



Moving iMage Technologies
First Quarter Fiscal 2023 Earnings Call
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CORPORATE PARTICIPANTS

Brian Siegel, *Hayden IR*

Phil Rafnson, *Chairman and Chief Executive Officer*

Joe Delgado, *Co-Founder and Executive Vice President, Sales & Marketing*

Mike Sherman, *Chief Financial Officer*

PRESENTATION

Operator

Greetings, and welcome to the Moving iMage Technologies First Quarter Fiscal 2023 Earnings Call.

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Brian Siegel, with Hayden IR. Thank you. You may begin.

Brian Siegel

Good morning, and welcome to the Moving iMage Technologies First Quarter Fiscal 2023 Earnings Conference Call and Webcast. With me today is Chairman and CEO, Phil Rafnson; Co-Founder and Executive VP of Sales and Marketing, Joe Delgado; and CFO, Mike Sherman.

For those of you that have not seen today's release, it is available on the Investors section of our website.

Before beginning, I would like to remind everyone that, except for historical information, the matters discussed in this presentation are forward-looking statements and involve several risks and uncertainties. Words like believe, expect and anticipate mean that these are our best estimates as of this writing, but that there can be no assurances that expected or anticipated results or events will actually take place. So our actual future results could differ significantly from those statements. Further information on the Company's risk factors is contained in the Company's quarterly and annual reports filed with the U.S. SEC.

Now I'd like to turn the call over to Phil.

Phil, take it away.

Phil Rafnson

Thank you, Brian, and thank you all for joining us today.

I'm Phil Rafnson, CEO of Moving iMage Technologies, or MiT for short. Like last quarter, today I'm going to spend my part providing an update on overall industry trends that we believe will drive the tremendous growth opportunity for MiT over the next few years, and then Joe will provide an overview of MiT's business and growth strategy. He will then turn the call over to our CFO, Mike Sherman, to discuss today's results, followed by Q&A.

MiT serves commercial cinema owners, stadiums, arenas and other live event venues and eSports. Today, most of our business is serving cinema owners and operators. In North America, there are approximately 40,000 screens, 18,000 of which are outside the top five circuits. While we work with majors, most of our business is with small to medium-sized operators. As you probably know, this industry has been hit hard by COVID during 2020 and the first half of 2021, with box office receipts declining from over \$11 billion in 2019 to \$2.1 billion in 2020. In the second half of 2021, the industry began to recover, and that trend has continued into 2022, with many blockbusters having already been released and the year will likely finish strong with *Black Panther*, *Black Adam* and *Avatar: The Way of Water*.

Momentum should continue into 2023 with an already exciting slate of releases expected, setting the backdrop for an even stronger year. As I discussed on past calls, there are additional tailwinds that we expect to benefit both the cinema and live venue industry. The first is related to government grants. As part of The CARES Act, non-publicly traded live event operators were able to access over \$16 billion of grants through the SBA. This program, called the Shuttered Venue Operations Grant, or SVOG, to date has provided almost \$14.6 billion in grants, with over \$2.5 billion going to cinema operators. This money is flowing, and this spending is kicking off a multiyear growth cycle.

Next, we are in the early stages of a technology upgrade cycle, especially for laser projectors and servers. During the last upgrade cycle, we participated in approximately 17,000 cinema screens over nearly five years. So we believe there is a long runway ahead, and our first quarter saw some solid activity in this area.

Finally, theater operators use their funds for operations and to proactively refurbish, upgrade and build new modern theaters to significantly enhance overall movie going experience. This includes adding amenities such as in-house bars and lounges, breweries, restaurants and in-cinema dining, among others. In fact, dine-in cinemas are among the fastest-growing parts of the industry, and we are very well positioned with these circuits.

How does MiT fit in? We are a technology and hardware designer and manufacturer, an integrator and distributor of third-party technologies and a project manager. We have strong, long-standing relationships with suppliers, key technology providers and customers, as well as architects and technical personnel, which help design in our products. Over 70% of our revenue comes from small to midsized cinema operators, which tend to be expanding more quickly than the big three with whom we also work. From a prestige perspective, we have also installed over 40 in-home screening rooms for industry VIPs, which include senior industry executives, producers and directors.

In conclusion, I'd like to thank our dedicated employees. Without them, we would not be in what I believe is the strongest position we've ever been in as a company from an operational, financial, product and competitive perspective.

