



ELEVATION CAPITAL GLOBAL SHARES FUND



Aid Technology is an industry-leading provider of high-end video and music production software. Avid Media Composer is the dominant film editing software amongst Hollywood and multi-million dollar productions, while ProTools, the audio editing equivalent, is the dominant software in the music industry. While other products compete in the lower-end space, Avid's software is the only real choice when working with a high budget production.

Like Adobe before it, Avid has been migrating to a SaaS (Software as a Service) model, which we think bodes well for the future of the company. Avid has **324,000 subscribers** while there are an additional **670,000 users** who have previously purchased a full license of Avid, suggesting Avid could triple its paying subscriber base. Avid projects subscription revenue of US\$375 million by 2025. In addition, due to its small size, we believe Avid may be a potential acquisition target. *Elevation Capital has a long history of investing in companies which are subsequently acquired at a premium to our cost basis.*

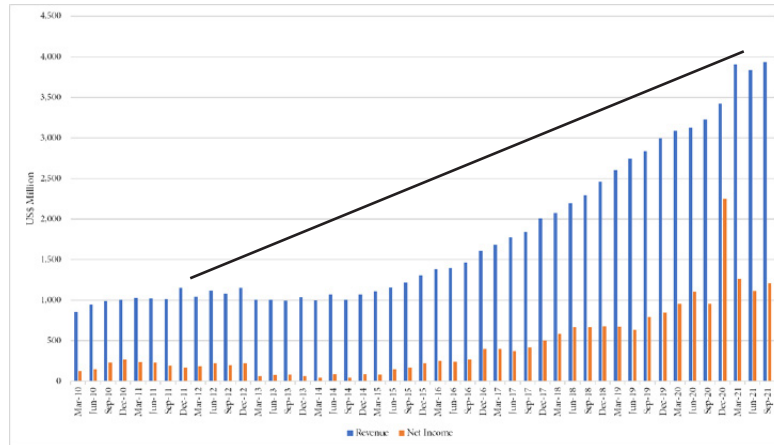
- Avid's video offering, **Media Composer**, is used by movie studios, television studios and live news broadcasters. It was first released in 1989 and has since become the de-facto standard for the industry. As one long-time veteran put it: "it's just a given". The sheer size of "big league" productions means that Media Composer has a sizeable moat as changing from one software and workflow process to another would mean changing the processes of hundreds of people and potentially cost millions of dollars. Media Composer is as embedded as Microsoft Excel is within the corporate world.
- Avid's music production offering, **ProTools**, is the de-facto choice for producing music. For a long time the debate about music production was "analog or ProTools". ProTools has an additional moat because it has specific hardware which is tied to the software.
- Avid also owns **Sibelius**, the industry standard for traditionally notated sheet music.





Avid is poised to mirror Adobe's SaaS success

Adobe quarterly revenue since 2010 - Adobe transitioned to SaaS in 2012



Source: Capital IQ

In our recent blog post we discussed the unique pricing power and business model of Software as a Service (SaaS). The clearest example of its power is **Adobe**, which we like as an example because both Avid and Adobe market similar products. Both Adobe and Avid have been switching to a SaaS model; Adobe has completed its shift while Avid has converted around a third of its users to the SaaS model. We think this is because Avid's licenses sell to big studios, often with maintenance contracts attached, so the shift to SaaS will be noticeably slower as Adobe's products are primarily marketed to small and sole trader businesses. We suggest that as Avid's maintenance contracts expire and as Avid ceases support for legacy software the shift to SaaS will be hastened; it is also important to note that Avid only implemented SaaS offerings for its enterprise clients (ie. "big league" media companies) last year, so there is a significant runway for growth ahead.

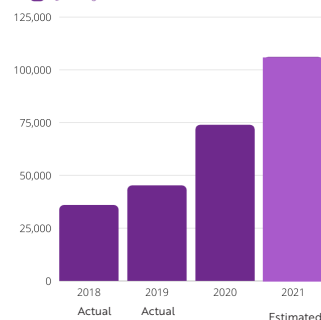
The investment case for Avid is predicated on the shift to SaaS. With licenses, a business like Avid is cyclical, relying on releasing a new product every few years. With SaaS you generate a stream of revenue based on a small monthly fee, which renders the product more accessible to a wider audience and allows for price increases which are not tied to a new product release.

