



1H 2020 Half-Year Report Presentation

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Q&A Session at the end of the presentation

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1H 2020 Half-Year Report Topics

- 1H 2020 Business Highlights
- Market Update
- 1H 2020 Financial Results
- 2020 Outlook
- Q&A

1H 2020 Business Highlights

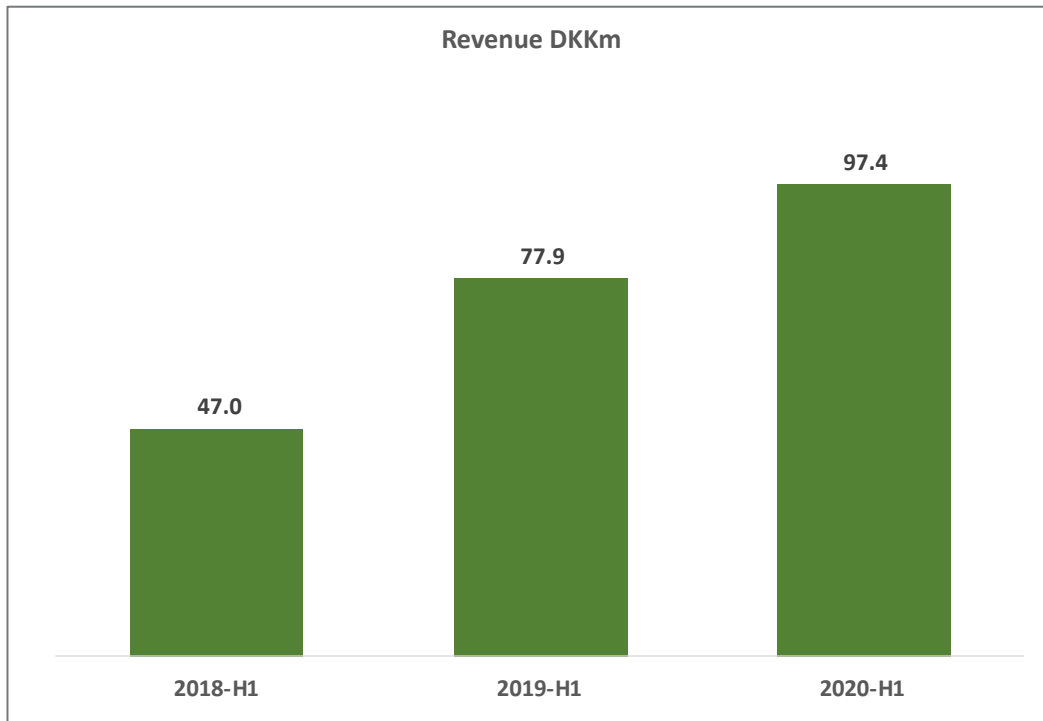
Strong Performance in 1H 2020

- ✓ Growing
- ✓ Profitable
- ✓ 1H 2020 YoY Revenue Growth **+25%**
- ✓ Solid Gross Margins of **72%**
- ✓ Free Cash Flow for 1H was **Best Ever**
- ✓ EBITDAC **Positive** and **Growing**
- ✓ Earnings is **Positive for the FIRST TIME**

