

NASDAQ:CLMB Q3 2025 Earnings Call Transcript

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Operator | Conference Call Operator:

Please stand by. Your program is about to begin. Good morning, everyone, and thank you for participating in today's conference call to discuss CLIMB Global Solutions financial results for the third quarter ended September 30th, 2025. Joining us today are CLIMB's CEO, Mr. Del Foster, CFO, Mr. Matthew Sullivan, Chief Alliances Officer, Mr. Charles Bass, and Investor Relations Advisor, Mr. Sean Missouri, with Elevate IR. By now, everyone should have access to the third quarter 2025 earnings press release, which was issued yesterday afternoon at approximately 4.05 p.m. Eastern Time. The release is available in the Investor Relations section of Climb Global Solutions website at www.climbglobalsolutions.com. This call will also be available for webcast replay on the company's website. Following management remarks, we will open the call for your questions. I would now like to turn the call over to Mr. Mansouri for introductory comments.

Sean Mansouri | Investor Relations Advisor, Elevate IR:

Thank you. Before I introduce Dale, I'd like to remind listeners that certain comments made on this conference call and webcast are considered forward-looking statements under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain known and unknown risks and uncertainties as well as assumptions that could cause actual results to differ materially from those reflected in these forward-looking statements. These forward-looking statements are also subject to other risks and uncertainties that are described from time to time in the company's filings with the SEC. Do not place undue reliance on any forward-looking statements which are being made only as of the date of this call, except as required by law. The company undertakes no obligation to revise or publicly release the results of any revision to any forward-looking statements. Our presentation also includes certain key operational metrics and non-GAAP financial measures, including gross billings, adjusted EBITDA, adjusted net income and EPS, and effective margin as supplemental measures of performance of our business. All non-GAAP measures have been reconciled to the most directly comparable GAAP measures in accordance with SEC rules. You'll find reconciliation charts and other important information in the earnings press release and Form 8K we furnished to the SEC yesterday. I'll now turn the call over to CLIMB's CEO, Dale Foster.

Dale Foster | CEO:

Thanks, Shawn, and good morning, everyone. In Q3, we generated double-digit organic growth and continued to benefit from our acquisition of Douglas Sewer Software, which we acquired in July of last year. We continue to deepen our partnerships with existing vendors while assigning new cutting-edge partners to our line card. Our team consistently delivers solid results, maintains operational discipline, and continues driving growth, even with the challenging comparables from last year. Before diving into Q3 operational updates, I'd like to quickly pass the call over to our Chief Alliance Officer, Charles Bass, to take you through our vendor selection highlights for the quarter. Charles?

Charles Bass | Chief Alliances Officer:

Thanks, Dale, and good morning, everyone. So, throughout the third quarter, we evaluated more than 70 potential vendor partners and entered into agreements with only four. This reflects our ongoing selective approach to vendor expansion, which prioritizes innovation, market differentiation, and long-term alignment with our strategic objectives. Each potential partner undergoes a comprehensive vetting process that

assesses product differentiation, market demand, and integration potential within our go-to-market strategy. So our approach ensures that we continue to deliver cutting-edge solutions to our customers while maintaining the quality standards that have, you know, continued to drive sustainable growth and value creation across our business. What I'd like to do is quickly highlight two cases, two of these wins and how they position us for future success. So first, we launched a partnership with LionGuard. They're a Houston, Texas-based company providing advanced attack surface management and intelligent automation for managed service providers, or MSPs. LionGuard's platform delivers deep visibility across every asset in an MSP's environment, offering real-time intelligence and continuous change detection to proactively identify risk and maintain compliance. The addition enhances our ability to support MSP partners with tools that deliver really unmatched operational insight and control across increasingly complex IT ecosystems. So while the majority of our customers still consider themselves traditional VARs, more and more of our customers consider themselves service providers over time. So LionGuard is exactly the type of product that they need to be successful in position as well for the future. We also partnered with another Texas-based company called Halcyon. They're based in Austin, Texas, and they specialize in anti-ransomware and cyber resilience. Halcyon's product is designed to prevent, detect, and neutralize ransomware threats, helping organizations eliminate the business impact of these attacks. Halcyon represents a strategic addition to our cybersecurity portfolio, enhancing our capability to deliver comprehensive protection and resilience for customers facing increasingly sophisticated cyber threats. In fact, Halcyon is already teamed with one of our largest and best manufacturer partners, Sophos, to enhance their security offerings by co-selling alongside them. So Halcyon can be sold as a standalone product, obviously, but also co-sold with several of our existing partners, making them an ideal partner for Clive's future. So with that, Dale, I'll push it back to you.

