



21 April 2016

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

**Full year results**  
*Growing SmartWall sales momentum*

Corero Network Security plc, the AIM network security company, announces its audited results for the year ended 31 December 2015.

**Highlights:**

- Customer wins across all SmartWall TDS target markets
  - Including first Tier 1 service provider contract wins in the US and Europe
- Additional development facility established in Edinburgh, Scotland
- Orders for SmartWall TDS product up 186% to \$4.3m (2014: \$1.5m)
- Revenue up 11% to \$8.3m (2014: \$7.5m)
- Reduced EBITDA loss\* \$6.4m (2014: EBITDA loss \$7.1m)
- Reduced loss per share 8.5 cents (2014: loss per share 11.5 cents)
- Net cash \$2.7m as at 31 December 2015 (2014: \$6.0m)

*\* before depreciation, amortisation and financing*

**Ashley Stephenson, CEO of Corero, commented:**

*"2015 was a pivotal year for Corero and its flagship SmartWall TDS product. During the period, we began to realise significant sales traction and a growing prospect list as a result of customer demand for real-time, automatic DDoS mitigation. That momentum has continued in the first quarter of 2016.*

*"The wins to date are a strong endorsement of the SmartWall TDS value proposition. In addition, the Company's exceptional performance in the recent NSS Labs independent security test, provides third-party validation for the industry-disrupting capabilities of SmartWall TDS. We firmly believe we are in the early adaption phase of this opportunity; a view that is supported by leading industry analysts such as IDC and Infonetics Research, who forecast double-digit growth in the DDoS market and expect it to be worth in excess of \$1 billion in three years' time.*

*"This backdrop of accomplishments in 2015, and the fact that we are currently engaged in a number of even larger opportunities with new customers, gives Corero confidence that it can deliver strong revenue growth in 2016 and beyond."*

The Annual Report and Accounts for the year ended 31 December 2015 are available on the Company's website [www.corero.com](http://www.corero.com).

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## **About Corero Network Security**

Corero Network Security is the leader in real-time, high-performance DDoS defense solutions. Service providers, hosting providers and online enterprises rely on Corero's award winning technology to eliminate the DDoS threat to their environment through automatic attack detection and mitigation, coupled with complete network visibility, analytics and reporting. This next-generation technology provides a First Line of Defense® against DDoS attacks in the most complex environments while enabling a more cost effective economic model than previously available. For more information, visit [www.corero.com](http://www.corero.com)

## **Review of business**

The year ended 31 December 2015 is the first full twelve-month reporting period following Corero's decision to transition the business to focus exclusively on the SmartWall TDS product for the DDoS protection market.

Corero ended the year strongly, with final quarter billings of \$3.2 million, the Company's highest quarterly billings for more than three years. The final quarter billings included Corero's first US Tier 1 service provider win, first European Tier 1 service provider win and a significant support and services order of over \$0.7 million.

In 2015 Corero sold the SmartWall TDS to over 20 service providers, hosting providers and enterprises, providing real-time DDoS and cyber threat protection, with an average order value exceeding \$200,000 (a significant increase over the 2014 average order value of \$74,000). Winning the level and calibre of customers through competitive tenders demonstrates that the SmartWall TDS is a market-leading and differentiated solution.

SmartWall TDS trials are being conducted by several leading service providers and hosting providers and since the year end Corero has also secured its largest single hosting provider customer win to date.

## **Review of performance**

For the year ended 31 December 2015, the Group reported an EBITDA loss before depreciation, amortisation and financing of \$6.4 million (2014: EBITDA loss \$7.1 million).

The loss for the year after taxation amounted to \$11.2 million (2014: loss \$10.1 million) and includes:

- Unrealised exchange gain of \$0.4 million (2014: gain \$0.4 million) arising on an intercompany loan;
- Finance costs of \$0.02 million (2014: \$0.02 million).

The loss per share was 8.5 cents (2014: loss per share 11.5 cents).

