Fiscal 2023 and Q4 2023 Earnings Call Transcript

Wednesday, March 20, 2024

James Lorimer:

Good morning, ladies and gentlemen.

Thank you for standing by and welcome to the Data Communications Management Corp. Fiscal 2023 and Fourth Quarter 2023 financial results conference call.

My name is James Lorimer, CFO of DCM, and I'm pleased to be hosting today's call. Joining me on the call today is Richard Kellam, our President and CEO. 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 might have.

Before we begin, I will 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+. Our financial statements at MD&A are in the process of being uploaded right now to SEDAR+ and should be available following the call.

We have posted a brief video message from Richard along with a summary of our results and key initiatives through the quarter on our website in the form of an infographic. Our detailed information will also be available on our website as well as, of course, on SEDAR+.

Please follow us on LinkedIn to keep up to date with any other business developments throughout the year. And now I'd like to turn the call over to Richard.

Richard Kellam:

Thank you, James, and good morning, everyone. And for folks in other time zones, good afternoon and good evening. Objectives of the call today: I'm going to start by reviewing some of the highlights of 2023—quite a successful year; get into details of our year-end results. We'll have a quick look at the quarter as well—the quarter four. We'll talk about some priorities, and we'll turn it over to Q&A.

So highlights of the year: Obviously, a pretty transformative year. We completed the acquisition of Moore Canada Corp on the 24th of April, so very successfully completed that acquisition and closed that acquisition. We quickly integrated our teams and we really prioritized our sales and operations groups, and really kind of leaned in hard to ensure that we were delivering against our client needs and client momentum.

We certainly maintained very good commercial momentum, and we focused on current clients and new logos. We announced our planned footprint consolidation, moving from 14 facilities to 10. We'll talk in a little bit more detail about that—really good progress to date. We actually completed our Edmonton closure and moved that production into our Calgary facility, and that was all completed by December. We also completed the sale and leaseback of three MCC facilities that came as part of the deal, and you'll see that we had net proceeds of $38 million, or just north of $38 million, and we delivered over 63% growth. And we're very pleased with the underlying organic growth of just around 2% on the year. We're pleased with that given the amount of change that we went through; we still maintained momentum in the marketplace. So overall, you know very good results in 2023.

So getting into a few details, first of all, looking at revenue on the year, our revenue came in at 63.5% increase over a year ago, a $174 million increase, so very sizable increase obviously is a result of the transaction and just under $450 million in revenue at $447. Again, the acquisition contributed significantly to that top line growth. So we maintain momentum with that acquisition. And as I mentioned [underlined] performance which we're very happy with at 2% on the year.

If we look at our reported segments, we've got six reported segments that you'll find in our in our filing, and this is the first time I've actually talked in detail about these segments. So let me just unpack the detail here.

Our product sales—so think of that as most of our printed product: $396 million. So just under $400 million, up 66% over a year ago.

Our technology services—so those are our combination of program management fees for some of the technology we bring to clients, as well as recurring fees on the technology platforms that we have—the digital services we have. That's just under $15 million—177% growth over a year ago. And a lot of that obviously came from the acquisition, but good organic growth as well within our DCM Digital portfolio.

Freight of $13.3 million, up close to 60% over a year ago.

Warehousing, which obviously we do a lot of warehousing for clients, and freight and fulfillment for clients as well—the warehousing component was up over 60% over a year ago at $12.2 million.

And then you look at that middle reference, tech-enabled hardware: This is where we buy hardware and we resell it. It's at $8.5 million in revenue. It's actually down 30% versus a year ago. And the reason it's down 30% versus a year ago is we have a very large healthcare client that we supply—we call it PPI: positive patient ID—and we supply that entire ecosystem. So think of the bracelet that you get when you walk into a hospital or a clinic. The printer that prints that bracelet and the scanner that scans that as you move through your hospital journey—we supply obviously the consumable, the paper, and we supply the hardware for that ecosystem, the scanner and the printer. And this particular client refreshes their equipment every two years.

So we saw that 2022-2023 is an off-year, and we'll expect to see that that increase again in 2024. So that's our tech-enabled hardware solutions we bring to clients, who did quite a lot of that in healthcare and other sectors as well.

