PROGRESSIVE
EQUITY RESEARCH

7 February 2017

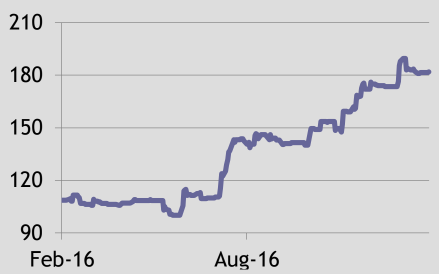
# AMINO TECHNOLOGIES
# TECHNOLOGY HARDWARE AND EQUIPMENT

**AMO.L**

182p

Market Cap: £128.4m

**SHARE PRICE (p)**




| | |
|---|---|
| 12m high/low | 189p/100p |

***Source: LSE Data***

**KEY INFORMATION**

| | |
|---|---|
| Enterprise value | £122.2m |
| Index/market | FTSE AIM |
| Next news | AGM, March 2017 |
| Gearing | N/A |
| Interest cover | N/A |

**AMINO TECHNOLOGIES IS A RESEARCH CLIENT OF PROGRESSIVE**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## 2016 financials demonstrate strong execution

**With the outcome in line with our forecasts, the key message from Amino's FY 2016 results is one of strong execution. The company is gaining solid commercial traction from the expanded product portfolio and re-focused sales and marketing activities. The outlook statement provides positive commentary on the sales pipeline and order book, and the re-iteration of the existing progressive dividend policy for the current financial year is a further indication of management's confidence.**

- **FY 2016 results in line:** FY 2016 Revenue of £75.2m (+80%) and EBITDA of £13.5m (+81%) were in line with our forecasts. Organic growth of 7% was 2% ahead of management expectations. Net cash closed the period at £6.2m, a £2m improvement on H1 2016.
- **Good commercial traction from the enhanced product Portfolio:** 2016 saw a number of contract wins in both IPTV and Cloud solutions. Revenues in Latin America grew 197% during 2016, reflecting a number of contract wins for devices with new and existing customers, alongside reference software contract wins with Cincinnati Bell in the US and PCCW in Hong Kong. In Cloud TV, Amino signed new contracts with European fixed-line and mobile operators, with revenues from the Amino Move service delivery platform more than doubling.
- **Sales & marketing strengthened:** Under Steve McKay, President of Sales and Business Development (and former CEO of Entone), Amino now has an integrated sales effort. Dedicated sales teams have been created for all key target regions. In our view the 7% organic revenue growth could be an early sign of the benefits of the re-organisation coming through. We also note positive management commentary on the sales pipeline and order book.
- **Forecast revisions:** We make revisions to FY 2017E estimates. Revenue increases by 11% to £84.1m, primarily reflecting our expectation of a stronger sales performance in devices. EBITDA is 3% higher at £14.6m. We also introduce FY 2018E estimates.

2016 was a year of impressive financial progress for Amino. Following the strategic Entone and Booxmedia acquisitions, in our view the group is performing strongly. Financial performance is benefitting from the broadened product portfolio and increased focus on sales and marketing. Today's release continues Amino's track record of delivery, and the business seems well set to capitalise on the ongoing IPTV market growth opportunity.

| YEAR TO NOVEMBER | 2014 | 2015 | 2016 | 2017E | 2018E |
|---|---|---|---|---|---|
| **Revenue (£m)** | **36.2** | **41.7** | **75.2** | **84.1** | **87.4** |
| **Adjusted EBITDA (£m)** | **6.7** | **7.5** | **13.5** | **14.6** | **15.6** |
| **Adjusted PBT (£m)** | **4.2** | **5.2** | **10.2** | **11.0** | **12.0** |
| **Adjusted EPS (p)** | **7.8** | **8.5** | **13.5** | **13.8** | **15.1** |
| **EV/ EBITDA** | **18.2x** | **16.4x** | **9.0x** | **8.4x** | **7.8x** |
| **P/E** | **23.3x** | **21.4x** | **13.5x** | **13.2x** | **12.0x** |
| **Dividend yield (%)** | **2.7%** | **3.0%** | **3.3%** | **3.7%** | **4.0%** |

***Source: Company Information and Progressive Equity Research estimates***

## Regional Performance

**North America** (52% of turnover FY 2016A) saw 86% growth in revenue, with Amino reporting good device sales to tier-3 operators and a reference software-only contract with Tier-2 operator Cincinnati Bell to migrate legacy IPTV devices to Amino's Enable TV platform.

**Latin America** (17% of turnover FY 2016A) saw 197% revenue growth, with a number of contract wins for device sales with both new and existing customers.

