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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Consensus Q3 2022 Earnings Call. My name is Paul, and I will be the operator assisting you today. (Operator Instructions) On this call from Consensus will be Scott Turicchi, CEO; John Nebergall, COO; Jim Malone, CFO; and Adam Varon, Senior Vice President of Finance.

I will now turn the call over to Adam Varon, Senior Vice President of Finance at Consensus. Thank you. You may begin.

Adam Varon;Senior Vice President of Finance

Good afternoon, and welcome to the Consensus investor call to discuss our Q3 2022 financial results, other key information and reaffirmation of our 2022 guidance. Joining me today are Scott Turicchi, CEO; John Nebergall, COO; and Jim Malone, CFO. The earnings call will begin with Scott providing opening remarks. John will give an update on operational progress since our Q2 investor call, and then Jim will follow it up to discuss our Q3 2022 financial results and 2022 guidance. 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 safe harbor language on Slide 2. 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 outlined on Slide 3 that we have disclosed in our SEC 10-K filing as well as a summary of those risk factors that we have included as part of the slide show for the webcast. We refer you to discussions in those documents regarding safe harbor language as well as forward-looking statements.

Now let me turn the call over to Scott.

R. Scott Turicchi - Consensus Cloud Solutions, Inc. - CEO & Director

Thank you, Adam. I would like to touch on several areas before handing the call over to John and Jim for more details on our operations, Q3 financial results and the reaffirmation of our guidance. This was another very good quarter for Consensus in light of high inflation and the volatility in our economy. We were able to produce a record quarterly revenue by growing 7.5% versus Q3 2021. We continue to operate at healthy EBITDA margins of 53.5%, consistent with our guidance of between 50% and 55%. These results were driven by continued strong performance by the corporate business, which grew 19% versus Q3 2021, 14% of which was organic.

In addition, this is the ninth consecutive quarter of corporate revenue growth, its ninth straight quarter of ARPA growth, up more than 15.9% versus Q3 2021. Our [SoHo] channel had good results, notwithstanding continuing FX headwinds, which primarily affect this channel of revenue. Also, as we discussed last quarter, we implemented a price change to approximately 30% of the base during the quarter. We expected that we will experience a similar cancel rate to Q2 given the additional cancels expected at the higher price point. I am pleased to report that the cancel rate of 3.6% was only modestly higher than our Q1 cancel rate and 27 basis points lower than Q2.

We believe these FX headwinds will continue throughout the year. Jim will provide more detail on the financial performance for the quarter as well as for each channel of revenue. As was noted in our press release, we have received the authority to operate from the Veterans Administration as we had expected in September. Cognizant and the VA have been working to develop a plan for rolling out the solution across more than 2,000 facilities within the VA system. That plan is in progress. We now have interest from 7 other federal agencies, up from 3 last quarter, and we'll begin working with them to understand better their needs. John will provide additional details on each of these areas in his portion of the presentation. Despite the tight labor market, we have continued to make progress in our overall hiring with a focus on our technical team and filling out our staff as a stand-alone company.

We ended the quarter with 575 employees. I'd like to welcome all of our new employees who have joined us since our last earnings call. We also celebrated the 1-year anniversary of the spin from our former parent, Ziff Davis on October 7 of this year. I would like to congratulate all the employees for their arduous work to complete the separation. We're able to finalize the last payments to Ziff regarding transaction fees related to the spin. Jim will provide you with additional details on those amounts. There are still some customer accounts of Ziff that map to some of our bank accounts. We remit the cash collected on a monthly basis and expect all such accounts to stop mapping to our bank accounts prior to year-end. In addition, we assisted Ziff with the additional sale of 500,000 shares of our stock, leaving them with an ownership position of less than 6% of Consensus. They now have approximately 4 years to dispose of those remaining shares.

Before handing the call over to John, I would like to provide you with our thoughts on the economic environment and how it is influencing the operations of Consensus. The economy has not improved since our last earnings call and many expect a recession in 2023. I'm pleased to report that our usage volumes per business day are at their strongest levels due in part to the approximately 40% of our business that is in the health care sector. However, we are noticing slower decision cycles for our larger customer opportunities. We believe that this has shifted approximately \$3 million of revenue into 2023 from 2022. Notwithstanding this timing difference as well as the previously mentioned FX headwinds, we reaffirm our 2022 guidance.

Jim will provide additional color on the guidance after reviewing the Q3 results in detail. Finally, we remain liquid with more than \$100 million of cash on our balance sheet and the undrawn line of credit that we put in place in March. We remain well positioned for these uncertain economic conditions due to the fundamental necessity of our services, the subscription nature of our business, which has approximately 70% fixed revenue and the increasing percentage of our business that maps to the health care sector.

