

Kevin:

Thank you, _____, and welcome everyone to National Research Corporation's 2023 fourth quarter earnings call. My name is Kevin Karas, the company's CFO, and joining me on the call today is Linda Stacy, our Vice President of Finance.

Before we continue, I would ask Linda to review conditions related to any forward-looking statements that may be made as part of today's call.
Linda.

Linda:

Thank you, Kevin.

This conference call includes forward-looking statements related to the Company that involve risks and uncertainties that could cause actual results or outcomes to differ materially from those currently anticipated. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. For further information about the facts that could affect the Company's future results, please see the Company's filings with the Securities and Exchange Commission. With that, I'll turn it back to you, Kevin.

Kevin:

Thanks, Linda, and again, welcome everyone.

Today, first, we'll talk about our strategy and addressable market, then we'll cover financial details about the fourth quarter, then we'll provide a few thoughts about our outlook for 2024, and then open for Q&A.

As an opening matter, I'd say the past few quarters have been relatively flat from a top and bottom-line perspective, but a lot has been going on behind the scenes, and we are very excited about the base we're building and the direction of our strategic plan.

Several quarters ago, we reset our strategy to address client demand for expanded market coverage, value-added solutions, and greater strategic impact. Key principles of our plan include:

- Doubling our Total Addressable Market or TAM across Market Insights, Patient Experience, Customer Experience, and Employee Experience.
- Being essential to our clients' success by combining our unparalleled healthcare DNA and front-line coaching with innovative new technologies to deliver solutions with return on investment.

- Helping more patients and healthcare providers by aggressively ramping up our sales efforts to gain market share.
- Improving our associates' careers by automating routine tasks and focusing them on their most rewarding and productive activities.
- Delivering more to stockholders through growth, margin expansion, and returning excess capital.

NRC has achieved significant milestones against each of these goals.

- We have expanded our employee experience and consumer experience capabilities.
- Core revenue is over 90% of total revenue, since mid-2022 the sales team has grown by over 20% while overall associate headcount was reduced by 16%, sales pipeline exceeds \$100 million, and recurring new sales were up 18% in the 4th quarter compared with the fourth quarter of 2022.
- Revenue per FTE was up 10% year over year.
- Operating margin improved throughout the year.
- Customer NPS hit 75, our highest ever and notable among the world's most respected brands.
- \$55 million in dividends and stock repurchases were returned to stockholders in 2023, helping boost return on equity to 51%, and another \$18 million in January 2024.

Metrics are important, but success in the market is the real test. Our recent win at Advocate Health, now our largest client, emphasized our ability to win a broad-based experience RFP that aligned insights from consumers, patients, and employee experiences. We would not have won without the breadth of solutions, deep healthcare DNA, and value-add to distinguish NRC from the other competitors.

Looking ahead, the story only gets better. In January, we added a new Chief Revenue Officer, Chief Product Technology officer, and Chief Corporate Development officer to accelerate the plan going forward. The executive team has endorsed an aggressive plan based on technology, pace, and delivering value to customers. In summary, we believe NRC is well-positioned in the market, with the right team and strategy to drive meaningful growth and value.

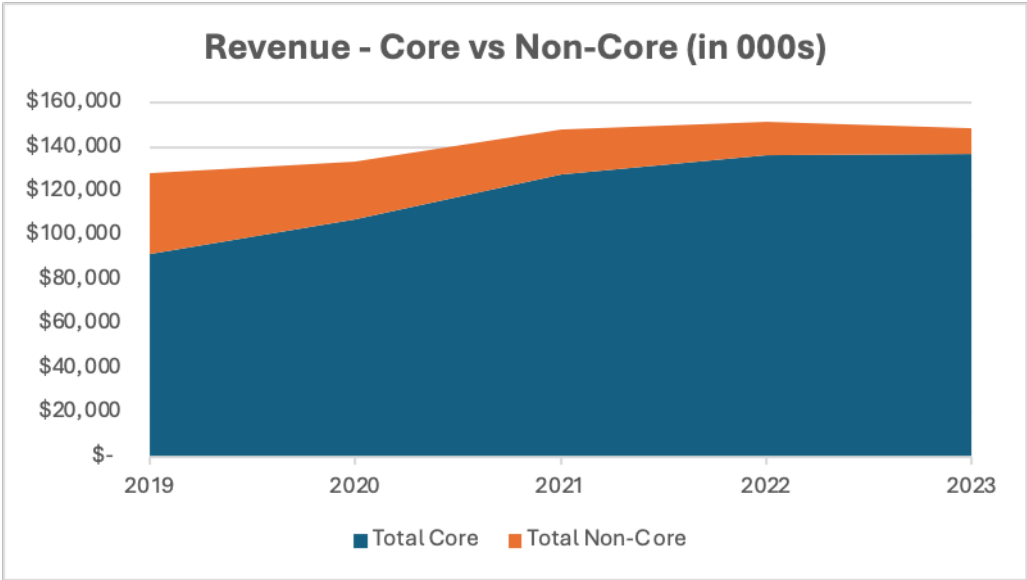
I'll turn it over to Linda to discuss the financial results and outlook.

Linda Stacy

Thanks Kevin.

