DCM Q3 2022 Shareholders Call Transcript

Wednesday, November 9, 2022

James Lorimer:

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Data Communications Management Corporation third quarter 2022 financial results conference call. My name is James Lorimer and I'm pleased to be hosting today's call. Joining me on the call today is Richard Kellam, our President and Chief Executive Officer. 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'd 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 refer 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 and our press release and more fully within our public disclosure filings on SEDAR.

We've posted a brief video message from Richard along with a summary of our results and key initiatives in the quarter on our website in the form of an infographic. Our detailed information is also available on the website and SEDAR. You can also follow us on LinkedIn to keep up to date with some of our business insights on relevant market trends and customer case studies. I'll now turn the call over to Richard.

Richard Kellam:

Thank you, James, and good morning shareholders and I guess good afternoon and good evening for some shareholders who are dialing in from other time zones. So I've been with the business exactly 20 months now. And 20 months ago, we put a strategy in place to build both a better and a bigger business and I'm happy to say that we've got, you know, fantastic momentum. Against the strategy of building a better and bigger business, I'm gonna talk about the momentum today.

I'm going to start off with where we are on the bigger business. I'm happy to report that after a very strong Q2—shareholders may remember that we actually grew 23.4% in Q2—we continue to deliver strength in Q3 with 11.4% growth over Q3 year ago.

Total revenue 63.4 million, up 6.5 million versus prior year. So a very solid quarter from a revenue acceleration perspective off the back of a solid quarter in quarter two and it puts our year-to-date number at 15.1%. So we're actually really proud of what we're delivering in terms of building that bigger revenue and bigger business through the quarter and through year to date.

From a gross profit standpoint, love to see gross profit growing faster than revenue and we're certainly seeing that as I said, revenue up 11.4, gross profit up 15.8. We delivered just around $20 million in gross profit on the quarter and that committed to 31.4% gross margin as a percent of revenue and that's up a full 1.2% vs. a year ago.

So very positive gross profit momentum despite raw material headwinds and pricing headwinds that we experienced. So the team has done a fantastic job to ensure that we're getting full value and return on the materials and the cost increases that we're experiencing. So as I said, love seeing gross profit exceeding revenue; that means we're doing our job of continuing to build a bigger and a better business year.

On the new business side, we have reported just over $30 million in new business this year and that's a combination of expansion revenue. So expanding revenue within existing clients and then new business development as well and we're winning business across all the key verticals that we work in and a really important point is that of any new business that we're securing today, 100% of it is really due to our technical capabilities, not that we're great printers, we're fantastic printers, but we enable that print and that workflow with technology, but digital technology and that's really what's differentiated us and allowed us to win a lot of new business out there helping as we say, clients and customers simplify their complexity in their marketing communication workflow. And we use technology to help simplify that complexity. So very pleased with our new business development and we've got a great commercial team doing a fantastic job to to lead that.

A few key highlights on our Better Business strategy and results of delivering a Better Business. The reported EBITDA continues to move from strength to strength. We're up 25.7% in EBITDA on the quarter; that's $8 million over a year ago. We were 6.4 year ago and we committed to the street. We really committed to our shareholders at the beginning of the year that we would have 0 restructuring.

We said that we've got the perfect footprint. We've got, you know, a fantastic kind of organization structure now and we're delivering assets. We've had zero restructuring year to date. We don't anticipate any through year end. So this is a what we call a clean non-restructured EBITDA. So very, very solid progress in EBITDA.

We've also had some great success on delivering net income. Obviously, if we're not restructuring our business and we're delivering positive cash flow, of course that's going to show up in net income and our net income's up 176% on the quarter. So we reported 2.8

million in net income up over up from 1,000,000 a year ago. And year to date net income is 10.3 million versus 3.4 million year ago, so real positive net income delivery as well.

