INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

Structural tailwinds and proprietary end-to-end services drive strong sales growth

ZOO Digital Group plc (LON: ZOO), a world-leading provider of cloud-based localisation and digital media services to the global entertainment industry, today announces its unaudited financial results for the six months ended 30 September 2021 ("**H1 FY22**").

A presentation for retail investors will be live streamed on Wednesday 10th November at 5:00pm GMT. For those interested in joining, please register via the following link:

HIGHLIGHTS

Key Financials

- Revenues increased by 64% to $26.9 million (H1 FY21: $16.4 million) driven by strong growth in the period for subtitling and media services
- Gross profit increased by 68% to $8.6 million (H1 FY21: $5.1 million)
- Adjusted EBITDA[1] up 82% to $2.4 million (H1 FY21: $1.3 million) reflecting the strong revenue growth and operational gearing
- Operating profit of $0.4 million (H1 FY21: loss of $0.1 million)
- Cash balance of $8.2 million at period end (H1 FY21: $2.1 million) benefitting from the $10.3 million placing in April 2021 to fund accelerated growth
- Conversion of the 7.5% unsecured convertible loan stock into 5,273,959 new shares, removing the main borrowings of the Group and the associated interest payments

Operational Highlights

- Extended ZOOstudio platform further and secured a new customer deployment
- Media services grew by 142% due to a high volume of work in preparing catalogue titles for release on streaming platforms
- Localisation grew 30% as new productions resumed in Q2
- Freelancer network grew to 9,752 (H1 FY21: 8,272, +18%)
- Established mastering team, launched new service and secured first customer
- Launched global growth initiative with investment to establish ZOO Turkey
- Signed lease to rent new property in Sheffield to support long-term innovation and growth

Outlook

- Strong order book across all service lines with good visibility for H2 and a pipeline of work from established, satisfied customers
- New mastering initiative and international expansion provide two additional revenue streams
- The Board expects that the developments in its services will yield greater diversity in revenue categories in the period ahead
- The Board will continue to invest in expanding capacity to support an increase in market share in H2 and into FY23, which is expected to generate increased profitability in future periods

[1]adjusted for share-based payments.

Stuart Green, CEO of ZOO Digital, commented:

"Structural tailwinds and our end-to-end services powered by our proprietary systems have fuelled very strong revenue growth while back catalogue work surged as streaming globalises. More recently new production work returned and reached pre-pandemic levels in August.

"We are building on our international capability through partnering and investing in regions of the world where the strongest growth is anticipated. The launch of ZOO Turkey has already strengthened our MENA operations and discussions are underway in further territories to ensure that we are best placed to enhance our offer and grow market share.

"This is our time. We are but one of a handful of players that can meet client needs through our market leading approach. We are confident of strong growth for the foreseeable future. We are currently building increased capacity to accelerate sales and making great strides toward our medium term target of $100 million."

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

Overview

During the first half of the Company's FY22 production companies across the global entertainment industry resumed work on creating new TV series and feature films that will drive growth in H2 and beyond. In August, it was reported that new projects were back to pre-pandemic levels and that TV production continues to surge. This, combined with the on-going migration of catalogue content to streaming platforms and the launch of those platforms in new territories has driven very strong sales growth in H1 of 64% over the prior year period, a trend that we expect to continue, and excellent results overall.

The Over-the-Top (OTT: film and television content platforms provided via high-speed internet connections instead of cable or satellite provider-based platforms) market was worth around $122 billion in 2019 and is forecast to reach $1 trillion by 2027 (source: Allied Market Research). By 2021 82% of US consumers had at least one streaming subscription, with four subscriptions being the average (source: Deloitte). Indications are that the upsurge in subscriptions over the past 18 months will be sustained, with 86% of subscribers planning on maintaining or adding to their subscriptions (source: Brightback).

Whilst almost all households in the US already have at least one OTT subscription, it is from several other regions that we see opportunities for rapid growth.

Of the hundreds of distinct OTT providers, an increasing number have set out their intentions to distribute services on a global or multinational basis. Platforms that have access to premium content with global appeal are looking at international markets to support their accelerated growth. This, in turn, is a driver of demand for the services provided by ZOO.

Key growth regions are: Eastern Europe from 2022 following launches from Disney+, Sky Showtime and HBO Max; Asia Pacific is anticipated to nearly double by 2026; India to triple over the same period; and the MENA region anticiped to grow by 74% (source: Digital TV Research). For OTT providers, maximising revenue opportunities will require more content to be localised into a greater number of the languages spoken in these regions than has ever been the case previously.

The recent success of the Korean Netflix Original series *Squid Game* has also highlighted the significant trend for global distribution of non-English TV content. Since its release it has been the most popular Netflix show in over 90 countries. Netflix has been investing in non-English programming since 2015 and has spent more than $1 billion on Korean content alone.

