NASDAQ:DTST Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the Data Storage Corporation second quarter 2026 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, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce 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 2026 Second Quarter Business Update Conference Call. On the call with us this morning are Chuck Piluso, Chairman and Chief Executive Officer, and Chris Panagiotakos, Chief Financial Officer. The company issued a press release this morning containing its 2026 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, please note that today's call contains forward-looking statements within the meaning 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 findings 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 Piluso. Please go ahead, Chuck.

Chuck Piluso | Chairman and Chief Executive Officer:

Thank you, Allie. Good morning, everyone. We appreciate everyone joining us today. The second quarter advanced transformation of Data Storage Corporation following the sale of Cloud First. We are operating from a focused position with a clear mandate, deploy capital with discipline, Explore acquisitions, building sustainable, recurring revenue. Consider opportunities for merging and meaningful value for shareholders. There are three points I want investors to take away from this call today. First, Nexus is performing. The revenue from continuing operations increased 9.3% year-over-year, and the business delivered year-over-year growth in both revenue and gross profit. Nexus gives us recurring revenue and operating foundation in communications and connectivity while we execute a broader strategy. Second, our balance sheet gives us the ability to act. We ended the period with approximately $9.3 million in cash and marketable securities and no long-term debt, as well as a streamlined corporate structure that capital is something we intend to deploy. And we're not deploying capital just for the sake of doing transactions. We intend to be selective, valuation conscious and focused opportunities where we believe we can build durable earning power. Third, our strategic pipeline is active. We are evaluating businesses and opportunities across AI infrastructure, cybersecurity, communications, software, and other related technology markets. The common thread is straightforward, recurring revenue, predictable cash flow, strong customer relations, capable management teams, and a path to operational and financial growth. Our strategy is simple. Partner with technology businesses that have compelling products but need resources and capital to scale. We are focused on areas including GPU infrastructure, AI-enabled software, cybersecurity, and telecommunications. We believe the NASDAQ-listed platform and operating experience and our capital position can be meaningful advantages when paired with the right business. We're not trying to assemble a collection of unrelated assets. We're working to build a portfolio of technology businesses that are synergistic and the potential to scale.

Matthew Galenko | Analyst, Maxim Group:

We also believe our current structure

Chuck Piluso | Chairman and Chief Executive Officer:

gives us several ways to create value. An acquisition as recurring revenue and earnings, a strategic investment or partnership can provide exposure to attractive markets while allowing us to manage the risk, and internally developed initiatives can create additional opportunities when they're supported by customer demand. We are maintaining discipline around valuation and structure. Having capital available does not mean we need to deploy it immediately. We would rather preserve our flexibility and pursue a transaction that does not meet our strategic and financial criteria. When we commit shareholder capital, we want a clear rationale for why that business belongs within DTST and how that investment can create value over time. That framework also shapes how we evaluate acquisitions. We are looking beyond headline revenue growth. We want businesses where the quality of the revenue is attractive, where customers have a reason to stay, and where the underlying economics can support sustainable earnings over time. We also want management teams to know their markets and can continue to operate as part of a larger platform. Let me spend a few moments on Nexus. Nexus provides fully managed business voice, internet, data transport, and SD-WAN solutions designed for the enterprise. It is enterprise-grade reliability and a simplified operation. Its model is built around recurring revenue, high touch support, and integrated connectivity. For customers, that can mean fewer vendors. Better visibility, greater resiliency, and a single point of accountability. The DTFT provides a stable operating base as we pursue our next stage of growth. Our objective is to continue supporting Nexus while remaining focused on the larger opportunity in front of us. Using the platform and the capital we have today to expand the scale and earnings capacity of the company. We believe the combination of existing recurring revenue business and disciplined growth can create a stronger and more valuable enterprise over time. The 9.3% year-over-year increase in revenue from continuing operations is encouraging because it demonstrates that this operating foundation continues to move forward while we pursue a broader strategy. Review Nexus not simply as a legacy business, but as an operating asset that gives DTSP recurring customer relations, market presence, and practical experience supporting critical enterprise communications environments. We believe the work we are doing now can materially reshape DTST over time. The opportunity is to take a focused public company platform, a growing recurring revenue operating business, and available capital, and use those assets to build a greater scale and stronger earning power. Defined by focus and optionality, we have an operating business that is growing, a debt-free capital structure, a clear acquisition framework. We do not need to force a transaction. We can wait for the right opportunity. And when we find it, we believe we have the platform and resources. Our priority is not activity. It is value creation. Now I'd like to turn it over to Chris Panagiotakos, our CFO, for a review of the financial results. Chris?

