



NAPATECH
3RD QUARTER 2021
INTERIM MANAGEMENT STATEMENT

napa:tech;

MANAGEMENT'S REPORT

Napatech has built a solid business making SmartNICs which have emerged as key components to the rapidly evolving networks, clouds and data centers markets. Napatech's SmartNICs are designed to fit into standard servers, which are the fundamental building blocks for all new networks designed and deployed. Napatech SmartNICs are built with powerful reconfigurable microprocessors called FPGAs which, when combined with Napatech's unique software, accelerate applications across multiple application segments, such as Cybersecurity, Monitoring, Infrastructure, Cloud & Edge and Mobile. These application areas require more compute power to operate and perform faster and securely. The demand for higher performance compute for these applications creates demand for SmartNICs.

Napatech is accelerating its engineering capacity to unlock growth faster in the expanding virtual network opportunity. To increase its progress in developing features needed to unlock growth in new areas of the market that Napatech is targeting, Napatech announced that it will increase its engineering capacity by nearly 70% YoY by Q2-2022. This increased investment is already included in the 2021 business plan. The new features that come from this increased engineering investment are expected to deliver new design wins in 2022 with revenue growth for years to come.

Napatech has formed important partnerships, such as with Lenovo, Silicom and Intel, and intends to develop others, to improve its access to this growing market. The industry continues to leverage the SmartNIC as a critical computing component used to off-load CPU-intensive networking functions from servers in the data center. Additionally, industry leaders are evolving the SmartNIC to have even greater CPU capacity through the design of an IPU (Infrastructure Processing Unit) which uses a CPU co-processor in conjunction with the FPGA to take on a larger role of offloading all virtual networking functions. Napatech is already porting its software to work with these new IPU designs.

Napatech continues to deliver solid results with our 12th quarter in a row of year-over-year revenue growth, adjusted for discontinued operations, and Napatech delivered a combination of year-over-year revenue growth and profit for the 6th quarter in a row.

Napatech reiterates its annual guidance of 210-230 DKKm in revenues with sufficient pipeline in Q4 to achieve its expected results.

Highlights YTD:

- Revenue YTD Q3 2021 in USD amounted to 22.6m, an increase of 6% compared to 2020. In DKK revenue amounted to 140.5m, a decline of 1% compared to 2020.
- Gross margin YTD 2021 was 71.7% an increase of 0.3%-points compared to YTD 2020.
- Staff costs and Other external costs YTD 2021 amounted to DKK 88.6m compared to DKK 86.3m YTD 2020.
- EBITDAC YTD 2021 amounted to DKK 12.1m compared to DKK 14.9m in YTD 2020.
- EBITDA YTD 2021 amounted to positive DKK 29.8m compared to positive DKK 23.6m in YTD 2020.
- Depreciation, amortization, and impairment YTD 2021 were DKK 15.6m compared to DKK 17.3m YTD 2020.
- Cash flow from operating activities YTD 2021 was positive DKK 1.0m compared to positive DKK 32.5m in YTD 2020.
- Net working capital end of Q3 2021 amounted to DKK 36.4m compared to DKK 6.6m end of Q3 2020 and DKK 17.4m end of 2020.
- Net cash used in investing activities YTD 2021 amounted to DKK 18.8m compared to DKK 9.2m YTD 2020.
- Cash and cash equivalents at the end of Q3 2021 amounted to DKK 40.6m compared to DKK 70.7m at the end of Q3 2020.

Highlights Q3:

- Revenue in USD amounted to 7.5m in Q3 2021, an increase of 7% compared to Q3 2020. In DKK revenue amounted to 47.2m, an increase of 7% compared to Q3 2020.
- Gross margin in Q3 2021 was 73.1% an increase of 3%-points compared to Q3 2020.
- Staff costs and Other external costs in Q3 2021 amounted to DKK 28.3m compared to DKK 25.3m in Q3 2020.
- EBITDAC in Q3 2021 amounted to positive DKK 6.2m compared to positive DKK 5.4m in Q3 2020.
- EBITDA in Q3 2021 amounted to positive DKK 12.4m compared to positive DKK 8.0m in Q3 2020.
- Depreciation, amortization, and impairment for Q3 2021 were DKK 5.8m compared to DKK 5.6m in Q3 2020.
- Cash flow from operating activities in Q3 2021 was positive DKK 13.1m compared to positive DKK 13.8m in Q3 2020.
- Net cash used in investing activities in Q3 2021 amounted to DKK 8.4m compared to DKK 3.4m in Q3 2020.

