DCM Q2 2022 Shareholders Call Transcript

Wednesday, August 10, 2022

James Lorimer:

Good morning, ladies and gentlemen, and again apologies for the delay. Thanks for standing by and welcome to our second quarter 2022 Financial Results Conference Call. I'm James Lorimer, and you've previously met Richard Kellam, who will be doing most of the presentation today. Following our prepared remarks, we will be moderating a Q&A session. As a reminder, this conference call is being broadcast live and recorded. We would also like to remind everyone that Richard and I can be available after the call for any follow-up questions that you may have. Before we begin, I'll remind everyone that we will be referring to forward-looking information on today's call. This information is subject to certain risks and uncertainties as outlined in the forward-looking information disclosure in our press release and more fully within our public disclosure filings on SEDAR. We have posted a brief message from Richard along with the summary of our results and key initiatives for the past quarter on our website in the form of an infographic and a video. Our detailed information is also available on our website and SEDAR. You can also follow us live on LinkedIn to keep up with some of our exciting commercial insights on relevant market trends and customer case studies. I will now turn the call over to Richard.

Richard Kellam:

Thank you, James. The deck I'm going to review today is up on our website including an infographic that gives the full kind of colour and results in the quarter. We talk about how we're continuing to build a better and bigger business here and we certainly have fantastic momentum in our business right now. I've used this word over the last three or four quarters. That momentum builds momentum and we're certainly building momentum as you'll see in our quarter 2 results.

I'm going to start off with talking about how we're building a bigger business and the results around bigger. First, from a revenue standpoint, we are very pleased on our revenue performance this quarter, up 23.4% versus quarter two last year. So certainly one of our best quarters in many, many years and that brings us up to 68.1 million on the quarter versus 55 million a year ago. So up close to 13 million versus prior year. So a very good revenue performance on the quarter and some great client momentum that's delivering that revenue performance.

From a gross profit standpoint, you can see that our gross profit actually grew faster than revenue, which means that our gross margin has improved and that's despite some of the raw material inflation we're experiencing. So the team has done a fantastic job to manage that inflation and continue to drive value for the product that we're bringing to our clients. Our total gross profit was $20.4 million on the quarter versus 15.8 year ago. And as I said, 30% of revenue. So, exactly on target and we're $4.6 million up versus prior year. So again despite some of the raw material inflation and headwinds we've experienced, the team has done a great job to ensure that we're getting fair value for that inflation.

We've had some very good new business wins on a year-to-date basis. I think last quarter we reported $10 or $11 million in new business growth. Year to date, we're north of $22 million. Across multiple verticals and 100% of that new business is what we call tech-enabled. So we're winning not because we're great printers. Of course we do that well, but we're winning from the technology and the value we bring to clients in terms of helping them simplify complex workflows. So some great success in terms of new business and we expect that new business momentum to continue through the balance of the year. The team has done a fantastic job continuing to build a growth muscle.

So very pleased with the new business wins, very happy to report as well that our tech-enabled subscription service fees are at $2.4 million on the quarter, about $3.5 million year to date and you can see we had big acceleration on the quarter at 112% growth versus a year ago. And this is really just as a result of getting very intentional and accelerating our monetization of our digital services with clients. So we expect this to continue obviously as we continue to focus on this area, so really good progress from a digital acceleration and subscription service perspective.

On the better business side, our SG&A is down 3.8%. So very good continued kind of focus and cost control. At 13.8 million versus 14.3 year ago and we're exactly at 20.2% of revenue. So we're right in the range we put to the street several months ago. And our SG&A, you know despite the higher revenues that as said you know the team did a fantastic job at controlling costs and maximizing productivity per associate as you'll see in a minute. If you look at our employee productivity, our employee count is 919 on the quarter. If you look at the slide on the right-hand side, our productivity or revenue per employee is now at 277.6. Our plan is to get that north of 300,000 and that's well up over the last five years, up 35%. So certainly we're doing a lot more with less and the team's done a fantastic job to deliver this growth with the reduced headcount and more productivity and efficiency. So real good progress on employee productivity.

