

IMAX Corporation (IMAX)

\$11.36 (As of 05/15/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 03/22/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

Summary

IMAX reported weak first-quarter 2020 results. The year-over-year decrease in revenues was attributed to the closure of the company's entire theater network and decrease in theater system installations due to the COVID-19 pandemic. IMAX's significant exposure to China, its second largest revenue generating market, is a concern. IMAX China box office revenues dipped while the company postponed theatrical releases planned for the Chinese New Year holiday. However, IMAX shares have outperformed the industry on a year-to-date basis. The company's strong cash balance and flexible business model positions it well to manage through coronavirus-led lockdown and be prepared for reopening of theaters. Moreover, a solid slate of movie releases in the second half of 2020 and early 2021 is expected to drive the top line.

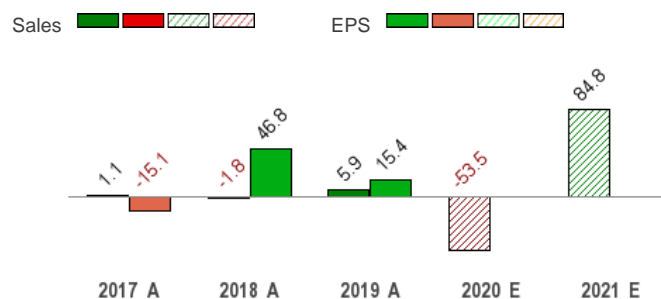
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$23.53 - \$6.01
20 Day Average Volume (sh)	1,194,335
Market Cap	\$667.8 M
YTD Price Change	-44.4%
Beta	1.49
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Film and Television Production and Distribution
Zacks Industry Rank	Top 32% (81 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-300.0%
Last Sales Surprise	-20.4%
EPS F1 Est- 4 week change	-1,013.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	28.4
P/E F1	NA
PEG F1	NA
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	60 E	92 E	82 E	106 E	340 E
2020	35 A	15 E	53 E	82 E	184 E
2019	80 A	105 A	86 A	124 A	396 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.03 E	\$0.20 E	\$0.12 E	\$0.24 E	\$0.55 E
2020	-\$0.48 A	-\$0.42 E	-\$0.13 E	\$0.04 E	-\$1.03 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 05/15/2020. The reports text is as of 05/18/2020.

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, CGV Holdings Limited, Cineworld Group, Les CinémasPathé Gaumont and others for a total of 140 new theaters, 157 upgrades to existing IMAX theaters and 52 upgrades to existing backlog arrangements.

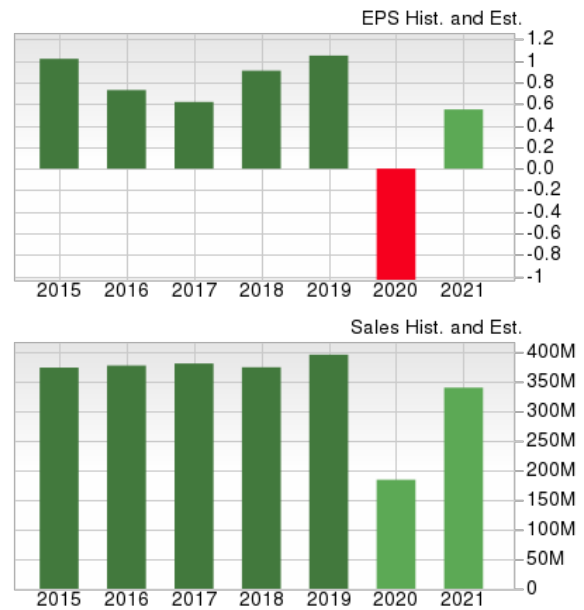
As of Mar 31, 2020, 140 IMAX with Laser systems were installed, and the company's backlog included 147 new IMAX with Laser systems and 94 upgrades to IMAX with Laser systems.

Moreover, as of Mar 31, 2020, IMAX had an installed base of 1,616 theater systems — 1,526 commercial multiplex, 14 commercial destination, 76 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.



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.
- ▲ 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's improved liquidity makes the stock attractive to investors. As of Mar 31, 2020, cash, cash equivalents totaled \$352.3 million compared with \$109.5 million as of Dec 31, 2019. In first-quarter 2020, management decided to draw down the remaining available credit facility borrowing capacity of \$280 million, in response to uncertainties associated with the outbreak of the COVID-19 global pandemic and its impact on the company's business. Although total debt of \$300 million as of Mar 31, 2020 increased from \$18 million as of Dec 31, 2019, it should not be a bother for IMAX due to the solid cash balance.

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

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 Q1 Loss Wider Than Expected, Revenues Decline Y/Y

IMAX Corporation reported first-quarter 2020 adjusted loss of 48 cents per share, which was wider than the Zacks Consensus Estimate of a loss of 12 cents per share. The figure was down from adjusted earnings of 18 cents per share reported in the year-ago quarter.

