



NAPATECH  
1<sup>ST</sup> QUARTER 2024  
INTERIM MANAGEMENT STATEMENT

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## MANAGEMENT'S REPORT

Having just completed my first quarter as CEO at Napatech and as a member of the management team, I have been inspired by what is taking place, and I am pleased to report that the company continues to make progress on its path towards transformational growth. We have begun 2024 according to plan and expectations, both on the financial metrics of our operating plan, and more importantly in reaching key mileposts of our strategy that strengthened our position in the growth market we are addressing.

Napatech is a leading global provider of Programmable NICs, including 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.

Our strategy remains anchored in three areas. First, servicing our valuable customers who are early adopters of Programmable NICs. They are a proving-ground for the technology and the value that our solutions bring to their networks and businesses. 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.

I would like to share a few highlights from the start of 2024 that give us confidence we are executing upon our strategy:

- On April 18 Napatech announced a collaboration with Altera, an Intel company, on the detailed specifications of the Hot Springs Canyon architecture for 400G IPUs. The collaboration develops new programmable NIC hardware and software solutions based on an architecture that promises to enable an innovative approach to powering modern public cloud, private cloud, edge, and enterprise data centers built for the era of artificial intelligence. The new solution is purpose-built for the highest growth and largest volume applications, services and use-cases for Programmable NICs. These include modern cloud and edge computing applications and services, artificial intelligence infrastructure, disaggregated storage, big data analytics, cybersecurity, 5G mobile infrastructure, and microservices.
- Next, we disclosed that the product designs with Intel/Altera were developed in partnership with a tier-1, global server OEM that continues to lead in enterprise and cloud data center deployments. The product is packed with the latest technology from Intel/Altera and is designed with optimizations to meet the exact requirements of the server manufacturer. The collaboration is anchored by commercial agreements, associated statements of work that define the product specifications, and professional services fees from both companies to Napatech. The collaboration includes these significant contributions, reflecting the shared commitment required to expedite the underlying engineering to deliver products in the second half of 2024.
- As a result of these partnerships, the full potential is at the largest end of the spectrum for transformational growth that Napatech envisioned. At peak annual volumes, this single opportunity alone has the potential to transform Napatech's long-term revenue and profits. Consequently, we are maintaining our target of 4-6 design wins, while increasing our guidance from 30,000-40,000 units to 50,000-60,000 units in peak annual production years.
- We also disclosed important partnerships with companies including Amantya, Hyperblox, A5G, Saviah and Supermicro who are providing solutions for 5G infrastructure and artificial intelligence and machine learning. These valuable partnerships enhance our go-to-market strategy taking Napatech products to customers beyond our reach.
- In support of these significant steps forward with our current customers and expanding design-win pipeline, Napatech announced and successfully completed a private placement capital raise on May 7, 2024. Napatech offered 9,000,000 shares at a subscription price of NOK 25.00 – above the market price at the time. The Private Placement was significantly oversubscribed and attracted interest from high-quality accounts, as well as receiving strong support from existing shareholders. ABG Sundal Collier ASA and SpareBank 1 Markets AS served as managers of the Private Placement. The net proceeds will be used to finance the growth opportunity arising from the announced partnerships resulting in the increased guidance, including hiring of more developers and working capital requirements in connection with increased production.
- And finally, we have reaffirmed our financial outlook for 2024

Our financial results for the first quarter of 2024 were largely according to plan. The start of the year was expected to be slower than normal primarily because one of our largest customers is continuing an inventory correction to deplete a covid-driven safety stock that is expected to be completed through the first half of 2024. In addition, March order flow was unexpectedly slow, driven by one large customer purchase that was deferred into 2Q 2024. This order has already been received. Our financial results included revenues of DKK 21.5 million, or \$3.1M USD, and gross margins of 72%.

The remainder of the year holds exciting projects, groundbreaking developments, and collaborative business opportunities that will push the boundaries of what we can achieve. With your continued support, we are poised to make Napatech's future even brighter.

Best regards,

Lars Boilesen  
Chief Executive Officer

## Highlights Q1:

- Revenue in USD amounted to 3.1m in Q1 2024, a decline of 41% compared to Q1 2023. In DKK, revenue amounted to DKK 21.5m in Q1 2024, a decline of 42% compared to Q1 2023.
- The gross margin in Q1 2024 was 72%, an increase of 17%-points compared to Q1 2023.
- Staff costs and Other external costs in Q1 2024 amounted to DKK 40.6m compared to DKK 38.4m in Q1 2023.
- EBITDAC<sup>1</sup> in Q1 2024 amounted to negative DKK 25.2m compared to negative DKK 17.9m in Q1 2023.
- EBITDA in Q1 2024 amounted to negative DKK 24.3m compared to negative DKK 12.8m in Q1 2023.
- Depreciation, amortization, and impairment for Q1 2024 were DKK 7.9m compared to DKK 7.7m in Q1 2023.
- Net Cash flow from operating activities in Q1 2024 was negative DKK 5.4m compared to positive DKK 23.3m in Q1 2023.
- Net cash used in investing activities in Q1 2024 amounted to DKK 1.0m compared to DKK 6.1m in Q1 2023.

