Q3

Vizrt Group AS

Corp reg no 813 914 042

Interim report

January 1 – September 30 2019

Interim report for the third quarter and first nine months of 2019

Third quarter highlights

- Revenues increased by 35% to MUSD 47 (35)
- Gross margin 66 % (72%)
- OPEX including MUSD 1.3 (0.3) on-off items related to the NewTek acquision
- Recurring EBITDA increased 16% to MUSD 14.5 (12.5)

Significant events during the quarter

- First quarter where NewTek activities are consolidated in the full quarter.
- First product launch at IBC based on combined technologies from Vizrt and NewTek.
- The integration of NewTek is well underway resulting in overall positive OPEX synergies

The Group, in USD thousands	2019 Jul - Sep	2018 Jul-Sep	Change in %	2019 Jan- Sep	2018 Jan-Sep	Change in %	2018 Jan- Dec
Revenue	47 128	35 026	35%	123 794	98 861	25%	132 879
Non-GAAP gross profit *	31 180	25 074	24%	83 854	70 006	20%	92 869
Non-GAAP gross margin	66%	72%		68%	71%		70%
Recurring EBITA **	12 876	11 917	8%	35 999	29 552	22%	38 842
Recurring EBITA-margin	27%	34%		29%	30%		29%
Recurring EBITDA **	14 477	12 486	16%	40 548	31 176	30%	40 929
Recurring EBITDA-margin	31%	36%		33%	32%		31%
Adjusted cash flow from operating activities***	7 403	14 514	-49%	26 280	22 531	17%	35 502
Equity ratio				18%	24%		23%

* 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 2,4 in Q2 2018 and MSUD 9,7 in YTD 2018.

Management overview

2019 continue to develop satisfactory with a 35% revenue uplift in the quarter compared to 2018. The growth is coming both from the NewTek acquisition and from continued organic growth at a stable and healthy level.

It is satisfying to see the YTD EBITDA of MUSD 40.5 at a margin of 33% resulting in a 30% increase compared to last year. The improvement comes from a combination of the NewTek acquisition, continued positive development in the AMECS region, strong recurring revenue development as well as operational efficiencies.

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 joint forces of NewTek and Vizrt engineering, proved already at the IBC show in September what they are capable of by launching the first products based on technologies from both teams. During 2020 more innovative products from the combined engineering team will be delivered to the benefit of our customers' future success and to address their current key challenges like the transition to IP technology.

The Group is partly financed with bonds expiring during the course of 2021. The board is initiating a review of Vizrt's various strategic and financing options which could include both debt and equity options.

Third quarter 2019

Revenue increased by 35%, driven by organic and inorganic activities, with all 3 regions contribution to the growth. The 3rd quarter is the first quarter where the NewTek activities is fully consolidated in the full period.

Gross profit MUSD 31.2 (25.1) an increase of 24% compared to last year. Gross margin 66% (72%), lower than last year due to change of product mix and the introduction of a reseller network as a result of the acquisition.

2019 OPEX includes MUSD 1.3 of one-off expenses related to costs for the NewTek acquisition compared to MUSD 0.3 in Q3 2018 which was related to centralization of administrative functions.

Total R&D spend was MUSD 7.8 resulting in a yearly run rate of 14-15% of the revenue. R&D expenses in the consolidated statement of income exclude MUSD 2.6 attributed to intangible assets arising from certain development projects compared to MUSD 2.2 in Q3 2018.

Non-GAAP recurring (excluding one-off items) EBITDA of MUSD 14.5, corresponding to a 31% margin, an increase of 16% compared to previous year.

Adjusted cash flow was MUSD 7.4 compared to MUSD 14.5 in Q3 2018 due to increase in working capital.

January – September 2019

Revenue increased by 25%, driven by organic and inorganic activities, with all 3 regions contribution to the growth. The NewTek activities is consolidated from May 1, 2019.

Gross profit MUSD 83.8 an increase of 20% compared to last year. Gross margin 68% (71%), lower than last year due to change of product mix as a result of the acquisition.

