Q4

Vizrt Group AS

Corp reg no 813 914 042

Interim report

January 1 – December 31, 2019

Interim report for the fourth quarter and full year of 2019

Fourth quarter highlights

- Revenues increased by 34% to MUSD 46 (34) coming from organic growth and the NewTek acquisition May 3. 2019.
- Gross margin 66 % (71%)
- R&D spend investments remains on a high level 16% of revenue reflecting that innovation is a key objective.
- Recurring EBITDA increased 53% to MUSD 14.9 (9.8)

Significant events during the quarter

- Product launched in Q3 based on the combined technologies from Vizrt and NewTek, has become generally available in the 4th quarter and already generates positive feedback and new orders.
- The integration of NewTek is viewed as largely completed by year-end 2019 and is resulting in overall positive sales and OPEX synergies.

The Group, in USD thousands	2019 Sep - Dec	2018 Sep - Dec	Change in %	2019 Jan- Dec	2018 Jan-Dec	Change in %
Revenue	45 503	34 019	34%	169 297	132 879	27%
Non-GAAP gross profit *	29 953	24 025	25%	113 808	92 869	23%
Non-GAAP gross margin	66%	71%		67%	70%	
Recurring EBITA **	13 236	9 290	42%	49 235	38 842	27%
Recurring EBITA-margin	29%	27%		29%	29%	
Recurring EBITDA **	14 932	9 753	53%	55 480	40 929	36%
Recurring EBITDA-margin	33%	29%		33%	31%	
Adjusted cash flow from operating activities***	4 635	12 590	-63%	30 915	35 501	-13%
Equity ratio				16%	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 2,4 Interest on bond in Q4 2019, MUSD 2,5 in Q4 2018 and MSUD 9,7 in YTD 2018 resp 9,9 in YTD 2019.

Management overview

2019 4th quarter continued with the same positive trends as in 3rd quarter resulting in a 34% 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.

Full year YTD EBITDA of MUSD 55.3 at a margin of 33% resulting in a 31% increase compared to last year, which is satisfactory and in line with the expectations. 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 Group and our R&D investment remains at a level of about 14-16% of the total revenue. The combined engineering team of NewTek and Vizrt launched the first products based on technologies from both teams already in September. These products have become generally available in the 4th quarter and the response from the market is positive. First projects including these products is expected to go live during the 1st quarter of 2020, which in turn will increase the general interest further.

Notable in the market is that we see an increasing number of projects driven by the need for IP. We view this as very positive for given Vizrt Group's strong position within IP.

The integration work following the acquisition of NewTek can be viewed as completed by end of 2019. Many areas have been reviewed and strengthened and as of January 2020 we also have a senior global leader in place to drive the global success in the indirect channel for the NewTek brand.

As mentioned in the 3rd quarter report the Group is partly financed with bonds expiring during 2021. The board is initiating a review of Vizrt's various strategic and financing options which could include both debt and equity options.

The recent virus outbreak in China will dampen the business activities in the region at least in the comping few months. Vizrt expect only moderate impact on business given the limited size of our Chinese business and that we can temporarily repurpose recourses to other regions. Our current priority is the well-being of our colleagues, partners and customers which we are supporting to the best of our ability. Currently we don't see signs of any disruption in the supply-chain for electronics impacting our customers or Vizrt Group materially but that can't be excluded if the virus situation continues for a prolonged period.

Fourth quarter 2019

Revenue increased by 34%, driven by organic and inorganic activities.

Gross profit MUSD 30 (24) an increase of 25% compared to last year. Gross margin 66% (71%), 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 3.1 of one-off expenses related to costs for the NewTek acquisition and re financing activities compared to MUSD 1.6 in Q4 2018 which was related to centralization of administrative functions.

Total R&D spend was MUSD 7.4 resulting in a yearly run rate of 14-15% of the revenue. R&D expenses in the consolidated statement of income exclude MUSD 3.7 attributed to intangible assets arising from certain development projects compared to MUSD 1.0 in Q4 2018.

