ISSUERDIRECT
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Transcript of Issuer Direct
Third Quarter 2016 Earnings Call
November 3, 2016

Participants

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

Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation third 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.

With that out of the way, I'll begin by going over financial highlights, and then turn it over to Brian for his operational review and outlook, followed by a Q&A session.

This was another successful quarter for Issuer Direct, as we continued our transition to a cloud first engagement. The Q3 Financial Highlights with prior year quarter comparisons are as follows:

- We achieved revenue of $2.9 million, which represents a 3% increase over the same period in the prior year
- Gross margin percentage expanded to 74% compared to 70%.
- The Company's GAAP earnings per share was $0.07 per diluted share compared to $0.05 per diluted share
- EBITDA margin was 19% compared to 22%
- Non-GAAP net income was $403,000, or $0.14 per diluted share, as compared $484,000 or $0.19 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 over $500,000 of cash flow from operations
- On October 11, the Board of Directors announced a quarterly cash dividend of $0.05 per share, making it our fifth consecutive quarter for paying dividends

Highlights for the nine months ended September 30 2016, with prior year period comparisons are as follows:

- We achieved revenue of $9.3 million compared to $8.9 million. Excluding a one-time benefit of $316,000 in Q1 2016, related to the reversal of an accrual for unused postage credits related to ARS clients acquired in the PrecisionIR acquisition, revenue would have been $9.0 million, up slightly from the same period of the prior year.
- Gross margin expanded to 75% from 70%
- The Company's GAAP earnings per share was $0.36 per diluted share compared to $0.18 per diluted share
- EBITDA margin expanded to 26% from 20%
- Non-GAAP net income was $1.5 million, or $0.52 per diluted share, compared to $1.5 million, or $0.61 per diluted share. The decrease in Non-GAAP EPS despite similar Non-GAAP net 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.

As I noted earlier, total revenue increased 3% to $2.9 million and 4% to $9.3 million during the three and nine-month periods ended September 30, 2016 compared to the prior year. I'll now provide a little more detail on the trends across our revenue streams.

Disclosure management revenue increased 2% for the quarter, compared to the same period of the prior year. Driving the increase was an increase in transactional revenue in our transfer agent business due to specific projects with Regulation A+ clients as well as the community banking clients brought on during the latter part of 2015 and earlier part of this year. This was partially offset by the continued decline in our Edgar and XBRL businesses as we continue to face pricing pressure in these markets. The commoditization of these markets as well as shift of some of our users to Blueprint, has also led to the 9% decline in disclosure management revenue for the nine-month period ended September 30, 2016 compared to the prior year, however, was partially offset by the aforementioned increase in transfer agent revenue.

Shareholder communication revenue decreased 8% and 4% during the three and nine-month periods ended September 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. Our Accesswire press release business had another strong quarter, as revenue increased 77% and 68% during the three and nine-month periods ended September 30, 2016, respectively, compared to the same periods of 2015. As Brian will discuss in more detail, during the third quarter, we expanded partnerships and made investments of increased distribution and sales staff for our Accesswire product, which we anticipate will drive further revenue growth. Our Proxy and print distribution services also grew during the quarter and on a year-to-date basis due to an increase in projects as a result of successful cross-selling from our strategic account managers.

Our platform and technology business delivered another solid quarter as well as revenue grew 89% and 92% during the quarter and year-to-date periods, 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 increases in platform subscriptions, including transfer agent, iR Direct, and in our new cloud-based products of Blueprint and Classify.

Gross margin was 74% and 75% for the three and nine months ended September 30, 2016, respectively, as compared to 70% for both periods of the prior year. The increase is due to our continued transition to a cloud-based subscription model resulting in stream-lined costs and increased revenue from our higher margin press release and platform and technology products.