I'll now turn the call over to John.

John Nebergall - *Consensus Cloud Solutions, Inc. - COO*

Thank you, Scott. On Slide 5, we can see a summary of our operating results for the quarter. In the third quarter, we achieved another record corporate sales result, closing \$8.4 million in ACV in license bookings. As a reminder, our corporate sales team consists of enterprise field sales and inside sales team focused on small and medium business and the channel program targeting telcos, EMRs and resellers. Sales bookings for Q3 grew 62% over Q2 and represent a 78% increase over Q3 of 2021. Included in our overall sales number is \$2.8 million in advanced interoperability products, including \$1 million in new [unite] sales. Our advanced product set accounted for 34% of our overall sales volume for the quarter.

Some notable deals include a major fax deal with change help through our Amazon relationship and the University of California Irvine Health System. In addition, we had an expansive go live at WellStar, a large Southeastern health care system with 9 hospitals and over 300 locations. This particular implementation is a major integration of our eFax platform with an Epic EMR system. Overall, our corporate business delivered revenue of over \$51.2 million in the quarter, and the corporate stream accounted for roughly 53% of our overall top line. In Q3, SoHo saw the expected lift as a result of the price increase implemented in Q2. Now while the bulk of those increases were fully implemented in the second quarter, there

were a few remaining classes of SoHo accounts who will see the increase as their annual plan renews or when a new sign up from the Q1, Q2 time frame reaches the 6-month mark.

Overall, revenues for SoHo were up over Q2 and virtually flat with Q3 2021 once normalizing for foreign exchange rates. Our churn was better than expected at 3.6% for the quarter in light of a price increase on approximately 1/3 of the base and close to the cancel rate in Q4 2021 and Q1 2022. As mentioned last quarter, one of our traditional business practices is to reach into the SoHo customer base when we identify customers, particularly in health care, who could benefit from the expanded feature set in the corporate product. Now this has been a successful small-scale sales tactic, and we're currently scoping a program to do that on a much more expanded basis.

On the product front, as Scott mentioned, we're pleased to announce that ECFax has achieved authority to operate or ATO as expected in September. We are currently working with our partner, Cognizant and the VA and have identified the first candidates to receive ECFax given that we're coming into the holidays and expect an abundance of time off associated with this part of the year, we anticipate that implementation is going to begin in early 2023. Now since achieving ATO, pipeline of interested government agencies has grown, as Scott mentioned, and we're working with Cognizant pursuing those opportunities.

As a key part of our overall program involves the commitment to security that envelops our entire platform. Central to this are certifications, audits and reviews conducted by recognized third parties that test and validate our security environment. Last quarter, we shared that our fax environment passed High Trust recertification. And this quarter, we have also renewed our PCI Level 1 and SOC 2 Type 2 certifications. In addition, the team has started work to get [Jaisingh] ready for its inaugural high trust review and expect that we will have that work done by mid-2023. Keeping up with these credentials is vital to our position in the market, and it requires planning, time and effort on the engineering part. It is very critical to our success.

The product team continues to make progress with both Clarity and Harmony. We are still engaged in our first implementation of Clarity, making refinements and adjustments at the customer's request. As we reported earlier and we had added handwriting recognition and our last round of changes for that to be fully operating in the customer environment is nearing completion. Progress is steady and our pipeline for other customers asking for clarity remains strong. The team is also hard at work on Harmony, our cloud-based full communication solution for health care. As we've previously discussed, message transformation is one pillar of the Harmony solution set. One of the transformation technologies of Harmony is a capability called Fax to Direct. Now this enables a user from one facility to send the fax document, and our system then transforms that in transit to a secure direct message based on the receiver's preference. This was something that we showcased at HIMSS earlier this year.

Now in Q3, we completed a proof of concept with a large East Coast health care provider with Fax to Direct in a log production environment. While the overall Harmony product will be a late 2023 release, we do intend to introduce capabilities that can help our customers and can drive revenue as they come available. So we're very pleased with this quarter in which we've had record sales, SoHo performance in line with expectations, achievement of the VA ATO for ECFax and a number of major engineering and product deliveries.

Now I'll hand it off to our CFO, Jim Malone, for a closer look at the numbers.

James C. Malone - Consensus Cloud Solutions, Inc. - CFO & Principal Accounting Officer

Thank you, John. Good afternoon. Before I start the discussion of the P&L Q3 performance, I wanted to briefly discuss our cash position. As you might recall from previous investor calls, we have pointed out that Q1 and Q3 are our strongest quarters for cash flow conversion. As a reminder, we make semi-annual interest payments of \$25 million in Q2 and Q4. We ended Q3 with \$103.7 million in cash. Our liquidity remains strong to support our operations with the added benefit of a \$50 million undrawn line of credit.

