1H19 Results Presentation

20 February 2019

AUDINATE

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Audinate - Pioneering the future of AV

World-leading supplier of digital audio networking for the Professional AV industry

Growing network effect with number of Dante-enabled products in market
1,751

USA
UK
Germany
China
Japan
Hong Kong
HQ
Sydney, Australia

Products

Audinate's core technology, called Dante, distributes audio signals across computer networks

Dante comprises software and hardware that resides inside the audio products of Audinate's Original Equipment Manufacturers (OEM) customers

Audinate products	Customers (OEM Brands)	OEM Products
Chips Modules	YAMAHA BOSE	
	SHURE BOSCH	
	Solid State Logic SOUND || VISION SENNHEISER	
Cards Software	Symetrix SONY	
	Focusrite Roland	
	HARMAN LAWO	
	CRESTRON	

Listed on the Australian Stock Exchange (ASX:AD8) in June 2017

ASX

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1H19 Results Highlights

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1H19 Financial highlights compared to prior period

60%
growth in revenue to A$14.2m

51%
growth in revenue to US$10.3m

A$0.8m
NPAT compared to $2.2m [1]

A$1.7m
EBITDA up from $0.1m

A$0.6m
Operating cashflow compared to ($0.2m)

Sales growth continues to be driven by the core business along with demand for AVIO adapters

1. The Group recorded a profit after tax of $0.8m in 1H19, compared to $2.2m for PCP which included an income tax benefit of $2.4m.

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1H19 Operational highlights compared to prior period

59%
growth in *CCM units shipped to 181k

22%
growth in Dante software units shipped to 88k

125%
More people trained on Dante (18,000)

