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RECONFIGURABLE COMPUTING

1H 2022

Half Year Report Statement

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18 August 2022

Q&A Session at the end of the presentation

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1H 2022 Half Year Report Topics

- Napatech at a Glance
- Market Update
- Key Growth Developments
 - Landmark Design Win Will Create Significant Revenue Growth
 - Increasing Design Win Pipeline via Strategic Partners
- 1H 2022 Financial Results
- Q&A

- Napatech at a Glance

We Are Napatech

- Napatech is a leading developer of FPGA-based Software solutions on chips and SmartNICs/IPUs based in Copenhagen
- Napatech is the largest independent FPGA software provider for the SmartNIC market
- Napatech has a market share of 7% in the global SmartNIC vendor market (excluding Amazon, Google, Microsoft)
- Napatech has invested approximately 350 man years of engineering in its software technology and solution

7%

SmartNIC Vendor
Market Share

400+

Customers over 2 years

100 / 65

Headcount Worldwide /
Engineers Based in DK

20 Years

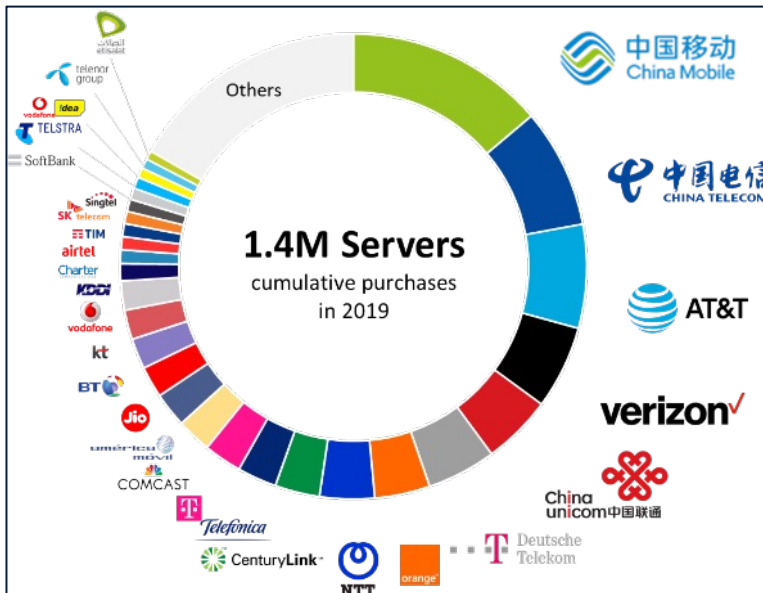
Deep Competency in FPGA
Software Development

Napatech is very well-positioned to capture market share in the new high-growth segments of the market

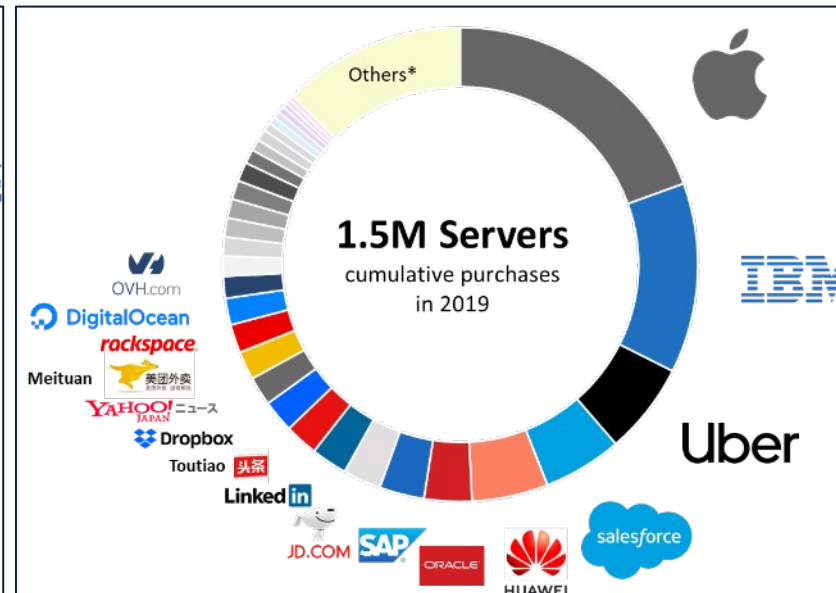
Server Deployments are Pervasive and Growing...

