Vizrt Group AS

Corporate registration number 813914042

Reports Q1 2019 results

Interim report for the first quarter 2019

Q1 2019 Highlights

Order intake was in line with expectation. The development in AMECS and APAC were particularly positive.

12% growth in revenue mainly related to AMECS, where the positive development continues. APAC also had a good start of the year. EMEA started the year slower than the other regions but remains stable with a good backlog and continuously improvement to the pipeline

2019 OPEX includes MUSD 0.1 of one-off expenses related to costs for the NewTek acquisition compared to MUSD 0.5 in Q1 2018 which was related to centralization of administrative functions.

Total R&D spend was MUSD 5.3 equal to 16% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 2.7 attributed to intangible assets arising from certain development projects compared to MUSD 2.5 in Q1 2018.

Strong development in earnings with non-GAAP recurring (excluding one-off items) EBITDA of MUSD 11.8, corresponding to a 35% margin, an increase of 40% compared to previous year.

Adjusted cash flow was MUSD 12.1 compared to MUSD 9.3 in Q1 2018 due to improvement in operating income. The cash flow from operating activities for 2018 is adjusted for MUSD 2.5 (MUSD 2.2 in 2018) bond interest.

After the end of Q1 2019 it was announced that Vizrt Inc. and its parent company Vizrt Group AS entered into a stock purchase agreement with NewTek, Inc. and its owner Tim Jenison, to acquire all of the shares in NewTek, Inc. The acquisition was finalized on May 3, 2019.

Selected financial information

Results overview

In USD thousands	**Q1**			**Full year**
	2019	**2018**	**Change in %**	**2018**
Revenue	**33 064**	**29 464**	12%	**132 879**
Non-GAAP gross profit *	**23 574**	**21 030**	12%	**92 869**
Non-GAAP gross margin	**71%**	**71%**		**70%**
Recurring EBITA **	**10 387**	**7 919**	31%	**38 842**
Recurring EBITA-margin	**31%**	**27%**		**29%**
Recurring EBITDA **	**11 815**	**8 437**	40%	**40 929**
Recurring EBITDA-margin	**36%**	**29%**		**31%**
Adjusted cash flow from operating activities***	**12 081**	**9 306**	30%	**35 502**

* 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 2,5 Interest on bond in Q1 2019, MUSD 2,2 in Q1 2018 and MSUD 9,7 in YTD 2018.

Operating segments

In USD thousands	Q1			Q4		Full year
	2019	**2018**	**Change in %**	**2018**	**Change in %**	**2018**
EMEA	14 057	15 012	-6%	15 981	-12%	61 581
APAC	9 254	8 150	14%	9 245	0%	36 900
AMECS	9 753	6 302	55%	8 793	11%	34 399
Total revenues	**33 064**	**29 464**	12%	**34 019**	-3%	**132 879**

Revenues in EMEA, APAC and AMECS accounted for 43%, 28% and 29% of Q1 2019 total revenues respectively, as compared to 51%, 28% and 18% respectively in Q1 2018.

Management overview

2019 started satisfactory with a 12% revenue growth compared to 2018. AMECS continue to keep the good momentum from 2018, but also APAC shows satisfactory growth in the first quarter. EMEA started the year slower than the other regions but with its good backlog and positive development of the pipeline EMEA is expected to have a satisfying 2019.

We were satisfied to see the first quarter earnings of MUSD 11.8 at a margin of 36% resulting in a 40% increase compared to last year. The improvements come mainly from the strong development in AMECS and good performance in respect to recurring revenue as well as a generally good efficiency.

Innovation remains a key objective to Vizrt and our R&D investment remains at a 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.

We are very pleased to have finalized the acquisition of NewTek. Vizrt and NewTek share a vision of a video production future dominated by software-based solutions, leveraging the power of computers and the ubiquity of IT networks and cloud based systems. These forces create an opportunity to deliver unprecedented features and performance that will transform existing media markets while creating massive new opportunities for the use of video content worldwide. NewTek is based in San Antonio, Texas. The Company was founded in 1986 by inventor Tim Jenison. Jenison's Video Toaster®, the world's first "television studio-in-a-box", ignited the democratization of video production. In 2005, NewTek introduced TriCaster®, the most complete multi-camera video production system, giving content creators solutions to create their own network-level shows and stream them directly to audiences. Today, NewTek continues to be a change-agent in the video industry, leading the shift to IP video workflows with the NewTek IP Series and NDI® (Network Device Interface). The combined staff will number some 700 employees world-wide.