And then the final reported segment is Marketing & Other. So think of that as marketing services, and you see we had a good increase in our services revenue last year at 87%.

So good growth across five of the six key reported segments.

Looking at new business success, this is what we call new logos. This is not expansion revenues within existing clients, which we were quite successful at. These are actually new logos that we brought into the business last year, and you can see we brought in 74 new logos at just over $8 million in revenue.

So some of these obviously start small, and we have a phrase we call “land and expand”. So we bring a client in and then we obviously work to expand that revenue over time by bringing new services and product into that client. So many of these are already quite successful in terms of expanding in 2024, but good news: We wanted a lot of new business in 2023; even with the integration, we did it. All of these are new. These are not acquired businesses as a result of the deal.

These are new logos that our commercial teams, our sales teams brought in—they do their fantastic hunting skills in the marketplace. So very pleased with the new business success that we delivered.

From a digital perspective, our digital revenue was just under $15 million. As I mentioned earlier, 177% growth and a lot of that is through the tech-enabled subscription service fees that we charge our clients, as well as programming fees, and a lot of those programming fees benefited as a result of the acquisition, where we provide BCS—business communication services—for clients that have a lot of programming fees and digital fees that support that print workflow.

It's very good success over all in digital, and we've got a good kind of underlying momentum in our business there. Moving on to digital signage, we haven't reported this to shareholders because this is a whole new territory for us, a whole new segment for us. We're actually in the digital signage display business. We entered that in August of 2023. We're in what we call a crawl-walk-run phase, so really kind of understanding the market and selling unique solutions into the marketplace.

We were very successful learning about this new entry in 2023. We're quite excited about this space here—the opportunities through 2024 and onward. We had our first sales in 2023, and have experienced some early wins in 2024 already.

I've been looking at gross profit. Gross profit grew 41.2 %—$118.9 million in gross profit. And if we look at gross profit as a percent of revenue, we came in at 26.6%. This is down from 30.8% a year ago, but this is exactly what we anticipated, and quite frankly, what we liked about the deal: We acquired a business that had a much lower gross margin, and the opportunity obviously is to improve that gross margin over time, which we're very committed to. So very much in line with expectations at 26.6% and we'll see that improve over time because we've got a lot of focus on getting back to pre-acquisition levels.

And we look at the next slide: Our objective is to return to 30% gross margin and again we've got active programs on that. We'll do that through what we call strategic revenue management and mix as well as all the integration efforts that we're completing.
And if you look at the chart on the left, you can see that the blue line is the legacy DCM gross margin: pretty consistent north of 30%, quarter by quarter over the past year. And you can see the acquired business: a little bit lumpy, starts off hiring quarter one with a lot of business communication services; drops down in quarter three and then back up. You know you can see the spike back up in quarter one 2023 as well. So lots of opportunities to create more consistency in that gross margin that will come through operational excellence.

So really kind of sweating our assets and the consolidation of the facilities—the plant closures, and I've said it will come from mix and strategic revenue management as well. So we're quite comfortable with committing to that 30% or that return to 30% over the next couple of years at the outside. So lots of really good work happening to improve margin in the acquired business.

When we go on to Adjusted EBITDA, Adjusted EBITDA came in at $53.4 million, up 30% over a year ago. And that's just under 12% of revenues, and in line with what we expected from a planning perspective on the year. And you know synergy realizations commenced in 2023, and obviously we expect those to contribute to significant profitability improvements over time as well.

So, James, over to you in terms of talking about our one-time restructuring costs.

James Lorimer:

Thanks, Richard.

For the year, we took a total of $20.3 million in restructuring expenses and $10.9 million in acquisition and integration-related expenses. These acquisition and integration expenses are one-time and non-recurring, all related to the acquisition of Moore and the post-acquisition consolidation efforts that we've been undertaking.

