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EVS Broadcast SA - A Hidden Global Champion "Breaking free from the Van" with Software & AI at a Bargain Price

Content:

1. Elevator pitch:

EVS Broadcast is a 400 mn EUR market cap Belgian technology firm that is the global leader in Live sports broadcasting/production technology that once earned margins higher than Nvidia does today.

After a relatively long phase of stagnation from 2008-2019, EVS seems to have found its path to decent growth again under new management. The main driver is a new technology cycle that will shift the product offerings from hardware focused solutions to more Software/Saas products and a move into adjacent markets (Studio production).

For a company with EBIT margins > 20%, capital return >20%, net cash and a targeted growth rate of 10% p.a. (which they have achieved since 2019), the current valuation of ~9x EV EBIT or 10-11x P/E is dirt cheap and offers considerable upside for the patient investor.

As EVS has been working on AI solutions since at least 2017 and has already functioning products to show, one gets any potential “AI upside optionality” for absolutely free.

2. Introduction

The first time I came across EVS in 2014 on the blog. Back then it looked like a fairly valued, extremely profitable company that had however some issue with regard to growth and potential further Technology changes. Their initial growth came from a technology change from tapes to digital hard drives for which they became the clear market leader in the niche of Sports broadcasting.

Another warning sign back then was that they just finished building their shiny new HQ.

Looking back, it was a wise decision to stay away, as the company shrank for several years until very recently.

Then just recently, I came across them once more in my “All Belgian Stocks” series and became interested.

What has changed at first sight is that since 2019 they have new management and that especially in the last 3 years the company managed to grow nicely and stabilize margins on a still very attractive level. Valuation wise, the stock is even cheaper than 2014.

So when I came across the company once again in the Al Belgian Shares series, I decided to do a new deep dive.

3. The Company & the business

EVS is a Belgian company that is relatively young, it was founded in 1994 and went public in 1998. It was founded by 2 persons which since then have left the company. They acquired a company in 1998 that brought on board Michael Couson, who today is the largest shareholder with around 6%.

Here is an overview of some KPIs:

EVS Broadcast KPIs	
Share price:	30,05
Market Cap	404
EV	367
P/E 2023	11,3
EV/EBIT 2023	8,9
Dividend Yield	3,7%
EBIT Margin	23,8%
ROE	20,1%
ROCE	20,2%
EPS Growth 10 years	0,3%
EPS Growth 4 Years (2019-2023)	10,4%

3.1. What Problem does EVS solve ?

The general problem that EVS solves is that in a normal Football match or NFL game you can have anything from 10 to 100 digital cameras that all produce a stream of digital video (or many pictures) that must be “compressed” to one stream that is broadcasted to the viewers either on TV or any streaming device.

So someone must decide at which point in time which camera feed will be used. In addition, for certain situations (Goals, fouls etc.) the viewers might want to see a replay, slow motion replay or super slow motion replay.

In order to replay scenes, you need to store the information. In the past, this had been done on magnetic tapes, EVS was the first to introduce digital solutions (i.e. hard disks).

All this needs to happen **in real time, with as little delay and disruption as possible.** If you pay millions (or billions) for sports rights, the product must be perfect.

Traditionally, this “on premise production” has been done in big trucks full of equipment where one of the major components was and still is EVS. The slow motion replay capabilities seemed to have been an early game changer for EVS, who quickly became an integral part of most “on premise” equipment trucks.

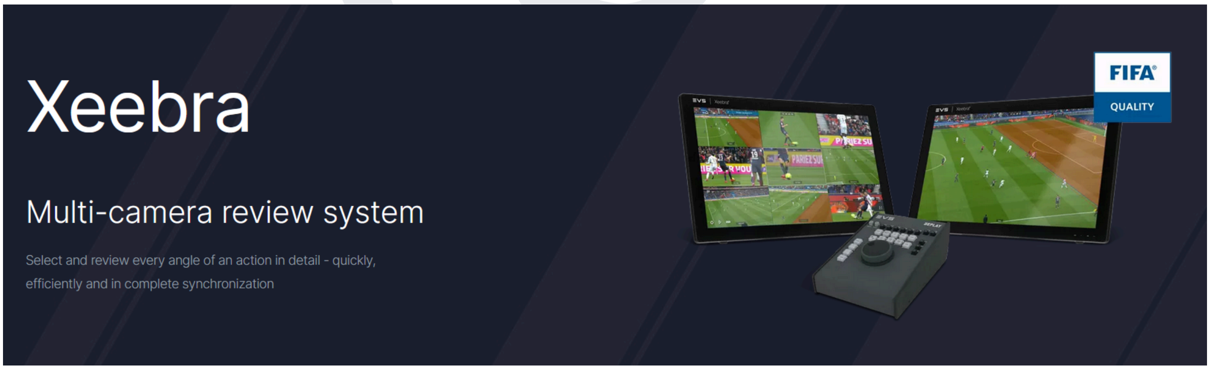
To my understanding, EVS designs the hardware, but does not produce it itself (not sure if they assemble it). More importantly, they create all the software that is connecting the devices and enables the production team to create the one live stream including replays, slow motions etc. plus the compression and file transfers to the Studio/Broadcast.

As the cameras create incredible amounts of data (High res, 4K), still today, a significant part of that process needs to be done on premise as Satellite or Fibre don’t seem to be an alternative to shift these massive amounts of data fast and cheap enough. However, especially after Covid, the process seems to be a little bit more “hybrid” between on premise and off premise than before.

This is what a larger, EVS equipped on premise operation looks like:

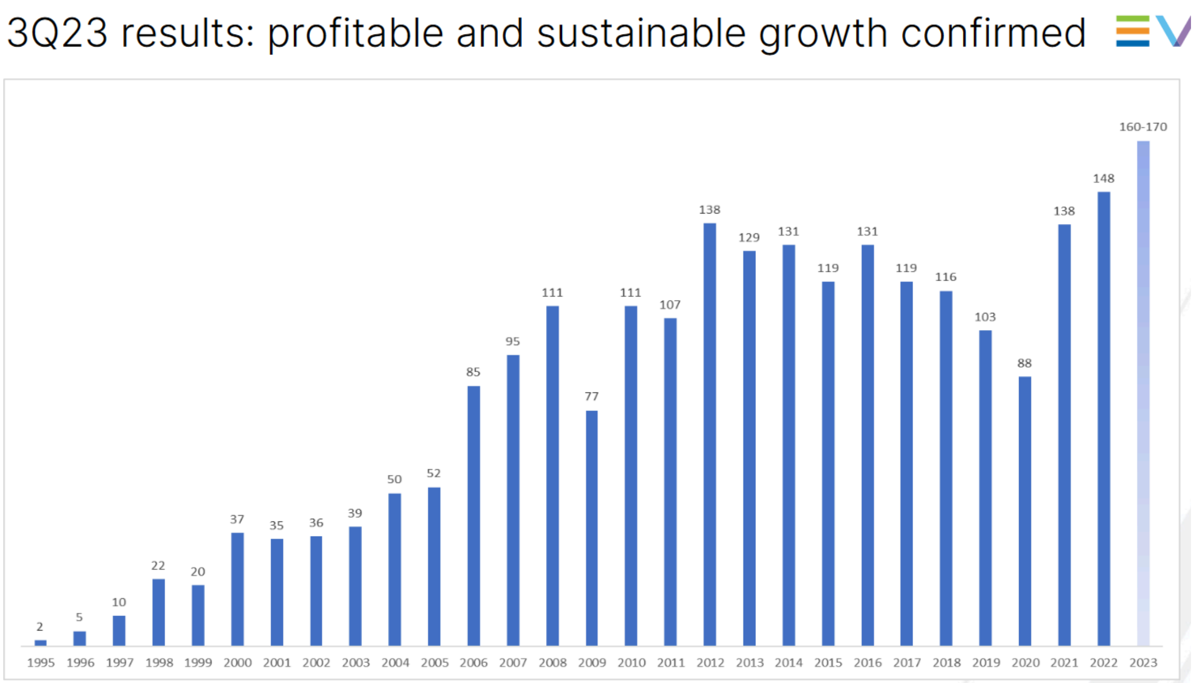
One interesting "problem solved" application of EVS for instance is the technology behind the "Video Referee" system which is more and more used especially in football:

https://evs.com/products/video-assistance/xeebra

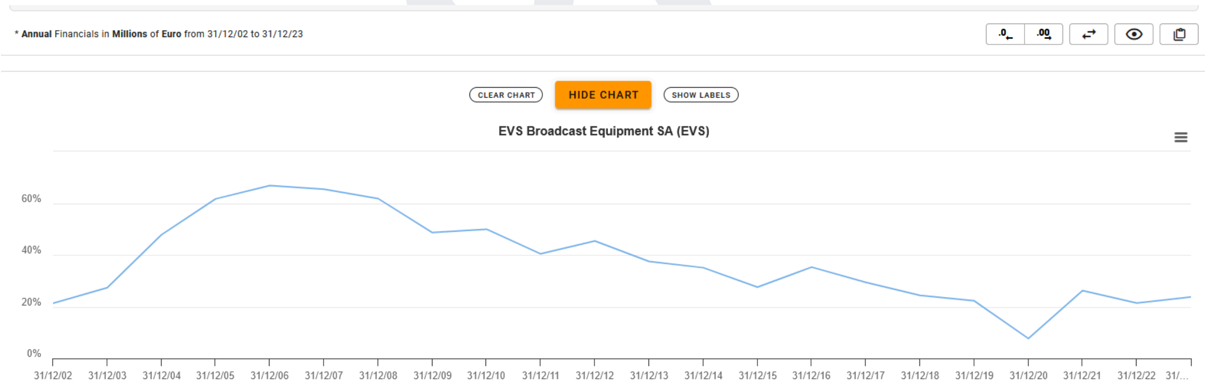


3.2. Why did the company perform so badly from 2008 until 2019/2020 and what changed ?

One of the things that I like about EVS is that they don't try to hide their past. In every annual report or IR presentation, they show the full sales history:

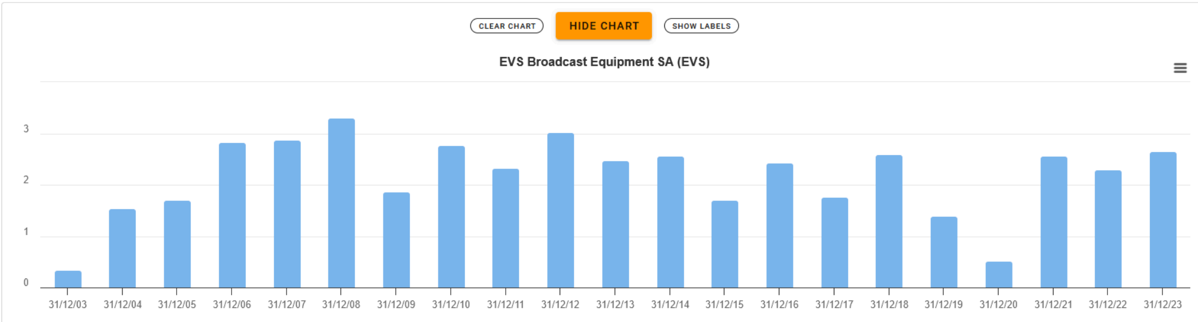


We can see that the peak was initially in 2012, with steadily declining sales until 2019. And in addition, not only sales were falling but margins too:



Looking back, earning EBIT margins of 66,8% in 2008 clearly are not sustainable (small hint to Nvidia shareholders…) but it seems that margins now have stabilized at slightly above 20% operating margin.

Nevertheless, as an effect of declining sales and declining margins, EPS in 2023 is still below the record levels of 2008 and 2012 as we can see in this chart:



My interpretation of this development is as is as follows:

In the early 2000s, EVS had a "must have" product and zero competition, so they could charge any price and still could grow the business. Every broadcaster had to switch from tape to digital. However, the addressable market (On premise broadcast trucks) is limited and over time, competitors came in with slightly inferior, but (much) cheaper products.

Since the management change and with the exception of 2020, they seem to have found a way to grow again. The question if this is sustainable will be tackled later.

3.3. The role & impact of AI

These days, one really needs to think about what AI means for any business. In EVS context, it seems to be that they seem to be indeed a potential beneficiary. To give credit to them: AI is mentioned first in their 2017 annual report, aa time when AI was a niche theme:

> **MURIEL:** In 2018, we will pursue our plans: execute and deliver what is in progress. And aside of that, we also continue to bring innovation on the market, with a focus on applications based on our pioneering work in artificial intelligence. To achieve these objectives, some teams have been strengthened. We expect to see increased momentum around our new product lines launched in recent years (e.g. in the video referee market), while our latest launches (in the markets of smaller live productions and IP infrastructure) are expected to record their first sales in 2018. New developments on and around the XT platform will also support our efforts. As a result, EVS will have an even more comprehensive and diversified product portfolio to support our future growth. And that is our ambition !

To my understanding, AI enables them to improve their products or even create new ones. The CEO mentioned

1) Slow motion from any camera. Previously only expensive cameras.

This is a cloud based software product that can create high quality slow motion from any feed. Normally, one needs quite expensive High Speed cameras that can cost up to 100K USD each for Slow Motion pictures. With that Software, this doesn't seem to be necessary anymore. Although it seems that you cannot use it (for the time being) for critical issues like Video refereeing, it seems that this is already a very tangible and cost saving AI application for EVS which was first introduced in 2021.

2) Searching in archived material

So far you had to actually look at the scenes to find out which player did what etc. With a trained AI you can actually search games for a player and it will show the scenes that you are looking for,

3) More efficient routing of information

What I like a lot about EVS is **that they don't "oversell" themselves as an AI company**, but just focus on developing tangible products.

There is clearly also the question: What if AI (and Cloud) completely substitute on premise technology ? Will EVS play a role or will maybe just Big Tech take over ?

According to the CEO, especially the new 4K standard cameras produce so much data that for the time being, uncompressed original data will still need to be processed to a large extent "on premise". Cloud computing is not cheap and especially for Live Sports, the on premise solution is the one that has worked for many years and has the least risk from a technical standpoint.

In my opinion, EVS is also in the pole position to actually lead AI development in that area. This product niche in my opinion is far too mall for any big player and EVS has the experience (remember, they started with Ai in 2017), the data and the know-how to train the best model. Overall I do see this as a long term opportunity, although there could be some hiccups on the way.

3.4. Competitive advantages

EVS clearly was a first mover but these days there seem to be several other solutions on the market who in principle do the same thing. Nevertheless, EVS seems to have still a few competitive advantages;

1. **Mission critical equipment**

As mentioned in the original 2014 post, creating a live sports broadcast is a super time critical act. Especially with the amount of money paid for sports rights and the amount of money paid for advertisements, everything must work 100%. EVS Broadcast's equipment seems to be very reliable and tested now for many years. For a big Production company it doesn't seem to be rational to save a few hundred K and risk problems. EVS seems als be very good in handling file transfers in any format, it is easy to install and overall just the industry standard, at least outside the US:

2. **Operators/Specialists that are trained on EVS equipment (7000 world wide)**

From what I understand, using the EVS equipment requires some skill and training, as there is also a specific workflow attached etc. Most operators are trained on one system and cannot easily switch to another system.

It also seems that most production companies rely on free lance operators in the respective cities where the event takes place. So if you buy from a different vendor, you face the risk that you won't find enough people to run your equipment. In a Forum I also read that EVS operators earn more money than operators for competitor systems, which creates an incentive for freelancers to train for EVS equipment.