2019 OPEX includes MUSD 1.7 of one-off expenses related to costs for the NewTek acquisition compared to MUSD 1.3 last year, which was related to centralization of administrative functions.

Total R&D spend was MUSD 20.7 equal to 15% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 8.2 attributed to intangible assets arising from certain development projects compared to MUSD 7.8 last year.

Non-GAAP recurring (excluding one-off items) EBITDA of MUSD 40.5, corresponding to a 33% margin, an increase of 30% compared to previous year.

Adjusted cash flow was MUSD 26.3 compared to MUSD 22.5 last year due to improvement in operating income.

Declaration of the board

We confirm that, to the best of our knowledge, the condensed financial statements for the nine months ended September 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 nine 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 November 29, 2019

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

Financial statement, Group

Consolidated statement of profit and loss and OCI

In USD thousands	2019 Jun-Sep	2018 Jun-Sep	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
Revenue	47 128	35 026	123 794	98 861	132 879
Cost of sales	-21 492	-14 545	-54 544	-42 462	-57 107
Gross profit	**25 636**	**20 482**	**69 249**	**56 399**	**75 772**
Other operating revenues	-13	34	-8	43	156
Selling and marketing expenses	-10 468	-8 859	-29 411	-26 734	-35 591
Administrative expenses	-4 241	-2 656	-11 702	-9 330	-12 672
Research and development expenses	-5 196	-2 745	-10 897	-7 891	-11 624
Other operating expenses	-292	-331	-1 632	-1 271	-2 886
Operating profit/loss	**5 426**	**5 925**	**15 599**	**11 216**	**13 154**
Net financial items	-8 493	-4 727	-16 148	-14 499	-25 615
Profit/loss before tax	**-3 067**	**1 198**	**-549**	**-3 283**	**-12 461**
Income tax	1 529	-962	978	-873	-1 248
Net profit/loss	**-1 539**	**235**	**429**	**-4 157**	**-13 709**
Other comprehensive income					
Amounts that will not be reclassified 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	3 496	-1 709	713	-3 744	674
Total comprehensive loss, net of tax	**1 957**	**-1 474**	**1 142**	**-7 901**	**-13 375**

Earnings per share

	2019 Jun-Sep	2018 Jun-Sep	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
From continuing and discontinued operations					
Earnings per share, weighted average, basic	-5,13	0,78	1,43	-13,86	-45,70
Number of shares	300	300	300	300	300

Consolidated statement of financial position

In USD thousands	2019 September 30	2018 September 30	2018 December 31
ASSETS			
Non-current assets			
Goodwill	220 966	160 489	160 489
Other intangible assets	66 038	61 548	56 758
Property, plant and equipment	21 352	4 408	4 163
Deferred taxes	13 296	13 203	13 677
Other non-current assets	5 846	3 173	2 417
Total non-current assets	**327 498**	**242 821**	**237 504**
Current assets			
Inventories	11 696	4 604	4 764
Trade and other receivables	51 243	41 479	35 455
Prepaid expenses and accrued income	14 482	11 067	9 765
Restricted cash	361	355	348
Cash and cash equivalents	27 891	37 273	45 306
Total current assets	**105 673**	**94 778**	**95 637**
TOTAL ASSETS	**433 171**	**337 599**	**333 141**
EQUITY AND LIABILITIES			
Equity			
Share capital	9	9	9
Share premium	4 922	4 922	4 922
Reserves	173 959	173 959	173 959
Retained earnings including current year result	-100 738	-96 405	-101 879
Total equity	**78 152**	**82 485**	**77 011**
Liabilities			
Non-current liabilities			
Loans and borrowings	100 160	99 326	99 525
Loans from related parties	147 860	107 060	110 073
Deferred tax liabilites	8 263	5 645	5 028
Other non-current liabilities	24 835	4 264	4 123
Total non-current liabilities	**281 118**	**216 295**	**218 750**
Current liabilities			
Trade and other payables	5 482	2 592	2 603
Deferred revenues	17 706	15 565	14 823
Employee accruals	5 247	5 150	3 928
Current tax liabilities	5 727	7 359	7 720
Credit facility	20 443	0	-
Other account payables and accrued expenses	19 295	8 153	8 307
Total current liabilities	**73 901**	**38 819**	**37 380**
TOTAL EQUITY AND LIABILITIES	**433 171**	**337 599**	**333 141**

