2019 results: delivered strong operational & financial performance and completed objectives and strategic initiatives

- **Full year 2019: strong performance**
  - $32.7 million revenue in Q4 2019, up 19% year-over-year on a pro forma[1] adjusted[2] basis
  - $106.8 million pro forma adjusted revenue, up 9% year-over-year
  - $ 22.6 million pro forma EBITDA (21.2% of revenue), up 51% year-over-year
  - $54m in cash and cash equivalents and company largely deleveraged in less than a year
- **Completion of all 2019 objectives and strategic initiatives**
  - Delivered cost synergies 25% above plan: run-rate annual cost synergies of $12.5 million
  - Sale of non-core Silicon IP business unit
- **2020 objectives:**
  - High-single digit revenue growth (for core business excluding NFC licensing program)
  - EBITDA margin in a range of 23% to 25% of revenue
- **2021 objectives updated with new business perimeter:**
  - Core business revenue of $125 million
  - EBITDA margin of 26% of revenue

Aix-en-Provence, France and San Diego, USA, March 4, 2020 – Verimatrix (Euronext Paris: VMX), formerly known as Inside Secure, is today reporting its IFRS[3] consolidated results and unaudited pro forma adjusted results (including Verimatrix, Inc. for 12 months and excluding the discontinued Silicon IP business unit), for the fiscal year ended December 31, 2019.

(in thousands of US$)	**2019**	2018
Pro forma adjusted revenue	**106 774**	97 618
Pro forma adjusted EBITDA	**22 580**	14 991
IFRS consolidated revenue	**98 159**	18 124
IFRS Net income/(loss) from continuing operations (i)	(7 748)	(4 366)
IFRS Net income/(loss) from discontinued operations (ii)	34 191	7 784
IFRS Net income/(loss) (i) + (ii)	26 443	3 418

Commenting on these results, Amedeo D'Angelo, chairman and chief executive officer of Verimatrix, stated: *"We significantly changed the profile of our Company in 2019 to become a pure-play software provider of cybersecurity solutions that protect video content, endpoint devices, software and applications. We closed the acquisition of Verimatrix, Inc. in February and closed the sale of our non-core Silicon IP business unit in December. At the same time, we managed to grow our market share and developed our solutions offering, in particular with SaaS. Combining revenue growth by 9% with the implementation of higher than expected cost synergy plan, we delivered strong earnings in 2019. Going forward, we plan to generate tangible revenue synergies among the combined companies' businesses and grow our subscription-based business, while taking benefit from the momentum created by the unprecedented demand for content worldwide, requiring simple, scaleable, standardized and secure content protection solutions and leveraging the Company's expertise and foothold to grow its marketshare.*"

[1] As if the acquisition of Verimatrix, Inc. and the sale of the Silicon IP division had been completed on January 1, 2018 (see Basis of preparation hereinafter).
[2] Verimatrix uses performance indicators that are not strictly accounting measures in accordance with IFRS ; definitions of adjusted financial measures are presented in Appendix 3 hereof.
[3] The consolidated financial statements as of December, 2019 were reviewed by the board of directors on March 2, 2020; the audit procedure by the statutory auditors is in progress.

Financial Results - Key figures

	Pro forma adjusted				IFRS	
	Core Business		Company			
(in thousands of US$)	**2019**	2018	**2019**	2018	**2019**	2018
Revenue	**102 904**	95 812	**106 774**	97 618	**98 159**	18 124
Gross profit	**83 633**	81 360	**85 745**	82 131	**78 573**	16 787
As a % of revenue	***81,3%***	*84,9%*	***80,3%***	*84,1%*	***80,0%***	*92,6%*
Operating expenses	**(67 483)**	(74 258)	**(67 476)**	(74 333)	**(76 669)**	(23 341)
Operating income	**16 150**	7 102	**18 269**	7 798	**1 904**	(6 554)
As a % of revenue	***15,7%***	*7,4%*	***17,1%***	*8,0%*	***1,9%***	*-36,2%*
Net income/(loss) from continuing operations (i)	-	-	-	-	**(7 748)**	(4 366)
Net income/(loss) from discontinued operations (ii)	-	-	-	-	**34 191**	7 784
Net income/(loss) (i) + (ii)	-	-	-	-	**26 443**	3 418
EBITDA	**19 885**	13 719	**22 580**	14 991	**-**	-
As a % of revenue	***19,3%***	*14,3%*	***21,1%***	***15,4%***	**-**	-

