



NAPATECH
4TH QUARTER 2023
INTERIM MANAGEMENT STATEMENT

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MANAGEMENT'S REPORT

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.

On January 22, I was appointed Chief Executive Officer at Napatech, and I am excited that both Napatech and I begin 2024 in new positions. I had the privilege of serving as the Chairman of the Board since 2018 and been a part of setting the strategy, and I am excited to embrace this new role, inspired by the company's commitment to making it a reality.

The company continues to make progress on its path towards transformational growth. The fourth quarter revenue of \$8.4M USD brought a successful end to our financial year. We met our annual guidance for revenue and exceeded product margins and other key financial metrics.

While we are satisfied with our FY-2023 financial results, our focus throughout the year was on executing our strategic plan, as it underpins our long-term growth aspirations. Our strategy remains anchored in three areas. First, servicing our valuable customers who are early adopters of Programmable NICs. 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.

Perhaps the most important part of our strategy is the work we have undertaken with Intel. In early 2023, we disclosed part of our plan to leverage Intel's market-making position behind FPGA-based SmartNIC and IPUs. At the conclusion of 2023, our collaboration with Intel remained on schedule and continues to expand. Of special note, a global launch of the Napatech products was successfully completed at the Intel Innovation event in September, and our product developments remained on track, allowing us to accept first customer orders in December.

Combining our new products and partnerships and addressing new applications, use cases, and customers for Programmable NICs enables us to address an immense opportunity. We recognize that our industry has long design win cycles with a duration of 18 to 24 months to revenue, but our work so far has shown very positive results and unlocked a transformational pipeline of opportunities into new high-growth segments, and we project that during 2024 Napatech could achieve between 4 to 6 design wins, providing an accumulated number of Programmable NIC's in 2025/26 of 30 to 40,000 units annually.

The upcoming 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.



Lars Boilesen

Chief Executive Officer

Highlights Q4:

- Revenue in USD amounted to 8.4m in Q4 2023, an increase of 75% compared to Q4 2022. In DKK, revenue amounted to 58.1m, an increase of 71% compared to Q4 2022.
- The gross margin in Q4 2023 was 79%, an increase of 20%-points compared to Q4 2022.
- Staff costs and Other external costs in Q4 2023 amounted to DKK 38.5m compared to DKK 28.5m in Q4 2022.
- EBITDAC in Q4 2023 amounted to positive DKK 7.1m compared to negative DKK 8.7m in Q4 2022.
- EBITDA in Q4 2023 amounted to positive DKK 8.0m compared to negative DKK 4.2m in Q4 2022.
- Depreciation, amortization, and impairment for Q4 2023 were DKK 8.2m compared to DKK 6.8m in Q4 2022.
- Net Cash flow from operating activities in Q4 2023 was positive DKK 1.9m compared to negative DKK 11.2m in Q4 2022.
- Net cash used in investing activities in Q4 2023 amounted to DKK 2.5m compared to DKK 5.5m in Q4 2022.

Highlights Full-year 2023:

- Revenue in 2023 in USD amounted to 26.5m, an increase of 17% compared to 2022. In DKK, revenue amounted to 182.7m, an increase of 15% compared to 2022.
- The gross margin in 2023 was 73%, an increase of 16%-points compared to 2022.
- Staff costs and Other external costs in 2023 amounted to DKK 143.3m compared to DKK 133.1m in 2022.
- EBITDAC in 2023 amounted to negative DKK 9.7m compared to negative DKK 43.4m in 2022.
- EBITDA in 2023 amounted to negative DKK 0.4m compared to negative DKK 20.1m in 2022.
- Depreciation, amortization, and impairment in 2023 were DKK 32.5m compared to DKK 26.1m in 2022.
- Net Cash flow from operating activities in 2023 was negative DKK 6.8m compared to negative DKK 24.0m in 2022.
- Net working capital at the end of 2023 amounted to DKK 65.5m compared to DKK 55.7m at the end of 2022.
- Net cash used in investing activities in 2023 amounted to DKK 12.7m compared to DKK 32.7m in 2022.
- Cash and cash equivalents at the end of 2023 amounted to DKK 42.4m compared to DKK 12.0m at the end of 2022.
- Napatech issued its guidance for 2023 on February 24, 2023.

	Guidance	Actual
Revenue	DKK 180-200m	DKK 182.7m
Gross margin	68-71%	73%
Staff expenses & Other external costs	DKK 160-170m	DKK 143.3m
Staff costs transferred to capitalized development costs	DKK 20-25m	DKK 9.3m

Key figures¹:

	Q4 2023	Q4 2022	FY 2023	FY 2022
Revenue USD m	8.4	4.8	26.5	22.7
Growth YoY USD m	75%	-43%	17%	-27%
Revenue DKK m	58.1	33.9	182.7	158.6
Growth YoY DKK m	71%	-38%	15%	-19%
Gross Margin	79%	59%	73%	57%
EBITDAC DKK m	7.1	-8.7	-9.7	-43.4
EBITDA DKK m	8.0	-4.2	-0.4	-20.1
Net Cash Flow from Operating Activities DKK m	1.9	-11.2	-6.8	-24.0
Net Working Capital, end of period DKK m	65.5	55.7	65.5	55.7
Cash and cash equivalents, end of period DKK m	42.4	12.0	42.4	12.0

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*Full-year 2023*

Napatech reports revenue of DKK 182.7m in 2023 compared to DKK 158.6m in 2022, equivalent to an increase of 15%. In USD, revenue was up 17% compared to 2022.

