Exhibit 99.1

DIGIMARC

Digimarc Reports First Quarter 2024 Financial Results

Annual Recurring Revenue(1) Increases 85%

Subscription Gross Profit Margin(2) Expands to 87%

Beaverton, Ore. – **May 2, 2024** – Digimarc Corporation (NASDAQ: DMRC) reported financial results for the first quarter ended March 31, 2024.

"Q1 was another strong quarter for Digimarc. Compared to the first quarter of 2023, we grew quarter-ending Annual Recurring Revenue (ARR) 85%, grew commercial subscription revenue 52%, and expanded subscription gross profit margin 7.5 percentage points to 87.0%," said Digimarc CEO Riley McCormack. "We are focused on positioning ourselves to convert our large Total Addressable Market (TAM) into substantial free cash flow by delivering high and long-lasting growth at world class operating margins. Q1 provided multiple tangible examples of our progress against this focus."

First Quarter Financial Results

Subscription revenue for the first quarter of 2024 increased to $5.8 million compared to $3.9 million for the first quarter of 2023, primarily reflecting higher subscription revenue from new and existing commercial contracts.

Service revenue for the first quarter of 2024 increased to $4.2 million compared to $4.0 million for the first quarter of 2023, primarily reflecting the timing of government program work.

Total revenue for the first quarter of 2024 increased to $9.9 million compared to $7.8 million for the first quarter of 2023.

Gross profit margin for the first quarter of 2024 increased to 63% compared to 54% for the first quarter of 2023. Excluding amortization expense on acquired intangible assets, subscription gross profit margin increased to 87% from 80% while service gross profit margin slightly decreased to 56% from 57% for the first quarter of 2024 compared to the first quarter of 2023.

Non-GAAP gross profit margin for the first quarter of 2024 increased to 78% compared to 73% for the first quarter of 2023.

Operating expenses for the first quarter of 2024 decreased to $17.1 million compared to $19.0 million for the first quarter of 2023.

Non-GAAP operating expenses for the first quarter of 2024 decreased to $13.8 million compared to $15.5 million for the first quarter of 2023.

Net loss for the first quarter of 2024 was $10.3 million or ($0.50) per share compared to $14.0 million or ($0.70) per share for the first quarter of 2023.

Non-GAAP net loss for the first quarter of 2024 was $5.5 million or ($0.27) per share compared to $9.0 million or ($0.45) per share for the first quarter of 2023.

At March 31, 2024, cash, cash equivalents and marketable securities totaled $48.9 million compared to $27.2 million at December 31, 2023.

(1) Annual Recurring Revenue (ARR) is a company performance metric calculated as the aggregation of annualized subscription fees from all of our commercial contracts as of the measurement date.
(2) Subscription Gross Profit Margin excludes amortization expense on acquired intangible assets.

Conference Call

Digimarc will hold a conference call today (Thursday, May 2, 2024) to discuss these financial results and to provide a business update. CEO Riley McCormack, CFO Charles Beck and CLO George Karamanos will host the call starting at 5:00 p.m. Eastern time (2:00 p.m. Pacific time). A question and answer session will follow management's prepared remarks.

The conference call will be broadcast live and available for replay here and in the investor section of the company's website. The conference call script will also be posted to the company's website shortly before the call.

For those who wish to call in via telephone to ask a question, please dial the number below at least five minutes before the scheduled start time:

Toll Free number: 877-407-0832

International number: 201-689-8433

Conference ID number: 13743902

Company Contact:
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About Digimarc

Digimarc Corporation (NASDAQ: DMRC) is the pioneer and global leader in digital watermarking technologies. For nearly 30 years, Digimarc innovations and intellectual property in digital watermarking have been deployed at massive scale for the identification and the authentication of physical and digital items. A notable example of this is our partnership with a consortium of the world's central banks to deter counterfeiting of global currency. Digimarc is also instrumental in supporting global industry standards efforts spanning both the physical and digital worlds. In 2023, Digimarc was named to the Fortune 2023 Change the World list and honored as a 2023 Fast Company World Changing Ideas finalist. Learn more at Digimarc.com.

Forward-Looking Statements

Except for historical information contained in this release, the matters described in this release contain various "forward-looking statements." These forward-looking statements include statements identified by terminology such as "will," "should," "expects," "estimates," "predicts" and "continue" or other derivations of these or other comparable terms. These forward-looking statements are statements of management's opinion and are subject to various assumptions, risks, uncertainties and changes in circumstances. Actual results may vary materially from those expressed or implied from the statements in this release as a result of changes in economic, business and regulatory factors. More detailed information about risk factors that may affect actual results are outlined in the company's Form 10-K for the year ended December 31, 2023, and in subsequent periodic reports filed with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date of this release. Except as required by law, Digimarc undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this release.

Non-GAAP Financial Measures

This release contains the following non-GAAP financial measures: Non-GAAP gross profit, Non-GAAP gross profit margin, Non-GAAP operating expenses, Non-GAAP net loss, and Non-GAAP loss per share (diluted). See below for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure. These non-GAAP financial measures are an important measure of our operating performance because they allow management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing non-cash and non-recurring activities that affect comparability. Our management uses these non-GAAP financial measures in evaluating its financial and operational decision making and as a means to evaluate period-to-period comparisons.

Digimarc believes that providing these non-GAAP financial measures, together with the reconciliation to GAAP, helps management and investors make comparisons between us and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable SEC rules. These non-GAAP financial measures are not measurements of financial performance or liquidity under GAAP. In order to facilitate a clear understanding of its consolidated historical operating results, investors should examine Digimarc's non-GAAP financial measures in conjunction with its historical GAAP financial information, and investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP. Non-GAAP financial measures should be viewed as supplemental to, and should not be considered as alternatives to, GAAP financial measures. Non-GAAP financial measures may not be indicative of the historical operating results of the Company nor are they intended to be predictive of potential future results.

Digimarc Corporation
Consolidated Income Statement Information
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2024	**2023**
Revenue:		
Subscription	$ 5,762	$ 3,885
Service	4,176	3,958
Total revenue	9,938	7,843
Cost of revenue:		
Subscription [1]	747	795
Service [1]	1,839	1,715
Amortization expense on acquired intangible assets	1,140	1,089
Total cost of revenue	3,726	3,599
Gross profit		
Subscription [1]	5,015	3,090
Service [1]	2,337	2,243
Amortization expense on acquired intangible assets	(1,140)	(1,089)
Total gross profit	6,212	4,244
Gross profit margin:		
Subscription [1]	87%	80%
Service [1]	56%	57%
Total	63%	54%
Operating expenses:		
Sales and marketing	5,536	6,298
Research, development and engineering	6,741	7,826
General and administrative	4,520	4,627
Amortization expense on acquired intangible assets	272	260
Total operating expenses	17,069	19,011
Operating loss	(10,857)	(14,767)
Other income, net	528	745
Loss before income taxes	(10,329)	(14,022)
Provision for income taxes	(9)	(18)
Net loss	$ (10,338)	$ (14,040)
Loss per share:		
Loss per share — basic	$ (0.50)	$ (0.70)
Loss per share — diluted	$ (0.50)	$ (0.70)
Weighted average shares outstanding — basic	20,730	20,093
Weighted average shares outstanding — diluted	20,730	20,093

[1] Cost of revenue, Gross profit and Gross profit margin for Subscription and Service excludes amortization expense on acquired intangible assets.

