Vizrt Group AS

Corporate registration number 813914042

Reports Q4 and full year 2018 results

Interim report for the period Jan - December 2018

Q4 2018 Highlights

Order intake in Q4 2018 was in line with expectation, and the business continues the positive development from the five previous quarters.

Revenue growth was 1% compared to Q4 2017 adjusted for exchange rate effects.

2018 OPEX includes MUSD 1.6 of one-off expenses related to centralization of administrative functions compared to MUSD 2.2 in Q4 2017 which was related to the centralization of the R&D activities.

Strong development in earnings with non-GAAP recurring (excluding one-off items) EBITDA of MUSD 9.8, corresponding to a 27% margin, an increase of 2% points compared to previous year.

Adjusted cash flow was MUSD 12.7 compared to MUSD -0.4 in Q4 2017 due to improvement in trade working capital. The cash flow from operating activities for 2018 is adjusted for MUSD 2.5 (MUSD 2.2 in 2017) bond interest.

Total R&D spend was MUSD 5.3 equal to 16% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 1.3 attributed to intangible assets arising from certain development projects compared to MUSD 1.0 in Q4 2017.

Full year 2018 Highlights

Order Intake in 2018 was positive and continue to show a positive trend.

Revenue growth of 9% compared to last year adjusted for exchange rates effects.

2018 OPEX includes MUSD 2.7 of one-off expenses related to the centralization of the R&D activities compared to MUSD 6.7 in 2017.

Non-GAAP recurring (excluding one-off items) EBITDA was MUSD 40.9, corresponding to a 31% margin, up 8 points compared to last year.

Adjusted cash flow from operating activities was MUSD 35.3 compared to MUSD 12.0 in 2017 mainly due to improvement in operating income and trade working capital. The cash flow from operating activities for 2018 is adjusted for MUSD 9.7 (MUSD 8.2 in 2017) bond interest.

Total R&D spend was MUSD 20.0 equal to 15% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 8.7 (MUSD 4.8 in 2017): attributed to intangible assets arising from certain development projects.

Selected financial information

Results overview

In USD thousands	Q4			Q3		Full year YTD		
	2018	2017	Change in %	2018	Change in %	2018	2017	Change in %
Revenue	**34 019**	**33 793**	1%	**35 026**	-3%	**132 879**	**122 216**	9%
Non-GAAP gross profit *	**24 025**	**23 949**	0%	**25 074**	-4%	**92 869**	**85 044**	9%
Non-GAAP gross margin	**71%**	**71%**		**72%**		**70%**	**70%**	
Recurring EBITA **	**9 290**	**8 671**	7%	**11 917**	-22%	**38 842**	**26 034**	49%
Recurring EBITA-margin	**27%**	**26%**		**34%**		**29%**	**21%**	
Recurring EBITDA **	**9 753**	**9 206**	6%	**12 486**	-22%	**40 929**	**27 940**	46%
Recurring EBITDA-margin	**29%**	**27%**		**36%**		**31%**	**23%**	
Adjusted cash flow from operating activities***	**12 750**	**(393)**	3344%	**14 514**	-12%	**35 281**	**12 011**	194%

* 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 2,4 Interest on bond in Q3 2018, MUSD 2,5 in Q4 2018 and MSUD 2,2 in Q4 2017.

Operating segments

In USD thousands	Q4			Q3		Full year YTD		
	2018	2017	Change in %	2018	Change in %	2018	2017	Change in %
EMEA	15 981	15 405	4%	16 064	-1%	61 581	58 496	5%
AMECS	8 793	8 960	-2%	9 545	-8%	36 900	30 282	22%
APAC	9 245	9 428	-2%	9 418	-2%	34 399	33 437	3%
Total revenues	**34 019**	**33 793**	1%	**35 026**	-3%	**132 879**	**122 216**	9%

Revenues in EMEA, AMECS and APAC accounted for 47%, 26% and 27% of Q4 2018 total revenues respectively, as compared to 46%, 27% and 28% respectively in Q4 2017.

