Participants

Steve Knerr – Chief Financial Officer

Brian Balbirnie – Chief Executive Officer

Analysts

Eric Weinstein – Chancellor Capital

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation second quarter 2017 Earnings Conference Call. As a reminder, today's call is being broadcast live and recorded via Investor Network, a link of which can be found in today's earnings release. You can also view the full text of the Companies earnings release on their website in the investor relations section.

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.

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

Issuer Direct had another solid quarter as we were able to continue making progress with our platform products and generate increased revenue.

Total revenue increased 10% to $3,443,000 for the second quarter of 2017 as compared to the same period of the prior year and revenue of $6,298,000 for the six months ended June 30, 2017, decreased 2% compared to the same period of 2016. However, it is important to note that revenue for the six months ended June 30, 2016, included a one-time benefit of $316,000 due to the reversal of an accrual related to unused postage credits for ARS customers acquired as part of the acquisition of Precision IR. Excluding this one-time benefit, total revenue for the six months ended June 30, 2017 would have increased 3% over the same period of the prior year.

Platform and Technology revenue increased $577,000 or 51%, to $1,704,000 during the second quarter of 2017 and increased $1,045,000, or 50%, to $3,117,000 for the six months ended June 30, 2017 compared to the same periods of the prior year. Platform and Technology revenue increased to 49% of our total revenue for the quarter compared to 36% during the second quarter of last year as we continue to focus on developing and increasing this revenue stream. Again, our Accesswire product is the main driver of the increase as revenue increased 92% and 93% for the three and six months ended June 30, 2017, respectively, over the same periods of 2016. We continue to devote significant efforts to this product in terms of product enhancements, additional distribution and developing and growing our sales staff. These are all efforts we will continue to make this year and in the foreseeable future. We also experienced increased revenue from licensing of other products within our platform, most notably, our transfer agent, whistleblower, Blueprint and webcasting platforms. In a few minutes, Brian will talk further about development and enhancements we are making to our platform.

Services revenue decreased $268,000, or 13%, to $1,739,000 during the second quarter of 2017 and decreased $1,158,000, or 27%, to $3,181,000 during the six months ended June 30, 2017, compared to the same periods of the prior year. The decreases are primarily the result of a decrease in revenue from our annual report service, due in part to continued attrition as customers leave the service, decrease hardcopy requirements or transition to digital delivery. Additionally, on a year to date basis the decrease is attributable to the one-time benefit of $316,000 included in revenue for the six months ended June 30, 2016, which I noted earlier. We also continue to experience declines in revenue from our compliance services as the market becomes commoditized as well as a decrease in print and proxy distribution services due to the timing of certain projects.

Platform and Technology gross margin was 84% and 83% for the three and six months ended June 30, 2017, respectively, as compared to 83% and 82% for the same periods of the prior year. The slight increase in gross margin was due to an increase in revenue, partially offset by higher amortization of capitalized software. Gross margin from our Services revenue stream was 64% for both the three and six-month periods ended June 30, 2017, compared to 69% and 72% during the same periods of 2016, respectively. Excluding the one-time benefit noted earlier, gross margin percentage would have been 69% for the six months ended June 30, 2016. The decrease in gross margin was due to lower revenue associated with the fixed costs of delivering ARS, print, proxy and stock transfer services.

Moving down the income statement, operating expenses decreased $43,000 and $125,000 during the three and six months ended June 30, 2017, respectively, as compared to the same periods of the prior year, primarily as a result of a decrease in amortization costs due to certain intangible assets which became fully amortized during 2016. Partially offsetting these decreases were increases in G&A, sales and marketing and product development expenses due to an increase in professional fees, headcount and tradeshows costs as we look to further expand our offerings.

For GAAP purposes, we recorded net income of $493,000, or $0.16 per diluted share for the second quarter of 2017, as compared to net income of $357,000, or $0.12 per diluted share for the same period of 2016. For the six-month period ended June 30, 2017, net income was $817,000, or $0.27 per diluted share compared to $850,000 or $0.29 per diluted share. Excluding the one-time benefit recorded in 2016, we were able to increase net income by increasing revenue, maintaining gross margin percentages and lowering operating costs.

