CORPORATE PARTICIPANTS

Phil Rafnson, *Chairman, Chief Executive Officer*

Michael Sherman, *Chief Financial Officer*

Brian Siegel, *Hayden IR*

PRESENTATION

Operator

Greetings. Welcome to the Moving iMage Technologies Second Quarter Fiscal 2022 Earnings Results.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. Please note this conference is being recorded.

I will now turn the conference over to your host, Brian Siegel. You may begin.

Brian Siegel

Good morning and welcome to Moving iMage Technologies' second quarter fiscal year 2022 earnings conference call and webcast. With me today is Chairman and CEO, Phil Rafnson; CFO, Mike Sherman; and Executive VP of Sales and Marketing, Joe Delgado.

Today's call will begin with prepared remarks and follow with a virtual Q&A session. Please submit your questions to the webcast portal and we will do our best to answer them. Please note this event is being recorded.

This earnings call may contain forward-looking statement as defined in Section 27(a) of the Securities Act of 1933 as amended, including statements regarding, among other things, the Company's business strategy and growth strategy. Expressions which identify forward-looking statements speak only as of the date the statement is made. These forward-looking statements are based largely on our Company's expectations and are subject to a number of risks and uncertainties, some of which cannot be predicted or quantified and are beyond our control. Future developments and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. In light of these risks and uncertainties, there can be no assurance that the forward-looking information we'll provide to be accurate.

Now I'd like to turn the call over to Phil. Phil, take it away.

Phil Rafnson

Thank you, Brian, and thank you, all, for joining us today. Welcome to our second earnings call as a public company. I'm Phil Rafnson, CEO of Moving iMage Technologies, or MIT for short.

Similar to 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, followed by an overview of MIT's business and growth strategy, and I'll finish with a summary of why I think we are an even more attractive investment opportunity than we were last quarter, then I will turn over the call to our CFO, Mike Sherman, to discuss the results in more detail, followed by a Q&A.

MIT serves the commercial cinema and live events industry in several ways. Today, the vast majority of our business is serving cinema owners and operators in North America, where there are approximately 40,000 screens, 18,000 of which are outside the top five circuits. While we do business with the majors, the majority of our business is with small to medium-sized operators.

As you probably know, the industry had been 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. In the second half of 2021, the industry began to recover with 11 films grossing over $100 million in the domestic box office and three more 2021 releases achieving this milestone in early 2022. Industry analysts expect these numbers to increase to over $10 billion in 2022 with potential tent pole examples, including sequels to Avatar, Thor, Doctor Strangelove, Black Panther, Jurassic World, Aquaman, Top Gun, Sonic, Minions, and Spiderman Universe animated movie. New movies include Batman, The Flash, Black Adam, and Lightyear, among others.

We believe this strong industry backdrop will be boosted by several other growth drivers. The first is related to government grants. As part of the CARES Act, non publicly-traded live event operators can access over $16 billion in grants through the SBA. This program, called the Shuttered Venue Operations Grant, or SVOG, to date has provided over $14 billion in grants with over $2.5 billion going to cinema operators. This money is just beginning to be spent on Capex and we are in the early stages of reaping the benefits of this spending that's kicking off a multi-year growth cycle.

Next, theater operators are using these funds to proactively refurbish, upgrade and build out new modern theaters in order to significantly enhance the overall movie-going experience. This includes adding amenities such as in-house bars and lounges, breweries and restaurants, and in-cinema dining, among others. In fact, dine-in cinemas are among the fastest growing part of the industry and we are very well positioned with circuits such as Alamo Drafthouse, which just announced four new sites for expansion, Star Cinema Grill, and Flix Brewhouse, to name just a few.

Finally, we are in the early stages of a technology upgrade cycle, especially for laser projectors and servers. During the past upgrade cycle, we participated in 17,000 cinema screens over nearly five years, so we are at the very beginning of this cycle with a long runway ahead.