Management overview

2018 Order Intake was satisfactory and resulted in 9% revenue growth compared to 2017. The year to date growth was mainly driven by a successful development in AMECS resulting from the reorganization done late 2016, but also APAC and EMEA shows satisfactory growth during 2018.

We were very pleased to see the full year earnings of MUSD 40.9 at a margin of 31% resulting in a 46% increase compared to last year. The improvements come from the large number of strategic initiatives implemented starting in 2016 and onwards. Execution of the initiatives are still ongoing and new additional long-term growth initiatives have started with the objective of increased operational efficiency, speed and customer satisfaction. One example of a new growth initiative is the increased focus on the Sports market with the creation of a new team focusing on the global sports market.

Innovation remains a key objective to Vizrt and our R&D investment remains at a high level of about 14-16% of the total revenue. The high level of investment into R&D is to ensure that Vizrt can continue to deliver innovative and robust solutions to our global customer base, hence contribute to their success and our future growth.

Bergen February 25, 2019

Michael Hallén	Esben Ravn Olesen
President and CEO	Board member and CFO

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.

Responsibility statement

We confirm that, to the best of our knowledge, the condensed financial statements for the period from January 1 to December 31, 2018 have been prepared in accordance with IAS 34 Interim Financial Report and give a true and fair view of the Group and 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 year 2018 and their impact on the financial statements, any major related parties' transactions, and a description of the principal risks and uncertainties.

Bergen February 25, 2019

Michael Hallén	Esben Ravn Olesen
President and CEO	Board member and CFO

Financial statement, Group

Consolidated statement of profit and loss

In USD thousands	For the three months ended Dec 31		Year ended Dec 31	
	2018	***2017***	***2018***	***2017***
	Unaudited	Unaudited	Unaudited	Audited
Revenue	34 019	33 793	132 879	122 216
Cost of revenues	-14 645	-14 522	-57 107	-54 641
Gross profit	**19 373**	**19 272**	**75 772**	**67 575**
Research and development	-3 733	-4 002	-11 624	-17 466
Selling and marketing	-8 857	-9 413	-35 591	-34 849
Administrative expenses	-3 230	-2 944	-12 516	-11 495
Other expenses	-1 615	-2 166	-2 886	-6 925
Total operating expenses	**-17 435**	**-18 524**	**-62 618**	**-70 736**
Operating income (loss)	**1 938**	**747**	**13 154**	**-3 161**
Financial income (expenses)	-11 116	-5 277	-25 615	-19 779
Profit (loss) before tax	**-9 178**	**-4 529**	**-12 461**	**-22 941**
Taxes on income (benefit)	-375	7 595	-1 248	7 039
Net income (loss)	**-9 552**	**3 066**	**-13 709**	**-15 902**

Consolidated statement of financial position

In USD thousands	**December 31, *2018***	**December 31, *2017***
	Unaudited	Audited
Assets		
Non-current assets		
Goodwill and intangible assets, net	217 247	231 325
Property, plant and equipment	4 163	4 947
Deferred taxes	13 677	13 242
Other non-current assets	2 417	3 365
Total non-current assets	237 504	252 879
Current assets		
Inventories	4 764	4 128
Trade and other receivables	36 690	33 400
Prepaid expenses and accrued income	8 530	8 794
Restricted cash	348	668
Cash and cash equivalents	45 306	31 811
Total current assets	95 637	78 801
Total assets	**333 141**	**331 680**

In USD thousands	**December 31, *2018***	**December 31, *2017***
	Unaudited	Audited
Equity and liabilities		
Equity		
Share capital	9	9
Share premium	4 922	4 922
Reserves	173 959	173 959
Accumulated other comprehensive loss	2 543	1 460
Retained earnings including current year result	-104 423	-89 964
Total equity	77 011	90 386
Liabilities		
Non-current liabilities		
Bond	99 525	98 706
Loans from related parties	110 073	98 151
Deferred taxes	5 028	7 456
Other non-current liabilities	4 123	4 410
Total non-current liabilities	218 750	208 723
Current liabilities		
Trade and other payables	2 603	2 791
Deferred revenues	14 823	12 631
Employees and payroll accruals	3 928	6 413
Current tax liabilities	7 720	5 333
Other account payables and accrued expenses	8 307	5 403
Total current liabilities	37 380	32 571
Total equity and liabilities	**333 141**	**331 680**

