



Quarterly Presentation Q2 2018

July 12th 2018, Oslo, Norway

Today's presentation

Business update



Svenn-Tore Larsen
CEO

Financials



Pål Elstad
CFO

Business outlook



Svenn-Tore Larsen
CEO



Business update

Svenn-Tore Larsen, CEO

Record quarter

Total revenue of MUSD

71.2

New all-time-high with +21.3% y-o-y growth

- +45.2% y-o-y growth in Bluetooth
- -18.1% y-o-y decline in proprietary
- Strong quarter on both consumer and non-consumer markets
- Continued solid growth in number of customers

Continued improvement in

Profitability

On track to meet our objective for improved profitability for full year 2018

- MUSD 10.0 EBITDA +25.2% y-o-y, +0.4pp EBITDA margin y-o-y.
- Gross margin of 49.0% due to cost reductions, favorable customer and product mix
- Continued to build organizational strength while maintaining cost discipline; OPEX -0.4% q-o-q

Financial summary – Q2 2018

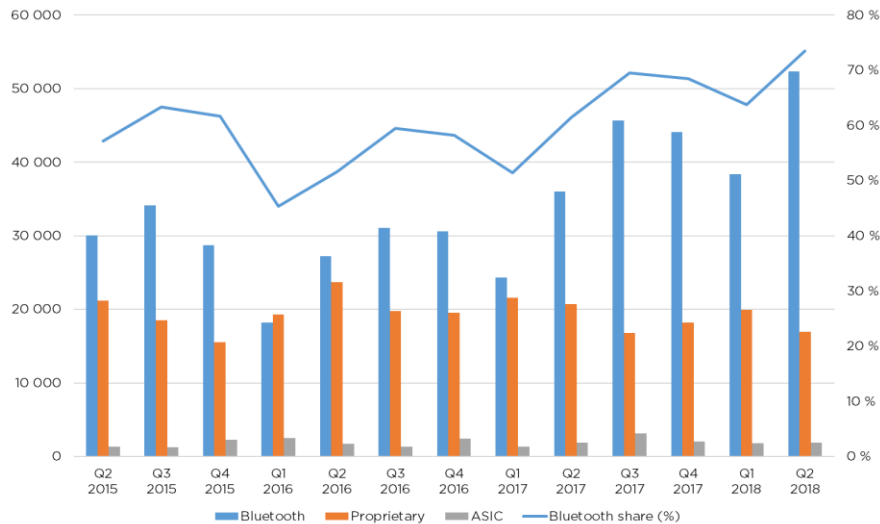
Revenue	Revenue Bluetooth	Revenue Proprietary	Gross margin	EBITDA
MUSD 71.2	MUSD 52.3	MUSD 17.0	49.0%	MUSD 10.0
+21.3% y-o-y	+45.2% y-o-y	-18.1% y-o-y	+2.3pp y-o-y	+25.2% y-o-y
+18.3% q-o-q	+36.4% q-o-q	-15.0% q-o-q	+0.1pp q-o-q	+126.3% q-o-q

Met our guidance for H1 2018

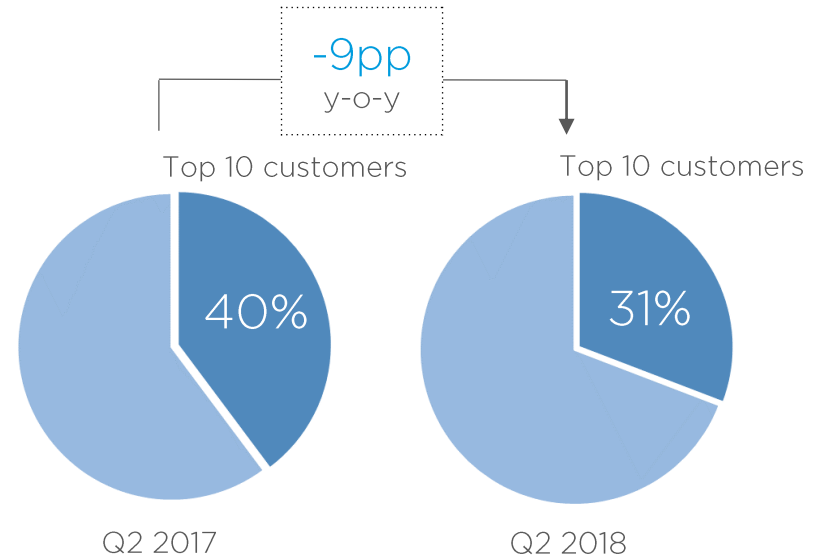
Revenue	MUSD 131.3	Upper end of the MUSD 123 to 133 guidance due to continued strong growth in Bluetooth.
Bluetooth growth	50.2%	Exceeding the 40 to 50% guidance range due to robust Bluetooth sales in consumer and non-consumer markets.
Gross margins	49.0%	Upper end of the 47 to 49% guidance due to positive contribution from cost reductions and favorable customer and product mix