Moving to Q3 results. Starting with corporate results on Slide 7. Q3 2022 corporate revenue of \$51.2 million was an all-time record, increasing \$8 million or 19% over the prior year period. Corporate revenue grew \$8.4 million or 20% on a constant dollar basis. The number of our accounts at 47,000 was 2,000 higher year-over-year. Average monthly revenue per account increased \$50 or 16% over the prior year comparable period, primarily resulting from increased usage at new large customer acquisitions. The 14% increase in paid ads and a substantially lower churn rate also

contributed to the momentum in double-digit growth. Noteworthy, as John stated, we learned several marquee logos. Our last 12 months revenue retention approximated 104%, consistent with our expectations.

Moving to SoHo results on Slide 8. Q3 SoHo revenue was consistent with our expectations at \$44.7 million, a \$700,000 sequential increase over Q2 2022. On a year-to-year basis, revenue declined to negative 2.7% or a negative 50 bps essentially flat to prior year on a constant dollar basis. As expected, year-over-year revenue decrease was affected by lower paid ads and expected churn partially offset by higher average monthly revenue per account driven by a Q3 price increase. Accordingly, the revenue mix further enhanced the contribution to SoHo fixed revenue.

Now on to Slide 9 for our Q3 consolidated results. Q3 revenue of \$95.9 million was an all-time record, increasing \$6.7 million or 7.5% over Q3 2021. On a constant dollar basis, revenue increased \$8.1 million or 9.2%. Reported adjusted EBITDA of \$51.3 million was up \$0.4 million or approximately 1%, delivering a 53.5% margin, in line with our expectations. Non-GAAP EPS of \$1.52 was \$0.08 or 5.6% year-over-year reflecting higher revenue, foreign exchange impact resulting from a strong dollar and a lower share count. As noted on the slide, Q3 2022 is in line with expectations in a challenging economic environment.

Now on to Slide 11 and our full year guidance. As Scott discussed in his opening remarks, we are reaffirming our full year 2022 guidance range. With respect to full year revenue and adjusted EBITDA, we are guiding to the lower end of the range due to FX headwinds and timing of large customer wins and new product adoption. Our pipeline continues to be robust for the near to midterm time frame. Non-GAAP EPS is expected to be at the top of our range due to a strong U.S. dollar, providing a benefit with respect to euro denominated liabilities.

As mentioned in Scott's opening remarks, we negotiated a final settlement with our former parent regarding [all] spin-related transaction costs. The September 30 balance sheet reflects \$900,000 due to the former parent, representing commingled cash, which we paid in October. Both parties have made arrangements for customer payments to be processed in their respective company accounts. We expect this initiative to be completed by year-end. These conclude my formal remarks.

Now I'll turn the call back to the operator for the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is coming from Fatima Boolani from Citigroup.

Unidentified Analyst

On behalf of Fatima -- this is [Mark] on for Fatima. So maybe just diving into your guidance a little bit. I appreciate that you guys reaffirmed guidance and maybe moving towards a little bit on the lower end of guidance. But the \$3 million shift of enterprise out from 2022 into '23, just in terms of -- Given you guys reaffirmed, should we expect any sort of upside or anything to maybe make up that \$3 million? Or is more being on the lower end of guidance where we should expect or shake?

R. Scott Turicchi - Consensus Cloud Solutions, Inc. - CEO & Director

Yes, I appreciate the question. So maybe we can unpack this a little bit more. So if you take actually the 2 comments together and you look at the full range guidance and you start at the midpoint of \$380 million, there's about \$3 million of FX headwinds and then another \$3 million of, we'll call it, customer shifting. So that would actually put us below the low end of 3.75 with relative implications to the EBITDA.

So we are making up some ground to get to somewhere above the low end of the range. One of the things that I think everyone should understand is as the business has evolved and we have focused on both larger-scale fax deployments out of our corporate channel as well as the newer services, these tend to be increasingly lumpy in terms of the timing of the wind and their relative contribution within a given quarter.

I think what John said was extremely important, and that is that we're entering a time of the year. I think with the uncertainty economy, that our view is there are unlikely to be material decisions made that would impact Q4 in any positive material way from a revenue standpoint. Not saying that can't happen, we'll push very aggressively. But I think just where we are at in the time of the year, a lot of these decisions, while they may be made before year-end will not have revenue implications for 2022. So taking that all into account, we're going to do everything we can from SoHo to our enterprise channel to generate as much revenue as we can, but this is our best estimate as we sit today.