For our existing and future Shareholders, I feel your pain as the Company's largest Shareholder. The business and our stock are heading in the right direction, and we are working hard to bring new Investors to the table. When our blackout period is over, we expect to employ the prior authorized buyback. I'm excited about our strong growth perspective over the next several years as we strive to turn MiT into a \$50 million-plus Company.

Now I'll turn the call over to Joe.

Joe.

Joe Delgado

Thank you, Phil, and good morning, everyone.

I'll start with a review of our four pillar growth strategy. The first pillar is driving revenue growth and margin expansion by shifting our product mix towards our higher-margin proprietary products. Our proprietary products fall into two categories. First is our proprietary manufactured goods, which we do right here in Fountain Valley, California. Today, we have over 50 proprietary manufactured products that tend to help increase project margins and overall margins when sold a la carte. These include our Caddy and newly acquired USL product line, which rounds out our accessibility strategy and was a nice contributor to our first quarter results.

Second are the products we feel have disruptive potential. These products are more technology focused and bring higher margins and recurring revenue streams. For example, we have a bundled solution for venue management called CineQC. CineQC is a recurring revenue SaaS platform, hardware, service solution for quality assurance, theater operations, staff management, inventory control, back office analytics, and remote access and control over all auditorium systems. We believe there's nothing like it available in the industry, and the signing of National Amusements as a customer was a strong validation of that solution. We hope to have more to announce in Fiscal 2023.

Next, we have Mi Translator, which will provide a high-end product for our accessibility strategy. The Mi Translator is a multi-language translation device with a recurring revenue service attached. This disruptive offering brings multi-language in-theater captioning capabilities, including American Sign Language through augmented reality glasses. The market in North America alone is tremendous, with over 70 million non-English proficient speakers that may not have previously attended our movies, or for those who did that can now have a significantly enhanced movie going experience.

It received outstanding reviews when we showcased at CinemaCon (phon) in April in regional trade shows and is a key part of our long-term growth strategy. There are high levels of interest, and we expect to have this product in the market during the second half of the fiscal year.

The second pillar of our growth strategy is moving beyond cinema. The first opportunity involves Caddy, which is the market leader in cinema. However, we feel the real opportunity here is in stadiums and arenas, where it has seen an 80% share in such markets as the NFL, MLB, NBA and NHL. The current product line falls into our proprietary manufactured products and has a much higher margin than Company average margins. However, we have not seen as quick a recovery in new stadium and arena builds or upgrades since the pandemic, which makes sense given the multibillion dollar price tags. As this market begins to thaw, we are starting to see happen in cinema, we expect our strong position will drive growth in this part of our business.

I'm very excited about the next opportunity, eSports, where initial interest has been extremely high, and we are just now receiving our first orders. We expect to see this offering begin contributing to the revenue during the second half of our fiscal year. In eSports, we have a partnership with Sandbox, which is developing amateur eSports and gaming leagues throughout the country, and are in the process of signing theater operators to host these leagues with their excess theater capacity. It is a win-win situation where the theater owner utilizes its excess capacity and gets concession revenue while Sandbox can offer a differentiating gaming experience.

We will serve as the exclusive technology provider for Sandbox and have developed a mobile offering that includes a system made of eight mobile cards: one master card or production card, and seven gaming cards for the players. The master card or production card integrates the seven other cards being used by the players and displays the competition on the big cinema screen. Each theater will require at least one of these eight card systems. So the potential is there for initial sales and then refresh sales over time as new consoles and technologies advance.

While the core Caddy products have yet to recover, we see greater opportunity to leverage our Caddy product lines strong position in sports stadiums and arenas as a touch point for fan interaction. In development, we have a potentially disruptive new digital product in service that we hope to be trialing by the end of Fiscal 2023. Another longer-term opportunity would also leverage Caddy's strong relationship with stadium and arena owners and operators. Similar to cinema, there is no software product similar to CineQC, and we see an opportunity to adapt this platform to stadiums and arenas.

Our third pillar looks to markets beyond North America. We had established relationships overseas before the pandemic, and we are now able to reconnect. For a number of reasons, we believe we can accelerate moving beyond North America from our original 18- to 24-month time frame. Besides the National Amusements signing, which currently involves only the North American locations, we see the opportunity to introduce CineQC and Mi Translator internationally. Sandbox, the eSports partner, also garnered a lot of interest outside North America, and we see this as another route to growing our international presence.

