

# Ai-Media Investment Case

#aim \$0.3800 #2024/02/29

#microcapclub

Ticker: AIM.AX

Price: AUD\$0.38

Shares Outstanding: 208.8 million

Market Cap: AUD\$79.3m

Enterprise Value: AUD\$67.7m

*All monetary figures unless otherwise specified are in AUD*

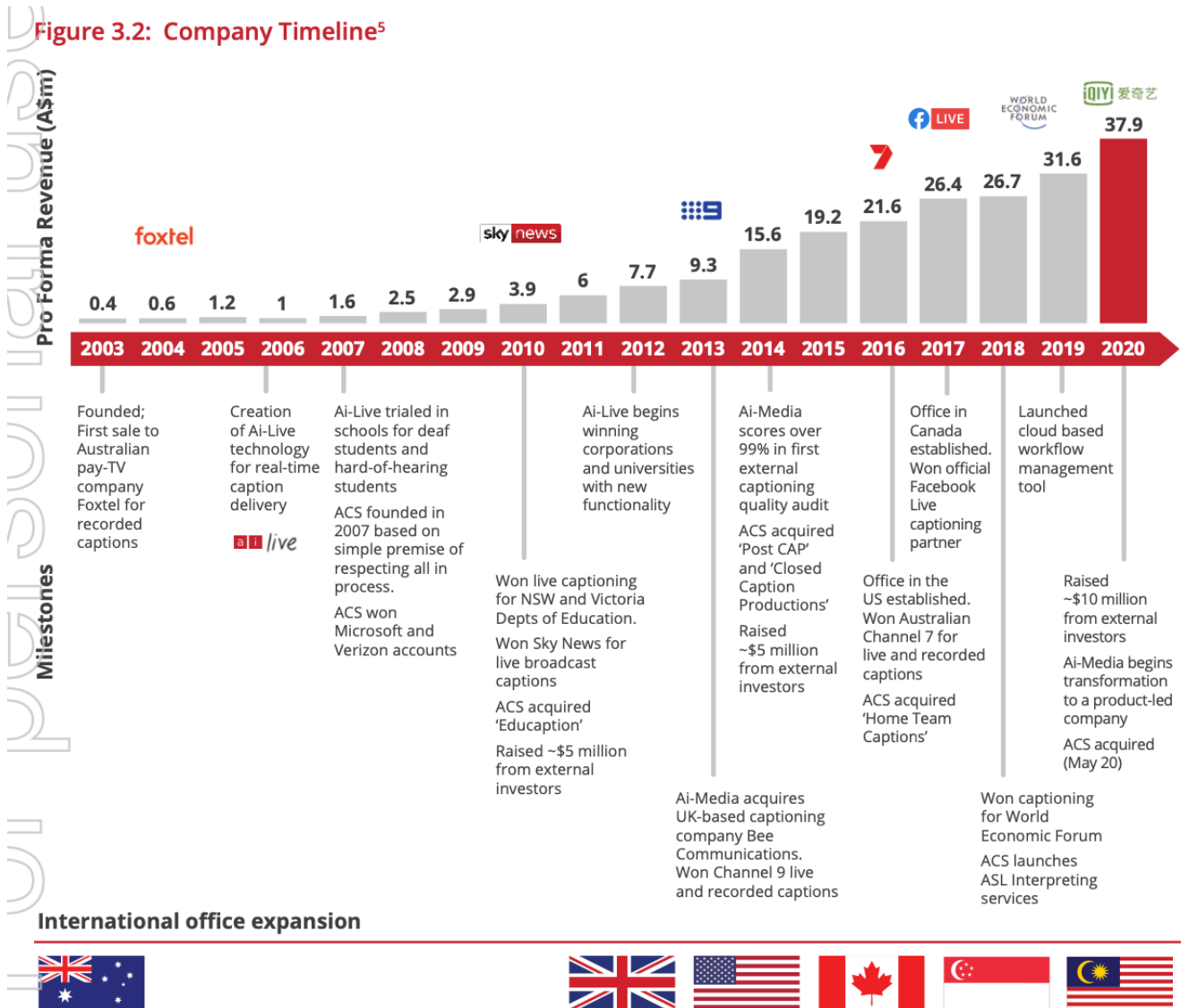
## Summary

From afar Ai-Media is an unprofitable captioning service business with stagnating revenues and in the process of being disrupted by the increasing relevance of AI driven speech-to-text technology. Underneath the covers, it's a company that is quickly recompositioning from services into fast growing, high margin captioning technology infrastructure where it holds a leading position. The bottom line has also been improving with the company inflecting into profitability, but so far this has been hidden by accounting policies.

