

August 7, 2025

5:00pm ET

Operator

Good day, ladies and gentlemen, and welcome to the Consensus Q2 2025 Earnings Call. My name is Tom, 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

Good afternoon, and welcome to the Consensus investor call to discuss our Q2 2025 financial results, other key information and our 2025 full year and Q3 2025 quarterly guidance.

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 Q1 2025 investor call. Then Jim will provide Q2 2025 financial results and our full year 2025 and Q3 2025 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 your question.

Before we begin our prepared remarks, allow me to direct you to our 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, Adam. We had a strong Q2 returning us to total revenue growth earlier than anticipated. The continuing improvement in our corporate revenue growth demonstrates both the necessity and value proposition of our solutions. We exceeded our revenue objective, driven by corporate revenue growth posting 6.9% over Q2 2024, ahead of our forecast and the best growth year-over-year in 10 quarters on a normalized basis.

So, revenue was in line with our expectations and below a 10% year-over-year decline for the first time, since we began the reduced marketing in late 2023. We carefully monitored our cost structure and exceeded our adjusted EBITDA expectations by more than the outperformance on revenue. We delivered a robust 54.8% adjusted EBITDA margin near the top end of our 50% to 55% range.

We remain committed to our goals that we outlined in February of this year, which include pursuing the acquisition of customers, primarily in the healthcare space for our corporate channel and driving revenue growth in excess of 6.25% this year. Two, manage our corporate cost structure while making modest investments primarily in our go-to-market operations for the benefit of 2026 and beyond. Three, putting a bank loan in place for the retirement of the remaining 6% notes due October 2026. And finally, managing the SoHo channel for cash flow efficiency, which we began last year.

As previously announced, we concluded in early July a $225 million bank facility that we will utilize to retire the 6% notes in part due October 2026. The loan consists of two pieces: a $75 million revolver and $150 million term loan. We expect that our borrowing costs, which are SOFR-based will be similar to the current cost of the 6% notes. Johnny will provide more detail in his portion of the presentation regarding the operational results for Q2.

I'm pleased that our corporate channel exceeded our revenue expectations and hit a growth rate in excess of our target. This success was driven by strong usage, improved revenue retention, new customer acquisition and increased contribution from our advanced products. In addition, eFax Protect had record sign-ups, which seems to be a trend each quarter. In addition, at the VA, we continue to see more facilities come online and record level of usage. All of these contributed to the 6.9% year-over-year growth.

While revenues for the SoHo channel declined in the quarter as anticipated, I am pleased to report that it was the slowest rate of decline, since we began the program to reduce marketing costs. We maintained our discipline on the cost side, generating an adjusted EBITDA margin of 54.8%, more than 100 basis points ahead of our Q2 expectations.

I would note that we would expect a lower margin in Q3 due to a seasonal increase in costs associated with our upcoming year-end audit and the hiring of additional employees, especially in our go-to-market operations that we discussed when we released our annual guidance in February. Free cash flow was $20.3 million in the quarter, up 29% from Q2 2024 due to excellent management of our receivables, low estimated tax payments and lower interest expense than a year ago.

We now expect our free cash flow in 2025 to exceed the $85 million of free cash flow in 2024. We were able to repurchase an approximate $6 million of debt in the quarter. As we have stated previously, liquidity is modest in each tranche, both of which trade at or near par. We were able to repurchase approximately $12 million of our common stock during the quarter at a valuation of approximately 5x adjusted EBITDA, which we view as attractive.

Before turning the call over to Johnny, I would like to comment briefly on the One Big Beautiful Bill Act that was signed into law on July 4. We are studying the impact of the bill, particularly with respect to the anticipated cuts to Medicaid and Medicare over the next 10 years and how those cuts may generally impact providers, especially the smaller practices in rural areas.

While the cuts do not start until late 2026, we understand that some providers are already making anticipatory cost-cutting decisions. We believe that we are well positioned to assist those efforts to reduce cost structure, which we know is one of utmost importance right now. Moreover, the need for healthcare does not evaporate in these scenarios. It merely shifts locations predominantly to emergency care facilities.

We have a large diverse base of customers in all care settings such as providers, payers, doctors' practices, labs, pharmacies, et cetera, including those in the emergency care facilities with little customer concentration. We will closely monitor the situation as it unfolds.

I will now turn the call over to Johnny to provide you more operational details.

Johnny Hecker

Thank you, Scott, and hello, everyone. In my remarks, I will cover key performance indicators, including revenue and customer metrics as well as our go-to-market strategies for the corporate and SoHo channels. I'll also touch on operational updates and provide some key highlights for the quarter.

