



**Q4 2018 Interim Management
Statement Presentation**
February 28, 2019

Q4'18 Interim Management Statement Topics

- Corporate Update
- Update about Cash Raise
- Business Highlights
- Q4-2018 Results
- 2019 Guidance
- Q&A

Corporate Overview: NAPA.OL

- +15 year history delivering FPGA-based technology to customers globally
- Unparalleled expertise accelerating compute-intensive applications on standard open servers
- High-tech solution with 22 patents provides high barrier-to-entry for competitors
- Solid gross margins and highly leverageable business model
- Targeting rapidly expanding \$3.1B SmartNIC market by 2025

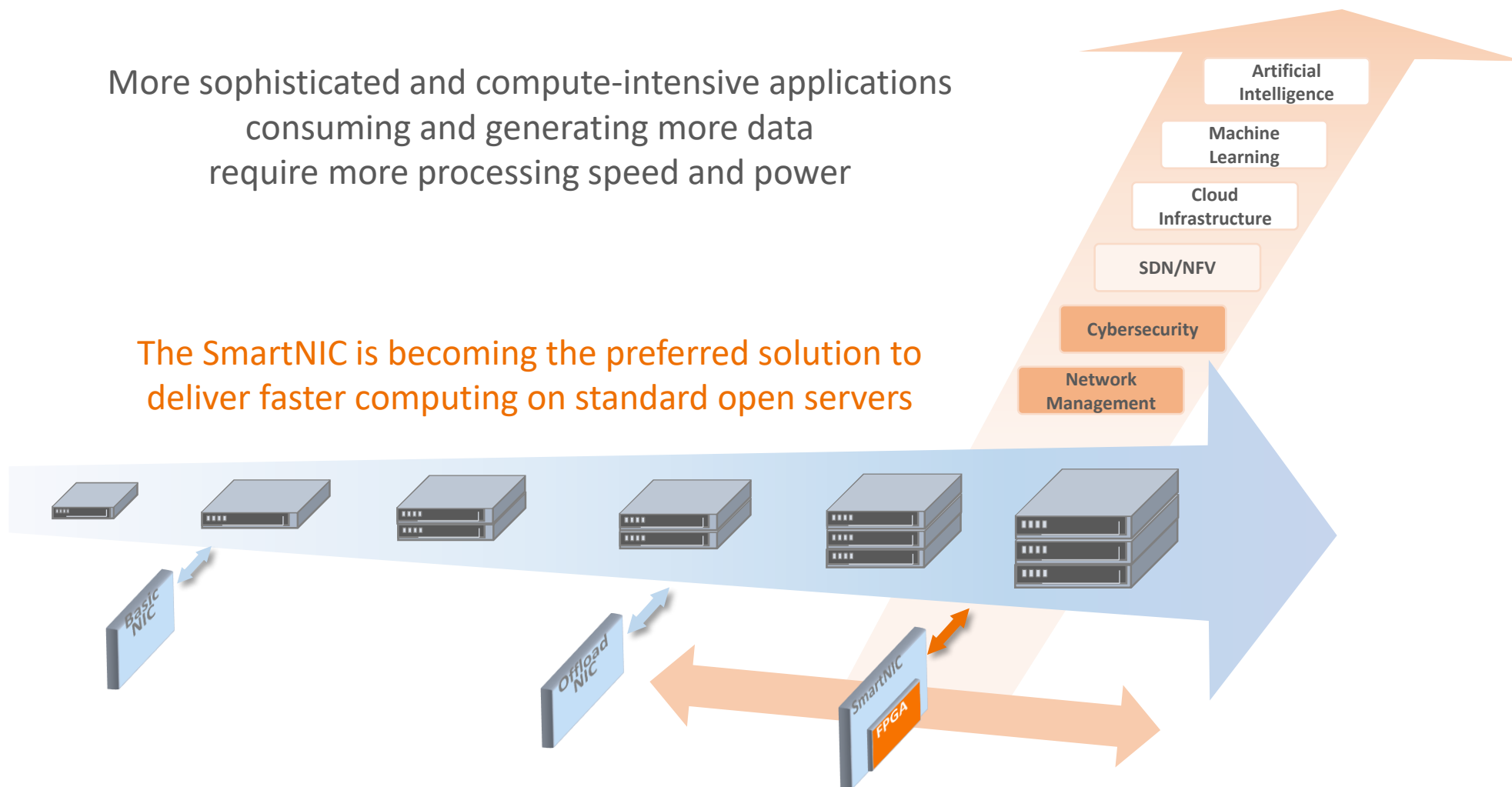
Top Tier Global Customers



