Progressive EQUITY RESEARCH

AMINO TECHNOLOGIES

SOFTWARE AND COMPUTER SERVICES

9 February 2021

AMO.L

135p

Market Cap: £102.6m

SHARE PRICE (p)

12m high/low	152p/110p

Source: LSE Data

KEY DATA

Net (Debt)/Cash	$9.5m *(at 30/11/20)*
Enterprise value	£95.2m
Index/market	AIM
Next news	AGM, March 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.aminotechnologies.com

AMINO TECHNOLOGIES IS A RESEARCH CLIENT OF PROGRESSIVE

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Growth in all 5 KPIs, despite COVID-19

Amino's FY 20A results release (year-ending November 2020) confirms that the business performed strongly against a backdrop of COVID-19 driven challenges. All five of management's KPIs improved during the year, once again demonstrating both Amino's resilience and the benefits of the group's transition to a software-led business model. Management commentary on the outlook is positive, the dividend policy has been re-affirmed and the group's financial position remains robust. We leave underlying FY 21E estimates unchanged following the announcement while introducing FY 22E forecasts. Overall, we continue to believe that Amino is strongly positioned to capture growth opportunities resulting from structural shifts in the global TV industry, particularly the convergence of PayTV and streaming services.

- **FY 20A results: Resilience against the COVID-19 backdrop:** As signalled in the December 2020 trading update, FY 20A revenue was confirmed at $82.7m +7% YoY. Software revenues were once again the standout performer, growing 49% during the year to $19.5m. Adjusted operating profit of $10.5m represents a c3% improvement on FY 19A. Although this was behind our $11.5m forecast, we believe this is a solid performance given the prevailing global business environment during 2020.

- **Positive outlook:** Amino enters FY 21E with a "solid" order book and the business is trading in line with management's expectations during the early part of the current financial year. The release also signals management's expectation that organic growth will be complemented with selective M&A activity.

- **Financial position remains strong:** The group closed FY 20A with a net cash position of $9.5m. This represents an $8.1m improvement on FY 19A and in our view highlights the group's robust financial position.

- **Dividend policy re-affirmed:** The Board has recommended a final dividend of 1.87p/share and re-affirmed its intention to pay between 33% and 50% of adjusted EPS as dividends. Against the backdrop of ongoing COVID-19-driven macroeconomic uncertainty, we believe this is a further sign of management's confidence in the group's prospects.

- **Underlying FY 21E estimates unchanged:** We leave underlying FY 21E estimates unchanged following the announcement but reduce EPS by 5.7% reflecting a revised assumption on the tax charge. We also introduce FY 22E forecasts.

FYE NOV ($M)	2018	2019	2020	2021E	2022E
Revenue	88.9	77.2	82.7	82.6	84.4
Adj EBITDA	16.8	14.8	16.7	20.0	21.2
Fully Adj PBT	11.2	9.4	9.8	12.1	13.3
Fully Adj EPS (c)	15.5	10.8	9.9	13.3	14.7
EV/EBITDA (x)	7.2x	8.2x	7.3x	6.1x	5.7x
PER (x)	11.1x	15.9x	17.4x	12.9x	11.7x
Dividend yield	5.4%	1.2%	1.4%	2.6%	2.8%

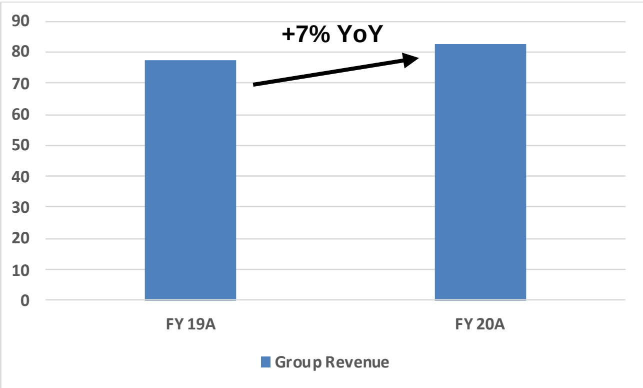
Source: Company Information and Progressive Equity Research estimates

FY 20A: Growth in all five KPIs

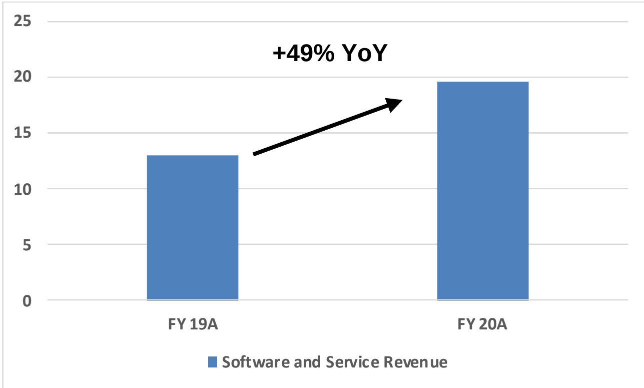
With the global economy having been significantly impacted by COVID-19 during 2020, we believe the delivery of growth in all five KPIs (six including total revenue) during FY 20A is a highly creditable performance. Below we present a graphical summary of each of metric.

