1H20 Results Presentation

24 February 2020

Audinate

Audinate Group Limited: Level 7, 64 Kippax St, Surry Hills NSW 2010
Authorisation: This document was approved by the Board of Audinate Group Limited

Aidan Williams – CEO & Co-Founder
Rob Goss – Chief Financial Officer

Audinate: pioneering the future of the AV industry

Dante technology distributes audio & video signals across computer networks

Audinate is the leading supplier of digital audio & video networking for the professional AV industry
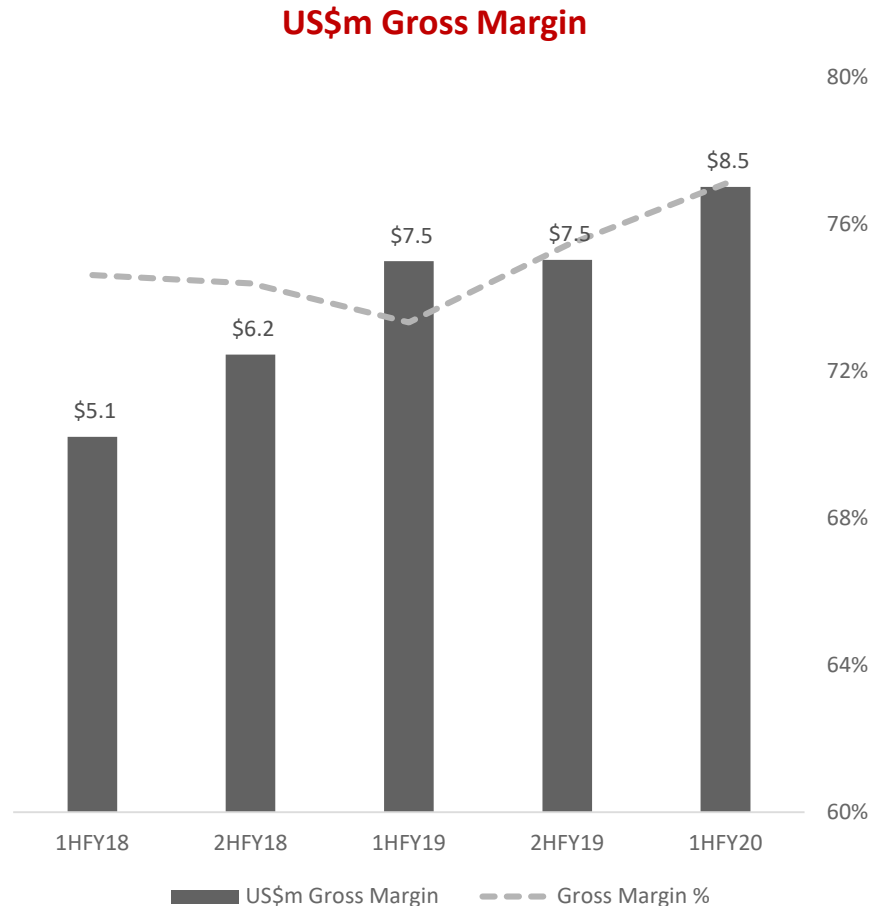
The Dante platform is used in thousands of installations globally

Melbourne Convention Centre
Melbourne, Australia

Audinate

1H 2020 highlights – ongoing growth across financial and operational metrics

US$m Gross Margin

Financial Highlights
- **A$ revenue growth** of 14.1%
- **US$ revenue growth** of 7.9%
- **Gross margin A$** up 20.0%
- **77.1% gross margin**, up from 73.3%
- **A$2.9m operating cash flow**, up from A$0.6m

Operational Highlights
- **OEM product growth** of 35.4% to 2,371
- **Growth in Dante software units** of 11.7% to 98k
- **292 OEMs shipping Dante enabled products,** up 28%

Headwinds experienced in 1H20
- US tariffs imposed on some Audinate products & OEM products made in China
  - Partly mitigated by Audinate Malaysian manufacturing line (Dec 2019)
  - Many OEM customers are evaluating their manufacturing options to remove the impact of tariffs
- Economic slowdown in China impacting Asia revenue

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Interest in Dante stronger than ever

Increasing number of Dante products per OEM

2,371

Dante-enabled products available on the market
Average of over 8 per OEM

**Record 147
Dante enabled products launched at ISE tradeshow, up 113% pcp**

Increasing market awareness of Dante

Now >80,000

Dante trained and certified individuals globally

Record number of professionals trained in 1H20

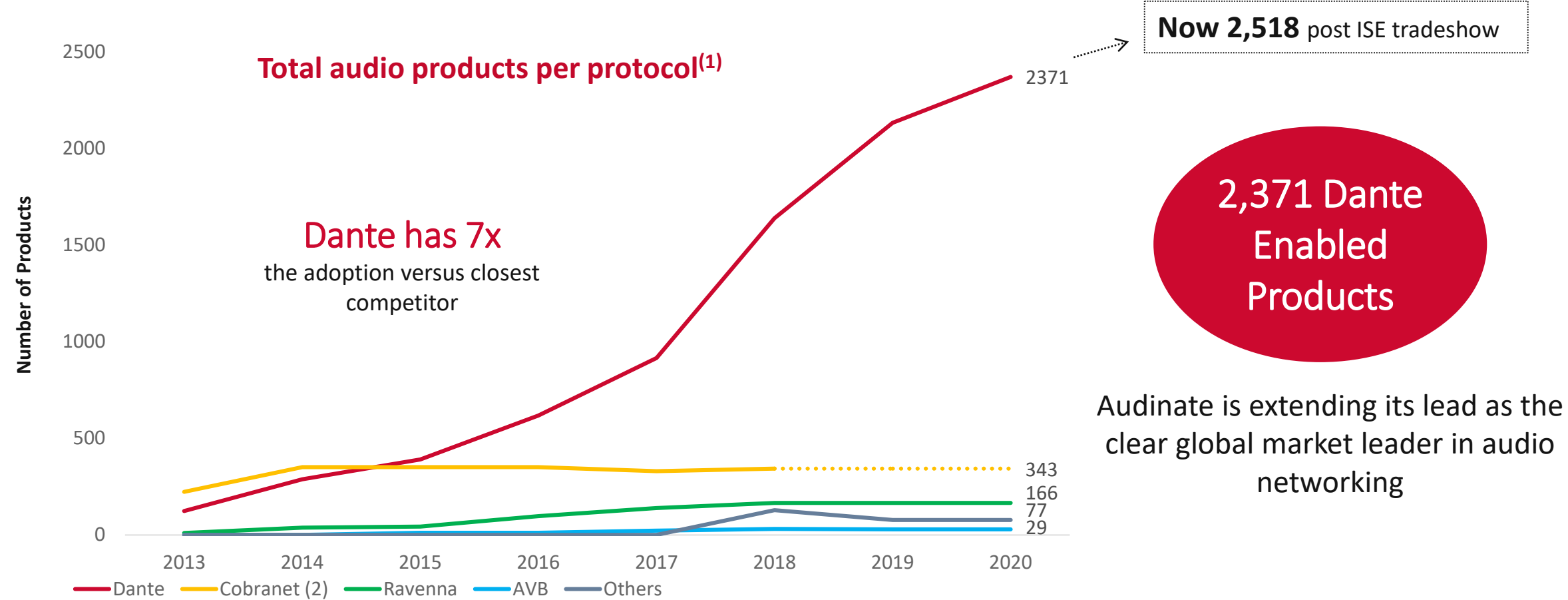**Increasing number of OEMs adopting Dante**

