COMPANY NOTE

Finals

12 July 2019

MIRADA (MIRA.L)

Revenue growth & profitability; positive outlook

Mirada is a leading provider of software to TV operators worldwide with almost twenty years of industry experience. FY19 results demonstrated a good performance at the top and bottom line and management has substantially improved the balance sheet. The continued roll-out of its Iris multi-screen software at Izzi Telecom was the main feature of FY19 but Mirada also commenced two SaaS deployments and secured its first customer in Asia during the year. This diversification demonstrates commercial momentum and management reports a strong pipeline. Mirada has become a critical supplier to its customers as they look to retain and maximise subscriber revenue in the face of increasing OTT competition. Mirada's progress and the growth potential are not reflected in the current price. We set a 1.5p fair value.

- **FY19 results – return to EBITDA profit:** Revenue increased 40% to $12.3m. Within this, subscriber-based licence fees increased 57% to $4.1m. Izzi Telecom was the largest customer at $9.7m, up 87% and accounted for 78% of group revenue, and more than 2m STBs have now been deployed. There was also $0.8m from the Connect division that was sold post period end for £2.1m ($2.6m). Gross profit increased 46% to $11.6m, a gross margin of 93% (FY18: 90%). In spite of an 18% increase in the operating cost base, there was a $2.0m positive swing in adj. EBITDA to $0.9m. Management has substantially improved the balance sheet in FY19 with the conversion of an outstanding £3m facility and a £3m placing both with Kaptungs, Mirada's largest shareholder. Net debt reduced $6.8m to $4.9m and has reduced further with the Connect disposal.
- **Outlook – growth in sales pipeline:** Management reports a much healthier sales pipeline with the number of prospects more than doubling since last year. Mirada's chances of success have improved with the proven reference deployment at Izzi, its first customer in Asia, the stronger balance sheet and the investment in sales and marketing, including a reseller agreement with Indra. At the same time, there is increased market activity as operators look to address changing demands from subscribers. In FY20, we expect increased revenue from ATNi, Digital Cable Edmund and the start of the deployment in Skytel that will help to rebalance the business.
- **Valuation** – The current share price fails to reflect the progress that the company has made at the Izzi Telecom roll-out, securing new customers and increasing revenue visibility through the SaaS model. There is also substantial scope for growth. A peer-group based EV/EBITDA valuation would suggest a fair value of 1.5p/share, including a discount to reflect the limited free float.

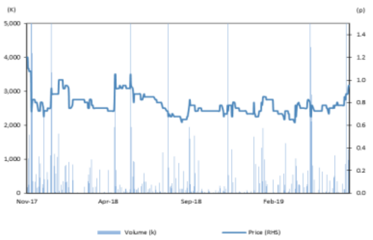
Year End: 31 March					
($'000)	2017A	2018A	2019A	2020E	2021E
REVENUE	8,489	8,816	12,322	14,263	15,993
ADJ. EBITDA	3	(1,121)	814	2,621	4,093
ADJ. PBT	(3,181)	(5,096)	(3,226)	(1,439)	83
ADJ. EPS (p)	(2.36)	(3.45)	(0.58)	(0.24)	0.03
NET CASH	(5,253)	(11,703)	(4,861)	(4,125)	(3,475)
PER (x)	NEG	NEG	NEG	NEG	31.5
EV/EBITDA (x)	NA	NEG	19.7	5.8	3.6

Source: Company and Allenby Capital. Adj. EBITDA, PBT and EPS exclude amortisation, share based payments and one-off charges/gains.

CORPORATE

Current price	1.0p
Sector	TMT
Code	(MIRA.L)
Listing	AIM

SHARE PERFORMANCE



	1m	3m	12m
MIRA.L	26.7%	26.7%	11.8%

Source: Fidessa, Allenby Capital

SHARE DATA

Market cap (£)		8.9m
Shares in issue (m)		890.8
52 weeks	High	Low
	1.0p	0.625p
Financial year end		March

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

Kaptungs	87.2%

Source: Company Data, Allenby Capital

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EQUITY RESEARCH

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INVESTMENT SUMMARY

Exhibit 1: Selected customers

Source: Company

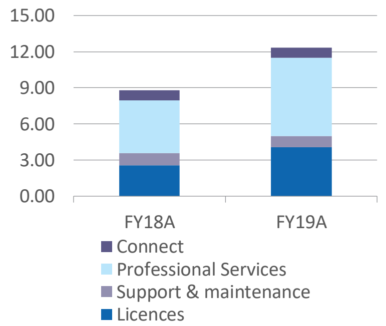
Mirada is a provider of User Interface/Experience (UI/UX) software for the Digital TV market. Its major customers are Digital TV platforms, mainly Pay TV service providers, and Mirada provides the technology to facilitate the end user's interaction with the set top boxes (STBs) they provide, plus consumers' own devices (tablets, smartphones, PCs and smart TVs). Mirada's major product is Iris for multi-screen navigational software, its Inspire user interface, and X-player, broadcasting synchronisation software.

