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# Q3 2019 Interim Statement Presentation

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# Q3 2019 Interim Management Statement Topics

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- Q3 2019 Business Highlights
- Q3 2019 Financial Results
- 2019 Outlook
- Q&A



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# Q3 2019 Business Highlights

# Executive Summary Q3 2019

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- Meeting Expectations and on Track to Achieve Guidance
  - Solid revenues
  - Stronger margins
  - Positive EBITDAC
  - Positive free cash flow for YTD 2019
- During a seasonably slower quarter, momentum remained encouraging as we entered Q4 2019
- Our FPGA-based SmartNIC software and hardware solutions continue to attract new brands for more applications within our target use cases and markets

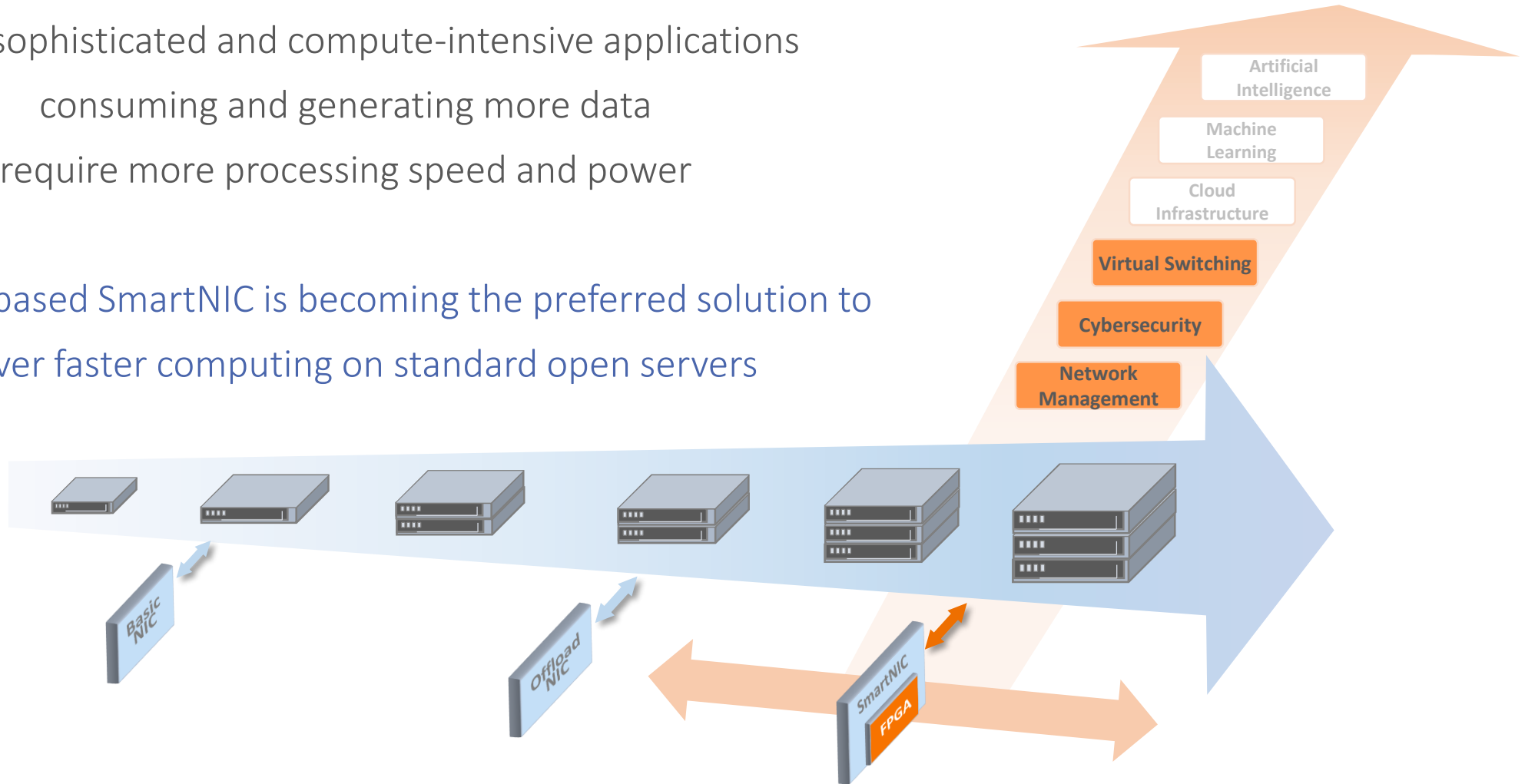
# Financial Highlights

	Q3 2019	Q3 2018	YTD 2019	YTD 2018
<b>Revenue M DKK</b>	38.7	5.1	116.6	52.2
<b>Revenue M USD</b>	\$5.8	\$0.8	\$17.6	\$8.1
<b>Growth YoY</b>	654%	-88%	124%	-67%
<b>Gross Margin</b>	81.6%	-105.6%	74.6	51.6

