



# Quarterly Presentation Q3 2017

October 17<sup>th</sup> 2017, Oslo, Norway

# Today's presentation

## Business update



Svenn-Tore Larsen  
CEO

## Financials



Pål Elstad  
CFO

## Business outlook



Thomas Embla Bonnerud  
Director of Strategy and IR





# Business update

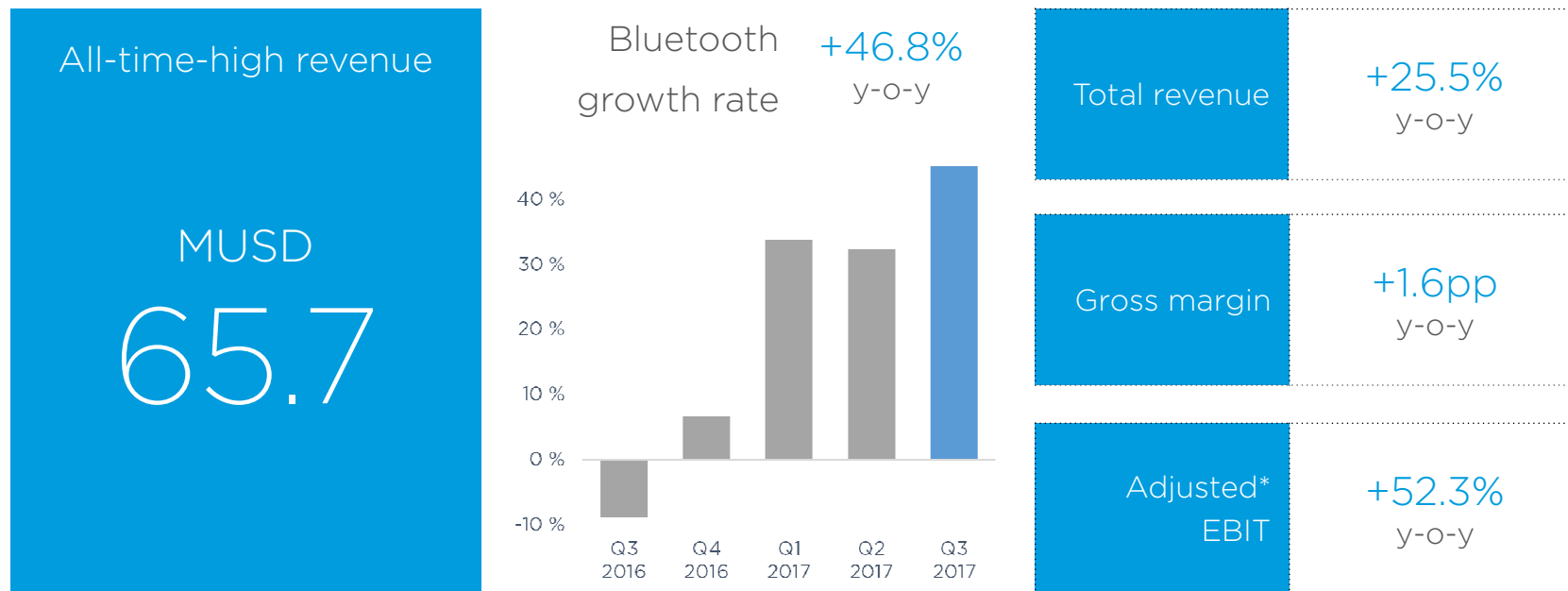
Svenn-Tore Larsen, CEO

## Financial summary – Q3 2017

Revenue	Revenue Bluetooth	Revenue Proprietary	Gross margin	Adjusted* EBIT
MUSD 65.7	MUSD 45.7	MUSD 16.8	47.8%	MUSD 5.9
+25.5% y-o-y    +11.9% q-o-q	+46.8% y-o-y    +26.7% q-o-q	-15.0% y-o-y    -18.7% q-o-q	+1.6pp y-o-y    +1.1pp q-o-q	+52.3% y-o-y    +24.3% q-o-q

\* Adjusted for MUSD 1.0 write-off of receivable

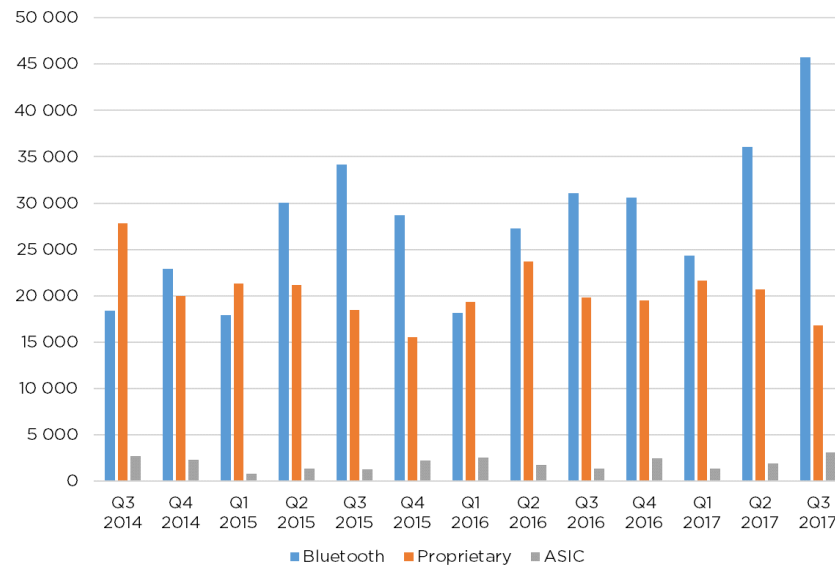
## Strong Bluetooth sales driving growth



