

VirtualArmour Reports Q2 2018 Results; Managed and Professional Services Revenue up 78%

August 29, 2018

CENTENNIAL, Colo., Aug. 29, 2018 (GLOBE NEWSWIRE) -- **VirtualArmour International Inc. (CSE:VAI) (3V3:F) (OTCQB:VTLR)**, a premier cybersecurity managed services provider, reported results for the second quarter ended June 30, 2018. Financial results are in U.S. dollars, with comparisons made to the same year-ago quarter unless otherwise noted.

Q2 2018 Financial Highlights

- Revenue increased 50% to a record \$4.0 million, driven by growth in the number of customers served as well as the size of orders from new and existing customers.
- Managed and professional services revenue increased 78% to a record \$1.2 million, due primarily to the addition of 17 new clients signed under contracts over the last 12 months.
- Gross profit as a percentage of revenue increased to 27.1% from 17.6% due to a favorable shift in revenue mix to higher margin managed and professional services revenue.
- Adjusted EBITDA was a positive \$104,000.
- Annual recurring revenue (ARR) totaled \$498,000 at June 30, 2018, up from \$157,000 at June 30, 2017. The company defines ARR as the value of its service contracts normalized to a one-year period.
- Total contract value (TCV) was \$10.7 million at June 30, 2018, up 282% from \$2.8 million at June 30, 2017. The company defines TCV as the total value of its service contracts including one time and recurring charges.

Q2 2018 Operational Highlights

- Expanded growth into hospitality and manufacturing sectors with \$1.1 million in new contracts.
- Received a three-year managed security services and hardware contract, valued at \$250,000, from a large retail wellness brand. The customer was introduced to VirtualArmour through its new reseller partnership with Alacrinet, a leading IT solutions consultancy, which was [announced](#) in January.
- Established the VirtualArmour Academy, a new institution for cybersecurity education and training, with the grand opening of the academy at its security operations centers in Salt Lake City, Utah and Middlesbrough, England.
- Maintained a customer retention rate of 100% in Q2, following the 100% retention rate in the full year of 2017 and Q1 2018.
- Named to Cybersecurity Ventures' Cybersecurity 500 list as one of the world's "hottest and most innovative" cybersecurity companies to watch in 2018, as well as named to Branham300 2018 Edition as one of the top 250 public and private technology companies in Canada.
- Promoted Russ Armbrust to CEO and Andrew Douthwaite to CTO.

Q2 2018 Financial Summary

Revenue totaled a record \$4.0 million in the second quarter of 2018, as compared to \$2.7 million in the same year ago quarter. The increase was due to managed and professional services revenue increased 78% to \$1.2 million and product sales (hardware and software) increased 41% to \$2.8 million.

Cost of sales were \$2.9 million in the second quarter of 2018 as compared to \$2.2 million in the same year ago quarter. The increase in cost of sales was due primarily to corresponding increase in revenue.

Gross profit was \$1.1 million or 27.1% of revenue in the second quarter of 2018, as compared to \$471,000 or 17.6% of revenue in the same year ago quarter. The increase in gross profit and gross profit as a percentage of revenue was due to a favorable shift in revenue to higher margin managed and professional services revenue.

Total expenses were \$1.1 million in the second quarter of 2018, as compared to \$827,000 in the same year ago quarter. The increase was primarily due to an increase in depreciation and amortization expense of \$81,835 from the year-ago quarter, and to a lesser extent an increase in salary expense of \$44,122 and R&D increasing by \$26,385.

Net and comprehensive loss improved to \$119,000 or \$(0.00) per share in the second quarter of 2018, as compared to a loss of \$411,000 or \$(0.01) per share in the year-ago quarter. The loss was primarily due to the increase in depreciation and amortization expense in non-cash expenditures.

Adjusted EBITDA was a positive \$104,000 in the second quarter of 2018, improving from a negative \$390,000 in same period in 2017 (see definition of adjusted EBITDA, a non-IFRS term, and reconciliation to IFRS, below).

Cash totaled \$191,000 at June 30, 2018, compared to \$361,000 as of March 31, 2018. The decrease was primarily due to the timing of changes in working capital including the payment of payables net of collection of receivables. As of August 24, 2018, cash totaled approximately \$423,000, with the increase due primarily to the collection of receivables.

