



Verimatrix announces Q1 2020 revenue

- **\$20.0 million revenue in Q1 2020**

- Strong growth of subscription-based business (ARR up 68% vs Q4 2019 at \$6.2m); recurring revenues up 18% year-over-year at \$14.2 million
- Core business up 3% year-over-year on a pro forma¹ basis
- Consolidated revenue (IFRS) up 26% year-over-year

- **Covid-19 epidemic and objectives**

- Business continuity and resilience despite short term challenges
- Continuously growing recurring revenues and subscription-based business in particular
- Company largely deleveraged with a solid financial position to face the global pandemic situation
- Tight control of expense to preserve profitability and cash flow while investing in long-term growth
- Given the lack of visibility induced by the Covid-19 epidemic, 2020 and 2021 objectives are suspended until the macroeconomic environment improves and regain visibility

Aix-en-Provence, France and San Diego, USA, April 21, 2020 - Verimatrix (Euronext Paris: VMX), formerly known as Inside Secure, is today reporting its revenue for the first quarter period ended March 31, 2020.

(in thousands of US\$)	Q1-2020	Q1-2019	Q1 2020 vs. Q1 2019
Consolidated revenue	20 019	15 875	26%
Core business pro forma revenue	20 019	19 395	3%

Amedeo D'Angelo, Chairman and CEO, commented: *"While revenue growth was slowed down at the end of the first quarter of 2020 due to the lock-down of many countries in the world, Verimatrix showed resilience to negative business environment impact coming from the Covid-19 outburst.*

All relevant and necessary measures have been implemented by Verimatrix to protect the health of its employees and at the same time the company is able to maintain operations despite lock-down measures.

During the quarter, we also kept on investing in products and partnerships while accelerating investments in digital marketing to increase further our market penetration. The success of our latest [webinars](#) confirmed the boosted interest from customers for security as a service in current conditions. We see strong momentum created by the unprecedented demand for content worldwide, requiring simple, scaleable, standardized and secure content protection solutions.

Thanks to our relevant product offering, highly-motivated teams and a solid financial structure, and because the long term potential of our markets of content and application protection remains intact, it is my conviction that we have the right assets to face short-term challenges and capture new growth opportunities to emerge from this crisis stronger than ever."

¹ Including Verimatrix, Inc. (acquired on February 29, 2019) revenue for three months in 2019. Pro forma for 2019 is adjusted to exclude impact of purchase price accounting. see *Pro forma figures* and *Supplementary non-IFRS financial information* paragraphs hereinafter.

First quarter 2020 revenue

(in thousands of US\$)	Q1-2020	Q1-2019 pro forma	Q1 2020 vs. Q1 2019 pro forma	Q1-2019 reported (IFRS)	Q1 2020 vs. Q1 2019 reported (IFRS)
Core software business	20 019	19 395	3%	12 327	62%
NFC patent licensing program	0	3 548	-	3 548	-
Total revenue	20 019	22 942	-13%	15 875	26%

Verimatrix revenue was \$20.0 million in the first quarter of 2020. Core software business revenue was up 3% year-over-year on a pro forma basis (i.e. including Verimatrix, Inc. for 3 month in 2019). Total company revenue was down 13% year-over-year, since first quarter 2019 included \$3.6 million non recurring revenue from the NFC patent licensing program managed by France Brevets (compared to nil in the first quarter of 2020).

During the quarter, the Company continued to make progress in deploying its emerging SaaS and subscription-based offering. The ARR (Annual Recurring Revenue) grew from \$3.8 million as of December 31, 2019 to \$6.2 million as of March 31, 2020 (+68%). The momentum experienced by Verimatrix is further increased by the willingness of content providers to off-load their infrastructure to hosted-service providers, in particular in the context of the lock-down policies implemented in many countries limiting access to premises.

Recurring revenues from royalties, maintenance and subscription fee were \$14.2 million in the first quarter of 2020. These recurring revenues grew by 18% year-over-year in the first quarter of 2020.

Revenue from licenses and non-recurring services was \$6 million in the first quarter of 2020 with a combination of weak licenses from new customers in the later part of the first quarter of 2020, partially offset by new licenses from existing customers experiencing growth of the demand for their content.

