



24th Annual Needham Growth Conference

January 13, 2022

Ray Smets

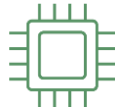
Chief Executive Officer

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Corporate Overview



20-year history delivering high-performance FPGA-based SmartNICs



Unparalleled expertise accelerating compute-intensive applications on servers



Denmark HQ with +100 resources worldwide; R&D in Copenhagen



22 patents & patents-pending provides high barrier-to-entry for competitors



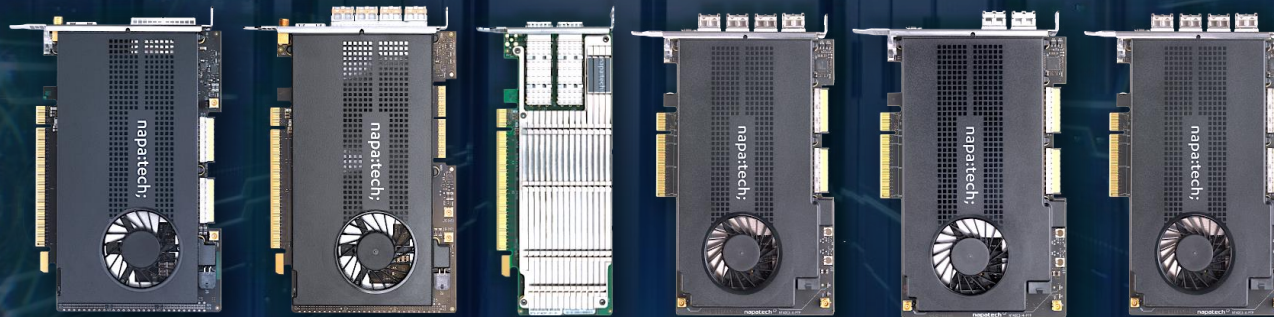
Solid financial track-record and highly leverageable business model



Targeting rapidly expanding \$3.3B Programmable NIC market by 2025

Napatech Builds SmartNICs and SmartNIC Software

Napatech SmartNICs Accelerate Server-based Applications



- We design high-performance programmable SmartNICs to offload servers and accelerate apps
 - Our software powers the SmartNICs - *our key strategic advantage*
 - SmartNIC prices span \$1,500-\$11,000+ with strong gross margins of +70%

Top Tier Global Customers & Partners

200+ global customers with ~70% of revenue from US-based customers in 2020

73% of revenue from OEMs with long-term strategic relationships & multi-year product design wins

Key partnerships with technology leaders

27% of revenue from End-Users across multiple market segments for project design wins



