AMINO TECHNOLOGIES

SOFTWARE AND COMPUTER SERVICES

8 December 2020

AMO.L

115p

Market Cap: £87.4m

SHARE PRICE (p)

12m high/low	152p/105p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	$9.4m *(at 30/11/20)*
Enterprise value	£80m
Index/market	AIM
Next news	Final results, Feb. 2021
Shares in Issue (m)	76.0
Chairman	Karen Bach
Chief Executive	Donald McGarva
Finance Director	Mark Carlisle

COMPANY DESCRIPTION

Amino is a global Media Tech company that delivers modern TV and video experiences.

www.amino.tv

AMINO TECHNOLOGIES IS A RESEARCH CLIENT OF PROGRESSIVE

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Revenue beats pre-COVID expectations

Amino's trading update for the year ending November 2020 signals the business has performed extremely strongly against a backdrop of COVID-19 driven challenges. At approximately $83m, revenue is c8% higher than FY 19A and slightly ahead of our forecast – which was set prior to COVID-19. The period also saw an improvement in earnings quality and the group's financial position remains strong. The recommencement of dividend payments is a further positive. We leave underlying estimates unchanged following the announcement and believe the group's vision of making it easy for people to connect to the TV and Video they love is well attuned to the ongoing structural shifts in TV consumption.

- **Robust trading & revenue growth against a challenging backdrop:** Against a backdrop of COVID-19, supply chain issues (China) and market uncertainty, the release confirms that trading has been robust. At approximately $83m, FY 20E revenue is c8% higher than FY 19A.
- **Improved earnings quality:** Software revenues grew to $20m during the year (+c50% YoY). Revenue visibility also improved, with exit Annual Recurring run rate Revenue of approximately $11m (vs $9.5m FY 19A).
- **Net cash position strengthened:** The group closed FY 20E with a net cash position of $9.4m and no debt. This is ahead of our $9.2m forecast and represents an impressive improvement on the $1.4m FY 19A level and demonstrates that the group's financial position remains robust.
- **New dividend policy:** The release heralds management's intention to pay between 33% and 50% of adjusted EPS as dividends, starting with a final FY 20E dividend at the lower end of this range. Against the backdrop of ongoing COVID-19-driven macroeconomic uncertainty, we believe this signals management's confidence in the group's prospects.
- **Refreshed investment case:** The global TV industry continues to experience an ongoing shift away from traditional linear delivery to a hybrid Pay TV/OTT model. We believe the group's recent strategy refresh positions Amino at the sweet spot of industry turbulence. Its End-to-End ("E2E") multi-screen TV and video solutions directly address market needs, allowing both Pay TV and OTT operators to improve their competitive positioning. The Amino investment case is underpinned by the group's strong financial position and our expectation of a growing dividend.

FYE NOV ($M)	2017	2018	2019	2020E	2021E
Revenue	96.1	88.9	77.2	83.0	82.6
Adj EBITDA	20.5	16.8	14.8	19.2	20.0
Fully Adj PBT	15.2	11.2	9.4	11.3	12.1
Fully Adj EPS (c)	20.9	15.5	11.6	13.2	14.1
EV/EBITDA (x)	5.0x	6.1x	6.9x	5.3x	5.1x
PER (x)	7.0x	9.5x	12.6x	11.1x	10.4x
Dividend yield	5.8%	6.4%	1.5%	3.8%	4.0%

Source: Company Information and Progressive Equity Research estimates

Refreshed investment case

As just a cursory read of the trade press will testify, the global TV industry continues to experience seismic change. Legacy Pay TV operators continue to suffer from "cord-cutting" (customer churn) as Over-The-Top ("OTT") operators make ongoing gains in consumer wallet share. In this new world where the consumer is more powerful than ever before, Amino, in our view, sits at the sweet spot of TV industry turbulence. Its End-to-End ("E2E") multi-screen TV and video solutions allow both Pay TV and OTT operators to improve their competitive positioning. Management has recently refreshed the group's strategy to drive the next phase of growth, and we take this opportunity to present a revised Amino investment case. The group's vision and mission have been refocussed and additional market growth opportunities identified. The refreshed strategy places a stronger emphasis on new product development, particularly in software. Each of these areas are discussed below, and we would add that the investment case remains underpinned by the group's strong financial position and following today's announcement - a dividend growth story.