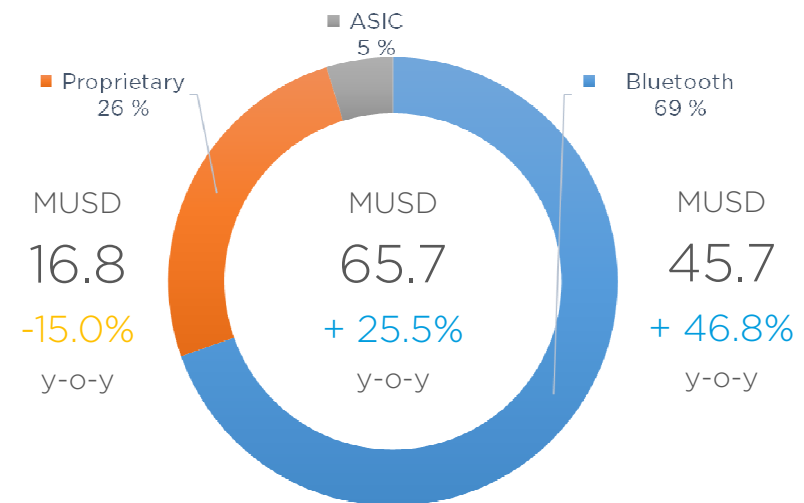
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## Continued revenue shift to Bluetooth

Revenue by technology  
2014 - 2017 (MUSD)

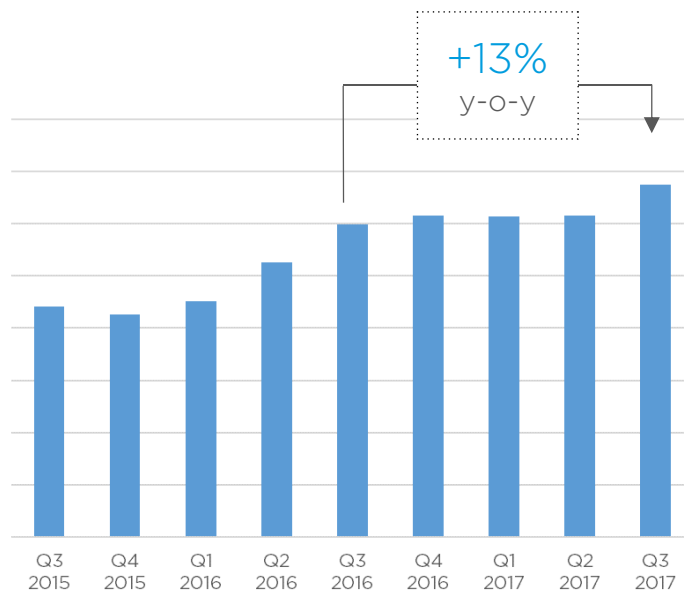


Split and growth by technology  
Q3 2017

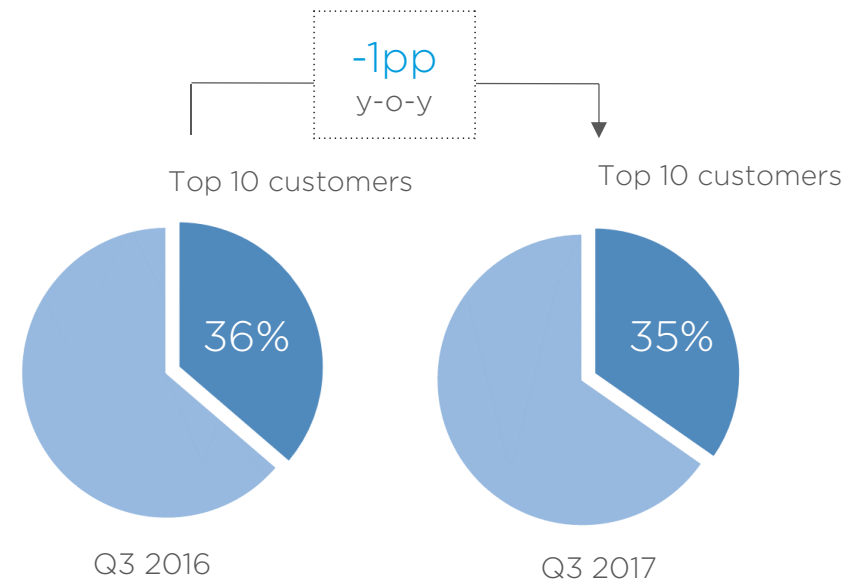


## Continued customer growth and diversification

Continued growth in number of Active Customers\* on Bluetooth



Diversification of Bluetooth revenue  
Rest outgrows top 10 q-o-q and y-o-y



\*) Definition of "Active" Customer: An end customer which has purchased 10.000 units or more during prior six months (i.e., a customer actively selling product to end customers or preparing a high volume prototype)

