

NAPATECH
3RD QUARTER 2024
INTERIM MANAGEMENT STATEMENT



napa:tech;

MANAGEMENT'S REPORT

As we enter the final quarter of our 2024 fiscal year, I am happy to report that we have made considerable strides in meeting important mileposts of our strategic plan that strengthen our position as an early leader in the new and evolving market for programmable NICs. This includes both improving our core business and making measurable progress towards our design win goals that underpin our growth aspirations. In many ways this has gone according to plan, and in some areas ahead of our expectations.

Napatech is a leading global provider of programmable network interface cards, including Smart Network Interface Cards (SmartNIC) and Infrastructure Processing Units (IPU), used by cloud, enterprise, and telecommunication network operators to dramatically improve the performance and economics of servers and appliances.

For the first three quarters of 2024, we have continued to execute upon all three parts of our strategic plan. First, retaining and expanding our valuable installed base of customers who are the early adopters of Programmable NICs. They are a proving-ground for our technology and the value that our solutions bring to their businesses. Second, we continue to make investments in our engineering of new hardware and software solutions that extend our products into the emerging, high-growth segments. Finally, we are continuing to develop a robust ecosystem that extends our own go-to-market reach via marketing, business development and sales partnerships.

I would like to share a few highlights from the third quarter of 2024 that give us confidence we are executing upon our strategy:

- To begin, our engineering team completed a significant portion of the design of our next-generation IPU, on schedule, and shipped the first engineering samples to our lead customers, for their initial bring-up and qualification. While this is an early step in a long design-win engagement that will continue through 2025, it is an important milestone that was met amidst challenge requirements and high expectations.
- We continued to expand our design win pipeline with new opportunities and projects emerging on a consistent basis. This is expected given a number of positive factors benefiting Napatech, including: industry momentum for programmable NICs in next generation datacenter architectures; our partnership with Intel aiding in marketing and business development activities; and the new products designed specifically for these customer needs. The opportunities span a variety of applications, use cases, geographies, customer types and scale.
- From within our expanding design win pipeline, Q3 delivered new design wins from both new and existing customers, including our new products as well as our core solutions.
- Further, we now see signs of stability emerging in our base business. Our largest equipment manufacturing customers are nearing completion of their inventory reductions, to be completed by the end of 2024. Many of our existing end user customers are also returning to historical demand levels with new projects and programs, and our existing customers are refreshing products with new design wins.
- Also in the quarter, we extended our product and technology collaboration with Intel-Altera. We announced two new products, powered by Intel-Altera technology, including hardware and software, aimed squarely at the high-growth segment that define our relationship.

Our financial results for the third quarter include revenues of DKK 34.01 million, or \$5.0M USD, an increase of 47.1% over the second quarter of 2024, with gross margins at a healthy 71.3%. Our financial results have been lower than normal primarily because two of our largest customers have been handling an inventory correction to deplete a covid-driven safety stock. Supply chains have now stabilized, and these customers are drawing down their buffer inventories. We have clear visibility into their consumption rates, and expect that they and others will return to normal buying patterns by the end of 2024.

The remainder of the year will include development milestones being met for our new products, as well as an increasing and maturing design win pipeline of collaborative business opportunities that will push the boundaries of what we can achieve. With your continued support, we are poised to make Napatech's future even brighter.

Best regards,

Lars Boilesen
Chief Executive Officer

Highlights YTD:

- Revenue YTD Q3 2024 in USD amounted to 11.5m, a decline 36% compared to 2023. In DKK, revenue amounted to 78.7m, a decline of 37% compared to 2023.
- The gross margin YTD Q3 2024 was 70%, a decline of 1%-points compared to 2023.
- Staff costs and Other external costs in YTD Q3 2024 amounted to DKK 127.1m compared to DKK 104.8m in 2023. This growth in costs follows our plan to accelerate our development activities significantly to build the new business and exponential growth for the years to come.
- EBITDAC¹ YTD Q3 2024 amounted to negative DKK 72.3m compared to negative DKK 16.9m in 2023.
- EBITDA YTD Q3 2024 amounted to negative DKK 69.3m compared to negative DKK 8.4m in 2023.
- Depreciation, amortization, and impairment YTD Q3 2024 were DKK 22.6m compared to DKK 24.3m in 2023.
- Net Cash flow from operating activities YTD Q3 2024 was negative DKK 69.9m compared to negative DKK 8.7m in 2023.
- Net working capital end of Q3 2024 amounted to DKK 72.4m compared to DKK 55.4m end of Q3 2023 and DKK 65.5m end of 2023. This is due to build of products for immediate sale for testing purposes and orders.
- Net cash used in investing activities YTD Q3 2024 amounted to DKK 7.2m compared to DKK 10.2m YTD Q3 2023.
- Cash and cash equivalents at the end of Q3 2024 amounted to DKK 102.9m compared to DKK 44.2m at the end of Q3 2023.