Our corporate channel continues to show robust performance and positive momentum. In Q2 2025, we saw revenue reach a record $55.3 million, a 6.9% increase over $51.7 million in Q2 of 2024 and another sequential increase from $54.3 million in revenue we reported in Q1 of 2025. This was an exceptional quarter.

While we anticipate continued growth, we don't expect it to maintain this accelerated year-over-year growth pace, especially considering our strong performance in Q3 of 2024. Nevertheless, this quarter's results coupled with a strong sales pipeline across our entire portfolio of services reinforce our confidence that we are well on our path to achieving double-digit growth for this business channel.

Our Q2 growth is driven by several key factors. As a direct result of our focus on the healthcare industry, we're experiencing sustained and impressive growth within the healthcare vertical, which is becoming an ever larger portion of our total corporate revenue. Our strategic partnerships continue to yield significant contributions to our growth.

Furthermore, we are particularly encouraged by the sustained expansion within our largest account cohorts, including both strategic and public sector clients. I am pleased to announce that our trailing 12 months revenue retention rate has reached 102%. This is up from 101% in the previous quarter, keeping us on track with our 100% target and marking a substantial year-over-year increase from 99% in Q2 of 2024. Our corporate customer base has grown to a record approximately 63,000 at the close of Q2, up 11% year-over-year. This is an increase from approximately 60,000 at the close of Q1.

As in the previous quarters, eFax Protect and the increasingly automated SoHo to corporate upsell option of our customers drive the growth in this metric. Together, they contributed over 5,800 new accounts during Q2 to the SMB cohort. Corporate ARPA was $301 for the quarter from $307 in the previous quarter and $310 in Q2 of 2024. Corporate ARPA is simultaneously bolstered by significant enterprise clients, such as the Department of Veterans Affairs and tampered by the account expansion and achievements within our smaller SMB cohort.

Our strong corporate performance is multi-faceted, demonstrating success at every level of the market. The combination of robust revenue growth and high retention rates among our enterprise clients paired with the steady expansion of our SMB customer base underscores our ability to execute effectively across the entire customer continuum. This balanced growth model provides significant stability even in uncertain market conditions and strengthens our overall market position. It establishes us as a credible and attractive partner, a crucial advantage in a fragmented industry like healthcare. Our capacity to serve this diverse spectrum of clients is a key differentiator and fundamental to our long-term market expansion and product strategies.

Turning to our public sector initiatives. I am thrilled to report uninterrupted progress. The VA rollout is proceeding well, and we are seeing steady increase in the adoption of our services. This is a direct reflection of the government's commitment to enhancing operational efficiency, and we are proud to be a key partner in that mission.

The value of our FedRAMP high certification cannot be overstated. It has opened up numerous doors, and we are now in active high-level discussions with other government agencies and non-governmental organizations that require this level of security for their critical communications.

Consequently, our public sector pipeline remains robust and is accelerating. While we are actively bidding on several larger opportunities, our immediate priority is to build upon the success with the VA. We are seeing smaller deals progress through the sales funnel at a higher velocity, of which we're excited to report one just closed

early in Q3. Adding to our book of business on this product line is a key focus in our public sector business at the moment.

The first half of 2025 has concluded with strong momentum in corporate, and we are very pleased with the results. This positive performance, a direct outcome of our strategic execution gives us the necessary tailwinds to confidently pursue our ambitious goals for the corporate business throughout the fiscal year and into the future.

Before moving on to SoHo, I'd like to comment on the evolving and dynamic regulatory landscape, specifically with regards to the expected Medicaid and Medicare reform from the One Big Beautiful Bill Act, the continued discussion around the TEFCA network and the prior authorization automation ambitions. The impact of these changes can create substantial opportunities for our business by the increasing need for efficiency and automation.

Since administrative burden has historically been a driver for our business, the increase in complexity may accelerate demand for our solutions. We believe our broad presence across multiple sectors of the healthcare industry is a huge offsetting asset and key factor of stability regardless of the possible risks from potential provider financial strain.

With regards to TEFCA and prior authorization automation, we view ourselves as a critical on-ramp to the newer interoperable networks that the industry is moving toward. For example, we have just in the last quarter, enabled a large health system to automate their high touch prior authorization process by taking unstructured faxes, extracting key data with our AI-powered clarity offering and translating it into a modern fire resource-based format that feeds directly into the enterprise platform. This solution bridges the old and the new, seamlessly connecting legacy workflows to modern networks without requiring a costly overhaul from the provider.

