



Interim Report H1 2021  
Corero Network Security plc



A Leader in real-time,  
high performance,  
automatic DDoS  
cyber defense solutions

# Corero is dedicated to improving the security and availability of the internet through the deployment of innovative Distributed Denial of Service (DDoS) protection solutions.

## DDoS Protection Without the Downtime

Corero is a leader in real-time, high-performance, automatic DDoS protection: on-premises, as-a-service and in the cloud, with comprehensive visibility, analytics and reporting.

We protect thousands of organisations worldwide, across many verticals. Our customers include corporate enterprises, network security providers, hosting and data centre providers, co-location providers, network edge providers, and managed security service providers.

We are deployed internationally in over 40 countries and, through our own teams and strategic partners, we are expanding our global footprint.

### Operational Highlights

- The demand for network security and protection against DDoS attacks continues to be reinforced and accelerate globally
- Record H1 2021 order intake, increasing by 13% to \$8.9 million (H1 2020: \$7.9 million)
- 20 new customer wins secured in the period (H1 2020: 18 new customer wins), eight of which originated through Corero's strategic partnership with Juniper Networks Inc. (H1 2020: five new Juniper customers)
- High levels of customer satisfaction and expansion of customer networks continue to result in higher follow-on orders of \$4.2 million for the period (H1 2020: \$3.0 million)
- Significant progress achieved in delivering the Group's growth strategy, including:
  - Continued investment in sales and marketing underpins global direct and channel sales efforts
  - Addition of agent, distributor and reseller relationships in more geographies
  - Recent customer wins which broaden the Company's international footprint and mark the entry into a number of new verticals
  - Strong momentum through strategic partnerships and progress towards securing new relationships
  - Targeted content creation for each stage of the buying cycle, amplifying demand generation programmes
  - A broadened software solution offering to address diverse customer needs



For more information visit  
[corero.com](https://corero.com)

# H1 2021 Highlights

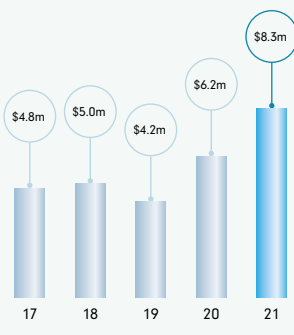
## Financial Highlights



### Order intake

**+13%**

increase over the prior half year



### Revenue

**+34%**

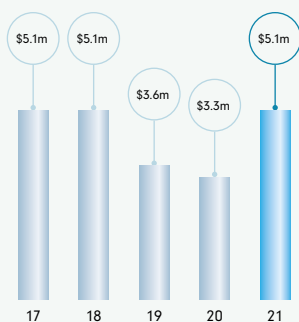
increase over the prior half year



### ARR<sup>1</sup>

**+27%**

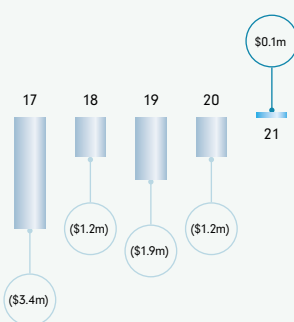
increase over the prior half year



### Net cash

**+55%**

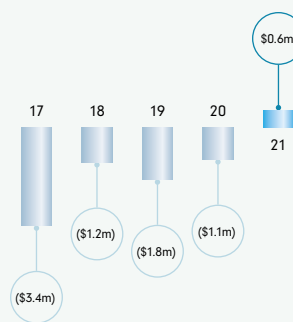
increase over the prior half year



### EBITDA<sup>2</sup>

**+108%**

increase over the prior half year loss



### Adjusted EBITDA<sup>3</sup> profit

**+155%**

increase over the prior half year loss

## Financial Summary

- Group revenue up 34% to \$8.3 million (H1 2020: \$6.2 million)
  - Growth across all key revenue categories: software subscription and appliance revenue, DDoS Protection as a Service ("DDPaS") and Maintenance and Support revenues
- Annualised Recurring Revenues<sup>1</sup> ("ARR") up 27% to \$11.2 million (H1 2020: \$8.8 million)
- Gross margin of 84% (H1 2020: 75%)
- EBITDA<sup>2</sup> profit of \$0.1 million (H1 2020: loss of \$1.2 million)
- Loss before taxation of \$1.2 million (H1 2020: loss of \$2.7 million)
- Loss per share of 0.3 cents (H1 2020: loss per share of 0.5 cents)
- Net cash at 30 June 2021 of \$5.1 million (30 June 2020: \$3.3 million; 31 Dec 2020: \$7.6 million)
- The Company entered into, in April 2021, a new borrowing facility for up to £3.0 million (c. \$4.1 million) with its existing banking partner, comprising a drawn £2.0 million term loan facility and an undrawn £1.0 million revolving credit facility

<sup>1</sup> Defined as the normalised annualised recurring revenue and includes recurring revenues from contract values of annual support, software subscription and from DDoS Protection-as-a-Service contracts

<sup>2</sup> Defined as Earnings before Interest, Taxation, Depreciation and Amortisation.



# DDoS Threat Landscape

## What is a DDoS attack?

A DDoS attack is a cyber threat, in which multiple computer systems or devices attack a target, such as a server, website or other network asset, and cause a denial of service for users of the targeted resources.