Operator

The next question is coming from Jon Tanwanteng from CJS Securities.

Jonathan E. Tanwanteng - CJS Securities, Inc. - MD

Commendable job just keeping the guidance even with the headwinds that you're seeing. I guess to follow up on that question. The pushouts that you're seeing on the enterprise side, are they health care? Or are they non-healthcare corporate? Can you give us a little bit more color on the types of customers who are deferring these decisions?

R. Scott Turicchi - Consensus Cloud Solutions, Inc. - CEO & Director

I don't think it's unique to health care per se, but obviously, with our concentration, particularly in corporate being approaching 70% of new sales being health care, that's really where we are observing it the most. And we're seeing a -- there's, I think, a dual issue that there's 2 different kinds of timing. One timing is the customer making a decision to adopt the service. The other is they've made the decision but having the resources to implement some of which we can assist with, but we cannot do the implementation from where we sit without the cooperation of the customer. And so we've seen it in both cases.

In some cases, a timing decision in the first instance. In other cases, we're ready to go, but for whatever reasons on our client side, they're not yet ready to go or commit. We've also found that given the time of the year, there are some institutions that just say, we're not doing anything until January. We don't want to touch our systems until January. So we can't really force that. We respect that decision. We're ready to go. We will begin as soon in January as they want to begin implementation. John, I don't know if you want to add some additional color?

John Nebergall - Consensus Cloud Solutions, Inc. - COO

Yes, Scott, I would add to that. I think that in terms of even some specifics we can talk about, and we talked about the Change Health deal, which is a significant deal for us, the lumpiness is evident there as we had anticipated that would be an early Q3 deal wound up being a very late Q3 deal and then there are implementation considerations as we go into Q4. I think the same can be said as we talked about the clarity implementation that is stretching on a bit longer than we thought it would.

But in our estimation, we want that Clarity implementation, especially this first one, which is going to be a bit of a flagship for us to be as impeccable as it can possibly be. So again, this is a timing issue. It's not a question of if, it's about when and that these things have slipped into 2023 is certainly something that in terms of guidance, we're still in the range, but things have moved out a little bit further than we thought they would.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Understood. And as you move into '23, do you catch up with this and do things push out in Q1 if you don't? And everything is just to the right? Do you have the capacity to execute all the stuff that maybe you're backed up on and a new stuff that might come in?

John Nebergall - *Consensus Cloud Solutions, Inc. - COO*

Yes, we have the capacity to get executed. It all comes down to customer readiness and how that fits with us, we're fully expecting that we're hitting 2023 running. We're going through a budgeting process now and of course, we'll have more to say about that as we have the fourth quarter earnings.

Operator

The next question is coming from Greg Burns from Sidoti & Company.

Gregory John Burns - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Just to maybe follow up on the commentary about next year. From a margin perspective, what would move you towards the top or low end of your 50% to 55% guidance range next year? Have you made all the investments you needed to make? Or with the government coming online, is there more upfront cost that you need to absorb before you start to recognize revenues?

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Yes, it's a great question. I think as John just mentioned, look, we're, I'd say, in early to most mid-stage of the budgeting for '23. And there's a couple of things that are important when you think about the revenue, which influences the margin and then the cost side. One, of course, is the overall economy. So I want maximal data before we lock our budget. So we're going to be slower in doing our budgeting this year than we might be in previous years because I want to see the most data as it relates to how the core customer base is behaving as well as to handicap some of these issues where there's been some slippage from one quarter to another. So that's one element of it, which will affect or could affect where we land on the revenue side.

On the cost side of it, from the beginning, we said this is a multiyear program in terms of the investment, so we are by no means done investing either in our technical or sales resources. Now, some of these relate to the first question, which is where we land on revenues, will influence how much we need in things like professional services, additional technical resources, additional sales resources in both our inside sales and our enterprise. So it's very much mixed together.

I will tell you that we will have some downward pressure likely on our margins because of the fact that our employee base has grown this year, it's been expensive to hire and we'll have the full year cost of those employees next year versus the fractional cost in this year and we are, for the most part, still in a mode that is inflationary from a wage standpoint, which affects all employees.

So we will look for mitigants against what will be the likely increases in our expenses regarding employees for the portion of our cost structure that is not employee related. We have things like telco costs, we have external costs that we have, and they're substantive. They're in the \$60 million to \$70 million range. But it's not clear to me whether the increase in labor cost can be wholly offset by finding savings in the other category. Right now, it's too early to say. I have no reason to believe we will not operate within that range, but I would not necessarily be expecting any upside from our current margin structure in '23.