Highlights Q3:

- Revenue in USD amounted to 5.0m in Q3 2024, 47% up compared to Q2 2024 but a decline of 30% compared to Q3 2023. In DKK, revenue amounted to 34.0m, a decline of 31% compared to Q3 2023.
- The gross margin in Q3 2024 was 71%, which is at normal levels for Napatech.
- Staff costs and Other external costs in Q3 2024 amounted to DKK 43.2m compared to DKK 32.1m in Q3 2023.
- EBITDAC in Q3 2024 amounted to negative DKK 18.9m compared to positive DKK 6.6m in Q3 2023.
- EBITDA in Q3 2024 amounted to negative DKK 17.6m compared to positive DKK 7.9m in Q3 2023.
- Depreciation, amortization, and impairment for Q3 2024 were DKK 6.9m compared to DKK 8.3m in Q3 2023.
- Net Cash flow from operating activities in Q3 2024 was negative DKK 22.5m compared to negative DKK 41.9m in Q2 2024.
- Net cash used in investing activities in Q3 2024 amounted to DKK 3.5m compared to DKK 1.5m in Q3 2023.

Key figures²:

	Q3 2024	Q3 2023	YTD 2024	YTD 2023
Revenue USD m	5.0	7.2	11.5	18.1
Growth YoY USD m	-30%	44%	-36%	1%
Revenue DKK m	34.0	49.7	78.7	124.6
Growth YoY DKK m	-31%	34%	-37%	0%
Gross Margin	71%	78%	70%	71%
EBITDAC DKK m	-18.9	6.6	-72.3	-16.9
EBITDA DKK m	-17.6	7.9	-69.3	-8.4
Net Cash Flow from Operating Activities DKK m	-22.5	-8.8	-69.9	-8.7
Net Working Capital, end of period DKK m	72.4	55.4	72.4	55.4
Cash and cash equivalents, end of period DKK m	102.9	44.2	102.9	44.2

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

² 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**Q3**

Napatech reports revenue of DKK 34.0m in Q3 2024 compared to DKK 49.7m in the same period in 2023, equivalent to a decline of 31%. In USD, revenue declined 30% compared to Q3 2023.

The gross margin in Q3 2024 was 71% compared to 78% in Q3 2023.

YTD Q3

Napatech reports revenue of DKK 78.7m in the first three quarters of 2024 compared to DKK 124.6m in the same period in 2023, equivalent to a decline of 37%. In USD, revenue was down 36% compared to 2023.

The gross margin YTD Q3 2024 was 70% compared to 71% YTD Q3 2023.

Costs**Q3**

Staff costs and Other external costs in Q3 2024 amounted to DKK 43.2m, compared to DKK 32.1m in Q3 2023.

Operating expenses after the transfer of staff costs to capitalized development costs in Q3 2024 amounted to DKK 41.8m, compared to DKK 30.8m in Q3 2023.

YTD Q3

Staff costs and Other external costs YTD Q3 2024 amounted to DKK 127.1m, compared to DKK 104.8m YTD Q3 2023.

Operating expenses after the transfer of staff costs to capitalized development costs YTD Q3 2024 amounted to DKK 124.0m, compared to DKK 96.4m YTD Q3 2023.

EBITDAC and EBITDA**Q3**

Earnings before Interest, Tax, Depreciation, Amortization, and Capitalization of development cost (EBITDAC) amounted to negative DKK 18.9m in Q3 2024 compared to positive DKK 6.6m in Q3 2023.

EBITDA in Q3 2024 was negative DKK 17.6m compared to positive DKK 7.9m in Q3 2023.

YTD Q3

EBITDAC amounted to negative DKK 72.3m YTD Q3 2024 compared to negative DKK 16.9m YTD Q3 2023.

EBITDA YTD Q3 2024 was negative DKK 69.3m compared to negative DKK 8.4m YTD Q3 2023.

Depreciation, amortization, and impairment**Q3**

Depreciation, amortization, and impairment in Q3 2024 were DKK 6.9m compared to DKK 8.3m in Q3 2023.

YTD Q3

Depreciation, amortization, and impairment YTD Q3 2024 were DKK 22.6m compared to DKK 24.3m YTD Q3 2023.