## New Nordic powered products



Aterica Health  
Veta Smart Case

Healthcare

nRF51



Shoreline IoT  
ICAST IoT Bridge

Enterprise Lighting

nRF52



Shiga  
SAFE METER

Building/retail

nRF51



CarePredict  
Tempo

Healthcare

nRF52



Poly-Control  
Danalock V3

Smart Home

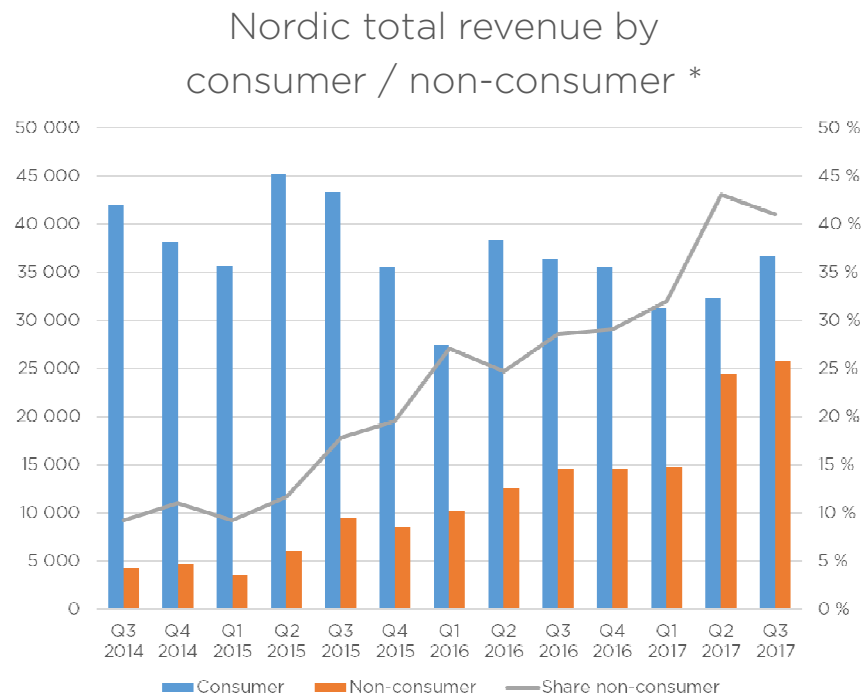
nRF52



## Revenue by market

Consumer Electronics	Wearables	Building /Retail	Healthcare	Others
MUSD 26.1	MUSD 10.6	MUSD 15.7	MUSD 4.6	MUSD 5.5
+3.1% y-o-y    +10.4% q-o-q	-4.2% y-o-y    +22.4% q-o-q	+108.4% y-o-y    -6.1% q-o-q	+32.5% y-o-y    +85.7% q-o-q	+56.0% y-o-y    +5.0% q-o-q

# The rise of short-range low power IoT



## Riding the IoT megatrend

- Bluetooth low energy is the driving short-range low power IoT technology
- Nordic leading in Bluetooth low energy and mirroring the market
- Growth in number of customers
- Emergence of non-consumer

## Transforming our revenue base

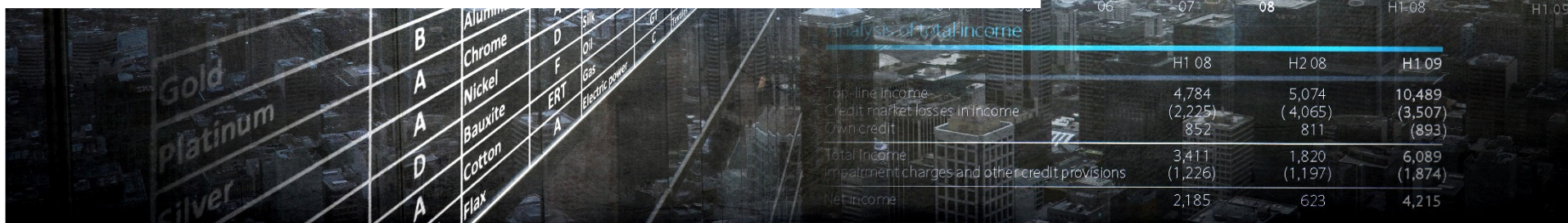
- Robustness
- Growth potential

\* Consumer is sum of Wearable and Consumer Electronics, non-consumer is sum of Building/Retail, Healthcare and Other.



# Financials

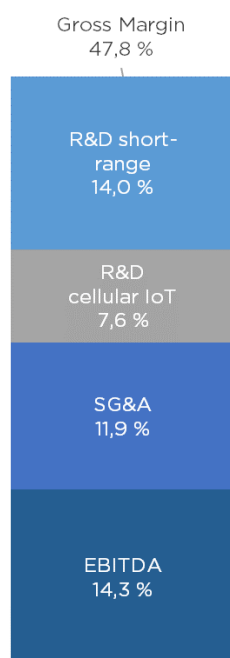
Pål Elstad, CFO



## Analysis of total income

	H1 08	H2 08	H1 09
Top-line income	4,784	5,074	10,489
Credit market losses in income	(2,225)	(4,065)	(3,507)
Own credit	852	811	(893)
Total income	3,411	1,820	6,089
Impairment charges and other credit provisions	(1,226)	(1,197)	(1,874)
Net income	2,185	623	4,215

