

**Transcript of  
Issuer Direct  
First Quarter 2016 Earnings Call  
May 9, 2016**

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**Participants**

Brian Balbirnie – Chief Executive Officer  
Steve Knerr – Chief Financial Officer

**Analysts**

Scott Lee  
Eric Weinstein  
Miles Jennings

**Presentation**

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation first quarter 2016 Earnings Conference Call. As a reminder, today's call is being recorded.

Earlier today, Issuer Direct Corporation issued a press release that included certain cautionary language with respect to forward-looking statements. The Company would ask you to review the language in the press release regarding forward-looking statements, as they are equally applicable to any forward-looking statements made during this conference call.

Today's call will be conducted by the Company's Chief Executive Officer, Brian Balbirnie and its Chief Financial Officer, Steve Knerr, I'll now turn the call over to Mr. Steve Knerr.

**Steve Knerr – Chief Financial Officer**

Thank you, and good afternoon everyone,

Before we begin, I need to read the following Safe Harbor statement.

Statements or comments made on this conference call may be forward-looking statements that include financial projections or other statements of the company's plans, objectives, expectations or intentions. These matters involve certain risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statement due to a variety of factors, which are discussed in detail in our recent SEC filings.

Further, we will discuss both GAAP and non-GAAP financial information on this call. We believe the presentation of non-GAAP information provides you with useful supplementary data concerning the company's ongoing operations and is an appropriate way for you to evaluate the company's performance. Non-GAAP results are, however, provided for informational purposes only. Please refer to the press release and related tables for GAAP information and a reconciliation of GAAP to non-GAAP information. We also posted to our website, in our Investors relations tab, a description as well as reconciliation of GAAP measures to which we will refer on this call.

I would like to begin by going over financial highlights, and then turn it over to Brian for his operational review and outlook for 2016, followed by a Questions and Answers session.

Q1 Financial Highlights with prior year quarter comparisons are as follows:

We achieved revenue of \$3.3 million, compared to \$3.0 million. Excluding a one-time benefit of \$316,000, which I will discuss in more detail, revenue would have been \$3.0 million for Q1 2016. Gross margin percentage increased to 77% compared to 70%. EBITDA margin increased to 30%, compared to 19%. The Company's GAAP earnings per share was \$0.17 per diluted share compared to \$0.10 per diluted share. Non-GAAP net income was \$521,000, or \$0.18 per diluted share, as compared \$418,000 or \$0.18 per diluted share. Once again, we continued our trend of generating positive cash flows from operations and increasing our cash balance over the prior quarter, as we generated \$500,000 of cash flow from operations. On April 13, the Board of Directors declared a quarterly cash dividend of \$0.03 per share, making it the third consecutive quarter for paying dividends. As I noted earlier, revenue increased 8% to \$3.3 million during the three-month period ended March 31, 2016.

Included in revenue during this period, is the one-time benefit of approximately \$316,000 related to the reversal of an accrual for unused postage credits related to ARS clients acquired in the Precision acquisition. Excluding this reversal, revenue would have been \$3.0 million, or down 3% compared to the first quarter of 2015.

Disclosure management revenue decreased 15% from the same period in 2015, as the Company continues to face pricing pressure in the Edgar and XBRL markets. However, a decline in those markets was partially offset by strong performance in our transfer agent services as we performed work on more corporate directives and actions during the quarter as compared to the same period in the prior year.

Shareholder communication revenue increased 6% during the three month period ended March 31, 2016 compared to the same period of the prior year. The increase is primarily related to the reversal of the postage accrual I mentioned earlier; however we did experience strong growth again in our press release business, as well as in our print and proxy services. Our press release business increased 54% compared to the same period in the prior year as the Accesswire brand continues to see momentum as it did in the fourth quarter of 2015. Offsetting these increases is the continued decline of our hardcopy ARS services as companies transition to electronic delivery or elect to leave the service altogether.

