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RECONFIGURABLE COMPUTING

3Q 2020 Presentation

Ray Smets
CEO

Heine Thorsgaard
CFO

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Q&A Session at the end of the presentation

DK: +45 78 72 32 51

NO: +47 23 96 36 88

UK: +44 3333 009 263

US: +1 833 526 8382

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3Q 2020 IMS Report Topics

- 3Q 2020 Business Highlights
- Market Update
- 3Q 2020 Financial Results
- 2020 Outlook
- Q&A

3Q 2020 Business Highlights

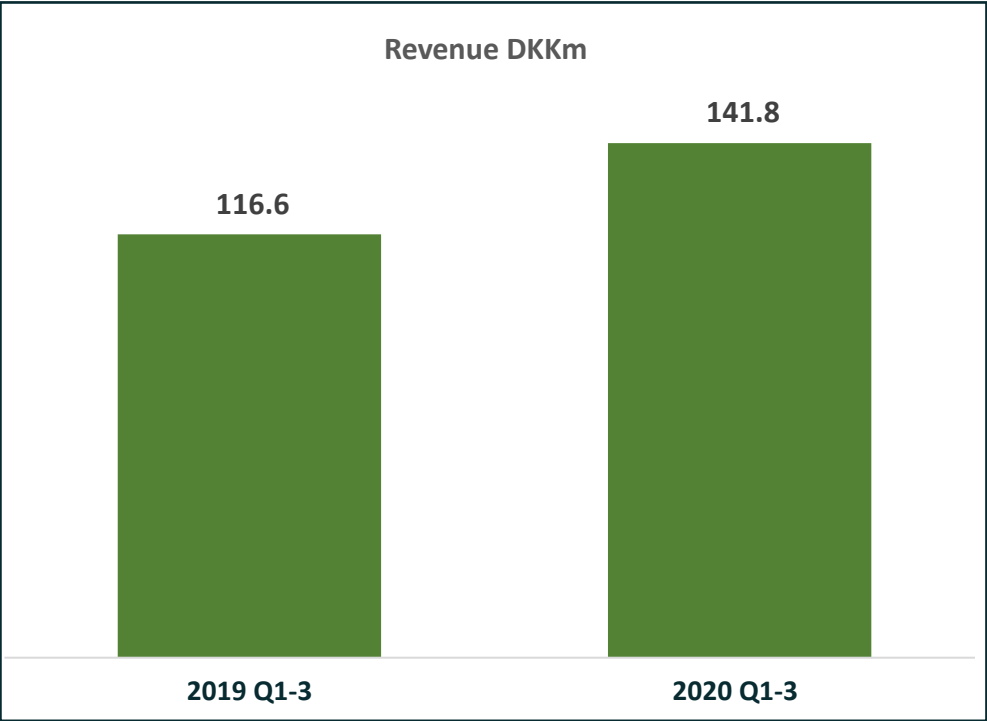
YTD FY2020 Continues On Track for a Strong Year

- ✓ Growing
- ✓ Profitable
- ✓ 3Q 2020 YoY Revenue Growth **+22%**
- ✓ Gross Margins YTD of **71.4%**
- ✓ Free Cash Flow YTD of **23.6 DKKm**
- ✓ EBITDAC & EBITA **Positive** and **Growing**
- ✓ Earnings is **Positive YTD 2020**