36%
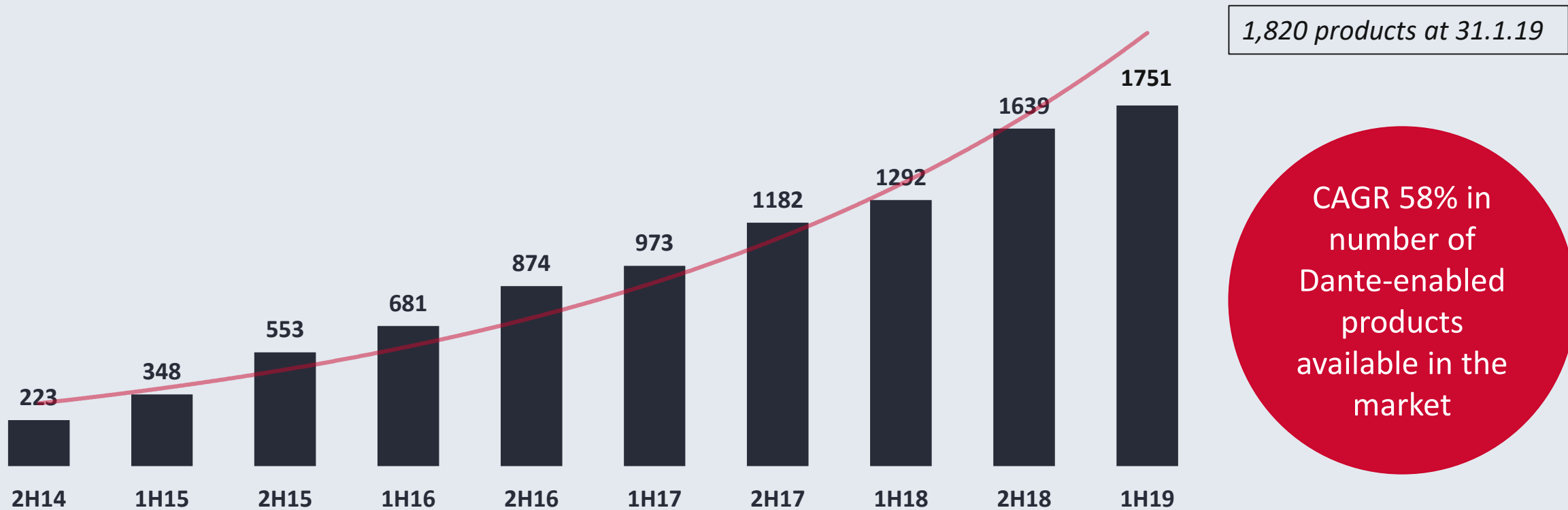OEM product growth to 1,751

*CCM includes chips, cards, modules & adapters

Westfield Mall Shopping Centre London, England
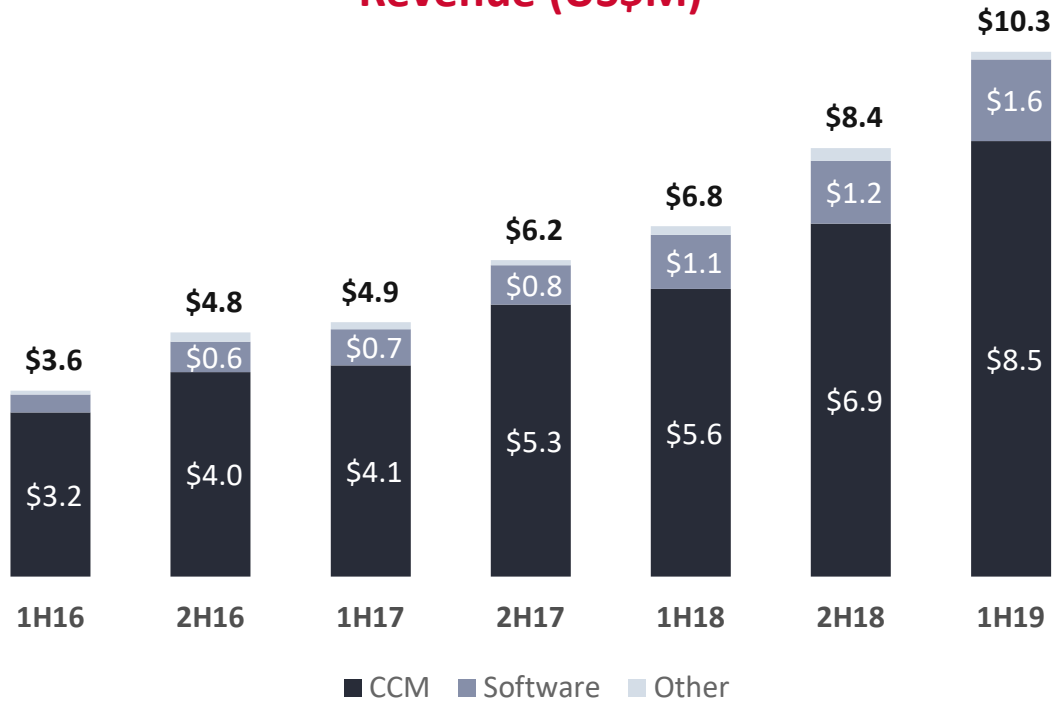
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Growing network effect

