VSBLTY Groupe Technologies (Q1 2022 Earnings)

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Corporate Speakers:

- Graham Farrell; Harbor Access LLC; Managing Partner
- Mitch Codkind; VSBLTY Groupe Technologies; CFO
- Jay Hutton; VSBLTY Groupe Technologies; CEO

Participants:

- Rob Goff; Echelon Wealth Partners; Analyst

PRESENTATION

Operator: Good day and welcome to the VSBLTY First Quarter 2022 Earnings Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session.

(Operator Instructions). As a reminder, this call may be recorded.

I would now like to turn the call over to Graham Farrell from Investor Relations. You may begin.

Graham Farrell: Thank you, operator. Good morning and welcome everyone to VSBLTY Groupe Technologies Quarterly Conference Call to discuss the company's financial results for the first quarter of 2022. We are delighted to have you joined us today.

This call will cover VSBLTY's financial and operating results for the first quarter ended March 31st, 2022. Please note that all dollar figures quoted on this call are U.S. dollars except or otherwise indicated.

Following our prepared remarks, we will open the conference call to a question-and-answer session. Our call today will be led by VSBLTY's Chief Financial Officer, Mitch Codkind, along with the company's Chief Executive Officer, Jay Hutton.

Before we begin our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include but are not necessarily limited to financial projections or other statements of the company's plans, objectives, expectations or intentions.

These matters involved certain risks and uncertainties. The company's actual results may differ significantly from those projected or suggested by any forward-looking statements due to a variety of factors which are discussed in detail in our SEDAR filings.

I would now hand the call over to Mitch Codkind. Please go ahead, Mitch.

Mitch Codkind: Thank you, Graham. And just a reminder as Graham already said this in his opening remarks like anything I state in dollars is U.S. dollars. So with that said, our revenues for Q1 came in at $1.2 million, that is up 83% of our recently announced Q4 results and 10 times our Q1 results from 2021 when we began commercialization of our product offerings.

I am happy to report that over the last five quarters we have seen quarter over quarter growth, starting with last year's first quarter of $130,000 growing to $293,000 in Q2 of last year, $523,000 in Q3. Our Q4 was $654 and just -- as I just mentioned our Q1 of this year is now at $1.2 million.

I now want to shift the discussion to our major customer that you heard me speak about with our annual results for 2021. Winkel Media is not only a major customer to VSBLTY but we are also a 33% joint venture owner of that entity. As you may be familiar with, starting last year our goal is to roll out an initial 3,000 stores across Latin American, across the Winkel Media Network which is really also the Modelo Network.

We picked up the pace of our Q1 installations in Q1 and the other thing that is important to note is that we are acting as a reseller for the infrastructure equipment which is pretty much made up of cameras, PCs and screens. We only make minimum margins on these sales since that is not our business. We are, as I mentioned, reselling it.

Also in Q1, in order to accelerate the store installations across Latin America, we did add additional installation resources which we funded ourselves. And as a result, you will notice that we have a negative gross margin in across Q1 results. We are -- we do not expect that to continue.

Most importantly because in our most recent press release Winkel Media did enter into a four-year contract with AustinGIS, who will now take over from us the procurement installation and maintenance of the additional store rollout that Jay will discuss following my comments. So just to reiterate, one-time cost and associated with accelerating our store rollout in Latin America.

The other thing I want to point out that may be helpful as an analogy when we think about what VSBLTY is attempting here and that is if you think about the two successful business models, both razor and razorblade. We are in essence putting in place the razors to sell razorblades.

The razorblades being our AI software as well as the advertising dollars that will come from deploying the screens across the Modelo and Winkel Network. In addition, we ended the quarter with a cash balance of $2.6 million and we continue to [expand] a steady cash inflow from the exercise of warrant and options.

That completes my opening comment. I will now turn it over to Jay for further discussion.

Jay Hutton: Thanks Mitch and good morning everybody. To those of you on the West Coast, good for you, 5:00 a.m., I somehow missed the times under these morning earnings call was planned for, I am a West Coast base. So -- but anyway I was able to get a couple of coffees into me and some calisthenics behind me, so we are charging forward.

I wanted to take a couple of moments to address some inbound queries I got mostly about what Mitch just stepped on a second ago which is the negative gross profit margin identified in the Q1 numbers. First of all, I want to reiterate the first thing that Mitch said which is this is a one-time occurrence. It is transient in nature.

Really if I take you back to some of the fundamental business decisions that brought about this circumstance, it is important to do that I think because it helps people understand who AustinGIS is and why they are value-add to us. They are not taking away from us. They had some interesting questions come in about why they had taken over the contracts, they had taken over the revenue as well.