With intensifying demand for capacity and performance, networks are being built at massive scale to accelerate CPU-hungry applications in data centers

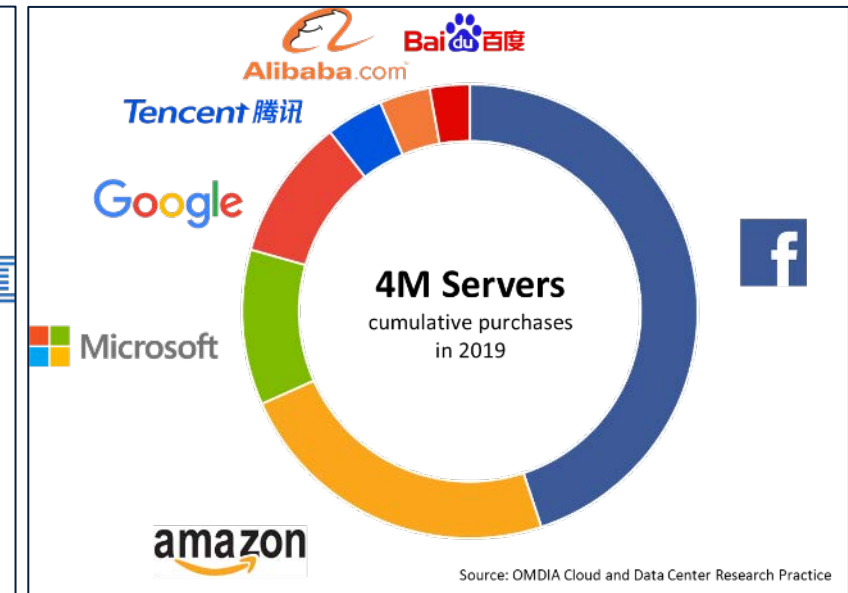
The server market is expected to grow at a 12% CAGR from \$80B in 2020 to \$138B by 2026



