

QMCI Earnings Call Transcript

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Quarter: 3

Operator: Good day, everyone, and welcome to today's QuoteMedia Third Quarter Results Conference call. [Operator Instructions] Please note, this call is being recorded, and I will be standing by. It is now my pleasure to turn the conference over to Dave Shworan. Please go ahead, sir.

David Shworan: Thank you, and welcome, everyone. We appreciate you joining us today. Before we begin, I have a brief safe harbor statement. Except for historical information contained herein, the statements made in this call include forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks and uncertainties that could cause actual results to differ materially from those projected. And now we're happy to go through our 2025 third quarter results. 2025 continues to be a very successful year for QuoteMedia. We're growing, and this quarter clearly reflects that momentum. We've delivered a 10% year-over-year revenue increase and revenue rose 5% sequentially from Q2. This is a solid growth. And importantly, it is supported by several new contracts that will be starting next quarter. Looking ahead, we expect this momentum to continue, and we're forecasting even higher growth numbers for Q4. Our pipeline is strong, and we're in advanced stages on several new large proposals. We are busier than ever, both onboarding new clients and expanding our footprint with existing clients. We're also continuing to expand our products and our data across almost every category, and the response from clients has been overwhelmingly positive. I'd like to touch briefly on profitability trends. Our gross margin improved from 46% to 48%, and we expect our gross margin to continue improving as revenue grows and as amortization expenses trend downward over time. The same is true for EBITDA and overall profitability, which we expect to strengthen in coming quarters as the impact of previously capitalized development costs continue to diminish. In addition, our deferred revenue finished the quarter at \$2.2 million, which reflects strong contracted business that will be recognized in future periods. We're extremely proud of the progress we're making. The products are state-of-the-art. Our data is comprehensive and proprietary, and we continue to differentiate ourselves in a competitive industry. We're succeeding -- successfully winning business from large incumbents and our market position is strengthening quarter after quarter. It's all very exciting, and we believe that we're extremely well positioned for continued growth -- strong growth heading into 2026. With that, I'll now pass the mic over to Keith Randall to walk us through the financial details for the quarter. And after that, we'll be happy to take any questions. Go ahead, Keith.

Keith Randall: Thank you, Dave, and welcome, everyone. I'll start with the income statement. Note that all comparisons are on a year-over-year basis, unless otherwise noted. We had a 10% increase in total revenue compared to Q3 2024 and a 5% increase compared to Q2 2025. Corporate Quotestream revenue increased 18% and interactive content revenue increased 5%. These increases were driven by an increase in average revenue per customer as we continue to attract larger customers and cross-sell additional products to existing customers. Individual Quotestream revenue was relatively flat, increasing 1%. Our cost of revenue consists of fixed and variable stock exchange fees and other data costs and amortization of capitalized development costs. Our cost of revenue increased 6%, mainly due to increased variable stock exchange fees related to our increase in revenue as well as price increases for fixed stock exchange fees. Our gross margin percentage increased from 46% to 48% as the cost of revenue decreased as a percentage of sales. This was due to an increase in revenue as

