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CCSI.OQ - Q1 2024 Consensus Cloud Solutions Inc Earnings Call

EVENT DATE/TIME: MAY 08, 2024 / 9:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Consensus Q1 2024 earnings call. My name is Paul, and I will be the operator assisting you today. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions)

On this call from consensus will be Scott Turicchi, CEO; Jim Malone, CFO; Johnny Hecker, CRO and Executive Vice President of Operations; 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 - *Consensus Cloud Solutions Inc - SVP of Finance*

Good afternoon and welcome to the Consensus investor call to discuss our Q1 2024 financial results, other key information, Q2 2024 guidance and our 2024 guidance full year. Joining me today are Scott Turicchi, CEO; Johnny Hecker, CRO and EVP of Operations; and Jim Malone, CFO.

The earnings call will begin with Scott providing opening remarks, Johnny will give an update on operational progress since our year end 2023 investor call. And then Jim will discuss our Q1 2024 financial results, Q2 guidance and reaffirmation for our full year 2024 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 10-K SEC 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.

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Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

Thank you, Adam. As noted in the press release, I'm pleased with the results of our first fiscal quarter. As we discussed on the Q4 earnings call, our goals for this year include the following.

First, eliminating certain costs of the SoHo channel, especially in the area of marketing, allowing us to stabilize the base of revenue over time. Two, continuing to pursue the acquisition of customers primarily in the health care space for our corporate channel. Three, reviewing our overall cost structure with the goal of driving EBITDA margins north of 54% and for continuing repurchase of our debt to further reduce our net debt to EBITDA ratio in anticipation of the first tranche maturing in October of 2026.

Johnny will provide more detail in his portion of the presentation. However, I'd like to highlight several things before turning the presentation over to him. I'm happy to report that while revenues for the SoHo channel dipped in the quarter, versus Q1 of 2023, it was better than our expectations.

We were able to substantially reduce our marketing spend and still generate 63,000 paid adds more than in Q4 and similar to our Q3 productivity that had higher levels of marketing spend. We continue to monitor the various cohorts and look for opportunities to possibly allocate additional marketing dollars to work above our budgeted amount later in the year.

In our corporate channel, our new cloud fax product eFax protect had strong sign-ups in only its second full quarter of offering. We also saw a record number of upgrades from our SoHo channel to corporate. In addition, we saw more facilities come online and a ramping of usage from the VA. All of these contributed to 4% growth, which will not to our desired long-term target is an improvement over the past three quarters.

On the AI front, we saw additional wins for Clarity PA and Clarity CD. We maintained our discipline on the cost side with cuts primarily coming from the SoHo marketing mentioned earlier. The result was a 6-percentage-point pickup on our EBITDA margin to 54.5% and near the upper end of our long-term range.

The combination of improved EBITDA, strong cash collections and retirement of debt allowed us to improve our free cash flow by more than 20% from Q1 of 2023 to approximately $36 million in Q1 of 2024, which is before our reduction in CapEx that begins this quarter.

We were able to repurchase an additional $63.5 million of debt during the quarter. This brings our total repurchases since launching the repurchase program in November of 2023 to $126 million and reducing our outstanding debt to $679 million or 3.6 times our trailing12-month EBITDA on a gross basis and 3.2 times on a net basis.

I will turn the call over to Johnny. Who will provide you more operating details.

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

Thank you, Scott, and hello, everyone. Let's dive into our sales and operations update starting with our encouraging performance in the corporate business. Q1 is traditionally an active quarter for us and this year was no exception. We are pleased to report revenue of $51.4 million versus $49.4 million last year for Q1, marking a 4% increase over the same period last year.

This solid result demonstrates the continued momentum of our Corporate Solutions and marks another record quarter for our corporate business, underscoring the strength of our offerings. Within our corporate business, the SoHo upsell strategy remains a rich source for upsells with roughly 1,500 customers deciding to upgrade in Q1.

This represents excellent growth up 24% quarter-over-quarter and an impressive 38% increase year-over-year. We expect this initiative to slow down a bit in Q2 due to some operational changes we are making. Furthermore, our advanced products are regaining traction, accounted for 21% of new sales in Q1, driven by demand for Clarity and Unite. This figure shows a healthy increase over Q4.

