

# 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

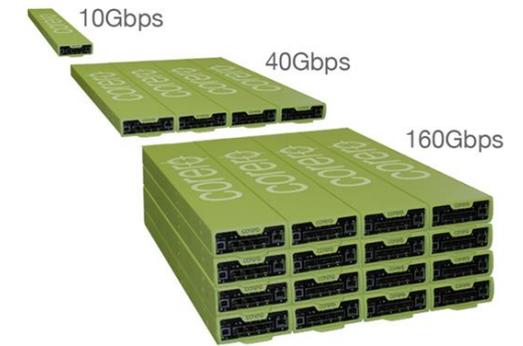
- DDoS prevention market \$0.66bn forecast to grow to over \$1bn in 2019
- Growth of DDoS protection as a service market (delivered by SPs and hosting providers)

## Competitive Advantage

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

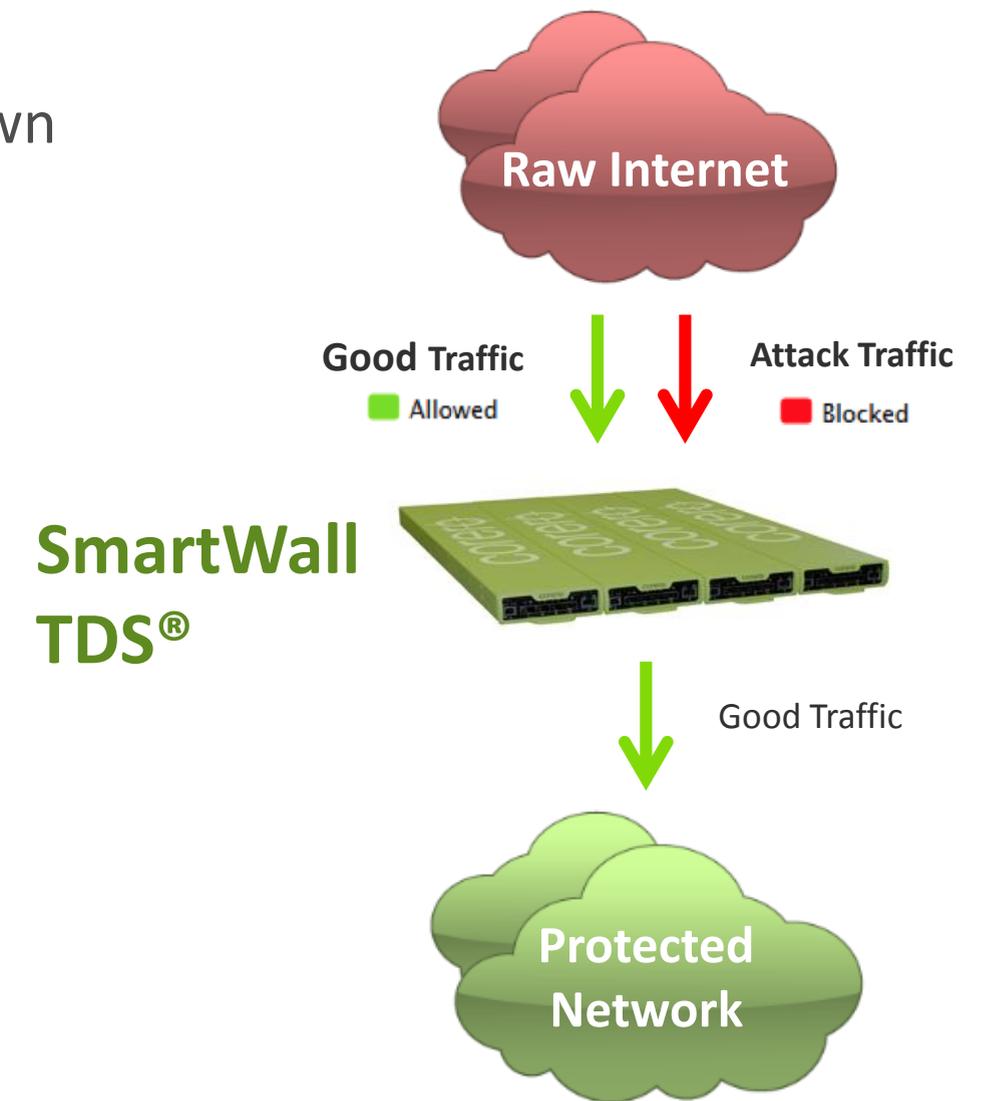
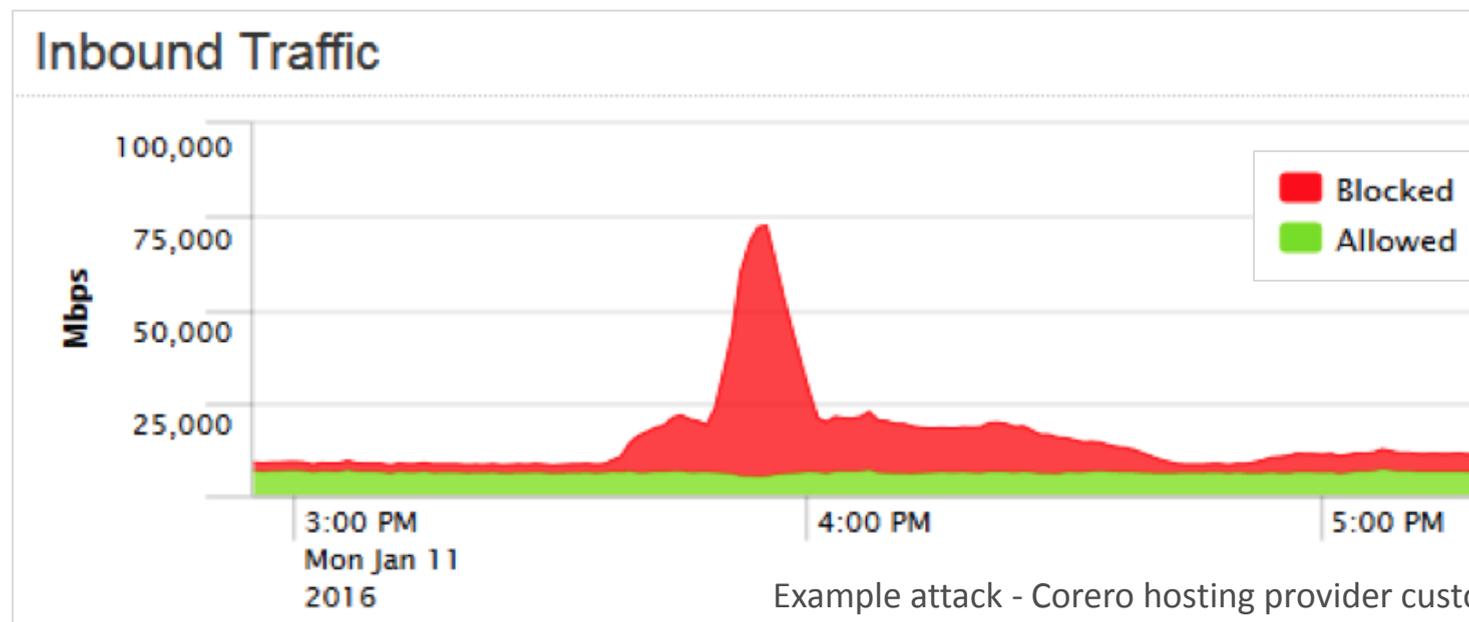
## Outlook

- 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)

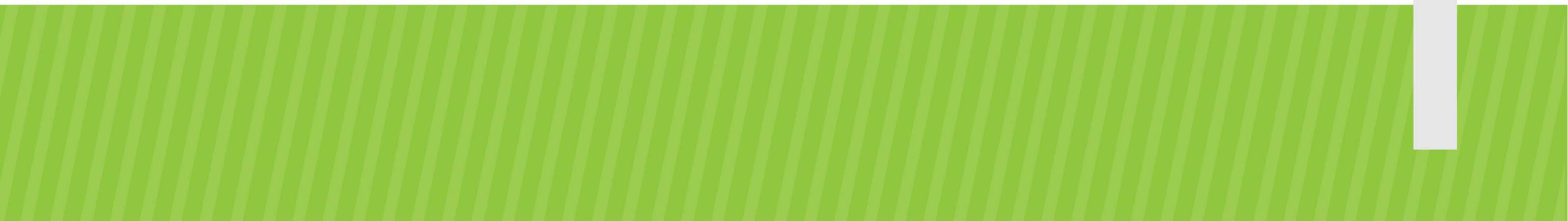
- Strong security rating against the competitor products tested
- Lower than average total cost of ownership