**Europe** (30% of turnover FY 2016A) recorded 52% revenue growth, with new contracts being signed with fixed-line and mobile operators, and also content owners. Revenues from the Amino Move mobile content delivery platform more than doubled.

**Rest of World** (1% of turnover FY 2016A) Amino's smallest region saw a 47% decline in revenue during the year. However, a highlight was the signing of Enable software contract with Tier-1 operator PCCW in Hong Kong.

## Forecast revisions

Following the results release, we make revisions to FY 2017E forecasts. These are summarised in the following table.

**SUMMARY FORECAST CHANGES**

| | FY17E | | |
|---|---|---|---|
| **£m unless stated** | **Old** | **New** | **Change (%)** |
| **Revenue** | **76.1** | **84.1** | **10.5%** |
| **Adj EBITDA** | **14.1** | **14.6** | **3.4%** |
| **Fully adj PBT** | **10.5** | **11.0** | **4.6%** |
| **Fully adj EPS (p)** | **14.0** | **13.8** | **-1.1%** |
| **Net cash** | **7.8** | **9.9** | **N/A** |

***Source: Progressive Equity Research estimates***

- FY 2017E revenues increase by 10.5% to £84.1m. This reflects our expectation of a stronger sales performance in devices than we had previously anticipated. 95% of Amino's revenues and cost of sales are US dollar denominated. Our forecasts assume a 4% uplift in revenue from favourable foreign currency movement.
- We have remained cautious in our forecast of software sales. Longer-term, we believe there is a material software opportunity for Amino. However, in the near-term we anticipate that software business may be lumpy – as evidenced by the £5m of non-recurring licence revenue recorded in FY 2016A. In the devices segment, we expect a greater volume of new business with larger customers. The result is a reduction in gross margin assumption. With opex forecasts broadly unchanged, we now expect an 3.4% improvement in FY 2017E EBITDA.
- Our FY 2017E EPS forecast is slightly reduced at 13.8p. This reflects an increase in assumed tax rate compared to our previous forecasts.
- Amino reported a net cash position of £6.2m at the end of FY 2016A. Our revised forecasts expect £10.0m at the end of FY2017E, a £2.2m improvement on our previous forecasts.

## Structural positioning and additional detail

In addition to the comments above regarding the group's regional performance and our changes to forecasts, we highlight below a number of other relevant factors. Some of these have informed our estimate-setting, and others are relevant to a proper understanding of the business and its opportunities:

- The group is seeing (and has seen) strong performance from both North America and Latin America in the traditional devices market. The Cloud TV contract wins validate the acquisition of Booxmedia, and there is a steady move towards the sale of software rather than devices.
- It is worth noting that the 2016 results were impacted (positively) by the Cincinnati Bell deal, which was perhaps unusual in that it was a "perpetual licence" (i.e. large, one-off revenue) deal. We would expect that future deals of this type are more likely to be struck on a recurring revenue basis – with lower up-front recognised revenue, but with higher value over time. This is a better basis for Amino in future deals, but it means that the group is less likely to generate revenue growth over & above the Cincinnati Bell deal's scale during 2017. There are implications for 2017 estimates in terms of revenue, but also constrictions on gross margin as the company describes in today's RNS.
- The wider industry trend in TV entertainment service delivery is towards Internet Protocol (IP) transmission across broadband networks. This marks a major change for satellite and cable operators. However, as evidenced by Sky's recent decision to make its latest Sky Q device available for broadband customers, the move is now firmly underway with cable TV companies also making the transition to hybrid IP/cable delivery or a pure IP strategy. Amino is well positioned for this market migration towards software; the group has spent many years optimising and evolving the software element of its products, and has a very strong position in the market for software to handle IP-based video streams.

**Overall, the group appears to be already benefiting from the ongoing migration of the global TV market, a migration which remains in its early stages. Amino is able to sell cost-effective and highly functional devices while these are in demand, but the group is also well positioned for the evolving software-only market and demand for hybrid TV devices, particularly in the cable TV market. Its revenue model is maturing in this new market, and the acquisitions (Entone and Booxmedia) have both been integrated well and validated in terms of strategic value. The move toward cloud-based delivery of content also plays to Amino's multiscreen service delivery capabilities.**

**2016 was a strong year for the group, buoyed by the acquisitions of 2015, and bolstered by both currency and market conditions. Not all of these tailwinds will recur during 2017, but we look to the year with optimism, and expect to see significant further developments.**