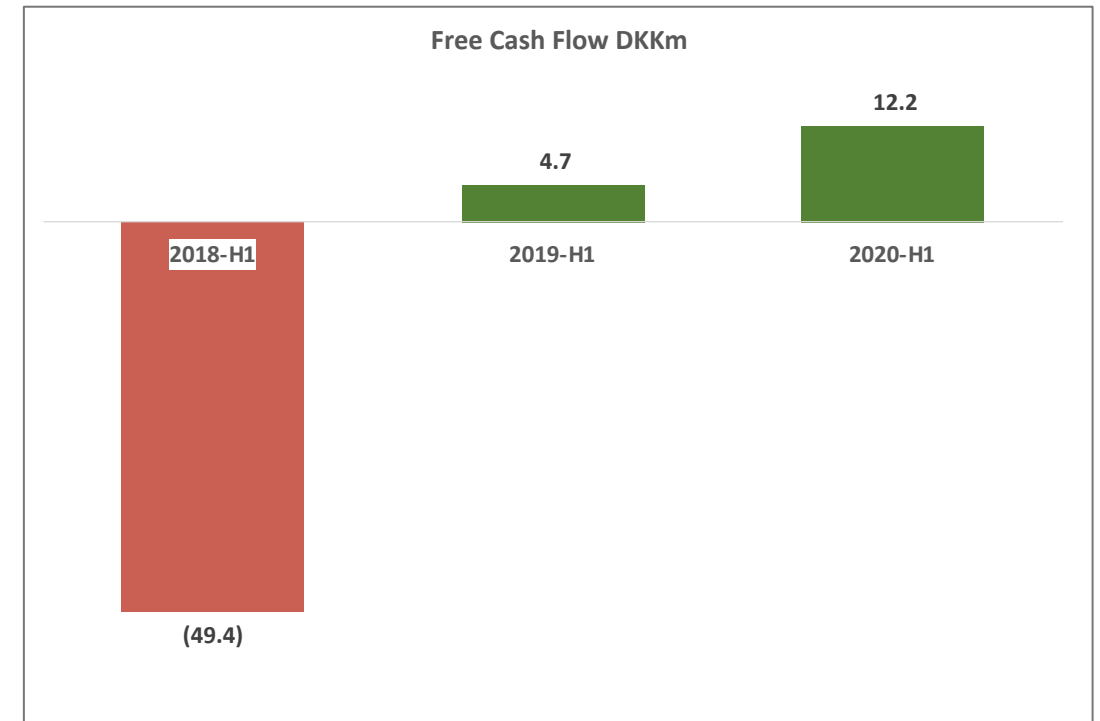
Trends: Growing and Profitable



Revenue over the last 3 1H periods demonstrate the underlying strength and stability of Napatech's business



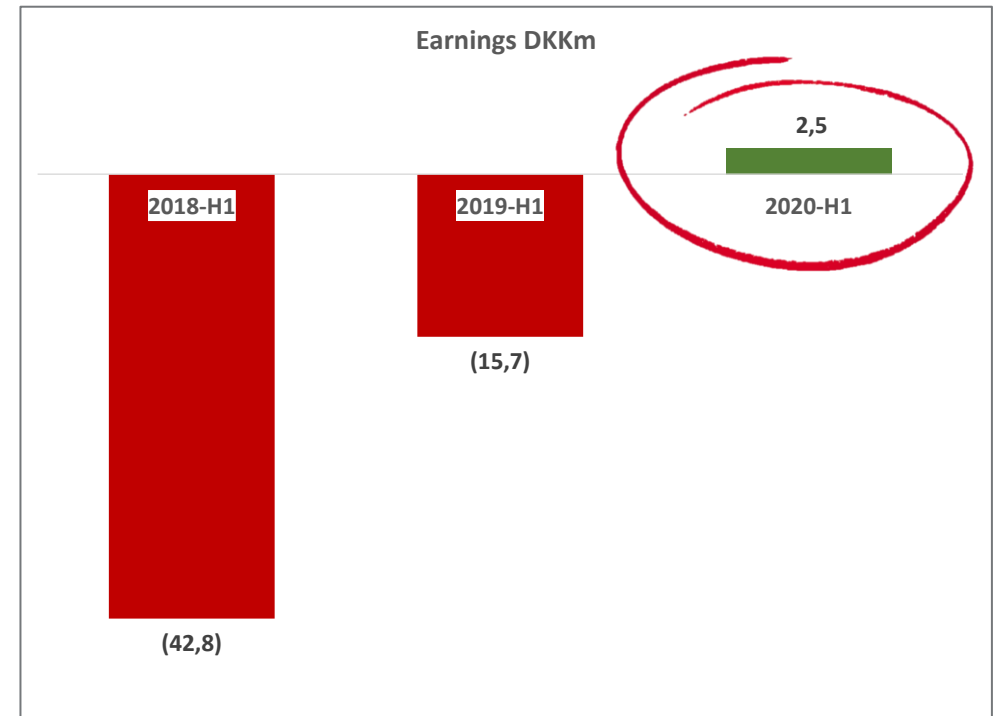
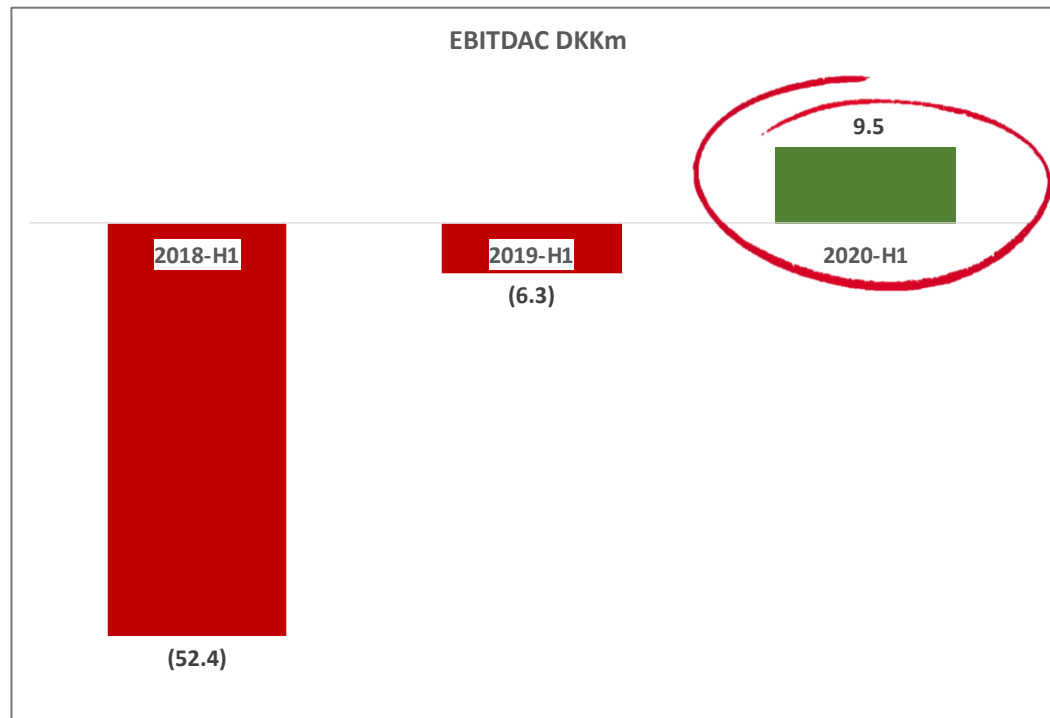
Free Cash Flow over the last 3 1H periods demonstrates improved operating leverage and lowers risk