The flood of incoming messages, connection requests or malformed packets to the target system, causes it to slow down or shut down, thereby denying service to legitimate users or systems.

DDoS attacks are a threat to service availability, network security, brand reputation and ultimately lead to lost revenues. Attackers are continuing to leverage DDoS attacks as

part of their cyber threat arsenal to either disrupt business operations or provide a smokescreen while they attempt to access sensitive corporate information.

Attackers are leveraging increasingly creative ways to circumvent traditional security solutions or reduce the effectiveness of DDoS scrubbing centres. DDoS attacks can be found in a multitude of sizes and are launched for a variety of motivations. They may also be used to extort payments via Ransom DDoS. Today's cyber criminals do not even have to construct the attacks themselves, they can simply download DDoS malware or rent the botnet they need to accomplish their goal.

## What damage can a DDoS attack do?

High availability of Cloud services and applications are critical for modern businesses and institutions. Any DDoS downtime brings risk:

- Lost revenue or loss of control
- Operational costs to mitigate or recover from attacks
- Increased costs to retain unhappy customers and attract new customers
- Brand and reputation damage leading to competitive disadvantage or loss of confidence
- Regulatory fines, legal action, resignations

## Investor proposition



### Superior Performance

High performance, class leading solutions: real time effective DDoS protection and mitigation without disrupting or delaying legitimate network traffic



### Time to Market

Unlike some technology companies, we have that superior solution already developed

No development cycle with customers

On-going R&D investment reflects solution refresh and enhancements



### High growth markets

This increasingly inter-connected world grows faster and more complex with higher speed connections, the proliferation of IoT devices and the continued growth of cloud services

Corero market share leaves lots of headroom expansion opportunity



### Customer relationships

We enjoy high levels of trust with our customers which translates into high retention rates and long-term relationships

Our diverse customer base includes blue chip global customers

High annualised recurring revenues demonstrate such enduring relationships



### Proprietary Intellectual Property

In-house expertise and proprietary knowledge means we can innovate without significant outsourcing dependencies or royalty costs

Many engineer years of software development leveraged to expand feature set and pipeline



### Customer support and service

We provide high levels of customer support and service through our sales engineers, SOC and Operations Team

We can provide high levels of compatibility with customer indigenous equipment and systems

We have key relationships with other providers



### Scalability – organic and partners

Where appliances are employed for the software solution, manufacturing is outsourced so there are no in-house supply constraints

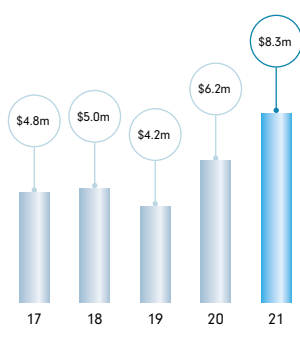
We have established and extensive global routes to market through our own direct sales force, agents, resellers, distributors, and strategic partnerships

# Interim Review



Lionel Chmielewsky, CEO

**“Building on a record year for Corero in 2020, I am pleased to report further progress in H1 2021, which demonstrates the Company’s strategic focus on its global sales and marketing efforts and positions us well for sustained future growth.”**



Revenue

**+34%**

increase over the prior half year

## Introduction

Building on a record year for Corero in 2020, I am pleased to report further positive progress in H1 2021, which demonstrates the Company’s strategic focus on its global sales and marketing efforts and positions us well for sustained future growth.

Corero revenues in the first half of 2021 were \$8.3 million (H1 2020: \$6.2 million), an increase of 34%. This solid performance was underpinned by the Group’s strong order intake, a record \$8.9 million in the period (H1 2020: \$7.9 million).

Recurring revenues, comprising revenues from security maintenance and support services and DDoS Protection-as-a-Service (“DDPaaS”) was 59% of total revenue, which was comparable to the prior half year (H1 2020: 61%), with DDPaaS revenues increasing to \$1.9 million (H1 2020: \$1.2 million). Annualised Recurring Revenues (“ARR”) as at 1 July 2021 increased to \$11.2 million, an increase of 27% (H1 2020: \$8.8 million), driven by growth in DDPaaS and software subscription orders. ARR is an important measure for the Group in providing visibility over future earnings.

EBITDA profit for the six months ended 30 June 2021 was \$0.1 million (H1 2020: loss of \$1.3 million). This positive milestone was achieved through a combination of increased revenues, higher gross margins at 84% in the first six months of 2021 (H1 2020: 75%) due to the effect of mix of business, controlled opex (including some lower operating costs resulting from Covid-19) and income from the forgiveness of a US Payment Protection Plan (PPP) loan of \$0.6 million (H1 2020: \$Nil), offset by exchange losses of \$0.2 million (H1 2020: \$0.8m exchange gain). After adjusting for other non-cash items of share-based payments, depreciation on DDPaaS assets (which Corero owns) and unrealised foreign exchange differences on an intercompany loan, the adjusted EBITDA profit was \$0.6 million (H1 2020: loss of \$1.1 million). The loss before taxation in the period more than halved to \$1.2 million (H1 2020: loss of \$2.7 million).

Working remotely due to the Covid-19 pandemic is largely becoming the new norm globally, with many enterprises adopting long-term flexible working policies. Alongside this expanded network usage, the number of opportunistic DDoS attacks is also increasing. We continue to respond to our customers’ ever-evolving needs with one of the broadest and diverse DDoS defense solution portfolios in the market.

