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Q4 2022 Creative Realities Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Will Logan** *Creative Realities - CFO*  
**Rick Mills** *Creative Realities - CEO*

## CONFERENCE CALL PARTICIPANTS

**Brian Kinstlinger** *Alliance Global Partners - Analyst*  
**Howard Halpern** *Taglich Brothers - Analyst*

## PRESENTATION

### Operator

Good morning. At this time, I would like to welcome everyone to the Creative Realities Incorporated 2022 Year End Earnings Conference Call.

This call will be recorded. A copy will be available on the company's website at CRI.com following the completion of the call.

The company has prepared remarks summarizing the annual results, along with additional industry and company updates.

Joining me on the call today is Rick Mills, Chief Executive Officer; and Will Logan, Chief Financial Officer. Thank you very much.

Mr. Logan, you may begin.

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### **Will Logan** *Creative Realities - CFO*

Thanks, [Norma]. Good morning. This is Will Logan, Chief Financial Officer of Creative Realities Inc. Welcome to our financial results and earnings call for the year ended December 31 2022.

I would like to take this opportunity to remind you that our remarks today will include forward-looking statements.

The words anticipated, believes, expects, intends, plans, estimates, projects, should, may, propose and similar expressions of the negative versions of such words or expressions as they relate to us or our management are intended to identify forward-looking statements.

Actual results may differ materially from those contemplated by these forward-looking statements.

Factors that could cause these results to differ materially are set forth in our annual financial statements on Form 10-K and to be filed with the SEC later today March 30, 2023. Any forward-looking statements that we make on this call are based on assumptions as of today and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we may present both GAAP and non-GAAP financial measures.

A reconciliation of GAAP to non-GAAP measures is included in our public filings and in our earnings release that was released this morning.

It is now my pleasure to introduce Rick Mills, CEO of Creative Realities Inc.

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### **Rick Mills** *Creative Realities - CEO*

Thanks, Will. Good morning, everybody. I want to start by telling everyone that we're very pleased to announce our Q4 and fiscal year 2022 results. What a year it has been. Record revenue, record profits, exceeding the guidance that we previously provided to investors.

Additionally, we have a number of important announcements and updates, including several new client acquisitions, and significant client expansions. The cumulative impact of which will be transformative for the company. As a result, we will be updating revenue, profit

and ARR guidance for 2023 and also initiating communication of revenue backlog. There is a lot to cover, all of it positive, and shareholders should be excited about our growth in value creation prospects. So let's get to it.

We had record fourth quarter revenue of \$10.5 million, representing an increase of \$5.1 million or 94% year-over-year growth. This brings our full year 2022 revenue to a record \$43.4 million and that exceeds the guidance that we have provided for the same period and it represents an increase of 135% year-over-year.

While the acquisition of Reflect in February 2022 is contributing to these results, the combined company revenue has grown organically greater than 40% as compared to the pro forma results of the combined company through December 31, 2021.

I want to thank all of the CRI team members for the dedicated focus to grow 40% year-over-year. It's their hard work and diligence that allow us to continue to show these remarkable gains.

Adjusted EBITDA for Q4 2022 was a \$1 million, with an adjusted EBITDA margin for the quarter of 9.8%, substantially achieving our targeted exit run rate of 10%, significantly outperforming the results for the same period in 2021, and providing the foundation for enhanced profitability as we move through 2023 on a post integrated basis.

For fiscal year 2022, adjusted EBITDA was \$3.8 million with an 8.8% margin, which also represents another record performance for the company. The year-over-year improvement of \$2.6 million translates to a 215% improvement in adjusted EBITDA over fiscal year 2021.

As with revenue for fiscal year 2022, our adjusted EBITDA results also met the guidance we have previously provided to investors. This continues to demonstrate our ability to extract and enhance profit, as we continue to scale the business. We expect to accelerate improved adjusted EBITDA margins through 2023, now that the integration of Reflect is fully complete.

Moving on to my next point, we have communicated that a key strategic initiative for our management team, is to continue to grow ARR or annual recurring revenue, which is primarily comprised of Software-as-a-Service subscription SaaS, subscriptions to our Enterprise-Grade Digital Signage Solution.

Our stated goal entering 2022 was to increase our ARR run rate by 25% from approximately \$12 million on a pro forma consolidated basis, exiting 2021 to \$15 million in entering 2023.

Through December 31, we grew our ARR run rate to in excess of \$14.8 million, despite the effective elimination of our Safe Space Subscription Solutions revenue of about \$0.7 million from the prior year. With that said, congratulations team CRI, great work and we'll turn it over to Will, just for a few notes on our business activities.

