# Q3

Report 2019

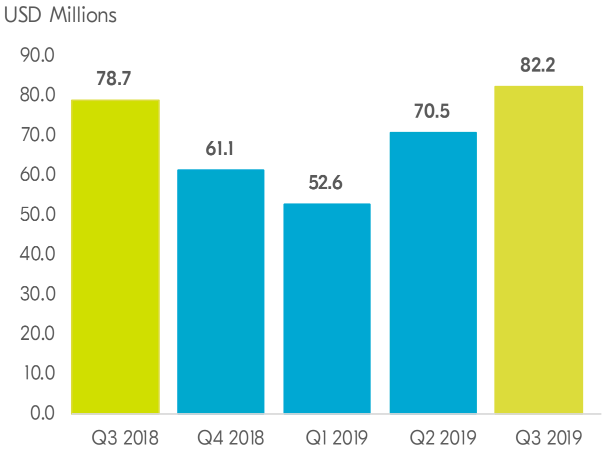
NORDIC SEMICONDUCTOR

# Content

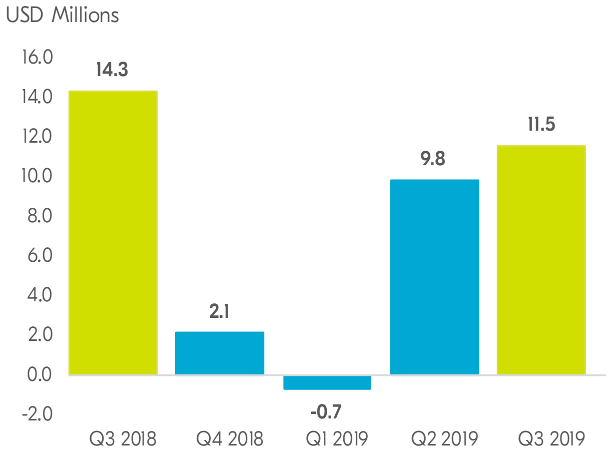
# Q3 HIGHLIGHTS

- Revenue exceeding USD 80 million for the first time
- Bluetooth back to double digit percentage growth
- Continued strong design win momentum with design win certifications stable above 40%
- Record high backlog of USD 113.6 million driven by new tier 1 designs
- First major carrier certification achieved during the quarter with Verizon
- Delays in software development, longer than expected certification processes and development cycles for end-user products have delayed the ramp of our cellular IoT product

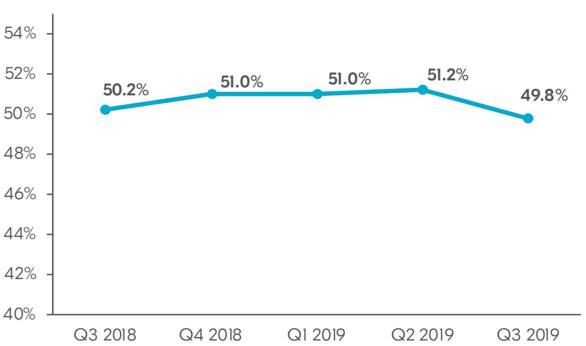
**Revenue**



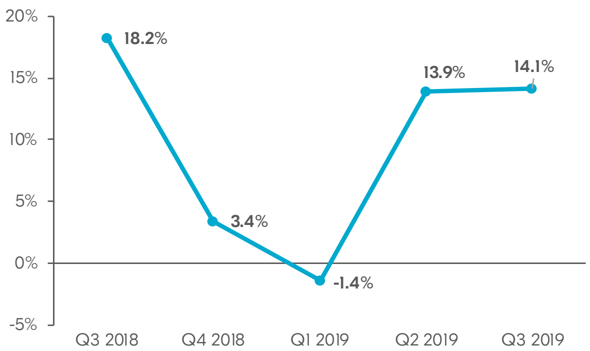

**EBITDA**




**Gross Margin**




**EBITDA Margin**



# KEY FIGURES

## Q3 2019 FINANCIAL SUMMARY

| | Q3 | | | 01.01-30.09 | | |
|---|---|---|---|---|---|---|
| **Amount in USD million** | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Revenue | 82.2 | 78.7 | 4.4% | 205.3 | 210.0 | -2.3% |
| Gross profit | 40.9 | 39.6 | 3.4% | 103.9 | 103.8 | 0.0% |
| Gross Margin % | 49.8% | 50.2% | -0.5 p.p. | 50.6% | 49.4% | 1.2 p.p |
| EBITDA | 11.5 | 14.3 | -19.2% | 20.6 | 28.7 | -28.2% |
| EBITDA % | 14.1% | 18.2% | -4.1 p.p. | 10.0% | 13.7% | -3.6 p.p. |
| Operating Profit (EBIT) | 5.7 | 9.9 | -42.5% | 3.9 | 16.4 | -76.1% |
| Operating Profit % (EBIT) | 6.9% | 12.6% | -5.6 p.p. | 1.9% | 7.8 % | -5.9 p.p. |
| Net profit after tax | 5.8 | 7.2 | -19.8% | 2.9 | 11.5 | -74.4% |
| Cash and cash equivalents | 86.7 | 95.0 | -8.7% | 86.7 | 95.0 | -8.7% |
| Order Backlog | 113.6 | 77.0 | 47.5% | | | |
| LTM opex excluding depreciation/ LTM revenue | 42.2% | 37.1% | | | | |
| Net working capital / LTM revenue | 26.7% | 32.1% | | | | |
| Equity ratio | 74.6% | 84.1% | | | | |
| Number of employees | 751 | 663 | | | | |

## REVENUE BY TECHNOLOGY

| | Q3 | | | 01.01-30.09 | | |
|---|---|---|---|---|---|---|
| **Amount in USD thousand** | **2019** | **2018** | **Change** | **2019** | **2018** | **Change** |
| Proprietary wireless | 18 496 | 22 814 | -18.9% | 43 600 | 59 723 | -27.0% |
| Bluetooth | 62 245 | 54 335 | 14.6% | 155 627 | 145 025 | 7.3% |
| Cellular IoT | 551 | - | NA | 886 | - | NA |
| ASIC Components | 876 | 1 564 | -44.0% | 4 934 | 5 205 | -5.2% |
| Consulting services | - | 11 | NA | 216 | 54 | 298.8% |
| **Total** | **82 167** | **78 725** | **4.4%** | **205 262** | **210 008** | **-2.3%** |

## IFRS 16 EFFECTS ON THE INCOME STATEMENT

| **Amount in USD thousand** | **Q3 2019** | **01.01-30.09 2019** |
|---|---|---|
| Other Operating expenses | 1 003 | 3 078 |
| **EBITDA** | **1 003** | **3 078** |
| Depreciation | -1 027 | -2 962 |
| **EBIT** | **-24** | **116** |
| Interest expense | -223 | -642 |
| Foreign exchange adjustments | 1 313 | 929 |
| **Profit before tax** | **1 066** | **403** |

# FINANCIAL REVIEW

## INCOME STATEMENT

**Nordic Semiconductor's (Nordic or the Group) total revenue was USD 82.2 million in Q3 2019, compared with USD 78.7 million in Q3 2018. Overall year-over-year increase was 4.4%. Revenue in Q3 2019 was in the high end of the guidance previously provided for Q3 2019. Bluetooth revenue increased by 14.6%, while proprietary revenue decreased by 18.9% year-over-year.**

Revenue from Bluetooth ended at USD 62.2 million, up from USD 54.3 million in Q3 2018 and USD 56.0 million in Q2 2019. Bluetooth revenue constitutes 75.8% of total revenue in the quarter, compared with 69.0% in Q3 2018. Significant revenue contribution from new tier 1 customers led to double digit sequential and year-over-year percentage growth in Bluetooth.

