

napatech

napa:tech;
RECONFIGURABLE COMPUTING

Q1 2020 Presentation

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Q&A Session at the end of the presentation

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Q1 2020 Management Statement Topics

- Q1 2020 Business Highlights
- COVID-19 Perspective and Response
- Q1 2020 Financial Results
- 2020 Outlook
- Q&A

Q1 2020 Business Highlights

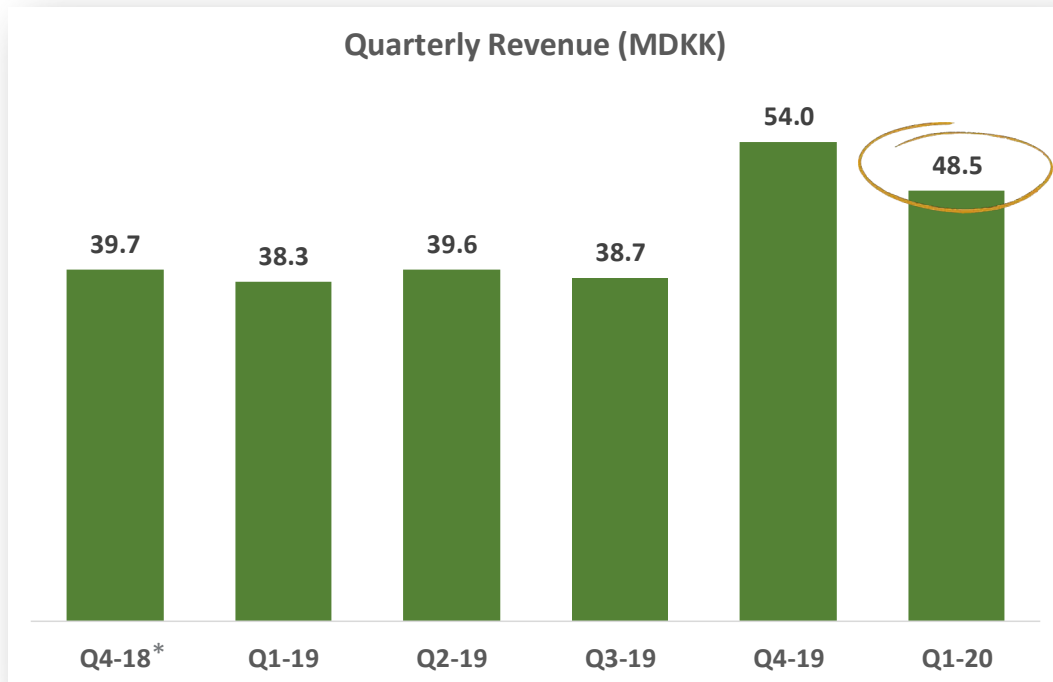
Strong Start to 2020

- ✓ Q1 2020 YoY Revenue Growth **+27%**
- ✓ Solid Gross Margins of **68.8%**
- ✓ Free Cash Flow **Positive**
- ✓ EBITDAC **Positive** and **On-Track** for 2020
- ✓ COVID-19 Preparedness and Response is Well Managed
- ✓ New Link™ Virtualization Software Product Launched

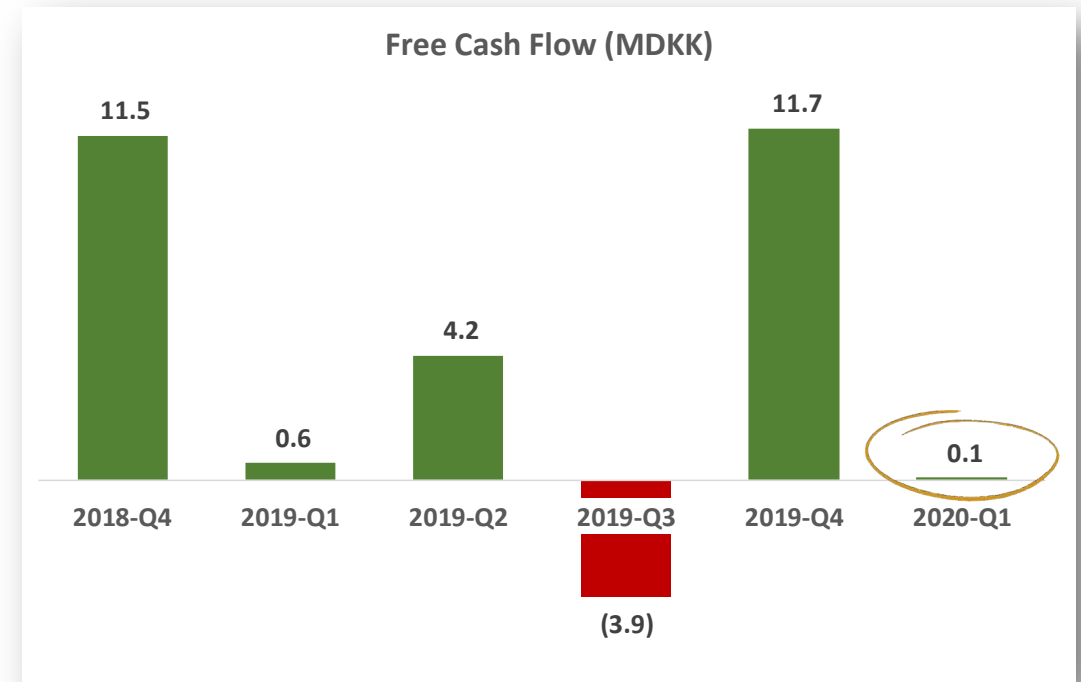
Napatech Delivers Revenue Growth and Positive Free Cash Flow