292

OEM customers shipping Dante-enabled products

Key customers with new products included Yamaha, Sony, Biamp, Shure, Sennheiser, Extron & Kramer

➢ **7x** the number of products to the next nearest audio networking technology (pcp: 5x)

➢ Website traffic unique views (UVs) up **>40% pcp**

➢ Record of nearly **10,000 UVs** in January 2020

➢ Marketing database now **>285,000** contacts, up 45% pcp

➢ Sales of Dante Virtual Soundcard & Dante Via to end-users up **>20% pcp**

➢ Audinate user accounts continue to grow **up 19% pcp**

➢ **Record of 3,867** Dante Controller downloads in October 2019

Competitive Landscape

Total audio products per protocol[1]

Now 2,518 post ISE tradeshow

2371

Dante has 7x

the adoption versus closest competitor

2,371 Dante Enabled Products

Audinate is extending its lead as the clear global market leader in audio networking

Number of Products

2500
2000
1500
1000
500
0

2013 2014 2015 2016 2017 2018 2019 2020

343
166
77
29

— Dante   — Cobranet (2)   — Ravenna   — AVB   — Others

1) RH Consulting, Networked Audio Products 2020 and Audinate company data.
2) RH Consulting stopped counting Cobranet products in 2020 and noted that it is impossible to get reliable data on available products, with only a small number of manufacturers selling some equipment. RH Consulting further noted that Cobranet is not a consideration in forward looking statements about the audio industry.

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Well positioned to deliver attractive long-term growth

Audinate has the foundations in place to accelerate our product development and support the software transition of the AV industry over the medium term

Investing to double Audinate's engineering and R&D functions over the next two years

→ **Team increased to 53, up from 40 at FY19 (pcp 34), with significant bench-strength & industry expertise added**

Putting in place the business infrastructure platform to support long term growth

→ **Malaysian manufacturing line opened, Scaled Agile Framework (SAFe) implemented, new HRIS & travel platforms**

Developing next generation Dante audio and video software implementations

→ **Dante AV expected to ship in March 20, enhancements added to Dante Domain Manager & Dante Via, more adapters mid CY20**

Making Dante AV the technology of choice for OEMs

→ **Seven new product design wins in 1H20 including Bolin & Shure. Industry research supports Dante AV becoming protocol of choice**

Expanding Total Addressable Market with the addition of video & software products

→ **Ongoing**

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Revenue & Operational Execution

- Continued delivery of mature chips, cards & modules products
  - Meet demand for the 147 newly launched Dante audio products
  - Using Malaysian manufacturing to avoid US import tariffs

- Complete delivery of new products, unlocking repeat orders:
  - **Dante AV Product Design Suite**: a complete Dante AV product design
  - **Dante Embedded Platform**: Linux/ARM platform & new licensing scheme
  - **Dante IP Core**: high performance software solution for larger manufacturers

- Grow pipeline and close design wins for new products:
  - **Software products:** Dante Application Library, Dante Embedded Platform, Dante IP Core
  - **Video products:** Dante AV Module, Dante AV Product Design Suite