In the restructuring expenses, we did take a kind of an unusual charge in the fourth quarter of this year, and that was related to the planned closure of our Trenton and Fergus plants. And even though those plants will not be closed until a period over the next 12 months, we took the charge in the fourth quarter because the estimated costs of restructuring were substantially determinable. So the good news is those charges are now largely behind us; even though the cash expense hasn't commenced, the cash expense will commence once those plants are actually closed. But the good news is that our restructuring expenses in 2024 will be substantially lower. Most of the heavy lifting now—although there's still execution to happen, most of the planning and execution is well in hand.

In terms of synergies, we're maintaining our outlook in terms of $30 to $35 million in annualized synergies. With the passage of time, we last updated this guidance in November. That was about four months ago. We're now confirming that we expect to realize those synergies substantially within the next 12 months from today. So most of the heavy lifting will be completed by the end of, I guess, March of 2025.

From the free cash flow perspective: In 2023, we generated about $16.5 million of free cash flow, and that's up from $12.5 million in 2022, or about 32%. I will remind shareholders, as Richard mentioned earlier: This excludes the first quarter of MCC results, and given the strength that you saw in the margins on an earlier slide, the first quarter is really a period where that business generates kind of outsized profit margins, but also EBITDA as well. So we look forward this year in 2024 to capturing the full 12 months of the MCC results in our free cash flow.

From a total debt perspective, you'll see at the closing of the acquisition, we had approximately $145 million of total debt after a very strong track record of reducing debt over the past four or five years before that. Given the activities that we've undertaken since the acquisition closed, our total debt is now down 30% at the end of the year.

And net debt as well is down almost 40% compared to the acquisition. The key initiatives that we certainly reported on to shareholders include the equity offering we did back in May of last year; the sale and leaseback of both Oshawa and Fergus; and then additional working capital improvements over that period. Subsequent to the end of the year, as everyone will know, we did close the sale of the Trenton facility, and so that generated approximately another $8.5 million of net proceeds. So we're continuing to be comfortable that we're on a good glide path with regards to our total net debt.

Richard Kellam:

Having a look at SG&A, our SG&A came at $87.2 million. It was obviously increased over a year ago as a result of essentially doubling the size of our headcount—19.5% of revenue versus 19.9%. You know, as James mentioned, kind of similar to cash flow: Remember, we picked up all the headcount but we didn't have the full year of revenue. So you'll see that decline as a percent of revenue in 2024 as well as all the productivity improvements that we've initiated. So we will be operating in 2024 at—we call it NOG: negative overhead growth.

Looking at revenue per associate, we've got just under 1,800 associates in our business right now and we sort of committed to crossing that $300,000 per head, and you can see the number off the far right: $302,000 per associate through 2023. So really good productivity improvements here, and revenue associated per productivity or per headcount. Good progress there, and now a quick look at capital.

James Lorimer:

In terms of capital expenditures in 2023, we incurred about $4.2 million. Most of that was invested in plant and equipment, and frankly, most of that was really plant-related as we're getting ready for moves—everything from HVAC to electrical. So investing in our kind of physical plant. That's up significantly from $1.5 million in 2022. But you know, given the combined business, which almost doubled, certainly, we think, a reasonable number.

In terms of 2024 outlook, we will be making continued investment in our physical plant and we're also making strategic investments in equipment. And the objectives really this year are to drive operating efficiencies and ensure that we can keep up with demand from our production capabilities right across the full spectrum.

We also generated approximately $30 million in the year from the sale of the two facilities that I mentioned earlier. And we also generated $1.3 million from the sale of some redundant equipment. And we do expect some additional redundant equipment sales over the next year; it won't be a material number though.

Richard Kellam:

Alright, having a look at our client or our customer engagement; Every year we go out and we do a survey, and we go out and ask our clients what they think of DCM and our services and our teams. We use a company called Apex Scoring System. This is the third year we have done it, and we actually went into market in December after we completed the commercial integration—so the integration of our of our sales teams—which was roughly a 40% decrease in commercial leadership, so in in head count.

