

Zoo Digital: With the Hollywood strikes over, there should be pent-up demand

Company:	Zoo Digital (ZOO LN)	Market Cap:	\$45mio
Industry:	Dubbing, subtitling	Net Cash:	\$3mio
Country:	Worldwide	Revenue:	\$40mio
Date:	26 th March 2024	Net Income:	(\$15mio)
Dividend:	-	Free cash flow:	(\$15mio) (-%)*
Entry:	\$39mio	Target:	\$60mio (+53%)

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

Why Zoo Digital?

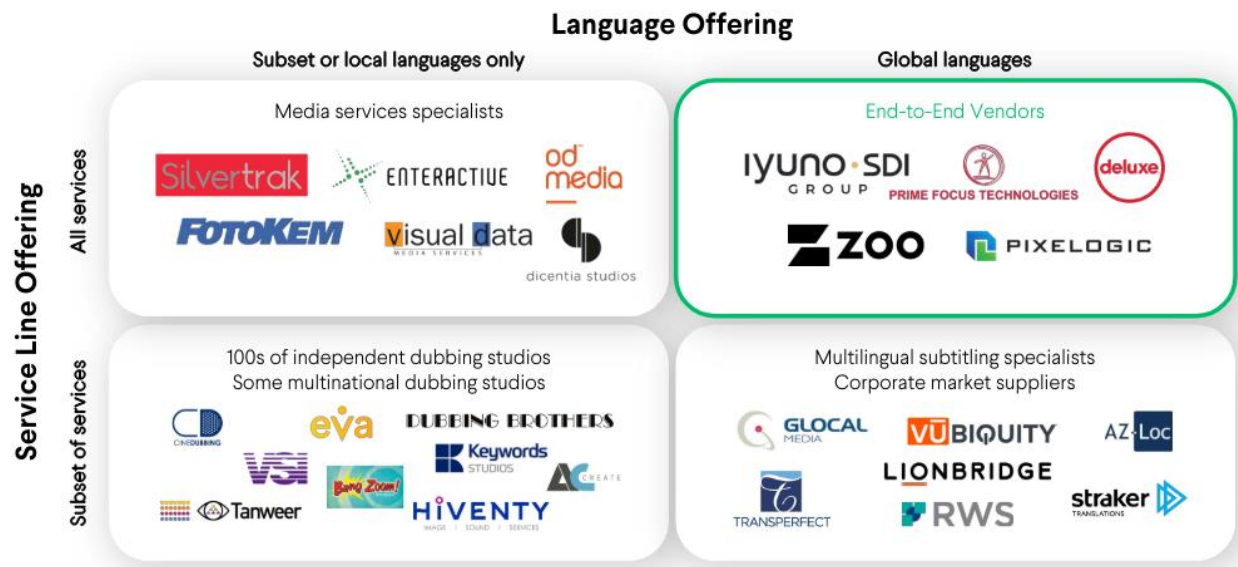
- Latest trading update promises turnaround finally in play
- CEO and Chairman have been buying at 29-40p a share vs. 36p currently
- Worldwide expansion of their services over prior years should prove fruitful for pent-up demand after the Hollywood strikes
- New deal with Warner Brothers indicates further growth pipeline in play

Risks

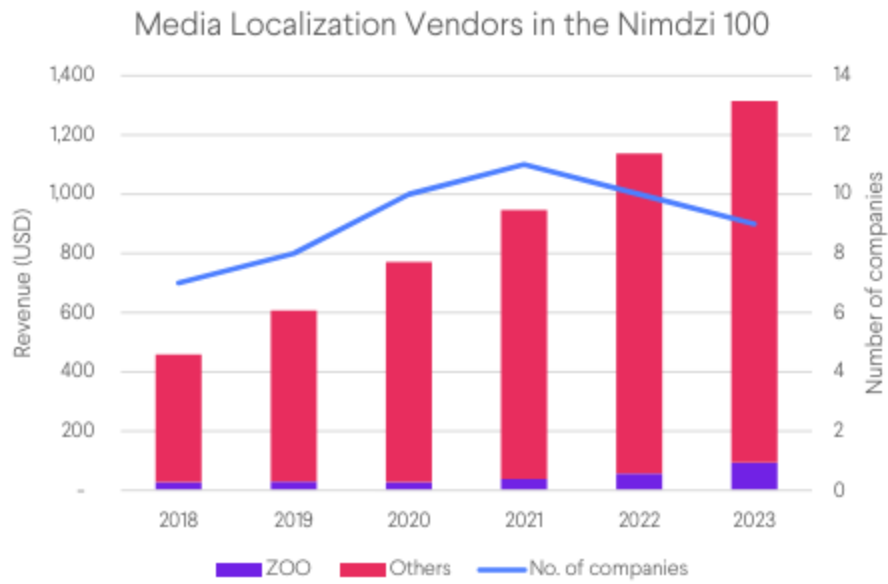
- AI could replace or reduce their business model
- Profitability might not be achieved in FY 2025
- Another strike could loom if theatrical stage employees begin a walk-out without an agreement reached by 31st July

On runway to \$100mio revenue and \$20mio EBITDA...