Moving on to our SoHo business. We recorded Q2 revenue of $32.4 million, representing a planned and slowing year-over-year decrease of 9.4% from $35.8 million in Q2 of 2024. This is a slight sequential decrease from $32.9 million in Q1

of 2025, reflecting our continued strategic focus on optimizing profitability and maximizing the efficiency of our advertising investments in this channel.

As anticipated, the total global SoHo account base saw an expected reduction from 702,000 in the prior quarter to 682,000 during Q2. SoHo ARPA for Q2 2025 was $15.62 compared to $15.39 in Q1 of 2025. Our SoHo cancellation rate in Q2 of 2025 was 3.84%, up from 3.52% in the previous quarter. Our strategic focus in the SoHo channel remains squarely on optimizing customer acquisition for maximum profitability with a close watch on metrics like return on advertising spend and LTV to CAC.

I want to provide some color on the recent volatility in our SoHo cancel rate, which we see as a direct result of our strategic execution. There are two primary drivers. First, as we continuously refine our acquisition strategy, we're attracting a more diverse mix of customers with varied usage profiles. This includes an increase in limited use customers from certain channels, a cohort we welcome as long as they meet our strict profitability thresholds.

Second, the outstanding success of our corporate e-commerce channel allows us to more effectively guide customers to the right product from their very first interaction. This eliminates the need for many to start in SoHo and manually upgrade later. As a result, the composition of our remaining SoHo customer base is changing, leading to a churn rate range that is slightly broader than the narrow range of the past.

This is an acceptable outcome of our recently established and strictly executed strategy. To summarize, we are very pleased with the quarter's performance and remain highly confident in our outlook. Our corporate business is executing as planned, driven by a healthy pipeline and growing customer adoption of our solutions.

In the SoHo channel, our strategic initiatives are delivering the expected outcomes. While we continue to monitor the broader macroeconomic environment, we are reaffirming our full year revenue and EBITDA guidance.

Before I hand the call over, I want to extend my sincere gratitude to our employees for their dedication and hard work this past quarter. Many thanks also go out to our customers and partners for their continued trust and collaboration. We've had an excellent first half of the year, and we look forward to building on this momentum.

With that, I'm turning the call over to our CFO, Jim Malone, who will now provide a detailed update on our financial performance and outlook. Jim?

Jim Malone

Thank you, Johnny, and good afternoon, everyone. In our press release and on this call today, we are discussing Q2 '25 results and guidance for Q3 '25 and full year '25. We expect to file our 10-Q by close of business today. I'll begin with our corporate business results.

Q2 '25 was another strong quarter for corporate with revenue of $55.3 million, an increase of $3.6 million or 6.9% versus prior year, performing ahead of our expectations. This represents the highest corporate growth year-over-year in the past 10 quarters on a normalized basis. As Johnny stated, we continue to see growth in our healthcare vertical and strong demand for our core digital fax product.

Q2 '25 corporate ARPA of $301 from $307 in Q1 '25 and $310 in Q2 '24 is in line with our expectations. Corporate ARPA varies across our customer continuum based on the mix of customers that range from the lower end of the continuum through large enterprise clients, such as the VA.

Therefore, ARPA is pressured as the eFax Protect base continues to grow within the lower SMB cohort base. Our record Q2 '25 corporate revenue delivered a trailing 12-month retention rate of 102%, 300 basis points and 100 basis points improvement from the prior comparable period and Q1 '25, respectively.

Moving to SoHo. Q2 '25 revenue of $32.4 million compared to $35.8 million over the prior year represents a planned decrease of $3.4 million or 9.4%. We continue

our strategic focus on optimizing advertising spend and profitability in the SoHo revenue channel. I would like to note that in the current period, we eliminated dormant accounts not contributing to revenue from the number of SoHo customer accounts.

The prior year period has been revised for consistency with the current year and all metrics calculated based on the number of customer accounts, including ARPA and monthly churn percent are calculated based on the revised number. As a result of this change, the prior year period of SoHo customer accounts decreased by 26,000.

Again, I'd like to reiterate that the elimination of dormant accounts had no impact on revenues. Based on the adjusted customer accounts noted, Q2 '25 ARPA of $15.62 had a modest improvement from the prior year comparable period of $0.17 and a sequential improvement of $0.22.

The SoHo cancel rate was 3.84% versus 3.55% in the prior comparable period. The increase, as Johnny stated, is due to the improving funnel effect and success of the eFax Protect and a marginal shift in marketing dollars towards a customer that is more profitable but has a shorter life.

Moving to consolidated results. Consolidated revenue of $87.7 million represents an increase of $0.2 million or 0.3% versus Q2 '24 and returning us to total revenue growth earlier than anticipated. This is the first quarterly year-over-year consolidated revenue increase in eight quarters.

