

Q4 2025 DCM Earnings Call – Meeting Transcript

March 12, 2026

James Lorimer

Thank you for standing by and welcome to the DATA Communications Management Corp Fiscal 2025 Financial Results Conference Call. I'm 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 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 could 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+.

This presentation will be added to our website for your reference along with a post-view recording and transcript. 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 and good afternoon and good evening to anybody joining from other time zones. Our agenda this morning is very clear. We're just going to hit the highlights of '25, talk about some capital allocation, look at our priorities, and turn it over to Q&A.

So thank you, James. First, I've got a summary of our highlights and for anybody looking at this slide, our key theme on the year was controlling the controllables. And there were a lot of controllables we need to control. Looking at revenue results,

you saw that our release came out last night. The revenue decline was pretty much in line with consensus at minus 6.2% on the year, and that really was reflecting lower spend on several large enterprise accounts.

As shareholders know, about 93%, 94% of our revenue comes from large enterprise. So a lot of those large enterprise accounts obviously had some headwinds and we did not offset that with new

customers given — although we did bring in several new customers — just given time to revenue, which, as you know, is long in our business.

With that said, we did a very good job controlling the controllables and our Adjusted EBITDA came in at \$60.4 million and 13.4% margin. And that was really due to the spending discipline mitigating the declines in some of the gross profit and obviously the revenue headwinds we experienced.

We also generated strong free cash flow well up over a year ago — and you'll see that in a chart coming up shortly — of \$13.4 million, and we've done, I'd say, a very good job returning capital to shareholders — and again you'll see a chart coming up. Our capital return to shareholders about \$17.6 million in the year.

On the uncertainty side, again, we worked hard to manage through some market uncertainty and you saw that through the quarters — the tariff uncertainty, and that impacting budgets in large enterprise accounts.

We obviously had the uncertainty and the unpredicted, or unexpected, rather, headwind from the Canada Post labour disruption. Canada Post is a large client of DCM's, as well as the knock-on effect to all the other clients we service from a mailing perspective. So that certainly impacted our year. Thankfully that's behind us, as we'll talk about in the '26 outlook.

And we did a very good job, as I said earlier, of managing and mitigating some of the revenue headwinds with operational efficiencies and driving SG&A productivity. And you'll see in a chart coming up that we actually reduced SG&A by \$7.8 million in a year.

On the digital and AI activities that we're delivering to the business, we've had some very good success in the year. We actually grew our tech services revenues by 4.2%. So obviously well above what we experienced on our core print business. We're now about \$21 million in tech services revenues and that's almost 5% of total revenue.

Shareholders may remember that we launched contentcloud, our AI-powered digital asset management solution. We're proud of getting that to market and the success we're delivering. We've got good momentum with several verticals, but one in particular — government and municipal services — and we were just up against a pretty large RFP and pretty large competitive shootout, and we secured a good piece of business there on government. So we're finding our lane and securing some good wins there.

And then from an operational perspective and from a commercial perspective, we're using a lot of AI in our workflows today to drive productivity improvements. So I'd say we're all in on AI from an operational perspective and from a commercial perspective as well.

And finally, we've been building a good, solid M&A pipeline. Now that all of our restructuring, integration, and IT integration is behind us, we can now look to opportunities for M&A and we've been building that pipeline. The market is good. Certainly the macro uncertainty is creating some opportunities on the sell side, and we're well-capitalized to consider any M&A as we work through 2026.

So overall, we managed well through the market uncertainty we experienced. The team did an excellent job managing those headwinds and maintaining profitability while also returning significant cash to shareholders.

That's kind of the overall highlights, and we'll get into a few details as we flip through the file here. James? Okay.

From a revenue perspective, as I said, minus 6.2% for all the reasons I said. But if you do look at this chart and you look over five years, you do see, despite the revenue headwinds we experienced in 2025, we're still managing a business that is almost twice the size of what it was in 2023. And managing it quite successfully. So obviously we'll see those revenue headwinds turn to tailwinds and then we'll have a nice virtuous circle over time as well.

