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SMARTNIC+IPU SOLUTIONS

# 2024 Half-Year Report

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Heine Thorsgaard, CFO

Thursday, August 22, 2024

# Q&A Session

Following the presentation

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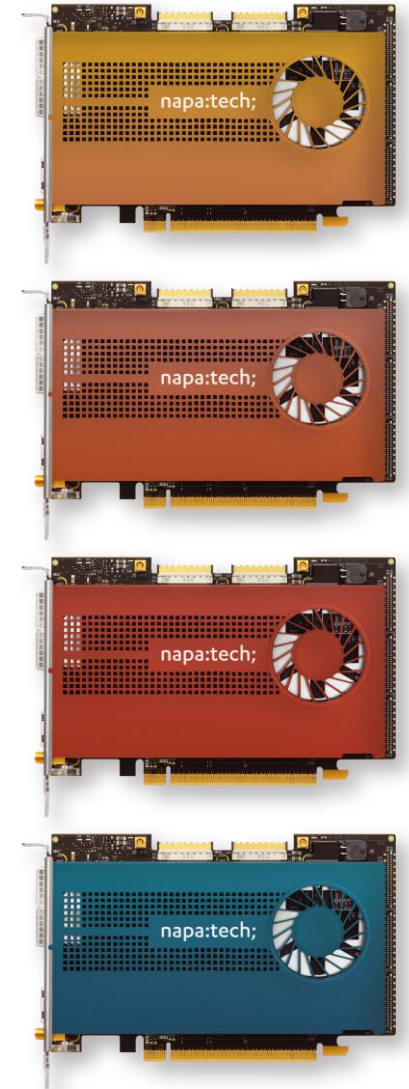
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# Agenda

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







## Business Status and Outlook

# Business Status – 2Q 2024

## 2Q-2024 Progress:

- Extended collaboration agreementt with Intel/Altera for next-generation 400G IPU's.  
<https://newswest.oslobors.no/message/616155>
- New commercial agreement with tier-1 server OEM focused on cloud and enterprise.  
<https://newswest.oslobors.no/message/617458>
- Increased 4-6 design-win guidance from 30-40k to 50-60k in annual production volume.  
<https://newswest.oslobors.no/message/617458>
- Completed private placement capital raise for 225M NOK to support business growth.  
<https://newswest.oslobors.no/message/618006>
- New design win disclosure with SigmaX.AI  
<https://www.napatech.com/media/press-releases/>
- New ISV integration for 5G infrastructure with Amantya  
<https://www.napatech.com/media/press-releases/amantya-technologies-successfully-integrates-napatechs-smartnic/>
- Reaffirmed design-win guidance for 2024. Increased uncertainty around revenue guiding. Cost guiding increased due to new agreement with tier-1 Server OEM.

