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SMARTNIC+IPU SOLUTIONS

Q3 2024 IMS Presentation

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Tuesday, November 5, 2024

Q&A Session

Following the presentation

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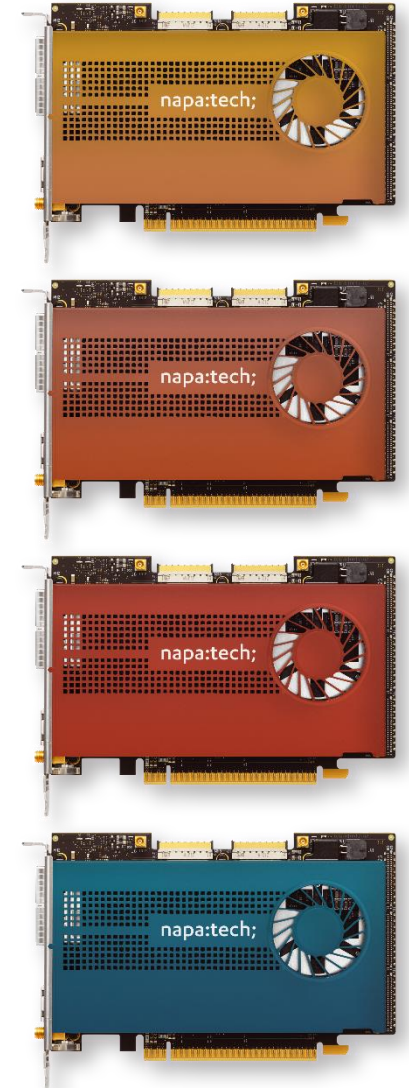
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Agenda

- Business Status 3Q-2024
- Business Outlook
- Financial Review and Outlook
- Q&A Session





Business Status and Outlook

Business Status – 3Q 2024

2Q-2024 Progress:

- Notable strides towards our design-win goals for transformational volumes
Existing projects achieving key mileposts
- Innovative applications fueling market growth and napatech opportunity
New customers and projects regularly emerging
- New customer and partner wins achieved
Anchored in high-volume products and solutions
- Stability emerging in base business
Lead customers nearing completion of inventory reductions, refreshing product lines with new designs, and starting new projects
- Extended product and technology collaboration with Intel-Altera
Announced two new products based on Intel-Altera technology
- Industry megatrends fuel massive demand
Leading analysts continue to increase projections for programmable NIC market

3Q-2024 Financial Results:

- Revenue \$5.0M USD, up 47.1%
- Gross Margins 71.3%

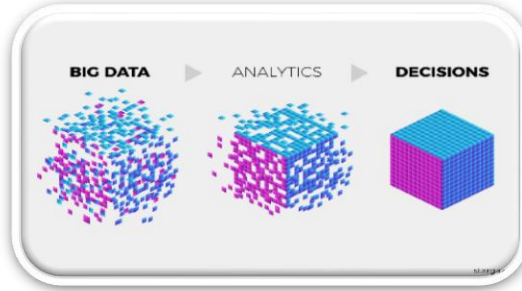
Napatech Strategic Plan:

- Retain and expand our valuable installed base of customers
- Accelerate engineering in software and hardware to extend our Programmable NICs into high growth segments
- Developing our partner ecosystem to unlock high growth segments

Design Win Focus: Notable Strides Towards Transformational Volumes



Tier-1 Server Manufacturer
Cloud and Enterprise Datacenter
>25k units/year *with multiple programs*



High Growth Big Data Management ISV
Datacenter AI/ML
>5-10k units/year



Global Banking and Finance Enterprise
Datacenter Microservices
>1k units



US Government Network Equipment
Security and Monitoring
>3k units/year



Global Video Provider
Cloud Streaming Services
>5k units/year *with multiple programs*



