

Q1 2026 DCM Earnings Call – Meeting Transcript

May 12, 2026

James Lorimer

Good morning, ladies and gentlemen. Thank you for standing by and welcome to the DATA Communications Management Corp. First Quarter 2026 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 Chief Executive Officer.

Following our prepared remarks, we will be holding 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'll remind everyone that we will be referring to forward-looking information on today's call. This information is subject to certain risks and uncertainties as outlined in our forward-looking information disclosure in our recent 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 the post-view recording and transcript.

Our detailed information is also available on our website and SEDAR+. Please follow us on LinkedIn and keep up to date with other business developments. I'll now turn the call over to Richard.

Richard Kellam

Thank you, James, and good morning. And I know we have a couple of shareholders joining us from other time zones, so good afternoon, good evening.

Okay, I want to take you through 10 points in the quarter. Overall, we delivered results that are pretty much in line with what we had forecasted and what our expectations for the quarter were.

Point #1 on revenue: We had some revenue headwinds decline at minus 5%, although we planned for them because we had a higher comp a year ago. We planned for minus 3, minus 4, so pretty much in line with what we planned. And as the quarter progressed, we saw a slower start and an increase towards the end of the quarter, as well, and certainly the declines have decelerated vs a year ago. So overall positive in what we planned.

On new business development, we had really a record quarter in terms of bringing in new logos, over 40 new logos on the quarter, equivalent to \$4 million in annualized revenue. And I'll take you through a few details on that in a minute.

Our technology services continue to shine, up 7.4%, and technology hardware up 64%. Again, a little bit more detail as we unpack the deck here.

Adjusted EBITDA: very, very strong at \$19.1 million. We went back a number of years, and that is a record EBITDA quarter for us: 16.3% of revenues vs 18.6% a year ago.

Net debt down to \$66 million, so down 27% over a year ago and down 14% vs year end. So good positive progress there. Again, we'll take you through it in a little bit more detail.

Our adjusted net income up 11% to \$5.8 million vs a year ago.

Very, very strong free cash flow. You can see in this chart that we were positive \$10.7 million vs negative \$7.4 million a year ago. So just over an \$18 million swing on free cash flow. So very solid momentum there.

We continue to drive hard on productivity improvements. You can see that our SG&A was down \$3.7 million. On the quarter, we're below 17%. So at least a point below what we forecasted: 16.9% of revenues vs 19% a year ago.

Adjusted earnings per share basic at 22%, and diluted — I'll take you through a little more detail on this when we get to slide 9 — up 11%.

Return of capital, \$1.7 million to shareholders — again, a little bit more detail. So overall, a very good quarter financially, and pretty much what we forecasted from a revenue standpoint with a slower start as planned and good momentum as we exited the quarter.

Okay, so now a little bit more detail as we progress. Total revenues in line, as I said, trending positively as the quarter progressed. And we're expecting to see that continue.

Point #2: As I mentioned, our team is all in on new business development and what we call Horizon One. So in-year new business development — not that we're not focused on Horizon Two and Horizon Three, the next two to three years as well, but lots of focus on in-year, picked up over 40 new logos all in the quarter. So all these landed in the quarter, but \$4 million of expected annualized revenue. And if we look at our pipeline and our forecast and our run rate combined with the run rate we had in quarter one, we're forecasting somewhere between 3.5% to 5% of annual revenue coming from new business in-year.

So very positive momentum and a great start. Our commercial team is doing a fantastic job at delivering new business in the marketplace.

Point #3: I talked about our tech-enabled services and hardware. If we combine those two business units, we are up 20% in aggregate to \$10 million. And this now represents 8.5% of our total revenues. So the highest representation of total revenues that we've ever delivered.

And we split that apart into technology and subscription services. That grew by 7.4%. So those consist of things like our DCMFlex platform, our contentcloud digital asset management solution, our Zavy

social media analytics and social media management platform, and our customer communications management platform CCM360. So good momentum on the technology subscription services.

And then on our technology hardware solutions, we are up 64%. A couple of highlights there. We had some really good momentum with a couple of regional healthcare providers in the PPI space — in the positive patient ID space — as well as a couple of retailers in mobile devices. So some very good momentum there, and we're going to see that continue as well. Lots of very interesting and solid technology-enabled hardware solutions opportunities in our pipeline right now.

Over to James to talk about EBITDA.

