

Corero Network Security plc

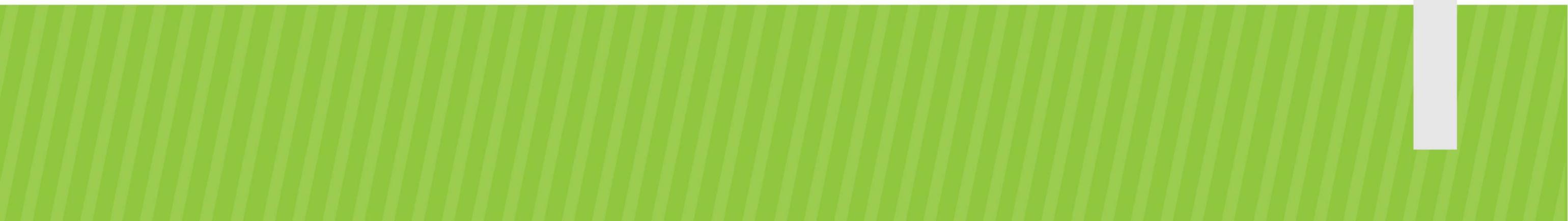
Results for the 6 months ended
30 June 2016

Ashley Stephenson, CEO
Andrew Miller, CFO





- 1. Introduction**
2. Results Summary
3. Market Opportunity
4. Outlook



Overview

Product

- Real time mitigation of DDoS cyber attacks
- SmartWall TDS validated by leading independent test laboratory
- Significant customer wins in H1 2016

Market drivers

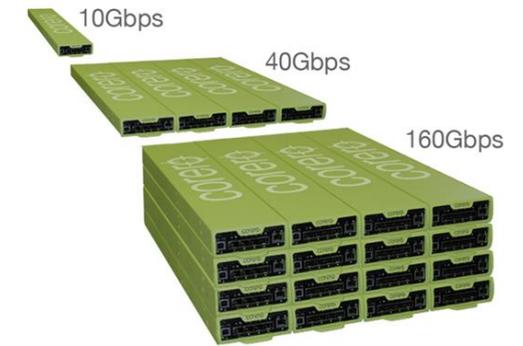
- DDoS prevention market \$0.66bn forecast to grow to over \$1bn in 2019
- Growth of DDoS protection as a service market (delivered by SPs and hosting providers)

Competitive Advantage

- Automated, real-time, cost effective (requires minimal manual security operator intervention)
- Corero positioned to be a new leader for DDoS technology

