

Audinate Group Limited

August 21, 2023



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Audinate Group Limited	Equity Analysis
Kapitales Research Rating ★ ★ ★ ★ Recommendation Speculative Buy Current Market Price AU\$11.400 Risk High	52 Week Range (AUD) 

Average volume	88,548	52 Week Range (AU\$)	6.820 - 12.500
Shares outstanding	77.45 million	Dividend amount (AU\$)	-
Free float	65.18 million	Dividend Yield	-
P/E (TTM)	-	Ex-date	-
Market cap (AU\$)	797.75 million	Record date	-
EPS (TTM)(AU\$)	-0.034	Pay date	-
ROE	-3.50%	Franking	-

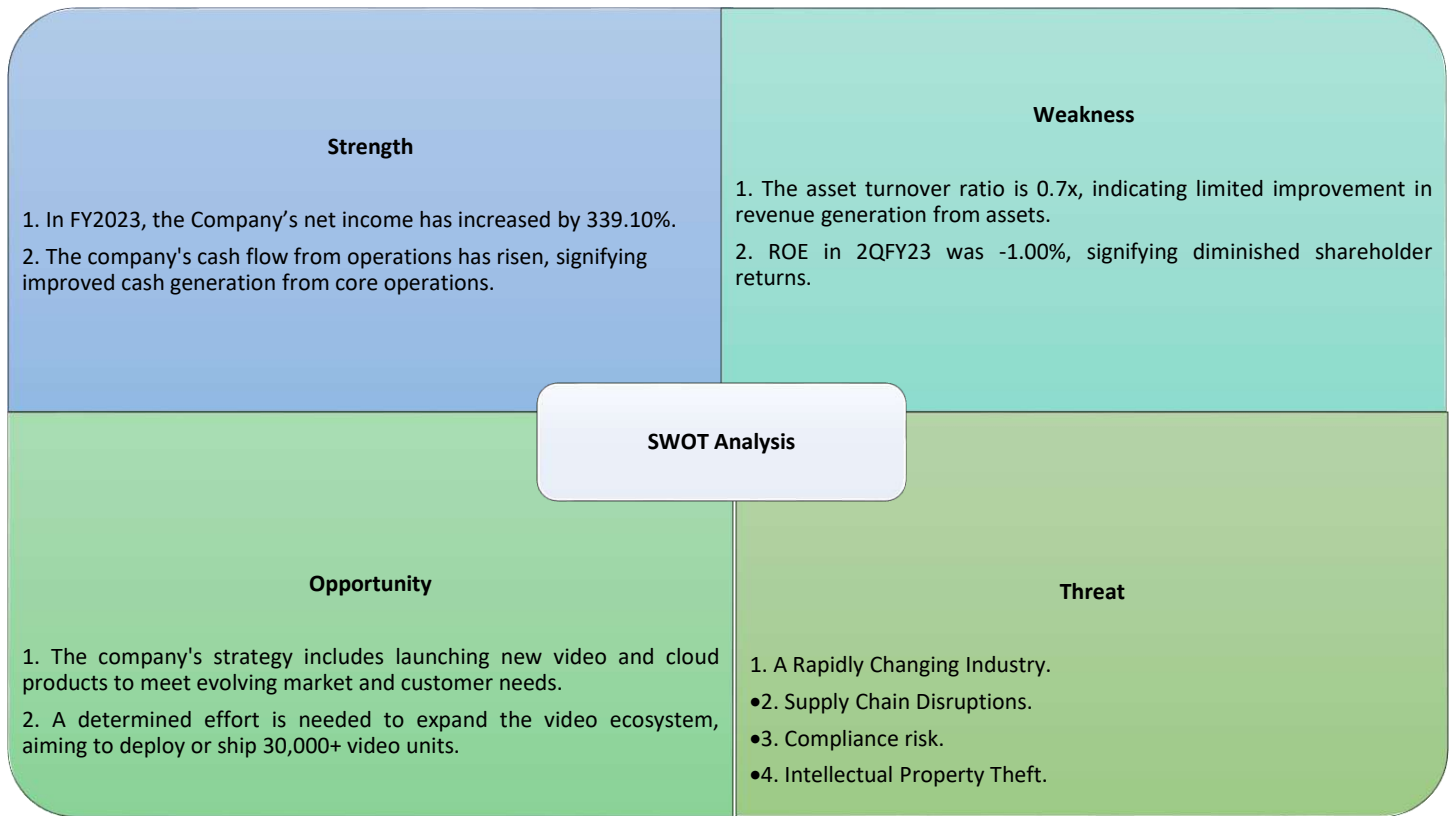
Source: (ASX and Koyfin), Analysis by Kapitales Research

