OTC Markets (Q4 2024 Earnings)

March 13, 2025

Corporate Speakers:

- Daniel Zinn; OTC Markets; General Counsel, Chief of Staff
- Cromwell Coulson; OTC Markets; President, Chief Executive Officer
- Antonia Georgieva; OTC Markets; Chief Financial Officer

Participants:

- Steven Silver; Argus Research Corporation; Analyst
- Brendan McCarthy; Sidoti; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the OTC Markets Group Fourth Quarter and Full Year 2024 Earnings Conference Call and Webcast. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Dan Zinn, General Counsel and Chief of Staff.

Daniel Zinn^ Thank you, Operator. Good morning. And welcome to the OTC Markets Group fourth quarter and year end 2024 earnings conference call.

With me today are Cromwell Coulson, our President and Chief Executive Officer; and Antonia Georgieva, our Chief Financial Officer.

Today's call will be accompanied by a slide presentation.

Our earnings press release and the presentation are each available on our website.

Certain statements during this call and in our presentation may relate to future events or expectations and as such, may constitute forward-looking statements.

Actual results may differ materially from these forward-looking statements.

Information concerning risks and uncertainties that may impact our actual results is contained in the Risk Factors section of our 2024 Annual Report which is also available on our website.

For more information please refer to the safe harbor statement on Slide 3 of the earnings presentation.

With that, I'd like to turn the call over to Cromwell Coulson.

Cromwell Coulson^ Thank you, Dan. Good morning, everyone. Thank you for joining us today.

I will begin by discussing our year-end 2024 results at a high level and we'll share our current priorities. Both gross and net revenues grew slightly versus 2023, increasing 1% and producing over $111 million in annual revenues for the first time in our history.

Our results continue to highlight the resilience of our business model.

Overall, company performance was supported by strong growth in our OTC Link business, a relatively steady state in our Market Data Licensing, and a decrease in Corporate Services revenue. Antonia will review our financial results in greater detail in a few minutes.

OTC Link's strong year was primarily due to increased trading volume across our markets.

We strive to provide the best possible trade experience for our broker-dealer subscribers. And while we do not control overall market volume, we were pleased to see that the Link team grew our trading network by expanding our subscriber base.

Our Market Data results revealed areas of growth and shed light on where we still have work to do. We remain committed to expanding the use of our EDGAR Online data and developing new solutions for subscribers.

Corporate Services continued to see a reduced number of subscribers throughout 2024.

OTCQX was impacted by a lower starting number of companies at the beginning of 2024 and slower sales throughout the year.

On OTCQB, the attrition was generally related to financially stressed smaller companies dropping from the market for compliance and financial reasons.

Our operating expenses also grew slightly during 2024 at approximately 1%.

We are careful to align our resource expenditures with our revenues as we work to find our next opportunity sets to grow the business.

I am thankful for the hard work and dedication of our employees who have built this company and whose efforts will sustain our future endeavors.

It would be a disservice to our subscribers, colleagues and shareholders if we viewed maintaining the current state as success.

We could never be satisfied with the status quo.

I know that I speak for the entire OTC Markets Group team, when I say that we are absolutely committed to improving our products, helping our subscribers become more successful, executing on new opportunities and achieving sustainable growth.

To that end, during 2025, we have prioritized two high-profile critical projects. The first major project is overnight trading.

During the second half of last year, we announced OTC Overnight to support trading in OTC securities and MOON ATS to support trading in exchange-listed, NMS securities. Each overnight trading session runs from 8:00 p.m. to 4:00 a.m. Eastern Time, Sunday through Thursday.

The combination of OTC Overnight and MOON ATS enables our broker-dealer subscribers to access thousands of exchange-listed and OTC securities during Asian market hours, at European market open, and overnight in the U.S.

We see significant industry interest in overnight trading, with the exchanges and other new entrants announcing plans to offer similar services for exchange-listed securities in the coming years.

We understand that this will be a dynamic space, and we look forward to working with our subscribers and partners across the industry to make overnight trading a success, and give the global investment community greater access to U.S. capital markets.

