



Q1 2019 Interim Management Statement Presentation

May 21, 2019

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Q1'19 Interim Management Statement Topics

- Q1 2019 Highlights
- Business Update
- Q1-2019 Financial Results
- 2019 Outlook
- Q&A



Q1-2019 Highlights

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Q1 2019 Highlights – A Solid Start to 2019

- Financial Highlights
 - **Revenues** of 38.3 MDKK (\$5.8M) up 72% over Q1 2018
 - **Gross Margins** of 69.6% compared to 67.6% in Q1 2018, and ahead of annual 68% guidance
 - **OPEX before transferal to capitalized development costs** of 31.2 MDKK compared to 41.5 MDKK in Q1 2018.
 - **Cash Flow from Operating Activities** up 12.4 MDKK YoY to 4.5 MDKK
 - **Total Cash and Cash Equivalents** of 42.7 MDKK at the end of Q1 2019
- Progress with Customer Pipeline Development

Business Update

Napatech Sits Within a Dynamic Industry

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Napatech Raises \$8.9M



Nvidia Acquires Mellanox for \$6.9B



Intel Acquires Omnitek



Xilinx Acquires Solarflare

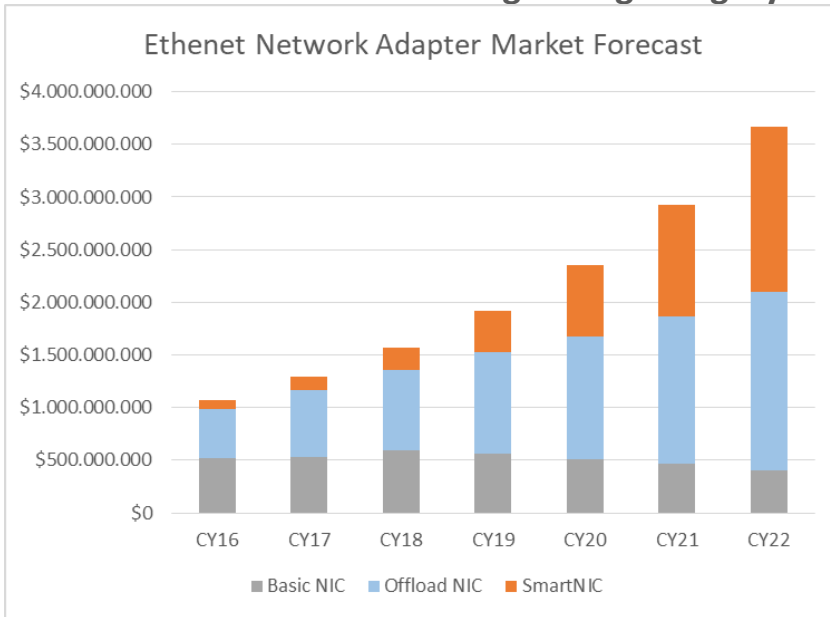


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Cloud Services Catalyze Market for Higher FPGA-based Compute Demand

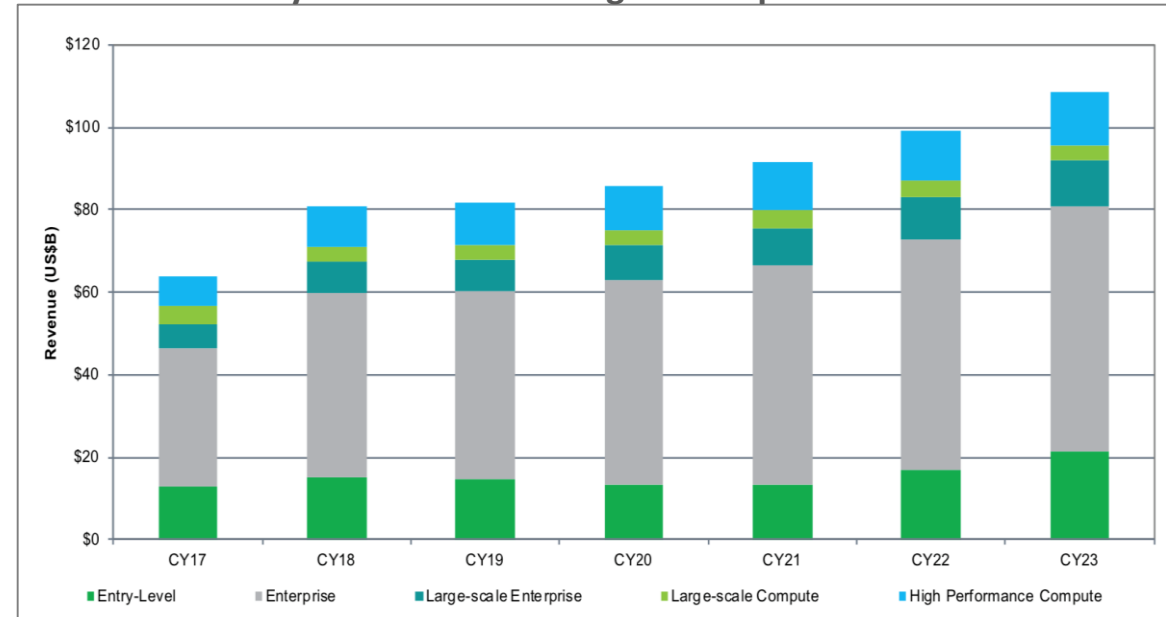
This demand drives the need for higher speed, feature rich adapters able to offload the CPU that can be programmed and re-programmed to suit changing workload requirements. Data analytics, AI and Machine Learning, and IoT have ramped server connectivity bandwidth requirements.

