Canaccord Genuity Growth Conference Transcript

Wednesday, August 10, 2022

Jason Sleeth:

[Call Starts Abruptly] here to present, and Richard Kellam, who's the CEO of the company; James Lorimer is here, the CFO as well. Richard, I know you had I think some slides that you wanted to go through, and can help talk to the company. Why don't you give a word about yourself.

Richard Kellam:

Good afternoon and thanks for the opportunity to have a conversation with the group here. Richard Kellam, I'm from Toronto and been with DCM about a year and a half after 36 and a half years in the consumer goods world, lived in a bunch of different countries, and largest chunk of my career is with Mars Inc., one of the largest private companies in the world, of course. And did a bunch of things for them, random different markets.

But happy to talk to you about DCM today. So, I prepared a little slide presentation. I'm going to try to wheel through it pretty quickly, so we can open it for any questions. And here's really what I want to share with you today, who is DCM? Tell you a little bit about who we are as a company. A little bit about our strategic direction, how we're performing and why I think it's the right time to invest.

My CFO James Lorimer is in the room here, so I need to go through the forward-looking statement information disclosure. And I think everybody in the room knows this well enough. So, you can refer to this on our website as well.

So a little bit about who is DCM. What we do here at DCM. So at DCM, I'm not going to read the words in a slide, but essentially we are a marketing workflow communication company. We work with complex, principally complex enterprise organizations to help them simplify their marketing complexity. We like to say, we eat complexity for breakfast. The more complex an organization in marketing, and marketing workflow, the more value we can bring to that client. And I'll tell you a little bit more of that as we progress through the conference – the conversation today.

We're in Canada. We work with 75% of the largest corporations in Canada. Three of the largest government agencies in Canada as well. We've been around for 64 years. So, we're a real company, been around for a long time. And we're just north of $255 million in revenue on a TTM basis. So, we're one of the bigger communications companies in Canada given the size and scale of the Canadian population.

We've got operations across Canada. Our head office is in Toronto. We've got facilities in Western Canada and Eastern Canada to cover our clients' needs across the nation. And we do a little bit of work in the U.S. as well, but 95% of our revenue is Canadian-based revenue. 5% from the U.S., but we see the U.S. as a big opportunity, big potential. And principally the revenue we generate in the U.S. are Canadian clients that have businesses in the U.S., a lot of banks that have facilities in the U.S., we service them. Hence the operation in Chicago.

That's our client list. We work across eight primary verticals, highly diversified across verticals and across clients as well. We don't have a single client that is more than, kind of, 8% of revenue. So that puts us in a good position from a market perspective, right? So across a number of verticals. And again, you can see they're all big companies, this is where we can add value, just given the complexity of the marketing workflow that these companies do.

So a little bit on our strategic direction. You think of our business in kind of three parts right now. We've got all of our conventional print and marketing solutions that we bring to clients. We've got a big a piece of business that helps enable that workflow. So it's a digital platform that enables the workflow. And we're just in the process of standing up kind of a pure-play digital asset management solutioning platform to play into the martech space, the digital asset management martech space, which is north of a $5 billion industry. So conventional business, tech-enabled marketing workflow, and digital asset management solutioning, which is kind of a new venture for us. That's kind of all ARR 100% software solutions.

I'm going to take a couple minutes to explain this chart for everybody here. Look at our business today, as I said, we're just north of $255 million in revenue, but 67% of our business is done in this, we call complex conventional print solutions. So not your basic commercial print. Think of the money in print is made by a lot of SKUs and relatively low volume per SKU. If you have one or two SKUs and it's high volume, anybody can do that stuff. So the complex side of print, highly individualized communication on print.

So, I'll give you a simple example. My wife got something from BMO, we actually printed it. It said, "Hey, Sheila, you're approved for this new Elite MasterCard. And your approval is $50,000 and contact your private banker". So there's three individual fields there. Every one of those is different. So you need technology to be able to manage that flow. Just as a simple example. We could spend an hour talking about different use cases and different examples, but think of highly individualized communication, right? So a lot of SKUs and relatively low volume per SKU. That's what we specialize in. That's the 67% of our business.

