Consensus Cloud Solutions Third Quarter 2026 Earnings Call

November 5, 2026

5:00 pm

Operator

Good day, everyone, and welcome to the Consensus Cloud Solutions 3rd quarter 2026 earnings call. At this time, all participants are placed on a listen-only mode. If you have any questions or comments during the presentation, you may press star 1 on your phone to enter the question queue at any time, and we'll open the floor for your questions and comments after the presentation. It is now my pleasure to hand the floor over to your host, Kip Killpack, SVP of Finance. Sir, the floor is yours.

Kip Killpack

Good afternoon. Welcome to the Consensus investor call to discuss our Q3 2026 financial results, other key information, and our Q4 2026 guidance. Joining me today are Scott Turicchi, CEO, Johnny Hecker, CRO and EVP Operations, and Adam Varon, CFO. The earnings call will begin with Scott providing opening remarks. Johnny will give an update on operational progress since our Q2 2026 investor call. Then Adam will provide Q3 2026 financial results and our Q4 2026 guidance range. After we finish our prepared remarks, we will conduct a Q&A session. At that time, the operator will instruct you on the procedures for asking a question.

Before we begin our prepared remarks, allow me to direct you to the forward-looking statements and risk factors on slide 2 of our investor presentation. As you know, this call and the webcast will include forward-looking statements. Such statements may involve risks and uncertainties that would cause actual results to differ materially from the anticipated results. Some of those risks and uncertainties include, but are not limited to, the risk factors that we have disclosed in our regulatory filings, including our annual 10-K and quarterly 10-Q SEC filings. Now let me turn the call over to Scott for his opening remarks.

Scott Turicchi

Thank you, Kip. We continued a trend of excellent financial results in Q3, delivering 3.7% year-over-year consolidated revenue growth and maintaining year-over-year total consolidated revenue growth for the 6th straight quarter. In addition, this was the 4th consecutive quarter that we had year-over-year growth in the following key financial metrics. First, consolidated revenue, second, adjusted EBITDA, and third, adjusted non-GAAP EPS.

Our increase in revenue was driven by the corporate channel, which experienced its second consecutive quarter of 9% plus revenue growth. This was driven primarily by our fax solutions, once again demonstrating their necessity and value proposition. This success was propelled by record strong usage, increased revenue retention, and new customer acquisition. In addition, the VA continued to see more facilities come online, and generate a record level of usage. All of these contributed to the stellar year-over-year growth.

SoHo revenue was within our range of expectation and continues to be managed as a strategic cash engine. Both its slower rate of decline and its lessening percentage of our total revenue are creating less headwinds for total growth.

As we discussed last quarter, we have formed a team to focus on healthcare solutions. And they are continuing to staff their team. We had hoped to hire a few more people in the quarter and therefore had less compensation expense than planned. We finished the quarter with an adjusted EBITDA margin of 52.3%. In

2027, you will hear more about the solutions this team is developing, which is fulfilling the vision of Harmony that we articulated when we became public 5 years ago. We continue to expect that revenue contribution from this initiative will begin in 2028. Johnny will provide more detail in his portion of the presentation regarding the operational results for Q3.

Free cash flow was $38.6 million in the quarter. It was down relative to Q3 2025 as expected, but ahead of our forecast. This is due primarily to timing differences on the cash payment of taxes as well as interest in Q3 2026, that was not present in Q3 2025 due to the timing of the refinancing last year to retire the 6% notes. Our team has done an excellent job managing our working capital, especially in the area of receivable collections. We continue to expect our free cash flow in 2026 to approximate the $106 million of free cash flow in 2025. Additionally, we repurchased more than $20 million of our stock during the quarter, or approximately 550,000 shares.

As we previously announced, we have amended our credit agreement to accommodate the retirement of the 6.5% notes due October 15th, 2028. The current intention is to call them on or about the par call date of October 15th, 2027. However, we will carefully watch interest rates to determine the exact timing of the call and will continue to look to buy the notes in the open market. While the notes become callable, became callable this past October 15th, the call price is not attractive.

Before turning the call over to Johnny, I would like to spend a few minutes reviewing the transformation this company has had in the 5 years since the spin and thanking all of our employees responsible for this dramatic evolution. In 2021, the company had revenue that was a majority SoHo. An emerging presence in the healthcare ecosystem, a thin staffing of 450 people, and $805 million of debt, which was 4 times our gross debt-to-EBITDA. In those 5 years, we have flipped the business to approximately 2/3 corporate, 1/3 SoHo, while maintaining an adjusted EBITDA margin of more than 50%. Almost 2/3 of our corporate business is from the healthcare ecosystem.

