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Earnings Call

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Call Participants

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The Benchmark Company, LLC, Research Division

Presentation

Operator

Good day everyone. Welcome to Cineverse's Third Quarter Fiscal 2024 Financial results Conference Call. My name is Elliot and I'll be your operator today. [Operator Instructions] I'd now like to turn the call over to our host, Gary Loffredo, Chief Legal Officer, Secretary, and Senior Adviser for Cineverse. Please go ahead.

Gary S. Loffredo

Chief Legal Officer, Secretary & Senior Advisor

Good afternoon everyone. Thank you for joining us for the Cineverse fiscal 2024 Third Quarter Financial Results Conference Call. The press release announcing Cineverse's results for the fiscal third quarter ended December 31, 2023, is available at the Investors section of the company's website at www.cineverse.com.

A replay of this broadcast will also be made available at Cineverse's website after the conclusion of this call. Before we begin, I would like to point out that certain statements made on today's call contain forward-looking statements. These statements are based on management's current expectations and are subject to risks, uncertainties and assumptions.

The company's periodic reports that are filed with the SEC describe potential risks and uncertainties that could cause the company's business and financial results to differ materially from these forward-looking statements. All the information discussed on this call is as of today, February 14, 2024, and Cineverse does not assume any obligation to update any of these forward-looking statements, except as required by law.

In addition, certain financial information presented in this call represent non-GAAP financial measures. And we encourage you to read our disclosures and the reconciliation tables applicable to GAAP measures in our earnings release carefully as you consider these metrics.

I'm Gary Loffredo, Chief Legal Officer, Secretary Senior Advisor at Cineverse. With me today are Chris McGurk, Chairman and CEO; Erick Opeka, President and Chief Strategy Officer; Tony Huidor, Chief Operating Officer and Chief Technology Officer; Mark Lindsey, Chief Financial Officer; and Yolanda Macias, Chief Content Officer, all of whom will be available for questions following the prepared remarks.

On today's call, Chris will discuss our third quarter fiscal year 2024 highlights, the latest operational developments, outlook and long-term strategy. Mark will follow with a review of our results for the fiscal third quarter ended December 31, 2023, and Erick will provide some detail on our streaming business results and operating initiatives before we open the floor for questions. I will now turn the call over to Chris McGurk to begin.

Christopher J. McGurk

Chairman & CEO

Thanks, Gary, and thanks, everyone, for joining us today. This morning, we announced the partnership with Global Technology and Search giant, Google, with whom we developed and will soon launch a groundbreaking new AI-based unified streaming search technology called cineSearch. Both Erick and I will speak more about this later in our remarks.

However, I want to emphasize that we believe this AI technology partnership with Google and the launch of cineSearch is an important milestone for the company that not only further validates our industry-leading proprietary technology but should also provide an important new revenue stream for Cineverse because it directly helps solve the biggest consumer issue with streaming search and discovery today. The current time consuming archaic search technology that provides limited and unfiltered content choices for viewers. cineSearch and our chatbot video guide, Ava, will soon help solve that important issue for consumers.

Now let me speak to this quarter's results. Just as we reported last quarter, we again made strong progress this quarter toward our goal of dramatically reducing costs, improving margins and achieving sustained profitability. We did this by continuing to aggressively cut costs as we finalize the consolidation of the 8 key streaming content and technology acquisitions we made over the past 3 years, while we also continue to offshore a significant number of domestic employment positions to our Cineverse Services India operation, a unique competitive cost and work efficiency advantage that Cineverse enjoys versus everyone else in our space.

We also continued to further optimize our streaming channel portfolio, sacrificing some revenues for improved margins and profitability by culling lower margin channels while focusing our resources on higher margin and higher return performance. Driven by these initiatives to dramatically cut costs, offshore domestic positions to our Indian operation and further optimize our channel portfolio, I believe our results this quarter again demonstrate that we are well on our way towards sustained profitability.

We increased our direct operating margin to 59% from 48%. In continuing last quarter's trend, we decreased our SG&A costs by \$2.7 million or 30%. That's down another \$0.5 million from our last reported quarter and down \$7.9 million or 27% versus last year on a fiscal year-to-date basis. And we expect to achieve even greater savings going forward as we offshore more domestic positions to India and see the full impact of the series of headcount cuts that we have made, totaling 34 positions so far. So we remain very confident we will achieve our stated goal of \$8 million in annual cost savings.

And let me reiterate what I said on our last call. Cineverse Services India is a significant competitive advantage for us, providing huge cost savings and workflow upsides within a trusted battle-tested operating division of our company. Not only do we intend to leverage that advantage to the fullest extent possible, but we are also considering initiatives to turn it into a profit center by offering our back office services in India to other domestic companies.

