

Vizrt Group AS Reports Nine months and Q3 2016 Results

Bergen, Norway, November 9, 2016. Vizrt Group AS.

Vizrt today reported its financial results for the third quarter and the first nine months 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 the first nine months of 2015 have been added the results of Vizrt Ltd. from January 1, 2015 until the Acquisition date, net of amortization of intangible assets.

The analysis and tables below are based on these non-GAAP measurements which are considered by management to be the most relevant when 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.

Q3 2016 HIGHLIGHTS

- Non-GAAP revenue of MUSD 30.9, down 10% compared to Q3 2015.
- Backlog at the end of September is MUSD 53.6, up 7% compared to the same period last year.
- Non-GAAP recurring (excluding one-off items) EBITA of MUSD 7.2, corresponding to a 23% margin, down 17% compared to MUSD 8.7 (margin of 25%) for the same period last year.
- Adjusted cash flow from operating activities of MUSD 10.9 compared to minus MUSD 22.4 in Q3 2015. The cash flow from operating activities for 2016 is adjusted for MUSD 2.3 bond interest.
- Q3 2016 R&D expenses exclude MUSD 1.1 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 flow are as follows:
 - Non-GAAP recurring EBITA of MUSD 6.1, corresponding to a 20% margin, down 30% compared to MUSD 8.7 (25%) in Q3 2015.
 - Adjusted cash flow from operating activities of MUSD 9.8, compared to negative MUSD 22.4 in Q3 2015.

First nine months 2016 HIGHLIGHTS

- Non-GAAP revenue of MUSD 93.3, down 5% compared to the same period 2015.
- 2016 OPEX include MUSD 2.3 of one-off expenses related to change of CEO and legal costs related to the bond issue. 2015 includes MUSD 1.3 of one-off expenses related to transactions' cost. These one-off expenses are excluded from the recurring measurements.
- Non-GAAP recurring EBITA of MUSD 22.4, corresponding to a 24% margin, up 4% compared to MUSD 21.6 (22% margin) for the same period last year.
- Adjusted cash flow from operating activities of MUSD 18.3 compared to minus MUSD 19.9 for the same period last year. 2016 cash flow from operating activities is adjusted for MUSD 6.8 interest on bond.
- Excluding capitalization of development cost of MUSD 2.8, the EBITA and cash flow are as follows:
 - Non-GAAP recurring EBITA of MUSD 19.6, corresponding to a 21% margin, down 9% compared to MUSD 21.6 (22%) for the same period last year.
 - Adjusted cash flow from operating activities of MUSD 15.5, compared to negative MUSD 19.9 for the same period last year.

SELECTED FINANCIAL INFORMATION

RESULTS OVERVIEW *

In KUSD	Q3 2016	Q3 2015	Change in %	Q2 2016	Change in %	Q3 2016 YTD	Q3 2015 YTD	Change in %
Non-GAAP revenue	30,873	34,400	-10%	34,171	-10%	93,255	98,017	-5%
Non-GAAP gross profit	21,935	24,729	-11%	24,816	-12%	66,619	69,180	-4%
Non-GAAP gross Margin	71%	72%		73%		71%	71%	
Non-GAAP recurring EBITA	7,242	8,728	-17%	10,846	-33%	22,409	21,589	4%
Non-GAAP recurring EBITA-Margin	23%	25%		32%		24%	22%	
Non-GAAP recurring EBITDA	7,690	9,207	-16%	11,334	-32%	23,806	23,132	3%
Non-GAAP recurring EBITDA-Margin	25%	27%		33%		26%	24%	
Adjusted cash flow from operating activities**	10,903	(22,423)	-149%	5,576	96%	18,327	(19,886)	-192%

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

** Adjusted cash flow from operation activities is adjusted for MUSD 2.3 Interest on bond in Q3 2016, MUSD 2.5 in Q3 2015 and MUSD 2.3 in Q2 2016. For 9 months 2016 and 9 months 2015, adjusted cash flow from operation activities is adjusted for MUSD 6.8 and MUSD 4.7, respectively.

Geographic breakdown of Non-GAAP revenues

In KUSD	Q3 2016	Q3 2015	Change in %	Q2 2016	Change in %	9mo 2016	9mo 2015	Change in %
EMEA	14,313	13,068	10%	16,277	-12%	43,374	43,283	0%
AMECS	8,305	12,593	-34%	9,355	-11%	26,734	30,100	-11%
APAC	8,255	8,739	-6%	8,539	-3%	23,147	24,634	-6%
Total revenues	30,873	34,400	-10%	34,171	-10%	93,255	98,017	-5%

Revenues in EMEA, AMECS and APAC, accounted for 46%, 27% and 27% of Q3 2016 total revenues, respectively, as compared to 38%, 37% and 25% respectively, in Q3 2015.

