



H1 2019 Half Year Report Presentation

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H1 2019 Half Year Report Statement Topics

- Q2 & H1 2019 Highlights
- Market Update
- H1 2019 Financial Results
- 2019 Outlook - Revised
- Q&A

Q2 & H1 2019 Highlights

Executive Summary

- Delivered solid revenues, generated healthy margins, and created positive cash flow for a third quarter in a row
- Stabilizing the business has gone well with an intense focus on maintaining and building revenues, bringing new strategic products to the market and driving on-going cost management and working capital improvements.
- Delivered our first software-only product sale in partnership with Intel
- Good progress testing our new Virtualization Switching Acceleration solution with new customers
- Our FPGA software expertise continues to lead the industry helping customers increase the performance of CPU-hungry applications in a multi-cloud world

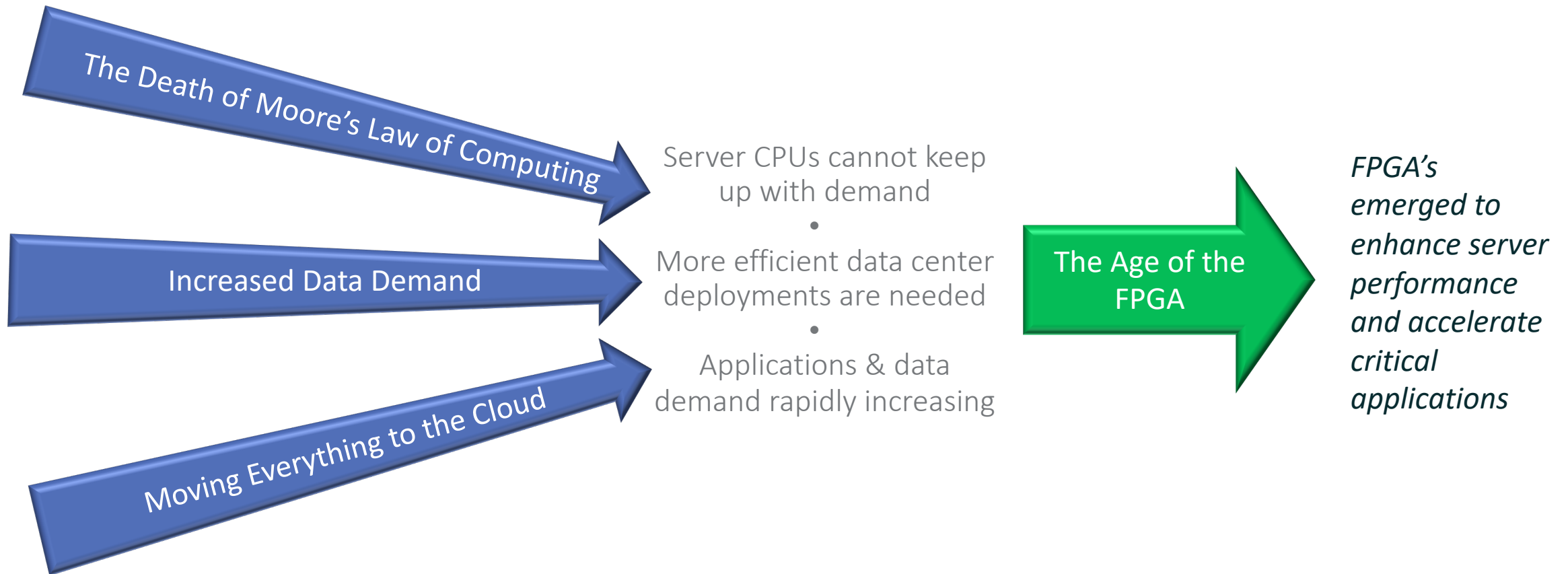


H1 2019 Financial Highlights

M DKK	Q2 2019	Q2 2018	1H 2019	1H 2018
Revenue	39,6	24,7	77,9	47,0
Growth YoY	60%	-56%	66%	-59%
Gross Margin	72,6%	69,8%	71,1%	68,7%

