Company Note

Interims

03 December 2020

Mirada plc (MIRA.L)

H1 FY21: Super-aggregator opportunity

Mirada, the leading provider of integrated software for digital TV operators and broadcasters, saw H1 revenue from core operations decrease 4.5% to $5.5m as COVID-19 delayed some deployments and investment decisions. Reduced operating costs meant EBITDA more than doubled to $0.6m, however. The izzi Telecom roll out continues but this has been supplemented by the commercial launches at ATNi and Zapi (PMO). The launch of Mirada's Android TV Operator Tier with custom launcher, integrated with premium content providers including Netflix and Disney+, represents an important step forward and the deployment at izzi an important reference. In order to address the threat of cord-cutting and the need to remain relevant, Pay TV operators need to transition into becoming super-aggregators, combining internal and third-party services into a seamless experience. Mirada has a proven product to capitalise on the opportunity. Forecasts reintroduced and we set a new fair value of 160p/share.

- **Financial performance –** Revenue from core operations decreased 4.5% to $5.5m as customers slowed deployments/investment decisions due to COVID-19. Development Services fell 15.8% to $2.8m as the customisation of the Android TV custom launcher for izzi Telecom occurred in the comparator period but Licences increased 13.4% to $1.9m and Managed Services by 6.6% to $0.8m. izzi continues to represent the largest customer but reduced as a proportion of revenue to 67% (FY19: 73%) with other deployments. Core EBITDA increased $0.3m to $0.6m. Net debt increased $2.0m to $7.1m during H1. This included $1.8m in new six-year, government-backed COVID-19 low interest loans. All existing credit lines were renewed for three years and the €1.3m loan with the largest shareholder was extended to November 2021. Mirada continues to invest in its products and $2.1m of development spend was capitalised in H1 (H1 FY20: $2.3m).

- **Operational progress –** izzi Telecom's roll out continues with 2.9m Linux STBs installed in c. 2.2m households at H1 and Mirada's OTT platform was used by 1.2m households. In October, the new Android TV operator tier STB was officially launched but izzi had been actively testing the product over the summer with 40k boxes deployed in H1. izzi is expected to gradually upgrade the existing legacy estate, comprising >8m STBs, to Android TV based boxes. At ATN International, the Mirada-based service is live at OneComm (Bermuda) and Viya (US Virgin Islands). Digital TV Edmund (Bolivia) has been hard hit by COVID-19 but Mirada has been working on the VoD and new content provider integrations and Digital TV Cable will resume promotion of the service. In Mongolia, SkyTel continues to deploy its OTT service (SkyGo). In September, PMO (Plataforma Multimedia de Operadores) commercially launched its new Zapi OTT service in Spain. This has the potential to be Mirada's largest European deployment to date.

Year End: March 30					
($'000)	**2018A**	**2019A**	**2020A**	**2021E**	**2022E**
REVENUE	8,816	12,322	13,157	11,525	14,954
ADJ. EBITDA	(1,121)	814	2,495	1,289	2,846
ADJ. PBT	(5,096)	(3,226)	(1,424)	(3,261)	(1,804)
ADJ. EPS	(345.0)	(58.4)	(12.5)	(27.6)	(11.3)
NET CASH	(11,703)	(4,861)	(5,047)	(8,450)	(8,065)
EV/EBITDA (x)	NEG	18.3	6.1	14.4	6.4
PER (x)	NEG	NEG	NEG	NEG	NEG

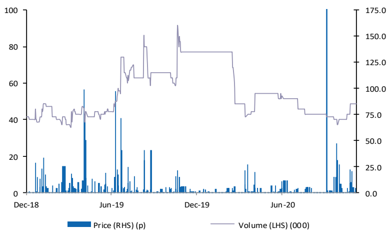
Allenby Capital acts as Nomad & Broker to Mirada plc (MIRA.L).

Please refer to the last page of this communication for all required disclosures and risk warnings.