## 2Q-2024 Financial Results

- Revenue \$3,4 MUSD
- Gross Margins 65 %

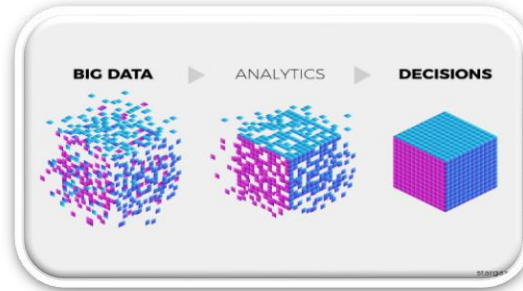
### Napatech Strategic Plan

- 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

# 2024 Design Win Focus



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



**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**  
**>1-3k units/year**



**Global Video Provider**  
**Cloud Streaming Services**  
**>1-3k units/year**



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



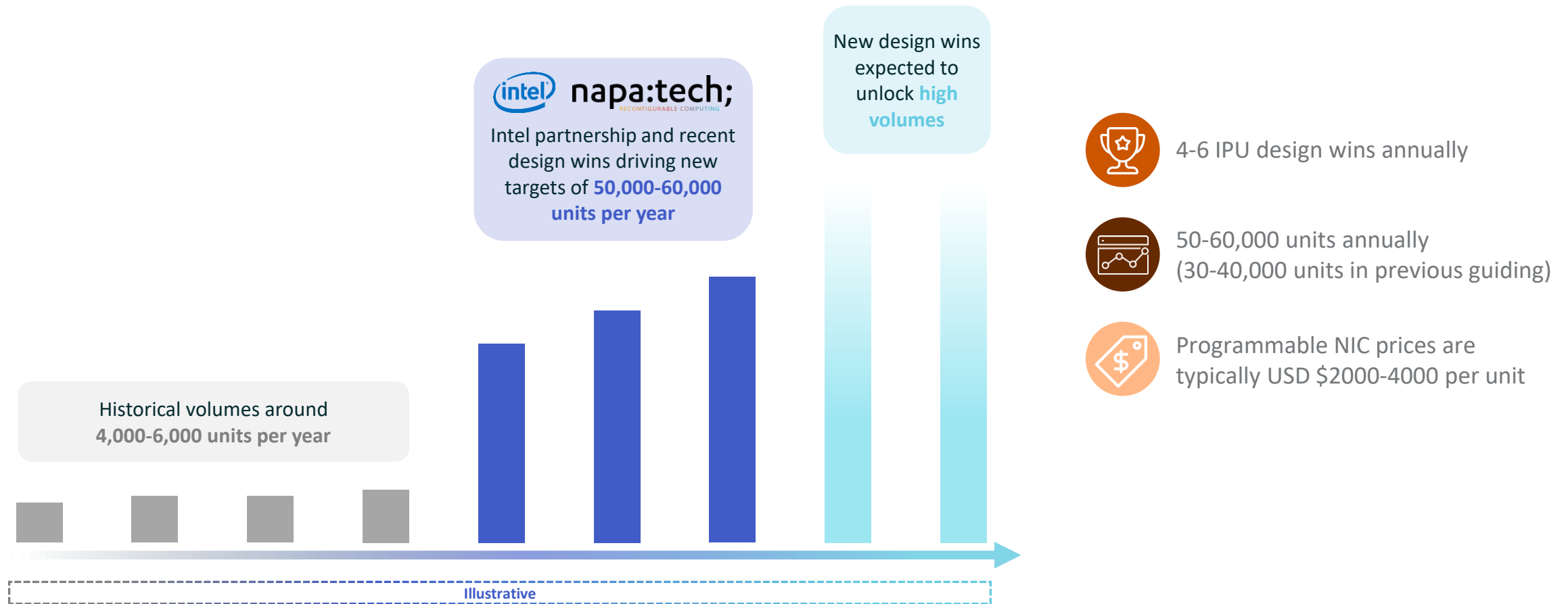
**Tier-1 Enterprise Equipment Provider**  
**Network Attached Storage**  
**5k-10k units/year**



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

# Accelerating Volumes And Strong Growth Potential Going Forward

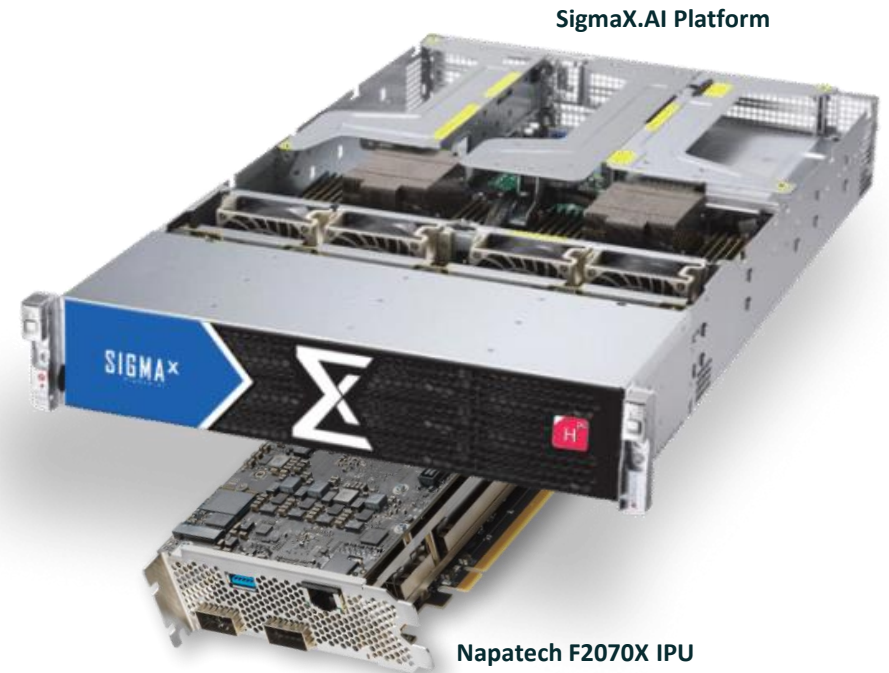
Napatech has transformed from a niche supplier to a **high-volume partner in a high growth market**





