



NAPATECH  
4<sup>TH</sup> QUARTER 2021  
INTERIM MANAGEMENT STATEMENT

napa:tech;

## MANAGEMENT'S REPORT

The phrase coined the “new normal” early in the 2020 pandemic, referring to the way lives and businesses changed, is hardly “new” as we enter 2022. The business world is continuing to observe and react to new challenges in the supply chain, shifts in labor availability, and high inflation just to name a few. To us at Napatech, this is now just “normal”, and we are executing our business strategy with all of these conditions as a normal condition of our business with a goal of optimizing our results while we build the foundation for higher revenue growth. We remain solidly committed to both of these priorities and we believe, more than ever, that our now 21-year-old Napatech is in the most compelling position it has ever been as we navigate our company to the forefront of achieving greater success. Our results for 2021 demonstrated solid underlying business performance. Improved earnings, solid EBITDAC, and an unbroken 13 quarters of revenue growth.

Focusing on what went right, and as promised to our investor community, we have structured Napatech with a goal of being highly leverageable where costs don't have to grow as fast to achieve higher revenue growth. The results of this objective delivered record earnings despite slower than expected revenue growth (*more on that later*) due to the challenges we faced in yet another annum of unprecedented surprises. We built deep important strategic relationships with partners that will position Napatech to access new growing parts of the market, while we developed more leading product features and functionality that are needed in today's and tomorrow's evolving cloud and networking infrastructures.

Our revenue growth wasn't where we predicted it should be, based on the timing of customer deals and opportunities related to the shifting conditions of the market. We also realized that the revenue from our key strategic Design Win in 2021 with Lenovo is taking longer than we expected. We continue to work closely with Lenovo to ensure their Napatech-based solution meets the requirements of customers they serve. Despite the less than expected revenue growth, we delivered on building the partnerships that will deliver growth in the future. We signed 3 key paid partnership deals in 2021 in excess of \$1M, signed a new 7-figure USD deal in Q4 with one of these partners which we are not allowed to name, and we are in progress developing another multi-million-dollar program we intend to announce in the 1H-2022. So, what hasn't changed is our belief and commitment to getting to success. We have made a decision to invest more engineering resources to help us achieve access to the revenue opportunity in 2022, a decision we made that fits within our solid business foundation without any new investments needed by our investors.

We are a small but growing tech company participating in a land of tech goliaths building a unique and important proposition for our customers. We are focused on what we do best, building FPGA SmartNIC solutions that solve real-world problems today and into the future. We are working with leading partners to ride even newer technology curves that assure that we will be ready to participate in the newest technology designs in SmartNICs in the near future that will get us deeper into virtualized mobile and cloud networks. We are navigating Napatech to be a key player in this market evolution by doing what we do best, accelerating applications and virtual network functions on FPGA-based SmartNICs.

We hold ourselves highly accountable by setting high aspirations for revenue growth, but we also hold ourselves firmly to our core value of maintaining our position of strength and fortifying our solid foundation from which we will grow. *So far – so good.*

I invite you to review our Napatech 2021 Annual Report for an even deeper review of our results and aspirations. Committed and focused,

Ray Smets

Chief Executive Office

**Highlights Full-year 2021:**

- Revenue in 2021 in USD amounted to 31.1m, an increase of 5% compared to 2020. In DKK revenue amounted to 195.5m, an increase of 1% compared to 2020.
- Gross margin in 2021 was 71.8% an increase of 0.3%-points compared to in 2020.
- Staff costs and Other external costs in 2021 amounted to DKK 111.7m compared to DKK 117.1m in 2020.
- EBITDAC in 2021 amounted to DKK 29.3m compared to DKK 21.9m in 2020.
- EBITDA in 2021 amounted to DKK 52.9m compared to DKK 35.4m in 2020.
- Depreciation, amortization, and impairment in 2021 were DKK 22.3m compared to DKK 25.3m in 2020.
- Net Cash flow from operating activities in 2021 was positive DKK 15.0m compared to positive DKK 47.6m in 2020.
- Net working capital end of 2021 amounted to DKK 44.5m compared to DKK 3.4m end of 2020.
- Net cash used in investing activities in 2021 amounted to DKK 31.0m compared to DKK 14.0m in 2020.
- Cash and cash equivalents at the end of Q4 2021 amounted to DKK 39.4m compared to DKK 62.7m at the end of Q4 2020.
- Napatech issued its original guidance for 2021 on February 24, 2021, and its updated outlook on January 3, 2022.

