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Singular Research's Spring Select Webinar

May 27, 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 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, May 27, 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.

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 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**



Luna is a global company



History
 Incorporated 1990
 IPO 2006



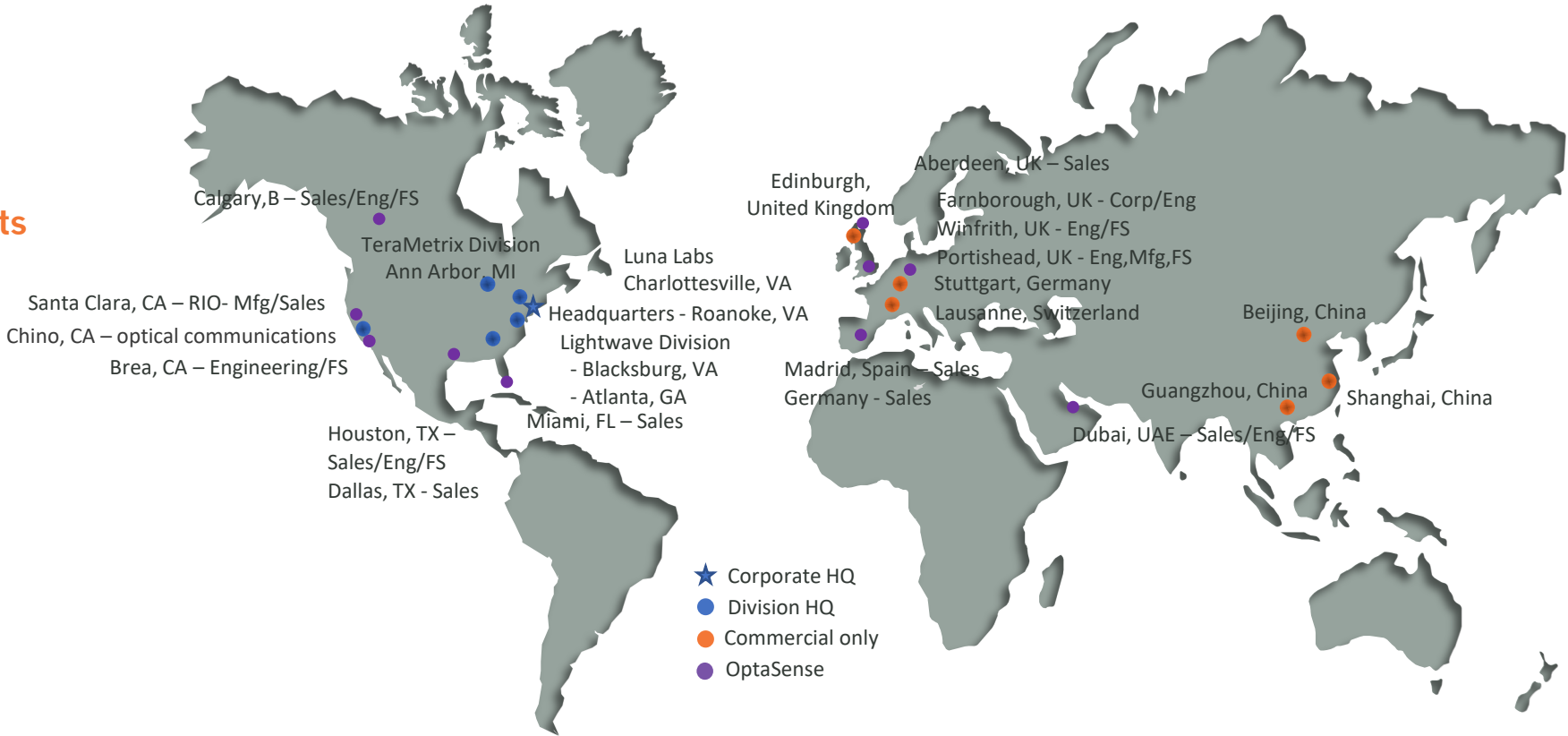
Reporting Segments
 Lightwave
 Luna Labs