Vision & Mission

Amino's revised vision statement is "We make it easy for people to connect to the TV and Video they love on any screen, anytime, anywhere."

In our view the group's revised vision statement succinctly summarises two points that management has long understood: 1) Viewers want live TV and video streaming on any screen, anytime, anywhere. 2) The group's technology makes it possible for those who deliver TV – Pay TV operators, broadcasters and content owners – to stay ahead of these viewer demands, enabling greater audience engagement and profitable growth.

Amino's mission is "To be the leading technology innovator and trusted partner in delivering agile, effective and industry leading TV and video entertainment experiences".

As a pioneer in IPTV, we have long considered that Amino was ahead of the market in anytime, multi-screen TV and video delivery, which only began the to see mass take-up with the advent of DSL broadband access in the late 1990s/early 2000s. The group has a solid track record of producing innovative products. With over 250 clients globally, including blue-chip names, and high levels of repeat business, clearly the group is a trusted partner to many in delivering agile, effective and industry-leading TV and video experiences.

The structural shift in TV will create growth opportunities

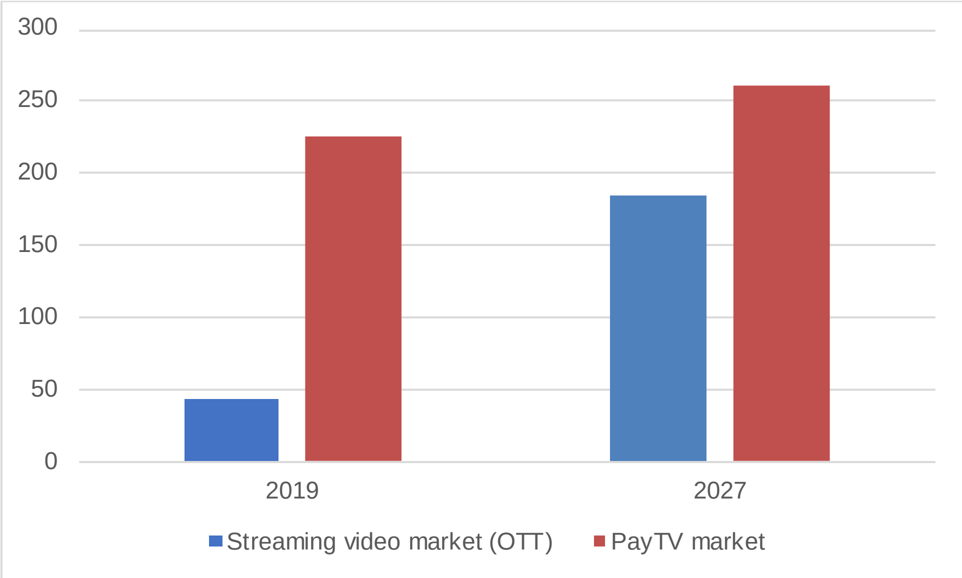
Over-The-Top ("OTT") TV services are services delivered through a proprietary Content Delivery Network ("CDN") over the public internet, rather than via a dedicated cable or satellite-based network deployed by traditional Pay TV service providers.

The arrival of OTT TV services and the associated advent of high-speed internet, cloud tv and video delivery platforms and increasingly smart access devices, has caused a structural shift in the global TV industry[1]. They have revolutionised TV in three key areas: 1) Consumers now have more power than ever before 2) A whole new industry of OTT service providers has emerged – e.g. Netflix and 3) legacy operators have been forced to dramatically change their business models.

