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SMARTNIC+IPU SOLUTIONS

# Interim Management Statement Q1 2024

Lars Boilesen, CEO  
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May 16, 2024

# Q&A Session

Following the presentation

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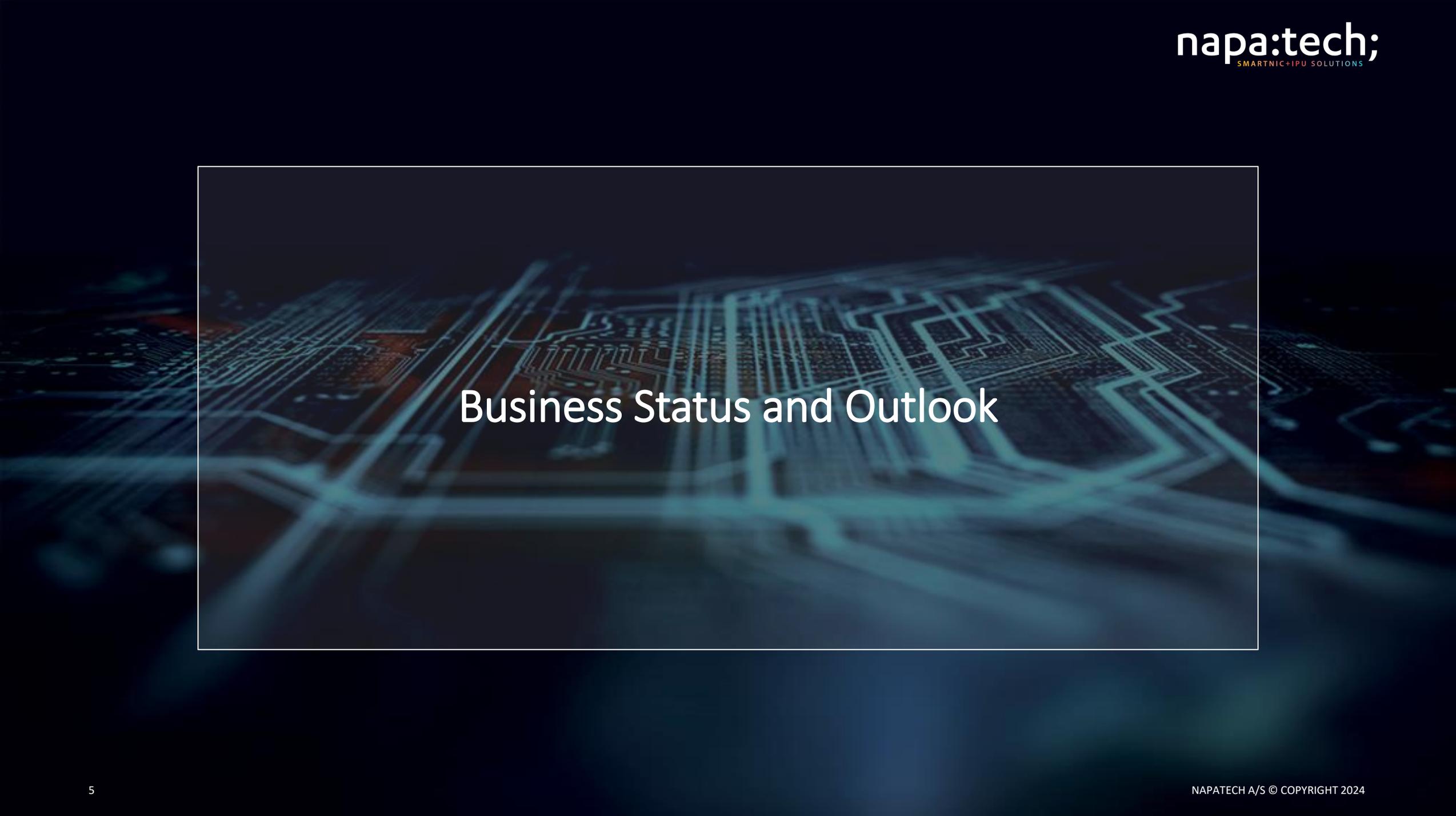
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# Agenda

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- Business Status 1Q-2024
- Business Outlook 2024-2026
- Financial Review and Outlook
- Q&A Session





# Business Status and Outlook

# Business Status – 1Q 2024

## 2024 Progress:

- Extended collaboration agreement with Intel/Altera for next-generation 400G IPU.  
<https://newsweb.oslobors.no/message/616155>
- New commercial agreement with tier-1 server OEM focused on cloud and enterprise.  
<https://newsweb.oslobors.no/message/617458>
- Increased 4-6 design-win guidance from 30-40k to 50-60k in annual production volume.
- Announced new ISV and appliance partners for 5G infrastructure and AI/ML solutions.  
<https://www.napatech.com/media/press-releases/>
- Completed private placement capital raise for 225M NOK to support business growth.  
<https://newsweb.oslobors.no/message/618006>
- Reaffirmed guidance for 2024.