During the first half of 2021, Corero added 20 new customers (H1 2020: 18), including eight through our global resale partnership with Juniper Networks (H1 2020: five new customers). We continue to strengthen relationships with all of our partners, with increased sales and support training, heightened interaction between management teams, and ongoing development in our joint marketing collateral and joint prospecting.

## Strategic update

Following the strategic management changes in 2020, we announced an enhanced strategy for the business focused on delivering sustainable growth. Set out below are our six core strategic drivers and the progress which we have achieved against each one during the first half of 2021.

- **Increasing our international presence:** recent customer wins across Australia, Germany, France, Japan, China, Brazil, Canada and the United States have broadened our international footprint. In addition, new business partners have been signed in international markets and our current pipeline includes further expansion in ten new countries
- **Leveraging existing strategic partnerships and adding new ones:** a good proportion of our recent deals have been through our channel partnerships and strategic alliances with Juniper Networks and GTT; and we continue to make progress in securing new partners

- **Intensifying our Global, Tier One and major accounts relationships:** customer wins have included significant global enterprises across a number of verticals such as utilities and research and educational networks. In 2021, existing large customers have also continued to expand their network using Corero's DDoS solutions to protect their infrastructure
- **Augmenting our services portfolio:** we continue to explore and provide service initiatives that enhance the protection and network security visibility for our customers
- **Amplifying our demand generation programmes:** we have been creating targeted content at each stage of the buying cycle, and within the key segments we serve. This includes increasing advertising, targeted, sector-specific email campaigns and virtual speaking engagements with Partners, amongst many other initiatives
- **Continuing to increase our technological innovation leadership:** further strengthened our portfolio of SmartWall products with major software releases including a new ETD (Edge Threat Defense) capability. The new ETD capability for SmartWall enables integrated scrubbing center deployments to protect against attacks accurately and automatically leading to a lower total cost of ownership for customers who prefer to use scrubbing center configurations

## Total addressable market and market drivers

Corero's key target market, cybersecurity and networking, is high-growth and the market for DDoS protection and mitigation was forecast in June last year by MarketsandMarkets to grow from \$2.4 billion in 2019 to \$4.7 billion in 2024 (a compound annual growth rate (CAGR) of 14.0% over the forecast period). Market drivers growth include a rise in multi-vector attacks, availability of DDoS-for-hire services, the impact of growth in IoT devices, the roll-out of 5G services, and growing demand for hybrid DDoS protection and mitigations services and solutions.

## Increasing competitive advantage

As DDoS attacks continue to grow in size, frequency and sophistication, they reinforce the need for scalable, accurate and automated DDoS mitigation solutions. Our mission to protect the increasing importance of our customers' internet facing networks and services drives our product roadmap. New network topologies including Cloud and Edge offer greenfield opportunities for innovative DDoS protection techniques. Corero has established itself as a pioneer in bringing real-time DDoS detection and mitigation into the Terabit era. Insights gained from observing millions of DDoS attacks via our SecureWatch service not only inform our customers but also serve to provide unique insights into what Corero should build next to stay at the forefront of our industry.

Supporting multiple deployment topologies, SmartWall utilises an always-on DDoS mitigation architecture to automatically, and surgically, remove just the DDoS attack traffic. Corero continues to invest in its market leading solutions through its research and development efforts, and its engineering and customer service teams.

## Financial summary

The Group reported revenues of \$8.3 million in the six months ended 30 June 2021 (H1 2020: \$6.2 million).

Total operating expenses were \$8.4 million (H1 2020: \$7.1 million), with the following components:

- Adjusted operating expenses, being those excluding depreciation and amortisation of intangible assets, increased to \$7.2 million (H1 2020: \$5.9 million), as a result of our increased investment in sales and marketing and engineering activity, and higher central overheads;
- Depreciation and amortisation of intangible assets of \$1.1 million (H1 2020: \$1.2 million); and,
- Capitalised R&D costs of \$0.9 million (H1 2020: \$0.7 million).

Other significant income statement movements included:

- Increased share-based payment costs of \$0.3 million (H1 2020: \$0.1 million); and
- \$0.6 million credit from the forgiveness of the PPP loan previously received by the Company's trading subsidiary under the US CARES Act (H1 2020: \$Nil); offset by a realised (trading) and unrealised (intercompany loan) total exchange loss of \$0.2 million (H1 2020: total exchange gain of \$0.8 million), an adverse variance of \$1.0 million between the two halves.

Loss before taxation was \$1.2 million (H1 2020: loss of \$2.7 million). Loss after taxation was \$1.2 million (H1 2020: \$2.6 million). The reported loss per share was 0.3 cents (H1 2020: loss per share 0.5 cents).

Gross cash at bank as at 30 June 2021 was \$8.8 million (30 June 2020: \$6.2 million; 31 Dec 2020: \$10.1 million) and borrowings were \$3.7 million (30 June 2020: \$2.9 million; 31 Dec 2020: \$2.5 million). Net cash as at 30 June 2021 was \$5.1 million (30 June 2020: \$3.3 million; 31 Dec 2020: \$7.6 million).