We've almost doubled our rate of investment into the business from pre-spin levels, yet still generated approximately $476 million in cumulative free cash flow. This has allowed us to reduce our debt by approximately $250 million and, as a result, bring our gross debt-to-EBITDA ratio under 3 times. In addition, we've been able to repurchase more than $100 million of our common stock at an average price of $28.84. As well as acquire 2 companies with great people. We have set up new talent teams to address our non-fax healthcare solutions as well as the public sector. I want to thank all 550 Consensus employees for the hard work and dedication that positions us for a bright and exciting future. I will now turn the call over to Johnny to provide you more operational updates.

Johnny Hecker

Thank you, Scott, and hello everyone. This quarter's results reaffirm the core premise of our growth model. We generated $91 million in consolidated revenue, driven by the momentum of our corporate business, most explicitly from healthcare and the public sector, which serve as the 2 core pillars of our future expansion. Secure Cloud Fax remains our foundation and the network we continue to expand to support our push into healthcare solutions. The demand for digital transformation in highly regulated industries is not slowing down, and we continue to capitalize on that momentum.

Within the corporate channel, we reached another all-time high. Revenue hit $61.4 million, representing a 9.1% year-over-year increase and adding roughly $1 million sequentially, while our corporate customer base expanded to approximately 69,000 accounts. More importantly, we're growing the lifetime value of the organizations we bring on board. Our net revenue retention rate climbed to 104.5%, up from 103.1% last quarter and 101.9% in the prior year period, keeping us well above our 100% target.

This NRR performance is grounded in the underlying health of our core upmarket business. Excluding e-commerce, our corporate account base and churn remain remarkably stable, while upmarket ARPA consistently increases. As our clients

scale, their reliance on our infrastructure deepens. They route more volume through our network and embed our platform deeper into their daily operations.

Q3 was marked by strong baseline expansion coupled with adding new customers and endpoints to our network. We saw notable sales success with large new and existing accounts across healthcare, healthcare IT, and government. This momentum is a direct result of our focused execution, which continues to offset the slower decision-making we are seeing across the customer continuum due to broader macroeconomic uncertainty.

This brings me to our 2 primary areas of strategic investment: healthcare and the public sector. On the healthcare side, our dedicated Strategy and Solutions Group continues to evolve our eFax Harmony offering. We're moving beyond basic document transport into active workflow management, converting unstructured data into structured, actionable clinical tasks. By ingesting documents from eFax and other sources, eFax Harmony, built on Clarity and doc.health, manages essential workflows outside the EHR, like prior authorizations and referral follow-ups. While still in its infancy stage, the initial results are compelling. One early adopter customer reduced patient triage time from up to 40 days down to an average of just 2. That exceeded their original target of 4 to 5 days, driving massive improvement in both speed to care and provider economics.

Our second major investment area is the public sector. At the Department of Veterans Affairs, we're in the final stages of our rollout, which accelerated following the VA's mandate to use ECFax. I am pleased to share that we're on track to exceed $9 million in revenue from this account for 2026. Beyond the VA, we remain highly bullish on the broader government ecosystem, including federal, state, local education, and regulated contractors. To capture this growing demand, we have successfully expanded our dedicated public sector team and strategic partnerships.

While our enterprise and government teams drive these complex deployments, we are simultaneously optimizing our high-volume digital acquisition engine. Over the last 2 years, we expanded e-commerce for eFax from just SoHo into the corporate channel, and we continue to build out that motion. The new eFax platform is contributing meaningfully to this success. Coupled with adjusting our digital

marketing posture, the new platform is driving tangible customer acquisition results.

In our SoHo business, we generated $29.6 million in revenue this quarter, reflecting a managed 6% year-over-year decline. Our operating philosophy here remains unchanged. This channel is managed for cash optimization yield, and efficiency to fund our upmarket expansion. We're not interested in chasing unprofitable subscriber volume, and we fully expect ongoing volatility in paid ads and other metrics. As long as SoHo produces robust, highly efficient cash flow, it is fulfilling its exact purpose.

To summarize, our team is executing well against our priorities. We're winning upmarket, deploying advanced healthcare workflows, and sustaining the cash generation needed to fund our corporate strategy. We're energized by the operational strides we made this quarter and are well positioned heading into 2027. I want to thank our employees for their hard work and for their relentless dedication, and our customers and partners for their continued trust. Now let me hand the call over to Adam, for the financial review. Adam?

