networks.



# MOBILE DEVICE MANUFACTURERS EVALUATE PRECISE BIOMETRICS' FINGERPRINT TECHNOLOGY

PRECISE BIOMETRICS AB (PUBL), CORPORATE IDENTITY NO. 556545-6596 INTERIM REPORT FOR THE PERIOD JANUARY – MARCH 2014

- The group's net sales for the first quarter was SEK 7.2 million (16.8)
- The group's operating result for the quarter was SEK -10.9 million (-1.0).
- The group's net result for the guarter was -10.7 (-1.3).
- Earnings per share for the first quarter was SEK -0.03 (-0.00).
- Available cash at the end of the quarter amounted to SEK 85.7 million (7.7).

#### IMPORTANT EVENT DURING THE QUARTER

 Precise Biometrics launches Tactivo<sup>™</sup> for iPad mini and Tactivo for iPad Air. The new products in the Tactivo product family have a one-piece design, further improving the user experience. With these releases, Precise Biometrics has a complete portfolio of Tactivo products for all available iPhone and iPad versions.

#### FOR FURTHER INFORMATION, PLEASE CONTACT

Håkan Persson, President & CEO, Precise Biometrics AB.
Telephone +46 46 31 11 05, or +46 734 35 11 05 E-mail hakan.persson@precisebiometrics.com

Patrik Norberg, CFO, Precise Biometrics AB

Telephone +46 46 31 11 47, or +46 734 35 11 47 E-mail patrik.norberg@precisebiometrics.com

Precise Biometrics is a market-leading provider of solutions for fingerprint recognition to prove people's identities. With top-of-the-line expertise in fingerprint verification, Precise Biometrics offers fast, accurate and secure authentication of a person.

The technology adds value to ID, enterprise and bank cards as well as access to mobile solutions (smart phones and tablets), computers and

Precise Biometrics serves business and government organizations throughout the world and its technology is licensed to close to 160 million users.

For more information, please visit www.precisebiometrics.com



# MOBILE DEVICE MANUFACTURERS EVALUATE PRECISE BIOMETRICS' FINGERPRINT TECHNOLOGY

INTERVIEW WITH HÅKAN PERSSON, CEO AND PRESIDENT, PRECISE BIOMETRICS

#### How would you describe the first quarter?

During the first quarter we had a continued high tempo in our focus on generating sales. We also continued to focus on cooperation with customers and partners on pilot and test projects. Regarding Tactivo™ we are working with pilot projects in the government agency market in the US and the health care sector in Europe. We are also focusing on consolidating awareness our fingerprint algorithm Precise Biomatch™ Mobile on the mobile market. We continue to discuss our fingerprint recognition with several of the leading mobile operators engaged in tests and evaluating our offer.

We are not pleased with our sales and result level. The majority of our sales in the first quarter were derived from the business area Desktop & Physical Access Solutions, which consists of fingerprint readers and solutions for physical access to premises and computers. A government agency customer in the Middle East and the gym chain Fitness24Seven accounted for most of our sales. We had however expected a better development and higher earnings from our mobile smart card reader Tactivo. A total of about 600 Tactivo readers were sold during the quarter, most of which were sold to U.S. government agency partners. The readers are mainly used for test purposes before future roll-outs. Outside of the US, sales have mainly gone to partners focusing on health care solutions.

# What is the current trend in the market?

When it comes to Tactivo the interest in mobile security solutions is strong, primarily in the government agency market in the US and the health care sector in Europe. In addition to both these limited markets there are potential sales of Tactivo to private companies and organizations where pilot projects are in progress.

The trend to move away from desktops and laptops to smart devices remains strong. The use of mobile devices such as smartphones and tablets does however require higher security levels. We have a well-developed and clear offering around mobile authentication that matches these security requirements.

We are optimistic about the prospects for our algorithm offering, Precise BioMatch Mobile. A significant event during the first quarter on this, for us, important market was Samsung's launch of Galaxy S5 with embedded fingerprint recognition. Samsung is, together with Apple, an important and leading player on the market for mobile entities. This will create opportunities for us in future models and also impact other manufacturers to introduce fingerprint technology.. The cooperation agreement with Fingerprint Cards (FPC), which was signed in 2013, is important to us. FPC licenses Precise Biometrics' fingerprint algorithm to further enhance the performance of its capacitive sensors.