Revenue
 FY20 \$82.7M
 FY21 Guidance
 \$122M-127M



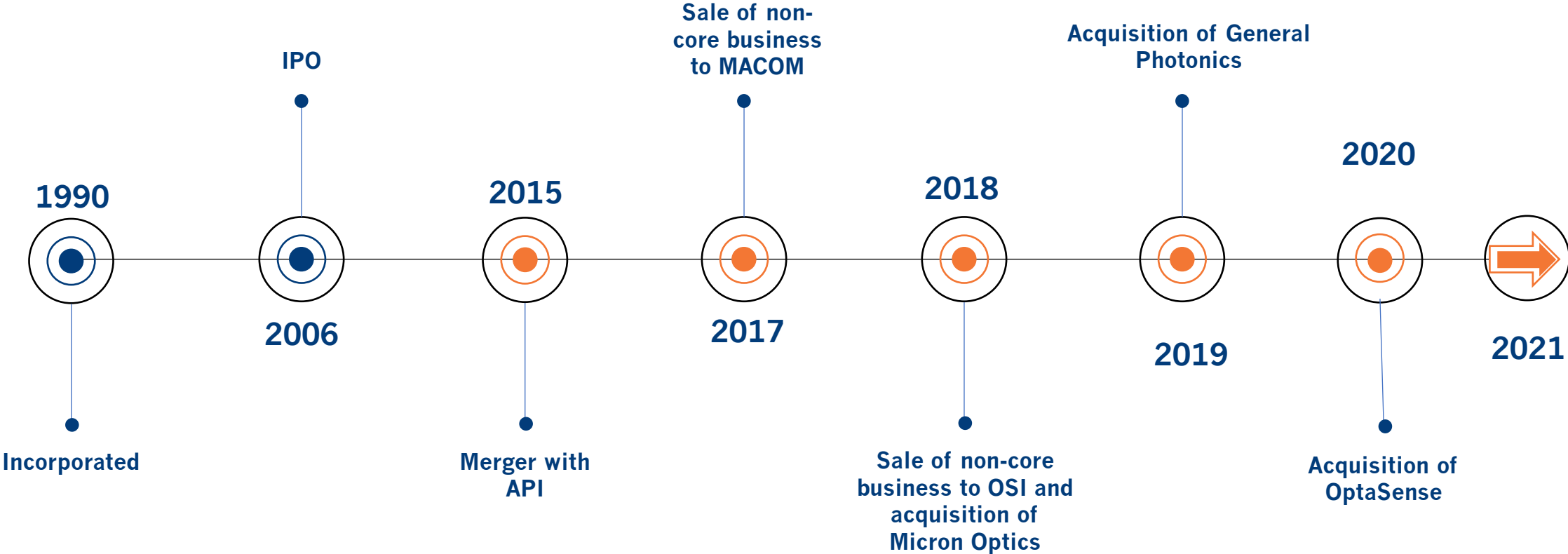
AEBITDA
 FY20 \$13.1M
 FY21 Guidance
 \$16M-19M



400+ Employees

Luna has a clear vision and established history

Vision: Enabling the Future with Fiber



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

Bottom-Line Focus



Gross Margin

Increase 75-100 bps annually

AEBITDA

15%-20% of Revenue

Shareholder Return



Continued Cash Generation

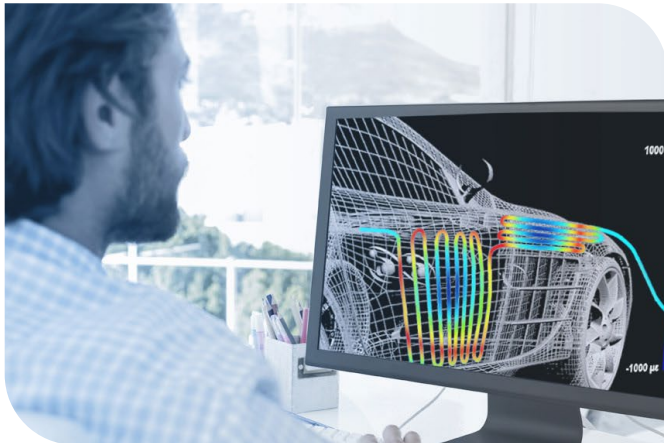
while investing for growth

Non-GAAP EPS

Double-digit annual growth

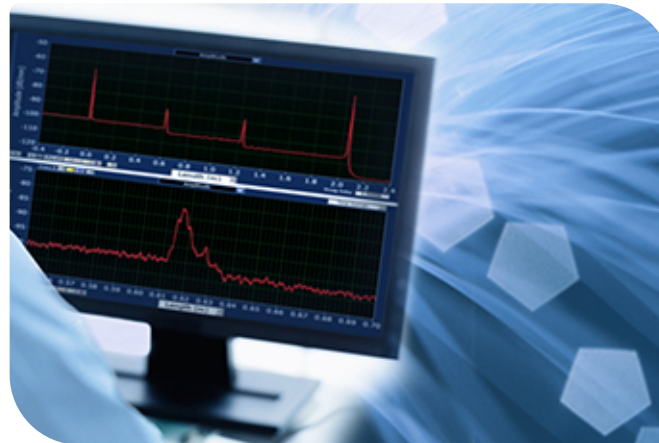
Luna Overview

Lightwave



Sensing

- Short-range, high resolution
- Long-range, high speed
- Long-range, continuous
- Material thickness



