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RECONFIGURABLE COMPUTING

4Q 2022
Interim Management Statement

28 February 2023

Q&A Session at the end of the presentation

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Q4 2022 IMS Agenda

- Welcome and Introduction
- Fiscal Year 2022 Overview and Our Strategic Process
- Partnerships Transforming our Business
- Markets Boosting our Business Opportunities
- Financial Review and Outlook
- Q&A Session

Welcome and Introduction

- 2022 was disappointing as we didn't meet our financial goals
- 2022 was also a transformational year that we believe is the foundation
- 2022 cost measures was taken – increased R&D investments to meet the backlog of requirements from our partners
- Strong commitment, investments and endorsements from large partners, transforming our business model and accelerate our technology and product development now and into the future

Fiscal Year 2022 Overview and Strategic Process

Financial Summary for Q4 2022

2022 Full year summary

- Revenue DKK 158.6m, 19% decline YoY
- EBITDA margin -13%

Q4'22 Quarter summary

- Revenue was DKK 33.9m, 38% decline from Q4'21
- Gross margin was 59%
- EBITDA was negative DKK 4.2m
- EBITDA margin was -12%
- Cash and cash equivalents end of Q4 was DKK 12m

Notes

- Strong partnerships providing both solid foundation, and compelling opportunities for 2023
- Higher than normal inventory build-up due to lower-than-expected sales in 2022
- Inventory will be reduced significantly through 2023 improving the cash position

Our Strategic Process and Partnerships

- 18 months ago, Napatech set the strategic direction to increase investments with focus on
 - New SW and HW technology, large new markets
 - Strong partnerships to enhance our go-to-market
- Recent announcements of technology partnerships represents significant mileposts met by Napatech in executing upon our strategic plan
- Our results have secured validation of the product and technology vision that Napatech has set, and an infusion of capital that accelerates Napatech execution to achieve our goals
- Napatech SmartNIC ambition is to stand out from alternatives by providing completeness and robustness of our solutions and unique advantages of our FPGA based hardware in terms of performance and flexibility

The effect of change in strategy

- We have secured signing of large agreements with multi year potentials by our increased tech investments
- We have fundamentally changed the Napatech “go to market” model by engaging strong partnerships
- We have ensured significant business scale effects going forward, underpinned by an amazing business pipeline fueling the grow over the coming years

Partnerships Transforming our Business

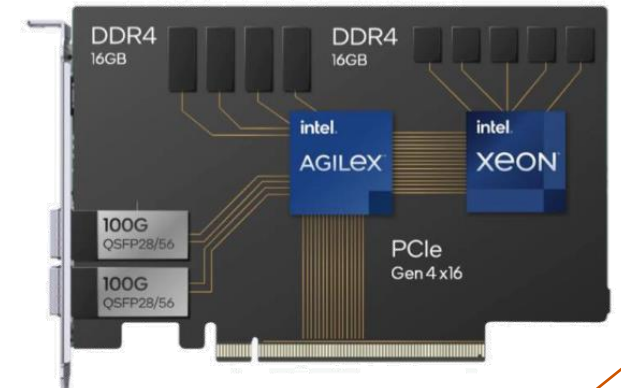
Our Intel Journey

- Key to strategy: Strengthen NAPA R&D investment and GTM
- Intel leadership in FPGA, SmartNIC & IPU platforms
- Shared focus on cloud, enterprise, telecom and OEM
- Multi-year, multi-faceted agreement
- HW and SW solutions based on Intel's latest Agilex™
- Significant co-investment and valuable commercial terms
- Targeted joint sales, marketing and business development
- Unlocks scale, 70+ initial prospects, 5k/year/prospect
- Fulfillment and service by Napatech



Napatech-Intel Solution Overview

- FPGA-based SmartNICs
- FPGA-based IPU
- Napatech software packages
- Innovative software packages
 - Storage
 - Content delivery