Positive 1H EBITDAC and Earnings for the First Time



1H positive earnings show solid progress towards leverage and longer-term profitable operation



Napatech's COVID-19 Response and Business Impact

EMPLOYEES

- Business-as-usual
- Phased return in Copenhagen HQ office
- Virtual Sales & Marketing working well
- Travel restrictions remain in place worldwide

CUSTOMERS

- Enterprise digital transformation remains a positive tailwind
- Customers boosting data center capacity & security
- Application performance is a key focus

BUSINESS IMPACT

- Key target customers are resilient and stable
- Supply Chains are mostly back to normal
- Tailwind for Napatech due to application and performance demands

Q2 Wins: Top Brands Deploy Napatech Across Many Applications

Recurring Order in Q1 & Q2



Ordered in Q2



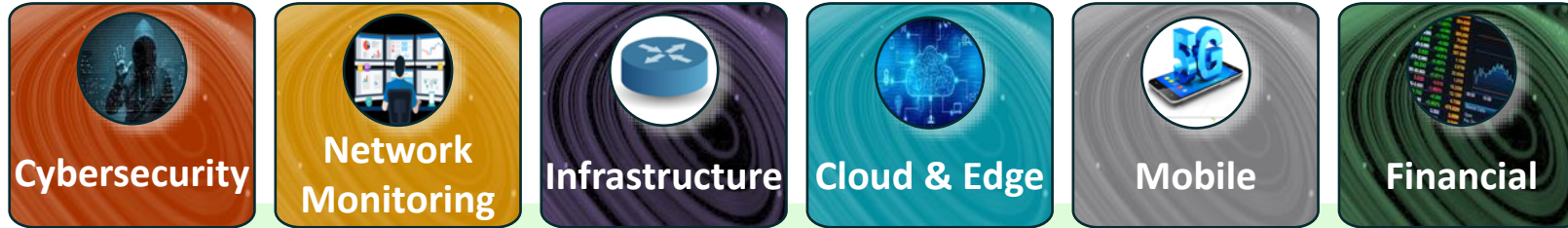
EMERGING CUSTOMER WIN TRENDS

- 1 Network performance required with zero packet-loss and nano-second accuracy for data tracking
- 2 Pipeline of new design wins is growing with increased focus on virtual switching acceleration and performance
- 3 Data Center expansion fueling end-user customer engagement, especially in financial and government customer areas

