

Napatech

Q2 2017 Presentation
August 15, 2017



Highlights Q2 2017

Solid sales performance

- 18% increase in USD sales compared to Q2'16
- 21% increase in DKK Revenue compared to Q2'16

Progress in Pandion business

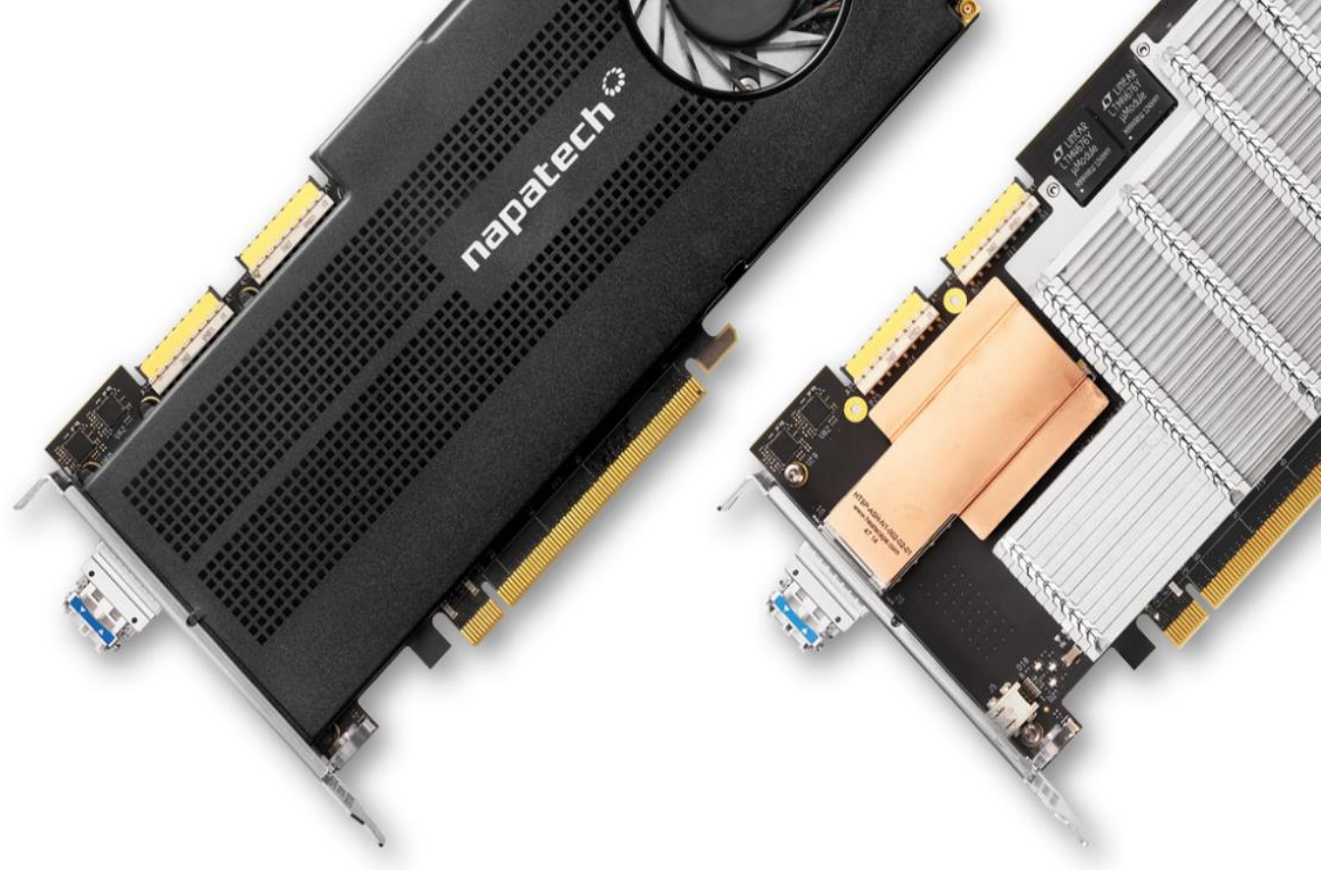
- 9% of our sales in Q2 coming from Pandion products

Napatech and Dell partnership progression

- Significant design win at US-based Enterprise cloud services company

Board and Management strengthened

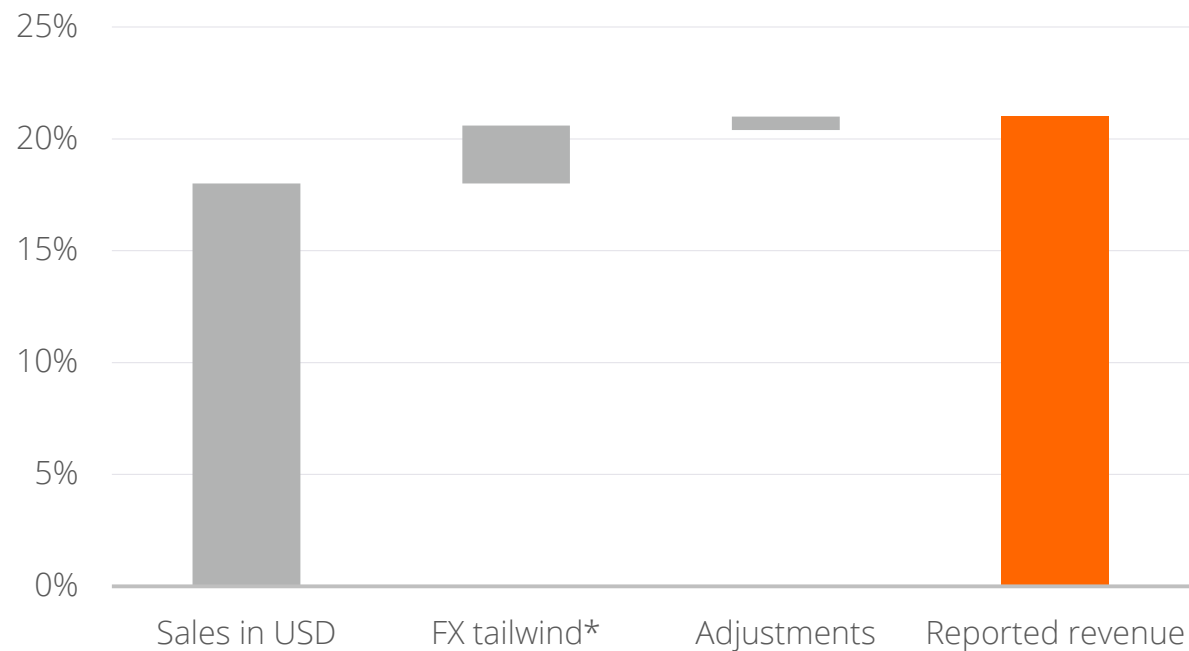
- New US-based Chief Sales Officer joined Napatech
- Additional US board member