But business is still solid. There's been no material losses in clients, and again you can see from this chart that that we're still managing a very sizable business north of \$450 million in revenue.

Gross profit: Obviously with factory overhead, recoveries and utilization was impacted and you can see that just around \$117 million in gross profit.

Gross margin is around 26%. And again, we'll see that come back as revenue growth returns. We've built a perfect operational footprint to now grow from, and we'll see that naturally kind of return to historical levels as we have revenue growth come back to our business.

Adjusted EBITDA: As I said earlier, we're happy with the delivery of \$60 million. It's pretty much in line with consensus, still slightly down versus a year ago — a year ago was our high watermark, of course — and down for all the reasons I said due to the headwinds.

But again, if you look over the course of the last five years, we're up 70% over that horizon. And as I said earlier, with the operational efficiencies, the consolidation of our network that we've completed, and the return to revenue, you'll see that turn into a nice kind of virtuous circle, as we call it, where margins will improve. Not a lot of restructuring in our plans, so you'll see a natural improvement in EBITDA as that revenue comes back into our mix.

James, free cash flow?

James Lorimer

We had a solid year in terms of free cash flow. We delivered \$13.4 million, up about 145% over last year. A lot of the CapEx that we invested in, particularly in 2024, to modernize and upgrade some facilities following the MCC acquisition and integration is largely behind us. So we see CapEx being at similar levels to what we saw in 2025 going forward.

Solid balance sheet: We continue to pay down debts, our leverage is just below 2 times net debt to EBITDA at the end of the year, and that's down 2.2% on a net debt basis compared to last year, and significantly almost 50% since the MCC acquisition. And this is complementing the returns to shareholders that we completed last year.

Credit facility: We have solid lines and certainly a good balance sheet to pursue M&A activity and continue our capital return plans.

Richard Kellam

So supporting a comment that I made earlier about our productivity improvements and our headcount — rigorous headcount management — you can see in this chart productivity has improved considerably. Headcount was down 4% this year and our headcount is down 22% over the last three years.

And you can see that our SG&A, as I mentioned earlier, is down 9% or \$7.8 million. So good job controlling the controllables, and continuing to manage productivity, effectiveness, and efficiency of our teams. So really pleased with the progress we made there as a as an organization. You can see that our percentage on SG&A is down below 18% now, which is what we put in the plan a couple of years ago.

James Lorimer

From a capital allocation perspective, we deployed \$21.8 million in capital last year. That included special dividend that we announced in the first quarter of last year as well as regular recurring 2½-cent-per-share dividend. You can see that the total capital deployed of \$21.8 million is up over last year, but a big portion of that is dividends and we commenced a normal course issuer bid last year in June.

When aggregate, we did return approximately \$17.6 million of capital through the special dividend and the quarterly dividend paid out last year, as well as about \$1 million worth of share repurchases. In current trading levels, we're trading about a 6.8% dividend yield.

Richard Kellam

Okay — moving on to 2026, which we're well into now, obviously. Some of the outlook early signs — certainly some early signs of market stabilization. Demand trends are beginning to stabilize. Obviously the Canada Post disruption is behind us and we're starting to see clients now returning to some of the discretionary mailings that they were doing. Personalized direct mail is an example. We're starting to see that return into the business mix this year.

And then we've got a lot of new business activity. Some of the work that we did last year that I said is longer-term and longer time to revenue will start flowing through into our business this year, as well as some good, what we call 'horizon one' — in- year revenue opportunities that the team is working to deliver as well.

We like to say that execution is a strategy, so we will stay relentlessly focused on execution. Still a little uncertainty around tariffs, but we know how to mitigate and manage through that.

And then as James mentioned earlier, we do have a very strong balance sheet and cost discipline to provide us with that resiliency and flexibility as we progress through the year.