Audinate Group Limited is an Australian-based company known for its global provision of professional audio-visual (AV) networking technologies. The company's primary focus revolves around creating and distributing digital AV networking solutions. Their flagship product, the Dante platform, is designed to transmit digital audio and video signals across computer networks. Audinate's product portfolio encompasses a range of offerings, including Dante AVIO adapters, software solutions, Dante-enabled products, and offerings tailored for hardware and software developers.

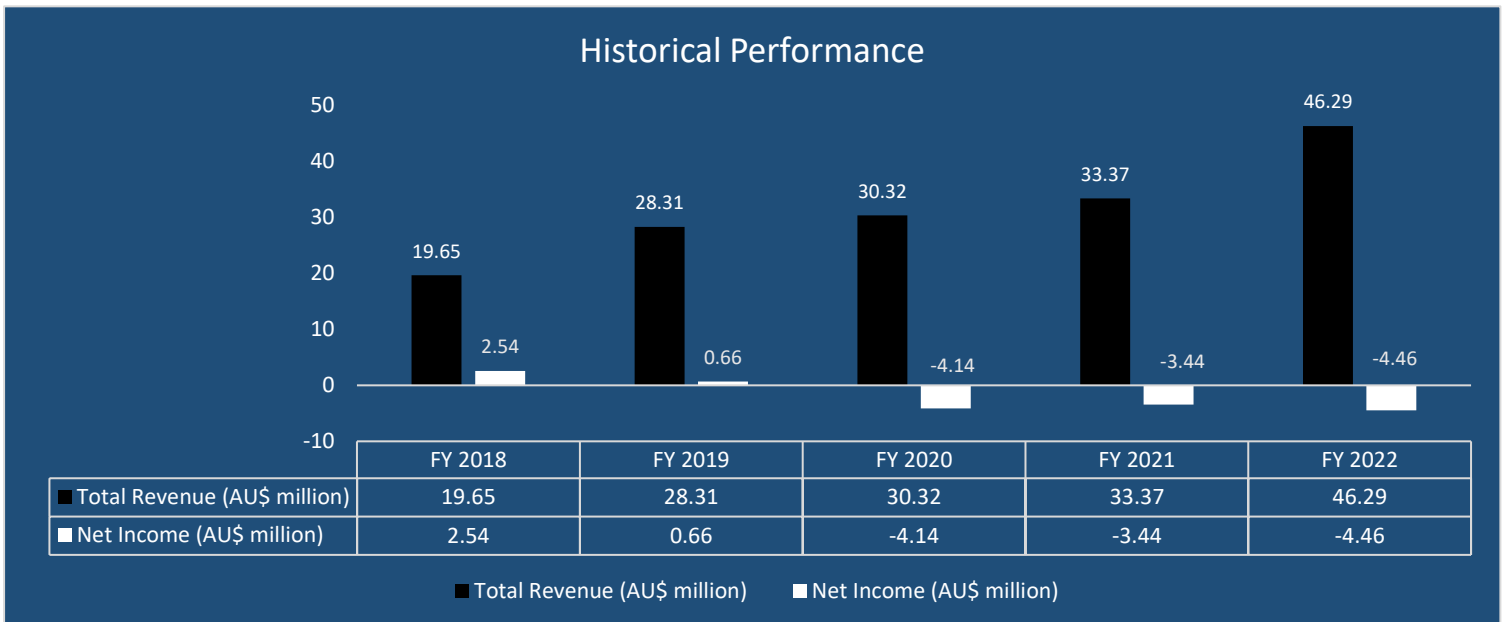
The Dante platform combines software and hardware components, which are supplied to and integrated within the AV products of their original equipment manufacturer (OEM) partners. Audinate also sells application software through its distribution channels, providing management and control solutions for AV installations. Their notable software offerings include Dante Domain Manager, Dante Virtual Soundcard, Dante Via, Dante Controller, and Dante Studio. Audinate's Dante IP networking solution finds applications in various industries, including professional live sound, commercial installations, broadcast, public address systems, and the recording industry.