Market Update

Napatech Sits at the Intersection of Server & Application Markets

Applications in Data Centers & Cloud Networks



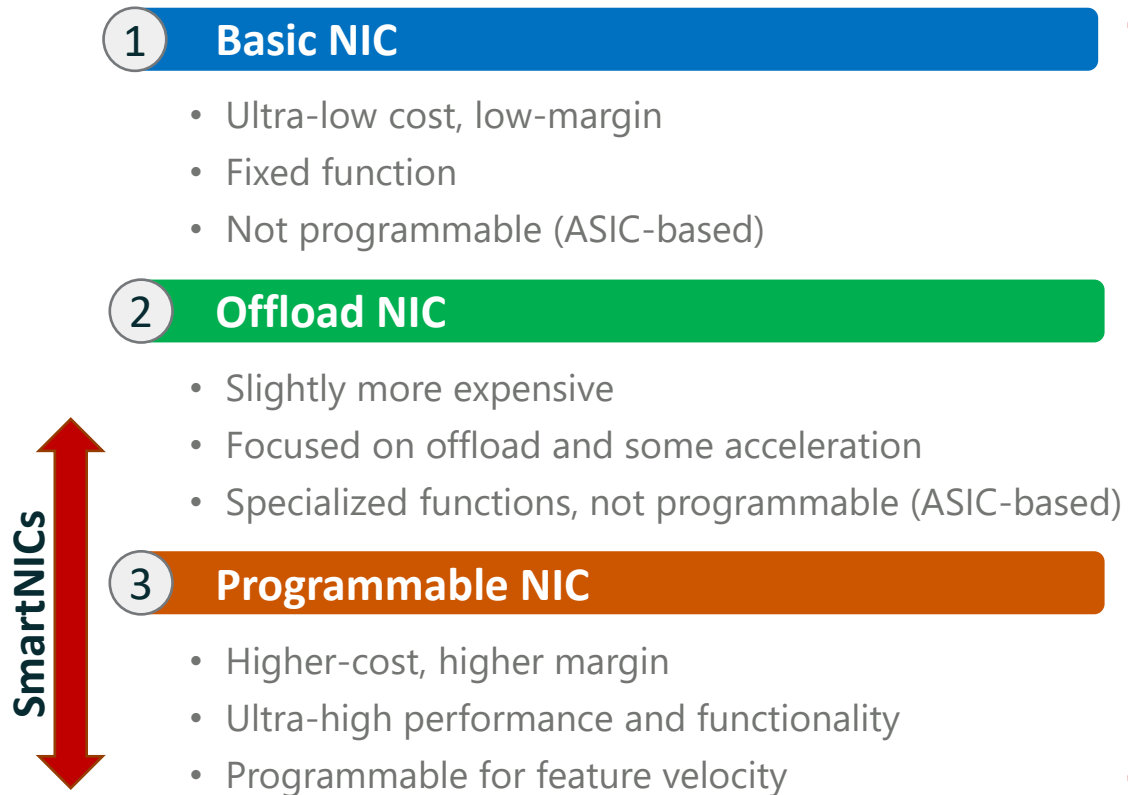
**Napatech SmartNICs
Accelerate
Server-based Applications**



