



## **Investor Supplemental materials**

November 8, 2018

# Safe Harbor

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## 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 and the potential demand for its products, the company's growth potential, its business focus and competitive advantages, and its expectations about the benefits of its acquisition of Micron Optics. 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 market to grow and expand, technological and strategic challenges, market valuation of the company 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. A reconciliation of Adjusted EBITDA to Loss from Continuing Operations is included in the appendix to this presentation.

# 3Q 2018 Results

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# Third-Quarter 2018 Financial Results

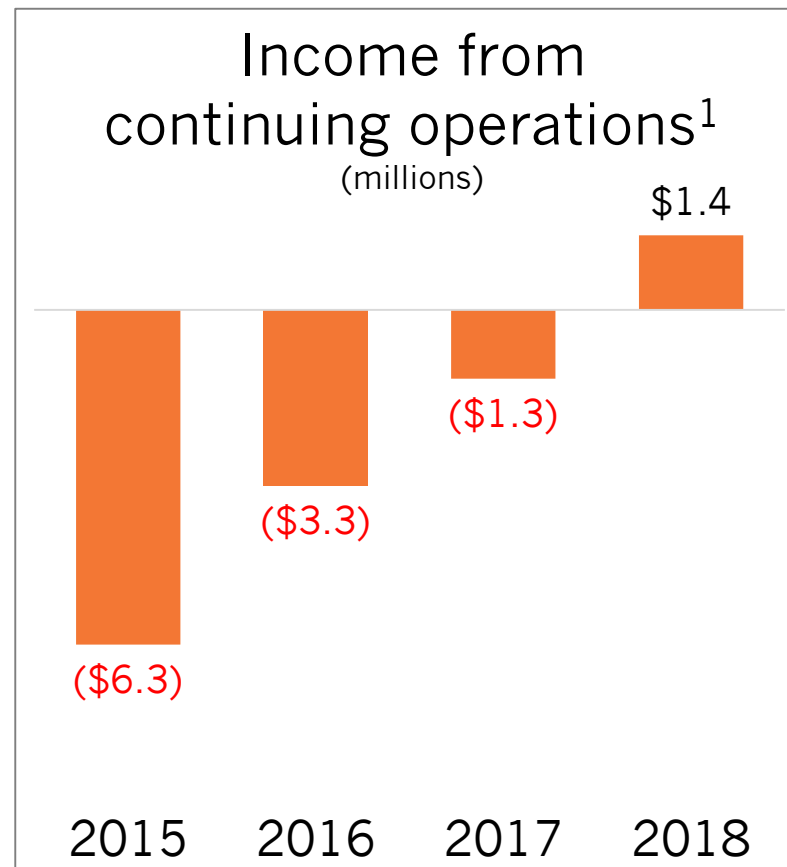
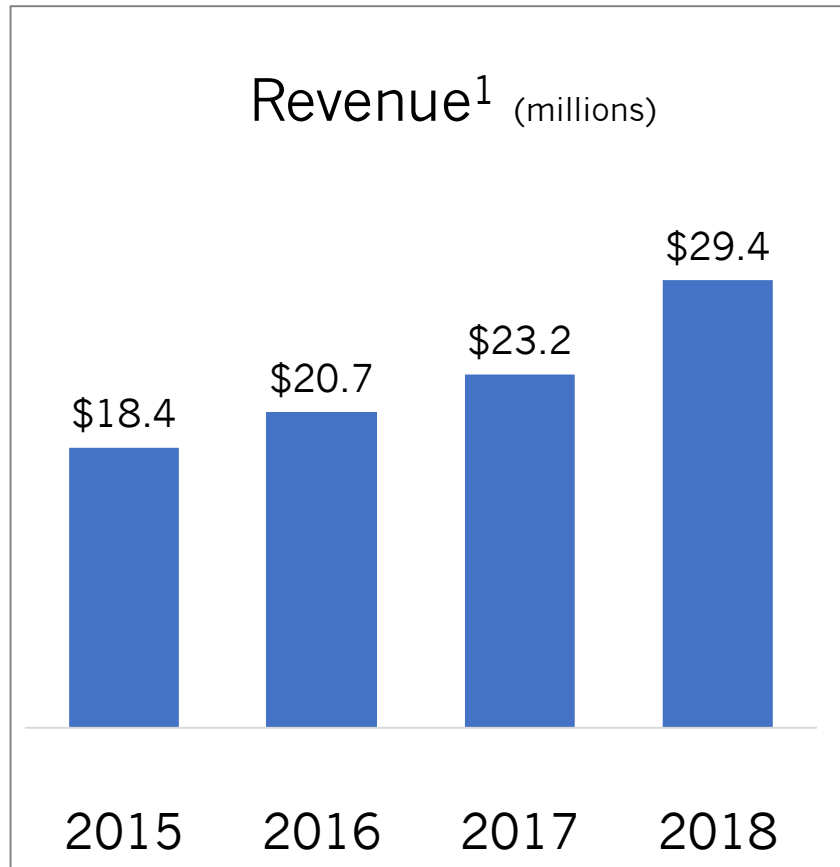
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- We delivered strong financial performance this quarter:
  - Fourth consecutive quarter of year-over-year, double-digit revenue growth from continuing operations; strong revenue growth across the businesses
  - Solid improvement in Adjusted EBITDA and net income versus the same year ago period
- Total revenues of \$10.7 million for the three months ended September 30, 2018, up 29% compared to the three months ended September 30, 2017
- Net income from continuing operations improved to \$1.3 million for the three months ended September 30, 2018 compared to \$0.2 million for the three months ended September 30, 2017
- Net income attributable to common stockholders was \$8.8M, compared to \$15.7M the year prior, down primarily due to divestitures
- Adjusted EBITDA<sup>1</sup> improved to \$0.9 million for the third-quarter fiscal 2018, compared to \$0.2 million for the prior-year period