Digimarc Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2024	**2023**
GAAP gross profit	$ 6,212	$ 4,244
Amortization of acquired intangible assets	1,140	1,089
Amortization and write-off of other intangible assets	138	144
Stock-based compensation	253	238
Non-GAAP gross profit	$ 7,743	$ 5,715
Non-GAAP gross profit margin	78%	73%
GAAP operating expenses	$ 17,069	$ 19,011
Depreciation and write-off of property and equipment	(193)	(428)
Amortization of acquired intangible assets	(272)	(260)
Amortization and write-off of other intangible assets	(133)	(39)
Amortization of lease right of use assets under operating leases	(87)	(166)
Stock-based compensation	(2,578)	(2,638)
Non-GAAP operating expenses	$ 13,806	$ 15,480
GAAP net loss	$ (10,338)	$ (14,040)
Total adjustments to gross profit	1,531	1,471
Total adjustments to operating expenses	3,263	3,531
Non-GAAP net loss	$ (5,544)	$ (9,038)
GAAP loss per share (diluted)	$ (0.50)	$ (0.70)
Non-GAAP net loss	$ (5,544)	$ (9,038)
Non-GAAP loss per share (diluted)	$ (0.27)	$ (0.45)

Digimarc Corporation
Consolidated Balance Sheet Information
(in thousands)
(Unaudited)

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents [1]	$ 36,414	$ 21,456
Marketable securities [1]	12,511	5,726
Trade accounts receivable, net	5,215	5,813
Other current assets	3,802	4,085
Total current assets	57,942	37,080
Property and equipment, net	1,445	1,570
Intangibles, net	26,720	28,458
Goodwill	8,576	8,641
Lease right of use assets	3,930	4,017
Other assets	1,106	786
Total assets	$ 99,719	$ 80,552
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 4,100	$ 6,672
Deferred revenue	5,256	5,853
Total current liabilities	9,356	12,525
Long-term lease liabilities	5,812	5,994
Other long-term liabilities	80	106
Total liabilities	15,248	18,625
Shareholders' equity:		
Preferred stock	50	50
Common stock	21	20
Additional paid-in capital	409,473	376,189
Accumulated deficit	(322,106)	(311,768)
Accumulated other comprehensive loss	(2,967)	(2,564)
Total shareholders' equity	84,471	61,927
Total liabilities and shareholders' equity	$ 99,719	$ 80,552

[1] Aggregate cash, cash equivalents, and marketable securities was $48.9 million and $27.2 million at March 31, 2024 and December 31, 2023, respectively.

Digimarc Corporation
Consolidated Cash Flow Information
(in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities:		
Net loss	$ (10,338)	$ (14,040)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and write-off of property and equipment	193	428
Amortization of acquired intangible assets	1,412	1,349
Amortization and write-off of other intangible assets	271	183
Amortization of lease right of use assets under operating leases	87	166
Stock-based compensation	2,831	2,876
Decrease in allowance for doubtful accounts	(17)	—
Changes in operating assets and liabilities:		
Trade accounts receivable	600	631
Other current assets	273	1,766
Other assets	(323)	(191)
Accounts payable and other accrued liabilities	(2,624)	(910)
Deferred revenue	(600)	(925)
Lease liability and other long-term liabilities	(187)	(77)
Net cash provided by (used in) operating activities	(8,422)	(8,744)
Cash flows from investing activities:		
Purchase of property and equipment	(106)	(51)
Capitalized patent costs	(106)	(112)
Proceeds from maturities of marketable securities	3,501	10,247
Purchases of marketable securities	(10,320)	(1,975)
Net cash provided by (used in) investing activities	(7,031)	8,109
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	32,218	—
Purchase of common stock	(1,781)	(656)
Repayment of loans	(15)	(26)
Net cash provided by (used in) financing activities	30,422	(682)
Effect of exchange rate on cash	(11)	20
Net increase (decrease) in cash and cash equivalents [2]	$ 14,958	$ (1,297)
Cash, cash equivalents and marketable securities at beginning of period	27,182	52,542
Cash, cash equivalents and marketable securities at end of period	48,925	43,025
[2] Net increase (decrease) in cash, cash equivalents and marketable securities	$ 21,743	$ (9,517)

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Exhibit 99.2

DIGIMARC

Digimarc Corporation (DMRC) Conference Call
First Quarter 2024 Financial Results
May 2, 2024

Welcome [George Karamanos]

Welcome to our Q1 conference call. Riley McCormack, our CEO, and Charles Beck, our CFO, are with me on the call. On the call today, we will provide a business update and discuss Q1 2024 financial results. This will be followed by a question and answer forum. We have posted our prepared remarks in the investor relations section of our website and will archive this webcast there.

Safe Harbor Statement

Before we begin, let me remind everyone that today's discussion contains forward-looking statements that have risks and uncertainties. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially.

Riley will now provide a business update.

Business Update [Riley McCormack]

Thank you, George. Welcome aboard. And hello everyone, thank you for joining today's call.

As our world becomes increasingly digital and companies progress their digital transformation journeys, Digimarc maximizes the ways in which products and multimedia can digitally interact with the various systems that surround them. We excel at the identification and authentication of physical goods and digital assets, often at massive scale, and often where other means of identification or authentication don't work well…or don't work at all.

Our focus is on converting this large Total Addressable Market (TAM) into substantial free cash flow by positioning ourselves to deliver high and long-lasting top line growth at world-class operating margins. This starts with our being easy to begin doing business with and excellent at guiding customers along their digital transformation journey, and is aided by four tailwinds we have been very intentional to create:

1. Our incredibly deep and wide moats provide us the ability to offer differentiated products. In turn, our differentiated products allow us the ability to create new markets -- as well as disrupt existing ones -- all while delivering best-in-class Gross Margins that will continue to expand as we scale.

2. The need to identify or authenticate physical goods and digital assets is universal, and thus almost every entity in the world is a potential Digimarc customer. At the same time, our technology allows us to identify and authenticate things where other solutions don't work well or don't work at all, which means our ecosystem is comprised of companies incentivized to partner with us as opposed to companies that pose competitive risk. These two truths provide us the exciting opportunity to leverage our partners' customer lists, pipelines, go-to-market (GTM) resources, and specific domain expertise to deliver quickly scalable and high-gross-profit-margin revenue in a way that is also extremely efficient from an operating expenditure perspective.

3. There are many use cases that require companies to identify or authenticate their physical items and digital assets

and many ways we can configure our technology to achieve these goals, and therefore our ability to productize new functionality is open-ended. This means our already prodigious TAM will continue to grow as we either launch new products or add opportunity-unlocking functionality to existing products.

4. We engineer our products to be accretive, which means the more Digimarc products a customer buys, the more value each product delivers. This positions us to harvest the low hanging and highly profitable fruit of cross sells and upsells for years to come.

The combination of these four tailwinds is why we are confident in our ability to deliver high and long-lasting growth at world class operating margins and in so doing achieve our goal of converting our enormous TAM into massive free cash flow generation. Our first quarter results provide multiple tangible examples I'd like to now share.

We signed a multi-year deal with a customer in the collectibles industry that delivered six-figure Annual Recurring Revenue (ARR) growth in Q1. Moreover, this deal should see ARR grow to $2 million in year two and into the mid-to-very-high seven figures in years 3 and beyond. Collectibles is a new industry for us, and one we believe is ripe for digital transformation in both how items are identified as well as how they are authenticated. To that end, this customer chose to start their journey with two Digimarc products, Digimarc Automate and Digimarc Validate, and we believe that as we work to ensure our valued customer's success, there is even more we could help them accomplish beyond what is scoped in this initial agreement. Moreover, and unrelated to this deal, we are in discussions with multiple partners (both new and old) regarding opportunities to jointly provide value to other companies in this multi-hundred billion dollar per year industry. Collectibles is a perfect example of an industry that has been held back by other means of identification and authentication not working well or not working at all, and we are excited to guide this industry along its product digitization journey, and in so doing, accelerate its growth.

We signed a high five-figure ARR Digimarc Automate deal with a division of our largest commercial customer that will grow to six-figures in the very near term. We believe this new deal is yet another proof-point that we are still just scratching the surface of all the transformational value we can provide this uber-valued and tech-forward customer. We remain laser-focused on doing just that.

We upsold a long-standing Digimarc Validate customer that had historically only been focused on B2B anti-counterfeit applications but is now keenly interested in expanding the authentication capability of Digimarc Validate to end consumers. This upsell allows our customer to unlock new functionality that we just recently productized, and we believe the opportunity with this customer for B2C validation is enormous. We are excited to prove our value and earn the right to capture the entirety of the opportunity this new functionality allows, with this specific customer as well as the many, many other companies that will benefit from this newly-productized functionality.