Net cash from operating activities before working capital in the first six months was a net reduction of \$0.1 million (H1 2020: net reduction of \$1.1 million), reflecting the reduced loss for the period and the forgiveness of the PPP loan of \$0.6 million; before the forgiveness, cash from operating activities would have registered an inflow of \$0.5 million. There was a decrease in working capital in the half of \$1.8 million (H1 2020: working capital increase of \$0.4 million), following an unwind of a supplier commitment position associated with a large customer contract at the year end. Net cash used in investing activities included sustained investment in R&D of \$0.9 million (H1 2020: \$0.7 million spend), and capex investment lower at \$0.2 million (H1 2020: \$0.6 million). Net proceeds from borrowings less repayments were \$1.9 million, reflecting the new drawn borrowing facility negotiated in April 2021. Overall, the decrease in cash and cash equivalents for the half was \$1.3 million (H1 2020: decrease of \$2.1 million).

## Outlook

The long-term market dynamics for DDoS mitigation reinforces the technological superiority, cost-effectiveness and efficacy of Corero's solutions more than ever. The ongoing impact of Covid-19 continues to drive working from home and network traffic flows. The superior total cost of ownership (TCO) performance of our SmartWall platform and our continued investment in R&D (of 21% of our revenue in the first half) positions our solution well with our current and prospective customers.

Our increased investment in sales and marketing as well as the development of our partner and channel strategy enables us to have a greater coverage of the market, with our solutions now deployed in more than 40 countries. We have recently announced that we are strengthening our sales organisation and introducing a new go-to-market configuration with the plan to hire three senior sales executives in North America, in Rest of the World and for Channel Sales to drive further growth.

We continue to be vigilant of the economic ramifications of the on-going global pandemic and semiconductor supply chain shortages. Nevertheless, based on our first half performance and solid pipeline, we expect trading for the full year 2021 to be in-line with expectations and remain of the view that Corero is well-placed for further growth in the medium and long term.

**Lionel Chmielewsky**

**Chief Executive Officer**

13 September 2021



# Condensed Consolidated Income Statement

for the six months ended 30 June 2021

|   | Unaudited<br>six months ended<br>30 June 2021<br>\$'000 | Unaudited<br>six months ended<br>30 June 2020<br>\$'000 | Audited<br>year ended<br>31 December 2020<br>\$'000 |
|---|---|---|---|
| <b>Continuing operations</b>  |   |   |   |
| <b>Revenue</b>  | 8,298   | 6,238   | 16,877  |
| Cost of sales   | (1,364)   | (1,559)   | (3,832)   |
| <b>Gross profit</b>   | 6,934   | 4,679   | 13,045  |
| Operating expenses  | (8,356)   | (7,098)   | (16,431)  |
| Consisting of:  |   |   |   |
| Operating expenses before depreciation and amortisation   | (7,234)   | (5,895)   | (14,114)  |
| Depreciation and amortisation of intangible assets  | (1,122)   | (1,203)   | (2,317)   |
| <b>Loss from operations</b>   | (1,422)   | (2,419)   | (3,386)   |
| Share-based payments  | (265)   | (128)   | (359)   |
| <b>Operating loss</b>   | (1,687)   | (2,547)   | (3,745)   |
| Other income  | 637   | -   | -   |
| Finance income  | 1   | 14  | 16  |
| Finance costs   | (182)   | (164)   | (301)   |
| <b>Loss before taxation</b>   | (1,231)   | (2,697)   | (4,030)   |
| Taxation credit   | -   | 122   | 246   |
| <b>Loss after taxation</b>  | (1,231)   | (2,575)   | (3,784)   |
| <b>Loss after taxation attributable to equity owners of the parent</b>  | (1,231)   | (2,575)   | (3,784)   |
| <b>Basic and diluted loss per share</b>   | <b>Cents</b>  | <b>Cents</b>  | <b>Cents</b>  |
| Basic and diluted loss per share  | (0.3)   | (0.5)   | (0.8)   |
| EBITDA <sup>1</sup>   | 72  | (1,345)   | (1,428)   |
| Adjusted EBITDA - for DDaaS depreciation  | 254   | (1,242)   | (1,173)   |
| Adjusted EBITDA - for DDaaS depreciation and share based payments <sup>1</sup>  | 519   | (1,114)   | (814)   |
| Adjusted EBITDA - for DDaaS depreciation, share based payments and unrealised foreign exchange differences on intercompany loan - Fully adjusted basis <sup>1</sup> | 609   | (1,657)   | (551)   |

<sup>1</sup> See note 6 for definition and reconciliation.



# Condensed Consolidated Statement of Total Comprehensive Income

for the six months ended 30 June 2021

|   | Unaudited<br>six months ended<br>30 June 2021<br>\$'000 | Unaudited<br>six months ended<br>30 June 2020<br>\$'000 | Audited<br>year ended<br>31 December 2020<br>\$'000 |
|---|---|---|---|
| <b>Loss for the period</b>  | (1,231)   | (2,575)   | (3,784)   |
| <b>Other comprehensive income/(expense):</b>  |   |   |   |
| Items reclassified subsequently to profit or loss upon derecognition:   |   |   |   |
| Foreign exchange differences  | 91  | (689)   | 216   |
| Other comprehensive income/(expense) for the period net of taxation attributable to the equity owners of the parent | 91  | (689)   | 216   |
| <b>Total comprehensive expense for the period attributable to the equity owners of the parent</b>                   | (1,140)   | (3,264)   | (3,568)   |