[1] For further analysis of these key industry trends see Amino Technologies: Delivering Smarter Video Experiences: Progressive Equity Research 21 July 2020.

The following graphic compares industry growth forecasts in both OTT (streaming video) and Pay TV segments.

OTT and Pay TV market growth 2019 - 2027E (US$ bn)



Source: Grandview research

Clearly both segments are multi-billion dollar markets. As the graphic demonstrates, the Pay TV market is expected to report modest growth over the near future. However, the OTT TV streaming market is expected to grow at a significantly faster rate. According to industry analysts Grandview Research[2], the global OTT market is forecast to reach US$184bn annually by 2027, more than double the 2019 figure. In absolute value terms, the market is forecast to be annually c$140bn greater by the end of the period. Growth is expected to be driven both by new service launches and also growth in subscribers[3]. The overall Pay TV market is also expected to grow over the near term, albeit at a markedly lower rate, with Grandview also forecasting that the global Pay TV market to reach US$260bn by 2027.

The nature of OTT content delivery brings a number of advantages to the consumer over traditional Pay TV services. Content can be consumed at any time, at any place on any device, typically at a lower price and without a long-term contract. Consumer power has therefore been greatly increased. **Amino serves both the OTT and Pay TV segments. In our view the group stands to benefit from growth in OTT, but also from legacy operators re-configuring their own business models to maintain their competitive positioning.**

[2] https://www.grandviewresearch.com/industry-analysis/video-streaming-market
[3] https://www.grandviewresearch.com/press-release/global-pay-television-tv-market

Amino has identified market needs

In order to best serve its global customer base and identify market needs, Amino undertook in-house market research in 2019 and 2020. In the 2020 survey, 87% of end-customer respondents revealed they subscribe to some form of Subscription Video on Demand ("SVOD") service (delivered OTT) and 57% to traditional Pay TV services. 51% of respondents were subscribing to both types of service. In summary, the survey found that end-customers want the best of both worlds; Viewers of SVOD content want Pay TV features. Pay TV subscribers want streaming features. We present some of the key findings below:

SVOD customers

- 88% of respondents said it is not as easy to change channels as it is with a remote control and Pay TV service
- 81% said there is so much content it takes forever to navigate and find what you want
- 76% feel that the quality of the service is never as good as traditional TV
- 57% reported that basic functionality like catch-up TV do not work very well

Pay TV customers

- 76% of respondents want streaming services fully aggregated
- 75% would prefer curation of channels and program titles
- 70% want to see flexible pricing options
- 68% have asked for easier content discovery

In summary, both types of customer want some of the key functionality of the other platform. In simple terms, both sets of customers want **Choice, Usability and Convenience**, regardless of their preferred TV delivery mechanism. To us, this suggests the future of TV is a hybrid of both business models and we believe this hybridisation will create growth opportunities for Amino, for example:

- On the Pay TV side, recent years have seen the rise of the so-called "super aggregators" i.e., pay TV operators who bundle SVOD services onto their platform, thereby extending the service offering and giving the consumer choice and convenience in one place. Sky TV in the UK is one example – in addition to its traditional Pay TV service delivered via satellite, its subscribers can also subscribe to Netflix and Discovery+ via their Sky TV package.
- On the OTT side, barriers to entry for new SVOD service providers are low, with suppliers such as Amino able to rapidly deliver turn-key E2E TV and video delivery platforms to content owners at relatively low cost. Furthermore, the space is dominated by three key players – Netflix, Disney+ and Amazon Prime. Faced with these twin competitive threats, SVOD operators turn to the likes of Amino to modernise their services, by launching complementary services such as multi-screen video and by improving their user interfaces.

As an aside, Amino has long understood the value of hybrid TV and video solutions. For example, back in 2010, the group launched the Freedom range of devices, which combined Digital Terrestrial TV and IPTV functionality.

