

# 1H 2014 IN LINE WITH INITIAL EXPECTATIONS

Q2 2014 PRESENTATION

AUGUST 2014

HENRIK BRILL JENSEN, CEO

# FINANCIAL HIGHLIGHTS Q2 2014

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Invoiced USD sales decreased by 17% compared to Q2 2013

The combined Q1 and Q2 2014 USD revenue in line with our initial expectations

Revenue in first half of 2014 of 89.6 MDKK

- 7% decrease compared to first half of 2013

Revenue in Q2 2014 at 41.8 MDKK

- 19% decrease compared to Q2 2013
- 13% decrease compared to Q1 2014

Gross margin in Q2 2014 was 73%

- Compared to 73% for Q2 2013

EBITDA in Q2 2014 was 1.8 MDKK

- Decrease of 7.3 MDKK compared to Q2 2013

EBITDA margin in Q2 2014 was 4%

- Compared to 18% for Q2 2013

Net cash at 84 MDKK by end of Q2 2014

# FINANCIAL RESULTS Q2 2014

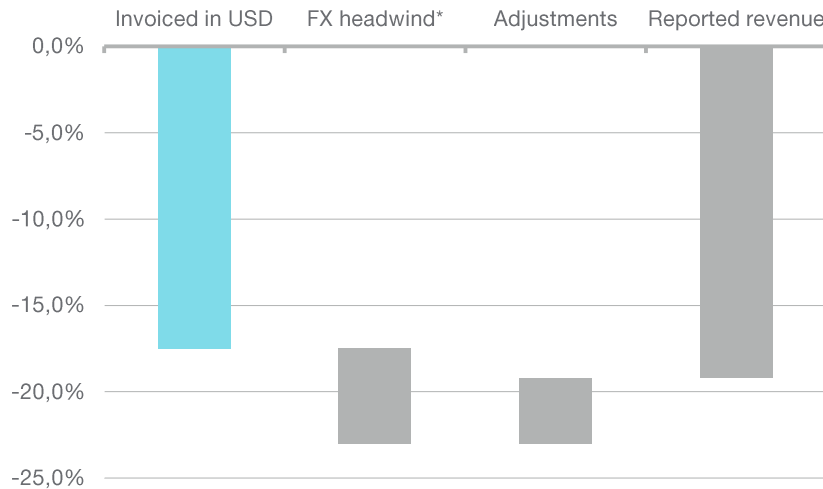
	Q2'14	Q1'14	Q2'13
Revenue (MDKK)	41.8	47.8	51.7
Growth YoY	(19%)	8%	14%
Gross Margin	73%	73%	73%
EBITDA (MDKK)	1.8	6.5	9.1
EBT (MDKK)	(3.7)	0.9	5.5

# CASH FLOW Q2 2014

1,000 DKK	Q2'14	Q2'13
Net cash flow from operating activities	3,021	4,786
Investments in product development	(9,593)	(6,063)
Net cash used in investments activities	(11,802)	(7,822)
Issue of shares	0	135
Net cash flow from financing	0	135
Net decrease in cash & cash equivalents	(8,819)	(3,394)
Cash and cash equivalents at April 1'st	99,163	30,135
Cash and cash equivalents at June 30'th	90,344	26,741

