

Corero Network Security plc
("Corero", "Company" and together with its subsidiaries the "Group")

Full year results

Corero Network Security plc (AIM: CNS), announces its audited results for the year ended 31 December 2019.

Financial Highlights:

- Group revenue of \$9.7 million (2018: \$10.0 million)
 - 60.7% of revenue was recurring¹ (2018: 51.1%)
- EBITDA² loss of \$2.8 million (2018: loss \$2.1 million)
- Adjusted operating expenses³ were \$10.7 million (2018: \$9.9 million)
- Loss before tax of \$6.6 million (2018: loss of \$5.2 million)
- Loss per share of 1.6 cents (2018: loss per share of 1.4 cents)
- Successful equity fundraise in December 2019 of \$4.0 million (net of costs)
 - Including \$1.4 million additional investment from Juniper Networks (NYSE: JNPR)
- Strong balance sheet with net cash at 31 December 2019 of \$5.4 million (2018: \$4.4 million)

Operating Highlights:

- Order intake of \$13.0 million increased 18.0% over 2018 (2018: \$11.1 million)
- Significant increase in the mix of DDoS protection as a service ("DDPaaS") recurring revenue orders, improving earnings visibility for the Group
 - 32% of new business orders in 2019 (2018: 7%)
 - 118% increase in revenue from the Company's partnership with GTT Communications
- Strong order momentum during H2 2019
 - 18 new customers added in 2019, with 12 in H2
 - Six new Juniper customer orders in 2019, with five in H2 highlighting strength of partnership
- High levels of customer satisfaction demonstrated by:
 - Services renewal rates of 98.8% (2018: 98.5%)
 - Follow-on orders from existing customers of \$5.7 million (2018: \$4.3 million)
- Progress in strategic investment in sales function with headcount doubling since the start of 2019 and a new VP Worldwide Sales appointed in June 2019
- New partnership secured with a leading cloud DDoS service provider to deliver hybrid DDoS protection
 - Facilitated Corero's largest DDPaaS order to date in Q4 2019

Outlook

- Strong sales order momentum in the second half of 2019, combined with higher levels of recurring revenue and a strong new business pipeline, provide Corero with solid foundations for 2020
- A significant proportion of Corero's business (67% of the order intake for the year ended 31 December 2019) is generated from telecommunication service and cloud providers, markets which are anticipated to benefit from the shift to work-from-home as a result of the COVID-19 pandemic

COVID-19

- Remote working across the Group is fully operational worldwide with the health and wellbeing of Corero's workforce being of the utmost importance

- The Company is closely monitoring its supply chain for the supply and delivery of hardware appliances to our customers, with no material impact experienced to-date
- The Company continues to monitor the situation very closely and will provide updates as and when appropriate

Ashley Stephenson, CEO of Corero, commented:

"Corero made significant progress in 2019 in both enhancing our operational platform alongside generating strong sales momentum. This included securing higher levels of recurring revenues, which is central in establishing a more robust business model with more consistent revenue visibility."

"In addition, following the December 2019 fundraising, we are expanding our routes to market, investing in talent and broadening our sales coverage."

"Whilst the current macroeconomic climate is impacted as a result of COVID-19, we remain confident in the long term resilience of our business, the importance of our SmartWall solutions across our key telecommunication and cloud provider markets, and our ability to support our global customer base during what is a challenging period for everyone."

Enquiries:

Corero Network Security plc

Andrew Miller, CFO

Tel: 01895 876 382

Cenkos Securities plc

Ben Jeynes / Mark Connelly – NOMAD
Michael Johnson – Sales

Tel: 020 7397 8900

Vigo Communications

Jeremy Garcia / Ben Simons / Antonia Pollock
corero@vigocomms.com

Tel: 020 7390 0230

About Corero Network Security

Corero Network Security is a leader in real-time, high-performance DDoS defense solutions. Service providers, hosting providers and digital 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 industry leading technology provides cost effective, scalable protection capabilities 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

Operational review

Introduction

2019 was another period of strategic progress for Corero. Revenue for the year was \$9.7 million (2018: \$10.0 million) impacted by a higher mix of DDoS protection as a service ("DDPaaS") long-term contract orders in 2019, the revenue for which is recognised over the term of the contract (typically 3 years). Recurring revenue¹ increased to 60.7% of total revenue versus 51.1% in the prior year providing the Group with greater levels of revenue visibility.

