for biometric cards to steadily grow to more than 3 billion units by 2024.

4 November 2020

**The board of directors of IDEX Biometrics ASA**

## FINANCIAL REVIEW

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### Statements of profit and loss

IDEX recorded revenues of USD 248 thousand in the third quarter of 2020, up from USD 149 thousand in the corresponding period of 2019. In the first nine months of 2020, revenue was USD 497 thousand, compared to USD 352 thousand in the same period of 2019. Revenues are primarily related to sales of sensors and services.

The gross margin on product sales in the third quarter was 82%, compared to 60% in same quarter of 2019. In the first nine months of 2020, the gross margin on product sales was 77% compared to 56% 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 third quarter of 2020 were USD 6.4 million, compared to USD 7.0 million in the third quarter of 2019. In the first nine months of the year, total operating expenses were USD 18.1 million in 2020 and USD 21.5 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 related to our TrustedBio ASIC.

Payroll expenses were USD 4.1 million in the third quarter of 2020 and USD 12.3 million in the first nine months of 2020, down from USD 5.0 million and USD 15.1 million in the corresponding periods of 2019. Payroll cost excluding share-based compensation was USD

3.2 million in the third quarter and USD 10.4 million in the first nine months of this year, down from USD 4.4 million and USD 13.0 million in the corresponding periods of 2019. The decrease largely reflects that the average number of IDEX employees was 94 full-time equivalents (FTE) in the first nine months of this year, down from 109 FTE in the first nine months of last year.

IDEX's staff, including both employees and individual contractors, was 97 FTE at 30 September 2020, down from 110 FTE at 31 December 2019. The staff is comprised of 90 FTE employees and 7 FTE individual contractors.

Development expenses, net of R&D tax relief, were USD 0.9 million in the third quarter of 2020, down from USD 1.0 million in the third quarter of 2019, due to lower purchases of development and IP services. In the first nine months of 2020, development expenses were USD 2.0 million, down from USD 3.0 million in the same period of 2019. The decrease is mainly due to the USD 1.4 million R&D tax relief received in the first half of 2020, partly offset by TrustedBio ASIC costs in the second quarter of 2020.

Other operating expenses, mainly expenses related to sales, marketing and administration, amounted to USD 1.4 million in the third quarter and USD 3.8 million in the first nine months of 2020, compared to USD 1.0 million and USD 3.3 million in the corresponding periods last year. The increase mainly related to USD 0.6 million costs in connection with filing a registration statement with the U.S. Securities and Exchange Commission with the purpose to list IDEX's shares on Nasdaq.

Amortization and depreciation charges were USD 430 thousand and USD 1.3 million in the third quarter and first nine months of 2020 compared to USD 393 thousand and USD 1.2 million in the corresponding periods last year. The increase is primarily 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 income of USD 7 thousand in the third quarter of 2020 and an expense of USD 487 thousand in the first nine months of 2020 compared to an expense of USD 110 thousand in the third quarter of 2019 and USD 181 thousand in the first nine 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 3 thousand and USD 145 thousand in the third quarter and first nine months of 2020, respectively, due to tax credits in the U.S. and UK. The company recorded tax charges of USD 129 thousand and USD 379 thousand in the third quarter and first nine months of 2019. The tax charges vary due to timing of tax credits.

The company made a net loss of USD 6.8 million in the third quarter of 2020 and USD 19.5 million in the first nine months of 2020 compared to a net loss of USD 7.5 million in the third quarter of 2019 and USD 22.9 million in the first nine months of 2019.

Loss per weighted average number of basic shares was USD 0.01 in the third quarter, compared to USD 0.01 in the third quarter of 2019. In the first nine months of 2020, the loss per share was USD 0.03 compared to USD 0.04 per share in the first nine months of 2019.

## Financial position

The main assets held on the balance sheet are cash and acquired intangible assets

representing 41% and 22% of total assets, respectively.

The acquired intangible assets and intellectual property rights have been capitalized in accordance with IFRS and included goodwill of USD 871 thousand and amortizing assets with a net book value of USD 2.1 million at 30 September 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 criteria for capitalization. No development expenses have been capitalized during 2020 or 2019.

