

NAPATECH
3RD QUARTER 2023
INTERIM MANAGEMENT STATEMENT



napa:tech;

MANAGEMENT'S REPORT

Napatech is a leading global provider of Smart Network Interface Cards (SmartNIC) and Infrastructure Processing Units (IPU) used by cloud, enterprise, and telecommunication network operators to dramatically improve the performance and economics of servers and appliances in modern data centres.

We are pleased about that our Q3 2023 results were highlighted by increasing revenue to 7.2 mUSD with strong product margins of 73%, our positive Q3 revenue and initial Q4 visibility allow us to affirm our FY2023 guidance again. But although, the Q3'23 marked an improvement for Napatech, we still see caution in IT investments, low long-term visibility, and in combination with market analyst forecast for 2H'23 and 2024 predicting server market volatility driven by macroeconomic headwinds, we expect the business environment, experienced in the first half of the year, will continue into 2024.

Our Q3 results are an important short-term milepost that also creates longer-term confidence in our investments in products, people and partnerships that support our design-win pipeline and aspirations for 2024-2026 revenue growth. Our strategy for long-term growth remains anchored in three areas. First, servicing our valuable install base of customers who are early adopters of programmable SmartNICs. Next, accelerating our engineering investments into hardware and software solutions that extend our offering into new projected high-growth segments. Finally, developing a robust ecosystem that extends our own go-to-market reach via marketing, business development and sales partnerships.

Within the broader market, several indicators continue to support the market growth forecasts for Napatech SmartNICs and IPUs. Leading industry analysts forecast strong customer demand for new projects in traditional segments for cybersecurity, cloud infrastructure, and telco 5G infrastructure. New demand for Napatech solutions is emerging from private enterprise 5G networks and datacenter server acceleration for networking and storage workloads.

The third quarter marked a notable increase in visibility and awareness for SmartNICs and IPUs from several top industry analysts, who independently published research with common themes supporting Napatech's aspirations for long-term growth. They continue to forecast double-digit growth in the coverage period through 2027. And finally, they note that Napatech has established itself as a leader among many other vendors. Combined, the reports from Chrehan Research, Dell'Oro Group, ABI Research and Omdia are clear indicators that programmable SmartNICs and IPUs are moving beyond early adopters and into the mainstream.

Our collaboration with Intel continues to expand. We remain on schedule with our developments that extend our product portfolio with Intel-based SmartNICs and IPUs, with these new products orderable now. Of special note, a global launch of the Napatech products was successfully completed at the Intel Innovation event in September. The partnership continues to strengthen Napatech's pipeline development, and we have entered the preliminary stages of new business development with their support.

We continue to expand our go-to-market reach with partnerships for complete solutions. We have targeted the applications and services that are forecasted to be among the highest-growth segments for SmartNICs and IPUs. We will continue to identify the leading suppliers of complementary hardware and software solutions in our ecosystem. Our results include top global server manufacturers Lanner, Dell, Jabil, Kontron, and Advantech, with several others in progress. It includes leading software application vendors in 5G, such as A5G Networks and Druid Software, with six others in progress. It also includes trusted firms in financial services like Orthogone and Databento. These partnerships have moved beyond agreements and into pipeline building, spanning initial customer engagements. We also continue to develop new markets and opportunities as a part of our AMD partnership.

In summary, I am again pleased to report that Napatech remains on track to meet our objectives for 2023. I remain inspired that several aspects of our strategic plan have progressed faster than we previously anticipated. We remain focused, knowing that we are still in the initial stages, but also energized by these activities that strengthen our confidence in our growth ambitions.

Best regards,



Henrik Brill Jensen
Chief Executive Officer

Highlights YTD:

- Revenue YTD Q3 2023 in USD amounted to 18.1m, an increase of 1% compared to 2022. In DKK, revenue amounted to 124.6m, a decline of 0% compared to 2022.
- The gross margin YTD Q3 2023 was 71%, an increase of 15%-points compared to 2022.
- Staff costs and Other external costs in YTD Q3 2023 amounted to DKK 104.8m compared to DKK 104.6m in 2022.
- EBITDAC¹ YTD Q3 2023 amounted to negative DKK 16.9m compared to negative DKK 34.7m in 2022.
- EBITDA YTD Q3 2023 amounted to negative DKK 8.4m compared to negative DKK 16.0m in 2022.
- Depreciation, amortization, and impairment YTD Q3 2023 were DKK 24.3m compared to DKK 19.3m in 2022.
- Net Cash flow from operating activities YTD Q3 2023 was negative DKK 8.7m compared to negative DKK 12.8m in 2022.
- Net working capital end of Q3 2023 amounted to DKK 55.4m compared to DKK 50.0m end of Q3 2022 and DKK 55.7m end of 2022.
- Net cash used in investing activities YTD Q3 2023 amounted to DKK 10.2m compared to DKK 27.3m YTD Q3 2022.
- Cash and cash equivalents at the end of Q3 2023 amounted to DKK 44.2m compared to DKK 27.9m at the end of Q3 2022.

