

VirtualArmour Reports Q3 2019 Results; Services Revenue Exceeds Product Sales Revenue For First Time

November 29, 2019

CENTENNIAL, Colo., Nov. 29, 2019 (GLOBE NEWSWIRE) -- **VirtualArmour International Inc. (CSE:VAI) (OTCQB:VTLR)**, a premier cybersecurity managed services provider, reported results for the third quarter ended September 30, 2019. Financial results are in U.S. dollars, with comparisons made to the same year-ago quarter unless otherwise noted.

Q3 2019 Financial Highlights

- Revenue for the quarter came in at \$2.4 million.
- Managed and professional services revenue increased 9.5% to \$1.4 million, due primarily to the expansion and addition of clients signed under contracts over the last year.
- Gross profit as a percentage of revenue increased to 29.8% from 26.4% due to a favorable shift in revenue mix to higher margin managed and professional services revenue.
- Annual recurring revenue (ARR) totaled \$4.7 million at September 30, 2019, up 12% from \$4.2 million at September 30, 2018. The company defines ARR as the value of its service contracts normalized to a one-year period.

Q3 2019 Operational Highlights

- Won a \$330K contract with a Global Service Provider. This opportunity will build on the almost \$2M additional hardware, software and services deals that have been closed since January of 2019 for this customer.
- Expanded opportunity with Global Satellite Company with a \$245K gateway expansion project. This opportunity will build on the \$1.7M additional hardware deals that have been closed in the first half of 2019 for this customer.
- Was ranked Top 100 MSSP Globally by MSSP Alert's Top 200 MSSP List.
- Joined AT&T Cybersecurity Partner Program to Deliver 24/7 Cybersecurity Managed Services Across the Globe.
- Signed two new channel partner as managed security service resellers that expands the range of service offerings to both companies allowing VirtualArmour to pursue opportunities across the US.

Q3 2019 Financial Summary

Revenue totaled \$2.4 million in the third quarter of 2019. The improvement was due to managed and professional services revenue increasing 9.5% to \$1.4 million while overall sales declined from \$3.9 million vs. the same period a year ago due to lower product sales (hardware and software).

Cost of sales totaled \$1.7 million in the third quarter of 2019 as compared to \$2.9 million in the year ago quarter). The decrease in cost of sales was due primarily to a decrease in product cost of sales.

Gross profit was \$0.7 million or 29.8% of revenue in the third quarter of 2019, as compared to \$1.0 million or 26.4% 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 2019, as compared to \$1.1 million in the year ago quarter.

Net and comprehensive loss was \$492,000 or \$(0.01) per share in the third quarter of 2019, as compared to a loss of \$165,000 or \$(0.00) per share in the year-ago quarter. The loss was primarily due to lower gross profit reflecting the lower product sales and the increase in interest expense.

Cash totaled \$72,000 at September 30, 2019, compared to \$25,000 at June 30, 2019, with the increase primarily due to the collection of receivables.

Management Commentary

"In 2019, we saw our business shift from a focus on hardware sales to more services contracts. Q3 is the first time that we have seen our managed service and professional service revenue exceed our hardware/software revenue," said Russ Armbrust, CEO of VirtualArmour. "VirtualArmour will benefit from this shift to managed services vs. third party resale, given rapidly growing, high margin, recurring revenues are highly attractive, thereby increasing valuation multiples. Consequently, enterprise value will increase as VirtualArmour continues to deemphasize the hardware/software resale business and continues to focus on expanding its managed service business.

"As part of the new alliance with AT&T Cybersecurity, the AlienVault Unified Security Management™ (USM™) platform will be integrated with VirtualArmour's proprietary CloudCastr client portal. The integration of our platforms will further simplify and centralize threat management across our new and existing customers' cloud and on-premise environments. Through this alliance, we also see a tremendous cross-selling opportunity to bring a unique combination of capability and value to our respective clients

"Subsequent to the quarter, we expanded upon an engagement with a global satellite company. This client has been a long-time customer of ours and exemplifies the type of customer we focus on as a cornerstone to our growth strategy. Through our partnership we have worked closely together to open gateways all over the globe enabling this satellite provider to become a pioneering force in networking and communications.