# Napatech Sits at the Crossroads of Two Major Market Forces

More sophisticated and compute-intensive applications  
consuming and generating more data  
require more processing speed and power

The FPGA-based SmartNIC is becoming the preferred solution to  
deliver faster computing on standard open servers

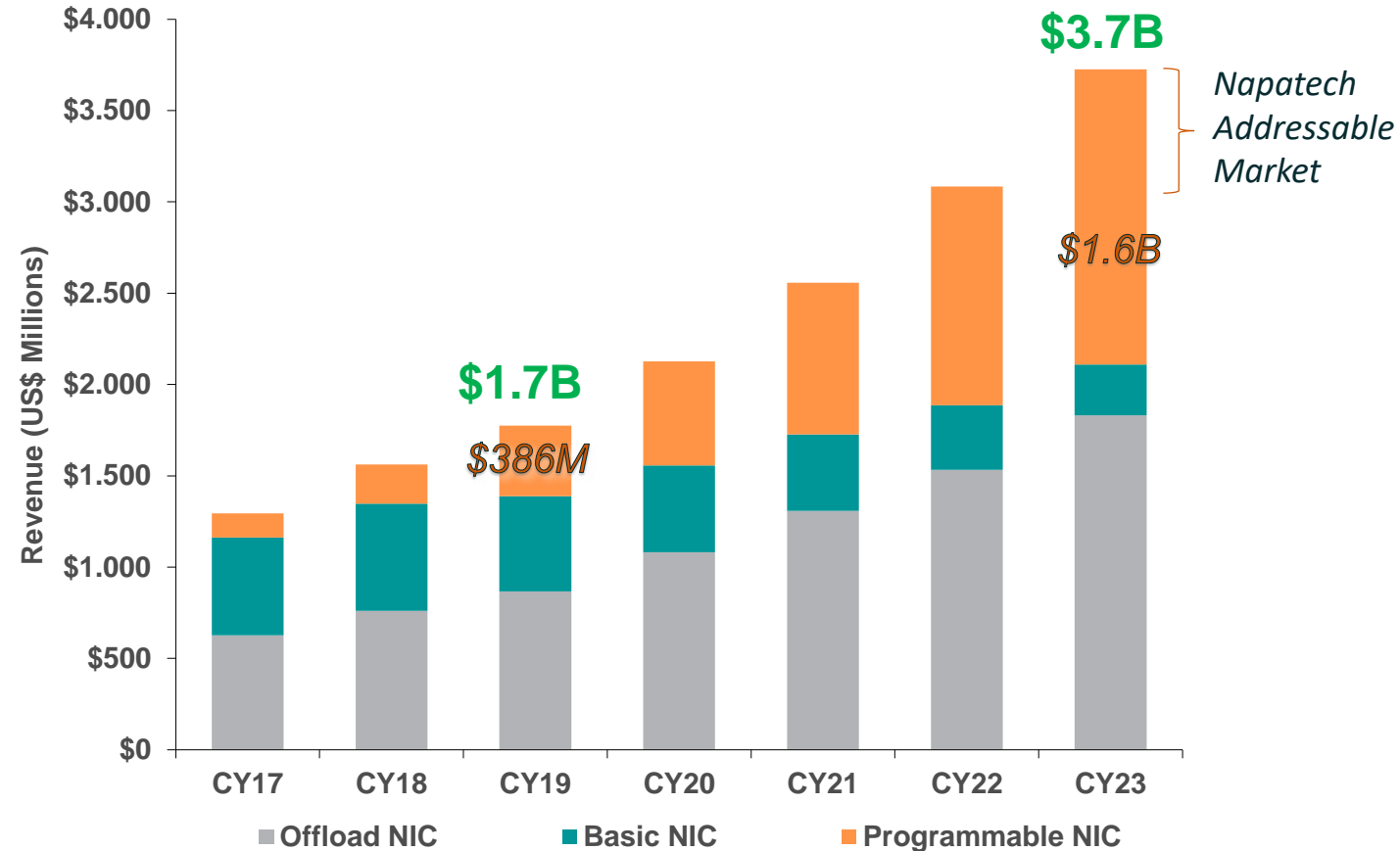




# The SmartNIC Market is Expanding

- *Overall NIC market* is \$1.7B today, growing to \$3.7B by 2023.
- *Programmable NIC market* is \$386M today, growing to \$1.6B by 2023.
- *Napatech's rapidly emerging addressable SmartNIC market* is estimated to expand along with the overall Programmable NIC market by 2023.

DC Ethernet Adapter Revenue Forecast by CPU Offload



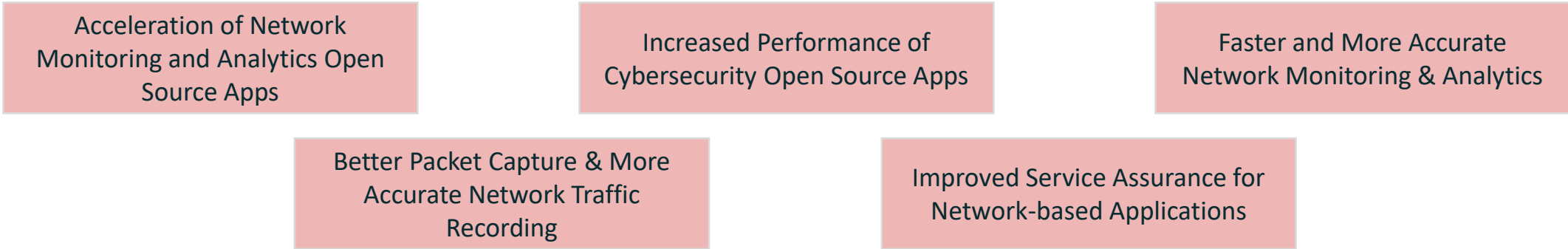
Source: IHS Markit | Technology, now a part of Informa Tech, Ethernet Network Adapter Equipment Market Tracker; October 2019

# Q3 Business Shows Progress with Well-Known Brands

## Well Known Brands



## Applications and Services



# Our Plan Of Attack

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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*



# Q1-Q3 2019 Financials

# Consolidated Income Statement Q3 & YTD September 2019

DKK'000	Q3		YTD September		Q3	Q1-Q3