# SigmaX.AI

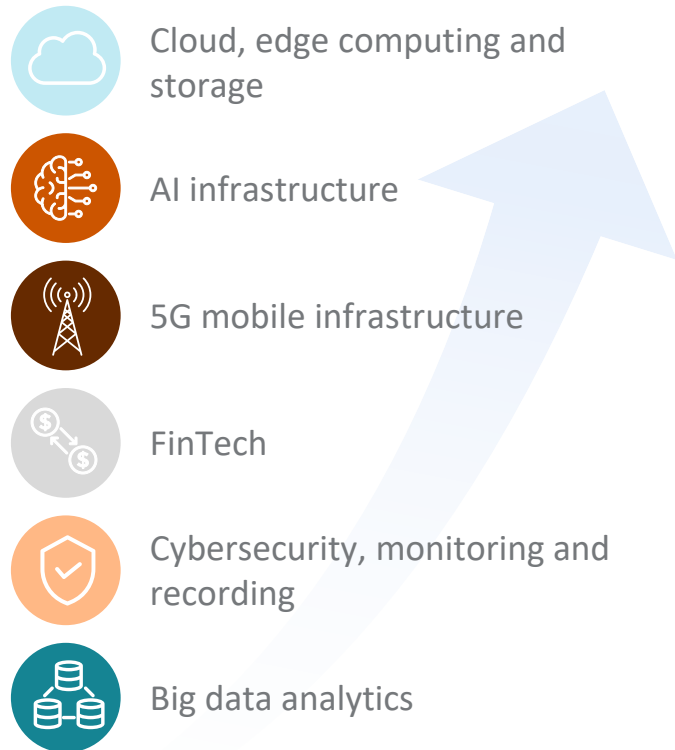
- Data management for big-data AI/ML applications
- Helps datacenters overcome cost and complexity from massive AI data
- Accelerated program based on Intel development platform
- Demo, trial and POC systems complete
- Development work to be completed on Napatech production platform
- Solid pipeline includes enterprise, government and cloud networks
- General availability anticipated to be 1H-2025, ramping thru 2026



*“SigmaX.AI’s scalable solution delivers benefits to hundreds, even thousands, of servers in typical deployments across Global-5000 enterprise, cloud, and government networks.”*  
- Rob Morrow, Chief Executive Officer, at SigmaX.AI.

