

Transcript of
The Glimpse Group, Inc.
Q2 Fiscal Year 2024 Conference Call and Webcast
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Participants

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Maydan Rothblum - Chief Financial Officer & Chief Operating Officer, The Glimpse Group, Inc.

Analysts

Casey Ryan - WestPark Capital, Inc.

Presentation

Operator

Welcome to The Glimpse Group Q2 Fiscal Year 2024 Financial Results Webinar. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. The earnings release that accompanies this call is available on the Investors section of the company's website at <https://ir.theglimpsegroup.com/>.

Before we begin the formal presentation, I'd like to remind everyone that statements made on today's call and webcast, including those regarding future financial results and industry prospects, are forward-looking and may be subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the call. Please refer to the company's regulatory filings for a list of associated risks, and we would also refer you to the company's website for more supporting industry information.

I would now like to hand the call over to Lyron Bentovim, President and CEO of The Glimpse Group. Lyron, the floor is yours.

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Thank you everyone for joining us. I am pleased to welcome you to The Glimpse Group's second quarter fiscal year 2024 financial results investor call for quarter-ended December 31, 2023. During this quarter, we made substantial progress on our strategic realignment of Glimpse towards providing immersive enterprise software and services that are driven by Spatial Computing, Cloud and AI, or Spatial Core, as we refer to it internally led by our subsidiary company, Brightline Interactive.

As a reminder, we strongly believe that in order for the immersive industry to reach true scale, the compute must be processed in the cloud and not on the headsets or computing device. To reach its full potential, we believe that immersive technology must evolve from worlds and experiences created by humans for consumption by humans to synthetic worlds whose creation is directed by

humans, executed by AI in the cloud, and whose consumption is for both humans and non-humans, such as robots, drones, and AI avatars.

This is one of the key philosophies behind Spatial Core and an important competitive advantage if we are to be at the center of this. We are not making this journey alone. We are working closely with some of the largest players in the tech industry, such as NVIDIA and Microsoft, as well as with some of the leading hardware players in the space. We serve as middleware, connecting their Cloud and AI technologies and services with the needs of enterprises and organizations creating a win-win-win.

Our Spatial Core pipeline continues to grow rapidly with several multi-million dollar contracts that are very close to the goal line. These contracts are with multiple of Department of Defense entities, as well as large enterprises and organizations, and will be initially executed over the next 12 to 18 months, with a potential for significant recurring software components after that. While we cannot guarantee that these opportunities will materialize into signed contracts, we have good reason to believe that they will in the coming weeks and months. And when they do, the impact on Glimpse should be transformative.

In parallel, the immersive industry continues to develop, as demonstrated by the recent launch of the Apple Vision Pro. The Apple Vision Pro pushes immersive experiences to the next level and engages with new audiences. The headset launch has ignited new interest in immersive solutions, and we have started working with a variety of customers, ranging from federal agencies to large and small enterprises, on a variety of enterprise applications and use cases.

As we discussed in our last call, we expected our strategic transition to result in short-term reduction in revenues, as we divested and shut down non-core operating assets, and reduced our expenses targeting other non-essential opportunities. We expect this revenue decline to stabilize in Q1 of calendar year 2024, and growth to resume in calendar Q2 of 2024, as we ramp up Spatial Core revenues, and as our other remaining subsidiary companies execute on their growth plans.

Our other major subsidiary companies, QReal, Sector 5 Digital, and the newly formed Glimpse Learning, are focused on enterprise use cases, including lifelike 3D modeling, robust augmented reality experiences, virtual reality corporate training and education, both for healthcare, K-12, higher learning. Recent customer contracts include Walmart, Colgate, and NYU Langone Hospital to name a few. As Maydan will detail in his prepared remarks, while we have increased our investment in Spatial Core, we have also taken major steps to reduce our operating expense space.

We are now positioned to reach profitability when we return to prior revenue levels. We will continue to monitor our expense space and adjust it as needed in a prudent manner.

With that, I will now turn it over to Maydan Rothblum, Glimpse's CFO and COO to review the financial results. Maydan?

Maydan Rothblum - Chief Financial Officer & Chief Operating Officer, The Glimpse Group, Inc.

Thanks, Lyron. I will limit my portion to a summary review of our financial results, a full

breakdown is available in our 10-Q and in a press release that will file after market close today. Please note that I will refer to adjusted EBITDA and other non-GAAP measures. For the calculation of adjusted EBITDA and other non-GAAP measures, please refer to the MD&A section of our 10-Q filings, which you can find on our website under SEC filings.

Revenue for the 3 months ended December 31, 2023 were approximately \$2.08 million compared to approximately \$2.95 million for the 3 months ended December 31, 2022, a decrease of 29%. Revenue for the 6 months ended December 31, 2023, was approximately \$5.18 million compared to approximately \$6.9 million for the 6 months ended December 31, 2022, a decrease of 25%.

This decline is in line with our previously announced expectations as we continue to: A, strategically transition our business from predominantly immersive marketing-driven projects to enterprise-scale Spatial Computing, Cloud, AI driven immersive recurring software solutions; and B, as we divest non-core operating assets.

Gross margin for Q2 fiscal year 2024 was approximately 68% compared to 70% for Q2 fiscal year 2023. As we complete our strategic transition, we expect our gross margins to continue to remain in the 65% to 70% range and potentially increase afterward.

While investing in the development of our Spatial Core solutions, we have continued to reduce non-core cash expenses. In the aggregate, we have reduced cash expenses by approximately 50% from their high. Our operational cash breakeven point is now approximately \$3 million revenue per quarter or \$12 million annually, excluding potential growth investments.