Operating expenses increased 14% and 3% during the three and nine months ended September 30, 2016, due to the increased investment in sales and marketing initiatives to drive revenue from our cloud-based subscription model. A majority of this investment began during the third quarter, which also resulted in a lower EBITDA % of 19% for the quarter, compared to 22% for the same period of last year. On a year to date basis, EBITDA % increased to 26% from 20%. We expect EBITDA levels to return above 20% for future quarters.

For GAAP purposes, we recorded net income of $195,000, or $0.07 per diluted share for the third quarter of 2016, as compared to net income of $137,000, or $0.05 per diluted share for the same period of 2015. For the year-to-date period, net income was $1.0 million or $0.36 per diluted share compared to net income of $400,000 or $0.18 per diluted share during the same period of the prior year.

We continue to focus on generating positive cash flow from operations as we generated $500,000 dollars during the third quarter of 2016 compared to $395,000 during the third quarter of 2015.

As I mentioned earlier, we also remain focused on furthering strategic partnerships, as well as continuing our investment in the development of our cloud based products. During the third quarter of 2016, we capitalized an additional $317,000 of software development costs related to Blueprint, Classify and Investor Network, bringing our total investment over $1.1 million for the year.

That concludes my prepared remarks, I will now turn it over to Brian who will talk further about our business transition and expansion.

Brian Balbirnie – Chief Executive Officer
Thank you Steve, and good afternoon everyone.

I'd like to begin by discussing our results and key peformance metrics, and then detail an emerging opportunity we have with Reg A+. Following that, I will provide an update on our core business segments while highlighting strategic partnerships and the enhancements we are making to our cloud-based products which will begin to roll-out toward the beginning of 2017. After that we'll open it up for Q&A.

Starting with the results and key performance metrics, as Steve just pointed out, the third quarter has been a continuation of the momemtum we are building upon from the first half of the year. 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.

In the past, we spoke about our planned systemic transition, from traditional, printed and mailed IR products to a cloud-centric engagement focused on higher margin press release, platform and technology products. This transition is close to being completed, and is a key reason we are back on track to seeing growth, expansion in our profitability, further creating sustainable shareholder value. We still believe we are undervalued and will continue to work hard to tell our story to the investment community.

As part of that messaging, one of the areas we tend to not talk about much is the diverse breadth we have in our growing customer base we serve today. During the third quarter we preformed work for 920 customers in our core Issuer Direct business and 954 in our Accesswire news business. Our short term goals of reaching 2,000 customers is within our reach, and something we are both excited and confident about here at Issuer Direct.

When you look at the types of clients that are buying our platforms and/or partnering with us, including the likes of Lincoln Financial, London Stock Exchange in our disclosure platform business, then in contrast dozens of pr agencies, and the legal community embracing Accesswire as a true news brand alternative, these are really some exciting times for us. The confidence and credibility we get from these marque brands enable us as an organization to grow in verticals perhaps never afforded in previous years. That benefit is our platform subscription business were building.

That subscription business will enable us to smooth the seasonality of some of our current and past years specifically in areas historically served. With that said, we are working hard to be in a position next year to report additional client metrics in a more reflective way, specifically subscriber numbers using our platform and ones that rely upon our services team, we believe this will be a strong forward-looking metric for investors to track. As such revenues will align with this thinking of our platform business and services business.

Our platform business continues to deliver strong growth, on a year over year basis, revenues grew 89%. Part of this increase is fueled by our migration from traditional business into and with our platform business, a planned migration we have spoken about for several quarters. Also, the majority of our other platform subscriptions have also increased further expanding our clients in stock transfer, our IR direct website business and obviously our Blueprint and Classify systems.

Accesswire continues its stong momemtium, not only did we increase client count numbers on a sequential basis by 12% from 855 in the second quarter to 954 in the third quarter. Today, our news business accounted for 18% of our overall revenues in the third quarter and growning. Very similar to our platform and technology business now growing to the same percentage of our overall revenues for the quarter. These two areas of extreme focus like we have said will lead to overall higher gross margins and ebitda margins, but could concievably account for up to 50% of our overall business in 2017; whereas in contrast when we started this pivit 18 months ago these businesses in combination accounted for less than 20% of our overall revenues.

