



Corero Network Security plc

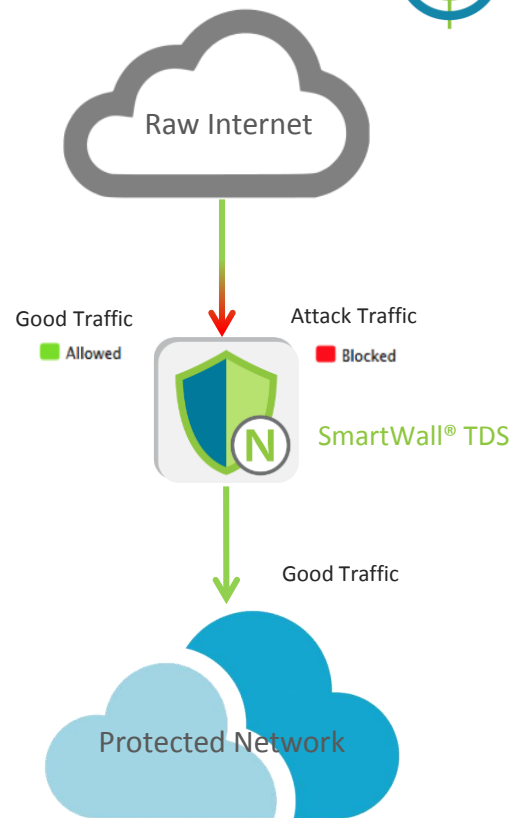
Interim Results 30 June 2018



What We Do



- Revenue-protecting real-time **DDoS Mitigation** product **optimised** for **service providers and Cloud/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**, SmartWall can **mitigate attacks in seconds**



2018 H1 Highlights



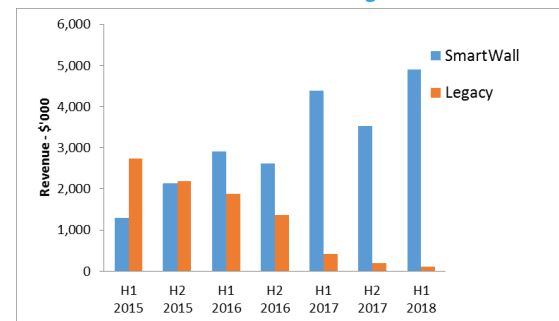
- Strong performance of flagship SmartWall product
 - Revenue up 39.3% over H2 2017 (11.9% over H1 2017)
 - Recurring revenue 47.7% of total revenue (H1 2017: 40.7%)
 - Average new customer order intake value maintained at \$0.35 million (H1 2017: \$0.35 million)
 - Follow-on orders from existing customers \$2.3 million (H1 2017: \$1.4 million)
- Successful fund raise in April 2018:
 - Equity raise of \$5.4 million (net of expenses)
 - Term bank loan of \$4.1 million drawn down in May 2018
- Continued high levels of customer delight
 - Services renewal rate remained strong at 93% (H1 2017: 96%)
- Signed Juniper Networks resale partnership (post period-end)
 - Global agreement to resell SmartWall software and services
 - Expect revenue in H2 2018

Revenue \$5.0m (H1 2017: \$4.8m) almost entirely driven by SmartWall

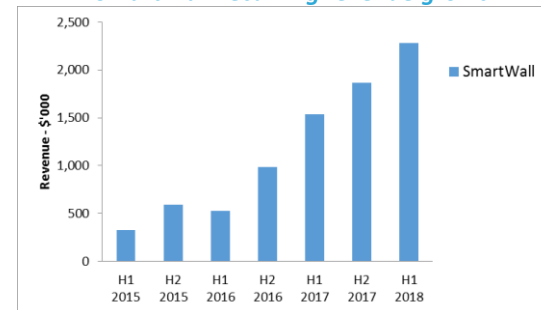
EBITDA* loss halved to \$1.4m (H1 2017: EBITDA* loss \$2.9m)