Consolidated statement of changes in equity

In USD thousands (except share data)

		- Equity attributable to the owner of the company -				
	Number of ordinary shares	Issued capital	Share premium	Parent contribution	Retained earnings including current year result	Total equity
Balance at January 1, 2017	*300*	9	4 922	173 959	-75 940	102 950
Loss for the year					-15 902	-15 902
Other comprehensive loss					3 338	3 338
Total comprehensive loss for the year					-12 564	-12 564
Transactions with owners of the company						
Balance at December 31, 2017	***300***	**9**	**4 922**	**173 959**	**-88 504**	**90 386**
Balance at January 1, 2018	*300*	9	4 922	173 959	-88 504	90 386
Loss for the year					-13 709	-13 709
Other comprehensive income					334	334
Total comprehensive loss for the year					-13 375	-13 375
Transactions with owners of the company						
Balance at December 31, 2018	***300***	**9**	**4 922**	**173 959**	**-101 879**	**77 011**

Consolidated statement of cash flows

In USD thousands	Three months ended December 31		Year ended December 31,	
	2018	*2017*	*2018*	*2017*
	Unaudited	Unaudited	Unaudited	Audited
Cash flows from operating activities				
Net loss	**-9 553**	**3 066**	**-13 709**	**-15 902**
Adjustments for:				
Depreciation	1 711	1 400	3 293	2 960
Amortization	5 026	5 548	22 008	22 568
Financial income, net	21 867	4 821	26 516	19 433
Interest paid, net	-3 435	-2 137	-10 104	-8 808
Income tax paid	-502	-762	-1 375	-1 932
	15 114	**11 936**	**26 629**	**18 319**
Changes in:				
Inventories	-291	102	-887	5
Trade and other receivables	7 100	433	-3 817	-8 321
Trade and other payables	-11 705	-15 001	3 681	-6 801
	-4 896	**-14 466**	**-1 023**	**-15 117**
Net cash generated by operating activities	**10 218**	**-2 530**	**25 606**	**3 202**
Cash flows from investing activities				
Payments for intangible assets	-773	-2 861	-8 619	-8 546
Payments for property, plant and equipment	-391	0	-1 947	0
Proceeds from sale of fixed assets	-68	0	0	0
Changes in restricted cash	-92	0	221	0
Net cash used in investing activities	**-1 324**	**-2 861**	**-10 345**	**-8 546**
Cash flows from financing activities				
Repayment of loan	0	0	0	-11 330
Net cash generated by financing activities	**0**	**0**	**0**	**-11 330**
Effect of movements in exchange rate changes on cash held	-861	-516	-1 766	915
Net change in cash and cash equivalents	**8 033**	**-5 907**	**13 495**	**-15 759**
Cash and cash equivalents in the beginning of the period	37 273	37 718	31 811	47 570
Cash and cash equivalents at the end of the year	**45 306**	**31 811**	**45 306**	**31 811**

Notes to the interim consolidated financial statements

Reporting entity

Vizrt Group AS (the Company) is domiciled in Norway. These condensed consolidated interim financial statements as at for the year ended December 31 2018 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in visual graphics and media asset management tools.

The following accounting policies have been applied consistently in the consolidated financial statements for all periods presented, unless otherwise stated.

Accounting principles

These interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended December 31 2017 (last annual financial statement) They do not include all of the information required for a complete set of IFRS Financial statements. This is the first set of the Group's annual financial statements in which IFRS 15 *Revenue from Contracts with customers* and IFRS 9 *Financial instruments* have been applied. Changes to significant accounting policies are described below.

Functional and presentation currency

The consolidated financial statements have been prepared on a historical cost basis, except for derivative instruments, that have been measured at fair value. The consolidated financial statements are presented in U.S. dollars ("USD") and all values are rounded to the nearest thousand (USD'000), unless otherwise indicated.

Use of judgements and estimates

In preparing these interim financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses.

