Transcript of
Issuer Direct Corporation
ISDR First Quarter 2024 Earnings Conference Call
May 09, 2024

Participants

Jennifer Hammers - EVP of Sales & Marketing, Issuer Direct Corporation
Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation
Steve Knerr - VP of Finance, Controller, Interim Chief Financial Officer, Issuer Direct Corporation

Analysts

Presentation

Jennifer Hammers - EVP of Sales & Marketing, Issuer Direct Corporation

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation First Quarter 2024 Earnings Conference Call. My name is Jennifer Hammers, Executive Vice President of Sales and Marketing. I've been with Issuer Direct for three years, leading an amazing team of 32 professionals. Like I, they care passionately about our customers and our brands. Like my fellow employees doing this in previous quarters, this is our way of ensuring our shareholders get to know all of us here at our company.

With that said, it is my pleasure to introduce the company's Founder and Chief Executive Officer, Brian Balbirnie; and our Chief Financial Officer, Steve Knerr. Before I turn the call over to Mr. Balbirnie, I'd like to read you the company's abbreviated Safe Harbor statement.

I'd like to remind you that the statements made in this conference call concerning future revenues, results from operations, financial position, 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 this 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, Brian, I hand it over to you.

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

Thank you, Jen, and happy third year anniversary to you. I believe it's next week actually. For those of you that don't know Jen, she is the quintessential leader of a sales and marketing team, high energy, always pushing for more, and working tirelessly on moving the business forward in every way possible.

The brand we started 18 years ago is stronger today because of her and her team's efforts. The new product names like Amy, PR Optimizer, and our new Media Suite are her creations. Keep it up, I can't wait to do our rebrand with you.

With that said, greetings everyone and thank you for joining us today to discuss the company's first quarter 2024 results. I am not pleased with our first quarter. Total revenue was down 19% year-over-year to $7 million. And I have said in the past quarters, our Compliance business would decrease by single-digits each quarter, actually always performed or exceeded in those prior years. Unfortunately, this quarter our Compliance business was down 27%. Our Communications business also was down 17% for the year-over-year basis. There are leading indicators as to why this is occurring in our business, which I will discuss later as well as what our plans are to correct, insulate, and regain our growth trajectory.

There is a lot more to talk about, so I will turn the call over to Steve to cover the first quarter highlights. Steve?

Steve Knerr - VP of Finance, Controller, Interim Chief Financial Officer, Issuer Direct Corporation

Thank you, Brian, and good afternoon, everyone. As Brian mentioned, 2024 is off to a slow start. However, we are encouraged by our ability to continue to generate positive cash flow from operations. I'll now highlight some of the results we achieved during the first quarter of 2024. Total revenue was $7 million a decrease of $1.7 million or 19% compared to $8.6 million for the same period of 2023. The decrease was due to decreases in both our communications and compliance revenue streams.

Our communications business decreased $1.1 million or 17% to $5.5 million or 78% of total revenue. For the first quarter of 2023, communication revenue accounted for 76% of total revenue. Decrease was due to both decreases in volumes and pricing in both our ACCESSWIRE and Newswire news distribution brands. Additionally, we had a decrease in our Webcasting and Events business due to a large conference that occurred in the first quarter of last year did not occur this year.

Compliance revenue decreased 27% or $550,000 during the first quarter of 2024 compared to the same period of 2023. The decrease was primarily related to a decrease in revenue from print and proxy fulfillment services due to fewer and smaller transactions than in the prior year. Additionally, we had a decrease in revenue from our transfer agent services due to a decrease in corporate actions and directives during the period. Revenue from these two services tends to fluctuate from quarter-to-quarter because they are project based and dependent on market activity.

Switching over to gross margins. Our overall gross margin decreased 23% or $1.5 million to $5.2 million. Gross margin percentage was 75% for the first quarter of 2024 compared to 79% for the same period of 2023. Gross margin from our Communications business decreased from 79% in Q1 of 2023 to 75% for the first quarter of 2024. This was primarily attributable to the lower revenue just discussed. Gross margin percentage from our Compliance business also decreased to 75% compared to 78% during the first quarter of 2023. This decrease is primarily due to lower margins on smaller print and proxy fulfillment projects and lower transfer agent revenue.

Moving to operating loss, we posted an operating loss of $52,000 for the first quarter of 2024, compared to operating income of $581,000 during the first quarter of 2023. The decrease in operating income is primarily due to the decrease in revenue and margins I just noted, partially offset by a decrease in operating expenses.

