

Moving iMage Technologies, Inc., Q2 2024 Earnings Call, Feb 14, 2024
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Operator

Greeting and welcome to Moving iMage Technologies Second Quarter 2024 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce Brian Siegel, Vice President, Investor Relations and Strategic Communications. Thank you. You may begin.

Brian Siegel

Thank you, operator. Good morning, and welcome to Moving iMage Technologies earnings conference call and 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, Will Green. 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're so excited about the future, where we are introducing potentially disruptive technologies into cinema, eSports, stadium, arenas and other live entertainment venues.

Historically, our business has been cyclical driven by new technologies and technology upgrade cycles. We're currently in 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 or 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 discussed previously on these calls, COVID took its toll on the industry. Over the past few years, we have returned to a more normalized environment with the box office originally expected to approach pre-pandemic levels in 2023. Unfortunately, the now settled Hollywood strikes impacted the later part of 2023 and are expected to be a headwind for box office growth in 2024 due to delays in filming and releasing new content. This will have a trickle-down effect on our business for the remainder of fiscal '24, which Joe and Brian will discuss in more detail.

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 the business. In general, FF&E is the largest part of our business. However, 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 cyclicity.

For cinema, this includes expanding our existing lineup of over 50 proprietary manufactured products, including our ADA compliance products and Caddy lines. 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.

There are 2 parts to this opportunity. The first is power amplifier attrition. On average, each movie screen needs 5 to 6 power amplifiers, and these tend to have an annual attrition rate of 5% to 10%. We estimate the total installed market for power amplifiers in North America to be about \$630 million. So the annual TAM is around \$30 million to \$60 million. Given LEA is so confident in its product quality, its warranty is 2x the industry standard combined with supply chain and quality challenges at their competitors, which are also deemphasizing the cinema market. I feel optimistic about sales continuing to ramp in fiscal '24.

As we're currently in testing with several large cinema chains, the second part of this opportunity is the new builds and the refurb upgrades of cinemas. For example, we have scoped LEA smart power amplifiers into upcoming projects with 2 cinema chains, and we expect to continue to expand the opportunity throughout 2024 and beyond. Now I'll provide an update on the MI translator, our 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 new product class for the industry and adoption has yet to occur. We're working with multiple industry groups to build awareness for the product and standardize this technology. We believe that this industry effort bodes well for a successful ramp in MI translator, but likely in fiscal 2025, we'll keep you apprised as things develop.

CineQC, our SaaS-based quality control platform is another example. CineQC is actually a third-party developed platform and we own the global cinema distribution rights. We've been working with National Amusements, a large international movie circuit on upgrading and improving this product for the past year. While we've made significant progress, we believe there's still work to do, and we plan more direct control over the software development going

forward. However, once complete, we'll have a much more robust, tested and scalable offering to bring to other clients.

The next opportunity for us is to move beyond cinema. Here, we're targeting 2 areas: other live entertainment venues and esports. I believe eSports has the potential to be a significant incremental growth driver for us in the years to come. There's an opportunity to create, the Little League of eSports hosted locally in cinema auditoriums creating a safe, inclusive environment for kids to interact with each other in person through gaming. We believe this is a very attractive value proposition for parents, cinema owners, us and our partner, Sandbox. Here, our product, movie sports, integrates 6 gaming stations with a Mastercard that enables live Play on the big screen. Right now, Sandbox is out doing a funding round, which unfortunately has taken longer than we would have anticipated. As such, we're working on contingencies to get this business off the ground more quickly. But it would be premature to discuss the details at this point.

Finally, the growth opportunity I'm extremely excited about is what we currently call E-caddy. We have infused our Caddy product of cupholders with technology and will develop applications and services for use in stadiums and arenas. We've introduced the E-caddy concept to executives at a handful of major league baseball stadiums around the country for the past few months. We've got a great deal of feedback on the type of applications that would excite them and identified other potential partners as well.

At this point, we're preparing to do validation and testing work of the hardware and firmware in our factory, which is a precursor to field trials at stadiums. Concurrently, now that we've had discussions with potential customers, we're identifying the initial set of services that will be part of this offering. 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, it could reshape our business and financial models in the future. We'll keep you appraised as we hit milestones.

As I mentioned on our previous call, we have accelerated our strategy to expand outside North America. The opportunities here encompass many products that we believe can smoothly transition to international markets, including our new and 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 have already received requests for quotes from cinemas in the U.K. and Germany.

