

**ZOO Digital Group**



# **Preliminary Results and Share Placing**

***Stuart Green, CEO***

***Helen Gilder, Group Finance Director***

**10 August 2011**

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# Presenters



## **Dr. Stuart Green, *CEO***

- Previously CTO of ZOO Digital Group, CEO of Kazoo3D plc, Technical Director of LightWork Design Limited
- Became CEO in 2006
- Over 20 years experience in team building and executive management in the software industry
- He has almost 30 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
- Became Group Finance Director in 2006
- Previously Finance Director within a highly acquisitive listed technical group of companies
- Qualified ACA in 1991

# About ZOO



- We design innovative software intended to make our customers' workflows more efficient
- Our customers are global organisations that develop, process and deploy creative media content for different formats and languages



warner | music | group



UNIVERSAL MUSIC GROUP



# Strategy

- Identify labour-intensive services
- Design workflow management software based on automation and centralization without compromise to quality
- License systems directly to brand owners, supplemented with services where appropriate
- Deliver first rate customer service
- Generate recurring and scalable revenue streams from an increasingly diverse customer base with pricing based on throughput and SaaS

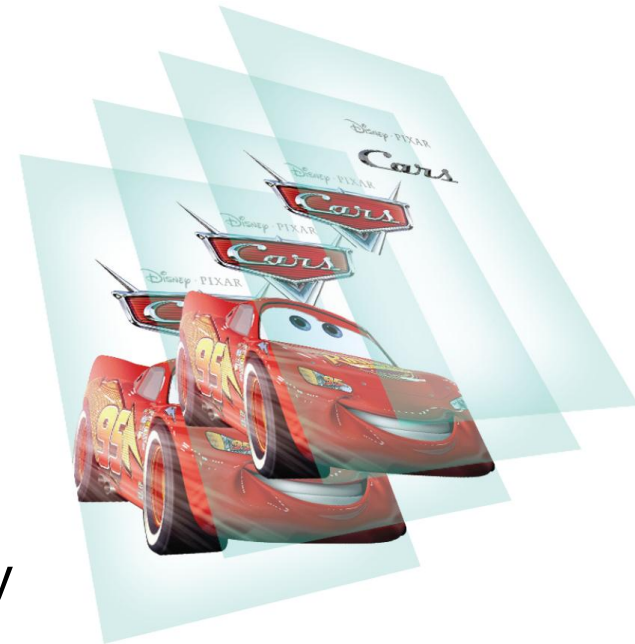


# Case Study



## *A major Hollywood film studio*

- Automated production of DVD, Blu-ray and iTunes video titles
- Online management of product translations for approximately 60+ languages
- Centralised worldwide marketing campaigns for theatrical and home entertainment releases
- Labour time reduced by approximately 90%
- Contributes to reported annual savings of multiple millions of dollars
- Annual revenue contribution grown significantly over five years



# The Market and Growth

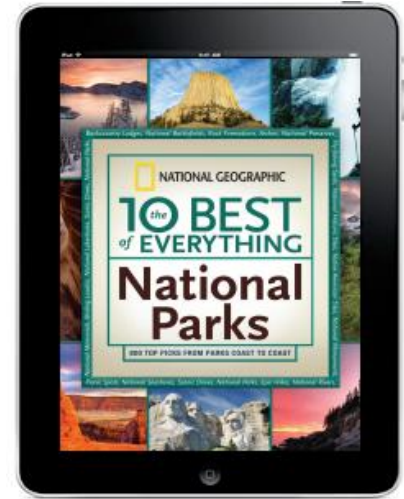
- Established in the filmed entertainment market with customers including major Hollywood studios
- Working with partners to expand business:
  - Multi Packaging Solutions
    - Interactive Entertainment
    - Healthcare/Pharmaceuticals
  - Apple Computer
    - Music
    - Electronic books
- Growing business by:
  - New customers in the filmed entertainment market
  - New product opportunities with existing customers
  - Existing products into new markets



# eBook Market Growth



- Suggested forecast of almost \$1 billion spent in US on eBooks in 2010 (*source: Forrester Research, November 2010*)
- US spending on eBooks expected to reach \$3 billion by 2015 (*source: Forrester Research, November 2010*)
- Market shares for eReaders: Amazon Kindle 47%, Apple iPad 32% (*source: ChangeWave Research, November 2010*)
- Hachette Book Group (3<sup>rd</sup> largest book publisher globally) recently announced eBooks accounted for 22% of revenue in 2011 Q1
- Digital books became the largest single format in the US in Feb 2011 (*source: Association of American Publishers*)
- Around 800,000 eBook titles published on amazon.co.uk out of a total of 35 million books (*source: [www.amazon.co.uk](http://www.amazon.co.uk)*)