## SUMMARY FINANCIALS

| Year ended November | FY-13 | FY-14 | FY-15 | FY-16 | FY-17 | FY-18 |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| **Profit & Loss** | Act | Act | Act | Act | Est | Est |
| Revenue £m | 35.9 | 36.2 | 41.7 | 75.2 | 84.1 | 87.4 |
| Adj EBITDA £m | 6.0 | 6.7 | 7.5 | 13.5 | 14.6 | 15.6 |
| Adj EBIT £m | 3.3 | 4.1 | 5.1 | 10.2 | 11.0 | 12.0 |
| Reported PBT | 4.2 | 4.0 | 0.3 | 2.9 | 6.4 | 9.0 |
| PBT before exceptionals and AAG | 3.4 | 4.0 | 5.3 | 10.5 | 11.7 | 12.7 |
| Fully adj PBT | 3.4 | 4.2 | 5.2 | 10.2 | 11.0 | 12.0 |
| NOPAT | 3.3 | 4.1 | 5.1 | 10.2 | 11.0 | 12.0 |
| Reported EPS | 7.8 | 7.6 | 0.6 | 3.8 | 7.6 | 11.1 |
| EPS before exceptionals and AAG | 6.4 | 7.5 | 9.0 | 14.5 | 14.8 | 16.1 |
| Fully adj EPS | 6.3 | 7.8 | 8.5 | 13.5 | 13.8 | 15.1 |
| Dividend per share p | 3.5 | 5.0 | 5.5 | 6.1 | 6.7 | 7.3 |
| **Cash flow & Balance sheet** | | | | | | |
| Operating cash flow | 7.1 | 7.2 | 6.4 | 13.6 | 13.1 | 14.6 |
| Free Cash flow £m | 4.4 | 4.7 | 2.8 | 10.8 | 9.5 | 11.0 |
| FCF per share p | 8.3 | 8.7 | 4.7 | 15.2 | 13.0 | 15.0 |
| Capex | -2.9 | -2.5 | -3.3 | -3.5 | -3.5 | -3.5 |
| Acquisitions | 0.0 | 0.0 | -38.8 | -2.6 | -1.5 | 0.0 |
| Net cash flow | 2.1 | 1.5 | -38.6 | 4.2 | 3.6 | 6.1 |
| Shares issued | 0.3 | 0.0 | 19.9 | 0.0 | 0.0 | 0.0 |
| Net cash/(debt) | 19.5 | 20.8 | 2.0 | 6.2 | 9.9 | 16.0 |

| Metrics | FY-13 | FY-14 | FY-15 | FY-16 | FY-17 | FY-18 |
|---|---|---|---|---|---|---|
| Revenue growth | *-14.0%* | *0.9%* | *15.1%* | *80.6%* | *11.7%* | *4.0%* |
| Adj EBITDA growth | *-3.2%* | *11.1%* | *11.2%* | *81.0%* | *7.8%* | *6.9%* |
| Adj EBIT growth | *14.8%* | *24.1%* | *24.0%* | *100.7%* | *7.4%* | *9.1%* |
| Adj PBT growth | *16.4%* | *22.6%* | *22.9%* | *98.1%* | *7.4%* | *9.1%* |
| Adj EPS growth | *12.8%* | *23.6%* | *9.2%* | *58.5%* | *2.5%* | *9.1%* |
| Dividend growth | *15.0%* | *44.9%* | *10.0%* | *10.2%* | *10.0%* | *10.0%* |
| Adj EBIT margins | *9.2%* | *11.4%* | *12.2%* | *13.6%* | *13.1%* | *13.7%* |
| Operating cash conversion | *116.7%* | *106.5%* | *85.6%* | *100.3%* | *89.7%* | *93.4%* |
| Capex/Depreciation | 106% | 95% | 115% | 334% | 258% | 258% |

| Valuation | FY-13 | FY-14 | FY-15 | FY-16 | FY-17 | FY-18 |
|---|---|---|---|---|---|---|
| EV/sales | 3.4 | 3.4 | 2.9 | 1.6 | 1.5 | 1.4 |
| EV/EBITDA | 20.2 | 18.2 | 16.4 | 9.0 | 8.4 | 7.8 |
| EV/NOPAT | 36.9 | 29.7 | 24.0 | 11.9 | 11.1 | 10.2 |
| PER | 28.8 | 23.3 | 21.4 | 13.5 | 13.2 | 12.0 |
| Dividend yield | 1.9% | 2.7% | 3.0% | 3.3% | 3.7% | 4.0% |
| FCF yield | 4.5% | 4.8% | 2.6% | 8.3% | 7.1% | 8.3% |

***Source: Company information, Progressive Equity Research estimates***

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