As we referenced earlier, Avid has 324,000 paying subscribers; the other two thirds of its user base are using legacy software or have additional maintenance contracts in place which obligates Avid to maintain legacy software and hardware. There is significant runway ahead for Avid to shift revenue to a fully-SaaS model; in 2020 only c. US\$72 million of its revenue was via subscriptions; upwards of US\$224 million was for software licenses and maintenance. Yet the growth in Avid's subscription business is clear: subscription revenues grew from US\$45 million in 2019 to US\$72 million in 2020. This is indicative of a shift to SaaS. Yet software license revenue remained fairly static, at US\$210 million in 2019 to US\$224 million in 2020. This suggests to us that enterprise customers have not yet shifted to SaaS; **the subscription revenue occurred despite continued software license sales.**

Avid's closest competitor in the video editing landscape is Adobe's Premiere Pro. This is a false comparison in our view. Premiere Pro is used by enthusiasts and small productions. Overwhelmingly, Avid's Media Composer is the software of choice for large productions. These large clients are principally tied up in licenses and maintenance agreements -- the US\$72 million of subscriber revenue is mostly from "retail" clients. **The value of SaaS from these enterprise clients is only just about to be unlocked;** a large studio might purchase a thousand recurring licenses (or "seats") for their team to use, which is a thousand recurring monthly licenses -- a veritable annuity stream.



SaaS Revenue



All figures in USD, in millions
Source: Avid Annual Reports





Why Avid is attractive now (and why it wasn't before)

Avid has a long history. Its first product, Media Composer, was rolled out by its founder, Bill Warner, in the early 1980s as the first commercially available form of non-linear editing for films. Previously films were edited in a linear fashion, quite literally "cutting" the film as it played. This product was revolutionary and became the de-facto standard for the film and television industry. In 1995, Avid acquired Digidesign, which made the audio equivalent of Media Composer, ProTools.

Avid grew too complacent with its market dominance. What was almost a complete monopoly was diluted by Apple's Final Cut film editing software, which sold for a fraction of the price, and by audio editing software like Logic and Ableton Live. It had a spate of bad management in the early 2010s and an accounting scandal which resulted in its delisting from the NASDAQ in 2012 -- revenue was booked upfront when it should have been amortised over time. In 2014, Avid relisted, and in 2016 Jeff Rosica was appointed as CEO and he took no time to clean house, appointing a new CFO, SMO and Head of Supply Chain. 70% of the board was replaced, too. One notable remainder on the board was Bob Bakish, the CEO of ViacomCBS, who owns a significant portion of Avid. We consider Bakish to be an excellent capital allocator which may explain Avid's recent authorisation of a share buyback.

Avid's history of inconsistent returns and lack of focus led to mispricing in how the market valued the company for the majority of 2010-'20. Avid offered a subscription to its products as early as 2014, the same time Adobe started offering their own SaaS, yet its execution was poor compared to Adobe. It was hesitant to discontinue its license-in-perpetuity software which muddled the offering. In a sense the different models tried out by Adobe and Avid fairly early into the SaaS revolution serve as an illustration of what works and what doesn't. Offering multiple product lines, some perpetual and others SaaS-based, only serves to confuse consumers. Yet SaaS was untested in 2014 for a product suite such as Avid's or Adobe's -- clearly, Adobe's management had the better plan; hindsight is a wonderful thing. Roscia understood the importance of SaaS as the future of software and hastened to put Avid back on track. But two years is a long time; Avid had a lot to catch up with. We believe that Avid's hard work in the past few years is finally bearing fruit, as demonstrated by their excellent subscriber uptake. Roscia executed a successful turnaround and restored a company which had been lagging.

Yet the extraordinary thing is that Avid managed to retain dominance in the high-end professional production market; **8 in 10 film and TV studios are customers of Avid.** They did all this *despite* years of inconsistent management that has only been rectified recently. We think this shows just what a "moat" Avid's technology has. Now that Avid has excellent management we are starting to see the power of the natural "moat" *plus* sound capital allocation and strategic decisions.

It is worth highlighting the inherent differences between Avid and Adobe's product offering. Adobe's is generalist. It appeals to the "prosumer" market. Avid's software has historically been targeted to the high-end professional market. This goes some of the way to explain Avid's underperformance versus Adobe (in addition to the reasons we have already discussed). The high-end media market was in a state of fracture in 2014; streaming was still a new proposition (Netflix's first ever house-funded content, House of Cards, only premiered in 2013). The music industry was in a state of fracture, too, in 2014 -- US music industry revenues were near all-time lows. Streaming and content spend by high-end media providers has increased dramatically since then -- naturally increasing Avid's market and revenue share.





