Company Note

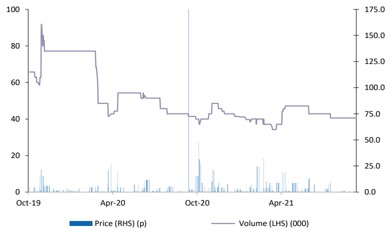
Finals

29 September 2021

Corporate

Current price	71p
Sector	TMT
Code	MIRA.L
Listing	AIM

Share Performance



	1m	3m	12m
MIRA.L	0.0%	-5.3%	-2.1%

Source: Thomson Reuters, Allenby Capital

Share Data		
Market Cap (£m)		6.3
Shares in issue (m)		8.9
52 weeks (p)	High	Low
	85.0	60.0
Financial year end		30 March

Source: Company Data, Allenby Capital

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

Source: Company Data, Allenby Capital

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Equity Research

Mirada plc (MIRA.L)

Considerable pipeline of sales opportunities

Finals from Mirada, the leading provider of integrated software for digital TV operators and broadcasters, were in line with expectations with revenue down 15% to $11.1m (ACLe: $11.5m) as COVID-19 delayed both existing deployments plus investment decisions. Adj. EBITDA fell 30% to $1.75m but was better than forecast (ACLe: $1.3m). H2 saw some revenue growth over H1 and management is optimistic for the outlook with a considerable pipeline of new sales opportunities, partly a function of a new reseller-based commercial model. The successful launch of the Android TV Operator Tier solution at izzi Telecom was the standout feature of FY21. This major reference site, plus the integration with key content providers, means Mirada can capitalise on the investment by traditional TV players to embrace newer streaming services and provide consumers with a one-stop shop, 'super-aggregation'. FY22 profit forecast unchanged on revenue expectation reduced by $0.9m to $14.0m. 160p/share fair value unchanged.

- **Financial performance –** Revenue decreased 15% to $11.1m (ACLe: $11.5m) as customers slowed deployments and new investment decisions. Development revenue was down 30% to $5.6m and Licence revenue fell a modest $0.2m to $3.6m. Staff costs increased 5% to $7.1m, mainly a function of costs being incurred in Euros and the dollar weakening. Other admin costs fell 36% to $2.1m. This reduction partly offset the lower revenue and adj. EBITDA fell $0.8m to $1.7m (ACLe: $1.3m). Net debt increased $2.0m to $7.1m (ACLe: $8.4m). This included $1.8m in new six-year, government-backed COVID-19 low interest loans. Post period end, it extended and expanded its credit facility with Leasa Spain, owned by Mirada's largest shareholder, to November 2022 and €3.0m. $1.2m is currently drawn. Mirada continues to invest in its product and $4.2m was capitalised (FY20: $4.4m).

- **Operational highlights –** Mirada's Android TV Operator Tier service was formally launched in October 2020 with an initial deployment at izzi Telecom, Mirada's largest customer. By March, more than 440k STBs had been deployed and izzi is expected to gradually migrate the existing legacy estate, comprising >8m Linux STBs, to Android TV boxes. The izzi deployment represents one of largest and fastest deployments of the Google TV technology. Mirada completed the integration of Disney+ and Amazon Prime Video content services within Mirada's Iris multiscreen product as part of the izzi deployment. Commercial launches of Iris at ViyaTV+ (US Virgin Islands) and Zapi (Spain).

- **Outlook –** Management reports a significant increase in the pipeline of new sales opportunities on across multiple geographies as well as further growth in existing deployments. Much of this pipeline is attributed to the company's shift to a new reseller-based commercial model. More than 800k Android TV STBs have now been deployed at the rate of deployment at izzi Telecom has accelerated.

Year End: 30 March					
($'000)	2018A	2019A	2020A	2021A	2022E
REVENUE	8,816	12,322	13,157	11,134	14,019
ADJ. EBITDA	(1,121)	814	2,495	1,695	2,889
ADJ. PBT	(5,096)	(3,226)	(1,424)	(3,163)	(1,141)
ADJ. EPS (p)	(345.0)	(58.4)	(12.5)	(33.6)	(9.4)
NET CASH	(11,703)	(4,861)	(5,047)	(7,071)	(7,585)
EV/REVENUE (x)	2.0	1.1	1.1	1.4	1.2
EV/EBITDA (x)	NEG	16.8	5.5	9.4	5.7

Source: Allenby Capital. 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.