Net cash \$5.0m (H1 2017: \$5.1m) comprising cash \$9.0m and debt \$4.0m

SmartWall revenue growth



*SmartWall recurring revenue growth **



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

* before depreciation, amortisation, financing, tax and unrealised foreign exchange differences on an intercompany loan

Juniper Networks Resale Partnership



Global resale partnership agreed with market-leading multinational to resell Corero's SmartWall software and services

- Non-exclusive, multi-year agreement
- Extends previous Technology Alliance Partnership ("TAP") announced in Q1 2017
- Significant endorsement of Corero's SmartWall technology and market opportunity
- Expect Juniper relationship will deliver incremental revenue in H2 2018
- Partnership expected to materially contribute to revenues in 2019

JUNIPER
NETWORKS

- Headquartered in the US
- Industry leader in automated, scalable and secure networks
- 2017 reported revenue of \$5 billion
- c.50% of SmartWall deployments to-date are with customers who have deployed Juniper networking solutions

2018 Strategy and H1 2018 Delivery



Strategy

H1 2018 Progress

Expand routes to market

- ✓ Expectation of revenue from GTM partners in the second half of 2018
- ✓ Negotiated a global resale partnership with Juniper Networks
- ✓ Recruited an experienced European channel executive in Q4 2017

Grow customer base

- ✓ Continued demand for the SmartWall 10Gbps solution (c.100 SmartWall customers)
- ✓ First wins for the new SmartWall 100Gbps as 100Gbps connectivity starts to grow
- ✓ Market for virtual DDoS mitigation solutions is developing. Opportunities with initial sales expected in 2018

Maintain competitive advantage

- ✓ Delivered a major new SmartWall software release in July 2018

P&L Summary



| | 6 months | Restated 6 months | Restated 12 months |
|---------------------------------------------|----------|----------------------|-----------------------|
| | 2018 | 2017 | 2017 |
| | \$'000 | \$'000 | \$'000 |
| Revenue | 5,022 | 4,813 | 8,531 |
| Gross profit | 3,867 | 3,538 | 6,405 |
| <i>Gross profit %</i> | 77% | 74% | 75% |
| Operating expenses | (5,165) | (6,824) | (11,993) |
| EBITDA loss | (1,298) | (3,286) | (5,588) |
| Dep'n and amortisation of intangible assets | (1,608) | (1,359) | (2,938) |
| Loss before financing | (2,906) | (4,645) | (8,526) |
| Net finance costs | (70) | (1) | 1 |
| Loss before taxation | (2,976) | (4,646) | (8,525) |
| Taxation | 0 | 0 | 116 |
| Loss for the period | (2,976) | (4,646) | (8,409) |

Note: comparatives restated for IFRS 15 (Revenue from Contracts with Customers)

- H1 2018 revenue comprises almost entirely SmartWall revenue
- Gross margins strong (software and services offering)
- Operating expenses closely managed and:
 - Net of R&D costs capitalised \$0.9m (H1 2017: \$1.3m)
 - Include unrealized exchange gain on intercompany loan of \$0.1m (H1 2017: loss \$0.3m)
- Depreciation and amortisation comprises:
 - Depreciation \$0.2m (H1 2017: \$0.3m)
 - Amortisation of R&D capitalised \$1.4m (H1 2017: \$1.1m)
- Management focused on delivering EBITDA profits in 2019:
 - Continued cost management
 - Growing SmartWall revenue with focus on growing go-to-market partner and channel partner contribution

