

ZOO DIGITAL

SOFTWARE & COMPUTER SERVICES

25 April 2022

ZOO.L

127p

Market Cap: £111.7m

SHARE PRICE (p)



12m high/low

147p/96p

Source: LSE Data (priced as at prior close)

KEY DATA

Net (Debt)/Cash	\$(3.2)m (at 31/03/22)
Enterprise value	£117.5m
Index/market	AIM
Next news	Interims, Nov 2022
Shares in Issue (m)	88.3
Chairman	Gillian Wilmot
Chief Executive	Stuart Green
Finance Director	Phillip Blundell

COMPANY DESCRIPTION

ZOO Digital provides subtitling and dubbing technology and services to producers of TV series and feature films

www.zoodigital.com

ZOO DIGITAL IS A RESEARCH CLIENT OF
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\$100m revenue target within reach

ZOO has provided a brief but very positive trading update ahead of its AGM. H1 23 is expected to be ahead of guidance with revenue of at least \$51m, up at least 89% on H1 22 (\$26.9m) and 17% on H2 22 (£43.5m), and a considerable increase in EBITDA given operational gearing. We are therefore upgrading our FY23 and FY24 estimates, having increased confidence that ZOO will exceed its \$100m revenue target in FY24E, with scope to achieve it this financial year if momentum continues. Strong revenue growth is driven by new production returning to pre-Covid levels and significant growth from territory launches, boosted by the well-timed roll-out of ZOO's strategic hubs and continuing back-catalogue migration.

- **Significant upgrades to FY23 and FY24.** Given positive momentum and operational efficiencies, we increase FY23E revenue by 18% to \$94.5m and adjusted EBITDA by 26% to \$12.0m. We also raise FY24E revenue by 21% to \$109.2m and adjusted EBITDA by 41% to \$16.2m. We forecast \$11m net cash at the year-end despite continuing investment for growth.
- **Drivers of performance.** There has been an expansion in orders for localisation and media services around new original titles, and ZOO has recently scaled its operations to meet this demand. Management notes 'an increase in monthly regular orders', and at the interims we expect significant growth for ZOOdubs, versus only \$3m of revenue in H1 21.
- **Regional hubs exceeded expectations.** ZOO has established regional hubs in strategic international locations to bolster its global offering, and the group is now expanding its capabilities to meet the demand from its global customers. We see further opportunities in Asia-Pacific and Europe for ZOO to grow its regional presence.
- **Key themes at IBC play into ZOO's strengths.** We recently attended the IBC (International Broadcast Convention). The key themes were: (1) cloud importance increasing, (2) creator content being more mainstream and (3) green credentials and reducing the carbon footprint of content creation, storage and delivery. ZOO delivers on these themes, with cloud-based delivery of dubbing in particular setting it apart from competitors.

ZOO looks set to deliver an even stronger H1 23 than we had expected. We hope that coming months will see both greater clarity on customer roll-out plans, and potentially the extension of existing client relationships. Given these positive dynamics, ZOO appears well-placed to deliver its medium-term target of \$100m revenue in FY24E, and potentially in FY23E if current momentum continues.

FYE MAR (\$M)	2020	2021	2022	2023E	2024E
Revenue	29.8	39.5	70.4	94.5	109.2
Adj EBITDA	2.1	4.5	8.3	12.0	16.2
Fully Adj PBT	-1.0	0.9	3.1	6.6	10.6
Fully Adj EPS (c)	-1.2	1.0	2.9	7.2	11.3
EV/Sales (x)	4.5x	3.4x	1.9x	1.4x	1.2x
EV/EBITDA (x)	62.7x	29.5x	16.1x	11.9x	8.9x
PER (x)	N/A	138.9x	50.3x	20.2x	12.9x

Source: Company Information and Progressive Equity Research estimates.

This publication should not be seen as an inducement under MiFID II regulations.

Please refer to important disclosures at the end of the document.

Material upgrades to estimates

We increase FY23E revenue by 18% to \$94.5m with adjusted EBITDA up by 26% at \$12.0m. For FY24E we raise revenue by 21% to \$109.2m and adjusted EBITDA by 41% to \$16.2m. We believe that the current significant investment for growth will begin to level off during FY23 and expect a significant uptick in profitability from this point.