Our priorities for 2026: These are four key priorities for us throughout the business. One is to maintain a high revenue retention rate — I said there's no regrettable losses in our business — and execute on new customer development initiatives, as well as opportunities to land and expand some new clients as well.

Second is to improve gross margin through our business mix. Through our operational efficiencies, which we've done a great job at and there's still even more levers we can pull. And obviously that gross margin will improve as we see revenue growth come back into our mix. And through our digital acceleration. You saw the over 4% growth last year. We see a lot more growth opportunity in our business there, and that digital portfolio is at a higher margin as well, so that obviously improves our mix.

The third priority is to generate strong cash flow and continue to deliver capital returns to shareholders and continue on our debt repayment.

And then finally, as I mentioned earlier, leverage the current market environment to be opportunistic on M&A. And we've got a good pipeline that we're working through right now. So some interesting opportunities that we're certainly considering.

So our key theme is really to focus on profitability, on cash flow generation, and continue to work on leadership opportunities in the sector, and obviously business development and business growth and opportunistic M&A, to summarize.

So a lot of priorities. We're well-positioned in the current environment. As James said and I've said a couple of times, we've got strong operating performance certainly in uncertain and unpredictable environments. Seeing a little bit more predictability this year. We've got solid cash flow generation. We've got very good new business development activity levels and pleased with the horizon 1, one horizon 2 activities that are the funnel right now. We certainly have a solid track record of execution. We know how to integrate, restructure, manage overheads and we do know how to manage revenue acceleration in positive environments of course, and we're certainly going to be seeing that this year.

M&A, we already talked about. We've got a very good and experienced leadership team. It's been around for a while. I'm 5 years as of a couple of days ago. So certainly an experienced team around me as well with many more years, and we're well-capitalized with excess available capital to pursue opportunities in the market.

So that's where we're going in 2026 and the year '25 is behind us. We'll now turn it over to Q&A.

James Lorimer

Thanks, Richard. We'll now take questions from the audience. If you have a question and are accessing the call through Teams, you can use the raise-your-hand feature and we will queue up questions. Alternatively, you can also use the chat feature and we'll respond to chat questions as well.

We will unmute your mic when we queue you into the call.

I have a first call from Noel Atkinson.

Richard Kellam

Hello.

Noel Atkinson

Hi, it's Noel Atkinson from Clarus. Good morning, Richard and James. Thanks for taking our questions. That's a good overview. Just in terms of your 2026 outlook, that sounds a little more rosy than perhaps what you were talking about 6 months ago for '25. You know, we're most of the way through Q1; how is business activity or sentiment been so far in Q1?

James Lorimer

Yeah, we can't talk specifically to Q1, Noel, just cause we're, you know, pretty well-advanced there. But overall, we are seeing a little bit of a stabilization. We are still seeing some headwinds in the economy. But a lot of the key macro things that Richard talked about, we're optimistic that as we get through the year, we'll start to see a little bit of a bounce-back.

Canada Post, which Richard alluded to: There, the unions are voting over the next short little while, so the proposals have been sent out to the union, so we're optimistic that will be supported. So certainly expect some kind of bounce-back there as well as in some other sectors that were a little bit quieter last year.

Richard Kellam

We've also secured some recent RFP wins, Noel, that will come into our business later in the year, but we've been quite successful recently on securing some recent wins in the marketplace.

Noel Atkinson

Okay, great segue to my next question. So Transcontinental, in their most recent quarter, were talking about price concessions that they've had to eat in their remaining printed publishing business. Are you guys also having to compete more aggressively on price or are you seeing existing clients being more price-sensitive as we go into '26?

Richard Kellam

There was definitely a lot of price sensitivity in the market even in 2025, Noel, and especially on the commercial print side where there's you know capacity and capability in the marketplace. So we had to compete more aggressively on commercial print. When I say commercial print, think of the low-skew, long-run business.