Total revenues of \$34.9 million missed the Zacks Consensus Estimate by 20.5% and declined 56.5% from the year-ago quarter.

The year-over-year decrease in revenues was attributed to the closure of substantially the entire theater network of the company and decrease in theater system installations due to the COVID-19 pandemic in the reported quarter.

Category-wise, technology sales, Image Enhancement & Maintenance Services, Technology Rentals and financial income were down 62.8%, 53.1%, 67.1% and 5% year over year to \$5.6 million, \$20.7 million, \$5.9 million and \$2.5 million, respectively.

Segment Details

IMAX Technology Network Business

IMAX technology network business revenues were \$43 million, down 63.9% year over year due to decrease in IMAX DMR revenues.

Within the segment, IMAX DMR revenues were down 62% year over year to \$10.6 million due to 62.9% decrease in IMAX global box office revenues connected to COVID-19-related theater closures.

Notably, Chinese New Year titles slated for first-quarter release were postponed as a result of theater closures.

Joint revenue sharing arrangements-contingent rent was \$5.9 million, down 66.9% year over year.

IMAX Technology Sales & Maintenance

IMAX technology sales & maintenance business generated revenues of \$15 million, down 49.9% year over year.

Within this segment, IMAX systems revenues declined 56.3% from the year-ago quarter to \$5.6 million. IMAX maintenance revenues were \$7.3 million, down 43.1%.

Moreover, Joint revenue sharing arrangements-fixed fees were \$0.77 million, down 69.7% year over year. Other theater revenues declined 22.3% to \$1.3 million in the reported quarter.

New Business & Others

New Business generated revenues of \$0.47 million. Film distribution and post-production generated revenues of \$2.4 million and other revenues were \$0.23 million in first-quarter 2020.

Network Growth Statistics

There were 1,616 theater systems (1,526 commercial multiplex, 14 commercial destination, 76 institutional) operating in 81 countries and territories as of Mar 31, 2020.

As at Mar 31, 2020, 140 IMAX with Laser systems were installed, and the company's backlog included 147 new IMAX with Laser systems and 94 upgrades to IMAX with Laser systems.

As at Mar 31, 2020, the company signed IMAX with Laser agreements with leading, global exhibitors such as AMC Entertainment Holdings, Inc., Cineworld Group PLC, CGV Holdings Limited and Les Cinémas Pathé Gaumont among others for a total of 140 new theaters, 157 upgrades to existing IMAX theaters, and 52 upgrades to existing arrangements in the company's backlog.

Operating Details

Gross margin contracted from 56.3% in the year-ago quarter to 14.6% in first-quarter 2020.

IMAX Technology Network business gross margin contracted from 51.9% in the year-ago quarter to 17% in first-quarter 2020.

IMAX technology sales & maintenance gross margin contracted from 43.5% in the year-ago quarter to 31.3% in first-quarter 2020.

Adjusted EBITDA for the quarter was a loss of \$4.4 million, down from \$28.5 million in the year-ago period.

Selling, general & administrative (SG&A) expenses increased 3.6% year over year to \$28.6 million.

Research & development (R&D) expenses increased 93.7% on a year-over-year basis to \$2.2 million.

Operating income margin contracted from 17.5% in the year-ago quarter to -110.1% in the reported quarter.

Balance Sheet & Cash Flow

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

As of Mar 31, 2020, IMAX had cash and cash equivalents of \$352.3 million compared with \$109.5 million in the prior quarter.

Cash flow from operating activities was \$5.96 million compared with \$90.4 million in the prior quarter.

Free cash flow was \$3.25 million compared with \$10.77 million in the prior quarter.

2020 Guidance

The company is actively preparing to reopen to what is projected to be an IMAX-friendly second-half release slate.

Moreover, all major Hollywood releases that were scheduled for the first quarter have been delayed to second half of 2020 or 2021. However, slump in IMAX China box office revenues is anticipated till the coronavirus-led lockdown continues.

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 44.4% in the year-to-date period and 50.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 41.5% and 20.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 37.5% and 13.3%, respectively.

The S&P 500 index is down 11% in the year-to-date period while up 0.8% in the past year.

The stock is currently trading at 2.75X trailing 12-month sales, which compares to 0.56X for the Zacks sub-industry, 1.97X for the Zacks sector and 3.24X for the S&P 500 index.

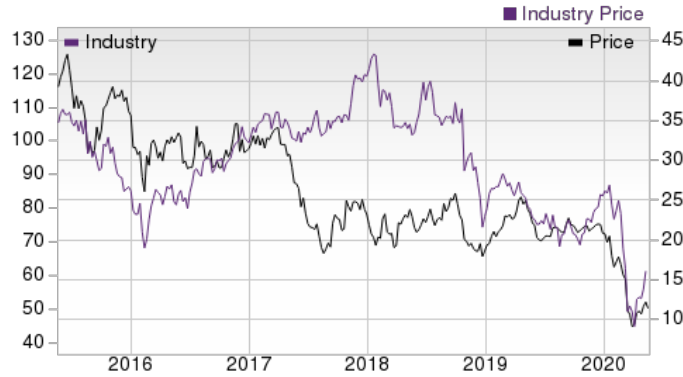
Over the past five years, the stock has traded as high as 8.15X and as low as 1.21X, with a 5-year median of 3.76X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 2.89X trailing 12-month sales.

