

**Transcript of
Issuer Direct
Second Quarter 2016 Earnings Call
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Participants

Steve Knerr
Brian Balbirnie

Analysts

Mark Lanier – Pegasus Capital
Scott Reed – Vision Financial Strategies

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation second 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

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 the remainder of 2016, followed by a Questions and Answers session.

This was a solid quarter for Issuer Direct, and we continued to make meaningful progress. The Q2 Financial Highlights with prior year quarter comparisons are as follows.

We achieved revenue of \$3.1 million, which represents a 1% increase over the same period in the prior year. Gross margin percentage expanded to 74% compared to 71%. The Company's GAAP earnings per share was \$0.12 per diluted share compared to \$0.03 per diluted share. EBITDA margin expanded to 28% from 18%

Non-GAAP net income was \$577,000, or \$0.20 per diluted share, as compared \$536,000 or \$0.23 per diluted share. The decrease in Non-GAAP EPS despite an increase in Non-GAAP income is the result of more shares outstanding due to the final conversion of the Red Oak Note into 418,000 shares of the company's common stock in August 2015.

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 \$1.0 million of cash flow from operations. On July 12, the Board of Directors announced an increase in our quarterly cash dividend to \$0.05 per share, making it the fourth consecutive quarter for paying dividends.

Highlights for the six months ended June 30 2016, with prior year period comparisons are as follows. We achieved revenue of \$6.4 million compared to \$6.2M. Excluding a one-time benefit of \$316,000 in Q1 2016, which I will discuss in more detail, revenue for the six months ended June 30, 2016 would have been \$6.1 million. Gross margin expanded to 75% from 71%. The Company's GAAP earnings per share was \$0.29 per diluted share compared to \$0.13 per diluted share. EBITDA margin expanded to 29% from 19%

Non-GAAP net income was \$1.1 million, or \$0.38 per diluted share, compared to \$1.0 million, or \$0.42 per diluted share. Again, the decrease in Non GAAP EPS was due to the increased share count as I mentioned earlier. Revenue increased 1% to \$3.1 million during the three-month period ended June 30, 2016 and 4% to \$6.4 million during the six-month period ended June 30, 2016. Included in revenue during the six months ended June 30, 2016, is a 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 PrecisionIR acquisition. Excluding this reversal, revenue would have been \$6.1 million, or down 1% compared to the same period of 2015.

Disclosure management revenue decreased 11% and 13% during the three and six months ended June 30, 2016, respectively, compared to the same periods in 2015, as the Company continues to face pricing pressure in the Edgar and XBRL markets. However, on a year-to-date basis, the 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 year as compared to the prior year.

Shareholder communication revenue decreased 9% and 2% during the three and six-month periods ended June 30, 2016, respectively, compared to the same periods of the prior year. The decrease is primarily related to the decline of our hardcopy ARS services as companies transition to electronic delivery or elect to leave the service altogether. In addition, customers have migrated from ARS to our new Investor Network Platform, resulting in a shift of revenue to our platform and technology revenue stream.

The second quarter proved to be another success for our press release business, which continues to grow, increasing 73% and 64% during the three and six-month periods ended June 30, 2016, respectively, compared to the same periods of 2015. This marks the third consecutive quarterly increase for the press release business, and is an area in which we will continue to pursue future growth. Additionally, our proxy printing and distribution services grew due to an increase in the number of projects as a result of new clients that we cross sold from our transfer agent business during the year. It is also important to mention that included in revenue for the six-month

period ended June 30, 2016, is the benefit of \$316,000 related to the reversal of the accrual for unused postage I mentioned earlier.

We also delivered another strong quarter from our platform and technology business, as revenue grew 99% and 94% for the three and six month periods ended June 30, 2016, respectively, compared to the same periods in the prior year. The primary reason for the increase was due to migrating electronic ARS customers to our Investor Network platform. Additionally, we had an increase in iProxy platform subscriptions, which was a direct benefit from our stock transfer client growth, as well as growth across our other platforms including transfer agent, iR Direct, and in our new cloud-based products of Blueprint and Classify. In a few minutes, Brian will discuss further, his outlook for our cloud based products.