Once post-production has been completed for a new title, localisation and media services must be performed before the title can go live on a streaming platform. In the past the procurement of this range of services was frequently divided amongst several different vendors, each typically specialising in a subset of the services. Due to the pace and volume with which content is being made available for OTT streaming, buyers are increasingly turning to End-to-End (E2E) vendors, of which ZOO is one of a very few globally capable in fulfilling all service lines. ZOO has benefited in H1 from this trend and the Board expects this to continue throughout H2 and beyond.

The centralisation of procurement of these services by the large US buyers is beneficial to ZOO since it enlarges the addressable market for our services, as purchasing decisions that were previously devolved geographically are increasingly made through the groups with which ZOO has long-established relationships and strong customer satisfaction.

With a proposition that has been purpose designed to address the current and emerging needs of large media organisations, ZOO is well placed to ride the secular growth of an industry that is expanding in multiple dimensions simultaneously – in content, in OTT service offerings and in language requirements. The strong growth delivered in H1 is the result not only of an expanding market, but in ZOO's ability to adapt to change and increase its market share from traditional vendors in the sector.

Given the significant commercial opportunities ahead, the Board has committed investment in several areas to continue to capture and expand market share . Cashflow generated from operations, together with the proceeds of the share placing that completed on 31 March 2021, are being put to work to drive accelerated profitable growth that will deliver significant return.

The Company has announced a global growth initiative to support the needs of major content creators and streaming services by extending its international footprint through investments in the key content sourcing and distribution locations of Turkey, Korea, Thailand, India, Japan, and Malaysia. The availability of resources in these locations will enable ZOO to accelerate the growth of its talent pool and thereby to align closely with the current and future objectives of its customers.

Continuing its leadership of the digital transformation of the sector, the Company has been expanding the resources in its R&D team, adding software engineers, quality assurance engineers, project and product managers, and others to provide greater capacity and accelerate the pace at which new innovations can be delivered to customers and partners. In addition, a further collaborative R&D project has begun recently in which AI research in speech technologies will be developed to provide competitive advantages in the future.

ZOOstudio, the Company's secure platform that provides a centralised system to manage localisation and media service operations, has been the subject of significant further enhancement during the period, enabling ZOO to embed this strategic capability more broadly and deeply within customer operations. The Company is currently in the process of configuring and integrating a ZOOstudio implementation for a further multinational media organisation.

The area of greatest expansion in headcount terms has been across our various production teams that deliver premium services to our customers. Here we have added more project managers, coordinators, and other roles to enlarge the Company's throughput of projects where demand is growing in all areas. This includes established teams for subtitling, dubbing, audio description, artwork, metadata, and a range of media services, and now also extends to the area of content mastering following the establishing of a new division post period.

Investments in capital equipment have been made, not only to provide the resources necessary to fulfil the new mastering service, but also to support a higher throughput of digital media processing across all service lines at facilities in Los Angeles, London, Sheffield, and Dubai.

We are grateful to the holders of the Company's convertible unsecured loan stock who agreed to convert their loans into ordinary shares in the capital of ZOO in September, in advance of the redemption date of 31 October 2021. The benefit of this is that the Statement of Financial Position as of 30 September 2021 is free of significant debt, simplifying the capital structure of the Company. The

Board would like to extend its thanks to the holders of the loan notes, most of whom have provided continuous support to the Company since the origins of the convertible instruments in 2006.

The board remains committed to building a responsible, future-focused business. During the period, ZOO commissioned an ESG Health Check with a leading provider and is in the process of implementing new initiatives particularly in the areas of education, diversity and inclusion, technological innovation and the environment. The Company is launching its ZOOgooders programme which permits all staff to dedicate a proportion of their working time to the support of charities and other good causes.

Operations

ZOO's competitive advantage and differentiation stems from the breadth and depth of its E2E proposition delivered through the Company's proprietary technology. Accordingly, the Board has continued to strengthen its E2E offer through the launch of two recent important initiatives.

Firstly, the launch of mastering services creates an additional revenue stream and provides an important adjacent capability that has been requested by existing customers under the scope of E2E engagements. The procurement of capital infrastructure to support this service and the recruitment and training of a new team reflects a significant investment in H1 with revenues to follow in H2 now assured through a first engagement with a leading media organisation. This provides good visibility throughout the second half, not only for the incremental mastering assignments but also for the wider scope of work that is bundled with such E2E projects in the areas of localisation and media services. Secondly, the Company announced post period its global growth strategy and the first of a series of investments in regional partners. To align with the current and future objectives of ZOO's customers in fast-growing territories, the Company is in various levels of discussions regarding investments to expand its geographic footprint in key content sourcing and distribution locations, namely Turkey, Korea, Thailand, India, Japan and Malaysia. The geographic expansion will further strengthen the Company's offering with simplified access to new territories, helping clients to overcome the challenges of localising and fulfilling large volumes of original and catalogue content, as well as supporting the increasing need to prepare locally acquired TV shows and movies for streaming services around the world. The new hubs are also expected to support the business development team by providing wider international coverage and access to new markets.

A first investment in long-time affiliated partner and Istanbul based ARES Media has led to establishing ZOO Turkey, extending the Company's reach across the MENA region. With its high production values, Turkish content continues to be strategically important to ZOO's customers which have been acquiring this content for distribution on global streaming services. Several further investments, each situated in a location that is of strategic significance to the industry's growth ambitions, are in the pipeline and will be announced in due course.