Basis of preparation

Inside Secure (renamed Verimatrix (the "Company") following shareholders' vote on June 24, 2019) completed the acquisition of Verimatrix, Inc. on February 28, 2019.

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.

Verimatrix has prepared its financial results in accordance with IFRS, they account for 10 months of activity of Verimatrix, Inc. in 2019 and nil in 2018.

Since the Silicon IP business unit was a separate major line of business within the meaning of IFRS 5, the revenue and results of this activity in 2019 and up to the date of sale, as well as the net profit from the divestiture, have been isolated on a separated line item of the consolidated income statement "Net income from discontinued operations". The consolidated income statement for the year ended December 31, 2018 has been restated in the same manner.

Comments on IFRS results for the fiscal year 2019 - from revenue to operating income - are presented in Appendix 1 hereof and IFRS consolidated income statement, balance sheet and cash flow statement are presented in Appendix 2.

In addition, given the above-mentioned changes in the business perimeter, to enable year-on-year comparison, the Company has also prepared unaudited pro forma results for 2019 and 2018 including Verimatrix, Inc. for 12 months and excluding the Silicon IP business unit.

Pro forma are deemed "adjusted" compared with IFRS since, consistent with the Company's prior financial communications, they exclude (i) non-recurring adjustments on revenue due to purchase accounting (deferred revenue), (ii) the amortization of intangible assets related to business combinations, (iii) any potential goodwill impairment, (iv) share-based payment expense and (v) non-recurring costs associated with restructuring and business combinations. Definitions of adjusted measures are provided in Appendix 3 hereof.

1- Pro forma financial results: from revenue to EBITDA

Q4 2019 and full year 2019 pro forma adjusted revenue

(in thousands of US$)	Q4-2019	Q4-2018	Q4 2019 vs. Q4 2018	2019	2018	2019 vs. 2018
Software business	32 342	27 502	18%	102 904	95 812	7%
Core Business pro forma adjusted revenue	**32 342**	**27 502**	**18%**	**102 904**	**95 812**	**7%**
NFC patent licensing program	323		-	3 870	1 806	-
Pro forma adjusted revenue	**32 665**	**27 502**	**19%**	**106 774**	**97 618**	**9%**

Q4 2019 pro forma adjusted revenue: +19%

Verimatrix pro forma adjusted revenue was $32.7 million in the fourth quarter of 2019 including $28.0 million for Verimatrix Inc. business (+20% vs Q4 2018) and $4.7 million for Inside Secure historical business (+12%) including $0.3 million from the NFC patent licensing program managed by France Brevets.

As expected, in the fourth quarter of 2019 Verimatrix revenue significantly increased over the fourth quarter of 2018 reflecting both strong business momentum and seasonality; in particular:

- core software business excluding NFC was up 18% vs Q4 2018;
- the Company recognised revenue for $6 million in relation with the delivery of the head end software component of a 15-year enterprise license deal for a next generation platform consisting of DVB, IPTV, and OTT with a major Internet service provider in Asia;
- On the former Inside Secure perimeter, embedded DRM applications for OTT drove the growth of the revenue.

Full year 2019 pro forma adjusted revenue: +9%

Pro forma adjusted revenue for 2019 was $106.8 million, up 9% compared with 2018. It included $85.4 million revenue from Verimatrix business (+7% vs 2018) and $21.3 million revenue from Inside Secure (including $17.5 million from the software business, up 7% year over year, and $3.9 million from the NFC patent licensing program).

