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What Does CIDM Do?

Cinedigm Digital Cinema Corp. operates as a digital cinema services, software, and content marketing and distributing company primarily in the United States. The company offers technology solutions, financial advice and guidance, and software services to content owners and distributors, and movie exhibitors. It engages in the ownership and licensing of digital systems to theatrical exhibitors; and provides monitoring, billing, collection, verification, and other management services to the company's Phase I Deployment and Phase II Deployment, as well as to exhibitors, who purchase their own equipment. The company also develops and licenses software to the theatrical distribution and exhibition industries; and provides applications service provider service, and software enhancements and consulting services. In addition, it acquires, distributes, and provides marketing for the programs of alternative content and feature films to movie exhibitors. The company was formerly known as Access Integrated Technologies, Inc. and changed its name to Cinedigm Digital Cinema Corp. in October 2009. Cinedigm Digital Cinema Corp. was founded in 2000 and is based in Los Angeles, California.

The Conclusion Deserves To Be Mentioned First

In CIDM an opportunity exists to invest in a company that has multiple fee-based, recurring revenue streams at a price that should have a ribbon around it, with purple wrapping paper and a pretty card. The kicker here is the fact that management has been proactive in restructuring the company in two separate ways that I will elaborate on later in this report:

1. CIDM has gone from a cinema services company utilizing a dilapidated business model with a steadily decreasing level of relevance to a full on digital distribution and cinema software services company

2. The balance sheet has been streamlined to the point that any risk posed from debt has been all but eliminated.

All the meanwhile, as is so often the case in small-cap land, the markets are treating CIDM as if it is the same company that it was in 2009. In fact, if you are to listen to the voice of the markets, it would seem that the old CIDM was a better company than the new CIDM. The high in 2009 was 1.72. The high for the stock in 2010 was 3.24. The high for the stock in 2011 was 2.60. In 2012 the high for the stock was 2.20. CIDM currently trades in the 1.40 range despite the fact that the company is vastly improved and radically different than it was in 2009, 2010, 2011 and even 2012.

Let’s take a look at what has changed.

Management

During the peak of the financial crisis in late 2008-early 2009, CIDM hit a low of .25 cents as any company that employed leverage in their operations was threatened by the great deleveraging that forced companies to face their inefficiencies. It was during this crisis that many companies large and small began to look outside of themselves for solutions to the problems that threatened the future viability of their company, mostly as a result of the debt laden march forward that had marked the progress of the past 10 years.

Companies increasingly began relying on the expertise of those with practical financial experience in restructuring operations and balance sheets. CIDM, not being an exception to this trend, brought on Adam Mizel who was Managing Principal of the Aquifer Opportunity Fund. The fund is described as "taking a private equity approach to investing in small-cap companies", which is another way of saying that they are an activist investor.

Mr. Mizel started on the Board of Directors in March of 2009. In August of 2009 he was named CFO and Chief Strategy Officer. He currently serves as CFO and Chief Operating Officer of the company. The presence of an experienced activist investor with a Wall Street background, as opposed to a traditional "Fortune 500″ background, brings with a dynamic set of tools that allows for value to be extracted from a situation that would be insurmountable for the dogmatic methods of traditional corporate finance. The current framework that is being laid for the company has been streamlined to the point that you just know management has a Wall Street background that is eager to plant seeds for substantial shareholder appreciation.

Of course, this is a company that is in the film business so there needs to be some film expertise and a network to access for future deals. Enter Chris McGurk:

Mr. McGurk has had a long and successful career in the film and television industry. Mr. McGurk was the founder and CEO of Overture Films from 2006 until 2010 and was also CEO of Anchor Bay Entertainment, which distributed Overture Films' product to the home entertainment industry. From 1999 to 2005, McGurk was Vice Chairman of the Board and Chief Operating Officer of Metro-Goldwyn-Mayer Inc. ("MGM"), acting as the company's lead operating executive until MGM was sold for approximately $5 billion to a consortium of investors. McGurk joined MGM from Universal Pictures, where he served in various executive capacities, including President and Chief Operating Officer, from 1996 to 1999. From 1988 to 1996, McGurk served in several senior executive roles at The Walt Disney Studios, including Studios CFO and President of The Walt Disney Motion Picture Group. McGurk currently serves as a director of BRE Properties, Inc. and has previously served on the boards of DivX Inc., DIC Entertainment, Pricegrabber.com, LLC and MGM Studios, Inc.

