

# Napatech

**Q3 2018 Presentation**  
November 6, 2018



A long-exposure photograph of the Golden Gate Bridge at night. The bridge's towers and suspension cables are illuminated with a warm orange glow. The city lights of San Francisco are visible in the background, and the water in the foreground shows light trails from the bridge's lights. The text "Business Highlights" is centered over the bridge.

# Business Highlights

**napatech** 

# Important Steps Towards Stabilizing Business Operations

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- Revenue
  - Sales focus balanced between near-term and long-term opportunities
  - Improving effectiveness of channel partners to improve access to new revenue
- Cash
  - Cash preservation, and actions to increase cash position
- Improve business operations
  - Continue to improve internal efficiency
  - Reduced global office space requirements
  - Assessing product development and engineering priorities
- Improve senior management effectiveness

# One-Off Adjustment to Reduce Accumulated Inventory

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- Commercial decision to take one-off adjustment to reported revenue of approximately -20 MDKK in Q3 2018 to reduce accumulated inventory within the company's channel
- Goal to provide greater sales stability for Napatech
  - stronger relationships with important value-added resellers
  - continued transparency for our shareholders
  - improved clarity of sales performance going forward

## Divestiture of Pandion Product Line

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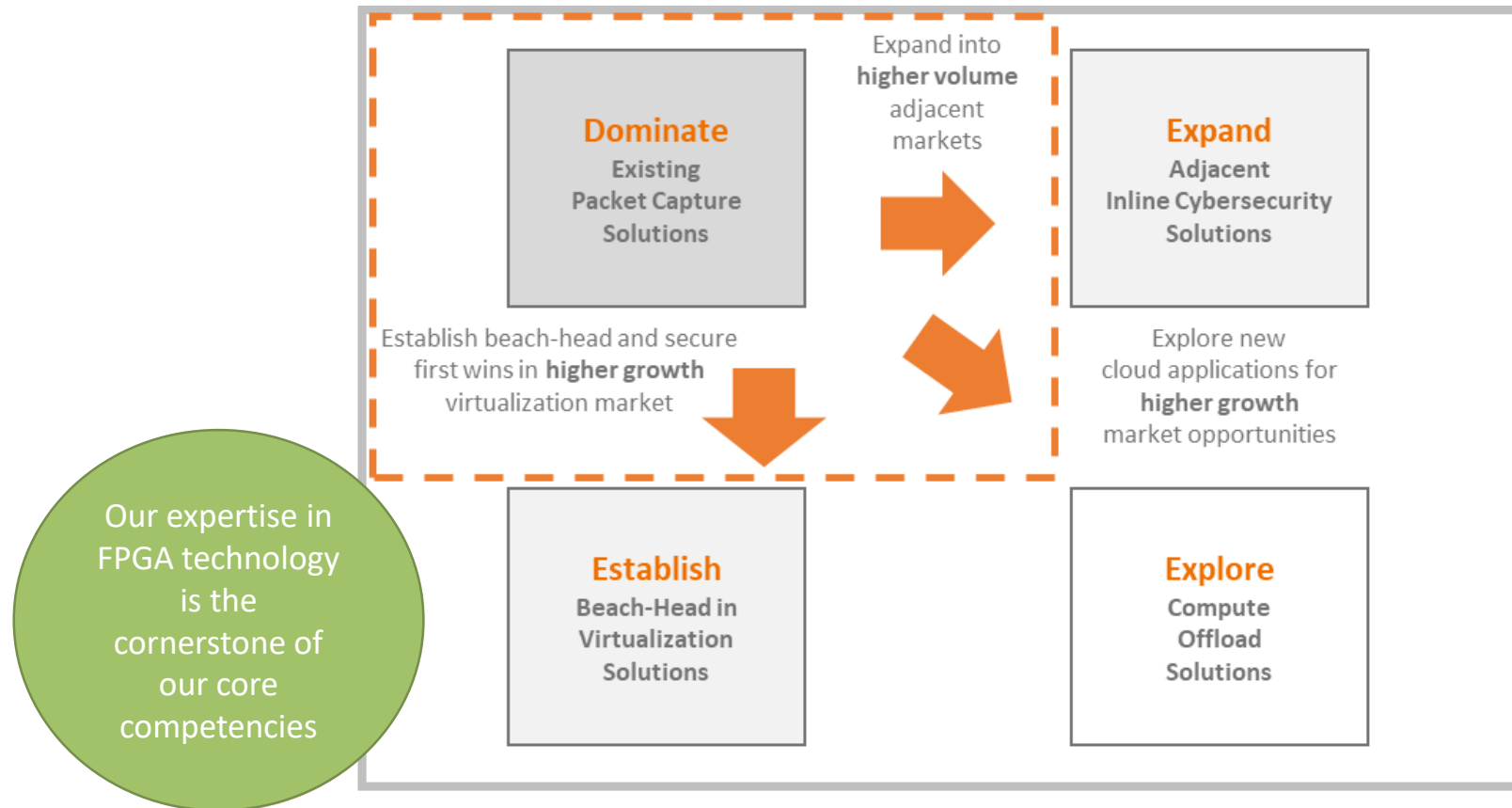
- Agreement to sell Pandion product line to CounterFlowAI
- Transfer of intellectual property and partnership agreements
- Up front payment with an earn-out installment over 12 months
- Win-win partnership where both companies have a mutual interest in building the Pandion business further
  - CounterFlowAI sells Pandion solutions to its end-user customers
  - Napatech provides SmartNIC software and hardware to CounterFlowAI as OEM customer