well as a decrease in amortization expense related to capitalized development costs. We expect the gross margin percentage to continue to improve going forward as our revenue grows and the amortization expense continues to decrease as we capitalize less development costs. Our total operating expenses increased 11% for the quarter. Sales and marketing expenses decreased 5% due to a decrease in salary payroll. G&A; expenses decreased 25%, mainly due to a decrease in bad debt expense. The decrease was also due to a decrease in office rent expense as we downsized our office space in Vancouver, Canada when our previous lease ended in June. Since COVID, the majority of our development staff work remotely, therefore, we require less office space. Software development expenses increased by 74%. This was due to the decrease in the percentage of development costs capitalized versus expensed as we capitalized 4% this quarter compared to 26% in Q3 2024. The increase in development expenses was offset by the decrease in payroll expense resulting from the reduction in development personnel in December 2024. Our net loss for the quarter was \$367,000 compared to a net loss of \$441,000, an improvement of \$74,000. Our adjusted EBITDA was \$378,000 compared to \$367,000, an increase of \$11,000. While the accounting for development costs has no impact on cash flow, it continues to negatively impact our reported earnings. As previously mentioned, a smaller proportion of development costs was capitalized compared to prior quarters, resulting in a greater amount being expensed immediately. As development costs are amortized over a 3-year period, amortization expense remains elevated due to higher levels of development costs capitalized in previous periods, temporarily reducing our net income. But despite the negative impact of the accounting for development costs, our profitability improved versus Q3 2024. We expect gross margin, EBITDA and overall profitability to continue to improve in future quarters as our revenue grows and the impact of higher amortization expenses related to prior periods diminishes. Please refer to the reconciliation included in our press release for the calculation of adjusted EBITDA. Turning now to our balance sheet and cash flow statement. Our cash totaled \$281,000 at quarter end, which was a \$304,000 decrease from our 2024 year-end cash balance of \$585,000. Our deferred revenue totaled \$2.2 million at quarter end. The future costs associated with realizing that revenue is minimal as most of our deferred revenue relates to setup and development work already completed. Those setup and development fees have been deferred and will be recognized in future periods over the service contract to which they relate. Our year-to-date net cash flow from operations was \$832,000, while net cash used in investing activities was \$1.1 million, primarily due to spending on infrastructure and product development. Going forward, we expect our double-digit revenue growth to continue for the remainder of this year and into 2026. Also, as mentioned earlier, we expect our bottom line to improve as our revenue grows and the amortization expense associated with capitalized development cost decreases. Thank you, and I'll now pass it back to Dave.

David Shworan: Thanks, Keith. Okay. We'll now open up the call for any questions. So please let us know if you have any questions.

Operator: [Operator Instructions] And our first question will come from Michael Kupinski with NOBLE Capital Markets.

Michael Kupinski: Yes, a couple of questions. You mentioned that you believe that there will be an acceleration in the rate of growth in the Q4. And I was wondering if you were referring just to the year-over-year growth or were you referring to sequential growth? You mentioned that you saw 5% sequential growth in Q3. I was just wondering -- just to clarify what you were referring to there.

Keith Randall: That was year-over-year in terms of the double-digit growth.

Michael Kupinski: Yes. Okay. And then...

Keith Randall: We also expect quarter-over-quarter growth as well.

Michael Kupinski: Right. But not at the 5% level sequential...

Keith Randall: Well, it will be comparable to that -- quarter-over-quarter growth will be comparable -- I'm not sure if it will be exactly 5%, but Q4 will definitely be revenue growth -- the revenue for Q4 will definitely be higher than Q3.

Michael Kupinski: Got you. Okay. And in terms of that, can you just kind of give us a little color if that -- if you believe that growth is coming from increased number of customers? Or is that coming from increased average revenue per customer?

Keith Randall: Well, it's mostly increased average revenue per customer, but that's new -- that's a little

bit deceiving because it's new business coming in the door for existing customers. So basically cross-selling new products to existing customers will account for most of that.

Michael Kupinski: Got you. And then in terms of just kind of like the tone of the market and your -- and the competitive nature of the market, I was just wondering if you can just talk a little bit about that. And then if you can talk a little bit about, we went through a period of product development for the company to be a little bit more competitive with the products, and it seems like you're kind of gaining a little traction there. How do you feel about the product suites that you have right now in terms of your competitive position? Are there products that you feel that you may need to invest in to offer in the future to be a little bit more competitive? Or do you feel like your product suites are pretty much very competitive where you are?

David Shworan: So the product suites that we have, I think, are very, very competitive. There isn't a lot of investment that we have to make to expand on that. It's more internal. So it's more just doing more with the data. We're doing a lot of work with AI so that it can automate a lot of services that people are looking for because we own all of the data, that's making it perfect. It's making us very, very strong in the industry. But as far as product lines against our top competitors, we are definitely either neck and neck or better than them in many areas. And that's why we're taking away some of their business, which is great. Yes. So I think we're always developing and we're always adding. We're expanding on all kinds of different features and services and product lines and data sets that we're doing. But it's not like it's heavy investment anymore. It's just continuation of expansion.