For relative reference, Our Q1 fiscal year 2024 revenue was \$3.1 million, and our fiscal year 2023 annual revenue was approximately \$13.5 million. Figures that we believe are attainable once some of the large contracts we have in the pipeline materialize.

Adjusted EBITDA loss was \$1.33 million for the 3 months ended December 31, 2023, compared to \$2.6 million loss for the 3 months ended December 31, 2022. Adjusted EBITDA loss of \$2.6 million for the 6 months ended December 31, 2023, compared to a \$3.64 million loss for the 6 months ended December 31, 2022. The reduced EBITDA loss for both periods was driven by reduction in cash operating expenses.

As of December 31, 2023, the company had cash and cash equivalents of \$5.2 million. The company has no outstanding corporate debt or preferred equity obligations.

I'd now like to pass it back to Lyron, for some closing remarks, after which we will begin our Q&A session.

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Thank you, Maydan. Our Spatial Core initiative could open up new frontiers for immersive technology and is a key element in our future. We are making significant progress and expect strong revenue development in the coming months. In parallel, we have positions or other subsidiary companies to be cash flow positive and achieved profitable growth as they execute on their plans. I thank you all for your interest and support of The Glimpse Group.

And now, I'll turn the call back over to the operator to take some questions.

Operator

Thank you, Lyron. We will now be conducting a question-and-answer session. [Operator Instructions] First question today is coming from Casey Ryan from WestPark. Casey, your line is live.

Q: Good afternoon, gentlemen. Hey, it was a better quarter than we certainly had expected. So congratulations. That's a good job, I think. Of the \$2.1 million, do you consider all that to be part of the core business and the units that we're sort of building out moving forward? Or do you think there was some revenue from sort of non-core elements built into the quarter?

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Hey, Casey, thank you for joining us and for your question. I would consider all of the revenue that we have in this quarter to be part of the pieces that are moving forward. There's a couple of other things we're in the process of doing, but kind of at this point, all the revenue pieces that we have in the \$2.1 million are part of the future of where we're going.

Q: Okay. Great. Terrific. And then the 68% gross margin number, I think, was good and has sort of been the range that you've indicated as sort of where we expect the business going forward. On the DoD contracts, which are exciting and sort of meaningful from a revenue perspective, are those similar just in structure or because their government or is there some other structure that like the margins maybe sort of a little below corporate or a little above corporate maybe? I'm sort of curious if you can give us some directionality on what the margin profile of those revenues might look like.

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

I would initially expect those margins to be in line with our general kind of range. So kind of as we're working on these kind of, it will vary because they'll have different milestones and kind of different pieces that will come over the next hopefully year as we sign these. But the general margin on those contracts should be in that 60 to 70 range initially, and then as we go into the recurring elements down the road they should be higher.

Q: Okay, terrific, terrific. And then sort of bigger picture, I think you actually made a really good point about sort of immersive experiences and, let's say, tools and techniques, training and different applications need data processing in the cloud. Will that be part of the service offering from The Glimpse Group and our subsidiaries and sort of some capability to access that? Or will we just sort of stay in sort of enabling software middleware type of space and sort of allow all that data processing to happen out elsewhere?

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Our partners such as NVIDIA and Microsoft, they build pretty amazing solutions out there and kind of what we want to do is tap into those capabilities that are constantly evolving and we get the front row seats to see what they're kind of working on even some of the things that are not in the public domain yet. And then really help our customers on the other end take advantage of these

solutions and kind of that's where we're kind of positioning ourselves. So we don't want to reinvent the wheel and definitely not compete with our big partners, but we want to take what they're building and enable our customers to use those smartly.

Q: Yeah, that makes sense. Okay, terrific. And then one sort of balance sheet question, I guess, there's two components, I guess, as you trim down the business, there's a goodwill figure for about \$10 million on the asset side, and then a contingent liability number that between the current and non-currents, about \$5 million in terms of contingent liabilities related to acquisitions. Do those numbers change meaningfully as you get rid of non-core assets or are those kind of all related to core pieces of the business today?

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

So all the ones that are in the balance sheet as of the reported dates are tied to pieces that are part of our business. We're constantly looking at goodwill and kind of, I'm not a big fan of the concept and, therefore, we take a kind of pretty aggressive approach to eliminating it when possible. And as we look at the contingent liabilities, they're tied to future performance such that we're expecting. And they will kind of be paid out and some are in equity and some are in cash as those milestones are met.

Q: Yeah. Okay, good. That's helpful color. And then in terms of the contingent liability piece, what's the mix roughly? Is it 50-50 sort of cash in equity or is it sort of 80-20 one way or another? Of course I can look it up, but I'm asking be a teacher for help here.

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

I'll refer to Maydan on this one.

Maydan Rothblum - Chief Financial Officer & Chief Operating Officer, The Glimpse Group, Inc.

Hey, as a majority of it is cash.

Q: Okay, great. That's a very helpful answer. Well, thank you. It feels like a constructive quarter. I'll sort of get out of the way here and turn it over to other folks, but thank you for taking my questions.

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Thank you, Casey.

Operator

Thank you. There were no other questions at this time. I'd now like to turn the call back over to Lyron, for his closing remarks.

Lyron Bentovim - President & Chief Executive Officer, The Glimpse Group, Inc.

Thank you. I would like to thank each and every one of you for joining our earnings conference call. We look forward to continuing to update you on an ongoing process and growth. If you are unable to answer any of your questions, please feel free to reach out to us directly. Thank you.

Operator

Thank you. This does conclude today's webinar. Thank you for your participation and have a wonderful day.