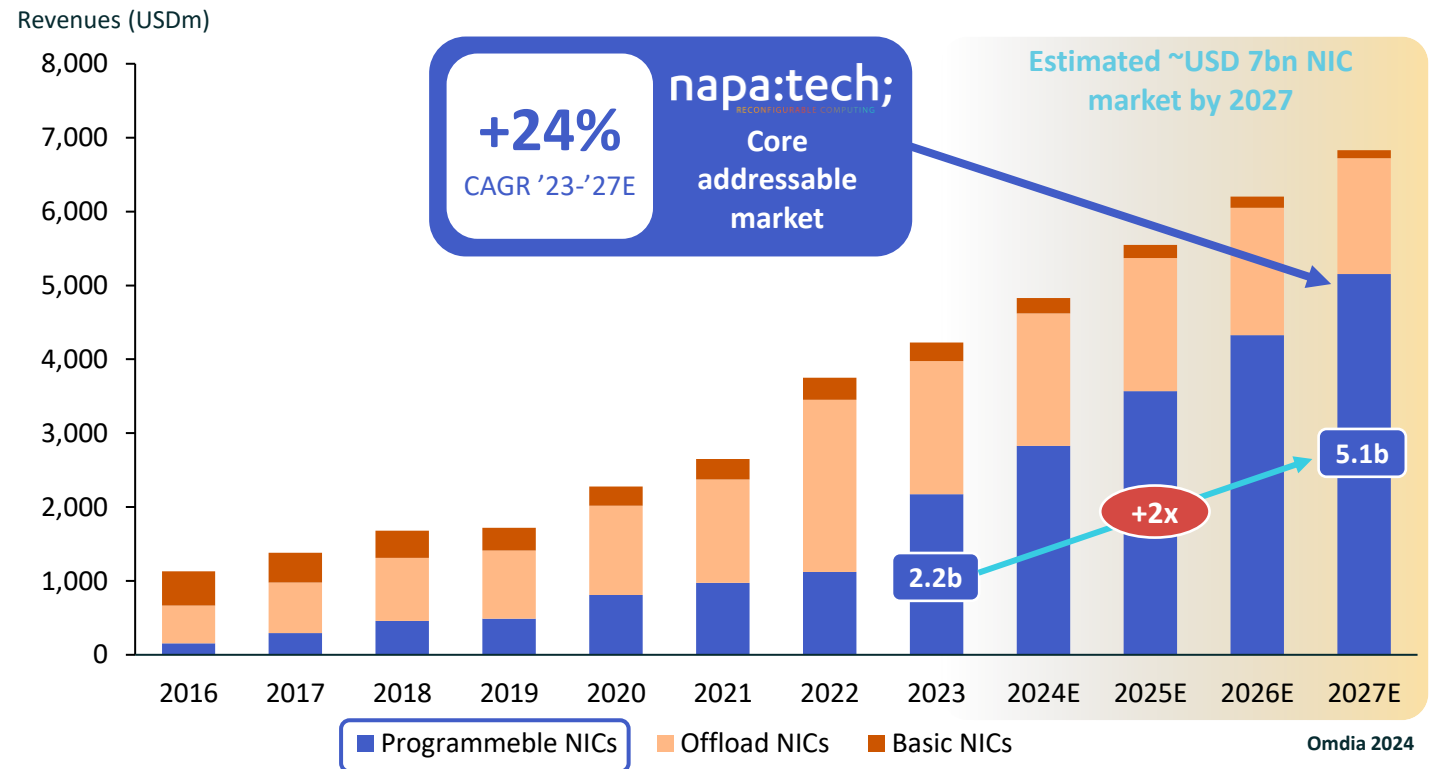
# Napatech Is Exposed To The Fast-Growing Programmable NIC Market Driven By Industry Megatrends