Bluetooth driven growth

Revenue by technology
2015 – 2018 (MUSD)

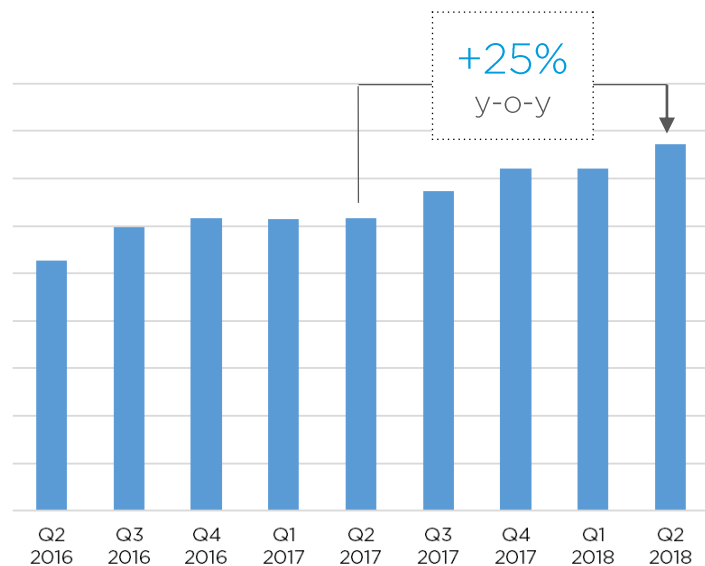


Bluetooth revenue diversification



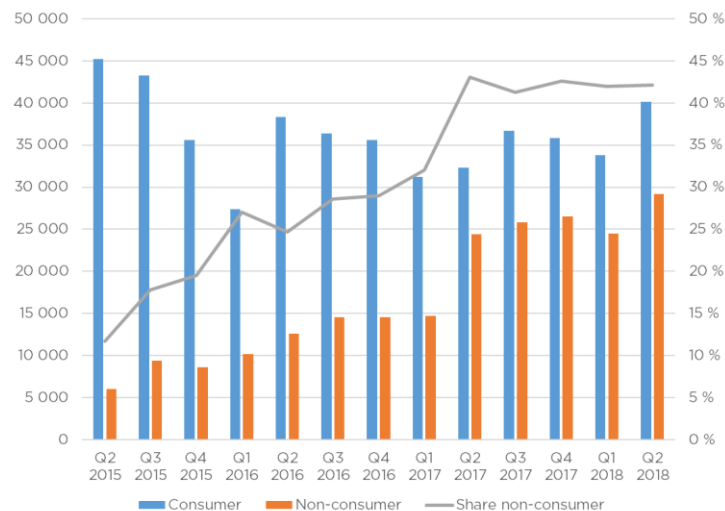
Customer base growth and diversification

Continued growth in number of Active Customers* on Bluetooth



*) 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)

