

NAPATECH
4TH QUARTER 2020
INTERIM MANAGEMENT STATEMENT



napa:tech;

MANAGEMENT'S REPORT**Highlights Full-year 2020:**

- Revenue in USD amounted to 29.7m in 2020 an increase of 16% compared to 2019. In DKK revenue amounted to 194.2m in 2020 an increase of 14% compared to 2019.
- Gross margin in 2020 was 71.5% a decline of 3%-points compared to 2019.
- Staff costs and Other external costs in 2020 amounted to DKK 117.1m compared to DKK 125.8m in 2019.
- EBITDAC¹ in 2020 amounted to DKK 21.9m compared to DKK 1.4m in 2019.
- EBITDA in 2020 amounted to positive DKK 35.4m compared to positive DKK 15.3m in 2019.
- Depreciation, amortization, and impairment for 2020 were DKK 25.3m compared to DKK 25.4m in 2019.
- Net Cash flow from operating activities in 2020 was positive DKK 47.6m compared to positive DKK 26.4m in 2019.
- Net working capital end of 2020 amounted to DKK 3.4m compared to DKK 17.4m end of 2019.
- Net cash used in investing activities in 2020 amounted to DKK 14.0m compared to DKK 13.9m in 2019.
- Cash and cash equivalents at the end of 2020 amounted to DKK 62.7m compared to DKK 64.3m at the end of 2019.
- Napatech issued its original guidance for 2020 on February 27, 2020 and its latest updated outlook on August 13, 2020:

	Original	Updated	Actual
Revenue	DKK 185-205m	DKK 185-205m	DKK 194.2m
Gross margin	68-72%	70-72%	71.5%
Staff expenses & Other external costs	DKK 125-135m	DKK 120-125m	DKK 117.1m
Transferred to capitalized development costs	DKK 15-20m	DKK 13-18m	DKK 13.5m
Depreciation and amortization	DKK 20-25m	DKK 20-25m	DKK 25.3m
EBITDAC (performance in middle of guided ranges)	DKK 6.5m	DKK 16.0m	DKK 21.9m
EBIT (performance in middle of guided ranges)	DKK 1.5m	DKK 8.9m	DKK 10.1m

Highlights Q4:

- Revenue in USD amounted to 8.4m in Q4 2020 an increase of 5% compared to Q4 2019. In DKK revenue amounted to DKK 52.5m in Q4 2020 a decline of 3% compared to Q4 2019.
- Gross margin in Q4 2020 was 71.9% a decline of -2.5%-points compared to Q4 2019.
- Staff costs and Other external costs in Q4 2020 amounted to DKK 30.8m compared to DKK 34.4m in Q4 2019.
- EBITDAC in Q4 2020 amounted to positive DKK 7.0m compared to positive DKK 5.8m in Q4 2019.
- EBITDA in Q4 2020 amounted to positive DKK 11.7m compared to positive DKK 10.2m in Q4 2019.
- Depreciation, amortization, and impairment for Q4 2020 were DKK 8.0m compared to DKK 6.6m in Q4 2019.
- Net Cash flow from operating activities in Q4 2020 was positive DKK 14.8m compared to positive DKK 15.1m in Q4 2019.
- Net cash used in investing activities in Q4 2020 amounted to DKK 4.9m compared to DKK 3.4m in Q4 2019.

¹ EBITDAC: Earnings before depreciation, amortization and impairment, and cost transferred to development projects

Key figures²:

	Q4 2020	Q4 2019	FY 2020	FY 2019
Revenue USD m	8.4	8.0	29.7	25.6
Growth YoY USD m	4%	-5%	16%	52%
Revenue DKK m	52.5	54.0	194.2	170.6
Growth YoY DKK m	-3%	0%	14%	61%
Gross Margin	71.9%	74.4%	71.5%	74.5%
EBITDAC DKK m	7.0	5.8	21.9	1.4
EBITDA DKK m	11.7	10.2	35.4	15.3
Net Cash Flow from Operating Activities DKK m	14.8	15.1	47.6	26.4
Net Working Capital, end of period DKK m	3.4	17.4	3.4	17.4
Cash and cash equivalents, end of period DKK m	62.7	64.3	62.7	64.3

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.

² 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*Full-year 2020*

Napatech reports revenue of DKK 194.2m in 2020 compared to DKK 170.6m in 2019, equivalent to an increase of 14%. In USD revenue was up 16% compared to 2019.

Gross margin in 2020 was 71.5% compared to 74.5% in 2019.

Q4

Napatech reports revenue of DKK 52.5m in Q4 2020 compared to DKK 54.0m in the same period in 2019, equivalent to a decline of 3%. In USD revenue was up 5% compared to Q4 2019.

Gross margin in Q4 2020 was 71.9% compared to 74.4% in Q4 2019.

