Operator

Greetings and welcome to the Issuer Direct Fourth Quarter and Year End 2017 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Steve Turner. Please go ahead.

Steve Knerr

Thank you, and good afternoon everyone. Brian and I would like to thank you for taking the time to participate in our call today. 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 complete, I'll begin by going over our results for the quarter and then turn it over to Brian who will provide his operational review and outlook, followed by a Q&A session.

The fourth quarter marked another productive and successful quarter for Issuer Direct as we completed the acquisition of Interwest Transfer Company, began integration of their processes and customers and continued with our transition to a platform first engagement.

We were also able to increase top-line revenue, as total revenue increased 22% to $3,399,000 for the fourth quarter of 2017, as compared to $2,774,000 for the same period of the prior year. Revenue of $12,628,000 for the year ended December 31, 2017, increased 5% compared to $12,059,000 in 2016. Revenue from recently acquired Interwest Transfer Company, totaled $404,000 for the fourth quarter and year ended December 31, 2017. Absent this revenue, organic growth for the quarter was 8%. On a year-to-date basis, the increase in revenue attributed to Interwest was partially offset by a one-time benefit of $316,000 in 2016 due to the reversal of an accrual related to unused postage credits for ARS customers acquired as part of the acquisition of PrecisionIR.

Our Platform and Technology business continued its pattern for growth, with revenue increasing 40% to $1,661,000 for the fourth quarter of 2017 and increasing 49%, to $6,398,000 for the full year of 2017. Platform and Technology revenue increased to 51% of our total revenue for the year compared to 36% last year as we continue our strategy to focus on our cloud-based products. The main driver of the increase was our Accesswire offering, as revenue increased 63% and 85% for the quarter and year ended December 31, 2017, respectively, over the same periods of 2016. We continue to be excited about Accesswire as the anchor of Platform ID and will remain focused on building growth throughout 2018. We also generated increased revenue from subscriptions of other components of Platform ID, most notably, our transfer agent and proxy offerings through the acquisition of Interwest, but also our whistleblower, disclosure reporting and webcasting modules. In a few minutes, Brian will talk further about our growth strategy to increase subscriptions to Platform ID .

Services revenue increased 9%, to $1,737,000 during the fourth quarter of 2017, compared to $1,588,000 during the fourth quarter of 2016. This increase is primarily the result of the addition of Interwest, which not only resulted in an increase in revenue from our stock transfer services, but also from our annual general meeting management and proxy distribution services through our ability to cross sell these services to Interwest customers. These increases were partially offset by the continued decline of our legacy annual report service, due in part to continued attrition as customers leave the service, decrease hardcopy requirements or transition to electronic delivery. Service revenue for the year ended December 31, 2017, decreased 20% to $6,230,000, compared to $7,765,000 in 2016. This decrease is primarily related to the decrease in revenue from our legacy annual report service I noted earlier, as well as declines in revenue from our compliance services as the market commoditizes and we can continue to face pricing pressure. Revenue from our print and proxy distribution services also declined due to the timing of certain projects and impact of one-time projects that occurred in 2016.

Overall gross margin percentage was 73% for the fourth quarter and year ended December 31, 2017, compared to 75% for the same periods of the prior year. Platform and Technology gross margin was 82% for the fourth quarter and year ended December 31, 2017, compared to 84% and 83% for the same periods of the prior year, respectively. The slight decline was due to increased distribution costs associated with our ACCESSWIRE business as well as increased amortization of capitalized software projects placed into production during the year. Gross margin from our Services revenue stream was 65% and 64% for the fourth quarter and year ended December 31, 2017, compared to 69% and 71% during the same periods of 2016, respectively. The decrease in gross margin was due to lower revenue associated with the fixed costs of delivering ARS and print and proxy distribution services.

Operating expenses increased $441,000, or 28%, for the fourth quarter of 2017, compared to the same period of the prior year. The increase is primarily attributable to less capitalization and increased product development expenses associated with ongoing maintenance and support costs associated with our cloud-based products that were placed in production during the year. As we continue to refine and improve Platform ID, we expect to see this line increase over prior year, however, see an offset on the cash expenditures that are capitalized. Additionally, general and administrative expenses increased due to the acquisition of Interwest and increases in stock compensation and bad debt expense related to certain projects. For the full year of 2017, operating expenses increased 1% over 2016. The increase is due to the same factors above, however, are partially offset by a decrease in amortization expense due to certain intangible assets that became fully amortized in 2016.

For GAAP purposes, we recorded net income of $745,000, or $0.24 per diluted share for the fourth quarter of 2017, as compared to net income of $510,000, or $0.17 per diluted share for the same period of 2016. For the full year of 2017, net income was $1,871,000, or $0.62 per diluted share compared to $1,555,000 or $0.54 per diluted share in 2016. It is important to note, during both the fourth quarter and full year ended December 31, 2017, the Company recorded tax benefits of $411,000 and $533,000, respectively, related to accounting for the passage of the Tax Cuts and Jobs Act of 2017 as well as the adoption of a new accounting principle. This is compared to tax benefits in the same periods of the prior year of $142,000 and $214,000, respectively ,related to the reversal of a valuation allowance on deferred tax assets.