With OTC Overnight, we are able to offer a unique value proposition, with a broader range of securities and a track record of operating critical infrastructure. Offering access to OTC securities from around the globe during a timeframe more convenient for more investors was a key reason we pursued overnight trading.

We have completed the necessary SEC filings and approvals for OTC Overnight and MOON ATS.

We are now onboarding key subscribers and working with industry participants to get the markets running efficiently.

Our view towards the overnight trading matches our approach to the markets we have operated for many years.

We will offer elegant solutions with reliable and cost-effective services that support our subscribers' success. Ensuring this requires painstaking attention to detail and coordinated teamwork across our organization.

Our second critical project is the development of the OTCID Basic Reporting Market, which we announced last October. This market is for companies that provide ongoing financial disclosure and a management certification and verify their company profile for U.S. investors, brokers and regulators.

Our platforms standardize and stream the information into digital formats that are easily displayed on screens and readable by brokers machines to support wider IR visibility, fundamental investment analysis and automated compliance.

Since the initial OTCID market announcement, we have published the OTCID application and Rules as well as hosted a webinar and developed a series of FAQs to provide companies, investors and brokers with as much information as possible. Any change to the structure of our markets and our disclosure standards requires ample lead time for companies, brokers and investors.

We have been engaged with the impacted companies and plan to launch OTCID market on July 1, 2025.

The launch of OTCID allows a more detailed distinction and value proposition for each of our markets.

Our premium OTCQX Best Market and OTCQB Venture Market have become recognized brands, ingrained in trading, regulatory and compliance processes.

OTCID will support companies that publish basic disclosure for investors, including companies that may not be able to qualify for OTCQX or OTCQB and companies just developing their secondary trading market in the U.S.

OTCID will also allow companies to separate themselves from those quoted on Pink Limited, where companies do not certify their compliance with established reporting standards, have limited availability of disclosure or financial information and may not support their U.S. market. These securities will continue to be identified with the yield sign to warn investors to proceed with caution.

Importantly, our market structure will clarify whether a company is actively engaged in supplying ongoing information to U.S. investors, which is an important input for an efficient market pricing process. The Pink Limited market and the Expert Restricted market will still support broker-dealer best execution obligations while making it clear that there is limited to no involvement of the issuer and that greater information asymmetries may exist.

Investors will need to dig deeper for information and shares may be discounted to account for this.

In addition to these larger scale projects, we continue to pursue growth opportunities specific to our Market Data Licensing business and to push for enhancements to the interface that companies use to publish disclosure and interact with our markets.

In a broader sense, we believe that sustainable success requires we continuously add value to all our product lines. This philosophy of continuous improvement throughout our organization is one of our core themes for this year and beyond.

Turning to the regulatory landscape.

I'm excited to see regulators and legislators placing a renewed focus on working with the industry to improve the capital markets. Capital formation is now in the conversation.

Staff from FINRA, the SEC and other government agencies have been welcoming ideas and engaging in productive discussions regarding small company capital formation and market structure.

We look forward to continuing those discussions and pursuing regulatory priorities that serve our broker-dealer, company and investor communities.

In closing, I am pleased to announce that on March 11th, our Board of Directors declared a quarterly dividend of $0.18 per share payable later this month. This dividend reflects our ongoing commitment to providing superior shareholder returns.

With that, I will turn the call over to Antonia.

Antonia Georgieva^ Thank you, Cromwell and thank you, everyone, for joining us today.

I would like to start by thanking our entire OTC Markets team for their continued commitment to our subscribers and for driving our business forward.

I will now review our results for the fourth quarter and year ended December 31, 2024. Any references made to prior period comparatives refer to the fourth quarter or the year ended December 31, 2023. A review of our fourth quarter results is included on Page 7.

We generated $28.5 million in gross revenues, up 3% as compared to the prior year period. Revenues less transaction-based expenses were flat.

OTC Link's gross revenues increased 33%, driven by higher revenues from OTC Link ECN and OTC Link NQB, which, in aggregate, increased 56%, consistent with a higher volume of trading activity on our markets compared to the fourth quarter of 2023.

As an offset, transaction-based expenses increased 62%.