But certainly, yeah, there is some pressure on price, but it's more acute, I'd say, on that commercial print area. Where we bring value — obviously where there's digital solutions that manage workflow for a client, or we're well-embedded in tech-enabled solutions, that isn't under the same margin pressure obviously.

Noel Atkinson

Okay, great. Then one more quick one. So you mentioned AI and you're using it for productivity internally and that's great. You know, we've seen media reports of sort of dislocations in search engine marketing and like paid search and organic, from having AI agents, and in which the search engine results such as Google Gemini. So are you seeing any clients that are responding to this by moving more budget back into print or other solutions that you guys offer?

Richard Kellam

We're not seeing that yet. Certainly, you know, on personalized loyalty or personalized direct mail — certainly, there was a move to digital during the postal strike, but we know that digital doesn't convert at the same level as physical. Physical is tough to ignore. And we're now seeing clients move some of their budget back into the physical. That isn't necessarily related to AI.

I think what you're referring to really is on the search side, right?

Noel Atkinson

Yes, yeah.

Richard Kellam

On the marketing automation side — you know, we've learned a lot about marketing automation and search automation. If you go to our website — datacm.com — you can see we have a whole new site we put to market. That site was generated using AI. All the imagery is AI-generated imagery, and all the copy was developed using AI, and we optimized that for search — for Gemini search, for AI search essentially.

So we're delivering a lot more natural leads as a result of the optimization we did on our site. So we've certainly learned a lot about how to optimize AI.

I know I'm not answering your question clearly, because we're not experiencing — what you're saying is, if you're not getting noticed and searched, you start redirecting some of your budget back into print. Hard for us to account for that, Noel.

Noel Atkinson

No, that's fine. Just wanted to see if there's any other indications on that. So, okay, that's it for me. Thank you so much.

James Lorimer

Great. Thanks, Noel. We have a question from Daniel Rosenberg, please.

Go ahead, Daniel.

Daniel Rosenberg

Hi, good morning. Can you hear me alright?

James Lorimer

Yeah, I did.

Daniel Rosenberg

Okay, great. Thanks for taking my questions. So the first one: I was just curious around your various revenue lines. What do you view as the opportunity set around these lines from a growth perspective? Like where are you allocating? Your resources from a segmented basis when you think about the potential returns you could garner for the overall business.

James Lorimer

If you look at our segments as we report them in our financial notes, Daniel, you'll see that the kind of declines we saw overall in our business were led by our product sales. So that's for the most part printed material. So that's certainly a big area where we see opportunities to stabilize and see some return to growth.

Warehousing and freight were tied to lower volumes there, and some of the larger client declines that we saw last year are also clients that use freight and warehousing services.

So as we expect to see product sales improve, we should also see a little bit of an uptick in warehousing and freight as well. And there's a lot of kitting and fulfillment- type projects that are using our warehousing space and we're fulfilling products on a on a regular basis to most of our large clients.

Another area: technology hardware — that's an area that that can be a little bit lumpy. We have some interesting projects that are in the pipeline right now, so not always easy to predict that because they can be kind of lumpy in terms of when programs run. But we see opportunities there in our tech hardware. Traditional hardware has been printers, scanners, different applications used primarily in the healthcare sector and distribution centres for our clients. So we see that market as having good opportunity.

The new market that we've included and had some success in — that rolls into tech hardware — would be digital screens. And we've got a couple of interesting programs that we're working on in that area as well.

And then the other big bucket: tech services. Richard talked about that earlier. That was up about 4% year over year. Well the product sales were down. So nice to see some continued strength in that sector.

Does that help?

Daniel Rosenberg

Yeah, that's great. Thanks for that colour. So I guess in that answer I'm to understand like, I'm just looking at your inventory levels: They came down quite a bit when we think of kind of a multi-year view, but that's just tied to the macro product sales.

Maybe could you talk through some of the working capital changes that may not repeat next year versus '25?