Strategy for growth in place

Having identified market needs resulting from the structural shift in TV delivery, the group has a four-point strategy to drive growth:

- Focus new product development on software to further drive the business towards being software-led
- Expand margin through value-based investment
- Maintain strong cash levels
- Leverage the group's proven track record of market expansion organically & via M&A

Each of the four areas is discussed below.

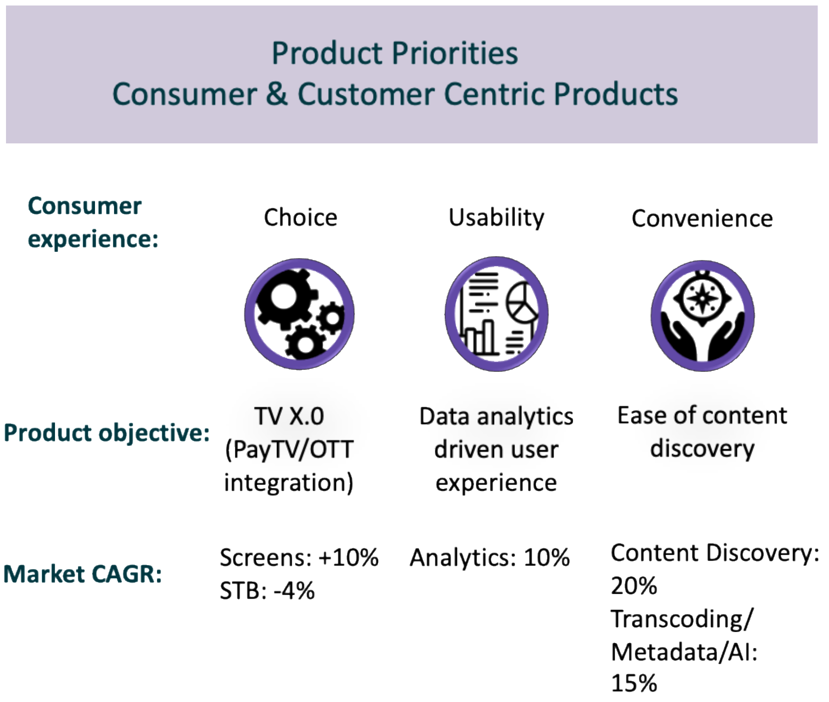
Focus new product development on software and ARR growth

Amino effectively has a B2B2C business model. As described in the group's new vision statement, its customers are Pay TV operators, broadcasters and content owners – i.e. enterprises. However, the ultimate consumer of the group's products and services – Amino's customers' customers – are primarily individuals and families.

The group's vision involves a clear focus on giving the consumer what they want – easy access to the TV and video content that they love. This consumer focus will give operators – Amino's direct customers - increased agility and flexibility to deliver the content their subscribers want, thereby maximising their chances of business success. Amino uses the term TV X.0 to refer to this concept - video delivery and consumption driven by consumer expectations.

As discussed on previous pages, management has identified market needs. Below that it has mapped the technology ecosystem and conducted product and market gap analysis. This analysis has been translated into a number of product development priorities, particularly in software, which will continue the group's move towards a software-centric model and drive further improvement in ARR. The new product development strategy has been conceptualised within the **Choice, Usability and Convenience** framework noted above, and is summarised in the following chart:

Amino Technologies – product development strategy



Source: Company materials

The importance of analytics

We believe that management has long understood the value of analytics, as evidenced by an analytics module being a core module of Amino OS Engage, the group's cloud-based suite of service assurance tools. Going forward, the development of new data analytics tools will become a strategic priority for the group. Amino plans to leverage its growing data lake and use customer insights contained therein to better understand customer needs to inform improvements to the user experience.

