

*wireless living ....*



## Q3 2011 Investor Presentation

Svenn-Tore Larsen, CEO  
Robert Giori, CFO

October 20, 2011

# Solid growth in challenging economic environment

**Strong business performance despite cyclical downturn in PC peripherals segment. Other (non-PC) product categories have 64% annual revenue growth.**

- Revenue of MUSD 37.9 (MUSD 35.0)
- Order inflows of MUSD 24.5 (MUSD 10.4)
- Operating profit (EBIT) of MUSD 8.7 (MUSD 7.7)
- Cash flow from operations of MUSD 5.6 (MUSD 11.4)

**Business Outlook: Market opportunity and financial outlook has been strengthened by recent product announcements in Bluetooth / Bluetooth low energy**

- Bluetooth version 4.0 has gained significant momentum, creating new market opportunities within *Bluetooth* low energy technology
  - Apple has implemented Bluetooth 4.0 in MacBook and iPhone 4S products. iOS 5 (operating system for iPhones and iPads) includes native support for Bluetooth 4.0.
  - Microsoft has announced that Windows 8 will provide native support for Bluetooth 4.0
  - Sony, Samsung and Panasonic announce their collaboration on a new technology standardization for active 3D TV glasses with Bluetooth technology
- Nordic Semi continues to gain traction in the emerging *Bluetooth* low energy market through product designs with key consumer electronics and wireless semiconductor vendors

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# FINANCIAL HIGHLIGHTS

Robert Giori, CFO

# Q3 2011 Financial Highlights (MUSD)

## MUSD

### Financial objectives

**Q3 2011**

**Q3 2010**

**Comments**

### **Growth**

Revenue	37,9	35,0	Strong growth outside of PC peripherals
Order Inflow	24,5	10,4	Order backlog of MUSD 30

### **Profitability**

Gross Margin %	48 %	45 %	Higher margin segment / product mix
Operating Profit (EBIT)	8,7	7,7	
EBIT Margin %	23 %	22 %	
Net Profit after tax	7,2	6,3	

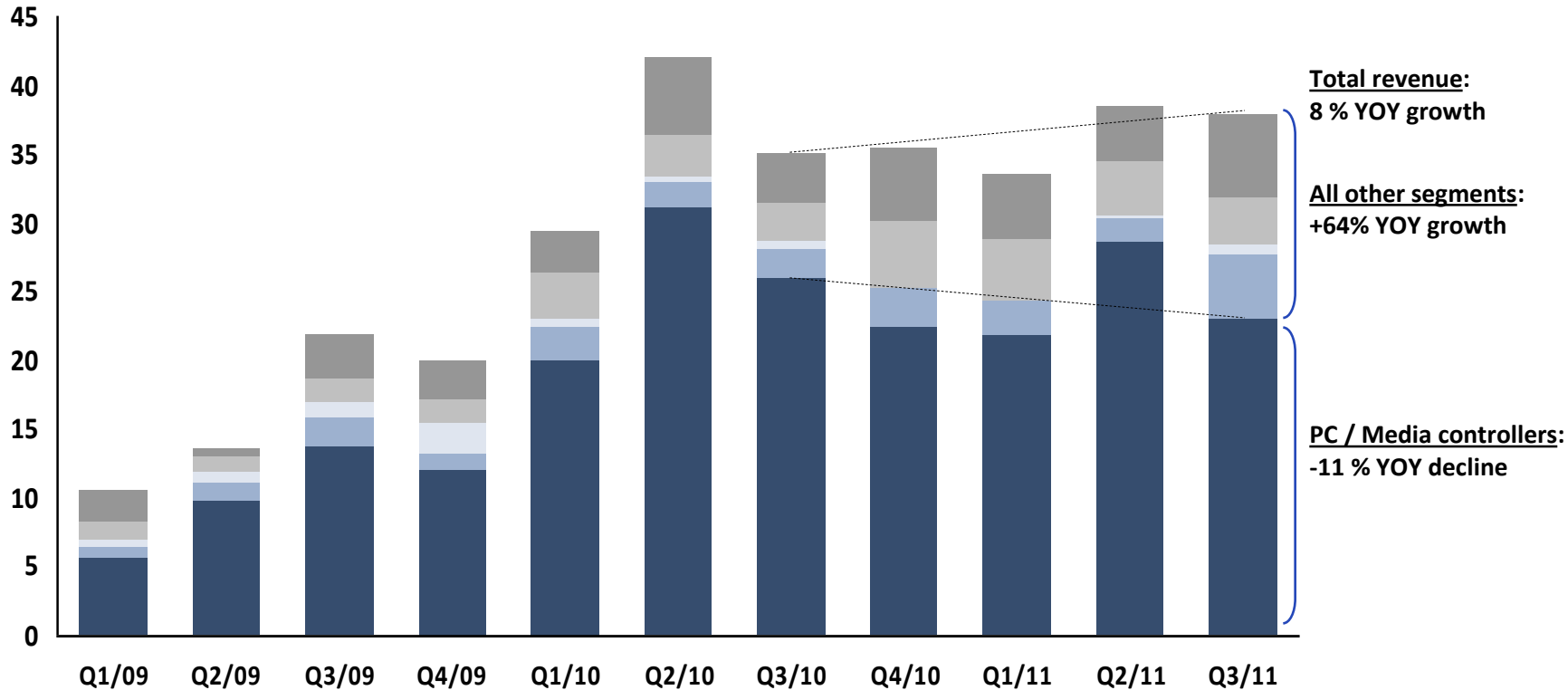
### **Cash Flow**

Free Cash Flow	5,3	10,6	
Cash Balance	13,1	29,6	Share buyback + dividend payment of MUSD 17
Accounts Receivable	37,2	23,0	MUSD 7 collected on day following quarter end
Inventory	25,2	16,1	Gradual reduction of inventory from Q2