James Lorimer

Thanks, Richard. In the quarter, we reported \$19.1 million of adjusted EBITDA. That was up about a half a million dollars compared to what we did last year at this time. We went back a number of years, and not only is this kind of the strongest EBITDA quarter, we've reported — we don't have to go back too far before the MCC acquisition when we were lucky to do \$19 million in a full year. So pleased with that result, kind of a combination of managing our overheads and good management. We also want to point out — I think everyone that follows the company knows this — but the first quarter is typically a seasonally stronger quarter for us, as evidenced by this quarterly chart going back to the last couple of years. But we also reported 16.3% EBITDA margin, which is also a record high for us. So very pleased with that result.

Further, net debt came in at about \$66.4 million. Pleased with that — that's down significantly, of course, since the acquisition of Moore Canada about three years ago.

Also, importantly, our net debt to adjusted EBITDA came down. The actual number is about 1.65 that you'll see in our detailed tables are rounded to 1.7 here. But that's a full kind of multiple turn down from the pro forma leverage we had in the business at the time of the Moore acquisition. So definitely positive contributions from free cash flow generation here.

Adjusted net income also came in at a recent record high, \$5.8 million. That's up about 11% vs a year ago. And our adjusted net margin came in at 4.9%, which is also a recent record high for us as well. So pleased with that.

Free cash flow: Last year, our cash from operations after changes in working capital was negative \$4.2 million. We saw a big swing there. A big contribution was certainly from working capital. And based on timing of payments and receivables, et cetera, contributed to a strong operating free cash flow in the first quarter of this year compared to last year. And as a result, our free cash flow generated in the quarter — which we define as cash from operations after changes in working capital, less capital expenditures, and less lease principal payments — came in at \$10.7 million. And as Richard mentioned, that's over an \$18 million swing from last year.

Richard Kellam

Thank you, James. We look at this chart, talk about SG&A. Our SG&A is down \$3.7 million vs a year ago. I'm really actually proud of the team on how the team continues to drive productivity — doing more with less, which is our strategy, and the team's doing a fantastic job. You can see that we're at 16.9% of revenues, matching recent lows.

So we've had three quarters now where we're kind of below that \$17 million mark, if you look back over the last five or six quarters. So great job there. If you look at the chart on the left, our SG&A expenses were \$19.8 million, so down 15.4 percent vs a year ago. And that's just, as I said, a result of the team doing more with less, driving productivity, managing headcount effectively. So great job there.

And if you look at our active employee count, continues to decrease. We're down to 1448 and our revenue per head is around \$307,000 or \$308,000 per head. So good progress. We're down 22.6% in headcount vs the MCC acquisition.

Adjusted earnings per share: Coming back to my summary slide, up 22%. If we look at basic, so non-diluted, that's 55 million shares in our share count. And if we take any options that are in the money, it's about 56.4 million shares. We're up 11% on EPS, on a fully diluted basis. So some good progress there given the high earnings that we delivered on the quarter.

And then looking at return to shareholders, return of capital, we returned \$1.7 million, a quarterly dividend of 2.5 cents. That's a 6.2% yield, so a solid yield. And we repurchased 157,500 shares in the quarter as well. And we will continue to do that as we progress through the year. So good return for shareholders on the quarter.

Okay, so having a look at some priorities and a little bit of an outlook for the rest of 2026. Priorities: We are going to continue to maintain a high revenue retention rate. We have had no material losses in clients. We've had a great start to the year. And we're going to continue to execute on this new business development initiative, especially focusing on Horizon One or in-year revenue opportunities. And it continued to improve gross margin through our business mix. You know, I often say to the team, business is very simple: Find out where you make the most money and sell more of it. So we're certainly focused on that. We're going to continue to drive operational efficiencies. You saw that in the SG&A, but that's right across our entire operational organization.

And of course, drive digital acceleration where we have a naturally higher margin, so that helps the mix significantly.

We're going to continue to focus on strong cash flow and continued capital returns and continue to drive that debt repayment as well. And finally, we're going to leverage opportunities in the market for any opportunistic M&A. It's an interesting market right now, so there's certainly things we're looking at. But they've got to be right and they've got to fit to what our priorities are. So some good opportunities that we're considering.