Customer Segments and Customer Needs

Networking & Security



Increasing speeds,
evolving threats
require performance
and visibility

Telecom & Cloud



5G increases speeds,
users & devices,
greater software
virtualization needed

Government & Defense











Mission-critical apps
need zero packet
loss, network
visibility & control

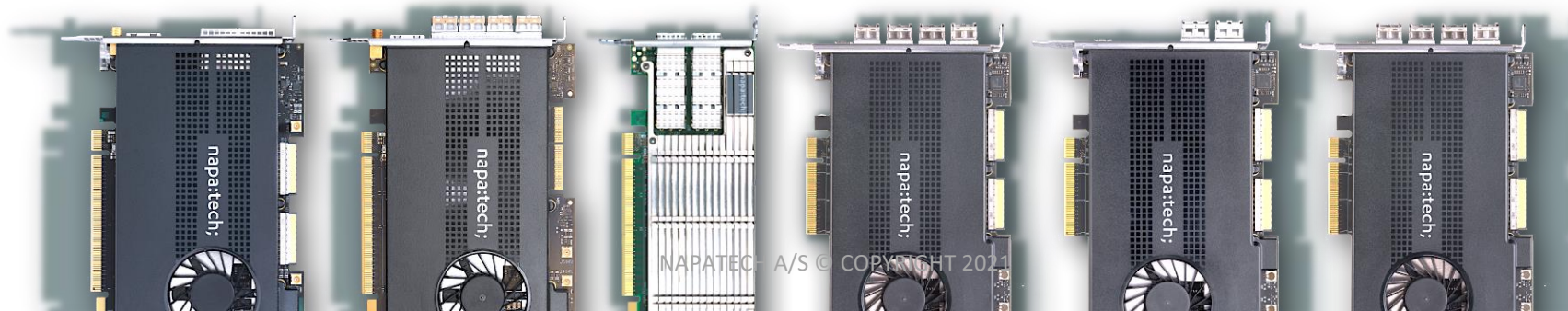
Financial /Other



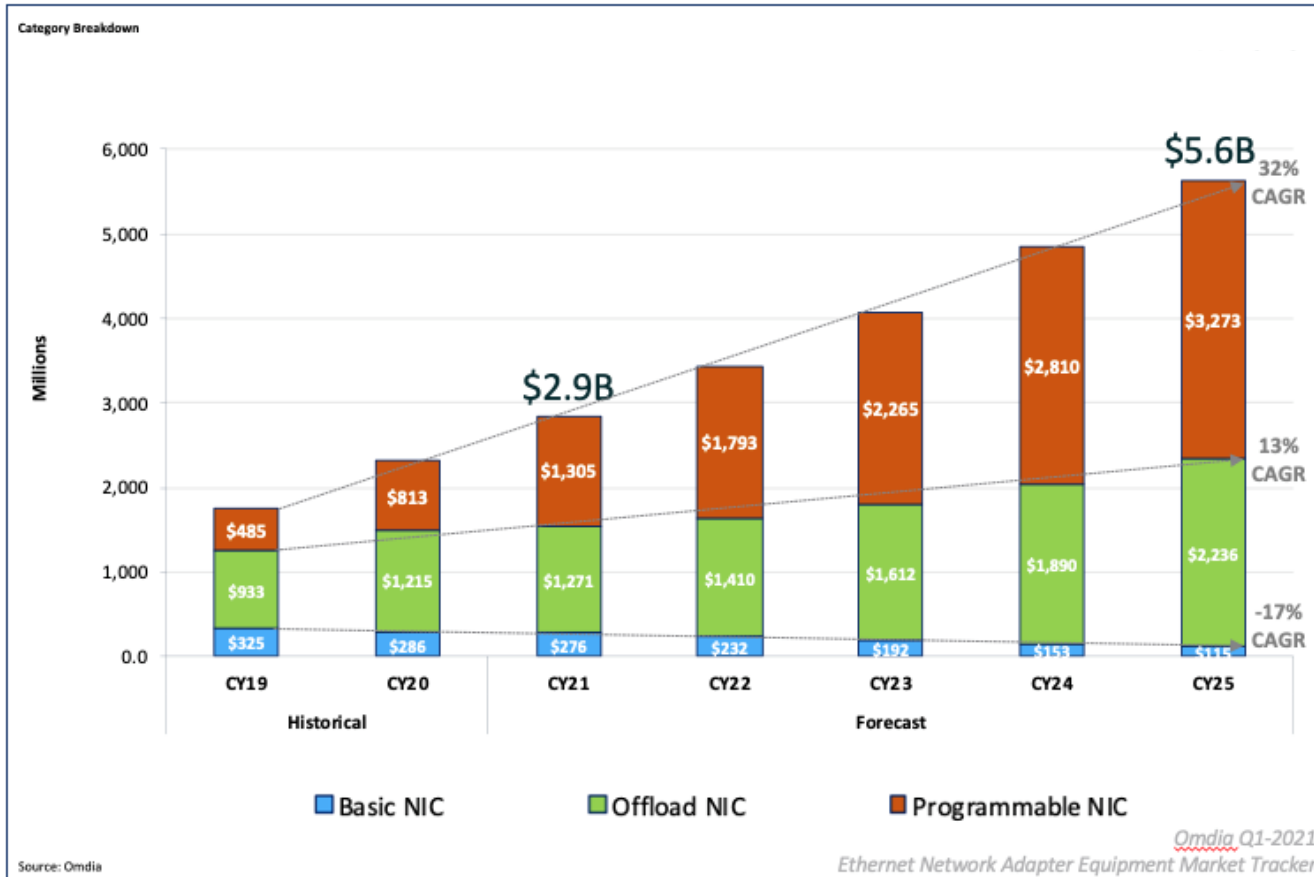
Faster networks &
nanosecond
precision for high-
frequency trading

Napatech's Unique Combo of Value and Benefits

	Expertise:	Pioneered use of FPGA's for Smart NICs
	Agility:	Programmable HW performance at speed of SW innovation
	Software:	FPGA solutions optimized for leading apps and services
	Price:	Economies of scale in FPGA volumes from leaders Xilinx and Intel
	Performance:	40X app performance improvement from 1 to +200 Gbps
	Openness:	Standard, multi-vendor HW, processing, tools & SW
	Flexibility:	SmartNICs spanning price, performance, interface types and densities
	Sustainability:	ESG-friendly, up to 3X energy-efficient and 2X cost-efficient solutions



