Moving iMage Technologies, Inc., Q1 2024 Earnings Call, Nov 14, 2023
11/14/23
Operator
Greetings, and welcome to the Moving iMage Technologies First Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brian Siegel, Senior Managing Director. Thank you, sir. You may begin.
Brian Siegel
Thank you, operator. Good morning, and welcome to Moving iMage Technologies earnings conference call webcast. With me today is Chairman and CEO, Phil Rafnson, who will provide an industry overview, Co-Founder, Executive VP of Sales and Marketing, Joe Delgado, who will provide a strategy and business overview and our CFO, Bill Greene. 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 that involve several risks and uncertainties. Words like believe, expect, anticipate, mean that these are our best estimates as of this writing, but that there can be no assurances of expected or anticipated results or events will actually take place. Actual future results could differ materially from those statements. Further information on the company's risk factors is contained in the company's quarterly and annual reports filed with the SEC. Now I'd like to turn the call over to Phil. Take it away.
Philip Rafnson
Thank you, Brian, and thank you all for joining us today. I'm Phil Rafnson, CEO of Moving iMage Technologies, or MIT. As you look at MIT as an investment, industry and company-specific factors will contribute to our future performance. First, I'll address the cinema industry as it stands today. And then Joe will discuss why we are so excited about the future, where we are introducing potentially disruptive technologies into cinema, eSports, stadiums, arenas and other live entertainment venues.
Historically, our business has been cyclical driven by new technology and technology upgrade cycles. We are currently in the early days of one right now where newer technologies such as laser projectors with upgraded servers, new screens and smart sound systems are being purchased to replace older technologies. Additionally, we are seeing cinema owners build new theaters and upgrade and refurbish older ones.
These new theaters often include new amenities such as dine-in, bars and more, all with the idea of making going to the movies a destination experience. From an industry growth standpoint, as I've discussed previously on these calls, COVID took its toll on the industry. Over the past 2 years, we have returned to a more normalized environment with the box office originally expected to approach pre-pandemic levels this year. Unfortunately, the Hollywood strikes have negatively impacted the box office over the near term, but theater owners are pivoting to new movie content, whether it be sports, eSports or concerts to offset some of the lost revenue.
An example is AMC partnering with Taylor Swift to show her concerts in the theaters. While this alternative content helps, it doesn't fully make up for the lost box office and concessions

revenue during the holiday season for our customers. Additionally, now that the actor strike is over, we expect the studios to move ahead aggressively with marketing, releasing new movies. Before turning the call over to Joe, 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. Thank you, Joe.

Jose Delgado

Thank you, Phil, and good morning, everyone. I'll start by briefly reviewing our business and providing updates on each area. Today, Cinema is our core legacy business, which consists of FF&E projects and selling our proprietary U.S. manufactured goods and third-party technologies.

As Phil mentioned, this part of our business has historically been more cyclical and lumpy with project start dates often being pushed out. Additionally, FF&E projects tend to be at the low end of our gross margin profile, although there is strong operating leverage in this part of our business.

Today, FF&E remains the largest part of our business. However, given the lower margin profile, lumpiness and timing factors I just mentioned, a major part of our strategy going forward is to shift our mix towards higher-margin products as well as smooth out the lumpiness and cyclicality. For Cinema, this includes expanding our existing lineup of over 50 proprietary manufactured products, including our ADA compliance products and Caddy lines, the former of which was a contributor to our strong first quarter results.

By manufacturing these products, we can significantly increase our margins on FF&E projects and our overall company gross margin when sold a la carte. Additionally, our partnership with LEA professional for smart power amplifiers is another potential source of growth and margin expansion for both FF&E projects and a la carte sales.

After the end of the quarter, we announced our first two orders for these products, and we currently have several large circuits in test. We're confident in this relationship because each screen needs 5 to 6 power amplifiers on average, and LEA is so confident in its product quality, its warranty is 2x the industry standard. Between the quality at LEA and supply chain and quality issues at their competitors, which are also deemphasizing the cinema market, I feel optimistic about sales continuing to ramp in fiscal year '24.

So what's next for cinema? What truly excites me is that we are in the latter stages of going to market with a set of potentially disruptive, high-margin technology offerings that will also bring recurring services revenue. First, I'll discuss our MI translator. The MI translator is a multi-language technology solution with a reoccurring revenue stream that forms the high end of our accessibility strategy.

The market in North America alone is tremendous with over 70 million non-English proficient speakers who may not have previously attended the movies. With this product and service, those who did attend previously can now have a significantly enhanced moviegoing experience. This is a new product class for the industry and adoption has yet to occur.