So we have a Wall Street guy to create shareholder/financial magic. And we have a movie guy to make the deals and sniff out the trends.

The Company

The company itself can be broken down into three separate revenue producing entities:

1. Digital Cinema Services: Projected to provide $6-$10 million in EBITDA 1-2 year timeframe
Leader with 11,700 screens under agreement and 269 exhibitor partners. CIDM is the #1 servicer of digital cinema screens. Growth efforts are beginning to focus overseas.

2. Digital Cinema Software: Projected to provide $20 million in EBITDA 4-5 year timeframe
16,000 theater screens utilize software services. CIDM has a 70% market share on the distributor side. This is a recurring, high margin business and CIDM is the #1 provider to exhibitors and movie studios.

3. Content Distribution: Projected to provide $20 million in EBITDA 4-5 year timeframe.

Company has positioned itself as leading next generation film distribution company, further emphasized by their acquisition of NEWVIDEO in 2012. CIDM now has 20,000 movies and TV shows in their library, along with more than 500 content partners. Cinedigm is the #1 digital aggregator and distributor of independent film content.

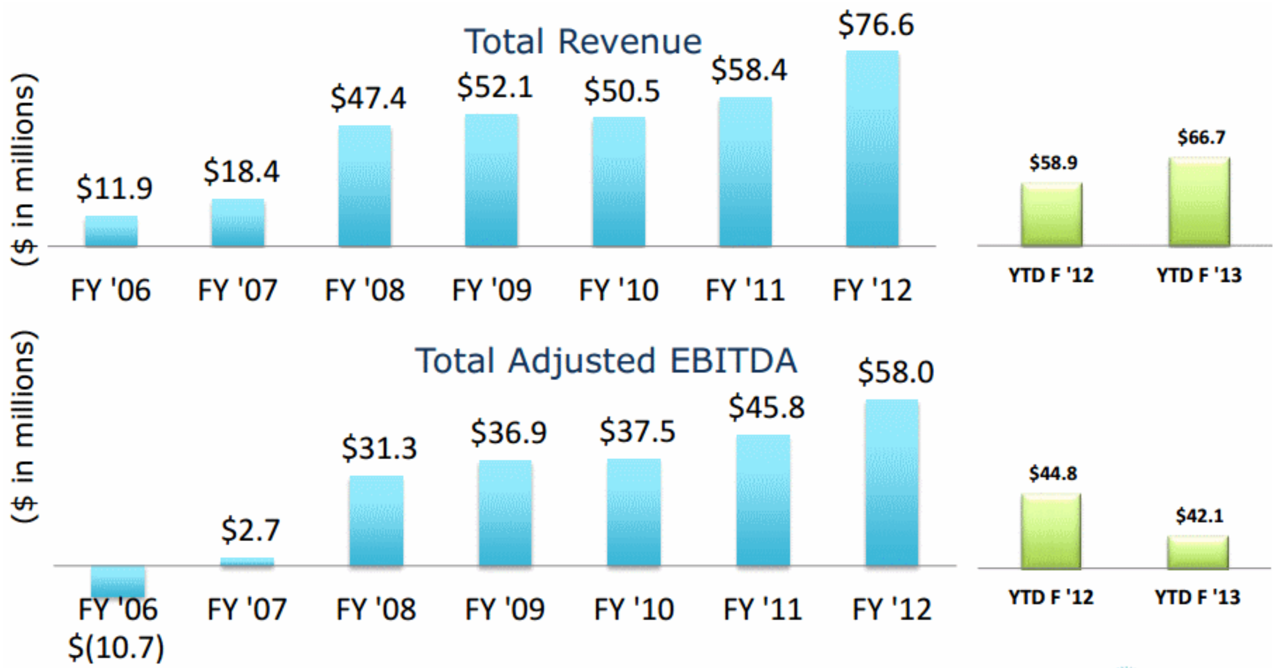
Software and content distribution are what will drive CIDM revenues, EBITDA, margins and thus share price in the future. They have an extremely attractive position in the market that just requires consistent execution to bear fruit.

