

Vizrt Group AS Reports
Q3 and nine months 2017 Results

Bergen, Norway, November 30, 2017. Vizrt Group AS.

Vizrt today reported its financial results for the third quarter and the first nine months of 2017.

Q3 2017 HIGHLIGHTS

- Order intake continued in all regions the positive trend from earlier quarters.
- Revenue developed well in Q3 and was up 5% compared to last year adjusted for exchange effects and 14% compared to last quarter.
- 2017 OPEX includes MUSD 2.1 of one-off expenses related to the centralization of the R&D activities compared to MUSD 0,1 in Q3 2016.
- Non-GAAP recurring (excluding one-off items) EBITA was MUSD 7.6, corresponding to a 24% margin, up 1 points compared to the same period last year.
- Adjusted cash flow from operating activities was MUSD 6.3 compared to MUSD 10.9 in Q3 2016. The cash flow from operating activities for 2017 is adjusted for MUSD 2.1 (MUSD 2.3 in 2016) bond interest.
- Q3 2017 R&D expenses exclude MUSD 0.9 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 6.7, corresponding to a 21% margin, up 1 points compared to Q3 2016.
 - Adjusted cash flow from operating activities of MUSD 5.4, compared to MUSD 9.8 in Q3 2016.

First nine months 2017 highlights

- The first nine months shows a positive development in order intake in all regions compared to last year. 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 YTD was MUSD 88.4 compared to MUSD 93.3 last year.
- 2017 OPEX includes MUSD 4.8 of one-off expenses related to the centralization of the R&D activities compared to MUSD 2,3 in 2016.
- Non-GAAP recurring (excluding one-off items) EBITA was MUSD 17.4, corresponding to a 20% margin, down 4 points compared to the same period last year.
- Adjusted cash flow from operating activities was MUSD 12.4 compared to MUSD 18.3 in 2016. The cash flow from operating activities for 2017 is adjusted for MUSD 6.7 (MUSD 6.8 in 2016) bond interest.
- R&D expenses exclude MUSD 3.5 (MUSD 2.8 in 2016): 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 13.9, corresponding to a 16% margin, down 5 points compared to 2016.
 - Adjusted cash flow from operating activities of MUSD 8.9, compared to MUSD 15.5 in 2016.

SELECTED FINANCIAL INFORMATION

RESULTS OVERVIEW

In KUSD	Q3 2017	Q3 2016	Change in %	Q2 2017	Change in %	Q3 2017 YTD	Q3 2016 YTD	Change in %
Revenue	31 852	30 873	3%	28 046	14%	88 422	93 255	-5%
Non-GAAP gross profit *	21 763	21 935	-1%	19 839	10%	61 095	66 619	-8%
Non-GAAP gross margin	68%	71%		71%		69%	71%	
Recurring EBITA **	7 604	7 243	5%	4 776	59%	17 364	22 408	-23%
Recurring EBITA-margin	24%	23%		17%		20%	24%	
Recurring EBITDA **	8 009	7 690	4%	5 244	53%	18 734	23 806	-21%
Recurring EBITDA-margin	25%	25%		19%		21%	26%	
Adjusted cash flow from operating activities***	6 253	10 903	-43%	3 327	88%	12 403	18 327	-32%

* 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 2.1 Interest on bond in Q3 2017, MUSD 2.3 in Q3 2017 and MUSD 2.3 in Q2 2017.

Geographic breakdown of revenues

In KUSD	Q3 2017	Q3 2016	Change in %	Q2 2017	Change in %	Q3 2017 YTD	Q3 2016 YTD	Change in %
EMEA	15 722	14 313	10%	12 845	22%	43 090	43 374	-1%
AMECS	7 908	8 305	-5%	7 391	7%	21 323	26 734	-20%
APAC	8 222	8 255	0%	7 810	5%	24 009	23 147	4%
Total revenues	31 852	30 873	3%	28 046	14%	88 422	93 255	-5%

Revenues in EMEA, AMECS and APAC, accounted for 49%, 25% and 26% of Q3 2017 total revenues, respectively, as compared to 46%, 27% and 27% respectively in Q3 2016.

