

Napatech

Q2 2018 Presentation

August 14, 2018



Highlights

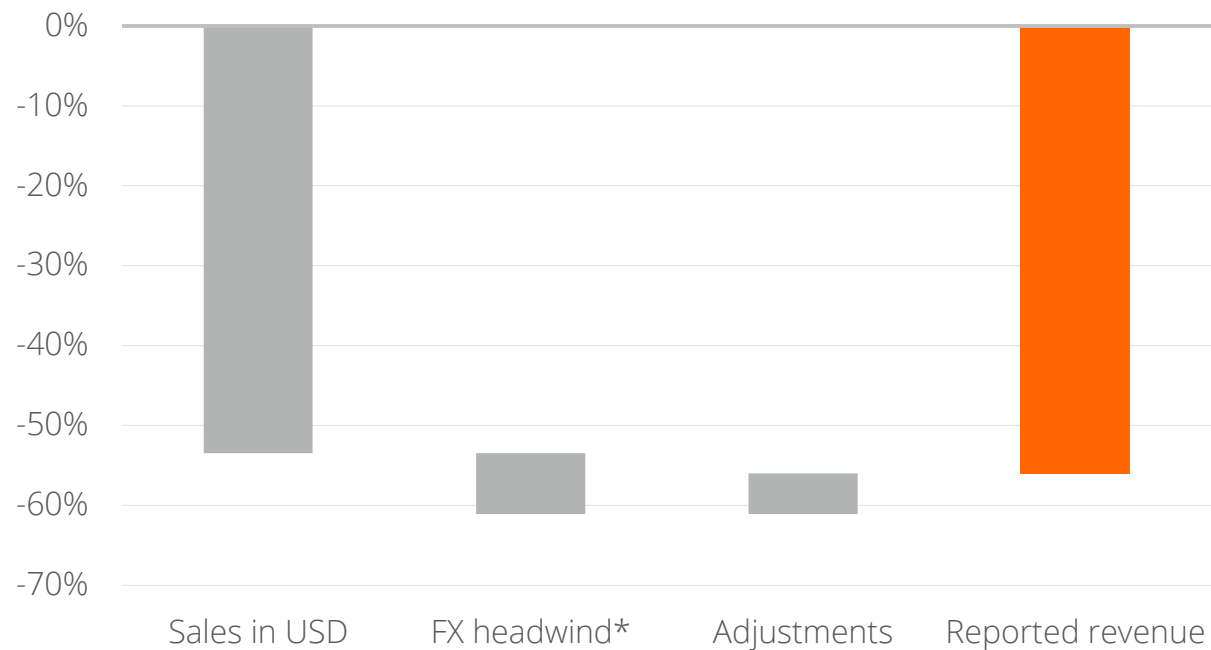
- Sales performance for Q2 2018
 - 53% decrease in USD Sales for Q2 2018
 - 56% decrease in DKK Revenue for Q2 2018, 11% increase in DKK over Q1 2018
- Progress in business strategy
 - Substantial progress with Xilinx and Intel focused at delivering FPGA software solutions
 - Strong customer focus and engagements based on our 5G virtual RAN solution
 - Progress in FPGA software delivery for AWS – beta code ready

Napatech Q2 2018 Financials



Q2 2018 Revenue

Sales and Revenue Growth (YoY)