How does MIT fit in? MIT is a technology and hardware designer and manufacturer, an integrator and distributor of third party technologies, and a project manager for the theater industry. We have strong longstanding relationships with suppliers, key technology providers and customers, as well as architects and technical personnel which help design in our products. Over 70% of our revenue comes from small and midsized cinema operators which tend to be expanding more quickly than the big three, with whom we also work. From a prestige perspective, we also have installed over 40 in-home screening rooms for industry VIPs, which include senior industry executives, producers, and directors.

There are four pillars to our growth strategy. The first is to shift our product mix towards higher margin proprietary products. Today, we have nearly 50 proprietary manufactured products that help increase and project margins and overall margins when sold a la carte. Beyond those, we have our Caddy line of cup holders and trays backed by over 20 patents. Caddy has leadership positions in cinema and professional sports auditoriums and arenas.

Next, we have a set of technology products in development with disruptive potential. One is our multi-language translation device which will also have a recurring revenue service. This disruptive offering offers multi-language in-theater captioning capabilities, including American Sign Language through augmented reality glasses. The market here in North America alone is tremendous with over 70 million non-English proficient speakers that may not have attended movies previously, or for those that did, they could now have a significantly enhanced movie viewing experience. This product meets the ADA requirements as well, so it also opens up the opportunity for theaters to engage with customers in those markets.

Next, we have a bundled solution for venue management called CineQC. This includes a recurring revenue SaaS platform, hardware and services, and includes applications such as quality assurance, theater operations, staff management, inventory control, back office analytics, and remote access and control over auditorium systems. We believe there is nothing like it available in the industry.

The second pillar of our growth strategy is leveraging our Caddy product line's strong position in markets beyond cinema, including stadiums and arenas. We will continue to build out this product line with new and innovative features and will likely introduce a new, potentially disruptive new digital product and service during calendar 2022. Medium to longer term, we also believe Caddy can help provide an opportunity for our CineQC platform, which can be modified for these venues as well.

Our third pillar looks to markets beyond North America over the next 24 months, beginning with Europe. We believe CineQC and the translator will be viable in international markets. For example, if the movie was not originally made in a local language, instead of voice-overs the original language film could be shown and translated into any local language.

Fourth, we are targeting accretive M&A. These are three main areas we are focused on. The first is consolidating industry technology equipment providers and broadening our offerings. The second is acquiring strategic products and services which recurring revenue streams. This will likely focus on SaaS or other subscription-type offerings that will enhance our portfolio and provide higher value to our customers. Finally, we will look at companies that could enhance or add to our customer relationships.

In conclusion, we are still in the early days of our growth opportunity and have numerous secular tailwinds at our backs that are just beginning to turn into higher levels of revenue. We also have several potentially disruptive technologies that are in development and will bring recurring revenues while driving higher margins over time. Based on the former, we increased our guidance this morning from $12 million to $15 million to $14 million to $16 million. We believe these numbers may still prove conservative, and we will update guidance again on our next call.

Before I turn over the call to Mike, 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 as a Company from an operational, financial, product and competitive perspective, and for our existing and future shareholders, I feel your pain. As the Company's largest shareholder, I know the past few months have been painful as the microcap market has been decimated by a number of macro concerns, but as our stock has gone down, our business has strengthened and I'm excited about our strong growth prospects over the next several years.

That's it for now. Mike, take it away.

Michael Sherman

Thanks, Phil. Good morning and thank you for attending our second quarter earnings call. Similar to last quarter, I'm going to spend a little time reviewing our model and then I'll take you through the quarter, followed by a Q&A session.

One of the challenges with our business is the timing of revenue recognition. For example, projects sometimes get delayed for various reasons, and parts of the project or the whole project may push out into a future quarter or into the next fiscal year, which has the potential to cause some lumpiness in our business. Fortunately we have not seen much of this so far this year; however, as a result, we will be generally conservative when providing guidance, which we will update on a quarterly basis.

