

# Quarterly Presentation Q2 2019

July 11, 2019 (Oslo, Norway)



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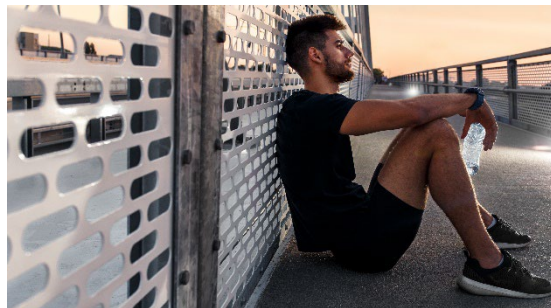
# Today's presentation

## Business update



Svenn-Tore Larsen  
CEO

## Financials



Pål Elstad  
CFO

## Business outlook



Svenn-Tore Larsen  
CEO



# Business update

Svenn-Tore Larsen, CEO



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## Q2 Highlights

- Increased Tier 1 contribution in revenue and backlog
- Nordic Bluetooth design certifications grew by 21% from 125 in Q2 2018 to 151 in Q2 2019, with Nordic market share of 43%
- Major design wins reported during the quarter
- Record high backlog driven by new design wins with Tier 1 customers globally
- Strong gross margin as a result of investments in supply chain
- June production release of cellular IoT products and software
- Managed channel inventory to adapt to market uncertainty

# Quarter in line with guidance

Total revenue of MUSD

# 70.5

Y-o-Y decrease of 0.9%

- Bluetooth: 7.1% y-o-y increase
  - 50.1% q-o-q increase
  - Revenue impacted by continued market uncertainty
  - Maintaining market share
- Proprietary: -25.6% y-o-y decline due to inventory adjustments and weaker non-pc market
- Cellular IoT samples revenue of KUSD 200
- Solid backlog of MUSD 112.0, +39.8% y-o-y

Gross Margin

# 51.2%

Gross margin expansion +2.2 p.p y-o-y

- Represents a 4 year high
- Higher value nRF52 Series devices continues to be the main revenue driver
- EBITDA\* at MUSD 9.8 (MUSD 10.0 in Q2 2018)
  - Adjusted short-range EBITDA of MUSD 15.3, which is a record high margin of 21.8%

\*includes IFRS 16 Leasing adjustment of MUSD 1

A man with a beard and short brown hair, wearing a black t-shirt and black shorts, is sitting on a metal bridge railing. He is looking off to the side, away from the camera. The railing has a distinctive pattern of oval-shaped cutouts. In the background, a city skyline is visible under a warm, orange-hued sky, suggesting sunset or sunrise. The man is holding a clear plastic water bottle in his left hand.

# Financials

Pål Elstad, CFO



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# Operating model performance Q2 2019

	Q2 2019*	Q2 2018	
Gross Margin 51.2%			
R&D short-range 15.9 %	Revenue change y-o-y	-0.9% (MUSD 70.5)	+21.3% (MUSD 71.2) Revenue within guidance in challenging market
R&D cellular IoT 7.9 %	Gross margin	51.2%	49.0% (+2.2pp) Continued positive contribution from cost improvements and favorable customer and product mix
SG&A 13.5 %	R&D short-range	15.9% (MUSD 11.2)	15.3% (MUSD 10.9) (+0.6pp) Continued investments to capture growth opportunities
EBITDA 13.9 %	R&D cellular IoT	7.9% (MUSD 5.6)	4.8% (MUSD 3.4) (+3.1pp) Increased spending during commercialization stage
	SG&A	13.5% (MUSD 9.5)	14.9% (MUSD 10.6) (-1.4pp) Maintaining cost focus
	EBITDA margin	13.9%	14.0% (-0.1pp) EBITDA margin stable

