

ASX announcement

13 February 2023

Audinate delivers record revenue and EBITDA in 1H23

Key 1H23 financial highlights:

- Revenue increased 39.3% on 1H22 to US\$20.6 million (A\$30.8 million)
- Gross profit (GP) of US\$14.5 million, up 30.0% – gross margin of 71.2%
- EBITDA of A\$4.3 million, up 109% on 1H22
- Net loss after tax of A\$0.4 million, improved from A\$2.1 million loss in 1H22
- Operating cashflow improved 231% on 1H22 to A\$1.8 million
- Strong cash and term deposits balance of A\$37.9 million at 31 December 2022
- Sales backlog remains at record levels

Audinate Group Limited (ASX: AD8), developer of the professional AV-industry-leading Dante® media networking solution, announces its results for the financial half-year ended 31 December 2022 (1H23).

Gross profit increased by 30% to US\$14.5 million at a gross margin of 71.2% due to 44.9% growth in sales of chips, cards & modules (CCM) and 22.4% growth in software sales. Revenue increased by 39.3% to US\$20.6 million, compared to US\$14.8 million in 1H22. AUD revenue grew 52.5% to A\$30.8 million, aided by AUD/USD currency tailwinds.

Audinate Co-founder and CEO Aidan Williams commented:

“We are very pleased that Audinate has again been able to deliver record growth in revenue and EBITDA, as well as improved operating cashflow. Our ability to manage chip supplies, the record demand for Dante products and our ability to successfully pass through price increases have offset the effects of supply chain pressures we first flagged two years ago.”

Video progress

Audinate recently released its first video OEM software product, called Dante AV-H. This software adds Dante video support to existing products that use H.264 video chips, as well as providing our core Dante audio networking functionality. Our first PC/Mac video software offering (Dante Studio) is now commercially available, and video product enhancements have been added to Dante Domain Manager.

As a result, there are now 30 OEMs who have licensed Dante Video, including 19 who were on display at the Integrated Systems Europe (ISE) tradeshow. Inclusive of the products released at the tradeshow, there are now 20 Dante video products (PTZ cameras, encoders and decoders) available, with more products previewed at ISE.

Audinate also continues to support Silex video customers and, after unlocking the supply chain bottleneck in Hungary, generated most of the video revenue from the sale of Viper boards in 1H23. Video revenue exceeded US\$2 million for the period, from approximately 5,900 endpoints shipped – positioning the business to exceed the targets set at the beginning of FY23.

Successful launch of Brooklyn 3

During the period, Audinate successfully launched its next-generation Brooklyn 3 product within twelve months of sudden and ongoing chip shortages affecting the old Brooklyn 2 module. Production commenced successfully in October in both China and Malaysia plants, with production quality in line with previous Brooklyn modules. This product was launched with a higher average selling price (18% increase) and a slightly lower gross margin percentage resulting in an improved average revenue per unit compared to the old Brooklyn module. From FY24 onwards, there is also a pathway to cost down to improve the gross margin percentage.

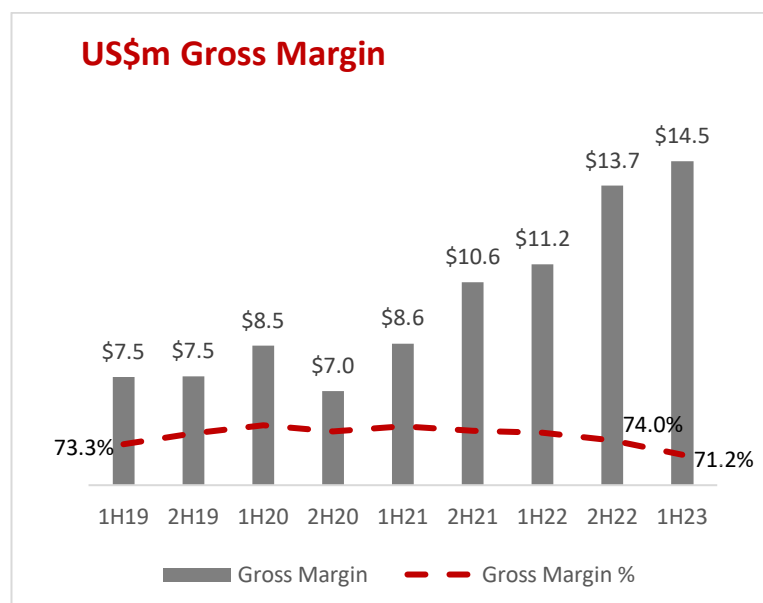
Financial results

Revenue from Chips, Cards and Modules (CCM) grew 44.9% to US\$15.6 million, from US\$10.8 million in the previous corresponding period (pcp). The main products responsible for the revenue increase were the newly released Brooklyn 3 module, Viper boards, and to a lesser extent, AVIO adapters.

Ultimo chips continued to be supply constrained, and whilst revenue was comparable to the previous corresponding period, there was a 20% decline in the number of units shipped. End of life of the Broadway chip was announced during 1H23, and there was a decline in both revenue and units shipped related to this product. OEMs (Original Engineering Manufacturers) are transitioning off the Broadway chip, with the major buyer of this product already taking Brooklyn 3 modules as an alternate.

Software revenue grew 22.4% to US\$4.7 million from US\$3.8 million in the previous corresponding period. OEM software products are responsible for this revenue increase, namely Dante Embedded Platform, IP Core and Other Software Royalties.

