

NAPATECH

1ST QUARTER 2019

INTERIM MANAGEMENT STATEMENT

DEAR SHAREHOLDERS

In the first quarter of 2019, we continued our work to regain stability, focusing on our near-term sales development, our internal cost structure and efficiency, our cash position and building on our long-standing relationships with partners and customers to execute on our growth ambitions.

During this period, we have taken important steps in the right direction on several important parameters, continuing our business momentum from the fourth quarter of 2018 and into 2019. In terms of revenues, we secured DKK 38.3 million, representing an increase of 72% compared to the first quarter of 2018. Our gross margin improved to 70% in the period, compared to 68% in the first quarter of 2018.

The first quarter of 2019 was free cash flow positive, the second quarter in a row where we improved our cash position. We maintained our focus on improving our cost structure and optimizing our net working capital in the quarter, and we saw effects of the measures and actions implemented to improve our internal efficiency and operations in the second half of 2018. As a result, we were able to reduce our operating expenses to DKK 31.2 million (before capitalization of development costs), compared to DKK 41.5 million in the first quarter of 2018. In addition, our cash flow from operating activities came in at DKK 4.5 million, compared to negative DKK 7.9 million in the first quarter of 2018.

After the quarter, on May 10th, 2019 we were pleased to announce the completion of our secondary offering raising NOK 76.7 million in three tranches. We are grateful for the trust our investors are showing us, sending a strong signal that they believe in Napatech and our ability to execute on our business plan going forward. At the end of the quarter, we had total cash and cash equivalents of DKK 42.7 million. The improved cash position creates a solid platform for our continued growth, while still keeping a close eye on our cost structure, internal efficiency, and cash balance.

With this new funding, Napatech will leverage our expertise in building FPGA software that differentiates us, enhance our offerings and accelerate our delivery of new products to the market in 2019 and 2020. In addition, we will enhance our go-to-market efforts to maximize the revenue impact from our new products and new unbundled service revenue, while the market for SmartNICs is expanding.

We are operating in a dynamic marketplace, exemplified by the increased investment activity and consolidation in the SmartNIC and FPGA sector seen the past months and quarters. Larger players are strategically positioning themselves towards reconfigurable computing solutions delivered on SmartNICs.

These market dynamics are fuelled by the increasing investments in standard servers with more powerful compute resources delivered through increasingly FPGA based SmartNICs. Napatech is well positioned towards this trend as we continue to develop our products and build on our strong relationships with key industry players in the FPGA ecosystem.

Our product strategy is to target the market through our application driven, software-centric and hardware independent approach, driving growth through our focus on three main product areas:

- Network Management
- Cybersecurity
- Virtualization Acceleration

To accomplish this, we will leverage our expertise in FPGA solutions to out-innovate our competition. We will compete to win new customers and will strive to expand within existing customers as their needs evolve for higher, very powerful standard open server-based computing solutions. And we will do it by bringing best-in-class reliability to the market.

In conclusion, we are working hard growing a business built upon a solid foundation of FPGA technology excellence. We have a solid product strategy, an improved go-to-market approach, and we see our long-term potential as significantly larger than our current business as we move to broader markets and support more applications.

Finally, we are optimistic about Napatech's ability to stabilize and grow, and we are looking forward to seeing the positive effects of our initiatives in the coming year. We are committed to find a way to succeed, and now we need to go get the job done.

Best regards,

Ray Smets, Chief Executive Officer

MANAGEMENT STATEMENT

Highlights:

- Revenue in Q1 2019 amounted to DKK 38.3 million an increase of 72% compared to Q1 2018.
- Gross margin in Q1 2019 was 70% an increase of 2 %-points compared to Q1 2018.
- Operating costs before capitalized developments costs in Q1 2019 amounted to DKK 31.2 million compared to DKK 41.5 million in Q1 2018.
- Operating profit before depreciation, amortization and impairment, and cost transferred to development projects (EBITDAC) in Q1 2019 amounted to negative DKK 4.6 million compared to negative DKK 26.4 million in Q1 2018.
- EBITDA in Q1 2019 amounted to negative DKK 1.2 million compared to negative DKK 15.8 million in Q1 2018.
- Depreciation, amortization, and impairment for Q1 2019 were DKK 6.4 million compared to DKK 10.6 million in Q1 2018.
- Cash flow from operating activities in Q1 2019 was DKK 4.5 million compared to negative DKK 7.9 million in Q1 2018.
- Net working capital end of Q1 2019 amounted to DKK 22.8 million compared to DKK 42.5 million end of Q1 2018 and DKK 28.2 million end of Q4 2018.
- Net cash used in investing activities in Q1 2019 amounted to DKK 3.5 million compared to DKK 11.6 million in Q1 2018.
- Cash and cash equivalents at the end of Q1 2019 amounted to DKK 42.7 million compared to DKK 17.2 million at the end of Q1 2018.

