Moving iMage Technologies, Inc., Q2 2023 Earnings Call, Feb 14, 2023
2/14/23
Operator
Greetings, and welcome to the Moving iMage Technologies Second Quarter Fiscal 2023 Earnings Results Conference Call.
[Operator Instructions]
As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Brian Siegel from Hayden IR. Thank you, Brian. You may begin.
Brian Siegel
Thank you, operator. Good morning, and welcome to the Moving iMage Technologies Second Quarter of 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 Interim 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 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 on 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?
Philip 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.
We will then turn the call over to Brian to review our financials and outlook, followed by question-and-answer. MiT serves commercial cinema owners, stadiums, arenas, live event venues and eSports. Today, most of our business is serving cinema operators and owners. In North America, there are approximately 40,000 screens, 18,000 of which are outside the top 5 circuits. So while we work with the studios, most of our business is with small to medium-sized operators. As you look at MiT as an investment, both industry and company-specific factors will contribute to our future performance.
First, I'll address the industry tailwinds, and then Joe will discuss our company-specific reasons to invest in MiT. The industry tailwinds provide for underlying optimism in our ability to grow the company, includes the domestic box office improvement, technology, and venue upgrade cycles, new theater builds, and the addition of amenities to the moviegoing experience.
As you probably know, this industry was 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. But they recovered in 2022 to over $5.7 billion. Momentum should continue into 2023 with

an already exciting slate of releases expected, setting the backdrop for an even stronger year.

Additionally, while the studios have made it clear, I want to reiterate this point for those who still have doubts. The rumors of the demise of the in-theater cinema are dead. The experiment in 2021 to skip the box office and go straight to streaming was a failure. Streaming is an incremental downstream source of revenue for the studios, but exclusive theater releases are what drive studio success.

Next, we are in the early stages of a technology upgrade cycle, especially for laser projectors and servers, but we are also looking at sound systems and ADA device refreshes over the next few years as well. During the last upgrade cycle, we participated in approximately 17,000 cinema screens over nearly 5 years, so we believe there is a long runway ahead.

And our second quarter saw some solid activity in this area. Finally, as part of the CARES Act, non-publicly traded live event operators were able to access over $16 billion in grants through the SBA. This program, called the Shuttered Venue Operations Grant (sic) [Shuttered Venue Operators Grant], or SVGA, or SVOG, has provided almost $15 billion in grants to date, with over $2.5 billion going to cinema operators. This money is flowing, and this spending has kicked off a multiyear growth cycle.

Cinema operators can use these funds for operations or productively refurbish, upgrade and renew modern theaters to enhance the overall moviegoing experience. This includes adding amenities such as in-house bars and lounges, breweries, restaurants, and in-cinema dining.

In fact, dine-in cinemas are among the fastest growing parts of the industry. We are very well positioned with these circuits. 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'm going to start with a review of our growth strategy. First pillar is driving revenue growth and margin expansion by shifting our product mix towards higher-margin proprietary products. Our proprietary products fall into 2 categories. The first is proprietary manufactured goods made right here in the U.S.

Today, we have over 50 proprietary manufactured products that help increase project margins and overall margins when sold a la carte. These include our Caddy products and our line of ADA products, the latter of which are a requirement for every theater in the country. And the acquisition of this product line last year forms the low end of our accessibility strategy.

Second, our products, we feel have disruptive potential. These products are more technology focused and bring higher margins and reincurring revenue streams. For example, we have a bundled solution for venue management called CineQC. CineQC is a recurring revenue SaaS platform, consisting of hardware and services application for quality assurance, theater operations, staff management, inventory control, back office, analytics and remote access and control over auditorium systems.

We believe there's nothing like it available in the industry, and the signing of National Amusements as a customer strongly validated the solution. We've been doing additional development with CineQC, and we hope to have more clients announced in the coming quarters. Next, we have the MiTranslator, which will provide a high-end product for our accessibility strategy.