# ZOO's eBook Proposition



- Providing workflow and automation software and related services for eBook production
- Enabling publishers to repurpose traditional books for sale online – format and language adaptation
- Focusing primarily on media-rich genres, including picture books, comics, graphic novels, cookery books, travel guides, encyclopaedias
- Supporting a range of eReader devices including Kindle, iPad and Nook



# Competitive Landscape

- We compete with many established providers of *media production services*
- For video-related services, primarily Technicolor Creative Services and Deluxe Digital; for print-related services, primarily AGI Media and Schawk; for eBooks Trailer Park
- We believe our competitors have business models based on human labour and appear to be slow to realign around automation
- We believe we are clearly differentiated by our business proposition





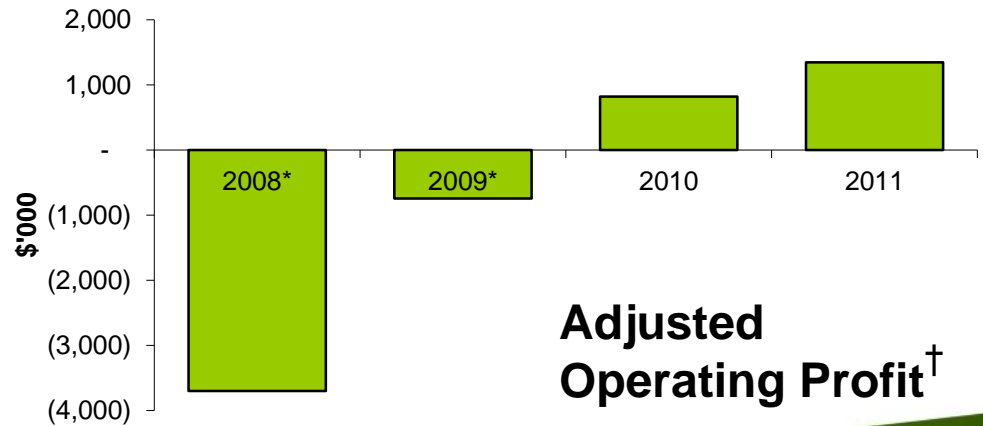
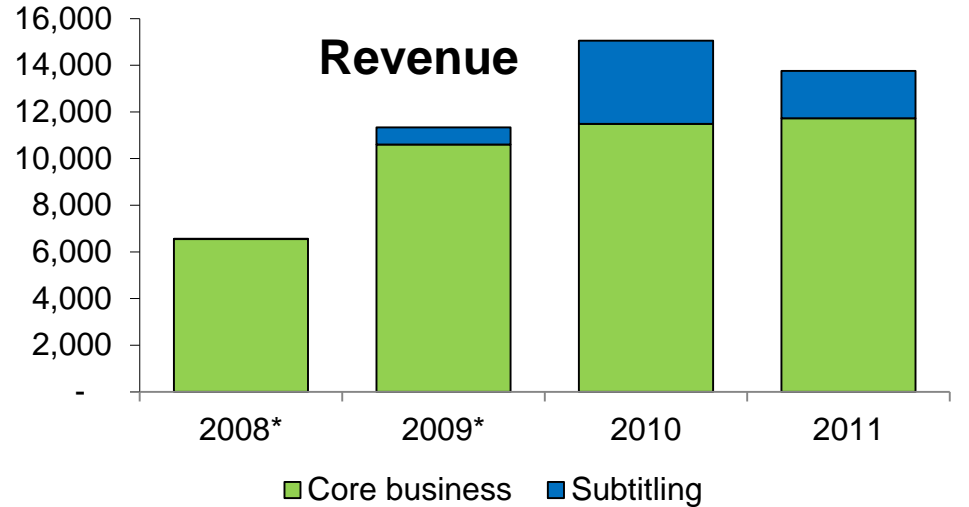
# Financial Results

## Results to March 2011

- Termination of outsourced low-margin subtitling work (value: \$3.6m in 2010) resulted in total revenue reducing to \$13.8m (2010: \$15.1m)
- Operating profit<sup>†</sup> increased by 62% to \$1.3m (2010: \$0.8m)