Revenue over the last 6 quarters demonstrate the underlying strength and stability of Napatech's business



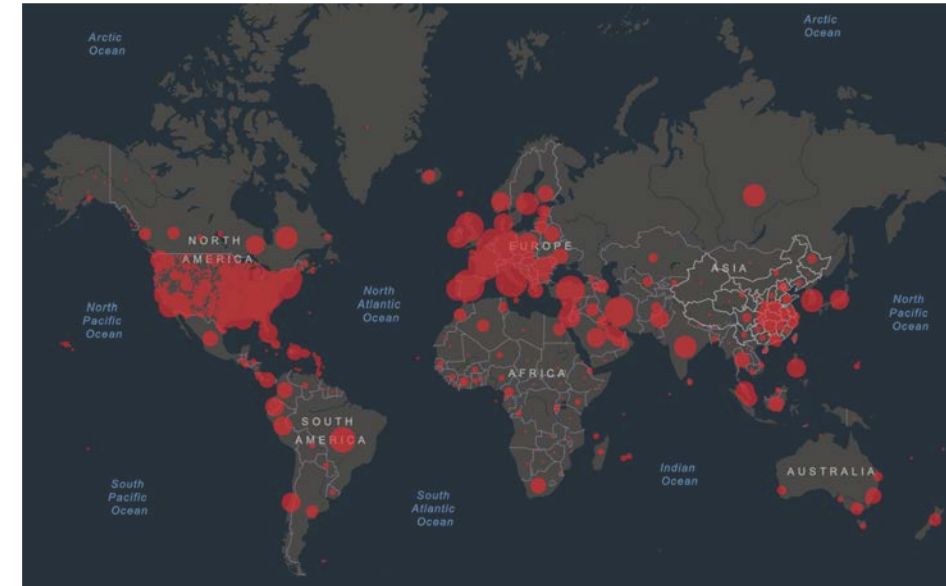
Positive net Free Cash Flow over the last 6 quarters demonstrates solid execution and positive progress towards profit



*Continued operations

COVID-19 Preparedness and Impact

- Product Deliveries are **On-Track**
 - *Napatech productivity is preserved with proactive and well executed WFH efforts*
 - *Software deliveries continue as planned*
 - *Hardware manufacturing is protected as "essential business" at US-based factory*
- Supply Chain Measures **Engaged** Since January 2020
 - *Working Capital strategically deployed to secure supply and ensure revenue*
 - *Purchasing component supply through Q3 forecast, some delays experienced*
 - *China-based component suppliers are delivering on schedule through Q2*



COVID-19 Preparedness and Impact *cont'd*

- Target Market Impact Being **Tracked & Evaluated**

- *Large rapid shifts in Network demand* put pressure on capacity and performance
- *Rapid swing of workforce* from office to home increases dependency on *Application availability* and performance



- Meeting Customer Demand **Prioritized**

- 1H'20 risks to meet product demand are *estimated to be low*
- 2H'20 impacts are still under evaluation due to lack of clarity from COVID-19
- No change to current 2020 guidance

COVID-19 Impact on Customer Markets is Mixed

Tailwinds

- Spike in demand for cloud services
 - Video streaming
 - Cloud gaming
 - Remote working
 - Cost saving
- Increased demand on telecom networks

