



## 3Q 2021 Interim Management Statement

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## Q&A Session at the end of the presentation

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## 3Q 2021 IMS Report Topics

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- The Future is Bright for Napatech
- 3Q 2021 Business Highlights
- 3Q 2021 Financial Results
- 2021 Outlook
- Q&A

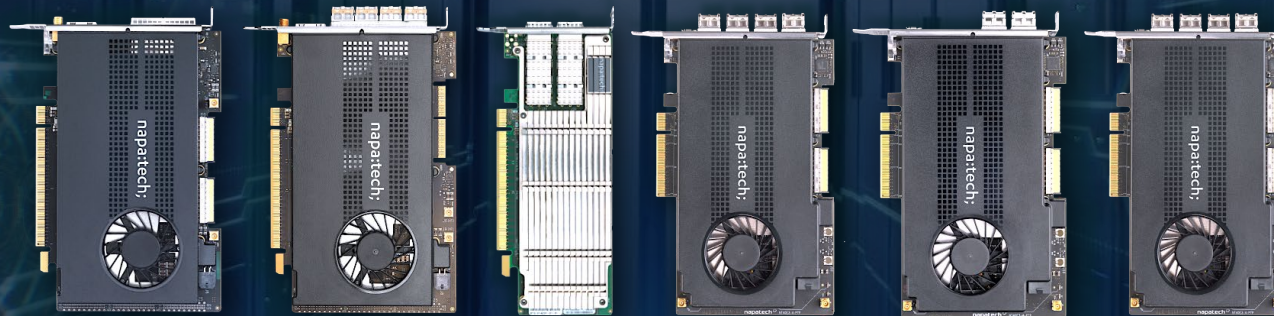


The Future is Bright for Napatech



# Napatech Builds SmartNICs and SmartNIC Software

## Napatech SmartNICs Accelerate Server-based Applications



- We design high-performance programmable SmartNICs to offload servers and accelerate apps
  - Our software powers the SmartNICs - *our key strategic advantage*



# The Evolution of the SmartNIC is the IPU



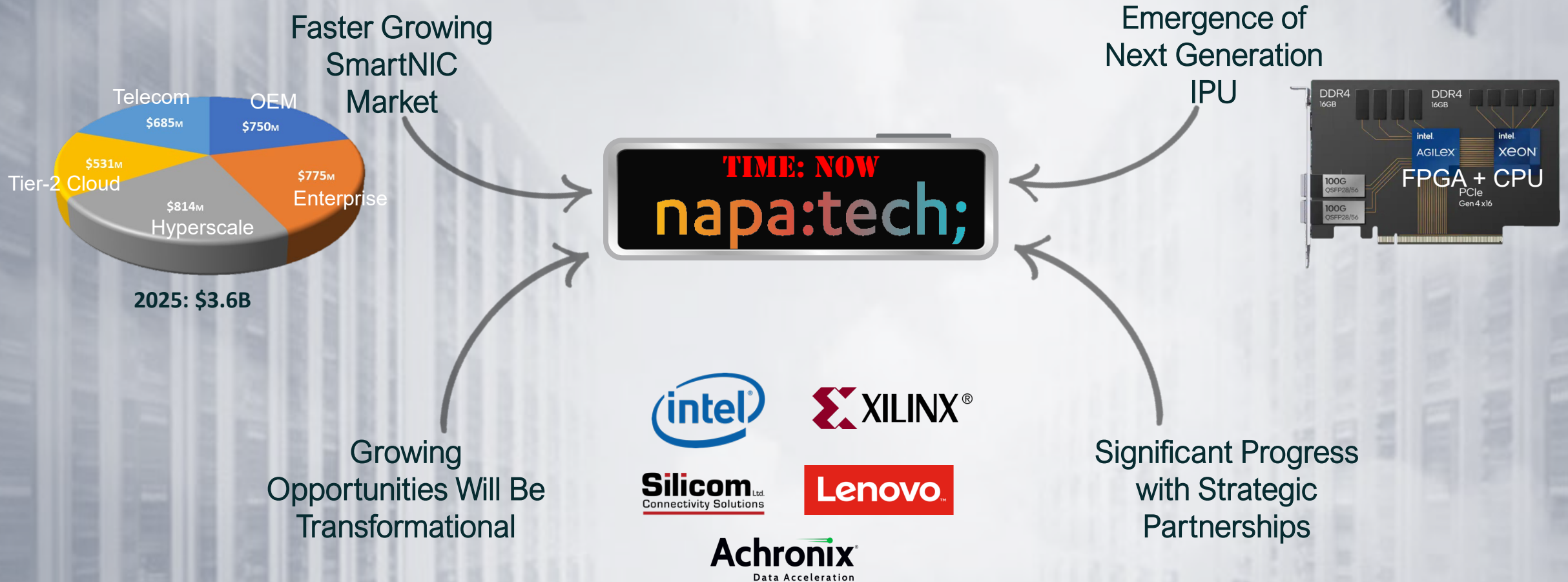
**Silicom** Ltd.  
Connectivity Solutions

