Press release

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AudioValley improves operating profitability despite impact of COVID-19 on first half

- **Business activity resilient, driven by Targetspot and Europe**
- **Operating profitability improves**
- **Group growth prospects reasserted**

AudioValley (ISIN Code: BE0974334667/Ticker: ALAVY), an international specialist in digital audio solutions, has presented its results for the first half of 2020. The financial statements, closed on 30 June 2020, were approved by the Board of Directors on 9 October 2020. For the sake of clarity, the data presented below is provided on a comparable consolidation scope basis. In application of IFRS accounting standards, the 2019 interim accounts have been restated for the disposal of the Storever business, completed on 5 December 2019.

Solid resilience despite public health context

Revenue declined by a limited amount during the period, slipping 11% to €8.7m (-12% on a constant currency basis). Although the COVID-19 outbreak took a heavy toll on revenue in the second quarter (down 22% on Q2 2019), the Group's performance rallied sharply from the low reached in April (-37%) resulting in firm resilience in first-half revenue, beating Group’s expectations. As announced, this momentum was driven by Targetspot and strong revenue growth in Europe.

- ### Targetspot: resilient business activity and solid sales momentum

  The Targetspot platform, which aggregates and monetises digital audio content, ended the quarter on a limited 9% decrease in revenue (-11% at constant currency) to €7.6m, accounting for 87% of total Group revenue, notably amid cuts and postponements in advertisers’ adspend. The decrease was notable in North America (-23%, or -24% at constant currency), albeit largely offset by strong momentum in Europe (+34%). In spite of market conditions, Targetspot confirmed its strong drive on the sales front, scoring several new contracts with leading broadcasters, such as Sonos, TuneIn, Stingray and Radio France. These contracts will start to gain full traction in the second half of 2020 and will be powerful growth drivers going forward.

- ### Jamendo: major steps taken to revive the division

  Jamendo, which manages the rights and marketing of music licenses, was hit harder by the crisis, reporting revenue of €1.1m (down €0.3m on H1 2019), representing a decline of 23% over the period. This slump needs to be put into perspective, however, given the still slim share of total Group revenue contributed by the division (13%). During the first half, the Group took a number of steps aimed at restoring growth once the situation returns to normal. To start with, it recruited a new Chief Sales Officer and rolled out a new, high-visibility subscription model. The division

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also stands to gain in the short term from the partnership with Adobe announced in June, in which the latter will offer its extensive user base access to Jamendo's music catalogue.

- **Performance by geographic region: Europe confirmed as a growth driver**

  In the first half of the year, performance in Europe confirmed the region's role as growth driver, with a 13% increase in revenue to €3.6m, offsetting the 23% slump recorded in North America, to €5.1m. While North America was much harder hit by advertiser caution at the height of the crisis, in Europe business continued to gain from the shift in adspend to digital, a trend which is gaining momentum.

Sharp improvement in operating performance

in €m	H1 2020	H1 2019	Change
Revenue	**8.7**	**9.8**	**-11%**
Cost of sales	(4.6)	(5.4)	-14%
Personnel expenses	(2.8)	(3.4)	-19%
Other administrative and commercial expenses	(1.5)	(1.7)	-10%
EBITDA	**(0.2)**	**(0.7)**	**+€0.4m**
Depreciation, amortisation and impairment	(2.3)	(2.0)	
Current operating income after amortisation	**(2.5)**	**(2.7)**	**+€0.2m**
Non-recurring income (expense)	-	-	
Operating income (expense)	**(2.5)**	**(2.7)**	**+€0.2m**
Financial income (expense)	(0.8)	(1.0)	-16%
Income tax	(0.0)	(0.1)	
Net income (expense) from continuing operations	**(3.3)**	**(3.7)**	**+€0.4m**
Net income (expense) from discontinued operations	-	0.2	-100%
Non-controlling interests	(0.1)	(0.1)	-42%
Group share of net income	**(3.3)**	**(3.4)**	**+€0.2m**

"I am particularly satisfied with the Group's overall performance over the first six months of the year. Despite an unprecedented public health crisis, our business model, underpinned by a structurally flourishing market, demonstrated its resilience both in terms of revenue and bottom line. The first half of the year also provided an opportunity to strengthen the Group's equity with a view to settling our outstanding debt with Vivendi. We can now focus all of our efforts on executing our strategy plan and international expansion. Since the end of the lockdown, we have been seeing an extremely encouraging rally in demand among advertisers, and this is already visible in our revenue. As such, and while caution

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is still in order in what remains an uncertain environment, we are more confident than ever and ready to take a front-ranking position in digital audio monetisation." comments Alexandre Saboundjian, CEO and founder of AudioValley.

Despite the decline in business activity, the Group recorded an improvement in its gross margin to 47% of revenue, up from 45% in H1 2019.

As announced at the start of the crisis, AudioValley took steps very early on to rein in costs and preserve its cash position at Group level. The speed at which its teams adjusted to the unprecedented backdrop helped it cope with a difficult period under satisfactory conditions.

