



NAPATECH
3RD QUARTER 2022
INTERIM MANAGEMENT STATEMENT

napa:tech;

MANAGEMENT'S REPORT

Dear Shareholders,

Napatech is a global leader of FPGA-based SmartNICs used for Infrastructure Processing (IPU) and Data Processing (DPU) that dramatically impact the performance and economics of modern datacenters in cloud, mobile, telecom and enterprise networks.

We don't have to explain that we are in the midst of a challenging market situation that has continued to affect many companies within and around our market domain. While Napatech is not immune to the challenging market conditions that are impacting our industry suppliers, customers, partners, we've continued to build momentum and remain confident about our long-term prospects.

We have successfully invested in our product portfolio, technology and commercial areas that are the foundation for our growth and have already yielded early positive results.

- First, we have focused on business exclusively on one of the fastest-growing segments in IT, the programmable SmartNIC market. Napatech has established itself as an early leader in this fast-growing and rapidly evolving market segment. Our singular focus on complete solutions that bring together the hardware and software in one easy-to-consume product, separate Napatech with 8% market share among more than 40 companies competing in this space. With new and emerging applications and use cases, the market has a lot of room to grow, and we intend to ride this wave as this market matures and consolidates.
- Our software and hardware investments have created a product offering that has never been better. These developments have unlocked a large and previously unreachable portion of the market and have earned us the opportunity to compete for the largest network designs globally. We have begun to see results including new designs wins, including one mentioned in Q2 that will yield more than \$15M USD in lifetime value.
- We have further expanded our already-strong relationships with the top-two semiconductor bell-weather, who are leaders in defining the future of modern datacenter networks. Our recently announced sales and marketing agreement with AMD has already yielded results in pursuing new and previously unreachable opportunities. Additionally, we are investing in our portfolio of SmartNICs to support new IPU solutions powered by Intel. These activities combined have contributed to a design-win pipeline for Napatech to pursue more than \$750M USD in opportunities through 2024.
- And, we have the best technical resources that know how to develop and deploy the best performing software and hardware technology solution, which gives us a bona fide benchmarked advantage over competitors in the market.

In summary, we have built a strong business with a lot of potential to grow. These advantages are sound and will deliver solid performance as the overall market conditions improve. Our solution is relevant and growing in this market, and when we gain traction with new design wins in this area, Napatech will see significant growth coming from these opportunities. The pipeline development is promising and with a growth acceleration into 2023. We remain confident that 2023 and beyond will be best-ever years to come for Napatech.

The SmartNIC market is forecasted by industry experts to grow rapidly over the next five years and is ripe for further consolidation. Given Napatech's unique leadership position within this fast-growing domain, our Board and Management have continued to conduct a strategic review to consider all strategic options to maximize our shareholder value given the large opportunities that lie ahead of us.

Committed and focused,

Ray Smets
Chief Executive Office

Highlights YTD:

- Revenue YTD Q3 2022 in USD amounted to 17.9m, a decline of 21% compared to 2021. In DKK, revenue amounted to 124.7m, a decline of 11% compared to 2021.
- Gross margin YTD 2022 was 56.0%, a decline of 15.7%-points compared to YTD 2021. Gross margins were temporarily impacted due to a significant cost increase of a few components and a temporary revenue mix impact.
- Staff costs and Other external costs YTD 2022 amounted to DKK 104.6m compared to DKK 88.6m YTD 2021.
- EBITDAC YTD 2022 amounted to negative DKK 34.7m compared to positive DKK 12.1m in 2021.
- EBITDA YTD 2022 amounted to negative DKK 16.0m compared to positive DKK 29.8m in 2021.
- Depreciation, amortization, and impairment YTD 2022 were DKK 19.3m compared to DKK 15.6m YTD 2021.
- Net Cash flow from operating activities YTD 2022 was negative DKK 12.8m compared to negative DKK 0.3m in 2021.
- Net working capital end of Q3 2022 amounted to DKK 50.0m compared to DKK 35.3m end of Q3 2021 and DKK 44.5m end of 2021.
- Net cash used in investing activities YTD 2022 amounted to DKK 27.3m compared to DKK 18.8m YTD 2021.
- Cash and cash equivalents at the end of Q3 2022 amounted to DKK 27.9m compared to DKK 40.6m at the end of Q3 2021.