Tangible fixed assets amounted to USD 1,7 million at 30 September 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 834 thousand at 30 September 2020 compared to USD 686 thousand at 31 December 2019. Inventory consists mainly of components and fingerprint sensors. 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 223 thousand at 30 September 2020 compared to USD 31 thousand at 31 December 2019. The amounts reflect payment terms on the sales in the preceding period.

At 30 September 2020 the company had a cash balance of USD 5.7 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 10.1 million at 30 September 2020 compared to USD 17.8 million at 31 December 2019. In the first nine months of 2020, new equity 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 3.4 million at 30 September 2020 compared to USD 5.0 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 4.7 million at 30 September 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 6.1 million and USD 17.0 million in the third quarter and first nine months

of 2020, compared to USD 7.2 million and USD 21.4 million in the corresponding periods of 2019. The main operating cash items are the operating losses in each period, less non-cash expenses including 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 51 thousand and USD 91 thousand in assets during the third quarter and first nine months of 2020 compared to USD 233 thousand and USD 527 thousand in the corresponding periods of 2019. The cash flow to investments in the first nine months 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 3.9 million at 30 September 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. The board is considering various options for strengthening the balance sheet and is confident that the company will obtain funding for its planned growth and working capital requirements.

## INTERIM CONSOLIDATED FINANCIAL INFORMATION

### CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

Amounts in USD 1,000	Note	Quarters		First nine months		Full year
		Q3 2020	Q3 2019	2020	2019	2019
<b>Operating revenue</b>						
Product revenue		246	53	420	106	159
Service revenue		2	96	77	247	265
Total revenue		248	149	497	352	423
<b>Cost of goods sold</b>						
		45	21	97	47	62
<b>Gross margin</b>						
		202	128	400	306	361
<b>Operating expenses</b>						
Payroll expenses	4	4 275	5 037	12 466	15 074	21 749
Development expenses		930	968	2 039	3 025	4 385
Other operating expenses	5	1 370	1 012	3 779	3 395	4 641
Total operating expenses		6 574	7 017	18 284	21 494	30 774
<b>Profit (loss) before interest, tax, depreciation and amortization (EBITDA)</b>						
		(6 371)	(6 889)	(17 884)	(21 188)	(30 413)
Amortization and depreciation	6	430	393	1 280	1 201	1 633
<b>Profit (loss) before interest and tax (EBIT)</b>						
		(6 801)	(7 282)	(19 164)	(22 389)	(32 047)
<b>Net financial items</b>						
	7	7	(110)	(487)	(181)	(216)
<b>Net result before tax (EBT)</b>						
		(6 795)	(7 393)	(19 651)	(22 571)	(32 263)
<b>Income taxes</b>						
	8	(3)	129	(145)	379	160
<b>Net loss for the period</b>						
		(6 792)	(7 522)	(19 507)	(22 949)	(32 423)
<b>Profit (loss) per share, basic and diluted (USD)</b>						
	9	(0.01)	(0.01)	(0.03)	(0.04)	(0.06)

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts in USD 1,000	Quarters		First nine months		Full year	
	Q3 2020	Q3 2019	2020	2019	2019	
<b>Net loss for the period</b>						
		(6 792)	(7 522)	(19 507)	(22 949)	(32 423)
<b>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods (net of tax):</b>						
<b>Foreign currency exchange differences</b>						
		(622)	117	(209)	(1 103)	(662)
<b>Total comprehensive income (loss) for the period, net of tax</b>						
		(7 414)	(7 405)	(19 716)	(24 053)	(33 085)