Comms Test

- Components
- Short-haul network

Luna Labs

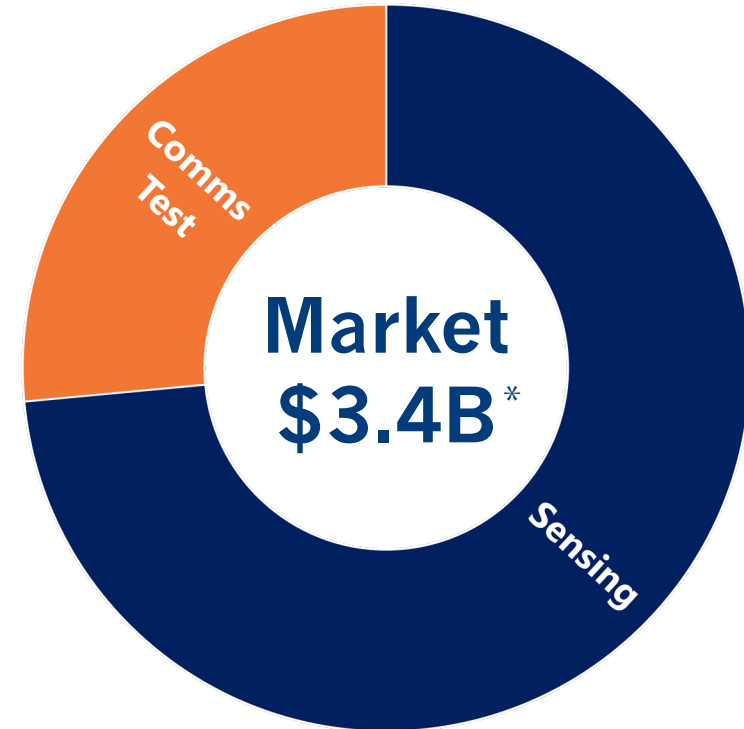


Contract Research

- Materials
- Systems & Analytics
- Biotech

Where Does Luna Play?

	Comms Test	Sensing
Market size*	\$900M	\$2.5B
Luna growth	15%-20%	20-25%
Drivers	5G, Silicon Photonics	Lightweighting, Smart Infrastructure, IoT
Key competition	Keysight, Viavi, Exfo	HBM, Vishay, National Instruments

