

ZOO Digital Group



Interim Results

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6 December 2011

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Interim Results

- Revenue declined to \$5.9m (2010: \$8.1m)
- Operating loss \$1.1m (2010: \$0.9m profit)
- Operating cash outflow of \$0.1m (2010: inflow \$0.7m)
- Cash balance at 30 September 2011 \$1.5m (2010: \$1.9m)

Changes in the Entertainment Market – The Decline of DVD



- Current economic environment accelerating changes in the industry
- Much of ZOO's revenues in last few years linked to DVD title production, mostly episodic TV
- Since the summer many TV based DVD products have been cancelled
- This is evident across all major video publishers
- Caused primarily by consumer shift from sell-through to rental
- Although DVD sales have been dwindling for some time, the TV decline has been sudden

Changes in the Entertainment Market – Growth of Blu-ray and Electronic Sell Through



- Our systems are producing more Blu-ray titles – consistent with growth in the Blu-ray market
(Digital Entertainment Group: in Q3 overall consumer spending increased for the first time since 2008, with Blu-ray up 58%)
- Similarly processed more EST titles
- Growth here promising but not yet sufficient to offset DVD decline
- Still processing high proportion of major customer's titles



Steps Taken by Management

- Reduced our US headcount by 19 production staff
- Restructured cost base to give a lower fixed overhead
- Implemented annualised fixed cost savings of around \$1.2m
- Accelerated investment in eBook market
- Secured business for several new system implementations
- Diversifying across other studio groups including TV/broadcast



New Opportunities in Entertainment

- Continuing to pursue opportunities to deploy systems in new areas
- Supporting industry drive to improve efficiencies and reduce costs
- Working with an increasingly diverse range of studio business units
- Expect these to deliver additional recurring revenue streams



eBook Market Investment

- Investing in developing our eBook proposition
- Deals with conversion of highly designed books
- These are now supported on Apple iPad, Barnes & Noble Nook, Amazon Kindle Fire
- Making good progress with major book publishers which are currently proceeding cautiously
- Well positioned to capitalise on growth in production
- Expect eBook services to become significant revenue streams



Outlook

- Restructured the business in the face of rapid change in Home Entertainment
- Reduction in new DVD titles has been more rapid than expected in the market due to the demise of episodic TV
- Timing of new revenues means full year results will be below market expectations
- However, these same dynamics are creating new opportunities
- eBook market has significant potential



APPENDIX

6 December 2011



The Board



Roger Jeynes, *Chairman* – Roger has over 20 years experience in the technology sector, encompassing senior sales, marketing and general management roles in the UK, Italy and the USA with IBM, Pyramid Technology Inc., and EMC Corporation. His most recent executive position was Chief Operating Officer at AIM-listed technology merchant bank Interregnum Plc.



Dr. Stuart Green, *CEO* – Previously CTO of ZOO Digital Group, CEO of Kazoo3D plc, Technical Director of LightWork Design Limited. Stuart has over 20 years experience in team building and executive management in the software industry. He has more than 20 patents granted in the fields of image processing and digital media production.



Helen Gilder, *Group Finance Director* – Joined ZOO as Group Financial Controller in 2000 and became Group Finance Director in 2006. Previously Helen was Finance Director within a highly acquisitive listed technical group of companies. Qualified ACA in 1991.



Gordon Doran, *Commercial Director* – Held senior positions in sales and marketing roles for a variety of UK and US companies in the software industry since the early 1990s. Most recently COO for Mediostream Inc. – a consumer DVD software developer; joined ZOO in 2005 to establish a North American division where he now operates in the role of President.



James Livingston, *Non Executive Director* – Senior Investment Manager with Foresight Group, a leading UK fund manager; non-executive director of five other UK SMEs and a board observer of a further two.