## History

The Ai-Media business was founded in 2003 by Tony Abrahams (current CEO) and Alex Jones. The company started as a captioning services business with Foxtel, the dominant Australian cable TV company, as a foundational customer. For the next two decades, the company expanded its offerings with a combination of organic and acquisitive growth.

Figure 3.2: Company Timeline<sup>5</sup>



By the time Ai-Media listed on the Australian Stock Exchange (ASX) in September 2020, it was pure captioning service business that spanned 5 continents with 160 full-time staff and over 2,000 contractors. They help enterprises, broadcasters and media companies transcribe speech in videos into text that are then merged back in sync as captions. Live captioning is its specialty - use cases that required a less than 5 second turnaround with 99% accuracy. Ai-Media did this with people. Full time staff and crowd-sourced workers that can flex up and down depending on the customer demand.



LITTLE BIT DIFFERENT THAN GREG .  
THEY HAVE PLAYED TERRIBLE  
THEY 'RE

NCAA SOUTH 2nd RD 14 NW STATE VS 3 FLORIDA 7:27 ET TRUTV

As one can imagine, the process of captioning has been greatly enhanced by technology over the years. When the company first began, captioning may have been purely done by skilled stenographers. By 2020, the process was greatly assisted by technology. Automatic Speech Recognition (ASR) technology would have a first pass and a captioner would make corrections over the top before it's submitted for broadcast.

The company hit the stock exchange doing \$38m pa in revenue with 47% of revenue coming from the APAC region (mostly Australia) and 44% from North America. The new shares were issued at \$1.23, putting the company at a market capitalisation of \$177m.

## Market Summary > Ai-Media Technologies Ltd

# 0.38 AUD

ASX: AIM

-0.95 (-71.59%) ↓ past 5 years

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1 Mar, 3:50 pm AEDT • Disclaimer