Cyber Defense Magazine (CDM)  
2016 award:

Winner “Best Network Security Solution”



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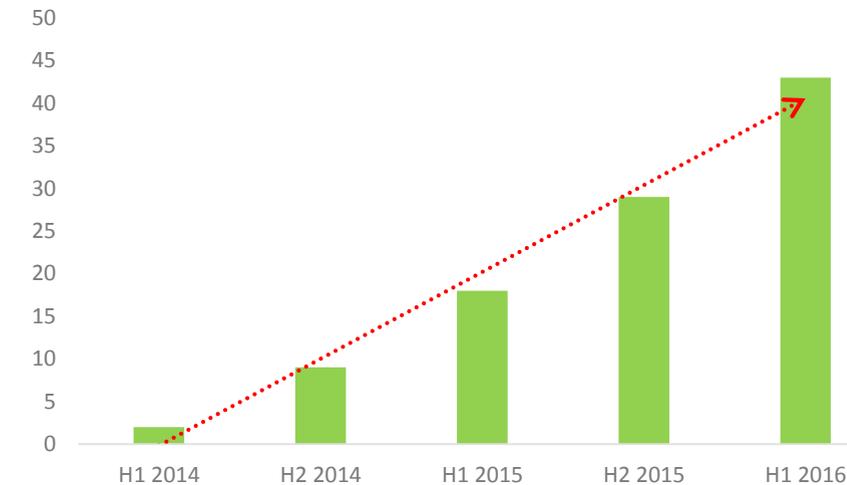
# Overview of Half Year (H1 2016)

