

VerticalScope Announces Third Quarter 2023 Financial Results

Posts Sequential Revenue Growth and Margin Expansion

\$15.5 Million in Q3 Revenue, up 6% from Q2

Adjusted EBITDA Margins Rise to 44%

Monthly Active Users Exceed 100 Million

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

TORONTO--(BUSINESS WIRE)--November 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 third quarter ("Q3" or "the quarter").

"Our performance continued to improve in Q3 as a result of stronger advertising monetization and slightly improving MAU trends. We continued to see gradual improvements in topline trends supported by our new ad product initiatives including video and gains in search traffic compared to Q2", commented Rob Laidlaw, Founder, Chair and CEO of VerticalScope. "The strength of our business model anchored by our Fora community platform combined with our efforts to improve overall efficiency are driving meaningful gains in profitability. Adjusted EBITDA margin reached 44% in Q3 up 8 percentage points compared to Q3 last year and free cash flow was \$6 million, an increase of 29% over the same time period. Our strong free cash flow generation has allowed us to continue to improve our financial position which will provide us with additional operating flexibility in the coming quarters."

Financial Highlights for the Three and Nine Months Ended September 30, 2023 ("Q3" or "YTD" respectively).

- Q3 revenue improved by 6% sequentially to \$15.5 million as a result of digital advertising product improvements including the introduction of video advertising on the Fora platform and improved MAU trending resulting from successive positive search algorithm updates.
- Q3 Adjusted EBITDA was \$6.8 million and Adjusted EBITDA Margins expanded to 44%, a 8 percentage point improvement when compared to prior year. The improvement is attributed to cost optimizations across the business with a particular focus on lowering the costs of our e-commerce operation.
- Q3 Free Cash Flow converted at an all-time high of 88% on \$6.0 million in Free Cash Flow generated, compared to a 66% conversion rate in the prior year.

- In Q3 and YTD, \$3.5 million and \$11.0 million in cash flow from operations was generated and we made \$2.4 million and \$10.9 million in principal payments against our credit facility respectively, \$1.7 million and \$9.0 million of which were voluntary.
- Net Loss of \$0.5 million and Earnings Per Share of negative \$0.02 in Q3 were \$7.0 million and \$0.33 better than prior year, respectively. YTD Net Loss of \$7.0 million is \$17.9 million ahead of prior year and YTD Net Earnings Per Share of negative \$0.33 is a \$0.58 improvement over prior year.

Laidlaw added, "Our platform served 100.5 million monthly active users in Q3, a 1.8% increase over Q2. Users are increasingly discovering the firsthand, authentic perspectives that our enthusiasts share on our forum platform on a daily basis. We believe these authentic perspectives are becoming more valuable as the Internet is increasingly inundated with mass-produced, machine-generated content. Our forum communities MAU trend was up 5.6% in September versus the prior year, and up 19.7% in October versus the prior year. Our team also launched the Fora Communities mobile app, which is now available for download on the Apple App Store and Google Play Store."

Earnings Announcement

Management will host a conference call and webcast to discuss the Company's financial results at 7:30 am ET on Thursday, November 9, 2023.

Live Call Registration and Webcast:

<https://events.q4inc.com/attendee/764746899>

Joining by telephone:

Canada: 1 833 950 0062

United States: 1 833 470 1428

Participant Access code: 182994

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 100 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 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:

(in thousands of US dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	(\$516)	(\$6,044)	(\$7,025)	(\$24,916)
Net interest expense	1,299	859	3,880	2,096
Income tax recovery	(52)	(993)	(2,447)	(2,567)
Depreciation and amortization	4,901	9,813	16,688	29,629
EBITDA	5,633	3,635	11,096	4,242
Share-based compensation	1,249	2,577	3,631	8,246
Share performance related bonuses ⁽¹⁾	—	(287)	—	(1,080)
Unrealized loss from changes in derivative fair value of financial instruments	2	65	10	110
Severance ⁽²⁾	30	167	1,470	801
Loss (gain) on sale of assets	(160)	(4)	(171)	3
Gain on sale of investments	—	—	(2)	—
Foreign exchange loss (gain)	(6)	(5)	(30)	55
Adjustment to contingent considerations	—	150	(1,051)	9,016
Other charges ⁽³⁾	71	729	282	2,233
Adjusted EBITDA	6,819	7,026	15,236	23,624
Less capital expenditures	(710)	(1,212)	(1,827)	(4,432)
Income taxes paid	(131)	(1,195)	(937)	(1,726)
Free Cash Flow	\$5,978	\$4,619	\$12,472	\$17,465

⁽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 nine months ended September 30, 2023, these charges include one-time legal related costs. For the three and nine months ended September 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)

	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$6,435,269	\$8,766,769
Restricted cash	87,726	116,830
Trade and other receivables	10,660,858	15,712,508
Lease receivable	577,777	569,278
Income taxes receivable	504,508	—
Prepaid expenses	978,288	1,127,365
	<u>19,244,426</u>	<u>26,292,750</u>
Property and equipment	812,097	1,065,888
Right-of-use asset	2,269,036	1,745,398
Intangible assets	56,460,733	70,579,988
Goodwill	52,635,164	52,635,164
Other assets	286,725	315,403
Deferred tax asset	23,855,058	23,991,561
Lease receivable	492,156	929,682
Total assets	<u>\$156,055,395</u>	<u>\$177,555,834</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$4,677,917	\$8,334,556
Income taxes payable	434,386	549,713
Derivative instruments	10,430	—
Deferred revenue	1,295,979	889,259
Current portion of long-term debt	3,882,641	3,209,382
Lease liability	1,182,302	1,027,309
Contingent considerations	—	15,000,000
	<u>11,483,655</u>	<u>29,010,219</u>
Deferred revenue	1,979	4,389
Long-term debt	58,617,097	54,883,514
Lease liability	2,476,591	2,518,053
Deferred tax liability	5,410,218	8,310,894
Contingent considerations	—	1,051,222
Other long-term liabilities	185,399	281,959
Total liabilities	<u>78,174,939</u>	<u>96,060,250</u>
Shareholders' equity:		
Share capital	162,062,545	160,559,106
Contributed surplus	27,266,214	25,306,872
Accumulated other comprehensive loss	(64,590)	(86,145)
Deficit	(111,383,713)	(104,284,249)
	<u>77,880,456</u>	<u>81,495,584</u>