Napatech Sits at the Crossroads of Two Major Market Forces

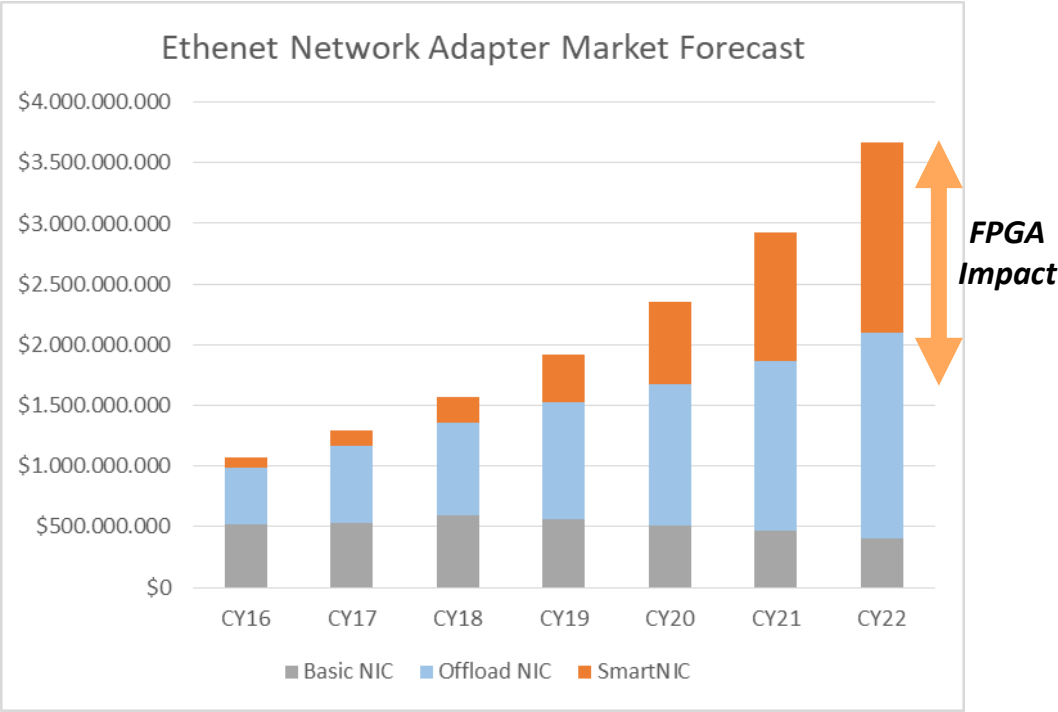
More sophisticated and compute-intensive applications consuming and generating more data require more processing speed and power

The SmartNIC is becoming the preferred solution to deliver faster computing on standard open servers



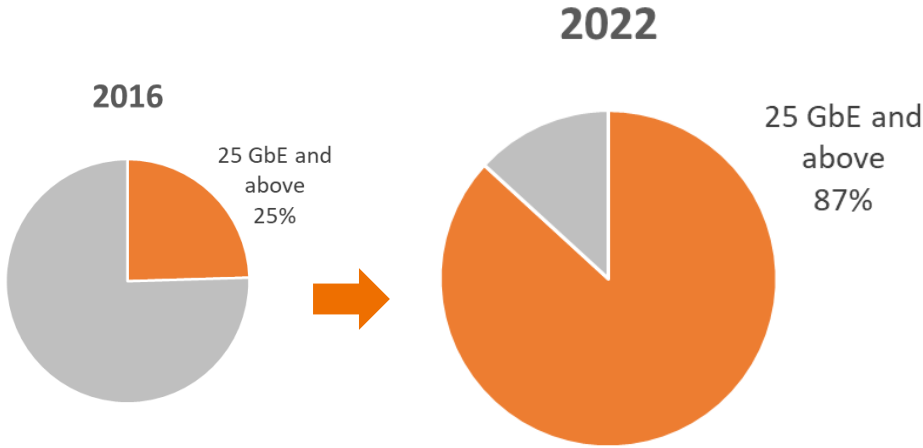
Market Opportunity for SmartNICs is Growing Rapidly

Market growing from \$1.5B in 2018 to \$3.7B in 2022
with SmartNICs the fastest growing category (80% CAGR)



Source: IHS Markit Ethernet Network Adapter Market Tracker Q3 2018
IHS Markit use the term "Programmable NIC" instead of "SmartNIC"

Need for higher speeds and more capacity
driven by demanding data-hungry applications