Napatech Q2 2017 Financials

Q2 2017 Revenue

Sales and Revenue Growth (YoY)



* Based on average rates

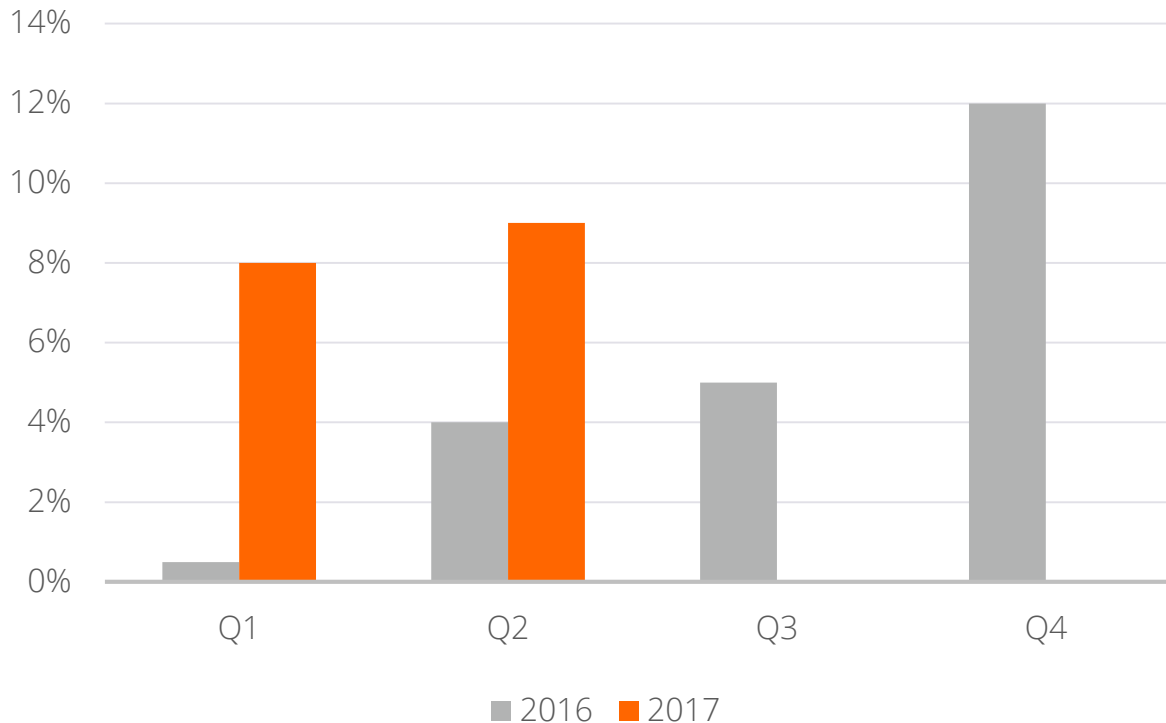
Comments:

- Revenue growth in Q2 is 21%
- Revenue growth YTD is 23% (FY 2017 guidance 10-20%)
- The growth is primarily driven by our Pandion business and recent Accelerator design wins
- Currency, revenue recognition and accounting adjustments have some effect as we have seen the USD exchange rate increase compared to the previous year

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

Pandion Progression

Pandion share of sales



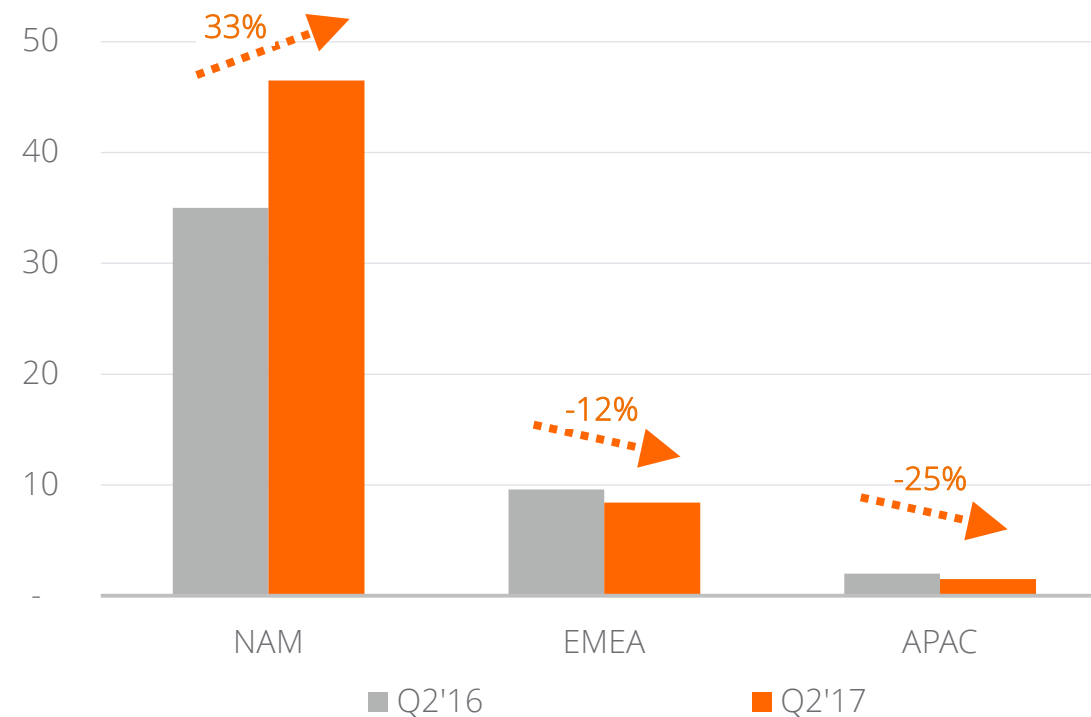
Comments:

- Q2 in line with expectations
- Pandion is a growth driver for the coming periods
- Pandion product mix sold:
 - As a recorder solution for system integrators
 - As recorder software and accelerators to OEM customers
 - As a DELL-branded recorder through DELL

Note: Pandion share of sales are measured in USD

Regional Revenue Distribution

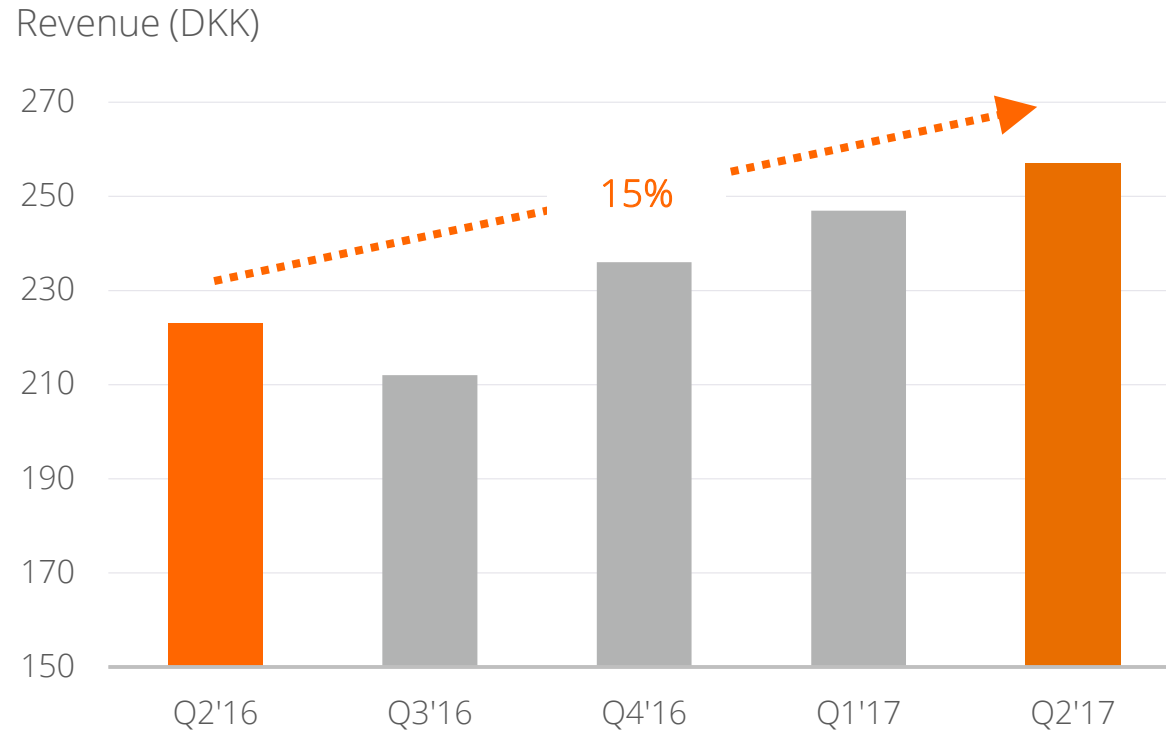
Quarterly revenue in MDKK



Comments:

- Growth in North America
- North America growth driven by ramp-up of design wins secured in 2016 and 2017
- EMEA decline due to timing of projects in the region
- APAC decline due to timing of projects in the region

Last Twelve Months Rolling Revenue

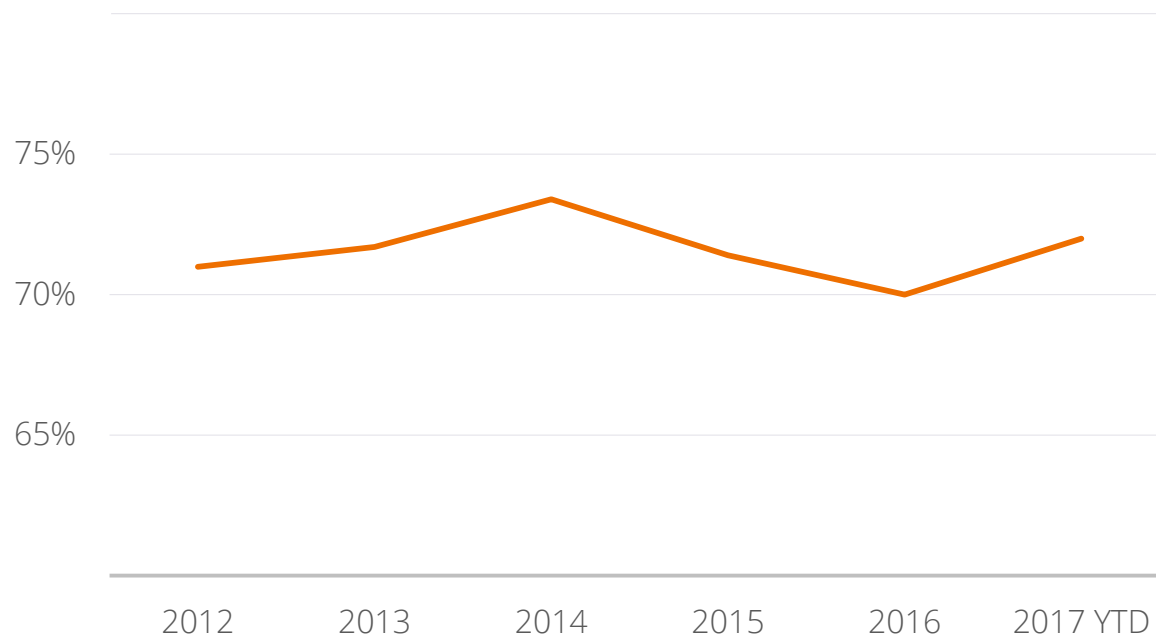


Comments:

- Last twelve months (LTM) rolling revenue is 15% (FY 2017 guidance 10-20%)
- By comparison, EBITDA (LTM) for same period has shown an increase of 42%
- Fluctuations in quarters offset by longer-term trend

Gross Margin Development

Gross Margin

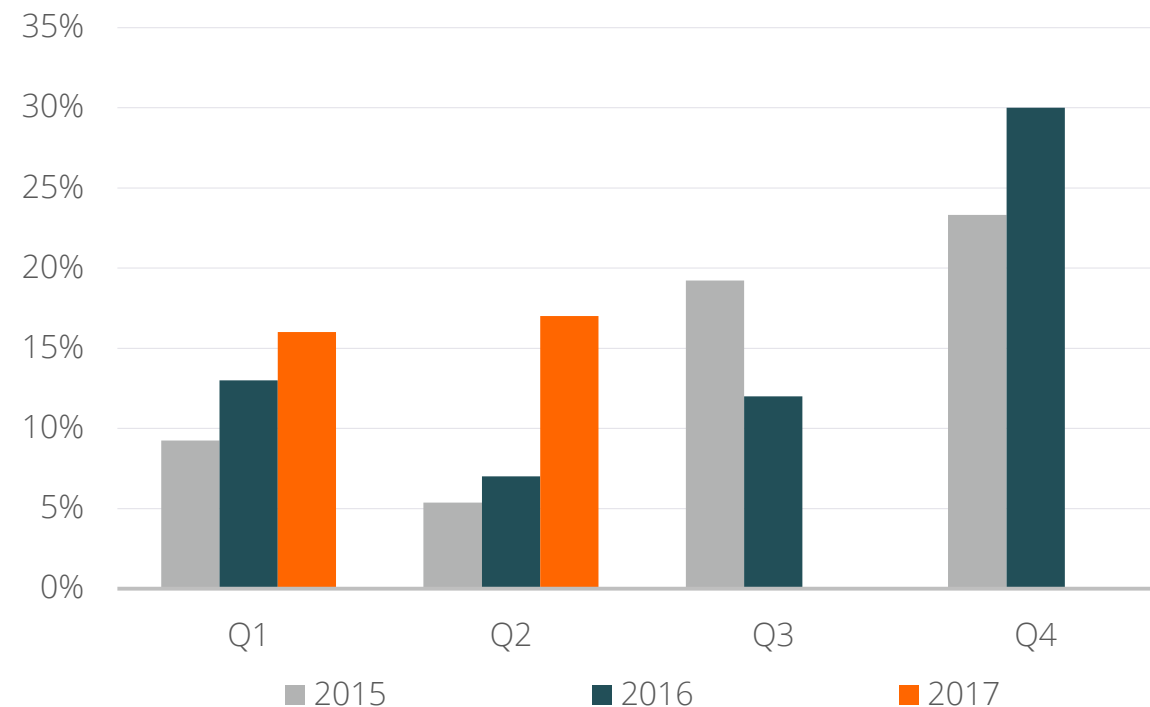


Comments:

- Gross margin YTD is 72% (FY 2017 guidance around 68%)
- The gross margin in Q2'17 is at 71%, decline of 2 points compared to Q2 2016
- Larger volumes to strategic accounts and changes in product mix are expected to drive the gross margin down

EBITDA Margin

EBITDA Margin



Comments:

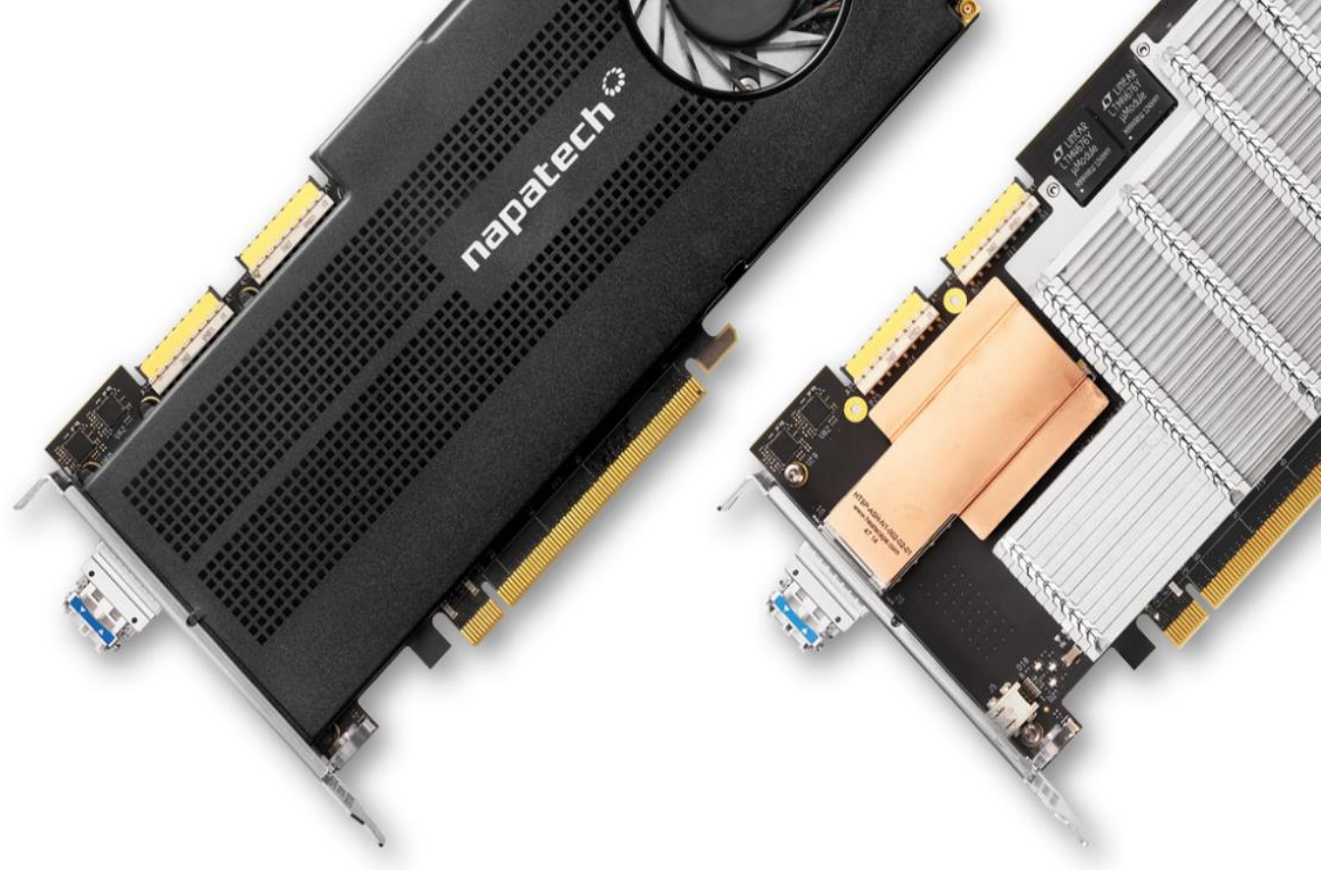
- EBITDA margin YTD is 17% (FY 2017 guidance around 20%)
- EBITDA margin is higher in Q2 compared to last year. This underlines the high scalability in Napatech's business, as higher revenue drives the EBITDA margin up

