

NAPATECH
3RD QUARTER 2019
INTERIM MANAGEMENT STATEMENT



napa:tech

MANAGEMENT'S REPORT

Highlights YTD September:

- Revenue YTD September 2019 amounted to DKK 116.6m an increase of 124% compared to YTD September 2018.
- Gross margin YTD September 2019 was 74.6 % an increase of 23 %-points compared to YTD September 2018.
- Operating costs before capitalized development costs YTD September 2019 amounted to DKK 91.4m compared to DKK 119.8m YTD September 2018.
- EBITDAC¹ YTD September 2019 amounted to negative DKK 4.4m compared to negative DKK 92.8m YTD September 2018.
- EBITDA YTD September 2019 amounted to positive DKK 5.1m compared to negative DKK 65m YTD September 2018.
- Depreciation, amortization, and impairment for YTD September 2019 were DKK 18.7m compared to DKK 55.5m YTD September 2018.
- Cash flow from operating activities YTD September 2019 was positive DKK 13.9m compared to negative DKK 62.3m YTD September 2018.
- Net working capital end of YTD September 2019 amounted to DKK 20.9m compared to DKK 46.1m end of YTD September 2018 and DKK 28.2m end of 2018.
- Net cash used in investing activities YTD September 2019 amounted to DKK 10.5m compared to DKK 29.5m YTD September 2018.
- Cash and cash equivalents at the end of YTD September 2019 amounted to DKK 53.1m compared to DKK 17.2m at the end of 2018.

Highlights Q3:

- Revenue in Q3 2019 amounted to DKK 38.7m an increase of 654% compared to Q3 2018. Corrected for special items in Q3 2018 the revenue growth is 57%.
- Gross margin in Q3 2019 was 81.6 % an increase of 187.2 %-points compared to Q3 2018.
- Operating costs before capitalized development costs in Q3 2019 amounted to DKK 29.7m compared to DKK 35m in Q3 2018.
- EBITDAC in Q3 2019 amounted to positive DKK 1.9m compared to negative DKK 40.5m in Q3 2018.
- EBITDA in Q3 2019 amounted to positive DKK 5.2m compared to negative DKK 33.1m in Q3 2018.
- Depreciation, amortization, and impairment for Q3 2019 were DKK 6m compared to DKK 33.1m in Q3 2018.
- Cash flow from operating activities in Q3 2019 was positive DKK 0.2m compared to negative DKK 35.6m in Q3 2018.
- Net cash used in investing activities in Q3 2019 amounted to DKK 4m compared to DKK 7.6m in Q3 2018.

Key figures:

(Figures in MDKK)	Q3 2019	Q3 2018	Q1-Q3 2019	Q1-Q3 2018
Revenue	38.7	5.1	116.6	52.2
Growth YoY	654%	-88%	124%	-67%
Gross Margin	81.6%	-105.6%	74.6%	51.6%
EBITDAC	1.9	-40.5	-4.4	-92.8
EBITDA	5.2	-33.1	5.1	-65.0
Cash Flow from Operating Activities	0.2	-35.6	13.9	-62.3
Net Working Capital, end of period	20.9	46.1	20.9	46.1
Cash and cash equivalents, end of period	53.1	0.6	53.1	0.6

This is Napatech

Napatech helps companies to reimagine their business by bringing Hyperscale computing benefits to IT organizations of every size. We enhance open and standard virtualized servers to boost innovation and release valuable computing resources that improve services and increase revenue. Our reconfigurable computing platform™ is based on a broad set of FPGA software for leading IT compute, network and security applications that are supported on a wide array of FPGA hardware designs.

Additional information is available at www.napatech.com/investor.

¹ EBITDAC: Earnings before depreciation, amortization and impairment, and cost transferred to development projects

Revenue and Gross Margin*YTD September*

Napatech reports revenue of DKK 116.6m in the first three quarters of 2019 compared to DKK 52.2m in the same period in 2018, equivalent to an increase of 124%.

