

Fingerprint Cards AB (publ) issues SEK 75m in hybrid equity and intends to carry out a SEK 300m fully secured rights issue to improve its cash position and cure a forecasted breach against a bond covenant and publishes financial information

As communicated by Fingerprint Cards AB (publ) (“Fingerprints” or the “Company”), extensive Covid-19-related restrictions introduced in China during 2022 have led to a significantly decreased demand for smartphones in China, which is the company’s largest market. This development has had a significant negative impact on Fingerprints’ sales in the mobile segment in China. The Company has been following the developments in China and its effect on Fingerprints closely and has come to the conclusion that the Company runs a high risk of breaching the maintenance test covenant under its outstanding Senior Secured Callable Floating Rate Bonds 2021/2024. In addition, the decreased sales volumes in China have entailed a strained working capital position for the Company. Therefore, the Company has carried out an issue of perpetual hybrid equity instruments in an aggregate amount of SEK 75 million and intends to carry out a fully secured rights issue amounting to approximately SEK 300 million in order to strengthen the Company’s balance sheet and to cure the forecasted maintenance test covenant breach, entailing that no event of default will occur under the Terms and Conditions (as defined below). The Company has already received subscription commitments and underwriting commitments covering the planned rights issue in full. The net proceeds from the issue of hybrid equity and the fully secured rights issue will improve Fingerprints cash position, cure the maintenance test covenant and be used to finance (i) expenditure in the ordinary course of business, including various customer projects, investments in research and development regarding the Company’s products as well as supplier costs and (ii) inventory ramp up within the product segments Mobile, Payments, PC and Access.

Furthermore, the Company publishes certain financial information as of 30 June 2022 which has been consolidated as part of the preparations ahead of the rights issue.

Summary

- The Company forecasts a breach against the maintenance test covenant pursuant to the terms and conditions (the “Terms and Conditions”) of its outstanding senior secured callable floating rate bonds 2021/2024 (ISIN: SE0017071855) with an aggregate outstanding nominal amount of SEK 300 million (the “Senior Secured Callable Floating Rate Bonds”).
- The Company intends to carry out a fully secured rights issue, amounting to approximately SEK 300 million, during Q4 2022 (the “Rights Issue”) to cure the forecasted maintenance test covenant breach and entail that no event of default will occur under the Terms and Conditions.
 - The Company has received subscription commitments and underwriting commitments covering the Rights Issue in full.
 - The Company will communicate further details regarding the Rights Issue in a separate press release in the near future.
- The Company has carried out an issue of perpetual hybrid equity instruments in an aggregate amount of SEK 75 million with a 17 per cent interest (the “Hybrids”) to Fredrik Lundgren and Wilhelm Risberg (the “Hybrid Issue”). The Hybrids will be converted into B-shares prior to the record date in the Rights Issue.
- The Company announces certain financial information as of 30 June 2022 which has been consolidated as part of the preparations ahead of the rights issue.

Background and reasons

As communicated by Fingerprints in its Q2 2022 report, released on 18 July 2022, extensive Covid-19-related restrictions introduced in China during 2022 have led to a significantly decreased demand for smartphones in China which in turn has had a significant negative impact on Fingerprints’ sales in the mobile segment in China.

China is the company's largest market and stood for approximately 98% of sales during 2021. The reduced sales and price competition within the Mobile product segment and the build-up work regarding inventory within the Payments, PC and Access product segments have had a negative effect on the Company's liquidity position in 2022. In addition, the decreased sales volumes in China have entailed a strained working capital position for the Company.

In Q2 2022, the Company initiated a cost reduction program to adapt to the challenging environment. The program is expected to reduce operating costs by approximately 20% and is expected to have full effect during Q4 2022.

In addition to the cost reduction program, Fingerprints also works hard to continue its diversification in revenue streams. In 2021, c.10% of the Company's revenues derived from product segments other than the Mobile product segment. The segments outside of capacitive sensors for Mobile are expected to account for approximately 30% of Fingerprints' revenues by year end 2022 and 45% by year end 2023. Since the Company's gross margins are higher in the non-Mobile segments than in the Mobile segment (see the table "*Standard gross margin*" below), Fingerprints expects that the shift towards the non-Mobile segments will entail a higher gross margin for Fingerprints overall.

It is expected that the Covid-19 restrictions in China will continue to have a negative effect on sales and gross margin also for Q3 and Q4 2022, as well as for Q1 2023. However, the company believes that the significant restrictions eventually will come to an end resulting in the return of historical demand for mobile phones coupled with continued growth in the Payments, PC and Access product segments. In the near-term, the gradual increase in demand for these products is expected to lead to an inventory release and a positive cash flow effect. Improved payment terms will have a further positive effect on cash flow. Additionally, the implementation of the cost reduction program will decrease operating expenses. In the longer term, coupled with the increase in demand and growth in product segments, it is predicted that Fingerprints will have stronger visibility in the production cycle and therefore more predictable cash flows.

Rights Issue

The Company has been following the developments in China and its effect on Fingerprints closely and has come to the conclusion that the Company runs a high risk of breaching the maintenance test covenant (a quarterly tested covenant that prescribes a certain maximum ratio between the Fingerprints group's net interest bearing debt and consolidated EBITDA) under the Terms and Conditions of the Senior Secured Callable Floating Rate Bonds.