Investment summary

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, including streaming services) and unify search, navigation and recommendation into a seamless user experience across multiple device types and network architectures in the highly fragmented media market.

The global Pay-TV market is growing and is expected to reach more than 1bn users by 2025 with revenue of >$120bn. But the market is being disrupted by Over The Top (OTT) operators, such as Netflix and Amazon PrimeVideo, that have transformed the user experience. This has impacted the traditional cable operators and broadcasters in a number of ways:

- Potential loss of subscriptions cash flows (cord-cutting and cord-shaving)
- Accelerated need for digital transformation and investment in fast to implement and cost effective 'any time, anywhere, any device' TV solutions
- Requirement for more flexible technology partners than incumbent STB manufacturers to deliver innovative solutions
- Fragmentation in content provision has increased complexity for consumers creating the need for 'super-aggregation' user interfaces

Super aggregators

In order to address these challenges, Pay TV operators need to transition into becoming 'super aggregators', combining the streaming 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.

Super-aggregator model

Mirada provides the necessary software and integration with the streaming services to accelerate adoption of the super-aggregator model. The industry is also shifting towards Android TV and with izzi Telecom, Mirada has one of the largest and fastest deployments to date as a reference site. As such, Mirada is well positioned to capitalise as investment in the industry resumes.

Iris: capex and opex models

Mirada offers its Iris multi-screen, front end and back end platform software with cloud based delivery on a subscription revenue model. Customers can choose between capex (one-off licences per device with higher initial set up fees) and opex (lower set up fees and recurring revenue per device). The opex model more closely matches the subscription model of its customers, increases revenue visibility and is ultimately more profitable over the contract lifetime but does require Mirada to fund the initial set up costs. Mirada currently has c. 2m daily active devices contributing to recurring revenue (typically $0.50 to $2 per subscriber per month with a lifetime value of five to ten years).

FY21: Mixed impact of COVID-19

Finals to March 2021 reflected the mixed impact of COVID-19 on the media industry. On the one hand, the confinement measures enacted in most countries resulted in a surge in content consumption and a substantial shift towards streaming services. This benefits Mirada as the company pulls together multiple services into a single interface. On the other, the disruption and economic uncertainty caused by COVID-19 resulted in delays to the deployments of existing projects and lengthening sales cycles as potential customers delayed investment decisions.

Interest in investment from both existing and prospective customers returned to pre-pandemic levels

Mirada's primary market comprises a group of 350 to 400 telecommunications and broadcast operators globally. Typically around 10% of these will review their integrated software provider each year. For most of FY20, this process fell to almost zero as operators awaited greater clarity around the pandemic. There was also a slowdown in professional services work at existing customers as their immediate priorities shifted away from functional upgrades. During H2, management reports that the interest in investment from both existing and prospective customers returned to pre-pandemic levels.

Three new services during FY20

In spite of this challenging environment, Mirada launched three new services during FY20: ViyaTV in the US Virgin Islands, Zapi for PMO in Spain and the next generation Android TV-based service at izzi Telecom in Mexico.

Adopted a more indirect sales model

Mirada successfully transitioned to remote working during FY20 and has also adopted a more indirect sales model that significantly increases its sales and marketing reach across multiple geographies without the cost associated with a direct presence. Management reports a substantial increase in the sales order pipeline – particularly in Asia - and it is well placed to capitalise as investment decisions resume for new services but also functional upgrades as existing customers look to enhance their user experiences.

The industry continues to shift towards a Software as a Service model (opex rather than capex). This provides Mirada with the opportunity for long term recurring revenues although there are working capital implications during the initial set up phase with this model. Securing additional customers remains a key focus and will reduce Mirada's customer concentration – izzi Telecom accounted for 71% of total revenue (FY20: 72%).

Financial performance

Exhibit 1: Summary financial performance

Year end 30 March	FY20A	FY21A	Change
Revenue			
Professional Services	7,983	5,606	*-30%*
Licences	3,771	3,565	*-5%*
Managed Services	1,210	1,963	*62%*
Mirada Connect	193	0	*-100%*
Total	**13,157**	**11,134**	***-15%***
Gross profit	12,481	10,837	*-13%*
Gross margin	*94.86%*	*97.33%*	
Depreciation	(360)	(378)	*5%*
Amortisation	(3,499)	(3,909)	*12%*
Staff costs	(6,790)	(7,095)	*4%*
Administrative expenses	(3,196)	(2,047)	*-36%*
Operating profit/(loss)	**(1,364)**	**(2,592)**	***90%***
EBITDA	**2,495**	**1,695**	***-32%***
Adj. PBT/(LBT)	**(1,424)**	**(2,742)**	***93%***
Reported PBT/(LBT)*	275	(2,742)	
Net cash/(debt)	**(5,047)**	**(7,071)**	

Source: Company; Allenby Capital.