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#### **Will Logan *Creative Realities* - CFO**

Thanks, Rick. There's no doubt that 2022 was a banner year for CRI, from the acquisition of Reflex Systems in February of 2022, the strong organic growth and improve profitability. Management executed upon its value creation objectives. While 2022 was a banner year and the next few years look to be transformational. We have a number of important updates and announcements to make including significant new client acquisitions, expanded relationships with existing clients and our drive-thru product that is gaining traction in the marketplace. As such, we'll be updating revenue profit and ARR guidance for 2023 and discussing backlog.

Before we get to those updates. I'd like to comment on some recent activities. First, the reverse stock split. Effective at the open of the NASDAQ capital market on March 27th, 2023, the Company effected a one-for-three reverse stock split. This was done to regain compliance with the NASDAQ minimum bid rule. The company has previously communicated to investors its intent to retain this listing and access to the NASDAQ Capital Markets. Management believes that access to the NASDAQ Capital Markets is necessary to bridge the gap and the continued disparity between the observed trading price of the company shares and our intrinsic value. At some point, our stock price needs to reflect our intrinsic value and financial results and we believe that it will.

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**Rick Mills Creative Realities - CEO**

Hi, Will just one comment to the folks here. We felt it was very important that we do what was necessary to remain listed as we believe the public markets will ultimately recognize the value creation.

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**Will Logan Creative Realities - CFO**

Yes, thanks Rick. Second point on the Pegasus offer. Earlier this week, we announced that the special committee of the company's Board of Directors rejected the proposal by Pegasus Capital Advisors to acquire all outstanding shares of the company's common stock. The proposal was for a post reverse split purchase price of \$2.49 per share in cash. The Special Committee concluded that such a proposal significantly undervalued the company based on the committee's views of the intrinsic value, given the company's existing business and current and future prospects, further amplified by the recent positive developments announced today and it's not in the best interest of the company's current existing shareholders.

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**Rick Mills Creative Realities - CEO**

Again, this is Rick, I just add one comment. Pegasus has been a great partner for more than a decade. They were here before I showed up and we value their input, we do not believe the offer was fair to the current shareholders. But we look forward to continue ongoing relationship with Pegasus, is a great partner.

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**Will Logan Creative Realities - CFO**

One other note, on the secure promissory note. On February 11 2023 the company executed an amendment to the secured promissory note out to the Reflex stockholders. The amendment eliminated a balloon payment of \$1.25 million that was due in February of 2023 and extended the maturity date for a one-year period to February 17 2024. During that extended period, we will continue to make monthly principal payments of about 104,000 consistent with what we've been doing for the last year and the annual interest rate moves from 0.59% to 4.6%, which will accrue and is payable in full on the new maturity date. This reduced the short term cash requirements for debt service and provided runway for us to execute on our operating plan for 2023.

Rick, with that can you provide some insight into our strategic vision and what is driving the continued acceleration of our revenue growth and how we should think about our backlog from current customers?

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**Rick Mills Creative Realities - CEO**

Thanks, Will. So first and foremost, new ad supported networks. There's a growth in ad support networks across the country today, we have finalized our designation as the exclusive deployment partner for a new ad supported network that will be deployed across a key experiential leisure vertical. This company has a private equity sponsor that has agreed to fund a deployment of up to 1000 locations over an 18-month period, and a contract valued at up to \$46 million in revenue to CRI over this same 18-month time period.

This demonstrates once again, our unique end-to-end capability that differentiates CRI in the signage, omnichannel marketing and digital media industries. Given a material transaction of this magnitude in addition to other announcements that we will provide this morning, the company is poised to update revenue guidance for 2023. The company anticipates that substantial installation activities will begin in the second half of the year.

RFP activity. We continue to win in the RFP market. We've been actively engaged in a number of RFP processes, many for national recognized venues, brands, or QSR C-store chain. During the third quarter of 2022, we competed in an RFP process for a national fast casual chain and was ultimately selected as the go forward digital signage provider for the chain.

The ultimate scope of work scale of the deployment and timing, as communicated by the customer during the RFP process supports a total value of up to \$55 million over a three-year period to CRI with ongoing annual SaaS in excess of \$2 million annually, when fully deployed.

We are currently prohibited from naming the customer we're working through the legal and marketing processes in an effort for a joint announcement in the upcoming months. Additional, digital-out-of-home network deployments. Again we talked about 2023 being the year of ad supported networks. We are currently in advanced discussion with two additional engagements with a new partner

relationship to deploy and support digital-out-of-home networks in key vertical.