*Networks Built at Massive Scale
on Low-Cost Commercial Off-the-Shelf Servers*



TOTAL NIC Market Segmentation

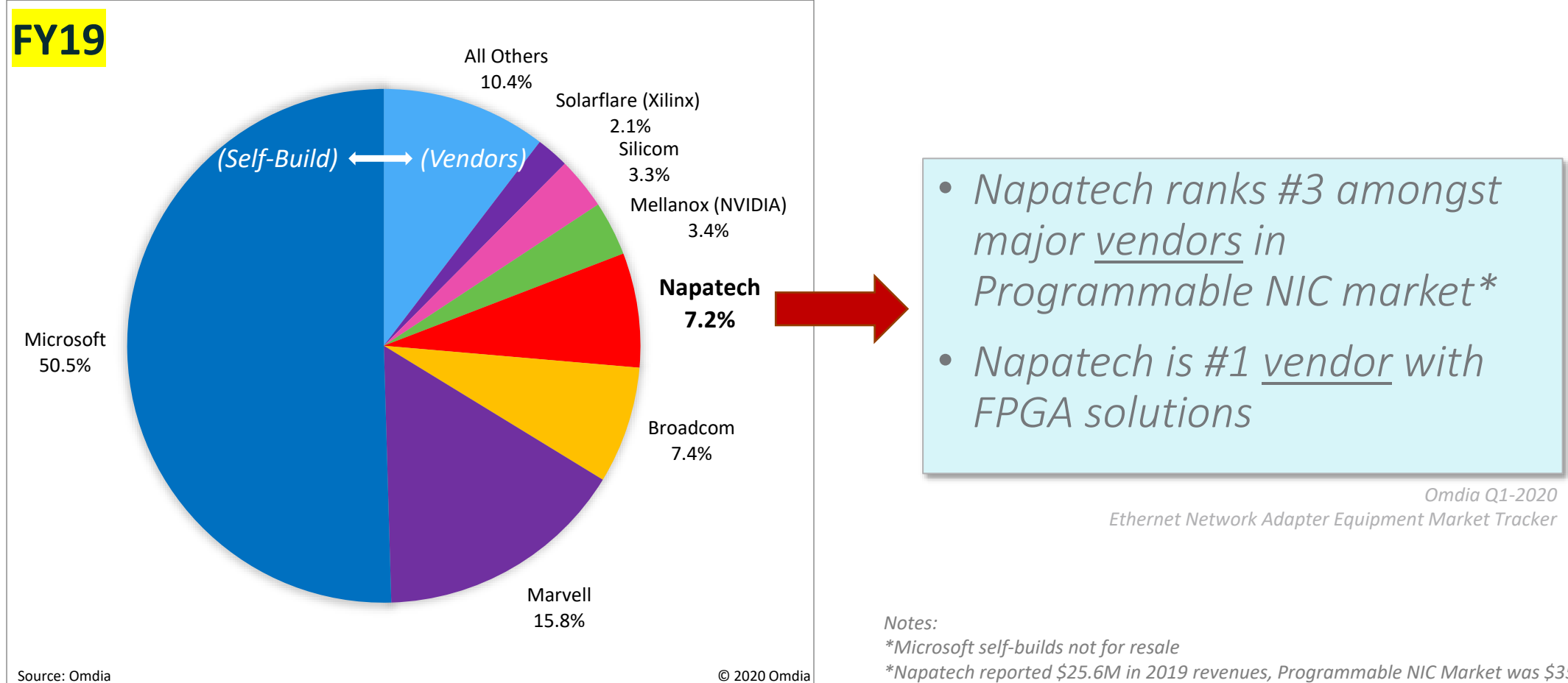


Market Share (%)		FY 2019
1.	Intel	24.3%
2.	Mellanox (NVIDIA)	20.5%
3.	Broadcom	14.3%
4.	Microsoft	10.3%
5.	Amazon	7.4%
6.	Marvell	6.3%
7.	Solarflare (Xilinx)	2.5%
8.	Silicom	2.2%
9.	Cisco	2.2%
10.	Napatech	1.5%

Napatech enters top 10 for ALL NICs

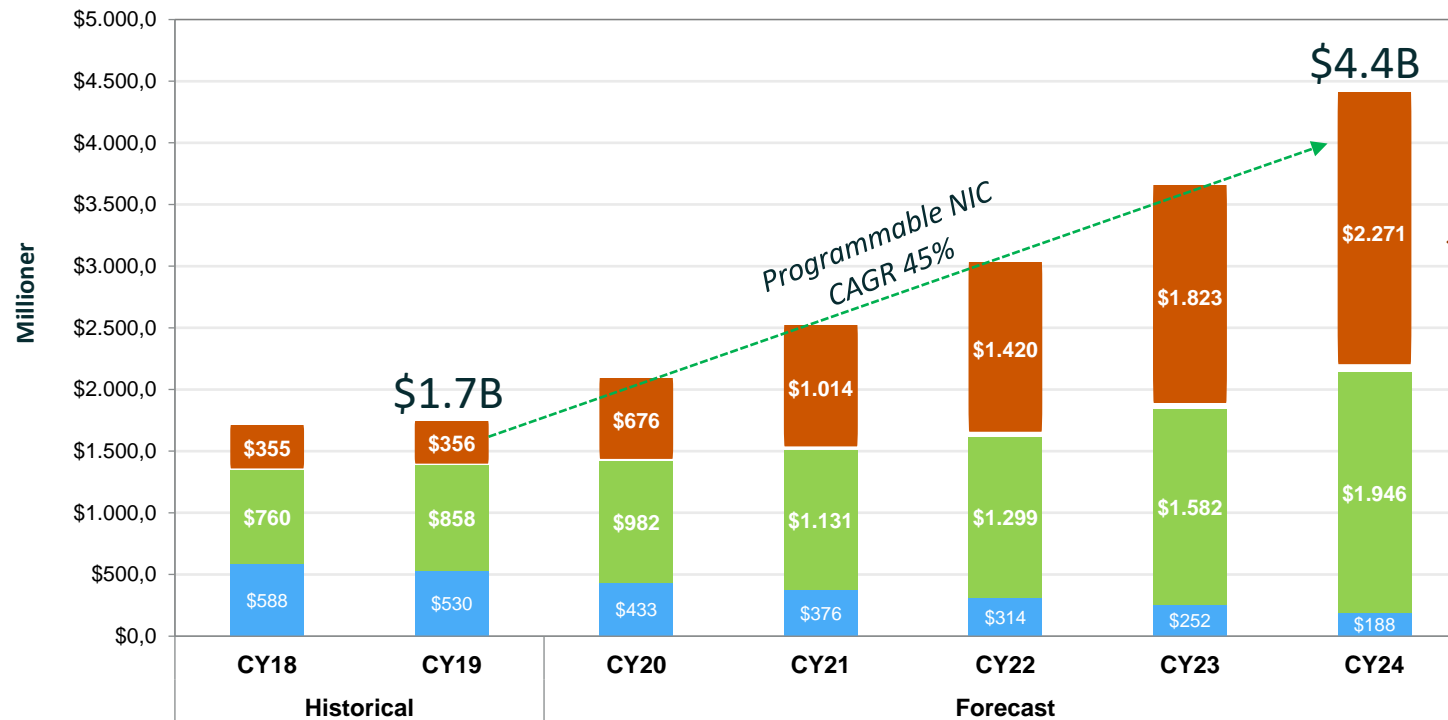
Omdia Q1-2020
Ethernet Network Adapter Equipment Market Tracker