Chris Panagiotakos | Chief Financial Officer:

Thank you, Chuck. Good morning, everyone. As previously discussed, on September 11th, 2025, we closed the sale of our Cloud 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 $369,000 for the three months ended June 30th, 2026, an increase of $31,000 or 9.3% compared to $328,000 in the prior year period. 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 from 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. Gross profits for the three months ended June 30, 2026 was $168,000, an increase of $30,000 or 21.9% compared to $138,000 in the prior period. Our gross profit margin improved to 47% from 42.1% in the prior period, driven by favorable sales mix and operating leverage. Selling general and administrative expenses for the three months ended June 30, 2026 increased $362,000 or

33.2% to $1.5 million from $1.1 million for the three months ended June 30, 2025. The increase was primarily driven by a $328,000 or 99.1% increase in non-cash stock-based compensation as a result of grants to certain executives and employees and increase in professional fees of $58,000 or 26.2% attributable to higher fees paid relating to legal and consulting services during the period. Net loss attributable to common shareholders for the three months ended June 30, 2026 was $1.2 million compared to the net loss of $732,000 for the three months ended June 30th, 2025. We ended the quarter with cash and marketable securities of approximately $9.3 million at June 30th, 2026. We used $29.5 million of the proceeds from the sales of marketable securities to repurchase common stock from our shareholders in connection with the tender offer It's closed on January 15, 2026. Thank you. I will now turn the call back to Chuck.

Chuck Piluso | Chairman and Chief Executive Officer:

Thanks, Chris. Let's open up the call for some questions.

Operator | Conference Operator:

Thank you. And at this time, we'll conduct the Q&A session. To ask a question, 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. four participants using speaker equipment and may be necessary to pick up your handset before pressing the start keys. One moment please while we poll for questions. Your first question comes from Matthew Galenko with Maxim Group. Please state your question.

Matthew Galenko | Analyst, Maxim Group:

Hey, good morning. Thanks for taking my questions. Maybe if we could start with what you're seeing in the and the environment. And, you know, what would you say the biggest hurdle is today? You know, businesses that you don't necessarily have line of sight to recurring or scalability and sustainability or are valuations sort of, you know, not in a place where you, you know, find realistic returns. I'm just curious what you're seeing and how that's changing over time.

Chuck Piluso | Chairman and Chief Executive Officer:

Thanks, Matt, and good morning. Thank you for that question. I will tell you, since we signed the deal with Proforma, which is owned by Lenovis, private equity that we had sold, and then we had the shareholder vote in September of 2025, since that July signing, we started working on looking at M&A transactions and we looked at conservatively people from different firms were approaching us to do a reverse merge and say you know reverse merge into the company and then as you look at these companies to see how they would improve shareholder value you know we find that there is a pre-revenue biotech you know everybody's going to have a billion dollar value in a short period of time so it's kind of disappointing So when we look at things like reverse merge, if we actually saw something that was a real solid company, and I say we looked at over probably 15 people calling us, you know, it really wasn't a strategy of ours to do that. But if something fantastic came up, well, you've got to look at it. We just didn't see that. On the other side, you look at some of the valuations and what happens some of these companies they go out I'll give you a very simple example that you know they're at five to six million dollars in revenue they have a 500 million dollar valuation and they raise they raise some money from friends and family so there's a lot of unrealistic you know no one's going to write a check out for 500 million dollars for them you know and so you know you're seeing a lot of unrealistic acquisitions We have a few different paths. So what we're looking at is there could be distressed companies, for example, that have cyber software. And they got caught up with either bad debt, out of covenant, but they own IP. They have patent files. And so, you know, a cybersecurity software, just as an example. So we see that and we see the management team is pretty solid. on things but got in a little trouble. We like things like that because we know that it has legs. We can pick up the software, let's say. We can now put some of our experience behind that, put some capital in, and then grow that, maybe building a stock or just, you know, selling the software or whatever. So, you know, things like that interest us. We looked at some telecom. You know, with the telecom stuff, although it's just a fantastic business, it's not on the on the climb. If you take packet eight, and I just round numbers out, you know, they have like seven $800 million in revenue, their market cap is like two to $300 million. but it's solid recurring revenue and a lot of folks today, Microsoft Teams ate a lot of their lunch but when you look at that, Nexus actually integrates with Teams So there's integration that goes on with that, and you have a phone company that you can call. So we think that that's good, and that's good for growth, and John and his group does a fantastic job at Nexus. But we're looking more at a little of sovereign AI. You know, we believe that we're not wanting to put up a neocloud. basically a year ago I wanted to, quite frankly. So we're looking at these niche kind of plays that are not yet ready, but they will be ready. The business that we're in for 25 years, we believe that we might be able to build something that is going to lead to compliance. Let's say as an example with regulated industries that they're not allowed really to use the cloud. It needs to be a private build. So we're looking seriously at companies that actually install sovereign AI and then have some of that talent to be able to take it to another level that I have some plans for, but we're not there on it. So I would say cyber, niche play GPU infrastructure, companies that have assets or IP. But we've looked at many, many, many companies. I mean, I think on our tracker it says like 124. and we're finding a few, you know, and we have stuff, we have things that are lined up that, you know, we're looking at, you know, further due diligence on it, but we're not ready to pull the trigger on anyone. But the biggest thing is the management team and if they have a product that can be delivered and there's a requirement for it. But so many folks have outrageous valuations that go on. and so, you know, I don't know if that helps with the question but I think it gives you a feel that we've been really, really active with it and we continue to every week and we have a number of different banks that we're working with that are sending deals in or approaching us.

Matthew Galenko | Analyst, Maxim Group:

That's super helpful and I appreciate the call and maybe just as a follow-up to that process, do you, for maybe the more attractive type opportunities that maybe have unrealistic valuations today but need capital and might not be able to raise, might not have access or can't re-raise at the levels that they want. Do you expect any of those to potentially come back six months from now, a year from now with maybe a more reasonable ask or is that part of the strategy as you kind of remain patient and sort of have different assets and different levels of engagement?

Chuck Piluso | Chairman and Chief Executive Officer:

There's one exact company that we looked at a while ago, over a year ago, could be close to two years, and they came back and we're having discussions and meeting with folks. We're just real careful. You know, we have a group of technical advisors that but we can actually, according to who it might be, it might be someone that actually specializes, for example, in software as it relates to cybersecurity. So we have the folks that can evaluate this. I'm not a software person at all, but we do have the talent that can look at the GPU infrastructure, the niche place. These are folks that were out of Amazon, Google, and it just goes on, Deloitte. So we have a very, very solid group that gets involved once we say, oh, this management team is good. We like them. Their forecasts are too big. Let's make that more reasonable, see where it goes. And then as we get into the product, we get the advisors involved. And they've been involved in a number of things that we're looking at. So it's from that point of view that they do come back. They do come back because, you know, it's difficult to raise money at that size company. and they all need access to capital. We have the NASDAQ company. We can use that and, you know, the $10 million. It gives us a lot of runway and some money to spend. But we're just real careful. We have to see something that, you know, based on I'll just use my experience and we have some really good committees off the board that can actually help launch products on the go-to-market plans. So, but one company did come back in answer to your question.

Operator | Conference Operator:

Great.

Matthew Galenko | Analyst, Maxim Group:

Thank you.

Operator | Conference Operator:

Your next question comes from Robert Jordan with TSA Capital. Please state your question.

Robert Jordan | Analyst, TSA Capital:

Thank you. Chuck, given where your stock is currently trading, how do you view your company's valuation and does it factor into your M&A outlook?