Costs*Full-year 2020*

Staff costs and Other external costs in 2020 amounted to DKK 117.1m, compared to DKK 125.8m in 2019.

Operating expenses after transferal of staff costs to capitalized development costs in 2020 amounted to DKK 103.6m, compared to DKK 111.9m in 2019.

Q4

Staff costs and Other external costs in Q4 2020 amounted to DKK 30.8m, compared to DKK 34.4m in Q4 2019.

Operating expenses after transferal of staff costs to capitalized development costs in Q4 2020 amounted to DKK 26.0m, compared to DKK 30.0m in Q4 2019.

EBITDAC and EBITDA*Full-year 2020*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to DKK 21.9m in 2020 compared to DKK 1.4m in 2019.

EBITDA in 2020 was positive DKK 35.4m compared to positive DKK 15.3m in 2019.

Q4

EBITDAC amounted to positive DKK 7.0m in Q4 2020 compared to positive DKK 5.8m in Q4 2019.

EBITDA in Q4 2020 was positive DKK 11.7m compared to positive DKK 10.2m in Q4 2019.

Depreciation, amortization, and impairment*Full-year 2020*

Depreciation, amortization, and impairment in 2020 were DKK 25.3m compared to DKK 25.4m in 2019.

Q4

Depreciation, amortization, and impairment in Q4 2020 were DKK 8.0m compared to DKK 6.6m in Q4 2019.

Financial Items*Full-year 2020*

Financial items for 2020 are negative DKK 5.0m compared to negative DKK 4.2m in 2019.

Q4

Financial items for Q4 2020 are negative DKK 2.3m compared to positive DKK 4.0m in Q4 2019.

Taxes*Full-year 2020*

Taxes for 2020 amounted to an income of DKK 4.5m compared to an income of DKK 0.7m in 2019.

Q4

Taxes for Q4 2020 amounted to an income of DKK 4.8m compared to DKK 2.6m in Q4 2019.

Investments*Full-year 2020*

Total net cash used in investing activities in 2020 was DKK 14.0m and DKK 15.0m was related to new product development. In 2019 total net cash used in investing activities was DKK 13.9m and which DKK 15.2m was related to new product development.

Q4

Total net cash used in investing activities in Q4 2020 was DKK 4.9m and DKK 5.5m were related to new product development. In Q4 2019 total net cash used in investing activities was DKK 3.4m and which DKK 4.8m was related to new product development.

Cash Flow*Full-year 2020*

Net cash flow from operating activities in 2020 was positive DKK 47.6m compared to positive DKK 26.4m in 2019.

Free cash flow in 2020 amounted to positive DKK 33.6m compared to positive DKK 12.6m in 2019.

Net cash from financing activities in 2020 was negative DKK 33.7m, compared to positive DKK 34.5m 2019.

Cash and cash equivalents end of 2020 was DKK 62.7m compared to DKK 64.3m at the end of 2019.

Q4

Net cash flow from operating activities in Q4 2020 was positive DKK 14.8m compared to positive DKK 15.1m in Q4 2019.

Free cash flow in the quarter amounted to positive DKK 10.0m compared to positive DKK 11.7m in Q4 2019.

Net cash from financing activities in Q4 2020 was negative DKK 17.0m, compared to negative DKK 0.0m in Q4 2019.

Events after the end of the period

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

Outlook for 2021

In 2021 Napatech is expecting revenue in the range of USD 35-38.3m corresponding to a growth between 17.8%-29.1% compared to 2020.

Due to expected FX head winds, the 2021 guidance in DKK is the following:

	Guidance
Revenue	DKK 210-230m
Gross margin	70-72%
Staff expenses & Other external costs	DKK 125-135m
Staff costs transferred to capitalized development costs	DKK 20-25m
Depreciation and amortization	DKK 20-25m

With performance in the middle of the guided ranges, EBITDAC and EBIT would be positive DKK 26.2m.

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 December 31, 2020

DKK'000	4th quarter		Full-year	
	2020	2019	2020	2019
Revenue	52,478	54,013	194,233	170,607
Cost of goods sold	(14,728)	(13,807)	(55,265)	(43,421)
Gross profit	37,750	40,206	138,968	127,186
Other operating income	-	17	5	19
Staff costs	(24,046)	(27,050)	(96,208)	(98,991)
Other external costs	(6,734)	(7,361)	(20,883)	(26,797)
EBITDAC	6,970	5,812	21,882	1,417
Transferred to capitalized development costs	4,751	4,375	13,479	13,856
EBITDA	11,721	10,187	35,361	15,273
Depreciation, amortization and impairment	(7,992)	(6,625)	(25,276)	(25,355)
Operating result (EBIT)	3,729	3,562	10,085	(10,082)
Finance income	783	403	1,835	443
Finance costs	(3,124)	(4,402)	(6,839)	(4,613)
Result before tax	1,388	(437)	5,081	(14,252)
Income tax	4,771	2,626	4,514	651
Result for the period	6,159	2,189	9,595	(13,601)