MANAGEMENT OVERVIEW

- The activity level in the third 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 the year to date 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.

- Revenue for this quarter is up 5% adjusted for currency effects compared to last year. Revenue is up 14% compared to Q2 2017. EMEA shows a strong growth, but both APAC and AMECS also shows growth.
- Non-GAAP gross margin for Q2 was 68 or 3-points below the same quarter last year, caused by currency effects and product mix.
- Operating expenses excluding one-off expenses, and before capitalization of development costs were some MUSD 15,5 compared to MUSD 15,8 in Q2 2017.
- The adjusted cash flow from operating activities was MUSD 6.3 or MUSD 4.6 lower than for the same period last year.
- The centralization of the R&D activities from 7 to 4 sites announced late March is in progress, and is expected to be finalized in Q4 2017. 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 2.1 has been included as one-off items in Q3 and total MUSD 4.7 for the nine months.

Vizrt's management stated: "Q3 2017 continued to show good development in Order Intake. The higher Order Intake is however not yet reflected in the year to date revenue 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 in Q3 2017. AMECS developed positive between Q2 and Q3 2017 and we believe that there is a potential to continue develop the market 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.

Contacts

Michael Hallén
CEO
+47 46 93 46 08
Mhallen@vizrt.com

Esben Ravn Olesen
CFO
+46 73 327 87 36
ERavnOlesen@vizrt.com

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF INCOME

U.S. dollars in thousands

	Three months ended Sept 30, 2017 Unaudited	Three months ended Sept 30, 2016 Unaudited	Nine months ended Sept 30, 2017 Unaudited	Nine months ended Sept 30, 2016 Unaudited	Year ended December 31, 2016 Audited
Revenues	31 852	30 828	88 422	93 120	119 357
Cost of revenues	(14 331)	(13 144)	(40 119)	(39 254)	(51 393)
Gross profit	17 520	17 684	48 303	53 865	67 964
Operating expenses:					
Research and development	(4 294)	(4 465)	(13 465)	(13 827)	(17 782)
Selling and marketing	(8 857)	(8 611)	(25 437)	(26 545)	(33 684)
General and administrative	(2 538)	(2 729)	(8 551)	(8 299)	(11 534)
One-off expenses	(2 050)	(114)	(4 760)	(2 302)	(3 250)
Total operating expenses	(17 739)	(15 918)	(52 212)	(50 972)	(66 249)
Operating income (loss)	(219)	1 765	(3 909)	2 893	1 715
Financial expenses	(4 840)	(5 182)	(14 503)	(14 808)	(20 334)
Income (loss) before taxes	(5 059)	(3 417)	(18 411)	(11 915)	(18 619)
Taxes on income (benefit)	(528)	(632)	(557)	1 554	2 966
Net income (loss)	(5 587)	(4 049)	(18 968)	(10 361)	(15 653)

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Sept 30, 2017	December 31, 2016
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and short-term deposits	37 718	47 570
Restricted cash	719	235
Trade receivables, net	31 581	25 184
Other accounts receivable and prepaid expenses	9 640	5 704
Inventories	4 263	3 977
TOTAL CURRENT ASSETS	83 921	82 670
NON-CURRENT ASSETS:		
Deferred taxes	5 154	6 013
Other non-current assets	2 793	1 730
TOTAL NON-CURRENT ASSETS	7 947	7 743
PROPERTY AND EQUIPMENT, NET	4 276	3 845
GOODWILL AND INTANGIBLE ASSETS, NET	235 840	248 760
TOTAL ASSETS	331 984	343 018

