

# **Vizrt Group AS Reports Full Year and Q4 2016 Results**

**Bergen, Norway, February 23, 2017. Vizrt Group AS.**

**Vizrt today reported its financial results for the fourth quarter and the full year of 2016.**

Vizrt Group AS (the "Group") acquired Vizrt Ltd. on March 19, 2015 ("the Acquisition date"). To provide a meaningful operational comparison (non-GAAP basis) the results for 2015 have been added the results of Vizrt Ltd. from January 1, 2015 until the Acquisition date, excluding amortizations.

The analysis and tables below are based on these non-GAAP measurements which are considered by management to be the most relevant for evaluating the performance of the Group. This press release includes reconciliations between GAAP and non-GAAP measurements. Additionally, it includes GAAP reports of the Group, as well as non-GAAP pro-forma reports.

## **Q4 2016 HIGHLIGHTS**

- Non-GAAP revenue of MUSD 26.3, down 13% compared to Q4 2015.
- Backlog at the end of December was MUSD 58.3, up 14% compared to the same time last year.
- 2016 OPEX includes MUSD 0.9 of one-off expenses related to organizational and other restructurings. 2015 includes MUSD 0.4 of one-off expenses related to transactional costs arising from the acquisition. These one-off expenses are excluded from the recurring measurements.
- Non-GAAP recurring (excluding one-off items) EBITA of MUSD 5.1, corresponding to a 20% margin, down 14% compared to MUSD 5.9 (margin of 20%) for the same period last year.
- Adjusted cash flow from operating activities of MUSD 7.3 compared to MUSD 9.2 in Q4 2015. The cash flow from operating activities for 2016 is adjusted for MUSD 2.4 bond interest.
- Q4 2016 R&D expenses exclude MUSD 1.7 attributed to an intangible asset arising from certain development projects. The Group started capitalizing such development costs in Q2 2016 and will continue this practice going forward.
- Excluding the above mentioned capitalization of development cost the EBITA and cash flows are as follows:
  - Non-GAAP recurring EBITA of MUSD 3.4, corresponding to a 13% margin, down 37% compared to MUSD 5.9 in Q4 2015.
  - Adjusted cash flow from operating activities of MUSD 5.6, compared to MUSD 9.2 in Q4 2015.

## **Full year 2016 HIGHLIGHTS**

- Non-GAAP revenue of MUSD 119.5, down 7% compared to the same period 2015.
- 2016 OPEX includes MUSD 3.2 of one-off expenses related to change of CEO, organizational and other restructuring costs and legal costs related to the bond issue. 2015 includes MUSD 5.4 of one-off expenses related to transactional costs arising from the acquisition. These one-off expenses are excluded from the recurring measurements.
- Non-GAAP recurring EBITA of MUSD 27.5 (MUSD 27.5 in 2015) corresponding to a margin of 23% (21% margin in 2015).
- Adjusted cash flow from operating activities of MUSD 25.6 compared to minus MUSD 10.1 for the same period last year. 2016 cash flow from operating activities is adjusted for MUSD 9.2 bond interest.
- Excluding capitalization of development cost of MUSD 4.4, the EBITA and cash flow are as follows:
  - Non-GAAP recurring EBITA of MUSD 23.1, corresponding to a 19% margin, down 16% compared to MUSD 27.5 (21% margin) for the same period last year.
  - Adjusted cash flow from operating activities of MUSD 21.2, compared to negative MUSD 10.1 for the same period last year.

## SELECTED FINANCIAL INFORMATION

### RESULTS OVERVIEW \*

In KUSD	Q4 2016	Q4 2015	Change in %	Q3 2016	Change in %	FY2016 YTD	FY2015 YTD	Change in %
Non-GAAP revenue	26,282	30,243	-13%	30,873	-15%	119,537	128,261	-7%
Non-GAAP gross profit	18,350	21,041	-13%	21,935	-16%	84,968	90,221	-6%
Non-GAAP gross Margin	70%	70%		71%		71%	70%	
Non-GAAP recurring EBITA	5,132	5,938	-14%	7,242	-29%	27,540	27,527	0%
Non-GAAP recurring EBITA-Margin	20%	20%		23%		23%	21%	
Non-GAAP recurring EBITDA	5,623	6,505	-14%	7,690	-27%	29,428	29,637	-1%
Non-GAAP recurring EBITDA-Margin	21%	22%		25%		25%	23%	
Adjusted cash flow from operating activities**	7,322	9,229	-21%	10,903	-33%	25,649	(10,084)	-354%

\* Reconciliation of GAAP to Non-GAAP selected financial information appears hereunder.