Restructuring; we made a commitment at the beginning of the year very clear to the street that we will have zero restructuring in 2022. Restructuring is behind us. We have absolutely perfect footprint. We've got the perfect size of organization to grow off of. And we're happy to say that we still have zero restructuring in the quarter and zero restructuring year to date. We had about 900,000 in restructuring a year ago. So that's net favorable and we will continue to commit to zero restructuring in the year. As I said, we've got a perfect footprint. And we've got the perfect size organization for us to accelerate growth. And you saw that growth delivery, that revenue delivery in the second quarter as well as the first quarter, 11% of the first quarter, 23.4% of the second quarter. Very happy to report that our EBITDA (now this is clean EBITDA not adjusted because we have zero restructuring) is up 48.7%. Versus a year ago and that's a full 9.5 million versus 6.4 million year ago. So really good progress as we focus on building a bigger and a better business and delivering this through to EBITDA. So good solid EBITDA delivery. And looking at net income. You know, what can I say; very, very positive results on net income as a result of how we're deploying our resources and how we're focusing those resources, 490% growth in net income; 3.8 million this year on quarter two versus 600,000 a year ago and our year-to-date net income is about $7.5 million. So good, very good progress on net income as well.

And just finally, progress we're making on ESG. We have a very active program for our entire enterprise; 16 ESG committee members, a lot of activity on environmental, social and governance. A couple highlights on the environmental side, we committed to replant 100% of our paper use. Since we entered into this program in November of last year, we've used 27 million pounds of paper, which equates to 332,000 trees and we have replanted 332,796 trees. So full reforestation for every bit of paper that we use and real happy with that progress and lots of progress on the social side and governance side as well. OK. So over to James for a little bit more detail on our financials.

James Lorimer:

Thanks Richard. Richard spoke mostly about our kind of second quarter comparison to second quarter last year, so I'm going to talk a little bit more about the first half comparison to last year. As you can see here, our revenues of $137.4 million are up almost $20 million compared to the same period last year. And if you'll recall from our year-end report, we talked about how we had kind of three halves of revenue that were flattish around 118,000,000. If you look at the last half of 2020 and then the first half of ‘21 and the second half of ‘21, all three of those periods were about 118. So really showing kind of accelerated growth here. We're also pleased with gross profit as Richard mentioned, despite headwinds year to date, we're sitting at about the 29.7 gross margin and that's crept up a little bit from the end of the first quarter. And that's really as we're getting pricing passed through to our clients, we're starting to creep that margin up. So, you know, we continue to be optimistic that we can continue to grow gross margin through the balance of the year.

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SG&A again good story here 27.4 million, which is improved by almost $2,000,000 compared to last year. Year to date we had 4.3 million of restructuring expenses last year and you know we're committed to continuing to have zero expenses through the balance of the year. EBITDA year to date is 18.9 and you know really pleased that again we can report clean EBITDA results getting close to 14% of revenue. We've set out long-term objectives which I think most of our shareholders are familiar with, growing ultimately EBITDA into the kind of 18 to 22% range over the next five years. So starting to kind of continue to kind of work that way. I think it is important to say we also had significant wage subsidy income last year and we of course have not received any this year. A couple charts here, just to kind of put this into perspective on a quarterly basis, just this chart here shows comparable strength compared to last year. I think what's also important to point out is that Q2 is typically our weakest kind of seasonally adjusted period. And as you can see graphically, we're only off about 1 million, 2 compared to the first quarter. So you know, we think our momentum is going to continue through the balance of the year and we should be able to continue to face ahead of what we did last year.

Gross profit is kind of mirroring that trend and certainly pleased on lower levels of revenue in the second quarter compared to the first quarter that our gross profit is actually marching ahead. So positive trend there again. Here's a chart that shows EBITDA and you know we actually had kind of decent Q3/Q4 last year on an adjusted basis. But if you strip out the restructuring expenses, we really had 6.4 and 5,000,000 of clean EBITDA and we are certainly pacing ahead of where we did last year as you can see through the first two quarters. Here's a chart that shows Adjusted EBITDA and you know most analysts and others kind of look at us on an adjusted basis. So we're about 35 and a half million dollars of Adjusted EBITDA on a trailing basis. And we think that certainly as we kind of get the benefit of lower restructuring expenses going forward, that will certainly help free up some free cash flow to continue our efforts to pay down debt.

This chart is just a brief summary to kind of separate out our term debt and our revolving credit facility. Term debt is down 17.4% from the end of the year so we continue to advance that. We're about halfway through the year and we've told shareholders that our fixed term debt is going to be in that kind of 12 1/2 to $13 million in aggregate, it'll be repaid through the balance of the year. So you know but we're about halfway through that. Our revolving credit facility did grow, but as we've talked about, that's because of the, kind of unusual markets we’re in and we've got the significant safety stock to meet our anticipated production needs through the balance of the year so we do see that coming down by the end of the year.