5G Mobile Network Operator
UPF Offload and Acceleration
>1k units/year



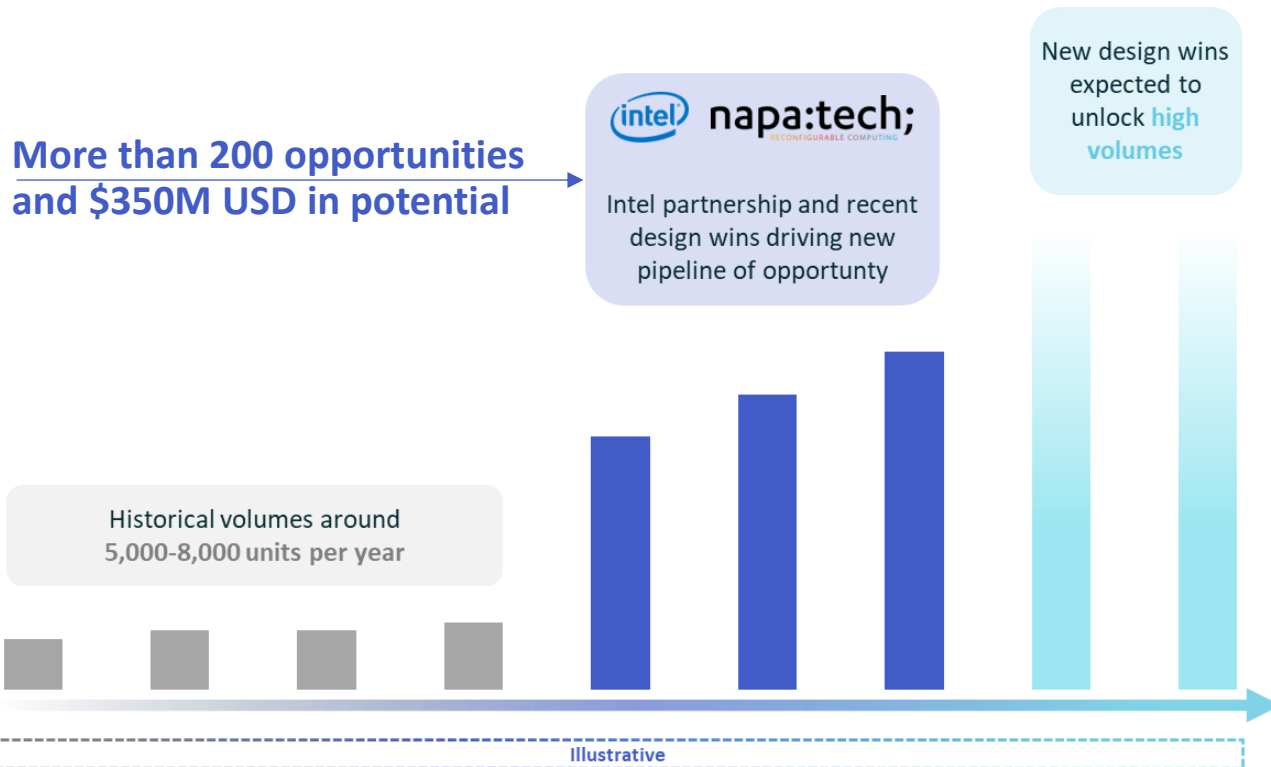
Artificial Intelligence and Machine Learning
Optimized Servers for Datacenters
>10k units per year



***Multiple* 5G Packet Core Provider**
UPF Offload and Acceleration
Up to 1k units/year

Innovative Applications: Fuelling Market Growth and Expanding Napatech Opportunities

Napatech has transformed from a niche supplier to a high-volume partner in a high growth market