Although the adjustment for the recognition of the noncash loss on our investment in a metaverse company certainly had a big negative impact on our bottom line this quarter, we are nonetheless very pleased with our results, excluding that impact. Excluding the metaverse adjustment, net income was positive at \$200,000. Clearly, we continue to be on a path to our target of sustained profitability.

Before I end my remarks, let me quickly speak to three very important developments for the company. First, we expanded our line of credit with East West Bank from \$5 million to \$7.5 million, giving us more flexibility and firepower on our balance sheet, particularly since we are not laden with the tens of millions of dollars in debt than most of our competitors are dealing with.

Second, *Terrifier 3* just started filming and is scheduled for release in the fall of this year. This sequel to last year's film phenomenon *Terrifier 2* was just named as one of the 10 most highly anticipated horror films of 2024 by USA TODAY and should continue to be a huge catalyst for our horror business, all of our *Bloody Disgusting* enterprises and our *Screambox* horror channel.

And third, as I mentioned at the onset of my remarks, today we announced an exciting new partnership with global search and technology leader, Google, with whom we will soon unveil an innovative AI-based search platform that we're calling *CineSearch*. As part of this new service, Cineverse is introducing a new AI-based video adviser that will be known simply as *Ava*. This is groundbreaking technology that directly addresses the #1 issue in streaming. The limitation of current methods of search and discovery where users are forced to seek films using our archaic discovery technology and limited to only a subset of film choices spread across specific platforms.

We believe this generative AI search technology partnership with Google not only further validates the industry-leading nature of our proprietary technology, which puts us years ahead of our competitors, but also will be a significant new revenue opportunity for the company. Erick will speak much more in a minute about *CineSearch* and our partnership with Google as well as the other key initiatives and partnerships in our channel and technology businesses that we believe will have a significant positive impact on our top line revenue growth and margins. But first, Mark will add more color to our financial results and other financial matters. Mark?

Mark Wayne Lindsey*Chief Financial Officer*

Thank you, Chris. For the fiscal third quarter ended December 31, 2023, Cineverse reported total revenues of \$13.3 million, which compares to \$13.0 million last quarter and \$27.9 million in the prior year period. As a reminder, the prior year quarter included material nonrecurring revenue of approximately \$4 million for Terrifier 2 theatrical revenue and \$7 million of revenue related to our legacy Digital Cinema business. When excluding the impact of Terrifier 2 and Digital Cinema, the decrease in revenue was primarily due to the impact on our advertising revenue from the intentional elimination of certain lower-margin channels via portfolio optimization and reallocating those resources to higher performing and higher-margin streaming properties, which is important to our goal of achieving sustainable profitability in the near term.

We are cautiously optimistic for double-digit revenue growth in fiscal year 2025 as the economy improves, interest rates decline and the expected improvement in the advertising market in a political year.

Subscription-based revenues increased 13% to \$3.4 million, driven by the continued success of our enthusiast streaming services. Advertising based revenues declined 31% to \$4.1 million primarily due to our channel optimization efforts and the continued impact of the current economic environment on advertising spend. Erick will provide some additional details on the operational drivers behind our financial results.

As Chris mentioned, our direct operating margin for the period was 59%, an increase from 48% in the prior year quarter, which is in excess of our previously provided guidance of 45% to 50% for the full fiscal year 2024. Our improved direct operating margin is a direct result of our cost optimization initiatives referred to earlier. SG&A expenses decreased \$2.7 million or 30% from the prior year quarter and \$500,000 from last quarter.

Again, this improvement is a direct result of the cost optimization initiatives discussed previously. We expect to gain even greater efficiencies as our offshoring efforts to Cineverse Services India gain momentum in the remainder of fiscal year 2024 and into fiscal year 2025.

Adjusted EBITDA for the quarter was \$1.8 million compared to \$5 million last year, with the decrease being driven by the impact from Terrifier 2 and our legacy digital cinema business in the prior year quarter. We had \$5.5 million in cash and cash equivalents on our balance sheet as of December 31, 2023, and \$5.0 million outstanding on our working capital facility.

As Chris mentioned, we recently announced an increase in our working capital facility with the East West Bank from \$5.0 million to \$7.5 million. We appreciate our relationship with East West Bank and the confidence they're showing by expanding the size of the credit facility, which increases our financial flexibility and liquidity and is a testament to our improving financial position and credit worthiness. This capacity increase will be used primarily to fund ongoing investments in our content portfolio.

