Verimatrix Announces Strong Q3 2020

Transition towards recurring subscription and SaaS model well on track

- **$26.3 million revenue in Q3 2020**
  - Core software business up 11% year-over-year on a pro forma[1] basis
  - Consolidated revenue (IFRS) up 14% year-over-year
  - Strong license revenue (up 70% year-over-year) primarily from upselling customers
  - SaaS and subscription-based business continuing growth over 2019 (ARR x2.2 year-over-year)
- **$70.4 million revenue for 9-month 2020**
  - Core software business flat year-over-year on a pro forma basis (compared with -6% in first-half 2020)
  - Consolidated revenue (IFRS) up 8% year-over-year
  - Recurring revenues representing 60% of revenue
- **Business outlook**
  - Revenue objective at $100 million for FY 2020, with EBITDA margin reaching circa 26%
  - Continuously growing recurring revenues and subscription-based business in particular
  - Tight control of expense while investing in long-term growth

Aix-en-Provence, France and San Diego, USA, October 22, 2020 - Verimatrix (Euronext Paris: VMX), the leader in powering the modern connected world with people-centered security, is today reporting its revenue for the third quarter ended September 30, 2020.

(in thousands of US$)	Q3-2020	Q3-2019 pro forma adjusted	Q3 2020 vs. Q3 2019 pro forma adjusted	9-month 2020	9-month 2020 pro forma adjusted	9M 2020 vs. 9M 2019 pro forma adjusted
Software business revenue	26 279	23 692	11%	70 449	70 562	0%
Total revenue	26 279	23 692	11%	70 449	74 109	-5%

Amedeo D'Angelo, Chairman and CEO, commented: *"Our company kept strong focus during the last nine months on its core business, looking for all new customer needs, offering flexibility, where possible, to adapt to 2020 changes in everyone lifestyle. We have executed on our strategy, leading the market towards the Cloud service migration, gaining market share and sharing our vision on how all stakeholders should be able to distribute and protect their content worldwide. We have stayed closer and tighter than ever with our customers, to weather down the impact of the pandemic crisis.The transition of our model towards more recurring revenues continues to be successful, representing 60% of revenues in the first nine months of 2020. My pride is to see that all stakeholders within and around Verimatrix have worked as a single force and I am confident that we have the right positions, products and people to seize all the opportunities moving forward."*

[1] Including Verimatrix, Inc. (acquired on February 29, 2019) revenue for nine 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. Core software business revenue is the whole company's revenue less the non-recurring non-core NFC patent licensing program.

(in thousands of US$)	Q3-2020	Q3-2019 (IFRS)	Q3-2019 (Pro forma adjusted)	Q3 2020 vs. Q3 2019 IFRS	Q3 2020 vs. Q3 2019 pro forma adjusted
Software business	26 279	22 995	23 692	14%	11%
NFC patent licensing program	-	-	-	-	-
Total revenue	**26 279**	**22 995**	**23 692**	**14%**	**11%**

(in thousands of US$)	9-month 2020	9-month 2019 (IFRS)	9 months 2019 (Pro forma adjusted	9M 2020 vs. 9M 2019 IFRS	9M 2020 vs. 9M 2019 pro forma adjusted
Software business	70 449	61 947	70 562	14%	0%
NFC patent licensing program	-	3 548	3 548	-	-
Total revenue	**70 449**	**65 494**	**74 109**	**8%**	**-5%**

Third quarter 2020 revenue

Verimatrix revenue was $26.3 million in the third quarter of 2020, up 11% year-over-year on a pro forma basis (i.e. including Verimatrix, Inc. for 9 month in 2019).

Recurring revenues from royalties, maintenance and subscription fee were $12.6 million in the third quarter of 2020 (48% of total revenue). These recurring revenues are down year-over-year due to weak royalty collection from box and set-top boxes makers in the context of covid-19 supply-chain and economic challenges, as anticipated, and unfavourable basis (high royalties in Q3 2019).