# Group Revenues

- Q3 2011 Revenue of MUS\$ 37.9 (8% annual growth)
  - Decline in PC / Media controller segment (-11% YOY), due to economic conditions and a resulting inventory correction in sales channels
  - Very strong growth in all other segments (64% YOY growth)

Segment revenue by quarter 2009 – Q3 2011 (MUS\$)



# Growth driven by new product releases

## PC / Media controllers

Wireless PC mouse / keyboard,  
Media center remote control,  
Game controller

Q3 Revenue: MUSD 23.0 (MUSD 25.9)

- *PC Peripherals:* Slowdown in PC market has impacted revenue. Still strong growth potential with replacement of wired input devices
- *Media remotes:* New market for remote controls for connected TV's based on mouse/keyboard designs
- *Game controller:* Designs for new interactive controllers currently under development



## Sports / Health monitors

Heart monitors, foot pods, watches

Q3 Revenue: MUSD 4.6 (MUSD 2.1)

- Strong growth based on new fitness product launches and high seasonal shipments

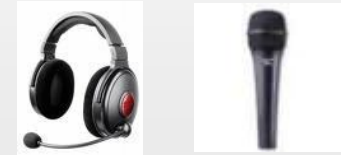


## Audio devices

Wireless audio streaming,  
microphones, gaming headsets

Q3 Revenue: MUSD 0.8 (MUSD 0.6)

- Seasonal shipments of audio chips for wireless gaming headsets



## Other applications

RFID, Toys, etc.

Q3 Revenue: MUSD 3.3 (MUSD 2.8)

- New wireless toy designs drive segment growth



## ASIC components / consulting

Wide sector span

Q3 Revenue: MUSD 6.1 (MUSD 3.6)

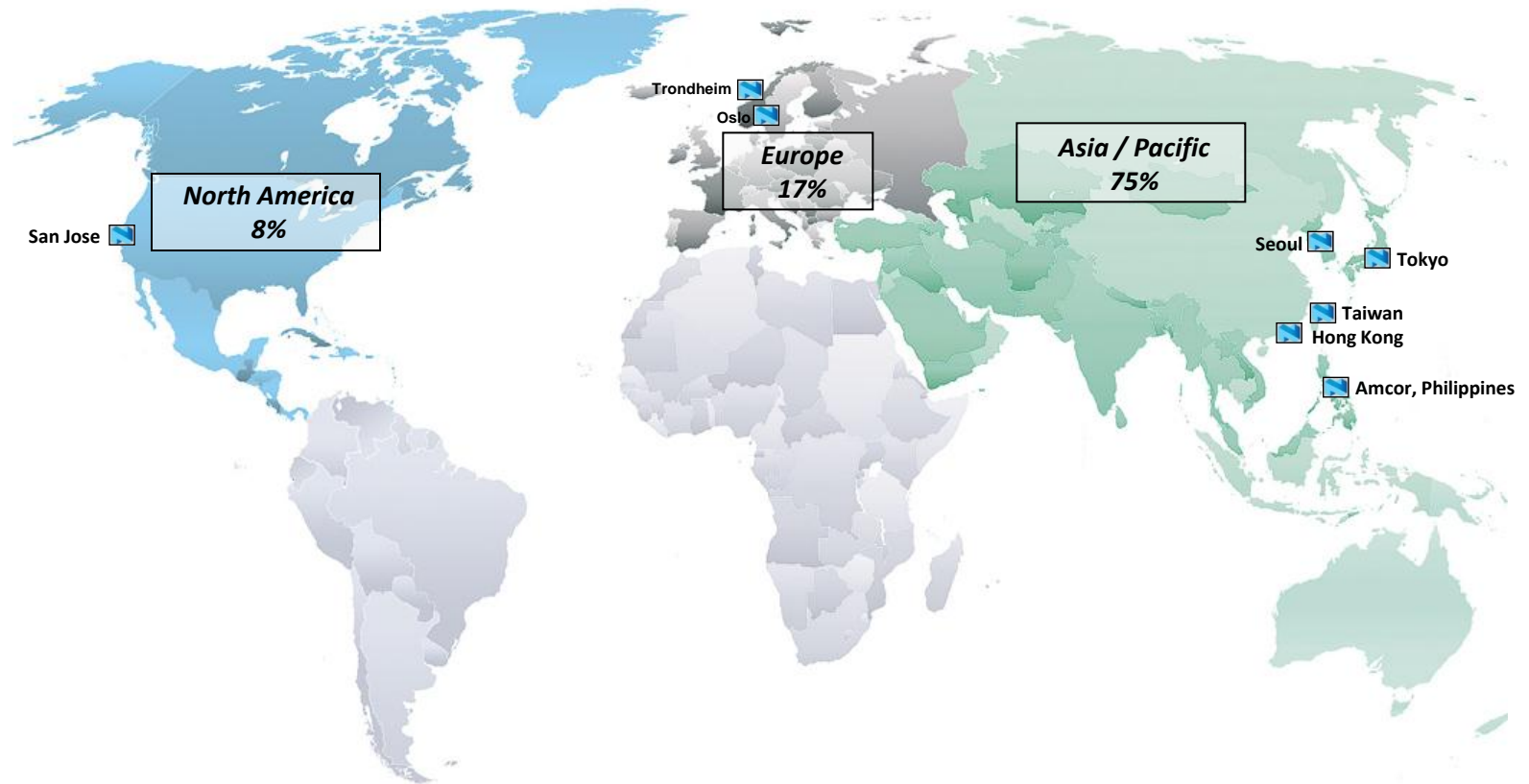
- Recent product release with a Nordic ASIC design driving revenues



