



**Fourth-quarter and Full-Year 2020 Earnings
Investor Supplemental Materials**

March 11th, 2021

Safe Harbor

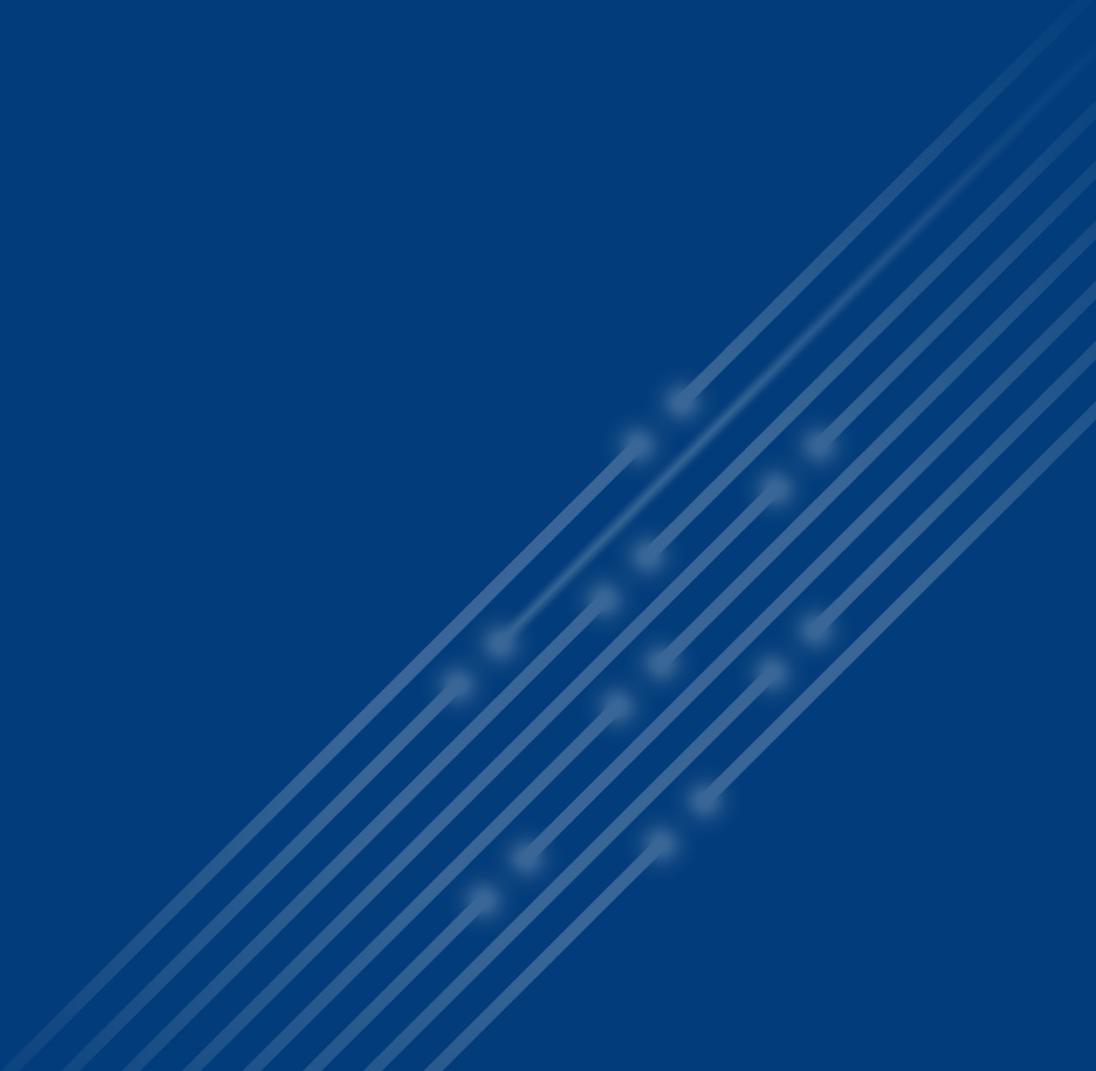
Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This presentation 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, including 2021 guidance, and the market and potential demand for its products, the company's growth potential, its balance sheet and capitalization and access to capital, its technological advantages and capabilities, its continuity of operations during the COVID-19 pandemic, upgrades to enterprise software, its strategic position, and corporate culture. 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, failure of target markets to grow and expand, technological, operational and strategic challenges, uncertainties related to the ultimate impact of the COVID-19 pandemic 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 and on the company’s website at www.lunainc.com. The statements made in this presentation are based on information available to Luna as of the date of this presentation, March 11, 2021, and Luna undertakes no obligation to update any of the forward-looking statements after the date of this presentation, except as required by law.

