NASDAQ:CSPI Q4 2025 Earnings Call Transcript

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Matthew | Conference Operator:

Good day, everyone, and welcome to the CSPI's fiscal fourth quarter and full year 2025 conference call. At this time, all participants are placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation. It is now my pleasure to hand the floor over to your host, Michael Poliview. Sir, the floor is yours.

Michael Poliview | Host:

Thank you, Matthew. And hello, everyone. And thank you for joining us to review CSPI's financial results for the fiscal 2025 fourth quarter and full year-end of September 30, 2025, as well as recent operating developments. Today, with me on the call is Victor DeLogo, CSPI's Chief Executive Officer, and Gary Levine, CSPI's Chief Financial Officer. After Victor and Gary conclude their opening remarks, we'll then open the call for questions. During the Q&A session, we asked participants to limit themselves So one question and one follow-up question, then re-queue if you have additional questions. Statements made by CSPI's management on today's call regarding the company's business that are not historical facts may be photo-looking statements as those identified in Federal Securities Law. The words may, you will expect, believe, anticipate, project, plan, intend, estimate, and continue, as well as similar expressions or intendance to identify photo-looking statements. Faultless statements should not be met as a guarantee of performance or results. The company cautions you that these statements reflect the current expectations about the company's performance or events and are subject to several uncertainties, risks, and other influences, many of which are beyond the company's control that may influence the accuracy of the statement and the projections upon which the segment and statements are based. Factors that may affect the company's results include but are not limited to the risks and uncertainties discussed in the risk factors section of the annual report on Form 10-K and the quarterly report on Form 10-Q filed with the Securities and Exchange Commission. Follow-up statements are based on the information available at the time those statements are made and managed with good faithfully as of the time with respect to future events. All follow-up statements are qualified in entirety by this cautionary statement and CSPI undertakes no obligation to publicly revise or update any forward statements, whether as a result of new information, future events, or otherwise after the date they're on. With that, I'll turn the call over to Victor DeLobo, Chief Executive Officer. Victor, please go ahead.

Victor DeLobo | Chief Executive Officer:

Thanks, Michael, and good morning, everyone. We had a strong finish to the fiscal year. Overall fourth quarter revenue increased 11%. while our overall gross margins increased by more than 800 basis points to 37%. We significantly increased our profitability during the fiscal fourth quarter from the same prior fiscal quarter, while continuing to invest in building the deal pipeline and new customers of our highly differentiated and award-winning AZT Protect cybersecurity offering. For the full fiscal year, maintained our strong balance sheet and positioned ourselves for increased momentum and growth in fiscal 2026. Once again, our technology solution business drove our fourth quarter and four-year growth. We expanded relationships with existing customers while gaining new customers due in large part by the exceptional customer retention track record we have earned in a wide variety of industries, including finance, manufacturing, oil and gas, healthcare, aerospace, education, utilities, telecommunication, and maritime. Technology solution increases the efficiency and effectiveness of our customers' IT investment in networking, wireless, mobility, unified communication and collaboration, data center, and advanced technology security, and continues to be a

