Q1 2025 Earnings Call Transcript

May 13, 2025

James Lorimer:

Good morning, ladies and gentlemen. Thank you for standing by and welcome to the DATA Communications Management Corp. first quarter of fiscal 2025 financial results conference call. My name is James Lorimer, the CFO of DCM and I'm pleased to be hosting today's call. Joining me 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 this 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 video message from Richard along with highlights of our results on the first quarter on our website in the form of an infographic.

This presentation will also be added to our website for your reference along with the post-view recording and transcript. Our detailed information is also available on our website and SEDAR.

Please follow us on LinkedIn to keep up to date with other business developments, and I'll now turn the call over to Richard.

Richard Kellam:

Good morning, everybody, and good day to everyone joining us from other time zones.

Having a look at today's agenda, we're going to review highlights and results of Quarter 1 of 2025. I'll talk a little bit about some new business development, have a look at our priorities for this year, and then turn it over for Q&A.

So we’ve got a summary of our progress and highlights of 2025 on this page.

Q1 2025 results were in line with what we expected, almost exactly in line. Our Adjusted EBITDA margin of 15% was up over quarter one a year ago: We were 15% versus 14.4%.

Gross margin continued to improve: We delivered 29.3%, and certainly approaching our goal of 30%.

We delivered on our commitment of no one-time charges. So EBITDA and Adjusted EBITDA were the exact same. And our year-over-year growth to net income and adjusted net income certainly was positive.

We did experience market uncertainty which we had to manage through. We obviously closely monitored market sentiment. The tariffs — you know, the on again and off again tariffs — we have a great team that manages through those challenging times.

Raw material price increases — we haven't had any material increases yet, but we have had on again, off again tariff threats, obviously the latest one being China: 145% down to 30% now. And you may think you know we don't have a lot of product imported from China; we actually don't, but there are some raw materials that we source from the U.S., specifically labels and thermal paper, that have chemical components to them that come from China.

So it obviously would have resulted in a price increase, but that's now been mitigated as a result of this decrease in tariffs over the course of the last couple of days.

So lots of dynamics, obviously, that our team has done a great job managing through. And this last one: There is a potential Canada Post labour disruption that we're kind of managing and mitigating through right now. We won't know, I guess, until next week, right, James? — 22nd — if that if that will develop.

We've got a lot of new business development happening right now. We'll talk a little bit more later in the presentation. Our pipeline remains strong, and probably the strongest that I've certainly seen in recent history.

We've got several new logo wins and increased wallet share with existing clients and new verticals. And this is going to be key to achieving our goal of returning to revenue growth in the second half of 2025.

So I'm really pleased with the new business development activity we've got.

And then we've got some really good success leveraging our AI capabilities — ASMBL, we've had some new logo wins in retail.

We've got a healthy pipeline of opportunities in retail and financial and government and other sectors as well.

We actually displaced an incumbent Schedule I bank with ASMBL — so with a new DAM. So a great success there; very pleased with the product.

And then we've gotten some good early traction in the domestic market with Zavy — the company that we acquired late last year.

We also delivered a special dividend of $0.20 per common share, which was certainly exciting for us in the quarter.

And we made a commitment to commence regular quarterly dividends — and you saw that announcement for quarter two in the press yesterday.

So those are highlights for the quarter.

Just moving on to revenue, our revenue in the quarter was $123.7 million. Again, almost exactly in line with consensus and up sequentially over last quarter, and down slightly versus a year ago.

Our Quarter 1 revenue was primarily impacted by some larger order activity from a few larger enterprise clients that were kind of rebalancing inventory, but pleased with the quarter.

And having a look at gross profit, James, you want to talk through gross profit?

James Lorimer:

Sure. Gross profit was $36.3 million, really kind of the second-highest that we've seen in our recent history, just down about $1 million from that that we achieved in Quarter 1.

We also reported our fourth consecutive quarter of growth in gross margin on a year-over-year basis. We exceeded what we did last year at this time by about 40 basis points and we reported gross profit margin of 29.3%.

So we continue to strive towards our pre-acquisition gross profit margin levels of more than 30%.

On an Adjusted EBITDA basis, we were less than $100,000 off the high watermark in first quarter of 2024. Likewise we reported the fourth consecutive quarter of year-over-year beats on EBITDA margin.