## 1Q-2024 Financial Results

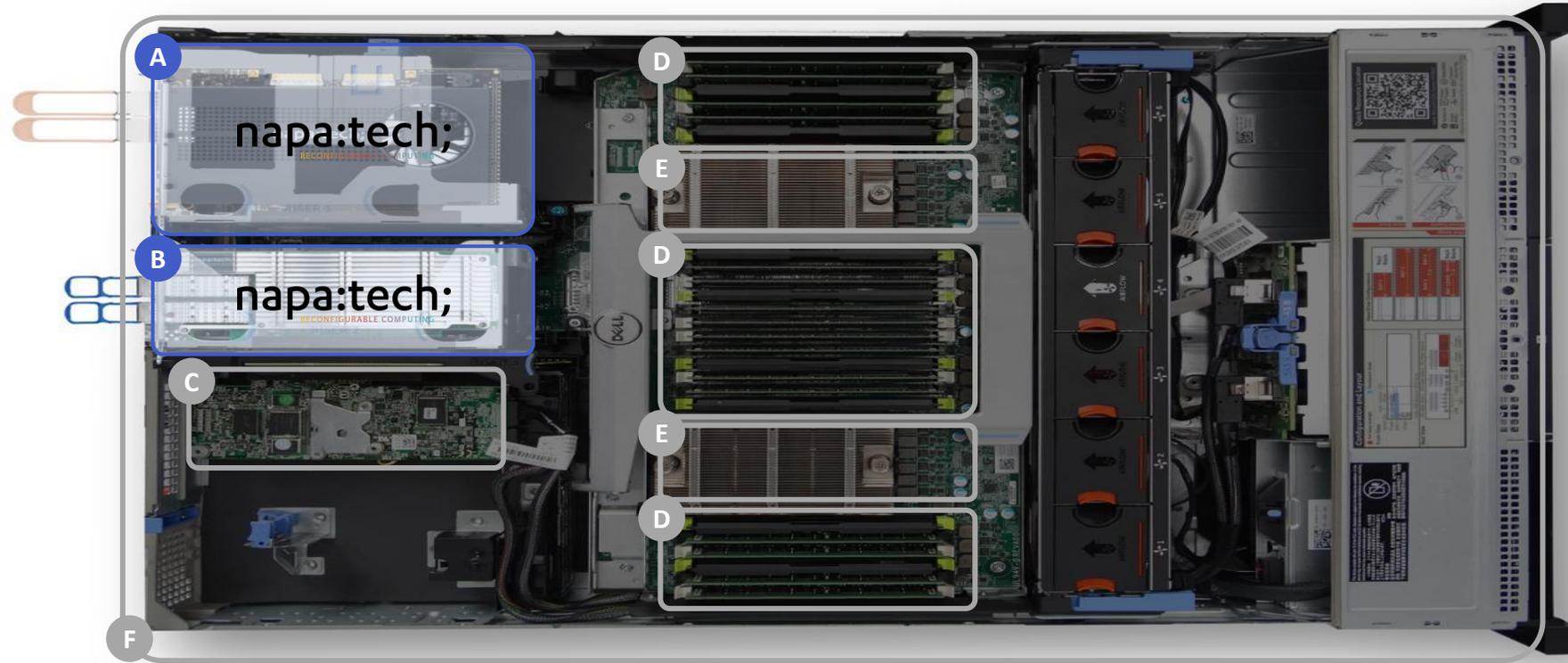
- Revenue                 \$3.1 MUSD
- Gross Margins         72%

### 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

# Napatech's Products Are Integral For Server Performance

- 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 ...



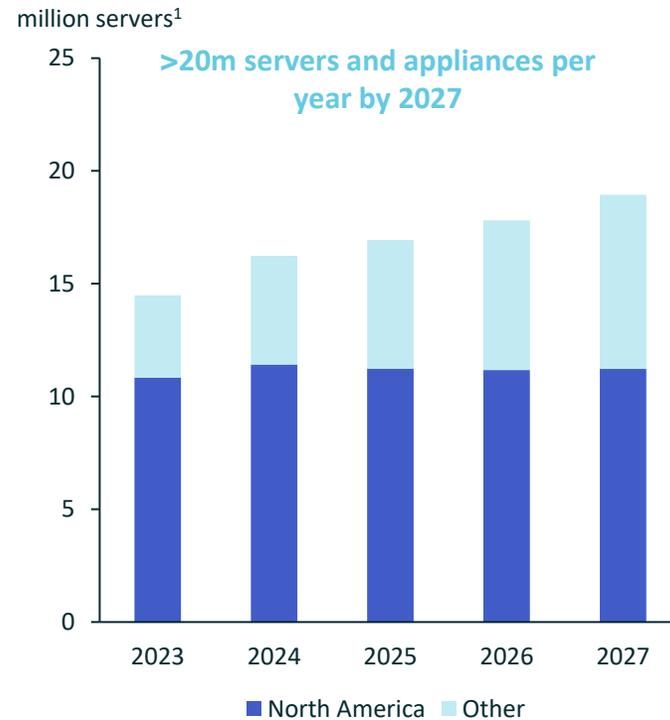
... providing access to CPUs and GPUs resources that deliver AI, security and other services

# The Problem: Server Performance Cannot Keep Up With The Exponential Growth In Network Traffic

Mega industry trends are driving more and more applications to run ...

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

... causing increased network traffic and growth in servers deployed ...



... but the servers cannot keep up with the demand ...



