Vizrt Group AS

Corporate registration number 813914042

Interim report for the second quarter and first half of 2019

Q2 2019 Highlights

On May 3, finalized the acquisition of NewTek Inc and the consolidated statement is including the NewTek activities from beginning of May. The acquisition has significant impact on the consolidated profit and loss statement and the consolidated balance sheet

Order intake was in line with expectation. The development in AMECS continue the strong trend.

Strong revenue uplift of 27%, driven by organic and inorganic activities, with all 3 regions contribution to the growth, with the strongest part in AMECS.

2019 OPEX includes MUSD 1.3 of one-off expenses related to costs for the NewTek acquisition compared to MUSD 0.5 in Q2 2018 which was related to centralization of administrative functions.

Total R&D spend was MUSD 6.1 equal to 14% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 3.0 attributed to intangible assets arising from certain development projects compared to MUSD 2.8 in Q2 2018.

Strong development in earnings with non-GAAP recurring (excluding one-off items) EBITDA of MUSD 14.3, corresponding to a 33% margin, an increase of 39% compared to previous year.

Adjusted cash flow was MUSD 6.8 compared to MUSD -1.2 in Q2 2018 due to improvement in operating income. The cash flow from operating activities for 2019 is adjusted for MUSD 2.5 (MUSD 2.5 in 2018) bond interest.

H1 2019 Highlights

Total R&D spend was MUSD 11.4 equal to 15% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 5.6 attributed to intangible assets arising from certain development projects compared to MUSD 5.2 in H1 2018.

Strong development in earnings with non-GAAP recurring (excluding one-off items) EBITDA of MUSD 23.1, corresponding to a 39% margin, an increase of 40% compared to previous year.

Adjusted cash flow was MUSD 18.9 compared to MUSD 8.0 in H1 2018 due to improvement in operating income. The cash flow from operating activities for 2018 is adjusted for MUSD 5.0.5 (MUSD 4.7 in 2018) bond interest.

Management overview

2019 started satisfactory with a 27% revenue uplift compared to 2018. The growth is coming both from the NewTek acquisition but also from strong organic growth. All regions show growth, but driven particularly from the continued strong growth in AMECS.

We were satisfied to see the two quarters earnings of MUSD 14.3 at a margin of 33% resulting in a 39% increase compared to last year. The improvements come from the NewTek acquisition but also from the solid development in AMECS, strong recurring revenue development as well as a good operational 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.

Declaration of the board

We confirm that, to the best of our knowledge, the condensed financial statements for the six months ended June 30, 2019 has been prepared in accordance with IAS 34 - Interim Financial Reporting, and give a true and fair view of the Group's assets, liabilities, financial position and results of operations for the period. We also confirm, to the best of our knowledge, that the management overview includes a fair review of important events that have occurred during the first three months of the financial year and their impact on the financial statements, any major related parties' transactions, and a description of the principal risks and uncertainties

Bergen August 28, 2019

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

Selected financial information

Results overview

In USD thousands	Q2			First half year			Full year
	2019	**2018**	**Change in %**	**2019**	**2018**	**Change in %**	**2018**
Revenue	43 602	34 370	27%	76 666	63 834	20%	132 879
Non-GAAP gross profit *	29 333	23 902	23%	52 674	44 932	17%	92 869
Non-GAAP gross margin	67%	70%		69%	70%		70%
Recurring EBITA **	12 736	9 716	31%	23 123	17 634	31%	38 842
Recurring EBITA-margin	29%	28%		30%	28%		29%
Recurring EBITDA **	14 256	10 253	39%	26 071	18 690	39%	40 929
Recurring EBITDA-margin	33%	30%		34%	29%		31%
Adjusted cash flow from operating activities***	6 796	-1 197	-668%	18 877	8 017	135%	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 Q2 2019, MUSD 2,5 in Q2 2018 and MSUD 9,7 in YTD 2018.