We showed 15% gross or EBITDA margin in the quarter, which is certainly you know on track to our total objective of more than 14% EBITDA margins on an annualized basis. I will remind everyone that Quarter 1 is typically our seasonally strongest quarter, as you can see from some of the bar charts on not only EBITDA but gross profit and revenue.

Richard Kellam:

Okay, having a look at our revenue by report segment, our product sales were pretty similar to the number we put up earlier, but -4.7% over a year ago.

Our technology and marketing — we combined those two — were at 2.8% growth over a year ago.

And the logistics, which is a combination of warehousing and freight — distribution of freight — our freight was up slightly about $100,000 and our warehousing was down about $700,000. So that made-up a majority of that 9.3% decrease, or all of it.

And really, it was really less warehousing fees in the quarter as we saw some larger customers manage their working capital, and take some inventory out of the system.

So we'll see that obviously contributed to some of that product sales decline as well, but we'll see that kind of return in the second half.

Productivity in the enterprise continues to improve. You can see that we're up to 323.3 thousand per associate at 11.1% post the MCC acquisition — about 2.8% on the quarter, or on the year rather.

And we're down about 342 associates as a result of the integration and the restructuring. And as I said earlier, and we said in last quarter, restructuring is now behind us, so you can expect that number to kind of stay in the 1,525-1,530 range.

James Lorimer:

Our balance sheet remains strong and well-positioned to achieve our growth objectives. Net debt to EBITDA was a little above 2 times at the end of the quarter. A little bit of growth in our net debt — that was largely attributed to the special dividend, which was paid in the first quarter. We expect to see free cash flow through the year continue to reduce net debt levels from where they were at the end of this quarter.

Total credit availability was over $45 million. We had a little over $7 million in cash on hand, and excess availability under our credit facilities of about $18 million. And we also have an accordion which is undrawn — a facility that, should we have the working capital to support it, we can draw upon it.

So we're very comfortable with our plan on debt repayment and our net debt EBITDA this time.

Richard Kellam:

Okay, thank you, James.

We also recently published our 2024 Sustainability Report. Some key highlights in that report: Scope 1 and Scope 2 greenhouse gas emissions down 33% since 2020. So great progress there.

We've now reforested just over 2 million trees since we started our program in 2021.

We've re-upped our long-term relationship with the Sustainable Green Printing Partnership, which is a great partnership that we have.

And that we recently signed on with the UN Global Compact Sustainability Initiative, which is a great kind of alignment — aligned initiative across the UN.

We're actually very proud of our industry-leading ESG and sustainability efforts, and you can get our report — which is a very professional, well-done report, so congrats to the team — it's up on our website now. So please go and have a look.

Okay, moving on to a quick look at new business development. What I can say, and we started talking about this at the end of 2025 and the last quarter, is we are all in on growth.

In 2025, really the beginning of 2025, our team shifted from integration — so managing the integration, and the shift of all that work between two companies to one — and really shifted to growth and new business development.

We've got a very active pipeline that is primed to contribute to growth in the second half as long as we don't have any significant market headwinds.

So very, very healthy pipeline. Solid double-digit growth over a year ago in active pipeline and new revenue opportunities. We've got a detailed CRM that we review on a consistent regular basis to weekly review: 22% of our new business wins are from new logos including financial, government, and healthcare. About 78% are coming from expansion revenues, we call it, or wallet share — wallet share increases, which is very positive. That means, you know, your current client base, we're able to work with and do more with, so 78% coming from that.

And then we've got, as I mentioned already, some really good momentum in the funnel for our DCM AI-enabled offerings, which include ASMBL, Zavy, and DCMFlex.

So pleased with our all-in growth initiatives and we'll see those materialize as we progress through the year.

Having a look at priorities for 2025: Same priorities that we talked about in the last quarter, driving profitable organic growth by leveraging our expanded suite of tech enabled offerings, and really strengthening our presence in key industry verticals. Delivering a return to new capital investments, obviously focusing the production capabilities and driving operational efficiencies.

We are going to relentlessly continue to drive gross margin improvements through top-line revenues and operational efficiencies. And we've got — we call our SRM activities, our strategic revenue management initiatives. And then of course we need to demonstrate — I think we did well in the first quarter — our agility and adaptability to effectively navigate the uncertain economic, geopolitical environment that we're in.

In 2025, we plan to leverage our larger scale, the incremental capacity we have and the expanded product mix, and we've got the incredible skills of our team to drive that profitable growth through the year.

We did commit to return earning capital to shareholders. You saw that commitment with a special dividend — you saw it with the dividend in Quarter 1.