Number of Dante-enabled products drives economic network effect

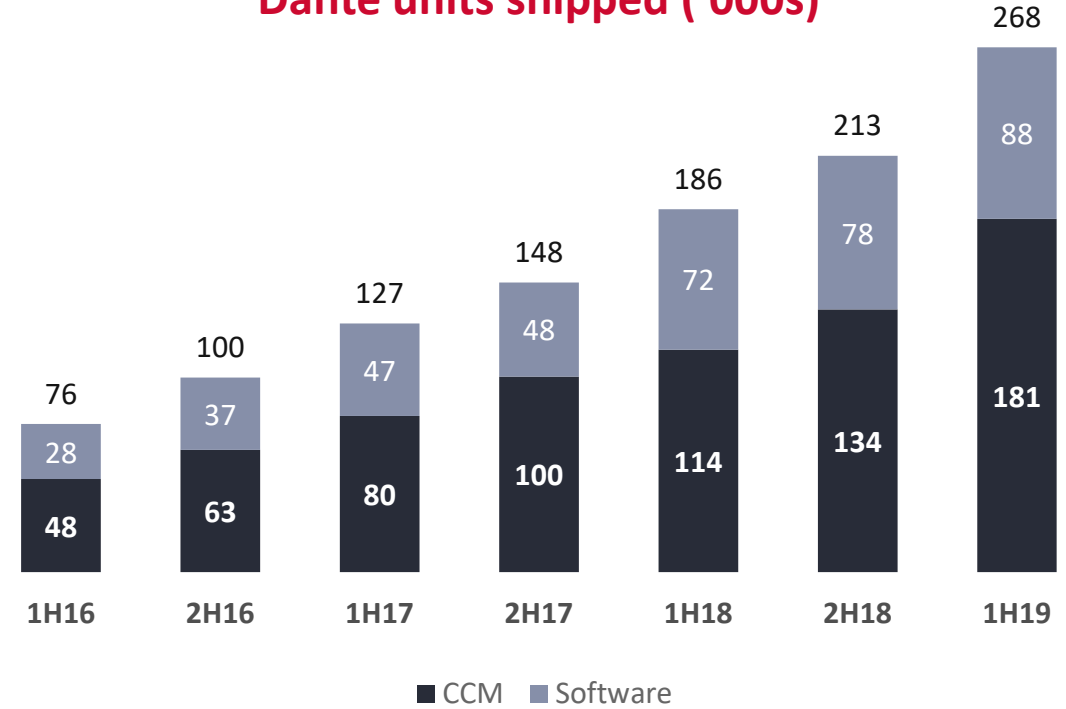1,820 products at 31.1.19

CAGR 58% in number of Dante-enabled products available in the market

- 2H14: 223
- 1H15: 348
- 2H15: 553
- 1H16: 681
- 2H16: 874
- 1H17: 973
- 2H17: 1182
- 1H18: 1292
- 2H18: 1639
- 1H19: 1751

Note: per financial half-year

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Core business drives growth in revenue and units shipped

Revenue (US$M)

	1H16	2H16	1H17	2H17	1H18	2H18	1H19
Total	$3.6	$4.8	$4.9	$6.2	$6.8	$8.4	$10.3
Software		$0.6	$0.7	$0.8	$1.1	$1.2	$1.6
CCM	$3.2	$4.0	$4.1	$5.3	$5.6	$6.9	$8.5

Legend: CCM, Software, Other

- 51% USD revenue growth in 1H19 (PCP)
- Chips, cards & modules (CCM) includes AVIO adapters
- Software includes royalties, software & DDM
- Audinate bills customers & pays COGS in USD

Dante units shipped ('000s)

	1H16	2H16	1H17	2H17	1H18	2H18	1H19
Total	76	100	127	148	186	213	268
Software	28	37	47	48	72	78	88
CCM	48	63	80	100	114	134	181

Legend: CCM, Software

- 59% growth in units shipped in 1H19 (PCP)
- Good unit growth in Brooklyn (> 30%) and Ultimo (≈ 50%)
- Strong repeat revenue in core business – revenue from top 10 customers ↑30% (PCP)

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1H19 Financial highlights

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1H19 income statement

(AU$'000s)	1H19	1H18	Change
Sales	14,151	8,848	60%
Cost of goods sold	3,773	2,245	68%
Gross profit	**10,377**	**6,603**	**57%**
Gross margin	*73.3%*	*74.6%*	
Employee expenses	5,801	4,323	34%
Marketing expenses	1,051	740	42%
Admin & other opex	1,843	1,454	27%
Total operating expenses	**8,695**	**6,517**	**37%**
EBITDA	**1,682**	**86**	
Depreciation and amortisation	-1,149	-685	68%
Interest revenue	103	113	-9%
Other Income	94	30	213%
Profit/(Loss) before tax benefit	**730**	**-457**	
Income tax benefit/(expense)	114	2,644	
Profit/(Loss) for the year	**845**	**2,187**	

- Revenue increased 60% to $14.2m; in US dollars revenue increased 51% to US$10.3m
- Movement in gross margin is due to product mix (adapters) & a part shortage which increased costs temporarily
- Increase in expenses primarily due to additional headcount & further LTI grants
- Revenue growth in excess of operating costs resulted in EBITDA increasing to $1.7m, from $0.1 in prior period
- Higher 1H18 Profit relates to $2.2m favourable impact of tax consolidation
- Foreign exchange impact due to the weakening AUD v USD

FTEs

55	64	83
31.12.16	31.12.17	31.12.18

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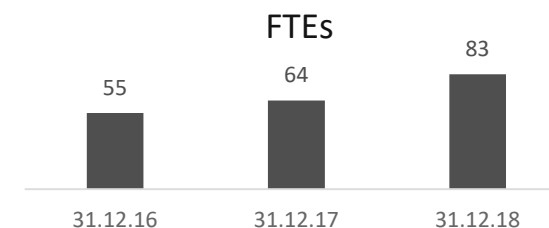
Revenue growth & operating leverage = EBITDA growth

