

# PANDION PROGRESSES Q3 2016 PRESENTATION

November 8th, 2016 – Henrik Brill Jensen, CEO

## FINANCIAL HIGHLIGHTS Q3 2016

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USD sales in Q3 2016 was 7.5 MUSD

- 18% decrease compared to Q3 2015

Revenue in Q3 2016 was 49.6 MDKK

- 18% decrease compared to Q3 2015
- 6% increase compared to Q2 2016

Gross margin in Q3 2016 was 71%

- Compared to 70% for Q3 2015

EBITDA in Q2 2016 was 6.1 MDKK

- 5.5 MDKK decrease compared to Q3 2015
- 12% EBITDA margin in Q3 2016

EBIT in Q3 2016 was negative 3.6 MDKK

- Decrease from positive 5.4 MDKK in Q3 2015

EPS in Q3 2016 was negative 0.10 DKK

- Decrease from 0.18 DKK in Q3 2015

Cash and cash equivalents at 48.0 MDKK

- Decrease of 0.5 MDKK compared to Q2 2016
- Net cash at 42.6 MDKK by end of Q3 2016

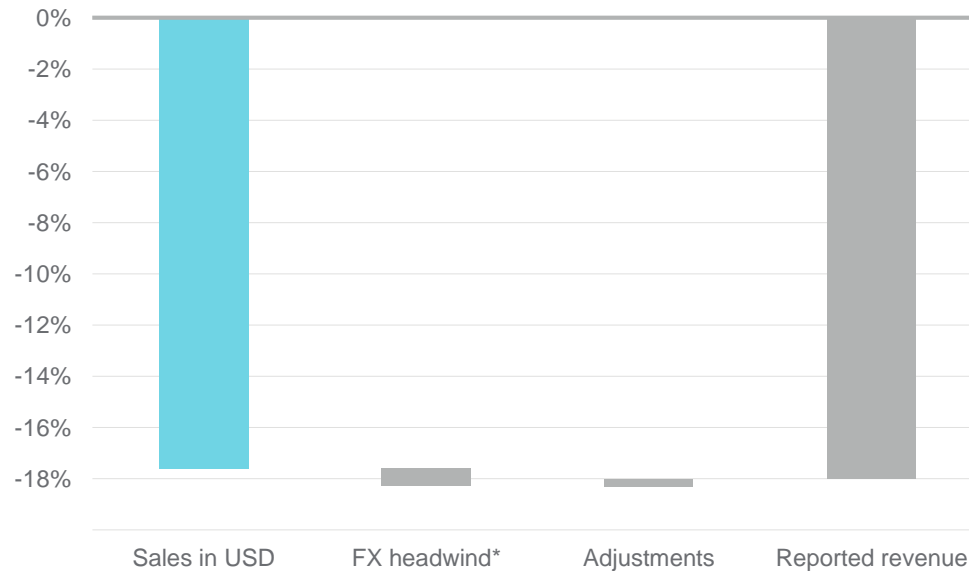
## FINANCIAL RESULTS Q3 2016

	<b>Q3'16</b>	<b>Q2'16</b>	<b>Q3'15</b>
Revenue (MDKK)	49.6	46.6	60.4
Growth YoY*	(18%)	9%	36%
Gross Margin	71%	73%	70%
EBITDA (MDKK)	6.1	3.2	11.6
EBT (MDKK)	(3.0)	(3.8)	5.5
Cash flow from operating activities (MDKK)	10.0	(11.3)	3.1
Cash and cash equivalents, end of quarter (MDKK)	48.0	48.5	51.2