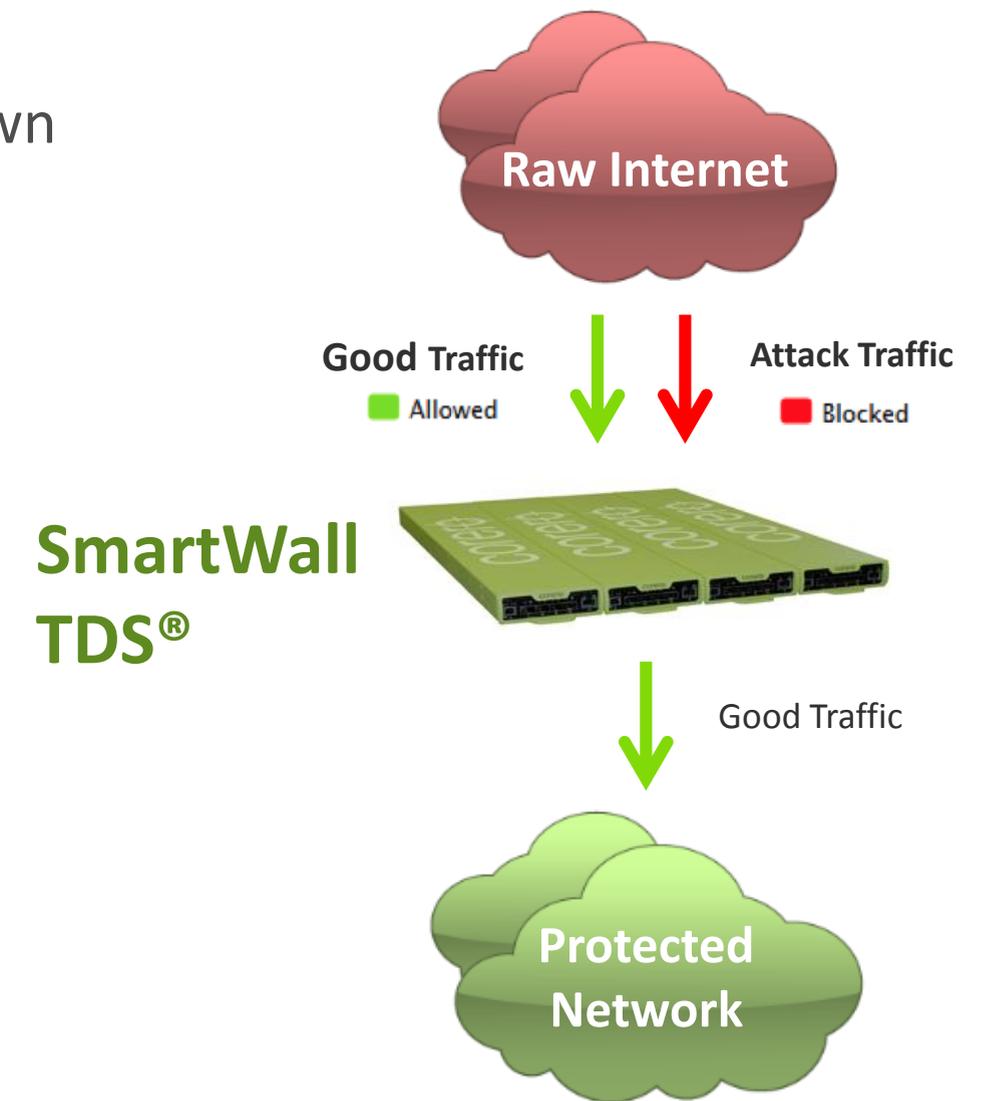
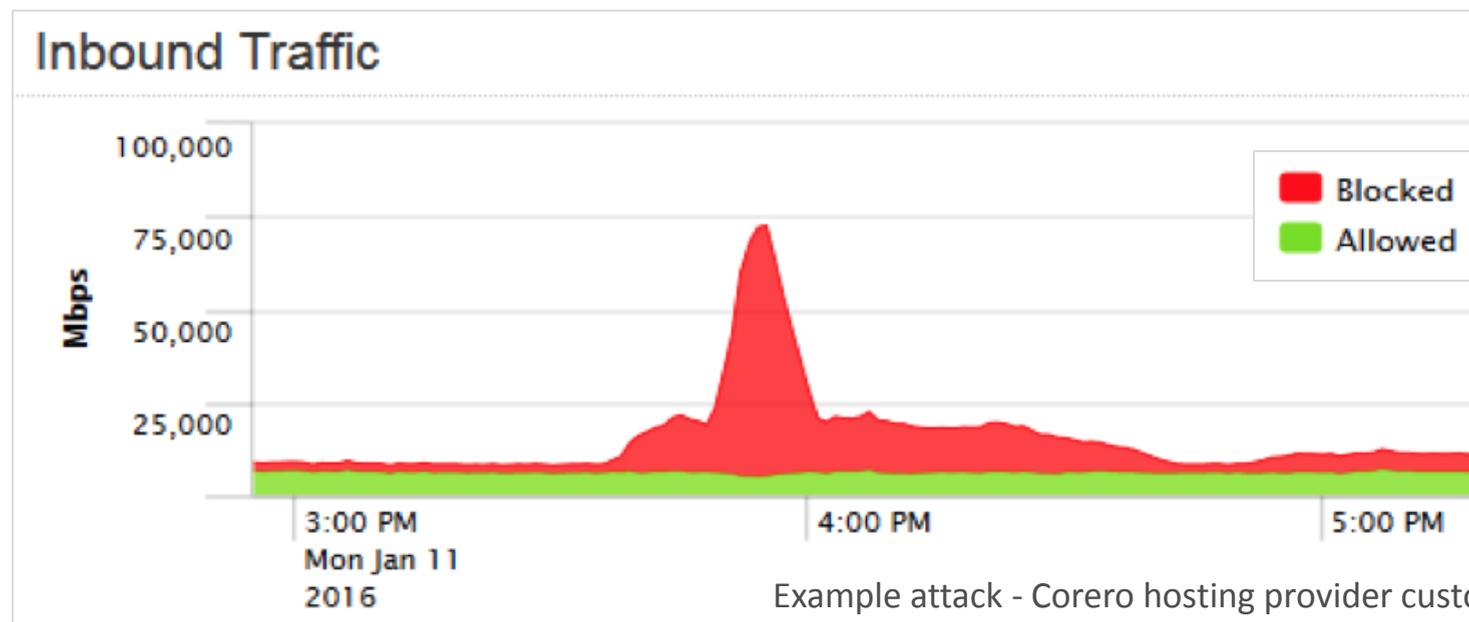
Outlook