Financial Results Q2 2017

(Figures in MDKK)	Q2 2017	Q2 2016	YTD 2017	YTD* 2016
Revenue	56.5	46.6	114.0	92.9
Growth YoY**	21%	9%	23%	8%
Gross Margin	71%	73%	72%	73%
EBITDA	9.6	3.2	19.0	9.3
EBIT	0.1	(5.3)	(0)	(7.6)
Cash flow from operating activities	(4.9)	(11.3)	10.0	(2.7)
Cash and cash equivalents, end of quarter	34.0	48.5	34.0	48.5

* YTD June 2016

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



This is Napatech

Napatech in Short

- Napatech helps IT organizations to reimagine their businesses by harnessing the cost, performance, security and innovation benefits of cloud-scale architectures, making them available to every network
- Napatech pioneered the use of FPGA-based acceleration hardware and software for networking and security applications. Today, FPGAs are recognized as the preferred technology for SmartNIC designs
- The shift towards cloud networking, 5G mobile, and the Internet-of-things has created a pervasive need for SmartNIC solutions across a wide range of new users, in high-growth applications and services, that serve as the catalyst for Napatech's next phase of growth



Market Trends In Networking and Communications



Cloud
Computing



5G
Mobile



Internet of
things

4

BILLION
Connected People

25

MILLION
Applications

25

BILLION
Embedded Systems

50

BILLION
Devices and Sensors

50

TRILLION
Gbps of Data

By 2020

Source: IDC

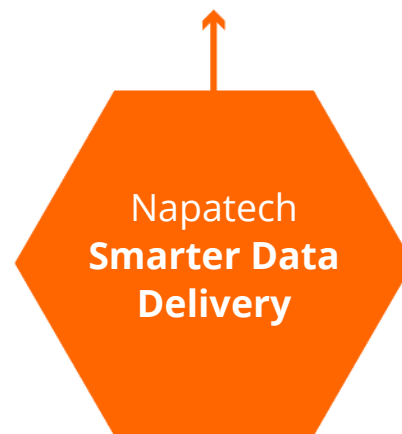
Napatech Smarter Data Delivery Solutions

100% Reliable Data for Management and Security App's

Network management applications ensuring users stay connected



Cybersecurity applications ensuring users be secure



Users



Services

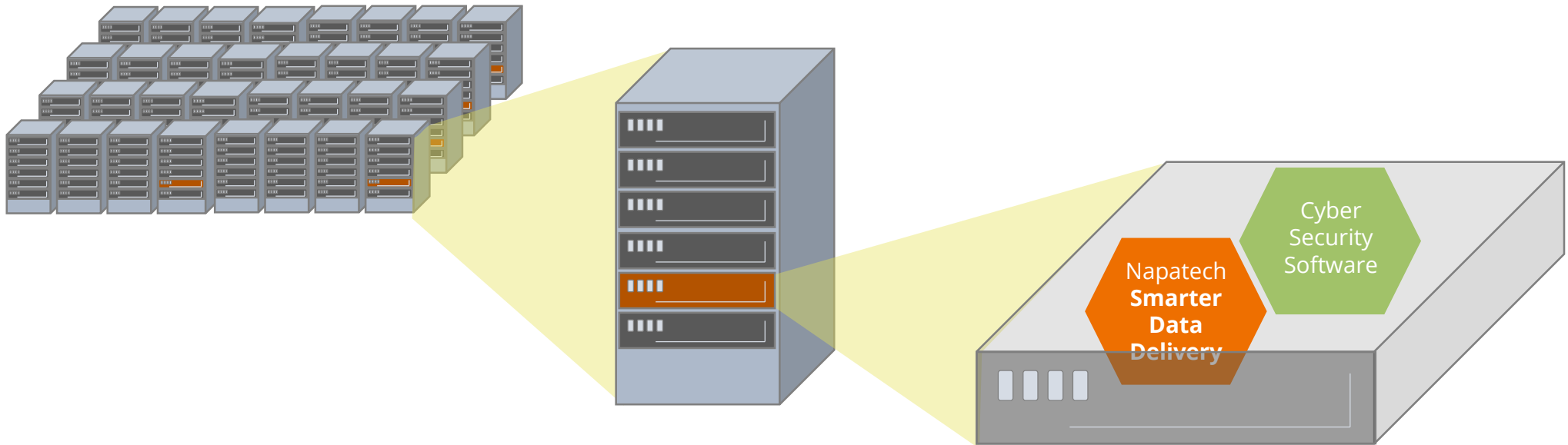
Napatech Smarter Data Delivery Solutions

How are They Deployed?