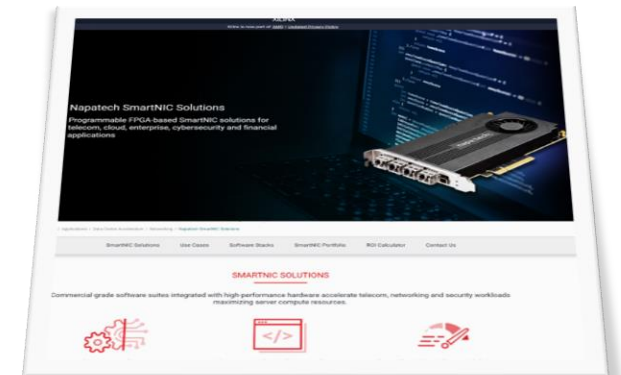
Our AMD Journey

- Key to strategy: expand GTM with existing Napatech portfolio
- Shared focus on cloud, enterprise, telecom, and OEM
- Complete HW & SW solutions designed by Napatech
- Targeted joint sales, marketing and business development
- Focus on multiple named accounts in several global regions
- Expands reach to new large-scale customers
- Stunning benchmarks: performance, sustainability
- Fulfillment and service by Napatech



Highlights

- Dedicated website promotion
- Presence at MWC 2023
- Early engagements underway
- Global training



[Link to AMD Napatech web page](#)

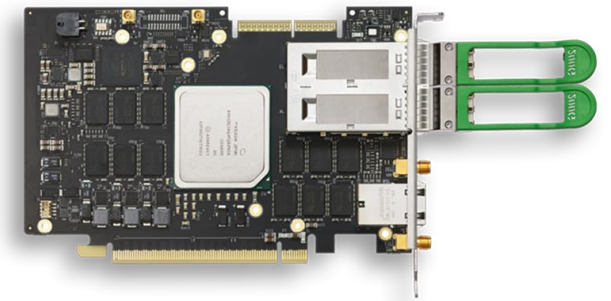
Our F5 Journey

- Multi-billion dollar tier-1 global OEM (FFIV)
- Network and security hardware and software solutions
- Targets telco, cloud and hybrid-multi-cloud enterprises
- Demanding requirements of performance, programmability
- New Napatech design-win powered by R&D investments
- Substantial annual and lifetime unit volumes
- Valuable commercial and operational terms



About the solution

- Napatech SmartNIC
- Powered by Intel Agilex FPGA
- Designed for volume servers
- Latest technology standards
- Up to 200 gigabit Ethernet
- 400 Gbps performance



Markets Boosting our Business Opportunities

Network Interface Card (NIC) Market Segmentation



Basic NIC

ASIC-based. Multiple years between silicon revisions. Ultra-low cost. Ultra-low power. Small form-factor. Fixed network connectivity functions, and not programmable



Offload NIC

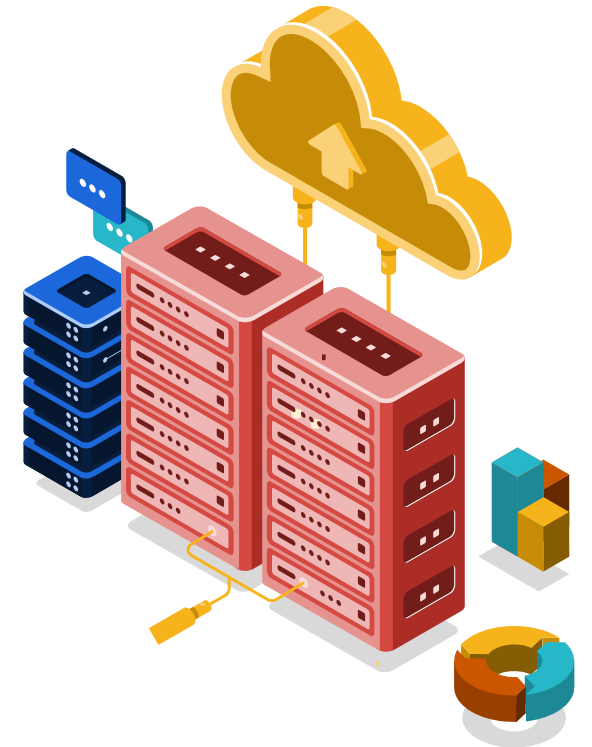
ASIC-based. Multiple years between silicon revisions. Slightly more expensive. Low power. Small form-factor. Multiple specialized functions, and not programmable



