Magnet Forensics Announces 2022 Third Quarter Results

11/09/2022

WATERLOO, Ontario--(BUSINESS WIRE)-- Magnet Forensics Inc. ("**Magnet Forensics**" or the "**Company**") (TSX: MAGT), developer of digital investigation solutions for more than 4,000 enterprises and public safety organizations, today announced its financial and operational results for the three months ("Q3 2022") and nine months ("YTD 2022") ended September 30, 2022. Financial references are in U.S. dollars unless otherwise indicated.

Q3 2022 Financial Highlights
(Comparison periods in each case are the three months ended September 30, 2021, unless otherwise stated)

- *Revenue of $25.0 million in Q3 2022, an increase of 41%*
- *Gross profit margin [1] of 93% in Q3 2022, unchanged from Q3 2021*
- *Net income of $1.4 million in Q3 2022, compared to $2.2 million in Q3 2021*
- *Adjusted EBITDA [2] of $5.9 million in Q3 2022, an increase of 25%*
- *Annual Recurring Revenue [3] ("ARR") of $80.9 million as of September 30, 2022, an increase of 50% from the prior year*

1) Gross profit margin is defined as gross profit divided by total revenue

2) Non-IFRS measure. See "Non-IFRS Measures" and the reconciliation to the most directly comparable IFRS measure included in this press release

3) Key Performance Indicator. See "Key Performance Indicators"

"We continue to gain momentum with strong top-line growth and bottom-line performance as a result of the investments we've made in the business," said Adam Belsher, CEO of Magnet Forensics. "With today's results, we are increasing our outlook for the remainder of 2022 and expect to build on this momentum in 2023. Our solutions address the key challenges faced by public safety organizations and private enterprises dealing with digital investigations and incident response. As cybersecurity threats remain top of mind, both the public and private sector are prioritizing cybersecurity within their budgets. Our global addressable market continues to expand across both verticals, given our solutions address the key challenges our customers are facing such as the increased volume of digital evidence,

the rise in cyber-breaches and the scarcity of skilled personnel to handle such challenges. By leveraging automation, the cloud, and intuitive workflows, Magnet Forensics' solutions enable our customers to tackle case backlogs and close threat vectors faster."

Q3 2022 Highlights
(Comparison periods in each case are the three months ended September 30, 2021, unless otherwise stated)

- Revenue of $25.0 million, an increase of 41% compared to $17.8 million, primarily due to a $3.9 million increase in Software Maintenance and Support revenue and a $3.4 million increase in License – term revenue, each of which are a result of growth within the Company's customer base. The transition to a greater proportion of term license revenue compared to perpetual license revenue is part of the Company's strategy to increase term license contracts. This transition to term-based products has increased the proportion of term license support as a percentage of total Software Maintenance and Support revenue to 60% as of September 30, 2022, compared to 38% at the same point in 2021. Total Recurring Revenue[1] was $21.8 million, representing 87% of total revenue.
- Annual Recurring Revenue[2] grew to $80.9 million as of September 30, 2022, an increase of 50% compared to $54.0 million as of September 30, 2021. The growth in ARR was primarily due to higher License - term revenue due to an overall increase in licenses sold and higher Software Maintenance and Support revenue from growth in the user base.
- Gross profit margin[3] was 93%, unchanged from 93% in Q3 2021.
- Net Income was $1.4 million, a decrease of $0.8 million compared to $2.2 million in Q3 2021. The change is primarily due to increased investments in Sales & Marketing and Research & Development, including restricted share unit expenses for awards granted since IPO, as well as acquisition-related expenses.
- Adjusted EBITDA[1] was $5.9 million, an increase of 25% or $1.2 million from the prior period, primarily due to operating leverage in the business from the strong revenue growth due to the investments made in Research & Development and Sales & Marketing during the past 12 months.
- Cash was $122.3 million as at September 30, 2022, compared to $118.1 million as at December 31, 2021, a change of $4.2 million.
- The Company won new customers across each of its public safety and private enterprise markets, including Europe, Asia, and North America.
- The current prospect pipeline is robust and continues to build based on interest in the Company's core AXIOM and AXIOM Cyber offerings and the Magnet Digital Investigation Suite ("MDIS"), including AUTOMATE, AUTOMATE Enterprise and REVIEW and as a result of the investments made during the past 12 months in the Sales & Marketing team.

