



A Letter to our Shareholders

As I sat down to write this year's letter, I noted how dramatically the world has changed since I became CEO of Luna over five years ago. When I stepped into the role and worked with our board to establish a five-year vision and strategic plan, we never could have envisioned a global pandemic and the impact on supply chains and business overall, ChatGPT introducing the world to the potential benefits and dangers of AI, radical changes in geopolitics and many other macro trends both positive and negative. Despite these disruptions, 2022 was a transformational year for Luna – one that positions us as a global fiber optics leader and one that sets us up well for significant growth in 2023 and beyond.



Scott A. Graeff, President & CEO

Strategic Achievement

Of particular note, we are incredibly proud to have delivered against our five-year strategic plan. As part of our focus to establish Luna as a pure-play fiber optics company and align ourselves with secular trends, we:

- Divested Luna Labs, a portfolio optimization allows us to focus purely on our superior and proprietary fiber-optic capabilities.
- Added LIOS to our strategic portfolio offering. The LIOS set of assets was one that broadened our European footprint and one we knew would put us in a position to lead the market in fiber optic-based sensing solutions for infrastructure, energy, and industrial applications.
- Focused on refining integration, advancing company culture, and optimizing operations across global locations. Through this work, we formulated a more holistic view of the company and ensured that our team understood and embraced our vision and culture, understood our approach, and had a clear line of sight to their role in serving our customers with excellence.
- Increased efficiencies and prepared the company for significant scalability.

Capital Allocation and Long-term Shareholder Value

While we advanced our operational execution, we also maintained a key element of Luna's strategy: capital allocation. We believe that a strong capital base, along with a willingness to deploy that capital in a prudent, focused and disciplined manner, is essential to the creation of long-term shareholder value. I am proud of the work we've done to fund the important acquisitions completed as part of our strategic execution, as well as important internal investments in people, platforms and processes, largely through operating cash flow. Our balance sheet, working capital and access to capital all remain strong.

Return on Investment

This year's investments in infrastructure and systems were foundational to our ability to continue to drive both organic and acquisitive growth. Our added capabilities from recent acquisitions have positioned us for a strong future in large and expanding vertical markets. We are headed into 2023 with intense focus on -- and high expectations for -- significant customer wins and market advancement.

As a result of our 2022 investments, we were able to deliver top- and bottom-line growth. Our year-end gross margin and adjusted EBITDA demonstrated our ability to create pull-through leverage to our bottom line. I believe that the focus on fiber optics that we've created will allow us to drive even more growth with higher levels of profit.

The Future is Ours

As I've shared with you before, I am incredibly proud of the strides Luna has made in the time since I became CEO. Our strategic execution, capital management, and talent recruitment are second-to-none. We've established ourselves as dependable partners across industries, including aerospace, energy, infrastructure, medical and mining; and our investments and increasing areas of expertise create the potential to go after emerging opportunities and the selling of broader solutions for our customers.

We are fully invested in the market expansion and long-term growth you've come to expect from us. On behalf of the Board of Directors and leadership team, thank you. We appreciate your continued support.

With deep appreciation and continued optimism,

A handwritten signature in black ink, appearing to read "Scott A. Graeff". The signature is stylized and fluid, with a long horizontal stroke extending to the right.

Scott A. Graeff

CEO, Luna Innovations