Overall, this "army" of EVS freelancers seems to be a second, significant competitive advantage for EVS. On Youtube, I found this video of an Australian EVS operator:

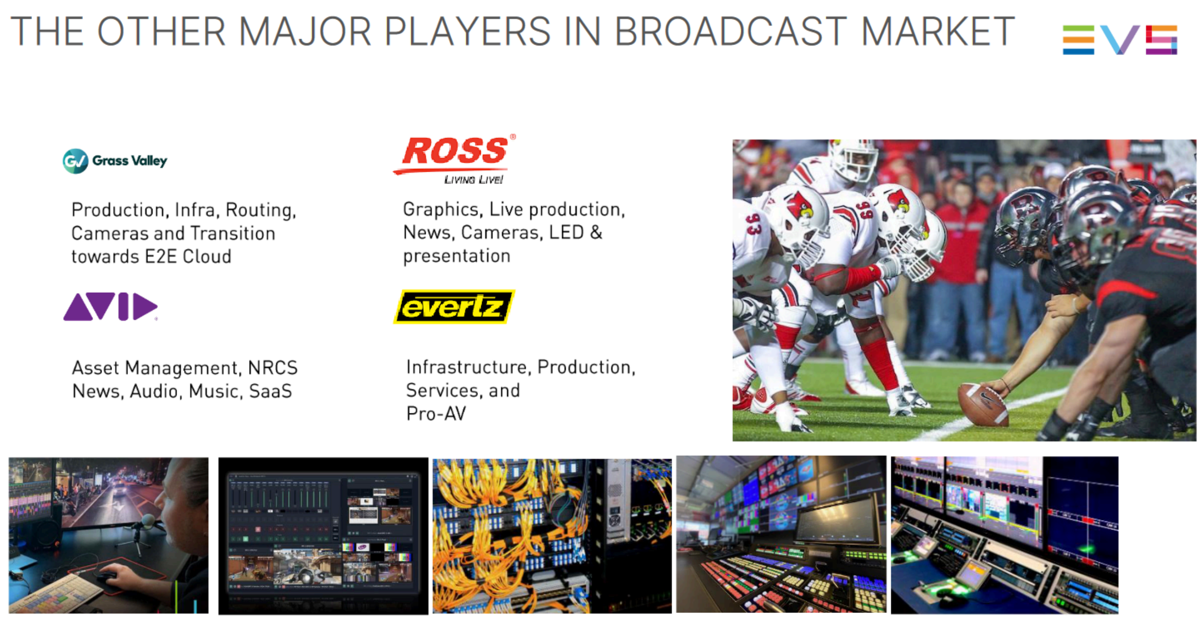
https://www.youtube.com/watch?v=KeNT3zSyDNo

One caveat for this would be, if in the future, AI features would drastically reduce the number of operators required and even if AI would make workflows etc. more uniform. This could be a risk but not in the short term, as a full upgrade cycle would take time and EVS could make a lot of money in between.

3.5. Competitors

As mentioned before, EVS was the first mover but these days is not alone in offering digital recording, replay etc.

In their 2022 IR presentation (which is much more detailed than the 2023 one) they actually present these competitors:



Interestingly, 2 of those 4 competitors have been taken over by PE investors in the last year:

AVID just has been taken private in November 2023.AVID was not very profitable but had been taken private at an incredible 35x trailing EV/EBIT. With 400 mn USD in 2023 sales, AVID is more than 2x larger than EVS and as ~1500 employees.

I found an interesting article on the potential future of AVID under PE ownership here.

Grass Valley has been taken over in 2020. It used to be a smallish subsidiary of listed US company Belden Inc but seems to have been in some distress. The purchase price was quite low but contained significant earn-out components. Looking at the latest annual report of Belden, the earn-out targets were clearly not emt:

Grass Valley

During 2020, we sold Grass Valley to Black Dragon Capital. The sale included deferred consideration consisting of a $175.0 million seller's note, up to $88 million in PIK (payment-in-kind) interest on the seller's note, and $178.0 million in potential earnout payments. Based upon a third party valuation specialist using certain assumptions in a Monte Carlo analysis, the estimated fair value of the seller's note was $34.9 million. During 2021, we sold the seller's note to a third party for $62.0 million and recognized a gain on sale of $27.0 million. We accounted for the earnout under a loss recovery approach and did not record an asset as of the disposal date. Any subsequent recognition of an earnout will be based on the gain contingency guidance.

One interesting detail is that the PE firm that took over Grass Valley seems to be owned by Avid CEO Louis Hernandez.

Overall, it seems that Grass Valley is not doing so well for the time being.

Ross is a private Canadian company with 1300 employees. It is still owned and run by the son of founder David Ross. They seem to have around 400 mn USD (or CAD ?) in sales and interestingly seem to plan an IPO according to this interview. They seem to have a broader product spectrum, including cameras.

value and opportunity

Slow Investing, Special Situations & Occasionally Wild Punts

How close is your company to reaching $1 billion in revenue and when do you expect you will reach that milestone?

Ross revenue for our just-completed 2022 financial year was about $330 million. For 2024 we are targeting about $440 million. At our current pace, may hit the $1 billion milestone in about 7 years. Part of the Ross success since 2008 has been organic growth, as well as growth through the successful acquisition and integration of 19 companies. We're planning an IPO in two or three years which may allow us to invest faster, and do bigger acquisitions that might lead to the $1 billion milestone even sooner.

According to this, Ross BVideo seems to have been able to grow nicely which is clearly remarkable.

That leaves Evrtz as the only remaining listed competitor. Let's have a deeper look:

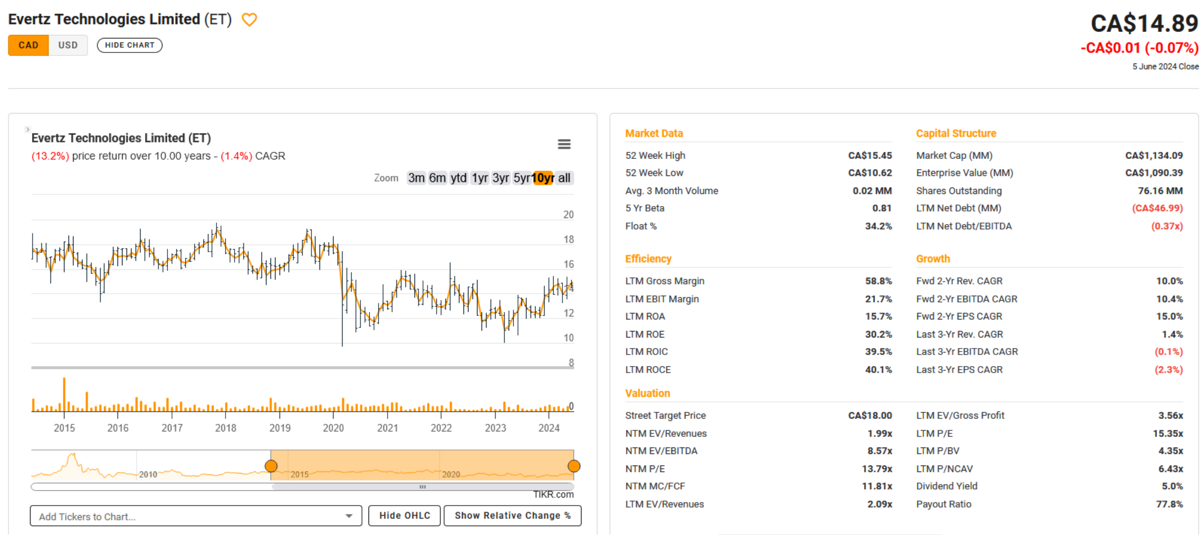
Main competitor (listed): Evertz Technologies (ET.TO)

Evertz is a Canadian company, majority owned and run by two guys in their late 50s / early 60s. It was founded in 1966 and therefore twice the age as EVS. The company seems to have gone public only in 2006.