The fourth part of our strategy, which supports the three first pillars, is accretive M&A. There are three main areas on which we will focus. The first is consolidating industry technology and equipment providers, broadening our offerings. The acquisition of the USL product line was an excellent example of this strategy. The second is acquiring strategic products and services with recurring revenue streams. This will likely focus on our SaaS or other subscription type offerings to enhance our portfolio and provide higher value to our customers. Finally, we will look at companies that could enhance and add to our customer relationships.

In conclusion, we are still in the very early innings of our growth strategy. We have numerous secular tailwinds at our backs that are just beginning to turn into higher revenue levels. We also have several potentially disruptive technologies in development that will bring recurring revenues while driving higher margins over time.

With that, I thank you, and I'll turn it over to Mike.

Mike, take it away.

Mike Sherman

Thanks, Joe.

Good morning, and thank you, everyone, for attending our earnings call.

Like last quarter, I'm going to spend a little time reviewing our model, and then I'll take you through the quarter, followed by a Q&A session.

Currently, projects are the key driver for our business, making up roughly two-third of revenue. For projects, we basically serve as a project manager, procuring and reselling FF&E services for refurbishing, upgrading and building new theaters. Since much of these are pass-through costs, margins are in the mid-teens.

We have several routes to improve project margins, as demonstrated by our first quarter results. First, we provide installation services, which tend to have margins in the mid-20s. Second, we resell technology products, which tend to have margins in the high teens, low 20s. Finally, we sell our high-margin proprietary manufactured offerings, which include our Caddy products and the USL product line, the latter of which contributed to this quarter's strength. Our proprietary manufactured products have margins ranging from 35% to 55%.

As we continue to increase the number of proprietary manufactured products, we expect the margin shift more favorably impact gross margin. Over the near term, we expect our proprietary manufactured products and the high-margin resale of technology products will drive this margin expansion. For example, in Q1, in addition to USL, we also saw strength due to the technological upgrade cycle for servers and screens. Over time, as our CineQC SaaS platform becomes a larger contributor, we release our Mi Translator, and as other products in development come to market, we expect this to shift more significantly away from FF&E.

Now I'll move on to the results. First quarter revenue increased 69% to \$5.9 million. As we previously mentioned, in addition to project work, we saw strong demand related to technological upgrade cycle and our USL products. Gross profit also increased 116% to \$1.6 million from \$0.7 million last year. Gross margin was up 580 basis points to 26.6%.

Operating expenses were \$1.5 million versus \$1.3 million last year. The increase was driven mainly by a return to normal sales and marketing activities and higher public company expenses. Operating income was \$50,000 versus a negative \$0.5 million last year. We lost about \$100,000 in the quarter, which came out roughly \$0.01 versus a net loss of \$0.5 million and a net loss per share of \$0.06 last year.

Moving to the balance sheet, our cash, cash equivalents and marketable securities were \$6.8 million, down about \$200,000. Remember that we added a couple of quarters' worth of technology inventory ahead of price increases towards the end of Fiscal '22.

Looking to Fiscal 2023, despite a strong start to the year, given that our emerging products are either new to the market, or about to be introduced, we are going to wait until after the second quarter to adjust our guidance of \$22 million to \$23.5 million or revenue growth of 20% to 28% and an EPS of \$0.04 and \$0.08.

I want to now provide a little more color on our financial model. For 2023, we are modeling strong gross margin expansion into the mid- to high 20s, mainly due to a mix shift towards higher-margin proprietary products such as the acquired USL product line, improved performance from Caddy later in the year, sales of our eSports product, and a small contribution from CineQC. We also have good operating leverage in the model with operating expenses, which tend to be mostly fixed, expected to be about \$5.6 million for Fiscal 2023.

Finally, we don't expect to be a taxpayer in Fiscal 2023, and we are modeling 10.9 million shares.

I'd like to thank everyone for attending today's call, and I look forward to speaking with you again on our next call.

Brian, are there any questions?

Brian Siegel

No, no questions. Operator, you can close the call.

Operator

Thank you. Ladies and gentlemen, this concludes our Q&A session and our call today. We thank you for your interest and participation.