VerticalScope Announces Second Quarter 2023 Financial Results

Posts Sequential Revenue Growth and Margin Expansion

$14.7 Million in Q2 Revenue, up 14% from Q1

Adjusted EBITDA Margins Rise to 37%

Unless otherwise stated, all amounts are in U.S. dollars.

TORONTO--(BUSINESS WIRE)--August 8, 2023--VerticalScope Holdings Inc. (“VerticalScope” or the “Company”) (TSX: FORA), a technology company that has built and operates a cloud-based digital platform for online enthusiast communities, today announced financial results for the second quarter (“Q2” or "the quarter").

“Our business results showed solid improvement from the trough we experienced in Q1. Improvements to our advertising technology and layouts and the addition of video advertising led to stronger performance as Q2 progressed and allowed us to grow digital advertising revenue 22% over Q1”, commented Rob Laidlaw, Founder, Chair and CEO of VerticalScope. “While our advertising revenue is seeing a steady improvement in month-to-month results, our e-commerce revenue remains quite challenging. In this operating environment, we are particularly pleased with the operating leverage we showed in the quarter as our Adjusted EBITDA margins improved to 37%, a 14 percentage point improvement over Q1. Our ability to generate Free Cash Flow has enabled us to continue to reduce our debt, with $8.5 million in principal repayments against our credit facility this year.”

Financial Highlights for the Three and Six Months Ended June 30, 2023 ("Q2" or "YTD" respectively). All comparatives, unless otherwise noted, are versus the same period in the prior year:

- Q2 revenue decreased by 33% to $14.7 million when compared to record-breaking results in the prior year, with our strategic investments in digital advertising including video, layout, and technology improvements contributing to a 14% quarter-over-quarter gain compared to Q1

- Adjusted EBITDA margins rebounded to 37%, a 14 percentage point improvement from Q1 driven by sequentially improving revenue and cost optimizations

- Free Cash Flow Conversion maintained a healthy level of 76% in Q2 on $4.1 million in Free Cash Flow generated, which is consistent with the prior year's Free Cash Flow Conversion of 78% on $7.3 million in Free Cash Flow generated

- In Q2 we generated $3.3 million in cash flow from operations, a decline from the strong performance in the prior year where $5.7 million was generated. In Q2 and YTD we made $4.9 million and $8.5 million in principal payments respectively against our credit facility, $4.2 million and $7.2 million of which were voluntary

- Net Loss of $2.0 million and Earnings Per Share of negative $0.10 in Q2 were $5.0 million and $0.23 better than prior year. YTD Net Loss of $6.5 million is $12.4 million ahead of prior year and YTD Net Earnings Per Share of negative $0.31 is a $0.58 improvement over prior year

Laidlaw added, "Our platform served 98.8 million monthly active users in Q2, which was down 9% compared to last year as a result of lower traffic from search engines, but represented a slight improvement relative to trends in Q1. In late May, and again in late July, we experienced a positive benefit from changes to search engine algorithms that increased our MAU's and will be reflected in future results. We are excited about the forthcoming rollout of our Fora mobile app which will provide an even more engaging platform for our product-focused communities."

Earnings Announcement
Management will host a conference call and webcast to discuss the Company's financial results at 8:00 am ET on Wednesday, August 9, 2023.

Live Call Registration and Webcast:
https://events.q4inc.com/attendee/528450009

Joining by telephone:
Canada: 1 833 950 0062
United States: 1 833 470 1428
Participant Access code: 941299

If you are unable to join live, an archived recording of the webcast will be available at: https://investors.verticalscope.com/.

About VerticalScope

Founded in 1999 and headquartered in Toronto, Ontario, VerticalScope is a technology company that has built and operates a cloud-based digital platform for online enthusiast communities in high consumer spending categories. VerticalScope's mission is to enable people with common interests to connect, explore their passions, and share knowledge about the things they love. Through targeted acquisitions and development, VerticalScope has built a portfolio of over 1,200 online communities and over 90 million monthly active users. VerticalScope is listed on the Toronto Stock Exchange (TSX: FORA).

Forward-Looking Statements

This news release contains forward-looking information within the meaning of applicable securities legislation that reflects the Company's current expectations regarding future events. When used in this news release, words such as "should", "could", "intended", "expect", "plan" or "believe" and similar expressions indicate forward-looking statements. Forward-looking information, including the Company's plans for organic growth, deployment of capital, investments in our platform, the growth of revenue and MAU, information regarding our financial position, business strategy, growth strategies, addressable markets, budgets, operations, financial results, plans and objectives, is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Although the Company believes that its expectations reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and no assurances can be given that actual results will be consistent with these forward-looking statements. Such risks and uncertainties include, but are not limited to, the factors discussed under "Risk Factors" in the Company's Annual Information Form dated March 31, 2023, which is available on the Company's profile on SEDAR at www.sedar.com. Actual results could differ materially from those projected herein. VerticalScope does not undertake any obligation to update such forward-looking information, whether as a result of new information, future events or otherwise, except as expressly required under applicable securities laws.