And that dividend continues. And the dividend yield as of a couple of days ago was 5.8%.

Okay. And my closing slide here, before we look at our long-term financial objectives, is just talking about how well we are positioned and we strongly believe we're well- positioned in this current environment.

We're well-capitalized, as James mentioned earlier; we've got solid cash flow generation and really no material restructuring costs at all — that restructuring is behind us.

We're very well prepared for any revenue impact from potential tariffs. We do have the ability to pass through material cost inflation if that does occur. Again, we're only seeing — well we were seeing a lot of it in some chemicals that are part of our paper product that those have been, you know obviously pulled back as a result of the change a couple of days ago.

We're very well-positioned for any opportunistic M&A that may be available. We're certainly active and looking and considering. We've got a track record of execution and we proved that with the acquisition and integration of MCC. And we have a very experienced and diverse senior leadership team.

Okay. And finally long-term financial objectives — we're just reiterating these. We've shared these with shareholders several times now.

Revenues: We are committing to 5% CAGR on a 5-year basis. Our gross margin of north of 30% — again we're relentlessly focused on driving that gross margin improvement, which will result in EBITDA percentage of revenue of north of 14%.

So we're maintaining those long-term objectives for growth.

So that's the deck, and we will now turn it over to Q&A.

James Lorimer:

Thanks Richard.

We will now take 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 and we'll queue up questions. Alternatively, you can also use the chat feature and we'll respond to chat questions as well.

If you have dialed in, you can press *5 to raise or lower your hand. Pressing *6 will mute or unmute your microphone.

And please introduce yourself once you're introduced to the session.

We have a question from Daniel Rosenberg, if you could let Daniel into the call.

Daniel Rosenberg:

Hi. Good morning, Richard and James. Daniel Rosenberg here from Paradigm Capital.
Let me — first question was around the ASMBL product. It was great to hear that you had a key win with the Schedule I bank.

I was wondering if you could please speak to just how that came to be. What crystalized the sale — just the success you had there, please.

James Lorimer:

Sure. We've been working with — as you know, Daniel, a number of Schedule I banks in Canada are our clients. We had a legacy application in one of the banks that provided a lot of campaign management applications and other value-added services.

That product was coming up for renewal.

We introduced our ASMBL DAM as part of a new solution. And the result of that is going to be significantly higher margins from that product, and continuing the long-term relationship there.

So very, very pleased with that. It's a little bit different than the typical ASMBL sale. Typical ASMBL sales are kind of a much lower kind of ARR, but this is a nice healthy one.

Richard Kellam:

Yeah, and the legacy solution, to be clear, was not ours. It was a competitive solution.

Daniel Rosenberg:

Great to hear. And then on the kind of recently acquired Zavy product, I was just wondering about the sales dynamic, now that you have kind of an increasing you know portfolio of digital products.

You know, the focus is obviously cross-selling opportunities. It's easier said than done, but what's the opportunity of kind of going greenfield and having these products lead as kind of, you know, small wins with new client logos?

James Lorimer:

Yeah, we actually hired — great question. So as you know, we acquired this business out of New Zealand. There's a team that came with it that's New Zealand-based, so they kind of cover the Asia-Pacific markets.

We actually hired a woman named Mutesi Ntazinda, who came out of Pinterest and prior to that she was at LinkedIn. So she's a skilled digital leader, and she's now representing the brand and the product on this side of the world.

And our route to market is kind of two-pronged.

One is, I'll call it marketing automation. So you know, using outreach and using marketing tools to find people that are in market for social media, social listening, social media management.

And the other is using the 63 sales finance salespeople that we have, and Mutesi works directly with them. They identify the leads, and then hand them across to Mutesi, who works to convert those leads.

Similar route to market that we have for ASMBL, by the way.

So it's actually quite complementary to our team. It's we get the best out of both worlds here.

Daniel Rosenberg:

I appreciate that.

And then, you know, we've seen the headlines around Canada Post. Just curious what you're hearing on the front lines and what kind of things are you planning for. Not the first time we've heard about issues from Canada Post, but just curious to hear what you're planning for to mitigate any potential impacts.

James Lorimer:

Sure. You know we are staying as close to the negotiations as we can, Daniel. You know a lot of what we see is also reported in the press.

We do believe the sides are fairly far apart, but we're hopeful that a resolution will come to bear. I think May 22nd is kind of the deadline, or maybe not the deadline, but I guess the opportunity that labour union has to issue a strike notice and whether that's, you know, initially a rotating strike or a full strike remains to be seen.