Infrastructure Processing Unit (IPU)  
An Evolutionary Step for SmartNICs

- Highly-intelligent infrastructure acceleration
- System-level security, control and isolation
- Common Software Frameworks
- HW & SW programmable

- We are enhancing our SmartNIC HW solutions to include x86 and ARM CPU cores (IPU)
- We are investing in our SmartNIC SW to power our expanding SmartNIC HW portfolio
  - We have built key partnerships to take a leading role as this evolution occurs
  - *Our ambition is to win new business in 2022 and beyond*

# The Opportunities for Napatech Have Never Been More Compelling





# Napatech is *Accelerating* Investment in Link-Virtualization

## Full Steam Ahead

- We see a large opportunity in fast-growing virtual use-cases targeting modern cloud, mobile/telco, enterprise and edge datacenters
- Napatech's SmartNIC software improves performance by off-loading virtual workloads improving server performance and overall economics
- Napatech is increasing investments in software development to accelerate feature velocity within this evolving market
- Hiring +30 full-time R&D and subcontractors over next 12 months
- Cash flow will be negative in the coming quarters as we accelerate the development
- Investments enable 2022 design wins and revenue expansion for years to come

*The timing of this investment is strategic, and we are going for it*

## 3Q 2021 Business Highlights



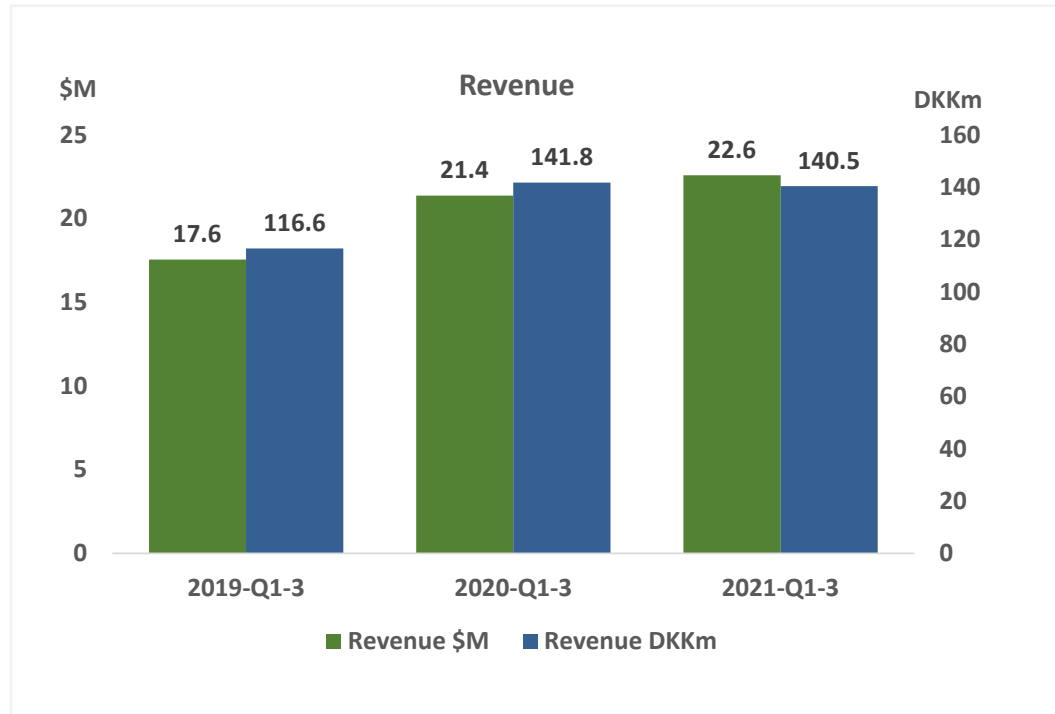
## 3Q 2021 Continues Streak of Solid Business Results