Financial Items**Q3**

Financial items for Q3 2024 were negative DKK 1.1m compared to a positive DKK 0.2m in Q3 2023.

YTD Q3

Financial items YTD Q3 2024 were negative DKK 1.7m compared to a negative DKK 1.5m YTD Q3 2023.

Taxes**Q3**

Taxes for Q3 2024 amounted to an income of DKK 0.0m compared to a cost of DKK 0.4m in Q3 2023.

YTD Q3

Taxes YTD Q3 2024 amounted to an income of DKK 0.8m compared to a cost of DKK 1.1m YTD Q3 2023.

Investments**Q3**

The total net cash used in investing activities in Q3 2024 was DKK 3.5m, of which DKK 1.4m was invested in new product development. In Q3 2023, the total net cash used in investing activities was DKK 1.5m, of which DKK 1.4m was invested in new product development.

YTD Q3

The total net cash used in investing activities YTD Q3 2024 was DKK 7.2m, of which DKK 3.3m was invested in new product development. YTD Q3 2023, the total net cash used in investing activities was DKK 10.2m, of which DKK 9.5m was invested in new product development.

Cash Flow**Q3**

Net cash flow from operating activities in Q3 2024 was negative DKK 22.5m compared to negative DKK 8.8m in Q3 2023.

Free cash flow in the quarter amounted to negative DKK 26.0m compared to negative DKK 10.3m in Q3 2023.

Net cash from financing activities in Q3 2024 was positive DKK 26.0m, compared to a negative DKK 2.0m in Q3 2023.

YTD Q3

Net cash flow from operating activities YTD Q3 2024 was negative DKK 69.9m compared to negative DKK 8.7m YTD Q3 2023.

Free cash flow YTD Q3 2024 amounted to negative DKK 77.1m compared to negative DKK 18.8m YTD Q3 2023.

Net cash from financing activities YTD Q3 2024 was positive DKK 137.7m, compared to positive DKK 51.1m YTD Q3 2023.

Cash and cash equivalents end of Q3 2024 were DKK 102.9m compared to DKK 44.2m at the end of Q3 2023.

Events after the end of the period

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

Outlook for 2024

Since our capital raise in May this year, we have accelerated our development activities significantly to bring new products to the market quickly. As a result, in our H1 report, we updated our guidance for Staff costs and Other external costs in 2024 to DKK170-180 million. The 2024 recovery of the SmartNIC market, especially within the US finance and telco market segments, has been slower than anticipated at the beginning of the year, and we are now expecting it to begin normalizing during H1 2025. We maintain our guidance for gross margin in the range of 69-71% and Staff costs and Other external costs in the range of DKK 170-180 million. Our guidance for Staff costs transferred to capitalized development costs is updated to the range of DKK 4-7 million (previously DKK 10-15 million).

Our year-to-date 2024 revenue results are directly related to revenue shortfalls from two of our largest customers reducing their inventory that was built up during the period of post-covid supply chain constraints. We have been tightly monitoring this situation across all of our customers and expect some areas to continue until the end of 2024. In many other areas, we have seen order flow increasing and received guidance from our customers that they are currently at or expect to return to normal levels. We therefore expect that our current products and base business should normalize in the first half of 2025. While it has been very difficult to guide this year's revenue and results, we are clearly in a transition from our existing business and products to our new suite of products through our partnership with Intel-Altera. We do not anticipate updating our current guidance for the rest of the year, but we can determine now that we will not make up the shortfall from the first half of 2024, which will prevent us from reaching our guidance.

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's 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, 2024

DKK'000	3rd quarter		YTD Sep.	
	2024	2023	2024	2023
Revenue	34,012	49,651	78,730	124,593
Cost of goods sold	(9,763)	(10,886)	(23,980)	(36,643)
Gross profit	24,249	38,765	54,750	87,950
Staff costs	(27,366)	(21,609)	(83,705)	(74,520)
Other external costs	(15,826)	(10,519)	(43,388)	(30,295)
EBITDAC	(18,943)	6,637	(72,343)	(16,865)
Transferred to capitalized development costs	1,363	1,283	3,079	8,427
EBITDA	(17,580)	7,920	(69,264)	(8,438)
Depreciation, amortization and impairment	(6,921)	(8,263)	(22,564)	(24,289)
Operating result (EBIT)	(24,501)	(343)	(91,828)	(32,727)
Finance income	(75)	402	1,131	407
Finance costs	(995)	(237)	(2,864)	(1,927)
Result before tax	(25,571)	(178)	(93,561)	(34,247)
Income tax	10	(409)	755	(1,081)
Result for the period	(25,561)	(587)	(92,806)	(35,328)

