

NAPATECH
HALF-YEAR REPORT 2020



napa:tech;

DEAR SHAREHOLDERS

As a technology investor, you have to be a good interpreter; you must be able to translate the technology that a business is based on and apply the universal language of finance. When you put both of these together in context, you become *better informed*. As the CEO of a public tech company, I have always found that the best investor is an informed investor. I realize that Napatech's technology language is not always easy to interpret. As an introduction to reporting our strong 1H 2020 results, I am therefore devoting this letter to help our investors be more informed and make better sense of our results and our potential to succeed.

Our Technology Speeds Up and Apps and Services

Applications: Whether you use a laptop or smartphone, you know how to use computers. But it's the applications that we all use that brings the value of the computer to us humans. Just like the apps on your smartphone that make your life better, the lifeblood of every company worldwide are the mission-critical apps it uses to conduct business. Apps come in many forms but are often divided into groups. One group are the apps that help companies run their business more effectively, securely and efficiently. These apps span the gamut of billing and revenue accounting, customer or sales tracking, ordering systems, human resource management including apps that secure information and allow access to private or confidential information. Another group of apps help companies manage the performance of their networks that make apps run over the internet. Without secure network access to a company's mission-critical apps, a company's business will be at risk. Networking and cybersecurity apps are often complex compute-intensive apps that must run faster with an ever-increasing need for stronger cybersecurity, provide greater mobility with the massive move to 5G, and must accommodate the explosive growth of "the internet of things". Companies are investing more of their budgets to speed up and secure their apps so they may thrive in their markets.

Servers: Apps run on computers, or more accurately in the highly-networked world we live in, they run on servers. An enterprise or cloud data center is made up of many servers working together to run one or many apps. Servers are the "hardware" part of a data center or a cloud, so they have to be managed in the physical world. But they operate together as "software defined networks" allowing apps to run when and where they are best suited or most needed. A big challenge is that the hardware in data centers can get expensive. The footprint, the power and the cooling of an array of servers is costly. Consequently, the growth in network traffic and increasing sophistication of attack vectors is placing enormous strains on data centers capacities requiring the servers to run as efficiently as possible and scale up and down in performance to maximize efficiency and utilization. Companies are constantly looking for ways to reduce the number of servers needed, reducing the costs associated with the ever-growing numbers of servers deployed.

This is where Napatech is focuses to win. We build technology to help apps run better, faster and more securely by making the server more effective and powerful. That's why we focus on designing world-class FPGA-based SmartNICs, which fit into standard servers, to reduce the load on the server CPUs. Customers get better performance on their servers and provide better application performance and security to serve their customer's needs, all while lowering their total cost of ownership (TCO).

Our Business is Both a Growth Company and Profitable

Now let's turn our attention to the universal language of finance and accounting, a language our investors know very well. Of course, designing and delivering technology takes investment in time and money. But the goal has been to focus Napatech's unique core competencies in designing FPGA-based SmartNICs that solve real-world problems today and into the future in the data center or the cloud.

In 1H 2020, Napatech has been healthy, showing resiliency and strength in this unpredictable time. Napatech delivered strong results beating the objectives we communicated to our investors:

- Revenue in Q2 2020 increased 23% compared to Q2 2019.
- Gross margin in Q2 2020 was a healthy 75.2%.
- EBITDA in H1 2020 was positive DKK 15.7m, up from negative DKK 0.1m in 1H19.
- Free Cash Flow Q2 2020 was positive after a record year in 2019. In fact, Free Cash Flow was the highest in 1H 2020 compared to all years since going public on the Oslo Børs in 2013.

We are building a leverageable profitable business. We have been focused on growing revenue while managing operating costs, with a goal of building a leverageable business that generates cash and profit. The numbers speak for themselves, with revenues on the rise, while managing operating and capital expenses more efficiently, Napatech is fulfilling on this promise. As we execute on our current guided goals, we expect grow cash and profit.

