



**Scott A. Graeff, President and CEO**

*2019 Shareholder Meeting*

*May 14<sup>th</sup> , 2019*

# Safe harbor

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

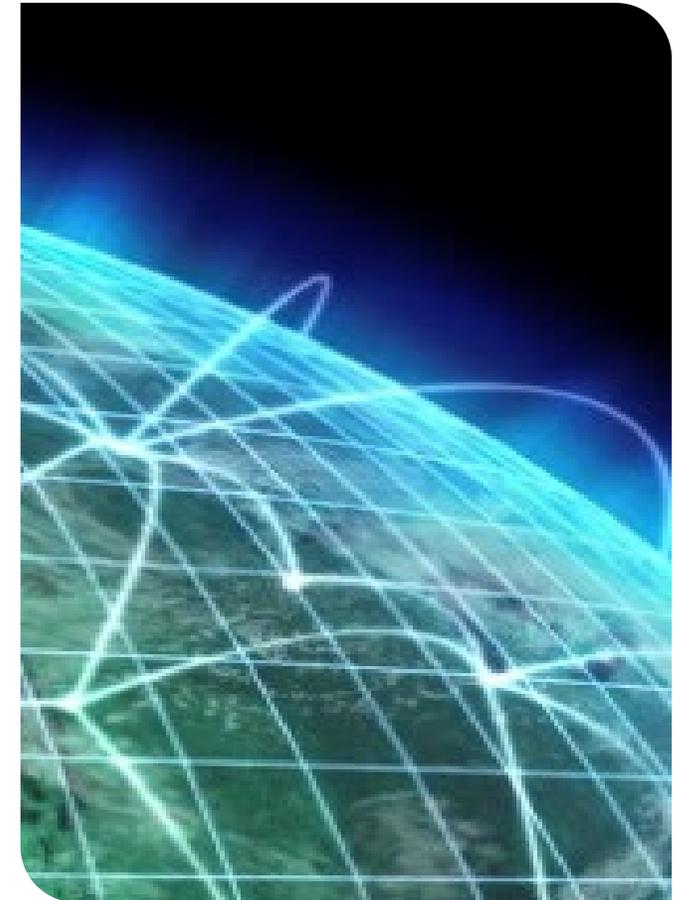
This presentation and Q&A includes information that constitutes “forward-looking statements” made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. These statements include the company's expectations regarding the company's future financial performance and the potential demand for the company's products. Management cautions the reader that these forward-looking statements are only predictions and are subject to a number of both known and unknown risks and uncertainties, and actual results, performance, and/or achievements of the company may differ materially from the future results, performance, and/or achievements expressed or implied by these forward-looking statements as a result of a number of factors. These factors include, without limitation, failure of demand for the company's products and services to meet expectations, technological challenges and those risks and uncertainties set forth in the company's periodic reports and other filings with the Securities and Exchange Commission ("SEC"). Such filings are available on the SEC's website at [www.sec.gov](http://www.sec.gov) and on the company's website at [www.lunainc.com](http://www.lunainc.com). The statements made in this presentation are based on information available to Luna as of the date of this presentation and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

## Non-GAAP Financial Measures

In addition to U.S. GAAP financial information, this presentation includes Adjusted EBITDA, a non-GAAP financial measure. This non-GAAP financial measure is in addition to, and not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP.

# Luna is a global company providing innovative products and solutions using proprietary fiber optic technologies

<b>Incorporated</b>	1990
<b>IPO</b>	2006 (NASDAQ: LUNA)
<b>Reporting segments</b>	<ul style="list-style-type: none"><li>▪ Technology Development</li><li>▪ Products &amp; Licensing</li></ul>
<b>Revenue</b>	FY18 Actual \$42.9M FY19 Guidance* \$60-\$65M
<b>AEBITDA</b>	FY18 Actual \$3.9M FY19 Guidance* \$6-\$6.5M
<b>HDQ</b>	Roanoke, VA
<b>Employees</b>	260+, including leading engineers, scientists, innovators



