

DTST Earnings Call Transcript

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Quarter: 3

Operator: Greetings, and welcome to the Data Storage Corporation Third Quarter Earnings Conference Call. [Operator Instructions]. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Alexandra Schilt, Investor Relations. Thank you. Please go ahead.

Alexandra Schilt: Thank you. Good morning, everyone and welcome to Data Storage Corporation's 2025 Third Quarter Business Update Conference Call. On the call with us this morning are Chuck Piluso, Chairman and Chief Executive Officer; and Chris Panagiotakos, Chief Financial Officer. The company issued a press release this morning containing its 2025 third quarter financial results, which is also posted on the company's website. If you have any questions after the call or would like any additional information about the company, please contact Crescendo Communications at (212) 671-1020. Before we begin, please note that today's call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially due to various risks and uncertainties described in the company's filings with the SEC. Except as required by law, the company assumes no obligation to update or revise forward-looking statements. I'd now like to turn the call over to Chuck Piluso. Please go ahead, Chuck.

Charles Piluso: Thank you, Alex. We appreciate everyone joining us today. First, I want to acknowledge the delay in the reporting of our financials. We require additional time to finalize the accounting adjustments related to the sale of our CloudFirst subsidiary, and the team worked diligently to complete this as quickly as possible. However, we're happy to be here with you today to discuss our results and our strategy moving forward. This quarter represents a defining period for Data Storage Corporation as we completed the sale of our CloudFirst subsidiary, and repositioning the company for its next phase of disciplined growth, what we call DSC 2.0. The CloudFirst sale completed on September 11, 2025 was a significant milestone for our company. That provided strong financial foundation while simplifying our structure and allowing us to focus on long-term shareholder value creation. In addition, the Board of Directors established a special committee to oversee our tender offer and buyback process, ensuring full transparency and alignment with shareholder interest. Once the tender process is completed, we'll be able to determine our final cash position, which will reflect the balance after completing all buyback transactions. We expect to move forward shortly with the tender and also a plan to launch our new corporate website in the coming weeks to highlight the company's streamlined profile and future direction. Before discussing our broader strategy, I'd like to turn this over to Chris Panagiotakos, our CFO, for a review of our financial results. Chris, take it from here.

Chris Panagiotakos: Thank you, Chuck. Good morning, everyone. As Chuck mentioned, on September 11, 2025, we closed the sale of our CloudFirst business for \$40 million. At the time of the sale, CloudFirst was projected to generate approximately \$25 million in annual revenue and \$5.5 million in EBITDA with no debt. As a result of the transaction and in accordance with auditing and reporting standards, our ongoing financial reporting now reflects only our continuing operations, specifically our Nexxis subsidiary. Sales from continuing operations, which consists of our Nexxis subsidiary, were \$417,000 for the 3 months ended September 30, 2025. An increase of \$92,000 or 28.2% from \$325,000 in the same period last year. The increase was primarily driven by the continued expansion of our voice and data telecommunication solutions to new and existing customers. Sales from our continuing operations were \$1.1 million for the 9 months ended September 30, 2025, an increase of

approximately \$159,000 or 17.6% from \$900,000 in the same period last year. The increase was primarily driven by an expanding customer base in our Nexxis Voice and Data Solutions business. Selling, general and administrative expenses for the 3 months ended September 30, 2025, increased \$313,000 or 31.8% to \$1.3 million from \$984,000 for the 3 months ended September 30, 2024. The increase was primarily driven by an increase in noncash stock-based compensation, primarily related to the accelerated vesting of equity awards in connection with the divestiture which triggered a fundamental transaction cause in the equity award agreements with employees as well as an increase in salaries and directors' fees due to the annual merit-based adjustments. These increases were partially offset by a decrease in professional service as certain legal and consulting projects from the prior year were completed. Selling, general and administrative expenses for the 9 months ended September 30, 2025, increased \$376,000 or 13.1% to \$3.2 million from \$2.9 million for the 9 months ended September 30, 2024. The increase was primarily driven by an increase in noncash stock-based compensation, primarily related to the accelerated divesting of equity awards in connection with the divestiture, which triggered a fundamental transaction cause in the equity award agreements with employees as well as an increase in salaries and director fees due to the annual merit-based adjustments. These increases were primarily offset by a decrease in professional fees as certain legal and consulting projects from the prior year were completed. Net income attributable to common shareholders for the 3 months ended September 30, 2025, was \$16.8 million compared to net income of \$122,000 for the 3 months ended September 30, 2024. Net income attributable to common shareholders for the 9 months ended September 30, 2025, was \$16.1 million compared to net income of \$235,000 for the 9 months ended September 30, 2024. The significant increase in net income for the 2025 3- and 9-month period was primarily driven by the gain recognized on discontinued operations. We ended the quarter with cash, cash equivalents and marketable securities of approximately \$45.8 million at September 30, 2025. The compared to \$12.3 million at December 31, 2024. However, as Chuck noted, our final cash position will depend on the outcome of the tender offer and share buyback process, which will commence shortly. Thank you, and I will now turn the call back to Chuck.