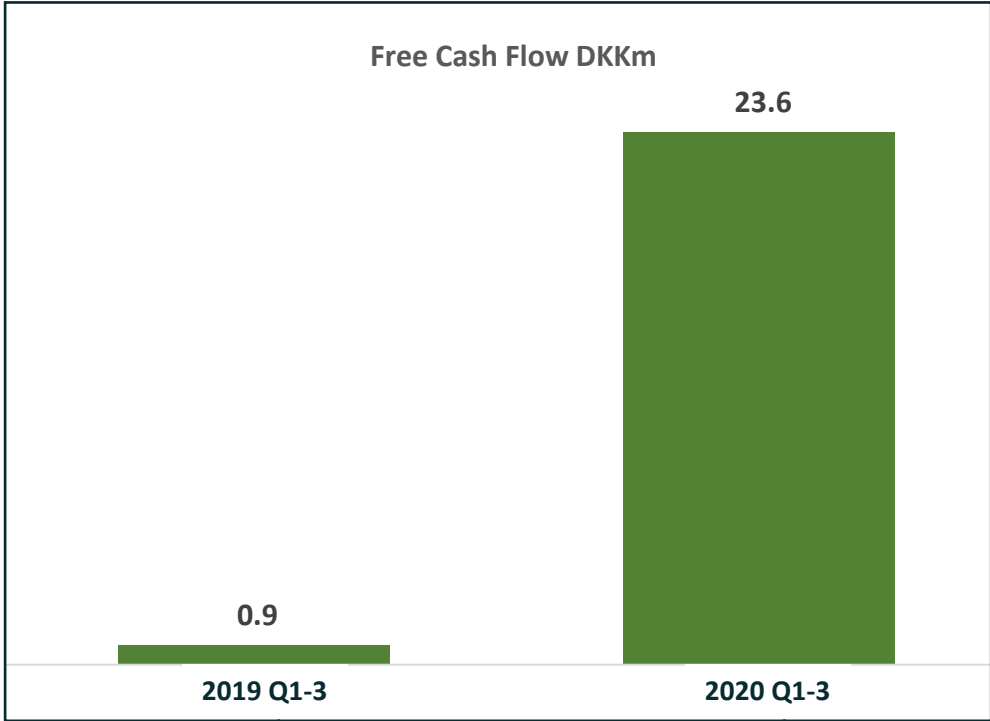
Q1-Q3 Trends: Growing and Profitable



Q1-Q3 Revenue over last year demonstrates solid growth in 2020 and the underlying strength of Napatech's business



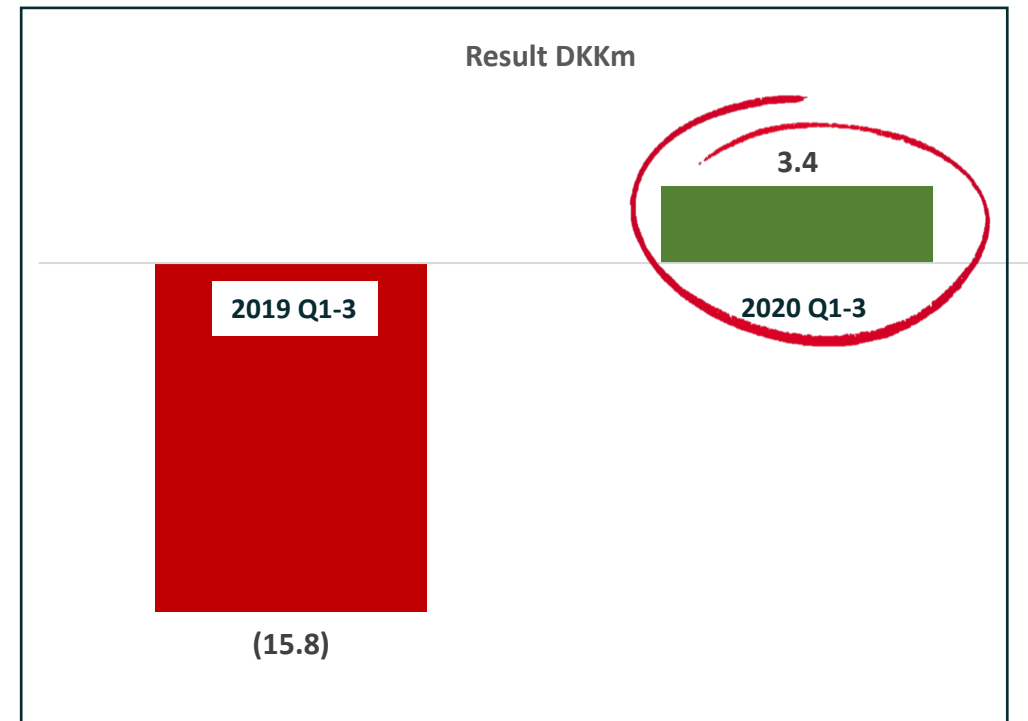
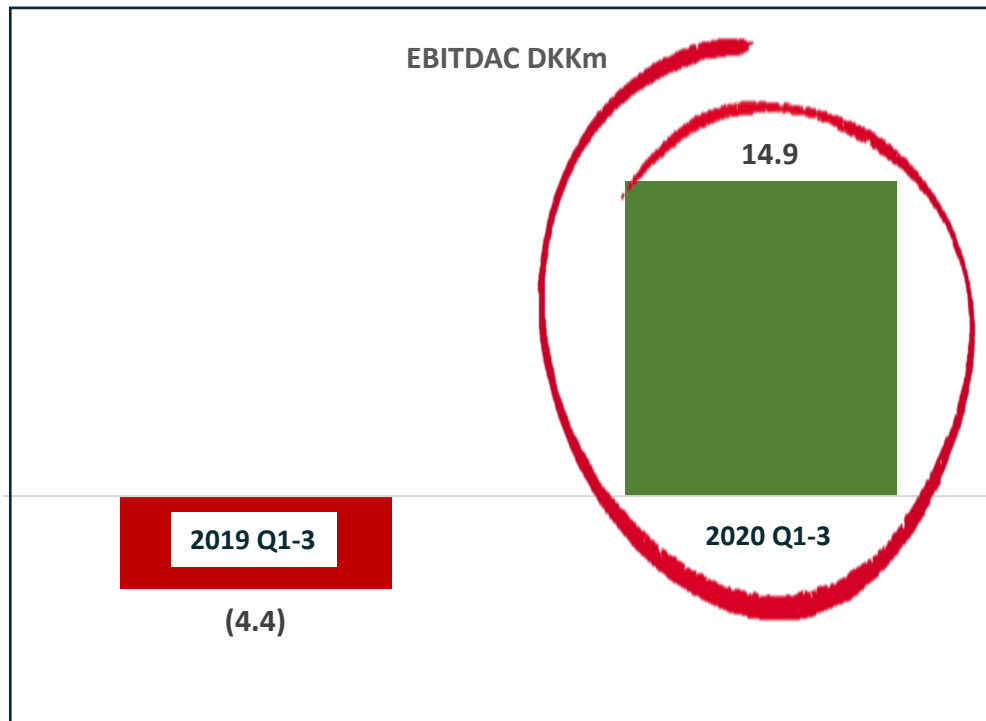
Q1-Q3 Free Cash Flow over last year demonstrates positive operating leverage and lower operating risk