## Key figures<sup>2</sup>:

	Q1 2024	Q1 2023
Revenue USD m	3.1	5.3
Growth YoY USD m	-41%	-32%
Revenue DKK m	21.5	37.1
Growth YoY DKK m	-42%	-29%
Gross Margin	72%	55%
EBITDAC DKK m	-25.2	-17.9
EBITDA DKK m	-24.3	-12.8
Net Cash Flow from Operating Activities DKK m	-5.4	23.3
Net Working Capital, end of period DKK m	48.8	19.7
Cash and cash equivalents, end of period DKK m	27.5	12.3

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

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

<sup>2</sup> 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 and 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 21.5m in Q1 2024 compared to DKK 37.1m in the same period in 2023, equivalent to a decline of 42%. In USD, revenue was down 41% compared to Q1 2023.

The gross margin in Q1 2024 was 72% compared to 55% in Q1 2023.

### Costs

#### Q1

Staff costs and Other external costs in Q1 2024 amounted to DKK 40.6m, compared to DKK 38.4m in Q1 2023.

Operating expenses after transfer of staff costs to capitalized development costs in Q1 2024 amounted to DKK 39.7m, compared to DKK 33.3m in Q1 2023.

## EBITDAC and EBITDA

### Q1

EBITDAC amounted to negative DKK 25.2m in Q1 2024 compared to negative DKK 17.9m in Q1 2023.

EBITDA in Q1 2024 was negative DKK 24.3m compared to negative DKK 12.8m in Q1 2023.

## Depreciation, amortization, and impairment

### Q1

Depreciation, amortization, and impairment in Q1 2024 were DKK 7.9m compared to DKK 7.7m in Q1 2023.

## Financial Items

### Q1

Financial items for Q1 2024 are positive DKK 0.1m compared to negative DKK 1.0m in Q1 2023.

## Taxes

### Q1

Taxes for Q1 2024 amounted to a cost of DKK 0.0m compared to a cost of DKK 0.0m in Q1 2023.

## Investments

### Q1

Total net cash used in investing activities in Q1 2024 was DKK 1.0m, of which DKK 1.0m were related to new product development. In Q1 2023 total net cash used in investing activities was DKK 6.1m, of which DKK 6.0m was related to new product development.

## Cash Flow

### Q1

Net cash flow from operating activities in Q1 2024 was negative DKK 5.4m compared to positive DKK 23.3m in Q1 2023.

Free cash flow in the quarter amounted to negative DKK 6.4m compared to positive DKK 17.2m in Q1 2023.

Net cash from financing activities in Q1 2024 was negative DKK 8.4m, compared to negative DKK 16.3m in Q1 2023.

## Outlook for 2024

The 2024 guidance remains unchanged:

	Guidance
Revenue	DKK 170-180m
Gross margin	69-71%
Staff expenses & Other external costs	DKK 145-155m
Staff costs transferred to capitalized development costs	DKK 10-15m

With performance in the middle of the guided ranges, EBITDA would be negative DKK 15m.

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, 2024

DKK'000	1st quarter	
	2024	2023
<b>Revenue</b>	<b>21,542</b>	<b>37,096</b>
Cost of goods sold	(6,112)	(16,566)
<b>Gross profit</b>	<b>15,430</b>	<b>20,530</b>
Other operating income	-	-
Staff costs	(27,758)	(29,456)
Other external costs	(12,836)	(8,966)
<b>EBITDAC</b>	<b>(25,164)</b>	<b>(17,892)</b>
Transferred to capitalized development costs	849	5,079
<b>EBITDA</b>	<b>(24,315)</b>	<b>(12,813)</b>
Depreciation, amortization and impairment	(7,944)	(7,726)
<b>Operating result (EBIT)</b>	<b>(32,259)</b>	<b>(20,539)</b>
Finance income	833	3
Finance costs	(757)	(1,028)
<b>Result before tax</b>	<b>(32,183)</b>	<b>(21,564)</b>
Income tax	(2)	(7)
<b>Result for the period</b>	<b>(32,185)</b>	<b>(21,571)</b>