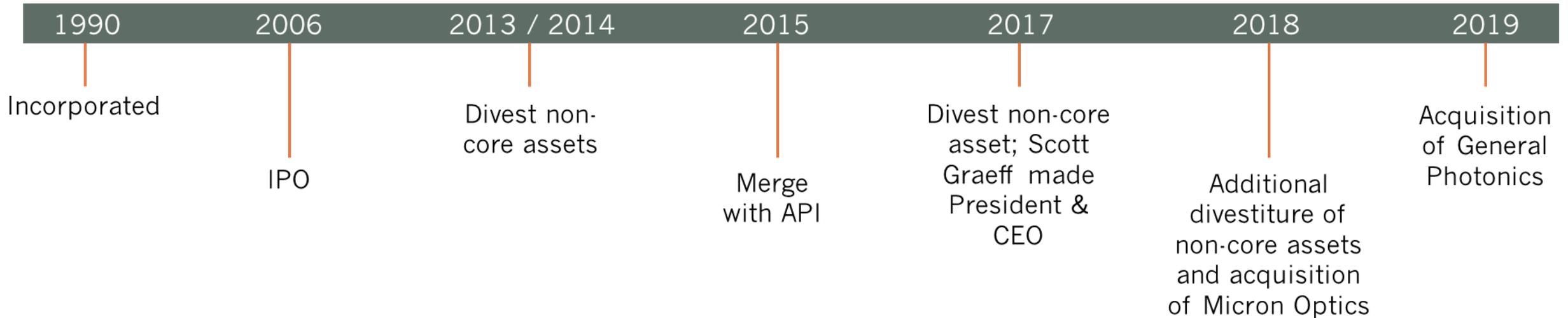
\* Guidance included from 3/4/2019 earnings call and reaffirmed on the 5/8/2019 earnings call for ease of reference.

# Luna has a clear vision and established history

## Vision

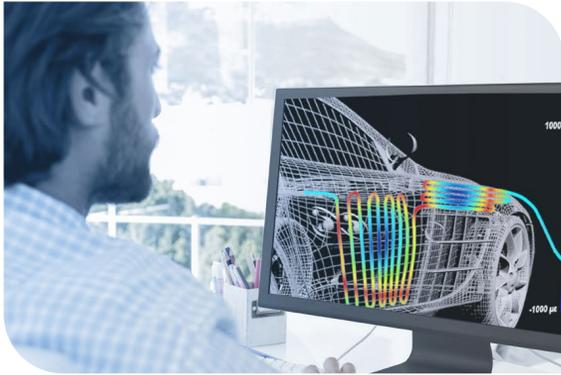
*To be a leader in optical measurement technology that improves accuracy and precision, while reducing risk and cost, all to power growth and value for our global customers.*

## History



# Accelerating our technology is bringing new and innovative products to market

## Lightwave Division



### Structural & Material Test and Process Control

High-definition distributed sensing and high-precision gauging not available using conventional measurement technologies



### Communications Test & Measurement

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

## Technology Development Division



### Contract Research

Cutting-edge, disruptive technologies enabled by highly leverageable, third-party funded research

# Structural & Material Test and Process Control

# ODiSI Series (Optical Distributed Sensing Interrogator)



*Full scale structural test of Boeing 787  
ODiSI used to measure strain distribution in composite materials*

- High-Definition Fiber Optic Sensing
  - Measuring strain and temperature in composites and other advanced materials
  - Focus on aerospace and automotive

# Hyperion Platform

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*Hong Kong-Zhuhai-Macau Bridge – outfitted with 13 Hyperion systems for structural monitoring*

- High-Speed, Long Range FBG Sensing
  - Measuring strain, temperature, acceleration, displacement and pressure
  - Focus on structural health and security
    - Buildings, tunnels, bridges
    - Perimeter fencing

