

## Connecting the imaging and computer worlds

Atomos (AMS:ASX) is a global video technology company specialising in monitor-recorded content creation products. These products are targeted at the social, pro-video and entertainment markets for video capture, processing and editing using camera hardware, essentially connecting the imaging and computer worlds together. Founded in 2010 AMS has built a portfolio of products with varying price points for a wide range of end market users. Significant progress was being made on the revenue and EBITDA front with positive 1H20 EBITDA (\$1m) on revenue growth of 35% before COVID-19-induced, social distancing measures severely impacted the group's core customer base. As a result of this slowdown the company raised capital in May 2020 to ensure no delays in product development and to ensure a buffer against any future shocks. The cost base has also been adjusted for the new trading environment and expected to be ~30% lower on an ongoing basis, providing increased sales leverage to any market recovery. AMS is looking to access the live internet streaming market with a new product launch later this year on the back of likely increased demand post COVID, which would greatly increase the group's Total Addressable Market (TAM). AMS has key relationships across the video ecosystem including camera manufacturers, resellers and recording workflow platforms.

### Business model

AMS sells video hardware & accessories at a gross margin around 40%-45% that connects and integrates with camera manufacturers including Sony, Canon, Panasonic, RED and JVC Kenwood. The products are sold through a range of resellers globally and essentially allows high quality video production for the "prosumer" using existing camera hardware. By integrating with camera manufacturers and adopting the Apple ProRes RAW format/ecosystem, it is AMS's vision to democratise high quality video production.

### Recent company commentary

The company's revenues have been significantly impacted by the social distancing measures associated with COVID-19, with 2H20 revenue down 60%, following a 35% increase in 1H20. The pro-video market represented 72% of 1H20 revenues and has been hardest hit given this market's exposure to events such as weddings, conferences, sporting events and trade shows. The company recently raised \$12.6m pre-costs to ensure it could survive the COVID induced slowdown while at the same time continue new product development, and in particular hardware/software development for live internet streaming. As a result, net cash sits at \$18.8m at June 30 2020. The sustaining cost base has also been reduced by 30%, offering greater leverage to future sales growth. The sales run-rate in the month of July and August is said to be 50%-60% above that of 2H20, or ~\$3m against \$2m, offering signs of market stabilisation. Significant recovery is expected post new product launch in Q2FY21.

### Peer group hardware-based technology

While there are no direct ASX listed peers for AMS, investors should look at niche small cap hardware-based technology players who are loss making with similar challenges (funding, working capital requirements and technology). Companies that come to mind include Audinate, Pivotal Systems and Elight.

#### Historical earnings and ratios

Year end	Revenue (A\$m)	EBITDA Adj.* (A\$m)	NPAT Adj.* (A\$m)	NPAT Rep (A\$m)	EPS Adj.*(c)	EPS Rep. (c)	EV/Sales (x)
06/17a	31.10	(4.50)	(4.88)	(4.88)	nm	nm	4.0
06/18a	35.60	0.20	(0.13)	(0.13)	nm	nm	3.5
06/19a	54.00	1.60	0.20	0.20	nm	nm	2.3
06//20a	44.40	(7.10)	(10.90)	(10.90)	nm	nm	2.8

Source: Company data \*EBITDA and NPAT adj for one-time, non-cash items

## Technology - Hardware

4 September 2020

### Share details

ASX Code	AMS
Share price (3-Sep)	\$0.66
Market Capitalisation	\$143.8M
Shares on issue	217.85M
Net cash at 30/06/2020	\$18.8M
Free float	87.8%

### Share performance (12 months)



### Upside Case

- AMS products become industry benchmark
- Derives new revenue streams from live internet streaming products
- Prosumer videoing increases in popularity

### Downside Case

- OEM's introduce competing accessories
- Economic slowdown reduces demand
- Mass market technology closes the technology gap with AMS

### Catalysts/upcoming events

- New product releases (2QFY21)
- Interim results FY21 (Late February 2021)

### Comparable companies (Aust/NZ)

Audinate (ASX:AD8) Pivotal Systems (ASX:PVS), Elight (ASX:ELS),

### Top 5 shareholders

Perennial Value Management Ltd	12.12%
Ellerston Capital Ltd	10.24%
Jeremy Young	8.18%
Domazet Ft3 Pty Ltd	6.71%
Pindar Holdings Ltd	2.79%

### Company contacts

James Cody (CFO) +61 407 048 514  
james@atomos.com

### RaaS Advisory contacts

John Burgess +61 410 439 723  
John.burgess@raasgroup.com

Finola Burke +61 414 354 712  
finola.burke@raasgroup.com



# FINANCIAL SERVICES GUIDE

**RaaS Advisory Pty Ltd**

**ABN 99 614 783 363**

**Corporate Authorised Representative, number 1248415**

**of**

**BR SECURITIES AUSTRALIA PTY LTD**

**ABN 92 168 734 530**

**AFSL 456663**

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Contact Details, BR and RaaS

BR Head Office: Level 14, 344 Queen Street, Brisbane, QLD, 4000

RaaS. 20 Halls Road Arcadia, NSW 2159

P: +61 414 354712

E: [finola.burke@raasgroup.com](mailto:finola.burke@raasgroup.com)

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