Gross margin was 74% and 75% for the three and six months ended June 30, 2016, respectively, as compared to 71% for both periods of the prior year. The increase in gross margin percentage is due to our successful, yet ongoing transformation of the business to a cloud-first engagement, resulting in increased revenue in our higher margin press release business and platform and technology products.

Operating expenses declined slightly during both the three and six months ended June 30, 2016, as savings in consulting and professional fee expenses was offset by an increase in headcount of our sales team as we grow both our press release and platform and technology businesses. As a result of the increase in gross margin and decrease in operating expenses, EBITDA for the three and six months ended June 30, 2016 improved to 28% and 29% of revenue, respectively, compared to 18% and 19% for the same periods of 2015.

For GAAP purposes, we recorded net income of \$357,000, or \$0.12 per diluted share for the three-month period ended June 30, 2016, as compared to net income of \$65,000, or \$0.03 per diluted share for the same period of 2015. For the six-month period ended June 30, 2016, net income was \$850,000 or \$0.29 per diluted share compared to net income of \$302,000 or \$0.13 per diluted share.

Generating positive cash flow from operations remains a key focus of ours as we generated \$1.0 million dollars during the second quarter of 2016 compared to \$837,000 during the second quarter of 2015. We also increased our cash balance to \$5.0 million as of June 30, 2016 compared to \$4.2 million as of December 31, 2015.

During the second quarter of 2016, we continued our investment in product development and capitalized an additional \$260,000 of software development costs related to our cloud-based products, Blueprint, Classify and Investor Network., bringing our total investment to \$786,000 for the year. We anticipate we will continue to invest in these products, as well as our press release business throughout the remainder of 2016. I will now turnover it over to Brian, who will discuss some of our operational highlights for the second quarter and further planned activities for the second half of 2016.

Brian Balbirnie

Thank you Steve, and good afternoon everyone.

As Steve just pointed out, our second quarter picked up right where we left off in the first quarter. Not only did we deliver margin expansion, we also grew our top line year over year revenues...and sequentially grew in the areas we expected, platforms and technology and our Accesswire news business. In the past, we spoke about our planned systemic transition, from traditional, printed and mailed IR products business to a cloud-centric engagement focused on higher margin platforms and newswire. This transition is well underway, and is the sole reason for us being back on track to seeing sequential growth and, expansion in our profitability, thus creating sustainable shareholder value.

As many of you know, we are excited about our newswire business – during the first quarter of this year we increased revenues 12% sequentially over Q4 last year, and in the second quarter this year we increased the business 18% over Q1 2016. On a Year-over-year basis Q2 grew by 73%. This was achieved on virtually the same client count numbers (855) as the first quarter. Because of the Accesswire brand, our core issuer direct business was able to effectively cross-sell our solutions either leading with or adding on Accesswire news distribution. For the first time since last year, we were able to see an increase the number of clients adding more than one service or subscription. This translates to 550 clients, or 58% of our Issuer Direct core clients now purchasing two or more services, up from 51% in the first quarter of 2016 and 37% from Q2 2015.

Our Accesswire direct clients continue to grow, as our lower margin reseller business contracts – this has been something we have spoken about for several quarters. As a result, second quarter margins from our Accesswire brand increased to 83%, up from 79% in the first quarter and 70% for all of last year. We are just beginning to hit our stride in the news business - we will continue to add distribution, improve and enhance our analytics, and continue to expand our team with key hires.

Speaking of new hires, I am happy to report that Al Aneja, a 15-year newswire veteran, has joined our organization – Al will serve as the Vice President of Sales for Accesswire. Both he and James Michael, our Vice President of Sales for Issuer Direct, will work together to bring the Accesswire news brand and platform to market both here in North America, as well as Europe where we are focused on expanding our distribution and partnerships.

As a result of our client, and margin expansion, we are reinvesting in our news platform, so that we can continue these trends. One of the areas of investment, as we mentioned last quarter, is Accesswire being a fixture in the investor conference and trade show circuit – we remain committed to utilizing these venues to promote the brand where and when possible, as well as support the conferences where our partners and clients depend on exposure and engagement.

We are also seeing an increase in engagement from our news analytics platform for Accesswire, a trend we have been watching closely for the past couple of quarters. Our upgrade from last quarter is beginning to drive increases in traffic linking, shareholder engagement and throughput in our clients' messaging to the markets. I understand from an investor's viewpoint that we all expect to hear about earnings, margins and client growth, but – to see our client's engagement increase enforces what we are building here, and there is nothing better than satisfied customers who will then spread the word about our brand.