Highlights Q3:

- Revenue in USD amounted to 7.2m in Q3 2023, an increase of 44% compared to Q3 2022. In DKK, revenue amounted to 49.7m, an increase of 34% compared to Q3 2022.
- The gross margin in Q3 2023 was 78%, an increase of 29%-points compared to Q3 2022.
- Staff costs and Other external costs in Q3 2023 amounted to DKK 32.1m compared to DKK 31.0m in Q3 2022.
- EBITDAC in Q3 2023 amounted to positive DKK 6.6m compared to negative DKK 12.7m in Q3 2022.
- EBITDA in Q3 2023 amounted to positive DKK 7.9m compared to negative DKK 7.0m in Q3 2022.
- Depreciation, amortization, and impairment for Q3 2023 were DKK 8.3m compared to DKK 7.3m in Q3 2022.
- Net Cash flow from operating activities in Q3 2023 was negative DKK 8.8m compared to negative DKK 15.0m in Q3 2022.
- Net cash used in investing activities in Q3 2023 amounted to DKK 1.5m compared to DKK 7.8m in Q3 2022.

Key figures²:

	Q3 2023	Q3 2022	YTD Q3 2023	YTD Q3 2022
Revenue USD m	7.2	5.0	18.1	17.9
Growth YoY USD m	44%	-33%	1%	-21%
Revenue DKK m	49.7	37.0	124.6	124.7
Growth YoY DKK m	34%	-22%	0%	-11%
Gross Margin	78%	49%	71%	56%
EBITDAC DKK m	6.6	-12.7	-16.9	-34.7
EBITDA DKK m	7.9	-7.0	-8.4	-16.0
Net Cash Flow from Operating Activities DKK m	-8.8	-15.0	-8.7	-12.8
Net Working Capital, end of period DKK m	55.4	50.0	55.4	50.0
Cash and cash equivalents, end of period DKK m	44.2	27.9	44.2	27.9

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

² 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**Q3**

Napatech reports revenue of DKK 49.7m in Q3 2023 compared to DKK 37.0m in the same period in 2022, equivalent to an increase of 34%. In USD, revenue grew 44% compared to Q3 2022.

The gross margin in Q3 2023 was 78% compared to 49% in Q3 2022.

YTD Q3

Napatech reports revenue of DKK 124.6m in the first three quarters of 2023 compared to DKK 124.7m in the same period in 2022, equivalent to a decline of 0%. In USD, revenue was up 1% compared to 2022.

The gross margin YTD Q3 2023 was 71% compared to 56% YTD Q3 2022.

Costs**Q3**

Staff costs and Other external costs in Q3 2023 amounted to DKK 32.1m, compared to DKK 31.0m in Q3 2022.

Operating expenses after transferal of staff costs to capitalized development costs in Q3 2023 amounted to DKK 30.8m, compared to DKK 25.2m in Q3 2022.

YTD Q3

Staff costs and Other external costs YTD Q3 2023 amounted to DKK 104.8m, compared to DKK 104.6m YTD Q3 2022.

Operating expenses after transferal of staff costs to capitalized development costs YTD Q3 2023 amounted to DKK 96.4m, compared to DKK 85.8m YTD Q3 2022.

EBITDAC and EBITDA**Q3**

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to positive DKK 6.6m in Q3 2023 compared to negative DKK 12.7m in Q3 2022.

EBITDA in Q3 2023 was positive DKK 7.9m compared to negative DKK 7.0m in Q3 2022.

YTD Q3

EBITDAC amounted to negative DKK 16.9m YTD Q3 2023 compared to negative DKK 34.7m YTD Q3 2022.

