

VRME Earnings Call Transcript

Date: 2025-11-17

Quarter: 3

Operator: Good day and welcome to the VerifyMe Third Quarter 2025 Financial Results Conference call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Jennifer Cola, CFO. Please go ahead.

Jennifer Cola: Good morning, everyone, and thank you for joining us today for our Third Quarter 2025 Earnings Call Presentation. On the call today, I'm joined by Adam Stedham, CEO and President, who will give an operations and strategic update, and I will provide a financial update. Following our management presentation, we will have a Q&A session. I'd like you to bring your attention to the note on forward-looking statements on Slide 3. Today's presentation and the answers to questions include forward-looking statements. It should be understood that actual results could materially differ from those projected due to a number of factors, including those described under the forward-looking statements and risk factors captions in the company's annual report on Form 10-K and quarterly reports on Form 10-Q. I will now turn the call over to Adam Stedham to discuss the company strategy.

Adam Stedham: Thank you, Jen. I'm pleased with the success of our operating model combined with our sales and marketing plans in the third quarter. I do realize the third quarter revenue was down due to previously announced contract losses and changes associated with the transition from our previous Proactive shipping partner. That statement is a common theme in our last several earnings calls, and I think it's good for us to review the past year to put our enthusiasm about the future into context. During Q1 of 2025, the company's revenue was down versus the previous year, and our gross margin was 33%. The revenue and gross margin were significantly impacted by the insourcing decision of our previous exclusive shipping partner. During the second quarter of 2025, PeriShip revenue decreased approximately 14% versus the second quarter the previous year, and the major contributing factor was the previously announced customer losses from 2024. However, the gross margin had improved to 35% in the second quarter versus 33% in the first quarter. During the third quarter of the year, revenue was down only approximately 7% from the prior year because of our sales and marketing efforts. Although these efforts were successful, they have only partially offset the previously announced contract changes and changes by our previous shipping partner. Our gross margin continues to improve, our operating costs continue to reduce, and our adjusted EBITDA has improved. We are in the midst of a transition to our new Proactive shipping partner. We anticipate this will have a material impact on Q4 2025 and Q1 2026 revenues, and at this point, we're not in a position to provide guidance for 2026, but we do expect to provide that guidance during our next earnings call. We believe our new shipping partner relationship positions the company in a far better position long term, but we need a bit more time to define the opportunity and provide appropriate guidance. I look forward to calls in which we can report that our efforts are providing quarterly growth rather than only offsetting the impact of changes related to our shipping partner. As for our balance sheet, we continue to have plenty of cash to fund our organic and strategic growth strategies. We've received our first quarterly interest payment from our short-term note with Zen Credit in November and continue to believe this deployment of capital is very positive for shareholders. At this point, I'll turn the call over to Jen, our CFO, for more specific financial details of the third quarter.

Jennifer Cola: Thank you, Adam. Our third quarter revenue was \$5.0 million versus the prior year of \$5.4 million, a decrease of \$0.4 million. This decrease was primarily due to \$0.8 million of previously

disclosed discontinued services with two Proactive customers, partially offset by increased revenues from new and existing customers within our Precision Logistics segment. Gross profit increased by \$0.2 million to \$2.1 million in Q3 2025 compared to \$1.9 million in Q3 2024. As a percentage of revenue, gross margin increased to 41% in Q3 2025 from 35% in Q3 2024. This increase was primarily attributable to improvements in negotiated rates with a primary supplier during Q2 2025, which was reflected during the full third quarter of 2025. This is our third consecutive quarter of improved gross profit. While we expect Q4 2025 and Q1 2026 revenue to decrease compared to prior year as a result of transitioning our Proactive services to a new shipping supplier, we expect our gross margin as a percentage of revenue to remain consistent with our current performance. As previously disclosed, in September 2025, we were notified by our primary Proactive shipping supplier that it would no longer provide shipping services in support of our Proactive services. As a result, we accelerated our efforts to implement services with an additional supplier, and we completed an analysis of the goodwill and intangible assets associated with our PeriShip business. Based on our analysis, we determined an impairment had occurred and recognized a one-time non-cash impairment expense of \$3.9 million during Q3 2025. This compares to a one-time non-cash impairment expense of \$1.9 million related to our Authentication business in Q3 2024. This \$3.9 million impairment charge includes a reduction in carrying value of certain goodwill and intangible assets in our PeriShip business, as well as the accelerated amortization of certain supplier-specific technology development projects that will no longer be utilized. Excluding this impairment, our operating expenses were \$1.7 million in Q3 2025 compared to \$2.5 million in Q3 2024. This decrease in operating expense is primarily related to the divestiture of our Trust Codes business during December 2024 and cost-cutting measures in our Precision Logistics segment. Our net loss for the quarter, including the \$3.9 million one-time non-cash impairment expense, was \$3.4 million, or a net loss of \$0.26 per diluted share in Q3 2025, compared to a net loss of \$2.9 million, or \$0.23 per diluted share in Q3 2024. Excluding impairment, our operating income for the quarter was \$0.5 million in Q3 2025 compared to an operating loss of \$0.2 million in Q3 2024. Our adjusted EBITDA improved to \$0.8 million in Q3 2025 compared to \$0.2 million in Q3 2024 as a result of our continued efforts to improve gross margins, reduce operating expenses, and develop operational efficiencies. On the last slide is our balance sheet as of September 30, 2025. Our cash balance as of September 30, 2025, was \$4.0 million. On August 8, we entered into a \$2.0 million short-term promissory note in exchange for regular interest payments at an improved interest rate. We received our first quarterly interest payment in November. Also, as previously described, we recognized an impairment of goodwill and intangible assets of \$3.9 million. During Q3 2025, we generated \$0.2 million of cash from operations compared to \$0 in Q3 2024. We expect to use a portion of our available cash to fund our operations in Q4 2025 as we continue to transition customers from our previous Proactive shipping provider to our new Proactive shipping provider, but we expect to remain cash flow positive for the full year of 2025. We also continue to have \$1 million available under our line of credit, and we have no borrowings outstanding. With that, I'd like to turn the call back over to Adam.