So we purposely timed it to go out to market and ask our clients what they're feeling about our services. And we were very pleased that we got very strong results even post integration. And we're what's called—I won't take you through all the details in terms of how the Apex Scoring System works, but we're what's called Engagement Experts. And that means that we proactively and instinctively fuel engagement by consistently reflecting on the desires of customers. And you can see some of the quotes here we just pulled, you know, reference. We had a lot of very positive quotes about how great our team was. Proactive; very focused on customer service; always there when you need them, et cetera—so very pleased with the positive feedback from our customers post-integration, post-acquisition and that sets us up well as we move into 2024 year.

ESG—lots of efforts happening on ESG. Reminding shareholders that we are what we call Sustainable Green Printing Partnership-certified—we still to achieve have some certification across our acquired facilities. We are an active subscriber or participant in Science Based Targets. Of course we're FSC certified. And then maybe flipping to the next page, one thing we're very pleased with is our sustainability commitment—our reforestation commitment. In 2023, we reforested 716,000 trees. So essentially 100% of the paper we used, we reforested with the equivalent trees. So 59 million pounds of paper we used in our workflow—716,000 trees reforested. Great, great client momentum with this program, and we're just north of 1.5 million trees since we since we started this program at the end of 2021. So good progress, and we are now fully reforesting all of the acquired paper use—so the MCC paper use in our business as well, and that started in October-November of 2023. So great progress from an ESG and specifically sustainability perspective.

James Lorimer:

I'll provide a brief overview of our fourth quarter results. Revenue came in at $130 million in the quarter. That, of course, was benefiting from the MCC results. Gross profit margin came in at 25.2%, which was down from a very strong quarter we had in the fourth quarter of 2022—2022's quarter was very strong on not only a revenue but also a margin perspective. And as Richard says, we've got very intentional plans in place to get back to those +30% margins.

SG&A came in at about $25 million. During the quarter I guess in really September, October, we did kind of complete a rationalization of our sales team, and so we started to get a little bit of the benefit of that starting in, I guess October and then kind of the full benefit of that in October and November. So we'll see some improved benefits in SG&A going forward this year in 2024.

Talked about the restructuring expenses earlier of that $10.6 million in the quarter—about $7.5 million of that related to Fergus and Trenton. Then kind of advanced restructuring charges that we took—some puts and takes on the fair value gains on our RSUs and DSUs. And that was related to a small price decrease in our share price during the quarter, and we mark that to market every single quarter.

Adjusted EBITDA came in at $15 million. It was 11.6% of revenue compared to a very strong percentage last year of 17.2%. We have talked about our five-year guidance, and we're comfortable that we will be able to return to +14% EBITDA margins in the next couple of years. So optimistic in terms of all the heavy lifting we're doing on the restructuring in terms of the direction of the financial performance for the business.

Richard Kellam:

Thank you, James.

Just having a quick look at our priorities for 2024: four key priorities. Obviously, completing the integration of MCC—so the plant consolidation that we that we spoke of. Those 14 key plants into 10—one complete, 3 to go, but very, very good progress against that. And then also continuing to harmonize back office—so SG&A and workflow improvements.

Second, I already referenced our relentless commitment to improve gross margin, gross profit. That will be through strategic revenue management; we've got a very active program in that right now. Obviously, the continued lowering of overheads and operating costs. Some of the investment in new capital, which will improve our production capabilities quite significantly. And then obviously the operational efficiencies that the team is working to deliver. So big focus on growing our gross profit and improving that gross profit in 2024 and onward.

Third is growing our business, so continue to expand revenue, and we'll do that through additional service offerings and also penetrate or entering new verticals. We've been quite successful in in building presence in some new verticals—automotive especially, we've gotten off to a great start there.

Leveraging our combined capabilities, we're a much better company together, so incredible, incredible capabilities that we've acquired. Lots of opportunities to cross-sell and upsell. And then we'll continue our digital acceleration as well, where we see lots of opportunities for market momentum.

And then finally generating higher levels of free cash flow, and that will come from margin improvements and overhead controls. And then of course, prudent capital allocation.

So those are our priorities for 2024. And I can tell the entire organization is focused against delivering against these priorities.

And that concludes our results of the year, results of the quarter, and a little outlook for 2024. We'll turn it over to Q&A now—James, that right?

James Lorimer:

Yeah, please. Thanks, Richard.