# Terahertz Technology

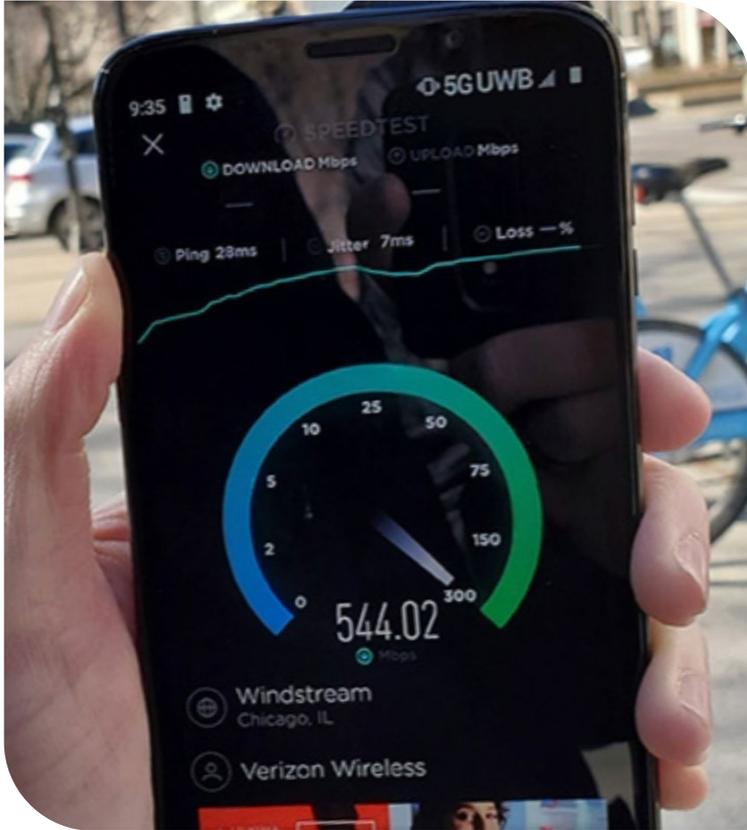


*THz technology is used to ensure consistent layer thickness in high volume production of plastic food packaging*

- Process control, inspection and non-destructive testing
  - Advanced technology to perform unique measurements unavailable from existing instrumentation
  - Unique measurement of composites and coatings with easy to use hand-held tools
  - Focus on manufacturing environments and hand-held version used in final inspection
    - Lockheed Martin
    - Plastic packaging

# Communications Test & Measurement

# OVA Platform (Optical Vector Analyzer)



*544Mbps 5G wireless signal 10x faster than 4G.  
OVA enables the high speed fiber network behind this.*

- Optical component development and manufacturing
  - Silicon photonics is creating demands for advanced test solutions
  - Reduces time and cost associated with the development of high-speed optical components
  - Focus on enabling the carriers to move to 5G networks

# OBR Platform (Optical Backscatter Reflectometer)



*Data Centers enable 'cloud computing' – the OBR helps diagnose fiber networks to ensure uptime.*

- Fiber and short network test
  - Bandwidth demands continue to drive double-digit connectivity growth
  - Delivers unprecedented visibility into short-haul networks
  - Focus on enabling the carriers to move to 5G networks

# General Photonics instruments, modules and components

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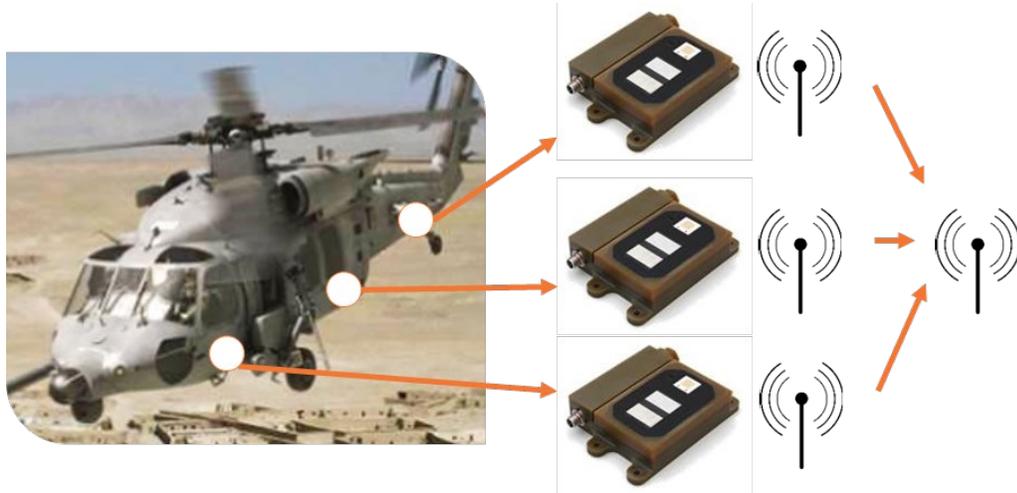