On the whole we can see a growing interest in mobile security solutions in the market, which continues to bolster our confidence in the future with our product mix.

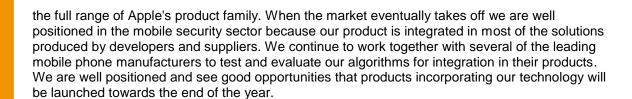
### How do you see the rest of 2014 developing?

The prospects for a broader roll-out of Tactivo are beginning to fall into place. It's a complicated eco system with many players involved. The technical solutions are in the process of being resolved and it is therefore important to demonstrate that as a leading player we can achieve leverage from all the work we have done.

Precise Biometrics is an established player in the market for mobile security solutions. We are one of the few players that deliver high-quality smart card readers, and the only company that supports







We are continuing with our intensive sales and development efforts, in close dialogue with customers and partners. Considering our position in the market we see promising opportunities to generate earnings and growth.



#### SALES AND RESULT

#### First Quarter January to March 2014

Sales for the first quarter were SEK 7.2 million (16.8). The majority of the quarter's sales came from the business area Desktop & Physical Access Solutions and especially from two customers; Fitness24Seven and a government customer in the Middle East.

The lower sales compared to the corresponding period last year is explained by that the company during the first quarter of 2013 received two major orders, one for Tactivo and one for algorithms, totaling SEK 10.0 million. The gross margin amounted to 57% (78%) and is negatively impacted by a higher proportion of hardware sales.

Operating costs amounted to SEK 15.0 million (14.2). The increase is due to higher costs related to the Mobile Smart Card Solutions business area (Tactivo) and is caused primarily by higher level of depreciation of activated development costs. Staff costs are lower compared to the previous year due to fewer employees in the U.S. subsidiary.

The Group's net loss for the first quarter is SEK -10.7 million (-1.3).

Earnings per share (average number of shares) for the first quarter was SEK -0.03 (-0.00).

#### FINANCING AND LIQUIDITY

As of March 31, 2014 equity amounted to SEK 123.8 million (46.9) and equity/share to SEK 0.36 (0.18).

Cash flow from current operations amounted to SEK -13.1 million (-6.6). Available cash as of March 31 2014 amounted to SEK 85.7 million (7.7). Available cash is higher compared to the corresponding period last year through the new share issues in 2013, which resulted in a total capital injection of 129.6 million.

#### MARKET AND SALES - Q1 2014

As of 1 January 2014, Precise Biometrics' operations are divided into three business areas: Mobile Smart Card Solutions (Tactivo™), Fingerprint Technology (licensing of algorithms) and Desktop & Physical Access Solutions (fingerprint readers and access solutions for premises and computers).

The business area **Mobile Smart Card Solutions** consists of products for mobile security for smartphones and tablets, Tactivo. Tactivo is a smart casing developed for Apple's smartphones and tablets, but it also supports solutions for Android. Tactivo protects both the information stored locally in the unit and communication online, e.g. to servers. Tactivo guarantees a very high level of security for mobile units, while complying with greater demands for network security and verification.

Tactivo for iPad mini and Tactivo for iPad Air were launched in the first quarter of 2014. The new products in the Tactivo family have a new and innovative design that ensures enhanced user experience. With these solutions Precise Biometrics has a complete portfolio of Tactivo products for all the current models of iPhone and iPad.

Sales during the quarter have, however, been at a low level. A total of about 600 Tactivo readers were sold during the quarter, most of which were sold to U.S. government agency partners. The readers are mainly used for test purposes before future roll-outs. Outside of the US, sales have mainly gone to partners focusing on health care solutions, but also to Volkswagen on the basis of the frame agreement signed in 2013.

The business area **Fingerprint Technology** includes the software based on the Company's algorithms: Precise BioMatch™ Embedded, Precise BioMatch™ Mobile and Precise Match-on-Card™.

Precise BioMatch Mobile, which was launched in 2013, is a software developed and optimized for



integration of fingerprint recognition in smartphones and tablets. This software was initially adapted for small sensors and is suitable for use in, for example, mobile units. In 2013 a partnership agreement was signed with the Swedish sensor manufacturer Fingerprint Cards (FPC) for licensing of algorithms for integration in FPC's sensors.