CASH FLOW STATEMENT

For the period ended December 31, 2020

DKK'000	4th quarter		Full-year	
	2020	2019	2020	2019
Operating activities				
Income/Loss before tax	1,388	(437)	5,081	(14,252)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(783)	(403)	(1,835)	(443)
Finance costs	3,124	4,402	6,839	4,613
Depreciation, amortisation and impairment	7,992	6,625	25,276	25,355
Gain/loss on the sale of non-current assets	-	(17)	(5)	(19)
Share-based payment expense	577	510	2,354	1,636
Working capital adjustments				
Change in inventories	(9,818)	(306)	(9,542)	7,439
Change in trade and other receivables and contract assets	(4,916)	(781)	4,142	5,834
Change in trade and other payables, provisions and contract liabilities	14,480	431	12,252	(6,209)
Interest received	35	117	1,213	157
Interest paid	(85)	(199)	(626)	(854)
Income tax received, net	2,844	5,165	2,493	3,191
Net cash flows from operating activities	14,838	15,107	47,642	26,448
Investing activities				
Proceeds from sale of tangible assets	-	17	3	24
Purchase of tangible assets	(638)	(283)	(1,204)	(510)
Proceeds from sale of intangible assets	1,268	1,732	1,268	1,732
Investments in intangible assets	(5,493)	(4,832)	(15,041)	(15,152)
Investments in leasehold deposits	5	(8)	951	49
Net cash used in investing activities	(4,858)	(3,374)	(14,023)	(13,857)
Free cash flow	9,980	11,733	33,619	12,591
Financing activities				
Capital increase	-	-	-	58,863
Transaction costs on issue of shares	-	-	-	(3,300)
Payment of financial lease liabilities	(1,007)	(751)	(4,150)	(5,815)
Increase of borrowings	(25)	5,690	4,155	5,690
Repayment of borrowings	(15,959)	(4,950)	(33,685)	(20,924)
Net cash flows (used in) / from financing activities	(16,991)	(11)	(33,680)	34,514
Net change in cash and cash equivalents	(7,011)	11,722	(61)	47,105
Net foreign exchange difference	(997)	(476)	(1,547)	42
Cash and cash equivalents at the beginning of the period	70,706	53,060	64,306	17,159
Cash and cash equivalents at the end of the period	62,698	64,306	62,698	64,306

BALANCE SHEET**ASSETS**

	31 Dec.	30 Sep.	31 Dec.
DKK'000	2020	2020	2019
Development projects, completed	23,328	24,594	28,646
Development projects, in progress	7,760	7,794	8,089
Patents	3,697	3,981	4,426
Intangible assets	34,785	36,369	41,161
Plant and equipment	1,228	711	645
Right-of-use assets	9,412	10,148	12,415
Leasehold improvements	301	362	549
Tangible assets	10,941	11,221	13,609
Deferred tax asset	4,932	-	-
Leasehold deposits	1,407	1,412	1,417
Other non-current assets	6,339	1,412	1,417
Non-current assets	52,065	49,002	56,187
Inventories	19,074	9,256	9,532
Trade receivables	15,802	11,835	23,523
Contract assets	112	31	31
Other receivables	3,057	5,469	6,150
Income tax receivable	47	3,055	2,961
Cash and cash equivalents	62,698	70,706	64,306
Current assets	100,790	100,352	106,503
Total assets	152,855	149,354	162,690

BALANCE SHEET**EQUITY AND LIABILITIES**

	31 Dec.	30 Sep.	31 Dec.
DKK'000	2020	2020	2019
Share capital	20,767	20,767	20,767
Share premium	290,330	290,329	290,329
Foreign currency translation reserve	(283)	61	350
Other capital reserves	6,744	6,200	4,492
Retained earnings	(227,790)	(233,982)	(237,486)
Equity	89,768	83,375	78,452
Other non-current financial liabilities	6,181	12,865	9,016
Non-current lease liabilities	6,827	7,507	9,821
Non-current liabilities	13,008	20,372	18,837
Interest-bearing loans and borrowings	12,500	21,395	32,878
Other current financial liabilities	-	1,011	6,923
Current lease liabilities	2,953	3,193	3,791
Trade payables	11,014	2,779	2,932
Other payables	21,667	15,816	18,015
Provisions	1,529	1,091	531
Contract liabilities	416	322	331
Current liabilities	50,079	45,607	65,401
Total liabilities	63,087	65,979	84,238
Total equity and liabilities	152,855	149,354	162,690

Napatech A/S

Tobaksvejen 23A, 1
DK-2860 Søborg
Denmark
CVR no. 10109124

Phone: +45 4596 1500

www.napatech.com