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Overview

Measuring the metrics that matter

Established 1984

Our Businesses
• Vicon
• Yotta

In the summer of 2016 after the appointment of the new Chairman and following the disposal of our defence business, 2d3, in the previous year, we felt the time was right to conduct a detailed strategic review and adopt a five-year plan for investment and growth.

Oxford Metrics was founded in 1984 to develop commercial applications for then newly available digital imaging technologies. Over the following 30 years, the Group has created Vicon, a world leader in motion measurement and analysis, and built other businesses linked to digital imaging such as the recently sold 2d3. We established Yotta which grew out of the use of digital imaging in asset surveying and now provides software for infrastructure asset management.

Today, we have two clearly defined and well-focused businesses - Vicon and Yotta. They share a common history in imaging and both companies now provide analytical software solutions to an enviable list of international clients spread over 70 countries across a broad range of industry verticals. Through proprietary algorithms and elegant visualisation, both companies help their clients measure, analyse and optimise the metrics that matter most to them.

Although the two companies share this focus on analytics, they have developed with different economics, address different markets, and have different customers and competitors. This means they offer different growth opportunities and also face different challenges. Our investment strategy therefore reflects the specific needs of each operation.

At an early stage of the review we concluded we should implement two immediate actions. As has been reported, we discontinued operations at OMG Life which licensed consumer facing technology in the B2C (Business to Consumer) market. And secondly, we spun out some nascent image-recognition technology into a new start-up, Pimloc, in which we have taken a 27% holding.
Amplify the Core

Strategic Review

Making our two businesses stronger

- Vicon - strengthen and protect a proven, profitable market leader
- Yotta - expand geographically and develop cloud-based software products

In conducting the review, we looked at all the assets remaining in our Group at the end of the financial year and assessed their potential for growth. We sought input from a wide range of stakeholders including customers, industry analysts, shareholders and our own employees. We examined the dynamics of the markets in which the companies operate and we explored the opportunities open to them. This review made clear that we own some valuable assets in both Vicon and Yotta in which we can invest to create further organic growth.

Our path ahead is clear - we must drive growth by amplifying our core strengths and capabilities across our core products, our core markets, our core customers and our people. In this way, we aim to achieve two challenging but realistic objectives: by 2021, we aim to double Group profit and to triple those revenues which are recurring, predictable and ideally contracted. But we do not plan to take risks in new areas. We want to amplify our core strengths and make our two existing businesses stronger and better.

Through targeted investments in Yotta and Vicon, we aim to accelerate our growth. In broad terms, the investment we plan to make in Vicon will be designed to further strengthen and protect the position of this proven, profitable global market leader. In Yotta, the objective is to expand geographically through the building of new international sales channels and further develop our cloud-based software products, both of which should drive significant growth in Yotta's revenues and profit over time.
03  Yotta

Yotta grew out of using our image analysis technology to map roads and other assets owned by local government. Yotta’s origins are as a surveying business but this led us into the development of software to maintain, visualise and analyse the surveyed information to greatly improve the management of these assets.
Yotta is mostly a Business to Government (”B2G”) business and our clients include central and local government agencies and other infrastructure owners who wish to optimise the management of assets. The majority of our software is now provided on a cloud-based Software as a Service (”SaaS”) model, so the business benefits from significant levels of recurring and predictable revenues.

Today, this young growing business, offers a range of 10 software products with over 150 customers in the UK, Netherlands, Germany and Australia. This strong software foundation fuels a growing professional services practice, delivering both strategic asset management advice and software implementation services.

This practice is strategically important to Yotta as whilst infrastructure asset management requires data analysis and systems; successful implementation requires a far wider context to be considered, including policies, strategies, processes and organisational structure.

Our investment plans for Yotta are two-fold. First, we aim to expand the business internationally as the market for infrastructure asset management software is clearly global and the UK is a very credible source of case studies of satisfied clients.

Secondly, we hope to broaden the capability of our software, so we can solve more problems for customers in more integrated ways.
3.1 Yotta

Yotta’s software is designed to be flexible to meet the specific needs of each geographical market. The UK continues to be Yotta’s strongest market and will remain a major focus area for growth. The UK plays a leadership role in the global asset management field and there is no better place to generate innovation-led growth for Yotta. The early successes Yotta has enjoyed in Germany, the Netherlands and Australia have demonstrated that there is international appetite for Yotta’s products and approach. We will actively invest in growing in those territories, and other regions, through direct and indirect channels. This will involve the hiring of sales staff, so there will naturally be some lag before they can generate revenue.

All countries hold infrastructure assets. These are relied upon every day and form the very fabric of civilised society. Very often these assets are some of the most valuable and important assets a country holds, so their efficient and effective management are central concerns for their governments. That said, every country presents a unique asset management challenge. Countries have differing assemblages of asset types, they have differing densities of population depending on those assets, they have differing conditions of those assets and they certainly have differing budgets available to maintain those assets. However, they all share a common goal – the need to efficiently manage those assets, which is where Yotta can help.

Yotta’s software is designed to be flexible to meet the specific needs of each geographical market. For example, the tools can be readily translated to support multiple local languages. This is true for Horizons and will be even truer for new products.

We will look to prioritise the order in which we enter each geographical market, based on a wide variety of factors. But in each instance our aim is to partner with local, experienced professionals who can bring market access. When combined with Yotta’s unique software proposition this will provide clear market differentiation. This local distributor approach to some markets means Yotta can reach a relatively large number of geographies cost effectively.
The Internet of Things (“IoT”) is changing the very essence of data collection and it brings great opportunity to help our clients make better, faster decisions.