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Our commitment to innovation is paying off as customers embrace these powerful interoperability and IT driven solutions. The momentum for eFax protect remains strong, and we continue to see growing adoption and positive customer feedback. The Q3 launch of our dedicated e-commerce channel for corporate clients has been instrumental in driving this success.

Turning to our SoHo business, Q1 revenue was $36.8 million versus $42 million previous year. Consistent with the marketing changes we announced last year, the total SoHo account base has decreased from 831,000 to 808,000. This is slightly ahead of expectations as we introduce new price plans that are net economically beneficial.

These first month discounted plans are popular among new customers in lieu of our free trial offering. Consequently, we see our ARPA declined modestly from $15.12 in Q4 to $14.95 in Q1. While the cancel rate is up slightly at 3.42% compared to 3.34% in the previous quarter. Bear in mind that rate includes the accounts we have upgraded to the corporate product basically making up the entirety of the increase in cancels.

As discussed in our last earnings call, we have made these adjustments to improve the LTV to cap ratio. I am pleased to say these steps have shown real promise in that area, and Q1 has seen a dramatic improvement, demonstrating the effectiveness of our smarter ad spend efforts and enhancing the profitability of our customer acquisition efforts. While it's early days, we're encouraged with these results and we'll continue to aggressively manage this key metric.

Let's discuss some of the key initiatives and wins. The VA roll-out is progressing at the expected pace, and we remain optimistic about its potential. We have successfully adjusted our deployment approach to streamline the process with our partners and remain confident in our ability to achieve a seven digit contribution from the VA in 2024, laying a foundation for further growth in the following years.

The uptake of our eFax offering continues to gain traction in the extended public sector. We remain in close contact with our existing partner Cognosante, and are excited about their announced merger with Accenture. This signifies the strength of Cognosante and expands the potential opportunity for eFax in that growing market segment.

In Q1, we were able to form a new partnership with a leading software company specialized in document delivery and data transfer solutions. These strategic collaborations expand our capacities and capabilities to deploy our eFax and LPAI solutions, enabling the consumption of structured data for our customers. The goal of this partnership is to provide a seamless and efficient experience for users, leveraging the expertise of both organizations to deliver innovative solutions.

Furthermore, we are in the process of launching a joint go-to-market partnership with one of the largest revenue cycle management and electronic medical records systems in the country. This partnership represents a significant step forward, creating synergies with a major player in the health care technology space. I'm bringing our two leading brands together and combining the strengths and capabilities of both organizations, we aim to deliver comprehensive solutions that meet the evolving needs of the healthcare industry, enhancing patient care and streamlining administrative processes.

During Q1, we attended three important industry events, ViVE in Los Angeles, HIMSS in Orlando and Channel Partners in Las Vegas. This provided invaluable opportunities to interact with current and potential customers as well as partners underscoring the importance of in-person connections.

I'm also happy to announce that we have successfully refreshed the eFax.com website. The redesigned site provides an optimized user experience and aligns with our ongoing efforts to attract and retain high value users.

Overall, we're on track with the execution of our 2024 initiatives with customers and partners understandably focusing on cost consciousness and ROI. We haven't witnessed any significant changes in the market or customer behavior. There remains a high level of interest in our solutions, but clients continue to be slow in decision making and remain resource constraints. We don't expect this to change anytime soon.

Now, let's delve into product updates. Our AI powered solution clarity continues to generate a strong pipeline, and we're seeing increased demand for other document types and fax. We're actively onboarding first customers and building the POC backlog. The ongoing interest in clarity remains very encouraging.

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For our flagship brand eFax we launched the integrated portal, providing an enhanced user experience and laying the foundation for future consolidated offers. Our investment in security, including high trust and FedRAMP efforts, continues to pay off. While the recent cyber attack disruptions in the healthcare industry were horrific.

We were pleased that our digital cloud fax solution was a fallback lifeline for some of the impacted parties. This resulted in some increased volume and project triggers. Security is paramount and consensus offers high quality solutions with a strong focus on secure information exchange.

In summary, we made solid progress in Q1 2024 with record revenue in the corporate business and significant progress on key initiatives. We are successfully executing our strategy to focus on profitability, cash flow generation and the optimization of our customer base.

And now I'll hand the call over to our CFO, Jim Malone, who will provide further details about our financial results and guidance. Jim?