Sales during the first quarter of 2014 come from support and maintenance as well as sales in the ongoing NID (National ID card) project in Portugal.

The business area **Desktop & Physical Access Solutions** mainly focuses on sales of the Company's traditional products, which include fingerprint readers for desktop workplaces and physical access. During the quarter most of Precise Biometrics' sales, SEK 5.9 million, originated from this area and primarily from two well-established longstanding customers. One is the government agency customer in the Middle East, which buys Precise Biometrics' fingerprint reader 200/250MC. Follow-up orders were also received during the quarter from Fitness24Seven, one of Scandinavia's largest gym chains, which uses Precise Biometrics' solution for member access to the gyms.

#### PARENT COMPANY

Parent company sales for the year amounted to SEK 6.0 million (11.7). Operating loss before tax for the interim period amounted to SEK -10.7 million (-0.3).

Available cash at the end of the quarter amounted to SEK 81.4 million (5.6). Available cash is higher compared to the corresponding period last year through the new share issues in 2013, which resulted in a total capital injection of 129.6 million.

#### ORGANIZATION AND EMPLOYEES

The organization consists of Precise Biometrics AB with the head office in Lund, Sweden and an office in Karlstad, Sweden. The organization also consists of the subsidiary Precise Biometrics Inc. with an office in Virginia, USA.

As of March 31, 2014 the group had 27 (37) employees, 25 in Sweden and 2 in the US.

# **INVESTMENTS IN TANGIBLE FIXED ASSETS**

During the first quarter the group has invested SEK 0.5 million (0.0) in tangible fixed assets.

#### CAPITALIZATION AND DEPRECIATION OF DEVELOPMENT COSTs

Development work costs of SEK 1.9 million (3.2) were capitalized during the quarter with main impact from new investments related to Tactivo. Depreciation of development costs amounted to SEK 2.0 million (0.8) during the interim period. The reason behind the higher depreciation level compared to the corresponding period last year is that the company has, during the fourth quarter 2013, made a revised assessment in relation to the depreciation of the development projects related to Tactivo. The Company has determined that the products in the product family Tactivo has a shorter life span than the company's more traditional products and thus can be written off faster.

#### **ANNUAL GENERAL MEETING 2014**

The Annual General Meeting will be held today, Tuesday April 29 2014, at the Company's head office in Lund at 4.00 pm. More information is available at the Company's web site.

The Board proposes that the company's loss for 2013, which amounted to SEK 43,092,677, is appropriated through a reduction of the share premium fund and that SEK 63,868,876 is carried forward. The Board proposes that no dividend is declared for the financial year.

The Nomination Committee proposes re-election of the following Board members; Torbjörn Clementz, Anders Harrysson, Torgny Hellström, Matts Lilja and Eva Maria Matell, for the period up



to and including the Annual General Meeting 2015. Lisa Thorsted has declined re-election. Current member of the Board, Torgny Hellström is suggested new Chairman of the Board while Mats Lindoff is proposed to be new member of the Board.

The Nomination Committee proposes that the annual director's fees paid to the Board of Directors up to and including the Annual General Meeting 2015 shall be increased in order to better reflect current market level and to retain and attract the needed competencies to the Board. The Chairman of the Board shall be remunerated 300,000 (previously SEK 210,000) and each of the other Board members who are not employed with the Company shall receive SEK 150,000 (previously SEK 105,000).

The Board of Directors proposes the Annual General Meeting to authorise the Board to resolve, on one or several occasions before the next Annual General Meeting, on an issue of shares and/or convertible bonds. Such issue may entail a deviation from the shareholders' preferential right to subscribe for new shares and/or convertible bonds and also entail that payment of the new shares and/or convertible bonds may be made in cash or by consideration in kind or by right of set-off. The issue may result in an aggregate increase in the share capital corresponding to the issue of a maximum of 34,530,609 shares and/or convertible bonds to be converted into a maximum of 34,530,609 shares. Full exercise of the authorisation, and where applicable full conversion, is equivalent to a dilution of approximately 10% of the current share capital and votes.

The Board of Directors proposes an incentive program to the company's employees by the issue of subscription warrants. The proposal principally entails that the Annual General Meeting shall resolve on an issue of maximum 8,000,000 subscription warrants entitling to subscription for the equivalent number of shares in Precise Biometrics AB.