Key figures¹:

	Q3 2021	Q3 2020	YTD 2021	YTD 2020
Revenue USD m	7.5	7.0	22.6	21.4
Growth YoY USD m	7%	22%	6%	22%
Revenue DKK m	47.2	44.4	140.5	141.8
Growth YoY DKK m	7%	15%	-1%	22%
Gross Margin	73.1%	70.1%	71.7%	71.4%
EBITDAC DKK m	6.2	5.4	12.1	14.9
EBITDA DKK m	12.4	8.0	29.8	23.6
Net Cash Flow from Operating Activities DKK m	12.7	14.8	-0.3	32.8
Net Working Capital, end of period DKK m	36.4	6.6	36.4	6.6
Cash and cash equivalents, end of period DKK m	40.6	70.7	40.6	70.7

This is Napatech

Napatech is a Danish tech company developing high-performance, programmable network interface cards and software for programmable NICs. The Napatech software suite ensures broad compatibility and seamless integration for our family of FPGA-based SmartNICs. With support for all major systems and a common API that easily integrates with custom-developed, open source, or commercial applications, we enable significantly reduced time-to-market for new products.

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

¹ Definitions: Gross Margin is calculated as 'Gross Profit' / 'Revenue'; EBITDAC is calculated as 'Earnings Before Interest, Taxes, Depreciation and Amortization' before staff costs transferred to capitalized development costs; EBITDA is calculated as 'Earnings Before Interest, Taxes, Depreciation and Amortization'; Net working capital represents the value of inventories, trade receivables of other current operating assets less trade payables and other current operating liabilities. Cash and cash equivalents and income tax receivable or payable are not part of the net working capital; Cash flows from operating activities are profit or loss before tax added or deducted changes in the net working capital, added or deducted changes in provisions and added the yearly depreciation and amortization; Free cash flow is net cash flow from operating activities added or deducted investing activities.

Revenue and Gross Margin*YTD*

Napatech reports revenue of DKK 140.5m in the first three quarters of 2021 compared to DKK 141.8m in the same period in 2020, equivalent to a decline of 1%. In USD revenue was up 6% compared to 2020.

Gross margin in YTD 2021 was 71.7% compared to 71.4% in YTD 2020.

Q3

Napatech reports revenue of DKK 47.2m in Q3 2021 compared to DKK 44.4m in the same period in 2020, equivalent to an increase of 7%.

Gross margin in Q3 2021 was 73.1% compared to 70.1% in Q3 2020.

Costs*YTD*

Staff costs and Other external costs in YTD 2021 amounted to DKK 88.6m, compared to DKK 86.3m in YTD 2020.

Operating expenses after transferal of staff costs to capitalized development costs in YTD 2021 amounted to DKK 70.9m, compared to DKK 77.6m in YTD 2020.

Q3

Staff costs and Other external costs in Q3 2021 amounted to DKK 28.3m, compared to DKK 25.3m in Q3 2020.

Operating expenses after transferal of staff costs to capitalized development costs in Q3 2021 amounted to DKK 22.2m, compared to DKK 22.8m in Q3 2020.

EBITDAC and EBITDA*YTD*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development costs (EBITDAC) amounted to DKK 12.1m in YTD 2021 compared to DKK 14.9m in YTD 2020.

EBITDA in YTD 2021 was positive DKK 29.8m compared to positive DKK 23.6m in YTD 2020.

Q3

EBITDAC amounted to positive DKK 6.2m in Q3 2021 compared to positive DKK 5.4m in Q3 2020.

EBITDA in Q3 2021 was positive DKK 12.4m compared to positive DKK 8.0m in Q3 2020.

Depreciation, amortization, and impairment*YTD*

Depreciation, amortization, and impairment in YTD 2021 were DKK 15.6m compared to DKK 17.3m in Q3 2020.

Q3

Depreciation, amortization, and impairment in Q3 2021 were DKK 5.8m compared to DKK 5.6m in Q3 2020.