Gross margin YTD September 2019 was 74.6 % compared to 51.6 % YTD September 2018. Improvement in gross margin is due to both a change in product mix and a change in the USD/DKK exchange rate.

Q3

Napatech reports revenue of DKK 38.7m in Q3 2019 compared to DKK 5.1m in the same period in 2018, equivalent to an increase of 654%. Corrected for special items in Q3 2018 the revenue growth is 57%.

Gross margin in Q3 2019 was 81.6 % compared to -105.6 % in Q3 2018. Q3 2018 was impacted by an extraordinary write down of inventories.

Costs*YTD September*

Operating expenses before the transfer of costs to capitalized development costs YTD September 2019 amounted to DKK 91.4m, compared to DKK 119.8m YTD September 2018. The change from 2018 is due to a number of cost savings initiatives implemented since summer 2018.

Operating expenses after transfer of costs to capitalized development costs YTD September 2019 amounted to DKK 81.9m, compared to DKK 92.0m YTD September 2018.

Implementation of IFRS 16 impacts Other external costs YTD September 2019 by DKK 5.1m. 2018 figures are not adjusted for IFRS 16.

Q3

Operating expenses before the transfer of costs to capitalized development costs in Q3 2019 amounted to DKK 29.7m, compared to DKK 35.0m in Q3 2018.

Operating expenses after transfer of costs to capitalized development costs in Q3 2019 amounted to DKK 26.4m, compared to DKK 27.6m in Q3 2018.

EBITDAC and EBITDA*YTD September*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 4.4m YTD September 2019 compared to negative DKK 92.8m YTD September 2018.

EBITDA YTD September 2019 was positive DKK 5.1m compared to negative DKK 65.0m YTD September 2018.

Q3

EBITDAC amounted to positive DKK 1.9m in Q3 2019 compared to negative DKK 40.5m in Q3 2018.

EBITDA in Q3 2019 was positive DKK 5.2m compared to negative DKK 33.1m in Q3 2018.

Depreciation, amortization, and impairment*YTD September*

Depreciation, amortization, and impairment YTD September 2019 were DKK 18.7m compared to DKK 55.5m YTD September 2018.

Q3

Depreciation, amortization, and impairment in Q3 2019 were DKK 6.0m compared to DKK 33.1m in Q3 2018.

Financial Items*YTD September*

Financial items for YTD September 2019 are negative DKK 0.2m compared to negative DKK 6.7m YTD September 2018.

Q3

Financial items for Q3 2019 are positive DKK 0.9m compared to negative DKK 6.2m in Q3 2018.

Taxes*YTD September*

Taxes for YTD September 2019 amounted to negative DKK 2.0m compared to negative DKK 6.2m YTD September 2018.

Q3

Taxes for Q3 2019 amounted to negative DKK 0.2m compared to negative DKK 18.3m in Q3 2018.

Investments*YTD September*

Total investments YTD September 2019 were DKK 10.5m of which DKK 10.3m was related to new product development. YTD September 2018 total investments were DKK 29.5m of which DKK 29.2m was related to new product development.

The change in capitalized product development reflects reductions of headcounts implemented in the second half of 2018, the divestment of the Pandion product group in Q4 2018 and an increased focus on research activities YTD September 2019. Research activities are expensed as they occur.

Q3

Total investments in Q3 2019 were DKK 4.0m of which DKK 3.9m was related to new product development. In Q3 2018 total investments were DKK 7.6m of which DKK 7.6m was related to new product development.

Cash Flow*YTD September*

Cash flow from operating activities YTD September 2019 was positive DKK 13.9 compared to negative DKK 62.3m YTD September 2018.

Net cash flow from investing activities YTD September 2019 was negative DKK 10.5m compared to negative DKK 29.5m YTD September 2018.

Free cash flow YTD September 2019 amounted to positive DKK 0.9m compared to negative DKK 93.0m YTD September 2018.

Net cash from financing activities YTD September 2019 was positive DKK 34.5m as a result of the raise conducted YTD September and repayment of borrowings, compared to positive DKK 55.9m YTD September 2018.