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Sept 30, 2017	December 31, 2016
	<u>Unaudited</u>	<u>Audited</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	3 116	3 001
Deferred revenues	15 558	9 415
Employees and payroll accruals	7 401	5 622
Tax accruals	5 998	5 594
Other accounts payable and accrued expenses	7 973	4 652
TOTAL CURRENT LIABILITIES	<u>40 046</u>	<u>28 284</u>
NON-CURRENT LIABILITIES:		
Deferred Taxes	8 042	9 519
Other non- current liabilities	4 831	5 449
Bond	98 512	109 297
Loan from related party	95 464	87 519
TOTAL NON-CURRENT LIABILITIES	<u>206 849</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	(770)	(1 878)
Accumulated deficit	(93 030)	(74 062)
TOTAL SHAREHOLDERS' EQUITY	<u>85 090</u>	<u>102 950</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>331 984</u>	<u>343 018</u>

VIZRT GROUP AS
CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands

	Three months ended Sept 30, 2017 Unaudited	Three months ended Sept 30, 2016 Unaudited	Nine months ended Sept 30, 2017 Unaudited	Nine months ended Sept 30, 2016 Unaudited	Year ended December 31, 2016 Audited
Net income (loss)	(5 587)	(4 049)	(18 968)	(10 361)	(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	606	448	1 560	1 397	1 888
Amortization of intangible assets	5 286	5 318	15 889	17 078	22 395
Amortization of R&D expenditures	448	9	586	9	32
Amortization of debenture discount and issuance costs	178	192	545	562	755
Financial income, net	4 858	4 684	14 612	13 924	18 690
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Cash paid and received during the year for:					
Interest paid, net	(2 170)	(2 289)	(6 671)	(6 793)	(9 165)
Income tax paid, net	(159)	63	(1 170)	(2 234)	(2 675)
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Changes in assets and liabilities:					
Accounts receivable and other receivables	2 078	2 242	(8 753)	(7 363)	(1 090)
Inventories	285	478	(97)	1 148	1 102
Deferred tax	(376)	(200)	(2 012)	(4 172)	(6 446)
Accounts payable and other liabilities	(1 364)	1 718	10 211	8 339	6 651
Cash flows from (used in) operating activities:	<u>4 083</u>	<u>8 614</u>	<u>5 732</u>	<u>11 534</u>	<u>16 484</u>
Cash flows used in investing activities:	<u>(1 979)</u>	<u>(1 298)</u>	<u>(5 685)</u>	<u>(4 127)</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>652</u>	<u>(108)</u>	<u>1 431</u>	<u>(399)</u>	<u>(260)</u>
Increase (Decrease) in cash and cash equivalent	2 756	7 208	(9 852)	7 008	10 143
Cash and short-term deposits at the beginning of the period	<u>34 962</u>	<u>37 227</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>37 718</u>	<u>44 435</u>	<u>37 718</u>	<u>44 435</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	-	-	-	-	-	(18 968)	(18 968)
Other comprehensive income	-	-	-	-	1 108	-	1 108
Total comprehensive loss	-	-	-	-	1 108	(18 968)	(17 860)
Balance as of Sept 30, 2017	60 000	9	4 922	173 959	(770)	(93 029)	85 091

* 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 Sept 30, 2017 Unaudited	Three months ended Sept 30, 2016 Unaudited	Nine months ended Sept 30, 2017 Unaudited	Nine months ended Sept 30, 2016 Unaudited	Year ended December 31, 2016 Unaudited
Financial expenses breakdown					
Amortization of bond fees	(178)	(192)	(545)	(562)	(754)
Exchange rate differences and other financial charges	240	(403)	(110)	(559)	(820)
Interest on bonds	(2 171)	(2 145)	(5 771)	(6 411)	(9 031)
Fee Rolling Credit Facility	(44)	(46)	(133)	(144)	(203)
Interest on intercompany loans	(2 687)	(2 395)	(7 944)	(7 132)	(9 526)
Total financial expenses	(4 840)	(5 182)	(14 503)	(14 808)	(20 334)

Vizrt Group AS

RESPONSIBILITY STATEMENT

We confirm that, to the best of our knowledge, the condensed financial statements for the first nine months of 2017 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 nine months 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 three months of the financial year.

Bergen, November 30, 2017

Michael Hallén

(Chairman of the Board of Directors and CEO)

Esben Ravn Olesen

(Board Member and CFO)