So, I am going to take a moment or two to sort that out. And going back to the spring of last year was when all this negotiation was occurring with Anheuser-Busch and Modelo. Culminating in a definitive agreement that was signed in June of last year really was the objective to build, as we all know, 55,000-store network across 33 countries in Latin America.

Right now there is five countries underway. There were four initially, Mexico, Ecuador, Peru, Columbia and we just recently added Dominican Republic for a bunch of strategic reasons more than anything and I am happy to talk about that, if the people are interested, Dominican in particular.

But we knew at that time because we are in separate parallel conversations with a spinoff group from Intel called now AustinGIS whose principal objective was to build the services business, infrastructure as a service which, if you can understand, what we are doing in Modelo in Latin America that is we are deploying infrastructure.

And the bad news about that contract is we, VSBLTY, had the responsibility for the first 9 or 10 months to provide that infrastructure. We made that decision willingly and with the appropriate and strategic consultation because if we didn't build the network, if instead we waited for Winkel Media and AustinGIS to be complete on their agreement, retrospectively that would have been 9 or 10 months.

We didn't know it at the time clearly but we were stepping up to -- beginning on their behalf, beginning capital deployment, beginning equipment acquisitions, beginning installations because media networks are valued on their reach. And so a network with 100 locations is worth vastly less than 100, sorry, than a network with 500 locations and a network with 500 locations is worth more than five times a network with 100 locations. It is not linear math.

So, what was important to us was that we get going. Understandably, we didn't expect it would take 9 to 10 months for Winkel Media and AustinGIS. Two companies that, you know, Winkel Media and AustinGIS are in their individual circumstance, small, they have overlords, both of them. The Winkel Media's overlord is Anheuser-Busch and AustinGIS' overlord is Intel.

So, it took a long time, longer than we expected and we took on that responsibility because we felt the concept was to not taking it on would be to wait to build that network and we were not prepared to wait to build that network. We want it to be first mover. We are first move and now the network is sitting at just under 2,000 stores is a saleable commodity.

Another question related to that, that has come up from shareholders, specifically around some of the revenue from Winkel itself. It has been very mediocre and modest at this moment. That's because the network needed to get to critical mass before it becomes a commodity or an entity or a network that brands want to buy.

We have brands like Bimbo. We are the world's largest bread company who now bought multiple campaigns. The best indication of success and scale is that you have brands coming back for more but the point I wanted to make was that we had to -- we had to reach critical mass. And we think critical mass in each of the countries is different in each country because Peru is smaller than Mexico but look with our largest media market which is Mexico.

Critical mass there is 500 units which we now been at for several months and media take a while to sell, you sell into the future. But we are really delighted by the momentum and the expectation and roadmap of Winkel Media and now believe that, given the fact that AustinGIS has taken over the contracts.

That is taking over installation, procurement, maintenance and all of the elements that would have dragged us into that negative margin situation. It is transient. I still defend the reason for doing it as I tried to do here and I think it was an intelligent business decision but it is now over.

The other benefit and now I am going to start looking forward a bit. The other benefit of having really thought out of the box and got a little bit aggressive on that initial build out of Winkel Media, the other benefit as expected was, and we captured the attention of others looking to do the same thing, and it manifestly has done that.

This quarter we will be announcing another network that is North American base in the same category, fuel and convenience and that really would not have happened without the positive response and use case and momentum that has been experienced in Latin America. And that has always been a strategic objective of ours to get that done and to get it moving in the North American space.

There is a certain amount of discount that shareholders applied to anything Latin American which actually frustrates me a little bit but I understand it. So, we are looking to achieve the same objective here in North American. We got a couple of strong possibilities in one deal that's moving coast to coast at the moment.

So, I think just really quickly I'm just going to review some of the questions that I received from -- I believe that is addressing most of the inbound questions. I am happy now, Graham, to open it up to the floor to -- for any additional questions that might arise.

QUESTIONS AND ANSWERS

Graham Farrell: Thank you, Jay.

Operator: As a reminder --

Graham Farrell: Sorry, go ahead, operator.

Operator: (Operator Instructions)

We have a question from Rob Goff with Echelon. Your line is open.

Rob Goff: Good morning. We're in the West Coast case, good early morning to you. My question would be on Winkel. Could you perhaps talk a bit more towards the pace of deployments and how you might see that advertising of revenue line ramp as we go forward?

