

Transcript of
Issuer Direct Corporation
Q2 Quarterly Conference Call
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Participants

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation
Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation

Presentation

Operator

Thank you for standing by, and welcome to the Issuer Direct Corporation Second Quarter 2022 Earnings Conference Call. Today's call will be conducted by the Company's Founder & Chief Executive Officer, Brian Balbirnie, and its Chief Financial Officer, Tim Pitoniak.

Before I turn the call over to Mr. Brian Balbirnie, I'd like to read you the company's abbreviated safe harbor statement: I'd like to remind you that statements made in this conference call concerning future revenues, results from operations, financial positions, markets, economic conditions, product releases, partnerships and any other statements that may be construed as a prediction of future performance or events are forward-looking statements, which may involve known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from those expressed or implied by such statements. Non-GAAP results will also be discussed on the call. The Company believes the presentation of non-GAAP information provides useful supplementary data concerning the Company's ongoing operations and is provided for informational purposes only.

With that said, Mr. Balbirnie?

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

Thank you, operator. Good afternoon, everyone and thank you for joining us today to discuss the company's second quarter 2022 results. At the market-close we issued a press release announcing our results for the quarter, a copy of which is available in our newsroom. During today's call, we will be referencing these results as well as discussing the second half of this year.

Our second quarter results were up 2% year-over-year, reaching a new record high for quarterly revenue. We also drove margin improvements, increased our deferred revenues and bookings over the prior periods, which Tim will cover shortly. ACCESSWIRE's double-digit growth continues and compared to the market, we continue to outpace incremental growth compared to the bigger three newswires in the second quarter. During the call today we will update you on our product mix, customer counts and overall progress in our platform.

But before I turn the call over to Tim for his prepared remarks for the quarter, I wanted to provide an update on the company's recently announced repurchase plan. On March 5 of this year, the board announced a \$5 million repurchase plan. In the first quarter we were able to repurchase 6,200 shares or about \$182,000, and in the second quarter, we were fully in the market and repurchased a 163,000 shares or approximately \$3.9 million, leaving just less than \$1 million dollars remaining at the end of the second quarter in the plan. We are continuing to repurchase our common shares under this plan with the remaining allotment, subject to limitations and plan total.

We expect to complete the plan early this month and are evaluating further repurchase plans in the near term. As I said in the past, we believe share repurchases are a good use of capital as part of our diversified capital allocation strategy. Long-term, we remain confident in our business, and our cashflows generated from operations -- repurchasing is an ideal way to reward our shareholders.

And with that, I'll now turn the call to Tim.

Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation

Thank you, Brian, and good afternoon, everyone. As Brian mentioned we were able to reach a new record high for quarterly revenue as well as improved gross margin. This was primarily driven by our ACCESSWIRE news brands as revenue and gross margin improved for the three and six months ended June 30, 2022. I will now highlight some of the financial results we achieved during the second quarter and first six months of 2022.

During the second quarter of 2022, we achieved record quarterly revenue of \$5.8 million, a 2% increase from \$5.7 million in Q2 of 2021. For the six months ended June 30, 2022, total revenue was \$11.1 million, a 4% increase from \$10.7 million for the first half of 2021. The increase for both periods was primarily driven by our Communications revenue stream, which increased 5%, and 6% during the three and six months ended June 30, 2022, compared to the same periods of the prior year.

During Q2 2022, and for the first six months of 2022, Communications revenue accounted for 64% of total revenue. In the prior year, communication revenue was 61% and 63% of total revenue, respectively. The increase in communication revenue was driven by our ACCESSWIRE branded newswire, which increased 16% for both the second quarter and first half of 2022 compared to the same periods of 2021.

We also had increased revenue from our investor relation website and news feed products. These increases were offset by a decline in revenue from our events and webcasting business due to lower demand for these products. Revenue from our Compliance business was down 4% for the second quarter and flat during the first half of 2022 compared to the same periods of 2021. A decline in revenue from our stock transfer services due to less corporate actions and a reduction in our legacy ARS services was partially offset by an increase in revenue from our print and proxy fulfillment services due to increased projects associated with annual meetings and special transactions.

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Changing gears to gross margin, our overall gross margin percentage improved 300 basis points and 400 basis points during the three and six months ended June 30, 2022 compared to the same periods of the prior year. Gross margin percentage was 77% for both the second quarter of 2022 and first half of 2022 compared to 74% and 73% for the same periods of last year. Gross margin from our Communications business increased 5 percentage points for both the quarter and first half of 2022 due to lower teleconferencing and distribution costs coupled with an increase in ACCESSWIRE revenue as a percentage of total communication revenue.

Gross margin percentages for our compliance business decreased 1 percentage point for the three months ended June 30, 2022 and increased 1 percentage point for the six months ended June 30, 2022 compared to the same periods of the prior year. The decrease for the second quarter was due to a higher percentage of revenue attributed to our lower margin print and proxy and fulfillment services business.