* FY20A reported PBT includes profit on disposal of Mirada Connect in July 2019 of $1.7m.

Revenue reduced 15% to $11.1m (ACLe: $11.5m) as customers slowed deployments and new investment decisions. Within this, Development revenue was down 30% to $5.6m but Licence revenue fell a more modest 5% to $3.6m. The FY20 comparator did also include a final $0.2m in revenue from Mirada Connect that was sold in July 2019 to PaybyPhone Ltd, a Volkswagen subsidiary. Stripping this out, revenue fell 14%. Group gross margin remains very high (97% versus 95%).

Staff costs increased 5% to $7.1m, mainly a function of costs being incurred in euros and the dollar weakening. Other admin costs fell 36% to $2.1m and this partly offset the lower revenue and adj. EBITDA fell $0.8m to $1.7m (ACLe: $1.3m). There was also a tax credit ($0.2m; FY20: $0.3m) from Mirada Iberia's research and development tax reductions and there was a net loss of $3.0m (FY20: $1.1m). The FY20 reported comparator includes the $1.7m profit on the disposal of Mirada Connect.

Mirada generated $3.1m of operating cash flow (FY20: $1.8m), mainly a function of movements in working capital. Mirada continues to invest in its product and $4.2m of development spend was capitalised (FY20: $4.4m) and other intangible assets increased $0.7m, mainly relating to the custom launcher for Android TV.

Net debt increased $2.0m to $7.1m (ACLe: $8.4m). Long term debt increased $3.0m to $5.4m (including $1.8m in new six-year, government-backed COVID-19 low interest loans) and short term borrowings and related party loans reduced to $1.8m (FY20: $2.8m). Post period end, the €1.3m credit facility from Leasa Spain, owned by Mirada's largest shareholder, was extended to €3.m and now expires in November 2022.

Although the limited free float and the use of debt to fund the business will put off some, the current EV/EBITDA valuation of 5.7x 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.

Operational performance

Android TV Operator Tier

izzi Telecom

In October, Mirada started the deployment of its Android TV Operator Tier with custom launcher offering at izzi Telecom, the Mexican telecoms company and Mirada's largest client. This is an 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.

800k STBs deployed by August

The rate of the roll out of the new STBs at izzi increased during FY21 to c. 100k per month and more than 450k had been deployed by March 2021 and more than 800k by August. Including STBs running the legacy Linux operating system, izzi has 3.1m STBs with Mirada software.

Android TV has emerged as the leading operating system for most operators for smart TVs and video STBs. It is a far more open operating system than Google's original Google TV and enables developers to build apps and operators to layer on their own user interface and branding. It provides operators with access to a wide range of content providers, including the newer streaming services, as well as high levels of functionality.

Mirada's Operator Tier enables operators to customise the look, feel and functionality of the platform. Mirada's custom-made TV input service API means the izzi deployment 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 the existing 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. Mirada has also integrated with most of the key streaming services including Disney+, Amazon Prime Video, Netflix, HBO, Fox, YouTube and blim TV.

The izzi roll-out 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.

Zapi

In September 2020, Mirada completed its largest European launch of Iris with Zapi, a new OTT-based Pay TV platform developed by PMO (Plataforma Multimedia de Operadores), a group of local Spanish telecommunications services looking to establish Zapi as a leading Pay TV platform in Spain. Zapi lets subscribers watch content across multiple devices including Android TV-powered STBs.

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 under the capex model, similar to izzi Telecom, whereby Mirada receives an initial set up fee and will receive a one-off licence for each new subscriber plus an 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

In August 2020, ATN international's Viya launched 'Viya TV+' based on Iris in the US Virgin Islands and customer satisfaction and the rate of uptake has been high. Viya is Mirada's second reference customer in the Caribbean, after One Communications in Bermuda which launched in 2019. 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.

Meanwhile the pandemic has impacted the pace of subscriptions for SkyTel in Mongolia and Digital TV Cable in Bolivia, but the slowdown is expected to be temporary as conditions improve.

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.

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