Corporate

Current price	**85p**
Sector	**TMT**
Code	**MIRA.L**
AIM	**AIM**

Share Performance



	1m	3m	12m
MIRA.L	21.4%	13.3%	-37.0%

Source: Thomson Reuters, Allenby Capital

Share Data		
Market Cap (£m)		7.6
Shares in issue (m)		8.9
52 weeks (p)	High	Low
	135	65
Financial year end		March 30

Source: Company Data, Allenby Capital

Key Shareholders	
Kaptungs	87.2%
S Septien	1.5%
Hargreave Hale	1.1%

Source: Company Data, Allenby Capital

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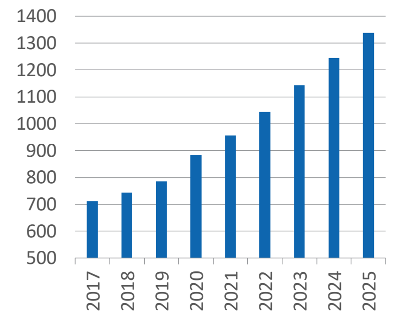
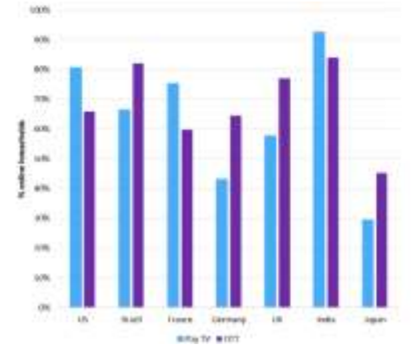
Equity Research

Exhibit 1: Growth in global SVoD subscribers



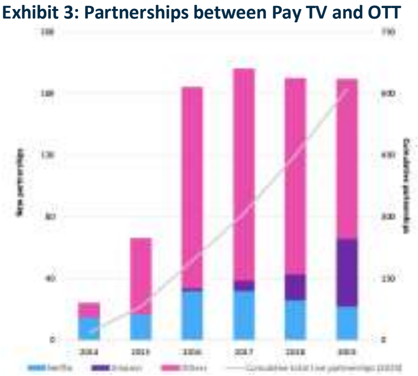
Source: Statista

Exhibit 2: OTT vs Pay TV penetration (April 2020)



Source: Omdia, Consumer Research

Exhibit 3: Partnerships between Pay TV and OTT



Source: Omdia

Supporting the 'super aggregators'

Mirada, the leading provider of integrated software solutions for Digital TV operators and broadcasters, enables Pay TV companies to aggregate multiple sources of content (owned and third-party) and unify search, navigation and recommendation into a seamless user experience across multiple device types in the highly fragmented media market.

The deployment at izzi Telecom, part of Televisa, in Mexico initially represented an important reference for the traditional Linux based set top boxes (STBs) and Mirada's OTT (over the top) platform. In October, Mirada officially launched Iris running on the new Android TV Operator Tier STB that enables operators to deploy Android TV on existing cable TV networks. At the same time, Mirada has developed one of the largest integrated frameworks with more than thirty Video on Demand (VoD) services, including Netflix, Disney+, Fox, Blim and HBO, available via Iris.

The trend of cancelling or reducing ('cord cutting' or 'shaving') Pay TV subscriptions and replacing them with multiple VoD services (subscription, advertising supported, transaction-based etc) is benefiting neither consumer, Pay TV operator nor OTT provider as consumers become frustrated with the need for multiple subscriptions to get the content they want and the challenge of finding that content as it is spread across multiple services. According to a Deloitte survey, 24% of respondents report feeling overwhelmed with the growing number of subscriptions and services required. The incremental costs of the different services is also resulting in subscription fatigue.

Content consumption surged during COVID-19 as subscribers endured lockdown restrictions and this has benefited all players. As some sort of normality returns and the economic impact of the pandemic becomes more apparent, Pay TV operators and service providers need to demonstrate value, however.

