[Speaker – Ryan Gardella, Investor Relations]

Good afternoon. Welcome to TransAct Technologies fourth quarter and full year 2023 earnings call. Today, we'll be discussing the results announced in our press release issued after market close. Joining us from the company is CEO, John Dillon; and President and CFO, Steve DeMartino. Today's call will include a discussion of the company's key operating strategies, the progress on those initiatives, and details on our fourth quarter and full year financial results. We will then open the call to participants for questions.

As a reminder, this conference call contains statements about future events and expectations which are forward-looking in nature. Statements on this call may be deemed as forward-looking and actual results may differ materially. For a full list of risks inherent to the business and the company, please refer to the company's SEC filings, including its reports on Forms 10-K and 10-Q. TransAct undertakes no obligation to revise any forward-looking statements to reflect events or circumstances that occur after the call.

Today's call and webcast will include non-GAAP financial measures within the meaning of the SEC Regulation G. When required reconciliation of all non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in today's press release as well as on the company website.

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

[Speaker – John Dillon, CEO]

Good afternoon everyone, and thank you for joining us on today's call. While 2023 was a unique year for TransAct in many respects, I am happy to report that we closed it out with plenty of good news, and we believe that we are well set up to see increasing momentum in 2024.

We reported revenue of $13.3 million for the fourth quarter and $72.6 million for the full year, reflecting the results of changing dynamics in both of our main lines of business as we have been discussing in our prior calls.

On the FST side, or Food Service Technology, we saw revenue of $4.7 million, up 54% year-over-year and 11% sequentially, with recurring revenue of $3.2 million, up approximately 33% year-over-year and 2% sequentially to a record high. As I discussed at length previously, FST was a major focus in our re-organization of TransAct and we believe that we now have the right pieces in the right places as we are now focusing our selling efforts on the top 1,000 organizations in the U.S. and their operations abroad to sell our BOHA! platform. Additionally, we launched our new BOHA! Terminal, the T2, in 2023, and believe this is a high-end, enterprise grade solution designed for enterprise customers. While progress will be lumpy quarter to quarter as a small business, we believe that we are seeing the first starts of momentum build as we sold 1,235 new BOHA! terminals in the fourth quarter, for a total 3,655 units sold in the year. We ended the year with a total of 14,514 net new terminals installed in the market. We count that statistic because we think that's a platform event and it's an opportunity for cross-selling and upselling, so the count really matters. We did see some benefit from the international QSR win that I mentioned on our last call, and we expect U.S. orders from this customer in the coming months. After almost a year instituting major changes across the FST organization, we are encouraged by our sales numbers for the quarter, but acknowledge that we have much greater goals for BOHA! and FST going forward. Our Terminal 2, or T2, continues to be well received by customers and prospects as well, and believe this new product will be crucial to our growth going forward.

I also wanted to provide an update on the two new metrics which I mentioned last quarter, pipeline growth and new logos, also known as new customers. As part of my commitment to the TransAct shareholders, my goal has been to increase the transparency into the business. We felt this would be important to help investors evaluate the growth and future prospects for BOHA!, and candidly, I use both of these metrics to run the business myself.

On the FST pipeline growth side, let me provide some historical context first. Under previous FST leadership, there had been some sporadic reporting of the pipeline number at one point, I think somebody said it was $124 million. After turning over the sales organization, we scrubbed the pipeline hard and got it boiled down to a place where we felt the pipeline was now indicative, well vetted, and focused on near term sales possibilities. While this process was intensive and time consuming, I am now satisfied with the pipeline and believe every dollar included has the potential to convert into revenue for TransAct. With this in mind, I am pleased to report that our FST pipeline has increased 161% in the twelve trailing months, representing a total amount that is several times larger than current FST sales levels.

As a reminder, the BOHA! sales cycle is typically long, and somewhat complex, but pays dividends in the long run. For businesses that operate in a franchise fashion, we almost always need to engage both the HQ and the individual franchisees. This is typical with many of the most established franchises. We are well on the way to getting those approvals on some key accounts and are optimistic that these approvals will begin to yield results as we progress .

The other new metric I want to provide is FST new logos (also known as new customers as opposed to follow on business from within the installed base). In the fourth quarter of 2023, we added twelve new logos, including the international QSR which I previously mentioned. Our reconfigured and retrained sales team is now focused on the enterprise part of the market, particularly the top 1,000 organizations. We will update you all next quarter on how each of these metrics are trending with the first quarter of 2024 under our belts, and will continue to provide these same metrics going forward quarter to quarter.