Telco Operators



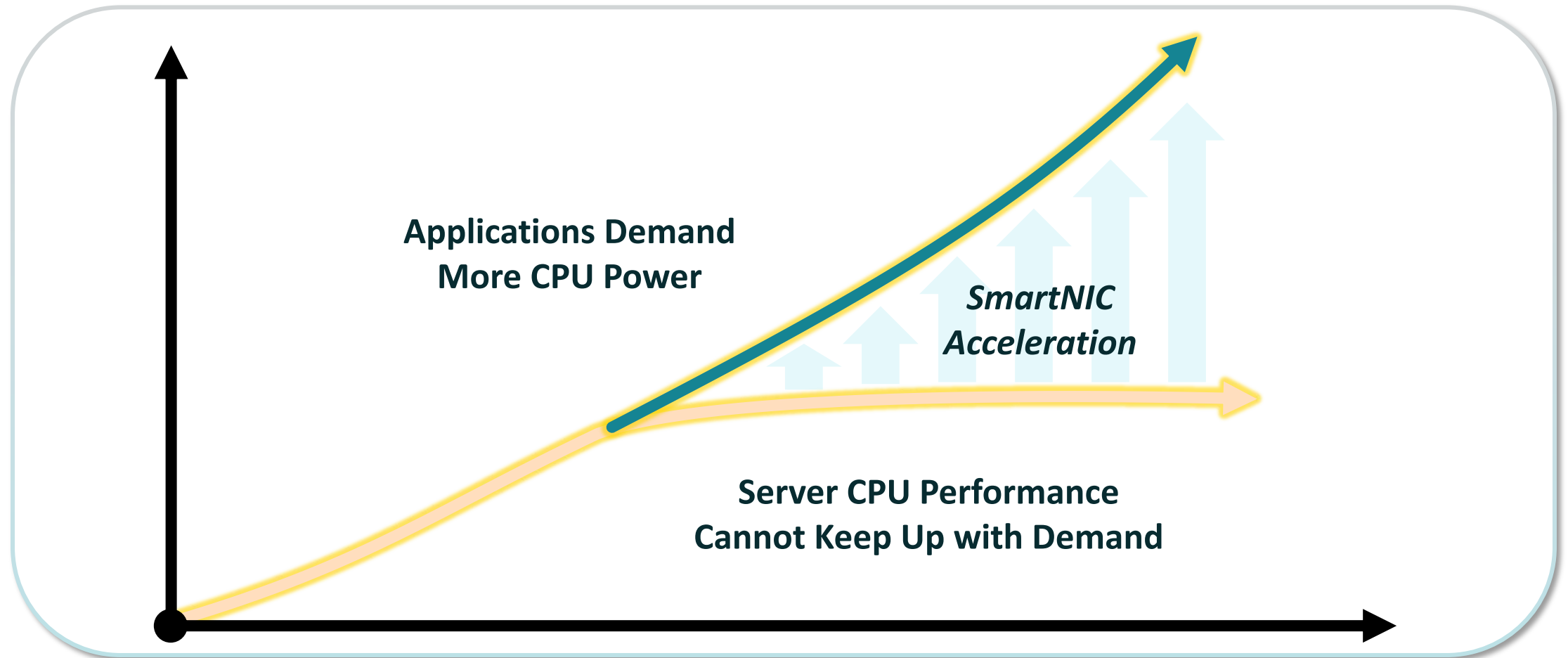
Tier-2 Cloud Operators



Hyperscale Cloud Operators

Source: OMDIA Cloud and Data Center Research Practice

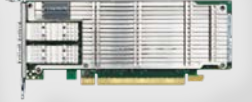
Yet Server CPU's Cannot Keep Up...



IPU/DPU SmartNICs Are Needed to Solve the Application Performance Gap on Standard Server Platforms...



The average server requires 2-8 NICs to increase the performance of applications and SmartNICs provide a range of additional benefits



Performance

200 Gbps Line-Rate Processing



Agility

Software-Defined Hardware



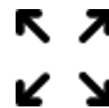
Efficiency

CPU Offload and Acceleration



Economics

Open, Standard, Low-Cost Servers



Scalability

Management and Configuration



Sustainability

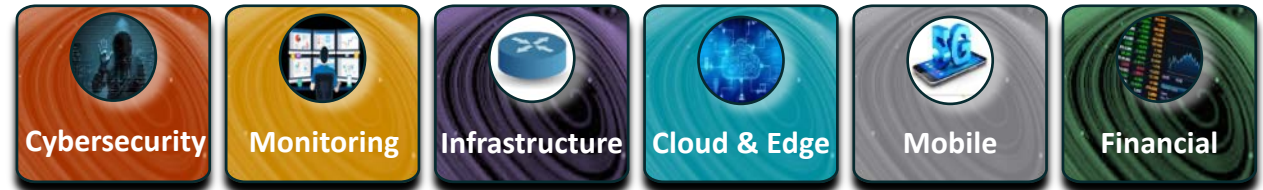
Lowest power, cooling, space

Napatech is Perfectly Positioned as the Leader in High-Performance Programmable SmartNICs

Napatech accelerates server-based applications using the most advanced programmable IPU/DPU SmartNIC technology which it has developed over 20+ years

Napatech designs high-performance programmable SmartNICs to offload servers and accelerate applications