**CPU's within the servers end up spending significant processing power on handling non-core network functions** rather than running the applications themselves, **leading to decreased performance of the CPU's**

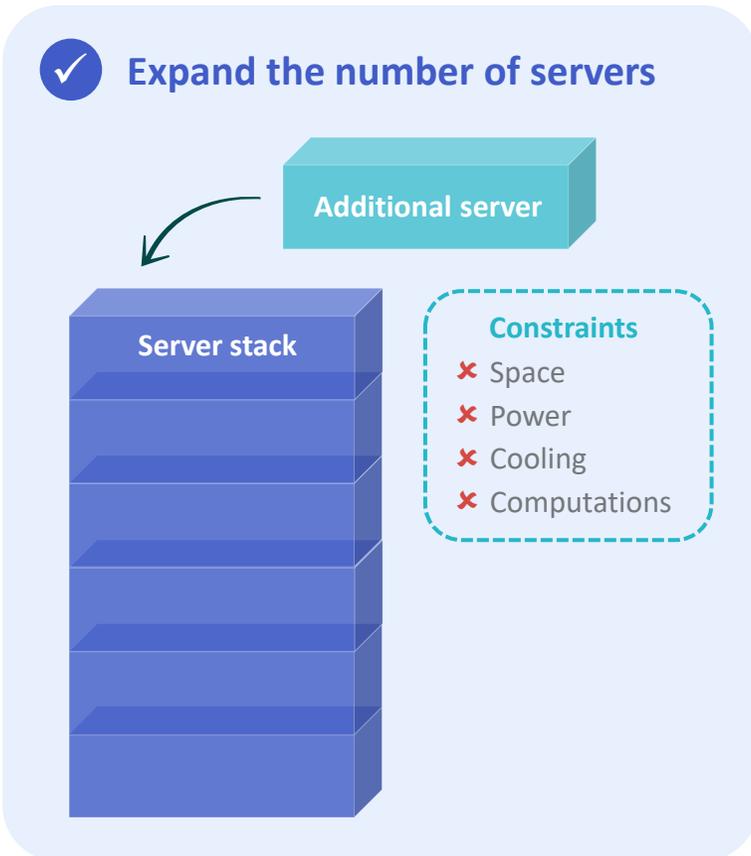


**Servers only scale to a certain point** due to limitations such as ...

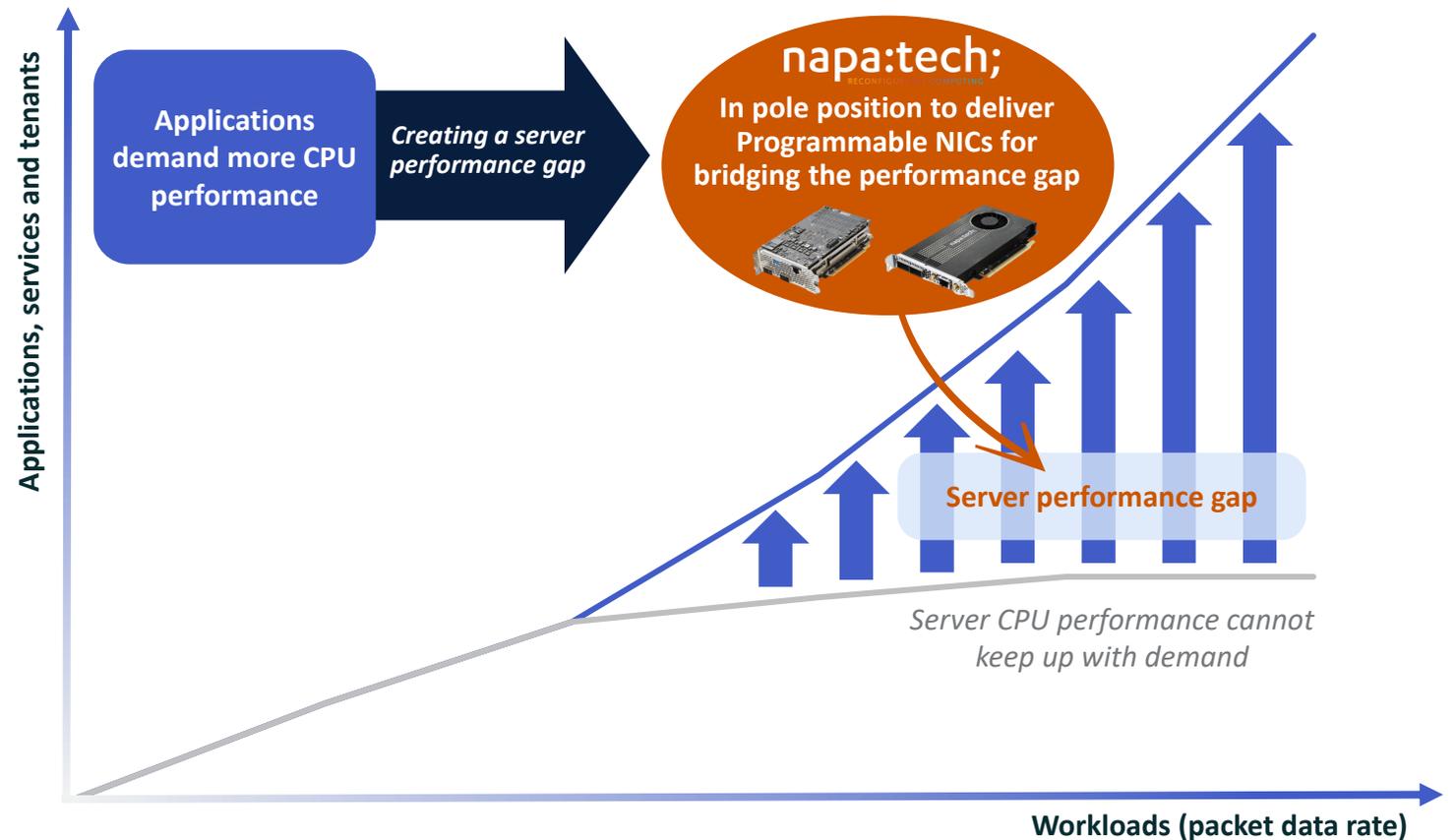
- ✗ Space
- ✗ Cooling
- ✗ Power
- ✗ Computations

