

Creative Realities (Update)

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Corporate Speakers:

- Richard Mills; Creative Realities; Chief Executive Officer

Participants:

- Jason Kreyer; Craig-Hallum Capital Group; Analyst
- Brian Kinstlinger; Alliance Global Partners; Analyst
- Jon Hickman; Ladenburg Thalmann; Analyst
- Howard Halpern; Taglich Brothers; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the Investor Update Meeting. (Operator Instructions) Please advise that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Rick Mills, CEO. Please go ahead.

Richard Mills^ Good morning, everybody. It's been a fast and furious couple of days. Sorry to be a couple of minutes late starting the call. But I look forward to just talking about CRI and the CDM combination. So first and foremost, thank you for the call. Forward-looking statements. I think everybody is familiar with that. Let's get to the conference call agenda.

So the same that I will cover today is background and acquisition rationale, an overview of the Cineplex assets being acquired, transaction details and then really talk about what does this mean for CRI.

How it doubles our scale, expand total addressable market, increase the ARR, meaningful cost synergies and ultimately, the outlook for calendar year 2026. So first, a little background on the acquisition.

We -- back in right post-COVID, CDM, or Cineplex put the CDM business unit up for sale. And they ultimately -- we participated in that process, they ultimately decided to withdraw it from the market. But it really started the conversation. And for those of you on the call George Sautter, our Chief Strategy Officer.

George worked for Cineplex for -- I think it was 13 plus years. But so we -- George had joined CRI as a consultant to help in the first bid for CDM and then ultimately, George came on board as an employee of the company. But we kept the conversation going.

George and I would come up to Toronto a couple of times a year and sit down with the leadership of CDM and Cineplex and talk about the business unit. 2023, we actually got

in the same room and talked about why don't we put the two companies together, and they would be better together. 2024, we finally got into valuation discussions.

Well what would it look like? What would it take? What's the dollar value? And then ultimately, January of this year 2025, we executed NDA -- updated NDA and reviewed all the information and then ultimately, in May of this year, we gave them an indication of interest and then obviously here we are today.

Rationale for the acquisition, number one, scale. And as everybody on this call knows, we've talked about scale for a long time. This is a big -- go big or go home business, and this doubles the size of our company from \$50 million to \$100 million in revenue, creates one of the largest North American digital media companies focused on the segments we are focused, which is QSR, retail along with retail media networks, convenience stores, and stadium segments. Another interesting characteristics, both companies focus on large enterprise accounts.

We are not built for mom-and-pop signage users. We are built for enterprise accounts. The scope it expands our total addressable market with the addition and focus on the lottery vertical, but it also takes us into the media revenue generation business with media sales.

It also adds strength in content and strategy. And then last but not least, cost synergies, we identified a number of cost synergies. We believe there's about \$10 million that comes from a number of areas.

Yes, personnel is one of them; number two is support and their entire support structure; number three, the other area for synergies is really the fact that we would migrate a number of their users to our platform because today, they're paying third-party suppliers for use of other platforms. And with us, that goes away. Okay.

Let's talk about the revenue of the assets being acquired. They have a number of different buckets of revenue across the five verticals, I mean the four, five areas of the business. And so you can see the each area of the business. The area that really is growing rapidly is the media. You see in 2024, that's the [midical] -- vertical right in the middle.

They did about 20.7%. This year, they're tracking for a 25% growth. But in media, it's actually larger than that. And we expect this year in media, they will exceed \$30 million in revenue. So we are definitely excited about that. Now you look at the four verticals, the malls and real estate.

Of course, they have all of the large malls in Canada. And the next slide, I'll talk about the mall network, but they have established about 750 screens across 95 malls in Canada, 9 out of the top 10 malls in Canada. And they have existing accounts, but they generate revenue out of that retail media network.

The next section is the retail vertical, right? And so you see Save-On-Foods, which is a very large food supplier, grocery supplier throughout Canada; Suncor, which is a series of 1,500 C-store gas stations; and then North Carolina Lottery.

So in the retail, they have a number of accounts in the retail vertical. Financial, two of the biggest banks in Canada, Scotiabank and RBC, each both very large networks. So in Canada, you very much have the big four banks.

So they have 50% of the big four financials. And then the last vertical is QSR and just Tim Hortons and A&W are significant QSR customers, Tim Hortons specifically, they do all of the content here in Canada. It's a tremendous content account.