Michael Kupinski: And you touched on my next question. I was just wondering in terms of AI, what are -- how are you using AI? Obviously, you have a lot of opportunities, especially as you look at utilizing some of your data reports and things like that. I was just wondering if you can just kind of give us some thoughts on how you're utilizing AI.

David Shworan: Yes. We've been -- well, QuoteMedia has been using AI for probably since the inception of it in some shape or form. So because we're doing a lot of the data collection, data normalization, all kinds of things like that, the AI has always kind of been there behind the scenes doing things for us. But as it gets stronger and stronger now, now we're having it do a lot more. And we actually have an AI department that's building out all kinds of advanced AI tools on top of all of our data for our clients. So it's things like taking our Quotestream platform and having a complete chatbot that you can talk to and you can have it do anything you want, tell you about trades, execute trades, analyze portfolios, all of those things. So we're basically training AI, but having AI use our data for everything. So it's not about where you have ChatGPT where it goes out on the web and it starts hitting websites and grabs information and puts it together for you. This is actually using actual complete fundamental data from us, our corporate action data, our quote data, everything, all of the data from the user. So you should -- the users are going to be able to do everything that they want with AI in all of our products and that's where we're going with it. And in addition, we're doing a lot of data collection with AI, data cleansing with AI, normalization, scoring, sentiment, all kinds of things with AI taking news, turning it into smaller tidbits that are easily ingestible by people, flagging what's going on in their portfolios with their watch list, things like that. So we're working with all of our -- obviously, our higher-level clients. All of our high-level clients have a wish list, and we're working with them kind of across the board to take all of this to market. And we're moving very quickly with it because we've already been working with AI. So it's probably going to be coming out very, very quickly.

Michael Kupinski: And if I could squeeze in just one more question. In terms of the churn in the third quarter, was churn very similar to second quarter? Or can you just kind of give us some thoughts about customer churn and how it was relative to maybe the first and second quarter?

Keith Randall: Yes, we had very little churn this quarter and last quarter for that matter.

Michael Kupinski: And it's very similar.

Keith Randall: Yes. I mean I don't have an exact percentage to give you, but I can tell you it's very low.

Operator: And our next question will come from Jonathan Jetmundsen.

Unknown Attendee: Two quick questions. One is on the cash balance. You guys are cutting it pretty close. So just wondering kind of now that we're a month into Q4, how cash is looking? And is there any risk of needing outside financing this year or early next year until cash starts to build?

Keith Randall: Yes, I can answer that. Unfortunately, the way the timing of our funds work is we receive

-- we have some quarterly clients that we get in right after the end of each quarter. So the quarter ends are the lowest of our cash balances. And then I think on October 3, we had got in \$700,000. So it's just the timing of our cash flow. The end of the quarter is always the lowest.

Unknown Attendee: Okay. And then turning to bookings, if you look at end of Q3, taking recognized revenue for the quarter as well as any kind of new bookings on top of that, do you guys have an estimate of what ARR looks like at the end of Q3?

Keith Randall: Sorry, repeat that last part, please?

Unknown Attendee: Yes, asking if you have an idea of what kind of total booked ARR was at the end of Q3, which should be taking just your recognized revenue plus any new bookings that just haven't started recognized yet?

Keith Randall: I don't have that exact figure. But as you know, that like most of our revenue is almost exclusively -- all our revenues are recurring. The only part of the revenue that's not recurring is just the development work that we do, like the setup and development. So that's something we'll look to, I think, maybe to publish in future quarters. But I don't have a -- if you're asking for an exact amount, I don't have it handy right now.

