

Exit Zoo Digital: The recovery appears to be slower than expected

Company:	Zoo Digital (ZOO LN)	Market Cap:	\$45mio
Industry:	Dubbing, subtitling	Net Cash:	\$3mio
Country:	Worldwide	Revenue:	\$40mio
Date:	26 th April 2024	Net Income:	(\$15mio)
Dividend:	-	Free cash flow:	(\$15mio) (-%)*
Entry:	\$39mio	Exit:	\$45mio (+15%)

*estimated based on FY 2024 guidance (covers entire Hollywood strike period), hence expect 50% higher revenue for FY 25

Why exit Zoo Digital?

- Film production set to take longer than expected in March according to Videndum, Facilities by ADF and other proxies for demand
- Quick returns realized to focus on other opportunities

A slower recovery than expected

While Zoo Digital already mentioned that the recovery takes longer than expected in January, the March update suggested that the recovery is in play. However, other proxies for demand, for instance, camera and equipment producer Videndum¹, or serviced film production facility provider Facilities by ADF², both confirmed a delay of a recovery into the 2nd half of the year. When buying Zoo Digital shares, it was very important for me to see a fast recovery, as the contracts of the International Alliance of Theatrical Stage Employees (IATSE), Teamsters and the Hollywood Basic Crafts are ending on 31st July 2024. In case there is indeed a delay of the recovery into the 2nd half, there are risks that this recovery collides with these contract negotiations and potential strikes. At the same time, the negotiations with the IATSE seem to be

¹ https://files.q4europe.com/news-pdf/3294/Videndump1c_16075912.pdf

² <https://www.londonstockexchange.com/news-article/ADF/full-year-results/16441756>

going well³. Finally, there was a letter by British media executives and Creative UK to the UK government to urgently invest in the industry⁴. Given the liquidity of Zoo Digital's shares (took me a week to exit) and the likely continuous cash burn, the risk/reward was less attractive and therefore I exited the position. Key signals for a turnaround could be Disney's and Warner Brothers' Discovery earnings release on 8th/9th May, and it could prove to be a mistake to not have waited for these updates.



³ <https://variety.com/2024/biz/news/iatse-amptp-bargaining-productive-local-705-tentative-agreement-1235976592/>

⁴ <https://www.ft.com/content/cc8f4851-93d1-4da0-a621-fdf59e5af7ff> , [https://7608628.fs1.hubspotusercontent-na1.net/hubfs/7608628/Manifesto/Our Creative Future The Manifesto 23 04 24 V2.pdf?_hstc=56477556.af53d5f218f5f2bef4ac80368073224c.1714126542311.1714126542311.1714126542311.1&_hssc=56477556.2.1714126542311&_hsfp=3913542006](https://7608628.fs1.hubspotusercontent-na1.net/hubfs/7608628/Manifesto/Our_Creative_Future_The_Manifesto_23_04_24_V2.pdf?_hstc=56477556.af53d5f218f5f2bef4ac80368073224c.1714126542311.1714126542311.1714126542311.1&_hssc=56477556.2.1714126542311&_hsfp=3913542006)

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