



**Third-quarter Fiscal 2020 Earnings
Investor Supplemental Materials**

November 9, 2020

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 2020 guidance, and the potential demand for its products, the company's growth potential, its balance sheet and capitalization and access to capital, its technological advantages, the potential impacts of the COVID-19 pandemic on its business, operations and financial results, its strategic position, corporate culture, operational efficiency and market trends. 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, November 9, 2020, 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.

3Q FY20 Results



Third-quarter 2020: Key Financial Results

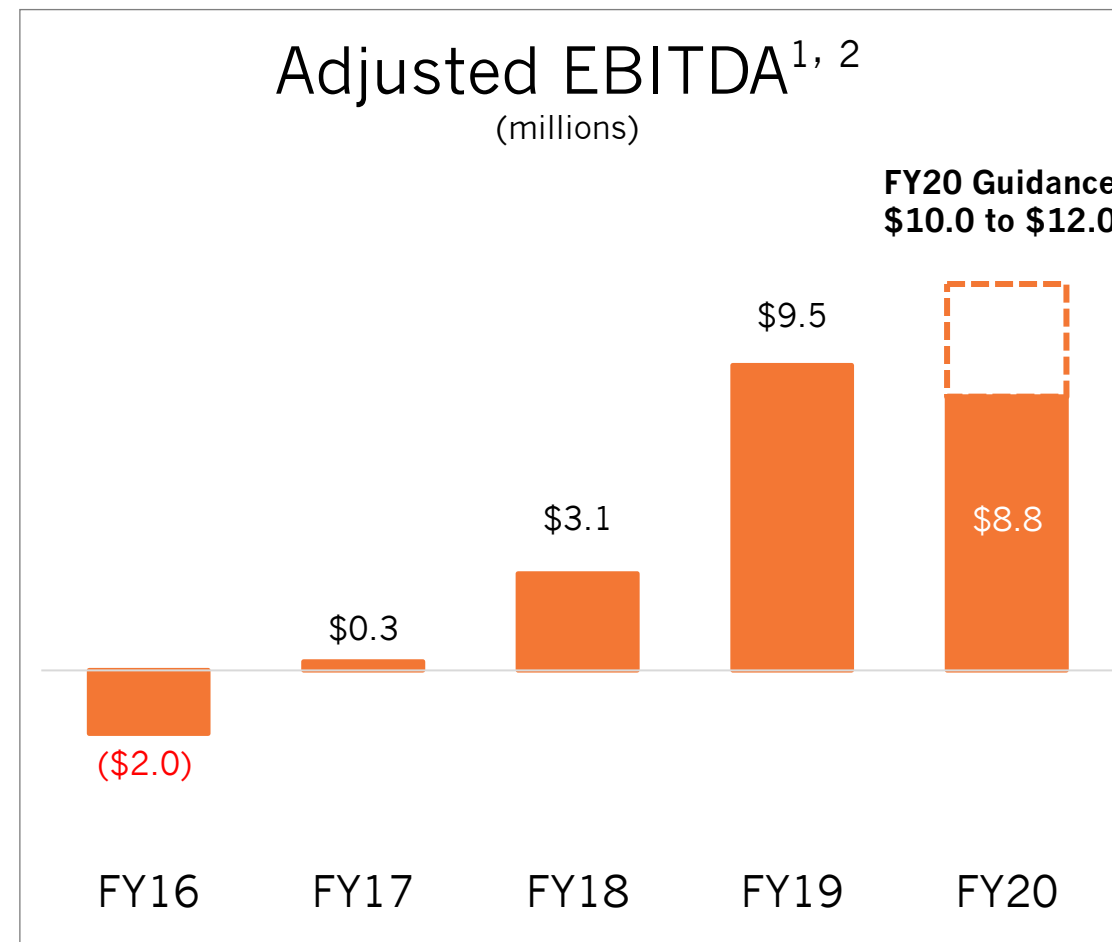
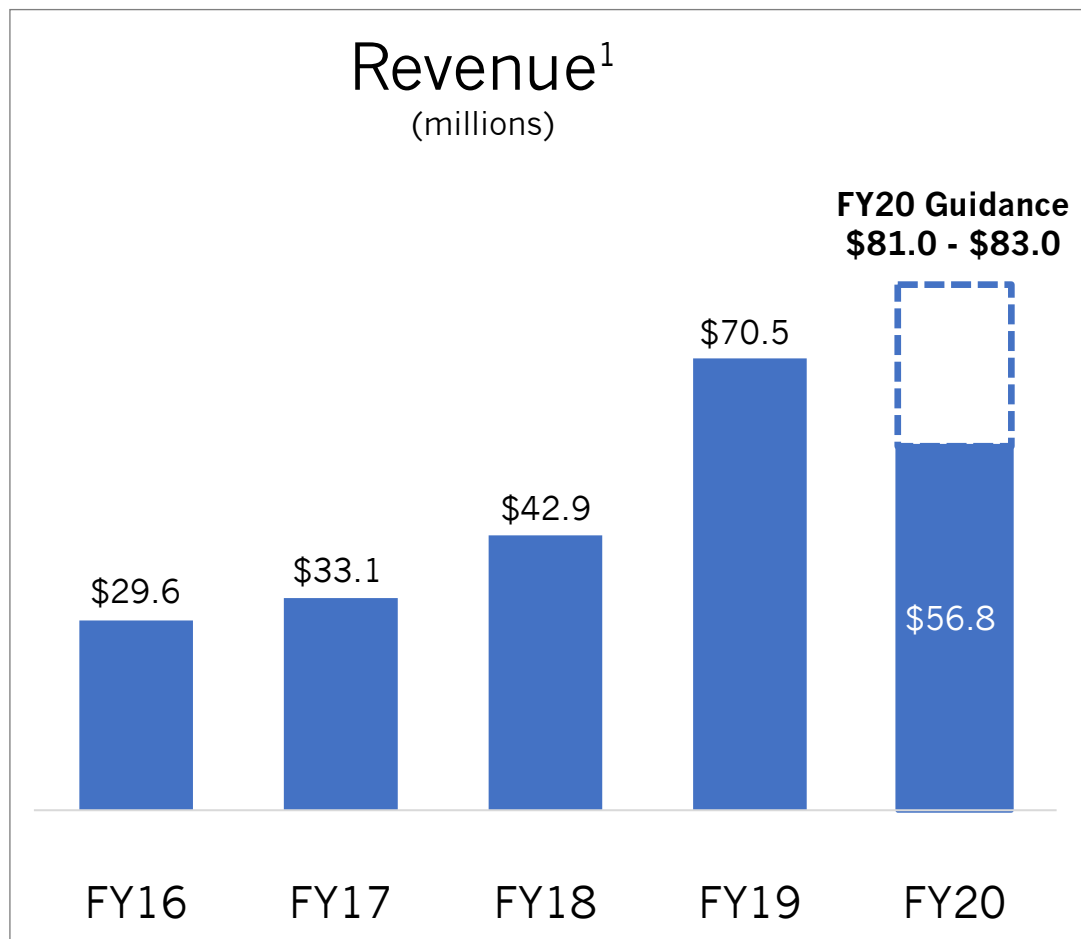
- Strong financial performance:
 - \$1.4M improvement in Adjusted EBITDA¹ year-over-year
- Total revenues of \$21.1M; up 14% year-over-year:
 - Lightwave revenue of \$15.4M; up 17% year-over-year
 - Luna Labs revenue of \$5.7M; up 8% year-over-year
- Operating income improved to \$2.3M, or 11% of total revenues, in Q3 2020 from \$1.5M, or 8% of total revenues, in Q3 2019 due to increased revenue and gross profit as well as improved operating expense leverage
- Net income of \$3.1M, or \$0.10 per fully diluted share, for the three months ended September 30, 2020, compared to \$1.2M, or \$0.04 per fully diluted share, for the three months ended September 30, 2019
- Adjusted EBITDA¹ increased to \$4.3M for the three months ended September 30, 2020, compared to \$2.9M for the three months ended September 30, 2019
- Reaffirmed 2020 outlook - \$81 to \$83M in total revenues and \$10 to \$12M in Adjusted EBITDA