Adam Varon

Thank you, Johnny, and good afternoon, everyone. Today I'll discuss our Q3 2026 results as well as guidance for Q4 and full year 2026. We expect to file our 10-Q later today.

Moving to corporate results, during the 3rd quarter of 2026, our corporate business delivered record revenue of $61.4 million, representing a 9.1% increase of $5.1 million compared to the previous year and is the 2nd consecutive quarter of corporate growth over 9%. Our record Q3 2026 corporate revenue delivered a trailing 12-month net revenue retention rate of 104.5%, reflecting a year-over-year increase of approximately 260 basis points. Our corporate customer base of approximately 69,000 was up 7.9% over the prior comparable period, with corporate ARPA increasing year over year by approximately 0.4% to $301.

Moving to SoHo results. As mentioned previously, and to be very clear, we manage our SoHo revenue channel as a strategic cash engine to fund our accelerating corporate business growth. Q3 2026 SoHo revenue of $29.6 million decreased by $1.9 million or 6% over the prior year and in line with expectations.

Moving to the Q3 consolidated results, this quarter we delivered year-over-year growth in revenue, adjusted EBITDA, and adjusted EPS for the 4th consecutive quarter. Consolidated revenue of $91 million represents an increase of $3.2 million or 3.7% over Q3 2025. Additionally, this represents the 6th consecutive quarter of year-over-year consolidated growth. Q3 2026 adjusted EBITDA of $47.6 million increased $1.3 million or 2.7% year over year from $46.4 million in Q3 2025, delivering a 52.3% EBITDA margin. Adjusted net income of $28.7 million is an increase of $2 million or 7.7% over the prior year. Adjusted EPS of $1.50 is favorable to the prior year by 8.7% or $0.12, driven by operational results and a favorable non-GAAP tax rate, net interest expense, and a lower share count. The Q3 2026 non-GAAP tax rate and share count were 18.8% and approximately 19.1 million shares respectively.

Moving to capital allocation, free cash flow of $38.6 million decreased $5.9 million or 13.2% year over year, primarily due to the timing of interest and tax expenses in the current quarter not present in Q3 of 2025. Note, Q4 is our seasonally lightest free cash flow quarter, which we expect to continue this year. Our full-year free cash flow is estimated to be in line with 2025 free cash flow at approximately $106 million. We ended Q3 2026 with approximately $107 million in cash, an increase of $7.8 million when compared to Q2 2026 and in line with expectations amid share repurchases. Q3 CapEx of $7 million was in line with prior year and expectations.

In Q3 2026, we bought approximately 551,000 shares for $20.7 million, bringing the total equity repurchases to date to approximately 3.6 million shares for $103 million, leaving approximately $97 million available under our $200 million equity repurchase plan.

Moving on to debt. As previously announced, we amended and restated our existing credit agreement on September 30th, 2026. Under the amended facility, we extended our tenor to a 5-year, $525 million loan consisting of a $300 million

delayed draw term loan, and a $225 million revolver. The terms remain substantially consistent with the prior facility, with an interest rate of SOFR plus an applicable margin based on total net leverage ratio, and includes standard covenants. We plan to use the $300 million delayed draw term loan to retire our 6.5% notes due 2028 on or about October 15th, 2027, when the notes are callable at par. The amended and restated credit agreement will be filed with our 10-Q. This credit facility sets our future capital structure for 5 years through September 30th, 2031.

Our Q3 2026 total debt balance under the amended facility stands at approximately $552 million, with $348 million of 6.5% notes and $204 million on the revolver. Additionally, the board of directors have terminated our existing 2023 debt repurchase program and approved a new debt repurchase program under the same general terms as the previous program.

with an authorized amount of up to $348.2 million in aggregate principal to retire the remaining outstanding 2028 notes. This program will expire on November 5th, 2027. Finally, our total debt and net debt-to-EBITDA ratio for Q3 2026 improved to 2.92 and 2.35 times respectively.

Moving to Q4 guidance, we are providing Q4 guidance as follows. Revenues between $88.9 million and $92.9 million with $90.9 million at the midpoint. Adjusted EBITDA between $44.7 million and $47.7 million with $46.2 million at the midpoint. Adjusted EPS of $1.48 to $1.58, with $1.53 at the midpoint.