AUD Revenue & Cost trends

EBITDA
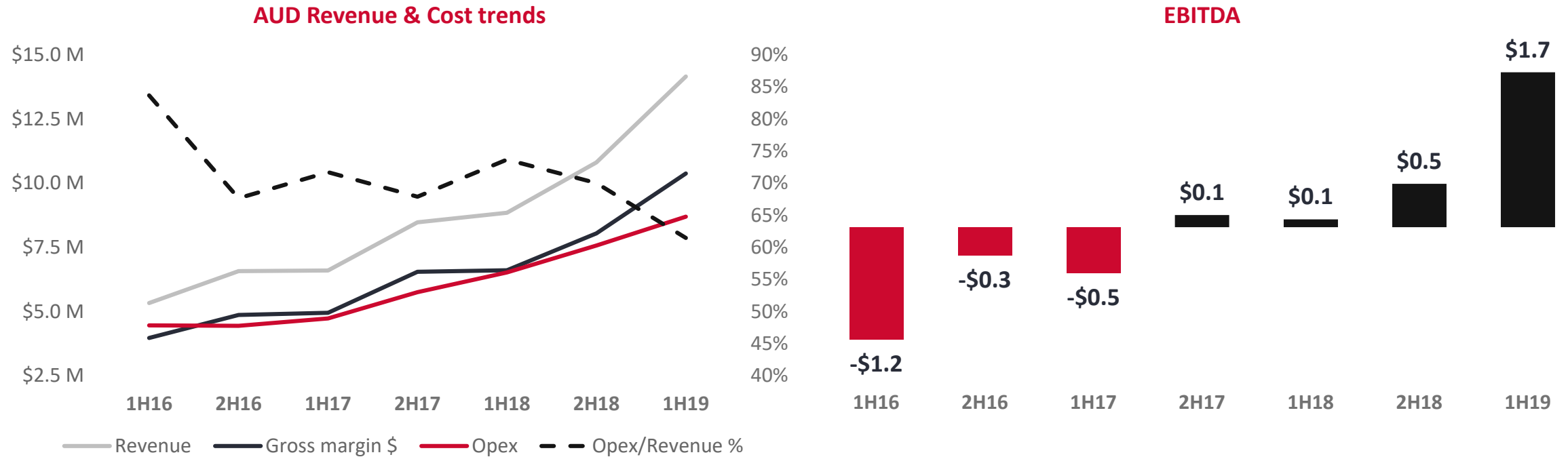
- Operating costs as % of revenue continues to improve - demonstrating operating leverage in cost base

- Growth in core gross margin is used to fund new product initiatives such as Dante Domain Manager and Dante AV (video)

1H19 cash-flow statement

(AU$'000s)	1H19	1H18	Change
Cash flows from operating activities			
Receipts from customers	13,950	9,304	50%
Payments to suppliers and employees	(13,470)	(9,947)	35%
Interest received	102	142	(28%)
Interest and other finance costs paid	0	0	-
R&D incentive (research activities)	0	335	(100%)
Income taxes paid	(31)	(45)	(31%)
Net cash from operating activities	**551**	**(212)**	**-**
Cash flows from investing activates			
Payments for PP&E	(229)	(198)	16%
Payments for intangibles	(1,722)	(1,377)	25%
R&D incentive (development activities)	0	680	(100)%
Net cash used in investing activities	**(1,951)**	**(895)**	
Cash flows from financing activities			
Proceeds from issue of shares	0	4,083	-
Payments to selling shareholders	0	(7,030)	-
Payments for capital raising costs	0	(115)	-
Net cash used in financing activities	**0**	**(3,062)**	
Net increase in cash	**(1,400)**	**(4,168)**	
Opening cash	13,631	18,694	(27%)
FX impacts	(55)	(71)	(23%)
Cash at the end of the financial year	**12,176**	**14,455**	**(16%)**

- Net cash from operating activities increased from -$0.2m in prior period to $0.6m in the current period
- Receipts from customers increased 50% due to increased sales of chips, cards and modules and increased software sales
- R&D grant of $1.3m received in 2H19, in FY18 the grant was received in the first half
- Payments for intangibles predominately relate to development costs, including video products
- Revenue, COGs & a portion of operating costs are denominated in USD