Napatech Product Areas for Growth

Compute-Hungry Applications



Application Driven

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FPGA Software

Network
Management

Cybersecurity

Virtual Switching

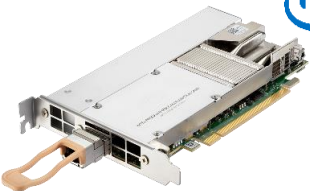
Software-Centric

XILINX



Napatech designed portfolio of FPGA SmartNICs

intel



Intel designed FPGA SmartNICs

Hardware
Independent

napatech

Successfully Completed Cash Raise to Fund Growth

Cash Raise Completed: 76.7 MNOK (58.6 MDKK, \$8.9M USD)

- 50 MNOK in a private placement lead by Verdane Capital
- 25 MNOK in fully-underwritten repair round to benefit of existing investors
- 1.7 MNOK management and board investment

Planned Use of Cash Raised

- Leverage our expertise in FPGA solutions to out-innovate the competition and build new higher growth product lines in Cybersecurity and Virtualization
- Focus engineering development within a streamlined Napatech to accelerate our delivery of new products to the market in 2019 and 2020
- Enhance our go-to-market strategy, sales and marketing to maximize the revenue impact from our new products while the market for SmartNICs is expanding
- The company expects this cash will fully fund operations throughout 2019 and beyond

Goal

- Build momentum with new products and leverage cost structure to maximize shareholder profit

What's Different Now About Napatech?

- **Solely focused on our unique core competency:**
 - We embrace our unique expertise in FPGA
- **FPGA Configuration Software is at the center of our new product strategy:**
 - We will access new growing markets in ***Cybersecurity*** and ***Virtualization***, but we are doing it with a software-minded approach.
- **Now is the time:**
 - The new mega-market areas are finally gaining traction, while our relationships with key industry players are also gaining traction.
 - The entire market now believes that the FPGA solution we deliver will solve the growing application acceleration opportunity.
- **Leverageable business model:** Our highly leverageable business model with new paths to the market allows us to grow and drive more profit

A long-exposure photograph of the Golden Gate Bridge at night. The bridge's towers and suspension cables are illuminated with a warm orange glow. The city lights of San Francisco are visible in the background, and the bridge's reflection is seen on the water in the foreground. The overall scene is dark, with the bridge and city lights providing the primary illumination.

Business Highlights

napatech 

Napatech's Progress Towards Stability and Return to Growth

- **Revenue**
 - Q4 Sales Revenue of \$7.4M, 2H18 Sales Revenue of \$12.2M ahead of \$12M target
 - Revenue in Q4 reflects more normalized patterns
- **Cash**
 - Q4 was cash-flow positive reflecting a better cash position at the end of Q4 over Q3
 - Successfully raised 58.6 MDKK in cash
 - The company expects to be fully funded for 2019 and beyond
- **Continue to improve internal efficiency & operations**

Significant End-User Wins



- High performance leader in business flow tracking and real-time, in-stream performance analytics
- Selected Napatech's FPGA-based SmartNIC SW and HW
- Magnitude reduction in latency for tick-to-trade trading platform from 100µs to 10µs
- Significant cost benefit and competitive advantage

Global Social Networking Leader

- Global leader and innovator in social media and social networking
- Existing 10 gigabit customer who chose Napatech's new 2x40GB FPGA-based SmartNIC SW and HW for a major upgrade to 40 gigabit
- Upgrade performance for open source cybersecurity apps (Suricata and Bro) within their internal cloud infrastructure
- Significant improvement in performance from 10G to 40G and effectiveness of security monitoring

Significant OEM Wins



- Leading innovator in Hyper-Converged Infrastructure and Edge Computing systems designed to run tier 1 storage-intensive workloads.
- Selected Napatech's FPGA-based HW and SW to integrate onto the Axellio FabricXpress® platform
- For major defense contractor as a test and measurement solution to capture and store 100 GBPS data-to-disk to allow precise replay
- Significant performance benefits and high speed lossless data capture

EMEA-based Security Tech Leader

- Market leader in mobility and threat-appropriate security technology based in EMEA
- Selected Napatech's FPGA-based HW and SW to off-load their server CPU-cores using flow management
- Increased their in-line throughput and performance to full 10Gbps
- Solution provided best throughput and performance that could not be done with standard NIC cards