*Modern high-speed networks require precise measurement and control*

- Optical measurement & control technologies
  - Enhancing optical systems and network through the precision control of light
  - Additional polarization products that are used in the data communication environment
  - Tremendous synergy with existing customers

# Contract Research

# Corrosion Sensors and TrueClot



- Development funded by contract research
  - Create practical solutions for defense, first-responder and healthcare professionals that save time, save money and save lives
- Corrosion testing
  - The Navy concluded that they would save more than 250,000 maintenance hours per year for a fleet of 200 helicopters
- Blood simulant
  - Working with hospital networks and first responders

# Recent Highlights

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- Acquisition of General Photonics
- \$6M+ purchase order for Phoenix 1000 Tunable Lasers
  - Received from industry-leading robotics company
  - Delivered over four years
- Recognized as 2019 Innovator of the Year
  - Presented by the Roanoke-Blacksburg Technology Council
  - Recognizes organizations that set standard for thought leadership and innovation
  - Represents major technological breakthrough and addresses significant market opportunity
- Introduced Luna 6415 Lightwave Analyzer
  - Newest product in Comms Test segment
  - Provides robust, easy-to-use measurements for development and manufacturing of modern high-speed optical components and networks

# Stock performance



- Executed strategy; refocus on core, fiber-optic based technologies
- Sixth consecutive quarter of year-over-year, double-digit revenue growth from continuing operations
- Return to profitability
- Good steward of capital
- Increase key OEMs

What has driven recent stock performance?

# Financial Overview

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# Full-year 2018 Financial Results

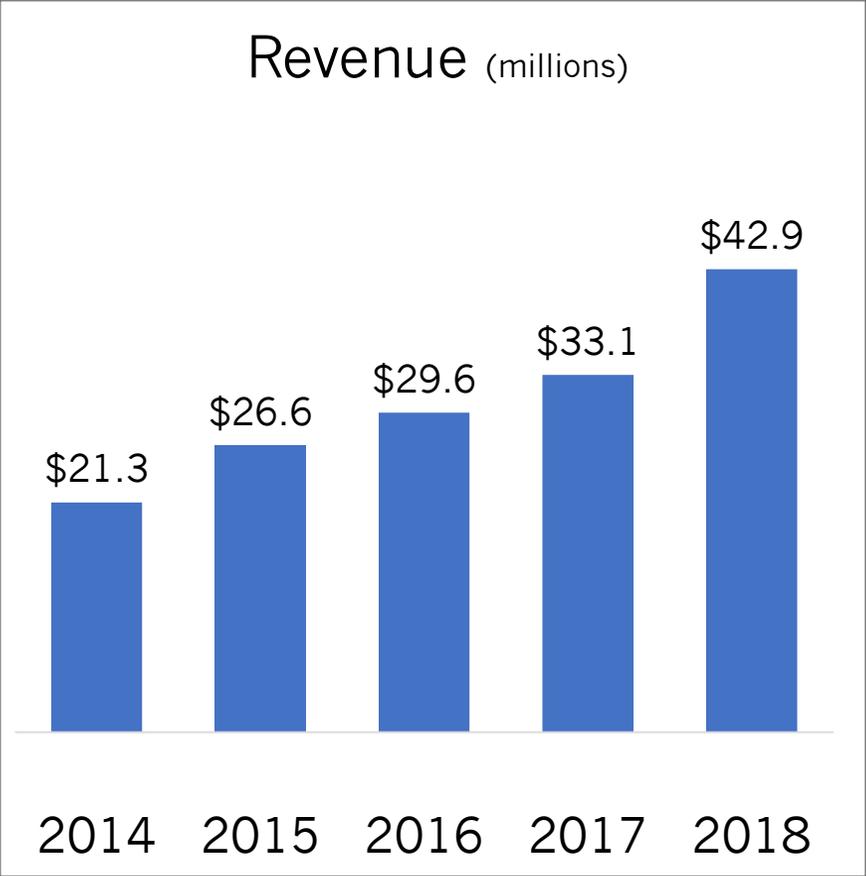
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- Strong, consistent top- and bottom-line growth throughout the year
- Total revenues of \$42.9M FY18, up 30% vs FY17
- \$2.5M improvement in net income from continuing operations
  - \$1.2M for FY18 vs a loss of \$(1.3M) for FY17
- Adjusted EBITDA<sup>1</sup> \$3.0M for FY18, compared to \$0.3M for the prior-year period
- Net income attributable to common stockholders was \$10.7M

<sup>1</sup>Adj EBITDA is a non-GAAP measure.