# The Solution: Programmable NICs Help Bridge The Server Performance Gap

Historically, the way to increase server capacity has been to ...



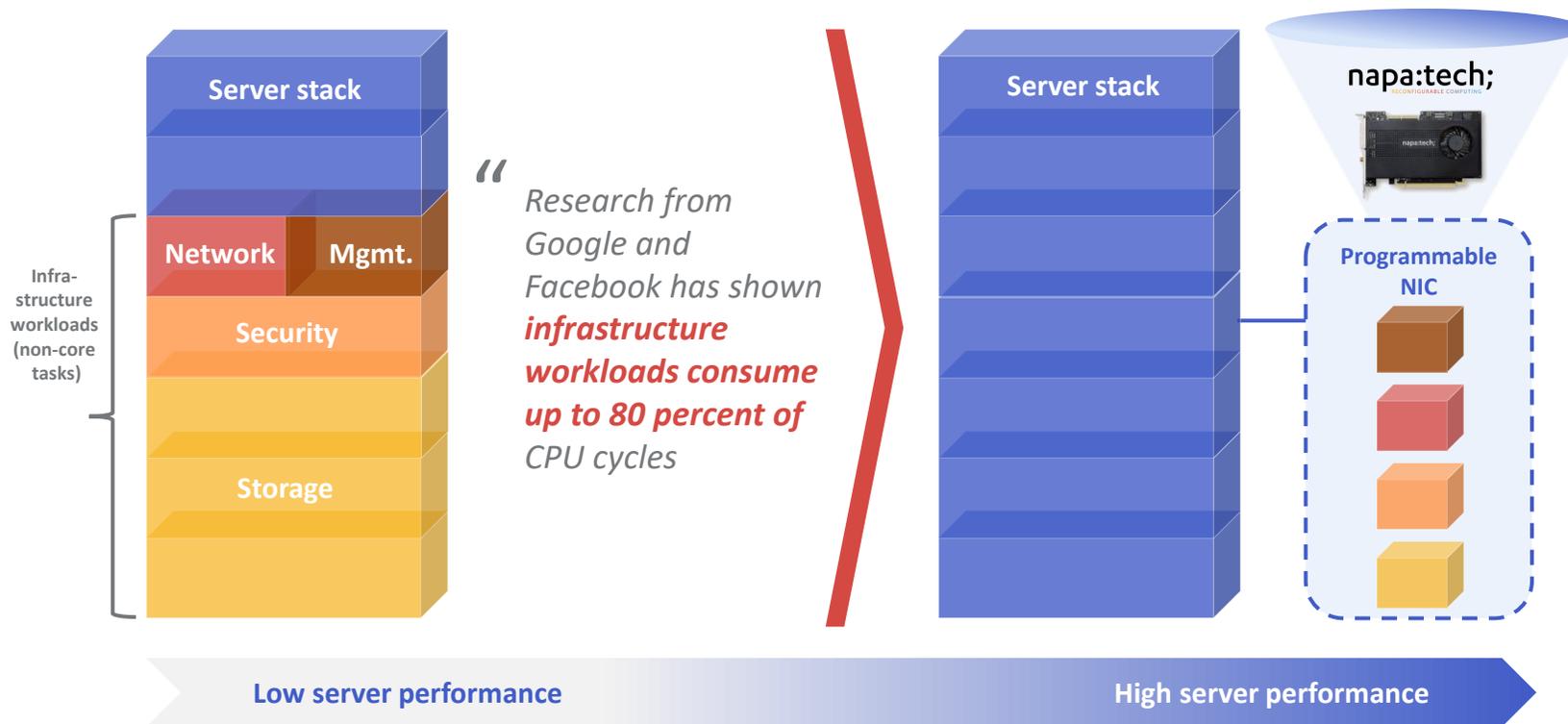
Given the constraint of adding new servers, Programmable NICs have proven to be a solution for bridging the performance gap



# The solution: Programmable NICs Run Non-Core Tasks, Enabling Higher Server Performance

Programmable NICs and IPU's **improve server capacity and accelerate the performance of applications** by processing tasks servers normally would handle

Why do we need a Programmable NIC?