	2019	2018	2019	2018	Δ	Δ
<b>Revenue</b>	<b>38,706</b>	<b>5,135</b>	<b>116,594</b>	<b>52,156</b>	<b>654%</b>	<b>124%</b>
Cost of goods sold	(7,116)	(10,559)	(29,614)	(25,267)		
<b>Gross profit</b>	<b>31,590</b>	<b>(5,424)</b>	<b>86,980</b>	<b>26,889</b>	<b>N/A</b>	<b>223%</b>
Other operating income	-	-	2	106		
Staff expenses and remuneration	(24,363)	(24,384)	(71,941)	(86,130)	<b>0%</b>	<b>-16%</b>
Other external costs	(5,313)	(10,651)	(19,436)	(33,696)	<b>-50%</b>	<b>-42%</b>
<b>EBITDAC</b>	<b>1,914</b>	<b>(40,459)</b>	<b>(4,395)</b>	<b>(92,831)</b>		
Transferred to capitalized development costs	3,285	7,408	9,481	27,815	<b>-56%</b>	<b>-66%</b>
<b>EBITDA</b>	<b>5,199</b>	<b>(33,051)</b>	<b>5,086</b>	<b>(65,016)</b>		
Depreciation, amortization and impairment	(6,028)	(33,138)	(18,730)	(55,535)	<b>-82%</b>	<b>-66%</b>
<b>Operating result (EBIT)</b>	<b>(829)</b>	<b>(66,189)</b>	<b>(13,644)</b>	<b>(120,551)</b>		
Net finance	892	(6,207)	(171)	(6,719)		
<b>Result before tax</b>	<b>63</b>	<b>(72,396)</b>	<b>(13,815)</b>	<b>(127,270)</b>		
Income tax	(196)	(18,289)	(1,975)	(6,217)		
<b>Result for the period</b>	<b>(133)</b>	<b>(90,685)</b>	<b>(15,790)</b>	<b>(133,487)</b>		