Bergen May 28, 2019

Michael Hallén

President and CEO

Esben Ravn Olesen

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.

Financial statement, Group

Consolidated statement of profit and loss

In USD thousands	For the three months ended March 31		Year ended Dec 31
	2019	***2018***	***2018***
	Unaudited	Unaudited	Audited
Revenue	33 064	29 464	132 879
Cost of revenues	-14 257	-12 907	-57 107
Gross profit	**18 807**	**16 557**	**75 772**
Research and development	-2 621	-3 060	-11 624
Selling and marketing	-8 129	-8 440	-35 591
Administrative expenses	-3 466	-2 912	-12 516
Other expenses	-94	-483	-2 886
Total operating expenses	**-14 311**	**-14 895**	**-62 618**
Operating income (loss)	**4 496**	**1 662**	**13 154**
Financial income (expenses)	-5 428	1 337	-25 615
Profit (loss) before tax	**-932**	**2 999**	**-12 461**
Taxes on income (benefit)	17	-82	-1 248
Net income (loss)	**-915**	**2 918**	**-13 709**

Consolidated statement of financial position

In USD thousands	March 31, 2019	December 31, 2018
	Unaudited	Audited
Assets		
Non-current assets		
Goodwill and intangible assets, net	213 938	217 247
Property, plant and equipment	21 650	4 163
Deferred taxes	13 536	13 677
Other non-current assets	2 957	2 417
Total non-current assets	252 081	237 504
Current assets		
Inventories	5 110	4 764
Trade and other receivables	36 272	35 455
Prepaid expenses and accrued income	11 079	9 765
Restricted cash	355	348
Cash and cash equivalents	51 201	45 306
Total current assets	104 018	95 637
Total assets	**356 098**	**333 141**
Equity and liabilities		
Equity		
Share capital	9	9
Share premium	4 922	4 922
Reserves	173 959	173 959
Retained earnings including current year result	-102 747	-101 879
Total equity	76 143	77 011
Liabilities		
Non-current liabilities		
Bond	99 726	99 525
Loans from related parties	113 343	110 073
Deferred taxes	4 423	5 028
Other non-current liabilities	17 532	4 123
Total non-current liabilities	235 025	218 750
Current liabilities		
Trade and other payables	3 175	2 603
Deferred revenues	18 689	14 823
Employees and payroll accruals	3 596	3 928
Current tax liabilities	7 616	7 720
Other account payables and accrued expenses	11 854	8 307
Total current liabilities	44 930	37 380
Total equity and liabilities	**356 098**	**333 141**

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, 2018	*300*	9	4 922	173 959	-88 504	90 386
Loss for the year					-13 709	-13 709
Other comprehensive loss					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**
Balance at January 1, 2019	*300*	9	4 922	173 959	-101 879	77 011
Loss for the year					-915	-915
Other comprehensive income					47	47
Total comprehensive loss for the year					-868	-868
Transactions with owners of the company						
Balance at March 31, 2019	***300***	**9**	**4 922**	**173 959**	**-102 747**	**76 143**

Consolidated statement of cash flows

In USD thousands	**Three months ended March 31**		**Year ended December 31,**
	2019	***2018***	***2018***
	Unaudited	Unaudited	Audited
Cash flows from operating activities			
Net loss	**-915**	**2 918**	**-13 709**
Adjustments for:			
Depreciation	1 401	522	2 086
Amortization	5 797	5 814	22 258
Loss from disposal of property and equipment	11	0	738
Financial income, net	5 875	1 478	26 516
Interest paid, net	-2 475	-2 223	-10 104
Income tax paid	-70	-146	-1 375
	9 624	**8 363**	**26 410**
Changes in:			
Inventories	-391	-839	-887
Trade and other receivables	-3 886	-3 259	-2 714
Trade and other payables	4 259	2 818	3 018
	-18	**-1 280**	**-583**
Net cash generated by operating activities	**9 606**	**7 083**	**25 827**
Cash flows from investing activities			
Payments for intangible assets	-2 658	-2 241	-8 619
Payments for property, plant and equipment	-1 068	-299	-1 947
Net cash used in investing activities	**-3 726**	**-2 540**	**-10 566**
Cash flows from financing activities			
Net cash generated by financing activities	**0**	**0**	**0**
Effect of movements in exchange rate changes on cash held	15	577	-1 766
Net change in cash and cash equivalents	**5 895**	**5 120**	**13 495**
Cash and cash equivalents in the beginning of the period	45 306	31 811	31 811
Cash and cash equivalents at the end of the year	**51 201**	**36 931**	**45 306**

