



NAPATECH  
1<sup>ST</sup> QUARTER 2023  
INTERIM MANAGEMENT STATEMENT

napa:tech;

## MANAGEMENT'S REPORT

Napatech is a global leader of FPGA-based SmartNICs used as Infrastructure Processing Units (IPU), and Data Processing Units (DPU) that dramatically improve the performance and economics of modern datacenters in cloud, mobile, telecom and enterprise networks.

In the beginning of Q1'23, we still felt the impact of the worldwide recession on the tech industry and for many of our customers. Going into Q2'23 we believe that improvements are starting to emerge which supports our ambitions and expectations for 2023.

In February and April of 2023, we were able to name our new key partnerships with Intel, F5 and Netscout, and talk more about the significance of the companies and how they strengthen our position and enable us to leverage our leadership in the fast-growing SmartNIC market. They also represent a significant milestone for Napatech in executing our strategic plan, provides validation of the product, technology, and partnership vision that we have set.

As part of the collaboration agreement with Intel, Napatech will develop, manufacture, and deliver two complete, customer ready IPU solutions, exclusively available from Napatech. In addition, we will develop turn-key software packages that include Napatech's full suite of software packages as well as two new offerings jointly developed with Intel, targeting well-established, differentiated use cases within the high-growth programmable SmartNIC and Infrastructure Processing Unit markets. The first part of the development is an ongoing effort throughout 2023.

As part of the agreement with F5 networks Napatech is developing and delivering a production-grade SmartNIC based on Intel FPGA technology, that will meet F5's rigorous requirements. The SmartNIC for F5 is built upon Napatech's new NT-400D family of SmartNICs, enhanced to target high performance security functions. We will deliver the first product to F5 during Q2'23 which will enable F5 to do product integration, and it is our expectation that product roll could happen during 2H'23.

In April 2023 we were able to disclose that Napatech and Netscout have entered into a strategic collaboration agreement. Along with this agreement Netscout has invested \$7.5M USD in Napatech. The agreement and associated investment are the extension of a successful, long-term relationship that includes Napatech SmartNIC hardware and software solutions, which help improve the performance of Netscout's applications. Napatech's expertise and scale has over the years been leveraged by Netscout to meet the demanding requirements of Netscout's market-leading solutions. We are very much looking forward to providing more details during 2023, about deliverables and business opportunities because of this enhanced collaboration between the companies.

During Mobile World Congress in Barcelona, we achieved an impressive interest for our new Inline application, the 5G User Plane Function (UPF) offload solution, doing all the work to connect the actual data coming over the 5G Radio Network to the Internet, while improving efficiency and user satisfaction. This is now creating a solid foundation for the next phase of system integration and business discussions with a series of cloud-native edge software providers, server vendors and system integrators. We expect to see initial business from these activities later in 2023.

In summary, I'm pleased to report that Napatech is on track to meet our overall objectives and deliverables for the year. Through dedicated effort and teamwork, we have made significant progress in key areas and remain committed to achieving our goals. We will continue to monitor our progress and adjust as necessary to ensure successful completion of our objectives by the end of the year.

Best regards,

Henrik Brill Jensen  
Chief Executive Officer

**Highlights Q1:**

- Revenue in USD amounted to 5.3m in Q1 2023, a decline 32% compared to Q1 2022. In DKK, revenue amounted to DKK 37.1m in Q1 2023, a decline of 29% compared to Q1 2022.
- The gross margin in Q1 2023 was 55%, an increase of 4%-points compared to Q1 2022. Margins are still impacted by extraordinary component costs related to components purchased in 2022.
- Staff costs and Other external costs in Q1 2023 amounted to DKK 38.4m compared to DKK 35.7m in Q1 2022.
- EBITDAC<sup>1</sup> in Q1 2023 amounted to negative DKK 17.9m compared to negative DKK 9.1m in Q1 2022.
- EBITDA in Q1 2023 amounted to negative DKK 12.8m compared to negative DKK 2.0m in Q1 2022.
- Depreciation, amortization, and impairment for Q1 2023 were DKK 7.7m compared to DKK 5.7m in Q1 2022.
- Net Cash flow from operating activities in Q1 2023 was positive DKK 23.3m compared to negative DKK 0.3m in Q1 2022.
- Net cash used in investing activities in Q1 2023 amounted to DKK 6.1m compared to DKK 10.9m in Q1 2022.