# Operating model performance

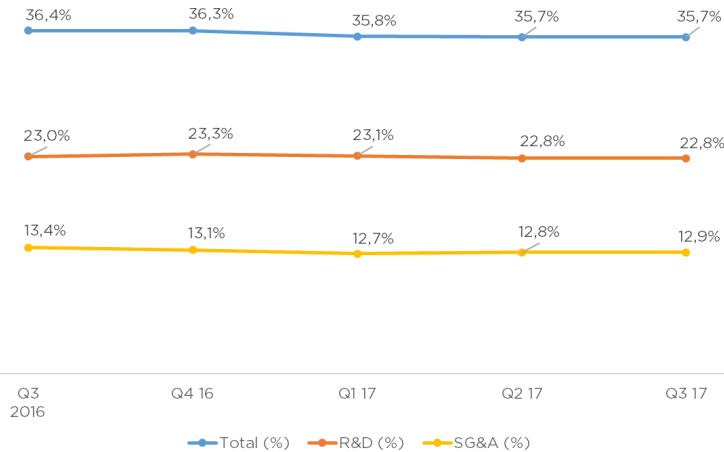


	Q3 2017	Q3 2016	
Revenue growth y-o-y	+25.5% (MUSD 65.7)	-3.0% (MUSD 52.3)	(+28.6pp) Bluetooth driven growth, seasonally high revenue
Gross margin	47.8%	46.2%	(+1.6pp) Gross Margin expansion
R&D short-range	14.0%	13.8%	(+0.2pp) Continued investment for leadership position in fast growing market
R&D cellular IoT	7.6%	7.6%	(±0.0pp) Investing to build a leading position in a new fast growing market
SG&A	11.9%	11.5%	(+0.4pp) Continued scaling of the organization to manage growth
Adjusted EBITDA margin	14.3%	13.3%	(+1.0pp) Continued impact from Cellular IoT investment



## Trailing average R&D and SG&A spending

Trailing 12-months adjusted OPEX  
(% of revenue)



22.8% of revenue on R&D

- Industry average R&D spend close to 20%
- Nordic trailing higher due to Cellular IoT investment
- Ratio to decrease with revenue growth on Cellular IoT

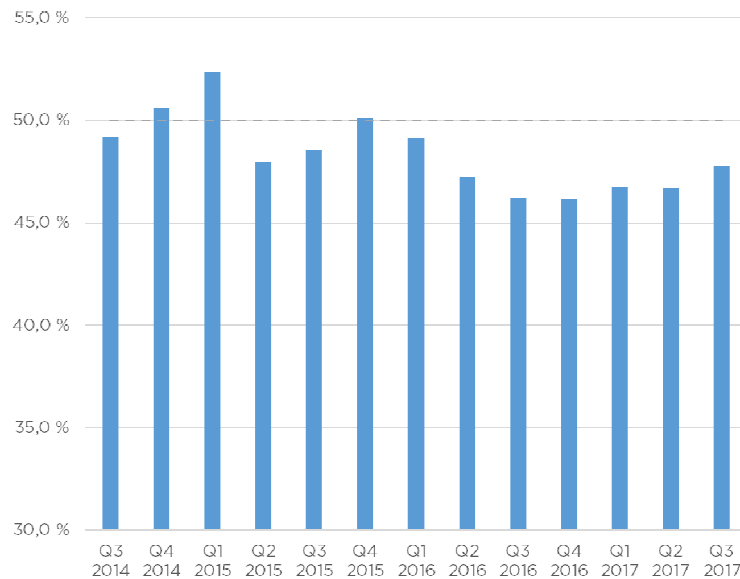
12.9% of revenue on SG&A

- Industry average SG&A spend 12-15%
- Nordic on the lower end due to distribution model
- Underlying growth to secure and build positions in fast growing markets



# Gross Margin

Gross margin Q3 2014 – Q3 2017



## Gross Margin expansion year-over-year

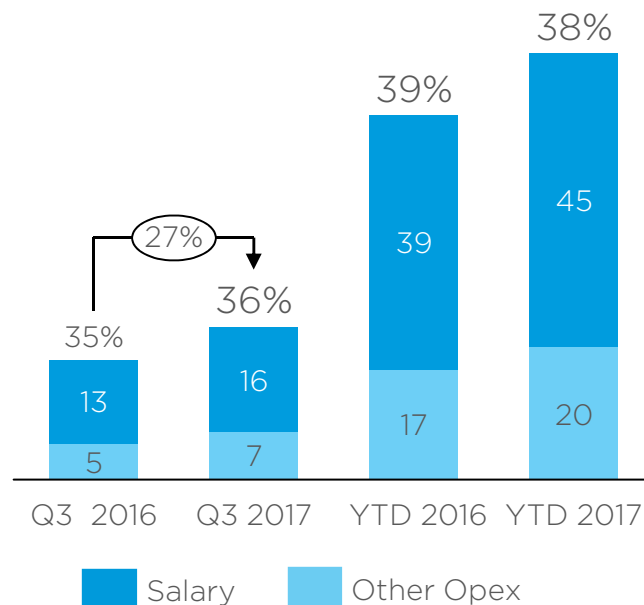
- Gross Margin 47.8% **+1.6pp** y-o-y
- Continued positive contribution from cost improvements
- Compared to last quarter underlying gross margins **+0.3pp** improvement
- Quarter to quarter fluctuation due to product and customer mix

## Maintaining 50% target for 2018

- Continued efforts on cost reductions
- Continued diversification of customer base and volume ramp of higher-end nRF52

## Cash Operating Expenses<sup>\*)</sup>

Cash Opex MUSD / % of revenue



Q3 Opex\*

- Q3 cash operating expenses increased 27% y-o-y
- Adjusted for FX increase is 21.8% y-o-y
- The increase is driven by headcount growth of 12.9% from 521 in Q3 2016 to 588 in Q3 2017
- Q3 2017 Opex broadly in-line with Q3 2016 in percentage of revenue