James Malone - *Consensus Cloud Solutions Inc - Chief Financial Officer*

Thank you, Johnny. Hello, everyone. In our press release and on this earnings call today, we are discussing Q1 2024 results, Q2 2024 guidance and reaffirming full year 2024 guidance. We expect to file our 10-Q today.

Let's start with our corporate business results. Q1 2024 revenue was a record $51.4 million, an increase of $2 million or 4% over the prior year comparable period and ahead of our expectations. Corporate ARPA of $316 is up slightly from the prior comparable period. Monthly customer churn was 1.92% for the quarter.

Let me remind you that this metric is based upon account councils and the vast majority of customers are biased towards the lower end of our customer continue representing primarily e-commerce to SMB accounts. The trailing 12-month revenue retention was 98%.

Moving to SoHo, Q1 2024 revenue of $36.8 million, a decrease of $5.3 million or 12.6% over the prior comparable period and again, better than expectations. The year-over-year decrease was primarily driven by planned reduced advertising spend in the current period and a year-over-year base reduction due to fewer paid adds. ARPA of $14.95, decreased 1% primary primarily as a result of shifting to price plans with a discounted first month versus a free trial period, resulting in higher paid Adds in the quarter.

As Johnny mentioned, these plans are net beneficial to us. Churn declined 34 basis points to 3.42% year-over-year. As we accelerate the movement of SoHo customers to corporate this will have an effect on the SoHo cancel rate. In the quarter the movement of customers accounted for about 6 basis points of the churn.

Moving to Q1 consolidated results, revenue of $88.1 million, is a decrease of $3.3 million or 3.6% over Q1 2023 and better than expectations. Adjusted EBITDA of $48.1 million and 54.5% margin was an increase of $3.8 million or 8.7% over Q1 2023.

The main drivers were our focus on cost structure, most notably the reduction in SoHo marketing spend as well as other operating savings. EBITDA margin of 54.5% is near the higher end range of the range presented in our annual 2024 guidance and an increase of 6-percentage-points of the prior year comparable period.

Adjusted non-GAAP net income of $29.8 million, so an increase of $7.8 million or 35.6% over the prior year, driven by items, I mentioned plus benefits from non-cash foreign exchange on revaluation of inter-company accounts and net interest expense and a modestly lower share count.

Adjusted non-GAAP EPS of $1.55 higher than the prior comparable period by 40.9% or $0.45. Q1 2024 non-GAAP tax rate and share count was 21.3% and 19.2 million shares.

Moving to our capital allocation strategy. As mentioned in our Q 3 2023 earnings call, we announced a $300 million, three year bond repurchase program approved by our Board. In Q1 2024, we purchased $63 million face value for $58 million of cash.

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Program to date, we have purchased $126 million face value for $115 million cash. We have approximately $174 million in bond repurchases remaining on this plan. You'll see in the deck that we have distributed a new slide, debt to EBITDA leverage, -- as I mentioned, and Scott, as we have purchased $126 million of debt program to date. The schedule depicts our gross and net debt to EBITDA leverage from spin to Q1 2024, as we were not able to repurchase any debt until the second anniversary of the spin, which was October 2023 through purchase activity began in Q4 of 2023.

As of Q1 2024, our net debt to EBITDA ratio has decreased to 3.2 times, solid progress towards a debt burden of less than 3 times. We ended Q1 2024 with $61.5 million in cash, which is sufficient to fund our operations or repurchase of debt and equity. This decrease from our year-end balance of $89 million, is primarily due to the repurchases. Q1 2024 free cash flow, it's $35.8 million or 21.6% versus prior comparable period. Q1 2024 Capex of $8.9 million that is consistent with the prior comparable period.

Moving to guidance, we are reaffirming our full year 2024 guidance. In addition, for assistance with the quarterly spread of our guidance, we are providing guidance for the current quarter. For the full year, our guidance revenue between $338 million and $353 million or $345 million at midpoint.

Adjusted non-GAAP EBITDA, $182 million, $294 million with $188 million at midpoint. Adjusted non-GAAP EPS of $5.8 to $5.31 with $5.20 at midpoint. Our estimated share count and income tax rate on $19.4 million shares at a tax rate of 20.5% to 22.5% .