Of that, of our total business, about 31% of it is what we call tech-enabled. So technology is there to manage the flow, very little human intervention. And by the way, that 31% of our business that is technology-enabled, using that digital stack that we built, is higher margin business and much higher loyalty from a client standpoint. So the objective really is quite simple, right? We want to drive more of this conventional print solution using our technology platform. Moving it from 67% to 75%, and also continue to build our pure-play, SaaS digital asset management solution. So pretty easy chart for anybody to understand here. Strategy, drive technology penetration, and continue to build our SaaS revenue through digital asset management. Much higher retention, higher loyalty, higher margin.

Won't spend much time on this chart. We put our five-year goals out to the street, between 5% and 10% revenue growth. 35% to 40% margins. SG&A between 10% and 20%. And that'll deliver an adjusted EBITDA between 18% and 25%.

So how are we performing? Well, we just released our second quarter results this morning at 9 o'clock. So this is all kind of fresh news for you guys, fresh news to the street. We've got great momentum in our business right now through the first half of the year. I'll talk specifically about the quarter and a little bit more details on the half year and the full year.

We just announced this morning, just got off the call at 9:30 this morning. How we're doing year-to-date, and what our TTM looks like. So that's our quarter, we were north of 23% growth, 23.4% growth. So really great momentum from our revenue perspective. Year-to-date, we're just under 17%. And our TTM is 8.4%. So compare that performance to any other competitor out there, and it's well above those, well above the competitive set.

So, we're really happy with our year-to-date and our recent quarter. As I said, I've been with the company a year and a half now, and we've really kind of re-engineered our growth mindset and our growth muscle. And we're starting to see the dividends in that now.

Gross profit, very solid. Love it, when I see gross profit growth ahead of revenue growth, that means your gross margin is growing, and it's growing despite some of the raw material inflations and supply chain challenges that we've experienced. So, we've got good pricing power in the marketplace. And you can see where we are on a year-to-date and a TTM basis.

Net income, pretty significant growth in net income at 490%. And you can see where we are 212% and 324% year-to-date and TTM. And EBITDA, we're up 48.7%. And I purposely put

EBITDA up here and not adjusted EBITDA, because the difference between EBITDA and adjusted EBITDA for us is zero difference. We have zero restructuring through the first half of the year. So zero on quarter one, zero on quarter two, and we're committed to zero through the balance of the year. So, we've got the perfect footprint right now, the perfect organization to be able to grow off of. And you're seeing that growth and you see the numbers on EBITDA for year-to-date and our TTM. So very solid performance across all key metrics.

Jason Sleeth:

Richard, what would be the relative contribution of that growth from complex print versus the digital side, which one's growing faster? Or contributing more to that 23% increase?

Richard Kellam:

Yeah. So that's a great question. Majority of the growth right now is still in conventional print, because we've just, when I say conventional, hey, conventional print, that is also tech-enabled print, right? Using our Flex platform. And I can't remember if we have the number in the deck, but our – the revenue that we're generating from now monetizing access to our platform is up 112% in the quarter and 65% year-to-date, but it's only $3.5 million year-to-date still. But a year and a half ago, it was nothing. So, we've come from, because we've always had a digital platform, but we buried it into the cost of print.

So, when I say a majority's coming from print only because of the size and scale of the print, it's still such a big business, right? But as I said, $2.5 million in call subscription fees or ARR $3.5 million year-to-date, 112% growth on the quarter. And we'll see that be well north of $8 million by year end. But great question.

Listen, I'm going spend a lot of time in these charts, but this just kind of lays out building on the slides I showed you earlier about performance, kind of a little bit of an outlook for the balance of the year. You can see where we're in quarter one, and quarter two, and we're confident that momentum will continue through the balance of the year.

And then same thing on gross profit. And this is an interesting chart. This is just our, when I said we have the perfect footprint, we've done a lot of restructuring over a number of years to basically get our footprint correct for the market, for the size of the market in Canada. You can see we had north of 1,400 associates back in 2018. We restructured significantly. We've got the perfect footprint right now in terms of operational size and in terms of SG&A, and you can see how we're driving productivity per associate. And that will be based on our plans, that'll be well north of 300,000, 350,000 per associate as we progress through next year and the year after.