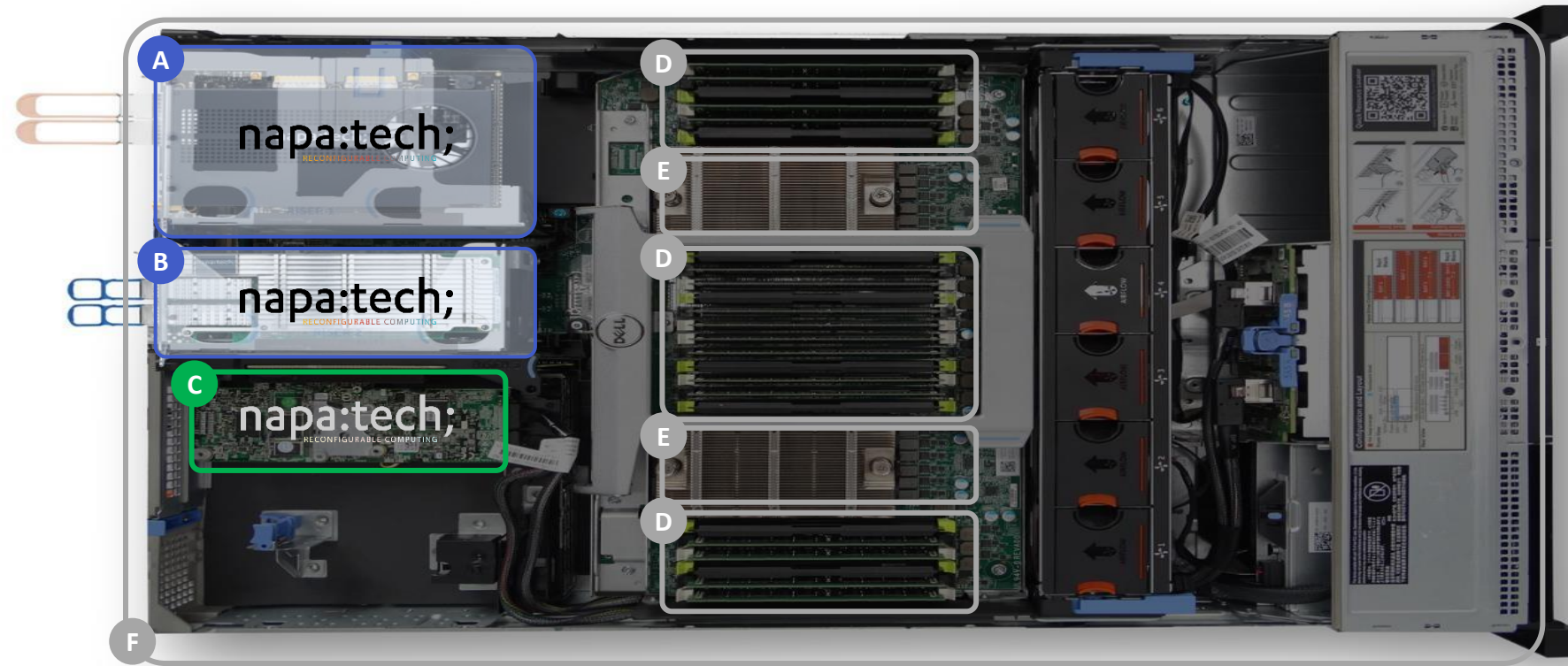
Mega industry trends are driving more applications to run on programmable NICs

-  Cloud, edge computing and storage
-  AI infrastructure
-  5G mobile infrastructure
-  FinTech
-  Cybersecurity, monitoring and recording
-  Big data analytics

“Generative AI will drive Ethernet and Adapter and SmartNIC market to surpass \$16B by 2028” - Dell’Oro 2024

Emerging Use Cases: Fueling Market Growth and Expanding Napatech Opportunities

- A** Infrastructure Processing Unit
- B** SmartNIC
- C** GPU or FPGA for AI
- D** Memory chip
- E** Central Processing Unit
- F** Server



Napatech's Programmable NICs play a crucial role in modern datacenter designs ...



... providing access to CPUs and GPUs resources that deliver AI, security and other services

New Solution Spotlight: Myrtle.ai

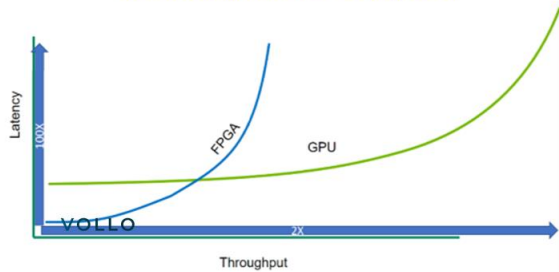
Optimizing Machine Learning Inference at Scale
Multiple Napatech hardware configurations
Stunning STAC ML benchmark results



Vollo: unrivalled low latency AI for finance

- technical differentiation acknowledged

Hardware Technologies in Low Latency Computing Qualitative Comparison of FPGA vs GPU applications