Positive EBITDAC and Earnings Continues To Exceed Prior Years



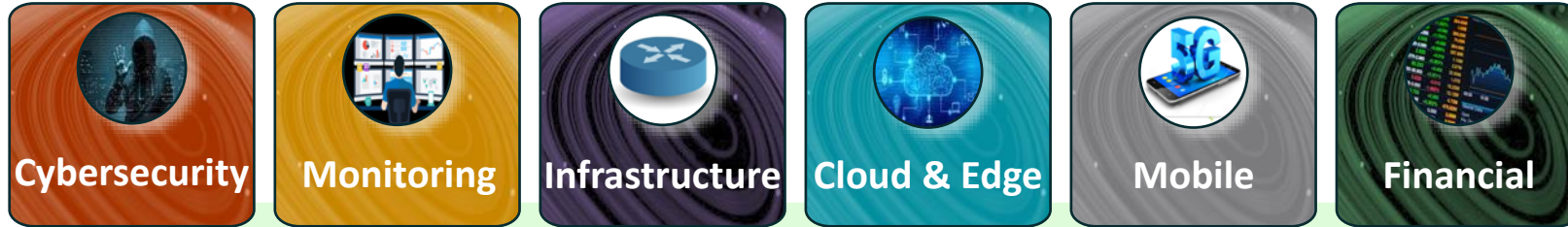
Q1-Q3 total positive earnings YoY show solid progress towards the planned longer-term profitable operation