Adjusted 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. A reconciliation of Adjusted EBITDA to Net Income is included in the appendix to this presentation.

4Q and Full-Year FY20 Results

A decorative graphic in the bottom right corner of the slide. It consists of several parallel white lines that curve upwards and to the right. Small white dots are placed at regular intervals along these lines, creating a sense of motion or data points.

Fourth-quarter 2020: Key Financial Results

Q4 was Luna's strongest-ever fourth quarter, although reported results included the OptaSense acquisition and its associated costs and stub period results. In order to help understand trends in ongoing operating performance (that will compare to 2021 guidance), we are also providing metrics without OptaSense.

- Total revenues of \$25.9M; up 33% year-over-year; revenues of \$24.4M, up 25% excluding OptaSense
 - Lightwave revenue of \$19.3M, up 38% year-over-year
 - Excluding OptaSense, revenue of \$17.8M, up 27%
 - Luna Labs revenue of \$6.6M, up 21% year-over-year
- Operating income of \$0.5M, compared to \$1.7M for the prior-year period
 - Excluding OptaSense and deal related costs, Operating income of \$3.7M for Q4 2020, or a margin of 15%
- Net loss from continuing operations of \$0.1M, compared to income of \$2.1M for the prior-year period
 - Excluding OptaSense and deal related costs, Net Income from continuing operations of \$3.0M for Q4 2020, or \$0.09 per fully diluted share
- Adjusted EBITDA of \$4.3M, compared to \$3.2M for the prior-year period
 - Excluding OptaSense and deal related costs, Adjusted EBITDA of \$5.0M for Q4 2020

¹Adj EPS and EBITDA are a non-GAAP measures. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation.

Full-Year 2020: Key Financial Results

- Total revenues of \$82.7M; up 17% year-over-year; Revenues of \$81.2M, up 15% excluding OptaSense
 - Lightwave revenue of \$59.1M, up 20% year-over-year
 - Excluding OptaSense, revenue of \$57.6M, up 17%
 - Luna Labs revenue of \$23.6M, up 10% year-over-year
- Operating income of \$5.0M, compared to \$3.3M in FY 2019
 - Excluding OptaSense and deal related costs, Operating income of \$8.1M for FY 2020, or a margin of 10%
- Net income from continuing operations of \$4.7M, compared to \$5.3M in FY 2019
 - Excluding OptaSense and deal related costs, Net Income from continuing operations of \$7.8M for FY 2020, or \$0.24 per fully diluted share
- Adjusted EBITDA of \$13.1M, compared to \$9.5M in FY 2019
 - Excluding OptaSense and deal related costs, Adjusted EBITDA of \$13.8M for FY 2020