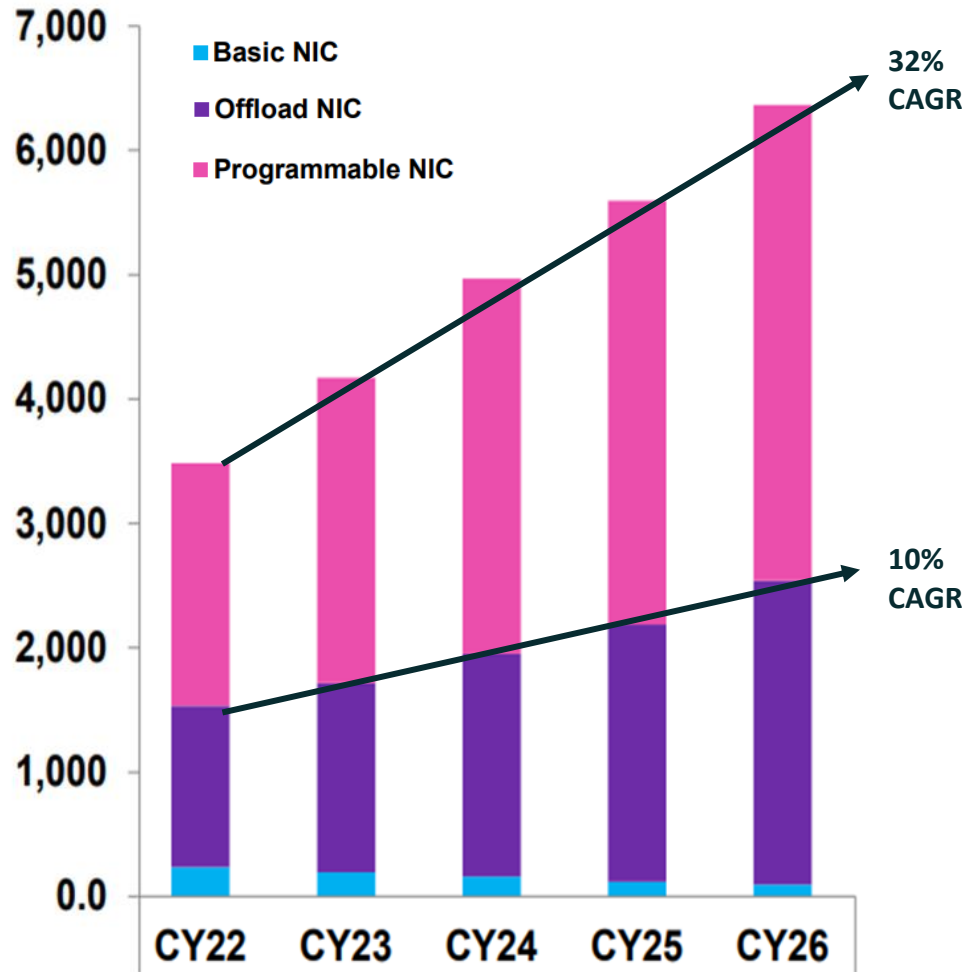
Programmable NIC

FPGA, SOC, CPU-based SmartNICs, IPUs and DPUs. Slightly more expensive. Multiple form-factors. Fully programmable for efficient, flexible and real-time upgradable functionality.

Napatech



Programmable NIC Market Boosting our Business Opportunities



Highlights

- Programmable NIC use-cases that are relevant to Napatech explode towards 2026:
 - 5G Networking
 - Cybersecurity
 - Financial
 - Cloud
 - Edge
 - IoT
 - Artificial Intelligence
 - Machine Learning
- These market opportunities pave the way for future growth

The Importance of the Napatech 5G UPF Solution

- Napatech's new User Plane Function (UPF) offload solution enables cost effective scale-up of users for Communications Service Providers packet core and Enterprises, when deploying their 5G networks
- The 5G UPF solution connects data coming over the 5G Radio Network to the Internet, better efficiency and user satisfaction
- Using a single Napatech SmartNIC to sustain full wire speed of traffic, the UPF Offload solution handles up to 140 million connected devices, enabling network operators to support 75x more users than with a software-based solution, and 7x more users than with a competing ASIC-based SmartNIC
- Powered by Napatech SmartNICs and Link-Inline software