Diversified Bluetooth revenue across consumer and non-consumer*



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

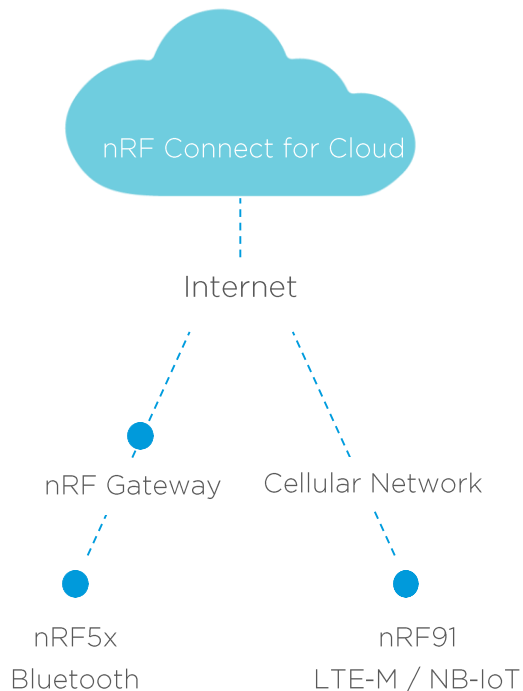
Revenue by market

Consumer Electronics	Wearables	Building /Retail	Healthcare	Others
MUSD 28.2	MUSD 11.9	MUSD 13.8	MUSD 5.3	MUSD 10.1
+19.6% y-o-y	+36.6% y-o-y	-17.8% y-o-y	+115.1% y-o-y	+92.6% y-o-y
+19.6% q-o-q	+16.3% q-o-q	+12.6% q-o-q	+14.0% q-o-q	+32.9% q-o-q

New Nordic powered products

				
Dexatek ΣCASA router	Shenzhen DO ID115plus Color HR	Sikom Smart Thermostat	MMT SWISSCONNECT Smart Watch platform	Samsung SDS Smart Door lock
Smart Home	Wearables	Smart Home	Wearables	Smart Home
nRF52	nRF52	nRF52	nRF51	nRF52

Launched nRF Connect for Cloud



Out of the box cloud connectivity

For Nordic development kits

Evaluation, test, prototyping and development of IoT applications

Complements nRF Connect for desktop and mobile

Hosted cloud service and gateway App

Hosted on Amazon Web Services

nRF Gateway App for iOS and Android

Upcoming support for nRF91

Out of the box and direct cloud connectivity

Enabling innovation by lowering barriers of adoption

Putting the private placement to work

Three key initiative started now in Q2 2018



Expanded test facility in Norway and Finland

- Characterization and production test development
- Shorten time to high volume production



In-house Failure Analysis (FA) lab and capability

- Meet new tier-1 requirements on quality and reliability
- Shorten time to high volume production



Expanded in-house Cellular test labs

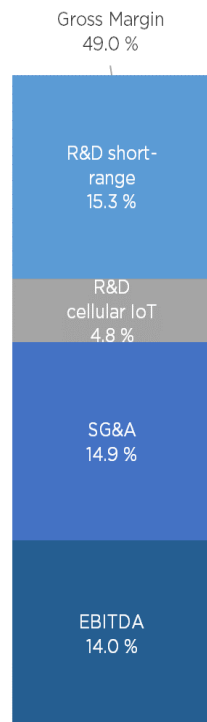
- Accelerate cellular compliance and certification approvals
- Time to market and faster regional roll-out
- Ensure robust and reliable cellular connectivity



