

IMAX Corporation (IMAX)

\$20.50 (As of 01/02/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

IMAX shares have outperformed the industry in a year's time. The company is benefiting from strong growth in network business, driven by strength in gross box office from IMAX DMR films such as *Avengers: Endgame*. IMAX's record box office gross revenues noted in December were driven by blockbuster Hollywood and Chinese language titles including *Ne Zha*, *Fast and Furious Presents: Hobbs and Shaw*, *The Bravest*, *Spider-man: Far from Home* and *The Lion King*. Moreover, a solid slate of movie releases is expected to drive the top line. However, IMAX's significant exposure to China is a risk. Moreover, IMAX faces significant competition in the out-of-home entertainment industry.

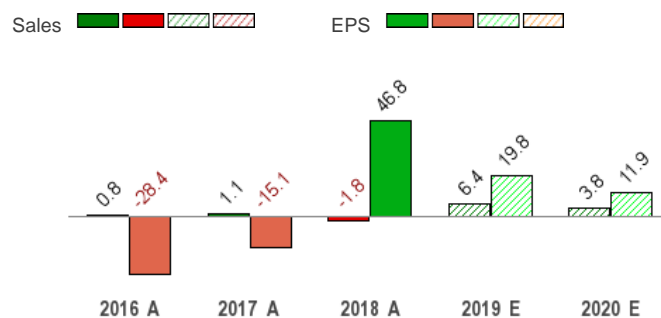
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.75 - \$18.46
20 Day Average Volume (sh)	268,721
Market Cap	\$1.3 B
YTD Price Change	0.3%
Beta	0.92
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Film and Television Production and Distribution
Zacks Industry Rank	Bottom 29% (180 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	21.1
P/E F1	16.8
PEG F1	1.0
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	88 E	107 E	96 E	120 E	413 E
2019	80 A	105 A	86 A	126 E	398 E
2018	85 A	98 A	82 A	109 A	374 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.24 E	\$0.30 E	\$0.26 E	\$0.37 E	\$1.22 E
2019	\$0.18 A	\$0.32 A	\$0.21 A	\$0.40 E	\$1.09 E
2018	\$0.21 A	\$0.30 A	\$0.14 A	\$0.26 A	\$0.91 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/02/2020. The reports text is as of 01/03/2020.

Overview

Headquartered in Mississauga, Canada, IMAX is a leading global entertainment technology, specializing in motion picture technologies and presentations.

The company reported revenues of \$374.4 million in 2018. It generates revenues primarily from four main groups: Network business (49.2% of 2018 revenues), Theater business (45%), New business (1.5%) and other (4.3%).

The company primarily offers IMAX Digital Re-Mastering (DMR) and IMAX Theater Systems. IMAX DMR digitally re-masters Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in its theaters.

In 2018, 70 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios compared to 60 films in 2017.

The company recently introduced IMAX with Laser, its next-generation laser projection system designed for IMAX theaters, in commercial multiplexes.

The company has signed IMAX with Laser agreements with leading, global exhibitors such as AMC Entertainment, Cineworld Group, Les CinémasPathé Gaumont and others for a total of 59 new theaters, 114 upgrades to existing IMAX theaters and 30 upgrades to existing backlog arrangements.

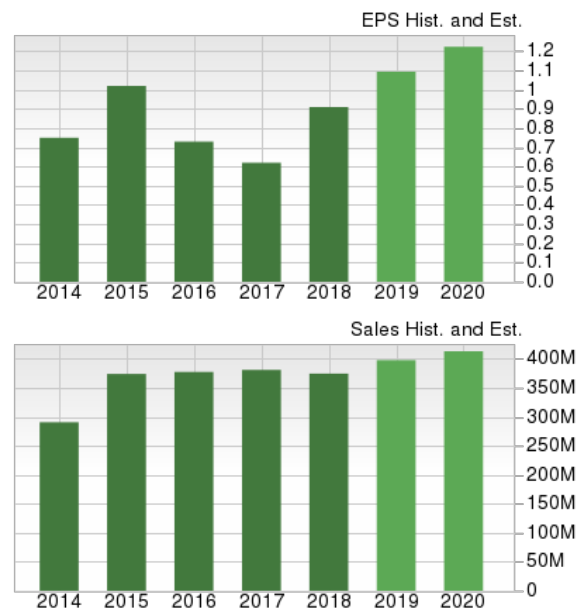
As of Dec 31, 2018, the company's backlog had 73 new IMAX with Laser systems and 98 upgrades to IMAX with Laser systems. It expects to have approximately 135 IMAX with Laser systems installed by the end of 2019.