That said, I believe there are now catalysts that play into adopting the MI translator solution. The North American Theater Owners organization, known as NATO, within the industry, established the Cinema Foundation and all industry nonprofit charge with promoting and expanding the industry and the overall moviegoing experience. Our own Frank Tees serves on its Board of Directors and one of the foundation's top marketing priorities is to expand outreach and bring more ADA and non-English proficient patrons to the movies.

These initiatives fall right into the wheelhouse of MI translator, and there was tremendous enthusiasm and interest in the product at CinemaCon and subsequent trade shows. We believe that this industry effort bodes well for the success of MI translator, and we will keep you appraised as things develop. CineQC, our SaaS-based quality control platform is another example. We've been working with National Amusements, a large international movie circuit on upgrading and improving this product. While we've made significant progress, there's still work to do, and we're evaluating options to get this to the finish line.

Unfortunately, the additional development has also delayed our plans to roll out the product more broadly. However, once complete, we will have a much more robust, tested and scalable offering to bring to other circuits. The next opportunity for us is to move beyond cinema. Here, we're targeting two areas: other live entertainment venues and eSports.

I believe eSports has the potential to be a significant incremental growth driver for us this year. In May, we did an investor presentation, which is available on our IR website with Rick Starr, Founder of our eSports partner, SNDBX. He laid out his vision for creating the little league of eSports by setting up local, amateur leagues in movie theaters hosted on the big screen.

Not only is this a very attractive activity for parents and kids, but for theater owners themselves. With a SNDBX league a theater can fill excess capacity of over 6,000 empty seats per year and get a return on his investment in as little as 8 months. That is compelling return in general, but especially to theater owners who are used to getting an ROI of 18 to 24 months.

Rick then went on to say he already had an active pipeline in North America of over 2,500 locations and another 500 internationally and our relationship with these same customers confirm these numbers. Right now, SNDBX is out doing a funding round which will enable him to start to ramp up locations more quickly. So please stay tuned.

Finally, the growth opportunity I'm most excited about is what we currently call eCaddy. We have infused our Caddy product line of cup holders with technology and will develop applications and services in for use in stadiums and arenas. We introduced the eCaddy concept to executives at 3 major league baseball stadiums over the past 3 months. We got great feedback on the type of applications that would excite them and identified other potential partners as well. This month we'll perform additional market research with a fourth stadium executive which will allow us to further solidify the picture for the apps and services that drive demand for this product.

The TAM here is huge with millions of existing seats becoming retrofit candidates. In addition to new stadium and arena builds, the potential here on its own is tremendous. But in combination with eSports, MI translator and CineQC they could reshape our business and financial models in the future. We'll keep you appraised as well as these hit milestones. As I mentioned on our previous call, we've accelerated our strategy to expand outside North America.

We had established relationships overseas before the pandemic and have been reconnecting over the past few quarters. The opportunities here encompass many products that we believe can smoothly transition to the international markets including our new in-development product lines. Additionally the cinema market in Europe is just starting to recover from the pandemic roughly 2 years after we did. So the timing for us to explore these opportunities couldn't be