SWOT Analysis

Sector: Information Technology
 Industry: Electronic Equipment, Instruments and Components
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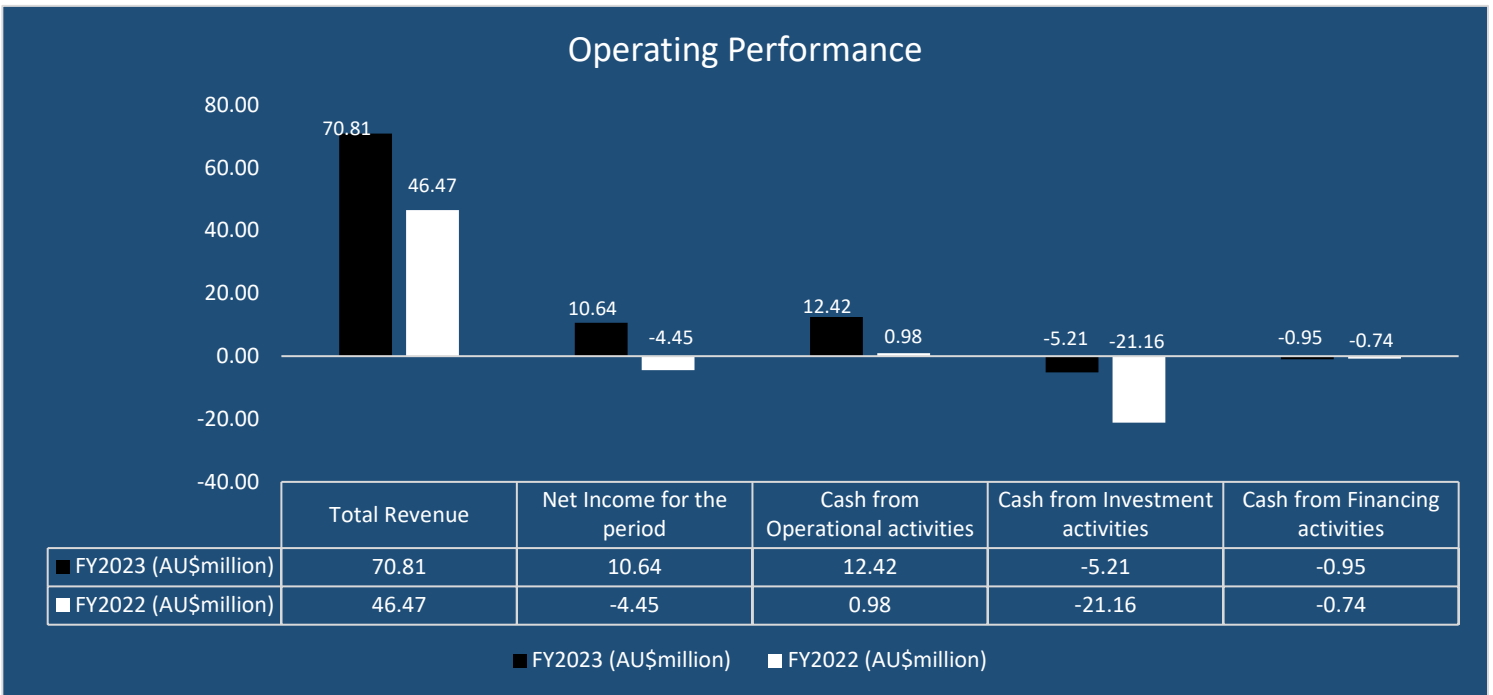
Historical Performance



Source: Koyfin, Analysis by Kapitaless Research

In the fiscal year 2022, the company achieved a total revenue of AU\$46.29 million, demonstrating significant growth compared to the AU\$19.65 million reported in FY18. This represents a compounded annual growth rate (CAGR) of 24%. However, during this period, the company faced a decline in net income, transitioning from a net income of AU\$2.54 million in FY18 to a net loss of AU\$4.46 million in FY22.

Operating Performance (period ended 30 June 2023)



Source: Company Reports, Chart Prepared by Kapitaless Research

On 21 August 2023, the company unveiled its financial results for the fiscal year 2023, covering the period up to 30 June 2023. The growth in US dollar revenue, which saw a 40% increase, outpaced the growth in Dante units shipped, which stood at 30%. This notable difference can be attributed to several factors, including the impact of price increases implemented in FY22, robust growth in Brooklyn and Viper boards, and supply chain challenges experienced in the first half of the fiscal year. The overall gross margin percentage for FY23 improved to 72.1%, an enhancement from the 71.2% recorded in the first half, which had been affected by supply chain disruptions.