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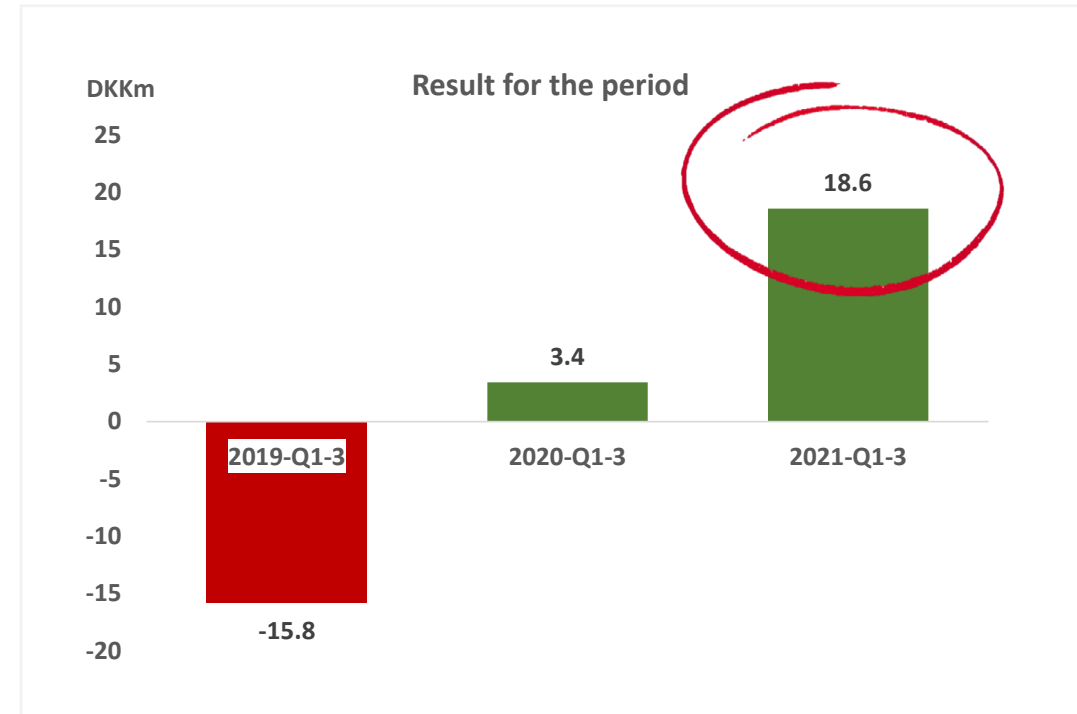
- **Growing & Profitable**
- 3Q 2021 YoY Revenue Growth **+7%**
- Gross Margins 3Q of **73.1%**
- EBITDAC & EBITDA 3Q **Positive and up YoY**
- Earnings are **Positive YTD, up 15.1 DKKm YoY**
- Free Cash Flow 3Q of **4.3 DKKm**
- Free Cash Flow YTD is **+12.1 DKKm** adjusted for the early deployment of working capital due to supply chain impacts

# 2021 Continues with Positive YoY Results

Revenue over the last three YTD periods underscore the strength and stability of Napatech's business



YTD positive earnings demonstrates business leverage and longer-term profitable operation





# Q3'21 Wins: Top Brands Deploy Napatech

## Networking & Security



Increasing speeds,  
evolving threats  
require performance  
and visibility

## Telecom & Cloud



5G increases speeds,  
users & devices,  
greater software  
virtualization needed

