

# GROWTH AND PROFIT

Q3 2014 PRESENTATION

NOVEMBER 2014

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# FINANCIAL HIGHLIGHTS Q3 2014

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Invoiced USD sales increased by 7% compared to Q3 2013

Revenue in the period Q1-Q3 2014 of 134.0 MDKK

- 3% decrease compared to same period of 2013

Revenue in Q3 2014 at 44.3 MDKK

- 5% increase compared to Q3 2013
- 6% increase compared to Q2 2014

Gross margin in Q3 2014 was 75%

- Compared to 72% for Q3 2013

EBITDA in Q3 2014 was 5.1 MDKK

- Increase from 4.4 MDKK in Q3 2013

EBITDA margin in Q3 2014 was 12%

- Compared to 11% for Q3 2013

EBT in Q3 2014 was 2.4 MDKK

- Increase from (3.1) MDKK in Q3 2013

Cash & Cash equivalents at 84 MDKK

- Decrease of 6 MDKK during the quarter
- Net cash at 78 MDKK by end of Q3 2014

# FINANCIAL RESULTS Q3 2014

	Q3'14	Q2'14	Q3'13
Revenue (MDKK)	44.3	41.8	42.1
Growth YoY*	5%	(19%)	(14%)
Gross Margin	75%	73%	72%
EBITDA (MDKK)	5.1	1.8	4.4
EBT (MDKK)	2.4	(3.7)	(3.1)

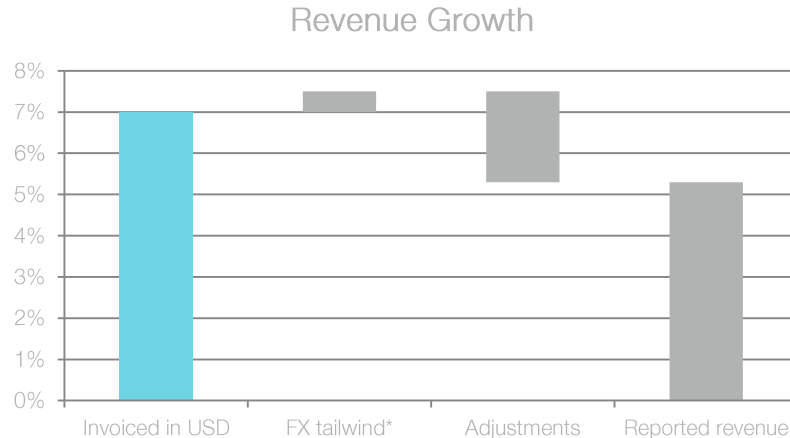
\*YoY is the growth of current quarter compared with the same quarter one year earlier

# CASH FLOW Q3 2014

1,000 DKK	Q3'14	Q3'13
Net cash flow from operating activities	2,872	4,020
Investments in product development	(8,017)	(5,543)
Net cash used in investments activities	(8,915)	(6,869)
Issue of shares	203	0
Net cash flow from financing	78	(47)
Net decrease in cash & cash equivalents	(6,019)	(3,136)
Cash and cash equivalents at July 1'st	90,344	26.741
Cash and cash equivalents at September 30'th	84,325	23,605

# Q3 2014 INCREASE IN REVENUE

Invoiced Sales / Revenue Growth (YoY)



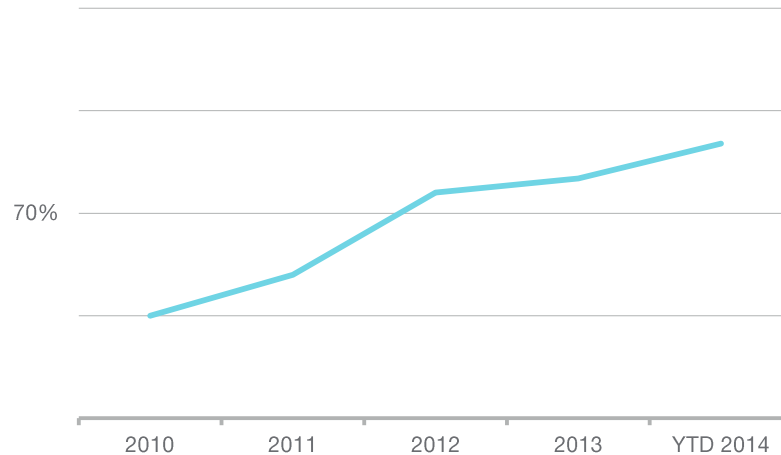
\* Based on average bookkeeping rates

## 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
- Higher US Dollar to Danish Kroner exchange rate
- Revenue recognition and accounting adjustments