major driver of our service business growth. During the fourth quarter, our service revenue grew 63% over the same prior year quarter and represented approximately 44% of our total revenue. During the year-ago fourth quarter, service revenue represented approximately 30% of total revenue. For the full year 2025, service revenue represented 36% of total revenue as compared to 33% a year ago. Managed cloud and MSP services are an increasingly important part of our offering. And during the fiscal 2025, this business grew a healthy double-digit rate. One of our key objectives in fiscal 2026 is to build on that growth rate. To achieve this, we are allocating more resources to these opportunities, including adding more sales reps. Our MSP slash cloud service strategy has been especially positively effective in the maritime industry, where we are expanding installations during the fiscal 2025 and then gain contracts to service these installations, the result of which will begin in realized in fiscal 2026. In addition, we entered our fiscal 2026 with backlog for cruise ships, installs and upgrades, which we hope to convert revenue over the next 12 months. Growing our service business benefits our shareholders in two important ways. First, the revenue tends to be very sticky given our strong service track record with customers and our unique position in the marketplace. Second, our service revenue earns higher gross margins than our product revenue. We are quite excited about the results generated from our service segment during the fiscal 2025 and are even more excited about our potential entering the fiscal 2026. Turning to the HP segment, we continue to gain traction with our strategic partners and distributors and their customers for AZT Protect cybersecurity offerings. Over the course of the past fiscal year, our go-to-market strategy led to dozens of new AZT customer installations, as well as a continuously expanded pipeline for our new customers. Working through our Gold Star resellers, including the Rockwell Automation's largest North American distributors, our strategy is to successfully implement our solution at an individual site with the customer's operations, then pursue other installation opportunities within the organization. We have recently executed this sales approach with several customers as we speak and are actively working on purchase orders with our partners to deploy ACQ Protect at additional sites. To date, we have customers in the steel, energy, manufacturing, water utilities, pharmaceutical, food, telecommunication, and other industries, all with multiple installation potential. many of these potentials to become a six- or seven-figure dollar relation for our company. We have deployed case studies of the results achieved by AZT Protect within most of these industries, and Rockwell distribution channels are aggressively taking these results to market. We believe this approach is working as we exit the year with significant increase in the number of AZT Protect deployment deals in the works. In addition, in the fall of 2024, we participated in the Rockwell Automation Fair in Anaheim, which was the first step into the Rockwell Automation Channel. We participated again this year at the Rockwell Fair in Chicago that was held a few weeks ago. And it isn't an exaggeration to say the booth was busy throughout the entire fair. Operational technology customers continue to lack the effective cybersecurity protection at the level AZT Protect provides. We continue to believe we have a strong competitive advantage in this space and also believe that the market now sees us as a substantial resource. Our objective is to convert this building momentum into sizable AZT Protect sales in fiscal 2026. We are quite excited about the direction in the fiscal year 2026 prospects for our business as we expand our focus to protecting industrial IoT devices. The devices in this space have traditionally been difficult to protect due to the types of processors used and limited resources available that typically don't support conventional IT-based endpoint protection solutions. ADT Protect has had an initial success in being selected and deployed in such environments. We are optimistic that This opens a new market for the product. Many AZT Protect installations require an approach to simplify mass deployments. That means our team has had to enhance our software to allow for easy integration into the industrial IoT products supplied by other vendors. Today, we have overcome these integration challenges without exception. There is still more work to be done to streamline the approach, however, This ability to integrate the deployment of ACT Protect into the industrial IoT company's existing systems is a major driver behind our growing pipeline into this large, unserved industrial edge compute market. In summary, our service business exited the year on an extremely strong note, and our product business is gaining momentum. We believe we are on a trajectory to generate consistent profitability improvements for the fiscal full year 2026 as we built the infrastructure and made the investment required to support significant expansion of our business. As a result, we believe that we are in a position to significantly leverage revenue growth going forward. With that, I'm going to turn the call over to Gary to provide you with some more details about our recent financial performance. Gary?

Gary Levine | Chief Financial Officer:

Thanks, Victor. For the fiscal fourth quarter ended September 30th, 2025, we generated $14.5 million in revenue as compared to $13 million for the year-ago fourth quarter. The product's revenue decreased $1.1 million Service revenues increased 2.5, or 63%, compared to the year-ago period. Gross profit for the fourth quarter was $5.3 million, compared to $3.7 million for the fourth quarter of fiscal 2024. The exceptional service revenue growth during the quarter drove the gross profit margin increase. Gross margin for the fourth quarter was 37%, which was more than 800 basis points higher than the same prior year quarter. The strong increase in service revenue drove the increased margin. On the expense side of the income statement, comparing the fourth quarter of fiscal 2025 to the same prior year quarter, research and development costs increased 13%, as we brought to market new features for AZT Protect and developed software solutions to engage and integrate our solutions into customers' operations. Our SG&A expenses for the quarter were essentially flat as compared to last year. Our operating loss for the quarter was $0.5 million compared to $2 million operating loss for the same period of the prior year quarter. We reported a net loss of $191,000, or 2 cents per diluted share of common, for the fourth quarter, compared to a net income of $1.7 million, or 18 cents per diluted share, for the year-ago period. As of September 30, 2025, our balance sheet remains strong with cash and cash equivalents of $27.4 million. Our cash position is down about 10% from our cash position a year ago. However, we continue to provide revenue financing to qualified customers, and you'll note that our financing receivables level doubled over the course of the past year. In addition, we invested in the growth strategy of AZT Protect. We also used cash to pay the 3 cent share dividend and we purchased 19,500 shares of our common stock during the fourth quarter for a total cost of $234,000. As we noted in the press release this morning, we will be paying a $0.03 a share dividend on July 15, 2026 to shareholders of record on December 26, 2025. Turning to the full year, and it's September 30th, we grew the revenue by 6% and grew gross profit by 18.5 million or 32% of sales compared to $18.9 million dollars or 34% of sales. We reported a net loss of $91,000 or a penny per share of common compared with a net loss of $326,000 or 4 cents per demoted share of common for the prior year. I will turn the call over to the operator for your questions.