There is the opportunity for Pay TV operators to become 'super aggregators', combining the VoD services with their own content and presenting a curated service to their subscribers through a series of flexible packages. These operators have the benefits of incumbency: large subscriber bases, installed hardware and long-term relationships that also make them attractive as partners to the newer VoD service providers, particularly as unbundled services are exhausting the potential market for subscribers willing to pay for standalone services.

Pay TV is widely regarded as being in competition with VoD services with the latter gaining the upper hand in many markets. Recent research from Statista demonstrates the growth and expected growth in global SVoD subscribers and research from Omdia concluded that OTT has overtaken Pay TV in certain markets. There has also been a rash of partnerships between operators and OTT service providers over the past few years.

Omdia also concludes that whilst 2020 will have seen a small decrease in spend on software, there is likely to be growth in 2021 and beyond as Pay TV operators invest in their service offerings and address weaknesses that were exposed during the pandemic.

Mirada offers a high-end software solution that encompasses flexibility and functionality for digital TV operators and broadcasters that do not have the resources to develop their own bespoke systems as well as integrations with a range of VoD services. Mirada enables its customers to retain control over the interface, modifying the user experience for particular groups of subscribers, e.g. sports fans, and performing A/B testing on small changes before deploying more generally. With a proven technology stack operating across multiple device types, it is well positioned to capitalise on the global opportunity.

Interim results

Exhibit 4: Summary financials ($000s)

Year end 30 March	H1 FY20A*	H1 FY21A	Change
Revenue from core operations			
Development	3,355	2,824	*-15.8%*
Licences	1,660	1,883	*13.4%*
Managed Services	717	764	*6.6%*
Total	**5,732**	**5,471**	*-4.6%*
Gross profit	**5,399**	**5,285**	*-2.1%*
Gross margin	*94.2%*	*96.6%*	*+2.4pps*
Depreciation	(78)	(180)	*130.8%*
Amortisation	(1,783)	(1,897)	*6.4%*
Other administrative expenses	(5,158)	(4,720)	*-8.5%*
Operating profit/(loss)	**(1,620)**	**(1,512)**	*-6.7%*
EBITDA	**241**	**565**	***134.4%***
Reported PBT/(LBT)	**98**	**(1,588)**	***n/a***

Source: Company; Allenby Capital.

* excludes performance of Mirada Connect, disposed of in July 2019. H1 FY20A reported PBT includes profit on disposal of $1.7m.

Interim results saw a 4.5% reduction in core revenue to $5.5m reflecting some delays in the roll out of services and sales cycles as a result of COVD-19 as well as a higher level of Development spend in the comparator period when Mirada was working on the Android TV Operator Tier project for izzi Telecom. izzi continues to represent Mirada's largest customer but reduced as a proportion of revenue to 67% (FY19: 73%) as other deployments gained momentum.

It should also be noted that the roll-out agreement with izzi is under the capex model where Mirada receives payment and recognises revenue upfront on each box deployed or household sign up to the OTT service. There is also project-based Development spend and ongoing maintenance revenue. Some deployments are on an opex model with Mirada receiving monthly revenue per box. This Software and a Service (SaaS) revenue will naturally grow more slowly but increases revenue visibility and offers a greater medium-term return on investment albeit with higher upfront costs.

EBITDA from core operations increased

Good operating cost control and the absence of international travel/events meant administrative expenses fell 8.5% to $4.7m and EBITDA from core operations increased $0.3m to $0.6m. Operating losses reduced $0.1m to $1.5m and reported LBT was $1.6m – H1 FY20 PBT of $0.1m included the $1.7m gain on the disposal of the non-core Mirada Connect business.

New long term, low interest rate loans

Net debt increased $2.0m to $7.1m during H1. This reflected net cash generated from operating activities of $0.1m (H1 FY20: $1.1m), capitalised development outflow of $2.1m (H1 FY20: $2.3m) as Mirada continues to invest in its products and a $0.4m expansion in working capital. Net debt includes $1.8m in new six-year, unsecured, 80% Spanish government-guaranteed COVID-19 low interest loans (an average 2.75% p.a.). All existing credit lines were renewed for three years and the €1.3m loan with the largest shareholder was extended in May to November 2021. Period end cash was $0.6m (H1 FY20: $0.2m).