# GROSS MARGIN – CONTINUED IMPROVEMENTS

## Gross Margin

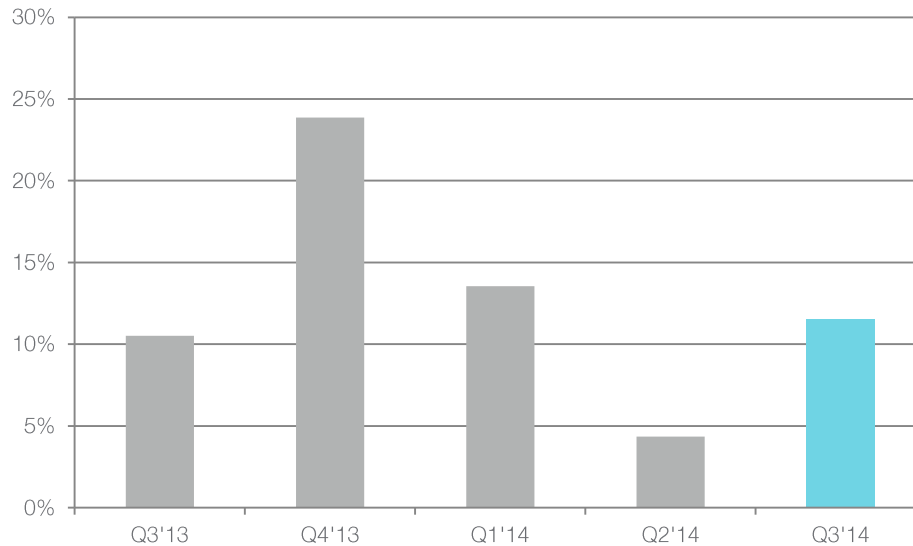


### Margin development

- Transition towards higher speed products
- Operational excellence and improvements
- Change in customer mix
- It is our ambition to utilize the strong gross margin to enhance our business performance
- The longer term gross margin expectation are around 70%

# EBITDA MARGIN – POSITIVE DEVELOPMENT

EBITDA Margin

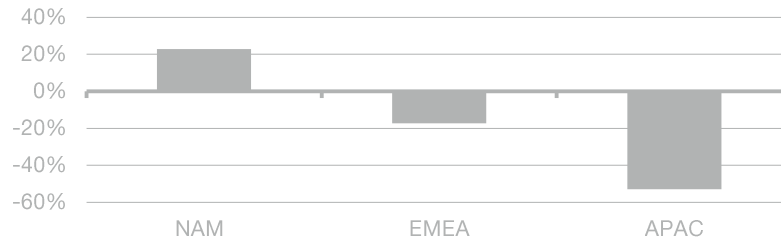


## Q3 2014 EBITDA margin

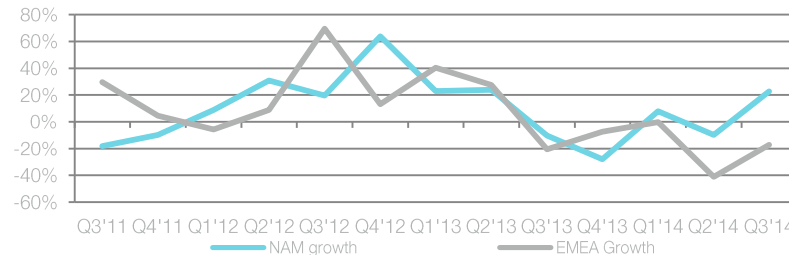
- EBITDA is primarily influenced by revenue
- Gross margin increase has positive impact
- Increased sales and marketing costs, investing according to plan in future growth

# REGIONS AFFECTED BY DIFFERENT FACTORS COMPARED TO Q3 2013

## Q3'14 Revenue Growth



## YoY Revenue Growth



### Geographical split

- North America on recovery trend but are still seeing some delays compared to expectations. It is important to notice that NAM revenue is 80% of the total revenue
- EMEA continues to be 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 Q3 APAC performance was significantly weaker than expected
- Continues to see large fluctuations between quarters not necessarily reflecting market sentiment



# RECENT EVENTS AND SHAREHOLDER STATUS

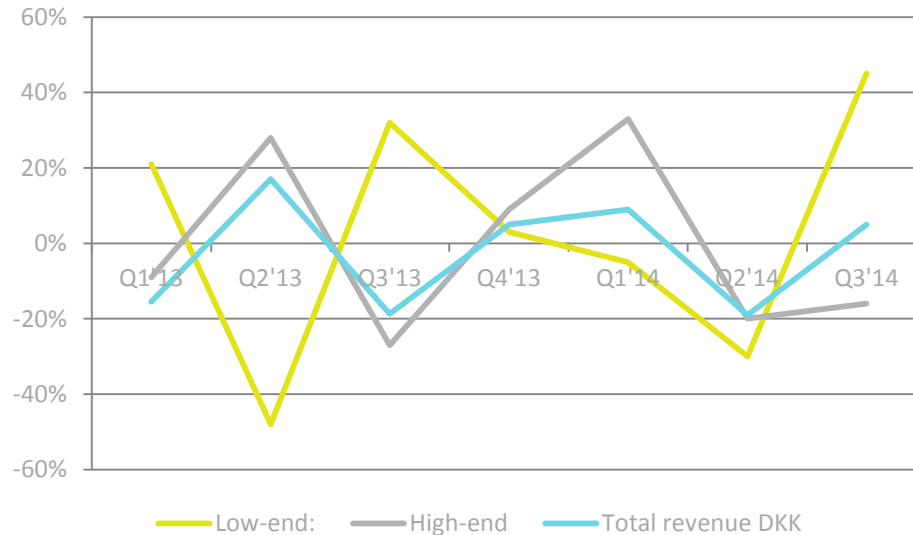
# RECENT RECOGNITIONS AND EVENTS

- Napatech 100 Gigabit Accelerator was awarded Gold Winner in 3 different categories by Golden Bridge Awards
- Napatech has been named Danish Technology Firm of the year 2014
- Napatech has joined the European Telecommunications Standard Institute (ETSI) to contribute to development of standards for Network Functions Virtualization (NFV) as well as share experiences and engage in early implementation