Revenue from licenses represented 40% of the revenue in 2019 ($41 million), non-recurring revenue from services represented 5% of the revenue ($6 million), while recurring revenues from royalties, maintenance and subscription fee represented 55% of the revenue ($56 million). These recurring revenues grew by 17% in 2019, in particular, royalties grew by 19%, to $27.4 million.

In the Entertainment space, Verimatrix primary market (about 90% of the Company's revenue), Verimatrix combined strong positions in conditional access and content protection enabled increased royalties and maintenance fees with existing customers using cardless set top boxes and MultiRights OTT (Over-the-Top) solutions. This year, the company was particularly successful in deploying its software-based and IP centric future-proof platform to help video service providers secure and enhance their business.

At the same time, the Company made progress in deploying its emerging SaaS and subscription-based offering with $4 million revenue (+43% vs. 2018). The Company booked $7.1m in subscription deals in 2019 generating an ARR (Annual Recurring Revenue) estimated to $3.8 million as of the beginning of 2020.

On a regional basis, in 2019 Asia-Pacific (22% of core revenue) grew significantly, in particular thanks to the above-mention enterprise license deal; China represented $3.9 million in revenue. Growth in Europe (35% of revenue) continued to be driven by Eastern Europe, while Americas (43% of revenue) remained flat overall, reflecting the mature video-content protection market in the USA balanced by growing Latin and South America markets.

	Pro forma adjusted	
(in thousands of US$)	**2019**	**2018**
Revenue	106 774	97 618
Adjusted gross profit	**85 745**	**82 131**
As a % of revenue	*80,3%*	*84,1%*
Research and development expenses	(24 124)	(28 479)
Selling and marketing expenses	(25 279)	(27 708)
General and administrative expenses	(17 554)	(18 416)
Other gains / (losses), net	(519)	270
Total adjusted operating expenses	**(67 476)**	**(74 333)**
Adjusted operating income from continuing operations	**18 269**	**7 798**
EBITDA	**22 580**	**14 991**

Adjusted gross profit (pro forma)

Pro forma adjusted gross profit in 2019 was $85.7 million, compared with $82.1 million in 2018.

In 2019, excluding the contribution of the Company's NFC licensing program (which typically generate a 70% gross margin), pro forma adjusted gross profit increased by 2.8% at $83.6 million; gross margin decreased from 84.9% to 81.3% of revenue due to product mix and investments in the SaaS offering.

Adjusted operating expenses (pro forma)

On a pro forma basis, operating expenses decreased from $74.3 million in 2018 to $67.5 million in 2019 as the Company executed its plan to streamline operations, starting in the second quarter of 2019, while preserving core R&D and sales and marketing capabilities to invest in future growth. Savings in operating expenses in 2019 related to the implementation of the plan, net of new hiring and some salary increase, are estimated to $7.1 million (excluding one-off acquisition cost and restructuring charges – see "Operating income/(loss) from continuing operations" hereinafter).

The Company also benefited from a stronger US dollar in 2019 (average rate of USD 1.1196 for EUR 1) compared with 2018 (average rate of USD 1.1815) reducing the operating expenses denominated in euros for an estimated amount of $1.0 million.

Operating expense for the continuing business in 2019 included $3.3 million related to corporate expenses not transferred to Rambus while they where allocated to the Silicon IP business unit until before the Company decided to discontinue the Silicon IP operations. The allocation of corporate expenses to the sole continuing core business weighted on the profit margin of the Company (EBITDA margin would have been 24.2% excluding these expenses).

Adjusted operating income and EBITDA (pro forma)

Pro forma adjusted operating income from continuing activities was multiplied by 2.3 in 2019 year-over-year at $18.3 million, reflecting operating leverage, impact of cost synergies plan and to a lesser extent a stronger USD vs. EUR reducing the operating expenses denominated in EUR when reported in USD.