- The Company's approach of consistent and rapid innovation supported multiple software updates across its product portfolio, updates included AXIOM 6.6 and AXIOM Cyber 6.6 of its core products and product updates for the Magnet Digital Investigation Suite (MDIS) with new upgrades and innovations of Magnet AUTOMATE, Magnet AUTOMATE Enterprise and Magnet REVIEW.
- The Company announced the Greater Manchester Police, in conjunction with the U.K.'s Forensic Capability Network, has successfully accelerated its digital investigations into child sexual exploitation by deploying Magnet AUTOMATE. The organization built the foundation to further expand the use of Magnet AUTOMATE into all criminal investigations over the next 12 months. With Magnet AUTOMATE, the Greater Manchester Police completed digital investigations into child sexual exploitation cases 9.5 hours faster on average and processed digital evidence 55% faster during a one-year pilot program.
- The Company announced its expansion into Australia which strengthens its presence in the Asia-Pacific region with sales and professional services personnel. The Company has been selling its solutions to Australian customers since 2011.
- IDC MarketScape named Magnet Forensics a "Major Player" in the Worldwide eDiscovery Early Case Assessment Software 2022 Vendor Assessment. The IDC MarketScape evaluates major vendors in the worldwide eDiscovery market based on their capabilities to collect, process, cull and analyze data for investigations and litigations, while also emphasizing strategies that minimize data corpus and mitigate cost.

1) Non-IFRS measure. See "Non-IFRS Financial Measures" and the reconciliation to the most directly comparable IFRS measure included in this press release.

2) Key Performance Indicator. See "Key Performance Indicators".

3) Gross profit margin is defined as gross profit divided by total revenue.

Financial Outlook

The Company updated its outlook for Revenue and Adjusted EBITDA for the year ending December 31, 2022, which are anticipated to be in the following ranges:

- Revenues of $96.0 - $98.0 million, representing 37% - 39% growth over Fiscal 2021, with the contribution of growth across the four periods distributed similar to prior years, with Q3 and Q4 representing a greater contribution.
- Adjusted EBITDA[1] of $16.0 - $19.0 million, representing Adjusted EBITDA Margins[1] of 17% - 19%.

1) Non-IFRS measure. See "Non-IFRS Financial Measures" and the reconciliation to the most directly comparable IFRS measure included in this press release

Notice of Conference Call

Magnet Forensics will host a conference call, today, Wednesday, November 9, at 8:00 am Eastern Time to discuss its financial results. Mr. Adam Belsher, Chief Executive Officer, and Mr. Peter Vreeswyk, Chief Financial Officer, will jointly chair the call. All interested parties can join the call by (888) 886-7786 or (416) 764-8658 with the conference identification of 681384. Please dial in 15 minutes prior to the call to secure a line. A live audio webcast of the conference call will also be available from the events page of the investor relations section of Magnet Forensics' website at https://investors.magnetforensics.com.

About Magnet Forensics

Founded in 2010, Magnet Forensics is a developer of digital investigation software that acquires, analyzes, reports on, and manages evidence from digital sources, including computers, mobile devices, IoT devices and cloud services. Magnet Forensics' software is used by more than 4,000 public and private sector customers in over 100 countries and helps investigators fight crime, protect assets and guard national security.

Non-IFRS Financial Measures

This press release contains certain non IFRS financial measures, specifically Adjusted EBITDA, Adjusted EBITDA Margin and Total Recurring Revenue. These measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. These non-IFRS measures are used to provide investors with supplemental measures of the Company's operating performance and liquidity and thus highlight trends in its business that may not otherwise be apparent when relying solely on IFRS measures. The Company also believes that securities analysts, investors, and other interested parties frequently use non-IFRS measures in the evaluation of issuers. The Company's management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management and executive compensation.

"Adjusted EBITDA" and "Adjusted EBITDA Margin" represents net income (loss) and net income (loss) as a percentage of total revenue, respectively, adjusted to exclude depreciation and amortization, income tax expense (recovery), share-based compensation expense,

foreign exchange loss (gain), interest expense (income), certain financing-related expenses that are non-recurring in nature, and certain acquisition-related expenses that are non-recurring in nature and not indicative of continuing operations. The Company uses Adjusted EBITDA as a supplemental measure to review and assess operating performance, assess its ability to generate cash-based earnings, as well as provide a more complete understanding of factors and trends affecting the Company's business that may not otherwise be apparent when relying solely on IFRS measures.