## CASH FLOW STATEMENT

For the period ended March 31, 2024

DKK'000	1st quarter	
	2024	2023
<b>Operating activities</b>		
Income/Loss before tax	(32,183)	(21,564)
<b>Adjustments to reconcile profit before tax to net cash flows</b>		
Finance income	(833)	(3)
Finance costs	757	1,028
Depreciation, amortisation and impairment	7,944	7,726
Share-based payment expense	2,014	862
<b>Working capital adjustments</b>		
Change in inventories	(17,345)	(1,548)
Change in trade and other receivables and prepayments	26,656	38,345
Change in trade and other payables and contract liabilities	7,911	(1,180)
Interest received	65	3
Interest paid	(423)	(419)
Income tax received, net	(1)	-
<b>Net cash flows from operating activities</b>	<b>(5,438)</b>	<b>23,250</b>
<b>Investing activities</b>		
Purchase of tangible assets	-	(48)
Investments in intangible assets	(1,009)	(6,030)
<b>Net cash used in investing activities</b>	<b>(1,009)</b>	<b>(6,078)</b>
<b>Free cash flow</b>	<b>(6,447)</b>	<b>17,172</b>
<b>Financing activities</b>		
Capital increase	120	-
Increase (decrease) through treasury share transactions	1,491	64
Payment of financial lease liabilities	(873)	(758)
Repayment of borrowings	(9,172)	(15,639)
<b>Net cash flows from financing activities</b>	<b>(8,434)</b>	<b>(16,333)</b>
<b>Net change in cash and cash equivalents</b>	<b>(14,881)</b>	<b>839</b>
Net foreign exchange difference	32	(524)
Cash and cash equivalents at the beginning of the period	42,367	11,962
<b>Cash and cash equivalents at the end of the period</b>	<b>27,518</b>	<b>12,277</b>

## BALANCE SHEET

### ASSETS

DKK'000	31 Mar. 2024	31 Dec. 2023	31 Mar. 2023
Development projects, completed	30,569	36,601	48,107
Development projects, in progress	3,235	2,226	5,428
Patents	1,567	1,715	2,186
<b>Intangible assets</b>	<b>35,371</b>	<b>40,542</b>	<b>55,721</b>
Plant and equipment	3,500	4,390	4,799
Right-of-use assets	7,066	7,881	4,006
Leasehold improvements	259	316	555
<b>Tangible assets</b>	<b>10,825</b>	<b>12,587</b>	<b>9,360</b>
Leasehold deposits	1,541	1,541	1,397
<b>Other non-current assets</b>	<b>1,541</b>	<b>1,541</b>	<b>1,397</b>
<b>Non-current assets</b>	<b>47,737</b>	<b>54,670</b>	<b>66,478</b>
Inventories	52,917	35,572	40,402
Trade receivables	14,241	37,586	20,042
Prepayments	2,507	2,335	1,931
Other receivables	13,317	15,880	8,798
Income tax receivable	5,895	5,885	5,500
Cash and cash equivalents	27,518	42,367	12,277
<b>Current assets</b>	<b>116,395</b>	<b>139,625</b>	<b>88,950</b>
<b>Total assets</b>	<b>164,132</b>	<b>194,295</b>	<b>155,428</b>

## BALANCE SHEET

### EQUITY AND LIABILITIES

DKK'000	31 Mar. 2024	31 Dec. 2023	31 Mar. 2023
Share capital	22,571	22,544	20,774
Share premium	343,255	343,064	290,466
Treasury shares	(619)	(2,110)	(2,456)
Foreign currency translation reserve	(7)	(271)	(51)
Other capital reserves	12,482	10,707	10,615
Retained earnings	(294,455)	(262,224)	(252,085)
<b>Equity</b>	<b>83,227</b>	<b>111,710</b>	<b>67,263</b>
Interest-bearing loans and borrowings	8,601	8,601	9,758
Other non-current financial liabilities	4,433	4,433	4,568
Non-current lease liabilities	4,035	4,854	1,271
Non-current contract liabilities	3,153	3,048	3,744
<b>Non-current liabilities</b>	<b>20,222</b>	<b>20,936</b>	<b>19,341</b>
Interest-bearing loans and borrowings	26,332	35,504	18,131
Current lease liabilities	3,285	3,282	2,951
Trade payables	10,243	5,727	11,409
Other payables	14,063	12,495	8,696
Contract liabilities	6,760	4,641	27,637
<b>Current liabilities</b>	<b>60,683</b>	<b>61,649</b>	<b>68,824</b>
<b>Total liabilities</b>	<b>80,905</b>	<b>82,585</b>	<b>88,165</b>
<b>Total equity and liabilities</b>	<b>164,132</b>	<b>194,295</b>	<b>155,428</b>



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