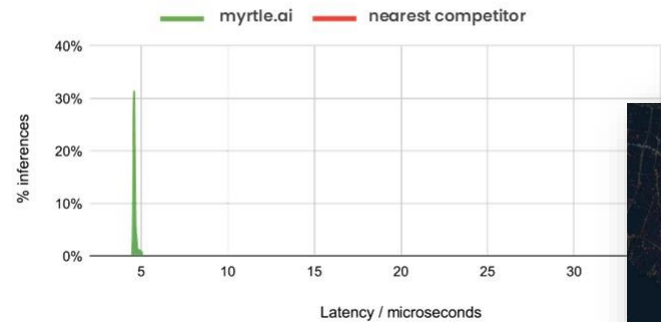
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*Higher latency for GPUs is generally higher than an FPGA solution, but as packet rates increase within the system the GPU can supply more parallelism and achieve better latency at high throughput.



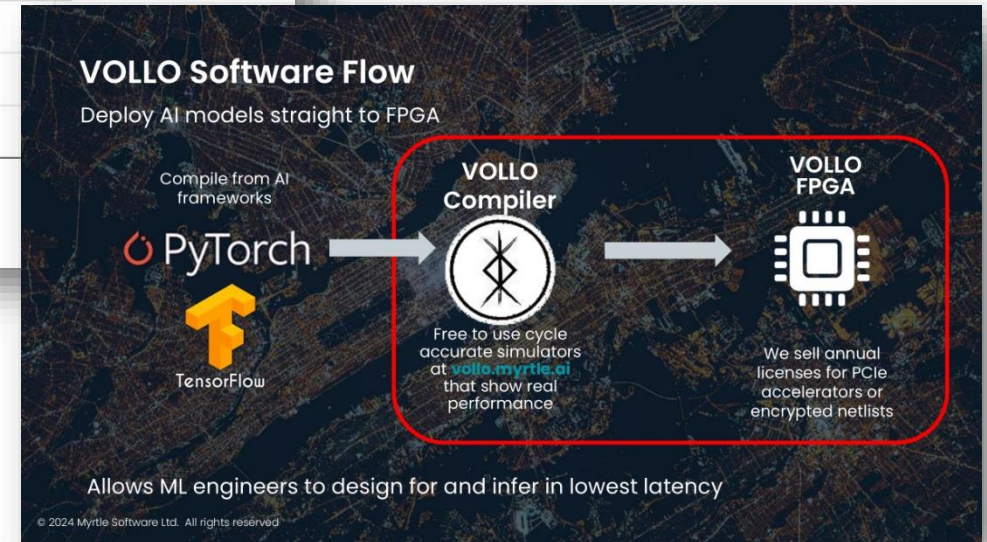
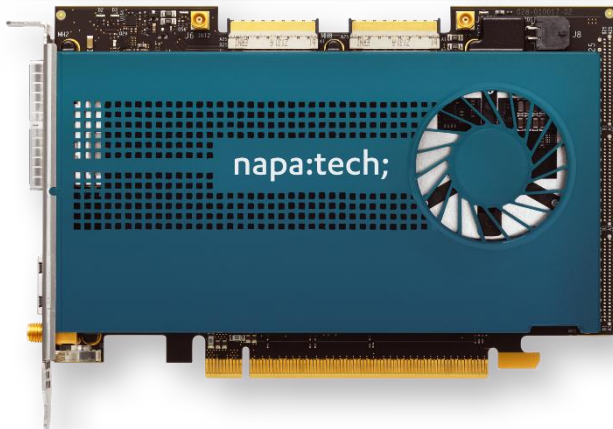
Superior to all competing solutions

- independently verified as delivering the world's lowest latency AI



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LSTM with 160K params, including PCIe data transfers from host CPU



Core Business Begins to Stabilize and Sees New Wins

Existing Customer Launch New Products and Projects

- New design win
cPacket doubles the speed of its packet capture appliance
<https://www.networkworld.com/article/3574703/cpacket-doubles-the-speed-of-its-packet-capture-appliance.html>



- New projects under way
US government, cyber security, monitoring, financial services