Move to software strategically sensible, solid progress already made

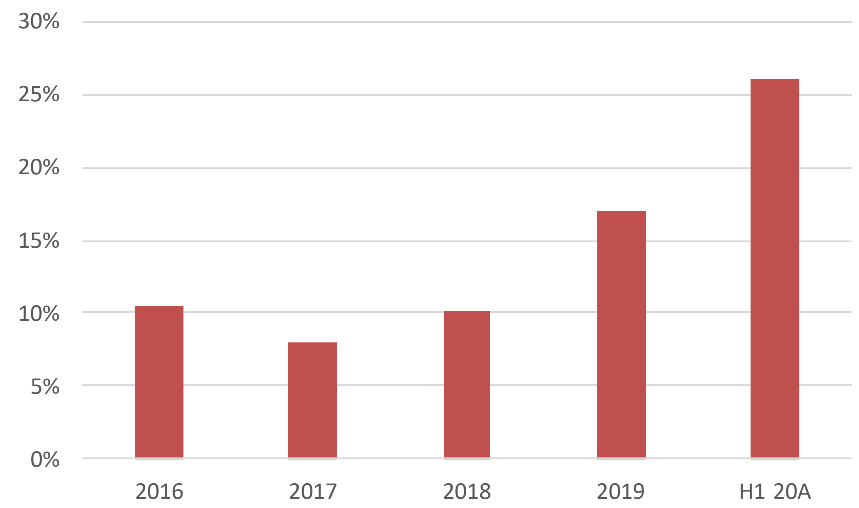
Having established the group's future plans to become a software-led business, it is useful to take a recap of the benefits of the transition to software and also the progress made to date.

Alongside the 2018 results (released in February 2019), Amino announced a three-part business transformation programme. The key components of the programme were to 1) increase software- led sales, 2) exit low-margin hardware supply and 3) implement a group-wide cost saving programme. We maintain our view that management has executed strongly in all three areas, and highlight that the transition away from commodity hardware to a software-led business has three key benefits:

- Software is a typically higher margin business than hardware supply.
- Increasing software sales in the business mix makes for improved revenue visibility.
- Software development costs do not scale with revenues, therefore generate significant operating leverage.

The following chart demonstrates progress made on transitioning the business. The contribution to group turnover from standalone software sales has demonstrated impressive growth over the recent past, with around a quarter of turnover being deriving from software. Furthermore, although hardware sales continue to represent a material part of the business, the group has reported declines in hardware sales over recent years – consistent with the exit from commodity hardware supply.

Amino Technologies – software exposure 2016A – H1 20A

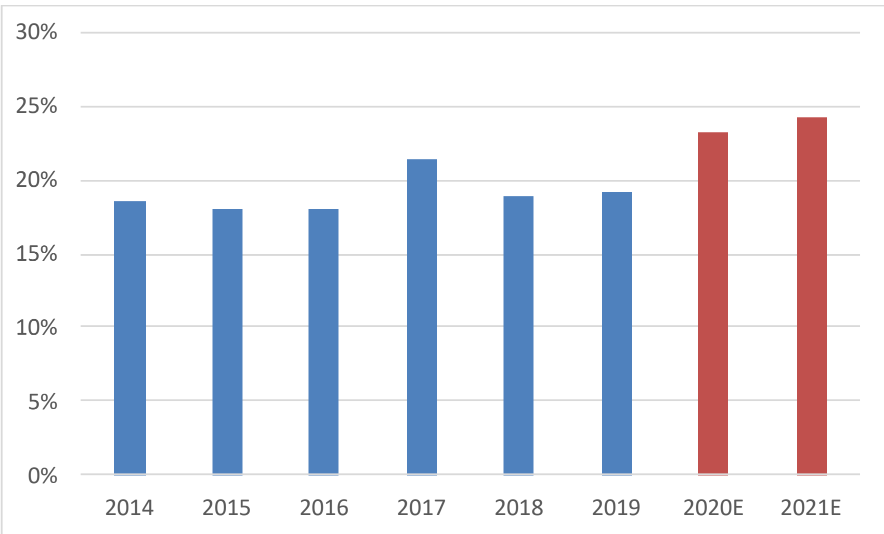


Source: Progressive Equity Research estimates

Expand margin through value-based investment

We see profitability as a core strength of the Amino Communications business. As demonstrated in the following chart, EBITDA margins have remained around the 20% level over the past six annual reporting periods.