Adjusted EBITDA of $48.1 million is a decrease of $1 million or 2.1% versus Q2 '24, primarily driven by planned headcount. We delivered a healthy 54.8% adjusted EBITDA margin or approximately 135 basis points, favorable to the midpoint of our Q2 '25 guidance range.

Q2 '25 adjusted net income of $28.4 million is an increase of $0.9 million or 3.2% versus Q2 '24, primarily driven by lower interest expense and depreciation and amortization, offset in part by adjusted EBITDA and a higher share count. Adjusted EPS of $1.46 is favorable to prior year by 2% or $0.03, driven by the items mentioned and a lower share count.

Q2 '25 non-GAAP tax rate and share count was approximately 21% and 19.5 million shares, respectively. Capital allocation. Free cash flow. Q2 '25 free cash flow is $20.3 million versus $15.8 million in the prior comparable period, primarily driven by operational performance. CapEx of $8 million was down $0.6 million or approximately 7% versus the prior year. Cash and cash equivalents.

We ended Q2 '25 with cash of approximately $58 million, which is sufficient to fund our operations and repurchases of equity and debt. Equity repurchases. In February '25, the Board approved an extension to the previously approved program for another three years and up to $67 million.

In Q2 '25, we repurchased 546,000 shares for $12 million, bringing the total to date equity purchases of approximately 1.6 million shares for $45 million. Bond repurchases. As mentioned in our November '23 earnings call, we announced a $300 million three-year bond repurchase program.

In Q2 '25, we repurchased approximately $6 million face value of bonds at par. Our continued strong cash flow has allowed us to repurchase approximately $223 million face value bonds for approximately $209 million to cash in the program to date with approximately $77 million remaining under our current authorized program.

Debt refinance. As noted in our 8-K filed on July 14, '25, we concluded a $225 million bank facility that we will utilize to retire our 6% notes due October '26. The loan consists of $150 million delayed draw term loan plus a $75 million revolving credit facility. Interest rate is SOFR plus applicable margin based on total net leverage ratio.

We expect our borrowing costs to be similar to the current cost of the 6% notes, executed a three-bank club deal, including standard covenants. The new credit facility credit agreement will be filed with our 10-Q.

Moving to '25 guidance. We're reaffirming '25 full year guidance for revenue and adjusted EBITDA, while raising our adjusted EPS range as follows: full year revenue

between $343 million and $357 million with $350 million at midpoint; adjusted EBITDA between $179 million and $190 million with $185 million at midpoint; adjusted EPS between $5.25 to $5.65 with $5.45 at midpoint, an increase of approximately $0.23.

Full year estimated share count and income tax rate of approximately 19.4 million shares and a tax rate between 20.5% and 22.5% with 21.5% at the midpoint. Please remember that, as previously mentioned, our '25 guidance and actual results exclude foreign exchange gain or losses on revaluation of intercompany accounts.

Moving to Q3 '25 guidance. Revenues between $85.9 million and $89.9 million with $87.9 million at the midpoint; adjusted EBITDA between $44.4 million and $47.4 million with $45.9 million at the midpoint. Adjusted EPS of $1.33 to $1.42 with $1.38 at midpoint. Estimated Q3 '25 share count and income tax rate are approximately 19.1 million shares and a tax rate between 20.5% to 22.5%.

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

Operator

Thank you. We will now be conducting a question-and-answer session. [Operator Instructions]. And the first question today is coming from David Larsen from BTIG. David, your line is live. Please go ahead.

Q: Hi, this is Jenny Shen *** on for Dave. Thanks for taking the question and congrats on the quarter. I was just wanting to know more of your thoughts on demand and the pipeline. We've seen all the major hospital systems report and they faced some tough quarters. They're seeing a slowdown in year-over-year growth in volumes. Just any of your thoughts on discussions with the hospitals? Is this translating into more cautious spending, more cautious budgets? Or have you not seen that impact at all? Thanks.

Johnny Hecker

Hi, Jenny, this is Johnny, and thanks for the question. I think it's a really good question. Currently, we're not experiencing what you're seeing. So actually, we were able to close some significant deals just very recently with large health systems and hospitals.

So we're not experiencing that they're slowing down. As I mentioned on the call, there's really two things that are important to say here. One is -- first of all, we're serving a very, very broad spectrum of healthcare customers across multiple sub verticals. So on the one side, it's healthcare providers really starting from single physician offices all the way up to large health systems and everything in between.

