Press release

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2019 annual results: robust growth (+29.6%) and improved current operating margins before amortisation

Post-closing events

- **COVID-19 status update**
- **Rebound capability confirmed**

AudioValley, an international specialist in BtoB digital audio solutions (ISIN Code: BE0974334667/Ticker: ALAVY) today announced the release of its annual results for financial year 2019 and provided a status update on COVID-19 with the publication of its first-quarter revenue and outlook.

2019 business activity: excellent growth momentum

2019 and 2018 data have been restated in accordance with IFRS 5 for easier comparison with 2020 data. In addition to published data, the Group also presented its like-for-like financial data restated for scope effects from the disposal of Storever in early December 2019, which can be read as if Storever was no longer consolidated in financial years 2018 and 2019. For information purposes, Storever (sold on 5 December 2019) generated revenue of €7,666k in full-year 2018 and €7,019k over the 11-month period in 2019. With this disposal, AudioValley was able to focus on its faster-growing 100% digital audio solutions.

On a like-for-like basis, the Group posted revenue growth of +29.6% to €22.0m. For the consolidation scope including Storever for the first 11 months of 2019, the Group generated revenue of €29.0m, up +17.8%.

Revenue in €k (audited figures)	Like-for-like				Including Storever		
	2019	% of revenue 2019	2018	Change 2019/2018	2019	2018	Change 2019/2018
Targetspot	19,268	88%	14,157	+36.1%	19,268	14,157	+36.1%
Storever	-	-	-	-	7,019*	7,666	-8.4%*
Jamendo	2,694	12%	2,783	-3.2%	2,694	2,783	-3.2%
Group total	21,962	100%	16,940	+29.6%	28,981	24,606	+17.8%

**Storever was sold in December 2019 and its business is not consolidated in December 2019.*

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- Targetspot (88% of 2019 like-for-like revenue): 42.6% growth in H2

  Sales momentum picked up in Q4 2019 for **Targetspot, a solution designed to aggregate and monetise digital audio audiences (digital radio and podcasts)**. After growth of +28.6% in Q1 and +39.9% in Q3, the division generated revenue of €5,997k, an increase of +44.7% over Q4 2018.

  This excellent performance over the year was fuelled by persistently robust business in the US (+30.1% to €14,126k) and Targetspot's rapid development in Europe (+55.8% to €5,144k). The sharp growth seen in Europe reflected very strong potential on a market still taking off at this point, coupled with the Group's winning strategy, leading to four new sales offices being opened in Spain, the Netherlands, Germany and the UK. All four markets confirmed their potential throughout the year, with major contracts signed with top-tier European digital audio players (SoundCloud, Deezer, etc.), whose impact was not yet fully realised in the past year.

- Jamendo (12% of 2019 like-for-like revenue): turnaround still in progress

  Jamendo, a platform where musicians can manage the rights to their work and licence their music, generated full-year revenue of €2,694k, a decrease of -3.2%. Although this performance fell short of the Group's target, it does not yet factor in the benefits of the measures taken during the year (Jamendo adopted "independent management entity" status, giving it greater control in terms of managing and monetising music rights, new CEO). In November, AudioValley purchased all non-controlling interests in the entity (28.84% of the share capital), underscoring its firm belief that the division can be turned around and achieve its strong growth potential.

2019 results, solid performances amid strong growth

- Target of significantly improved current operating margins (before amortisation) achieved

AudioValley delivered excellent revenue growth (+29.6%) which, combined with a carefully managed rise in operating expenses (+20.9%), significantly improved the Group's operating income. In financial year 2019, Current operating income before amortisation came out at €(548)k, improving €1,125k from the previous year, mainly driven by Targetspot's strong performances.

These figures were hurt, however, by the IFRS accounting treatment applied to the December 2019 disposal of Storever, whose performances over the first 11 months of the year are indicated separately under "*Net income (expense) from discontinued operations*".

By recognising data for the Storever division in accordance with pre-disposal accounting methods, AudioValley was able to showcase the significant improvement in Current operating income before amortisation achieved by the Group in line with early 2019 targets. Incorporating the 11 months of business generated by Storever in 2019 would have resulted in Current operating income before amortisation of +€1,283k, versus €99k in 2019 (with Storever consolidated in full-year 2018 and for 11 months in 2019).