# Benefits of Divestiture of Pandion Product Line

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- Re-focus on FPGA core competencies
- Stronger focus on sales of our core and emerging products
- Improved internal operational efficiency
- Improved cash on hand

# Napatech Business Strategy

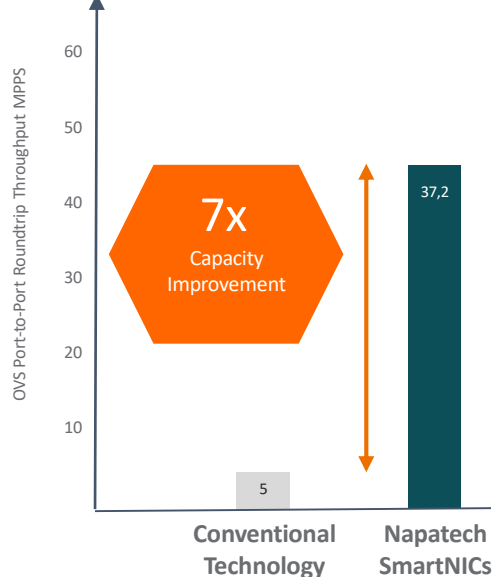


# Napatech Technology Improves Application Performance

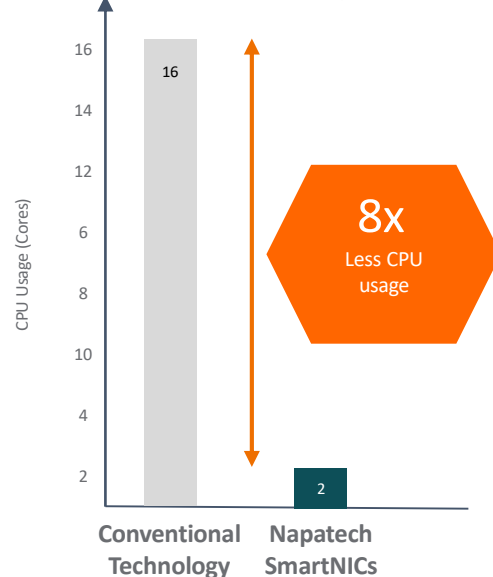
- Faster Application Performance
- Offload CPU compute intensive workloads