Moreover, as of Dec 31, 2018, IMAX had an installed base of 1,505 theater systems — 1,409 commercial multiplex, 14 commercial destination, 82 institutional — operating in 80 countries.

The company is also exploring new businesses like Home Entertainment and investing in original content.

In September 2018, the company announced a new home entertainment licensing and certification program called IMAX Enhanced. Notable partners of the program were Sony Electronics, Sony Pictures, Paramount Pictures and Sound United.

Moreover, in 2017, IMAX piloted a virtual reality (VR) initiative that included several pilot IMAX VR Centers. However, in December 2018, the company decided to close its VR locations.



Reasons To Buy:

▲ IMAX is benefiting from studios' increasing emphasis on releasing franchise content and consumers' growing desire to experience this content in differentiated ways. The launch of cutting-edge IMAX with Laser in April 2018 is a key differentiator in this regard. The offering has gained significant adoption within a short span of time (more than 200 agreements since launch). Additionally, the company stated that partners like Cineworld, AMC Networks and Pathé are increasingly installing IMAX Laser systems, which is a positive.

IMAX's expanding global footprint, growing number of blockbuster movies and strong slate of releases are key catalysts.

▲ Growing number of blockbuster movies like *Avengers:Endgame*, *Captain Marvel*, *Lion King* and *Spider-Man* is a key catalyst for IMAX. Further, a strong slate of releases, including *Hobbs & Shaw* (released in August), *It: Chapter 2*, *Joker*, *Terminator: Dark Fate*, *Frozen II*, *Jumanji: The Next Level* and *Star Wars Episode IX*, as well as local language titles are likely to drive growth in the rest of 2019. Moreover, the company is expected to gain from the launch of new pricing programs, which are expected to increase foot traffic, thereby driving IMAX's top-line growth in the long haul.

▲ International market is a major growth driver for IMAX. The company signed several deals in third-quarter 2019 across China, the Middle East and Japan. The company's growing focus on China increased box office contribution from Greater China driven by blockbuster Hollywood and Chinese language titles. Moreover, partnership with ticketing platform Maoyan and growth in IMAX theaters in the country boosted box-office revenues.

▲ Moreover, IMAX's plans to enter into strategic collaborations with key streaming companies and its active discussions regarding the same is a positive. The company believes that as studio and streaming companies' are increasingly eyeing blockbuster content, global theatrical releases may help them reach wider audience quickly and monetize on areas like merchandise, toys and video games among others. IMAX looks to cash in on this opportunity with its growing footprint of theaters by offering differentiated launches and technology.

▲ IMAX intends to generate cost savings to the tune of \$20 million on an annual basis through its move to trim 14% of its workforce. The synergies are anticipated to be realized from the third quarter of this year.

Reasons To Sell:

- ▼ IMAX's significant exposure to China, its second largest revenue generating market, is a concern. Greater China continues to be IMAX's largest market, with approximately 31.6% of overall revenues generated in third-quarter 2019.
- ▼ Moreover, IMAX faces significant risk from foreign currency volatility as it derives a significant portion of its revenues from International markets.
- ▼ IMAX faces significant competition in the out-of-home entertainment industry. Moreover, the continuing evolution of home video, pay-per-view, streaming services, video-on-demand, DVD, Internet and syndicated and broadcast television also presents significant threat to IMAX's growth prospects.