Cash Flow Summary



| | Restated | Restated |
|----------------------------------------------|----------|-----------|
| | 6 months | 12 months |
| | 2018 | 2017 |
| | \$'000 | \$'000 |
| Loss | (2,976) | (8,409) |
| Adjustments for: | | |
| Amort'n of acquired intangible assets | 12 | 55 |
| Amort'n of capitalised development costs | 1,413 | 2,408 |
| Depreciation | 244 | 548 |
| Finance income | (2) | (5) |
| Finance expense | 72 | 4 |
| Taxation | 0 | (116) |
| Qualifying R&D expenditure tax credit | 0 | 116 |
| Share based payment charge | 0 | 21 |
| Changes in working capital | 910 | (666) |
| Net cash used in operating activities | (327) | (6,044) |
| Net cash used in investing activities | (1,168) | (2,678) |
| Net cash generated from financing activities | 9,373 | 6,996 |
| Effects of exchange rates | (194) | 151 |
| Net increase/(decrease) in cash | 7,684 | (1,575) |
| Opening cash and cash equivalents | 1,365 | 2,940 |
| Closing cash and cash equivalents | 9,049 | 1,365 |

| | 6 months | 6 months | 12 months |
|----------------------------------------------|----------|----------|-----------|
| | 2018 | 2017 | 2017 |
| | \$'000 | \$'000 | \$'000 |
| Cash flows from investing activities | | | |
| Purchase of intangible assets | 0 | 0 | (10) |
| Capitalised development expenditure | (905) | (1,258) | (2,171) |
| Purchase of PPE | (263) | (353) | (497) |
| Net cash used in investing activities | (1,168) | (1,611) | (2,678) |
| Cash flows from financing activities | | | |
| Net proceeds from issue of share capital | 5,361 | 6,995 | 6,995 |
| Proceeds from loan (before costs) | 4,082 | 0 | 0 |
| Interest received | 2 | 3 | 5 |
| Interest paid | (72) | (4) | (4) |
| Net cash from financing activities | 9,373 | 6,994 | 6,996 |

- Investment in IPR
 - Development costs capitalised \$0.9m (H1 2017: \$1.3m)
 - Represents 66.0% of total engineering costs (H1 2017: 57.1%)

Net Assets Summary

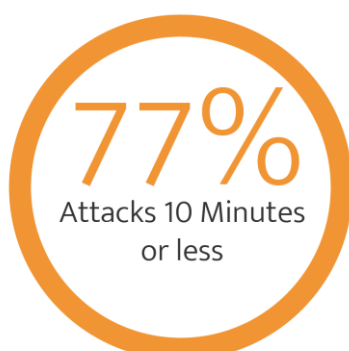


| | 30-Jun-18 | Restated 30-Jun-17 | Restated 31-Dec-17 |
|-------------------------------------|-----------|-----------------------|-----------------------|
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Non-current assets | | | |
| Goodwill | 8,991 | 8,991 | 8,991 |
| Acquired intangible assets | 25 | 50 | 37 |
| Capitalised development expenditure | 7,156 | 8,074 | 7,664 |
| Property, plant and equipment | 757 | 1,070 | 770 |
| | 16,929 | 18,185 | 17,462 |
| Current assets | | | |
| Inventories | 98 | 112 | 94 |
| Trade and other receivables | 3,281 | 2,192 | 3,195 |
| Cash and cash equivalents | 9,049 | 5,118 | 1,365 |
| | 12,428 | 7,422 | 4,654 |

| | 30-Jun-18 | Restated 30-Jun-17 | Restated 31-Dec-17 |
|---------------------------------|-----------|-----------------------|-----------------------|
| | \$'000 | \$'000 | \$'000 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | (2,098) | (1,611) | (1,305) |
| Deferred income | (2,921) | (2,581) | (2,896) |
| Borrowings due within 12 months | (399) | 0 | 0 |
| | (5,418) | (4,192) | (4,201) |
| Net current assets | 7,010 | 3,230 | 453 |
| Non-current liabilities | | | |
| Deferred income | (612) | (398) | (287) |
| Borrowings | (3,589) | 0 | 0 |
| | (4,201) | (398) | (287) |
| Net assets | 19,738 | 21,017 | 17,628 |