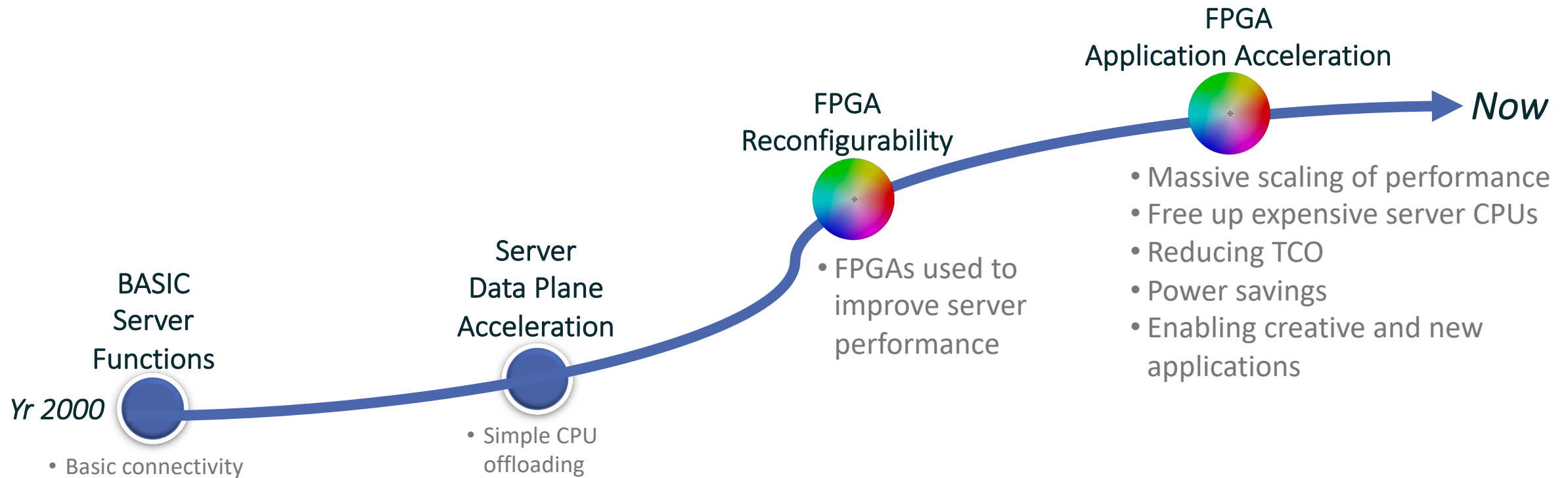
Market Update

The Evolution of the SmartNIC to Accelerate Critical Applications

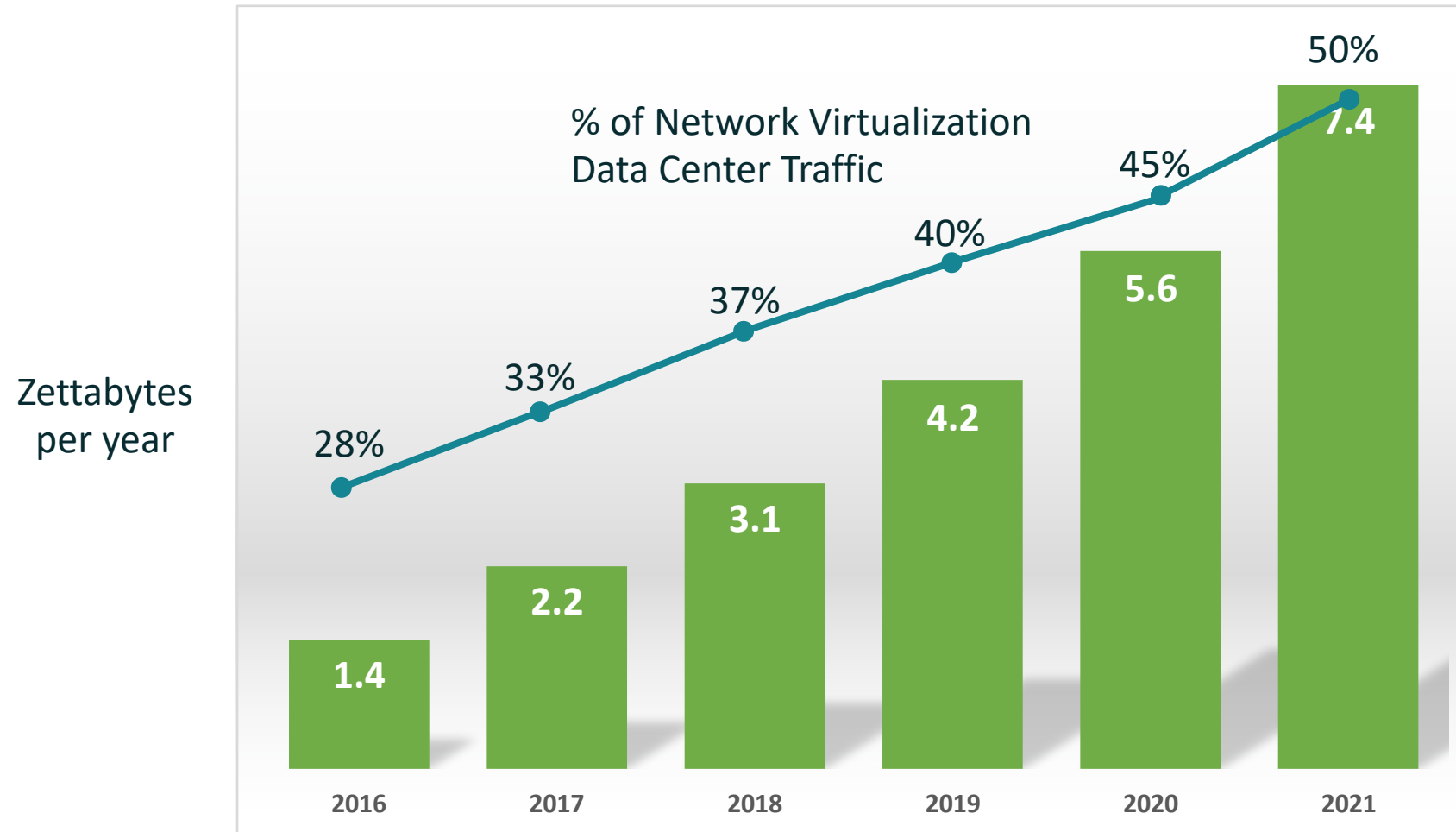


We Are In The Middle of Our Journey

NOW: A need for faster feature rich SmartNICs that can offload the CPU and can be reconfigured to suit changing workloads. Application Acceleration is needed where Network, Data Analytics, AI, Machine Learning, and IoT have ramped server connectivity bandwidth requirements.

