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Cineverse Corp. NasdaqCM:CNVS

Earnings Call

Thursday, August 13, 2026 9:30 PM GMT

Call Participants

EXECUTIVES

Christopher J. McGurk
Chairman & CEO

Erick Opeka
President & Chief Strategy Officer

Gary S. Loffredo
Chief Legal Officer, Secretary & Senior Advisor

Sean McCabe
Chief Financial Officer

ANALYSTS

Brian David Kinstlinger
Alliance Global Partners, Research Division

Daniel Louis Kurnos
The Benchmark Company, LLC, Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Cineverse First Quarter Fiscal Year 2027 Earnings Call. [Operator Instructions]

I will now hand the conference over to Gary Loffredo, Chief Legal Officer, Secretary and Senior Adviser. Gary, please go ahead.

Gary S. Loffredo
Chief Legal Officer, Secretary & Senior Advisor

Good afternoon, everyone. Thank you for joining us for the Cineverse First Quarter Fiscal Year 2027 Financial Results Conference Call. The press release announcing Cineverse's results for the fiscal first quarter ended June 30, 2026, 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 on 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 of the information discussed on this call is as of today, August 13, 2026, 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 represents non-GAAP financial measures, and we encourage you to read our disclosures and the reconciliation tables to applicable GAAP measures in our earnings release carefully as you consider these metrics.

I'm Gary Loffredo, Chief Legal Officer, Secretary and Senior Adviser at Cineverse. With me today are Chris McGurk, Chairman and CEO; Erick Opeka, President and Chief Strategy Officer; Sean McCabe, Chief Financial Officer; Yolanda Macias, Chief Motion Pictures Officer; and Mark Torres, Chief People Officer, all of whom will be available for questions following the prepared remarks.

On today's call, Chris will briefly discuss our first quarter fiscal year 2027 business highlights, then Sean will follow with a review of our financial results, and Erick will provide further details on our 2 recent acquisitions.

I will now turn the call over to Chris McGurk to begin.

Christopher J. McGurk
Chairman & CEO

Thank you, Gary, and thanks, everyone, for joining us on the call today. We registered yet another very strong quarter. Driven by the acquisitions of Giant Worldwide and IndiCue, which both closed during the fourth quarter of fiscal 2026, we increased total revenues by 175% over last year's first quarter and increased adjusted EBITDA by $2.6 million, our second positive adjusted EBITDA quarter in a row. We feel this is impressive as we had no new wide release theatrical films during this quarter, which also happens to be one of our 2 most seasonally slow quarters across all our businesses.

Importantly, technology revenues represented more than 60% of the consolidated total during the quarter. Clearly, technology is now the largest source of revenue for the company, and much of that revenue is recurring and durable with many A-List industry customers now using our products and services. We're also very optimistic about the business and financial prospects for VAUDIO, a new proprietary ad-tech offering that extends brands' audio campaigns onto connected TVs. This new product, which was developed and built by the IndiCue executive team, was just announced yesterday.

Following our 2 key acquisitions, we've embarked on several initiatives to reduce costs, improve efficiencies and generate synergies. We've identified and are now targeting over $13 million in annual upsides from that process, which is well underway, including a $1.8 million reduction in force that occurred after the close of this quarter. And we're not just cutting costs. We're also rationalizing our greatly expanded business footprint to focus on our highest potential and most profitable core products and services to better concentrate management focus and improve margins and profitability.

By our third and fourth fiscal quarters, we should see the great majority of those savings and synergies realized. Those quarters also happen to be our 2 strongest seasonal quarters, and we have 3 high potential wide release films that exactly follow the Terrifier 2 and 3 model in the lineup for those quarters as well. It's also important to note that we improved operating cash flow by over $13 million this quarter. And based on our acquisitions and business rationalization efforts, we should have a much lower CapEx to generate cash going forward.

Let me now speak to our theatrical releasing business for a moment before I turn things over to Sean. We are in the theatrical releasing business in what we believe is a smarter, less risky way than our competitors for one primary reason, to generate a strong return on investment while at the same time, creating recurring revenues by driving viewers and subscribers to our streaming channels and by adding valuable properties to our film library.

Following the same low investment strategy that fully leverages our streaming, podcast, social media and advertising ecosystem as we did on Terrifier 2 and 3, we've now released 3 more films to date using that same strategy. Those films had a high return on investment and now join the ultra-profitable Terrifiers in our library, which should only help increase the value of that asset, which was already assessed at approximately $45 million by an independent firm last year.