People

ZOO's strategy of creating innovative cloud software platforms with their attendant benefits of efficiency, scalability and security is perfectly adapted to a post-pandemic world in which remote and hybrid working have become the new norm. ZOO's asset-light approach affords the Company the flexibility and agility needed to maintain productivity over the long term, delivering clear differentiation in the market for a proposition that is increasingly valued and sought after.

We have continued to expand our servicing resources to accommodate an ever-greater volume of business. This expansion maintains our trajectory to reach sales of $100m in the medium term.

The strength of the Company lies in its people, their talents and commitment, which includes our colleagues, our in-territory advocates who have been instrumental in connecting us with resources and customers in their markets, our expanding pool of gifted freelancers who now number close to 10,000, and our partners, several of which we expect to become part of ZOO Digital Group in the coming months. Delivering consistent growth at our current pace while maintaining outstanding performance targets with all our clients is no mean feat. We extend our heartfelt thanks to all members of the ZOO family for their support, dedication, and resilience at this exciting time in the development of the Company.

Outlook

The industry's gross cash amount spent producing and licensing new entertainment content (excluding sports) soared by 16.4% in 2020 to an all-time high of $220 billion, with 2021 spend expected to rise to more than $250 billion (source: Purely Streamonomics). The tailwinds caused by this explosion in new content, coupled with the accelerated migration of catalogue content to streaming platforms and the associated new territory launches, are providing an environment in which the Board expects to deliver sustained, profitable growth over the long term.

The Company has a strong order book across all service lines with good visibility for H2 and a pipeline of work from established, satisfied customers extending into the future. The new mastering service and the customer orders already received present an exciting opportunity to secure larger and longer-term assignments. The Board expects that the developments in the services offered by ZOO will yield greater diversity in revenue categories in the period ahead.

The Board is committed to sustainable growth of the business which requires on-going expansion of resources to support enlarged capacity. This is being achieved through increases in headcount, expansion of the freelance talent pool and investment in partners. These initiatives will support an increase in market share in H2 and into FY23 and enable greater levels of profitability in the periods ahead when the investments can be fully leveraged, propelling the Company towards its medium-term target of $100 million in sales.

The Board is confident in delivering continuing profitable growth and in achieving its vision to be our customers' most trusted partner to help them deliver engaging, entertaining, and immersive content experiences to their global audiences.

FINANCIAL REVIEW

Revenues of $26.9 million were 64% ahead of the same period last year (H1 FY21: $16.4 million). This is as a result of a 142% increase in Media Services, driven by ZOO's support for two major OTT geographic launches in the period. Localisation revenues, which include subtitling and dubbing services, increased by 30% as our customers resumed some new productions post the worst of the global pandemic.

Gross profit increased from $5.1 million to $8.6 million in the half year from 1 April 2021, reflecting the revenue growth and direct staff costs falling by two percent. In real terms direct staff grew by 53% as we continue to build the business to support higher volumes of orders.

Operating expenses increased to $8.3 million (H1 FY21: $5.3 million) which in percentage terms is an increase of 57%, in line with our strategy outlined at the time of the placing to invest in our geographic presence and in Research and Development. We have recruited eight territory managers to source both new talent and new customers and we have increased our R&D spend by 42% in the half year period compared to the same period last year.

Adjusted EBITDA increased by 82% to $2.4 million compared to $1.3 million last year as a direct result of the revenue increase offsetting the investment in people and R&D. This is reflected in the operating profit improvement of $0.5 million, despite increases in the depreciation charge due to higher capital expenditure and property costs.

The statutory loss for the period was $1.7 million, which is $0.9 million more than last year (H1 FY21: loss of $0.7 million), primarily due to the final accounting charge related to the conversion of the 7.5% unsecured convertible loan stock which was completed in September 2021, being a non-cash fair value movement on the loan stock of $1.0 million.

The cash balance on 30 September 2021 was $8.2 million (H1 FY21: $2.1 million) reflecting the net cash flow from financing of $8.2 million, primarily due to the April fundraise. Net cash flow from operating activities was negatively impacted by the delay in the payment of debtors resulting in an out flow of $0.9 million. Net cash flow from investing activities was a negative $2.1 million following the investment in both R&D and capital equipment to support the growth of the business.

The Group has short-term lease commitments on capital equipment of $1.0 million (H1 FY21: $1.4 million) a reduction of $0.4 million as no new lease commitments were entered into during the period. The balance in short-term borrowings relates to rent due on leasehold properties. The higher commitment compared to last year is due to a new office lease in Sheffield which is for a 10 year period covering 19,000 square feet. This also explains the increase in the property asset and the corresponding increase in long-term liabilities as required by IFRS 16 of $2.0 million.

The conversion into equity of the 7.5% unsecured convertible loan stock on 22 September 2021 reduced company borrowings by $9.5 million. The transaction involved creating 5,273,959 new shares at a price of 48p to satisfy the repayment of the loan stock.