So those are the verticals that they play in, and of course, they line up with ours very well. Now let's talk about the mall network. Ivanhoe Cambridge, Cadillac Fairview, Oxford, three of the largest mall operators throughout Canada.

It's 76 of the most productive malls in Canada, 95 locations, 9 of the top 10. And so -- again, this is the network. It is jointly owned. In some cases, the equipment is owned by CDM, in other cases, the equipment is owned by the mall owner.

However CDM as the contract to sell the media in these malls. And we have an agreement and the sales for the media in those malls is generated at Cineplex corporate. Cineplex corporate, of course, they have a whole sales team that sells the movie screen at theater before the start of every movie.

So they have 180 movie theaters, 70% of the Canadian movie theater market. So the Cineplex sales team has been the strongest sales team in Canada selling this type of retail media network.

We signed a five-year exclusive representation for them to continue to sell the mall media for us. And we just -- we expect that area to grow. A little bit about the transaction detail. Purchase price is USD 50 million, give or take, depends upon the exchange rate on the day we closed, okay?

But it was financed with \$48.5 million of straight bank debt and \$30 million of convertible preferred equity at a fixed \$3 conversion price.

So the \$48.5 million senior debt comes from our current banking partner, First Merchants Bank, \$12.5 million of the revolving credit facility and 36% of a secured term. \$30 million convertible comes from North Run Capital. It is nontoxic. It's very, very traditional convertible preferred.

We're glad that Tom Ellis and Mike Bosco of North Run has teamed up with us to allow us to take this next step and grow. After three years, we do have a mandatory conversion is possible.

We have to hit certain EBITDA and debt ratios, but we can force conversion after a three-year time period. And there is a small coupon; it's a pick in that \$30 million convertible preferred. So what does this mean for CRI? Well number one, it strengthens leadership.

It expands the enterprise presence in digital signage, digital out-of-home and ad tech, okay? We pick up some key leadership in verticals particularly retail media networks, lottery with stadium, et cetera.

It adds recurring revenue, \$8 million of additional day one SaaS revenue and \$20 million of attractive media revenue. It expands our content capability, they -- CDM acts more as a true agency.

They have tremendous creative capabilities that we do a certain number of "menu boards". They do agency creative like top-tier agencies. And they elbowed their way into some of their customers and our agency of record like capabilities, okay? And we expect to do a lot of that with retail media network development as it grows.

It broadens our vertical, lottery. They won -- it was recently announced in the North Carolina Lottery contract, and it was \$54 million over a 10-year period. So that's tremendous, that is just in the beginning deployment stages.

We're initially deploying 1,500 locations as of today, as of yet, only 200 locations have been deployed. And they did announce an additional 500 locations will be added to that because they signed and announced they have reached an agreement with Food [Lion], all throughout the state of North Carolina, so they expect to add another 500 locations to the lottery network.

In addition, retail media network, we now own the largest mall digital out-of-home network in Canada, period.

So we're excited about that and increasing profitability, redundant platform eliminations. It reduces SG&A support debt costs and increased scale brings to significant operating leverage, leading to gross margin increase.

A couple of the synergy examples, number one, technology, CDM, they license third-party tech. They certainly pay well in excess of \$1 million a year for third-party tech. Over time we will convert some, if not all of that, to our own CMS and ad tech platforms, eliminates redundant platforms.

Additional media revenue is retained at reduced costs. So that's one type of synergy. Number two, deployment. They tend -- they outsourced all deployments. And we're a CRI, we routinely deploy infrastructure at scale, pretty simple.

So at the end of the day, reduce costs for ongoing and future rollouts for CDM customers. Most specifically, North Carolina Lottery and a couple of others that we're going to take over virtually right away.

Third, a leg of this synergy stool, day two support. They outsourced it to an offshore support center. We have a NOC located at our headquarters in Louisville, Kentucky. And over about a 120-day period, we will migrate.

We expect that to be completed by February or March, and that ends in reduced support cost. Hence, adds significant recurring revenue. So here we were, CRI is \$16 million approximately.

We're adding [8.2] of their ARR plus you add \$21 million of the media revenue, which is the portion we retain after commissions are paid to Cineplex. And at the end of the day, we're at \$45 million -- or about \$46 million in recurring type revenue by the end of 2025.

So this is a huge leap for us. And again, it continues to be all about scale. Outlook for 2026. Yes. There's -- accounting for the synergies, revenue will exceed \$100 million, okay? And adjusted EBITDA margins in the high teens. But once all synergies are realized, it will take 12 months. It could go to 14 months.