Management Commentary

"In Q2, our record top-line growth, expanding margins and positive adjusted EBITDA were driven by a growing revenue stream from managed and professional services," said Russ Armbrust, CEO of VirtualArmour. "This was achieved by a combination of signing several multi-year recurring revenue engagements and increasing the level of our services utilized by our existing customers. New customers added during the quarter were from multiple sectors, including healthcare, transportation, hospitality, and non-profit.

"Our [expansion into the hospitality and manufacturing sectors resulted in](#) \$1.1 million in new contracts for managed and professional services combined with hardware and software. We were also engaged by a [prominent wellness brand customer](#) for managed security services in partnership with Alacrinet. The company maintained a 100% customer retention rate, which has now continued over the last six quarters.

"Throughout the first half of 2018, our channel partner program has proven to be effective way to grow our customer base and managed services contracts, with this leading to increased monthly recurring revenue.

"Looking ahead, we are very optimistic for the second half of 2018 because we see the growing threat of targeted breaches across all industries and business sizes driving increased cybersecurity budgets as companies prepare for 2019 and beyond.

"We also see our growing sales, marketing, and service organization driving a continued ramp up in our managed services sales and margin growth as we expand into new markets. We anticipate a continued favorable shift to higher margin managed and professional services in the second half of 2018. Combined with ongoing growth in customer acquisition and an increasing number of customers on our recurring revenue model, we are firmly on track for another record year of operational and financial performance."

Cybersecurity Outlook

Opportunities for specialist service providers in the cybersecurity sector have grown in line with the increased volume of cyber-attacks being encountered by businesses, non-profits, and government institutions and covered by global media. This shift has not only led to increasing enterprise budgets being allocated to cyber protection but also increased interest in investment opportunities in what is a high growth sector.

According to Cybersecurity Ventures' recent quarterly report, global cybersecurity spending is predicted to exceed \$1 trillion cumulatively over the next five years, from 2018 to 2021. In 2004, the global cybersecurity market was worth \$3.5 billion. In 2018 spending is expected to reach \$120 billion.

VirtualArmour is well positioned to capitalize on this growth opportunity and continues to deepen its penetration into the healthcare, financial, retail and service provider industries.

About VirtualArmour

VirtualArmour International is a global cybersecurity and managed services provider that delivers customized solutions to help businesses build, monitor, maintain and secure their networks.

The company maintains 24/7 client monitoring and service management with specialist teams located in its U.S. and UK-based security operation centers. Through partnerships with best-in-class technology providers, VirtualArmour delivers leading hardware and software solutions for customers that are both sophisticated and scalable, and backed by industry-leading customer service and experience. The company's proprietary CloudCastr client portal and prevention platform provides clients with unparalleled access to real-time reporting on threat levels, breach prevention and overall network security.

VirtualArmour services a wide range of clients, which include Fortune 500 companies and several industry sectors in over 30 countries across five continents. For further information, visit www.virtualarmour.com.

Supplemental Non-IFRS Financial Measures

In addition to IFRS financial measures, management uses non-IFRS financial measures to assess the company's operational performance. It is likely that the non-IFRS financial measures used by the company will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures can be important as they provide users of the financial statements with a better understanding of the results of the company's recurring operations and their related trends, while increasing transparency and clarity into its operating results. Management also believes these measures can be useful in assessing the company's capacity to discharge its financial obligations.

In Q1 2018, management began assessing its operational performance using supplemental non-IFRS statement of income, adjusted EBITDA, which is defined as loss for the period as reported excluding depreciation and amortization, change in fair value of warrant derivative liabilities, share-based compensation and interest expense.