We'd now like to take some questions from the audience. If you have a question and are accessing the call directly through Teams, you can use the raise-your-hand feature in Teams and we will tee 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—that's star 6 to mute or unmute your microphone. Please introduce yourself once you are invited into the session. And the first question I have is from Nick Corcoran. Nick from Acumen.

Nick, I think I've enabled your mic.

Nick Corcoran:
Good morning, can you hear me?

James Lorimer:
Yes.

Nick Corcoran:
Congrats on the strong [piece of] the year. I guess the first question I have is just on the competitive wins you might have in the quarter—maybe in the conventional print space or new products like digital signage. Is there anything to call out there?

James Lorimer:
Sure. You know, I'd say in terms of new wins, pretty much across most of our vertical markets, we had a very intentional kind of growth obsession as Richard likes to call it. And in our vertical strategic leadership teams, a couple of segments that were, you know, particularly pleased that we're making some good track record would be—or some good progress would be—in the automotive sector. But I'd say in the quarter financials—retail, you know kind of broadly healthcare, were all pretty solid. So we're not really—we're kind of seeing good momentum across all vertical markets, Nick.

Nick Corcoran:
Good. I think you previously noted that there is $18 million of new business the combined companies. Do you have an updated number for that?

James Lorimer:
Yeah, that that was a number that we put out I think it was last quarter in terms of new business wins. We don't have an updated number at this point, but certainly continue to see, continued positive momentum across the business.

We're also seeing some positive momentum in terms of opportunities to pass some continued price increases on to clients. And we're also seeing really good momentum from our two commercial teams coming together and working very collaboratively.

Nick Corcoran:
That's good to hear. And then maybe think of the organic growth, so it was 2% for the year. Do you think you're on track for that 5% target, and maybe just talk about the segments that might be driving about?

Richard Kellam:
Yeah. We're certainly committed to the 5% target. We went through a lot of changes, you know, on the year with bringing two commercial teams or two sales teams together, and we're actually very pleased with the 2% growth given all the changes that we experienced. Remember we had to take client books of business and merge them across our new commercial team.

We see good momentum in the market; the market is still very strong. The profit pools that we play into—those being, you know, kind of highly personalized communication; the labels business; and frankly, even some of the forms work that we do: We see lots of opportunities for continued expansion within existing clients, and then and then new business development as well.

As James said, you know, we work across eight key verticals and we're expanding now into a couple of additional verticals; automotive as one, which is quite attractive, and it's well positioned for what we deliver, right—it's a highly complex dealer structure, and as you know, we love to simplify complexity and help clients that have a lot of complexity in their workflow. So we're getting some good traction in a couple of new verticals as well.

So yeah, we're very, you know, very optimistic about growth through 2024. They'll get some changes obviously to complete with the consolidation of our facilities, but I think we're well-positioned. It's a good market, strong market. We understand where to win and how to win.

But I think really importantly as well is: We're not going to win at any expense. We like to create value for our clients, and we like to ensure that we get value as a result of creating value. In other words, ensuring that we're getting the right gross margin for the product and services that we're delivering. So we will not go after revenue at any expense. It's important that we get our margin back up north of 30% and that's we're very focused on as well.

Nick Corcoran:
Great. And maybe one last question for me. I know in the past you talked about martech as being a potential driver of growth. How is that business performance?

Richard Kellam:
Yeah. So we've reported 177% growth in digital. That includes some of our martech solutions. We've gotten great traction with our Flex platform. In fact, all of the new revenue we've brought on is tech-enabled. So it starts with Flex and the workflows are optimized through Flex. So very good traction there.

We will be in a position to be launching our digital asset management platform called ASMBL. This is a platform that we've built internally and that we'll be launching in the summer of this year—we're expecting good traction behind that as well. In addition to many of the other digital solutions that we've got in our portfolio. So we expect that—we put a number out to the street of 60% growth in martech over the course of five years, and we're still committed to that number.

Nick Corcoran:
Thanks a lot.

James Lorimer:
Thanks. Next question I have is from Noel Atkinson at Clarus Securities. Noel, I've I think I've enabled your mic here.