Napatech Emerging in Growing Market – FY2020 Market Share



- First view of 2025 forecast shows continued strong market growth
- Napatech is ranked in the top 10 of the total NIC market
- Napatech is focused on and measured in the highest growth segment of the Programmable NIC market

Market Share (%)		FY 2020
1.	NVIDIA	25%
2.	Intel	20%
3.	Broadcom	13%
4.	Microsoft	12%
5.	Marvell	8.8%
6.	Amazon	8.3%
7.	Xilinx	3.1%
8.	Silicom	1.6%
9.	Napatech	1.3%
10.	Cisco	1.2%
Other		6.1%

Programmable NIC Market Overview

Programmable NIC Market - ALL

Market Share (%)		FY 2020
1.	Microsoft	35%
2.	Amazon	24%
3.	Marvell	15%
4.	Broadcom	9%
5.	Napatech	3.8%
6.	Xilinx	2.8%
7.	Silicom	1.9%
8.	NVIDIA	1.2%
9.	Intel	0.5%

Other

6.9%

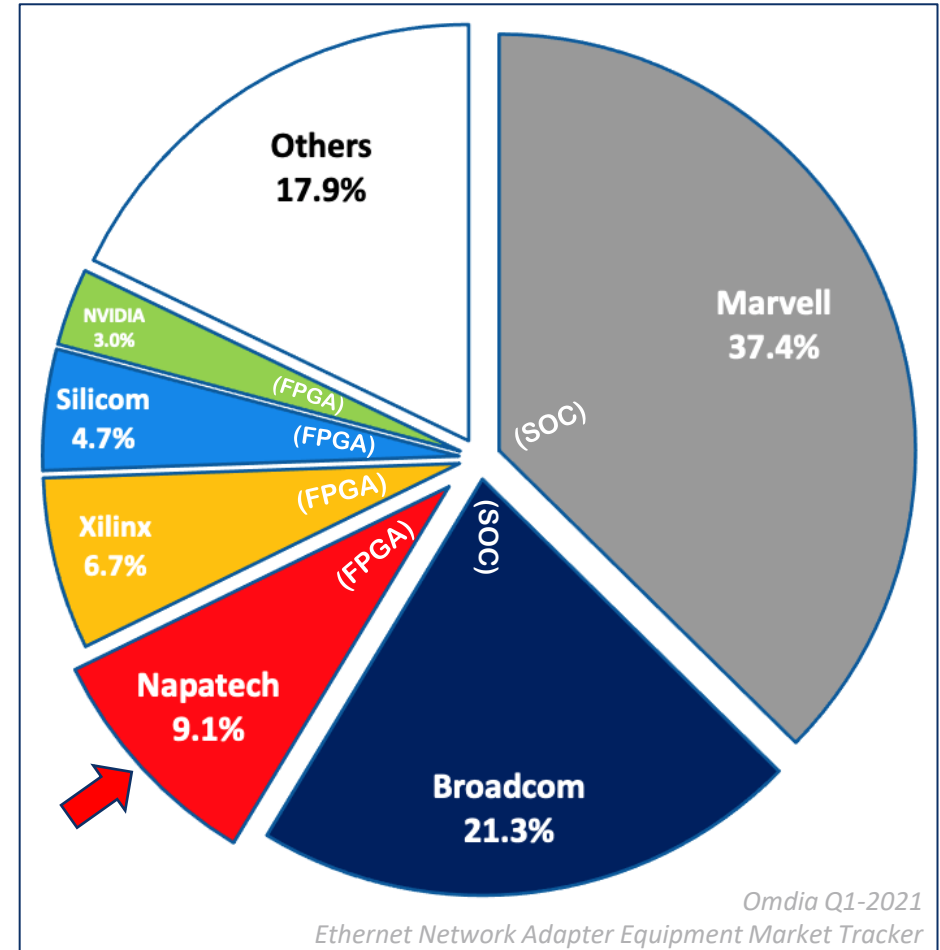
+30 other companies

Self-Build

Vendors

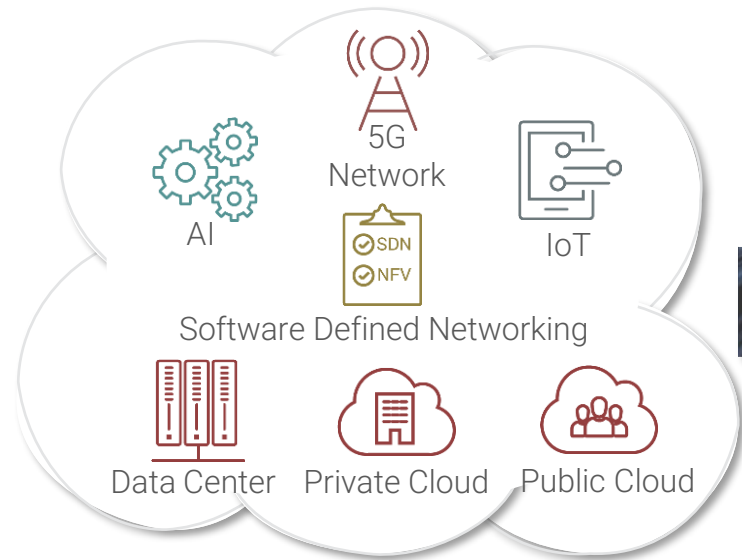
- Napatech ranks #3 amongst vendors
- Napatech is #1 vendor with FPGA solutions

Programmable NIC Market – VENDORS ONLY



NIC Market is Driven By Server Expansion

Cloudification of Everything



*Key Industry Inflections
Change how Networks are Built*

Server Market Expansion Continues

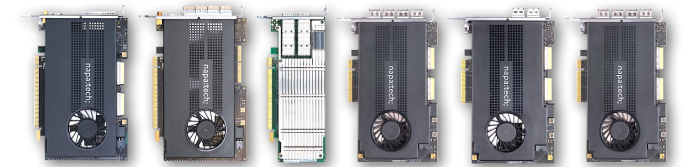


Networks Built at Massive Scale

Hardware: Low-Cost Servers & Appliances