# Revenue mix

- 75% of revenues are to Asian distributors
  - Many component units are sold through distribution to Asian OEM's for manufacture and export of devices to North America / Europe

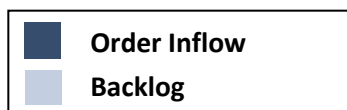
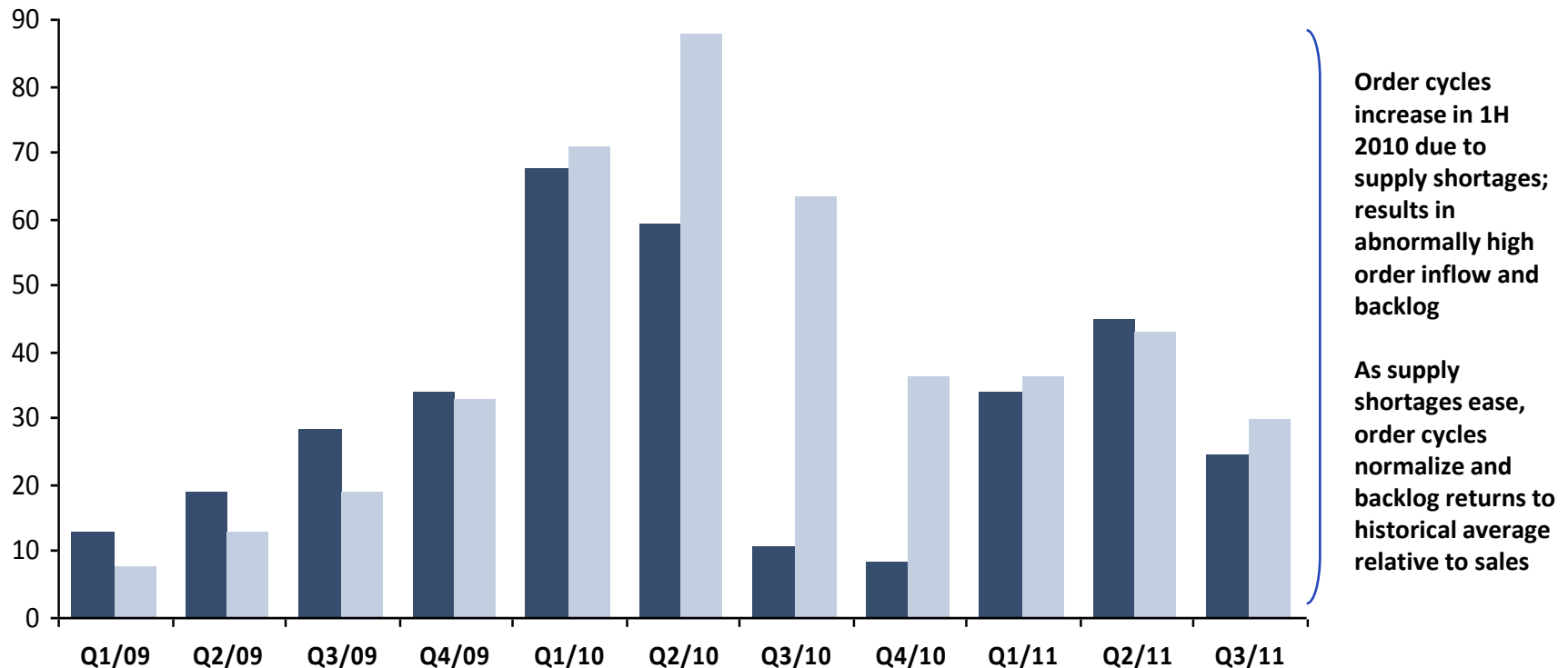
Revenue breakdown by region



# Order inflow / order backlog

- **Order inflow of MUSD 24**
  - Higher proportion of small orders, due to growth of non-PC peripheral segments
- **Order backlog of MUSD 30, primarily for delivery in Q4 2011**
  - Continued short order cycle, as sales channels respond to economic outlook