Additionally, revenues from OTC Link ATS messages increased 22% reflecting a higher number of messages and fee increases.

OTC Link also saw an increase in certain connectivity revenue due to the introduction of additional fees at the beginning of 2024.

OTC Link finished the fourth quarter with 114 subscribers on OTC Link ECN and 82 subscribers on OTC Link ATS, compared to 108 and 86, respectively, at the end of the prior year.

OTC Link had 141 unique subscribers to our ATSs at the end of 2024, up five from the end of 2023.

Trading volumes remain highly unpredictable and could decline in the future.

Revenues from our Market Data Licensing business were flat to the prior year quarter, reflecting the offsetting trends in redistributor-based revenues, which declined 4% and in revenues from direct sold licenses, which increased 5% and revenues from data and compliance solutions, which increased 4%.

Within redistributor-based revenues, pro user revenues declined 5%, along with lower pro user counts, down 3%, while non-pro user revenues increased slightly at 1%, due to the addition of a new redistributor relationship at the end of the third quarter of 2024, resulting in a 12% increase in period-end non-pro user counts. Historically, and in the normal course of business, we have seen significant changes in the number of nonprofessional users as market volumes and retail participation in the U.S. equity markets fluctuate, and we may experience a decline in the future.

Broker-dealer enterprise licenses drove the growth in direct sold licenses.

Within Data and Compliance Solutions, revenues from data services and the Blue Sky data product increased due to price increases for certain licenses and additional fees and were partially offset by a decline in revenues from EDGAR Online due to subscriber cancellations.

Corporate Services revenues decreased 6% in the fourth quarter.

OTCQX and OTCQB revenues each decreased 4%, while DNS revenues decreased 6%.

In the fourth quarter, we added 22 OTCQX companies compared to 24 new sales in the prior year quarter and finished the period with 567 OTCQX companies, down 6%.

On OTCQB, we added 61 new companies in the fourth quarter, compared to 41 in the prior year period and had 1,050 OTCQB companies at the end of the quarter, down 8%.

We had 1,338 Pink companies subscribing to DNS and other products at the end of the fourth quarter, down 8%. These engaged Pink companies, which have a relationship with OTC Markets Group through our disclosure offerings, represented approximately 13% of all Pink securities traded on our platforms at the end of 2024 compared to approximately 14% at the end of the prior year period. Month-to-month variability in our corporate services subscribers is driven by new sales, offset by non-renewals, corporate events and compliance downgrades.

Turning to Page 8 for our full year results.

In 2024, we generated gross revenues of $111.1 million, up 1%.

OTC Link revenues increased 14%, with a 21% increase in revenues from OTC Link ECN and OTC Link NQB and a 16% increase in revenues from OTC Link ATS messages as the main drivers. Contributing to the overall increase in OTC Link revenues was also an increase in certain connectivity revenue due to the introduction of additional fees in 2024.

Transaction-based expenses increased 20%.

Our Market Data Licensing business saw a modest 1% growth year-over-year, largely driven by the same factors as previously mentioned, partially offset by the impact of 10% lower non-pro user revenue.

Corporate Services revenues decreased 4% with flat revenue from OTCQX, mostly due to pricing adjustments and 5% and 7% decrease in OTCQB and DNS revenues, respectively, driving the decline. Corporate Services saw a lower average and period end number of companies across OTCQX, OTCQB and DNS.

During 2024, we added 83 new companies to OTCQX compared to 90 in the prior year, and 190 new companies to OTCQB compared to 184 in the prior year. The retention rate for the annual OTCQX subscription period that began on January 1, 2024, was 93% compared to 95% for the prior year.

For the annual OTCQX subscription period beginning January 1, 2025, we achieved a 96% retention rate.

Turning now to our expenses on Page 9.

On a quarter-over-quarter basis, operating expenses increased by 1%. The primary drivers were a 7% increase in compensation and benefits and a 16% increase in IT infrastructure and information services costs, partially offset by a 42% reduction in professional and consulting fees as one-time costs in the prior year quarter did not recur. Compensation and benefits comprised 61% of our total operating expenses during the fourth quarter compared to 57% in the prior year period.