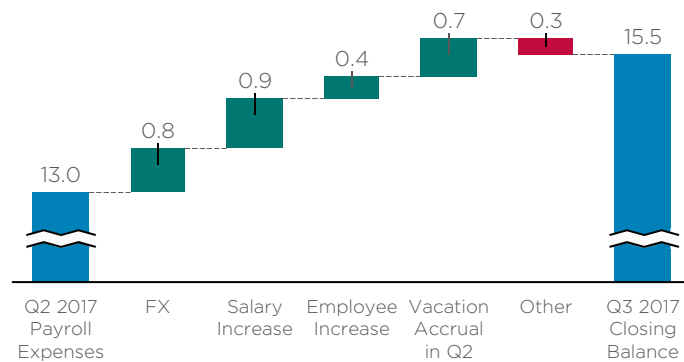
Q3 Opex\* year to date

- Q3 YTD increased 16.7%
- In percentage of revenue OPEX is slightly down

<sup>\*)</sup> Operating expenses, excl. capitalized R&D, depreciation and amort. and option expenses, excluding write-off of receivables

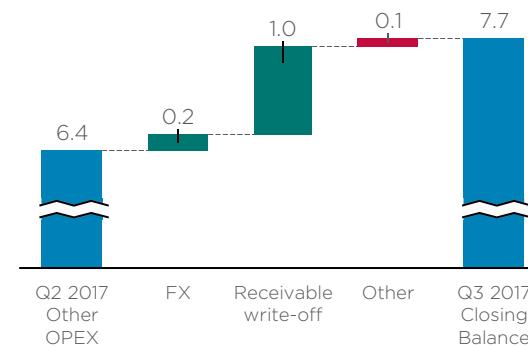
## Bridge Opex Q2 2017 vs. Q3 2017

### Salaries



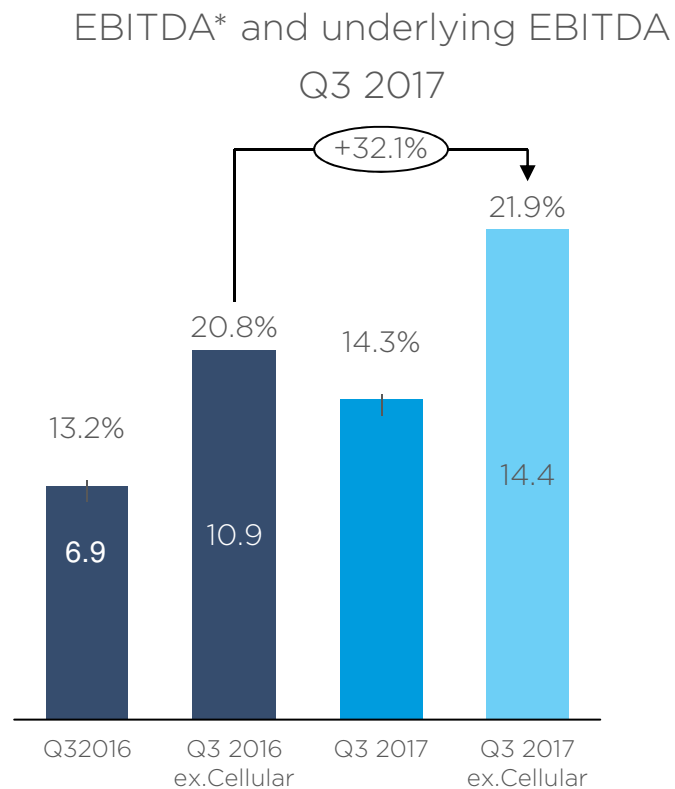
- FX driven increase in Q3
- Salary increase to attract and retain key talent
- Capitalization in-line with previous quarters

### Other OPEX



- Write-off of receivable – limited risk in customer base
- Other Opex will mainly vary with development phases

## Growth in profitability



EBITDA\* of MUSD 9.4

- +36.2% y-o-y growth
- Driven by revenue growth in Bluetooth

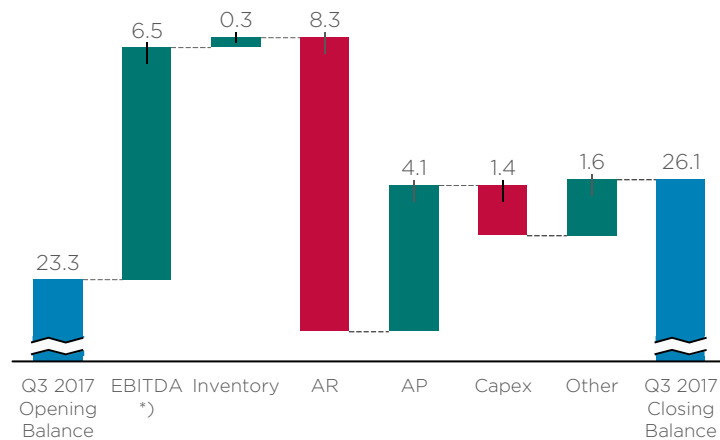
Underlying EBITDA\* of MUSD 14.4

- Excluding OPEX R&D Cellular IoT
- +32.1% y-o-y growth
- Revenue growth combined with Gross Margins expansion drives EBITDA Margins

\* Adjusted for MUSD 1.0 write-off of receivable

## Positive cash flow

Cash flow Q3 2017



\* EBITDA Adjusted for Capitalized Development Costs

### Seasonal increase in accounts receivable

- Net cash flow of MUSD 2.8
- NWC increased by MUSD 1.5, but increased revenue reduces NWC/LTM from 34.1% of to 32.7%
- Continued improved cash collection in % of revenue