The table below shows summary valuation data for IMAX

Valuation Multiples - IMAX					
		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	2.75	0.56	1.97	3.24
	5-Year High	8.15	2.13	3.2	3.44
	5-Year Low	1.21	0.56	1.67	2.53
	5-Year Median	3.76	1.65	2.53	3.01
EV/Sales TTM	Current	0.9	1.54	2.71	2.79
	5-Year High	9.42	2.23	4.04	3.46
	5-Year Low	0.4	1.4	2.29	2.15
	5-Year Median	3.6	1.78	3.39	2.82
EV/EBITDA TTM	Current	5.7	2.56	9.4	10.6
	5-Year High	31.8	12.1	17.6	12.9
	5-Year Low	2.69	2.29	8.3	8.26
	5-Year Median	14.2	8.24	12.3	10.8

As of 05/15/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 254)



Top Peers

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

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)	3	-	-	4	4	2
VGM Score	F	-	-	B	B	C
Market Cap	667.82 M	1.11 B	18.98 B	1.53 B	5.40 B	199.75 B
# of Analysts	5	4	14	3	4	11
Dividend Yield	0.00%	0.00%	2.21%	0.00%	1.64%	0.00%
Value Score	F	-	-	A	D	D
Cash/Price	0.49	0.12	0.06	0.49	0.16	0.03
EV/EBITDA	2.23	2.66	11.60	2.21	12.21	17.39
PEG Ratio	NA	0.67	2.58	0.71	2.54	2.35
Price/Book (P/B)	1.24	0.77	2.59	2.40	2.28	23.75
Price/Cash Flow (P/CF)	6.32	6.32	10.28	0.94	15.77	17.82
P/E (F1)	NA	18.01	19.01	5.01	33.07	70.56
Price/Sales (P/S)	1.91	0.83	1.92	0.51	4.34	9.33
Earnings Yield	-9.07%	2.81%	5.06%	19.94%	3.02%	1.42%
Debt/Equity	0.00	0.28	0.75	4.78	0.00	1.69
Cash Flow (\$/share)	1.80	1.59	7.01	29.42	3.40	25.49
Growth Score	F	-	-	C	B	B
Hist. EPS Growth (3-5 yrs)	-9.62%	0.39%	10.82%	16.67%	7.02%	92.67%
Proj. EPS Growth (F1/F0)	-198.29%	-5.88%	-10.48%	-40.67%	-33.50%	55.87%
Curr. Cash Flow Growth	18.50%	8.37%	5.68%	2.83%	-0.04%	26.74%
Hist. Cash Flow Growth (3-5 yrs)	8.55%	8.55%	8.52%	10.25%	3.73%	30.03%
Current Ratio	1.24	1.22	1.27	2.17	4.75	0.82
Debt/Capital	1.01%	51.52%	44.25%	84.04%	0.00%	62.76%
Net Margin	-3.07%	-8.70%	10.54%	10.16%	17.74%	10.43%
Return on Equity	1.08%	1.52%	16.29%	71.92%	9.45%	30.83%
Sales/Assets	0.38	0.56	0.54	0.55	0.43	0.66
Proj. Sales Growth (F1/F0)	-53.41%	0.00%	-2.55%	-7.50%	-9.11%	22.47%
Momentum Score	D	-	-	D	B	B
Daily Price Chg	-1.13%	0.00%	0.20%	-0.95%	-1.03%	2.77%
1 Week Price Chg	4.65%	7.15%	3.23%	8.28%	-0.09%	4.88%
4 Week Price Chg	12.25%	11.18%	0.88%	18.88%	-6.21%	3.42%
12 Week Price Chg	-33.95%	-27.45%	-23.26%	-24.02%	-26.47%	17.67%
52 Week Price Chg	-51.58%	-45.54%	-12.56%	-49.90%	-16.94%	26.41%
20 Day Average Volume	1,194,335	220,385	2,553,422	1,033,239	446,682	9,603,937
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-12.70%	0.00%	0.00%
(F1) EPS Est 4 week change	-1,013.56%	-6.34%	-5.57%	-27.87%	-35.29%	7.14%
(F1) EPS Est 12 week change	-305.31%	-27.14%	-16.22%	-35.86%	-39.80%	7.69%
(Q1) EPS Est Mthly Chg	-276.97%	-24.95%	-11.63%	-39.66%	-86.67%	18.38%

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.

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	F
Growth Score	F
Momentum Score	D
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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