However, we clearly understand there is a lot of work to be done to continue our disruption in the market. One area specifically is distribution, where we continue to work to expand our partnered networks and syndication to a broader audience. Accomplishing this will result in increased client stickiness and further margin expansion.

Another area we are exploring is market commentary. We conducted small market tests in Q2 and will continue to test throughout the remainder of the year. We believe there may be significant opportunities to enhance our brand awareness and increase the value to our clients with the delivery of relevant market news such as earnings call announcements, and analysis of daily earnings events. It is also a great source for news analytics which we believe could be a competitive differentiator in our sales approach.

Lastly, being a public company ourselves, we are acutely aware of our “pitch tone” to our investors – not only on calls like this, but also in our written press releases, presentations and outbound public company messaging. Basically, what words should I use that resonate well with our industry and the investment community? Having a database built from a natural language translation engine would be an interesting measurement to analyze our written statements against others in a peer group – suggest replacements and rank a client's “pitch tone” with what and how the markets reacts. This is something we intend to bring to market by the end of year. Clients will

be able to select a platform option that will automatically analyze their messaging for a small fee per document. A unique offering that we believe will be cost effective for our clients and differentiate us in the marketplace.

Within our shareholder communications platform business is our Classify offering, a subscription based targeted outreach dataset. When we first released Classify to the market just a little over a quarter ago we expected to see smaller cap publicly-traded companies embrace the platform because of our price point. What we discovered is price is not the primary driver behind this buying decision. But rather, the quality of data and the raw need for it that is driving demand. At present, there are limited alternatives that measure up to the capabilities of our solution. Based on our clients' response, we continue to invest in this product, adding more record features, including institutional ownership and sell-side research reports. We expect this will result in a baseline increase in subscription fees going forward in Q3 and beyond.

Additionally, Classify has been a driving conversion tool used in renewals for our legacy annual report outreach business, moving clients from hard copy delivery of annual reports to a platform first tool. In short, where our offering was the passive shareholder outreach service of yesterday, today we are a nimble, targeted communications platform that is helping decrease the churn of our legacy business by giving clients the opportunity to take advantage of Classify for a period of time, a trial. This drastically changes the conversation with ADR Banks, larger cap clients, and smaller cap clients and prospective target.

Our Disclosure platform business, Blueprint, had some significant wins in the second quarter, not only did we win clients like the London Stock Exchange and Coca-Cola Femsa, the largest Coca-Cola bottler in the world, we also made significant progress both with foreign filers and in the domestic small cap space.

We are pleased with the progress we are making with Blueprint in the market, but like our Accesswire news business, we understand there are areas where we can do better. Multi-year subscription license agreements take time to close and therefore sales cycles tend to be longer than what we would like. This is typical within our industry now that the majority of clients are pursuing cloud-based systems to drive their business we feel confident of Blueprints success this year.

Part of this sales cycle change is the addition of iXBRL, an inline HTML SEC standard that is planned to be phased into filing requirements. Today this is a voluntary filing option for corporate issuers, with the final rule requirement being in 2020. Our blueprint platform is built to handle inline HTML that extends XBRL naturally. We intend to be part of the early adopters this year not only for us but our clients. Beginning with our annual report for 2016, we will begin voluntarily filing our annual and quarterly reports in this new standard.

The advantages of inline XBRL are immense for reporting issuers. Single sourced document creation and tagging right within one platform is what clients demanding, not only from an efficiency standpoint, but also accuracy of numerical flow through of values from financial statements to narrative disclosures. Our cloud-based tagging and html authoring system delivers this. But the reality is, most all Edgar-XBRL platforms will at some point deliver this capability.

Where our strategy is different lays within the platform, not just for some SEC filings, but overall corporate disclosure messaging - our taxonomy linking and cash-tag methodology will extend across our entire platform from quarterly reports and earnings releases to shareholder alerts and social delivery of announcements from our Accesswire news platform, that's for the corporate issuer. For shareholders were looking at ways of building hooks into our platform to allow investors the ability to leverage our taxonomies and search technology, to compare and analyze companies within seconds, this advancement will be delivered from our Investor Network app.