Jay Hutton: Sure. I will give you estimates on a yearly basis and just for a quick disclaimer, Winkel Media has their own management team, has their own trajectory and planning and all the things that you would expect in a company that is [ISO]. We mentioned I do not sit in the planning room and unable to sort of dig deep in any real and meaningful way on the revenues just because we are not part of management and we got full-time job as it is.

However, I do sit on the board and I am aware of the momentum and some of the challenges they are facing and some of the successes that they are having. So first to your cadence question, Rob, there had been times in the last three or four months that the cadence on a weekly store basis has reached 200 stores that require for a couple of really important things to happen, sort of magically.

The first thing that is required is ABI needs to -- Anheuser-Busch needs to qualify the store. Usually, that's a semi-negotiation with the store owner and we are going to come in this Friday and we are going to do this and that has been pretty successful in Mexico and has required a little bit of more labor in the other marketplaces.

Why is Mexico different? Well, the Modelo stores in Mexico are wholly-owned by Anheuser-Busch. So, what's the most efficient form of government, right, the dictatorship. And so that they can -- they can, maybe I can force the mandate. In the other countries although they have enormous influence, being single most important supply chain participant for most of these additional 45,000 stores, it is still a negotiation. There is finesse required.

And though it's been successful but there is a little bit of pushback from time to time, so that affects cadence, that's probably the biggest thing that affects cadence. As I may have said before, the equipment needed for the next round of installation is all in countries, all states, it's all ready to go. So, we don't -- we no longer look at procurement. It is odd to say this but we no longer look at procurement or supply chain to be a significant problem for us. We seem to have overcome that at least for the time being.

So, those two things are making us look at store cadence in a conservative way and we are projecting 100 stores per week. That is down from the earlier estimates of 200 stores a week. It doesn't mean that if we -- it doesn't mean we are going to get to 100 stores and stop. We just don't want to communicate an overly optimistic, really an estimate that really hits the peak of what they have done before, right.

They are not going to hit the peak of what they have done before and they are not saying they won't but we are -- for the purposes of planning and cash goal, et cetera, we are projecting 100 per month which requires all those things to line up.

In terms of Winkel's momentum, the next major event for Winkel and I don't want to affirm -- run any of the things that they got going on their business, so I'm going to have to be slightly general. You [inform] for them to line up some very well-known name brand for advertising partners and we are in final stages with two right now.

And the importance of that is when those entities come in, they will buy a circumspect or a specific amount of inventory and they will prepay that inventory. And it's not done in a significant discount. For those of you that remember, the bookmarks we thought we get between $40 and $60 per slot, $40 and $65, let me correct myself, per slot per month per store.

And when we're selling to these entities that are essentially wholesaling it, we're not expecting to have to goal anywhere more than a 20% to 25% discount on our top-line which means we're still well within the bookmarks that we established when we start to plan this business. Having said that, they are on the trajectory to go cash flow positive this calendar year which is enormously useful and helpful for us.

I am not going to give specific numbers until they are ready to do so and I think they are going to be ready to do so around about the time they announced these partnerships that I referenced a moment ago which we think will happen before the end of the quarter, but we're overall extremely happy. It was bumpy to begin with because you got no network to sell and you can sell these one-time pilots but no one is interested in pilots.

In fact, that's become a -- that's become a swear word inside VSBLTY. The pilots are not interesting, it's the production deployments which fuel the fire and get the wheel turning. So, we're focused more on those and frankly we haven't run a pilot in now several months. So, we're now working or Winkel is working on long-term repeatable contract not only direct to brand, Coca-Cola, Pepsi, Frito-Lay, Bimbo but to also to agency which the second category is actually more strategic and you will see more coming on that shortly.

Does that address your question, Rob?

Rob Goff: Yes, very good. I thank you. If I may follow-up, with the signing deal with AustinGIS, could you perhaps talk to how you see AustinGIS itself evolving as both a strategic and a financial partner?

Jay Hutton: Sure. Actually, I'm hoping for a quick moment and no one from the team though over there has dialed in to this call but the truth is we view them as principally a bank. The promise of AustinGIS when coming into this, where with the bill of goods we were sold on, now remember we also invested a million dollars, USD, in Winkel Media.

The bill of goods we were sold on is we can access cheap capital. We can access 3% or 4% capital and we can finance all these major projects from the security side. They tend to run tens of billions of dollars on the -- on the media side, equally sizeable. And we're able to then tell you -- give you the tools, VSBLTY and your partners, to go into these major retailers or major smart cities initiatives and say, that capital expense isn't $140 million or $170 million, it's $10 million a month for 48 months. I'm making it up but that's the idea, that's the concept.