Highlights Q3:

- Revenue in USD amounted to 5.0m in Q3 2022, a decline of 33% compared to Q3 2021. In DKK, revenue amounted to 37.0m, a decline of 22% compared to Q3 2021.
- The gross margin in Q3 2022 was 49.3%, a decline of 23.8%-points compared to Q3 2021. Gross margins were temporarily impacted due to a significant cost increase of a few components and a temporary revenue mix impact.
- Staff costs and Other external costs in Q3 2022 amounted to DKK 31.0m compared to DKK 28.3m in Q3 2021.
- EBITDAC in Q3 2022 amounted to negative DKK 12.7m compared to positive DKK 6.2m in Q3 2021.
- EBITDA in Q3 2022 amounted to negative DKK 7.0m compared to positive DKK 12.4m in Q3 2021.
- Depreciation, amortization, and impairment for Q3 2022 were DKK 7.3m compared to DKK 5.8m in Q3 2021.
- Net Cash flow from operating activities in Q3 2022 was negative DKK 15.0m compared to positive DKK 12.7m in Q3 2021.
- Net cash used in investing activities in Q3 2022 amounted to DKK 7.8m compared to DKK 8.4m in Q3 2021.

Key figures¹:

	Q3 2022	Q3 2021	YTD 2022	YTD 2021
Revenue USD m	5.0	7.5	17.9	22.6
Growth YoY USD m	-33%	7%	-21%	6%
Revenue DKK m	37.0	47.2	124.7	140.5
Growth YoY DKK m	-22%	7%	-11%	-1%
Gross Margin	49.3%	73.1%	56.0%	71.7%
EBITDAC DKK m	-12.7	6.2	-34.7	12.1
EBITDA DKK m	-7.0	12.4	-16.0	29.8
Net Cash Flow from Operating Activities DKK m	-15.0	12.7	-12.8	-0.3
Net Working Capital, end of period DKK m	50.0	35.3	50.0	35.3
Cash and cash equivalents, end of period DKK m	27.9	40.6	27.9	40.6

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.

¹ 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 124.7m in the first three quarters of 2022 compared to DKK 140.5m in the same period in 2021, equivalent to a decline of 11%. In USD, revenue declined 21% compared to 2021.

The gross margin YTD 2022 was 56.0% compared to 71.7% in 2021. Gross margins were temporarily impacted due to a significant cost increase of a few components and a temporary revenue mix impact.

Q3

Napatech reports revenue of DKK 37.0m in Q3 2022 compared to DKK 47.2m in the same period in 2021, equivalent to a decline of 22%.

The gross margin in Q3 2022 was 49.3% compared to 73.1% in Q3 2021.

Costs

YTD

Staff costs and Other external costs YTD 2022 amounted to DKK 104.6m, compared to DKK 88.6m YTD 2021.

Operating expenses after the transfer of staff costs to capitalized development costs YTD 2022 amounted to DKK 85.8m, compared to DKK 70.9m YTD 2021.

Q3

Staff costs and Other external costs in Q3 2022 amounted to DKK 31.0m, compared to DKK 28.3m in Q3 2021.

Operating expenses after the transfer of staff costs to capitalized development costs in Q3 2022 amounted to DKK 25.2m, compared to DKK 22.2m in Q3 2021.

EBITDAC and EBITDA

YTD

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 34.7m YTD 2022 compared to positive DKK 12.1m YTD 2021.

EBITDA in YTD 2022 was negative DKK 16.0m compared to positive DKK 29.8m YTD 2021.

Q3

EBITDAC amounted to negative DKK 12.7m in Q3 2022 compared to positive DKK 6.2m in Q3 2021.

EBITDA in Q3 2022 was negative DKK 7.0m compared to positive DKK 12.4m in Q3 2021.

Depreciation, amortization, and impairment

YTD

Depreciation, amortization, and impairment in YTD 2022 were DKK 19.3m compared to DKK 15.6m in 2021.

Q3

Depreciation, amortization, and impairment in Q3 2022 were DKK 7.3m compared to DKK 5.8m in Q3 2021.