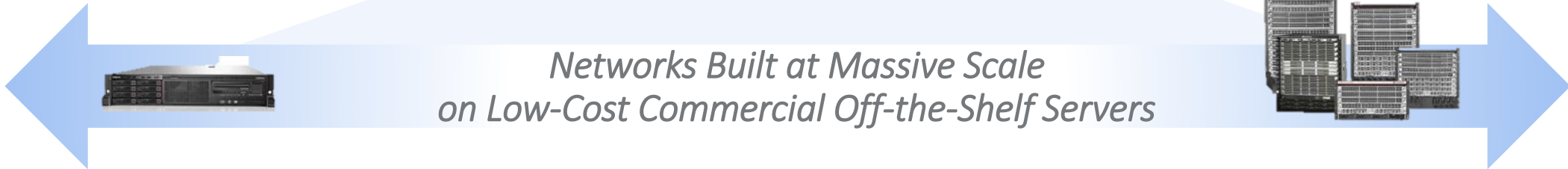
Market Update

Napatech Sits at the Intersection of Server & Application Markets

Applications in Data Centers & Cloud Networks



**Napatech SmartNICs
Accelerate
Server-based Applications**



TOTAL NIC Market Segmentation

SmartNICs

1 Basic NIC

- Ultra-low cost, low-margin
- Fixed function
- Not programmable (ASIC-based)

2 Offload NIC

- Slightly more expensive
- Focused on offload and some acceleration
- Specialized functions, not programmable (ASIC-based)

3 Programmable NIC

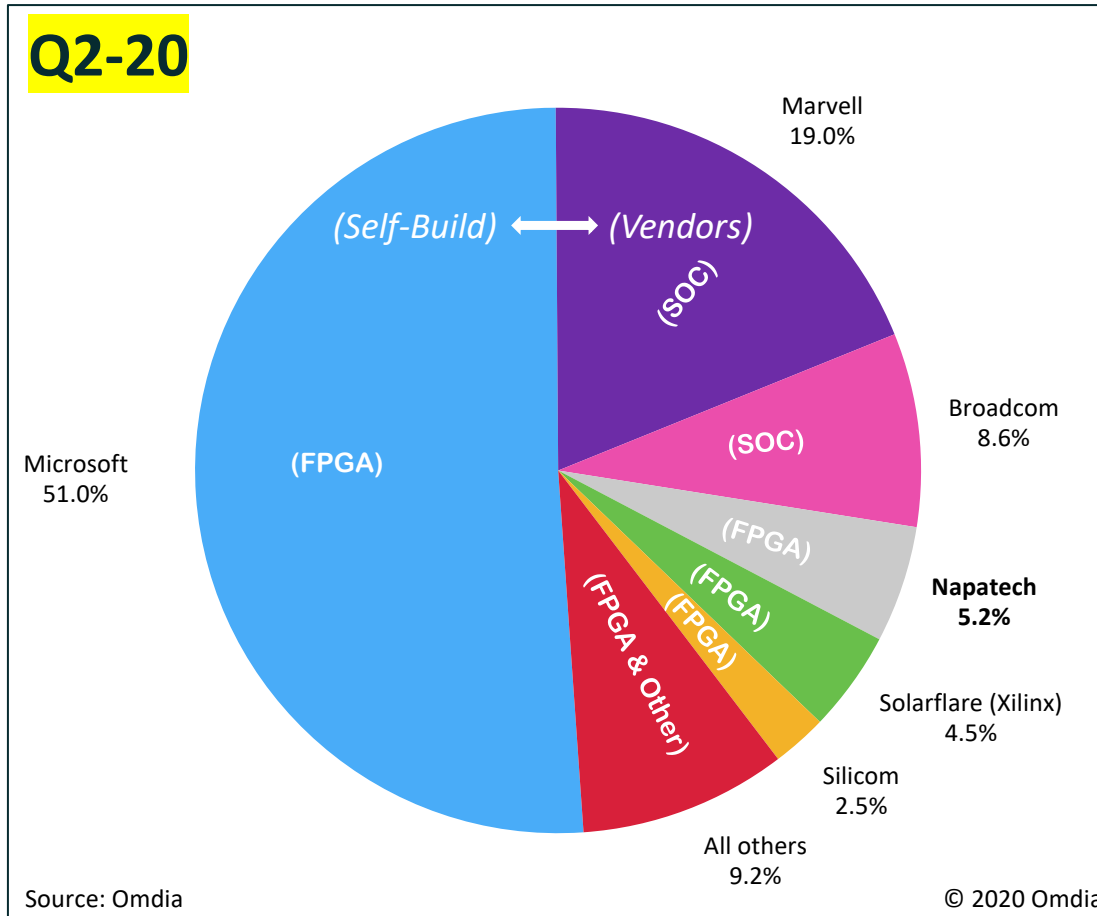
- Higher-cost, higher margin
- Ultra-high performance and functionality
- Programmable for feature velocity