Adjusted operating expenses³ were \$10.7 million (2018: \$9.9 million), the increase in the year was due to an increased share options charge, lower capitalised development costs and lower research and development government funding. The EBITDA² loss for the year was \$2.8 million (2018: loss \$2.1 million).

The loss for the year reflects the continuing investment in Corero's technology, sales and marketing activities. Management is focused on delivering revenue growth, adding new customers, and targeting the Group being EBITDA positive and cash generative.

The Board has established a clear strategic path, which has underpinned our progress during the year and is demonstrated by the strong growth in H2 2019 order intake (up 62% over H1 2019). The Company remains focused on being the number one player in real-time, high-performance, automatic DDoS attack protection, on-premises and in the cloud; delivering above market revenue growth; and becoming profitable and cash generating.

Pleasingly, Corero made good operational progress during 2019, delivering against our strategic objectives, which are to:

Scale the business and secure more DDoS protection orders

- Strong H2 2019 bookings growth delivered a 62% increase over H1 2019 (36% over H2 2018)
- Juniper global resale partnership delivered six deals in 2019 (2018: 0) with five of those deals secured in H2 2019 and a strong partnership pipeline going into 2020
- GTT relationship - exited 2019 with a recurring revenue growth rate of 300% over 2018

Invest in sales and marketing

- Appointed VP Worldwide Sales in June 2019 to drive direct and indirect sales efforts
- Sales team investment plan progress
- Senior Marketing Director appointed
- New website launched in December 2019 to support sales effort

Maintain competitive advantage

- Delivered major new SmartWall portfolio software releases to customers and partners

Focus on customer satisfaction

- Follow-on orders from existing customers up 35.0% versus 2018 to \$5.7 million
- Market-leading services renewal rate of 98.8% (2018: 98.5%)

DDoS market dynamics

Organisations across the globe remain dependent on the internet as a means to conduct business and deliver their services to other enterprises and consumers alike.

This increasingly connected world grows faster and more complex each year with higher speed connections, the proliferation of IoT devices, the build-out of 5G and the continued growth of cloud services. Simultaneously, DDoS attacks have become more sophisticated, more frequent, and significantly larger. Whilst unlawful in many countries, DDoS-for-hire services are still commonplace and inexpensive.

Internet resilience can be compromised in a fraction of a second. When the internet goes down, organisations that rely on that service go down with it. DDoS attacks are considered one of the most common and serious threats to internet availability today. Downtime or latency can significantly impact brand reputation, customer trust and revenue. Within Europe, the introduction of the GDPR and NIS legislation have significantly increased the risk of punitive fines.

Long considered the domain of cyber geeks and their friends, DDoS attacks are no longer the straightforward phenomenon they once were. Increasingly DDoS attacks are used as smokescreens to cover more nefarious activities aimed at business, financial institutions and governments – with additional damage potentially occurring simultaneously elsewhere in the network whilst IT teams are busy trying to prevent the DDoS attack.

To keep up with the growing sophistication of well-equipped and well-funded threat actors, it is essential that organisations maintain comprehensive visibility and automated mitigation capabilities across their networks in order to detect and block any potential DDoS attacks as they arise.

When unprotected businesses are hit by a cyber-attack, the financial losses can be severe – from immediate crisis expenses and subsequent regulatory fines to longer-term, knock-on costs such as those related to reputational damage, a fall in share price or downgrading of their credit rating.

Building cyber resilience within an organisation is crucial to heading off cyber threats – but it is a more complex task than ever. In the event of a cyber-attack, a well-prepared and practiced coherent response strategy can mean the difference between an organisation holding its nerve or going into meltdown.