Dale Foster | CEO:

Thank you, Charles. I'd also like to highlight our operations overseas. Our European team continues to demonstrate strong execution as we expand our capabilities in one of the market's fastest growing areas, which is artificial intelligence. AI has become a top priority for both our customers and partners, yet many are still defining practical strategies and identifying the right manufacturers to align with. To help bridge this gap, our team, led by Martin Bichler, launched Climb AI Academy in the DAC region earlier this year. The Climb AI Academy was designed to equip our infrastructure partners with the tools and expertise to effectively position themselves in the AI space while guiding AI consultants through a complexity of this rapidly evolving market. The program offers manufacturer neutral training, clear AI readiness guidelines, and structured curriculum that spans from foundational to expert levels, ensuring every participant receives tailored applicable knowledge. In addition to the AI Academy, it provides internationally recognized ISO and IEC certifications, such as certified AI manager course delivered by trainers with extensive real-world experience. This hands-on approach enables our partners to better translate theory into practice, ultimately helping them deliver more impactful AI-driven solutions to their customers. With more than 700 participants to date and highly positive feedback, our initiative is proving to be a powerful differentiator in helping partners navigate and succeed in accelerating AI market. Looking ahead, we'll continue to work through a healthy pipeline of strategic acquisition opportunities to enhance our offerings and expand our presence in Western Europe. We are seeing increasing interest in the European markets and believe our growing reputation as a trusted high-touch distribution partner positions us well to capture emerging opportunities across the region. These initiatives, coupled with our robust balance sheet and demonstrated track record of accretive M&A, will enable us to close out 2025 strong and deliver another year of record results. With that, I'm going to turn the call over to our CFO, Matt Sullivan, and he'll take you to the financial results. Matt?

Matthew Sullivan | CFO:

Thank you, Dale, and good morning, everyone. A quick reminder as we review our third quarter financial results, all comparisons and variance commentary refer to the prior year quarter unless otherwise specified. As reported in our earnings press release, gross billings in Q3 2025 increased 8% to \$504.6 million compared to \$465.2 million in the year-ago quarter. Distribution segment gross billings increased 9% to \$481.9 million and solution segment gross billings decreased 5% to \$22.7 million. Net sales in the third quarter of 2025 increased 35% to \$161.3 million compared to \$119.3 million, which primarily reflects double-digit organic growth from new and existing vendors, as well as contribution from our acquisition of DSS in July of last year. Gross profit in the third quarter increased 6% to \$25.7 million compared to \$24.3 million. Again, the increase was driven by organic growth from new and existing vendors in both North America and Europe, as well as contribution from DSS. Gross profit as a percentage of gross billings was 5.1% compared to 5.2% in the year-ago period. SG&A expenses in the third quarter were \$16.2 million compared to \$13.9 million for the same period in 2024. SG&A as a percentage of gross billings was 3.2% in Q3 2025 compared to 3% in the year-ago period. Net income in the third quarter of 2025 was \$4.7 million or \$1.02 per diluted share compared to \$5.5 million or \$1.19 per diluted share for the comparable period in 2024. Adjusted net income was \$6 million or \$1.31 per diluted share compared to \$7.1 million, or \$1.55 per diluted share, for the year-ago period. Adjusted EBITDA in the third quarter was \$10.9 million, compared to \$11.1 million in the prior year quarter. This slight decrease was primarily driven by a large vendor transaction in the year-ago period that carried a higher flow-through to adjusted EBITDA, as sales compensation related to this transaction was paid through a contingent earn-out. Adjusted EBITDA as a percentage of gross profit, or effective margin, was 42.3% compared to 45.7% in the year-ago period. Turning to our balance sheet, cash and cash equivalents were 49.8 million as of September 30, 2025, compared to 29.8 million on December 31, 2024, while working capital increased by 18.3 million during this period. The increase in cash was primarily attributed to the timing of receivable collections and vendor payments. As of September 30, 2025, we had \$300,000 outstanding debt with no borrowings under our \$50 million revolving credit facility with JPMorgan Chase. On October 28, 2025, our Board of Directors declared a quarterly dividend of 17 cents per share of our common stock payable on November 17, 2025 to shareholders of record on November 10, 2025. As we look to the remainder of the year, our priorities remain clear to build on our operational momentum and continue executing against the strategic initiatives that have driven our success to date. We're actively evaluating acquisition opportunities that align with our growth strategy, enhance our capabilities, and strengthen our presence across key markets. With solid momentum across our business and a proven track record of execution, we believe we will close out 2025 on a strong note and set the stage for another year of record performance. This concludes our prepared remarks. We will now open it up for questions from those participating in the call. Operator, back to you.

