

# NASDAQ:DTST Q3 2025 Earnings Call Transcript

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## **Operator | Conference Operator:**

Greetings and welcome to Data Storage Corporation's second quarter earnings call. At this time, all participants are in a listen-only mode. A question and answer session will follow a formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note that this conference is being recorded. I will now turn the conference over to our host, Alexandra Schilt, Investor Relations. Thank you. You may begin.

## **Alexandra Schilt | Investor Relations:**

Thank you. Good morning, everyone, and welcome to Data Storage Corporation's 2025 Second Quarter Business Update Conference Call. On the call with us this morning are Chuck Peluso, Chairman and Chief Executive Officer, and Chris Panagiotakos, Chief Financial Officer. The company issued a press release this morning containing its 2025 Second Quarter financial results, which is also posted on the company's website. If you have any questions after the call or would like any additional information about the company, please contact Crescendo Communications at 212-671-1020. Before we begin, I'd like to remind listeners that this conference call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended that are intended to be covered by the city's harbor created thereby. Forward-looking statements are subject to risks and uncertainties that could cause actual results performed achievements to differ materially from any future results, performance, or achievements expressed or implied by such forward-looking statements. Statements preceded by, followed by, or that otherwise include the words, believes, expects, anticipates, intends, projects, estimates, plans, or similar expressions, or future or conditional verbs such as will, should, would, may, and could are generally forward-looking in nature and not historical facts. Although not all forward-looking statements include the foregoing. Although the company believes that the expectations reflected in such forward-looking statements are reasonable, it can provide no assurance that such expectations will prove to have been correct. These risks should not be construed as exhaustive and should be read together with other cautionary statements included in the company's quarterly reports on Form 10-Q, annual reports on Form 10-K, and current reports on Form 8-K filed with the Security and Exchange Commission. Any forward-looking statement speaks only as of the date on which it was initially made. Except as required by law, the company assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, change circumstances, or otherwise. I'd now like to turn the call over to Chuck Peluso. Please go ahead, Chuck.

## **Chuck Peluso | Chairman and Chief Executive Officer:**

Thank you, Ali. Good morning, everyone, and thank you for joining us on today's call to discuss our 2025 second quarter results. We appreciate your continued interest and the opportunity to share and update on our performance, as well as provide insights into recent developments and future plans. To begin, we'll start with a review of our financial results for three and six month periods ended June 30th, 2025. And with that, I could turn the call over to Chris, our CFO.

## **Chris Panagiotakos | Chief Financial Officer:**

Chris? Thank you, Chuck. Good morning, everyone. Total sales for the three months ended June 30th, 2025 were \$5.1 million, an increase of approximately \$236,000, or 4.8%, compared to the three months ended June 30th, 2024. The increase was primarily driven by continued growth in our subscription-based services. Cloud infrastructure and disaster recovery revenue increased by approximately \$193,000 or 6.1% due to the addition of new subscription clients and expanded services for existing clients. Nexus also contributed significantly with an increase of approximately \$48,000 or 17.3% reflecting successful sales initiatives. This growth was partially offset by a decrease in equipment and software sales of approximately \$95,000, or 12.1%, which is attributable to non-recurring equipment sales in the prior year period and a strategic shift towards subscription services. Total sales for the six months ended June 30, 2025, were \$13.2 million, an increase of approximately \$84,000 or 0.6% compared to the six months ended June 30th, 2024. The relative stability in total sales was the result of a significant shift in our revenue mix. Growth was primarily driven by a \$600,000 or 9.8% increase in our core cloud infrastructure and disaster recovery services and a \$79,000 or 14.3% increase in Nexus services. This growth was largely offset by an approximately \$615,000 or 12.6% decrease in equipment and software sales, which is primarily attributable to non-recurring equipment sales in the prior year period. Cost of sales for the three months ended June 30, 2025, were \$2.6 million, an increase of approximately \$108,000 or 4.3% from the prior year period, which was consistent with the overall growth in sales and also reflects our investment in the newly established UK entity, which is contributing to higher cost of sales as operations ramp up. Cost of sales for the six months ended June 30th, 2025 were \$7.8 million, an increase of approximately \$62,000 or 0.8% from the prior year period. Selling, general, and administrative expenses for the three months ended June 30, 2025 were \$3.3 million, an increase of approximately \$536,000, or 19.2%, as compared to the three months ended June 30, 2024. The increase was primarily driven by an increase in salaries and director's fees and non-cash stock-based compensation. The rise in salaries is attributable to an increase in headcount to support our growth initiatives in the UK and in the US and annual merit-based salary adjustments. The increase in stock-based compensation reflects new equity awards granted to the board and to key employees and directors in the current period. Also contributing was an increase in commissions associated with increased revenues. These increases were partially offset by lower professional fees and occupancy costs compared to the prior period when we were in the process of transitioning our principal office location. Selling general and administrative expenses for the six months ended June 30, 2025 were \$6.3 million, an increase of approximately \$735,000 or 13.3% as compared to the six months ended June 30, 2024. The increase was primarily driven by an increase in salaries and director's fees and non-cash stock-based compensation. The increase in salaries is attributable to an increase in headcount to support our growth initiatives in the UK and in the US and annual merit-based salary adjustments. The increase in stock-based compensation reflects new equity awards granted in 2025 and the full period effect of awards granted in 2024. These increases were partially offset by a decrease in rent and occupancy expense compared to the prior period when we were in the process of transitioning our principal office location. Net loss attributable to common shareholders for the three months ended June 30, 2025 was \$733,000 compared to a net loss of \$244,000 for the three months ended June 30, 2024. Net loss attributable to common shareholders for the six months ended June 30, 2025 was \$709,000 compared to net income of \$113,000 for the six months ended June 2024. We ended the quarter with cash, cash equivalents, and marketable securities of approximately \$11.1 million at June 30, 2025 compared to \$12.3 million at June 31, 2024. Thank you. I will now turn the call back to Chuck.