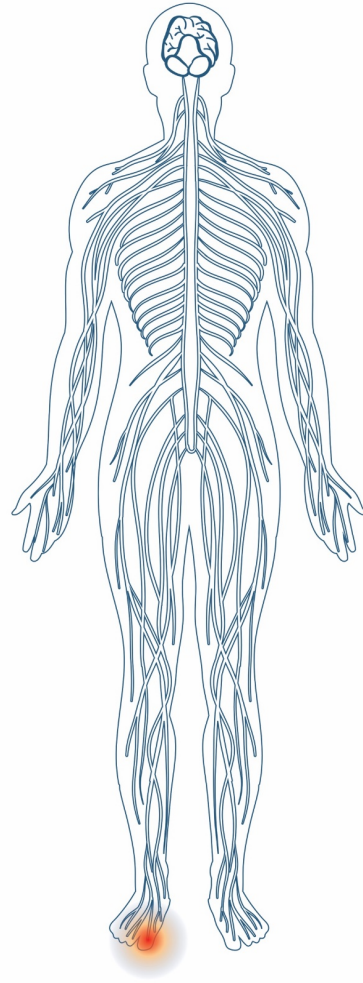


Comms Test:
5G Buildout
Field Support

Sensing:
Smart Infrastructure
Lightweighting
Process control & NDE

*Total SAM based on Luna estimates and published market reports

Sensing



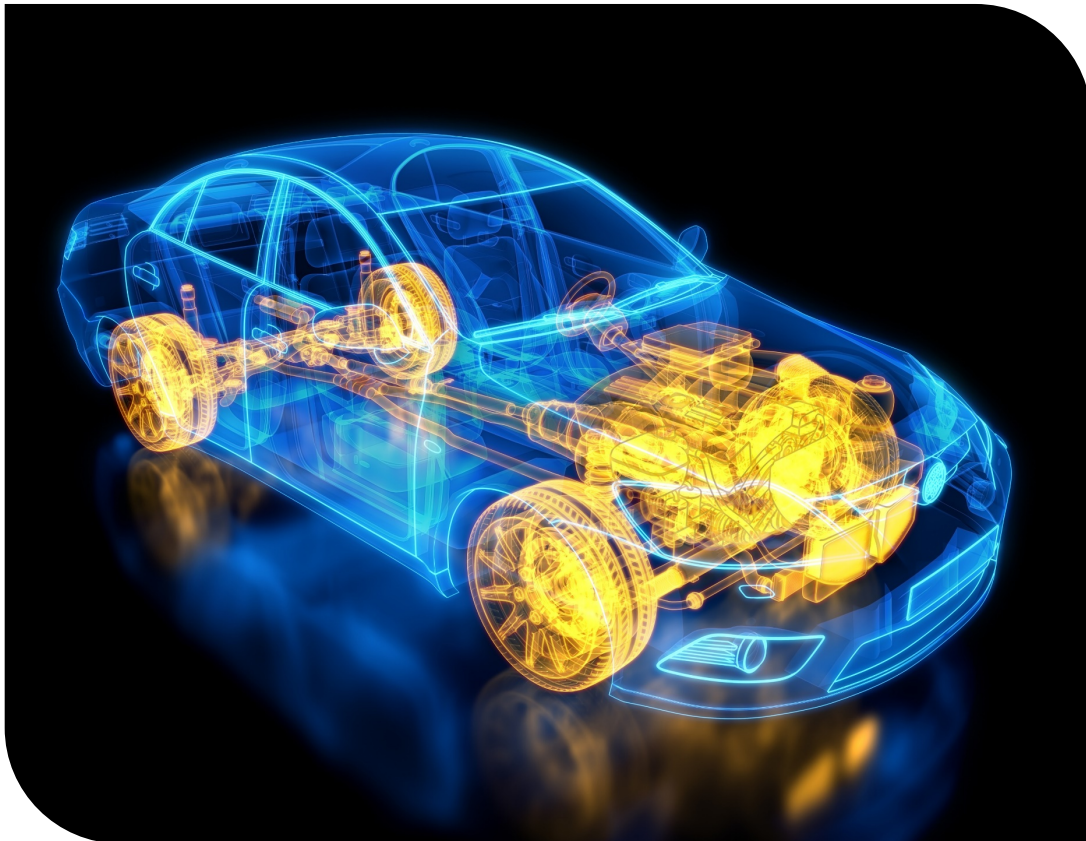
- Fiber optic sensors are the “nerves” of smart materials
- Luna’s products are the “brain” that collects and aggregates data from fiber sensor “nerves”
- The new OptaSense acquisition will add missing capability to Luna’s Sensing business

Sensing: Material thickness



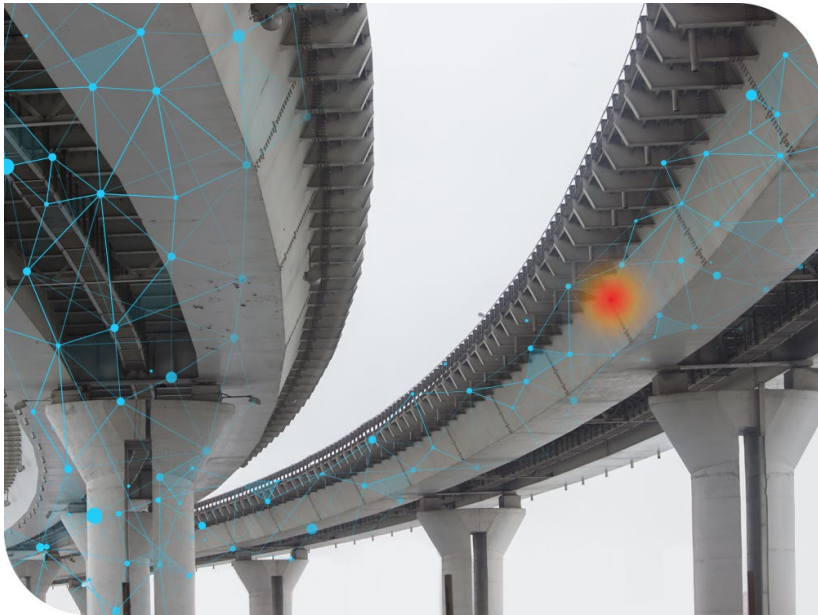
- Product: Terahertz technology
- Layer thickness measurements for process control, inspection and non-destructive testing
 - Advanced technology measures thickness of opaque materials
 - Unique measurement of composites and coatings with easy to use hand-held tools
 - Focus on manufacturing environments and field test for military-aerospace
 - Plastic and industrial packaging
 - Used extensively on F35 and F22 for anti-radar surface treatment