Significant exposure to China, exposure to foreign exchange volatility, significant competition and failure of new businesses to gain traction are headwinds.

Last Earnings Report

IMAX's Q3 Earnings Surpass Estimates, Revenues Rise Y/Y

IMAX Corporation reported third-quarter 2019 adjusted earnings of 21 cents per share that beat the Zacks Consensus Estimate by 2 cents and increased 50% year over year.

Total revenues of \$86.4 million increased 5.2% from the year-ago quarter. However, the figure missed the Zacks Consensus Estimate of \$87 million.

The year-over-year revenue growth was driven by an upside in the network business segment.

Category-wise, services and rentals revenues were up 12% and 21.8% year over year to \$44.2 million and \$17.6 million, respectively.

However, equipment and product sales decreased 14.1% from the year-ago quarter to \$21.7 million. Finance income decreased 1.5% year over year to \$2.8 million.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-1.12%
EPS Surprise	10.53%
Quarterly EPS	0.21
Annual EPS (TTM)	0.97

Segment Details

Network Business

IMAX network business revenues were \$43.2 million, up 17.8% year over year due to an increase in both IMAX DMR revenues and contingent rent received from joint revenue sharing arrangements due to the success of *The Lion King: The IMAX Experience*, *Spider-Man: Far From Home: The IMAX Experience*, *Hobbs & Shaw: The IMAX Experience* and local language blockbuster *Ne Zha: The IMAX Experience* in China.

Within the segment, IMAX DMR revenues were up 19.2% to \$26.7 million.

Gross box office from IMAX DMR films increased 19.2% year over year to \$246.1 million in the reported quarter. The increase was primarily due to 39.8% increase in international gross box office, excluding China, and 23.3% year-over-year increase in domestic gross box office.

Notably, Greater China is currently IMAX's largest market measured by revenues and has accounted for roughly 31.6% of total revenues on a year-to-date basis.

IMAX's largest single international partnership is in China with Wanda Film. Wanda's total commitment is for 359 theater systems in Greater China (of which 344 theater systems are under the parties' joint revenue sharing arrangement).

Notably, IMAX released 26 films (20 new and 6 carryovers) compared with 29 films (24 new and 5 carryovers) in the year-ago quarter.

Joint revenue sharing arrangements-contingent rent was \$16.5 million, up 15.5% year over year.

Theater Business

IMAX theater business generated revenues of \$37.7 million, which decreased 7.4% year over year, driven by one lesser system installation under sales and sales-type lease arrangement in the quarter.

Within this segment, IMAX systems revenues decreased 10.2% from the year-ago quarter to \$21 million. Theater system maintenance revenues were \$13.7 million, up 10%.

However, Joint revenue sharing arrangements-fixed fees was \$1.44 million, down 48.6% year over year. Other theater revenues declined 24.9% to \$1.56 million in the reported quarter.

New Business & Others

New Business generated revenues of \$0.54 million and other revenues were \$0.77 million in third-quarter 2019.

Network Growth Statistics

As on Sep 30, 2019, 71% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 68.8% as on Sep 30, 2018.

There were 1,568 IMAX theater systems (1,473 commercial multiplexes, 14 commercial destinations, 81 institutional) operating in 81 countries as on Sep 30, 2019.

In third quarter 2019, IMAX installed 30 new IMAX theater systems and upgraded 9 systems. New installs consisted of 14 sales-type, 12 JVs and 4 hybrids. Notably, total signings were 30 in the third quarter.

There were 607 theaters in backlog as of Sep 30, 2019 compared with 635 in the corresponding period of 2018.

In the third quarter, the company signed deals across regions – Saudi Arabia (12 new systems), China (6 new systems), Austria (2 system upgrades), India (2 new systems) and more.

The company's large deals include CGV deal in China for 40 theaters and Cineworld (Regal) deal for 15 U.S. theaters.

Operating Details

Gross margin expanded 320 basis points (bps) on a year-over-year basis to 54.5% in the reported quarter.

Network business gross margin expanded 200 bps on a year-over-year basis to 63.4%, driven principally by higher box office, partially offset by 11.8% increase in cost of goods sold.