# Q2 2014 DECLINE IN REVENUE

## Invoiced Sales / Revenue Growth



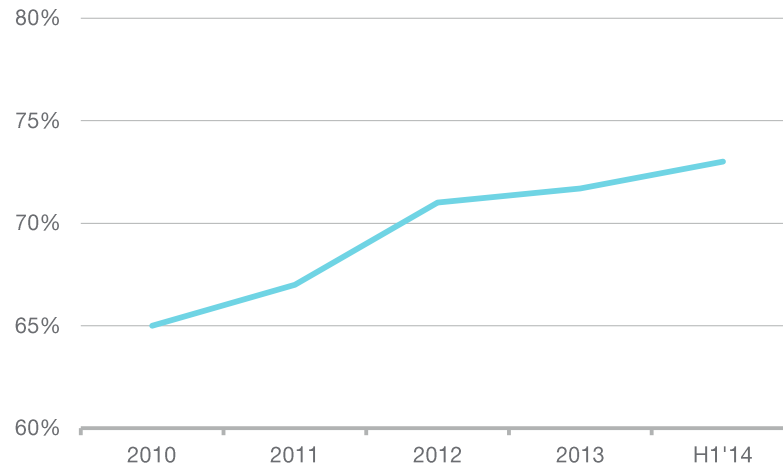
\* Based on average bookkeeping rates

### Influencing factors:

- Overall market situation is still challenging with obvious quarterly fluctuations in received orders from our customers
- Revenue affected by a combination of push out of customer projects and some projects not materializing or being redefined; and some run-rate customers being below expectations
- Lower US Dollar to Danish Kroner exchange rate
- Revenue recognition and accounting adjustments

# GROSS MARGIN – CONTINUED IMPROVEMENTS

## Gross Margin

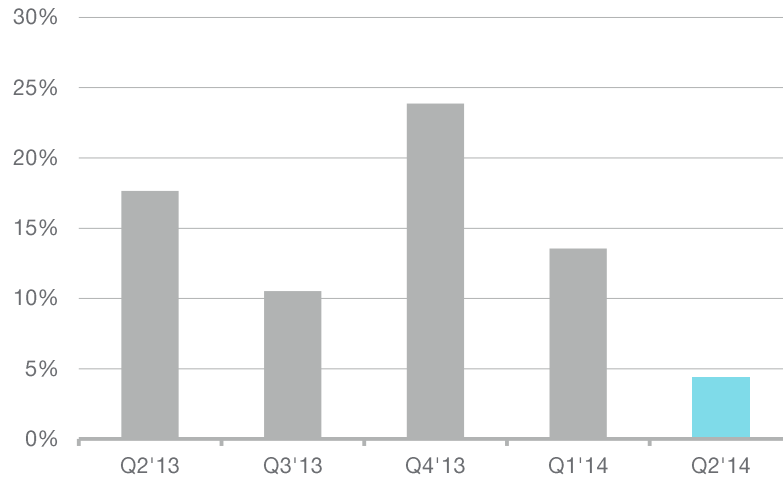


### Margin development

- Transition towards higher speed products
- Operational excellence and improvements
- Change in customer mix
- The longer term gross margin expectation are around 70%

# Q2 REVENUE DEVELOPMENT PUT EBITDA MARGIN UNDER PRESSURE

## EBITDA Margin

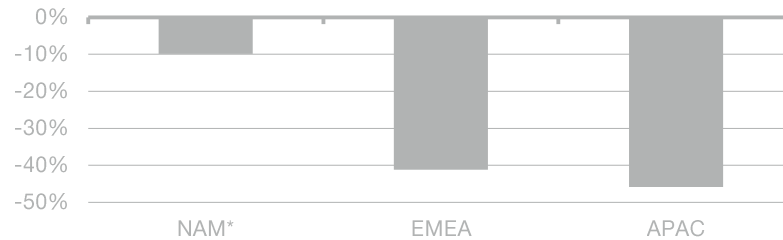


### Q2 2014 EBITDA margin

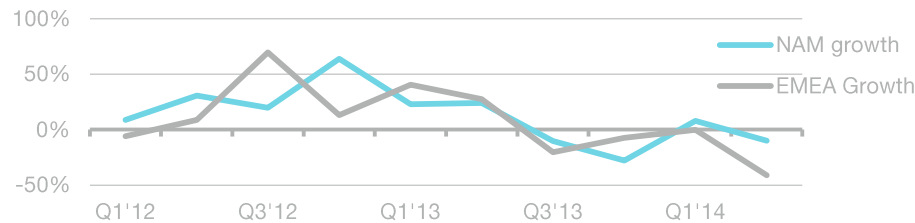
- Lower revenue add pressure on EBITDA
- Gross margin effect have positive impact
- Increased R&D costs - investing according to plan

# REGIONS AFFECTED BY DIFFERENT FACTORS COMPARED TO Q2 2013

## Q2'14 Revenue Growth



## YoY Revenue Growth



### Geographical split

- North America on recovery trend but are still seeing some delays. And it is important to notice that NAM revenue is 80% of the total revenue
- EMEA affected by a combination of push out of customer projects and some projects not materializing or being redefined; and some run-rate customers being below expectations
- The Q2 APAC performance except for one project was in line with expectations - but due to an extraordinary project revenue in Q2 2013 the comparison become out of the normal
- Continues to see large fluctuations between quarters not necessarily reflecting market sentiment



