

Art Smith of Digerati Technologies, Inc v2

[00:00:04.77] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:23.22] Hello, this is Hall Martin Investor Connect today, I'm here with Art Smith, CEO of Digerati Technologies. Digerati Technologies is a provider of cloud services specializing in unified communications as a service solutions for the business market through its subsidiaries, T-3 Communications and Next NextG. The company is meeting the global needs of businesses seeking simple, flexible, reliable and cost effective communication and network solutions, including cloud, PBX, Cloud, Mobile Internet, broadband, EDWYN SIP trunking and customized VoIP services all delivered on his carrier grade network. And only in the cloud are. Thank you for joining us. Thank you all. How are you? I'm doing good. Glad you could be here today. And so let's kick off with what was your background before joining Digerati. What did you do before this?

[00:01:06.51] Well, I've actually been in this industry, in the telecom industry for quite a long time, almost almost 20 years. And I like to think of myself as a telecom veteran that has moved into the cloud with this new technology that's now available for providers like us. So I've been doing it quite a long time. I originally started selling satellite networks, international satellite networks between the US and Mexico to Fortune 500 companies back in the day. And that evolved into a VIP business model. And then it led to what we're doing today.

[00:01:37.08] Great. And so what's your advice for people investing in this space? What do you tell them to do before they write that check?

[00:01:42.96] Well, look, I would say absolutely invest in our space. It's a growing market and there's a lot of opportunity. I think we'll go into some of that. In our case, we've we've grown the company from an annual revenue run rate of about two hundred thousand back in fiscal year. Twenty, seventeen, twenty eighteen. And we're currently approaching 15 million in annualized revenue at a run rate. So we've been able to grow in the industry, in our sector. We've also grown through not only organically but through acquisitions. We've completed four

acquisitions in the last two and a half, three years, have integrated successfully and executed successfully. But I would tell the investors, do your homework right. It is a it is a space with a lot of providers, a lot of national providers out there that have done really well, like RingCentral eight by eight Vonage business. But do your homework, find companies that are undervalued, like digirati, that are taking advantage of the market opportunity out there. And I think we may go into some of that here shortly.

[00:02:40.51] Great. Well, so the industry is moving forward, but how do you see it evolving from here?

[00:02:44.76] Well, look, I there's a lot of things that are going on in our in our industry, in our sector that I think are key to note. First of all, fundamentally, the business market. Again, we target the small to medium sized business. I think you mentioned that in the intro. And a lot of those businesses that have not migrated to a cloud based communication system. And that's where we come in. So we're talking about 50 percent of that that SMB market, which is a lot of businesses out there that are ripe for movement moving to the cloud. Right. Which is where we come in. So I think you should note that and how the industry is evolving and how it's going from the legacy telecom world of the past to the cloud based next generation network of the future. Right. On top of that, what we're seeing is kind of a third wave in the sense first wave was going from legacy infrastructure to VIP. Everybody's heard that term. Now voice over Internet. And then from VOA, it went to cloud communications, right where you introduced applications in the cloud to the to the business client. And then we're going into a third wave where you're seeing more of a team centric approach to providing services in the cloud. If you're a communication provider like us and you know what that means is it also becomes more of a cloud call center application, right? It goes well beyond just calling somebody and going from point A to point B, right. It involves engaging with your customers. Right. So we want to help our business clients engage with their customers. And it goes beyond a phone call these days. Right. So it could be communication via Facebook, Twitter, WhatsApp. So it's not just a phone call anymore. So it's evolving rapidly, going in that direction. The good news is far as digirati and our operating subsidiary, which, by the way, or two, three communications, and next week we're we're ready. We're we've we've introduced some some products and services that allow us to head in that direction. So we're I think we're prepared for the third wave as it comes on.

[00:04:34.86] And so what do you think the growth rate of the sector is going to be with that third wave?

[00:04:38.63] Well, that's what's exciting. How is currently the market actually for twenty twenty, I should say, the U.K. market. Right. Just the sector that we participate in at thirty eight billion dollar market and it's expected to grow to one hundred sixty seven billion in five years. Right. Huge market opportunity. Again, that's a combination of things. That's just businesses enterprise moving from traditional legacy infrastructure to the cloud. And then as I mentioned earlier, other applications coming into the fold like cloud contact centers or cloud call centers. The other segment of the market which kind of ties into what we do, it's actually known as SIECUS, Right Contact Center as a service, which, again, you know, is part of that evolution. That's a 20 billion. Market as of twenty twenty, and it's expected to grow to seventy two billion during that same period over five years. So if you add the two, that's a significant market opportunity for service providers like us.

[00:05:32.86] Ok, great. So how many companies are engaged in this market segment?

[00:05:35.91] Well, there's a lot of them, right. So I mentioned a few earlier that are the national players, national providers, Vonage Business RingCentral API, to name a few. And then you've got the incumbents at play in our space, right? AT&T, Verizon, everybody knows those companies. I think what is important to note is even though it is a competitive market, is that a lot of these larger operators, especially the Nationals and the incumbents, have decided to move up market right. To serve that more, that enterprise, Fortune 500, Fortune 1000 type of customer. And the SMB has been left behind to a large extent, and that's where we come in. One of the reasons we got into this business is because of the pain points that small to medium sized businesses were experiencing. Right. And they were really underserved. And we have identified going back to your question, there's a lot of local regional operators that do what we do and that they've done a really good job at serving their local customer base in a particular market, whether it's central Texas or southwest Florida. And part of our strategy and on top of just growing organically is to grow through acquisition of those companies so that as investors look at our company, they should consider the fact that we're going after those acquisition targets that really are flying below the radar screen, so to speak.

