



Corero Network Security plc

**Interim Results
6 months ended 30 June 2017**

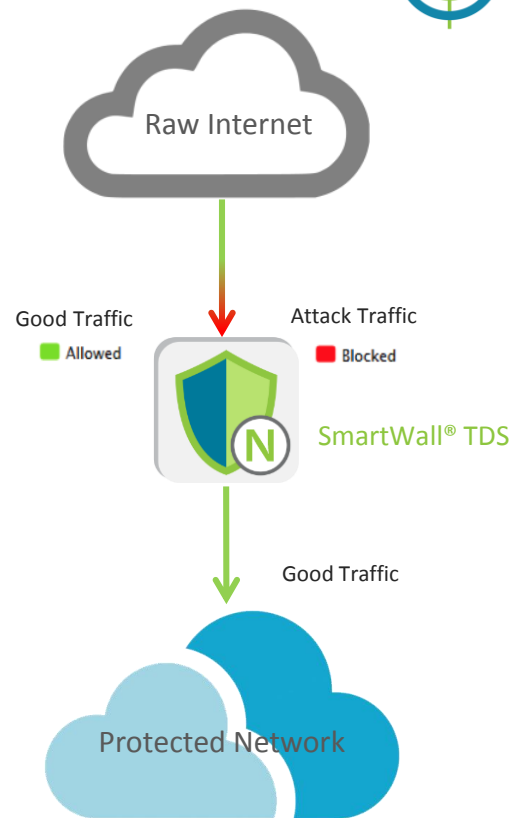
**Ashley Stephenson (CEO)
Andrew Lloyd (President and EVP Sales & Marketing)
Andrew Miller (CFO)**



What We Do



- Revenue-protecting real-time **DDoS Mitigation** product **optimised** for **service and hosting providers**
 - Available for rapid deployment within the **provider's** own infrastructure delivering **compelling ROI**
- Revenue and reputation-protecting real-time **DDoS Mitigation** product for **digital enterprises**
- Solves for the scalability & accuracy demands of both the **provider** and **digital enterprise** businesses
- Unlike competing technologies which **mitigate attacks** in circa **20 minutes**, Corero's product **mitigates attacks in less than one second**



Overview – Half Year ended 30 June 2017



- Overall revenue flat at \$4.8m as contribution from legacy products reduced as expected
- EBITDA loss of \$3.4m including unrealised FX loss of \$0.3m (H1 2016: loss of \$2.5m)
- Net cash \$5.1m at 30 June 2017 (\$8.7m at 30 June 2016)
- Strong performance of flagship SmartWall product vs H1 2016
 - Revenue ▲ 51%
 - Recurring revenue ▲ 177% (96% support renewal rate)
 - Order intake ▲ 41%
 - Average perpetual license size ▲ 46%
 - Follow-on orders ▲ 367%
 - First \$1m customer
 - Encouraging early uptake of “aaS” offering
- Signed partnerships with global blue chip technology companies to accelerate revenue growth strategy
 - Juniper Networks, McAfee and Gigamon
- Strengthened management team
 - Appointment of Andrew Lloyd as President EVP Sales & Marketing
- New technology to meet demand
 - Added 100Gbps capacity SmartWall product (as 100Gbps connectivity is starting to be deployed by ISP’s)
 - Launched software only vNTD solution (opportunity for OEM licensing and deployment in Cloud environments)

SmartWall 2017 YTD Material Wins



2017 contract material wins follow success in 2016 with contract values increasing

February 2017

Digital enterprise Cloud services provider contract win (\$1.0m)
Largest single customer win to date

April 2017

GTT Communications (NYSE: GTT) selects SmartWall technology for its new DDoS Mitigation service
First potentially significant revenue share contract (Tier 1 ISP with large customer base)

May 2017

Significant follow on order with US-based top 10 hosting provider (\$0.5m)
Corero's second \$1m+ customer (annualised recurring contract value \$0.5m)

