

## Corporate

 Current price **27.75p**

 Sector **TMT**

 Code **BIRD.L**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **93.6**

 Shares in issue (m) **337.15**

 52 weeks (p) **High** **Low**
**28.25** **7.25**

 Financial year end **December**

Source: Company Data, Allenby Capital

### Key Shareholders

 Premier Miton Group **18.62%**

 Stephen Streater **18.58%**

 Schroders **7.39%**

 Ian McDonough & family **7.29%**

 Canaccord Genuity Group **5.82%**

Source: Company Data, Allenby Capital

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## Blackbird (BIRD.L)

### Reaching new heights

During a year that was severely disrupted by the coronavirus pandemic, Blackbird delivered a strong financial performance in 2020, with revenues growing 45% to a record £1.6m, accompanied by an improved gross margin of 89.6%, and together with tight control of the cost base contributed to cash burn reducing by 32% to £1.6m, leaving the company with a healthy £6.5m year-end cash position. Good progress was made on Blackbird's OEM strategy, with Tata Communications signed as a key partner, while Blackbird's large US-based customer A+E Networks doubled the size of its existing order to use the Blackbird platform in a much deeper and more integrated role. The resilience of Blackbird's cloud-native video editing solution enabled it to provide uninterrupted support to new and existing clients throughout the COVID-19 crisis, while the low carbon intensity of its remote working technology platform endorses Blackbird as a leader in sustainability within the media industry.

- Revenue growth was strong in both of Blackbird's focus categories in 2020: 86% in News and 50% in Sport, and Blackbird achieved a particularly strong performance in North America, with revenues more than doubling to £0.97m, and accounting for 62% of overall revenues. Strong growth in direct sales to customers such as A+E Networks in 2020 led to OEM sales declining to 41% of the total, but this share is expected to grow again in 2021 following the signing of several major OEM deals, including partnerships with Tata Communications and EVS that are already beginning to bear fruit.
- As well as its strong financial position, Blackbird started 2021 with good visibility over revenues from its contracted order book, which stood at £1.93m at end-2020, including £1.06m to be recognised in 2021. While the uncertain economic environment in 2020 meant customers tended to make shorter-term commitments, contracted orders at year end for the upcoming two years were materially higher than a year earlier.
- Blackbird's profile continues to be raised through its OEM partnerships and involvement in major sporting and other live events. The recently published 'Video Shouldn't Cost the Earth' carbon emissions study that highlights Blackbird's sustainability credentials should also help to boost awareness of Blackbird across the media industry.

In our view, Blackbird's near- and medium-term prospects appear promising, with the video-industry's shift to remote working having gained traction during the COVID-19 lockdowns, and we believe the increasing focus of the media industry on sustainability should favour Blackbird's cost-effective, professional-grade, cloud-native video editing solution. Further traction with one of the three large cloud players (Microsoft, Google or Amazon), or deepening or adding further OEM deals, appear to be realistic opportunities that could significantly scale the business.

### Year End: December

(£'000)	2017	2018	2019	2020
REVENUE	758.8	870.3	1,077.6	1,567.1
GROSS MARGIN (%)	80.1	85.6	85.0	89.6
EBITDA	-1,844	-1,993	-1,772	-1,416
NET LOSS BEFORE TAX	-2,362	-2,599	-2,161	-1,906
FULLY DILUTED EPS (p)	-1.29	-1.07	-0.71	-0.56
CASH AT YEAR END	1,752	5,032	7,965	6,546
DEFERRED REVENUE & CONTRACTED ORDER BOOK	385	566	1,881	1,931