We have 3 releases coming up this fiscal year that also exactly follow the Terrifier formula. First up on October 9 is Guillermo del Toro's masterpiece, Pan's Labyrinth, presented for its 20th anniversary in 4K and 3D. In addition to opening the Cannes Film Festival Classics presentation at the Palais in May, we recently conducted a panel featuring Guillermo del Toro and talent from the film in the main hall at Comic-Con, where 6,500 fans gave them a rousing reception. Guillermo also showed 3D footage of the film for the first time to 900 fans, and the footage got another incredibly positive response.

We also took talent from our next film, Air Bud Returns, which will be released on January 22 to Comic-Con. In this case, the talent involved was principally Air Bud himself. The Golden Retriever did his own panel and spent hours taking photos with the fans. We're very encouraged by the reaction we saw at Comic-Con and prior to that at CinemaCon to this iconic and nostalgia-inducing Golden Retriever named Buddy. Finally, we will be releasing the latest installment of the Wolf Creek horror franchise next March. We've seen the rough cut of the film and are very excited about the film's theatrical potential.

And with that, I'll now turn things over to Sean for a financial review. Sean?

Sean McCabe
Chief Financial Officer

Thank you, Chris. A few highlights from our first fiscal quarter. Revenues were $30.6 million, up 175%from $11.1 million in the same quarter last year. This was primarily driven by our $19.4 million increase from our new advertising, technology and media services revenue streams. Our direct operating margin for the quarter was 35%, down from the prior year quarter of 57%. This direct operating margin performance, however, was in line with our expectations, reflecting the impact of our fourth quarter acquisitions, including our new advertising technology revenue stream that carried an average 79% revenue share expense paid to supply partners in Q1. And our Media Services revenue stream, a business that we are focused on optimizing throughout the course of fiscal year 2027.

We expect margins to improve as we complete our cost reduction and synergy initiatives, particularly by our third and fourth quarters, where the majority of our impact will be reflected in our financial statements. Net loss attributable to common stockholders for the quarter was $5.8 million, a $2.1 million greater net loss than the $3.6 million net loss in the same quarter last year. The decline was driven by a $2.7 million increase in SG&A from increased compensation costs following our fourth quarter acquisitions, $1.8 million from depreciation and amortization, primarily driven by purchase price accounting from our fourth quarter acquisitions, a $1.3 million noncash accounting adjustment from the fair -- from the change in the fair value of our IndiCue earn-out and deferred consideration liabilities and a $0.8 million increase in interest costs from higher utilization of our line of credit from paying down nonrecurring acquisition-related liabilities and convertible note interest.

This compared to the prior year nonrecurring interest income recognized from a reduction in accrued interest following the accelerated payback of our Terrifier 3 loan. These cost increases, however, were partially offset by $4.3 million in increased direct operating profit. Adjusted EBITDA for the quarter was $0.5 million, an increase of $2.6 million over the prior year quarter and an increase of $0.4 million from just last quarter. This represents integration progress. This is now the second consecutive quarter positive and improving EBITDA following the acquisition of IndiCue and Giant. This also occurred with only 1 new theatrical release during those 2 quarters. This momentum affirms our new operating model and when combined with the full impact of integration and cost-saving initiatives, we're looking forward to the opportunity ahead.

While we do anticipate seasonal -- typical seasonal softness in our advertising business in the second quarter, the upcoming U.S. midterm elections and holiday season in addition to the release of Pan's Labyrinth in October, Air Bud Returns in January and Wolf Creek in March are anticipated to contribute to a strong second half of the fiscal year. As such, as a combined entity, we are reaffirming our previously announced guidance for fiscal year '27 of $115 million to $120 million of revenue and $10 million to $20 million of adjusted EBITDA. From a liquidity standpoint, we ended the quarter with $4.3 million of cash and our $12.5 million revolver still effective.

While our net working capital as of June 30, negative $18.9 million, this does include $18 million of deferred consideration and the current portion of the IndiCue earn-out, both of which the company has the right to pay in equity. Finally, from our cash flow from operations has improved by more than $13 million from the first quarter of fiscal 2026. As we move beyond our nonrecurring acquisition-related payments and current theatrical commitments, we see liquidity improvement continuing throughout fiscal year 2027.

With that, I'll turn it over to Erick to discuss our operating highlights in greater detail.

Erick Opeka
President & Chief Strategy Officer

Thanks, Sean. Last quarter, I walked through strategy, but this quarter, I'm going to focus on execution. How we are integrating the acquired businesses, reducing our cost structure and making the combined company work the way we designed it to. So let me start with the most important takeaway. The core work of post-merger integration is substantially complete. Systems, teams and workflows are now unified and the organizational heavy lifting is behind us. From here, our energy goes towards reducing costs, capturing synergies that we've identified and then growing the combined businesses. That shift from integrating to capturing value is what the rest of my remarks are going to be about.