We are pleased to announce our platform and technology business had a strong quarter as revenue grew 88% during the three-month period ended March 31, 2016 compared to the same period in the prior year. The primary reason for the increase was due to migrating electronic ARS customers to our Investor Network platform. Additionally, we saw increases across our other platforms including transfer agent, webcasting, iR Direct, iProxy and in our new cloud-based products of Blueprint and Classify. As Brian will discuss further, this revenue stream, along with our press release business, are the key areas of the business we remain focused on, in terms of investment and revenue growth.

Gross margin for the quarter increased to 77% compared to 70% for the first quarter of 2015. Excluding the reversal of the postage accrual, gross margin percentage would have been 74%. The increase in gross margin percentage can be attributable to the selective termination of certain underperforming vendor contracts as well as increased revenue in our higher margin products.

Operating expenses were relatively consistent compared to the same period in 2015 as savings in general and administrative expenses partially offset an increase in sales expenses due to hiring of additional sales staff.

During 2016, we will continue to build the sales team, specifically around our press release business and new cloud-based products.

For GAAP purposes, we recorded net income of \$493,000, or \$0.17 per diluted share for the three-month period ended March 31, 2016, as compared to net income of \$237,000, or \$0.10 per diluted share for the same period of 2015.

During the first quarter of 2016, we continued our investment in product development and capitalized an additional \$527,000 of software development costs related to our cloud-based products, Blueprint, Classify and Investor Network. As we move throughout 2016 it will be important to focus on the growth of these cloud-based products as well as revenue from our press release and other platforms. I will now turnover it over to Brian, who will discuss some of our operational highlights for the first quarter and further planned activities for the remaining part of 2016.

**Brian Balbirnie – Chief Executive Officer**

Thank you Steve, and good afternoon everyone.

As Steve points out, the first quarter has been a good start to the year. Not only did we see margin expansion in our business, we also saw solid growth in some of our legacy businesses such as stock transfer and iProxy.

Additionally, we're making good progress in our platform subscription business, an area that will be a growth engine for the Company moving ahead. Much of our success with platform subscriptions can be attributed, firstly to the platforms themselves and advantages they offer ... second, to the training and commitment of our sales force in taking a platform first approach, ... and third, to the buy in throughout our organization that platform technologies will be a key differentiator among competitors, as well as a value creator for customers.

In addition to the success we are having with our platforms, we're also being acknowledged by third parties for the success we are having with our business overall. This is now the second year in a row that we have been named to Deloitte's Technology Fast 500. Furthermore, this year we were chosen as one of the top public companies in North Carolina by the Charlotte Business Journal.

Although we're proud of these accolades, we're far from done, and remain as energetic as ever. I am happy to highlight that our first quarter 2016 had double digit growth over the fourth quarter last year and we anticipate sequential growth to also be the case here in the second quarter.

Driving this momentum, as I alluded to earlier, is the continued shift of our client contracts from a traditional services sale, now to a platform first engagement, resulting in a 63% increase in our platform business over Q4 2015. The majority of that growth was fueled by our digital delivery platforms and stock transfer business. We are laser focused and will continue to move as much of the physical printed report services business as possible to our digital platforms for the remaining part of 2016. By doing this we should continue to see margin expansion, in fact during the first quarter our platform business generated 85% gross margins, well above our traditional 70%, and a target we have been focused on achieving.

Going forward we are going to continue to focus on our client count, for both Issuer direct and Accesswire as well as overall revenues from our businesses. Not including Accesswire - for the three-months period ended March 31, 2016, we provided platforms and services for 951 clients compared to 933 in the fourth quarter 2015 – up 2%. This is the second straight quarter of sequential client count growth. Although our client count numbers remain relatively consistent over the periods, we remained encouraged that the platform mix is contributing the right way to the overall business. Evidence of this is in the margin expansion we saw in the first quarter.

Overall our Accesswire news business continues to be strong – In the first quarter of 2016 revenues were up 12% sequentially. Our news business is focused ..... (as we have said in the past).... on direct clients and revenue

expansion compared to resellers and lower margin engagements. On a standalone basis Accesswire's EBITDA margins increases from 25% to 30%, in Q1 2016.

We are satisfied with this progress in our newswire business, but understand we need to continue to spend both time and money expanding our distribution and organization to deliver on the growth we expect to see in the coming years. The value of Accesswire continues to grow significantly, and we remain focused on achieving this value through client growth and revenue expansion.