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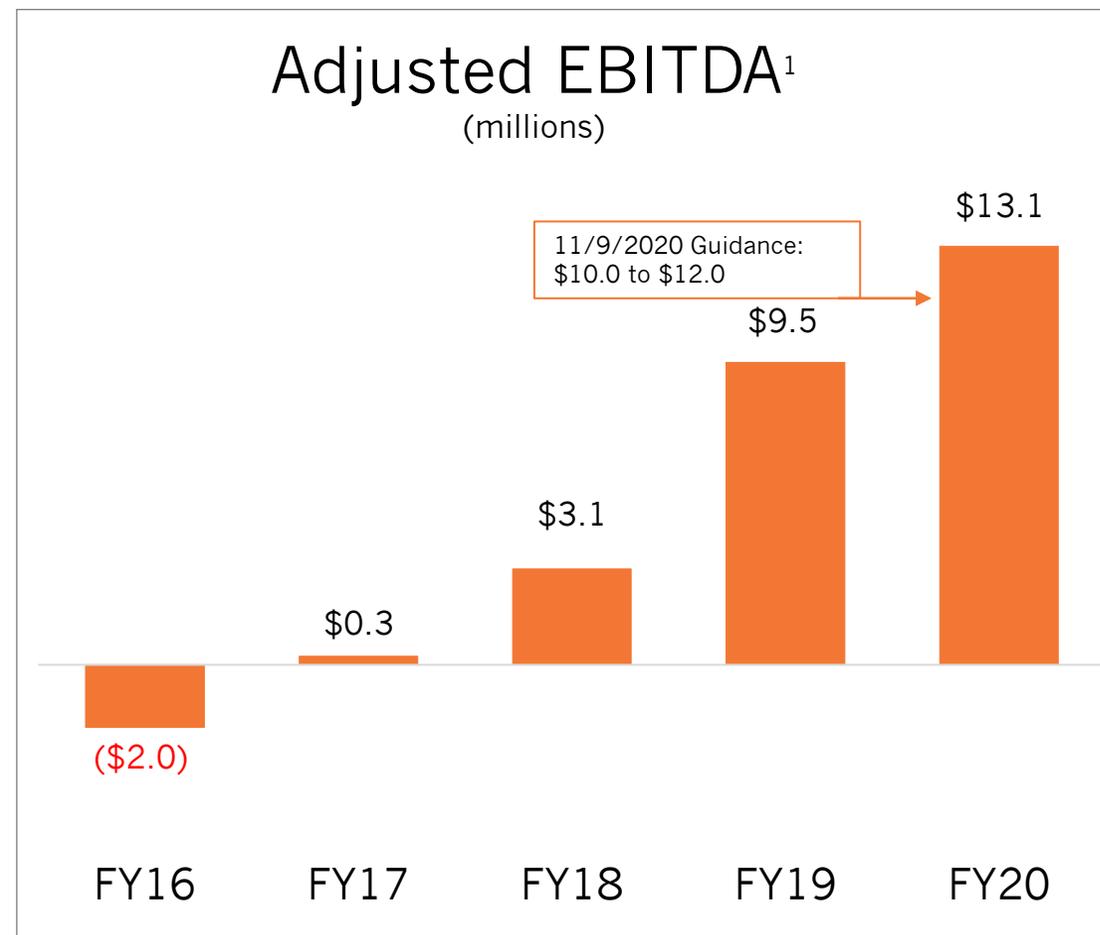
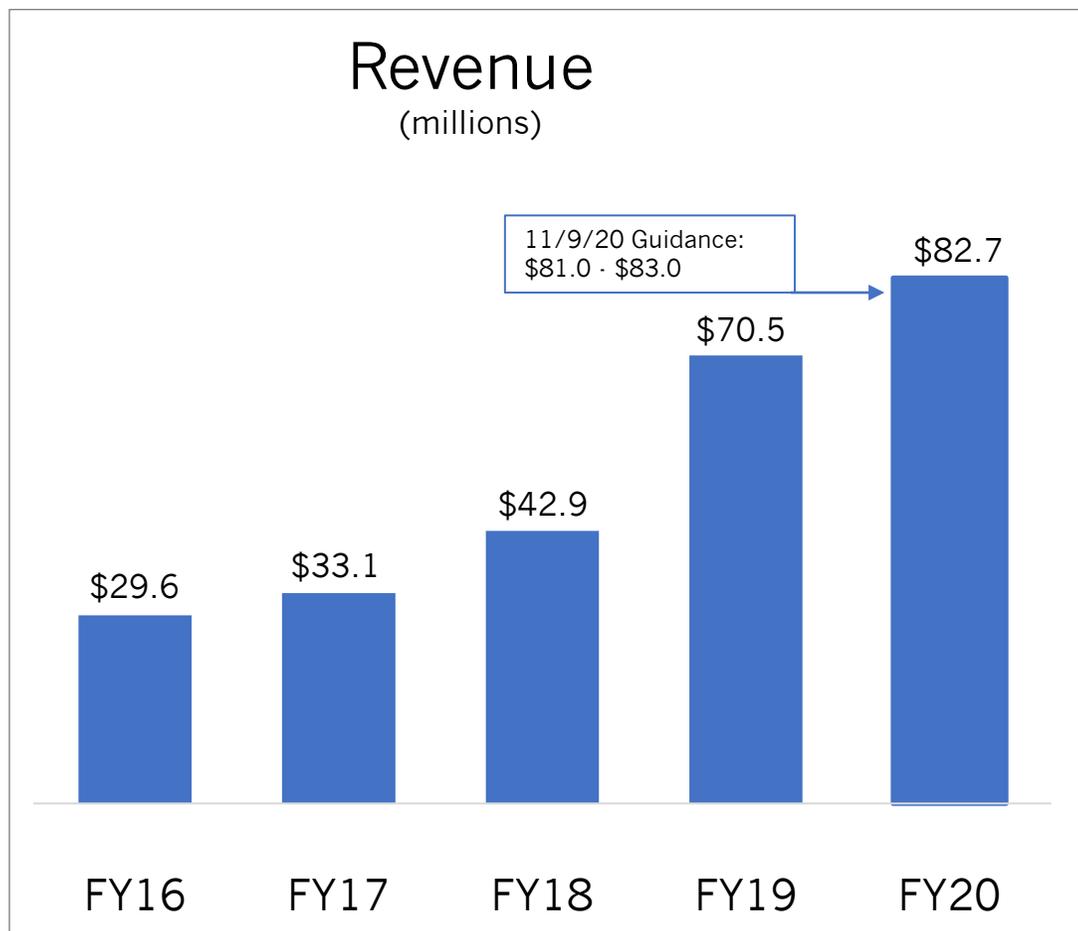
Fourth-quarter 2020 Highlights and Accomplishments