Leading Financial Services Companies Choose Napatech



Extended Product and Technology Collaboration with Intel-Altera

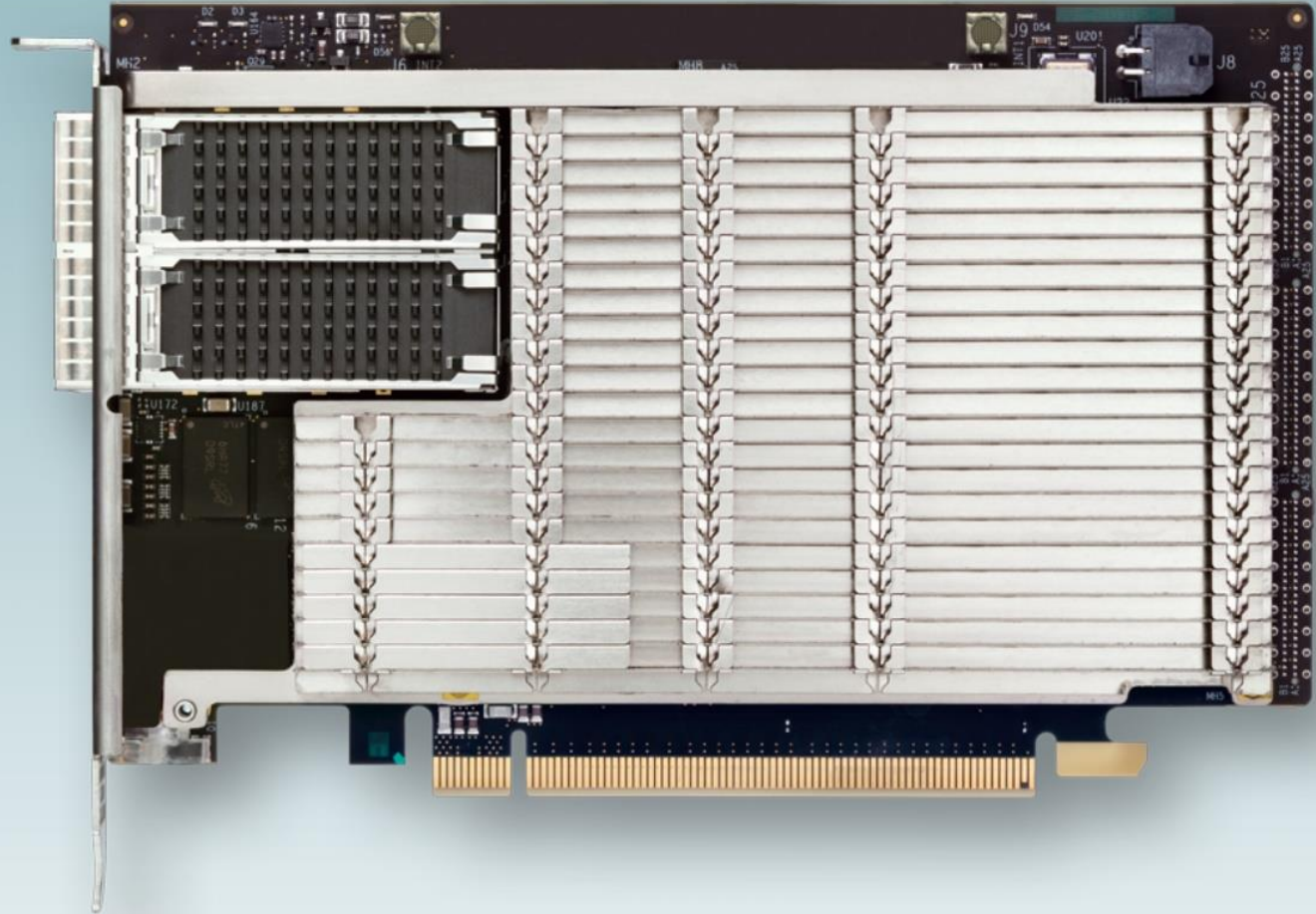
Disclosed N3070X Programmable SmartNIC

- Artificial Intelligence infrastructure
- Cloud and enterprise data centers

Launched Software Solutions on NT-400