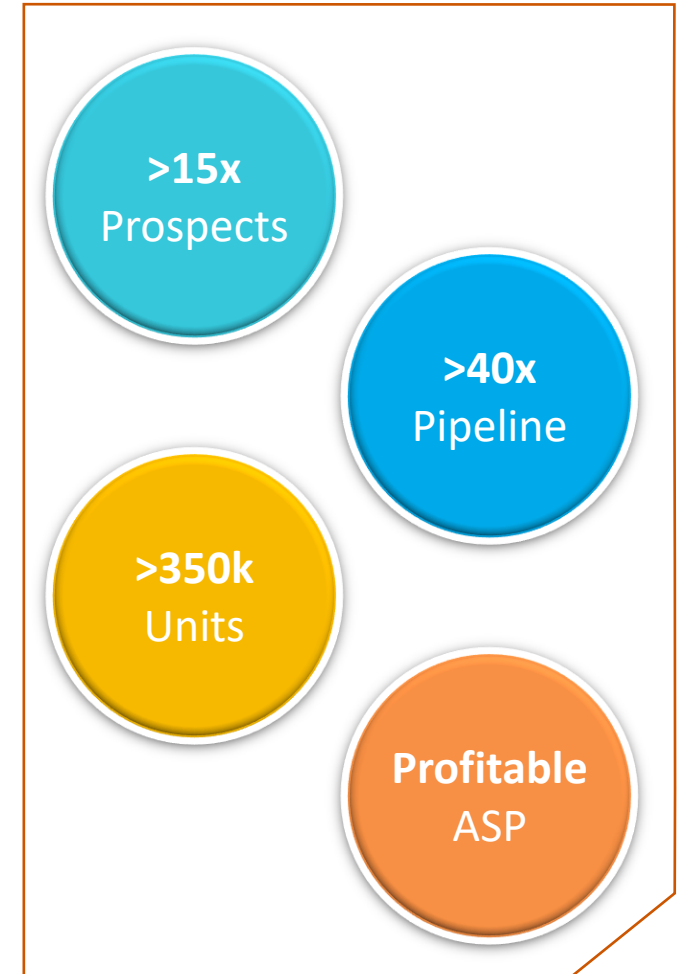
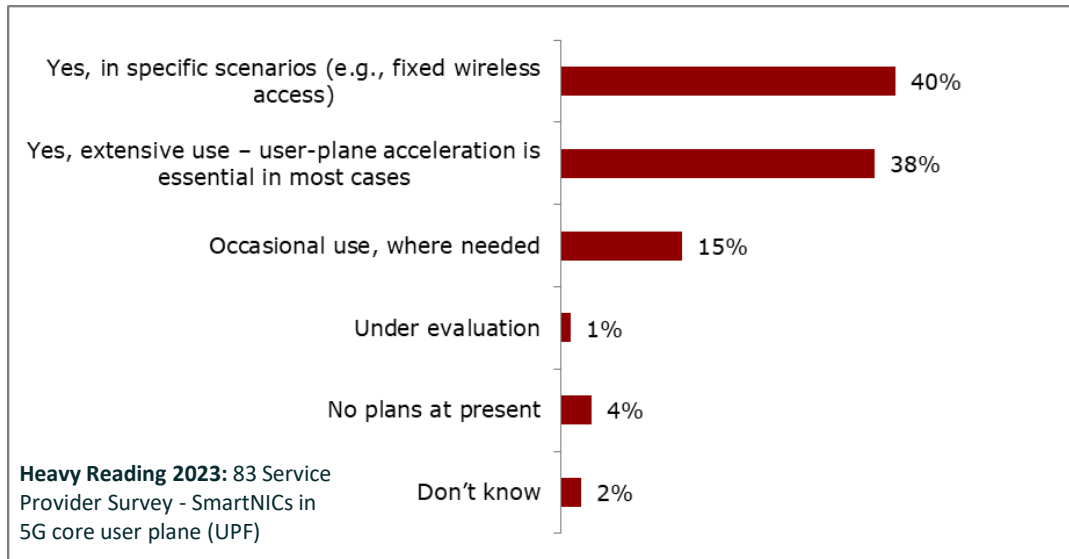