## Government & Defense



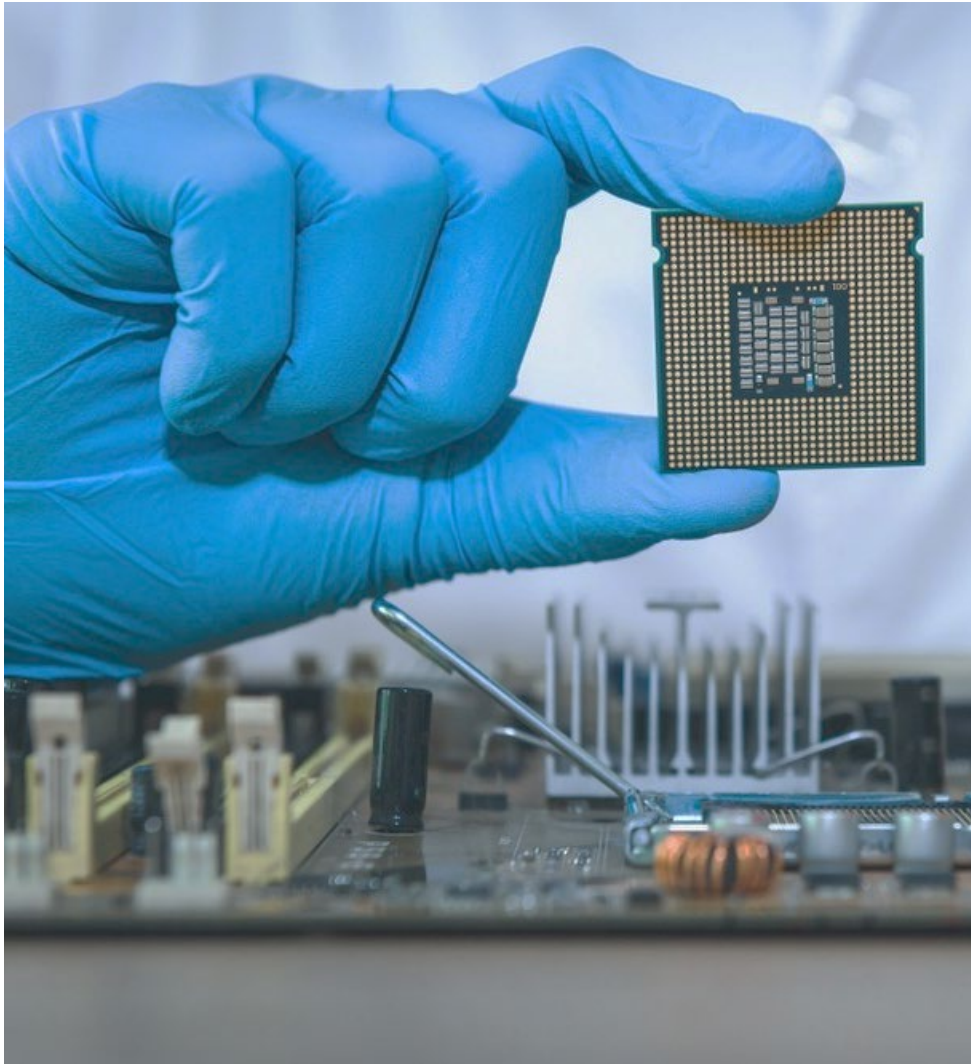
Mission-critical apps  
need zero packet  
loss, network  
visibility & control

## Financial / Other



Faster networks &  
nanosecond  
precision for high-  
frequency trading

# Napatech Increases Pricing Reacting to Global Supply Chain Situation



- Napatech issues price increase effective Jan 2022 for all impacted products
- Costs have jumped significantly in Q4'21 for all SmartNIC components
- Additionally, proactive sourcing of SmartNIC components requires deploying more cash earlier but assures revenues into 2022
- Other impacts being monitored
  - Industry server supplies
  - Shortages of customer personnel
  - Project delays
  - Lengthened deal timelines and shifting opportunities



## 3Q 2021 Financials

# Consolidated Income Statement Q3 & YTD 2021

DKK'000	Q3		YTD		Q3	YTD
	2021	2020	2021	2020	Δ	Δ
Revenue	47,247	44,352	140,479	141,755	7%	-1%
Cost of goods sold	(12,699)	(13,280)	(39,808)	(40,537)		
Gross profit	34,548	31,072	100,671	101,218	11%	-1%
GM%	73.1%	70.1%	71.7%	71.4%		
Other operating income	-	(334)	25	5		
Staff costs	(21,962)	(21,579)	(71,834)	(72,162)	2%	-0.5%
Other external costs	(6,345)	(3,715)	(16,792)	(14,149)	71%	19%
EBITDAC	6,241	5,444	12,070	14,912		
Transferred to capitalized development costs	6,148	2,522	17,754	8,728	144%	103%
EBITDA	12,389	7,966	29,824	23,640		
Depreciation, amortization and impairment	(5,774)	(5,627)	(15,576)	(17,284)	3%	-10%
Operating result (EBIT)	6,615	2,339	14,248	6,356		
Finance income	1,444	1,024	5,885	1,052		
Finance costs	(118)	(2,416)	(470)	(3,715)		
Result before tax	7,941	947	19,663	3,693		
Income tax	(374)	(38)	(1,091)	(257)		
Result for the period	7,567	909	18,572	3,436	732%	441%

## Key Highlights

- Revenue in Q3 in USD up 7% compared to Q2'20 (up 7% in DKK). Revenue YTD in USD up 6% compared to 2020 (down 1% in DKK).
- GM in Q3 73.1% up 3 basis points compared to Q3'20. GM YTD 71.7% up 0.3 basis points compared to 2020.
- Staff costs in Q3 up 2% compared to Q3'20 and down 0.5% YTD compared to 2020.
- Other external costs in Q3 up 71% compared to Q3'20 and up 19% YTD compared to 2020.
- Q3 EBITDAC positive DKK 6.2m – up DKK 0.8m compared to Q3'20. YTD EBITDAC positive DKK 12.1m – down DKK 2.8m compared to 2020.
- Result for the period YTD positive DKK 18.6m – up DKK 15.1m compared 2020.