2019 pro forma EBITDA increased by 50.6% to $22.6 million (from $15.0 million in 2018) and pro forma EBITDA margin increased by 580 basis points year-on-year to 21.1% of revenue.

2- IFRS consolidated operating and net income

(in thousands of US$)	2019	2018
Adjusted operating income/(loss)	**23 095**	**(3 018)**
Fair value adjustment on deferred revenue (Item without cash impact)	(1 519)	-
Amortization and depreciation of assets acquired through business combinations (Items without cash impact)	(4 790)	(1 197)
Acquisition related expenses	(3 999)	(775)
Non recurring costs related to restructurations	(9 862)	(986)
Share based payments	(1 021)	(578)
Operating income/(loss)	**1 904**	**(6 554)**
Finance income/(loss), net	(6 887)	3 180
Income tax expenses	(2 765)	(992)
Net income/(loss) from continuing operations (i)	**(7 748)**	**(4 366)**
Net income/(loss) from discontinued operations (ii)	**34 191**	**7 784**
Net income/(loss) (i) + (ii)	**26 443**	**3 418**

Sums may not equal totals due to rounding

Operating income/(loss) from continuing operations

Company generated a consolidated operating income from continuing operations of $1.9 million in 2019, compared with an operating loss of $6.6 million in 2018.

In 2019, the adjusted operating income from continuing operations of $23.1 million was partly offset by:
- one-off expenses in relation with the acquisition of Verimatrix, Inc. for $4.0 million (fees and commissions, retention bonuses) and the implementation of the cost synergies plan for $9.9 million (including $4.4 million of restrustucting charge and $5.5 million of impairment of assets[4] related to the reorganization of Verimatrix, Inc. U.S. offices);
- non cash charges for $6.3 million related to the purchase price accounting related to the Company's acquisitions, including the amortization charge related to intangible assets arising for $ 4.8 million, and $1.5 million of deferred revenues from Verimatrix, Inc. that couldn't be recognized in the 2019 revenue; and
- and share-based payment expense for $1.0 million.

Finance income/(loss) from continuing operations

Net financial loss was $6.9 million in 2019, mainly driven by the interest expense of the $54 million loan note related to the financing of Verimatrix acquisition (bullet loan note due 2026) for $4.4 million and of the convertible bonds due 2022 for $2.1 million.

Net income/(loss) from continuing operations

In 2019, the Company generated a consolidated net loss (IFRS) from continuing operations of $7.7 million against a net loss of $4.4 million in 2018. It is derived from the operating income from the continuing business for $1.9 million, net financial expense for $6.9 million and income tax for $2.8 million.

[4] In April 2019, Verimatrix staff in San Diego relocated to a single building from the two buildings that were previously used. As a consequence, the Company considered the vacant building lease commitment as an onerous agreement and recorded an impairment of the right of use recognized according to IFRS 16 corresponding to the cumulated rent being due until the term of the agreement, and related interior fittings and improvements. The Company is nevertheless looking for a new tenant that could take over the lease.

Net income from discontinued operations

(in thousands of US$)	**2019**	2018
Operating income of Silicon IP busines unit	2 490	7 784
Proceed from sale	55 350	-
Net book value of assets	(21 580)	-
Cost of disposal	(1 028)	-
Income tax	(2 691)	-
Net income from discontinued Silicon IP busines unit	**32 541**	**7 784**
Reversal of unused provision	1 650	-
Net income/(loss) from discontinued semicondutor business	**1 650**	-
Net income from discontinued operations	**34 191**	**7 784**

Sums may not equal totals due to rounding

Net income from discontinued operations amounted to $34.2 million in 2019 including $32.5 million of profit from the sale of the Silicon IP business unit in December 2019 (net of cost and income tax), and $1.7 million for the reversal in Q2 2019 of an unused provision related to the Company's semiconductor business discontinued in 2016.