We signed a deal with another customer interested in beginning their journey with two Digimarc products, in this case an iconic European brand interested in the power of Digimarc Engage and Digimarc Validate. While this initial deal was mid-five figures, this relationship has the potential to grow to be much larger even if the customer doesn't expand beyond these two Digimarc products. It is also important to note that this customer understands the accretive nature of our products and has already expressed interest in another Digimarc product beyond Digimarc Engage and Digimarc Validate.

We signed a Digimarc Validate deal with an existing Digimarc Automate customer and have additional pipeline opportunities for both products with this extremely large CPG. Our focus is on not only proving the value of Digimarc Validate and Digimarc Automate but also of Digimarc as a digital transformation partner, as the upside presented by this single customer is enormous as it is not only a large company, but a very viable candidate for our full product suite.

We upsold Digimarc Engage to a long-standing Digimarc Validate customer and believe the upside from their planned rollout of Digimarc Engage will see this high-five-figure initial deal grow well into the six figures in the not-too-distant future.

Our Go-To-Market strategies are not just increasing our win rates but also our momentum, as evidenced by other Q1 deals, including a six-figure upsell of Digimarc Engage to an existing customer just over a year after the initial agreement was signed. Additionally, we secured a Digimarc Validate agreement with a new customer within 38 days of our initial discussion as well as revived a previously inactive relationship by signing a Digimarc Validate deal with another new customer only 45 days after re-engagement. These achievements highlight the effectiveness of our refined approach and the strong demand for our solutions.

The final first quarter wins that I want to highlight today involve the closing of two separate Digimarc Validate deals with divisions of an existing Digimarc customer, one with a division new to our offering, and one with a division who churned in 2023. This 2023 churn was the result of our holding firm on key terms during the renewal process, and the rebound signing is a testament to the incredible value Digimarc Validate provides. Important to note, even during the period during which this division was not a customer, they continued to act as a Digimarc champion in our conversations with other divisions and were key to our closing the new division we signed this quarter as well as progressing other divisions currently in our pipeline. We are thrilled to have this division back as a customer.

While not normally a topic discussed voluntarily in prepared remarks, I do want to spend a few minutes discussing customer churn as this is yet another area in which we differentiate. First, as this example shows, while we are not immune to churn, I expect our churn will always remain much lower than other SaaS companies as the solutions we provide tend to be mission critical and Digimarc is unique in being able to provide them. Our premium offerings also mean we do more business with established companies and the overall trends from which we benefit are unlikely to be de-funded by companies undergoing organizational change.

Also important to note that not all churn is regrettable, especially for a company that has undergone the transformation that we have executed here. As we have productized functionality previously sold as bespoke offerings and been acting with intentionality to not deviate from our long-term vision, we have been guided by a decision we made at the onset of our transformation and shared with you all on an earnings call in 2021: we will build a focused, profitable, and sustainable business versus pursuing ARR growth at all costs. Not every dollar of revenue is created equal and when forced to choose we will always prioritize the creation of long-term, not short-term, value.

While acting as a headwind to our reported net ARR growth since we began our transformation, this headwind of non-regrettable churn is predominantly behind us and what's more, the discipline will allow us to avoid the distractions that can impede vision realization as well as maximize our overall profitability by maintaining a focus on the profitability of each customer. But this discipline can also lead to short-term benefits as well, and in Q1 we recorded a six-figure ARR upsell as a result of a legacy customer choosing to accept our right-sized pricing despite this pricing being significantly higher than their legacy deal.

Before I turn the call over to Charles, I want to touch on what we refer to as our Ecosystem Driven Opportunities: Digimarc Recycle, Digimarc Validate (Media), and Digimarc Retail Experience. While these opportunities provide game - changing upside that will be extremely fast, profitable, and sticky once they each begin to scale, the ultimate timing of when exactly that happens is tough to predict as it is ultimately outside of our direct control. These opportunities require the collaboration of multiple parties and in some cases may be accelerated by regulatory action, yet once the spark is lit, they should be extremely "sticky" and grow exponentially due to well-understood network effects and natural incentives for rapid adoption.

Do not read any signaling into what I just said, it is something we've said before. And also let me be very clear in saying that we remain just as excited about these three giant opportunities and just as optimistic about the impact they each will have when they do indeed begin to scale. Instead, I wanted to focus today's prepared remarks on the other pieces of our business which don't receive the attention from investors that we believe they should. While Digimarc Recycle, Digimarc Validate (Media), and Digimarc Retail Experience tend to make up the vast majority of investor questions, they don't yet contribute in a meaningful way to the incredibly high - and accelerating - growth we've been delivering in both ARR and commercial subscription revenue.

There are many unique aspects to Digimarc, and this is yet another example. We're delivering strong results in the parts of the business where we directly assert control while progressing and growing the untapped opportunities which will provide stair step increases in growth and profitability when they do indeed occur. An investment in Digimarc is both an investment in a quickly growing and accelerating software business with best-in-class-and-expanding gross margins and an investment in a company that is progressing towards becoming the de facto market standard in some really exciting and massive opportunities, with a third leg of value provided by our work with the world's Central Banks that delivers steadily growing revenue and high, inflation-protected operating margins while acting as a profitable source of commercial intellectual property generation.

We are the sum of these three pillars of shareholder value and before I give an update on the Ecosystem Driven Opportunities that I fully agree are incredibly exciting components of our future, I wanted to spend the majority of this call on the incredibly exciting components of our business generating ARR today.

<u>Digimarc Recycle</u>: As discussed in the last call, we recently launched a new Go-To-Market avenue for this revolutionary product and I am happy to share we are in conversations with multiple parties regarding this new avenue, including two parties in the same country. We are also in conversations on two continents about leveraging our Center of Expertise Program as a way to bring our partners' considerable heft to bear in opening Digimarc Recycle markets. Success on either of these fronts would speed the time to opening of Digimarc Recycle markets while in parallel reducing the associated costs. Success on the latter front would add the additional benefit of bringing these partners into our CoE Program and thus allow for the building of pipeline for our other products as well.

Turning to other important developments for Digimarc Recycle, the European Packaging and Packaging Waste

Regulation (PPWR) has been finalized and we are all awaiting the final full text. Recall that all previous drafts of this Regulation mandated digital marking on all packaging as a means to improve waste sortation which would provide an incredibly strong tailwind for opening Digimarc Recycle markets in every country in the EU. Moreover, it has already been made public that the PPWR will mandate Deposit Return Schemes (DRS) in countries where collections are below a very high bar. This will provide equally strong tailwinds for our ability, in conjunction with partners, to apply the power of Digimarc Illuminate to power these schemes across the European Union. Recall that Digimarc Illuminate provides a differentiated and lower cost means to provide the product authentication required by a performant DRS, and this use case was a key component in the $32 million deal we signed a few quarters ago.

Also in Europe, the Holy Grail trial is in its final phase, and while the step-change improvement that digital watermarks will bring to plastic recycling is already widely-acknowledged, we are excited to support this wonderful group through the end of this trial so Digimarc Recycle can claim the powerful validation that will come from receiving an industry-driven Tech Readiness Level 9 designation. We are also supporting this group as they optimize their planning for an initial market launch, and while we are unable to speak to any updates on this front, we do want to flag to our investors to be on the lookout for an exciting update on all Holy Grail activities that we are being told will come soon.

Digimarc Validate (Media): As regulators worldwide endeavor to strike the right balance between protecting against the harm of Generative AI without stifling the incredible advancements it will bring, there is an increasing awareness that tools that can do both -- like digital watermarks -- must be seized. We are actively involved in these conversations, providing our 30 years of expertise in applying digital watermarks to build massive systems of trust and authenticity. In Q1, Digimarc was appointed as a founding member of the National Institute of Standards and Technology's U.S. Artificial Intelligence Safety Institute Consortium and we also announced that -- along with Adobe -- we are co-chairing the new digital watermark workgroup of the Coalition for Content Provenance and Authenticity (or C2PA).