- Increased marketing & training resources
  - New training staff: Europe, China, Latin America
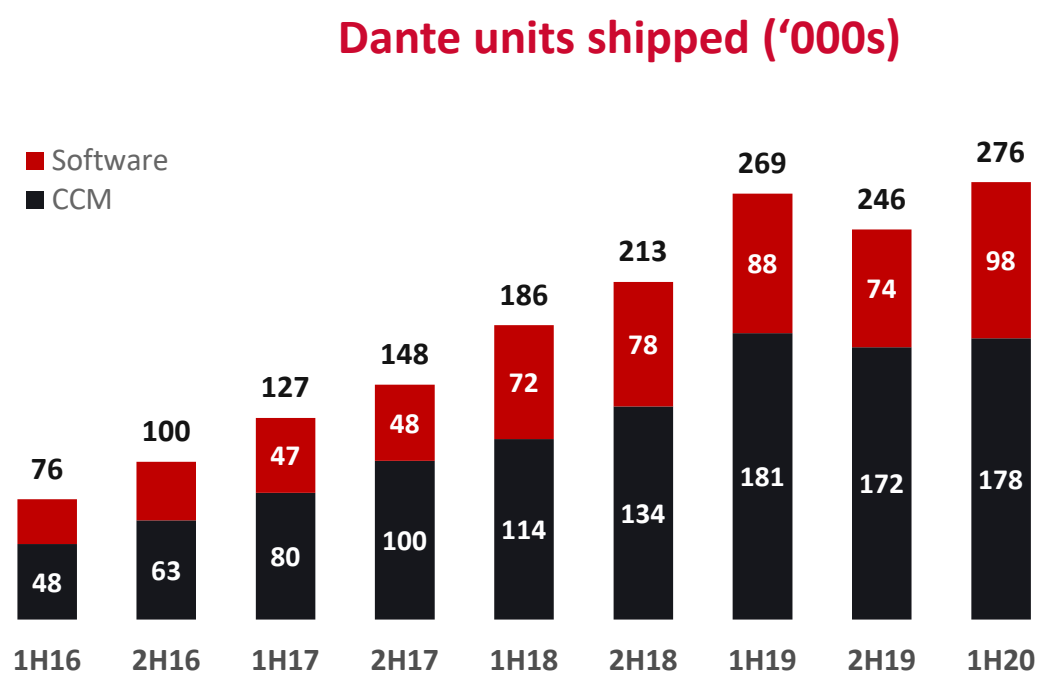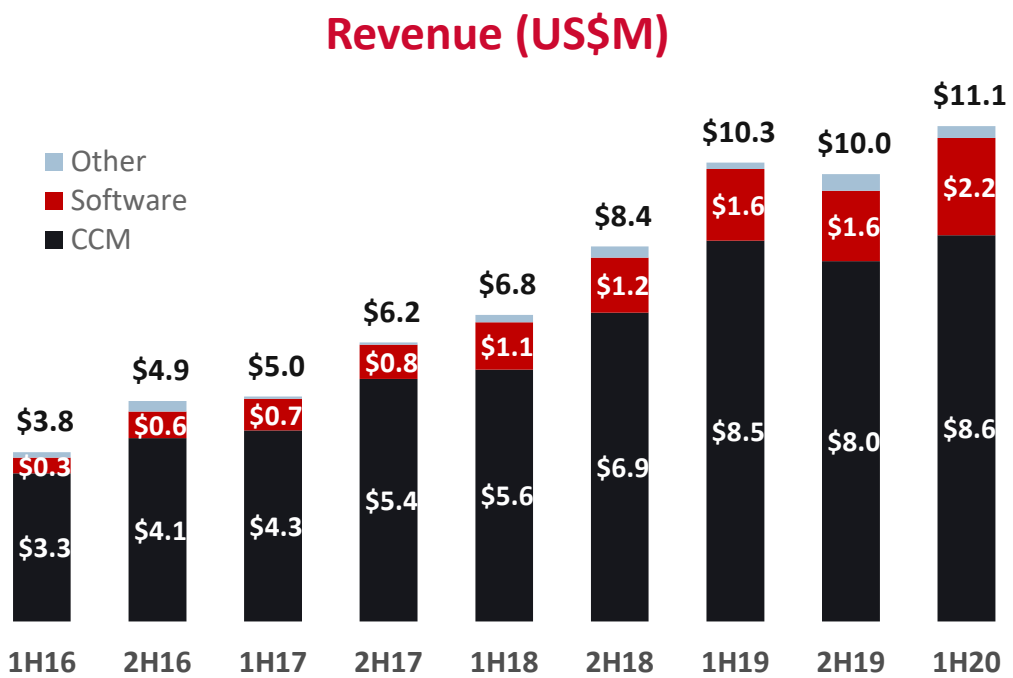
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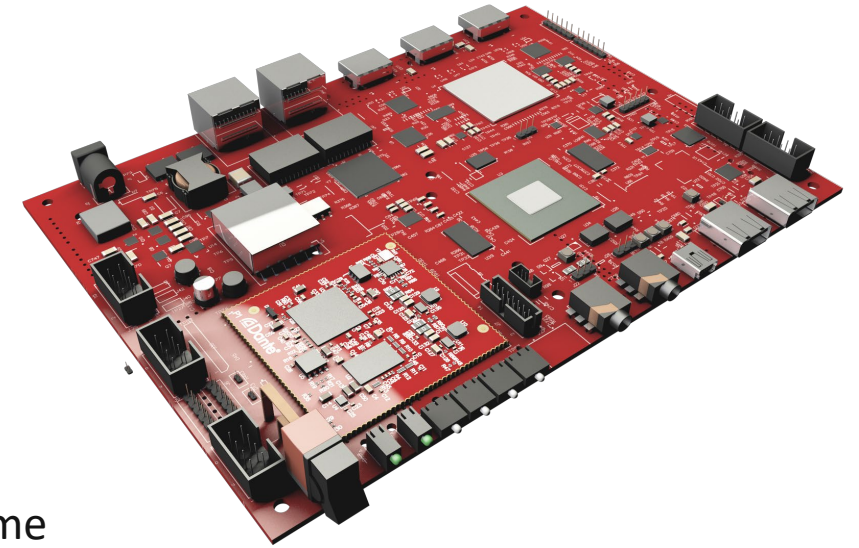
Financial Performance and Metrics

Growth in units shipped complemented by increased software units

- Revenue CAGR of 27.6% (5 yrs) with GP margin growing from 75% historically to > 77% due to software growth
- Chips, cards & modules (CCM) includes AVIO adapters
- Software includes royalties, retail software, Dante Domain Manger (DDM) & IP core
- Audinate invoices customers & pays COGs in USD

- Growth in software units driven by royalties & retail sales
- DDM is also a significant contributor to revenue growth
- CCM impacted by strong Broadway growth relative to Ultimo
- Overall Asia revenue (mainly China) down 33% relative to pcp

Revenue (US$M)

Legend: Other, Software, CCM

	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20
Total	$3.8	$4.9	$5.0	$6.2	$6.8	$8.4	$10.3	$10.0	$11.1
Software	$0.3	$0.6	$0.7	$0.8	$1.1	$1.2	$1.6	$1.6	$2.2
CCM	$3.3	$4.1	$4.3	$5.4	$5.6	$6.9	$8.5	$8.0	$8.6

Dante units shipped ('000s)

Legend: Software, CCM

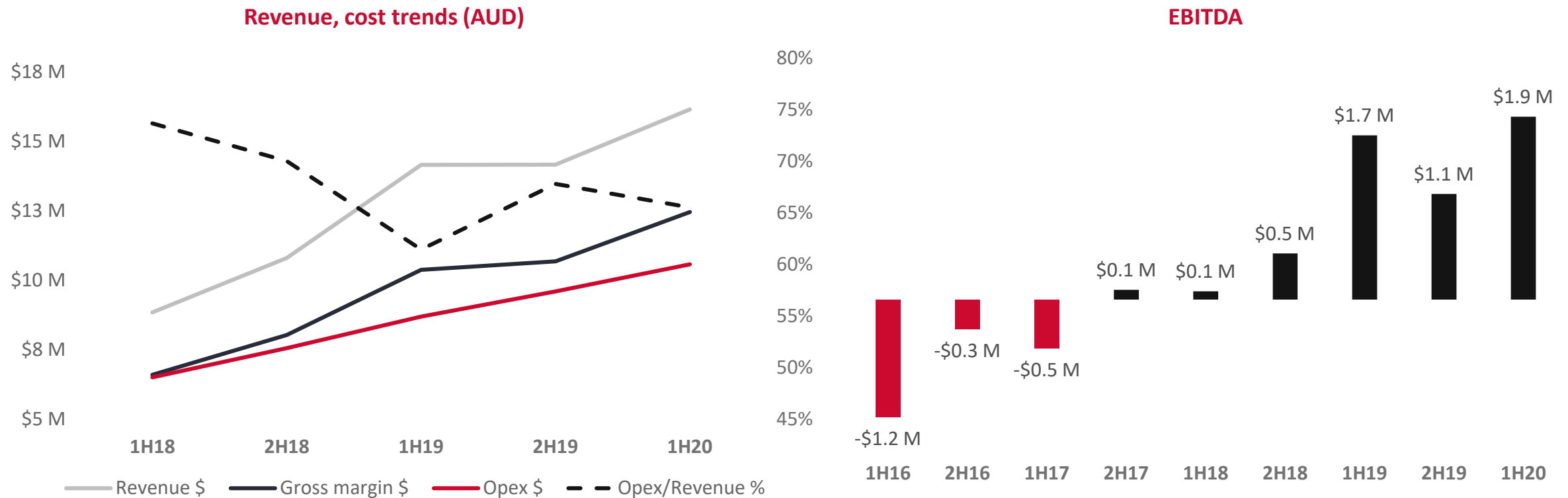|	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20
Total	76	100	127	148	186	213	269	246	276
Software	28	37	47	48	72	78	88	74	98
CCM	48	63	80	100	114	134	181	172	178