In this context, the Group recorded EBITDA of -€0.2m, compared with -€0.7m in the first half of 2019. This improvement stems from a tight grip on personnel expenses, which declined 19% over the period, notably helped by the implementation of part-time working arrangements in regions in which these were applicable. More generally, operating expenses were kept in check and declined by around 15%, when revenue was down 10%. Targetspot recorded EBITDA of -€0.2m, an increase of €0.4m. Jamendo's EBITDA remained at breakeven, in spite of the slump in business activity during the period.

The Depreciation, Amortisation and Impairment line saw an increase of €0.3m. This included amortisations recorded in respect of the Group's proprietary technology platforms, in the amount of €14m, with no impact on cash, as well as €0.3m in amortization on the rights of use of assets recognised under IFRS 16. Financial expense was down 16% at -€0.8m. The Income Tax line was relatively stable compared with H1 2019 and remains of little significance in the Group's accounts to date.

In total, the Group recorded net income from continuing operations of -€3.3m in H1, an improvement of €0.4m on the same period of 2019, notably thanks to the tight rein kept on operating costs, as noted above, in an environment in which revenue was expected to decline.

Minority interests declined 42%, in line with the acquisition of minority stakes in the Group's subsidiary Jamendo in November 2019.

In the end, Group share of net income improved by €0.2m relative to 2019 to -€3.3m.

Financial position under control

On 30 June 2020, the Group launched a €5.4m capital increase without preferential subscription rights, with the aim of shoring up its financial structure and settling the outstanding debt owed to Vivendi. These events had an impact on cash after the first-half accounts closing date.

Accordingly, Group shareholders' equity came to €16.2m at end-June 2020, up from €14.4m at end-June 2019, primarily reflecting the capital increase and allocation of net income.

AudioValley had gross borrowings of €18.3m at 30 June, consisting notably of a €7.3m convertible bond maturing in 2024, a €4.9m convertible bond and €3.0m in outstanding debt owed to Vivendi, which was settled on 8 July. Note that gross borrowings came to €18.2m at end-2019.

The Working Capital Requirement (WCR) improved during the period, to €2.3m, chiefly as a result of the cost control measures implemented and the decline in business activity.

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AudioValley had €0.8m in cash at 30 June 2020, up €0.2m on 30 June 2019. As specified, this figure does not include events occurring after the H1 balance sheet date, i.e. either the €5.2m net gain recorded in respect of the capital increase or the full repayment of the debt owed to Vivendi, in the amount of €3.0m. As of 30 September, the Group had €1.2m in cash.

The above events close the Vivendi chapter once and for all and confirm that the Group can now focus all of its financial resources on leveraging the numerous market opportunities available with quiet confidence.

Renewed confidence in its growth prospects

Having shown solid resilience in the face of the ongoing crisis, and with its financial position under control, the Group is facing the coming months with renewed confidence, spurred by:

- **Continuing international expansion**

As announced, October kicked off with the signature of a new partnership agreement with Australian media company SCA, which covers more than 95% of the country's population. Under the deal, SCA has become Targetspot's exclusive representative in Australia, which dovetails perfectly with the Group's strategy of expanding its geographic footprint via strong local partnerships.

AudioValley also hired Eric van der Haegen, an international digital media specialist, who will notably be in charge of developing new strategic partnerships, with the aim of entering 10 new geographic markets by the end of 2021.

- **Strong business momentum**

In addition to this new partnership, Targetspot stands to gain over the coming months from the ramp-up in the major contracts won in the first half of the year.

Meanwhile, Jamendo remains extremely well placed to make the most of the recovery, notably by developing the division's partnership with Adobe. That partnership, which was established at end-June, is already fulfilling its promises, generating some €240,000 in revenue on a full-year basis at end-September.

- **Improved business activity in Q3**

AudioValley recorded revenue of €5.0m in Q3 2020, compared with €5.4m in Q3 2019, implying a decrease of 8% or 5% on a constant currency basis (cc). This decrease needs to be put into perspective, after the 22% drop in revenue recorded in Q2 (-23% cc).

This recovery was driven by the continued improvement in business activity at all divisions and across all of the geographic regions in which the Group operates. Targetspot recorded an 8% decline in revenue to €4.4m, a sharp improvement when compared to the 20% decline in Q2. This fine performance was primarily driven by the sharp rally in business activity in North America and further sustained growth in Europe. The currency impact was negative during the quarter, revenue being down 4% cc.

Jamendo recorded revenue of €0.5m, down 13% on the third quarter of 2019 and compared with a 35% decrease in Q2.

Since the start of the year, the Group has generated aggregated revenue of €13.7m, implying a limited decline of 10% (10% cc).

In light of the above trends, AudioValley is now in an ideal position to gain from the opportunities available in its structurally growing market. As a pure player in digital audio, AudioValley now has the unique, proprietary technological tools to speed up its market share gains on an international scale and get back on track to strong growth as soon as the situation returns to normal. Seen from this perspective, the diverse range of clients that AudioValley addresses and the strength of the partnerships forged with major broadcasters in recent months are further decisive advantages.

Upcoming events (after market close):

2020 revenue
27 January 2021

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