June 2017

US Federal Government contract win (\$0.4m)
First federal government contract win

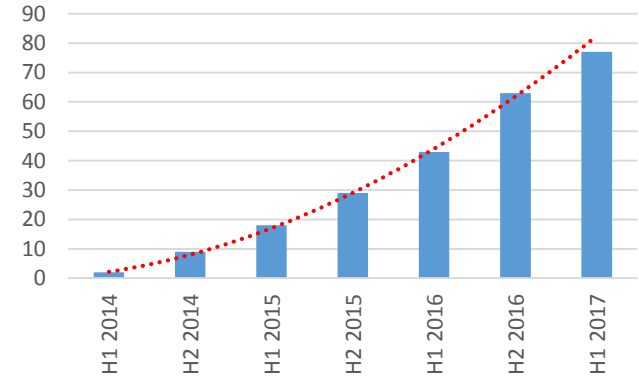
July 2017

US regional service provider (\$0.3m)

September 2017

Digital enterprise contract win (initial order \$0.2m part of \$1.5m+ global deployment)
When fully implemented will be largest single customer win to date

Number of SmartWall 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 (CEO)

SmartWall
Reference
Customers



Strategy and Delivery



Strategy

Establish SmartWall as the leading solution for real-time DDoS protection

Maintain competitive advantage

Grow and deepen customer base

Expand routes to market

Develop new GTM sales models

H1 2017 Progress

✓ 51% increase in SmartWall revenue

✓ Launched 100Gbps product
✓ SmartWall virtual appliance available Q3

✓ 13 new customers including new Tier 1 ISP
✓ First \$1m customer

✓ Signed Juniper, Gigamon and McAfee

✓ 7 new “as a service” subscription customers
✓ New service portal

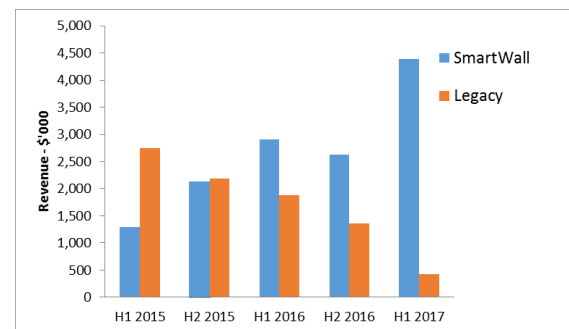
P&L Summary



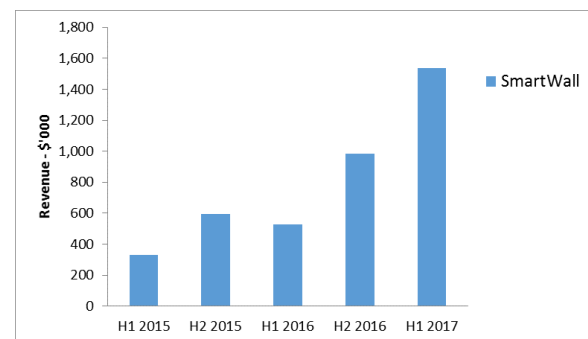
	6 months 2017 \$'000	6 months 2016 \$'000	12 months 2016 \$'000
Revenue	4,813	4,791	8,772
Gross profit	3,538	3,789	6,701
<i>Gross profit %</i>	74%	79%	76%
Operating expenses	(6,935)	(6,274)	(11,847)
EBITDA loss	(3,397)	(2,485)	(5,146)
Dep'n and amortisation of intangible assets	(1,359)	(1,601)	(3,128)
Impairment of goodwill	0	0	(8,992)
Loss before financing	(4,756)	(4,086)	(17,266)
Net finance costs	(1)	(2)	3
Loss before taxation	(4,757)	(4,088)	(17,263)
Taxation	0	68	85
Loss for the year	(4,757)	(4,020)	(17,178)