Okay, a little bit of an outlook for 2026. Early signs of market stabilization. We're seeing demand trends that are beginning to stabilize. We certainly saw that as we progress through the quarter, and as we exited last year as well. Most of our business units are in positive growth, so are returning to

growth. We cut our business by vertical, we cut it by customer, we cut it by operations or factory, and we cut it by leaders. We're seeing a majority of those now returning to growth.

And as I said earlier, our new business activity is outstanding and certainly a solid, solid pipeline.

Obviously we remain very focused on execution. The macro environment certainly is somewhat uncertain, shall we say. There's a Canada Post vote that is happening now. It was kicked off on April 20th, and it has to conclude by May 30th.

And so that is still questionable, although we're expecting that the vote will be favourable, but we don't know.

We've obviously got the CUSMA trade negotiations that will be happening this summer. We've got elevated fuel costs that's certainly affecting freight and some key clients, especially in airlines. We've got raw material pricing and supply chain impacts, which are obviously causing raw material increases — price increases that we're having to pass through.

But we're prepared to respond. We've got a good, solid plan. I think we've proven that over the last couple of years. We know how to respond to any headwinds. We do have a good plan. The team's organized for success if we get any of these headwinds. And of course, we've got a strong balance sheet. And we've got some very good cost discipline to provide any resilience or flexibility if we do get those headwinds, or any extreme headwinds at least.

Okay, so that is our quarter. As I said, you know, a good solid quarter. We're expecting to deliver good momentum as we progress through the year. And now I'll turn it over to any questions.

James Lorimer

All right, thanks, Richard. We'd now like to take questions from the audience. If you have a question and are accessing the call directly through Teams, you can either use the raise your hand feature in Teams and we'll queue up questions. Or alternatively, you can also use the chat feature and we will respond to chat questions as well.

Please unmute your mic when we let you into the call, or we can help you with that as well if you have troubles with that. So please introduce yourself once you've joined the session, and we'll now take some calls.

Looks like I have a question from George.

George

Yeah, good morning, guys. This is George from Clarus Securities, dialing in on behalf of Noel. Just a quick question here. You guys have touched on this, but can you give us some colour on which customer verticals have the strongest momentum exiting Q1 and which product or service categories are showing the most strength as you guys move into the second quarter?

Richard Kellam

Yeah, I can take the first bit of that, you pick up the second. From a vertical standpoint, we're seeing very strong momentum in retail, in transportation, in manufacturing, in QSR, and in lottery. And we're still seeing a bit of a softer start in FI, and a softer start in Q1 in healthcare. But we're seeing a very positive return in healthcare in Q2. And we're certainly working hard to turn the FI in quarter two and quarter three as well. So in the majority of our verticals, positive growth.

Of course, we've got a couple of big ones, one big one in particular in FI that had some headwinds in quarter one. But we put some new leadership in place and we're expecting to see that turn. So that answers that question.

The second part of the question, where are we seeing it from a product type? James, you can pick up on this if you like.

Solid growth on labels, solid growth on our large format. So think of in-store media, in-store execution. We showed you the growth in technology. We have pretty steady, kind of flat on what we call our BCS business, so that's transactional mail.

We still have a few headwinds on personalized direct communication. That's probably due to clients waiting to understand what's going on with the postal strike.

And then some of the conventional FI — the forms that we do. We're certainly seeing a little softness there.

James Lorimer

Yeah, I think you did mention the lottery vertical is strong. And so lottery, thermal rolls that we produce for the lottery industry — we're seeing some positive momentum there as well.

George

Got it, got it. Well, thank you guys. That's helpful. That's it for me.

James Lorimer

Right, thanks, George. We have a caller, Thomas.

Thomas

Hey, good morning, James and Richard. Thomas here calling from Paradigm Capital. My question is just on the cash flow. It's nice to see it pick up considerably this quarter. But we do typically think of Q1 as a working capital outflow quarter. So maybe if you can walk through how we should think about that as we go forwards. Maybe is it more of like a permanent efficiency gain there?

James Lorimer

Yeah, good question, Thomas. You know, we did benefit in the first quarter. I think Richard talked a little bit about the slope of our revenue through the quarter, and it was a little weaker in the early month and kind of accelerated through the balance. We actually had some pretty strong collections in the kind of latter part of the quarter, which helped in terms of our ability to pay down our line. We will probably give a little bit of that back in the second quarter, but other big initiatives that we have are related to inventory reduction. I think you'll see that our inventory levels came down a little bit in the quarter. We're continuing to focus on that.