And finally really, really pleased with what the entire team has done on our environmental, social and governance strategy and more importantly, deliverables on that strategy. We've got, you know, clear strategy for, for social and for governance and some really good progress against that, as I said, and we're real proud of the accomplishments on environmental, especially on our commitment to reforestation. We have reforested 100% of our paper use. The paper we used for clients. 100% of that we've reforested and that equates to 468,000. So 468,000 trees. So approaching half a million trees. In fact by the time we exit quarter four we'll be well north of 1/2 a million trees. So really proud of what the team has done and our delivery and our commitment on ESG.

OK, so over to James to talk a little bit more detail on the numbers.

James Lorimer:

Thanks Richard. For the nine months ended September 30th, revenue was $200 million and that's up about $26 million from last year or 15.1%. Likewise gross profit was also up, in this case it was up 17.1%. And as Richard referenced earlier, we're pleased that gross profit is accelerating at a faster clip than the revenue growth.

Gross profit margin year to date is just over 30% and we expect that strength that we saw in the third quarter to continue in gross profit in the fourth quarter.

SG&A expenses were a little bit higher and I've got a slide that'll kind of walk through that in a minute, but really pleased to hear you know restructuring expenses last year were fairly significant through this point. Last year's EBITDA also included four and a half million of wage subsidies. So not only are we, you know, $6.8 million ahead on an EBITDA basis, it's up 34.2% and that is not only clean from restructuring, it's also clean with no wage subsidy included in that.

Got a few charts here just to show you our quarter over quarter growth for the third quarter this year and actually the fourth quarter in a row. Now our revenue has actually exceeded previous year's quarters.

We expect that to continue in the fourth quarter. Likewise, gross profit has also been strong and you know has been pretty consistently in that kind of $20 million range. But we're really pleased that in the third quarter, we exceeded our 31% target, which we've been guiding the street that we had hit that number in the fourth quarter. So we're a little bit ahead of plan on that.

From an SG&A productivity perspective, you know something, you know we've set out as kind of objectives for the years or for our five-year plan is an SG&A target of 18 to 20% of our revenue. We're pleased to see that we're making great progress and that's a combination of keeping our SG&A in check, but it's also a combination of higher revenues.

SG&A expenses were a little bit higher in the quarter or year to date by about $1.8 million, but a big part of that would be related to because of higher revenues, we are paying higher commissions to our sales reps and we have experienced some modest wage inflation in that number.

Again, just to call it our restructuring expenses, we're zero through today and we expect to continue that through the balance of the year.

So again, you can see how we we've experienced strong year-over-year clean EBITDA and we did have the benefit again and EBITDA in the first, second, third and fourth quarter actually the first and second quarter in last year of the wage subsidy program which we clearly did not have this year.

From a debt perspective, we're pleased that we continue to pay down debt. We've paid down $8.9 million of term debt through the first three quarters. So you can see that our term debt is sitting about $25 million today. That's more than 26% lower than it was at the end of last year. Our revolving credit facilities sounded about $8.9 million at the end of the year. We did have a cash balance of a little over a million and a half dollars.

From a revolving credit facility, it did come down by about $2 million from June and we expect it to continue to come down through the balance of this year. And with that, I'll turn it back to Richard.

Richard Kellam:

Yeah. So I'm going to close on this chart that just builds, it looks set to our quarter 3 results are year to date results and our TTM trailing 12 months. So looking at revenue, as I said 11.4% on the quarter, 15.1% year to date, which brings us in at plus 11.3% on a TTM basis. So you know across all metrics super positive.

Gross profit again on all of these, you'll see that gross profit is exceeding revenue. That means obviously gross margins are improving, gross profit up 15.8, as I said on the quarter, 17.1% up year to date and 17.3% on a TTM basis. So gonna pause it through all three key metrics.

On that income, as I referenced, 176% increase in net income on the quarter, a 201% increase in net income year to date and 24% on a TTM basis.

Oh, and we'll see. Obviously as we pull into the year, right, we drop quarter four last year and our TTM is now our fiscal you'll see that net income number go up substantially on an annual basis, OK. And then finally, EBITDA, as I referenced 25.7% growth in EBITDA, so fantastic delivery in EBITDA that's clean, no restructuring. So our adjusted EBITDA is the same as our EBITDA.

