VerticalScope Delivers 14% Revenue Growth, $5.2 Million in Free Cash Flow, for First Quarter of 2024

Revenue increased 14% to $14.7 million

Adjusted EBITDA increased 78% to $5.2 million

Free Cash Flow increased 120% to $5.2 million

113 Million Monthly Active Users in Q1, up 12% from Prior Year

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

TORONTO--(BUSINESS WIRE)--May 7, 2024--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 first quarter ended March 31, 2024 ("Q1" or "the quarter").

"Our first quarter results demonstrate the strength and profitability of our business model," said Rob Laidlaw, Founder Chair and CEO of VerticalScope. "We grew revenue organically by 14%, translating into an impressive 78% growth in Adjusted EBITDA and 120% increase in Free Cash Flow to $5.2 million. Our results were fueled by a return to organic MAU growth of 12% overall, and inclusive of 24% MAU growth on our forum communities. Video advertising continues to be an area of robust growth for VerticalScope contributing to our 26% increase in digital advertising revenue."

Financial Highlights for the Three Months Ended March 31, 2024

- Revenue increased by 14% to $14.7 million, driven by strong organic growth in Digital Advertising which more than offset a decline in E-commerce. Quarterly growth accelerated from a 6% decline in Q4 2023.
- Digital Advertising revenue increased by 26% driven by incremental contributions from video and a 12% increase in MAU compared to prior year.
- Adjusted EBITDA increased by 78% to $5.2 million and Adjusted EBITDA Margins expanded to 36%, compared to 23% in the prior year period.
- Free Cash Flow generated was $5.2 million, an increase of 120% year over year, and reflected strong conversion of 99%, up from 80% in the prior year.
- Cash flow from operations was $5.7 million, with funds reinvested towards paying down debt and strengthening VerticalScope's financial position. In Q1, the Company made $3.0 million in principal payments against its credit facility, of which $2.4 million was voluntary. Net Leverage, as defined by our credit facility, is 1.8x compared to 2.1x at the beginning of the quarter.
- Net Loss of $1.0 million and Earnings Per Share of negative $0.05 were $3.5 million and $0.16 better than prior year, respectively.

"We generated significant cash from operations and particularly high Free Cash Flow Conversion, enabling us to continue to further reduce our leverage and strengthen our balance sheet," added Laidlaw. "We have a solid pipeline of acquisition targets, and closed our first acquisition of 2024 in the second quarter. Our systematic M&A process focuses on communities where we are confident we can drive growth and increase profitability, at accretive valuations."

"We remain focused on a three-prong strategy to capital deployment including reducing debt, pursuing share buybacks through our Normal Course Issuer Bid, and pursuing high-quality, accretive, M&A opportunities," stated Vince Bellissimo, CFO of VerticalScope. "Consistent profitability, organic revenue growth, and cash generation will facilitate each of these objectives going forward. Year-to-date we have purchased 117,300 of our own shares for cancellation at an average cost of C$7.44 per share, while reducing debt by $6.3 million."

Earnings Announcement
Management will host a conference call and webcast to discuss the Company's financial results at 8 a.m. ET on Wednesday, May 8, 2024.

Live Call Registration and Webcast:
https://events.q4inc.com/attendee/849375558

Joining by Telephone:
Canada: 1 833 950 0062
United States: 1 833 470 1428
Participant Access code: 212965

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 110 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 implementation and effectiveness of the Company's capital allocation strategy, the availability of high-quality M&A opportunities, and the factors discussed under "Risk Factors" in the Company’s Annual Information Form dated April 1, 2024, which is available on the Company’s profile on SEDAR Plus at https://sedarplus.ca. 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.

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

(Unaudited)	Three Months Ended March 31,	
(in thousands of US dollars)	2024	2023
Net loss	($985)	($4,498)
Net interest expense	1,163	1,115
Income tax expense (recovery)	(124)	(1,734)
Depreciation and amortization	4,565	6,508
EBITDA	4,619	1,392
Share-based compensation	421	1,068
Share performance related bonuses [(1)]	(3)	—
Unrealized loss from changes in derivative fair value of financial instruments	56	1
Severance [(2)]	—	1,407
Gain on sale of assets	(4)	(1)
Gain on sale of investments	(16)	—
Foreign exchange loss	27	32
Adjustment to contingent considerations	—	(1,051)
Other charges [(3)]	127	88
Adjusted EBITDA	5,227	2,936
Less capital expenditures	(435)	(545)
Income taxes received (paid)	377	(44)
Free Cash Flow	$5,169	$2,346

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

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

[(3)] Other charges are included in wages and consulting and general and administrative on the condensed consolidated interim statements of loss and comprehensive loss. For the three months ended March 31, 2024, these charges include one-time legal related costs.