Financials

Pål Elstad, CFO

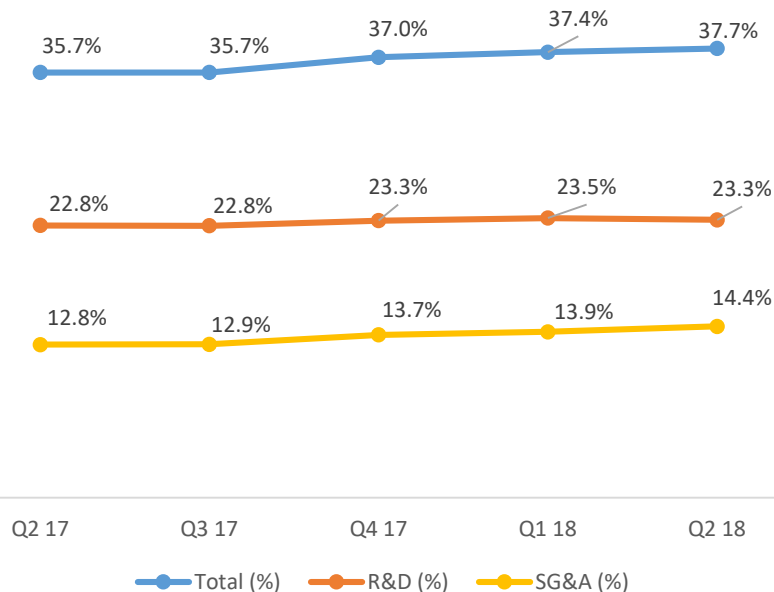
Operating model performance Q2 2018



	Q2 2018	Q2 2017	
Revenue growth y-o-y	+21.3% (MUSD 71.2)	+11.3% (MUSD 58.7)	(+10.0pp) Bluetooth driven growth with robust contribution from non-consumer
Gross margin	49.0%	46.7%	(+2.3pp) Continued positive contribution from cost improvements and favorable customer and product mix
R&D short-range	15.3%	12.3%	(+3.0pp) Expansion in low power short-range IoT
R&D cellular IoT	4.8%	7.7%	(-2.9pp) Started capitalization ahead of first production release
SG&A	14.9%	13.1%	(+1.8pp) Organizational scaling to manage and fuel growth in 2018
EBITDA margin	14.0%	13.6%	(+0.4pp) Revenue growth drives improved EBITDA margins

Trailing average R&D and SG&A spending

Trailing 12-months adjusted OPEX
(% of revenue)



23.3% of revenue on R&D (-0.2pp vs. Q1 2018)

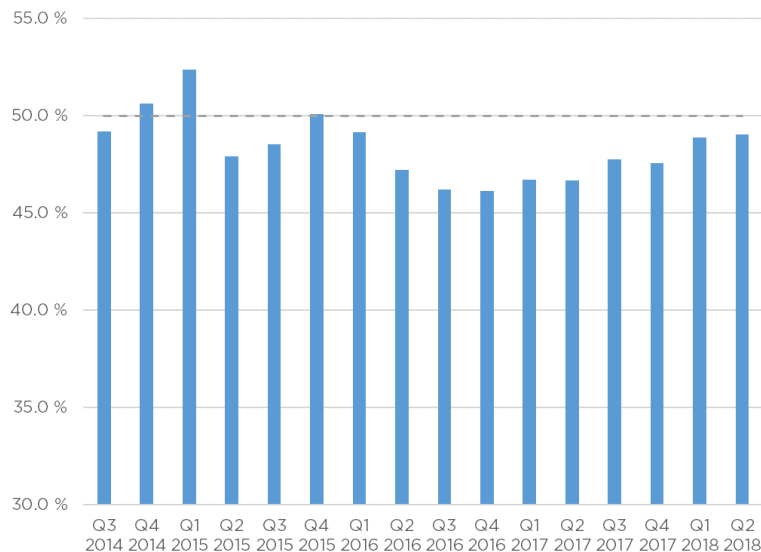
- Industry average R&D spend close to 20%
- Nordic trailing higher due to cellular IoT investment
- Ratio to decrease with revenue contribution from cellular IoT

14.4% of revenue on SG&A (+0.5pp vs Q1 2018)

- Industry average SG&A spend 12-15% for our size
- Scaling sales and supply chain operations to manage and fuel growth

Gross margin expansion

Gross margin 2014 -2018



Gross margin 49.0% **+2.3pp** y-o-y

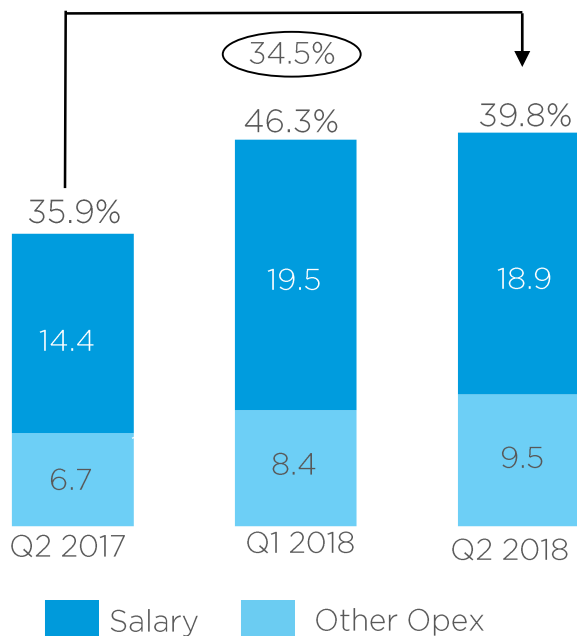
- Continued positive contribution from cost improvements and stable yield on nRF52
- Continued favorable customer and product mix effect during Q2 2018
- Anticipate continued quarter to quarter fluctuation due to product and customer mix