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Statutory balance sheet

(AU$'000s)	31 Dec 18	30 Jun 18	Change
Cash and cash equivalents	12,176	13,631	(11%)
Trade and other receivables	2,234	1,819	23%
Current tax asset	1,253	1,344	(7%)
Inventories	2,345	1,224	92%
Other assets	469	276	70%
Current assets	**18,477**	**18,295**	**1%**
Property, plant and equipment	776	691	12%
Intangibles	4,547	3,879	17%
Deferred tax asset	2,079	1,874	11%
Non-current assets	**7,403**	**6,444**	**15%**
Total assets	*25,880*	*24,740*	*5%*
Trade and other payables	2,496	2,165	15%
Contract liabilities/unearned revenue	171	134	28%
Income tax payable	29	23	26%
Employee benefits	1,242	1,663	(25%)
Provisions	73	73	-
Current liabilities	**4,011**	**4,057**	**(1%)**
Employee benefits	343	309	11%
Total liabilities	*4,354*	*4,366*	*-*
Net assets	**21,525**	**23,374**	**(8%)**
Contributed capital	63,288	63,288	-
Reserves	828	522	59%
Accumulated losses	(42,591)	(43,435)	(198%)
Total equity	**21,525**	**20,374**	**6%**

- Closing cash balance of $12.2m at close of period
- Increase in trade and other receivables in line with revenue growth
- Current tax asset is the R&D incentive received from ATO in Feb 19
- Inventories were increased to meet growing sales demand & build holdings of Dante AVIO adapters
- Intangibles primarily relate to capitalised development costs (amortised over 3 years)

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Growth Drivers

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Growth Drivers

Robust core audio networking business

- Market leadership position in digital audio networking
- 1,751 products shipping from 228 manufacturers, and growing
- Strong pipeline of Dante from 212 manufacturers yet to ship first product
- Continued conversion from analogue connected systems to digital
- Expansion of Dante core networking offerings including software based solutions
- Plenty of runway for growth – management estimate digital penetration is 7-8%
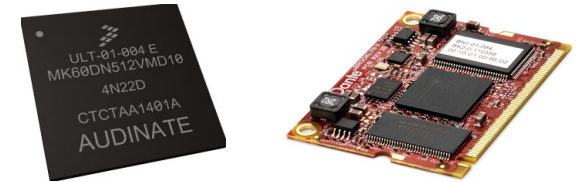
New products to more than *double* addressable market to AUD $1bn

- Dante AVIO Adapters – connect legacy equipment to Dante
- Dante System Management software
- Dante AV Video solution

Dante AV – **Video** and Audio, Together

- ***Adds <u>video</u> signal distribution to Dante networking***
- Dante AV launched Feb 2019 at Integrated Systems Europe
- Same business model:
  - Sold to equipment manufacturers (OEMs)
  - Repeat revenue
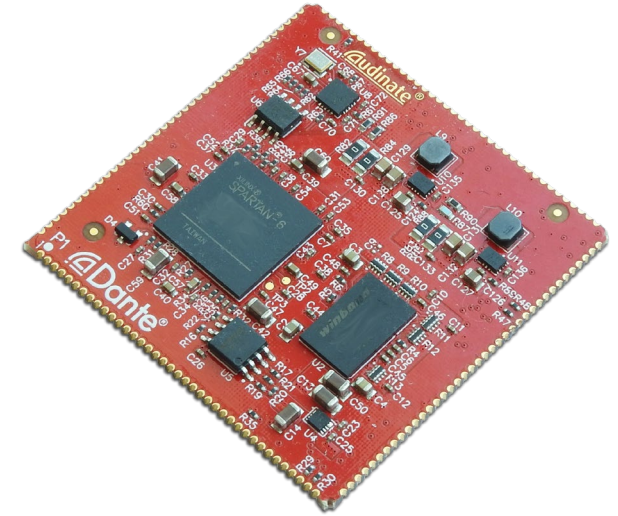- Complete HDMI-over-IP product design enables rapid time to market

Dante AV Use cases

- Sports Bars and Casinos
- Video Display Walls
- Classrooms
- Live Presentations
- Retail signage
- Houses of Worship
- Transportation hubs
- Courtrooms
- Conference Rooms

