Moving iMage Technologies, Inc., Q4 2024 Earnings Call, Sep 27, 2024
9/27/24
Operator
Greetings, and welcome to the Moving iMage Technologies Fourth Quarter and Fiscal Year End 2024 Earnings Call. [Operator Instructions] It is now my pleasure to introduce your host, Brian Siegel, Vice President of 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, 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 thanks to everyone joining us today. I'm Phil Rafnson, CEO of Moving iMage Technologies, or MiT. We're excited about the future of cinema and the broader entertainment industry, where MiT is positioned to lead with cutting-edge technologies. Fiscal 2024 was truly a tale of 2 vastly different business environments. We began with excellent first quarter results, marked by strong revenue growth and profitability. However, the momentum we built was halted by the actors and writer strikes, which significantly affected our second through fourth quarter results.
Our customers who were unable to initiate their budgeting process and consequently spend their budgets until the strikes were resolved. This created a tough environment for generating near-term value, but we remain focused on positioning MiT for long-term success.
During this challenging period, we took proactive steps to strengthen our future prospects. We repurchased stock in the open market, move forward with the development and go-to-market strategies for our emerging higher-margin recurring revenue products such as MiTranslator, eCaddy and CineQC, and most recently implemented $600,000 in annualized cost reductions. These actions are not only enhancing our operational efficiency, but also aligning us with future growth opportunities.
We believe we have successfully navigated this period and position the company for a return to growth with greater operating leverage as a result of the strategic initiatives we've executed over the past 12 months. By the June quarter, we saw the cinema industry regain its footing despite the strikes with the resurgence of blockbuster films and growing demand for premium cinema experiences, driving a revitalized market.

MiT as a leader in innovative technology solutions for exhibitors is well positioned to capitalize on this momentum and ride the wave of industry growth moving forward. Looking ahead, we're confident in the continued strength of the industry. Consumers are demanding high-quality immersive viewing environments, and exhibitors are responding by investing in advanced projection, immersive audio and premium amenities.

Here's why we're excited. Number one, theaters are investing heavily. The 8 largest cinema chains in the United States and Canada plan to invest over $2.2 billion in upgrades over the next 3 years. Smaller chains will follow suit to stay competitive, driving further demand for our technologies.

Number two, mandatory tech upgrade cycle. The cinema industry is entering a new upgrade cycle as projectors and servers reach end of life. The last cycle lasted 6 years. Today, we're just in the first innings of this shift, and we already see significant opportunities. For example, just one medium-sized customer alone plans to upgrade over 200 projectors, representing $15 million to $25 million in potential projector sales alone for us over the next 4 years.

Number three, strategic investments by major players. Sony Pictures recently acquired Alamo Drafthouse Cinemas, signaling strong confidence in the future of theatrical releases. We expect this to accelerate growth and present further opportunities for MiT.

Number four, diversification of theater offerings. Cinemas are expanding into live events, gaming and corporate rentals, which requires versatile, high-performance equipment. Our MoveEsports product and other solutions position MiT perfectly to meet these evolving needs.

In summary, the cinema industry is transforming and MiT is right at the heart of it. To shift forward premiumization and technological innovations aligns perfectly with our offerings. We're confident in our ability to drive sustained growth and continue delivering world-class solutions to enhance the moviegoing experience. Thank you. Joe?

Jose Delgado

Thank you, Phil, and good morning, everyone. As Phil mentioned, fiscal 2024 posed its share of challenges, but we face them head on and continue to make progress across several key growth initiatives. These efforts are setting the stage for a significant transformation of our business model and one that we're confident will fuel even higher growth rates and profitability in the years to come.

Starting with our core cinema business, we're seeing strong signs of a promising future. A key driver of this optimism is the technology upgrade cycle. Over the next 4 years, more than 10,000 projectors will reach the end of their life cycle and will need to be replaced with newer laser technology. These projectors range in price from $30,000 to $130,000, depending on brightness and overall variables.

