

Transcript of
Galaxy Next Generation, Inc.
Shareholder Update Conference Call
November 2, 2020

Participants

Magen McGahee - Chief Financial Officer and Chief Operating Officer

Presentation

Operator

Good afternoon, everyone, and welcome to Galaxy Next Generation's Shareholder Update 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 the security laws, including forward-looking statements of our future results of operations, business strategies and plans, and our relationship with our customers, market and potential growth opportunities.

In addition, management will be making forward-looking statements in response to our questions. Forward-looking statements are based on management's current knowledge and expectations as of today and are subject to certain risks and 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 filings, Form 10-Q and Form 10-K, and in other reports filed with the SEC. The company undertakes no obligation to update any forward-looking statements.

And with that, I will now like to turn the call over to Galaxy Next Generation's Chief Financial Officer, Magen McGahee.

Magen McGahee - Chief Financial Officer and Chief Operating Officer

Thank you, Devon, and good afternoon, everyone. We appreciate you joining our call today. And first off, we also appreciate all the interest that you guys share and the confidence that you've shown in our company and in our recent growth.

Just quickly to give you guys a little bit of a corporate background, Gary LeCroy is joining us on the call today. He's our CEO. As Devon mentioned, I'm our CFO, also operate as our COO. We co-founded Galaxy Next Generation in late 2014 and decided to take the company public via a reverse merger in June of 2018.

Our business plan from day 1 has consisted of aggressive growth and expansion of product line through acquisitions and organic means. In order to do that, the reverse merger was decided in June, 2018, to go public into a company called Full Circle Registry. That company was an operating movie theater and ticket sales generating company, which was then sold off.

Gary and I's initial product launch was all about the educational technology sector and a line of interactive touch panels, which is a giant television, that's a touch-screen for interactivity and student engagement in the classroom. Part of our initial business plan did include the expansion of that product line. And since going public, we have increased both that product line through acquisition and product development internally, bringing our revenue over the past years – 3 years from \$0.8 million to \$1.9 million to most recently reported in our 10-K of \$2.3 million.

If I back up just for a second and discuss kind of the historic acquisitions from the reverse-merger forward. We had severe growth, since we have taken the company public. One of that was the acquisition of Interlock Concepts and Ehlert Solutions Group in 2019. The growth that we have experienced through both those acquisitions has caused new capital. And as mentioned in my shareholder update letter that went out last month, some of that capital was convertible at a discount to market into equity.

And unfortunately, at times that affected the stock price, none of our decisions as management to raise money and financial growth was outside of the realm of the growth of the revenue that we have experienced. And we're proud of that growth and the opportunity that has gotten us to today as a company and what we've experienced over the past several months.

So having said that, I'll kind of walk through a little bit of our growth and what the expectations are as the company moving forward. As reported, in our 10-K, we had a deferred revenue of \$1.1 million and the backlog increased to a little over \$2.5 million.

As mentioned, a while ago, some of that was very impacted by the acquisition that we made of Interlock Concepts and Ehlert Solutions Group. Those two companies combined brought us a little bit of a different edge and allowed us to establish a new division of our company, specifically focused on OEM relationships.

We have since developed some new audio equipment that we are providing, and through previous announcements to several OEM partners, one of those – several in the U.S. and one of those abroad in Australia. We anticipate being able to improve and grow our OEM market and focus those efforts on a much larger scale.

Since that is a big responsibility to our backlog, we've also been able to add several different new products through that acquisition. Our Bell and Intercom System has had multiple successes and our West Coast offices as we refer to them in Arizona, Utah and Colorado. And we intend to use that product line to complete our reseller grow-out as we develop our channel even further.

Previously, in the company's infancy, we were somewhat dependent on some nontraditional financing. And as previously reported, again, in our most recent 10-K, the company has established itself into a bankable company and have established financing through more traditional manners to help facilitate some of the growth that we have been participant and anticipate even more so.

Our sales cycle is an interesting one, we are not a direct-to-consumer company, we are an EdTech company, a lot of times I get mistaken for schools' sales only. EdTech is an interesting

market and does encompass both corporate learning, conference rooms, military, state and local government, police, fire stations, any sector that you could visualize any type of training going on is actually falling underneath our EdTech market. Historically, probably 80% to 85% of ourselves have been to schools, and we sell to their schools through a resell channel across the U.S.

And now as mentioned previously through our OEM partners that have their own established resell channels on certain products that we're developing, because of the way that our market works and the sales cycle operate, we do have a 30 to 60-day purchase cycle on most of our products. And because of that you'll see a heavy important factor on our backlog and deferred revenue numbers. As we look forward, future revenue and speculate on what is to come.