# RECENT EVENTS AND SHAREHOLDER STATUS

# RECENT RECOGNITIONS AND EVENTS

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- Demonstrated 100 Gigabit connectivity at Interop Tokyo together with Spirent - a world leader in traffic generation
- Napatech and ipoque\* very successfully demonstrated 40 Gigabit High-Speed VoLTE and Video Analytics solution at Cisco Live
- Network Products Guide, has chosen Napatech for our 4 port 10 Gigabit Accelerator as Gold Winner for Best IT Hardware Product \*\*

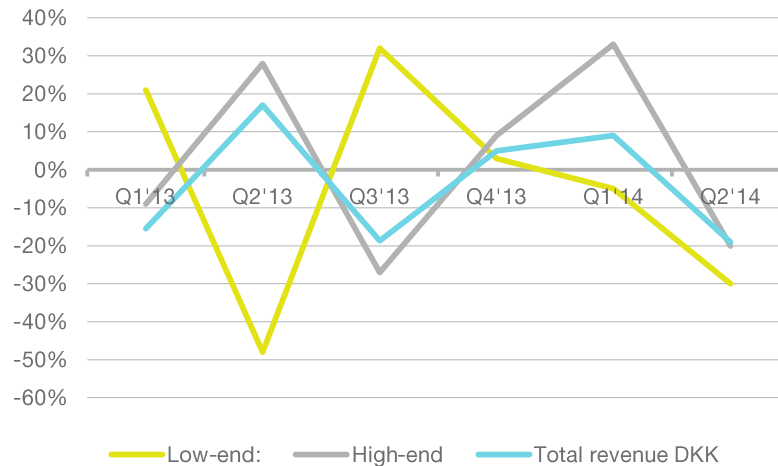


\*) A Rohde & Schwarz company

\*\*) <http://www.networkproductsguide.com>

# THE QSI – HISTORICAL PERSPECTIVE

## Sequential port growth



- Measured as sequential growth in port shipment quarter over quarter
- High-end port (10 GbE and above) changes have more impact on revenue
- The correlation between revenue in DKK and the QSI is affected by exchange rate, revenue recognition and accounting adjustments

# TOP 20 SHAREHOLDERS 31 JULY, 2014

## Shareholders 1 - 10

Investor	Type	Country	(%)
Verdane Capital VIII	Ordinary	Denmark	22.2
Northzone IV K/S	Ordinary	Denmark	22.0
Skandinaviske Enskilda	Nominee	Sweden	6.6
Skandinaviske Enskilda	Nominee	Denmark	5.1
State Street Bank	Nominee	US	4.7
Danske Bank A/S	Nominee	Denmark	4.7
Six SIS AG	Nominee	Switzerland	3.7
SEB Private Bank S.A	Nominee	Luxembourg	3.5
The Bank of New York	Nominee	Denmark	2.4
DTU Invest rep. ved Sympion	Ordinary	Denmark	2.0
Top 10 total			76.9