COVID-19 - positive and negative impacts

We reinstate forecasts for FY21 and introduce forecasts for FY22. COVID-19 has had positive and negative impacts on the company. The lockdown restrictions have led to a surge in content consumption and operators have invested and will continue to invest in order to provide subscribers with content and enhanced services and address the threat/opportunities posed by VoD services.

At the same, travel restrictions and home working have resulted in reduced operating costs and we believe some of these benefits will persist into the future. On the negative, some deployments have been delayed. As a result, our revised revenue forecast for FY21 is $4.5m lower than our pre-COVID-19 forecasts (withdrawn in April) at $11.5m but there is a reduced impact on EBITDA to $1.3m (from $4.1m). We expect net debt will expand further given further investment in the product set ($2.4m) partly offset by a contraction in working capital.

FY22: return to top line growth, strong recover EBITDA

For FY22, we expect the company to return to top line growth with ongoing deployments and a couple of new customer wins. Given its very high gross margin (>95%) and allowing for some increase in the cost base, EBITDA should recover strongly. Investment in the product set will continue and hence net debt reduces only $0.4m.

Fair value of 160p/share

Although the limited free float and the use of debt to fund the business will put off some, the current EV/EBITDA valuation of 6.4x for FY22 is anomalous for a proven high margin software business with a global client base and numerous growth opportunities. A rating of 9.5x FY22 EBITDA, which would still represent a significant discount to other players in the broader TV technology market and reflect a discount for the limited free float, would indicate a fair value of 160p/share.

Exhibit 5: Summary forecasts ($000s)

Year end 30 March	FY20A	FY21E	FY22E
Revenue from core operations			
Development	7,983	6,067	7,766
Licences	3,771	3,582	5,087
Managed Services	1,210	1,876	2,101
Mirada Connect	193		
Total	**13,157**	**11,525**	**14,954**
Gross profit	**12,481**	**11,076**	**14,296**
Gross margin	*94.86%*	*96.10%*	*95.60%*
Depreciation	(360)	(300)	(300)
Amortisation	(3,499)	(4,100)	(4,200)
Other administrative expenses	(9,986)	(9,786)	(11,450)
Operating profit/(loss)	**(1,364)**	**(3,111)**	**(1,654)**
EBITDA	**2,495**	**1,289**	**2,846**
Adj. PBT/(LBT)	**(1,424)**	**(3,261)**	**(1,804)**
Reported PBT/(LBT)*	**275**	**(3,261)**	**(1,804)**
Net cash/(debt)	**(5,047)**	**(8,450)**	**(8,065)**
EV/Revenue (x)	**1.1**	**1.6**	**1.2**
EV/EBITDA (x)	**6.1**	**14.4**	**6.4**

Source: Company; Allenby Capital.

* reported PBT includes profit on disposal of Mirada Connect of $1.7m.

Operational update

izzi Telecom

The deployment at izzi Telecom continued across both Linux boxes and companion devices during H1. As at 30th September, more than 2.9m Linux-based STBs had been deployed covering more than 2.2m households. And Mirada's OTT platform was being used by 1.2m households.

Iris Launcher for Android TV Operator

In October, Mirada announced the commercial launch of its Android TV Operator with custom launcher. The launch is the extension of izzi's pay TV service from Linux set top boxes, smartphones, tablets and laptops to Android TV hybrid set-top boxes. Branded izzitv smart, the new service is based on Mirada's Iris rather than Google's user interface and hence izzi can maintain its brand identity and control of its subscribers' viewing experience.