Nordic had yet another record number of end-product certifications in the quarter, with a total of 168 new product certifications. This represents a year-over-year growth of 39% and a quarter-over-quarter growth of 11%. Nordic's share of design wins in the quarter was 44%. Securing new design wins and diversifying the customer base are main focus areas for Nordic. Some design wins in the past year are a result of years of hard work done by the sales force in combination with R&D resources towards the end-customers. Nordic's extensive product offering makes it possible to get design wins in both the broader market and with tier 1 customers.

Revenue from proprietary ended at USD 18.5 million down from USD 22.8 million in Q3 2018 and up from USD 12.6 million in Q2 2019. Year-over-year decrease was 18.9%. The decline compared to last year is explained by exceptional strong proprietary during Q3 2018, as quarter-over-quarter increase was 46.5%. We see continued strong PC segments, however weaker than expected non-pc markets for our proprietary products.

Nordic recognized USD 0.6 million in cellular IoT revenue in Q3 2019, consisting of a mix of development kits and production variants for pilot production by our customers. The nRF9160 system-in-package, Nordic's cellular product, has entered production ramp phase. However, delays in the development of software, longer than expected certification processes and development cycles for end-user products, and establishment and maturation of ecosystems have pushed the expected volume and revenue trajectories out in time.

Nordic is exiting Q3 with another record backlog of USD 113.6 million, which is well spread over the next quarters. Similarly to the first half of 2019, new tier 1 customers are contributing to this growth. The year-over-year increase of the backlog was 47.5%.

The Group's gross margin decreased from 50.2% in Q3 2018 to 49.8% this quarter. The decrease is mainly explained by a larger tier 1 revenue contribution, which drives the margin down. Gross profit ended at USD 40.9 million in Q3 2019, compared with USD 39.6 million in Q3 2018.

Effective January 1, 2019 the Group implemented IFRS 16 Lease accounting. The accounting effect of this change reduces operating expenses by USD 1.0 million this quarter, increases depreciation by USD 1.0 milliion and interest expenses by USD 0.2 million. The reported numbers for 2019 includes the IFRS 16 adjustment, no adjustments have been made to 2018 numbers.

Total operating expenses, including depreciation and amortization, increased 18.7% to USD 35.2 million from USD 29.6 million in Q3 2018. Compared to Q2 2019, total operating expenses including depreciation and amortization have increased by 10.7% from USD 31.8 million.

Nordic capitalized a total of USD 1.8 million in development expenses during Q3 2019, of which USD 1.5 million relates to payroll expenses. The corresponding total capitalization amount in Q3 2018 was USD 3.1 million and USD 3.8 million in Q2 2019. The reduction is explained by fewer projects entering the final phase. Of the total capitalization in Q3 2019, USD 1.0 million is related to the cellular IoT investment. Nordic started capitalizing expenses related to cellular IoT when lead customer sampling started in Q1 2018. The balance relates to new versions of the short-range offering.

Expenses related to equity compensation was USD 0.5 million in Q3 2019, up from USD 0.3 million Q3 2018 and USD 0.4 million in Q2 2019. Adjusted for capitalization of development expenses and equity-based compensation, total cash operating expenses increased 9.3% to USD 30.7 million in Q3 2019 from USD 28.1 million in Q3 2018. This is explained by a 13.3% increase in the number of employees, from 663 at the end of Q3 2018 to 751 at the end of Q3 2019. Cash operating expenses increased 3% compared to Q2 2019. The cost level is also impacted by continued high expenses related to commercialization of new products, including the high-end nRF52 Series product line and the cellular IoT products.

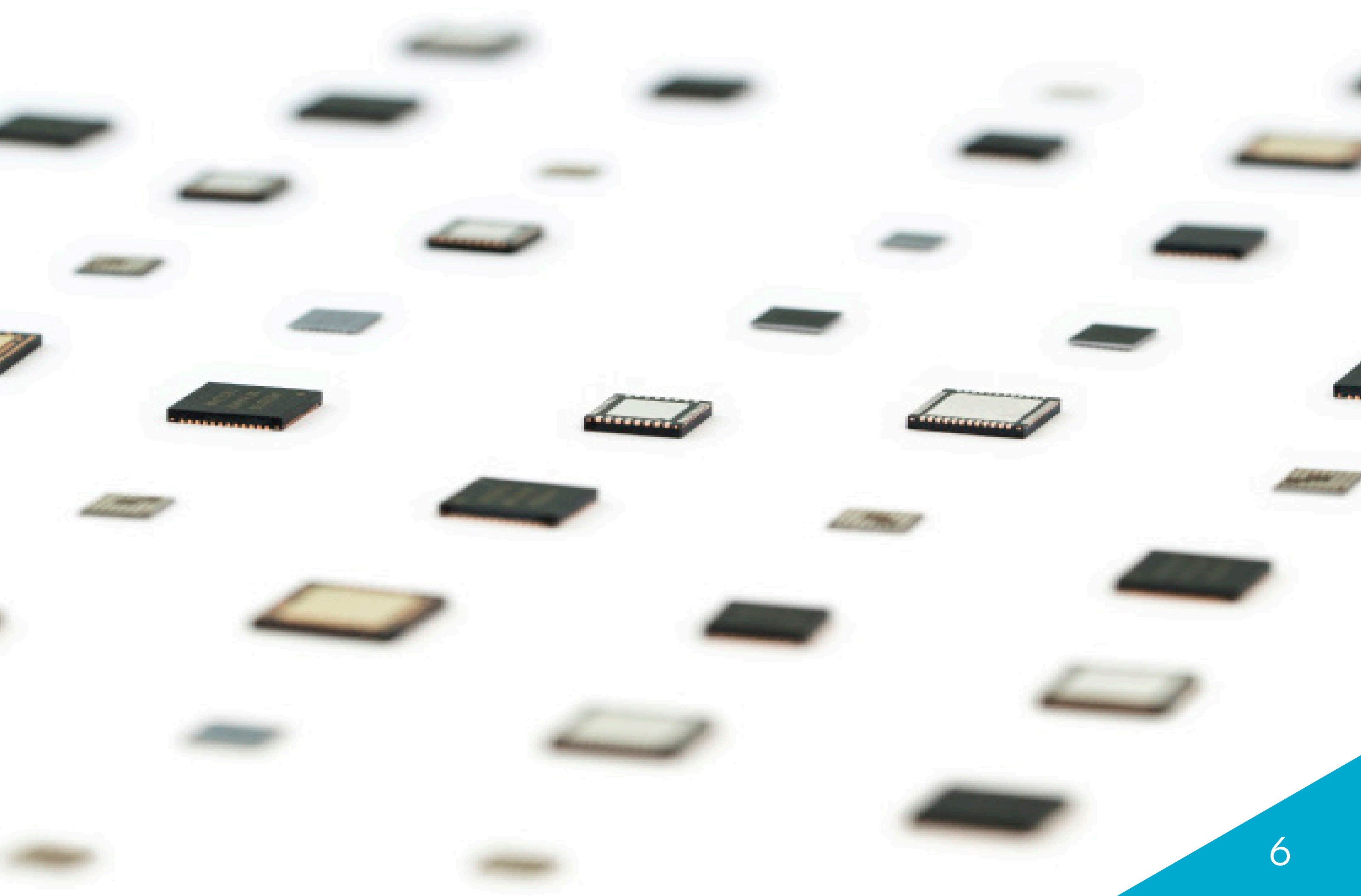
Total cash operating expenses for the cellular investment were USD 7.7 million in Q3 2019, compared with USD 6.2 million in Q3 2018. The increase is mainly related to higher personnel expenses and tape out costs.