Charles Piluso: Thank you, Chris. The sale of CloudFirst was a transformative event for our company and our shareholders. It allowed us to unlock value, strengthen our financial position and focus on building DSC 2.0, a streamlined company pursuing selective opportunities in high-value markets. Our near-term emphasis is on disciplined execution, prudent capital allocation and operational efficiency. We are currently exploring strategic acquisitions that provide recurring revenue streams within emerging areas, such as GPU-based computing, AI enabled infrastructure, cybersecurity, but we are approaching these opportunities carefully and strategically. They remain areas of active interest, not current commitments. Our Nexxis subsidiary continues to perform well and provides a stable recurring revenue base. We see ongoing opportunities to expand Nexxis organically and through targeted acquisitions that complement our communications and data services offerings. We are also in the process of forming a special advisory group composed of experienced leaders in technology, infrastructure and cybersecurity to help identify and evaluate strategic opportunities that align with our long-term growth objectives. In addition, we are actively engaging strategic consultants to ensure that every potential investment or acquisition supports our long-term vision of profitability and sustainable growth. Looking ahead, our priorities are to complete the tender offer and share buyback process, after which our cash position and capital allocation plans will be finalized. Launched a new corporate website reflecting the company's refined focus. Also to close on an acquisition that will provide recurring revenue and to continue to strengthen Nexxis, our core operating platform today. Our experience and disciplined management philosophy, combined with our NASDAQ listing, a clean balance sheet, no debt positions us to act decisively as we uncover opportunities to invest in while continuously focusing on shareholder value. With that, I'd like to open up the call for questions. Operator?

Operator: [Operator Instructions]. Our first question today is coming from Matthew Galinko of Maxim Group.

Matthew Galinko: Maybe firstly, can you just remind us on what the possible outcomes of the tender look like for your cash position? Like can you bound what the low end and high end might be?

Charles Piluso: Matt, that's difficult. I've run a number of models to see what that would be. And also having calls with some of our larger investors when we first announced the tender. I really cannot guess

on that. If we tended all, everything, the lowest end would be approximately, I think, around \$5 million. I'm estimating and then at the higher end, it could be between \$10 million and \$15 million. So I think it's in that range between \$5 million and \$15 million, but it's really -- it's too hard to really forecast that. There are really guesses with a low confidence level of what it could be. But we also have a \$10.8 million ATM that's also there if we find a right opportunity that by spending that money, we're actually increasing shareholder value and not diluting them and not increasing the value. So it would be nice to be left with at least \$10 million to \$11 million in the company. And then as we find the acquisition cap that ATM or otherwise. But we're not going to just do it to dilute everything. We're going to do it because we have a reason. So we are trying to create a funnel of potential acquisitions that we can get done. I mean, I'm putting the pressure to try to do something by the end of March. But the smaller company sometimes are not ordered it and have to get audited. So we're pushing us to create the funnel. We also found that about sub-\$5 million companies or sub-\$10 million is a problem. So we need to move upstream a little bit to \$10 million to \$20 million. We would do more than that if we saw someone that had the right kind of bank debt, not a poisonous debt, but actually not sure. So that was a long answer. If I had to guess, I would say, it would be great to be ending up with between \$10 million and \$15 million.

