

NAPATECH
1ST QUARTER 2020
INTERIM MANAGEMENT STATEMENT



napa:tech;

DEAR SHAREHOLDERS

As we entered 2020, our business plan didn't anticipate a novel virus and a subsequent global pandemic. On the contrary, the markets Napatech served were healthy and flourishing. As more applications were being deployed as software running on open, standard servers in both the data center and the cloud, Napatech's focus accelerating and securing these applications seemed more needed than ever before, in what was seen as "normal times".

In came COVID-19. With it came a new set of challenges our customer markets have not seen before. Network and application demand-patterns shifted massively as government leaders ordered citizens to shelter-in-place, mandated the closure of millions of small businesses, and communicated strict social distancing strategies to slow down the rapid infection rate of the virus. These actions caused the largest and fastest shifts of the workforce seen in recent history, if ever. Many normal work-from-work employees were mandated to remotely work-from-home. Stay at home orders caused a dramatic shift of internet traffic from business centers to suburban locations as residents used video conferencing, media streaming and social networking as their only connections to the outside world for work, connecting with friends and family, or to just pass the time. These rapid shifts tested the resiliency of network and data center designs to handle new peak traffic patterns and higher levels of application and capacity demand. The rapid deployment of remote workers, who are highly dependent on enterprise-based applications to work seamlessly from anywhere, is straining VPN and application availability. Security outside of well architected firewalls is being challenged beyond their normal designs. Network operators were challenged to ensure capacity and to provide network and service assurance measurements as hotspots emerged. For now, this is the "new normal". Fortunately, Napatech has a set of solutions that support many of the challenges that are now being felt by our customers; improving network visibility, improving application performance and availability, and better security solutions.

Napatech has been able to stay healthy, showing resiliency and strength in this unpredictable time. In Q1, Napatech delivered a strong start to 2020 meeting and beating all of the objectives we communicated to our investors:

- Revenue in Q1 2020 increased 27% compared to Q1 2019.
- Gross margin in Q1 2020 was a healthy 68.8 %.
- EBITDA and EBITDAC, both important measures to track our progress towards profitability, were positive, and significantly up from the prior year.
- Free Cash Flow Q1 2020 was positive yet again, after a record year in 2019 where we delivered positive Free Cash Flow for the first time since the company IPO'd in 2013.

Putting our customers first and building shareholder value as our guiding principles, we have proactively focused on a series of pragmatic goals focusing our efforts on delivering new products, committing to stay true to our core competencies, and building momentum and growth by bringing best-in-class FPGA-based SmartNIC technology to solve real world problems.

Our customer growth in Q1 remained healthy. We continue to have recurring business from many existing well-known equipment companies embedding our products and solutions as part of their

product offering, as well as end-user customers selecting us in support of projects that span multiple quarters. Most importantly, new customer wins from equipment manufacturers and end users in this period remained strong. 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. And our customers selected Napatech over our competitors because our highly reliable solutions deliver great performance and results.

As we enter the second quarter of 2020, we will support our communities, customers, and employees when we are called upon as best as we can. Although we cannot control what we cannot control, we will maintain a pragmatic perspective on our business planning. But we won't slow down taking steps towards the future. We remain motivated to improve even further as our business activity accelerates or changes as the pandemic response evolves. We have executed carefully to proactively manage our supply chain so we can fulfill customer demand and mitigate any impact to forecasted revenue. We will remain resilient and productive going forward, as we did in Q1 if our employees have to work virtually for an extended period of time. We will do what we can to prepare for the ups and downs we may experience from this changing market, to both capitalize on the benefits and minimize the negatives.

As no one could predict this pandemic, what may happen to our markets throughout 2020 isn't yet clear. For Napatech, these new dynamics can create market opportunities. We enter this unpredictable time with a strong and stable business foundation and solid execution which we believe prepares us well for this "new normal". We will focus on what we do best, bringing a solution to our customers that they need now more than ever. We will remain committed to assisting our customers respond to the impacts associated with doing business in a world undergoing massive change. For now, Napatech feels the overall risk to our business in 1H20 is low, and we remain committed to our annual guidance that we communicated at the beginning of 2020.

In conclusion, we exited 2019 with the wind to our back after a successful turn-around year of good business execution. We kept our eye on the bottom line to use our cash and credit facilities wisely, which is a strategy that will serve us well in 2020. 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. We will carefully study how our customers respond to the impacts they are feeling in the "new normal" and we commit to our shareholders to remain transparent, focused on our objectives, and with an eye on the future.