The ARR (Annual Recurring Revenue) increased by 2.2 times year-over-year to $8.8 million as of September 30, 2020.

Revenue from software licenses and non-recurring services was $13.7 million in the third quarter of 2020, up 53% year-over-year. In particular, the company signed a $3.5M license for its code protection tools with a major European telecom operator for their TV-apps. This contract is yet another example of upselling the former Inside Secure code protection technologies to Verimatrix, Inc. existing video content protection customers.

During the quarter, in parallel to adapting to the new business environment, Verimatrix kept on investing in engineering, releasing products such as the fully re-engineered VCAS 5 for DVB Broadcast security which offers operators a modernized solution for one-way networks that is more cost effective and easier to implement.

9-month 2019 revenue

Revenue for the company in the first nine months of 2020 was $70.4 million, down 5% compared with 2019 on a pro forma basis. 9-month 2019 revenue included $3.5 million revenue from the company's NFC patent licensing program managed by France Brevets compared with nil in 2020 to date.

Revenue for the core software business was $70.4 million, flat compared with 2019. Strong revenue in Q3 2020 allowed the company to catch up on its year-on-year revenue, which was down 6% in first-half 2020.

Recurring revenues from royalties, maintenance and subscription fee were $42 million in the first nine months of 2020 (60% of revenue). These recurring revenues grew by 3% year-over-year, growth of maintenance and subscription being partly offset by weaker royalties as explained above.

Revenue from software licenses and non-recurring services was $28.5 million in the first nine months of 2020, down 4% year-over-year.

As expected, revenue is impacted, in the short term, by the transition of the revenue model from perpetual licenses to subscriptions (both for SaaS and on-premises implementations). It is estimated that during the first nine months of 2020, approximately $6.1 million perpetual licenses (that would have been recognized upfront) shifted to multi-year subscription agreements (to be recognized ratably of the term of the agreement, thus impacting immediate revenue recognition but generating long-term recurring revenue for the company.

2020 compared with 2019 consolidated (IFRS) revenue

Consolidated (IFRS) revenue for the first nine months of 2020 ($70.4million) is up 8% compared with 2019: incremental revenue due to change in consolidation perimeter (9 months of Verimatrix, Inc. revenue in 2020 compared with 7 months in 2019) was partly balanced by the absence NFC patent licensing program revenue in 2020 to date (compared with $3.5 million in 2019).

Post-Q3 events

On October 10, 2020, Verimatrix announced it had experienced a data incident. The company immediately took steps to contain the issue, notified law enforcement, made a precautionary notification to data protection authorities, and launched an investigation, aided by leading external forensics specialists. The investigation is still ongoing, but the company has seen no evidence that the incident has affected any customers products or services, and it has not disrupted the company's operations or ability to serve customers.

Business outlook

Verimatrix achieved strong license revenue in the third quarter of 2020, in the context of the global pandemic. Verimatrix is confident in the potential of its market opportunities. It is focused on executing on its strategy, leveraging on the momentum of an unprecedented demand for remote access, growing recurring revenues including subscription-based and SaaS business, increasing cross-selling and up-selling revenue synergies. In parallel, the company keeps on maintaining tight control of expense.

In that context, the company has the objective to generate $100 million in revenue for the full year 2020 with an EBITDA, growing at double digit, at circa $26 million (26% of revenue). However, under current macroeconomics situation, some customers may push out their budgets to year end or towards 2021.

Verimatrix shall communicate its long term objectives, in line its strategic roadmap, when releasing its earnings for fiscal year 2020.

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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 2019 universal registration document filed with the French financial market authority (the Autorité des marchés financiers – the "AMF") on May 11, 2020, 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. To enable year-on-year comparison, the Company has also prepared unaudited pro forma revenue for 2019 including Verimatrix, Inc. for full nine months (as opposed to seven month in the IFRS consolidated revenue).

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.