	Original	Updated	Actual
Revenue	DKK 210-230m	DKK 192-196m	DKK 195.5m
Gross margin	70-72%	70-72%	71.8%
Staff expenses & Other external costs	DKK 125-135m	DKK 125-135m	DKK 111.7m
Staff costs transferred to capitalized development costs	DKK 20-25m	DKK 20-25m	DKK 23.6m
Depreciation and amortization	DKK 20-25m	DKK 20-25m	DKK 22.3m

- Actual EBITDAC and EBIT for 2021 ended above the middle of the original guidance range. Performance in the middle of the originally guided ranges would have resulted in EBITDAC and EBIT of DKK 26.2m. Actual EBITDAC ended at DKK 29.3m and EBIT at DKK 30.7m.

**Highlights Q4:**

- Revenue in USD amounted to 8.5m in Q4 2021, an increase of 2% compared to Q4 2020. In DKK revenue amounted to 55.0m, an increase of 5% compared to Q4 2020.
- Gross margin in Q4 2021 was 72.2% an increase of 0.3%-points compared to Q4 2020.
- Staff costs and Other external costs in Q4 2021 amounted to DKK 23.1m compared to DKK 30.8m in Q4 2020.
- EBITDAC in Q4 2021 amounted to DKK 17.2m compared to DKK 7.0m in Q4 2020.
- EBITDA in Q4 2021 amounted to DKK 23.1m compared to DKK 11.7m in Q4 2020.
- Depreciation, amortization, and impairment for Q4 2021 were DKK 6.7m compared to DKK 8.0m in Q4 2020.
- Net Cash flow from operating activities in Q4 2021 was positive DKK 15.2m compared to positive DKK 14.8m in Q4 2020.
- Net cash used in investing activities in Q4 2021 amounted to DKK 12.2m compared to DKK 4.9m in Q4 2020.

**Key figures<sup>1</sup>:**

	Q4 2021	Q4 2020	FY 2021	FY 2020
Revenue USD m	8.5	8.4	31.1	29.7
Growth YoY USD m	2%	4%	5%	16%
Revenue DKK m	55.0	52.5	195.5	194.2
Growth YoY DKK m	5%	-3%	1%	14%
Gross Margin	72.2%	71.9%	71.8%	71.5%
EBITDAC DKK m	17.2	7.0	29.3	21.9
EBITDA DKK m	23.1	11.7	52.9	35.4
Net Cash Flow from Operating Activities DKK m	15.2	14.8	15.0	47.6
Net Working Capital, end of period DKK m	44.5	3.4	44.5	3.4
Cash and cash equivalents, end of period DKK m	39.4	62.7	39.4	62.7

**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](http://www.napatech.com/investor).

<sup>1</sup> 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***Full-year 2021*

Napatech reports revenue of DKK 195.5m in 2021 compared to DKK 194.2m in 2020, equivalent to an increase of 1%. In USD revenue was up 5% compared to 2020.

Gross margin in 2021 was 71.8% compared to 71.5% in 2020.

*Q4*

Napatech reports revenue of DKK 55.0m in Q4 2021 compared to DKK 52.5m in the same period in 2020, equivalent to an increase of 5%.

Gross margin in Q4 2021 was 72.2% compared to 71.9% in Q4 2020.

**Costs***Full-year 2021*

Staff costs and Other external costs in 2021 amounted to DKK 111.7m, compared to DKK 117.1m in 2020.

Operating expenses after transferal of staff costs to capitalized development costs in 2021 amounted to DKK 88.1m, compared to DKK 103.6m in 2020.

*Q4*

Staff costs and Other external costs in Q4 2021 amounted to DKK 23.1m, compared to DKK 30.8m in Q4 2020.

Operating expenses after transferal of staff costs to capitalized development costs in Q4 2021 amounted to DKK 17.2m, compared to DKK 26.0m in Q4 2020.

**EBITDAC and EBITDA***Full-year 2021*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to DKK 29.3m in 2021 compared to DKK 21.9m in 2020.

EBITDA in 2021 was DKK 52.9m compared to DKK 35.4m in 2020.

*Q4*

EBITDAC amounted to DKK 17.2m in Q4 2021 compared to DKK 7.0m in Q4 2020.

EBITDA in Q4 2021 was DKK 23.1m compared to DKK 11.7m in Q4 2020.

**Depreciation, amortization, and impairment***Full-year 2021*

Depreciation, amortization, and impairment in 2021 were DKK 22.3m compared to DKK 25.3m in 2020.

*Q4*

Depreciation, amortization, and impairment in Q4 2021 were DKK 6.7m compared to DKK 8.0m in Q4 2020.

**Financial Items***Full-year 2021*

Financial items in 2021 amounted to positive DKK 6.3m compared to negative DKK 5.0m in 2020.