Our marketing efforts with Accesswire also are beginning to take shape this year. We have committed our brand in sponsorship for several investor conferences, whereby for first-time customers, Accesswire will be doing their conference announcement press releases at no charge. We feel like this introduction to our service will give us the opportunity to become their news provider of choice. Also with our previously released platform upgrade, customers now have the ability to seamlessly integrate their news distribution needs with our compliance and outreach event based management system.

This event based management system now also allows our customers the ability to schedule in real-time, their earnings and webcast conference call. Typically, the industry takes hours or days to commit phone numbers and resources to the marketplace. With our platform, in as little as a minute, clients can schedule their respective quarterly call or event and receive in real-time a dedicated toll free number, customer event URL's and dedicated event manager and operator. This development is something that's ahead of the marketplace and we intend to heavily market this platform advancement this year.

Moving on to our newest platforms, we still are in beginning stages of the sales cycle with both our Classify and Blueprint. We are receiving great feedback in the community and believe strongly we will see further platform revenues and client expansion as a result of these two products. Both subscriptions are focused on delivering the same or similar features to the market that others currently provide but also integrate other critical business functions of our compliance and communication platform that no other provider currently can do, and do it for less.

Our platform focus here is on digital delivery, engagement and data-set analytics, a higher margin and defensible subscription offering that we believe the market is ready for.

There is also some significant IP being developed here at Issuer Direct – we are transforming our business and leading the way as a single platform subscription should be,... in the corporate compliance and communications business.

Looking forward I am confident we will continue to benefit from our positive cash flows, above average industry margins, and double digit EBITDA margins as well as both GAAP and Non-GAAP earnings. I would still like to see further gains in our clients in our areas of focus, and I have complete faith in our teams that have positioned our business to get there in 2016 and beyond.

This week we will also be paying our quarterly cash dividend of \$0.03 cents per share to holders of record from April 25. Over the last year we have maintained a dividend yield over 2%. A recent review of the small-cap technology sector Issuer Direct was ranking #78 of 154 companies in dividend yield returns, drilling down further into application software companies – we were #14 of 35 for the highest ranking dividend yield in this category. Given our cash position and current business progress, we do not anticipate this changing in 2016 and beyond.

In conclusion, I want to speak for a moment on our 2-year partnership with the New York Stock Exchange. As many of you know we have been a part of the exchanges subsidy program for almost 2 years, over that period we have been focused on the IPO market for our whistleblower platform, of the almost 200 IPOs in this time we are currently providing 37% of those issuers with our service. In contrast there are almost 3000 listed companies on

the NYSE and MKTS exchange. We are in the process of expanding our subsidy program to cover all currently listed NYSE and MKTS listed companies. Our investment in this partnership will hopefully afford us the opportunity to extend other platform components to our fellow listed companies on the exchange.

With that, I would now like to turn the call back to the operator, so we can open up the call for questions.

**Operator**

(Operator instructions.) Our first question comes from Scott Lee with [indiscernible] Capital. Please go ahead.

**Q:** Hi there, Brian.

**Brian Balbirnie – Chief Executive Officer**

Hi, Scott.

**Q:** Congrats, first of all, on the good results despite the industry challenges. I wanted to just see if you could maybe give us a little bit of color on the launch of the new outreach and tracking features that you've added to your platform. I know it's early days but just maybe a sense of how receptive your clients are to adopting that as an add-on to the platform module and just how the sales of that is going. Thanks.

**Brian Balbirnie – Chief Executive Officer**

Great question. The product, more specifically on that outreach, is our classified data set that we've talked a lot about over the past couple of quarters to our clients, to the markets, and to our partners. We've had great feedback from the market. We've got some of our large cap clients using the tools already today, and some of our smaller mid-cap clients are also now picking up on it as well.

I think that for us the reality is an education for the markets to let them know that there's an alternative to this product set [ph], still a small portion of our clients are using it today. It's a tool for convergence for us to move clients from hard copy to electronic. Overall though, we've had great feedback from that product, and we already have our sights set on version two being released in June.