- Reported strong fourth-quarter 2020 financial results in challenging COVID environment
- Acquired OptaSense, a leader in distributed acoustic sensing
 - Providing fully distributed measurement capabilities for long-range applications
- Secured new debt facility with PNC Bank, establishing important new banking relationship
 - \$12.5M term facility
 - \$15.0M revolver facility
 - \$7.5M drawn on revolver
- Closed single largest instrument order in company history
 - \$6.2M deal with Lockheed Martin

FY 2020 Highlights and Accomplishments

- Maintained continuity of operations through global pandemic
 - Health and safety of employees remained a high priority
- Completed the acquisitions of OptaSense and New Ridge Technologies adding significant talent, product depth, IP (over 150 patents) and a global footprint
- Continued focus on building sales pipeline and interacting with customers through frequent videoconferencing calls, virtual sales conference, tradeshow and Luna-hosted product education webinars
- Implemented organization-wide upgrades to enterprise software and other foundational items
 - NetSuite
 - Salesforce.com
 - Hired into key positions, both in operations and corporate shared services
 - Employee Stock Purchase Plan
 - Human Capital Management providers
- Added to the Russell 3000[®] and Small-Cap Russell 2000[®] Indexes

Strong Financial Results



¹ 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

- Strong balance sheet on December 31, 2020:
 - \$131.0M in total assets
 - \$15.4M in cash and cash equivalents
 - \$45.4M in working capital
- Total debt of \$20.0M outstanding
 - \$12.5M in term debt
 - \$7.5M drawn on revolver
 - \$7.5M available
- Allows us to deploy our capital to generate long-term sustainable growth by increasing organic sales, reinvesting in our business and identifying inorganic opportunities