better. Initially we see the opportunity for LEA smart power amplifiers and already we've received requests for quotes from cinemas in the U.K. and Germany.
We also see the opportunity for MI translator in CineQC to move to international markets in the years to come. And SNDBX already has a pipeline established outside North America. Finally, we have an active corporate development program that includes the business development deals we made with SNDBX and LEA, acquisitions such as the ADA product line and other ongoing activities. In conclusion, we're still in the early innings of our growth opportunity for our emerging technologies, while our legacy business continues to improve. With that, I thank you, and I'll turn it over to Brian. Brian?
Brian Siegel
Thanks, Joe, and thank you, everyone, for attending our earnings call. I'm going to spend a little time reviewing our model, and then I'll take you through the quarter, followed by Q&A.
To date, our legacy FF&E projects have been the key driver for our business, making up roughly 60% to 65% of revenue. As Joe and Phil mentioned, FF&E projects are more cyclical and can often see start dates pushed out as we saw in FY'23. We serve as a project manager procuring and reselling FF&E and services for refurbishing, upgrading and building new theaters. As a large part of these projects involve pass-through costs with a small margin added in, project margins are in the mid-teens.
We have several routes to improve these margins, including upselling installation services, scoping our proprietary manufactured products into the project for the retail of higher margin technology products, including projectors and servers, and more recently, sound system products through our relationship with LEA Professional.
Next, we sell our higher-margin proprietary manufactured offerings, a la carte, which have margins ranging from 35% to 55% and include our fabrication, Caddy and ADA compliance products. Additionally, since we are in the early days of a multiyear technology upgrade cycle, we received discrete orders for servers, projectors and LEA power amps, all of which have gross margins above the company average. In the near future as our emerging products like MI translator, CineQC and eCaddy hit the market and start to scale, we expect our mix to shift even more significantly away from FF&E. These products will likely have 50% plus gross margins.
Now moving to our first quarter results. We reported revenue of $6.6 million, up 13% versus last year. Gross profit increased 17% to $1.8 million. Gross margin was up 80 basis points to 27.4% in the quarter, resulting from the favorable product mix. GAAP operating expenses were $1.4 million, down 5% versus last year, mainly due to lower corporate governance costs. GAAP operating income was $0.4 million versus an operating loss of $0.1 million last year.
GAAP net income and EPS was $0.4 million and $0.04 per share versus a loss of $0.1 million and $0.01 per share last year. Non-GAAP net income and EPS were $0.4 million and $0.04 compared to net income of $0.1 million and $0.01 per share last year.
Moving to the balance sheet. Our cash and cash equivalents were $6.4 million at the end of the first quarter, down $200,000 from the fourth quarter, mainly reflecting changes in working capital. Now I'll provide an update on our fiscal year '24 outlook. The writers and actors strikes have impacted our customers by driving uncertainty into their budgeting process.
As a result, when providing our fiscal year '24 outlook last month on our Q4 23 earnings call, we built in some conservatism into our commentary by only focusing on our legacy business. As I said at the time, we expect to see low double-digit top line growth while paring losses and

approaching breakeven and our views this quarter remain the same. Note, this guidance took into account the impact of the actor strikes on our second quarter results, which when combined with traditional seasonal weakness, we expect to be materially down versus last year. But then we'll see a stronger second half.

Next, I provided upside opportunities that were excluded from our forecast. I will now update these items. There's an ADA product refresh at a top 5 cinema circuit that will begin in the second half of fiscal 2024. We recently held conversations with this circuit and feel we are well positioned to get this multimillion dollar order.

For eSports last quarter, I said that our guidance included flat sales of our movie sports systems through FY'23, which was roughly 15 to 20 systems. I apologize, but I misspoke. In FY'23, we only recognize revenue for 8 systems and received orders for 16 systems. Therefore, anything over 8 systems sold in fiscal year '24 will be upside to our guidance.

Additionally, once SNDBX closes its funding round, we expect them to quickly move to rollout leagues at the circuits that ordered the 8 systems that were not shipped in fiscal year '23 and then start to ramp additional locations. Next, as I discussed in our recent investor presentations, our incremental opportunity for selling LEA smart power amplifiers is very significant.

Still, we included $0 for sales of these products in our FY'24 guidance. So any orders, including the two orders we announced in the second quarter, would be upside. A total market of about $630 million in North America and about 5% to 10% annual attrition rates, the replacement market is $32 million to $63 million annually. So hypothetically speaking, capturing just 10% of this could add $3 million to $6 million in annual revenue, which is material considering we only reported $20 million in fiscal '23. And this doesn't even take into consideration new projects or international sales.

Moving to CineQC. We continue to work closely with national amusements to enhance the system. Once this happens, we expect they will start to roll out CineQC to their 500 international locations, which were not included in our guidance. We will also then start to market this product to other cinemas and build the pipeline.

And finally, any sales of the MI translator or any international sales would also be upside.

Regarding catalysts, you should be looking for announcements on the key initiatives mentioned during this call and the upside opportunities I mentioned just now. We plan to provide milestone updates for our emerging products and announce whatever orders we can through press releases and earnings calls this year.

Also of note, we put in place a 10b5-1 trading program for our share repurchase program. This went into effect on November 1 and allows us to be in the market every trading day regardless of whether we are in a blackout period. Overall, I continue to believe we've never been in a stronger position within cinema. We are excited that our new initiatives are moving forward. We prudently want to ensure that we have the right offerings and that they are ready for prime time before we start marketing more aggressively.

Just to let everybody know, Joe and I will be at the Sidoti MicroCap conference this week. So please tune into the webcast at 3:15 p.m. Eastern Time on Wednesday. The link is available on our website. If you are interested in any one-on-one meeting, please reach out to me or request 1 through the Sidoti portal. I want to thank everyone for attending today's call and look forward to speaking with you again on our next call in mid-February.