Richard Kellam:

So looking at all those numbers, we have a chart here that looks at performance on quarter 2; year-to-date performance and trailing 12 months. First on a revenue side, as I mentioned, 23.4% growth in revenue on the quarter, so fantastic growth and great success. And as I said, you know, fantastic client momentum, 16.8% on the year so far, halfway through the year and 8.4% on a TTM (a trailing 12 month basis), that puts us at 255 million on trailing 12 months so from 235 to 35 and change at the end of the year. So great progress on revenue. On the earnings or gross profit side, we talked about 29% growth in gross profit so love seeing where gross profit is actually ahead of revenue growth. That obviously leads to a higher gross margin. Our gross profit on a year-to-date basis 17.4% growth versus an annualized from a TTM perspective 8.7% growth. OK, so all those kind of ahead of revenue growth now at income already referenced 490 percent, 212% on a year to date basis and up 324% on a TTM.

And finally EBITDA, I already referenced the 48.7% growth in EBITDA on the quarter. So, so very solid growth. And as I said, that's clean EBITDA. That's what we're committed through this year. 38% growth. 38.1% growth on a year-to-date basis and just north of 20% twenty point 8% from a trailing 12 months. So very positive momentum through the first half of 2022 we are expecting that momentum to continue for the balance of the year just given the client momentum that we've got and the excellence we're delivering out in the- well through the entire enterprise. So big thanks to the entire DCM team for delivering these results and we look forward to the second half of the year.

James Lorimer:

Thanks everyone for your patience today. We will now turn it over for questions. If anyone has a question and you're accessing the call directly through Teams, you can use the raise your hand feature in teams and we'll queue up questions. Alternatively, we can use the chat feature in Teams and we will respond to any chat questions if you have dialed in the old fashioned way through the phone, you may press *5 to raise or lower your hand and *6 will mute or unmute your microphone. Please introduce yourself once you're introduced to the session.

Caller:

Good morning, guys. This uh George, dialing in on behalf of Noel. Thanks for taking our questions and congrats on another great quarter guys. Just a few questions here in relation to raw materials and supply chain-related challenges, to what extent were you guys able to pass through the input cost increases to customers in the second quarter and how do you expect this dynamic to evolve in the second half of the year?

Richard Kellam:

Yeah, I know. Great question. And you know, just given the competitive nature of the industry, I'm not going to talk too much about pricing, but if you look at our gross margin growth or gross profit growth relative to our revenue growth, you can see that actually was quite favorable. And given the significant increases in raw materials, obviously we've had to push hard to get pricing through. A majority of our contracts or a high percentage of our contracts actually have raw material index pricing built into them. Now you know some of that pricing obviously lags the increase in raw materials. But you know, I can tell you the team has done, you know, a remarkable job ensuring we're getting a return on the value we're bringing to clients. So that kind of implies that we are and we have been very successful in ensuring that we're, you know, getting pricing through. And yeah, look, we, you know, it's a volatile and dynamic market. And I can tell you our commercial team knows how to knows how to manage well and navigate well through this dynamic market. And you're seeing that in the results. So we're expecting and super confident that if there is more pricing that needs to be taken, we can certainly achieve that.

Now, the second bit of your question. Are we expecting some normalization in the market? Yep. We're actually forecasting that in kind of into the early part of 2023, we expect the market to still be pretty challenged in 2022. But the supply curve and the demand curve will kind of you know equalize we believe kind of in the early part of next year; end of this year, but probably likely into the early part of next year.

Caller:

OK, got it. Got it. And are and are you guys seeing any major changes or trends in size or velocity of customer orders due to concerns about inflation and general economic conditions at all?

James Lorimer:

Yeah, I I think we've seen some customers advancing their orders, but it's not just, you know, Q3 into Q2, it's Q4 into Q3, it's Q1 into Q4. So we are certainly seeing some customers that are trying to get ahead of some of the price increases. That being said, I think in aggregate, we are seeing really good volume and kind of new business wins. And as Richard talked about earlier, we have more than $22 million of new wins and that's from new logos and new opportunities within clients, existing clients that we hadn't been previously serving. So you know we're seeing good strong client momentum all around.