So everything we're doing right now falls under a few priorities. The first is simplifying our product portfolio. Over the last several years, we've built a number of stand-alone products. Some may not meet -- however, some may not meet our contribution margin targets. And some of them are excellent technologies, but don't justify the sales and marketing commitments of a full-fledged product offering. So during the quarter, we have decided to integrate several of our key products directly into Matchpoint as platform features rather than selling them as stand-alone offerings. This does 3 things at once. It makes Matchpoint more valuable to every customer. It makes our story much easier to understand, and it takes out approximately $2.7 million in annualized engineering, sales and marketing costs.

Second priority, transforming how Giant operates. Giant was built on 2 decades of Studio trust doing packaging and delivery work largely through skilled manual operation. Our goal is for Giant to run predominantly on the Matchpoint platform with automation doing the heavy lifting and our people managing exceptions and quality. The margin implications of this move are significant. Work running through the platform can carry gross margins in the mid-70s or higher versus mid-40s for traditional manual workflows depending on the character of the work.

We'll also be leveraging our operations in India and Poland to bring more of the non-packaging work in at structurally higher margins. The commercial results are already showing up. Pairing Giant studio relationship with Matchpoint's automation is winning work orders that neither company could have won alone. Our Revry partnership this quarter, for example, automating the delivery of thousands of content assets through Matchpoint Dispatch is a good example of the model. And the client results are validating the transition. Existing Giant clients, including Neon, PBS and Pluto, a division of Paramount, increased their delivery output individually with us between 45% and as high as 75%.

We've also begun moving Giant customer workflows directly into Matchpoint Dispatch with the first conversions delivering roughly 40% time savings versus manual processing. So that's the margin story actually showing up in real workflows, and we've barely begun. And it should be reflected in our financial results more and more as the year rolls on. The third priority is cost reduction. Part of the integration process was rightsizing our cost structure to match the current focus of the company.

We made $3.8 million of headcount reductions just prior to the start of this fiscal year, plus additional RIFs and vendor eliminations during and subsequent to the end of Q1 that totaled more than $8.3 million, of which $7.5 million will be realized within the current fiscal year. Additionally, we have identified and are in the process of eliminating $5.5 million of additional costs, which include the product streamlining initiative I mentioned earlier. Altogether, we estimate total operating and SG&A reductions of $13 million within this fiscal year, and we expect our cutting efforts to be materially complete by the end of the current quarter or Q2.

On IndiCue, integration is ahead of plan on the metric that matters most, durability. We've cut SaaS customer concentration by nearly half since the acquisition and churn has remained consistently low and net revenue retention sits at approximately 98%. We added new SaaS customers during the quarter as well as new ad network partners and strengthened the commercial team with a new Head of Business Development recruited from one of the leading cloud broadcast platforms. The business continues to scale with increasing monetizable supply and better yields. Total ad opportunities in the quarter reached $3.4 trillion with $3.39 trillion ad impressions served for our customers in Q1.

We expect this growth to scale even faster with the launch of VAUDIO, a new ad-tech offering that extends brands' audio campaigns into connected TV. We believe that 5% to 7% of the $3 billion annual podcast ad spend could eventually migrate into CTV opportunities in the near to midterm, and we're poised with our product to materially help OEMs and channels participate in this innovative new approach. Our goal is to make IndiCue and VAUDIO 2 high-performing growth streams over the course of this fiscal year.

Now on to our streaming business. This was the most watched quarter in company history with 4.5 billion minutes streamed, up 33% year-over-year. Streaming viewers grew 12% to 122.8 million in the quarter, and we ended the quarter with 1.52 million SVOD subscribers, up 12%. Note what these numbers mean together. Minutes are growing nearly 3x as fast as our audience. Viewers are not just more numerous. They're also watching substantially more, and that engagement is what ultimately feeds discovery, first-party data and monetization across the platform. The fandom model keeps compounding channel by channel. Docurama, our documentary network, crossed 100,000 subscribers during the quarter, up 66% year-over-year with its Roku subscribers nearly quadrupling over the past year.