During the quarter, our cash flow used in operations was negative \$3.1 million, of which \$1.9 million was related to investments in our content portfolio via advanced and/or minimum guaranteed payments, the largest being for Terrifier 3. For the last 6 months, our cash flow used in operations was negative \$105,000 when excluding our content portfolio spend, showing just how close we are to be sustainably cash flow positive. We expect this positive trend to continue for the fourth quarter and into fiscal year 2025.

I also want to point out that we have a stock repurchase program in place through the end of this month. As you know, we have not utilized the stock repurchase program to date due to cash flow constraints. As such, we are working with our Board to extend the program, which we expect to be able to utilize once we have turned the corner on sustained profitability. We are keeping all of our options open with regard to what we believe is a significantly undervalued stock price where we are trading substantially below book value.

In addition, as good governance requires, we will be refreshing our ATM facility shortly, though we don't have any current plans or needs to raise equity at this time. We believe the increase in our working capital

facility, along with the significant progress that we've made in our cost savings initiatives has the company well positioned financially. With that, I'll turn the floor over to Erick to discuss the market environment and our growth initiatives.

Erick Opeka

Chief Strategy Officer, President of Cinedigm Networks & President

Good afternoon, everyone, and thanks for joining us today. So considering our announcement today, I'd like to start off discussing the market opportunity for our technology platform, Matchpoint, and then we'll review our financial operational performance and future outlook.

As you've heard and seen from our announcements in materials, we've also been rapidly focused on scaling our Matchpoint technology and services business. We believe this is the most important part of our growth strategy for numerous reasons. First, the entertainment landscape is rapidly evolving into a universal scale, bundled subscriptions, a wide array of enthusiast services plus thousands of FAST channels and large-scale ad-supported platforms down on every major hardware manufacturer.

This is a great opportunity for content owners as there is a landscape with tens of thousands of buyers globally, all of them requiring large volumes of content licensed from the tens of thousands of media companies around the globe. Today, there's no unified platform that allows companies to deliver all of these to all these partners automatically and at scale.

At the same time, we're hearing from the buyers, the platforms themselves, the content owners, the hardware manufacturers that they simply don't have the infrastructure and ability to manage these massive content needs. For example, the major FAST platforms have been heavily focused on scaling AVOD and bundled channel solutions for this year, but they lack the infrastructure to compete with Amazon, Apple and Google. Some are trying to build these solutions internally and are struggling.

On the content side, like many of the studios, they throw huge sums of cash at the delivery problem outsourcing it to legacy companies who continue doing it manually and very expensively. And small to midsized companies are simply not equipped to keep up with the cost. In addition, all of these companies are struggling to measure the revenue and performance results of these efforts so they can better improve their efforts. We believe Matchpoint is a solution to both sides of the equation for both content owners and platforms. Our vision is to make Matchpoint become a media cloud, enabling both the content and platform side to manage and process their content for both today's and tomorrow's business needs.

Our next-gen product suite will enable the processing and management and professional grade content at scale as simply as if they were ordering from Amazon at 100% accuracy. Beyond that, our data tools will allow them to measure the performance of all of their content so they can make better business decisions and easily integrate into their financial and accounting systems. And like the AWS storefront or the Google Cloud store, our customers will have access to dozens of best-of-breed applications to further extend their capabilities.

We today are already offering 14 different applications, including several in-house developed AI tools. So Matchpoint is really the only cloud-based media solution to do all of this, and it truly is an end-to-end platform. And the platform will grow with partners as they use it. Long term, if they want to build apps, they want to launch FAST channels or even build their own version of Tubi or Pluto, we have turnkey solutions and technology that's perfectly and seamlessly integrating into the platform and their workflows.

Most importantly, we can do all of this at a fraction what it costs to build internally or use third-party ad hoc solutions that they try to stitch it together. All in all, we truly believe Matchpoint can become for professional video what AWS is to the web and app economy. So during the quarter, we announced our partnership with Amagi, and after quarter end, we launched our new product, Lightning Fast at much fanfare at CES Show in Las Vegas.

We have a robust pipeline now ranging from small and medium-sized businesses up to studios interested in various elements of Matchpoint along with some major new scale opportunities to launch new platforms we expect to close in the coming weeks and months. As I noted, there are many, many companies in need of our solutions and expect to move quickly in the new year to take advantage of this burgeoning

opportunity. We plan to continue building out the team and plan on expanding our sales force rapidly over the next several quarters to take advantage of this.