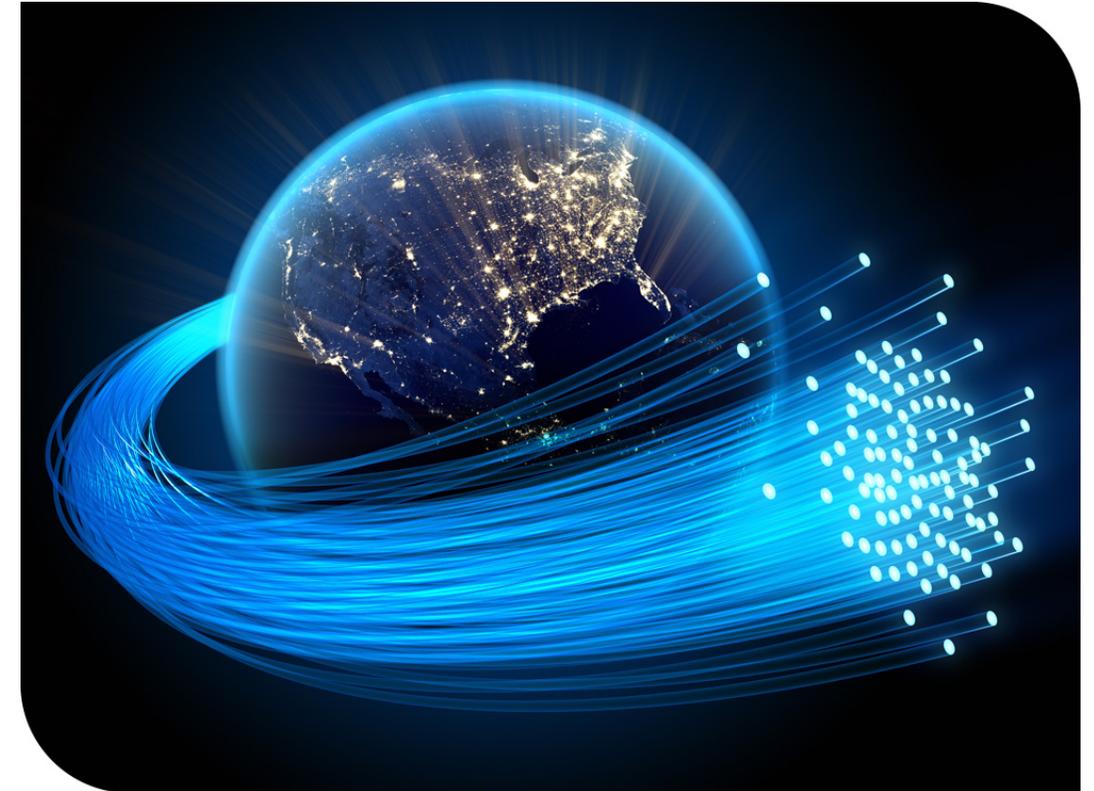
2021 Financial Outlook

- Issuing FY 2021 outlook:
 - Total revenues of \$122M to \$127M
 - Adjusted EBITDA¹ of \$16M to \$19M

¹ Adj EBITDA is a non-GAAP measure. Reconciliation of comparable GAAP measures to non-GAAP measures are included in the appendix to this presentation. The outlook above does not include any future acquisitions, divestitures, or unanticipated events.

Luna – Enabling the Future with Fiber

- Positioned as a **global** fiber optic **leader**
- **Proprietary** measurement technology, offering **unprecedented** combination of resolution, accuracy and speed
- Customers in **attractive markets**: Military and Defense, Communications, Infrastructure, Energy, Automotive and Aerospace
- Positioned to **take advantage of trends** such as vehicle lightweighting, smart infrastructure, 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**



Appendix



Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Reconciliation of EBITDA and Adjusted EBITDA				
Net income	\$ (63)	\$ 2,146	\$ 3,291	\$ 5,343
Loss from discontinued operations, net of income tax benefit of \$464	-	-	1,436	-
Net income from continuing operations	(63)	2,146	4,727	5,343
Interest expense	23	1	25	16
Investment income	(2)	(69)	(67)	(394)
Income tax expense/(benefit)	604	(361)	348	(1,654)
Depreciation and amortization	844	669	2,970	2,503
EBITDA	1,406	2,386	8,003	5,814
Share-based compensation	596	404	2,134	1,544
Non-recurring charges (1)	-	363	668	363
Acquisition related expense	2,204	85	2,204	1,027
Amortization of Inventory Step-up	78	-	78	725
Adjusted EBITDA	\$ 4,284	\$ 3,238	\$ 13,087	\$ 9,473

(1) Non-recurring charges consist of the following: 2020) footprint consolidation 2019) CFO transition expenses