In our earnings release today we talked a bit about our key performance indicators, in total we do work with over 1,800 companies – 855 with Accesswire and 952 Issuer Direct. As we have mentioned in the past we are focused on client count numbers, and believe that next year we can then get more granular into subscriber numbers on our cloud-based platforms, we believe this will be a strong forward-looking metric for investors to track.

In closing, at the end of the second quarter we began our initial app promotion of Investor Network. During this event the Investor Network app reached the top 12 in the finance category for free app downloads, accumulating over 25K downloads and 16K users in a 4-day period. This soft launch validates our belief, that there is a clear opportunity in the market for unique data, social interaction and transparency within the investment community. We will continue to nurture this platform as we integrate more feature sets throughout the remainder of this year, that could include such things as unlimited trading for a flat rate or member only content such as videos and commentary directly from companies and analysts. The benefit of analytics is the driving force behind this initiative. And our ability to understand trends, buying patterns and industry movements can later translate into data subscription options for our corporate issuer clients.

As we further commercialize our platform business, we will be using the DMS term less and less as the platform itself takes precedence over the term “Disclosure” of the management system. The DMS name has served us well, and I suppose we will forever be remembered for coining the ‘disclosure management’ term in this business, but we have outgrown its use and the platform just fits us – Platform ID.

To go along with Platform ID, we may utilize something that was suggested to me by a shareholder recently as a very catchy slogan. He said “We’ve got your BAC”, no K - Blueprint, Accesswire, Classify. In a business where clients need to depend upon our platform, people and price – having ones BAC is truly what we do. Thank you Miles.

With that I’d like to turn the call back to the operator for questions.

Question-and-Answer Session

Brian’s Closing Remarks after Q&A Session

I would like to thank everyone for attending today’s call, as always, we look forward to talking with you again on our next earnings call. Meanwhile, if you have any questions, we would be happy to speak with you.

Thank-you.

Operator

(Operator instructions.) And we’ll pause briefly to allow questions to queue. And we can take our first question from Mark Lanier with Pegasus Capital. Your line is open.

Q: Thank you. Congratulations on the quarter. Would you update us on the metrics of the salesforce, comparing where you stand now with perhaps six months or a year ago, and also talk about what your plans are over the next six months to drive distribution both by salesforce increases and extensions of partnering efforts? Thank you.

Brian Balbirnie

Thank you, Mark. Currently today, at the end of Q2 period, our salesforce just in the direct sales model, both our account executives and strategic account managers, we’re 15 individuals focused both here in North America and in Europe. As we end the back half of 2016, we expect three to four additional individuals be added to that direct

salesforce. Where we're going to see the bigger gains for us in a sales and marketing push at the back half of this year is in our access for our news brand. With the mention of AI, as we talked about today, we're going to go ahead and add additional forces, both in the field and here in the office, perhaps doubling that force to a total of seven or eight individuals as well.

So our hope is, quite honestly, the chicken and the egg. It's good quality client distribution, or good quality clients rather and distribution go hand-in-hand. And so we're focused on both and have current negotiations going on with distribution partners to expand upon our current reach as we tie more sales folks and new hires.

Operator

And we can take our next question from Scott Reed with Vision Financial Strategies. Your line is open.

Q: Hello, Brian. Congratulations on a good quarter. So I have two questions. Actually, first of which, it seems like you're adding a number of products to your platform such as the document review and that's new to me but it sounds like they're really value-added and could be a real driver for sales for you in the future. But could you comment particularly on whether you see that as a way to differentiate yourselves from the competition or whether you guys are sort of unique in being able to provide these levels of services, and/or versus just trying to keep with competition like Donnelley?

Brian Balbirnie

Yes. No, it's a great question. RR Donnelley, Workiva, there's a couple of solutions in the market from a cloud perspective disclosure that have for years had a product in the market and we remain focused on meeting the demands of the market similar to which they have, but really extending the platform to our entire product set and suite.

So, whereas RR Donnelley and Workiva both will deliver best of breed disclosure platform products, they tend to not be focused on moving that data from one component and/or disclosure document to another, and that's really what our platform is focused on; is extending the earnings data out of an AK earnings press release and moving it throughout the rest of the platform for shareholder engagement and disclosure as well as regulatory. That separates us, that platform focus has been part of our strategy for years and that's where we tend to do well in the markets.

