

**NAPATECH**  
**4<sup>TH</sup> QUARTER 2019**  
INTERIM MANAGEMENT STATEMENT



nada:tech:

**MANAGEMENT'S REPORT****Highlights Full-year 2019:**

- Revenue in 2019 amounted to DKK 170.6m an increase of 61% compared to 2018.
- Adjusted for the discontinued Pandion business line the revenue growth on the continued operations is 97 % compared to 2018. Adjusted for special items in Q3 2018 the revenue growth on the continued operations is 61 %.
- Gross margin in 2019 was 74.5 % an increase of 28.3 %-points compared to 2018.
- Operating costs before capitalized development costs in 2019 amounted to DKK 125.8m compared to DKK 158.5m 2018.
- EBITDAC<sup>1</sup> in 2019 amounted to DKK 1.4m compared to negative DKK 108.8m 2018.
- EBITDA in 2019 amounted to positive DKK 15.3m compared to negative DKK 75m 2018.
- Depreciation, amortization, and impairment for in 2019 were DKK 25.4m compared to DKK 107.6m 2018.
- Net Cash flow from operating activities in 2019 was positive DKK 26.4m compared to negative DKK 47.9m 2018.
- Net working capital end of 2019 amounted to DKK 17.4m compared to DKK 28.2m end of 2018.
- Net cash used in investing activities in 2019 amounted to DKK 13.9m compared to DKK 33.6m 2018.
- Cash and cash equivalents at the end of 2019 amounted to DKK 64.3m compared to DKK 17.2m at the end of 2018.

**Highlights Q4:**

- Revenue in Q4 2019 amounted to DKK 54.0m an increase of 0% compared to Q4 2018. Adjusted for the discontinued Pandion business line the revenue growth on the continued operations is 36 %.
- Gross margin in Q4 2019 was 74.4 % an increase of 33.3 %-points compared to Q4 2018.
- Operating costs before capitalized development costs in Q4 2019 amounted to DKK 34.4m compared to DKK 38.7m in Q4 2018.
- EBITDAC in Q4 2019 amounted to positive DKK 5.8m compared to negative DKK 16.0m in Q4 2018.
- EBITDA in Q4 2019 amounted to positive DKK 10.2m compared to negative DKK 10.0m in Q4 2018.
- Depreciation, amortization, and impairment for Q4 2019 were DKK 6.6m compared to DKK 52m in Q4 2018.
- Net Cash flow from operating activities in Q4 2019 was positive DKK 15.1m compared to positive DKK 15.7m in Q4 2018.
- Net cash used in investing activities in Q4 2019 amounted to DKK 3.4m compared to DKK 4.2m in Q4 2018.

**Key figures:**

(Figures in MDKK)	Q4 2019	Q4 2018	2019	2018
Revenue	54.0	54.0	170.6	106.2
Growth YoY	0%	13%	61%	-48%
Revenue from continued operations	54.0	39.7	170.6	86.5
Growth YoY continued operations	36%	-15%	97%	-56%
Gross Margin	74.4%	41.1%	74.5%	46.2%
EBITDAC	5.8	-16.0	1.4	-108.8
EBITDA	10.2	-10.0	15.3	-75.0
Net Cash Flow from Operating Activities	15.1	15.7	26.4	-47.9

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

<sup>1</sup> EBITDAC: Earnings before depreciation, amortization and impairment, and cost transferred to development projects

**Revenue and Gross Margin***Full-year 2019*

Napatech reports revenue of DKK 170.6m in 2019 compared to DKK 106.2m in 2018, equivalent to an increase of 61%. Adjusted for the discontinued Pandion business line the revenue growth on the continued operations is 97 % compared to 2018. Adjusted for special items in Q3 2018 the revenue growth on the continued operations is 61 %.

Gross margin in 2019 was 74.5 % compared to 46.2 % in 2018. Improvement in gross margin is related to a change in product mix and as well as inventory write downs impacting 2018.

*Q4*

Napatech reports revenue of DKK 54.0m in Q4 2019 compared to DKK 54m in the same period in 2018. Adjusted for the discontinued Pandion business line the revenue growth on the continued operations is 36 %.

Gross margin in Q4 2019 was 74.4 % compared to 41.1 % in Q4 2018. Q4 2018 was impacted by an extraordinary write-down of inventories.

