

Vizrt Group AS Reports
Q2 and H1 2017 Results

Bergen, Norway, August 25, 2017. Vizrt Group AS.

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

Q2 2017 HIGHLIGHTS

- Order intake continued to develop well. The order intake comprises an increase in orders with recurring revenue, as well as some other larger projects where delivery is planned in future periods. This will have a positive impact on revenue in future periods, but a negative impact on this quarter.
- As a result, the revenue in this quarter was MUS\$ 28.1 compared to MUS\$ 34.2 in the same period last year. The Revenue in Q2 last year was extraordinarily strong including income recognition on several larger projects.
- 2017 OPEX includes MUS\$ 1.1 of one-off expenses related to the centralization of the R&D activities. Q2 2016 included MUS\$ 1.8 of one-off expenses related to change of CEO.
- Non-GAAP recurring (excluding one-off items) EBITA was MUS\$ 4.7, corresponding to a 17% margin, down 15 points compared to the same period last year.
- Adjusted cash flow from operating activities was MUS\$ 3.3 compared to MUS\$ 5.6 in Q2 2016. The cash flow from operating activities for 2017 is adjusted for MUS\$ 2.3 (MUS\$ 2.2 in 2016) bond interest.
- Q2 2017 R&D expenses exclude MUS\$ 1.1 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 MUS\$ 3.6, corresponding to a 13% margin, down 15% points compared to MUS\$ 9.6 in Q1 2016. Mainly due to the lower sales level and a slightly higher OPEX.
 - Adjusted cash flow from operating activities of MUS\$ 2.2, compared to MUS\$ 3.9 in Q2 2016.

SELECTED FINANCIAL INFORMATION

RESULTS OVERVIEW

In KUSD	Q2 2017	Q2 2016	Change in %	Q1 2017	Change in %	H1 2017	H1 2016	Change in %
Revenue	28 046	34 171	-18%	28 525	-2%	56 571	62 382	-9%
Non-GAAP gross profit *	19 839	24 816	-20%	19 439	2%	39 194	44 684	-12%
Non-GAAP gross margin	71%	73%		68%		69%	72%	
Recurring EBITA **	4 776	10 846	-56%	4 930	-3%	9 761	15 167	-36%
Recurring EBITA-margin	17%	32%		17%		17%	24%	
Recurring EBITDA **	5 244	11 334	-54%	5 378	-2%	10 726	16 115	-33%
Recurring EBITDA-margin	19%	33%		19%		19%	26%	
Adjusted cash flow from operating activities***	3 327	5 576	-40%	2 768	20%	6 150	7 424	-17%

* 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 Q2 2017, MUSD 2.2 in Q2 2016 and MUSD 2.3 in Q1 2017.

Geographic breakdown of revenues

In KUSD	Q2 2017	Q2 2016	Change in %	Q1 2017	Change in %	H1 2017	H1 2016	Change in %
EMEA	12 845	16 277	-21%	14 525	-12%	27 371	29 060	-6%
AMECS	7 391	9 355	-21%	6 023	23%	13 414	18 430	-27%
APAC	7 810	8 539	-9%	7 977	-2%	15 786	14 892	6%
Total revenues	28 046	34 171	-18%	28 525	-2%	56 571	62 382	-9%

Revenues in EMEA, AMECS and APAC, accounted for 46%, 26% and 28% of Q2 2017 total revenues, respectively, as compared to 48%, 27% and 25% respectively, in Q2 2016.

MANAGEMENT OVERVIEW

- The activity level in the second quarter continued to be strong and the order intake was higher than during the same period last year. However, the higher order intake is not reflected in revenue yet due to a higher degree of orders with recurring elements, and received orders with delivery in future periods. This will have a positive effect on revenue in future periods.
- As a result, revenue for this quarter declined compared to last year. The Revenue in Q2 last year was extraordinarily strong including income recognition on some larger projects. Revenue is down 2% compared to Q1 2017, both EMEA and APAC declined, and AMECS is up 23%.
- Non-GAAP gross margin for Q2 was 71% or 2-points below the same quarter last year, but improved compared to Q1 2017.
- Operating expenses excluding one-off expenses, and before capitalization of development costs were some MUSD 0.2 above Q2 2016.
- The adjusted cash flow from operating activities was MUSD 3.3 or MUSD 2.3 lower than for the same period last year.
- The centralization of the R&D activities from 7 to 4 sites announced late March is now being implemented. The activities in 3 regional development centers are being relocated to the 4 main development sites, leading to more efficient product development. The number of staff in the main sites will increase.
- A provision for redundancy costs of MUSD 1.1 has been included as one-off items in Q2 and total MUSD 2.7 for the first half year.