- ✓ **Enable non-core tasks to be run on the Programmable NIC**, allowing the server to focus on its main task, i.e., running applications on behalf of the customer
- ✓ **Higher server performance** reduce the cost of running applications by using less floor space and energy consumption
- ✓ **Less investments required** for additional server capacity

# Partnership With Intel And Altera Unlocks New Prospects With Transformational Scale

Together with Intel, Napatech builds leading products with cutting-edge software ...

## Napatech Programmable NICs powered by Intel

<p><b>2023</b></p>  <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; margin-top: 10px;"> <p><b>FPGA SmartNIC</b></p> <ul style="list-style-type: none"> <li>✓ Capture</li> <li>✓ Inline</li> <li>✓ Virtualization</li> </ul> </div>	<p><b>2024</b></p>  <div style="border: 1px solid #ccc; border-radius: 10px; padding: 5px; margin-top: 10px;"> <p><b>FPGA IPU</b></p> <ul style="list-style-type: none"> <li>✓ Storage</li> <li>✓ Security</li> <li>✓ Virtualization</li> </ul> </div>
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## Main differentiator

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RECONFIGURABLE COMPUTING

Programmable software

... with access to the mass-market through Intel partnership launched in 2022

## Partnership benefits for Napatech

### Increase volume

Scalability with Intel's architecture and design used by 8 global hyperscalers

### Go-to-market

Access to Intel's global reach and collaboration with sales, marketing and business development

### Engineering collaboration

Tailoring hardware and software solutions with Intel for highest growth segments

### Access to latest technology

First mover advantage with access to Intel's latest CPU and FPGA technology

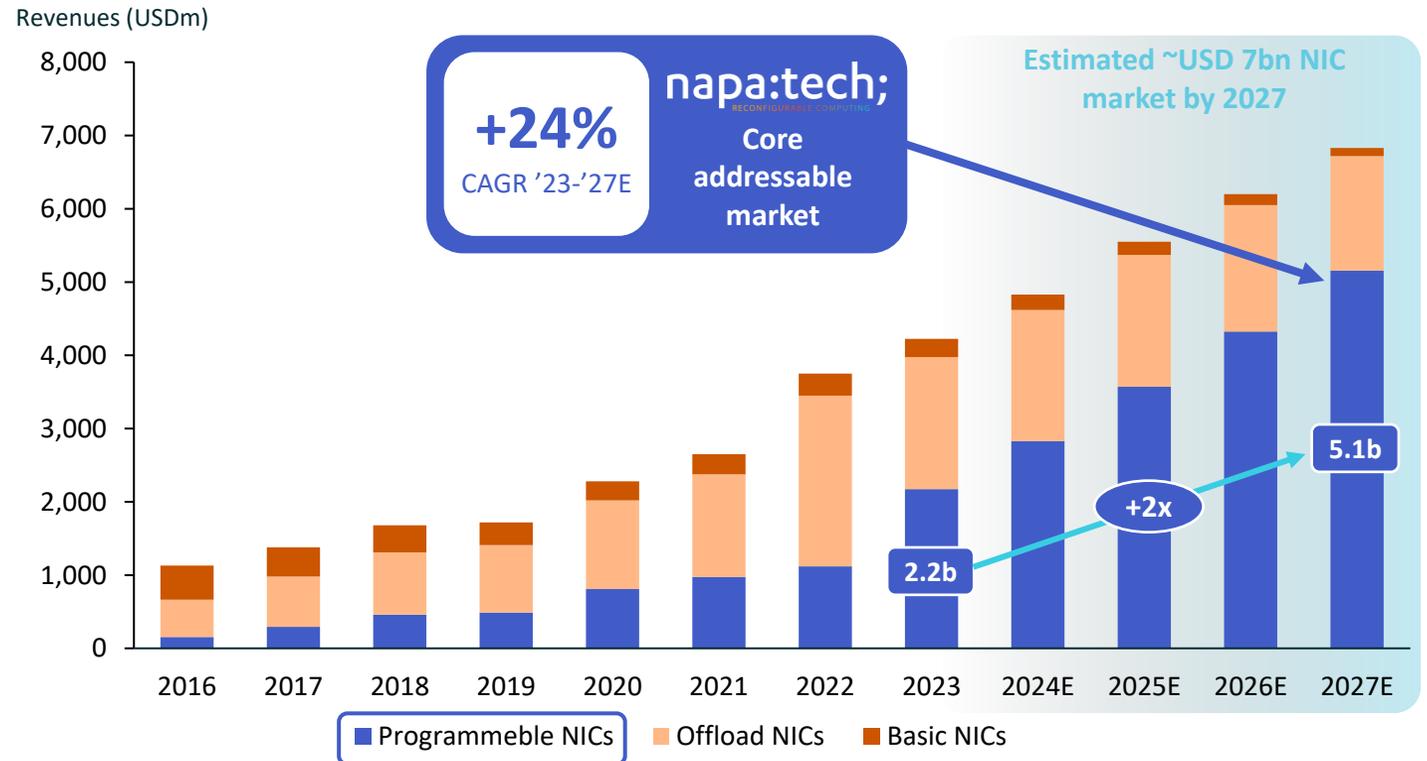


# Napatech Is Exposed To The Fast-Growing Programmable NIC Market Driven By Industry Megatrends

Mega industry trends are driving more and more applications to run ...