Amino Technologies – KPI Dashboard

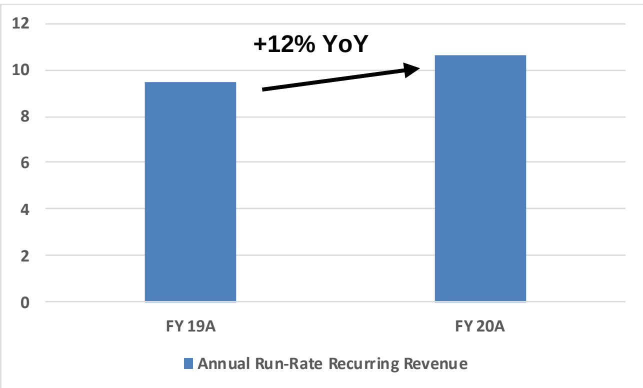
Total revenue ($m)



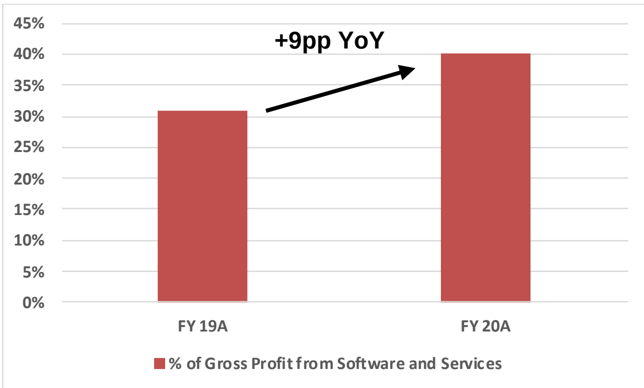
Software and services revenue ($m)



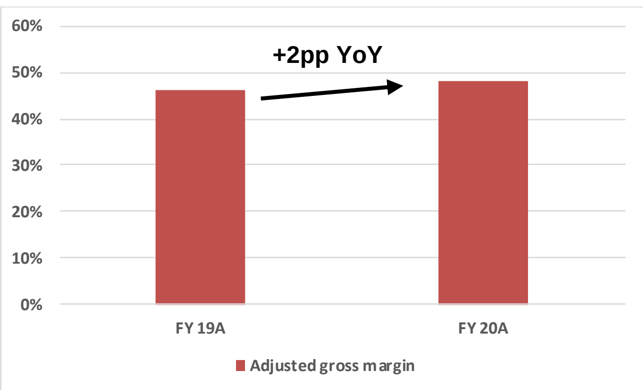
Exit annual run-rate recurring revenue ($m)



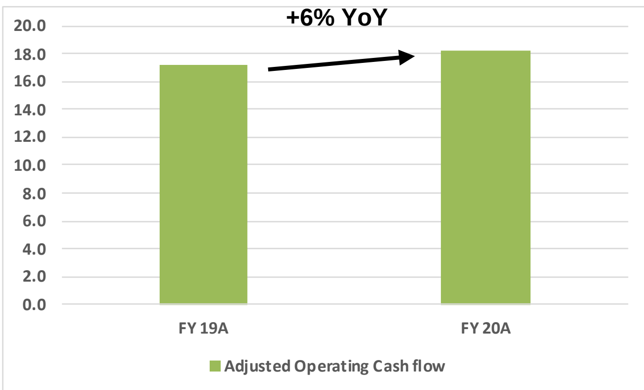
% of adj. gross profit from software & services (%)



Adjusted gross margin (%)



Adjusted operating cash flow ($m)



Source: Company Data

Overall, we believe the KPIs demonstrate an impressive improvement in both earnings quality and visibility. We highlight:

- Double-digital growth reported in software and services revenues (+49% YoY FY 20A). We note the uplift included both organic growth (*unquantified*) and the impact of the acquisition of 24i.
- Software and services revenues are higher gross margin than devices (81% vs 38% FY 20A) and 55% (FY 20A) of these sales are recurring in nature.
- This ongoing shift to a software-led business model was the key driver of a 2pp YoY improvement in gross margin at the group level, with software and services now contributing 40% of adjusted gross profit.
- Improved revenue visibility from growth in recurring revenue. Exit run-rate Annual Recurring Revenue ("ARR") grew to £10.6m during the year ($9.5m FY 19A). Again, this is a function of pivoting the business model towards software. As the transition continues, we expect to see further growth in ARR.
- Adjusted operating cash flow grew 6% YoY. This represents EBITDA:cash conversion of 110%.

Delivering on the strategy

In our previous research report on Amnio[1], we outlined the key tenets of the group's Amino 2025 strategy, the aim of which is to capture growth opportunities arising from convergence of PayTV and streaming TV services. With the global TV streaming market expected to double by 2025 to $167bn, clearly the opportunity for Amino remains vast. Amino 2025 is built around the group's vision of making it easy for people to connect to the TV and video they love. Furthermore, the group's 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.

We believe the FY 20A results demonstrate that management is already executing against the strategy, noting:

- 49% growth in software and service revenues represents impressive progress in Amino's transformation towards being a software-led company. Over half of the group's software and services revenues are recurring, and furthermore, software and services sales now contribute 40% of group gross profit.
- New software and data-centric product launches are a key driver of the (ongoing) transition. The group launched a number of new software solutions during 2020, in both the 24i business and Amino Communications, which saw 69% YoY growth in the number of devices managed by the Engage SaaS Service Management service.
- In addition to organic growth from the existing business, M&A is expected to be a key growth driver. The FY 20A release contains no detail on the nature nor timing of any M&A activity. Nevertheless, we believe the level of coverage the topic receives in the announcement indicates that it is at the forefront of management's attention.
- With a closing FY 20A net cash position of $9.5m, clearly the group maintains a strong cash level.

[1] See Amino Technologies: Revenue beats pre-COVID expectations. PERL 08 December 2020.

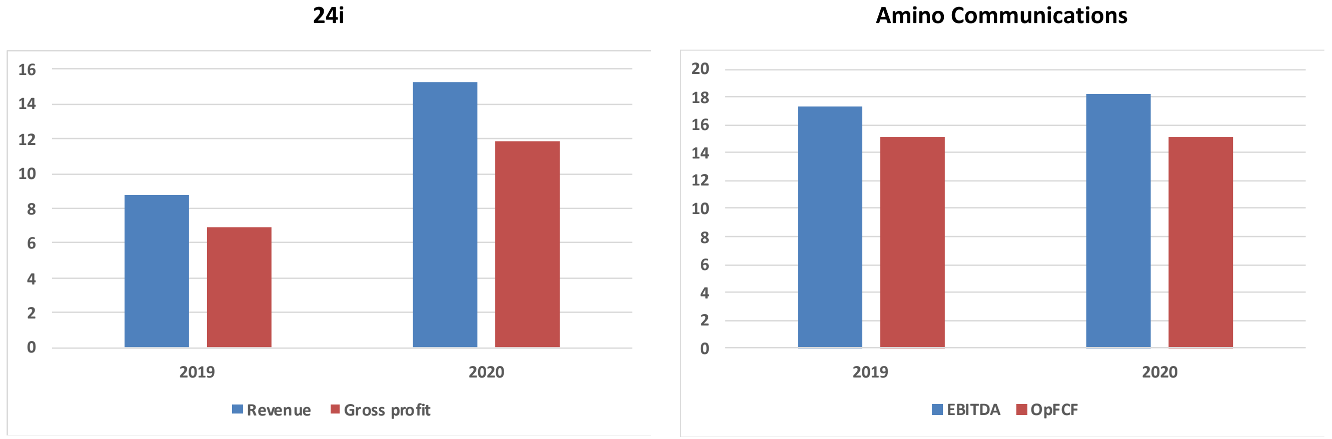
FY 20A: Divisional performance

Amino's segmental reporting reveals two key highlights:

- The 24i business *(18% turnover FY 20A, 3% of group adjusted EBITDA pre-central costs)* continues to deliver impressive growth, with high gross margins and has returned to positive EBITDA territory.
- Profitability and cash generation remain strong in the Amino Communications segment *(82% turnover FY 20A, 97% of adjusted EBITDA)*, despite the revenue impact from the ongoing move away from commodity hardware and the significant supply chain challenges faced during the year.