# Strong Trajectory of Growth with Momentum Going into 2019

Twelve months ended December 31:



■ Double-digit revenue growth year-over-year

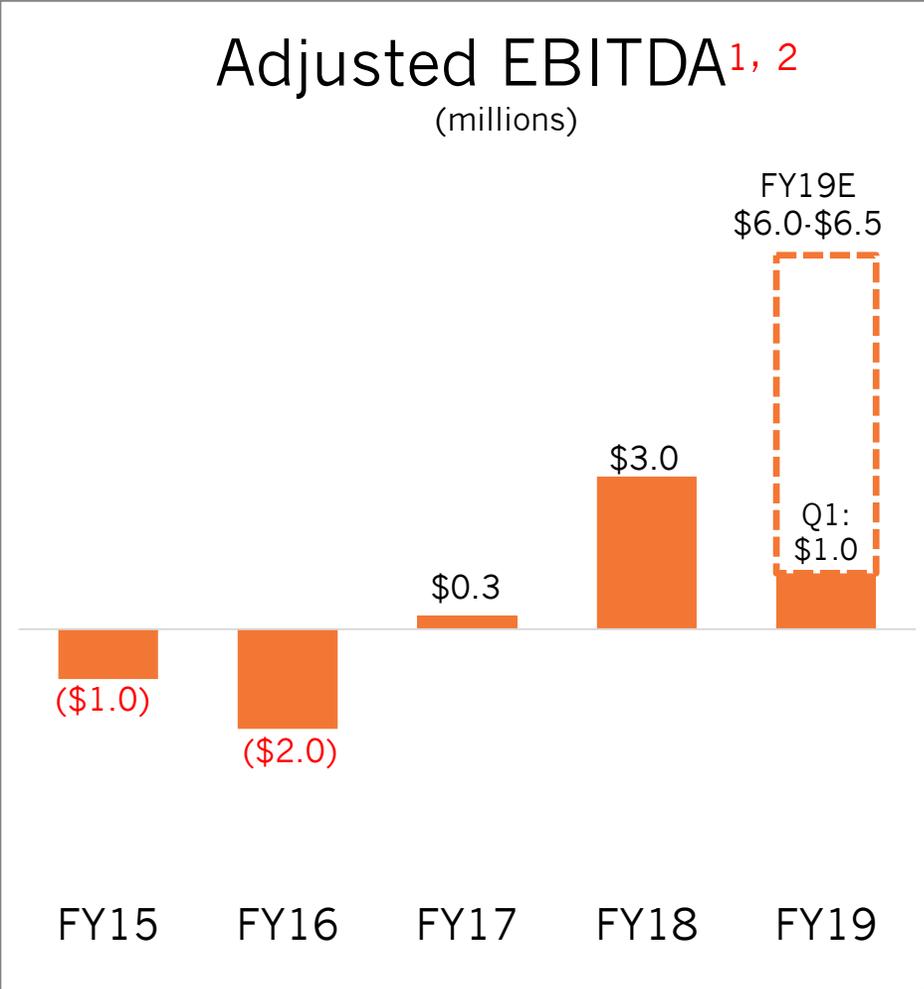
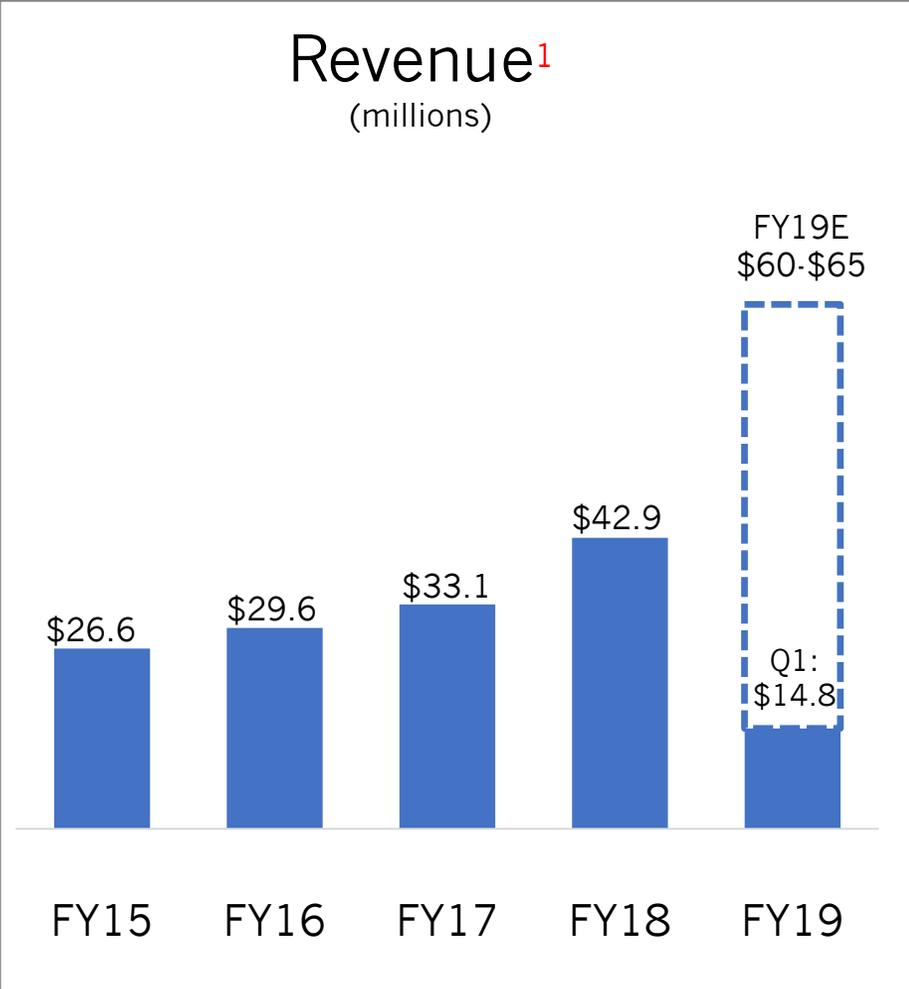
# First-quarter 2019 Financial Results

