Moving iMage Technologies (MITQ) 4th Quarter and Full Year Fiscal 2022 Earnings – September 23, 2022

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Good morning, and welcome to the Moving iMage Technologies Fourth Quarter and Fully Year Fiscal 2022 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 CFO Mike Sherman. Today’s call will begin with prepared remarks and follow with a Q&A session. For those o you on the webcast, you can submit your questions through 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 statements as defined in Section 27A 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 will prove to be accurate.

Now I'd like to turn the call over to Phil. Phil?

PHIL RAFNSON, CEO

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. He will then turn the call over to our CFO, Mike Sherman, to discuss today's results, followed by a Q&A.

MiT serves the commercial cinema and live events industry in several ways. Today, most of our business is serving cinema owners and operators. In North America, there are approximately 40,000 screens, 18,000 of which are outside the top 5 circuits. While we work with the majors, most of our business is with small to medium-sized operators.

As you probably know, this industry has 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 and that trend has continued into 2022 with many blockbusters having already been released. As we look to the remainder of the year, we expect probably three more blockbusters including Avatar: The Way of the Water, Black Panther: Wakanda Forever and the new Black Adam movie starring the Rock. For 2023, there is also an already exciting slate of releases expeted, setting the backdrop for an even stronger year.

As I've discussed on the past few calls, there are additional tailwinds that we expect to benefit both the cinema and live venue industry.

The first is related to government grants. As part of the Cares Act, non-publicly traded live event operators were able to access over 16 billion dollars in grants through the SBA. This program, called the Shuttered Venue Operations Grant or SVOG, to date has provided almost 14.6 billion dollars in grants to date with over 2.5 billion dollars going to cinema operators. This money is flowing, and this spending is kicking off a multi-year growth cycle.

Next, theater operators use these funds for operations and to pro-actively refurbish, upgrade, and build new, modern theaters to significantly enhance the overall movie-going experience. This includes adding amenities such as in-house bars and lounges, breweries, restaurants, and in-cinema dining, among others. In fact, dine-in cinemas are among the fastest-growing parts of the industry, and we are very well-positioned with these circuits.

Finally, we are in the early stages of a technology upgrade cycle, especially for laser projectors and servers. During the last upgrade cycle, we participated in approximately 17 thousand cinema screens over nearly five years…so we believe there is a long runway ahead.

So how does MiT fit in? We are a technology and hardware designer and manufacturer, an integrator and distributor of 3rd-party technologies, and a project manager to the theater industry. We have strong, long-standing relationships with suppliers, key technology providers, and customers, as well architects and technical personnel, which help design-in our products. Over 70 percent of our revenue comes from small and mid-size cinema operators, which tend to be expanding more quickly than the big 3, with whom we also work. From a prestige perspective, we have also installed over 40 in-home screening rooms for industry VIP's, which include senior industry execs, producers, and directors.

In conclusion, 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. And for our existing and future shareholders, I feel your pain as the Company's largest shareholder. The business and our stock are heading in the right direction, and we are working hard to bring new investors to the table. I'm excited about our strong growth prospects over the next several years as we strive to turn MiT into a 50 plus million dollar company! Now I'll turn the call over to Joe.

JOE

Thank you Phill and good morning everyone. I'm going to start with a review our four pillar growth strategy.

The first pillar is driving revenue growth and margin expansion by shifting our product mix towards our higher-margin, proprietary products.

Our proprietary products fall into two categories. First is our proprietary manufactured goods, which we do right here in Fountain Valley, California. Today, we have nearly 50 proprietary manufactured products that tend to help increase project margins and overall margins when sold ala carte. During our fourth quarter, we strengthened this product line and enhanced our Accessibility strategy with the very smart purchase of the USL Product Line, where we essentially acquired inventory and existing orders for the cost of the inventory.

Second are the products we feel have disruptive potential. For example, we have a bundled solution for venue management called CineQC. CineQC is a recurring revenue SaaS platform, hardware, and services solution for 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, and the signing of National Amusements as a customer was a strong validation of the solution, and we hope to have more to announce in fiscal 2023.

Next, we have the MiTranslator which will provide the high-end product for our accessibility strategy. The MiTranslator is a multi-language translation device with a recurring revenue service attached. This disruptive offering brings multi-language, in-theatre 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 that may not have previously attended movies or, for those that did, they could now have a significantly enhanced movie-going experience. It received outstanding reviews when we showcased it at CinemaCon in April and is a key part of our long-term growth strategy.

The second pillar of our growth strategy is moving beyond cinema. The first opportunity involves Caddy, which is the market leader in Cinema. However the real opportunity here is in stadium and arenas, where it has seen an 80% share in such markets as the NFL and MLB. The current product line has much higher than company average margins, however, we have not seen as quick a recovery in new stadium and arena builds or upgrades since the pandemic, which makes sense given the multi-billion dollar price tags. As this market begins to thaw, which we are starting to see happen in Cinema, we expect our strong position will drive growth in this part of our business.