- Operating expenses - \$6.6m excluding fx loss (H1 2016: \$7.1m excluding fx gain)
 - Net of R&D costs capitalised \$1.3m (H1 2016: \$1.5m)
 - Include unrealized exchange loss on intercompany loan of \$0.3m (H1 2016: gain \$0.8m)
- Depreciation and amortisation comprises
 - Depreciation \$0.3m (H1 2016: \$0.3m)
 - Amortisation of R&D capitalised \$1.1m (H1 2016: \$1.1m)
 - Amortisation of acquired intangibles \$0.03m (H1 2016: \$0.2m)

SmartWall revenue growth 51% over H1 2016 (67% over H2 2016)



SmartWall recurring revenue * growth 177% over H1 2016



* Recurring revenue comprises maintenance, support services and aAs recognised revenue

Cash Flow Summary



	6 months 2017 \$'000	6 months 2016 \$'000	12 months 2016 \$'000
(Loss)/profit	(4,757)	(4,020)	(17,263)
Adjustments for:			
Amort'n of acquired intangible assets	32	239	325
Impairment of intangible asset	-	-	8,992
Amort'n of capitalised development costs	1,085	1,074	2,252
Depreciation	260	288	551
Loss on sale of PPE	-	-	9
Finance income	(3)	(4)	(9)
Finance expense	4	6	6
Taxation	-	(68)	-
Share based payment charge	-	-	19
Changes in working capital	(286)	445	(422)
Net cash from operating activities	(3,665)	(2,040)	(5,540)
Net cash used in investing activities	(1,611)	(1,790)	(3,209)
Net cash from financing activities	6,994	11,389	11,395
Effects of exchange rates	460	(1,572)	(2,412)
Net increase in cash	2,178	5,987	234
Opening cash and cash equivalents	2,940	2,706	2,706
Closing cash and cash equivalents	5,118	8,693	2,940

	6 months 2017 \$'000	6 months 2016 \$'000	12 months 2016 \$'000
Cash flows from investing activities			
Purchase of intangible assets	-	(3)	(32)
Capitalised development expenditure	(1,258)	(1,510)	(2,533)
Purchase of PPE (net of disposals)	(353)	(277)	(644)
Net cash used in investing activities	(1,611)	(1,790)	(3,209)
Cash flows from financing activities			
Net proceeds from issue of share capital	6,995	11,391	11,392
Interest received	3	4	9
Interest paid	(4)	(6)	(6)
Net cash from financing activities	6,994	11,389	11,395

- Investment in IPR
 - Development costs capitalised \$1.3m (H1 2016: \$1.5m)
 - Represents 57% of total engineering costs (H1 2016: 56%)
 - SmartWall NTD new software releases and VM development