The following table reconciles net income to Adjusted EBITDA for the three months and nine months ended September 30, 2022 and September 30, 2021 (expressed in thousands of US dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Net income (loss)	$1,369	$2,167	($543)	$6,535
Depreciation and amortization[1]	898	528	2,546	1,518
Income tax expense (recovery)	647	1,019	(550)	2,627
Share-based compensation[2]	1,791	642	5,677	1,163
Foreign exchange loss (gain)[3]	571	(142)	1,197	(10)
Interest expense (income)	(294)	86	(229)	342
Financing-related expenses[4]	18	97	81	1,479
Acquisition-related expenses[5]	868	293	3,602	293
Adjusted EBITDA	$5,868	$4,690	$11,781	$13,947

Notes:

1) Depreciation and amortization expenses are primarily related to right-of-use assets and property and equipment. Depreciation and amortization expense for the three and nine months ended September 30, 2022 includes recognized depreciation expense on right-of-use assets of $213 and $630 (September 30, 2021 - $197 and $612). For the three and nine months ended September 30, 2022 interest expense related to lease liabilities was $77 and $246 (September 30, 2021- $92 and $280).

2) These expenses represent non-cash expenses recognized in connection with the issuance of share-based compensation to our employees and directors, excluding share-based compensation related to acquired businesses of $321 and $687, for the three and nine months ended September 30, 2022.

3) These losses (gains) relate to the impact of foreign exchange translation on financial assets and liabilities.

4) These expenses include certain professional, legal, consulting and accounting fees, certain employee compensation, and listing fees that are specific to financing activities, including the Company's initial public offering ("IPO") completed on May 3, 2021, the base shelf prospectus filed on October 29, 2021 and public filings, and credit facility agreements, and are considered non-recurring and not indicative of continuing operations.

5) These expenses include post-combination compensation of acquired businesses, which represent a portion of the consideration paid that is contingent upon ongoing employment and performance criteria being achieved, including share-based compensation. Additionally, these expenses include certain professional, legal, consulting, accounting, advisory, and other fees incurred in connection with acquisition and other strategic opportunities pursued as part of the Company's growth strategy. These expenses are considered non-recurring and not indicative of continuing operations.

"Total Recurring Revenue" represents the total revenue recognized during the period from contract elements that are recurring in nature and includes revenues recognized as "License – term" and "Software maintenance and support" under term license contracts ("Term License Contracts") and revenue recognized as "Software maintenance and support" from term subscriptions for software maintenance and support ("Software Maintenance and

Support") purchased by customers under perpetual licenses ("Perpetual Licenses"). The Company believes that Total Recurring Revenue is an indicator of business expansion and provides management with visibility into its ability to generate predictable cash flows.

Term License Contracts and subscriptions for Software Maintenance and Support must be renewed upon expiry, permit customers to terminate their contracts for convenience and do not contain penalty provisions in the event of early termination, though customers that terminate early are not entitled to refund of amounts paid under the contract. The Company facilitates customer renewals generally through automatic delivery of renewal notifications sent in advance of the renewal dates, followed by a personal contact from a member of the Company's sales team. Based on the Company's experience, early terminations by customers have not been material and a significant majority of customers renew their contracts upon expiry.

The following table reconciles Revenue and Total Recurring Revenue to total revenue for the three and nine months ended September 30, 2022 and September 30, 2022 (expressed in thousands of US dollars):

Revenue	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Product Type				
License - term	$7,325	$3,878	$18,353	$10,633
License - perpetual	388	841	1,780	3,313
Software Licenses Total	**7,713**	**4,719**	**20,133**	**13,946**
Software maintenance and support - term	8,657	4,028	22,537	9,745
Software maintenance and support - perpetual	5,804	6,582	18,153	19,230
Software Maintenance and Support Total	**14,461**	**10,610**	**40,690**	**28,975**

Professional services	2,817	2,444	7,101	5,978
Total Revenue	**$24,991**	**$17,773**	**$67,924**	**$48,899**
Less:				
License - perpetual	(388)	(841)	(1,780)	(3,313)
Professional services	(2,817)	(2,444)	(7,101)	(5,978)
Total Recurring Revenue	**$21,786**	**$14,488**	**$59,043**	**$39,608**

Key Performance Indicators

The Company monitors a number of performance indicators to help it evaluate its business, measure its performance, identify trends affecting its business and formulate strategic plans. Each of these key performance indicators utilizes revenue from contract elements that are recurring in nature, which include Term License contracts and subscriptions for Software Maintenance and Support and excludes non-recurring Perpetual License fees and training and implementation fees. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies and may be adjusted in certain cases related to acquired businesses.