Consequently, recurring revenues represented 70% of the company's revenue, compared to 56% for 2019 as a whole, as a consequence of both an increase of recurring revenues in absolute terms and weak new licenses revenue in the later part of the first quarter of 2020 as explained above.

On a regional basis, new business was particularly impacted in Asia-Pacific and starting March in Europe, with the entry into lock-down, while Americas showed double-digit growth during the first quarter compared to a year ago.

During the quarter, in parallel to adapting to the new business environment, Verimatrix kept on investing in engineering, releasing products such as Verimatrix Embedded DRM, a new toolkit to support the implementation and integration of embedded video security solutions to ensure premium content distribution is compliant to industry standards. The company also developed partnerships, such as with Akamai on server-side watermarking integration or Broadcom to streamline Android TV set-top box deployments by pre-integrating components of the Verimatrix Video Content Authority System (VCAS™) with Broadcom's Android TV Platform.

2020 compared with 2019 consolidated (IFRS) Revenue

Revenue for the first quarter of 2020 increased by 26% compared with consolidated (IFRS) revenue for the first quarter of 2019 (\$15.9 million), which (i) accounted for only one month of Verimatrix, Inc. business (three months in 2020) and (ii) included \$3.6 million from the NFC patent licensing program (compared to nil in the first quarter of 2020).

Covid-19 epidemic

All relevant and necessary measures have been implemented by Verimatrix, in compliance with local jurisdictions where the company's has employees, to protect their health.

The company has implemented a work-from-home policy and is able to operate its business with limited loss of productivity and ensuring the continuity of engineering, product delivery and support and maintenance.

From a business standpoint, the company shows resilience, thanks to significant recurring revenue and customer installed base in the video content industry in particular. However, the global health situation related to the Covid-19 epidemic and the lock-down measures implemented in many countries are slowing down business cycles and in particular are delaying new system deployments and upgrades.

The momentum created by the unprecedented demand for content worldwide, requiring simple, scalable, standardized and secure content protection solutions, is further enhanced by the boosted interest from customers for security as a service solutions. Thanks to such solutions, they can off-load the management of infrastructure to partners and better cope with outburst of video-consumption without the need to invest in incremental infrastructure and thus focus their investment to their core business.

Financial position

The company's has a solid financial position to face the consequences of the Covid-19 epidemic:

- As of April 15, 2020, the company's consolidated cash position was \$46 million (compared with \$54.0 million, at December 31, 2019), in line with operating plan and business seasonality;
- The Company's financial debt matures in July 2022 (EUR 16 million "OCEANE" convertible bonds) and February 2026 (\$44 million bullet private loan);
- Cash collection from customers did not show a slow down and the company did not experience default of payment, even if the company remains vigilant in the context of economics challenges created by the epidemic.

Business outlook and objectives

In 2019, the Company completed the acquisition of Verimatrix, Inc. and the sale of the non-core Silicon IP business unit, to become a pure-play software provider of innovative, customer-friendly cybersecurity solutions that protect video content, applications, and devices across multiple markets. In 2019, it focused on integrating Verimatrix, Inc. and implementing the intended cost synergy plan.

Going forward, the Company primarily intends to:

- take benefit from the momentum created by the unprecedented demand for content worldwide, requiring simple, scalable, standardized and secure content protection solutions and leverage the Company's expertise and foothold; the company believes that this momentum is boosted by the consequences of the Covid-19 epidemic;
- developing the code and application protection solutions business, through product development and increased marketing presence, in particular at a time when cyberattacks are spreading;
- generating tangible revenue synergies (starting with existing Verimatrix, Inc. VCAS customers signing up to former Inside Secure Code Protection and ProtectMyApp solutions to protect their mobile streaming applications);
- grow recurring revenues, in particular the subscription business leveraging both its on-premise and SaaS solutions and, as a consequence, grow the Annual Recurring Revenue ("ARR").

However, in the short-term, the sanitary crisis and its economic consequences is affecting the decision-making process of Verimatrix customers and their ability to implement and deploy new projects and thus is expected to impact activity in the coming months. The Company nevertheless believes that most of the new projects will be delayed but not cancelled.

