Moving iMage Technologies, Inc., Q4 2023 Earnings Call, Sep 26, 2023
9/26/23
Operator
Greetings. Welcome to Moving iMage Technologies Fourth Quarter and Year-End Fiscal 2023 Earnings Call. [Operator Instructions] Please note, this conference is being recorded.
I will now turn the conference over to Brian Siegel, Senior Managing Director. Thank you. 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 that 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 tailwinds and then Joe will discuss why we're 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 the cinema owners are starting to upgrade their technology that is coming to the end of its useful life with newer technologies such as laser projectors with upgraded servers, new screens and sound systems being purchased to replace these.
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'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 strike will cap the upside here this year, but we are seeing an expansion of another trend by theater owners to bring in business showing nonmovie content, whether it's sports, eSports or concerts. An example is AMC partnering with Taylor Swift to show her concerts in theaters.

Before returning 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, consisting 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's a strong operating leverage in this part of the business, today, FF&E remains the largest part of our business. However, given the low 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 smoothing out the lumpiness and cyclicality of that business.

For cinema, this includes expanding our existing lineup of over 50 proprietary manufactured products including our ADA products and Caddy lines. By manufacturing these products, we can significantly increase our margins on FF&E projects as well as our overall company gross margin when we sell these products a la carte. Additionally, our partnership with LEA professional for smart power amplifiers is another potential source of growth and margin expansion for the FF&E projects and those a la carte sales.

Each theater needs 5 or 6 or even more of these power amplifiers per cinema screen and with LEA's warranties being twice that of the industry average that demonstrates the confidence we have in their overall quality. Currently, we have several large circuits testing these products. And between the quality at LEA and the supply chain issues that some of our competitors are experiencing, I wouldn't be surprised to see sales start to ramp in fiscal 2024.

Next up for cinema, and this is what truly excites me about our future. We're in the latter stages of going to market with a set of potentially disruptive high-margin technology offerings that will also bring reoccurring service revenue. First, I'll discuss our MiTranslator offering, which I believe has the potential to begin contributing to growth in fiscal 2024. The MiTranslator is a multi-language technology solution with a recurring 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 Perficient speakers that may not have previously attended the movies. With this product and service, those who did attended 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 MiTranslator 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. One of the foundations' 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 MiTranslator, and there was a tremendous enthusiasm and interest in the product that CinemaCon and subsequent trade shows. We're currently in talks with several cinema circuits on testing MiTranslator.

CineQC, our SaaS-based quality control platform is another example. We've been working with national amusements large international movie circuit on upgrading and improving this product. Unfortunately, the additional development we have been doing has delayed our plans to roll out the product more broadly. However, once complete, we will have a much more robust, tested offering bring to our other clients.

The next opportunity for us is to move beyond cinema. Here, we are targeting two areas: Other live entertainment venues and eSports. I believe eSports has the potential to be a significant incremental growth driver for us in fiscal 2024. During the past few months, we have expanded our relationship with SNDBX, who aims to build a Little League for amateur eSports include an exclusive multimillion-dollar supply agreement, a minority ownership position, a Board advisory seat and co-ownership of the IP related to the technology.

In May, we did an investor presentation, which is available on our IR website with Rick Starr, Founder of SNDBX. He laid out his vision for creating that 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 as well. With the 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 the theater owners who are used to getting a return on their investments in 18 to 24 months. Rick then said, he already had an active pipeline in North America of over 2,500 locations and another 500 internationally. Right now, he is out doing a funding round, which will enable him to start to ramp locations more quickly.

Finally, the growth opportunity I'm most excited about is what we're currently calling eCaddy. We have infused our Caddy product line of cupholders with technology that will be developing applications and services for use in stadiums and arenas. In September, we introduced our first major league stadium executive and got some great feedback on the type of applications that would get them excited. In the months to come, we'll be performing additional market research with other stadium and arena executives to identify the apps and services that will 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, MiTranslator and CineQC, it can reshape our business and financial models in the years to come. We'll keep you appraised as we hit milestones.