Maintaining 50% target within 2018

- Continued efforts on cost reductions
- Continued diversification of customer base and expanding product offering

Cash Operating Expenses^{*)}

Cash Opex MUSD / % of revenue



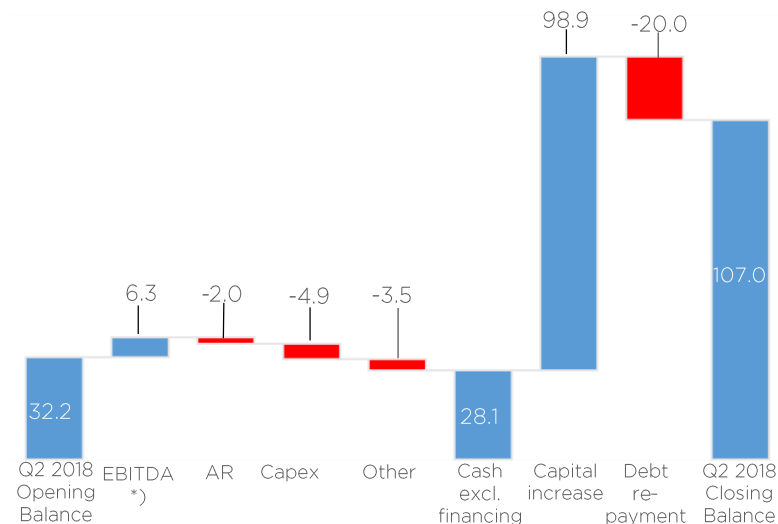
Q2 Opex*

- Q2 cash operating expenses increased 34.5% y-o-y
- The increase is driven by new product releases and headcount growth of 11.5% from 564 in Q2 2017 to 629 in Q2 2018
- Continued cost discipline during the quarter
- Investments to continue in order to capture future growth

^{*)} Operating expenses, excl. capitalized R&D, depreciation and amort. and option expenses

Cash flow

Cash flow Q2 2018



* EBITDA Adjusted for Capitalized Development Costs

Strengthened financial position

- Net cash flow (ex. financing) of MUSD -4.1
- NWC increased by MUSD 4.0. NWC/LTM revenue increased slightly from 26.5% to 26.7%
- Capex of MUSD 5.1 – test equipment for production releases on nRF52 high-end and nRF91

Capital Increase

- Net proceeds of NOK 790 million, or MUSD 98.9
- Excess cash is held in USD to avoid currency fluctuations

Continued disciplined cash strategy

- Tight cash management and optimized cash generating ability



Business outlook

Svenn-Tore Larsen, CEO

Guidance for H2 2018

Revenue

MUSD
150 - 160

Based on current visibility, we anticipate revenue for H2 2018 to be in the range of MUSD 150 to 160, representing a full year 2018 growth of 21% at the mid point.

Bluetooth
growth

30 - 40%

We expect Bluetooth to continue to be the growth driver for 2018. The revenue guidance range is based on 30% to 40% y-o-y growth in Bluetooth revenue.

Gross
margins

48 - 50%

We expect gross margins to be in the upper range of 48 - 50%, our long term target for short-range IoT, and hitting our 50% target in a quarter during H2 2018.