<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

# Nine months YTD 2018 results continue the strong trajectory established in the first quarter....

## Nine months ended September 30:

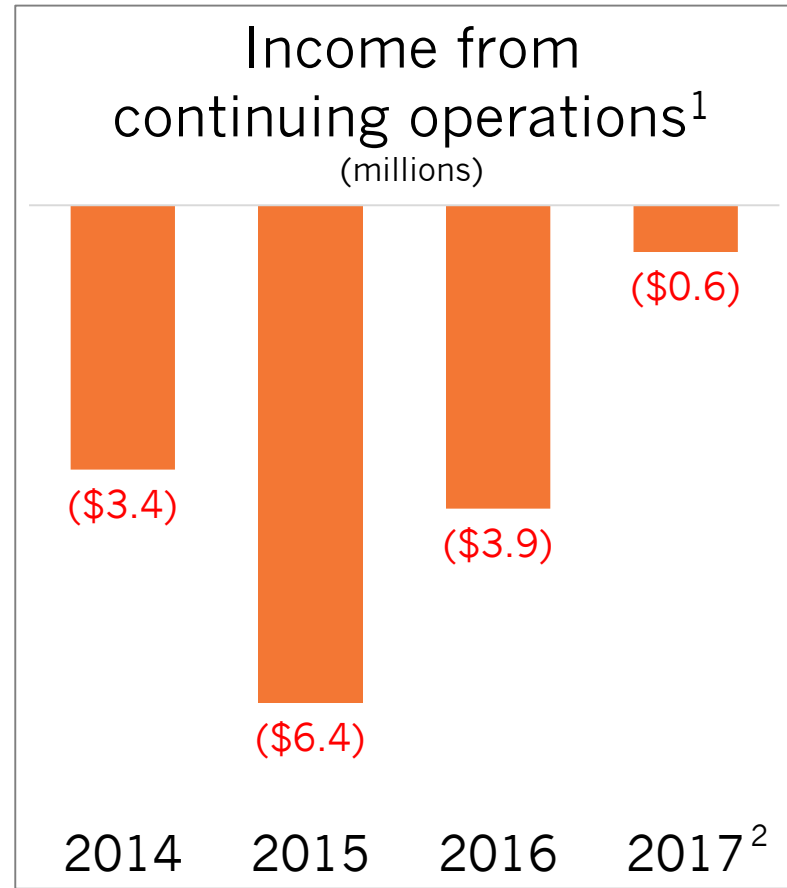
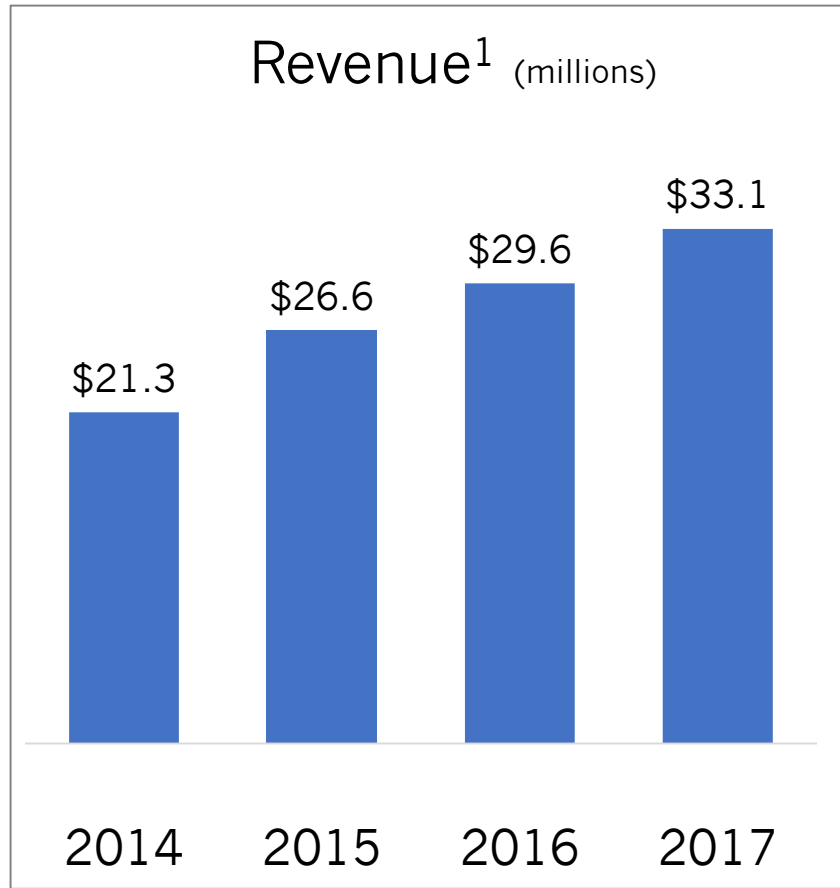