But by the end of 2026, we see adjusted EBITDA margins that will exceed 20% and significant free cash flow generation. So that is the quick investor update. At this point in time, I'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Jason Kreyer of Craig-Hallum Capital Group.

Jason Kreyer^ Congratulations, this seems like a fantastic deal. I want to start out talking about scale. So when you go into competitive processes that you're going into today, how much more important or how much does that conversation change going forward now that you've got significantly more reach and significantly more capabilities? What is the likelihood of your ability to operate on bigger deals or to win more deals?

Richard Mills^ Well that's a great question, Jason. Number one, it adds a lot of expertise in retail media networks because when we can look at customer in the eye and say, yes, we own and run the largest retail media network in the malls in Canada. The credibility that gives you is tremendous.

As you talk today to customers about retail media network, number one. Number two, for customers that have joint operations across Canada and the U.S., now it's a big deal because we can cover both territories with kind of one interface to the customer. So we see it as a big game changer for us.

Jason Kreyer^ I also want to talk about where that retail media opportunity meets the media capabilities inside of CDM right now.

So what capabilities do you have to be able to go back to all your existing footprint with greater capabilities to now deploy more retail media opportunities and get them kind of that targeted capability on an in-store basis?

Richard Mills^ Well number one, the challenge that as we look to U.S.-based customers, right? The U.S.-based customers, we don't have a sales organization in the U.S. yet, but look for us to try and go find the right sales organizations that we can add in the U.S. to address U.S. customers. In Canada, it's pretty simple. We have the resources.

So we can approach Canadian customers now with our lower cost structure and potentially win more retail media networks in Canada because we simply have a lower cost structure, and we have all the ad tech up and running, and we have sales capability in Canada. So we think it's going to be a game changer.

Jason Kreyer^ That's great. We haven't talked a lot about some of the other segments that they have capabilities like financial and real estate. Can you maybe just talk a little bit more about what you see the cross-sell opportunity in those new verticals?

Richard Mills^ Well in financial, we think it gives us a strong credible sales base to go grow U.S.-based financial verticals because we have a couple of large financials now. We had Charles Schwab, we had Western Union.

But now when you add Scotiabank, you have the large -- and RBC. You're really operating at a different level for credibility to attack the financial verticals. So there's that. The addition of lottery, we expect to launch a lottery vertical what I have been told from the CDM folks who have been chasing lottery now for about a year.

In the next 12 months, 10 lotteries in the U.S. are putting out RFPs to do effectively what North Carolina has done. So we see that as a tremendous opportunity to grow lottery. We have North Carolina Lottery. By the way, the North Carolina Lottery is the fourth largest lottery in the United States. I had no idea.

But North Carolina Lottery is considered a leader in the industry. And so a lot of lotteries look to North Carolina Lottery to see what they're doing. So we think that gives us a tremendous leg up in the lottery market, okay? Now one other vertical.

As you know we've had a lot of success in the U.S. in our QSR and drive-thru product. We see a tremendous opportunity to bring the drive-thru product up here to Canada and introduce that to Canadian QSRs.

We think that will also be a game changer and really excite kind of our Canadian-based sales team to go chase a bunch of QSRs here in Canada because they haven't had that

range of products and depth of products that we now supply them with. So yet all those opportunities up, Jason, there's a lot to go after.

Jason Kreyer^ There is a lot to go after. I appreciate all the color. And again, congratulations. It seems like a great deal. I appreciate the time Rick.

Operator^ (Operator Instructions) And our next question comes from the line of Brian Kinstlinger of Alliance Global Partners.

Brian Kinstlinger^ Congratulations, Rick on which sounds like a long process here. I wanted to start with lottery.

If we could -- you could kind of break down in these contracts, how much is hardware versus ad tech of these types of contracts? When do you expect the bulk of this remaining 1,300 to 1,800 locations will be installed? And then what's the competitive landscape since you just talked about a lot of new RFPs?

Richard Mills^ So great questions. Number one, we expect the North Carolina Lottery to be fully installed and up and running by the end of Q1 2026. If I could figure out how to get it in by Christmas time they would love it. It is not practical. So -- and then Q2, we think we'll go chase -- or go install the 500 additional Food [Lion] locations that they have contracted for.