In the fourth quarter, income from operations was flat, while net income and diluted earnings per share each increased 3%.

Operating profit margin contracted to 31.6% compared to 32.8% in the prior year quarter.

On a year-over-year basis, on Page 10, operating expenses were also up 1%, driven by similar factors.

During 2023, we incurred approximately $2.5 million in nonrecurring expenses related to an SEC matter and EDGAR Online, which did not recur in 2024.

Compensation and benefits comprised 64% of our total expense base in 2024 compared to 62% in the prior year.

Turning to Page 11.

For the full year, income from operations and net income each declined 1% and operating margin contracted to 29.9% compared to 30.6% in the prior year.

Our diluted earnings per share decreased commensurately to $2.26 per share compared to $2.28 per share.

In addition to certain GAAP and other measures, management utilizes adjusted EBITDA, a non-GAAP measure, which excludes noncash stock-based compensation expenses.

Our adjusted EBITDA was $41.3 million for the full year 2024 and our adjusted diluted earnings were $3.41 per share, each up 1% compared to the prior year. Cash flows from operating activities for 2024 amounted to $32.9 million and free cash flows were $31.6 million compared to $33 million and $31.5 million in the prior year, respectively.

Turning to Page 12.

During 2024, we returned a total of $29.5 million to investors in the form of dividends and through our stock buyback program, a slight decrease of 1% from the prior year, primarily related to a lower amount of stock repurchases.

We remain focused on growing our business and delivering long-term value to our stockholders.

With that, I would like to thank everyone for your time and pass it back to the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Steve Silver with Argus Research Corporation.

Steven Silver^ Curious about the technology investments that have been made over the past couple of years.

With the heavy lifting seemingly done now on the new projects for 2025, after an investment year in EDGAR maybe the year before. Curious as to whether there's anything directionally we should be thinking about in terms of the rate of IT spending over the next couple of years?

Cromwell Coulson^ Steve, thank you for the question.

If you look at our IT spending, it's people. And that is -- and there's a mix of different amounts of work, which is what's on new, what's supporting, keeping the lights on, what's upgrading, what's driven by regulatory compliance and security. And where we would like to become better is more operational, better with our resources, better with our performance, better with our productivity and by empowering our people and focusing on improving different areas.

So that part of -- we're not a company that has a huge project to go buy to bring in a consultant and go build something outside.

We try to always be incrementally improving our technology platforms, and our human capital resources, we work to align with our revenues over time.

Antonia Georgieva^ In the appendix to the earnings slides, we include our cash flow summary, and you can see that the capital expenditures have been between $1 million and $1.5 million per year for the last five years. These investments are necessary to maintain the high availability and reliability of our trading systems.

We do not expect that requirement to go away.

We will continue to invest in our primary and disaster recovery data centers and upgrades to our servers as we go along.

But as Cromwell correctly pointed out, a lot of our investment is actually flowing through the P&L rather than the cash flow statement, and it's reflected in our human capital and our IT infrastructure and information services costs.

Steven Silver^ That makes sense. Great for the color. And one more, if I may.

With the July launch of OTCID, will there be any information that might be available maybe before the Q2 call over the summer, just in terms of initial penetration of subscriptions for the OTCID program? Or will that more likely be available after the program formally launches?

Cromwell Coulson^ Steve, it will be after. And I think it's going to be interesting to see the number, both by number of securities and by dollar volume of engaged issuers. And you really have to look at OTCID fills in to provide just a disclosure-based market, and companies putting their information into our system so we can digitalize it, whatever reporting standard they use. And this is good for investors.

It's good -- and it's good for brokers because they can automate compliance and appropriately remove or apply risk controls.

However, the Pink Limited market has a long history of us supporting brokers who in the United States are the only businesses that are allowed to legally trade securities that when brokers have a client shows up and says, I want to sell this piece of property I have or I want to buy this stock or ADR, we provide a fantastic technology platform. And we're going to continue to do that.

If you read the biography of Warren Buffett, Snowball, it is early days when he was building his super returns with the Buffett Partners. Every time a new copy of either one of the daily sheets or the monthly books published by our predecessor National Quotation Bureau came out, he would go through looking around for interesting stocks to research.