\*\* Adjusted cash flow from operating activities is adjusted for MUSD 2.4 Interest on bond in Q4 2016, MUSD 2.2 in Q4 2015 and MUSD 2.3 in Q3 2016. For FY 2016 and FY 2015, adjusted cash flow from operation activities is adjusted for MUSD 9.2 and MUSD 6.9, respectively.

### Geographic breakdown of Non-GAAP revenues

In KUSD	Q4 2016	Q4 2015	Change in %	Q3 2016	Change in %	12mo 2016	12mo 2015	Change in %
EMEA	11,188	14,983	-25%	14,313	-22%	54,561	58,268	-6%
AMECS	7,752	8,920	-13%	8,305	-7%	34,487	39,020	-12%
APAC	7,342	6,340	16%	8,255	-11%	30,489	30,973	-2%
Total revenues	26,282	30,243	-13%	30,873	-15%	119,537	128,261	-7%

Revenues in EMEA, AMECS and APAC, accounted for 43%, 29% and 28% of Q4 2016 total revenues, respectively, as compared to 50%, 29% and 21% respectively, in Q4 2015.

## MANAGEMENT OVERVIEW

- The activity level up to year end was satisfactory, especially in EMEA and APAC, and resulted in a backlog of MUSD 58.3 which is 14% and 9% up against Q4 2015 and Q3 2016 respectively.
- For the full year all three regions had a negative revenue development against last year and the revenue for the group was down by 7% or MUSD 8.8 against 2015. 2016 was the year without any larger individual deals and this especially shows out in the development in AMECS where 2015 included an individual deal with revenue of MUSD 4.1.
- non-GAAP gross margin for Q4 as well as the full year was maintained at the same level as for the same period last year even though revenue was down by 13% and 7% for the quarter and the full year. Efficiency improvements were the main driver for keeping the margin.
- Operating expenses excluding one-off expenses and before capitalization of development costs were 1% down from 2015 for the quarter as well as the full year.
- Cash generation was strong in 2016 and the adjusted cash flow from operating activities increased by MUSD 35.7, compared to 2015, to MUSD 25.6. 2015 included a tax payment of MUSD 27.2 (Q3) as a settlement with the Israeli tax authorities.

Vizrt's management stated: "Q4 2016 came in below our expectations. We saw a disappointing 13% to 15% decline in revenue compared to Q4 2015 and Q3 2016 and our recurring EBITA margin deteriorated accordingly.

The market activity in Q4 2016 and the beginning of 2017 looks promising and at the end of December we see a satisfactory 14% growth in our backlog compared to the same time last year. We will continue to work on improving sales and operational efficiency and effectiveness during 2017."

This press release contains forward-looking statements with respect to the business, financial condition and results of operations of Vizrt Group AS and its affiliates. These statements are based on the current expectations or beliefs of Vizrt's management and are subject to a number of risks and uncertainties that could cause actual results or performance of the Company to differ materially from those contemplated in such forward-looking statements. These risks and uncertainties relate to changes in technology and market requirements, the company's concentration on one industry, decline in demand for the company's products and those of its affiliates, inability to timely develop and introduce new technologies, products and applications, and loss of market share and pressure on pricing resulting from competition, which could cause the actual results or performance of the company to differ materially from those contemplated in such forward-looking statements. Vizrt undertakes no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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VIZRT GROUP AS  
RECONCILIATION OF GAAP TO NON-GAAP SELECTED FINANCIAL INFORMATION

U.S. dollars in thousands

	Three months ended December 31, 2016 GAAP	Amortization (a)	Vizrt Ltd Pro- forma	Three months ended December 31, 2016 Non-GAAP
<b>Selected financial information</b>				
Revenue	26,237	45	-	26,282
Gross profit	14,099	4,251	-	18,350
Recurring EBITA	(230) (c)	5,362	-	5,132
Recurring EBITDA	261 (c)	5,362	-	5,623

	Three months ended December 31, 2015 GAAP	Amortization (a)	Vizrt Ltd Pro- forma	Three months ended December 31, 2015 Non-GAAP
<b>Selected financial information</b>				
Revenue	28,753	1,490	-	30,243
Gross profit	15,828	5,213	-	21,041
Recurring EBITA	(2,864) (c)	8,802	-	5,938
Recurring EBITDA	(2,297) (c)	8,802	-	6,505

	Year ended December 31, 2016 GAAP	Amortization (a)	Vizrt Ltd Pro- forma	Year ended December 31, 2016 Non-GAAP
<b>Selected financial information</b>				
Revenue	119,357	180	-	119,537
Gross profit	67,964	17,004	-	84,968
Recurring EBITA	4,965 (c)	22,575	-	27,540
Recurring EBITDA	6,853 (c)	22,575	-	29,428