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



# Consolidated Cash Flow Statement Q3 & YTD 2021

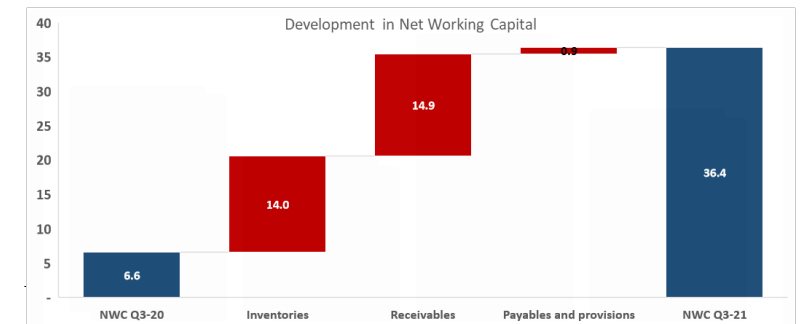
DKK'000	Q3		YTD	
	2021	2020	2021	2020
Earnings before tax (EBT)	7,941	947	19,663	3,693
Adjustments to reconcile profit before tax to net cash flows	5,390	8,029	12,537	21,719
Working capital adjustments	(229)	4,779	(31,161)	7,106
Interest, net	(426)	(154)	(1,350)	(892)
Income tax, net	12,683	14,751	(292)	32,804
<b>Net cash flows from operating activities</b>	<b>12,683</b>	<b>14,751</b>	<b>(292)</b>	<b>32,804</b>
<b>Net cash used in investing activities</b>	<b>(8,360)</b>	<b>(3,352)</b>	<b>(18,799)</b>	<b>(9,165)</b>
<b>Free cash flow</b>	<b>4,323</b>	<b>11,399</b>	<b>(19,091)</b>	<b>23,639</b>
<b>Net cash flows from financing activities</b>	<b>(3,353)</b>	<b>(10,363)</b>	<b>(4,636)</b>	<b>(16,689)</b>
<b>Net change in cash and cash equivalents</b>	<b>970</b>	<b>1,036</b>	<b>(23,727)</b>	<b>6,950</b>
Net foreign exchange difference	1,282	(272)	1,584	(550)
Cash and cash equivalents at the beginning of the period	38,303	69,942	62,698	64,306
<b>Cash and cash equivalents at the end of the period</b>	<b>40,555</b>	<b>70,706</b>	<b>40,555</b>	<b>70,706</b>

Net working capital  
 - NWC as % of revenue in quarter

2021	2020
36,360	6,583
77%	15%

## Key Highlights

- Net Cash flow from operating activities in Q3 DKK 12.7m – YTD negative DKK 0.3m.
- Net working capital end of Q3 DKK 36.4m ~ 77% of revenue in quarter.



- Free cash flow in Q3 positive DKK 4.3m.
- Cash and cash equivalents of DKK 40.6m end of Q3 21 compared to DKK 62.7m end of Q3'20.

# 2021 Outlook

# Annual Guidance for 2021 - Unchanged

	Guidance
Revenue	DKK 210-230m
Gross margin	70-72%
Staff expenses & Other external costs	DKK 125-135m
Transferred to capitalized development costs	DKK 20-25m
Depreciation, amortization and impairment	DKK 20-25m
EBITDAC & EBIT	DKK 22-30.6m

## Key Highlights

- Napatech remains confident in partner and customer progress impacting our pipeline development for Q4.
- Despite component pricing challenges, our Gross Margins remain strong as we enter Q4.
- Our effort to increase our engineering capacity is fully accounted for within this outlook.
- Strategic opportunities are positive and progressing well.



# Why Invest In Napatech?



**EXCITING  
MARKET  
POTENTIAL**



**REVENUE,  
CASH FLOW  
&  
EARNINGS**



**STABLE  
&  
GROWING**



**DELIVERING  
PRODUCT  
INNOVATION**



**WINNING  
TOP  
CUSTOMER  
BRANDS**



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