EBITDA YTD Q3 2023 was negative DKK 8.4m compared to negative DKK 16.0m YTD Q3 2022.

Depreciation, amortization, and impairment**Q3**

Depreciation, amortization, and impairment in Q3 2023 were DKK 8.3m compared to DKK 7.3m in Q3 2022.

YTD Q3

Depreciation, amortization, and impairment YTD Q3 2023 were DKK 24.3m compared to DKK 19.3m YTD Q3 2022.

Financial Items**Q3**

Financial items for Q3 2023 were positive DKK 0.2m compared to a positive DKK 1.6m in Q3 2022.

YTD Q3

Financial items YTD Q3 2023 were negative DKK 1.5m compared to a positive DKK 4.6m YTD Q3 2022.

Taxes**Q3**

Taxes for Q3 2023 amounted to a cost of DKK 0.4m compared to an income of DKK 0.0m in Q3 2022.

YTD Q3

Taxes YTD Q3 2023 amounted to a cost of DKK 1.1m compared to a cost of DKK 0.0m YTD Q3 2022.

Investments**Q3**

The total net cash used in investing activities in Q3 2023 was DKK 1.5m, of which DKK 1.4m was invested in new product development. In Q3 2022, the total net cash used in investing activities was DKK 7.8m, of which DKK 7.8m was invested in new product development.

YTD Q3

The total net cash used in investing activities YTD Q3 2023 was DKK 10.2m, of which DKK 9.5m was invested in new product development. YTD Q3 2022, the total net cash used in investing activities was DKK 27.3m, of which DKK 24.8m was invested in new product development.

Cash Flow**Q3**

Net cash flow from operating activities in Q3 2023 was negative DKK 8.8m compared to negative DKK 15.0m in Q3 2022.

Free cash flow in the quarter amounted to negative DKK 10.3m compared to negative DKK 22.8m in Q3 2022.

Net cash from financing activities in Q3 2023 was negative DKK 2.0m, compared to a positive DKK 12.1m in Q3 2022.

YTD Q3

Net cash flow from operating activities YTD Q3 2023 was negative DKK 8.7m compared to negative DKK 12.8m YTD Q3 2022.

Free cash flow YTD Q3 2023 amounted to negative DKK 18.8m compared to negative DKK 40.1m YTD Q3 2022.

Net cash from financing activities YTD Q3 2023 was positive DKK 51.1m, compared to positive DKK 27.5m YTD Q3 2022.

Cash and cash equivalents end of Q3 2023 were DKK 44.2m compared to DKK 27.9m at the end of Q3 2022.

Events after the end of the period

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

Outlook for 2023

The 2023 guidance remains unchanged:

	Guidance
Revenue	DKK 180-200m
Gross margin	68-71%
Staff expenses & Other external costs	DKK 160-170m
Staff costs transferred to capitalized development costs	DKK 20-25m

With performance in the middle of the guided ranges, EBITDA would be negative DKK 10.5m.

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, 2023

DKK'000	3rd quarter		YTD September	
	2023	2022	2023	2022
Revenue	49,651	36,976	124,593	124,697
Cost of goods sold	(10,886)	(18,730)	(36,643)	(54,858)
Gross profit	38,765	18,246	87,950	69,839
Staff costs	(21,609)	(24,168)	(74,520)	(80,463)
Other external costs	(10,519)	(6,805)	(30,295)	(24,103)
EBITDAC	6,637	(12,727)	(16,865)	(34,727)
Transferred to capitalized development costs	1,283	5,748	8,427	18,777
EBITDA	7,920	(6,979)	(8,438)	(15,950)
Depreciation, amortization and impairment	(8,263)	(7,342)	(24,289)	(19,271)
Operating result (EBIT)	(343)	(14,321)	(32,727)	(35,221)
Finance income	402	2,031	407	5,542
Finance costs	(237)	(390)	(1,927)	(953)
Result before tax	(178)	(12,680)	(34,247)	(30,632)
Income tax	(409)	9	(1,081)	(24)
Result for the period	(587)	(12,671)	(35,328)	(30,656)