Depreciation and amortization were USD 5.8 million in Q3 2019, compared with USD 4.4 million in Q3 2018. Included is USD 1.0 million in amortization of internally developed R&D, unchanged to previous quarters in 2019 and USD 1.0 million related to IFRS 16. Total depreciation and amortization is USD 0.4 million higher in Q3 2019 compared to Q2 2019. Amortization of the cellular IoT intangible asset will commence in Q4 2019.

Earnings before interest, tax, depreciation and amortization (EBITDA) were USD 11.5 million in Q3 2019 compared with USD 14.3 million in Q3 2018. The decline is mainly explained by higher personnel expenses as a result of more employees, somewhat offset by higher revenue and lower reported other operating expenses, due to implementation of IFRS 16.

Profit before tax was USD 7.1 million, down from USD 9.9 million in Q3 2018. Tax expense was USD 1.3 million, or 18.7% of profit before tax. Group tax rate is 22%, however foreign currency adjustments of IFRS 16 liability resulted in a lower reported tax rate during Q3 2019. Net profit was USD 5.8 million compared to USD 7.2 million in Q3 2018.

For the short-range business, EBITDA was USD 18.1 million in Q3 2019, compared with USD 18.2 million in Q3 2018. Net profit for Nordic was USD 5.8 million in Q3 2019, down USD 1.4 million from USD 7.2 million in Q3 2018.

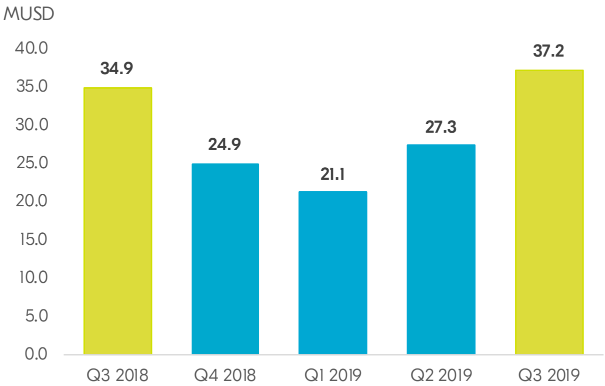


## MARKETS

| Revenue in USD thousand | Q3 2019 | Q3 2018 | Q3 Change | 01.01-30.09 2019 | 01.01-30.09 2018 | 01.01-30.09 Change |
|---|---|---|---|---|---|---|
| Consumer Electronics | 37 207 | 34 908 | 6.6% | 85 612 | 86 786 | -1.4% |
| Wearables | 13 899 | 12 404 | 12.0% | 34 279 | 34 478 | -0.6% |
| Building/Retail | 14 017 | 12 707 | 10.3% | 34 984 | 38 680 | -9.6% |
| Healthcare | 5 065 | 7 061 | -28.3% | 14 756 | 17 103 | -13.7% |
| Others | 10 552 | 10 069 | 4.8% | 29 595 | 27 702 | 6.8% |
| **Short range wireless components** | **80 740** | **77 150** | **4.7%** | **199 226** | **204 749** | **-2.7%** |
| Long range (cellular IoT) | 551 | - | NA | 886 | - | NA |
| ASIC components | 876 | 1 564 | -44.0% | 4 934 | 5 205 | -5.2% |
| Consulting services | - | 11 | NA | 216 | 54 | 298.8% |
| **Total** | **82 167** | **78 725** | **4.4%** | **205 261** | **210 008** | **-2.3%** |

The Group classifies its revenues into the following technologies: Short range wireless components, long range (cellular IoT), ASIC components and Consulting services. Within short range wireless components, the Group reports its revenues based on the end product markets. These include: Consumer Electronics, Wearables, Healthcare, Building and Retail, and Others. Upon developing a meaningful revenue level within cellular IoT, Nordic will start reporting cellular revenue by end-product markets.

### Consumer Electronics




*Revenue - Consumer Electronics*

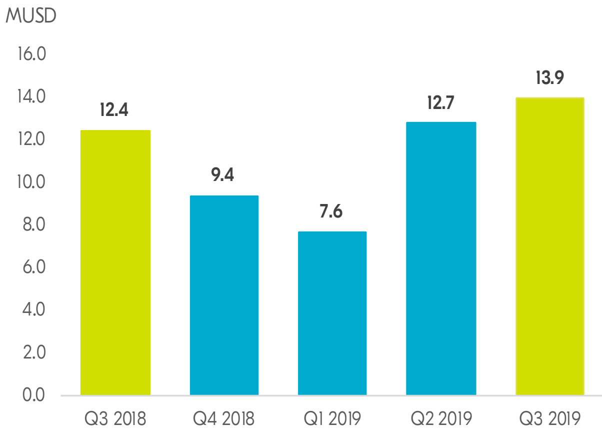
The Consumer Electronics market consists of PC Accessories, Mobile Phone Accessories and Home Entertainment devices.

Revenue within Consumer Electronics increased by 6.6% to USD 37.2 million in Q3 2019 from USD 34.9 million in the corresponding period last year. Revenue increased 36.4% from USD 27.3 million in Q2 2019. The revenue growth compared to last year comes despite the reduction in revenue from proprietary. Compared to last quarter, the strong increase is explained by seasonality and several new projects reported within Consumer Electronics.

Revenues from PC accessories are a key part of consumer electronics. Although overall sales of PCs and tablets are stable, the replacement of accessories and the introduction of new types of accessories opens new opportunities for Nordic, both for proprietary solutions, but more important for the extensive range of Bluetooth products. Nordic's product range is well positioned to address this market.

In addition to PC accessories, Nordic is currently working on various new consumer electronics market opportunities.

### Wearables

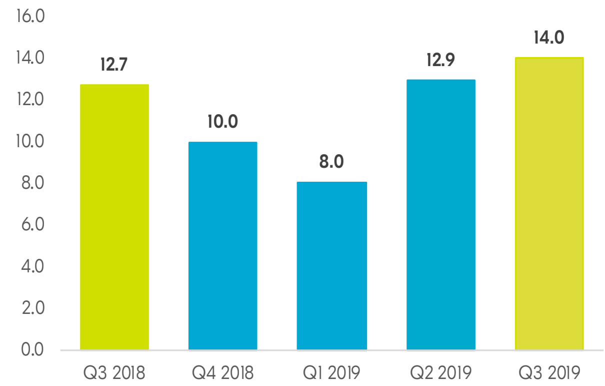



*Revenue - Wearables*

The Wearables market includes smart watches, activity trackers, sport and fitness bands and smart clothing.