The Group's net assets at 31 December 2015 were \$26.3 million (2014: \$30.5 million).

The key financial metrics for the business are as follows:

- Order intake: \$7.9 million for the year ended 31 December 2015 (2014: \$8.6 million);
- Gross margin: 75% for the year ended 31 December 2015 (2014: 78%);
- Operating expenses (gross of research and development costs capitalised and before depreciation and amortisation of intangibles): \$15.0 million for the year ended 31 December 2015 (2014: \$16.6 million); and
- Net cash: \$2.7 million at 31 December 2015 (2014: \$6.0 million).

The order intake in 2015, the first full year Corero focused its business on its SmartWall TDS product, included \$4.3 million of SmartWall orders (2014: \$1.5 million). The 2015 order intake also included \$3.6 million (2014: \$7.1 million) of Corero's previous generation product sales and related support, and renewals of support and services contracts for these products (the end of life of these previous generation products was announced to customers in 2015).

Operating expenses, gross of research and development costs capitalised of \$2.3 million (2014: \$3.6 million), of \$15.0 million were below the prior year (2014: \$16.6 million), reflecting lower development costs following the initial release of the SmartWall TDS product in mid-2014 and lower sales costs as a result of the decision to focus sales efforts on the North American and the EMEA markets.

Despite the 2015 EBITDA loss being lower than the prior year, the operating loss of \$11.6 million was higher than the prior year (2014: \$10.4 million) due to the increased amortisation of capitalised development expenditure in 2015 of \$2.4 million (2014: \$1.1 million) which came as a result of a full 12 months amortisation in 2015 following the SmartWall TDS launch in mid-2014. An impairment charge of \$0.8 million in 2015 relating to previous generation products for which end of life announcements were made in 2015 also contributed to the higher operating loss.

## **Cash and treasury**

The closing cash balance was \$2.7 million (2014: \$6.0 million). Corero had no debt at 31 December 2015 (2014: \$0).

The net reduction in cash from operating activities in the year ended 31 December 2015 was \$7.7 million (2014: \$5.4 million). In the year ending 31 December 2015, the Company raised \$7.7 million (before expenses), of which the Chairman contributed \$3.0 million, to fund the further development of SmartWall TDS and targeted sales and marketing activities.

On 21 April 2016 Corero will announce a conditional firm placing and subscription to raise \$11.5 million (£8.0 million) before expenses, and an open offer of \$1.4 million (£1.0 million), which are subject to shareholder approval at a general meeting of the Company on 9 May 2016.

### **Strategic focus**

Corero is well-positioned to capitalise on the evolving DDoS defence market and the increasing requirement for real-time, automatic DDoS mitigation. This is a market the SmartWall TDS was designed to address.

### **Market dynamics**

The service provider and hosting provider requirements for real-time, in-line and automatic DDoS mitigation solutions are growing rapidly, driven by the increasing demand from their customers for DDoS protection. Corero is extremely pleased with the market validation from numerous material customer wins in the past year.

The key market drivers are:

- Increasing adoption of the Cloud and continuing rise of security threats
- Network capacity needs are growing exponentially by number of Internet links and speed
- Frequency and magnitude of DDoS attacks continues to increase dramatically

The market opportunity for Corero is further driven by the demand for DDoS Security Services which are forecast to grow significantly through both Service Provider push and Enterprise pull / demand for such services.

The industry analysts are forecasting double digit growth for the DDoS market segment and forecast the DDoS market will be in excess of \$1 billion in 3 years.

The key trends that will drive demand for Corero DDoS solutions are:

- Enterprises looking to providers for protection - Buy a service versus build a solution
- Service providers looking to offer more high margin services - Becoming more than just network transport
- Premium offerings include Security services, for example DDoS-as-a-service
- Service provider networks evolving beyond traditional core and edge boundaries
- Hosting providers need always-on mitigation, due to their large attack surface represented by the aggregate online presence of the many customers that they host, and in order to deal with the increasing volume of DDoS attacks

### **Summary and outlook**

2015 was a pivotal year for Corero and its flagship SmartWall TDS product. During the period, Corero began to realise significant sales traction and growing prospect list as a result of customer demand for real-time, automatic DDoS mitigation. That momentum has continued in the first quarter of 2016 with strong year over year growth.

