



## **Investor Supplemental materials**

August 1, 2018

# Safe Harbor

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## Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This presentation includes information that constitutes “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include the company's expectations regarding the company's future financial performance and the potential demand for its products, the company's growth potential, market growth and trends, its business focus and competitive advantages, its reputation for technological excellence, the execution of its strategy, its ability to leverage its technology to serve customers, its long-term growth, the strength of its balance sheet, approach to capital deployment and acquisitions, the culture and organization of its businesses, the design of its business model and its technical capabilities, valuation of the company and the company continuing to leverage the trends of growth in optical connectivity in high speed networks and data centers, as well as the expanding use of composite materials and the need for improved means of testing their structural integrity. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of the company may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for the company's products and services to meet expectations, failure of target market to grow and expand, technological and strategic challenges, market valuation of the company and those risks and uncertainties set forth in the company's periodic reports and other filings with the Securities and Exchange Commission ("SEC"). Such filings are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the company's website at [www.lunainc.com](http://www.lunainc.com). The statements made in this presentation are based on information available to Luna as of the date of this presentation and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

## Non-GAAP Financial Measures

In addition to U.S. GAAP financial information, this presentation includes Adjusted EBITDA, a non-GAAP financial measures. This non-GAAP financial measures is in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP. A reconciliation of Adjusted EBITDA to Loss from Continuing Operations is included in the appendix to this presentation.

# Divestiture of OptoElectronics Solutions business



# Divestiture of Opto business allows greater focus on core business capabilities in fiber optic-based test and measurement

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- Luna has closed on the divestiture of its Optoelectronic Solutions business to OSI Systems, Inc.
- OSI Systems, Inc. is an integrated designer and manufacturer of specialized electronic systems and components for critical applications, including a division dedicated to optoelectronic manufacturing.
- Sale price is up to \$18.5 million
  - \$17.5 million cash
  - Up to \$1.0 million earn-out based on 18-month post-close revenue target

# Proceeds add to strong cash position and flexible balance sheet; we will maintain our disciplined capital deployment strategy

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- A disciplined approach to capital deployment, with a focus on working capital and reinvestment in the business to generate long-term sustainable growth
- Continue to invest in the organic growth of the company
  - Strategic investments will be made to enhance and expand our core products and access to market
  - Investments in Lightwave sales and marketing team
  - Invest in engineering resources to accelerate the product road map
- Disciplined acquisition strategy
  - Taking a targeted and deliberate approach
  - Interesting potential opportunities that allow us to grow test and measurement capabilities through acquisition
  - Intend to target acquisitions that we can expect to be quickly accretive
- Additional capital allocation may include share repurchase; dependent on corporate earnings growth and other available opportunities

# Pro-forma Luna financials:<sup>1</sup>

(\$ in 000s)	Three Months Ended					
	3/31/2017	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018
<b>Revenues:</b>						
Technology development	\$ 4,236	\$ 4,602	\$ 4,590	\$ 5,148	\$ 4,637	\$ 5,466
Products and licensing	2,398	3,680	3,713	4,714	4,132	4,457
Total revenues	<u>6,634</u>	<u>8,282</u>	<u>8,303</u>	<u>9,862</u>	<u>8,769</u>	<u>9,923</u>
<b>Cost of revenues:</b>						
Technology development	3,109	3,444	3,492	3,943	3,354	3,945
Products and licensing	995	1,529	1,470	1,732	1,575	1,748
Total cost of revenues	<u>4,104</u>	<u>4,973</u>	<u>4,962</u>	<u>5,675</u>	<u>4,929</u>	<u>5,693</u>
Gross profit	<u>2,530</u>	<u>3,309</u>	<u>3,341</u>	<u>4,187</u>	<u>3,840</u>	<u>4,230</u>
<b>Operating expense:</b>						
Selling, general and administrative	3,204	2,947	2,832	3,943	3,334	3,265
Research, development and engineering	700	600	662	692	880	760
Total operating expense	<u>3,904</u>	<u>3,547</u>	<u>3,494</u>	<u>4,635</u>	<u>4,214</u>	<u>4,025</u>
Operating Income (Loss)	<u>\$ (1,374)</u>	<u>\$ (238)</u>	<u>\$ (153)</u>	<u>\$ (448)</u>	<u>\$ (374)</u>	<u>\$ 205</u>

<sup>1</sup> Unaudited pro forma financials assumes Optoelectronics business had been sold on January 1, 2017

# Business Strategy

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# Our business model accelerates the process of bringing new and innovative products to market



## Structural & Material Test

Deliver high-definition distributed strain & temperature sensing data not available using conventional measurement technologies