Sensing: Short-range, high-resolution

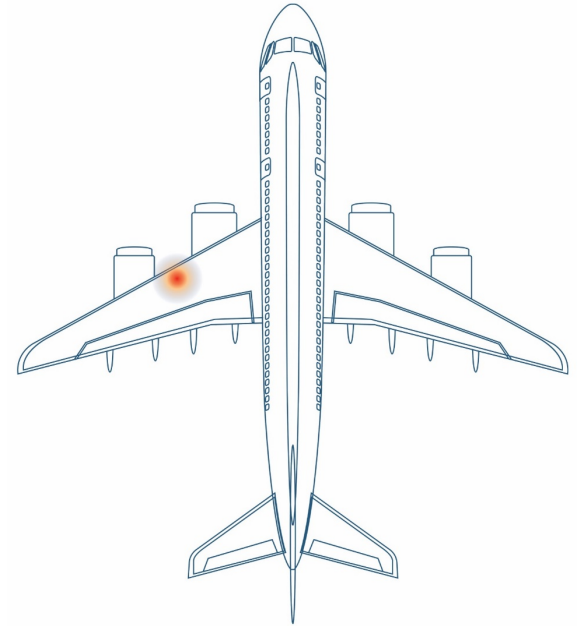


- Product: ODiSI
- High-Definition Fiber Optic Sensing
 - Measuring strain and temperature in composites and other advanced materials
 - Focus on military and commercial aerospace and automotive

Sensing: long-range, high-speed



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



Sensing: long-range, continuous

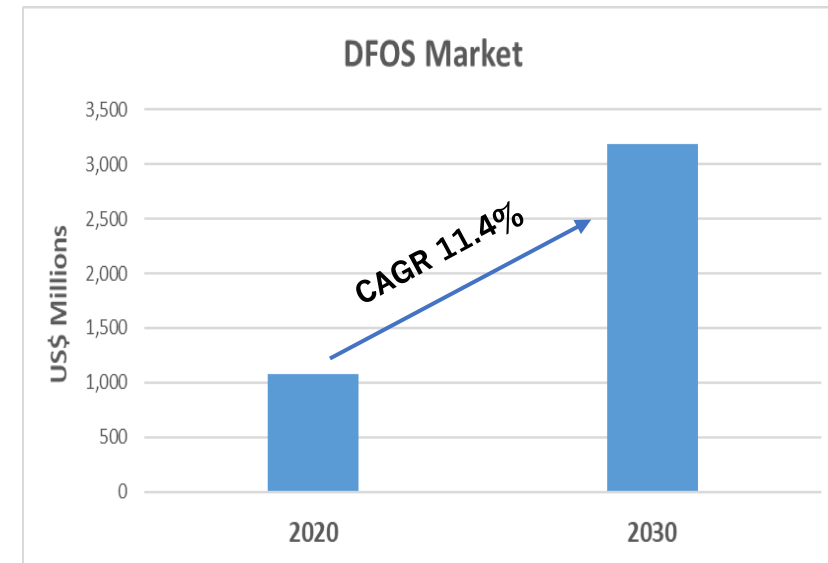


- Product: OptaSense
- Market Leader in Long-Range Distributed Acoustic Sensing (DAS)
 - Proprietary distributed acoustic sensing and software analytics
 - Measure acoustic signals continuously using fiber over very long lengths (50 km)
 - Markets
 - Borders, perimeter security, transportation, pipelines, oil and gas

The combination of Luna and OptaSense creates a global market leader in distributed fiber sensing (DFOS) technology

- OptaSense creates reach into broader distributed fiber sensing market DFOS market by providing fully distributed measurement capabilities over long-range applications
- Acquisition adds significantly to Luna's ability to penetrate and grow key target markets such as infrastructure, transportation and perimeter security; adds oil and gas and pipeline monitoring markets, including the world's largest fiber sensing-based monitoring projects

Long range, distributed capability adds significantly to Luna's addressable market