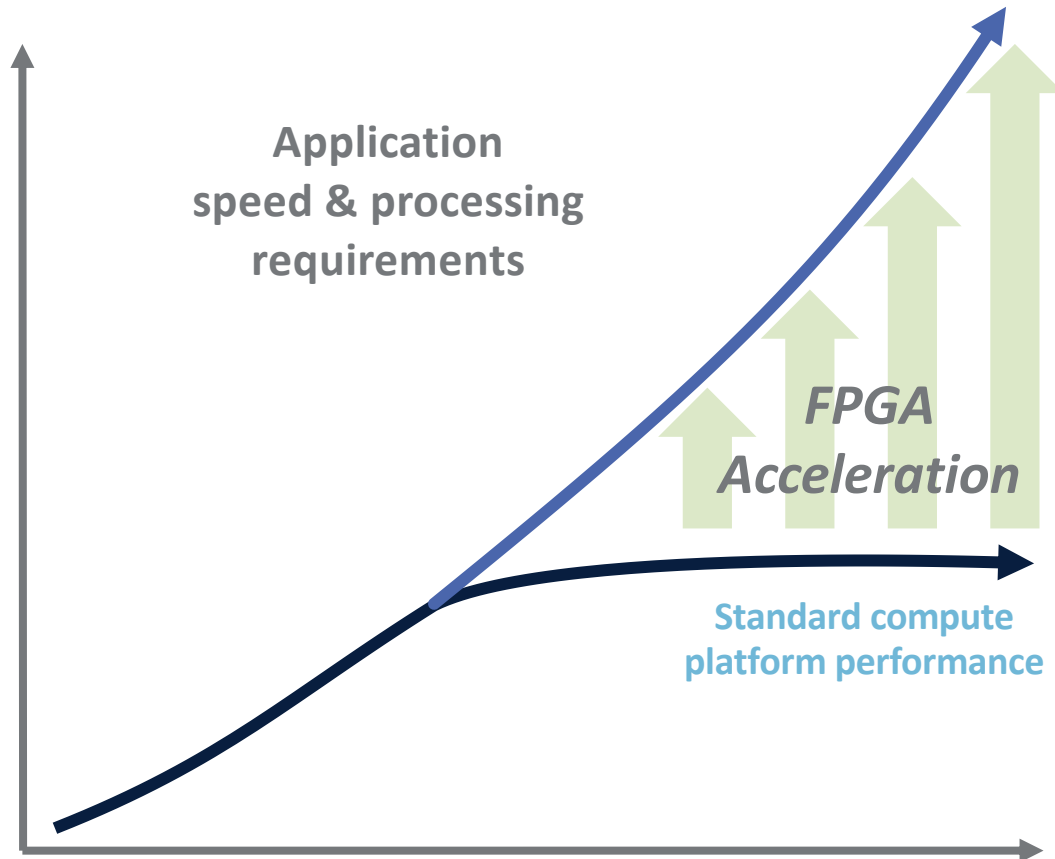


Data Center Performance Impacted by Move to Virtualization



Source: Cisco Global Cloud Index, 2016-2021, 19 Nov 2018

The Problem: Standard Compute Platforms Cannot Keep Up



Major industry players have focused their strategies on *FPGA technology*

Major FPGA chip vendors



Major cloud companies have standardized on FPGA SmartNICs



Major server vendors now include FPGA SmartNICs with their servers

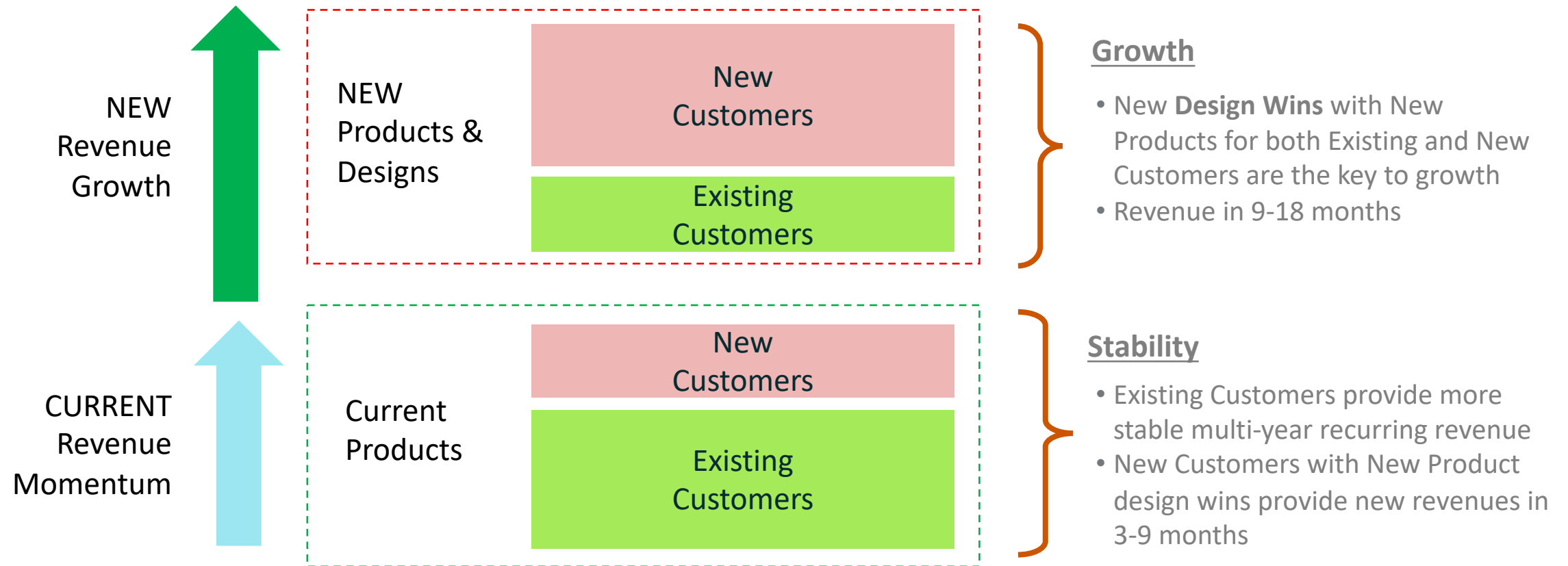


Major telco vendors use FPGA as basis for infrastructure solutions



*The Solution: The **FPGA** solves the performance gap on standard compute platforms*

New Design Wins Effect on Revenue Growth



Q2 Wins Demonstrate 4 Key Trends for Napatech

New Design Win with Existing Customers

Existing Global Test & Measurement Services Company

- Qualified and improved performance of solution for capture, storage and retrieval of network traffic
- Chose Napatech due to superior product performance, trusted incumbency and standardized on single vendor

New Cybersecurity Design Win with Existing Technology Partnership

Tech Partner Focused on Data Protection Solution to Top Global Pharmaceutical

- Cybersecurity software solution focused on Data Loss Prevention leveraging faster performing Packet Capture Network Monitoring & Analytics
- Chose Napatech due to increased application performance, reliability

Progress with New Customer for Virtual Switching Acceleration

Global Server Manufacturer Focused on Service Provider and Enterprise Markets

- Successful lab testing of Napatech's new Virtual Network Acceleration Solution to accelerate Virtual Switching
- Chose to work with Napatech due to promising high performance within a Service Provider targeted virtual network use-case

First Revenue Win with Intel + Napatech Software Only Solution

First Win for Intel & Napatech at VoIP Communications Company

- Selected Intel SmartNIC and Napatech LinkCapture Software-Only product to improve VoIP quality and service assurance
- Chose Napatech due to superior performance over competitive solutions

Our Plan Of Attack

Leverage our expertise in **FPGA software** to out-innovate the competition and build new higher growth product lines in Application Acceleration for Virtualization and Cybersecurity solutions

1. Continue to drive FPGA-based SmartNIC leadership in current Packet Capture solutions
2. Expand our SmartNIC leadership *beyond Packet Capture* to address new high-growth markets to accelerate applications and services in Cybersecurity and 5G Mobile
3. Drive innovative developments in Virtual Switching Acceleration solutions to emerge into new market areas and create new revenues in 2020 and beyond.