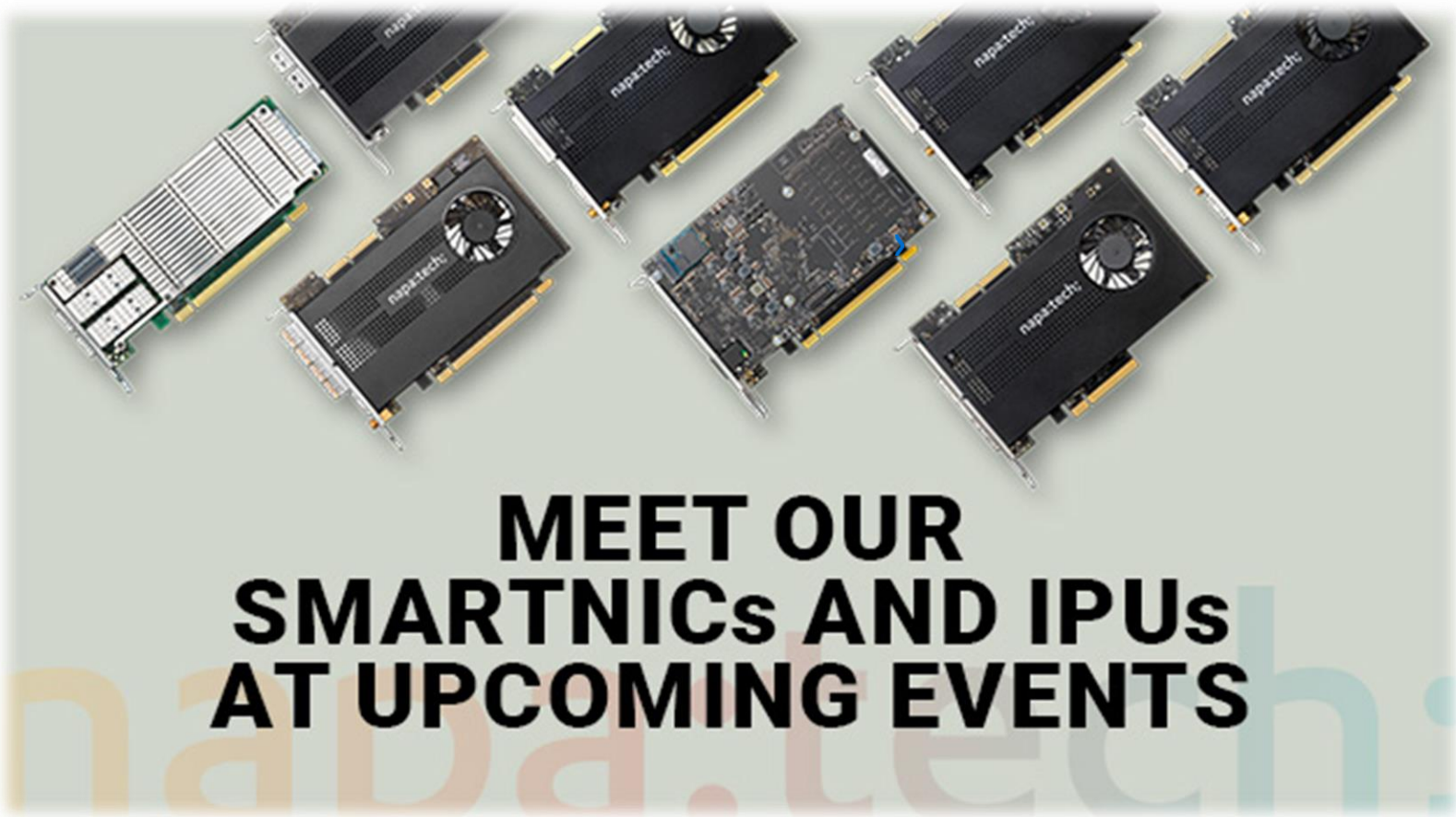
- 5G mobile infrastructure
- UPF offload and acceleration

- <https://www.napatech.com/media/press-releases/napatech-optimizes-datacenter-infrastructure-for-artificial-intelligence/>
- <https://www.napatech.com/media/press-releases/napatech-boosts-performance-of-5g-user-plane-function-offload/>