Operator

The next question is coming from Ian Zaffino from Oppenheimer.

Ian Alton Zaffino - *Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst*

Great. I just had a want to get a little bit more into the SoHo channel. You're taking a price and it's sort of similar, and if I could draw maybe a comparison to what you did during the financial crisis. You took pricing up. You saw a little softness on the customer count side, but that sort of mitigates the type of weakness that you probably would have seen in the financial crisis. I mean are you expecting something similar this time around or anything to define from what you're doing now versus what happened in '08 or '09?

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Yes. There are some similarities, but I think, look, there's also a difference is partly -- it appears this recession will be different than the great Recession. So one of the questions is, what does this recession look like compared to that? I would just make the note that similar to last time, we completed the price change, and it was coincident. We weren't that smart prior to the real onset of the Great Recession. So to the extent we're not in a recession now, but it's around the 423, looks like that will be a similar fact pattern. There was, though, just to be clear and to be fair, there was an increase in the cancel rate in '09 relative to the '08 performance that had nothing to do with the price change but was influenced by the severity of the recession, albeit relatively brief in duration.

We suffered increasing cancel rates for maybe a couple of quarters, then they started to return not only to the previous means, but they actually went lower. Is that a fair overlay for '23? Who knows? Because I don't think right now, there's an anticipation, the recession will be as shockingly severe as '08, '09. But I think there's a belief that might have a longer duration than '08, '09. So these are kind of things we have to play around with.

But yes, getting the price change substantially done before the onset of the recession is a mitigant and is a help because, quite frankly, I'd rather have a smaller base of customers that is a steadier, better base of customers than a larger base that is more fragile. So it does have that effect of winnowing out some of the weaker customers and generally managing the smaller base is better versus managing a larger but arguably somewhat weaker base. But these are all variables that are the side. This is why I want as much data as I can get before we lock things down for '23.

Operator

Once again, ladies and gentlemen, if you wish to -- the next question is coming from James Breen from William Blair.

James Dennis Breen - *William Blair & Company L.L.C., Research Division - Communication Services Analyst*

Can you just talk a little bit about the growth you saw in the FX corporate side? You call out mid-market in the presentation. Is there anything specific you're doing there from a sales motion to sort of drive growth? Then from an overall cost perspective, as you're thinking about potential for recession and the impact on the overall business, how do you manage around that? Can you keep the margin structure relatively stable. We see a little bit worse revenue growth?

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Yes, I'll let John take the first question because those channels of inside sales and field sales reported to him. Yes, he might share some secret there's no great trade.

John Nebergall - *Consensus Cloud Solutions, Inc. - COO*

We're obviously very pleased with the inside sales programs. I think what we've done is we've taken a program that had traditionally been focused on being a part of the web marketing program, meaning that you get hand raisers or you get form fills from businesses that are larger than a SoHo business. The inside sales team does either outreach or follow-up and close those deals. What we've been able to do, though, is introduce this idea of a channel kind of relationship that starts to funnel new and different kinds of opportunities to our inside sales team. You have folks like resellers or folks who are managed services providers that are interested in being able to bring back to their customer sets. We've been successful with expanding into that. We have also expanded into specific account-based marketing practices.

So each of these steps we have sort of built on the step before to help us continue to move forward with how we sell, how we reach out into the marketplace and how we identify new opportunities. One of the places that we consistently find new opportunities is by reaching into the SoHo base and, frankly, [farming] out of the SOHO base as we can tell by the analytics that we use, some of those SoHo customers or members of larger organizations we reach and start that conversation and upsell them into a corporate product that better suits their needs and their business purpose. I think as time has gone on, what we've been able to do with our inside sales team is keep expanding the kind of techniques that they use in order to drive demand and capture that demand. We've been able to show that, that's a fairly bottomless pit of opportunity in that there's always a new idea or a new way that we can think about to continue to drive new business.

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Then, Jim, in terms of the second question, I think, look -- We put out and we've said consistently, we have a range of margins of 50% to 55%. That is our commitment. Right now, I don't see a reason why we will not operate in that range in '23. Now, I would say, I'm not expecting the great recession of '08, '09. So something (inaudible) like that comes. Maybe we have to caveat the statement. But I think based on what most people are expecting, we still see a very positive trajectory in terms of revenue growth. I think the question is how much in '23. But I think it's also important to understand, and it's something that we will beat the drum on. We need to make investments in this company. Those will continue in '23 because the opportunity is so large. So it's not so much about playing for a given quarter in '23 or even '23 as a whole.