Napatech's software powers the SmartNICs - *the key strategic advantage*



Link-Capture™ Software



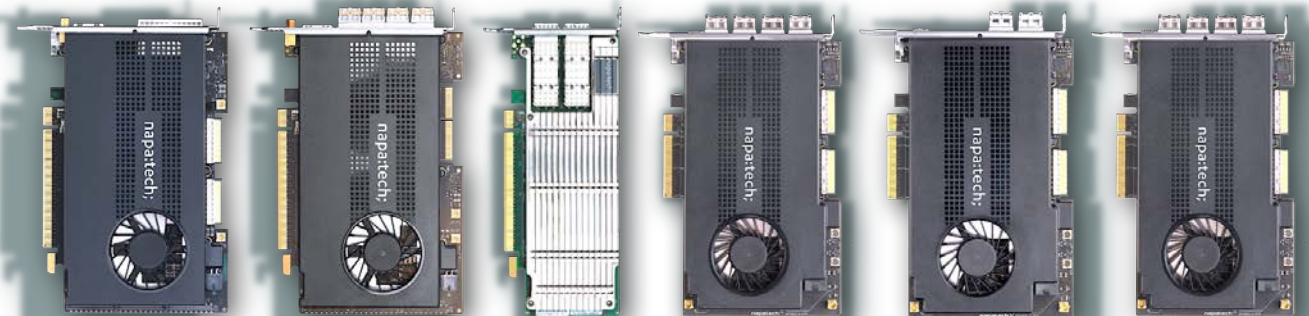
Link-Inline™ Software



Link-Virtualization™ Software



Link-Programmable™



Expertise, Execution and Focus has Moved Napatech into a Pole Position in the Fast-Growing SmartNIC Market

Napatech is intensively focused with its industry leadership delivering a complete FPGA-based software programmable SmartNIC solution

2018-2019

Intense Refocus on Core Competency

- Energized core product revenues by investing in market leading features and performance
- Architected software portability across leading FPGA architectures
- Streamlined business operations to drive stronger financial leverage
- Built relationships with key industry players
- Reached positive cash flow

2020-2021

Earning a Path to the Next Level

- Increased software and hardware investments on target market opportunities
- Focus on new Design Wins
- Adding new Customers
- Building new Partnerships
- Positive earnings and profit