On the content distribution side, the acquisition of NEWVIDEO instantly creates a company that can not only provide content to their various theater partners, but also take that content directly to the consumer through home or mobile platforms.
All the major content companies (Netflix, Hulu, Amazon etc.) are partners with CIDM, allowing the company to achieve 86% growth year over year in this segment of the business.

In CIDM it is apparent that you have a company that controls a vast, growing library of content with every advanced means possible of distributing that content.

Most Recent Quarter

- 17% increase yoy revenues
- Non-deployment revenues (software and distribution side of business) were up 53% yoy
- Non-deployment EBITDA (software and distribution side of business) increased 58% yoy
- Expecting $91 to $97 million in revenue for fiscal 2013
- Expecting $57 to $59 million adjusted EBITDA for fiscal 2013
- CIDM market cap is $71 million with an outstanding float of 39 million shares, of which 40% is insider owned.



Courtesy: Cinedigm

Debt Restructuring

On March 1st, CIDM announced a fairly significant debt restructuring that makes the company a much more attractive investment. This type of balance sheet restructuring clears up any future concerns investors will have regarding outstanding debt. Once acceleration takes place in top and bottom line numbers as a result of current initiatives, these types of efforts will pay off in spades for share price.

- The new debt structure is collateralized by phase 1 VPFs, which are essentially equipment that is used for their deployment division
- The restructuring completely absolves the software and distribution side of the business from debt obligations
- This non-recourse debt structure insulates investors from CIDM's debt obligations
- The restructuring saves the company $6 million in annual interest expense versus the expensive recourse debt structure that was previously in place
- Maturities for debt are extended to 2021
- Moodys recently upgraded a new 5 year senior facility

This type of debt restructuring is a complex undertaking that traditional management teams don't necessarily embark upon without the poking and prodding that comes from an activist investor. In the case of CIDM, the CFO is a former small-cap, activist guy with a background in private equity. The track record of execution here, from the debt restructuring to to acquisition of a content aggregator to further compliment the business are all signs that management interests are fully aligned with shareholders. The ultimate goal, of course, being appreciation in share price. This debt restructuring goes a long ways towards lubricating the gears to start the process of appreciation.

Conclusion Part Deux

As an addendum to the conclusion mentioned initially, it should be noted that the software and content side of the business has only recently become the driver of growth for the company. This phenomenon of an altered business model leading to growth in two segments that were either minor contributors or nonexistent just two years ago has been completely missed by Wall Street. Not only are the software and digital segments that CIDM is now focusing on relevant to growth but they are the type of businesses that once noticed by investors have great potential to create the buzz driven momentum that appreciation in share price that is extraordinary in nature.

It is not my forte nor am I interested in delivering a probable valuation based on assumptions for earnings and the multiples those earnings deserve. What I am interested in are companies that offer very little risk for the potential of getting involved in a venture that has significant appreciation potential. The risk in CIDM, given the successful restructuring of both the business model and balance sheet, have been whittled down to near zero given the depressed share price.
A software and digital content company that are at the beginning of their respective upswings is being offered here led by a management team that has not only proven competent in resurrecting a company that was going nowhere, but creating an entity that is at the cutting edge of its industry.

I'm a buyer.

Technical Picture

click chart to enlarge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