Vizrt's management stated: "Q2 2017 continued to show good development in Order Intake. The higher Order Intake is however not yet reflected in the revenue for the quarter as some Orders have large parts of recurring elements included, and some other larger projects will be recognized later when the solutions are fully delivered

to the customer. We are pleased by the development in EMEA and APAC, but continued to see a softer market development in AMECS.

We are on track with the recently announced changes in R&D and expect to 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 June 30, 2017 Unaudited	Three months ended June 30, 2016 Unaudited	Six months ended June 30, 2017 Unaudited	Six months ended June 30, 2016 Unaudited	Year ended December 31, 2016 Audited
Revenues	28 046	34 126	56 571	62 292	119 357
Cost of revenues	<u>(12 496)</u>	<u>(13 561)</u>	<u>(25 788)</u>	<u>(26 110)</u>	<u>(51 393)</u>
Gross profit	<u>15 550</u>	<u>20 565</u>	<u>30 783</u>	<u>36 182</u>	<u>67 964</u>
Operating expenses:					
Research and development	(4 806)	(3 904)	(9 170)	(9 362)	(17 782)
Selling and marketing	(8 291)	(8 501)	(16 580)	(17 934)	(33 684)
General and administrative	(3 046)	(2 676)	(6 013)	(5 570)	(11 533)
One-off expenses	<u>(1 054)</u>	<u>(1 838)</u>	<u>(2 709)</u>	<u>(2 188)</u>	<u>(3 250)</u>
Total operating expenses	<u>(17 197)</u>	<u>(16 919)</u>	<u>(34 472)</u>	<u>(35 054)</u>	<u>(66 249)</u>
Operating income (loss)	(1 647)	3 646	(3 689)	1 128	1 715
Financial expenses	<u>(4 681)</u>	<u>(454)</u>	<u>(9 664)</u>	<u>(9 626)</u>	<u>(20 334)</u>
Income (loss) before taxes	(6 328)	3 192	(13 353)	(8 498)	(18 619)
Taxes on income (benefit)	<u>203</u>	<u>3 078</u>	<u>(28)</u>	<u>2 186</u>	<u>2 966</u>
Net income (loss)	<u>(6 125)</u>	<u>6 270</u>	<u>(13 381)</u>	<u>(6 312)</u>	<u>(15 653)</u>

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
	<u>Unaudited</u>	<u>Audited</u>
ASSETS		
CURRENT ASSETS:		
Cash and short-term deposits	34 962	47 570
Restricted cash	701	235
Trade receivables, net	33 970	25 184
Other accounts receivable and prepaid expenses	9 066	5 704
Inventories	4 633	3 977
TOTAL CURRENT ASSETS	<u>83 332</u>	<u>82 670</u>
NON-CURRENT ASSETS:		
Deferred taxes	6 910	6 013
Other non-current assets	2 588	1 730
TOTAL NON-CURRENT ASSETS	<u>9 498</u>	<u>7 743</u>
PROPERTY AND EQUIPMENT, NET	<u>3 757</u>	<u>3 845</u>
GOODWILL AND INTANGIBLE ASSETS, NET	<u>240 715</u>	<u>248 760</u>
TOTAL ASSETS	<u>337 302</u>	<u>343 018</u>

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	June 30, 2017	December 31, 2016
	<u>Unaudited</u>	<u>Audited</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	3 644	3 001
Deferred revenues	17 169	9 415
Employees and payroll accruals	7 500	5 622
Tax accruals	6 195	5 594
Other accounts payable and accrued expenses	<u>7 912</u>	<u>4 652</u>
TOTAL CURRENT LIABILITIES	<u>42 420</u>	<u>28 284</u>
NON-CURRENT LIABILITIES:		
Deferred Taxes	8 631	9 519
Other non- current liabilities	4 814	5 449
Bond	98 334	109 297
Loan from related party	<u>92 777</u>	<u>87 519</u>
TOTAL NON-CURRENT LIABILITIES	<u>204 556</u>	<u>211 784</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	(1 120)	(1 878)
Accumulated deficit	<u>(87 443)</u>	<u>(74 062)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>90 327</u>	<u>102 950</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>337 302</u>	<u>343 018</u>