For Q4 2026, our tax rate is estimated to be between 11% and 13%, with 12% at the midpoint. It is important to note that this rate is notably lower than our first 3 quarters due to the estimated release of an uncertain tax position reserve based on the statute of limitations expiring, which is a common discrete item reported in the 4th quarter. We estimate our Q4 share count to be approximately 19.1 million shares.

Moving to full-year guidance. Based on our year-to-date results plus Q4 guidance mentioned, we are increasing our full-year adjusted EPS guidance and narrowing revenues and adjusted EBITDA to above the midpoint to high end of our initial

guidance range as follows. Revenue range between $360 million and $364 million. Adjusted EBITDA range between $188 million and $192 million. And we are increasing our adjusted EPS range between $6 and $6.10. We estimate our full-year income tax rate will be between 17% and 19%, with 18% at the midpoint, with an approximate 19.1 million share count.

This concludes my formal remarks. I'd like to turn the call back to the operator for Q&A. Thank you.

Operator

Certainly. Everyone, at this time we'll 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.

And once again, if you have any questions or comments, please press star 1 on your phone. Please hold while we poll for questions. Our first question is coming from David Larsen from BTIG. Your line is live.

Jenny Shen

Hi, this is Jenny Shen on for Dave. Thanks for taking my questions and congrats on a good quarter. When you mentioned a little bit about delayed decision-making by some of your customers and prospective customers. Can you elaborate on that? It looks like it hasn't slowed demand at all for you guys, but we've seen that in the broader hospital and provider-facing space. Just any comments there would be helpful. Thank you.

Johnny Hecker

Yeah, thank you, Jenny. Good question. Yeah, so what we're experiencing is, and, you know, we indicated this in the last call a little bit, that this is increasing, is the

customers are just slower in deciding on larger projects. Fortunately, we've had the opportunity to build pipelines throughout the year that we are converting, but it's really twofold. So on the one hand, customers taking their time to make decisions in broader committees. And then secondly, also on the onboarding side, going live and taking the technology into production is also taking more time.

So we've been through this before, and last time we said we just need to build more pipeline and we just need to convert more. So that is something that we have done. So we're able to balance that out. And then secondly, I would say, you know, what is balancing that is our customer continuum, where we have a broad spectrum of customers across, you know, many different sizes, starting really with a single user and small— in the small office, home office area, all the way up to, you know, through enterprise to large federal government customers and, you know, integrated delivery networks and large, you know, Healthcare customers. So we're able to balance a little bit across that customer continuum as well.

Scott Turicchi

And let me just, let me just add one thing to Johnny's comments. If you go back to, let's say, approximately 3+ years ago, we started talking about the slowdown of customer acquisition, which was in the '23-ish timeframe. The corporate channel was much smaller, so scale is an advantage for us now. I'm not convinced that the decision-making slowdown is as bad as it was 3 years ago, but we have many more mitigants today because the base is larger, the base itself is growing, and then as Johnny mentioned, we built the pipeline. So as those feather in, it mitigates decisions that we think or hope would have occurred in Q3 that we're seeing occur in Q4.

Johnny Hecker

Yeah, maybe to add also some of the success you see in the corporate channel and the growth, it's also a retention, you know, project. So you see the net revenue retention rate going up to 104% or over 104%. So we're able to retain our customers and we're able to grow them and extend them. So using our existing

customer base to up and cross-sell has been successful and has helped us on the overall revenue growth.

Jenny Shen

That's helpful. And then if I could ask a follow-up, as you guys are continuing to balance the mix between SoHo and corporate revenue, where do you expect the growth rates for each of those to kind of settle at, or the mix between them in terms of percentage of total revenue? Just any color on where you expect corporate and SoHo to eventually reach.

Scott Turicchi

Well, I think you're asking both. You're probably asking a multilayered question there, which is partially, you know, what do we see for '27, which our budgeting process is very active right now. And then I think your question is even arcing over a longer timeframe. So let's take them as 2 separate questions because we're managing them differently. Obviously, there'll be a natural ratio at the end of the day in any given year. Right.

We've continued to see, albeit, you know, as you can tell in the quarterly results, not a perfect deceleration of the rate of decline in SoHo, but certainly the first 9 months of this year are substantially better than last year, which were substantially better than the first 9 months in the preceding year. And we think that trend is going to continue. So we would expect a lesser rate of decline in 2027 in SoHo than in 2026. But at this point, probably still some amount of decline.