Non-GAAP recurring (excluding one-off items) EBITDA of MUSD 14.9, corresponding to a 32% margin, an increase of 12% compared to previous year.

Adjusted cash flow was MUSD 13.7 compared to MUSD 14.6 in Q4 2018 due to increase in working capital.

January – December 2019

Revenue increased by 27%, 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 114 an increase of 23% compared to last year. Gross margin 67% (70%), lower than last year due to change of product mix as a result of the acquisition.

2019 OPEX includes MUSD 4.7 of one-off expenses related to costs for the NewTek acquisition and re-financing compared to MUSD 2.7 last year, which was related to centralization of administrative functions.

Total R&D spend was MUSD 26.5 equal to 16% of revenue. R&D expenses in the consolidated statement of income exclude MUSD 11.9 attributed to intangible assets arising from certain development projects compared to MUSD 8.7 last year.

Non-GAAP recurring (excluding one-off items) EBITDA of MUSD 55.3, corresponding to a 33% margin, an increase of 35% compared to previous year.

Adjusted cash flow was MUSD 40.0 compared to MUSD 35.5 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 year ended December 31, 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 financial year and their impact on the financial statements, any major related parties' transactions, and a description of the principal risks and uncertainties.

Bergen February 26, 2020

Michael Hallén

CEO and President of the board

Esben Ravn Olesen

CFO and board member

Financial statement, Group

Consolidated statement of profit and loss and OCI

In USD thousands	2019 Sep- Dec	2018 Sep- Dec	2019 Jan-Dec	2018 Jan-Dec
Revenue	45 503	34 019	169 297	132 879
Cost of sales	-20 712	-14 645	-75 257	-57 107
Gross profit	**24 791**	**19 373**	**94 040**	**75 772**
Other operating revenues	69	112	61	156
Selling and marketing expenses	-9 847	-8 857	-39 258	-35 591
Administrative expenses	-4 873	-3 342	-16 575	-12 672
Research and development expenses	-3 687	-3 733	-14 584	-11 624
Other operating expenses	-3 064	-1 615	-4 696	-2 886
Operating profit/loss	**3 389**	**1 938**	**18 988**	**13 154**
Net financial items	-2 365	-11 116	-18 513	-25 615
Profit/loss before tax	**1 024**	**-9 178**	**475**	**-12 461**
Income tax	-6 921	-375	-5 943	-1 248
Net profit/loss	**-5 897**	**-9 552**	**-5 468**	**-13 709**
Other comprehensive income				
Amounts that will not be reclassified to profit or loss:				
Re-measurement loss related to employee benefit plan	600	-340	600	-340
	600	**-340**	**600**	**-340**
Amounts that may be reclassified subsequently to profit or loss:				
Exchange rate differences on translating foreign operations	-3 992	4 418	-3 279	674
Total comprehensive loss, net of tax	**-9 289**	**-5 474**	**-8 147**	**-13 375**

Earnings per share

	2019 Sep- Dec	2018 Sep- Dec	2019 Jan-Dec	2018 Jan-Dec
From continuing operations				
Earnings per share, weighted average, basic	-19,66	-31,84	-18,23	-45,70
Number of shares	300	300	300	300

Consolidated statement of financial position

In USD thousands	2019 December 31	2018 December 31
ASSETS		
Non-current assets		
Goodwill	219 953	160 489
Other intangible assets	63 507	56 758
Property, plant and equipment	22 306	4 163
Deferred taxes	9 584	13 677
Other non-current assets	7 264	2 417
Total non-current assets	**322 614**	**237 504**
Current assets		
Inventories	11 999	4 764
Trade and other receivables	46 558	35 455
Prepaid expenses and accrued income	9 409	9 765
Restricted cash	364	348
Cash and cash equivalents	35 830	45 306
Total current assets	**104 159**	**95 637**
TOTAL ASSETS	**426 774**	**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	-110 024	-101 879
Total equity	**68 866**	**77 011**
Liabilities		
Non-current liabilities		
Loans and borrowings	100 384	99 525
Loans from related parties	152 457	110 073
Deferred tax liabilities	7 535	5 028
Other non-current liabilities	29 552	4 123
Total non-current liabilities	**289 927**	**218 750**
Current liabilities		
Trade and other payables	4 731	2 603
Deferred revenues	17 072	14 823
Employee accruals	5 566	3 928
Current tax liabilities	8 941	7 720
Credit facility	20 187	-
Other account payables and accrued expenses	11 484	8 307
Total current liabilities	**67 981**	**37 380**
TOTAL EQUITY AND LIABILITIES	**426 774**	**333 141**