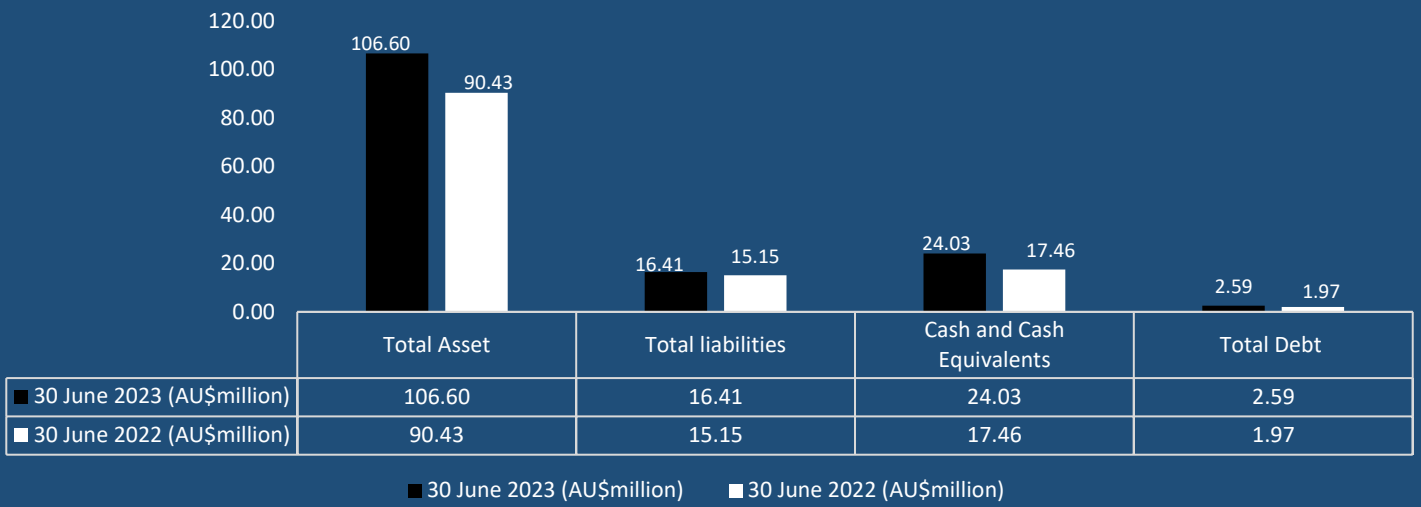
In the category of chips, cards, and modules (CCM), revenue surged by 42.0%, surpassing the growth in CCM units shipped at 22.3%. This can be attributed to a combination of factors: an increase in units shipped, primarily driven by the recovery of Ultimo in the second half, and revenue growth fueled by Brooklyn (with a growth rate exceeding 30%), Viper boards, and Ultimo (with a growth rate exceeding 50%).

In the software segment, revenue exhibited a growth rate of 34.0%, slightly below the growth in software units shipped, which stood at 42.3%. This difference can be explained by the unit growth associated with a second-half recovery in Reference Design shipments and ongoing expansion in the Dante Embedded Platform (DEP). Additionally, revenue growth was driven by Reference Designs (with a growth rate exceeding 50%), DEP (with a growth rate exceeding 30%), and Dante IP Core (with a growth rate exceeding 45%).

Balance Sheet Highlights (period ended 30 June 2023)