VIZRT GROUP AS  
**RECONCILIATION OF GAAP TO NON-GAAP SELECTED FINANCIAL INFORMATION**

U.S. dollars in thousands

	Year ended December 31, <u>2015</u> <u>GAAP</u>	<u>Amortization (a)</u>	<u>Vizrt Ltd Pro- forma (b)</u>	Year ended December 31, <u>2015</u> <u>Non-GAAP</u>
<b>Selected financial information</b>				
Revenue	104,243	4,473	19,545	128,261
Gross profit	59,531	17,698	12,992	90,221
Recurring EBITA	(258) (c)	28,848	(1,063)	27,527
Recurring EBITDA	1,376 (c)	28,848	(1,063)	29,161

(a) Numbers represent amortization of intangible assets and deferred revenues resulting from a purchase price allocation related to the Acquisition.

(b) To provide relevant comparables for 2015, the results of Vizrt Ltd from January 1, 2015 until the Acquisition date have been included.

(c) Recurring EBITA and EBITDA exclude one-off items related to the Acquisition and restructuring cost.

VIZRT GROUP AS  
CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands

	Three months ended December 31, 2016 Unaudited	Three months ended December 31, 2015 Unaudited	Year ended December 31, 2016 Unaudited	Year ended (*) December 31, 2015 Audited
Revenues	\$ 26,237	\$ 28,753	\$ 119,357	\$ 104,243
Cost of revenues	<u>12,138</u>	<u>12,925</u>	<u>51,393</u>	<u>44,712</u>
Gross profit	<u>14,099</u>	<u>15,828</u>	<u>67,964</u>	<u>59,531</u>
Operating expenses:				
Research and development	3,956	4,982	17,782	15,837
Selling and marketing	7,139	10,644	33,684	34,995
General and administrative	3,234	3,066	11,533	8,957
One-off expenses	<u>948</u>	<u>350</u>	<u>3,250</u>	<u>1,684</u>
<u>Total</u> operating expenses	<u>15,277</u>	<u>19,042</u>	<u>66,249</u>	<u>61,473</u>
Operating income (loss)	(1,178)	(3,214)	1,715	(1,942)
Financial expenses	<u>5,526</u>	<u>(111)</u>	<u>20,334</u>	<u>8,006</u>
Loss before taxes	6,704	3,103	18,619	9,948
Taxes on income (benefit)	<u>(1,412)</u>	<u>(2,259)</u>	<u>(2,966)</u>	<u>(216)</u>
Net loss	<u>\$ 5,292</u>	<u>\$ 844</u>	<u>\$ 15,653</u>	<u>\$ 9,732</u>

(\*) Vizrt Ltd was acquired on March 19, 2015 and its results are consolidated from this date.

VIZRT GROUP AS  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	December 31, 2016	December 31, 2015
	<u>Unaudited</u>	<u>Audited</u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and short-term deposits	\$ 47,570	\$ 37,427
Restricted cash	235	459
Trade receivables, net	25,184	27,405
Other accounts receivable and prepaid expenses	5,704	4,660
Inventories	<u>3,977</u>	<u>5,235</u>
<b>TOTAL CURRENT ASSETS</b>	<u>82,670</u>	<u>75,186</u>
NON-CURRENT ASSETS:		
Deferred taxes	6,013	6,009
Other non-current assets	<u>1,730</u>	<u>1,322</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u>7,743</u>	<u>7,331</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>3,845</u>	<u>3,929</u>
<b>GOODWILL AND INTANGIBLE ASSETS, NET</b>	<u>248,760</u>	<u>266,738</u>
<b>TOTAL ASSETS</b>	<u>\$ 343,018</u>	<u>\$ 353,184</u>



VIZRT GROUP AS  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	December 31, 2016	December 31, 2015
	<u>Unaudited</u>	<u>Audited</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Trade payables	\$ 3,001	\$ 2,487
Deferred revenues	9,415	8,841
Employees and payroll accruals	5,622	4,793
Tax accruals	5,594	6,458
Other accounts payable and accrued expenses	4,652	4,864
	<u>28,284</u>	<u>27,443</u>
NON-CURRENT LIABILITIES:		
Deferred Taxes	9,519	14,999
Other non-current liabilities	5,449	4,538
Bond	109,297	108,542
Loan from related party	87,519	77,994
	<u>211,784</u>	<u>206,073</u>
SHAREHOLDERS' EQUITY:		
Share capital	9	9
Additional paid-in capital	4,922	4,922
Grand parent contribution	173,959	173,959
Accumulated other comprehensive loss	(1,878)	(813)
Accumulated deficit	(74,062)	(58,409)
	<u>102,950</u>	<u>119,668</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>102,950</u>	<u>119,668</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$ 343,018</u>	<u>\$ 353,184</u>