# **RISK FACTORS**

Precise Biometrics is exposed to both commercial and financial risks, which to a large extent lie outside the reach and influence of the company. There is no guarantee that the current capital will be sufficient until the Company achieves a positive cash flow. Neither is there any guarantee that new capital can be acquired if the need should arise, or that such capital can be acquired on preferential terms. For a full account of identified risks, please refer to the Annual Report for 2013, which was submitted 31 March, 2014. No further essential risks or uncertainties have arisen after the submission of the Annual Report.

#### **FUTURE REPORT DATES**

Interim report Q2 July 16, 2014
Interim report Q3 October 21, 2014
Year-end report February 5, 2015



#### **ACCOUNTING PRINCIPLES**

This Interim report has been prepared in accordance with IAS 34, interim reporting and the Swedish Company Accounts Act.

New IFRS, additions to IAS and IFRIC interpretations taking effect January 1, 2014, did not have a material effect on the financial statements.

For information on the applied accounting principles please refer to the Annual Report for 2013. This quarterly report has not been subjected to review by the Company's auditors.

Lund, April 29, 2014

#### The board of directors

Lisa Thorsted, chairman

Torbjörn Clementz Eva Maria Matell Anders Harrysson Matts Lilja Torgny Hellström Håkan Persson, President and CEO, Precise Biometrics AB (publ).

Precise Biometrics AB (publ) may be required to disclose the information provided herein pursuant to the Securities Markets Act. The information was submitted for publication at 13.00 on April 29, 2014.



# Income statement, Group

(Figures in thousands SEK)	Q1 Q1 Fu		ull year	
	2014	2013	2013	
Net sales	7 184	16 796	34 944	
Cost of goods sold <sup>1)</sup>	-3 082	-3 623	-15 976	
Gross profit/loss	4 102	13 173	18 968	
Selling expenses	-4 465	-6 762	-24 777	
Administrative expenses	-3 367	-3 154		
R&D costs <sup>2)</sup>	-7 230	-3 976	-21 307	
Other operating income and changes in value	20	-278	-358	
	-15 042	-14 170	-61 148	
Operating result	-10 940	-997	-42 180	
Financial costs	210	216	1 000	
Financial costs	210	-316	-1 092	
Result after financial items	-10 730	-1 313	-43 272	
Result after infancial femile	10,50	1 5 1 5	.5 272	
Tax	-	-	_	
Result for the period	-10 730	-1 313	-43 272	
Result for the period	10 750	1 313	45 272	
Result attributable to:				
Owners of the parent	-10 730	-1 313	-43 272	
Result per share (before dilution), SEK	-0,03	-0,00	-0,14	
Result per share (after dilution), SEK	-0,03	-0,00	-0,14	

<sup>&</sup>lt;sup>4</sup> Include write-down of inventory totalling SEK-1.7 million for full year 2013.

<sup>&</sup>lt;sup>2)</sup> Include write-down of capitalized development work totalling SEK -2.1 million for full year 2013.



# Groups statement of profit or loss and other comprehensive income

(Figures in thousands SEK)	Q1 2014	Q1 2013	Full year 2013
Profit/loss for the period	-10 730	-1 313	-43 272
Other comprehensive income:			
Items that can be reclassified into profit or loss			
Change in accumulated exchange rate differences	-40	-8	43
	-40	-8	43
Comprehensive income for the period, net of tax	-40	-8	43
Total comprehensive income for the period	-10 770	-1 321	-43 229
Attributable to:			
Owners of the parent	-10 770	-1 321	-43 229
Total comprehensive income for the period	-10 770	-1 321	-43 229



# **Balance Sheet, Group**

(Figures in thousands SEK)	03/31/2014 03	/31/2013	12/31/2013
Assets			
Intangible fixed assets	21 321	20 788	21 574
Tangible fixed assets	3 760	1 728	3 475
Inventories	16 555	10 194	14 228
Accounts receivable - trade	4 846	11 382	3 997
Other current receivables	7 415	7 885	8 453
Cash and bank balances	85 730	7 688	101 197
Total assets	139 627	59 665	152 924
Equity and liabilities			
Equity	123 777	46 874	134 547
Current liabilities	15 850	12 791	18 377
Total equity and liabilities	139 627	59 665	152 924
Pledged assets	NONE	24 000	24 000
Contingent liabilities	NONE	NONE	NONE