## **Chuck Peluso | Chairman and Chief Executive Officer:**

Thank you, Chris. Today's conversation is about the road ahead and how we plan to capitalize on the opportunities in front of us. At the center of the conversation is the proposed sale of cloud-first technologies. I want to be clear. Our long-term strategy is not contingent on the outcome of this transaction. Whether the sale is approved by the shareholders or not, we are moving forward with purpose and ambition. Let's start with the path that the sale is approved. This transaction would be transformative. At \$40 million, the deal represents a substantial premium to our entire market cap prior to the announcement. And after fees, taxes,

working capital, commissions to investment banks, The approximate net amount is \$24 million. And that's \$24 million plus the cash in data storage corporation that can be returned to shareholders and reinvested in future growth. Cloud First has been a vital part of our journey. It is a high-performing, cash-generating business that has consistently delivered year-over-year EBITDA growth. However, the public markets, its contribution was not fully recognized. With this sale, we have the opportunity to unlock that hidden value and convert it to tangible return. In addition, our board has authorized a tender offer to purchase up to 85% of the company's outstanding common stock. Using 85% of the cash on hand, as I mentioned, including the proceeds from the sale and our bank accounts at Data Storage Corporation. This represents a return of capital to shareholders designed to reward long-term holders. And even after returning capital, we will retain the resources necessary to remain on NASDAQ and to pursue broader growth agenda. With 15% of the cash earmarked for acquisitions, innovation, and expansion. The 15% is assuming that all shareholders participate, which may not be the case. However, it's up to 85%. That said, if the transaction is not approved by the shareholders at our upcoming annual meeting, we are just as committed to the future. Cloud First will remain a core part of the business. It is a valuable and growing asset. In this scenario, we will continue to optimize cloud-first platform, continue to invest in long-term performance. Equally important, we will continue to explore and expand into new high-growth markets that align with our evolving vision. Our plan is to reshape and rebrand Data Storage Corporation. In fact, we are already engaged in evaluations, strategic partnerships, and technology extensions. These opportunities span artificial intelligence, cybersecurity, and AI vertical SaaS solutions, and we are not limiting ourselves to just these areas alone. In either scenario, we intend to lead with focus, discipline, and a bias towards growth that we expect to drive increased value to our shareholders. The last 12 to 18 months have ushered in a dramatic shift in enterprise technology. The acceleration of AI adoption, the growing complexity of infrastructure needs, the emergence of new software categories, all of these trends are shaping a different kind of enterprise. We believe this creates a window to capitalize and to step into a more expansive role within the tech ecosystem. We are doing this with experience and network to bring together the talent required for our expanded direction. And we are doing it with a goal of delivering value to our shareholders. To support this evolution, we're exploring a full rebranding of the company. We will be redesigning our website and refreshing our brand identity. to better reflect the direction and future of our company. It's strategic. It's about signaling to investors, to partners, to customers. We are evolving. We are focused on the markets that drive shareholder value today and in the years to come. Whether we complete the cloud first sale, our capital allocation remains rooted in balance. we will continue to look for opportunities to return value to shareholders while retaining the flexibility to invest in new platforms, products, and partnerships. If we complete the sale based on the shareholder approval, and over time we cannot execute our plans for some reason, our public entity alone has value. to excellent private companies that desire to be public and to be listed on NASDAQ. We will continue to operate Nexus, which remains an asset in our portfolio, and more importantly, we will continue to pursue opportunities where we believe our expertise can unlock new value, either through organic expansion or targeted M&A. I want to reiterate, that the proposed transaction is subject to shareholder approval at our annual meeting on September 10th, 2025. I urge all the shareholders to review the material in the proxy statement. These documents outline the terms of the deal, the Board's rationale, and the long-term strategy we are pursuing. It's more than just a sale. It's a shareholder-aligned reset a chance to realize value today and position the company for greater value tomorrow. Just to recap, we have a proposed sale of Cloud First at a compelling premium with substantial net proceeds. If approved, we intend to return capital to our shareholders through a tender offer. Whether the sale is approved or not, we are executing future-facing strategy. We are rebranding the company to reflect our new direction. We are investing in next-gen growth verticals like AI, cybersecurity, and SAS. And most importantly, we are confident that either path leads to a stronger, more focused, and ultimately more valuable data storage corporation. Thank you again for your time, your attention, and your continued support as we move forward together. And with that, I'd like to open up the call for questions. Operator?