These market dynamics and double-digit growth forecast by analysts for DDoS protection, give us confidence that there is a significant durable market opportunity for Corero to address with our market leading SmartWall solutions.

Opportunities for Corero

Looking at 2020 and beyond, dependence on the internet shows no signs of abating as a platform for continued innovation in both business and service delivery models.

Given the global impact of COVID-19, and the substantial rise in home or remote working across businesses, society's reliance on being digitally connected has never been more relevant. Cyber security, and by definition Corero's solutions, is fast becoming one the single most important IT provisions.

More generally, advances in mobile communication, autonomous vehicles, artificial intelligence (AI), machine learning-based services and the as-yet-unknown next generation "Apps" to the ubiquitous connection of every "thing" to the internet, there is no indication that cyber threats will diminish, or that denial of service will lose its potency as one of the weapons of choice for cyber-criminals.

Corero intends to continue its path of innovation and growth whilst continuing to provide market leading solutions to secure its customers from the threat of DDoS attacks.

Financial Summary

The Group reported revenues of \$9.7 million (2018: \$10.0 million) during 2019, with total operating expenses of \$14.1 million (2018: \$12.7 million).

- Operating expenses net of capitalised R&D costs and before depreciation and amortisation of intangible assets were \$11.0 million (2018: \$9.4 million). Capitalised R&D costs were \$1.4 million (2018: \$1.7 million).
- Operating expenses include an unrealised exchange loss of \$0.3 million (2018: gain of \$0.4 million) arising from an intercompany loan.
- Depreciation and amortisation of intangible assets was \$3.0 million (2018: \$3.3 million).

Losses before taxation were \$6.6 million (2018: loss \$5.2 million) including amortisation of capitalised R&D of \$2.6 million (2018: \$2.9 million). The reported loss per share was 1.6 cents (2018: loss per share 1.4 cents). The 2019 losses increased primarily due to an increase in operating expenses, as noted above, to \$10.7 million (2018: \$9.9 million).

Corero had net cash of \$5.4 million at 31 December 2019 (2018: \$4.4 million), comprising:

- Cash at bank of \$8.3 million as at 31 December 2019 (2018: \$8.0 million), having raised \$4.0 million (after costs) in December 2019 from an equity placing and subscription.
- Debt of \$2.9 million (2018: \$3.6 million).

The net cash used in operating activities in the year ended 31 December 2019 was \$0.6 million (2018: net cash used \$1.8 million) reflecting the loss for the year and decrease in working capital investment in the period of \$2.2 million (2018: increase in working capital investment of \$0.3 million).

2020 Growth Priorities

With a strategic path set, and the significant progress in 2019, the Company remains committed to delivering on the following key strategic priorities:

Aggressively scale the business to further capitalise on the growing DDoS market

- Increase market share by leveraging our routes to market
- Grow revenue through go-to-market partners such as Juniper, GTT and Neustar
- Secure more distributor and reseller channel partners
- Establish additional go-to-market partner relationships

Further investment in sales and marketing

- Implement account-based marketing for key Corero customer verticals
- Target larger opportunities by allocating additional resources
- Optimise lead generation spend with a combination of third party and in-house resources

Maintain competitive advantage through R&D and further product innovation

- Continue to innovate and launch new SmartWall portfolio software releases
- Deliver new DDoS appliance configuration options to track evolving market demand

Ongoing customer relationship management

- Continue to leverage demand from existing customers to add capacity to their DDoS mitigation deployments as their businesses grow
- Sustain focus on delivering world class services and support by being proactive and responsive to customers

Outlook

The global COVID-19 pandemic has brought uncertainty globally in the wake of which we continue to be focused on remaining highly visible to our customers to support their ongoing requirements. Whilst we have not to date seen any significant short-term impact on the provision of our products and services, and the sector within which we operate, we are of course aware of the negative impact the pandemic is likely to have on our end-customers. The Board therefore continues to monitor the situation very closely.