The significant judgements made by management and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgements related to the application of IFRS 15 and IFRS 9.

Changes in significant accounting policies

The Group has initially applied IFRS 15 and IFRS 9 from Jan 1, 2018, but they do not have material effect on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

IFRS 15 *Revenue from contracts with customers*
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 *Revenue, IAS 11 Constructions contracts* and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods of services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying the standard recognized at the data of initial application. The transition has had no impact on the financial numbers. Accordingly, the information presented for 2017 have not been restated, it is presented as previously reported, under IAS 18. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

IFRS 9 *Financial instruments*
IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contract to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and measurements*.

Financial assets are classified according to IFRS 9 base on the business model the asset is managed in and its cash flow characteristics. For cash and cash equivalents, accounts receivables, and other current receivables the company's business model is "hold to collect", which means that the purpose of the financial assets is to collect on contractual cash flows.

The standard introduces a new model for impairment of financial assets in stages based on expected losses, and not as previously impairment when an event had occurred. Impairment of trade receivables has historically been very low in the Group. Consequently, the new impairment model has a limited effect on the financial statements. For the Bond loan, the new policy had had no significant effect on the financial reports, the standard contains changed disclosure requirements and will impact the Groups disclosures in the financial statements.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted, however, the Group has not early adopted the new of amended standards in preparing the consolidated financial statements.

The following standard are expected to have an impact on the Group's financial statements in the period of initial application.

IFRS 16 Leases

IFRS 16 replaces existing leasing guidelines, including IAS 17 Leases, and IFRIC 4 Determining whether an arrangement contains a lease.

The standard is effective for annual periods beginning on or after January 1, 2019.

IFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognizes a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessor accounting remains similar to the current standard – lessor continue to classify leases as finance or operating lease.

The estimated effect of the new standard in the Group, is an addition of approx. 16,5 MUSD of right of use assets and lease liabilities to be recognized in the consolidated financial statement at transition. The Groups leasing portfolio mainly consists of leased office space and vehicles.

Operating segments

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described above.

The Group generates revenue mainly from the sale of software products to their customers. The Group also generates revenues from professional services, including graphic services, training, maintenance and support.

The operating segments are identified on the basis of information that is reviewed by the chief operation decision maker to make decisions about resources to be allocated and assess its performance. Revenues are attributed to geographical areas based on the location of the customers. Difference to total PL is non-operation costs and corporate.

Regional operating PL and revenue streams

In USD thousands		*2018*			*2017*	
	APAC	*AMECS*	*EMEA*	*APAC*	*AMECS*	*EMEA*
Software	15 061	11 031	16 709	14 795	8 241	20 209
Hardware	5 638	7 399	8 834	5 361	9 819	10 206
Subscription	3 260	3 713	8 789	2 974	2 480	7 873
Support & Maintenance	8 298	2 578	8 246	7 994	8 042	17 247
Service	4 642	9 678	19 034	2 313	1 700	2 803
Revenue	**36 899**	**34 399**	**61 612**	**33 437**	**30 282**	**58 338**
Cost of sales	-11 339	-24 230	-7 332	-8 950	-12 463	-14 686
Gross profit	**25 560**	**10 169**	**54 280**	**24 487**	**17 819**	**43 652**
OPEX	-8 379	-8 276	-12 229	-8 851	-9 102	-10 437
EBITA	**17 181**	**1 893**	**42 051**	**15 636**	**8 717**	**33 215**

Net financial income and expenses

In USD thousands	Three months ended December 31		Year ended December 31	
	2018	***2017***	***2018***	***2017***
	Unaudited	Unaudited	Unaudited	Audited
Financial expenses breakdown				
Amortization of bond discount	-201	-178	-817	-740
Exchange rate differences and other financial charges	-5 348	-197	-2 916	-11
Interest on bonds	-2 532	-2 171	-9 675	-8 220
Fee Rolling Credit Facility	-45	-44	-177	-177
Interest on intercompany loans	-2 990	-2 687	-12 030	-10 631
Total financial expenses	**-11 116**	**-5 277**	**-25 615**	**-19 779**