

Napatech

Q1 2018 Presentation

May 8, 2018



Highlights

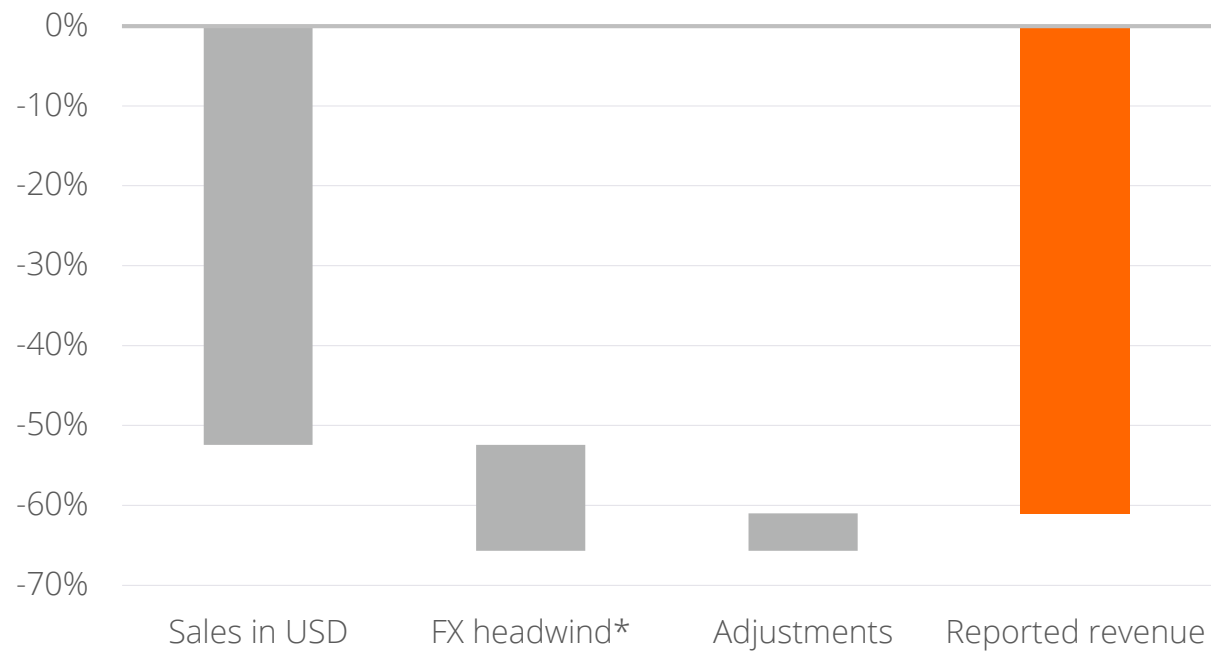
- Sales performance for Q1 2018
 - 52% decrease in USD sales for Q1 2018
 - 61% decrease in DKK Revenue for Q1 2018
- Pandion business
 - 11% of our sales in Q1 coming from Pandion products
- Progress in business strategy
 - Progress in business transition towards a software delivery model, both for our FPGA Software and Application Software
 - Substantial progress with Xilinx and Intel focused at delivering FPGA software solutions
 - Strong customer focus and engagements based on our 5G virtual RAN solution, which have been well received in the market

Napatech Q1 2018 Financials



Q1 2018 Revenue

Sales and Revenue Growth (YoY)