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max

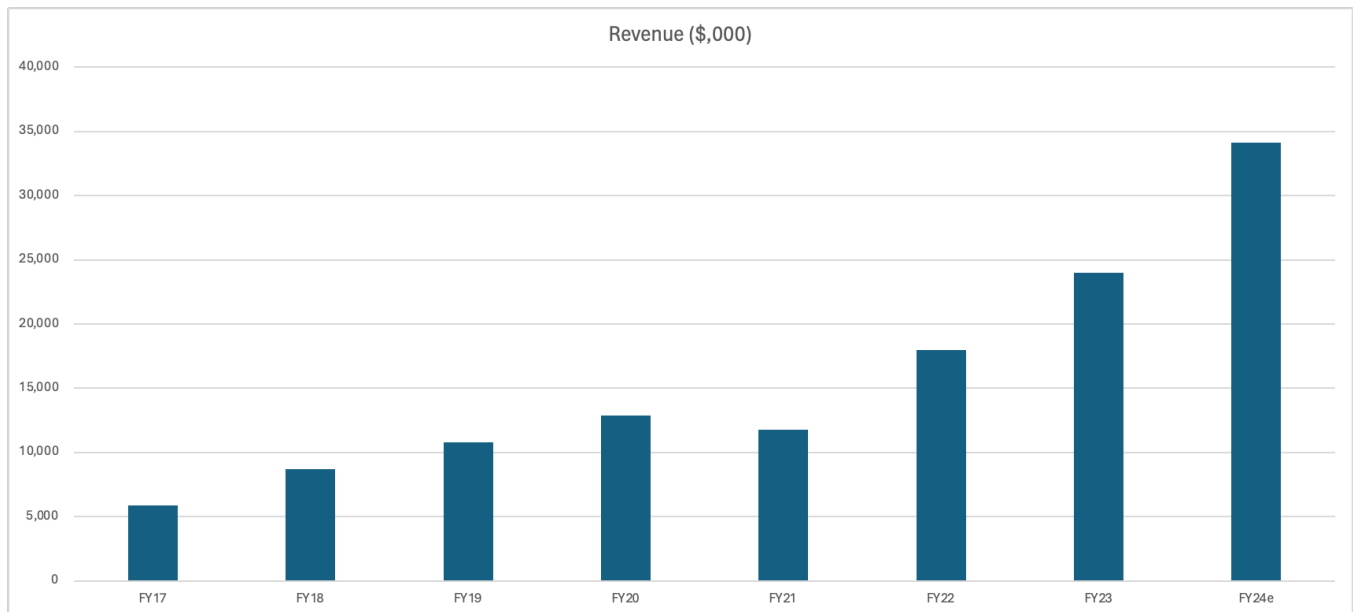


Open	0.38	Mkt cap	77.26M	52-wk high	0.42
High	0.38	P/E ratio	-	52-wk low	0.22
Low	0.36	Div yield	-		

Looking at the share price performance, one can guess what happened next. As automated speech-to-text technologies improved, it started to displace traditional techniques that involved people. As this transition gained steam, buoyed by the increasing awareness of AI from the likes of ChatGPT, Ai-Media's captioning services revenue began to decline. The share price fell over 70% over the next 3 years and the company had seemingly become a victim of technological disruption.

## Well actually ...

In April 2021, Ai-Media made a transformative acquisition of a captioning technology company in EEG for the enterprise value of US\$34m - 3.8x revenue and 10x EBITDA. It now forms Ai-Media's technology business. While the traditional service business has been in rapid decline, the technology business has had an extended history of growth which has further accelerated since the acquisition.



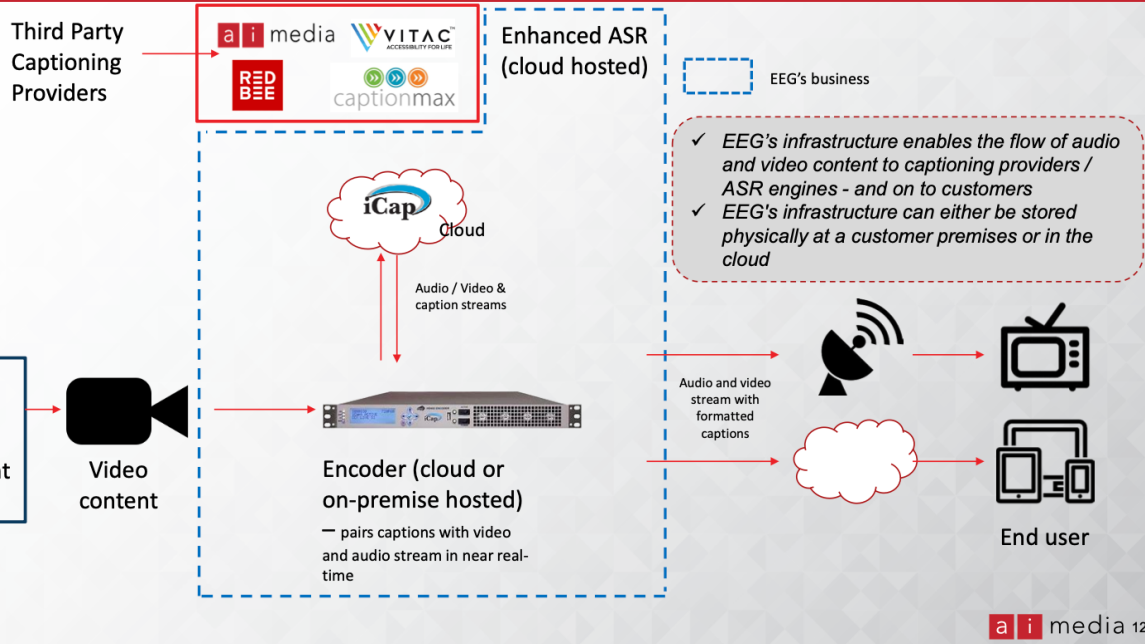
## What is Captioning Technology?