- Positive outlook – SmartWall TDS revenue growth in H1 2016, customer wins and technology validation
- Growth expected to continue in H2 2016
- However 2016 forecast impacted by large pipeline opportunities taking longer to close
- Expect increase in customers purchasing Corero technology through “as-a-service” offering



SmartWall: Automatic Real-time DDoS Protection

- Inspect every packet for suspicious intent
- Built-in algorithms instantaneously detect and mitigate known DDoS attacks ■ Blocked
- Packets that are determined to be malicious are blocked
- Avoid disrupting good user traffic ■ Allowed
- Appliance solution (hardware and software)



Corero Competitive Advantage

1. Automatic
 - Goal 99% no customer intervention required
2. Real-time
 - Immediate protection – sub-second vs. minutes
3. Price
 - Cost effective entry point, leadership price/performance
4. Scalability
 - Modular and distributed, pay as you grow
5. Accuracy
 - Lowest false positive rates, eliminate collateral damage

Market Landscape - Technology Vendor Competitors



Estimated >50% market share



Estimated 10% market share



Validation



In March 2016, **NSS Labs** (world's leading security product testing laboratory) announced first DDoS product test results:

SmartWall TDS awarded

“Recommended” status

Upper right corner placement in the NSS Labs Security Value Map (SVM)

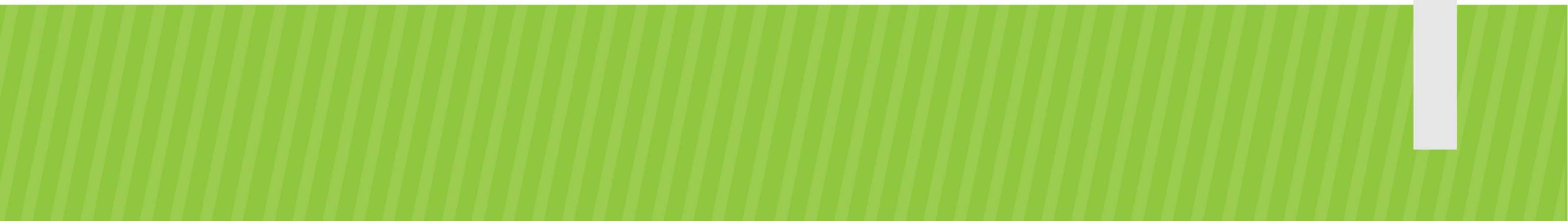
- Strong security rating against the competitor products tested
- Lower than average total cost of ownership

Cyber Defense Magazine (CDM)
2016 award:

Winner “Best Network Security Solution”