* Based on average rates

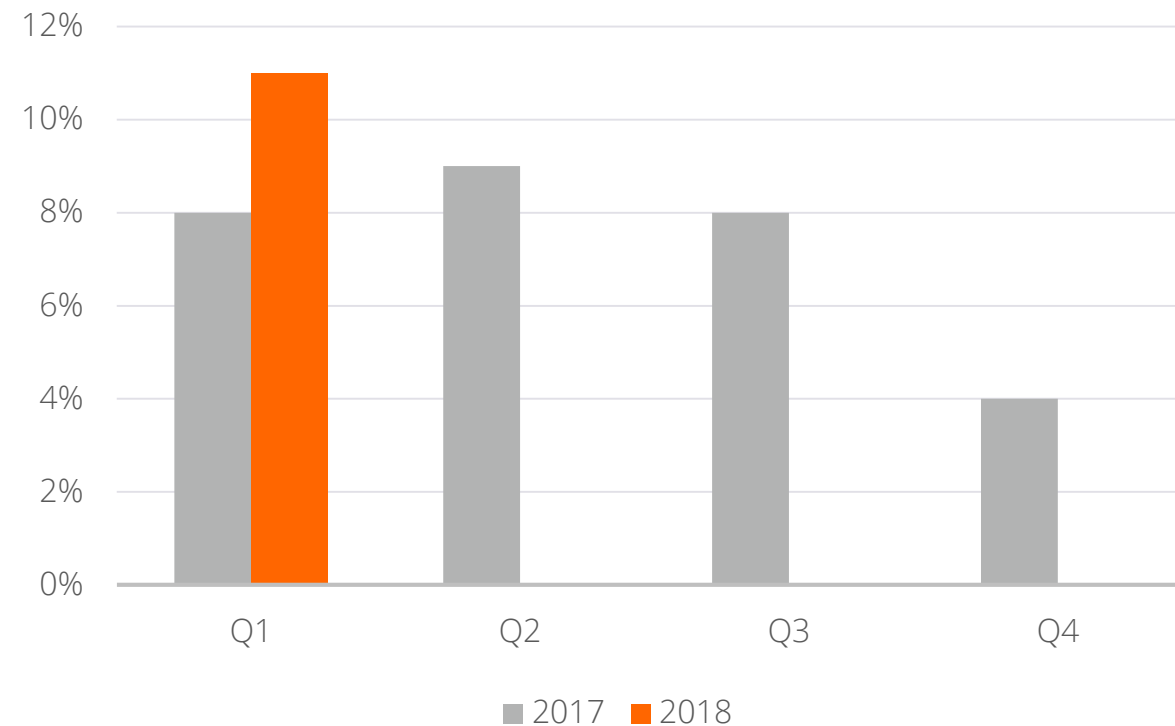
Comments:

- Revenue decline in Q1 is 61%
- The revenue for the period has been negatively influenced by the postponement of customer projects and inventory reductions
- Currency has had a large effect as the USD exchange rate decreased 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 Sales

Pandion share of sales



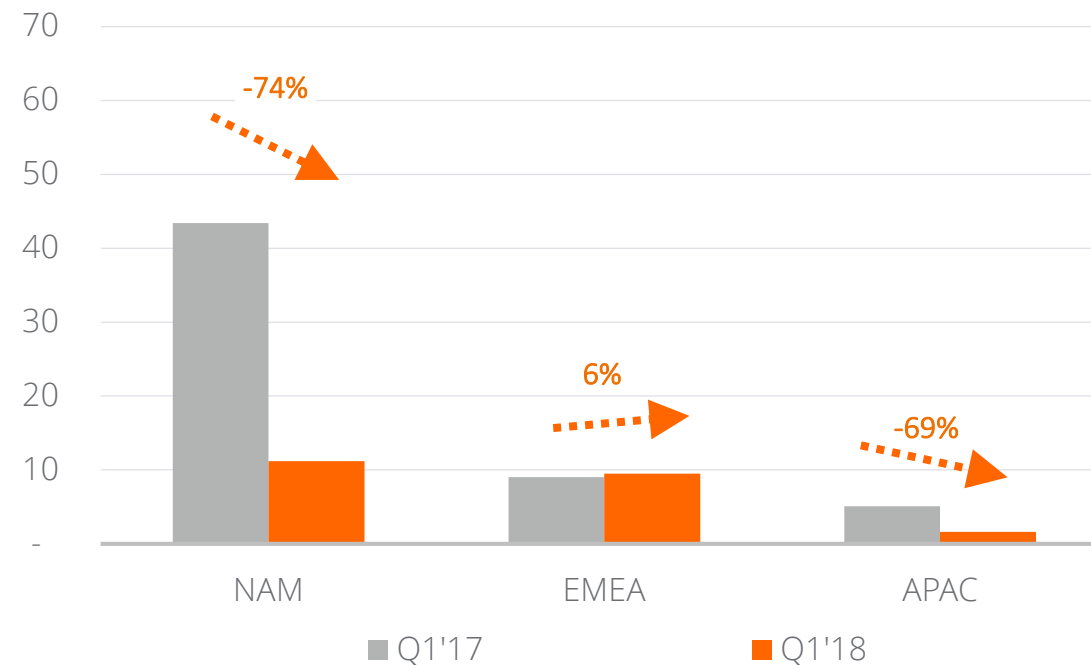
Comments:

- 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

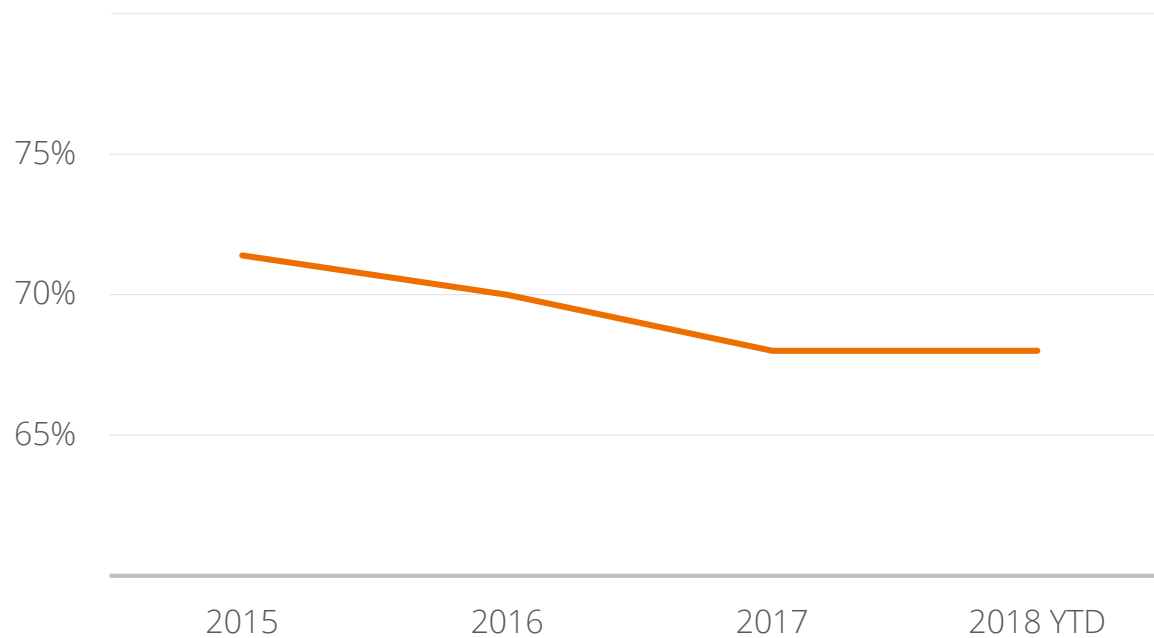


Comments:

- North America growth affected by the postponement of customer projects and inventory reductions, at a couple large OEM's
- EMEA show progress due to timing of projects
- APAC decline due to timing of projects in the region