Subscribers will also have access to all the existing Iris functionality as well as the features of the Android environment, including the Google Play Store and apps, such as Netflix and YouTube, and the built-in Chromecast digital media player. Mirada worked closely with Google on the Android TV integration, Verimatrix for conditional access, and set top box manufacturers, including Skyworth and ZTE.

izzi had already been testing the platform with customers during the summer and as at 30th September 40,000 Android TV boxes had already been deployed and there has been rapid growth since the commercial launch. Mirada expects izzi will replace the legacy Linux-based estate over time that comprises some 8m STBs. Mirada will receive a one-off licence fee for each new STB deployed.

Expected to be one of the most relevant deployments of Android TV worldwide

The Android TV operating system is rapidly gaining market share and the new service is expected to be one of the most relevant deployments of Android TV worldwide as due to Mirada's custom-made TV input service API, this is the first launch of Android TV at this scale for an operator that uses hybrid Digital Video Broadcasting (DVB)/Over the Top (OTT) set-top boxes to provide a TV service through its cable infrastructure. These cable networks are widely installed and Mirada's solution provides operators with a means to upgrade their service offering and represents a significant global opportunity for Mirada.

Zapi

Live in October

The Zapi deployment went live in in Spain in October after the initial contract was announced in September 2019. Plataforma Multimedia de Operadores (PMO) was created by a group of Spanish independent telecommunications suppliers. The main shareholder is Procono S.A.U (southern Spain), alongside Opencable (a wholesale service operator with more than sixty local operators), ACUTEL (Association of Local Telecommunications Operators of Andalusia) and AOTEC (National Association of Telecommunications Operators and Internet Services). There is scope for other operators to join the scheme and benefit from the group's greater purchasing power when negotiating with SVODs.

The new OTT-based TV service runs on IP broadband networks. It was announced in Q1 but was delayed due to COVID-19 and has the potential to become Mirada's largest Iris deployment in Europe to date as PMO is aiming to become one of the foremost TV platforms in Spain with at least 600,000 subscribers accessing content accessed via Android STBs, smartphones, tablets, laptops and Smart TVs.

The deployment is an example of the capex model, similar to izzi Telecom, whereby Mirada received an initial set up fee and will receive a one-off licence for each new subscriber as well as annual support and maintenance fee. The deployment represents a further diversification of Mirada's revenue and another case study for potential customers as they look to roll out OTT services.

Other deployments

ATN International

The deployments beyond izzi Telecom and Zapi are also progressing. At ATN International (ATNi), Mirada now has two countries live: One Communications (Bermuda) and Viya (US Virgin Islands). The penetration level is more than 90% in Bermuda and management expects similar success with Viya and there is scope to deploy Iris in other ATNi markets.

Digital TV Cable in Bolivia

Digital TV Cable in Bolivia was hard hit by COVID-19 and, coupled with some previous internal issues, progress was slow in H1. Mirada has been working with the client on VoD and new content provider integrations and Digital TV is now ready to restart promoting the service. This deployment also represents the first certifications of Mirada's Smart TV technology and its support for Roku.

Improved medium and long-term ROI plus increased revenue visibility.

These latter customers are based on an opex or SaaS rather than the capex model employed in the izzi and Zapi contracts. SaaS customers have access to continuous product improvements and the revenue model is aligned to their own business models - Mirada increases its recurring revenue base as the number of subscribers grows. The SaaS model typically involves higher upfront costs for Mirada that are not capitalised but an improved medium and long-term return on investment as well increased revenue visibility.

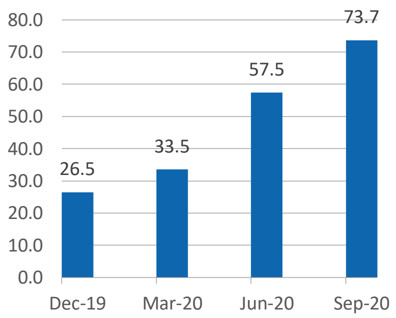
Product development

Mirada continues to invest in its Iris product portfolio. The core areas of focus are the expansion of Mirada's addressable market (Android TV Operator with custom launcher and Iris in Swift Mode), the integration with more SVoD services and end-user devices and the functional development. The latter includes Mirada's UX Evolver, that enables customers to modify the user experience for particular groups of subscribers, e.g. sports fans, and also perform A/B testing on small changes to the user experience before rolling out more generally.