# Condensed Consolidated Statement of Financial Position

as at 30 June 2021

|   | Unaudited<br>as at<br>30 June 2021<br>\$'000 | Unaudited<br>as at<br>30 June 2020<br>\$'000 | Audited<br>as at<br>31 December 2020<br>\$'000 |
|---|--|--|--|
| <b>Assets</b>   |  |  |  |
| <b>Non-current assets</b>   |  |  |  |
| Goodwill  | 8,991  | 8,991  | 8,991  |
| Acquired intangible assets  | 7  | 5  | 9  |
| Capitalised development expenditure   | 4,640  | 4,870  | 4,646  |
| Property, plant and equipment – owned assets                                | 1,015  | 1,000  | 1,099  |
| Leased right of use assets  | 186  | 295  | 237  |
| Long term trade and other receivables                                       | 833  | 518  | 694  |
|   | 15,672                                       | 15,679                                       | 15,676   |
| <b>Current assets</b>   |  |  |  |
| Inventories   | 79   | 145  | 98   |
| Trade and other receivables   | 3,193  | 2,386  | 3,714  |
| Cash and cash equivalents   | 8,830  | 6,220  | 10,140   |
|   | 12,102                                       | 8,751  | 13,952   |
| <b>Total assets</b>   | <b>27,774</b>                                | <b>24,430</b>                                | <b>29,628</b>                                  |
| <b>Liabilities</b>  |  |  |  |
| <b>Current Liabilities</b>  |  |  |  |
| Trade and other payables  | (3,428)                                      | (2,665)                                      | (6,461)  |
| Lease liabilities   | (88)   | (99)   | (86)   |
| Deferred income   | (4,163)                                      | (3,214)                                      | (3,444)  |
| Borrowings  | (1,839)                                      | (1,468)                                      | (2,073)  |
|   | (9,518)                                      | (7,446)                                      | (12,064)                                       |
| <b>Net current assets</b>   | <b>2,584</b>                                 | <b>1,305</b>                                 | <b>1,888</b>                                   |
| <b>Non-current liabilities</b>  |  |  |  |
| Trade and other payables  | (326)  | (130)  | (402)  |
| Lease liabilities   | (126)  | (214)  | (171)  |
| Deferred income   | (2,869)                                      | (1,277)                                      | (2,705)  |
| Borrowings  | (1,929)                                      | (1,409)                                      | (405)  |
|   | (5,250)                                      | (3,030)                                      | (3,683)  |
| <b>Net assets</b>   | <b>13,006</b>                                | <b>13,954</b>                                | <b>13,881</b>                                  |
| <b>Capital and reserves attributable to the equity owners of the parent</b> |  |  |  |
| Share capital   | 6,914  | 6,914  | 6,914  |
| Share premium   | 82,122                                       | 82,122                                       | 82,122   |
| Capital redemption reserve  | 7,051  | 7,051  | 7,051  |
| Share options reserve   | 1,233  | 737  | 968  |
| Foreign exchange translation reserve  | (1,293)                                      | (2,289)                                      | (1,384)  |
| Accumulated profit and loss reserve   | (83,021)                                     | (80,581)                                     | (81,790)                                       |
| <b>Total shareholders' equity</b>   | <b>13,006</b>                                | <b>13,954</b>                                | <b>13,881</b>                                  |

# Consolidated Interim Statement of Cash Flows

for the six month period ended 30 June 2021

|   | Unaudited six months<br>ended 30 June<br>2021<br>\$'000 | Unaudited six months<br>ended 30 June<br>2020<br>\$'000 | Audited year ended 31<br>December<br>2020<br>\$'000 |
|---|---|---|---|
| <b>Operating activities</b>   |   |   |   |
| Loss before taxation for the period   | (1,231)   | (2,697)   | (4,030)   |
| <i>Adjustments for movements:</i>   |   |   |   |
| Amortisation of acquired intangible assets                                  | 2   | 2   | 6   |
| Amortisation of capitalised development expenditure                         | 944   | 1,013   | 1,933   |
| Depreciation – owned assets   | 307   | 231   | 514   |
| Depreciation – leased assets  | 51  | 59  | 119   |
| Finance income  | (1)   | (14)  | (16)  |
| Finance expense   | 172   | 149   | 274   |
| Finance lease interest costs  | 10  | 15  | 27  |
| Share based payments expense  | 265   | 128   | 359   |
| Forgiveness of PPP loan   | (637)   | -   | -   |
| <b>Cash used in operating activities before movement in working capital</b> | <b>(118)</b>  | <b>(1,114)</b>  | <b>(814)</b>  |
| <i>Movement in working capital:</i>   |   |   |   |
| Decrease in inventories and sales evaluation assets                         | 32  | 25  | 45  |
| Decrease/(increase) in trade and other receivables                          | 533   | (1,118)   | (1,187)   |
| (Decrease)/increase in trade and other payables                             | (2,332)   | 1,454   | 6,852   |
| <b>Net movement in working capital</b>                                      | <b>(1,767)</b>  | <b>361</b>  | <b>5,710</b>  |
| <b>Cash (used in)/generated from operating activities</b>                   | <b>(1,885)</b>  | <b>(753)</b>  | <b>4,896</b>  |
| Taxation received   | -   | 122   | 246   |
| <b>Net cash (used in)/generated from operating activities</b>               | <b>(1,885)</b>  | <b>(631)</b>  | <b>5,142</b>  |
| <b>Cash flows from investing activities</b>                                 |   |   |   |
| Purchase of intangible assets   | -   | -   | (8)   |
| Investment in development expenditure                                       | (938)   | (714)   | (1,410)   |
| Purchase of property, plant and equipment                                   | (234)   | (647)   | (1,015)   |
| <b>Net cash used in investing activities</b>                                | <b>(1,172)</b>  | <b>(1,361)</b>  | <b>(2,413)</b>                                      |
| <b>Cash flows from financing activities</b>                                 |   |   |   |
| Net proceeds from borrowings (after costs)                                  | 2,683   | 637   | 637   |
| Finance income  | 1   | 14  | 16  |
| Lease liability payments  | (48)  | (68)  | (136)   |
| Finance expense   | (109)   | (115)   | (206)   |
| Repayments of borrowings  | (759)   | (534)   | (1,187)   |
| <b>Net cash generated from/(used in) financing activities</b>               | <b>1,768</b>  | <b>(66)</b>   | <b>(876)</b>  |
| <b>(Decrease)/increase in cash and cash equivalents</b>                     | <b>(1,289)</b>  | <b>(2,058)</b>  | <b>1,833</b>  |
| Effects of exchange rates on cash and cash equivalents                      | (21)  | (43)  | (14)  |
| Cash and cash equivalents at 1 January                                      | 10,140  | 8,321   | 8,321   |
| <b>Cash and cash equivalents at balance sheet dates</b>                     | <b>8,830</b>  | <b>6,220</b>  | <b>10,140</b>                                       |