We are participating in some of the broadest and fastest growing markets globally, many of which have been growing in the midst of a global pandemic. Industry analysts have reported that the smartNIC market will grow from less than \$400M in 2019 to \$1.6B by 2025 due to the expansion of investments in technology that accelerates applications, providing improvements in networking speed and efficiency and meeting the increased demand for more effective cybersecurity solutions. Those same industry analysts report that Napatech is the largest supplier of FPGA-based SmartNICs globally.

Our customer growth in 1H 2020 was strong. Our solutions attract the best-known companies globally; equipment manufacturers embedding our solutions as part of their product offering and end-user customers selecting us for data center projects that span multiple quarters. All of our customers chose Napatech's solutions to accelerate their key business applications around network monitoring, application performance, improvements in network security, and better performing financial services applications. Our customers selected Napatech because our solutions solve their urgent problems around application performance and acceleration and improves the efficiency of their networks and IT infrastructure.

Putting It All Together to Earn Your Investment

As we enter the second half of 2020, we believe our improved guidance is achievable, even in these dynamic times. We will diligently execute in this market to both capitalize on the benefits and minimize the negatives. We will focus on what we do best, bringing a world-class technology solution to the markets that need us now more than ever. We will do this with a focus on revenue growth, smart investments and an eye on profitability. We have a passionate goal to demonstrate our potential, with a good dose of pragmatism, so we can earn our investor's trust. And we will take the right risks, when presented, to capitalize on our potential to win.

In summary, Napatech is a global leader of FPGA-based SmartNICs focused on high-speed solutions for cloud, mobile, telecom and enterprises with a goal of putting a SmartNIC in every server requiring faster applications, better networking and more effective security applications. We will continue working hard growing a business built upon a solid foundation of FPGA-based SmartNIC and software technology excellence, with a progressive product strategy, and an improved go-to-market approach.

Best regards,

Ray Smets, Chief Executive Officer

MANAGEMENT'S REPORT

Highlights H1:

- Revenue in H1 2020 amounted to DKK 97.4m an increase of 25% compared to H1 2019.
- Gross margin in H1 2020 was 72.0% an increase of 0.9%-points compared to H1 2019.
- Staff costs and Other external costs in H1 2020 amounted to DKK 61.0m compared to DKK 61.7m in H1 2019.
- EBITDAC¹ in H1 2020 amounted to DKK 9.5m compared to negative DKK 6.3m in H1 2019.
- EBITDA in H1 2020 amounted to positive DKK 15.7m compared to negative DKK 0.1m in H1 2019.
- Depreciation, amortization, and impairment for H1 2020 were DKK 11.7m compared to DKK 12.7m in H1 2019.
- Net Cash flow from operating activities in H1 2020 was positive DKK 18.1m compared to positive DKK 11.2m in H1 2019.
- Net working capital end of H1 2020 amounted to DKK 13.6m compared to DKK 14.7m end of H1 2019 and DKK 28.2m end of 2019.
- Net cash used in investing activities in H1 2020 amounted to DKK 5.8m compared to DKK 6.5m in H1 2019.
- Cash and cash equivalents at the end of H1 2020 amounted to DKK 69.9m compared to DKK 64.3m at the end of 2019.

Highlights Q2:

- Revenue in Q2 2020 amounted to DKK 48.9m an increase of 23% compared to Q2 2019.
- Gross margin in Q2 2020 was 75.2% an increase of 2.6%-points compared to Q2 2019.
- Staff costs and Other external costs in Q2 2020 amounted to DKK 27.5m compared to DKK 30.5m in Q2 2019.
- EBITDAC in Q2 2020 amounted to positive DKK 9.4m compared to negative DKK 1.7m in Q2 2019.
- EBITDA in Q2 2020 amounted to positive DKK 11.8m compared to positive DKK 1.1m in Q2 2019.
- Depreciation, amortization, and impairment for Q2 2020 were DKK 5.9m compared to DKK 6.3m in Q2 2019.
- Net Cash flow from operating activities in Q2 2020 was positive DKK 14.7m compared to positive DKK 7.1m in Q2 2019.
- Net cash used in investing activities in Q2 2020 amounted to DKK 2.5m compared to DKK 2.9m in Q2 2019.