On the product front, we released the world's first browser extension to turn Chrome into a C2PA validator and -- along with our valued partner DataTrails -- put the finishing touches on the industry's first fully integrated content protection solution to fortify digital content using advanced digital watermarks in tandem with cryptographic proofs, a solution we announced in early April. We are big believers that of all the many benefits GenAI will bring, perhaps the greatest will be to act as the catalyst to deliver the safer, fairer, and more authentic internet we all deserve. To help deliver this much-needed future, we announced in January that we have made our SAFE digital watermarking embedding and detection tools for digital assets free to large ecosystem partners so that our Digimarc Validate customers will have easy access when they are ready to adopt at scale.

There is a lot more going on that is not yet ready for broader discussion, but before I close, I do want to point everyone to the state of California and Assembly Bill 3211, which is focused on authenticity and watermarking standards, and might end up being the "catalyst for the catalyst" and in so doing, build upon California's proud history of leading the world on important issues. Realizing that real damage is being done every day that action is delayed, the California Assembly has a wonderfully fast timeframe in mind and I was honored to be asked to testify last week on the feasibility of the key provisions in this bill. We are excited to provide our support as this bill continues its fast progress through the California State Assembly and hopefully soon into law. Multiple global regulators are closely watching this bill, and its impact will be felt not just domestically, but around the world.

Digimarc Retail Experience: While there is little we can say about this opportunity due to the immense pride we take in being a trusted supplier, I did mention earlier in the call that we signed an Automate deal with our largest commercial customer who is also key to the broad adoption of Retail Experience by the global CPGs. The opportunities presented for digital transformation between the world's leading product digitization company and a company that touches a mind-boggling number of products across multiple touch points -- both physical and digital -- is truly exciting, and the two most impactful ways to bring those opportunities to fruition are to a) win their business everyday through a maniacal focus on delivering them excellence and b) not speak about their business on their behalf.

I will now turn the call over to Charles to discuss our financial results.

Financial Results [Charles Beck]

Thank you Riley, and good afternoon everyone.

Continuing on the positive trends we delivered in the third and fourth quarters last year, we again delivered improved year-over-year financial performance in the first quarter this year:

- Ending ARR[1] grew to $23.9 million, representing an 85% increase;
- Commercial subscription revenue increased 52%;

- Subscription gross profit margin[2] was 87%, a 7.5 percentage point improvement;
- Operating expenses decreased 10%; and
- Non-GAAP net loss decreased $3.5 million or 39%.

I highlight these areas again as they are all critical drivers towards reaching positive free cash flow.

Before I begin a deeper review of the quarter, I want to highlight that we have posted a Quarterly Earnings Snapshot presentation to the Investor Relations section of our website, along with our normal quarterly materials. The Quarterly Earnings Snapshot is broken into two parts. The first part provides an overview of our business and contains - among other things - a deeper dive into our three different commercial GTM motions as well as key details of the three pillars of shareholder value, which Riley highlighted earlier. The second part provides an overview of the quarter and presents our financial KPI's with relevant comparative and trended data. As you will see, we have delivered accelerating growth in both the 1-year and 3-year periods for ARR and commercial subscription revenue, as well as a material improvement in our subscription gross profit margins. We will continue to refine the material in the Quarterly Earnings Snapshot in the quarters ahead, and we welcome your feedback as we strive to provide our investors continued clarity and transparency.

ARR increased 85% from $13.0 million at the end of March last year to $23.9 million at the end of March this year. The increase in ARR largely reflects the impact of new customer contracts and several important customer upsells. As a reminder, we believe ARR is the best leading indicator for future commercial subscription revenue growth. Revenue growth will lag ARR growth as commercial subscription revenue is generally recognized ratably over a contract term versus ARR is calculated upfront upon entering into a contract. You can see this in looking at our Q1 results as ARR increased 85% year-over-year while commercial subscription revenue increased 52%.

Total revenue for the quarter was $9.9 million, an increase of $2.1 million or 27% from $7.8 million in Q1 last year, reflecting strong growth in subscription revenue.

Subscription revenue, which accounted for 58% of total revenue for the quarter, grew 48% from $3.9 million to $5.8 million. The increase reflects subscription revenue recognized on new customer contracts as well as upsells on existing customer contracts. Commercial subscription revenue grew at an even higher rate at 52%.

Service revenue increased 6% from $4.0 million to $4.2 million. The increase primarily reflects the timing of program work with the Central Banks.

Subscription gross profit margin improved from 79.5% in Q1 last year to 87.0% in Q1 this year, representing a 7.5 percentage point improvement. The large increase year-over-year reflects both the strong growth in subscription revenue combined with a favorable mix in subscription revenue to our newer products, which have higher gross profit margins than our legacy products.

Service gross profit margin was down slightly from 56.7% in Q1 last year to 56.0% in Q1 this year. It is not unusual to see some fluctuation in service margins depending on labor mix for services work. We expect to generate mid-50 percent service gross profit margins on a normalized basis.

Operating expenses for the quarter were $17.1 million compared to $19.0 million in Q1 last year, a decrease of 10%. Operating expenses in Q1 last year included $2.1 million of one-time severance costs for organizational changes we made in February 2023. Excluding these severance costs, operating expenses were up only $200 thousand year-over-year or 1%, reflecting the impact of annual compensation adjustments for our employees, offset by lower headcount. Company-wide, we continue to focus on ways to maximize our productivity and efficiency as an organization in order to minimize the impact of rising labor and other costs.

Non-GAAP operating expenses, which excludes non-cash and non-recurring items, were $13.8 million for the quarter, down 11%, compared to $15.5 million in Q1 last year.

Net loss per share for the quarter was 50 cents versus 70 cents in Q1 last year. Non-GAAP net loss per share was also considerably lower for the quarter at 27 cents versus 45 cents in Q1 last year.

We ended the quarter with $48.9 million in cash and short-term investments, after raising $32.5 million of gross proceeds through a registered direct offering that closed in February.

Free cash flow[3] usage was $8.6 million for the quarter, compared to $8.9 million in Q1 last year. As we foreshadowed on the last earnings call, free cash flow usage in Q1 included annual cash incentive payments to our employees. The Company paid annual cash incentives of $2.9 million in Q1 to our employees for exceeding our 2023 financial targets and strategic goals. Excluding these cash incentive payments, free cash flow usage would have been $5.7 million.

Given cash flows can fluctuate quarter to quarter depending on the timing of cash inflows and outflows, we continue to believe that a good proxy for a normalized level of free cash flow is using non-GAAP loss and adding the small amount of capital expenditures we invest. Our non-GAAP loss was $5.5 million during Q1 this year versus $9.0 in Q1 last year, a decrease of 39%. We also used an additional $1.8 million of cash in Q1 for share repurchases.

For further discussion of our financial results, and risks and prospects for our business, please see our Form 10-Q that will be filed with the SEC later this week.

I will now turn the call back over to Riley for final remarks.

[1] Annual Recurring Revenue (ARR) is a company performance metric calculated as the aggregation of annualized subscription fees from all of our commercial contracts as of the measurement date.
[2] Subscription gross profit margin excludes amortization expense on acquired intangible assets.
3 Free cash flow includes cash used in operating activities, the purchase of property and equipment and capitalized patent costs.

Final Remarks [Riley McCormack]

Thanks Charles.

Q1 was another strong quarter for Digimarc. Compared to the quarter a year ago, we grew quarter-ending ARR 85%, grew commercial subscription revenue 52%, and expanded subscription gross profit margin 7.5 percentage points to 87.0%.

While investors remain understandably – and rightfully -- excited about what our massive Ecosystem Driven Opportunities will contribute to our future, I am so proud of what the team is delivering in the massive opportunities in front of us today. Our topline growth has been accelerating from already high levels, our best-in-class Gross Profit Margin continues to expand, and we are positioned to convert an incredibly high percentage of the resultant Gross Profit dollars to the bottom line by leveraging our partners to further boost our topline in an incredibly OpEx efficient way.