So the issue for us is really where do we think we can land revenue-wise such that we can measure and calibrate, if you will, the pace of that investment that would be commensurate with the growth in revenue. But it's not like we're going to shut down and where we look for cost savings and where recession can be helpful is not in our people. It is in the other areas of our business. I know in '08, '09, we were able to make tremendous savings in our telco costs. Meaning our third-party vendors in certain marketing programs. Those are the areas we'll be looking at and quite frankly, the type and the severity of the recession will be indicative of the magnitude of the opportunities there, but it's not in our people. Our people will grow in '23 versus where we are right now in '22. That is a necessity, in my view, even if it does mean that the margin could be somewhat lower than the current 53.5%.

James Dennis Breen - *William Blair & Company L.L.C., Research Division - Communication Services Analyst*

Great. And so is it fair to say the investments that you're making to grow the business are in people and to some extent, technology?

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Yes. Well, the people building the technology. So that's a yes, and I think going forward, as we talked about at the time of the spin, sort of year 2 would be a heavier investment in the sales piece of it. Although it doesn't mean there's no investment that will be incrementally made in the technology piece that still needs to continue. So these things are sort of balanced, and it is basically all people who are either producing the technology on the one hand and/or implementing or selling it on the other hand. The good news is we're basically substantially done with the G&A. Unfortunately, having been spun, we had a meaningful amount of people we had to hire this year to stand up an independent public company.

That I don't see persisting into the future. I think our G&A piece is fairly well set, but it's these other areas that do require additional investment. The question is really the pace of it given our expectation of revenue growth in '23 versus '22. So stay tuned for more. I know you'd love more details

than that. But given where we are right now and given the uncertainty in the economy, I think we have to take all these this data into account and manage it accordingly.

Operator

We had a follow-up coming from Jon Tanwanteng from CJS Securities.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

I was just curious, you mentioned a couple of times now that you've been able to recent SoHo channels, we've got corporate customers that may not be fully being served. I was wondering how much of that has actually occurred in the past few quarters or seems to spin. How much revenue did you pull out of SoHo and how much did that grow to both revenue and margin wise as you put the corporate.

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

So you can think of it as almost an accidental experiment. It was not accidental if you were the one running the inside sales channel. But we're talking about a few hundred customers per month. So you know the ARPU of our so customers are \$15. Now you should assume that what's being cleaned off has higher ARPU, so call it, \$50, \$60. It's not -- It's tens of thousands of dollars a month. But what we have observed is when they go into the inside sales channel, 2 things occur.

First of all, unlike in the SoHo channel, there's the opportunity to directly talk to the customer. Once you can do that, the availability of services that inside sales had is much faster than SoHo. So you're developing a relationship, but you're also saying what are your real problems. I've got a suite of services, you can pick and choose amongst them. We have seen where that has occurred in most instances, at least a doubling of the revenue. So 1,000 becomes 40,000 a month.

In the scheme of things, it's not very big on a historic basis and the reason we've never gone through and said, when you look at the SoHo channel, there's a shifting maybe of \$100,000 out of SoHo into corporate because it's a rounding up. But what it did is it gave us the insight that can we accelerate that program? Can we take 10,000 where I get tens of thousands of SoHo customers and bring them into inside sales. The challenge is you need more inside sales people to do the outreach to the customer, right?

We -- that group is in scale to talk to 10,000 people in the next 30 or 60 days. So we're in the process of hiring into that group specifically so that we can accelerate the pace of taking from SoHo into corporate. So right now, the 2 -- We feel it's imprudent to take a bunch of customers and throw them into the corporate channel if they cannot be effectively managed. You've got to have the personnel there to make the call to the outreach if the research is done so that you have a productive conversation and you can, in fact, double or maybe more than double the ARPU for those customers.

But it's a very -- We think it's a very fertile ground. But going back to the earlier question, everyone wants to have their cake and eat it too. They want a little revenue, they don't want the cost, I do too. But that is not the way the world works. So the question is how much are we willing to go out and hire before that revenue is in hand because while it is a fairly quick hit to revenue, there could be an offset depending on the timing of half quarter to a quarter where you've got the expense if you don't have the revenue lift.

These are all the balancing acts that we're going through right now. But when you step back and you stop with all the quarterly stuff, the opportunity set in front of us as we look out over the next 18 months or the balance of this year through '23 and '24 includes opportunities like this. It includes the Clarity opportunities and subsequent customers. The continuation to go after the fax customers, particularly in the health care space, that are still on-prem.