Goal: New product revenue growth by leveraging our unique expertise in FGPA software

H1 2019 Financials

Consolidated Income Statement Q2 & H1 2019

DKK'000	2nd quarter		YTD June		Q2	H1
	2019	2018	2019	2018	Δ	Δ
Revenue	39,634	24,723	77,888	47,021	60%	66%
Cost of goods sold	(10,851)	(7,478)	(22,498)	(14,708)		
Gross profit	28,783	17,245	55,390	32,313	67%	71%
Other operating income	-	106	2	106		
Staff expenses and remuneration	(23,528)	(31,745)	(47,578)	(61,746)	-26%	-23%
Other external costs	(6,957)	(11,560)	(14,123)	(23,045)	-40%	-39%
EBITDAC	(1,702)	(25,954)	(6,309)	(52,372)		
Transferred to capitalized development costs	2,826	9,796	6,196	20,407	-71%	-70%
EBITDA	1,124	(16,158)	(113)	(31,965)		
Depreciation, amortization and impairment	(6,304)	(11,837)	(12,702)	(22,397)	-47%	-43%
Operating result (EBIT)	(5,180)	(27,995)	(12,815)	(54,362)		
Finance income	7	-	7	-		
Finance costs	(506)	1,232	(1,070)	(512)		
Result before tax	(5,679)	(26,763)	(13,878)	(54,874)		
Income tax	(488)	5,888	(1,779)	12,072		
Result for the period	(6,167)	(20,875)	(15,657)	(42,802)		

DKK'000	2nd quarter		YTD June	
	2019	2018	2019	2018
Research and development expenses	(6,682)	(5,182)	(12,837)	(8,930)
Selling and distribution expenses	(11,044)	(17,583)	(24,778)	(35,969)
Administrative expenses	(9,933)	(10,638)	(17,890)	(19,379)
OPEX	(27,659)	(33,403)	(55,505)	(64,278)

Implementation of IFRS16 impacts "Other external cost" by 3.5 MDKK in H1 2019. 2018 figures are not adjusted.

Key Highlights

- H1 Revenue up 66% year-over-year (y-o-y)
- H1 Gross profit up 71% y-o-y with margins up 2.4%-points to 71.1%
- H1 Staff costs down 23% y-o-y
- Other external costs down 39% y-o-y - down 23% when adjusted for IFRS16
- H1 EBITDAC improved 46.0M DKK y-o-y
- H1 Capitalized development costs down 70% compared to H1 2018
- H1 EBIT improved 41.5M DKK y-o-y

Consolidated Cash Flow Statement Q2 & H1 2019

DKK'000	2nd quarter		YTD June	
	2019	2018	2019	2018
Earnings before tax (EBT)	(5.679)	(26.763)	(13.878)	(54.874)
Adjustments to reconcile profit before tax to net cash flows	7.141	10.870	14.440	23.438
Working capital adjustments	7.755	(2.971)	13.204	4.696
Cash flows from operating activities	9.217	(18.864)	13.766	(26.740)
Net cash flows from operating activities	7.081	(19.227)	11.216	(27.560)
Net cash used in investing activities	(2.917)	(10.264)	(6.477)	(21.869)
Free cash flow	4.164	(29.491)	4.739	(49.429)
Net cash flows from financing activities	12.912	10.801	37.822	11.070
Net change in cash and cash equivalents	17.076	(18.690)	42.561	(38.359)
Net foreign exchange difference	90	144	152	20
Cash and cash equivalents at the beginning of the period	42.706	20.174	17.159	39.967
Cash and cash equivalents at the end of the period	59.872	1.628	59.872	1.628

	30 Jun.	
	2019	2018
Net working capital	14.749	41.452
- NWC as % of revenue in quarter	37%	168%

Key Highlights

- H1 Cash flows from operating activities up 40.5M DKK y-o-y to +13.8M DKK
- Cash flow in H1 impacted by +13.2M DKK due to working capital improvements
- Net working capital end of H1 14.7M DKK – down 26.7M DKK compared to end of H1 2018
- Net cash used investing activities in H1 down 15.4M DKK y-o-y to 6.5M DKK
- Positive free cash flow of 4.7M DKK in H1 - up 54.2M DKK y-o-y
- Cash and cash equivalents of 59.9M DKK end of H1 2019