Matthew Galinko: Got it. No, I appreciate the color. That's very helpful. Maybe as a follow-up, just on a housekeeping question. But I know you mentioned there were fees that were nonrecurring in '24 compared to '25 and SG&A.; Was there anything in the third quarter SG&A.; that for '25, that was nonrecurring. So in other words, should we see SG&A.; come down in the fourth quarter as we move past the major part of the carve-out of the segment? Or are we still kind of -- is the third quarter SG&A.; number a good run rate to be thinking about?

Charles Piluso: Chris, do you want to answer that, Chris?

Chris Panagiotakos: So there were not any nonrecurring charges in the quarter. All the transactions associated with the sale were booked with the sale. So I think the Q3 number is a good number to use going forward.

Matthew Galinko: Got it. Very good. And then one more, and then I'll jump back in the queue. But with respect to the direction you go for acquisitions, I think you mentioned in the script that you'd consider doing a tuck-in or something small to bolster Nexxis. I'm wondering if that could end up being with some of the volatility we're seeing around expectations in the AI and infrastructure space and HPC, if kind of data and voice might be a quiet but productive use for deployment. So is there a scenario where you push harder exclusively into Nexxis? Or is that not realistic as a use of capital?

Charles Piluso: Let me answer it this way. John Camello does a fantastic job in running Nexxis. And he has a small staff that we continue to add to. The platform and the building that is on makes it very easy for us to go out and let's say, pick up a \$5 million VoIP company. Most of the VoIP companies have -- I'm not going to say all of them, but have maybe 40% of their revenue is in Internet access data services. And with that, you can pick that up, I think, at a decent multiple. Frankly, there's not a lot of loyalty with dial tone. So as long as you're doing a good job on customer service and dial tone exists. A lot of times, it's an easy base. I mean, many years ago, we did roll ups in telecommunications. So it's not far and technology has changed. So the multiples are not too high on it, and we are actually looking for VoIP and data access companies that are doing just what John is doing to be able to add to that base on that. And I think it's -- I don't want to use the word easy, but I believe that John can move from his \$1.5 million revenue to \$5 million rather quickly and \$5 million can go to \$10 million. It's not sexy on shareholder value, but we have running the pulp company we have some good expenses. I think our run rate in the public company is typically around \$2 million a year. So picking up loyal dial tone revenue and data circuits that John does can reduce or eliminate that burn. So yes, it is a good focus. And on the AI side, with GPUs, it's very volatile. You have companies that have \$750 million in revenue, and the valuation is \$16 billion. So we're watching, we have some ideas on that. We've been talking to folks but as to the Nexxis piece, yes, it's an easy one first because John has a great platform, great billing, and all of that for us to be able to do that. Actually, one of our board members that was in that business that sold that business to Magic Jack for a good amount is actually helping out, trying to line up some of the brokers for us to start talking to those VoIP and data access companies.

Operator: [Operator Instructions]. Our next question is coming from [Sean Lee] of Private Investor.

Unknown Attendee: Yes. Just curious about your position on the tender offer or the one that -- is it likely to happen or the probability of that happening?

Charles Piluso: Yes. Well, we stated that in the proxy when we did that. So we need to do the proxy. It's stated in there and we will be doing it. I believe that we have 90 days from close to get that actual done. So yes, that is going on. The special committee is evaluating with the price of that buyback should be for the per share but just that's happening.

Unknown Attendee: Thank you.

Operator: Thank you. At this time, I would like to turn the floor back over to Mr. Piluso for closing comments.

Charles Piluso: Thank you. Thank you for the questions. In closing, this quarter represents a turning point for Data Storage Corporation. The successful sale of CloudFirst provided both capital, strength and strategic clarity. As we advance our M&A; growth strategy, we remain focused on disciplined execution, operational excellence and shareholder value creation. We continue to evaluate new technology-driven opportunities that complement our history in enterprise infrastructure while maintaining conservative and focused approach. I'd like to thank our employees, our Board of Directors, advisers and shareholders for their continued confidence and support. We look forward to updating you on our progress in the months ahead. Thank you for joining today.

Operator: Ladies and gentlemen, this concludes today's event. You may disconnect your lines or log off the webcast at this time, and enjoy the rest of your day.