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ZOO Digital

Technology

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Rebuilt for a market that now pays for speed

ZOO Digital localises film and television content for global distribution, providing subtitling, dubbing and media services to Hollywood studios and leading streaming platforms. FY26 revenue fell 14.6% to $42.3m, but adjusted EBITDA rose 260% to $4.0m and cash generation turned positive. The decline was concentrated in lower-margin dubbing, while the mix shifted towards higher-margin media services and faster-turnaround formats. Management expects revenue growth to resume and profit to improve further in FY27, with Q1 trading described as encouraging.

Demand shifts towards faster turnaround

Management attributes the FY26 revenue decline to changes in market demand rather than a loss of market position. Streaming economics have normalised, while platforms are increasingly targeting international audiences for subscriber growth. Live sport, episodic programming and video podcasts require simultaneous global release, with turnaround times measured in hours. Management also sees vendor programmes consolidating around a smaller number of end-to-end suppliers able to deliver at this speed. Formats that were not part of the mix before 2023 now account for c 10% of revenue.

Mix shift supports margin recovery

Localisation revenue fell 19.9% to $24.2m, with dubbing down $7.3m against an FY25 comparative that benefited from post-strike backlog work. Subtitling grew $1.3m, supported by Fast Track services, which delivers subtitling within three hours and dubbing within 24 hours, compared with industry norms of one to two weeks and four to five weeks, respectively. Follow-the-sun operations across 12 territories and AI-enabled workflows support these turnaround times. Group gross margin increased 5.2pp to 41.6%, while the largest customer's share of revenue fell from 61% to 44%.

Recovery potential not priced in

Consensus implies revenue stabilising in FY27, with EBITDA remaining broadly unchanged at $4.1m and net cash increasing to $2.1m. At c 2.5x forward EV/EBITDA versus a peer mean of 5.1x and below ZOO's two-year average, the shares appear to price in continued earnings decline rather than earnings stabilisation and potential recovery. We believe this discount is too wide given the improving revenue mix, margin recovery and positive cash generation. Tender activity is at its highest level since before the 2023 Hollywood strikes, with the September 2026 AGM statement the next opportunity to assess whether this is converting into revenue.

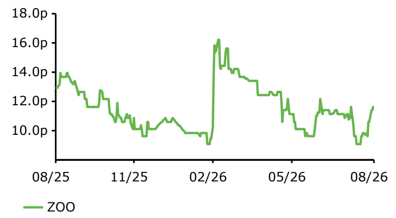
Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	EV/EBITDA (x)
3/25	49.6	1.1	(8.3)	(8.10)	9.4
3/26	43.3	4.0	(3.8)	(3.80)	2.6
3/27e	43.5	4.1	(0.5)	(0.50)	2.6

Source: ZOO Digital, Bloomberg Intelligence

Price	**11.75p**
Market cap	**£12m**

Share price performance



Share details

Code	ZOO
Listing	AIM
Shares in issue	98.3m
Net cash/(debt)	£1.1m

Business description

ZOO Digital is a provider of cloud-based localisation and media services, using proprietary software and a global freelancer network to prepare entertainment content for international distribution by studios and streaming platforms.

Bull points

- Repositioned around fast-turnaround work, the fastest-growing part of a market returning to growth.
- Vendor consolidation favours end-to-end suppliers with global scale and proprietary technology.
- Trades at a forward EV/EBITDA discount to peers, wider than its two-year average.

Bear points

- Revenue growth still to be evidenced, with dubbing demand yet to recover.
- Thin liquidity: $3.6m gross cash against $1.4m of drawn invoice financing.
- Consensus rests on a single contributor, so forecast risk around FY27 is high.

Analysts

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