Net Assets Summary

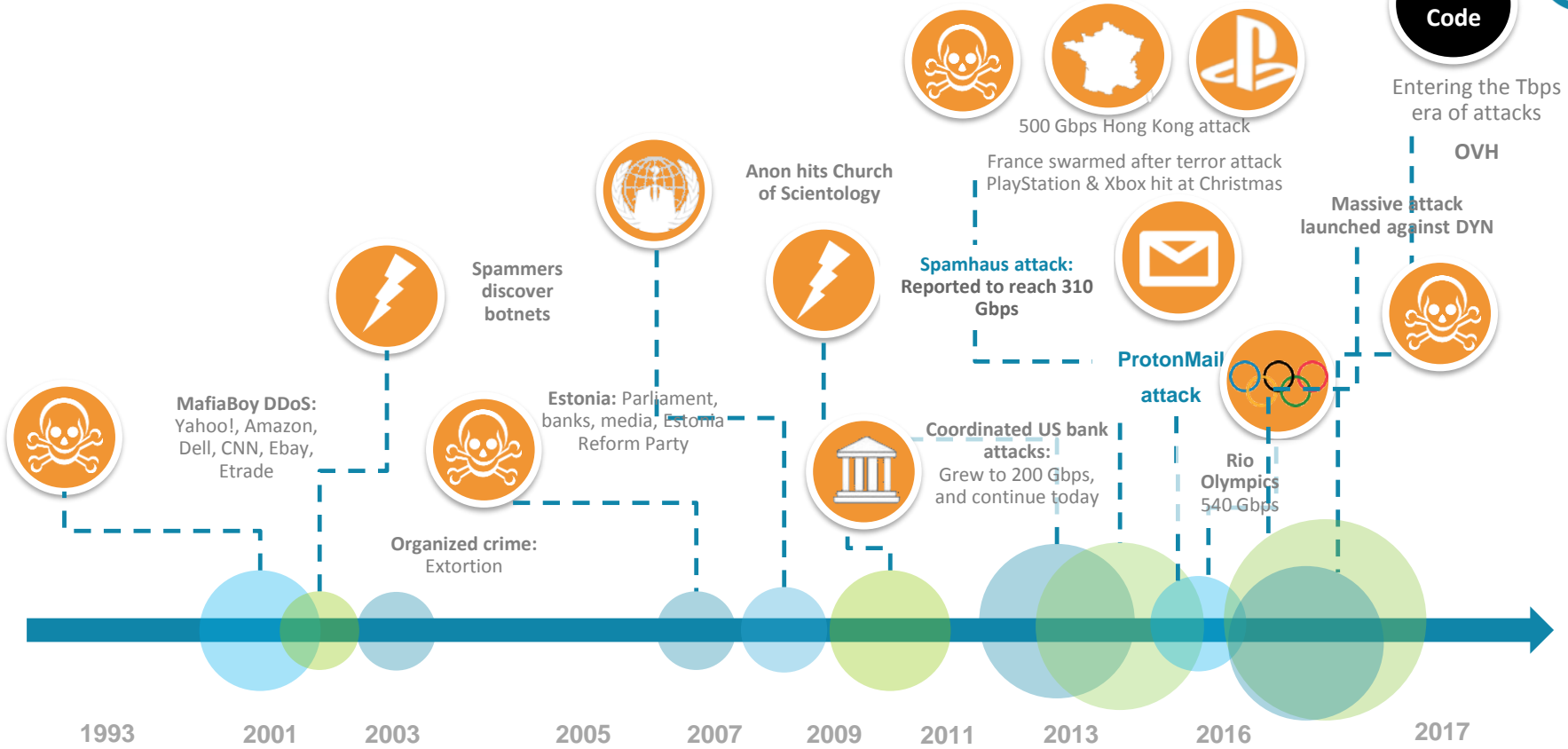


	30-Jun-17	30-Jun-16	31-Dec-16
	\$'000	\$'000	\$'000
Assets			
Non-current assets			
Goodwill	8,991	17,983	8,991
Acquired intangible assets	50	139	82
Capitalised development expenditure	8,074	8,056	7,901
Property, plant and equipment	1,070	882	970
Trade and other receivables	-	-	80
	18,185	27,060	18,024
Current assets			
Inventories	112	641	65
Trade and other receivables	2,081	2,350	2,227
Cash and cash equivalents	5,118	8,693	2,940
	7,311	11,684	5,232