We have continued to focus on that original business plan from an acquisition standpoint. Our most recent purchase was closing an asset purchase of classroom technology solutions located in Florida. That purchase was a creative person in many ways. And as announced in our October press release, it came along with Cyrus Marshall, who was the previous president of CTS, and is now operating as our Chief Product Officer, that company and that management has not only affected our profit margins in a positive way, but has affected our product line and our ability to import multiple manufacturing facilities here to the U.S.

CTS previously was known very well in the resell channel into his customers for his own products, branded product line of [Mel] [ph]. He has brought his expertise into our company into Galaxy, along with his buying power. And we anticipate seeing a lot of increased value from his team, as we continue to intertwine them into our corporate structure. If we focus kind of on, before I get to answering the questions that were submitted, I think it's the overall company strategy of today's call is to make sure our shareholders understand the value that we do see from them, and the growth that our company has achieved and will continue to achieve.

We have some large goals for our corporation moving into the future. And, therefore we will continue to push on our business plan of organic growth, new product development and acquisition.

Before I do turn it over to questions from Devon, the moderator here, our Q1 fiscal year, which will include July, August and September is due to be recorded on November 13. And obviously, we will be able to follow that with an additional call to discuss any new advances within the company and those minds.

So at this time, Devon, I'll turn it back over to you if you want to address the questions that were submitted about shareholders previously.

Operator

Thank you. At this time, we will be answering previously submitted questions. The company will do its best to answer as many questions as possible, with the exception of any forward-looking ones. With that said, let's begin with the first question. Is there a plan to do a stock buyback to reduce the number of outstanding shares?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So right now, the company is in an extreme growth pattern. And it would definitely be a better use of our cash flow to reinvest the money into the growth of the company.

Operator

How much are you relying on the stimulus package with money for schools to get additional contracts and with the stimulus package is passed? Are you set up to get some contracts signed quickly?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So this is an interesting question for us. I'll do a little bit of background information on it, before I address it directly. The previous CARES Act that has already been passed, has had a major impact on the company, schools were given a stimulus package themselves during the initial CARES Act passing that was specifically earmarked for personal protection equipment. Our new Cov-Shield line of products, which is plexi-glass dividers for student desks, teacher desks and other admin type areas within school systems are specifically earmarked to fall under that PPP requirement. So we've already experienced sales related to the stimulus funding, most of our customers have even earmarked that this one CARES Act money that they were just spent on this type of products.

So in relation to this specific question, if a new stimulus package is to surpass, I'm assuming that would have the same regulations around it, and Galaxy has been able, and will continue to direct market to those customers receiving that funding, both for the Cov-Shield line of products, and also our distance learning product line. So there's a couple of Galaxy products that will fit into that CARES Act money. Thank you, Devon.

Operator

Does the company have a target timeframe in which it plans to have a NASDAQ compliant stock price?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So as any company we have an outlined business plan of several years, and it is a major goal for our company to become listed on a national exchange in 2021.

Operator

Does the company plan on mainstreaming the Galaxy name, example, of web ads, TV or internet commercials, et cetera? There are so many school districts that could benefit from your product, but not many regular people outside the stock market know of Galaxy and what you offer?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

Yeah, so Galaxy historically has had marketing efforts, mostly through trade shows and exhibitions. Since we are not a direct-to-consumer product, we do rely on some untraditional marketing methods that would not include an extraordinary amount of money spent on TV commercials and web ads. Part of the pandemic a negative effect, I guess, on – was the lack of trade shows and exhibitions.

The positive effect was the free up of the marketing budget that that it took to run those. And so we have reallocated that marketing budget. Part of the CTS purchase actually allowed us to have a new relationship that was disclosed under a consulting agreement in the 10-K with a marketing firm that has already started efforts on a new webpage, social media involvement, and also direct e-mail mailing campaigns and advertisements to the schools and so.

So while we don't plan to mainstream necessarily the marketing efforts is a traditional company for direct-to-consumer product, which we have ramped up our marketing efforts and will continue to do so in the coming months.

Operator

Why did the company do a stock split on September 18, 2018?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So that stock split was actually in conjunction with us to kind of public, we – again, we reverse merged into a theater company in June of 2018. And that that particular stock split was completely to do with the cleaning of the capital structure of the prior public company.

Operator

Will you be doing a reverse stock split?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So our executive team nor the board of directors has authorized any type of recapitalization structure.

Operator

When will the company turn profitable?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

If we continue to accelerate the growth at the rate that we have as of wait the company hope to achieve profitability sometime in 2021.

Operator

Are there any plans in integrating artificial intelligence into any of the solution Galaxy provides?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

Yeah. So this is an interesting question. Artificial Intelligence is that has been a topic in our company for a couple of years now, there was a study released in 2018 by some of our market sector data that by 2021, 47% of education will be affected by some sort of AI. So we've been working obviously closely with our development team, our engineering staff, and even our overseas manufacturers just kind of stay up on what is current and what does that mean for education.