Ai-Media's technology business offers products and services that can be grouped into 3 areas:

- **Caption Encoding Hardware/Software.** Splits the audio feed from the video and sends this to the captioner. It then synchronises the transcribed text with the video feed, and out comes the video with captions.
- **Caption Cloud Platform. iCap Network.** A cloud platform that takes in audio feeds and then distributes it to captioning providers to convert to text. Captioning providers can be first-party services from Ai-Media or one of its third-party competitors. These services can be human or AI.
- **AI Captioning. LEXI.** A first-party automated captioning services that involve no humans. The latest version is said to be 98.9% accurate, outpacing the average human captioner. It “competes” with Ai-Media's service business, and costs just a fraction of the price.

## EEG's Live Broadcast Workflow

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Essentially it's captioning technology infrastructure that consume video, distribute the captioning task to captioning providers, and then merges the result back to the video in-sync and positioned correctly. This is all done within the time constraints required in a live broadcast.

Ai-Media is keen to point out that the encoding technology and cloud platform is its key competitive advantage. Not only are they the leading provider in this space, but traditional competitors are also customers of these products. As per the bottom two rows of the competition comparison table:

## New product releases extends competitive advantage

Encoding Technology, iCap & LEXI Toolkit present clear differentiation that uniquely positions AIM as the only vertically integrated player in market – creating a compelling long-term value proposition

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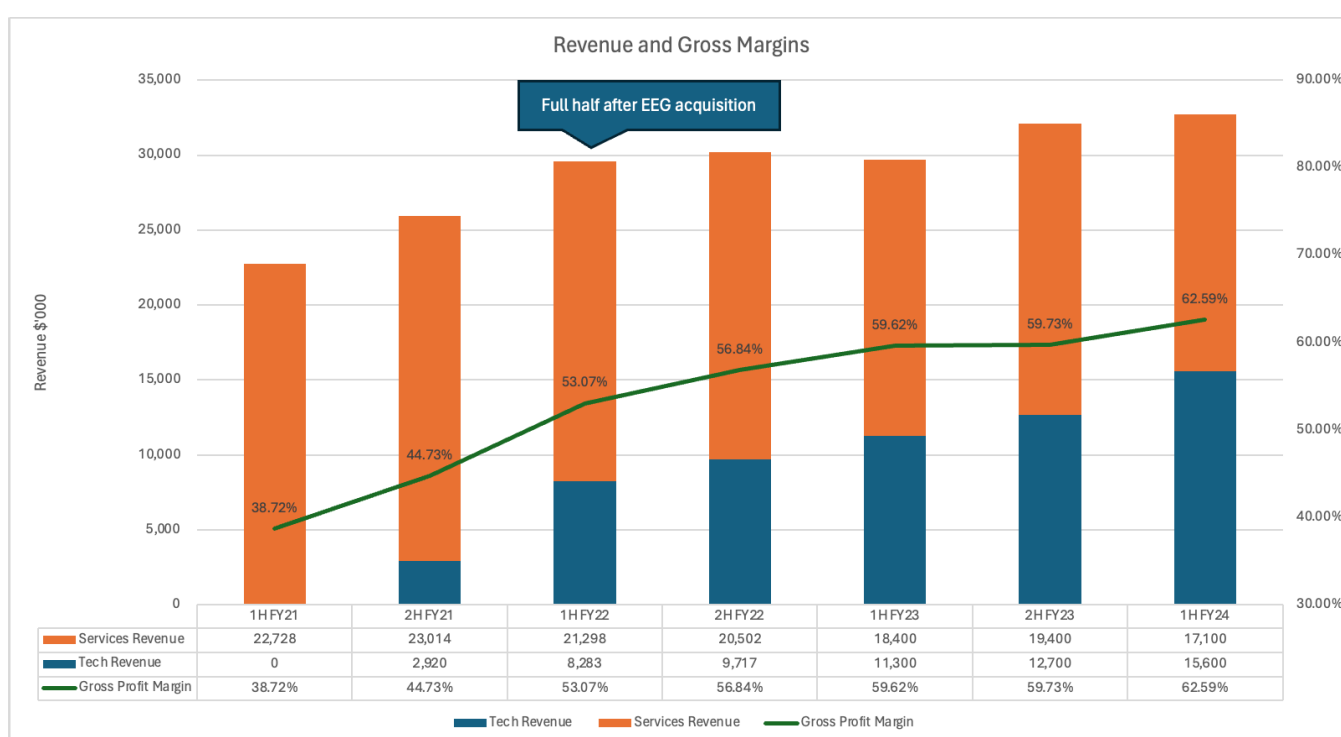
Company	Core business in captioning				Media & broadcast		
	AI MEDIA	verbit	3PLAYMEDIA	rev	RED BEE	ENCO	everLZ
Pre-recorded Captions	✓	✓	✓	✓	✓	✓	✗
Live Automated Captions	✓	✓	✓	✓	✓	✓	✗
Human Curated Dictionaries (ASR)	✓	✓	✓	✗	✓	✓	✗
Live Automated Translation	✓	✓	✓	✓	✓	✓	✗
On Prem Encoding Solution	✓	✗	✗	✗	✗	✗	✓
Redundant/Failover Caption Solution	✓	✗	✗	✗	✗	✗	✗
Captioning Network Provider	✓	✗ (Uses AIM iCap)	✗ (Uses AIM iCap)	✗	✗ (Uses AIM iCap)	✗	✓
Captioning Infrastructure Provider	✓	✗ (Uses AIM encoders)	✗ (Uses AIM encoders)	✗	✗ (Uses AIM encoders)	✓	✓