As a reminder, the Company could receive in 2021 an additional amount of up to $20 million, based on certain revenue targets for the fiscal year 2020, on top of the $45m payment received at closing. The Company accounted for a profit of $10.4 million in relation with the earn-out, corresponding to the fair value of the expected earn-out and based on the weighted average of different business scenario pursuant to IFRS 5.

Net income

In 2019, the Company generated a consolidated net income (IFRS) of $26.4 million against a net income of $3.4 million in 2018 including the net loss for the continuing business for $7.7 million and net income from discontinued business for $34.2 million.

3- Financial position and cash flows

Financial position

As of December 31, 2019, the company's consolidated cash position was $54.0 million, compared with $47.4 million at December 31, 2018 and at $14.1 million at June 30, 2019.

Net debt[5] stood at $19.6 million at December 31, 2019 (and $3.3 million excluding the finance lease obligations recognized under IFRS 16), compared with a net cash position of $32.8 million at December 31, 2018 and a net debt of $61.1 million at June 30, 2019. The Company deleveraged significantly its balance sheet in less than a year notably thanks to the sale of the non-core Silicon IP business unit.

(in thousands of US$)	**December 31, 2019**	**June 30, 2019**	**December 31, 2018**
Cash and cash equivalents	53 975	14 098	47 381
Financial lease commitments under IFRS16	(16 278)	(8 653)	-
Private loan due 2026	(42 123)	(51 624)	-
Convertible bonds due 2022 (OCEANE)	(14 936)	(14 593)	(14 208)
Other loans	(267)	(371)	(416)
Net cash/(debt)	**(19 629)**	**(61 143)**	**32 757**

[5] Net cash/debt is a non-FRS measure defined as cash on hand, cash equivalents and short-term investments, less bank overdrafts, financial debt including notably obligations under IFRS 16 for finance leases, bank loans, private loans, and the debt component of the "OCEANE" convertible bonds due 2022.

Implementation of IFRS 16 “Leases”

As of January 1, 2019, Verimatrix adopted the accounting standard IFRS 16 “Leases”, under the modified retrospective method. Under this method, the transition effect is accounted for within the consolidated equity at the date of initial application, therefore, there is no adjustment to prior year comparative information. In the second half of 2019, the Company extended the term of the lease of its offices in San Diego, California, leading to an increase of the finance lease liability accounted for in the balance-sheet pursuant to IFRS 16.

Cash flows

The statement of cash flow for 2019 was prepared on a IFRS consolidated basis, including the acquired Verimatrix,Inc. business starting March 1, 2019. It was not prepared on a pro forma basis and, as such, cash flow from operations in 2019 is impacted by the addition of the Verimatrix, Inc. working capital items, and therefore is not representative of the normative cash flow generation.

Operating activities before changes in working capital generated $15.5 million of cash flow in 2019, compared with $3.0 million in 2018. Changes in working capital used $18.8 million, to due the addition of Verimatrix, Inc. working capital items which are consolidated since March 1, 2019.

Excluding the payment of acquisition and divestiture expense and restructuring charges in relation with the implementation of the cost synergy plan and impact of the divestiture of the Silicon IP business unit, operating activities generated around $12 million of cash flow in 2019.

At closing of the acquisition of Verimatrix, Inc, Inside Secure paid out $129,1 million, net of $18.8 million transferred cash. To fund the acquisition, the Company used $33.9 million of its own cash (excluding costs related to the transaction and its financing), raised $60.0 million (€52.5 million) of equity and equity-like instruments, and contracted a private debt for $54 million (bullet loan note due 2026).

In December 2019, at closing of the sale of its Silicon IP business unit Verimatrix received an amount of $45 million and the Company used part of the proceed to make a voluntary early repayment of the private loan for $10 million.