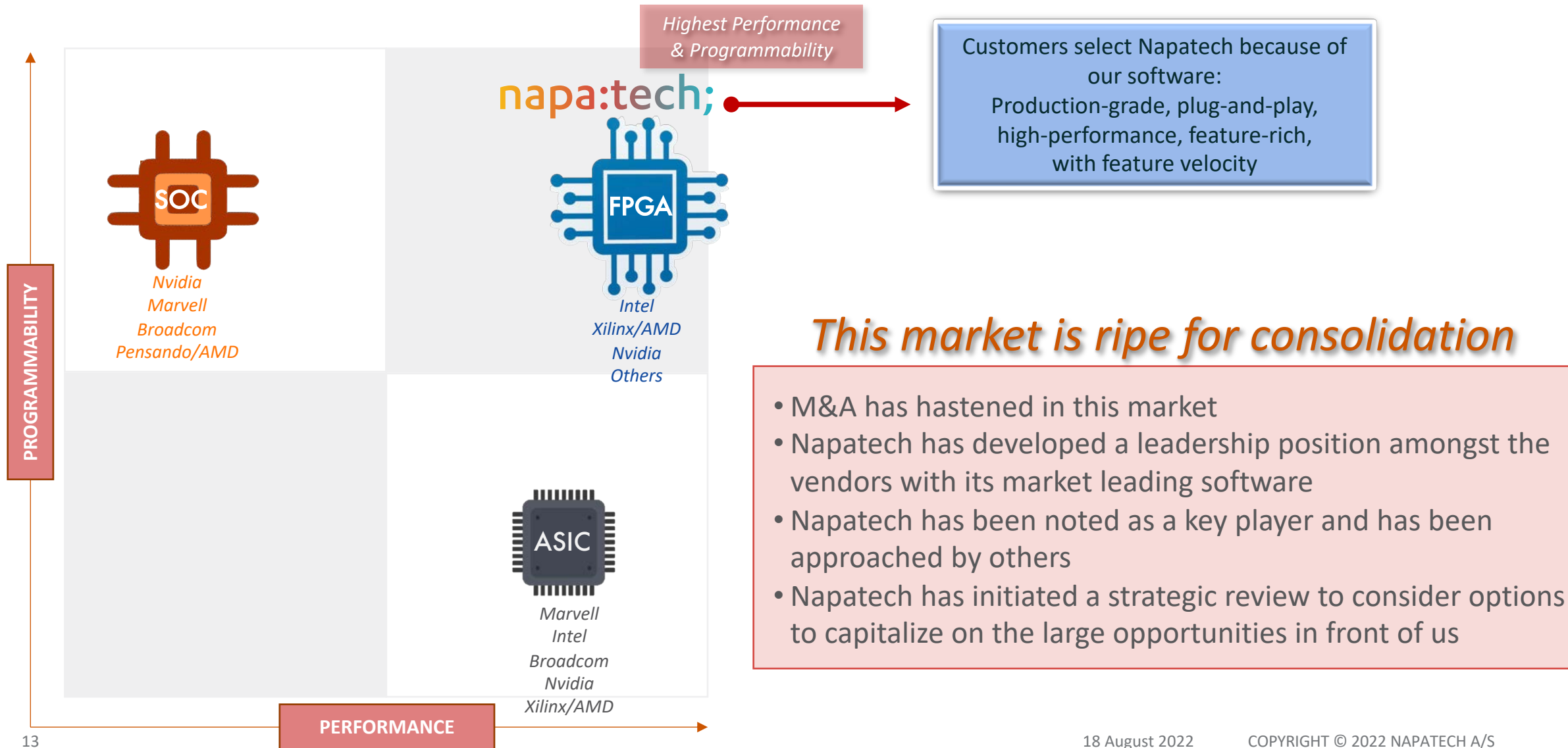
2022-2026

Unlocking Higher Growth

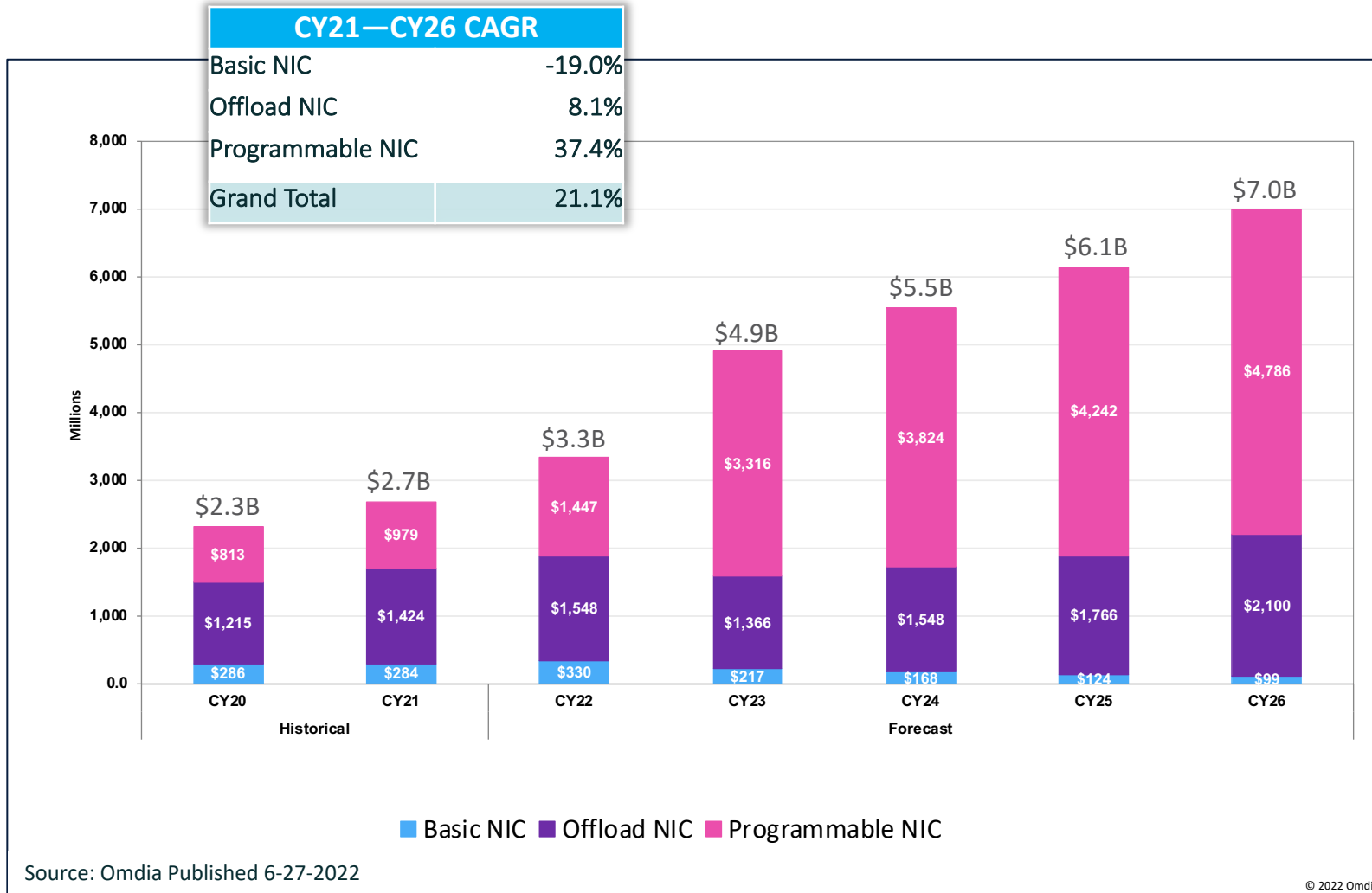
- Expand to high-growth market segments
- Software focused on larger-scale market opportunities in 5G, Tier-2 Cloud and Enterprise
- Progress in New Design Wins and Partnerships