Software: Applications & Services

NIC Market Grows to Solve Server Connectivity



*SmartNICs emerge to support
advanced applications and
services when standard
servers can't keep up*

The Future is Bright for Napatech

Napatech is Building Momentum for Future Growth



Making Progress with Partners in 2021

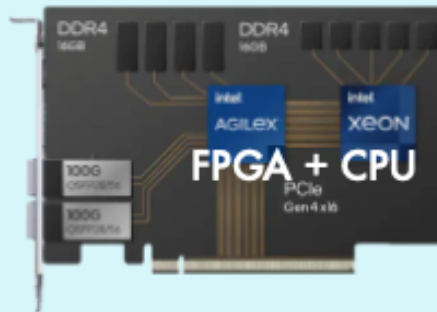
 <p>Partnership & OEM Design Win</p> <p>Joint Product Development</p> <p>Focused on NEW Virtualization Solution</p> <p>Delivers Improved Data Center Performance for 5G Telecommunications & Cloud SP's</p>	 <p>Software Solution Provider</p> <p>Napatech's Virtualization SW powers joint solution</p> <p>Operates on Silicom's Intel FPGA SmartNIC</p> <p>Increases application, networking & security performance of servers in virtualized data centers</p>	 <p>New Partnership & FPGA Collaboration</p> <p>Growing partnership with top global FPGA silicon provider</p> <p>Collaboration in fast-growing FPGA SmartNIC domain</p> <p>Expanding to focus on opportunities within 5G and data center markets</p>	 <p>Growing Number of New Design Wins</p> <div>        </div> <p><i>And others...</i></p>
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The Evolution of the SmartNIC is the IPU