* Based on average rates

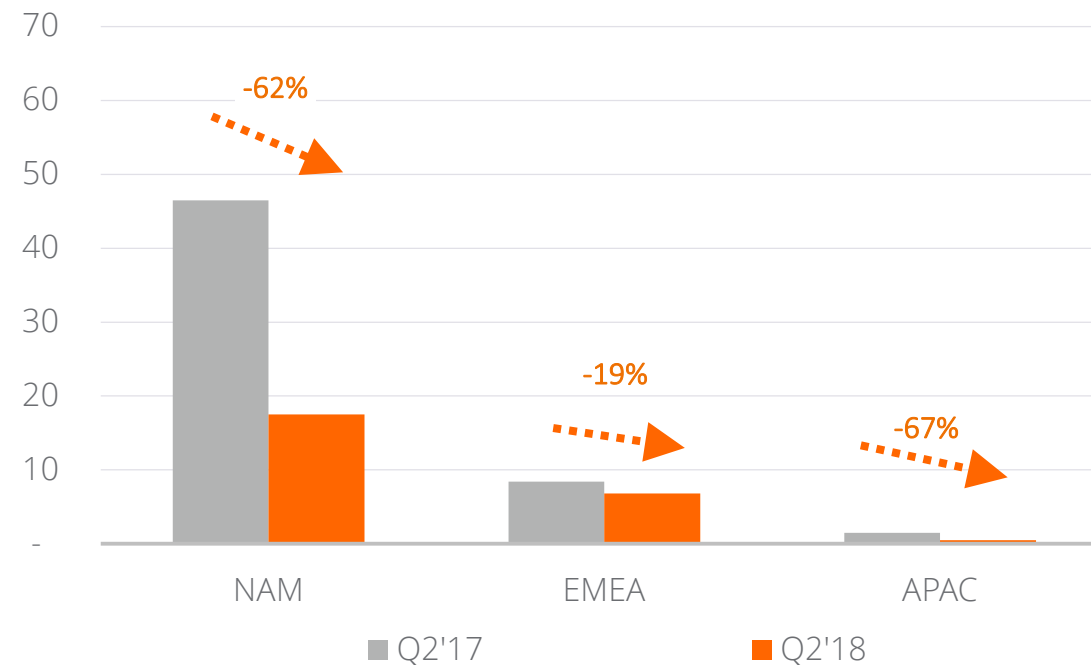
Note: The US Dollar to Danish Kroner exchange rate is calculated as a daily average rate through the quarter and compared YoY

Comments:

- Revenue decline in Q2 is 56%
- The revenue for the period has been negatively influenced by delay in customer projects and inventory reductions but also the transition from hardware to software centric solutions as customers sort out their technology buying strategies
- Currency has had a large effect as the USD exchange rate decreased compared to the previous year

Regional Revenue Distribution

Quarterly revenue in MDKK

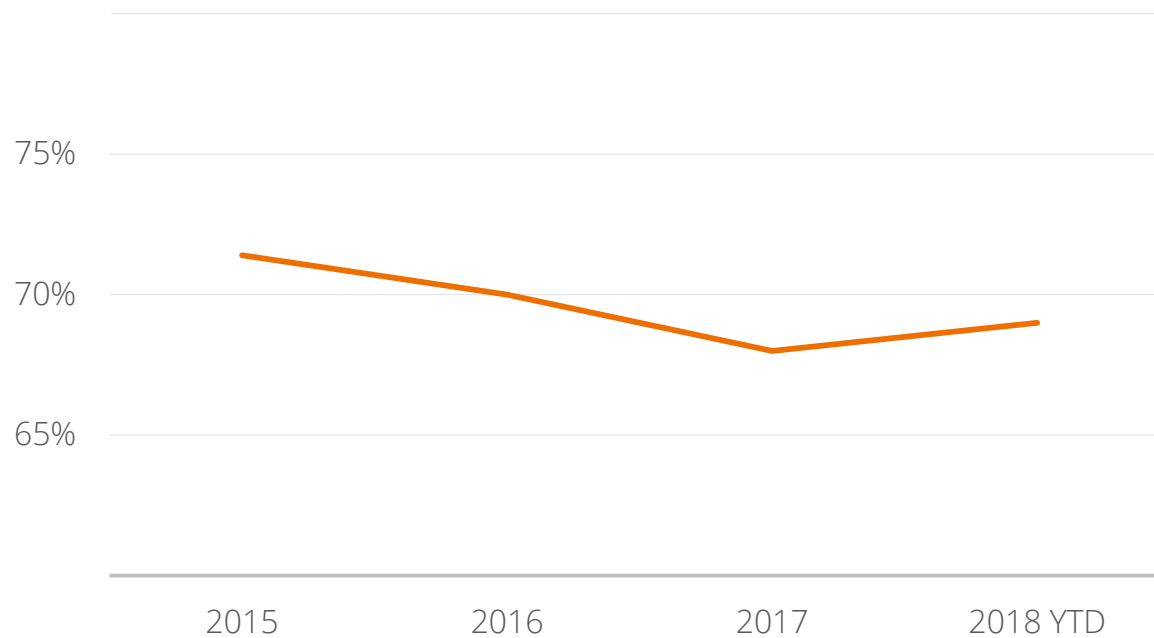


Comments:

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

Gross Margin Development

Gross Margin



Comments:

- The gross margin in Q2'18 is at 70%, a decrease compared to Q2 2017
- The gross margin 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

Financial Results Q2 2018

(Figures in MDKK)	Q2 2018	Q1 2018	Q2 2017
Revenue	24.7	22.3	56.5
Growth YoY**	(56%)	(61%)	21%
Gross Margin	70%	68%	71%
EBITDA	(16.2)	(15.8)	9.6
EBIT	(28.0)	(26.4)	0.1
Cash flow from operating activities	(18.9)	(7.9)	(9.3)
Cash and cash equivalents, end of quarter	1.6	20.2	34.0
Available funds, incl. unused credit facilities	7.4	36	50

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

Business Highlights



Key Wins Will Drive Future Business

China Neusoft

- Application (APM) and network (NPM) performance monitoring
- Software applications on open and standard server platforms
- Napatech's SmartNIC software and hardware for performance, programmability and scalability
- Telecom deployments

Central European Government Agency

- Lawful Interception application
- Napatech SmartNIC software and hardware for performance, guaranteed capture and programmability
- Automated, real-time, performance analysis and troubleshooting

These customers 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.

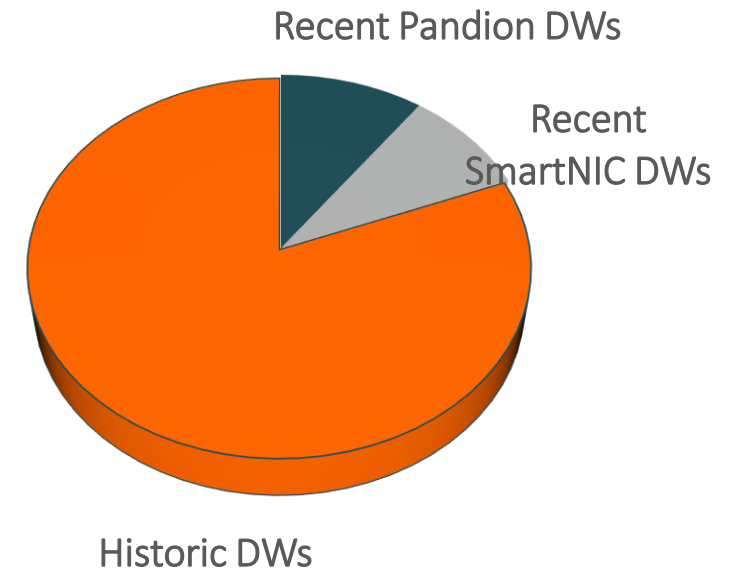
Industry Leaders That Rely on Napatech



The Design Win Effect on Revenue

Design wins and new customers acquired are the basis for our growth momentum over time

- Design wins (DW) during the last 6 quarters delivered 19% of the overall Q2 2018 revenue
- The SmartNIC business delivered 10% of the overall revenue in Q2 based on design-wins secured in 2017 and 2018
- The Pandion business delivered 9% of the overall revenue in Q2 based on design-wins secured in 2017 and 2018



Important Company Progress in Key Areas

- Showcased Reconfigurable Computing Solution for 5G Mobile
 - Excellent benchmarks for cloud-RAN applications
 - Built on Napatech's SmartNIC software and hardware
 - Featured programmability and decoupled hardware & software
 - Multi-partner demonstration at Mobile World Congress Shanghai
 - Napatech, Lenovo, China Mobile, Xilinx and Radisys
- Extended Reach To Emerging End-User Markets
 - Signed partnerships with three global value-added resellers
 - Enterprise, government, service provider and data center
- Continued to Deliver Stunning Benchmarks for New Opensource Applications
 - Suricata: Cybersecurity application for intrusion detection and prevention.