Financial Items

YTD

Financial items for YTD 2022 are positive DKK 4.6m compared to positive DKK 5.4m in YTD 2021.

Q3

Financial items for Q3 2022 are positive DKK 1.6m compared to positive DKK 1.3m in Q3 2021.

Taxes

YTD

Taxes for YTD 2022 amounted to DKK 0.0m compared to negative DKK 1.1m in YTD 2021.

Q3

Taxes for Q3 2022 amounted to DKK 0.0m compared to negative DKK 0.4m in Q3 2021.

Investments

YTD

Total net cash used in investing activities YTD 2022 was DKK 27.3m, and DKK 24.8m was related to new product development. YTD 2021 total net cash used in investing activities was DKK 18.8m, and DKK 20.4m was related to new product development.

Q3

Total net cash used in investing activities in Q3 2022 was DKK 7.8m, and DKK 7.8m was related to new product development. In Q3 2021 total net cash used in investing activities was DKK 8.4m, and DKK 7.1m was related to new product development.

Cash Flow

YTD

Net cash flow from operating activities in YTD 2022 was negative DKK 12.8m compared to negative DKK 0.3m YTD 2021.

Free cash flow YTD 2022 amounted to negative DKK 40.1m compared to negative DKK 19.1m YTD 2021.

Net cash from financing activities YTD 2022 was positive DKK 27.5m as a result of increased borrowings, compared to negative DKK 4.6m YTD 2021.

Cash and cash equivalents end of Q3 2022 was DKK 27.9m compared to DKK 40.6m at the end of Q3 2021.

Q3

Net cash flow from operating activities in Q3 2022 was negative DKK 15.0m compared to positive DKK 12.7m in Q3 2021.

Free cash flow in the quarter amounted to negative DKK 22.8m compared to positive DKK 4.3m in Q3 2021.

Net cash from financing activities in Q3 2022 was positive DKK 12.1m, compared to negative DKK 3.4m in Q3 2021.

Events after the end of the period

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

Outlook for 2022

Due to the current market conditions and the impact of the component shortage on the product margins, the 2022 guidance is updated as follows:

Guidance	Previous	Updated
Revenue	DKK 195-220m	DKK 170-200m
Gross margin	69-71%	57-61%
Staff expenses & Other external costs	DKK 145-155m	DKK 140-150m
Staff costs transferred to capitalized development costs	DKK 28-33m	DKK 25-27m
Depreciation and amortization	DKK 23-28m	DKK 23-28m

With performance in the middle of the guided ranges, EBIT would be negative DKK 35.4m

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 September 30, 2022

DKK'000	3rd quarter		YTD Sep.	
	2022	2021	2022	2021
Revenue	36,976	47,247	124,697	140,479
Cost of goods sold	(18,730)	(12,699)	(54,858)	(39,808)
Gross profit	18,246	34,548	69,839	100,671
Other operating income	-	-	-	25
Staff costs	(24,168)	(21,962)	(80,463)	(71,834)
Other external costs	(6,805)	(6,345)	(24,103)	(16,792)
EBITDAC	(12,727)	6,241	(34,727)	12,070
Transferred to capitalized development costs	5,748	6,148	18,777	17,754
EBITDA	(6,979)	12,389	(15,950)	29,824
Depreciation, amortization and impairment	(7,342)	(5,774)	(19,271)	(15,576)
Operating result (EBIT)	(14,321)	6,615	(35,221)	14,248
Finance income	2,031	1,444	5,542	5,885
Finance costs	(390)	(118)	(953)	(470)
Result before tax	(12,680)	7,941	(30,632)	19,663
Income tax	9	(374)	(24)	(1,091)
Result for the period	(12,671)	7,567	(30,656)	18,572