## STATEMENTS OF FINANCIAL POSITION

Amounts in USD 1,000	Note	30 September 2020	30 September 2019	31 December 2019
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill		871	909	941
Other intangible assets		2 123	2 645	2 605
<b>Total intangible assets</b>		<b>2 995</b>	<b>3 554</b>	<b>3 545</b>
Property, plant and equipment		1 661	1 802	2 013
Right-of-use assets		1 017	764	1 375
<b>Total fixed assets</b>		<b>2 678</b>	<b>2 566</b>	<b>3 388</b>
Non-current receivables		72	139	152
<b>Total financial assets</b>		<b>72</b>	<b>139</b>	<b>152</b>
<b>Total non-current assets</b>	<b>6</b>	<b>5 744</b>	<b>6 260</b>	<b>7 086</b>
<b>Current assets</b>				
Inventory		834	1 609	686
Trade receivables		223	8	31
Prepaid expenses		655	535	769
Other current receivables		686	785	772
<b>Total receivables and prepayments</b>		<b>1 564</b>	<b>1 329</b>	<b>1 572</b>
Cash and cash equivalents		5 704	10 667	14 126
<b>Total current assets</b>		<b>8 102</b>	<b>13 605</b>	<b>16 385</b>
<b>Total assets</b>		<b>13 847</b>	<b>19 865</b>	<b>23 470</b>
<b>Equity and liabilities</b>				
<b>Equity</b>				
Share capital	9	16 505	13 445	15 445
Share premium		206 624	189 731	197 639
Other paid-in capital		17 844	15 388	15 903
<b>Total paid-in capital</b>		<b>240 973</b>	<b>218 564</b>	<b>228 988</b>
Foreign currency translation effects		(13 201)	(13 433)	(12 992)
Accumulated loss		(217 690)	(188 709)	(198 183)
<b>Total equity</b>		<b>10 082</b>	<b>16 421</b>	<b>17 812</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities			25	31
Non-current lease liabilities		392	108	610
<b>Total non-current liabilities</b>		<b>392</b>	<b>134</b>	<b>641</b>
<b>Current liabilities</b>				
Accounts payable		539	660	463
Income tax payable		97	349	129
Current lease liabilities		661	674	788
Public duties payable		209	157	357
Accr.d empl.r's tax on share-based comp.	10	54		3
<b>Other current liabilities</b>		<b>1 813</b>	<b>1 471</b>	<b>3 277</b>
<b>Total current liabilities</b>		<b>3 373</b>	<b>3 311</b>	<b>5 016</b>
<b>Total liabilities</b>		<b>3 764</b>	<b>3 444</b>	<b>5 657</b>
<b>Total equity and liabilities</b>		<b>13 847</b>	<b>19 865</b>	<b>23 470</b>

## STATEMENTS OF CHANGES IN EQUITY

Amounts in USD 1,000	Note	Share capital	Share premium	Other paid-in capital	Foreign currency translation effects	Accumulated loss	Total equity
<b>Balance at 1 January 2020</b>		<b>15 445</b>	<b>197 639</b>	<b>15 903</b>	<b>(12 992)</b>	<b>(198 183)</b>	<b>17 812</b>
Share issue 11 May		983	8 985				9 968
Share issue 29 May (board remun.)		7		39			46
Share issue 1 July (compstn.)	4	70		615			685
Share-based remuneration	5			1 286			1 286
Profit (loss) for the period						(19 507)	(19 507)
Other comprehensive income					(209)		(209)
<b>Balance at 30 September 2020</b>		<b>16 505</b>	<b>206 624</b>	<b>17 844</b>	<b>(13 201)</b>	<b>(217 690)</b>	<b>10 082</b>
<b>Balance at 1 January 2019</b>		<b>12 501</b>	<b>166 419</b>	<b>13 353</b>	<b>(12 330)</b>	<b>(165 760)</b>	<b>14 183</b>
Share issue 25 January	4	940	23 312				24 252
Share issue (board remun.)		4					4
Share-based remuneration	5			2 034			2 034
Profit (loss) for the period						(22 949)	(22 949)
Other comprehensive income					(1 103)		(1 103)
<b>Balance at 30 September 2019</b>		<b>13 445</b>	<b>189 731</b>	<b>15 388</b>	<b>(13 433)</b>	<b>(188 709)</b>	<b>16 421</b>
<b>Balance at 1 January 2019</b>		<b>12 501</b>	<b>166 419</b>	<b>13 353</b>	<b>(12 330)</b>	<b>(165 760)</b>	<b>14 183</b>
Share issue 25 January	4	940	23 312				24 252
Share issue 2 December		904	3 569				4 474
Share issue 24 December		1 096	4 339				5 435
Share issue (board remun.)		4					4
Share-based remuneration	5			2 550			2 550
Profit (loss) for the period						(32 423)	(32 423)
Other comprehensive income					(662)		(662)
<b>Balance at 31 December 2019</b>		<b>15 445</b>	<b>197 639</b>	<b>15 903</b>	<b>(12 992)</b>	<b>(198 183)</b>	<b>17 812</b>