While we won't capture every opportunity, our experience gives us confidence and during the last upgrade cycle, we reached $50 million in annual sales. And this time, we're more diversified, having introduced over 200 proprietary higher-margin products. Many of which complement these upgrades and additionally, since the last cycle, we've added the Caddy brand of products and ADA compliance offerings to our portfolio, giving us even more avenues for growth and margin expansion.

We continue to be excited about our partnership with LEA Professional, where we have global distribution rights for their smart power amplifiers in the cinema market. LEA's products not only carry a higher margin, but also stand out with a warranty that's twice the industry standard, setting them apart from the larger competitors.

The opportunity here is tremendous. We estimate that the total installed base in this market is valued at about $630 million and 5% to 10% of this space will need replacement annually, giving us a total addressable market or TAM of about $32 million to $63 million per year.

We're already testing with several top 10 cinema circuits and successfully completed one test with others expected to wrap up by year's end. If results are as positive as we expect, we should see orders begin flowing in fiscal 2025. Moreover, LEA is pivotal to our European expansion strategy where we're already in talks with potential customers. We plan to start making inroads in Europe within the next 12 to 18 months.

Now let's talk about some of our most exciting opportunities beyond the cinema market, starting with eSports, where we've developed a much more refined and focused strategy. Initially our eSports initiative with Sandbox aimed at creating the little league of eSports, face some delays due to Sandbox's extended fundraising efforts. But as a company, we adapt it. While Sandbox shifts from fundraising to launching its operations, we've evolved our approach to eSports instead of solely relying on Sandbox's rollout.

We've begun pursuing direct sales to large theater circuits with internal marketing and infrastructure to support eSports leagues independently. This pivot allows us to engage with theaters that are ready to rollout eSport leagues, and we're already in active discussions with several of these theater circuits.

On the Sandbox front, they're now preparing to launch league play at several sites in Florida and the rest of the country. Likely in early 2025, we see this as a major turning point for their business and an important milestone in our overall strategy. Once these leagues are operational, we anticipate further expansion across the rest of the U.S., which will significantly boost our eSports-related revenues.

Since we had zero eSports-related sales in fiscal 2024, any revenue generated in fiscal 2025 will be incremental and provide a nice contribution to our bottom line. We're confident that a Sandbox ramps up and as our direct sales strategy takes hold, eSports will become a significant revenue driver for MiT in the coming years. Also, we've already garnered international interest. So we expect this to be a part of our geographic expansion strategy as well in the coming years.

And now on to our eCaddy offering. A truly groundbreaking opportunity that we're all very excited about. The potential here is immense. We're talking about millions of existing stadium and arena seats that could be retrofitted with our technology-infused Caddy cupholders, plus an ever-growing pipeline of new build opportunities.

What's really exciting about eCaddy is that we're just not talking about single product upgrades, we're introducing a suite of smart applications and services designed specifically for stadiums and arenas. Think about it. These cupholders won't just hold drinks. They'll be integrated into the fan experience with potential to offer everything from mobile ordering to sponsor-driven promotions and advertising, enhancing both the fan experience and venue revenue streams.

We've already received tremendous feedback from executives in Major League Baseball and other major sports venues. We're now finalizing the technology and design for prototypes. These prototypes will be key as we begin submitting proposals for field testing with select stadiums and arenas.