Amino Technologies – EBITDA margin 2014 – 2020E



Source: Progressive Equity Research estimates

Over the timeframe shown, Amino has made a series of acquisitions and undertaken a strategic review involving a refocus of the business away from the historical core strength (devices) to a higher-quality revenue stream (software). Given these significant changes to the group, we view its ability to sustain margin levels as a core competence. Note, in our forecast years we expect an enhanced business mix from the move away from legacy hardware to continue to drive improvement in margin.

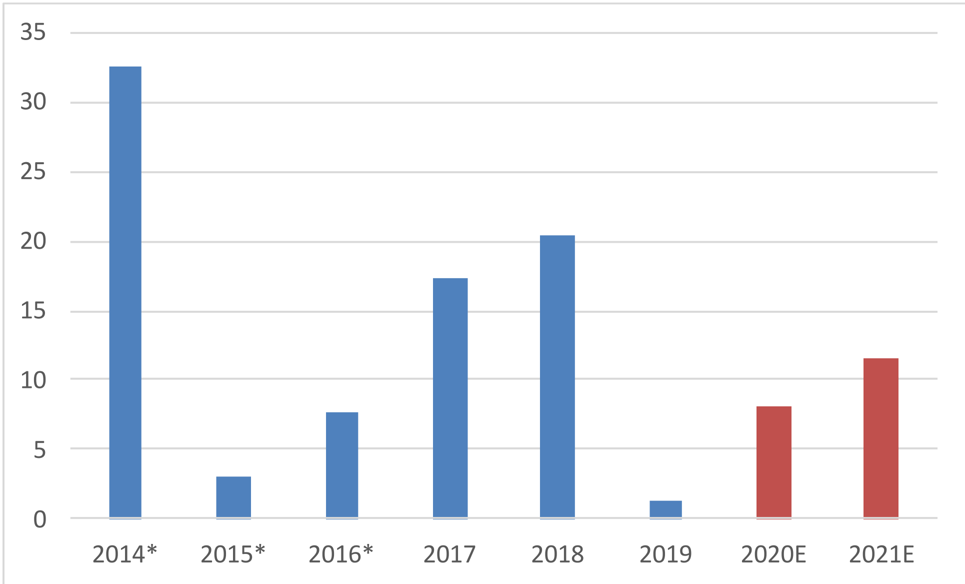
Alongside the solid margin performance, the group continues to invest in the business. FY 19A capitalised development costs of $4.1m represented 5.3% of revenue. In addition, $8.7m of R&D spend was charged to the P&L during 2019, making for a total spend of $12.1m during the year ($11m FY 2018A). Clearly there are arguments for and against investment in R&D. In financial terms, the investment impacts near-terms margins and cash flow (bad). The counter argument (our preference) is that R&D supports future growth and profitability in the business (good). Depending on the nature of the spend, it can also receive tax credits from HM Government.

Given the group's strong track record of sustained margins, combined with the fact that the business operates in competitive, fast-moving markets where innovation is key, we believe sustaining R&D spend to be a strategically sensible move for the group. Furthermore, as discussed above, a key element of the group's strategy is to leverage innovative product development.

Maintain strong cash levels

As we have noted in previous research reports[4], margin and cash flow have long been a core Amino strength. Below we present a recent history of the group's net cash position.

Amino Technologies – Net cash position 2014 – 2021E (US$ m)



Source: Progressive Equity Research
** Originally reported in GBP. Converted to USD at the prevailing year-end rate*

[4] See Amino Technologies: Reassurance on the FY 2019E outcome PERL 09/12/20

Although the chart shows fluctuation in the actual levels, Amino has maintained a positive net cash position over the recent past. In addition to de-risking the business, clients typically place importance on the strength of the financial position of their suppliers. Given our cash flow expectations (detailed on page ten), we expect the group's financial position to further improve over our visible forecast period.