**Q:** Great, thanks. That's all I had.

**Operator**

Thank you. We'll go next to Eric Weinstein with [indiscernible]. Please go ahead.

**Q:** Thanks. It looks like we're turning the corner in terms of growth, especially considering your guidance about second quarter revenues being sequentially [indiscernible] as well. Can you shed a little bit of light on the businesses that you're focused on for growth, and then there are those that are still facing pressures? Is it that the ones facing pressures are stabilizing or are they still shrinking, or facing substantial pressures and it's just [indiscernible]?

I'm just trying to get a sense of the dynamics and if you think we're—especially with the, I guess, the sales cycle hasn't really hit in yet with the new sales hires. It sort of sounds like we're going to grow from here on out. If you could just shed some light on that.

**Brian Balbirnie – Chief Executive Officer**

Eric, the legacy platforms if you will, if I can just—legacy service offerings as it relates to our traditional compliance offering and the ARS service business still continue to show signs of attrition there, and clients that are looking to either want to take control and do it themselves or by pricing pressures on the compliance side or

just a green initiative not to print anymore and then go electronic. Those two parts of that business still continue to show signs.

Where we did see some growth this quarter, and we still believe we'll continue to see it throughout the year, is in our stock transfer business. Areas that we believe that maybe reached a point of non-growth stabilization is now looking like that we're receiving some benefits from our work in previous years, specifically the community-banking market.

We've done very well there over the past couple of quarters. We continue to see growth there now even post Q1, and as a benefit to what Steve mentioned earlier, by way of a print and proxy business growth was directly attributable to the stock transfer [indiscernible]. So, we kind of view them as two separate legacy businesses, if I can use that term.

**Q:** With respect to the sales force, the recent hires, are they starting to contribute to the top line yet?

**Brian Balbirnie – Chief Executive Officer**

They're just at the beginning stages. I'd say right at the end of Q1, we started to see that being the case. Obviously they came in in February. They need a good two to four weeks of solid training and getting their feet under them in the organization to be able to contribute, and so they're all now starting to benefit from top line contributions.

**Q:** Great, and then just lastly, on the NYSE subsidization program, can you talk a little bit about the impact of that? I'm not that familiar with it. It sort of sounds like there were a lot of strategic benefits down the road. What's the economic impact initially with this program?

**Brian Balbirnie – Chief Executive Officer**

Three years ago, we were subsidy partner number seven. Today now, the NYSE has changed their subsidy partnerships, and there's three left; I believe three, and we're one of them. It could be four, and we're one of them. I'm just drawing a blank on the number.

Reality is that economically the exchanges are becoming more competitive with one another, and there has to be product offerings that help along with these issuers. As you, Eric, well know, and many folks on this call that as companies go public and the honeymoon's over, they've got this litany of tasks of things that they need to continue doing to be compliant.

And [indiscernible] is just one of them, and the reason for the expanded partnership is we believe the platform has performed well, and the feedback we've gotten from the NYSE and their clients that are using it has been overwhelming. The percentages are not as high as we'd like, and that's why we're opening the program up.

Great news for us is because it is a platform first engagement, the deliverable costs are de minimus to us and the upside is tremendous. So, we have an opportunity to have direct relationships with the ones that we don't today, and offer an opportunity to use the rest of our platforms that should generate shorter term revenues for us.

**Q:** Great. Good stuff. Keep it up. Thank you.

**Brian Balbirnie – Chief Executive Officer**

Thanks, Eric.

**Operator**

(Operator instructions.) We'll go next to Miles Jennings. Please go ahead.

**Q:** Good afternoon, Brian. This is Miles Jennings. I was reading, I think, your first quarterly report, or perhaps January report, and you made a statement in there that you were very early in building this platform for electronic delivery of various services to the CFO's office. I thought I'd check RR Donnelley and see what they were doing. They indicated that they built a cloud-secure platform in 2013, and so I just wanted to ask this general question.

If you were speaking with a company that was thinking about being a customer of yours—and in today's conference call, you said that there were advantages in Blueprint in your general cloud-secure platform. What would be the sales pitch, for lack of a better word, the sales advantages of your platform versus, let's say, a large competitor like RR Donnelley?