Gross Margin Development

Gross Margin

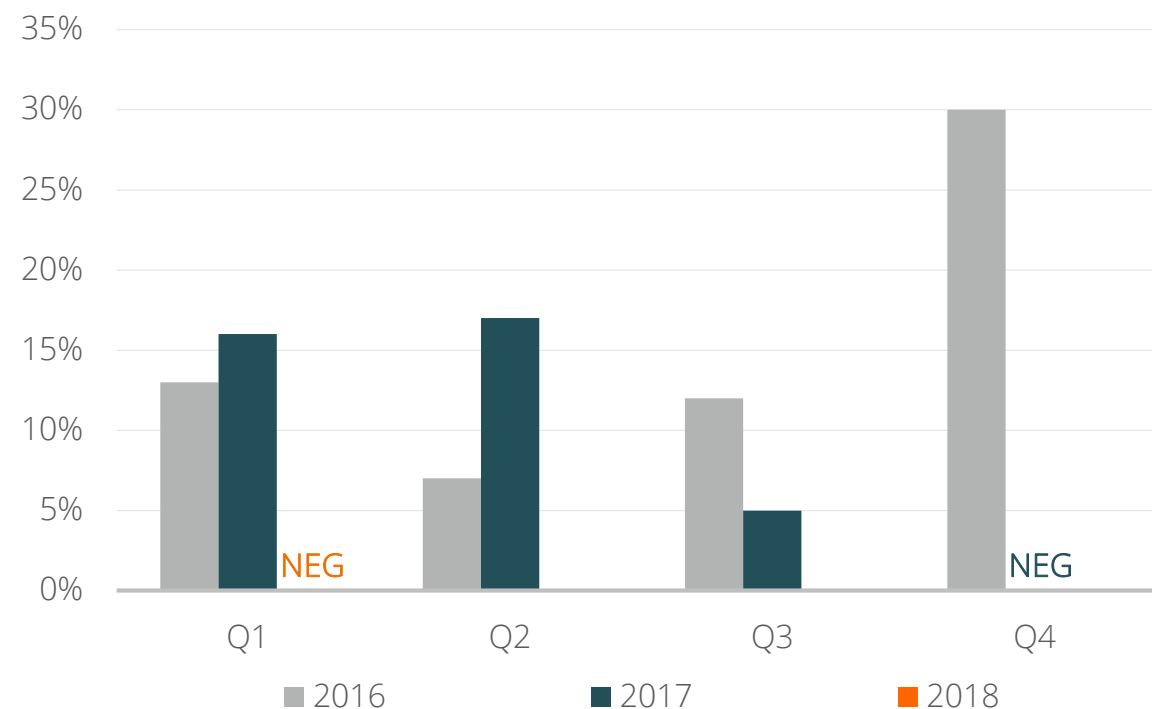


Comments:

- The gross margin in Q1'18 is at 68%, a decrease compared to Q1 2017
- The gross margin development is dependent on the following two trends:
 - Larger volumes to strategic accounts and changes in product mix are expected to drive the gross margin down
 - Increased focus on software sales are expected to drive the gross margin up over time

EBITDA Margin

EBITDA Margin



Comments:

- EBITDA margin Q1'18 is negative 71%
- EBITDA margin is lower in Q1 compared to last year. This is primarily due to the lower revenue and lower gross margin, as our cost are very stable, the EBITDA margin is heavily dependent on the revenue level

Financial Results Q1 2018

(Figures in MDKK)	Q1 2018	Q4 2017	Q1 2017
Revenue	22.3	47.9	57.6
Growth YoY**	(61%)	(48%)	24%
Gross Margin	68%	54%	73%
EBITDA	(15.8)	(7.2)	9.4
EBIT	(26.4)	(16.5)	(0.1)
Cash flow from operating activities	(7.9)	8.2	14.4
Cash and cash equivalents, end of quarter	20.2	40.0	47.0
Available funds, incl. unused credit facilities	36	56	64

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

Business Highlights



Recent Design Wins to Drive Future Business

APAC Top-3 Global Mobile Network Operator – 10 Gigabit SmartNIC

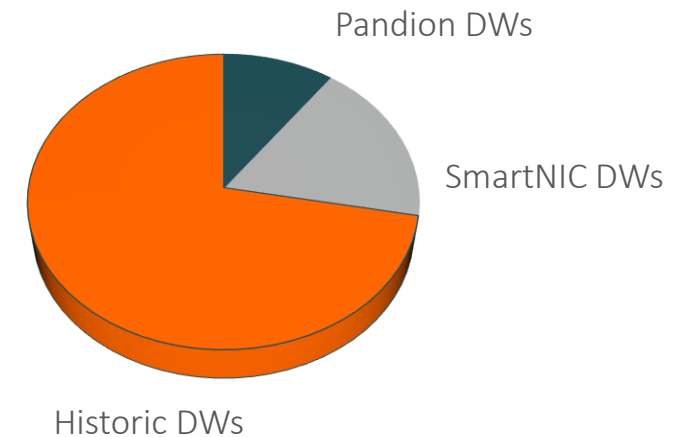
- Expanding 5G applications and services
- Machine learning, artificial intelligence, big data analytics
- Automated, real-time, performance analysis and troubleshooting

This customer represents the type of design that many other networks are following: highly virtualized, software defined with advanced services based on open and standard server platforms, accelerated with FPGA technologies.