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 quarter ended March 31 2019 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 2018 (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 16 *Leases* has 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.

Changes in significant accounting policies

The Group has initially applied IFRS 16 *Leases* from Jan 1, 2019. A number of other new standards are affective from Jan 1 2019 but they do not have a material effect on the Group's financial statements.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in the opening balance sheet at Jan 1 2019. Accordingly, the comparative information presented for 2018 has not been restated.

The impacts on the financial statements are described below.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after January 1, 2020 and earlier application is permitted, however, the Group has not early adopted the new of amended standards in preparing the consolidated financial statements.

Operating segments

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.

Regional operating PL and revenue streams

In USD thousands	For the three months ended March 31 2019					For the three months ended March 31 *2018*				
	EMEA	*APAC*	*AMECS*	*Corp*	*Total*	*EMEA*	*APAC*	*AMECS*	*Corp*	*Total*
Software	4 632	4 021	3 955		12 608	4 852	3 525	1 818		10 195
Hardware	1 698	1 078	1 889		4 665	2 068	946	1 343		4 357
Services	1 278	728	706	0	2 712	1 540	919	255		2 714
Support & Maintenance	4 914	2 281	2 471		9 666	4 479	2 068	1 949		8 496
Subscription	1 535	1 146	732		3 413	2 073	692	937		3 702
Revenue	**14 057**	**9 254**	**9 753**	**0**	**33 064**	**15 012**	**8 150**	**6 302**	**0**	**29 464**
Cost of sales	-3 186	-2 029	-4 070	-4 972	-14 257	-4 017	-1 440	-2 865	-4 585	-12 907
Gross profit	**10 871**	**7 225**	**5 683**	**-4 972**	**18 807**	**10 995**	**6 710**	**3 437**	**-4 585**	**16 557**
OPEX	-2 682	-2 080	-2 135	-7 414	-14 311	-3 094	-2 174	-1 785	-7 842	-14 895
EBITA	**8 189**	**5 145**	**3 548**	**-12 386**	**4 496**	**7 901**	**4 536**	**1 652**	**-12 427**	**1 662**

Net financial income and expenses

In USD thousands	Three months ended March 31		Year ended December 31
	2019	*2018*	*2018*
	Unaudited	Unaudited	Audited
Financial expenses breakdown			
Interest expense on lease liability	-119	0	0
Amortization of bond discount	-201	-207	-817
Exchange rate differences and other financial charges	667	6 725	-2 916
Interest on bonds	-2 475	-2 223	-9 675
Fee Rolling Credit Facility	-44	-43	-177
Interest on intercompany loans	-3 256	-2 915	-12 030
Total financial expenses	**-5 428**	**1 337**	**-25 615**

Impact of changes in significant accounting standards

Impacts on transition

On transition to IFRS 16, the Group recognized additional right-of-use assets and additional lease liabilities. The impact of the transition is summarized below.

	January 1, 2019
Right of use assets presented in property, plant and equipment	17 945
Lease liabilities	17 685
Prepaid expenses	260

Impacts for the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognized right of use assets and lease liabilities as described.

The group presents right-of-use assets in "Property, plant and equipment". The carrying amount for the right-to-use assets are:

In USD thousands	***Office space***	***Other right of use assets***	**Total**
Balance at January 1, 2019	17 734	211	17 945
Balance at March 31, 2019	16 864	259	17 123

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest cost, instead of operating lease expenses. During the three months ended March 31, 2019, the Group recognized 834 KUSD of depreciation charges and 119 KUSD of interest costs from theses leases.