DKK'000	Q3		YTD September	
	2019	2018	2019	2018
Research and development expenses	(5,134)	(2,927)	(17,971)	(11,857)
Selling and distribution expenses	(11,690)	(15,509)	(36,468)	(51,478)
Administrative expenses	(9,567)	(9,191)	(27,457)	(28,676)
<b>OPEX</b>	<b>(26,391)</b>	<b>(27,627)</b>	<b>(81,896)</b>	<b>(92,011)</b>

Implementation of IFRS16 impacts "Other external cost" by 5.1 MDKK in H1 2019. 2018 figures are not adjusted.

## Key Highlights

- Revenue up year-over-year 57% in Q3 & 63% YTD *when adjusted for special items in Q3 2018*
- YTD GM 74.6% up 5%-points *when adjusted for special items in Q3 2018*
- YTD Staff costs down 16%
- YTD Other external costs down 27% when adjusted for IFRS16
- Q3 EBITDAC positive 1.9M
- YTD EBITDAC up 88.4 MDKK year-over-year

# Consolidated Cash Flow Statement Q3 & YTD September 2019

DKK'000	3rd quarter		YTD September	
	2019	2018	2019	2018
<b>Earnings before tax (EBT)</b>	<b>63</b>	<b>(72,396)</b>	<b>(13,815)</b>	<b>(127,270)</b>
Adjustments to reconcile profit before tax to net cash flows	5,592	39,577	20,025	63,015
Working capital adjustments	(5,484)	(2,736)	7,720	1,960
<b>Cash flows from operating activities</b>	<b>171</b>	<b>(35,555)</b>	<b>13,930</b>	<b>(62,295)</b>
<b>Net cash flows from operating activities</b>	<b>125</b>	<b>(36,003)</b>	<b>11,341</b>	<b>(63,563)</b>
<b>Net cash used in investing activities</b>	<b>(4,006)</b>	<b>(7,598)</b>	<b>(10,483)</b>	<b>(29,467)</b>
<b>Free cash flow</b>	<b>(3,881)</b>	<b>(43,601)</b>	<b>858</b>	<b>(93,030)</b>
<b>Net cash flows from financing activities</b>	<b>(3,297)</b>	<b>44,827</b>	<b>34,525</b>	<b>55,897</b>
<b>Net change in cash and cash equivalents</b>	<b>(7,178)</b>	<b>1,226</b>	<b>35,383</b>	<b>(37,133)</b>
Net foreign exchange difference	366	(2,234)	518	(2,214)
Cash and cash equivalents at the beginning of the period	59,872	1,628	17,159	39,967
<b>Cash and cash equivalents at the end of the period</b>	<b>53,060</b>	<b>620</b>	<b>53,060</b>	<b>620</b>

	30 Sep.	
	2019	2018
<b>Net working capital</b>	<b>20,945</b>	<b>46,094</b>
- NWC as % of revenue in quarter	53%	186%

## Key Highlights

- Q3 Cash flows from operating activities up 35.7 MDKK to +0.2 MDKK
- YTD Cash flows from operating activities up 76.2 MDKK to +14.0 MDKK
- Net working capital end of Q3 20.9 MDKK – 53% of revenue in quarter
- Free cash flow +0.9 MDKK YTD Q3 - up 93.9 MDKK y-o-y
- Cash and cash equivalents of 53.1 MDKK end of Q3 2019



# 2019 Outlook

# Guidance

- Due to improvements in products margins 2019 guidance is updated as follows:

Guidance	Previous	Updated
Revenue	150-180 MDKK	150-180 MDKK
Gross margin	around 69%	<b>71-73%</b>
Operating expenses*	110-115 MDKK	110-115 MDKK
Investments in development projects	13-17 MDKK	13-17 MDKK
Depreciation and amortization	20-25 MDKK	20-25 MDKK

Note:

- With performance in the middle of the guided ranges:
- **EBITDA** would be 6.3 MDKK (*previous guidance: 1.3 MDKK*) – up 5.0 MDKK
- **EBIT** would be negative 16.2 MDKK (*previous guidance: negative 21.2 MDKK*) – up 5.0 MDKK

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



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