Key figures²:

(Figures in DKKm)	Q2 2020	Q2 2019	H1 2020	H1 2019
Revenue	48.9	39.6	97.4	77.9
Growth YoY	23%	60%	25%	66%
Gross Margin	75.2%	72.6%	72.0%	71.1%
EBITDAC	9.4	-1.7	9.5	-6.3
EBITDA	11.8	1.1	15.7	-0.1
Net Cash Flow from Operating Activities	14.7	7.1	18.1	11.2
Net Working Capital, end of period	13.6	14.7	13.6	14.7
Cash and cash equivalents, end of period	69.9	59.9	69.9	59.9

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.

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

¹ EBITDAC: Earnings before depreciation, amortization and impairment, and staff 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*H1*

Napatech reports revenue of DKK 97.4m in the first half of 2020 compared to DKK 77.9m in the same period in 2019, equivalent to an increase of 25%.

Gross margin in H1 2020 was 72.0% compared to 71.1% in H1 2019. Improvement in gross margin is due to a change in product mix.

Q2

Napatech reports revenue of DKK 48.9m in Q2 2020 compared to DKK 39.6m in the same period in 2019, equivalent to an increase of 23%.

Gross margin in Q2 2020 was 75.2% compared to 72.6% in Q2 2019.

Costs*H1*

Staff costs and Other external costs in H1 2020 amounted to DKK 61.0m, compared to DKK 61.7m in H1 2019.

Operating expenses after transfer of staff costs to capitalized development costs in H1 2020 amounted to DKK 54.8m, compared to DKK 55.5m in H1 2019.

Q2

Staff costs and Other external costs in Q2 2020 amounted to DKK 27.5m, compared to DKK 30.5m in Q2 2019.

Operating expenses after transfer of staff costs to capitalized development costs in Q2 2020 amounted to DKK 25.1m, compared to DKK 27.7m in Q2 2019.

EBITDAC and EBITDA*H1*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to DKK 9.5m in H1 2020 compared to negative DKK 6.3m in H1 2019.

EBITDA in H1 2020 was positive DKK 15.7m compared to negative DKK 0.1m in H1 2019.

Q2

EBITDAC amounted to positive DKK 9.4m in Q2 2020 compared to negative DKK 1.7m in Q2 2019.

EBITDA in Q2 2020 was positive DKK 11.8m compared to positive DKK 1.1m in Q2 2019.

Depreciation, amortization, and impairment*H1*

Depreciation, amortization, and impairment in H1 2020 were DKK 11.7m compared to DKK 12.7m in Q2 2019.

Q2

Depreciation, amortization, and impairment in Q2 2020 were DKK 5.9m compared to DKK 6.3m in Q2 2019.

Financial Items*H1*

Financial items for H1 2020 are negative DKK 1.3m compared to negative DKK 1.1m in H1 2019.

Q2

Financial items for Q2 2020 are negative DKK 1.2m compared to positive DKK 0.5m in Q2 2019.

Taxes*H1*

Taxes for H1 2020 amounted to negative DKK 0.2m compared to negative DKK 1.8m in H1 2019.

Q2

Taxes for Q2 2020 amounted to negative DKK 0.2m compared to positive DKK 0.5m in Q2 2019.

Investments*H1*

Total net cash used in investing activities in H1 2020 were DKK 5.8m and DKK 7.0m was invested in new product development. In H1 2019 total net cash used in investing activities were DKK 6.5m and which DKK 6.4m was invested in new product development.

Q2

Total net cash used in investing activities in Q2 2020 were DKK 2.5m and DKK 2.8m was invested in new product development. In Q2 2019 total net cash used in investing activities were DKK 2.9m and which DKK 2.9m was invested in new product development.

Cash Flow*H1*

Net cash flow from operating activities in H1 2020 was positive DKK 18.1m compared to positive DKK 11.2m in H1 2019.

Free cash flow in H1 2020 amounted to positive DKK 12.2m compared to positive DKK 4.7m in H1 2019.

Net cash from financing activities in H1 2020 was negative DKK 6.3m, compared to positive DKK 37.8m H1 2019.

Cash and cash equivalents end of H1 2020 was DKK 69.9m compared to DKK 64.3m at the end of 2019.