Operator | Conference Call Operator:

Thank you. And at this time, if you would like to ask a question, please press the star and 1 on your telephone keypad. You may withdraw your question at any time by pressing star 2. Once again, to ask a question, please press the star and 1 on your telephone keypad. We'll take our first question from Vincent Colicchio with Barrington Research. Please go ahead. Your line is open.

Vincent Colicchio | Analyst, Barrington Research:

Yeah, Dale, congrats on another strong double-digit organic growth quarter. Curious, how would you characterize the quarter? Was the growth core based across your top 20? Also, were there any large lumpy deals in the quarter?

Dale Foster | CEO:

Yeah, no lumpy deals. And then, hence, you know, we've talked about it probably too much. We talked about in Q2 that, you know, we had one of the large orders pull into Q2, and we went and see in Q3. And then, as Matt mentioned, you know, the comparable year over year, we had one large in Q3 of last year. And it's no secret, they're vast data. You know, they're a data center. all focused on the AI market and going into data centers to deliver as much data as fast as an AI engine will take it in. So outside of those two things, definitely organic growth, strong in the majority of our vendors. We only typically talk about two vendors over the last so many years, Sophos and SolarWinds. Sophos is a little flat for us. SolarWinds is going in the right direction. They were acquired by turn river and we're seeing some positives come out of that.

Vincent Colicchio | Analyst, Barrington Research:

And then in terms of industry's security, I assume still leads growth. Is that right?

Dale Foster | CEO:

It does. We're over 60% in the cybersecurity space and Charles can talk to it, but still that many companies coming at us do add to our line card and they're mainly in that security space. We have some in the adjacent markets, but And that's really the focus. We were attending the Canalis event in Chicago last week. And it's good to look at some of the data collectors that, you know, we don't have any skin in the game or neither do they on our side. And, you know, that's the, in the next three years, still one of the fastest growing markets if you look at all the different market segments in the IT space.

Vincent Colicchio | Analyst, Barrington Research:

And then maybe one for Matt. Were there any early pay price discounts of any magnitude that impacted margins?

Matthew Sullivan | CFO:

No, there were no new relationships on early pay discounts. Our similar customers continue to take advantage that have this offer to them, continue to take advantage of it. But as a percentage of gross billings, it's consistent period over period.

Vincent Colicchio | Analyst, Barrington Research:

And then, Dale, the training program you had highlighted in Europe, have you had a similar program in the U.S.?

Dale Foster | CEO:

? We don't. Martin, you know, is out of Germany, and he started it. We really, you know, what got us kicked off was one of the vendors we signed called Unframed, which is in the AI building block. So if you want to, you know, have a certain structure in your company that you want to use AI for, this is where you can actually go and get those building blocks. So it started with that and then expanded into some other vendors, and he built it into a full academy. And we'll roll that into our other regions. You know, of course, the European side first, as Martin took the lead on, then you'll see it come to the U.S. As we, you know, we talk about that, you know, do we have another set of vendors that are AI vendors? And it's still consistent with probably what we

said a year ago, and that is our vendors are building AI capability into their existing products. So, you know, we're going to see it that way. And, you know, if there is You know, different products, we'll pick it up and talk about them in a separate, you know, what we call in our different segments, our technology segments.