Here is a KPI comparison table between EVS and Evert::

	EVS (EUR)	Evertz (CAD)
Share price:	30,05	14,46
Market Cap	404	1011
EV	367	1057
P/E 2023	11,3	14,9
EV/EBIT 2023	8,9	9,4
Dividend Yield	3,7%	5,3%
EBIT Margin	23,8%	21,9%
ROE	20,1%	30,2%
ROCE	20,2%	39,0%
EPS Growth 10 years	0,3%	1,1%
EPS Growth 4 Years (2019-2023)	10,4%	-1,0%

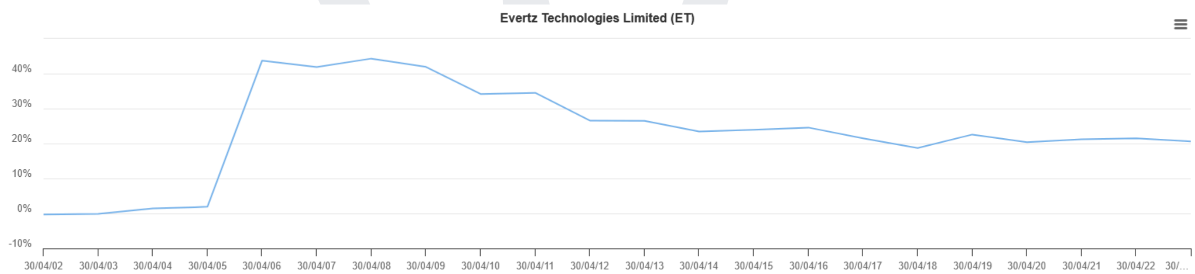
And the overview page from TIKR:



Evertz has a competitor product called “Dreamcatcher” for Replay/Storage. In the US they seem to compete, in the rest of the world less so. 75% of Evertz’s sales are in North America.

Evertz is similarly profitable as EVS and growth has been equally slow in the last 10 years. They pay out most of their free cash flow as dividends. However, Evetz is more capital efficient, they employ both,less fixed capital and less working capital than EVS.

Looking at historic margins, we can see the same pattern as with EVS: Margins peaked in 2006 to 2008 (although at a slightly lower level of around 45%) and then went down for many years until stabilizing at the current 20% level:



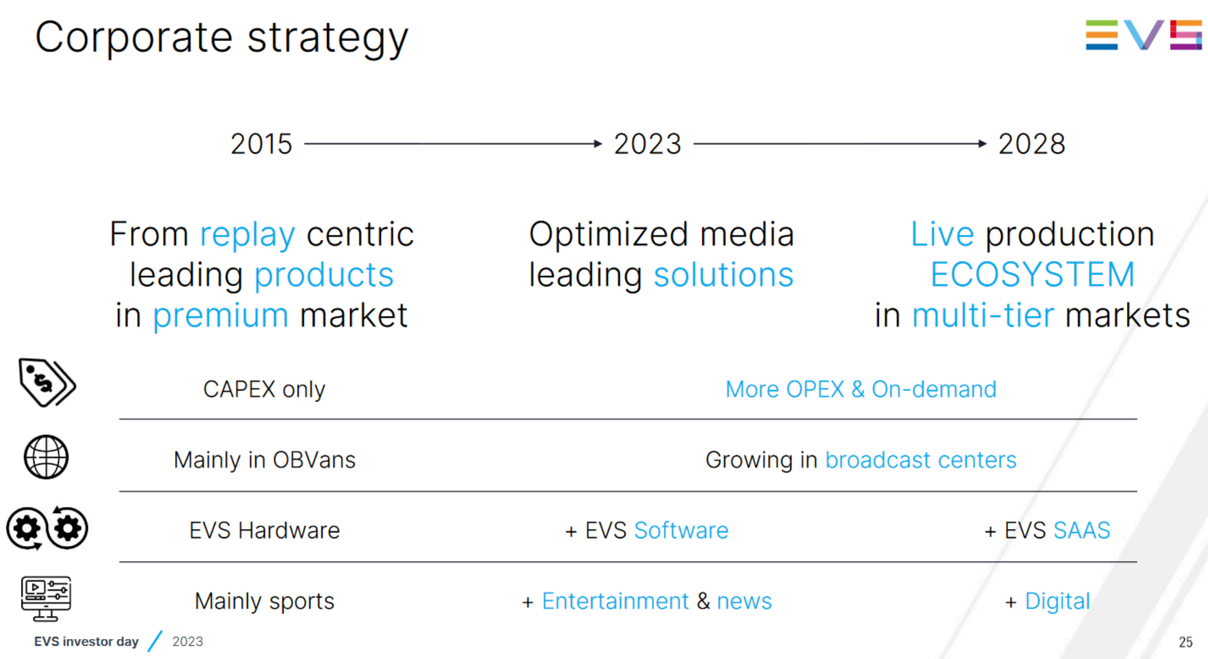
Evertz has been struggling to significantly surpass 2019 sales despite some acquisitions, whereas EVS has been able to grow again since 2019. Nevertheless, Evertz still has a higher valuation than EVS which is quite interesting.

Interestingly enough[, Evertz bought 3,1% of EVS shares in 2018 on the public market,] only to sell them later again.

Overall my impression is that EVS is technologically better, but that is a very outside-in view.

3.6. Overall strategy development

I think this slide from their 2023 describes best what they try to achieve and where the potential opportunity is:



EVS wants to offer much more solutions for all the required steps that come after the "On premise" work done in the traditional vans. If they are successful, this would mean that more and more of EVS'S sales would shift towards Software and SaaS solutions.

The idea is that if you already use EVS Equipment in the front end, it is easier for the customer to use further EVS products down the line as they should work seamlessly together.

It needs to be seen how successful they will be, but so far they have delivered on that quite nicely, among others with the Axon acquisition and integration.

4. Management/Remuneration/Shareholders

4.1. The new CEO (since 2019)

As mentioned in the beginning, the original founders have left the firm and sold their shares. Then again there was a Management change in 2019 after years of stagnation. The new CEO is a Belgian, who seems to be very experienced and has a decent technical background as an Engineer which is important for a Technology company like EVS.

Serge Van Herck is the former CEO and President of Newtec (2006 – 2016), a Belgian based international company specialized in equipment and technologies for satellite communications. He holds an electromechanical engineering degree from the University of Ghent as well as a MBA degree from the Vlerick Leuven Gent Management School in Belgium. He has more than 25 years of management and board experience in the broadcast and satellite communications industry within companies as Proximus, Accenture and Eutelsat. He has been a long-term board member for various national and international organizations, as well as industry and trade associations. In 2008 he joined the WTA (World Teleport Association) and ESOA (the European Satellite Operator Association) as a Board Member. He also served as Board Member at VOKA (Flanders' Chamber of Commerce and Industry) and Agoria (Belgium's largest employers' organisation and trade association).

He has appointed a new CFO in 2021. The board is quite large with 7 persons and combines newcomers and Company veterans.

I have to admit that the CEO is quite "charismatic" which can be a good thing or a bad thing, depending on the character. In his previous Job, he seemed to be quite successful, growing a small Belgian company called Newtec into a significant player in the Satellite space.

I found this interview with the CEO super helpful. Although it is in Dutch, it gives a very good impression of him and answered a lot of my questions I had about the business and the strategy.

With Michel Couson, one of the early Management team members is still on board. However it is not totally clear what his current role is. He is called Managing Director and CTO, but is not part of the “Leadership Team”. He is also the biggest shareholder with 5,8% and never seemed to have sold a share. My guess is that he is hanging around and hopefully giving good advice to younger colleagues but is not a line Manager.

The Chairman of the board, Johan Deschuyffeleer is an experienced Tech executive (H&P, Compaq).

Overall, my impression is that EVS has very good Management.

4.2. Remuneration /Alignment with shareholders

The Remuneration scheme seems to be OK, mostly EBIT targets (no per share etc.), Long term Bonus is paid in company options. The long term bonus seems to be mostly a retention scheme. The Warrant scheme has started in 2020 and by the end of 2023, the 2020 scheme has vested. The earlier plans are deep in the money, so economically the executive team should have quite aligned interests with shareholders.