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

# Q3 2016 REVENUE

## Sales / Revenue Growth (YoY)



\* Based on average rates

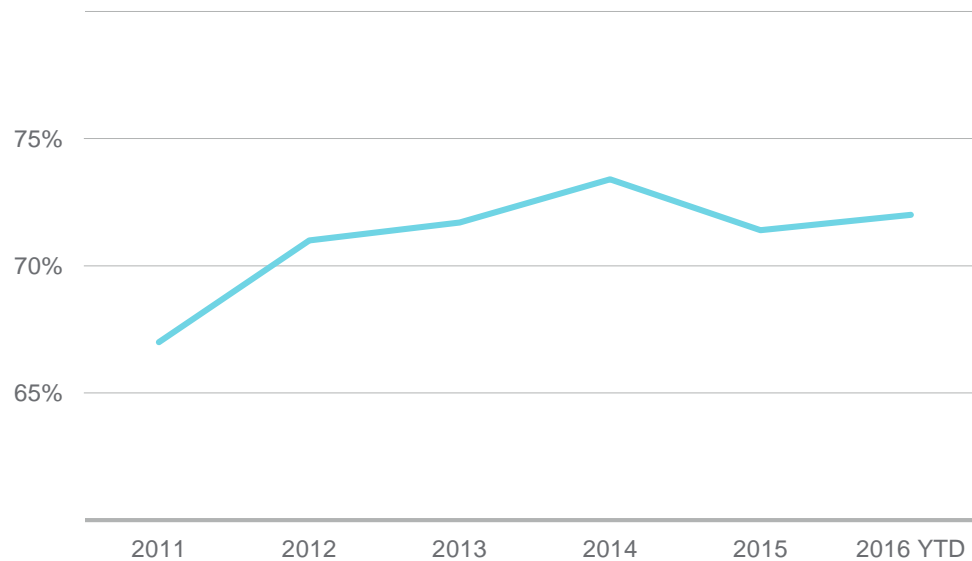
### Influencing factors:

- Decline in business is the effect of OEM customers being delayed with their own ramp-up of new platforms based on Napatech's available and latest technologies. The revenue reported for the third quarter of 2016 is therefore affected by these delays and lower ordering volumes from a few of our large OEM customers
- Currency, revenue recognition and accounting adjustments have a minor effects

Note: The US Dollar to Danish Kroner exchange rate is calculated as a daily average rate trough the quarter and compared YoY