# Cash Flow Statement, Group

(Figures in thousands SEK)	Q1	Q1	Full year
	2014	2013	2013
Cash flow from operating activities			
before changes in working capital	-8 561	-523	-36 942
Cash flow from changes in working capital	-4 512	-6 096	2 723
Cash flow from operating activities	-13 073	-6 619	-34 219
Cash flow from investing activities	-2 394	-3 277	-11 749
Cash flow from financing activities	0	-20 000	109 580
Cash flow for the period	-15 467	-29 896	63 612
Liquid funds at the beginning of the period	101 197	37 584	37 584
Liquid funds at the end of the period	85 730	7 688	101 197

# Key Figures, Group

	$\underline{03/31/201403/31/201312/31/2013}$		
Working capital (thousands SEK)	98 696	24 358	109 498
Liquid ratio	618%	211%	618%
Equity/assets ratio	89%	79%	88%
Return on average equity	-	-	neg
Capital employed (thousands SEK)	123 777	46 874	134 547
Return on capital employed	-	-	neg
Profit/loss per share (SEK)	-0,14	-0,00	-0,14
EBITDA (thousands SEK)	-8 579	-49	-35 293
Equity per share (SEK)	0,36	0,18	0,39
Number of shares	345 306 094	264 523 168	345 306 094
Number of employees at the end of the period	27	37	29
Average number of employees during the period	32	37	34

#### Definitions - Key Figures

Working capital: Current assets less current liabilities

Liquid ratio: Current assets less inventories divided by current liabilities

Equity/assets ratio: Equity as of the balance sheet date divided by total assets as of the balance sheet date

Return on equity: Profit/loss for the period divided by average equity

Capital employed: Balance sheet total minus non-interest-bearing liabilities and provisions

Return on capital employed: Profit/loss after financial items plus financial expenses divided by the

average capital employed

Profit/loss per share: Profit/loss after tax divided by the average number of shares. The options are not included in the calculation

due to calculation of potential shares would result in an improvement in loss per share which is not permitted according to IAS 33

EBITDA: Profit/loss before net financial items, depreciations, write-downs and tax

Equity per share: Equity at the end of the period divided by the number of shares at the end of the period

Quarterly earnings ratios are not disclosed

Operating costs (as described in Sales and result): Operating costs excluding costs for products sold, participations in associated companies and goodwill write-down, but including depreciation and write-downs and after capitalization of costs for development work



# Changes in equity in summary, Group (Figures in thousands SEK)

	2014	2013	2013
	Q1	Q1	Full year
Opening balance	134 547	48 195	48 195
Comprehensive income for the period	-10 730	-1 313	-43 272
Exchangerate differences	-40	-8	43
New share issue	-	-	129 581
Closing balance	123 777	46 874	134 547



# Segment information<sup>1)</sup> (Figures in thousands SEK)

Sales per segment	2014	2013	2013
	Q1	Q1	Full year
Mobile Smart Card Solutions	613	6 078	4 325
Fingerprint Technology	666	8 253	7 822
Desktop & Physical Access Solutions	5 905	2 465	22 797
Group	7 184	16 796	34 944
Costs per segment <sup>2)</sup>	2014	2013	2013
	Q1	Q1	Full year
Mobile Smart Card Solutions	-9 309	-13 145	-42 249
Fingerprint Technology	-4 250	-4 431	-17 980
Desktop & Physical Access Solutions	-4 096	-2 221	-18 974
Other <sup>3)</sup>	-469	2 004	2 079
Group	-18 124	-17 793	-77 124
Operating result per segment	2014	2013	2013
	Q1	Q1	Full year
			_
Mobile Smart Card Solutions	-8 696	-7 067	-37 924
Fingerprint Technology	-3 584	3 822	-10 158
Desktop & Physical Access Solutions	1 809	244	3 823
Other <sup>3)</sup>	-469	2 004	2 079
Group	-10 940	-997	-42 180

<sup>1)</sup> New segments apply from January 1, 2014 and the 2013 figures are restated accordingly.