Unknown Attendee: Okay. Final question, just really on the sales and marketing and go-to-market. Like how are -- how do you rate the effectiveness of that team in strategy right now? Because just looking at the financials, you guys spend a decent amount on sales and marketing and generate kind of net new bookings each year well below that spend. I'm just trying to understand how you guys think about it and how we can get more efficiency and effectiveness out of the sales.

David Shworan: Yes, that's always the game plan. But this -- I think this year has proven that we've done a pretty good job. There's a lot of activity with sales and marketing going on. There's a lot of conferences. I don't know if you follow our LinkedIn, but they're always attending every event in every city that we can go to and meeting with every different firm. So we're doing everything we can as far as sales and marketing. But I mean, they've done well. I mean we've got, what, a 10% increase. And in fact, it's -- if I know the math and what we lost in the previous year, which was probably about 5%, so that's probably 15% increase. In reality of how well the salespeople have done, they're doing very well. And I think we've got a good team. I'd like to expand on that team. I'd like to get into some more cities. But yes, we're monitoring it all and working -- it's a big team approach, and they're closing some pretty big deals now. So things are going well.

Operator: And our next question will come from Ankur Sagar.

Unknown Attendee: Congratulations to you, Dave and Keith, I think, at least getting back on that growth trajectory after your last year's efforts. I just have a couple of questions. On the press release, I think it was mentioned about some large or major new contracts that will start contributing in Q4. On those -- if you could just shed some light on these larger contracts on what sizes and products these are? And have they contributed anything in these new contracts in this Q3? Are they just net new?

Keith Randall: I can address that. So -- we had some larger ones. I'm not going to get into the exact dollar amounts from some of our larger -- and this is like new statement of works for existing larger customers. So some of that revenue has started in Q3. And then the remainder of that will start in Q4 or possibly even Q1 of next year.

Unknown Attendee: In terms of the size, are they just -- if you were to look at the annual contribution, both the development cost and the ARR, are these like 7 figures?

Keith Randall: Combined, they approach it, but individually, no. So -- but we have other deals that are in the pipeline as well.

Unknown Attendee: So based on these and the pipeline that you have, you expect to continue on this growth trajectory. Would that be fair to say?

Keith Randall: Yes. We think...

David Shworan: That's what we predict. Yes, that's what we're predicting. But I mean, it's also because we have a lot of new ones like actually brand-new clients on the go right now. I mean, Keith is referring to we closed a whole pile of new deals. But as far as the largest ones, we're -- new statement of works or new purchase orders from our -- some of our largest clients where they expanded with us and they went into other divisions and powered other services and platforms and things like that. So obviously, the bigger the firm -- when you're working with a multibillion-dollar firm, they have lots of different places

that we can do business with them. So we've been expanding in all those areas. But we also have some more of those in the works right now.

Unknown Attendee: Okay. Okay. And how much of that growth, Dave, is within the existing clients? As you mentioned, you work with these large clients where you get a deal in one area and then you're able to sell into and work with them on other areas? Or are they're just net new customers? What portion of growth is net new customers and the other way with existing customers?

David Shworan: Well, as far as this last quarter, I mean, it all depends on what the quarter holds, right? Sometimes there's -- you're closing more new deals and sometimes all of a sudden, one of your largest customers comes along and says, I want to spend another \$1 million with you. And then all of a sudden, you jump that way. But I mean, we're always working on both. So what percentage, it's hard to say. It's -- I don't even know the numbers of percentages because it fluctuates, right? Like we might sign a big deal with an existing customer right now and then next week, we might sign a big deal with a brand-new customer, and they kind of even out.

Unknown Attendee: Okay. And then one for you, Keith. In terms of this development cost capitalization, I mean, when do you expect this to be done with this or at least get to a normal level, you think where it should just be reflect the true profitability on the income.

Keith Randall: Yes, sorry to cut you off. Yes. I mean every -- you can already see that the impact is diminishing. I would imagine that the impact will be -- I haven't really worked out the exact numbers. But by the end of next year, the impact will be negligible by the end of 2026. But each quarter, the impact goes down and down. And if you remove the impact of capitalization of costs, whether it's development or fixed assets, for the quarter. We actually have a positive net income if you remove the impact of those effect -- for the accounting of those capitalized costs. So they really do distort our earnings. But that impact is, like I say, every quarter...