# GROSS MARGIN DEVELOPMENT

## Gross Margin

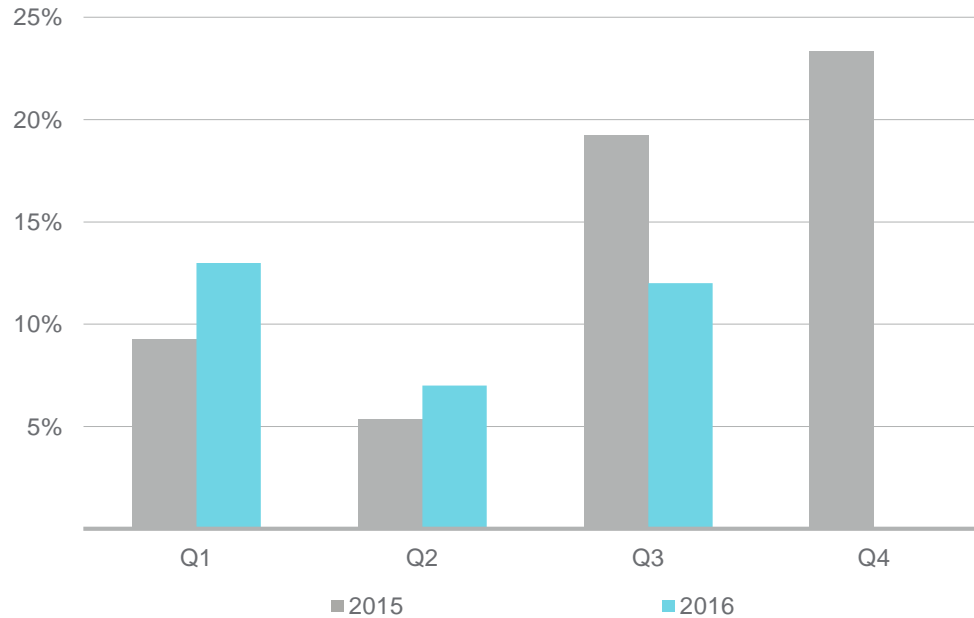


### Margin development:

- The gross margin in Q3'16 is at the expected level around 70%

# EBITDA MARGIN

EBITDA Margin

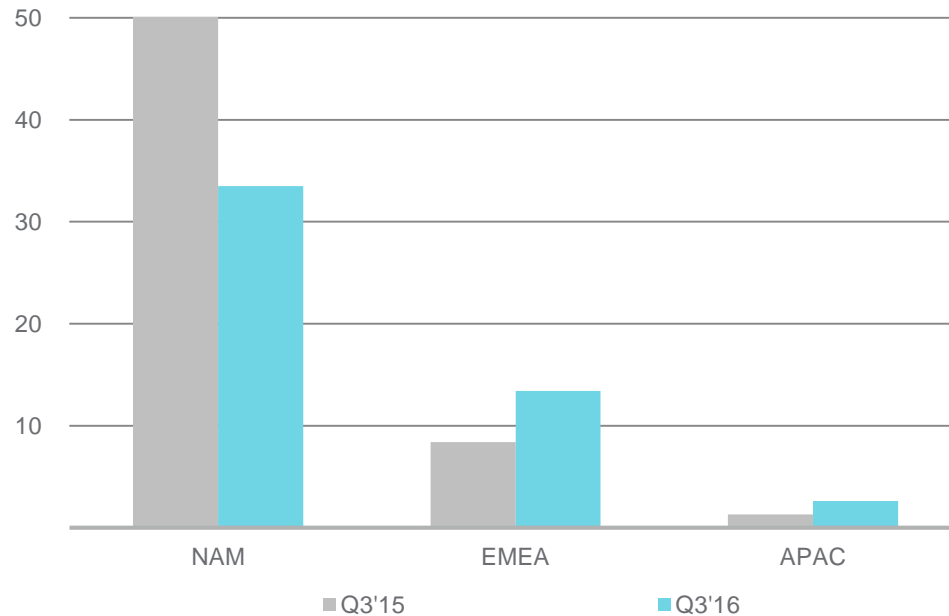


**Q3 2016 EBITDA margin:**

- EBITDA margin is lower in Q3 compared to last year, due to less revenue in the quarter

# GROWTH IN EMEA AND APAC

Quarterly Revenue in MDKK



**Geographical split:**

- North America showed a significant decline of 34% compared with Q3 2015, related to a couple of large OEM customers
- EMEA showed a significant growth of 60% driven by ramp up of design wins secured in 2016
- APAC showed a growth of 100% but from a very low number in Q3 2015

# 2016 KEY FINANCIAL FOCUS AND TREND

## Q3 2016 STATUS

Our focus areas	Target trend	Target Comment	2016 Target	2016 YTD
Revenue		Deliver to guidance	~ 20% growth	3% decrease
Gross Margin		Influenced by new product line(s) and go to market strategy	~ 70%	72%
Overall Costs		Improved overall profitability by sustained scalability	5% increase	2% increase
EBITDA Margin		Deliver to guidance	~ 20%	11%
R&D Investments		Product development to support the strategy	> 40 MDKK	33 MDKK
Net Cash Position		Continued investment in future growth	+/- 10 MDKK	- 27 MDKK



# BUSINESS HIGHLIGHTS

# OUR PIPELINE OF BUSINESS ACTIVITIES

## PROGRESS WITHIN OUR KEY AREAS

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- In 2016 we have had sharp focus on expanding Napatech business into new areas with market leading customers providing future growth potential
- Our Pandion business is progressing well with major design win as the most important step forward
- In addition to our traditional OEM business we have secured important Accelerator design wins for new usages like cyber security and within new areas like Data Center
- Enabling integrated solution providers to easily combine industry leading 3<sup>rd</sup> party software with Pandion recording capabilities
- Our future NFV business is progressing well as we continue to work with some of the largest equipment providers for commercialization of our solution



# NAPATECH PANDION IBM DESIGN WIN

## Challenge

In the battle against cyber attacks, many organizations rely on security solutions that capture just a fraction of the network data. This only provides partial visibility, which means inadequate or even misleading forensic evidence in the event of a security breach

## Solution

IBM has partnered with Napatech to ensure that their QRadar® Security Intelligence Platform would provide complete network visibility. This has been achieved by integrating the Napatech accelerator and capture to disk technology, guaranteeing 100% packet capture

## Benefits

- Vastly enhanced visibility and instant access to the needed forensic evidence
- A much shorter response time, better mitigation and a strengthened security

## NAPATECH UNIQUENESS

- **Captures all the data** even at sustained max traffic
- **Industry-leading retention time** achieved through stacking concept
- **Co-creation of additional advanced capabilities** such as a unique session ID and a QPI bypass solution