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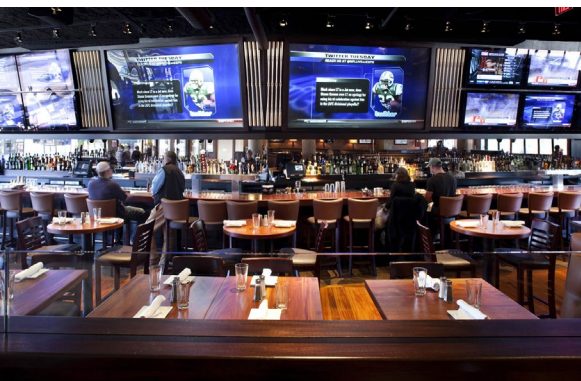
Dante AV Module

- Dante "AV-over-IP" networking module

    - One video signal

    - 8 channels of audio

    - Synchronisation, plug and play, HDCP, etc

- Same familiar Dante management

    - Easy to use networking for integrators

    - Dante Controller for setup

    - Dante Domain Manager

- Expected product availability to OEMS middle of 2019, OEM video products contributing to revenue in FY20

BESTOFSHOW
AWARDS 2019
Recognising and rewarding the achievements and innovations
in product and service development at ISE 2019

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Dante AV Product Design Suite

- Complete HDMI-over-IP product design

  - Accelerate OEM time to market

  - Enable ODM business model

- Features

  - HDMI input & HDMI output

  - Dante Video and Audio networking

- Includes firmware, documentation and software for encoder or decoder products

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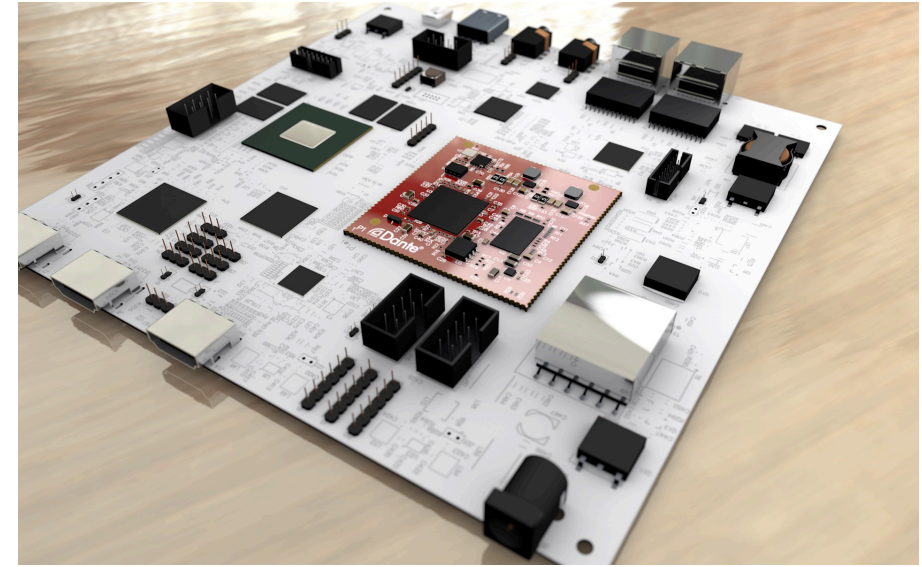
Dante AVIO Adaptors – Network Everything

- 1H19 sales ahead of budget
- Established a global distribution channel of online retailers and country distributors
  - 77 resellers in 45+ countries and growing (>50% on 2H18)
- Strong repeat orders
  - 80% revenue generated from customers who have ordered more than twice
- Building inventory to meet demand
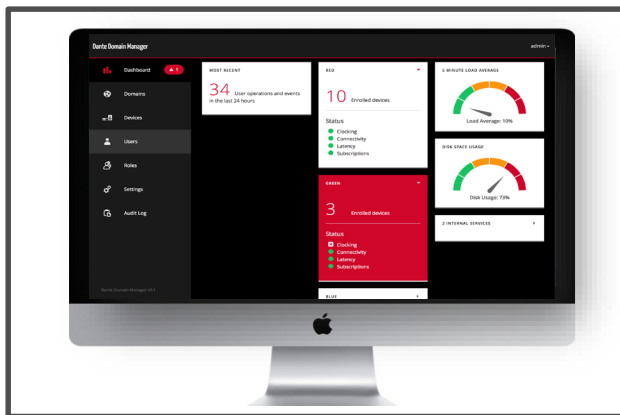- Increased marketing activities in 2H19 to generate additional demand