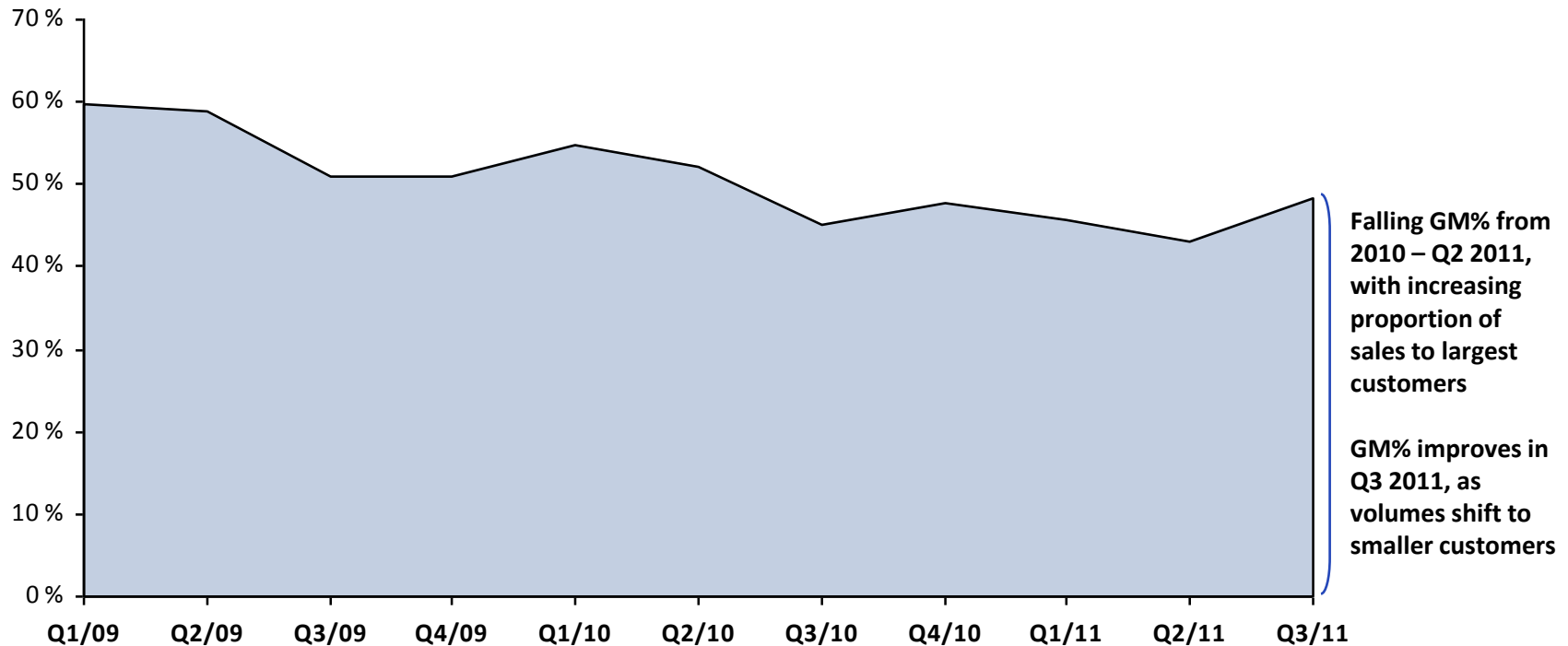
Order Inflow and Backlog 2009 – Q3 2011 (MUSD)



# Gross Margin

- **Gross margin of 48 %**
  - Change in business segment mix leads to improvement in gross margins during Q3 2011, as volumes shift toward smaller customers
  - Production costs set to fall in coming quarters, as manufacturing process improvements impact costs of current inventories.

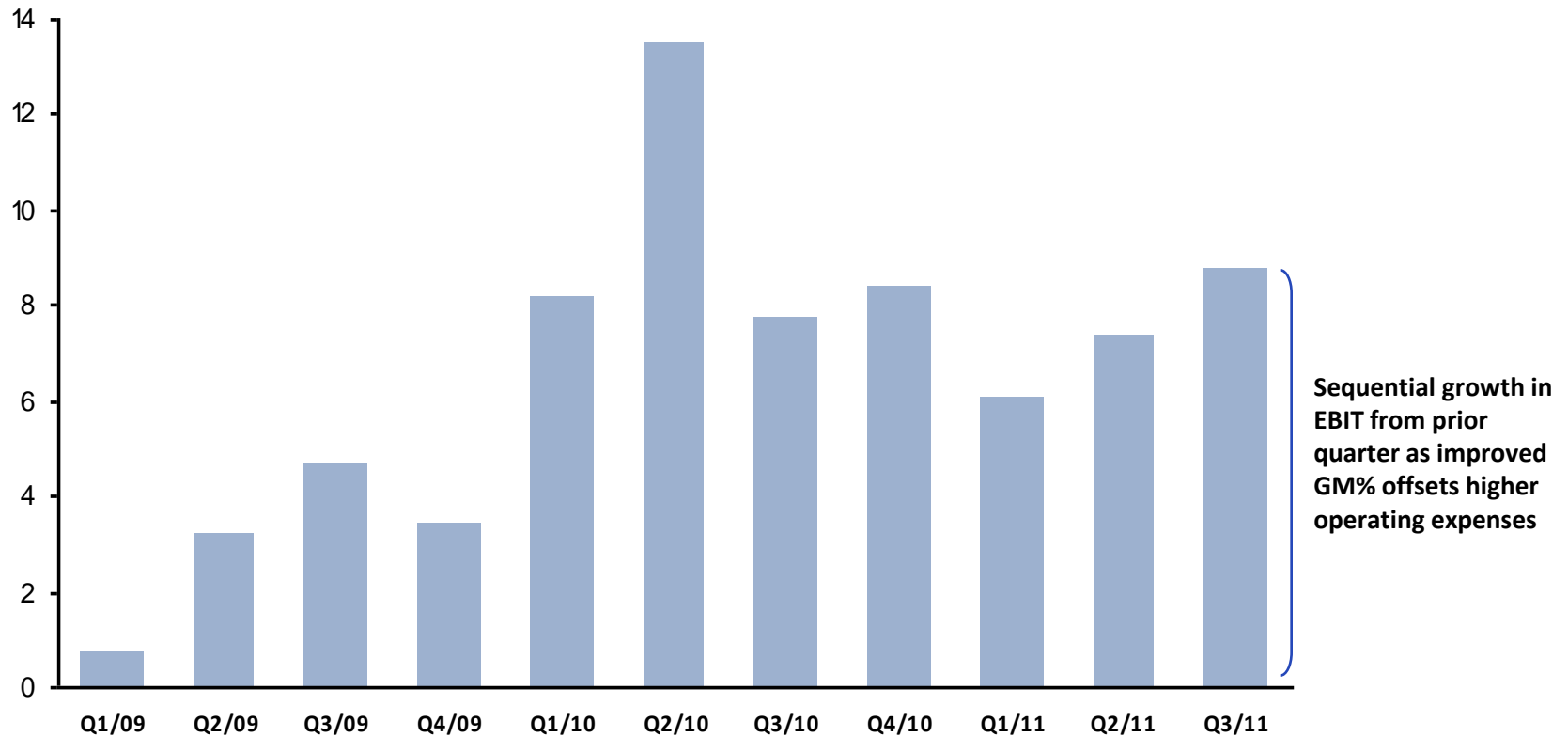
Gross Margin % of revenue 2009 – Q3 2011



# Operating Profit

- **Operating profit (EBIT) of MUSD 8.7 (23 % EBIT margin)**
  - Revenue growth and improvement in gross margins drive 13% increase in EBIT from Q3 2010.