Napatech continues to make software investments that are application-driven, and hardware independent, working closely with the top-2 global suppliers of FPGAs.

This allows Napatech's reconfigurable computing solution to improve the performance of leading networking and security applications for IT organization of every size, in cloud, premise and hybrid designs

This is Napatech

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



Our Transformational Journey Towards FPGA Software for Reconfigurable Computing

Pioneered use of
Hardware-centric FPGA's
to accelerate networking
and security applications
in
networking appliances

Proven Success
FPGA SmartNICs

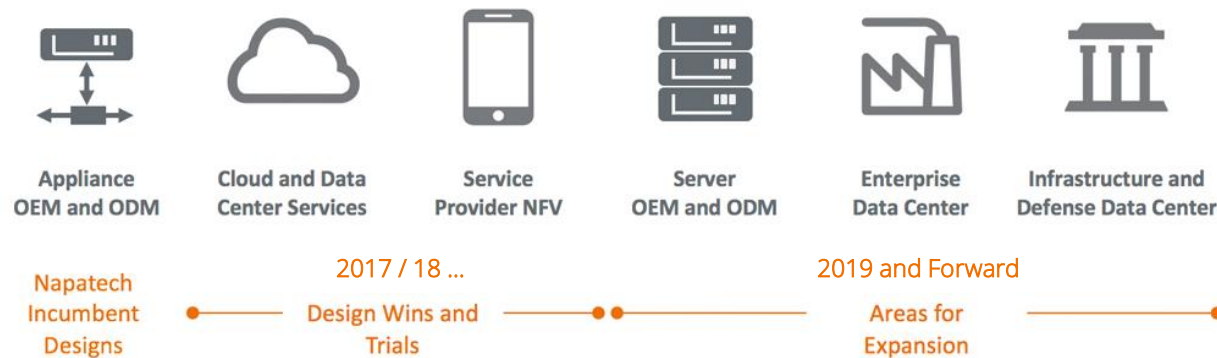
New Markets
Hyperscale Networks
5G Mobile
Machine Learning
Storage

Innovating around
Software-centric FPGA
acceleration for expanding
set of server use cases for
**cloud, premise and
hybrid networks**

More Applications
Virtual Switching
Cybersecurity
Analytics

Enhancing performance
for compute-intensive **IT applications**
supported on a wide array of
FPGA-based hardware

Rapidly Expanding Market Opportunity



*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 and security applications, **establishing** new positions in virtualization, and **exploring** the emerging cloud deployments.*

Source: IHS Markit, Ethernet Network Adapter Equipment Market Tracker Q4 2017



- 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

Recent Initiatives Supporting Our Strategy

Implemented actions paving the way for growth

- Strengthened executive management with new US-based CEO – enhanced focus on North American market
- Strategic partnerships established with Xilinx and Intel, the leading suppliers of FPGA technologies
- Engaged in several proof-of-concepts with market-leading Tier-1 systems suppliers, like Cisco
- Implementation of cost reduction program to ensure investment focus on growth initiatives
- Focused investments on FPGA-based software to improve the performance of leading IT applications
 - Application expansion
 - Software focused
 - Hardware independent
 - Network-wide: premise, cloud and hybrid

Outlook



Management's Outlook

- As previously communicated, we expect an improvement in revenues in the second half of 2018 compared to the weakness experienced in the first half.
- We expect sales for the second half of 2018 at 12 MUSD within a range of 10 to 15 MUSD, compared to 7.9 MUSD 1H 2018.
- As the transition from hardware centric solutions to software centric solutions continues, we expect the quarter-to-quarter order volatility to remain as customer markets sort out their technology buying strategies.

Comments:

Guidance for FY 2018:

- USD sales 18 to 23 MUSD
- Gross margin around 68%

Q&A Session

napatech

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...about Napatech, Reconfigurable Computing,
SmartNICs, FPGA technology and other trends
in the industry?

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