Noel Atkinson:
Hi guys. Can you hear me?

James Lorimer:
Yeah.

Richard Kellam:
Yeah, Noel.

Noel Atkinson:
Hi. Hi, Richard and James.

Well done in Q4 and thanks for taking our questions. Uh, maybe first off, maybe could you talk about how business activity progressed through Q4 and how it's gone so far in Q1?

James Lorimer:
Yeah, sure. You know, we probably were a little slower in the late summer months, early October, but certainly saw acceleration in November and December in the quarter, and we had a very strong finish to the year. You know, start to this year, January is a little slower, but we've certainly seen some very positive momentum through February and into March. And I think a little bit of that momentum is, you know, so far in the in the first quarter at least, very preliminarily, seems to be solid.

Noel Atkinson:
Okay, great. In terms of the cost synergies and so you're still talking about getting this all done by March of next year, which is great. Can you just talk a bit about how the timeline is for flowing those cost savings onto the income statement—is it still largely, you know, you see it in Q4, Q1, Q2 next year?

James Lorimer:
Sure. Some of the some of the organizational savings—so particularly in our sales force reduction—that was completed in a September time frame. A couple of sessions, but probably the biggest one would be September. And so from an overhead—so think about SG&A expenses, that run rate should be pretty steady through this year. Most of those changes were done in the third quarter that trailed a little bit into the fourth quarter.

From a cost of goods sold in an overhead perspective—at that level, the Edmonton plant was closed in November. You know, a small relative plant in terms of the kind of the broader footprint, but we'll see the full benefit of that starting in the first quarter of this year.

The next kind of major plant consolidation we have is our Bond and Thistle commercial print plants and those are on track for the middle of this year. We don't see a material savings from that, but there will be some. So we'll start to see those kind of feather in probably in third quarter and get full benefit of those in the fourth quarter. The biggest changes are going to come from the Trenton and Fergus plant closures and those are kind of planned for later this year.

Noel Atkinson:
OK, great. And then maybe could you talk a bit about the digital signage? So you haven't really talked about that before. Can you talk about the type of signage you're offering? You know what's the gross margins like versus the corporate average and do you have any sort of occurring revenue component there?

Richard Kellam:
Yeah. The reason we haven't talked too much about it is we wanted to, you know—I said, Noel, we wanted to sort of crawl, walk, run, right? So we wanted to build some experience before we went public. And we did that starting this—as I mentioned, we started in August of last year. And we really know the market now. We know the product that we're selling.

I don't think I want to really comment on gross margin too much given the competitive position in the marketplace, but let's just say it's at or above our targeted number, and there is a recurring revenue component. You know, obviously we sell the hardware, and then there's a content management platform or content management solution to be able to render or to be able to distribute content to the screens. And that's a recurring revenue, a monthly fee per screen that is a nice kind of recurring revenue. So you think of more screens, more recurring revenue. We're fully committed. We think it's a big opportunity for us in the market. It’s a sizable market. There's a lot of move to digital right now, so there's certainly demand. And I think our solution is quite a unique offering, very kind of bespoke. We don't want to be all things to everybody. We've entered the market with a very [kind of] unique solution and you'll see a lot more of that as we progress in 2024, and we'll be reporting more on that as we continue to move from crawl to walk. I'd say we're in the walk stage now, and probably getting closer to run as we progress through 2024.

James Lorimer:
And I might add just in terms of, the—sorry Noel, I might just add, just in terms of vertical markets, it's an offering that really is complementary to our retail clients and our financial services clients, which are often very retail focused themselves. And so we see it as kind of a complementary add-on to our capabilities.

Richard Kellam:
We've got a team that's committed to it. We actually moved a great young leader into this role, moved him from Ottawa, and he's off to a fantastic start. And we've got lots of top-of-funnel and mid- funnel conversations happening right now.

Noel Atkinson:
Okay, great. And then just lastly there with the digital signage, is that Canada only or are you also looking at other markets?