There are many things that make Digimarc a unique (and generational) investment opportunity. The fact we have three very real, tangible, and quantifiable pillars to our shareholder value story is one of the most powerful and, at the same time, perhaps the least understood. I encourage you all to review the Quarterly Earnings Snapshot deck Charles referenced for more on this front.

As always, we remain focused on positioning ourselves to convert our large Total Addressable Market into substantial free cash flow by delivering high and long-lasting growth at world class operating margins. Q1 provided multiple tangible examples of our progress against this focus and we remain excited for what’s ahead.

Operator, we will now open up the call for questions.

Quarterly Earnings Snapshot

First Quarter 2024

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Safe Harbor Statement

This presentation includes “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which reflect management’s current view regarding future events and performance.

Although we believe these statements are based on reasonable expectations and beliefs, they are subject to risks and uncertainties that are difficult to predict and, often, beyond our control. These risks include, but are not limited to, the risk factors set forth in Part I, Item 1A of our latest Annual Report on Form 10-K and the risks detailed in our other filings with the U.S. Securities and Exchange Commission.

We believe that these risk factors could affect our future performance and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf.

All forward-looking statements made by us or by persons acting on our behalf apply only as of the date of this presentation. We expressly disclaim any obligation to update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the date of this presentation or a change in our views or expectations, or otherwise.

Business Overview

About Digimarc

Digimarc is the pioneer and global leader in digital watermarking technologies.

For nearly 30 years, Digimarc has been deployed in solutions built upon two things that we do better than anyone else: the **identification** and the **authentication** of physical and digital items.

FEATURES

Imperceptible

Ubiquitous

Redundant

Secure

Adaptable

Identification + Authentication

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Trending Use Cases | Identification and Authentication

Digimarc technology has successfully been used for:

Brand Protection | Anti Counterfeit
Protect consumers from counterfeits, fraud, or misinformation

Consumer Engagement
Enable advanced consumer engagement & redirection

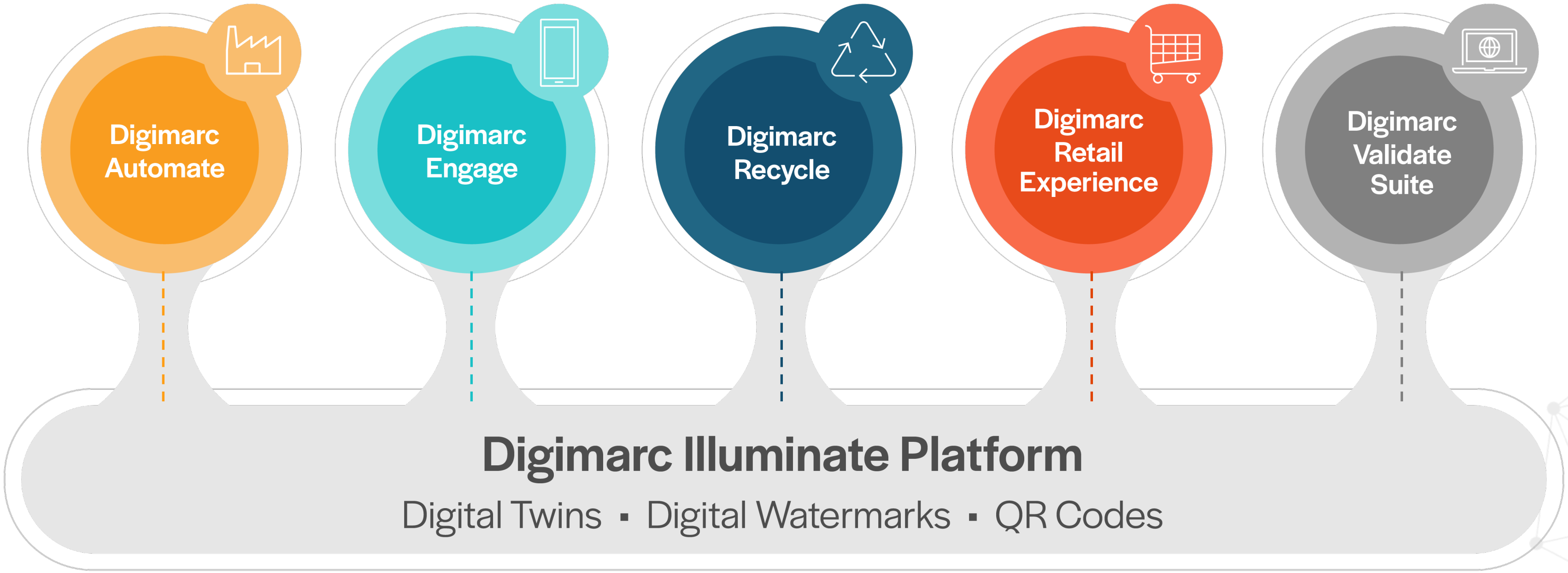
Industrial Automation
Automate error-prone manufacturing, fulfillment, & distribution

Retail Experience
Improve in-store or supply chain efficiency including checkout

Sustainability
Increase the quality and quantity of recycled materials

Digimarc Illuminate Platform

Scalable SaaS products powered by extensible and enterprise-scale product digitization platform



Commercial Go-to-Market Motions

Traditional SaaS

Products: Digimarc Engage, Digimarc Validate, Digimarc Automate, new products

GTM: Traditional SaaS GTM; large cross sell and upsell opportunities (accretive value for every product added)

Initial Deal Size: $ ($50K to $1M+ ARR)

Initial Deal Term: 1-3 years

Traditional PaaS

Product: Digimarc Illuminate Platform

GTM: Traditional PaaS GTM; large upsell opportunities (capacity and functionality)

Initial Deal Size: $$ ($250K to $5M+ ARR)

Initial Deal Term: 3-5 years

Ecosystem Driven Opportunities

Products: Digimarc Recycle, Digimarc Validate (Media), Digimarc Retail Experience, new products

GTM: Industry-wide or country-wide deployments; sometimes driven by a regulatory component; timing can be unpredictable/uncontrollable, but uber-rapid and scalable adoption once market is opened

Market Size: $$$$ (Varied)

Initial Deal Term: N/A (de-facto market standard)

Power of Partners: Revenue Ramp Acceleration + Massive Operating Leverage

Three Pillars of Shareholder Value

Government Business: Central Banks

- 4.8% CAGR since the ID Systems spin-out in 2008
- ~60% Gross profit margin with minimal operating expenses
- Inflation protected
- 25-year relationship, current contract runs through Dec 31 2029
- No counter-party risk (world's central banks)
- Keep intellectual property for application in the commercial business; profitable R&D

Commercial Business: Traditional SaaS & PaaS

- Extremely high growth (see current ARR and commercial revenue growth rates)

Commercial Business: Ecosystem Driven Opportunities

- Extremely high growth potential (not yet reflected in current ARR and commercial revenue)

Both commercial businesses:

- 90%+ incremental gross profit margin
- Massive operating leverage/high operating margin potential

Traditional SaaS & PaaS:

- **Digimarc Engage:** Consumer engagement for physical products and digital assets; see more here
- **Digimarc Validate:** Anti-counterfeit for physical products; see more here
- **Digimarc Automate:** Automation at manufacturing, fulfillment and distribution centers; official product launch coming soon

Ecosystem Driven Opportunities:

- **Digimarc Recycle:** Active on multiple continents; see more here and here

  TAM: ~$1/capita/year
- **Digimarc Retail Experience:** Platform and Product opportunity; see more here

  TAM: > $1 Billion
- **Digimarc Validate (Media):** Digital watermarks included in multiple GenAI regulation bills; see more here and here

  TAM: TBD – provide tools for free, product upsell (freemium model); see more here