NIC Market will more than double by 2022 with SmartNICs the fastest growing category



Source: IHS Markit Ethernet Network Adapter Market Tracker Q3 2018
IHS Markit use the term "Programmable NIC" instead of "SmartNIC"

Server Market growing from \$64B in 2017 to \$109B in 2023 driven by new worldwide higher compute demand

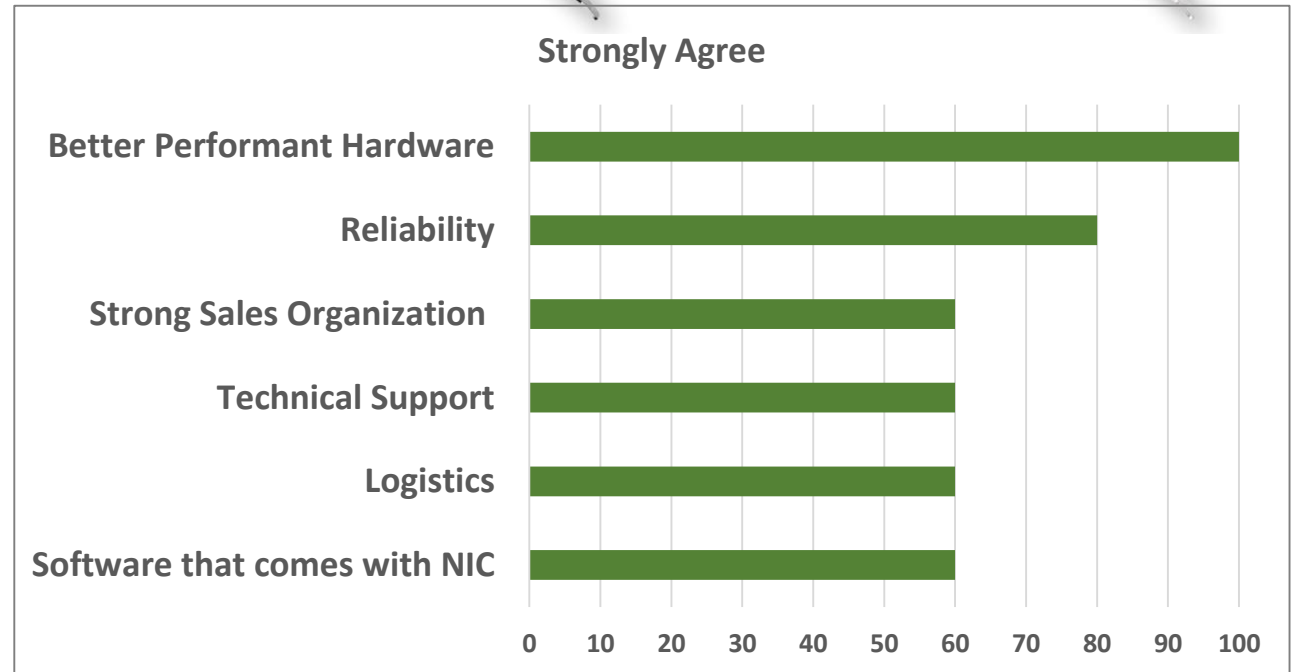


Source: IHS Markit Data Center Server Equipment Quarterly Technology Tracker Q4 2018, 6 March 2019

High Customer Satisfaction



- Napatech's customers indicate a positive supplier experience
- Customers indicate hardware performance and reliability are Napatech's main strengths
- Napatech's software is viewed as an advantage delivering on performance and features



Source: IHS Markit Ethernet Network Assessment 5 February 2019

OEM and End-user Activity Drives New Pipeline

Leading US-based Network Infrastructure Technology Company

- Selected to accelerate the **TREX** Open Source application to improve testing of their high-end switching products
- Chose Napatech for speed and zero packet loss

Top Multinational Pharmaceutical European-based Corporation

- Selected to scale the **SNORT** open source application for vulnerability assessments and security
- Chose Napatech to meet performance, scalability needs

Top-3 Multinational Retail Corporation

- Selected to accelerate the **Suricata** open source application across their enterprise-wide network
- Chose Napatech for higher performance of their cybersecurity application

Major European Specialist in IT Cybersecurity Products and Services

- Selected new emerging **in-line zero packet loss** technology to deploy higher-performance VPN Gateway services with IPSec
- Chose Napatech due to complete security compatibility within their service offerings

Leading UK-based Business Communications Service Provider

- Selected for 40GB **Packet Capture** solution to provide line-rate zero packet loss filtering of session telemetry
- Chose Napatech due to superior performance over competitor solutions

Launched First-ever Cryptography in AWS FaaS

Customizable FPGAs in the AWS Cloud

- Delivers easy-to-use instances of FPGA's for Crypto Acceleration for customers to build and assess FPGA use cases
- Napatech software built on Xilinx FPGA's
- Amazon's Elastic Compute Cloud (EC2) provides easy-to-deploy scalable compute capacity
- Customers access solution from the AWS Marketplace.
- No knowledge of FPGA is needed.



