VirtualArmour Reports Q3 2018 Results; Managed and Professional Services Revenue up 68%

November 29, 2018

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

Q3 2018 Financial Highlights

- Revenue increased 41% to $3.9 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 68% to a record $1.3 million, due primarily to the addition of 12 new clients signed under contracts over the last year.
- Gross profit as a percentage of revenue increased to 26.4% from 26.0% due to a favorable shift in revenue mix to higher margin managed and professional services revenue.
- Adjusted EBITDA totaled $24,000.
- Annual recurring revenue (ARR) totaled $4.2 million at September 30, 2018, up 79% from $2.3 million at September 30, 2017 (see definition of ARR below).
- Total contract value (TCV) was $11.2 million at September 30, 2018, up 144% from $4.6 million at September 30, 2017. TCV is defined as the total value of its service contracts including one time and recurring charges.

Q3 2018 Operational Highlights

- Won a $3.7 million contract with a leading medical equipment company to modernize its IT infrastructure across six global locations. The engagement is comprised of $500,000 in professional services, and $3.2 million in hardware and software.
- Won a new Managed Threat Intelligence services contract with a global chemical manufacturing company and a long-time VirtualArmour customer. The engagement includes managed services along with software valued at $2.8 million over three years.
- Maintained a customer retention rate of 100% in Q3, following the 100% retention rate in the full year of 2017 and first half of 2018.
- Appointed Michael Panec as the company's new chief financial officer.
- Signed a reseller and services partnership with Snare Solutions, a trusted log management platform and subsidiary of Prophecy International (ASX:PRO). VirtualArmour is now the professional services provider for all of Snares post-sales deployments in North America, as well as resells Snare's suite of CA Veracode Verified security products.

Q3 2018 Financial Summary

Revenue totaled $3.9 million in the third quarter of 2018, up 41% from $2.8 million in the same year ago quarter. The improvement was due to managed and professional services revenue increasing 68% to $1.3 million and product sales (hardware and software) increasing 30% to $2.6 million.

Cost of sales totaled $2.9 million in the third quarter of 2018 as compared to $2.1 million in the year ago quarter. The increase in cost of sales was due primarily to corresponding increase in revenue.

Gross profit was $1.0 million or 26.4% of revenue in the third quarter of 2018, as compared to $726,000 or 26.0% of revenue in the 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 third quarter of 2018, as compared to $1.0 million in the year ago quarter. The increase was primarily due to an increase in depreciation and amortization expense of $39,448 from the year-ago quarter, and to a lesser extent an increase in professional fees of $37,565 and R&D increasing by $10,921.

Net and comprehensive loss improved to $165,000 or $(0.00) per share in the third quarter of 2018, as compared to a loss of $343,000 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 $24,000 in the third 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 $420,000 at September 30, 2018, compared to $191,000 at June 30, 2018, with the increase primarily due to the collection of receivables.

Management Commentary

"In Q3, our strong revenue growth, expanding margins and positive adjusted EBITDA were primarily driven by a growing revenue stream from managed and professional services," said Russ Armbrust, CEO of VirtualArmour. "We achieved this through signing new customers as well as expanding services with long-time valued customers, such as a global chemical manufacturing company and a leading medical equipment company.

"Our services partnership signed with Snare during the quarter allows us to deliver what we believe is the most comprehensive, state-of-the-art cybersecurity solutions for both the private and public sector. Snare's leading enterprise log management solution strongly complements our managed services by providing substantial savings and a highly-scalable technology, with combined benefits for our current and future customers.

"Subsequent to the quarter, we expanded upon our professional service engagement with an international airport to now include managed security services. This valued client has followed the path of an increasing number of our existing professional services clients who have discovered it makes perfect sense to engage VirtualArmour to also provide 24/7 monitoring and ongoing support.

"Due to the continued growing threat of targeted breaches across all industries and business sizes, our outlook for the rest of 2018 and into 2019 remains very positive. We are seeing larger budgets being allocated to cyber protection as companies prepare for 2019 and beyond. We anticipate further revenue growth and margin expansion from our continued ramp up in sales of managed services, along with further penetration of new markets led by our growing sales, marketing, and service organization."