Our strong sales order momentum achieved in the second half of 2019, combined with our higher levels of recurring revenue and growing new business pipeline, provide Corero with solid foundations for 2020.

¹ Recurring revenue comprises maintenance, support services and SaaS recognised revenue

² EBITDA loss is defined as loss before depreciation excluding DDoS protection as-a-service assets depreciation which is charged to cost of sales, amortisation, financing, tax and unrealised foreign exchange differences on an intercompany loan

³ Adjusted operating expenses is defined as costs before depreciation excluding DDoS protection as-a-service assets depreciation which is charged to cost of sales, amortisation, financing, tax and unrealised foreign exchange differences on an intercompany loan

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	Total 2019 \$'000	Total 2018 \$'000
Revenue	9,714	9,951
Cost of sales	(1,842)	(2,188)
Gross profit	7,872	7,763
Operating expenses before highlighted items	(11,032)	(9,427)
Depreciation and amortisation of intangible assets	(3,041)	(3,300)
Operating expenses	(14,073)	(12,727)
Operating loss	(6,201)	(4,964)
Finance income	15	9
Finance costs	(375)	(268)
Loss before taxation	(6,561)	(5,223)
Taxation	–	–
Loss for the year	(6,561)	(5,223)
Other comprehensive expense		
Items that will or may be reclassified to profit and loss: Difference on translation of UK functional currency entities	429	(711)
Total comprehensive expense for the year	(6,132)	(5,934)
Total loss for the year attributable to:	(6,561)	(5,223)
Equity holders of the parent	(6,561)	(5,223)
Total		
Total comprehensive expense for the year attributable to:		
Equity holders of the parent	(6,132)	(5,934)
Total	(6,132)	(5,934)

Consolidated Statement of Financial Position
as at 31 December 2019

	Total 2019 \$'000	Total 2018 \$'000
Assets		
Non-current assets		
Goodwill	8,991	8,991
Acquired intangible assets	7	14
Capitalised development expenditure	5,169	6,447
Property, plant and equipment	1,009	611
Trade and other receivables	307	227
	15,483	16,290
Current assets		
Inventories	63	125
Trade and other receivables	2,572	2,977
Cash and cash equivalents	8,321	8,026
	10,956	11,128
Liabilities		
Current Liabilities		
Trade and other payables	(2,008)	(1,799)
Lease liabilities	(112)	-
Borrowings	(1,149)	(849)
Deferred income	(2,800)	(2,034)
	(6,069)	(4,682)
Net current assets	4,887	6,446
Non-current liabilities		
Trade and other payables	(139)	(134)
Lease liabilities	(257)	-
Borrowings	(1,788)	(2,757)
Deferred income	(1,096)	(846)
	(3,280)	(3,737)
Net assets	17,090	18,999
Total equity attributable to owners of the parent		
Ordinary share capital	6,914	5,740
Capital redemption reserve	7,051	7,051
Share premium	82,122	79,338
Share options reserve	609	344
Translation reserve	(1,600)	(2,029)

Retained earnings	(78,006)	(71,445)
Total equity	17,090	18,999

Consolidated Statement of Cash Flow
for the year ended 31 December 2019

	Total 2019 \$'000	Total 2018 \$'000
Loss for the year	(6,561)	(5,223)
Adjustments for non-cash movements:		
Amortisation of acquired intangible assets	13	23
Amortisation and impairment of capitalised development expenditure	2,638	2,918
Depreciation	515	483
Finance income	(15)	(9)
Finance expense	375	268
Taxation	-	-
Share-based payment charge	268	22
Decrease in inventories and as-a-service-assets	153	100
Decrease/(increase) in trade and other receivables	937	(701)
Increase in payables	1,126	293
Net cash used in operating activities	(551)	(1,826)
Cash flows from investing activities		
Purchase of intangible assets	(6)	-
Capitalised development expenditure	(1,360)	(1,701)
Purchase of property, plant and equipment	(579)	(459)
Net cash used in investing activities	(1,945)	(2,160)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	3,958	7,283
Net proceeds from borrowings	-	3,938
Finance income	15	9
Finance expense	(296)	(222)
Lease payments	(74)	-
Loan capital repayments	(856)	-
Net cash generated from financing activities	2,747	11,008
Effects of exchange rates on cash and cash equivalents	44	(361)
Net increase/(decrease) in cash and cash equivalents	295	6,661
Cash and cash equivalents at 1 January	8,026	1,365
Cash and cash equivalents at 31 December	8,321	8,026

