

IMAX Corporation (IMAX)

\$16.58 (As of 02/24/20)

Price Target (6-12 Months): **\$14.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/28/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

IMAX shares have underperformed the industry in the past six months. IMAX's significant exposure to China, its second largest revenue generating market, is a concern. Management expects slump in IMAX China box office in the near term, 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. Further, IMAX faces significant competition in the out-of-home entertainment industry. Moreover, higher marketing expenses are expected to hurt profits in the near term. However, IMAX reported impressive fourth-quarter 2019 results that benefitted from strong growth in network and theater business driven by strength in gross box office from IMAX DMR films, partially offset by a decrease in new business and other segments.

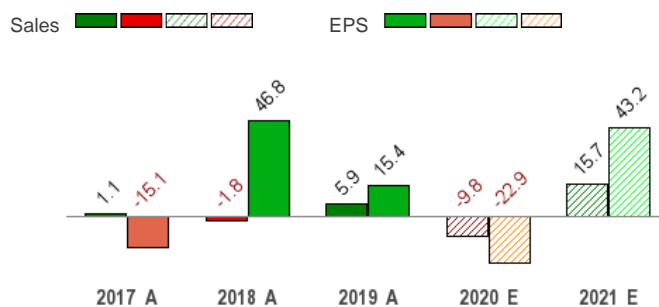
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.75 - \$16.25
20 Day Average Volume (sh)	834,763
Market Cap	\$1.0 B
YTD Price Change	-18.9%
Beta	1.01
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Film and Television Production and Distribution
Zacks Industry Rank	Bottom 2% (251 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	16.7%
Last Sales Surprise	4.9%
EPS F1 Est- 4 week change	-36.1%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	15.6
P/E F1	20.5
PEG F1	1.2
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	85 E	111 E	96 E	121 E	413 E
2020	62 E	93 E	91 E	110 E	357 E
2019	80 A	105 A	86 A	124 A	396 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.21 E	\$0.35 E	\$0.26 E	\$0.34 E	\$1.16 E
2020	\$0.02 E	\$0.24 E	\$0.25 E	\$0.28 E	\$0.81 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 02/24/2020. The reports text is as of 02/25/2020.

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.

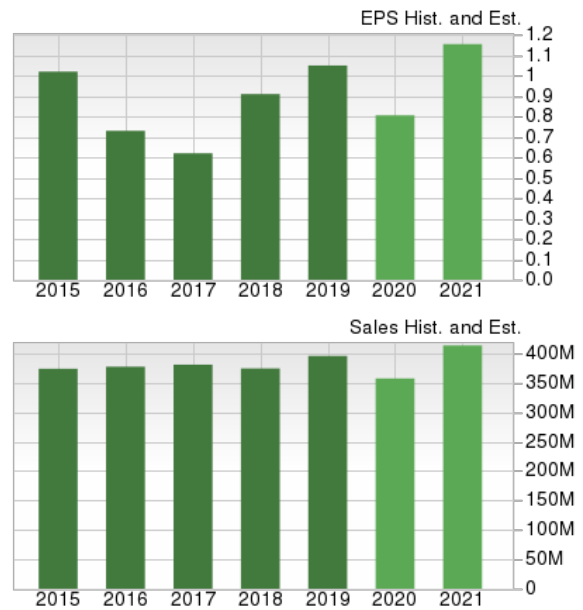
As of Dec 31, 2019, the company's backlog had 144 new IMAX with Laser systems, 92 upgrades to IMAX with Laser systems and has installed 130 IMAX with Laser systems.

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.



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.

Risks

- 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.
 - Growing number of blockbuster movies like *Avengers:Endgame*, *Captain Marvel*, *Lion King*, *Spider-Man*, *Joker*, *Terminator: Dark Fate*, *Frozen II*, *Jumanji: The Next Level* and *Star Wars Episode IX* is a key catalyst for IMAX. Further, 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. 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 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.
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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 **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	4.94%
EPS Surprise	16.67%
Quarterly EPS	0.35
Annual EPS (TTM)	1.06

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.

Recent News

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.

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.

Valuation

IMAX shares are down 20.3% in the past six-month period and 20.4% over the trailing 12-month period. While stocks in the Zacks sub-industry are down 9.8%, the Zacks Consumer Discretionary sector is up 11.5% in the past six-month period. Over the past year, the Zacks sub-industry is down 24.9% while the sector is up 10%, respectively.

The S&P 500 index is up 16.5% in the past six-month period and 18.7% in the past year.

The stock is currently trading at 2.75X forward 12-month sales, which compares to 1.05X for the Zacks sub-industry, 2.2X for the Zacks sector and 3.39X for the S&P 500 index.