Condensed consolidated statement of changes in equity

		- Attributable to the owner of the company -				
In USD thousands (except share data)	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 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					-5 468	-5 468
Other comprehensive income					-2 679	-2 679
Total comprehensive loss for the year					-8 147	-8 147
Balance at December 31, 2019	***300***	**9**	**4 922**	**173 959**	**-110 024**	**68 866**

Consolidated statement of cash flows

In USD thousands	2019 Sep - Dec	2018 Sep - Dec	2019 Jan-Dec	2018 Jan-Dec
Operating activities				
Profit/loss for the period	**-5 897**	**-9 553**	**-5 468**	**-13 709**
Adjustments for:				
Depreciation	1 695	1 711	6 214	2 086
Amortization	6 783	5 026	25 551	22 258
Loss from disposal of property and equipment	90	-68	159	738
Financial income, net	-558	18 432	8 242	16 412
Income tax paid	247	-502	142	-1 375
	2 360	**15 046**	**34 840**	**26 410**
Cashflow from changes in working capital				
Inventories	-360	-291	-387	-887
Trade and other receivables	6 712	7 008	-13 510	-2 714
Trade and other payables	-6 456	-11 705	94	3 018
	-104	**-4 988**	**-13 803**	**-583**
Cashflow from operating activities	**2 256**	**10 058**	**21 037**	**25 827**
Investing activities				
Payments for intangible assets	-3 744	-773	-11 972	-8 619
Payments for property, plant and equipment	-2 175	-391	-4 432	-1 947
Payments to acquire subsidiaries, less acquired cash	-198	-	-71 761	-
Cashflow from investing activities	**-6 117**	**-1 164**	**-88 165**	**-10 566**
Financing activities				
Amortization of lease liability	-747	-	-2 708	-
Utilizing credit facility	-24	-	20 187	-
New loan from shareholder	785	-	28 580	-
Contingent consideration	11 175	-	11 175	-
Cashflow from financing activities	**11 189**	**-**	**57 234**	**-**
Cashflow for the period	**7 328**	**8 894**	**-9 894**	**15 261**
Cash and cash equivalents in the beginning of the period	27 891	37 273	45 306	31 811
Effect of movements in exchange rate changes on cash held	611	-861	418	-1 766
Cash and cash equivalents at the end of the period	**35 830**	**45 306**	**35 830**	**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 December 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. 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.

Contingent considerations are recognized to fair value each reporting period (level 3 according to definition in IFRS 13) and based on the latest relevant forecast for the acquired company. In connection with the valuation of the contingent consideration the assets acquired and liabilities assumed in the purchase price allocation are reviewed. Any indication of impairment due to the revaluation of contingent considerations is considered and adjustments are made to off-set the impact to revaluation.

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 Sep -Dec**	**2018 Sep -Dec**	**Change in %**	**2019 Jan- Dec**	**2018 Jan-Dec**	**Change in %**
EMEA	19 658	15 981	23%	70 387	61 581	14%
APAC	9 746	9 245	5%	39 106	36 900	6%
AMECS	16 099	8 793	83%	59 804	34 399	74%
Total revenues	**45 503**	**34 019**	34%	**169 297**	**132 879**	27%

Revenues in EMEA, APAC and AMECS accounted for 43%, 21% and 35% of Q4 2019 total revenues respectively, as compared to 47%, 27% and 26% respectively in Q4 2018.