Cost and Cash Optimization

Cost Management

- Optimized our staff and operating cost structure
- Average quarterly operating costs* in 2019 are 32.6M DKK, compared to 42.4M DKK in 2018
- At 69% margins, quarterly 'cost break even' revenue is 47.3M DKK in H1 2019, compared to 61.4M DKK in H1 2018 (USD 7.2M compared to USD 10.0M)

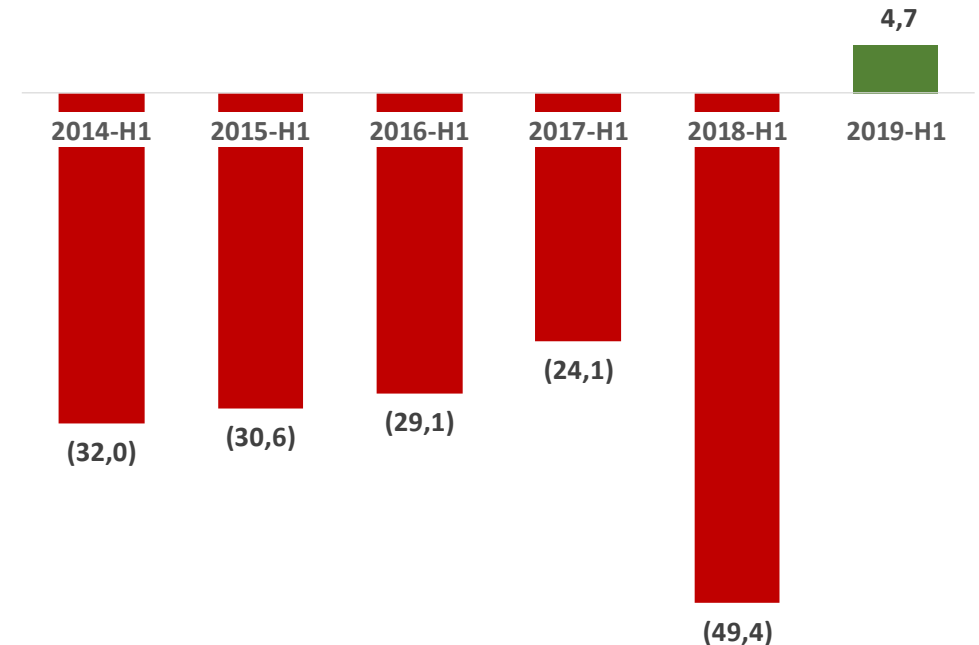
Net Working Capital

- End of H1 inventories are at the lowest level since 2014 and trade receivables are at the lowest level in more than a decade.
- Going forward our NWC target is around 60-70% of quarterly revenue, which is 5-10%-points below the level in 2015-16 and significantly below the level in 2017-18.

Free Cash Flow

- Free Cash Flow in H1 4.7M DKK compared to an H1 average of -33.0M DKK from 2014 to 2018.

Free Cash Flow H1 - M DKK



* Operating costs cover staff expenses and other external costs before IFRS16 adjustment and before transfer of costs to capitalized development costs

2019 Outlook - Revised

Guidance

- Continued good progress in financial management and business activity raises optimism around key fundamental financial improvements
- 2019 Business Guidance is updated as follows:

Guidance	Previous	Updated
Revenue	150-180 MDKK	150-180 MDKK
Gross margin	around 68%	around 69%
Operating expenses*	115-125 MDKK	110-115 MDKK
Investments in development projects	20-25 MDKK	13-17 MDKK
Depreciation and amortization	20-25 MDKK	20-25 MDKK

* Operating expenses include costs on R&D, sales and distribution, as well as administrative expenses

Note:

- With performance in the middle of the guided ranges:
 - EBITDA** would be 1.3M DKK (*previous guidance: negative 7.8M DKK*) – up 9.1M DKK
 - EBIT** would be negative 21.2M DKK (*previous guidance: negative 30.3M DKK*) – up 9.1M DKK
- 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.

Q&A Session

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