Revenue from Wearables increased by 12.0% to USD 13.9 million in Q3 2019 from USD 12.4 million in the corresponding period last year. Revenue increased 9.1% from USD 12.7 million in Q2 2019. With the nRF52 Series Nordic has increased its design win traction within this market. The strong improvement in Q2 continued during Q3, mainly as a result new designs entering into production.

### Building and Retail



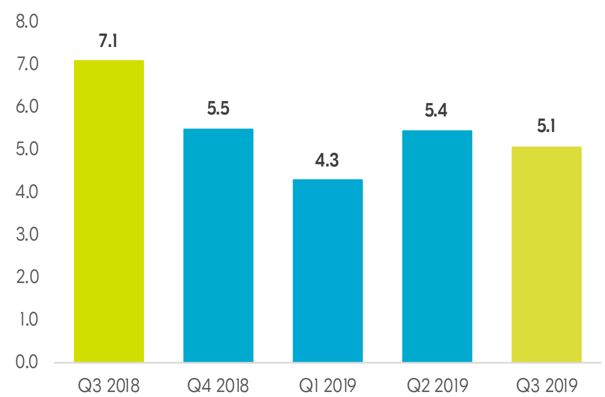

*Revenue - Building/Retail*

The Building and Retail market consists of a broad variety of products used within home automation (smart homes), industrial applications and retail solutions.

Revenue within the Building and Retail market increased by 10.3% to USD 14.0 million in Q3 2019 from USD 12.7 million in the corresponding period last year. Revenue increased 8.4% from USD 12.9 million in Q2 2019.

Home Automation is seen as one of the next key growth drivers for Bluetooth. Nordic has seen strong traction in design wins within for example lighting, alarm systems, smoke detectors, temperature controls and smart locks. With the introduction of the nRF52840 multiprotocol SoC, Nordic has a Thread certified solution that enables simultaneous Thread and Bluetooth 5 connectivity. This will significantly improve the deployment of connected items in private homes. To further strengthen the product offering within Building and Retail, Nordic introduced a protocol stack for Zigbee, the third important short-range protocol for smart homes. The latter technology protocols are amongst others important in the growing industrial lighting market.

### Healthcare



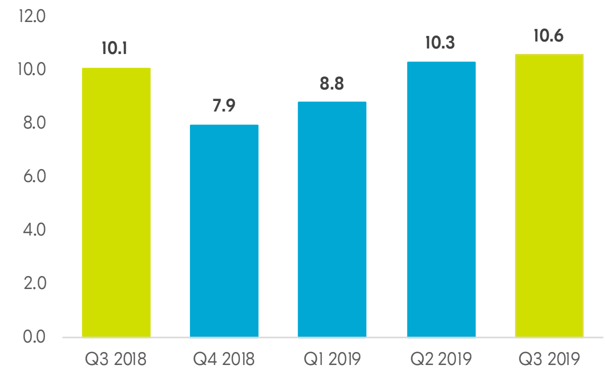

*Revenue - Healthcare*

The Healthcare market consists of all products that are certified to be used within medical care. End-products range from hearing aids, glucose monitoring and drug delivery systems.

Revenue within the Healthcare market decreased by 28.3% to USD 5.1 million in Q3 2019 from USD 7.1 million in the corresponding period last year. Revenue decreased 6.7% from USD 5.4 million in Q2 2019. The reduction comes as a result of delay in ramp of new products.

Most of the products within Healthcare are still in their infancy, particularly as they relate to IoT, remote healthcare and big data analytics. These products are now being commercialized and Nordic expects continued growth within this market. For example, continuous blood glucose monitors and hearing aids are increasing in volume orders for Nordic, as hospitals, doctors, employers and insurance companies are interested in monitoring the basic physiological functions of individuals, in addition to the individual's own physical awareness.

### Others




*Revenue - Others*

The "Others" category consists of sales to module manufacturers as well as distribution sales where no final customer is reported.

Revenue within Others increased 4.8% to USD 10.6 million in Q3 2019, from USD 10.1 million in the corresponding period last year. Revenue increased 2.5% from USD 10.3 million in Q2 2019. The year-over-year growth is a result of continuous new module designs and sales efforts from Nordic's module partners.

Sales to module manufacturers is an important market for Nordic. Module manufacturers develop compact ultra-low power Bluetooth modules for space-constrained applications employing coin cell batteries. The modules reduce development time by providing a complete wireless solution and are tailored for OEMs who wish to develop their own application software. Furthermore, this activity allows Nordic to scale its sales activity faster and expand its customer reach.

## FINANCIAL POSITION

As of 30 September 2019, the Group had total assets of USD 302.0 million, of which USD 207.0 million were current assets. Non-current assets were USD 95.0 million. This included USD 24.3 million of right-of-use assets following the implementation of IFRS 16 as of January 1, 2019. Capitalized development expenses increased net by USD 7.0 million, from USD 25.7 million in Q3 2018 to USD 32.7 million, in Q3 2019.

Compared with Q3 2018, net working capital has decreased by USD 16.9 million, to USD 71.1 million (USD 88.0 million in Q3 2018). Similarly, net working capital in percentage of last twelve month (LTM) revenue has decreased 5.4 percentage points to 26.7% (32.1% in Q3 2018).

Total liabilities were USD 76.8 million, up from USD 44.5 million in Q3 2018. Of the increase of USD 32.3 million, USD 24.1 million relates to the IFRS 16 adjustment following the implementation of IFRS 16 as of January 1, 2019.

USD 57.2 million were current liabilities, compared with USD 44.3 million at the end of Q3 2018. Of the current liabilities, USD 11.6 million comes from accrual for ship and debit related to sale to distributors, compared with USD 9.9 million in Q3 2018.

Total Shareholders' equity was USD 225.2 million at the end of September 2019, down from USD 235.8 million at end of September 2018. The Group had an equity ratio of 74.6% at September 30, 2019, down from 84.1% September 30, 2018. The reduction is mainly explained by effects of IFRS 16 implementation.

Cash inflow from operating activities was USD 8.7 million in Q3 2019, compared with a cash outflow of USD 4.0 million in Q3 2018. The improvement in cash conversion is explained by a reduction in working capital during 2019.

Cash flow from investments was an outflow of USD 8.4 million, compared with a cash outflow of USD 8.2 million in Q3 2018. Capital expenditures were USD 6.5 million, driven by building of failure analysis lab and test equipment. Capitalized development expenses were USD 1.8 million, compared with USD 3.1 million in corresponding quarter last year.

Due to implementation of IFRS 16, a part of the lease payment is now classified as repayment of lease liabilities. The remainder, the interest expense, is included in the cash flow from operating activities.

Under current Rolling Credit Facilities (RCF agreements), Nordic may borrow a total of USD 65 million at any time with a rate of LIBOR + margin. At September 30, 2019 the Group had not utilized the RCFs. The Group also has a EUR 10 million bank overdraft facility with its main bank. This overdraft was not utilized at September 30.