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

Third-quarter 2020 and Other Recent Accomplishments

- Reported strong third-quarter 2020 financial results in challenging COVID environment
- Acquired New Ridge Technologies
 - Brings advanced measurement capabilities to our communications test portfolio
- Hired key positions in operations and corporate shared services
- Held 9 customer-facing technology educational webinars: ~1,300 live attendees and more than 1,400 leads
- Progressing towards NetSuite go-live in Q1 2021
- Continued to monitor employee feedback with a focus on safety and well-being
- Consolidated Luna Labs facility footprint to increase division efficiency and drive collaboration and growth
- Selected by Lockheed Martin as the supplier of corrosion sensors for NASA's Artemis mission

Strong Financial Results



¹ Based on management's estimates of the impact from the divestiture of Optoelectronics. Includes the acquisitions of Micron Optics and General Photonics.

² 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

- Strong balance sheet on September 30, 2020:
 - \$95.9M in total assets
 - \$26.4M in cash and cash equivalents
 - \$49.3M in working capital
- Access to \$10M revolving credit facility, if needed
- Continued focus on working capital and reinvestment in business in order to generate long-term sustainable growth

COVID-19 Business Update

- Took immediate action to create a safer work environment, including open and frequent communication with employees regarding benefits, resources and safety information
- No staff reduction to date; none anticipated
- Continued focus on building sales pipeline and interacting with customers through frequent videoconferencing calls, virtual sales conference, tradeshow and Luna-hosted product education webinars
- Strong cash position; adequate access to capital
- Well positioned to take advantage of continued strong trends in 5G, lightweighting and infrastructure monitoring
- Continue to be as transparent as possible through pandemic and to keep stakeholders apprised, publicly, of significant operation and financial shifts

2020 Financial Outlook

- Maintaining FY2020 outlook:
 - Total revenues of \$81M to \$83M
 - Adjusted EBITDA¹ of \$10M to \$12M

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.