MANAGEMENT OVERVIEW

- AMECS had a slower third quarter than expected and is up against a strong quarter last year including one significant non-recurring deal (MUSD 4.1). EMEA had a strong quarter, 10% growth, and is back on same level as last year for the nine months.
- non-GAAP gross margin for the nine months is at the same level as last year even though revenue is 5% down.
- Recurring non-GAAP EBITA for the first nine months is up by 4% or MUSD 0.8. The improvement is attributable to MUSD 2.8 capitalization of development costs and slightly lower OPEX of MUSD 0.6, partially offset by lower revenues and gross profit of MUSD 2.6.
- The third quarter 2016 as well as the nine months showed a strong cash generation. Q3 2015 included a tax payment of MUSD 27.2 as a settlement with the Israeli tax authorities.

Vizrt's management stated: "The result of the summer months of Q3 2016 was in line with our expectations. A softer topline as compared to Q2 and continued improvement of operational efficiency. EMEA and APAC came in close to our expectations while AMECS had a softer quarter than expected following the successful Olympics and the good first half year. The softness in AMECS is due in part to lower than expected spending during the US presidential election.

The first nine months of 2016 are 5% (MUSD 4.7) down from 2015, the shortfall mainly relates to a one-time transaction in AMECS in Q3 of 2015.

We continue to see a market that remains cautious with entering into large infrastructure investments prioritized to meet future IP and 4K demands.

Our backlog remains healthy which is supported by our customers continuously seeking ways of improving efficiency and of reaching their viewers regardless of platform or method of consumption."

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 September 30, 2016 GAAP	Amortization (a)	Vizrt Ltd Pro- forma	Three months ended September 30, 2016 Non-GAAP
Selected financial information				
Revenue	30,828	45	-	30,873
Gross profit	17,684	4,251	-	21,935
Recurring EBITA	1,880 (c)	5,362	-	7,242
Recurring EBITDA	2,328 (c)	5,362	-	7,690

	Three months ended September 30, 2015 GAAP	Amortization (a)	Vizrt Ltd Pro- forma	Three months ended September 30, 2015 Non-GAAP
Selected financial information				
Revenue	32,909	1,491	-	34,400
Gross profit	18,807	5,922	-	24,729
Recurring EBITA	(721) (c)	9,449	-	8,728
Recurring EBITDA	(242) (c)	9,449	-	9,207

	Nine months ended September 30, 2016 GAAP	Amortization (a)	Vizrt Ltd Pro- forma	Nine months ended September 30, 2016 Non-GAAP
Selected financial information				
Revenue	93,120	135	-	93,255
Gross profit	53,866	12,753	-	66,619
Recurring EBITA	5,196 (c)	17,213	-	22,409
Recurring EBITDA	6,593 (c)	17,213	-	23,806

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

U.S. dollars in thousands

	Nine months ended September 30,		Vizrt Ltd Pro- forma (b)	Nine months ended September 30,	
	2015			2015	
	GAAP	Amortization (a)		Non-GAAP	
Selected financial information					
Revenue	75,490	2,982	19,545		98,017
Gross profit	43,703	12,485	12,992		69,180
Recurring EBITA	2,606 (c)	20,046	(1,063)		21,589
Recurring EBITDA	3,673 (c)	20,046	(586)		23,133

(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 <u>September 30,</u> <u>2016</u> <u>Unaudited</u>	Three months ended <u>September 30,</u> <u>2015</u> <u>Unaudited</u>	Nine months ended <u>September 30,</u> <u>2016</u> <u>Unaudited</u>	Nine months ended (*) <u>September 30,</u> <u>2015</u> <u>Unaudited</u>	Year ended (*) <u>December 31,</u> <u>2015</u> <u>Audited</u>
Revenues	\$ 30,828	\$ 32,909	\$ 93,120	\$ 75,490	\$ 104,243
Cost of revenues	<u>13,144</u>	<u>14,102</u>	<u>39,254</u>	<u>31,787</u>	<u>44,712</u>
Gross profit	<u>17,684</u>	<u>18,807</u>	<u>53,866</u>	<u>43,703</u>	<u>59,531</u>
Operating expenses:					
Research and development	4,465	5,007	13,827	10,855	15,837
Selling and marketing	8,611	11,750	26,545	24,351	34,995
General and administrative	2,728	2,771	8,298	5,891	8,957
One-off expenses	<u>114</u>	<u>-</u>	<u>2,302</u>	<u>1,334</u>	<u>1,684</u>
<u>Total operating expenses</u>	<u>15,918</u>	<u>19,528</u>	<u>50,972</u>	<u>42,431</u>	<u>61,473</u>
Operating income (loss)	1,766	(721)	2,894	1,272	(1,942)
Financial expenses	<u>5,183</u>	<u>1,898</u>	<u>14,809</u>	<u>8,117</u>	<u>8,006</u>
Loss before taxes	3,417	2,619	11,915	6,845	9,948
Taxes on income (benefit)	<u>632</u>	<u>1,073</u>	<u>(1,554)</u>	<u>2,043</u>	<u>(216)</u>
Net loss	<u>\$ 4,049</u>	<u>\$ 3,692</u>	<u>\$ 10,361</u>	<u>\$ 8,888</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