So we think we've got the right level. We'll take advantage of some attrition in the marketplace. And we'll probably net out around, kind of the high eights just given the footprint that we have across Canada. And now it's a matter of growing and continue to drive revenue, but big increase – big improvement in productivity over the number of years, 35% increase in productivity.

And then EBITDA as I said, $9.4 million in quarter one, $9.5 million in quarter two. And you guys will like this. If I go to the next slide, this is the $9.4 million, $9.5 million, that's our adjusted $9.4 million, $9.5 million. So zero restructuring. And you can see the restructuring we had last year because $7.3 million, $6.4 million. So, we're up against some nice favorable comps as we head into the balance of the year and we no longer have any restructuring in our business. So there's a restructuring number. There's the adjusted numbers. So still pretty positive – our EBITDA is, our non-adjusted EBITDA is higher than our adjusted EBITDA. I think that's a good thing, right? And that's what we're committed to.

Just having a quick look at debt. We actually broke this apart into two. This is our term debt. We're 17% reduction on a run rate basis. So year-to-date. And the only challenge in our business is right here, and is our need for some working capital. And that is all due to supply chain, when you're going at 23.4% and we've had supply chain challenges in the marketplace. Our lead times on raw materials are somewhere between three and four months, which used to be three to four days. We expect that to normalize towards the end of the year and early next year. And that term facility will come down significantly. So, we're happy. It was a good investment to use our term to grow. In fact, we wouldn't have been able to grow at this rate, but we'll see that normalizes raw material, supply chain normalizes.

So good performance. I've got a slide on debt maturity in a minute. Great businesses have good client momentum. We picked up $22 million in new either revenue expansion or new client opportunities for the first half of this year across multiple verticals. And we are certainly very committed to ESG. I won't take you through all the details. We've got a very, very active program and pretty sizable commitments out to the market and including our clients.

Here's an interesting one for you. Year-to-date, we planted or replanted 332,000 trees. For every 83 pounds of paper we use, we replant a tree. 83 pounds of paper equals a tree according to all the facts that have been collected. So, we are fully sustainable in terms of our paper use. And our clients obviously love that, that's a commitment we're making on behalf of our clients. And our clients obviously love that. And we've gotten some good momentum and new clients as a result of that commitment. So, but lots of work happening on social and governance as well.

<Q>: [Question Inaudible]

Richard Kellam:

Yeah, it's in that range. We actually plant trees in four countries. So Canada, the U.S., Madagascar and a missing one, and we do it only because the international footprint, but yeah, it's in that range when you look at it all in the cost of running that program and the cost of actually, putting a tree back in the ground and then maintaining it because not all trees will last, you actually need that. The service we work with, it's called PrintReleaf. It's fully audited, fully monitored. And if there's any tree that doesn't make it in the first couple of years, they replant that tree. So it's a great program, really good program.

The return on investment we've got in terms of new client opportunities and expansion revenues by or through that sustainability commitment has been more than worth the investment. So, why invest and then we'll get into questions. I think I'm moving at pace, right? Look, we're hypothetically undervalued at $57.5 million. Our – thing in marketing is get noticed and get remembered. And that's why we're here, right? To get noticed and get remembered, and get noticed and remembered for the right things, right, which is driving performance in the marketplace and sizeable opportunities for growth. Our TTM, as I said is $35.6 million on an adjusted basis. And we did $27 million in cash flow last year. So clearly some opportunities for value creation. As I said, our right sizing is complete. And our focus is growth. And our focus is that continuous drive to more digital penetration with existing clients, as well as new revenue from our new platform that we brought to market.

So last chart debt, in case you had a question. $34 million, we'll exit this year at $21 million and our glide path is to be zero debt by 2026. And we've certainly got the cash flow to deliver against that objective. That's it.

We think we're well positioned for success, ass I've said a few times in the presentation, we've got fantastic clients like a really very impressive client. It's one of the reasons I joined the company. I just couldn't believe the client list that we had. We've got great capabilities. Digital's not new for us. We've been at it for over 20 years, got a huge team that helps clients on their martech solutioning. How to scale that APR architecture? And then of course we've got the cash flows to be able to fund our growth, our growth on the digital side and the technology side.

So hopefully I didn't move too quick, Jason, but that is us – what we do and how we do it.