"Annual Recurring Revenue" is defined as the annualized value of contracted recurring revenue from all customers that have contracts for the Company's products and services as at the date being measured. The Company calculates Annual Recurring Revenue by dividing the contracted recurring revenue of each customer contract in effect as at the measurement date by the term of the contract, expressed in years. The Company's calculation of Annual Recurring Revenue assumes that active customers will renew their contracts with it at the time of renewal. Based on the Company's experience, a significant majority of customers renew their contracts upon expiry. In addition, while subscription agreements may be subject to price increases on renewal, the Company does not assume price increases on subscription agreements when calculating Annual Recurring Revenue. In the event of an acquisition, management includes the annualized value of recurring revenue from contracts with a commencement date subsequent to the acquisition date. The Company believes that Annual Recurring Revenue is an indicator of business expansion and provides visibility into its ability to generate predictable future cash flows.

Forward-Looking Information

This press release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking information") within the meaning of applicable securities laws. Forward-looking information includes or may relate to the Company's financial outlook for Fiscal 2022 (including revenues, net income and Adjusted EBITDA) and anticipated events or results and may include information regarding its financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, taxes, dividend policy, plans and objectives. This forward looking information includes, but is not limited to, information regarding the Company's expectations of future results, performance, achievements, prospects or opportunities or the markets in which it operates; expectations regarding the growth of cybercrime and crimes with digital evidence; expectations regarding customer investment in solutions to solve crimes; expectations regarding the Company's ability to scale its business profitability and its implication for shareholders; the Company's strategy with respect to term license contracts; expectations regarding the robustness and continued growth of the current prospect pipeline; the outlook for Revenue, Adjusted EBITDA, and Adjusted EBITDA margin, for the year ending December 31, 2022, including anticipated ranges; and the usefulness of the Company's key performance and non-IFRS measures and the frequency of use of non-IFRS measures by third parties.

In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or, "will", "occur" or "be achieved", and similar words or the negative of these terms and similar terminology. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's current expectations, estimates and projections regarding future events or circumstances.

Forward-looking information is necessarily based on a number of opinions, estimates and assumptions that the Company considered appropriate and reasonable as of the date such statements are made, and is subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to the factors described in the "Summary of Factors Affecting our Performance" section of the Company's MD&A for the three and nine months ended September 30, 2022, and in the "Risk Factors" section of our Annual Information Form dated March 9, 2022, which is available under the Company's profile on SEDAR at www.sedar.com. Certain assumptions in respect of, among other things, the Company's ability to build its market share; retain existing customers and attract new customers, and increase revenue associated with those customers; the Company's ability to

retain key personnel; the Company's ability to maintain and expand geographic scope; the Company's ability to execute on its growth strategies; the Company's ability to maintain and protect its intellectual property rights and proprietary information; the Company's ability to prevent unauthorized access to or disclosure, loss, destruction or modification of data, through cybersecurity breaches or computer viruses disrupting the functionality of the Company's products; the Company's ability to obtain additional financing and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; changes and trends in the Company's industry and the global economy, including the impact of the ongoing COVID-19 pandemic; and changes in laws, rules, regulations, and global standards, are material factors made in preparing forward-looking information and management's expectations.

If any of these risks or uncertainties materialize, or if the opinions, estimates or assumptions underlying the forward-looking information prove incorrect, actual results or future events might vary materially from those anticipated in the forward-looking information. The opinions, estimates or assumptions referred to above are described in greater detail in "Summary of Factors Affecting our Performance" section of the Company's MD&A for the three and nine months ended September 30, 2022 and should be considered carefully by prospective investors.

Although the Company has attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to the Company or that the Company presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. No forward-looking statement is a guarantee of future results. Accordingly, you should not place undue reliance on forward-looking information, which speaks only as of the date made. The forward-looking information contained in this press release represents the Company's expectations as of the date of hereof (or as of the date they are otherwise stated to be made) and is subject to change after such date. However, the Company disclaims any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

All of the forward-looking information contained in this press release is expressly qualified by the foregoing cautionary statements.