For Q2 2024 guidance revenues are expected between $84.5 million and $88.5 million with a $86.5 million midpoint. Adjusted non-GAAP EBITDA between $46 million and $49 million with $47.5 million at the midpoint. Adjusted non-GAAP EPS of $1.30 to $1.36 with $1.33 at midpoint. Our estimated share count and income tax rate are 19.3 million shares and 20.5% to 22.5% tax rate.

This concludes my formal remarks, and I'd like to turn the call back to the operator for QA. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting a question-and-answer session. In the interest of time. (Operator Instructions)

Jon Tanwanteng, CJS Securities.

Jon Tanwanteng - *CJS Securities Inc - Analyst*

Hi, good afternoon and thank you for taking my questions. I was just wondering, looking at the midpoint of the Q2 guidance, it's a little bit down sequentially on an EBITDA basis. And I'm wondering on what's going on in that number and kind of what the puts and takes are. I know that so you're bleeding off a little bit, but is there increased expenses? My understanding was that, so maybe a low to no margin business, -- the customers that you were you're running off.

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

No, John, remember that revenues are down sequentially from Q1 to Q2, so that puts pressure on as you're going to make up that difference. Customers that cancel can actually are very profitable, remember there on the margin. They're paying us something in some prior period, whether it's the last quarter or the last month.

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Where there are customers that are less or not profitable is a function of the marketing issue that we discussed both in the call and previously and what type of customers signing up and are they quote-unquote taking advantage of the free trial period. And as a result, not making any payment to us.

But yet we've expanded marketing dollars or they stay for a very short period of time. And that's a different question, but that's really the shift in introducing a new plan, which has you pay upfront albeit at a discounted amount. But all customers that we lose or substantially all that we lose in SoHo are profitable to varying degrees because remember, those marketing costs have already been expensed in some prior period. So we have to make that up. So I actually think that the midpoint shows an improvement in margin and a similar level of EBITDA.

Jon Tanwanteng - *CJS Securities Inc - Analyst*

Got it. That's helpful. If I could sneak another one in there. I was wondering about the changes you mentioned about that would impact the upsell amount in Q2 and kind of what's going on?

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

So, this is an important program for us as it adds to the number of sales. But as you are new customers. But, this is on the lower end. So we expect the impact to not be dramatic on. We're going through some changes, prioritizing some of the positioning of the people that we have in that program towards a more lead generation up market and then we will be backfilling those positions. But it will lead to a little bit of a decline and not be as strong in Q2 as it was in Q1.

Jon Tanwanteng - *CJS Securities Inc - Analyst*

Got it. Thank you for the detail.

Operator

David Larsen, BTIG.

Jenny Shen - *BTIG LLC - Analyst*

Hi, this is Jenny Shen, on for Dave Larson. Congrats on the quarter and thanks for taking my question. It was taken color to hit here that advanced products made up 20% of new sales. Can you just provide some more color there? What opportunities you're seeing from Clarity and Unite? How receptive prospective clients have been and also the potential revenue and margin impact there?

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

Thanks for your question. So, what we're seeing is obviously, -- we've been strong with Unite sales in the past. This is a suite that offers more than just faxing to mainly smaller physician offices and smaller clinics. And offer a more broader suite of interoperable products than just fax. And we're seeing, we're forcing continued interest in this product and we have a very focused sales initiative on that product line, and that has really paid off in Q1 on strong sales.

Secondly, your question with regards to Clarity, as I mentioned in the call, we've won our first customers for the Clarity platform. We are in the process of rolling that out.

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So we bought and the increasing use cases and there's some proof of concepts going on that are beyond the prior proof of concept in certain areas we've talked about say the last couple of quarters. So there is an expanding interest in what Clarity can do as a platform. And it's iterating around either a new use cases for it or derivatives of some of our existing used cases which would be in clinical documentation prior authorizations.

In terms of your question on the margin, I would say certainly in the aggregate Clarity and Unite, really almost all the advanced services would in general be consistent with our margin structure. Some depending upon how they're deployed could have a slightly higher contribution margin, some might be slightly lower. But as a basket, I'd say they're in line with where we operate today.

And I when I say that I'm talking about an operating contribution margin, so before things like G&A and whatnot. So higher than the 54.5% EBITDA margin that we reported, which includes all of those G&A costs.

On the overall revenue mix [through the vast majority] is just based on the large baseline that we have in the fax business, obviously still our fax revenue and it will take some time for those advanced products to catch up since we're still growing and as well. So the vast majority of our revenue maintains and continues to be fax. On the new sales side, very excited that we're able to book a substantial part of our bookings and with advanced products.