Matthew | Conference Operator:

Certainly. Everyone at this time will be conducting a question and answer session. If you have any questions or comments, please press star 1 on your phone at this time. We do ask that while posing your question, please pick up your handset if you're listening on speakerphone to provide optimum sound quality. Once again, if you have any questions or comments, please press star 1 on your phone. Please hold while we poll for questions.

Operator | Conference Operator:

Thank you. Your first question is coming from Joseph Nergis from Segrin Investments.

Matthew | Conference Operator:

Your line is live.

Joseph Nergis | Analyst, Segrin Investments:

Morning, guys. How are you today?

Matthew | Conference Operator:

Morning, Joe.

Joseph Nergis | Analyst, Segrin Investments:

Morning, Joe. My quick math here, you mentioned that the service revenue in the fourth quarter was like 44% of total sales. If my math is correct, you're close to $6.4 million in service revenue in the quarter alone. Am I correct? Yes. Am I wrong on that, Matt?

Gary Levine | Chief Financial Officer:

Yeah, I mean, overall as a company, yes, that's approximately.

Joseph Nergis | Analyst, Segrin Investments:

Yeah, you said, I don't know, 44% of $14.5 million. That's where I'm coming up with the number.

Matthew | Conference Operator:

Right.

Joseph Nergis | Analyst, Segrin Investments:

So that's a terrific number. I mean, you know, being at the annual meeting several years ago, and Victor mentioned that he gets calls and, you know, all the time trying to purchase our managed services operation. So, you know, if we continue with that, we're talking about a plus $20 million a year service revenue just in managed services alone in the TS division. So that's really terrific. But let me get on to a question. I really think that the last press release you guys issued on the IIoT issue, expansion of AZT Protect. It's really a, you know, you use the term, Victor used the term game changer when he first introduced AZT Protect, and I really believe that this expansion is a game changer. Now, as an example, I guess this all started basically with our, I might correct, the cell tower customer in South Africa, where we deployed that, and then we began deploying it to other suppliers in that environment. And then we kept talking about the black box. So as an example, if you have a cell tower customer with, let's say, 1,000 towers, what is our potential for the endpoint? How many endpoints we possibly sign up if it's fully deployed and accepted by customers down the line? Let's say a size of 1,000 towers.

Victor DeLobo | Chief Executive Officer:

Well, if you look at the two press releases that we've done before, right, we started off with the black box that's inside the cell towers and then we opened it up to the cameras that are on the cell towers also. So those are the two press releases that I had released probably six months ago or so. And it's not a thousand towers, it's tens of thousands of towers that we're talking about. You know, I think the first round was like 15,000 and then it'll continue to to grow as they move out. And I had mentioned on the last call that it took some time to get the product to be able to integrate into those systems and with significant testing. And that has already gone through the testing in approval process with the customer. And as we said on the other call and in press releases, we're trying to do a seed unit type of environment and then we did that and we already get the second order um for the cameras for additional uh cell towers and what you know as they continue to grow and expand you know there should be further purchase orders throughout the year next year of what

magnitude and what exactly that looks like too early early to tell

Joseph Nergis | Analyst, Segrin Investments:

Well, but obviously, you know, we're just talking about one cell tower customer here. How many other customers could we possibly integrate? Have we signed, have we currently signed any OEM agreements in the IOT environment? I mean, the guy that's the supplier of the black boxes, he would be, I assume, a potential OEM customer. supplier for the IIoT market. Have we signed contracts with these people as of yet for OEM deployment?