Typical Datacenter
With thousands of servers
supporting user services

Some servers dedicated to
network management and
cybersecurity software

Napatech ensures reliable
data delivery to these
application servers



Open Source Initiatives



From *Closed, Proprietary*
Vertically-Integrated Systems

Networking Devices Are Transforming to open standard Compute Platforms



Open Source Initiatives

Massive Communities Supporting the Transformation

Open source initiatives span server hardware designs, network interface cards, operating systems, applications, management and orchestration, and the embedded technologies that bind them all together

Napatech Open and Standard Solutions strongly supports

- Reconfigurable computing platform
- Industry standard server designs (x86)
- Industry standard software (DPDK, OVS)
- Industry standard hardware (PCIe, FPGA)
- Support for major operating systems
- Software contributed to open communities



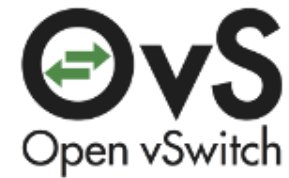
Napatech Leading Contributor to the HW offload and improved performance of OvS

Napatech's most recent contribution to the community, substantially increases the performance of networking, security and other workloads in virtualized servers, used in hyper-scale cloud and data centers
– unlocking new customer segments and growing our market

User Benefits:

- Lower total cost of ownership
- Flexible platform for many applications
- Familiar out of box experience
- Low activation energy to realize gains
- Greater network security
- Higher network performance
- Faster pace of innovation
- Higher quality products and solutions

<http://github.com/napatech/ovs/tree/2.7-hw-offload>



Financial Service Regulation MiFID-II Compliance Impact and Opportunities

The MiFID-II regulations pose new opportunities for Napatech as we foresee a growing need for IT organizations to rethink how they deliver a scalable data harvesting infrastructure

MiFID-II Impacts to IT at Financial Firms:

- Requires 100% capture of trade data
- Requires monitoring of all transactions
- Requires replay and reconstruct of all trades and transactions
- Extends retention to communications related to trade data
- Archival and search of large-scale data, for future regulator review
- Expands regulation oversight to virtually every trading firm and venue

Napatech expects to communicate more about opportunities and progress with this market area during the remainder of 2017



<http://films.napatech.com/go-with-the-flowmp4>


Pandion: The Perfect Data Capture Foundation for Scalable End-to-end Trade Analysis


72TB–1PB 10-40Gbps

NAPATECH PANDION FLEX


28TB 20Gbps

NAPATECH PANDION 20







RECORDS ALL PACKETS
Nanosecond stratum-3 timestamp




ZERO PACKET LOSS
40G sustained capture-to-disk



WEB GUI
Intuitive and easy-to-use



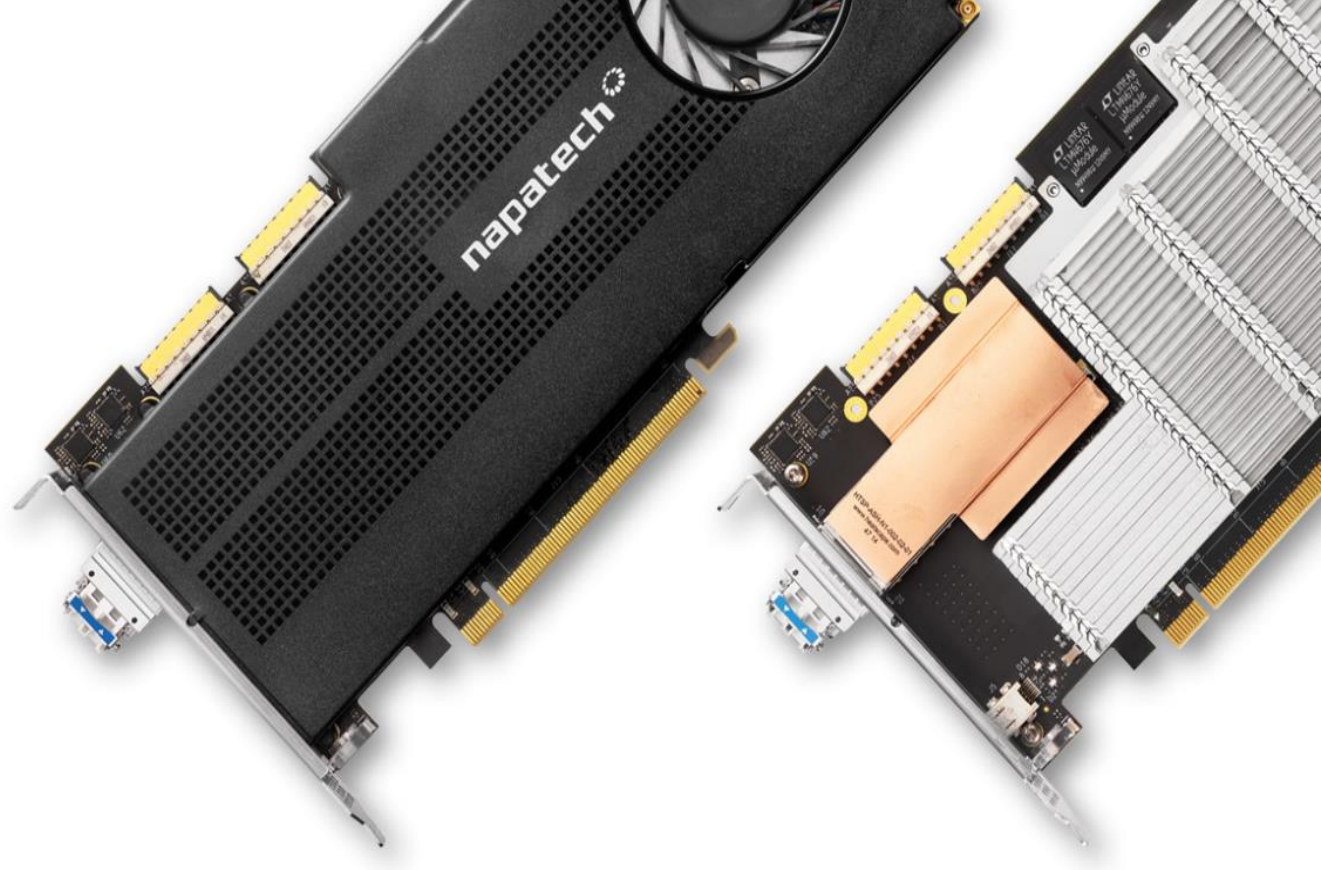
SCALABLE STORAGE
Increased retention time