In order to improve Fingerprints cash position and to cure the forecasted breach against the maintenance test covenant pursuant to the Terms and Conditions, the Company intends to carry out Rights Issue of units consisting of new shares and new warrants in the Company, with pre-emptive rights for its current shareholders, during Q4 2022. The Rights Issue is envisaged to raise up to approximately SEK 300 million and will entail that no event of default will occur under the Terms and Conditions. The net proceeds from the Rights Issue will be used to finance (i) expenditure in the ordinary course of business, including various customer projects, investments in research and development regarding the Company's products as well as supplier costs and (ii) inventory ramp up within the product segments Mobile, Payments, PC and Access.

Certain of the Company's shareholders (including senior executives and board members), as well as the investors in the Hybrids, have undertaken to subscribe for in total approximately SEK 27 million, corresponding to approximately 9 per cent of the Rights Issue. In addition, certain external investors, including Carnegie, investors in the Hybrid, and existing shareholders have entered into underwriting commitments of in total SEK 273 million, corresponding to approximately 91 per cent of the Rights Issue. Hence the Rights Issue is, if carried out, fully secured by subscription undertakings and underwriting commitments. In addition, the Company's largest shareholder Johan Carlström (through a holding company) and senior executives and board members that together represent 7.1 per cent of the shares and 22.2 per cent of the votes in the Company have undertaken to

vote in favor of the contemplated Rights Issue and other matters related to the Rights Issue at the extraordinary general meeting that will resolve on the Rights Issue.

Further information regarding the Rights Issue will be communicated separately by the Company in the near future.

Hybrid Issue

In order to strengthen the Company's balance sheet and to cure the forecasted maintenance test covenant breach, entailing that no event of default will occur under the Terms and Conditions, the Company has issued perpetual hybrid equity instruments in an aggregate amount of SEK 75 million with a 17 per cent interest to Fredrik Lundgren and Wilhelm Risberg, who have entered into underwriting commitments in relation to the Rights Issue. The Company will repay the Hybrids by way of set off against new equity instruments in the Company in before the record date in the Rights Issue. The Hybrids are classified as shareholder's equity in accordance with IFRS.

The Company has reviewed several alternatives to solve its short-term liquidity needs, including loan financing and waivers from bondholders under the Terms and Conditions. The Hybrid issue has been deemed to be the best solution for the Company.

Certain financial information

Fingerprints hereby announces certain consolidated financial information for the Fingerprints group as of 30 June 2022 which has been consolidated by the Company as part of the preparations ahead of the rights issue, see tables below. The financial information has not been audited or reviewed by the Company's auditor.

Segment growth

Segment growth	2021	30 Jun 2022 LTM
Mobile	-1%	-14%
Other (PC/Access/Payments)	+89%	+12%

Standard gross margin¹

Standard gross margin by product	2020	2021	30 Jun 2022 LTM
Mobile	20%	27%	27%
Other (PC/Access/Payments)	34%	37%	65%

Overview of potential market size and gross margins for market segments

	Mobile	PC	Payments	Access
Potential market size (units / year) ²	2 bn	350 m	6 bn	Hundreds of millions
Approx. gross margin	15-20%	40-45%	30-40%	40-50%

¹ Gross profit by segment has been calculated proportionately from the standard gross profit (gross profit before adjustments of variances, depreciation of capitalized R&D and costs for operations)

² Fingerprints estimates on shipments of mobile phones, PCs, payment devices (including smartcards, wearables and USB tokens) and Access devices, based on various industry sources.

Advisers

Carnegie Investment Bank (publ) acts as Sole Global Coordinator and Bookrunner in relation to the Hybrid Issue and the contemplated Rights Issue. Gernandt & Danielsson Advokatbyrå KB is legal adviser to the Company.

About Fingerprints

Fingerprint Cards AB (Fingerprints) – the world’s leading biometrics company, with its roots in Sweden. We believe in a secure and seamless universe, where you are the key to everything. Our solutions are found in hundreds of millions of devices and applications, and are used billions of times every day, providing safe and convenient identification and authentication with a human touch. For more information visit our [website](#), read our [blog](#), and follow us on [Twitter](#). Fingerprints is listed on Nasdaq Stockholm (FING B).

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Important information

The information in this press release does not contain or constitute an offer to acquire, subscribe or otherwise trade in shares, units, unit rights, warrants, hybrid equity instruments or other securities in Fingerprint. Any invitation to the persons concerned to subscribe for units in Fingerprint will only be made through a prospectus that Fingerprint will publish on its website after approval and registration with the Swedish Financial Supervisory Authority (Sw. *Finansinspektionen*). No shares, units, unit rights, warrants, hybrid equity instruments or other securities in Fingerprint have been registered, and no shares, units, unit rights, warrants, hybrid equity instruments or other securities will be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) or the securities legislation of any state or other jurisdiction in the United States and no shares, units, unit rights, warrants, hybrid equity instruments or other securities may be offered, sold or otherwise transferred, directly or indirectly, in or into the United States.

Matters discussed in this announcement may constitute forward-looking statements. Forward-looking statements are statements that are not historical facts and may be identified by words such as “believe,” “expect,” “anticipate,” “intends,” “estimate,” “will,” “may,” “continue,” “should” and similar expressions. The forward-looking statements in this release are based upon various assumptions, many of which are based, in turn, upon further assumptions. Although Fingerprint believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant known and unknown risks, uncertainties, contingencies and other important factors, which are difficult or impossible to predict and are beyond its control. Such risks, uncertainties, contingencies and other important factors could cause actual events to differ

materially from the expectations expressed or implied in this release by such forward-looking statements. The information, opinions and forward-looking statements contained in this announcement speak only as at its date, and are subject to change without notice.