	September 30, 2016	December 31, 2015
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and short-term deposits	\$ 44,435	\$ 37,427
Restricted cash	337	459
Trade receivables, net	32,054	27,405
Other accounts receivable and prepaid expenses	5,911	4,660
Inventories	4,082	5,235
TOTAL CURRENT ASSETS	86,819	75,186
NON-CURRENT ASSETS:		
Deferred taxes	4,561	6,009
Other non-current assets	1,369	1,322
TOTAL NON-CURRENT ASSETS	5,930	7,331
PROPERTY AND EQUIPMENT, NET	4,051	3,929
GOODWILL AND INTANGIBLE ASSETS, NET	252,430	266,738
TOTAL ASSETS	\$ 349,230	\$ 353,184

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	September 30, 2016	December 31, 2015
	Unaudited	Audited
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	\$ 3,866	\$ 2,487
Deferred revenues	10,691	8,841
Employees and payroll accruals	5,986	4,793
Tax accruals	5,300	6,458
Other accounts payable and accrued expenses	5,153	4,864
TOTAL CURRENT LIABILITIES	30,996	27,443
NON-CURRENT LIABILITIES:		
Deferred Taxes	10,076	14,999
Other non- current liabilities	4,880	4,538
Bond	109,104	108,542
Loan from related party	85,125	77,994
TOTAL NON-CURRENT LIABILITIES	209,185	206,073
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	(1,071)	(813)
Accumulated deficit	(68,770)	(58,409)
TOTAL SHAREHOLDERS' EQUITY	109,049	119,668
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 349,230	\$ 353,184

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

	Three months Ended September 30, 2016 <u>Unaudited</u>	Three months ended September 30, 2015 <u>Unaudited</u>	Nine months ended September 30, 2016 <u>Unaudited</u>	Nine months ended (*) September 30, 2015 <u>Unaudited</u>	Year ended (*) December 31, 2015 <u>Audited</u>
Net loss	\$ 4,049	\$ 3,692	\$ 10,361	\$ 8,888	\$ 9,732
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	479	1,397	1,067	1,634
Amortization of intangible assets	5,318	7,957	17,078	17,063	24,375
Amortization of R&D expenditures	9	-	9	-	-
Amortization of debenture discount and issuance costs	192	179	562	390	569
Financial income, net	4,684	1,453	13,924	3,444	11,726
Cash paid and received during the year for:					
Interest paid, net	(2,289)	(2,168)	(6,793)	(4,654)	(6,948)
Income tax paid, net	63	(27,171)	(2,234)	(28,239)	(28,846)
Changes in assets and liabilities:					
Accounts receivable and other receivables	2,242	(577)	(7,363)	(13,243)	(8,015)
Inventories	478	(1,314)	1,148	1,619	3,058
Deferred tax	(200)	(633)	(4,172)	(2,239)	(4,863)
Accounts payable and other liabilities	1,718	896	8,339	9,140	(485)
Cash flows from (used in) operating activities:	<u>8,614</u>	<u>(24,591)</u>	<u>11,534</u>	<u>(24,540)</u>	<u>(17,527)</u>
Cash flows used in investing activities:	<u>(1,298)</u>	<u>(516)</u>	<u>(4,127)</u>	<u>(259,162)</u>	<u>(308,293)</u>
Cash flows from financing activities:	<u>-</u>	<u>3,047</u>	<u>-</u>	<u>319,036</u>	<u>362,750</u>
Effect of exchange rate changes on cash and short term deposits	<u>(108)</u>	<u>(807)</u>	<u>(399)</u>	<u>(433)</u>	<u>392</u>
Increase (Decrease) in cash and cash equivalent	7,208	(22,867)	7,008	34,901	37,322
Cash and short-term deposits at the beginning of the period	<u>37,227</u>	<u>57,873</u>	<u>37,427</u>	<u>105</u>	<u>105</u>
Cash and short-term deposits at the end of the period from continuing operations	<u>\$ 44,435</u>	<u>\$ 35,006</u>	<u>\$ 44,435</u>	<u>\$ 35,006</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	8,919
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)	\$ (38,945)	\$ 139,132
Net loss	-	-	-	-	-	10,361	10,361
Other comprehensive income	-	-	-	-	(258)	-	(258)
Total comprehensive loss	-	-	-	-	(258)	10,361	10,103
Balance as of September 30, 2016	60,000	\$ 9	\$ 4,922	\$ 173,959	\$ (1,071)	\$ (28,584)	\$ 149,235