## Communications Test & Measurement

Design and manufacture, high performance fiber optic test instruments for communications market



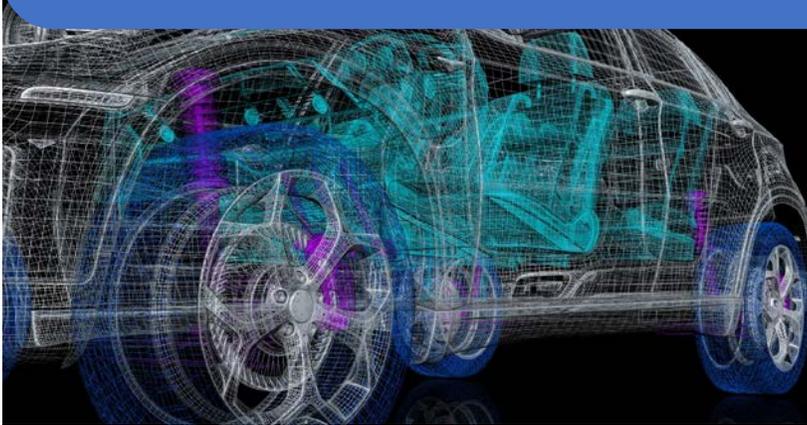
## Technology development and Terahertz

Cutting edge measurement technologies & highly leverageable, third party funded research

# Strong growth opportunity through Luna's fiber optic-based technologies (Lightwave)

Luna's fiber optic technologies are used two ways:

## SENSING



### **Aerospace and Automotive**

Measuring strain and temperature in composites and other advanced materials: far superior to conventional technologies

## OPTICAL TEST & MEASUREMENT



### **Communications**

Testing optical components and networks deployed by the Tele- and Data-communications market

# There are strong drivers of growth for our technology in Automotive and Aerospace

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## Challenges we address

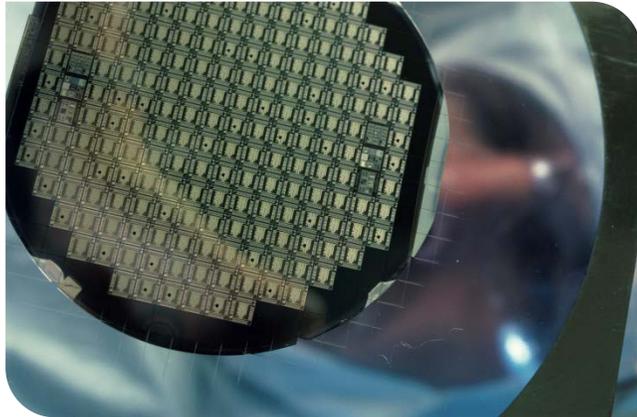
- Instrumenting complex parts
- Performing fatigue testing in composites
- New materials have very large changes in strain over short distances
- Identifying small defects, eliminate false positives
- Mapping complex strain profiles



## Drivers for our products

- Testing requirements changing drastically with introduction of new materials and lighter-weight designs
- Strain and temperature measurements fundamental to performance and safety in aerospace and automotive markets
- Incumbent technologies (strain gages, RTDs, etc.) do not scale well to meet challenges of modern design

# There are two distinct growth opportunities for our technology in the Communications market



## Optical component development and manufacturing

### Silicon photonics is creating demand for advanced test solutions

- We are at the beginning of the era of optical connectivity in silicon
- Luna products offer 30x faster device characterization vs competition
- Accelerate time to market through reduced iteration of design, fab, test



## Fiber and short network test

### Bandwidth demands continue to drive double-digit connectivity growth

- Luna products deliver unprecedented visibility into short-haul networks
- Increase quality and reduce time to market for new designs

# 2Q 2018 Results

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# Second Quarter 2018 earnings