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

	Three months Ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016	Year ended December 31, 2016
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
Net income (loss)	(6 125)	6 270	(13 381)	(6 312)	(15 653)
Adjustments required to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and loss from disposal of property and equipment	506	488	954	949	1 888
Amortization of intangible assets	5 286	5 317	10 603	11 760	22 395
Amortization of R&D expenditures	83	-	138	-	32
Amortization of debenture discount and issuance costs	174	188	367	370	755
Financial income, net	5 111	59	9 754	9 240	18 690
Cash paid and received during the year for:					
Interest paid, net	(2 200)	(2 291)	(4 501)	(4 504)	(9 165)
Income tax paid, net	(726)	(66)	(1 011)	(2 297)	(2 675)
Changes in assets and liabilities:					
Accounts receivable and other receivables	(3 089)	(5 533)	(10 831)	(9 605)	(1 090)
Inventories	(123)	503	(382)	670	1 102
Deferred tax	(613)	(2 965)	(1 636)	(3 972)	(6 446)
Accounts payable and other liabilities	2 843	1 315	11 575	6 621	6 651
Cash flows from operating activities:	<u>1 127</u>	<u>3 285</u>	<u>1 649</u>	<u>2 920</u>	<u>16 484</u>
Cash flows used in investing activities:	<u>(1 362)</u>	<u>(1 982)</u>	<u>(3 706)</u>	<u>(2 829)</u>	<u>(6 081)</u>
Cash flows from financing activities:	<u>-</u>	<u>-</u>	<u>(11 330)</u>	<u>-</u>	<u>-</u>
Effect of exchange rate changes on cash and short term deposits	<u>477</u>	<u>(715)</u>	<u>779</u>	<u>(291)</u>	<u>(260)</u>
Increase in cash and cash equivalent	242	588	(12 608)	(200)	10 143
Cash and short-term deposits at the beginning of the period	<u>34 720</u>	<u>36 639</u>	<u>47 570</u>	<u>37 427</u>	<u>37 427</u>
Cash and short-term deposits at the end of the period from continuing operations	<u>34 962</u>	<u>37 227</u>	<u>34 962</u>	<u>37 227</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	-	-	-	-	-	(13 381)	(13 381)
Other comprehensive income	-	-	-	-	758	-	758
Total comprehensive loss	-	-	-	-	758	(13 381)	(12 623)
Balance as of June 30, 2017	60 000	9	4 922	173 959	(1 120)	(87 442)	90 328

* 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 June 30, <u>2017</u> <u>Unaudited</u>	Three months ended June 30, <u>2016</u> <u>Unaudited</u>	Six months ended June 30, <u>2017</u> <u>Unaudited</u>	Six months ended June 30, <u>2016</u> <u>Unaudited</u>	Year ended December 31, <u>2016</u> <u>Unaudited</u>
Financial expenses breakdown					
Amortization of bond fees	(174)	(188)	367	(370)	(754)
Exchange rate differences and other financial charges	437	4 348	(185)	37	(820)
Interest on bonds	(2 301)	(2 245)	(4 501)	(4 458)	(9 031)
Fee Rolling Credit Facility	(44)	(45)	(88)	(98)	(203)
Interest on intercompany loans	(2 599)	(2 324)	(5 257)	(4 737)	(9 526)
Total financial expenses	(4 681)	(454)	(9 664)	(9 626)	(20 334)

Vizrt Group AS

RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the condensed financial statements for the full year of 2016 which have been prepared in accordance with IAS 34 Interim Financial Reporting give a true and fair view of the Company's consolidated assets, liabilities, financial position and results of operations for the period. We also confirm to the best of our knowledge that the financial review includes a fair review of important events that have occurred during the first half of 2017 and their impact on the financial statements, any major related parties' transactions, and a description of the principal risks and uncertainties for the remaining six months of the financial year.

Bergen, August 25, 2017

Michael Hallén

(Chairman of the Board of Directors and CEO)

Esben Ravn Olesen

(Board Member and CFO)