**Costs***Full-year 2019*

Operating expenses before the transfer of costs to capitalized development costs in 2019 amounted to DKK 125.8m, compared to DKK 158.5m in 2018. The change from 2018 is due to a number of cost savings initiatives implemented since summer 2018.

Operating expenses after transfer of costs to capitalized development costs in 2019 amounted to DKK 111.9m, compared to DKK 124.7m in 2018.

Implementation of IFRS 16 reduces Other external costs in 2019 by DKK 6.6m. 2018 figures are not adjusted for IFRS 16.

*Q4*

Operating expenses before the transfer of costs to capitalized development costs in Q4 2019 amounted to DKK 34.4m, compared to DKK 38.7m in Q4 2018.

Operating expenses after transfer of costs to capitalized development costs in Q4 2019 amounted to DKK 30.0m, compared to DKK 32.7m in Q4 2018.

**EBITDAC and EBITDA***Full-year 2019*

Earnings before interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to DKK 1.4m in 2019 compared to negative DKK 108.8m in 2018.

EBITDA in 2019 was positive DKK 15.3m compared to negative DKK 75.0m in 2018.

*Q4*

EBITDAC amounted to positive DKK 5.8m in Q4 2019 compared to negative DKK 16.0m in Q4 2018.

EBITDA in Q4 2019 was positive DKK 10.2m compared to negative DKK 10.0m in Q4 2018.

**Depreciation, amortization, and impairment***Full-year 2019*

Depreciation, amortization, and impairment in 2019 were DKK 25.4m compared to DKK 107.6m in 2018.

*Q4*

Depreciation, amortization, and impairment in Q4 2019 were DKK 6.6m compared to DKK 52.0m in Q4 2018.

**Financial Items***Full-year 2019*

Financial items in 2019 were negative DKK 4.2m compared to negative DKK 9.6m in 2018.

*Q4*

Financial items for Q4 2019 were negative DKK 4.0m compared to negative DKK 2.9m in Q4 2018.

**Taxes***Full-year 2019*

Taxes in 2019 amounted to an income of DKK 0.7m compared to an income of DKK 12.8m in 2018.

*Q4*

Taxes for Q4 2019 amounted to an income of DKK 2.6m compared to an income of DKK 19.0m in Q4 2018.

**Investments***Full-year 2019*

Total investments in 2019 were DKK 15.6m of which DKK 15.2m was related to new product development. In 2018 total investments were DKK 35.7m of which DKK 35.4m was related to new product development.

The change in capitalized product development reflects reductions of headcounts implemented since summer 2018, the divestment of the Pandion product group in Q4 2018 and an increased focus on research activities in 2019. Research activities are expensed as they occur.

*Q4*

Total investments in Q4 2019 were DKK 5.1m of which DKK 4.8m was related to new product development. In Q4 2018 total investments were DKK 6.3m of which DKK 6.2m was related to new product development.

**Cash Flow***Full-year 2019*

Net Cash flow from operating activities in 2019 was positive DKK 26.4m compared to negative DKK 47.9m 2018.

Net cash used in investing activities in 2019 was negative DKK 13.9m compared to negative DKK 33.6m in 2018.

Free cash flow in 2019 amounted to positive DKK 12.6m compared to negative DKK 81.5m in 2018.

Net cash from financing activities in 2019 was positive DKK 34.5m, compared to positive DKK 58.8m in 2018.

Cash and cash equivalents end of 2019 was DKK 64.3m compared to DKK 17.2m at the end of 2018.

*Q4*

Net Cash flow from operating activities in Q4 2019 was positive DKK 15.1m compared to positive DKK 15.7m in Q4 2018.

Net cash used in investing activities in Q4 2019 was negative DKK 3.4m compared to negative DKK 4.2m in Q4 2018.

Free cash flow in the quarter amounted to positive DKK 11.7m compared to positive DKK 11.5m in Q4 2018.

Net cash from financing activities in Q4 2019 was negative DKK m compared to positive DKK 2.9m in Q4 2018.

**Events after the end of the period**

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

**Outlook for 2020**

Napatech is required by Danish regulation to provide guidance on the coming financial year.