The MiTranslator is a multi-language translation device with a reoccurring 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 who may not have previously attended the movies or for those who did, they can now have a significantly enhanced moviegoing experience.

It received outstanding reviews when we showcased it at important industry trade shows and a key part of our long-term growth strategy. As a result, there are high levels of interest, and we expect to have this product and offering to market this calendar year.

The second pillar of our growth strategy is moving beyond cinema. The first opportunity involves Caddy, which is a market leader in cinema. However, the real Caddy opportunity is in stadiums and arenas where it is seeing over an 80% share in markets like the NFL and Major League Baseball.

The current product line falls under our proprietary manufactured products and has a much higher than company average margin. However, we have not seen as quick a recovery in new stadium and arena builds or upgrades since the pandemic ended, which makes sense given the multibillion dollar price tags and the longer gestation period required for approvals.

As this market begins to thaw, which we're starting to see, we expect our strong market 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.

We shipped our first 2 customers in fiscal Q3, which we announced in late January and early February. In eSports, we have a partnership with Sandbox, which is getting up amateur eSports and gaming leagues throughout the country that will be hosted on the big screens.

We are the exclusive technology provider for Sandbox with our MovEsports systems, which consists of 7 mobile gaming stations, plus a controlling production [card] that enables these games to be played on the big screen.

Sandbox has a large pipeline of interested theater owners. And as they bring new leagues online, we expect them to convert this pipeline to orders for the MovEsports platform. The exciting thing about Sandbox value proposition is that it is a win-win, where the theater owner utilize its excess capacity against concession revenue from gamers and audiences that come to watch.

At the same time, Sandbox can offer a differentiated gaming experience for elite participants and fans. Each theater will require at least 1 MovEsports system, so the potential is there for initial sales, then refresh sales over time as new consoles and new technologies are introduced.

While the core Caddy products have taken longer to recover than our cinema business, we're just starting to see plans for new stadiums and arenas being introduced.

As these builds move forward, we see a more significant opportunity to leverage our Caddy product line's strong position in this market as a touch point for fan interaction. In development, we have a potentially disruptive new digital product and service that we hope to be trailing over the next couple of quarters, and we'll keep you appraised as appropriate. Another long-term opportunity is leveraging Caddy's strong relationship with stadium and arena owners and operators to introduce a SaaS platform for quality control and venue management. Similar to cinema, there are no software products similar to CineQC for these revenues. And we see an opportunity to adapt this platform to those stadiums and arenas over time.

Our third pillar looks to markets beyond North America. We had established relationships overseas before the pandemic and can now reconnect. For several reasons, we believe we can accelerate moving beyond North America from our original 18- to 24-month time frame.

Besides expanding internationally with National Amusements, which currently uses CineQC for its domestic circuit, we see the opportunity to introduce CineQC and the MiTranslator internationally. Additionally, Sandbox has garnered much interest outside North America.

We see this as another route to growing our international presence. And finally, we signed a global distribution agreement for cinema with LEA Professional, a high-end developer of professional sound systems.

The incumbent players have been suffering from supply chain and customer service challenges often causing lead times to extend beyond a year. With access to LEA's high-end smart power amplifiers, we believe we can fill that gap domestically while enhancing our international plans over the midterm.

The fourth part of our strategy, which supports the first 3 pillars, is accretive M&A. There are 3 main areas on which we focus. The first is consolidating industry technology equipment providers and broadening our offerings. The acquisition of our ADA product line was an excellent example of that strategy.

The second is acquiring strategic products and services with recurring revenue streams. This will likely focus on SaaS or other subscription-type offerings to enhance our portfolio and provide high value to our customers.

And finally, we look at companies that could enhance or add to our customer relationship base. In conclusion, we are still in the early innings of our growth opportunity. We have numerous secular tailwinds at our backs that are just beginning to turn into higher revenue levels. And we also have several potentially disruptive technologies in development that will bring reoccurring revenues while driving higher margins over time. With that, I'll turn it over to Brian.

Brian Siegel

Thanks, Joe. Good morning, 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. Currently, projects are the key revenue driver for our business, making up roughly 60% to 65% of revenue.