Financial statement, Group

Consolidated statement of profit and loss

In USD thousands	Three months ended June 30 *2019*	Three months ended June 30 *2018*	Six months ended June 30 *2019*	Six months ended June 30 *2018*	Year ended December 31 *2018*
Revenue	43 602	34 370	76 666	63 834	132 879
Cost of sales	-18 795	-15 011	-33 052	-27 918	-57 107
Gross profit	**24 806**	**19 360**	**43 613**	**35 917**	**75 772**
Other operating revenues	0	3	5	9	156
Selling and marketing expenses	-10 767	-9 435	-18 896	-17 875	-35 591
Administrative expenses	-3 990	-3 756	-7 461	-6 674	-12 672
Research and development expenses	-3 127	-2 086	-5 748	-5 146	-11 624
Other operating expenses	-1 245	-456	-1 340	-939	-2 886
Operating profit/loss	**5 677**	**3 629**	**10 173**	**5 291**	**13 154**
Net financial items	-2 226	-11 109	-7 655	-9 772	-25 615
Profit/loss before tax	**3 451**	**-7 480**	**2 519**	**-4 481**	**-12 461**
Income tax	-568	171	-551	89	-1 248
Net profit/loss	**2 883**	**-7 310**	**1 968**	**-4 392**	**-13 709**
Other comprehensive income					
Amounts that will not be reclassified subsequently to profit or loss:					
Re-measurement loss related to employee benefit plan	-	-	-	-	-340
	0	**0**	**0**	**0**	**-340**
Amounts that may be reclassified subsequently to profit or loss:					
Exchange rate differences on translating foreign operations	-2 736	3 680	-2 783	-2 034	674
Total comprehensive loss, net of tax	**147**	**-3 630**	**-815**	**-6 426**	**-13 375**

Earnings per share

	Three months ended Jun 30 *2019*	Three months ended June 30 *2018*	Six months ended June 30 *2019*	Six months ended Jun 30 *2018*	Year ended Dec 31 *2018*
From continuing and discontinued operations					
Earnings per share, weighted average, basic	9,61	-24,37	6,56	-14,64	-45,70
Number of shares	300	300	300	300	300

Consolidated statement of financial position

In USD thousands	**June 30, *2019***	**December 31, *2018***
Assets		
Non-current assets		
Goodwill	218 256	160 489
Other intangible assets	72 777	56 758
Property, plant and equipment	23 333	4 163
Deferred taxes	13 787	13 677
Other non-current assets	3 713	2 417
Total non-current assets	331 866	237 504
Current assets		
Inventories	12 196	4 764
Trade and other receivables	45 493	35 455
Prepaid expenses and accrued income	-14 957	9 765
Restricted cash	363	348
Cash and cash equivalents	28 280	45 306
Total current assets	71 375	95 637
Total assets	**403 241**	**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	-102 693	-101 879
Total equity	76 196	77 011
Liabilities		
Non-current liabilities		
Loans and borrowings	99 941	99 525
Loans from related parties	116 685	110 073
Deferred tax liabilites	7 854	5 028
Other non-current liabilities	26 744	4 123
Total non-current liabilities	251 224	218 750
Current liabilities		
Trade and other payables	5 181	2 603
Deferred revenues	18 742	14 823
Employee accruals	5 231	3 928
Current tax liabilities	6 673	7 720
Credit facility	20 211	-
Other account payables and accrued expenses	19 784	8 307
Total current liabilities	75 822	37 380
Total equity and liabilities	**403 241**	**333 141**

Consolidated statement of changes in equity

In USD thousands	**- Equity attributable to the owner of the company -**	
	Six months ended June 30	**Six months ended June 30**
	2019	***2018***
Opening balance, Jan 1	77 011	90 386
Profit/ loss for the period	1 968	-4 394
Other comprehensive loss	-2 783	-2 034
Closing balance	**76 196**	**83 958**