# Consolidated Interim Statement of Changes in Equity

for the six month period ended 30 June 2021

|   | Share<br>capital<br>\$'000 | Share<br>premium<br>\$'000 | Capital<br>redemption<br>reserve<br>\$'000 | Share<br>options<br>reserve<br>\$'000 | Foreign<br>exchange<br>translation<br>reserve<br>\$'000 | Accumulated<br>profit and<br>loss reserve<br>\$'000 | Total<br>attributable<br>to equity<br>owners of<br>the parent<br>\$'000 |
|---|----------------------------|----------------------------|--|---------------------------------------|---|---|---|
| <b>1 January 2020</b>                                     | 6,914                      | 82,122                     | 7,051                                      | 609                                   | (1,600)   | (78,006)  | 17,090  |
| Loss for the period                                       | -                          | -                          | -  | -                                     | -   | (2,575)   | (2,575)   |
| Other comprehensive expense                               | -                          | -                          | -  | -                                     | (689)   | -   | (689)   |
| <b>Total comprehensive expense for the period</b>         | -                          | -                          | -  | -                                     | (689)   | (2,575)   | (3,264)   |
| <b>Contributions by and distributions to owners</b>       |                            |                            |  |                                       |   |   |   |
| Share based payments                                      | -                          | -                          | -  | 128                                   | -   | -   | 128   |
| <b>Total contributions by and distributions to owners</b> | -                          | -                          | -  | 128                                   | -   | -   | 128   |
| <b>30 June 2020</b>                                       | 6,914                      | 82,122                     | 7,051                                      | 737                                   | (2,289)   | (80,581)  | 13,954  |
| Loss for the period                                       | -                          | -                          | -  | -                                     | -   | (1,209)   | (1,209)   |
| Other comprehensive expense                               | -                          | -                          | -  | -                                     | 905   | -   | 905   |
| <b>Total comprehensive expense for the period</b>         | -                          | -                          | -  | -                                     | 905   | (1,209)   | (304)   |
| <b>Contributions by and distributions to owners</b>       |                            |                            |  |                                       |   |   |   |
| Share based payments                                      | -                          | -                          | -  | 231                                   | -   | -   | 231   |
| <b>Total contributions by and distributions to owners</b> | -                          | -                          | -  | 231                                   | -   | -   | 231   |
| <b>31 December 2020 and 1 January 2021</b>                | 6,914                      | 82,122                     | 7,051                                      | 968                                   | (1,384)   | (81,790)  | 13,881  |
| Loss for the period                                       | -                          | -                          | -  | -                                     | -   | (1,231)   | (1,231)   |
| Other comprehensive expense                               | -                          | -                          | -  | -                                     | 91  | -   | 91  |
| <b>Total comprehensive expense for the period</b>         | -                          | -                          | -  | -                                     | 91  | (1,231)   | (1,140)   |
| <b>Contributions by and distributions to owners</b>       |                            |                            |  |                                       |   |   |   |
| Share based payments                                      | -                          | -                          | -  | 265                                   | -   | -   | 265   |
| <b>Total contributions by and distributions to owners</b> | -                          | -                          | -  | 265                                   | -   | -   | 265   |
| <b>30 June 2021</b>                                       | 6,914                      | 82,122                     | 7,051                                      | 1,233                                 | (1,293)   | (83,021)  | 13,006  |



# Notes to the interim Financial Statements

## 1. General information and basis of preparation

Corero Network Security plc (the “Company”) is a company domiciled in England. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2021 comprise the Company and its subsidiaries (together referred to as the “Group”).