- Targetspot primarily responsible for EBITDA improvement

Targetspot saw its Current operating income before amortisation climb €1.3m, i.e. €(0.2)m near breakeven in 2019. Given the ongoing negotiations with the main copyright collectives, the division reversed its copyright provisions by €0.15m in 2019 and €0.45m in 2018. Excluding the provision reversals

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recorded in 2018 and 2018, its gross margin stood at €8m, improving its gross margin rate from 39.6% in 2018 to 41.7% in 2019.

- Jamendo breaks even despite limited sales momentum

Jamendo turned in a gross margin of €1,562k, with a gross margin rate of 58.0%. The division generated positive Current operating income before amortisation of €90k.

Operating income gradually improved in 2019 despite the substantial investments carried out, in line with the proactive growth strategy announced by the Group for its IPO (multiple sales offices opened in Europe and expanded teams, excluding Storever, up from 83 employees in 2018 to 101 in 2019 in a bid to ramp up development).

With the decision to dispose of Storever, the Group applied IFRS 5, recording the division's income and expenses under net income (expense) from discontinued operations. For the sake of comparison, financial year 2018 has been identically restated, segregating Storever's business under net income (expense) from discontinued operations.

In €k - IFRS (audited figures)	2019	2018	Change
Revenue	21,962	16,940	+29.6%
Cost of sales	(12,223)	(8,889)	+37.5%
Personnel expenses	(6,998)	(6,112)	+14.5%
Other administrative and commercial expenses	(3,289)	(3,612)	-8.9%
Current operating income before amortisation	(548)	(1,673)	+€1,125k
Depreciation, amortisation and impairment	(4,184)	(3,384)	+23.6%
Current operating income after amortisation	(4,732)	(5,057)	+€325k
Other non-current operating expenses (net)	(44)	(43)	-
Operating income	(4,776)	(5,100)	+€324k
Gain on disposal/revaluation of equity interest	7,091	-	-
Financial income	2,276	(1,328)	+€3,604k
Income tax	(260)	377	-€637k
Net income from continuing operations	4,331	(6,051)	+€10,382k
Net income from discontinued operations	450	733	-
Net income	4,781	(5,318)	+€10,100k

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IFRS 16, on the recognition of leases in the consolidated financial statements, came into force on 1 January 2019. AudioValley chose to apply IFRS 16 using the modified retrospective approach, without restating prior financial statements.

In financial year 2019, the Group posted Current operating income after amortisation of €(4,732)k, an improvement of €325k after recognition of predominantly non-cash[1] items totalling €4,184k, which can be broken down as follows:

- €2,721k for the 10-year straight-line amortisation expense on technology assets recognised under the price purchase allocation method applied after the acquisition of Targetspot, i.e. the Shoutcast streaming software and the Targetspot platform;
- €475k in depreciation expenses on property, plant and equipment recognised under IFRS 16; and
- €988k in depreciation/amortisation expenses on other assets, up €230k on the back of in-house developments.

AudioValley recorded a capital gain on disposal of €7,091k on Storever. In accordance with IFRS 5, Storever income and expenses were taken to net income (expense) from discontinued operations.

Financial income (expense) came out positive at €2,276k in 2019, versus a loss of €(1,328)k in 2018. This figure included in particular a €4,400k capital gain on the discount received on Vivendi debt, a €1,334k accretion expense (non-cash) on the vendor credit granted by Vivendi for the acquisition of Targetspot, and a €578k interest expense including €84k stemming from the first-time application of IFRS 16.

Net income (expense) from continued operations amounted to €4,331k in 2019 versus a loss of €(6,051)k in 2018.

Overall, the Group earned positive net income of €4,781k, versus a loss of €(5,318)k in 2018.

Change in financial position

At 31 December 2019, shareholders' equity totalled €14,374k compared with €11,148k at end-December 2018.

The cash position ended the year at €1,866k versus €1,018k in 2018, with financial liabilities of €18.2m (down €5.3m).