- 27% revenue growth year-over-year for 2018
- Continued prudent expense management allowed robust drop-through to the bottom line

<sup>1</sup> Based on management's estimates as of November 8, 2018 of impact of divestiture of Optoelectronics.

# ....And continues the record performance of 2017 and trajectory of the last several years

## Twelve months ended December 31:



- Double-digit revenue growth year-over-year

<sup>2</sup> 2017 income from continuing ops normalized for a one-time pre-tax charge of \$0.7 million related to former CEO departure

<sup>1</sup> Based on management's estimates as of November 8, 2018 of impact of divestiture of Optoelectronics.

# Recent Highlights

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- Completed the divestiture of Optoelectronic Solutions business to OSI Systems, Inc.
- On October 16, 2018, announced the acquisition of Micron Optics, a leading provider of innovative optical components and laser-based measurement technology
  - Acquisition will accelerate growth in structural testing and sensing as well as communications testing
  - Has potential to provide customers with better capabilities and broader offerings; positions Luna to better penetrate its existing markets of aerospace and automotive while providing more direct access to customers in Asia
  - Exemplifies execution of Luna's capital deployment strategy with prudent deployment of cash on asset that fits within Luna's core technology platform and target markets, and is believed to catalyze growth

# We have a disciplined capital deployment strategy to leverage our flexible balance sheet and strong cash position

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- As of September 30, 2018, our balance sheet reflects:
  - \$73.8 Million in total assets
    - \$47.1 Million in cash and cash equivalents
    - \$57.5 Million in working capital
- A disciplined approach to capital deployment, with a focus on working capital and reinvestment in the business to generate long-term sustainable growth