Programmable NIC Market Overview



Napatech is Emerging in a Large Growing Market

Category Breakdown

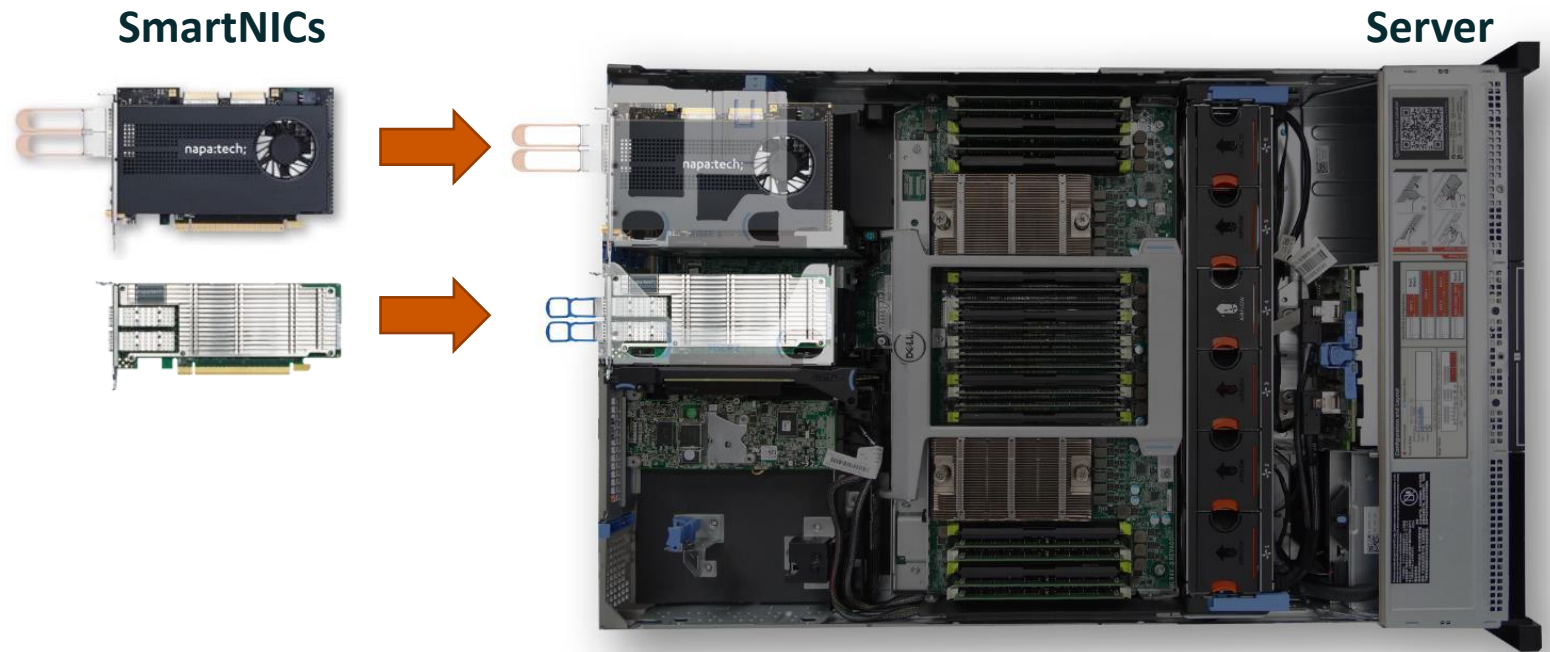


Napatech is measured within the highest growth segment of the overall NIC market

Basic NIC Offload NIC Programmable NIC

How Does Napatech Get Access to this Growing Market?