Condensed consolidated statement of changes in equity

In USD thousands (except share data)	Number of ordinary shares	Issued capital	Share premium	Parent contribution	Retained earnings including current year result	Total equity
		- Attributable to the owner of the company -				
Balance at January 1, 2018	*300*	9	4 922	173 959	-88 504	90 386
Loss for the period					-13 709	-13 709
Other comprehensive loss					334	334
Total comprehensive loss for the year					-13 375	-13 375
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
Profit for the period					429	429
Other comprehensive income					713	713
Total comprehensive loss for the year					1 142	1 142
Balance at September 30, 2019	***300***	**9**	**4 922**	**173 959**	**-100 737**	**78 153**

Consolidated statement of cash flows

In USD thousands	2019 Jun-Sep	2018 Jun-Sep	2019 Jan-Sep	2018 Jan-Sep	2018 Jan-Dec
Operating activities					
Profit/loss for the period	**-1 539**	**238**	**429**	**-4 156**	**-13 709**
Adjustments for:					
Depreciation	1 610	451	4 519	1 582	2 086
Amortization	7 158	5 581	18 768	16 982	22 258
Loss from disposal of property and equipment	39	-	69	-	738
Financial income, net	1 772	21	8 800	-2 493	16 412
Income tax paid	446	-488	-105	-399	-1 375
	9 486	**5 803**	**32 480**	**11 516**	**26 410**
Cashflow from changes in working capital					
Inventories	364	-273	-27	-596	-887
Trade and other receivables	-9 871	3 057	-20 222	-10 917	-2 714
Trade and other payables	4 907	3 489	6 550	15 386	3 018
	-4 600	**6 273**	**-13 699**	**3 873**	**-583**
Cashflow from operating activities	**4 886**	**12 076**	**18 781**	**15 389**	**25 827**
Investing activities					
Payments for intangible assets	-2 629	-2 510	-8 228	-7 846	-8 619
Payments for property, plant and equipment	-577	-255	-2 257	-1 175	-1 947
Payments to acquire subsidiaries, less acquired cash	-	-	-71 563	-	-
Cahsflow from investing activites	**-3 206**	**-2 765**	**-82 048**	**-9 021**	**-10 566**
Financing activities					
Amortization of lease liability	-1 504	-	-1 961	-	-
Utilizing credit facility	-	-	20 211	-	-
New loan from shareholder	-	-	27 795	-	-
Cashflow from financing activities	**- 1 504**	**-**	**46 045**	**-**	**-**
Cashflow for the period	**176**	**9 311**	**-17 222**	**6 368**	**15 261**
Cash and cash equivalents in the beginning of the period	28 280	29 613	45 306	31 811	31 811
Effect of movements in exchange rate changes on cash held	-565	-1 651	-193	-906	-1 766
Cash and cash equivalents at the end of the period	**27 891**	**37 273**	**27 891**	**37 273**	**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 September 30, 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. These interim statements have not been audited.

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 liabilities is estimated to be equivalent to their book values. The Group does not apply net accounting for any of its significant assets or liabilities. There were no transfers between levels or valuation categories during the period.

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	**2019 Jul - Sep**	**2018 Jul-Sep**	**Change in %**	**2019 Jan- Sep**	**2018 Jan-Sep**	**Change in %**	**2018 Jan- Dec**
EMEA	19 219	16 064	20%	50 728	45 600	11%	45 600
APAC	9 274	9 418	-2%	29 360	27 655	6%	27 655
AMECS	18 635	9 545	95%	43 705	25 607	71%	25 607
Total revenues	**47 128**	**35 026**	35%	**123 794**	**98 861**	25%	**98 861**

Revenues in EMEA, APAC and AMECS accounted for 41%, 20% and 40% of Q3 2019 total revenues respectively, as compared to 46%, 28% and 26% respectively in Q3 2018.