## STATEMENTS OF CASH FLOW

Amounts in USD 1,000	Quarters		First nine months		Full year
	Q3 2020	Q3 2019	2020	2019	2019
<b>Operating activities</b>					
Profit (loss) before tax	(6 795)	(7 393)	(19 651)	(22 571)	(32 263)
Amortization and depreciation expense	430	396	1 280	1 201	1 633
Share-based compensation expense	1 064	595	1 981	2 041	2 531
Change in inventories	(140)	(304)	(198)	(513)	470
Change in accounts receivables	(72)	155	(194)	30	8
Change in accounts payable	(447)	231	100	95	(124)
Change in other working capital items	(69)	(623)	(751)	(1 387)	395
Other operating activities	(51)	4	470	31	43
Net financial items	(2)	(50)	(22)	(114)	(135)
Income taxes	(0)	(190)	27	(226)	(226)
<b>Net cash flow from operating activities</b>	<b>(6 082)</b>	<b>(7 179)</b>	<b>(16 959)</b>	<b>(21 413)</b>	<b>(27 668)</b>
<b>Investing activities</b>					
Purchases of property, plant and equipment	(51)	(233)	(91)	(527)	(850)
Payments on non-current receivables	56	(0)	74	2	(6)
Interest received	1	30	21	114	135
<b>Net cash flow used in investing activities</b>	<b>6</b>	<b>(203)</b>	<b>4</b>	<b>(410)</b>	<b>(721)</b>
<b>Financing activities</b>					
Net proceeds from issue of shares			10 699	24 256	34 164
Payments on lease liabilities	(199)	(164)	(591)	(493)	(675)
Payment related to a financed asset purchase			(500)		
<b>Net cash flow from financing activities</b>	<b>(199)</b>	<b>(164)</b>	<b>9 609</b>	<b>23 763</b>	<b>33 489</b>
<b>Net change in cash and cash equivalents</b>	<b>(6 274)</b>	<b>(7 546)</b>	<b>(7 346)</b>	<b>1 940</b>	<b>5 100</b>
Effect of foreign exchange rate changes	577	716	(1 075)	(908)	(609)
Opening cash and cash equivalents balance	11 401	17 497	14 126	9 635	9 635
<b>Closing cash and cash equivalents balance</b>	<b>5 704</b>	<b>10 667</b>	<b>5 704</b>	<b>10 667</b>	<b>14 126</b>

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

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## 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 nine months 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. 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 4 November 2020.

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

As of the first quarter of 2020, IDEX changed presentation currency for the group's financial statements to USD. Prior period figures have been re-presented to USD. The change in presentation currency does not impact the profit or loss, valuation of assets, liabilities, equity or any ratios between these measures.

## 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. On 11 May 2020 IDEX completed a private placement of shares, raising USD 10.3 million before expenses. Net equity amounted to USD 10.1 million and the balance sheet solvency amounted to USD 3.9 million at 30 September 2020. As of

30 September 2020, the company had USD 5.7 million in cash and no debt to financial institutions. The company expects to significantly increase revenue generation through sales of its products and monetization of intellectual property. The board is considering various options for strengthening the balance sheet and is confident that the company will obtain funding for its planned growth and working capital requirements.

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's balance sheet comprises mainly fixed assets, cash equivalents and working capital and the company is fully funded on equity. IDEX manages its liquidity passively, which means that funds are placed in floating-interest rate bank accounts. The Company's exposure to currency exchange rates is managed by maintaining an appropriate mix of cash deposits in the currencies IDEX operates in. USD is the dominant currency of the company's payables.

#### 4 Payroll expenses

Amounts in USD 1,000	Quarters		First nine months		Full year
	Q3 2020	Q3 2019	2020	2019	2019
Salary, payroll tax, benefits, other	3 176	4 386	10 404	13 024	19 124
Payable payroll tax on realized share-based benef		9		9	9
Share-based compensation	1 064	642	1 981	2 041	2 531
Net employer's tax on share-based comp.	34		82		85
<b>Payroll expenses</b>	<b>4 275</b>	<b>5 037</b>	<b>12 466</b>	<b>15 074</b>	<b>21 749</b>

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 276 thousand in the first nine months of 2020. The amount includes work related to the private placement completed in May 2020 and the application for listing on Nasdaq. 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 then 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.