In December 2019, AudioValley paid the first instalment owed to Vivendi (€13m), pursuant to the agreement to prepay the outstanding debt under the terms of the vendor credit obtained on the acquisition of the majority stake in the Radionomy/Targetspot division. The nominal amount of the debt was €24.6m at 30 June 2019, spread over several annual instalments until 2025.

In March 2020, AudioValley negotiated for the final instalment of €3m to be paid to Vivendi by 30 September 2020 (instead of 31 March 2020).

With this agreement, paying the balance of the debt before September would entitle AudioValley to the initially negotiated discount (maximum discount of 35%, i.e. €8.6m).

[1] non-cash: no impact on cash position

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In order to pay the final instalment to Vivendi and continue expanding its business despite the impact of COVID-19, the Company requires additional funding of around €6.5m. The Group is currently working with its advisors to arrange a deal, the details of which have yet to be finalised, but which depending on market conditions could take the form of a private placement, public offering, loan or a combination of the three. Based on the progress made thus far in terms of prep work, Management is confident that the Group will be able to raise the additional funds needed for business continuity purposes. AudioValley also plans to further its efforts to improve EBITDA and to limit WCR in a bid to optimise net cash flows generated by operating activities.

Post-closing events COVID-19 status update

Despite achieving solid growth momentum in January and February 2020, the initial confinement measures launched to combat COVID-19 have had an impact on business. Revenue began dropping in March due to the steep reduction or postponement of advertising expenditures budgeted for digital audio ads.

This decline should be viewed in light of the €4.6m in revenue earned in Q1 2020, which was stable like-for-like compared to Q1 2019. **Targetspot** posted revenue growth of +2.3% in Q1 to €4,027k despite the initial impacts of the crisis in March, thanks in large part to the excellent performance delivered in Europe, where revenue climbed +60.6% in the first quarter. Europe now accounts for 35% of Targetspot's total revenue versus 22% in Q1 2019. In North America, where COVID-19 began having an impact in March, Targetspot saw its revenue slide -14.2% to €2,633k. **Jamendo**, also significantly impacted in March, turned in revenue of €652k, down -11.4% in Q1 2020.

For the second quarter, revenue is expected to fall by around 35-40% year-on-year due to the sharp reduction or postponement of advertising expenditures budgeted for digital audio ads. Business should pick up little by little over the next few weeks as COVID-19 restrictions are gradually lifted.

In response to this situation, the Group has implemented measures to safeguard the health of its employees while continuing to do business (see press release of 7 April for detailed measures). Under the BCP, the Group was able to:

- Broadcast all ad campaigns;
- Stick to its R&D roadmap, with the launch of Passport Explore, the most advanced digital audio campaign management and optimisation platform on the market (*see press release of 23 April*); and
- Continue the business initiatives aimed at exiting the crisis. Targetspot successfully entered into a partnership with Sonos for the exclusive worldwide monetisation of its radio streaming services (*see press release of 29 April 2020*) and won a 2-year contract with TuneIn for the exclusive monetisation of audio ad space on the streaming platform in five different European countries (*see press release of 6 May 2020*).

Against this backdrop, the Group also set up a strict cost control structure to limit the impact on its operating income and cash consumption. Actions have been focused primarily on controlling payroll expenses, which account for almost 75% of the Group's fixed costs. Part-time work and other measures to reduce working hours have been implemented in all regions of operation. Combined with cuts to marketing and transport costs, these measures have already cut expenses by around 50%. Together, these measures have limited the impact of the business decline on profits and cash consumption.

Confidence in rebound capability confirmed

Now focused exclusively on 100% digital audio activities, AudioValley has secured a solid position in the industry, combining technology and international commercial coverage on a structurally buoyant market. The major commercial successes announced in recent weeks and the increase in the number of advertisers working with the Group (over 200) highlight the ongoing transition from traditional FM radio ad campaigns to digital audio media (smartphone apps, smart voice assistants, podcasts, video games, etc.) to tap into more detailed audience targeting. The advent of new players such as SONOS, a combination of more than 10 million homes worldwide, should further boost appetite for ad campaigns offering unprecedented access to target audiences.

The Group is thus very confident it will be able to emerge from this crisis and quickly return to the growth path by the end of 2020.

NEXT EVENT

First-half 2020 revenue

Monday July 27, 2020 (after market close)

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