Design-win Effect on Q1 Revenue

- Design wins during the last 5 quarters delivered 28% of the overall Q1 2018 revenue
- Pandion business delivered 10% of the overall revenue in Q1 is based on design-wins secured in 2017 and 2018
- The SmartNIC business delivered 18% of the overall revenue in Q1 is based on design-wins secured in 2017 and 2018
- Recent design wins and new customers are the basis for our growth momentum, why even more resources are focused on new business



Company Key Highlights

- Hosted 2018 Capital Markets Day
 - Outlined execution plans supporting our corporate strategy
 - Content and video's available on our website
- Extending Reach To Emerging End-User Markets
 - Hired industry expert, global vice president of channels sales
 - Enterprise, government, service provider and data center
- Delivered Stunning Benchmarks for New Application Segments
 - TRENDS: 100 Gigabit Ethernet support for network performance testing
 - 5G Mobile: First reconfigurable RAN for PDCCP applications (MWC)
 - IT Compliance: Network recording for GDPR compliance (Infosec)
 - Cyber Security: Acceleration for leading open-source applications (RSA)



Napatech VP Product Management, Daniel Proch, demonstrating 5G virtual Radio Access Network solution at Mobile World Congress 2018

This is Napatech

Today focus on: Our strategy, market opportunities
and time line

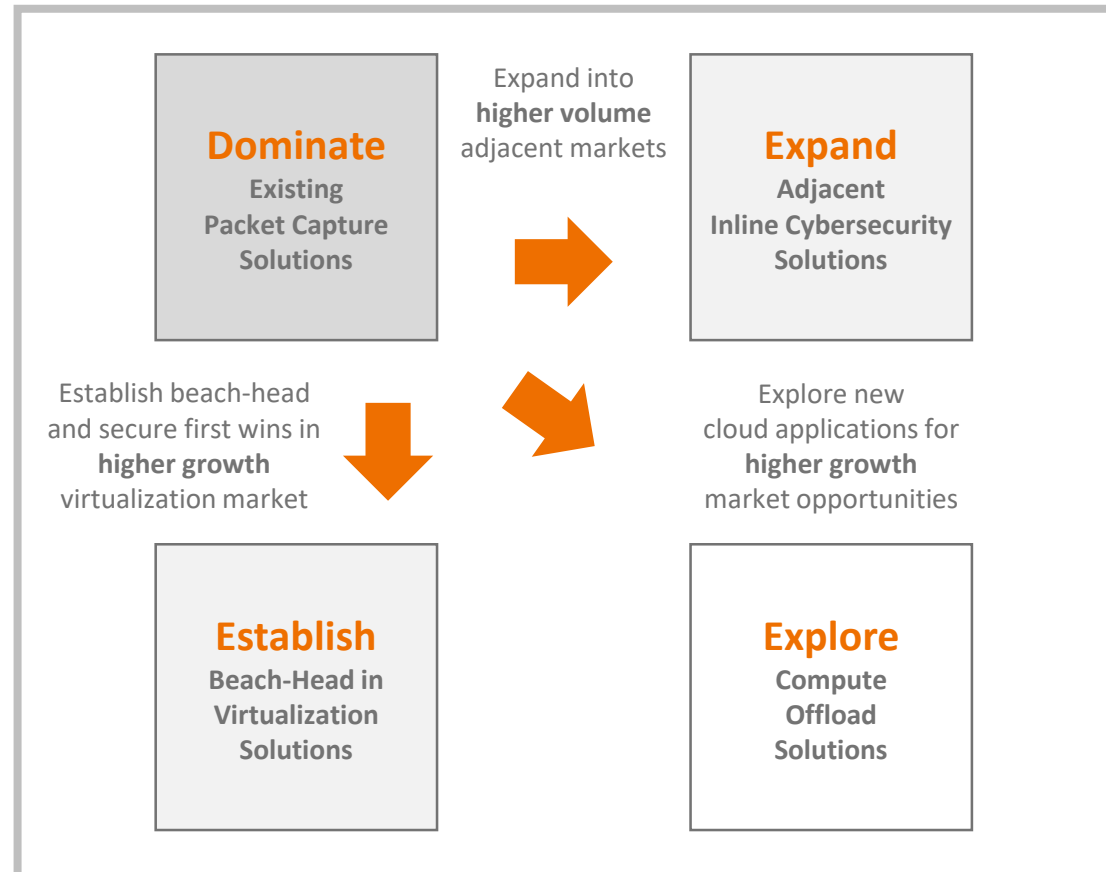


Four Strategic Pillars Underpin Our Business Aspirations to Win the Emerging Reconfigurable Computing Opportunities