The wins to date are a strong endorsement of the SmartWall value proposition. In addition, the Company's exceptional performance in the recent NSS Labs independent security test, provide third party validation for the industry-disrupting capabilities of SmartWall TDS.

This backdrop of accomplishments in 2015, and the fact that Corero is currently engaged in a number of even larger opportunities with new customers, gives the Board confidence that the Company can deliver strong revenue growth in 2016 and beyond.

Consolidated Statement of Comprehensive Income  
for the year ended 31 December 2015

	Total 2015 \$'000	Total 2014* Restated \$'000
Revenue	8,340	7,477
Cost of sales	(2,073)	(1,661)
Gross profit	6,267	5,816
Operating expenses before highlighted items	(12,699)	(12,961)
Depreciation and amortisation of intangible assets	(5,174)	(3,272)
Operating expenses	(17,873)	(16,233)
Operating loss	(11,606)	(10,417)
Finance income	11	22
Finance costs	(20)	(24)
Loss before taxation	(11,615)	(10,419)
Taxation	382	358
<b>Loss for the year</b>	<b>(11,233)</b>	<b>(10,061)</b>
Other comprehensive expense		
Difference on translation of UK functional currency entities	(482)	(479)
<b>Total comprehensive expense for the year</b>	<b>(11,715)</b>	<b>(10,540)</b>
<b>Total loss for the year attributable to:</b>		
Equity holders of the parent	(11,233)	(10,061)
Total	(11,233)	(10,061)
<b>Total comprehensive expense for the year attributable to:</b>		
Equity holders of the parent	(11,715)	(10,540)
Total	(11,715)	(10,540)
<b>Basic and diluted loss per share</b>	2015 Cents	2014 Cents
Basic and diluted loss per share	(8.5)	(11.5)

\* Support department costs of \$1.7m previously included in Cost of sales are now included in Operating expenses before highlighted items.

Consolidated Statement of Financial Position  
as at 31 December 2015

	2015 \$'000	2014 \$'000
<b>Assets</b>		
<b>Non-current assets</b>		
Goodwill	17,983	17,983
Acquired intangible assets	375	1,548
Capitalised development expenditure	7,620	8,624
Property, plant and equipment	893	1,175
Trade and other receivables	228	87
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	27,099	29,417
<b>Current assets</b>		
Inventories	661	749
Trade and other receivables	3,738	2,724
Cash and cash equivalents	2,706	6,036
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	7,105	9,509
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade and other payables	(2,551)	(2,362)
Borrowings	-	(20)
Deferred income	(3,791)	(4,055)
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	(6,342)	(6,437)
<b>Net current assets</b>		
	763	3,072
<b>Non-current liabilities</b>		
Deferred income	(1,439)	(1,570)
Deferred taxation	(85)	(467)
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	(1,524)	(2,037)
<b>Net assets</b>		
	<hr/>	<hr/>
	26,338	30,452
<b>Total equity attributable to owners of the parent</b>		
Ordinary share capital	2,573	1,804
Deferred share capital	-	7,051
Capital redemption reserve	7,051	-
Share premium	56,835	50,000
Share options reserve	282	285
Translation reserve	232	714
Retained earnings	(40,635)	(29,402)
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<b>Total equity</b>	26,338	30,452
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Consolidated Statement of Cash Flow  
for the year ended 31 December 2015