Moving down to operating income, we posted operating income of \$1.2 million for the second quarter of 2022 compared to \$1.4 million during Q2 of 2021. For the six months ended June 30, 2022, operating income decreased to \$1.8 million from \$2.1 million during the first half of 2021. The decrease in operating income despite an increase in revenue and gross margin is due to an increase in our operating expenses, primarily due to our continued investment and expansion of our corporate, sales, and marketing teams.

G&A costs increased 24% and 22% for the three and six months ended June 30, 2022 compared to the prior year due to an increase in stock compensation and other corporate initiatives associated with the investments in our business. Sales and marketing costs increased 13% for the second quarter and 15% for the first half of 2022 compared to the same periods of 2021 due to our continued investments in sales and marketing initiatives with an increase in headcount, advertising, and digital marketing spend.

Product development costs decreased 16% for the quarter and 3% for the first half of 2022 compared to the same periods of the prior year. This decrease is due to fewer consultants used on development projects during the current year, partially offset by cost capitalized in the prior year related to the development of our newsroom product.

On a GAAP basis, during Q2 of 2022 we generated net income of \$841,000, or \$0.22 per diluted share, compared to \$1.1 million, or \$0.29 per diluted share, during Q2 of 2021. Net income was \$1.4 million, or \$0.36 per diluted share for the first half of 2022 compared to net income of \$1.7 million or \$0.43 per diluted share for the first half of 2021.

Looking at some non-GAAP metrics, EBITDA for the second quarter of 2022 was \$1.3 million, or 23% of revenue compared to \$1.6 million or 29% of revenue, during Q2 of 2021. For the first half of 2022, EBITDA was \$2.2 million or 19% of revenue compared to \$2.6 million or 25% of revenue during the first half of 2021. Non-GAAP net income was \$1.1 million or \$0.29, per diluted share for Q2 of 2022 compared to \$1.2 million or \$0.31 per diluted share during Q2 of 2021. For the first half of 2022 non-GAAP net income was flat compared to the prior year at

\$1.9 million, however increased to \$0.01 per diluted share, due to shares re-purchased through our 2022 buyback program.

Switching over to the balance sheet and cashflow statement, our deferred revenue balance, which is revenue we expect to recognize primarily over the next 12 months, increased to \$3.5 million as of June 30, 2022 compared to \$3.1 million as of December 31, 2021, an increase of 13%. On the cash flow statement, our cash flows from operations for the first half of 2022 was \$1.6 million compared to \$2.1 million in the prior-year. This is the 30th consecutive quarter of positive cash flows for the Company.

I'll now hand it over to Brian, who will provide some updates on the business, our new products and everything else we have planned for the remainder of the year, Brian?

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

Thank you, Tim. This second fiscal quarter produced another record quarter in revenues in our 16-year history. Although this is a milestone, we are focused on process improvements, further operational efficiencies, and marketing changes to guide the business through these interesting times. Last quarter I spoke about margin improvements for the remaining part of the year. Q2 delivered, increasing margins percentages by 300 basis points over last year, delivering another quarter at 77% total gross margins.

From a customer count perspective, we ended the quarter with 3,715 customers, up from 3,483 in the prior quarter, and essentially flat over the prior-year. Again, these customers reported, are ones that were active in our platform and contributed to revenue during the period. And in our subscription business, we finished the quarter up 20% to 966 from 804 customers subscribing to our products. Additionally, we have continued to drive average revenues per customer from \$6,207 last year to \$7,165 this year in the quarter.

Of the 966 subscribers accounted for approximately 30% of our overall revenues for the quarter and on a standalone basis ACCESSWIRE accounted for approximately 45% of total revenues. As Tim just said, ACCESSWIRE revenues grew 16% for the second straight quarter, albeit down from prior-quarters growth, we will continue to monitor reductions in volumes across the industry something we believe in short term. When budgets tighten, part of our business is susceptible to immediate sways in volumes which can affect results. However, if markets do in fact continue recessionary waves, we will see budgets become a driver in the decision of selecting a new vendor or partner, something we have seen in 2008 and briefly in 2020 which our business has benefited from higher revenues, increased customer counts and sustained cashflow from operations in those periods.

I have a great deal of confidence in our team and in our products, but we clearly understand for a good portion of the business, the capital markets do drive a lot of activity. Our overall long-term outlook is optimistic in our communications business, specifically our newswire ACCESSWIRE and our core IR products that power websites and earnings events. During stay-at-home orders and hybrid periods, we did benefit from revenues in our Events and webcasting business but like our competitors, this is returning to pre-COVID levels. In fact, based on publicly available data,

we're seeing some of our competitors experience dramatic drop offs in demand that is affecting their business in several ways, thankfully we have a diversified product line up and that shift has not impacted us as much.