Comments on short term outlook

Backlog

Solid backlog coverage for guidance

MUSD
80.1

+22.7%
y-o-y

-1.1%
q-o-q

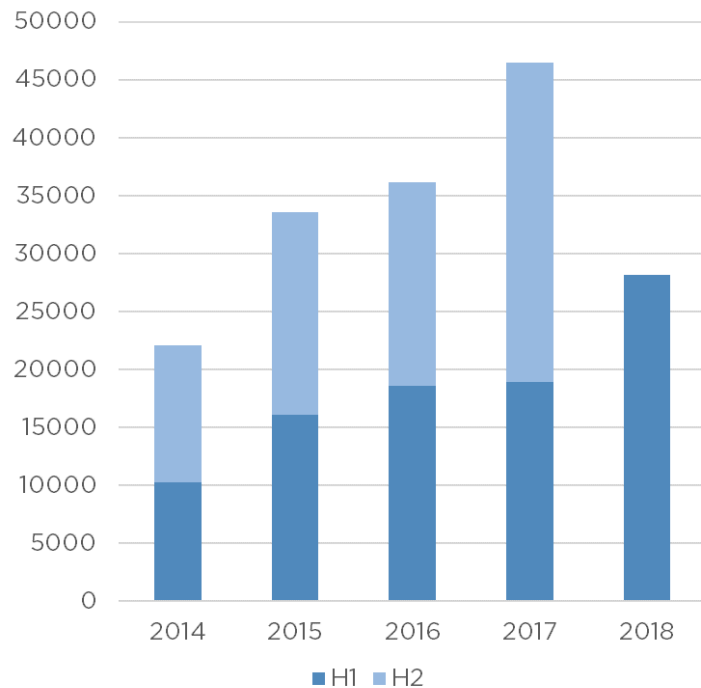
- Healthy distribution over Q3 and Q4 2018
- Backlog indicates a favorable product and customer mix for Q3 2018

H2 2018

Bluetooth driven growth

- Maintaining or continue to capture market shares in Bluetooth
- Growth contribution from nRF52840 and Thread
- Growth contribution from both consumer and non-consumer markets

New all time high kit shipments in H1 2018



New record first half

+ 49% y-o-y for H1 2018

Significant contribution from nRF52840 kits

Leading indicator of market growth

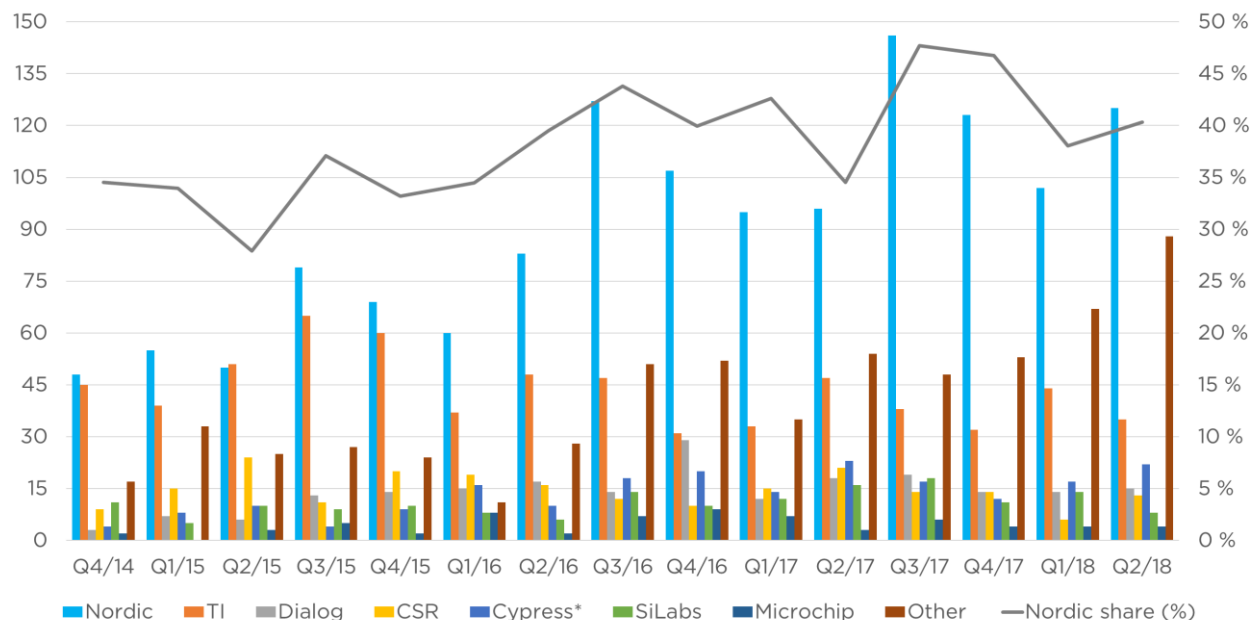
Continued strong diversification

Leading indicator of our position

Attractive and competitive solutions

Leading and broad position in Bluetooth

Bluetooth low energy end-product certifications*



End-product
certifications,
Nordic Q2 18

125

+30%
y-o-y

+23%
q-o-q

Solid progress with cellular IoT



Production silicon in house

Feature complete, power and performance optimized
Testing, characterization and certification in progress