Avid is a “big leagues” essential

The reason Media Composer is so dominant in the film industry is put well in this Tegus Expert Network Call transcript¹:

*“From my vantage point as a producer of like what we think of as like the big leagues, like the major Hollywood studios, the streamers, the big broadcast networks, in all my years working for them, **I’ve never heard of anyone even asking if they could cut a project in anything other than Avid. It’s just a given.***

*Where I wonder as like a generational shift, is, is it possible that as younger and younger editors emerge who were schooled using that platform first, it might be bound to come up at some point where a young editor will say, “Hey, I really want to use this tool,” and someone could get on board with that, but it’s just hard to imagine because I think **the whole ecosystem is still so Avid workflow based.**”*

We see Avid as a provider of critical infrastructure to the film and television industries. Quite literally, many of our favourite television shows and movies would not be possible without Avid’s technology. **Avid provides the steel that builds the proverbial skyscrapers.**

We see the macro case for Avid’s continued importance, now more than ever, as follows:

- The entertainment industry is engaged in a streaming war, spending billions of dollars on new content;
- Content is king, now more than ever;
- COVID-19 halted the production of many movies and television shows. This affected Avid’s bottom line as a one-time event; and,
- Big-ticket productions all use Avid.

The media industry shut down for a time during the COVID-19 Pandemic but has surged back, somewhat energising the entire endeavor. During COVID, goods outsold services; retail experienced a boom, people bought consumables during the first cycle of the virus. The one service which remained a constant was one that you can access anywhere: entertainment. We think this proves the durability of the franchise. The disruption of COVID seemed to have the effect of upping the ante of the streaming wars; there have been multiple mergers and acquisitions in the sector since then, the most recent being the DiscoveryWarner transaction.

We don’t wish to ponder too hard on the streaming wars. When a war breaks out, someone’s going to making a killing selling the ammunition. It is clear the the big media players (DiscoveryWarner, Disney, Netflix, Amazon/MGM, ViacomCBS.) are consolidating, producing masses of content and investing huge sums of capital to win the hearts and minds of viewers. The sum of this is, for Avid, more use than ever before of Avid’s flagship product. These are big studios with big budgets -- **they are most likely using Avid.**

The same goes for music. The Elevation Global Shares Fund holds shares in Spotify, which we consider one of the most remarkable stories of scalability of modern times. Spotify, Apple Music, Amazon Music and YouTube music have redefined the music industry. **Now there is a period of certainty about how the model works** -- for both artists and studios. Music is being produced on a massive scale, too (again, it is a consumable service that is impervious to the goods/services dichotomy). Most of the major studios and artists use ProTools. However, Avid is poised to take advantage of reopening headwinds, too, as Avid VENUE’s mixing equipment and software is used in many live venues around the world.

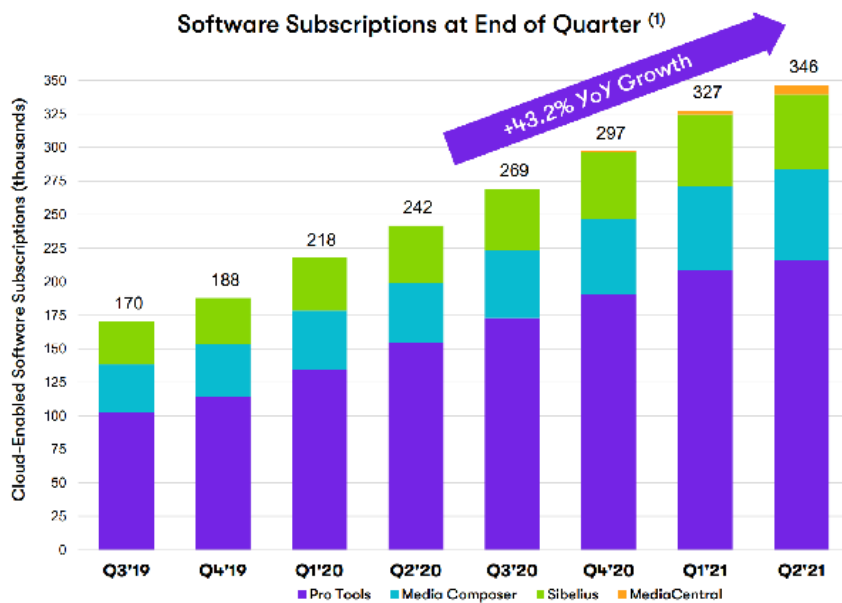
1 Avid Tegus Expert Call, 21/8/21, sourced via LVS Advisory, <https://lvsadvisory.com/>





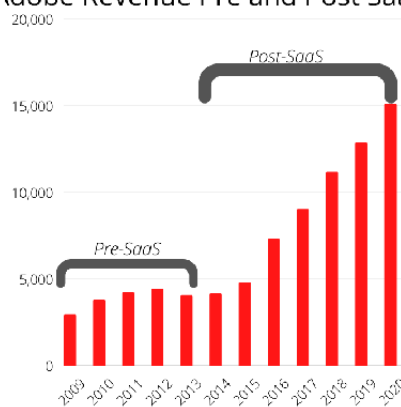
The SaaS paradox

Most of Avid's SaaS user base are single users or "prosumers". US\$224 million of Avid's 2020 revenue represents almost entirely enterprise-level customers. Avid only introduced a SaaS model for enterprise in 2020 -- as Avid continues to phase out licenses, more and more enterprise clients will become SaaS clients. There are two streams of revenue growth: the first is SaaS revenues from single users, which has grown unencumbered - (2020's Q4 YoY subscription revenues alone grew +54.9%), the second is enterprise users, who only recently have begun to convert to SaaS.