Both points are summarised in the following charts.

24i and Amino segmental performance ($m)



Source: Company Data

To recap, the Amino Technologies group contains two (in our view highly complementary) businesses. **24i** is purely software and services and includes the 24i Media business (online video specialist with competitive advantage in User Experiences and Interfaces – so called "UX/UI") and Amino Communications Oy (online video service) that was injected into 24i Media with the acquisition and rebranded as Smart Video. The **Amino Communications** segment reflects sales of AminoVU devices, related support, AminoOS middleware and the Amino SM device management platform.

24i delivered 73% and 72% YoY growth in revenue and gross profit respectively during FY 20A. Organic topline growth was 10% YoY, demonstrating the group 's ability to grow revenues from existing customers alongside new business wins. As will be further discussed in the regional performance section below, the unit made good operational progress during FY 20A, recording successes in both EMEA and the Americas.

Having reported EBITDA breakeven for FY 19A, the segment turned EBITDA positive during FY 20A, reflecting opex growing at a slower rate than turnover.

Profitability and cash generation in the **Amino Communications** segment continue to demonstrate the benefits of the group's strategic transformation program in our view. Revenue and cost of sales were broadly stable in FY 20A vs the FY 19A level. However, opex saw a material improvement (-$2.1m YoY). The release notes that $1.2m of costs in FY 20A were moved from operating expenses into depreciation and amortisation, and interest. As a result of the adoption of IFRS 16. In addition, unit performance benefitted from improved supply chain management. The Amino segment reported a 5% YoY improvement in segmental EBITDA, representing a 2pp margin improvement. We believe this is a highly creditable performance given the supply chain challenges the business faced during 2020; H1 was impacted by COVID-driven shutdowns in Chinese manufacturing. In H2 the business successfully managed component shortages and longer lead times on certain components.

FY 20A: Regional performance

EMEA (*47% turnover FY 20A*): Regional sales grew 25% YoY, EMEA is now the group's single largest region. 24i recorded a number of firsts during the year. Slovak Telecom became the first customer for the Next-gen Smart Apps platform launching in both Slovakia and the Czech Republic. Dutch MVNO Youfone became the first joint 24i/Amino deployment, combining Smart Apps, Smart Video and Amino STBs to deliver a true end-to-end ("E2E") Pay TV solution. The Amino business saw good demand from larger scale customers during the year, and strong sales from the regional distributor.

North America (*38% turnover FY 20A*): Regional revenue fell by 8% YoY, with demand in the Amino Communications segment being impacted by a decline in hospitality projects due to COVID-19 and lower device Average Selling Prices ("ASPs"), reflecting a change in business mix away from (higher price) PVRs to (lower price) Android devices.

On a more positive note, 24i helped customer Broadway HD to achieve record traffic and subscriber growth when partnerships with celebrities such as Hugh Jackman saw social media-driven "watch parties" of their content.

24i has also launched its Smart eco-system partnership program with pre-integrated partners such as Cleeng, Violabs, Xroad Media, Jump and CenturyLink. The business has also partnered with Verizon Media to deliver E2E streaming services.

Latin America (*14% turnover FY 20A*): Regional turnover grew by 8% YoY, with the release again citing good demand in the Amino Communications business from larger scale customers and strong sales from distributors.

Current trading and outlook

Highlights of management commentary on current trading and the outlook include:

- The group has started FY 21E in a position of "strength" and enters the current financial year with a "solid" order book.
- The business is trading in line with management's expectations during early FY 21E.
- Management continues to assess M&A to drive the business forward.
- Management has re-affirmed the policy of paying between 33-50% of adjusted EPS in dividends. This range will provide shareholders with a growing income stream whilst allowing the company to invest in growth.

COVID is accelerating TV industry convergence

In September 2020, Netflix CEO Reed Hastings claimed that COVID-19 was a “lucky break” for the business since it drove a surge in subscribers during 2020. By Q4 20, the business had 204 million subscribers globally. Disney+ reported it has reached 82m subscribers in December 2021, having achieved that figure in just over a year of operations. In comparison, the traditional PayTV industry continues to experience “cord-cutting” i.e. customer churn. In the key US market, the cable TV industry saw disconnection rates reach 15% in 2020, with forecasts of a significant increase in 2021[2]. To quote Tim Sims, Chief Revenue Officer of Adtech company The Trade Desk “*COVID has accelerated cord-cutting trends that were already underway…..It’s not because U.S. consumers have fallen out of love with TV, but that there are now more convenient ways of consuming it.”*

We believe the Sims comment is pertinent for Amino. Clearly the move away from linear (broadcast) TV towards streaming creates instability as consumer preferences shift away from linear TV delivery towards OTT streaming. We continue to believe Amino sits at the sweet spot of this turbulence and stands to be a beneficiary of the change in consumer behaviour. The group’s End-to-End (“E2E”) multi-screen TV and video solutions allow both Pay TV and OTT operators to improve their competitive positioning.