CASH FLOW STATEMENT

For the period ended September 30, 2023

DKK'000	3rd quarter		YTD September	
	2023	2022	2023	2022
Operating activities				
Income/Loss before tax	(178)	(12,680)	(34,247)	(30,632)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(402)	(2,031)	(407)	(5,542)
Finance costs	237	390	1,927	953
Depreciation, amortisation and impairment	8,263	7,342	24,289	19,271
Share-based payment expense	498	1,689	1,848	4,507
Working capital adjustments				
Change in inventories	8,328	(7,733)	2,231	(8,225)
Change in trade and other receivables, right-of-return asset and prepayments	(16,324)	6,192	22,996	13,300
Change in trade and other payables, provisions, refund liability and contract liabilities	(8,188)	(7,828)	(24,484)	(5,613)
Interest received	3	-	8	7
Interest paid	(654)	(346)	(1,747)	(808)
Income tax received, net	(412)	6	(1,082)	(28)
Net cash flows from operating activities	(8,829)	(14,999)	(8,668)	(12,810)
Investing activities				
Purchase of tangible assets	(131)	(15)	(524)	(2,382)
Investments in intangible assets	(1,355)	(7,772)	(9,505)	(24,847)
Investments in leasehold deposits	-	(1)	(144)	(41)
Net cash used in investing activities	(1,486)	(7,788)	(10,173)	(27,270)
Free cash flow	(10,315)	(22,787)	(18,841)	(40,080)
Financing activities				
Capital increase	-	-	53,740	-
Transaction costs on issue of shares	-	-	(365)	-
Share buyback	(64)	(1,650)	-	(1,914)
Payment of financial lease liabilities	(874)	(751)	(2,512)	(2,237)
Proceeds from borrowings	-	14,666	-	40,960
Repayment of borrowings	(1,101)	(183)	225	(9,353)
Net cash flows from financing activities	(2,039)	12,082)	51,088)	27,456)
Net change in cash and cash equivalents	(12,354)	(10,705)	32,247)	(12,624)
Net foreign exchange difference	557	1,100	38	1,096
Cash and cash equivalents at the beginning of the period	56,044	37,526	11,962	39,449
Cash and cash equivalents at the end of the period	44,247)	27,921)	44,247)	27,921)

BALANCE SHEET

ASSETS

DKK'000	30 Sep. 2023	31 Dec. 2022	30 Sep. 2022
Development projects, completed	42,826	35,102	32,376
Development projects, in progress	1,355	18,383	20,705
Patents	1,866	2,351	2,517
Intangible assets	46,047	55,836	55,598
Plant and equipment	3,647	5,551	6,355
Right-of-use assets	8,697	4,708	5,411
Leasehold improvements	396	635	715
Tangible assets	12,740	10,894	12,481
Deferred tax asset	-	-	9,718
Leasehold deposits	1,541	1,397	1,398
Other non-current assets	1,541	1,397	11,116
Non-current assets	60,328	68,127	79,195
Inventories	36,623	38,854	32,348
Trade receivables	28,406	59,553	24,529
Right-of-return asset	-	-	39
Prepayments	1,741	1,164	-
Other receivables	16,817	8,808	10,005
Income tax receivable	5,500	5,500	-
Cash and cash equivalents	44,247	11,962	27,921
Current assets	133,334	125,841	94,842
Total assets	193,662	193,968	174,037

EQUITY AND LIABILITIES

DKK'000	30 Sep. 2023	31 Dec. 2022	30 Sep. 2022
Share capital	22,544	20,774	20,774
Share premium	343,047	290,457	290,435
Treasury shares	(2,239)	(2,520)	(1,914)
Foreign currency translation reserve	284	244	829
Other capital reserves	10,043	13,860	12,716
Retained earnings	(265,436)	(234,560)	(216,872)
Equity	108,243	88,255	105,968
Interest-bearing loans and borrowings	9,758	9,758	9,758
Other non-current financial liabilities	4,384	4,568	4,568
Non-current lease liabilities	5,673	2,017	2,757
Non-current contract liabilities	3,744	3,744	-
Non-current liabilities	23,559	20,087	17,083
Interest-bearing loans and borrowings	34,179	33,770	31,202
Current lease liabilities	3,271	2,929	2,908
Trade payables	3,831	11,821	3,085
Other payables	14,295	6,538	11,895
Income tax payable	-	-	16
Provisions	-	-	289
Contract liabilities	6,284	30,568	1,431
Refund liabilities	-	-	160
Current liabilities	61,860	85,626	50,986
Total liabilities	85,419	105,713	68,069
Total equity and liabilities	193,662	193,968	174,037

Napatech A/S

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

Phone: +45 4596 1500

www.napatech.com