Enterprise revenue is largely unaccounted for in Avid's current SaaS model -- this suggests at least US\$224 million in "transferable" revenues, from the old model to SaaS. The actual number may be higher -- Adobe's revenue from switching to SaaS demonstrates the unique growth model selling in increments allows; it feels "cheaper" than an expensive one-off purchase, therefore users are likely to leave their credit card on file and keep paying a nominal amount per month -- **these royalties add up**. Adobe's revenue growth "before" and "after" implementing SaaS demonstrates a perhaps counterintuitive fact: SaaS grows revenue at a far greater and consistent clip.

Adobe Revenue Pre and Post SaaS



All figures in USD, in millions
Source: Adobe Annual Reports



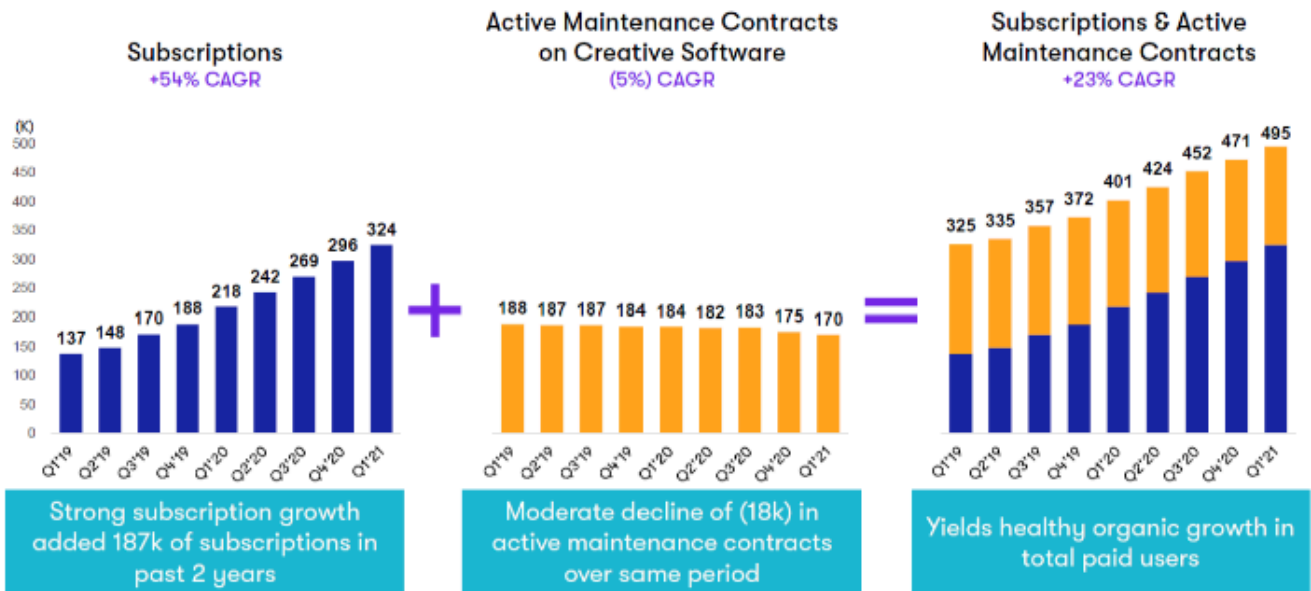


The SaaS paradox demonstrates an important but little understood point: people are willing to pay small amounts for a long time, for a lot of things. “Big” purchases require a different kind of mental accounting to small purchases; think about buying a can of Coke vs. a case of wine. The Harvard Review of Business¹ put an example which explains the paradox well:

Two friends, Mary and Bill, join the local health club and commit to one-year memberships. Bill decides on an annual payment plan—\$600 at the time he signs up. Mary decides on a monthly payment plan—\$50 a month. Who is more likely to work out on a regular basis? And who is more likely to renew the membership the following year?

Almost any theory of rational choice would say they are equally likely. After all, they’re paying the same amount for the same benefits. But our research shows that Mary is much more likely to exercise at the club than her friend. Bill will feel the need to get his money’s worth early in his membership, but that drive will lessen as the pain of his \$600 payment fades into the past. Mary, on the other hand, will be steadily reminded of the cost of her membership because she makes payments every month. She will feel the need to get her money’s worth throughout the year and will work out more regularly. Those regular workouts will lead to an extremely important result from the health club’s point of view: **Mary will be far more likely to renew her membership when the year is over.**

The results of the “small cost” advantage are demonstrated well by Adobe’s results, and by Avid’s, too. Converting enterprise customers to a SaaS model represents an initial value of US\$224 million, but the rate of growth from that US\$224 million is larger and more consistent. So far Avid’s approach has yielded healthy growth in total users, crucially in the number of total subscribers. Now that Avid is offering SaaS to enterprise customers, the rate of growth is likely to be much higher as demonstrated by marked acceleration of subscription uptake.



