MISSION VERTICAL CAPITAL

D-BOX Technologies Inc. (TSX: DBO · OTC: DBOXF)

CONVICTION NOTE · *Signal vs. Noise — The Secular-Decline Narrative Misreads the Thesis*

FROM	DATE	RE	INTERNAL RATING
Mission Vertical Capital Investment Team Erik Voss, CFA	June 2026	Theatrical exhibition structure & D-BOX thesis	**HOLD — Conviction Maintained**

POSITION SNAPSHOT

Stance	We continue to hold; conviction on the thesis is intact. The secular-decline narrative is the noise — premiumization and screen penetration are the signal.
Position role	Asymmetric premiumization play on theatrical exhibition — small-cap sleeve
Business model	Per-seat motion royalty stream (~100% margin) plus actuator/seat system sales
Penetration today	~1,135 active D-BOX screens globally (Dec 31, 2025); under 1.6% of North American screens equipped with immersive haptics
What changed	Nothing in the thesis — exhibition is high-grading its asset base, not dying

The Bottom Line

Concerns about the secular decline of exhibitors are the noise; they miss the signal. North American exhibition is high-grading its assets — fewer, larger, higher-yield locations — not dying. D-BOX royalties grew 40% in a quarter the domestic box office fell 11%, financials are decoupling from raw theater counts, and with under 1.6% of North American screens equipped with immersive haptics, the runway is enormous. We read the bear case as a narrative, not a thesis break.

1. THE SIGNAL THE DECLINE NARRATIVE MISSES

There have been several concerns that the secular decline of movie exhibitors is *the* major headwind to an investment in D-BOX. In our view that is the noise — it misses the signal of the thesis. North American theatrical exhibition is navigating a profound structural metamorphosis that is frequently misinterpreted as a simple story of terminal decay. While the raw number of physical theater locations has entered secular contraction, a more granular look at the economic drivers reveals a sector aggressively high-grading its assets. That transition from a volume-based commodity model to a yield-focused premium-experience model is the primary catalyst behind the sustained fiscal growth we are seeing at technology providers like D-BOX.

The setup, in short: while the *quantity* of theaters is declining, the *profitability* of the remaining screens is rising. Four data points anchor the case:

- **Under-penetration creates a massive ceiling.** With less than 1.6% of North American screens equipped with D-BOX (or 4DX), the growth potential is large.
- **Financials are decoupled from theater counts.** D-BOX royalties grew 40% in a quarter where the domestic box office declined 11%, suggesting premium demand is resilient.
- **Valuation is supported by operating leverage.** EBITDA margins expanding toward 35% make current multiples appear conservative.
- **Immersive haptics are increasingly attractive.** Gen Z is leading a 25% surge in attendance with a preference for premium formats — a sign of a durable shift in consumer behavior.

D-BOX is a clean way to profit from the industry's evolution even as the total number of screens shrinks. The risk/reward, supported by record royalty growth and a clean balance sheet, is compelling.

2. THE REAL-ESTATE PARADOX: CONSOLIDATION AS STRATEGY

The observation that the U.S. theater business is in secular decline is supported by the visible reduction in chains' physical footprint — but treating that as the sole gauge of industry health ignores the underlying "right-sizing" mechanism. Data from the National Association of Theatre Owners and various tracking services show a steady erosion in absolute theater count, but this contraction is a deliberate purging of inefficient, low-margin capacity. Between 2019 and 2023, the U.S. saw a net loss of roughly 3,000 screens and 500–700 theater locations. By early 2026, the number of distinct movie-theater businesses had stabilized near 2,000 following a brief period of business formation between 2021 and 2026. That stabilization suggests the industry has completed the most painful phase of rationalization and is now focused on maximizing the revenue potential of the locations that remain.

Historical screen and theater-count trends (2005–2026)

Year	Theaters (Businesses / Locations)	Total Indoor Screens (US / Canada)	Avg. Screens per Theater	Strategic Era
2005	18,622	37,396	2.0	Traditional Expansion
2010	18,710	39,000 (est.)	2.1	Early Digital Transition
2015	21,134	40,000 (est.)	1.9	Pre-Streaming Saturation
2019	21,775	41,172	1.9	Pre-Pandemic Peak
2023	15,756	40,500	7.2	Post-Pandemic Consolidation
2025	16,152	39,500 (est.)	8.1 (est.)	Premiumization Era
2026 (F)	16,286	39,000 (est.)	8.5 (est.)	The “High-Graded” Market

Source: NATO / Cinema United and industry tracking services; 2025–2026 estimated. Older-year theater counts are rough estimates and may be modestly overstated.

The rise in screens-per-theater from 2.0 in the early 2000s to over 8 highlights the shift away from the “Main Street” cinema toward the “entertainment destination.” While the number of theaters is lower, the revenue density of the remaining sites is significantly higher. Large exhibitors — AMC, Regal, Cinemark — now control roughly 17,700 screens, accounting for nearly 50% of total box-office revenue despite representing a fraction of the total business count.