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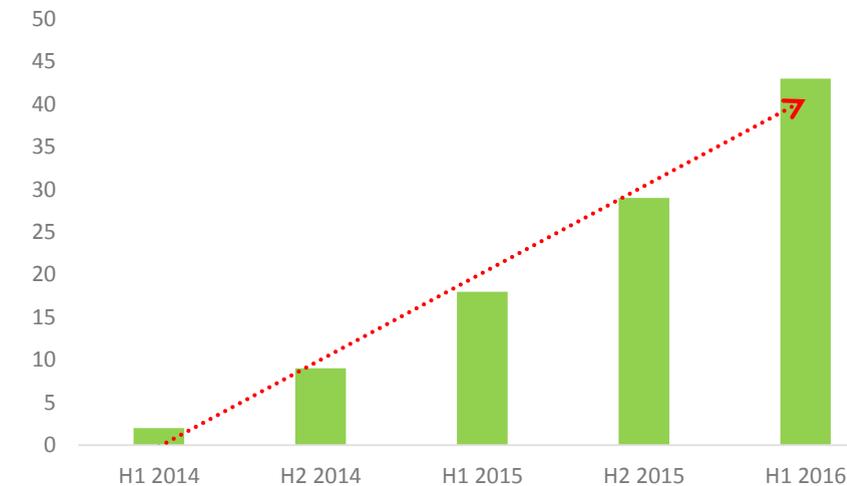
Overview of Half Year (H1 2016)

- Revenue \$4.8m
 - 20% increase over the prior period (H1 2015: \$4.0m)
 - SmartWall TDS revenue growth 125% over H1 2015 (37% over H2 2015)
 - Increase in average new customer contract value (\$218k vs \$141k)
- EBITDA loss \$2.5m (H1 2015: loss \$3.5m)
- Customer wins:
 - US cloud/hosting providers including:
 - Largest customer win to date (valued at \$0.7m) – Top 10 US cloud hosting provider
 - Customer win against market leader – Top 10 US managed hosting provider
 - First significant wins from hosting providers and regional service providers in Europe
 - First customer win from mobile network operator
- Earned top position and coveted “Recommended” rating in NSS Labs DDoS test
 - Validation of industry-leading capabilities of Corero’s SmartWall TDS

SmartWall TDS H1 2016 Material Wins

- January 2016** **Key competitive win with US hosting provider (\$0.4m)**
 Opportunity: Provides strong endorsement of the commercial opportunity in the hosting market
- February 2016** **Strategic win with fast growing European regional service provider (\$0.2m)**
 Opportunity: Validates Corero offering in the significant European service provider market
- March 2016** **Significant contract win from US based top 10 hosting provider (\$0.7m)**
 Single largest DDoS mitigation deployment in hosting provider market
- April 2016** **Strategic win with fast growing European hosting provider (\$0.3m)**
 Opportunity: Validates Corero offering in the significant European hosting provider market
- May 2016** **First win with top 10 US mobile network operator (\$0.3m)**
 Opportunity: Validates Corero offering in the mobile network operator market
- June 2016** **US Cloud hosting wins (\$0.4m)**

Number of SmartWall TDS customers



“We have an increasing number of satisfied customers who are willing to be industry references for the breakthrough levels of automation, security and service that Corero delivers” Ashley Stephenson