Highlights

- Engagements include AMD, A5G Networks, Advantech, Druid Software and Kontron
- Future engagements are solidified by an amazing list of customer meetings at MWC 2023 this week in Barcelona
- 5G UPF plays a crucial role in the 5G network's ability to realize the vision of being ultra-reliable, supporting low latency and very high throughput
- The potential deployment of our UPF solution, could significantly boost the number of units sold in multiple years

Large Business Potential Enabling our Ambitions

- Product investments have unlocked leading use-cases
- Complete HW and SW solutions target large designs
- New design wins drive transformational unit volumes
- Key partnerships provide reach and relationships to win
- One proof point: 5G UPF drive large SmartNICs demand



Financial Review and Outlook

Consolidated Income Statement Q4 & FY 2022

DKK'000	Q4		FY		Q4 Δ	FY Δ
	2022	2021	2022	2021		
Revenue	33,931	54,992	158,628	195,471	-38%	-19%
Cost of goods sold	(14,073)	(15,305)	(68,931)	(55,113)		
Gross profit	19,858	39,687	89,697	140,358	-50%	-36%
GM%	59%	72%	57%	72%		
Other operating income	-	600	-	625		
Staff costs	(18,448)	(16,915)	(98,911)	(88,749)	9%	11%
Other external costs	(10,075)	(6,135)	(34,178)	(22,927)	64%	49%
EBITDAC	(8,665)	17,237	(43,392)	29,307		
Transferred to capitalized development costs	4,493	5,854	23,270	23,608	-23%	-1%
EBITDA	(4,172)	23,091	(20,122)	52,915		
Depreciation, amortization and impairment	(6,807)	(6,677)	(26,078)	(22,253)	2%	17%
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		

Financial Summary

- Revenue in Q4 down 38% compared to Q4'21. Revenue in '22 down 19% compared to '21 (down 27% in USD)
- GM in Q4 59% compared to 72% in Q4'21. GM for FY '22 57% compared to 72% in '21
- Staff costs in Q4 up 9% compared to Q4'21 and up 11% for FY '22 compared to '21.
- Other external costs in Q4 up 64% compared to Q4'21 and up 49% for FY '22 compared to '21
- Q4 EBITDAC negative DKK 8.7m – compared to positive 17.2 mDKK in Q4'21. FY '22 EBITDAC negative DKK43.4m compared to positive DKK 29.3m in '21.

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

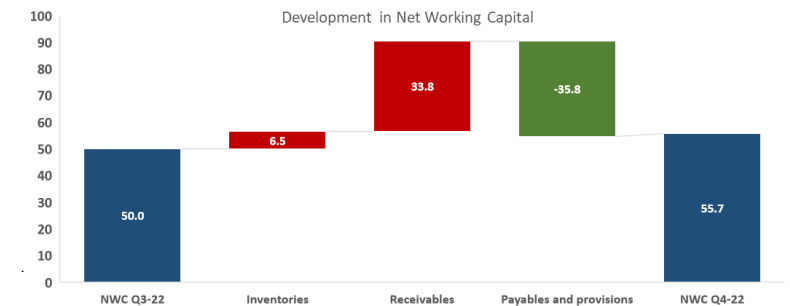
Consolidated Cash Flow Statement Q4 & FY 2022

DKK'000	4th quarter		Full-Year	
	2022	2021	2022	2021
Earnings before tax (EBT)	(13,512)	17,335	(44,144)	36,998
Adjustments to reconcile profit before tax to net cash flows	10,507	5,862	29,696	18,399
Working capital adjustments	(7,716)	(7,438)	(8,254)	(38,599)
Interest and tax	(435)	(517)	(1,264)	(1,848)
Net cash flows from operating activities	(11,156)	15,242	(23,966)	14,950
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)
Net cash flows used in 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

	2022	2021
Net working capital	55,708	44,526
- NWC as % of revenue in quarter	164%	81%

Financial Summary

- Net Cash flow from operating activities in Q4 negative DKK 11.2m – FY '22 negative DKK 24m
- Net working capital end of Q4 DKK 55.7m ~ 164% of revenue in quarter



- Free cash flow in Q4 negative DKK 16.6m
- Cash and cash equivalents of DKK 12m end of Q4 22 compared to DKK 39.4m end of Q4 '21