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

	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash	$7,908,036	$6,015,184
Restricted cash	89,574	93,840
Trade and other receivables	11,019,206	14,175,352
Lease receivable	586,512	595,961
Income taxes receivable	423,438	797,465
Prepaid expenses	929,384	804,692
Derivative instruments	—	51,303
	20,956,150	22,533,797
Property and equipment	682,947	754,293
Right-of-use asset	1,985,714	2,123,739
Intangible assets	48,580,701	52,480,458
Goodwill	52,635,164	52,635,164
Other assets	276,752	283,278
Deferred tax asset	20,962,918	21,786,506
Lease receivable	198,645	354,288
Total assets	$146,278,991	$152,951,523
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$4,747,967	$5,563,354
Income taxes payable	319,915	229,770
Derivative instruments	4,365	—
Deferred revenue	1,265,848	1,157,049
Current portion of long-term debt	3,427,094	3,614,396
Lease liability	1,219,917	1,227,160
	10,985,106	11,791,729
Long-term debt	51,530,891	54,431,100
Lease liability	1,891,778	2,248,029
Deferred tax liability	2,573,159	3,609,683
Other long-term liabilities	185,925	185,399
Total liabilities	67,166,859	72,265,940
Shareholders' equity:		
Share capital	167,347,166	167,705,234
Contributed surplus	22,532,673	22,435,738
Accumulated other comprehensive loss	(119,249)	(145,494)
Deficit	(110,648,458)	(109,309,895)
	79,112,132	80,685,583
Total liabilities and shareholders' equity	$146,278,991	$152,951,523

VERTICALSCOPE HOLDINGS INC.
Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
(In U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Revenue	$14,723,444	$12,871,812
Operating expenses:		
Wages and consulting	6,940,033	8,342,825
Share-based compensation	421,241	1,068,356
Platform and technology	1,543,535	2,005,207
General and administrative	1,192,625	1,083,415
Depreciation and amortization	4,564,628	6,507,624
Adjustment to contingent considerations	—	(1,051,222)
	14,662,062	17,956,205
Operating income (loss)	61,382	(5,084,393)
Other expenses:		
Gain on sale of assets	(3,620)	(789)
Net interest expense	1,162,932	1,115,472
Gain on investments	(16,398)	—
Foreign exchange loss	27,380	32,443
	1,170,294	1,147,126
Loss before income taxes	(1,108,912)	(6,231,519)
Income tax expense (recovery)		
Current	88,618	110,536
Deferred	(212,937)	(1,844,515)
	(124,319)	(1,733,979)
Net loss	($984,593)	($4,497,540)
Other comprehensive income (loss)		
Items that may be reclassified to net loss:		
Foreign currency differences on translation of foreign operations	26,245	(22,337)
Total comprehensive loss	($958,348)	($4,519,877)
Loss per share:		
Basic	($0.05)	($0.21)
Diluted	(0.05)	(0.21)

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash provided by (used in):		
Operating activities:		
Net loss	($984,593)	($4,497,540)
Items not involving cash:		
Depreciation and amortization	4,564,628	6,507,624
Net interest expense	1,162,932	1,115,472
Gain on sale of assets	(3,620)	(789)
Gain on sale of investments	(16,398)	—
Unrealized loss in derivative instruments	55,668	702
Income tax recovery	(124,319)	(1,733,979)
Adjustment to contingent considerations	—	(1,051,222)
Share-based compensation	421,241	1,068,612
	5,075,539	1,408,880
Change in non-cash operating assets and liabilities	1,443,964	3,698,468
Interest paid	(1,162,852)	(1,031,189)
Income taxes received (paid)	377,086	(43,935)
	5,733,737	4,032,224
Financing activities:		
Repayment of term loan	(625,000)	(625,000)
Proceeds from issuance of revolving loan	—	15,000,000
Repayment of revolving loan	(2,375,000)	(3,000,000)
Repurchase of share capital for cancellation	(233,226)	—
Lease payments	(360,982)	(383,820)
Proceeds from sublease	150,078	149,565
Proceeds from leasehold improvement allowance	—	106,426
	(3,444,130)	11,247,171
Investing activities:		
Additions to property and equipment and intangible assets	(434,611)	(545,449)
Proceeds from sale of assets	4,114	9,424
Proceeds from sale of investments	16,398	—
Payment of contingent considerations	—	(15,000,000)
	(414,099)	(15,536,025)
Increase (decrease) in cash	1,875,508	(256,630)
Cash, beginning of the period	6,015,184	8,766,769
Change in restricted cash balances	4,266	25,098
Effect of movement of exchange rates on cash and restricted cash held	13,078	(56,150)
Cash, end of period	$7,908,036	$8,479,087

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