The Group's cash position was USD 86.7 million at the end of September 2019, down from USD 95.0 million and 87.9 million at the end of September 2018 and June 2019 respectively. Available cash at 30 September 2019 including credit facilities was USD 162.6 million. The cash is mainly kept in the Group's functional currency USD in order to reduce the impact of currency fluctuations.

## RISK AND UNCERTAINTY FACTORS

The Group is exposed to risk and uncertainty factors, that may affect some or all of its activities. As part of the Group's operating system, an extensive set of policies and procedures are in place to handle these factors. Key policies are approved by the Board of Directors annually. For further information, see 2018 Annual report.

# BUSINESS OVERVIEW

Nordic Semiconductor has been a long-standing pioneer in the semiconductor space for IoT. It all started with market leadership in the PC accessory market with a proprietary 2.4GHz technology. Winning the largest and most demanding customers in the space allowed Nordic quickly to become the market leader with a 70-80% market share. The PC accessory market continues to be an important market for Nordic, especially in the transition to Bluetooth Low Energy from Nordic's proprietary technology.

As early as in 2008 Nordic took a leadership role to bring this proprietary short range low energy communication solution into a standard that the entire industry could adhere to. This later became known as Bluetooth Smart supported by Bluetooth Special Interest Group (SIG). Nordic has maintained its leading position within this technology and around 40% of all new designs in the last year have used Nordic's technology. Utilizing a flexible platform and software tools, the portfolio of standardized short range low energy communication technology has been further complemented with Thread and Zigbee.

In 2014, Nordic committed to an investment program to develop a new line of cellular IoT low power solutions. On December 12, 2018, Nordic completed a successful public launch of the nRF9160, our first product in the nRF91® Series of cellular IoT modules. The nRF9160 is a complete System-in-Package (SiP) taking the lead in integration and simple use for fast customer deployment. As with the nRF52 Series, the nRF91 Series features added functionality in order to maximize the value per design, including world-wide cellular band coverage so that one design can be deployed in all markets. In addition, Nordic has added substantial on-chip memory for low power operation, including sufficient memory for the highest level of security, embedded processing and software for most use cases. This enables mass scale adoption by integrating and certifying functionality needed in most applications. The nRF9160 is currently certified to be used in most target markets for Nordics' customers through industry certifications, and local tele regulatory approvals. Nordic's top priority during 2019 has been to engage with the major carriers in selected key markets. During Q3 Nordic announced certification approval with Verizon. With a complete hardware, available software and main certifications in place, Nordic has built the foundation for a strong design activity during the coming quarters.

As of September 30, 2019, Nordic Semiconductor had 751 employees, compared with 717 and 663 employees at the end of Q2 2019 and Q3 2018, respectively. A total of 557 employees worked within Research and Development at the end of Q3 2019, representing an increase of 54 employees compared with the corresponding period in 2018.

In order to take advantage of accelerating growth opportunities, Nordic has also increased staff within Sales and Marketing to 110 employees as of September 30, 2019 from 99 at the end of September 2018.

**For further information, please contact:**

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- Pål Elstad, CFO, +47 991 66 293

**Financial Calendar 2019:**

- February 7, 2020 - 4th Quarter 2019
- April 21, 2020 - Annual General Meeting

# BUSINESS OUTLOOK

After a disappointing start of 2019 with low growth rates due to uncertainty in the market, Bluetooth returned to double-digit growth of 14.6% in Q3 2019. Backed by a strong backlog, Nordic has issued a revenue guidance of USD 75-79 million for Q4 2019, corresponding to year-over-year growth of 22%-30% in the final quarter of the year. The stronger growth reflects high underlying design activity but also that Q4 2018 was impacted by inventory adjustments in the distribution channel.

Nordic's success in attracting designs with tier 1 customers resulted in a slight decline in gross margin in Q3 2019 compared to the previous quarter, and the Group expects a gross margin of around 50% also for Q4 2019.

Nordic continues its investments to fuel future growth and scale the supply chain to meet customer demands and requirements, and capex in Q3 2019 was above guidance as a result of pull-in of several investment projects. Guidance for Q4 2019 capex is USD 4-5 million.

For the proprietary business revenue is expected to show a high single-digit decline in Q4 2019 compared to Q4 2018.

Nordic hosts a Capital Markets Day in connection with the announcement of the third quarter results, where the Group will present the strategic fundament for profitable growth in the years to come, as well as certain forward-looking statements:

Nordic aspires to become a USD 1 billion company within the next 5 years. This ambition is based on a solid growth outlook for both the short- and long-range business. Nordic has set a long-term ambition for the EBITDA-margin of 20%.

For the short-range business, Nordic sees growth of 20%-30% for Bluetooth and multiprotocol solutions, whereas revenue from the Proprietary business is expected to continue declining.

The long-range cellular IoT business is in the early stages of commercialization. Nordic's ambition is to gradually build a cellular IoT business of a similar size as the short-range business in 5 years. Longer than expected certification processes and development cycles for end-user products have pushed the expected volume and revenue trajectories out in time, and the Group no longer expects sufficient revenue to cover operational costs in the long-range business in 2020.

In the medium-term, Nordic expects a gross margin level of 48%-50% for the short-range business, whereas the expected gross margin for the module-based long-range cellular business is expected at 35%-40%.

While R&D is expected to increase in absolute terms, both R&D and other operational costs are expected to decline as a percentage of revenue.

Nordic assesses its cash position to be adequate given the expected level of R&D investments and the procurement requirements of tier-1 customers. Nordic does not expect to pay dividends for 2020 or 2021.

**Oslo, October 21, 2019**

| | | |
|---|---|---|
| **Jan Frykhammar**<br>Board member | **Birger Steen**<br>Chair | **Anita Huun**<br>Board member |
| **Inger Berg Ørstavik**<br>Board member | **Svenn-Tore Larsen**<br>Chief Executive Officer | **Endre Holen**<br>Board member |
| **Øyvind Birkenes**<br>Board member | **Jon Helge Nistad**<br>Board member, employee | **Annastiina Hintsa**<br>Board member |
| **Asbjørn Sæbø**<br>Board member, employee | **Susheel Raj Nuguru**<br>Board member, employee | **Morten Dammen**<br>Board member, employee |