- Market Update

Napatech is Well Positioned Amongst Market Players



The Market is Experiencing High Sustainable Growth and Napatech is Investing to Win the Highest Growth Segment



Market Share EoY2021			
All NICs	Share	SmartNICs - Vendors Only*	Share
NVIDIA	23.6%	Marvell	43.4%
Intel	19.4%	Xilinx	11.3%
Broadcom	12.1%	Intel	8.7%
Marvell	10.2%	Broadcom	7.9%
Microsoft	10.5%	Napatech	7.3%
Amazon	9.8%	Silicom	5.4%
Xilinx	3.2%	NVIDIA	3.0%
Silicom	1.5%	Other	12.8%
Napatech	1.2%	*Excludes MSFT, AMZN	
Cisco	1.0%		
Other	7.2%		

Napatech Achieves Milestone of 350,000 SmartNIC Ports Shipped

Q2'22 Global Customer Wins



We saw solid customer retention in Q2'22, several new customer Design Wins delivering first orders, and good pipeline development for 2H'22.

However, the OEM revenue forecasting has been less predictable due to the current market climate.

- Key Growth Developments

Landmark Design-In Will Create Significant Revenue Growth

- Napatech has been awarded a significant new Design-In
- Customer: a multi-billion dollar global leader in network and security solutions selling its solutions to the world's largest enterprises, financial institutions, service providers and governments
- Napatech will deliver its newest Intel FPGA-based SmartNIC solution with production starting in 1H'23
- Potential full-year revenues expected in the range of \$10M-\$15M