Now we have yet to give them a price and got to go through those processes. But our contract with them is exclusive, and we don't see an issue. So we'll roll that out. So then it's a 10-year operating agreement might still be 9.5 years left.

It generates several million in additional SaaS per year once they are up and operating these locations, okay? Number two, the competitive landscape, there is a company called -- that is based out of Canada that is a competitor in the lottery market.

It is owned by StrataCash. And we believe they -- shall I say, they've had the market somewhat to themselves, and we believe there's a great opportunity for us as a young and hungry competitor to go win that business. And with a North Carolina Lottery as a referral, we think it gives us a tremendous leg up.

Brian Kinstlinger^ And are you the one generating the revenue on the screens for North Carolina, so you all install 1,500 screens, plus or minus? And what's the ARPU on that if you could share that at all?

Richard Mills^ No. We are not responsible for any of -- generating any revenue from those screens. It is a strictly SaaS arrangement where we are operating the screens and managing them for the North Carolina Lottery.

What North Carolina Lottery will be promoting on those screens is lottery sales. And I believe the retailers that they've given it to because of the North Carolina Lottery is

paying for the equipment that goes in these convenience stores. And it's all about lift in lottery tickets.

And I believe they've given the local retailer, 30% of the loop or some amount of the loop but most of it is promoting the sale of lottery tickets.

Brian Kinstlinger^ Now is there a screen or hardware component to their business? And if there is not, is that a synergistic opportunity for when they win new business for you to now provide screens as well?

Richard Mills^ For who, Brian?

Brian Kinstlinger^ For example, if you want a lottery or media or contract with a mall who was providing new screens on those contracts and it wasn't CDM, would that be now fall to something that your services would help cross-sell for them? Does that make sense?

Richard Mills^ Yes. Well so there's two pieces there. Number one is the hardware piece. So up here in the Canadian mall network, CDM has made some investments in some of that hardware and in the other side of the equation, it's the mall owner who's made investments.

And if the mall owner makes the hardware investment, the mall owner takes a bigger percentage of the revenue share, right? If CDM made the hardware investments, CDM takes more of the revenue share.

Brian Kinstlinger^ Got it. And is there a similar seasonality to their business than CRI?

Richard Mills^ Certainly, in the retail mall network, Q4 is always their biggest quarter. Yes. Because everybody wants to be in those malls beginning in the second half of October through November and December. Everybody wants to advertise in the malls.

Brian Kinstlinger^ Great. Okay. And then you -- two other questions, sorry. You raised, I think when I did the math, \$79 million-ish, your purchase price is \$50 million. Can you speak to the excess uses of cash?

Richard Mills^ Yes, \$79 million. So there was -- we have an existing credit facility of \$21 million that had to be paid back. So the \$46 million is starting from 0. We're paying off our existing credit line, have a new credit facility, \$46 million plus \$30 million of the injection.

Brian Kinstlinger^ Got it. You paid down the CRI debt?

Richard Mills^ Yes. Yes. That got "paid down to 0". And then a new line come up -- I say paid down to 0. We still have a remaining note due to the settlement of the contingent

liability, Brian, but other than that, no. And there was a very strong focus on having working capital in the business.

So the business had headroom, and that was a real strong focus out of the North Run folks in the bank to make sure that the business has sufficient liquidity to operate and run and grow.

Brian Kinstlinger^ Sounds like a good plan to me. Last question I have is, you call out in the discussion of outlook in your press release, the end of the Stellantis contract what was the annual revenue run rate of that contract? Was it all recurring and spread evenly across quarters?

Richard Mills^ Yes. It was \$2.4 million a year, ballpark. And Stellantis has been -- in the U.S. has been noted in the press is in real disarray. It's had a lot of challenges.

Now we're still providing the service in Canada, okay, for the dealerships, but the U.S. simply had no budget. They had their hands were tied. The department that was providing the services, their budget was reduced by 70%.

Operator^ Our next question comes from the line of Jon Hickman of Ladenburg Thalmann.

Jon Hickman^ Could you -- the growth -- gross margin for cinema is -- was that about the same as yours or all their outsourcing, was it lower?

Richard Mills^ No. It's about the same -- it was the same, maybe a -- just a hair lower, but directly in the same. And that's where we believe there are some synergy and cost pickups. Right, cost reduction. So we would expect to see potentially margins trend up here as we go forward.

Jon Hickman^ And then you said in your press release, you're going to give us more information about Q4 when you report Q3?