Financial Items*YTD*

Financial items for YTD 2021 are DKK 5.4m compared to negative DKK 2.7m in YTD 2020.

Q3

Financial items for Q3 2021 are DKK 1.3m compared to positive DKK 1.4m in Q3 2020.

Taxes*YTD*

Taxes for YTD 2021 amounted to negative DKK 1.1m compared to negative DKK 0.3m in YTD 2020.

Q3

Taxes for Q3 2021 amounted to negative DKK 0.4m compared to positive DKK 0.0m in Q3 2020.

Investments*YTD*

Total net cash used in investing activities in YTD 2021 was DKK 18.8m and DKK 20.4m was related to new product development. In YTD 2020 total net cash used in investing activities was DKK 9.2m of which DKK 9.5m was related to new product development.

Q3

Total net cash used in investing activities in Q3 2021 was DKK 8.4m and DKK 7.1m was related to new product development. In Q3 2020 total net cash used in investing activities was DKK 3.4m of which DKK 2.6m was related to new product development.

Cash Flow*YTD*

Net cash flow from operating activities in YTD 2021 was positive DKK 0.3m compared to positive DKK 32.8m in YTD 2020.

Free cash flow in YTD 2021 amounted to negative DKK 19.1m compared to positive DKK 23.6m in YTD 2020.

Net cash from financing activities in YTD 2021 was negative DKK 4.6m as a result of the raise conducted in YTD and repayment of borrowings, compared to negative DKK 16.7m YTD 2020.

Cash and cash equivalents end of YTD 2021 was DKK 40.6m compared to DKK 70.7m at the end of 2020.

Q3

Net cash flow from operating activities in Q3 2021 was positive DKK 12.7m compared to positive DKK 14.8m in Q3 2020.

Free cash flow in the quarter amounted to positive DKK 4.3m compared to positive DKK 11.4m in Q3 2020.

Net cash from financing activities in Q3 2021 was negative DKK 3.4m, compared to negative DKK 10.4m in Q3 2020.

Events after the end of the period

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

Outlook for 2021

The 2021 guidance remains unchanged:

	Guidance
Revenue	DKK 210-230m
Gross margin	70-72%
Staff expenses & Other external costs	DKK 125-135m
Staff costs transferred to capitalized development costs	DKK 20-25m
Depreciation and amortization	DKK 20-25m

With performance in the middle of the guided ranges, EBITDAC and EBIT would be positive DKK 26.2m.

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, 2021

DKK'000	3rd quarter		YTD September	
	2021	2020	2021	2020
Revenue	47,247	44,352	140,479	141,755
Cost of goods sold	(12,699)	(13,280)	(39,808)	(40,537)
Gross profit	34,548	31,072	100,671	101,218
Other operating income	-	(334)	25	5
Staff costs	(21,962)	(21,579)	(71,834)	(72,162)
Other external costs	(6,345)	(3,715)	(16,792)	(14,149)
EBITDAC	6,241	5,444	12,070	14,912
Transferred to capitalized development costs	6,148	2,522	17,754	8,728
EBITDA	12,389	7,966	29,824	23,640
Depreciation, amortization and impairment	(5,774)	(5,627)	(15,576)	(17,284)
Operating result (EBIT)	6,615	2,339	14,248	6,356
Finance income	1,444	1,024	5,885	1,052
Finance costs	(118)	(2,416)	(470)	(3,715)
Result before tax	7,941	947	19,663	3,693
Income tax	(374)	(38)	(1,091)	(257)
Result for the period	7,567	909	18,572	3,436

Earnings / (loss) per share:	3rd quarter		YTD September	
	2021	2020	2021	2020
Basic, DKK	0.09	0.01	0.22	0.04
Diluted, DKK	0.09	0.01	0.21	0.04

