NASDAQ:DTST Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Greetings and welcome to the Data Storage Corporation third quarter 2026 earnings conference 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 call, 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 Third 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 Third 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 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 Piluso. Please go ahead, Chuck.

Chuck Piluso | Chairman and Chief Executive Officer:

Thank you, Ali. Good morning. We appreciate everyone joining today. The most important development this quarter is the progress that we've made in advancing our strategy. Following the sale of Cloud First, we said our objective was to build a strong technology company around services that enterprises increasingly need. with recurring revenue potential and clear strategic connections. Today, I will update you on key parts of that strategy. Nexus, our established communications and connectivity business, the AI continuity platform we are developing to help regulated businesses recover critical AI workloads and our acquisition strategy in cybersecurity. Nexus provides a strong foundation for the strategy. offering business-critical services including voice, AI voice, internet connectivity, disaster recovery with SD-WAN, and data transport. These essential services support customers' daily operations, improve efficiency, and provide opportunities to expand our relations with customers. This brings me to AI continuity. During the quarter, we began development of an AI continuity platform. We see an important emerging challenge as enterprises move AI from experimental into production, especially in industries such as healthcare and financial services. When an AI workload becomes part of a critical process, businesses need to know what happens if the system fails and how quickly it can be restored. Our platform is being designed to detect failures, maintain secure replicas, and orchestrate recovery using GPU resources activated on demand. We are targeting recovery time objectives of seconds to 15 minutes. An important part of the platform is also to reduce the need for customers to maintain expensive target GPUs running continuously. The platform is being designed to bring recovery capacity online only when it's needed, so enterprises do not have to duplicate costly AI infrastructure, a significant capital requirement. We believe that could be relevant to regulated enterprises. Balancing operational resilience, compliance expectations, auditing, and infrastructure costs. This initiative draws on our history. For more than two decades, we gained experience in business continuity and disaster recovery through Cloud First. We ultimately sold that business for $40 million in 2025 and returned an estimated $30 million to shareholders.

We understand the importance of recovery and availability in enterprise environments. This platform we are building is an effort to apply that experience to a new generation of workloads. As part of our strategy, we are actively pursuing acquisitions in cybersecurity that would complement Nexus and our AI platform, strengthen our capabilities, and broaden our service offerings. We believe these complementary technologies could create meaningful opportunities for cross-selling, recurring revenue, and deeper customer relations. We believe bringing continuity, cybersecurity, and AI continuity together creates a substantial market opportunity. Our financial position allows us to pursue opportunities. We ended September approximately $9.5 million in cash and marketable securities and no debt. That is a meaningful advantage as we assess acquisition opportunities, investments, and the capital requirements of our operating business. At the same time, we remain disciplined. Our goal is to invest in capabilities that fit our strategy and have potential to contribute sustainable revenue, attractive economics, and shareholder value. Before I turn the call over to Chris, I want to emphasize that Nexus remains essential to the strategy. It provides an operating foundation, customer relations, and recurring connectivity services. Revenue grew in the third quarter, and the business showed near-to-date improvement in both revenue and gross profit. We intend to support and invest in its development while pursuing complementary opportunities that could broaden our addressable market. Now I'd like to turn the call over to Chris for a review of our financial results. Chris?

Chris Panagiotakos | Chief Financial Officer:

Thank you, Chuck. Good morning, everyone. As previously discussed, on September 11, 2025, we closed the sale of our CloudFresh business for $40 million. As a result of the transaction and in accordance with accounting standards, our ongoing financial reporting now reflects only our continuing operations, specifically our Nexus subsidiary. Sales from continuing operations were $374,000 for the three months ended September 30th, 2026, a decrease of $43,000 or 10.3% compared to $417,000 for the three months ended September 30th, 2025. The decrease was primarily attributable to lower VoIP services revenue and lower other revenue partially offset by an increase in data transport services revenue. This primarily reflects existing customers requesting services that generate less revenue than the services they used in the prior year. On a sequential basis, sales increased 4.3% from the second quarter of 2026. Gross profit for the three months ended September 30th, 2026 was $156,000, a decrease of $43,000 or 21.6% compared to $198,000 Our gross profit margin decreased to 41.6% from 47.6% in the prior period, primarily because cost of sales remained relatively flat while sales decreased. For the nine months ended September 30, 2026, sales increased 2% to $1.1 million, driven by a 15.9% increase in data transport services revenue and Gross Profit increased 6.8% to $510,000. Our gross profit margin for the nine month period improved to 47.3% from 45.1% in the prior period. Selling general and administrative expenses for the three months ended September 30th, 2026 decreased $256,000, or 19.7%, to $1 million from $1.3 million for the three months ended September 30, 2025. The decrease was primarily driven by a $316,000, or 58.8%, decrease in non-cash stock-based compensation. Net loss attributable to common shareholders for the three months ended September 30, 2026 was $865,000 compared to net income of $19.4 million for the three months ended September 30, 2025, which included the gain on the sales file first. We ended the quarter with cash, cash equivalents, and marked of Approximately $9.5 million at September 30, 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, which closed on January 15, 2026. During the third quarter, we also received the final $1 million of escrow proceeds from the sale filed first. Thank you. I will now turn the call back to Chuck.

Chuck Piluso | Chairman and Chief Executive Officer:

Thanks, Chris. I'd like to open up the call for questions now. Operator?

