



26 March 2015

Corero Network Security plc (AIM: CNS)
("Corero" or the "Company")

Full year results

Corero Network Security plc, the AIM network security company, announces its audited results for the year ended 31 December 2014.

Highlights:

- Successful launch of SmartWall® Threat Defense System ("SmartWall TDS")
 - Multiple orders and deployments
 - Largest DDoS defence solution sale in Company history (for online gaming company)
- Successful launch of SecureWatch® Analytics
 - Industry leading DDoS reporting dashboard
- Key executive appointments in 2014
 - Dave Larson, former CTO for Hewlett-Packard Advanced Networking
 - Bipin Mistry, previously Senior Director and Chief Architect with Juniper Networks
- Revenue \$7.5m (2013: revenue from continuing operations \$10.3m)
- EBITDA loss* \$7.1m (2013: EBITDA loss from continuing operations \$6.2m)
- Loss per share 11.5 cents (2013: earnings per share 10.1 cents **)
- Net cash \$6.0m as at 31 December 2014 (2013: \$9.5m)

* before depreciation, amortisation and financing

** as restated (see note 2)

Ashley Stephenson, CEO of Corero, commented:

"2014 has been a pivotal year: The launch of SmartWall TDS was an important milestone achievement of our strategic plan to build a market leading cyber security business, focused on delivering real-time, scalable DDoS attack protection.

"Having made the investment to refresh and refocus its product line to address the growing DDoS threat, Corero is well positioned for scalable returns from a significant target market.

"Following on from a series of successful initial deployments, we enter 2015 with a clear mission to grow SmartWall TDS sales to service providers, hosting providers and online enterprises that are regularly impacted by DDoS attacks. The customer wins to date illustrate the market demand and we are confident that the new focus on SmartWall TDS will drive our success in 2015 and beyond."

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About Corero Network Security

Corero Network Security, an organisation's First Line of Defense® against Distributed Denial of Service (DDoS) attacks and cyber threats, provide enterprises and service providers with an additional layer of security capable of inspecting and analyzing Internet traffic and mitigating attacks. Corero products and services enhance existing security architecture with a scalable, flexible and responsive defence against DDoS attacks and cyber threats before they reach the targeted IT infrastructure, allowing online services to perform as intended. The latest addition to Corero First Line of Defense® product family includes the Corero SmartWall® Threat Defense System (TDS) allowing for modular, highly scalable network visibility and DDoS defence for the Large Enterprise, Datacentre and Hosting Provider, as well as the Internet Service Provider.

For more information about how Corero solutions are protecting over 500 businesses across the globe, visit www.corero.com.

Review of business

Highlights of 2014 include:

- Successful completion of a two year investment plan to develop market leading next-generation cybersecurity platform
- SmartWall TDS product family launched
 - Closed multiple SmartWall TDS orders
 - Flagship SmartWall TDS order in October (Corero's largest DDoS defence deployment to date)
 - Growing number of SmartWall TDS customer trials
- Successful launch of SecureWatch® Analytics
 - Industry leading DDoS reporting dashboard
- Key executive appointments in 2014
 - Dave Larson, former CTO for Hewlett-Packard Advanced Networking
 - Bipin Mistry, previously Senior Director and Chief Architect with Juniper Networks

Corero's revenue performance in 2014 was below management expectations, impacted by the decline in sales of the previous generation product, which occurred faster than expected.

To address this, Corero accelerated its transition to SmartWall TDS in 2014. SmartWall TDS wins in 2014, amounting to \$1.5 million, validate the addressable markets; customers include a service provider in Europe, a hosting provider in the US, a UK government agency and a global DDoS defence deployment for a leading on-line gaming company. In the second half of 2014, the Company developed the ability to remotely deploy and manage Proof of Concept trials to support a growing pipeline of prospective customers.

Corero has made good progress in executing its strategy to become a leader in the DDoS defence market:

- Launched the SmartWall TDS, a high performance and innovative appliance based technology, purpose built to combat DDoS attacks impacting the Internet. The SmartWall TDS is the result of significant Corero R&D investment and DDoS attack mitigation experience.
- Successful SmartWall TDS sales to a number of customers in the second half of 2014 providing demonstrable evidence of the value of SmartWall TDS in protecting organisations that rely on the Internet to do business from the impact of DDoS attacks.