But then it's also payers, it's also PBMs and pharma distribution customers and a lot of our customers are also in the healthcare IT space. So, it's a very broad spectrum across any size of customer you can imagine. So, we're not particularly impacted if one piece or one cohort of that market is potentially suffering a little bit at the moment. That's the one thing.

The other thing is with our services and what we're providing, we're really driving efficiency. There's oftentimes a clear ROI for those customers. They go through a POC, they test the product and then they roll it out. So, I think with lowering that administrative burden with increasing efficiencies and with saving costs, we are an attractive service even for providers that are suffering from a little bit more financial strain, as you just mentioned.

Scott Turicchi

Okay. We have a couple of questions by e-mail, and then we'll go back to live questions. It was noted in this e-mail question that our revenue retention rate had improved to 102% and the question is what are the drivers behind that in terms of the customer types and sizes and our expectations for that trend as we go into the back half of the year.

Jim Malone

I think Johnny, once again, that's a good one for you because -- dealing with that every day.

Johnny Hecker

Yes, there's multiple drivers for this, right? And as we noted, the retention rate has significantly improved. This doesn't happen overnight. One of the key drivers is obviously our very large and strategic accounts in public sector, our EC Fax offering is definitely contributing to that retention rate.

But also in the enterprise space and in the large account space, we have -- with the go-to-market realignment a couple of years ago, really changed our approach and how we service those customers. So we're very close. We have assigned these books of business to our sales teams, we have rolled out different kind of sales methodologies, and we're up and cross-selling into those existing accounts.

We're making sure that we're not losing that business. But on the flip side, we're trying to grow it and expanding in those accounts. And then lastly, I think on the lower end of the customer continuum in the SMB world, we have multiple different programs that we have launched in order to improve our retention rate and really tackle churn. And those programs are showing success and are bearing fruit as well.

So our offering, our product offering, the way we monitor our customers, the way we look for churn signals, all of those things are being considered and are being worked on and have been rolled out into programs, and that is driving retention really across the entire customer continuum. Now that said, we're expecting that retention rate to stay above the 100% mark. That is definitely our goal, and we're working very hard to sustain that ideally grow it.

Scott Turicchi

Okay. We'll take another question by e-mail, which is a pivot to the public sector pipeline that you mentioned, Johnny, in your prepared remarks. And I think there's really a couple of embedded questions here. One is the length of the sales cycle that we're experiencing in the public sector. And then the second is the

partnerships we have in terms of approaching that sector, particularly Cognosante now owned by Accenture.

Johnny Hecker

Yes. So first thing, I mentioned part of this on the call, these are very diverse deal sizes in the public sector. They can be very, very small. That's a few thousand bucks a month for customers that still need that higher level of security. Obviously, those sales cycles are a lot faster, and we can bring those customers. It's a couple of months, just like in the commercial space to get through. We have very standardized contract terms, pricing and all those kind of things.

So we're able to process them quickly. That was the deal that we just recently closed. So an additional customer on that platform, which is a big win for us. There's others that we're working on that are at the same speed. Once they get larger and you talk to very large government agencies, they go through an RFI and RFP process and sometimes go silent for six, 12 months, they wait until the next budgeting cycle.

So, these sales cycles, just like with the VA, it was multiple years until we were able to close that deal and then eventually roll it out and really vary tremendously from a few couple of months to multiple years. Now the size is not the only thing that matters. Sometimes these larger deals can also move faster, but we're still early in our federal government sales program and learning as we go.

But we do have a few RFPs that we have responded to, and we're hoping to close some more deals in the near future. And with regards to our partnership with Accenture and former Cognosante, Accenture Federal Services. That is working really well. If you have noticed the cloud service provider ship was transferred over to us. We're now the listed cloud service provider on the FedRAMP marketplace.

This makes sense because we're actually the owner of the IP and the inventor of the technology. But besides that, that partnership is working really well. We're working very closely still with Accenture on many of these larger government deals. And on the smaller ones where it doesn't make sense for a large system integrator to participate, we do it by ourselves.

Scott Turicchi

Tom, do you want to see if there's any other live questions?

Operator

Certainly. [Operator Instructions]. And there are no further questions in queue at this time. As such, I would like to turn the floor back to Scott Turicchi, CEO of Consensus for closing remarks.

Scott Turicchi

Great. Well, we appreciate you joining us today for the results of our second fiscal quarter and our outlook for the balance of the year. Keep posted. We do have, I know a virtual conference we'll be participating in, in about actually next week.

So stay tuned for that and other conferences that we have between now and November. We'll announce by press release. And then in early November, we'll have our Q3 earnings call. So thank you. And if you have any other further questions that you didn't have a chance to ask now, you can e-mail us, and we'll get back to you.

Operator

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