

NAPATECH
4TH QUARTER 2022
INTERIM MANAGEMENT STATEMENT



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MANAGEMENT'S REPORT

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

In Q4'22, we continued to feel the impact of the worldwide recession on the tech industry for many of our customers and Napatech leading to a harsh end of 2022.

However, we strongly believe that our investments in new technology during 2022 will ensure that Napatech stays competitive and well positioned for the opportunities of the coming years. Or as Gartner stated earlier in 2023: *"Organisations that do not spend in the near term will undoubtedly fall behind in the medium term and risk not being around in the long run."*

Building on our investment momentum Napatech has successfully attracted new partners and investments. In December 2022, Napatech could announce a multi-faceted agreement with a tier-1 global semiconductor leader to develop new hardware and software solutions in a multi-year agreement of a total of USD 5.0 million in revenue, in addition, Napatech in February 2023 could announce that a US-based technology company, holding extensive industry expertise with a strong market, customer and product knowhow will invest USD 7.5 million in Napatech.

These investments and the companies behind them not only strengthen our position and enable Napatech to leverage our leadership position in the fast-growing SmartNIC market but also represents a significant milestone for Napatech in executing our strategic plan. And it provides validation of the product and technology vision that Napatech has set.

While Napatech business, like the global tech industry, has been impacted by the challenging market conditions during the past years, we've made significant investments in our product technology to create a strong foundation for business in market areas that will deliver growth in the coming years:

- Our agreement with a tier-1 global semiconductor leader to develop a new IPU solution is a significant milestone and validation of our technology vision. The first part of this deal brings \$5M in revenue for 2023.
- Our agreement with AMD to expand our joint sales pipeline of Napatech SmartNICs based on AMD FPGA technology will enable new revenue streams that are expected to begin during 2023 and grow hereafter.
- Our new product, the 5G User Plane Function (UPF) offload solution, doing all of the work to connect the actual data coming over the 5G Radio Network to the Internet, improving efficiency and user satisfaction
- Our investment to deliver on the design win, announced in the prior quarter, with a world-class security solutions provider. The SmartNIC solution based on Intel technology has a potential of \$10M per year

In summary, we have experienced a difficult year from a business perspective, however, it is our firm belief that we will see improvements as the technology markets generally improve during 2023 and beyond. In addition, we have the technology, competitiveness, and, last but not least, some very strong partnerships supporting an amazing pipeline of current and future business opportunities.

Best regards,

Henrik Brill
CEO

Highlights Full-year 2022:

- Revenue in 2022 in USD amounted to 22.7m, a decline of 27% compared to 2021. In DKK, revenue amounted to 158.6m, a decline of 19% compared to 2021.
- The gross margin in 2022 was 57%, a decline of 15%-points compared to 2021.
- Staff costs and Other external costs in 2022 amounted to DKK 133.1m compared to DKK 111.7m in 2021.
- EBITDAC in 2022 amounted to negative DKK 43.4m compared to positive DKK 29.3m in 2021.
- EBITDA in 2022 amounted to negative DKK 20.1m compared to positive DKK 52.9m in 2021.
- Depreciation, amortization, and impairment in 2022 were DKK 26.1m compared to DKK 22.3m in 2021.
- Net Cash flow from operating activities in 2022 was negative DKK 24.0m compared to positive DKK 15.0m in 2021.
- Net working capital end of 2022 amounted to DKK 55.7m compared to DKK 44.5m end of 2021.
- Net cash used in investing activities in 2022 amounted to DKK 32.7m compared to DKK 31.0m in 2021.
- Cash and cash equivalents at the end of 2022 amounted to DKK 12.0m compared to DKK 39.4m at the end of 2021.
- Napatech issued its original guidance for 2022 on February 24, 2022, and its latest updated outlook on November 30, 2022.