Source: Avid Q4 Report 2020

¹ Harvard Business Review, Pricing and the Psychology of Consumption, John T. Gourville and Dilip Soman, 2002










Avid is undervalued compared to Peers

Avid is undervalued compared to its peers in the SaaS sector. Partially this is due to Avid's incomplete transition to SaaS, which results in a valuation more in line with that of a traditional, cyclical software company. Avid previously had a heavy debt burden (3.6x net leverage) which it has reduced to 1.8x net leverage as of Q2 2021. Subscriptions have gifted Avid with strong cash flow which has enabled them to pay down debt; this is just one of the advantages of an annuity-based cashflow. Avid's management have announced a stock buyback programme, which the board agreed to on 9 September ('21) of up to US\$115 million dollars. Currently, this represents 9.5% of Avid's market capitalisation. We consider this a sign of management's belief in the company and a good, tax-effective way of returning value to shareholders.

We believe it is best to value Avid as a SaaS company, rather than how it has been traditionally valued. Compared to its best-in-class competitors Avid trades at remarkably low multiples. We consider Adobe and Autodesk apt comparisons; Autodesk's software does for architecture what Avid does for media production. Autodesk trades at a TEV/Revenue of 16.1x, while Adobe trades at 21.9x. In comparison Avid trades at just 3.6x TEV/Revenue. Valuing Avid at a +50% discount to Autodesk's multiple (7.5x), Avid approaches a valuation of US\$62 per share vs a current per share price of US\$28.64 as at 31 October 2021.

	TEV/Revenue
	3.6x
 SQUARESPACE	10.9x
 AUTODESK	16.1x
 Adobe	21.9x
 xero	26.4x





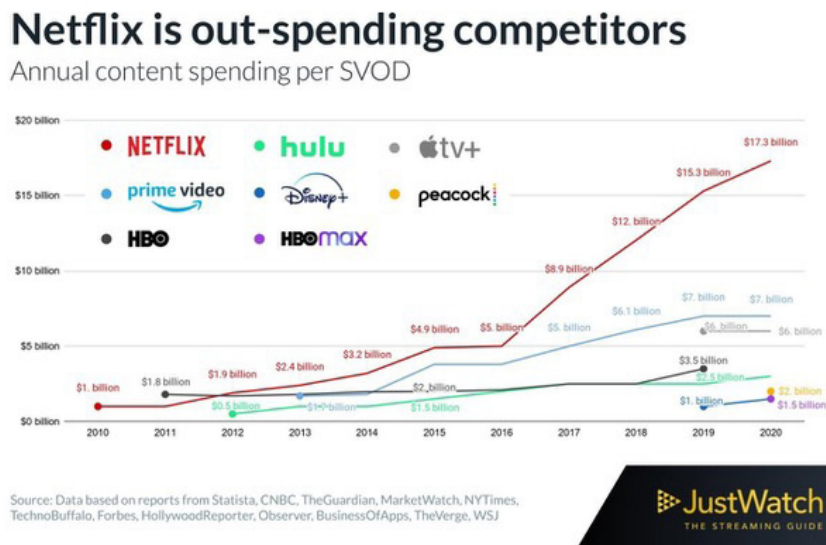
Media Headwinds

There is a famous quote often attributed to N.M Rothschild, which is “the time to buy is when there’s blood in the streets”. It is not clear who actually said the quote, but perhaps that does not matter. The sentiment remains true. The streaming wars are consuming vast amounts of money; Netflix alone spent US\$17 billion on producing new content in 2020. The media landscape is consolidating quickly -- the creation of Warner Bros. Discovery, Disney’s aquisition of the bulk of 21st Century Fox’s entertainment assets and Amazon’s aquisition of MGM all during the period of 2019-2021. To use the example of Netflix again, in 2018 Netflix’s spending on new content was US\$12 billion and it is on track to spend US\$17 billion in 2021. The increase in spend is directly proportionate to the increase in competition. It is, in other words, the blood on the streets. **There appears to be no logical “end point” to the proportionate cost of new content, which we think bodes well for Avid.**

We like this headwind a lot, because Avid benefits regardless of who “wins” the streaming wars. We especially like this headwind because Avid’s Media Composer is the dominant tool in high budget productions; by definition Netflix, Disney and Amazon are funding high budget productions.