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Income statement

- 14% AUD revenue growth driven by strong software sales and favourable FX impacts

- Improved gross margin % due to favourable product mix of higher software sales and fewer low margin Ultimo chips

- Employee expenses increased due to additional head count which grew from 81 to 105 (now 114) – with good progress made in growing the engineering team

- Depreciation and amortisation increase due to:

  a) development costs capitalized in 2H FY19
  b) new lease accounting ($0.3m) and
  c) new Sydney office fit-out

- Tax uplift due to R&D incentive

(AU$'000s)	1H20	1H19	Change
Revenue	16,147	14,151	14%
Gross profit	**12,453**	**10,378**	**20%**
Gross margin %	77.1%	73.3%	(3.8%)
Employee expenses	(7,803)	(6,088)	28%
Marketing expenses	(1,287)	(1,051)	22%
Other operating expenses	(1,490)	(1,556)	(4%)
Operating expenses	**(10,580)**	**(8,695)**	**22%**
EBITDA	**1,873**	**1,683**	**11%**
Depreciation and amortisation	(1,877)	(1,149)	63%
Finance Costs	(60)	-	-
Other Income	193	197	(2%)
Profit/(Loss) before tax benefit	**129**	**731**	**(82%)**
Income tax benefit	212	114	86%
Profit	**341**	**845**	**(60%)**

*(udinate)

Positive EBITDA growth, while maintaining R&D focus

- Audinate continues positive momentum across key financial metrics, while still investing for growth

- Ongoing focus on innovation and R&D to maximise future growth opportunities

Revenue, cost trends (AUD)

EBITDA

Legend (left chart): Revenue $ — Gross margin $ — Opex $ — Opex/Revenue %

EBITDA values: 1H16 -$1.2 M; 2H16 -$0.3 M; 1H17 -$0.5 M; 2H17 $0.1 M; 1H18 $0.1 M; 2H18 $0.5 M; 1H19 $1.7 M; 2H19 $1.1 M; 1H20 $1.9 M

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Cash-flow statement

- Strong growth in operating cashflow - receipts & payments are consistent with the income statement

- New Sydney office impacted payments for PP&E ($0.5m) and long-term deposits ($0.4m)

- Payments for intangibles primarily represent internal development costs but include $0.7m of external costs in the current period (mainly related to Dante AV)

- Investing activities cash-flows mainly relate to the $4m Share Purchase Plan and $3m "cash in transit" from sale of former CEO shares

- Lease payments ($0.3m) are now included in Financing Activities under the new accounting standard (for a like for like comparison to 1H19 they would be included in operating activities in 1H20)

(AU$'000s)	1H20	1H19
Receipts from customers	16,367	13,950
Payments to suppliers and employees	(13,581)	(13,470)
Interest received	121	102
Interest and other finance costs paid	(60)	-
Income taxes refunded	90	-
Income taxes paid	(42)	(31)
Operating Activities	**2,895**	**551**
Payments for PP&E	(686)	(229)
Payments for intangibles	(3,854)	(1,722)
Payments for long term secured term deposits	(444)	-
Investing Activities	**(4,984)**	**(1,951)**
Proceeds from issue of shares	4,041	-
Share issue transaction costs	(294)	-
Repayment of lease liabilities	(339)	-
Proceeds from sale of employee shares	2,986	
Financing Activities	**6,394**	**-**
Net increase/(decrease) in cash	**4,305**	**(1,400)**

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Balance sheet

- Cash includes $3m "cash in transit" from sale of former CEO shares, which is offset by other current liabilities of an equivalent amount

- Inventory balance more than 4x turn target as Malaysia production commenced

- Right of use asset and a corresponding lease liability under the new accounting standard ($3m)

- Intangibles primarily represent internal development costs but includes $3.7m of development costs in the current period (mainly related to Dante AV)

- Other non-current assets is a deposit for the Kippax Street lease.

- Income tax payable relates to an estimate of tax payable relating to Audinate's overseas subsidiaries

- Contributed capital includes $4m raised from the Share Purchase Plan in July 2019

(AU$'000s)	31 Dec 19	30 Jun 19	Change ($)
Cash	34,349	30,069	4,280
Trade and other receivables	2,614	2,872	(258)
Inventories	971	1,803	(832)
Property, plant and equipment	1,493	1,013	480
Right-of-use assets	2,849	-	2,849
Intangibles	10,204	7,691	2,513
Deferred tax asset	2,712	2,278	434
Other current & non-current assets	1,590	812	778
Total assets	**56,782**	**46,538**	**10,244**
Trade and other payables	2,592	2,413	179
Other current liabilities	2,986	-	2,986
Contract liabilities	285	308	(23)
Income tax payable	214	19	195
Employee benefits & other provisions	1,750	2,654	(904)
Lease liabilities	2,901	-	2,901
Total liabilities	**10,278**	**5,394**	**5,334**
Net assets	**46,054**	**41,144**	**4,910**
Contributed capital	87,497	83,143	4,354
Reserves	990	775	215
Accumulated losses	(42,433)	(42,774)	341
Total equity	**46,054**	**41,144**	**4,910**