These condensed interim consolidated financial statements have been prepared in accordance with UK-adopted IAS 34, “Interim Financial Reporting”. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Annual Report and Accounts for the year ending 31 December 2020 (“2020 Annual Report and Accounts”). The financial information for the half years ended 30 June 2021 and 30 June 2020 do not constitute statutory accounts within the meaning of Section 434(3) of the Companies Act 2006 and have neither been audited nor reviewed by the Group Auditor.

The annual financial statements of Corero Network Security plc are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The comparative financial information for the year ended 31 December 2020 included within this report does not constitute the full statutory accounts for that period. The statutory Annual Report and Financial Statements for 2020 have been filed with the Registrar of Companies. The Independent Auditors’ Report on the Annual Report and Accounts for 2020 was unqualified, drew attention to a material uncertainty relating to going concern and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. Subsequent to the United Kingdom’s exit from the European Union on 31 December 2020, the Group has transitioned from International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) to UK-adopted international accounting standards. The transition has had no material impact on previously reported numbers.

The consolidated financial statements have been prepared on a going concern basis as the Directors believe, based on internal forecasts and cash flow projections, that the current sales prospects, combined with the Group’s existing cash resources should ensure that the Group has adequate working capital to service its existing business and meet debt repayments for the foreseeable future. However, the ability of the Company and Group to achieve the future profit and cash flow projections cannot be predicted with certainty. Failure of the Company and the Group to meet these projections may adversely impact the achievability of the bank loan covenants which may result in the bank loan being required to be repaid before the maturity date if the covenants are not met and cannot be renegotiated.

There have been no related party transactions or changes in related party transactions described in the latest Annual Report and Accounts that could have a material effect on the financial position or performance of the Group in the first six months of the financial year.

These consolidated interim financial statements were approved by the Board on 13 September 2021 and approved for issue on 14 September 2021.

A copy of this Interim Report can be viewed on the company’s website: [www.corero.com](http://www.corero.com).

## 2. Significant accounting policies

The basis of preparation and accounting policies used in preparation of these interim financial statements have been prepared in accordance with the same accounting policies set out in the 2020 Annual Report and Accounts.

# Notes to the interim Financial Statements continued

## 3. Segment reporting and revenue

The Group is managed according to one business unit, Corero Network Security, which makes up the Group's reportable operating segment. This business unit forms the basis on which the Group reports its primary segment information to the Board, which management consider to be the Chief Operating Decision maker for the purposes of IFRS 8 Operating Segments. Consequently, there are no separable 'other segmental information' not otherwise showed in these Condensed Consolidated Financial statements.

The Group's revenues from external customers are divided into the following geographies:

|              | Unaudited<br>six months ended<br>30 June 2021<br>\$'000 | Unaudited<br>six months ended<br>30 June 2020<br>\$'000 | Audited<br>year ended<br>31 December 2020<br>\$'000 |
|--------------|---|---|---|
| The Americas | 5,858   | 4,687   | 10,988  |
| EMEA         | 1,158   | 1,485   | 4,501   |
| APAC         | 1,282   | 66  | 1,388   |
| <b>Total</b> | <b>8,298</b>  | <b>6,238</b>  | <b>16,877</b>                                       |

Revenues from external customers are identified by invoicing systems and adjusted to take into account the difference between invoiced amounts and deferred revenue adjustments as required by IFRS accounting standards.

The revenue is analysed for each revenue category as:

|  | Unaudited<br>six months ended<br>30 June 2021<br>\$'000 | Unaudited<br>six months ended<br>30 June 2020<br>\$'000 | Audited<br>year ended<br>31 December 2020<br>\$'000 |
|--|---|---|---|
| Software licence and appliance revenue   | 3,373   | 2,405   | 8,446   |
| DDoS Protection-as-a-Service revenue     | 1,904   | 1,189   | 2,876   |
| Maintenance and support services revenue | 3,021   | 2,644   | 5,555   |
| <b>Total</b>                             | <b>8,298</b>  | <b>6,238</b>  | <b>16,877</b>                                       |

The revenue is analysed by timing of delivery of goods or services as:

|                        | Unaudited<br>six months ended<br>30 June 2021<br>\$'000 | Unaudited<br>six months ended<br>30 June 2020<br>\$'000 | Audited<br>year ended<br>31 December 2020<br>\$'000 |
|------------------------|---|---|---|
| Point-in-time delivery | 3,373   | 2,405   | 8,446   |
| Over time              | 4,925   | 3,833   | 8,431   |
| <b>Total</b>           | <b>8,298</b>  | <b>6,238</b>  | <b>16,877</b>                                       |

## 4. Taxation

The Group is currently loss making and consequently does not recognise a material taxation income tax expense or credit. The tax receipt(s) in the prior periods relates to research and development expenditure tax credit(s).