\*Included in SG&A MUSD 1 in reduced opex following implementation of IFRS 16

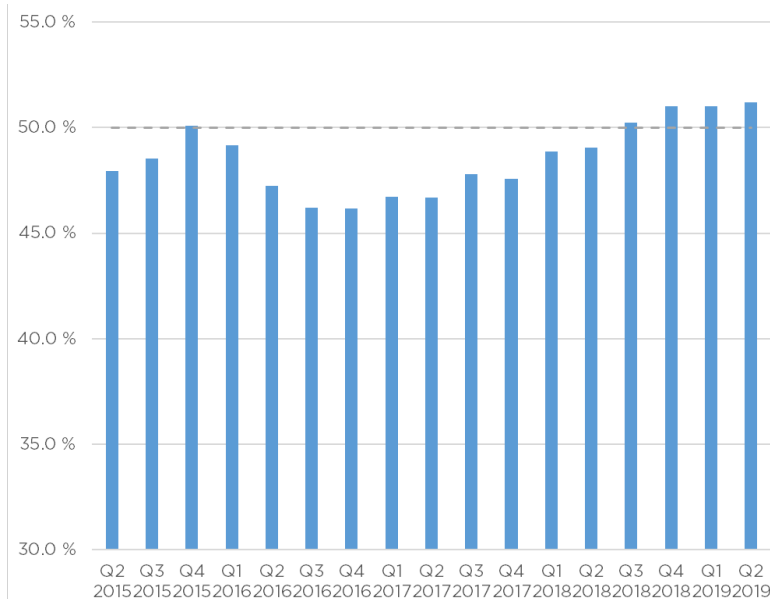
# Revenue by market\*

Consumer Electronics	Wearables	Building /Retail	Healthcare	Others
MUSD 27.3	MUSD 12.7	MUSD 12.9	MUSD 5.4	MUSD 10.3
-3.4% y-o-y	+7.3% y-o-y	-6.0% y-o-y	+1.5% y-o-y	+2.3% y-o-y
+29.2% q-o-q	+66.7% q-o-q	+60.7% q-o-q	+27.3% q-o-q	+17.6% q-o-q

\*Excluding ASIC's, consulting and other revenue

# Fourth consecutive quarter above target

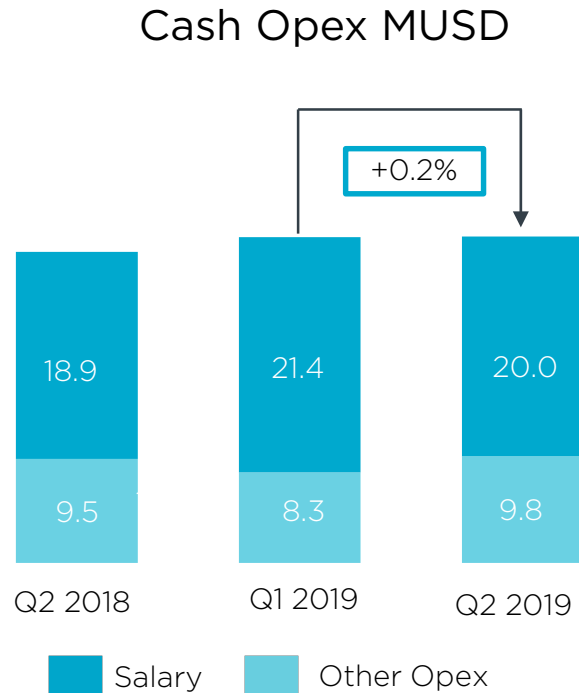
## Gross margin 2015 -2019



## Gross margin 51.2% +2.2pp y-o-y

- Continued positive contribution from cost improvements and stable yield on nRF52 Series
- Increased revenue on high end products
- Quarter to quarter fluctuations to be anticipated due to change in product and customer mix