(in thousands of $)	2019	2018
Cash generated by / (used in) operations before changes in working capital	**15 549**	**2 976**
Cash generated by / (used in) changes in working capital	**(18 484)**	**(196)**
Net cash generated by / (used in) operating activities	**(2 935)**	**2 780**
Cash flows from investing of discontinued activites, net	43 972	-
Cash flows from investing activities, net	(131 470)	(303)
Cash flows from financing activities, net	97 067	(978)
Net increase in cash and cash equivalents	**6 634**	**1 499**
Cash and cash equivalents at beginning of the period	47 381	45 874
Foreign exchange impact	(39)	8
Cash and cash equivalents at end of the period	**53 975**	**47 381**

4- Business outlook and objectives

Business outlook

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 intented 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, scaleable, standardized and secure content protection solutions and leverage the Company’s expertise and foothold;

- Generate 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 the emerging subscription business leveraging both its on-premise and SaaS solutions and, as a consequence, grow the Annual Recurring Revenue (“ARR”);
- Develop the code and application protection solutions business through product development and increased marketing presence.

Verimatrix has performed an assessment of its exposure related to the corona virus Covid-19 outbreak both on its operations and its employees. This assessment has been conducted based on information available to date in regards to the spread of the virus in Asia and in other geographies. The outcomes of the analysis points out a limited impact on operations, restricted to potentially delays in the collection of royalties from set-top box manufacturers, which manufacturing and supply-chain challenges could lead to a limited shift of revenues from the first to the second quarter of 2020. Also, as a consequence of the current slowdown of international travels and limitations to meet with business counterparts, some of Verimatrix new business activities, in particular new system deployments and upgrades could potentially be delayed. In parallel, all relevant and necessary measures have been implemented by Verimatrix to protect the health of its employees in the world and more specifically in Asia-Pacific.

Objectives

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.

Following the sale of it Silicon IP business unit in December 2019, the Company now targets core business revenue of $125 million for 2021 (vs. $150 million previously communicated) and EBITDA margin of 26% of revenue (vs. 26.5% previously released)

These objectives assume constant foreign exchange rates and they exclude any potential revenue from the NFC patent licensing program and any further acquisitions or disposals of businesses or companies.

Conference call

Verimatrix will hold a conference call to discuss its earnings results today March 4, 2020, at 6 pm CET. Access to the call will be by dial-in on one of the following numbers: +33 1 72 72 74 03 (France) or +44 2071943759 (UK), PIN 82493502#. The presentation is available online at www.verimatrix-finance.com. An audio webcast of the presentation and the Q&A session will be available on the Verimatrix investor website after the end of the call and will remain posted there for one year.

Financial calendar

- First-quarter 2020 revenue: April 21, 2020 after market

Investor and media contacts

Investor Relations
Richard Vacher Detournière
General Manager & CFO
+33 (0)4 42 905 905
finance@verimatrix.com

Contact Media
Kelly Foster
+1 619 224 1261
kfoster@verimatrix.com

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.

Supplementary non-IFRS financial information

Some financial measures and performance indicators used in the press release are presented on an adjusted basis. They are defined in Appendix 3 of this press release. They should be considered as additional information, which cannot replace any other strictly accounting-based operating or financial performance measure, as presented in the consolidated financial statements, including the income statement set out in Appendix 1 hereof.

Appendix 1 - IFRS 2019 financial results

Q4 2019 and 2019 consolidated revenue from continuing operations

(in thousands of US$)	Q4-2019	Q4-2018	Q4 2019 vs. Q4 2018	2019	2018	2019 vs. 2018
Software business	32 342	4 151	679%	94 289	16 318	478%
Core Business revenue	**32 342**	**4 151**	**679%**	**94 289**	**16 318**	**478%**
NFC patent licensing program	323		-	3 870	1 806	-
Total consolidated revenue	**32 665**	**4 151**	**687%**	**98 159**	**18 124**	**442%**

In the fourth quarter of 2019, consolidated revenue from continuing operations was $32.7 million, compared with $4.1 million in 2018, primarily due to the incremental revenue from Verimatrix business, consolidated starting March 1, 2019. During the quarter, Verimatrix, Inc. historical business generated $28.0 million of revenue and $4.7 million for the historical Inside Secure (excluding the Silicon IP division).