Headwinds

- Lower enterprise IT spend due to revenue impact from the pandemic
- DC operation staff impacted by travel restrictions
- Uncertainty prolongs decision cycles
- Global supply chain is strained

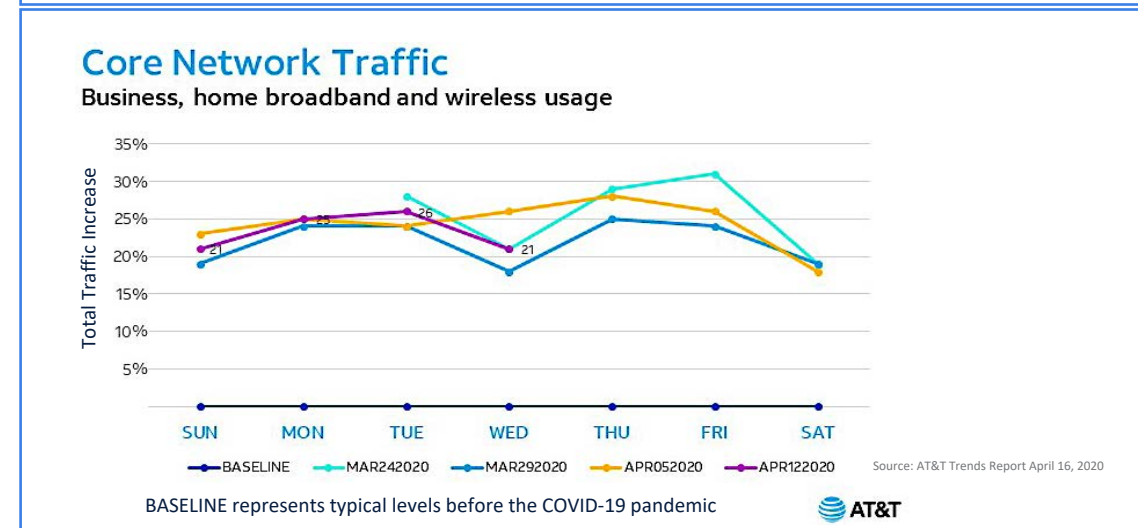
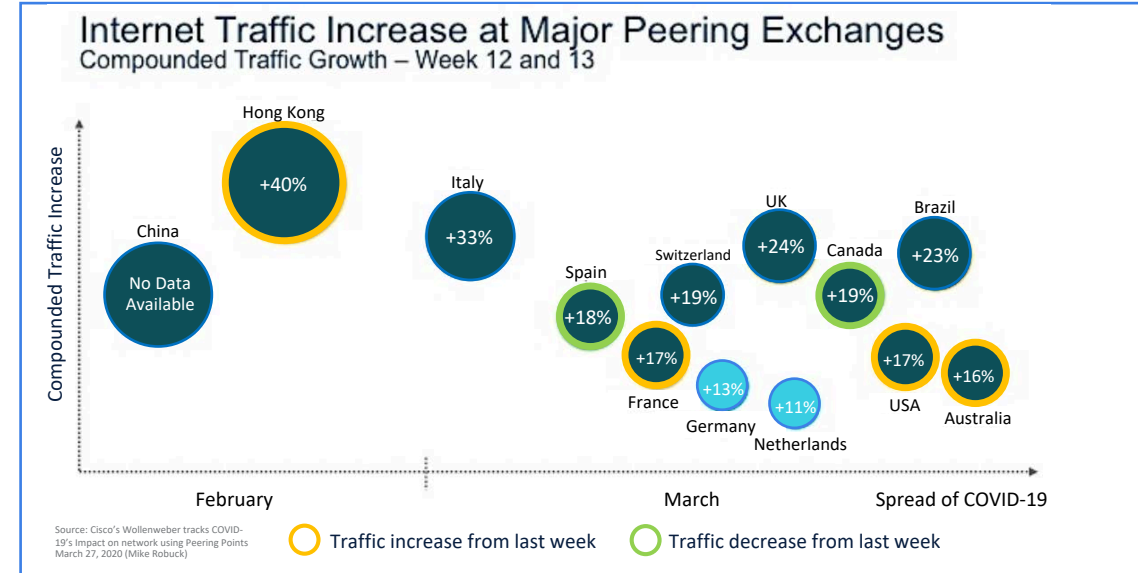