Best regards,

Ray Smets, Chief Executive Officer

MANAGEMENT'S REPORT**Highlights Q1:**

- Revenue in Q1 2020 amounted to DKK 48.5m an increase of 27% compared to Q1 2019.
- Gross margin in Q1 2020 was 68.8 % a decline of -0.8 %-points compared to Q1 2019.
- Staff costs and Other external costs in Q1 2020 amounted to DKK 33.5m compared to DKK 31.2m in Q1 2019. Staff costs in Q1 are impacted by a non-cash related additional cost of app. DKK 2m compared to last year due to the implementation of the new holiday act in Denmark.
- EBITDAC in Q1 2020 amounted to positive DKK 0.1m compared to negative DKK 4.6m in Q1 2019.
- EBITDA in Q1 2020 amounted to positive DKK 3.9m compared to negative DKK 1.2m in Q1 2019.
- Depreciation, amortization, and impairment for Q1 2020 were DKK 5.8m compared to DKK 6.4m in Q1 2019.
- Net Cash flow from operating activities in Q1 2020 was positive DKK 3.4m compared to positive DKK 4.1m in Q1 2019.
- Net cash used in investing activities in Q1 2020 amounted to DKK 3.3m compared to DKK 3.6m in Q1 2019.

Key figures¹:

(Figures in MDKK)	Q1 2020	Q1 2019
Revenue	48.5	38.3
Growth YoY	27%	72%
Gross Margin	68.8%	69.6%
EBITDAC	0.1	-4.6
EBITDA	3.9	-1.2
Net Cash Flow from Operating Activities	3.4	4.1
Net Working Capital, end of period	17.8	22.8
Cash and cash equivalents, end of period	63.7	42.7

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 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**Q1**

Napatech reports revenue of DKK 48.5m in Q1 2020 compared to DKK 38.3m in the same period in 2019, equivalent to an increase of 27%.

Gross margin in Q1 2020 was 68.8 % compared to 69.6 % in Q1 2019.

Costs**Q1**

Staff costs and Other external costs in Q1 2020 amounted to DKK 33.5m, compared to DKK 31.2m in Q1 2019. Staff costs in Q1 are impacted by a non-cash related additional cost of app. DKK 2m compared to last year due to the implementation of the new holiday act in Denmark.

Operating expenses after transfer of costs to capitalized development costs in Q1 2020 amounted to DKK 29.7m, compared to DKK 27.8m in Q1 2019.

EBITDAC and EBITDA**Q1**

EBITDAC amounted to positive DKK 0.1m in Q1 2020 compared to negative DKK 4.6m in Q1 2019.

EBITDA in Q1 2020 was positive DKK 3.9m compared to negative DKK 1.2m in Q1 2019.

Depreciation, amortization, and impairment**Q1**

Depreciation, amortization, and impairment in Q1 2020 were DKK 5.8m compared to DKK 6.4m in Q1 2019.

Financial Items**Q1**

Financial items for Q1 2020 were negative DKK 0.1m compared to negative DKK 0.6m in Q1 2019.

Taxes**Q1**

Taxes for Q1 2020 amounted to DKK 0m compared to negative DKK 1.3m in Q1 2019.

Investments**Q1**

Total investments in Q1 2020 were DKK 3.4m of which DKK 4.2m was related to new product development. In Q1 2019 total investments were DKK 3.6m of which DKK 3.6m was related to new product development.

Cash Flow**Q1**

Net Cash flow from operating activities in Q1 2020 was positive DKK 3.4m compared to positive DKK 4.1m in Q1 2019.

Net cash used in investing activities in Q1 2020 was negative DKK 3.3m compared to negative DKK 3.6m in Q1 2019.

Free cash flow in the quarter amounted to positive DKK 0.1m compared to positive DKK 0.6m in Q1 2019.

Net cash from financing activities in Q1 2020 was negative DKK 0.6m compared to positive DKK 24.9m in Q1 2019.