Sector: Information Technology
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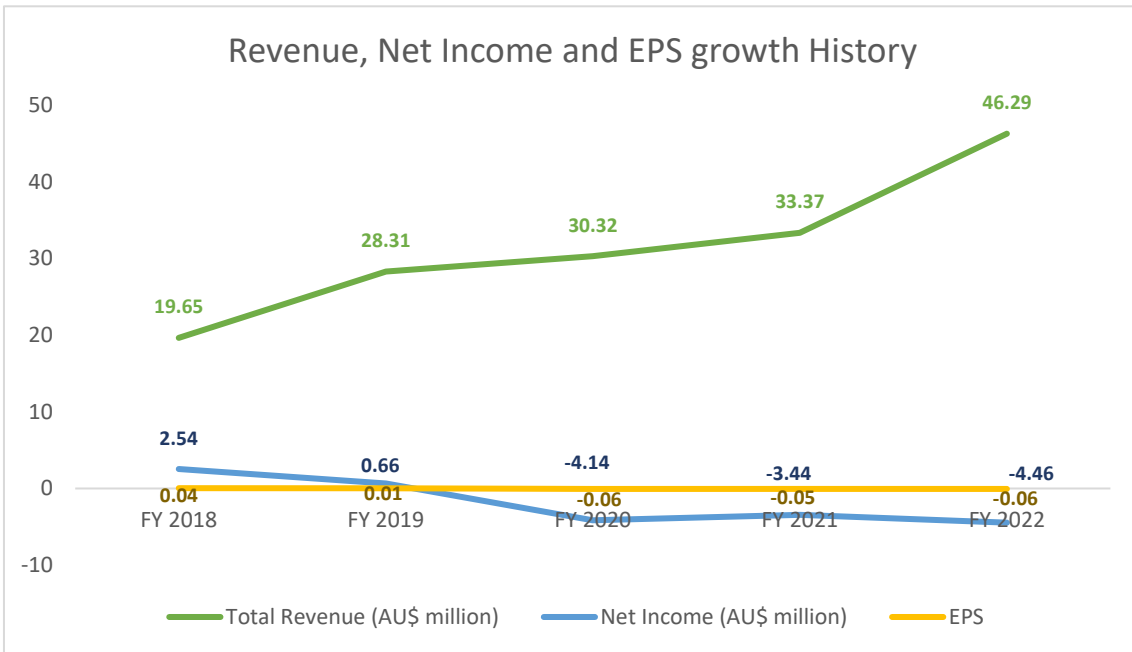
Balance Sheet Highlights



Source: Company Reports, Chart Prepared by Kapitaless Research




As of June 30, 2023, the company witnessed a rise of 17.88% in total assets, an 8.26% uptick in total liabilities, and a substantial increase of 37.63% in cash and cash equivalents. Furthermore, there was a notable 31.67% increase in total debt compared to the corresponding figures reported on the balance sheet as of June 30, 2022.

Revenue, Net Income and EPS growth History



Source: Koyfin, Analysis by Kapitaless Research

21 August 2023

Fiscal Years	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	Growth Trend
Total Revenue (AU\$ million)	19.65	28.31	30.32	33.37	46.29	
Net Income (AU\$ million)	2.54	0.66	-4.14	-3.44	-4.46	
EPS	0.04	0.01	-0.06	-0.05	-0.06	