CASH FLOW STATEMENT

For the period ended September 30, 2024

DKK'000	3rd quarter		YTD Sep.	
	2024	2023	2024	2023
Operating activities				
Income/Loss before tax	(25,571)	(178)	(93,561)	(34,247)
Adjustments to reconcile profit before tax to net cash flows				
Finance income	75	(402)	(1,131)	(407)
Finance costs	995	237	2,864	1,927
Depreciation, amortisation and impairment	6,921	8,263	22,564	24,289
Share-based payment expense	3,164	498	7,871	1,848
Working capital adjustments				
Change in inventories	(15,220)	8,328	(32,562)	2,231
Change in trade and other receivables and prepayments	1,606	(16,324)	16,381	22,996
Change in trade and other payables and contract liabilities	5,421	(8,188)	8,898	(24,484)
Interest received	865	3	1,131	8
Interest paid	(781)	(654)	(2,276)	(1,747)
Income tax received, net	-	(412)	(80)	(1,082)
Net cash flows from operating activities	(22,525)	(8,829)	(69,901)	(8,668)
Investing activities				
Purchase of tangible assets	(2,130)	(131)	(3,870)	(524)
Investments in intangible assets	(1,395)	(1,355)	(3,300)	(9,505)
Investments in leasehold deposits	-	-	(46)	(144)
Net cash used in investing activities	(3,525)	(1,486)	(7,216)	(10,173)
Free cash flow	(26,050)	(10,315)	(77,117)	(18,841)
Financing activities				
Capital increase	528	-	145,319	53,740
Proceeds from exercise of share options	-	-	-	-
Transaction costs on issue of shares	(195)	-	(5,383)	(365)
Increase (decrease) through treasury share transactions	-	(64)	1,491	-
Payment of financial lease liabilities	(1,240)	(874)	(2,986)	(2,512)
Repayment of borrowings	26,884	(1,101)	(737)	225
Net cash flows from financing activities	25,977	(2,039)	137,704	51,088
Net change in cash and cash equivalents	(73)	(12,354)	60,587	32,247
Net foreign exchange difference	(271)	557	(92)	38
Cash and cash equivalents at the beginning of the period	103,206	56,044	42,367	11,962
Cash and cash equivalents at the end of the period	102,862	44,247	102,862	44,247

BALANCE SHEET**ASSETS**

DKK'000	30 Sep. 2024	31 Dec. 2023	30 Sep. 2023
Development projects, completed	20,086	36,601	42,826
Development projects, in progress	5,526	2,226	1,355
Patents	1,155	1,715	1,866
Intangible assets	26,767	40,542	46,047
Plant and equipment	5,048	4,390	3,647
Right-of-use assets	9,876	7,881	8,697
Leasehold improvements	481	316	396
Tangible assets	15,405	12,587	12,740
Leasehold deposits	1,587	1,541	1,541
Other non-current assets	1,587	1,541	1,541
Non-current assets	43,759	54,670	60,328
Inventories	68,134	35,572	36,623
Trade receivables	20,557	37,586	28,406
Prepayments	3,173	2,335	1,741
Other receivables	15,799	15,880	16,817
Income tax receivable	6,675	5,885	5,500
Cash and cash equivalents	102,862	42,367	44,247
Current assets	217,200	139,625	133,334
Total assets	260,959	194,295	193,662

EQUITY AND LIABILITIES

DKK'000	30 Sep. 2024	31 Dec. 2023	30 Sep. 2023
Share capital	24,971	22,544	22,544
Share premium	482,418	343,064	343,047
Treasury shares	(619)	(2,110)	(2,239)
Foreign currency translation reserve	(551)	(271)	284
Other capital reserves	16,591	10,707	10,043
Retained earnings	(355,076)	(262,224)	(265,436)
Equity	167,734	111,710	108,243
Interest-bearing loans and borrowings	7,631	8,601	9,758
Other non-current financial liabilities	4,571	4,433	4,384
Non-current lease liabilities	7,122	4,854	5,673
Non-current contract liabilities	3,360	3,048	3,744
Non-current liabilities	22,684	20,936	23,559
Interest-bearing loans and borrowings	35,599	35,504	34,179
Current lease liabilities	3,047	3,282	3,271
Trade payables	15,249	5,727	3,831
Other payables	10,788	12,495	14,295
Contract liabilities	5,858	4,641	6,284
Current liabilities	70,541	61,649	61,860
Total liabilities	93,225	82,585	85,419
Total equity and liabilities	260,959	194,295	193,662

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