I'm very excited about the next opportunity, eSports, where I expect to see an opportunity for growth in fiscal 2023. In eSports, we have a partnership with SNDBX, which is developing amateur eSports and gaming leagues throughout the country and are in the process of signing theater operators to host these leagues with their excess theater capacity. It is a win-win situation, where the theater owner utilizes its excess capacity and gets concessions revenue, while SNDBX can offer a differentiated experience. We will serve as the exclusive technology provider for SNDBX and have developed a mobile cart that integrates all of the necessary technology to enable eSports on the movie screen, including wifi, consoles and accessories. Each theater will require at least one mobile cart, so the potential here for initial sales, and then refresh sales over time as new consoles and techologies advance. Initial interest has been extremely high and as SNDBX closes deals, we expect to receive orders.

While the core Caddy products have yet to recover, we see a greater opportunity to leverage our Caddy product line’s strong position in sports stadiums and arenas as a touchpoint for fan interaction. In development, we have a potentially disruptive new digital product and service that we hope to be trialing by the end of fiscal 2023.

Another longer-term opportunity would also leverage Caddy’s strong relationship with stadium and arena owners and operators. Similar to cinema, there are no software products similar to CineQC, and we see an opportunity to adapt this platform to stadiums and arenas.

Our third pillar looks to markets beyond North America. We had established relationships overseas before the pandemic, and we are now able to reconnect and for a number of reasons, believe we can accelerate moving beyond North America from our original 18-24 month timeframe. Besides the National Amusements signing, which currently involves only their North American locations, we see the opportunity to introduce

CineQC AND the MiTranslator internationally. SNDBX has also garnered a lot of interest outside North America and we see this as another route to growing our international presence.

The fourth part of our strategy, which supports the first three pillars, is accretive M&A. There are three main areas on which we focus. The first is consolidating industry technology equipment providers and broadening our offerings. The acquisition of the USL product line was an excellent example of this 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 higher value to our customers. And finally, we will look at companies that could enhance or add to our customer relationships.

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. We also have several potentially disruptive technologies in development that will bring recurring revenues while driving higher margins over time. With that, I'll turn it over to Mike.

Mike, take it away…

MIKE SHERMAN, CFO

Thanks, Joe. Good morning and thank you everyone for attending our earnings call. Like 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.

Before I move on, there is a company specific issue related to our friends at Cineworld, which owns Regal, filing for bankruptcy protection. First, while a customer, we currently have no exposure to Regal financially. Second, we don’t expect a negative impact on our business related to this situation in fiscal 2023 and depending on the outcome, we believe there are scenarios where we could pick up some additional business. Should any of these scenarios play out, we will discuss this in more detail, but for now, we will let the process play out.

Currently, projects are the key driver for our business, making up roughly 2/3 of revenue. For projects we basically serve as a project manager, procuring and reselling FF&E and services for refurbishing, upgrading and building new theaters. Since much of these are pass-through costs, margins are in the mid-teens.

We have several routes to improve project margins. First, we provide installation services, which tend to have margins in the mid-20s. Second, we resell technology products which tend to have margins in the high teens/low 20s. Finally, we sell our higher-margin proprietary manufactured offerings have margins ranging from 35 to 55%. As we continue to increase the number of proprietary manufactured products, we expect the mix to shift to more favorably impact gross margin.

Over the near-term, we expect our proprietary manufactured products and the higher-margin resale of technology products, will drive this margin expansion. Over time, as our CineQC SaaS platform becomes a larger contributor, as we release our MiTranslator, and as other products in development come to market, we expect this to shift more significantly away from FF&E.

Now I'll move into the results. Fourth quarter revenue increased 167% to $5.6 million. Much of this was related to a pick-up in projects to build new theaters or upgrade existing theatres. The pipeline here remains strong, and we expect to work through most of the pandemic delayed projects during the first half of fiscal 2023.

Gross profit also increased 256% to $1.5 million from $0.4 million last year. Gross margin was up 200 basis points to 26.8%.

Non-GAAP operating expenses were $X.X million versus $X.X million last. The increase was driven by mainly by a return to normal sales and marketing activities and higher public company expenses.

These excluded $235,000 in stock based compensation.

Our Non-GAAP operating loss was $0.1 million versus $0.6 million last year.

Non-GAAP net loss and loss per share were $0.4 million and $0.04, versus $0.6 million and $0.11 last year, respectively. Please note that for our non-GAAP loss and loss per share during the fourth excluded the operating adjustment above.

Moving to the balance sheet, our cash, cash equivalents and marketable securities were $7 million, down $2.8 million from last quarter due to the acquisition of inventory from the USL product line and adding some technology inventory ahead of price increases.

Looking to fiscal 2023, we'd be remiss to not acknowledge the potential disruption of geopolitical events, inflation and the threat of recession as the year goes on. That said, at this time, we are providing revenue guidance of $22 to 23.5 million, or revenue growth of 20-28%. Within this range, we expect Non-GAAP EPS to be between 4 and 8 cents.

I want to now provide a little more color on our financial model. For 2023, we are modeling strong gross margin expansion into the mid to high 20's, mainly due to a mix shift towards higher margin proprietary products such as the acquired USL product line; improved performance from Caddy; sales of our eSports products, and a small contribution from CineQC.

We also have good operating leverage in the model, with non-GAAP operating expenses, which tend to be mostly fixed, expected to be about $5.6 million for fiscal 2023.

Finally, we don't expect to be a taxpayer in fiscal 2023, and we are modeling 10.9 million shares.

I'd like to thank everyone for attending today's call and I look forward to speaking with you again on our first quarter call.

Brian, are there any questions?