## Shareholders 11 - 20

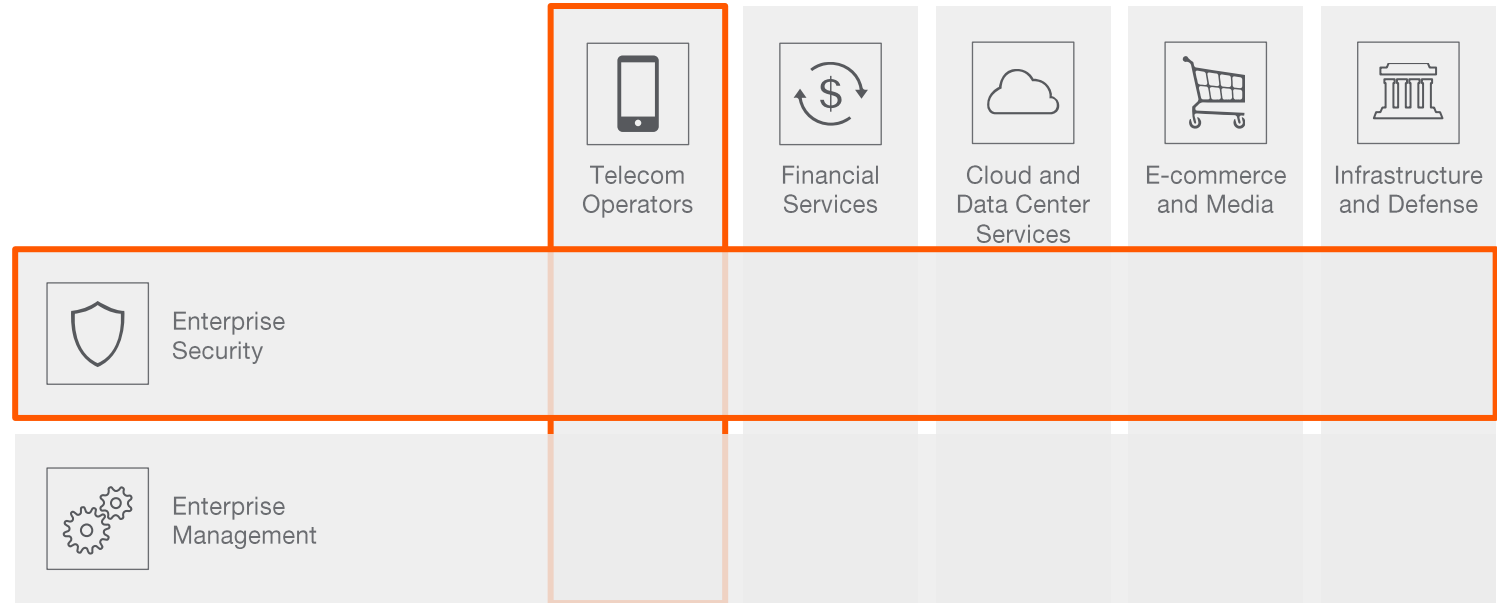
Investor	Type	Country	(%)
Treschow-Fritzøe AS	Ordinary	Norway	2.0
Northzea Management	Ordinary	US	1.5
J.P Morgan Chase Bank	Nominee	Great Britain	1.3
MVTU rep. ved DTU symbion	Ordinary	Denmark	1.1
Nordea Bank Denmark	Nominee	Denmark	1.1
Pensjonsord. for apotekvirksam.	Ordinary	Norway	1.0
AKA AS	Ordinary	Norway	0.7
Private Investor	Ordinary	Norway	0.6
Bank Julius Bår & Co	Nominee	Switzerland	0.6
Noordnet Bank AB	Nominee	Sweden	0.6
Others			12,60
Total			100.00

The background of the slide is a complex, abstract network of thin white lines and small white squares, creating a sense of a global or digital network. These lines and nodes form several overlapping, semi-transparent spheres. A large, white, semi-transparent rectangular box is positioned in the center of the slide, serving as a backdrop for the main title.

# STRATEGIC DIRECTION AND FOCUS



# OUR STRATEGY AND FOCUS AREAS SUPPORTING OUR GROWTH AMBITIONS



# RECENT DESIGN WINS SUMMARY

- New 1 Gigabit design win at a leading US Telecom equipment provider for their next generation public safety solutions
- Obtained our second 10 Gigabit design win with South Korean based Telecom equipment manufacturer for LTE network monitoring
- Secured major 40 Gigabit design win with a US based test and measurement solution vendor, contributed with meaningful revenue in Q2

## Design wins underline

- Pipeline of new customers
- Expansion of business with existing customers
- Customer confidence in Napatech technology, quality and future strategy
- Revenue stream linked to customers' market share

In general we see increased and promising engagement by Tier 1 equipment manufactures, with large potential, not yet defined as design wins

# NAPATECH ACCELERATE SECURITY PERFORMANCE

- We have chosen to focus part of our strategy on the enterprise security market and the successful acceleration of the Lancope application is one important step into a market where Napatech expects to see additional revenue in the coming years
- Napatech announced in June that Lancope a leading US based Security application company had chosen to work with Napatech to accelerate their high-end appliance
- Our customers are looking for ways to accelerate time to market and reduce risk in their new product introductions, like the Lancope StealthWatch FlowSensor 4000