Source: Based on company websites

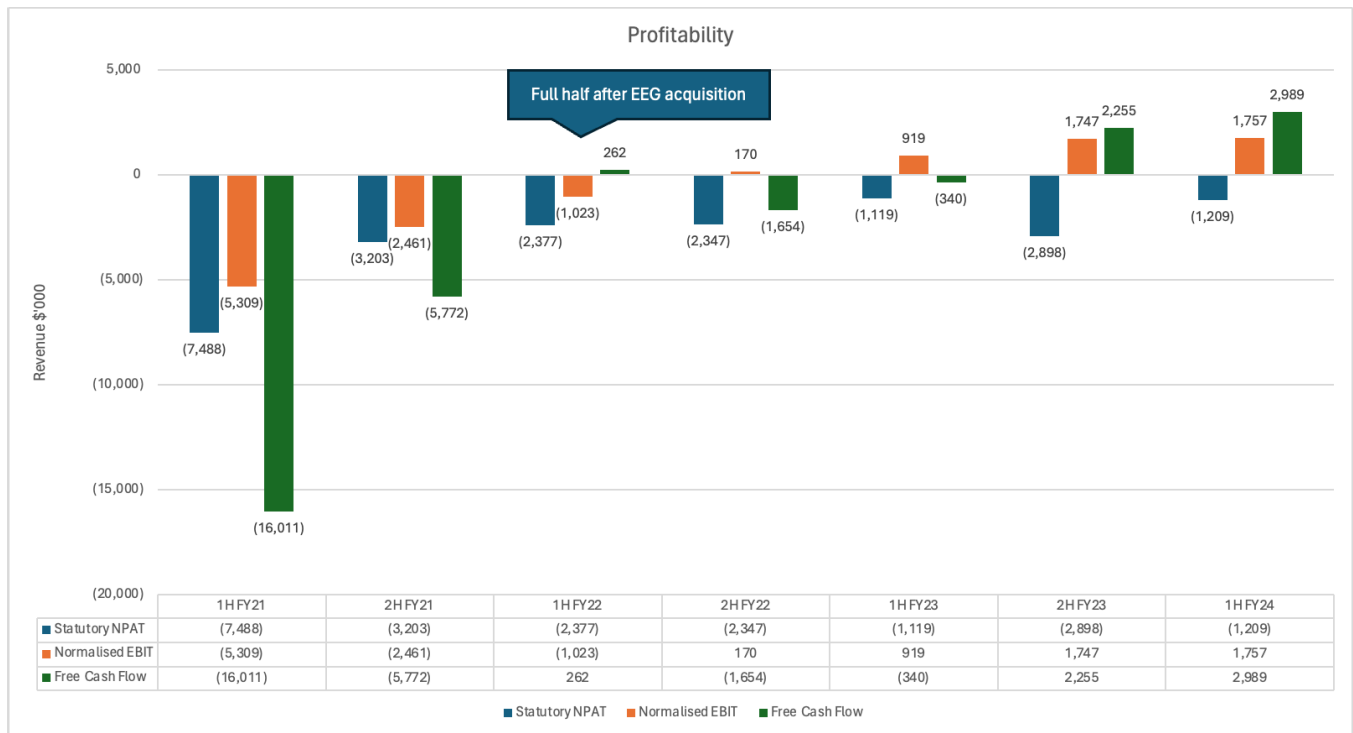
## A company in transition

The original services business has a gross margin of around 40%. This division is declining by 10-15%pa, with an acceleration in the recent half. On the other hand, the technology business has a gross margin of around 80% and is growing by around 40%pa since the acquisition of EEG.

Technology now accounts for 48% of revenue and 63% of the group's gross profit. Gross profit margins across the group has accordingly increased from 53% to 63% due to the continuing recomposition from services to tech.



As one would expect, improvements in margins should also assist with bottom line numbers. This is indeed the case, with the company inflecting into profitability and free cashflow positivity. The improvements in statutory NPAT numbers are masked by the amortisation expenses of previous acquisitions and the historically higher rates of software development capitalisation. My normalised EBIT number (EBITA minus the current software capex spend) is what I believe to be the company's underlying profitability. This has been gradually improving over the last few years and is now positive. Ai-Media was no debt and currently holds \$11.7m in cash.