Napatech Q4 2018 Financials



Q4 2018 Financial Highlights

- **Sales** of \$7.4M, +54% over Q3 2018
 - Sales in 2H'18 were \$12.2M vs Sales in 1H18 of 7.9M , a 54% increase
- **Gross margin** was 67% adjusted for special items
- **Cash flow** from operating activities in Q4 was +18 MDKK, up from 8.2 MDKK in Q4 2017
 - Total cash and unused credit facilities position at the end of Q4 2018 was 20 MDKK

Q4 2018 Financial Highlights (cont'd)

- **EBITDA:** 4.1 MDKK adjusted for the special items
 - Reported EBITDA -10.0 MDKK, compared to -7.2 MDKK in Q4 2017
- **Depreciation, amortization and impairment** for Q4 2018 was 52.0 MDKK, compared to 9.4 MDKK in Q4 2017
 - Q4 is impacted by the impairment of capitalized development projects by 42.6 MDKK
 - Non-cash impairments are primarily due to a revised assessment of timing of expected revenue

Summary of Financial Results for Q4-2018

(Figures in MDKK)	Q4 2018	Q4 2017	FY 2018
Revenue	54.0	47.9	106.2
Growth YoY	13%	-48%	-48%
Gross Margin adjusted for special items	67%	54%	69%
EBITDA adjusted for special items	4.1	-7.2	-38.4
Reported Gross Margin	41%	54%	46%
Reported EBITDA	-10.0	-7.2	-75.0
Cash flow from operating activities	18.0	8.2	-44.3
Cash and cash equivalents. end of period	17.2	40.0	17.2
Available funds. incl. unused credit facilities	20.0	56.0	20.0

*Reported cost of goods sold in Q4 is impacted by an extraordinary write down of inventories 11.1 MDKK aligned with the decision to end of life certain products, and by 2.9 MDKK related to the divestiture of the Pandion product line.

Interim Consolidated Income Statement

DKK'000	4th quarter		YTD December	
	2018	2017	2018	2017
Revenue	53.997	47.898	106.153	206.046
Cost of goods sold	(31.793)	(22.025)	(57.060)	(66.611)
Gross profit	22.204	25.873	49.093	139.435
Other operating income	599	-	599	-
Research and development costs	(6.603)	(6.451)	(18.460)	(17.907)
Selling and distribution expenses	(15.257)	(17.724)	(66.735)	(71.420)
Administrative expenses	(10.899)	(8.855)	(39.469)	(36.223)
Operating profit before depreciation, amortisation and impairment (EBITDA)	(9.956)	(7.157)	(74.972)	13.885
Depreciation, amortisation and impairment	(52.023)	(9.359)	(107.558)	(37.755)
Operating result (EBIT)	(61.979)	(16.516)	(182.530)	(23.870)
Finance costs	(2.857)	5.900	(9.576)	(5.956)
Result before tax	(64.836)	(10.616)	(192.106)	(29.826)
Income tax	19.025	1.169	12.808	5.395
Result for the period	(45.811)	(9.447)	(179.298)	(24.431)

Interim Consolidated Cash Flow Statement

DKK'000	4th quarter		YTD December	
	2018	2017	2018	2017
Operating activities				
Loss before tax	(64.836)	(10.616)	(192.106)	(29.826)
Adjustments to reconcile profit before tax to net cash flows	65.735	4.130	138.959	45.117
Working capital adjustments	17.120	14.676	8.871	(2.585)
Cash flows from operating activities	18.019	8.190	(44.276)	12.706
Cash flow hedges in financial items	(5.435)	3.637	(7.454)	2.505
Interest paid	(371)	(580)	(1.552)	(861)
Income tax received, net	5.470	1.950	5.383	730
Net cash flows from operating activities	17.683	13.197	(47.899)	15.080
Net cash used in investing activities	(4.176)	(13.517)	(33.643)	(53.295)
Net cash flows (used in) / from financing activities	(3.575)	20.035	58.841	31.814
Net change in cash and cash equivalents	9.932	19.715	(22.701)	(6.401)
Net foreign exchange difference	87	(376)	(108)	(583)
Cash and cash equivalents at the beginning of the period	7.139	20.628	39.967	46.951
Cash and cash equivalents at the end of the period	17.158	39.967	17.158	39.967

Outlook

2019 Annual Guidance

- Revenue in the range of 150-180 MDKK (\$23-\$27.6M)
- Gross margin around 68%
- Operating expenses in the range of 115-125 MDKK
- Investments in development projects in the range of 20-25 MDKK
- Depreciation and amortization in the range of 20-25 MDKK

- Management focus in 2019 is to Stabilize and Grow from a solid foundation

Q&A Session



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