Source: 2020 Omdia

Data Center Compute Analyst Conference Call | April 2020

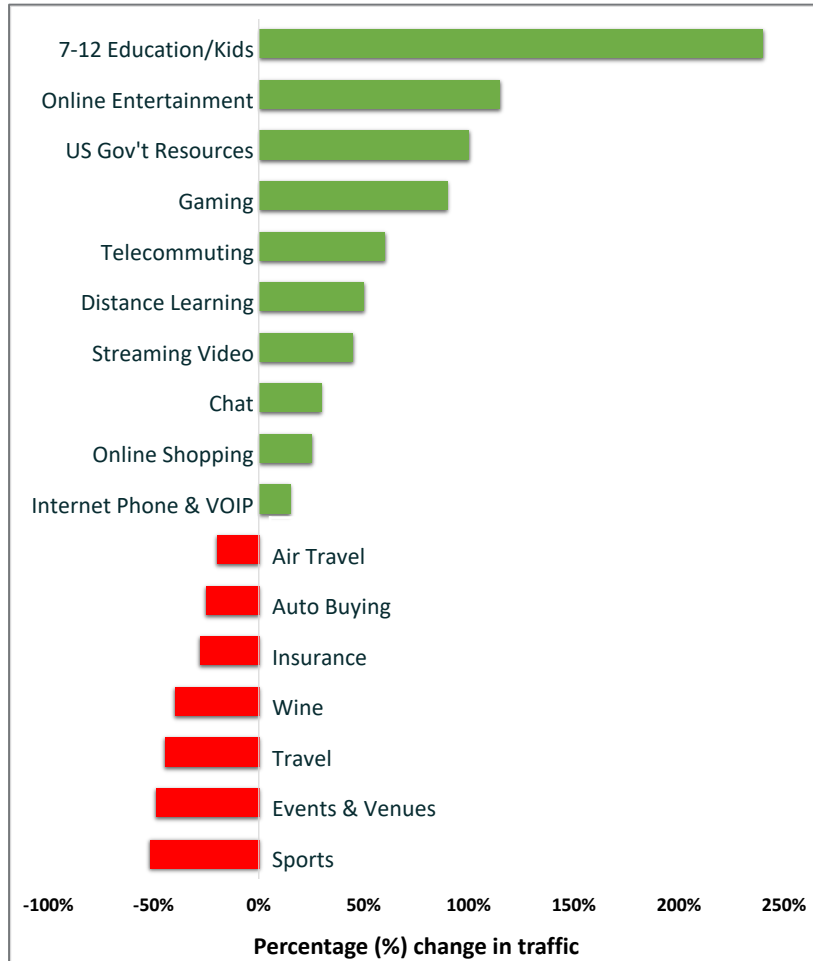
The Global Lockdown is Driving Increased Network Demand

- Networks designed for temporary peaks in demand are being hit by sustained traffic prompting operators to increase capacity
 - Internet Traffic Increased in all major peering points
 - AT&T Core Network Traffic up 24%
 - Comcast Peak Network Traffic up 32%
- IDC Industry Analyst reported on April 17, 2020
 - Telecom Services will weather the current conditions better than other parts of the Information & Communications Technologies market
 - COVID-19 is highlighting the importance of connectedness as Telecom Services are the common thread keeping us united as we weather the crisis

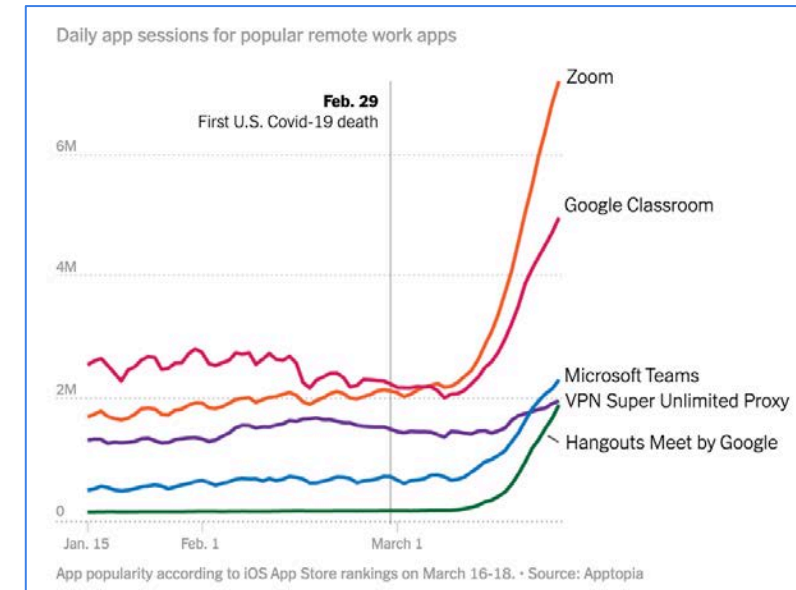


Application Activity Grows During the Pandemic

Shifts in Internet Activity by Category During Pandemic
(as of March 2020)