We have it definitely on the radar. Some of our overseas partners are well above and beyond us on including AI type features into the classroom into different – distance learning into differentiation of the classroom, giving universal access to all students in certain ways tutoring.

But with our technology today, as it did, the integration of some of these features would be fairly simple to achieve. And it is definitely on the company's radar at this point.

Operator

With everything going on in different states, with more school districts going remote, why isn't there more of a concentration given to marketing the product?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So this question is absolutely accurate. With everything going on in different states, every state has made their own decisions due to the COVID-19 pandemic. We have some of our customers that are completely back to school 100% in the classroom, which has benefited greatly from our Cov-Shield line of products, we have some states or some portion of states, who have not allowed to return to school at all, and are benefiting from our marketing efforts relating to our remote learning software.

The new marketing team that I mentioned previously, that was part of the asset purchase introduction, is working currently on pinpointing exactly which states are following which mandate and CDC requirements for each individual school districts, we will be able to then take that information in market specifically which products on the Galaxy line cards fit into those specific state. And so I definitely answer this question with there has been a great concentration given to that market, and what we're able to provide for each one of the states individually.

Operator

Aside from occasional candid warehouse or gymnasium photo, what future marketing strategies, do you have plans to promote your product in a way that reaches both potentially new clients and investors?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So in order to not really be too repetitive, as I mentioned previously, and as a material agreement in our 10-K, we have finally engaged with a marketing firm that plans to ramp up all of the ways that we're promoting our product line via our reseller channels direct to the school district via mail campaigns and e-mail campaigns, and a whole laundry-list of other methods that we're excited for them to be able to implement now that we have that team in place.

Operator

Can you explain the effect behind the recently filed S-1 registration statement?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So the most recent S-1 represents a new investment into the company of \$1.7 million from an institutional investor that previously been involved with our company. The purpose behind the investment is to provide us with additional working capital that will go specifically to product inventory, to meet our increased demand for both the technology products and the plexiglass one.

Operator

Along with Cy Marshall, did you bring the rest of the CTS employees? What is the impact this brings to direction of the Galaxy sales team in order to spread reseller effort?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So short answer is yes, the CTS team all is part of the Galaxy team, and have been employed with us since purchase. Along with the employees of CTS, the marketing team that I mentioned that was introduced to us is also part of that team now. CTS and its employees have an extensive reseller channel that was both complimentary and addition to us, so Galaxy and CTS shared customers historically, but there were also new resellers that were brought in to the fold through that acquisition.

And it will continue to be an important factor as we make new introductions to that channel with our products and vice versa for their historical products into our channel.

Operator

And our final question is, what is the status/results of the Arizona office? What percentage is this helping with revenue growth?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

So the Arizona office was established for the sole reason to support the new division that I spoke of earlier, related specifically to OEM development. So that office is a manufacturing and assembly facility, mostly consists of technicians and engineers that are focused on the audio – classroom audio equipment manufacturing and supplying. That division has grown tremendously year-over-year, and is reported in some of our backlog and deferred revenue numbers in the 10-K.

If you look at the numbers that were reported under those 2 backlog and deferred revenue versus our annual earnings in the 10-K, you can see that it represents potential 100% growth at June 30. And we will report again our Q1 numbers on November 13, or the day they'll do is November 13. And that will shed some additional light on the new facility there and the impact of the OEM partners.

Operator

As there are no further questions, Magen, I'll pass the floor back over to you for any closing comments?

Magen McGahee - Chief Financial Officer and Chief Operating Officer

We appreciate again, everyone, joining the call. We appreciate the support. It's been an exciting few months or 6 months for Gary and I, as we've seen the transition of our hard work move from a company that made a single product and a very localized market to a company that is now providing a multitude of products across the globe.

And we are excited about the future and what that opportunity means for us. While COVID-19 and the pandemic that we're currently in has been a personal suffrage for many of us, the company was in a position to benefit from the need of a lot of our products and our customers in the school districts that we're already working with.

So again, we appreciate the support. We're excited about the growth that we've been able to see and anticipate from those new products and the need, and the desire for the schools who were kind of shaken from the pandemic to have to redirect and make decisions based on at-home learning or in-class protection.

And Galaxy has positioned themselves to provide both and we will continue to market those products into the schools as we work kind of together to get through whatever the pandemic has to offer us still in the future. The only other closing remark is thank you to Devon, obviously, for hosting the call. And again, we will be filing our next report for our Q1 numbers at or around November 13.

Operator

This concludes today's teleconference. You may now disconnect your lines at this time. Thank you for your participation and have a wonderful day.