Q2

Net cash flow from operating activities in Q2 2020 was positive DKK 14.7m compared to positive DKK 7.1m in Q2 2019.

Free cash flow in the quarter amounted to positive DKK 12.2m compared to positive DKK 4.2m in Q2 2019.

Net cash from financing activities in Q2 2020 was negative DKK 5.8m, compared to positive DKK 12.9m in Q2 2019.

Changes in equity

The company's equity amounted to DKK 82.1m on June 30, 2020.

In H1 2020 equity was increased by comprehensive income by DKK 2.5m.

Shareholders and Share Information

Napatech as of June 30, 2020, had 83,068,220 shares, each with a nominal value of DKK 0.25. The share capital is DKK 20,767,055 divided among the 1,045 shareholders.

Investor	No. of shares	% of total	TYPE
VERDANE CAPITAL VIII K/S	22,613,618	27.22%	Ordinary
SUNDT AS	12,095,587	14.56%	Ordinary
LUDVIG LORENTZEN AS	6,000,000	7.22%	Ordinary
MP PENSJON PK	2,826,585	3.40%	Ordinary
BROWNSKE BEVEGELSER AS	2,621,498	3.16%	Ordinary
SILVERCOIN INDUSTRIES AS	2,506,468	3.02%	Ordinary
VERDIPAPIRFONDET STOREBRAND VEKST	2,279,926	2.74%	Ordinary
TIGERSTADEN AS	1,900,000	2.29%	Ordinary
SALINA HOLDING AS	1,777,998	2.14%	Ordinary
NORDNET BANK AB	1,723,421	2.07%	Nominee
PRIVATE INVESTOR	1,548,464	1.86%	Ordinary
DANSKE BANK A/S	1,498,817	1.80%	Nominee
AREPO AS	1,037,530	1.25%	Ordinary
MARSTAL AS	1,001,314	1.21%	Ordinary
NORDEA BANK ABP	1,000,544	1.20%	Nominee
ALTITUDE CAPITAL AS	972,297	1.17%	Ordinary
PRIVATE INVESTOR	888,988	1.07%	Ordinary
EXTELLUS AS	855,703	1.03%	Ordinary
INRO HOLDING AS	850,000	1.02%	Ordinary
THE BANK OF NEW YORK MELLON	750,000	0.90%	Nominee
Total number owned by top 20	66,748,758	80.34%	
Total 1025 other shareholders	16,319,462	19.66%	
Total Number of shares	83,068,220	100%	

Events after the end of the period

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

Outlook for 2020

Due to improvements in products margins and the company cost structure 2020 guidance is updated as follows:

Guidance	Previous	Updated
Revenue	DKK 185-205m	DKK 185-205m
Gross margin	68-72%	70-72%
Staff expenses & Other external costs	DKK 125-135m	DKK 120-125m
Transferred to capitalized development costs	DKK 15-20m	DKK 13-18m
Depreciation and amortization	DKK 20-25m	DKK 20-25m

With performance in the middle of the guided ranges, EBITDAC would be positive DKK 16.0m (original guidance: positive DKK 6.5m) and EBIT would be positive DKK 8.9m (original guidance: positive DKK 1.5m).

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.

As the current COVID-19 situation is unprecedented it causes increased uncertainty in customer demand and the Covid-19 situation can potentially have a negative impact on the outlook for 2020.

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.

MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have considered and adopted the interim report of Napatech Group for the period from January 1 to June 30, 2020

The interim report has been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU, and additional Danish interim reporting requirements for listed companies.

In our opinion, the interim report gives a true and fair view of the Group's assets, liabilities and financial position at June 30, 2020, and of the results of the Group's operations and cash flows for the period January 1 to June 30, 2020.

We find that the Management's commentary provides a fair statement of developments in the activities and financial situation of the Group, financial results for the period and the general financial position of the Group and describes the major risks and elements of uncertainty faced by the Group. The term Company below refers as well to the Group.