Looking at some Non-GAAP metrics, Non-GAAP net income was $590,000, or $0.20 per diluted share for Q2 2017 compared to $577,000 or also $0.20 per diluted share for the same period of 2016. Non-GAAP net income for the six months ended June 30, 2017, was $995,000, or $0.33 per diluted share as compared $1,105,000 or $0.38 per diluted share for the same period of 2016.

As a percentage of revenue EBITDA was 26%, or $901,000 for the second quarter of 2017 compared to 28%, or $878,000 in the prior year. For the six months ended June 30, 2017, EBITDA percentage was 23%, or $1,429,000 compared to 29%, or $1,975,000 for the same period of the prior year. Excluding the one-time benefit noted earlier, EBITDA % would have been 26%, or $1,659,000 for the six months ended June 30, 2016.

Moving to the balance sheet and cash flow statement, we continue to focus on generating positive cash flow from operations as we generated $810k dollars during the second quarter of 2017, increasing our cash balance to over $6 million. We also continue to focus on developing our cloud-based products, and as a result capitalized an additional $314,000 and $680,000 during the three and six-month periods ended June 30, 2017, respectively. Due to increased licenses of our Platform and Technology products, deferred revenue increased to $1,040,000 as of June 30, 2017, compared to $859,000 as of March 31, 2017. Lastly, on July 7, our Board of Directors declared a quarterly cash dividend of $0.05 per share, making it our eighth consecutive quarter for paying dividends .

Overall, we remain focused on our Platform and Technology products and commit to continue to invest resources through further development, increased distribution and bolstering sales staff in order to drive revenue, margin and EBITDA.

I will now turn it over to Brian who will discuss operational strategies and product enhancements to watch out for in 2017.

Brian Balbirnie

Thank you, Steve, and good afternoon everyone.

Once again, we are excited to speak with you today. Steve did a good job providing a detailed overview of our results for the quarter, which we are pleased with. Again, on a year over year basis, overall revenues increased 10% in Q2, and 21% sequentially from Q1 this year, and on a stand along basis, our platform business Increased 51% year over year and 21% sequentially from Q1.

For the second straight quarter, our platform business accounted for almost 50% of our overall revenues, we are confident we can further the overall revenue mix over the remaining part of the year, resulting in a higher percentage of our business coming from key platform subscriptions initiatives.

Even though our services business continues to see declines, we remain confident in our ability to maintain and grown our overall gross margins and ebitda margins long term.

Platform customers increased 13% totaling 1,854 for the quarter, compared to 1,644 for the same period last year, and on a sequential basis, Q2 was also up 5% from Q1 this year.

Service clients were down 12% to 550 for the quarter, compared to 622 for the same period last year. However, on a sequential basis, customers counts were up 6% from Q1 this year.

Now I'd like to expand upon a few areas from our second quarter, then what we are seeing in terms of market activity, the progress we have made in further positioning the company, and highlight some of our strategic priorities going forward. Following my comments, we will open the call up for questions.

Our services business, as Steve and I said earlier, saw an 11% decrease in customers from 622 last year to 550 this quarter ended June 30, 2017 and a 6% increase sequentially from the first quarter this year. We have spoken for well over a year about our business transition, and how we view the services component of our business, and how its heavily tied to printed goods, fulfillment and a commoditized compliance offerings – we continue to believe this part of our business will become less of our overall revenues.

Just over 2.5 years ago we embarked upon expanding our communications business with the purchase of Accesswire, its seems like yesterday, but we have progressed significantly since then. The first quarter 2015 was our first full quarter with Accesswire. Revenues were approx. 10% of our overall quarterly revenues back then – today Accesswire accounted for 30%. Clients have also grown significantly since then, from less than 200 to 1,239 in the second quarter this year. When we look forward another 2.5 years, we see Accesswire continuing its momentum in the market both in clients as well as revenue contributions.