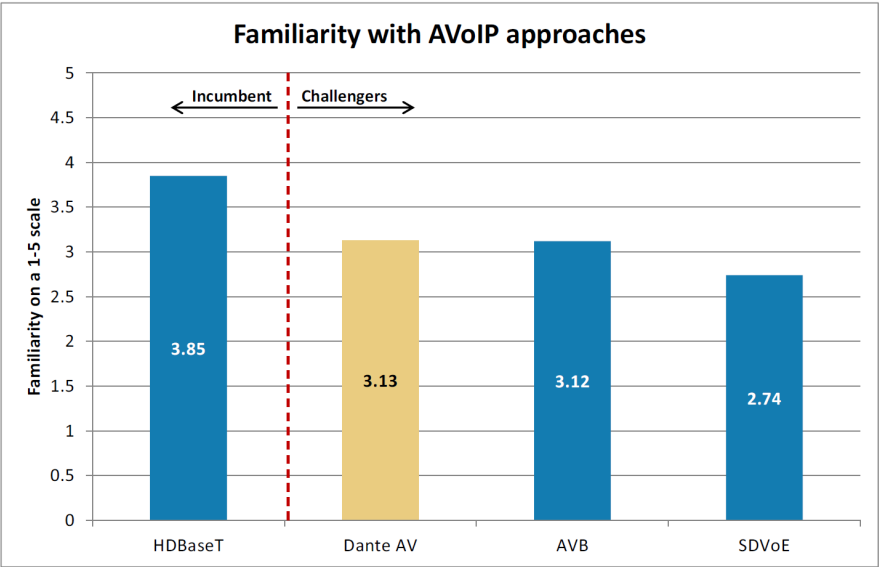Audinate

New Products & Applications
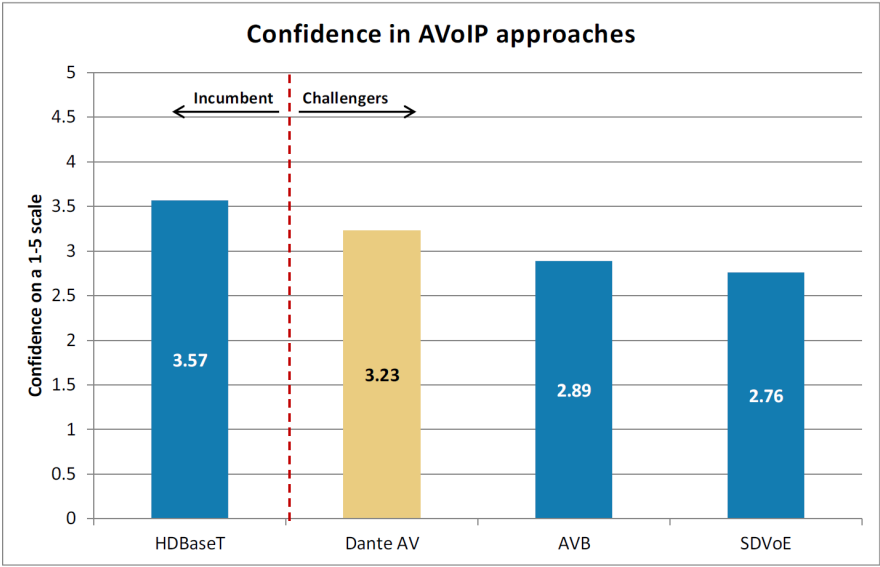
Dante AV – Audio & Video

Incumbent Video Technologies

- HD BaseT (not an IP solution, point-to-point, equivalent of analogue audio cables)
- Vertically integrated OEMs with own proprietary solution
- Various networked IP solutions including JPEG 2000, SVDOE & ASpeed

How **Dante** Could Disrupt the AV-Over-IP Market

How Dante Could Disrupt the AV-Over-IP Market
ravepubs.com

https://www.ravepubs.com/how-dante-could-disrupt-the-av-over-ip-market/

Familiarity with AVoIP approaches

Familiarity on a 1-5 scale

← Incumbent	Challengers →

- HDBaseT: 3.85
- Dante AV: 3.13
- AVB: 3.12
- SDVoE: 2.74

Source: "State of AV-over-IP in 2019", Commercial Integrator, August 2019, Morgan Stanley Research

Confidence in AVoIP approaches

Confidence on a 1-5 scale

← Incumbent	Challengers →

- HDBaseT: 3.57
- Dante AV: 3.23
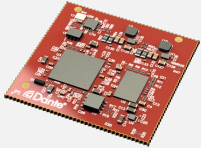- AVB: 2.89
- SDVoE: 2.76

Source: "State of AV-over-IP in 2019", Commercial Integrator, August 2019, Morgan Stanley Research

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Dante AV – Audio & Video

Dante AV Module

- "AV-over-IP" *networking module*, OEM business model
- V+A+Network (1 video + 8 audio)
- Commercial launch June 2019, expected shipping 3Q FY20
- First design win July 2019
- OEM products expected on the market mid-late CY20

Dante AV Product Design Suite

- Full HDMI-over-IP *product design*
- Accelerate OEM time to market & enable ODM business model
- Launched June 2019, availability end 3Q FY20
- AV Module + Compression + HDMI + HDCP + USB + ...

Dante AV Module

Sample product design using the Dante AV Product Design Suite
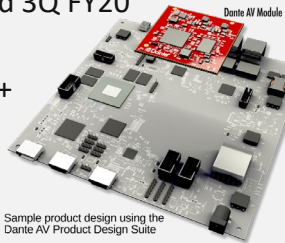
- Four designs wins including Yamaha & Bolin

- Dante AV Product Design Suite expected to ship in March 2020 due to product modifications for key customers

- Bolin camera demo at ISE represents first Dante AV product proto-type

- Strong pipeline, industry interest & recognition

- Dante AV software implementation represents next product iteration
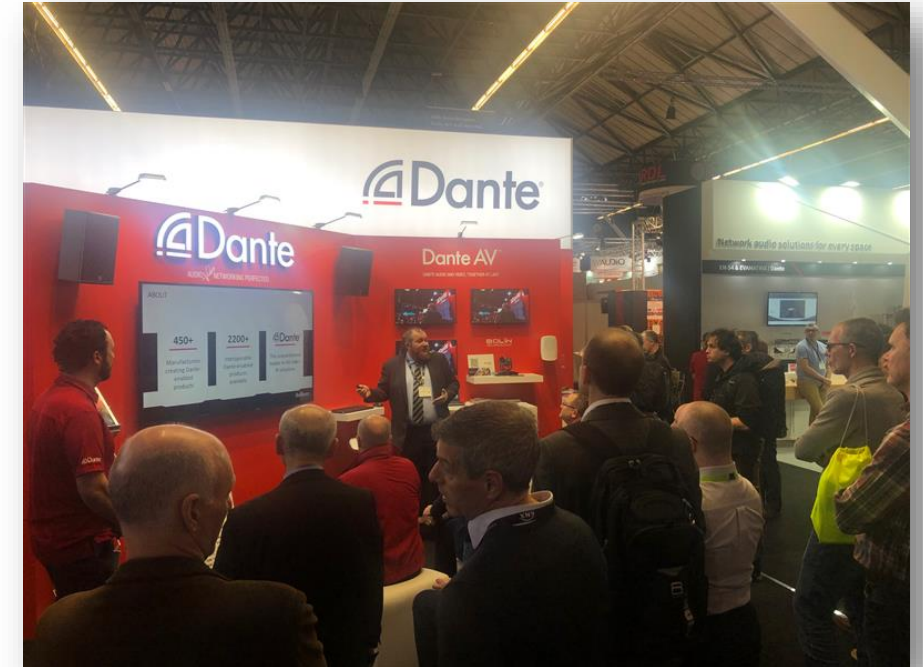
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Dante Embedded Platform & Application Library

Dante Embedded Platform (DEP)