The following primary insiders elected in July to take part of their cash remuneration in shares: CFO Derek D'Antilio acquired 136,479 shares instead of USD 17,500 in cash compensation, CTO Anthony Eaton acquired 181,041 shares instead of GBP 18,915 in cash compensation, SVP Sales & Marketing David Orme acquired 186,640 shares instead of GBP 19,500 in cash compensation, and EVP Advanced Technology and Strategy Stan Swearingen acquired 718,464 shares instead of USD 92,125 in cash compensation.

## 6 Non-current assets

Amounts in USD 1,000	Goodwill	Oth. intang assets	Tangible fixed assets	Right-of-use assets	Long-term receivables	Total long- term assets
<b>Balance at 1 January 2020</b>	<b>941</b>	<b>2 605</b>	<b>2 013</b>	<b>1 375</b>	<b>152</b>	<b>7 086</b>
Additions			92	267		<b>359</b>
Disposals and retirements at cost			(38)		(56)	<b>(94)</b>
Depreciation and impairment losses		(289)	(403)	(588)		<b>(1 280)</b>
Depreciation on disposed and retired assets			38			<b>38</b>
Effects of changes in foreign currency	(70)	(193)	(40)	(37)	(24)	<b>(364)</b>
<b>Balance at 30 September 2020</b>	<b>871</b>	<b>2 123</b>	<b>1 661</b>	<b>1 017</b>	<b>72</b>	<b>5 744</b>
<b>Balance at 1 January 2019</b>	<b>951</b>	<b>3 080</b>	<b>1 679</b>		<b>146</b>	<b>5 856</b>
Additions			504	1 282		1 786
Disposals and retirements at cost		-	(25)		(2)	(27)
Depreciation and impairment losses		(300)	(360)	(490)		(1 149)
Depreciation on disposed and retired assets			22			22
Effects of changes in foreign currency	(42)	(135)	(19)	(28)	(5)	(229)
<b>Balance at 30 September 2019</b>	<b>909</b>	<b>2 645</b>	<b>1 802</b>	<b>764</b>	<b>139</b>	<b>6 260</b>
<b>Balance at 1 January 2019</b>	<b>951</b>	<b>3 080</b>	<b>1 679</b>		<b>146</b>	<b>5 856</b>
Additions			878	2 099	8	2 985
Disposals and retirements at cost		(33)	(112)		(2)	(147)
Depreciation and impairment losses		(415)	(520)	(698)		(1 633)
Depreciation on disposed and retired assets		6	109			115
Effects of changes in foreign currency	(10)	(33)	(21)	(26)		(90)
<b>Balance at 31 December 2019</b>	<b>941</b>	<b>2 605</b>	<b>2 013</b>	<b>1 375</b>	<b>152</b>	<b>7 086</b>

Acquired intangible assets and intellectual property rights have been capitalized, and included goodwill amounting to USD 871 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. Goodwill is not amortized but impairment tested at least annually. IDEX's self-developed patents and other intellectual property rights are not held in the balance sheet because they do not satisfy the criteria for capitalization. Development costs have largely been expensed for the same reason. IDEX has not capitalized any development expenses in 2020 or 2019.

## 7 Financial items

Amounts in USD 1,000	Quarters		First nine months		Full year
	Q3 2020	Q3 2019	2020	2019	2019
Interest income	1	30	21	115	135
Currency exchange gain	316	79	565	289	322
<b>Total financial income</b>	<b>317</b>	<b>109</b>	<b>585</b>	<b>404</b>	<b>456</b>
Interest expenses	0	0	0	0	0
Interest expenses on lease liabilities	17	11	43	37	50
Interest expenses on deferred settlement		14		41	54
Currency exchange loss	293	195	1 029	509	569
<b>Total financial expense</b>	<b>310</b>	<b>220</b>	<b>1 072</b>	<b>586</b>	<b>673</b>
<b>Net financial items</b>	<b>7</b>	<b>(110)</b>	<b>(487)</b>	<b>(181)</b>	<b>(216)</b>

## 8 Income tax expense

In the first quarter of 2020, IDEX filed amended tax returns in the United States and United Kingdom for the tax years 2017 and 2018 to claim research and development tax credits. As a result, the Company has received USD 1.5 million in refunds. The tax credit in the UK has been credited to income tax expense to the extent of income taxes paid and then to research and development expenses. The tax credit in the United States has offset a portion of taxable income.