As was expected, the overall gross margin percentage declined to 71.2% from the long-term average of around 75% due to a change in product mix in 1H23. This decrease largely relates to the Viper board product acquired with the Silex video business - a white-labelled finished product that is high value with a margin less than 50%. The second factor is the lower gross profit margin of the newly released Brooklyn 3 module (7% less than Brooklyn 2). The third factor is the relative growth of CCM revenue over software revenue during 1H23. In FY24 the business expects gross margin to return towards the historical average and, over time, continue to rise with higher growth in software revenue.



Note: gross margin % calculated using AUD

EBITDA was a record \$4.3 million in the half-year ended 31 December 2022, compared to \$2.0 million in the previous corresponding period. Operating expenses increased by 33.4% to \$17.7 million in the half-year ended 31 December 2022. The key movement was a \$3.3 million increase in employee costs as headcount grew from 166 to 186 at 31 December 2022, salary increases and the annualisation impact of new headcount over the period. As expected, sales and marketing expenses increased by \$0.7 million from the previous corresponding period due to the increased participation at trade shows and the recommencement of in-person customer training.

Other income includes a \$0.4m benefit from the revaluation of the revenue earn-out associated with the acquisition of the Silex video business. During the half-year ended 31 December 2022, depreciation and amortisation increased by \$1.1 million in the current period reflecting an increasing balance of capitalised development costs being amortised. Due to the movements described above, the net loss after tax was \$0.4 million for the half-year ended 31 December 2022, compared to a \$2.1 million net loss after tax in the previous corresponding period.

Growth in positive operating cashflow

The Company recorded positive operating cashflows of \$1.8 million for the half-year ended 31 December 2022 compared to \$0.6 million for the previous corresponding period. Audinate remains well capitalised with cash and term deposits of \$37.9 million at 31 December 2022.

Strong demand outweighs customer supply chain impacts

Strong demand for Dante continued during the first half with 78 design wins, up 86% from the previous corresponding period. Each design win represents a new or existing customer committing to developing a least one new type of Dante product. As Dante technology becomes increasingly entrenched as the de-facto standard, design wins become a more revealing metric than the simple total of OEM customers. Sales backlog remains at record levels however conversion of backlog into further revenue growth will be dependent upon improved chip supply.

Chip shortages and supply chain challenges continue to linger with shortage induced product redesign hindering new product development across our customer base. The total number of OEM brands licensing Dante grew to 559 at 31 December 2022 (up from 531 pc); however, 19 OEM customers stopped shipping products as older products were retired and some OEMs were acquired or shutdown.

Correspondingly, 38 Dante-enabled products were retired due to the factors described above, however a healthy 116 new products were released during the seasonally quieter half of the year. The total number of Dante-enabled products grew to a record high of 3,688 products, representing a 12x lead on the next alternate technology.

Strong demand for Dante, a buoyant industry outlook and an improving (but still constrained) chip supply bode well for second-half performance and future revenue growth.

Supply chain risks linger

As previously foreshadowed, supply chain challenges continued throughout the first half and are expected to persist through the remainder of FY23. These challenges include long lead times for many electronic components and ongoing elevated spot market prices, affecting Audinate and our manufacturing customers.

The Group has high levels of raw materials for the recently released Brooklyn 3 designs, although it remains unable to completely fulfil the demand for our AVIO adaptors and Ultimo chips. These supply chain challenges have also curtailed software revenue growth as customers have experienced difficulties manufacturing products in desired quantities. Notwithstanding these challenges, our sales order backlog remains at record levels, and we continue to be confident of our ability to readily convert this into revenue as raw materials become available.

Outlook

The outlook for the remainder of FY23 remains consistent with the statements made at the release of our FY22 results.

We have grown headcount to 186 employees at 31 December 2022, up from 178 at 30 June 2022, including 21 staff in the Philippines. We continue to target >200 employees at the end of FY23, albeit that the labour markets have yet to ease entirely in the target recruitment areas.

Pleasingly we have successfully launched the Brooklyn 3 module and substantively resolved the risks for transitioning customers. However, chip shortages and supply chain risks continue to linger. Given these risks and global macro-economic uncertainty, the company continues to operate on a cautious and prudent footing.

Audinate enters the second half with a backlog and software revenue run-rate to support USD revenue growth in the historical range for FY23, subject to the risks outlined earlier. We currently expect significant further traction in our video offerings, including revenue of at least US\$3 million in FY23.

Audinate Co-founder and CEO Aidan Williams commented:

“Our first half results have been excellent in an environment that remains challenging for both Audinate and our customers. I am optimistic about the second half, in particular the prospects of meaningful further traction in video and ongoing revenue growth as supply chain pressures ease.”

Investor briefing

The Company will host a webinar via Zoom to discuss its 1H23 results at 9.30 am (AEDT) on 13 February 2023. The webinar is expected to last approximately 45 minutes, inclusive of question time.

Please register in advance for this webinar:

https://us02web.zoom.us/webinar/register/WN_ErzYficDQ0C8gyV0ejQ1Sg

Authorisation: This announcement was authorised by the Board of Audinate Group Limited

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For more information on Audinate, please visit:

Investor Centre – investor.audinate.com Website – www.audinate.com

Forward-Looking Statements

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of Audinate. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

About Audinate Group Limited

Audinate Group Ltd (ASX: AD8) was founded with a vision to pioneer the future of AV. Audinate's award-winning Dante IP networking solution is the worldwide leader and used extensively in the professional live sound, commercial installation, broadcast, public address, and recording industries. Dante replaces traditional analogue cables by transmitting perfectly synchronised AV signals across large distances to multiple locations at once, using nothing more than an Ethernet cable. Audinate is headquartered in Australia and has regional offices in the United States, United Kingdom, Belgium, and Hong Kong. Dante technology powers products available from hundreds of leading audio and video partners around the world. The Company's ordinary shares are traded on the Australian Securities Exchange (ASX) under the ticker code AD8.