"Problem solver" for System Integrators

Dante for "brown-field" installations

Online retail & country distributors

Pull through Dante products

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Dante Domain Manager – System Management Software

- 1H19 sales on budget
- Focus on expanding and educating the sales channel
  - 133 resellers (System Integrators) signed to date (↑33% in 1H19)
  - Additional staff in Germany, Japan, China & existing geographies
- DDM depends upon new Dante firmware features
  - ≈ 50% of Dante products in market are now DDM ready (↑65% in 1H19)
  - 76% of top 25 OEMs have DDM ready products
- *Management software more than doubles the revenue opportunity associated with the core business*

Secure Control

Scale beyond a LAN

Logging & Auditing

Sold to Installed Base

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FY19 Priorities

FY19 outlook & priorities

- Consistent strategy and successful execution

- Broaden our suite of core Dante products to accelerate penetration within OEMs

- Continued promotion of Dante AVIO adapters and Dante Domain Manager

- Increased capital investment in Dante AV (video) and expansion of Sydney office

- Commercial launch of Dante AV module in the middle of 2019

- Revenue growth consistent with long-term historical USD performance
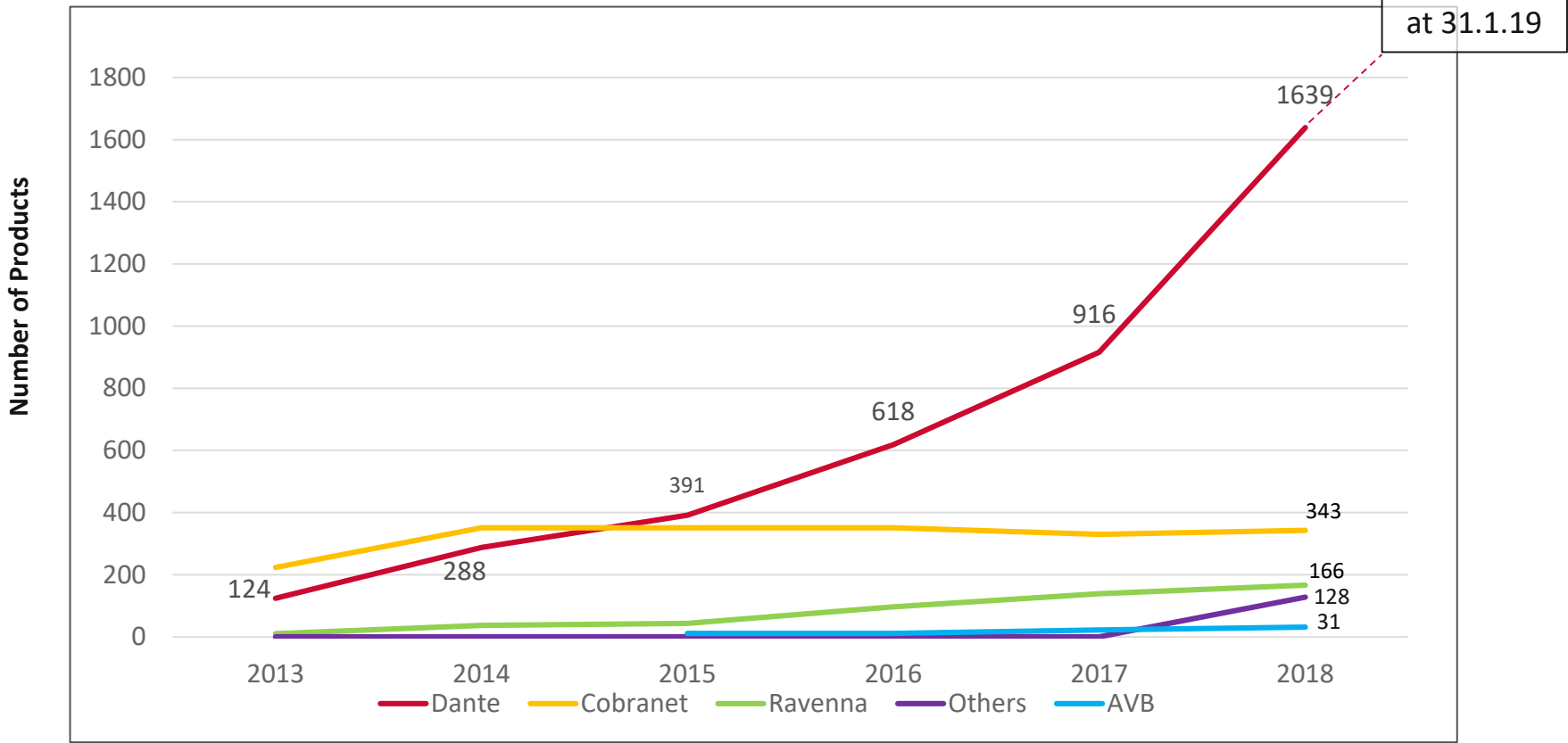
Appendices