### Disciplined cash strategy

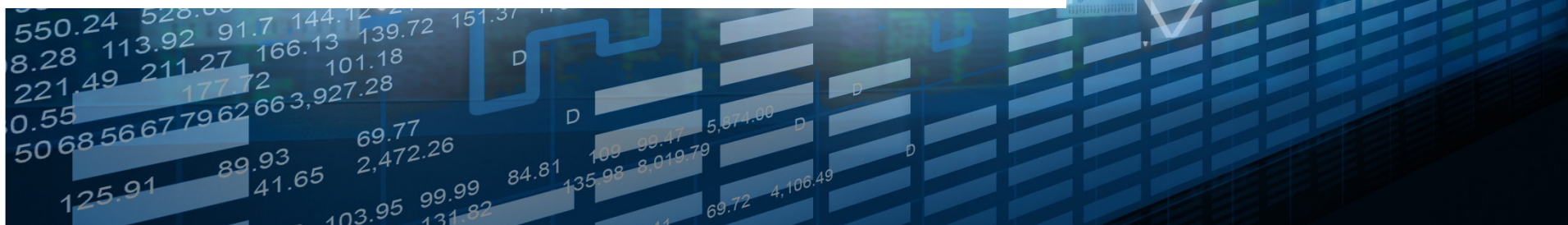
- Tight cash management and optimized cash generating ability
- Financial headroom of MUSD 56.1 including undrawn facilities of MUSD 30





# Business outlook

Thomas Embla Bonnerud, Director of Strategy and IR



## Short-term outlook - comments

### Q3 2017

- Bluetooth ahead of anticipated range for Q3
- Proprietary on the lower end of anticipated range for Q3 due to change in product mix and transition to Bluetooth low energy
- Solid, Bluetooth dominated backlog

MUSD  
65.4

+191%  
y-o-y

+0.2%  
q-o-q

- Length of backlog extending both y-o-y and q-o-q

### Q4 2017

- Proprietary revenue stabilizing, single digit percentage down for full year
- Continued growth in Bluetooth, however lower y-o-y growth rate vs. Q3 2017
- Gross margin range to account for fluctuation in customer and product mix

## Adjusting guidance on Bluetooth growth

Revenue

MUSD  
120 - 130

Based on our current visibility, we anticipate revenue for H2 2017 to be in the range of MUSD 120 to 130.

Bluetooth  
growth

35 - 45%

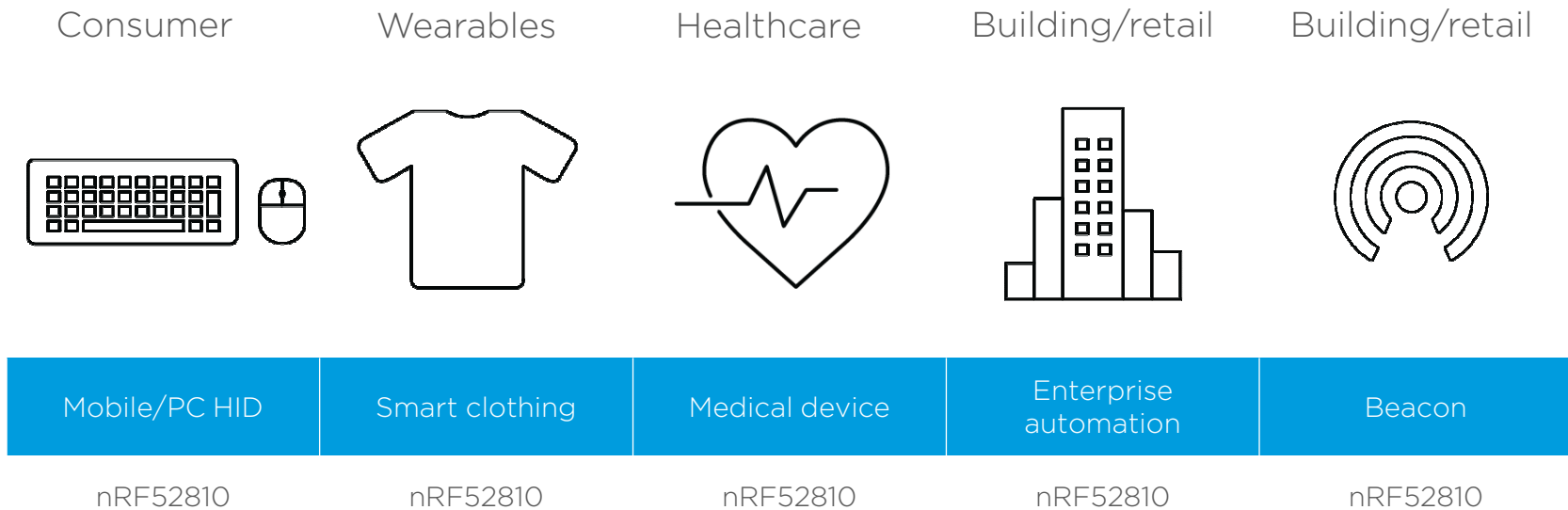
We expect Bluetooth to be the main growth driver for H2 2017. The revenue guidance range is based on 35% to 45% growth in Bluetooth revenue.