Operator

[Operator Instructions] Our first question comes from the line of Neil Fegans a private investor.
Unknown Attendee
First of all, it's great to see the nice performance of the core business, and you covered a lot of ground on the 4 or 5 early-stage new initiatives. And I wanted to see if I could just drill down a little bit more on a couple of them. For the benefit of me and I think others, could you review what our contractual relationship terms are with SNDBX in terms of what the 2 or 3 primary elements of that agreement are and what our equity ownership interest in them is right now based on their current capital structure?
Jose Delgado
With respect to SNDBX, the equity position I think Brian can probably share a little bit more about this in detail. But I think we assume something like 6% of equity and it depends on where we're going to land with respect to their first round of funding. And what we did aside from supplying the technology, we have that exclusive supplier agreement in place. And I believe that is a 3-year exclusive supplier agreement.
Unknown Attendee
And that's for the eCaddy. And is the revenue per -- to us, still around $43,000?
Jose Delgado
Yes.
Unknown Attendee
So yes, it's a multimillion-dollar exclusive supply agreement. There's technology sharing and ownership as part of that. And yes, generally, we're talking $40,000 to $50,000 per system. Okay. And are you all -- Phil and Joe, are you guys considering taking a piece of this current round. I believe you have a first right of refusal on all of their future financings, if I'm not mistaken.
Jose Delgado
Yes. You broke up at the beginning of that question. Neil, I'm sorry.
Unknown Attendee
I was asking if you're planning to participate in this next financing round?
Philip Rafnson
Yes. We're not going to comment on that. It's -- the round is still ongoing and it's just not something we're going to comment on at this point.
Unknown Attendee
Okay. Let me ask another quick one here. Is there any visibility on potentially landing any large sports arenas, either new builds or refresh. That really hasn't been part of the conversation since I became interested in the company. But is there any visibility probably more likely on some of the large stadiums refreshing and needing sizable dollar amounts of your Caddy product lines?
Jose Delgado
Yes. This is a brand new technology, nothing like this really exists.
Unknown Attendee
Yes. I'm not talking about eCaddy. I'm talking about just the Caddy line as it exists today, the legacy.
Jose Delgado

Yes, there is existing -- we're looking at existing pipeline now for sure. We work closely with the major seating companies Neil, like Hussey out of Maine and Irwin seating out of Michigan. So yes, there's new builds and remodels going on in arenas and stadiums now. However, that has lagged. I think we've mentioned in prior calls, that has definitely lagged behind like our core business, cinema, but it is now starting to pick up.

Unknown Attendee

Okay. And Joe, would you say the likelihood of landing one or more of those opportunities is likely in 2024? Or is there just not good enough visibility to go that -- to say that yet.

Jose Delgado

I think we've got a couple of really good candidates that should land this fiscal.

Unknown Attendee

Okay, okay. Well, that's great. And listen, one more quick one. How should we be thinking about eCaddy, the next generation of the Caddy product? Should we be thinking more likely revenue generation in 2025? Or are you thinking that it's still possible that we could start to have that product formalized, finalized and ready to go to market and generating sales late this year.

Jose Delgado

What I'll say about that, Neil, is the excitement level for us here at the company is tremendous because of the feedback that we've got. And I think we're going to be very, very judicious with respect to our approach to market. We're going to get our ducks in a row. And basically, it's all about voice of the customer, right? We're getting into a space that has never existed. So we want to make sure that we come into the market with a product and service that is both robust and flexible enough to meet the customers’ needs at the arena and stadium level, the operational level. And of course, from a revenue standpoint. It's got to bring value to both sides, right, us and the arena and stadium operators. I think we're well on our way to doing that.

Unknown Attendee

Okay. And...

Philip Rafnson

Just to build on that, I would probably be looking to fiscal 2024 as a development year. We're still talking to some stadiums this month. And from that, we'll be able to go out and start to develop the road map and the actual service that will be provided. So I probably wouldn't look to any business this year. And if there does come some business, that would be, again, another category of upside. But I would look at it as sometime next year and beyond.

Unknown Attendee

Okay. Well, listen, I'll yield the floor here. And I just would like to reiterate, great-looking core numbers. You guys are basically trading only $0.15, $0.20 above cash and you're profitable. So hopefully, an active IR program to get out and increased visibility. But thanks again, and I'll yield the floor.

Operator

Ladies and gentlemen, that does conclude our question-and-answer session. And with that, the conclusion of today's call. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

Philip Rafnson

Thanks, everybody.