The interim report is unaudited and has not been reviewed by the company's auditors

Søborg, August 13, 2020

Executive Management



Ray Smets, CEO



Heine Thorsgaard, CFO

Board of Directors



Lars Boilesen, Chairman



Howard Bubb



Christian Jepsen



Henry Wasik

INCOME STATEMENT

For the period ended June 30, 2020

DKK'000	Note	2nd quarter		YTD June	
		2020	2019	2020	2019
Revenue	3	48,867	39,634	97,403	77,888
Cost of goods sold		(12,129)	(10,851)	(27,257)	(22,498)
Gross profit		36,738	28,783	70,146	55,390
Other operating income		168	-	339	2
Staff costs		(24,462)	(23,528)	(50,583)	(47,578)
Other external costs		(3,046)	(6,957)	(10,434)	(14,123)
EBITDAC		9,398	(1,702)	9,468	(6,309)
Transferred to capitalized development costs		2,397	2,826	6,206	6,196
EBITDA		11,795	1,124	15,674	(113)
Depreciation, amortization and impairment		(5,902)	(6,304)	(11,657)	(12,702)
Operating result (EBIT)		5,893	(5,180)	4,017	(12,815)
Finance income		(240)	7	28	7
Finance costs		(997)	(506)	(1,299)	(1,070)
Result before tax		4,656	(5,679)	2,746	(13,878)
Income tax		(219)	(488)	(219)	(1,779)
Result for the period		4,437	(6,167)	2,527	(15,657)

Earnings / (loss) per share:	4	2nd quarter		YTD June	
		2020	2019	2020	2019
Basic, DKK		0.05	(0.10)	0.03	(0.33)
Diluted, DKK		0.05	(0.09)	0.03	(0.32)

STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2020

DKK'000	YTD June	
	2020	2019
Result for the period	2,527	(15,657)
<i>Items that may be reclassified to profit and loss in subsequent periods:</i>		
Exchange differences on translation of foreign operations	(27)	63
Other comprehensive income after tax	(27)	63
Total comprehensive income	2,500	(15,594)

CASH FLOW STATEMENT

For the period ended June 30, 2020

DKK'000	2nd quarter		YTD June	
	2020	2019	2020	2019
Operating activities				
Loss before tax	4,656	(5,679)	2,746	(13,878)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	240	(7)	(28)	(7)
Finance costs	997	506	1,299	1,070
Depreciation, amortisation and impairment	5,902	6,304	11,657	12,702
Gain/loss on the sale of non-current assets	(168)	-	(339)	(2)
Share-based payment expense	594	331	1,101	670
Working capital adjustments				
Change in inventories	1,646	946	4,339	6,241
Change in trade and other receivables and contract assets	(3,732)	6,077	(6,036)	17,159
Change in trade and other payables, provisions and contract liabilities	5,060	732	4,024	(10,196)
Interest received	28	7	28	7
Interest paid	(230)	(347)	(426)	(772)
Income tax received, net	(312)	(1,789)	(312)	(1,778)
Net cash flows from operating activities	14,681	7,081	18,053	11,216
Investing activities				
Proceeds from sale of tangible assets	-	-	3	7
Purchase of tangible assets	(71)	(112)	(251)	(112)
Proceeds from sale of intangible assets	321	-	447	-
Investments in intangible assets	(2,777)	(2,855)	(6,954)	(6,426)
Investments in leasehold deposits	3	50	942	54
Net cash used in investing activities	(2,524)	(2,917)	(5,813)	(6,477)
Free cash flow	12,157	4,164	12,240	4,739
Financing activities				
Capital increase	-	19,020	-	58,863
Transaction costs on issue of shares	-	(2,967)	-	(3,241)
Payment of financial lease liabilities	(1,060)	(1,726)	(2,121)	(3,449)
Increase of borrowings	-	-	-	-
Repayment of borrowings	(4,709)	(1,415)	(4,205)	(14,351)
Net cash flows (used in) / from financing activities	(5,769)	12,912	(6,326)	37,822
Net change in cash and cash equivalents	6,388	17,076	5,914	42,561
Net foreign exchange difference	(106)	90	(278)	152
Cash and cash equivalents at the beginning of the period	63,660	42,706	64,306	17,159
Cash and cash equivalents at the end of the period	69,942	59,872	69,942	59,872