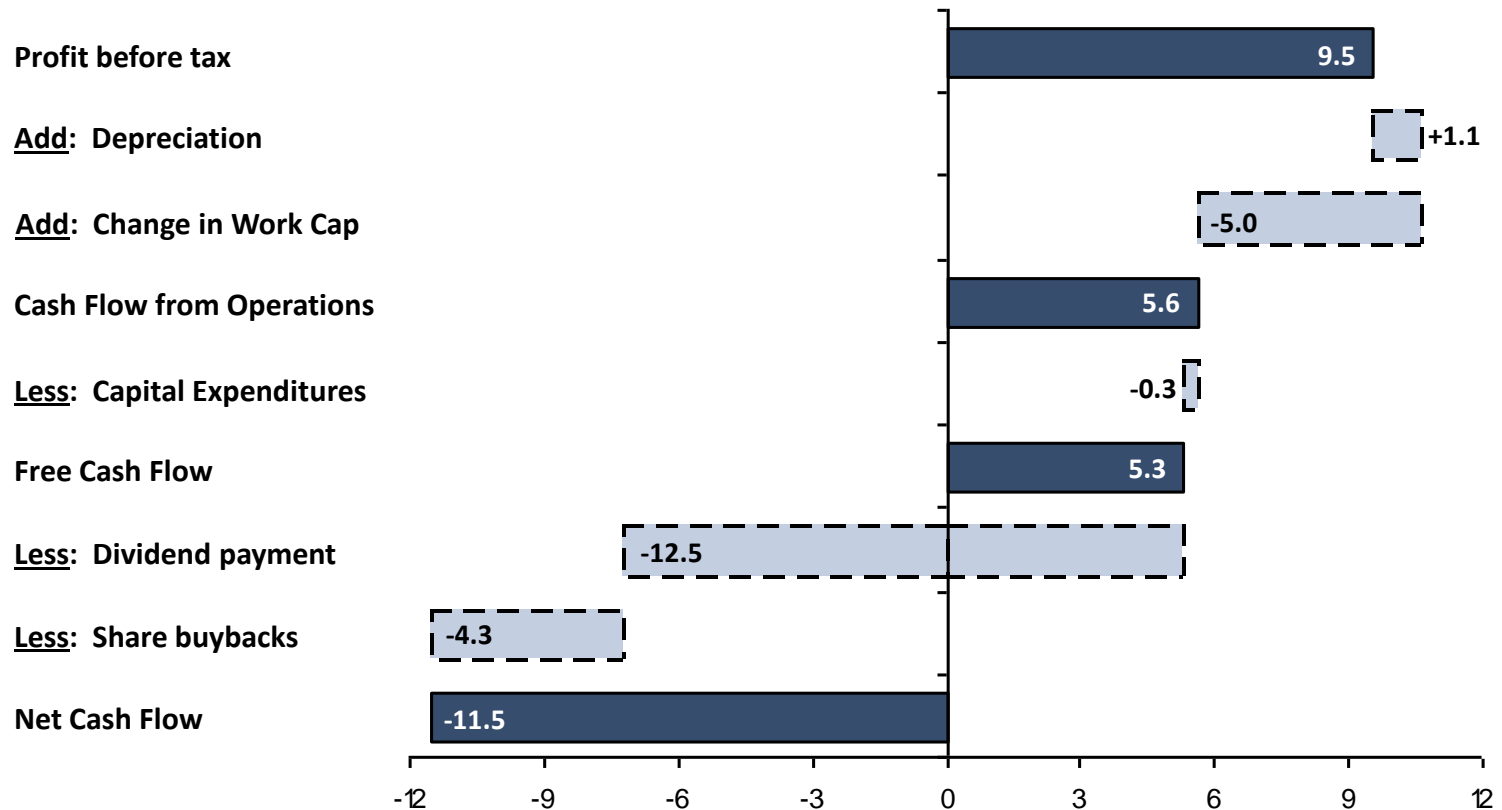
Operating Profit by quarter 2009 – Q3 2011 (MUSD)



# Cash Flow

- Free cash flow of MUSD 5.3, with MUSD 7.0 collected on day following quarter-end (delay due to temporary office closure at largest distributor).
- MUSD 16.8 paid in dividends and share buybacks during quarter

Cash Flow Breakdown Q3 2011 (MUSD)



# Q3 2011 Financial summary

## Solid financial performance despite challenging economic environment

**Revenue growth**

**Profitability**

**Cash Flow**

- Group revenue of MUSD 37.9 (MUSD 35.0)
  - Cyclical decline in wireless PC peripheral demand offset by +64% YOY growth in other product categories
- Order inflow of MUSD 24.5 (MUSD 10.4)
  - Change in segment / product mix leads to higher proportion of smaller orders
  - Order backlog of MUSD 29.6
- EBIT of MUSD 8.7 (MUSD 7.7)
  - Improved revenue and gross margin, due to growth of business outside of PC peripherals category
  - Offsets higher operating expenses from growth of R&D team
- Free Cash Flow of MUSD 5.3 (MUSD 10.6)
  - MUSD 7.0 collected on day following quarter-end
  - Low capital expenditures and falling inventory balance

# Financial outlook

## 2011 Outlook

- **Maintain financial expectations communicated on August 23.**  
**2011 revenue of approximately MUSD 140, and EBIT margin of 17-18%.**
  - Slowdown in overall economic environment will continue to negatively impact business performance, as sales channels (including distributors, manufacturers and retailers) adjust their inventories to reflect market uncertainty and new consumer demand levels
  - Financial expectations supported by order backlog of MUSD 30, primarily for Q4 delivery. High proportion of smaller orders expected, as largest customers reduce inventories.