Now let's discuss the topic that Chris touched on earlier and has really become the center of attention within the media space, AI. There is a tremendous race by big tech companies to compete with the early success of OpenAI. And along with that, there are many discussions on whether AI will have a positive or negative impact on the entertainment business.

But our vision for AI is twofold. First, we're going to enable our customers to utilize it to become far more efficient, which will help companies increase revenue and reduce operating costs. AI will also provide our customers the ability to take advantage of major media company needs for LLM data, and we believe our systems can allow companies to mine their libraries at scale to do so.

And finally, we see tremendous value in leveraging AI for addressing one of the biggest shortcoming in the video streaming industry, unified search and discovery. As you may have read, we announced the forthcoming launch of our next-gen video search and recommendation service called cineSearch. As advanced tech revolutionized search over 2 decades ago, we believe that AI offers tremendous potential to help improve the quality of video search and to enhance recommendations with the services you use and love in ways that current search engines are incapable of.

And who better to partner with than the world leaders of search in Google. With Google, we've developed an enhanced search engine that leverages extensive rich data from dozens of sources, including leading metadata providers as well as by extracting enhanced information through computer vision that analyzes every frame in a movie or show.

We want to go far beyond searching for things by the limited old way of by title, actor, director, or synopsis. At the end of the day, cinema and great TV is about evoking moods, and we'll support that by allowing users to find content through much more subjective search dimensions such as setting, theme, mood, tone, intensity and much, much more. These same capabilities will be incredibly valuable to enable highly relevant advertising, as you can imagine.

Ultimately, it's about helping consumers find exactly what they want regardless of what platform or business model. and we want it to be fun, too. And what could be more fun than interacting with the world's greatest movie experts. That's what we're attempting to build with Ava, our AI-based video adviser. We envision Ava to not only be a significant expert in the whole universe of cinema, but also on the films and content with any specific streaming service.

Today, Ava is an expert across hundreds of thousands of films, and we expect to rapidly expand those capabilities. Now when seeking something to watch, you can do it in a fun engaging conversation with a friendly AI persona that you can search through and interact with in ways never previously imagined.

Now let's talk a little bit about our performance. Our digital and streaming revenues reached \$13.3 million during the quarter, which while down 36% over the prior year quarter that was driven by the -- it was driven by the expansion and optimization of our enthusiast subscription revenues but was offset by the lack of a comparable title to Terrifier 2 in the quarter. And then on top of that, our planned portfolio optimization efforts to reduce low-margin channels, and we also saw a decline in Q3 ad revenues driven by a slower December sales and challenging comps with last year without political or advocacy spending in the current fiscal year.

Subscription revenues saw an increase to \$3.4 million, which is up 13% over last year. Our overall subscriber count has reached approximately 1.4 million subscribers, a growth of 30% year-over-year and up 11% over the prior quarter. This was predominantly due to the growth of subscribers during the quarter on Dove and our cult film service, Midnight Pulp. This progress in a diverse array of channels underscores the strength and appeal of our enthusiast streaming services and the overall diversity of our revenue model.

Ad-based revenues dipped to \$4.1 million, a decrease of 31%. This decline is in line with comments made by Chris and Mark coming from channel portfolio optimization and of course, the tough comp with last year, which had significant political and advocacy spending. We also saw a lighter-than-anticipated

December after a robust October and November, and we believe this is due to a strategic shift by brands and agencies in open marketplace for programmatic advertising with campaigns now ending far earlier in the month than in prior years.

In conversation with our marketplace peers and partners, this seems to be widespread across the industry and not just isolated to us. We believe our long-term focus on shifting our ad revenue mix away from open market programmatic to programmatic guaranteed, private marketplace and direct ad deals will alleviate our exposure to the volatility in the open marketplace.

During the quarter, we continue to focus on sustained profitability with operating margins and net income. We saw further progress in that area, lifting our overall gross margins to 59%. We've been able to achieve those levels by leveraging our library to reduce short-term content spend, renegotiating most of our operating deals to be more favorable and by focusing on the highest margin parts of our business, namely third-party distributed FAST and SVOD channels.

At these margin levels, we have unlocked something that is very uncommon in the streaming business, scale operating margins. Most of the major media companies are barely eking out profits and streaming in the low to single digits with a long way to go before they have realistic businesses in streaming. We think our philosophy of operating streaming services that provide a wide array of choice and targeted high-quality library programming from around the world is a model that works in the face of larger companies slashing content while raising prices.

We believe this low-cost Moneyball approach to streaming can deliver outsized margins and profits and is a highly scalable model. Subsequent to quarter end, we also launched several new FAST and AVOD services that we had previously announced, including the Caesar Milan Dog Whisperer channel, Mediator, the Marty Krofft channel and Entrepreneur TV. Barney and Friends and several other channels will be coming online in the next few weeks.