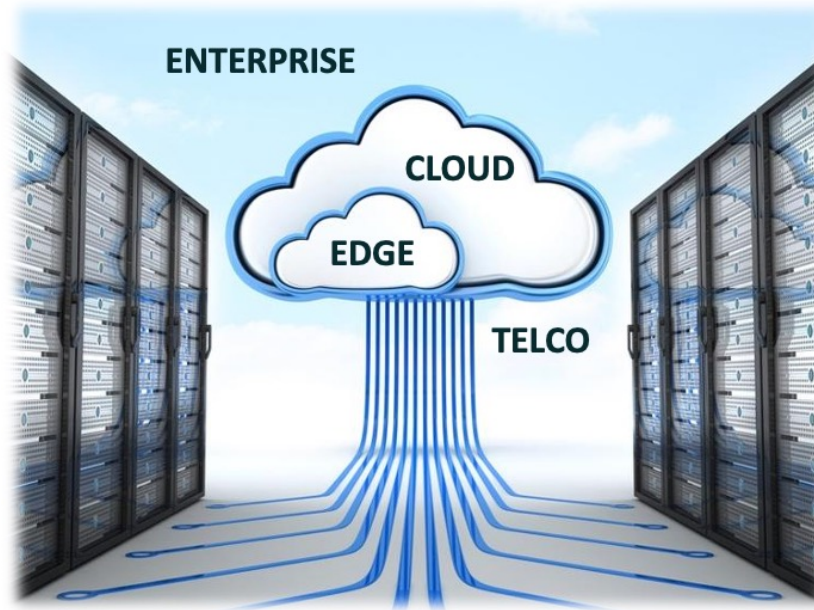


We will announce more when we are permitted

Increasing Design Win Pipeline via Strategic Partners



Aligning our technology roadmap to ensure Napatech SmartNICs support all FPGA architectures, including IPU and DPU



Creating valuable partnerships to expand our market reach focused on increasing set of customers & markets

- Developing partnerships with top semiconductor and server vendors
- To gain greater access to target market opportunities
- Enabling direct access to sales organizations to seamlessly offer Napatech's complete SmartNIC hardware and software solutions
- Increasing visibility and pipeline to new revenues in 2023 and beyond

1H 2022 Financial Results

1H 2022 Financial Results Impacted by Global Market Climate

- Growth YTD 1H'22 -6% in DKK
- Gross Margins in 2Q'22 of 70.3%
- *We are navigating a variety of different market conditions*

Confident That Our Strategic Direction WILL Deliver Growth



Consolidated Income Statement Q2 & H1 2022

DKK'000	Q2		H1		Q2	H1
	2022	2021	2022	2021	Δ	Δ
Revenue	35,484	46,408	87,721	93,232	-24%	-6%
Cost of goods sold	(10,528)	(13,072)	(36,128)	(27,109)		
Gross profit	24,956	33,336	51,593	66,123	-25%	-22%
GM%	70.3%	71.8%	58.8%	70.9%		
Other operating income	-	-	-	25		
Staff costs	(27,659)	(24,450)	(56,295)	(49,872)	13%	13%
Other external costs	(10,208)	(5,475)	(17,298)	(10,447)	86%	66%
EBITDAC	(12,911)	3,411	(22,000)	5,829		
Transferred to capitalized development costs	5,965	5,233	13,029	11,606	14%	12%
EBITDA	(6,946)	8,644	(8,971)	17,435		
Depreciation, amortization and impairment	(6,223)	(4,632)	(11,929)	(9,802)	34%	22%
Operating result (EBIT)	(13,169)	4,012	(20,900)	7,633		
Finance income	2,242	2,614	3,511	4,441		
Finance costs	(436)	(173)	(563)	(352)		
Result before tax	(11,363)	6,453	(17,952)	11,722		
Income tax	(35)	(618)	(33)	(717)		
Result for the period	(11,398)	5,835	(17,985)	11,005		

Key Highlights

- Revenue in Q2 in USD down 33% compared to Q2'21 (*down 24% in DKK*). Revenue in H1 in USD down 15% compared to H1'21 (*down 6% in DKK*)
- GM in Q2 70.3% down 1.5 basis points compared to Q2'21. GM in H1 58.8% down 12.1 basis points compared to H1'21
- Staff costs in Q2 up 13% compared to Q2'21 and up 13% in H1 compared to H1'21.
- Other external costs in Q2 up 86% compared to Q2'21 and up 66% in H1 compared to H1'21
- Q2 EBITDAC negative DKK 12.9m – down DKK 16.3m compared to Q2'21. H1 EBITDAC negative DKK 22.0m – down DKK 27.8m compared to H1'21.