Jason Sleeth:

Yeah. So go ahead.

<Q>: [Question Inaudible]

Richard Kellam:

So, how we're going to go to the U.S. So, as I said, about 5% of our business currently is done in the U.S. and a lot of that is through Canadian clients that have facilities there. We're going to the U.S. market in a very serious way through technology, right? Digital has no borders. We don't need to lay down assets. We're standing up. If you saw it briefly in a slide here a platform called ASMBL, which is a digital asset management solutioning platform. It plays into the $5.5 billion martech segment; that segment's growing at 25% to 30%. Digital asset management solution is not new for us. We're practitioners. We've been doing it for 40 years, and now it's about bringing that practical experience, that technical experience and creating a real, a business around that.

So, we see that, by the way, we see that beyond the U.S.; we see there's an opportunity for international as well, working with some, if you're a multinational; I worked for a multinational, Mars, Inc., right? I lived in Europe for seven or eight years. You've got businesses in multiple number of markets. You've got assets, communication assets in multiple number of markets. You want France to see what the UK is doing or the UK to see what Australia's doing. So you need a solution that is a multi-market solution. And that's where the market's going. SharePoint, you can't do that with. Dropbox, we transfer hard drives. You can't do it. That's why the market's growing so fast. And we've got the right to play in that market technology wise and from a practical experience. So, I mean, great question, but that's how we see entering U.S. and international.

Jason Sleeth:

You mentioned ASMBL, it's an interesting business to me, is that something that could really stand on its own, as a company, you've got these different pillars and offerings is something that's growing very quickly inside your umbrella. Like how do you think about really shining a light on that?

Richard Kellam:

I'd say that ASMBL needs to stand on its own inside the company, because it's a very different sell to a client. So, you saw the slides I had earlier. You think of our marketing workflow optimization platform is called DCMFlex. That's really to optimize physical flow and virtual flow, right? Optimize communication. That's a conversation that; we've got 62 sales reps, 62 commercial reps out there. That's a conversation. That's not a difficult conversation.

But then if we're out there selling a pure software solution, not a software solution to optimize flow, but a separate software solution that does something else, other than optimize flow, that's a very different sell. And often you're talking to different people. So we hired, I just recently hired a guy. His name is Steve Livingstone; 25 years in software selling, selling software, selling enterprise software solutions. And he's here to help us accelerate our pace to digital on that ASMBL, on that digital asset management solution platform. And what our teams do, the 62 people out there, they identify leads and then Steve's there to work and convert those leads. And we're making some fantastic progress. So yeah, it's, it is a different, it's a different commercial model, right?

Jason Sleeth:

Yeah. And you showed us a slide on the balance sheet improvement, obviously quite dramatic. And if you look back a few years, the bars would've been even taller. So presumably that puts you on different footing now to look at maybe inorganic growth, is that on the radar, in the future?

Richard Kellam:

We're always looking for opportunities. We like to say, do we build, or do we buy? And anything that we would be interested in would be in the technology or digital space to help us accelerate our journey. And I'll give you a good example, right? We're building out our digital asset management solutioning platform right now. It's going to be a fantastic platform.

There were some companies we looked at in the marketplace that could have been possible acquisitions, but their market cap is just too high. We could build it way cheaper, right? Better use of capital. And the available technology today with Azure and AWS, it's much different than when you, if you started developing 10 years ago. So, we're always looking but it would have to be, it would have to advantage us, if there's a new, if there was a new marketing technology solution that we wanted to enter into using the example of DAM, can we build it? Is it better to buy it or build it? And if we're buying we're maybe buying technology and revenue and skills and capabilities, we value it, all that stuff as well. So it's a great question. We're always looking for opportunities in the marketplace.

<Q>: [Question Inaudible]

Richard Kellam:

It could be a possibility. I mean, we've got 55%, it's pretty tightly held stock. So I'm not sure that shareholders would want to exit the company at this point, just given the performance we're delivering. But yeah. I mean, we've look – we've had for sure. I mean, every company has companies knocking at their doors, but it could be a possibility.

Jason Sleeth:

Any other questions from the call? Richard, thank you.

Richard Kellam:

Thank you. Appreciate it.

Jason Sleeth:

Thank you.

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