## **Operator | Conference Operator:**

Thank you. And at this time, we will be conducting our question and answer session. If you would like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star 2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, to ask a question, press star 1 on your telephone keypad. Our first question comes from Matthew Galenko with Maxim Group. Please state your question.

## **Matthew Galenko | Analyst, Maxim Group:**

Hey, good morning, and thanks for taking my question. Maybe just first one is, and I apologize if I missed this in the script, but what will your cash position be roughly following the transaction? I know we have the 24 million net proceeds, so is it just another 11 million and sort of that's your post-transaction capital position?

## **Chuck Peluso | Chairman and Chief Executive Officer:**

Hi, Matt. How are you? Thanks for the question. We have \$24 million in there and we believe that that kind of is approximately the bottom of where it is. We really don't know fully because of taxes and other things that we have networking capital adjustments. So we believe it could be more, but you know, we're, we're cautioned with that to say it's 24 million and that would be 11 million would leave the \$35 million. Great. Thank you.

## **Matthew Galenko | Analyst, Maxim Group:**

And, um, Maybe on the – just on your visibility into the cloud pipeline for the balance of the year, I'm curious how that's looking. You know, are you seeing any acceleration in, you know, move to cloud and you're capturing those opportunities or, you know, sort of how is the pipeline for the cloud business through the balance of the year?

## **Chuck Peluso | Chairman and Chief Executive Officer:**

You know, we normally always have around \$10 million in opportunities. And what happens, Matt, is it's rated from a 10% probability up to 90%. 90% means that there's verbal approvals. So it's a wide question. But usually there's between \$10 and \$1 million in total contract value that always sits in there. What we are seeing, though, and it's continuing because – We're seeing almost like a three-to-one ratio of ads to existing customers and then new sales that typically come in through either shows we've gone to or SEO and things like that with lead generation. But we're seeing the customers continue to add to it. But usually you'll see between \$10 to \$11 million. Chris is shaking his head yes at me, Matt.

## **Matthew Galenko | Analyst, Maxim Group:**

All right, great. And last question for me, I'll jump back in the queue. You mentioned some higher expenses related to your European expansion. You know, any update on how the growth opportunity is shaping up there and, you know, kind of where is the, you know, where are you operationally in Europe at this point?

### **Chuck Peluso | Chairman and Chief Executive Officer:**

Sure. So Colin Freeman, who does an excellent job with his staff, everything is installed in three data centers. I think we have 10 partnerships. Other 10 partnerships, they're not the same company. I don't know if we've been clear on that in the past. They're three separate companies, organizations that have the Intel platform installed. in these data centers, and each one of those companies have partnership arrangements. I believe that Colin and his group have trained all of their Salesforce, the partner's Salesforce. In addition, there's around seven additional distributors. So that funnel is building. I believe they have some opportunities in there. At hand, I don't have that, but I've heard as of last week that those opportunities are building and they're working well. towards bringing them in and closing the deals. So that's going well. Also, just, you know, we've added, and I'm not sure if it hit the second quarter fully or not, you know, we have four new sales, you know, individuals, account maintenance, and and such and two additional techs that have been added into the mix on things. So we've really beefed up the sales, especially in the account maintenance area because, you know, at one time we had one person doing that. You know, we have a team now because these addendums are coming in and same customer sales are important along with the renewals that go along with it. So we continue to hold a good renewal rate.

### **Matthew Galenko | Analyst, Maxim Group:**

Excellent. Thank you. I'll jump back in the queue.

### **Operator | Conference Operator:**

Thank you. And a reminder to ask a question, press star 1 to remove yourself from the queue. Press star 2. Our next question comes from Ellen Litvick with Forest Hill Capital. Please state your question.

### **Ellen Litvick | Analyst, Forest Hill Capital:**

Yes. Thank you. Hi, Chuck. Thanks for taking my question. Appreciate it. Um, first, can you actually walk us through, I guess, really the rationale behind selling cloud first, especially given that, you know, currently represents, uh, I guess approximately about 95% of your revenue.