Non-IFRS Measures

This press release references certain non-IFRS measures, including Adjusted EBITDA and Free Cash Flow, and Free Cash Flow Conversion as described below. This press release also makes reference to MAU, which is an operating metric used in our industry. These non-IFRS measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS.

The Company uses non-IFRS measures including:

"Adjusted EBITDA" is calculated as net income (loss) excluding interest, income tax expense (recovery), and depreciation and amortization, or EBITDA, adjusted for share-based compensation, share performance related bonuses, unrealized gains or losses from changes in fair value of derivative financial instruments, severance, adjustments to contingent consideration liabilities measured at fair value through profit and loss, gain or loss on sale of assets, gain or loss on sale of investments, foreign exchange loss (gain), impairment and other charges that include direct and incremental business acquisition related costs.

"Adjusted EBITDA Margin" measures Adjusted EBITDA as a percentage of revenue.

"Free Cash Flow" means Adjusted EBITDA less capital expenditures and income taxes paid during the period.

"Free Cash Flow Conversion" is equal to Free Cash Flow for the period divided by Adjusted EBITDA for the period.

"Monthly Active Users" ("MAU") is defined as the number of individuals who have visited our communities within a calendar month, based on data as measured by Google Analytics. To calculate average MAU in a given period, we sum the total MAU for each month in that period, divided by the number of months in that period.

Related Links
http://www.verticalscope.com

The following table sets forth a reconciliation of Adjusted EBITDA and Free Cash Flow to net loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of US dollars)	2023	2022	2023	2022
Net loss	($ 2,012)	($ 7,001)	($ 6,509)	($18,872)
Net interest expense	1,465	658	2,581	1,237
Income tax recovery	(661)	(380)	(2,395)	(1,573)
Depreciation and amortization	5,280	10,055	11,787	19,816
EBITDA	4,072	3,331	5,464	608
Share-based compensation	1,313	2,816	2,382	5,669
Share performance related bonuses [1]	—	(690)	—	(793)
Unrealized loss from changes in derivative fair value of financial instruments	8	76	8	44
Severance [2]	34	10	1,440	634
Loss (gain) on sale of assets	(10)	(4)	(11)	7
Gain on sale of investments	(2)	—	(2)	—
Foreign exchange loss (gain)	(57)	29	(24)	60
Adjustment to contingent considerations	—	3,239	(1,051)	8,866
Other charges [3]	123	508	211	1,503
Adjusted EBITDA	5,481	9,316	8,417	16,598
Less capital expenditures	(571)	(1,548)	(1,117)	(3,220)
Income taxes paid	(762)	(477)	(806)	(531)
Free Cash Flow	$ 4,147	$ 7,291	$ 6,494	$12,846

(1) Share performance related bonus is included in wages and consulting on the consolidated statements of loss and comprehensive loss.

(2) Severance is included in wages and consulting on the condensed consolidated statements of loss and comprehensive loss.

(3) Other charges are included in wages and consulting and general and administrative on the condensed consolidated statements of loss and comprehensive loss. For the three and six months ended June 30, 2023, these charges include one-time legal related costs. For the three and six months ended June 30, 2022, these charges include direct and incremental asset acquisition or business acquisition related costs.

VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statements of Financial Position
(In U.S. dollars)
(Unaudited)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 6,126,110	$ 8,766,769

Restricted cash		89,804		116,830
Trade and other receivables		9,983,857		15,712,508
Lease receivable		588,515		569,278
Income taxes receivable		441,243		—
Prepaid expenses		664,788		1,127,365
		17,894,317		26,292,750
Property and equipment		894,425		1,065,888
Right-of-use asset		2,399,999		1,745,398
Intangible assets		60,411,592		70,579,988
Goodwill		52,635,164		52,635,164
Other assets		291,829		315,403
Deferred tax asset		24,702,589		23,991,561
Lease receivable		653,652		929,682
Total assets	$	159,883,567	$	177,555,834
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	5,830,686	$	8,334,556
Income taxes payable		390,393		549,713
Derivative instruments		8,267		—
Deferred revenue		958,008		889,259
Current portion of long-term debt		3,978,189		3,209,382
Lease liability		1,183,714		1,027,309
Contingent considerations		—		15,000,000
		12,349,257		29,010,219
Deferred revenue		2,686		4,389
Long-term debt		60,911,584		54,883,514
Lease liability		2,844,288		2,518,053
Deferred tax liability		6,421,179		8,310,894
Contingent considerations		—		1,051,222
Other long-term liabilities		185,390		281,959
Total liabilities		82,714,384		96,060,250
Shareholders' equity:				
Share capital		162,054,221		160,559,106
Contributed surplus		26,111,119		25,306,872
Accumulated other comprehensive loss		(127,953)		(86,145)
Deficit		(110,868,204)		(104,284,249)
		77,169,183		81,495,584
Total liabilities and shareholders' equity	$	159,883,567	$	177,555,834

VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(In U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Revenue	$14,664,619	$21,768,721	$27,536,431	$ 41,817,114
Operating expenses:				
Wages and consulting	6,686,010	8,455,869	15,028,835	18,228,747
Share-based compensation	1,313,193	2,815,783	2,381,549	5,668,699
Platform and technology	1,706,851	2,199,450	3,712,058	4,367,961
General and administrative	954,940	1,702,474	2,038,355	4,010,529
Depreciation and amortization	5,279,603	10,054,727	11,787,227	19,816,413
Adjustment to contingent considerations	—	3,238,838	(1,051,222)	8,866,083
	15,940,597	28,467,141	33,896,802	60,958,432
Operating loss	(1,275,978)	(6,698,420)	(6,360,371)	(19,141,318)
Other expenses:				
Loss (gain) on sale of assets	(10,020)	(4,129)	(10,809)	7,128
Net interest expense	1,465,252	657,797	2,580,724	1,236,702
Gain on investments	(1,895)	—	(1,895)	—
Foreign exchange loss (gain)	(56,642)	29,412	(24,199)	60,220
	1,396,695	683,080	2,543,821	1,304,050
Loss before income taxes	(2,672,673)	(7,381,500)	(8,904,192)	(20,445,368)
Income taxes (recovery)				
Current	95,279	1,111,552	205,815	1,763,010
Deferred	(756,227)	(1,491,683)	(2,600,742)	(3,336,406)
	(660,948)	(380,131)	(2,394,927)	(1,573,396)
Net loss	($ 2,011,725)	($ 7,001,369)	($ 6,509,265)	($ 18,871,972)
Other comprehensive income/(loss)				
Items that may be reclassified to net loss:				
Foreign currency differences on translation of foreign operations	(19,471)	24,534	(41,808)	(4,754)
Total comprehensive loss	($ 2,031,196)	($ 6,976,835)	($ 6,551,073)	($ 18,876,726)
Loss per share:				
Basic	($ 0.10)	($ 0.33)	($ 0.31)	($ 0.89)
Diluted	(0.10)	(0.33)	(0.31)	(0.89)

VERTICALSCOPE HOLDINGS INC.
Condensed Consolidated Interim Statements of Cash Flows
(In U.S. dollars)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash provided by (used in):				
Operating activities:				
Net loss	($ 2,011,725)	($ 7,001,369)	($ 6,509,265)	($ 18,871,972)
Items not involving cash:				
Depreciation and amortization	5,279,603	10,054,727	11,787,227	19,816,413
Net interest expense	1,465,252	657,797	2,580,724	1,236,702
Loss (gain) on sale of assets	(10,020)	(4,129)	(10,809)	7,128
Unrealized loss in derivative instruments	7,565	76,251	8,267	44,046
Income tax recovery	(660,948)	(380,131)	(2,394,927)	(1,573,396)
Adjustment to contingent considerations	—	3,238,838	(1,051,222)	8,866,083
Share-based compensation	1,312,681	2,815,783	2,381,293	5,668,699
	5,382,408	9,457,767	6,791,288	15,193,703
Change in non-cash operating assets and liabilities	(257,500)	(2,328,338)	3,547,394	(2,193,828)
Interest paid	(1,061,062)	(989,569)	(2,092,251)	(1,514,942)
Income taxes paid	(762,444)	(476,711)	(806,379)	(531,405)
	3,301,402	5,663,149	7,440,052	10,953,528
Financing activities:				
Repayment of term loan	(625,000)	(625,000)	(1,250,000)	(1,250,000)
Proceeds from issuance of revolving loan	—	—	15,000,000	—
Repayment of revolving loan	(4,250,000)	(12,500,000)	(7,250,000)	(12,500,000)
Proceeds from exercise of share options	—	186,477	—	186,477
Lease payments	(360,264)	(310,403)	(744,084)	(632,113)
Proceeds from sublease	150,586	158,695	300,151	318,346
	(5,084,678)	(13,090,231)	6,056,067	(13,877,290)
Investing activities:				
Additions to property and equipment and intangible assets	(571,379)	(4,376,125)	(1,116,828)	(7,043,224)
Proceeds from sale of assets	11,533	19,619	20,957	26,734
Payment of contingent considerations	—	—	(15,000,000)	—
	(559,846)	(4,356,506)	(16,095,871)	(7,016,490)
Decrease in cash and cash equivalents	(2,343,122)	(11,783,588)	(2,599,752)	(9,940,252)
Cash and cash equivalents, beginning of the period	8,479,087	22,363,135	8,766,769	20,494,313
Change in restricted cash balances	1,928	10,133	27,026	13,128

Effect of movement of exchange rates on cash and restricted cash held	(11,783)	(134,961)	(67,933)	(112,470)
Cash and cash equivalent, end of period	$ 6,126,110	$ 10,454,719	$ 6,126,110	$ 10,454,719

Contacts

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