The gross margin in 2023 was 73% compared to 57% in 2022.

Q4

Napatech reports revenue of DKK 58.1m in Q4 2023 compared to DKK 33.9m in the same period in 2022, equivalent to an increase of 71%.

The gross margin in Q4 2023 was 79% compared to 59% in Q4 2022.

Costs*Full-year 2023*

Staff costs and Other external costs in 2023 amounted to DKK 143.3m, compared to DKK 133.1m in 2022.

Operating expenses after the transfer of staff costs to capitalized development costs in 2023 amounted to DKK 134.0m, compared to DKK 109.8m in 2022.

Q4

Staff costs and Other external costs in Q4 2023 amounted to DKK 38.5m, compared to DKK 28.5m in Q4 2022.

Operating expenses after the transfer of staff costs to capitalized development costs in Q4 2023 amounted to DKK 37.6m, compared to DKK 24.0m in Q4 2022.

EBITDAC and EBITDA*Full-year 2023*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 9.7m in 2023 compared to negative DKK 43.4m in 2022.

EBITDA in 2023 was negative DKK 0.4m compared to negative DKK 20.1m in 2022.

Q4

EBITDAC amounted to positive DKK 7.1m in Q4 2023 compared to negative DKK 8.7m in Q4 2022.

EBITDA in Q4 2023 was positive DKK 8.0m compared to negative DKK 4.2m in Q4 2022.

Depreciation, amortization, and impairment*Full-year 2023*

Depreciation, amortization, and impairment in 2023 were DKK 32.5m compared to DKK 26.1m in 2022.

Q4

Depreciation, amortization, and impairment in Q4 2023 were DKK 8.2m compared to DKK 6.8m in Q4 2022.

Financial Items*Full-year 2023*

Financial items in 2023 amounted to negative DKK 3.5m compared to positive DKK 2.1m in 2022.

Q4

Financial items in Q4 2023 amounted to negative DKK 2.0m compared to negative DKK 2.5m in Q4 2022.

Taxes*Full-year 2022*

Taxes in 2023 amounted to an income of DKK 4.4m compared to a cost of DKK 4.1m in 2022.

Q4

Taxes for Q4 2023 amounted to an income of DKK 5.5m compared to a cost of DKK 4.1m in Q4 2022.

Investments*Full-year 2023*

The total net cash used in investing activities in 2023 was DKK 12.7m, of which DKK 10.4m was related to new product development. In 2022, the total net cash used in investing activities was DKK 32.7m, of which DKK 30.3m was related to new product development.

Q4

The total net cash used in investing activities in Q4 2023 was DKK 2.5m, of which DKK 0.9m was related to new product development. In Q4 2022, the total net cash used in investing activities was DKK 5.5m, of which DKK 5.4m was related to new product development.

Cash Flow*Full-year 2023*

Net cash flow from operating activities in 2023 was negative DKK 6.8m compared to negative DKK 24.0m in 2022.

Free cash flow in 2023 amounted to negative DKK 19.5m compared to negative DKK 56.7m in 2022.

Net cash from financing activities in 2023 was positive DKK 50.5m due to the capital raise completed in April 2023 compared to positive DKK 28.6m in 2022.

Cash and cash equivalents at the end of 2023 were DKK 42.4m compared to DKK 12.0m at the end of 2022.

Q4

Net cash flow from operating activities in Q4 2023 was positive DKK 1.9m compared to negative DKK 11.2m in Q4 2022.

Free cash flow in Q4 2023 amounted to negative DKK 0.6m compared to negative DKK 16.6m in Q4 2022.

Net cash from financing activities in Q4 2023 was negative DKK 0.6m, compared to positive DKK 1.1m in Q4 2022.

Events after the end of the period

On January 22, 2024, Lars Boilesen replaced Henrik Brill Jensen as CEO of Napatech, and Henrik Brill Jensen returned to his previous position as COO of Napatech.

Outlook for 2024

In 2024, Napatech is expecting revenue in the range of USD 24.8-26.3m, corresponding to a decline of between 1%-7% compared to 2023.