Jenny Shen - *BTIG LLC - Analyst*

Got it. That's very helpful. And in fact, and sneak in a quick follow-up here. I'm not sure if I missed it. But did you guys report a bookings number? And if not, can you just provide some general comments around your visibility and the pipeline? Thank you.

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

So yes, the bookings you're correct. There was never a formal metric in our presentation. It is something that for a number of quarters we would talk about in the operational section. Our view was that it was not terribly helpful because it was not, you cannot extrapolate from the booking numbers to a future, say, a quarter or a year worth of revenue.

And it's a fairly volatile number, so you can have that, like with the VA comes in a very big increase, but that may spread over a number of years. So that is not something that we currently book or track or report and don't intend to.

But I think Johnny can give you sort of a feel or in terms of the sales activity and what's going on in terms of both in the core fax business. And I think he's already addressed the advanced interoperable, what we're seeing there.

Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

Maybe to add to that, Scott, right here I think a few quarters back, I presented to the customer continuum, right. And it shows very clearly on the lower spectrum of that of that customer continuing with the smaller customers. We have a very fast and a ramp time and customers basically build almost immediately no later than the month after we book or close that deal.

On other customers that can take up to six-months, eight-months sometimes a year, 12-months until they start contributing substantial revenue. And so that's why we, were not, that was more of a confusing number that was really helpful, which is why we've taken it out.

On the pipeline we're doing well. We continue to build pipeline. We continue to close deals. I mentioned in the call we don't see a lot of change in behavior in the market, and we're still confronted with slow decision-making in large accounts and but are confident that we will continue to close, but don't see a lot of change in the pace at the moment.

And you can see that in Johnny's presentation, the driver for the new adds in the corporate channel were primarily from the upgrades from the sole channel, which was good, but they come at obviously in this continuum, a lower ARPA and also the relatively newfacts to protect.

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Jenny Shen - *BTIG LLC - Analyst*

Got it. Thank you and congrats on the quarter.

Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

Thank you.

Operator

Anne Samuel, JPMorgan.

Anne Samue - *JPMorgan Chase & Co - Analyst*

Great. And congrats on the quarter guys. And I was hoping you could provide a little bit more color on the partnership that you mentioned with the revenue cycle management vendor and what that entails?

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

Yes. So that is a large provider of a solution, healthcare IT provider in that space. And we jointly go to market to market our product to their existing customer base and closely connected and then delivering documents into their systems.

So those are many thousands of customers that they that they currently serve, and we're going to do joint campaigns and their teams are going to reach out to their existing customers so that this is really an exciting opportunity for us to work with them.

Anne Samue - *JPMorgan Chase & Co - Analyst*

And that sounds great. And maybe just one follow-up last quarter, you had noted that the VA partnership had started to contribute to revenue. I was just hoping you could provide an update on the roll-out there and contribution in the quarter?

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

(multiple speakers) So it's not that the roll-out is continuing at a government pays, let's call it that right. So it's contributing at the rate that we were expecting and there's ups and downs in that roll-out, but it's growing now at a steady and continued pace

Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

We're up to a few hundred facilities in terms of the roll-out, but doesn't mean that all the facilities are fully contributory. In fact, they are not. But that's a fairly substantial increase versus where we were two-quarters or three-quarters ago, which I think was in the neighborhood of 100.

And of course, facilities in the VA are of equal, relevance, prominent, size or contribution. And I would say that we're still at most, I'd say, in the lower quartile to may be slightly above the mid in terms of the size, the big behemoth ones have not come online and so there continues to be a lot of opportunity in terms of how it rolls out, but then also deeper penetration within those for which the wallet has already occurred.

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And some of this has to do with we've talked about on prior calls, there's many different flavors of how the faxing is done within a given facility. So you have servers, you have in some cases, physical devices, think of multifunction printers. You have embedded applications within software and combinations thereof. And so what would you have inbound and outbound. And the inbound is relevant because that requires reporting of telephone numbers. Outbound is not.

So in order to really capture all of the traffic of a given facility, you need to capture all five of those elements. And I would say most of the facilities, we don't have all five today, and there's various reasons for that. Sometimes porting of numbers of slow. Sometimes there's contracts that haven't expired yet. So it's not in that facility or that region's interest to yet disconnect from a multifunction device. So all of these things will over time roll off and accrue to our benefit as well as continue to roll-out.