*Q4*

Financial items in Q4 2021 amounted to positive DKK 0.9m compared to negative DKK 2.3m in Q4 2020.

**Taxes***Full-year 2021*

Taxes in 2021 amounted to an income of DKK 3.2m compared to an income of DKK 4.5m in 2020.

*Q4*

Taxes for Q4 2021 amounted to an income of DKK 4.3m compared to DKK 4.8m in Q4 2020.

**Investments***Full-year 2021*

Total net cash used in investing activities in 2021 was DKK 31.0m of which DKK 28.5m was related to new product development. In 2020 total net cash used in investing activities was DKK 14.0m of which DKK 15.0m was related to new product development.

*Q4*

Total net cash used in investing activities in Q4 2021 was DKK 12.2m of which DKK 8.1m was related to new product development. In Q4 2020 total net cash used in investing activities was DKK 4.9m of which DKK 5.5m was related to new product development.

**Cash Flow***Full-year 2021*

Net cash flow from operating activities in 2021 was positive DKK 15.0m compared to positive DKK 47.6m in 2020.

Free cash flow in 2021 amounted to negative DKK 16.0m compared to positive DKK 33.6m in 2020.

Net cash from financing activities in 2021 was negative DKK 8.3m compared to negative DKK 33.7m in 2020 as a result of the repayment of borrowings.

Cash and cash equivalents end of 2021 was DKK 39.4m compared to DKK 62.7m at the end of 2020.

*Q4*

Net cash flow from operating activities in Q4 2021 was positive DKK 15.2m compared to positive DKK 14.8m in Q4 2020.

Free cash flow in Q4 2021 amounted to positive DKK 3.1m compared to positive DKK 10.0m in Q4 2020.

Net cash from financing activities in Q4 2021 was negative DKK 3.7m, compared to negative DKK 17.0m in Q4 2020.

**Events after the end of the period**

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

**Outlook for 2022**

In 2022 Napatech is expecting revenue in the range of USD 37-41m corresponding to growth between 19%-32% compared to 2021.

	<b>Guidance</b>
Revenue	DKK 235-260m
Gross margin	69-71%
Staff expenses & Other external costs	DKK 155-165m
Staff costs transferred to capitalized development costs	DKK 28-33m
Depreciation and amortization	DKK 23-28m

With performance in the middle of the guided ranges, EBITDAC would be positive DKK 13.3m, and EBIT would be positive DKK 18.3m.

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 December 31, 2021

DKK'000	4th quarter		Full-year	
	2021	2020	2021	2020
<b>Revenue</b>	<b>54,992</b>	<b>52,478</b>	<b>195,471</b>	<b>194,233</b>
Cost of goods sold	(15,305)	(14,728)	(55,113)	(55,265)
<b>Gross profit</b>	<b>39,687</b>	<b>37,750</b>	<b>140,358</b>	<b>138,968</b>
Other operating income	600	-	625	5
Staff costs	(16,915)	(24,046)	(88,749)	(96,208)
Other external costs	(6,135)	(6,734)	(22,927)	(20,883)
<b>EBITDAC</b>	<b>17,237</b>	<b>6,970</b>	<b>29,307</b>	<b>21,882</b>
Transferred to capitalized development costs	5,854	4,751	23,608	13,479
<b>EBITDA</b>	<b>23,091</b>	<b>11,721</b>	<b>52,915</b>	<b>35,361</b>
Depreciation, amortization and impairment	(6,677)	(7,992)	(22,253)	(25,276)
<b>Operating result (EBIT)</b>	<b>16,414</b>	<b>3,729</b>	<b>30,662</b>	<b>10,085</b>
Finance income	1,087	783	6,972	1,835
Finance costs	(166)	(3,124)	(636)	(6,839)
<b>Result before tax</b>	<b>17,335</b>	<b>1,388</b>	<b>36,998</b>	<b>5,081</b>
Income tax	4,321	4,771	3,230	4,514
<b>Result for the period</b>	<b>21,656</b>	<b>6,159</b>	<b>40,228</b>	<b>9,595</b>