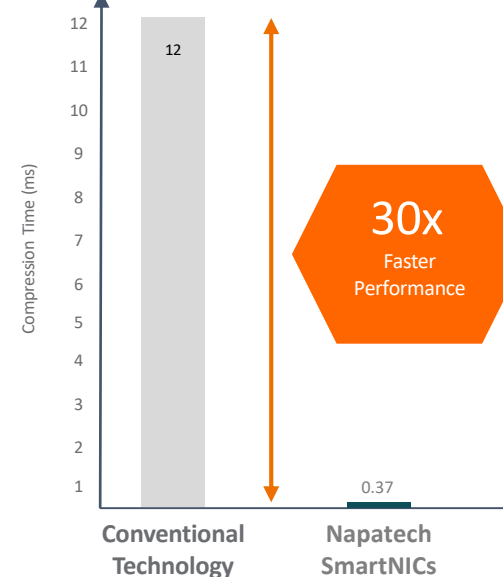
Get More Out Of Every System



Reduce System Costs



Reduce Time On Complex Tasks





# Major Step with Software Port on Intel PAC Hardware

Dominate



Packet Capture Software

Application Driven



Target Major Applications

Software Focused



Software-Only Napatech Product

Hardware Independent



Running on Intel PAC Cards



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

# Major Step with FPGA As-A-Service In The Cloud

Explore



IPSec Crypto As-A-Service

Application Driven



Target Networking Applications

Software Focused



Software-Only Napatech Product

Hardware Independent



Running on Xilinx FPGA in AWS

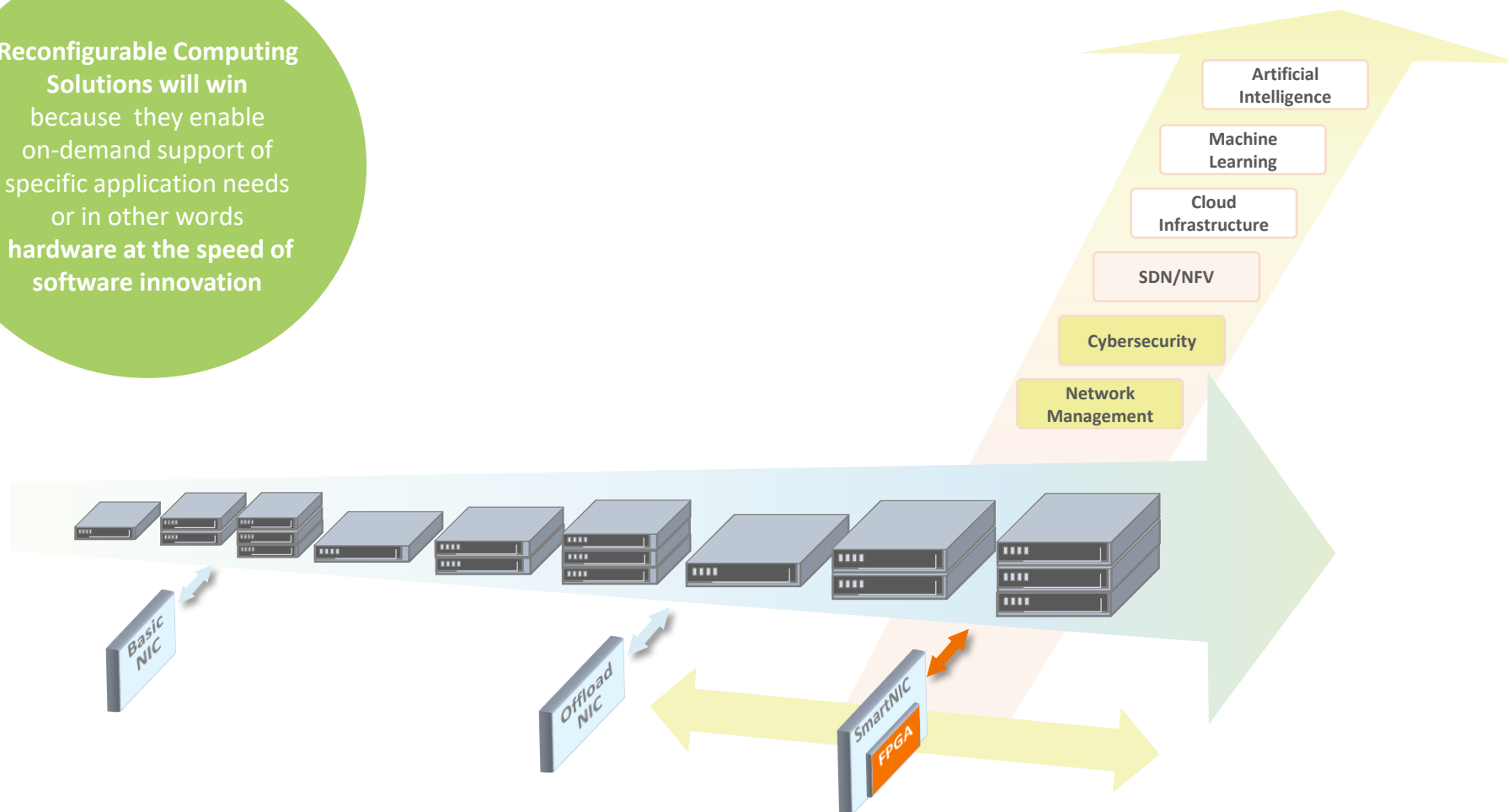


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## Napatech Sits at the Crossroads of two major market forces

**Reconfigurable Computing Solutions will win** because they enable on-demand support of specific application needs or in other words **hardware at the speed of software innovation**



# Napatech Q3 2018 Financials



# Q3 2018 Financial Highlights

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- **Sales** of 4.8 MUSD, a 53% decline YoY, and +20% over Q2 2018
- **Revenue** of 5.1 MDKK, a 88% decline YoY, and 79% decline over Q2 2018
  - *Revenue prior to one-off adjustments would have been 24.6 MDKK*
- **Gross margin** was -106% compared to 72% in Q3 2017.
  - *Gross Margins prior to one-off adjustments would have been 68%*
- **Cash** including unused credit facilities approx 6.4 MDKK

*NOTE: Reported numbers are materially affected by the commercial decision to take a one-off adjustment to reported Revenue in the third quarter of 2018 to reduce accumulated inventory within the company's channel.*

## Q3 2018 Financial Highlights (cont'd)

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- **EBITDA** was -33.1 MDKK, a decline from 2.1 MDKK YoY