Silicom Ltd.
Connectivity Solutions

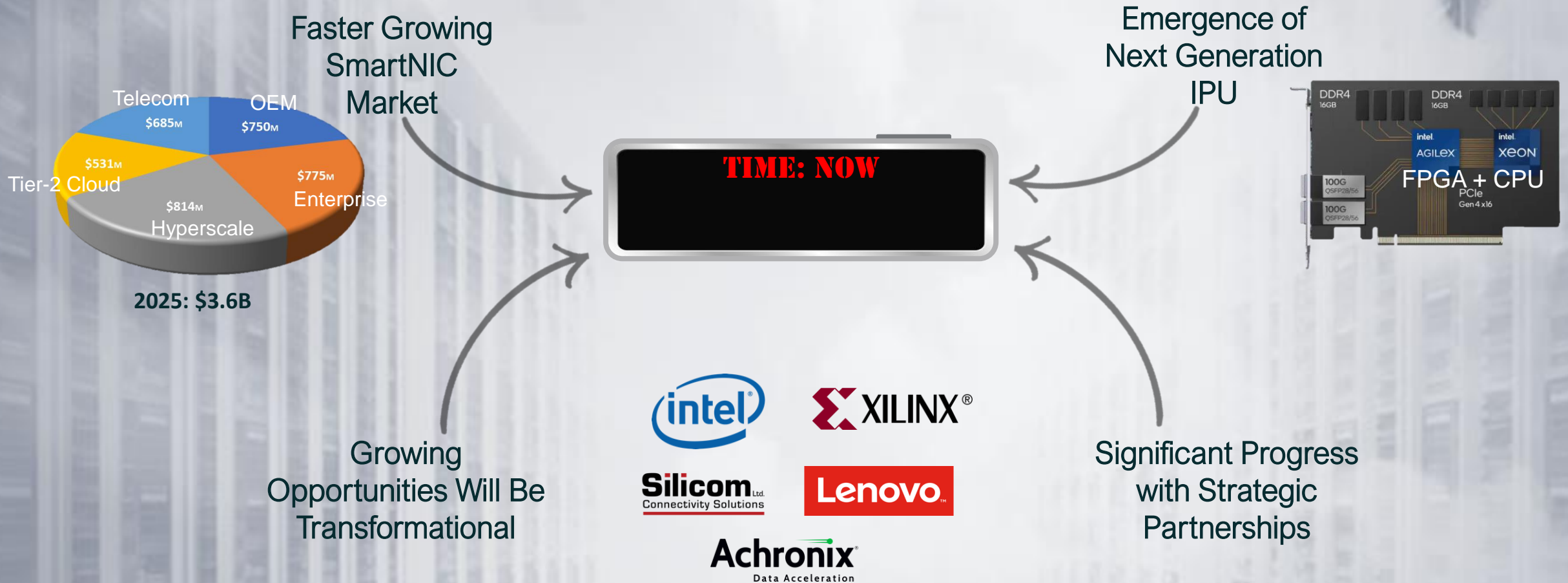
Infrastructure Processing Unit (IPU) An Evolutionary Step for SmartNICs



- Highly-intelligent infrastructure acceleration
- System-level security, control and isolation
- Common Software Frameworks
- HW & SW programmable

- We are enhancing our SmartNIC HW solutions to include x86 and ARM CPU cores (IPU)
- We are investing in our SmartNIC SW to power our expanding SmartNIC HW portfolio
 - We have built key partnerships to take a leading role as this evolution occurs
 - *Our ambition is to win new business in 2022 and beyond*

The Opportunities for Napatech Have Never Been More Compelling



Napatech is *Accelerating* Investment in Link-Virtualization

Full Steam Ahead

- We see a large opportunity in fast-growing virtual use-cases targeting modern cloud, mobile/telco, enterprise and edge datacenters
- Napatech's SmartNIC software improves performance by off-loading virtual workloads improving server performance and overall economics
- Napatech is increasing investments in software development to accelerate feature velocity within this evolving market
- Hiring +30 full-time R&D and subcontractors over next 12 months
- Cash flow will be negative in the coming quarters as we accelerate the development
- Investments enable 2022 design wins and revenue expansion for years to come