Mirada's customers use it for creating new Digital TV services or replacing/upgrading existing ones. Mirada works with the device vendor (STBs), the encryption technology vendor (Conditional Access) for content protection, and customer systems (billing and provisioning) and is typically engaged from an early stage and will help in the selection of an appropriate ecosystem. Iris has become a critical piece of infrastructure for a number of international operators and management can demonstrate a marked increase in content consumption where Iris has been deployed. It has served more than fifty companies in the global Pay TV industry.

FY19 RESULTS

Revenue increased 40% to $12.3m (FY18: $8.8m). Within this there was 57% growth in subscriber-based licence fees to $4.1m (FY18: $2.6m) and a $2.1m increase in Professional Services to $6.5m. Managed Services was flat at $1.0m and Mobile (Mirada Connect) declined marginally at $0.8m (FY18: $0.9m).

Exhibit 2: Revenue composition ($m)



Source: Company

FY19 was dominated by the roll out of the Iris multi-screen software at Izzi Telecom, part of Televisa, in Mexico – it represented 78% of group revenue in FY19 (FY18: 59%). During the 2018 FIFA World Cup, Izzi decided to extend deployment of Iris to all subscribers to enable them to watch football matches over their mobile phones. The success of the Mexican national team helped to drive uptake and the usage of OTT technology has remained strong post the tournament. Izzi also extended its Iris deployment to the middle tier of its subscribers and this resulted in an increased rate of installation. In March, Izzi surpassed two million Iris licences. Izzi is expected to extend the deployment to cover all tiers over time.

Gross profit increased 46% to $11.6m, a gross margin of 93% (FY18: 90%). In spite of an 18% increase in the operating cost base to $10.7m, there was a $2.0m positive swing in adj. EBITDA to $0.9m. Staff costs increased by $1.65m to $7.2m given investment in the development while other administrative expenses reduced slightly to $3.4m. There was a tax credit of $0.2m (FY18: $0.3m) relating Mirada's R&D tax deductions. Mirada continues to capitalise some of its development spend but this fell to $3.1m (FY18: $3.8m). The amortisation charge increased 7% to $3.6m. Reported loss before tax reduced 37% to $3.3m.

BALANCE SHEET STRENGTHENING

Debt conversion and additional equity

In October, Mirada substantially improved its balance sheet with a placing of £3m (gross) at 1p/share by Kaptungs, the company's largest shareholder. Kaptungs also capitalised an outstanding £3m loan facility through 300m new shares at 1p/share. In aggregate, this represented c. 67% of the enlarged share capital. As a result, Ernesto Tinajero, through his indirect interest in Kaptungs, has a beneficial interest of c. 87.2%.

Overall net debt reduced to $4.9m (FY18: $11.7m) with long term interest-bearing loans and borrowing decreasing 31% to $1.7m (FY18: $2.5m) and short term borrowing and related party loans and interest by 71% to $3.3m. There was a $2.0m positive swing in operating cash flow to $0.8m but this was more than offset by an increase in working capital reflecting the strong trading in Q4 and net cash used in operating activities was $1.2m (FY18: $1.7m).

Additional working capital facility

In June 2019, Mirada announced a new revolving credit facility of up to €1.3m that will be used alongside existing debt facilities for general working capital purposes and capex, including the implementation of customer contracts announced and in prospect. The unsecured facility comprises an immediate drawdown of €500k and thereafter up to €800k can be drawn in minimum tranches of €200k. The facility is unsecured and bears an interest of 8% per annum on monies that are drawn down, payable quarterly in arrears, plus fees of €13k. The lender is Leasa Spain and is owned by Ernesto Tinajero.