ZOO Digital – Estimate changes

\$m unless stated	FY23E			FY24E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	80.0	94.5	18%	90.2	109.2	21%
Adj EBITDA	9.5	12.0	26%	11.5	16.2	41%
Fully adj PBT	4.1	6.6	61%	6.4	10.6	65%
Fully adj EPS (c)	3.8	7.2	89%	6.2	11.3	82%

Source: Progressive Equity Research estimates

Geographical roll-outs key growth driver

New geographies are a significant contributing factor to the strong performance in H1, benefitting from recent regional launches from ZOO’s clients in Southeast Asia, Central and Eastern Europe, the Middle East and Africa. ZOO progressed a well-timed roll-out of regional hubs throughout FY21, with launches to date including ZOO Turkey, ZOO Korea, ZOO India and ZOO Denmark. We see further opportunities in Asia-Pacific and Europe. There is a clear shift towards an international audience, as highlighted by the projections from Netflix below.

Estimated Netflix international versus domestic growth



Source: MoffetNathanson

Growth drivers

ZOO has good penetration with one of the major streaming players and is forging relationships with other major players that have lagged in terms of their streaming and international proposition. Customer roll-outs of new territories and new clients can lead to material projects with quick lead times.

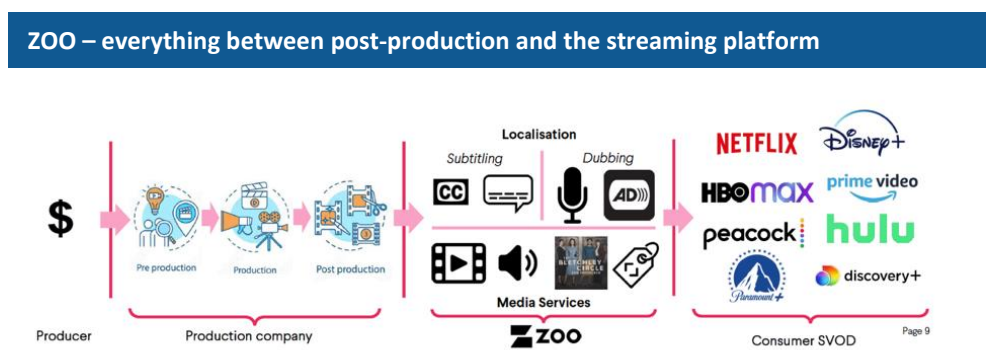
We also see a big push towards ad-funded streaming (Netflix and others). This requires ad-break coding in the digital files, which creates additional work for ZOO's Media Services. In addition, FAST (Free Ad-supported Streaming Television) is a growing area. It is similar to linear TV but internet-based with ad breaks that cannot be avoided. The cost of delivery over the web is low and we see scope for creation of high quantities of niche content.

Key themes from IBC (International Broadcast Convention)

We recently attended the IBC (International Broadcast Convention), one of two world-leading media technology shows. The key themes were: (1) the cloud becoming increasingly acceptable for even relatively mission-critical applications, (2) creators' content such as TikTok, Youtube and Instagram becoming ever more mainstream and (3) green credentials becoming more important as large organisations look to reduce their carbon footprint.

ZOO clearly sits well with each of these themes. Cloud-based delivery of dubbing in particular sets ZOO apart from its competitors. Additional content of all types can drive demand for localisation. In our view, the transformative nature of ZOOdubs in terms of carbon footprint will carry more favour with studios wanting to avoid flying voice actors and others to locations when remote-working and local studios can be as effective.

ZOO's 'end-to-end' provision and capability puts it in a relatively small group of competitors whose services are becoming increasingly prized by the streaming providers, which generally lack the required in-house capabilities and scale.



Source: Company, Progressive Equity Research estimates

Conclusion

Having significantly scaled up operations, including people, office space and IT, we believe that ZOO is in a position to double revenues from its current cost base and is entering a profitable growth phase. ZOO is well-placed to deliver its medium-term target of \$100m revenue in FY24E, and potentially in FY23E if current momentum continues.

Financial Summary: Zoo Digital

Year end: March (US\$m unless shown)