Our flagship Cineverse channel has grown every single month since January 2025 and hit another all-time high, driven first by Amazon and now its May launch on Roku, where we also introduced our new premium channel, So... Real, in partnership with All3Media. And we also launched Gorilla Comedy+, a premium ad-free comedy service entirely on Matchpoint. On the ad-supported side of our streaming business, Dove, The Dog Whisperer, Screambox, and Yu-Gi-Oh! channels all delivered their most watched quarters ever. The Dog Whisperer channel grew 54% year-over-year. Screambox grew 48% with 5 straight quarters of growth and Yu-Gi-Oh! grew 80% with record per viewer engagement.

Our Midnight Pulp cult channel grew more than tenfold year-over-year. Put simply, the acquisitions gave us the assets and with integration substantially behind us, this is now one company built to capture value.

Costs will come down rapidly every quarter across the entire organization from here and margins will expand as work moves on to the platform just as our strongest seasonal quarters in our film slate arrive in the back half of the year. We believe we are exactly where we want to be.
With that, operator, we can open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Dan Kurnos with StoneX.

Daniel Louis Kurnos
The Benchmark Company, LLC, Research Division

Another solid quarter from you guys in terms of progress. So let me take it just from the top line first. IndiCue was about $1 million better than we anticipated in the quarter. I know, Erick, you gave some color on some of the things you're doing, super excited by VAUDIO as well. How do we think about the incrementality of VAUDIO in the near term? What's driving kind of the short-term upside? And as we get into sort of the back half of the year here with political driving up CPMs, just how do we think about sort of IndiCue's ability to benefit from the environment?

Erick Opeka
President & Chief Strategy Officer

I'll dive in and take that. So first up on VAUDIO, I think our goal, we gave some steady-state guidance for that business at around $12 million run rate. This is based off of the IndiCue team's projections on that business, given what they're already seeing in early and pretty extensive trials. The directionality we gave is to hit that rate by the end of the fiscal year. But we think that given the high demand that we're seeing from customers and the strong willingness of large OEMs to participate in what looks to be a unique and robust new opportunity at, frankly, higher CPMs than they're seeing in the CTV market that we think adoption could be quite rapid. So that's the outside guidance, but we're pushing very hard to do it as quickly as possible. So our hope is to start to see real meaningful contribution out of that business towards the end of this quarter and into the very busy season that we're starting to see that starts in our next quarter.

In terms of the political upside, I think once we're getting into the full ramp of that season, the spending is slowly starting to increase now. We think the full intensity comes post-summer lull. A lot of people aren't really at home or paying attention to politics yet. And in turn, the advertising hasn't really ramped to the full frenzy that we're going to expect in the next quarter, but we think that's going to be commencing quite rapidly after the Labor Day holiday. So we're poised to take as much of that business as we can.

Daniel Louis Kurnos
The Benchmark Company, LLC, Research Division

Got it. And then on the cost side, we went from sort of modest cost reductions, $8 million, now $13 million in savings and synergies. I don't think there's any real revenue synergy baked into that number. So if you can clarify that. But you guys have always done a great job sort of pruning and readjusting the portfolio. Do you feel like after this round, you guys have sort of the core where you want it to be? Is there more work to be done? Is there more upside to that? Just any additional color you can give there would be helpful.

Christopher J. McGurk
Chairman & CEO

Yes. This is Chris. I'll let Erick answer that in detail, but I just want to step back a second and say with these 2 acquisitions, we basically doubled the size of the company. We added about 150 employees. We're now spread across 3 continents, and we have 5 offices. So the process of winding that down and streamlining it and realizing all the synergies is job #1 for us right now, and it's a real fertile area. So we're very comfortable with the $13 million target. And as we said, we're going to see most of that really hit our P&L in the third and fourth quarter. But I'll let Erick talk a little bit more about the specifics.

Erick Opeka
President & Chief Strategy Officer

Yes, sure. So that number is predominantly focused on cost reductions. So you're right, it's not inclusive of the broader synergies that will come as the businesses continue to evolve together. But that cost reduction, as I noted in the comments, we have already made about $8.3 million worth of cuts, of which $7.5 million will fully realize in the quarter. And then the balance of these cuts will, as I mentioned, come from the streamlining of the product portfolio. We -- there's not a lot of fluff or hypotheticals in that number that it is actually all realizable reductions that are identified and in the process of being made with the goal of being complete by 9/30. So those numbers are very actualizable.

Christopher J. McGurk
Chairman & CEO

But just to your other point, Dan, about revenue synergies, VAUDIO is a perfect example of revenue synergies coming out of an acquisition. The IndiCue people were very interested in us because of our strength in connected TV, and they were very interested in our podcast business because they had this VAUDIO idea previously. And obviously, we love their brand relationships and their ad technology. You put the 3 things together and there you have a potential $12 million annual business. And I think that's the first in many synergistic revenue upsides that are going to come from the acquisitions that we did.