# CONDENSED FINANCIAL INFORMATION

## INCOME STATEMENT

| Amount in USD 1000 | Note | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|---|
| **Total Revenue** | | **82 167** | **78 725** | **205 261** | **210 008** | **271 134** |
| Cost of materials | | 41 261 | -39 170 | -101 058 | -106 172 | -136 111 |
| Direct project costs | | - | - | -351 | -1 | -1 |
| **Gross profit** | | **40 905** | **39 555** | **103 852** | **103 835** | **135 021** |
| Payroll expenses | | -20 534 | -16 340 | -58 903 | -50 217 | -70 048 |
| Other operating expenses | 3 | -8 825 | -8 924 | -24 340 | -24 928 | -34 199 |
| **EBITDA** | | **11 545** | **14 290** | **20 609** | **28 689** | **30 775** |
| Depreciation | 6 | -5 846 | -4 383 | -16 690 | -12 266 | -16 727 |
| **Operating profit** | | **5 699** | **9 907** | **3 920** | **16 423** | **14 047** |
| Net interest | 3 | 231 | 32 | -132 | -23 | 1 354 |
| Net foreign exchange gains (losses) | | 1 156 | -41 | 583 | -296 | -320 |
| **Profit before tax** | | **7 086** | **9 899** | **4 371** | **16 104** | **15 081** |
| Income tax expense | | -1 324 | -2 713 | -1 427 | -4 615 | -6 222 |
| **Net profit after tax** | | **5 762** | **7 186** | **2 944** | **11 489** | **8 859** |
| **Earnings per share** | | | | | | |
| Ordinary earnings per share (USD) | | 0.033 | 0.040 | 0.017 | 0.067 | 0.051 |
| Fully diluted earnings per share (USD) | | 0.033 | 0.040 | 0.017 | 0.066 | 0.049 |
| **Weighted average number of shares** | | | | | | |
| Basic | | 175 242 | 178 096 | 175 239 | 171 289 | 172 591 |
| Fully Diluted | | 175 512 | 178 633 | 175 378 | 173 338 | 179 454 |
| **Net profit after tax** | | **5 762** | **7 186** | **2 944** | **11 489** | **8 859** |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods:** | | | | | | |
| Actuarial gains (losses) on defined benefit plans (before tax) | | | | | | -21 |
| Income tax effect | | | | | | 5 |
| **Other comprehensive income that may be reclassified to profit or loss in subsequent periods:** | | | | | | |
| Currency translation differences | | -4 | -76 | -431 | -271 | -324 |
| **Total Comprehensive Income** | | **5 758** | **7 110** | **2 513** | **11 218** | **8 519** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| Amount in USD 1000 | Note | 30.09.19 | 31.12.18 | 30.09.18 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Capitalized development expenses | 5/6 | 32 719 | 27 686 | 25 707 |
| Software and other intangible assets | 5/6 | 12 137 | 15 063 | 15 330 |
| Deferred tax assets | | 1 275 | 1 335 | 1 515 |
| Fixed assets | 3/6 | 24 561 | 17 582 | 15 317 |
| Right-of-use asset | 3/6 | 24 334 | - | - |
| **Total non-current assets** | | **95 027** | **61 667** | **57 869** |
| **Current assets** | | | | |
| Inventory | | 46 755 | 42 679 | 44 211 |
| Accounts receivable | | 64 962 | 51 784 | 76 651 |
| Other short-term receivables | | 8 520 | 7 155 | 6 640 |
| Cash and cash equivalents | | 86 725 | 103 876 | 95 002 |
| **Total current assets** | | **206 962** | **205 494** | **222 504** |
| **TOTAL ASSETS** | | **301 989** | **267 161** | **280 372** |

| | | | | |
|---|---|---|---|---|
| **EQUITY** | | | | |
| Share capital | | 303 | 303 | 303 |
| Treasury shares | | -5 | -5 | -2 |
| Share Premium | | 113 355 | 113 355 | 113 355 |
| Other equity | | 111 564 | 107 896 | 122 187 |
| **Total equity** | | **225 217** | **221 549** | **235 843** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Pension liability | | 219 | 279 | 274 |
| Other long-term loan facility | 7 | - | - | - |
| Non-current lease liabilities | 3 | 19 375 | - | - |
| **Total non-current liabilities** | | **19 594** | **279** | **274** |
| **Current liabilities** | | | | |
| Accounts payable | | 17 821 | 10 424 | 15 275 |
| Income taxes payable | | 3 319 | 5 043 | 4 784 |
| Public duties | | 2 354 | 2 901 | 1 975 |
| Current lease liabilities | 3 | 4 716 | - | - |
| Other short-term debt | | 28 967 | 26 966 | 22 222 |
| **Total current liabilities** | | **57 178** | **45 333** | **44 255** |
| **Total liabilities** | | **76 772** | **45 612** | **44 529** |
| **TOTAL EQUITY AND LIABILITY** | | **301 989** | **267 161** | **280 372** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Amount in USD 1000 | Share capital | Treasury shares | Share premium | Other paid in capital | Currency translation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity as of 01.01.19** | **303** | **-5** | **113 355** | **3 307** | **-190** | **104 778** | **221 548** |
| Net profit for 01.01.19-30.09.19 | - | - | - | - | - | 2 944 | 2 944 |
| Share based compensation | - | - | - | 1 135 | - | 22 | 1 157 |
| Other comprehensive income | - | - | - | - | -431 | - | -431 |
| **Equity as of 30.9.19** | **303** | **-5** | **113 355** | **4 441** | **-621** | **107 744** | **225 217** |
| | | | | | | | |
| **Equity as of 01.01.18** | **283** | **-2** | **14 436** | **2 094** | **134** | **108 008** | **124 953** |
| Net profit for 01.01.18-30.09.18 | - | - | - | - | - | 11 489 | 11 489 |
| Purchase of treasury shares | - | -1 | - | - | - | -40 | -41 |
| Issue of share capital | 20 | - | 98 919 | - | - | - | 98 939 |
| Share based compensation | - | 1 | - | 774 | - | - | 775 |
| Other comprehensive income | - | - | - | - | -271 | - | -271 |
| **Equity as of 30.9.18** | **303** | **-2** | **113 355** | **2 868** | **-138** | **119 457** | **235 843** |

## STATEMENT OF CASH FLOWS

| Amount in USD 1000 | Note | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01.-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | | |
| Profit before tax | | 7 086 | 9 899 | 4 371 | 16 104 | 15 081 |
| Taxes paid for the period | | -287 | - | -2 745 | -1 992 | -2 759 |
| Depreciation | | 5 846 | 4 383 | 16 690 | 12 266 | 16 728 |
| Change in inventories, trade receivables and payables | | -6 892 | -20 447 | -9 833 | -26 264 | -4 708 |
| Share-based compensation | | 350 | 242 | 1 136 | 861 | 1 231 |
| Movement in pensions | | -60 | -34 | -60 | -19 | -30 |
| Other operations related adjustments | | 2 623 | 1 971 | -242 | 717 | 4 974 |
| **Net cash flows from operating activities** | | **8 667** | **-3 985** | **9 317** | **1 673** | **30 516** |
| **Cash flows used in investing activities** | | | | | | |
| Capital expenditures (including software) | 6 | -6 537 | -5 117 | -14 845 | -12 083 | -17 530 |
| Capitalized development expenses | 6 | -1 829 | -3 054 | -8 174 | -9 967 | -12 993 |
| **Net cash flows used in investing activities** | | **-8 366** | **-8 171** | **-23 020** | **-22 050** | **-30 523** |
| **Cash flows from financing activities** | | | | | | |
| Changes in treasury shares | | - | - | - | - | -12 075 |
| Capital increase | | - | - | - | 98 939 | 98 939 |
| Repayment of interest bearing debt | | - | - | - | -20 000 | -20 000 |
| Repayment of lease liabilities | | -1 421 | - | -3 077 | - | - |
| Cash settlement of options contract and issue of share capital | | - | - | - | -32 | -32 |
| **Net cash flows from financing activities** | | **- 1 421** | **-** | **-3 077** | **78 907** | **66 832** |
| Effects of exchange rate changes on cash and cash equivalents | | -71 | 149 | -372 | -224 | 357 |
| **Net change in cash and cash equivalents** | | **-1 191** | **-12 007** | **-17 151** | **58 307** | **67 181** |
| Cash and cash equivalents beginning of period | | 87 916 | 107 009 | 103 876 | 36 695 | 36 695 |
| **Cash and cash equivalents at end of period** | | **86 725** | **95 002** | **86 725** | **95 002** | **103 876** |

# NOTES

## NOTE 1: GENERAL

The Board of Directors approved the condensed third quarter interim financial statements for the three months ended 30 September 2019 for publication on October 21, 2019.