## 2012 Outlook

- **Robust sales growth forecast, as inventory correction is finished, cyclical demand for consumer electronics recovers, and new wireless categories emerge**
  - Wireless mice/keyboard market is expected to recover, with improved PC market growth (particularly in developing countries and in business market) and increased penetration of wireless peripherals among PC buyers
  - Significant topline growth and contribution from new wireless categories, with adoption of *Bluetooth* low energy technology
    - PC peripherals: Proximity sensors for PC security
    - Home media centers: RF remote controls and other peripherals
    - Mobile devices: fitness/health and other sensors linked to mobile phone

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## **BUSINESS OVERVIEW**

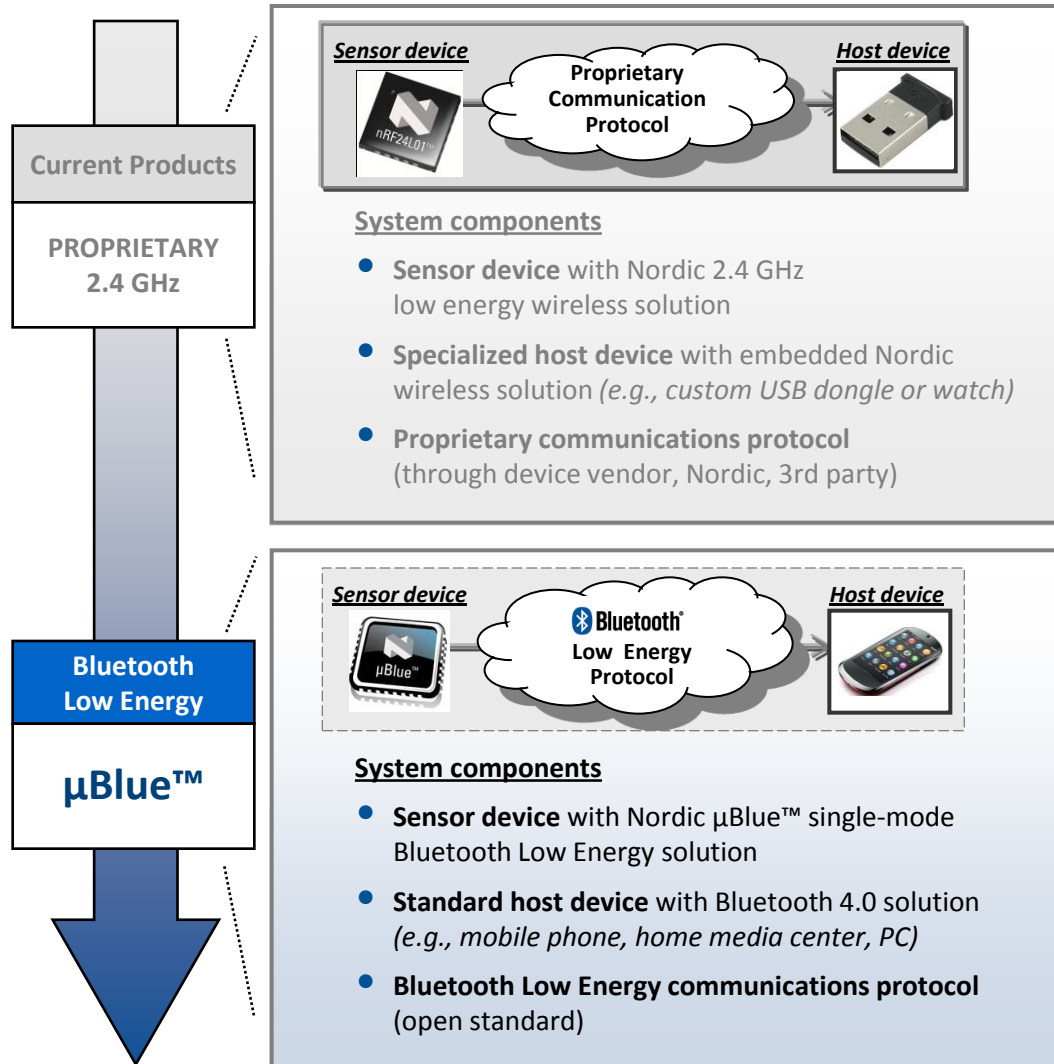
Svenn-Tore Larsen, CEO

# Business outlook is strengthened by recent developments

## Support for *Bluetooth* low energy is building, with Nordic well-positioned to benefit

- **The market opportunity within ultra-low power wireless technologies will be transformed by the adoption of *Bluetooth* low energy.**
  - Nordic's ultra-low power wireless components will be able to communicate directly with Mobile handsets, PC's and TV's / set top boxes which incorporate the Bluetooth 4.0 standard (latest version of Bluetooth), creating vast new market opportunities
- **During the last few months, there have been many announcements by major hardware and software vendors supporting the development of *Bluetooth* low energy technology**
  - *Apple introduces Bluetooth 4.0 in its new MacBook and iPhone 4S product lines*
  - *Microsoft announces native support for Bluetooth 4.0 built into Windows 8*
  - *Sony, Samsung and Panasonic announce their collaboration on a new technology standardization for active 3D TV glasses with Bluetooth technology*
  - *Many other products currently in pipeline*
- **Nordic Semi continues to gain traction in the emerging *Bluetooth* low energy market through product designs with major consumer electronics and wireless semiconductor vendors**
  - Nordic has been a key participant in developing the *Bluetooth* low energy wireless standard
  - Nordic is the market leader within ultra-low power wireless technology, and brings existing advantages in power consumption, performance, market awareness and cost to the *Bluetooth* low energy standard