As I mentioned on our previous calls, we have accelerated the part of our strategy that involves expanding outside of North America. We had established relationships overseas before the pandemic and have been reconnecting over the past few quarters. The opportunities here encompass many of our products that we believe can smoothly transition to international markets. 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.

An example of our opportunities is the acquisition of exclusive global distribution rights into the cinema market for LEA professional amplifiers. In addition to testing going on here domestically, we're also well received last month when I was in Barcelona. This is a high-margin product that is hitting the market at just the right time when the competition is struggling with supply chain issues.

We also see the opportunity for MiTranslator and CineQC to move to international markets in the years to come, and SNDBX has a pipeline already established outside of North America.

Finally, we have an active corporate development program that includes business development deals like we made with SNDBX and LEA acquisitions, such as the ADA product line we acquired and other ongoing activities. In conclusion, we're still in the early innings of our growth opportunity. Fiscal 2023 was a bridge year between the pent-up post-pandemic demand during fiscal 2022 and growth for new products, new markets and refresh upgrade cycles in fiscal 2024 and beyond.

With that, I thank you, and I'll turn the call back over to 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.

Currently, FF&E projects are the key driver for our business, making up roughly 60% to 65% of revenue. We serve as a project manager procuring and reselling FF&E in services for refurbishing and upgrading or building new theaters. Since much of the makeup of our projects are pass-through costs with a small margin added in, project margins are in the mid-teens. That said, we have several routes to improve these margins demonstrated by our fiscal year '24 results.

Some of the ways that we improve on these margins are to upsell installation services, user proprietary manufactured products through the resale of higher-margin technology projects, including projectors and servers and more recently sound system products through a relationship with LEA Professional.

As Joe and Phil mentioned, FF&E projects are more cyclical and can also often see start dates pushed out. In the second half of fiscal year '23, we saw over $3.4 million pushed out into the future, which negatively impacted our revenue growth rate and loss per share for the full year. While this business is not lost, the timing is uncertain, although at the present time, we expect most to all of it will hit fiscal year '24.

Next, we sell our higher-margin proprietary manufactured offerings [ala carte], which have margins ranging from 35% to 55% include our CAD and ADA products. As we continue to increase the number of proprietary manufactured products that we sell, we expect our mix to shift and more favorably impact gross margin going forward. In FY '23, we saw the early impact of this as gross margins expanded by 200 basis points versus fiscal year '22.

Going forward, as our emerging products like the MiTranslator, CineQC and eCaddy start to ramp in scale, we expect our mix to shift more significantly away from FF&E as we expect these products will have 50% plus gross margins.

Now moving to the results. Fourth quarter revenue of $5.8 million was up 3% versus $5.6 million last year. Pushouts I mentioned earlier, negatively impacted revenue by about $1.7 million in the quarter. For the full year, revenue was up 10.1%. Q4 gross profit decreased 5% to