Consolidated Statement of Comprehensive Income



| | 6 months to 30 Sep 2011 | 6 months to 30 Sep 2010 | Year ended 31 Mar 2011 |
|--|----------------------------|----------------------------|---------------------------|
| | \$000 | \$000 | \$000 |
| Revenue | 5,878 | 8,060 | 13,757 |
| Cost of sales | (1,340) | (1,920) | (2,388) |
| Gross profit | 4,538 | 6,140 | 11,369 |
| Other operating income | 21 | 35 | 135 |
| Operating expenses | (5,646) | (5,295) | (10,158) |
| Operating (loss)/profit | (1,087) | 880 | 1,346 |
| Finance income | - | - | - |
| Exchange gain/(loss) on borrowings | 73 | (233) | (300) |
| Finance cost | (281) | (259) | (535) |
| Total finance cost | (208) | (492) | (835) |
| (Loss)/profit before taxation | (1,295) | 388 | 511 |
| Tax on (loss)/profit | (2) | - | 484 |
| (Loss)/profit for the period attributable to equity holders of the parent | (1,297) | 388 | 995 |
| Total Comprehensive income | (1,297) | 388 | 995 |
| Comprehensive income attributable to equity holders of the parent | (1,297) | 388 | 995 |
| (Loss)/profit per share | | | |
| basic | (5.19) cents | 1.72 cents | 4.29 cents |
| diluted | (5.19) cents | 1.16 cents | 2.84 cents |

Consolidated Statement of Financial Position



| | As at 30 Sep 2011 \$000 | As at 30 Sep 2010 \$000 | As at 31 Mar 2011 \$000 |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 566 | 511 | 549 |
| Intangible assets | 9,248 | 7,657 | 8,480 |
| Deferred income tax assets | 486 | - | 486 |
| | 10,300 | 8,168 | 9,515 |
| Current assets | | | |
| Inventories | - | - | 80 |
| Trade and other receivables | 2,665 | 2,618 | 3,016 |
| Cash and cash equivalents | 1,490 | 1,914 | 600 |
| | 4,155 | 4,532 | 3,696 |
| Total assets | 14,455 | 12,700 | 13,211 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | (3,029) | (3,834) | (3,319) |
| Borrowings | (225) | (169) | (5,709) |
| | (3,254) | (4,003) | (9,028) |
| Non-current liabilities | | | |
| Borrowings | (2,925) | (5,470) | (191) |
| Total liabilities | (6,179) | (9,473) | (9,219) |
| Net assets | 8,276 | 3,227 | 3,992 |

Consolidated Statement of Cashflows



| | 6 months to 30 Sep 2011 \$000 | 6 months to 30 Sep 2010 \$000 | Year ended 31 Mar 2011 \$000 |
|--|-------------------------------------|-------------------------------------|------------------------------------|
| Cash flows from operating activities | | | |
| Operating (loss)/profit for the period | (1,087) | 880 | 1,346 |
| Depreciation | 259 | 238 | 424 |
| Amortisation and impairment | 283 | 195 | 497 |
| Share based payments | 140 | 58 | 196 |
| Purchase of own shares | - | (115) | (124) |
| Disposal of own shares | 108 | - | - |
| Disposal and derecognition of intangible assets | - | - | 24 |
| Exchange loss/(gain) | 18 | (82) | - |
| Changes in working capital: | | | |
| Decreases in inventories | 80 | 365 | 285 |
| Decreases/(increases) in trade and other receivables | 351 | 49 | (349) |
| Decreases in trade and other payables | (290) | (929) | (1,444) |
| Cash flow from operations | (138) | 659 | 855 |
| Tax paid | (2) | - | (2) |
| Net cash flow from operating activities | (140) | 659 | 853 |
| Investing Activities | | | |
| Purchase of intangible assets | (1,051) | (949) | (2,098) |
| Purchase of property, plant and equipment | (47) | (191) | (415) |
| Net cash flow from investing activities | (1,098) | (1,140) | (2,513) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | (209) | (43) | (144) |
| Proceeds from borrowings | - | 67 | 288 |
| Finance cost | (149) | (184) | (386) |
| Share and convertible loan issue costs | (241) | (52) | (52) |
| Issue of Share Capital | 2,745 | 1,303 | 1,333 |
| Net cash flow from financing | 2,146 | 1,091 | 1,039 |
| Net increase/(decrease) in cash and cash equivalents | 908 | 610 | (621) |
| Cash and cash equivalents at the beginning of the period | 600 | 1,221 | 1,221 |
| Exchange (loss)/gain on cash and cash equivalents | (18) | 83 | - |
| Cash and cash equivalents at the end of the period | 1,490 | 1,914 | 600 |