CASH FLOW STATEMENT

For the period ended September 30, 2022

DKK'000	3rd quarter		YTD Sep.	
	2022	2021	2022	2021
Operating activities				
Income/Loss before tax	(12,680)	7,941	(30,632)	19,663
Adjustments to reconcile profit before tax to net cash flows				
Finance income	(2,031)	(1,444)	(5,542)	(5,885)
Finance costs	390	118	953	470
Depreciation, amortisation and impairment	7,342	5,774	19,271	15,576
Gain/loss on the sale of non-current assets	-	-	-	(25)
Share-based payment expense	1,689	942	4,507	2,401
Working capital adjustments				
Change in inventories	(7,733)	(808)	(8,225)	(4,196)
Change in trade and other receivables and right-of-return asset	6,192	2,549	13,300	(12,514)
Change in trade and other payables, provisions, refund liability and contract liabilities	(7,828)	(1,970)	(5,613)	(14,451)
Interest received	-	7	7	19
Interest paid	(346)	(54)	(808)	(262)
Income tax received, net	6	(372)	(28)	(1,088)
Net cash flows from operating activities	(14,999)	12,683	(12,810)	(292)
Investing activities				
Proceeds from sale of tangible assets	-	-	-	25
Purchase of tangible assets	(15)	(1,236)	(2,382)	(2,495)
Proceeds from sale of intangible assets	-	-	-	3,986
Investments in intangible assets	(7,772)	(7,123)	(24,847)	(20,366)
Investments in leasehold deposits	(1)	(1)	(41)	51
Net cash used in investing activities	(7,788)	(8,360)	(27,270)	(18,799)
Free cash flow	(22,787)	4,323	(40,080)	(19,091)
Financing activities				
Capital increase	-	-	-	32
Share buyback	(1,650)	-	(1,914)	(273)
Payment of financial lease liabilities	(751)	(809)	(2,237)	(2,569)
Increase of borrowings	14,666	-	40,960	-
Repayment of borrowings	(183)	(2,544)	(9,353)	(1,826)
Net cash flows from financing activities	12,082	(3,353)	27,456	(4,636)
Net change in cash and cash equivalents	(10,705)	970	(12,624)	(23,727)
Net foreign exchange difference	1,100	1,282	1,096	1,584
Cash and cash equivalents at the beginning of the period	37,526	38,303	39,449	62,698
Cash and cash equivalents at the end of the period	27,921	40,555	27,921	40,555

BALANCE SHEET

ASSETS

	30 Sep. 2022	31 Dec. 2021	30 Sep. 2021
DKK'000			
Development projects, completed	32,376	26,685	29,932
Development projects, in progress	20,705	15,589	9,485
Patents	2,517	3,016	3,186
Intangible assets	55,598	45,290	42,603
Plant and equipment	6,355	6,605	2,595
Right-of-use assets	5,411	6,995	7,736
Leasehold improvements	715	727	646
Tangible assets	12,481	14,327	10,977
Deferred tax asset	9,718	9,715	4,936
Leasehold deposits	1,398	1,357	1,356
Other non-current assets	11,116	11,072	6,292
Non-current assets	79,195	70,689	59,872
Inventories	32,348	24,123	23,270
Trade receivables	24,529	37,514	28,083
Right-of-return asset	39	36	115
Other receivables	10,005	4,915	4,012
Income tax receivable	-	-	47
Cash and cash equivalents	27,921	39,449	40,555
Current assets	94,842	106,037	96,082
Total assets	174,037	176,726	155,954

EQUITY AND LIABILITIES

	30 Sep. 2022	31 Dec. 2021	30 Sep. 2021
DKK'000			
Share capital	20,774	20,774	20,771
Share premium	290,435	290,435	290,404
Treasury shares	(1,914)	-	-
Foreign currency translation reserve	829	270	95
Other capital reserves	12,716	8,242	8,204
Retained earnings	(216,872)	(186,249)	(208,557)
Equity	105,968	133,472	110,917
Interest-bearing loans and borrowings	9,758	-	-
Other non-current financial liabilities	4,568	4,860	5,433
Non-current lease liabilities	2,757	4,545	5,245
Non-current liabilities	17,083	9,405	10,678
Interest-bearing loans and borrowings	31,202	9,061	11,422
Current lease liabilities	2,908	2,726	2,771
Trade payables	3,085	10,990	3,466
Other payables	11,895	7,931	14,711
Income tax payable	16	16	-
Provisions	289	297	528
Contract liabilities	1,431	2,681	1,046
Refund liabilities	160	147	415
Current liabilities	50,986	33,849	34,359
Total liabilities	68,069	43,254	45,037
Total equity and liabilities	174,037	176,726	155,954

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