In 2019, consolidated revenue was $98.2 million as compared to $18.1 million in 2018, driven primarily by the addition of the Verimatrix business consolidated representing $76.8 million of revenue for the period.

Gross profit from continuing operations

Gross profit for 2019 was $ 78.6 million, compared with $ 16.8 million in 2018, primarily due to the incremental revenue from Verimatrix business, consolidated starting March 1, 2019.

Gross margin decreased from 92.6% in 2018 to 80.0% in 2019 mainly due to the addition of the Verimatrix, Inc. business which structurally generates lower gross margin (typically around 78%-80%) than Inside Secure historical business due to the need to provide integration and 24/7 support to the worldwide customer base.

Operating expenses from continuing operations

Operating expenses increased from $23.3 million in 2018 to $76.7 million in 2019 as the company consolidated Verimatrix business starting March 1, 2019 and incurred on-off acquisition and restructuring charges.

Combined R&D, S&M and G&A expenses were $63.0 million compared to $22.7 million in 2018, driven by the addition of Verimatrix, Inc. business, net of the first benefits from the cost synergies plan implemented in the second quarter of 2019 and to a lesser extent a stronger USD vs. EUR reducing the operating expenses denominated in EUR when reported in USD.

Other gains and losses, net, for 2019 registered net expense of $13.6 million mainly explained by the following one-off items amounting to $13.9 million:
- $4.0 million of expense in relation with the acquisition of Verimatrix, Inc (primarily fees and commissions);
- $4.4 million of restructuring charges in relation with the cost synergies plan (with most of this charge having been paid out in the second quarter);
- $5.5 million of impairment of unused assets.

Appendix 2 – Consolidated income statement, balance sheet and cash flow statement (IFRS)

The following tables are an integral part of the consolidated financial statements prepared in accordance with IFRS.

Consolidated income statement

(In thousands of US$)	As at December 31, 2019	2018
Revenue	**98 159**	**18 124**
Cost of sales	(19 586)	(1 337)
Gross profit	**78 573**	**16 787**
Research and development expenses	(24 748)	(8 769)
Selling and marketing expenses	(24 724)	(7 248)
General and administrative expenses	(13 554)	(6 661)
Other gains / (losses), net	(13 643)	(663)
Operating profit (loss)	**1 904**	**(6 554)**
Cost of financial debt, net	(6 664)	(1 217)
Other financial income/(loss), net	(223)	4 397
Profit (Loss) before income tax	**(4 983)**	**(3 374)**
Income tax expenses	(2 765)	(992)
Net income/(loss) from continuing operations (i)	**(7 748)**	**(4 366)**
Net income/(loss) from discontinued operations (ii)	34 191	7 784
Net income/(loss) (i) + (ii)	**26 443**	**3 418**

Net income of the discontinued Silicon IP operations is disclosed on the « net income of discontinued operations » line item of the income statement pursuant to IFRS 5. The consolidated income statement for the year ended December 31, 2018 has been restated in the same manner.