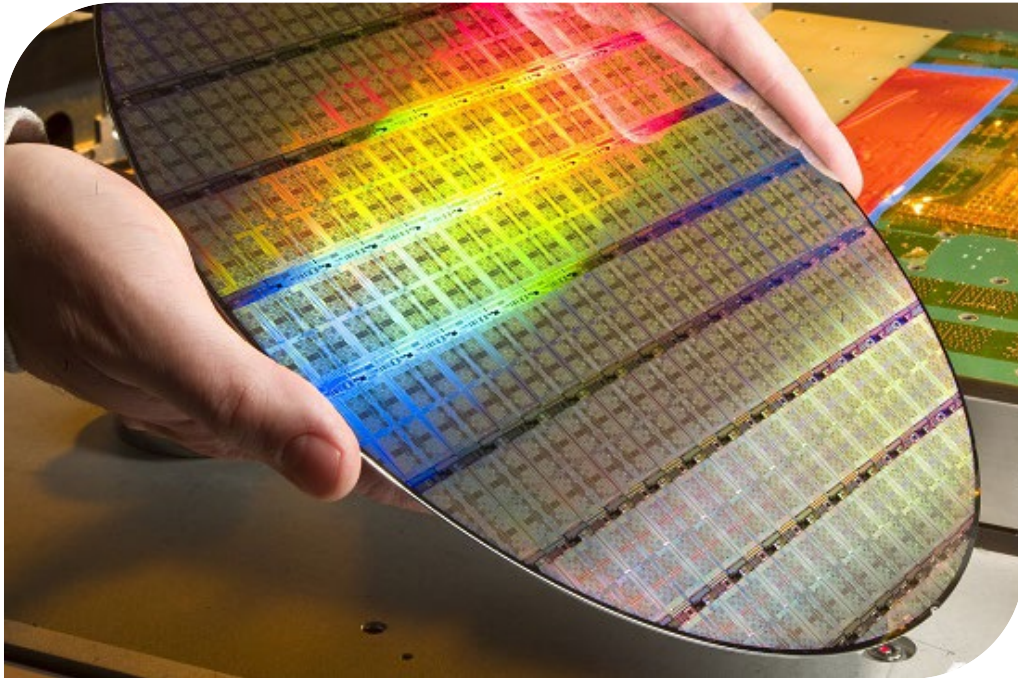
Visiongain, February 2020

Comms Test



- Increased data and video consumption
 - Video forecasted to represent 82% of all IP traffic in 2022, 34% CAGR
- Growth in mobile and 4G/5G
 - Mobile data traffic growing at 46% CAGR
- Cloud services and adoption of Internet of Things
 - Data center traffic growing at 26% CAGR
 - 28.5 billion IoT networked devices by 2022

Comms Test: Components



- Product: Optical Vector Analyzer (OVA)
- Ensuring speed at the chip level
- Unprecedented visibility inside devices - you can't fix what you can't see
- Reduces time and cost associated with the development of high-speed optical components
- Focus on enabling the carriers to move to 5G networks

Comms Test: Short-haul network



- Product: Optical Backscatter Reflectometer (OBR)
- Bandwidth demands continue to drive double-digit connectivity growth
- Delivers unprecedented visibility into short-haul networks
- Emerging market for on-board aircraft communications
- Ensuring network “up time” on Lockheed Martin’s F-35



Luna Labs



- Work with universities and government research labs to explore technological feasibility with a goal toward proof of concept
- Collaborate with prime contractors, government offices and federally-funded R&D centers
- Work with contract manufacturers, suppliers, licensees and distributors to develop everything from small-scale prototypes up to and including market-ready products
- Based in Charlottesville, VA