3. ATTENDANCE RESILIENCE AND THE YIELD-PER-PATRON PIVOT

Critics of the theatrical model often lean on the decline in ticket sales from the 2002 peak of 1.57 billion admissions. But operators have pivoted to prioritize per-patron yield over raw ticket volume. In 2002, the North American box office generated $9.5B in revenue; by 2025, although ticket volume had fallen to 769.2 million, total revenue held up at roughly $8.87B — a significant increase in average revenue per visitor. The recovery from the 2020 pandemic trough, where attendance plummeted 81%, has been steady. While 2025 results were somewhat suppressed by earlier labor strikes, projections for 2026 point to a breakout year that could challenge post-pandemic records. If correct, the secular-decline thesis won’t gain traction this year.

Comparative attendance and revenue matrix (2010–2026)

Year	North American Box Office (USD bn)	Annual Admissions (millions)	Avg. Ticket Price (adj.)	Top Driver / Factor
2010	$10.6	1,326.7	$7.99	Avatar / 3D expansion
2015	$11.1	1,332.8	$8.33	Star Wars: The Force Awakens
2019	$11.4	1,200.0	$9.50	Avengers: Endgame
2020	$2.1	231.6	$9.06	COVID-19 shutdowns
2023	$9.0	820.0	$10.98	Barbenheimer
2024	$8.75	711.0	$12.30	Hollywood strikes
2025	$8.87	769.2	$11.53	Minecraft / Lilo & Stitch
2026 (F)	$9.8	900.0	$10.89	Project Hail Mary / Mario

Source: industry box-office data; 2026 forecast. Third-party review flagged the 2026 forecast ($9.8B / 900M admissions) as plausible but optimistic; many analysts are looking for $9B+.

The divergence between revenue and attendance is explained mostly by the industry's Premium Large Format (PLF) strategy. Consumers are showing a preference for premium screenings — IMAX, Dolby Cinema, 4DX, and D-BOX — even at higher price points. PLF screens contributed 15.6% of the North American box office in 2024, up from 10.3% in 2019. The "casual" moviegoer may be choosing streaming, but the "enthusiast" moviegoer is spending more per visit to secure an experience they cannot replicate at home.

The demographics reinforce this. Gen Z has unexpectedly become the most active moviegoing demographic, valuing the communal, distraction-free theater experience. Gen Z attendance frequency grew 25% in 2025, with that cohort visiting theaters an average of 6.1 times annually (Cinema United, "Strength of Theatrical Exhibition," 2025 update). This generation's appetite for immersive, social experiences is a structural tailwind for companies that provide the technological "WOW factor" inside the auditorium.

4. UNDER-PENETRATION OF PREMIUM IMMERSIVE TECHNOLOGY

The core of the D-BOX thesis is the massive gap between the current installed base and the total addressable market. While the total number of theaters is declining, demand for specialty seats within the surviving theaters is rising. D-BOX reached a milestone on January 28, 2025, announcing its motion technology was featured on more than 1,000 screens worldwide; by December 31, 2025, that count had reached 1,135 active screens.

Competitive landscape and penetration: D-BOX vs. 4DX

Metric	D-BOX (Global)	D-BOX (US/NA est.)	4DX (Global)	4DX (US/NA est.)
Active screens (2022)	850 (est.)	~391	700	~40
Active screens (2023)	929 (est.)	~427	750 (est.)	~50
Active screens (2024)	933	~429	775 (est.)	~59
Active screens (2025)	1,084	~498	790	67
Active screens (2026 F)	1,135	~522	830 (est.)	100+
Current NA penetration %	**—**	**1.24%**	**—**	**0.16%**

Source: company disclosures and estimates; North American screen universe ~40,000. NA penetration shown for the 2026 (F) installed base.

CJ 4DPLEX's 4DX format is the primary benchmark for D-BOX. As of late 2025, 4DX operated roughly 775–790 screens globally and had a presence on 67 U.S. screens. Against a North American universe of ~40,000 screens, combined penetration is well under 2%. If exhibition continues toward premiumization, a target of 10–20% for immersive haptics is plausible and mirrors the historic adoption of prior formats like 3D and IMAX digital. Reaching 15% penetration in North America would require ~6,000 screens — nearly a 12-fold increase from current D-BOX levels (about 9-fold counting both players). Even at just 5% penetration, that is 300%+ growth for these two technologies combined.

Concerns about competition between 4DX and D-BOX often assume a zero-sum game. In reality, chains can and do run "multi-format" strategies — IMAX, ScreenX, 4DX, and D-BOX simultaneously — to serve different audience segments. We expect more of this in the North American market this year, with the specific theaters governed by the regional exclusivity deals each chain holds.