We also see the opportunity for MI translator and CineQC to move to international markets in the years to come. And Sandbox, of course, 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 Sandbox 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 and grow. With that, I thank you, and I'll turn it over to Brian.

Brian Siegel

Thanks, Joe, and thank you, everyone, for attending our earnings call. We're 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 on average. As Joe and Phil mentioned, FF&E projects are more cyclical and can often see start dates pushed out as we saw in fiscal year '23. We serve as a project manager, procuring and reselling FF&E and services for refurbishing, upgrading and building new theaters.

[This is] 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 through the resale 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 manufacturing offering, a la carte, which have margins ranging from 35% to 55% that include our fabrication, caddy and ADA compliance products.

Additionally, since we are in the early days of our multiyear technology upgrade cycle, we received discrete orders for servers projectors in 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 E-caddy hit the market and start to scale, we expect our mix to shift even more significantly away from FF&E as these products will likely have 50-plus percent gross margins.

Now moving to our second quarter results. We reported revenue of \$3.3 million, down 33% versus last year. On our last call, we said that we expected revenue to be down materially in the quarter as last year saw a benefit from the tail end of SVOG spending, we actually came in ahead of our internal forecast. Of note, projects represented about 1/3 of the quarter's revenue mix. Gross profit decreased 42% to \$0.8 million. Gross margin was down 390 basis points to 23.2% in the quarter, resulting from an unfavorable product mix as we sold a number of large projectors, which have lower margins and that negatively impacted the quarter.

GAAP operating expenses were \$1.6 million, up 10% versus last year, mainly due to higher compensation expense. GAAP operating loss was \$0.8 million versus a loss of \$0.1 million last year, demonstrating the downside of our high operating level. Both GAAP and non-GAAP net loss was \$0.8 million or \$0.07 per share versus GAAP and non-GAAP net income of nil last year. Moving to the balance sheet. Our cash and cash equivalents were \$5.1 million at the end of the second quarter, down \$1.3 million from the first quarter, reflecting a decrease in payables and increase in prepaids related to a systems upgrade and increased receivables. Finally, even with lower liquidity, we bought back 109,000 shares during the quarter.

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 2024 budgeting process. For example, many of our customers have only recently finished this process while others are still working through the process. As a result, we have less visibility than normal into the second half of the year beyond the projects we have received deposits on and existing orders. With that said, we do expect the top line for our third quarter to return to year-over-year growth. However, gross margins will likely be down from last year due to a large order for seats, which have very low pass-through gross margins for no incremental operating expense impact.

Next, I will provide upside opportunities that were excluded from our forecast. I will now update these items. There is an ADA product refresh in a top 5 cinema circuit that should begin in the

second half of fiscal 2024. While we are very well positioned to get this multimillion dollar order, the timing of the rollout is uncertain as this customer is still in their budgeting process for 2024. For eSports, as Joe mentioned, we feel very optimistic about this opportunity, but are currently unsure of the timing of Sandbox raising funds. Again, anything over 8 systems sold in fiscal year '24 would be growth from last year. The pipeline and interest here remains very strong. And as Joe mentioned, we are looking into ways to jump-start sales here regardless of Sandbox raising funds.

Next, as I discussed in our recent investor presentations, our incremental market opportunity for selling LEA smart power amplifiers is very significant. We do have this product scope into some upcoming projects for new builds, and we remain positive on the ability of this product line to ramp over the next few quarters. At this point, I would be remiss to set expectations for any incremental sales of CineQC or sales of MI translate during fiscal 2024.

National Amusements remains our paying customer for CineQC and we still expect them to roll out the platform internationally. These 2 high large and emerging growth platforms remain part of our core growth opportunity. However, we will more likely see that growth start in fiscal 2025. In summary, while the strengths are expected to disrupt the industry for most of the year, we continue to move forward with our initiatives that will drive growth for the company in the years to come, but 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.

Regarding catalysts, we plan to announce whatever orders we can through press releases and earnings calls this year. And of course, we will provide any milestone updates related to our key emerging growth initiatives as appropriate. I want to thank everyone for attending today's call, and I look forward to speak with you on our next call in May.

Operator

Ladies and gentlemen, this concludes the presentation. We will now be conducting a question-and-answer session. [Operator Instructions] It appears we have no questions at this time. This does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time, and have a wonderful day.