NASDAQ:DTST Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the Data Storage Corporation fiscal year 2025 earnings call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the call over to your host, Ms. Alexandra Schultz, Investor Relations. Thank you. You may begin.

Alexandra Schultz | Investor Relations:

Thank you. Good morning, everyone, and welcome to Data Storage Corporation's 2025 fiscal year 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 fiscal year 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, please note that today's call contains forward-looking statements within the meeting of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially due to various risks and uncertainties described in the company's filings with the SEC. Except as required by law, the company assumes no obligation to update or revise forward-looking statements. 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. Good morning, everyone, and thank you for joining us. First, I would like to acknowledge the delay in reporting our fiscal year 2025 results. which was necessary to allow additional time to complete our year-end audit. This is primarily driven by the complexity of several significant transactions during the year, including the sale of our cloud-first subsidiary, the classification and settlement of many of our outstanding warrants, and the completion of a tender offer. However, we are pleased to be here today to discuss our results in more detail. 2025 was the most consequential year for Davis Storage Corporation's 25-year history. It was a year defined not just by strong financial results, but by decisive action. Action that fundamentally reshaped our company, strengthened our balance sheet, and positioned us for a new phase. Over the past year, we made deliberate choice. to unlock the value we have spent more than two decades building and redirect that value towards what we believe is a significantly larger opportunity ahead. We executed on that strategy in three critical ways. First, we monetized Cloud First for a total transaction value of $40 million. That transaction generated approximately $31.6 million in net proceeds and a $20.1 million gain. We sold a strong asset at full value because we believed that capital could be deployed into opportunities with greater long-term potential. At closing, we had an estimated $41 million in the bank, based on our cash balance of $10 million plus the sale of CloudFirst. Second, we returned $29.3 million of that capital directly to shareholders through a tender offer at $5.20 per share, reducing our outstanding share count by approximately 72%. That level of capital return is rare for a company of our size and reflects a core principle of ours, Capital belongs to the shareholders. And when we generate it, we allocate it responsible, whether that means returning it or investing it for growth. Third, we reset the company. We entered 2026 debt-free with over $10 million in capital, a clean balance sheet, and at this point, a simplified operating structure. From a financial standpoint, these options resulted in record performance. We reported a net income of $19.2 million for the year, compared to $500,000 for 2024. At the same time, I want to be very clear with investors,

this level of profitability reflects the cloud-first transaction and other non-recurring events. It does not yet represent earnings power of DTSP, and we are being intentional and transparent What it does demonstrate is our ability to create value and recognize and to realize that value and to act with discipline in how we allocate capital. Today, our core operating business is Nexus, and it's performance. In 2025, Nexus generated 1.4 million in revenue, representing a 13.4 year-over-year growth. Gross margins expanded to 44.4%, and importantly, we improved the quality of the business by reducing customer concentration, with no single customer accounting for more than 10% of the revenue. Nexus is lean, subscription-based. recurring revenue business with improving margins, and real operating leverage. And that brings us to the most important part of our story. What comes next? We have deliberately positioned DTSP as a NASDAQ listed acquisition platform with capital, flexibility, and a clear mandate to identify, acquire, and scale high-quality businesses in large and growing technology markets. We are actively evaluating opportunities in areas where we believe we have both a strategic alignment and the ability to add value, including AI-enabled vertical SaaS, GPU infrastructure, cybersecurity, and SOC-related services, as well as scalable technology businesses with recurring revenue models. These are not abstract targets. These are markets with significant tailwinds. where disciplined capital deployment can drive meaningful long-term returns. In fact, we've already identified and are actively pursuing a number of strategic opportunities with an emerging GPU infrastructure segment in enterprise technology. These areas are being shaped by strong tailwinds, including a rapid adoption of AI-driven workloads, ongoing data architecture, modernization, and increasing demand for scalability, resilient digital infrastructure. Our focus remains on large, evolving markets. where demand visibility is high, where we believe we can deploy capital in a disciplined, accretive manner with an emphasis on opportunities that are often compelling, risk-adjusted returns, and clear avenues for long-term value creation. We are actively advancing these initiatives, positioning ourselves to stay agile and selective as they're developed. We expect to provide meaningful updates in the near term as these opportunities evolve. Importantly, we are only pursuing opportunities where we understand the consumer behavior and business deeply and where we see a clear and credible path to value creation. At the same time, we are focused internally on improving efficiency. As we move through 2026, we expect corporate overhead to decline meaningfully. As we transition from cloud versus divestiture, it's completed. Our objective is to ensure that the earning power of this company is driven by operations, not one-time events. So when you step back and you look at DTSC today, what you see is a company that has undergone a complete transformation. We have moved from a traditional cloud-based managed service model to a streamlined, well-capitalized platform with flexibility to pursue higher growth, higher margin opportunities. We have demonstrated that we can build value, that we are willing to realize it when the timing is right. And now we are focused on the next phase, building a company defined by sustainable growth, disciplined execution, and long-term shareholder returns. 2025 was about realizing value. 2026 and beyond will be about seeking opportunities, bringing together synergistic companies, and creating shareholder value. Now I'd like to turn the call over to Chris Panagiotakos for a review of our financial results. Chris?