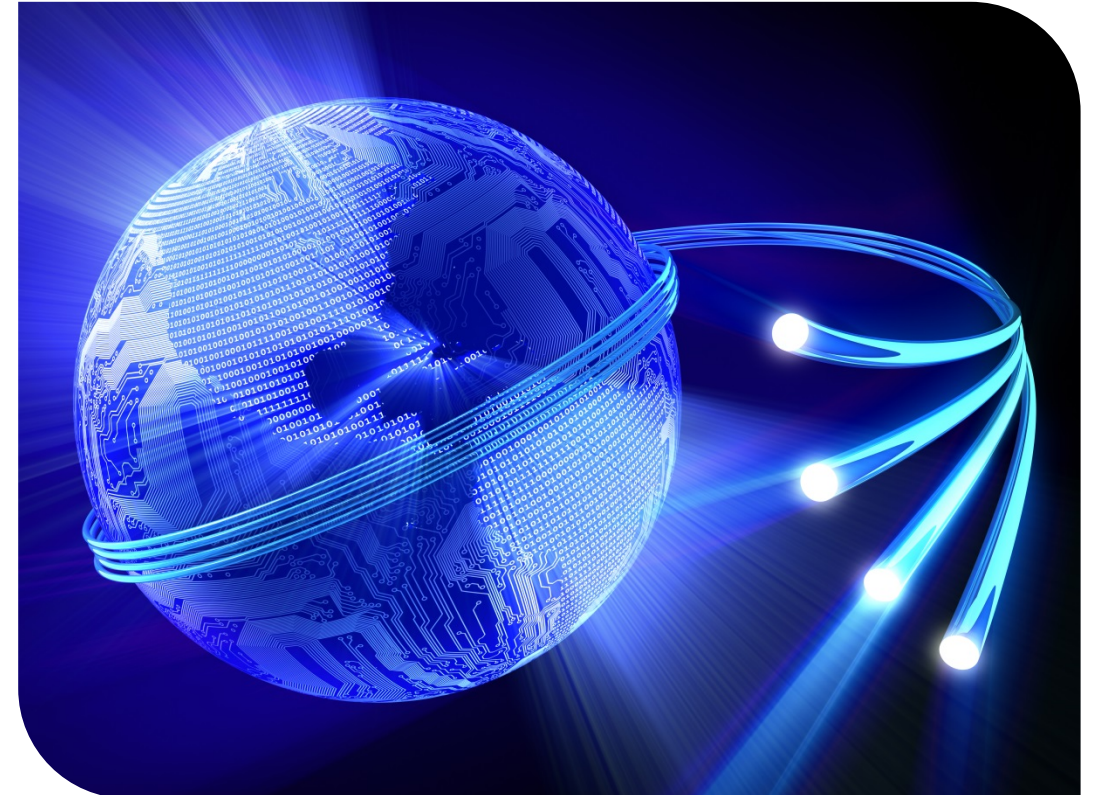
# A reminder: Pro-forma Luna financials, adjusted for sale of Opto:<sup>1</sup>

(\$ in 000s)	Three Months Ended						
	3/31/2017	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018
<b>Revenues:</b>							
Technology development	\$ 4,236	\$ 4,602	\$ 4,590	\$ 5,148	\$ 4,637	\$ 5,466	\$ 5,316
Products and licensing	2,398	3,680	3,713	4,714	4,132	4,457	5,371
Total revenues	<u>6,634</u>	<u>8,282</u>	<u>8,303</u>	<u>9,862</u>	<u>8,769</u>	<u>9,923</u>	<u>10,687</u>
<b>Cost of revenues:</b>							
Technology development	3,109	3,444	3,492	3,943	3,354	3,945	3,919
Products and licensing	995	1,529	1,470	1,732	1,575	1,748	2,080
Total cost of revenues	<u>4,104</u>	<u>4,973</u>	<u>4,962</u>	<u>5,675</u>	<u>4,929</u>	<u>5,693</u>	<u>5,999</u>
Gross profit	<u>2,530</u>	<u>3,309</u>	<u>3,341</u>	<u>4,187</u>	<u>3,840</u>	<u>4,230</u>	<u>4,688</u>
<b>Operating expense:</b>							
Selling, general and administrative	3,204	2,947	2,832	3,943	3,334	3,265	3,233
Research, development and engineering	700	600	662	692	880	760	874
Total operating expense	<u>3,904</u>	<u>3,547</u>	<u>3,494</u>	<u>4,635</u>	<u>4,214</u>	<u>4,025</u>	<u>4,107</u>
Operating Income (Loss)	<u>\$ (1,374)</u>	<u>\$ (238)</u>	<u>\$ (153)</u>	<u>\$ (448)</u>	<u>\$ (374)</u>	<u>\$ 205</u>	<u>\$ 581</u>

<sup>1</sup> Unaudited pro forma financials assumes Optoelectronics business had been sold on January 1, 2017

# 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



# Appendix



# Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income	\$ 8,848,402	\$ 15,757,324	\$ 10,064,405	\$ 14,179,576
Less income from discontinued operations, net of income taxes	7,555,626	15,562,376	8,704,246	15,434,570
Net income/(loss) from continuing operations	1,292,776	194,948	1,360,159	(1,254,994)
Interest expense	28,029	54,847	103,208	178,879
Investment income	(171,896)	—	(350,976)	—
Tax benefit	(559,093)	(388,787)	(674,329)	(662,049)
Depreciation and amortization	238,002	208,958	711,144	644,001
EBITDA	827,818	69,966	1,149,206	(1,094,163)
Share-based compensation	117,823	151,672	345,582	476,428
Adjusted EBITDA	\$ 945,641	\$ 221,638	\$ 1,494,788	\$ (617,735)