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Napatech Q1 2019 Financials

Consolidated Income Statement Q1 2019

DKK'000	YTD March		Δ
	2019	2018	
Revenue	38.254	22.298	72%
Cost of goods sold	(11.647)	(7.230)	
Gross profit	26.607	15.068	77%
Other operating income	2	-	
Staff expenses and remuneration	(24.050)	(30.001)	-20%
Other external costs	(7.166)	(11.485)	-38%
EBITDAC	(4.607)	(26.418)	
Transferred to capitalized development costs	3.370	10.611	-68%
Operating profit before depreciation, amortization and impairment (EBITDA)	(1.237)	(15.807)	
Depreciation, amortization and impairment	(6.398)	(10.560)	-39%
Operating result (EBIT)	(7.635)	(26.367)	
Finance costs	(564)	(1.744)	-68%
Result before tax	(8.199)	(28.111)	
Income tax	(1.291)	6.184	
Result for the period	(9.490)	(21.927)	

DKK'000	YTD March	
	2019	2018
Research and development expenses	(6.155)	(3.748)
Selling and distribution expenses	(13.734)	(18.386)
Administrative expenses	(7.957)	(8.741)
OPEX	(27.846)	(30.875)

Key Highlights

- Revenue up 72% YoY
- GP up 77% YoY with margins up 2%-points to 69.6%
- Staff costs down 20% YoY
- Other external costs down 38% YoY
- EBITDAC improved 21.8 MDKK YoY
- Capitalized development costs down 68% compared to Q1 2018
- EBT improved 20.0 MDKK YoY amounting to -8.2 MDKK in Q1 2019

Consolidated Cash Flow Statement Q1 2019

DKK'000	YTD March	
	2019	2018
Earnings before tax (EBT)	(8.199)	(28.111)
Adjustments to reconcile profit before tax to net cash flows	7.299	12.568
Working capital adjustments	5.449	7.667
Cash flows from operating activities	4.549	(7.876)
Net cash flows from operating activities	4.135	(8.333)
Net cash used in investing activities	(3.560)	(11.605)
Free cash flow	575	(19.938)
Net cash flows from financing activities	24.910	269
Net change in cash and cash equivalents	25.485	(19.669)
Net foreign exchange difference	62	(124)
Cash and cash equivalents at the beginning of the period	17.159	39.967
Cash and cash equivalents at the end of the period	42.706	20.174

Net working capital	End of March	
	2019	2018
	22.836	42.472

Key Highlights

- Cash flows from operating activities up 12.4 MDKK YoY to 4.5 MDKK
- Net working capital improved 5.4 MDKK to 22.8 MDKK end of quarter, corresponding to 42% of the revenue in the quarter.
- Net cash used in investing activities down 8.0 MDKK YoY to 3.6 MDKK in the quarter
- Positive free cash flow of 0.6 MDKK
- Cash and cash equivalents of 42.7 MDKK end of Q1 2019

Completed Secondary Offering on May 10th

Cash Raise Completed: 76.7 MNOK (58.6 MDKK, \$8.9M USD)

- 50 MNOK in a private placement lead by Verdane Capital
- 25 MNOK in fully-underwritten repair round to benefit of existing investors
- 1.7 MNOK management and board investment

Planned Use of Cash Raised

- Leverage our expertise in FPGA solutions to out-innovate the competition and build new higher growth product lines in Cybersecurity and Virtualization
- Focus engineering development within a streamlined Napatech to accelerate our delivery of new products to the market in 2019 and 2020
- Enhance our go-to-market strategy, sales and marketing to maximize the revenue impact from our new products while the market for SmartNICs is expanding

Outlook

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2019 Business Outlook

- We are seeing a positive return to revenue growth in 2019 lead by solid progress in Q1
- Gross Margins were good in Q1 and provide a positive tailwind for 2019
- Operating expenses are tracking to our expectations with a focus on the bottom line
- Management focus in 2019 is to Stabilize and Grow from a solid foundation of FPGA technology excellence

2019 Guidance – Reiteration:

- Revenue in the range of 150-180 MDKK (\$23-\$27.6M)
- Gross margin around 68%
- Operating expenses in the range of 115-125 MDKK
- Investments in development projects in the range of 20-25 MDKK
- Depreciation and amortization in the range of 20-25 MDKK

Q&A Session

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To ask a question, press *ZERO ONE* on your telephone keypad.
To withdraw your question, press *ZERO TWO*.



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A long-exposure photograph of the Golden Gate Bridge at night. The bridge's towers and suspension cables are illuminated with a warm orange glow. The city lights of San Francisco are visible in the background, and the water of the bay reflects the bridge's lights. The sky is dark with some light clouds.

Thank You

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