## 5. Earnings per share

Loss per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The effects of anti-dilutive ordinary shares resulting from the exercise of share options are excluded from the calculation of the loss per share. Therefore, the diluted loss per share is equal to the loss per share.

|                                  | 30 June 2021<br>loss<br>\$'000 | 30 June 2021<br>weighted average<br>number of 1p shares<br>Thousand | 30 June 2021<br>loss per share<br>Cents | 30 June 2020<br>loss<br>\$'000 | 30 June 2020<br>weighted average<br>number of 1p shares<br>Thousand | 30 June 2020<br>loss per share<br>Cents |
|----------------------------------|--------------------------------|---|---|--------------------------------|---|---|
| Basic and diluted loss per share | (1,231)                        | 494,852   | (0.3)                                   | (2,583)                        | 494,852   | (0.5)                                   |

|                                  | 31 Dec 2020<br>loss<br>\$'000 | 31 Dec 2020<br>weighted average<br>number of 1p shares<br>Thousand | 31 Dec 2020<br>loss per share<br>Cents |
|----------------------------------|-------------------------------|--|--|
| Basic and diluted loss per share | (3,784)                       | 494,852  | (0.8)                                  |

## 6. Key performance measures

### EBITDA and Fully Adjusted EBITDA

Earnings before interest, tax, depreciation, and amortisation ("EBITDA") is defined as earnings from operations before all interest, tax, depreciation, and amortisation charges. The following is a reconciliation of EBITDA and further adjustments for all three periods presented:

|  | Unaudited<br>six months ended<br>30 June 2021<br>\$'000 | Unaudited<br>six months ended<br>30 June 2020<br>\$'000 | Audited<br>year ended<br>31 December 2020<br>\$'000 |
|--|---|---|---|
| <b>Loss before taxation</b>  | (1,231)   | (2,697)   | (4,030)   |
| Adjustments for:   |   |   |   |
| Finance income   | (1)   | (14)  | (16)  |
| Finance expense  | 172   | 149   | 274   |
| Finance lease interest costs   | 10  | 15  | 27  |
| Depreciation – owned assets  | 125   | 128   | 259   |
| Depreciation – lease liabilities   | 51  | 59  | 119   |
| Amortisation of acquired intangible assets   | 2   | 2   | 6   |
| Amortisation of capitalised development expenditure  | 944   | 1,013   | 1,933   |
| <b>EBITDA</b>  | 72  | (1,345)   | (1,428)   |
| Depreciation of DDoS Protection-as-a-Service assets charged to cost of sales   | 182   | 103   | 255   |
| <b>Adjusted EBITDA - for DDPaaS depreciation</b>   | 254   | (1,242)   | (1,173)   |
| Share based payments   | 265   | 128   | 359   |
| <b>Adjusted EBITDA – for DDPaaS depreciation and share based payments</b>  | 519   | (1,114)   | (814)   |
| Unrealised foreign exchange differences on intercompany loan   | 90  | (543)   | 263   |
| <b>Adjusted EBITDA - for DDPaaS depreciation, share based payments and unrealised foreign exchange differences on intercompany loan – Fully adjusted basis</b> | 609   | (1,657)   | (551)   |

The EBITDA and Adjusted EBITDA measures above include the credit from the forgiveness of the Paycheck Protection Program Loan (see note 7) in respect of H1 2021 (H1 2020: \$Nil).

# Notes to the interim Financial Statements continued

## 7. Analysis of changes in net cash (cash and cash equivalents, and borrowings)

|   | As at<br>1 Jan 2020<br>\$'000 | Movement<br>in period<br>\$'000 | As at<br>30 June 2020<br>\$'000 | Movement<br>in period<br>\$'000 | As at<br>1 Jan 2021<br>\$'000 | Movement<br>in period<br>\$'000 | As at<br>30 June 2021<br>\$'000 |
|---|-------------------------------|---------------------------------|---------------------------------|---------------------------------|-------------------------------|---------------------------------|---------------------------------|
| Cash and cash equivalents                       | 8,321                         | (2,101)                         | 6,220                           | 3,920                           | 10,140                        | (1,310)                         | 8,830                           |
| Bank borrowings                                 | (2,937)                       | 697                             | (2,240)                         | 399                             | (1,841)                       | (1,927)                         | (3,768)                         |
| Paycheck Protection<br>Program Loan (see below) | -                             | (637)                           | (637)                           | -                               | (637)                         | 637                             | -                               |
| <b>Total net cash</b>                           | <b>5,384</b>                  | <b>(2,041)</b>                  | <b>3,343</b>                    | <b>4,319</b>                    | <b>7,662</b>                  | <b>(2,600)</b>                  | <b>5,062</b>                    |

The movement in the period is a combination of the actual flow (from operating, financing and investing activities) and the exchange rate movement.

### Paycheck Protection Program Loan (PPP Loan)

Notification of the PPP loan forgiveness in full was received from Pacific Western Bank on 28th January 2021. The forgiveness of the PPP loan is a non-cash movement.

### New borrowing facility

The Company announced in April 2021 it had entered into a new borrowing facility for up to £3.0 million (c\$4.2 million) with its existing banking partner, the net proceeds of which will be used for working capital purposes and its on-going investment programme to support its growth strategy.

The new borrowings facility comprises a drawn £2.0 million term loan facility and an undrawn £1.0 million Revolving Credit Facility ('RCF') for a three-year term. The facility terms include: no early repayment penalties or redemption premium; a reduced interest rate (payable quarterly) at 6.5% per annum over the Bank of England base rate (before any potential downward EBITDA margin ratchet adjustment); 2.6% interest per annum on the RCF; arrangement fee of 3.75%; and standard security and loan covenants in line with the existing lending arrangement (which will continue to be repaid in the period to March 2022).



# Corporate Directory

## Company Secretary and Registered Office

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## Nominated Adviser and Broker

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