Nordic develops and sells integrated circuits and related solutions for short-range wireless communication. The Group specializes in ultra-low power (ULP) components, based on its proprietary 2.4GHz RF and Bluetooth technology. Nordic is also developing its long-range low-power cellular chip-set, providing customers with a broad portfolio of low-power connectivity solutions across the spectrum of distances from near-field to long-range.

Nordic Semiconductor ASA is listed on the Oslo Stock Exchange under the ticker NOD, and is a public limited liability company registered in Norway. The parent company's head office is located at Otto Nielsens vei 12, 7052 Trondheim.

## NOTE 2: CONFIRMATION OF THE FINANCIAL FRAMEWORK

The Group financial statements for Nordic Semiconductor ASA and its wholly owned subsidiaries, together called "The Group" have been prepared in accordance with IAS 34 Interim Financial Statements. The interim financial statements for Q3 2019 do not include all the information required for the full year financial statements and shall be read in conjunction with the Group Annual Accounts for 2018.

The financial statements are presented in thousand USD, unless otherwise stated. As a result of rounding adjustments, the figures in one or more rows or columns included in the financial statements may not add up to the total of that row or column.

In the interim financial statements for 2019, judgments, estimates and assumptions have been applied that may affect the use of accounting principles, book values of assets and liabilities, revenues and expenses. Actual values may differ from these estimates. The major assumptions applied in the interim financial statements for 2019 and the major sources of uncertainty in the statements are similar to those found in the Financial Statements for 2018.

IFRS 16 was implemented 1.1.2019. See note 3 for a reconciliation of the changes to the statement of the financial position as of 1.1.2019.

## NOTE 3: SIGNIFICANT ACCOUNTING PRINCIPLES

Significant accounting principles are described in the Group Financial Statement for 2018. The group accounts for 2018 were prepared in accordance with International Financial Reporting Standards (IFRS), relevant interpretations of this, as well as additional Norwegian disclosure requirements described in the Norwegian GAAP and the Norwegian Securities Trading Act.

New standards, amendments to standards, and interpretations have been published, but are not effective at January 1, 2019 and have not been applied in preparing these condensed financial statements. The Group intends to adopt these standards, if applicable, when they become effective.

The Group adopted IFRS 16 1.1.2019 using the modified retrospective approach and has not restated comparative amounts for the year prior to first adoption.

The main leases recognized in the balance sheet are the different office leases. The Group has elected to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., copy machines, coffee machines etc.) that are considered of low value.

The present value of future lease payments is recognized as a financial liability. Lease payments are split into principal and interest portions, using the effective interest method.

The right-of-use asset is recognized within fixed assets and is set equal to the financial liability at the date of implementation. The right-of-use asset is depreciated on a straight line basis over the lease term or, if it is shorter, over the useful life of the leased asset.

If the expected lease payments change as a result of index-linked consideration, the liability is remeasured. The weighted-average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 was 4.05 % p.a.

| | |
|---|---|
| **Operating lease commitment December 31, 2018 as disclosed in the financial statements** | **25 964** |
| Recognition exemption for: | |
| *Short-term leases* | *-236* |
| *Leases for low-value assets* | *-434* |
| Effect from discounting at the incremental borrowing rate as of January 1, 2019 | -3 303 |
| **Lease liability recognized at January 1, 2019** | **21 843** |

## NOTE 4: SEGMENT INFORMATION

In accordance with IFRS 8, the Group has only one business segment, which is the design and sale of integrated circuits and related solutions.

The Group classifies its revenues into the following technologies: Short range wireless components, long range (cellular IoT), ASIC components and consulting services. Within Wireless components, the Group reports its revenues based on the markets to which its components communicate. These include: Consumer Electronics, Wearables, Healthcare, Building and Retail, and Others.

The Group also reports its short range Wireless component revenue by proprietary wireless and Bluetooth protocols.

## NOTE 5: INTANGIBLE ASSETS

The Group recognizes intangible assets in the balance sheet if it is likely that the expected future economic benefits attributable to the asset will accrue to the Group and the assets acquisition cost can be measured reliably.

**Costs associated with development are capitalized if the following criteria are met in full:**

- The product or the process is clearly defined and the cost elements can be identified and measured reliably;
- The technical feasibility is demonstrated;
- The product or the process will be sold or used in the business;
- The asset will generate future financial benefits.
- Sufficient technical, financial and other resources for project completion are in place.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

## NOTE 6: CAPITALIZATION, DEPRECIATION AND AMORTIZATION

| **Specification of capital expenditures, balance sheet** | **Q3 2019** | **Q3 2018** | 01.01-30.09 **2019** | 01.01-30.09 **2018** | Full year **2018** |
|---|---|---|---|---|---|
| Capitalized development expenses (payroll expenses) | 1 451 | 2 270 | 5 299 | 7 323 | 9 774 |
| Capitalized acquired development expenses | 378 | 784 | 2 870 | 2 644 | 3 219 |
| Capital expenditures (including software) | 6 537 | 5 117 | 14 845 | 12 083 | 17 530 |
| Right-of-use assets | 5 548 | - | 5 548 | - | - |
| Currency adjustments | 48 | -7 | -200 | -121 | -933 |
| **Total** | **13 745** | **8 164** | **28 362** | **21 929** | **29 590** |
| **Depreciation, amortizations and impairments** | | | | | |
| Capitalized development expenses | 1 047 | 1 018 | 3 141 | 3 185 | 4 232 |
| Software and other intangible assets | 1 402 | 1 607 | 4 073 | 3 659 | 4 518 |
| Fixed Assets | 2 369 | 1 757 | 6 513 | 5 421 | 7 979 |
| Right-of-use assets | 1 027 | - | 2 962 | - | - |
| **Total** | **5 846** | **4 383** | **16 690** | **12 265** | **16 729** |

## NOTE 7: NET INTEREST-BEARING DEBT

The Group has long-term revolving credit facilities, which enables it to borrow up to USD 40 million and USD 25 million at any time with an interest rate equal to LIBOR + margin. The line of credit of USD 40 million expires end of November 2021, while the other USD 25 million expires end of November 2022. As of September 30, 2019, the Group had not drawn on any credit facilities. The security for the credit lines are provided by inventory, receivables and operating equipment.

**The following financial covenants are included:**
Equity ratio shall not be lower than 40 %.

In addition to the two RCFs, the Group has a EUR 10 million bank overdraft facility with its main bank. This overdraft was not utilized at the end of September 2019. The overdraft facility expires end of November 2021.