Competitive landscape – Networked Audio Products

Total products per protocol[1]

Audinate is the clear global market leader compared to competing audio networking solution providers.

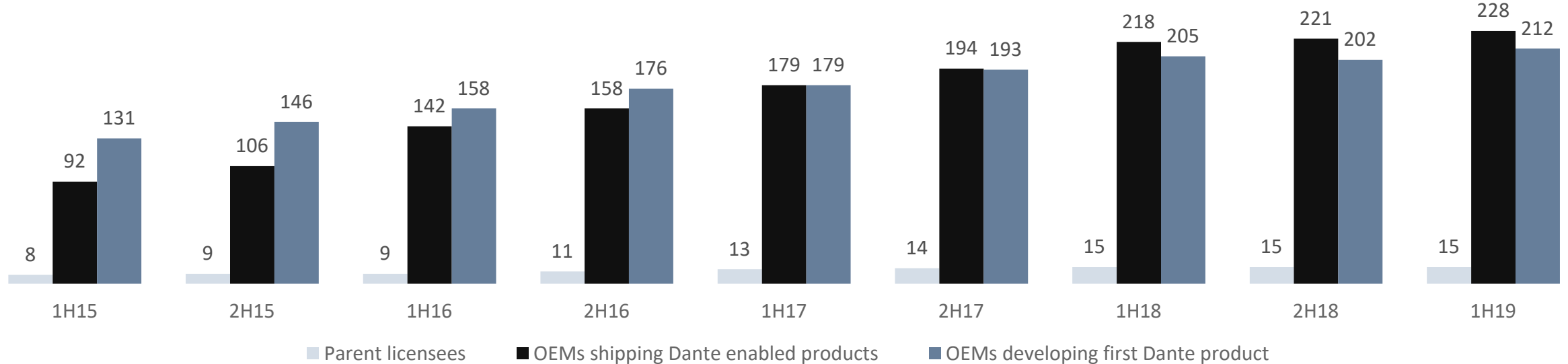Dante more than five times the adoption of its closest competitor

1,820 products at 31.1.19

Number of Products	2013	2014	2015	2016	2017	2018
Dante	124	288	391	618	916	1639

Others: 128 · Ravenna: 166 · Cobranet: 343 · AVB: 31

Legend: Dante · Cobranet · Ravenna · Others · AVB

1) RH Consulting, Networked Audio Products 2018 and Audinate company data

Increasing OEM customer adoption: pipeline for growth

OEM customers

Legend: Parent licensees ■ OEMs shipping Dante enabled products ■ OEMs developing first Dante product

Data by period:
- 1H15: 8, 92, 131
- 2H15: 9, 106, 146
- 1H16: 9, 142, 158
- 2H16: 11, 158, 176
- 1H17: 13, 179, 179
- 2H17: 14, 194, 193
- 1H18: 15, 218, 205
- 2H18: 15, 221, 202
- 1H19: 15, 228, 212

- OEM data regularly reviewed and updated – during the period 31 new Dante licensees were added & 17 OEMs were removed from this table as no longer considered likely to bring a Dante product to market

| Audinate has grown to 455 OEM customers at 1H19 | 228 OEM customers have announced products in the market | Built in revenue growth as new OEM customers bring products to market |

Note: per financial year

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Core business growth strategy

Increase market awareness of Dante products

Educate end users, system designers and integrators so that they install more Dante products in their AV systems – driving growth in chips/modules sales

Increase penetration of Dante throughout each OEM brand's product portfolio

Encourage existing OEM customers to Dante-enable more of their product range – some manufacturers make many hundreds of products

Increase the number of OEMs adopting Dante

Continue to sign new OEM partner brands and help them to get Dante enabled products to market

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