Review of performance

For the year ended 31 December 2014, the Group reported an EBITDA loss before depreciation, amortisation and financing of \$7.1 million (2013: EBITDA loss from continuing operations \$6.2 million).

The loss for the year after taxation amounted to \$10.1 million (2013: profit \$8.2 million including the profit from discontinued operations and profit on the sale of discontinued operations) includes:

- Unrealised exchange gain of \$0.4 million (2013: loss \$0.2 million) arising on an intercompany loan;
- Finance costs of \$0.02 million (2013: \$0.4 million).

The loss per share was 11.5 cents (2013: earnings per share 10.1 cents including the profit from discontinued operations and profit on the sale of discontinued operations).

The Group's net assets at 31 December 2014 were \$30.5 million (2013: \$34.0 million).

The key financial metrics for the business are as follows:

- Order intake: \$8.6 million for the year ended 31 December 2014 (2013: \$9.2 million), with SmartWall TDS order intake \$1.5 million (2013: \$nil);
- Gross margin: 55% for the year ended 31 December 2014 (2013: 65%);
- Operating expenses (gross of research and development costs capitalised and before depreciation and amortisation of intangibles): \$14.8 million the year ended 31 December 2014 (2013: \$16.7 million); and
- Net cash: \$6.0 million at 31 December 2014 (2013: \$9.5 million).

Order intake in 2014 was lower than 2013, with fewer customer wins for the previous generation product due to changing market dynamics. Services and support orders represented 68% of order intake compared to 56% in 2013 which resulted in lower revenue recognised in 2014 and the deferred income balance at 31 December 2014 being \$1.0 million higher than the prior year.

The gross margin in 2014 was impacted by the lower volume of new customer sales. A significant element of cost of sales is comprised the direct cost of employees in the Company's operations and support teams.

Operating expenses, gross of research and development costs capitalised of \$3.6 million (2013: \$3.8 million), of \$14.8 million were below the prior year (2013: \$16.7 million) as a result of a skills rebalancing during 2014 as the Company's development efforts were focused on optimisation of the SmartWall TDS software code and additional DDoS defence capability development following the general availability release of the SmartWall TDS in mid-2014.

Cash and treasury

The closing cash balance was \$6.0 million (2013: \$9.8 million). Corero had no debt at 31 December 2014 (2013: \$0.3 million comprising the balance on a receivables-backed working capital facility).

The net reduction in cash from operating activities in the year ended 31 December 2014 was \$5.4 million (2013: \$7.5 million).

In December 2014, the Company raised \$7.1 million (before expenses), of which the Chairman contributed \$2.8 million, to fund the further development of SmartWall TDS and targeted sales and marketing activities, and the funding gap arising from lower than expected revenue from the previous generation product.

Strategy

Corero enters 2015 with a singular strategy - sales, marketing, and technical resources all focused on growing SmartWall TDS deployments to markets that are regularly impacted by DDoS attacks - hosting providers, service providers and online enterprises.

Market dynamics

There are a number of trends which give Corero confidence in the market opportunity for DDoS mitigation solutions:

- DDoS attacks are accelerating in frequency, sophistication, complexity, and scale.
- Organisations of all sizes are susceptible to these attacks, and though DDoS is not a new concern, the risks of becoming a victim of DDoS attacks, and potential for lost revenues, is at an all-time high. This is especially true for the Internet service providers and on-line enterprises such as gaming organisations.
- DDoS attacks and cyber threats continue to pose a major challenge for hosting providers due to their sheer volume of customers, large attack surface and damage that can be caused to innocent bystanders that share the same hosted infrastructure.
- Continued high profile data breach incidents in the enterprise as a result of DDoS attacks being utilised as a distraction for nefarious purposes. Examples of recent DDoS attacks include the attacks on Microsoft's Xbox Live and Sony Playstation's gaming networks, the attack on Sony Pictures and the attack on UK hosting company 1&1.

The Corero target market segments are aware of the DDoS challenge and the risk it implies to their business. Protection must begin in-line, before the attack has been successful; waiting until an attack has occurred to implement security measures leaves the business susceptible to the damaging impact of the DDoS attack.