Gross  
margins

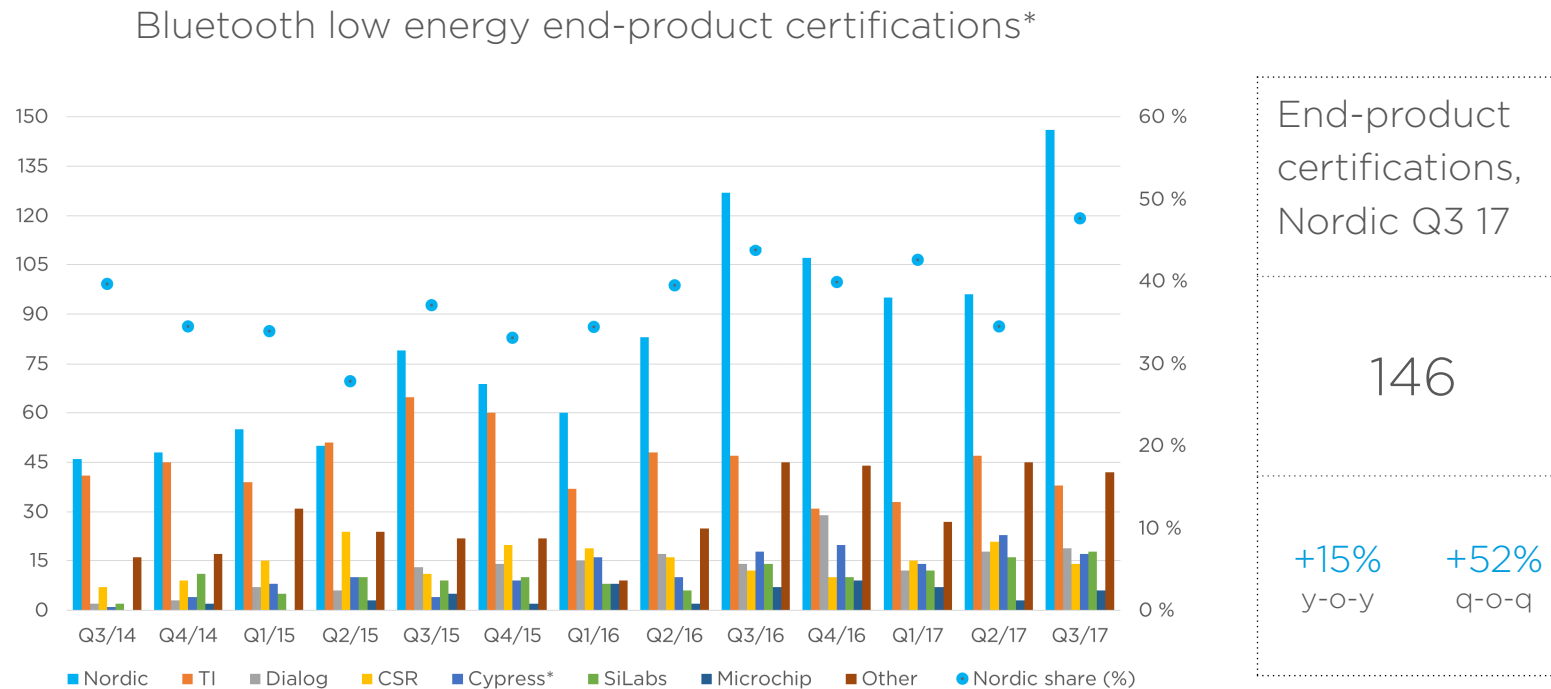
46 - 48%

We expect gross margins to be in the range of 46 - 48% for H2 2017, broadly in line with the previous half year, but below our target of 50%.

## Design win momentum with nRF52810



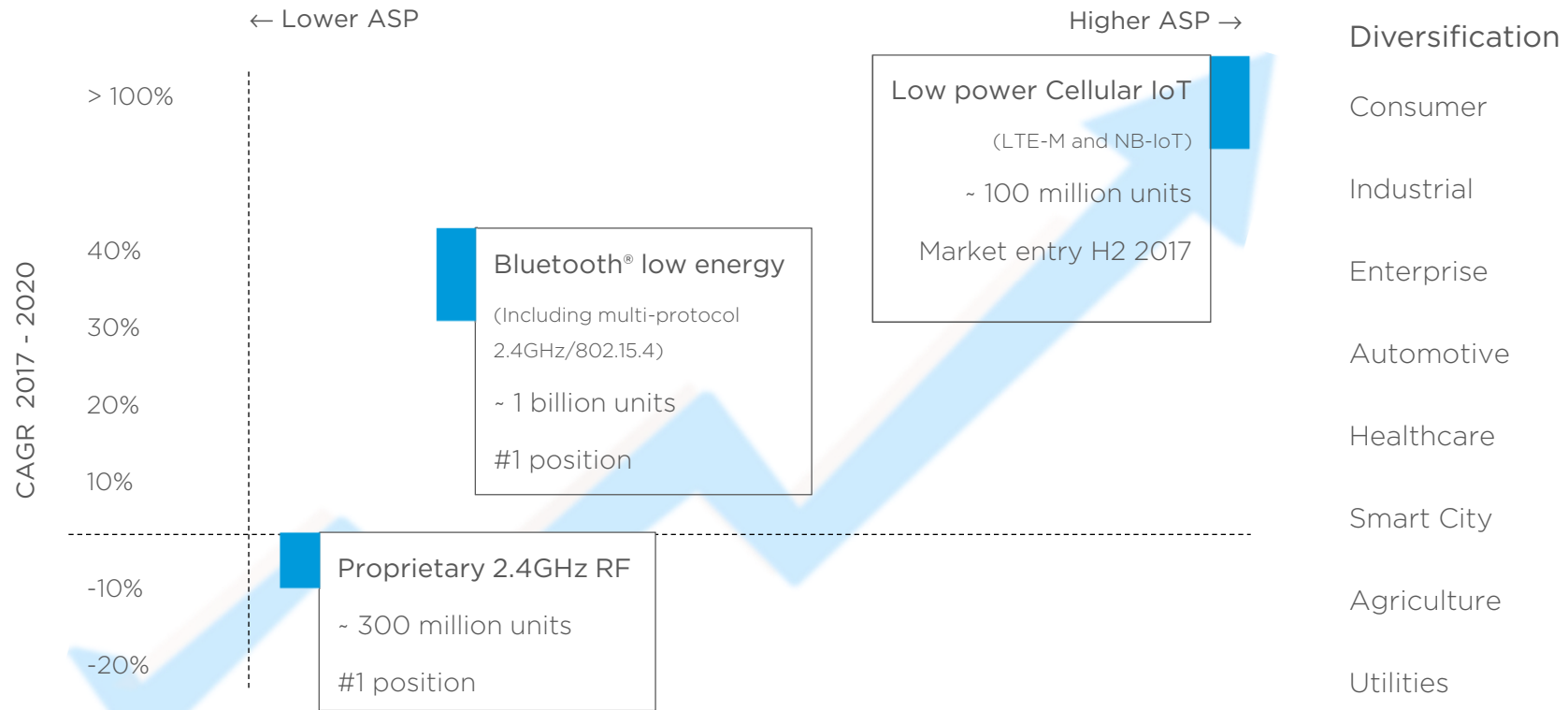
# Solid Bluetooth momentum entering 2018