2020 guidance is the following:

<b>Guidance</b>	<b>2020</b>
Revenue	DKK 185-205m
Gross margin	68-72%
Staff expenses & Other external costs	DKK 125-135m
Transferred to capitalized development costs	DKK 15-20m
Depreciation and amortization	DKK 20-25m

With performance in the middle of the guided ranges, EBITDAC would be positive DKK 6.5m and EBIT would be 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.

**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, 2019

DKK'000	4th quarter		YTD December	
	2019	2018	2019	2018
<b>Revenue</b>	<b>54,013</b>	<b>53,997</b>	<b>170,607</b>	<b>106,153</b>
Cost of goods sold	(13,807)	(31,793)	(43,421)	(57,060)
<b>Gross profit</b>	<b>40,206</b>	<b>22,204</b>	<b>127,186</b>	<b>49,093</b>
Other operating income	17	493	19	599
Staff expenses and remuneration	(27,050)	(26,431)	(98,991)	(112,561)
Other external costs	(7,361)	(12,261)	(26,797)	(45,957)
<b>EBITDAC</b>	<b>5,812</b>	<b>(15,995)</b>	<b>1,417</b>	<b>(108,826)</b>
Transferred to capitalized development costs	4,375	6,039	13,856	33,854
<b>EBITDA</b>	<b>10,187</b>	<b>(9,956)</b>	<b>15,273</b>	<b>(74,972)</b>
Depreciation, amortization and impairment	(6,625)	(52,023)	(25,355)	(107,558)
<b>Operating result (EBIT)</b>	<b>3,562</b>	<b>(61,979)</b>	<b>(10,082)</b>	<b>(182,530)</b>
Finance income	403	-	443	-
Finance costs	(4,402)	(2,857)	(4,613)	(9,576)
<b>Result before tax</b>	<b>(437)</b>	<b>(64,836)</b>	<b>(14,252)</b>	<b>(192,106)</b>
Income tax	2,626	19,025	651	12,808
<b>Result for the period</b>	<b>2,189</b>	<b>(45,811)</b>	<b>(13,601)</b>	<b>(179,298)</b>

DKK'000	4th quarter		YTD December	
	2019	2018	2019	2018
Research and development expenses	(5,737)	(6,603)	(23,708)	(18,460)
Selling and distribution expenses	(10,998)	(15,257)	(47,466)	(66,735)
Administrative expenses	(13,301)	(10,793)	(40,758)	(39,469)
<b>OPEX</b>	<b>(30,036)</b>	<b>(32,653)</b>	<b>(111,932)</b>	<b>(124,664)</b>

**CASH FLOW STATEMENT**

For the period ended December 31, 2019

DKK'000	4th quarter		YTD December	
	2019	2018	2019	2018
<b>Operating activities</b>				
Result before tax	(437)	(64,836)	(14,252)	(192,106)
<b>Adjustments to reconcile profit before tax to net cash flows</b>				
Finance income	(403)	-	(443)	-
Finance costs	4,402	2,857	4,613	9,576
Depreciation, amortisation and impairment	6,625	52,023	25,355	107,558
Gain/loss on the sale of non-current assets	(17)	(599)	(19)	(599)
Non-cash changes in inventories	-	21,323	-	21,323
Share-based payment expense	510	340	1,636	1,101
<b>Working capital adjustments</b>				
Change in inventories	(306)	(1,100)	7,439	(2,170)
Change in trade and other receivables and contract assets	(781)	(4,768)	5,834	22,849
Change in trade and other payables, provisions and contract liabilities	431	12,779	(6,209)	(11,808)
Cash flow hedges in financial items	-	(7,454)	-	(7,454)
Interest received	117	-	157	-
Interest paid	(199)	(371)	(854)	(1,552)
Income tax received, net	5,165	5,470	3,191	5,383
<b>Net cash flows from operating activities</b>	<b>15,107</b>	<b>15,664</b>	<b>26,448</b>	<b>(47,899)</b>
<b>Investing activities</b>				
Proceeds from sale of tangible assets	17	126	24	126
Purchase of tangible assets	(283)	(34)	(510)	(461)
Proceeds from sale of intangible assets	1,732	1,979	1,732	1,979
Investments in intangible assets	(4,832)	(6,231)	(15,152)	(35,411)
Investments in leasehold deposits	(8)	(16)	49	124
<b>Net cash used in investing activities</b>	<b>(3,374)</b>	<b>(4,176)</b>	<b>(13,857)</b>	<b>(33,643)</b>
<b>Free cash flow</b>	<b>11,733</b>	<b>11,488</b>	<b>12,591</b>	<b>(81,542)</b>
<b>Financing activities</b>				
Capital increase	-	1,126	58,863	31,505
Transaction costs on issue of shares	-	(1,606)	(3,300)	(1,606)
Payment of financial lease liabilities	(751)	-	(5,815)	-
Increase of borrowings	740	3,424	-	28,942
Repayment of borrowings	-	-	(15,234)	-
<b>Net cash flows (used in) / from financing activities</b>	<b>(11)</b>	<b>2,944</b>	<b>34,514</b>	<b>58,841</b>
<b>Net change in cash and cash equivalents</b>	<b>11,722</b>	<b>14,432</b>	<b>47,105</b>	<b>(22,701)</b>
Net foreign exchange difference	(476)	2,107	42	(107)
Cash and cash equivalents at the beginning of the period	53,060	620	17,159	39,967
<b>Cash and cash equivalents at the end of the period</b>	<b>64,306</b>	<b>17,159</b>	<b>64,306</b>	<b>17,159</b>