General and administrative costs decreased $513,000 or 22%, due primarily to a benefit related to the reversal of previously recognized stock compensation expense associated with the resignation of an Executive Officer as well as lower non-recurring transaction and integration expenses, partially offset by an increase in bad debt expense. Sales and marketing costs decreased $285,000 or 12% as compared to the same quarter of the prior year due to lower headcount and reduction in sales commissions.

Lastly, product development costs decreased $120,000 or 16% as compared to the prior year. This decrease is primarily due to capitalization of $245,000 of costs related to additional development of our Media Suite product as well as enhancements to our ACCESSWIRE system. No costs were capitalized during the first quarter of 2023.

On a GAAP basis, we reported a net loss of $139,000 or $0.04 per diluted share during the first quarter of 2024, compared to a net loss of $144,000 also $0.04 per diluted share during the first quarter of 2023. Net income for the first quarter of 2024 is consistent with that of the first quarter of 2023, despite lower operating income, because we recorded a gain, a change of fair value of our interest rate swap of $205,000 during the first quarter of 2024 compared to a loss of $165,000 in the prior year. We also had a loss of $370,000 recorded in the first quarter of 2023 related to the early extinguishment of debt associated with the Newswire purchase.

Looking to some non-GAAP metrics. We generated EBITDA of $923,000 for the first quarter of 2024, an increase of $141,000 or 18% compared to the first quarter of 2023. As a percentage of revenue, EBITDA increased to 13% for the first quarter of 2024, compared to 9% during the first quarter of 2023. However, adjusted EBITDA for the first quarter of 2024 decreased 60% to $751,000 compared to $1.9 million during the first quarter of 2023. As a percentage of revenue, adjusted EBITDA was 11% for the first quarter of 2024 compared to 22% for the first quarter of 2023. Non-GAAP net income for the first quarter of 2024 decreased to $321,000 or $0.08 per diluted share compared to $1.3 million or $0.33 per diluted share during the first quarter of 2023.

Switching over to the balance sheet and cash flow statement. Our deferred revenue balance, which is revenue we expect to recognize primarily over the next 12 months, increased 3% to $5.6 million as of March 31, 2024, compared to $5.4 million as of December 31, 2023. On the cash flow statement, we generated cash flow from operations of $986,000 for the first quarter of 2024 compared to $272,000 during the first quarter of 2023. This marks our 37th consecutive quarter of positive cash flows from operations for the company. Adjusted free cash flow was $783,000 for the first quarter of 2024 compared to $739,000 for the first quarter of 2023.

I will now turn it back over to Brian, who will provide some updates on the business, customers, volumes, and everything else we have planned for the remainder of the year. Brian?

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

Thank you, Steve. For the remaining time today, I want to speak about and address several things, such as our customer counts for the period, our subscriptions, where we are going with our subscriptions, industry volumes, utilization and backlog, as well as the market conditions in a large segment of our business. Lastly, I will spend some time talking about how we're addressing these results and early indicators and assumptions for the remaining part of the year.

Total customers were up 20% to 12,093 from 10,053 year-over-year. We continue to be pleased with this indicator and believe it will continue throughout the remaining part of the year and beyond. A good portion of our growth comes from our singles and bundles of press releases from both our ACCESSWIRE and Newswire brands, which we are working hard to move these customers into Media Suite and other subscription products. Seeing this growth is key to our overall business, brands, and market share.

Additionally, deferred revenue grew 8% year-over-year and 3% from Q4 last year, and backlog grew 17% year-over-year and is consistent with Q4 of last year. We ended the quarter with 1043 subscriptions, up 4% from the prior year and down 1% from the end of last year. The decrease in sequential subscription customers are attributable to customer concentrations in the micro and nanocap space. We are seeing these customers have cash flow issues and access to capital constraints, which we believe will continue for the remaining part of the year and the sector overall customer accounts in that market sector.

We expect our subscription business however to continue to grow 5% to 10% ranges on a year-over-year basis. This growth is going to come from our Media Suite platform and our PR Optimizer subscriptions, which both performed to our forecast and expectations in Q1. Conversely, we will see growth in our earnings call business and IR websites. These two product subscriptions are leading the way and moving us upmarket to mid, large and mega cap companies during Q1, something else we believe will continue.

Additionally, we are going to begin to test new distribution subscriptions in certain markets and customers to determine if this is a viable model for our overall business. Yes, this will be unlimited. This is not going to be a one subscription fits all. It's going to be tailored by industry as well as public and private. I know results for the quarter don't show it, but with a fairly new sales team here for four months needing time to build pipeline as well as knowing the ebb and flow of volumes, I am confident that we are going to be fine and growth will come back to the business and will return to our normal narrative of our growth business in the back half of this year.

