

**NAPATECH**  
**3<sup>RD</sup> QUARTER 2020**  
INTERIM MANAGEMENT STATEMENT



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## DEAR SHAREHOLDERS

The year 2020 has been a year of surprises and challenges for many companies. However, Napatech continues to perform predictably well, as we have guided, and we aggressively execute our plan to grow our position in the market. As we covered in our last report, I would like to reiterate how we are focusing our company to deliver on our expectations of growth, positive cash flow and earnings.

### Our Technology Speeds Up Apps and Services

**Applications:** Whether you use a laptop or smartphone, you know how to use computers. But it's the applications that we all use that brings the value of the computer to us humans. Just like the apps on your smartphone that make your life better, the lifeblood of every company worldwide is the mission-critical apps it uses to conduct business. Apps come in many forms but are often divided into groups. One group is the apps that help companies run their business more effectively, securely, and efficiently. These apps span the gamut of billing and revenue accounting, customer or sales tracking, ordering systems, human resource management including apps that secure information, and allow access to private or confidential information. Another group of apps help companies manage the performance of their networks that make apps run over the internet. Without secure network access to a company's mission-critical apps, a company's business will be at risk. Networking and cybersecurity apps are often complex compute-intensive apps that must run faster with an ever-increasing need for stronger cybersecurity, provide greater mobility with the massive move to 5G, and must accommodate the explosive growth of "the internet of things". Companies are investing more of their budgets to speed up and secure their apps so they may thrive in their markets.

**Servers:** Apps run on computers, or more accurately in the highly-networked world we live in, they run on servers. An enterprise, telecom or cloud data center is made up of many servers working together to run one or many apps. Servers are the "hardware" part of a data center or a cloud, so they have to be managed in the physical world. But they operate together as "software defined networks" allowing apps to run when and where they are best suited or most needed. A big challenge is that the hardware in data centers can get expensive. The footprint, the power, and the cooling of an array of servers is costly. Consequently, the growth in network traffic and increasing sophistication of attack vectors is placing enormous strains on data centers capacities requiring the servers to run as efficiently as possible and scale up and down in performance to maximize efficiency and utilization. Companies are constantly looking for ways to reduce the number of servers needed, reducing the costs associated with the ever-growing numbers of servers deployed.

**This is where Napatech focuses to win.** We build technology to help apps run better, faster, and more securely by making the server more effective and powerful. That's why we focus on designing world-class FPGA-based SmartNICs, which fit into standard servers, to reduce the load on the server CPUs. Customers get better performance on their servers and provide better application performance and security to serve their customer's needs, all while lowering their total cost of ownership (TCO).

### Our Business is Both a Growth Company and Profitable

From a financial perspective, designing and delivering technology takes investment in time and money. But the goal has been to focus Napatech's unique core competencies in designing FPGA-based SmartNICs that solve real-world problems today and into the future in the data center or the cloud.

In the first three quarters of 2020, Napatech has been healthy, showing resiliency and strength in this unpredictable time. Napatech delivered strong results beating the objectives we communicated to our investors:

- In DKK, Revenue in Q3 2020 increased by 15% YoY. In USD, revenue grew 22% YoY.
- Gross margin in Q3 2020 was a healthy 70.1%.
- EBITDA YTD 2020 was positive DKK 23.6m, up from DKK 5.1m in YTD 2019.
- Free Cash Flow YTD 2020 was positive DKK 23.6m, after a record year in 2019.

**We are building a leverageable profitable business.** We have been focused on growing revenue while managing operating costs, with a goal of building a leverageable business that generates cash and profit. The numbers continue to show with revenues on the rise, while managing operating and capital expenses more efficiently, Napatech is fulfilling on this promise. As we execute on our current guided goals, we expect to grow cash and profit.

**We are participating in some of the broadest and fastest growing markets globally,** many of which have been growing in the midst of a global pandemic. Industry analysts have reported that the SmartNIC market will grow from less than \$400M in 2019 to \$2.3B by 2024 due to the expansion of investments in technology that accelerates applications, providing improvements in networking speed and efficiency and meeting the increased demand for more effective cybersecurity solutions. Those same industry analysts report that Napatech is the largest supplier of FPGA-based SmartNICs globally.

**Our customer growth in the first three quarters of 2020 remains strong.** Our solutions attract the best-known companies globally; equipment manufacturers embedding our solutions as part of their product offering and end-user customers selecting us for data center projects that span multiple quarters. All of our customers chose Napatech's solutions to accelerate their key business applications around Cybersecurity, 5G mobile, monitoring, financial, and cloud & edge computing. Our customers selected Napatech because our solutions solve their urgent problems around application performance and acceleration and improves the efficiency of their networks and IT infrastructure.