- QSC launch expected in March 20
- Audinate building licensing capability internally
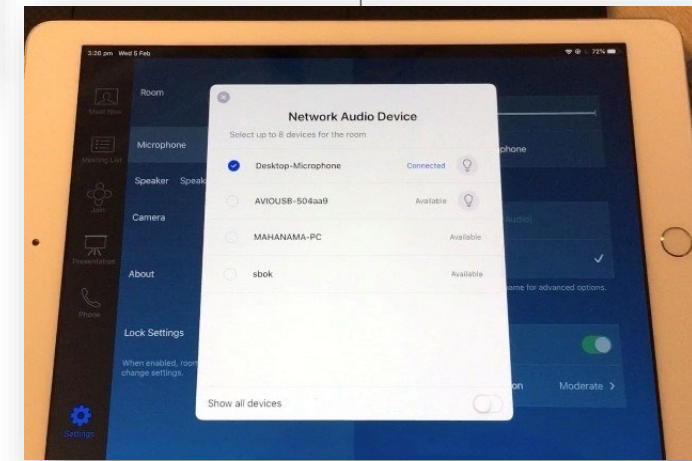- Strong pipeline of interest from key OEMs

Dante Application Library (DAL)

- Shure launched a *software* Digital Signal Processer using DAL & also added DDM capability to their product range
- Zoom formal product launch delayed but imminent

Outlook

Well positioned to deliver attractive long-term growth

We remain confident in Audinate's position to capitalise on the analogue to digital transition that is gathering pace within the AV industry

Near-term Outlook

- Macro-economic conditions and US tariffs have affected 1H20 and are expected to remain for 2H20, together with potential Coronavirus impacts
- Despite these temporary headwinds the company currently expects to deliver further revenue growth in 2H20, although it is likely to be below the historical range
- Key aspects of revenue and operational execution include:
  - Continued delivery of mature products
  - Growing & closing the pipeline of new design wins
  - Delivering new products to unlock repeat orders

- Beyond FY20, the increase in Dante enabled products, growing software sales and other leading operational indicators, such as Dante professionals trained, provide confidence that the Company is well-positioned to deliver attractive long-term growth for shareholders

Medium-term Priorities

- Investing to double Audinate's engineering and R&D functions over the next two years

- Putting in place the business infrastructure platform to support long term growth

- Developing next generation Dante audio and video software implementations

- Making Dante AV the technology of choice for OEMs

- Expanding Total Addressable Market with the addition of video & software products

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Summary

Global market leader

- Dominant position as global leader in audio networking
- Seven times the market adoption of its closest competitor

Attractive financial profile

- High gross margins supported by strong IP
- Strong revenue growth supported by repeat product orders

Innovative products

- Strong portfolio of intellectual property developed in Australia
- Extensive investment in R&D

Significant market opportunity

- AV market currently in the early stages of transformation to digital networking
- Audinate is well-positioned to capitalise on market growth and increased penetration

Strong customer base

- Existing customer base includes leading global AV equipment companies
- Customer base is broad and expanding

Experienced management team

- Strong executive team with extensive industry experience
- Built Audinate into a sustainable market leadership position
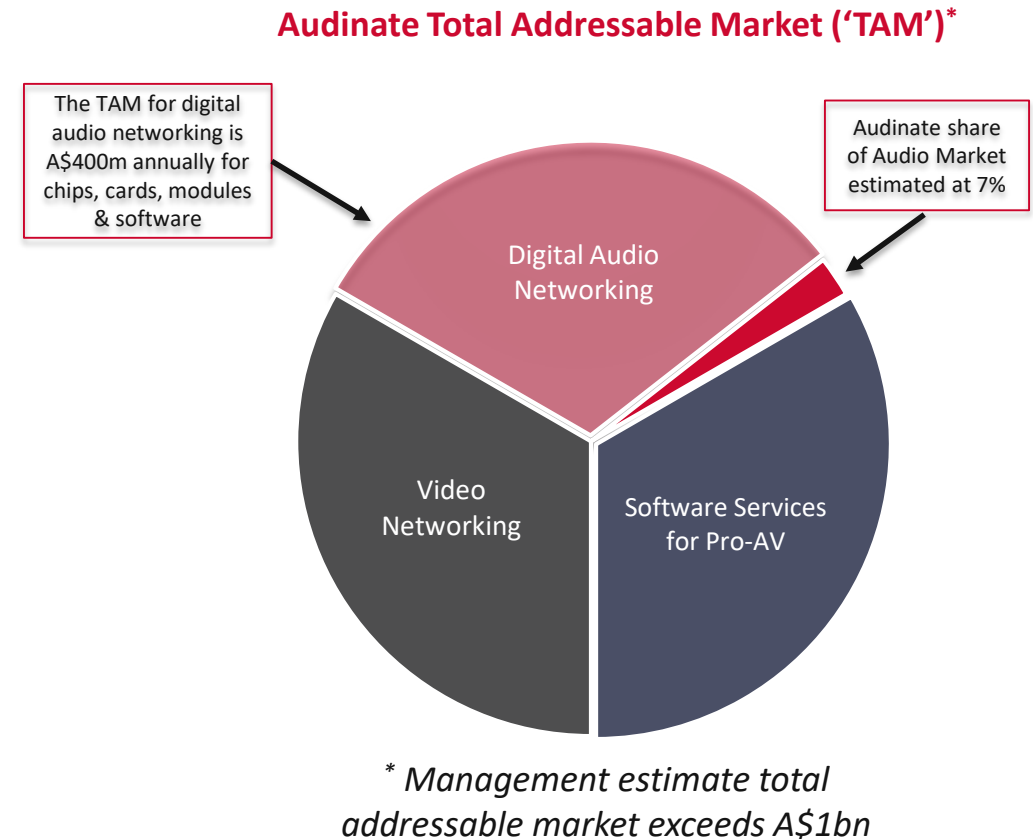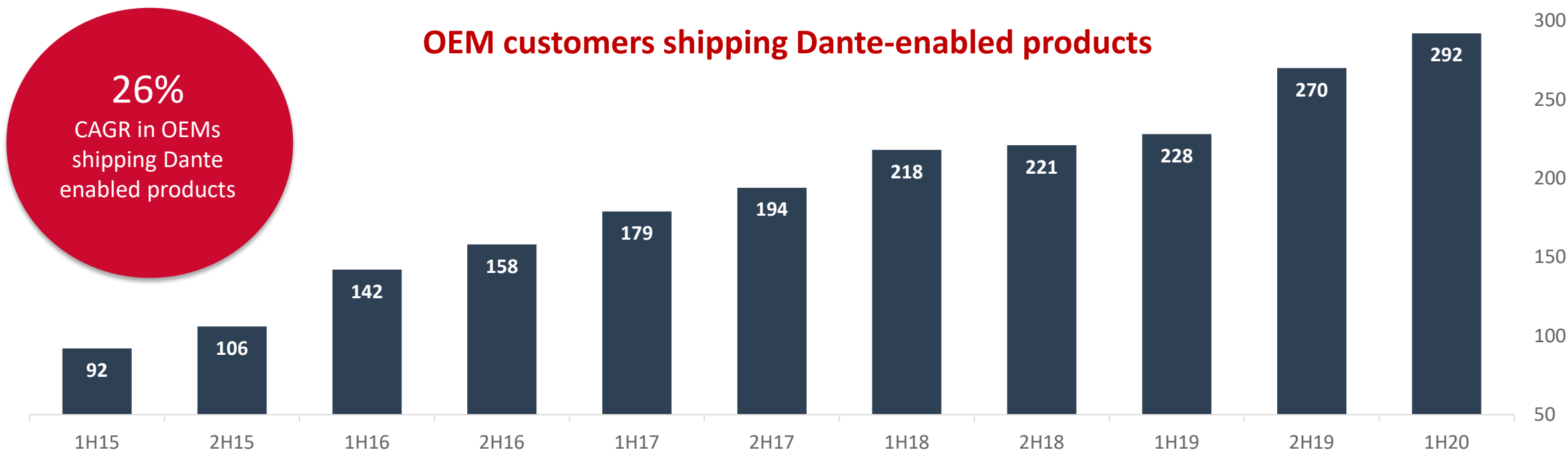
Questions