Source: Koyfin, Analysis by Kapitales Research

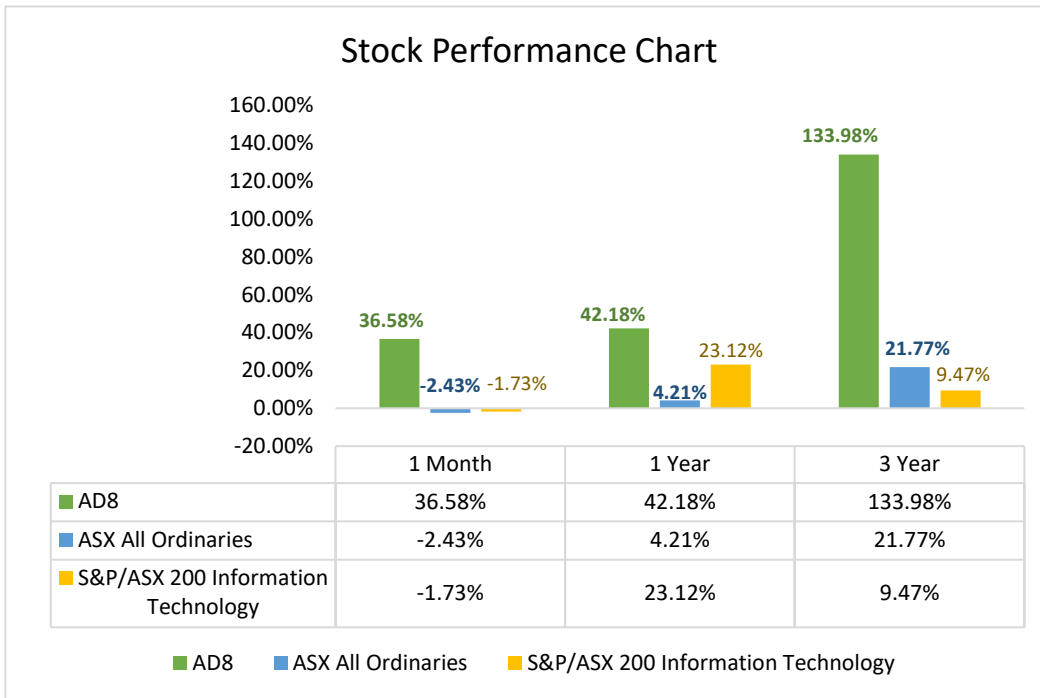
Ratio Analysis

Fiscal Quarters	1Q FY2022	2Q FY2022	3Q FY2022	4Q FY2022	1Q FY2023	2Q FY2023
Return on Assets	-2.84%	-2.90%	-2.63%	-2.57%	-1.21%	-1.21%
Return On Equity %	-5.51%	-5.57%	-6.05%	-6.13%	-1.00%	-1.00%
Return on Total Capital	-3.13%	-3.17%	-2.98%	-3.01%	-1.40%	-1.40%
EBITDA Margin %	10.09%	10.09%	-6.27%	-6.68%	-0.84%	-0.84%
Gross Profit Margin %	75.62%	75.62%	74.03%	74.03%	71.16%	71.16%
Net Income Margin %	-10.62%	-10.62%	-8.85%	-8.85%	-1.24%	-1.24%
Asset Turnover	0.5	0.5	0.6	0.6	0.7	0.7
Inventory Turnover (Average Inventory)	5.0	4.7	3.5	2.4	3.1	2.9
Current Ratio	8.7	8.7	4.4	4.4	4.4	4.4
Days Sales Outstanding (Average Receivables)	25.2	26.1	30.0	40.7	36.7	38.7
Days Payable Outstanding (Avg)	62.2	87.0	30.6	63.1	65.6	96.1
Cash Conversion Cycle (Average Days)	36.9	17.6	101.9	128.2	91.6	67.8

Source: Koyfin, Analysis by Kapitales Research

- Current ratio for 2QFY23 stood at 4.4x, implying that the company possess better capabilities to meet its short-term obligations.
- The Gross Profit Margin from the previous quarter stood at 71.16%, indicating that the company can generate profits from its products or services with a high margin of revenue left after deducting the direct costs.
- High inventory turnover ratio means efficient management, quick sales, and minimized risk of obsolete inventory.
- Days Payable Outstanding for 2QFY23 is 96.1 days, indicating that more cash is available to support operations.

Price Performance



Source: Investing.com, Analysis by Kapitales Research

Outlook

In the company's forward-looking outlook, several key strategic initiatives are outlined. Firstly, there's a strong commitment to expanding the video ecosystem, with a target of deploying or shipping over 30,000 video units. This expansion underscores the company's dedication to staying at the forefront of the video technology landscape.

Additionally, the company plans to introduce new video and cloud products, reflecting its agility in responding to evolving market demands and customer preferences. Building on the success of Dante Connect cloud offering, the company aims to capitalize on its growth potential and further enhance customer value.

Operational efficiency is a core focus, with initiatives aimed at improving scalability and cost structures to boost profitability and cash flow. The anticipated normalization of supply chain challenges signals a return to standard business operations.

The company maintains a robust backlog, providing a solid foundation for revenue generation and strong financial performance. However, it acknowledges the presence of global macroeconomic uncertainty, signalling a proactive approach to navigate potential challenges.

Key Risks and Uncertainties

The company has exposure to the following risks-

- Cybersecurity Threats
- Compliance and Regulatory Risk
- Vendor and Supply Chain Risk
- Technology Obsolescence
- Intellectual Property Theft

Sector: Information Technology
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Valuation

Relative Valuation Based on EV/Sales Multiple	
Audinate Group Limited	AD8
Sales (FY24E AU\$ million)	80.0
EV/Sales Multiple (NTM) (Peer Average) (approx)	12.38x
Implied EV (AU\$ million)	991
Cash (AU\$ million)	24.03
Debt (AU\$ million)	2.59
Minority Interest (AU\$ million)	-
Implied Market Cap	1,012
Shares Outstanding (million)	77.45
Target Share Price (AU\$)	13.07
Current Market Price (AU\$) 21 August 2023	11.40
Rating	Speculative Buy