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



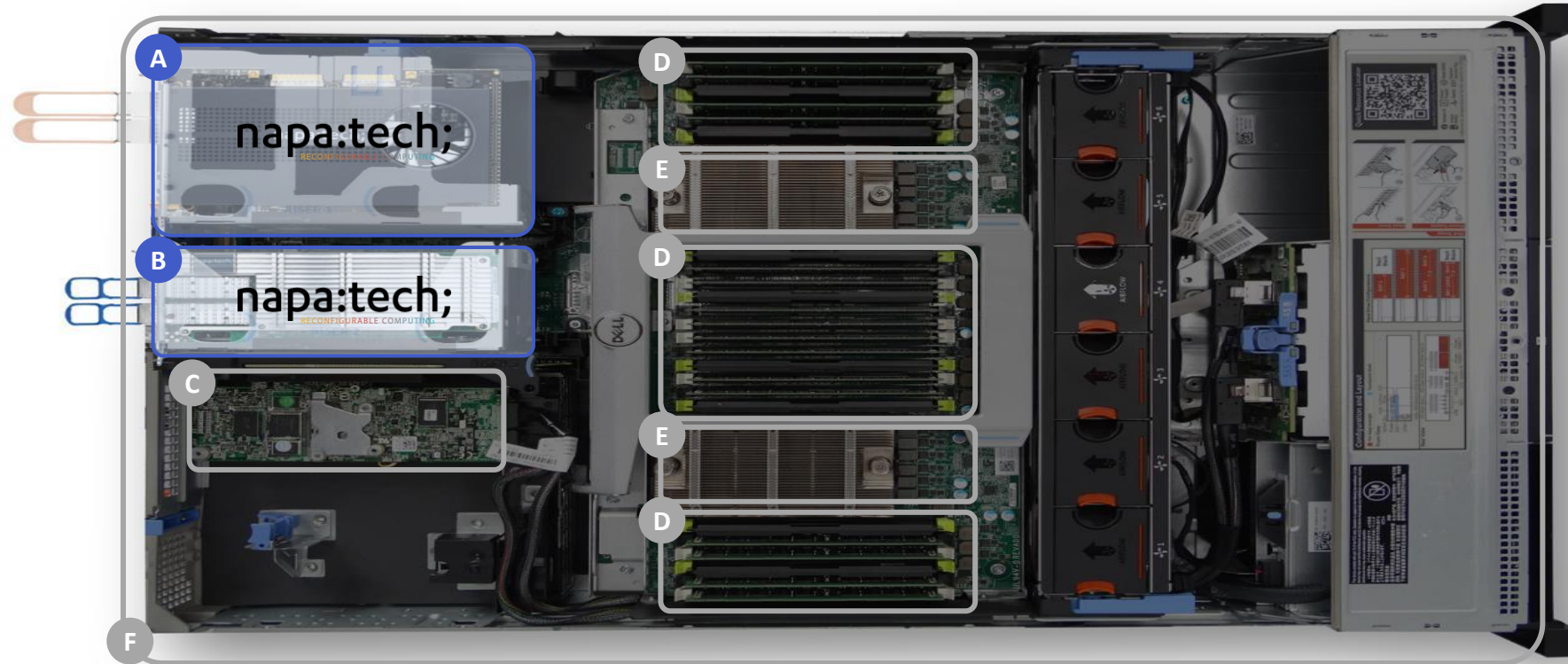
**“Generative AI will drive Ethernet and Adapter and SmartNIC market to surpass \$16B by 2028”. - Dell’Oro 2024**

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



# 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**



## Financial Review and Outlook



# Consolidated Income Statement Q2 & H1 2024

DKK'000	Q2		H1		Q2	H1
	2024	2023	2024	2023	Δ	Δ
Revenue	23,176	37,846	44,718	74,942	-39%	-40%
Cost of goods sold	(8,105)	(9,191)	(14,217)	(25,757)		
Gross profit	15,071	28,655	30,501	49,185	-47%	-38%
GM%	65.0%	75.7%	68.2%	65.6%		
Other operating income	-	-	-	-		
Staff costs	(28,581)	(23,455)	(56,339)	(52,911)	22%	6%
Other external costs	(14,726)	(10,810)	(27,562)	(19,776)	36%	39%
EBITDAC	(28,236)	(5,610)	(53,400)	(23,502)		
Transferred to capitalized development costs	867	2,065	1,716	7,144	-58%	-76%
EBITDA	(27,369)	(3,545)	(51,684)	(16,358)		
Depreciation, amortization and impairment	(7,699)	(8,300)	(15,643)	(16,026)	-7%	-2%
Operating result (EBIT)	(35,068)	(11,845)	(67,327)	(32,384)		
Finance income	373	2	1,206	5		
Finance costs	(1,112)	(662)	(1,869)	(1,690)		
Result before tax	(35,807)	(12,505)	(67,990)	(34,069)		
Income tax	747	(665)	745	(672)		
Result for the period	(35,060)	(13,170)	(67,245)	(34,741)		

## Key Developments

- Revenue in Q2 in USD down 39% compared to Q2'23 (*down 39% in DKK*). Revenue in H1 in USD down 40% compared to H1'23 (*down 40% in DKK*)
- GM in Q2 65% down 11 basis points compared to Q2'23. GM in H1 68% up 2.6 basis points compared to H1'23
- Staff costs in Q2 up 22% compared to Q2'23 and up 6% in H1 compared to H1'23.
- Other external costs in Q2 up 36% compared to Q2'23 and up 39% in H1 compared to H1'23
- Q2 EBITDAC negative DKK 28.2m – down DKK 22.6m compared to Q2'23. H1 EBITDAC negative DKK 53.4m – down DKK 29.9m compared to H1'23.