We expect all of these channels to quickly ramp in revenue contribution as we grow the distribution footprint over the coming 2 quarters. Over the next few quarters, we're going to continue our focus on optimization. And as we've achieved a high degree of operation on the operating side, we're now focusing on the SG&A side. Our strategy is to continue to simplify our organizational structure and continue to rationalize it to this new model. We'll continue to leverage our growing capabilities for our Cineverse services hub in India, which allows us to operate much of the back office services with greater cost efficiency. We think leveraging this core capability along with other cost optimizations will enable us to achieve the 15% to 20% net income margins we're targeting in the near term for this business. All in all, we've made great strides in the last several quarters, and we now have a streaming business that can scale with best-in-class margins and innovative in-demand technology platform with even better margins and a strong pipeline of exciting new businesses and customers we expect to bring forward during our upcoming fiscal year. Our future looks incredibly bright and we can't wait to show you more as things develop. With that, operator, let's open it up for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Brian Kinstlinger with Alliance Global Partners.

Brian David Kinstlinger

Alliance Global Partners, Research Division

Congratulations on making the difficult but necessary decisions to cull the channels and give up some revenue where the economics report. Great to see EBITDA profit without the legacy business for one of the first times I can remember. So great job. Can you talk about the expected early commitments from the platforms related to your new channels, whether it be Dog Whisperer or Mediator, you said the Marty Krofft channel as well as Entrepreneur. How long does it take to know whether these will be needle movers? And how long does it take to know whether they will hit the success you hope they'll hit.

Christopher J. McGurk

Chairman & CEO

Brian, this is Chris. I want to thank you for those comments, first, Brian. I think they were spot on and we appreciate it very much. And I guess, Erick will answer your question.

Erick Opeka

President & Chief Strategy Officer

Sure. Yes, great question. Yes. So yes, we -- over the last few years, as we've been launching these channels. When we first started this as we were very early on. We've been doing FAST now almost 5, almost 6 years now. Today, the competition for slots have gone up dramatically. You have every major studio now launching channels.

So the lead time to launch new channels is really longer than it was when we first started doing this business. It used to be a quarter or 2. It's nowhere near the duration it used to take in cable to get full distribution. That can take 3 to 4 years if you were doing a good job. I think here, 6 to 9 months is probably realistic steady state full distribution. It may take a little longer. We now have a lot of legacy media providers entering the space, DIRECTV, Charter, others are all contemplating services. So some of the legacy cable providers that Comcast are already in.

So as we look at the market here, I think the duration is going to continue to get longer as this business looks more and more like the new cable. For us, I think the good news is we launched a lot of our new services on pretty large-scale platforms like Tubi, Amazon and others. So we get a really good perspective right out of the gate about how well they're going to perform. I'll give you one good data point that we find very optimistic. Our Dog Whisperer channel is already outperforming Bob Ross, which has always been our big champion performer by about 40% on the first platforms we've launched it, which includes some big players like Amazon and others.

So we think that's very, very promising. And so as we always thought Cesar Milan could be a second Bob Ross, that it's doing even better than Bob Ross is at this stage. So we think as that scales out its distribution, we're hoping to see that same pattern follow. Same goes for Mediator. Mediator on the platforms we've launched, it's been dramatically over indexing far above other things that we have on the platform at time. So we think that we've always known that it's going to fill a niche that's really not being served by most FAST channels in the market today.

But we think the performance we're seeing there is extremely impressive. So out of the gate so far. It's too early to tell on some of the other ones that just launched. But I think overall, we're very, very pleased with the ones that should be doing well are doing better than we expected and with things like Mediator, doing even better than we had even hoped. It's still looking like it's going to be very fruitful in the next few quarters.

Brian David Kinstlinger*Alliance Global Partners, Research Division*

Is there a way to think about because it's unclear to us how many platforms you're on early on and the adoption and scale. Is there something you can share with us in terms of maybe exiting calendar 2024 what these channels in total, a run rate might look like in terms of revenue? Is that too difficult to provide? Is it totally unclear? Just maybe any helpful discussion on that would be great.

Erick Opeka*President & Chief Strategy Officer*

Yes. I think it's too early to say. We're just rolling out the distribution on these. But the expectation out of these larger brands and channels was to stand up another Bob Ross, was to stand up another sort of large-scale brand. And early indications are that between Mediator and others, I think we really do have that here.