	2020	2021	2022	2023E	2024E
PROFIT & LOSS					
Revenue	29.8	39.5	70.4	94.5	109.2
Adj EBITDA	2.1	4.5	8.3	12.0	16.2
Adj EBIT	(0.3)	1.6	3.7	7.1	11.1
Reported PBT	0.0	(3.6)	1.1	6.6	10.6
Fully Adj PBT	(1.0)	0.9	3.1	6.6	10.6
NOPAT	(0.3)	1.4	3.1	5.7	9.0
Reported EPS (c)	0.4	(4.2)	1.5	7.9	12.4
Fully Adj EPS (c)	(1.2)	1.0	2.9	7.2	11.3
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0
CASH FLOW & BALANCE SHEET					
Operating cash flow	1.0	6.3	5.2	11.5	15.8
Free Cash flow	0.3	4.1	0.8	5.2	7.5
FCF per share (c)	0.4	5.4	0.9	5.4	7.7
Acquisitions	0.0	0.0	(3.0)	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Shares issued	0.0	0.1	10.1	0.0	0.0
Net cash flow	(0.9)	1.8	3.0	5.2	7.5
Overdrafts / borrowings	(8.0)	(11.2)	(9.1)	(7.8)	(6.5)
Cash & equivalents	1.2	2.9	6.0	11.2	18.6
Net (Debt)/Cash	(6.8)	(8.3)	(3.2)	11.2	18.6
NAV AND RETURNS					
Net asset value	5.3	7.6	27.7	33.3	44.2
NAV/share (c)	7.1	10.2	32.6	37.6	50.1
Net Tangible Asset Value	3.6	4.4	13.3	13.6	15.7
NTAV/share (c)	4.9	5.8	15.7	15.4	17.8
Average equity	5.3	7.6	27.7	29.8	38.7
Post-tax ROE (%)	6.0%	(41.7%)	4.8%	15.1%	17.5%
METRICS					
Revenue growth	3.4%	32.7%	78.1%	34.2%	15.6%
Adj EBITDA growth	427.9%	112.1%	83.6%	44.5%	34.5%
Adj EBIT growth	(71.6%)	(638.8%)	127.1%	93.9%	56.1%
Adj PBT growth	(52.9%)	(193.6%)	244.7%	110.1%	60.4%
Adj EPS growth	(28.5%)	(186.6%)	176.2%	151.9%	56.9%
Dividend growth	N/A	N/A	N/A	N/A	N/A
Adj EBIT margins	(1.0%)	4.1%	5.2%	7.5%	10.1%
VALUATION					
EV/Sales (x)	4.5	3.4	1.9	1.4	1.2
EV/EBITDA (x)	62.7	29.5	16.1	11.9	8.9
EV/NOPAT (x)	-448.0	97.8	42.8	24.9	16.00
PER (x)	N/A	138.9	50.3	20.2	12.9
Dividend yield	N/A	N/A	N/A	N/A	N/A
FCF yield	0.3%	3.8%	0.6%	3.7%	5.3%

Source: Company information and Progressive Equity Research estimates

Disclaimers and Disclosures

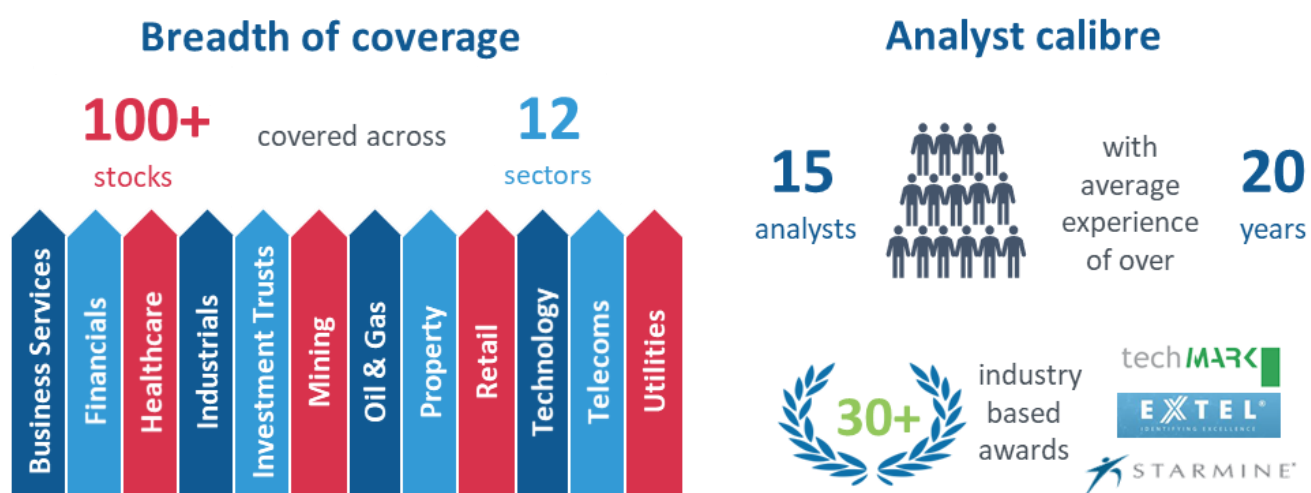
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