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

	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
1 January 2018	4,556	7,051	73,239	322	(1,318)	(66,222)	17,628
Loss for the year	-	-	-	-	-	(5,223)	(5,223)
Other comprehensive loss	-	-	-	-	(711)	-	(711)
Total comprehensive expense for the year	-	-	-	-	(711)	(5,223)	(5,934)
Contributions by and distributions to owners							
Share-based payments	-	-	-	22	-	-	22
Issue of share capital	1,184	-	6,099	-	-	-	7,283
Total contributions by and distributions to owners	1,184	-	6,099	22	-	-	7,305
31 December 2018 and 1 January 2019	5,740	7,051	79,338	344	(2,029)	(71,445)	18,999
Loss for the year	-	-	-	-	-	(6,561)	(6,561)
Other comprehensive income	-	-	-	-	429	-	429
Total comprehensive expense for the year	-	-	-	-	429	(6,561)	(6,132)
Contributions by and distributions to owners							
Share-based payments	-	-	-	265	-	-	265
Issue of share capital	1,174	-	2,784	-	-	-	3,958
Total contributions by and distributions to owners	1,174	-	2,784	265	-	-	4,223
31 December 2019	6,914	7,051	82,122	609	(1,600)	(78,006)	17,090

1. General information

These consolidated financial statements are presented in US Dollars ("USD") 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 2019 was 1.28 (2018: 1.33). The closing \$-GBP exchange rate, used for the conversion of the Group's assets and liabilities, at 31 December 2019 was 1.33 (2017: 1.28).

The principal accounting policies adopted in the preparation of the financial information in this results announcement are consistent with those that the Company has applied in its financial statements for the year ended 31 December 2018 apart from new standards which give rise to a change in the Group's accounting policies comprising IFRS16 Leases.

The financial information set out above does not constitute the Company's Annual Report and Accounts for the year ended 31 December 2019. The Annual Report and Accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered shortly. The auditor's report for the Company's 2019 Annual Report and Accounts was unqualified but did draw attention to the material uncertainty relating to going concern.

The Directors are, based on detailed financial projections, of the opinion that the Group and Company has adequate working capital to continue as a going concern for the foreseeable future and, in particular, for a period of at least 12 months from the date of approval of this announcement. The financial projections take into account the operational progress made by the Company over the past year and future opportunities.

However, the ability of the Company and Group to achieve the future profit and cash flow projections cannot be predicted with certainty. Additionally, the potential impact of the COVID-19 global pandemic on the business of the Company and Group is uncertain.

Failure of the Company and the Group to meet these projections and deliver revenue growth 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 revenue and cash consumption covenants are not met and cannot be renegotiated. This would adversely impact the Company and the Group's working capital position and would require the Company to raise additional funding, with no guarantee such funding would be secured.

These circumstances indicate a material uncertainty that may cast significant doubt on the Company and the Group's ability to continue as a going concern for the foreseeable future. However, although the Directors are confident, based on the forecast assumptions and information available at the present time, that the Company and Group will achieve the forecasts, they consider if it becomes necessary that the covenants could be renegotiated or further funds raised, and have therefore concluded that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

The auditor's report did not contain statements under s498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this results announcement has been prepared 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 2019 are available on the Company's website www.corero.com/who-we-are/investor-relations.

The information in this results announcement was approved by the board on 3 April 2020.