I think also one of the things that's changed in the last few months, last year and the prior year, there was really a more conservative approach to channel launches. I do think that what we're seeing is most of the major players are really ramping up the total footprint that we're seeing here. So in aggregate, if you kind of look at where we are steady state with the current business, my sense is we've added at least another Bob Ross and a half, maybe 2 Bob Rosses long term at a full steady-state distribution. I don't have a specific number to share with you on that, but that will give you a sense of scale.

Brian David Kinstlinger*Alliance Global Partners, Research Division*

And then maybe you can provide some updates regarding the managed services business. You've made some high-level comments. But last call, you talked about, I think, getting to a \$10 million revenue run rate as you exited calendar 2024, if I'm saying that right, correct me if I'm wrong, which I believe would assume probably 2 large VSPs and maybe some smaller ones onboarded. Can you talk about if your assumptions have changed? Is it still reasonable? And any discussions on early adopters would be great.

Erick Opeka*President & Chief Strategy Officer*

Yes. I'll get it started and Tony Huidor, who is on the call, can provide some color on that too. As we kind of look at our product suite and our product mix, where we're getting the most attention and traction is on the dispatch side, which makes a lot of sense. In my prepared comments, we said that every major SaaS platform, which includes Samsung, Vizio, all of them, they had it relatively easy over the last few years where to launch that platform, they took a fee from us and hundreds of other people.

And it's a lot easier than managing an ad-supported service. There's no content deliveries. Other people handle the programming. You don't really -- you're not involved at the depth of analytics versus AVOD. There's no back office problems you have to deal with for bank royalties and things like that. Well, now that they're all aspiring to be to be included like with big vast AVOD catalog, they all need massive amounts of technology. And on the flip side, they need to ingest lots of content.

You've got this universe where AVOD is rapidly growing and expanding alongside FAST now this year, I think you'll see that. I've heard a lot of other pundits in the market talking about that. And I would tend to agree, given our conversations at CES and other places with the platforms and content owners. So this universe where you have this massive demand and need for the ability to push tens of thousands of hours and receive and manage tens of thousands of hours.

I think it's led to a universe where most of these people have no systems to do this. They're doing it manually. They're doing it with Google Sheets and paying third parties to do it manually at very high cost. That's not scalable. And we saw this the last time, Digital 1.0 when you had iTunes and Amazon Prime and other places, you have to be able to do this at scale. And so all of these companies and all on both sides are really going to -- they need massive amounts of technology.

And beyond that, you need to deploy technology that can leverage AI to do things like content localization, captions, enriched and deep metadata detection and another thing that we haven't even contemplated where the industry is doing today. It seems like automated ad insertion. So we do all of this today. So we think long story short is dispatch is proving to be far more important to the market than I think we anticipated when we started going out to market. We thought the app side is going to probably be a bigger piece. So the good news is this unlocks far bigger potential customers.

What that means for sales cycles is clearly -- it's a longer sales cycle, then focusing on SMB, but the potential revenues are much greater. So I think your thoughts on us having larger scale customers, I think that's right. I would say if we could -- could score up 2 to 3 big scale enterprise partners on this side, I think that would probably be -- that would put us on a path to those numbers that we have been talking about.

We also think, obviously, onboarding lots of customers on the delivery and content outside, those customers are motivated because the market demand for large volumes of content is there. Everybody from Netflix on down is ramping up licensing and some partners are saying, send us everything you've got, right? So we're an immediate revenue generation solution. And we're doing this at -- keep in mind, we did this to support our own business on that over the last decade, led us to here. So we're doing this at maybe 1h the cost of doing it through legacy means. So not only do people save a ton of money, they make a lot of money by being able to do this at scale.

So I think that really has done a lot for more customers on the smaller side. So I hope that gives you some context on what that means for this year.

Brian David Kinstlinger

Alliance Global Partners, Research Division

Great. Let me sneak one last question and then I'm going to hop off. On cineSearch, is this functionality that you're going to try and sell directly into streaming platforms as a stand-alone solution, so like a subscription? Or is it going to be bundled or somehow priced into one of your products?

Christopher J. McGurk

Chairman & CEO

Tony, do you want to describe your thoughts on the business model?

Mark Antonio Huidor

COO & Chief Technology Officer

Yes, I'll take that. Thank you for the question. It's probably the short answer is all of the above. I think from my perspective, having done some initial outreach TV OEM is probably the first likely partnership. The TV manufacturers have a variety of different services and apps and content libraries that they can't really properly provide search for. So we think that would be the first opportunity. It's likely going to be a licensing model. In that case, it likely would be white label. We won't require that they keep the search branding or the Ava branding, but we're not opposed to it.