Cash and cash equivalents end of Q3 2019 was DKK 53.1m compared to DKK 17.2m at the end of 2018.

Q3

Cash flow from operating activities in Q3 2019 was positive DKK 0.2m compared to negative DKK 35.6m in Q3 2018.

Net cash flow from investing activities in Q3 2019 was negative DKK 4.0m compared to negative DKK 7.6m in Q3 2018.

Free cash flow in the quarter amounted to negative DKK 3.9m compared to negative DKK 43.6m in Q3 2018.

Net cash from financing activities in Q3 2019 was negative DKK 3.3m compared to positive DKK 44.8m in Q3 2018.

Events after the end of the period

No significant events have occurred after the end of the reporting period.

Outlook for 2019

Due to improvements in products margins 2019 guidance is updated as follows:

Guidance	Previous	Updated
Revenue	150-180 mDKK	150-180 mDKK
Gross margin	around 69%	71-73%
Operating expenses*	110-115 mDKK	110-115 mDKK
Investments in development projects	13-17 mDKK	13-17 mDKK
Depreciation and amortization	20-25 mDKK	20-25 mDKK

*Operating expenses include costs on research and development, sales and distribution, as well as administrative expenses.

With performance in the middle of the guided ranges EBITDA would be positive DKK 6.3m (previous guidance from August 27, 2019: DKK 1.3m) and EBIT would be negative DKK 16.2m (previous guidance: negative DKK 21.2m).

The company is exposed to risks that might affect our ability to reach our goals such as currency fluctuations, general market uncertainty, and material changes in our large OEMs' needs for Napatech's products.

Disclaimer:

This report may contain statements regarding the future in connection with Napatech growth initiatives, profit figures, outlook, strategies, and objectives. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual profits and developments deviating substantially from what has been expressed or implied in such statements.

INCOME STATEMENT

For the period ended September 30, 2019

DKK'000	Q3		YTD September	
	2019	2018	2019	2018
Revenue	38.706	5.135	116.594	52.156
Cost of goods sold	(7.116)	(10.559)	(29.614)	(25.267)
Gross profit	31.590	(5.424)	86.980	26.889
Other operating income	-	-	2	106
Staff expenses and remuneration	(24.363)	(24.384)	(71.941)	(86.130)
Other external costs	(5.313)	(10.651)	(19.436)	(33.696)
EBITDAC	1.914	(40.459)	(4.395)	(92.831)
Transferred to capitalized development costs	3.285	7.408	9.481	27.815
EBITDA	5.199	(33.051)	5.086	(65.016)
Depreciation, amortization and impairment	(6.028)	(33.138)	(18.730)	(55.535)
Operating result (EBIT)	(829)	(66.189)	(13.644)	(120.551)
Finance income	33	-	40	-
Finance costs	859	(6.207)	(211)	(6.719)
Result before tax	63	(72.396)	(13.815)	(127.270)
Income tax	(196)	(18.289)	(1.975)	(6.217)
Result for the period	(133)	(90.685)	(15.790)	(133.487)

DKK'000	Q3		YTD September	
	2019	2018	2019	2018
Research and development expenses	(5.134)	(2.927)	(17.971)	(11.857)
Selling and distribution expenses	(11.690)	(15.509)	(36.468)	(51.478)
Administrative expenses	(9.567)	(9.191)	(27.457)	(28.676)
OPEX	(26.391)	(27.627)	(81.896)	(92.011)