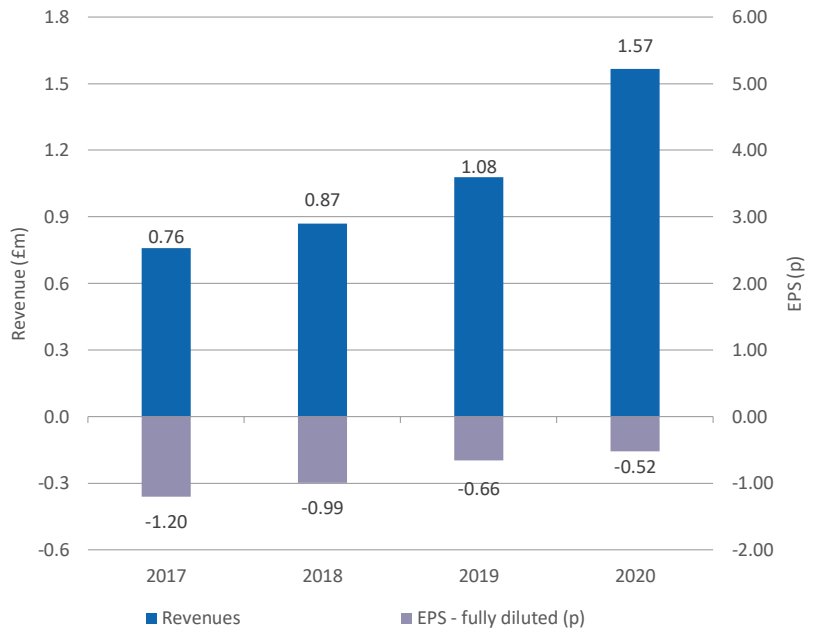
Allenby Capital acts as Nomad &amp; Broker to Blackbird (BIRD.L).

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

## Record revenues achieved and tight cost control in 2020

Blackbird delivered a strong financial performance in 2020, with revenues growing 45% to a record £1.57m, accompanied by an improved gross margin of 89.6% compared with 85.0% in 2019. Operating costs were well controlled, rising by 4.9% to £2.82m, mainly due to the R&D and product development teams being strengthened. The EBITDA loss reduced by 20% to £1.42m and the net loss narrowed by 12% to £1.88m.

Revenue and EPS progression 2017 to 2020

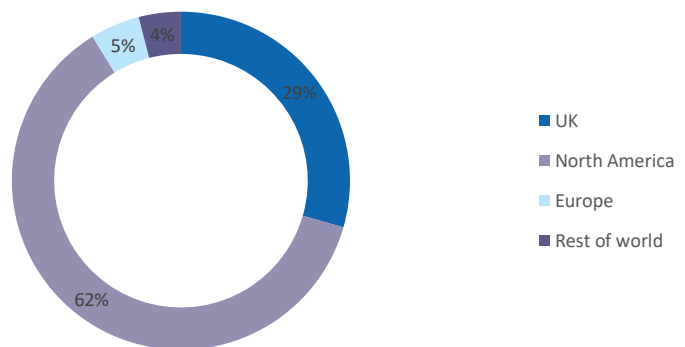


Source: Company Data, Allenby Capital

## Strong performance in North America

Revenues from North America more than doubled to £0.97m, while UK revenues declined 5% to £0.46m. The overall proportion of invoiced OEM sales reduced from 57% in 2019 to 41% in 2020 due to the strong growth in direct sales during the year, principally in North America, which accounted for 62% of revenues in 2020, up from 43% in 2019.

2020 revenues split by region

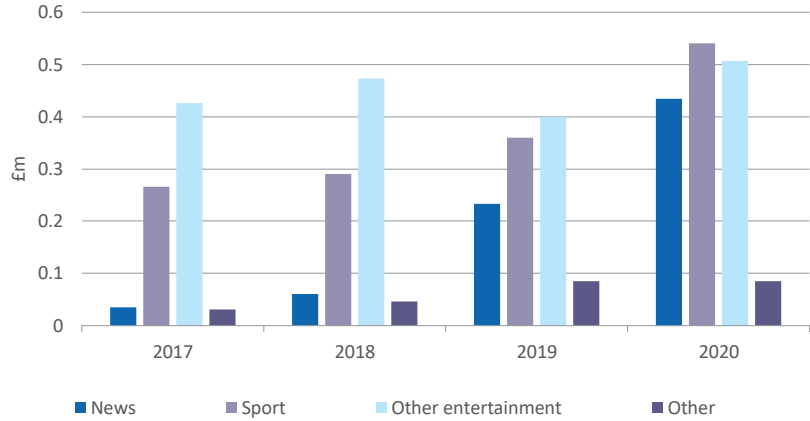


Source: Company Data, Allenby Capital

## News and Sport focus categories achieved strong growth

Strong revenue growth was achieved in both of Blackbird’s focus categories, with 86% growth in News and 50% growth in Sport, while the ‘Other entertainment’ category that includes esports saw revenues increase by 27%.