Disney+ integration

In November, Mirada announced the integration of Disney+ into its Iris multiscreen product and its successful deployment across Televisa's izzi pay TV platform. The integration, the result of a collaboration between izzi, Disney and Mirada, provides izzi's subscribers with access to Disney+ via izzitv without the need for a separate subscription. The direct access is available through izzi's home screen on Android TV-based set top boxes and other devices. The unified experience enables much higher engagement with subscribers and addresses the challenge of viewer fatigue. The operator also retains control of the user experience and can customise according to specific audience requirements.

Exhibit 6: Disney+ subscriber growth



Source: Company; Allenby Capital

Disney+ has grown rapidly since its launch at the end of 2019 with 73.7m subscribers by the end of September. A major beneficiary of the Covid-19 restrictions, uptake has significantly outstripped internal growth projections. The addition of the service to izzi and the integration into Mirada's Iris multiscreen product demonstrates the potential for operators to embrace these newer SVoD. As with Mirada's other integrations, this integration can be used by other Iris customers that sign up with Disney.

Turn-key version expands addressable market

Iris in Swift Mode

Mirada announced Iris in Swift Mode in May, a turn-key version that will enable smaller operators and content owners to deploy a competitive, cloud-based video service with a short time to market and low upfront costs. Available in standard or plus versions, Swift Mode delivers live and on-demand content across a wide variety of devices (including smartphones, tablets, laptops, Android set top boxes, smart TVs and Google Chromecast).

Swift Mode includes all the advanced features of Iris, such as cDVR, advanced remote-control functionality, Live2VoD and content discovery, promotion and advertising features. Customers can also access Mirada's LogIQ analytics and Swift will incorporate Mirada's Evolver UX tool so operators can change how the offering looks and is promoted to different subscriber groups in real time. As a cloud-based service, new features can be added quickly and operators can easily scale their service.

Exhibit 7: Multi-device support

Source: Company

COVID-19 content consumption

Surge in content consumption

The pandemic and the related travel restrictions resulted in a surge in content consumption that benefited all pay TV operators and VoD services.

In June, Mirada released global data from its LogIQ data analytics platform on the changes in consumption patterns caused by the pandemic. Between 1 February and 30 April, total linear TV (traditional, scheduled TV) consumption increased 24% and consumption of linear news channels >80%. There was also a change in linear consumption across devices with STB, tablet and web all up >24% but mobile consumption down 4% as people stayed at home.

VoD consumption increased 41% and children's VoD by 56%, 79% Monday to Friday, reflecting the impact of home schooling, working from home and the lockdown on the viewing habits and screen time amongst children. There was a 48% increase in purchasing additional TV content from Transactional Video on Demand (TVoD).

To put this data into context, TV operators will typically only see a monthly variation in consumption of c. 2%. Although many operators have expanded their content offerings to subscribers, consumers have also been willing to spend more on content. In order to facilitate this, operators need to offer subscribers an optimised user experience, comparable to Netflix or Disney+, to enable content discovery, content portability etc.

The impact of COVID-19 has been mixed for Mirada. The company transitioned to complete remote working at the start of March and management was able to report that operations remain perfectly normal with no impact on its ability to deliver products and services. That said, some deployments were delayed and, as expected, sales cycles have been extended given the absence of face-to-face meetings and general nervousness about the macro economic outlook.

Positive outlook

Management reports investment is returning in Asia and the Middle East and Europe and the Americas are expected to follow in 2021. The company also reports an acceleration in subscriber number growth due to appetite for Mirada's new offerings Android TV Operator Tier with custom launcher and the integration of Disney+. Finally, it has increased its market reach through new reseller agreements.

Disclaimer

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