Market Share (%)		1H 2020
1.	Mellanox (NVIDIA)	24%
2.	Intel	21%
3.	Broadcom	14%
4.	Microsoft	13%
5.	Amazon	7.9%
6.	Marvell	7.8%
7.	Solarflare (Xilinx)	3.0%
8.	Silicom	1.6%
9.	Napatech	1.3%
10.	Cisco	1.2%

Napatech moved up to #9 for ALL NICs

Omdia Q2-2020
Ethernet Network Adapter Equipment Market Tracker

Programmable NIC Market Overview

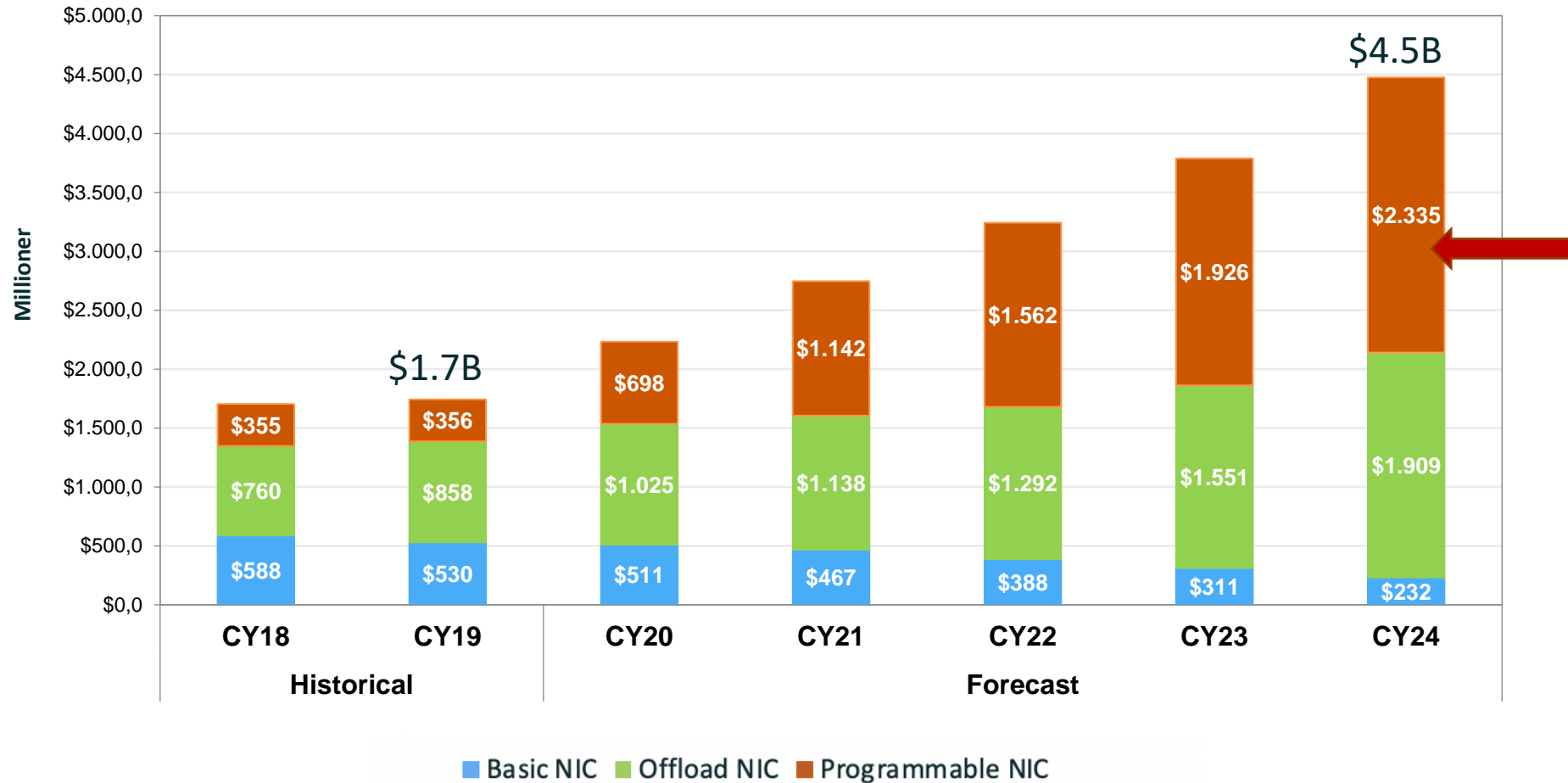


- *Napatech ranks #3 amongst major vendors in Programmable NIC market**