Corporate, I think, is exactly the flip of that, which is, you know, we've honed in on a 9% plus growth rate for a couple of quarters, which is very good. Obviously, we're going to see what happens in Q4, which is always a tricky quarter, primarily because of the month of December. And even though the business days technically are similar to Q4 of 2025. What we don't know yet is particularly in December, what weather effects may influence people going to hospitals and doctors, which then

affects traffic. We've seen that before. So there's always a little bit of volatility in Q4.

But I think that we're taking the trends that we're experiencing now and we're doing a lot of work to see not only how we extrapolate those into 2027, but also layer in some of the newer customer wins. The challenging part on that piece is, as Johnny mentioned, the pace at which they will ramp. So I think we feel very good about the trend of each of the businesses, but we're not quite yet ready to say, here's a growth rate for corporate and a decline rate for SoHo in 2027 or beyond.

But I think as a general matter, our R&D dollars, our emphasis, the healthcare solutions group, they're all going to corporate. So they're all there over time to aid in the growth of corporate. If we can get SoHo down to basically a flattish level at some point, that would probably be a victory for us. Don't expect it to somehow flip into a growth vehicle.

Jenny Shen

That makes sense. Thank you.

Scott Turicchi

You're welcome.

Operator

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

Scott Turicchi

So we actually have one question before we go— before we close. We have one question by email which we'd like to address. It happens to do with kind of

intertwined questions of a couple of different things. It touches basically on capital allocation, which we're happy to discuss. And sort of a component of that is those of you that have followed the company will recall that we've had to maintain certain cash balances for the benefit of the 6.5% notes in order to lien our bank debt. So to be clear, our bank debt is senior secured, it's liened. The 6.5% notes are unsecured debt.

So the essence of the question is, when we retire those notes, will that basically free up our cash so that we don't have to maintain such large cash balances? And the answer to that question is generally yes, because we won't have that restriction of 6.5% notes. Now, to be clear, as I stated in the opening remarks, it's probable that will not occur until October 15th, of 2027. So meaning until those notes are gone, we'll have to maintain cash balances generally in excess of $75 million. This is a ratio we have to calculate each quarter, but it's in that neighborhood. So we do have a little bit of cash beyond that. Some of that is working capital in foreign jurisdictions. If we were able to retire those notes early, then it would free up that cash earlier. If it's at the call date, then it would be at that point in time.

Then the next layer question is, okay, both as we look forward to ’27 and we look at our free cash flow and ultimately the freeing up of some of that cash in the future, how does that influence our thinking about capital allocation? I think, look, we will over time continue, and I don't mean necessarily in ’27, but over the next couple of years, continue to reduce the debt somewhat. I think that we want to get the debt probably at or under 2.5 times gross debt to EBITDA. So that implies some amount of debt retirement. By the way, some of that is required in the bank credit facility. So some of that will happen just naturally per its terms.

We continue to think the stock is very attractive at these prices. As we've talked about it on a free cash flow yield basis, the cash flows remain strong and consistent. With what we've been experiencing, you know, over the last several quarters with some seasonality baked into it. So we find the stock attractive. And yes, we've started to look a little bit more at M&A. There's nothing that is imminent. I don't anticipate in the near to intermediate term any substantive M&A. We've been very pleased with the doc.health acquisition. If you go back 4 years ago to the Summit acquisition, those we call more tuck-ins because they're generally financed out of

literally a quarter's free cash flow. So we don't have to draw on any facility to fund them.

I do think that as the debt comes down, as our healthcare solutions group matures, the aperture of M&A may open up, but that's probably more a ’28 or even ’29 event. So I think if you're looking at ’27, it's probably more focused on some mandatory debt repayment, maybe a little bit in excess of that. We'll obviously be looking at the stock price to see how that influences our view on buybacks. And would there be a small M&A deal? Yes. Nothing imminent, nothing to talk about right now.

And I believe then that is— let's see if we've got any more questions by email. I don't believe so. Okay. So if there's no further live questions, then we would thank you all for participating in our Q3 earnings call. We will have the Q4 earnings call probably in the first half of February, roughly consistent with what we did last year. And of course, at that time, we will review Q4 results and probably even more importantly discuss financial guidance for 2027, as well as some of the operational elements that I mentioned early on, particularly an update from the Healthcare Solutions and Strategy Group in terms of some of the solutions we'll be bringing to market.

So thank you, and if you have any questions, please feel free to reach out to us. We will be actually on a non-deal roadshow in Portland and Denver this coming week, meaning next week, and so we look forward to meeting those investors, and we'll see you in February.

Operator

Thank you. Everyone, this concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.