Lancope StealthWatch	FS 3000	FS 4000
<b>Improvement</b>		<b>4X</b>
Throughput (512 byte)	5.0 Gbps	20.0 Gbps
Throughput (64 byte)	1.2 Gbps	4.0 Gbps





# NAPATECH EXPANDS IN MOBILE TELECOM

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- Our recent pipeline of design wins, shows an strong traction in the Telecom sector especially focused towards mobile solutions
- This underlines the progress of our strategy where one of the elements are to deliver solutions that addresses the pain points within the telecom sector experiencing high data growth and service complexity
- Napatech expects that the Telecom sector will be an important contributor for growth over the coming years, and our recent design wins underline our potential for capturing the growth and revenue

# MARKET TRENDS AND OUTLOOK

# GROWING OPPORTUNITIES IN TELECOM

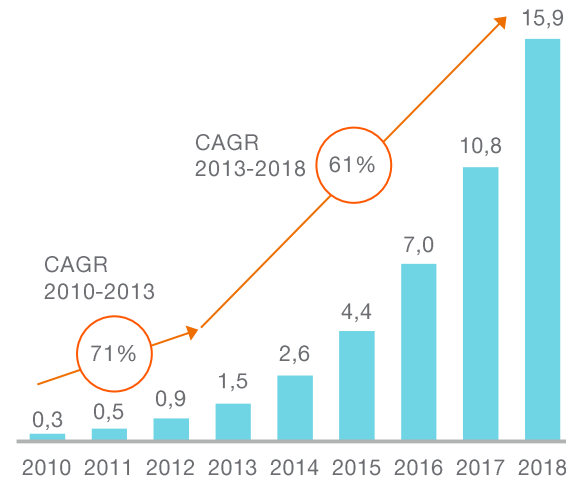
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- Carriers are rolling out Ethernet in backbone as technology of choice, replacing proprietary technology
- LTE rollout accelerates the adoption of Ethernet and IP in mobile networks
- 100G Ethernet links are starting to be deployed in the mobile backbone
- The continued growth in mobile traffic poses challenges for operators in terms of service assurance, quality of experience optimization and successful rollout of new services and infrastructure
- Napatech is 100% focused on Ethernet why these migrations in Telecom towards Ethernet are new and unique growth opportunities for Napatech

# MOBILE TELECOM INDUSTRY TRENDS

More than 500 LTE networks by 2017  
across 128 countries covering more  
than half of the world's population

Mobile data traffic  
Exabytes per month



Source: Cisco; VNI Feb 2014 and VNI May 2013

# 1H 2014 PROGRESS, ACHIEVEMENTS AND IMPROVEMENT AREAS

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- We released the new Napatech positioning strategy to clearly articulate what our customers can expect from Napatech. This has helped us to create internal focus on defined industries and customers with solid growth potential
- Our release of new innovative products such as the 100 Gigabit product line shows our continued commitment to accelerate our customers' applications and forms a solid platform for exciting future products and solutions
- Our focused sales and engineering efforts at large key customers to demonstrate the value of Napatech based solutions towards the end customers have provided strong partnership and revenue opportunities

# 1H 2014 PROGRESS, ACHIEVEMENTS AND IMPROVEMENT AREAS

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- Our growth performance is not yet satisfactory
- We are therefore intensifying our focus on securing global growth by accelerating activities in sales and marketing by enhancing our local geographical presence, sales and marketing resources as well as product positioning

# MANAGEMENT OUTLOOK

- First half of 2014 in line with Napatech initial expectations
- We still expect the general climate for network infrastructure investments to improve during second half of 2014
- We are accelerating expansion of our Sales and Marketing activities which are expected to fuel additional global growth
- Our focused approach towards specific industries and strong engagement with Tier-1 customers on solution proof of concepts have already now turned into several high volume design win opportunities

**Guidance for full year 2014 is maintained at:**

- Revenue growth 17%-23%
- EBITDA margin 18%-23%

**USD exchange rate:**

- Assumed to be at same level as 2013



# QUESTIONS AND ANSWERS SESSION



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