# 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 OCT, 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	4.6
Danske Bank A/S	Nominee	Denmark	4.6
Six SIS AG	Nominee	Switzerland	3.7
SEB Private Bank S.A	Nominee	Luxembourg	3.5
Swedbank AS	Nominee	Estonia	3.1
The Bank of New York	Nominee	Denmark	2.5
Top 10 total			77.8

## Shareholders 11 - 20

Investor	Type	Country	(%)
DTU Invest rep. ved Sympion	Ordinary	Denmark	2.0
Northzea Management	Ordinary	US	1.4
J.P Morgan Chase Bank	Nominee	Great Britain	1.2
MVTU rep. ved DTU symbion	Ordinary	Denmark	1.1
Nordnet Bank AB	Nominee	Sweden	0.8
Park Lane Family Office	Ordinary	Norway	0.8
Nordea Bank Denmark	Nominee	Denmark	0.7
AKA AS	Ordinary	Norway	0.7
Bank Julius Bär & Co	Nominee	Switzerland	0.6
Brownske Bevegelser	Ordinary	Norway	0.5
Others			12,30
Total			100.00








The background of the slide is a dark, abstract composition. It features a complex network of thin, white, curved lines that sweep across the frame, creating a sense of motion and connectivity. These lines are interspersed with numerous small, white, square and circular nodes. In the upper right, a large, semi-transparent sphere is visible, its surface defined by the network of lines and nodes. The overall aesthetic is high-tech and futuristic.

# STRATEGIC DIRECTION AND FOCUS



# NEW SALES AND MARKETING ORGANIZATION

- To secure our growth ambitions and focus on our strategic direction we are continuously looking at our processes and structure
- In order to improve our Sales and Marketing power and scalability, I have decided to adjust and expand our organization
- The new Sales and Marketing organization will now consist of:
  - Global Marketing Team
  - Global Sales and Support Team
  - New Business Acquisition Team

	Enterprise Security		Enterprise Mngt.
	Telecom Operators		
	Financial services		
	Cloud and Data Center services		
	E-commerce and Media		
	Infrastructure and Defense		

# CAPTURING NEW BUSINESS OPPORTUNITIES

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- The organizational change creates focus, scalability, and new opportunities, that will secure more parallel and commercial focused activities:
  - Enhanced global marketing to attract customers, partners and influencers
  - Increased customer engagement and co-operation with strategic prospects
  - Development of new sales channels to gear business opportunities
  - Expansion of our geographical presence to capture new business
- These actions are targeted to fuel growth within current and new product lines
- The Company's strong capital base will be used to secure the adjustment and expansion of related activities according to the overall company strategy

# RECENT DESIGN WINS SUMMARY

- 1 Gigabit design win by existing US based Tier 1 customer expanding their mobile 4G/LTE product portfolio
- 10 Gigabit design win at a new European based Tier 1 Telecom Equipment Manufacture customer for mobile security application
- 10 Gigabit design win at new business unit by existing US based Tier 1 Network Equipment Manufacture for new monitoring appliance
- 10 Gigabit design win at Tier 1 Social Network customer for a security appliance

## **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 design win with Tier 1 Manufacture has high potential but longer time to revenue



# MARKET TRENDS AND OUTLOOK

# REVISED MANAGEMENT GUIDANCE 2014

- Napatech previously expected an improved business situation in 2nd half of 2014
- The business situation has improved in the 3rd quarter, but not to the extend we originally expected
- Based on the Q3 growth, business activity in first half of Q4 and our inherent short order visibility, management reduces the outlook for 2014 to
  - Revenue around 2013 level
  - EBITDA margin around 10%

## **Guidance for full year 2014 is reduced to:**

- Revenue around 2013 level
- EBITDA margin around 10%

# MANAGEMENT OUTLOOK

## BUSINESS PROGRESS

- Development of our sales capabilities by engaging new direct channel partners in addition to our Dell OEM partnership
- Expansion of general business opportunities by offensive go to market and pricing strategies towards the lower-end of our markets
- Our focus on the Telecom industry is rewarded by a strong inflow of new very large customers across our key regions
- Management believe that our strong industry focus, capital base and the actions presented herein will enable us to regain growth

### Napatech growth initiatives

- More offensive go to market strategy may have short term adverse effect but provide a far better position to capture the future growth
- We see a higher than expected interest in our 100 Gigabit product, with roll-out all ready by 2015
- Strong traction within our Telecom industry from strategic customers in North America, Europe and Korea

# QUESTIONS AND ANSWERS SESSION

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