Guidance	Original	Updated	Actual
Revenue	DKK 235-260m	DKK 170-200m	DKK 158.6m
Gross margin	69-71%	57-61%	57%
Staff expenses & Other external costs	DKK 155-165m	DKK 140-150m	DKK 133.1m
Staff costs transferred to capitalized development costs	DKK 28-33m	DKK 25-27m	DKK 23.3m
Depreciation and amortization	DKK 23-28m	DKK 23-28m	DKK 26.1m

Highlights Q4:

- Revenue in USD amounted to 4.8m in Q4 2022, a decline of 43% compared to Q4 2021. In DKK, revenue amounted to 33.9m, a decline of 38% compared to Q4 2021.
- The gross margin in Q4 2022 was 59%, a decline of 13%-points compared to Q4 2021.
- Staff costs and Other external costs in Q4 2022 amounted to DKK 28.5m compared to DKK 23.1m in Q4 2021.
- EBITDAC in Q4 2022 amounted to negative DKK 8.7m compared to positive DKK 17.2m in Q4 2021.
- EBITDA in Q4 2022 amounted to negative DKK 4.2m compared to positive DKK 23.1m in Q4 2021.
- Depreciation, amortization, and impairment for Q4 2022 were DKK 6.8m compared to DKK 6.7m in Q4 2021.
- Net Cash flow from operating activities in Q4 2022 was negative DKK 11.2m compared to positive DKK 15.2m in Q4 2021.
- Net cash used in investing activities in Q4 2022 amounted to DKK 5.5m compared to DKK 12.2m in Q4 2021.

Key figures¹:

	Q4 2022	Q4 2021	FY 2022	FY 2021
Revenue USD m	4.8	8.5	22.7	31.1
Growth YoY USD m	-43%	2%	-27%	5%
Revenue DKK m	33.9	55.0	158.6	195.5
Growth YoY DKK m	-38%	5%	-19%	1%
Gross Margin	59%	72%	57%	72%
EBITDAC DKK m	-8.7	17.2	-43.4	29.3
EBITDA DKK m	-4.2	23.1	-20.1	52.9
Net Cash Flow from Operating Activities DKK m	-11.2	15.2	-24.0	15.0
Net Working Capital, end of period DKK m	55.7	44.5	55.7	44.5
Cash and cash equivalents, end of period DKK m	12.0	39.4	12.0	39.4

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*Full-year 2022*

Napatech reports revenue of DKK 158.6m in 2022 compared to DKK 195.5m in 2021, equivalent to a decline of 19%. In USD, revenue was down 27% compared to 2021.

The gross margin in 2022 was 57% compared to 72% in 2021.

Q4

Napatech reports revenue of DKK 33.9m in Q4 2022 compared to DKK 55.0m in the same period in 2021, equivalent to a decline of 38%.

The gross margin in Q4 2022 was 59% compared to 72% in Q4 2021.

Costs*Full-year 2022*

Staff costs and Other external costs in 2022 amounted to DKK 133.1m, compared to DKK 111.7m in 2021.

Operating expenses after the transfer of staff costs to capitalized development costs in 2022 amounted to DKK 109.8m, compared to DKK 88.1m in 2021.

Q4

Staff costs and Other external costs in Q4 2022 amounted to DKK 28.5m, compared to DKK 23.1m in Q4 2021.

Operating expenses after the transfer of staff costs to capitalized development costs in Q4 2022 amounted to DKK 24.0m, compared to DKK 17.2m in Q4 2021.

EBITDAC and EBITDA*Full-year 2022*

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 43.4m in 2022 compared to positive DKK 29.3m in 2021.

EBITDA in 2022 was negative DKK 20.1m compared to positive DKK 52.9m in 2021.

Q4

EBITDAC amounted to negative DKK 8.7m in Q4 2022 compared to positive DKK 17.2m in Q4 2021.

EBITDA in Q4 2022 was negative DKK 4.2m compared to positive DKK 23.1m in Q4 2021.

Depreciation, amortization, and impairment*Full-year 2022*

Depreciation, amortization, and impairment in 2022 were DKK 26.1m compared to DKK 22.3m in 2021.

Q4

Depreciation, amortization, and impairment in Q4 2022 were DKK 6.8m compared to DKK 6.7m in Q4 2021.

Financial Items*Full-year 2022*

Financial items in 2022 amounted to positive DKK 2.1m compared to positive DKK 6.3m in 2021.