More productions and content will require more people to produce them, which in turn will require more use of Avid’s software, requiring more SaaS fees. **For every extra billion a media giant spends, Avid will generate a royalty.**

Detailed below is a chart showing the ever-increasing spend of global content giants:



We note the same holds true for ProTools. Streaming music is now the norm and the industry has consolidated to essentially an industry of four: Spotify, Apple Music, Youtube Music, and Amazon Music. The streaming model is SaaS within SaaS. A user pays for the service -- which is straight ahead SaaS -- but also musicians and labels get paid per stream, in effect for the service of providing their music. The streaming model was much-maligned at first yet now serves as a predictable model of annuities for a label. This stabilisation of labels has been reflected by the market: Universal Music Group (UMG) and Warner Music have both had stellar market debuts and performance since IPO (Warner in June 2020 and UMG in September 2021 -- the Elevation Capital Global Shares Fund also owns shares in UMG). Streaming has become the defacto method of music distribution. Streaming services in many cases make the royalty case for a song stronger; since Spotify launched in 2013 streams of Bon Jovi’s hit “Livin’ on a Prayer” are up +135%.

Regardless of the forces themselves, the dominant software for producing music is Protools, regardless of who wins the streaming wars, the dominant software for editing is Media Composer -- both are Avid products.



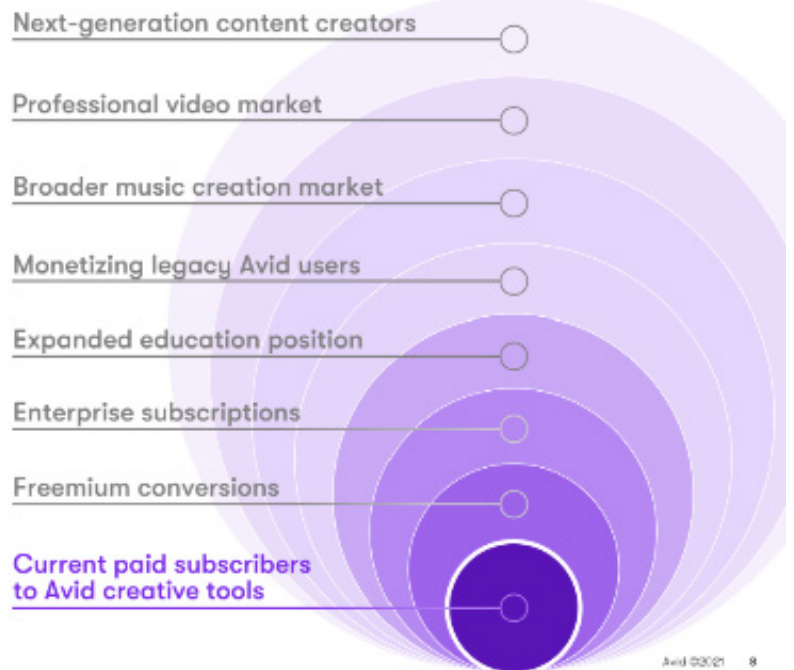


A built-in audience of (at least) one million: how do we get there?

Avid currently has converted one third of its user base to a subscription model. What we have seen with companies which change to a subscription model is that most of their license-users transition as well. We arrive at a figure of a million users simply by adding upwards of 637,000 legacy users to Avid's existing subscriber base.

Avid's Q4 2021 graphic (right) suggests there is a market beyond those already familiar with Avid's product suite. We think this is possible, as a subscription makes Avid's high-end software more accessible (we refer again to the gym membership metaphor -- paying in smaller increments is a remarkable psychological trick).

We also believe Avid may eventually grow to a 1 million + subscriber rate as the subscription uptake continues to accelerate. (+108,000 new subscribers by Q4 '21)



Source: Avid

Avid's guidance is US\$375 million in SaaS revenue by 2025

Current subscription + maintenance revenue is US\$221 million

Currently: 1/3rd of users converted to SaaS

Approximately 324,000 subscribers to Avid's SaaS product suite.

2/3rds to-be converted + organic SaaS growth

Approximately 637,000 users of Avid products have not yet converted to SaaS + the organic growth that SaaS lends due to the "SaaS paradox".