Revenue progression by category 2017 to 2020



Source: Company Data, Allenby Capital

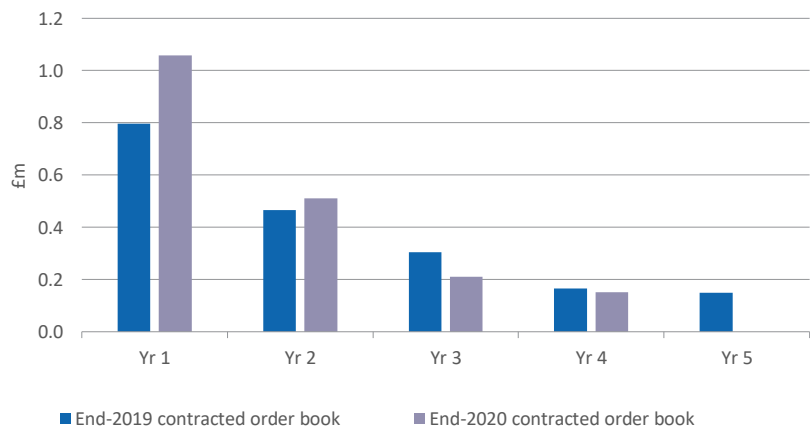
## Reduced cash burn and strong balance sheet

Tight control of the cost base, evidenced by operating costs rising by only 5%, contributed to a narrowed EBITDA loss being reported and cash burn reducing by 32% to £1.6m, resulting in Blackbird ending the year with a healthy £6.5m cash position that we expect should provide sufficient resources to fund the company through to break even.

## Contracted order book provides good revenue visibility

As well as its strong financial position, Blackbird started 2021 with good visibility over revenues from its contracted order book, with contracted but unrecognised revenues of £1.93m (including £0.40m of deferred revenues), of which £1.06m is scheduled to be recognised in 2021. The total contracted order book is only modestly higher than the £1.88m order book at end-2020, reflecting customers preferring to make shorter-term commitments in the uncertain 2020 economic environment. However, as shown below, contracted orders for the next two years are higher than a year earlier.

Contracted but unrecognised revenues by year of recognition at end-2020 compared with end-2019