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

... increasing the number of servers deployed and eventually the programmable NICs being deployed – replacing basic NICs



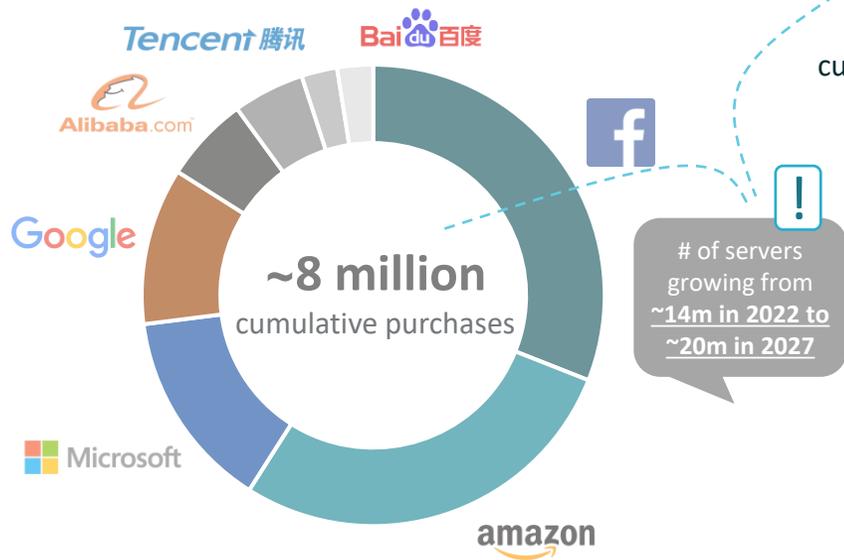
# Napatech Is Ready To Roll Out SmartNICs And IPU's With Intel/Altera To A Large And Growing Addressable Market

IPUs have already been adopted by hyperscalers and the technology has become proven

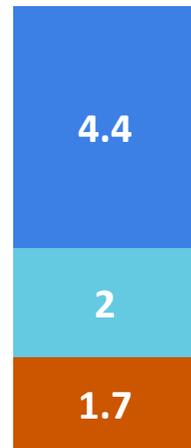
Fortune 5000s are now starting to adopt the technology and require a complete solution which Napatech can deliver

Market dominated by Intel

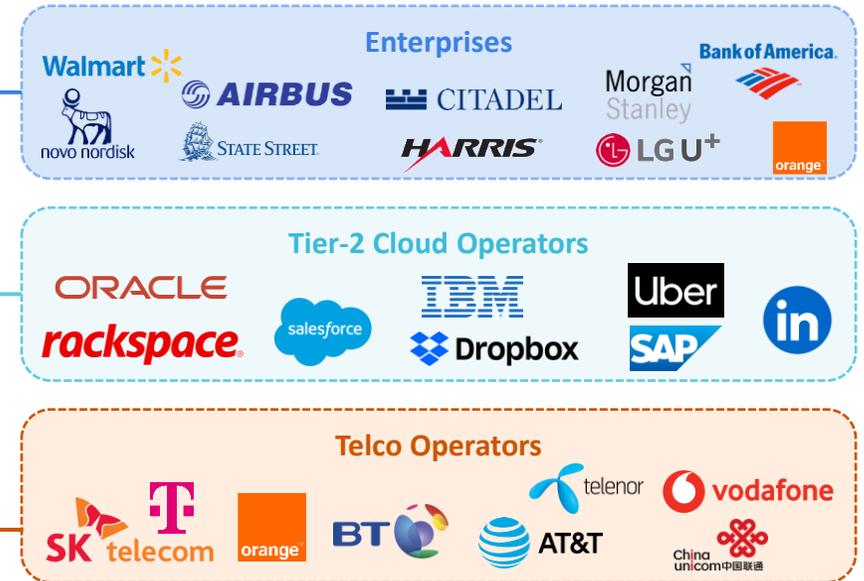
Napatech's addressable market



**~12 million**  
cumulative purchases 8



# servers (millions)

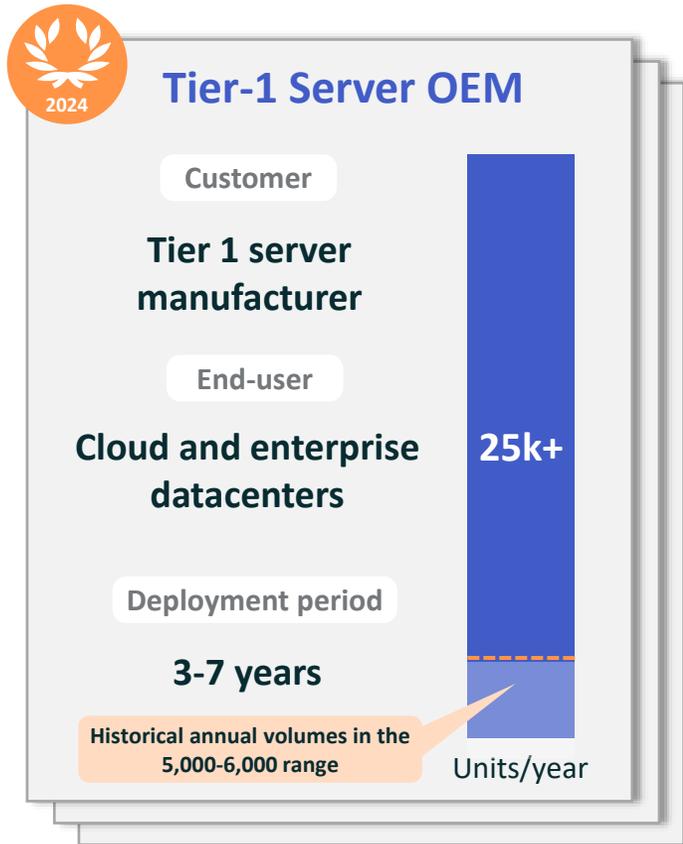


Hyperscale cloud operators

Napatech and Intel targeting the mass market

# Early Success Validates Napatech's Position In The High-Volume Market

Major design wins secured with Intel partnership ...