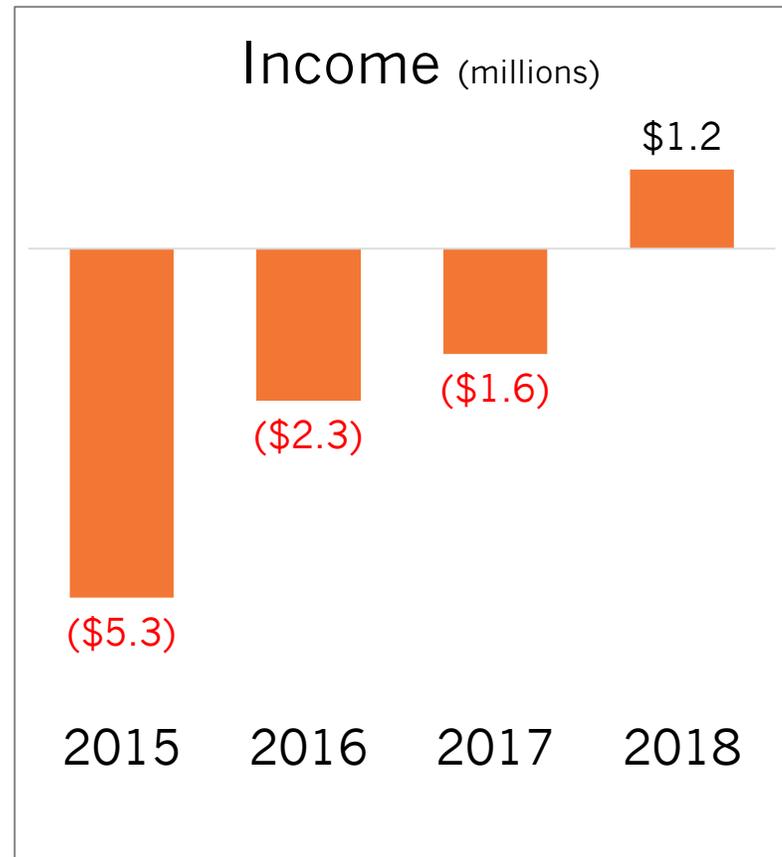
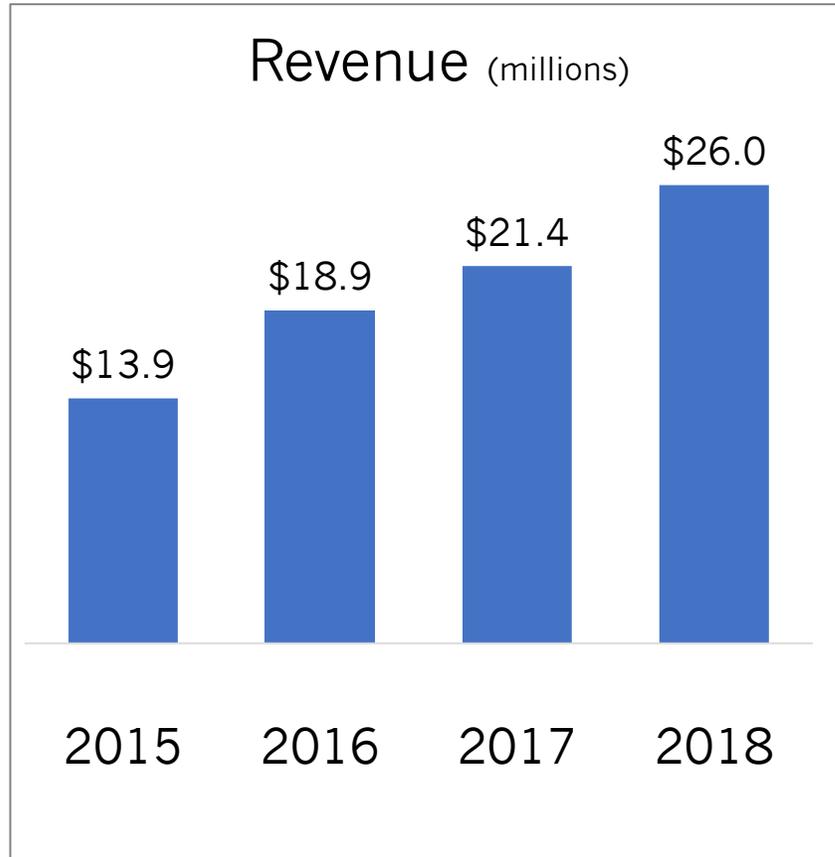
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- We delivered another strong quarter:
  - Strong revenue growth across nearly all businesses
  - More than double the Adjusted EBITDA and positive net income versus a loss in the same year ago period
- Fifth consecutive quarter of year-over-year top line growth and positive net income from continuing operations
- Total revenues of \$13.8 million for the three months ended June 30, 2018, up 22% compared to the three months ended June 30, 2017
- Net income improved to \$1.1 million for the three months ended June 30, 2018 compared to a net loss of \$(0.2) million for the three months ended June 30, 2017
- Adjusted EBITDA<sup>1</sup> improved to \$1.3 million for the three months ended June 30, 2018 compared to \$0.6 million for the three months ended June 30, 2017

<sup>1</sup>Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures is provided in the appendix to this presentation