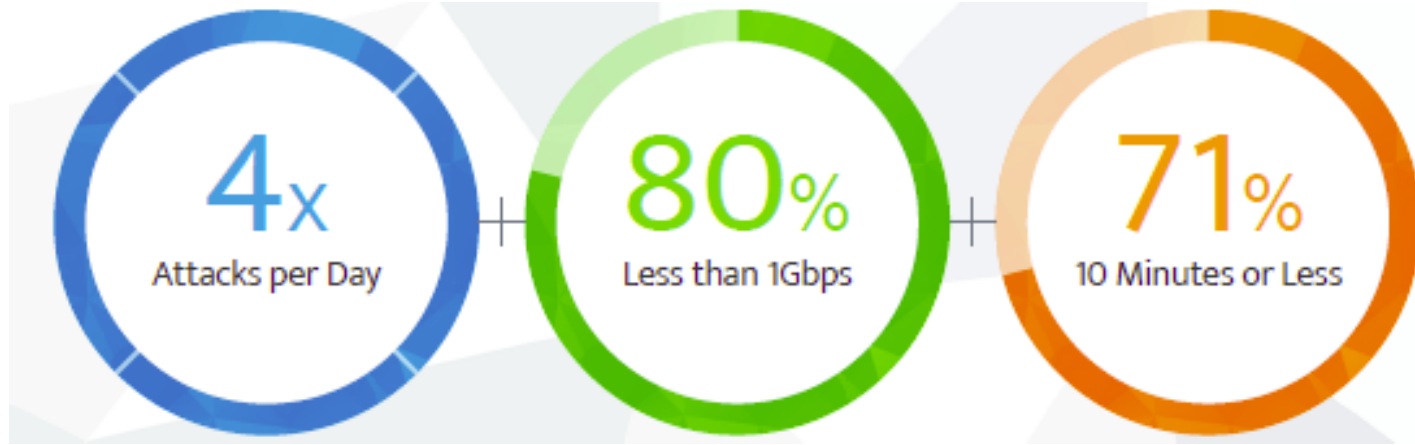
	30-Jun-17	30-Jun-16	31-Dec-16
	\$'000	\$'000	\$'000
Liabilities			
Current liabilities			
Trade and other payables	(1,611)	(2,346)	(1,728)
Deferred income	(2,581)	(3,043)	(2,457)
	(4,192)	(5,389)	(4,185)
Net current assets/(liabilities)	3,119	6,295	1,047
Non-current liabilities			
Deferred income	(398)	(1,162)	(855)
Deferred taxation	-	(17)	-
	(398)	(1,179)	(855)
Net assets	20,906	32,176	18,216

- Cash \$5.1m (H1 2016: \$8.7m)
- No debt (H1 2016: \$0)
- Apr-17 fund raise £7.0m (after costs)