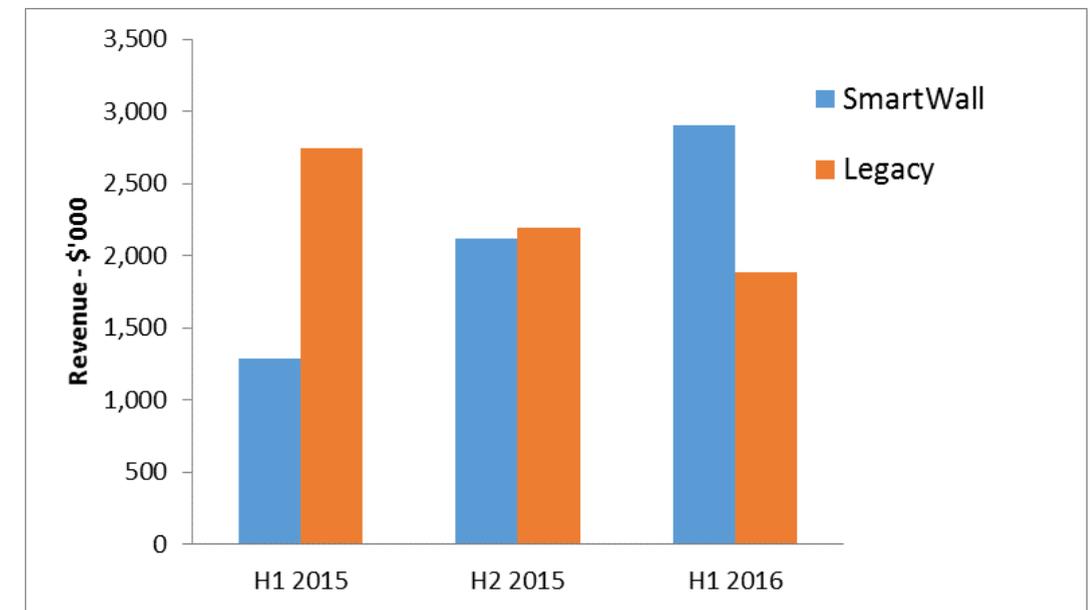
Referenceable
SmartWall
Customers



P&L Summary

	6 months 2016 \$'000	6 months 2015 \$'000	12 months 2015 \$'000
Revenue	4,791	4,032	8,340
Gross profit	3,789	3,167	6,267
<i>Gross profit %</i>	79%	79%	75%
Operating expenses	(6,274)	(6,665)	(12,699)
EBITDA loss	(2,485)	(3,498)	(6,432)
Dep'n and amortisation of intangible assets	(1,601)	(2,116)	(5,174)
Loss before financing	(4,086)	(5,614)	(11,606)
Net finance costs	(2)	(5)	(9)
Loss before taxation	(4,088)	(5,619)	(11,615)
Taxation	68	191	382
Loss for the year	(4,020)	(5,428)	(11,233)

SmartWall TDS revenue growth 125% over H1 2015 (37% over H2 2015)



- Operating expenses
 - Net of R&D costs capitalised \$1.5m (H1 2015: \$1.1m)
 - Include unrealized exchange gain on intercompany loan of \$0.8m (H1 2015: loss \$0.02m)
- Depreciation and amortisation comprises
 - Depreciation \$0.3m (H1 2015: \$0.4m)
 - Amortisation of R&D capitalised \$1.1m (H1 2015: \$1.1m)
 - Amortisation of acquired intangibles \$0.2m (H1 2015: \$0.6m)

Cash Flow Summary

	6 months 2016 \$'000	6 months 2015 \$'000	12 months 2015 \$'000
(Loss)/profit	(4,020)	(5,428)	(11,233)
Adjustments for:			
Amort'n of acquired intangible assets	239	613	1,210
Amort'n of capitalised development costs	1,074	1,140	3,289
Depreciation	288	363	675
Finance income	(4)	(8)	(11)
Finance expense	6	13	20
Taxation	(68)	(191)	(382)
Share based payment charge	-	-	(3)
Changes in working capital	445	(597)	(1,247)
Net cash from operating activities	(2,040)	(4,095)	(7,682)
Net cash used in investing activities	(1,790)	(1,332)	(2,714)
Net cash from financing activities	11,389	628	7,575
Effects of exchange rates	(1,572)	(109)	(509)
Net (decrease)/increase in cash	5,987	(4,908)	(3,330)
Opening cash and cash equivalents	2,706	6,036	6,036
Closing cash and cash equivalents	8,693	1,128	2,706

	6 months 2016 \$'000	6 months 2015 \$'000	12 months 2015 \$'000
Cash flows from investing activities			
Purchase of intangible assets	(3)	(3)	(37)
Capitalised development expenditure	(1,510)	(1,069)	(2,285)
Purchase of PPE (net of disposals)	(277)	(260)	(392)
Net cash used in investing activities	(1,790)	(1,332)	(2,714)
Cash flows from financing activities			
Net proceeds from issue of share capital	11,391	-	7,604
Interest received	4	8	11
Interest paid	(6)	(13)	(20)
Receipt / (repayment) of credit facility	-	633	(20)
Net cash from financing activities	11,389	628	7,575

■ Investment in IPR

- Development costs capitalised \$1.5m (H1 2015: \$1.1m)
- Represents 56% of total engineering costs (H1 2015: 48%)
- SmartWall NTD new software releases and VM development