And they talk about not only was he great about digging around for information.

However he also was really good at negotiating with all the brokers in this opaque phone-based market. The firm I came from dealt with lots of those type of investors. And these securities would trade at discounts because management wasn't engaged. And there's different reasons for the discounts.

There is some -- there are smaller companies. There are large European companies with great consumer brand names, who, for various reasons, their Investor Relations department has an extremely different viewpoint of streaming information into the U.S. than their marketing and advertising department. Those companies will still trade. They'll trade on consumer brand recognition.

However, we will not have the relationship and the data and investors will be adequately warned. And I think that's super important.

Antonia Georgieva^ Steve, from a revenue and reporting point of view, OTCID is going to succeed DNS.

It is essentially monetized through our DNS product. And following the launch in July 2025, in the following quarters, we expect to report metrics for the OTCID market in a similar fashion to which we now report Pink paying subscribers, those who subscribe to our Corporate Services product suite.

So the change in our reporting and revenue will be minimal, more likely connotation and naming changes rather than anything else.

In terms of the products, however, we did revise our fee schedule, and you would see on our website a different price for DNS for this year, which is an increase to what we had for the product last year and in prior years, and it reflects what we believe is an improved value proposition to the subscriber base with the OTCID product.

Steven Silver^ Great. Thanks, Antonia.

I appreciate the color. And thanks, Cromwell for the perspective.

I appreciate that.

And best of luck at the beginning of the new year.

Operator^ (Operator Instructions) Our next question comes from Brendan McCarthy with Sidoti.

Brendan McCarthy^ Great. Cromwell I wanted to start off, I believe you mentioned there's been a renewed focus from regulators to improve small company capital formation. Just wondering if you can expand on your outlook on this topic and maybe also tie in how the expectation for more broadly deregulation, I guess just how that might impact your business looking forward?

Cromwell Coulson^ Thank you, Brendan.

Well one is just the tone and questions of the conversations when we go down to Washington. And the interest in how can we help the better players succeed. And we've always had a conversation with regulators and there's a natural tension because the commercial side of the business wants more good things to happen, and the regulators want no bad things to happen.

I think it's going to be a more balanced conversation. And if you look at how our market works, we are a fantastic market for secondary trading of already issued securities. The place where it's harder is for the companies that are public to raise capital. And this is just not our problem. This problem is endemic to smaller public companies that put in all the cost and complexity to be listed on NASDAQ or NYSE.

Because there's a 2-tier capital raising market and is completely wrong.

If you're a large, well-known seasoned issuer, you can do ATM shelf offerings with ATMs directly into the market, extremely low cost and efficiently.

If you are a smaller public company, if you haven't been public for a while, if you've got a small float, if you're OTC that highly efficient way to raise capital is not available to you. And that's completely wrong because these are the stocks that are often the most volatile and the ability of a company in IPOs and the stock goes up.

The company should be able to supply demand if investors want more to raise more capital. And we've limited these companies out.

So what happens to smaller companies, and we've written about it a lot because it takes place in the exchange space, a very large amount is smaller public companies have to do private placements at a discount to the public market that are highly dilutive.

And it breaks the public market pricing process if a company is raising capital, and there's a big spread between what the company is raising capital at and where the public is buying the securities. And there's no transparency of these private offerings until it's too late. And we really believe there's an opportunity to make it easier for public companies to raise capital in the public markets as well as there's a whole bunch of other rules and regulations that a pragmatic regulator can streamline to continue America's success as the world's leading financial market.

Brendan McCarthy^ Great. That's very interesting. And I guess just as a follow-up, what does that opportunity look like? Or I guess how can OTC Markets maybe bridge that gap?

Daniel Zinn^ So Brendan, there are so many ways.

I think Cromwell was starting to reference a lot of that. And further to his point, where regulators have been willing to listen to us and talk to us in the past and hear proposals, they are now soliciting that kind of information from us and want to hear what small companies need. Cromwell gave the example of easier offerings and at-the-market offerings for smaller public companies.