Once we have the prototypes in hand, will engage even deeper discussions with our target customers and potential partners with the goal of initiating field tests in 2024. But that's only the beginning. The eCaddy platform offers nearly unlimited potential with tens of millions of stadiums and arena seats worldwide. And with that ability to adapt this technology for various sports and entertainment venues, we're tapping into potentially a multibillion-dollar market opportunity. We believe eCaddy can generate significant high-margin reoccurring revenue as it scales and the demand for technology-driven fan engagement tools will only continue to grow.
In summary, despite external industry challenges, we remain focused on our long-term goals and have made significant progress. Our legacy cinema business is as strongly positioned as ever, and our new growth initiatives, particularly in emerging markets like eSports and eCaddy are filled with potential.
As the industry recovers from recent setbacks, including the Hollywood strikes, we expect our strategies to pay off in a big way. We're still in the early stages, but we're incredibly excited about what's ahead, and we look forward to keeping you updated as we hit these key milestones.
With that, I thank you all. And I'll turn it over to Brian. Brian?
Brian Siegel
Thanks, Joe, and thank you, everyone, for attending our earnings call. We started the year strong with 13% revenue growth and solid profits in Q1. However, the year evolved into a transitional period as revenue flattened gross margin decline and non-GAAP losses increased. This shift was largely due to the actors and writers strikes, which impacted the entire industry beginning in our fiscal second quarter. The strikes caused a temporary freeze in customer spending and even after the resolution, it took time for the box office to recover with some of our clients taking up to 6 months to finalize their 2024 budgets.
Despite these challenges, we saw encouraging momentum in Q4. Revenue grew 10%, reaching $6.3 million. This growth was driven by the completion of a significant project for Alamo Drafthouse, initial orders from our LEA products from major theater chains for testing purposes and purchases related to the technology upgrade cycle for projectors and servers.
For the full year, revenue was flat at $20 million. Gross profit for the fourth quarter was $1.4 million, a 2.3% increase from the prior year. However, gross margin declined by 170 basis points primarily due to the fulfillment of a large low-margin, but high operating margin seat order as well as lower capacity utilization. For the full year, gross profit decreased by 11.8% with gross margin down 300 basis points, reflecting changes in product mix and capacity utilization.
On the expense side, GAAP operating expenses totaled $1.9 million compared to $2.8 million last year. GAAP operating loss was $0.5 million compared to $1.4 million last year. For the full year, our operating loss narrowed to $1.6 million from $2 million last year. Notably, last year's results included $1 million in onetime write-offs, which did not recur in fiscal 2024.
GAAP net loss for Q4 improved to $0.4 million or $0.04 per share compared to $1.3 million or $0.12 per share last year. For the full year, GAAP net loss and loss per share were $1.4 million and $0.13, an improvement from $1.8 million and $0.16 per share in fiscal 2023.
On a non-GAAP basis, Q4 net loss was $0.4 million or $0.04 per share compared to $0.2 million or $0.02 per share last year. For the full year, non-GAAP net loss and loss per share were $1.4 million and $0.13 compared to $0.7 million and $0.07 last year, reflecting the absence of last year's write-offs.

Looking at our balance sheet, we ended the year with $5.3 million in cash and cash equivalents. Despite the industry headwinds, we continue to return value to shareholders, repurchasing approximately 758,000 shares during the fiscal year completing our buyback program with a total of 1 million shares repurchased.
Looking ahead to fiscal 2025, as Phil mentioned earlier, we proactively took actions to reduce our expense run rate by $600,000 annually, and we expect to realize about $0.5 million of this in fiscal year '25. This included streamlining compensation and marketing expenses across all levels of the company. These measures will help us to achieve breakeven at a lower revenue threshold of approximately $21 million depending on gross margin. Additionally, the share buyback program we completed, will further enhance our EPS once we achieve profitability.
In summary, while the strike impacted the broader industry this year, we remain focused on advancing our growth initiatives, many of which are progressing behind the scenes. For our investors, we are committed to providing updates on milestones as our emerging growth strategies unfold, and we will continue to announce any key developments or orders through press releases and earnings calls as well on X, where we encourage you to follow us at our handle at Moving iMage news. Also, we plan to upgrade our antiquated IR site over the next month, so keep an eye out for that.
In general, we are feeling better about our prospects heading into the end of the calendar year and plan to accelerate IR activities. Joe and I will be at LD Micro Main Event on October 29 to 30. For those attending, we encourage you to set up one-on-one meetings through the conference portal or contact me directly, and I'll be happy to facilitate.
Thank you for joining us today, and we look forward to speaking with you again during our next call in November. Operator, we are ready for questions, if there are any.
Operator
[Operator Instructions] And there are no questions at this time. Therefore, we do thank you, and this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.