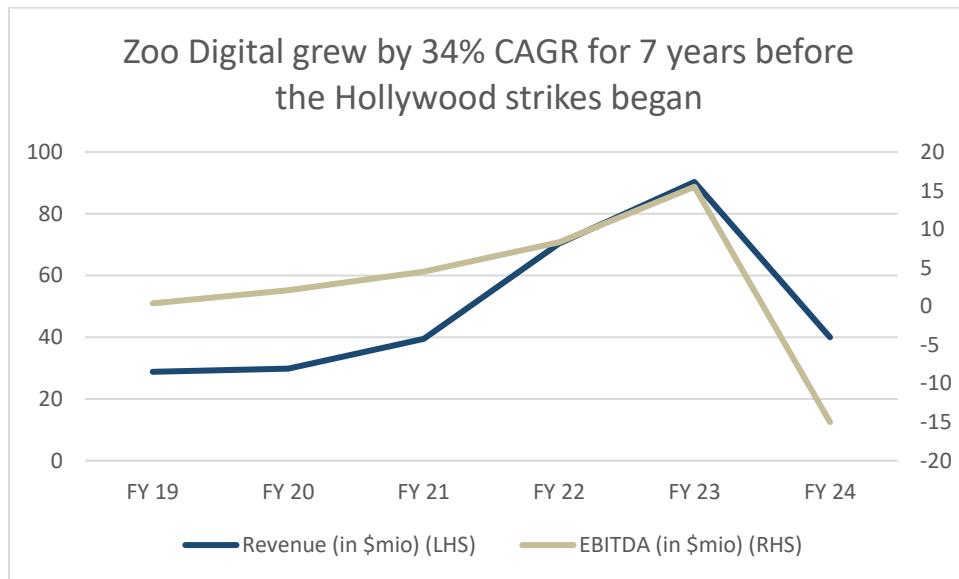
Zoo Digital is localizing video content by offering multiple services, including dubbing, subtitling, scripting and project management software. The company is one of only 5 large firms that is an end-to-end provider of global languages. Zoo Digital and the entire localization industry are benefiting from the rapid growth of streaming platforms that are expanding internationally. These streaming platforms are ultimately replacing cable TV and need to offer as much content as possible to gain market share. The result of that is that a large backlog catalogue needs to be localized and new content is required at a constant pace. The growth of the industry has meant that Zoo Digital grew at a 34% CAGR over the last seven years. Then, the Hollywood strikes hit...



Source: Zoo Digital



Source: Zoo Digital



Source: Zoo Digital

Hollywood strikes lame production

On April 18th, 2023, a whopping 97.9% of the Writers Guild of America (WGA) voted to go on strike after no satisfactory agreement with the Alliance of Motion Picture and Television Producers (AMPTP), representing all the major film and television studios in Hollywood, was reached¹. The strikes were mostly surrounding the shift towards streaming, which would not allow for residual fees, i.e. compensation packages when films or shows are being re-aired on broadcast as it happened in the past. Additionally, also due to the rise of streaming, the number of episodes in a show's season often halved and artificial intelligence posed another risk for the writers. From 14th July 2024, the American actors' union SAG-AFTRA (Screen Actors Guild – American Federation of Television and Radio Artists) joined the picket line. On October 9th, the WGA voted in favour of a deal that included AI guardrails, residual earnings, writers room staffing and data transparency, on top of pay hikes². Slightly later on 6th December, the SAG-AFTRA voted in favour of their deal, which included a new compensation and benefit plan applied to streaming production, as well as gains from the traditional residuals earnings formulas. On top of that, similar to the WGA agreement, there are new guardrails in place for AI, hair and makeup equity and protection for the casting process, including sexual harassment prevention³. While the strikes appeared to be over, there is now another dispute looming with the International Alliance of Theatrical Stage Employees (IATSE), Teamsters and the Hollywood Basic Crafts, whose contracts will end on 31st July 2024. The main fear again is AI and job cuts, as well as long hours⁴. The last dispute is a real threat for Zoo Digital, if they were to strike and not come to an agreement. However, before 31st July I'd expect further positive updates from Zoo Digital in regard to production ramping up.