Magnet Forensics Inc.
Condensed Consolidated Interim Statements of Financial Position
Expressed in thousands of US Dollars (Unaudited)
As at September 30, 2022 and December 31, 2021

	September 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash	$ 122,310	$ 118,058
Accounts receivable	21,387	21,249
Prepaid expenses and other assets	4,137	2,989
Income taxes receivable	1,332	577
	149,166	**142,873**
Non-current assets		
Property and equipment	3,016	2,689
Right-of-use assets	3,873	4,503
Contract acquisition costs	2,238	1,477
Acquired intangible assets	6,027	5,059
Goodwill	1,455	1,345
Deferred tax assets	5,553	4,033
Total assets	**171,328**	**161,979**
LIABILITIES AND EQUITY		

Current liabilities

Accounts payable and accrued liabilities	10,019	10,779
Deferred revenue	51,770	43,136
Government loan payable	478	514
Lease liabilities	932	989
	63,199	**55,418**

Non-current liabilities

Deferred revenue	6,367	9,566
Government loan payable	915	1,295
Acquisition-related payables	867	707
Lease liabilities	4,775	5,853
Total liabilities	**76,123**	**72,839**

Shareholders' equity

Share capital	92,847	91,073
Contributed surplus	7,636	2,795
Accumulated other comprehensive income	(7)	-
Retained earnings (deficit)	(5,271)	(4,728)

Total shareholders' equity	95,205	89,140		
Total liabilities and equity	$ 171,328	$ 161,979		

Magnet Forensics Inc.
Condensed Consolidated Interim Statements of Income (loss) and Comprehensive Income (loss)
Expressed in thousands of US Dollars, except per share figures (Unaudited)
Three and nine months ended September 30, 2022 and 2021

	Three months ended September 30,		Nine months ended September 30,	
	2022	**2021**	**2022**	**2021**
Revenue	$ 24,991	$ 17,773	$ 67,924	$ 48,899
Cost of sales	1,676	1,331	4,756	3,038
Gross profit	23,315	16,442	63,168	45,861
Expenses				
Sales and marketing	9,154	5,722	27,397	14,943
Research and development	8,157	4,764	23,674	13,100
General and administrative	3,711	2,826	12,222	8,324
	21,022	13,312	63,293	36,367
Income (loss) before the undernoted items and income taxes	2,293	3,130	(125)	9,494

Interest expense (income)	(294)	86	(229)	342
Foreign exchange loss	571	(142)	1,197	(10)
Income (loss) before income taxes	**2,016**	**3,186**	**(1,093)**	**9,162**
Income tax expense (recovery):				
Current	569	584	1,164	1,684
Deferred	78	435	(1,714)	943
	647	1,019	(550)	2,627
Net income (loss) for the period	**$ 1,369**	**$ 2,167**	**$ (543)**	**$ 6,535**
Other comprehensive loss:				
Foreign currency translation loss	**(7)**	**-**	**(7)**	**-**
Comprehensive income (loss)	**$ 1,362**	**$ 2,167**	**$ (550)**	**$ 6,535**
Earnings (loss) per share				
Basic [1]	0.03	0.05	(0.01)	0.17
Diluted [1]	0.03	0.05	(0.01)	0.17

1) After giving effect to the amalgamation completed as part of the Pre-Closing Reorganization, including a conversion of the Company's pre-closing common shares on a one-to-three basis.

Magnet Forensics Inc.
Condensed Consolidated Interim Statement of Cash Flows
Expressed in thousands of US Dollars (Unaudited)
Nine months ended September 30, 2022 and 2021

	Nine months ended September 30,	
	2022	**2021**
Cash provided by (used in):		
Cash flows from operating activities:		
Net income (loss)	$ (543)	$ 6,535
Items not involving cash:		
Income tax expense (recovery)	(550)	2,627
Depreciation of property and equipment	952	711
Amortization of intangible assets	964	195
Depreciation of right-of-use assets	630	612
Interest expense on lease liabilities	246	280
Other interest income	(650)	-
Share-based compensation expense	6,364	1,163

Unrealized foreign exchange loss (gain)	(522)	20
Other non-cash interest	175	95
Changes in operating assets and liabilities	2,156	3,712
Interest received	650	-
Income taxes paid	(1,353)	(6,905)
Net cash from operating activities	8,519	9,045

Cash flows from investing activities:

Purchase of property and equipment	(1,279)	(549)
Acquisition of business and intangible assets	(1,882)	(3,887)
Net cash used in investing activities	(3,161)	(4,436)

Cash flows from financing activities:

Repayments of government loan payable	(383)	(388)
Stock options exercised	251	272
Shares issued per offering	-	93,583
Share issuance costs	-	(7,070)
Interest paid on lease liabilities	(246)	(280)
Principal lease payments	(728)	(658)

Repayment of acquired promissory note	-	(1,173)
Net cash from (used in) financing activities	(1,106)	84,286
Increase (decrease) in cash	4,252	88,895
Cash, beginning of period	118,058	21,205
Cash, end of period	**$ 122,310**	**$ 110,100**

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