SALE OF MIRADA CONNECT

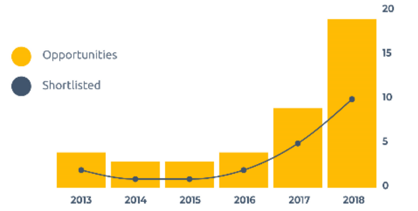
Profitable disposal

The balance sheet has been further strengthened with the successful sale of Mirada Connect, its cashless payment parking division for £2.1m ($2.6m) in cash to PayByPhone, a competitor owned by Volkswagen Financial Services in July 2019. Connect was spun off from Mirada's core activities two years ago and was run as a standalone business. In the year to March 2019, Connect had revenue of $0.9m, (FY18: $0.8m), a PBT of $0.2m (FY18: $0.2m) and was valued on the balance sheet at $0.7m.

The proceeds will be used for working capital and the sale will result in a one-off gain of $1.75m in FY20. It should be noted that in our FY20 forecasts, we exclude this gain in our adj. EBITDA, PBT and EPS numbers. Adding this gain back in would move the company into reported profit in FY20.

POSITIVE OUTLOOK

Exhibit 3: Pipeline development



Source: Company

Management reports a much healthier sales pipeline and believes its chances of success have improved with its proven reference deployment at Izzi, a first customer in Asia, a stronger balance sheet and the investment in sales and marketing. Mirada is participating in almost double the number of deals compared with last year. We believe there is also increased market activity as Pay-TV operators look to address changing consumer demands and increasing competition from OTT services such as Netflix and Amazon Prime. This pressure should also help to reduce sales cycles that historically have tended to be long.

RESELLER AGREEMENT WITH INDRA

A reseller partnership agreement was signed with Indra, a global technology and consulting business, in November whereby Indra will act as a global reseller of Iris with initial activities in South East Asia. The agreement has significantly increased Mirada's sales and marketing reach in the region. Indra already had a product and services portfolio for telecoms and media operators through its Minsait subsidiary and selected Mirada on the basis of the scalability and functionality of the Iris Multiscreen product.

FUNCTIONAL DEVELOPMENT

Mirada has extended its product functionality to match the evolving demands of the market. In particular, consumers expect to be able to access content from multiple device types (mobile phones, tablets, gaming consoles as well as traditional TVs) and move seamlessly between different device types – start watching on one device, pause and continue on another.

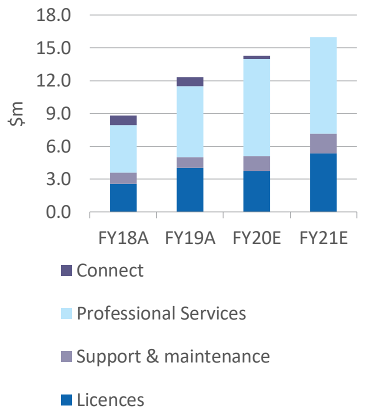
Most recently Mirada has added support for Roku and Xbox. The set-top box market is also developing with the growing popularity of Android TV replacing Linux-based middleware. Mirada can support the latest version of the Android TV operator tier with an advanced Custom Launcher with the same Inspire user interface look and feel. As a result, Mirada's product set addresses the vast majority of the needs of potential customers from the outset.

SAAS VERSUS CAPEX MODEL

Mirada has historically sold Iris on a capex model (perpetual licence plus ongoing maintenance) but also now offers it on a SaaS basis whereby it provides subscriber-based licences coupled with lower set-up fees. This provides the potential for more diversified revenue streams, a greater proportion of recurring monthly revenue and increased competitiveness within the market.

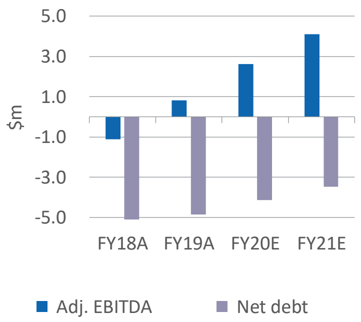
The SaaS model's lower entry price and recurring expenses linked to deployment growth are more attractive for many customers as it is more closely aligned to the customers' own subscription models and cashflows. The SaaS model also provides the customer with access to the most current product offering. The total lifetime value of the SaaS model is typically higher than the traditional capex model, however.