- *~70% of all Programmable NICs today are FPGA-based*
- *Napatech is #1 vendor with FPGA solutions*

*Omdia Q2-2020
Ethernet Network Adapter Equipment Market Tracker*

Napatech is Emerging in a Large Growing Market

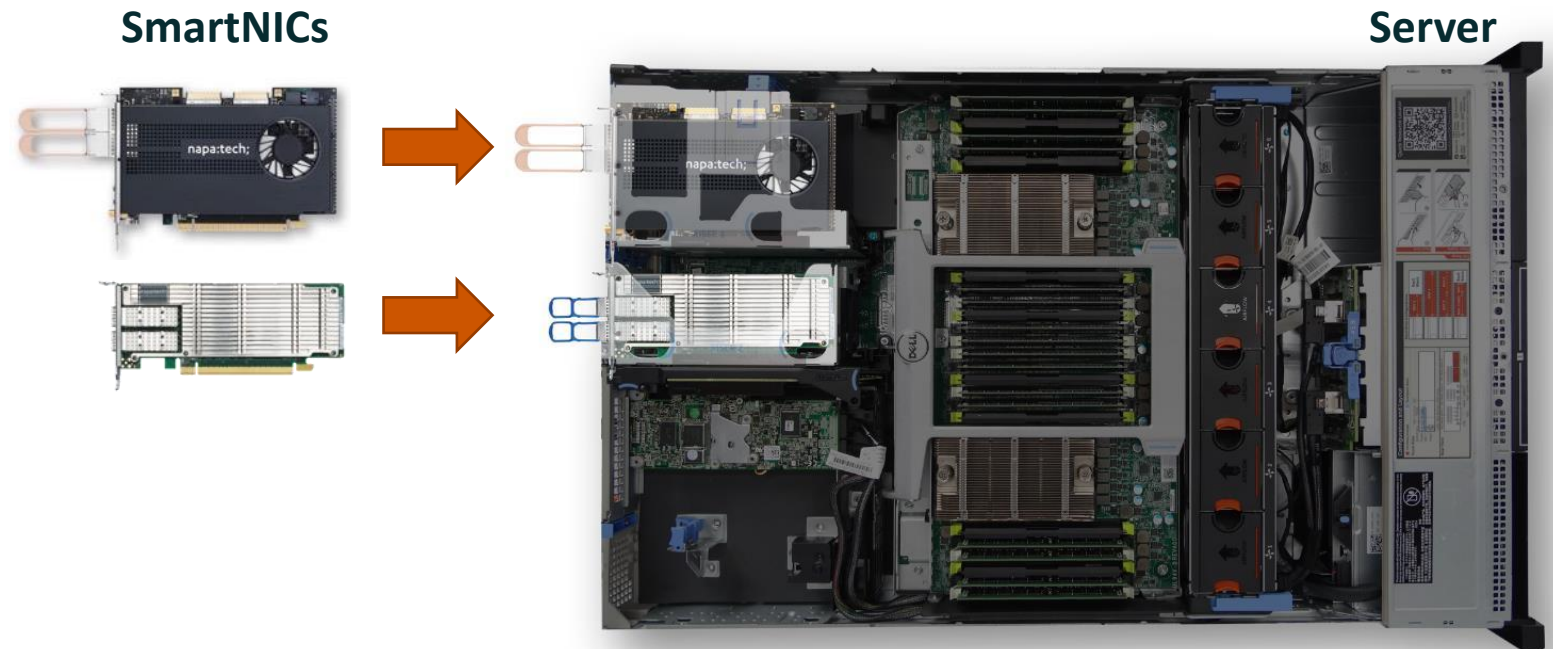
Category Breakdown



Napatech is measured within the highest growth segment of the overall NIC market

How Does Napatech Get Access to this Growing Market?