From the outside it appears to be a company with stagnant revenues, making losses, with a business model undergoing disruption. But underneath it's a company transitioning from captioning services to captioning technology, gross margins are improving, and bottom line profitability and cashflows have inflected into the positive.

As the growing technology business becomes a larger contributor over time, not only should we see improvement in gross margins and profitability, but also in top line revenue. The most recent half 1H FY24 saw a 10% increase in the group's revenue year-on-year. The technology business is now overpowering the declines in the services business and is starting to drive the top line growth of the group.

## Can it keep it up?

The captioning technology infrastructure business is currently growing at 15-20%pa. The company is leveraging this strength to feed work to its first-party AI captioning service LEXI, which has seen volumes grow by 46% and revenues by 55% over the past year. LEXI now accounts for 40% of the volumes on the iCap platform and increasing.

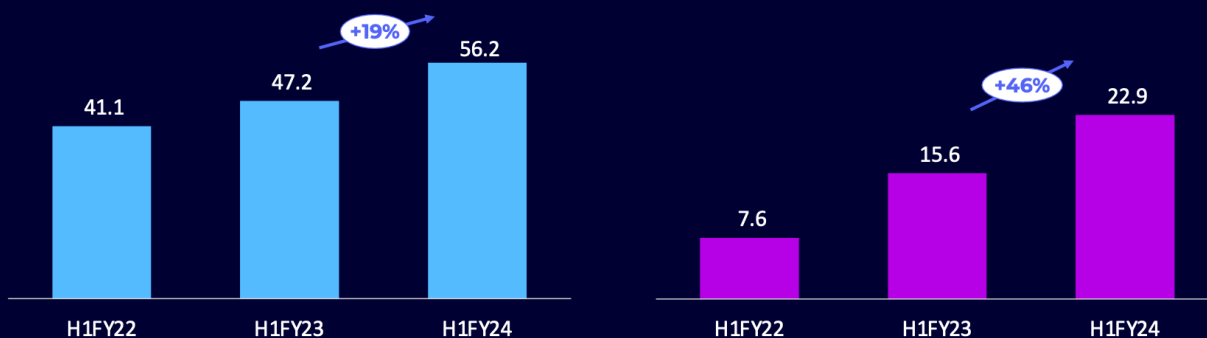


## Sustained growth across iCap and LEXI

Increasing iCap usage provides future conversion opportunity to higher margin LEXI solutions

iCap network usage (millions of minutes)