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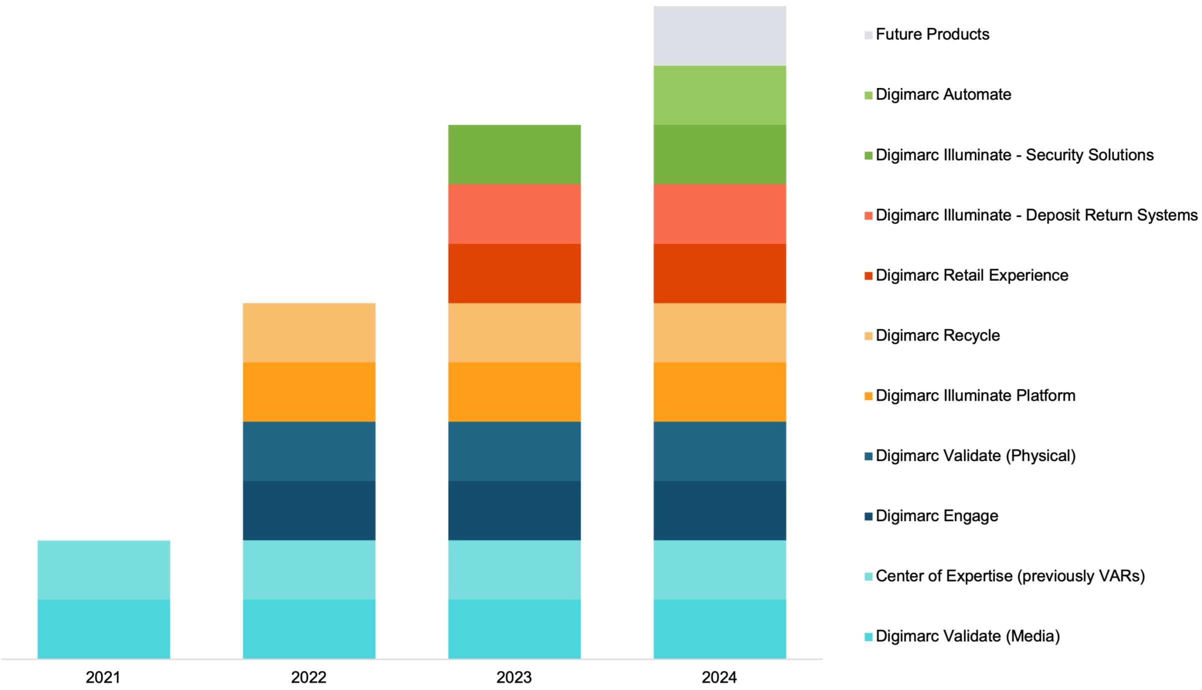
Growing Commercial Product Suite

The product pipeline has expanded. New product categories are helping grow ARR.

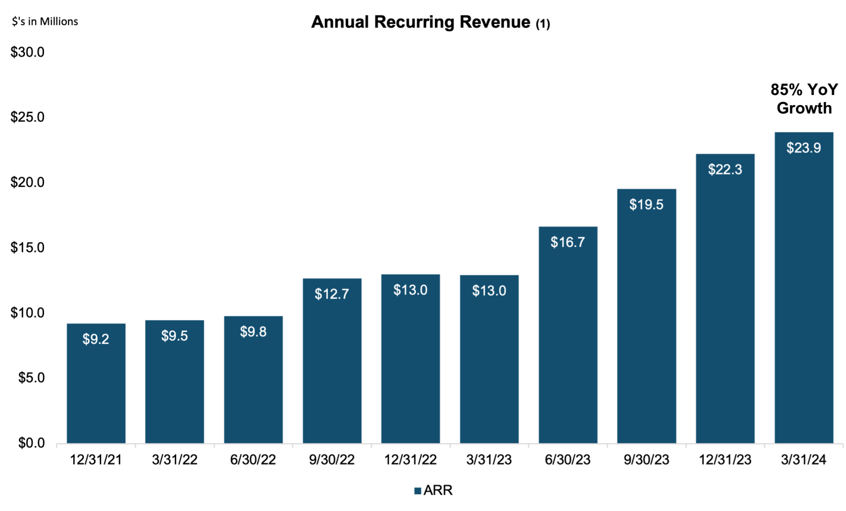


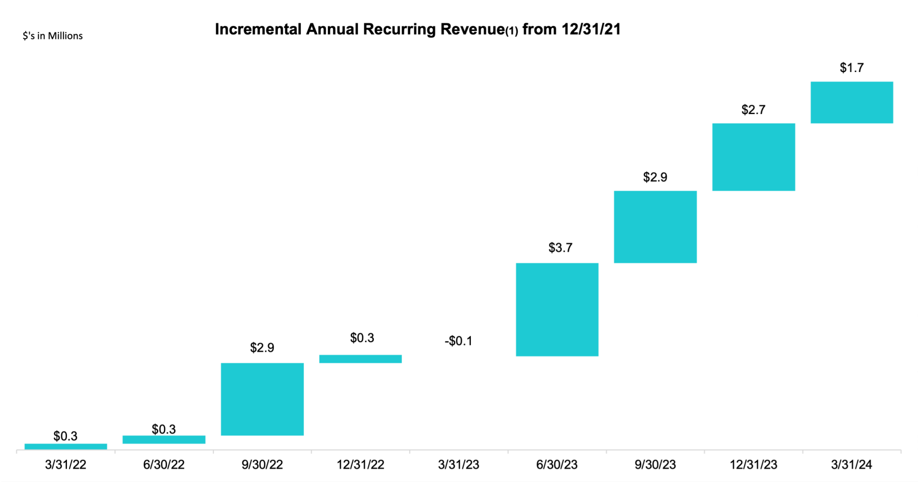
Note: Pipeline graphic is for illustrative purposes only and is not proportionate to any company-reported metric. The graphic serves solely to demonstrate pipeline growth over time.

ARR Growth Characteristics

Digimarc's pipeline is expanding but incremental ARR can be lumpy

- Deals can be significant with the ability to generate 8-figure ARR over multiple years
- $32M+ contract in May 2023 extended Digimarc Illuminate functionality (Security Solutions and Deposit Return Systems)
- Several large deals in the sales pipeline, some of which are for new products/functionality





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Business Update

Digimarc Q1 2024 Key Takeaways

Financial Highlights

- Annual Recurring Revenue(1): $23.9 million vs. $13.0 million at 3/31/23; representing 85% growth
- Commercial subscription revenue: $5.5 million vs. $3.6 million in Q1'23; representing 52% growth
- Subscription gross profit margin(2): 87.0% vs. 79.5% in Q1'23; representing a 7.5 percentage point improvement
- Non-GAAP net loss(3) decreased $3.5 million from Q1'23; representing a 39% improvement

Business Highlights

- We signed a multi-year contract in the collectibles industry in Q1 that starts at 6-figures ARR and should grow to mid-to-high 7-figures ARR by year 3. Collectibles is a new industry for us and an industry we believe is ripe for digital transformation.
- We signed several important upsells with existing customers during Q1 that provide additional proof-points that we are still just scratching the surface of the opportunities we have to materially grow these accounts.
- We are starting to see increased sales velocity as we refine our Go-To-Market efforts with multiple sales opportunities that were created and closed won within 90 days.
- We continue to progress and grow our ecosystem driven opportunities: Recycle, Validate (Media) and Retail Experience.

