

Transcript of
Galaxy Next Generation, Inc.
First Quarter 2021 Financial Results
November 12, 2020

Participants

Magen McGahee - Chief Financial Officer

Analysts

Presentation

Operator

Good afternoon, everyone, and welcome to Galaxy Next Generation's First Quarter Fiscal Year, 2021 Earnings Conference Call. This call is being webcast and is available for replay. In our remarks today, we will include statements that are considered forward looking within the meanings of Securities Laws, including forward looking statements about future results of operations, business strategy or relationships with our customers market and potential growth opportunities. In addition, management may make additional forward-looking statements in response to your questions. Forward looking statements are based on management's current knowledge and expectations as of today, and are subject to certain risks uncertainties and may cause the actual results to differ materially from the forward-looking statements. A detailed discussion of such risks and uncertainties are contained in our most recent Form 10-Q, Form 10-K, and other reports filed with the SEC. The company undertakes no obligation to update any forward-looking statements.

And with that, I will now hand the call over to Galaxy Next Generations, Chief Financial Officer, Megan McGehee.

Magen McGahee - Chief Financial Officer

Thank you, Paul. Good afternoon everyone and we appreciate you joining us on today's call. As Paul mentioned today's purpose of the call is to go over and update from our quarter one earnings that were released earlier today. We're extremely proud of the start to our fiscal year 2021, and we continue to demonstrate impressive 89% growth on our income for our core technology segment of the business, and the introduction of our new line of cov-shield protective products. Interesting reflection for me, as most of our revenue collected before 9/30 was actually from our interactive panel and software line showing a growth on that product alone from approximately 400,000 in June, 30 Q4 to 1.2 million in this reported quarter.

Our fiscal year first quarter revenue deferred included equal just over 2.8 million. This is in total more than we generated all of last year and revenue, which was reported as 2.3 million. So a huge proud moment for the company and where we're at as of today. Let me go ahead and break down the financial report so let's take a quick dive into the Q itself. As mentioned, a while ago revenue 1.2 million, deferred revenue 1.6 million, leaving gross profit, a little over 350,000, net operating loss, a little over a million. Net operating improvements over the last few quarters is reflected there in the MD&A. We've improved by about 500,000, over the last couple of quarters to this quarter, and our general administrative expenses. In fact, if we break down the collected revenue numbers, with the deferred revenue again that's \$2.8

Transcript Provided by



million number, bringing our average gross profit if we base it off to the 30% margin to \$840,000 narrowing that net loss to only \$200,000. It's reflected on the balance sheet portion of the report we've increased our total assets to 5.2 million, an increase of \$700,000 from our June report, but more impressively an increase of 1.2 million in assets of our March 31 report.

We will continue to build on the asset portion of the balance sheet. This is evidenced too with our recent purchase of GTS classroom technology solutions which closed on October 15, and will be reflected in our current quarter numbers posted in February. While our growth has had an effect on both our revenue numbers and our balance sheet assets, it's also had an effect on our general sales pipeline and backlog, backlog is currently sitting at a little over 2 million, and we're working very hard to make sure that that product gets built and out the door before the end of the fiscal year.

All right, let's continue kind of along the same lines and compare some of the financial advances reflected in our reported liability. We were able to bring down our accounts payable from 1.8 million reflected at June 30 to approximately 1.2 million as the past quarter's close. Our traditional bank line of credit has been formally renewed at this point for another 12 months, and therefore started as a zero-dollar current liability at September 30th, which was reflected at over 1 million on June 30. If we reflect on the remaining debts or liabilities of the company our convertible notes payable at September 30 was 1.1 million compared to the 3.1 million this time last year and since September 30, another 400,000 of that 1.1 has been resolved. In terms of other notes payable if you break down note eight of the financial statements these notes are reflective of \$3 million in debt, but they are money's invested into the company by either advisory board members or executives of the corporation, which shows our confidence level in the company's future growth.

The company also inherited a large net operating loss from the theatre company that we merged into as Galaxy when we went public in 2018. We've been fortunate enough to carry over that net operating loss on our books and will continue to and plans to benefit from that NOL when profitability is achieved. So let's discuss outside of the financials some brief general business highlights from this quarter. We did add the manufacturing facility in Arizona in this quarter to increase the production and sell specifically to our OEM partners, and have hired two new employees in that facility as well. There was a big partnership announced with the seventh largest school district in the nation out of Florida to provide some of our new cov-shield line of products too. We are proud of that connection and obviously have used it for marketing purposes to try to break down into even larger school districts across the nation. We were awarded the new contract for a product that was really flat quarter, our cloud-based intercom and paging solution as part of our Phoenix brand that was 172,000 for an upgrade service of a previous existing customer. We received a commitment from a school district in Texas. Again related to our cov-shield line of products for over \$600,000. We received a new purchase order in this quarter for \$1.5 million from under our supply agreement with one of our OEM customers here in the U.S. This is an addition to the almost \$1 million PO [ph] that we already had in which we anticipate completely filling both of those before the end of the year.