Uh, year to date plus 34.2% and TTM, plus 19.6. We'll see that 19.6 change as well as we get fourth quarter out of TTM last year and we get fourth quarter this year into our annual if you will enter into our TTM. So real positive and strong momentum across our business and I'm really proud of the team and the accomplishments of the entire team.

You know, it really takes the team, everybody kind of moving forward together. It's yes, it's commercial driven, but it's you know some of the raw material challenges that we're experiencing, making sure we've got access to raw materials, purchasing team's done a fantastic job. The operations team to keep supply in check with demand you know kind of sweating our assets and running our operations hard certainly done a fantastic job and all the other support functions as well you know terrific.

Terrific effort and excellent momentum delivered.

I delivered on a unit basis, right delivered.

Uh delivered this year and you know, obviously as we exited last year and added this year, so super strong momentum and before we turn it over to Q&A, I just want to share something with our shareholders. And I've got some of my hand people, people dialing in can't see it, but it's actually a catalogue from Amazon, OK.

Now, Amazon basically revolutionized online sales. Right revolutionized online sales, online would not be online. Ecommerce would not be what it is today without Amazon sort of creating that years ago. Now, who would have thought that Amazon would have a catalogue that, you know, consumers can shop the catalogue and obviously here's a QR code that links to the website to buy. But who would have thought that Amazon would use print to help with their marketing communications, to help drive consumer engagement, to help drive consumer penetration.

And this is just one example from Amazon of a printed piece of material. They also do direct mail and other print communication. So for any shareholders that think that print is dead. It's not. It's an important part of communication for all marketers, for all organizations. And again, if it's an important piece of communication for Amazon, right, which is an online retailer, how can it not be for every other? So I wanted to share that with you. We're really, you know bullish in terms of where the market is going and the opportunities we see we got, we live. We breathe and like you say my team, we dream of growth.

And you're seeing those dreams and actions and activities and strategies showing through in our results. So pleased with the accomplishment, the entire team and the results we delivered and we'll now turn it over to questions from our shareholders.

James Lorimer:

Thanks, Richard we’ll now take questions from the audience. If you have 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, you can also use the chat feature in Teams and we'll respond to chat questions as well. If you have dialed in, you may press star 5 to raise or lower your hand and pressing Star 6 will mute or unmute your microphone. Please introduce yourself once you're introduced to the session.

Have a question from 574-0469.

Caller:

Yeah, sorry, they needed to unmute me. Sorry. It's Chris Thompson from E research. I just was haum. It's great revenue growth you had. I wonder if you could comment on what you're seeing in the market with all the talk of recession. You did mention in your news release that you did see some good wins. I also was looking at your inventory number and was sort of surprised that it's sort of gone up much higher, but wondering if that's you know, based on your comments about making sure that you had supplies to be able to execute on orders.

Richard Kellam:

Yeah, I'll take on the recession question and then we'll flip it over to James’ answer. The inventory question, Chris. So great question, Chris. You know at this point we're not experiencing any kind of client headwinds from a, you know from an investment perspective, not to say that we aren't anticipating some, but the way we look at is twofold, right? One is: There are a lot of growth opportunities in the marketplace beyond the clients that we're working with and we're constantly looking for. New business development. We've got what we call you know, vertical strategic teams that are responsible for identifying opportunities.

So we think that even if there are some headwinds from existing clients, there's enough kind of new business opportunities in the marketplace to offset that. And I will say that we're building a very strong growth muscle and a growth muscle needs to be built by going to the gym every day. You know, you can't take a break cause your muscle will atrophy. So we're really, you know, spending a lot of time as a team in building that growth muscle, identifying opportunities. The second thing I'd say to that as well is and we're actually experiencing a little bit of that this year.