With respect to seasonality, Q2 has historically been our slowest quarter with sequential increases in Q3, Q4 and Q1 of the next fiscal year. However, given the tailwinds Phil described, including technology cycles, cinema refurbishments and upgrades, and the SVOG cash starting to really flow, we expect to see pent-up demand this year that we believe will nullify much of this year's seasonality.

From a margin profile, projects which have historically made up approximately two-thirds of our business tend to be below Company average due to the resale of furniture, fixtures and equipment, or FF&E, all of which are pass-through costs. Installation services and sales of our higher margin proprietary manufactured offerings, which tend to be well above the Company average, start to bring this margin up. Over time, we expect the mix to shift more favorably towards our proprietary products. Initially it will not only be driven by our proprietary products' higher margin resale of technology and our Caddy product line, but as we begin to introduce our CineQC SaaS platform, our language translator and other products in development, we expect this to shift more significantly away from FF&E.

As Phil mentioned, we have a strategic focus on increasing our proprietary product lines, which include Caddy as well as diversifying into SaaS, subscriptions and other services to bring a high margin recurring revenue element to the business. On a related note, our business mix has historically been about two-thirds project-based and one-third proprietary equipment and technology sales, as I mentioned a minute ago. In recent years, this mix has increased favorably towards proprietary equipment and higher margin technology sales as we introduced more of these products that are sold either a la carte or as part of a project.

Now I'll move onto the results. I am very happy to say that our results were very strong. Revenue increased 113% to $3.4 million. Much of this was related to the pick-up in projects related to new theater builds or upgrading of existing theaters, and we finished the quarter with a 44% sequential increase in backlog to $11.1 million. Gross profit also increased 113% to $0.9 million from $0.4 million last year. Gross margin was up nominally from last year to 26.4%.

Now moving onto our operating expenses and income, GAAP operating expenses increased from $0.8 million last year to $1.5 million this year. Some of this was related to the return of sales and marketing activities as well as the executive team's compensation, which was cut last year, returning to normal levels, and also retention bonuses for employees that were granted in this year's quarter. There are no more retention bonuses to be paid out going forward. Please see our earnings release for a reconciliation of GAAP to non-GAAP.

GAAP operating loss was $0.6 million from $0.4 million. This quarter, we started to report non-GAAP operating metrics as well. These include one-time items, transaction-related items, and stock compensation expense. Non-GAAP operating loss was $0.4 million, flat to last year.

GAAP net loss and loss per share were $0.6 million and $0.06 a share versus $0.4 million and $0.07 a share last year. Non-GAAP net loss and net loss per share were $0.4 million and $0.04 a share versus $0.4 million and $0.07 a share last year respectively.

Now moving onto the balance sheet, we increased the inventory in prepaids in order to take advantage of prepayment discounts while also avoiding significant price increases on certain items, which led to sequential decrease in our cash to $9 million. Looking at the remainder of Fiscal 2022, we believe the recovery in the box office combined with the SVOG money is already starting to drive significant year-over-year revenue growth. In fact, our backlog increased from $8.7 million during October to, as I mentioned a minute ago, $11.1 million at the end of the second quarter. Given this strength, we are increasing our revenue guidance for the Fiscal 2022 from $12 million to $14 million to $14 million to $16 million. This represents 93% to 121% growth over last year.

Finally, as I stated earlier, we believe this guidance may ultimately still prove conservative.

I'd like to thank everyone for attending our second conference call and look forward to speaking with you again at the end of our third fiscal quarter. Now I'll turn it back to the host.

Operator

Thank you. At this time, we will be conducting a question-and-answer session; however, there are no questions over the phone lines, therefore I will hand it over to Brian Siegel for any questions on the online webcast.

Brian Siegel

Yes, there are no questions.

Operator

Very well. Since there are no more questions, this does conclude today's conference and you may disconnect your lines at this time. Thank you for your participation.