Data Source: Koyfin, Analysis by Kapitales Research

Technical Analysis



Source: TradingView, Analysis by Kapitales Research

Company Name	Ticker	Sector	CMP (AU\$)	Advisory Date	Rating	Target 1 (AU\$)	Target 2 (AU\$)	Stop Loss (AU\$)
Audinate Group Limited	AD8	Information Technology	11.400	21 August 2023	Speculative Buy	12.830	14.230	9.920

Sector: Information Technology
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The stock of technology hardware & equipment company AD8 settled at AU\$11.400 on 21 August 2023 after a surge of nearly 10.7% from the previous day's closing. It is currently trading between its 52-week price levels.

The stock price is trading above the significant exponential moving averages (EMA) of 20, 50, and 200 weeks on a weekly time frame, indicating bullishness for the near term. The stock is trading above the pivot resistance R1 (AU\$10.160), holding a bullish momentum on a weekly time frame chart.

RSI (14 weeks) is at 73, holding a bullish momentum above the breakout zone in the index.

Based on these facts, buying can be initiated at the current market price (CMP) level for the potential targets of AU\$12.830 (pivot resistance R2) and AU\$14.230 (25% upside) in the coming days. Investors can book either full or partial profits at target one and wait for the stock to achieve target two (depending on their risk appetite).

Investors are advised to keep a strict stop loss at or below AU\$9.920 (previous swing support) to protect their investments in case of an unfavourable movement in the stock due to any uncertain event.

Please Note: It would be in the best interest of investors to trail their stop-loss upward if the stock is moving in our favourable direction.

Investment Summary

In line with its growth strategy, the company is actively exploring mergers and acquisitions (M&A) opportunities, particularly in the video and cloud sectors, to accelerate organic growth. This expansion plan includes increasing the workforce by 15% to support core and growth opportunities in video, cloud, and professional services.

Profitability and cash flow improvement remain top priorities, ensuring financial strength and sustainability. The company is also preparing for the resumption of the transition to software by original equipment manufacturers (OEMs), with an awareness of its potential impact on gross profit. Overall, the company aims to maintain consistent US dollar gross profit growth, aligning with its historical performance and market expectations.

Besides, our calculation based on EV/Sales ratio indicates that the stock is undervalued currently. Our calculation based on technical analysis too suggest that the stock has growth potential. The company has witnessed an increase in its cash flow from operating activities compared to the corresponding period, indicating a positive trend in its ability to generate cash from its core business operations.

Hence, after considering the facts mentioned above, investors are advised to have a "Speculative Buy" rating on the stock of AD8 at the closing price of AU\$11.400 on 21 August 2023, with a target price of AU\$12.830 based on technical analysis.

Note: Kapitales Research Rating Star has been decided over the quantitative analysis of the stock. Maximum number of stars can be 5, with 5 for the top rating and 1 for the lowest rating.

Technical Indicators Defined:

EMA: Exponential Moving Average is the moving average that puts more weight on the most recent data points. $EMA = \text{Closing price} * \text{multiplier} + \text{EMA (previous day)} * (1 - \text{multiplier})$. For a 200-day exponential moving average, the multiplier can be calculated with the formulae i.e. $[2/(200+1)] = 0.0095$.

RSI: Momentum indicator, Relative Strength Index is used to evaluate the overbought or oversold nature of an asset by measuring the magnitude of its recent price changes.

Bollinger Band: A technical analysis tool that uses two parameters i.e. period (default is 20) and standard deviations, forming a kind of price envelope depicting a range of upper price band and lower price band. This price band shifts according to the volatility swings, and it helps in identifying whether the underlying asset is in the overbought zone or oversold zone.

Support: This is a level or zone where the stock finds good demand indicating the buyer's strength.

Resistance: This is a level or zone where the stock finds a good supply indicating the seller's strength.

Stop-loss: This is the level from where the investors should exit their positions to prevent any further losses in case of unfavorable movement in the stock prices.

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Disclosure: The information mentioned above has been sourced from the company reports and a third-party database, i.e., Koyfin. Investors are advised to use strict stop-loss to protect their investments in case of any unfavorable/uncertain market events.

Kapitales Research, Level 13, Suite 1A, 465 Victoria Ave, Chatswood, NSW 2067, Australia | 1800 005 780 | info@kapitales.com.au