Turning to an identified emerging opportunity for us, Regulation A+, one of the areas we have and will continue to spend sometime, and for investors whom we have spoken to about this, its important we put some color on this opportunity. this market it is by all accounts unknown as to the market potential here. Over the last year there have been around 200 companies file with the SEC to see to raise capital under this new regulation, of those 200, only 50 have been approved or as they refer to it 'Qualified' of those 50 only 2 have had successful offerings and closed on their financing and went public, Elio Motors and Coastal Banking, both of which are traded on OTCQX, the later being a client of Issuer Directs for over 8 years. Now this is not to mean there are not a dozen or more behind these two, and in fact we have a great pipeline of these potentional companies. In fact many of them we are already generating revenues this year. Specifically two recent wins, GK Development and VidAngel both when fully closed will have raised $100M. VidAngel themselves raise their first $10M in a week, most of which came in the first 36 hours.

See when we looked at the regulation A space we quickly realized most of what Issuer Direct has built from a technology platform could be of significant use in this market. For example – as a transfer agent and escrow agent we understand the securities process and shareholder journey – then couple it with our regulatory piece and general outreach we have a model that just works great for any company seeking to raise money and go public in the regulation A space. Lastly, the ARPU derived from thiese clients is promising and yielding more than 4 times that of our current levels on an annual basis. Something to be excited about YES, but something we will need to continue to foster and invest in being a leading platform for these companies.

So as part of our commitment we have built a platform that is live today - that follows the "test the waters methodology" this new platform is something we feel is unuiqe to the market as one of the only true test-to-invest platform available today. So how do we make money with this platform - We envision charging a one-time subscription fee for companies to place a profile listing of their company, clearly pitching their business opportunity under the SEC regulatory process for "Test the waters", if the indications of interest are meaningful, this is where our Issuer Direct engine kicks in and companies can then use our Blueprint, Classify, Accesswire and stock transfer platforms to meet the next steps in their quest of raising capital and seeking a public company market. I think its clear, the IPO market is showing no signs of rebounding and on a year over year basis the number of IPO's and total book size of current deals continue to retract to almost record low levels. It is our belief as well as many experts in this space that Regualation A will help foster growth in the small-mid cap IPO market.

Moving along to an update on our key business segments, this month marked the two-year anniversary of us being in the newswire business by way of our Accesswire acquisition in October 2014. Looking back over this time, we have increased revenues 2.5 times and moved top line gross margins from the mid 70's to 82% in the most recent quarter, and increased operating margins into the 67% range. As I have said in quarters past, we're just beginning to hit our stride in the newswire business - we continue to add distribution, improve and enhance our analytics, and continue to expand our team with key hires.

If I look back two years ago we had a handful of team members assigned to the Accesswire news business, today we have a full editorial and compliance team support our global clients, a dedicated and growing sales and marketing group, and world class partners we have worked hard to build go to market strateiges that will serve the Accesswire brand for years to come. We have set this business up to be fully independent of Issuer Direct, so that as it continues its growth we do not have an inbalance of operational needs internally, insuring Issuer Direct balance and brand is also equally staffed.

Looking at our next key business segment, our shareholder communications business, we have been paying attention to both what the market is looking for most in a platform, but also what attributes we can provide clear values. Being early to market with our Classify platform has given us clear takeaways and knowledge to build upon. In the last quarter more specifically, we addressed both performance charting, peer review and detailed institutional holdings over sectors and a group of peers in our new classify enhanced dashboard. By doing this we have opened up the platform access fees to be much more scalable for our issuer clients (pay for what you need) but also giving the practioners the ability to harness the power of the system in a more robust scaleable way. This approach will provide for an easier enagement to the issuers so that they can get the components most needed right at their fingertips. This new subscription model puts the power in the issuers hands to expand features right from their desktop without the need to undergo complex integrations and setup. Data can be added with a simple click and go – add a competitor, compare a peer, or assess the financial position of that competitor in seconds. We anticipate this subscription service will drive Classify rates into the $8,000 range per year, thus giving us the opportunity to drive further the Average Revenue per customer or ARPU.