### Putting It All Together to Earn Your Investment

As we enter the final quarter of 2020, we believe our improved guidance remains achievable. We will diligently execute in this market to both capitalize on the benefits and minimize the negatives. We will focus on what we do best, bringing a world-class technology solution to the markets that need us now more than ever. We will do this with a focus on revenue growth, smart investments and an eye on profitability. We have a passionate goal to demonstrate our potential, with a good dose of pragmatism, so we can earn our investor's trust. And we will take the right risks, when presented, to capitalize on our potential to win.

In summary, Napatech is a global leader of FPGA-based SmartNICs focused on high-speed solutions for cloud, mobile, telecom and enterprises with a goal of putting a SmartNIC in every server requiring faster applications, better networking and more effective security applications. We will continue working hard growing a business built upon a solid foundation of FPGA-based SmartNIC and software technology excellence, with a progressive product strategy, and an improved go-to-market approach.

Best regards,

Ray Smets, Chief Executive Officer

## MANAGEMENT'S REPORT

### Highlights YTD:

- Revenue YTD 2020 amounted to DKK 141.8m an increase of 22% compared to YTD 2019.
- Gross margin YTD 2020 was 71.4% a decline of 3.2%-points compared to YTD 2019.
- Staff costs and Other external costs in YTD 2020 amounted to DKK 86.3m compared to DKK 91.4m in YTD 2019.
- EBITDAC<sup>1</sup> YTD 2020 amounted to DKK 14.9m compared to negative DKK 4.4m in YTD 2019.
- EBITDA YTD 2020 amounted to positive DKK 23.6m compared to positive DKK 5.1m in YTD 2019.
- Depreciation, amortization, and impairment for YTD 2020 were DKK 17.3m compared to DKK 18.7m in YTD 2019.
- Cash flow from operating activities YTD 2020 was positive DKK 32.5m compared to positive DKK 13.9m in YTD 2019.
- Net working capital end of YTD 2020 amounted to DKK 6.6m compared to DKK 20.9m end of YTD 2019 and DKK 28.2m end of 2019.
- Net cash used in investing activities YTD 2020 amounted to DKK 9.2m compared to DKK 10.5m in YTD 2019.
- Cash and cash equivalents at the end of YTD 2020 amounted to DKK 70.7m compared to DKK 64.3m at the end of 2019.

### Highlights Q3:

- Revenue in Q3 2020 amounted to DKK 44.4m an increase of 15% compared to Q3 2019.
- Gross margin in Q3 2020 was 70.1% a decline of -11.5%-points compared to Q3 2019.
- Staff costs and Other external costs in Q3 2020 amounted to DKK 25.3m compared to DKK 29.7m in Q3 2019.
- EBITDAC in Q3 2020 amounted to positive DKK 5.4m compared to positive DKK 1.9m in Q3 2019.
- EBITDA in Q3 2020 amounted to positive DKK 8.0m compared to positive DKK 5.2m in Q3 2019.
- Depreciation, amortization, and impairment for Q3 2020 were DKK 5.6m compared to DKK 6.0m in Q3 2019.
- Cash flow from operating activities in Q3 2020 was positive DKK 13.8m compared to positive DKK 0.2m in Q3 2019.
- Net cash used in investing activities in Q3 2020 amounted to DKK 3.4m compared to DKK 4.0m in Q3 2019.

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

(Figures in MDKK)	Q3 2020	Q3 2019	YTD 2020	YTD 2019
Revenue	44.4	38.7	141.8	116.6
Growth YoY	15%	654%	22%	124%
Gross Margin	70.1%	81.6%	71.4%	74.6%
EBITDAC	5.4	1.9	14.9	-4.4
EBITDA	8.0	5.2	23.6	5.1
Net Cash Flow from Operating Activities	14.8	0.1	32.8	11.3
Net Working Capital, end of period	6.6	20.9	6.6	20.9
Cash and cash equivalents, end of period	70.7	53.1	70.7	53.1

### 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

### YTD

Napatech reports revenue of DKK 141.8m in the first three quarters of 2020 compared to DKK 116.6m in the same period in 2019, equivalent to an increase of 22%.

Gross margin in YTD 2020 was 71.4% compared to 74.6% in YTD 2019.

### Q3

Napatech reports revenue of DKK 44.4m in Q3 2020 compared to DKK 38.7m in the same period in 2019, equivalent to an increase of 15%.

Gross margin in Q3 2020 was 70.1% compared to 81.6% in Q3 2019.

## Costs

### YTD

Staff costs and Other external costs in YTD 2020 amounted to DKK 86.3m, compared to DKK 91.4m in YTD 2019.

Operating expenses after transferal of staff costs to capitalized development costs in YTD 2020 amounted to DKK 77.6m, compared to DKK 81.9m in YTD 2019.