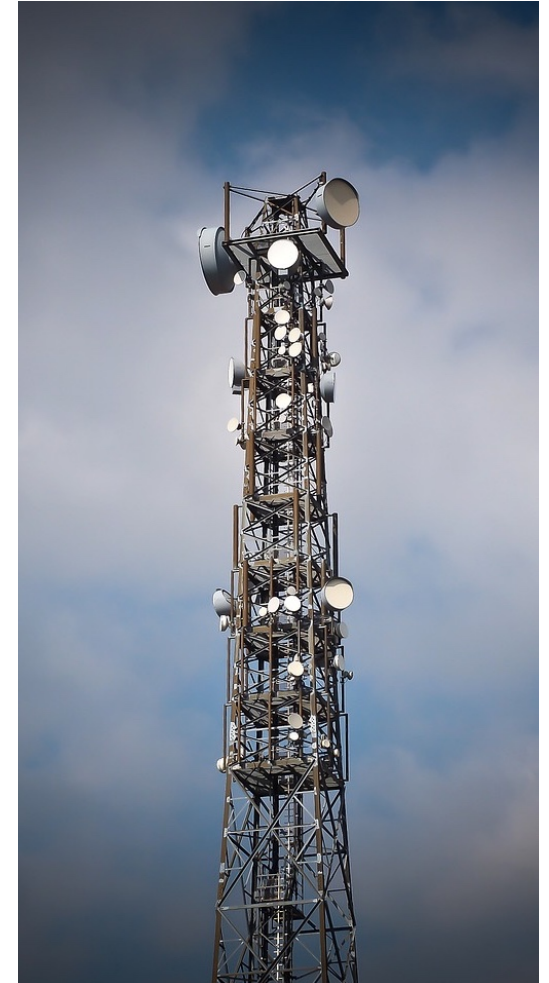


- Nokia reports growth in latency-sensitive application sessions
 - 300% growth in teleconferencing
 - 400% growth in gaming
- Comcast reports growth in application use and demand
 - 212% increase in VoIP and Video Conferencing traffic
 - 40% increase in VPN traffic



COVID-19 Causes Increased Network Utilization & CAPEX Spend

- Verizon *increasing CAPEX* range by \$500M to \$17.5-\$18.5B to expand network and transition to 5G
- China Telecom *increasing CAPEX* to \$12B, 53% dedicated to 5G roll-out
- Expect *increased CAPEX spending* in Content Delivery Networks (Netflix, Disney+) as increased demand is driving maximum resource utilization
- Online meeting services *expanding capacity* (Zoom adding capacity at Equinix and AWS, MS Teams and Skype using more Azure infrastructure)
- Expect *more CAPEX* spending by Telecom Service Providers to improve compute and networking infrastructure



Source: 2020 Omdia

Data Center Compute Analyst Conference Call | April 2020

Napatech's Market Exposure to COVID-19

Napatech is benefitting from exposure to market areas where the pandemic is placing a greater demand on mission-critical Network and Application Performance.

GROWTH IN MISSION CRITICAL AREAS

- Telecommunications
- Cybersecurity
- Network Management
- Financial & Banking
- Enterprise
- Government Agencies

SLOWDOWN IN MINIMALLY EXPOSED AREAS

- Travel
- Hospitality
- Tourism
- Events
- Real Estate
- Consumer & Retail

Napatech Sits at the Intersections of Server & Application Markets

Server-based Applications Multiplying in Data Centers & Cloud Networks



**Napatech
Technology & Solutions
Accelerate
Server-based Applications**

*Networks Built at Massive Scale
on Low-Cost Commercial Off-the-Shelf Servers*



Q1 Wins: Top Brands Deploy Napatech Across Many Applications



Our Plan Of Attack – Making Progress

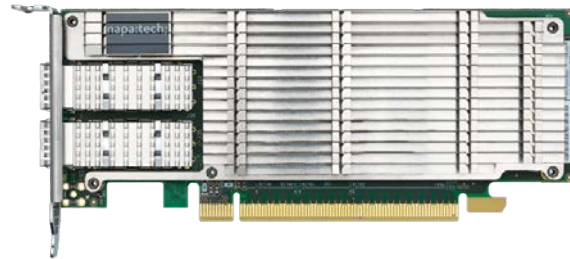
Leverage our expertise in **FPGA software** to out-innovate the competition and build new higher growth product lines in Application Acceleration for Virtualization, Cybersecurity and 5G Mobile solutions