Key figures:

(Figures in MDKK)	Q1 2019	Q1 2018
Revenue	38.3	22.3
Growth YoY	72%	-61%
Gross Margin	70%	68%
EBITDAC	-4.6	-26.4
EBITDA	-1.2	-15.8
Cash Flow from Operating Activities	4.5	-7.9
Net Working Capital	22.8	42.5
Cash and cash equivalents, end of period	42.7	17.2

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.

Napatech operations

The statements below are related to Napatech's development in the first quarter of 2019 compared to the first quarter of 2018, unless as otherwise stated. Additional information is available at www.napatech.com/investor.

Revenue and Gross Margin

Napatech reports revenue of DKK 38.3 million in the first quarter of 2019 compared to DKK 22.3 million in the same period in 2018, equivalent to an increase of 72%.

Gross margin in Q1 2019 was 69.6% compared to 67.6% in Q1 2018. Improvement in gross margin is due to a change in product mix.

Costs

Operating expenses before transfer of costs to capitalized development costs in Q1 2019 amounted to DKK 31.2 million, compared to DKK 41.5 million in Q1 2018. The change from 2018 is due to the cost savings initiatives implemented since summer 2018.

Operating expenses after transfer of costs to capitalized development costs in Q1 2019 amounted to DKK 27.8 million, compared to DKK 30.9 million in Q1 2018.

Implementation of IFRS 16 impacts Other external costs in Q1 2019 by DKK 1.7 million. 2018 figures are not adjusted for IFRS 16.

EBITDAC

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 4.6 million in Q1 2019 compared to negative DKK 26.4 million in Q1 2018.

EBITDA

EBITDA in Q1 2019 was negative DKK 1.2 million compared to negative DKK 15.8 million in Q1 2018.

Depreciation, amortization, and impairment

Depreciation, amortization, and impairment in Q1 2019 was DKK 6.4 million compared to DKK 10.6 million in Q1 2018.

Financial Items

Financial items for Q1 2019 are negative DKK 0.6 million compared to negative DKK 1.8 million in Q1 2018.

Taxes

Taxes for Q1 2019 amounted to negative DKK 1.3 million compared to an income of DKK 6.2 million in Q1 2018.

Investments

Total investments in Q1 2019 were DKK 3.6 million of which DKK 3.6 million were related to new product development. In Q1 2018 total investments were DKK 11.6 million of which DKK 11.2 million was related to new product development.

The change in capitalized product development reflects savings implemented in the second half of 2018, the divestment of the Pandion product group in Q4 2018 and an increased focus on research activities in Q1 2019. Research activities are expensed as they occur.

Cash Flow

Cash flow from operating activities in Q1 2019 was DKK 4.5 million compared to negative DKK 7.9 million in Q1 2018.

Net cash flow from investing activities in Q1 2019 was negative DKK 3.6 million compared to negative DKK 11.6 million in Q1 2018.

Free cash flow in the quarter amounted to DKK 0.6 million corresponding to an increase of DKK 20.5 million compared to Q1 2018.

Net cash from financing activities in Q1 2019 was DKK 24.9 million as a result of the private placement conducted in Q1 and repayment of borrowings, compared to DKK 0.3 million in Q1 2018.

Cash and cash equivalents end of Q1 2019 was DKK 42.7 million compared to DKK 17.20 million at the end of Q1 2018.

Significant events after the end of the period

After the end of the period, the company has as of May 10, 2019 concluded the subsequent offering of NOK 25 million following the private placement conducted in Q1. The private placement and the subsequent offering were announced on February 22nd, 2019.

After the subsequent offering, the new share capital of the company is DKK 20,767,055 divided into 83,068,220 shares, each with a nominal value of DKK 0.25.