The timing of this investment is strategic, and we are going for it

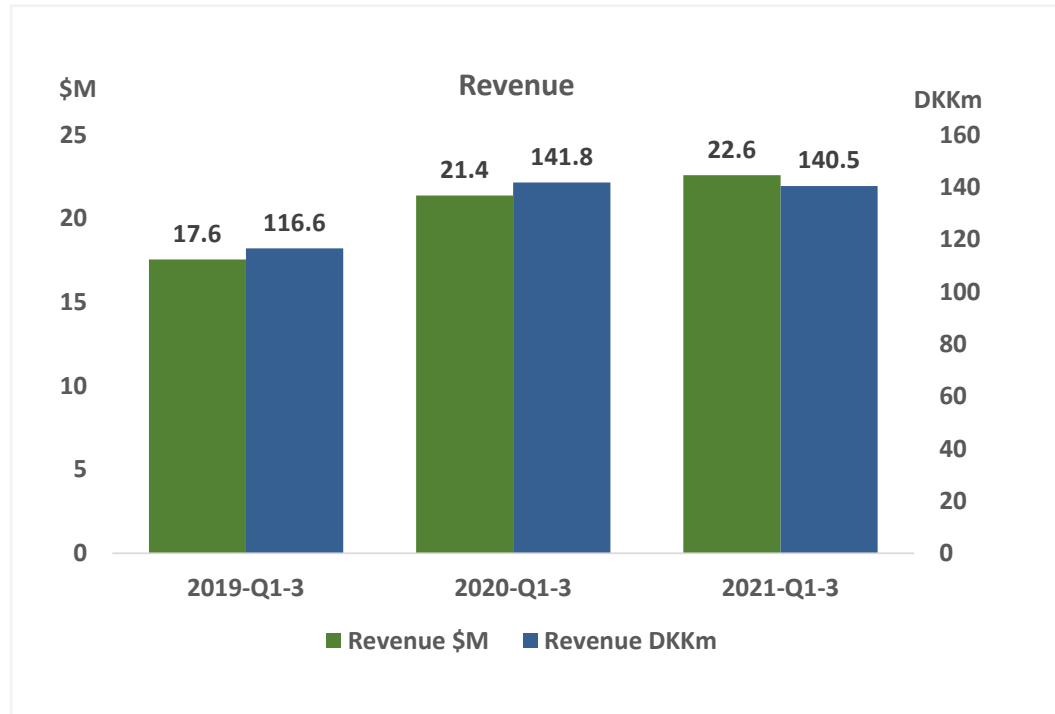
2021 Progress & Results

3Q 2021 Continues Streak of Solid Business Results

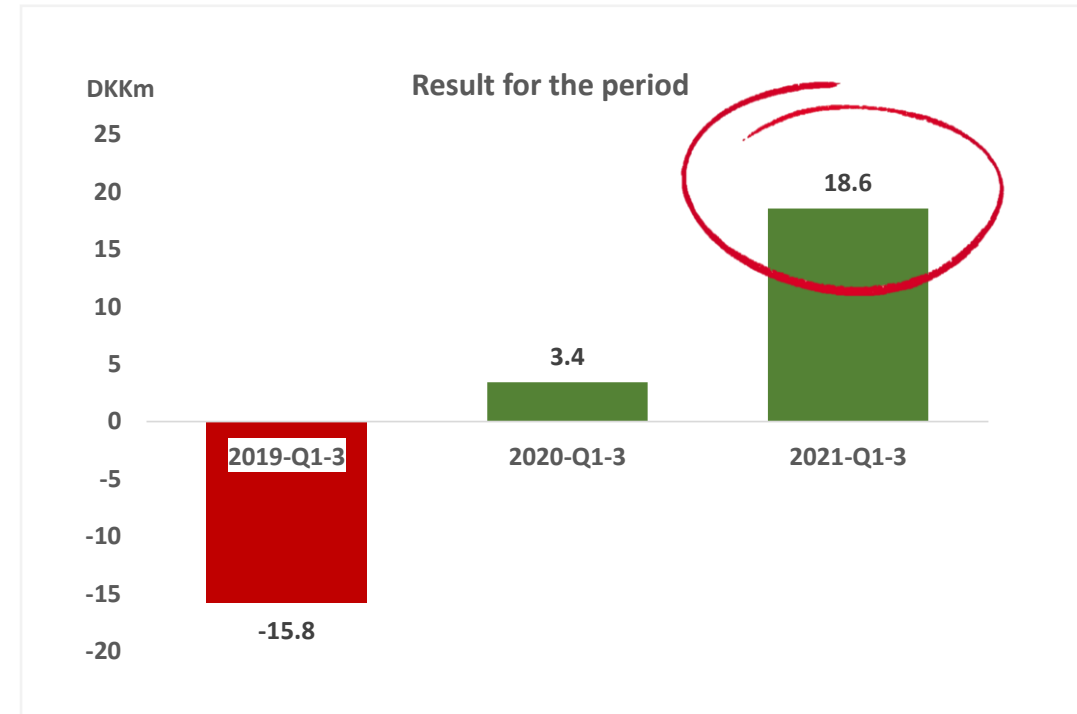
- **Growing & Profitable**
- 3Q 2021 YoY Revenue Growth **+7%**
- Gross Margins 3Q of **73.1%**
- EBITDAC & EBITDA 3Q **Positive and up YoY**
- Earnings are **Positive YTD, up 15.1 DKKm YoY**
- Free Cash Flow 3Q of **4.3 DKKm**
- Free Cash Flow YTD is **+12.1 DKKm** adjusted for the early deployment of working capital due to supply chain impacts