Overall, I feel we are well positioned to see an accelerating growth from FST as we move throughout 2024. While I anticipate the majority of tangible progress to occur in the back half of the year, I have confidence in the team we have in place as well as the lower cost structure as a result of the cost-cutting measures I discussed last quarter.

On the Casino and Gaming side, we reported revenue of $4.2 million for the quarter, down approximately 62% year-over-year and approximately 54% sequentially, and full year revenue of $41.2 million. We have been discussing the changing dynamics in this duopoly market for the past several quarters, and want to provide an update on the two most important factors.

First, on the competitive side, we believe we are beginning to see a slightly wider scale re-entry into the market from our main competitor and expect some potential for pricing competition in an attempt to re-gain some of their lost market share. This has not been wide-spread as of yet and mainly confined to overseas markets.

Second, on the inventory side, we are now hearing from almost all of our OEM customers that they are in an over-supply position and have been slowing order rates substantially. In short, our OEM customers over bought as the Casino business rapidly rebounded and at the same time tried to offset supply chain uncertainty by over buying. This dynamic continues to be the larger reason for the sequential slowdown in the quarter as we discussed on our last call. We expect the first quarter of 2024 to be the peak of this oversupply effect, with orders picking up as we move throughout the year.

Ultimately, we continue to estimate that our go-forward annual net sales run rate in the Casino and Gaming market should be about 15-20% higher than our pre-COVID historical average, and believe that this will be the case for 2024 as a whole, with sales numbers improving quarter to quarter.

Finally, I want to provide our financial outlook for 2024. We are currently expecting full year revenues of between $53 and $58 million, and adjusted EBITDA at an approximately breakeven level. These ranges take into account all the points I have discussed today.

I believe the we are well positioned to see acceleration in our business in 2024 after a year of rebuilding and cutting costs across the organization in 2023.

We have the right team, in the right place, selling to the right customers and prospects on the FST side, and believe this should result in tangible momentum as we move through the year, but keep in mind this is still a small business and results will be lumpy.

We are beginning to see orders for the new T2, and saw these orders start from our large international QSR. We expect domestic orders for BOHA! from this customer in the coming months.

Our pipeline growth and net new logo metrics were solid for the fourth quarter, and I will continue to update investors on these numbers going forward, whether they are good or bad, I am going to report them.

Our casino and gaming line is seeing some increased pressure, but we have confidence in our new run rate for 2024.

And with that, I will turn the call over to Steve.

[Speaker: Steve DeMartino]

Thanks John, and thanks everyone for joining us.

Let’s turn to our fourth quarter and full year 2023 results in more detail.

Total net sales for the fourth quarter were $13.3 million, down 26% compared to $18 million in the year prior period. For the full year 2023, total net sales were $72.6 million, up 25% compared to $58.1 million in 2022, and within our outlook range for the year.

Sales from our food service technology market, or FST, for the fourth quarter were $4.7 million, up 11% sequentially and 54% compared to $3.1 million in the prior year period. For the full year, FST sales were $16.3 million, up 32% compared to $12.4 million in 2022. These increases were largely due to higher terminal sales, including the launch and first sales of the BOHA! Terminal 2, as well as sales of sensors and gateways to a new assisted living customer, and higher recurring revenue. We sold 1,235 terminals in the fourth quarter, ended the year with 14,514 net new terminals installed in the market.

Our recurring FST sales, which include software and service subscriptions as well as consumable label sales, for the fourth quarter reached a record high $3.2 million, up 33% compared to $2.4 million in the prior year period. For the full year, recurring FST sales were $11.1 million, also a record high, up 28% compared to $8.7 million for the full year 2022.

Our ARPU for the fourth quarter of 2023 was $926, up 15% compared to $806 in the fourth quarter of 2022, but down slightly sequentially from $929 in the third quarter of 2023. As a reminder, we are currently selling some BOHA! Terminals with no recurring revenue attached to them to start. While this presents an opportunity to sell recurring elements in the future, for now they represent a drag to our ARPU number.

Our casino and gaming sales were $4.2 million, down 62% from the fourth quarter of 2022 primarily due largely to OEMs working down high levels of printer inventory stockpiled during the supply crisis earlier in 2023 that has now eased. For the full year, casino and gaming sales were $41.2 million, up 37% year-over-year. As John mentioned, we expect the dynamics we experienced during the fourth quarter to continue into the first half of 2024, with the most significant effect likely in the first quarter of 2024 and improving thereafter.

POS Automation sales for the fourth quarter decreased 47% from the prior year to $1.6 million. For the full year, POS Automation sales were $6.9 million, down 35% from the full year 2022. This decline was largely the result of difficult comps, as we experienced unusually high sales in 2022 due to our competitors' inability to supply product. We believe the competitors in this market are now fully back online and expect Q4 to represent close to our normalized go-forward sales rate.