Exhibit 4: Forecast revenue progression



Source: Company, Allenby Capital

Exhibit 5: Adj. EBITDA and net debt progression



Source: Company, Allenby Capital

Whilst the SaaS model offers greater revenue visibility and a higher lifetime value, there are working capital and P&L implications as under the capex model a greater proportion of fees are paid initially and recognised as revenue. Management has looked to address this through both the balance sheet strengthening and addition of the working capital facility.

FORECASTS

For FY20, we expect a 21% increase in revenue to $13.9m for continuing operations, excluding Connect, +16% to $14.3m on a reported basis. This growth will comprise a further increase in Professional Services, including some revenue from new customers expected to be secured in FY20. Licence revenue will include increased revenue from ATNi, Bolivia and Skytel as well as ongoing revenue from Izzi with its deployment. Mirada recognises revenue from Izzi depending on the number of STBs purchased by Izzi rather than the number of STBs installed. As a result, there can be some phasing in revenue as Izzi purchases STBs to inventory, deploys and then reorders. Managed Services should increase given support contracts on the larger installed base. There will be a partial contribution from Connect ($0.3m compared with $0.8m in FY18). We have excluded the one-off gain on disposal from our adj. EBITDA, PBT and EPS forecasts.

The opening of the new office in Castellón in Spain will help to reduce the operating cost base but also provide access to a larger pool of resource. Mirada also continues to invest in the technology stack. In FY19. $3.2m of staff costs were capitalised as intangible assets (FY18: $3.6m) and we expect this to increase to $4.0m in FY20 given the product roadmap.

VALUATION

The current share price fails to reflect the progress that the company has made – the major deployment at Izzi Telecom, securing new customers, reducing debt and increasing revenue visibility through the deployment of the SaaS model. There is also substantial scope for growth with both new and existing customers.

Fair value of 1.5p/share

Exhibit 6 sets out two AIM-listed companies that provides technology to the TV industry. Although some of Mirada's valuation differential can be attributed to the major Kaptungs stake (equity and debt), the level of discount is anomalous – particularly given Mirada's much higher gross margin (>90% versus 32% at ZOO and 44% at Amino). A peer-group based EV/EBITDA valuation, that includes a discount for the lack of liquidity, would suggest a fair value of 1.5p/share, equivalent to an FY21 EV/EBITDA of 5.0x.

EXHIBIT 6: PEER GROUP ANALYSIS

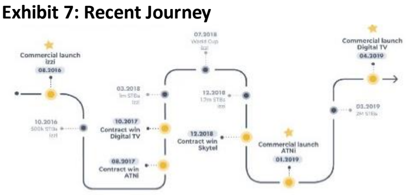
		EV/Sales			EV/EBITDA		
		Historic	Current	Forecast	Historic	Current	Forecast
Amino Tech.	AMO.L	1.1	1.1	1.1	5.6	5.3	5.2
Zoo Digital	ZOO.L	2.2	1.8	1.47	156.5	23.5	11.4
Mirada	MIRA.L	1.3	1.1	0.9	19.7	5.8	3.6

Source: Allenby Capital; Thomson Reuters

CONTRACT WINS

FY19 was notable for the diversification of Mirada's business with the securing of additional contracts for Iris. For the first time, the company has been carrying out three deployments simultaneously. This demonstrates the scalability of the Mirada's operations and increasing commercial momentum. Mirada has focused its sales and marketing efforts on Digital TV markets that offer higher potential growth rates, including Latin America, Eastern Europe and South East Asia. These are forecast to growth at 20%, 9% and 18% respectively between 2017 and 2022 (Source: S&P Global).

Exhibit 7: Recent Journey



Source: Company

ATN INTERNATIONAL INC - BERMUDA

In January 2019, Mirada announced the commercial launch of Iris for FiberWire TV, the TV service of One Communications, a leading telecommunications provider in Bermuda owned by US investment firm ATN International (ATNi). The contract was announced in August 2017 and will be followed by roll outs at other ATNi subsidiaries - initially the US Virgin Islands but also the Cayman Islands and French Guyana.

FiberWire TV subscribers will be able to view live and cloud DVR content across advanced hybrid set-top boxes, smartphones, tablets and laptops. In addition, subscribers will have features such as start-over, session transfer between set-top and personal devices, personalised recommendations and cloud DVR.

This was the first SaaS deployment of Iris, alongside some initial set up fees. There are also other recurring and fixed fees for professional services and platform management on an ongoing basis.