Adam Stedham: Thank you, Jen. So we've covered several items during the call, and I'd like to summarize our situation prior to opening the call for questions and answers. The company has a strong balance sheet with no bank debt. We have deployed some of our capital to improve the rate of return, and we feel confident we have the ability to pursue both an organic and strategic growth strategy. We're in the middle of a transition from our previous Proactive shipping partner to our new Proactive shipping partner. We believe the new relationship provides a substantially better platform for sustained organic growth over the long term. We anticipate experiencing a transitional revenue impact associated with the effort and the timing of customer transitions, but the company continues to believe we will be cash flow positive in both 2025 and 2026. At this point, we'll open the call up for questions and answers.

Operator: [Operator Instructions] Our first question comes from Michael with Barrington Research. Please go ahead.

Michael Petusky: I was wondering if you guys would be willing to sort of size up the Proactive business that sort of came to completion at the end of September. I mean, how much did that contribute to the third quarter revenue, if you wouldn't mind?

Adam Stedham: I'm not sure I completely understand what you're asking, but are you saying what was the....

Michael Petusky: What was the revenue contribution? Yes, what was the revenue contribution of the Proactive business that's no longer, going forward, no longer going to be part of the mix?

Adam Stedham: No, so we don't have that in a way that we can present it for guidance. The reason is, this isn't a cliff type of conversation. It's a sliding scale. If I said what percentage of the customers have signed up one day or today, that wouldn't be a proper assessment of how many had signed up on November 1 versus how many will have signed up on October 1 or December 1. We continue to transition customers on an ongoing basis. I will say that we had approximately 7-10 days of shipping time in the third quarter that were negatively impacted by the transition. If you go back and look at the date of our discontinuing of our previous shipping partner relationship, that happened towards the end of the third quarter of the -- third month of the quarter, around September 24.

Michael Petusky: Okay. So Adam, I just want to make sure I'm, I guess, processing this correctly. Are you essentially saying, "Hey, we expect to transition all the customers that were associated with the business that came to an end at the end of September or towards the end of September onto the new shipping partner?"

Adam Stedham: No, we can't say that we expected to transition all of our customers. Some of our customers will never transition over to the new partner, and we have other customers that the new partner has brought that are going to come through that. There is going to be some offset. The challenge we face right now is a timing conversation. The peak season -- if you look at the overall shipping industry, the overall shipping industry is capacity-constrained during the peak season, Christmas shipping season. There are a percentage of customers that we have who are concerned about shipping or changing right before the peak season. We're doing everything we can to help them transition, to get over those concerns. Many of them have gotten over those concerns. Some are still having and have ongoing conversations. Others are saying, "We want to stay with you and we'll switch, but we're going to do it after the Christmas shipping season." Right now, it's a very dynamic situation, and we're in the midst of all those changes, so it's very difficult for us to predict what will happen in Q4 and Q1. We do believe that the loyalty we have with our customer base has been very positive. The feelings of our ability to transition everyone over or transition a meaningful percentage over and then have other customers come on board from the assistance of our new shipping partner, we feel very good about that. Over nine months, over the next three to six months, it's really a dynamic situation, and we're not in a position to give guidance on that.