Total liabilities and shareholders' equity			\$156,055,395	\$177,555,834
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VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$15,509,334	\$19,577,080	\$43,045,765	\$61,394,194
Operating expenses:				
Wages and consulting	6,229,028	9,192,294	21,257,863	27,421,041
Share-based compensation	1,249,310	2,576,906	3,630,859	8,245,605
Platform and technology	1,525,203	2,333,041	5,237,261	6,701,002
General and administrative	1,039,564	1,699,883	3,077,919	5,710,412
Depreciation and amortization	4,901,141	9,812,617	16,688,368	29,629,030
Adjustment to contingent considerations	—	149,651	(1,051,222)	9,015,734
	14,944,246	25,764,392	48,841,048	86,722,824
Operating income (loss)	565,088	(6,187,312)	(5,795,283)	(25,328,630)
Other expenses:				
Loss (gain) on sale of assets	(160,339)	(4,320)	(171,148)	2,808
Net interest expense	1,299,049	859,287	3,879,773	2,095,989
Loss (gain) on investments	103	—	(1,792)	—
Foreign exchange loss (gain)	(6,117)	(5,097)	(30,316)	55,123
	1,132,696	849,870	3,676,517	2,153,920
Loss before income taxes	(567,608)	(7,037,182)	(9,471,800)	(27,482,550)
Income taxes (recovery)				
Current	111,331	330,411	317,146	2,093,421
Deferred	(163,430)	(1,323,618)	(2,764,172)	(4,660,024)
	(52,099)	(993,207)	(2,447,026)	(2,566,603)
Net loss	(\$515,509)	(\$6,043,975)	(\$7,024,774)	(\$24,915,947)

Other comprehensive income

Items that may be reclassified to net loss:

Foreign currency differences on translation of foreign operations	63,363	101,796	21,555	97,042
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Total comprehensive loss	(\$452,146)	(\$5,942,179)	(\$7,003,219)	(\$24,818,905)
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Loss per share:

Basic	(\$0.02)	(\$0.28)	(\$0.33)	(\$1.17)
Diluted	(0.02)	(0.28)	(0.33)	(1.17)

VERTICALSCOPE HOLDINGS INC.

Condensed Consolidated Interim Statements of Cash Flows

(In U.S. dollars)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022

Cash provided by (used in):

Operating activities:

Net loss	(\$515,509)	(\$6,043,975)	(\$7,024,774)	(\$24,915,947)
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Items not involving cash:

Depreciation and amortization	4,901,141	9,812,617	16,688,368	29,629,030
Net interest expense	1,299,049	859,287	3,879,773	2,095,989
Loss (gain) on sale of assets	(160,339)	(4,320)	(171,148)	2,808
Unrealized loss in derivative instruments	2,163	65,490	10,430	109,536
Income tax recovery	(52,099)	(993,207)	(2,447,026)	(2,566,603)
Adjustment to contingent considerations	—	149,651	(1,051,222)	9,015,734
Share-based compensation	1,249,566	2,576,906	3,630,859	8,245,605

	6,723,972	6,422,449	13,515,260	21,616,152
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Change in non-cash operating assets and liabilities	(1,851,469)	1,132,558	1,695,925	(1,061,270)
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Interest paid	(1,215,173)	—	(3,307,424)	(1,514,942)
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Income taxes paid	(130,602)	(1,194,983)	(936,981)	(1,726,388)
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	3,526,728	6,360,024	10,966,780	17,313,552
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Financing activities:

Repayment of term loan	(625,000)	(625,000)	(1,875,000)	(1,875,000)
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Proceeds from issuance of revolving loan	—	—	15,000,000	—
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Repayment of revolving loan	(1,750,000)	(6,500,000)	(9,000,000)	(19,000,000)
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Proceeds from exercise of share options	—	—	—	186,477
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Repurchase of share capital for cancellation	(73,673)	(58,049)	(73,673)	(58,049)
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Lease payments	(360,936)	(331,486)	(1,105,020)	(963,599)
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Proceeds from sublease	150,807	155,203	450,958	473,549
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	(2,658,802)	(7,359,332)	3,397,265	(21,236,622)
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Investing activities:

Additions to property and equipment and intangible assets	(707,790)	(1,640,283)	(1,824,618)	(8,683,507)
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Proceeds from sale of assets	160,338	9,250	181,295	35,984
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Payment of contingent considerations	—	—	(15,000,000)	—
	(547,452)	(1,631,033)	(16,643,323)	(8,647,523)
Increase (decrease) in cash and cash equivalents	320,474	(2,630,341)	(2,279,278)	(12,570,593)
Cash and cash equivalents, beginning of the period	6,126,110	10,454,719	8,766,769	20,494,313
Change in restricted cash balances	2,078	(586)	29,104	12,542
Effect of movement of exchange rates on cash and restricted cash held	(13,393)	(59,467)	(81,326)	(171,937)
Cash and cash equivalents, end of period	\$6,435,269	\$7,764,325	\$6,435,269	\$7,764,325

Contacts

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Related Links

<http://www.verticalscope.com>