- Focus on Network Application Acceleration
 - Cloud & Edge, 5G Mobile
 - Cybersecurity
 - Financial
 - Virtualized Switching
- Support Faster Networks
 - 25G to 100G growing fast
- Make Servers More Cost Effective
 - Smaller footprint
 - Lower power
 - Lower cost



Q3 Wins: Top Brands Deploy Napatech Across Many Applications

Recurring Orders in Q1, Q2 & Q3

Ordered in Q3



EMERGING CUSTOMER WIN TRENDS

- 1 Network performance required with zero packet-loss and nano-second accuracy for data tracking
- 2 Pipeline of new design opportunities is growing with increased focus on virtual switching acceleration performance
- 3 Data Center expansion fueling end-user customer engagement, especially in financial and government customer areas

"Napatech's feature-rich SmartNIC software and hardware easily integrated into our solution to meet the demanding performance requirements we have for throughput, latency, scalability and cost."

Bill Miller, CEO
Axellio Inc.

AXELLIO



Case Study

CHALLENGE

Axellio's customers needed to capture, store & replay massive amounts of data to meet demanding cybersecurity requirements.

100 Gbps for more than 60 minutes with zero packet loss and nanosecond accuracy

SOLUTION

SmartNIC Software:
Napatech Link-Capture™

SmartNIC Hardware:
Napatech Link-100™
2x100 Gigabit Ethernet

BENEFIT

Axellio's PacketXpress APX-2000™ high-speed lossless write-to-disk ability significantly improved security for customers.

Delivering stunning performance in a sustainable, cost-effective, streamlined platform packed with features

WHAT DOES THIS MEAN FOR NAPATECH

Napatech's enhanced SmartNIC software and new hardware developments led to a new long-term design win providing cybersecurity and network monitoring solutions for enterprise, aerospace and defense customers



Mobile Network Signaling Firewall

Case Study

CHALLENGE

An OEM with over 900 telecom operator customers needed to scale the performance of their mobile signaling firewall.

Mobile network operators need to scale their signalling firewall to 100 Gbps, and that cannot be achieved with software alone.

SOLUTION

SmartNIC Software:
Napatech Link-Inline™

SmartNIC Hardware:
Napatech Link-40™ and Link-100™
4x10 and 2x100 Gigabit Ethernet

BENEFIT

The OEM's signaling firewall software improves the performance, scalability and security of mobile networks.

Securely delivers massive throughput for a large number of users on 3G, 4G and 5G networks

WHAT DOES THIS MEAN FOR NAPATECH

Napatech's new software and hardware combine to expand our SmartNIC solutions to high growth applications in mobile networking and cybersecurity for telecom network operators.

The new OEM design win has generated revenue in 2020 and is expected to produce revenue for 3-5 years with a lifetime value of \$2-\$3M.



Our Plan Of Attack – Serving Us Well

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 within 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.

3Q 2020 Financials

Consolidated Income Statement Q3 & YTD 2020

DKK'000	Q3		YTD		Q3 Δ	YTD Δ
	2020	2019	2020	2019		
Revenue	44,352	38,706	141,755	116,594	15%	22%
Cost of goods sold	(13,280)	(7,116)	(40,537)	(29,614)		
Gross profit	31,072	31,590	101,218	86,980	-2%	16%
GM%	70.1%	81.6%	71.4%	74.6%		
Other operating income	(334)	-	5	2		
Staff costs	(21,579)	(24,363)	(72,162)	(71,941)	-11%	0%
Other external costs	(3,715)	(5,313)	(14,149)	(19,436)	-30%	-27%
EBITDAC	5,444	1,914	14,912	(4,395)		
Transferred to capitalized development costs	2,522	3,285	8,728	9,481	-23%	-8%
EBITDA	7,966	5,199	23,640	5,086		
Depreciation, amortization and impairment	(5,627)	(6,028)	(17,284)	(18,730)	-7%	-8%
Operating result (EBIT)	2,339	(829)	6,356	(13,644)		
Finance income	1,024	33	1,052	40		
Finance costs	(2,416)	859	(3,715)	(211)		
Result before tax	947	63	3,693	(13,815)		
Income tax	(38)	(196)	(257)	(1,975)		
Result for the period	909	(133)	3,436	(15,790)		