Reconciliation of Net Income to Adjusted EBITDA: Full Year

	Year Ended December 31,			
	2017	2018	2019	2020
(Unaudited)				
<u>Reconciliation of EBITDA and Adjusted EBITDA</u>				
Net income	\$ 14,615	\$ 11,004	\$ 5,343	\$ 3,291
Income/(loss) from discontinued operations, net of income taxes	15,866	9,766	-	(1,436)
Net (loss)/income from continuing operations	(1,251)	1,238	5,343	4,727
Interest expense	217	124	16	25
Investment income	-	(549)	(394)	(67)
Income tax (benefit)/expense	(1,148)	48	(1,654)	348
Depreciation and amortization	1,137	908	2,503	2,970
EBITDA	(1,045)	1,769	5,814	8,003
Share-based compensation	715	628	1,544	2,134
Non-Recurring Charges (1)	596	751	363	668
Acquisition related expense	-	-	1,027	2,204
Amortization of Inventory Step-up	-	-	725	78
Adjusted EBITDA	\$ 266	\$ 3,148	\$ 9,473	\$ 13,087

(1) Non-recurring charges include the following: 2017) CEO separation costs and other share-based compensation; 2018) Transaction-related expenses associated with the acquisition of Micron Optics, Inc.; 2019) CFO transition expenses; 2020) footprint consolidation

Reconciliation of Net Income to Adjusted and Legacy Adjusted EPS

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Reconciliation of Net Income to Adjusted EPS				
Net income	\$ (63)	\$ 2,146	\$ 3,291	\$ 5,343
Loss from discontinued operations, net of income tax benefit of \$464	-	-	1,436	-
GAAP (loss)/income from continuing operations	\$ (63)	\$ 2,146	\$ 4,727	\$ 5,343
Adjustments:				
Stock Based Compensation	596	404	2,134	1,544
Acquisition related expense	2,204	85	2,204	1,027
Amortization of Inventory Step-up	78	-	78	725
Non-Recurring Items (1)	-	363	668	363
Release of Valuation Allowance	-	(568)	-	(907)
Total adjustments:	2,878	284	5,084	2,752
Income tax adjustment - benefit (expense)	(322)	(232)	(1,198)	(811)
Adjusted (loss)/income from continuing operations	\$ 2,492	\$ 2,198	\$ 8,613	\$ 7,284
Optasense net loss	(863)		(863)	
Legacy adjusted income from continuing operations	\$ 3,355	\$ 2,198	\$ 9,476	\$ 7,284
Adjusted EPS	0.08	0.07	0.26	0.23
Legacy Adjusted EPS	0.10	0.07	0.29	0.23
Adjusted weighted average shares (in thousands):				
Diluted	32,831	32,212	32,579	31,841

(1) Non-recurring charges consist of the following: 2020) footprint consolidation 2019) CFO transition expenses.

Historical Quarterly Results

	(in thousands)				
	Three Months Ended				
	December 31, 2019 ^A	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020 ^B
Revenues:					
Lightwave	\$ 13,988	\$ 11,554	\$ 12,933	\$ 15,350	\$ 19,278
Luna Labs	5,492	5,587	5,642	5,700	6,637
Total revenues	<u>19,480</u>	<u>17,141</u>	<u>18,576</u>	<u>21,050</u>	<u>25,915</u>
Cost of revenues:					
Lightwave	5,070	4,885	5,181	5,670	7,570
Luna Labs	4,022	3,892	3,878	4,431	4,986
Total cost of revenues	<u>9,092</u>	<u>8,777</u>	<u>9,059</u>	<u>10,101</u>	<u>12,557</u>
Gross Profit	<u>10,388</u>	<u>8,364</u>	<u>9,517</u>	<u>10,949</u>	<u>13,358</u>
Operating expense:					
Selling, general and administrative	6,331	6,377	6,202	6,505	8,559
Research, development and engineering	2,255	1,597	1,505	1,616	1,996
Acquisition related expense	85	-	-	-	2,204
Loss on sale and disposal of property and equipment	-	-	-	576	69
Total operating expense	<u>8,671</u>	<u>7,974</u>	<u>7,707</u>	<u>8,697</u>	<u>12,827</u>
Operating income	<u>\$ 1,717</u>	<u>\$ 390</u>	<u>\$ 1,810</u>	<u>\$ 2,252</u>	<u>\$ 531</u>

A Includes \$85 of costs associated with the acquisition of General Photonics.

B Includes \$2,204 of costs associated with the acquisition of OptaSense.