# First half 2018 results continue the strong trajectory established in the first quarter....

## Six months ended June 30:

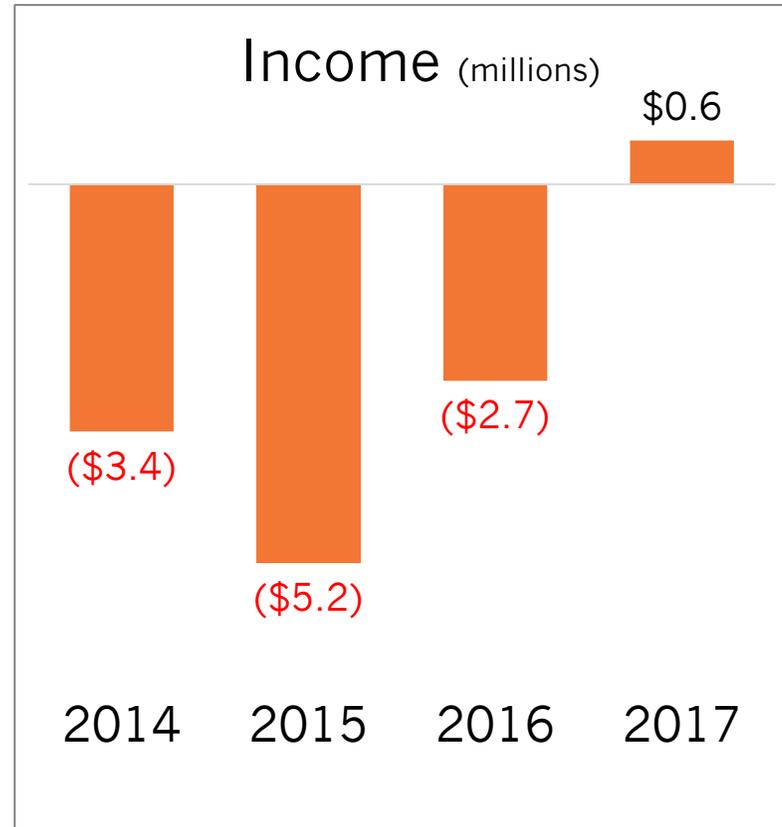
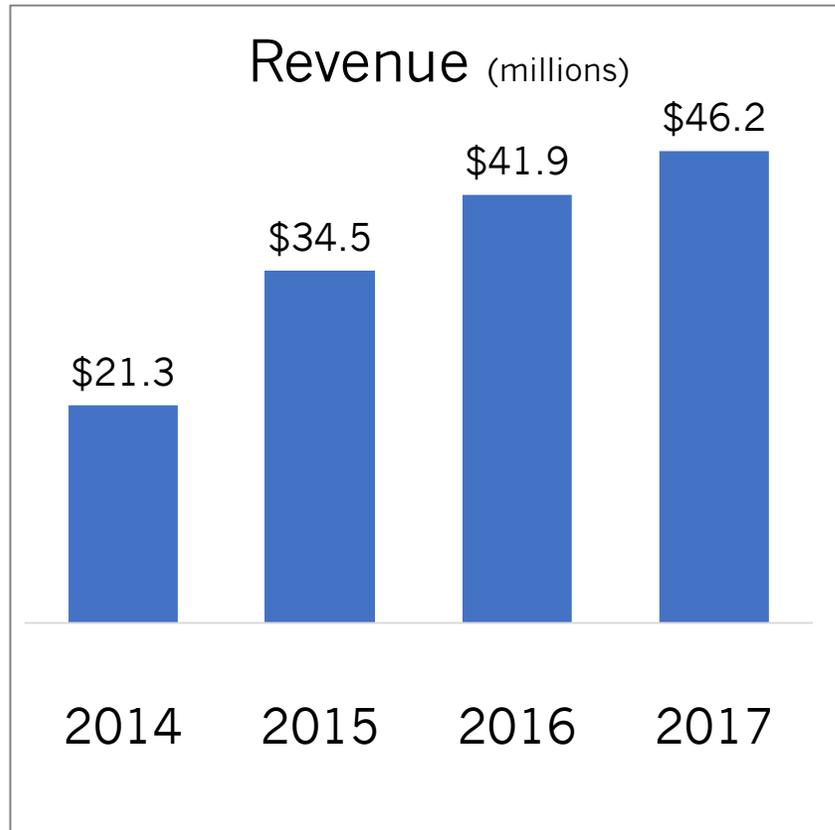


- 22% organic revenue growth year-over-year for 2018
- Continued prudent expense management allowed robust drop-through to the bottom line

\* Results include the Optoelectronic solutions business that was Divested on July 31, 2018

# ....And continues the record performance of 2017 and trajectory of the last several years

## Twelve months ended December 31:



- Double-digit organic revenue growth year-over-year
- Positive income from continuing operations in 2017<sup>1</sup>