Q4

Financial items in Q4 2022 amounted to negative DKK 2.5m compared to positive DKK 0.9m in Q4 2021.

Taxes*Full-year 2022*

Taxes in 2022 amounted to negative DKK 4.1m compared to an income of DKK 3.2m in 2021.

Q4

Taxes for Q4 2022 amounted to negative DKK 4.1m compared to an income of DKK 4.3m in Q4 2021.

Investments*Full-year 2022*

Total net cash used in investing activities in 2022 was DKK 32.7m, of which DKK 30.3m was related to new product development. In 2021, total net cash used in investing activities was DKK 31.0m, of which DKK 28.5m was related to new product development.

Q4

Total net cash used in investing activities in Q4 2022 was DKK 5.5m, of which DKK 5.4m was related to new product development. In Q4 2021, total net cash used in investing activities was DKK 12.2m, of which DKK 8.1m was related to new product development.

Cash Flow*Full-year 2022*

Net cash flow from operating activities in 2022 was negative DKK 24.0m compared to positive DKK 15.0m in 2021.

Free cash flow in 2022 amounted to negative DKK 56.7m compared to negative DKK 16.0m in 2021.

Net cash from financing activities in 2022 was positive DKK 28.6m compared to negative DKK 8.3m in 2021 as a result of the increase in borrowings.

Cash and cash equivalents end of 2022 was DKK 12.0m compared to DKK 39.4m at the end of 2021.

Q4

Net cash flow from operating activities in Q4 2022 was negative DKK 11.2m compared to positive DKK 15.2m in Q4 2021.

Free cash flow in Q4 2021 amounted to negative DKK 16.6m compared to positive DKK 3.1m in Q4 2021.

Net cash from financing activities in Q4 2022 was positive DKK 1.1m, compared to negative DKK 3.7m in Q4 2021.

Events after the end of the period

On February 17, 2023, Napatech announced an agreement for a USD 7.5 million investment in Napatech.

The investment will be made through a private placement of 6,200,738 shares at NOK 12.34 per share, representing 6.94% of the issued share capital of the Company post-delivery of the new shares. The closing date of the transaction is expected to be around April 14, 2023.

Outlook for 2023

In 2023 Napatech is expecting revenue in the range of USD 26-29m, corresponding to growth between 13%-26% compared to 2022.

	Guidance
Revenue	DKK 180-200m
Gross margin	68-71%
Staff expenses & Other external costs	DKK 160-170m
Staff costs transferred to capitalized development costs	DKK 20-25m

With performance in the middle of the guided ranges, EBITDA would be negative DKK 10.5m.

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, 2022

DKK'000	4th quarter		Full-Year	
	2022	2021	2022	2021
Revenue	33,931	54,992	158,628	195,471
Cost of goods sold	(14,073)	(15,305)	(68,931)	(55,113)
Gross profit	19,858	39,687	89,697	140,358
Other operating income	-	600	-	625
Staff costs	(18,448)	(16,915)	(98,911)	(88,749)
Other external costs	(10,075)	(6,135)	(34,178)	(22,927)
EBITDAC	(8,665)	17,237	(43,392)	29,307
Transferred to capitalized development costs	4,493	5,854	23,270	23,608
EBITDA	(4,172)	23,091	(20,122)	52,915
Depreciation, amortization and impairment	(6,807)	(6,677)	(26,078)	(22,253)
Operating result (EBIT)	(10,979)	16,414	(46,200)	30,662
Finance income	(1,946)	1,087	3,596	6,972
Finance costs	(587)	(166)	(1,540)	(636)
Result before tax	(13,512)	17,335	(44,144)	36,998
Income tax	(4,091)	4,321	(4,115)	3,230
Result for the period	(17,603)	21,656	(48,259)	40,228