As to your specific question, no, we're not going to give the VA specific contribution.

Anne Samue - *JPMorgan Chase & Co - Analyst*

Okay. Thank you.

Operator

Fatima Boolani, Citigroup.

Mark Zhang - *Citigroup Inc - Analyst*

Hi guys, this is Mark ZhaNg in for Fatima. Thanks for taking our questions. Maybe just wanted to touch on the SoHo to corporate conversion momentum. Seems like there's no upgrade reached 1,500 accounts this quarter, which were essentially higher than your usual cadence of call it around a 1,200 mark. Is this number one, ahead of your internal expectations for this quarter? Any sort of changes you're seeing in momentum there with a more favorable customer, seeing better budget to actually do these upgrades or just seeing recognizing the value of the corporate products?

Thanks.

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

So, like I mentioned, I think we're super excited about the success of this program and being even above the 1,500 mark in Q1. Key success really is here operational excellence. I think, we've really learned over time to optimize and identifying the most promising customers in that SoHo base and serve them up to the team that does this upsell program.

It's a question of routine as well. I think, it takes reps to ramp and to really get in a rhythm there. And we've been able to accomplish that over the course of about three almost four quarters now. So I think those have been the key drivers that we are really picking the right accounts to upsell into. And we see what patterns there are within our SoHo base of customers that are most interested in this product, which is why we're now we've learned a lot and we're confident in maintaining this program, which is why we can make the changes during Q2 that we plan to make.

Mark Zhang - *Citigroup Inc - Analyst*

Got it. And that's all very helpful.

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And then maybe if I could sneak in a quick follow-up too. Any sort of just presentation to the free cash flow performance this quarter fairly no on strong. And then any update to the full year outlook for free cash flow specifically, I know last update was, I'll call it low 80s for the year. Any update post here, third quarter performance.

Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

Look, you're correct. The strong free cash flow quarter. Obviously, it starts with the EBITDA. So the EBITDA outperforming generally our EBITDA is primarily cash. So the outperformance in EBITDA relative to our expectations and certainly to the prior year is the key driver. Really taxes I don't think came into play in a material way, one way or the other. As you can see, the CapEx is relatively flat year-over-year as those and decelerations really begin now in Q2. So it's primarily that EBITDA generation.

I would also say, too, as we bought in that debt, there are less expenses we have associated with the whole capital structure, but that's very much on the margin, certainly in the Q1 free cash flow. I think in terms of the full fiscal year, probably it's fair to say the gains that we banked in Q1 should be sustained through the fiscal year. So it moves us up from the low 80s to probably the mid-80s.

But there's a lot of volatility that goes into free cash flow. When you look at the four quarters, timing of tax, payments is one, obviously, working capital is another. So but the success in Q1 and all the things that we are doing, particularly on the operational side, those should be sustainable benefits. So if there's not a surprise in the tax rate or really not much the tax rate, but the timing of our tax payments because they too often have some gap between what we approve as a tax rate and the actual timing of the payments. But there's no material change there and then we should be pretty good. It's sort of the, I think, close to the mid-80s for this year.

Great. Thank you.

Operator

Thank you. And we did have a follow-up coming from John Tanwanteng from CJS Securities.

Jon Tanwanteng - *CJS Securities Inc - Analyst*

Thanks for the follow-up. I was just wondering if you had any communication with Accenture and if you did, you know, are they committed to a partnership with Cognosante and if maybe they have other fast partners on their tech stack? And if they are committed and how does that improve your opportunity over the long run in the public sector?

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

So I think it's too early to say, right. The deal is in progress. It hasn't closed yet. Where we're actually excited about and bullish about this deal. I think the footprint that Accenture has in the federal government is far larger, then the very focused an approach that Cognosante had.

So it's really a good addition to the Accenture offering because they complement each other very well and offer us the expansion more broadly. We haven't talked to them yet as it is and isn't closed. But our, I think our offering right now in the federal government space at the security level that we're at is fairly exclusive. So we are confident that we can actually benefit from this merger.

Jon Tanwanteng - *CJS Securities Inc - Analyst*

Okay, great. And then, can you just go into the RPU in corporate in Q1, it was up sequentially and I didn't catch why if you could dive into that and tell me what you expect going forward, that would be helpful.