- Napatech will continue to **Dominate** our incumbent packet capture market and maintain the strategic relationships established with market leading key customers and partners
- Napatech has **Expanded** its software solutions to include capabilities that improves the application performance for higher-growth, higher-volume, in-line network and cyber security applications
- Napatech has **Established** a beach-head in virtualization solutions based on active engagements with leading telecom carriers and vendors for the primary applications supporting 5G deployments
- Napatech is **Exploring** the potential for delivering compute offload solutions that leverage FPGA technology deployed by cloud vendors offering FPGA as a service



Moving to Higher Volume, Higher Growth Market Opportunities within Reconfigurable Computing



High-Growth Applications Benefit from Reconfigurable Computing



Firewall
Next-Gen Firewall
Intrusion Detection
Intrusion Prevention
Forensics
Threat Detection
Secure Web Gateway
Surveillance
Data Loss Prevention

Analytics
Trading
Recording

5G
CORD
vEPC
vIMS

Load Balancer
SD-WAN
V-CPE
SDN Gateway
Packet Broker
Network Taps

Quality of Experience
Service Assurance
Performance Monitoring

Napatech's Reconfigurable Computing Platform flexibly offloads, accelerates and secures standard servers based on a broad set of FPGA software for leading IT applications supported on an wide array of hardware

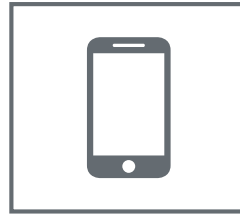
End Users Benefit from Reconfigurable Computing

Napatech aims to be the provider of Reconfigurable Computing Platforms **for every IT organization** providing hyper-scale hardware performance with the speed of software innovation



Cloud and Data Center Services

Hyperscale Cloud Operators



Service Providers

Telecom
Cable
Managed Services



Enterprise

Fortune 5000
Banking
Financial
Manufacturing
Healthcare

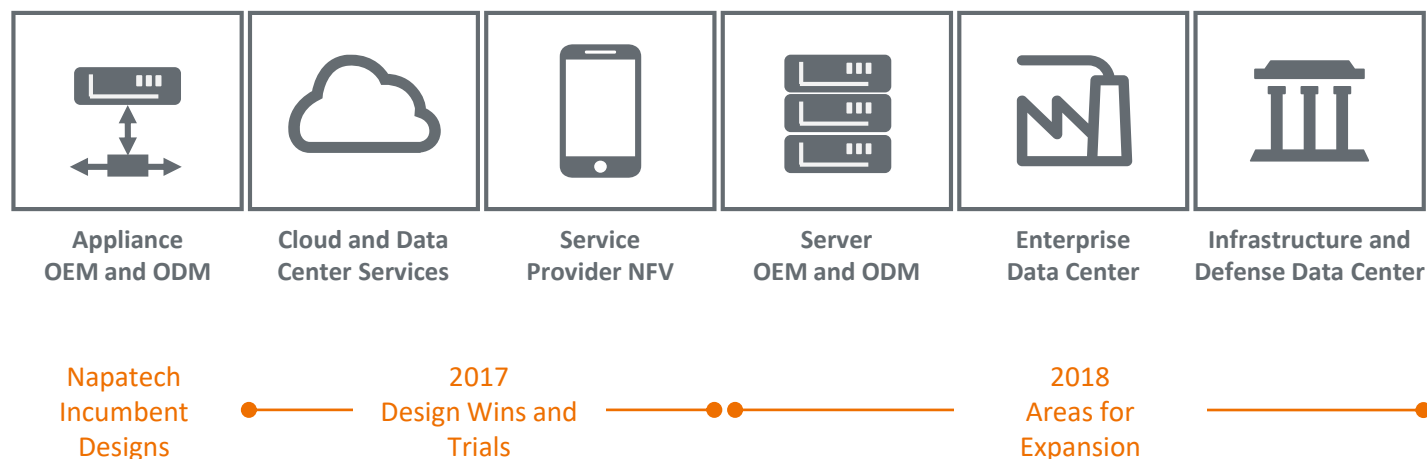


Infrastructure and Defense

Civilian
Defense
Intelligence



Rapidly Expanding Market Opportunity With New Routes to Market - Our Point of View