VIZRT GROUP AS  
CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

	Three months Ended December 31, 2016 <u>Unaudited</u>	Three months ended December 31, 2015 <u>Unaudited</u>	Year ended December 31, 2016 <u>Unaudited</u>	Year ended (*) December 31, 2015 <u>Audited</u>
Net loss	\$ 5,292	\$ 844	\$ 15,653	\$ 9,732
<b>Adjustments required to reconcile net income to net cash provided by (used in) operating activities:</b>				
Depreciation and loss from disposal of property and equipment	491	567	1,888	1,634
Amortization of intangible assets	5,317	7,312	22,395	24,375
Amortization of R&D expenditures	23	-	32	-
Amortization of debenture discount and issuance costs	193	179	755	569
Financial income, net	4,766	8,255	18,690	11,726
Cash paid and received during the year for:				
Interest paid, net	(2,372)	(2,216)	(9,165)	(6,948)
Income tax paid, net	(441)	(607)	(2,675)	(28,846)
<b>Changes in assets and liabilities:</b>				
Accounts receivable and other receivables	6,273	5,228	(1,090)	(8,015)
Inventories	(46)	1,439	1,102	3,058
Deferred tax	(2,274)	(2,624)	(6,446)	(4,863)
Accounts payable and other liabilities	(1,688)	(9,676)	6,651	(485)
Cash flows from (used in) operating activities:	<u>4,950</u>	<u>7,013</u>	<u>16,484</u>	<u>(17,527)</u>
Cash flows used in investing activities:	<u>(1,954)</u>	<u>(491)</u>	<u>(6,081)</u>	<u>(308,293)</u>
Cash flows from (used in) financing activities:	<u>-</u>	<u>(4,926)</u>	<u>-</u>	<u>362,750</u>
Effect of exchange rate changes on cash and short term deposits	<u>139</u>	<u>825</u>	<u>(260)</u>	<u>392</u>
Increase in cash and cash equivalent	3,135	2,421	10,143	37,322
Cash and short-term deposits at the beginning of the period	<u>44,435</u>	<u>35,006</u>	<u>37,427</u>	<u>105</u>
Cash and short-term deposits at the end of the period from continuing operations	<u>\$ 47,570</u>	<u>\$ 37,427</u>	<u>\$ 47,570</u>	<u>\$ 37,427</u>

**VIZRT GROUP AS**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

U.S. dollars in thousands (except share data)

	Ordinary shares	Share capital	Additional paid-in capital	Grand parent contribution	Accumulated other comprehensive loss	Accumulated deficit	Total Equity
Balance as of January 1, 2015	30,000	5	-	-	-	(3)	2
Net loss	-	-	-	-	-	(9,732)	(9,732)
Other comprehensive loss	-	-	-	-	(813)	-	(813)
Total comprehensive loss	-	-	-	-	(813)	(9,732)	(10,545)
Investment on account of shares*	30,000	4	4,922	-	-	-	4,926
Dividend paid to the equity holder of the Company	-	-	-	-	-	(48,674)	(48,674)
Contribution from controlling shareholder	-	-	-	173,959	-	-	173,959
Balance as of December 31, 2015	60,000	\$ 9	\$ 4,922	\$ 173,959	\$ (813)	\$ (58,409)	\$ 119,668
Net loss	-	-	-	-	-	(15,653)	(15,653)
Other comprehensive income	-	-	-	-	(1,065)	-	(1,065)
Total comprehensive loss	-	-	-	-	(1,065)	(15,653)	(16,718)
Balance as of December 31, 2016	60,000	\$ 9	\$ 4,922	\$ 173,959	\$ (1,878)	\$ (74,062)	\$ 102,950

\* On March 17, 2015 the par value of the shares was increased from NOK 100 to NOK 200 per share.