Regional operating PL and revenue streams

	2019 Jan - Sep					**2018 Jan - Sep**				
In USD thousands	***EMEA***	***APAC***	***AMECS***	***Corp***	***Group***	***EMEA***	***APAC***	***AMECS***	***Corp***	***Group***
Software	17 841	12 427	17 142		47 410	14 102	12 353	9 124		35 579
Hardware	7 429	4 100	13 832		25 362	6 781	4 562	5 875		17 219
Services	5 249	2 519	2 273		10 041	4 846	2 315	1 146		8 307
Support & Maintenance	15 840	7 581	8 325		31 745	13 649	6 810	6 910		27 369
Subscription	4 370	2 733	2 133		9 236	5 435	2 400	2 552		10 388
Revenue	**50 728**	**29 360**	**43 705**	**0**	**123 794**	**44 814**	**28 440**	**25 608**	**0**	**98 861**
Cost of sales	-13 628	-8 127	-16 935	-15 855	-54 544	-11 354	-6 329	-10 738	-14 041	-42 462
Gross profit	**37 100**	**21 233**	**26 771**	**-15 855**	**69 249**	**33 460**	**22 111**	**14 870**	**-14 041**	**56 399**
OPEX	-8 339	-5 778	-10 406	-29 127	-53 650	-9 089	-7 010	-6 176	-22 908	-45 183
EBITA	**28 761**	**15 456**	**16 364**	**-44 982**	**15 599**	**24 371**	**15 101**	**8 693**	**-36 949**	**11 216**

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.

In USD thousands	***January 1, 2019***
Right of use assets presented in property, plant and equipment	17 945
Lease liabilitites	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 September 30, 2019	16 540	417	16 957
Balance at January 1, 2019	17 734	211	17 945
Additions	118	70	188
Depreciation	-2 596	-87	-2 683
Newly acquired company	1 905	220	2 125
Exchange rate adjustments	-621	3	-618
Balance at September 30, 2019	16 540	417	16 957

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest cost, instead of operating lease expenses. During the nine months ended Sept 30, 2019, the Group recognized KUSD 2 683 of depreciation charges and KUSD 369 of interest costs from theses leases.

8. Financial instruments - fair value

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair values information for financial assets and financial liabilities not measured at fair values if the carrying amount is a reasonable approximation of fair values. Trade and other receivables and trade and other payables classified as held-for-sale assets are not included in the table below. Their carrying amount is a reasonable approximation of fair value.

					Fair value				
	2019			**2018**			**2018**		
In USD thousands	**Jan-Sep**			**Jan-Sep**			**Jan-Dec**		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at fair value									
Embedded derivative	-	-	4 645	-	-	1 904	-	-	1 171
Total assets	**-**	**-**	**4 645**	**-**	**-**	**1 904**	**-**	**-**	**1 171**
Financial liabilites measured at fair value									
Loan from related parties	-	-	147 860	-	-	107 060	-	-	110 073
Debentures, net	-	100 160	-	-	99 326	-		99 525	-
Lease liabilites	-	-	13 353	-	-	-	-	-	-
Total liabilities	**-**	**100 160**	**161 213**	**-**	**99 326**	**107 060**	**-**	**99 525**	**110 073**

9. 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 five months to September 30, 2019, NewTek contributed revenues of KUSD 19 576 and a profit of KUSD 4 300 to the Groups' result. If the acquisition had occurred on Jan 1, 2019 management estimates that consolidated revenues would have been KUSD 34 135 and consolidated profit KUSD 4 635.

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		7 070	7 070
Customer relations		2 827	2 827
Technology		10 000	10 000
Inventories	6 768		6 768
Trade and other receivables	6 769		6 769
Cash and cash equivalents	11 187		11 187
Loans and borrowings			-
Deferred tax liabilities		-5 372	-5 372
Contingent liabilities	-631		-631
Trade and other payables	-5 659		-5 659
Acquired net assets	**18 666**	**14 525**	**33 191**

Total consideration transferred	93 667
Fair value of identifiable assets	-33 191
Goodwill	**60 476**

Total purchase consideration	**93 667**
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.

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