2021 Continues with Positive YoY Results

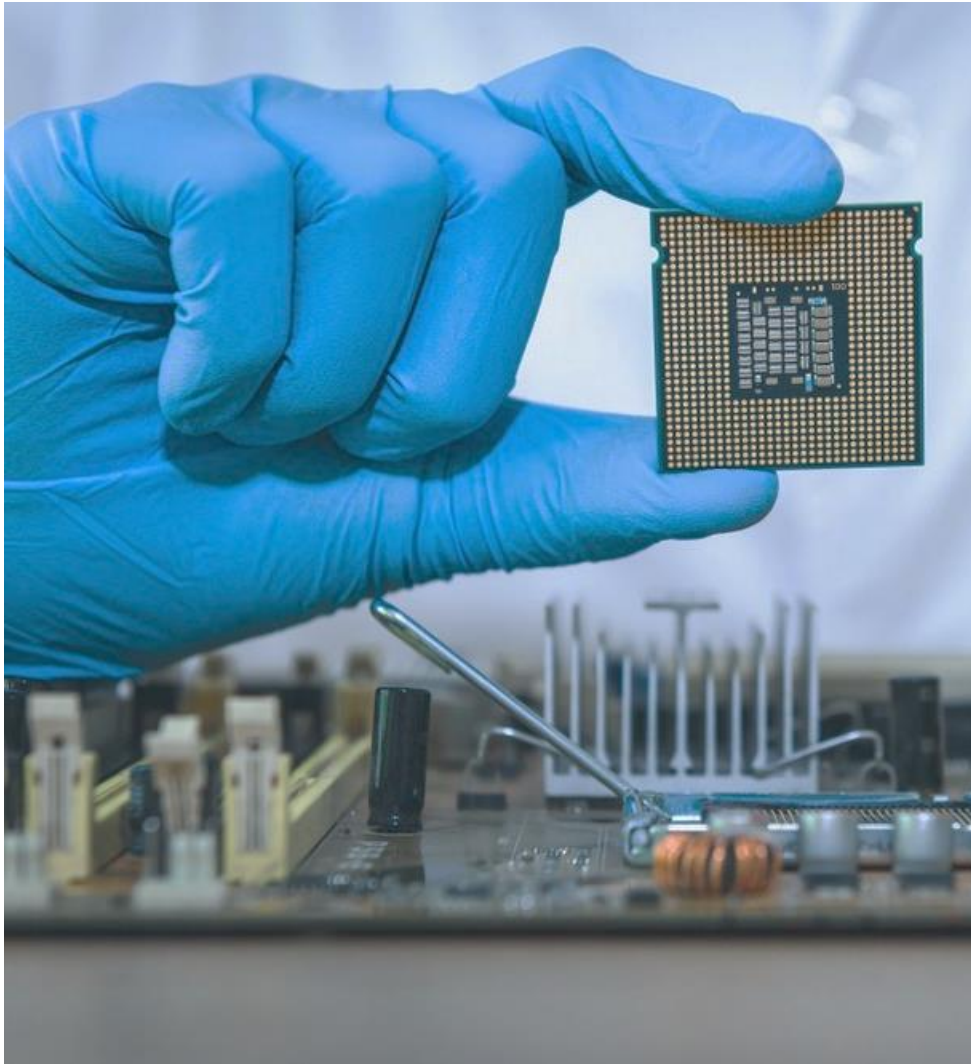
Revenue over the last three YTD periods underscore the strength and stability of Napatech's business



YTD positive earnings demonstrates business leverage and longer-term profitable operation



Napatech Increases Pricing Reacting to Global Supply Chain Situation



- Napatech issues price increase effective Jan 2022 for all impacted products
- Costs have jumped significantly in Q4'21 for all SmartNIC components
- Additionally, proactive sourcing of SmartNIC components requires deploying more cash earlier but assures revenues into 2022
- Other impacts being monitored
 - Industry server supplies
 - Shortages of customer personnel
 - Project delays
 - Lengthened deal timelines and shifting opportunities

Consolidated Income Statement Q3 & YTD 2021

DKK'000	Q3		YTD		Q3	YTD
	2021	2020	2021	2020	Δ	Δ
Revenue	47,247	44,352	140,479	141,755	7%	-1%
Cost of goods sold	(12,699)	(13,280)	(39,808)	(40,537)		
Gross profit	34,548	31,072	100,671	101,218	11%	-1%
GM%	73.1%	70.1%	71.7%	71.4%		
Other operating income	-	(334)	25	5		
Staff costs	(21,962)	(21,579)	(71,834)	(72,162)	2%	-0.5%
Other external costs	(6,345)	(3,715)	(16,792)	(14,149)	71%	19%
EBITDAC	6,241	5,444	12,070	14,912		
Transferred to capitalized development costs	6,148	2,522	17,754	8,728	144%	103%
EBITDA	12,389	7,966	29,824	23,640		
Depreciation, amortization and impairment	(5,774)	(5,627)	(15,576)	(17,284)	3%	-10%
Operating result (EBIT)	6,615	2,339	14,248	6,356		
Finance income	1,444	1,024	5,885	1,052		
Finance costs	(118)	(2,416)	(470)	(3,715)		
Result before tax	7,941	947	19,663	3,693		
Income tax	(374)	(38)	(1,091)	(257)		
Result for the period	7,567	909	18,572	3,436	732%	441%