The competitive environment for on-premises DDoS mitigation solutions has not changed significantly in the last year. Some vendors have introduced DDoS solutions to their broader IT solution portfolios, which validates that the DDoS market is seen as an important growth market. Frost & Sullivan in their report on the DDoS market, recognise that solving the DDoS problem presents unique technical challenges and that the detection and mitigation of DDoS attacks in real time is a complex problem. This presents an opportunity for specialised DDoS security technology vendors like Corero. As the DDoS attack landscape continues to evolve, Corero is committed to remain at the forefront of DDoS defence technology.

Outlook

The market dynamics are strong - DDoS attacks are increasing (and impacting all businesses and governments) and the market for DDoS prevention appliances is forecast by leading industry analysts to grow strongly in the next five years with double digit growth.

Having made the investment to refresh and refocus its product line to address the growing DDoS threat in highly susceptible markets, and by building market leading technology, Corero is well positioned for scalable and durable returns from a significant target market.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2014

	Total 2014 \$'000	Total 2013 \$'000
Revenue	7,477	10,268
Cost of sales	(3,372)	(3,588)
Gross profit	4,105	6,680
Operating expenses before highlighted items	(11,250)	(12,911)
Depreciation and amortisation of intangible assets	(3,272)	(2,309)
Operating expenses	(14,522)	(15,220)
Operating loss	(10,417)	(8,540)
Finance income	22	44
Finance costs	(24)	(388)
Loss before taxation	(10,419)	(8,884)
Taxation	358	371
Loss for the year from continuing operations	(10,061)	(8,513)
Profit from discontinued operations	-	1,436
Profit from sale of discontinued operations	-	15,244
(Loss)/profit for the year	(10,061)	8,167
Other comprehensive income		
Difference on translation of UK functional currency entities	(479)	1,016
Transfer of translation differences on disposal of foreign subsidiary to disposal account	-	(1)
Total comprehensive (expense)/income for the year	(10,540)	9,182
Total (loss)/profit for the year attributable to:		
Equity holders of the parent	(10,061)	8,054
Non-controlling interest	-	113
	(10,061)	8,167
Total comprehensive (expense)/income for the year attributable to:		
Equity holders of the parent	(10,540)	9,036
Non-controlling interest	-	146
Total	(10,540)	9,182
Total comprehensive (expense)/income for the year attributable equity holders of the parent arises from:		
Continuing operations	(10,540)	(7,499)
Discontinued operations	-	16,535
Total	(10,540)	9,036

Basic and diluted (loss)/earnings per share

	2014	Restated
	Cents	2013
		Cents
Basic and diluted (loss)/earnings per share	(11.5)	10.1

Consolidated Statement of Financial Position

as at 31 December 2014

	2014 \$'000	2013 \$'000
Assets		
Non-current assets		
Goodwill	17,983	17,983
Acquired intangible assets	1,548	2,635
Capitalised development expenditure	8,624	6,121
Property, plant and equipment	1,175	1,343
	<hr/> 29,330	<hr/> 28,082
Current assets		
Inventories	749	329
Trade and other receivables – due in less than one year	2,724	3,483
Trade and other receivables – due in more than one year	87	237
Cash and cash equivalents	6,036	9,775
	<hr/> 9,596	<hr/> 13,824
Liabilities		
Current Liabilities		
Trade and other payables	(2,362)	(2,171)
Borrowings	(20)	(256)
Deferred income	(4,055)	(3,195)
	<hr/> (6,437)	<hr/> (5,622)
Net current assets	3,159	8,202
Non-current liabilities		
Deferred income	(1,570)	(1,423)
Deferred taxation	(467)	(825)
	<hr/> (2,037)	<hr/> (2,248)
Net assets	<hr/> 30,452	<hr/> 34,036
Total equity attributable to owners of the parent		
Ordinary share capital	1,804	1,333
Deferred share capital	7,051	7,051
Share premium	50,000	43,507
Share options reserve	285	293
Translation reserve	714	1,193
Retained earnings	(29,402)	(19,341)
Total equity	<hr/> 30,452	<hr/> 34,036