Source: Company Data, Allenby Capital

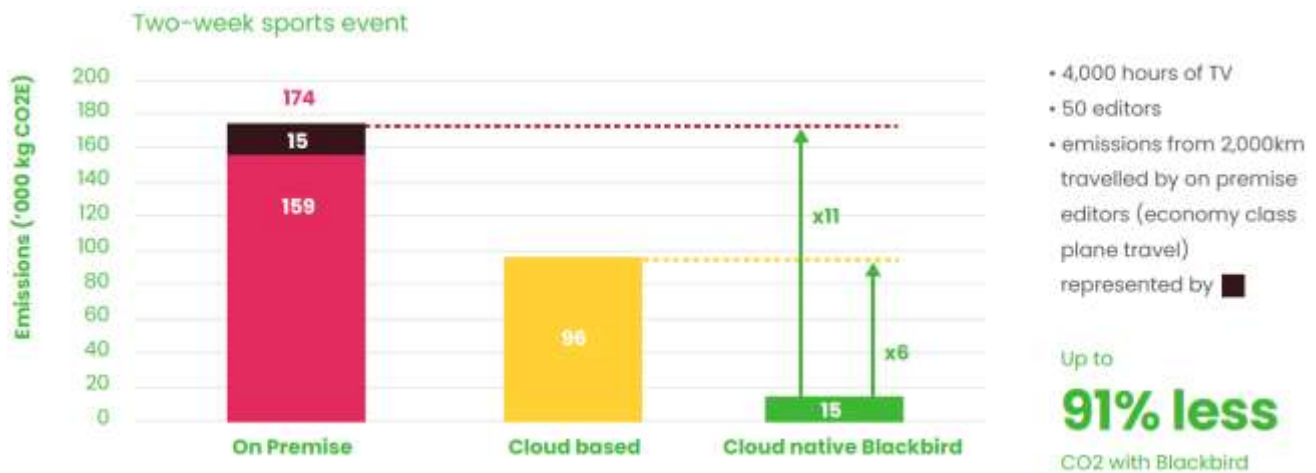
## OEM strategy gaining traction

Blackbird made good progress with its OEM strategy in 2020, signing partnerships with Editshare, Zixi and Tata Communications, which has recently agreed its second commercial deal incorporating the Blackbird platform. This progress continued in the first quarter of 2021, with EVS and LiveU signing OEM partnerships. EVS is a globally recognised leader in live video technology for broadcast and new media productions, and they have agreed a deal incorporating the Blackbird platform for two major international sporting events, one in the summer of 2021 and one in the winter of early 2022. LiveU offers end-to-end contribution, production and distribution solutions for live news and sports events.

## Validating its sustainability credentials

In March 2021, Blackbird published a carbon emissions study of the video industry entitled ‘Video Shouldn’t Cost the Earth’, developed in collaboration with environmental management consultancy Green Element. The study highlights the benefit of cloud-native solutions versus cloud-based solutions that require supporting hardware, and traditional on-premises video editing and production solutions. The benefits of using Blackbird’s cloud-native solution are emphasised with the example of a two-week sporting event, where using the Blackbird technology platform is estimated to generate up to 91% less carbon emissions than an on-premise video editing solution and up to 84% less carbon emissions than cloud-based solutions.

Comparison of estimated carbon emissions generation from video editing for a two-week sporting event



Source: Company; ‘Video Shouldn’t Cost the Earth’ study, published March 2021

A number of factors contribute to the lower carbon footprint of Blackbird’s technology platform compared with alternative video editing solutions:

- **Travel** – Blackbird enables remote, collaborative editing in the cloud, lessening the need to travel to offices and live events. The product’s simplicity allows users to be trained and supported remotely, reducing the need for travel.
- **Hardware** – Blackbird works in any browser, eliminating the need to buy bespoke editing hardware, and enabling easy scaling with minimal infrastructure investment. The software being available digitally removes the need for packaging and transportation of physically boxed products.

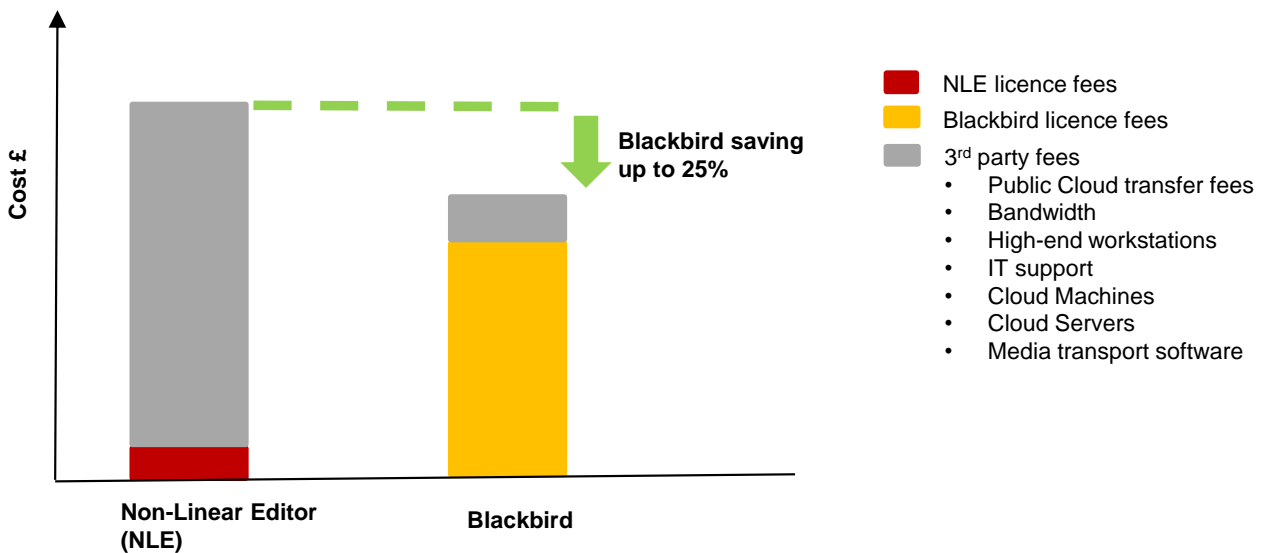
- Energy** – Blackbird’s ultra-efficient codec enables high-quality video output to be published and shared without the need to upload or download high resolution content, resulting in major bandwidth energy efficiencies. The codec enables highly efficient ingress/egress of video content and removes the requirement for energy intensive storage and network infrastructure. There is also no need for high performance desktop workstations or graphical processing units, thus saving on power usage for cooling and performance.