**BALANCE SHEET****ASSETS**

	<b>31 Dec.</b>	<b>30 Sep.</b>	<b>31 Dec.</b>
<b>DKK'000</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>
Development projects, completed	28,646	21,584	29,773
Development projects, in progress	8,089	14,754	8,194
Patents	4,426	4,568	4,972
<b>Intangible assets</b>	<b>41,161</b>	<b>40,906</b>	<b>42,939</b>
Plant and equipment	645	841	1,932
Right-of-use assets	12,415	12,948	-
Leasehold improvements	549	409	605
<b>Tangible assets</b>	<b>13,609</b>	<b>14,198</b>	<b>2,537</b>
Leasehold deposits	1,417	2,464	2,407
<b>Other non-current assets</b>	<b>1,417</b>	<b>2,464</b>	<b>2,407</b>
<b>Non-current assets</b>	<b>56,187</b>	<b>57,568</b>	<b>47,883</b>
Inventories	9,532	9,226	16,971
Trade receivables	23,523	20,691	25,305
Contract assets	31	514	514
Other receivables	6,150	12,181	13,814
Income tax receivable	2,961	5,500	5,487
Cash and cash equivalents	64,306	53,060	17,159
<b>Current assets</b>	<b>106,503</b>	<b>101,172</b>	<b>79,250</b>
<b>Total assets</b>	<b>162,690</b>	<b>158,740</b>	<b>127,133</b>

**BALANCE SHEET****EQUITY AND LIABILITIES**

<b>DKK'000</b>	<b>31 Dec. 2019</b>	<b>30 Sep. 2019</b>	<b>31 Dec. 2018</b>
Share capital	20,767	20,767	7,981
Share premium	290,329	290,329	247,552
Foreign currency translation reserve	350	515	215
Other capital reserves	4,492	3,998	4,971
Retained earnings	(237,486)	(239,691)	(226,000)
<b>Equity</b>	<b>78,452</b>	<b>75,918</b>	<b>34,719</b>
Other non-current financial liabilities	9,016	14,083	13,391
Non-current lease liabilities	9,821	7,259	-
<b>Non-current liabilities</b>	<b>18,837</b>	<b>21,342</b>	<b>13,391</b>
Interest-bearing loans and borrowings	32,878	31,766	44,701
Other current financial liabilities	6,923	2,228	5,959
Current lease liabilities	3,791	5,819	-
Trade payables	2,932	1,947	11,099
Other payables	18,015	15,982	13,720
Provisions	531	126	69
Contract liabilities	331	3,612	3,475
<b>Current liabilities</b>	<b>65,401</b>	<b>61,480</b>	<b>79,023</b>
<b>Total liabilities</b>	<b>84,238</b>	<b>82,822</b>	<b>92,414</b>
<b>Total equity and liabilities</b>	<b>162,690</b>	<b>158,740</b>	<b>127,133</b>



## Napatech A/S

Tobaksvejen 23A, 1  
DK-2860 Søborg  
Denmark

Phone: +45 4596 1500

[www.napatech.com](http://www.napatech.com)