- Focus on Network Application Acceleration
 - Cloud & Edge, 5G Mobile
 - Cybersecurity
 - Financial
 - Virtualized Switching
- Support Faster Networks
 - 25G to 100G growing fast
- Make Servers More Cost Effective
 - Smaller footprint
 - Lower power
 - Lower cost

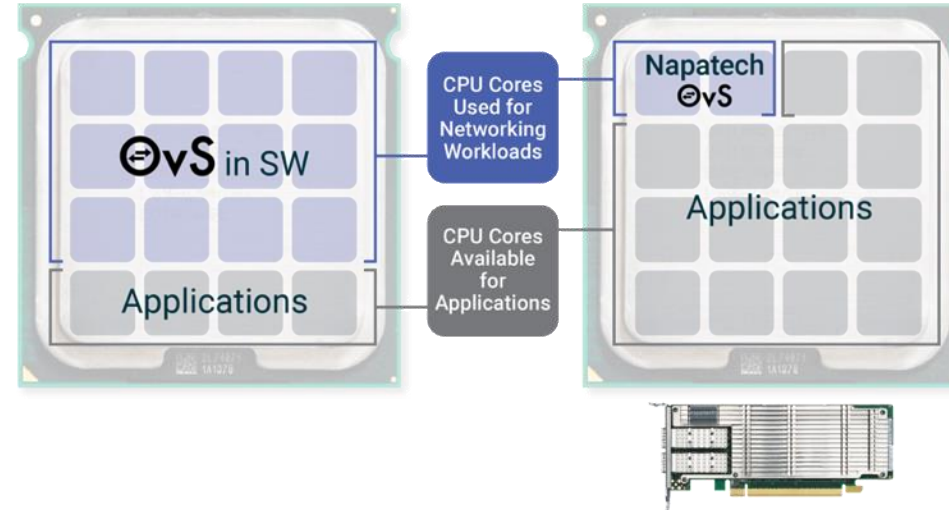


New Link-Virtualization™ SmartNIC Solution

PROBLEM

The server's networking overhead causes OvS application to underperform.

OvS = Open vSwitch Software



SOLUTION

Napatech SmartNICs and software gives CPU horsepower back for other applications.

BENEFITS



PERFORMANCE



EFFICIENCY



PROGRAMMABLE



SCALABILITY

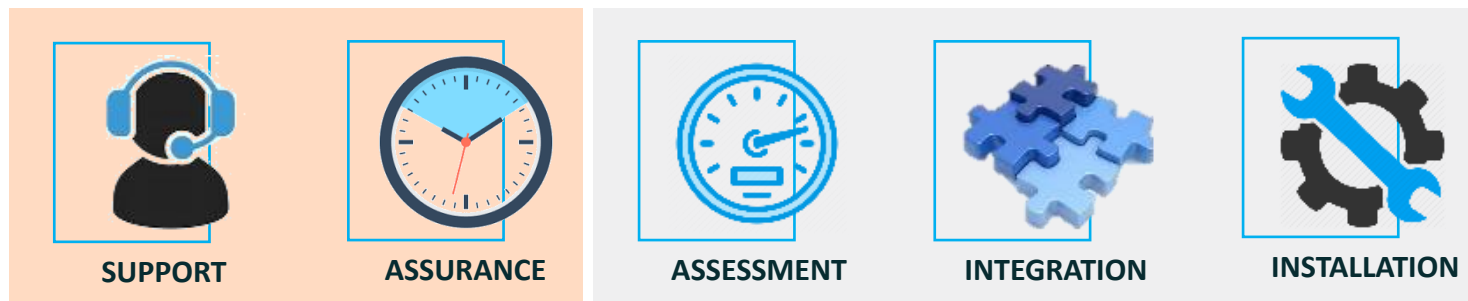


SUSTAINABLE

New Link-Assure™ - Premium Professional Services



- SmartNICs Go Mainstream
- Demanding Customers
- Mission Critical Applications
- Growing Annual Support Renewals
- Annual Recurring Revenue Stream



Our Plan Of Attack – Serving Us Well

Leverage our expertise in **FPGA software** to out-innovate the competition and build new higher growth product lines in Application Acceleration for Virtualization, Cybersecurity and 5G Mobile solutions

1. Continue to drive FPGA-based SmartNIC leadership in current Packet Capture solutions
2. Expand our SmartNIC leadership *beyond Packet Capture* by supercharging our technology to address new higher-growth applications in markets within Cybersecurity
3. Drive innovative developments in Virtual Switching Acceleration solutions to emerge in new user markets in Edge and Cloud Computing such as 5G Mobile to fuel new revenues in 2020 and beyond.