Regional operating PL and revenue streams

	2019 Jan - Dec					**2018 Jan - Dec**				
In USD thousands	***EMEA***	***APAC***	***AMECS***	***Corp***	***Group***	***EMEA***	***APAC***	***AMECS***	***Corp***	***Group***
Software	26 130	16 684	23 895		66 709	16 709	15 061	11 031		42 801
Hardware	9 953	5 086	18 689		33 728	8 834	5 638	7 399		21 871
Services	7 449	3 466	3 250		14 165	8 246	8 298	2 578		19 122
Support & Maintenance	20 890	10 267	11 113		42 269	19 034	4 642	9 678		33 354
Subscription	5 965	3 604	2 858		12 427	8 789	3 260	3 713	-31	15 731
Revenue	**70 387**	**39 106**	**59 804**	**0**	**169 297**	**61 612**	**36 899**	**34 399**	**-31**	**132 879**
Cost of sales	-19 024	-11 359	-23 347	-21 526	-75 257	-15 816	-8 615	-13 820	-18 856	-57 107
Gross profit	**51 362**	**27 747**	**36 457**	**-21 526**	**94 040**	**45 796**	**28 284**	**20 579**	**-18 887**	**75 772**
OPEX	-11 517	-7 895	-14 876	-40 764	-75 052	-12 229	-8 379	-8 276	-33 734	-62 618
EBITA	**39 846**	**19 851**	**21 581**	**-62 290**	**18 988**	**33 567**	**19 905**	**12 303**	**-52 621**	**13 154**

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 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**
Additions	1 029	72	1 101
Disposals	-54	0	-54
Depreciation	-3 604	-126	-3 730
Newly acquired company	1 905	220	2 125
Exchange rate adjustments	-210	7	-203
Balance at December 31, 2019	16 800	385	17 185

Also in relation to those leases under IFRS 16, the Group has recognized depreciation and interest cost, instead of operating lease expenses. During the twelve months ended Dec 31, 2019, the Group recognized KUSD 3 730 of depreciation charges and KUSD 506 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					
In USD thousands	**2019 Jan-Dec**			**2018 Jan-Dec**		
	Level 1	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Financial assets measured at fair value						
Embedded derivative	-	-	4 645	-	-	1 171
Total assets	**-**	**-**	**4 645**	**-**	**-**	**1 171**
Financial liabilities measured at fair value						
Loan from related parties	-	-	152 457	-	-	110 073
Debentures, net	-	100 384	-	-	99 525	-
Contingent considerations	-	-	11 175	-	-	-
Lease liabilities	-	-	13 701	-	-	-
Total liabilities	**-**	**100 384**	**177 333**	**-**	**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 eight months to December 31, 2019, NewTek contributed revenues of KUSD 30 953 and a profit of KUSD 4 198 to the Groups' result. If the acquisition had occurred on Jan 1, 2019 management estimates that consolidated revenues would have been KUSD 45 512 and consolidated profit KUSD 6 132.

Acquisition-related costs

The Group incurred acquisition related costs of KUSD 1 042 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. The analysis of the acquired net assets are preliminary and the fair value might be subject to change.

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	6 861		6 861
Trade and other receivables	6 769		6 769
Cash and cash equivalents	11 187		11 187
Deferred tax liabilities		-5 372	-5 372
Contingent liabilities	-763		-763
Trade and other payables	-5 617		-5 617
Acquired net assets	**18 669**	**14 525**	**33 194**

Total consideration transferred	92 657
Fair value of identifiable assets	-33 194
Goodwill	**59 463**

Total purchase consideration	**92 657**
of which cash portion	82 947
of which contingent consideration	12 500
Cash and cash equivalents in the acquired business	11 186
Effect on the Group's cash and cash equivalents	**-71 761**

Significant events after balance sheet date

No significant events have occurred after the end of reporting period.

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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