## BUSINESS SIGNIFICANCE

- IBM ranked top in Gartner Magic Quadrant
- IBM a top 5 Cyber Security Company
- Napatech Technology, Product and People selected as best in class
- Solution is launched by IBM

# NAPATECH ACCELERATOR YAHOO DESIGN WIN

## Challenge

To meet demands for increased capacity, data centers are urgently seeking to introduce higher network speeds. But finding a solution that enables network visibility at 40G and 100G could either be extremely difficult or excessively pricey

## Solution

To provide Yahoo with complete network visibility, Napatech and software company Ntop have developed a high-capacity solution that guarantees zero packet loss, even at 40G and 100G. To enhance efficiency, an advanced filtering solution enables Yahoo to store only selected data packets to disk for further processing

## Benefits

- A drastically improved network security
- Enhanced efficiency

## NAPATECH UNIQUENESS

- **Captures all the data** even at 40G and 100G. At these speeds, other solutions are likely to drop packets
- **Seamless integration** through industry-leading R&D work. Saving Yahoo added development costs

## BUSINESS SIGNIFICANCE

- Yahoo top 10 hosting providers
- Data centers are a significant growth area
- Large scale deployment

# NAPATECH PANDION FACEBOOK DESIGN WIN



## Challenge

Enterprises need the ability to investigate any suspicious network events. But due to volume, it is impossible to investigate everything in real time; data must therefore be recorded and stored for post-analysis. For Facebook, there was a need to store network data for a very long period

## Solution

To ensure that everything was recorded and captured to disk, an integration of the Pandion Flex network recorder and the Facebook's high capacity storage solution was created. This provided them with a completely reliable solution and capacity to meet their network data storage requirements

## Benefits

- Uncompromised high-speed packet capture and ultra fast data retrieval
- Seamless correlation between Facebook's storage solution and Napatech's capture to disk technology

## NAPATECH UNIQUENESS

- **Captures all the data** even at sustained max traffic
- **Co-creation ensuring seamless integration** of Facebook's existing storage solution and Napatech's packet capture technology

## BUSINESS SIGNIFICANCE

- Facebook is one of the largest hosting providers

# NAPATECH PANDION SPLUNK INTEGRATION CASE STUDY

## Challenge

Splunk Enterprise is a \$670 million industry-leading data search and analysis tool. However, it cannot provide full recording of high speed network traffic which could compromise security

## Solution

Pandion supplements the Splunk solution and taps into the global Splunk ecosystem counting members such as Accenture, Cisco and FireEye. By integrating Splunk and Pandion, everything is stored to disk and the data can be accessed on demand for further investigation

## Benefits

- Provides detailed insights in seconds
- Delivers the full scope of the event – not just a sample overview
- Can be seamlessly integrated with any existing Splunk solution

## NAPATECH UNIQUENESS

- **Captures all the data**, even at sustained max traffic – where other solutions would struggle to deliver
- **Seamless integration** with any existing Splunk solution, allowing businesses to leverage earlier investments without added costs.

## BUSINESS SIGNIFICANCE

- Expanding Big Data analytic capabilities with an additional dimension
- Enabling integrated solution providers to combine industry leading 3<sup>rd</sup> party software with Pandion recording capabilities

# RECENT DESIGN WINS

- 10 Gigabit Accelerator design win with a European network monitoring company for a security solution for public sector
- 10 Gigabit Accelerator design win with US based Tier 1 Security Company for a security solution
- 10 Gigabit Accelerator design win with a European network monitoring company for a monitoring solution



# BUSINESS OUTLOOK



## MANAGEMENT OUTLOOK 2016

- Napatech has previously stated an ambition of 15% to 20% growth for 2016. We still believe it is possible, based on the opportunities in our current pipeline and the orders received to date, to achieve the low end of our stated range
- With the current level of uncertainty we are updating our 2016 guidance
- We continue to have a sharp focus on achieving revenue growth in the remainder of 2016, as well as realizing the EBITDA margin expansion

### Guidance for full year 2016 is now:

- Revenue growth of 5% - 15%
- Pandion contributing with around 10% of overall revenue
- EBITDA margin around 20%

**NOTE:** Please find additional information about Napatech in the Annual Report 2015 and presentation from the Capital Markets Day 2016. The material is available on [www.napatech.com](http://www.napatech.com) investors section

# QUESTIONS AND ANSWERS SESSION

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