I think the second tier would be smaller platforms, definitely not the Netflixs of the world, but others who are trying to compete, who have difficulty with Discovery. So cineSearch once again would be made available there. And then ultimately, we always see everything that we do as a showpiece from Matchpoint. So we will make it available within cineSearch and potentially other services that we launch. So in that case, on the consumer model, it will be likely a hybrid free tier with unlimited usage premium tier, paid sponsorship search ads, a combination of different ways to monetize.

Ultimately, the cost that we're trying to cover is the access and the LLM can be expensive. The open AI obviously had that problem. That's why they came out with the subscription \$20 fee that they later raised. So we'll see the same issue, but a lot of our focus has been on trying to optimize the usage and better understand behavior. That's why we're coming out with the beta first so that we can get a better understanding of the cost structure.

Operator

Our next question comes from Dan Kurnos with the Benchmark Company.

Daniel Louis Kurnos

The Benchmark Company, LLC, Research Division

Tony, can I just follow up on that for a second? Obviously, major platforms like Roku have what to watch. And everyone is trying to figure out how to work on discovery in the space. And I think what you guys are proposing is really intriguing for sort of the next evolution. Obviously, there are some puts and takes around new guys metatag everything appropriately and AI still has some accuracy issues.

So I'm sure you're trying to work all of that out, and some of that's going to be incumbent on the owners of the actual content to fix some of that, I guess, in order to make this thing work. But on the flip side, given how many -- at least for now, until there's more consolidation, given how many platforms are out there, if you're offering this tool, is there not a way for you guys to ultimately participate in the balance rates that like Roku, somebody said -- if Roku points somebody to Netflix and says, hey, this is on, you might want to sign up for Netflix. Probably a bad example to monetize Netflix that way, but they would theoretically capture a bounty for that.

I know you guys are trying to put this as part of a broader package, but there's a huge element, secondary element of subscription service sign-up that is addressable here. And I know the OEMs wanted to tap into that. So I'm just curious how you're thinking about kind of everything that I just sort of laid out in that sort of secondary revenue stream?

Christopher J. McGurk

Chairman & CEO

So Dan, yes, it's something that we thought about and essentially what you're describing is an affiliate model, a bounty, a paper bounty. I see that probably as a secondary approach. I think for us to get to the point where that makes sense, we need scale. And for us to get scale, we need some fairly large partnerships in place. At that point, when we have the eyeballs and the viewership in place, we potentially can -- and these affiliate models exist. It's not something that we need to go out and invent. So we have the ability to strike deals where we drive traffic and can show conversion, we should be able to benefit and get some type of subscription bounty for doing so.

What's interesting about this product is there's a lot of different ways of kind of trying to extract value and monetize the service. In terms of what you're outlining, we're not relying only on traditional metadata that comes from the licenses. First of all, we've licensed. We have official license to and official metadata from key metadata suppliers. But as Erick pointed out, we are investing heavily and we've already started the process of indexing our library as well to computer vision.

And ultimately, that data has tremendous value that has probably a third possible revenue stream, which is we could start passing that through the ad tags on our ad-supported business. So as we're serving -- as we're doing FAST channels and providing these to platforms, the more detail you can provide about what's inside the movie, there's value there on the advertiser side. So we think that's an area where the work that we're doing on AI and contextual tagging has significant value in the long term. The future is all going to be about metadata. And AI only works well when it has a very rich library and trove of metadata to search from. And so for us, over the last year, you've probably seen some of these announcements we've done with buying labs and others. Many of you probably don't really understand the significance. But we've been laying the groundwork for this product for the last year. And part of that groundwork has been building the metadata capabilities and building our library's metadata so we can better search it. And so really, what we've announced today is a culmination of all that work. And finally, for them [indiscernible] is that consumers and investors can understand.

Erick Opeka

President & Chief Strategy Officer

I was going to add one point to that, too, is if you kind of look at the broader -- the bigger opportunity for platforms as these become very scaled businesses with very large captive audiences of 10 million to 50 million plus users in some cases in the scale, global platforms, hundreds of millions. All of them are really

thinking about how to squeeze more ARPU per user out. Today, they're all focused on building ad-based experiences.

But there could be a real opportunity here, much of the way Google deployed AdSense with the acquisition of DoubleClick and later scaling that across their whole search products, building self-service ad tools and other things into this that allows for a very intuitive and natural advertising opportunities native to interaction with the persona. So if you can imagine, interacting with the persona and the platform, if somebody wants to promote something specific, and we find somebody searching for something very appropriate, you're talking about targeted advertising, contextual advertising, doing it in a natural and very seamless way in a user interaction where users talking with the persona.