Other large customers that we've not yet talked about through our integration programs. So there are Harmony, which is maybe a modest contributor next year, but more for '24. There's just a lot of opportunity here, but key limitation is people. We just can't take advantage of all of these opportunities

as fast as we like, and there are some limiting factors because even when we're ready, as we move upstream, our counterparties have to be ready. If they don't have the personnel, then we don't want to be too far ahead of the cut. So this is what we're dealing with right now as we think about '23, we think about the budget, the pace of hiring relative to the revenue opportunity. But there's a lot of it out there, a lot of opportunity out there.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Got it. A second question just on the SoHo piece. I think you're planning to keep increasing the price across the base that that hasn't received price increases yet. How much should we be expecting in future months and quarters? That's number one. Number two, could you give us a little bit of insight into just the pace of churn in October so far and if it's changed from Q3 at all?

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

I think the answer to the last question is no. It's continuing in line. In terms of the pricing, their pricing, there's about 10% of the group that's international that we're currently not anticipating price changing. We did about 30%, so that's 40%. There's a little under 20% that are annuals that get affected as the renewals come up, so meaning Qs 4, 1 and 2 of next year, that gets you to approximately 60%. Then there's a big chunk that are already on special programs. I don't have an exact number, but it's probably another point some points. Internally, we have all these different -- We call them offer codes or special situations where people take multiple numbers of their high use, et cetera. Probably unlikely that many of them get affected.

Some may, so you're left with an additional maybe 15% that we actually are taking a hard look at and they very well move forward in terms of price increasing them in the not-too-distant future. But the internationals right now are off the table. The non-U.S. are off the table. That doesn't mean they won't be on the table in the future. But at least for right now, as we think over the next couple of quarters, there's no contemplation.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Got it. So 15 plus the annual? Or is that just the annual? I'm sorry, it was...

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

\$15 plus the annuals. You got \$15, plus call another 15-ish that are annual that have yet to be affected, meaning Qs 4, 1 and 2. So about 30% is -- Or, 15% definitely going to happen. It just happens as renewals come on in the annual. The other 50% is a decision to be made, but I would say we're leaning more likely in favor of doing it than not.

We've received a few questions by e-mail. So I don't know if there's any more people in the live queue. I think some of these we have addressed through either the direct prepared remarks or in response to other questions. But I think we should maybe unpack a couple of these additionally. John, one of them is a question about the authority operate in the VA and how and if FedRAMP certification interplay with each other, are they the same or they're different? What does it mean in terms of our authority to operate with the VA and what other potential opportunities we have out there?

John Nebergall - *Consensus Cloud Solutions, Inc. - COO*

Yes. The way that works is a little bit of a hierarchy. You have to have sponsorship and approval of your first government agency and then they sponsor you to a review for FedRAMP. So what's happened is that the authority to operate means that ECFax has met all requirements for the system to transact in production. As to the VA, we have the full set of requirements met and the ability to transact in production, and it's all a matter of rolling out.

Now the VA then submits that information that it used to come to that determination to the FedRAMP marketplace Audit Committee for evaluation. We've been told that, that committee is backed up about 12 weeks in getting through the submission. So our expectation is that we'll get that FedRAMP feedback probably in Q1 in January or early February to get that answer. But as of right now, the ATO gives us full authority to operate in production with the VA for the state of purpose.

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

We have another question that came by e-mail. I think John touched on these, but there is an interesting interplay here. One was a little bit more detail on the change health customer win and also the UC Irvine contract and where those can lead. And then change how comes through a relationship with Amazon Connect. So how do those 2 interplay with each other? A couple of different questions for John.

John Nebergall - *Consensus Cloud Solutions, Inc. - COO*

Yes. So we have spent a good deal of time over the last couple of years building up our channel program, and this is really the Change Health win was a product of that. The Amazon Marketplace and Amazon Connect have a good amount of reach. They have customers who they sell commercial services to. Our service is one of those that the Amazon Connect team sells.

So we're looking forward to continuing that relationship to change help, obviously, a very large and very prestigious name in health care right now. That's something that we're very happy with. Remember, as we think about these things as we book them and just one thing to say about bookings in general. But when we talk about bookings, we're talking about minimum commitments.

As we've talked about many times, what winds up happening is actual revenue comes in, in excess of those minimum commitments when the transactions start to exceed minimum levels. So when we think about the implications of a Change Health, we think about the implications of the UC Irvine and how those are going to perform in relation to what we quote for bookings.

Generally, what we see is that the performance of those customers is going to exceed what we put as far as our measurement of what we booked. So we're excited about both of those. Obviously, there's a lot of reshift. We're very excited about the go-live that we had in the Southeast as well. I mean that's another one with an Epic integration and the WellStar system that we believe is going to be very positive for us going forward.