Theater gross margin was 48.9% in third-quarter 2019, down from 49.6% in the year-ago period due to fewer systems installed in the quarter.

Adjusted EBITDA was \$32.4 million in the reported quarter compared with \$25.8 million in the year-ago period. Adjusted EBITDA margin expanded 610 basis points to 37.5%.

Selling, general & administrative (SG&A) expenses increased 10.6% year over year to \$29.5 million.

Research & development (R&D) expenses decreased 66.3% on a year-over-year basis to \$1.4 million primarily due to decreased spending on the company's updated laser-based digital projection system compared to the year-ago quarter.

Operating income margin expanded 500 bps year over year to 16.7% in the reported quarter.

Balance Sheet & Cash Flow

As of Sep 30, 2019, IMAX had cash and cash equivalents of \$102.5 million compared with \$106.5 million in the prior quarter.

Cash flow from operating activities was \$67.3 million compared with \$49.2 million in the prior quarter.

Free cash flow was \$7.77 million compared with \$34.1 million in the prior quarter.

2019 Guidance

Box office is expected to grow in low double digits compared with the earlier guidance of mid-to-high single-digit range. IMAX is anticipated to install 185-190 theater systems. The company expects to upgrade 45 screens to IMAX laser.

Total theaters equipped with IMAX with Laser are now expected to be slightly below the previous guidance of approximately 140 systems.

Additionally, adjusted EBITDA margin is anticipated to increase in the range of 41% to 42% indicating an increase from 39.6% in 2018.

The company anticipates its box-office performance to be strong in 2019, owing to popular releases like *Avengers: Endgame*, *Spider Man: Far From Home* and *Lion King*.

IMAX stated that films including *Bond 25* will use IMAX cameras in 2020. Notably, Comcast's Universal Pictures is one of the producers of the film.

Recent News

On Dec 17, IMAX announced that it generated gross revenues of more than \$1.035 billion at the global box office, a record in its history.

On Sep 2, 2019, IMAX subsidiary IMAX China collected box office gross of RMB250 million in August from IMAX theaters across Greater China.

On Jul 28, 2019, IMAX division, IMAX China Holding, announced that *Ne Zha*, the first Chinese animated film released in IMAX theatres, made a new company record for the best opening weekend of animated films released in China, beating *Despicable Me 3*. The film is estimated to have generated almost RMB 54 million during its opening weekend.

On Jul 24, 2019, IMAX announced a partnership with Cineworld Group PLC, per which 15 new IMAX with Laser systems to Regal theatres will be rolled out across the United States.

On Jul 16, 2019 IMAX announced plans to expand partnership with CGV Holdings Limited, under which the former will open 40 new IMAX theatres across China.

Valuation

IMAX shares are up 0.7% in the six months period and 6.1% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 9.1%, the Zacks Consumer Discretionary sector is up 4% in the six months period. Over the past year, the Zacks sub-industry is up 0.2% and the sector is up 25.8%, respectively.

The S&P 500 index is up 8.4% in the six months period and 27.4% in the past year.

The stock is currently trading at 3.16X forward 12-month sales, which compares to 1.22X for the Zacks sub-industry, 2.39X for the Zacks sector and 3.49X for the S&P 500 index.

Over the past five years, the stock has traded as high as 8.15X and as low as 2.71X, with a 5-year median of 3.94X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 3.39X forward 12-month sales.