Net Assets Summary

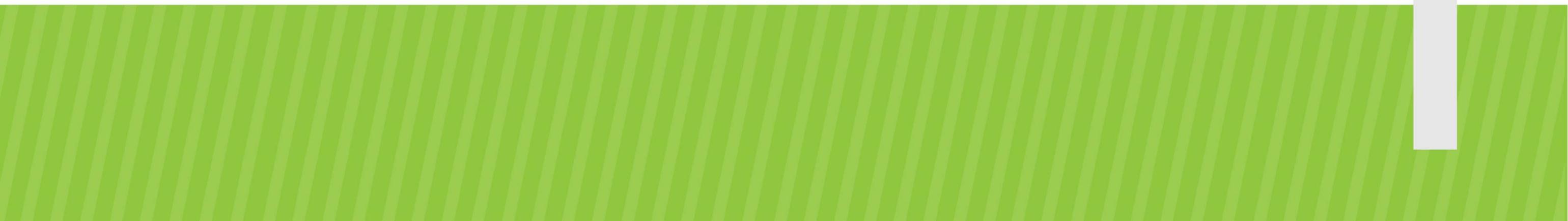
	30-Jun-16 \$'000	30-Jun-15 \$'000	31-Dec-15 \$'000
Assets			
Non-current assets			
Goodwill	17,983	17,983	17,983
Acquired intangible assets	139	938	375
Capitalised development expenditure	8,056	8,553	7,620
Property, plant and equipment	882	1,072	893
	27,060	28,546	26,871
Current assets			
Inventories	641	466	661
Trade and other receivables	2,350	2,420	3,966
Cash and cash equivalents	8,693	1,128	2,706
	11,684	4,014	7,333

	30-Jun-16 \$'000	30-Jun-15 \$'000	31-Dec-15 \$'000
Liabilities			
Current liabilities			
Trade and other payables	(2,346)	(2,291)	(2,551)
Borrowings	-	(653)	-
Deferred income	(3,043)	(3,460)	(3,791)
	(5,389)	(6,404)	(6,342)
Net current assets/(liabilities)	6,295	(2,390)	991
Non-current liabilities			
Deferred income	(1,162)	(965)	(1,439)
Deferred taxation	(17)	(276)	(85)
	(1,179)	(1,241)	(1,524)
Net assets	32,176	24,915	26,338

- Cash \$8.7m (H1 2015: \$1.1m)
- No debt (H1 2015: \$0.7m)
- May-16 fund raise £8.3m (before costs)