ACCELERATED SEARCH
Only the data required

API

REST API
Integration and troubleshooting



Business Highlights

Recent Design Wins to drive future business

- 100 Gigabit Accelerator solution for a North American customer in the online gaming industry for a security solution
- 10 Gigabit Accelerator design win for a European Network Monitoring company, in the Financial industry
- Pandion recorder design win for a North American customer leveraging our Dell relationship, the solution is a security solution in the Datacenter vertical



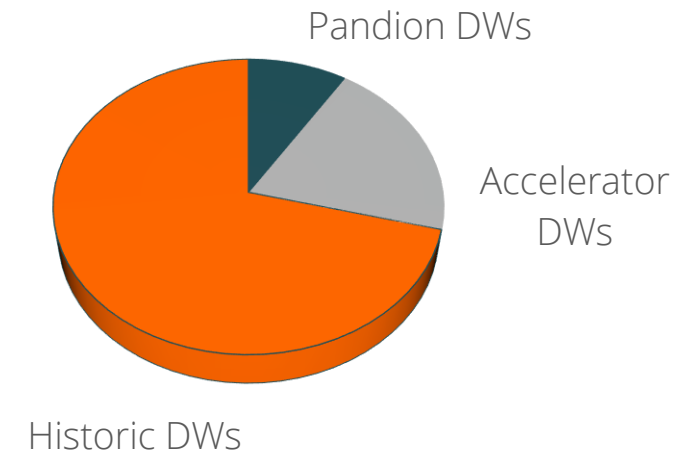
Significant progress in Napatech and Dell partnership

- Program: Dell resells Napatech Pandion software under the Dell brand
- First significant design win in Q2 through joint efforts of Napatech and Dell
- Roll-out expected to be completed over the coming months with a total value for Napatech projected to more than 500,000 USD
- The solution includes servers, storage components and integration from Dell with Napatech providing the accelerator and software components
- A security solution for a US-based Enterprise cloud services company's datacenters



Design-win effect on Q2 Revenue

- Design wins during the last 6 quarters delivered 29% of the overall Q2 2017 revenue
- The Pandion business delivered:
 - 9% of the overall revenue in Q2 is based on design-wins secured in 2016 and 2017
- The Accelerator business delivered:
 - 20% of the overall revenue in Q2 is based on design-wins secured in 2016 and 2017
- Recent design wins and new customers are the basis for our growth momentum, why even more resources are focused on new business



Board and management strengthened

Ken Way, Chief Sales Officer

- 20+ years with specific focus on network and security manufacturers, cloud and data center operators, Fortune-5000 enterprise IT organizations and government networks
- Experience in the systems and semiconductor industries including software, hardware, services and tools
- Previous positions with industry leading companies like Netronome, Tiler, Cavium Networks, Motorola, Freescale Semiconductor

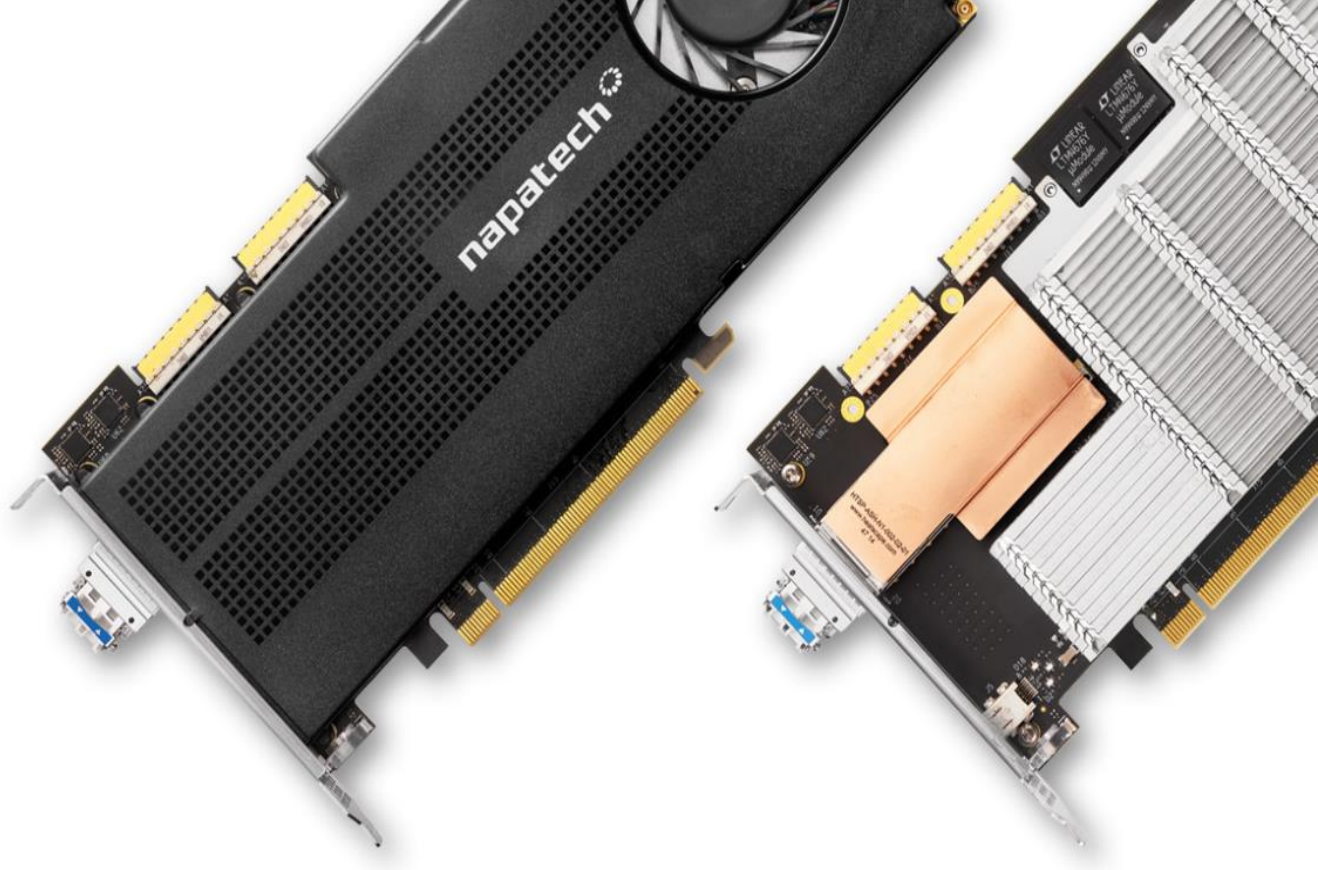
Henry Wasik, member of the Board of Directors