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Then the last question, which I'll take has to do really what I did with capital allocation, but the question was framed, we built our cash balances to north of \$100 million, notwithstanding making the various payments to our former parents, Ziff Davis, that Jim referenced. The question was any reason for positive repurchases. So first of all, I'd remind everybody, we have an umbrella program that covers 3 years.

So we never "pause" the program, but there are depending on our various windows, prices that we set, which then determine whether there's any execution. There were no executions of repurchases in Q3 because the stock, I guess the good news was did not hit our level, so there were no repurchases. So we will -- reset the level as we go forward between now and the next time we have an earnings call in February to discuss Q4 results, depending on where the stock trades, we may or may not have additional repurchases.

Having said all that, it's not, in my view, a bad thing in this environment to build some cash. There are a few reasons for doing so. You know you may remember that about a year from now, 11 months from now, our first tranche of debt, not so much that I'm interested in calling it because it's at a premium. But for the first time, you can actually buy debt in the open market, currently, it trades at a discount, whether that would be a good investment versus buying the stock, I don't know what to see where the debt trades to get deeper into '23. But that is an option available to us once we hit the second anniversary date of the spin, which will be October 7, 2023.

Also too, I think, in this environment, while we do have the additional line of credit, it's not one that I really am anxious to tap into. So the extent we were find something interesting M&A-wise, I'd like to be able to pay that out of cash balances versus having to incrementally borrow. Speaking

of M&A, even though it's not per se the nature of the question, we continue to look for opportunities, but I would say we are very discerning. The discernment comes on a variety of levels. Obviously, price, as you would imagine, we're sensitive to. Those of you that have followed us historically know that how we get our rates of return is very important to us in thinking through our capital allocation. But I would just emphasize going even beyond that.

As I mentioned in response to an earlier question, we have a lot of organic opportunities in front of us that I believe are important that we execute against. One of the things that is the utmost priority is that any M&A that we do, like Summit is not only complementary to what we're doing, but can assist us in accelerating what we're doing. But to the extent in any way, it becomes a distraction from what we are doing organically, that is a disqualifying factor.

That is a very narrow lens through which you can look at M&A because a lot of things need repair or they need substantive integration, those at least in the near to intermediate term to need would be problematic. But having the cash available and be able to act quickly and act on an all-cash basis is another reason that if such a transaction were to occur, we would be able to respond quickly without having to increase our borrowings. Now I turn it back over to you, Paul to see if there's any more people in the queue for questions.

Operator

We did have one come in from CJS, Jon Tanwanteng with another follow-up.

Jonathan E. Tanwanteng - *CJS Securities, Inc. - MD*

Just one more on the pushouts and deferrals that you were talking about. Was any of that the VA just with the delayed implementation schedule that you were talking about, number one; and number two, as you run the year, what is the expected implementation rate and what can you actually realize from that relationship?

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

We don't know yet. So no to the first question, and we don't know the second. This is kind of where, I don't know, me next right now, trying to understand that because it will also be influential of how we put it in our budget for '23. But right now, there's not enough insight to be able to have a plan of rollout that then can match the revenues. So we're waiting.

It's something that Cognizant, the Prime is working very aggressively with the VA as well as ourselves, but it is what it is. The good news is we're ready to go. Great to go. But there are many degrees of complexity so that doesn't involve the VA in Washington, D.C. It involves individual institutions locally. It involves ourselves. It involves Cognizant, so it's taking some time. But to John's point, we're ready to go, we're chopping it a bit, but we're not driving that decision.

Operator

There were no other questions from the lines. I'll now hand the call back to Scott Turicchi for some closing remarks.

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Great. Thank you, Paul. We appreciate all of you joining us today to get an update on Consensus' Q3 earnings and our outlook certainly for Q4. We will be at a high yield conference in Boca Raton in late November, I believe, on November 30. There should be a fireside chat there. So we may get some additional updates even though it is a conference geared towards high-yield bondholders. Then we have a series of conferences coming up in January. In fact, 3 of them in the same week, the JPMorgan Healthcare Conference, the Needham Conference and the CGS conference.

So a balance to be able to attend all of them, if not in person, at least virtually. So there will be additional information before we have our Q4 results, which will probably have the second or third week of February. At that time, we'll release full guidance, be able to give you a more fulsome answer a lot of the questions you asked today about how much will the VA contribute? What will the margin structure be? What will our pace of hiring be? Is a recession any way impacting our view in terms of revenue generation. So we get it, there's a lot of questions that we're interested in too. So stay tuned over the next 60 or so days, we'll increasingly have answers. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time, and have a wonderful day. Thank you for your participation.

R. Scott Turicchi - *Consensus Cloud Solutions, Inc. - CEO & Director*

Thank you, Paul.

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