We're an execution machine. OK, we know how to simplify complex workflows and actually help clients take cost out, OK. And that's our competitive difference relative to other marketing communication services companies out there. So as companies maybe experience some budget challenges, we can help them simplify that complexity and take work out and deliver, you know, more with less, shall we say. And we're experiencing that with a couple of clients now that a couple of financial clients where their assets under management right are declining, obviously given the challenges of the marketplace, which means their revenues declining, which means their budgets are somewhat compromised and we're helping them simplify complexity. So maybe they've been working with another partner and they come to us because they want to do the same or they want to do more with less and we're helping them solve that complexity and deliver the ability to do more with less. So we actually along way of answering your question, we're not experiencing any kind of headwinds yet, but we think we're well positioned if they do appear.

OK, now we'll turn over James for the for the inventory question.

James Lorimer:

Yeah, where are you see some inventory growth crises on a year over year basis. In the quarter, we actually came down by a couple $1,000,000 in terms of our raw material inventory. And as we talked about last quarter, we had built up some safety stocks given the challenging supply chain market that we're in and that's frankly proved to be very beneficial for us because while we still have challenges, we're now able to make sure that we are able to satisfy our clients' demands and so we do expect our raw material inventory levels to come down through the balance of the year. We've got a very strong pipeline through the balance of the year and we think we're well positioned for that.

Does that help, Chris?

Caller:

Yeah, it's great. Thanks.

James Lorimer:

OK, great. We have a couple of questions on the chat line from Spencer. Can you clarify the 24% increase in net income versus 200% in previous quarters?

Let me take that, Richard. Unless you want it.

Richard Kellam:

Yeah. Well, it's 20. The 24% increase in net income was a TTM, right? That was a TTM number. We were 175/176 on the quarter, just north of 200 year to date. But you can explain why it's 24 on the TTM basis.

James Lorimer:

Yeah. The TTM basis includes Q4 from 2021 and in Q4, we had a negative net income. We had lower revenue and we had some other charges that negatively impacted revenue.

For net income, including some restructuring charges at the end of the year and then if we do a TTM basis for a year ago, that includes the benefit of Q4 from 2020 where we actually had very strong net income largely that was supported by wage subsidy income in the quarter.

Richard Kellam:

So yeah, and as I said earlier, Spencer, right, so I said earlier you'll see that adjust as we get Q4 into our TTM Q4 2022 in your TTM, you'll see that number go back up into the triple digits OK.

A good question, good question.

James Lorimer:

And we have a question from Dave says HI. Just wondering about thoughts on M&A possibilities considering some of the recent valuation adjustments in the public markets picture. Do you wanna handle that?

Richard Kellam:

Yeah, I mean, our strategy's to build a better and bigger business, of course. You know, we're really accelerating on organic growth but we're always, you know, listening to the market and understanding there's opportunities out there. So not to say we are, but not to say we wouldn't consider. Yeah. And we'll be, you know, we'll kind of be opportunistic if there's interest in, in and deals that could be accretive or opportunities to continue to accelerate our digital penetration so yeah, I mean, you know, any good strategy requires building a better and bigger business requires obviously accelerated organic growth and continue to look at opportunities for M&A to appear.

James Lorimer:

OK. And it looks like we don't have any further questions. Would anyone in any further questions in the audience?

Alright, no further questions. Richard, do you want to provide support?

Richard Kellam:

I want to just close by thanking the entire DCM team. As you said, results like these you know 15% growth cannot be delivered without the entire team moving forward together. So when I sort of shout out and a big thank you, thanks to the entire DCM team, there's no question we've built a Better Business over the last 20 months and we're seeing that in the numbers presented today. And there's no question we're building a bigger business as well. And also maybe a kind of a final thanks to our clients, we've got a fantastic client group we work with 7,200 corporations across Canada. We've got incredible client engagement as well. So thanks to the clients for continuing to value our services helping simplify their marketing communication complexities.

So we look forward to reporting a close the year as we exit quarter four. I guess that'll be early next year and thank you to all of our shareholders for your continued support and interested in DCM.

Thank you.

James Lorimer:

Alright, thanks everyone.