1. Continue to drive FPGA-based SmartNIC leadership in current Packet Capture solutions
2. Expand our SmartNIC leadership *beyond Packet Capture* by supercharging our technology to address new higher-growth applications in markets such as Cybersecurity
3. Drive innovative developments in Virtual Switching Acceleration solutions to emerge in new user markets in Edge and Cloud Computing such as 5G Mobile to fuel new revenues in 2020 and beyond.

New Link™ Virtualization Software and SmartNIC Design

NEXT GENERATION New Product Software

- Focused on meeting the growing market opportunities in Edge, 5G Mobile and Cloud Networking
- Significantly reduced server CPU utilization, server footprint and cost
- Delivering high-performance Virtual Network Switching Acceleration



Napatech NT50 SmartNIC

NEXT GENERATION New SmartNIC Design

- Newest FPGA technology
- Highest performance processing
- Greener design (power, space, cooling)
- Cost efficient
- Mass-market volume potential

Q1 2020 Financials

Consolidated Income Statement Q1 2020

DKK'000	Q1		Δ
	2020	2019	
Revenue	48,536	38,254	27%
Cost of goods sold	(15,128)	(11,647)	
Gross profit	33,408	26,607	26%
GM%	68.8%	69.6%	
Other operating income	171	2	
Staff costs	(26,121)	(24,050)	9%
Other external costs	(7,388)	(7,166)	3%
EBITDAC	70	(4,607)	
Transferred to capitalized development costs	3,809	3,370	13%
EBITDA	3,879	(1,237)	
Depreciation, amortization and impairment	(5,755)	(6,398)	-10%
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)	

Key Highlights

- Revenue in Q1 up 27% compared to Q1'19 (*up 23% in USD*)
- GM in Q1 68.8% down 0.8%-points compared to Q1'19
- Staff costs in Q1 up 9% - mainly due to accounting impact of new Holiday Act in Denmark
- Other external costs in Q1 up 3% compared to Q1'19
- Q1 EBITDAC positive 0.1M – up 4.7M compared to Q1'19

Consolidated Cash Flow Statement Q1 2020

DKK'000	Q1	
	2020	2019
Earnings before tax (EBT)	(1,910)	(8,199)
Adjustments to reconcile profit before tax to net cash flows	6,125	7,299
Working capital adjustments	(647)	5,449
Interest, net	(196)	(425)
Income tax, net	-	11
Net cash flows from operating activities	3,372	4,135
Net cash used in investing activities	(3,289)	(3,560)
Free cash flow	83	575
Net cash flows 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

	31 Mar.	
	2020	2019
Net working capital	17,779	22,836
- NWC as % of revenue in quarter	37%	60%

Key Highlights

- Net Cash flow from operating activities in Q1 +3.4 MDKK
- Net working capital end of Q1 17.8 MDKK ~ 37% of revenue in quarter
- Free cash flow +0.1 MDKK in Q1
- Cash and cash equivalents of 63.7 MDKK end of Q1 20 compared to 42.7 MDKK end of Q1'19

2020 Outlook

FY2020 Guidance

Annual guidance for 2020 guidance is as follows:

Guidance	
Revenue	185-205 MDKK
Gross margin	68-72%
Staff expenses & Other external costs	125-135 MDKK
Transferred to capitalized development costs	15-20 MDKK
Depreciation and amortization	20-25 MDKK

Note:

- With performance in the middle of the guided ranges:
 - **EBITDAC** would be 6.5 MDKK
 - **EBIT** would be 1.5 MDKK
- No changes made to guidance due to COVID-19

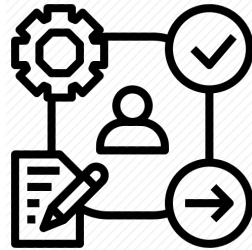
Why Invest In Napatech?



**STABLE
&
GROWING**



**GROWTH IN
REVENUE,
CASH FLOW
&
LEVERAGABLE**



**EXECUTING
ON OUR
STRATEGY**



**DELIVERING
PRODUCT
INNOVATION**



**WINNING
TOP
CUSTOMER
BRANDS**



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