Chris Panagiotakos | Chief Financial Officer:

Thank you, Chuck. Good morning, everyone. As discussed on our last call, on September 11th, 2025, we closed the sale of our Class First business for $40 million. As a result of the transaction, in accordance with auditing and reporting standards, our ongoing financial reporting now reflects only our continuing operations, specifically our Nexus subsidiary. Sales from continuing operations were $1.4 million for the year ended December 31st, an increase of $164,000, or 13.4%, compared to $1.2 million in the prior year. The increase was primarily attributable to continued growth in our Nexus voice and data solutions business, driven by the addition of new customers and increased spending for existing customers. Revenue growth during the period reflects continued demand for our voice and data connectivity solutions, and expansion of services within our existing customer base. Selling general and administrative expenses for the year ended December 31st, 2025 increased $348,000, or 9.1%, to $4.2 million from $3.8 million for the year ended December 31st, 2024. The increase was primarily driven by a $507,000 or 101.6% increase in non-cash stock-based compensation, primarily related to the accelerated vesting of equity awards in connection with the sale of the cloud-first

business, which triggered a fundamental transaction clause in equity award agreements with employees. Salaries and director fees increased $166,000, or 9.8%, attributable to annual merit-based salary adjustments and bonuses. These increases were significantly offset by a $301,000, or 22.8% decrease in professional fees, primarily related to lower legal and consulting expenses in the current year. We expect expenses to decrease for the year ended December 31st, 2026. as compared to the year ended December 31st, 2025, since a significant number of its employees are no longer working for us and instead are working for the buyer across this business. And we anticipate having lower legal and accounting costs. Net income attributable to common shareholders for the year ended December 31st, 2025 was $19.2 million compared to net income of $523,000 for the year ended December 31st, 2024. The significant increase in net income for the 2025 fiscal year was primarily driven by the gain recognized on discontinued operations. We ended the quarter with cash, cash equivalents, and marketable securities of approximately $41 million at December 31st, 2025, compared to $12.3 million at December 31st, 2024. Thank you. I will now turn the call back to Chuck.

Chuck Peluso | Chairman and Chief Executive Officer:

Thanks, Chris. Before we open the call to questions, I just wanted to reinforce what we believe we're entering to an exciting new phase. We attended the NVIDIA conference a few weeks ago, which reinforced the magnitude of the opportunity emerging across both technology and business. The pace of innovation and the scale of investment underway are substantial, signaling a transformation shift across industries. At the same time, It sharpened our approach. Rather than competing directly in a capital-intensive area, such as the billions being deployed into GPUs and core infrastructure, we are focused on a disciplined participation. We have identified several key areas to focus to pursue, and we are advancing them deliberately, allocating capital thoughtfully, and concentrating on opportunities. We see a clear differentiation in the potential to drive meaningful long-term value. Now I'd like to open it up to questions. Operator?