We're hopeful that if there were a strike to happen, that the federal government would mandate folks back to work fairly quickly, but you know, not totally close to the inner workings of the government at this point.

That being said, you know that Canada Post is itself is a large customer and as we saw and discussed after the strike that happened in November and carried into December — we did have an impact on our revenue from Canada Post direct revenues.

You know, more difficult to kind of quantify is direct mail campaigns that clients may be kind of pausing or holding off until a little bit of a resolution there.

We are hopeful that things come to a quick resolution, and you know we have in our, you know, I think it's probably a 50+ year with Canada Post as a client of ours. We have weathered strikes before, and we think we continue to offer a valuable service that will continue to be in demand once things get resolved.

Daniel Rosenberg:

Thanks for taking my questions.

James Lorimer:

Thanks Daniel.

We have a question from Max Ingram.

Max Ingram:

Hey, James. Hey Richard. Thanks for taking my questions.

My first one is on capital investments. Can you just talk a little bit about the capital investments you made — in the release you had touched on better efficiency, so it would be helpful just to have a brief recap of the investments that you've done.

James Lorimer:

Yeah, we made a number of investments in the second half of 2024 — things that were installed in the second half 2024.

We installed some new large format equipment that are located in two of our facilities, one in Calgary and one in Burlington, Ontario.

With the consolidation of the Thistle and Bond factories in June of last year, we put in a new Heidelberg commercial press. Very efficient machine. Loves to run 99.9% of the time.

We also invested in some IT equipment — upgraded IT security and IT infrastructure equipment. It was in the first quarter — kind of December and into January, February — in terms of when some of this equipment got commissioned.

But we added some new label presses into our Brampton facility, and that was following the consolidation of our Trenton label plant.

We needed an upgrade in some in some equipment. We've got three new OMET presses; they're all up and running very efficiently. We've been able to shift work to those, you know, kind of the latest and greatest technology.

Max Ingram:

That's really helpful. Thank you. And then you'd mentioned some large enterprise client order patterns had had impacted Q1. Can you just talk a bit about whether these are just timing or if you're seeing a broader pull back in demand?

Richard Kellam:

We think they're timing, but certainly there's some uncertainty in the market right now, Max. So we don't know if a couple of the activities that were not run will run again.

You know, if you think of a large direct mail activity from an FI, it could be, you know, north of $1 million, and those could potentially be rescheduled.

But that's not in our sight line at this point, to be clear, right? We're looking to offset any potential headwinds that we experienced in Quarter 1 as a result of either shifting or you know completely out of the calendar, out of the program with new business development. That's where we're all in on at this point, which we're confident we'll be able to offset, by the way.

And then you've got some just kind of inventory — you saw the warehousing number, right? — some kind of inventory rebalancing, which certainly will be back in. A lot of that was actually lotto, interestingly enough, where there's the shift to reduce some inventory, and we will certainly see that come back in Quarter 3 and some forecasting for Quarter 4 at this point.

And then I want to comment on the postal strike as well. We have seen a little bit of pull-back on activity because of the uncertainty if there will be a strike or not a strike. You know if you've got mail that is dated mail — so you're running a direct mail program . It expires in June. We definitely don't want to print that now if there's going to be a mail strike. So we certainly see a little bit of impact there as well.

And that kind of work typically would come back into a schedule even if there were a strike. The activity would come back in the schedule later in the year.

James Lorimer:

And maybe I'll also elaborate there as well, Max, on the transactional print that we do. So think about statements and tax forms. That work needs to continue to be produced. So what we did in November, December was stockpile production and once the strike was completed, we literally had, you know, five or six tractor-trailers show up at our dock and take that printed product.

So we do continue to recognize revenue on a lot of that transactional work.

Max Ingram:

That's all very helpful. Thanks for taking my questions and I'll pass the line.

James Lorimer / Richard Kellam:

Thanks Max.

James Lorimer:

We have a question from Noel Atkinson.

Noel Atkinson:

Good morning, Richard and James. Thanks very much for taking our call this morning. Well done in Q1.

Just sort of following on some of the other questions here. You know, you mentioned you've got a really strong pipeline of business development for the second half of the year. Can you talk about how you're seeing sort of conversion of the funnel versus sort of past quarters? Is it getting a little slower or is it still sort of moving along from funnel into contracted projects?