Q: Great. Then, next question. You'd mentioned that you have about 1,800 customers with about 850 in Accesswire and 952 in Issuer Direct, which would seem to imply that these are pretty much—there's not much crossover between the two groups. I just wanted to comment on at the same time you're saying that you are having more customers buy more products from you at any one time. Could you comment on the trajectory you see within the cross-selling opportunities and how you expect to continue to extend those?

Brian Balbirnie

Yes. I think the good focus for us over the next three to six months in our Accesswire news business is really extending our IR platforms of Issuer Direct where we will see good cost-selling initiatives headed by AI and the team, is extending our newsroom data feeds and our market data products as a subscription sale model to go along with Accesswire.

Where we see Accesswire in reverse from an Issuer Direct side that we anticipate more cross-selling activities is in our agency and practitioner models. A lot of the Issuer Direct clients and value-added partners have integrated our platforms and that investor relations earnings call webcast system tends to be a natural extension of what Accesswire brings. And so are the two areas of focus from a sales world, folks will tend to call that low hanging fruit and we see good anticipated growth based on our pipeline in those two areas.

So I would look for increases both in Issuer Direct and Accesswire clients in the back half of the year. I think the good news for us is we've maintained our core Accesswire clients from a revenue perspective and begun to increase because of the shift into the type of clients that we've got. So I expect now as that shift is coming to near its end from a reseller perspective, we'll start to see the ramp-up of clients. And as everybody knows in this market, and as we're enjoying the success of the Newswire business, this isn't one of our largest segments of our business today as far as growth.

Aaron, we could go to the next question if you'd like.

Operator

Certainly. We can take our next question from Miles Jennings, a private investor. Your line is now open.

Q: Good afternoon. I'd like to ask a question about two areas. The first is your XBRL database and the second is your mention of offering limited trading at a fixed cost. As the database goes, I assume that you've captured a lot of data of financial releases for corporations, and I'd like to get a better feel for what you have available in this database, for instance, the number of companies included in the database, number of years covered, how successful it is now, and the search function? And last, regarding that database, how would you expect to monetize this database for shareholders?

And my second question is just a follow up on something you mentioned which was regarding this limited trading. Could you be a little more specific about what that is? I assume it's not whale oil.

Brian Balbirnie

No. It is not. I'll answer the first question for you on XBRL, Miles. You're right, much like many of the folks in the market, since inception of XBRL, going back several years, we have been harvesting each one of those taxonomy linked bases for every corporate issuer that files today and beyond. So we're looking at foreign filers and converting some of their documents as well to build that XBRL repository or engine, so as we rollout our iXBRL solutions to our clients, they're going to be able to do a little bit of peer review side-by-side; not uncommon to what some of the folks in the market have. It's the same product set that you've got to be able to provide that comparative tools for us and I think you alluded a little bit to this from how do you monetize it, is to look at ways to give the investing community rather than the corporate issuer community a look into that data set and all of the data that we're providing our corporate insurer clients today, we have been housing for years and analyzing.

And so part of our bigger initiatives over the next 12 to 24 months is to really rollout product sets that are geared towards the investment community and that home investor, the retail Joe and pro type of individual that we're focused on. And so we see XBRL being a big part of that as a result of our advancements and blueprint and some other things that we're doing for market data and news distribution analytics. So that would be the biggest focus.

Your second question is something that is interesting to us in this, call it limited trading or unlimited trading, rather, is a way for an individual to subscribe to an investor network platform that would give way for them to trade securities like any other brokerage account for an unlimited flat fee per month. And we have built the hooks and the partnerships in order for this to be accomplished and it's something that we're evaluating for a backend of the year release on a limited basis, but it's truly unlimited.

Aaron, if we have any other questions, feel free.

Operator

At this time, gentlemen, there are no additional phone questions.

Brian Balbirnie

Thank you, Aaron. I'd like to thank everyone for attending today's call and as always, we look forward to talking with you again at our next earnings call. Meanwhile, if you have any questions, Steve and I both would be happy to speak with you at any time. Enjoy the rest of your day. Thank you.