

ZOO Digital Group



Interim Results

Stuart Green, CEO

Helen Gilder, Group Finance Director

Roger Jeynes, Chairman

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.



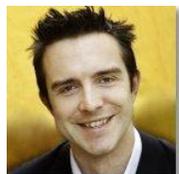
Dr. Stuart Green, *CEO* – Previously CTO of ZOO Digital Group, CEO of Kazoo3D plc, Technical Director of LightWork Design Limited. Stuart has over 20 years experience in team building and executive management in the software industry. He has more than 20 patents granted in the fields of image processing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