This will result in hardware, installation, day two, and SaaS revenues for up to a combined 2,000 location opportunity and incremental revenue up to \$32 million over a three-year period of time.

Finally, let's talk about our drive-thru solution. Last year on July 2022 CRI and our fast casual restaurant customer Freddy's Frozen Custard and steak burgers announced the launch of CRI's new digital drive-thru menu board solution. Freddy's has since begun to deploy this solution throughout the U.S. and is also utilizing creative realities for the implementation of Freddy's new, digitize outboard walk up and drive-thru solutions. We are their exclusive go forward partner for all new restaurant installs in the drive-thru and indoor menu board space.

Additionally, we have secured commitments, four our drive-thru product with three additional fast casual quick serve restaurant companies. We expect to deploy more than 150 additional drive-thru locations in 2023, utilizing our CRI solution, both hardware installation and incremental software subscription revenue growth.

From delivering transaction optimized content inside the box and drive-thru throughput, CRI is thrilled to be at the forefront of transformation in the restaurant industry. Delivering material value creation to its restaurant partners.

The market is underserved there are more than 200,000 drive-thru locations throughout the U.S., we believe 80% of them are static today. The opportunity for this product is tremendous and we are seeing consistent positive feedback when engaging with existing new and prospective customers.

Let's talk about guidance. 2023 revenue and profit ARR. On our last earnings call, we updated our 2023 full year revenue guidance to \$54 million with an adjusted EBITDA of 15% on an exit run rate basis. Given the number and significance of the developments that I have covered, this represents significant new and additional value creation prospects for CRI.

We are upwardly revising our 2023 revenue and additional 10% to \$60 million and maintaining our projected exit adjusted EBITDA run rate of 15%. We are projecting achieving an ARR exit run rate of \$17 million in 2023.

Now, just to be clear, we expect revenue and financial results in the first two quarters of 2023 to be similar to 2022 runway with a significant ramp in revenue in the second half of the year. Beginning in the June/July timeframe, we get really, really busy.

Finally, I'll turn it back over to Will here in a moment. But let me just address backlog. Our backlog calculation is comprised of anticipated rollout of project as indicated by our current customers under contract, we are under contracts with all of them. It includes all the revenue that would be received by the company by deploying the products and services necessary to service these projects, including revenues that are not currently subject to binding purchase orders or commitments.

Our backlog is at a record high at approximately \$110 million and far above any historical level in the company's recent history. For investors backlog works in tandem with ARR to support our revenue growth projections. Backlog primarily relates to new network deployments that will bring in project revenue to start, but almost always elevate our ARR on a sustaining or go forward basis.

As a management team, I, Will, the rest of the team we could not be more excited about the state of the company and the opportunities ahead of us. We have posted record results. And our prospects for new value creation already scale so significant that they are truly transformative. Management is continuing to continue to exploit this position for the benefit of our shareholders and stakeholders.

As for Q4, and fiscal review, 2022, turn it back to Will Logan.

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#### **Will Logan *Creative Realities* - CFO**

Thanks, Rick. We've historically spent time on this call providing an overview of our financial results for the year. Those results were published this morning in our earnings release report which included the balance sheet as of December 31 2022. The statement of

operations in the statement of cash flows for the year ended December 31 2022 and a detailed walk from net income to EBITDA and adjusted EBITDA.

Regarding those results, we know that the MD&A section of our annual report on Form 10-K, which will be published later today provides additional audited financial information. We've also provided a reconciliation of GAAP net income to non-GAAP quarterly EBITDA and adjusted EBITDA for the current and previous four quarters therein.

In the interest of time and the previous disclosures, we will apply as opposed to rehashing those numbers on this call, we will go straight into the Q&A.

[Norma], if you don't mind to open up the lines, we'd be happy to begin taking questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Brian Kinstlinger with Alliance Global Partners.

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### Brian Kinstlinger Alliance Global Partners - Analyst

Great. Thanks so much. Some really great news that you guys are sharing. It's great to see.

My question is demand, clearly is not an issue right now with all the wins you're announcing. Can you talk about the supply side your ability to locate screens players and your ability to deliver and will you need to invest in inventory in the first half of the year?

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### Rick Mills Creative Realities - CEO

Hi, Brian. This is Rick. Great question. Now we're effectively ahead of the supply chain issue. Our screen suppliers are well ahead of the curve, no issue. The metal vendors, the mount manufacturers, et cetera, have now clucked back up. We did suffer a little price increase over the past several years. But other than that, no, not an issue.

The player market has effectively caught up in Q2, and so we're very comfortable. We do have in this -- in one network, we have partnered with Cisco as a supplier, their route switch has historically been a number of months out. And that looks too we expect the land the Cisco route switch equipment needed for the network end of May early June. So once that hits, we're off to the races and do not expect any issue for the balance of this year.