Vincent Colicchio | Analyst, Barrington Research:

Okay, thanks. I'll go back into the queue. Thanks, Vince. Thanks, Vince.

Operator | Conference Call Operator:

Thank you. And once again, that is star N1 if you would like to join the queue. We will move next with Howard Root, private investor. Please go ahead. Your line is open.

Howard Root | Private Investor:

Good morning, guys. Congratulations on another good quarter, and thanks for taking me call. I got a couple of little questions, a couple of little questions, and then a more general one. Kind of first, no mention of tariffs, and I think nothing's changed there, but remind me, is there any impact on tariffs on your business?

Dale Foster | CEO:

There really isn't, and that can weigh in. We just don't see it. I guess the biggest thing, and we didn't mention it, Howard, because it was a non-issue in this quarter, is just the FX with currencies. Because most of our vendors, we're buying in USD, and then we're selling in either Euros or Great British Pounds, and then Canadian dollars. So there's some there. The only one is the Canada side. So what we do is we look at it from a quoting standpoint, and our quotes are you know, that used to be 30-day quotes, and now they're like five days to deal with both, either a tariff issue or, you know, a currency issue, but nothing that's substantial.

Howard Root | Private Investor:

Okay, great. And then accounts receivable, accounts payable, you made, you know, notable declines in that, you know, dropping AR by 65 million sequentially and AP down by 50 million. Is that Kind of give me a rundown of how that's happening, and is that where it should be now going forward, or what would you expect going forward on AR and AP?

Matthew Sullivan | CFO:

Yeah, that ebbs and flows with each of the quarters, so when comparing that to December 31st of last year, Q4 is historically our largest quarter just in the business, so And Q4 of last year was a record quarter to date for us. So it's really just a function of clucking those receivables and paying those payables subsequent to year end. The levels that we saw at December 31st of last year from a receivables and payables perspective, We expect to execute on our strategy here for Q4. I'd expect those levels to return to where they were December of last year.

Dale Foster | CEO:

But, Howard, the biggest point of that, I mean, the main piece is just the timing of that. And it could be, and Matt and his team do a good job, that if we have a vendor that reaches out and said, hey, I want more cash at the end of this quarter, we'll pay them early with some kind of a condition, right, a consideration. So we'll pick up some margin that way. um you know matt and i have these discussions internally all the time i think we pay our vendors too fast uh and uh we probably collect too slow but you know collecting is the tough part right because we're going to the masses as a distributor so we're collecting from thousands of resellers you know vendors only collecting from you know four or five distributors so it's always something that we we watch because you know it's uh important on our working capital

Howard Root | Private Investor:

Okay. So, do you see this, I mean, the \$50 million swings quarter to quarter is kind of part of your business? Is that an aberration?

Matthew Sullivan | CFO:

No, no. So, if, and then if you're comparing it to June, the June quarter, we had some, as we talked about in the Q2 call, we had some larger transactions with a higher sales price and higher cost of sale amount in Q2, which didn't necessarily repeat themselves. We collected them and paid the vendor payables in Q3. But as we have those larger transactions that we've alluded to over time, that will cause a spike in the receivable and payable accordingly.

Dale Foster | CEO:

Yeah, and Howard, those orders are \$30 million orders, right? It's just one order that's \$30 million, so you'll see it all at one time, and that's what was pulled forward in Q2.

Howard Root | Private Investor:

Okay, I get it. Now it's kind of the nature of the business with the large size of the orders. It's nothing out of the ordinary. Okay. On the gross billing side, you know, nice to see it continuing to go up. With DSS, is there more seasonality to it? Is the third quarter more soft with that business? Or what do you see as seasonality of your orders now with DSS making a part of it?