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- Continued strong financial performance
- Total revenues of \$14.8M, up 69% year-over-year:
  - Products and licensing revenue of \$8.2M, up 98% year-over-year
  - Technology development revenue of \$6.6M, up 43% year-over-year
- Net Income was \$1.0 million, or \$0.03 per fully diluted share
  - \$100k, or \$0.00 per fully diluted share, in Q1 2018
- Adjusted EBITDA<sup>1</sup> improved to \$1.0 million
  - Loss of \$(100k) in Q1 2018
- Reaffirm FY19 outlook:
  - Total revenues of \$60M to \$65M
  - Adjusted EBITDA of \$6.0M to \$6.5M

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

# Strong Start to 2019



■ Q1FY19 performance continues the operational and financial growth of the prior fiscal years.

<sup>1</sup> Based on management's estimates as of May. 8, 2019 of the impact from the divestiture of Optoelectronics. Includes the acquisitions of Micron Optics and General Photonics.

<sup>2</sup>Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation.

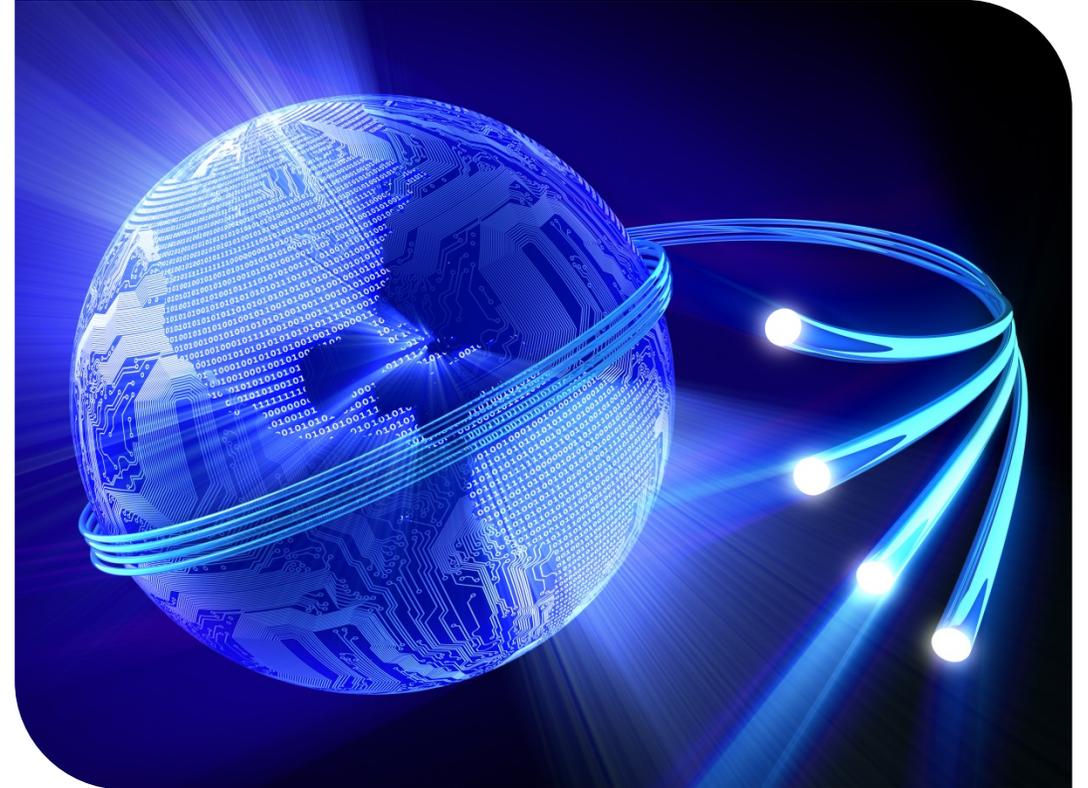
# A Flexible Balance Sheet and Strong Cash Position

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- Balance sheet on March 31, 2019:
  - \$83.6M in total assets
    - \$24.6M in cash and cash equivalents
    - \$37.9M in working capital
- Focus on working capital and reinvestment in business in order to generate long-term sustainable growth

# Why Invest in Luna?

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



# Questions?



# Appendix



# Reconciliation of Net Income to Adjusted EBITDA: First-Quarter

	<u>Three Months Ended March 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>(unaudited)</u>	
Net income	\$ 1,125,879	\$ 148,676