In this part of our business, we serve as a project manager, procuring and reselling FF&E and services for refurbishing, upgrading and building new theaters. Since much of these are passed through costs, margins are in the mid-teens. We have several routes to improve project margins as demonstrated by our first half results.

These include installation services, the resale of higher-margin technology products. And finally, we sell our higher-margin proprietary manufactured offerings, which include our Caddy and ADA products. Our proprietary manufacturing products have margins ranging from 35% to 55%. As we continue to increase the number of proprietary manufactured products that we sell, we expect the mix to shift and more favorably impact gross margin. Over the near term, we expect our proprietary manufactured products and the retail of higher-margin technology products will drive this margin expansion. For example, in Q2, in addition to our ADA products, we also saw several orders related to the technology upgrade cycle for servers and projectors.

Over time, as our CineQC SaaS platform becomes a more significant contributor and the MiTranslator and other products in development come to market, we expect our mix shift even -- to shift even more significantly away from FF&E.

Now moving to the results. The second quarter is traditionally our slowest quarter due to the seasonality associated with the holidays as theater owners are more focused on filling capacity than upgrades and refurbishments. Nevertheless, our second quarter revenue increased 42% to $4.8 million.

Gross profit increased 46% to $1.3 million from $0.9 million last year, leading to a 90 basis point expansion in gross margin to 27.1%, reflecting the shift towards our higher-margin proprietary products.

Operating expenses were $1.45 million versus $1.54 million last year. The decrease was mainly driven by a reduction in stock comp expense in fiscal year '23. Operating losses in Q2 were $0.1 million versus a loss of $0.6 million last year.

Net income was about $50,000 for the quarter or breakeven compared to a net loss of $0.6 million or $0.06 per share last year. Moving to the balance sheet. Our cash, cash equivalents and marketable securities were $6.3 million, down about $0.5 million as we paid off $1.5 million in payables during the quarter.

Remember that we added a couple of quarters worth of technology inventory ahead of price increases towards the end of fiscal 2022. And we are now starting to convert a portion of this to cash. Looking to fiscal '23 guidance, we promised you an update on this call.

At this time, we have increased the low end of our revenue guidance range from $22 million to $22.5 million, while keeping the high end at $23.5 million, which translates to 23% to 28% year-over-year growth.

We expect the gross margin expansion from the first half of the year to continue into the second half, and are modeling the full year at about 27%, mainly due to a mix shift towards higher margin proprietary products such as the acquired ADA product line, improved performance from Caddy later in the year, sales of our eSports products and a small contribution from CineQC.

We also had good operating leverage in the model with operating expenses, which tend to be mostly fixed, expected to be about $5.8 million for fiscal '23. This is about $200,000 higher than when we gave our initial guidance due to a combination of higher compensation and compliance costs during the year's first half.

Note that for the year's second half, we took steps to reduce our annual operating expense run rate back to $5.6 million. Finally, we don't expect to be a taxpayer in fiscal 2023 and are modeling 10.9 million shares. As a result of the higher expenses in the first half of the year, we are narrowing our GAAP EPS guidance range to $0.04 to $0.06 per share versus a loss of $0.13 last year, so still a pretty big improvement.

Now I'd like to provide more color upside opportunities to guidance. First, we've only just begun receiving orders for our eSports systems over the past 8 weeks and have shipped 8 systems through today's call.

Given the greenfield nature of this business and our reliance on our partner to convert its pipeline, it is challenging to forecast the timing of new orders at this time. What I can say is that we need to ship around 15 to 17 more systems over the next 1.5 quarters to hit our target this fiscal year.

So we have only modest expectations into our guidance. Additionally, Sandbox is very confident in its ability to close sales in its pipeline which could drive potential upside to this portion of our forecast. Next, we are still assessing the timing of any potential financial upside for this fiscal year from our new distribution relationship with LEA Professional.

