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ASX announcement

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Audinate Trading Update

Audinate Group Limited (ASX:AD8), developer of the professional AV-industry leading Dante® media networking solutions, provides the following trading update.

Record quarter for the business

Audinate generated unaudited revenue of US\$7.6 million for the quarter ended 30 September 2021 (Q1FY22), which is up 46.1% from Q1FY21 (US\$5.2 million). Q1FY22 was a record quarter for the business during a period when factory closures in both Malaysia and China limited further revenue growth. In Australian dollars revenue was \$10.3 million, up 42.5% from Q1FY21.

Strong underlying growth in demand

Demand for Dante products continues to reach record highs with the backlog of orders for chips, cards & modules amounting to US\$14.8 million at the end of the quarter. This growth from pre-COVID backlog levels of around US\$2.5 million reflects original equipment manufacturer (OEM) customers placing orders further into the future and strong underlying growth in demand.

Component shortage expected to impact second half

Electronics manufacturers in most markets are experiencing disruption caused by the global shortage of chips. An important supplier has informed Audinate of an unexpected and sudden reduction in the supply of a silicon chip used primarily in the Brooklyn II, Broadway and Dante video products. This component is also purchased directly from the supplier by OEM customers for use in high channel count reference designs and some IP Core implementations.

The US supplier is one of the Top 30 global semi-conductor manufacturers and a leading supplier to the AV industry. The part in question is reliant upon the supply of silicon chips from a leading Korean semi-conductor foundry. Both companies have been impacted by surging demand for silicon chips.

With immediate effect the supplier can no longer guarantee delivery of open orders for Audinate or other customers using the affected part. In the case of Audinate this relates to orders dating back to January of this year. Going forward, parts will be supplied using an allocation system with supply remaining constrained for the foreseeable future. At this stage, the published end of life of the silicon chip remains 2027.

Response to component shortage

Audinate is accelerating plans to release the next generation Brooklyn product by Q4 FY22, bringing forward engineering work already planned for the next twelve months. The next generation Brooklyn will be a pin compatible, drop-in replacement for the current Brooklyn II and we expect most OEMs to be able to incorporate it in their products with little or no re-design. It will use a next generation chip from the same supplier that is not dependent on the capacity constrained chip foundry.

The Company is focusing its resources on accelerating product transitions to platforms with improved supply outlook and alternate part availability. In the interim Audinate will use an allocation process to supply existing inventory for Brooklyn and Broadway orders during the remainder of the second quarter.

Summary table of product impacts

This component shortage constrains our ability to supply products that have historically delivered approximately 43% of Audinate’s revenue (FY21). At this stage, we expect the main impact to be felt in 2H22, based on the actions outlined above. The table below summarises the impacts by Dante product.

<u>Chips, cards & modules</u>	
Brooklyn	Impacted - next generation product to be accelerated for 4Q FY22
AVIO adaptors	Not directly impacted
Ultimo	Not directly impacted
Broadway	Impacted - alternatives are a work in progress
Dante Video	Impacted - alternatives are a work in progress
<u>Software products</u>	
Dante Virtual Sound Card & Dante Via	Not directly impacted
HC Reference Designs	Customers impacted - various existing alternatives - OEM engineering work required
Dante IP Core	Some customers impacted - able to transition to alternate chips with OEM engineering work
Dante Embedded Platform	Not directly impacted
Dante Domain Manager	Not directly impacted

Financial impact

Constrained chip supply is currently expected to affect the second half of FY22 when existing chip inventory will be exhausted, curtailing revenue until the release of the next generation Brooklyn product and / or until OEM customers have completed the engineering work to transition to alternate Dante products. The global shortage of chips is expected to linger through CY22, and OEMs may also experience difficulty obtaining other non-Dante parts, impacting their ability to manufacture products.

The ultimate impact on FY22 revenue is dependent upon several variables, including:

- Easing of chip supply constraints bolstering current inventory levels
- Ability of Audinate engineering team to accelerate work to release the next generation Brooklyn
- Capacity of Audinate’s contract manufacturer to meet expected Q4 demand when chips are available
- Time necessary for OEMs to make the necessary product changes to incorporate alternative Dante products
- The flow-on impacts of demand for other Dante products given current supply constraints across the AV industry
- A better understanding of specific customer impacts as more detailed information becomes available

In light of these developments the company still expects to deliver FY22 USD revenue growth, however not in the pre-COVID historical range. The company will continue to provide regular updates given the dynamic nature of the environment.

Audinate Co-founder and CEO Aidan Williams commented:

“Whilst it is disappointing when unexpected events emerge, I have been pleased with the way in which the team has galvanised into action and been able to accelerate some of the plans we already had in the technology roadmap. While there will be an additional element of uncertainty heading into the second half of FY22, I remain confident that we will be able to overcome another COVID related speed bump. Underlying demand is at record levels and we will do our best to satisfy as much of it as we possibly can over the remainder of the financial year.”

Authorisation: This announcement was authorised by the Board of Audinate Group Limited

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For more information on Audinate, please visit:

Investor Centre – investor.audinate.com Website – www.audinate.com

Forward-Looking Statements

This ASX release includes certain forward-looking statements that are based on information and assumptions known to date and are subject to various risks and uncertainties. Actual results, performance or achievements could be significantly different from those expressed in, or implied by, these forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Audinate. These factors may cause actual results to differ materially from those expressed in the statements contained in this announcement.

About Audinate Group Limited

Audinate Group Ltd (ASX:AD8) was founded with a vision to pioneering the future of AV. Audinate’s award winning Dante audio over IP networking solution is the worldwide leader and used extensively in the professional live sound, commercial installation, broadcast, public address, and recording industries. Dante replaces traditional analogue audio cables by transmitting perfectly synchronized audio signals across large distances, to multiple locations at once, using nothing more than an Ethernet cable. Audinate is headquartered in Australia and has regional offices in the United States, United Kingdom and Hong Kong. Dante technology powers products available from hundreds of leading audio partners around the world. The company’s ordinary shares are traded on the Australian Securities Exchange (ASX) under the ticker code AD8.