Adjusted EBITDA is not a term recognized under IFRS and non-IFRS measures do not have standardized meaning. Accordingly, non-IFRS measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

The table below provides a reconciliation of net (loss) for the period as reported to non-IFRS adjusted EBITDA for the three months and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$(119,199	) \$(410,694	) \$(246,411	) \$(900,524
Depreciation and amortization	116,894	35,059	149,634	68,469
Interest expense	57,396	43,257	96,397	55,123
Change in value of warrant derivatives	0	11,045	(2,589	) (17,626
Share-based compensation	49,093	(68,548	) 122,064	6,179
Adjusted EBITDA	\$104,184	\$(389,881	) \$119,095	\$(788,379

Important Cautions Regarding Forward Looking Statements

This press release may include forward-looking information within the meaning of Canadian securities legislation and U.S. securities laws. This press release includes certain forward-looking statements concerning a service contract VirtualArmour has entered into with a current client, VirtualArmour's continued relationship with various suppliers, the future performance of our business, its operations and its financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. The forward-looking information is based on certain key expectations and assumptions made by the management of VirtualArmour. Although VirtualArmour believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information as VirtualArmour cannot provide any assurance that it will prove to be correct.

Forward-looking statements are frequently identified by such words as "may", "will", "plan", "expect", "anticipate", "estimate", "intend" and similar words referring to future events and results. Forward-looking statements are based on the current opinions and expectations of management. All forward-looking information is inherently uncertain and subject to a variety of assumptions, risks and uncertainties, including the success of the Company in performing the IT implementation and migration, performance under the contract by all parties, the ability of VirtualArmour to meet timelines, the continued availability of necessary hardware, the absence of any trade war or tariffs affecting VirtualArmour's ability to perform, competitive risks and the availability of financing. These forward-looking statements are made as of the date of this press release and VirtualArmour disclaims any intent or obligation to update publicly any forward-looking information, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

VirtualArmour International Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss For the three and six months ended June 30, 2018 and 2017

(Unaudited - Expressed in U.S. Dollars)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
	\$	\$	\$	\$
Revenue	4,003,090	2,673,310	7,270,743	5,831,292
Cost of sales	(2,918,624	) (2,202,249	) (5,267,609	) (4,821,402
Gross Profit	1,084,466	471,061	2,003,134	1,009,890
Expenses				
General and administrative	522,415	253,968	948,198	682,769
Research and development	52,701	26,316	88,380	58,336
Sales and marketing	571,153	547,169	1,119,159	1,131,812
Total Expenses	1,146,269	827,453	2,155,737	1,872,917
Loss from Operations	(61,803	) (356,392	) (152,603	) (863,027
Other Income (Expenses)				
Interest expense	(57,396	) (43,257	) (96,397	) (55,123
Change in fair value of warrant derivative liabilities	-	(11,045	) 2,589	17,626
Net and Comprehensive Loss for the period	(119,199	) (410,694	) (246,411	) (900,524
Loss per share – basic and diluted	(0.00	) (0.01	) (0.00	) (0.02
Weighted average number of shares outstanding – basic	63,501,535	55,769,447	60,734,198	55,769,447

VirtualArmour International Inc.

Condensed Interim Consolidated Statements of Financial Position As at June 30, 2018 and December 31, 2017

(Expressed in U.S. Dollars)

	June 30, 2018 \$ (unaudited)	December 31, 2017 \$
ASSETS		
Current		
Cash	191,173	46,795
Accounts receivable	2,453,665	727,618
Other receivables	-	44,300
Prepaid expenses	212,916	196,938
Total Current Assets	2,857,754	1,015,651
Office facilities and equipment	623,795	520,062
Intangible assets	69,261	77,175
Total Assets	3,550,810	1,612,888
LIABILITIES		
Current		
Accounts payable and accrued liabilities	3,249,885	2,821,038
Deferred revenue	184,497	80,105
Warrant derivative liabilities	-	2,589
Debt	66,795	-
Leases	246,092	154,580
Due to related parties	248,861	455,162
Total Current Liabilities	3,996,130	3,513,474
Leases	238,358	224,645
Total Liabilities	4,234,488	3,738,119
SHAREHOLDERS' DEFICIT		
Share capital	7,850,318	6,284,418
Contributed surplus	1,947,193	1,825,129
Deficit	(10,481,189)	) (10,234,778)
Total Shareholders' Deficit	(683,678)) (2,125,231)
Total Liabilities and Shareholders' Deficit	3,550,810	1,612,888

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Source: VirtualArmour International Inc.