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Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

So the RPU in the quarter, we had some items last quarter that we mentioned with respect to cash collections and terminations of customers. So it's a mix of that. And basically the quarter-over-quarter increase and our number, our revenue for the for the quarter, when you look at it sequentially versus Q1, Q2, Q3 of last year, it's very comparable.

Johnny Hecker - *Consensus Cloud Solutions Inc - EVP, Operations and Chief Revenue Officer*

I would say the last five quarters have been within a fairly narrow band that are, you can move up at $300, some base, a few dollars positive or negative off of that. And I would argue that kind of goes into just things happen throughout a quarter. So I wouldn't make a lot about it, other than I would say the ARPA been stable within a tight range for five quarters.

Jon Tanwanteng - *CJS Securities Inc - Analyst*

Understood. Thanks.

Operator

Thank you. There are no other questions from the lines and Scott, over to you for any Internet questions?

Scott Turicchi - *Consensus Cloud Solutions Inc - Chief Executive Officer, Director*

Sure. We do have a couple that have come in by e-mail. One is a really, I think, a guidance question, which is how to think of corporate revenue growth going forward, given the 4% growth in Q1 and the acceleration off the 3% we've seen the last preceding three quarters.

I wouldn't have a couple of comments, one quarter itself does not make a trend. So I think from a broader guidance standpoint, I would still be guiding people from a revenue and EBITDA towards the midpoint of our ranges.

On EPS, I would be closer to maybe even above closer to the higher end of the range. As Jim and others mentioned at the bottom line, there are these eFax revaluations that are non-cash for positive in the quarter. Of course, in Q4 they were heavily negative. We think we're getting close to mitigating that volatility.

But so far on a year-to-date basis, certainly for the three months and I could probably through April now they are definitely to the positive. So that's adding probably $0.15, $0.16 to the bottom line. Certainly in the quarter, $0.16 is probably $0.15 $0.16 for the year right now. But I wouldn't I be breaking out our corporate and extrapolating or the inference the question might be well, 4%-plus this quarter can be 5% and 6% to 7%. No, I don't we're not there yet.

Let's see how Q2 goes, let's see how the book of business builds. Some of the things that Jim talked about, how they contribute both in the quarter and the balance of the year. And then we can revisit that on the Q2 call.

The second question had to do with the SoHo business and whether the full impact of the marketing spend strategy has been realized in Q1. And the answer is no, in the sense that there was a ramp down. So there wasn't the full quarter benefit, if you will, of the savings because actually back to the earlier question of if you can be down [$1.6 million] in revenue sequentially from Q1 to Q2, how do you have your EBITDA? Not quite but close to flat and that's because there are some marketing dollars come out.

That as we went through the first three months of Q1, there was a ramp down. So as you go into Q2, it's at a lower level, should be an average lower level in Q2 than in Q1. Having said that, we found some very good opportunities where to spend money and some very good LTV to cap. So

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something that we are evaluating and something I mentioned in my opening remarks is, are there opportunities to put a few more dollars to work at some very attractive economics.

And if the answer to that question is yes. Then there may be some incremental dollars added to the core budget or to the baseline. But in general, I think you should assume somewhat less marketing spend in Q2 than in Q1. Based on, you know, sort of that midpoint of the guidance, which would have a little bit of downward pressure on the net adds, but that would be more than offset by the savings from the marketing dollars not spent.

And those are all the questions we have via e-mail. Before we conclude, I would just like to let you all know that we have four upcoming investor conferences. Tomorrow, Oppenheimer has a virtual conference. There is no formal presentation. It is one-on-one only. So at this point, I think if you have not signed up, it's probably too late.

On Tuesday of next week. Goldman Sachs has a high-yield conference that will be participating in once again, that's one-on-one only, no formal presentation. But on June 5, we'll be at the Jefferies Global Healthcare Conference. There will be a presentation and it will be webcast. We will also be available for one-on-ones. And then a week later on June 13, we'll be at the Goldman Sachs Healthcare Equity Conference. And once again, there will be a presentation that will be webcast and will also be available for one-on-ones.

The next formal call, in terms of discussing Q2 results will be in August. Look for a press release within a few weeks sometime in July to give you the exact date and time. And we appreciate your participation for this call to go over our Q1 results.

Operator

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

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