That is a good transition to review some Non-GAAP metrics. Non-GAAP net income was $546,000, or $0.18 per diluted share for Q4 2017 compared to $498,000 or $0.17 per diluted share for the same period of 2016. Non-GAAP net income for the full year of 2017, was $1,987,000, or $0.65 per diluted share as compared $2,006,000 or $0.69 per diluted share for 2016.

As a percentage of revenue EBITDA was 19%, or $646,000 for the fourth quarter of 2017 compared to 24%, or $667,000, during the same quarter of the prior year, with the decrease being primarily attributable to higher operating costs noted earlier. For the full year of 2017, EBITDA percentage was 22%, or $2,739,000 compared to 26%, or $3,092,000 for 2016. Excluding the one-time benefit related to the reversal of the postage accrual note earlier, EBITDA % would have been 24% for 2016.

Turning to the balance sheet and cash flow statement, we ended the year with a cash balance of $4,917,000, as we continue to generate positive cash flow from operations, generating another $417,000 of cashflow from operations during the fourth quarter, and totaling $2,512,000 for the year. Additionally, on February 9, we paid a cash dividend of $0.05 per share, making it our tenth consecutive quarter for paying dividends.

Overall, it was another successful quarter and year for Issuer Direct. As we continue through our transition from a services Company to a cloud-based subscription business, we are excited to continue to drive organic customer growth through our strategic partnerships and increased sales staff. We are hopeful, this, along with the opportunity to strengthen our platform customer base by offering our entire platform of communication and compliance offerings to Interwest customers, will help us accelerate around the corner; and that the growth in our Platform business will outpace any continued decline in our services business. This will allow us to achieve our objectives of increasing revenue and earnings to maximize shareholder value.

I will now turn it over to Brian who will discuss more about the integration of Interwest, operational strategies and developments to watch out for in 2018, Brian?

Brian Balbirnie

Thank you, Steve, and thanks to everyone for joining us today to discuss our fourth quarter, and full year 2017. As Steve just highlighted, we posted a strong fourth quarter, and overall growth for the year, and as a recap:

- 2017 fourth quarter revenues, were up 22% compared to fourth quarter last year,
- Sequentially, fourth quarter 2017 was up 16% from the third quarter 2017.
- Full year, revenues were 5% higher than 2016
- And as a matter of fact, the fourth quarter was our best fourth quarter in almost 5 years, since 2013 when we acquired PrecisionIR.

Finishing 2017 strong was important for our momentum, but most importantly, validation on our Platform go to market strategy is paying off, and customers are now embracing a one platform play option, this is key to our growth this year.

Our platform business accounted for 49% of our overall revenues for the quarter, and 52% for the 2H of the year. On an annual basis our platform business represented 51% of our overall revenues, compared to 36% in 2016. In order to keep this momentum and further expand out platform strategy, new customer acquisition is extremely important as well as expansion of ARPU from our current customers. This will allow for us to maintain our higher margin business, and continue to deliver on our platform commercialization to the market.

Speaking of customers, we saw sequential net new client growth in both our Platform and services business, led by the acquisition of Interwest Stock Transfer. The Company had 1,819 Platform and Technology customers during Q4 2017, compared to 1,817 during Q4 2016 and 1,582 during Q3 2017, that's 15% sequential client growth. The Company also had 579 Services customers during the Q4 2017, compared to 546 during Q4 2016 and 493 during Q3 2017, again strong sequential growth of 17%. We still see slight lumpiness in the frequency of our customers doing work consistently throughout the year, however, with our complete platform subscription focus, we believe customers will use our systems more frequently are will benefit from our annualized bundling, thus giving us a better handle on our customers counts and ARPU.

The end of the year was busy for us in several ways. We closed and announced the Interwest Stock transfer acquisition, OTC partnership, LSE expansion into news with ACCESSWIRE, and expanded our sales and marketing teams.

To expand a bit on each, first, with Interwest, we are hard at work finishing integration, to give our newly acquired customers the ability to gain access to their shareholders via our platforms, as well as clear upgrade option to our full Platform id. suite. We're happy to report, by the end of the quarter, customers began taking advantage of these platform benefits. There are even more of them this current quarter that have realized a bundled approach to their compliance and communications needs. We have dedicated account managers and 7 operations personnel in our stock transfer group, which saw revenues grow 37% in 2017, and will be significantly more once we have a full year of ITC customers. In terms of impacts, the customers taking advantage of the full suite Platform upgrade, move their base subscription ARPU from $3,900 to $11,940.