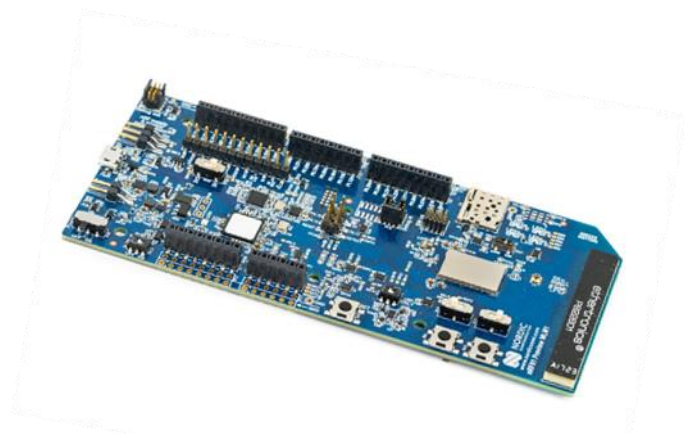
First NB-IoT trials completed

Several networks in Europe
Getting ready for deliveries to lead customers

Speeding ahead of competition

Features and readiness for deployments
Unchallenged on level of integration, power and ease of use

Expanded nRF91 customer sampling



Diversified set of customers
Mix of BIG and FAST

> 30 new lead customers in Q2

Diversified set of customers

Objective is more than 100 for the full year

Demand for first production quantities end-2018

First design win secured

European customers in asset tracking - FAST

Switched from a competing solution

Start of general availability Q4 2018

Priority is to secure design wins with lead customers

Secure volume ramp

First nRF91 cellular IoT design win



Significant milestone

Less than 4 years after project start

Lays the foundation for the upcoming volume ramp

Demonstrates our ability to compete

Power, performance, level of integration and ease of use

Customer reach and trust

Continued momentum into H2 2018

Strong pipeline of opportunities for more design wins

On track with our objectives for cellular IoT

Strategic cooperation with Q-Free



Q-Free smart parking

Reduce time-to-park in urban areas

Traffic, pollution, quality of life

Strategic cooperation on cellular IoT

Nordic nRF91 based NB-IoT solution for parking sensor

Q-Free selected Nordic for continuation of smart parking project

Ultra low power, performance and features

Objective is first deployments end-2019

On-going pilots with license free solution

Strong interest and support from operators on cellular solution

On track for a strong 2018

H1 2018

Met and exceeded the provided guidance ranges

- Revenue up **+23.9%** y-o-y driven by **+50.2%** y-o-y growth in Bluetooth
- **+0.6pp** EBITDA margin y-o-y with **+31.1%** growth in EBITDA y-o-y due to gross margin expansion of **+2.3pp** y-o-y and cost discipline.

Full year outlook for 2018

Continued growth and on track to meet our objectives

- Implied full year revenue growth of **+21%** y-o-y at guidance mid-point
- On track to meet profitability improvement
- Expanded nRF91 lead customer sampling program with visibility on volume demand end-2018
- Continued design win momentum on Bluetooth and design wins on cellular IoT

A scenic landscape of a fjord with steep, forested mountains and a small village reflected in the water. The sky is blue with scattered white clouds. The water is calm, acting as a perfect mirror for the surrounding scenery. The mountains are covered in dense green forests, with some rocky outcrops visible. A small village with a few buildings is nestled at the base of the mountains on the right side. The overall atmosphere is peaceful and majestic.

Q&A

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This presentation was prepared for the interim results presentation for the second quarter, held on July 12, 2018. Information contained herein will not be updated. The following slides should also be read and considered in connection with the information given orally during the presentation.

A wide-angle landscape photograph of a Norwegian fjord. The scene is dominated by steep, rugged mountains covered in dense green forest. A prominent waterfall cascades down a rocky cliff face on the right side of the image. The fjord's water is a deep, clear blue, reflecting the sky and the surrounding greenery. In the distance, more mountain peaks are visible, some with patches of snow or ice. The sky is bright blue with scattered white clouds. The overall atmosphere is serene and majestic.

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