**Brian Balbirnie – Chief Executive Officer**

We get asked that question quite often in the sales process that our VP of sales and the rest of his team is well versed, and so I will tell you from my capacity, Miles, and being involved in this industry for a long time, you're in fact right. RR Donnelley built a product in 2013 called ActiveDisclosure.

It's a great corporate compliance tool that is, obviously as you said, built on the cloud, built secure, and a good percentage of their clients use that product today to take advantage of their—internalize in the corporate disclosure and communication with the Securities and Exchange Commission.

As a standalone product, it's great. Apples to apples, it's just like our Blueprint product. There are some stark differences, and the ones I think are important to point out is that even today with RR Donnelley's ActiveDisclosure, running an event as we are today, there's the earnings announcement. There's the earnings press release. There's the e-distribution to shareholders. There's the 8-K. There's a lot of components to which that 10-Q touches, the financial tables, bullets, earnings data. All of that information constantly is changing, right up until sometimes a couple of days before.

The benefits of our disclosure platform and cloud-based management system is really to focus on the event rather than focus on the document. If conference phone numbers change, from the conference call providers or systems, they're automatically updated into all of the documents that need that information.

If our earnings per share changes, then the computation, the 10-Q forces that to happen then it automatically changes and the earnings press release and the earnings 8-K. And that is something that—that's not ActiveDisclosure or RR Donnelley's business. That is something that we focus on as we move down the hall from the CFO's office to the corporate communication folks and the IR and PR executives. Our platform really is that time and value of money concept of being able to use the entire platform for the entire function of that event and the communication to a shareholder, where as in contrast RR Donnelley does a great job just at the corporate disclosure element.

**Q:** So the breadth of your Blueprint is much wider than the ActiveDisclosure by RR Donnelley. Each of you has strong focus in your disclosure part.

**Brian Balbirnie – Chief Executive Officer**

Correct.

**Q:** As far as potential revenue, I'm not too familiar with your Blueprint product, but is disclosure these days 80% of the revenue or is it 50%? What part of the cloud-secure platform revenue is from just disclosure as opposed to these other services that are available on your platform?

**Brian Balbirnie – Chief Executive Officer**

That's a great question, Miles. I would say that our discloser business overall is on a quarterly basis based on a small bit of seasonality that's still left. This is about 25% to 30% tops.

**Q:** Oh, really? That's really great. I guess when you're selling Blueprint is it sort of like an a la carte situation where you can have different modules in your Blueprint or do you have only one offering on Blueprint?

**Brian Balbirnie – Chief Executive Officer**

We have three different components, modules, if you will. There's a view-only mode. There's an author mode, and then an approver or the CFO's mode, somebody that's charged with the responsibility to file the document. So, each one of those components then have work-full permissions that are mapped into rest of our business platform in the cloud system. So, clients that can create a 10-Q or a 10-K or earnings 8-K can also then have the ability to create an earnings press release at the same time.

**Q:** But if I wanted only disclosure, and let's say, one other service of some kind, let's say, Classify, I would not have to pay for the other modules that you've referenced in your call today.

**Brian Balbirnie – Chief Executive Officer**

That's correct, yes.

**Q:** That's good. So you're offering air conditioning and radio and convertible and various other options that you would have in your Blueprint, not just one design for customers.

**Brian Balbirnie – Chief Executive Officer**

Great analogy. I'd like to say Blueprint's then the premium gasoline then if I could use that analogy.

**Q:** Yes, it sounds really great. Congratulations on your release, Brian.

**Brian Balbirnie – Chief Executive Officer**

Thank you, Miles, I appreciate it. Nice hearing from you.

**Operator**

Thank you. It appears we have no further questions at this time.

I'll turn it back to you, Mr. Balbirnie, for any additional or final remarks.

**Brian Balbirnie – Chief Executive Officer**

Thank you, Scott, Eric, and Miles, for the questions today, and to everyone else, thank you for attending today's call. As always, we look forward to talking to you again, either between now and the next call or on that next call.

Again, have a great day, and chat with you soon.