

Vizrt Group AS Reports Q1 2017 Results

Bergen, Norway, May 4, 2017. Vizrt Group AS.

Vizrt today reported its financial results for the first quarter of 2017.

Q1 2017 HIGHLIGHTS

- Revenue of MUSD 28.5, up 1% compared to Q1 2016.
- 2017 OPEX includes MUSD 1.7 of one-off expenses related to reorganizations mainly within R&D. Q1 2016 included MUSD 0.4 of one-off expenses related to transactional costs arising from the acquisition Vizrt Ltd. These one-off expenses are excluded from the recurring measurements.
- Non-GAAP recurring (excluding one-off items) EBITA of MUSD 4.9, corresponding to a 17% margin, up 14% compared to MUSD 4.3 (margin of 15%) for the same period last year.
- Adjusted cash flow from operating activities of MUSD 2.8 compared to MUSD 1.9 in Q1 2016. The cash flow from operating activities for 2017 is adjusted for MUSD 2.3 (MUSD 2.2 in 2016) bond interest.
- 10% or MUSD 11.3 of the outstanding bond debt has been repaid.
- Q1 2017 R&D expenses exclude MUSD 1.5 attributed to intangible assets arising from certain development projects. The Group started capitalizing 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 12% margin, down 37% compared to MUSD 4.3 in Q1 2016. Due to lower gross margin and slightly higher OPEX.
 - Adjusted cash flow from operating activities of MUSD 1.3, compared to MUSD 1.9 in Q1 2016.

SELECTED FINANCIAL INFORMATION

RESULTS OVERVIEW

In KUSD	Q1 2017	Q1 2016	Change in %	Q4 2016	Change in %
Revenue	28 525	28 211	1%	26 282	9%
Non-GAAP gross profit *	19 439	19 868	-2%	18 350	6%
Non-GAAP gross margin	68%	70%		70%	
Recurring EBITA **	4 930	4 320	14%	5 132	-4%
Recurring EBITA-margin	17%	15%		20%	
Recurring EBITDA	5 378	4 781	12%	5 623	-4%
Recurring EBITDA-margin	19%	17%		21%	
Adjusted cash flow from operating activities***	2 768	1 848	50%	7 322	-62%

* Non-GAAP: Excluding amortization of intangibles relating to the acquisition of Vizrt Ltd.

** Recurring measurements excluding on-off items

*** Adjusted cash flow from operating activities is adjusted for MUSD 2.3 Interest on bond in Q1 2017, MUSD 2.2 in Q1 2016 and MUSD 2.2 in Q4 2016.

Geographic breakdown of revenues

In KUSD	Q1 2017	Q1 2016	Change in %	Q4 2016	Change in %
EMEA	14 525	12 783	14%	11 188	30%
AMECS	6 023	9 074	-34%	7 752	-22%
APAC	7 977	6 354	26%	7 342	9%
Total revenues	28 525	28 211	1%	26 282	9%

Revenues in EMEA, AMECS and APAC, accounted for 51%, 21% and 28% of Q1 2017 total revenues, respectively, as compared to 45%, 32% and 23% respectively, in Q1 2016.

MANAGEMENT OVERVIEW

- The activity level in the first quarter continued to be strong and the order intake was higher than during the same period last year. On a regional basis EMEA and APAC are well ahead of last year. AMECS is falling behind last year on revenue while order intake in Q1 was up against last year.
- Revenue for EMEA and APAC increased by 14% and 26% against Q1 2016 and against Q4 2016 the increases were 30% and 9% respectively. The revenue is a satisfactory mix of larger and smaller deals. The AMECS business continued to be struggling and revenues declined by 34% and 22% against respectively Q1 and Q4 last year.
- non-GAAP gross margin for Q1 was 68% or 2%-points below same quarter last year as well as Q last year.
- Operating expenses excluding one-off expenses and before capitalization of development costs were some MUSD 0.7 below Q1 2016.
- The adjusted cash flow from operating activities was MUSD 2.8 or MUSD 0.9 higher than for the same period last year.
- The option to redeem 10% of the Bond loan, at a price of 103%, has been exercised. The total cash payment amounted to MUSD 11.7.
- A reorganization within R&D was announced late March. The footprint of the R&D organization will be reduced from seven to four main sites, and the activities in Bangladesh and Tel Aviv will be closed down completely while the activity in Bangkok will be reduced significantly. As a result, some 70 staff members will be made redundant. All current activities in the entities impacted will be relocated to the four main sites and the number of staff in the main sites will increase.
- A provision for redundancy costs of MUSD 1.3 has been included as One-off items.

Vizrt's management stated: "Q1 2017 showed a good pick up in revenues in EMEA and APAC and the business activity is positive. In AMECS revenues declined for yet another quarter, but the order intake in Q1 was higher than what we saw in Q1 last year.

We are confident that the recently announced changes in R&D will reduce complexity and increase efficiency within our R&R organization. It is a substantial task to relocate the activities but we fully expect to be able to serve our customers and partners to our usual standards during this period. In the longer term we expect the changes will increase our flexibility and improve our value proposition."