OFCOM’s recent Media Nations 2020 report[3] presents evidence of both the changes in consumer TV viewing preferences, and that COVID is accelerating the shift. OFCOM’s research shows that consumers are watching more TV across all video and streaming services, but also that demand remained firm once lockdown was eased. The report claims that “Lockdown prompted a surge in TV viewing that amplified the shift from broadcast to on-demand” with other key findings including:

- In April 2020, when the UK was in full lockdown, the average amount of time people spent watching audiovisual content increased to an estimated 6 hours 25 minutes per person per day, an hour and a half more than the average figure for 2019.
- Most of this viewing was on broadcaster television (an average of 3 hours 46 minutes a day watching live, recorded or on demand) – up by 32 minutes on 2019, with most of the increase due to news viewing.
- However, the greatest growth was in subscription video-on-demand (SVoD) services, such as Netflix, Amazon Prime Video and Disney+, with people in the UK watching an average of 1 hour 11 minutes a day on these services in April 2020 – 37 minutes higher than in 2019. Young adults aged 16-34 watched these services for two hours a day on average.
- As lockdown measures eased later in the year, broadcast TV viewing fell, but by the end of June was still 11% higher than in the same week in 2019. However, TV set viewing of SVoD and other non- broadcaster content (including YouTube and video games) retained much of its lockdown uplift and was up 71% YoY in the last week of June.

[2] https://www.forbes.com/sites/dbloom/2021/01/12/cord-cutting-to-accelerate-in-2021-with-27-percent-of-cable-households-disconnecting/?sh=589c578b3a6e
[3] https://www.ofcom.org.uk/research-and-data/tv-radio-and-on-demand/media-nations-reports/media-nations-2020

Financials

- FY 20A revenue of $82.7m is consistent with the level disclosed in the December 2019 trading statement. However, adjusted operating profit of $10.5m was behind our $11.5m forecast. Investment levels in both business segments were higher than we had forecast.
- We leave underlying FY 21E estimates unchanged following the announcement. Revenue, adjusted EBITDA and adjusted PBT are unaltered from previously published figures. *(See Amino Technologies: Revenue beats pre-COVID expectations. PERL 08 December 2020).* We have revised our expectations of the FY 21E tax charge, this is the cause of the 5.7% reduction in our FY 21E adjusted EPS forecast.
- We have also reduced our FY 21E DPS forecast (now 3.4p previously 4.4p), but in offset assumed a high working capital requirement to protect against inventory shortages. The net result is a $0.7m improvement in our FY21E closing net cash forecast to $13.6m.
- In addition, we introduce FY 22E estimates for the first time and these are detailed overleaf. In both forecast years we expect 24i to be the key driver of topline growth. With 24i having inherently higher gross margins than the Amino Communications business, we forecast the change in business mix towards software to benefit gross profit at the group level.
- The Amino Communications business has been stabilising over the past two years. We expect this unit to remain the primary EBITDA contributor over our forecast period.

Financial Summary: Amino Technologies

Year end: November ($m unless shown)