Consolidated Statement of Cash Flow
for the year ended 31 December 2014

	2014	2013
	\$'000	\$'000
Cash flows from operating activities		
(Loss)/profit for the year	(10,061)	8,167
Adjustments for:		
Amortisation of acquired intangible assets	1,229	1,202
Amortisation of capitalised development expenditure	1,118	511
Depreciation	925	822
Finance income	(22)	(48)
Finance expense	24	408
Taxation	(358)	(371)
Share-based payment (credit)/charge	(8)	25
Profit on disposal of subsidiary	-	(15,244)
(Increase)/decrease in inventories	(334)	293
Decrease/(increase) in trade and other receivables	893	(2,863)
Increase/(decrease) in payables	1,234	(406)
Net cash from operating activities	(5,360)	(7,504)
Cash flows from investing activities		
Purchase of intangible assets	(142)	(107)
Capitalised development expenditure	(3,621)	(4,202)
Purchase of property, plant and equipment	(844)	(1,148)
Sale proceeds from disposal of subsidiary less costs	-	17,225
Net cash used in investing activities	(4,607)	11,768
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	6,964	5,869
Term loan received	-	1,897
Finance income	22	48
Finance expense	(24)	(39)
Repayment of term loans	-	(8,432)
Capital element of finance lease repayments	-	(23)
(Repayment)/receipt of credit facility	(236)	256
Net cash from financing activities	6,726	(424)
Effects of exchange rates on cash and cash equivalents	(498)	1,074
Net (decrease)/increase in cash and cash equivalents	(3,739)	4,914
Cash and cash equivalents at 1 January	9,775	4,861
Cash and cash equivalents at 31 December	6,036	9,775

Consolidated Statement of Changes in Equity

for the year ended 31 December 2014

	Share capital \$'000	Share premium account \$'000	Share options reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total attributable to equity holders of the parent \$'000	Non- controlling interest \$'000	Total equity \$'000
1 January 2013	7,976	38,046	268	211	(27,395)	19,106	189	19,295
Profit for the year	–	–	–	–	8,054	8,054	113	8,167
Other comprehensive income	–	–	–	1,015	–	1,015	–	1,015
Disposal of non-controlling interest share of translation reserve	–	–	–	(33)	–	(33)	33	–
Total comprehensive income for the year	–	–	–	982	8,054	9,036	146	9,182
Contributions by and distributions to owners								
Share-based payments	–	–	25	–	–	25	–	25
Issue of share capital	408	5,461	–	–	–	5,869	–	5,869
Disposal of non-controlling interest in non-wholly owned subsidiary	–	–	–	–	–	–	(335)	(335)
Total contributions by and distributions to owners	408	5,461	25	–	–	5,894	(335)	5,559
31 December 2013	8,384	43,507	293	1,193	(19,341)	34,036	–	34,036
Loss for the year	–	–	–	–	(10,061)	(10,061)	–	(10,061)
Other comprehensive income	–	–	–	(479)	–	(479)	–	(479)
Total comprehensive expense for the year	–	–	–	(479)	(10,061)	(10,540)	–	(10,540)
Contributions by and distributions to owners								
Share-based payments	–	–	(8)	–	–	(8)	–	(8)
Issue of share capital	471	6,493	–	–	–	6,964	–	6,964
Total contributions by and distributions to owners	471	6,493	(8)	–	–	6,956	–	6,956
31 December 2014	8,855	50,000	285	714	(29,402)	30,452	–	30,452

1. General information

These consolidated financial statements are presented in US Dollars (“\$”) which represents the presentation currency of the Group. The average \$-GBP sterling (“GBP”) exchange rate, used for the conversion of the statement of comprehensive income, for the 12 months ended 31 December 2014 was 1.65 (2013: 1.57). The closing \$-GBP exchange rate, used for the conversion of the Group’s assets and liabilities, at 31 December 2014 was 1.56 (2013: 1.66).

The financial information set out above does not constitute the Company’s Annual Report and Accounts for the years ended 31 December 2014. The Annual Report and Accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 will be delivered shortly. The auditor’s report for the Company’s 2014 Annual Report and Accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498(2) or (3) of the Companies Act 2006. Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs) this announcement does not itself contain sufficient information to comply with IFRSs.

The Annual Report and Accounts for the year ended 31 December 2014 will be published on the Company’s website www.corero.com shortly.

The information in this preliminary announcement was approved by the board on 25 March 2015.

2. Earnings/(loss) per share

For the year ended 31 December 2013, the earnings per share was calculated using total comprehensive income for the year and is now restated using the profit for that year.