20+ Years of Evolving DoS Attacks



Frequent, low volume, short duration attacks dominate



These are the attacks most likely to impact your business

DDoS Trends



KEY TREND

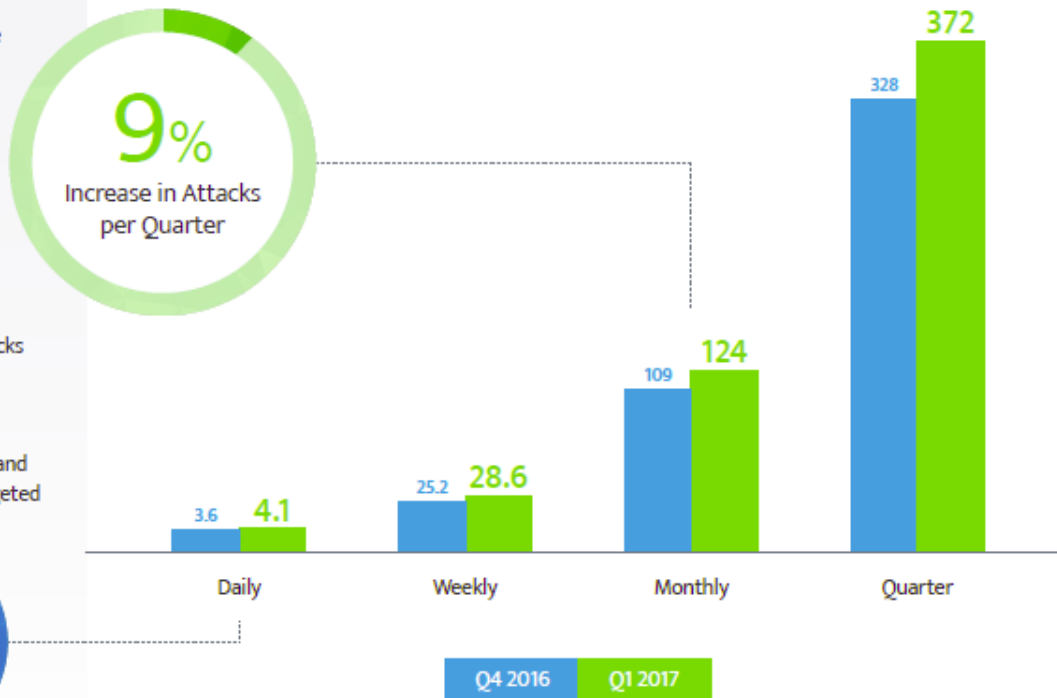
Frequent attacks dominate

Corero continues to observe a steady flow of DDoS attack attempts against customers. In the last quarter alone (Q1 2017), Corero customers experienced an average of 124 attacks per month, an increase of 9% compared to Q4 2016.

The frequency of these attacks may sound high, but should not be surprising given the proliferation of cheap and easy-to-launch attack tools and endless motivations for targeted attacks.



Average Attack per Customer



DDoS Trends (cont'd)



Average Size of DDoS Attacks



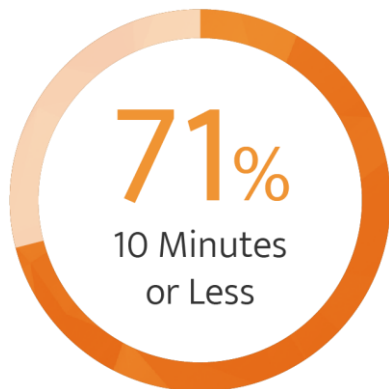
SIZE	Q4 2016	Q1 2017
<1G	76.8%	79.9%
1G-5G	17.9%	15.0%
5G-10G	4.2%	3.5%
>10G	1.1%	1.7%