Daniel Louis Kurnos
The Benchmark Company, LLC, Research Division

It seems like we're just getting started, Chris, for sure, and I appreciate that additional color. So I just want to tie it all together with one thing Sean said just around CapEx spend, which feels like if you add all of these things together, potential revenue synergies, the EBITDA upside from the cost saves now and then the lower CapEx, it feels like free cash flow is going to turn meaningfully positive and accelerate from here. Is that a fair statement?

Christopher J. McGurk
Chairman & CEO

Correct. And there's no need to add any more color to that.

Daniel Louis Kurnos
The Benchmark Company, LLC, Research Division

Kind of what I figured, Chris.

Operator

Your next question comes from the line of Brian Kinstlinger with Alliance Global Partners.

Brian David Kinstlinger
Alliance Global Partners, Research Division

I saw in your prepared remarks and your press release, you highlighted there's been some conversion in Giant's manual process to Matchpoint, but I assume it's modest given it's early. So I'm curious how you see -- how long you see the process taking? What are studios indicating? And are they interested in fully transitioning to Matchpoint and over what time frame might you think?

Erick Opeka
President & Chief Strategy Officer

Yes, sure. I can take that. So first up, you're right, it is early days. The first goal was just to have the business operating as one unified company and so we're getting to that place now. The second piece is really getting the teams up and trained on it. To our customers, the really critical thing is all of them actually have pressure to move faster and to drive more work. So the natural business demand is driving towards automation anyways. So we're finding our customers actually demanding more automation, more reporting, more visibility. So we're playing right to the sweet spot of where the market is. And part of that is really driven by the shift of the industry towards -- from individual distribution of one title to thousands of locations to mass catalog pushes, reworks of catalogs, redeliveries and so on.

Today, when we get orders, there are thousands and thousands of title orders, not just 10 pieces here to lots of places. So that, number one, the market is doing it. Two, what's compelling is Matchpoint is transparent to our customers. They don't have to do anything for them to take advantage of benefit when they're working with Giant. They just get the benefit of it. So there's no real resistance to or there's no work to do adoption. It's more of internal pushing Matchpoint into workflows. And that's a process of training. It's a process of some development work to make it work with existing systems and so on. But we -- the goal is to have materially all of the packaging and delivery work, which accounts for 80% of that revenue done in an automated or semi-automated fashion by the closeout of this fiscal year. And then the second goal by the end of the quarter is obviously to take advantage of the offshore resources we have to help further improve margins for parts that can't be fully automated.

Brian David Kinstlinger
Alliance Global Partners, Research Division

Great. That was helpful. One question on theatrical releases. Can you share how many theaters is Pan's Labyrinth expected to be showing on? And while I know monetization doesn't stop at box office sales, remind us what your all-in cost to Cineverse is? And what would success be from a box office sales perspective?

Christopher J. McGurk
Chairman & CEO

Yes. Good question. Again, I'll reiterate, it's coming out on October 9, and we expect it to be in between 1,500 and 2,000 screens. And our releasing partner on this film is Fathom Entertainment, which is a releasing arm of AMC, Regal and Cinemark. And we're very confident that they're going to be able to secure really great placement on this movie, particularly since it's being presented in 4K and 3D. They had a release a couple of years ago of the 15th anniversary of Coraline. And that movie ended up doing about 75% of its business on 3D and ended up doing really, really well. It did over $30 million at the box office.

Again, the beauty of our model is we don't have to do $30 million at the box office in order to break even and make a very, very nice return. Our all-in investment on this movie, marketing and acquisition cost for a 20-year distribution term is less than $5 million. So our breakeven at the box office is well below $10 million at the box office. And we feel pretty good where we're at right now. As I mentioned in my remarks, the response to Guillermo in this movie, wherever we've taken it, whether it's Cannes or ComicCon or screening it is remarkably positive because he's become one of the most respected and beloved filmmakers in the world. And the movie trailer in front of the Odyssey, we got great trailer placement on it, and the reaction in theater was very, very positive as well. So we're very bullish on this movie, both the fact that the risk-reward profile is great and the response so far among the fans out there has been fantastic.

Operator

We have reached the end of the question-and-answer session. I will now turn the call back to Chris McGurk for closing remarks.

Christopher J. McGurk
Chairman & CEO

Thank you, and thanks to all of you for joining us on this call today. As always, Julie Milstead will be available if you have any follow-up questions at all. And we look forward to speaking to you again on our next quarterly call. Thank you all.

Operator
This concludes today's call. Thank you for attending. You may now disconnect.