Consolidated balance sheet

Assets

(In thousands of US$)	December 31, 2019	December 31, 2018
Goodwill	113 800	29 530
Intangible assets	21 637	5 896
Property and equipment	15 491	1 185
Non-current financial assets	18 573	5 668
Non-current assets	**169 501**	**42 279**
Inventories	440	34
Trade receivables	30 594	10 496
Other receivables	12 576	4 303
Derivative financial instruments	89	28
Cash and cash equivalents	53 975	47 381
Current assets	**97 674**	**62 242**
Total assets	**267 175**	**104 521**

Equity and liabilities

(In thousands of US$)	December 31, 2019	December 31, 2018
Ordinary shares	41 252	22 504
Share premium	266 952	227 758
Retained earnings	(179 851)	(183 232)
Income / (loss) for the period	26 443	3 418
Equity attributable to equity holders of the Company	**154 796**	**70 449**
Non-controlling interests	-	-
Total equity	**154 796**	**70 449**
Borrowings	56 619	399
Convertible bonds	14 936	14 208
Derivative financial instruments	1 626	790
Provisions	860	2 166
Deferred tax liabilities	2 727	-
Non-current liabilities	**76 767**	**17 563**
Borrowings	2 049	154
Trade payables	8 179	3 284
Other current liabilities	14 875	5 719
Financial instruments	26	14
Provisions	1 530	3 602
Unearned revenues	8 953	3 737
Current liabilities	**35 612**	**16 510**
Total liabilities	**112 379**	**34 073**
Total equity and liabilities	**267 175**	**104 521**

Consolidated cash flow statement

(In thousands of US$)	December 31, 2019	December 31, 2018
Income / (loss) for the period	**26 443**	**3 418**
Non cash income statement items	(10 894)	(442)
Changes in working capital	(18 484)	(196)
Net cash generated by / (used in) operating activities	**(2 935)**	**2 780**
Acquisition of Verimatrix, net of transferred cash	(129 122)	-
Purchases of property and equipment	(277)	(303)
Purchases of intangible assets	(2 071)	-
Cash flows from investing activites of of discontinued operations, net	43 972	-
Cash flows used in investing activities	**(87 498)**	**(303)**
Proceeds from issuance of ordinary shares, net of issuance costs	57 808	(582)
Proceeds from loans	51 492	-
Loan repayments	(10 152)	(396)
Reimbursement of lease commitments	(2 081)	-
Cash flows from financing activities	**97 067**	**(978)**
Effect of exchange rate fluctuations	(39)	8
Net increase in cash and cash equivalents	**6 595**	**1 507**
Cash and cash equivalents at beginning of the period	**47 381**	45 874
Cash and cash equivalents at end of the period	**53 975**	**47 381**
Complementary informations		
Taxes paid	(1 743)	(782)
Interests paid	(4 794)	(292)

Appendix 3 - Non-GAAP measures - Reconciliation of IFRS results with adjusted results

The performance indicators presented in this press release that are not strictly accounting measures are defined below. 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. It enables comparable revenue for 2018 and 2019. In 2019, the combined entities would have generated a pro forma adjusted revenue of $106.8 million and a pro forma revenue of $105.3 million as Verimatrix recorded $1.5 million of deferred revenue as at December 31, 2018 which, in accordance with IFRS, cannot be recognized in the year following the acquisition.

(in thousands of US$)	Q1-2018	Q2-2018	Q3-2018	Q4-2018	2018	Q1-2019	Q2-2019	Q3-2019	Q4-2019	2019
Verimatrix SA (excluding Silicon IP)	4 019	6 097	3 857	4 151	18 124	8 654	4 523	3 493	4 655	21 325
Verimatrix Inc.	16 620	19 418	20 106	23 350	79 494	14 288	22 952	20 199	28 010	85 449
Total pro forma adjusted revenue	**20 639**	**25 515**	**23 963**	**27 502**	**97 618**	**22 942**	**27 475**	**23 692**	**32 665**	**106 774**

Adjusted gross profit is defined as gross profit 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.

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.

EBITDA is defined as adjusted operating income before depreciation, amortization and impairment expenses not related to business combinations.

Net cash/debt is defined as cash on hand, cash equivalents and short-term investments, less bank overdrafts, financial debt including notably obligations under IFRS 16 for finance leases, bank loans, private loans, and the debt component of the OCEANE convertible bonds.