D-BOX adoption is also aided by ease and cost of integration. Unlike IMAX (strict seating geometry, screen dimensions, and major structural changes) or 4DX (significant structural work, including plumbing for water effects and complex power infrastructure), D-BOX seats integrate into existing auditoriums with relative ease. That lowers the barrier for owners modernizing their remaining assets and lets an auditorium amortize the upgrade even during showings that aren't at full occupancy.

5. ADDRESSING THE 'INFLATED EARNINGS' CONCERN

Some have argued recent earnings are partly inflated by deferred tax assets (DTAs). In Q3 FY2026, D-BOX recognized a $6.2M DTA based on the expectation of future taxable profit. Under accounting standards, a DTA can only be recognized where there is a recent history of success and a positive outlook for future cash flows. Far from inflating earnings, recognizing the DTA is an audited validation that future profits are highly probable. A company telling us it expects to pay taxes going forward is not a concern — it is confirmation.

6. VALUATION

Profitability is surging as the royalty-focused model creates operating leverage. Adjusted EBITDA jumped to $5.6M in Q2 FY2026 alone, on strong margins, and the margin trend is decidedly positive — leverage is particularly pronounced in heavy-content quarters.

We have run bull/base/bear models. D-BOX looks attractive on an EV/EBITDA basis, particularly for a business where roughly one-third of revenue comes from a near-100%-margin royalty stream (slightly less if you allocate programming/soundtrack costs to that gross margin). Our multiple ranges run 6.3–14x for FY27 and 5.5–13.3x for FY28 (bear-to-bull). In our view the company does not deserve to trade at the low end unless you genuinely believe the secular-decline narrative and that D-BOX lacks a strong runway for growth.

How we frame the range:

Scenario	Posture	FY27 EV/EBITDA	FY28 EV/EBITDA
Bull	Premiumization accelerates; multi-format adoption; penetration toward 10–20%	14.0x	13.3x
Base	**Steady screen growth; royalty mix expands; margins toward 35%**	**~9–10x**	**~8–9x**
Bear	Secular-decline narrative holds; limited screen runway	6.3x	5.5x

Illustrative scenario analysis, not a price target. FY27/FY28 EV/EBITDA ranges reflect bull-to-bear assumptions on penetration, multi-format adoption, and royalty mix.

7. KEY RISKS TO THE THESIS

The position is held with discipline, not uncritically. Key signals to monitor:

- **Secular contraction outruns premiumization.** If location and screen losses accelerate faster than per-screen yield and PLF penetration improve, the “high-grading” narrative weakens and the bear multiple becomes the right one.
- **Penetration stalls.** The thesis depends on immersive-haptic adoption climbing from under 2% toward double digits. Exclusivity deals, exhibitor capex discipline, or slow multi-format rollout could cap the runway.
- **Content cadence and box-office volatility.** Royalties skew to heavy-content quarters; a thin or delayed slate (or a soft 2026 box office relative to the optimistic ~$9.8B forecast) would pressure the operating-leverage story.

- **Data quality on older industry figures.** Pre-2019 theater counts are rough estimates and may be overstated; if true counts were lower, the magnitude of the “decline” is smaller — which actually supports the thesis, but argues for care with the historical framing.
- **Competitive and FX exposure.** 4DX and other premium formats compete for the same auditorium slots, and as a Canadian-listed reporter D-BOX carries currency translation effects across its global installed base.

OUR POSITION

The secular-decline story is real at the surface — fewer theaters, fewer raw admissions than the 2002 peak — but it describes the noise, not the signal. Exhibition is consolidating into fewer, larger, higher-yield destinations; revenue per visitor and PLF mix are rising; Gen Z is driving an unexpected attendance resurgence toward premium formats; and immersive haptics sit under 2% penetrated against a plausible 10–20% ceiling. D-BOX monetizes exactly that shift through a high-margin, capital-light royalty model on a clean balance sheet.

Record royalty growth that decoupled from a falling box office, EBITDA margins moving toward 35%, an audited DTA validating future profitability, and a 6.3–14x FY27 multiple range that prices in too much pessimism — on the analysis here, the risk/reward at current levels is favorable. The position does not deserve the low end of the range unless one fully underwrites the decline narrative. We don’t. We will update as penetration milestones, the 2026 slate, and quarterly royalty figures print.

DISCLOSURE

This note is prepared by Mission Vertical Capital for informational purposes only. It is not investment, legal, or tax advice and is not an offer or solicitation to buy or sell any security. Industry figures are drawn from NATO / Cinema United, third-party tracking services, and company disclosures; certain historical and forecast figures are estimates and were assembled with the aid of research tools and cross-checked for reasonableness. Forward estimates and scenario ranges are illustrative analysis, not price targets, and actual results may differ materially. Past performance is not indicative of future results.