BALANCE SHEET**ASSETS**

DKK'000	Note	30 Jun. 2020	31 Dec. 2019	30 Jun. 2019
Development projects, completed		29.134	28.646	25.441
Development projects, in progress		5.211	8.089	10.975
Patents		4.137	4.426	4.688
Intangible assets	5	38.482	41.161	41.104
Plant and equipment		523	645	1.063
Right-of-use assets		10.891	12.415	14.383
Leasehold improvements		423	549	467
Tangible assets		11.837	13.609	15.913
Leasehold deposits		1.416	1.417	2.461
Other non-current assets		1.416	1.417	2.461
Non-current assets		51.735	56.187	59.478
Inventories		5.193	9.532	10.730
Trade receivables		21.542	23.523	10.492
Contract assets		3.609	31	514
Other receivables		9.527	6.150	11.255
Income tax receivable		3.055	2.961	5.500
Cash and cash equivalents		69.942	64.306	59.872
Current assets		112.868	106.503	98.363
Total assets		164.603	162.690	157.841

EQUITY AND LIABILITIES

DKK'000	Note	30 Jun. 2020	31 Dec. 2019	30 Jun. 2019
Share capital	6	20,767	20,767	20,767
Share premium		290,329	290,329	290,388
Foreign currency translation reserve		323	350	278
Other capital reserves		5,582	4,492	4,921
Retained earnings		(234,948)	(237,486)	(240,937)
Equity		82,053	78,452	75,417
Other non-current financial liabilities		12,486	9,016	13,471
Non-current lease liabilities		8,183	9,821	8,675
Non-current liabilities		20,669	18,837	22,146
Interest-bearing loans and borrowings		26,003	32,878	31,559
Other current financial liabilities		6,123	6,923	4,670
Current lease liabilities		3,524	3,791	5,807
Trade payables		2,219	2,932	1,578
Other payables		17,149	18,015	13,046
Provisions		1,419	531	126
Contract liabilities		5,444	331	3,492
Current liabilities		61,881	65,401	60,278
Total liabilities		82,550	84,238	82,424
Total equity and liabilities		164,603	162,690	157,841

STATEMENT OF CHANGES IN EQUITY

DKK'000	Share capital	Share premium	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
H1 2020						
Equity at January 1	20,767	290,329	350	4,492	(237,486)	78,452
Result for the period	-	-	-	-	2,527	2,527
Total other comprehensive income	-	-	(27)	-	-	(27)
Total comprehensive income for the period	-	-	(27)	-	2,527	2,500
Transactions with shareholders						
Reversal, exercised and lapsed options	-	-	-	(11)	11	-
Share-based payments	-	-	-	1,101	-	1,101
Equity at June 30	20,767	290,329	323	5,582	(234,948)	82,053
H1 2019						
Equity at January 1	7,981	247,552	215	4,971	(226,000)	34,719
Result for the period	-	-	-	-	(15,657)	(15,657)
Total other comprehensive income	-	-	63	-	-	63
Total comprehensive income for the period	-	-	63	-	(15,657)	(15,594)
Transactions with shareholders						
Issue of shares	12,786	46,077	-	-	-	58,863
Transaction costs	-	(3,241)	-	-	-	(3,241)
Reversal, exercised and lapsed options	-	-	-	(720)	720	-
Share-based payments	-	-	-	670	-	670
Equity at June 30	20,767	290,388	278	4,921	(240,937)	75,417
2019						
Equity at January 1	7,981	247,552	215	4,971	(226,000)	34,719
Result for the period	-	-	-	-	(13,601)	(13,601)
Total other comprehensive income	-	-	135	-	-	135
Total comprehensive income for the period	-	-	135	-	(13,601)	(13,466)
Transactions with shareholders						
Issue of shares	12,786	46,077	-	-	-	58,863
Transaction costs	-	(3,300)	-	-	-	(3,300)
Reversal, exercised and lapsed options	-	-	-	(2,115)	2,115	-
Share-based payments	-	-	-	1,636	-	1,636
Equity at December 31	20,767	290,329	350	4,492	(237,486)	78,452

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU and additional Danish disclosure requirements for listed companies.

The accounting policies are consistent with those applied to the consolidated financial statements for 2019.