### **Chuck Peluso | Chairman and Chief Executive Officer:**

Hi, Ellen. Um, you know, I'm, you know, frankly speaking, personally, someone that has invested in this company and what's interesting, this company was launched on, um, nine 11 and, um, And we now have a shareholder meeting actually on September 10th. And it's kind of interesting. And hopefully we close on September 11th. And it's, you know, it's interesting of what happened 9-11. And now all of a sudden, you know, this company that kicked off then, you know, now years and years later where we are. And quite frankly, it's, you know, it's very interesting about the dates and how they align. Not to be too... you know, into astrology and all. But it's disappointing because we weren't able to do M&A. We weren't able to use the stock. Our volume was low, and we have a cash machine. If it stayed as a private company, it's a cash machine. What was the EBITDA, Chris, on, let's say, cloud first?

### **Chris Panagiotakos | Chief Financial Officer:**

So the EBITDA for cloud first for Q2 was approximately \$1 million. And then for the six months, it was approximately \$2.5 million.

### **Chuck Peluso | Chairman and Chief Executive Officer:**

So you have a cash machine with this, and it's not being recognized. Maybe it's not exciting, but we weren't able to do anything with the stock. And we didn't want to create dilution for shareholders on it. And so at some point, you have to say, where can we get the value? And I believe that we're getting the value. I'd like it to be higher than that, but we've negotiated a deal out. with a firm that we believe is excellent, Proforma, and they're backed by Renovis, a PE firm. And we think it's a great home with great people. They have an x86-type platform. So really coming together, it should be a good marriage if the shareholders approve it. But, you know, we couldn't do anything with the public company, with that company. So we need to really be able to move this forward. And we believe some of the things that we are planning. But if it doesn't happen on it, we're doing the things we're planning anyway. But for the most part, we want to be able to return, you know, value to shareholders.

### **Ellen Litvick | Analyst, Forest Hill Capital:**

That makes sense. And, you know, thanks for being candid about it. I guess following the sale, what will the company's operations look like? And what is your strategy for driving growth in the business post-divestiture phase?

### **Chuck Peluso | Chairman and Chief Executive Officer:**

Well, post-sale, you know, I would say that there's going to be three people left in the public company. It's going to be the chief financial officer, the chief administrative officer, Wendy Schmitze, Chris Panagiotakos, and myself. And we're in the process now of actually lining up a board of advisers. Excuse me, also we have Nexus in as well. Chris reminds me, sorry. Nexus, and they have a great team. I believe that the company is profitable or very near profitability and growing. But our intention is first on the AI in this area. We're in the process of putting together some very experienced teams. advisor group. And then from that, we're going to look to do some investing into companies that are developing AI vertical software. And we'll see what these acquisitions bring and how long it'll take us. But it will take us probably 30 to 60 days to actually get a full position on a full plan. if that helps, you know. But, you know, we're back to the beginning again. The only difference is when I started this company with Larry Maglione and Rich Ribetti, there were three of us, and we started it from scratch. And, you know, we're okay with doing that again because now this time we have a public company and we have a few million dollars. And we have Nexus, which is an excellent company. I don't know if that answers the question.

### **Ellen Litvick | Analyst, Forest Hill Capital:**

Yes, it definitely does. And thanks again so much. If I have any other questions, I'll hop back in the queue. Thanks again, Chuck. Thank you, Ellen. Thank you, Ellen.

### **Operator | Conference Operator:**

Thank you. And final reminder, if you'd like to ask a question now, press star 1 on your phone. Once again, to ask a question now, press star 1 on your phone. We'll pause for a couple moments. And ladies and gentlemen, there appears to be no additional requests for questions, so I'll hand the floor to Chuck Peluso for closing remarks. Thank you.

**Chuck Peluso | Chairman and Chief Executive Officer:**

Thank you for the questions, Matt and Ellen. As we move into this next chapter, we're focused on unlocking value, whether that's through the proposed sale of Cloud First or through the continued optimization of our existing businesses. This is a moment of alignment. aligning capital with opportunity, aligning our brand with strategic future, and aligning our operations with growth sectors that are reshaping today enterprise technology. We have a clear path and a commitment to making disciplined, high-impact decisions that will drive shareholder value. In short, we are not standing still. We are transforming. We are building a company that reflects where the market is going. Regardless of the outcome of the shareholder vote, our vision remains the same, to evolve, to invest, and to grow. We're excited about what lies ahead, and we are confident that our strategy will position Data Storage Corporation for long-term success. I'd like to thank the shareholders for your continued support. Have a great day, and thank you.

**Operator | Conference Operator:**

This concludes today's conference. All parties may disconnect. Have a good day.