# Bluetooth low energy opens vast new market opportunities



## Proprietary 2.4 GHz

- Enables communication only between specialized devices containing a Nordic transceiver (*e.g., PC mouse and USB dongle*)

## Bluetooth low energy

- New standard released in 2010
- Enables ultra-low power communication with any Bluetooth 4.0 host device (*mobile phones, PC's, TV's*)
- Dramatically expands the addressable market opportunity
- Nordic has been closely involved in the development of the standard

# Technology leadership in Bluetooth low energy

**nRF 8001**: Nordic's first product in its  $\mu$ Blue™ *Bluetooth* low energy product line

## Competitive advantages

- **Lowest power consumption**

- Peak current as low as 12.5 mA
- Average current as low as 12  $\mu$ A for one second connection interval
- Significantly lower power consumption than nearest competitive solutions

- **Ease of adoption**

- Fully qualified *Bluetooth* low energy solution
- Simple serial interface for external microcontrollers of a designer's own choosing
- Provides flexibility and ease of design based on product requirements

- **Low cost BOM**

- Features a unique high precision 32 kHz on-chip RC oscillator for timing eliminating the need for costly external 32 kHz crystals



# Market growth will shift to new connectivity hubs

<u>Connectivity “hub”</u>	<u>2.4 GHz LP Mass adoption*</u>	<u>Examples</u>	<u>Annual Sales, “hub” devices</u>
PC	2008	Desktop, notebook PC, tablets	350M+
Home media center	2012+	TVs, Set-top boxes, home media players, game consoles	500M+
Mobile devices	2013+	Mobile handsets, MP3 players, other portables	1,500M+
Sensor network	2015+	Autos, homes, buildings, appliances, toll roads, transport systems, many others...	N/A

•Note: Home entertainment mass adoption refers to connected TV’s.  
Mass adoption of 2.4 GHz LP technology in game consoles took place in 2005-6.

# Market opportunities with *Bluetooth* low energy

## Many ultra-low power peripheral opportunities for each connected hub

### Personal computers

desktops, notebooks, tablets



- Mice
- Keyboards
- Game controllers
- Presentation remotes
- Proximity sensors
- Other local sensors

### Home media centers

TV's, set top boxes



- Remote controls
- 3D glasses
- Game controllers
- Fitness sensors
- Toys
- Other local sensors (home automation)

### Mobile devices

Handsets, MP3 players, other portables



- Fitness sensors
- Health monitors
- RFID / keys
- Watches
- Toys
- Proximity sensors
- Other local sensors

### Other sensor networks

Autos, buildings, appliances, infrastructure



- Remote controls
- Environment sensors
- Security / alarms
- Operations monitors
- Energy efficiency
- Metering / billing

# PC peripherals – recent market developments

## Bluetooth 4.0 gaining momentum in PC category, creating new opportunities

- Recent PC product announcements:
  - *Apple implements Bluetooth 4.0 in latest release of MacBook Air and Mac Mini*
  - *Microsoft announces that Windows 8 will include native support for Bluetooth 4.0*
- Hardware and software support for Bluetooth 4.0 will encourage the development of new *Bluetooth* low energy applications
  - Wireless mice / keyboards can be bundled with PC's, without the use of a USB dongle (aftermarket is likely to remain with proprietary 2.4 GHz technologies for some time)
  - Wireless peripherals can connect with tablets, as tablets implement Bluetooth 4.0
  - Many new products in development

## Total PC peripheral market expected to recover in 2012

- PC sales are expected to resume higher growth next year (IDC / Gartner) after a slower 2011, driven by demand in emerging markets
- Wireless PC peripheral market has growth rate far above PC market, with the increased popularity and cost efficiency of wireless solutions as a replacement for wired mice/keyboards
- Sales channels will need to rebuild inventory levels, after a major destock during 2011

# PC security applications – new market opportunity

## Nordic collaborating with leading provider of connectivity solutions for PC's on security applications featuring Bluetooth low energy technology



Nordic Semiconductor and Broadcom collaborate on *Bluetooth* low energy proximity fob prototype for mobile device security

**August 8, 2011**



“The fob is designed to prevent a device such as a laptop being accessed in the owner’s absence. After ‘pairing’, the user carries the fob. If the distance between the user and the mobile device exceeds a pre-set threshold, the pairing is broken and the device automatically locks.”

### ... with many other applications outside of PC

- *“I can see a day when proximity sensing will become a standard feature of almost all modern portable electronics. And with Bluetooth v4.0, manufacturers can go beyond the devices we carry today to create personal security products that keep our children safe, our pets nearby, and our valuables within reach.”*

- Michael Foley, Ph.D., Bluetooth SIG executive director.