Second, LSE, a strong and valued partnership that was expanded late last year and kicked off here in 2018 from disclosure to include news distribution, as previously announced – we look forward to leveraging this partnership, and bring our news offerings to the thousands of LSE listed issuers, and lastly, OTC – a tightly integrated platform offering between both companies that is geared toward a long term issuer approach of good corporate governance and disclosure. Both OTC and Issuer Direct built customer subscriptions and exclusive offerings that only can be found via issuers OTCIQ platform at OTC Markets. We are excited about this, and believe that of the 1,400 and growing OTC QX and QB listed issuers – we can see broader penetration levels of as much as 15-20% or approximately 250 additional customers. Today we already work with an estimated 15% of the OTC QX and QB issuers. These new wins could garner up to $600K in annual contracts on top of what we currently have today, giving us some of the much needed momentum as the majority of these issuers are in our 5 Billion less market cap segment, an area were heavily focused on.

The focus of our direct sales force will not change, these partnerships will just shine an obvious light on our OTC client base and enjoin the OTC listing professionals in insuring their market tier clients have access to best of breed solutions from Issuer Direct. We intend to insure the issuers of OTC understand these offerings that are available under this partnership. Based on basic compliance and communication needs, these clients spend a minimum of $17,500 annually on their disclosure and communication needs. Our Alliance targets two critical components 1) to reduce the annual spend and 2) to decrease the complexities of maintaining compliance by integrating into and with one single interface, in this case its OTCIQ powered by Issuer Direct. In many cases we will not see the full annual spent initially, as OTC listed issuer through this partnership have several specific bundles beginning in the sub $1500.00

This next phase of these partnerships will help us maintain our margins, grow our business, expand ARPU and provide real opportunities to become an industry leading platform. Even though our services business continues to be lumpy, we remain confident in our ability to continue this transition and grow our overall platform business, which should have a positive impact on our overall revenues, margins and ebitda, which will further unlock shareholder value for issuer direct.

For a big part of 2017, absent of being focused on execution and customer growth, we were focused on gathering analytics, and learning more about audiences, engagement and the impacts of those. If you can't tell, we love what we do, which makes us honored by the fact that we can get to this next level of our business. Building a platform for our customers was a big step in this journey, but this next phase of expansion will show our maturity in understanding the industry better than our competitors, and bringing to market the insights customers will soon demand. This is something we strongly believe will be valued by our customers and their practitioners, but also us in this next growth phase of our business.

This analytics and engagement engine will give our customers access to their shareholders in as real-time as possible, laying out the journey of where our customer met their shareholders for the first time – maybe a conference, when they became a shareholder, what content they are consuming, like earnings release, transcripts, webcast earnings call, and or other financial data. In contrast it will also then point out who is not consuming and or engaging, so that our customers can retarget and reengage these audiences. Obviously the investor relations community has some of this data as do the corporate issuers, but they don't have it in a centralized place to query, analyze, and target – and as our engine gathers more market data, we can then provide screens to benchmark and provide engagement scores to our customers based on their peers.

Obviously our networks and breath to the market is going to be critical here, without a presence for content to be consumed we will have no data to analyze. This is where our conference partnerships, Investor Network and webcasting systems and newswire platforms come into play. As you all are aware, we have been delivering news to the investor conferences circuit for over a year, and now late last year with webcasting and coming this year a complete conference platform for investors, to learn more about our customer via our partnerships with the conference organizers.

In closing, I would like to highlight again, the revenues trends were seeing in our overall business. In the back half of the year, our platform business accounting for 52% of our overall revenues. Something we feel confident will grow even further this fiscal year and beyond. I think delivering on this stated transition to a platform first engagement speaks to the valued our shareholders are placing on the business.

We are also focused on further investing in our people and technology, specifically key management, sales and marketing teams, and staff to deliver this next layer of growth. We believe we are on track to sustained client growth, improved retention rates, and higher gross margins. Key to these attributes, will be to deliver on our Platform id. subscription business, broader ACCESSWIRE distribution and expanding the markets we can serve. Additionally, we are inquisitive and believe there are further bolt on to our business, than can help Issuer Direct get there even faster.

As we discussed last fall, we expect to see progress from partnerships like OTC, consistent customer growth as a result of our sales and marketing expansion, and additional benefits from the ITC acquisition. We are encouraged by the customer mix, specifically the new wins that are purchasing the entire platform, which is where our pipeline is growing the most. In summary, we posted a solid quarter and demand remains healthy for our platform and we remain motivated on executing our growth plans this year.

We are now ready to take your questions. Operator, could we please begin the Q&A portion of our call. .

Question-and-Answer Session

No Questions

Operator

If there are no questions at this time, I would like to turn the call back to Brian Balbirnie for closing remarks.

Brian Balbirnie

Thank you. And I'd like to thank everyone, again, today for taking the time to listen to Steve and I talk about our fourth quarter and year end numbers. If anybody has any follow-up questions after our Annual Report is filed this afternoon, we welcome an opportunity to speak with you again. Thank you. Enjoy the rest of your day.