24 February 2020

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

ETHERNITY NETWORKS LIMITED
("Ethernity" or the "Company" or the "Group")

Trading and Market Update

Ethernity (AIM: ENET.L), a leading supplier of data processing offload solutions on FPGA (field programmable gate array) for virtualised networking appliances, announces a trading update for the year ended 31 December 2019 and a market progress update.

Trading update

For the year ended 31 December 2019, the Company traded in line with management expectations, and subject to any adjustments upon audit, expects to report Group full year revenue approximately 20% ahead of the prior year. Operating costs in H2 2019 (prior to IFRS 16 adjustments) decreased by approximately 5% compared to the first half. In addition, as part of the year-end process the Company intends to review its R&D capitalisation policy and capitalised asset values for 2019 and subsequent years.

The Company has continued to progress engagements on SmartNIC and UEP offerings. Whilst certain anticipated contracts with Tier 1 OEMs, previously expected to close during the first two months of 2020, have been delayed due to issues outside the Company's control, ongoing active discussions are continuing.

The Company expects to receive orders for new design projects from existing customers during the course of Q2 2020. These orders would comprise a new design under the existing IP business in the Cable Modem Termination System and Passive Optical Networks OLT markets and a complete industrial NIC card for the Aviation market following a previously completed project win from 2018.

The engagements with, and indicative feedback from customers and potential customers gives the Board confidence in the outlook for the year ahead.

Market update - the 5G and NFV market
The Company has seen a growing demand from Chinese telecoms companies for its solutions based on FPGA, a unique 5G enabling network circuit. This increased demand marks a shift away from software-only User Plane Functionality (UPF) solutions and demonstrates a growing movement towards disaggregation within the Chinese market. This reflects the methodical approach that Chinese telcos have taken to rolling out 5G, eschewing software-only solutions in favour of FPGAs that are optimized for networking and security functions and are programmable, such as the solution offered by Ethernity, to complement the software-only solution with increased performances and lower latency, while maintaining the flexibility of CPU.

The theoretical speeds expected for 5G are extremely fast, between 1 and 10Gbps aggregated download speed with an average throughput per user of 150Mbps (compared to 150Mbps of aggregated download speed with 4G mobile and an average per user of 10Mbps). Similarly, 5G is expected to offer latency as low as 1 millisecond compared to 50 milliseconds of latency in 4G mobile. The current initial trials and roll-outs of several Western operators are based on 4G Evolved (LTE) and do not meet the promised performance and latency of true 5G. Until such performance can be reached, many of the next generation applications that 5G promises to support – including augmented reality for emergency services, remote surgery, mainstream autonomous driving and fully smart cities – will be unable to function. The FPGA-based acceleration solution offered by Ethernity Networks enables operators to reach these higher speeds and lower latencies, while reducing power consumption and server-based CAPEX, by reducing the amount of required CPU cores.

The building and roll-out of new 5G virtualized networks that use NFV technologies has created a need for FPGA SmartNICs to accelerate 5G packet processing at the network edge, where high bandwidth and low latency are a must.

Currently, it is anticipated that NFV 5G roll-out for field testing by operators will occur during 2020 followed by mass deployment during 2021, with the majority of the deployment planned for the China market that is driving deployment of 5G.

The Company is actively working with several major Chinese OEMs that currently deliver products and solutions for mobile networks, who are investing time and effort in integrating their software networking offering on top of Ethernity's ACE-NIC100, embedding its patented ENET Flow Processor to deliver accelerated 5G UPF and SD-WAN solutions.

More recently, Ethernity and TietoEVRY announced a 5G UPF integrated concept offering based on open source VPP/UPF control software alongside Ethernity's ACE-NIC100 FPGA SmartNIC, allowing service providers worldwide to aggregate mobile and IoT user data and to prevent security threats. TietoEVRY and Ethernity will jointly promote these accelerated UPF technologies to OEMs, system integrators and service providers as well as through the companies' technology partners and customers.

Outlook

The Company continues to experience an increase in engagement with OEMs, system integrators and operators interested in Ethernity's solutions where these solutions are proving increasingly aligned to the offerings operators wish to make to their customers in their marketplaces. Network service providers are requiring more flexible solutions to their network, together with the need for offloading in order to support new data appliances introduced by the market.

On the basis of 5G deployment, as detailed above, and the resultant increased use of NFV technologies in the telco cloud and Radio Access Network (RAN), the Company anticipates that positive cash flow generation will commence by the end of H1 2021.

David Levi, CEO at Ethernity Networks, commented: "Our business is to sell the FPGA NIC and the associated software package, therefore any customer engagement where the customer is working and investing efforts on operating their virtualized software application on top of our ACE-NIC represents a long-term revenue opportunity of significantly more value to the Company than IP or project business opportunities with immediate, albeit lower, income generation."

"With customers such as FiberHome, and others developing their solutions based on our ACE-NIC this shows that they have selected our solution and will market their software offering with our FPGA data plane acceleration code and software. Any such commitments are expected to generate material annual revenues commencing during 2021, pending the rollout of 5G. The Company is in active project engagements with customers who are deploying substantial resources and investment on their side to build an offering with our ACE-NIC that embeds our FPGA data plane acceleration, which is expected to generate significantly greater value to IP licensing contracts. The Company is focused on becoming the leading provider of Router-on-FPGA-NIC, and on increasing customer engagements now that it has the best-in-class system solutions to address these needs"

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About Ethernity Networks

Ethernity Networks (AIM: ENET.L) provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks performance. Ethernity's FPGA logic offers complete Carrier Ethernet Switch Router data plane processing and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimize telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G, edge computing, and different NFV appliances including 5G UPF, SD-WAN, vCMTS and vBNG with the current focus on 5G emerging appliances.