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.

About ARR

The company defines the term "annual recurring revenue" or ARR as the value of its service contracts normalized to a one-year period. The company restates its earlier reported ARR at June 30, 2017 and June 30, 2018 in the table below:

(in millions)	**At June 30, 2017 Reported**	**At June 30, 2017 Restated**	**At June 30, 2018 Reported**	**At June 30, 2018 Restated**
ARR	$0.2	$2.0	$0.5	$4.0

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 nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		**2018**		2017	
Net Income	$	(165,415)	$	(342,545)	$	(411,826)	$	(1,243,069)
Depreciation and Amortization	$	77,985	$	38,537	$	227,619	$	107,006
Interest Expense	$	77,804	$	48,586	$	174,201	$	103,709
Change in Value of Warrant Derivatives	$	-	$	(9,547)	$	(2,589)	$	(27,173)
Share-based Payments	$	33,259	$	35,107	$	155,323	$	79,547
Adjusted EBITDA	$	**23,633**	$	**(389,881)**	$	**142,728**	$	**(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 nine months ended September 30, 2018 and 2017
(Unaudited - Expressed in U.S. Dollars)

	Three months ended September 30		**Nine months ended September 30**	
	2018 $	2017 $	**2018 $**	2017 $
Revenue	**3,932,672**	2,796,309	**11,203,415**	8,627,601
Cost of sales	**(2,894,256)**	(2,070,571)	**(8,161,866)**	(6,891,973)
Gross Profit	**1,038,416**	725,738	**3,041,549**	1,735,628
Expenses				
General and administrative	**478,108**	445,294	**1,426,305**	1,128,063
Research and development	**56,189**	45,268	**144,569**	103,604
Sales and marketing	**591,730**	538,682	**1,710,889**	1,670,494
Total Expenses	**1,126,027**	1,029,244	**3,281,763**	2,902,161
Loss from Operations	**(87,611)**	(303,506)	**(240,214)**	(1,166,533)
Other Income (Expenses)				
Interest expense	**(77,804)**	(48,586)	**(174,201)**	(103,709)
Change in fair value of warrant derivative liabilities	**-**	9,547	**2,589**	27,173
Net and Comprehensive Loss for the period	**(165,415)**	(342,545)	**(411,826)**	(1,243,069)
Loss per share – basic and diluted	**(0.00)**	(0.01)	**(0.01)**	(0.02)
Weighted average number of shares outstanding – basic	**63,599,447**	55,769,447	**61,678,669**	55,769,447

VirtualArmour International Inc.
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2018 and December 31, 2017
(Expressed in U.S. Dollars)

	September 30, 2018 $ (unaudited)	December 31, 2017 $
ASSETS		
Current		
Cash	420,024	46,795
Accounts receivable	3,640,382	727,618
Other receivables	-	44,300
Prepaid expenses	1,038,910	196,938
Total Current Assets	5,099,316	1,015,651
Office facilities and equipment	570,233	520,062
Intangible assets	144,936	77,175
Other assets	1,445,366	-
Total Assets	7,268,851	1,612,888
LIABILITIES		
Current		
Accounts payable and accrued liabilities	4,151,371	2,821,038
Deferred revenue	1,078,191	80,105
Warrant derivative liabilities	-	2,589
Debt	-	-
Leases	875,434	154,580
Due to related parties	252,218	455,162
Total Current Liabilities	6,357,214	3,513,474
Long term deferred revenue	1,521,435	-
Leases	197,036	224,645
Total Liabilities	8,075,685	3,738,119
SHAREHOLDERS' DEFICIT		
Share capital	7,850,318	6,284,418
Contributed surplus	1,980,452	1,825,129
Deficit	(10,646,604)	(10,234,778)
Total Shareholders' Deficit	(815,834)	(2,125,231)
Total Liabilities and Shareholders' Deficit	7,259,851	1,612,888

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