Appendices

Audinate is driving the transformation of the AV industry

- Networked digital connectivity is replacing traditional, point-to-point analogue cabling in the AV industry

- Software-based AV systems are replacing hardware AV systems, in the next wave of industry transformation

- Transformation analogous to the impact of VOIP on the telecom industry

Audinate Total Addressable Market ('TAM')*

The TAM for digital audio networking is A$400m annually for chips, cards, modules & software

Audinate share of Audio Market estimated at 7%

Digital Audio Networking

Video Networking

Software Services for Pro-AV

Management estimate total addressable market exceeds A$1bn

Increasing OEM customer adoption: pipeline for growth

26% CAGR in OEMs shipping Dante enabled products

OEM customers shipping Dante-enabled products

Period	Value
1H15	92
2H15	106
1H16	142
2H16	158
1H17	179
2H17	194
1H18	218
2H18	221
1H19	228
2H19	270
1H20	292

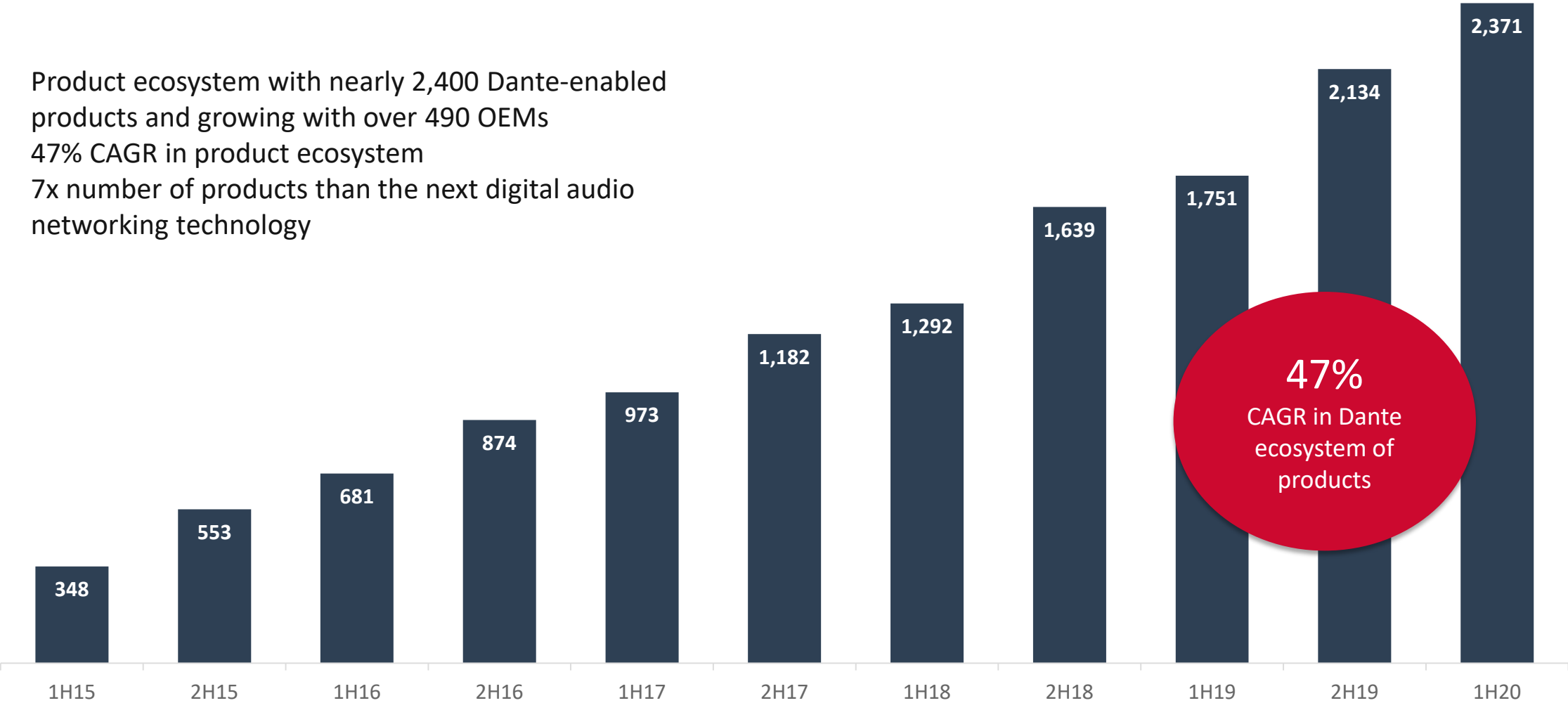Note: per financial year

Audinate has grown to 490 OEM customers

292 OEM customers have announced products in the market

179 OEM customers are currently developing their first Dante-enabled products

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Consistent growth in product ecosystem

- Product ecosystem with nearly 2,400 Dante-enabled products and growing with over 490 OEMs
- 47% CAGR in product ecosystem
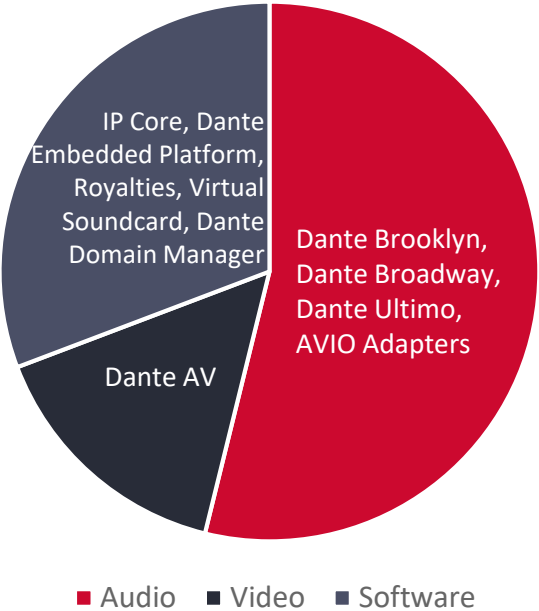- 7x number of products than the next digital audio networking technology