This ongoing development with Classify as well as Blueprint is something I enjoying keeping our shareholders up to date on, as a matter of fact, Since Blueprint's arrival to the market this year, there have been over 1,500 SEC filings successfully completed by our customers using our platform– a number growing more and more every day.

We firmly believe that gross margins in our business will continue to improve as we continue to make progress in migrating current contracts with and into our subscription business, coupled with focus on new accounts in this area, as we see gross margins expanding next year, thus providing for further operating leverage moving our ebitda margins into the 20% + range.

As a result of our client, and margin expansion, we continue to reinvest in our business, and I'd like to highlight investments being made to our news platform. As we mentioned last quarter, we continue to invest in 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. Accesswire is now the leading news platform for conference presentation releases in the mid-small cap space.

However, we clearly understand there is a lot of work to be done to continue our disruption of the market. One area specifically is distribution and partnerships, where we spoke last quarter on something we would need to continue to work to expand. I am encouraged by our improvement here in the back half of the year, specifically with news distribution channels and strategic partnerships we have forged. These partnerships as well as the added distribution to our entire business they will provide is something we will begin to see in Q4 and definatley into early 2017. These are precisely the things that are helping improve stickiness and decrease churn in our business.

In closing, we have made major advancements to our overall brand – web properties and platforms – which are in the process of being rolled out beginning this month, something we're very proud of here are Issuer Direct, I know our marketing team has been working hard – day and night to get these improvements to market. This will include the rebranding of our business refinement process, encompassing our platform ID offering, formally our Disclosure Management System, as well as our services components. To align with this, we have added product managers to our platforms and solutions to assist in the brand identity of Platform ID.

In summary, our third quarter was strong. Adoption of our platform continues to gain traction with new and existing customers and our sales pipeline continues to grow, specifically in the areas that drive the most profitable growth for us long terms and that's our subscription business. We are excited about the multiple growth opportunities in front of us and as always, we remained focused on executing on our own initiatives.

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

Operator
We can take our first question from Scott Reed with Viction [ph] Capital.

Q: I just had a question on it looks like your SG&A went up about $300,000 over Q2, if I'm not mistaken, and it sounds like you're making a few investments this quarter that you expect to see yield results in the coming quarters. Could you comment on how the addition SG&A would break down between different investments versus overall cost structure and also on sort of timing when you expect to see some return from the investment in the sales force as well as the technology platform?

Brian Balbirnie – Chief Executive Officer
Yes, it's a good question, Scott. I think the majority of that expenses increase is attributable to our ramp up of our sales and marketing teams, our product brand managers, additional sales folks in the field strategically and virtually doubling our sales size or access to our news focus. That's the majority of that expense. So we're starting to see results now in Q4 happen as a result of these folks paying for themselves and believe that we'll continue to see those strong results into 2017.

Q: Additionally then, when you anticipate EBITDA margins north of 20% going forward, is that sort of the result of just higher gross margins, perhaps, higher revenue or lower cost structure or perhaps even EBITDA [indiscernible]. How do you see that sort of building out?

Brian Balbirnie – Chief Executive Officer
I actually think it's a combination of a lot of it is that we go through a refining process of moving a good amount of our current accounts into a platform subscription model. Our cost of delivery obviously is sharpened there so we're going to gain on that, but just purely subscription based businesses tend to have a much higher gross margin attributable to that segment as we're in 80%+ range compared to our low to 70% gross margin range. So I think you're going to see that that numbers grow as a result of those two things. We're not going to decrease operational staff by any stretch of the imagination. We're just going to get efficiencies of scale in that platform as would most subscription based businesses.