	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 December 31, 2023

DKK'000	4rd quarter		Full-Year	
	2023	2022	2023	2022
Revenue	58,081	33,931	182,674	158,628
Cost of goods sold	(12,483)	(14,073)	(49,126)	(68,931)
Gross profit	45,598	19,858	133,548	89,697
Staff costs	(22,404)	(18,448)	(96,924)	(98,911)
Other external costs	(16,066)	(10,075)	(46,361)	(34,178)
EBITDAC	7,128	(8,665)	(9,737)	(43,392)
Transferred to capitalized development costs	872	4,493	9,299	23,270
EBITDA	8,000	(4,172)	(438)	(20,122)
Depreciation, amortization and impairment	(8,172)	(6,807)	(32,461)	(26,078)
Operating result (EBIT)	(172)	(10,979)	(32,899)	(46,200)
Finance income	(49)	(1,946)	358	3,596
Finance costs	(1,977)	(587)	(3,904)	(1,540)
Result before tax	(2,198)	(13,512)	(36,445)	(44,144)
Income tax	5,510	(4,091)	4,429	(4,115)
Result for the period	3,312	(17,603)	(32,016)	(48,259)

CASH FLOW STATEMENT

For the period ended December 31, 2023

DKK'000	4rd quarter		Full-Year	
	2023	2022	2023	2022
Operating activities				
Income/Loss before tax	(2,198)	(13,512)	(36,445)	(44,144)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	49	1,946	(358)	(3,596)
Finance costs	1,977	587	3,904	1,540
Depreciation, amortisation and impairment	8,172	6,807	32,461	26,078
Share-based payment expense	688	1,167	2,536	5,674
Working capital adjustments				
Change in inventories	1,051	(6,506)	3,282	(14,731)
Change in trade and other receivables and prepayments	(9,815)	(36,532)	13,181	(23,232)
Change in trade and other payables and contract liabilities	(2,383)	35,322	(26,867)	29,709
Interest received	350	-	358	7
Interest paid	(1,134)	(547)	(2,881)	(1,355)
Income tax received, net	5,126	112	4,044	84
Net cash flows from operating activities	1,883	(11,156)	(6,785)	(23,966)
Investing activities				
Purchase of tangible assets	(1,646)	(20)	(2,170)	(2,402)
Investments in intangible assets	(871)	(5,449)	(10,376)	(30,296)
Investments in leasehold deposits	-	1	(144)	(40)
Net cash used in investing activities	(2,517)	(5,468)	(12,690)	(32,738)
Free cash flow	(634)	(16,624)	(19,475)	(56,704)
Financing activities				
Capital increase	-	22	53,740	22
Proceeds from exercise of share options	75	-	75	-
Transaction costs on issue of shares	-	-	(365)	-
Share buyback	-	(720)	-	(2,634)
Payment of financial lease liabilities	(873)	(765)	(3,385)	(3,002)
Proceeds from borrowings	442	(3,993)	442	36,967
Repayment of borrowings	(225)	6,561	-	(2,792)
Net cash flows from financing activities	(581)	1,105	50,507	28,561
Net change in cash and cash equivalents	(1,215)	(15,519)	31,032	(28,143)
Net foreign exchange difference	(665)	(440)	(627)	656
Cash and cash equivalents at the beginning of the period	44,247	27,921	11,962	39,449
Cash and cash equivalents at the end of the period	42,367	11,962	42,367	11,962

BALANCE SHEET**ASSETS**

	31. Dec.	31 Dec.
DKK'000	2023	2022
Development projects, completed	36,601	35,102
Development projects, in progress	2,226	18,383
Patents	1,715	2,351
Intangible assets	40,542	55,836
Plant and equipment	4,390	5,551
Right-of-use assets	7,881	4,708
Leasehold improvements	316	635
Tangible assets	12,587	10,894
Leasehold deposits	1,541	1,397
Other non-current assets	1,541	1,397
Non-current assets	54,670	68,127
Inventories	35,572	38,854
Trade receivables	37,586	59,553
Prepayments	2,335	1,164
Other receivables	15,880	8,808
Income tax receivable	5,885	5,500
Cash and cash equivalents	42,367	11,962
Current assets	139,625	125,841
Total assets	194,295	193,968

EQUITY AND LIABILITIES

DKK'000	31. Dec. 2023	31 Dec. 2022
Share capital	22,544	20,774
Share premium	343,064	290,457
Treasury shares	(2,110)	(2,520)
Foreign currency translation reserve	(271)	244
Other capital reserves	10,707	13,860
Retained earnings	(262,224)	(234,560)
Equity	111,710	88,255
Interest-bearing loans and borrowings	8,601	9,758
Other non-current financial liabilities	4,433	4,568
Non-current lease liabilities	4,854	2,017
Non-current contract liabilities	3,048	3,744
Non-current liabilities	20,936	20,087
Interest-bearing loans and borrowings	35,504	33,770
Current lease liabilities	3,282	2,929
Trade payables	5,727	11,821
Other payables	12,495	6,538
Contract liabilities	4,641	30,568
Current liabilities	61,649	85,626
Total liabilities	82,585	105,713
Total equity and liabilities	194,295	193,968

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