1Q FY21 Results



First-quarter 2021: Key Financial Results

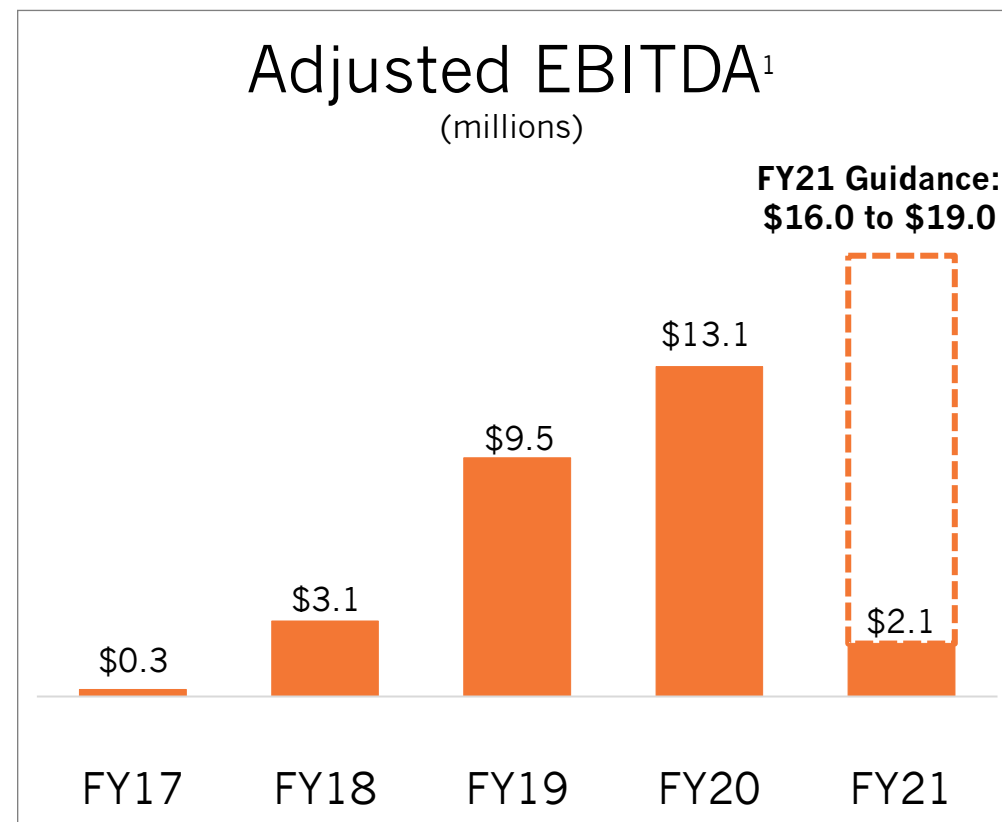
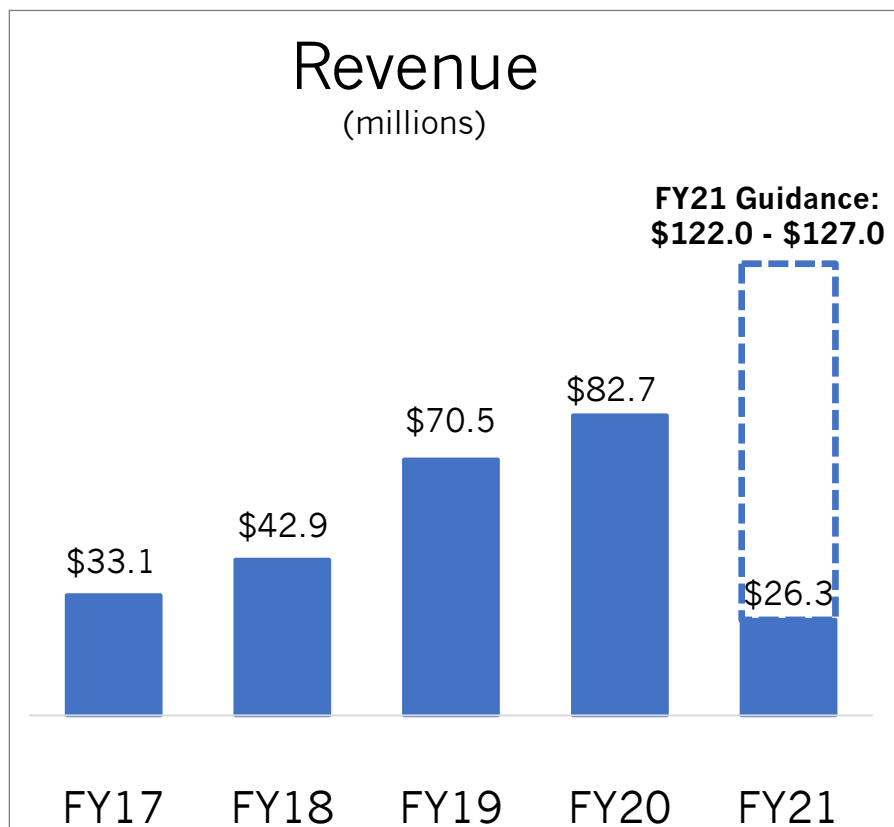
- Total revenues of \$26.3M; up 53% year-over-year
 - Lightwave revenue of \$21.0M, up 82% year-over-year
 - Luna Labs revenue of \$5.3M, down 5% year-over-year
- Gross Margin increased to 51%, compared to 49% for the prior-year period
- Operating loss of \$0.8M, compared to operating income of \$0.4M for the prior-year period
 - Loss largely due to:
 - \$0.9M integration and transaction related costs
 - \$0.5M amortization of intangibles and inventory step-up related to our 2020 acquisitions
- Adjusted EBITDA of \$2.1M, compared to \$1.6M for the prior-year period
- Adjusted EPS of \$0.03, compared to \$0.02 for the prior-year period

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.