Richard Kellam:
Uh, we're playing to our strengths right now. It's Canada, currently focused on Canadian clients. I mean, think about: We work with 400 enterprise clients and you know most of those 400, if they don't have some digital screens or digital services, are certainly looking at it. So perfect, you know—we kind of have that that preestablished route to market.

Noel Atkinson:
Okay, great. That's it for me. Thanks.

James Lorimer:
Thanks Noel. And then we have a call from Chris Thompson here. Chris, I'm just turning on your microphone.

Chris Thompson:
Sorry, can you hear me, James?

James Lorimer:
Yes.

Chris Thompson:
Uh, great. Congrats on a great quarter and thanks for taking my call. I just a couple of questions on the restructuring charges from 2024 that happened in Q4. I had sort of in my model that there was going to be, you know, about $16 million in 2024 happening and you moved. Was it about $7.5 million of that? Did you sort of move back into Q4 of 2023?

James Lorimer:
Yeah, that's right, Chris.

We had in—primarily related to the Fergus and Trenton plant closures, and with our collective bargaining agreements there, we have, you know—substantially know what the costs are going to be for restructuring. Although we haven't completed those and we haven't given any notices out to individuals yet from an accounting perspective, it was appropriate to take that charge in the in the fourth quarter. So that kind of charge, if you will, is behind us. We have not actually completed the restructuring yet, but that's planned for later this year.

Chris Thompson:
So from a quarter-to-quarter basis for next year, are you sort of now looking at more like $2 million a quarter in restructuring charges on average for 2024?

James Lorimer:
Yeah. Well, we'll actually probably be down quite a bit from that, Chris. I would say somewhere in the, you know, $3 to $4 million would be probably a good range for the full year.

Chris Thompson:
Okay. And is that why, on your balance sheet, your provisions went up substantially?

James Lorimer:
Yes, exactly.

Richard Kellam:
Yeah, yeah.

Chris Thompson:
Okay, looking at CapEx, you were mentioning that from a standpoint, I think we discussed, or maybe one of your presentations from last year, I had a pretty big number for CapEx—sort of north of, you know, $2.5 million a quarter, probably with some, you know, refurbishing going on, and then more steady state in 2025. Is that sort of—when you're talking about that slide, you didn't have any numbers in there for CapEx, but is it a pretty big number that you're going to be looking at doing the refurbishments for 2024?

James Lorimer:
Yeah, I think from a from a pure CapEx perspective, it'll probably be in the $6 million-ish range for the year. We've historically talked about a broad range of $5 to $6 million this year in 2024; we'll be at the high end of that. Most of that is going to be related to getting plants ready to receive equipment. So it's more physical investment.

We are also separately looking at some incremental lease CapEx, which would be some digital equipment. And as we're consolidating our plants, it's kind of the right opportunity to make those investments in new equipment.

So yeah, there will certainly be some kind of incremental capital on top of that related to driving further operating efficiencies. But most of that will be leases, so you'll see, kind of middle of this year, our lease expense will start to creep up.

Chris Thompson:
Okay, great. And one last question just on run rate for your sales and marketing, your G&A. Is Q4 a good indication of what will carry forward into 2024? So sort of $10 to $11 million in sales and marketing, and about $14 million in G&A? Is that sort of the run rate that we should be looking at?

James Lorimer:
Yeah, that's—I think that's a pretty good range, Chris, to be thinking about.

Chris Thompson:
Okay. Thanks a lot. Congrats again and thanks for taking my questions.

Richard Kellam:
Thanks, Chris.

James Lorimer:
Okay. Thanks Chris. It appears that we don't have any further questions. So thanks everyone for attending. And as a reminder, Richard and I can certainly be available for any follow-up questions that you might have.

Richard Kellam:
Yeah. Thank you, everybody.

And also, big shout-out and thanks to the entire DCM team for delivering a fantastic 2023. Certainly a year with a ton of change, probably unexpected for most, given we did that sizable transaction completed in April. Really appreciate the entire team and the momentum we have as a team as well, and we're certainly looking forward to a very successful 2024. Some hard work to complete the final integration, but some very good momentum in the marketplace. So thanks to the entire team.

James Lorimer:
Thanks. You may now disconnect your lines.