VIZRT GROUP AS  
Notes to the financial statements

U.S. dollars in thousands

	Three months ended December 31, 2016 Unaudited	Three months ended December 31, 2015 Unaudited	Year ended December 31, 2016 Unaudited	Year ended December 31, 2015 Unaudited
<b>Financial expenses breakdown</b>				
Amortization of bond fees	192	179	754	569
Acquisition related financing fees	-	-	-	1,868
Exchange rate differences and other financial charges	555	(3,828)	820	(5,892)
Interest on bonds	2,326	2,135	9,031	6,816
Interest on RCF	59	59	203	173
Interest on intercompany loans	2,394	1,344	9,526	4,472
<b>Total financial expenses</b>	<b>\$ 5,526</b>	<b>\$ (111)</b>	<b>\$ 20,334</b>	<b>\$ 8,006</b>

**Vizrt Group AS Q4 2016**  
**Financial Statements Pro-forma**  
**Non-GAAP**

VIZRT GROUP AS  
**CONSOLIDATED PRO-FORMA STATEMENTS OF INCOME**

U.S. dollars in thousands

	Three months ended		Year ended	
	December 31,		December 31,	
	2016 (*)	2015 (**)	2016 (*)	2015 (**)
	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	\$ 26,282	\$ 30,243	\$ 119,537	\$ 128,261
Cost of revenues	<u>7,932</u>	<u>9,202</u>	<u>34,569</u>	<u>38,040</u>
Gross profit	<u>18,350</u>	<u>21,041</u>	<u>84,968</u>	<u>90,221</u>
Operating expenses:				
Research and development	3,956	4,982	17,782	20,428
Selling and marketing	6,028	7,055	28,113	30,818
General and administrative	3,234	3,066	11,533	11,448
One-off expenses	<u>948</u>	<u>350.00</u>	<u>3,250</u>	<u>5,338</u>
<u>Total operating expenses</u>	<u>14,166</u>	<u>15,453</u>	<u>60,678</u>	<u>68,032</u>
Operating income	4,184	5,588	24,290	22,189
Financial expenses	<u>5,526</u>	<u>(111)</u>	<u>20,334</u>	<u>8,473</u>
Income (loss) before taxes	(1,342)	5,699	3,956	13,716
Taxes on income (benefit)	<u>(806)</u>	<u>-1,264</u>	<u>(415)</u>	<u>3,730</u>
Net income (loss)	<u>\$ (536)</u>	<u>\$ 6,963</u>	<u>\$ 4,371</u>	<u>\$ 9,986</u>

(\*) Excluding amortization of intangible assets and deferred revenues resulted from PPA.

(\*\*) To provide sequential operational results for Q1 and full year 2015, the company included the results of Vizrt Ltd until the Acquisition date, excluding amortizations.

**VIZRT GROUP AS**  
**CONSOLIDATED PRO-FORMA STATEMENTS OF CASH FLOW**

U.S. dollars in thousands

	Three months Ended		Year ended	
	December 31,		December 31,	
	2016	2015	2016	2015
	Unaudited	Unaudited	Unaudited	Unaudited
Net income (loss)	\$ (536)	\$ 6,963	\$ 4,371	\$ 9,986
Adjustments required to reconcile net income to net cash provided by operating activities:				
Depreciation and loss from disposal of property and equipment	491	567	1,888	1,953
Amortization of R&D expenditures	23	-	32	-
Amortization of debenture discount and issuance costs	193	179	755	569
Financial income, net	4,766	8,255	18,690	11,726
Cash paid and received during the year for:				
Interest paid, net	(2,372)	(2,216)	(9,165)	(6,948)
Income tax paid, net	(441)	(607)	(2,675)	(28,846)
Changes in assets and liabilities:				
Accounts receivable and other receivables	6,091	3,738	(1,407)	(6,937)
Inventories	(46)	1,439	1,102	3,058
Deferred tax	(2,137)	(2,624)	(6,309)	(4,863)
Accounts payable and other liabilities	(1,082)	(8,681)	9,202	2,775
Cash flows from (used in) operating activities:	<u>4,950</u>	<u>7,013</u>	<u>16,484</u>	<u>(17,527)</u>
Cash flows used in investing activities:	<u>(1,954)</u>	<u>(491)</u>	<u>(6,081)</u>	<u>(308,293)</u>
Cash flows used in financing activities:	<u>-</u>	<u>(4,926)</u>	<u>-</u>	<u>362,750</u>
Effect of exchange rate changes on cash and short term deposits	<u>139</u>	<u>825</u>	<u>(260)</u>	<u>392</u>
Increase (Decrease) in cash and cash equivalent	3,135	2,421	10,143	37,322
Cash and short-term deposits at the beginning of the period	<u>44,435</u>	<u>35,006</u>	<u>37,427</u>	<u>105</u>
Cash and short-term deposits at the end of the period from continuing operations	<u>\$ 47,570</u>	<u>\$ 37,427</u>	<u>\$ 47,570</u>	<u>\$ 37,427</u>