So being able to get some momentum on issues like that, being able to get recognition of companies that are meeting, let's say, some of our OTCQX, OTCQB standards to put them on par with exchange-listed peers in a number of different ways. All of those issues, they're not new to us. They're not new to the discussions that we have in Washington, but there does seem to be more of an open and like I said, solicitous sort of attitude in Washington towards seeing these things really happen and finding out what the nuts and bolts would look like.

So I think success for us includes continuing those conversations and making sure we're taking advantage of the questions being asked of us and then really focusing in and pushing some of those initiatives across the line.

Brendan McCarthy^ Understood.

One more question for me.

I think we've been reading in the past few months about some of the compliance changes to -- or some of the changes to the NASDAQ rules regarding their compliance framework.

I guess just the framework around how companies can execute reverse stock splits to maintain their listing standards.

I guess do you see some of these changes having a material impact on your business in the sense that it might feed some of these NASDAQ companies that are downgraded for compliance reasons, it might kind of feed them as an opportunity for OTC Markets?

Cromwell Coulson^ Well Brendan, the way I would frame it is, I believe, NASDAQ and the New York Stock Exchange are fantastic markets for companies of a certain size, the blue-chip investable securities with a strong financing and balance sheets.

I also believe that our market works better for smaller companies, for different types of companies and because we simply label these securities.

And NASDAQ has gotten all the press, but it's because they've been the most aggressive in the smaller public company space because we see the data is their standards have been played, and the reverse split world is really a signal of toxic financing, having destroyed the investor cap table. And these repeatedly have taken place.

So one side is let's fix financing, because we shouldn't be sending public companies, whether they're on exchanges or traded OTC to payday lenders is -- or pawn shops, where the public investors lose out.

On the flip side is, it also changes the conversation with regulators because there was a former belief that exchange listing standards somehow could get rid of risk.

We have a very different viewpoint.

We don't think risk is good or bad.

We think risk needs to be identified and priced by the market. And that's with our data-driven markets.

And my belief was always when NASDAQ became a national securities exchange, they opened up a door to use better transparency and technology to do what NASDAQ used to do to be a market for smaller public companies, a market for international companies and broaden the base of the public market ecosystem. And that's an opportunity.

So we want to see all public markets succeed, but we don't want to see companies getting stuck doing bad financing because of regulatory barriers or investors blinded by blue brands and not doing the diligence to have securities efficiently analyzed, valued and traded.

Brendan McCarthy^ That's helpful.

One more question for me just on the Market Data Licensing segment. Just curious as to your outlook there for how you kind of resume organic growth in that segment looking out the next couple of years?

Cromwell Coulson^ Brendan, it's about some new products from the data set, and it's also about stuffing more value into the existing products. And that's empowering the people on the production line who are closer to the data or the client service to be making continual incremental improvement.

So every subscriber who receives an invoice from us feels they're getting increasing value.

My view of the data business if you're not putting more into a data product, it's going to zero slowly. And so we always need to not be looking at what's in the product today.

But what are the problems we're solving for the customer now tomorrow and in the future.

Because we have a fantastic group of subscribers. And they're sophisticated, they're very good at using data and we want to help serve their success and we'll be fine.

Antonia Georgieva^ And Brendan, just a reminder, a portion of our Market Data revenue is usage based, user based.

So that component, as we've seen in the past and as indicated may happen in the future, we'll have some volatility based on the number of users that our distributors reach with our market data on a monthly basis., We're focused, to Cromwell's point, on growing the subscription based revenue, improving the quality of the product.

One of our key strategic focus for this year is usage and user growth. And obviously all of this is targeted at the Market Data segment first and foremost.

Operator^ I would now like to turn the call back over to Cromwell Coulson for any closing remarks.

Cromwell Coulson^ Thank you, Operator.

I want to thank each of you for joining us today.

I would encourage you to read our full 2024 Annual Report and the earnings press release for more information. Links to both are available on the Investor Relations page of our website.

On behalf of the entire team, we look forward to updating you on our key initiatives that will continue to shape the integrity and competitiveness of the public markets.

Operator^ Thank you. This concludes the conference. Thank you for your participation.

You may now disconnect.