James Lorimer

Yeah, sure. We had a a very strong focus on inventory management throughout the year. Certainly part of the decline was due to lower sales, but another part of it was due to better management, and our procurement team's done a great job. In a couple of cases we've entered into some consignment-type opportunity or consignment inventory relationships with some vendors where we just have faster, better access to inventory on hand, and it's not on our books.

We've also made a pretty focused effort across all our plants in reducing inventory that that's held there. So we'll probably see some continued tweaks to inventory over this year. Definitely some intentional improvements there, not just the unintentional through the lower sales.

Daniel Rosenberg

Okay. So then looking forward, a consequence of some of these moves you've made historically is improving cash generation profile. So you know, maybe Richard, could you speak to kind of what excites you about — when you think about the coming 12 months, having that added capital and where you could put it to use.

Richard Kellam

I mentioned M&A. There's some interesting opportunities in the marketplace that we're looking at or considering in the in-store marketing space and in the labeling space and packaging space as well, which all play to our strengths. So that's where capital could go to good use.

Obviously we want to prove to the market, to ourselves, that we can return this business organically to growth, but at the same time obviously consider some strategic M&A opportunities to continue to accelerate our position in the marketplace.

Daniel Rosenberg

Okay, great. Thanks for taking my questions. I'll pass the line.

James Lorimer

All right. Thanks, Daniel.

We have a call from Chris Thompson. Can you let him in please?

Hi Chris, I think you should be good now.

Chris, do you want to try it?

Chris Thompson

Can you hear me now?

James Lorimer

There we go. Yeah. Good morning, Chris.

Chris Thompson

Oh, great. Thanks. I just wanted to — most of my questions have been answered. Sorry, it's Chris Thompson from eResearch. Thanks for taking my question. Just wanted to talk a little bit about your margin compression in relation to the content — your new AI platform — to see how you know we should expect that sort of margin. It's come down a bit and how it will react to your new software, which should be a higher margin business.

Richard Kellam

The gross margin compression that we experienced in 2025 was directly related to that revenue headwind. So as we see that revenue headwind turn into a tailwind, we see revenue come back into growth. We'll see that margin naturally increase.

We've also done a very good job from a procurement perspective to look at and discover lower-cost raw materials globally. Tariffs kind of pushed us into that opportunity. So we'll see that. So those raw materials will flow into our business as well, you know, depending on the vertical to the product type — raw materials can be anywhere from 20% to 80% of cost of goods obviously. So improving and securing better and cheaper raw materials obviously have a direct impact.

And then you're absolutely right: As we continue to expand our mix on digital — digital is a much higher-margin business than conventional print. As well, as when I say digital, pure play digital — so some of our SaaS solutions. As well, when we enable print workflow with technology, that print workflow is a higher margin business because it's supported with technology.

So that's absolutely our strategy: tech-enabled solutions and pure play SaaS solutions for clients, as well as driving that core margin with better raw material purchasing, operational efficiencies, and we've got a clear pricing methodology in the marketplace as well.

Chris Thompson

Okay. Thanks. That's great. Yeah, the rest of my questions were answered. So thanks all.

James Lorimer

Okay, right. Thanks, Chris.

We have a question in the chat here from Sahil Jain. With the recent financial performance, is management considering any additional shareholder returns such as a potential special dividend?

So Sahil, at the present time, no. You know the board is always open and assessing opportunities. But our current dividend policy is — you saw the 2½-cent-per-share dividend that we declared last night and the plan would be to continue that on. And certainly as we get through this year and next year, our board will consider different capital alternatives. And certainly in the mix there is also M&A as possible opportunities for capital deployment.

I believe that's the end of any questions. So thanks everyone for dialing in today and joining our call and for your continued interest in DCM. Richard and I are certainly available after the call for any follow-up questions that you might have. That concludes our call this morning and I hope everyone enjoys the rest of your day. You may now disconnect your lines.

Richard Kellam

Thank you.