Proven track record of market expansion organically & via M&A

As discussed above, we believe the group has identified areas with strong potential to drive organic growth. Amino's E2E TV and video delivery capability allow both OTT clients and Pay TV clients to improve their competitive positioning and grow their businesses.

In our view the group also has a solid track record of non-organic growth via successful M&A. Below we present some of the recent highlights:

Amino Technologies – recent M&A transactions

Date	Business	Location	Type	Consideration
Jul-19	24i	Netherlands	Software	E24.1m
Aug-15	Entone	USA	Hardware	£46.7m
May-15	Booxmedia	Finland	Software	E7.9m

Source: Progressive Equity Research

The 24i and Entone deals were undoubtedly transformational for the group. The former is a purely software business and brought new products and customers to the group. The latter brought scale and new technology for the hardware business. Booxmedia was a much smaller deal and perhaps less revolutionary. However, it filled a key capability gap – the ability to deliver TV anywhere.

Financials

Following today's announcement, we have adjusted our model to reflect the $83m revenue and $9.4m net cash figures disclosed.

We have also made assumptions on dividend payments for FY 20A and FY 21E.

Other than these amendments, our underlying forecasts are unchanged. However, the increased dividend payments reduce expectations of the FY 21E net cash position (previously $19.0m)

Conclusions

To quote the World Bank, COVID-19 has caused the deepest global recession in decades[5]. Against this backdrop, Amino has delivered a robust trading performance, improved earnings quality and announced the recommencement of dividend payments.

Amino's refreshed vision statement is - "We make it easy for people to connect to the TV and Video they love on any screen, anytime, anywhere." The revised mission statement is "To be the leading technology innovator and trusted partner in delivering agile, effective and industry leading TV and video entertainment experiences". The group's revised strategy and investment case give confidence in the group's ability to deliver growth and reach its targets. We leave readers with following key conclusions from this report:

- The global TV market is experiencing an ongoing shift towards a hybrid future. Serving both the OTT and Pay TV segments. Amino therefore stands to benefit from growth in OTT, but also from legacy operators re-configuring their own business models to maintain their competitive positioning.
- Amino has identified key areas of market need: End-users want the best of both worlds; Viewers of SVOD content want Pay TV features. Pay TV subscribers want streaming features.
- With these first two points in mind, Amino has a four-point strategy to drive growth: 1) Focus new product development on software to further drive the business towards being software-led 2) Expand margin through value-based investment 3) Maintain strong cash levels and 4) Leverage the group's proven track record of market expansion organically & via M&A.

[5] https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world

Financial Summary: Amino Technologies

Year end: November ($m unless shown)