Broadening our software portfolio for FPGA-based SmartNICs will allow us to grow by **dominating** our leadership position in capture applications, **expanding** into new networking applications, **establishing** new positions in virtualization and **exploring** the emerging cloud deployments

In 2022

15 million platforms

- Standard servers and appliances

\$1.67 billion NIC opportunity

- Programmable and Offload NIC market

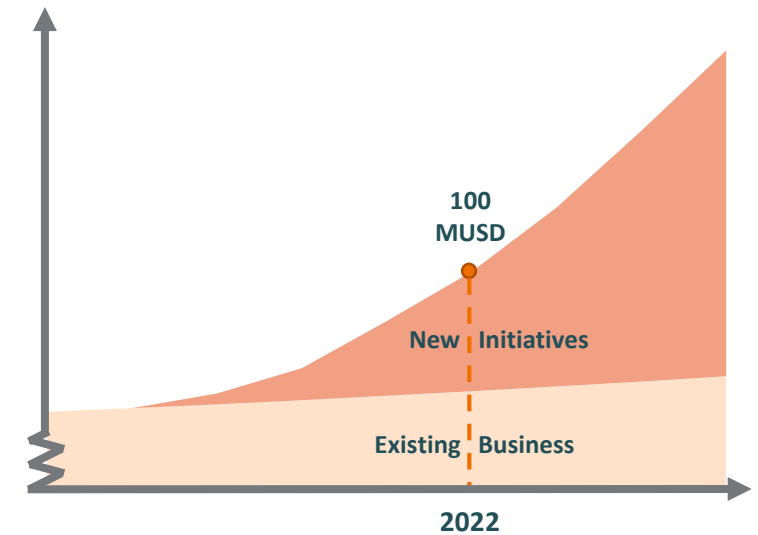
\$2.5 to \$3 billion TAM

- Software and hardware solutions

Outlook

Napatech is perfectly positioned to take advantage of the market shift to Reconfigurable Computing Platforms

- Napatech is one of the few companies in the world with the expertise to deliver world-class FPGA-based application-driven solutions
- Napatech is focused on managing and growing our **Existing Business** in a medium size market with relatively low growth to fund investment in new initiatives, ensuring our long-term growth
- Napatech is expecting growth in **New Initiatives** through 2022 to be a combination of
 - Cybersecurity Solutions for both existing and new customers, large market size today, medium growth, up to 60% contribution
 - Virtualization solutions primarily for new customers, small market size today, massive growth, up to 60% contribution
 - Compute Offload Solutions for new customers, small market size today, massive growth, up to 20% contribution
- Napatech sees a long-term potential significantly higher than our current business as we move to broader market and support more applications



Management's Outlook

- We have a sharp focus at being Application Driven to align with the leading cloud, mobile, IoT and security applications and services that are behind the current network transformations. Our strategy is Software Centric in order to provide the most valuable FPGA software to accelerate and optimally enhance standard server platforms that host those leading applications
- The company expects the revenue growth to resume in 2018, but underlines that the short-term visibility is limited and will be affected by quarter-to-quarter order volatility and general business uncertainty. As also outlined, the business transition toward a more software focused business will take longer than expected
- The company expects that the inventory reductions at our major OEM's will still have some impact on second quarter revenue. However increased customer demand is expected in second half of 2018, based on our customers forecasting

Comments:

Guidance for 2018:

- USD sales growth 0-10%
- Gross margin around 68%
- EBITDA margin around 15%

Q&A Session

napatech

OSLO
OSLO BERG



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SmartNICs, FPGA technology and other trends
in the industry?

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