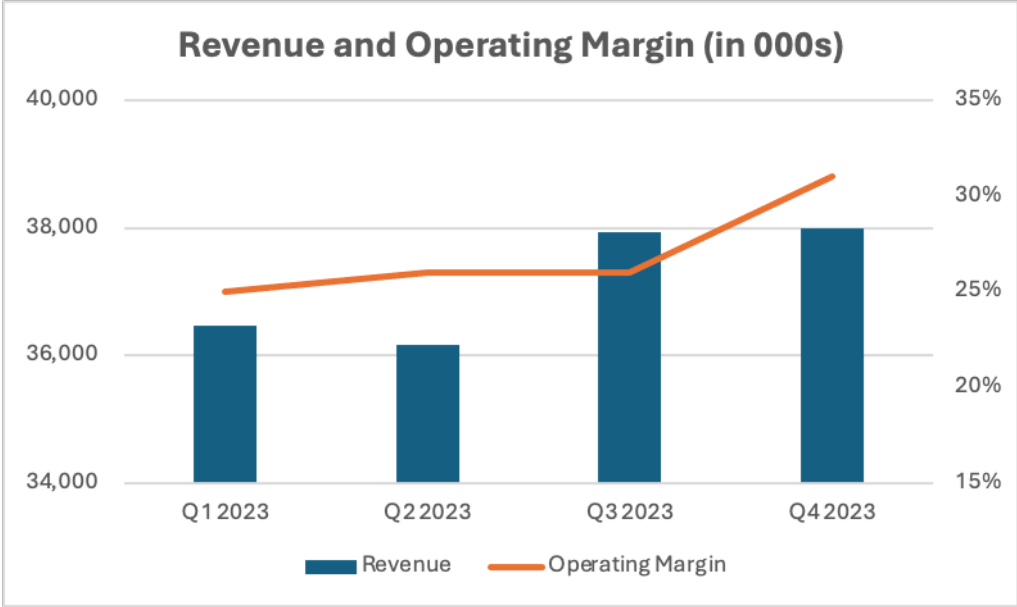
Financial Review

From a revenue perspective, our total revenue decreased slightly for both the fourth quarter and year ended 2023 compared to 2022. Year to date recurring new sales for 2023 grew 24% or \$3 million over 2022. New sales were offset by reductions in non-core revenue and slightly higher non-renewals. The chart posted on our website shows the growth of core revenue and reduction in non-core revenue over the past few years, which is largely complete now.



We've achieved sequential operating margin expansion over the past three quarters. Operating margin grew by 5% over the third quarter of 2023 primarily due to slight revenue growth and cost alignment changes

implemented during the second half of 2023. The chart posted on our website reflects the sequential trend.



Despite the sequential improvement, operating income decreased by 4% and 14% for the fourth quarter and year ended 2023 compared to 2022, respectively. This was primarily due to lack of revenue growth combined with investments in marketing expenses to expand brand recognition and support sales development, technology investments and higher data collection expenses.

We ended the quarter with \$142 million in TRCV. Our TRCV has declined primarily due to our focus on our core digital solutions and lower net sales, although that trend improved later in 2023.

Other expense decreased in the fourth quarter and for the year ended 2023 primarily because the 2022 period included expensing the \$2.6 million cumulative foreign currency translation adjustment previously carried on our balance sheet due to the substantial liquidation of our Canadian subsidiary in 2022.

The effective tax rate in the fourth quarter of 2023 was 23% compared to 26% in 2022 and 22% for the year ended in 2023 compared to 26% in 2022 primarily due to lower state income taxes and the non-deductible foreign currency translation adjustment in 2022.

Diluted earnings per share increased to \$0.36 in the fourth quarter of 2023 compared \$0.27 in 2022 and decreased to \$1.25 for the year ended 2023 compared to \$1.27 in 2022. The 2022 period was impacted by \$0.10 per share due to the cumulative foreign currency translation adjustment. Diluted earnings per share have increased for each quarter in 2024 from expanded operating margins and lower share counts attributable to share repurchases.

In 2023 we followed our capital allocation priorities to fund organic innovation and growth investments, dividends and share repurchases. For the full year in 2023 we funded \$14 million for innovation and

growth (including facilities improvements), and the Company returned \$55 million to stockholders through dividends and stock repurchases.

Return on average equity improved to 51% in 2023 from 40% in 2022, primarily resulting from returning capital to stockholders through dividends and stock repurchases.

At December 31, 2023, we had approximately \$30 million of net debt, \$30 million available on the line of credit, and \$56 million available under the delayed draw term loan facility.

Outlook for 2024

From a business perspective, our goals include:

- Expanding our total addressable market to serve customer needs across the experience continuum as they seek to constantly improve their strategies and execution relative to customer service, care delivery, and employee satisfaction.
- Using technology, including AI, to regularly launch innovative products that generate return on investment for our customers through new customer acquisition, patient loyalty, reimbursement rates, retention and other outcomes.

- Accelerating sales pipeline growth and conversion.
- Expanding efficiency and automation throughout our business to minimize repetitive tasks and unleash our associates' talents to create more opportunity.

From a financial perspective, we expect 2024 revenue and earnings trends to start relatively flat year over year. Higher technology, sales, and executive expenses will weigh on sequential margin performance until our expanded product suite and sales pipeline convert to revenue, which is expected to be later in the year. As our plan matures beyond 2024, our goal is to produce double-digit revenue growth and expanded margins.

From a capital allocation perspective, we repurchased \$15 million of stock and paid \$3 million in dividends in January 2024. For the remainder of the year, we expect to focus on growth and innovation investments (including the building renovation) as well as regular quarterly dividends.

That concludes my comments for this morning. I'll now turn the call back to Kevin.

Kevin

Thank you, Linda.

Before opening Q&A, I would like to say this is likely my last earnings call, and it has been a pleasure serving as CFO and keeping our investors informed about the Company. We have a strong team in place so you should have a very smooth transition.

This completes our prepared remarks, so operator I will now ask you to open the call to any questions.

Closing Statement – Kevin

Thank you for your time today. We look forward to sharing our results again next quarter.