"Due to the continued growing threat of targeted breaches across all industries and business sizes, our outlook for the rest of 2019 and into 2020 remains very positive. We are seeing larger budgets being allocated to cyber protection as companies prepare for 2020 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

Annual global cyber losses are expected to hit US\$6 trillion by 2021, with cybersecurity spending projected to exceed a total of US\$1 trillion for the five years leading up to 2021. This is according to a report from Cybersecurity Ventures that suggests the immediate costs of a cyberattack can be significant, but the damage to a business's reputation could cost just as much or even more in the long term.

With the ever-increasing cybersecurity risks and regulations being introduced, business leaders are fast realizing that there is more to be protected and serious penalties for not complying. According to the Worldwide Security Spending Guide from International Data Corporation (IDC), worldwide spending on security solutions will achieve a compound annual growth rate (CAGR) of 9.2% over the 2018 to 2022 forecast period and total US\$133.8 billion in 2022.

The report says worldwide spending on security-related software, hardware and services is forecast to reach \$103.1 billion in 2019, an increase of 9.4% over 2018.

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.

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.

Interim Consolidated Statements of Operations and Comprehensive Loss

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - Expressed in U.S. Dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
	\$	\$	\$	\$
Revenue	2,429,105	3,932,672	8,679,594	11,203,415
Cost of sales	(1,705,750)	(2,894,256)	(6,207,712)	(8,161,866)
Gross Profit	723,355	1,038,416	2,471,882	3,041,549
Expenses				
General and administrative	452,492	478,108	1,742,458	1,426,305
Research and development	53,034	56,189	154,986	144,569
Sales and marketing	559,770	591,730	1,815,814	1,710,889
Total Expenses	1,065,296	1,126,027	3,713,258	3,281,763
Loss from Operations	(341,941)	(87,611)	(1,241,376)	(240,214)
Other Income (Expenses)				

Change in fair value of warrant derivative liabilities	-	-	-	2,589
Interest expense	(150,096)	(77,804)	(299,362)	(174,201)
Net and Comprehensive Loss for the period	(492,037)	(165,415)	(1,540,738)	(411,826)
Loss per share – basic and diluted	(0.01)	(0.00)	(0.02)	(0.01)
Weighted average number of shares outstanding – basic and diluted	63,599,447	63,599,447	63,599,447	61,678,669

VirtualArmour International Inc.
Interim Consolidated Balance Sheets
As at September 30, 2019 and December 31, 2018
(Unaudited - Expressed in U.S. Dollars)

	September 30,	December 31,
	2019	2018
	\$	\$
ASSETS		
Current Assets		
Cash	72,358	114,281
Accounts receivable	1,232,949	2,491,233
Other receivables	–	43,750
Prepaid expenses	193,028	390,968
Contract assets	722,683	722,683
Total Current Assets	2,221,018	3,762,915
Property and equipment	457,798	513,984
Intangible assets	49,476	61,347
Contract assets	722,683	1,264,695
Total Assets	3,450,975	5,602,941
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	2,348,781	3,728,051
Deferred revenue	1,274,718	888,593
Debt	957,820	–
Current portion of lease obligations	349,292	679,647
Due to related parties	234,813	–
Total Current Liabilities	5,165,424	5,296,291
Deferred revenue	831,358	1,331,256
Lease obligations	115,894	150,632
Total Liabilities	6,112,676	6,778,179
STOCKHOLDERS' DEFICIT		
Common stock, no par value, 300,000,000 shares authorized Issued and outstanding: 63,599,447 (2018 – 63,599,447) shares	7,670,975	7,670,975
Additional paid-in capital	2,009,497	1,955,222
Deficit	(12,342,173)	(10,801,435)
Total Stockholders' Deficit	(2,661,701)	(1,175,238)
Total Liabilities and Stockholders' Deficit	3,450,975	5,602,941

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Source: VirtualArmour International Inc.