Average Duration of DDoS Attacks



MINUTES	Q4 2016	Q1 2017
0-5	56.5%	55.7%
6-10	16.6%	15.7%
11-20	7.2%	6.4%
21-30	10.8%	11.9%
31-60	4.2%	5.0%
>60	4.7%	5.4%





Understanding the Impact of Attacks

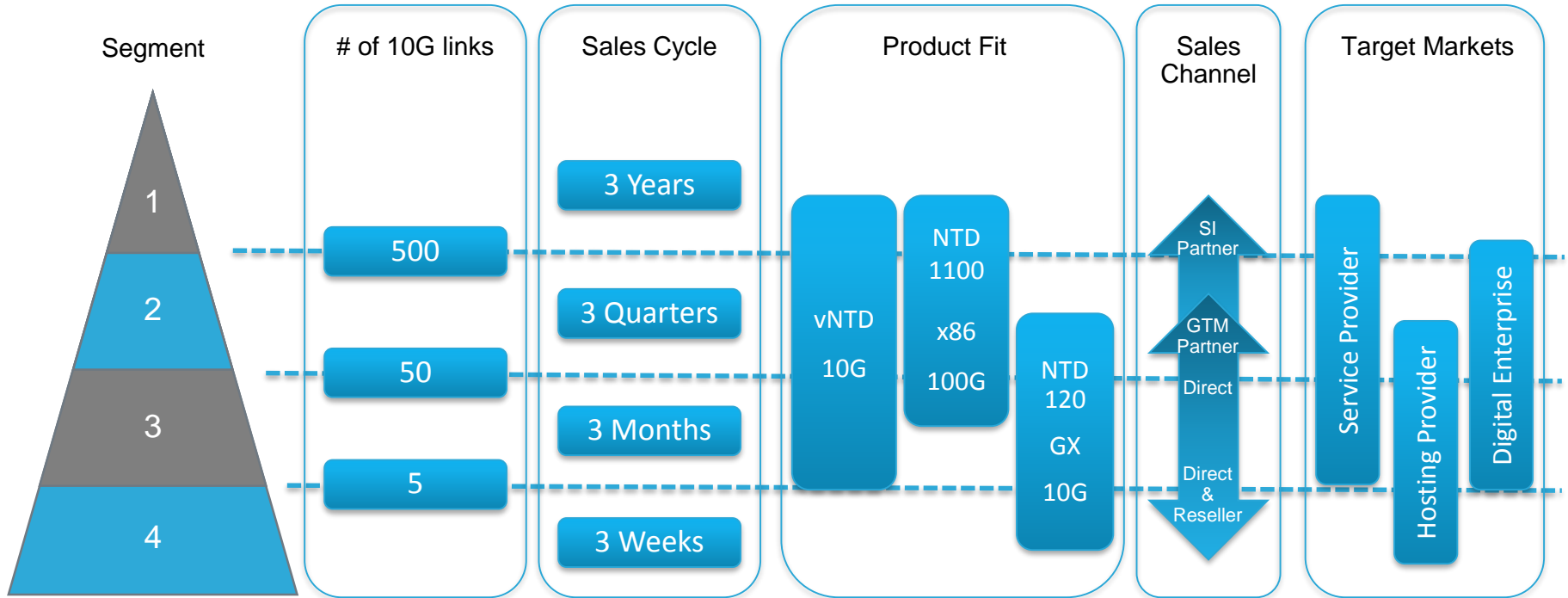
- **Availability and Security** of your services and applications are a top requirement of your customers.
- **Downtime or Compromise** equate to:
 - Lost revenues and additional operational costs
 - Unhappy clients with increased costs for retention of existing customers and acquisition of new customers
 - Brand and reputation damage with competitive pressure
 - Increasing risk of non-compliance or even legal liability