Overall I would rate the scheme is not great but “good enough”.
On top of the incentive scheme, I haven’t seen any insider purchases.

4.3. Shareholders:

There is no controlling shareholder. As mentioned, the largest shareholder is the CTO with a 5,8% stake. The second largest investor is a UK based Hedge Fund called Otus Capital that specializes in Small caps. Number three is Ennismore, a well known Small cap fund from the UK.

Ennismore writes monthly newsletters and they have a great archive. Here is a link to the two newsletters where they mentioned EVS:
September 2021 newsletter

October 2018 newsletter

There seems to be also a high percentage of retail shareholders, the CEO mentioned something like 50% in an interview.

In general, I would prefer a large shareholder, but overall the shareholder structure is not a concern, as the larger investors seem to be in for the longer term and management seems to manage for the long term and is not too concerned about quarterly numbers..

4.4. Analyst coverage:

Currently, 3 or 4 sell side analysts cover the company which is quite Ok. Current price targets are between 38-42 EUR.

Adviezen EVS Broadcasting

1 2 3 ... > >>

Date Label	Bank Label	Stock Label	Advice Label	Price Label	Diff Label
17 mei 2024	KBC Securities	EVS Broadcasting	Kopen	39.00	13.72 %
17 mei 2024	DeGroof Petercam	EVS Broadcasting	Kopen	38.00	11.45 %
12 maart 2024	ING	EVS Broadcasting	Kopen	42.00	19.88 %

I normally prefer stocks with even less coverage, but this is still OK.

5. Capital allocation

What I like a lot at EVS was that they used the crisis year 2020 both, for a very interesting acquisition (Axon from the Netherlands) plus they brought back a significant amount oof shares at a very low price.

Since then however they only paid dividends, including an extra dividend both in 2021 and 2022. Going forward, my understanding is that they will continue to pay the 1,1 EUR dividend which is around 60% of current FCF and keep the rest for potential acquisitions.

What I do like is that they clearly communicate what kind of acquisitions they want to do (Smaller ones, adding products etc.).

As mentioned in the competitor section, my feeling is that especially with regard to working capital, there seems to be some room for improvement. One should also mention that they spend 25% or so of sales in R&D. I guess this is necessary to be able to remain a technology leader in their niche.

Overall I would rate the capital allocation as “good”.

6. Valuation/Return expectations

In a recent interview, the CEO reiterated his long term target: Doubling of sales until 2030 (target 350-400 in 2030). He explicitly mentioned that he wants to achieve this through organic growth and acquisition.

My short form pitch would be the following: If you can buy something for a P/E of 10 or 11 that grows by 10% p.a. for some time and is very profitable and has net cash, you will very likely come out alright with limited downside risk.

The longer version looks as follows:

The target from the CEO represents a top line growth rate of ~10% p.a. . Assuming no equity dilution, constant profitability and the current dividend yield of 3,6%, that growth rate should result **in a return of around ~13-14% p.a.** without any multiple expansion..

That sounds pretty OK to me for such a high quality business with no leverage etc. .

If they actually manage to deliver on that, a multiple expansion is highly likely at some point in time **which could add another 3-4% p.a.**

Even if profitability goes down a little bit, this still should be more than adequate. Overall I do think that I could double my money here over the next 5 years (including dividends).

[Excursion: Gordon Growth model:

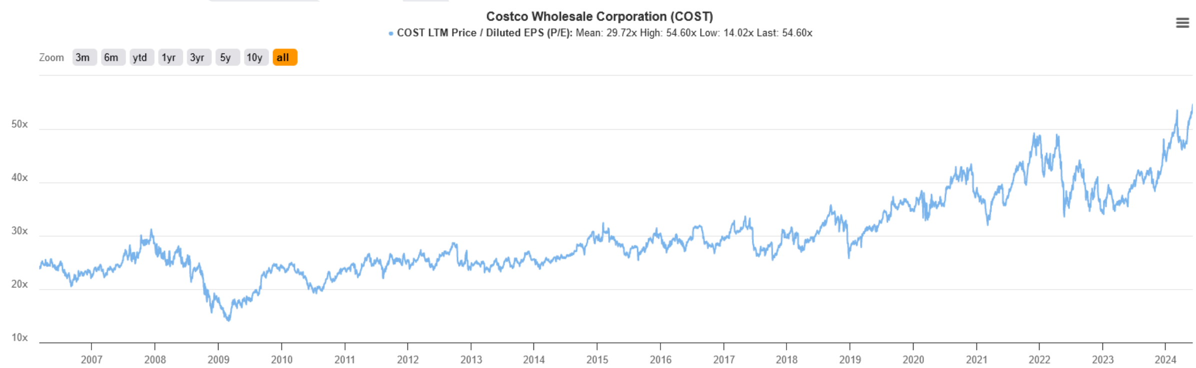
Maybe **a short excursion** to the expected return approach that I use:

Technically, the model that I use here is the "Gordon Growth" model, which uses the dividend plus a constant growth rate as return exp. It is a very simple model which in my opinion has one main advantage: It does not require a (subjective) Exit valuation.

Of course one needs to use a realistic growth rate. In EVS's example, I use the long term rate that the CEO targets which, by coincidence, this is the rate they have achieved since 2019. Having achieved that growth rate for the last 4 years is no guarantee that they will achieve it in the future, but it increases the probability ceteris paribus.

Of course valuation multiples will influence the outcome. If you start with a very high multiple, there is a higher risk that the ultimatum outcome will be negatively affected by a lower exit multiple. If you start with a low multiple, there is a high probability that you might benefit from a multiple expansion.

Take for instance Costco, a company that is very popular right now and has performed very well. Cistco currently trades at a trailing 53x earnings. Looking at that chart we can see that Costco never traded cheap, but the current level is around 2x the historical average:



If Costco continues to grow by 10% or more per annum, there is a certain likelihood that shareholders will get a double digit return in the long run. However, I think that there is a significant risk that if something goes wrong, even only temporarily, that multiples will compress and investors will see a very low return or even negative for a longer time period.

Although I do not want to compare EVS and Costco, looking at the same chart of EVS, we can see that the current valuation of around 11x trailing P/E is at the lower end of the historical range:

There is of course no guarantee, but in my opinion, you have a higher probability of longer term multiple expansion if you start at the lower range than at the high end.

In general, I try to avoid basing my investment thesis on multiple expansion, but I really think it is helpful to look at the historical multiples to see where in the range of its own multiples a company currently is. Sometimes there are reasons for permanently higher multiples, however in many cases mean reversion is a pretty powerful force.

Excursion End}

As we have seen above, the sell side analysts see a current upside of 30-40%. Good to know but irrelevant for me.

The direct comparison to Evertz also seems to support that EVS is undervalued right now. In any case, if Management delivers, the expected return in my opinion is very attractive, especially compared to the (in my opinion limited) downside risk.

7. Short term catalysts

There are no obvious short term catalysts in my opinion. The only one would be that they overshoot the guidance. usually they give a more precise outlook with the 6M numbers. 2024 is an even year, so in general this should be a good year with 2 big events in Europe: The European Football Championship and the Olympics in PAris.

In addition, it would help if they do a good acquisition. A wild card would be if someone would make a move trying to take over EVS. I think the chance is higher than 0%. With 2

American competitors in the hands of PE, they might look for a “transformative” deal. Who knows, but I would not bet on this.

A very swift catalyst would be, as mentioned in the competitor section, an IPO of Ross. Ross in my opinion could also be the most likely buyer of EVS.

8. Why is the stock cheap ?

When an obviously decent business is valued so cheap, the obvious question is: Why is it so cheap ?

One reason in my opinion is clearly the long stagnation period that will have frustrated many investors. In addition, the only listed competitor Evertz is also quite cheap and overall, the traditional broadcasting industry is suffering.

It really seems that no one believes that EVS can deliver 10% growth going forward like they did since 2019.

There is clearly the risk that the growth targets will not play out.