# Cash operating expenses<sup>\*)</sup>

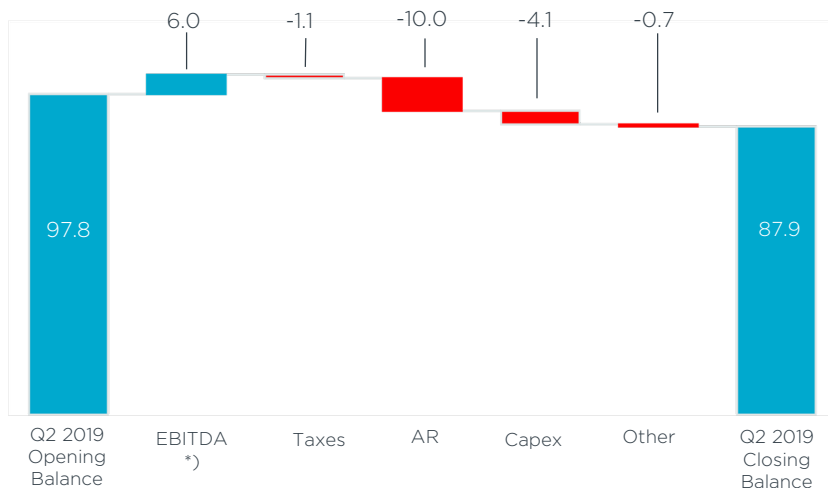


- Continued cost discipline during the quarter
- Q2 cash operating expenses increased 0.2% compared to last quarter
- Compared to last year, cash operating expenses increased 4.9%
- The increase is driven by new product releases and headcount growth of 14.0% from 629 in Q2 2018 to 717 in Q2 2019
- Continued investments to capture future growth

<sup>\*)</sup> Operating expenses, excl. capitalized R&D, depreciation and amort. and option expenses

# Maintaining cash

## Cash flow Q2 2019



## Seasonal Cash outflow during the quarter

- MUSD 10 in cash outflow during Q2 2019
- Driven by increase accounts receivables
- NWC/LTM at 25.6% (21.9% in Q1 2019), down 1.1 p.p. y-o-y
- Capex of MUSD 4.1 – test equipment for production releases on high-end nRF52 and nRF91 Series.

## Continued disciplined cash strategy

- Tight cash management and optimized cash generating ability

\* EBITDA Adjusted for Capitalized Development Costs

A woman with dark hair, wearing a white headband with black polka dots, sunglasses, and an orange and white vertically striped short-sleeved shirt, is looking down at a smartphone in her hands. She is standing on a stone pier or walkway. In the background, there is a harbor with several small boats, including a blue and white one and a brown one. A parking lot with many cars is visible in the distance behind a stone wall.

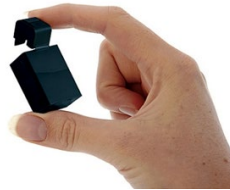
# Business outlook

Svenn-Tore Larsen, CEO



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# New Nordic powered products