- 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*

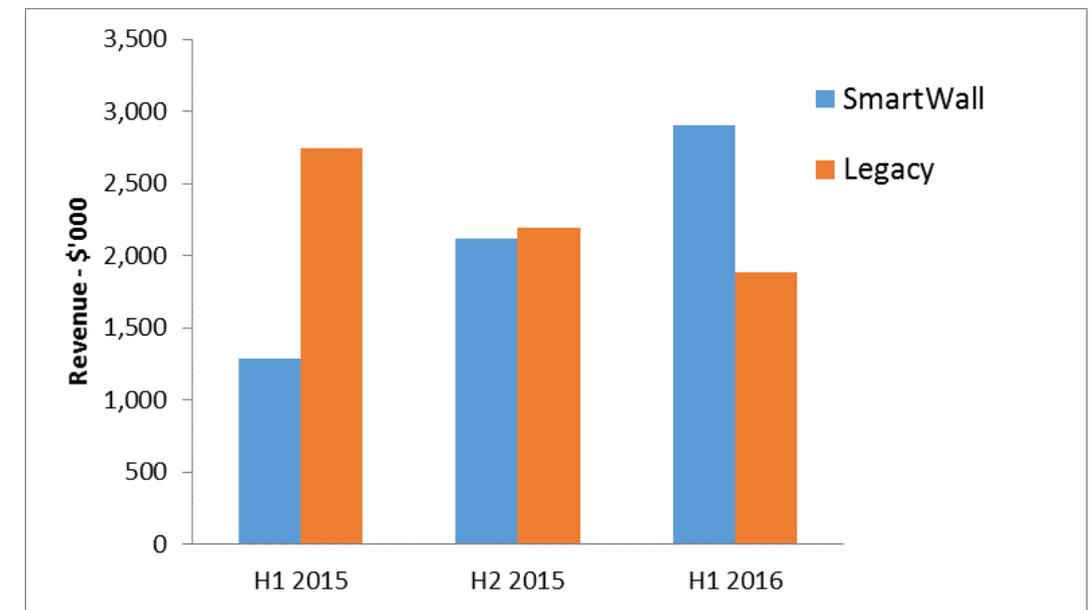
Referenceable  
SmartWall  
Customers



# P&L Summary

	6 months 2016 \$'000	6 months 2015 \$'000	12 months 2015 \$'000
<b>Revenue</b>	4,791	4,032	8,340
<b>Gross profit</b>	3,789	3,167	6,267
<i>Gross profit %</i>	79%	79%	75%
Operating expenses	(6,274)	(6,665)	(12,699)
<b>EBITDA loss</b>	(2,485)	(3,498)	(6,432)
Dep'n and amortisation of intangible assets	(1,601)	(2,116)	(5,174)
<b>Loss before financing</b>	(4,086)	(5,614)	(11,606)
Net finance costs	(2)	(5)	(9)
<b>Loss before taxation</b>	(4,088)	(5,619)	(11,615)
Taxation	68	191	382
<b>Loss for the year</b>	(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
<b>(Loss)/profit</b>	(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)
<b>Net cash from operating activities</b>	<b>(2,040)</b>	<b>(4,095)</b>	<b>(7,682)</b>
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)
<b>Net (decrease)/increase in cash</b>	<b>5,987</b>	<b>(4,908)</b>	<b>(3,330)</b>
Opening cash and cash equivalents	2,706	6,036	6,036
<b>Closing cash and cash equivalents</b>	<b>8,693</b>	<b>1,128</b>	<b>2,706</b>

	6 months 2016 \$'000	6 months 2015 \$'000	12 months 2015 \$'000
<b>Cash flows from investing activities</b>			
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)
<b>Net cash used in investing activities</b>	<b>(1,790)</b>	<b>(1,332)</b>	<b>(2,714)</b>
<b>Cash flows from financing activities</b>			
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)
<b>Net cash from financing activities</b>	<b>11,389</b>	<b>628</b>	<b>7,575</b>

■ 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

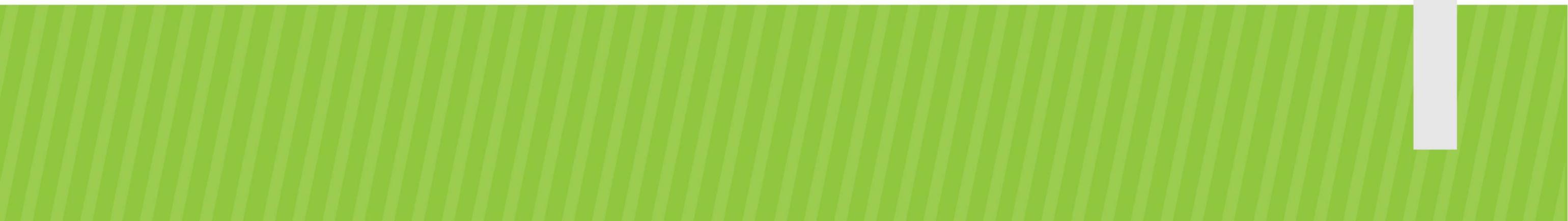
	30-Jun-16 \$'000	30-Jun-15 \$'000	31-Dec-15 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	17,983	17,983	17,983
Acquired intangible assets	139	938	375
Capitalised development expenditure	8,056	8,553	7,620
Property, plant and equipment	882	1,072	893
	<b>27,060</b>	<b>28,546</b>	<b>26,871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