### Q3

Staff costs and Other external costs in Q3 2020 amounted to DKK 25.3m, compared to DKK 29.7m in Q3 2019.

Operating expenses after transferal of staff costs to capitalized development costs in Q3 2020 amounted to DKK 22.8m, compared to DKK 26.4m in Q3 2019.

## EBITDAC and EBITDA

### YTD

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to DKK 14.9m in YTD 2020 compared to negative DKK 4.4m in YTD 2019.

EBITDA in YTD 2020 was positive DKK 23.6m compared to positive DKK 5.1m in YTD 2019.

### Q3

EBITDAC amounted to positive DKK 5.4m in Q3 2020 compared to positive DKK 1.9m in Q3 2019.

EBITDA in Q3 2020 was positive DKK 8.0m compared to positive DKK 5.2m in Q3 2019.

## Depreciation, amortization, and impairment

### YTD

Depreciation, amortization, and impairment in YTD 2020 were DKK 17.3m compared to DKK 18.7m in Q3 2019.

### Q3

Depreciation, amortization, and impairment in Q3 2020 were DKK 5.6m compared to DKK 6.0m in Q3 2019.

## Financial Items

### YTD

Financial items for YTD 2020 are negative DKK 2.7m compared to negative DKK 0.2m in YTD 2019.

### Q3

Financial items for Q3 2020 are negative DKK 1.4m compared to positive DKK 0.9m in Q3 2019.

## Taxes

### YTD

Taxes for YTD 2020 amounted to negative DKK 0.3m compared to negative DKK 2.0m in YTD 2019.

### Q3

Taxes for Q3 2020 amounted to negative DKK 0.0m compared to positive DKK 0.2m in Q3 2019.

## Investments

### YTD

Total net cash used in investing activities in YTD 2020 was DKK 9.2m and DKK 9.5m was related to new product development. In YTD 2019 total net cash used in investing activities was DKK 10.5m and which DKK 10.3m was related to new product development.

### Q3

Total net cash used in investing activities in Q3 2020 was DKK 3.4m and DKK 2.6m were related to new product development. In Q3 2019 total net cash used in investing activities was DKK 4.0m and which DKK 3.9m was related to new product development.

## Cash Flow

### YTD

Net cash flow from operating activities in YTD 2020 was positive DKK 32.8m compared to positive DKK 11.3m in YTD 2019.

Free cash flow in YTD 2020 amounted to positive DKK 23.6m compared to positive DKK 0.9m in YTD 2019.

Net cash from financing activities in YTD 2020 was negative DKK 16.7m as a result of the raise conducted in YTD and repayment of borrowings, compared to positive DKK 34.5m YTD 2019.

Cash and cash equivalents end of YTD 2020 was DKK 70.7m compared to DKK 64.3m at the end of 2019.

### Q3

Net cash flow from operating activities in Q3 2020 was positive DKK 14.8m compared to positive DKK 0.1m in Q3 2019.

Free cash flow in the quarter amounted to positive DKK 11.4m compared to negative DKK 3.9m in Q3 2019.

Net cash from financing activities in Q3 2020 was negative DKK 10.4m, compared to negative DKK 3.3m in Q3 2019.

## Events after the end of the period

No significant events have occurred after the end of the reporting period.

## Outlook for 2020

2020 guidance is unchanged:

	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

With performance in the middle of the guided ranges, EBITDAC would be positive DKK 16.0m and EBIT would be positive DKK 8.9m.

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.

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.

**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 June 30, 2020

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

Earnings / (loss) per share:	3rd quarter		YTD September	
	2020	2019	2020	2019
Basic, DKK	0.01	(0.00)	0.04	(0.33)
Diluted, DKK	0.01	(0.00)	0.04	(0.32)