<sup>1)</sup> The above expenses in the segments include Cost of goods sold as well as direct and share of indirect operation expenses.

<sup>2) &</sup>quot;Other" includes capitalization and depreciation of development work, depreciation of tangible fixed assets and other operating income and changes in value. Costs have been taken into account in the period they have incurred.



# **Income statement, Parent company**

(Figures in thousands SEK)	Q1 2014	Q1 2013	Full year 2013
Net sales Cost of goods sold <sup>1)</sup>	6 040 -3 199	11 746 -1 135	28 517 -18 875
Gross profit/loss	2 841	10 611	9 642
Selling expenses Administrative expenses R&D costs <sup>2)</sup> Other operating income and changes in value	-3 277 -3 368 -7 230 -20 -13 895	-3 333 -3 154 -3 976 -277 -10 740	-15 859 -14 704 -21 307 -356 -52 226
Operating result	-11 054	-129	-42 584
Financial costs	359	-211	-508
Result after financial items	-10 695	-340	-43 092
Tax	-	-	
Result for the period	-10 695	-340	-43 092

 $<sup>^{\</sup>rm tl}$  Include write-down of inventory totalling SEK -1.7 million for 2013.

 $<sup>^{81}</sup>$  Include write-down of capitalized development work totalling SEK -2.1 million for 2013.



# **Balance Sheet, Parent company**

(Figures in thousands SEK)	3/31/2014	3/31/2013	12/31/2013
Assets			
	24 224	00.700	24 574
Intangible fixed assets	21 321	20 788	21 574
Tangible fixed assets	3 760	1 728	3 475
Participations in group companies	1 058	1 058	1 058
Inventories	12 380	9 409	10 913
Accounts receivable - trade	1 777	3 434	1 777
Other current receivables <sup>1)</sup>	44 747	43 587	43 702
Cash and bank balances	81 432	5 588	96 976
Total assets	166 475	85 592	179 475
Equity and liabilities			
Equity	151 305	75 170	161 999
Other provisions	107	138	100
Current liabilities	15 063	10 284	17 376
Total equity and liabilities	166 475	85 592	179 475
Pledged assets	NONE	24 000	24 000
Contingent liabilities	NONE	NONE	NONE
contingent natinates	HONL	HONE	HOME

<sup>&</sup>lt;sup>a</sup>Include inter-company receivables totalling SEK 38 million (36).



#### **TELEPHONE CONFERENCE**

On the occasion of today's Interim Report we have the pleasure to invite investors and journalists to the following informative meeting during the day

- The conference starts at 14:30 (CET)
- To participate, please call + 46 (0)8 505 982 61

An operator will note your name and connect you to the conference. She/he will also provide you with information about what to do if you have any questions.

The presentation will be held in English but afterwards there will be an opportunity to ask questions in Swedish.

Participating on behalf of Precise Biometrics

- Håkan Persson, President and CEO
- Patrik Norberg, CFO

A recording from the conference will be available for three days after the telephone meeting. To listen to the conference afterwards dial +46 (0)8 505 564 73. When asked to state a reference number please dial 351234 and finish with (#).

Please visit <u>www.precisebiometrics.com/financial-reports</u> where a presentation can be downloaded.

# FOR FURTHER INFORMATION

Håkan Persson, President and CEO, Precise Biometrics Tel. +46 46 31 11 05 or +46 734 35 11 05 E-mail hakan.persson@precisebiometrics.com

Patrik Norberg, CFO, Precise Biometrics AB Tel. +46 46 31 11 47 or +46 734 35 11 47 E-mail patrik.norberg@precisebiometrics.com

Precise Biometrics AB (headquarters) Box 798 SE-220 07 Lund

Tel. +46 46 31 11 00 Fax: +46 46 31 11 01

E-mail: info@precisebiometrics.com

Precise Biometrics is a market-leading provider of solutions for fingerprint recognition to prove people's identities. With topof-the-line expertise in fingerprint verification, Precise Biometrics offers fast, accurate and secure authentication of a

erson.

The technology adds value to ID, enterprise and bank cards as well as access to mobile solutions, computers and networks.

Precise Biometrics serves business and government organizations throughout the world and its technology is licensed to close to 160 million users.

For more information, please visit www.precisebiometrics.com.