Compelling business model with strong growth potential

Revenue Growth



Organic Growth:
Mid-to High-teens

Lightwave = 18% to 20%
Luna Labs = 6% to 8%

Strategic M&A

Within core focus and accretive

Margin Expansion



Gross Margin

Increase 75-100 bps annually

Operating Margin

Increase ~250 bps annually

Shareholder Return



Cash Generation

Increasing AEBITDA

Non-GAAP EPS

Double-digit annual growth

Luna – Enabling the Future with Fiber

- **Proprietary**, measurement technology, offering **unprecedented** combination of resolution, accuracy and speed
- Customers in **attractive markets**: Military and Defense, Communications, Infrastructure, Energy, and Automotive
- Positioned to **take advantage of trends** such as vehicle lightweighting 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		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	(Unaudited)		(Unaudited)	
Reconciliation of EBITDA and Adjusted EBITDA				
Net income	\$ 3,102	\$ 1,230	\$ 3,355	\$ 3,196
Loss from discontinued operations, net of income tax benefit of \$464	-	-	1,436	-
Net income from continuing operations	3,102	1,230	4,791	3,196
Interest expense	1	4	2	15
Investment income	(1)	(76)	(65)	(324)
Income tax expense/(benefit)	(836)	325	(257)	(1,293)
Depreciation and amortization	762	669	2,126	1,835
EBITDA	3,028	2,152	6,597	3,429
Share-based compensation	571	420	1,538	1,140
Non-Recurring Charges (1)	696	-	696	942
CFO Severance	(28)	-	(28)	-
Amortization of Inventory Step-up	-	311	-	725
Adjusted EBITDA	\$ 4,267	\$ 2,883	\$ 8,803	\$ 6,236

(1) Non-recurring charges consist of the following: 2020) footprint consolidation 2019) transaction expenses related to the acquisition of General Photonics.

Reconciliation of Net Income to Adjusted EBITDA: Full Year

	Year Ended December 31,			
	(unaudited)			
	2016	2017	2018	2019
Reconciliation of EBITDA and Adjusted EBITDA				
Net (loss)/income	\$ (2,370)	\$ 14,615	\$ 11,004	\$ 5,343
Less: income from discontinued operations, net of income taxes	300	15,866	9,766	-
Net income from continuing operations	(2,670)	(1,251)	1,238	5,343
Interest expense	319	217	124	16
Investment income	-	-	(549)	(394)
Income tax (benefit)/expense	(135)	(1,148)	48	(1,654)
Depreciation and amortization	1,466	1,137	908	2,503
EBITDA	(1,020)	(1,045)	1,769	5,814
Share-based compensation	860	715	628	1,544
Non-Recurring Charges (1)	-	596	751	1,390
Amortization of Inventory Step-up	-	-	-	725
Adjusted EBITDA	\$ (160)	\$ 266	\$ 3,148	\$ 9,473

(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) Transaction related expenses and inventory step-up amortization relate to General Photonics acquisition and CFO transition expenses

New Segment Quarterly Results

	(in thousands)					
	Three Months Ended					
	June 30, 2019	September 30, 2019 ^A	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020
Revenues:						
Lightwave	\$ 12,523	\$ 13,088	\$ 13,988	\$ 11,554	\$ 12,933	\$ 15,350
Luna Labs	5,291	5,301	5,492	5,587	5,642	5,700
Total revenues	<u>17,814</u>	<u>18,389</u>	<u>19,480</u>	<u>17,141</u>	<u>18,576</u>	<u>21,050</u>
Cost of revenues:						
Lightwave	5,334	5,449	5,070	4,885	5,181	5,670
Luna Labs	3,728	3,665	4,022	3,892	3,878	4,431
Total cost of revenues	<u>9,062</u>	<u>9,114</u>	<u>9,092</u>	<u>8,777</u>	<u>9,059</u>	<u>10,101</u>
Gross Profit	<u>8,752</u>	<u>9,275</u>	<u>10,388</u>	<u>8,364</u>	<u>9,517</u>	<u>10,949</u>
Operating expense:						
Selling, general and administrative	6,003	5,745	6,416	6,377	6,202	6,505
Research, development and engineering	1,735	2,048	2,255	1,597	1,505	1,616
Loss on sale of property and equipment	-	-	-	-	-	576
Total operating expense	<u>7,738</u>	<u>7,793</u>	<u>8,671</u>	<u>7,974</u>	<u>7,707</u>	<u>8,697</u>
Operating income	<u>\$ 1,014</u>	<u>\$ 1,482</u>	<u>\$ 1,717</u>	<u>\$ 390</u>	<u>\$ 1,810</u>	<u>\$ 2,252</u>

^A The Company revised its results for the three months ended September 30, 2019. The Company has concluded these adjustments are not material individually or in the aggregate.