Gary Levine | Chief Financial Officer:

Not yet.

Joseph Nergis | Analyst, Segrin Investments:

Not yet? So that would be the next stage. And I'm assuming that that's a priority for our sales team going forward, the signing of as many of these OEM suppliers as possible. Of course. Am I correct? Am I wrong in that? You would be focusing on... No, you're correct. Okay. All right. Well, you know, I think the numbers are great. I realize I know what the problem is, is simply, you know, we need the time to get rollouts, full rollouts in some of our customers. I'm assuming our only full rollout of AZT protectors in our pharmaceutical company. Most of the other customers we have... have deployed it in individual plants or equipment, but not fully rolled them out. So when you say you're expecting the full rollout over the next year to two years, I assume that's what you're talking about.

Victor DeLobo | Chief Executive Officer:

Yeah. In some cases, we're talking to different companies about doing like an enterprise agreement where centralized purchasing would purchase it and then roll it out to all the locations. And in some cases, I think I mentioned on the last call, we have to talk plant by plant. So since, you know, we had one initial plant that we sold to over the quarter, we sold it to a second one or a third one. So it just takes time based on just having to talk to 50 or 80 or 120 plants, you know, individually. So that takes time getting to, you know, it's easier than getting the first one in, but it's still a sales process. And then in some cases, we're talking to companies at the purchasing level where they want to, you know, cut one potential purchase order for all locations, which, of course, makes our life a lot easier and speeds up the timeframe on when we can get the purchase order over, you know, over the line.

Joseph Nergis | Analyst, Segrin Investments:

One more follow-up on that. I'm assuming that all of these potential customers already have contracts signed is signed in their OT environment, a cybersecurity contract. So am I correct in some of these customers might be waiting for that contract to expire before they enter a new contract with a new supplier like us?

Unknown | Unknown Participant:

In some cases, yes. In some cases, yes.

Victor DeLobo | Chief Executive Officer:

Or sometimes the competition may not be supporting older versions of software.

Brett Davidson | Participant:

Yes.

Victor DeLobo | Chief Executive Officer:

So... One of the energy companies we sold to, that's what happened. They stopped supplying the product that they're currently using, which I don't want to mention. They stopped supporting older versions of Microsoft, so we took over those couple thousand devices because they're not willing at this stage to throw them out completely, but at least we're in there and we're picking at it slowly.

Joseph Nergis | Analyst, Segrin Investments:

All right. Well, thanks a lot. I appreciate the answers, and good luck going forward. It sounds like 26 could be a really good year for us. Thanks, guys.

Operator | Conference Operator:

Did you enjoy the show, Joe?

Joseph Nergis | Analyst, Segrin Investments:

Yes, except for one thing. I came back with a cold, and I still haven't. I'm still trying to get rid of the cold. But the show was really good. A lot of customers came by and said, They seem pretty well engaged. Now, closing these guys is not a story, but the numbers are there from what I saw to hopefully get some pretty serious contracts in the not-too-distant future. So, yes, I appreciate you inviting me to the show. Anyway, thank you.

Matthew | Conference Operator:

Thank you. Your next question is coming from Will LaBerve from Visionary Wealth Advisors. Your line is live.

Will LaBerve | Advisor, Visionary Wealth Advisors:

Hi, just had a couple questions. I guess I was at that Rockwell show as well for, I guess, a day on a morning. I just didn't get to see the whole thing, but I definitely saw quite a bit of traffic and the time was there. If I kind of remember right, most of the customers that you guys have gotten over the last year, the connections were made at that Rockwell show a year ago. Is that true?

Victor DeLobo | Chief Executive Officer:

That is correct. Yeah, most of the orders that we got all came from the Rockwell, so that's been our biggest way of getting leads.

Will LaBerve | Advisor, Visionary Wealth Advisors:

Okay. And then can you kind of quantify the number of leads you got last year versus this year? And then I guess along with that, maybe the quality of leads, I assume it's – Probably better this time because I noticed a number of your distributors bringing their customers to the booth. So, you know, that's a lot better than just some random person walking by your booth and talking to you.