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

	Q1 2023	Q1 2022
Revenue USD m	5.3	7.9
Growth YoY USD m	-32%	4%
Revenue DKK m	37.1	52.2
Growth YoY DKK m	-29%	12%
Gross Margin	55%	51%
EBITDAC DKK m	-17.9	-9.1
EBITDA DKK m	-12.8	-2.0
Net Cash Flow from Operating Activities DKK m	23.3	-0.3
Net Working Capital, end of period DKK m	19.7	44.7
Cash and cash equivalents, end of period DKK m	12.3	33.4

**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 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***Q1*

Napatech reports revenue of DKK 37.1m in Q1 2023 compared to DKK 52.2m in the same period in 2022, equivalent to a decline of 29%. In USD, revenue was down 32% compared to Q1 2022.

The gross margin in Q1 2023 was 55% compared to 51% in Q1 2022.

**Costs***Q1*

Staff costs and Other external costs in Q1 2023 amounted to DKK 38.4m, compared to DKK 35.7m in Q1 2022.

Operating expenses after transfer of staff costs to capitalized development costs in Q1 2023 amounted to DKK 33.3m, compared to DKK 28.7m in Q1 2022.

**EBITDAC and EBITDA***Q1*

EBITDAC amounted to negative DKK 17.9m in Q1 2023 compared to negative DKK 9.1m in Q1 2022.

EBITDA in Q1 2023 was negative DKK 12.8m compared to negative DKK 2.0m in Q1 2022.

**Depreciation, amortization, and impairment***Q1*

Depreciation, amortization, and impairment in Q1 2023 were DKK 7.7m compared to DKK 5.7m in Q1 2022.

**Financial Items***Q1*

Financial items for Q1 2023 are negative DKK 1.0m compared to positive DKK 1.1m in Q1 2022.

**Taxes***Q1*

Taxes for Q1 2023 amounted to a cost of DKK 0.0m compared to an income of DKK 0.0m in Q1 2022.

**Investments***Q1*

Total net cash used in investing activities in Q1 2023 was DKK 6.1m, of which DKK 6.0m were related to new product development. In Q1 2022 total net cash used in investing activities was DKK 10.9m, of which DKK 8.8m was related to new product development.

**Cash Flow***Q1*

Net cash flow from operating activities in Q1 2023 was positive DKK 23.3m compared to negative DKK 0.3m in Q1 2022.

Free cash flow in the quarter amounted to positive DKK 17.2m compared to negative DKK 11.2m in Q1 2022.

Net cash from financing activities in Q1 2023 was negative DKK 16.3m, compared to positive DKK 4.8m in Q1 2022.

**Outlook for 2023**

The 2023 guidance remains unchanged:

	<b>Guidance</b>
Revenue	DKK 180-200m
Gross margin	68-71%
Staff expenses & Other external costs	DKK 160-170m
Staff costs transferred to capitalized development costs	DKK 20-25m

With performance in the middle of the guided ranges, EBITDA would be negative DKK 10.5m.

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, 2023

DKK'000	1st quarter	
	2023	2022
Revenue	37,096	52,237
Cost of goods sold	(16,566)	(25,600)
<b>Gross profit</b>	<b>20,530</b>	<b>26,637</b>
Other operating income	-	-
Staff costs	(29,456)	(28,636)
Other external costs	(8,966)	(7,090)
<b>EBITDAC</b>	<b>(17,892)</b>	<b>(9,089)</b>
Transferred to capitalized development costs	5,079	7,064
<b>EBITDA</b>	<b>(12,813)</b>	<b>(2,025)</b>
Depreciation, amortization and impairment	(7,726)	(5,706)
<b>Operating result (EBIT)</b>	<b>(20,539)</b>	<b>(7,731)</b>
Finance income	3	1,269
Finance costs	(1,028)	(127)
<b>Result before tax</b>	<b>(21,564)</b>	<b>(6,589)</b>
Income tax	(7)	2
<b>Result for the period</b>	<b>(21,571)</b>	<b>(6,587)</b>