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

- 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

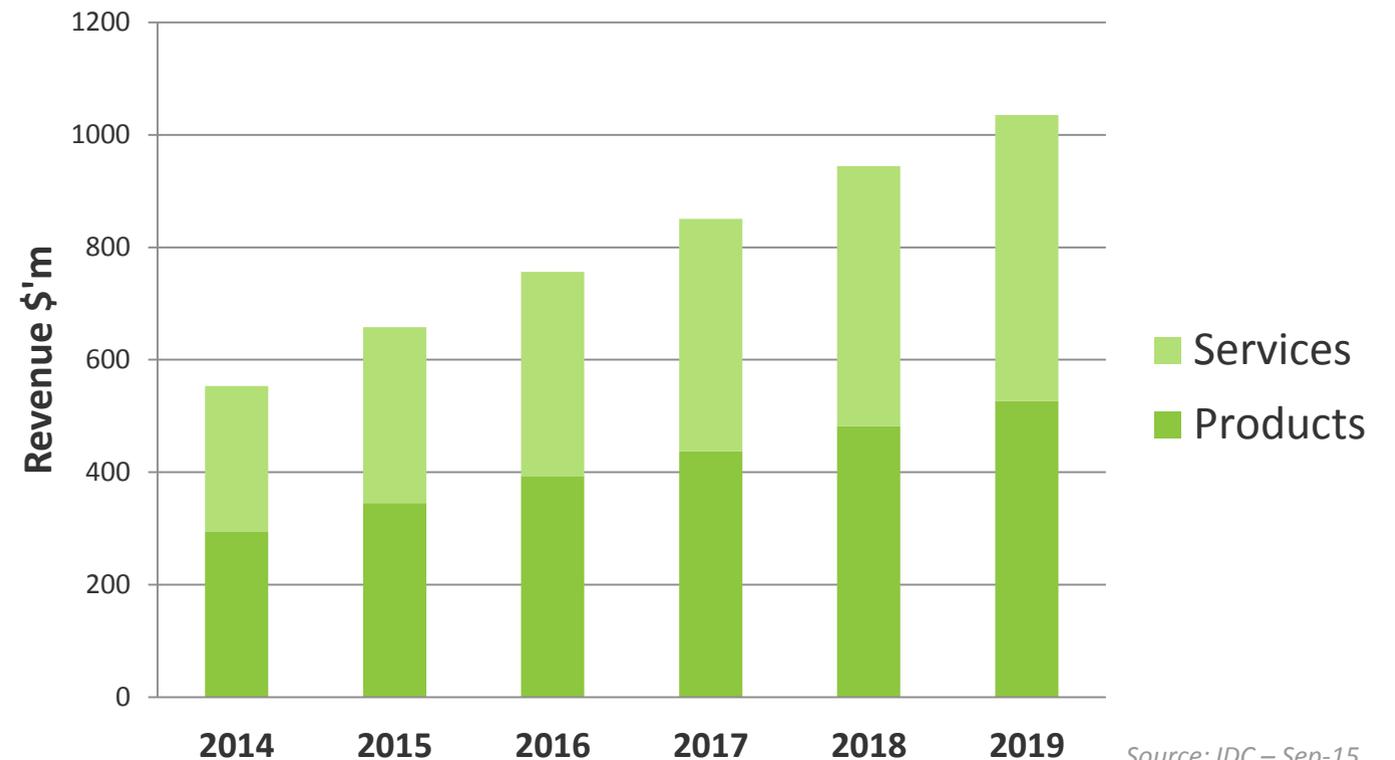
## ■ Market Drivers

- 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

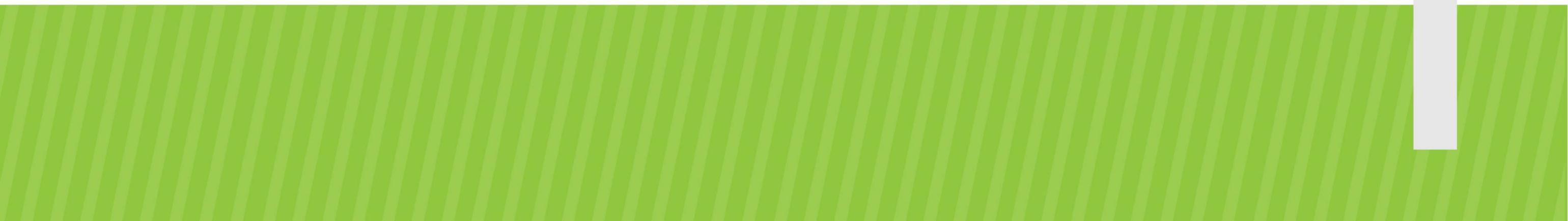
**Continue to grow customer base**

**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**