Having that system be white label to offer to every streaming service could be a very significant revenue opportunity. So we're exploring things like that on top of a license and kind of metered usage model.

Mark Antonio Huidor

COO & Chief Technology Officer

And Erick, can I add? Dan, one other thing. I think the question that will be asked is why is Google doing it with Cineverse, right? Why isn't Google doing it themselves? As Erick pointed out, I think the short answer is Matchpoint. We have a huge head start over all the other platforms who are trying to compete in this space. What we have in Matchpoint, the underlying foundation, user authentication, recommendation engine, a lot of that fundamental sort of technology is required to power a service like cineSearch.

And there's really not a lot of players out there who kind of have that same full stack that we do. And that is really our competitive advantage that we have a head start and we're obviously anxious to get this to market. We want to get it right. But we wouldn't be able to do this if we didn't have the underlying stack that we've built with Matchpoint over the last few years.

Daniel Louis Kurnos

The Benchmark Company, LLC, Research Division

All right. I'm going to try to ask another one because you guys just answered the 2 questions I was going to ask on self-serve and why Google. Erick, can you just maybe talk -- because you brought this up in terms of expanding -- I mean, look, this is obviously the future of the platform, right, is Matchpoint based. And you've talked about new capabilities. And Tony just talked about all the groundwork that's been laid out. And the fact that you just landed Google as a partner suggests that doors are open to you that may not have been open previously.

And so to the extent that you're thinking about expanding through partnership, obviously, you guys that are making noise like SyncBack that are linked in on the back end. Are there any other particular areas of opportunity that you see through partnership that you can drive more platform creation similar to what you announced today? And is it possible that there are other major partners, not necessarily -- there are only so many Googles, but other major partners, and Amagi was a big win too, that could be coming, let's say, in the next 12 months?

Erick Opeka

President & Chief Strategy Officer

Yes. So first up, you make a good point on Google, Google Cloud. I look at as we built a technology platform here that getting access to more customers rapidly and scaling rapidly is critical. So in addition to, obviously, our own direct sales efforts, the Amagi partnership, really working with the existing cloud stores today is going to be very important. Clearly, we're working with Google Cloud. I think the natural progression of this would be to put Matchpoint and other offerings in the Google Cloud store.

So obviously, getting access to those markets is incredibly important. We will need to do some work to our software stack to make it work in that environment. But I think that's an immediate path, I think, is a real opportunity. So I would say that's a big one. Tony, I don't know if there's any -- I think adding more partners.

Mark Antonio Huidor

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COO & Chief Technology Officer

Micro services, obviously, right.

Erick Opeka

President & Chief Strategy Officer

Yes, micro services. So today, when our platform -- today, if you wanted to work with us, you can license Dispatch and start using it. You can license our Blueprint product, you can license our analytics product. But the reality is most major media companies, the biggest scale platforms in the world, they may want to use a piece of what we're doing, right? They may say, wow, the cineSearch is amazing. Hey, these elements of your stack are awesome, but they're not going to -- Netflix isn't going to abandon their stack to use our stack, right.

So that's where the micro services model comes in, where we basically take all the features and capabilities and Matchpoint, make them into a variety of micro services that can be licensed and leveraged as APIs and third-party customer software and they can be integrated very rapidly with developers. The beauty of this is you can -- instead of us taking 6 to 12 months to deploy a customer, it's -- if you have a good SDK and well-documented APIs, an engineer could test you out and see if it works for their stack, and that's where we really need to be going.

So we're in the process of really, for Matchpoint 1.5 to 2.0 is rearchitecting our business model approach. We're still going to offer a full turnkey solution with a back end for SMBs and mid-sized companies. But I think for us to work with the Netflix, Google, Warner Media and other studios and others that have their own engineering forces and massive audiences, for us to get that business, we're going to sell the microservices instead. And we think ultimately, look that's the AWS model, that's -- a lot of cloud-based models follow that. And we think that's a way for us to really win in this space, low barrier to entry, very rapid scale. And when you start having very big companies hitting our services with the meter running, it can be quite lucrative very quick.

Operator

There are no further questions remaining. So I'll pass the conference back over to the management team for closing remarks.

Christopher J. McGurk

Chairman & CEO

Great. This is Chris. So thank you all for joining us today. And please feel free to reach out to Julie Milstead with any additional questions that you might have. And we very much look forward to speaking to you all again on our next quarterly call. Thank you very much.

Operator

That concludes today's conference call. Thank you all for your participation. You may now disconnect your lines.

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