And it is important to point out because there have been some people asking me this question. The relationship that AustinGIS and Winkel Media have now formed relieves VSBLTY of a lot of expense and frankly process, project management, all the logistic pieces but doesn't in any way in any form or fashion adjust, modify or discount any of our revenue streams which are license revenue and media revenue.

All those -- those both are intact, not impacted by a -- we don't have to slice them in, we don't have to cut them a piece of revenue on the back-end, none of that. This is just a logistical complexity relief and an operating expense relief which we are delighted for.

Rob Goff: And I may slip one more in there, could you perhaps give us what parameters we're comfortable in giving with respect to a North American network, what you may look for in terms of structure, in terms of scope?

Jay Hutton: Yes, we want to [scale]. We're -- if you look at the various categories in the store media, this is going to sound like a quick academic exercise but I need to answer the question fully. There's DIY which is Home Depot, Lowe's, Menards, those kinds of players. There's grocery, a Target, Wal-Mart, Kroger. There is fuel and convenience, Circle K, 7-Eleven, various others. And those are the three major -- there's fourth one I guess, QSR, quick-serve restaurants. They are now implementing some level of advertising.

It's important for us to get a pillar in each of those markets this calendar year. The one that's most aggressively embracing digital right now isn't the one you would think. It's actually fuel and convenience. Those are the guys that are buying into this idea. Why? Because, they have high velocity brands but in our business we called FMCGs, fast moving consumer goods, Mars Bars, Coca-Cola, Budweiser Beer.

Those are all FMCGs, fast moving consumer goods, so the retail branch of this business model wants high velocity. It tends to be lower margin but it's still high velocity revenue and those brands and there's several thousand brands in the FMCG category, those brands benefit from influencing the customer at the point of sale.

So, it's going to be -- fuel and convenience will be an attractive market, maybe the leading market with respect to the embracing of store as a medium, because of the fact that it is populated within by multiple FMCGs. It doesn't mean the grocery doesn't have the same FMCGs, of course they do.

But while a convenience store might have 10,000 independent SKUs, all of whom by the way are potential advertisers, in the retail they might -- in grocery retail they might have 130,000 independent SKUs. So, it's a vastly different problem and it's just a little bit easier to attack the convenience space and thankfully it's a space that is embracing concept right now. So, our 2021 -- 2022 objective is a win in each of the categories and in convenience, we're looking at north of 2,000 to 3,000 location as -- I don't have to check the box of a win, Rob.

Rob Goff: Okay, thank you. And perhaps moving out of retail, unfortunately, it's timely, could you talk to your strategy and deployment in terms of secure facilities, secure regions, secure zones?

Jay Hutton: In the middle of -- in the middle of the day yesterday where I was in a -- we were in a go-to market planning call with (inaudible) meeting, (inaudible) meeting, remember those at -- in Redmond, Washington with 911inform and that -- and in the middle of that we all got flash traffic about the school shooting in -- that happened in the U.S. and it's tragic really. In fact, what someone said in that call is just the single most impactful school shooting since Sandy Hook.

So, this is going to have an impact and maybe finally move the needle on moving schools into action. There are funding elements in place for schools for safety and efficiency. Leaders are tapping into them right now and I expect we will be able to make some significant headway soon. We have multiple schools and multiple universities that had deployed phase 1 of 911inform solutions which is a building's mapping capability.

For those of you who are following that technology at all, we come in behind building mapping because what we give, if an event occurs in a building and that building is [geospatially] mapped which is what needs to be done, now on top of that with visual context. So, we have to allow them to lay their phase 1 solutions and then we come in immediately after that.

I am not going to front run any of the things that we're doing with them but it's extremely tight and symbiotic relationship. The CEO was in the room with us yesterday, so we're getting senior level attention, commitment to this. We're also in the room with one of the largest systems integrators on the planet. And we're moving forward to make sure that has meaningful financial impact and frankly safety impact this year because it's a real problem.

Rob Goff: Okay, thank you. Thank you, Jay.

Operator: There are no further questions. I would like to turn the call back over to Jay Hutton for the closing remarks.

Jay Hutton: Actually, I'll hand it over to Graham.

Graham Farrell: Okay. Thank you, Jay and thank you everyone for participating in today's call. We're glad that you can take your time out of the morning to join us. If you do have any questions after this call is over, please reach out to the typical IR channels and we'll get back to you. Thank you.

Jay Hutton: Thank you, everyone.

Operator: This concludes today's conference call. You may now disconnect. Everyone have a great day.