[00:06:47.88] They're too small to attract a private equity group. They're too small to attract a larger Pepco. And we believe that it's a good fit for our small Pepco. And by the way, it's a stated objective of the company. We've done this before with a couple of other ventures, know we're looking to uplift the company to a primary exchange as we meet certain goals and objectives. So that's that's a stated objective. We've disclosed that in our press releases. And so the opportunity to consolidate these smaller operators in a very fragmented market is tremendous for us. Right. And then we're following a very disciplined approach to our strategy. And that includes focusing on certain a certain technology stack that we can integrate in short order to realize the cost synergies and operate more efficiently. So as you look at our company, you consider that in terms of our business strategy or business model.

[00:07:35.58] And so what are the challenges in this space to start and run a company?

[00:07:38.82] Yeah, so that's a good question. In our space, I would say, you know, it is it is competitive. Right? There's a lot as I mentioned, there's a lot of national operators. There is a lot of the incumbents, AT&T and Verizon to the world to participate or compete in our space. So that is a challenge when you're out there in the market. What's key is differentiating yourself right as a service provider. And again, that's where we come in with an emphasis on serving that small and medium sized business. It's a higher touch sale. We like to use the term local touch. The local touch is missing with some of these larger operators. And we want to do a good job and taking care of our customers with that local touch. And so with that that challenge, in terms of it being a competitive market with a lot of players, actually kind of turns into an opportunity for us. When you talk about our M&A strategy, it is a highly fragmented market littered with the smaller operators that, quite frankly, have done a better job than the larger companies at serving their customers.

[00:08:32.73] So where does digirati fit into the landscape from a positioning point of view? Are you on the high end? The low end?

[00:08:38.31] And where exactly did you mean in terms of the market we serve? Yes, yeah. I would say our average customer is well, I say our average customer, our our customer. Our market is the small to medium sized business. It could be anywhere from 10 to a thousand

employees out a business with ten to a thousand employees. Our sweet spot, though, is usually somewhere between 50 and 100 employees. Right. And these are businesses that don't have an army of I.T. people to go help them move into the cloud with their communication system or their contact center. So that's where we come in. Right. So we're going to continue to focus on that. As I mentioned previously, the larger operators are really focused on the high ticket cost to the Fortune 500, Fortune 1000 top client. And we're going to stay focused on that small to medium sized business. You won't see us deviate from that. And again, if you look at our M&A strategy and the landscape there with a very fragmented market, we're focused on acquiring those operators at a local regional level that are doing somewhere between two million and 10 million in annual revenue. So they're small, right? I mean, compared to the ones I've mentioned previously, they're very small operators, but they've done a really good job of taking care of their customers.

[00:09:50.46] They've built a nice recurring revenue business, which is, by the way, is important to note about our business. It's all based on recurring revenue, subscription based and with one to five year contracts with business clients. So when we find these acquisition targets, it's just a really good fit for us because typically it's a closely held small operation that is too small to attract a private equity group or a larger Pustka. That's where we come in. So we think we're on the right path again. We've done this successfully now over almost almost three years. We've made four acquisitions, established a really good position in the marketplace in Florida and in Texas, and there is plenty of opportunity to grow because there's a lot of targets out there that I think would be interested in talking to us. And that's as part of our strategy. That's great. When the last minute that we have here, what else should we cover that we haven't? Well, as you know, we're a publicly traded company currently. We're on the OTC over the counter exchange and our symbol is DTG. If you look at the company compared to other companies of our size that are on a similar exchange or even on Nasdaq, you'll see that we're really undervalued compared to our peers.

[00:10:57.38] I can give a couple of examples. One is Crescendo WSDL, which is a Nasdaq company that's done really well. I think their market cap today is probably in the hundreds of ten to one hundred twenty million dollar range. Our market cap, by comparison, is under 20 million. I think we're right at 17, 16 or 17 million today. So we're definitely undervalued. And I think you should as I mentioned earlier, investors should do their homework. They should look

at the management team. Right. We've got a really good track record. We've listed companies before on primary stock exchanges. We did this before with a predecessor to digerati ATSI Communications. We listed that company on the Amex. We reached about a half a billion dollar market cap. We started a company by the name of global Skype from scratch and spun it off to our shareholders. Take that company public. That entity ended up listing on the NYSE for many years, reached a peak market cap of about two hundred eighty million. So the management team here, Digerati, has done this before and we're looking forward to building this company and doing the same thing. Great. Well, how best for listeners to get back in touch with you? Well, I think you are emailed. I am at Digerati Dash eight dot com.

[00:12:04.28] Right. I'll put that in the show notes. And I want to thank you for joining us today. All thank you. Appreciate the opportunity.

[00:12:10.05] Investor Connect helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug. Paul Martin is the director of investor Canek, which is a five agency, three nonprofit dedicated to the education of investors for early stage funding, all opinions expressed by Hall and podcast guests are solely their own opinions and do not reflect the opinion of Investor Connect. This podcast is for informational purposes only and should not be relied upon as a basis for investment decisions.