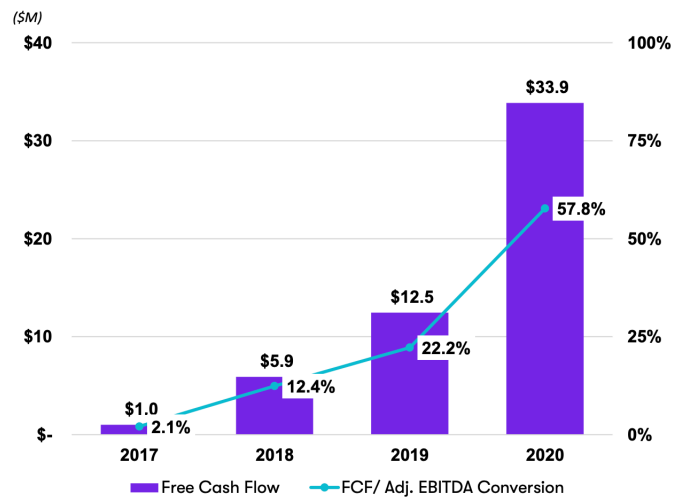
Avid is becoming a cashflow machine

We consider free cash flow (FCF) to be a strong indicator of the economic strength of a company. The investor Nick Sleep¹, as a young analyst, once interviewed a senior CFO. The nervous Sleep stumbled, and the CFO finally said *“at the end of the day son, it’s all cash in and cash out. That’s the bottom line”*.

Avid is becoming a FCF machine. This represents management’s business plan coming to fruition, largely due to the high FCF nature of Avid’s SaaS business, but also due to cost reductions and improving gross margins. Avid is targeting US\$3.75 of FCF per share by 2025E. This implies Avid today is trading at a FCF multiple of <8x 2025F, implying a 20% growth rate in FCF over the next 3 years.

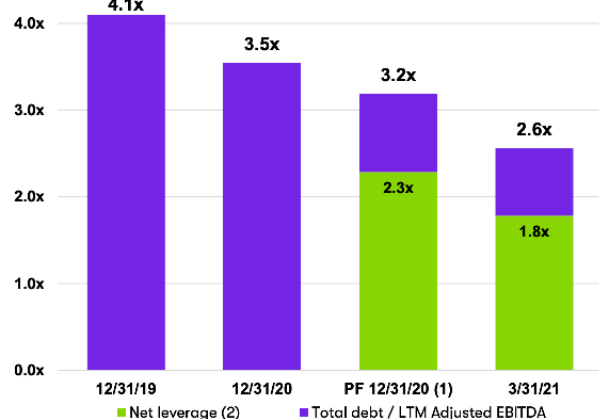
We see this FCF as representative of the enormous pricing power of Avid’s business that was previously latent; Avid estimates **the value of a subscription over a customer’s lifetime is 3x the value of a historical contract maintenance agreement**. The increased FCF has allowed Avid to pay down its previously substantial debt load and reduce its net leverage. Avid previously traded for US\$10 per share, but its debt levels made it unattractive. Now its debt levels are greatly reduced and its increased FCF is proof of concept: **SaaS works**.

Free Cash Flow and FCF / Adj. EBITDA Conversion



Source: Avid Quarterly Reports

Improving Leverage



Source: Avid Quarterly Reports

¹ Nick Sleep, alongside Qis Zakaria, was one of the principals of the Nomad Investment Partnership, which had an annualised return of 18.4% over 12 years.





Valuation

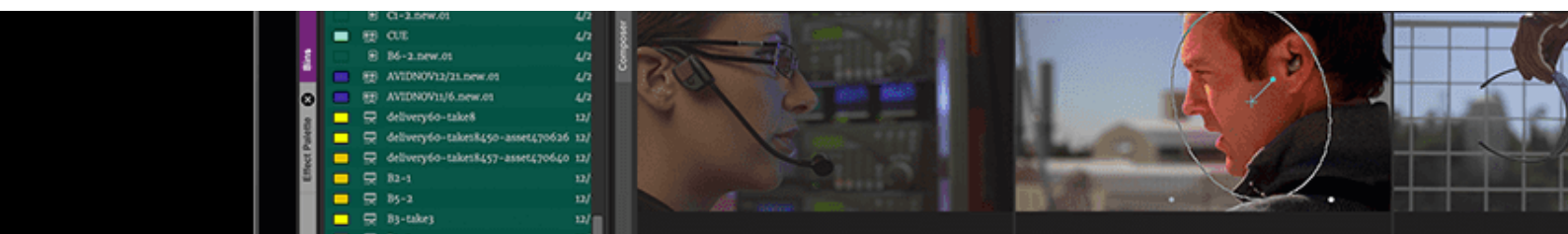
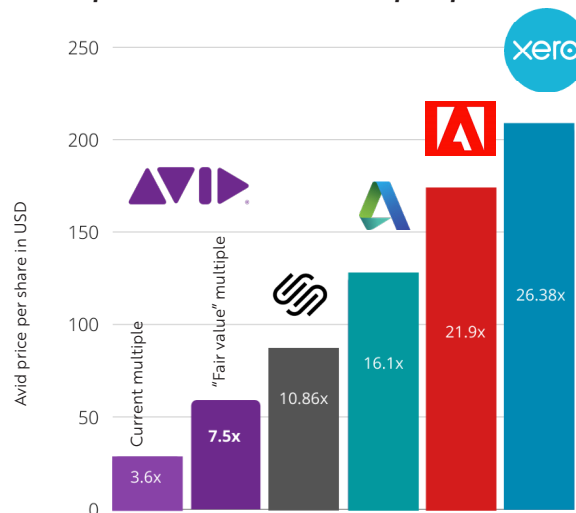
What we really look for in a company is a secret. We don't mean something hidden or deeply obscured. Quite often the opposite is true: often the secret is in plain sight. A company with a secret is a company which has worked out how to do something that others cannot and this secret guides its entire ideology. For instance, Airbnb (another Elevation Capital Global Shares Fund holding) realised that a simple interface to connect people who want to rent a space to people who have a space they want to rent is a superior method to the usual palavar of booking a hotel. This is a very simple insight, and it is hardly original. Airbnb's secret is sticking to it. Fundamentally, Airbnb solves a problem. Other companies do a similar thing: Autodesk solves the problem of computer aided design in the most elegant way possible; it is now standard at architechure practices and very much embedded within the practice. This is the second secret, which also guides Avid. It has created a suite of products which are so embeded and standard within the movie and music industries that it is practically a prerequisite to use them.