1H 2020 Financials

Consolidated Income Statement Q2 & H1 2020

DKK'000	Q2		H1		Q2	H1
	2020	2019	2020	2019	Δ	Δ
Revenue	48,867	39,634	97,403	77,888	23%	25%
Cost of goods sold	(12,129)	(10,851)	(27,257)	(22,498)		
Gross profit	36,738	28,783	70,146	55,390	28%	27%
GM%	75.2%	72.6%	72.0%	71.1%		
Other operating income	168	-	339	2		
Staff costs	(24,462)	(23,528)	(50,583)	(47,578)	4%	6%
Other external costs	(3,046)	(6,957)	(10,434)	(14,123)	-56%	-26%
EBITDAC	9,398	(1,702)	9,468	(6,309)		
Transferred to capitalized development costs	2,397	2,826	6,206	6,196	-15%	0%
EBITDA	11,795	1,124	15,674	(113)		
Depreciation, amortization and impairment	(5,902)	(6,304)	(11,657)	(12,702)	-6%	-8%
Operating result (EBIT)	5,893	(5,180)	4,017	(12,815)		
Finance income	(240)	7	28	7		
Finance costs	(997)	(506)	(1,299)	(1,070)		
Result before tax	4,656	(5,679)	2,746	(13,878)		
Income tax	(219)	(488)	(219)	(1,779)		
Result for the period	4,437	(6,167)	2,527	(15,657)		

Key Highlights

- Revenue in Q2 up 23% compared to Q2'19 (up 20% in USD). Revenue in H1 up 25% compared to H1'19 (up 22% in USD)
- GM in Q2 75.2% up 2.6%-points compared to Q2'19. GM in H1 72% up 0.9%-points compared to H1'19
- Staff costs in Q2 up 4% compared to Q2'19 and up 6% in H1 compared to H1'19.
- Other external costs in Q2 down 56% compared to Q2'19 and down 26% in H1 compared to H1'19
- Q2 EBITDAC positive DKK 9.4m – up DKK 11.1m compared to Q2'19. H1 EBITDAC positive DKK 9.4m – up DKK 15.8m compared to H1'19.

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

Consolidated Cash Flow Statement Q2 & H1 2020

DKK'000	Q2		H1	
	2020	2019	2020	2019
Earnings before tax (EBT)	4,656	(5,679)	2,746	(13,878)
Adjustments to reconcile profit before tax to net cash flows	7,565	7,134	13,690	14,433
Working capital adjustments	2,974	7,755	2,327	13,204
Interest, net	(202)	(340)	(398)	(765)
Income tax, net	(312)	(1,789)	(312)	(1,778)
Net cash flows from operating activities	14,681	7,081	18,053	11,216
Net cash used in investing activities	(2,524)	(2,917)	(5,813)	(6,477)
Free cash flow	12,157	4,164	12,240	4,739
Net cash flows from financing activities	(5,769)	12,912	(6,326)	37,822
Net change in cash and cash equivalents	6,388	17,076	5,914	42,561
Net foreign exchange difference	(106)	90	(278)	152
Cash and cash equivalents at the beginning of the period	63,660	42,706	64,306	17,159
Cash and cash equivalents at the end of the period	69,942	59,872	69,942	59,872

	2020	2019
Net working capital	13,640	14,749
- NWC as % of revenue in quarter	28%	37%

Key Highlights

- Net Cash flow from operating activities in Q2 positive DKK 14.7m – H1 positive DKK 18.1m
- Net working capital end of Q2 DKK 13.6m ~ 28% of revenue in quarter
- Free cash flow in Q2 positive DKK 12.2m
- Cash and cash equivalents of DKK 69.9m end of Q2 20 compared to DKK 59.9m end of Q2'19

2020 Outlook

Updated Guidance for 2020

Annual guidance for 2020 guidance is updated as follows:

Guidance	Previous	Updated
Revenue	DKK 185-205m	DKK 185-205m
Gross margin	68-72%	70-72%
Staff expenses & Other external costs	DKK 125-135m	DKK 120-125m
Transferred to capitalized development costs	DKK 15-20m	DKK 13-18m
Depreciation and amortization	DKK 20-25m	DKK 20-25m



Note:

- Due to the exchange rate development guided **Revenue** range in USD is up from \$27.7-30.7M to \$28.3-31.4M
- With performance in the middle of the guided ranges:
 - EBITDAC would be **DKK 16.0m** (*previous guidance: DKK 6.5m*) – **up DKK 9.5m**
 - EBIT would be **DKK 8.9m** (*previous guidance: DKK 1.5m*) – **up DKK 7.4m**

As the current COVID-19 situation is unprecedented it causes increased uncertainty in customer demand and the Covid-19 situation can potentially have a negative impact on the outlook for 2020.

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

Why Invest In Napatech?



**STABLE
&
GROWING**



**GROWTH IN
REVENUE,
CASH FLOW
&
LEVERAGABLE**



**EXECUTING
ON OUR
STRATEGY**



**DELIVERING
PRODUCT
INNOVATION**



**WINNING
TOP
CUSTOMER
BRANDS**



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