... resulting in accelerating pipeline growth



Pipeline vs. Historical business (Pre-Intel)

## Finansavisen

**Danish IT company set for growth with Intel partnership**

A new collaboration with Nvidia challenger Intel has caused investors to throw themselves at Napatech.

Published 18 April 2024 kl. 16:16

“ Now we are **part of the investment area of one of the largest computer chip manufacturers in the world**, and well underway with the projects to be delivered to **their customers - i.e. large data centers.**

— Lars Boilesen, CEO at Napatech

# Accelerating Volumes And Strong Growth Potential Going Forward

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



4-6 IPU design wins annually



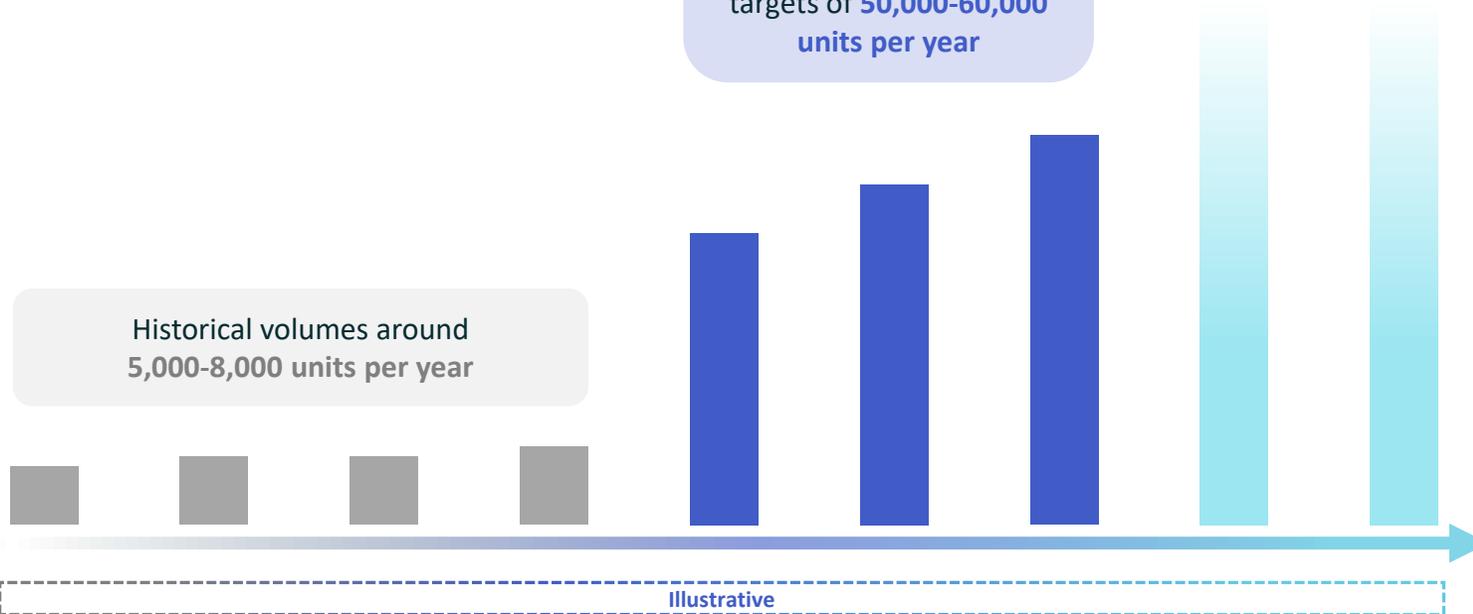
50-60,000 units annually  
(30-40,000 units in previous guiding)



Programmable NIC prices are typically USD \$2000-4000 per unit

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RECONFIGURABLE COMPUTING  
Intel partnership and recent design wins driving new targets of **50,000-60,000 units per year**

New design wins expected to unlock **high volumes**



**New 2024 Customers** (ESTIMATED ANNUAL VOLUME):

- TBA Server OEM <sup>(25k+)</sup>
- Beeks Financial <sup>(100)</sup>
- XRTrading <sup>(100)</sup>
- Millenium <sup>(100)</sup>
- PDT Partners <sup>(100)</sup>
- Morgan Stanley <sup>(100)</sup>
- Jump Trading <sup>(100)</sup>
- Bank of America <sup>(100)</sup>
- BAE <sup>(100)</sup>
- D-Matrix.AI <sup>(100)</sup>
- GoDaddy <sup>(100)</sup>
- Cpacket <sup>(100)</sup>
- LiveAction/Cisco <sup>(100)</sup>
- TradingTech <sup>(100)</sup>