1H15	2H15	1H16	2H16	1H17	2H17	1H18	2H18	1H19	2H19	1H20
348	553	681	874	973	1,182	1,292	1,639	1,751	2,134	2,371

47%
CAGR in Dante ecosystem of products

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Audinate products

Products

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

Dante comprises software and hardware that resides inside the audio and video products of Audinate's Original Equipment Manufacturer (OEM) customers. Software also includes products for end-users

IP Core, Dante Embedded Platform, Royalties, Virtual Soundcard, Dante Domain Manager

Dante Brooklyn, Dante Broadway, Dante Ultimo, AVIO Adapters

Dante AV

■ Audio ■ Video ■ Software

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

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Dante Controller

Dante Controller

- Free system setup tool
  - Downloadable from Audinate homepage
  - Registration required
  - Makes virtual wires
  - > 250,000 downloads
- Simple & easy to use
  - Standard industry matrix view
  - Training provided via Dante Certification
- Devices appear automatically
  - Intuitive device names
  - No magic numbers, MAC or IP addresses
- Devices remember configuration
  - No need for Dante Controller to remain connected to the network
- Provide performance logs
  - Details of each device on the network for trouble-shooting
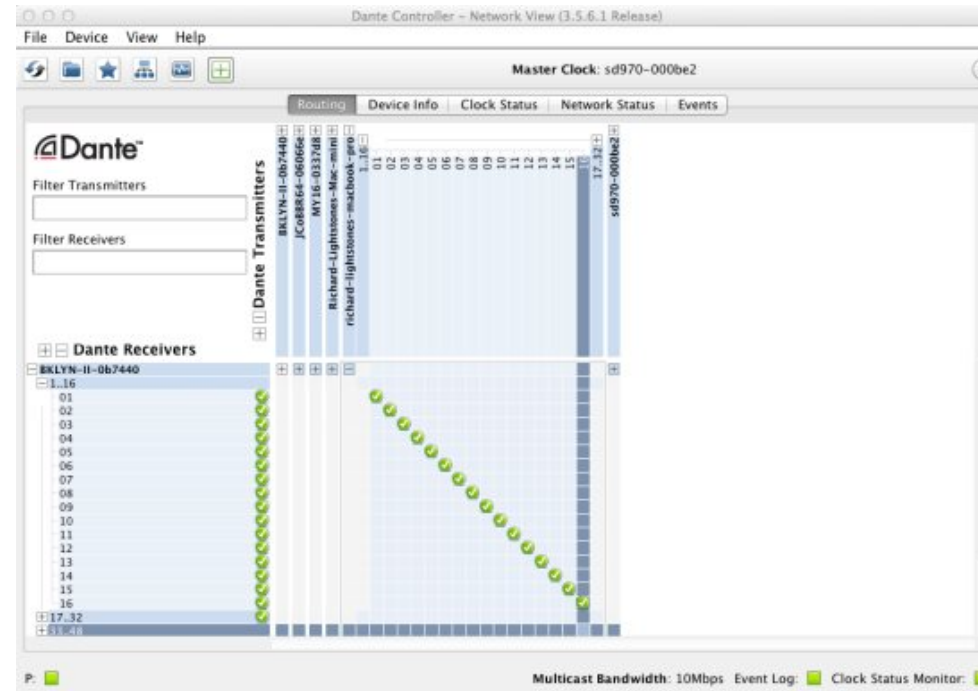
Dante Controller is the free configuration tool integrators use to create the "virtual wiring" between transmitting devices (e.g. microphones) and receiving devices (e.g. speakers)

Dante Audio and Adaptors

Dante Audio

- Hardware based implementations for a range of product counts and price points
- Transports uncompressed audio signals across standard computer networks

Dante Adaptors

- Connects legacy equipment to Dante (mostly analogue)
- Adds Dante to existing audio products (analogue, USB and AES3)
- Pulls through other Dante products and software
- Established a global distribution channel of online retailers and country distributors
    - 80 resellers and growing
    - Strong initial demand with sales performance and repeat orders
- Adapter modules sold direct to OEMS

Brooklyn

- 32 & 64 audio channel counts
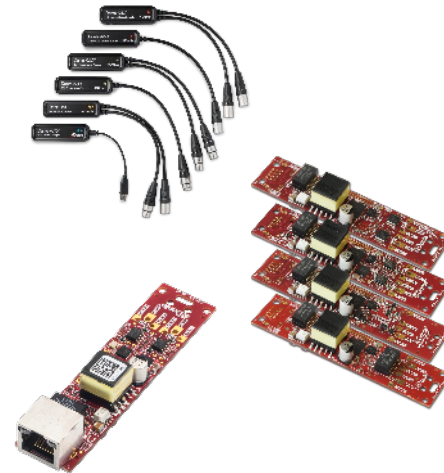- Used in Mixing Consoles & Signal Processors

Broadway

- 8 & 16 audio channel counts
- Used in networked Amplifiers and Ceiling Microphones

Ultimo

- 2 & 4 audio channel counts
- Used in networked Speakers and Microphones

Adaptors

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# New Software Products

Dante Application Library (DAL)

- Dante for PC/Mac applications
- Simple way for software developers to add Dante to their products
- Launched June 2019, commercially available
- Initial customer with Zoom, conferencing application
- Continue to drive adoption, revenue expected H2/FY20

Dante Embedded Platform (DEP)

- Dante for Linux OS, targeting manufacturers (OEMs)
- Supports Intel/x86 & ARM processors
- Launched June 2019, commercially available
- Initial customer with QSC (x86)
- Initial partner with Analog Devices, ARM-based DSP chips
- Drive adoption & partnerships, revenue expected H2/FY20

Software products enable:

- **Wider proliferation**, thru lowered marginal cost of adding Dante
- **Retro-fit and upgrade** of products already in the field
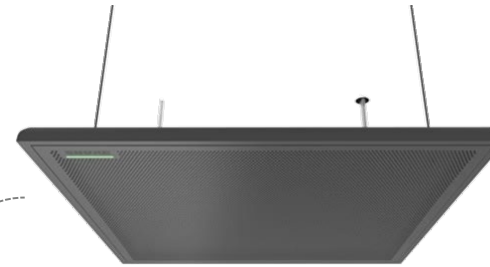
Ceiling Microphone
Dante IP Core (today) / Dante Embedded Platform

Room Processor
Dante Embedded Platform

Conferencing Software
Dante Application Library

Networked Speakers
Ultimo (today) / Dante Embedded Platform

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