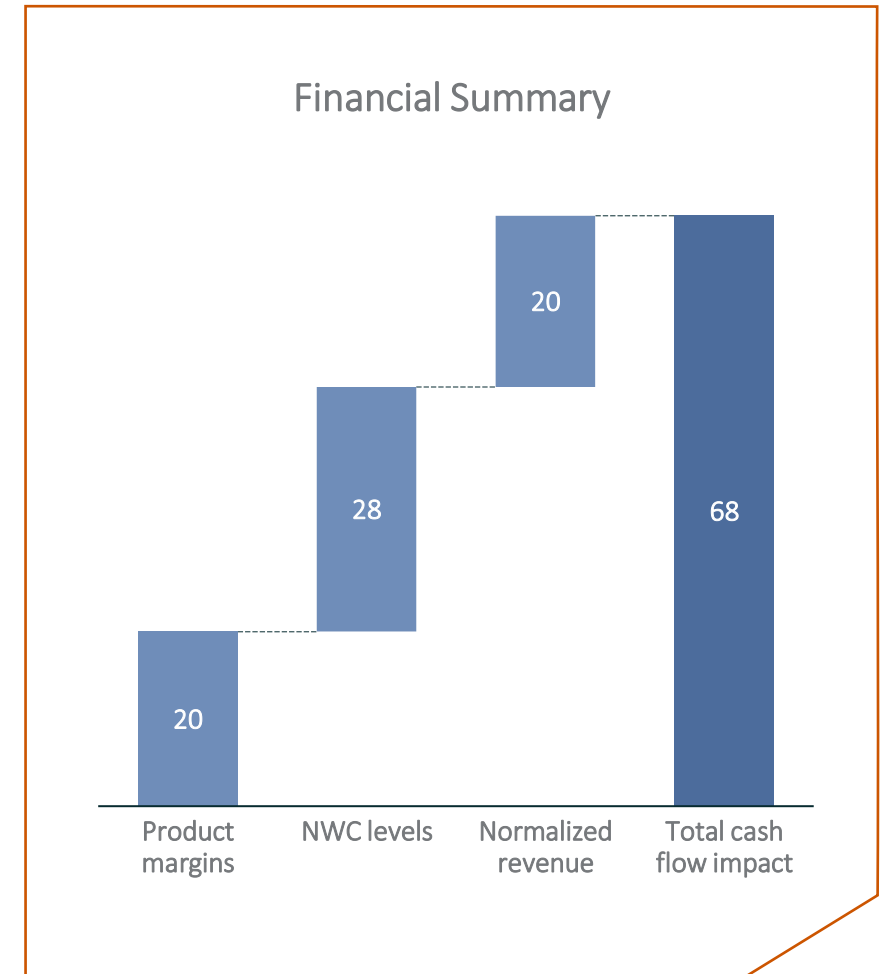
Cash Flows in 2022 impacted by extraordinary circumstances

Three extraordinary circumstances impacted cash flows significantly in 2022

1. Low **product margins** primarily due to extraordinary component shortage on a few specific components.
 - Had products margins been at historical levels, cash flows would have been **20mDKK** higher with the realized revenues
2. High **NWC**, especially driven by high inventory levels, impact our cash position end of 2022 significantly
 - Had the NWC-to-revenue-ratio been the same as in 2021, cash flows would have been **28mDKK** higher
3. Lower-than-expected **sales**, of course, impacts cash flows directly
 - Had our core business been on the same level as in 2020 and 2021, cash flows would have been an additional **20mDKK** higher

We expect things to normalize during 2023 on all three areas.

With the current cash position, our operations in 2023 and beyond are fully funded.



2023 Expectations

- 2022 was in many ways an unusual year. We expect things to normalize during 2023.
- In 2023, we expect:
 - Revenue in the range of 180 to 200mDKK
 - GM% between 68%-71%
- With the announced new large strategic agreements, Napatech together with key partners invests significantly in unlocking new market opportunities.
- In 2023, we are redirecting and adding new R&D resources to these initiatives. In total, we are adding 13 new R&D resources in 2023 and accelerate our investment in new products even more.
- As a result, with the project related costs in 2023, expect Staff costs & Other external costs to be in the range of 160-170mDKK

Summary

- With performance in the middle of the guided ranges:
 - Revenue in 2023 is expected to grow 20%
 - EBITDA in 2023 will be negative 10.5mDKK

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

Q&A Session

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