More content demand? The new streaming reality

We are currently in the process of replacing cable TV with streaming or connected TV. This development is currently in the middle of a fierce fight for market share. Streaming platforms need content, as they would otherwise lose subscribers. This means internationalization of streaming platforms outside of the US is the natural development, especially as many streamers are still losing money. So far only Netflix, Prime Video and Disney+ (and perhaps Apple TV) are widely available outside of the US. But there are also

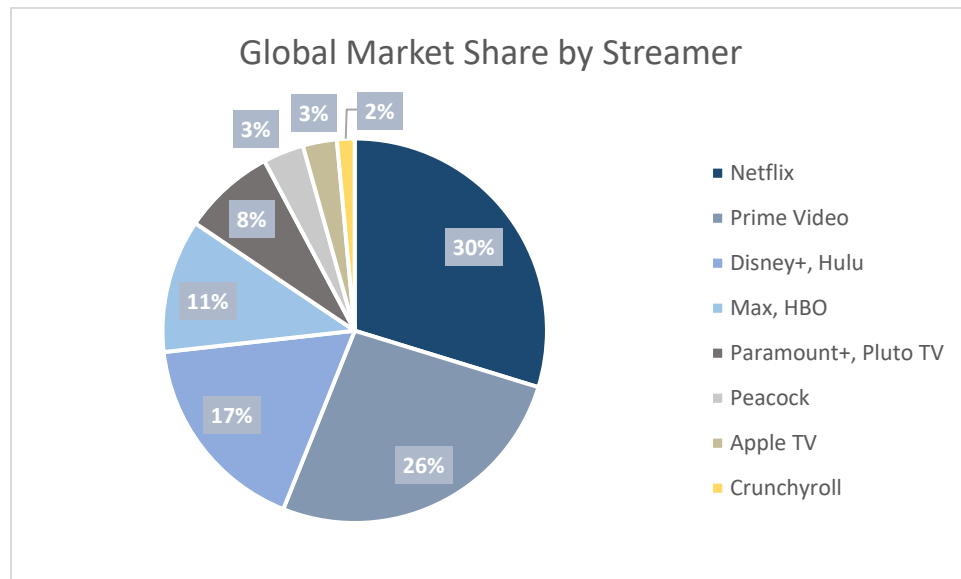
¹ <https://edition.cnn.com/2023/04/17/media/writers-strike-vote/index.html>

² <https://deadline.com/2023/10/writers-strike-deal-approved-ratification-vote-1235567930/>

³ <https://people.com/sag-aftra-members-approve-2023-tv-theatrical-contracts-tentative-agreement-8411279>

⁴ <https://variety.com/2024/artisans/news/iatse-teamsters-strike-rally-hollywood-1235925985/>

Warner Brothers' MAX, Paramount+, Peacock (and perhaps Sony's Crunchyroll) that are yet to expand globally. Warner Brothers announced the expansion in Western Europe this year, which is likely the large production firm that Zoo Digital signed a deal with. The next one to follow could be Paramount+, perhaps even in combination with Comcast's Peacock⁵. The localization of this content will hence be key to growth and market share.



Source: Individual parent companies

How is the emergence out of the strikes going?

The recovery from the strikes has really been quite slow. The willingness to strike still seems to be high, as French and German TV crews have been striking intermittently⁶. Disney announced not a single release in Q2 2024 due to the strikes. On top of that, Disney is looking to reduce the number of releases to focus on quality. Disney is Zoo Digital's largest client with over 74% of revenue generated from that single client. On the other hand, we have Warner Brothers' MAX streaming platform looking to expand globally, and Paramount+ and Peacock likely following suit.

⁵ <https://variety.com/vip/paramount-peacock-bundle-streaming-survey-1235962030/>

⁶ <https://variety.com/2024/film/global/hollywood-strikes-affecting-uk-scheduling-funding-1235894298/>

The world's largest streaming companies Q4 23 update

Parent	Streaming brand	# of subscribers	Comment	Growth	Profit
Netflix	Netflix	260mio	Building out their own ad team, continue in-house production and healthy mix of licensed films, more licensing across platforms happening	12 countries with ad plan, looking to grow this	Profitable
Amazon	Prime Video	230mio	Looking to bring more advertising into streaming	Growing local shows	Profitable
Disney	Disney+, Hulu	150mio	Have strong growth prospect with integration of ESPN into streaming and movie releases into 2025/26. Reduced volume in Marvel movies	No releases in Q2 due to strikes, but international remains an attractive growth opportunity	Continued losses for Disney+
Warner Brothers Discovery	Max, HBO	98mio	Scale MAX internationally will be key, seeing advertising recovery in Q1	Latin America, France, Belgium, UK, Germany, Italy, Australia, Japan to come	EBITDA profitable now with MAX
Paramount	Paramount+, Pluto TV	67.5mio	Seeing scatter premiums. Looking to slow investment in local streaming content outside the US to focus on Hollywood titles	60% revenue increase in Paramount+	Domestic streaming to become profitable in 2025
Comcast/Universal Pictures	Peacock	30mio	Expect growth from Peacock with movies and Olympics	Peacock grew by 57%	\$2.7bn loss for Peacock
Apple	Apple TV	25mio+	Produce movies themselves and release them in cinema ahead of Apple TV	Few numbers disclosed, but growing quickly	Not disclosed
Sony (Pictures)	Crunchyroll	13mio	Expect FY 25 to be most impacted by Hollywood strikes, as there will be less movies and shows for streaming	Flat growth due to fewer releases	Profitable