I'm looking forward to our new adventure with technology core in Australia, and that is something that came out of this quarter, and we were ramping up and starting to look forward to exporting our audio solution to them as well.

Basically, in summary, our deferred revenue and backlog continue to increase and remain strong. This is a good indicator of our future revenue trim. Our capital structure has improved with each passing quarter, and we have a goal over the next 12 months still to uplift to a US National Exchange. We believe this just is this is just the beginning of that major turnover cycle and the K-12 education market, as we all know the last several months have been crazy turn of events with the COVID-19 pandemic and such because of that we feel like the whole K-12 market has had to rethink the way that our student learning environment continues to evolve.

We look forward to being a major participant in that evolution, not only in our current line of technology hardware and software but also in our new line of protective gear. So with that I'll turn it back over to Paul the Operator, and open it up for questions.

Operator

Thank you. Thank you ahead of time for your previously submitted questions. The company will do its best to answer all of the questions possible, with the exception of any forward looking. Okay, here we go. Are you going to implement a stock buyback plan and/or do a reverse stock split?

Magen McGahee - Chief Financial Officer

So we have gotten this question quite frequently lately and we've consistently stated, for the past several months that our biggest focus is on ramping up our business and building shareholder value. As a small emerging growth company a better use of our cash is to reinvest that into the business, into inventory and into product and increase our revenues. This will then in return create more value on the company, and therefore our shareholders and this time the reverse stock split is on the table.

Operator

Okay, thank you, how much revenue does CTS contributes?

Magen McGahee - Chief Financial Officer

So as I mentioned, just a minute ago CTS the purchase of their assets closed on October 15. So we're still working on the audited numbers for some outlook into their past year. CTS is great as value to us to Galaxy is the relationships and the buying power that they're bringing to the company from some of our imported products. So as I think as previously mentioned on the shareholder update call, we had a few weeks ago, they've already assisted us in increasing. Sometimes 50% profit margins in several of our products.

Operator

Okay, the next question, do you plan on uplisting to a major US exchange.

Magen McGahee - Chief Financial Officer

Yes Galaxy does plan. It's a top priority for us in 2021.

Operator

Okay and are you trying to sell into the military?

Magen McGahee - Chief Financial Officer

This is kind of a new avenue for us, it's been on our plates for a year or so now it's a little bit difficult to do when you have a lot of imports in your product line. However, the purchase of

CTS did come along with some state's contract work, and has kind of Made in America stamp on a lot of this products will allow us to push into that avenue a little bit harder than we had in the past. There's several military contracts that of course require US based manufacturing and we have positioned ourselves to be in that place now, and plan to attack that as a vertical moving forward.

Operator

Okay, great. And can you provide a list of resellers?

Magen McGahee - Chief Financial Officer

So we don't provide our customer list for a couple reasons some competitive reasons, obviously, we don't want other companies get hold of our customer, but we've also had an overly aggressive shareholder situation as calling in to our customers and resellers. So for that reason, we'll continue to close quote hold it close to the vest, but we have grown to over 30 resellers in the US, and we have two international distributors at this point.

Operator

Okay. And the next question. How does the company explain the increase in total outstanding shares of 17 million to 2.6 billion from period, September 30 2019 to 2020? What plan does it have to fix the company share structure?

Magen McGahee - Chief Financial Officer

So a large portion of the increase in outstanding shares. So due to capital raising for the company to get to the revenue and potential profitability that we've shown in this quarter. We will continue to make sure that we're analyzing the situation from quarter to quarter growth perspective and if there becomes a need to address anything within the share structure, we will make the best decision possible at that time.

Operator

Okay, thank you. Are you expanding points of contact for example distributors or sales reps and more territories within the USA?

Magen McGahee - Chief Financial Officer

Yes, so part of our kind of ongoing business plan is actively hiring additional sales reps and those regions where we don't have in the field support yet. In fact, as of this week we have brought a new consultant on board. It's actually someone I've previously worked with in the past, who has 30-40 years of sales management, channel management and directorship and large sales channel, so we're excited to welcome him on board, and hope that his direction and influence can assist with this particular question on getting some new sales reps on board.

Operator

Okay, great. Do you have a strategy to better control expenses in the coming quarters?