Richard Mills^ Yes. Yes. The challenge is it's hard to talk about Q4 because the reason we have not closed this transaction, this transaction is currently under review, Jon, by the Competition Bureau in Canada, which think of them as the DOJ in the U.S., right? And so if the Competition Bureau gives us the ability to close October 31st, we're going to close October 31st.

If it goes to Thanksgiving, we got to go until Thanksgiving. Well I just -- I lost that revenue because I didn't close until Thanksgiving. So we don't have a sense for what the combined Q4 revenue is until we understand the close date.

Jon Hickman^ Is there a possibility they don't agree?

Richard Mills^ Well first off, I can't say never, but every set of attorney we've all looked at it, there is virtually no competitive overlap. We don't run any digital signs in Canada. They do run -- CDM ran some in the U.S., but it's minimal. So there's minimal overlap. We believe this is a check-the-box exercise.

But because of the -- the only reason we had to do it is because of the size of the asset base, okay? If an accounting technique, you have to put the right-of-use assets, these mall networks have to get capitalized as an asset on the balance sheet for an accounting treatment, which put us over the threshold that the Canadian bureau had to look into it.

And we've already been -- we've been talk to them three or four times. We believe this is going to be a big nonissue or nothing burger as we say, but we have to go through the process, Jon.

Jon Hickman^ Okay. And then -- so you didn't really run into these guys as a competitor on your day-to-day stuff in the -- before this merger?

Richard Mills^ No. Not really. No. Particularly in QSR and C-store where we're having a lot of strength in the U.S., they just -- they were not focused on QSR and C-store in the U.S.

Jon Hickman^ Okay. And then the account that got pushed out into Q4, is that the most recent win of yours?

Richard Mills^ No. There's actually two. One was a large network that has now subsequently been funded and we will start deploying. It just took them an extra 90 days to get their funding. So they have funding. The second piece, it was the start-up of installing a bunch of QSR drive-throughs.

The anticipation was we'd install a bunch of those in Q3, and it just took everybody longer on the customer side to get started up. And now we're currently installing multiples per week. So it's now on track, but it just -- we missed a couple of months. So it's a couple of things, Jon.

Operator^ (Operator Instructions) Our next question comes from the line of Howard Halpern of Taglich Brothers.

Howard Halpern^ Congratulations, guys. Rick, do you have a sense up in Canada with the QSRs, what the potential for drive-through that you have over the next number of years?

Richard Mills^ We've looked at the current customers and tried to decide that who has not gone digital in their drive-through here in Canada. And it currently is a pretty significant group have not gone digital. Tim Hortons has still not gone digital, right? And there, of course, they have a bunch of locations up here. A&W has not gone digital.

A&W's a little premier brand of 1,000 locations up here. Dairy Queen has franchisees throughout Canada, they have not gone digital. And we actually, in the last quarter, installed our first two Freddy's, first to Freddy's, I believe, went came up to Canada because they expanded into Canada, and we've now installed the first to Freddy's. So we believe there's a tremendous opportunity here in Canada.

Howard Halpern^ Okay. And could you talk about maybe their pipeline of business? I know your pipeline has been very strong. What is their pipeline like?

Richard Mills^ Their pipeline is, I would call it, it is not quite as strong as ours, okay? However, they are being invited to more RFP opportunities up here than we have did. So we're excited about the potential, and we look to strengthen the pipelines.

Howard Halpern^ And how does this combination help jump-start your initial pipeline of media ad tech that hasn't really yet gone live in the U.S.?

Richard Mills^ Well we bring tremendous knowledge and credibility. Again, as I said earlier on the call when we're talking to a customer, and we talk about the fact that we own and run the largest retail media network in malls in Canada. All of a sudden, they sit up and listen, and we've been running it now for seven, eight years that this mall network has been up and running.

So it gives you tremendous credibility for our customers, whether that customer is in Canada or that customer is in the U.S. they understand that we have real expertise running retail media networks. So we think that's going to be a strong help in the sales pipeline.

Operator^ I'm showing no further questions at this time. I would now like to turn it back to Rick Mills for closing remarks.

Richard Mills^ Well first and foremost, we appreciate folks taking time logging into the call. We appreciate your support.

I do want to just take a moment and thank the sponsors that helped us get this done North Run Capital and First Merchant Bank. We appreciate all your support, and we look forward to growing this business over the next year. Thanks, everybody. Have a great day.

Operator^ Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.