LEXI usage (millions of minutes)



As the cost of captioning decreases due to the continual improvement of AI, use cases that were previously deemed cost prohibitive are now no longer so. For example, after signing Major League Baseball (MLB) 18 months ago, Ai-Media has since signed the NBA and the NFL in quick succession. Ai-Media also completed the captioning for the 2020 Tokyo Olympics on NBC Peacock - live sports streaming across 60 channels simultaneously. Sports coverage is ideal for AI captioning services due to the sheer volume of live content, and that a “good enough” accuracy is suffice in most cases. Captioning is starting to become a “no brainer” to improve inclusivity and enhance the experience for the viewership.

# Blue chip customers and new wins

Trusted by global leaders in broadcasting, government and other sectors

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Select global customers



**\$5.1 million (H1FY23:\$3.3m)**  
in LEXI sales, including from:

To further highlight Ai-Media’s value proposition is the fact that 3 of the top 5 US tech companies are customers including **Google**. These customers want the option to caption all in person meetings, as a record for asynchronous ways of working and to provide clarity and inclusivity to their diverse workforce. What Google lacks is not automated speech-to-text technology, but the technical infrastructure and know-how around the entire captioning process. It’s also a waste of engineering time and focus to do this in house.

The company has also been branching out into other languages such as French and Spanish. Languages outside of English now account for 5% of LEXI volumes from just 1% a year ago. We should expect further growth in this area as the technology business had previously only been focused on the North America market.

## Risks

- Garden-wall ecosystems such as Teams, Zoom, Youtube, Vimeo and Twitch have or will eventually integrate their own AI captioning services. This could be a headwind if customers decide to let the video delivery platform provide the captioning services. Though this is unlikely to impact customers that need to broadcast content to a variety of platforms, have a more detail orientated workflow or have a higher accuracy requirement.
- The rapid improvement of speech-to-text AI services from large tech companies has lowered the

barriers for new entrants. Ai-Media will be hoping that the competitive advantage in captioning technology infrastructure (owning the distribution, if you will) will prevent these competitors from making inroads.

- The CEO and co-founder has led the company for 20 years. In that time it has been an acquisitive captioning service company. With no extended history of running a technology company, there could be a skills gap if the leaders of the EEG business decide to exit. EEG's former CTO is currently the Chief Product Officer, and movement in this position is something to watch. On the other hand, the CEO has made a deliberate hard pivot into tech. He also owns 14.6% of the company having acquired a further \$870k worth of stock at \$0.355 two years ago.
- The encoders and iCap platform were previously captioner agnostic because EEG was not in the captioning service business. Recently Ai-Media have started charging an hourly rate for 3rd party captioning providers. These 3rd parties and EEG's customers might view this change as a bait-and-switch and eventually exit the platform in protest. I've seen no signs of this so far with iCap usage accelerating of late. But it's something to watch.

## Final Say

The company is currently valued at close to 1x revenue and 19x normalised EBIT. The market is not viewing it as a technology company, let alone a company that has just inflected into profitability with its now largest division growing at 40%pa and driving the group's gross margins materially higher.

It's overlooked because of its history as a caption service company, stagnant growth, continued losses, and the view that automated speech-to-text is a highly competitive market. However, the company doesn't compete directly in speech-to-text and its competitive advantage in captioning technology infrastructure is currently driving the underlying growth.

Should the company be able to continue its current business momentum, it's hard not to see the share price multiply in the next few years though a combination of underlying performance, narrative change and multiple expansion.

*At the time of writing I hold shares in ASX:AIM*