Key Highlights

- Revenue in Q3 up 15% in DKK compared to Q3'19 (up 22% in USD). Revenue YTD up 22% in DKK compared to '19 (up 22% in USD).
- GM in Q3 was 70.1%, down 11.6 basis points compared to Q3'19. GM YTD was 71.4%, down 3.2 basis points compared to '19.
- Staff costs in Q3 was down 11% compared to Q3'19 and up 0.3% YTD compared to '19.
- Other external costs in Q3 were down 30% compared to Q3'19 and down 27% YTD compared to '19.
- Q3 EBITDAC positive DKK 5.4m – up DKK 3.5m compared to Q3'19. EBITDAC YTD positive DKK 14.9m – up DKK 19.3m compared to '19.

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

Consolidated Cash Flow Statement Q3 & YTD 2020

DKK'000	Q3		YTD	
	2020	2019	2020	2019
Earnings before tax (EBT)	947	63	3,693	(13,815)
Adjustments to reconcile profit before tax to net cash flows	8,029	5,592	21,719	20,025
Working capital adjustments	4,779	(5,484)	7,106	7,720
Interest, net	1,035	150	637	(615)
Income tax, net	(39)	(196)	(351)	(1,974)
Net cash flows from operating activities	14,751	125	32,804	11,341
Net cash used in investing activities	(3,352)	(4,006)	(9,165)	(10,483)
Free cash flow	11,399	(3,881)	23,639	858
Net cash flows from financing activities	(10,363)	(3,297)	(16,689)	34,525
Net change in cash and cash equivalents	1,036	(7,178)	6,950	35,383
Net foreign exchange difference	(272)	366	(550)	518
Cash and cash equivalents at the beginning of the period	69,942	59,872	64,306	17,159
Cash and cash equivalents at the end of the period	70,706	53,060	70,706	53,060

	2020	2019
Net working capital	6,583	20,945
- NWC as % of revenue in quarter	15%	54%

Key Highlights

- Net Cash flow from operating activities in Q3 was positive DKK 14.8m, and YTD was positive DKK 32.8m.
- Net working capital at the end of Q3 was DKK 6.6m ~ 15% of revenue in quarter.
- Free cash flow in Q3 was positive DKK 11.4m, and YTD was positive DKK 23.6m
- Cash and cash equivalents of DKK 70.7m at the end of Q3 compared to DKK 53.1m at the end of Q3'19.

2020 Outlook

Guidance for 2020

Annual guidance for 2020 is as follows:

Guidance	
Revenue	DKK 185-205m
Gross margin	70-72%
Staff expenses & Other external costs	DKK 120-125m
Transferred to capitalized development costs	DKK 13-18m
Depreciation and amortization	DKK 20-25m

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

Note:

- In USD **Revenue** is expected to be in the range of \$28.3-31.4M.
- With performance in the middle of the guided ranges:
 - **EBITDAC** would be **DKK 16.0m**.
 - **EBIT** would be **DKK 8.9m**.

As the current COVID-19 situation is unprecedented it causes increased uncertainty in customer demand and the Covid-19 situation can potentially have a negative impact on the outlook for 2020.

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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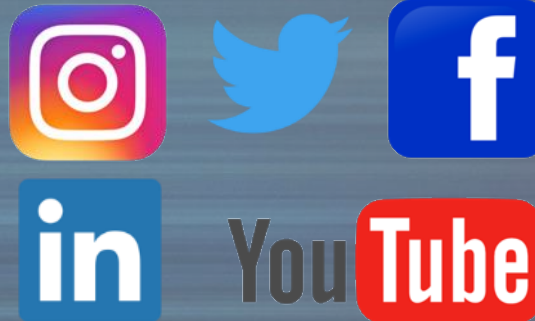


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