## 9 Profit (Loss) per share

	First nine months		Full year
	2020	2019	2019
Profit (loss) attributable to the shareholders (USD 1,000)	(19 507)	(22 949)	(32 423)
Weighted average basic number of shares	753 486 077	597 988 732	598 392 108
Weighted average diluted number of shares	759 169 172	603 002 126	600 152 099
<b>Profit (loss) per share, basic and diluted</b>	<b>USD (0.03)</b>	<b>USD (0.04)</b>	<b>USD (0.05)</b>

The profit or loss per share is calculated by dividing the profit (loss) for the period by the weighted average number of ordinary shares outstanding in the period. The profit (loss) per fully diluted share shall be calculated based on the result for the period divided by the weighted average number of fully diluted shares. In case of a net loss, the dilution would reduce the loss per share; therefore, the effect of dilution is not taken into account.

## 10 Shares and subscription rights

Number of financial instruments	Incentive subscription rights	Shares
<b>Balance at 1 January 2020</b>	<b>52 875 043</b>	<b>717 988 732</b>
11 May: Share issue		65 341 413
29 May: Issued shares in lieu of board remuneration		441 982
1 July: Issued shares in lieu of cash compensation		4 318 523
Granted incentive subscription rights	7 892 900	
Expired/forfeited incentive subscription rights	(5 930 800)	
<b>Balance at 30 September 2020</b>	<b>54 837 143</b>	<b>788 090 650</b>
<b>Balance at 1 January 2019</b>	<b>37 471 050</b>	<b>544 314 537</b>
25 January: Share issue		53 437 500
28 May: Issued shares in lieu of board remuneration		236 695
Granted incentive subscription rights	14 221 900	
Expired/forfeited incentive subscription rights	(2 973 550)	
<b>Balance at 30 September 2019</b>	<b>48 719 400</b>	<b>597 988 732</b>
<b>Balance at 1 January 2019</b>	<b>37 471 050</b>	<b>544 314 537</b>
25 January: Share issue		53 437 500
28 May: Issued shares in lieu of board remuneration		236 695
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)	
<b>Balance at 31 December 2019</b>	<b>52 875 043</b>	<b>717 988 732</b>

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 September 2020 was NOK 3.46 per share.

The annual general meeting (AGM) 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 AGM also authorized the board to offer to employees to take a part of their salary in shares instead of cash. 59 employees, among them four primary insiders, elected in July 2020 to take shares in lieu of a total of USD 0.6 million cash salary. See note 5.

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. See note 5.

## 11 Inventory

Amounts in USD 1,000	30 September 2020	30 September 2019	31 December 2019
Inventory at cost	878	1 609	1 840
Inventory reserve	(44)	0	(1 154)
<b>Total</b>	<b>834</b>	<b>1 609</b>	<b>686</b>

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.

## 12 Events after the balance sheet date

The annual general meeting on 15 May 2020 approved that the board could offer to employees to replace existing incentive subscription rights (SRs) under the 2016-2018 SR plans that were of no value, with subscription rights under the 2020 SR plan. On 17 June 2020 the board resolved to offer the replacement. Following completion of formal procedures, the board issued on 2 October 2020 a combined total of 25,962,800 incentive subscription rights under the Company's 2020 Subscription Rights Incentive Plan. The outstanding number of SRs will remain unchanged at 54,837,143. The exercise price of the Replacement SRs is NOK 1.71 per share, and 1/3 of the Replacement SRs vest on 15 April 2021, 2022 and 2023. All replacement SRs expire on 15 May 2025. The following primary insiders participated in the SR exchange program and waived and received the following number of SRs: CTO Anthony Eaton 1,125,000 SRs, VP Finance Erling Svela 439,300 SRs, EVP Advanced Technology and Strategy Stan Swearingen 6,815,000 SRs, and Board member Lawrence John Ciaccia, in his capacity as adviser to the company, 600,000 SRs.

On 14 October 2020 IDEX submitted a confidential registration statement to the U.S. Securities and Exchange Commission in connection with a proposed listing of American depositary shares representing the company's ordinary shares on the Nasdaq stock market.

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

# Get in touch



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