	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>		
Loss for the year	(11,233)	(10,061)
Adjustments for:		
Amortisation and impairment of acquired intangible assets	1,210	1,229
Amortisation of capitalised development expenditure	3,289	1,118
Depreciation	675	925
Finance income	(11)	(22)
Finance expense	20	24
Taxation	(382)	(358)
Share-based payment credit	(3)	(8)
Decrease /(increase) in inventories	88	(334)
(Increase)/decrease in trade and other receivables	(1,167)	893
(Decrease)/increase in payables	(168)	1,234
<b>Net cash from operating activities</b>	<b>(7,682)</b>	<b>(5,360)</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets	(37)	(142)
Capitalised development expenditure	(2,285)	(3,621)
Purchase of property, plant and equipment	(392)	(844)
<b>Net cash used in investing activities</b>	<b>(2,714)</b>	<b>(4,607)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from issue of ordinary share capital	7,604	6,964
Finance income	11	22
Finance expense	(20)	(24)
Repayment of credit facility	(20)	(236)
<b>Net cash from financing activities</b>	<b>7,575</b>	<b>6,726</b>
Effects of exchange rates on cash and cash equivalents	(509)	(498)
<b>Net decrease in cash and cash equivalents</b>	<b>(3,330)</b>	<b>(3,739)</b>
Cash and cash equivalents at 1 January	6,036	9,775
<b>Cash and cash equivalents at 31 December</b>	<b>2,706</b>	<b>6,036</b>

Consolidated Statement of Changes in Equity  
for the year ended 31 December 2015

	Share capital \$'000	Capital redemption reserve \$'000	Share premium account \$'000	Share options reserve \$'000	Translation reserve \$'000	Retained earnings \$'000	Total attributable to equity holders of the parent \$'000
<b>1 January 2014</b>	8,384	-	43,507	293	1,193	(19,341)	34,036
Loss for the year	-	-	-	-	-	(10,061)	(10,061)
Other comprehensive income	-	-	-	-	(479)	-	(479)
<b>Total comprehensive expense for the year</b>	-	-	-	-	(479)	(10,061)	(10,540)
<b>Contributions by and distributions to owners</b>							
Share-based payments	-	-	-	(8)	-	-	(8)
Issue of share capital	471	-	6,493	-	-	-	6,964
<b>Total contributions by and distributions to owners</b>	471	-	6,493	(8)	-	-	6,956
<b>31 December 2014</b>	8,855	-	50,000	285	714	(29,402)	30,452
Loss for the year	-	-	-	-	-	(11,233)	(11,233)
Other comprehensive income	-	-	-	-	(482)	-	(482)
<b>Total comprehensive expense for the year</b>	-	-	-	-	(482)	(11,233)	(11,715)
<b>Contributions by and distributions to owners</b>							
Share-based payments	-	-	-	(3)	-	-	(3)
Issue of share capital	769	-	6,835	-	-	-	7,604
Shares purchased for cancellation	(7,051)	7,051	-	-	-	-	-
<b>Total contributions by and distributions to owners</b>	(6,282)	7,051	6,835	(3)	-	-	7,601
<b>31 December 2015</b>	2,573	7,051	56,835	282	232	(40,635)	26,338



## 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 2015 was 1.53 (2014: 1.65). The closing \$-GBP exchange rate, used for the conversion of the Group’s assets and liabilities, at 31 December 2015 was 1.48 (2014: 1.56).

The principal accounting policies adopted in the preparation of the financial information in this preliminary announcement are unchanged from those used in the company’s financial statements for the year ended 31 December 2014 and are consistent with those that the company has applied in its financial statements for the year ended 31 December 2015. The financial information set out above does not constitute the Company’s Annual Report and Accounts for the year ended 31 December 2015. The Annual Report and Accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 will be delivered shortly. The auditor’s report for the Company’s 2015 Annual Report and Accounts was unqualified, did not draw attention to any matters by way of emphasis without qualifying their report 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 2015 are available on the Company’s website [www.corero.com](http://www.corero.com).

The information in this preliminary announcement was approved by the board on 20 April 2016.