Victor DeLobo | Chief Executive Officer:

Right. Yeah, I'm glad you noticed that, that, you know, the distributors, the CEDs, the Sona Paws, the Rexels, they, this year, being comfortable with the product, having closed some opportunities, they were way more comfortable. You know, it was an introduction last year at the show, where this year, you know, we have a relationship. So they brought a lot of their customers. There's been a lot of follow-up already. There's been a lot of appointments already set up, our initial calls. Unfortunately, you know, the timing of the show is like you got Thanksgiving right off of, you know, the following week. So everybody kind of takes that week off. So it's been the last two weeks where we, you know, were able to get in touch with a lot of the individuals and set up initial meetings um and their follow-up meetings right after christmas you know just because you know we're back to back on these holidays as as you see fit but yeah we probably got a 50 increase in leads this year than over last year um i have we haven't gone through all of them yet uh at this stage but they seem to we definitely have a lot more initial meetings than we did quickly based on, you know, the relationships we do have with the rec cells of the world and CEDs and so on and so forth. They were able to set up meetings immediately for us. So, yeah, we're very optimistic that, you know, we closed a lot of deals last year because of this show. You know, my goal is to close, you know, double if we could, right? We have about 50% more of the leads and I think we have a better relationship With them, we have a better reputation. They kind of know us now. We have a lot of installs. So, yeah, I'm looking forward to 2026. Okay.

Will LaBerve | Advisor, Visionary Wealth Advisors:

Yeah, that was more of these than I thought, so that's good.

Victor DeLobo | Chief Executive Officer:

Yeah, you were there. Our booth was always full, right? You never saw no one, you know. We had two demos going almost all day for the whole eight hours that the show was there.

Will LaBerve | Advisor, Visionary Wealth Advisors:

No, it was good. And then I know you guys have probably one of the smaller booths, and I'm sure that costs you quite a bit. But, you know, I think it's probably money well spent generating all those leads.

Operator | Conference Operator:

Yeah, definitely, definitely. Okay. That's all I have right now.

Matthew | Conference Operator:

Thanks.

Unknown | Unknown Participant:

Thanks. Thanks, Will. Have a good one.

Matthew | Conference Operator:

Thank you. Your next question is coming from Mike Price. Your line is live.

Mike Price | Analyst:

Thank you for taking my questions. You didn't mention Acronis, and I was wondering if ACT is being integrated into Acronis software, is there not predictability as far as revenue is concerned? And if that's the case, can you give us an idea of what that might be?

Victor DeLobo | Chief Executive Officer:

Well, it is being integrated, but what the projections are on that, I think it's too early to tell. We're working diligently to get that done over the next few months. But as soon as I have some information I can share, I definitely will.

Mike Price | Analyst:

So how soon do you think we start seeing some revenue? Is this something a couple months, late 2026, some kind of timeframe? It seems like it should be a pretty significant number, is it not?

Operator | Conference Operator:

I think it's too early.

Victor DeLobo | Chief Executive Officer:

Our hopes for both parties is that it's going to be significant for both of us. We fill a gap that they have, so that's kind of how we put this together. But what revenue looks like, I think it's just way too early for me to even guess at this point what that is. But our hopes are that it's going to be significant for both parties. I don't think Cronus, being as big as they are, would team up with us if they were and waste their time if they didn't think it was worth their time and effort.

Mike Price | Analyst:

Okay. And last conference call, I asked you about the relationship with some of the resellers, specifically UFT, where with the original press release, they have 16,000 customers in the water and wastewater area. And you said that there are things in the works that would be discussed later. Do you have any more light on that?

Victor DeLobo | Chief Executive Officer:

I do. So the powers to be at UFT wanted to get three sites implemented and then do case studies on those three. So that's what's happened over the last couple months. Their customers move slower than they would like, but we are on weekly calls with updates. And then in the new year, you know, it's a full steam ahead to, you know, a lot of their customers doing major marketing events jointly with their 16,000 customers doing reach out. But they needed case studies. They needed to change legal agreements. There was a lot that they had to do on their side to get this ready. And, you know, I'm a little bit at their mercy, but the relationship is strong. We closed three opportunities over the last quarter. That was part of the case studies. that they're writing up now.