† Excluding intercompany exchange gains and exceptional intangible impairment

\* Restated using average GBP to USD exchange rates



# Share Placing and Restructure of Loan Notes



- Placing of £1.7m at 40p
- VCT qualifying under 2005/6 rules
- Existing loan note of £3.541m, redeemable on 31 October 2011 at 48.75p with coupon of 6% restructured as follows:
  - 50% of existing loan note converted into equity at 40p
  - 50% of existing loan note extended by two years (to 31 October 2013) with 7.5% coupon and conversion price 48p



# Proposed Use of Proceeds to Fund Growth

- Net proceeds of c£1.5m to be used to support acceleration of the business in new markets, particularly eBooks:
  - Infrastructure needed to establish ZOO as eBook aggregator
  - Additional R&D staff to accelerate eBook and EST software
  - Enlarged production team to provide eBook services
  - New sales and marketing staff to support eBook business development



# Outlook

- Continuing to add innovative new products
- Developing further opportunities to embed ourselves deeper within our clients' operations
- Plan to enter new markets with existing products
- Diversifying revenue streams and broadening customer base
- Continuing to manage long sales cycles and time to build revenue after signing new customers
- Healthy sales pipeline for our existing and new products from both current and potential clients
- Board has confidence in the future success of the Company

# Investment Summary

- **Excellent customer relationships** – significant growth potential
- **Clearly differentiated proposition** – based on innovative software
- **Addressing customer needs in the current economic climate** – improve efficiencies
- **High barriers to entry** – sophisticated patent-protected software
- **Highly scalable** – add customers without significantly adding to cost base
- **Partnership brings new market potential** – collaborating on initiatives in eBooks, videogame and other markets





# APPENDIX

10 August 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.



# Major Shareholders

| Shareholder                     | % of capital |
|---------------------------------|--------------|
| Stuart Green (CEO)              | 17.5%        |
| Foresight Group                 | 15.9%        |
| Herald Investment Trust         | 15.1%        |
| Multi Packaging Solutions       | 9.0%         |
| Ian Stewart                     | 7.0%         |
| JM Finn                         | 6.5%         |
| South Yorkshire Investment Fund | 5.4%         |
| Williams de Broe                | 3.5%         |
| Others                          | 20.1%        |

# Loan Note Holders



| <b>Loan Note Holder</b>         | <b>% of loan note</b> |
|---------------------------------|-----------------------|
| Foresight Group                 | 54.6%                 |
| South Yorkshire Investment Fund | 12.7%                 |
| Herald Investment Trust         | 10.4%                 |
| Stuart Green (CEO)              | 9.7%                  |
| JM Finn                         | 8.9%                  |
| Others                          | 3.7%                  |

# Consolidated Statement of Comprehensive Income



|  | 2011<br>\$000     | 2010<br>\$000 |
|--|-------------------|---------------|
| <b>Revenue</b>   | <b>13,757</b>     | 15,056        |
| Cost of sales  | <b>(2,388)</b>    | (3,769)       |
| <b>Gross Profit</b>  | <b>11,369</b>     | 11,287        |
| Other operating income   | <b>135</b>        | 177           |
| Operating expenses   | <b>(10,158)</b>   | (11,503)      |
| <b>Operating profit/(loss)</b>   | <b>1,346</b>      | (39)          |
| Analysed as:   |                   |               |
| Operating profit/(loss) before exceptional impairment                          | <b>1,346</b>      | 821           |
| Exceptional impairment   | -                 | (860)         |
|  | <b>1,346</b>      | (39)          |
| Finance income   | -                 | 1             |
| Exchange loss on borrowings  | <b>(300)</b>      | (290)         |
| Finance cost   | <b>(535)</b>      | (540)         |
| <b>Total finance cost</b>  | <b>(835)</b>      | (830)         |
| <b>Profit/(loss) before taxation</b>   | <b>511</b>        | (868)         |
| Tax on profit/(loss)   | <b>484</b>        | (4)           |
| <b>Profit/(loss) for the year attributable to equity holders of the parent</b> | <b>995</b>        | (872)         |
| <b>Other comprehensive income:</b>   |                   |               |
| <b>Total Comprehensive income</b>  | <b>995</b>        | (872)         |
| <b>Comprehensive income attributable to equity holders of the parent</b>       | <b>995</b>        | (872)         |
| <b>Profit/(loss) per share</b>   | <b>13</b>         |               |
| basic  | <b>4.29 cents</b> | (4.09) cents  |
| diluted  | <b>2.84 cents</b> | (4.09) cents  |