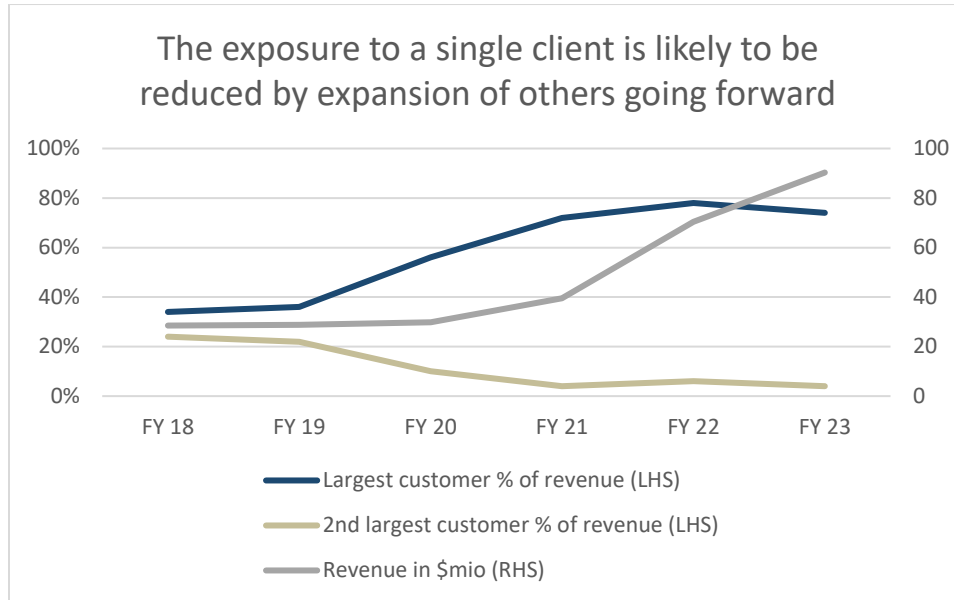
Source: Individual streaming companies

What does this all mean for Zoo Digital?

Zoo Digital has provided a trading update⁷ and interim results⁸, in which they mentioned that the order book is up 30% on Q4 23 and that the cash break-even has been reduced to \$4.8mio monthly revenue, which implies \$57.6mio annual revenues. Given that the half year revenues were \$21.4mio and annual revenues of more than \$40mio, I would expect an annualized order book of at least \$52mio, which is close, but not yet cash break-even. With the likely announcement of the Warner Brothers deal, the order book should move back into cash generative revenue. This is my target for a revaluation of Zoo Digital. While the massive exposure to Disney is not ideal, I'd expect this to improve with Disney reducing the number of releases (that's negative) and with the other streamers, such as Warner Brothers increasing their localized content.

⁷ https://polaris.brighterir.com/public/zoo_digital/news/rns/story/rdl854x

⁸ https://www.zoodigital.com/wp-content/uploads/2023/11/2024InterimsPresentation-v7-for-print_compressed.pdf



Source: Zoo Digital



Legal Disclaimer

The contents of this publication have been prepared solely for the purpose of providing information about AozoraStep Capital LLP and the services and products it is intending to offer, which are targeted for professional investors only. The opinions and views expressed are those of AozoraStep Capital LLP, may change without notice and should not be construed as investment, tax, legal or other advice. AozoraStep Capital LLP does not guarantee the completeness and accuracy of the information provided and all content can become out of date. Products or services mentioned in this publication are subject to legal and regulatory requirements in applicable jurisdictions and may not be available in all jurisdictions. Accordingly, persons are required to inform themselves and observe any such restrictions. In respect to investments described in this document, past performance is not a guide to future performance. The value of investments and the income of any financial instruments mentioned in this document may fall as well as rise and may have tax consequences. The performance of the investment strategy that AozoraStep Capital LLP is planning to offer is based on a personal track record and approved by Sedulo for the time period Q1 2019 - Q1 2021 and by HiCloud Accounting for the time period 2020 - 2023, only with further examinations being done on an occasional basis. AozoraStep Capital LLP is currently not authorized and regulated by the FCA, and therefore, is not allowed to provide financial products and services. AozoraStep Capital LLP is registered in England and Wales with registered number OC436835. Registered Office: 21 Knightsbridge, London SW1X 7LY, United Kingdom. Reproduction or distribution of any materials obtained in this presentation or linking to this presentation without written permission is prohibited.