$1.4 million, and gross margin was down 200 basis points to 24.2% in the quarter, resulting from mix as we sold more higher dollar lower-margin projectors during the quarter.
For the full year, gross profit increased 19% and gross margin increased 200 basis points to 26.3%. Q4 GAAP operating expenses were $2.8 million versus $1.9 million last year. This year's GAAP operating expenses included about $1 million in noncash accounting write-downs. As we went through the audit, we conducted our annual impairment assessment and determined that the carrying value of the Caddy goodwill and customer relationships, intangible assets had declined.
Accordingly, we impaired goodwill and intangible assets related to this. Keep in mind that the traditional Caddy business is tied to new stadium and arena builds, which have not materialized post COVID. This is what we're writing down and has nothing to do with the potential of our eCaddy product that is still in development.
We also determined that due to a slower-than-expected initial ramp at SNDBX, we're going to write off the loans to the company. I know this may seem confusing given our strong belief in SNDBX's eSports strategy and model that our relationship will drive growth for us. But again, keep in mind, the write-downs are based on accounting forecast in which immediately, we took an ultra conservative view as the business is still in early stage start-up.
For example, SNDBX is out trying to close a seed round as we speak. Once this closes, they will be in a position to begin wrapping customer. For the full year, GAAP OpEx were up to $7.3 million, again, reflecting the $1 million noncash trade-offs from Q4. Excluding the write-off, OpEx was flat despite 10% growth in revenue, demonstrating the potential operating leverage we can show going forward as we continue to grow revenue. Q4 GAAP operating loss was $1.4 million versus $0.5 million last year, reflecting the write-down and revenue push out, excluding the write-downs, our operating loss would have been $0.2 million, a $300,000 improvement from last year.
For the full year, GAAP operating loss was $1.8 million versus $1.3 million last year. Q4 GAAP net loss and loss per share was about $1.8 million and $0.17, compared to a net loss of $1.3 million or $0.13 per share last year.
Q4 non-GAAP net loss and loss per share was $0.2 million or $0.02 compared to losses of $0.7 million and $0.06 per share last year. Reconciling this to gap this year we added back the $1 million in noncash write-downs and $0.1 million in stock compensation. For the full year, GAAP net loss and loss per share were $1.8 million and $0.17 versus $1.3 million and $0.13 last year. Full year non-GAAP net loss and loss per share were $0.7 million or $0.07 versus $1.5 million or $0.14 last year.
Reconciling non-GAAP to GAAP in fiscal year '23, we added back the $1.1 million for onetime write-downs and stock compensation expense while last year's non-GAAP EPS excluded the $0.7 million gain from the forgiveness of our PPP loans and added back $0.4 million in stock.
Moving to the balance sheet, our cash and cash equivalents were $6.6 million at the end of the fourth quarter, up slightly from the third quarter. We were also able to buy back about 273,000 shares during the year before our window closed on June 30. As we look at FY '24, we aren't going to make the same mistakes we made in FY '23 by providing specific guidance. That said, I want to be as transparent as possible, and we'll make some general comments.

First, we tend to only have 6 months visibility into our legacy business of FF&E projects and proprietary manufacturing products, which as you've said on the call, can be lumpy with pushes occurring. That said, our first half of the year backlog as of June 30 was over $12 million.
Second, with Bill Greene joining us as CFO, we are taking a very conservative approach internally to budgeting for the year, mainly modeling only our legacy FF&E and proprietary manufactured products businesses. Our budget calls for similar growth for this year, which was about 10% with further pairing of losses. However, there are several opportunities for upside to this forecast that we had not included. The first is a likely 2-year ADA product refresh and a top 5 cinema circuit that will begin in the second half of fiscal 2024.
Next, selling more than the 15 to 20 movie sports systems for SNDBX that we sold in fiscal year '23. We also have no sales budgeted for LEA professional products. And then we budgeted nothing in there for National Amusements rolling out CineQC to their 500 international locations and/or the implementation at new customer for this product. We have not budgeted any sales for MiTranslator, and we have minimal to no international sales budgeted.
In terms of catalysts, you should be looking for announcements on the key initiatives mentioned during this call and the upside opportunities I mentioned just now. We will plan on providing milestone updates for our emerging products, and we'll announce whatever orders we can through press releases and on earnings calls this year.
Overall, we have never been in such a strong position within cinema, and we are excited that our new initiatives are progressing even if it's slower than we would have hoped originally. We want to make sure that we have the right offerings and they are ready for prime time before we start marketing more broadly.
Just to let everybody know, Joe and I will be at the LD Micro conference next week in L.A. If you're interested in meeting, please reach out to me. And then subsequent information.
Yesterday, it was announced that there was a tentative agreement for the writer strike in Hollywood, which we believe is a very positive event that will hopefully be signed officially today. And that leaves only the SAG-AFTRA talks ongoing and hopefully, this will spur those to move forward more quickly. I want to thank everyone for attending today's call and look forward to speaking with you again on our next call in mid-November. Operator, we can take question.
Operator
[Operator Instructions] We will just pause for a brief moment to poll for questions. There are no questions at this time. So this will conclude today's conference. Thank you for your participation. You may disconnect your lines at this time.