Less income from discontinued operations, net of income tax	—	420,754
Net income/(loss) from continuing operations	1,125,879	(272,078)
Interest expense	11,187	40,647
Investment income	(171,225)	(75,912)
Tax benefit	(1,865,147)	(76,967)
Depreciation and amortization	617,309	237,365
EBITDA	(281,997)	(146,945)
Share-based compensation	342,765	94,606
Non-recurring charges <sup>1</sup>	898,042	—
Adjusted EBITDA	<u>\$ 958,810</u>	<u>\$ (52,339)</u>

<sup>1</sup> Non-recurring charges consist of transaction-related expenses incurred during the quarter ended March 31, 2019, related to the acquisition of General Photonics.

# Reconciliation of Net Income to Adjusted EBITDA: Full Fiscal Year

	For the year ended December 31,			
	2015	2016	2017	2018
	(Unaudited)			
Net income	\$ 2,317,026	\$ (2,369,492)	\$ 14,614,905	\$ 11,004,241
Less Income from disc ops	8,718,103	1,538,624	15,865,720	9,766,431
Net income from continuing ops	(6,401,077)	(3,908,116)	(1,250,815)	1,237,810
Interest expense	218,233	316,975	217,352	124,344
Investment income	-	-	-	(549,580)
Tax provision	(470,605)	(135,567)	(1,148,579)	47,818
Depreciation and amortization	843,636	905,956	1,136,729	908,347
EBITDA	(5,809,813)	(2,820,752)	(1,045,313)	1,768,739
Share based compensation	1,124,379	860,215	715,094	527,189
Non-recurring charges <sup>1</sup>	3,704,019	-	595,992	751,102
Adjusted EBITDA	\$ (981,415)	\$ (1,960,537)	\$ 265,773	\$ 3,047,030

<sup>1</sup> Non-recurring charges include the following:

2015: Transaction-related expenses associated with the acquisition of Advanced Photonix, Inc.

2017: CEO separation costs and other share-based compensation

2018: Transaction related expenses associated with the acquisition of Micron Optics, Inc.