Outlook for 2020

2020 guidance remains unchanged:

Guidance	2020
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 March 31, 2020

DKK'000	YTD March	
	2020	2019
Revenue	48,536	38,254
Cost of goods sold	(15,128)	(11,647)
Gross profit	33,408	26,607
Other operating income	171	2
Staff costs	(26,121)	(24,050)
Other external costs	(7,388)	(7,166)
EBITDAC	70	(4,607)
Transferred to capitalized development costs	3,809	3,370
EBITDA	3,879	(1,237)
Depreciation, amortization and impairment	(5,755)	(6,398)
Operating result (EBIT)	(1,876)	(7,635)
Finance income	268	-
Finance costs	(302)	(564)
Result before tax	(1,910)	(8,199)
Income tax	-	(1,291)
Result for the period	(1,910)	(9,490)

CASH FLOW STATEMENT

For the period ended March 31, 2020

DKK'000	YTD March	
	2020	2019
Operating activities		
Loss before tax	(1,910)	(8,199)
Adjustments to reconcile profit before tax to net cash flows		
Finance income	(268)	-
Finance costs	302	564
Depreciation, amortisation and impairment	5,755	6,398
Gain/loss on the sale of non-current assets	(171)	(2)
Share-based payment expense	507	339
Working capital adjustments		
Change in inventories	2,693	5,295
Change in trade and other receivables and contract assets	(2,304)	11,082
Change in trade and other payables, provisions and contract liabilities	(1,036)	(10,928)
Interest paid	(196)	(425)
Income tax received, net	-	11
Net cash flows from operating activities	3,372	4,135
Investing activities		
Proceeds from sale of tangible assets	3	7
Purchase of tangible assets	(180)	-
Proceeds from sale of intangible assets	126	-
Investments in intangible assets	(4,177)	(3,571)
Investments in leasehold deposits	939	4
Net cash used in investing activities	(3,289)	(3,560)
Free cash flow	83	575
Financing activities		
Capital increase	-	39,843
Transaction costs on issue of shares	-	(274)
Payment of financial lease liabilities	(1,061)	(1,723)
Increase of borrowings	3,292	-
Repayment of borrowings	(2,788)	(12,936)
Net cash flows (used in) / from financing activities	(557)	24,910
Net change in cash and cash equivalents	(474)	25,485
Net foreign exchange difference	(172)	62
Cash and cash equivalents at the beginning of the period	64,306	17,159
Cash and cash equivalents at the end of the period	63,660	42,706

BALANCE SHEET**ASSETS**

	31 Mar.	31 Dec.	31 Mar.
DKK'000	2020	2019	2019
Development projects, completed	25,141	28,646	29,425
Development projects, in progress	11,191	8,089	8,149
Patents	4,293	4,426	4,819
Intangible assets	40,625	41,161	42,393
Plant and equipment	606	645	1,379
Right-of-use assets	11,659	12,415	16,074
Leasehold improvements	485	549	527
Tangible assets	12,750	13,609	17,980
Leasehold deposits	1,419	1,417	2,411
Other non-current assets	1,419	1,417	2,411
Non-current assets	54,794	56,187	62,784
Inventories	6,839	9,532	11,676
Trade receivables	23,591	23,523	15,356
Contract assets	3,609	31	514
Other receivables	5,075	6,150	12,716
Income tax receivable	2,961	2,961	4,195
Cash and cash equivalents	63,660	64,306	42,706
Current assets	105,735	106,503	87,163
Total assets	160,529	162,690	149,947

BALANCE SHEET**EQUITY AND LIABILITIES**

	31 Mar. 2020	31 Dec. 2019	31 Mar. 2019
DKK'000			
Share capital	20,767	20,767	16,600
Share premium	290,329	290,329	278,502
Foreign currency translation reserve	476	350	419
Other capital reserves	4,988	4,492	4,614
Retained earnings	(239,367)	(237,486)	(234,864)
Equity	77,193	78,452	65,271
Other non-current financial liabilities	11,192	9,016	13,648
Non-current lease liabilities	8,881	9,821	10,151
Non-current liabilities	20,073	18,837	23,799
Interest-bearing loans and borrowings	31,858	32,878	31,460
Other current financial liabilities	6,271	6,923	6,007
Current lease liabilities	3,799	3,791	5,984
Trade payables	3,640	2,932	1,672
Other payables	11,656	18,015	12,096
Provisions	587	531	133
Contract liabilities	5,452	331	3,525
Current liabilities	63,263	65,401	60,877
Total liabilities	83,336	84,238	84,676
Total equity and liabilities	160,529	162,690	149,947

Napatech A/S

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

Phone: +45 4596 1500

www.napatech.com