* 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 September 30, 2016 Unaudited	Three months ended September 30, 2015 Unaudited	Nine months ended September 30, 2016 Unaudited	Nine months ended September 30, 2015 Unaudited	Year ended December 31, 2015 Unaudited
Financial expenses breakdown					
Amortization of bond fees	192	179	562	390	569
Acquisition related financing fees	-	-	-	1,868	1,868
Exchange rate differences and other financial charges	405	(1,956)	560	(2,064)	(5,892)
Interest on bonds	2,145	2,174	6,411	4,681	6,816
Interest on RCF	46	69	144	114	173
Interest on intercompany loans	2,395	1,432	7,132	3,128	4,472
Total financial expenses	\$ 5,183	\$ 1,898	\$ 14,809	\$ 8,117	\$ 8,006

Vizrt Group AS Q3 2016
Financial Statements Pro-forma
Non-GAAP

VIZRT GROUP AS
CONSOLIDATED PRO-FORMA STATEMENTS OF INCOME

U.S. dollars in thousands

	Three months ended September 30,		Nine months ended September 30,		Year ended December 31,
	2016 (*)	2015 (**)	2016 (*)	2015 (**)	2015 (**)
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Revenues	\$ 30,873	\$ 34,400	\$ 93,255	\$ 98,017	\$ 128,261
Cost of revenues	<u>8,938</u>	<u>9,671</u>	<u>26,636</u>	<u>28,837</u>	<u>38,040</u>
Gross profit	<u>21,935</u>	<u>24,729</u>	<u>66,619</u>	<u>69,180</u>	<u>90,221</u>
Operating expenses:					
Research and development	4,465	5,007	13,827	15,446	20,428
Selling and marketing	7,500	8,223	22,085	23,763	30,818
General and administrative	2,728	2,771	8,298	8,382	11,448
One-off expenses	<u>114</u>	<u>-</u>	<u>2,302</u>	<u>4,988</u>	<u>5,338</u>
<u>Total</u> operating expenses	<u>14,807</u>	<u>16,001</u>	<u>46,512</u>	<u>52,579</u>	<u>68,032</u>
Operating income	7,128	8,728	20,107	16,601	22,189
Financial expenses	<u>5,183</u>	<u>1,898</u>	<u>14,809</u>	<u>8,584</u>	<u>8,473</u>
Income before taxes	1,945	6,830	5,298	8,017	13,716
Taxes on income (benefit)	<u>1,238</u>	<u>2,998</u>	<u>391</u>	<u>4,994</u>	<u>3,730</u>
Net income	<u>\$ 707</u>	<u>\$ 3,832</u>	<u>\$ 4,907</u>	<u>\$ 3,023</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		Nine months ended		Year Ended
	September 30,		September 30,		December 31,
	2016	2015	2016	2015	2015
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Net income	\$ 707	\$ 3,832	\$ 4,907	\$ 3,023	\$ 9,986
Adjustments required to reconcile net income to net cash provided by operating activities:					
Depreciation and loss from disposal of property and equipment	448	479	1,397	1,543	1,953
Amortization of R&D expenditures	9	-	9	-	-
Amortization of debenture discount and issuance costs	192	179	562	390	569
Financial income, net	4,684	1,453	13,924	3,444	11,726
Cash paid and received during the year for:					
Interest paid, net	(2,289)	(2,168)	(6,793)	(4,654)	(6,948)
Income tax paid, net	63	(27,171)	(2,234)	(28,239)	(28,846)
Changes in assets and liabilities:					
Accounts receivable and other receivables	2,197	(2,068)	(7,498)	(10,831)	(6,937)
Inventories	478	(1,314)	1,148	1,619	3,058
Deferred tax	(200)	(633)	(4,172)	(2,239)	(4,863)
Accounts payable and other liabilities	2,325	2,820	10,284	11,404	2,775
Cash flows from (used in) operating activities:	8,614	(24,591)	11,534	(24,540)	(17,527)
Cash flows used in investing activities:	(1,298)	(516)	(4,127)	(259,162)	(308,293)
Cash flows from financing activities:	-	3,047	-	319,036	362,750
Effect of exchange rate changes on cash and short term deposits	(108)	(807)	(399)	(433)	392
Increase (Decrease) in cash and cash equivalent	7,208	(22,867)	7,008	34,901	37,322
Cash and short-term deposits at the beginning of the period	37,227	57,873	37,427	105	105
Cash and short-term deposits at the end of the period from continuing operations	\$ 44,435	\$ 35,006	\$ 44,435	\$ 35,006	\$ 37,427