- Cash \$9.0m (H1 2017: \$5.1m)
 - Successful equity fund raise in April 2018 of \$5.4m (after expenses)
- Borrowings \$4.0m (H1 2017: \$0) – principle terms:
 - Term Loan (4-year term), GBP denominated (£3.0m), drawn down in May-18
 - Quarterly repayments commencing 31-Mar-19; quarterly repayments increase from £150k on 31-Mar-19 to £310k 31-Mar-22 (loan repaid in full by 31-Mar-22)
 - No early repayment penalties or redemption premium
 - Interest payable quarterly in arrears (3-month GBP Libor plus 7.5%)
 - Security: debentures and guarantees from all group companies
 - Covenants: revenue and cash consumption covenants, tested quarterly and monthly respectively

DDoS Attacks are Increasing



Corero's latest DDoS Trends Report highlighted the following:

- Low volume, sub-saturating attacks continue to dominate (95% less than 5Gbps);
- The number of attacks is up 40% year-on-year;
- Attacks over 10Gbps have doubled;
- Attacks are becoming shorter in duration (82% under 10 minutes); and
- One in five victims are attacked again within 24 hours of an initial attack.



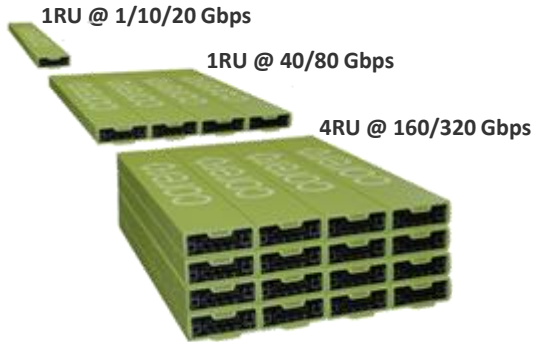
Note: statistics from Corero Half Year 2018 DDoS Trends Report

SmartWall® Threat Defense System Portfolio



Product portfolio to deliver goal of being the #1 in real-time DDoS protection

n x 10/20 Gbps



NTD120

n x 10/20 Gbps

Intel NTD for 10Gbps links
Up to 8 x 10G segments in 1RU
80Gbps/120Mpps in 1 RU



NTD280

n x 100 Gbps

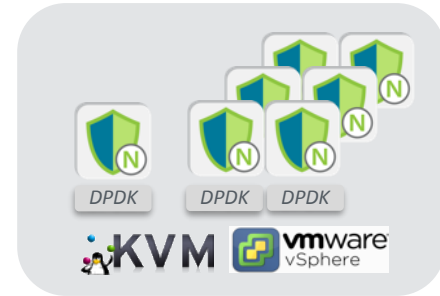
1 RU @ 100Gbps
10RU @ 1Tbps



NTD1100



SmartWall Service Portal



n x m Gbps

vNTD

Corero's Competitive Advantage



1. Automatic mitigation

- Goal 99% no customer intervention required

2. Real-time

- Immediate protection – seconds vs. minutes

3. Price

- Cost effective entry point, leadership price/performance

4. Scalability

- Modular and distributed, pay as you grow
- Only 100Gbps DDoS Mitigation product in 1RU form factor

5. Accuracy

- Low false positive rates, eliminate collateral damage



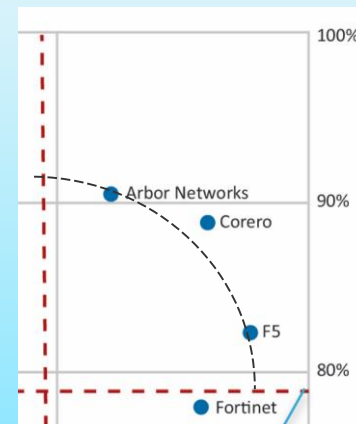
Validation



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

SmartWall awarded:

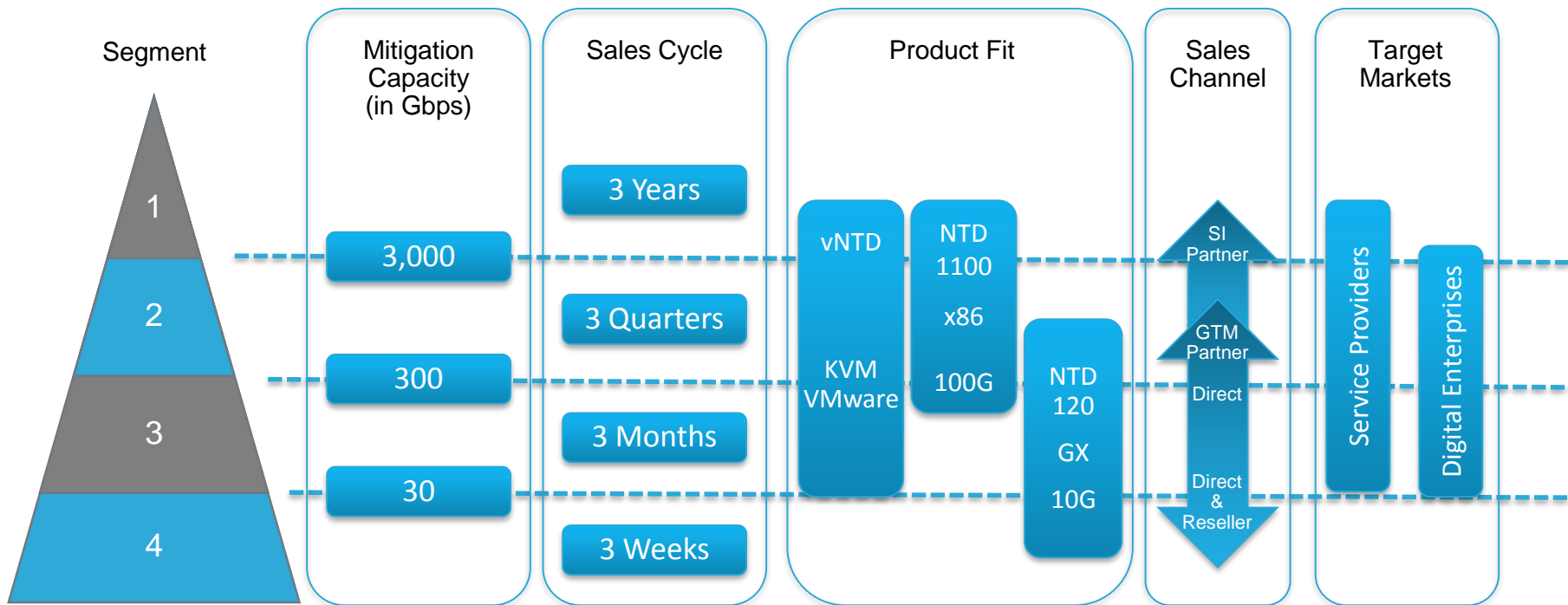
“Recommended” status



**Corero is leader for combined security effectiveness and TCO"*

**Corero is not aware of any NSS Labs plans to run an updated DDoS products test*

Go-To-Market Model



Outlook



- Market drivers – DDoS attacks growing problem for all
 - DDoS is expected to remain a significant cyber threat
 - DDoS appliance market to increase to \$1.7bn in 2022 (up from \$0.9bn in 2017) *
 - DDoS protection is being recognised as a key cyber threat by regulators e.g. European NIS Directive, GDPR, US Dept. Commerce and Homeland Security
- Corero well-positioned to be a market leader
 - Solution validation: 100 SmartWall customers (including leading names in each Corero target market)
 - Technology validation: Juniper Networks TAP and resale partnership
 - Corero targeting #1 position in real-time DDoS market by end of 2018
- Positive outlook
 - Building on SmartWall growth to date and strong recurring revenue base
 - Juniper Networks resale partnership expected to materially contribute to 2019 revenue
 - New 100Gbps SmartWall product to capture demand for 100Gbps connectivity
 - Funding secured to execute the Company's strategy and get to the position of being cash generating

** IHS Markit Technology research (DDoS Prevention Appliances Forecast, May 2018)*



Thank you