Richard Kellam:

Yeah, I'll just build on that. If you look at the 23.4% growth in the quarter close some of that is obviously pricing growth. But a significant part is what we call expansion revenue, so getting more revenue out of existing clients as well as I referenced the 22 million in new business development, new business that we've been bringing in. So we've got a pretty kind of healthy balance between what I call kind of volume mix and pricing.

James Lorimer:

And George I might add just a little bit to that. With our kind of position in the market as really one of the leading players and certainly in the Canadian market, we are seeing some competitive wins where our competitors haven't been maybe as forward thinking or as creative in terms of building up and accessing supply. And so we are seeing some competitive wins where some of our smaller competitors that don't have the same resources as us are challenged in this environment.

Caller:

Understood, understood. Thanks for that. And maybe just one last question for me. Your revenue growth in the last two quarters continues to trend well above your long-term target of 5%. Is there potential for revenue growth to remain above that level for an extended period? And if so, what do you think would drive that?

Richard Kellam:

So I think we've kind of modified the five-year plan and put those numbers out to the street. Our ranges now between 5 and 10%; five at the low end you know kind of 10% at the high end. We are… I would say the one thing we've done is it organization, you know, over the last kind of six or eight months is we've really leaned in hard to develop an accelerated growth muscle. And I could tell you there's a lot of opportunities in the marketplace that we're chasing right now and we've got a pretty… probably one of the fuller funnels that we've had in a number of years. So we're pretty optimistic that we'll be at the high end of that range kind of over the next few years.

Caller:

Got it. Great. That's it for me. Thank you very much.

James Lorimer:

Thanks. If anyone has any further questions, please raise your hand.

Moderator:

James we have a question from Raymond Williams. He's saying that working capital looks to be one of the weaker areas of this earnings report, which in turn affected the outstanding debt. How are you projecting out with respect to working capital for rest of the year?

Richard Kellam:

Yeah. I mean, I'll just say James can give you the numbers. So I mean our working capital, let's see only you know if there's if there's a challenge in our business that would be the only challenge. And historically we procured raw materials, it was almost like, you know auto manufacturing right? We could purchase the materials, they'd arrive in the morning and we'd have them on the press in the afternoon. That's changed dramatically given the supply chain challenges. And now we're having to order raw materials three or four months in advance, and we've also had to go much further out to buy those raw materials as well. So into the European market, into the Asian market, a lot of raw materials come from China now. And obviously that's affected, you know, to deliver 23.4% growth we obviously needed to lean into our revolver. Obviously we wouldn't have been able to deliver that growth if we didn't have the raw materials. So it's kind of a catch 22, right? We are expecting that to normalize. James can talk about what our expectations are as we progress through the rest of the year.

James Lorimer:

Yeah, through the balance of the year, you know, we expect our revolving line to come down by, you know probably 4 to $5 million, a little bit dependent again on continued kind of growth and outlook there. Folks should also recognize that, as I mentioned earlier, Q2 is normally our quietest quarter and so we normally have a bit of a catch-up in our working capital and in the second quarter and given the strength that we saw this year, you know with our revenue growth, we didn't get that catch-up, but our aging is all in very good shape and on our receivables and everyone's current. You know if you look at that kind of six-month trailing growth that we've had, up considerably from the last six months of the prior year. You know it it's pretty much in line from an AR perspective in terms of growth rates. So we certainly see our revolver coming down a little bit through the balance of the year.

Richard Kellam:

Yeah. And then, you know, the good news is that, you know, you saw the numbers paying off our long-term debt, that's the more expensive debt. We're down 17% of that in the first half. And you can see that our plan second-half is to pay down a significant amount more. So yeah, our revolver's up, we're not really worried about it too much. It will come down, as James said, over the course of the second half of the year. I think we're in a pretty good place from a raw material perspective right now, so. So yeah, you know you, you called it out right. You know, if there's any challenge in our business that would be the only challenge right now just kind of managing the raw material supply chain.

James Lorimer:

All right. Any further questions?

Richard Kellam:

If there's no further questions, I'd like to start and apologize again for the late start, given the technical difficulties we experienced here in Boston; thank all of our investors for continuing to support DCM; and finally, thank the DCM team for an outstanding quarter. This is a team effort and you know, super pleased with how we're working as a team and the results the team is delivering. So, so congratulations and thank you everybody for joining the call today.

James Lorimer:

Thanks everyone.