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

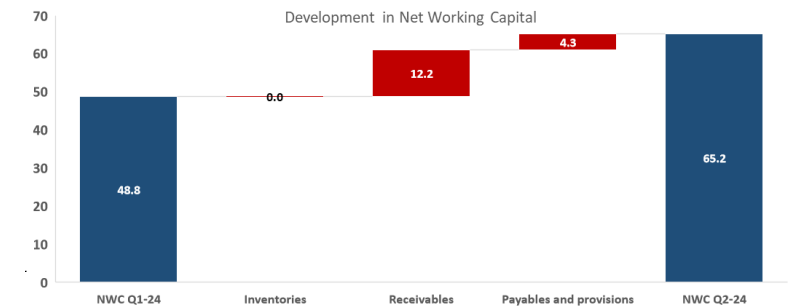
# Consolidated Cash Flow Statement Q2 & H1 2024

DKK'000	Q2		H1	
	2024	2023	2024	2023
<b>Earnings before tax (EBT)</b>	<b>(35,807)</b>	<b>(12,505)</b>	<b>(67,990)</b>	<b>(34,069)</b>
Adjustments to reconcile profit before tax to net cash flows	11,131	9,448	21,013	19,061
Working capital adjustments	(16,312)	(18,690)	910	16,927
<b>Cash flows from operating activities</b>	<b>(40,988)</b>	<b>(21,747)</b>	<b>(46,067)</b>	<b>1,919</b>
Interest and tax	(950)	(1,342)	(1,309)	(1,758)
<b>Net cash flows from operating activities</b>	<b>(41,938)</b>	<b>(23,089)</b>	<b>(47,376)</b>	<b>161</b>
<b>Net cash used in investing activities</b>	<b>(2,682)</b>	<b>(2,609)</b>	<b>(3,691)</b>	<b>(8,687)</b>
<b>Free cash flow</b>	<b>(44,620)</b>	<b>(25,698)</b>	<b>(51,067)</b>	<b>(8,526)</b>
<b>Net cash flows used in financing activities</b>	<b>120,161</b>	<b>69,460</b>	<b>111,727</b>	<b>53,127</b>
<b>Net change in cash and cash equivalents</b>	<b>75,541</b>	<b>43,762</b>	<b>60,660</b>	<b>44,601</b>
Net foreign exchange difference	147	5	179	(519)
Cash and cash equivalents at the beginning of the period	27,518	12,277	42,367	11,962
<b>Cash and cash equivalents at the end of the period</b>	<b>103,206</b>	<b>56,044</b>	<b>103,206</b>	<b>56,044</b>

	2024	2023
Net working capital	65,241	38,501
- NWC as % of revenue in quarter	282%	102%

## Key Developments

- Net Cash flow from operating activities in Q2 negative DKK 41.9m – H1 negative DKK 47.4m
- Net working capital end of Q2 DKK 65.2m ~ 282% of revenue in quarter



- Free cash flow in Q2 negative DKK 44.6m
- Cash and cash equivalents of DKK 103.2m end of Q2 24 compared to DKK 56.0m end of Q2'23

# 2024 Expectations

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## Strategic targets

- As communicated in our release on May 2, we target 4-6 design wins in 2024 with 50,000-60,000 units in peak annual production years.
- With our latest announcement of our design win, we feel comfortable maintaining the target for 2024.

## Financial targets

- The revenues in q1 and q2 have clearly been weaker than expected and create high uncertainty with respect to our annual revenue guidance.
- However, we see that the pace of our legacy business is picking up in Q3. In addition, with the new design win, we now have an opportunity to get revenue from our new IPU products in 2024.
- Since our capital raise in May this year, we have accelerated our development activities significantly to bring new products to the market quickly and to deliver to the new tier- 1 Server OEM agreement
- As a result, we now expect Staff costs and Other external costs in 2024 to be in the range of 170-180 mDKK (previously 145-155 mDKK). With the current plans, we are adding 35 R&D resources during 2024, and due to the increase in our share price in 2024 our non-cash impacting warrant costs are expected to be 7.5 mDKK higher this year than previously anticipated.
- We maintain our expectations of gross margin in the range of 69-71%.

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