Mike Price | Analyst:

Okay. And one last quick question. Last quarter, you bought some shares, but are you not subject to the same, the company's subject to the same rules as insiders as far as buying shares? So now that you're reporting earnings so late within two weeks of the end of the first quarter, you can't buy shares until next earnings. Is that the case?

Gary Levine | Chief Financial Officer:

Yeah, pretty much. Yes.

Mike Price | Analyst:

So basically the blackout, for share repurchase was from mid-September till mid-February when you next report. Is that correct?

Victor DeLobo | Chief Executive Officer:

Well, it was to the 15th of the month of December. Right. And, you know, we're here now just because of when, you know, the year-end reporting.

Mike Price | Analyst:

Okay, so you last had a window within two weeks of the end of the fiscal year, mid-September. And because the late reporting is within two weeks of the end of the first quarter, you cannot buy shares again until your report earnings probably mid-February. Correct. Is that correct?

Joseph Nergis | Analyst, Segrin Investments:

Correct.

Mike Price | Analyst:

Okay. All right. That's correct. Okay. Yeah. All right. Thank you. Appreciate it. Yep. Thank you. Have a good one.

Matthew | Conference Operator:

Thank you. And once again, everyone, if you have any questions or comments, please press star then one on your phone. Your next question is coming from Brett Davidson. Your line is live. Good morning, gentlemen.

Brett Davidson | Participant:

Happy holidays. Happy holidays. Same to you. Yeah, thank you. I want to turn back to the fog surrounding the Acronis or Acronis or however the name is pronounced. So, you know, I understand that a lot of this is endpoint protected, the revenue generation. How does that work with the Acronis device? Who are you going to be recognizing the revenue from? Is that coming from Acronis or is that coming from their end user?

Victor DeLobo | Chief Executive Officer:

It'll be coming from Acronis. And it's a little different with what we're doing with them. We're concentrating on scanning the backups before Acronis does the backups to make sure there's no, you know, all the content is secured and there's nothing inside that. And then they would trigger the backup. And that's where the advantages are scanning of, you know, all the information that's on before the backup occurs, we would scan it and certify that there's nothing wrong with it. And then they would, you know, the backup can, you know, go. So if they ever had to do a recovery, it would be, you know, a secured recovery. So is it going to be our customer at the end?

Brett Davidson | Participant:

Is this going to go on every one of those devices that they're producing, or is it going to be based on, you know, what their customer wants, or is this automatically going to be thrown on their devices?

Victor DeLobo | Chief Executive Officer:

No, they would still have to sell it to their customer.

Brett Davidson | Participant:

Got it.

Victor DeLobo | Chief Executive Officer:

That's the way it is right now. If it gets to the level that, you know, you just said that would be, you know, we're not there yet. Let's put it that way. They've got to go somewhere to their – industrial customers, which I can't mention, and they have to show it as an added value.

Brett Davidson | Participant:

And it's going to work similar. This is going to be like a subscription type thing that will renew at some point. Perfect. All right. And the only other thing that I had questions on was regarding, you know, the revenue next year. Is this something where we could reasonably expect incremental increases in revenue throughout the year or it's just so all over the place that, you know, you just don't have that kind of insight into how this is going to play out?

Operator | Conference Operator:

The latter. The latter.

Brett Davidson | Participant:

Okay. Fair enough. Okay. Well, that's all I got. Thanks so much. Okay. Thanks.

Matthew | Conference Operator:

Thank you. That concludes our Q&A session. I'll now hand the conference back to Victor DeLobo for closing remarks. Please go ahead.

Victor DeLobo | Chief Executive Officer:

Thank you, everyone, for joining us today. We hope you've come away today's call with a sense of excitement from our fourth quarter results and our opportunity for fiscal 2026. We are working extremely hard to capitalize on the opportunities we had in the service side of our business, as well as the ADT Protect, and we look forward to reporting on our progress with you in February of next year. In the meantime, thank you to our shareholders for their support, to our team for their dedication and effort, and we wish everyone a happy holidays. Goodbye for now.

Matthew | Conference Operator:

Thank you. Everyone has concluded this event. You may disconnect at this time and have a wonderful day. Thank you for your participation.