Q: Then finally, I know you commented that it looks like the IPO market has been in the doldrums, to say the least, for the last six quarters or so, I think is sort of the data I've seen. And there might be early indications that there's a bit of an uptick occurring and whether that sustains, who knows. But how tight are you guys to the new issues market and if we see that market improve, how much do you think would sort of flow through to your business?

Brian Balbirnie – Chief Executive Officer
We see the filings being made and the bookrunners running around, but there's no priced offerings as of yet, but I think your point is right. There looks like that the first of the year could be a little bit of an uptick. So anything that sits within our partnered exchanges (the New York Stock Exchange, the London Stock Exchange) we're going to see some direct revenue attributed from those and access to those clients to be able to pace our product platforms. As a result of that, that's really where it ends for us. So if it comes from other exchanges, we're just not in the market with them pre-IPO. Our opportunities for building pipeline with them come post-listing for those folks.

Operator
Then we will go to Miles Jennings, a private investor.

Q: I just had a few questions. First, has there been any pickup in new business opportunities as a result of the inline XBRL versus the full XBRL? Is there any way that it presents an opportunity to expand your business with this new requirement?

Brian Balbirnie – Chief Executive Officer

It's a good question, Miles. The iXBRL is a little early yet to see revenue attributable. We've got a lot of our larger cap clients are now beginning the discovery process to learn and understand the impacts of filing in this new way as a combined XBRL/HTML product offering. So for us, our focus has been on delivering current XBRL and Blueprint product platforms today with the understanding that iXBRL will be phased in more next year. I think where the revenue opportunity comes for us is a precursor to iXBRL insignificance and that the new taxonomy grouping mapping that the SEC will be releasing shortly that will cause some of the corporate issuers have to remap some financials for deprecated tags and things that the technical side that we're going to need to address. So we may see a little bit of a service uptick there from a consultative side of our XBRL teams, but the reality is iXBRL won't— we won't see an uptick in revenue or a client increase opportunity for us until mid-2017.

Q: You mentioned this new dashboard for your crowd funding Reg A where companies can sign up with you and start using some of our facilities and then as they raise money, expand into other areas. Would you happen to have a sample of your dashboard for that product either in hardcopy or digital?

Brian Balbirnie – Chief Executive Officer
Yes, it's available online today. It's just been put out as a beta test there. It hasn't been promoted yet. I'll give you the URL for it. It's loadedangels.com.

Q: My last question is I've noticed that you have this investor network website and also you have an application for the same. I'm trying to figure out how this really fits in to your business. Is it related to possibly some sort of stock service or is it just a matter of mining potential investors for your platform business? And if you give me a sense of timing for any sort of derivative products from this investor network link, I'd appreciate it.

Brian Balbirnie – Chief Executive Officer
You're correct. The reality is that investor interest drives a lot of our communications business for our corporate issuers, whether large cap or small cap. It becomes a vital component to their outreach and their investor relations initiatives to find both retail institution and high net worth individuals. So we use our brand [indiscernible] in investor network to help drive traffic from interested individuals in companies about earnings data, fact sheets, videos, corporate presentations and we utilize that database to promote to our clients and give them an outlet to reach that audience.

So investor network is one of those brands this year that we've brought to market in a small way to highly focus upon certain verticals and certain clients that generates about 10,000 to 15,000 unique visitors every single day to each of its product pages and/or stock [indiscernible] pages. And our hope is to continue and expand that as clients bring more data into our networks, we're able to then stream that data by their permission to those potential interested investors. So it's a lead-based management tool, in summary. But, it's a vital component as part of our shareholder communications business.

Operator
It does appear we have no further questions. I'll return the floor to you for any final remarks.

Brian Balbirnie – Chief Executive Officer
I would like to thank everyone today for attending today's call. As always, we look forward to talking to you again on our next earnings call. Meanwhile, if you have any questions, Steve and I both would be happy to speak with you at any time at your convenience. Thank you and have a great day.