Operator | Conference Operator:

Thank you. If you'd like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star 2 if you'd 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. Our first question comes from the line of Matthew with . Please proceed with your question.

Matthew | Analyst:

Hey, good morning. Thanks for taking my questions and congratulations on getting to this point in the transition. You know, can you give us some sense of what valuations look like? You know, is it kind of what you expected when you started this process, particularly as you look towards some of the AI and HPC opportunities? You know, is it kind of within reason or is it, you know, overheated at all?

Chuck Peluso | Chairman and Chief Executive Officer:

Thanks, Matt, and it's good hearing your voice. What's going on is, you know, after attending that conference, Matt, is that this is like nuclear energy. Some people are frightened, but most people are very, very excited. And what's happening on the equipment side of things, you can put your hands on, and it's very, very tangible. On the software side, everyone uses the term their training, their training, their, you know, their platforms, their software and all. We, you know, so when we see the valuations, really you hear things like, you know, someone that's not even at a beta side of the software, people are hoping to get $700 million in their free revenue. But for the most part, you know, as I walked through the conference, I would say that

Nvidia has paid for everyone at that conference is huge out of San Jose, it was just amazing on it. But, you know, after spending 25 years and disaster recovery and business continuity, I went there with Matt, you know, one of our board members, and we think we have an idea on a potential opportunity to be able to cough something out, that's something that we know pretty well. We're still testing the waters. We still have a lot of research to do on it over, you know, a period of time. But there are parts that you can play in that you're not going to get crushed or playing with someone that's raising or spend $50 billion on GPUs. So there are some opportunities given that, you know, based on our past experience that we see. So the valuations are all over the place. Most of the people that we spoke to, and by the way, Matt, since September, and we close. We've spoken to 21 companies that we either have passed on, we've passed on, that are everything from the SAS AI offering to, you know, to an MSP to, you know, VoIP companies. And you're both basically seeing, you know, on the MSP side, you know, you're looking really at non-recurring, usually for the most part, unless it's software renewals. You know, they're trading at one times, but they're trying to get two and a half times revenue. It's according to the size that they really are. And on some of the AI stuff, I just have to say that 95% of everyone we've spoken to either at that conference and all, they're waiting to go buy, you know, their 120-foot yacht. So it's not there yet, but the excitement of what's going on is incredible. I think we potentially have some ideas on where we can play that separates us a little bit. But in answer to your question, Matt, it's just all over the place. They're hoping to, like I say, get a $700 million value. I mean, I'm sitting in a, you know, not that I'm a bar goer, but sitting in a hotel bar locked in with around 15 to 20 people that have passed through that a lot of people kind of knew. And, you know, one guy was working on the software on his laptop sitting next to me. and they're going literally for a $700 million valuation. So I think it's all over the place. Everybody's trying to create water. It's a long answer, but, you know, it's that incredible, Matt. It's that incredible what's going on.

Matthew | Analyst:

Don, I appreciate the color. And maybe, you know, does having cash in the bank right as it's deployed get the counterparties, you know, a little more – you know, interested in the conversation or is that helping to, you know, kind of move things along in some of these conversations?

Chuck Peluso | Chairman and Chief Executive Officer:

You know, two of the things that we're kind of looking at, well, three things, which we always lay out. Oh, is there a reverse merger out there that, you know, gives stockholder value great, you know, great value and all? You know, we're not rushing to that, but people are approaching us. And we're saying, well, gee, why can they do that and we can't, you know? Why can they build something that has a $100 million market cap and more? Why can't we? So we're really not so focused on that now. We'll look at opportunities because they're approaching us. But there's also, I'm going to call it the medium tech, the stuff that's not on fire where you could get burned. So there are some really good MSPs out there, and some of them have developed some AI software. So we've been talking to them, some of these companies, about, well, how about we separate it, and what's the meat and potatoes that's your MSP, and we look at doing something there, and then anything on the software side that – for the term that everybody is still training, still working on, we'll create something as a joint venture or something where we have the opportunity to buy it if you actually deploy it. So, you know, you need to really get creative because most of the folks that are in this MSP space, as well as VoIP companies as well, they've caught on and they're trying to develop the software so they can roll it out to their customer base that they have. And I think that's pretty good, but I don't think we have to give any value yet to that software. But it might be something that's good because organic growth is very tough, and there might be some good cross-selling that goes on. So that's, you know, some of the stuff that we're looking at. Let's go medium tech. Let's not, you know, while we're still looking at this other thing that we kind of feel that might be a good opportunity in the AI infrastructure GPU space.

Matthew | Analyst:

Got it. Thank you. And then maybe just last question for the existing business. Is it possible to give us a sense of what the quarterly run rate or burn would look like operating, you know, without a transaction currently and generally what your expectations for Nexus are over the next year, you know, operating independently?

Chuck Peluso | Chairman and Chief Executive Officer:

Sure. I'll handle the Nexus. I'll turn the burn over to Chris. Go on, Chris. Give an idea of what our run rate was, typically where a range of where you think it might be.

Chris Panagiotakos | Chief Financial Officer:

So I think the burn rate for 2026 will be probably about $2 million for the year being a public company.

Chuck Peluso | Chairman and Chief Executive Officer:

So, you know, we think we can reduce some of that, Matt, in certain areas because the legal fees were pretty high, and we're still incurring some of them as we go through it. So, you know, we'll give it a range that's an estimate. Don't hold us to it, but that's kind of what we're expecting on that. On the Nexus side of things, they're growing. We own 80% of Nexus. John Canelo runs that, does a great job. He has a small staff. He's adding some folks to it. You know, I think he has to – I don't want to say he has to. We have to allocate a little bit more money, not much, but to improve his inbound leads. He does a great job with agents and with shows. you know, associations and all of that. But we have to spend a little bit of money, not much, to improve the SEO side of things. But, you know, he's profitable. He turned a profit. You know, we never really allocated a lot of money in this sense to growth. It's been around for a while. We put money in, you know, as he needed it. But we haven't said, you know, here's $100,000, you know, get a digital marketing agency, get the lead flow going. We're trying to hold on to the cash we have, be very disciplined a bit for the first acquisition, along with, you know, we have 2.1 million shares outstanding, you know, give or take, a little bit more than that. But, you know, we want to be careful with that, that if we're going to say, hey, we're going to go raise money, which we would, that it's going to be an increase in value.

Matthew | Analyst:

Got it. Very good. Well, hey, appreciate the color and, you know, look forward to seeing what you do.

Chuck Peluso | Chairman and Chief Executive Officer:

Thanks very much, Matt. Thanks for spending the time. Hope to see you soon.

Operator | Conference Operator:

Thank you. Ladies and gentlemen, as a reminder, if you'd like to join the question queue, it's star 1 on your telephone keypad. We'll pause just a moment to allow for any other questions. Mr. Peluso, I see no other questions at this time. We'll turn the floor back to you for final comments.

Chuck Peluso | Chairman and Chief Executive Officer:

Thank you. Thanks for the questions, Matt. You know, as we enter this next phase from a position of real strength with capital on the balance sheet and a clean, simplified structure and a clear strategic mandate, That combination gives us the ability to be selective, to be disciplined, and to focus only on opportunities that we believe can create meaningful long-term value for our shareholders. At the same time, we remain grounded in execution. Our priorities are clear. Continue improving performance of Nexus, deploy capital thoughtfully into areas that enhance our scale, expand our margins, and strengthen the overall quality of our earnings. We are building with intention, and we are building for durability. And we do appreciate the trust and support of our shareholders. We look forward to updating you on our progress as we move through 2026 and execute on the opportunities ahead. Thank you.

Operator | Conference Operator:

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.