Key Highlights

- Revenue in Q3 in USD up 7% compared to Q2'20 (*up 7% in DKK*). Revenue YTD in USD up 6% compared to 2020 (*down 1% in DKK*).
- GM in Q3 73.1% up 3 basis points compared to Q3'20. GM YTD 71.7% up 0.3 basis points compared to 2020.
- Staff costs in Q3 up 2% compared to Q3'20 and down 0.5% YTD compared to 2020.
- Other external costs in Q3 up 71% compared to Q3'20 and up 19% YTD compared to 2020.
- Q3 EBITDAC positive DKK 6.2m – up DKK 0.8m compared to Q3'20. YTD EBITDAC positive DKK 10.1m – down DKK 2.8m compared to 2020.
- Result for the period YTD positive DKK 18.6m – up DKK 15.1m compared 2020.

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

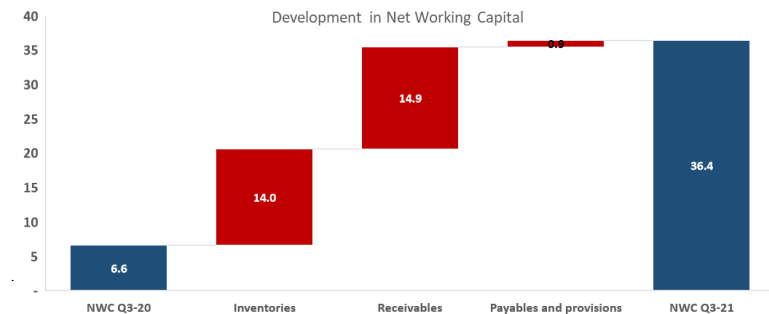
Consolidated Cash Flow Statement Q3 & YTD 2021

DKK'000	Q3		YTD	
	2021	2020	2021	2020
Earnings before tax (EBT)	7,941	947	19,663	3,693
Adjustments to reconcile profit before tax to net cash flows	5,390	8,029	12,537	21,719
Working capital adjustments	(229)	4,779	(31,161)	7,106
Interest, net	(47)	1,035	(243)	637
Income tax, net	(372)	(39)	(1,088)	(351)
Net cash flows from operating activities	12,683	14,751	(292)	32,804
Net cash used in investing activities	(8,360)	(3,352)	(18,799)	(9,165)
Free cash flow	4,323	11,399	(19,091)	23,639
Net cash flows from financing activities	(3,353)	(10,363)	(4,636)	(16,689)
Net change in cash and cash equivalents	970	1,036	(23,727)	6,950
Net foreign exchange difference	1,282	(272)	1,584	(550)
Cash and cash equivalents at the beginning of the period	38,303	69,942	62,698	64,306
Cash and cash equivalents at the end of the period	40,555	70,706	40,555	70,706

	2021	2020
Net working capital	36,360	6,583
- NWC as % of revenue in quarter	77%	15%

Key Highlights

- Net Cash flow from operating activities in Q3 DKK 12.7m – YTD negative DKK 0.3m.
- Net working capital end of Q3 DKK 36.4m ~ 77% of revenue in quarter.



- Free cash flow in Q3 positive DKK 4.3m.
- Cash and cash equivalents of DKK 40.6m end of Q3 21 compared to DKK 62.7m end of Q3'20.

Annual Guidance for 2021 – Updated

Guidance 2021	Previous Guidance	Updated Guidance	
Revenue	DKK 210-230m	DKK 192-196m	
Gross margin	70-72%	70-72%	*
Staff expenses & Other external costs	DKK 125-135m	DKK 125-135m	*
Staff costs transferred to capitalized development costs	DKK 20-25m	DKK 20-25m	*
Depreciation and amortization	DKK 20-25m	DKK 20-25m	*

* *unchanged*

- Due to supply chain impacts and customer deferrals, certain deliveries planned for 4Q21, at the end of the quarter, were delayed into 2022.
- Total demand was strong in 4Q21. The order intake in 4Q21 was USD 12.9 million up 42% compared to 4Q20.
- The order backlog at the end of 4Q21 was at a record level of USD 7.9 million, up from USD 2.4 million at the end of 4Q20.
- However, the supply chain impacts and customer deferrals limited Napatech's ability to turn more orders into revenue, and the guidance for 2021 has been adjusted to reflect this.
- The company expects to publish FY2022 revenue guidance in the range of USD 37-41 million.)

Why Invest In Napatech?



**EXCITING
MARKET
POTENTIAL**



**REVENUE,
CASH FLOW
&
EARNINGS**



**STABLE
&
GROWING**



**DELIVERING
PRODUCT
INNOVATION**



**WINNING
TOP
CUSTOMER
BRANDS**

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