This year so far we have won some big names, the Saudi Aramco, Luberef, and Gannett as well as the several other brands. This is where a good portion of our focus is to move up market. It accomplishes a couple of things for the business. One, the lifetime values of our larger customers tend to be 4x to 5x of our micro-cap. An example is Sherwin Williams has been doing their earnings calls and Investor Day meetings with us for over 10 years and currently spending double our annual target ARR.

Second, it insulates us from having to take bad debt charges like we did this quarter and in Q4 related to our microcap nanocap customers. Something that we are going to continue to look hard at each quarter from a credit policy perspective to moving customers off the platform that are demonstrating their inabilities to pay for their services.

So in summary, as I said a minute ago, subscription growth in the 5% to 10% range each quarter for the remaining part of the year is likely, 15% to 18% new then offset by customers that no longer can pay for their services. This will make up those losses. In nine out of 10 situations, our customer churn is attributable to accounts receivable, not service or product performance. Albeit some noise in these numbers, I am encouraged to see the progress that we are making across the board, but like I've always said, we want more.

As we all know, volumes in the market drive revenues. Bundle press releases don't drive immediate revenues, they're spread around the term of the contract as they're used. As an example, we saw a $500,000 increase in our unbilled balances because of multi-year contracts and almost $400,000 increase in deferred revenue for a year-over-year perspective. That which leads me to volumes in the market, they remains flat and they've shifted around from provider-to-provider.

As an example, since Q2 of last year when we began doing the review of market volumes in house, we have seen some of our competitors drop from 63,000 releases in a quarter down to 55,000. So just four quarters later we've seen this decrease whereas we saw our volumes move in the same comparative period from 16,000 to 25,000. Ending the quarter with about 13.5% market share total. Others remain essentially 1% to 3% up or down or nearly flat. We believe that volumes in the market will continue to be flat for the remaining part of the year and beyond, but we do see growth in taking share from the incumbents. We have continued to have success there and we do not believe that that will stop.

Our sales team having done a great job at this and we're seeing more and more brands come inbound to us today than ever before looking for a competitive replacement for their current contract this year. Also, it was imperative to get our solution to a full addressable market sale. Media Suite is the answer and that we're able to now be able to continue to build pipeline and close our target rates to enable our market share to accelerate even at a higher rate.

Lastly, we did see our PR Optimizer and Media Suite new sales perform at our expectations this quarter, meeting our internal forecast numbers. As a matter of fact, pro new business in Q1 was for a record for Newswire and is a number we feel confident that we can continue to deliver each quarter this year. Media Suite is well performed, pipeline is growing and like any other enterprise type sale they have longer sales cycles than press releases. It follows the pattern like our IR subscription webcast solutions where we do see six to nine month timelines from initial call to close.

As always, it was nice spending time with you today and discussing the results for our first quarter. We look forward to talking with you all in follow-up calls. We remain confident in the business like I have always said that has not changed our products and the markets that we serve. We are also believing next year and beyond the micro nanocap space will start to come back and we'll see a resurgence of growth there. Our brands continue to serve us well. We look forward to sharing more updates with you next quarter.

Operator, go ahead with the Q&A portion of the call, please.

Operator

Certainly. Everyone at this time, we'll be conducting a question-and-answer session. [Operator Instructions]. Your first question comes from Mike Grondahl from Northland Capital Markets. Your line is live.

Q: Hey, guys. This is Luke on for Mike. Just wanted to touch obviously with the slowness in press release distribution. Just if you could help us kind of quantify between ACCESSWIRE and Newswire. Just with ACCESSWIRE historically outperforming, relative to Newswire, which has been kind of lacking. Just any sort of flavor for the tradeoff between the two during the quarter?

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

Yes. Hey, Luke, this is Brian. Look, I would tell you this is probably one of the first quarters we've seen ACCESSWIRE down on a year-over-year basis or a sequential basis in revenues. We have had a good run of nine plus years of growth in the teens and 20s and beyond in that business. But as I alluded to in the call, there is likely a significant amount more headroom than we believed or even the market believed in the micro nanocap space. That number of customers releases are likely about 50% down in those categories compared to other markets that we serve including private companies. So that did impact the ACCESSWIRE this period.