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
CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands

	Three months ended March 31, 2017 Unaudited	Three months ended March 31, 2016 Unaudited	Three months ended December 31, 2016 Unaudited
Revenues	28 525	28 166	26 237
Cost of revenues	<u>(13 292)</u>	<u>(12 549)</u>	<u>(12 138)</u>
Gross profit	<u>15 233</u>	<u>15 617</u>	<u>14 099</u>
Operating expenses:			
Research and development	(4 365)	(5 458)	(3 956)
Selling and marketing	(8 289)	(9 433)	(7 139)
General and administrative	(2 966)	(2 894)	(3 234)
One-off expenses	<u>(1 656)</u>	<u>(350)</u>	<u>(948)</u>
<u>Total operating expenses</u>	<u>(17 276)</u>	<u>(18 135)</u>	<u>(15 277)</u>
Operating income (loss)	(2 043)	(2 518)	(1 178)
Financial expenses	<u>(4 982)</u>	<u>(9 172)</u>	<u>(5 526)</u>
Loss before taxes	(7 025)	(11 690)	(6 704)
Taxes on income (benefit)	<u>(231)</u>	<u>(892)</u>	<u>1 412</u>
Net loss	<u>(7 256)</u>	<u>(12 582)</u>	<u>(5 292)</u>

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	March 31, 2017	December 31, 2016
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and short-term deposits	34 720	47 570
Restricted cash	696	235
Trade receivables, net	31 624	25 184
Other accounts receivable and prepaid expenses	8 169	5 704
Inventories	4 364	3 977
TOTAL CURRENT ASSETS	79 573	82 670
NON-CURRENT ASSETS:		
Deferred taxes	5 315	6 013
Other non-current assets	2 107	1 730
TOTAL NON-CURRENT ASSETS	7 422	7 743
PROPERTY AND EQUIPMENT, NET	3 843	3 845
GOODWILL AND INTANGIBLE ASSETS, NET	244 894	248 760
TOTAL ASSETS	335 732	343 018

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	March 31, 2017	December 31, 2016
	Unaudited	Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	2 960	3 001
Deferred revenues	14 479	9 415
Employees and payroll accruals	6 502	5 622
Tax accruals	5 901	5 594
Other accounts payable and accrued expenses	6 933	4 652
TOTAL CURRENT LIABILITIES	36 775	28 284
NON-CURRENT LIABILITIES:		
Deferred Taxes	9 216	9 519
Other non- current liabilities	5 460	5 449
Bond	98 160	109 297
Loan from related party	89 862	87 519
TOTAL NON-CURRENT LIABILITIES	202 698	211 784
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	(1 314)	(1 878)
Accumulated deficit	(81 317)	(74 062)
TOTAL SHAREHOLDERS' EQUITY	96 259	102 950
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	335 732	343 018

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

	Three months Ended March 31, 2017 <u>Unaudited</u>	Three months ended March 31, 2016 <u>Unaudited</u>	Three months ended December 31, 2016 <u>Unaudited</u>
Net loss	(7 256)	(12 582)	(5 292)
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and loss from disposal of property and equipment	448	461	491
Amortization of intangible assets	5 317	6 443	5 317
Amortization of R&D expenditures	-	-	23
Amortization of debenture discount and issuance costs	193	182	193
Financial income, net	4 643	9 181	4 766
Cash paid and received during the year for:			
Interest paid, net	(2 301)	(2 213)	(2 372)
Income tax paid, net	(285)	(2 231)	(441)
Changes in assets and liabilities:			
Accounts receivable and other receivables	(7 742)	(4 072)	6 273
Inventories	(259)	167	(46)
Deferred tax	(1 023)	(1 007)	(2 274)
Accounts payable and other liabilities	8 732	5 306	(1 688)
Cash flows from (used in) operating activities:	<u>467</u>	<u>(365)</u>	<u>4 950</u>
Cash flows used in investing activities:	<u>(2 289)</u>	<u>(847)</u>	<u>(1 954)</u>
Cash flows used in financing activities:	<u>(11 330)</u>	<u>-</u>	<u>-</u>
Effect of exchange rate changes on cash and short term deposits	<u>302</u>	<u>424</u>	<u>139</u>
Increase (Decrease) in cash and cash equivalent	(12 850)	(788)	3 135
Cash and short-term deposits at the beginning of the period	<u>47 570</u>	<u>37 427</u>	<u>44 435</u>
Cash and short-term deposits at the end of the period from continuing operations	<u>34 720</u>	<u>36 639</u>	<u>47 570</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, 2016	60 000	9	4 922	173 959	(813)	(58 409)	119 668
Net loss	-	-	-	-	-	(15 653)	(15 653)
Other comprehensive loss	-	-	-	-	(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
Net loss	-	-	-	-	-	(7 256)	(7 256)
Other comprehensive income	-	-	-	-	564	-	564
Total comprehensive loss	-	-	-	-	564	(7 256)	(6 692)
Balance as of March 31, 2017	60 000	9	4 922	173 959	(1 314)	(81 317)	96 259

VIZRT GROUP AS
Notes to the financial statements

U.S. dollars in thousands

	Three months ended <u>March 31,</u> <u>2017</u> <u>Unaudited</u>	Three months ended <u>March 31,</u> <u>2016</u> <u>Unaudited</u>	Three months ended <u>December 31,</u> <u>2016</u> <u>Unaudited</u>
<u>Financial expenses breakdown</u>			
Amortization of bond fees	(194)	(182)	(192)
Exchange rate differences and other financial charges	156	(4 311)	(649)
Interest on bonds	(2 301)	(2 213)	(2 213)
Fee Rolling Credit Facility	(44)	(53)	(59)
Interest on intercompany loans	(2 599)	(2 413)	(2 413)
Total financial expenses	<u>(4 982)</u>	<u>(9 172)</u>	<u>(5 526)</u>