N3070X

Upcoming Industry Events



Suricon

Cybersecurity
November 13-15, 2024
Madrid, Spain

STAC

Financial Services
December 3, 2024
London, UK

Needham Growth Conference

Investor summit
January 14-15
New York, USA



Financial Review and Outlook

Consolidated Income Statement Q3 & YTD 2024

DKK'000	Q3		YTD		Q3 Δ	YTD Δ
	2024	2023	2024	2023		
Revenue	34,012	49,651	78,730	124,593	-31%	-37%
Cost of goods sold	(9,763)	(10,886)	(23,980)	(36,643)		
Gross profit	24,249	38,765	54,750	87,950	-37%	-38%
<i>GM%</i>	<i>71.3%</i>	<i>78.1%</i>	<i>69.5%</i>	<i>70.6%</i>		
Other operating income	-	-	-	-		
Staff costs	(27,366)	(21,609)	(83,705)	(74,520)	27%	12%
Other external costs	(15,826)	(10,519)	(43,388)	(30,295)	50%	43%
EBITDAC	(18,943)	6,637	(72,343)	(16,865)		
Transferred to capitalized development costs	1,363	1,283	3,079	8,427	6%	-63%
EBITDA	(17,580)	7,920	(69,264)	(8,438)		
Depreciation, amortization and impairment	(6,921)	(8,263)	(22,564)	(24,289)	-16%	-7%
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)		

Key Developments

- Revenue in Q3 is up 47% compared to Q2 but down 31% compared to Q3'23.
- GM in Q3 was at normal levels at 71.3%
- Staff costs in Q3 were up 27% compared to Q3'23 and up 12% YTD compared to '23 due to the necessary build of development staff to serve the increased design win pipeline in our Intel Altera partnership building future business.
- Other external costs in Q3 up 50% compared to Q3'23 and slightly down compared to Q2'24. External cost is mainly development consultants, which is a flexible cost that easily can be taken up and down depending on the activity level
- Q3 EBITDAC negative DKK 18.9m, which was an improvement of DKK 9,3m compared to Q2'24.

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

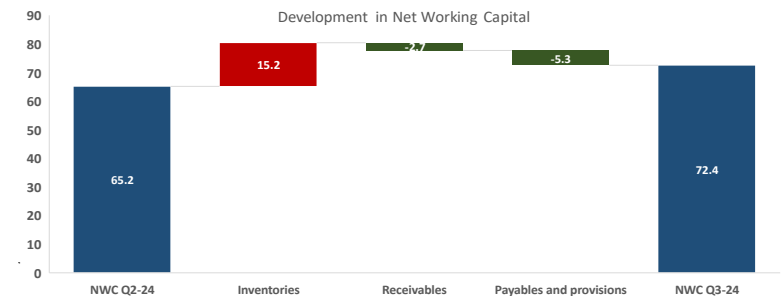
Consolidated Cash Flow Statement Q3 & YTD 2024

DKK'000	Q3		YTD	
	2024	2023	2024	2023
Earnings before tax (EBT)	(25,571)	(178)	(93,561)	(34,247)
Adjustments to reconcile profit before tax to net cash flows	11,155	8,596	32,168	27,657
Working capital adjustments	(8,193)	(16,184)	(7,283)	743
Cash flows from operating activities	(22,609)	(7,766)	(68,676)	(5,847)
Interest and tax	84	(1,063)	(1,225)	(2,821)
Net cash flows from operating activities	(22,525)	(8,829)	(69,901)	(8,668)
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)
Net cash flows used in 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

	2024	2023
Net working capital	72,408	55,433
- NWC as % of revenue in quarter	213%	112%

Key Developments

- Net Cash flow from operating activities in Q3 negative DKK 22.5m – improved from DKK 41,9m in Q2'24
- Net working capital end of Q3 DKK 72.4 up from DKK 65.2m in Q2 24. This increase is a result of our building an inventory for the sale of UPF and 200 gb 2030x products for immediate delivery.



- Cash and cash equivalents of DKK 102.9m end of Q3 24 which is at the same level as the end Q2'24

2024 Status

Strategic Targets

- We remain focused on developing new designs wins for transformational volume.
- Our target remains 4-6 wins that yield 40,000-60,000 units in peak annual volumes.

Financial Targets

- Staff costs in the range of DKK 170m-180
- Gross margins 69%-71%
- Q1-Q2 revenues were weaker than expected, creating burden on Q3-Q4 to make up the shortfall.
- However, we see that the pace of our base business picked up in Q3.
- We have accelerated our development activities significantly to bring new products to the market quickly and to deliver to our development agreements with Intel-Altera and our lead customers.

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