Dale Foster | CEO:

It is, right? So look at those. There are about 190 million, you know, there were adjusted gross buildings when we acquired them. We did the end of July of last year. So their seasonality is based on the state, you know, Think about it. We're selling mostly into education, so K-12 and higher ed. So they do all their buying in the summertime. All the states, 48 of the states get their budgets and their new money at the end of June. So they spend and get all their products, software, hardware, everything in place for the new school years. So it's typically strong, you know, really extinguishing budgets in May and then all the way through. You know, what we saw, though, is You know, our biggest vendor, and we talk about it from the DSS side, is Adobe. And I'd like to, you know, also, Adobe is probably one of the biggest AI companies out there that people don't realize of how much AI is in their products. If you've looked at their product suite, it's crazy how wide they go. And, you know, Adobe is doing the right thing. I mean, they're going in the education space. So if you're using Adobe products, when you go into the workforce, what are you going to do? Hey, I'm trained on Adobe. Of

course, it's, you know, the biggest one out there. And everybody has to, you know, buy those licenses. So we'll see seasonality from that May through really October. But, you know, it really changes in how Adobe does things. And you'll see more gross profit sometimes with our adjusted gross billings going down due to the rebates that we're able to garner. So we're taking advantage of that side of it.

Howard Root | Private Investor:

Okay. And then the solutions segment was kind of the one negative with the gross billings down by 5%. What was the cause of that and what do you see going forward for that segment?

Dale Foster | CEO:

So my core solutions piece is really in the UK, right? And that's when we acquired CDF and it had the split distribution in the solutions piece. It's our US side of it that has some fluctuations. And we just have a small team in the US that has you know, some very large customers. And, you know, sometimes they're renewing, other times they're not. So that one's just a blip. You won't see that going forward like we saw in this past quarter.

Howard Root | Private Investor:

Okay. Okay. The bigger area is M&A. And I guess the little thing there, I saw 600,000 of acquisition-related costs in the quarter, but no deal. And the last deal was the DSS a year ago. What was the 600,000? What was that related to?

Dale Foster | CEO:

It's, you know, so we're prospecting, we're spending, and the cost of it, a lot of it, you know, is overseas stuff. And I'll just talk in general, Howard, that, you know, we're looking at larger deals because we look at the cost of doing a smaller deal, even though we have some little ones out there. But we're going to try to streamline our M&A. It just doesn't make sense, you know, in some of the really small ones to use all the teams that we've used in the past. So we're going to try to get that much more efficient because we have a pretty aggressive track record, pretty aggressive outlook for 2026. Of course, I'd love to tuck one in this year, but it's really going to go into 2026. So there's a bunch of different costs in there. There's some other costs in there, and I can't talk about it now, but in the future on some of our vendor acquisitions, it's kind of a collect all for some of that stuff.

Howard Root | Private Investor:

But safe to say that's all forward-looking on deals, not related to past deals done?

Matthew Sullivan | CFO:

Yeah, that's correct. What's in there for this current quarter is, you know, what Dale and I have alluded to, just cost-related to continuing to evaluate our pipeline of strategic acquisitions. And, you know, we have a deep pipeline that we continue to evaluate, and there's costs associated with obviously evaluating each of those.

Howard Root | Private Investor:

Okay. So then, as I always try to encourage you to talk future here, if you look at M&A and, you know, I think two different places, you said a healthy appetite and actively evaluating, and it's been now almost a year now since your last acquisition. And now you've got almost, well, you have \$50 million cash and line of credit for \$50 million, so you've got \$100 million of cash available. Can you talk about what you're seeing out there in terms of size available? You got into a little bit of it, but You know, are we looking at, you know, \$50 million deals, \$100 million deals, cash deals, debt deals, equity deals, all the above? What's your vision kind of as to how much the M&A is going to affect the company and how much do you see if you're organic continuing to drive the growth of this company?

Dale Foster | CEO:

Yeah, the organic piece of it... And this goes back to us bringing on vendors and trying to shed vendors that are taking up cycles as quickly as possible. And that is something that Charles and his team fight all the time, right? We have nonstop. I mean, if you look at 72 vendors, and that goes to some of the investments we made. So we brought some other people on Charles' team to evaluate companies faster so we make sure we don't miss any. But with that goes, Oh my gosh, we have that much more opportunity. You know, our sales teams are like saying, Hey man, we are full up as far as, you know, our sales cycles go. So we try to shed some of the non-performers to get it out of the line card to, to, to get rid of the clutter. So that's a process that just keeps going. And I would be the first one to say, Hey man, we are starting to see some of the vendors, not as many vendors by quarter. So we see some slowdown in the market. We don't see that. And we haven't seen that for the last, you know, six quarters on the acquisition side. Size-wise, you know, we're looking at opportunities as big as \$40 million and then, you know, some smaller ones that are strategic that are going to be sub \$10 million, but strategic to build in technical capability in the company that I think we're lacking, right? And I always love to tell people, you know, the first thing, the last thing you hire is in a distribution when you have low margins is technical resources, right, to support your vendors. And the first thing to go when you're cutting is technical resources. So, or being just, you know, very good stewards of that and saying, okay, this is a good company. They have good developers. We need this kind of talent in the company. And this, these are the five vendors they can support. And we'll get more margin for that from our vendors. And we'll also become super entangled or sticky with, with the vendors and our customers. So there's two or three of them on my list right now that are more of the technical, you know, rationale for acquiring. And then the other ones are strictly into distribution, right? And they're, The two larger ones are overseas. And that's going to get, we'll pick up not only vendors, but also territories with that. We watch the markets. We're looking at the multiples. The multiples have come down a little bit overseas on some of the deals that have been done. So that's good for us. So yeah, we're chomping at the bit to get some of these closed.

Howard Root | Private Investor:

So then on multiples, I mean, it's \$10 million to \$40 million. That's your acquisition price. What type of gross billings or what type of multiples would you be looking at in those type of deals?

Dale Foster | CEO:

So we evaluate it this way, right? First, we look at saying, hey, this is where our multiple is. We think we're trading at a pretty high multiple to our competitors. And it's hard to define our competitors because we have the monster big ones. And then we have some smaller ones that are not public. So you have to do the best you can on the private markets. But we look at them a couple of ways. What do they bring to CLIMB, right? And our strategic plan is, is it a territory? Is it vendors? How good is the team? And is the cultural fit for us? I had one that I spent quite a bit of time with, and it just was not a cultural fit. It would have been a mess, I think, just because we just weren't going to get along in how we went the market. But the real key piece for

me is what is the margin profile, right? There's higher margin European space, as we've seen with our acquisitions, So, you know, if that margin profile is a lot higher and we think we can maintain that and add more vendors to that, then that would garner a higher multiple. And, of course, they'd be typically asking for a higher multiple. Do they have a concentration on one vendor like Douglas Stewart? So, you know, hence the multiple was much lower, you know, a year when we acquired them. So, not a lot of factors, but those are the main core ones for that.

Howard Root | Private Investor:

Okay. Great. Well, congrats on another excellent quarter and, you know, hopefully close out the year on another high note. Thanks.

Dale Foster | CEO:

Yep, you got it. Thanks, Howard.

Operator | Conference Call Operator:

Thank you. We do have a follow-up from Vincent Colicchio with Barrington Research. Please go ahead. Your line is open.

Vincent Colicchio | Analyst, Barrington Research:

Yeah, just, Dale, just trying to assess if there's any signs of any kind of slowdown, sales cycles change, anything like that, or, you know, based on your numbers, it looks like a pretty healthy environment.

Dale Foster | CEO:

Yeah, you know, we, like I mentioned before, I mean, Sophos was kind of flat. We had a really good couple quarters in the beginning of this year with Sophos, so We're looking to finish strong with them. You know, Q4 is always, you know, and it's a cyclical nature because this could go back, you know, five years that we've still been doing license renewals. And a lot of people extinguish with budgets in Q4. So we look to have another strong quarter like we did, you know, a year ago. But we don't see the softness in the markets. You know, and we're always going to have to talk about it, Vince, until we get it. you know, twice our size, that, you know, the vast data transactions will be lumpy and we'll take advantage of them and we'll talk about them and be really open with everybody when we don't have them coming in year over year. All right. Thanks. Nice quarter.

Vincent Colicchio | Analyst, Barrington Research:

Thanks.

Operator | Conference Call Operator:

Thank you. And this concludes our Q&A session. I will now turn the call back to Mr. Foster for closing remarks.

Dale Foster | CEO:

Thank you, Operator. I'd like to thank everybody in the entire CLIMB team. including our shareholders, for their commitment, providing just a great experience to our customers and to our vendor partners. And with that, we'll close the call. Thank you.

Operator | Conference Call Operator:

Thank you. And this does conclude today's program. Thank you for your participation. You may disconnect at any time.