Over the past five years, the stock has traded as high as 8.15X and as low as 2.52X, with a 5-year median of 3.88X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$14 price target reflects 2.32X 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	2.75	1.05	2.2	3.39
	5-Year High	8.15	2.13	3.19	3.43
	5-Year Low	2.52	1.05	1.81	2.54
	5-Year Median	3.88	1.69	2.54	3
EV/Sales TTM	Current	2.29	1.68	3.19	3.16
	5-Year High	9.42	2.25	4.04	3.33
	5-Year Low	2.29	1.43	2.68	2.16
	5-Year Median	3.83	1.79	3.41	2.82
EV/EBITDA TTM	Current	7.3	3.17	12.2	12.0
	5-Year High	31.8	12.1	17.6	12.9
	5-Year Low	7.14	3.17	10.8	8.48
	5-Year Median	15.1	8.55	12.4	10.8

As of 02/24/2020

Industry Analysis Zacks Industry Rank: Bottom 2% (251 out of 255)



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
Netflix, Inc. (NFLX)	Neutral
CBS Corporation (VIAC)	Neutral
MSG Networks Inc. (MSGN)	Underperform

Industry Comparison Industry: Film And Television Production And Distribution				Industry Peers		
	IMAX Underperform	X Industry	S&P 500	AMCX Neutral	DLB Neutral	NFLX Neutral
VGM Score	C	-	-	A	D	F
Market Cap	1.02 B	1.02 B	23.50 B	1.90 B	7.14 B	161.79 B
# of Analysts	5	3	13	4	4	13
Dividend Yield	0.00%	0.00%	1.83%	0.00%	1.25%	0.00%
Value Score	C	-	-	A	D	F
Cash/Price	0.11	0.09	0.04	0.40	0.13	0.03
EV/EBITDA	6.41	3.01	13.56	2.38	16.88	14.28
PEG Ratio	1.15	1.15	2.02	0.58	2.02	2.03
Price/Book (P/B)	1.59	0.80	3.20	2.91	3.05	21.34
Price/Cash Flow (P/CF)	9.22	8.57	13.05	1.21	20.78	14.46
P/E (F1)	20.15	18.93	18.56	4.06	26.22	60.87
Price/Sales (P/S)	2.57	0.85	2.60	0.62	5.80	8.03
Earnings Yield	4.89%	4.89%	5.38%	24.61%	3.81%	1.64%
Debt/Equity	0.00	0.30	0.70	5.00	0.00	1.95
Cash Flow (\$/share)	1.80	1.59	7.03	28.27	3.40	25.49
Growth Score	B	-	-	C	D	F
Hist. EPS Growth (3-5 yrs)	-1.02%	1.78%	10.85%	19.02%	7.05%	82.45%
Proj. EPS Growth (F1/F0)	-23.24%	-2.44%	6.90%	-8.72%	10.45%	46.66%
Curr. Cash Flow Growth	18.50%	-5.10%	6.78%	1.97%	-0.04%	26.74%
Hist. Cash Flow Growth (3-5 yrs)	8.55%	8.55%	8.38%	15.14%	3.73%	30.03%
Current Ratio	1.82	1.32	1.22	2.71	4.77	0.90
Debt/Capital	0.92%	51.52%	42.37%	84.53%	0.00%	66.06%
Net Margin	11.85%	-1.88%	11.57%	15.12%	16.71%	9.26%
Return on Equity	7.66%	1.97%	16.80%	106.13%	8.82%	28.45%
Sales/Assets	0.45	0.60	0.55	0.55	0.43	0.66
Proj. Sales Growth (F1/F0)	-9.68%	0.00%	4.03%	0.94%	7.24%	20.90%
Momentum Score	F	-	-	C	C	B
Daily Price Chg	-1.89%	-3.20%	-2.98%	-2.25%	-2.58%	-2.99%
1 Week Price Chg	-5.16%	-5.16%	-0.94%	-7.25%	0.30%	-0.09%
4 Week Price Chg	-3.66%	-4.18%	-0.94%	-9.17%	2.66%	7.53%
12 Week Price Chg	-22.23%	-2.75%	1.75%	-8.57%	4.87%	18.94%
52 Week Price Chg	-20.21%	-27.13%	10.97%	-45.82%	8.06%	1.32%
20 Day Average Volume	834,763	730,402	2,001,782	484,551	491,239	5,077,166
(F1) EPS Est 1 week change	-10.94%	0.00%	0.00%	-1.69%	0.00%	0.00%
(F1) EPS Est 4 week change	-36.13%	-14.63%	-0.05%	-1.69%	0.28%	0.22%
(F1) EPS Est 12 week change	-37.53%	-14.63%	-0.21%	-4.87%	-0.46%	10.60%
(Q1) EPS Est Mthly Chg	-114.82%	-7.04%	-0.49%	0.00%	1.02%	0.03%

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	C
Growth Score	B
Momentum Score	F
VGM Score	C

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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