David Shworan: And I think the message there is also that we're going to be banking cash because even though the books show these numbers that are financially reported, it's not the reality of the cash flow, right? So as we start banking cash, then we can start to figure out what we're going to do with that cash, whether it's share buyback or acquire companies or different things like that. So we're on the right trajectory now for 2026.

Unknown Attendee: Got it. And then on that cash flow, Keith, I know you were mentioning but to the prior caller that with -- how it works, I mean, quarter end, your cash flow is all -- shows down on the cash on the balance sheet. But with this double-digit growth that you're expecting, despite that the way it works quarter end, you expect to be -- generate -- be free cash flow positive in Q4 and then going forward?

Keith Randall: Cash flow positive, I think that's fair to say. Yes, we're always subject to timing of when we receive funds. But yes, no, it's just -- it's unfortunate that the timing of our funds, we have a lot of large clients that pay quarterly and it's at the beginning of the quarter. So by the end of the quarter, like I say, like I previously mentioned, our cash balances are at their lowest at the end of each quarter.

Unknown Attendee: But there is also the dynamics where you generate the cash and there's also you invest into the development of it. I mean the cost -- I mean you expect probably next year those development costs to be less. Any expectation or comment you could share on that?

David Shworan: I don't -- lots of people ask me that if I'm going to decrease development costs. I think I don't really want to decrease development. I want to keep development as kind of a flat, like so where we keep our developers and they're working. We have lots and lots of things that I want to do and where we want to go. But it's not growing the development cost. I think that's the main thing is we want to use all of those people. They're very well versed in our systems. We've got good teams. Everybody is creating what's needed. And when a company comes along, and you have to realize when these big companies come along, they've got lots of money and they want it done a certain way, and I want to have the people to do it that way. And that's how you do it. But then you lock them in for many, many years. And once they're in, they're in, and you just keep growing it.

Unknown Attendee: Okay. One last one for you, Dave, not putting you -- I'm not trying to put you on spot, but still we're showing top line growth. Based on your commentary, the outlook looks pretty good. I mean you will have double-digit year-over-year growth going forward. But the company's valuation just doesn't reflect that improvement. Any thoughts you could share on what things you could probably do,

as you mentioned about share repurchase or anything -- any other instruments you could use?

David Shworan: Yes. I mean I think it's mostly just doing more IR activities and next year going to more conferences and getting the word out, just doing the best we can that way. We needed to pull out of that bad year, and we did. So I'm glad I didn't spend a lot of time last year doing those events because I would have been talking to a wall. But now I think we've got the story again. Everything is looking great. We're projecting really good growth. We've got bigger clients we can announce next year. So it's perfect timing to get the ball rolling and get investors to know about QuoteMedia. I think we're so thinly traded. And our stock bumps up and down. I mean it dropped today, but somebody just [trades] some shares out there and the next thing you know it's down, but it could be up tomorrow. I mean it's just we're so thinly traded. We need to get more investors. So that's the target for next year.

Keith Randall: And I also think we're negatively impacted by our accounting bottom line, which -- because I don't think a lot of people can wrap their head around that. It's the reason for it, that it's the capitalization of development costs. So that's going to work itself out as well. I think that's taking our stock price down.

Operator: [Operator Instructions] And it appears we have no further questions. Mr. Shworan, I'll turn the conference back to you.

David Shworan: Okay. Well, thank you, everyone, for joining us today. We appreciate your continued support and interest in QuoteMedia, of course. And as always, if you have any follow-up questions, please feel free to reach out to us, reach out to me. And investors@quotemedia.com is an e-mail address we use. And thanks again. We wish you have a great rest of your day. Bye-bye.

Operator: And this does conclude today's QuoteMedia Third Quarter Results conference call. Thank you for your participation. You may now disconnect.