Financial Summary – Q1’24 Results

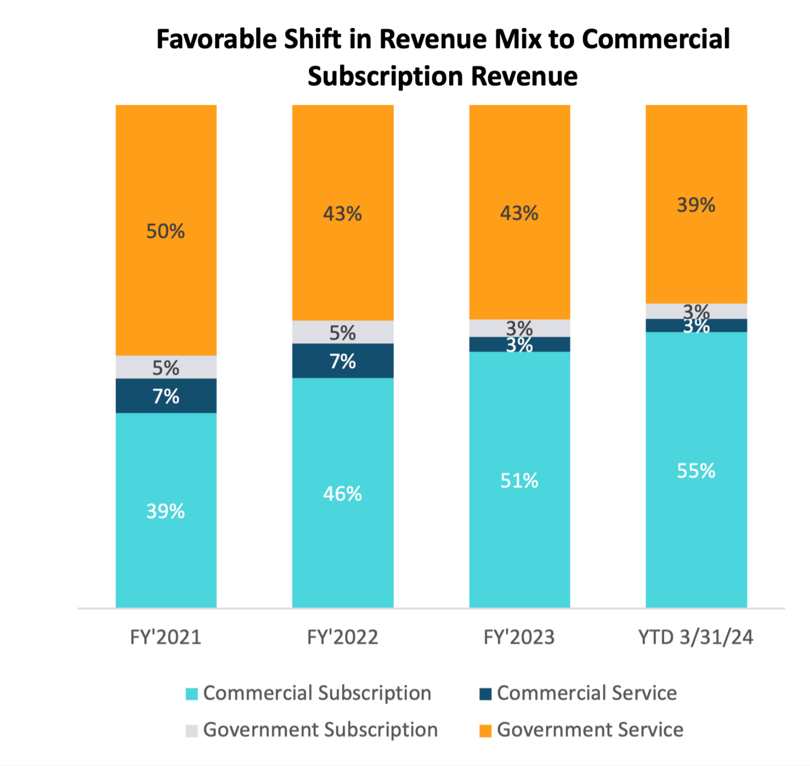
$23.9MM ARR (1)
85% YoY ARR growth

52% YoY Growth
in Commercial Subscription Revenue

87% Gross Profit Margins (2)
on Subscription Revenue

$48.9MM Cash & Investments

$0.0MM Debt



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Market Breakdown

High margin commercial revenue is growing as a percentage of total revenue

Commercial Business Model

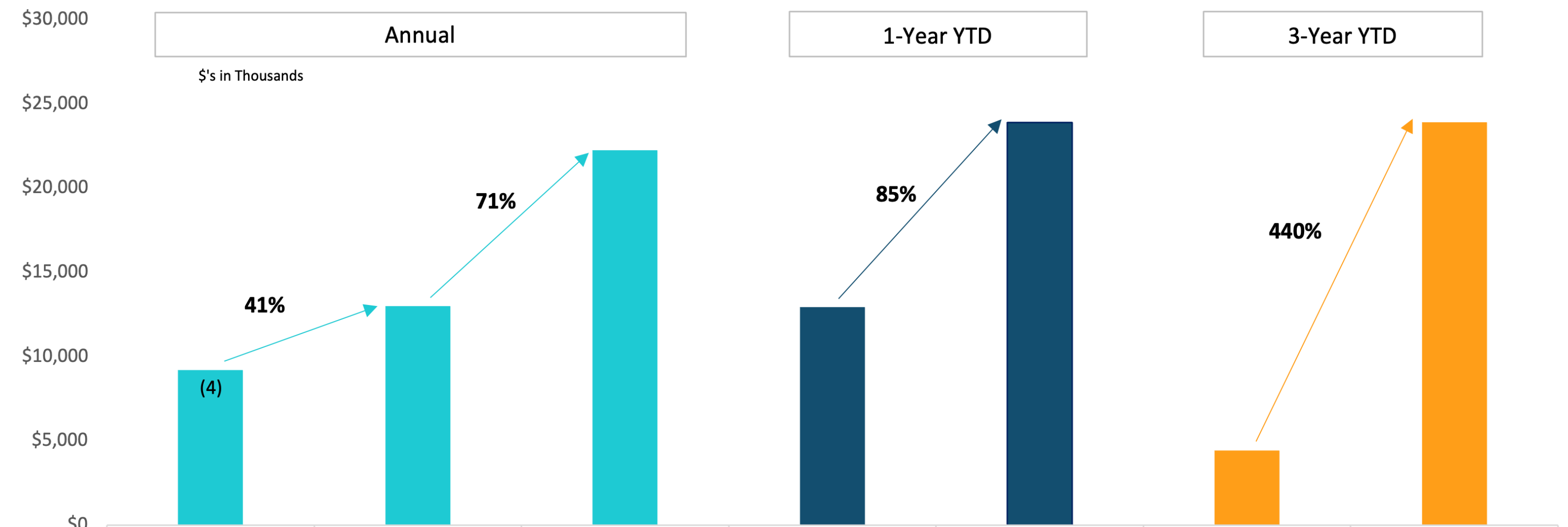
- High growth, high margin opportunity
- Platform and product volume-based annual subscription fees
- 90%+ expected incremental gross margins on subscriptions
- Integration, consulting, and support services

Government Business Model

- Fees for services are adjusted annually for inflation
- 60%+ gross margins on combined services and subscriptions
- Digimarc owns all IP for commercial purposes
- Multi-year budgeting visibility

Revenue Summary ($'s in 000's)	FYE 12/31/22	FYE 12/31/23	Q1 2023	Q1 2024
Commercial Revenue:				
Subscription	$13,832	$17,773	$3,585	$5,462
Service	$2,056	$1,042	$298	$257
Total Commercial	$15,888	$18,815	$3,883	$5,719
Government Revenue:				
Subscription	$1,387	$1,200	$300	$300
Service	$12,922	$14,836	$3,660	$3,919
Total Government	$14,309	$16,036	$3,960	$4,219
Total Revenue	**$30,197**	**$34,851**	**$7,843**	**$9,938**
% Commercial	***53%***	***54%***	***50%***	***58%***

Annual Recurring Revenue (1)



	12/31/21	12/31/22	12/31/23	3/31/23	3/31/24	3/31/21	3/31/24
Ending ARR	$9,216	$13,013	$22,251	$12,955	$23,905	$4,430	$23,905

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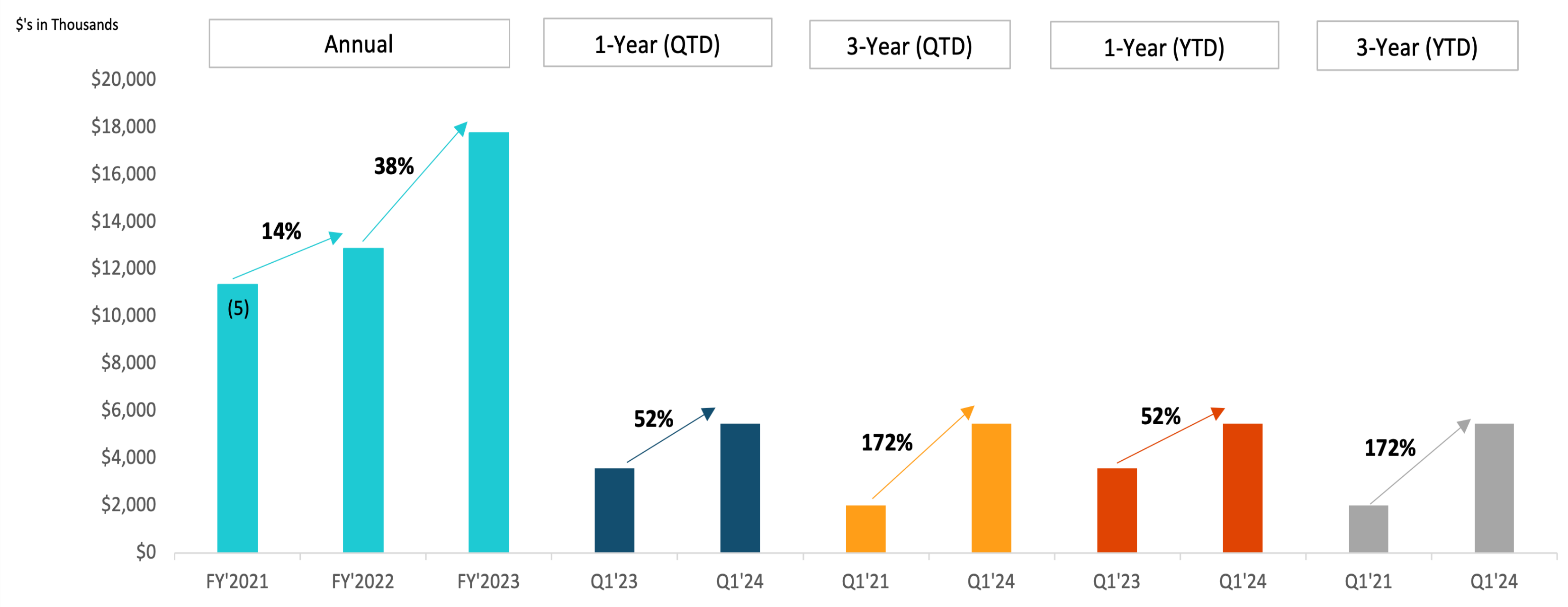
Commercial Subscription Revenue (6)