We are focused on continuing our efforts to expand distribution not only in North America but also globally, and we continue to work to expand our sales footprint; and improve our platform, and client experiences. We also are working for the future by expanding our predictive analytics and machine learning techniques that we firmly believe will be a critical component of our platform long term.

I bring this up because we feel we have another component of our business about to ramp up in a very similar way as Accesswire has. I have spoken previously about on earnings calls. That component is our Real Time Engagement Analytics. A single source real-time dashboard, that gives customers the ability to view, analyze and target with stakeholders as they shape their message to the market.

When we strategically look at our business over the next several years, not just us, but everyone is struggling with providing the marketplace the engagement analytics, insight and platform technology to deliver a clear understanding of the who what where and when. Don't get me wrong, today everyone delivers a PR report on the news articles distributed to a client showing where the article was picked up, and in many cases the traffic, and after the earning event teleconference providers generate a list of participants, IR site analytics show traffic down to the pages. Then everyone works for hours to pull together all the data so that practitioners can work the phones to deliver transcripts, replays of calls and copies of earnings or presentation materials and or to schedule follow up calls with firms or individuals.

Honestly, I am here to tell you most of this data in its raw form is information overload, its comes from several different systems, it does not weave together and provide anything more than superficial value and to add to it, if you wanted to compare quarter to quarter or yearly data, you would end up using some manual spreadsheet and not connected to real-time information on your company and shareholders. With our Real Time Engagement Analytics, all the time previously spend compiling this data is gone, and not to mention this dashboard will provide insight into areas previously not available or known.

All of this starts with a company's message – let's take an earning event just like this one – just over 6 months ago we started broadcasting a few hundred of the biggest companies' quarterly calls. Today we're doing almost 2,000. I know what you're thinking, why? I will tell you, there is no better way to begin an analytics engagement plot, that an earnings call. To further quantify this assumption, the last couple quarters have seen thousands of unique requests from stakeholders seeking to listen to earnings events just like this one today. Since all events are announced via Accesswire, we gain brand awareness in the news business and credibility in our thirst for greater distribution. Then, our Investor Network delivers each and every event, where we tag, follow and analyze audiences to put us in a position to deliver deep analytics to our customers. These Real Time Engagement analytics will be made available to our customers exclusively under subscription for a nominal increase from what they are paying today. Issuers will be able to easily compare quarter to quarter or yearly data, without using some manual spreadsheet, which I mentioned before is currently the case, and finally will be connected to real-time information on its company, shareholders and peers in our platform.

We feel very good about the long-term performance of our communications platform offerings, some of which I just spoke about. This does not mean other components of our platform business are not preforming or we don't have a path to growth. As a matter of fact, anything that touches a shareholder, we feel extremely confident we can grow from a customer side, as well as build analytics and additional subscription revenues that will further unlock shareholder value for issuer direct.

Also, it's important to understand, as our platform gains further traction in the market, we will be compelled to migrate some of our service customers into a subscription engagement. So not only will we continue to see part of our service business decline due to print to digital initiatives, we will also see client migrate to platform options.

In closing, I want to spend a few minutes on some of our key strategic priorities by outlining them for you here today.

As most of you know, we have been transitioning from a services business to a pure play platform business, and in under 2 years have moved virtually half our revenues to our platform, we messaged this would be happening and have delivered on it. At that same time, we built a newswire from virtually nothing to over 30% of our business today, again something else we reinforced with confidence; and lastly – Issuer Direct's stock has delivered and its up more than double since this time two years ago when we started this pivot.

But we're far from done. Now comes the next phase of our company. Our predictive analytics and machine learning aspirations are being fine-tuned, not only with our proprietary developments but also with partners and their knowledge and advanced algorithms. This effort is not without difficulty – but the key is data, and good people, something we have –thankfully.

We intend to expand our platform subscription business early next year with some of these new developments, we have talked about briefly. We expect this analytic add-on to garner additional revenues per issuer and add significant values to our customers'. Additionally, we believe these new analytic components will help us find new markets for our platform technologies, such as, institutions, commentary contributors, hedge funds, and professional traders seeking to understand trends in the market in real-time. And competitively, we feel confident that we will have a significant advantage with an end-to-end solution unmatched in the market. Here are two examples of things you can expect from this platform expansion.