Magen McGahee - Chief Financial Officer

So one of the reflections. When we were looking through this just quarters number is, is the fact that we have improved our admin expenses and just general operating expenses, I think I mentioned earlier, they come, on average, going down about \$500,000, a quarter and has gotten us to that, that million-dollar number that we're at now. So we, you know, continue to look at that, cut expenses where we can, and then growth company obviously as we continue to expand our revenues, expenses will expand with that but the idea of course is that the

margin of difference becomes even more together as we move forward into the next quarter and the one beyond.

Operator

Okay, Magen and what are the cov-shield products being sold at per unit and breakdown of price points?

Magen McGahee - Chief Financial Officer

This one would fall under kind of the same competitive disclosure issues with resellers. I'm comfortable I guess to say that we sell our cov-shield products, anywhere from \$30 to \$200 a unit and totally depends on shape, size, quantity being ordered, we averaged about 40% profit margins on that product line.

Magen McGahee - Chief Financial Officer

And what are the interactive panels being sold at?

Magen McGahee - Chief Financial Officer

So same disclosure as before, but they sell anywhere from \$1000 to \$10,000 a unit depends on the size, the features, the software that's bundled with it and again, the quality or I'm sorry quantity that's going out to the one particular customers.

Operator

Okay, great. Thank you. So it was mentioned on the last couple of marketing dollars being spent in lieu of less conventions. What are some of those other forms of marketing and/or advertising are their ads in any educational trade magazines currently?

Magen McGahee - Chief Financial Officer

I think the question is, in relation to something mentioned in the last call about trade shows and exhibitions not really being an option at the moment due to COVID-19 and we have reestablished those finds into other marketing efforts. Those have included email campaigns, direct mail campaigns, more on-site visits with resellers for training purposes, WebEx, Zoom, whatever we can do to reach those people while we're limited on our travel. We do not currently invest in educational trade magazines, we've found that it's our dollars are better spent in social media platform and then, Facebook, even Instagram. We've upped our web page design situation that is an ongoing design process currently and will continue to be for the next month or so. In our current situation magazines that are sent to schools are not being opened and read and therefore, of course the return on investment it's not worth it for that thought of the marketing.

Operator

Okay. Are there any new products being introduced in lieu of the new acquisitions?

Magen McGahee - Chief Financial Officer

Yes, so the general answer to this question would be yes. I think just over the past year or two years I'll say we've grown our product line from really one product about 10 part numbers to, you know, 100 products and 300 part numbers because of this acquisition though it will allow us to kind of ramp up some of those products that we have in our roadmap and actually have a couple of new ones being watched already soft launch to hard launch to our customer base within the next few weeks.

Operator

Okay. So separate from schools can you share what segments or percentage of software has been utilized by other industries, for example, police, fire or the government sector. And if there's any data on growth?

Magen McGahee - Chief Financial Officer

So this question, kind of, I guess begs me to explain our company products a little bit better. We do have a software that is targeted specifically for visual alerts and what we call emergency management in the classroom. This is one of the new products that we actually just launched this year, so that particular software is definitely the forged for fire and police, fire government, all of the above all verticals, and I think we've mentioned before that we definitely have a focus to branch outside of schools. I mentioned earlier, EdTech has become a broader spectrum than that and kind of includes all of these different sets of verticals and segments within that. So you know that is part of the marketing plan, it's also part of the sales plan. We'll have to kind of build out our resell channels to include specific companies that target the types of entities versus just schools, but we have the products that flow across from all verticals and we do intend to tailor them to these and start marketing then there as well.

Operator

Okay. The final question we have today. Big T trades are coming and have noticed that this continuous selling from past few weeks, and it looks to be ever ending. Initially, we have understood that there are from offering mentioned in recent S one, and start realizing that there is something else we are missing.

Magen McGahee - Chief Financial Officer

So I guess I will address this question the same we did, have the S1 \from the most recent raise of financing from an institutional investor growth sector [ph], on October 30 under their term that institutional investor is held to a limitation on the dollar amount that they can convert per month and as of today, that investor has converted their limit on the month of November. So, I think that's probably the best way to answer that question.

Operator

Okay, thank you. And that's all the questions we have today, and I will hand the call back to Magen McGahee to make any closing remarks.

Magen McGahee - Chief Financial Officer

Thank you, Paul and I appreciate you moderating the questions. The only closing remarks obviously for us again is we're very excited about this quarter, our revenue impressed us and we've been fighting hard obviously to keep that 100% growth on quarter on quarter going. We have some really large things in the pipeline in terms of contracts that have already been announced and fall under kind of our deferred backlog and accounts receivable numbers so you know we're excited to about where we're at now, and we will continue to be more communicative towards our shareholder base and do these calls like we have new things to share and a new quarterly earnings to report. So we appreciate you guys all joining the call today.

Operator

Okay, thank you. Ladies and gentlemen, this does conclude today's conference call and webcast. You may disconnect your phone lines at this time. Have a wonderful day. Thank you for your participation.