<sup>1</sup> 2017 income from continuing ops normalized for a one-time pre-tax charge of \$0.7 million related to former CEO departure

\* Results include the Optoelectronic solutions business that was Divested on July 31, 2018

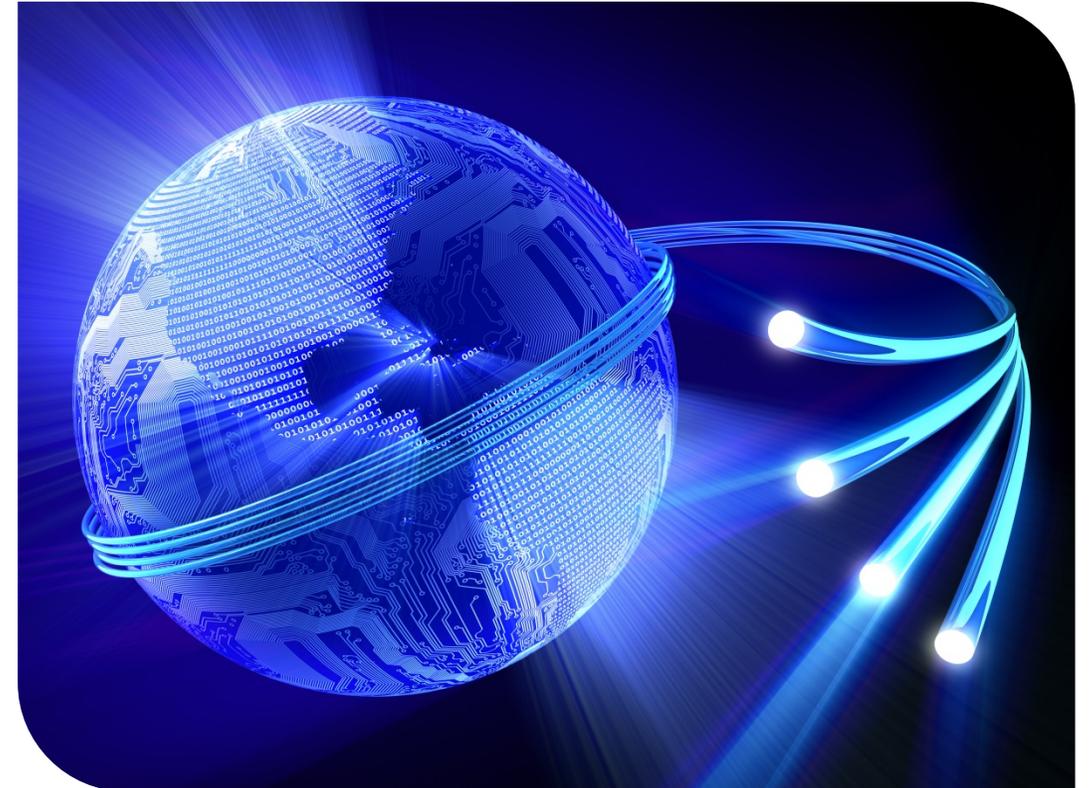
# We have a disciplined capital deployment strategy to leverage our flexible balance sheet and strong cash position

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- Pro-forma for the OPTO divestiture, our balance sheet reflects:
  - \$72 Million in total assets
    - \$48 Million in cash and cash equivalents
    - \$60 Million in working capital
- A disciplined approach to capital deployment, with a focus on working capital and reinvestment in the business to generate long-term sustainable growth

# Why invest in Luna?

- **Proprietary**, measurement technology, offering **unprecedented** combination of resolution, accuracy and speed
- Customers in **attractive markets**: Aerospace, Automotive, Communications, Energy and Defense
- Positioned to **take advantage of trends** such as vehicle light-weighting and increasing demands on data centers and broadband capacity
- **Adequately capitalized** to fund growth
- Long-tenured, **experienced** executive team / board
- Corporate culture of **innovation and integrity**
- **Compelling value**: currently trading at an attractive multiple



# Appendix



## Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended June 30,	
	2018	2017
Net income/(loss)	\$1,067,327	\$(221,762)
Less loss from discontinued operations, net of income taxes	-	(298,817)
Net income/(loss) from continuing operations	1,067,327	77,055
Interest expense	33,988	60,386
Investment income	(100,846)	-
Income tax (benefit)/expense	(98,133)	40,937
Depreciation and amortization	314,725	285,253
EBITDA	1,217,061	463,631
Share-based compensation	117,823	151,672
Adjusted EBITDA	\$1,334,884	\$615,303