From a current customers perspective:
Subscribing to this add-on analytics engine, when setting up an earnings call, will be able to search our database of stakeholders that have interest in their industry and with the click of a button market their event or message to them directly with our platform, then in real-time see engagement, consumption and audience trends not only for their company, but also their peers for benchmarking purposes. In other words, how do I compare to my peers and am I getting the same interest.

From a new market opportunity, let's say a small fund or family office:
Licenses our data-set to understand trends in a particular sector that could assist in making investment decisions for their fund and or their clients. This insight would further show a presumption of market

sentiment of a particular company or sector.

However, with all this going on, we are not taking our eyes off, not now not ever, and we remain focused on continuing to expand our customers to our platform, expand our distribution points and partnerships, and add key team members when and where practical. Also, we remain very interested in finding opportunities either bolt on or accretive, that we feel can help us further build critical mass to our platform.

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

Question-and-Answer Session

Operator

Thank you. The floor is now open for questions. [Operator Instructions] Okay. Our first question comes from Eric Weinstein [Chancellor Capital]. Please state your questions.

Eric Weinstein

Wow, that was a good quarter. The transitioning and transformation of the business, seems like it's really playing out. Obviously, platform and technology continues to grow like wildfire. The services business with a drag from that was a lot lower than I was expecting. So even excluding the onetime benefit from last year.

The first quarter, down like 28% and I sort of sense guidance in the last call that, that might continue but it was down less than half of that in the second quarter and last year second half was kind of weak so I'm thinking of the drag effect on services and the total business seems like it's either stable to declining. And that was – started to stream growth rate that was a little bit more what the platform and technology business is gaining plus some of these lose services with respect to the low time analytics platform we'll be delayed. Can you talk – is that right? When can we start to see some stabilization in the services business as a drag?

Brian Balbirnie

That's a good overview and question Eric. There are two components happening, here right? As you know that typically Q2 for us and folks in the industry have a benefit of the annual meeting management and proxy process, right? You tend to see a little bit of that happen more so in Q2 than you do any part of the year.

So that's a component that helps with some of this follow up or drag to your point and the legacy businesses happening so I think if you give light to that you still continue to see the same declines in service, however, as we talked about in the last call a little bit, some of it is intentional, of migration into platform business, right? We're moving clients over. So we're helping that transition, which results in converge these lower revenues in that segment and to they're help offset by proxy to a degree but there's still some of that headwind is still at us.

Eric Weinstein

Okay. But I guess what I'm asking is, there's decline in the low to mid-teens, is that sustainable? Modestly we'll continue to see something declined but the teens as opposed to 25% to 30%?

Brian Balbirnie

Yes, as the markets continue to be what they are here. We believe that, the mid-teen numbers are probably a safe assumption, right? Unless capital market changes significantly and we could be then the resulting factor of additional decrease but, yes, I would safe to say mid-teens.

Eric Weinstein

Great. And then your number $6 million in cash, what are you going to do with it?

Brian Balbirnie

It's a great question. I think we're fortunate, we're in a good position both from a balance sheet perspective not only in cash but in any other regard whether such as long-term liabilities, nothing and a good cap structure. So, I think we're looking at the market saying there is opportunities for us, there's technology developments that we want to further progress, there's the opportunities for us to be very thoughtful about potential acquisitions and we continue to look at the space to seriously find opportunities that can further accelerate our platform. So, we're going use it wisely and as we always have, we're going to do the right things, and help to be able to find something.

Eric Weinstein

Great. Keep on doing what you're doing. Thanks.

Brian Balbirnie

Thank you, Eric.

Operator

[Operator Instructions] And it looks like that was the only question we had.

Brian Balbirnie

Good. Well, thank you, very much. Steve and I'd like to thank, everyone to for attending today's, and should you have additional questions after the review of our quarterly filing which will happen this afternoon, please feel free to give us a call. Have a great day. Thank you.