The consequences of the Covid-19 epidemic on worldwide economies remain difficult to quantify and forecasting is a challenge as of now. Despite the resilience of Verimatrix core business and the management belief that most of the new deals in the pipeline would be delayed but not cancelled, the Company decided to suspend its 2020 and 2021 objectives² until the macroeconomic environment improves and regain visibility. Verimatrix is hopeful to comment on its objectives when the earnings for the first-half of 2020 are communicated on July 29, 2020.

Meanwhile, the Company maintains tight control of expense to preserve profitability and cash flow while investing in products and services and market presence to address markets which long term potential remains intact despite short term challenges.

² On March 4, 2020, the Company communicated the following objectives: (i) In 2020, the Company shall deliver high-single digit core business revenue growth while getting the full benefit of its cost synergy plan to generate an EBITDA margin in a range of 23% to 25% of revenue; (ii) for 2021, the Company targets core business revenue of \$125 million and EBITDA margin of 26% of revenue.

Conference call

Verimatrix will hold a conference call today at 6 p.m. CET. Access to the call will be by dial-in on one of the following numbers: +33 1 72 72 74 03 (France) ou +44 20 7194 3759 (UK), PIN: 87802357#. The presentation is available online prior to the conference call at www.verimatrix-finance.com. An audio webcast of the presentation and the Q&A session will be available after the end of the call.

Financial calendar

- First-half 2020 earnings: July 29, 2020 after market

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About Verimatrix

Verimatrix (Euronext Paris: VMX), formerly known as Inside Secure, is a trusted business partner providing software security and business intelligence solutions that protect content, applications, and devices across multiple markets. Many of the world's largest service providers and leading innovators trust Verimatrix to protect systems that people depend on every day. With more than 20 years of experience and the top minds in the industry, the company is uniquely positioned to understand and proactively anticipate security and business challenges for customers. Verimatrix partners provide innovative, customer-friendly solutions that are cost-effective, easy to deploy and supported with responsive customer service teams based worldwide. To learn more, visit www.verimatrix.com.

Forward-looking statements

This press release contains certain forward-looking statements concerning Verimatrix. Although Verimatrix believes its expectations to be based on reasonable assumptions, they do not constitute guarantees of future performance. Accordingly, the Company's actual results may differ materially from those anticipated in these forward-looking statements owing to a number of risks and uncertainties. For a more detailed description of these risks and uncertainties, please refer to the "Risk factors" section of the 2018 universal registration document filed with the French financial market authority (the Autorité des marchés financiers – the "AMF") on December 26, 2019, available on www.verimatrix-finance.com.

Pro forma figures

Inside Secure (renamed Verimatrix (the "Company") following shareholders' vote on June 24, 2019) completed the acquisition of Verimatrix, Inc. on February 28, 2019. Verimatrix has prepared its financial results in accordance with IFRS; they account for three months of activity of Verimatrix, Inc. in 2020 and one month in 2019. To enable year-on-year comparison, the Company has also prepared unaudited pro forma revenue for the first quarter of 2019 including Verimatrix, Inc. for a full quarter.

On December 6, 2019, the Company completed the sale of its Silicon IP business unit to Rambus Inc. (NASDAQ: RMBS) in an all-cash transaction. Since the Silicon IP business unit was a separate major line of business within the meaning of IFRS 5, the revenue of this discontinued activity are excluded from the company's reported revenue for 2019.

Supplementary non-IFRS financial information

Some financial measures and performance indicators used in the press release are presented on an adjusted basis. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the company's financial performance. They should be considered as additional information, which cannot replace any other strictly accounting-based operating or financial performance measure, as presented in the company's consolidated financial statements and their related notes. The

company uses these indicators because it believes they are useful measures of its recurring operating performance and its operating cash flows. Although they are widely used by companies operating in the same industry around the world, these indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently than the company, even though they use similar terms.

Adjusted revenue is defined as revenue before non-recurring adjustments related to business combinations (deferred revenue). It enables comparisons between 2018, 2019 and 2020.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment expenses not related to business combinations. Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with restructuring and business combinations and divestiture undertaken by the company.