Consolidated statement of cash flows

In USD thousands	Three months ended June 30 *2019*	Three months ended June 30 *2018*	Six months ended June 30 *2019*	Six months ended June 30 *2018*	Year ended December 31, *2018*
Operating activities					
Profit/loss for the period	**2 883**	**-7 312**	**1 968**	**-4 394**	**-13 709**
Adjustments for:					
Depreciation	1 508	609	2 909	1 131	2 086
Amortization	5 813	5 587	11 610	11 401	22 258
Loss from disposal of property and equipment	19	-	30	-	738
Financial income, net	3 628	-1 769	7 028	-2 514	16 412
Income tax paid	-481	235	-551	89	-1 375
	13 370	**-2 650**	**22 994**	**5 713**	**26 410**
Cashflow from changes in working capital					
Inventories	0	516	-391	-323	-887
Trade and other receivables	-6 465	-10 623	-10 351	-13 675	-2 714
Trade and other payables	-2 616	9 079	1 643	11 897	3 018
	-9 081	**-1 028**	**-9 099**	**-2 101**	**-583**
Cashflow from operating activities	**4 289**	**-3 678**	**13 895**	**3 612**	**25 827**
Investing activities					
Payments for intangible assets	-2 941	-3 095	-5 599	-5 336	-8 619
Payments for property, plant and equipment	-612	-713	-1 680	-1 219	-1 947
Payments to acquire subsidiaries, less acquired cash	-71 563	-	-71 563	-	-
Cahsflow from investing activites	**-75 116**	**-3 808**	**-78 842**	**-6 555**	**-10 566**
Financing activities					
Amortization of lease liability	-457	-	-457	-	-
Utilizing credit facility	20 211	-	20 211	-	-
New loan from shareholder	27 795	-	27 795	-	-
Cashflow from financing activities	**47 549**	**-**	**47 549**	**-**	**-**
Cashflow for the period	**-23 278**	**-7 486**	**-17 398**	**-2 943**	**15 261**
Cash and cash equivalents in the beginning of the period	51 201	36 931	45 306	31 811	31 811
Effect of movements in exchange rate changes on cash held	357	168	372	745	-1 766
Cash and cash equivalents at the end of the period	**28 280**	**29 613**	**28 280**	**29 613**	**45 306**

Notes to the interim consolidated financial statements

1. 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.

2. Accounting principles

These consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. The accounting principles and calculation methods applied in these interim reports are in accordance with those presented in the Group's most recent annual report, except for the new standard IFRS 16 *Leases* applicable from January 1, 2019 inclusive. In addition to the financial reports and associated notes, information in accordance with IAS 34 16A can be found elsewhere in the interim report.

3. 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.

4. 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 in note 7.

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.

5. Fair value of financial instruments

The Group has financial instruments where level 3 has been used to determine their fair value.The fair value of the Group's financial assets and liabilites is estimated to be eqivalent to their book values. The Group does not apply net accounting for any of its significant assets or liabilites. There were no transfers between levels or valuestion categories during the period.

In USD thousands	Six months ended June 30			*Fair value* Six months ended June 30			Year ended December 31		
	2019			2018			2018		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at fair value though profit and loss									
Embedded derivative	-	-	2 459	-	-	1 466	-	-	1 171
Total assets	**-**	**-**	**2 459**	**-**	**-**	**1 466**	**-**	**-**	**1 171**
Financial liabilites measured at fair value though profit and loss									
Loan from related parties	-	-	116 685	-	-	104 046	-	-	110 073
Debentures, net	-	99 941	-	-	99 103	-		99 525	-
Lease liabilites	-	-	18 438	-	-	-	-	-	-
Total liabilities	**-**	**99 941**	**135 123**	**-**	**99 103**	**104 046**	**-**	**99 525**	**110 073**

6. Operating segments and revenue streams

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.

Operating segments

In USD thousands	Three months ended Jun 30			First quarter		Six months ended Jun 30		
	2019	**2018**	**Change in %**	**2019**	**Change in %**	**2019**	**2018**	**Change in %**
EMEA	15 771	14 523	9%	14 057	12%	29 828	29 535	1%
APAC	10 008	10 087	-1%	9 254	8%	19 262	18 237	6%
AMECS	17 823	9 760	83%	9 753	83%	27 576	16 062	72%
Total revenues	**43 602**	**34 370**	27%	**33 064**	32%	**76 666**	**63 834**	20%

Revenues in EMEA, APAC and AMECS accounted for 36%, 23% and 41% of Q2 2019 total revenues respectively, as compared to 42%, 29% and 28% respectively in Q2 2018.