  - *EBITDA prior to one-off adjustments would have been -10.8 MDKK*
- **EBITDA margin** was -644%, a decline from 5% YoY
  - *EBITDA margin prior to one-off adjustments would have been -43%*
- **Depreciation & amortization** was 33.1 MDKK, compared to 9.4 MDKK YoY
  - *Depreciation affected by impairment of assets from the Pandion product line divestiture*
- **EBIT** was -66.2 MDKK compared to -7.3 MDKK YoY
  - *EBIT prior to one-off adjustments would have been -21.9 MDKK*

*NOTE: Reported numbers are materially affected by the commercial decision to take a one-off adjustment to reported Revenue in the third quarter of 2018 to reduce accumulated inventory within the company's channel.*

# Financial Results Q3 2018

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(Figures in MDKK)	Q3 2018	Q2 2018	Q3 2017
Revenue	5.1	24.7	44.1
Growth YoY**	(88%)	(56%)	(11%)
Gross Margin	(106%)	70%	72%
EBITDA	(33.1)	(16.2)	2.1
EBIT	(66.2)	(28.0)	(7.3)
Cash flow from operating activities	(35.6)	(18.9)	(0.7)
Cash and cash equivalents, end of quarter	0.6	1.6	20.6
Available funds, incl. unused credit facilities	6.4	7.4	37

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

# Outlook



# Management's Outlook

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- 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 we moved into Q4 2018, we are making good progress securing new orders within the first weeks of the quarter, which makes me more optimistic with our guidance for the second half of 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.
- We are taking the right steps to build a solid foundation for our business going forward, and we are looking forward to seeing the positive effects of our initiatives in the coming quarters.

## Comments:

Guidance for FY 2018:

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

# Q&A Session



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