# Financial Review and Outlook

# Consolidated Income Statement Q1 2024

DKK'000	Q1		Q1 Δ
	2024	2023	
<b>Revenue</b>	<b>21,542</b>	<b>37,096</b>	<b>-42%</b>
Cost of goods sold	(6,112)	(16,566)	
<b>Gross profit</b>	<b>15,430</b>	<b>20,530</b>	<b>-25%</b>
<b>GM%</b>	<b>71.6%</b>	<b>55.3%</b>	
Staff costs	(27,758)	(29,456)	<b>-6%</b>
Other external costs	(12,836)	(8,966)	<b>43%</b>
<b>EBITDAC</b>	<b>(25,164)</b>	<b>(17,892)</b>	
Transferred to capitalized development costs	849	5,079	<b>-83%</b>
<b>EBITDA</b>	<b>(24,315)</b>	<b>(12,813)</b>	
Depreciation, amortization and impairment	(7,944)	(7,726)	<b>3%</b>
<b>Operating result (EBIT)</b>	<b>(32,259)</b>	<b>(20,539)</b>	
Finance income	833	3	
Finance costs	(757)	(1,028)	
<b>Result before tax</b>	<b>(32,183)</b>	<b>(21,564)</b>	
Income tax	(2)	(7)	
<b>Result for the period</b>	<b>(32,185)</b>	<b>(21,571)</b>	

## Key Points

- Revenue in Q1 down 42% compared to Q1'23
- GM in Q1 72% up 16 basis points compared to Q1'23.
- Staff costs in Q1 down 6% compared to Q1'23.
- Other external costs in Q1 up 43% compared to Q1'23.
- Q1 EBITDAC negative DKK 25.2m.
- Result for the period in Q1 negative DKK 32.2m – compared to negative DKK 21.6m in Q1'23.

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

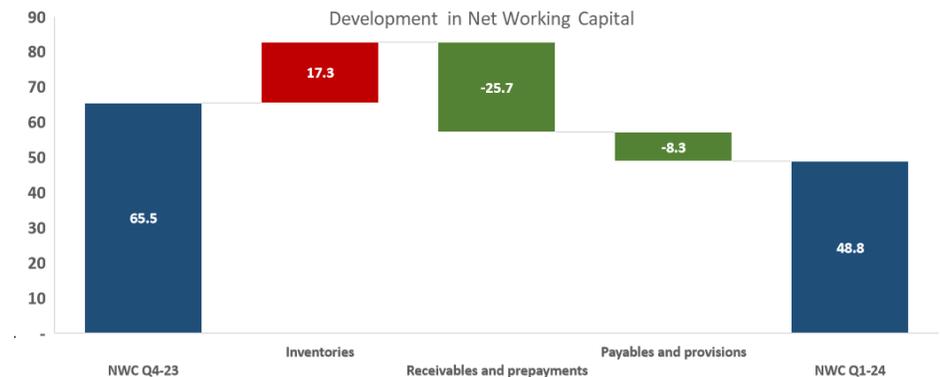
# Consolidated Cash Flow Statement Q1 2024

DKK'000	Q1	
	2024	2023
<b>Earnings before tax (EBT)</b>	<b>(32,183)</b>	<b>(21,564)</b>
Adjustments to reconcile profit before tax to net cash flows	9,882	9,613
Working capital adjustments	17,222	35,617
Interest and tax	(359)	(416)
<b>Net cash flows from operating activities</b>	<b>(5,438)</b>	<b>23,250</b>
<b>Net cash used in investing activities</b>	<b>(1,009)</b>	<b>(6,078)</b>
<b>Free cash flow</b>	<b>(6,447)</b>	<b>17,172</b>
<b>Net cash flows used in financing activities</b>	<b>(8,434)</b>	<b>(16,333)</b>
<b>Net change in cash and cash equivalents</b>	<b>(14,881)</b>	<b>839</b>
Net foreign exchange difference	32	(524)
Cash and cash equivalents at the beginning of the period	42,367	11,962
<b>Cash and cash equivalents at the end of the period</b>	<b>27,518</b>	<b>12,277</b>

	2024	2023
<b>Net working capital</b>	<b>48,763</b>	<b>19,687</b>
- NWC as % of revenue in quarter	226%	53%

## Key Points

- Net Cash flow from operating activities in Q1 negative DKK 5.4m
- Net working capital end of Q1 DKK 48.8m ~ 226% of revenue in the quarter



- Free cash flow in Q1 negative DKK 6.4m
- Cash and cash equivalents of DKK 27.5m end of Q1 compared to DKK 12.3m end of Q1'23

# 2024 Financial Guidance unchanged

	Guidance
Revenue	DKK 170-180m
Gross margin	69-71%
Staff expenses & Other external costs	DKK 145-155m
Transferred to capitalized development costs	DKK 10-15m

## Summary

- 2024 is a year focused on winning new design wins
- We are targeting 4-6 IPU design wins but increase the total annual unit potential from 30-40,000 units at peak years to 50-60,000 units in peak years
- Financially, with performance in the middle of the guided ranges in 2024:
  - Revenue is expected to decline 4%
  - EBITDA will be negative 15mDKK

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