Michael Petusky: Adam, just from a modeling perspective for your investors, for analysts, I mean, would you guys be willing to share what the revenue contribution last year's Q4 from the FedEx business that left on September 24, what that revenue contribution was in last year's Q4? I really think, honestly, for investors, for analysts, I think that's an important piece.

Adam Stedham: All of our Proactive customers went through FedEx last year. None of our Proactive customers are going through FedEx this year. They are transitioning to our new shipping partner. Are you saying exactly what percentage of customers are currently shipping with us now that were not shipping with us in Q4 last year? That is not a number that we have or we are prepared to give. Keep in mind, we have added customers since Q4 of last year, so there has been a turnover. It is not really a comparison that we can do.

Michael Petusky: Right. No, no. Adam, I understand that. All I'm interested in, and I suspect more people than just me are interested in this, is the revenue contribution from that business in Q4 of last year. I mean, is that a figure you guys can share or no?

Adam Stedham: Are you asking what percentage of our Q4 revenue last year was Proactive?

Michael Petusky: Yes, connected to the business that ended on September 24, yes.

Adam Stedham: Keep in mind, let's revisit what Proactive is. We have a shipping partner relationship with a major shipping partner. We have contracts with all of those companies ourselves. They do not end through that ship; they do not flow through that shipping partner. The premium flows through that shipping partner. That's not impacted by what we're doing. The Proactive, all of these customers that we have our contracts with ourselves, who historically are used to processes and systems to where their packages ship with our previous partner, now have the opportunity to shift and ship with our current partner. It's not as if our shipping partner canceled these contracts. The contracts were with the

companies. The question is, are they willing to move their shipping over to our new partner? The percentage of that is not something we can accurately predict for Q4. That is why we're saying we can model more effectively during our next earnings call, but we can't accurately predict it for this quarter. It's a dynamic situation right now. That is where we're at.

Michael Petusky: In terms of the cash on the balance sheet and the fact that you guys are generating some positive cash flow, I mean, where are you in the process in terms of potential M&A? Are there assets where there are actually discussions happening, or is that more likely to happen after sort of you get a little farther down the road with the new shipping partner and get farther into the next year?

Adam Stedham: No, no. The timing of any of these things is very difficult, if not impossible, to predict. There have been significant ongoing conversations. I mean, you'll see some elevated legal costs. You'll see some elevated costs in the business that reflect meaningful ongoing conversations related to those types of activities.

Michael Petusky: Are there any hurdles for those assets that you're considering in terms of cash flows or profitability, or is every case a little different? Or are there certain things that you will not sort of bend on in terms of what you're looking for in a potential acquisition?

Adam Stedham: If it was a bolt-on acquisition, it has to be virtually immediately accretive due to synergies. Otherwise, I wouldn't do it. If it's a transformative acquisition, which I think would be desirable given the subscale nature of the company, something more transformative would be desirable to help address our subscale size. Then it's more difficult to model that out. It really ties to what's the overall value of the transformation as a whole.

Michael Petusky: Okay, great. Last one real quick for Jen, and I'll let other people ask questions. In terms of that OPEX improvement, which to me seems great, how much of that, approximately \$800,000, was associated with Trust Codes, and how much it was just sort of pure you guys doing a better job in terms of your managing the OPEX?

Jennifer Cola: Sorry, just pulling up my file here. So we had about \$500,000 of operating expense associated with Trust Codes in Q3 of 2024.

Operator: [Operator Instructions] This concludes our question-and-answer session. I would like to turn the conference back over to Adam Stedham, CEO, for any closing remarks.

Adam Stedham: Thank you. I appreciate everybody joining the call today. Once again, we are in a transition. It's just been a really positive experience working with our new shipping partner. The commitment that our partner has to the small- and medium-sized customer and to the customer that requires a cold chain strategy is very deep and very strong. We are very pleased that we fit into that committed strategy they have. We think that positions us very well long-term. We are in the midst of a transition from our previous Proactive shipping partner. That relationship was a couple of decades old. Those transitions always have a couple of bumps, and we're working through those diligently. We do feel that our sales and operating model has consistently, quarter over quarter, been able to provide new customers, organic growth in terms of new customers, frequently or typically offset by reductions due to changes that were outside of our control. They have continued to, quarter over quarter, provide additional gross margin percentage and reduced operating costs and improved efficiencies. We feel that the underlying business is moving in the right direction, and our partnership relationship has substantially moved in the right direction. We look forward to our next call when we'll update everyone on the transition and where we are and give specific guidance for 2026. Thank you.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.