We are optimistic and seeing a lot of interest from potential customers, but we still don't have enough data yet to provide a forecast given the newness of this deal. So our guidance assumes no revenue growth from LEA products this year.

So in conclusion, while I don't want to call our revenue guidance conservative, I believe there is upside potential based on these 2 areas, and we will keep you apprised of our progress as appropriate.

Before we go to questions, I want to make a point to say that we still believe our stock is significantly undervalued, and we plan to begin our buyback as soon as our blackout window opens up over the next few days. I want to thank everyone for attending today's call, and I look forward to speaking with you again on our next call. Operator, please prompt for questions.

Operator

Take our first question from the line of Kurt Caramanidis with Carl M. Hennig, Inc.

Kurt Caramanidis

Again, you do a really, really good job explaining the current state of your business and the opportunities ahead. So I don't have tons of questions because you really do a really nice job. But -- I think I know the answer to this, but based on all of that data, would you agree that earnings -- actual earnings, sustainable earnings, are likely going forward with the mix shift, the revenues going up, your fixed costs, gross margin, once we become profitable, barring a quarter here and there of seasonal or something maybe, but seeing more sustained profits?

Brian Siegel

Yes, Kurt. So I think that's the plan. Obviously, as you mentioned, there could be a quarter here and there because our business still is relatively small, where you could see breakeven type earnings, but our goal is to continue to improve profitability going forward. And -- yes, obviously, we'll target -- which is minimal onetime drop-off as possible.

Kurt Caramanidis

Okay. And great to hear about the buyback as I would agree, at this level, that would be a great investment. Investing in your business that you know better than an acquisition, which maybe there's some acquisitions, but certainly, you know this business better than anything you could acquire.
And at this price, I think that's very smart to do that. And Brian, I missed it, how many additional gaming sales do you need to reach your forecast? You've had, if I can think, maybe 6 or 8 or something. Did you say you needed an additional dozen?
Brian Siegel
An additional 15 to 17 based on [indiscernible].
Kurt Caramanidis
Okay. So the pipeline looks pretty good.
Brian Siegel
The pipeline looks good. That's kind of what we're doing. It's -- I think the biggest challenge there is just timing of new theaters signing on. And that's a little bit out of our control. Sandbox, our partner, is working very diligently to continue to expand the leagues and to sign on new theaters. But given that's so early, it's a little bit more -- we want to be a little bit more conservative with our forecast until we can start to see a more consistent run rate.
Operator
We'll take next question from the line of Scott Weis with Semco Capital.
Scott Weis
I have a couple of questions regarding CineQC. Can you comment on the rollout with National Amusements and how many theaters are using the technology? How is it going? And then second question is, can you comment on the CineQC pipeline or backlog of other customers?
Jose Delgado
Yes, I can grab that. We're actually working hand in glove with National Amusements to continue to customize, make it a more bespoke platform for them. We're doing very well. We're probably about 90% there, and that will start to tee us up for the international expansion with them.
With respect to customers in the pipeline, we've already had a couple of demos with a tremendous amount of interest. And we look forward to that moving ahead in the short to midterm, Scott. So that's looking very promising. And again, it's like anything software-based, right? You're never done. So development continues and the customization portion of it has been what's been most attractive to the end user.
Operator
We'll take next question from the line of Kurt Caramanidis with Carl M. Hennig.
Kurt Caramanidis
Sorry, 1 follow-up. What are the marketable securities on the balance sheet?
Brian Siegel
Kurt, it's a mixed portfolio of fixed income type securities, notes, some mutual funds and some equities. I would like to point out that we are reviewing that and looking to go in a different direction that will remove some of the volatility that we've seen on the other income and loss item part of the financial statements. So we will -- we're evaluating that

now, and we'll be the -- ideally coming to a conclusion in the near term. Operator, I think we can close it out.

Operator

I'm sorry, sir. Are you saying we do not have any questions from the online participants?

Brian Siegel

Correct.

Operator

Should we now conclude?

Brian Siegel

Yes.

Operator

Ladies and gentlemen, as there are no further questions from the participants, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.