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### Will Logan Creative Realities - CFO

Brian, with respect to the investment into inventory. With the size and nature of the opportunities that are coming to CRI, our contracts are increasingly shifting to material upfront cash deposits from those customers, so that we don't have the same working capital, churn or build up or degradation if you will, at the start or launch of those deployments.

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### Brian Kinstlinger Alliance Global Partners - Analyst

Wow. That's great. That would be the issue. Right?

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### Will Logan Creative Realities - CFO

Yes.

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### Brian Kinstlinger Alliance Global Partners - Analyst

My follow up question. We heard about a lot of big opportunities, so trying to pretend there are lots of them. But I didn't hear anything about strike 10. Is that signed, sealed and you're delivering? Have any expectations changed there? Thank you.

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**Rick Mills *Creative Realities - CEO***

No expectations have changed. We actually executed the contract on our end, and are waiting for the signature. The launch meeting is in -- the launch kickoff is in the next 10 days. So, we talked about it here as 1,000 location experiential rollout. But as you know, we've talked about it prior, that is now finally kicked off after four years.

**Brian Kinstlinger *Alliance Global Partners - Analyst***

Great. Thanks so much.

**Operator**

(Operator Instructions) Next question comes from Howard Halpern with Taglich Brothers.

**Howard Halpern *Taglich Brothers - Analyst***

Congratulations, guys. Great job. Now in terms of what you've been talking about deployments, and then the ARR, is there additional opportunity? And how is the like the mobile, digital advertising part of the business? So how do you see that sitting in over the next couple of years?

**Rick Mills *Creative Realities - CEO***

Well, when you talk about mobile, yes, mobile in web has historically occupied or commanded the greatest presence of those media dollars in the marketplace. That is, you are now seeing how a dramatic shift in that spend to digital out-of-home networks.

A simple example. And you know, again, this is a made up example, but just gives you a sense. If you're Coca Cola, you're going to run a \$50 million ad spend across TV, and convince somebody to get out of their couch and run to the nearest store to buy Coke, you have that option.

Today you have an option to run that same \$50 million ad spend across out-of-home networks contained in all major retailers where somebody is actively in the act of shopping, they can see a Coke special on the screen, and they can walk 10 feet to the cooler and pick up a 12 pack of Coke. And Coke gets immediate POS feedback on their \$50 million spend versus a brand advertise it, say across TV or print. Dramatic dollars are shifting to out-of-home networks. And that's why we're seeing tremendous opportunity in out-of-home network or ad supported networks.

Will, anything to add?

**Will Logan *Creative Realities - CFO***

Yes. Howard, as we continue to work with these partners developing and deploying these ad-based networks, we are certainly positioning CRI as the full services provider, both the hardware installation activities, the software support to manage and run the network, but also as an option and full capability service provider to assist in the sale of those ads, the media revenue component. So we're seeing a lot of traction, again, with our continued focus as a full services provider at the enterprise level.

**Howard Halpern *Taglich Brothers - Analyst***

Okay. And with all the upcoming deployments, are you comfortable with the operating expense structure you have, as you enter 2023?

**Will Logan *Creative Realities - CFO***

Yes. The short answer Howard is, yes. We're very comfortable and confident, we continue to believe and our models will tell us that, the larger our revenue gets, the more profitable that we will become on the bottom line.

We're at a point an inflection point in that model internally as we cross \$60 million \$70 million. And certainly as we progress towards \$100 million, we see this continuing to get to 25% on an adjusted EBITDA basis at that scale, and we're in the middle of that journey.

**Howard Halpern *Taglich Brothers - Analyst***

Okay. Well guys, keep up the great work.

**Will Logan *Creative Realities* - CFO**

Thanks, Howard.

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**Operator**

Thank you. That completes the question from the phone lines today. Mr. Logan, are there any additional inquiries from the investor relations inbox that would you would like to address?

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**Will Logan *Creative Realities* - CFO**

[Norma], it does not appear that there are any at this time.

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**Operator**

I will now turn the call back over to Mr. Logan for closing remarks.

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**Will Logan *Creative Realities* - CFO**

Great. Let me conclude the call by thanking all of our shareholders, clients, partners and employees for their continuing efforts commitment and support as we work together to transform CRI to the leading brand in digital signage solutions.

This concludes the CRI 2022 earnings call.

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**Operator**

Ladies and gentlemen this concludes today's conference. Thank you for your participation. You may now disconnect.

Everyone have a wonderful day.

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