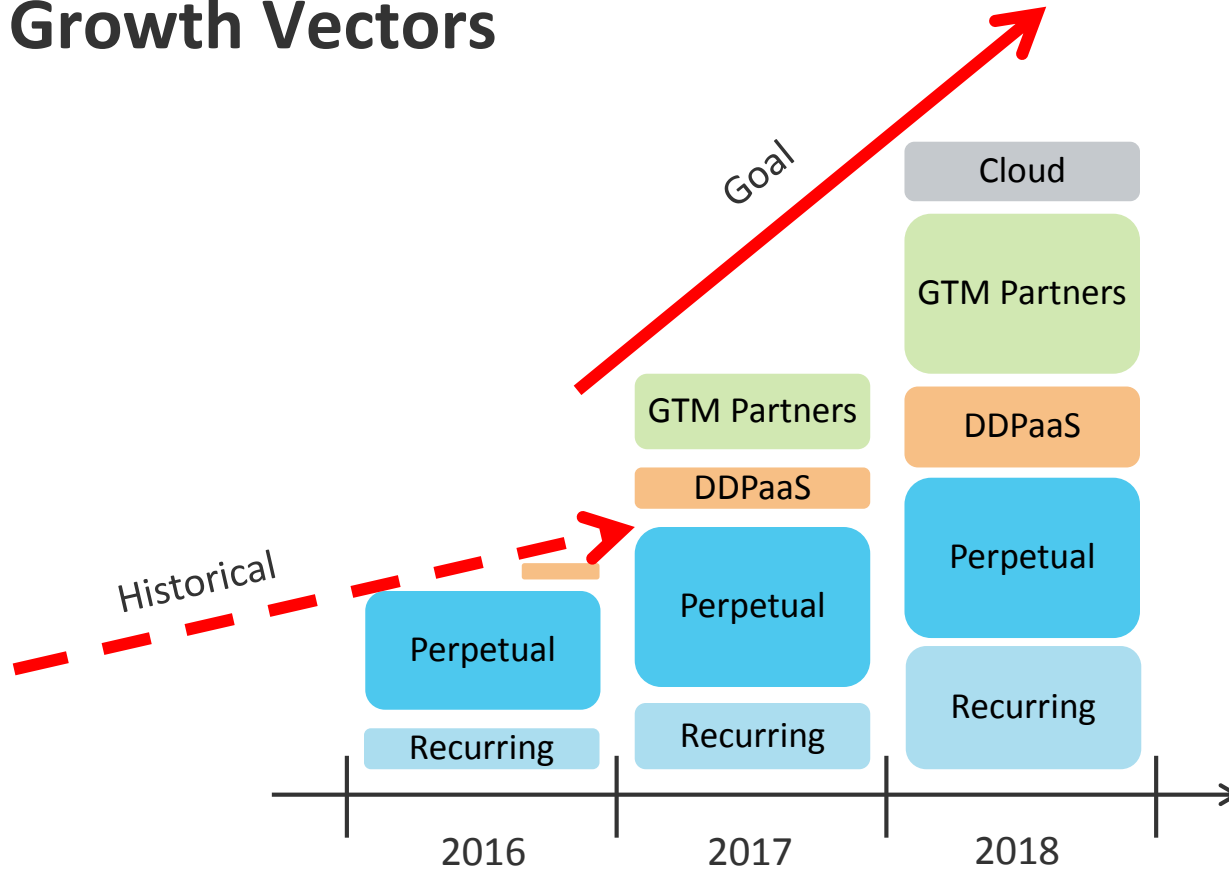


Go-to-Market Model

Appropriate sales channels for target markets to aggressively grow revenue



Growth Vectors



Note: Illustrative of multi-faceted growth plans
Not to scale

- GTM partners a key focus for growth by leveraging their established channels to market:
 - Perpetual license sales through meet in the market or reseller relationships
 - License sales (vNTD)
- DDPaaS (introduced in late Q4 2016)
 - Initial sales validate incremental Corero revenue opportunity

Strategy and H2 2017 Focus



Strategy

Establish SmartWall as the leading solution for real-time DDoS protection

Maintain competitive advantage

Grow and deepen customer base

Expand routes to market

H2 2017 Focus

- Continue to scale and grow SmartWall installed base
- Raise Corero profile with analysts and press

- New DDoS attacks defences
- Additional forensics and analysis capability

- Add new customer references
- Tap into Digital enterprise market opportunity

- Generate first revenue opportunities from GTM partners
- Add new GTM partners
- Develop system integrator partner relationships for revenue generation

Outlook



- Market drivers – DDoS attacks growing problem for all
 - DDoS is expected to remain a significant cyber threat in the near future
 - Smokescreen attacks, advanced botnets, more complex, increasing frequency with automation, ...
 - DDoS appliance market to increase to over \$1.4bn in 2021 (up from \$0.66bn in 2016) *
 - DDoS protection is being recognized as a key cyber threat by regulators e.g. European NIS Directive, GDPR
 - Corero investing in influencing UK government cyber security policy
 - Engagement with NCSC and NCA, consultation submission on NIS, forthcoming meetings with government and shadow ministers
- Corero well positioned
 - Solution validation – some 80 SmartWall customers
 - Technology validation – NSS Labs independent recommendation and winning head to head trials/POCs
 - Corero targeting #1 position in real-time DDoS market
 - Expanded addressable market with DDPaaS model (introduced Q4 2016) – subscription and revenue share model
- Positive outlook
 - Building on SmartWall sales momentum – strong pipeline of opportunities
 - Working with strategic go-to-market partners to accelerate success
 - FY17 expected to be in-line with market expectations

* IHS Technology Research (H1 2017 DDoS Prevention Appliances Biannual Market Tracker – May 2017)



Thank you