## NOTE 8: STOCK OPTIONS

Nordic has a stock option program for employees and management. Please see the annual report for 2018 for information about the program.

| | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|
| **Outstanding options beginning of period** | **4 194 293** | **3 127 663** | **3 127 663** |
| Options granted | 1 947 010 | 1 447 400 | 1 447 400 |
| Options forfeited | 297 000 | 97 060 | 97 060 |
| Options exercised | 24 699 | 283 710 | 283 710 |
| Options expired | - | - | - |
| **Outstanding options end of period** | **5 819 604** | **4 194 293** | **4 194 293** |
| Of which exercisable | 2 742 259 | 1 265 338 | 1 265 338 |

With reference to the Annual General Meeting ("AGM") on April 17, 2018, Nordic Semiconductor, on March 15, 2019, granted 1,752,366 share options to employees and primary insiders. On May 5, 2019 members of the Executive Management team were granted a total of 194 644 share options and 55 814 performance shares in the company. On the AGM the Parent company was given the approval to issue up to 2.7 million options in 2019, equivalent to approximately 1.7% of the outstanding share capital in options to all employees.

According to the approval, the option scheme has a long-term element as options are exercisable over a three-year period and expire after five years. The options granted on March 15, 2019, were granted at a strike price of NOK 39.44 (10% above volume weighted average share price the week prior to the grant date). The options granted on May 5,2019, to the Executive Management team were granted at a strike price of NOK 45.10. The maximum value of options under the program is capped at three times the strike price.

## NOTE 9: FINANCIAL RISK

Nordic is exposed to several risks, including currency risk, interest rate risk, liquidity risk and credit risk. For a detailed description of these risks and how the Group manages these risks, please see the annual report for 2018.

## NOTE 10: EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred since September 30, 2019 with any significant effect that will impact the evaluation of the submitted accounts.

# ALTERNATIVE PERFORMANCE MEASURES

The financial information is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. Additionally, it is management's intent to provide alternative performance measures (APM) that are regularly reviewed by management to enhance the understanding of the Group's performance.

**The Group has identified the following APMs used in reporting (amount in USD million):**

- Gross Margin. Gross Profit divided by Total Revenue. Gross margin is presented as it is the main financial KPI to measure the Group's operational performance.

| | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|
| Gross profit | 40.9 | 39.6 | 103.9 | 103.8 | 135.0 |
| Total revenue | 82.2 | 78.7 | 205.3 | 210.0 | 271.1 |
| **Gross Margin** | **49.8%** | **50.2 %** | **50.6%** | **49.4 %** | **49.8 %** |

EBITDA terms are presented as they are commonly used by investors and financial analysts.

- EBITDA. Earnings before interest, taxes, depreciation and amortization.

| | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|
| Operating profit | 5.7 | 9.9 | 3.9 | 16.4 | 14.0 |
| Depreciation | 5.8 | 4.4 | 16.7 | 12.3 | 16.7 |
| **EBITDA** | **11.5** | **14.3** | **20.6** | **28.7** | **30.8** |

- EBITDA Margin. EBITDA divided by Total Revenue.

| | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|
| EBITDA | 11.5 | 14.3 | 20.6 | 28.7 | 30.8 |
| Total revenue | 82.2 | 78.7 | 205.3 | 210.0 | 271.1 |
| **EBITDA Margin** | **14.1%** | **18.2 %** | **10.0%** | **13.7 %** | **11.4 %** |

- Total Operating Expenses. Sum of payroll expenses, other operating expenses, depreciation and amortization.

| | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|
| Payroll expenses | 20.5 | 16.3 | 58.9 | 50.2 | 70.0 |
| Other Opex | 8.8 | 8.9 | 24.3 | 24.9 | 34.2 |
| Depreciation | 5.8 | 4.4 | 16.7 | 12.3 | 16.7 |
| **Total Operating Expenses** | **35.2** | **29.6** | **99.9** | **87.4** | **121.0** |

- Cash Operating Expenses. Total payroll and other operating expenses adjusted for non-cash related items including option expenses, receivable write-off and capitalization of development expenses. Nordic management believes that this measurement best captures the expenses impacting the cash flow of the Group.

| | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|
| Total operating expenses | 35.2 | 29.6 | 99.9 | 87.4 | 121.0 |
| Depreciation | -5.8 | -4.4 | -16.7 | -12.3 | -16.7 |
| Option expense | -0.5 | -0.3 | -1.3 | -0.9 | -1.2 |
| Capitalized expenses | 1.8 | 3.1 | 8.1 | 10.0 | 13.0 |
| **Cash Operating Expenses** | **30.7** | **28.1** | **90.1** | **84.3** | **116.0** |

- Order Backlog. Customer orders placed by the end of the quarter for delivery in next and following quarters. This APM is used to understand the guiding for the next quarter.

- Adjusted EBITDA margin. EBITDA excluding cellular IoT, divided by Total Revenue excluding cellular IoT revenue. This APM shows Nordic's profitability excluding products in an investment phase with limited revenue.

| | Q3 2019 | Q3 2018 | 01.01-30.09 2019 | 01.01-30.09 2018 | Full year 2018 |
|---|---|---|---|---|---|
| Reported EBITDA | 11.5 | 14.3 | 20.6 | 28.7 | 30.8 |
| Long range (cellular IoT) EBITDA loss | 6.5 | 3.9 | 17.2 | 12.0 | 16.9 |
| **Adjusted EBITDA** | **18.1** | **18.2** | **37.8** | **40.7** | **47.7** |
| Total revenue (excluding cellular IoT revenue) | 81.6 | 78.7 | 204.4 | 210.0 | 270.9 |
| **Adjusted EBITDA margin** | **22.2%** | **23.1%** | **18.5%** | **19.4%** | **17.6%** |

- Last twelve months operating expenses excluding depreciation divided by last twelve months revenue (LTM). Nordic's business is seasonal and by dividing last twelve months operating expenses excl. depreciation by last twelve months revenue, management is able to track cost level trends in relation to revenue. As a growth business it is key to keep cost level under control while still growing the business, and this ratio keeps track on that.

| | Q3 2019 | Q3 2018 |
|---|---|---|
| Total operating expenses LTM | 133.5 | 117.2 |
| Depreciation LTM | -21.2 | -15.4 |
| **Operating expenses excluding depreciation LTM** | **112.3** | **101.2** |
| Total revenue LTM | 266.4 | 274.4 |
| **LTM opex / LTM revenue** | **42.2%** | **37.1%** |

- Net working capital divided by last twelve months revenue. Net working capital is a measure of both a company's efficiency and its short-term financial health, and by dividing the measure by last twelve months, seasonal effects are excluded. Nordic management uses this ratio to report on liquidity management to the financial market and internally to track performance.

| | Q3 2019 | Q3 2018 |
|---|---|---|
| Current assets | 207.0 | 222.5 |
| Cash and cash equivalents | -86.7 | -95.0 |
| Current liabilities | -57.2 | -44.3 |
| Current lease liabilities | 4.7 | - |
| Income taxes payable | 3.3 | 4.8 |
| **Net working capital** | **71.1** | **88.0** |
| Total revenue LTM | 266.4 | 274.4 |
| **NWC / LTM revenue** | **26.7%** | **32.1%** |