**CASH FLOW STATEMENT**

For the period ended March 31, 2023

DKK'000	1st quarter	
	2023	2022
<b>Operating activities</b>		
Income/Loss before tax	(21,564)	(6,589)
<b>Adjustments to reconcile profit before tax to net cash flows</b>		
Finance income	(3)	(1,269)
Finance costs	1,028	127
Depreciation, amortisation and impairment	7,726	5,706
Share-based payment expense	862	815
<b>Working capital adjustments</b>		
Change in inventories	(1,548)	4,060
Change in trade and other receivables, right-of-return asset and prepayments	38,345	(5,689)
Change in trade and other payables, provisions, refund liability and contract liabilities	(1,180)	2,634
Interest received	3	7
Interest paid	(419)	(74)
<b>Net cash flows from operating activities</b>	<b>23,250</b>	<b>(272)</b>
<b>Investing activities</b>		
Purchase of tangible assets	(48)	(2,098)
Investments in intangible assets	(6,030)	(8,800)
<b>Net cash used in investing activities</b>	<b>(6,078)</b>	<b>(10,898)</b>
<b>Free cash flow</b>	<b>17,172</b>	<b>(11,170)</b>
<b>Financing activities</b>		
Share buyback	64	-
Payment of financial lease liabilities	(758)	(748)
Proceeds from borrowings	-	14,749
Repayment of borrowings	(15,639)	(9,156)
<b>Net cash flows from financing activities</b>	<b>(16,333)</b>	<b>4,845</b>
<b>Net change in cash and cash equivalents</b>	<b>839</b>	<b>(6,325)</b>
Net foreign exchange difference	(524)	285
Cash and cash equivalents at the beginning of the period	11,962	39,449
<b>Cash and cash equivalents at the end of the period</b>	<b>12,277</b>	<b>33,409</b>

**BALANCE SHEET****ASSETS**

	31 Mar. 2023	31. Dec. 2022	31 Mar. 2022
<b>DKK'000</b>			
Development projects, completed	48,107	35,102	22,694
Development projects, in progress	5,428	18,383	24,389
Patents	2,186	2,351	2,849
<b>Intangible assets</b>	<b>55,721</b>	<b>55,836</b>	<b>49,932</b>
Plant and equipment	4,799	5,551	7,824
Right-of-use assets	4,006	4,708	6,302
Leasehold improvements	555	635	755
<b>Tangible assets</b>	<b>9,360</b>	<b>10,894</b>	<b>14,881</b>
Deferred tax asset	-	-	9,717
Leasehold deposits	1,397	1,397	1,357
<b>Other non-current assets</b>	<b>1,397</b>	<b>1,397</b>	<b>11,074</b>
<b>Non-current assets</b>	<b>66,478</b>	<b>68,127</b>	<b>75,887</b>
Inventories	40,402	38,854	20,063
Trade receivables	20,042	59,553	41,523
Right-of-return asset	-	-	36
Prepayments	1,931	1,164	-
Other receivables	8,798	8,808	7,490
Income tax receivable	5,500	5,500	-
Cash and cash equivalents	12,277	11,962	33,409
<b>Current assets</b>	<b>88,950</b>	<b>125,841</b>	<b>102,521</b>
<b>Total assets</b>	<b>155,428</b>	<b>193,968</b>	<b>178,408</b>

**BALANCE SHEET****EQUITY AND LIABILITIES**

DKK'000	31 Mar. 2023	31. Dec. 2022	31 Mar. 2022
Share capital	20,774	20,774	20,774
Share premium	290,466	290,457	290,435
Treasury shares	(2,456)	(2,520)	-
Foreign currency translation reserve	(51)	244	445
Other capital reserves	10,615	13,860	9,024
Retained earnings	(252,085)	(234,560)	(192,803)
<b>Equity</b>	<b>67,263</b>	<b>88,255</b>	<b>127,875</b>
Interest-bearing loans and borrowings	9,758	9,758	9,758
Other non-current financial liabilities	4,568	4,568	4,765
Non-current lease liabilities	1,271	2,017	3,861
Non-current contract liabilities	3,744	3,744	-
<b>Non-current liabilities</b>	<b>19,341</b>	<b>20,087</b>	<b>18,384</b>
Interest-bearing loans and borrowings	18,131	33,770	4,991
Current lease liabilities	2,951	2,929	2,715
Trade payables	11,409	11,821	12,066
Other payables	8,696	6,538	10,276
Income tax payable	-	-	16
Provisions	-	-	295
Contract liabilities	27,637	30,568	1,642
Refund liabilities	-	-	148
<b>Current liabilities</b>	<b>68,824</b>	<b>85,626</b>	<b>32,149</b>
<b>Total liabilities</b>	<b>88,165</b>	<b>105,713</b>	<b>50,533</b>
<b>Total equity and liabilities</b>	<b>155,428</b>	<b>193,968</b>	<b>178,408</b>



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