Moving to TransAct Service Group, or TSG, sales. For the fourth quarter, TSG sales nearly tripled year-over-year to $2.8 million. This increase was largely due to unusually high sales of legacy lottery spare parts. For the full year 2023, TSG sales were $8.2 million, up 61% from the full year 2022. Though we had a strong quarter and year of TSG sales, sales of legacy lottery printer spare parts are sporadic, difficult to predict, and can vary significantly from quarter to quarter. As a result, we do not expect this level of sales to repeat in 2024.

Moving down the income statement, our fourth quarter gross margin was 48.0%, down sequentially from 51.9%, but up from 45.8% in the prior year period. Full year gross margin was 52.9%, as compared to 42.0% in the full year 2022. This comes as a result of significantly higher sales and an improved mix of higher margin casino and gaming printer sales. Also contributing to the increase was the continued positive effect from two rounds of price increases instituted during 2022 and largely maintained throughout 2023. However, based on a return to more normalized competitive dynamics in both our casino and gaming and POS automation markets in 2024, we expect our gross margin for 2024 to be around the mid-40% range.

Our total operating expenses for the fourth quarter decreased by 11% to $6.9 million. And, on a sequential basis, our operating expenses declined 11% as well. These declines come as a result of our previously discussed savings achieved from the cost cutting efforts we began to put in place late in Q3. We estimated that these actions would produce operating expense savings of approximately $3 million on an annualized basis, and experienced the full effect of these reductions during Q4. For the full year 2023, operating expenses were $32.7 million, up 2% from the full year 2022. However, our 2023 operating expenses included a $1.5 million severance charge related to the resignation of our former CEO. Excluding this charge, our operating expenses actually declined 3% year-over-year.

Breaking down our operating expenses a bit, our engineering and R&D expenses for the fourth quarter were essentially flat, increasing just 1% to $2.2 million. For the full year 2023, these expenses increased 10% to $9.4 million.

Our selling and marketing expenses decreased 19% to $2.1 million for the fourth quarter on a year-over-year basis. For the full year 2023, our selling and marketing expenses were $9.9 million, down 12% year-over-year. The decrease was largely due to right-sizing changes related to our FST market made during that latter half of 2023 including reductions in headcount, trade show and overall marketing spend.

Lastly, our G&A expenses decreased 12% to $2.6 million for the fourth quarter, largely due to lower stock and incentive compensation expense, as well as lower bad debt expense, recruiting fees and post-go live support of the implementation of NetSuite in the fourth quarter of the prior year that did not repeat. For the full year 2023, our G&A expenses were $13.3 million, up 9% from the full year 2022 largely due to the $1.5 million severance charge I mentioned earlier. Excluding this charge, G&A expenses declined 3% year-over-year.

For the fourth quarter, our operating loss was $(522) thousand, or (3.9)% of net sales, compared to operating income of $494 thousand, or 2.8% of net sales, in the prior year period. For the full year, we generated operating income of $5.7 million compared to an operating loss of $(7.7) million in 2022.

On the bottom line, we recorded a net loss of $(62) thousand, or $(0.01) per diluted share for the fourth quarter, compared to net income of $260 thousand, or $0.03 per diluted share in the year ago period. For the full year, we had net income of $4.8 million, or $0.47 per diluted share, compared to a net loss of $(5.9) million, or $(0.60) per diluted share in 2022.

Our adjusted EBITDA for the quarter was $0.6 million, compared to $1.3 million for Q4 2022. And for the full year, our adjusted EBITDA was $10 million, compared to negative $(5.2) million in 2022. As an FYI, our adjusted EBITDA for the full year 2023 put us at the high end of our financial outlook.

Turning to our balance sheet, it remains solid. We finished the year with $12.3 million in cash which was up $4.4 million from our cash balance at the end of 2022. And in terms of debt, we had only the minimum required $2.25 million of outstanding borrowings under our credit facility with Siena Lending.

Before opening the call for Q&A, I wanted to take a moment to discuss our projected cash flow for 2024. With our 2024 outlook for projected Adjusted EBITDA of around breakeven, we expect the business will also be around working capital neutral for 2024. We ended the year with a relatively high level of inventory, about $17.8 million, which we expect to sell down as move through 20204. We believe this inventory liquidation will be enough to fund any anticipated growth in receivables and other working capital items. We also expect a fairly typical year for capital expenditures. So, given these factors, combined with our current financial outlook range, we believe we will likely end 2024 with a similar amount of cash and cash equivalents as we had at the end of 2023.

And with that, I would like to turn the call over to the operator for questions. Operator?