The stock suffered a 10% drop [after the Q1 trading update](). Although they confirmed the previous sales guidance, the EBIT range given in the midpoint is roughly where it was in 20203:

Highlights

- Revenue achievement for 1Q24 similar to the first quarter of 2023.
- Secured revenue* of 135.6Mio€ sustaining our revenue guidance of EUR 180-195 million.
- Operational expenses under control, with some investments in an increasing team member base to support our continuous growth ambitions.
- Based on the 1Q24 results, a full year EBIT guidance of EUR 38.0 – 45.0 million is announced.
- Net cash is restoring to EUR 56.1 million, with important progress made on clearing aged receivables.

They mentioned that they are currently investing in growth. Later in the press release they mention the following:

With the current revenue guidance in vigor, we issue an Earnings Before Interest & Taxes (EBIT) guidance of the year: based on the 1Q24 results and the market dynamics, we expect it to land between EUR 38.0 – 45.0 million. The higher end of the range clearly underlines our ambition to realize sustainable and profitable growth again in 2024.”

I interpret this that they actually aim for the higher end of the range. My impression is that usually the guidance is quite cautious, at least in the last 2 or 3 years.

In addition, the general neglect towards European Small caps clearly plays a role, too.

9. Risks & Potential Opportunities

9.1. Risks

As always, there are risks such as:

Bad M&A

As they explicitly target M&A transactions, clearly not every M&A transaction will be a winner. With Axon, they have shown that they can acquire and integrate a small business successfully. If the targets get larger and are maybe on another continent, the risk increases.

Decreasing margins (more intensive competition)

As mentioned above, there are competitors. 20% is still a high margin and maybe at some point in time this margins will come down further. Also if they move more into studio equipment, margins might be lower. On the other hand, the shift to more Software could be positive.

Legacy broadcaster clients get in even more trouble

A significant share of their clients are legacy broadcasters. It is no secret, that many of these guys are struggling. ES has relatively high receivables. Overall there is a certain risk that even as the dominant supplier, you cannot "milk" your struggling clients forever. On the other hand, EVS has been able to land new contracts with the new "giants" for Sports broadcasting.

9.2. Opportunities:

Where there is risk, there are often opportunities. here are a few of them:

- Riding the Live Sports wave (Big Tech etc.) → in 2022 they were able to sign a major contract with one of the Big Tech players, maybe there is more to come ?
- Expansion opportunity into the Studio environment
- potentially accretive M&A as sector valuation is low, maybe they can acquire parts of the PE owned players
- US/North America is potentially a growth market, too
- potential M&A target themselves
- Multiple Expansion
- Overall revenue becomes much more recurring
- **Esports** also seems to be a market where EVS equipment seems to be very helpful

For me, the Opportunities at least balance out the risks.

10. Stock price

Looking at the chart, we can see that the share price has nicely recovered from the 2020 low but is still less than 50% of the historical high end of 2007. Momentum is still OK with the stock trading (still) above the 200 day average.

11. Other Considerations:

Financial reporting is quite decent. They don't do "adjusted bullshit numbers". The sales chart goes back to 1996. They are sometimes a little vague with forecasting but that's OK for me.

The investor presentations are quite good, especially the 2022 version.

One topic that I will take any bet on will be mentioned in the comments to this post is the Belgian Dividend tax. Belgium keeps 30% of any dividends and you have to claim the difference back. However this usually works within 2-3 years as some of my older readers remember from the Sapec Special Situation.

On the other hand, EVS has a very low tax rate as they seem to benefit from significant R&D tax incentives in Belgium (less than 10% tax rate). So overall taxation is not an issue. One question is if these tax benefits will be sustainable.

12. Pro's and Con's

As always, before coming to the conclusion, a quick list of pro's and con's:

+ low valuation, cheap compared to margins and return on capitaö
+ New CEO 2019, new CFO in 2021, growth since 2019 decent after long stagnation
+ May 2020 Acquisition of AXON
+ Long term charts in Annual reports and IR presentation
+ Decent competitive advantages, still good margins
+ 2024 large event year
+ transparent reporting, no bullshit adjustments
+ low tax rate because of R&D Exemptions
+ some share buy backs in 2020 at very low prices, no further buybacks
+ Technology change / new Investment cycle from On premise to distributed and HD to UHD
+ Early mover in AI, Actual useful AI applications already realized that save customers money (cheaper cameras)
+ some tailwind from increasing popularity and significance of live sports
- no obvious short term catalysts
- Growth requires Working capital (inventory, receivables)
- only limited share buy backs
- 7 C-Level employees (but total comp OK)
- TV Studios as customers are overall in decline in decline

13. Conclusion and game plan:

Overall, EVS Broadcast today seems to be a very interesting stock. It seems that the long stagnation period is over and that new management is able to deliver decent growth.

Based on the very modest valuation of a P/E of 10-11 for 2024 (not considering the 4 EUR et cash per share), the downside seems to be quite limited.

On the other hand, if Management could deliver on its targets (10% growth p.a. until 2030), the upside could be substantial, even without multiple expansion.

If they deliver, for an international Technology company dominating its niche, significantly higher valuation multiples could be possible.

Therefore I decided to allocate ~3,3% of the portfolio into a "starter position", reinvesting my Proceeds from my partial DEME sale.

The game plan is simple: Sit tight and watch how the business develops over the next 18-24 months and if the Management can deliver.

Appendix A) Bonus Soundtrack:

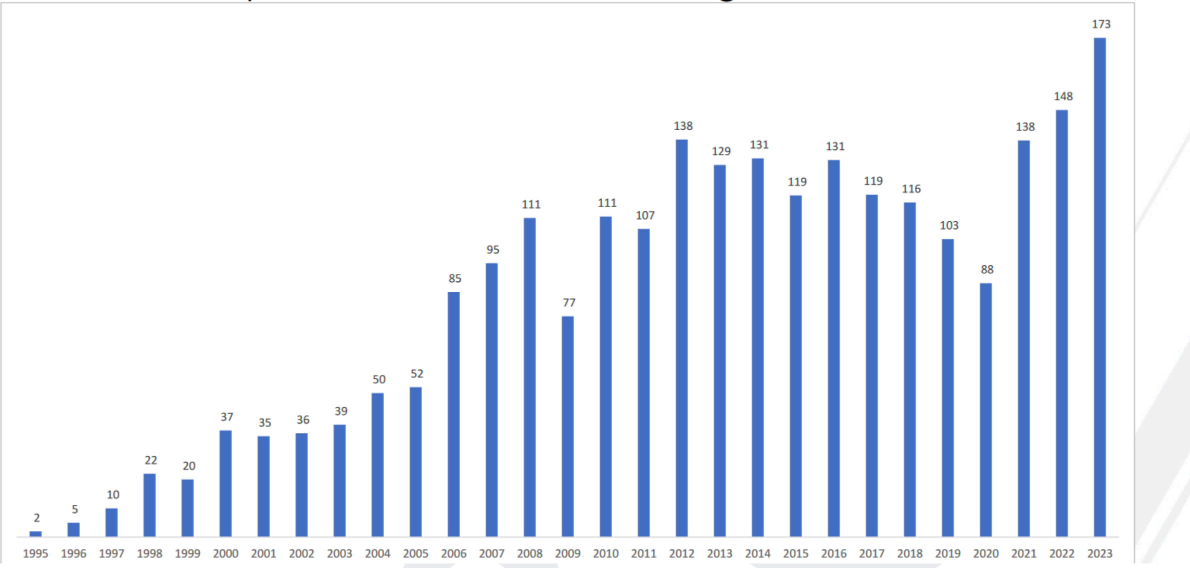
https://youtu.be/WUOtCLOXgm8?si=ySsMQiN8N__Mw61V

Appendix B) Additional Material:

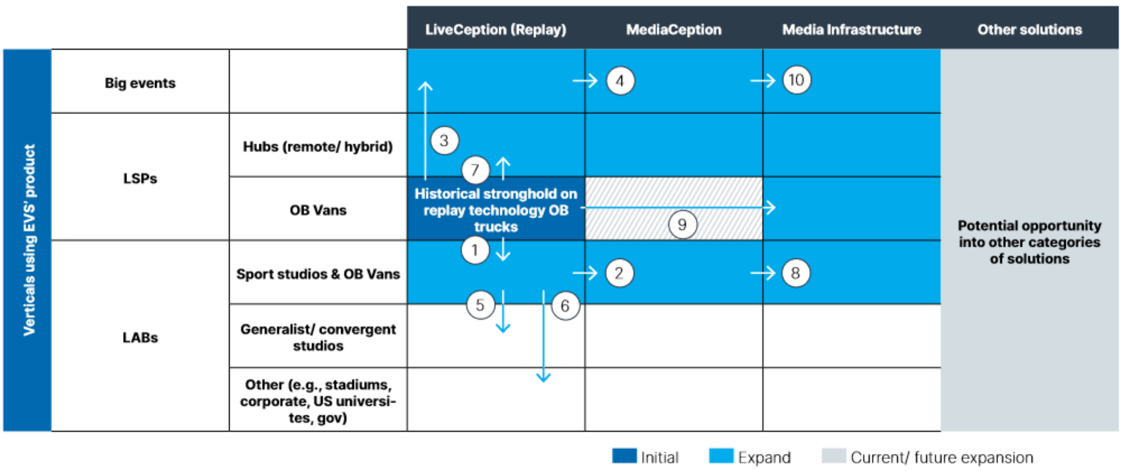
Investor presentation 2023

https://evs.com/sites/default/files/2023-11/Investor-day-2023-Website.pdf

2023 results: profitable and sustainable growth confirmed



REPEATABLE MODEL



1 The customers understood the strengths of the XT server and started to deploy it in their broadcast centers

2 EVS added an asset management product to the XT to manage the life cycle of the content recorded and created on the XT servers.

3 The products have been deployed for Big Events, in the venues...

4 ... and in the International Broadcast Center built for Big Events.

5 Now that broadcasters are developing convergent platforms they select solutions that can cope with the most complex workflows, focused on "fast turnaround content production", as used in sports.

6 The solutions are also applicable for non-broadcast customers such as stadiums, large corporate companies and governments.

7 When the Live Service Providers started to build hubs to leverage remote production they naturally selected EVS technology, thanks to the early availability of LiveIP servers.

8 Thanks to the acquisition of Axon, EVS structured a set of Media Infrastructure solutions in the broadcast centers.

9 EVS also proved the bi-directional synergies between LiveCeption and MediaInfrastructure within OBVans.

10 In 2022, EVS' Media Infrastructure solution was used for the first time at Big Events.

EVS journey in a transforming broadcast industry

As of 2015, EVS set in motion an evolution to prepare for and cope with the various levels of transformation currently underway: changing audience behaviors, adoption of IP technologies and IT equipment and practices, more flexibility and higher productivity required during production, new video formats for input and output.

From a 2015 company...	Successful Axon integration	...to a 2025 group
Product market leader	X00s Workflows certified with 3rd-party tech patners Portfolio branded in terms of solutions	Solution market leader
In premium market	Good traction ox XT-GO for smaller OBVans New channel partner program ready	In different market tiers
Selling in CAPEX only	Longer SLA subscriptions Launching SAAS subscriptions as XtraMotion	Selling in OPEX & CAPEX
SDI replay centric systems	Developpment of Media infrastructure portfolio More and more AI in the solutions	IP TCO optimized media solutions
On EVS HW	Pure SW solutions (PAM & servers) deployed XtraMotion in the cloud	As SW on COTS, Cloud & EVS HW
For on-prem live production	LSM-VIA further refined for remote production XtraMotion as a new form of hybrid workflow	For live anywhere operation
Mainly in sports	More & more transverse broadcast center modernization contracts	In sports, news & entertainment

Shareholder	Number of shares	% statutory basic (1)	% statutory diluted (2)
Michel Counson	835,906	5.8%	5.7%
Treasury shares EVS	928,207	6.5%	6.4%
Degroof Petercam Asset Management	707,679	4.9%	4.8%
Schroders Plc	430,456	3.0%	2.9%
Norges Bank	423,428	3.0%	2.9%
Belfius Insurance	351,012	2.4%	2.4%
Ennismore Fund Management	435,497	3.0%	3.0%
Undeclared	10,214,839	71.3%	69.7%
Total	**14,327,024**	**100.0%**	
Total excl. Treasury shares	**13.398.817**		
Outstanding warrants as of Dec. 31	325,832		2.2%
Total diluted	14,652,856		100.0%
Total diluted, excl. treasury shares	13,724,649		

2015 → 2023 → 2028

	2015	2023	2028
	From replay centric leading products in premium market	Optimized media leading solutions	Live production ECOSYSTEM in multi-tier markets
	CAPEX only	More OPEX & On-demand	
	Mainly in OBVans	Growing in broadcast centers	
	EVS Hardware	+ EVS Software	+ EVS SAAS
	Mainly sports	+ Entertainment & news	+ Digital

AXON ACQUISITION

MEDIA INFRASTRUCTURE TEAM - GILZE

THE COMPANY ACQUIRED

Axon was acquired on May 1st 2020. At the time of the acquisition, Axon was a Dutch company with three main sites. The company had its headquarters in Gilze (NL), an additional R&D development center located in Wockingham (UK) and a commercial center in Beijing. Axon mainly supported customers in Western Europe and in APAC. The company had no substantial commercial activity in NALA. In order to leverage the strong EVS brand worldwide, the Axon brand has been replaced by EVS Media Infrastructure.

Axon mainly provided the following products:

- **Synapse:** a robust glue & multiviewer to convert video and audio signals
- **Cerebrum:** a centralized control system able to configure, monitor and control a wide collection, hundreds of broadcasting systems and devices from various vendors.
- **Neuron:** the 100G IP audio, video and data stream network-attached processing platform that supports a form of virtualization in addition to latency-optimized FPGA hardware.

Axon is a market leader in the provision of stream processing and multiviewer solutions for OBVan and broadcasting centers.

PERFECT FIT

Axon ticked all the boxes as regards the company profile targeted by EVS for acquisition:

- Axon brings with it a complementary product portfolio to build EVS Media Infrastructure solutions in combination with the EVS IP SDN network management approach.
- Axon's DNA is similar to that of EVS: the focus is on customer intimacy. Providing the most reliable solutions that enable our customers to create high quality video content lies at the heart of what both our companies do.
- Axon's customers are similar to those of EVS, i.e. Live Audience Business and Live Service Providers. In many cases, we serve the same customers.
- With a total of 85 team members, Axon is in line with our objective to limit the size of our first major acquisition to a maximum of 100 people. We felt that this was important in order to increase our chances of a successful integration.
- Axon also fulfills the criteria regarding gross margin and potential future profitability generation.
- Axon has strong competencies in house, including R&D expertise, domain knowledge and an accurate understanding of the market and its customers.

85
team members

EVS Media Infrastructure team members testimonials

Axon for 10,2 mn EUR.

10.2. Axon Group

In a transaction closed on 30 April 2020, the Company acquired 100% of the shares of Axon Investments B.V. ("Axon"). With development centers in the Netherlands and the UK, and more than 80 team members, Axon has an international presence in the live broadcast infrastructure market, including mobile trucks and data centers, and a product portfolio that complements EVS's existing live production offering.

The functional currency of Axon UK is the GBP as it is:

- The currency in which prices of goods and services are denominated and settled;
- The currency of the country whose competitive forces and regulations mainly determine the sales prices of the goods and the services;
- The currency that influences workforce, material and other costs of providing the goods and the services.