\*Source: DNB Markets



# Nordic's low power IoT market opportunity



Source: Nordic management and industry reports

## Remaining on track with cellular IoT

Small size

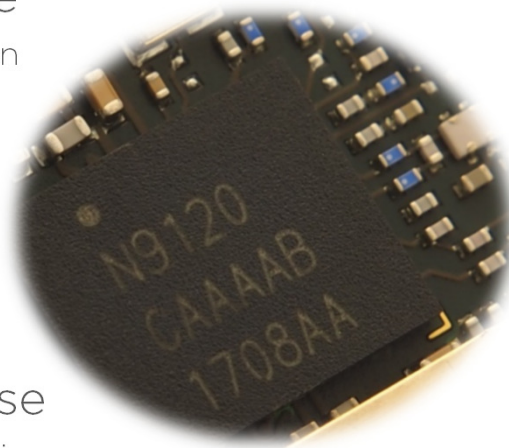
Very high level of integration

Ultra low power

& high performance

Ease-of-use

Complete and flexible solution



On-track for sampling H2 2017

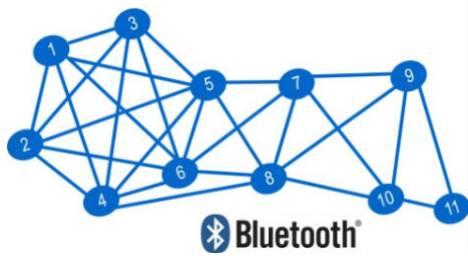
- Limited set of lead customers
- Executing on our US and LTE-M first strategy
- Strong interest and positive feedback on our solution

Certification testing in parallel

- Infrastructure interoperability
- Carrier certification

## Our goals moving forward

Growth and expansion in low power short-range IoT



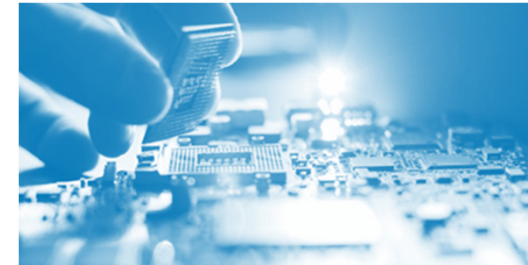
- Building on our leading position in Bluetooth low energy
- Selected and strategic expansion
- Value add to our customers
- Expanding our addressable market

Build a leading position in low power cellular IoT



- Leverage our strategic investment since 2015
- Leverage synergies with short range – technology and market
- Establish a second growth vehicle

Continue with value add integration and solutions



- SoC, software and tools
- Short-range and cellular IOT
- Increase our value offering per design socket
- Competitive differentiation

# Expansion in low power short-range IoT

Multi-protocol  
Concurrent Bluetooth / Thread

First to market  
Unique solution

802.15.4 support  
Other wireless technologies



Expanding our addressable market

- Thread and other 802.15.4 based technologies
- Advanced mesh for Smart Home and industrial
- >250MU in 2020\*

Competitive edge and value-add

- Multi-protocol for legacy support and/or heterogynous ecosystem
- Higher-end SoCs and advanced software

\*Source: Nordic management and industry reports

## Summary

### Q3 2017

- Bluetooth and ASIC revenue ahead of anticipated range for Q3
- Proprietary in the lower end of the anticipated range Q3 due to change in product mix and shift to Bluetooth
- Remaining on track with our product roadmap

### Outlook

- Adjusting H2 2017 guidance range on Bluetooth growth with +5pp
- Maintaining H2 2017 guidance on total revenue and gross margin
- Momentum with Bluetooth entering 2018
- Continued investments for leadership position in low power IoT – short range and cellular



## Upcoming events

### Investor briefing on cellular IoT



- Time and venue to be announced shortly following lead customer sampling
- Additional information on our cellular IoT solution

### Guidance for H1 2018

February 15, 2018

- Q4 2017 presentations

Q&A



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October 17<sup>th</sup> 2017, Oslo, Norway