CASH FLOW STATEMENT

For the period ended September 30, 2019

DKK'000	3rd quarter		YTD September	
	2019	2018	2019	2018
Operating activities				
Loss before tax	63	(72,396)	(13,815)	(127,270)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(33)	-	(40)	-
Finance costs	(859)	6,207	211	6,719
Depreciation, amortisation and impairment	6,028	33,138	18,730	55,535
Gain/loss on the sale of non-current assets	-	-	(2)	-
Share-based payment expense	456	232	1,126	761
Working capital adjustments				
Change in inventories	1,504	2,925	7,745	(1,070)
Change in trade and other receivables and contract assets	(10,544)	4,295	6,615	27,617
Change in trade and other payables, provisions and contract liabilities	3,556	(9,956)	(6,640)	(24,587)
Cash flows from operating activities	171	(35,555)	13,930	(62,295)
Interest received	33	-	40	-
Interest paid	117	(435)	(655)	(1,181)
Income tax received, net	(196)	(13)	(1,974)	(87)
Net cash flows from operating activities	125	(36,003)	11,341	(63,563)
Investing activities				
Proceeds from sale of tangible assets	-	-	7	-
Purchase of tangible assets	(115)	(2)	(227)	(427)
Investments in intangible assets	(3,894)	(7,604)	(10,320)	(29,180)
Investments in leasehold deposits	3	8	57	140
Net cash used in investing activities	(4,006)	(7,598)	(10,483)	(29,467)
Free cash flow	(3,881)	(43,601)	858	(93,030)
Financing activities				
Capital increase	-	30,001	58,863	30,379
Transaction costs on issue of shares	(59)	-	(3,300)	-
Payment of financial lease liabilities	(1,615)	-	(5,064)	-
Increase of borrowings	-	14,826	-	25,518
Repayment of borrowings	(1,623)	-	(15,974)	-
Net cash flows (used in) / from financing activities	(3,297)	44,827	34,525	55,897
Net change in cash and cash equivalents	(7,178)	1,226	35,383	(37,133)
Net foreign exchange difference	366	(2,234)	518	(2,214)
Cash and cash equivalents at the beginning of the period	59,872	1,628	17,159	39,967
Cash and cash equivalents at the end of the period	53,060	620	53,060	620

BALANCE SHEET**ASSETS**

	30 Sep.	31 Dec.	30 Sep.
DKK'000	2019	2018	2018
Development projects, completed	21,584	29,773	50,015
Development projects, in progress	14,754	8,194	32,867
Patents	4,568	4,972	5,149
Other intangible assets	-	-	9
Intangible assets	40,906	42,939	88,040
Plant and equipment	841	1,932	2,138
Right-of-use assets	12,948	-	-
Leasehold improvements	409	605	702
Tangible assets	14,198	2,537	2,840
Leasehold deposits	2,464	2,407	2,423
Other non-current assets	2,464	2,407	2,423
Non-current assets	57,568	47,883	93,303
Inventories	9,226	16,971	37,194
Trade receivables	20,691	25,305	25,086
Contract assets	514	514	-
Other receivables	12,181	13,814	2,296
Income tax receivable	5,500	5,487	5,500
Cash and cash equivalents	53,060	17,159	620
Assets held for sale	-	-	9,662
Current assets	101,172	79,250	80,358
Total assets	158,740	127,133	173,661

EQUITY AND LIABILITIES

	30 Sep.	31 Dec.	30 Sep.
DKK'000	2019	2018	2018
Share capital	20,767	7,981	7,981
Share premium	290,329	247,552	248,406
Foreign currency translation reserve	515	215	168
Other capital reserves	3,998	4,971	5,340
Retained earnings	(239,691)	(226,000)	(180,898)
Equity	75,918	34,719	80,997
Deferred tax liability	-	-	13,555
Other non-current financial liabilities	14,083	13,391	13,733
Non-current right-of-use liabilities	7,259	-	-
Non-current liabilities	21,342	13,391	27,288
Interest-bearing loans and borrowings	31,766	44,701	40,511
Other current financial liabilities	2,228	5,959	6,383
Current right-of-use liabilities	5,819	-	-
Trade payables	1,947	11,099	2,292
Other payables	15,982	13,720	12,789
Derivative financial instruments	-	-	2,933
Provisions	126	69	468
Contract liabilities	3,612	3,475	-
Current liabilities	61,480	79,023	65,376
Total liabilities	82,822	92,414	92,664
Total equity and liabilities	158,740	127,133	173,661

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