Driving results in our new business team is paramount to our growth, both short and long-term. This quarter, our new logo team or our business development team drove over \$850,000 in new contract value. We also saw really good improvements in our client services team, who manage the customers, cross-selling and upselling an additional \$750,000 in new business for the quarter; and because of this, we still remain just over 15% market share in the Russell Microcap Index.

We also have seen revenues expansion in larger cap customer like Moderna, and new wins in the mid-cap space from marquee customers like Insperity and KnowBe4.

Moving along to our Products and platform, we have made considerable progress in our ADA compliance both in our Pro versions of our IR website business as well as in our Newswire ACCESSWIRE. We are weeks away from becoming the first major Newswire in North America to produce 100% compliant content from our ACCESSWIRE platform. We have been in conversations with several ADA software platforms and have them independently score our newsrooms and articles against Business wire, PR Newswire and Globe Newswire -- this is a major milestone for us and we are fully committed to not only furthering our product innovation, but also the reliance that our customers place in us giving them the confidence they have selected the right partner for today and for the future.

This now makes ACCESSWIRE a SOC 2 Type II and ADA compliant Newswire, that is approved, partnered and or integrated with all five major exchanges and marketplaces in North America and the U.K. You will see further product announcements here in the coming weeks as we further role this out.

ADA is also a part of our IR platform as we talked about last quarter, this feature and integration is a requirement and a must have product feature for our customers. It's like an insurance policy for compliance related to compatibility issues, something the hundreds of our customers using this service depend on and expect from a best-of-breed solution. The by product for us is expanded subscriptions for our customers that opt to be proactive, which will result in our IR product revenues growing by a range of mid-teens to 20%, something we're beginning to see here in the third quarter, this is a reoccurring additional revenue stream not a one-time services engagement.

Another product enhancement coming at the end of Q3 is our planned upgrade to our analytics and dashboards tools. We have been able to improve engagement visibility down to the source, also allowing our customers to compare their engagement against their peers by industry in our network and another example, we are updating our social connections to pull better social media analytics and also look to add several more platforms in the coming quarters. The driver for this is in response to our customers and what our prospects are saying about the competitors and what they want to see in their management dashboards and reporting tools from us delivering on this should allow us to increase customer stickiness and sell through of other related products and solutions.

From a corporate perspective, the first half of the year has yielded us both a DEI and ESG policy, I encourage you to review these policies both on our corporate website. Both initiatives will continue to evolve over the coming years that will be driven from our shareholders, employee-base and customers. In closing, we still see real opportunity in our installed base. I personally think that we are well positioned to weather what is becoming a dynamic environment. If customers need to do more with less, we're here for them. We're going to continue to invest in our business but should budget belts need to be tightened, we stand ready.

Importantly, we took share in Newswire again this quarter, and increased customers subscribing to our platform both year-over-year and sequentially. Increased average revenues per customer as we look to the future, our second quarter results continued to demonstrate our ability to manage our business effectively despite the challenging operating environment.

Thank you for your time today, it is always a pleasure talking to you about our results, and where we're headed. Operator, could we please begin the Q&A portion of our call.

Operator

Certainly, ladies and gentlemen, the floor is now open for questions. [Operator Instructions] First question is coming from Mike Grondahl from Northland Securities. Mike, your line is live.

Q: Hey guys, this is Luke on for Mike. Congrats on the solid quarter.

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

Thanks, Luke.

Q: Just wanted to touch, yes, I just wanted to touch here first on the European expansion. I think last call you guys had mentioned maybe by mid-year this year, with the European expansion and then as well as in the Asia-Pacific and South American regions by late '22. Just any updates there and is that still in the works?

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

It is, absolutely we're on track and completing the final testing with a couple of partners in Europe now. We'll move next to regulatory approvals with them, that won't prevent us from beginning to market. And then the late part of this year we will begin Asia-Pacific, APAC regions.

Q: Okay, got it. And then just to touch on last call, you guys had mentioned that natural language processing testing which was maybe going to start early in Q3. Any updates on that?

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

Yes, it's a good point. We didn't talk about it in today's call, the team continues to make progress. It's going to be a pretty big effort from a development standpoint to really narrow down the most important elements of what customers are going to need in the drafting process, and help them to interpret and find different tonalities likely something that we won't see in beta till early next year. But something our development team still is continuing to work for.

Q: Great, awesome. Well, thanks for taking the questions guys.

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

Thank you, Luke.

Operator

Thank you. [Operator Instructions] And there were no other questions from the lines at this time.

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation

Paul, thank you. Sure as always, I appreciate it. Thank you to all of our shareholders and interested parties spending time with us today to talk about Issuer Direct second quarter results. We look forward to talking with you again, both in in-person and online in our next call. Have a great afternoon.

Operator

Thank you, ladies and gentlemen, this does conclude today's conference. You may disconnect your lines at this time. Have a wonderful day. Thank you for your participation.