### Total cost of ownership analysis

Blackbird plans to publish an analysis of the total cost of ownership (TCO) of video editing solutions later this year. Blackbird’s management has indicated that the report will highlight how Blackbird is materially cheaper than alternative cloud solutions from a TCO perspective, due to the Blackbird solution requiring lower bandwidth and less hardware, as well as needing less IT support and no additional software to transport high resolution content around the internet due to its proxy video creation. Another important factor is that the Blackbird licence fee covers a much higher proportion of the total cost, due to it not only providing the editing software but also the infrastructure. This gives Blackbird users much greater visibility over costs.

Blackbird’s total cost of ownership analysis versus non-linear editor

### Total cost of ownership (TCO) in Public Cloud



Source: Company Data

### Raising its profile

Blackbird continues to raise its profile and reputation within the video editing industry through its growing number of OEM partnerships and involvement in major sporting and other live events. Blackbird won a number of awards during 2020, including the “Emerging Technology Company of the Year” award from the international “Sports Pro OTT Awards”. In addition to this, the publication of the ‘Video Shouldn’t Cost the Earth’ emissions study should draw attention to the company within the media industry as it increasingly focuses on sustainability issues and how to address them. An example of the increase in Blackbird’s profile was CEO Ian McDonough’s recent appearance on Sky News to discuss the launch of the emissions study.

## Medium-term prospects

While Blackbird continues to focus on growing its OEM partnerships, particularly with large-scale global OEMs, such as Tata Communications and EVS, it is also working closely with the three main public cloud platforms: Microsoft Azure, Google Cloud Platform (GCP) and Amazon Web Services (AWS) to ensure that Blackbird can be completely contained within the major public cloud ecosystems. This will allow potential customers to fully retain their content within this environment. A partnership with one of the main public cloud platforms should provide a significantly larger scale opportunity for Blackbird.

Blackbird's strategic direction



Source: Company

## Conclusion

Blackbird is a well-capitalised, market-leading provider of fully featured professional-grade video editing and production software that is cloud-native, making it well-suited to the trend for remote working that has been accelerated by the COVID-19 pandemic.

The operational resilience of Blackbird's business was reflected in its strong 2020 financial performance, with a record £1.6m revenues achieved, driven by strong growth in both its News and Sport focus categories, particularly in North America. Strong direct sales growth led to the share of OEM sales declining in 2020, but OEM sales growth should accelerate as Blackbird's OEM strategy continues to gain traction, evidenced by the recent flow of major OEM deals, including partnerships with Tata Communications, EVS and LiveU.

The company has a low cash-burn rate, which is on a downwards trend due to revenues continuing to grow at a robust pace while cost increases are held to a relatively modest level, and this dynamic resulted in a 32% decline in cash burn in 2020. Blackbird has maintained a strong balance sheet, and its £6.5m net cash position at end-December 2020 appears sufficient to fund the company through to break even.

Blackbird's near- and medium-term prospects appear promising, with the apparent acceleration of the video-industry's shift to remote working, and we believe the increasing focus of the media industry on sustainability should favour Blackbird's cost-effective cloud-native video editing solution, with its much lower carbon footprint than alternative cloud-based and on-premises solutions. Either an expansion of a partnership with one or more of the three main public cloud platforms, or deepening or adding further OEM deals could very quickly add significant scale to the business.

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