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DDoS Market Opportunity

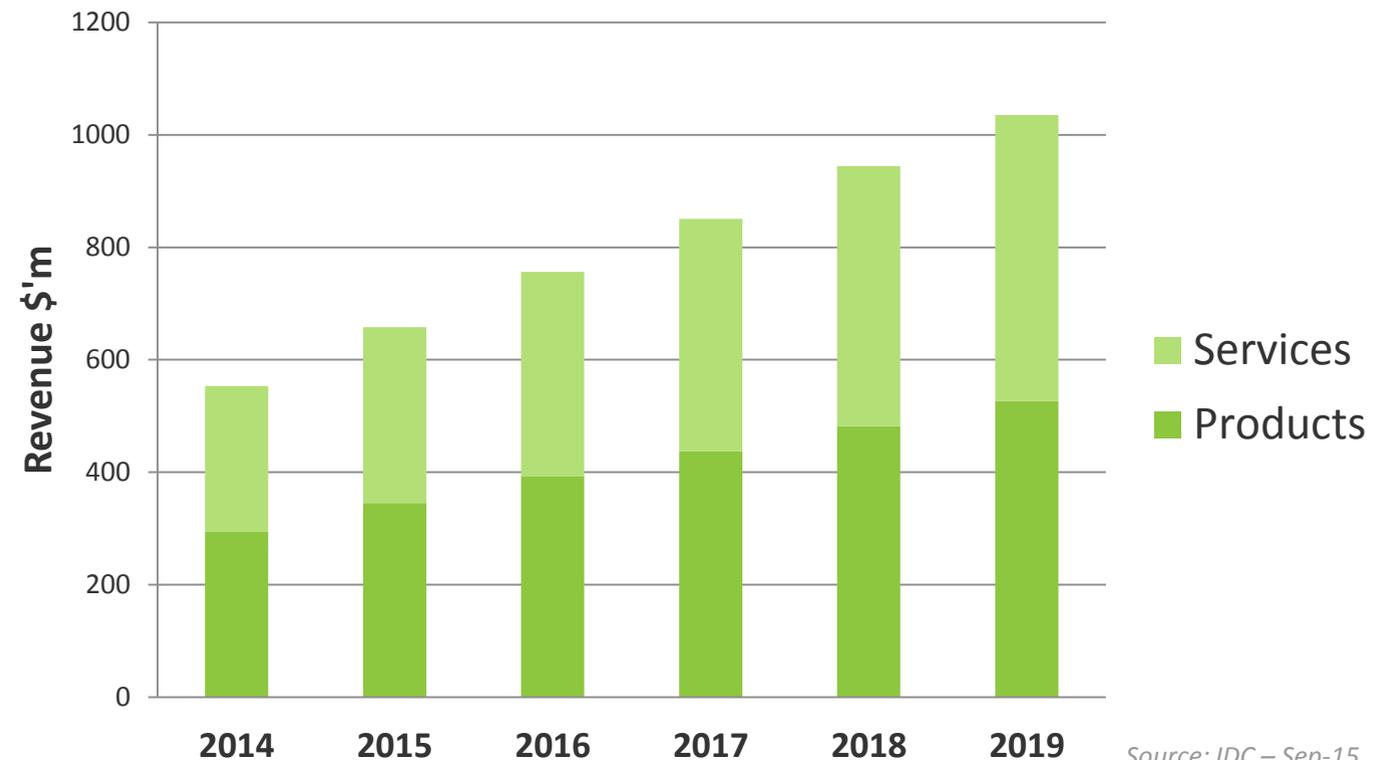
■ Market Drivers

- Frequency and magnitude of DDoS attacks is increasing
- Growing global awareness of need for DDoS protection
- **Capacity needs are growing exponentially**
- Increasing adoption of the Cloud and data centre growth
- **Incumbent mitigation techniques no longer sufficient**

■ Analysts

- Forecast double digit CAGR for DDoS market
- **By 2019 DDoS market forecast to be \$1bn+**
- Data centre market (strong growth)
- Mobile market – potential target market for Corero

DDoS Prevention Market



Market stats include technology products (Corero focus) and DDoS services (delivered by service providers)

SmartWall Target Market

Target Addressable Market

H1 2016 Update

H2 2016 Focus



Hosting & Data Centre

Hosting companies offering web, managed, dedicated, Cloud and co-location based hosting

- US & Canada: >10,000 providers
- UK & Europe: > 5,000 providers

- Success in winning customers in US and Europe – including Top 10 country providers
- Emerging trend of customers seeking service-based technology adoption

Continue to grow customer base

Enable “as-a-service offering”



Service Provider

Internet Service Providers, Multi-Service Operators (MSOs)

- US & Canada: >300 ISPs, cable and mobile operators
- UK & Europe: >150 ISPs cable and mobile operators

- Success in winning Tier 2 and 3 SP customers in US and Europe
- Extended sales cycles for Tier 1 operators
- Emerging trend of customers seeking service-based technology adoption

Continue to grow customer base

Strategic partnerships

Enable “as-a-service offering”



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Full Year Trading Update

- Corero progress in H1 2016
 - Significant contract wins - Tier 2 and 3 SP's and leading hosting providers
 - Strong SmartWall TDS revenue growth
 - NSS Labs independent validation of SmartWall TDS
- Full year 2016
 - SmartWall TDS revenue growth expected to continue in H2 2016
 - Results for full year impacted by:
 - Large pipeline opportunity sales cycles taking longer to close
 - Corero still well positioned to win
 - Expect increase in customers purchasing Corero technology through “as-a-service” offering



Summary Outlook

- Market drivers – DDoS attacks growing problem for all
 - Impacts all businesses and governments
 - DDoS mitigation (products and services) to increase 66% to over \$1.5B in 2018
- Corero progress
 - Solution validation - significant contract wins
 - Technology validation – NSS Labs independent testing
 - Establishing Corero as a leading DDoS technology vendor
- Positive outlook
 - H1 2016 SmartWall momentum and revenue growth to continue
 - Expectation of new business wins in H2 2016
 - Seeking strategic partners to leverage initial success in Tier 1 SP market



Thank you