**CASH FLOW STATEMENT**

For the period ended June 30, 2020

DKK'000	3rd quarter		YTD September	
	2020	2019	2020	2019
<b>Operating activities</b>				
Income/Loss before tax	947	63	3,693	(13,815)
<b>Adjustments to reconcile profit before tax to net cash flows</b>				
Finance income	(1,024)	(33)	(1,052)	(40)
Finance costs	2,416	(859)	3,715	211
Depreciation, amortisation and impairment	5,627	6,028	17,284	18,730
Gain/loss on the sale of non-current assets	334	-	(5)	(2)
Share-based payment expense	676	456	1,777	1,126
<b>Working capital adjustments</b>				
Change in inventories	(4,063)	1,504	276	7,745
Change in trade and other receivables and contract assets	15,094	(10,544)	9,058	6,615
Change in trade and other payables, provisions and contract liabilities	(6,252)	3,556	(2,228)	(6,640)
Interest received	1,150	33	1,178	40
Interest paid	(115)	117	(541)	(655)
Income tax received, net	(39)	(196)	(351)	(1,974)
<b>Net cash flows from operating activities</b>	<b>14,751</b>	<b>125</b>	<b>32,804</b>	<b>11,341</b>
<b>Investing activities</b>				
Proceeds from sale of tangible assets	-	-	3	7
Purchase of tangible assets	(315)	(115)	(566)	(227)
Proceeds from sale of intangible assets	(447)	-	-	-
Investments in intangible assets	(2,594)	(3,894)	(9,548)	(10,320)
Investments in leasehold deposits	4	3	946	57
<b>Net cash used in investing activities</b>	<b>(3,352)</b>	<b>(4,006)</b>	<b>(9,165)</b>	<b>(10,483)</b>
<b>Free cash flow</b>	<b>11,399</b>	<b>(3,881)</b>	<b>23,639</b>	<b>858</b>
<b>Financing activities</b>				
Capital increase	-	-	-	58,863
Transaction costs on issue of shares	-	(59)	-	(3,300)
Payment of financial lease liabilities	(1,022)	(1,615)	(3,143)	(5,064)
Increase of borrowings	4,180	-	4,180	-
Repayment of borrowings	(13,521)	(1,623)	(17,726)	(15,974)
<b>Net cash flows (used in) / from financing activities</b>	<b>(10,363)</b>	<b>(3,297)</b>	<b>(16,689)</b>	<b>34,525</b>
<b>Net change in cash and cash equivalents</b>	<b>1,036</b>	<b>(7,178)</b>	<b>6,950</b>	<b>35,383</b>
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
<b>Cash and cash equivalents at the end of the period</b>	<b>70,706</b>	<b>53,060</b>	<b>70,706</b>	<b>53,060</b>

**BALANCE SHEET****ASSETS**

<b>DKK'000</b>	<b>30 Sep. 2020</b>	<b>31 Dec. 2019</b>	<b>30 Sep. 2019</b>
Development projects, completed	24,594	28,646	21,584
Development projects, in progress	7,794	8,089	14,754
Patents	3,981	4,426	4,568
<b>Intangible assets</b>	<b>36,369</b>	<b>41,161</b>	<b>40,906</b>
Plant and equipment	711	645	841
Right-of-use assets	10,148	12,415	12,948
Leasehold improvements	362	549	409
<b>Tangible assets</b>	<b>11,221</b>	<b>13,609</b>	<b>14,198</b>
Leasehold deposits	1,412	1,417	2,464
<b>Other non-current assets</b>	<b>1,412</b>	<b>1,417</b>	<b>2,464</b>
<b>Non-current assets</b>	<b>49,002</b>	<b>56,187</b>	<b>57,568</b>
Inventories	9,256	9,532	9,226
Trade receivables	11,835	23,523	20,691
Contract assets	31	31	514
Other receivables	5,469	6,150	12,181
Income tax receivable	3,055	2,961	5,500
Cash and cash equivalents	70,706	64,306	53,060
<b>Current assets</b>	<b>100,352</b>	<b>106,503</b>	<b>101,172</b>
<b>Total assets</b>	<b>149,354</b>	<b>162,690</b>	<b>158,740</b>



**EQUITY AND LIABILITIES**

<b>DKK'000</b>	<b>30 Sep. 2020</b>	<b>31 Dec. 2019</b>	<b>30 Sep. 2019</b>
Share capital	20,767	20,767	20,767
Share premium	290,329	290,329	290,329
Foreign currency translation reserve	61	350	515
Other capital reserves	6,200	4,492	3,998
Retained earnings	(233,982)	(237,486)	(239,691)
<b>Equity</b>	<b>83,375</b>	<b>78,452</b>	<b>75,918</b>
Other non-current financial liabilities	12,865	9,016	14,083
Non-current lease liabilities	7,507	9,821	7,259
<b>Non-current liabilities</b>	<b>20,372</b>	<b>18,837</b>	<b>21,342</b>
Interest-bearing loans and borrowings	21,395	32,878	31,766
Other current financial liabilities	1,011	6,923	2,228
Current lease liabilities	3,193	3,791	5,819
Trade payables	2,779	2,932	1,947
Other payables	15,816	18,015	15,982
Provisions	1,091	531	126
Contract liabilities	322	331	3,612
<b>Current liabilities</b>	<b>45,607</b>	<b>65,401</b>	<b>61,480</b>
<b>Total liabilities</b>	<b>65,979</b>	<b>84,238</b>	<b>82,822</b>
<b>Total equity and liabilities</b>	<b>149,354</b>	<b>162,690</b>	<b>158,740</b>

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