# Consolidated Statement of Financial Position



|  | 2011<br>\$000  | 2010<br>\$000   |
|--|----------------|-----------------|
| <b>ASSETS</b>  |                |                 |
| <b>Non-Current Assets</b>                                  |                |                 |
| Property, plant and equipment                              | 549            | 558             |
| Intangible assets  | 8,480          | 6,903           |
| Deferred income tax assets                                 | 486            | -               |
|  | <b>9,515</b>   | <b>7,461</b>    |
| <b>Current Assets</b>                                      |                |                 |
| Inventories  | 80             | 365             |
| Trade and other receivables                                | 3,016          | 2,667           |
| Cash and cash equivalents                                  | 600            | 1,221           |
|  | <b>3,696</b>   | <b>4,253</b>    |
| <b>Total Assets</b>  | <b>13,211</b>  | <b>11,714</b>   |
| <b>LIABILITIES</b>   |                |                 |
| <b>Current Liabilities</b>                                 |                |                 |
| Trade and other payables                                   | (3,319)        | (4,763)         |
| Borrowings   | (5,709)        | (169)           |
|  | <b>(9,028)</b> | <b>(4,932)</b>  |
| <b>Non-current Liabilities</b>                             |                |                 |
| Borrowings   | (191)          | (5,138)         |
| <b>Total Liabilities</b>                                   | <b>(9,219)</b> | <b>(10,070)</b> |
| <b>Net Assets</b>  | <b>3,992</b>   | <b>1,644</b>    |
| <b>EQUITY</b>  |                |                 |
| <b>Equity attributable to equity holders of the parent</b> |                |                 |
| Called up share capital                                    | 5,127          | 4,573           |
| Share premium reserve                                      | 33,626         | 32,899          |
| Other reserves   | 12,293         | 12,293          |
| Share option reserve                                       | 278            | 267             |
| Warrant reserve  | 190            | 50              |
| Convertible loan note reserve                              | 380            | 380             |
| Foreign exchange translation reserve                       | (992)          | (992)           |
| Accumulated losses   | (46,782)       | (47,822)        |
|  | <b>4,120</b>   | <b>1,648</b>    |
| <b>Interest in own shares</b>                              | <b>(128)</b>   | <b>(4)</b>      |
| <b>Attributable to equity holders</b>                      | <b>3,992</b>   | <b>1,644</b>    |

# Consolidated Statement of Cash Flows



|  | 2011           | 2010           |
|--|----------------|----------------|
|  | \$000          | \$000          |
| <b>Cash flows from operating activities</b>            |                |                |
| Operating profit/(loss) for the year                   | 1,346          | (39)           |
| Finance income   | -              | 1              |
| Depreciation   | 424            | 419            |
| Amortisation & Impairment                              | 497            | 1,214          |
| Share based payments                                   | 196            | 169            |
| Purchase of own shares                                 | (124)          | -              |
| Disposal and derecognition of intangible assets        | 24             | 1              |
| Disposal of property, plant and equipment              | -              | 1              |
| Changes in working capital:                            |                |                |
| Decreases/(increases) in Inventories                   | 285            | (365)          |
| (Increases) in Trade and other receivables             | (349)          | (591)          |
| (Decreases)/increases in Trade and other payables      | (1,444)        | 1,244          |
| <b>Cash flow from operations</b>                       | <b>855</b>     | <b>2,054</b>   |
| Tax (paid)   | (2)            | (4)            |
| <b>Net cash flow from operating activities</b>         | <b>853</b>     | <b>2,050</b>   |
| <b>Investing Activities</b>                            |                |                |
| Purchase of intangible assets                          | (2,098)        | (1,256)        |
| Purchase of property, plant and equipment              | (415)          | (215)          |
| <b>Net cash flow from investing activities</b>         | <b>(2,513)</b> | <b>(1,471)</b> |
| <b>Cash flows from financing activities</b>            |                |                |
| Repayment of borrowings                                | (144)          | (521)          |
| Proceeds from borrowings                               | 288            | 120            |
| Finance cost   | (386)          | (371)          |
| Share issue costs                                      | (52)           | -              |
| Issue of Share capital                                 | 1,333          | -              |
| <b>Net cash flow from financing</b>                    | <b>1,039</b>   | <b>(772)</b>   |
| Net (decrease) in cash and cash equivalents            | (621)          | (193)          |
| Cash and cash equivalents at the beginning of the year | 1,221          | 1,414          |
| Cash and cash equivalents at the end of the year       | 600            | 1,221          |