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 March 31st, 2019

DKK'000	YTD March	
	2019	2018
Revenue	38.254	22.298
Cost of goods sold	(11.647)	(7.230)
Gross profit	26.607	15.068
Other operating income	2	-
Staff expenses and remuneration	(24.050)	(30.001)
Other external costs	(7.166)	(11.485)
EBITDAC	(4.607)	(26.418)
Transferred to capitalized development costs	3.370	10.611
Operating profit before depreciation, amortization and impairment (EBITDA)	(1.237)	(15.807)
Depreciation, amortization and impairment	(6.398)	(10.560)
Operating result (EBIT)	(7.635)	(26.367)
Finance costs	(564)	(1.744)
Result before tax	(8.199)	(28.111)
Income tax	(1.291)	6.184
Result for the period	(9.490)	(21.927)

DKK'000	YTD March	
	2019	2018
Research and development expenses	(6.155)	(3.748)
Selling and distribution expenses	(13.734)	(18.386)
Administrative expenses	(7.957)	(8.741)
OPEX	(27.846)	(30.875)

Earnings / (loss) per share:	YTD March	
	2019	2018
Basic, DKK	(0,22)	(0,92)
Diluted, DKK	(0,21)	(0,89)

BALANCE SHEET

ASSETS			
DKK'000	31 Mar. 2019	31 Dec. 2018	31 Mar. 2018
Development projects, completed	29.425	29.773	93.811
Development projects, in progress	8.149	8.194	22.628
Patents	4.819	4.972	5.323
Other intangible assets	-	-	37
Intangible assets	42.393	42.939	121.799
Plant and equipment	1.379	1.932	4.760
Right-of-use assets	16.074		
Leasehold improvements	527	605	941
Tangible assets	17.980	2.537	5.701
Leasehold deposits	2.411	2.407	2.276
Other non-current assets	2.411	2.407	2.276
Non-current assets	62.784	47.883	129.776
Inventories	11.676	16.971	39.555
Trade receivables	15.356	25.305	26.408
Contract assets	514	514	-
Other receivables	12.716	13.814	4.073
Income tax receivable	4.195	5.487	5.500
Cash and cash equivalents	42.706	17.159	20.174
Current assets	87.163	79.250	95.710
Total assets	149.947	127.133	225.486

EQUITY AND LIABILITIES			
DKK'000	31 Mar. 2019	31 Dec. 2018	31 Mar. 2018
Share capital	16.600	7.981	5.981
Share premium	278.502	247.552	220.405
Foreign currency translation reserve	419	215	(125)
Other capital reserves	4.614	4.971	5.631
Retained earnings	(234.864)	(226.000)	(70.126)
Equity	65.271	34.719	161.766
Deferred tax liability	-	-	1.156
Other non-current financial liabilities	13.648	13.391	-
Non-current right-of-use liabilities	10.151		
Non-current liabilities	23.799	13.391	1.156
Interest-bearing loans and borrowings	31.460	44.701	35.000
Other current financial liabilities	6.007	5.959	-
Current right-of-use liabilities	5.984		
Trade payables	1.672	11.099	10.042
Other payables	12.096	13.720	17.040
Provisions	133	69	482
Contract liabilities	3.525	3.475	-
Current liabilities	60.877	79.023	62.564
Total liabilities	84.676	92.414	63.720
Total equity and liabilities	149.947	127.133	225.486

CASH FLOW STATEMENT
For the period ended March 31st 2019

DKK'000	YTD March	
	2019	2018
Operating activities		
Loss before tax	(8.199)	(28.111)
Adjustments to reconcile profit before tax to net cash flows		
Finance costs	564	1.744
Depreciation, amortization and impairment	6.398	10.560
Gain/loss on the sale of non-current assets	(2)	-
Share-based payment expense	339	264
Working capital adjustments		
Change in inventories	5.295	(3.431)
Change in trade and other receivables and contract assets	11.082	23.452
Change in trade and other payables, provisions and contract liabilities	(10.928)	(12.354)
Cash flows from operating activities	4.549	(7.876)
Interest paid	(425)	(372)
Income tax received, net	11	(85)
Net cash flows from operating activities	4.135	(8.333)
Investing activities		
Proceeds from sale of tangible assets	7	-
Purchase of tangible assets	-	(423)
Investments in intangible assets	(3.571)	(11.175)
Investments in leasehold deposits	4	(7)
Net cash used in investing activities	(3.560)	(11.605)
Free cash flow	575	(19.938)
Financing activities		
Capital increase	39.843	378
Transaction costs on issue of shares	(274)	-
Payment of financial lease liabilities	(1.723)	-
Repayment of borrowings	(12.936)	(109)
Net cash flows (used in) / from financing activities	24.910	269
Net change in cash and cash equivalents	25.485	(19.669)
Net foreign exchange difference	62	(124)
Cash and cash equivalents at the beginning of the period	17.159	39.967
Cash and cash equivalents at the end of the period	42.706	20.174

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