Richard Kellam:

There's definitely been an acceleration as a result of the team leaning into, you know, I'll call it advanced new business development or accelerated new business development.

So we're certainly seeing a lot more activity in the funnel and, you know, conversion of activity into real business as well.

But as you know in this business, especially if you want a large — you know it's a large enterprise, client time to revenues is long because you have to displace a competitor. And it may be displacing some workflow, some digital workflow that process or that product as well.

So that's why we're, you know — even looking look at the active activities in our funnel that are already converted: Some of that won't show up until Quarter 3, Quarter 4.

In other words, it's rare that we convert — you know, we get a sale; we convert today and we start producing tomorrow: That's rare for a large enterprise like the one we play in, okay?

Noel Atkinson:

Okay, got you.

But does that give you — does that increase the risk that they, you know, push out or anything if there is sort of an increased risk of recession or further decline in sort of overall sentiment?

Richard Kellam:

I guess there's always a risk of that and you know, our main focus is: get as much converted into the pipeline to offset that. And that's where, you know, every week we're seeing new, more and bigger opportunities come into our funnel.

So we just got to keep filling the funnel to ensure that if there is, we've got enough new business activity to offset that.

Noel Atkinson:

Okay. And then just secondly, you'd mentioned in prior quarters that you've been looking for offshore sources to diversify your supply chain for raw materials. Are you making progress with that? Are you still looking into doing that?

James Lorimer:

Yes, we're still kind of active on that front, Noel. We've done some testing and sampling of product. So we certainly have that available. To date, we haven't had material challenges with our North American supply chain. But you know, given the dynamic environment regarding tariffs, we're continuing to keep those initiatives active.

We've also seen — you know there's one substrate that I think the last producer in North America recently closed their plant. And so we've successfully been able to secure offshore supply for that, so.

Noel Atkinson:

Okay, great. That's it for me. Thanks.

James Lorimer:

We have a question in the Q&A from Raymond Williams, who's a shareholder. Hi Raymond. He's asking: Are we able to elaborate on the reasons for the increase in debt this quarter? I believe in 2024, DCM are committed to pay down more debt, but there was quite an increase in Q1.

Yes, Raymond, I think the two kind of main reasons for the increase — the largest would be the special dividend in the quarter. As you know, our revolving line of credit kind of fluctuates with working capital. We had a bit of a working capital requirement in the quarter, just as our business grew. I think we're up about 6.5% from the fourth quarter, so there's a little bit of a working capital need there.

And then the dividend payment also resulted in that — so, an increase in the total debt.

So we do expect that will come down through the balance of the year through free cash flow, and as we get into kind of Quarter 2, Quarter 3, our working capital will contribute to paying down the revolver.

James Lorimer:

Okay. And we have a question from Nick Corcoran.

Nick Corcoran:

Good morning, guys. Congrats on the strong quarter.

James Lorimer:

Thanks Nick.

Nick Corcoran:

I think even you might have just touched on it, but there's a large working capital build in the quarter. Maybe you could speak to the seasonality behind that and how you expect it to unwind through the back half of the year.

James Lorimer:

Yeah sure. A big part of that growth in our revenue that, you know, the reason Quarter 1 is typically seasonally stronger is because of the transactional print business that we have, or that we acquired, with the Moore transaction. And we have to source a lot of a lot of paper — it's kind of a paper-intensive business. And so that the big bulk of that. And then you know just generally some other growth in revenue in the quarter as well.

So we do expect to see that kind of improve through Q2 and Q3.

Nick Corcoran:

Thanks, that's good colour. I'll pass it along.

James Lorimer:

Okay, great.

James Lorimer:

Okay, it looks like that's the end of the questions.

I'd like to thank everyone for joining the call and your interest in DCM. As a reminder, Richard and I can be available for any follow-up questions that you might have and we will turn it over to Richard. Any closing comments?

Richard Kellam:

No, I just want to thank our team, our associates, across our enterprise. Great job on the quarter. Certainly a lot of dynamics in the marketplace right now.

And I think our results kind of prove our capabilities to be agile and able to manage through these uncertain times. As I said to shareholders earlier, we do have incredible new business development efforts that are in place and we're pretty confident and comfortable that we'll see those deliver significant results in the second half of the year as we manage through some choppy waters right now.

DCM
SURPRISINGLY SIMPLE

But we will certainly keep you posted on progress, and thanks to the support of all our shareholders as well.

Thank you.