Regional operating PL and revenue streams

In USD thousands	Six months ended Jun 30 2019					Six months ended Jun 30 *2018*				
	EMEA	*APAC*	*AMECS*	*Corp*	*Group*	*EMEA*	*APAC*	*AMECS*	*Corp*	*Group*
Software	8 720	7 641	12 502		28 863	9 194	7 208	5 180		21 582
Hardware	4 698	2 827	6 777		14 302	4 453	2 939	3 547		10 940
Services	3 248	1 480	1 462		6 190	3 116	2 663	1 128		6 906
Support & Maintenance	10 081	5 254	5 458		20 793	8 262	4 356	4 396		17 014
Subscription	3 081	2 060	1 377		6 518	4 010	1 572	1 811		7 392
Revenue	**29 828**	**19 262**	**27 576**	**0**	**76 666**	**29 035**	**18 738**	**16 062**	**0**	**63 834**
Cost of sales	-7 636	-4 923	-10 552	-9 942	-33 052	-7 476	-4 123	-7 055	-9 263	-27 918
Gross profit	**22 193**	**14 338**	**17 024**	**-9 942**	**43 613**	**21 559**	**14 614**	**9 007**	**-9 263**	**35 917**
OPEX	-5 447	-3 692	-6 588	-17 714	-33 442	-6 207	-4 577	-4 099	-15 742	-30 626
EBITA	**16 745**	**10 646**	**10 436**	**-27 656**	**10 171**	**15 352**	**10 037**	**4 908**	**-25 006**	**5 291**

7. 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 June 30, 2019	18 201	459	18 660

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest cost, instead of operating lease expenses. During the six months ended June 30, 2019, the Group recognized 834 KUSD of depreciation charges and 119 KUSD of interest costs from theses leases.

8. Acquisition of subsidiary

On May 3, 2019 the Group acquired 100% of the shares and voting interest in NewTek Inc, a US company based in San Antonio, Texas. The acquisition is expected to provide the Group with an increased share of the market through NewTek's customer base. The Group also expects to reduce costs in the long run due to economies of scale.

In the two months to June 30, 2019, NewTek contributed revenues of 7 150 KUSD and a profit of 1 300 KUSD to the Groups result. If the acquisition had occurred on Jan 1, 2019 management estimates that consolidated revenues would have been 21 710 KUSD and consolidated profit KUSD 1 483.

Acquisition-related costs
The Group incurred acquisition related costs of KUSD 879 relating to external legal fees and due diligence costs. These costs have been included in the administrative expenses in the consolidated statement of profit and loss.

Identifiable assets acquired and liabilities assumed
The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of the acquisition.

In USD thousands

	Carrying amount at the acquisition date	Adjustment to fair value	Fair values
Value of acquired assets and liabilities			
Property, plant and equipment	232		232
Brands		6 774	6 774
Customer relations		5 031	5 031
Technology		10 000	10 000
Inventories	7 037		7 037
Trade and other receivables	6 995		6 995
Cash and cash equivalents	11 187		11 187
Loans and borrowings			-
Deferred tax liabilities		-4 021	-4 021
Contingent liabilities	-631		-631
Trade and other payables	-5 121		-5 121
Acquired net assets	**19 699**	**17 784**	**37 483**

Total consideration transferred	95 250
Fair value of identifiable assets	-37 483
Goodwill	**57 767**

Total purchase consideration	**95 250**
of which cash portion	82 750
of which contingent consideration	12 500
Cash and cash equivalents in the acquired business	11 187
Effect on the Group's cash and cash eqivalents	**-71 563**

Contact

Additional information about the company can be found on the corporate website www.vizrt.com. The company can be contacted by e-mail, info@vizrt.com, or by post Vizrt Group AS, Lars Hilles Gate 30, 5008 Bergen, Norway.