The consolidated financial statements for 2019 contain a full description of accounting policies.

The interim consolidated financial statements

The interim consolidated financial statements comprise the parent company, Napatech A/S, and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition and/or incorporation, being the date on which the parent company obtains control, until the date when such control ceases. The interim financial statements of the subsidiaries are prepared for the same reporting period as the parent company interim financial statements, using consistent accounting policies. The interim consolidated financial statements are prepared as a consolidation of the parent company's and the subsidiaries' interim financial statements, eliminating all intra-group balances, transactions, unrealized gains and losses and dividends.

The interim consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, which are measured at fair value.

The interim consolidated financial statements are presented in thousand Danish kroner (DKK'000).

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES, AND ASSUMPTIONS

The preparation of the interim consolidated financial statements requires the management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities.

The accounting judgments, estimates, and assumptions that management make is the same for these interim consolidated financial statements as for the consolidated financial statements for 2019.

3. OPERATING SEGMENTS

The following tables present revenue and gross profit information about the Group's operating segments for H1 2020 and H1 2019, respectively:

H1 2020			
DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	75,597	21,806	97,403
Cost of goods sold	(22,125)	(5,132)	(27,257)
Segment gross profit	53,472	16,674	70,146

H1 2019			
DKK'000	AMERICAS	ROW	CONSOLIDATED
Revenue			
Total revenue	38,091	39,797	77,888
Cost of goods sold	(10,315)	(12,183)	(22,498)
Segment gross profit	27,776	27,614	55,390

Explanation of abbreviations:

AMERICAS = North & South America ROW = Rest of the World

The Group's revenue relates to a single product category (SmartNIC products) why management has assessed that no further firm-wide disclosures according to IFRS 15 are necessary.

Adjustments and eliminations

Research and development costs, selling and distribution expenses, administrative expenses, finance income, and costs are not allocated to individual segments as they are managed on a group basis. Current taxes and deferred taxes are not allocated to individual segments as they are also managed on a group basis.

4. EARNINGS PER SHARE

DKK'000	2nd quarter		YTD June	
	2020	2019	2020	2019
Net profit attributable to equity holders of the parent company for basic earnings and the effect of dilution	4,437	(6,167)	2,527	(15,657)

Thousands	2nd quarter		YTD June	
	2020	2019	2020	2019
Weighted average number of shares for basic earnings per share	83,068	63,432	83,068	47,678
Effect of dilution:				
Share options	3,561	1,752	3,561	1,752
Weighted average number of shares adjusted for the effect of dilution	86,629	65,184	86,629	49,430

5. INTANGIBLE ASSETS

DKK'000	Development projects, completed	Development projects, in progress	Patents	Other intangible assets	Total
Cost at 1 January 2019	240,938	33,307	10,315	2,139	286,699
Additions in the period	-	6,891	63	-	6,954
Transfers	9,769	(9,769)	-	-	-
Cost at 30 June 2020	250,707	30,429	10,378	2,139	293,653
Accumulated amortisation at 1 January 2019	212,292	25,218	5,889	2,139	245,538
Amortisation for the period	9,281	-	352	-	9,633
Accumulated amortisation and impairment 30 June 2020	221,573	25,218	6,241	2,139	255,171
Carrying amount at 30 June 2020	29,134	5,211	4,137	-	38,482

The annual impairment test for the intangible assets will be performed on 31 December 2020. As per 30 June 2020, the management has assessed, that there were no indications of impairment concerning the Group's intangible assets in the reporting period.

6. ISSUED SHARE CAPITAL AND RESERVES

Authorised shares	2020	2019
	Thousands	Thousands
Ordinary shares of DKK 0.25 each at 1 January	83,068	31,923
Increase in ordinary shares DKK 0.25 each	-	51,145
Ordinary shares of DKK 0.25 each at 30 June	83,068	83,068

7. COMMITMENTS AND CONTINGENCIES

Collaterals

The Group has issued a floating charge in the amount of DKK 30m secured on receivables, inventories, and equipment as collateral for bank debt

Napatech A/S

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

Phone: +45 4596 1500

www.napatech.com