Avid projects US \$375 million in subscription revenue by 2025; this implies around one million subscribers. Avid's total user base is around one million users -- so it is mostly a case of converting existing users to SaaS. For this reason we consider Avid's guidance to be a touch conservative. We think this because there is a clear case to be made that a SaaS promotes more rapid growth, as seen from industry leaders like Adobe and Autodesk.

Avid trades at signficiantly lower multiples to Adobe and Autodesk. If the company were to be valued at less than half of Autodesk, the resulting value per share of Avid is more than twice the current share price; this reflects Avid continuing to implement its strategy of SaaS and user-expansion.

We also note, as we did at the start of this report, that Avid is significantly smaller in market capitalisation to Adobe or other SaaS peers. We think this may present an opportunity for a larger company to aquire Avid at a premium; certainly if we were in the business of aquiring whole companies we would happily be buying the entirety of Avid; we imagine it may well have many suitors at the door. We have compared Avid's potential value at a 50% discount to its most affordable comparable: Autodesk. In comparison to its peers, even valued at a significant discount, Avid looks to be good value.

Avid value per share based on the TEV (Total Enterprise Value)/Revenue multiples of its peers; we have calculated the fair value based on a multiple of 7.5x (less than half of Autodesk's)





Conclusion

Often the best investment ideas are simple and boring. Avid is no different; we echo our reasons for buying Squarespace -- Avid is for professional media production as what Autodesk is to architecture; as what Squarespace is to websites; and, what Adobe is to graphic design. SaaS is a model which consistently generates a higher, more predictable royalty. And to boot -- every production, television show, movie or hit album release effectively pays a royalty to Avid. What we like most of all is Avid's dominance in an area which continues to attract large sums of investment. This, we think, is a potentially winning formula for investors, including the Elevation Capital Global Shares Fund which has an investment in Avid for its investors.



Any data not referenced was sourced from Avid Technology Annual Reports & Earnings Conference Calls. This summary report was written in October 2021.

DISCLAIMER

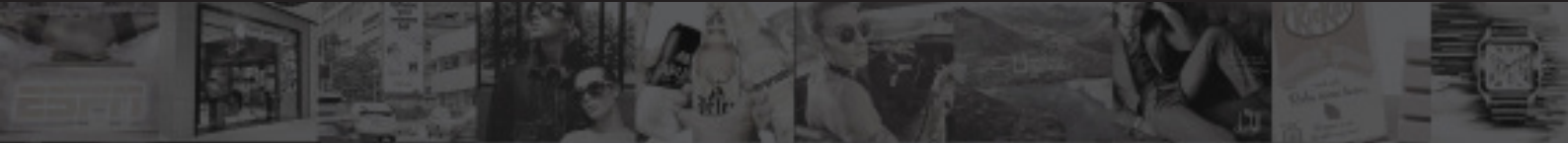
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ELEVATION CAPITAL
GLOBAL SHARES FUND



Independent Thinking - Disciplined Investing

[In-de-pend-ent Think-ing] ind ə'pendənt THiNkiNG verb

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] disciplinəd inves'ting verb

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.



MORNINGSTAR INTERNATIONAL
EQUITIES CATEGORY FUND MANAGER OF
THE YEAR 2017, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL
EQUITY SECTOR FUND MANAGER OF THE
YEAR 2013, NEW ZEALAND



NOMINEE - MORNINGSTAR INTERNATIONAL
EQUITIES CATEGORY FUND MANAGER OF
THE YEAR 2012, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL
EQUITY SECTOR FUND MANAGER OF THE
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