DIGITAL TV CABLE EDMUND - BOLIVIA

In April 2019, Mirada announced the commercial launch of Mirada's Iris multiscreen solution in Bolivia with Digital TV Cable Edmund S.R.L. The contract win was first announced in October 2017. The service is available for both new and existing subscribers.

Five-year SaaS contract

The five-year SaaS contract has a target of up to one million devices. Digital TV Cable will also have access to LogIQ, Mirada's data intelligence platform that will enable it to make informed, data-driven decisions on customer requirements. The number of digital TV subscribers in Bolivia is expected to grow at a 19.9% CAGR between 2018 and 2021 (Source: S&P Global).

SKY MEDIA CORPORATION LLC - MONGOLIA

In December 2018, Mirada announced a contract with Sky Media Corporate, a subsidiary of Skytel LLC, for a deployment of Iris in Mongolia. Iris will be used for a new pay-TV service across multiple device types.

First commercial deployment in Asia

The project is being conducted in two phases. Phase One is the roll-out of an OTT TV service whereby subscribers can watch live, catch-up and on-demand content on multiple device types with features that include multiscreen viewing, the ability to pause viewing on one device and resume on another and cloud DVR. Phase Two will expand the offering of Iris to IP set-top boxes and other connected devices. This represents the first commercial deployment of the complete Iris multiscreen solution in Asia.

Over the past five years, the total number of internet subscribers in Mongolia has grown by more than 60%, suggesting considerable potential for Skytel's OTT offering. Meanwhile total IPTV subscribers in the Mongolian pay TV market have increased 116% since 2014.

PROFIT & LOSS	$ '000	$ '000	$ '000	$ '000	$ '000
Year End March	**FY 2017A**	**FY 2018A**	**FY 2019A**	**FY 2020E**	**FY 2021E**
Revenue	**8,489**	**8,816**	**12,322**	**14,263**	**15,993**
Digital TV & Broadcast	7,755	7,938	11,489	13,971	15,993
Mobile	734	878	833	292	0
Total	**8,489**	**8,816**	**12,322**	**14,263**	**15,993**
YoY Growth	*41.0%*	*3.9%*	*39.8%*	*15.8%*	*12.1%*
Cost of sales	(614)	(874)	(857)	(842)	(800)
Gross profit	7,875	7,942	11,465	13,421	15,193
Gross margin	*92.8%*	*90.1%*	*93.0%*	*94.1%*	*95.0%*
Staff costs	(4,802)	(5,599)	(7,249)	(7,400)	(7,600)
Administrative expenses	(3,070)	(3,464)	(3,402)	(3,400)	(3,500)
One-off charges/gains		-	-	1,747	-
Reported EBITDA	**(66)**	**(1,193)**	**744**	**4,371**	**4,093**
Adj. EBITDA	**3**	**(1,121)**	**814**	**2,621**	**4,093**
Adj. EBITDA margin	0.0%	-12.7%	6.6%	18.4%	25.6%
Depn. & Amort.	(2,833)	(3,497)	(3,728)	(3,810)	(3,810)
Depreciation	(46)	(73)	(80)	(10)	(10)
Amortisation	(2,718)	(3,352)	(3,578)	(3,800)	(3,800)
Share based payments	(69)	(72)	(70)	-	-
Reported EBIT	**(6,574)**	**(4,618)**	**(2,914)**	**561**	**283**
EBIT margin	*-77.4%*	*-52.4%*	*-23.6%*	*3.9%*	*1.8%*
Adj. EBIT	**(2,761)**	**(4,546)**	**(2,844)**	**(1,189)**	**283**
Net interest	(420)	(550)	(382)	(250)	(200)
Adj. profit before tax	**(3,181)**	**(5,096)**	**(3,226)**	**(1,439)**	**83**
Reported profit before tax	(6,994)	(5,168)	(3,296)	2,058	83
Tax	(103)	298	184	200	200
Adj. profit after tax	(3,284)	(4,798)	(3,042)	(1,239)	283
Shares in issue (basic)	139,058	139,058	520,653	890,843	890,843
EPS (basic) (p)	(5.10)	(3.50)	(0.60)	0.25	0.03
EPS (adj. and diluted) (p)	**(2.36)**	**(3.45)**	**(0.58)**	**(0.14)**	**0.03**
Net Cash	**(5,253)**	**(11,703)**	**(4,861)**	**(4,125)**	**(3,475)**

Source: Company, Allenby Capital

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