Newswire also conversely is and continues to be down in its volumes. Its pricing power is strong. It is the top of the tier of the entire industry when we compare pricing to PRN, PR Newswire and others against Newswire, we are a premium brand pricing product there. We're holding price there, which is good. We're going to look to incentivize and reduce prices and include subscription testing there to see if we can spur volumes. But I will tell you that very late in the quarter and more recently, now we're starting to see volumes come back in both those categories. So we saw this happen a year and a half ago for volumes slow down and they're going to pick right back up again with the quarter after. And so the early indicators we're seeing that already happening now.

Q: Okay. Got it. And then just to go off your comments on pricing there. Saw in the press release there was some mention of lower pricing during the quarter. Was that a function of some customers not being able to pay or was that you guys lowering price to kind of pick up for the slower volume or kind of what were the puts and takes for the pricing coming in lower?

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

Yes, I think it really is about being aggressive on price. It is being aggressive in certain industries that we are testing our API products that we firmly believe will expand thoroughly this year. And what that precisely means is that as you get to critical mass in news distribution, your fixed costs are then at a point of which you can enter into large volume contracts without incrementally hurting your gross margin very much. And so we're about halfway through that first interval. So it did impact gross margin slightly, because we still got some low cost from editors in that process. But we expect to clean the rest of that up in a development effort here at the end of the quarter where we'll be able to light on 20% to 30% more in volume and actually improve gross margins, because we're able to reduce headcount entirely from touching those articles.

So some of it's attributable to that. We're really working hard and believe that API integrations are a way to take you through further market share. But look at the end of the day, we want to walk prices up on our core customers and that is the public company marketplace and the SMBs on the private side. So we're trying to accomplish both at the same time. So sometimes in combination there's a little noise there, but we'll definitely talk about that a good deal in the future of how it looks between both.

Q: Okay. Got it. That's helpful. And then how are you guys kind of thinking of capital allocation as we go through 2024 via either investments into the business or buybacks or paying down some debts or kind of where is you guys head out with capital allocation?

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

Yes. Look, we've done a fantastic job of bringing Media Suite to market quickly. We're going to continue to invest in some product categories. There's further AI attributions that we want to do for natural language translation processing on top of it. So that's not going to change. You're going to see our R&D budgets kind of in line with what they've been in the last few quarters.

But look, I'm going to tell you the overall, we're going to look at our expenses and really manage the business, but not sacrifice growth and investment in the organization. We've got to continue to do that as long as we feel confident in the market and what we're doing in our products and in our customers. We've seen more enterprise deals come our way in the last -- call it 100 days of the year than we've seen in years past in combination. So we're building momentum there.

And to be fair, the sales team that we brought in with years of experience is driving some of those opportunities. And that is important to us and what we're trying to accomplish as you would well understand and as everybody understands the microcap space is not a growth market for us right now. That's just the reality of what we're dealing with.

So on the flip side of it, dividend likely not, pay down debt likely not, hold cash, right, and continue to execute to meet our covenants and accelerate the business is the optimum way to get through this year. And then that puts us into a good position next year to have a lot more options. And as Steve talked about, we generate almost another $1 million in cash this quarter. We do this consecutively. I ironically think I was fact checked at a conference last week that an investor said it's actually 36 quarters of consecutive cash flow from operations. So call it a quarter or not off, that's a trend that we're going to continue. So we want to accumulate that cash.

But look at the end of the day, if the markets we're serving aren't fulfilling what our estimates are and we have to use cash to do something with debt, we're prepared to do that. We're confident in what we need to run the business from a cash perspective. So we keep ourselves with a lot of options by holding onto that at this present time. Stock price is what it is, execution is the key, right? We need to execute and we clearly understand that and we know what we need to do. But again, we accumulate more cash that also could be an option for us in the future as well.

Q: Okay. Got it. Well, thank you guys for taking the time today to answer the questions, and have a good one.

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

Thank you, Luke.

Operator

Thank you. [Operator Instructions]. Thank you. That concludes our Q&A session. I'll now hand the conference back to Issuer Direct's Founder and Chief Executive Officer, Brian Balbirnie for closing remarks. Please go ahead.

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

Thank you, Matthew. All know, not the results that we wanted this quarter, everyone. We are diligently working through and optimizing our organization, our brands, managing expenses and really focusing on our pipeline and what we need to do to deliver. Albeit uphill, we've been there before, we've done it and we've come and returned back even stronger. And we are confident we're going to be able to continue to do that in the back half of this year like we spoke about. I hope you all have a good night. Thank you very much.

Operator

Thank you, everyone. This concludes today's event. You may disconnect at this time and have a wonderful day. Thank you for your participation.