

## IMAX Corporation (IMAX)

**\$11.61** (As of 05/01/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

### Summary

IMAX shares have outperformed the industry on a year-to-date basis. The company is benefiting from strong growth in network business, driven by strength in gross box office from IMAX DMR. Moreover, a solid slate of movie releases is expected to drive the top line. IMAX's strong cash balance and flexible business model positions the company well to manage through coronavirus-led lockdown and be prepared for reopening of theaters. However, IMAX's significant exposure to China, its second largest revenue generating market, is a concern. Management expects slump in IMAX China box office revenues, primarily due to the coronavirus outbreak. The company postponed theatrical releases planned for the Chinese New Year holiday, which is expected to hurt top-line growth.

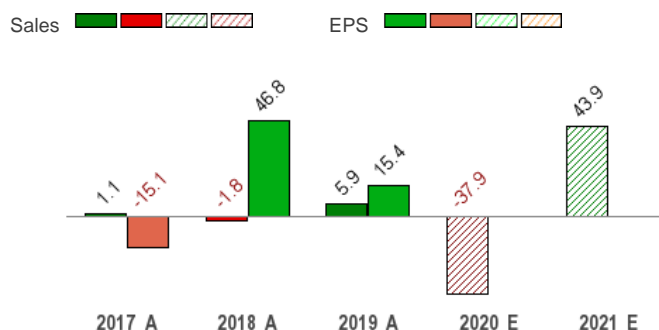
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$24.90 - \$6.01
20 Day Average Volume (sh)	1,318,758
Market Cap	\$712.4 M
YTD Price Change	-43.2%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Film and Television Production and Distribution</a>
Zacks Industry Rank	Bottom 45% (140 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-300.0%
Last Sales Surprise	-20.4%
EPS F1 Est- 4 week change	-600.0%
Expected Report Date	NA
Earnings ESP	-62.0%
P/E TTM	29.0
P/E F1	NA
PEG F1	NA
P/S TTM	2.0

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	62 E	85 E	83 E	107 E	354 E
2020	35 A	38 E	69 E	95 E	246 E
2019	80 A	105 A	86 A	124 A	396 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.06 E	\$0.17 E	\$0.16 E	\$0.27 E	\$0.77 E
2020	-\$0.48 A	-\$0.20 E	\$0.05 E	\$0.15 E	-\$0.13 E
2019	\$0.18 A	\$0.32 A	\$0.21 A	\$0.35 A	\$1.05 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 05/01/2020. The reports text is as of 05/04/2020.

## Overview

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

The company reported revenues of \$395.7 million in 2019. It generates revenues primarily from four main groups: Network business (49.7% of 2019 revenues), Theater business (45.6%), New business (0.7%) and other (3.9%).

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 2019, 60 films were converted through the IMAX DMR process and released at theaters in the IMAX network by film studios compared to 70 films in 2018.

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 139 new theaters, 147 upgrades to existing IMAX theaters and 52 upgrades to existing backlog arrangements.

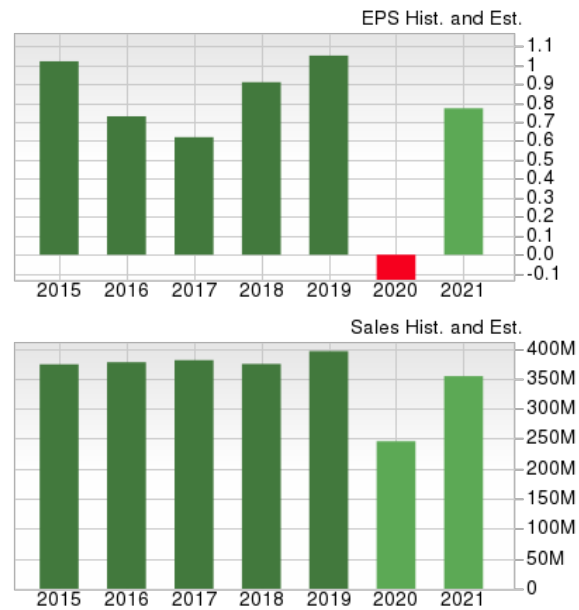
As of Dec 31, 2019, the company's backlog had 144 new IMAX with Laser systems, 92 upgrades to IMAX with Laser systems and has installed 130 IMAX with Laser systems.

Moreover, as of Dec 31, 2019, IMAX had an installed base of 1,624 theater systems — 1,529 commercial multiplex, 14 commercial destination, 81 institutional — operating in 81 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 located in a number of multiplexes and a stand-alone venue, each retrofitted with proprietary VR pods that permitted interactive, moveable VR experiences. However, in December 2018, the company decided to close its VR locations as part of its strategic review.