EBITDAC: Earnings before depreciation, amortization and impairment, and staff cost transferred to development projects

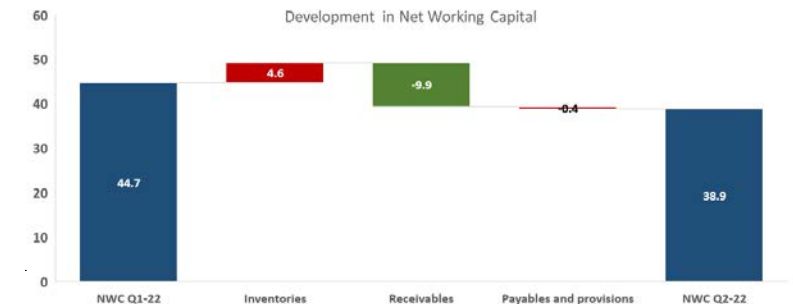
Consolidated Cash Flow Statement Q2 & H1 2022

DKK'000	Q2		H1	
	2022	2021	2022	2021
Earnings before tax (EBT)	(11,363)	6,453	(17,952)	11,722
Adjustments to reconcile profit before tax to net cash flows	6,420	3,086	11,799	7,147
Working capital adjustments	7,826	(9,672)	8,831	(30,932)
Interest, net	(422)	(819)	(496)	(924)
Income tax, net	2,461	(946)	2,189	(12,975)
Net cash flows from operating activities	2,461	(946)	2,189	(12,975)
Net cash used in investing activities	(8,584)	(3,476)	(19,482)	(10,439)
Free cash flow	(6,123)	(4,422)	(17,293)	(23,414)
Net cash flows used in financing activities	10,529	2,169	15,374	(1,283)
Net change in cash and cash equivalents	4,406	(2,253)	(1,919)	(24,697)
Net foreign exchange difference	(289)	(233)	(4)	302
Cash and cash equivalents at the beginning of the period	33,409	40,789	39,449	62,698
Cash and cash equivalents at the end of the period	37,526	38,303	37,526	38,303

	2022	2021
Net working capital	38,867	34,737
- NWC as % of revenue in quarter	110%	75%

Key Highlights

- Net Cash flow from operating activities in Q2 DKK 2.5m – H1 DKK 2.2m
- Net working capital end of Q2 DKK 38.9m ~ 110% of revenue in quarter



- Free cash flow in Q2 negative DKK 6.1m
- Cash and cash equivalents of DKK 37.5m end of Q2 22 compared to DKK 38.3m end of Q2'21

Napatech's Stays Focused On Long Term Opportunity

2022

- Given the temporary market conditions, we will maximize revenue by continuing our efforts delivering key software and feature development
- Outlook for 2022
 - Pipeline development in the 2H'22 is promising with improved order volume expected in Q4'22
 - We expect Q3 revenue will be an improvement over Q2, and Q4 will be much improved and will be the largest quarter of 2022
 - We expect 2H'22 revenue will be higher than in 2H'21

2023

- Revenue potential from new Design Wins & GTM partnerships will significantly increase 2023 revenues
- We expect cash flow to improve going forward



Key Investor Highlights



Growing Market.

The Programmable NIC market is rapidly expanding driven by heightened compute requirements needed for cloud, enterprise and telco datacenters.



Robust IP Portfolio.

22 patents & patents-pending provides high barrier-to-entry for competitors



Superior Performance.

Unparalleled expertise improving speed and efficiency, resulting in 40x app performance from 1 to 400+ Gbps while also maintaining cost-efficient solutions



Strong Financial Track Record.

Strong foundation of \$30M+ in revenue and 70%+ gross margins, with considerable opportunities to rapidly increase growth



Agility.

Unique mix of hardware and software, providing programmable HW performance at the speed of software innovation



Seasoned Team.

R&D team in Denmark, with unparalleled expertise and decades of research in accelerating compute-intensive applications on servers

Q&A Session at the end of the presentation

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Thank You