- Significant depth of experience and insight to high technology businesses and growth by maximizing software capabilities
- Industry background includes semiconductors (Mostek), Enterprise PBXs (Intecom), global carrier network systems (Alcatel/DSC), web scale data centers (Force10 Networks) and cloud services (Joyent)

Comments:

To support increased North America focus as:

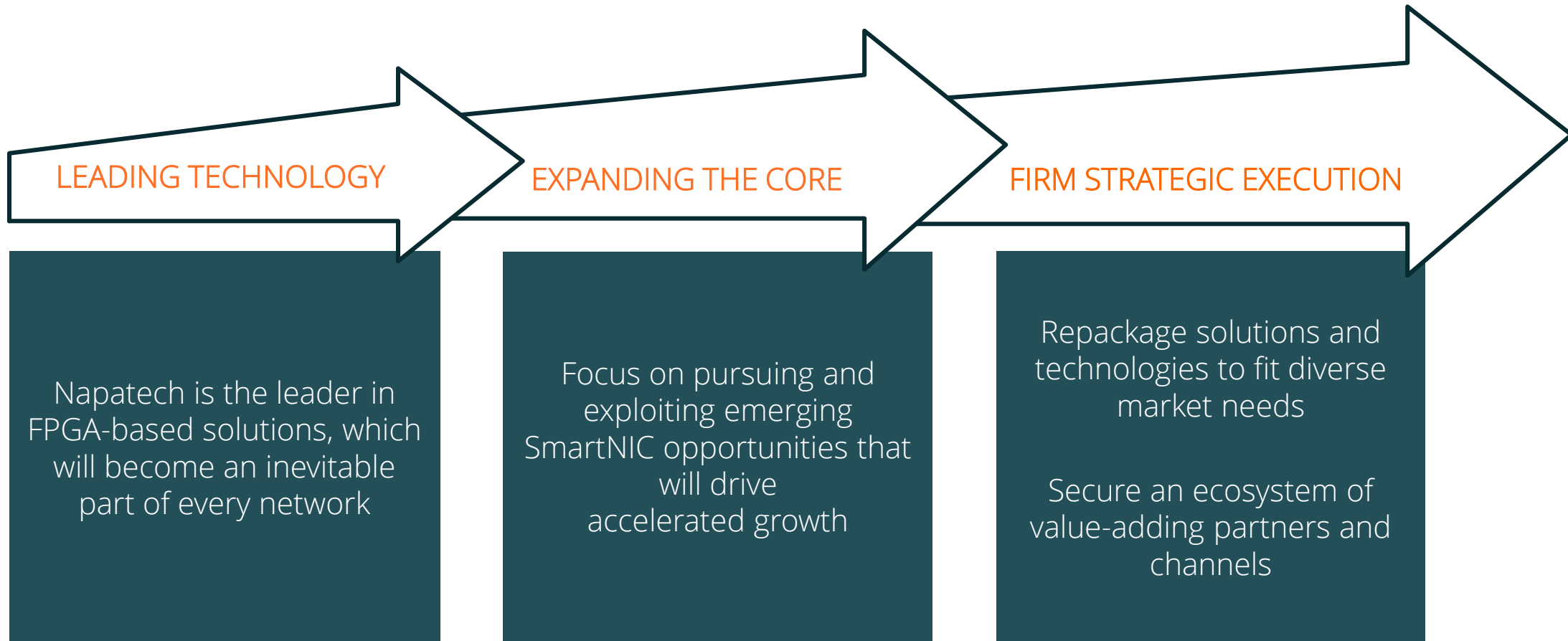
- NAM is >75% of current sales
- Top 10 customers are all based in NAM
- Growth expectations towards 2020 include further progress with existing and new NAM customers



Outlook

The Roadmap to 100 MUSD by 2020

2020 Strategy Secured by Strong Technology, Portfolio and Organization



Management's Outlook

- Napatech's strategy is to be the #1 vendor of SmartNIC solutions, leading to an ambition of a 100 MUSD top-line by 2020, based on a strong product portfolio powered by leading-edge core technology
- Increasing sales performance and a revenue increase of 23% in H1 provides a solid platform for the full year 2017 and onwards.
- The cloud, 5G and IoT combined form a significant growth driver, leading to exploding volumes of users, devices and data. This creates vast market potential for Napatech's core FPGA technology and SmartNICs

Comments:

Guidance for 2017 as stated in the Q4 report of 2017.02.14:

- Revenue growth 10% - 20%
- Gross margin around 68%
- EBITDA margin around 20%

Q&A Session

napatech

OSLO
OSLO BEERS



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...about Napatech, Smarter Data Delivery,
SmartNICs, IoT, cloud computing, 5G Mobile,
and other trends in the industry?

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