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## 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.

▲ Moreover, a strong slate of releases, including *Wonder Woman 1984*, *No Time To Die* (newest instalment in the James Bond franchise), Chris Nolan's latest sci-fi epic, *TENET*, Paramount's *Top Gun: Maverick* and *Detective Chinatown 3*, Marvel's *Black Widow* and *Eternals to Fast 9* as well as local language titles are likely to drive growth in 2020. Further, 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 fourth-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.

▲ IMAX generates steady cash flow, which offers management the opportunity to invest in product innovations, acquisitions and business development. The company generated cash flow from operations of \$90.4 million in fourth-quarter 2019. Moreover, free cash flow increased 38.6% sequentially to \$10.7 million in the fourth quarter. The company's ability to generate solid free cash flow is expected to help it sustain current dividend payout level at least in the near term. Total amounts drawn and available under the credit facility as of Dec 31, 2019 were \$20 million and \$280 million, respectively.

Moreover, at the end of the fourth quarter, the company had debt-to-total capital ratio of 0.02, which gives an indication that its debt level is manageable. The metric stood at 0.5 for the same period. Also, IMAX's Times Interest Earned ratio as measured by EBIT divided by total interest expense stood at 25 at the end of the quarter. The company had no outstanding long-term debt as of Dec 31, 2019.

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### 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% of overall revenues generated in 2019. Moreover, the company postponed theatrical releases due to the coronavirus breakout in China, which is expected to hurt its top-line growth in the near term.
- ▼ 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 Q4 Earnings & Revenues Surpass Estimates

IMAX Corporation reported fourth-quarter 2019 adjusted earnings of 35 cents per share that beat the Zacks Consensus Estimate by 16.7% and increased 34.6% year over year.

Total revenues of \$1.24 billion beat the Zacks Consensus Estimate by 5.1% and increased 14.1% from the year-ago quarter.

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

Category-wise, equipment & product sales and services revenues were up 32.8% and 1.9% year over year to \$61.6 million and \$43.6 million, respectively.

However, rental revenues and financial income decreased 2.3% and 10% from the year-ago quarter to \$16.3 million and \$2.8 million, respectively.

### Segment Details

#### *Network Business*

IMAX network business revenues were \$43 million, up 3.3% year over year due to an increase in IMAX DMR revenues.

Within the segment, IMAX DMR revenues were up 6.5% to \$26.9 million. Gross box office from IMAX DMR films increased 1.9% year over year to \$241.1 million in the reported quarter driven by international gross box office and domestic gross box office, which came in at \$96.2 million and \$91.5 million, respectively.

The company reported Greater China box office revenues of \$53.4 million for the fourth quarter 2019. Notably, Greater China is currently the company's largest market, measured by revenues, with around 31% of overall revenues generated from the company's China operations in 2019.

Joint revenue sharing arrangements-contingent rent was \$16.3 million, down 1.4% year over year.

#### *Theater Business*

IMAX theater business generated revenues of \$77.6 million, which increased 25.3% year over year.

Within this segment, IMAX systems revenues increased 38.9% from the year-ago quarter to \$57.1 million. Theater system maintenance revenues were \$13.3 million, up 9.1%.

However, Joint revenue sharing arrangements-fixed fees were \$4.5 million, down 23.7% year over year. Other theater revenues declined 1% to \$2.6 million in the reported quarter.

#### *New Business & Others*

New Business generated revenues of \$0.84 million and other revenues were \$2.8 million in fourth-quarter 2019.

### Network Growth Statistics

As of Dec 31, 2019, 73% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 70.1% as of Dec 31, 2018.

There were 1,624 theater systems (1,529 commercial multiplex, 14 commercial destination, 81 institutional) operating in 81 countries and territories as of Dec 31, 2019.

There were 531 theaters in backlog as of Dec 31, 2019 compared with 564 in the corresponding period of 2019.

The company installed 58 new IMAX systems in the fourth quarter of 2019.

### Operating Details

Gross margin expanded 10 basis points (bps) on a year-over-year basis to 50.2% in the reported quarter.

Network business gross margin contracted 240 bps on a year-over-year basis to 56.8%, primarily driven by increased contractual marketing expense.

Theater gross margin expanded 410 bps on a year-over-year basis to 51.2% in fourth-quarter 2019 due to more systems installed in the quarter.

Adjusted EBITDA was \$46.9 million in the reported quarter compared with \$36.3 million in the year-ago period. Adjusted EBITDA margin expanded 440 basis points to 37.8%.