Logitech  
G703 Lightspeed

Sikom  
Zigbee Thermostat

Vutility  
Energy measurement

Next Century  
Submeter

Braveridge  
GPS Tracker

Wireless Gaming  
Mouse

Smart Home

Smart Home

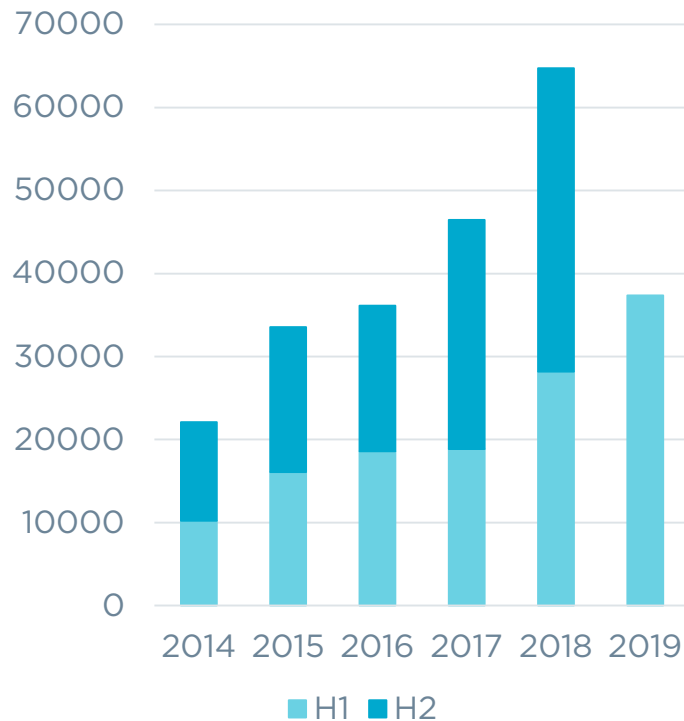
Meter Reading

Asset Tracking

Short-range  
nRF52 Series

Short- & long-range  
nRF52 & nRF91 Series

# Close to 40k kits shipped in H1 2019



## Yet another record half year

+ 33% y-o-y for H1 2019

Significant contribution from nRF52840 kits

nRF91 Kits at 2 700 during 1H

## Leading indicator of market growth

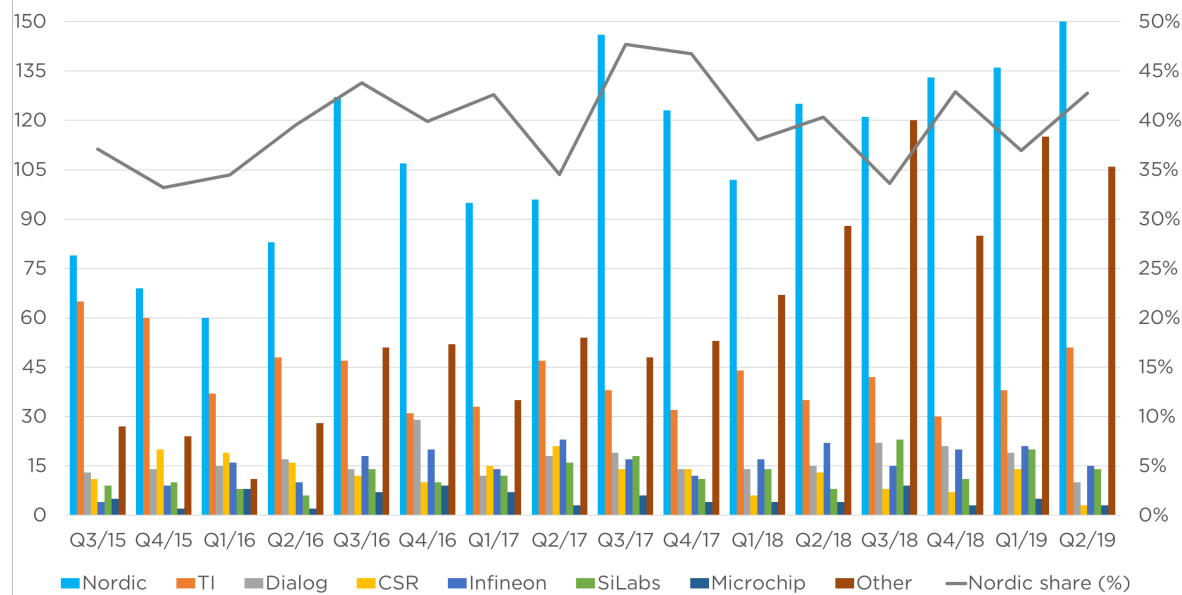
Continued strong diversification

## Leading indicator of our position

Attractive and competitive solutions

# Record quarter for Nordic Certifications

## Bluetooth Low Energy end-product certifications\*



End-product  
certifications,  
Nordic Q2 19

151

+21%  
y-o-y

+11%  
q-o-q

\*Source: DNB Markets

# Commercial Asset Tracking Applications

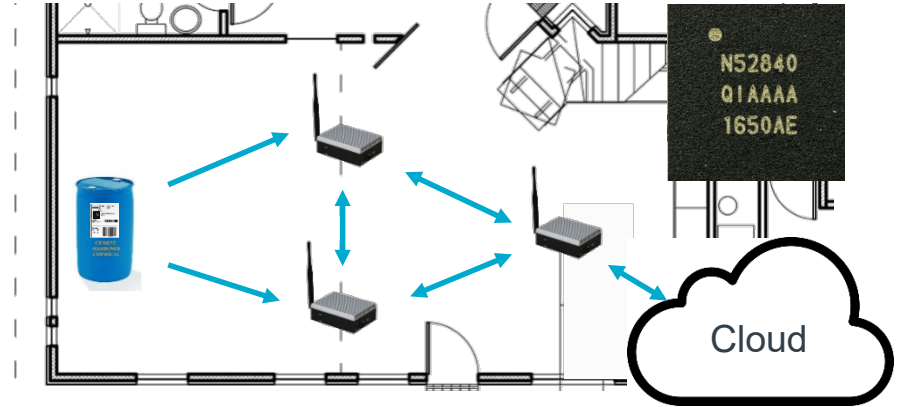
## Tags:

- Smarter assets
- Sensor monitoring (temperature, light, moisture)
- Safety, inventory, and security



## Tracking Gateways:

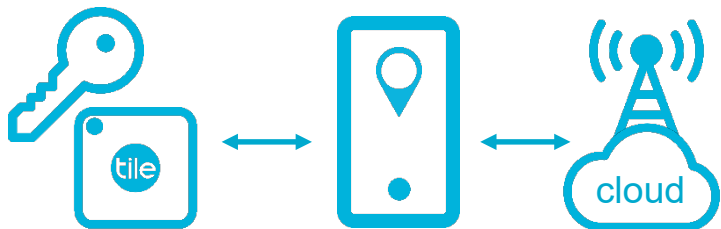
- Indoor location tracking
- May support mesh protocols (Bluetooth, Zigbee, Thread)
- Triangulation technologies
- Potential backbone to Cloud using nRF9160



# Stand Alone Asset Tracking Applications

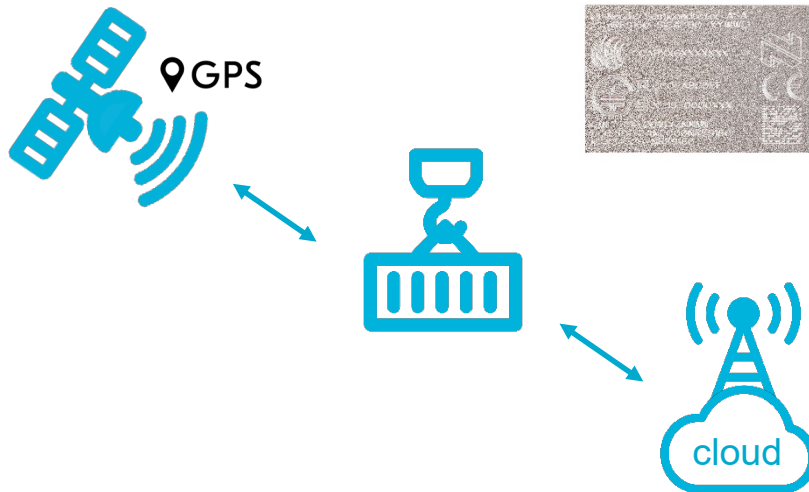
## nRF52xxx BLE Tracker:

- Long battery life
- Crowd / Community network
- Last known location reporting



## nRF9160 Cellular GPS Tracker:

- Containers, Pets, Livestock etc.
- Direct cellular connection with 2-way communication
- GPS location