PROFIT & LOSS	**2017**	**2018**	**2019**	**2020E**	**2021E**
Revenue	96.1	88.9	77.2	83.0	82.6
Adj EBITDA	20.5	16.8	14.8	19.2	20.0
Adj EBIT	15.1	11.2	10.2	11.5	12.3
Reported PBT	13.3	7.7	3.5	6.7	8.0
Fully Adj PBT	15.2	11.2	9.4	11.3	12.1
NOPAT	15.1	11.2	10.2	11.5	12.3
Reported EPS (c)	20.8	10.7	3.8	7.6	8.9
Fully Adj EPS (c)	20.9	15.5	11.6	13.2	14.1
Dividend per share (p)	6.7	7.3	1.7	4.4	4.7
CASH FLOW & BALANCE SHEET	**2017**	**2018**	**2019**	**2020E**	**2021E**
Operating cash flow	22.2	14.3	13.8	16.6	19.0
Free Cash flow	15.3	9.5	8.5	8.8	10.8
FCF per share (c)	20.9	13.0	11.3	11.2	13.6
Capex	(6.3)	(4.8)	(4.2)	(6.5)	(7.0)
Acquisitions	(0.5)	0.0	(18.9)	(1.0)	(1.0)
Dividends	(5.6)	(6.8)	(6.9)	0.0	(6.3)
Net cash flow	9.6	2.9	(11.7)	0.8	3.5
Shares issued	0.0	0.0	0.0	0.0	0.0
Other movements	0.0	0.0	(7.2)	0.0	0.0
Net (Debt)/Cash	17.4	20.3	1.4	9.4	12.9
NAV AND RETURNS	**2017**	**2018**	**2019**	**2020E**	**2021E**
Net asset value	73.1	73.5	76.3	82.1	89.2
NAV/share (c)	99.6	100.9	101.3	104.0	112.9
Net Tangible Asset Value	0.8	1.0	1.2	1.4	1.6
NTAV/share (c)	1.1	1.4	1.6	1.8	2.1
Average equity	59.5	73.3	74.9	79.2	85.6
Post-tax ROE (%)	25.7%	10.6%	3.8%	7.3%	8.2%
METRICS		**2018**	**2019**	**2020E**	**2021E**
Revenue growth		(7.5%)	(13.2%)	7.5%	(0.5%)
Adj EBITDA growth		(18.3%)	(11.6%)	29.8%	3.8%
Adj EBIT growth		(25.9%)	(8.4%)	12.7%	6.4%
Adj PBT growth		(26.1%)	(16.3%)	20.8%	6.5%
Adj EPS growth		(26.1%)	(25.0%)	14.1%	6.5%
Dividend growth		9.9%	(77.0%)	159.9%	6.5%
Adj EBIT margins		12.5%	13.2%	13.9%	14.8%
VALUATION	**2017**	**2018**	**2019**	**2020E**	**2021E**
EV/Sales (x)	1.1	1.1	1.3	1.2	1.2
EV/EBITDA (x)	5.0	6.1	6.9	5.3	5.1
EV/NOPAT (x)	6.8	9.1	10.0	8.8	8.3
PER (x)	7.0	9.5	12.6	11.1	10.4
Dividend yield	5.8%	6.4%	1.5%	3.8%	4.0%
FCF yield	14.3%	8.9%	7.7%	7.6%	9.3%

Source: Company information and Progressive Equity Research estimates

8 December 2020

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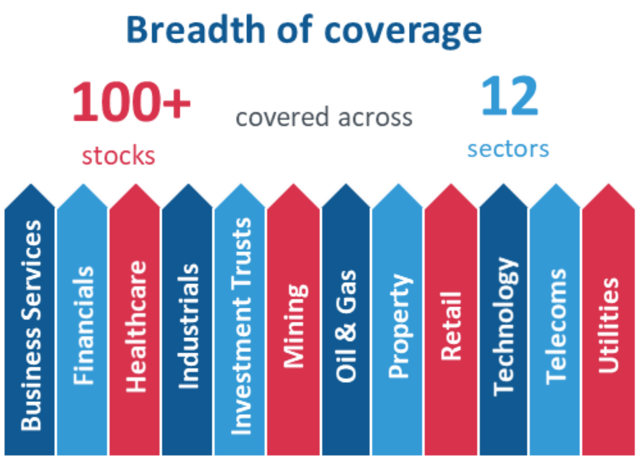

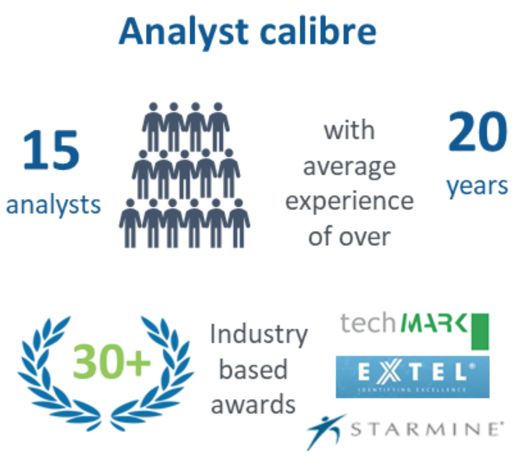

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