Yotta developed its software service Horizons to turn commoditised data into something elegant, usable and powerful. It created a value-adding tool, which not only delivered real benefit to its users, but also established Yotta as an innovator in its market. Our investment plan is simple – to hire additional in-house software developers to bring this approach to all aspects of asset management, for all asset types, in many more markets.

Yotta will change to reflect the demands of our clients who are looking for services which are cloud-based and constantly updated, which capture all the benefits of the mobile internet and provide more data driven insights.

The availability of data is also changing. Where clients would have once relied upon periodic inspections or surveys, they now have the chance to use sensors and smart-devices to monitor the state of their asset base. The Internet of Things (“IoT”) is changing the very essence of data collection and it brings great opportunity to help our clients make better, faster decisions.

IoT will be at the heart of many aspects of asset management. It will provide the asset owner with information more frequently and provide real-time interaction where appropriate. Yotta provides the repositories for that information and tools to allow the user to make optimised decisions about that asset.

When Yotta took the decision to create Horizons, it did so to embrace the richness of the data that was collected by survey vehicles. Previously, that data was mostly discarded - there was just too much of it. Horizons changed that. It enabled the richness to be used to make better decisions and provided visualisations that made the data intelligible by all. Yotta’s customers, be they in the UK or anywhere else in the world, need to deliver outcomes that are common across geographies. It is truly a global opportunity.
04  Vicon

Founded in 1984, Vicon is the world leader in the niche market of high precision movement analysis. We estimate Vicon supplies about 50% of the addressable world market, supplying motion measurement software and hardware to a wide range of end users.
Vicon is mainly a global Business-to-Business ("B2B") company with revenues derived from three vertical markets: Life Sciences (50% of revenues in year to 30 September 2016), Engineering (22%) and Entertainment (28%). It has always been a globally focussed business with customers now in over 70 countries with the following geographical split in revenues in the year to 30 September 2016: Americas (53%), UK (7%), non-UK Europe (15%), Asia Pacific (20%) and elsewhere (5%).

Key facts

- Extremely accurate measurement systems
- Customers in over 70 countries

Vicon makes a range of highly sophisticated and extremely accurate motion capture software tools supported by some proprietary measurement sensors and specialist cameras. Our systems are generally purchased as capital goods from our own direct salesforce in the UK and USA or via agents elsewhere. Sales to our current markets tend to be skewed towards the end of our financial year reflecting the traditional buying patterns of our customers.

Because our customers are buying one system or a few systems at a time, either as a new investment or as a replacement, our order book and sales cycle are "lumpy". We can be affected by some specific vertical market factors, for example; by changing government policies on university funding and "hit and miss" cycles in entertainment.
04 Vicon

Vicon has a successful track record in driving growth through new markets and product development. There is a wide and growing range of applications for our motion capture tools. In medical applications, therapists model the movements of people who have disabilities and or have suffered injuries to help them improve their mobility (gait analysis). Sports coaches use the systems to assess and improve the performance of athletes. Researchers use our systems to better understand the biomechanics of animal movement, including horses and even kangaroos. Aero engineers use the systems to design and manufacture the latest commercial aircraft and quadcopter drones. And in the most high profile application, content production companies use them to capture the motion of human actors to drive the movement of characters in films, television shows, theatre and video games (motion capture animation).

The business has a successful track record in driving growth through the addition of adjacent marketplaces. To achieve success in these new markets, sometimes product development is required to customise the existing products, and sometimes an investment in market development is required. And sometimes it requires both.

We have two specific targeted investment projects, both of which will require modest cash in 2017. The exact objectives are commercially sensitive but the broad thrust is to improve our existing offer and to grow market share in new vertical markets. We have also identified several specific more ambitious growth projects in Vicon but the formal decision to implement these will not take place until we have completed additional research.
Financial Impact

Long term growth

Our plans are expected to result in significant revenue growth

While we understand the importance of short term profitability in order to maintain a robust Balance Sheet and to deliver dividend returns to investors, we also believe that long term growth requires investment and, sometimes, our long term growth opportunity may require us to invest ahead of the curve. The year to September 2016 was a good cash generative year and combined with receipts from asset disposals post year-end leaves us with deployable cash resources. So, although our new investment will impact our profitability in the financial year to 30 September 2017, we are not adding any financial risk to the Group and we can fund all our strategic objectives from our own resources.

Our organic growth plans are expected to result in significant revenue growth from Yotta from 2018 onward and some growth from Vicon over the full five year period.

The goals in the plan will be closely aligned with the long-term incentives for individual managers – much of which will be paid in shares.

We also believe there are possible acquisition opportunities for both Vicon and Yotta which might bring us additional products, technologies and markets. Whilst this is under consideration, it is a secondary priority to our organic growth and we have no immediate plans to move forward on these.

From a P&L perspective, the investments to be made to implement our Strategy are expected to affect our trading performance as follows:

• Underlying trading performance in Vicon, given expected revenue growth and the accounting treatment of R&D, is expected to be unaffected in FY17.
• Yotta will be investing an additional £1.9m in FY17. Given expected revenue growth and the accounting treatment of R&D a modest level of Adjusted PBT* is expected to be reported in FY17. In FY18, we expect accelerating revenues will at least restore Adjusted PBT* to pre-investment levels. Thereafter, the full benefit of the strategic investment will be realised.

In this way, our five-year plan will see the Group accelerate the returns from our markets. By acting now with these targeted investments, we aim to establish or maintain dominant market positions and bring forward higher levels of profits than we would have seen without these actions.

We want to make our two existing businesses stronger and better, and in the case of Yotta, much larger in scale. The time for this acceleration is now. We have the opportunity and the resources to amplify the already demonstrable qualities of each business. Both Yotta and Vicon have progressed far but now we embark on a new strategy - a strategy we expect will result in both growth and improved quality of earnings.

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