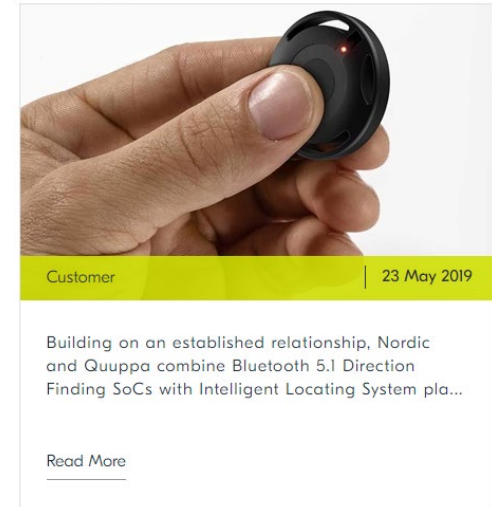
# Asset Tracking Press Releases



Tile Platform Win  
with SDK support

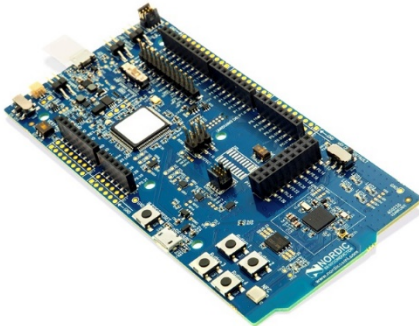


H&D Wireless  
nRF52840 + nRF9160



Quuppa Design Partnership

# Qualified Amazon FreeRTOS for nRF52840 available now



- The nRF52840 SoC and the nRF52840 development kit are now qualified platforms for working with Amazon FreeRTOS using Bluetooth Low Energy.
- Connectivity is based on Nordic Semiconductor's S140 SoftDevice, a high-performance protocol stack offering up to 20 simultaneous connections and full Bluetooth 5 support.
  - › The S140 is RTOS agnostic and easily integrates with Amazon FreeRTOS.
- The Amazon FreeRTOS SDK integrates software from the Nordic nRF5 SDK for specific device drivers and feature support for peripherals and management of memory.

<https://aws.amazon.com/freertos/>  
[https://docs.aws.amazon.com/freertos/latest/userguide/getting\\_started\\_nordic.html](https://docs.aws.amazon.com/freertos/latest/userguide/getting_started_nordic.html)

# nRF9160 Production Status

Hardware	Supported features	Dec 12 <sup>th</sup> , 2018	May	June
nRF9160-SICA	LTE-M/NB-IoT/GPS	Public Sampling of HW and LTE-M SW	Production of HW. Public sampling of GPS and NB-IoT SW	LTE-M, NB-IoT, GPS SW production
nRF9160-SIBA	LTE-M		Production of HW	
nRF9160-SIAA	NB-IoT		Public sampling of NB-IoT SW	Production



# Certifications in place for both LTE-M and NB-IOT

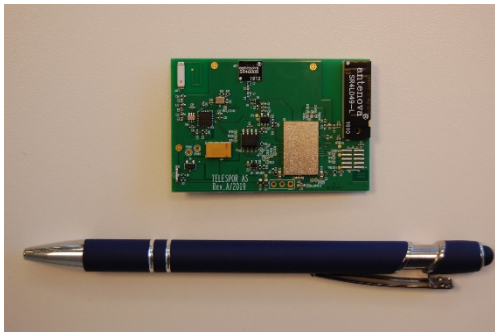
GCF,PTCRB, CE, FCC, ISED	✓
Singapore, Australia, Japan, Taiwan, New Zealand, South Korea*, Japan*	✓
Verizon	July

## Supported LTE Bands:

- LTE-M: 1,2,3,4,5,8,12,13,14,17,18,19,20,25,26,28,66
- NB-IOT: 1,2,3,4,5,8,12,13,17,19,20,25,26,28,66



# nRF9160 design-in with Telespor



## Radiobjella – product for livestock monitoring

- Reports GPS position at predefined intervals
- Tagging individual animals
- Two-way to configure device remotely or set alarms – no movement etc.
- Helps farmers fulfill legal requirement for livestock monitoring and wellbeing

# Guidance Q3 2019

Revenue

MUSD  
78-83

Continued market uncertainty resulted in low growth rates in Q2 2019, although we achieved a 7.1% growth in Bluetooth. Uncertainty in the market is expected to continue in Q3 2019. Based on the current backlog, guidance for Q3 2019 revenue is MUSD 78-83

Gross  
margin

~50%

Continued strong gross margin

Other

Capex  
MUSD 4-5

Increased capex related to investments in lab equipment to secure future growth in cellular IoT and Tier 1 customers' requirements transferred partly from Q2

# Capital Markets Day

- Nordic Semiconductor will host a capital markets day following the Q3 2019 quarterly presentation on October 22, 2019
- The event will include presentations by top management focusing on:
  - Deep dive into sales model and go to market strategy for both short-range and long-range
  - Detailed update on progress with long-range business (e.g. certifications, services, etc.)
  - Technology / R&D roadmap
- Further details will be provided during September

# Q&A



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