CASH FLOW STATEMENT

For the period ended September 30, 2021

DKK'000	3rd quarter		YTD September	
	2021	2020	2021	2020
Operating activities				
Income/Loss before tax	7,941	947	19,663	3,693
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(1,444)	(1,024)	(5,885)	(1,052)
Finance costs	118	2,416	470	3,715
Depreciation, amortisation and impairment	5,774	5,627	15,576	17,284
Gain/loss on the sale of non-current assets	-	334	(25)	(5)
Share-based payment expense	942	676	2,401	1,777
Working capital adjustments				
Change in inventories	(808)	(4,063)	(4,196)	276
Change in trade and other receivables and right-of-return asset	2,549	15,094	(12,514)	9,058
Change in trade and other payables, provisions, refund liability and contract liabilities	(1,970)	(6,252)	(14,451)	(2,228)
Interest received	7	1,150	19	1,178
Interest paid	(54)	(115)	(262)	(541)
Income tax received, net	(372)	(39)	(1,088)	(351)
Net cash flows from operating activities	12,683	14,751	(292)	32,804
Investing activities				
Proceeds from sale of tangible assets	-	-	25	3
Purchase of tangible assets	(1,236)	(315)	(2,495)	(566)
Proceeds from sale of intangible assets	-	(447)	3,986	-
Investments in intangible assets	(7,123)	(2,594)	(20,366)	(9,548)
Investments in leasehold deposits	(1)	4	51	946
Net cash used in investing activities	(8,360)	(3,352)	(18,799)	(9,165)
Free cash flow	4,323	11,399	(19,091)	23,639
Financing activities				
Capital increase	-	-	32	-
Share buyback	-	-	(273)	-
Payment of financial lease liabilities	(809)	(1,022)	(2,569)	(3,143)
Increase of borrowings	-	4,180	-	4,180
Repayment of borrowings	(2,544)	(13,521)	(1,826)	(17,726)
Net cash flows (used in) / from financing activities	(3,353)	(10,363)	(4,636)	(16,689)
Net change in cash and cash equivalents	970	1,036	(23,727)	6,950
Net foreign exchange difference	1,282	(272)	1,584	(550)
Cash and cash equivalents at the beginning of the period	38,303	69,942	62,698	64,306
Cash and cash equivalents at the end of the period	40,555	70,706	40,555	70,706

BALANCE SHEET

ASSETS

DKK'000	30 Sep. 2021	31 Dec. 2020	30 Sep. 2020
Development projects, completed	29,932	23,328	24,594
Development projects, in progress	9,485	7,760	7,794
Patents	3,186	3,697	3,981
Intangible assets	42,603	34,785	36,369
Plant and equipment	2,595	1,228	711
Right-of-use assets	7,736	9,412	10,148
Leasehold improvements	646	301	362
Tangible assets	10,977	10,941	11,221
Deferred tax asset	4,936	4,932	-
Leasehold deposits	1,356	1,407	1,412
Other non-current assets	6,292	6,339	1,412
Non-current assets	59,872	52,065	49,002
Inventories	23,270	19,074	9,256
Trade receivables	28,083	15,802	11,835
Right-of-return asset	115	112	31
Other receivables	4,012	3,057	5,469
Income tax receivable	47	47	3,055
Cash and cash equivalents	40,555	62,698	70,706
Current assets	96,082	100,790	100,352
Total assets	155,954	152,855	149,354

EQUITY AND LIABILITIES

DKK'000	30 Sep. 2021	31 Dec. 2020	30 Sep. 2020
Share capital	20,771	20,767	20,767
Share premium	290,404	290,330	290,329
Foreign currency translation reserve	95	(283)	61
Other capital reserves	8,204	6,744	6,200
Retained earnings	(208,557)	(227,790)	(233,982)
Equity	110,917	89,768	83,375
Other non-current financial liabilities	5,433	6,181	12,865
Non-current lease liabilities	5,245	6,827	7,507
Non-current liabilities	10,678	13,008	20,372
Interest-bearing loans and borrowings	11,422	12,500	21,395
Other current financial liabilities	-	-	1,011
Current lease liabilities	2,771	2,953	3,193
Trade payables	3,466	11,014	2,779
Other payables	14,711	21,667	15,816
Provisions	528	1,529	1,091
Contract liabilities	1,046	-	-
Refund liabilities	415	416	322
Current liabilities	34,359	50,079	45,607
Total liabilities	45,037	63,087	65,979
Total equity and liabilities	155,954	152,855	149,354

Napatech A/S

Tobaksvejen 23A, 1
DK-2860 Søborg
Denmark
CVR no. 10109124

Phone: +45 4596 1500

www.napatech.com