Selling, general & administrative (SG&A) expenses increased 13.3% year over year to \$31.5 million.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	-20.43%
EPS Surprise	-300.00%
Quarterly EPS	-0.48
Annual EPS (TTM)	0.40

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Research & development (R&D) expenses decreased 32% on a year-over-year basis to \$1.5 million primarily due to decreased spending on the company's updated laser-based digital projection system compared with the year-ago quarter.

Operating income margin expanded to 20% in the reported quarter compared with 3.4% in the year-ago period.

#### **Balance Sheet & Cash Flow**

As of Dec 31, 2019, IMAX had cash and cash equivalents were \$109.5 million compared with \$102.5 million in the prior quarter.

Cash flow from operating activities was \$90.4 million compared with \$67.3 million in the prior quarter.

Free cash flow was \$10.77 million compared with \$7.77 million in the prior quarter.

#### **2020 Guidance**

IMAX stated that films including *Wonder Woman 1984*, *No Time To Die* (newest instalment in the James Bond franchise), Chris Nolan's latest sci-fi epic, *TENET*, Paramount's *Top Gun: Maverick* and *Detective Chinatown 3*, Marvel's *Black Widow* and *Eternals* to *Fast 9* among others will use IMAX cameras in 2020.

Notably, Comcast's Universal Pictures is one of the producers of the film.

Management expects four of the postponed titles from the Chinese New Year slate to arrive in theaters in 2020. However, slump in IMAX China box office revenues is anticipated due to the coronavirus outbreak.

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## Recent News

On Apr 23, IMAX announced that based on its preliminary assessment of the group's currently available unaudited consolidated management accounts, net loss attributable to owners for the first quarter of 2020 is expected to be between \$26 million to \$28 million against net profit attributable to owners of \$11 million in the year-ago quarter.

The estimated loss can be attributed to loss of box office revenues, and costs as a result of the closure of all 700 IMAX theaters in Chinese mainland since 24 Jan 2020 and the decrease in theater system installations during the outbreak of coronavirus in Chinese mainland in the first quarter of 2020.

On Mar 22, IMAX announced that the company had \$109 million in cash and only \$20 million drawn on its \$300 million revolving credit facility as of 2019 end. Other than the revolving credit facility, the company had no debt on its balance sheet.

On Feb 21, IMAX announced that Daisy Ridley will narrate the latest IMAX educational film, *Asteroid Hunters*, about the cosmic origin of asteroids and the potential threat they pose to our world. The film will be released in select IMAX and IMAX 3D theaters starting Apr 17, 2020.

On Jan 23, IMAX announced its decision to postpone the theatrical releases planned for the Chinese New Year holiday in view of the coronavirus outbreak.

On Jan 7, IMAX announced partnership with Vindex, a leading e-sports infrastructure platform, to create e-sports events and experiences exclusively for IMAX theaters worldwide.

## Valuation

IMAX shares are down 40.4% in the year-to-date period and 50% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 43.8% and 20.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 44.2% and 17.5%, respectively.

The S&P 500 index is down 10.8% in the year-to-date period and 2.7% in the past year.

The stock is currently trading at 1.9X trailing 12-month sales, which compares to 0.62X for the Zacks sub-industry, 2.12X for the Zacks sector and 3.07X for the S&P 500 index.

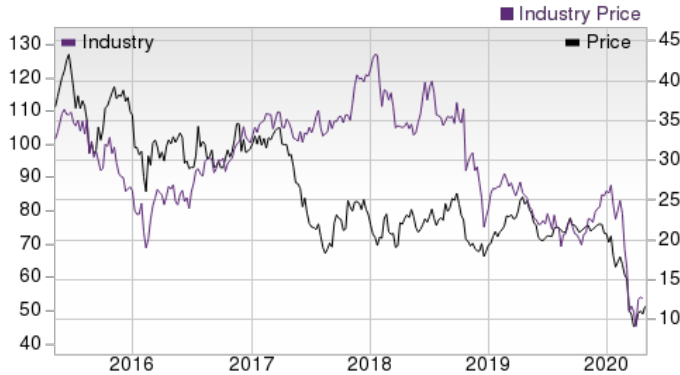
Over the past five years, the stock has traded as high as 10.03X and as low as 1.11X, with a 5-year median of 4.07X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 2X trailing 12-month sales.