CASH FLOW STATEMENT

For the period ended December 31, 2022

DKK'000	4th quarter		Full-Year	
	2022	2021	2022	2021
Operating activities				
Income/Loss before tax	(13,512)	17,335	(44,144)	36,998
Adjustments to reconcile profit before tax to net cash flows				
Finance income	1,946	(1,087)	(3,596)	(6,972)
Finance costs	587	166	1,540	636
Depreciation, amortisation and impairment	6,807	6,677	26,078	22,253
Gain/loss on the sale of non-current assets	-	(600)	-	(625)
Share-based payment expense	1,167	706	5,674	3,107
Working capital adjustments				
Change in inventories	(6,506)	(853)	(14,731)	(5,049)
Change in trade and other receivables, right-of-return asset and prepayments	(36,532)	(8,612)	(23,232)	(21,126)
Change in trade and other payables, provisions, refund liability and contract liabilities	35,322	2,027	29,709	(12,424)
Interest received	-	-	7	19
Interest paid	(547)	(115)	(1,355)	(377)
Income tax received, net	112	(402)	84	(1,490)
Net cash flows from operating activities	(11,156)	15,242	(23,966)	14,950
Investing activities				
Proceeds from sale of tangible assets	-	600	-	625
Purchase of tangible assets	(20)	(4,616)	(2,402)	(7,111)
Proceeds from sale of intangible assets	-	-	-	3,986
Investments in intangible assets	(5,449)	(8,137)	(30,296)	(28,503)
Investments in leasehold deposits	1	(1)	(40)	50
Net cash used in investing activities	(5,468)	(12,154)	(32,738)	(30,953)
Free cash flow	(16,624)	3,088	(56,704)	(16,003)
Financing activities				
Capital increase	22	21	22	53
Share buyback	(720)	-	(2,634)	(273)
Payment of financial lease liabilities	(765)	(759)	(3,002)	(3,328)
Proceeds from borrowings	(3,993)	-	36,967	-
Repayment of borrowings	6,561	(2,934)	(2,792)	(4,760)
Net cash flows from financing activities	1,105	(3,672)	28,561	(8,308)
Net change in cash and cash equivalents	(15,519)	(584)	(28,143)	(24,311)
Net foreign exchange difference	(440)	(522)	656	1,062
Cash and cash equivalents at the beginning of the period	27,921	40,555	39,449	62,698
Cash and cash equivalents at the end of the period	11,962	39,449	11,962	39,449

BALANCE SHEET**ASSETS**

	31 Dec.	31 Dec.
DKK'000	2022	2021
Development projects, completed	35,102	26,685
Development projects, in progress	18,383	15,589
Patents	2,351	3,016
Intangible assets	55,836	45,290
Plant and equipment	5,551	6,605
Right-of-use assets	4,708	6,995
Leasehold improvements	635	727
Tangible assets	10,894	14,327
Deferred tax asset	-	9,715
Leasehold deposits	1,397	1,357
Other non-current assets	1,397	11,072
Non-current assets	68,127	70,689
Inventories	38,854	24,123
Trade receivables	59,553	37,514
Right-of-return asset	-	36
Prepayments	1,164	-
Other receivables	8,808	4,915
Income tax receivable	5,500	-
Cash and cash equivalents	11,962	39,449
Current assets	125,841	106,037
Total assets	193,968	176,726

EQUITY AND LIABILITIES

DKK'000	31 Dec. 2022	31 Dec. 2021
Share capital	20,774	20,774
Share premium	290,457	290,435
Treasury shares	(2,520)	-
Foreign currency translation reserve	244	270
Other capital reserves	13,860	8,242
Retained earnings	(234,560)	(186,249)
Equity	88,255	133,472
Interest-bearing loans and borrowings	9,758	-
Other non-current financial liabilities	4,568	4,860
Non-current lease liabilities	2,017	4,545
Non-current liabilities	16,343	9,405
Interest-bearing loans and borrowings	33,770	9,061
Current lease liabilities	2,929	2,726
Trade payables	11,821	10,990
Other payables	6,538	7,931
Income tax payable	-	16
Provisions	-	297
Contract liabilities	34,312	2,681
Refund liabilities	-	147
Current liabilities	89,370	33,849
Total liabilities	105,713	43,254
Total equity and liabilities	193,968	176,726

Napatech A/S

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

Phone: +45 4596 1500

www.napatech.com