The table below shows summary valuation data for IMAX

Valuation Multiples - IMAX					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.16	1.22	2.39	3.49
	5-Year High	8.15	2.13	3.19	3.49
	5-Year Low	2.71	1.22	1.81	2.54
	5-Year Median	3.94	1.69	2.55	3
EV/Sales TTM	Current	3.03	1.64	3.34	3.26
	5-Year High	9.42	2.38	4.02	3.3
	5-Year Low	2.5	1.43	2.7	2.14
	5-Year Median	3.99	1.84	3.44	2.79
EV/EBITDA TTM	Current	9.9	12.96	12.8	12.0
	5-Year High	31.8	13.0	17.8	12.9
	5-Year Low	7.24	5.34	11.1	8.49
	5-Year Median	15.9	9.59	12.4	10.7

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 253)



Top Peers

AMC Networks Inc. (AMCX)	Neutral
Comcast Corporation (CMCSA)	Neutral
Cinemark Holdings Inc (CNK)	Neutral
Dolby Laboratories (DLB)	Neutral
Lions Gate Entertainment Corp. (LGF.A)	Neutral
MSG Networks Inc. (MSGN)	Neutral
Netflix, Inc. (NFLX)	Neutral
CBS Corporation (VIAC)	Neutral

Industry Comparison Industry: Film And Television Production And Distribution				Industry Peers		
	IMAX Neutral	X Industry	S&P 500	AMCX Neutral	DLB Neutral	NFLX Neutral
VGM Score	B	-	-	A	B	F
Market Cap	1.26 B	1.28 B	23.76 B	2.18 B	6.96 B	144.40 B
# of Analysts	5	3	13	4	4	13
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.27%	0.00%
Value Score	C	-	-	A	C	F
Cash/Price	0.08	0.11	0.04	0.35	0.14	0.03
EV/EBITDA	11.10	8.69	13.97	2.52	16.40	16.45
PEG Ratio	0.96	0.96	2.02	0.49	1.97	2.01
Price/Book (P/B)	2.05	1.34	3.38	3.32	3.01	21.05
Price/Cash Flow (P/CF)	13.79	8.38	13.70	1.38	20.42	16.24
P/E (F1)	16.80	16.91	18.83	4.53	25.66	60.24
Price/Sales (P/S)	3.30	1.11	2.68	0.71	5.61	7.65
Earnings Yield	5.95%	5.83%	5.30%	22.07%	3.90%	1.66%
Debt/Equity	0.00	0.28	0.72	5.00	0.00	1.81
Cash Flow (\$/share)	1.49	1.54	6.94	28.27	3.40	20.31
Growth Score	B	-	-	C	C	D
Hist. EPS Growth (3-5 yrs)	-3.73%	2.35%	10.56%	19.02%	7.05%	72.13%
Proj. EPS Growth (F1/F0)	11.88%	11.94%	7.41%	-5.19%	10.96%	63.58%
Curr. Cash Flow Growth	18.54%	-3.21%	14.83%	1.97%	-0.04%	28.72%
Hist. Cash Flow Growth (3-5 yrs)	2.66%	2.53%	9.00%	15.14%	3.73%	30.20%
Current Ratio	1.72	1.13	1.23	2.71	4.50	0.73
Debt/Capital	1.09%	51.97%	42.92%	84.53%	0.00%	64.43%
Net Margin	7.99%	-1.75%	11.08%	15.12%	20.56%	7.49%
Return on Equity	6.90%	1.94%	17.10%	106.13%	9.37%	23.65%
Sales/Assets	0.43	0.62	0.55	0.55	0.44	0.66
Proj. Sales Growth (F1/F0)	3.87%	0.00%	4.20%	1.69%	6.94%	21.88%
Momentum Score	B	-	-	B	A	D
Daily Price Chg	0.34%	0.00%	0.33%	-0.89%	0.96%	1.93%
1 Week Price Chg	-5.03%	0.00%	0.13%	0.18%	0.83%	-2.32%
4 Week Price Chg	-4.87%	3.08%	3.31%	3.38%	3.84%	8.90%
12 Week Price Chg	-0.39%	4.78%	9.70%	-17.58%	13.09%	17.59%
52 Week Price Chg	10.33%	-3.97%	30.28%	-30.59%	16.39%	21.61%
20 Day Average Volume	268,721	268,721	1,603,615	606,781	284,565	5,491,207
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.03%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.03%
(F1) EPS Est 12 week change	-1.08%	-3.80%	-0.57%	-3.49%	-0.21%	-4.81%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	-0.11%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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