And then we had some fluctuations in our payables as well. We're certainly looking to try and extend some of our terms just to continue to manage our strong working capital. But overall, kind of pleased with the number. Our revolving line of credit certainly benefited from the cash inflow, and so you'll see that down in the quarter. We will probably see a little bit of increase in that in the second quarter, but on balance, I think for the year, we're kind of comfortable with continuing to drive free cash flow through the balance of the year.

Thomas

Okay, great. That's very helpful. And then next, just on the M&A front, I'm just curious what you guys are seeing out there, like are valuations becoming a little bit more favourable? And just in general, with the integrations complete, how are you thinking about capital allocation priorities?

James Lorimer

Sure. Yeah, I guess two questions. Maybe let me start with the environment there. We're seeing a number of opportunities, both in our core print areas. So, I'd say areas that we're particularly interested or looking at are a couple of the sectors actually that Richard mentioned, like large format and labels, where we see good growth profiles in the industry. We're seeing some more opportunistic company opportunities in commercial print and direct mail, for example.

We're also seeing some, and I'd say multiples in those areas of — I don't know that they've really come down, but there's just a lot of opportunities. So we're trying to be very selective in terms of what we focus on.

You know, the better companies tend to have a higher multiple, and in some areas where there might be something that's particularly strategic, we might stretch a little bit on the multiple, but otherwise we're being pretty practical in terms of kind of the multiples that we're looking at.

Second part of the question.

Richard Kellam

Well the second part is, are we ready for M&A? And I think the answer is yes.

Yes, all of our integration work posed a pretty heavy lift acquiring MCC and integrating Moore Canada Corp. But we now are fully integrated. As our shareholders know, we've consolidated our footprint;

closed 4 factories; we now have one integrated ERP and MRP system across our entire network, which is a heavy lift. That's all behind us now. So we're in a very good position to look for opportunities in the market for some acquired growth. At the same time, we work hard to drive that organic growth.

Thomas

Great, that sounds good. Thank you. And just my last question on the macro picture. I know everybody's a little bit confused right now, lots of volatility. Just curious what you guys are seeing from customers and their spending decisions. Is it having an impact at all, especially regarding rising fuel costs?

That's it.

Richard Kellam

Yeah, a great question. We're actually not seeing any significant pullback in budgets at this point, other than, as I mentioned, a little bit of waiting to see what's happening with Canada Post. So clients not producing mail that may be time-stamped that they can't mail.

Other than that, we're not seeing any pullback. We're seeing pretty positive sentiment in the market — at retail, at QSR, at manufacturing. Transportation, of course, we're getting some fuel surcharges that we're successfully passing through to clients.

But no real uncertainty. And back to a point I made earlier: lots of opportunities for new business development in the marketplace. Now that we can focus on that, given our all of our integration and heavy work is behind us and we're delivering good results there. So even if there are some minor economic impacts, we feel we've got a good new business pipeline now. Major, of course, you know, anything catastrophic — if CUSMA is not settled; if the Canada Post strike actually happens — those are sizable impacts to a business like ours that does a lot of mailing and moves a lot of packages and labels through a Canada Post network, as an example.

James Lorimer

And I might add, Richard alluded earlier in his closing remarks in the presentation that we are seeing price increases pretty much right across the supply chain, both in paper, inks, and consumables, and largely that's related to oil prices, et cetera, and the byproducts that end up in some of the material that we use.

We haven't seen at this point any supply disruptions or challenges. We're certainly monitoring the situation very closely, but we're also preparing our clients for price increases across kind of the product spectrum that we have.

But to Richard's point earlier, despite that, we haven't really seen any significant pullback in orders or planning from our clients.

Thomas

Sounds good. Congrats on the quarter and I'll pass the line.

James Lorimer

Okay, thanks. It appears we don't have any further questions. So thank you, everyone, for joining our call and your interest in DCM. As a reminder, Richard and I can be available after the call if you have any follow-up questions. That concludes our call this morning. Hope everyone enjoys the rest of your day, and you may now disconnect your line.

Richard Kellam

I just want to say one thing before we close the call. I just want to thank all of our associates at DCM for an outstanding job — great, incredible engagement, and appreciate the efforts that everybody puts into delivering this success. So thank you, and thanks to the support of our shareholders — their ongoing support as well.

Thank you.