This transaction qualifies as a business combination in accordance with IFRS 3 and is thus accounted for by applying the acquisition method.
The consideration transferred by the Company to acquire Axon includes:
- A cash amount of EUR 12.2 million of which EUR 11.6 million paid at closing date and EUR 0.6 million paid at the end of September for the final working capital adjustment.
- A contingent consideration ranging between EUR -0,5 million (reverse earn-out to be paid back by the sellers) and maximum EUR 2,5 million (earn-out to be paid by the Company) depending on the gross margin realized by Axon over the period 1 January 2020 to 31 January 2021. The fair value of the contingent consideration amounts to EUR 1,0 million at acquisition date and has not changed at the reporting date.
The fair value categorized as level 3 has been estimated on the basis of a model in which the possible outcomes are probability weighted. The unobservable input to which this fair value measurement is most sensitive is the estimated amount of Axon's

(EUR thousands)	Provisional fair values 30.06.2020	Adjustments	Final fair values 31.12.2020
Intangible asset – Technology	2,486	3	2,489
Intangible asset – Customer- related	5,107	13	5,120
Other intangible assets	0	9	9
Right-of-use assets	0	2,126	2,126
Other non-current assets	341	-9	332
Deferred tax assets	1,316	0	1,316
Accounts receivable	2,133	0	2,133
Inventories	2,302	0	2,302
Cash and cash equivalents	1,956	0	1,956
Other current assets	46	0	46
Total assets	***15,687***	***2,142***	***17,829***
Deferred tax liabilities	-1,582	-3	-1,585
Lease liabilities	-	-2,126	-2,126
Accounts payable	-3,478	-	-3,478
Other liabilities	-242	-	-242
Total liabilities	***-5,302***	***-2,129***	***-7,431***
Net assets acquired	**10,385**	13	**10,398**
Consideration paid in cash	11,570	641	12,211
Final working capital adjustment	**658**	-658	-
Fair value of contingent consideration (earn-out)	926	93	1019
Total consideration	***13,153***	***77***	***13,230***
Goodwill	2,768	64	2,832
Cash outflow net of cash and cash equivalents	9,614	641	10,255

In 2020, the number of treasury shares moved in number and in weighted average prices (WAP) as follows:

	2020		2019	
	Number	**WAP (EUR)**	**Number**	**WAP (EUR)**
At the beginning of the period	**400,180**	**24.81**	**151,724**	**31.31**
Buy back on the market	544,307	15.17	262,952	21.11
Sales on the market	-		-	
Treasury shares cancellation	-		-	
Sales linked to the staff incentive program	-16,280	21.43	-14,496	25.73
At the end of the period	**928,207**	**19.21**	**400,180**	**24.81**

Competitors:

EVS multiples are low compared vs competitors

Name	Ticker	Mkt Cap (EUR)	EV/This Year Est EBIT	EV/Next Yr Est EBIT
Average		18.98B	12.81	11.64
EVS BROADCAST EQUIPMENT S.A.	EVS BB	320.93M	8.27	8.98
AVID TECHNOLOGY INC	AVID US	1.17B	17.28	14.76
BELDEN INC	BDC US	2.96B	9.73	9.53
EVERTZ TECHNOLOGIES LTD	ET CN	836.57M	12.12	10.68

WE HAVE COMPETITORS TO BEAT IN ORDER TO BECOME NUMBER 1 IN OUR INDUSTRY

	LiveCeption	MediaCeption	MediaInfra
Live Service Providers	Evertz, GV, Sony, Riedel	N.A.	Evertz, Lawo, Imagine, GV
Live Audience Business	Evertz, GV, Sony, Riedel, Ross	Avid, GV, Dalet More and more small players	Evertz, Lawo, Imagine, GV, Ross
Big Events	LSPs using EVS technology	Fragmentation of workflows	Evertz, Lawo, Imagine, GV

THE OTHER MAJOR PLAYERS IN BROADCAST MARKET

Grass Valley
Production, Infra, Routing, Cameras and Transition towards E2E Cloud

ROSS LIVING LIVE!
Graphics, Live production, News, Cameras, LED & presentation

AVID
Asset Management, NRCS News, Audio, Music, SaaS

evertz
Infrastructure, Production, Services, and Pro-AV

IR presentation 2022:

https://evs.com/sites/default/files/2022-12/22-Analyst-day-Full-Deck-Public.pdf

https://www.pehub.com/stg-completes-take-private-buyout-of-media-editing-tools-provider-avid-technology/

https://www.grassvalley.com/press-releases/2024/grass-valley-completes-220-million-strategic-refinancing/

https://www.grassvalley.com/press-releases/2020/20200702-grass-valley-acquisition-by-black-dragon-capital-completed/

Market Data		Capital Structure	
52 Week High	US$99.13	Market Cap (MM)	US$3,969.79
52 Week Low	US$60.55	Enterprise Value (MM)	US$4,778.26
Avg. 3 Month Volume	0.26 MM	Shares Outstanding	40.68 MM
5 Yr Beta	1.05	LTM Net Debt (MM)	US$808.43
Float %	99.1%	LTM Net Debt/EBITDA	1.97x
Efficiency		**Growth**	
LTM Gross Margin	37.9%	Fwd 2-Yr Rev. CAGR	1.9%
LTM EBIT Margin	12.2%	Fwd 2-Yr EBITDA CAGR	3.7%
LTM ROA	5.9%	Fwd 2-Yr EPS CAGR	4.1%
LTM ROE	18.9%	Last 3-Yr Rev. CAGR	10.5%
LTM ROIC	11.6%	Last 3-Yr EBITDA CAGR	20.7%
LTM ROCE	11.3%	Last 3-Yr EPS CAGR	35.4%
Valuation			
Street Target Price	US$105.00	LTM EV/Gross Profit	5.24x
NTM EV/Revenues	1.97x	LTM P/E	19.06x
NTM EV/EBITDA	11.53x	LTM P/BV	3.43x
NTM P/E	15.49x	LTM P/NCAV	(6.36x)
NTM MC/FCF	14.67x	Dividend Yield	0.2%
LTM EV/Revenues	1.99x	Payout Ratio	3.9%

https://www.rossvideo.com/

CEO / Manaegment

https://www.youtube.com/live/ap1wbZerqUA?t=1296s

Axon Acquisition

https://www.youtube.com/watch?v=y2myC8-y9m8

https://www.reddit.com/r/VIDEOENGINEERING/comments/m3ddia/evsevertzgrass_valley_or_industry_knowledge_needed/

https://www.reddit.com/r/VIDEOENGINEERING/comments/nhys9i/evs_replay_standard/
https://www.reddit.com/r/VIDEOENGINEERING/comments/fbhl26/replayplayout_system_user_experiences/

AVID Tikr overview

Avid Technology, Inc. (AVID)

USD HIDE CHART

US$27.04
US$0.00 (0.00%)
6 November 2023 Close

Market Data		Capital Structure	
52 Week High	US$29.57	Market Cap (MM)	US$1,192.43
52 Week Low	US$22.55	Enterprise Value (MM)	US$1,412.82
Avg. 3 Month Volume	0.68 MM	Shares Outstanding	44.10 MM
5 Yr Beta	0.99	LTM Net Debt (MM)	US$220.39
Float %	100.0%	LTM Net Debt/EBITDA	6.05x
Efficiency		**Growth**	
LTM Gross Margin	63.1%	Fwd 2-Yr Rev. CAGR	9.5%
LTM EBIT Margin	5.4%	Fwd 2-Yr EBITDA CAGR	18.5%
LTM ROA	5.5%	Fwd 2-Yr EPS CAGR	15.5%
LTM ROE	(9.8%)	Last 3-Yr Rev. CAGR	0.5%
LTM ROIC	19.1%	Last 3-Yr EBITDA CAGR	13.4%
LTM ROCE	17.6%	Last 3-Yr EPS CAGR	40.4%
Valuation			
Street Target Price	US$27.36	LTM EV/Gross Profit	5.11x
NTM EV/Revenues	2.95x	LTM P/E	37.08x
NTM EV/EBITDA	13.22x	LTM P/BV	(10.00x)
NTM P/E	15.19x	LTM P/NCAV	(5.00x)
NTM MC/FCF	16.29x	Dividend Yield	-
LTM EV/Revenues	3.28x	Payout Ratio	-