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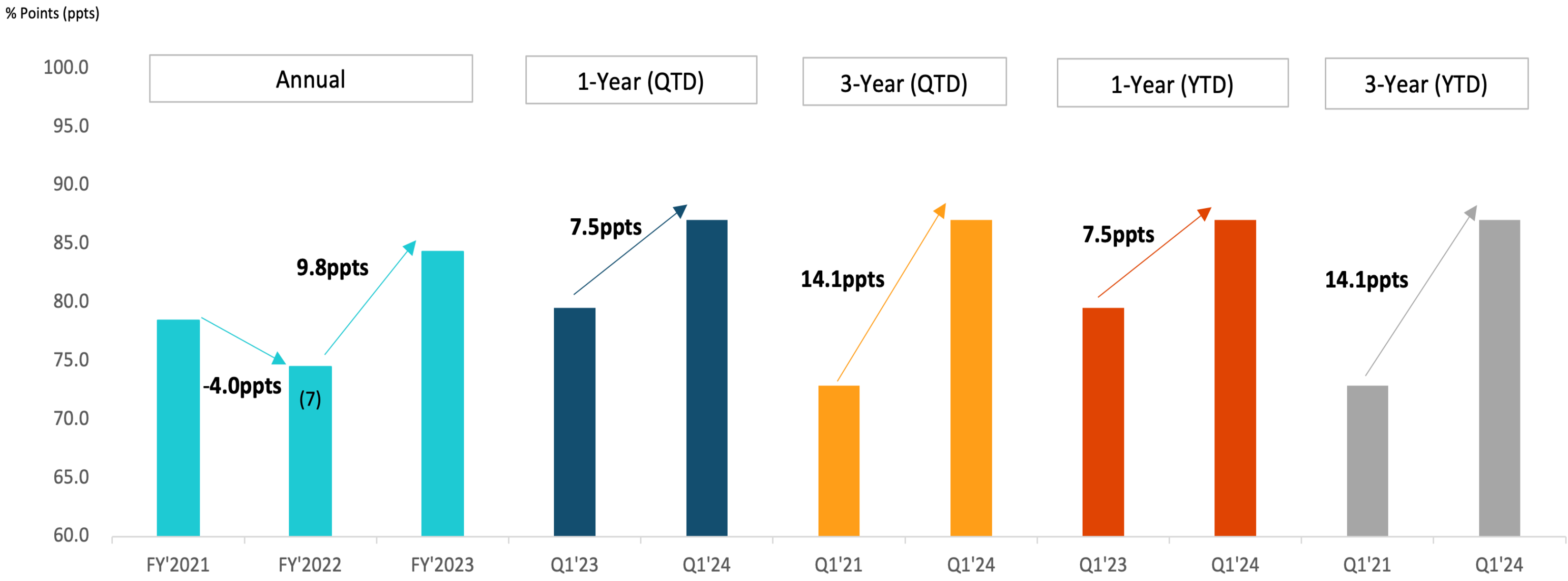
Subscription Gross Profit Margins (2)



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Financial KPI's

($'s in 000's)	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23	Q2'23	Q3'23	Q4'23	Q1'24
Annual Recurring Revenue (1)	$4,430	$4,696	$4,734	$4,770	$9,476	$9,796	$12,682	$13,013	$12,955	$16,669	$19,549	$22,251	$23,905
YoY Change	*N/A*	*N/A*	*N/A*	*N/A*	*114%*	*109%*	*168%*	*173%*	*37%*	*70%*	*54%*	*71%*	*85%*
Commercial Subscription Revenue (6)	$2,009	$1,588	$1,571	$1,692	$2,917	$2,450	$3,729	$3,791	$3,585	$4,378	$4,511	$5,299	$5,462
YoY Change	*N/A*	*N/A*	*N/A*	*N/A*	*45%*	*54%*	*137%*	*124%*	*23%*	*79%*	*21%*	*40%*	*52%*
Subscription Gross Profit Margin (2)	72.9%	78.5%	77.2%	83.8%	72.5%	72.7%	75.4%	77.0%	79.5%	83.5%	85.5%	87.3%	87.0%
YoY Change (ppts)	*N/A*	*N/A*	*N/A*	*N/A*	*(0.4)*	*(5.8)*	*(1.8)*	*(6.9)*	*7.0*	*10.8*	*10.1*	*10.3*	*7.5*

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Concluding Remarks

We are more excited than ever about the future of Digimarc.

- Digimarc's growth continues to accelerate, driven by high gross margin commercial subscription revenue.
- The progress we have made in growing ARR, expanding our margins and managing our operating costs has significantly lowered our cash burn over the past year and is providing us clearer line of sight to when we can start to deliver positive free cash flows.
- There are four tailwinds to our business that we have been very intentional to create:
    1. Incredibly deep and wide moats that provide us the ability to offer differentiated products; this allows us to create new markets, disrupt existing markets, and enjoy best-in-class gross margins.
    2. The need to identify or authenticate physical and digital assets is universal, thus almost every entity in the world is a potential customer of ours. By leveraging our partner ecosystem we increase our scalability in an extremely OpEx efficient way.
    3. There are many use cases that require companies to identify or authenticate their physical items and digital assets and many ways we can configure our technology; our ability to productize new functionality is open-ended, as is our TAM.
    4. We engineer our products to be accretive, meaning the more Digimarc products a customer buys, the more value each product delivers; this positions us to have upsell and cross sell opportunities for years to come.
- We have completed our business transformation and our entering our growth stage. Our pipeline is large and growing. We can't wait to share more customer success stories with you as they come to fruition over the coming quarters.

Footnotes

(1) Annual Recurring Revenue (ARR) is a company performance metric calculated as the aggregation of annualized subscription fees from all our commercial contracts as of the measurement date.

(2) Subscription and Service gross margins exclude amortization expense on acquired intangible assets from the EVRYTHNG acquisition.

(3) This presentation contains the non-GAAP financial measure of Non-GAAP net loss. This non-GAAP financial measure is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing non-cash and non-recurring activities that affect comparability. Our management uses this non-GAAP financial measure, amongst others, in evaluating our financial and operational decision making and as a means to evaluate period-to-period comparisons.

Digimarc believes that providing non-GAAP financial measures, together with the reconciliation within our SEC filings to GAAP financial measures, helps management and investors make comparisons between us and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable SEC rules. These non-GAAP financial measures are not measurements of financial performance or liquidity under GAAP. In order to facilitate a clear understanding of its consolidated historical operating results, investors should examine Digimarc's non-GAAP financial measures in conjunction with its historical GAAP financial information, and investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP. Non-GAAP financial measures should be viewed as supplemental to, and should not be considered as alternatives to, GAAP financial measures. Non-GAAP financial measures may not be indicative of the historical operating results of the Company nor are they intended to be predictive of potential future results.

(4) ARR at 12/31/21 includes ARR from EVRYTHNG for comparative purposes as the acquisition closed on January 3, 2022.

(5) Commercial subscription revenue was adjusted to add EVRYTHNG subscription revenue for FY'2021 for comparative purposes.

(6) Commercial subscription revenue was adjusted to remove Piracy Intelligence subscription revenue for FY'2021 and FY'2022 for comparative purposes as the product has been end-of-lived with no revenue in FY'2023 and beyond.

(7) The decrease in subscription gross profit margins from FY'2021 to FY'2022 reflects the impact of the EVRYTHNG acquisition.