The table below shows summary valuation data for IMAX

Valuation Multiples - IMAX					
		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	1.9	0.62	2.12	3.07
	5-Year High	10.03	2.16	3.67	3.67
	5-Year Low	1.11	0.51	1.71	2.42
	5-Year Median	4.07	1.51	2.94	3.18
EV/Sales TTM	Current	1.61	1.16	2.65	2.83
	5-Year High	9.42	2.38	4.02	3.45
	5-Year Low	0.83	0.98	2.26	2.16
	5-Year Median	3.64	1.77	3.4	2.82
EV/EBITDA TTM	Current	5.1	2.48	9.6	10.5
	5-Year High	31.8	12.2	17.6	12.9
	5-Year Low	2.69	2.26	8.3	8.27
	5-Year Median	14.4	8.34	12.2	10.8

As of 04/28/2020

## Industry Analysis Zacks Industry Rank: Bottom 45% (140 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
AMC Networks Inc. (AMCX)	Neutral	3
Comcast Corporation (CMCSA)	Neutral	3
Cinemark Holdings Inc (CNK)	Neutral	3
Dolby Laboratories (DLB)	Neutral	3
Lions Gate Entertainment Corp. (LGF.A)	Neutral	3
MSG Networks Inc. (MSGN)	Neutral	3
Netflix, Inc. (NFLX)	Neutral	2
ViacomCBS Inc. (VIAC)	Underperform	4

Industry Comparison Industry: Film And Television Production And Distribution				Industry Peers		
	IMAX	X Industry	S&P 500	AMCX	DLB	NFLX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	2
VGM Score	F	-	-	A	D	C
Market Cap	712.42 M	1.09 B	20.61 B	1.34 B	5.87 B	182.64 B
# of Analysts	5	4	14	3	4	12
Dividend Yield	0.00%	0.00%	2.11%	0.00%	1.51%	0.00%
Value Score	D	-	-	A	D	D
Cash/Price	0.17	0.13	0.06	0.69	0.16	0.03
EV/EBITDA	4.21	3.43	11.87	2.15	13.96	16.13
PEG Ratio	NA	0.65	2.47	0.47	1.77	2.15
Price/Book (P/B)	1.12	0.70	2.67	1.93	2.51	21.72
Price/Cash Flow (P/CF)	6.39	6.24	10.66	0.81	17.65	16.47
P/E (F1)	NA	15.19	19.01	3.30	23.00	64.58
Price/Sales (P/S)	2.03	0.83	2.10	0.44	4.77	8.53
Earnings Yield	-1.12%	2.63%	5.05%	30.32%	4.35%	1.55%
Debt/Equity	0.00	0.25	0.72	4.70	0.00	1.69
Cash Flow (\$/share)	1.80	1.59	7.01	29.42	3.40	25.49
Growth Score	D	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	-1.02%	1.78%	10.88%	17.97%	7.05%	92.67%
Proj. EPS Growth (F1/F0)	-112.57%	5.94%	-7.32%	-21.36%	3.59%	55.69%
Curr. Cash Flow Growth	18.50%	-3.21%	5.92%	2.83%	-0.04%	26.74%
Hist. Cash Flow Growth (3-5 yrs)	8.55%	8.55%	8.55%	10.25%	3.73%	30.03%
Current Ratio	1.82	1.32	1.23	2.90	4.77	0.82
Debt/Capital	0.92%	51.52%	43.84%	83.74%	0.00%	62.76%
Net Margin	-3.07%	-5.41%	11.08%	12.43%	16.71%	10.43%
Return on Equity	1.05%	1.51%	16.44%	88.17%	8.82%	30.83%
Sales/Assets	0.40	0.59	0.54	0.55	0.43	0.66
Proj. Sales Growth (F1/F0)	-37.92%	0.00%	-1.42%	-2.50%	1.43%	22.41%
Momentum Score	F	-	-	B	B	A
Daily Price Chg	-8.66%	-2.86%	-2.39%	-10.57%	-1.49%	1.93%
1 Week Price Chg	-3.54%	0.00%	-1.74%	-13.05%	0.93%	0.48%
4 Week Price Chg	30.68%	22.97%	17.07%	6.95%	13.31%	13.45%
12 Week Price Chg	-36.08%	-30.76%	-18.53%	-37.22%	-16.36%	14.42%
52 Week Price Chg	-54.72%	-43.93%	-9.82%	-58.42%	-7.93%	10.76%
20 Day Average Volume	1,318,758	447,624	2,641,413	691,263	406,801	10,694,829
(F1) EPS Est 1 week change	-264.41%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-600.00%	-21.54%	-6.62%	0.00%	-2.60%	7.53%
(F1) EPS Est 12 week change	-154.78%	-37.81%	-13.28%	-11.08%	-6.22%	7.72%
(Q1) EPS Est Mthly Chg	-152.63%	-33.19%	-11.97%	0.00%	-9.01%	18.58%



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## 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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### Zacks Style Scores

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	D
Growth Score	D
Momentum Score	F
VGM Score	F

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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