PROFIT & LOSS	**2018**	**2019**	**2020**	**2021E**	**2022E**
Revenue	88.9	77.2	82.7	82.6	84.4
Adj EBITDA	16.8	14.8	16.7	20.0	21.2
Adj EBIT	11.2	10.2	10.5	12.3	13.5
Reported PBT	7.7	3.5	4.4	8.0	9.2
Fully Adj PBT	11.2	9.4	9.8	12.1	13.3
NOPAT	11.2	10.2	10.5	12.3	13.5
Reported EPS (c)	10.7	4.0	4.0	8.1	9.5
Fully Adj EPS (c)	15.5	10.8	9.9	13.3	14.7
Dividend per share (p)	7.3	1.7	1.9	3.4	3.8
CASH FLOW & BALANCE SHEET	**2018**	**2019**	**2020**	**2021E**	**2022E**
Operating cash flow	14.3	13.8	16.4	18.0	19.2
Free Cash flow	9.5	8.5	8.9	9.2	10.3
FCF per share (c)	13.0	11.3	11.5	11.6	13.0
Capex	(4.8)	(4.2)	(5.8)	(7.0)	(7.0)
Acquisitions	0.0	(18.9)	(0.2)	(1.0)	(1.0)
Dividends	(6.8)	(6.9)	0.0	(4.1)	(4.5)
Net cash flow	2.9	(11.7)	0.9	4.1	4.8
Shares issued	0.0	0.0	0.0	0.0	0.0
Other movements	0.0	0.0	0.0	0.0	0.0
Net (Debt)/Cash	20.3	1.4	9.5	13.6	18.4
NAV AND RETURNS	**2018**	**2019**	**2020**	**2021E**	**2022E**
Net asset value	73.5	76.3	79.0	85.4	92.9
NAV/share (c)	100.9	101.3	101.7	108.1	117.6
Net Tangible Asset Value	1.0	1.2	1.4	1.6	1.8
NTAV/share (c)	1.4	1.6	1.9	2.1	2.3
Average equity	73.3	74.9	77.7	82.2	89.1
Post-tax ROE (%)	10.6%	3.8%	3.4%	7.8%	8.4%
METRICS		**2019**	**2020**	**2021E**	**2022E**
Revenue growth		(13.2%)	7.1%	(0.1%)	2.2%
Adj EBITDA growth		(11.6%)	12.8%	19.5%	6.3%
Adj EBIT growth		(8.4%)	2.5%	17.0%	10.2%
Adj PBT growth		(16.3%)	4.3%	23.4%	10.4%
Adj EPS growth		(30.1%)	(8.7%)	34.7%	10.4%
Dividend growth		(77.0%)	11.3%	84.3%	10.4%
Adj EBIT margins		13.2%	12.7%	14.8%	16.0%
VALUATION	**2018**	**2019**	**2020**	**2021E**	**2022E**
EV/Sales (x)	1.4	1.6	1.5	1.5	1.4
EV/EBITDA (x)	7.2	8.2	7.3	6.1	5.7
EV/NOPAT (x)	10.9	11.8	11.6	9.9	9.0
PER (x)	11.1	15.9	17.4	12.9	11.7
Dividend yield	5.4%	1.2%	1.4%	2.6%	2.8%
FCF yield	7.6%	6.6%	6.7%	6.8%	7.6%

Source: Company information and Progressive Equity Research estimates

Progressive EQUITY RESEARCH

9 February 2021

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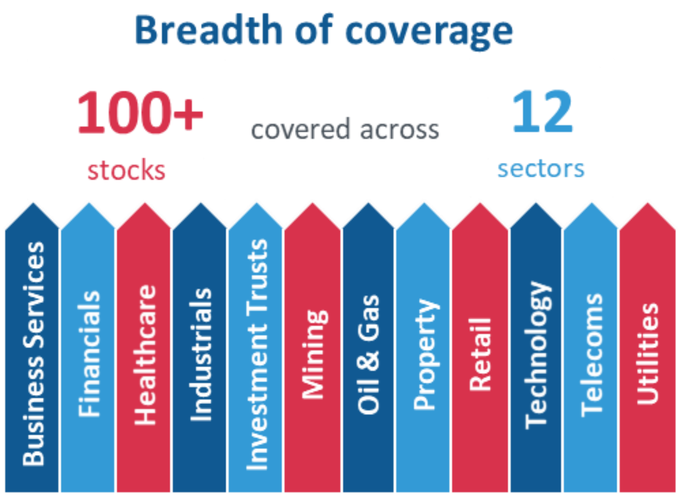

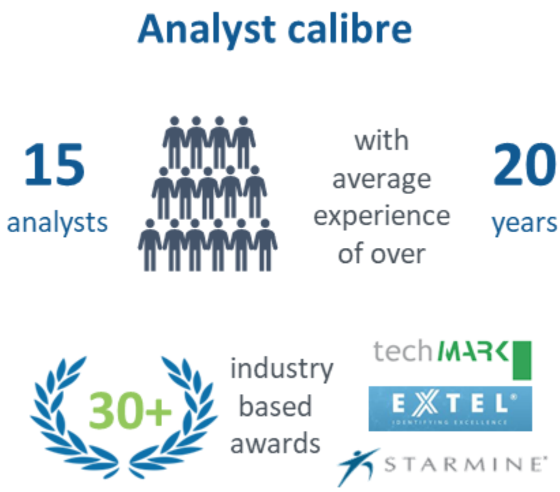

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