First-quarter 2021 Highlights

- Total Lightwave revenues up >80%
 - Legacy Lightwave revenues increased double-digit vs. prior-year quarter
- Traction and customer orders remain strong:
 - Large ODiSi (sensing product) order from defense contractor
 - Key strategic wins for Terahertz products in process control markets
 - OBR 6200 sales (comms test)
- OptaSense, a leader in distributed acoustic sensing, operating as stand-alone company in 2021, with key services provided through TSAs for first six months; functional integration begins after first year
 - Employees transitioned / in transition to Luna systems
 - Mapping of OptaSense accounts to Luna complete
 - Financial and IT systems integration ongoing
- Integration of New Ridge Technologies largely completed

Strong Financial Results; 2021 Outlook



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 March 31, 2021:
 - \$129.1M in total assets
 - \$11.8M in cash and cash equivalents
 - \$47.3M in working capital
- Total debt of \$18.9M outstanding
 - \$11.4M 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

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- Positioned to **take advantage of trends** such as vehicle light-weighting and increasing demands on data centers and broadband capacity
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Appendix



Reconciliation of Net Income to Adjusted EBITDA

Luna Innovations Incorporated
Reconciliation of Non-GAAP Financial Measures
(in thousands)

	Three Months Ended	
	March 31,	
	2021	2020
	(Unaudited)	
<u>Reconciliation of EBITDA and Adjusted EBITDA</u>		
Net loss	\$ (318)	\$ (1,116)
Loss from discontinued operations, net of income tax benefit of \$464	-	1,436
Net income from continuing operations	(318)	320
Interest expense	143	-
Investment income	-	(59)
Income tax (benefit)/expense	(619)	138
Depreciation and amortization	1,231	679
EBITDA	437	1,078
Share-based compensation	657	502
Integration and transaction expense	886	-
Amortization of Inventory step-up	168	-
Adjusted EBITDA	\$ 2,148	\$ 1,580

Reconciliation of Net Income to Adjusted EPS

Luna Innovations Incorporated
Reconciliation of Non-GAAP Financial Measures
(in thousands)

	Three Months Ended	
	March 31,	
	2021	2020
	(Unaudited)	
Reconciliation of Net Income to Adjusted EPS		
GAAP (loss)/income from continuing operations	\$ (318)	\$ 320
Adjustments:		
Share-based Compensation	657	502
Integration and transaction expense	886	
Amortization of Inventory Step-up	168	-
Total adjustments:	1,711	502
Income tax adjustment - benefit (expense)	(428)	(126)
Adjusted (loss)/income from continuing operations	\$ 965	\$ 697
Adjusted EPS	\$ 0.03	\$ 0.02
Adjusted weighted average shares (in thousands):		
Diluted	33,353	32,549

Historical Quarterly Results

	(in thousands)				
	Three Months Ended				
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020 ^A	March 31, 2021 ^B
Revenues:					
Lightwave	\$ 11,554	\$ 12,933	\$ 15,350	\$ 19,278	\$ 20,997
Luna Labs	5,587	5,642	5,700	6,637	5,302
Total revenues	<u>17,141</u>	<u>18,576</u>	<u>21,050</u>	<u>25,915</u>	<u>26,299</u>
Cost of revenues:					
Lightwave	4,885	5,181	5,670	7,570	8,771
Luna Labs	3,892	3,878	4,431	4,986	4,099
Total cost of revenues	<u>8,777</u>	<u>9,059</u>	<u>10,101</u>	<u>12,556</u>	<u>12,870</u>
Gross Profit	<u>8,364</u>	<u>9,517</u>	<u>10,949</u>	<u>13,359</u>	<u>13,429</u>
Operating expense:					
Selling, general and administrative	6,377	6,202	6,505	8,559	10,404
Research, development and engineering	1,597	1,505	1,616	1,996	2,933
Acquisition related expense	-	-	-	2,204	886
Loss on sale and disposal of property and equipment	-	-	576	69	-
Total operating expense	<u>7,974</u>	<u>7,707</u>	<u>8,697</u>	<u>12,828</u>	<u>14,223</u>
Operating income/(loss)	<u>\$ 390</u>	<u>\$ 1,810</u>	<u>\$ 2,252</u>	<u>\$ 531</u>	<u>\$ (794)</u>

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

B Includes \$886 of OptaSense integration and other deal related costs.