## Home media centers – recent market developments

Leading manufacturers are implementing Bluetooth within next generation TV's, creating further opportunities to connect low energy technology to home media centers

### **Panasonic, Samsung, Sony and XPAND choose Bluetooth Technology to Standardize Active 3D Glasses**

The companies will work within the Bluetooth SIG to develop a system for 3D active glasses utilizing Bluetooth wireless technology connectivity. Bluetooth technology is already in market in a variety of solutions for the living room, from 3D glasses to remote controls and TVs. That number is expected to grow exponentially over the next year. TV makers are shipping Bluetooth enabled TVs coupled with remote controls and 3D glasses, creating a cluster of Bluetooth devices, and thus four Bluetooth chips in one box.

Now, with these leading television manufacturers committing to implement Bluetooth wireless technology, the door is open for peripheral devices to utilize that Bluetooth connection as well. Mobile phones, cameras, remote controls and even home automation sensors can communicate with the TV via the Bluetooth connection, and make the TV the digital hub of the consumer's home.

- Bluetooth SIG press release, August 8, 2011

# RF remote controls – new market opportunity

## New RF remote controls will be essential for connected TV applications:

- **Web-based content and software apps for Connected TV's and Set Top Boxes cannot be effectively navigated with traditional IR remote controls**
- **Philips has released a remote control for connected TV's based on Nordic's wireless technology**
  - Includes miniature QWERTY keyboard on one side, with touchpad for advanced navigation or traditional channel changing on the other side.
  - Philips is among the largest global subcontract manufacturers of consumer electronics remote controls



# Mobile devices – recent market developments

## Industry leaders embracing Bluetooth 4.0 in mobile handsets

- Recent mobile product announcements:
  - *Apple implements Bluetooth 4.0 in iPhone 4S*
  - *Apple releases iOS 5 with full support for Bluetooth 4.0, and Core Bluetooth framework that allows app developers to interact specifically with Bluetooth low energy devices*
- Many new smartphones soon to be released with Bluetooth 4.0
  - *“The iPhone 4S is the first of a wave of new phones with Bluetooth v4.0 expected to start arriving by the end of 2011. By the end of 2012, virtually all new smart phones will include this technology, allowing them to connect with the billions of Bluetooth devices in the market today and many new types of devices enabled by Bluetooth v4.0.”*
    - *Bluetooth SIG press release*



# Remote health monitoring with low energy wireless

## Continua Health Alliance:

- Coalition of more than 240 top healthcare providers, medical device manufacturers and technology companies around the world
- Objective to establish a system of interoperable remote health monitoring devices
  - Extend healthcare solutions to the home to provide greater independence and improved personal health and wellness management
  - Three major categories: chronic disease management, aging independently, and health & physical fitness



“The Continua Health Alliance has selected *Bluetooth* low energy wireless technology to enable low power mobile devices to monitor a user’s health and fitness levels.

It features low power consumption, small size and low cost, providing Continua a reliable solution to enable mobile devices for a wide range of telehealth audiences.”

-- Press release

# Wireless health addresses critical problem of healthcare cost

## **Example: Wireless cardiac monitor** *(Isansys LifeTouch HRV011)*



- 4-5x more detail than that required for EKG monitor
- Algorithms calculate respiration rate, R-to-R peak intervals, check for abnormalities
- Can transmit information to network gateway devices for collection at healthcare provider

## How to efficiently deliver healthcare to the increasing number of elderly and chronically ill?

- **Wireless reduces cost by enabling remote monitoring of patients via link from body sensor to mobile web**
  - Heart rate monitor
  - Blood pressure cuff
  - Blood glucose meter
  - Pulse oximeter
  - Emergency sensors, other...
- **Ensures that limited healthcare resources are focused on those in need**
  - Many studies have confirmed reduced cost of patient monitoring
- **Improves patient lifestyle and health outcomes**
  - Fewer doctor visits
  - Enables independent lifestyle
  - Instant follow up if medical condition deteriorates
  - Continuous feedback on fitness improves motivation to maintain healthy lifestyle

# Nordic serving on Board of Bluetooth SIG

## A great opportunity to drive the future of *Bluetooth* low energy



“On June 21, 2011, the Bluetooth SIG appointed two new members to its board of directors from Apple and Nordic Semiconductor. Leaders in their respective markets, Apple and Nordic join industry leaders Intel, Motorola, Lenovo, Nokia, Microsoft, Ericsson AB, and Toshiba on the Bluetooth SIG board.”

“We see the importance of platform development and ultra-low power silicon for Bluetooth technology and believe guidance and board participation from Apple and Nordic, industry leaders in these perspective fields, is essential,” said Michael Foley, Ph.D., executive director of the Bluetooth SIG. “These additions to our board will ensure we succeed in new markets we have targeted for growth.”

-- Press release

# Nordic well-positioned to capture new market opportunities

## Targeting new markets from a position of technology and market leadership

### **Technology leadership:**

- **Best-in class 2.4 GHz technology for ultra-low power wireless**
  - Lowest power consumption, with high performance and low bill of materials cost
  - New wireless platform will further strengthen technology leadership
- **Key participant in developing *Bluetooth low energy wireless standard***
  - Nordic's single-mode BLE chip is based on its market-leading 2.4 GHz wireless platform
  - Brings existing power consumption, performance and cost advantages to *Bluetooth low energy standard*

### **Market leadership:**

- **Leading market position in ultra-low power wireless category**
  - Very high market share in PC peripheral and fitness categories
  - PC peripheral reference customers and designs are strong entry point to emerging connected TV market
  - Sports / fitness reference customers and designs are strong entry point to emerging medical market
- **Many years experience in ultra-low power wireless**
  - Strong relations with key accounts and understanding of market requirements