Chuck Piluso | Chairman and Chief Executive Officer:

Well, first of all, we're trading below, you know, our liquidation value right now. I mean, we have $10 million in the bank. You divide that out if you want to add any value to the public company. So I don't know. But, you know, we would use a portion of our cash in anything that we do that we're buying a smaller company. It would be based on some sort of earn out as it relates to cash and stock. You know, we would issue Some of the cash, but we rather buy the company, a company or a majority of the company, place it in a new subsidiary, and we put fresh capital into that to make them grow. And, you know, people have to prove, you know, that just, you know, whatever we're buying has legs, that they can grow it. And then doing that benchmarking. and I think it's reasonable. If they believe in the company, there's no reason why they wouldn't agree to it. We just, when we see these numbers sometimes, we taper it down because they're just, you know, they just, we talk to somebody, they were $15 million, they say within a short period they'll be at $25 million. Another short period, they'd be at 40, you know, and it's like, okay, you know, it's just unrealistic. I've been around too many years, you know, to say I think that's really great that you can do that. I just necessarily don't want to participate in that. play. So, but, you know, I don't know if that answers the question to you, but we're trading below liquidation value and whatever we build in will be built in with earn out, even though there could be cash, according to what their revenue and their profit is. You know, based on that, there'd be upfront money and some of it would need to be on earn out. And we are limited by cash. I'd love to have $20 million in the bank, but we're going to be careful with it.

Robert Jordan | Analyst, TSA Capital:

No, that answers it. That's very helpful. Just one other question I have. How do you think about the timeline for your potential M&A activity? What should us investors expect over the coming quarters?

Chuck Piluso | Chairman and Chief Executive Officer:

Gee, I would love to get, let's say, an LOI signed that's non-binding, you know, Thank you very much. I'm impatient and I've been very patient with it but the deals just keep coming in and we just want to pick the right one but I just explained how we structure some of the things and every deal is a little bit different but I'd love to get a deal done in the fourth quarter.

Robert Jordan | Analyst, TSA Capital:

Thanks Chuck, that answered my question. Good luck with the acquisition strategy.

Chuck Piluso | Chairman and Chief Executive Officer:

Thank you very much. Thank you.

Operator | Conference Operator:

Thank you for the questions at this time. So I'll hand the floor back over to Chuck Piluso for closing remarks.

Chuck Piluso | Chairman and Chief Executive Officer:

Thank you. Thank you all for the questions. Appreciate it. Gives us an opportunity to go a little deeper on some of the things that we feel we're in the direction of. You know, as we look forward, I believe that the company is in a very strong position and we have recurring revenue operating business in nexus. We've got a solid capital position. and when we say long-term debt, I believe that we don't have any debt, you know, when you look at that, but we'll say no long-term debt. We have a very streamlined corporate strategy that gives us flexibility to pursue these opportunities that we believe that we can enhance their value, their value and in turn our value, the shareholder value. Our priority now is execution. We are actively evaluating M&A opportunities across several areas of technology. But we're going to remain very disciplined. We are not going to pursue transactions simply for the sake of getting bigger and we're looking for quality business with quality leadership. recurring revenue and established customer base, strong management teams that are willing to stay and grow the business, and the potential to generate sustainable earnings and cash flow. We deploy capital. We want to do so in a way that we believe can create long-term value for our shareholders. At the same time, we intend to continue building on that momentum at Nexus and strengthening the operating foundation of the company. Nexus continues to provide us with a stable recurring revenue base, established customer relationships, and exposure to ongoing demand for enterprise connectivity solutions. We believe that foundation gives us a solid platform as we evaluate opportunities and broaden our scale. Ultimately, the next phase for DTSP is about translating our financial flexibility, our operating platform and experience into greater scale, stronger earnings power, and increased shareholder value. Today, for some reason, as I mentioned before, we trade below our cash and marketable securities. However, we recognize that results, not intentions, will determine our success, and our team is focused on delivering measurable progress We appreciate the continued support from our shareholders, employees, our customers, partners, and we look forward to updating you as we execute on these objectives. Thank you for joining us today.

Operator | Conference Operator:

Thank you. And that concludes today's call on Pardiment Disconnect. Have a good day.