**CASH FLOW STATEMENT**

For the period ended December 31, 2021

DKK'000	4th quarter		Full-year	
	2021	2020	2021	2020
<b>Operating activities</b>				
Income/Loss before tax	17,335	1,388	36,998	5,081
<b>Adjustments to reconcile profit before tax to net cash flows</b>				
Finance income	(1,087)	(783)	(6,972)	(1,835)
Finance costs	166	3,124	636	6,839
Depreciation, amortisation and impairment	6,677	7,992	22,253	25,276
Gain/loss on the sale of non-current assets	(600)	-	(625)	(5)
Share-based payment expense	706	577	3,107	2,354
<b>Working capital adjustments</b>				
Change in inventories	(853)	(9,818)	(5,049)	(9,542)
Change in trade and other receivables and right-of-return asset	(8,612)	(4,916)	(21,126)	4,142
Change in trade and other payables, provisions, refund liability and contract liabilities	2,027	14,480	(12,424)	12,252
Interest received	-	35	19	1,213
Interest paid	(115)	(85)	(377)	(626)
Income tax received, net	(402)	2,844	(1,490)	2,493
<b>Net cash flows from operating activities</b>	<b>15,242</b>	<b>14,838</b>	<b>14,950</b>	<b>47,642</b>
<b>Investing activities</b>				
Proceeds from sale of tangible assets	600	-	625	3
Purchase of tangible assets	(4,616)	(638)	(7,111)	(1,204)
Proceeds from sale of intangible assets	-	1,268	3,986	1,268
Investments in intangible assets	(8,137)	(5,493)	(28,503)	(15,041)
Investments in leasehold deposits	(1)	5	50	951
<b>Net cash used in investing activities</b>	<b>(12,154)</b>	<b>(4,858)</b>	<b>(30,953)</b>	<b>(14,023)</b>
<b>Free cash flow</b>	<b>3,088</b>	<b>9,980</b>	<b>(16,003)</b>	<b>33,619</b>
<b>Financing activities</b>				
Capital increase	21	-	53	-
Share buyback	-	-	(273)	-
Payment of financial lease liabilities	(759)	(1,007)	(3,328)	(4,150)
Increase of borrowings	-	(25)	-	4,155
Repayment of borrowings	(2,934)	(15,959)	(4,760)	(33,685)
<b>Net cash flows used in financing activities</b>	<b>(3,672)</b>	<b>(16,991)</b>	<b>(8,308)</b>	<b>(33,680)</b>
<b>Net change in cash and cash equivalents</b>	<b>(584)</b>	<b>(7,011)</b>	<b>(24,311)</b>	<b>(61)</b>
Net foreign exchange difference	(522)	(997)	1,062	(1,547)
Cash and cash equivalents at the beginning of the period	40,555	70,706	62,698	64,306
<b>Cash and cash equivalents at the end of the period</b>	<b>39,449</b>	<b>62,698</b>	<b>39,449</b>	<b>62,698</b>



**BALANCE SHEET****ASSETS**

	<b>31 Dec.</b>	<b>31 Dec.</b>
<b>DKK'000</b>	<b>2021</b>	<b>2020</b>
Development projects, completed	26,685	23,328
Development projects, in progress	15,589	7,760
Patents	3,016	3,697
<b>Intangible assets</b>	<b>45,290</b>	<b>34,785</b>
Plant and equipment	6,605	1,228
Right-of-use assets	6,995	9,412
Leasehold improvements	727	301
<b>Tangible assets</b>	<b>14,327</b>	<b>10,941</b>
Deferred tax asset	9,715	4,932
Leasehold deposits	1,357	1,407
<b>Other non-current assets</b>	<b>11,072</b>	<b>6,339</b>
<b>Non-current assets</b>	<b>70,689</b>	<b>52,065</b>
Inventories	24,123	19,074
Trade receivables	37,514	15,802
Right-of-return asset	36	112
Other receivables	4,915	3,057
Income tax receivable	-	47
Cash and cash equivalents	39,449	62,698
<b>Current assets</b>	<b>106,037</b>	<b>100,790</b>
<b>Total assets</b>	<b>176,726</b>	<b>152,855</b>

**EQUITY AND LIABILITIES**

	<b>31 Dec.</b>	<b>31 Dec.</b>
<b>DKK'000</b>	<b>2021</b>	<b>2020</b>
Share capital	20,774	20,767
Share premium	290,435	290,330
Foreign currency translation reserve	270	(283)
Other capital reserves	8,242	6,744
Retained earnings	(186,249)	(227,790)
<b>Equity</b>	<b>133,472</b>	<b>89,768</b>
Other non-current financial liabilities	4,860	6,181
Non-current lease liabilities	4,545	6,827
<b>Non-current liabilities</b>	<b>9,405</b>	<b>13,008</b>
Interest-bearing loans and borrowings	9,061	12,500
Current lease liabilities	2,726	2,953
Trade payables	10,990	11,014
Other payables	7,931	21,667
Income tax payable	16	-
Provisions	297	1,529
Contract liabilities	2,681	-
Refund liabilities	147	416
<b>Current liabilities</b>	<b>33,849</b>	<b>50,079</b>
<b>Total liabilities</b>	<b>43,254</b>	<b>63,087</b>
<b>Total equity and liabilities</b>	<b>176,726</b>	<b>152,855</b>

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