Conference Operator | Operator:

Thank you. At this time, we'll conduct the Q&A session. If you would like 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. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. And your first question comes from Matthew Galenko with Maxim Group. Please state your question.

Matthew Galenko | Analyst, Maxim Group:

Hey, good morning, guys. Thanks for taking my question. Maybe, can we start with, it sounds like you started development for the AI continuity platform in the third quarter. How long of a process do you expect that to be or when do you think you'll have kind of a release grade solution?

Chuck Piluso | Chairman and Chief Executive Officer:

Good morning, Matt. Thank you for the question. We believe we'll start talking to prospects, candidates, suspects, probably in the March timeframe that we'll be showing some of the information that we have and meeting with you know healthcare, finance, insurance you know so because they're planning what they're going to be doing but most likely most of this will roll out in 2028 for their software so you know if I would say I would hope I would hope to take an order you know in the June, July, August time frame but I would say we could start talking to folks probably in the March, April time frame on it.

Matthew Galenko | Analyst, Maxim Group:

Got it. Very good. And maybe just tying into the other, you know, I guess, priorities or initiatives. You mentioned supporting Nexus, investing in Nexus. And I guess at the same time, we see valuations compressing and that could be part of your strategy as well. Can you maybe talk about how you're balancing capital priorities and kind of where you put incremental dollars?

Chuck Piluso | Chairman and Chief Executive Officer:

Well, you know, in the case of Nexus, they're using, which is widely used, a company called SkySwitch, which is the basic platform. SkySwitch now has come up with a number of different solutions to AI voice that can be private labeled or issues underneath their name. So this next integration for Nexus, is to start rolling the AI voice services that sometimes some people hate. Maybe you call a restaurant up and you want to be able to make a reservation, things like that, where the bot is actually taking care of that. But it's all through Nexus, the platform, and the AI that's rolled out. fully developed. They have full training programs and everything. So this is the next stage. When we say about supporting Nexus, it's also about investing in Nexus because we want to see them bring on some sales staff. It's a very small group right now. We want them to bring on sales staff, create more inbound lead programs than they've had before. Usually it's word of mouth, cross-selling that's brought in customers. We're pretty successful with cross-selling there. on it, but they need to be able to update the website to be able to draw more in on the AI side of things. The margins on the voice is very good. It's probably around, I'm going to say, I don't know, Chris, probably like 60%, and around 65% of their revenue is Internet access, and we believe the Internet access piece which is a lower margin around 35% but a great need because people going into AI firms using it is heating up a lot of bandwidth and we have that disaster recovery piece to it which we put SD-WAN in which which bonds the bandwidth together and if one side goes down, they're still in business. So we think it's kind of critical on that. So when we talk about investing in and supporting it, it's geared towards updating the website, driving inbound leads, getting

some more salespeople in there and putting the investment towards the AI part that's going on with the platform that they have today.

Matthew Galenko | Analyst, Maxim Group:

Got it. Very interesting. Maybe lastly, along those lines, should we expect to see some of those investments in NAXAs happening in the fourth quarter? Or is that more of an early 2028 event?

Chuck Piluso | Chairman and Chief Executive Officer:

No, we're in the fourth quarter. You know, we're not talking about a significant amount of money. You know, $100,000 to $150,000, $200,000. would be very significant. And I'm adding in a couple of reps and, you know, and website development. So we're not talking about a million dollars here. We're being very careful with it because it's been very difficult to find acquisitions and to go through that. And we have to find companies that, you know, really they need the cash for working capital and have a great solution or software but need some working capital. So, you know, we're really managing that carefully. But, you know, If we were to put, you know, over the course of a year, $250,000, let's say fourth quarter to the next third quarter, $250,000, you know, that might yield some good returns in the sense of inbound leads and some staff.

Matthew Galenko | Analyst, Maxim Group:

Got it. Thank you. I'll come back in the queue.

Conference Operator | Operator:

Yeah. Thank you, and a reminder to the audience, to ask a question, press star one on your phone. We'll pause for another moment to see if there are any more questions.

Chuck Piluso | Chairman and Chief Executive Officer:

Thanks, Matt. Okay.

Conference Operator | Operator:

Thank you, and that concludes our question and answer session. I'll now turn the call back over to Chuck Piluso for closing remarks.

Chuck Piluso | Chairman and Chief Executive Officer:

Thanks, Diego. Thank you for the questions. Just in conclusion, following up on the sale at Cloud First, we have focused on putting our financial resources, operating experience, and infrastructure to work for the next phase of growth. We've been busy with our investment bankers and have looked at over 100 potential targets for acquisition. We are being selective and continue to evaluate to find the right fit that will help drive shareholder value. However, we are not waiting. We are building a unique platform for AI disaster recovery and compliance, which today is a very new field for regulated industries as they ramp towards what we believe in 2028 to have implemented software running on GPUs that will require our planned solutions. with approximately $9.5 million in cash, marketable securities, no long-term debt, and a management team and a board with experience in building and monetizing enterprise technology businesses. We believe we are well

positioned to continue executing our strategy and pursuing opportunities that create long-term shareholder value. We appreciate your continued support and interest in our progress. and we look forward to keeping you updated as we advance these initiatives. Thank you again for joining us today.

Conference Operator | Operator:

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