Transcript of
Issuer Direct Corporation
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Participants

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Analysts

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Presentation

Preston Burnett - Director of Operations, Issuer Direct Corporation

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation Second Quarter 2024 Earnings Conference Call. My name is Preston Burnett, and I am the Director of Operations here at Issuer Direct.

I have been with Issuer Direct for almost 17 years, leading an amazing team of editors, compliance professionals and customer experience, rock stars. Like my fellow employees doing this in previous quarters, having myself on this call is our way of ensuring our shareholders to know all of us here at our company.

Over the years at Issuer Direct, I've had the privilege of witnessing our transformation from a privately-owned firm to our current status. What began as a company offering EDGAR filing services has evolved into one of the select few global newswires, distributing news worldwide to top media outlets. I'm amazed to see how our company has evolved and even more excited to see where we'll be going in the future.

With that said, it is my pleasure to introduce the company's Founder and Chief Executive Officer, Brian Balbirnie; as well as 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 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 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, Brian?

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

Thank you, Preston. I can't express how grateful we are to you, your dedication and continued growth here at Issuer Direct. As a federal employee and shareholder, I am honored to do this with you every day. In retrospect, I don't think there has been a department product or process that we have built that you've not been a part of. Very impressed with your passion, growth and where you're headed here at the company. Thank you, Pete.

With that said, greetings, everyone, and thank you for joining us today to discuss the company's second quarter 2024 results. Our press release, which is accessible at our newsroom has just been released and provides key takeaways about our performance for the quarter and first half of 2024.

I know top line revenues don't show it, but there's a lot to be excited about here. Our new Board of Directors has been extremely helpful right out of the gate, helping management and market positioning, long-term strategy, and prompt decision making, which in a fast-changing market and industry is exactly what we need to be moving the company forward.

Joe Staples is an amazing B2B marketing executive, was well over 20 years in the SaaS industry. We could not be more excited about Joe and what he's already doing to have an impact on the business. Wes Pollard is no stranger to Issuer Direct, having served as our CFO several years ago and was part of our first news distribution acquisition of ACCESSWIRE. Graeme Rein will remain on the Board and be the Chairperson of the Audit Committee. I will resume the post of the company's Chairman.

As a four-person Board, we will look to expand at some point by the end of the year or in time for next year's annual meeting, seeking other candidates that have an extensive experience in our industry. I want to thank our shareholders who have been confident in our management team, the business and our product platform and where we're headed.

The second half of the year is going to be packful or great things as we position the business in many ways, what we've talked about to you previously. Last quarter, we did talk about leading indicators in the industry volumes and how it was impacting the business. And the narrative we talked about what we're doing to correct, insulate and regain our growth trajectory. As a result of several things we will discuss later, we are happy to share with you our combined news distribution brands showed nice signs of recovery in the quarter. Volumes were up, and on a year-over-year basis, revenues grew 12% and 3% sequentially. This result solidifies what we did to correct and insulate our position in the market.

Average price did move 15% higher as well for the quarter. Coming from upmarket customers, large contracts and strategically-positioned distribution add-ons. Customer accounts were also up 19% over the prior year and 2% sequentially, coming in at 12,388. Later in the call, we will talk about where the growth is coming from and how our customer spends in the second half look in the future.

There's a lot more to talk about today. So I'll turn the call over to Steve to cover the quarterly highlights. Steve?

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

Thank you, Brian, and good afternoon, everyone. As Brian mentioned, we are encouraged by the rebound of the ACCESSWIRE volume in the second quarter, with revenue increasing 17% over the first quarter. I will now highlight some of the other results we achieved during the second quarter and first half of 2024. Total revenue was $7.7 million and $14.6 million for the second quarter and first six months of 2024, respectively, which was a decrease of $2 million or 20% and $3.6 million, also 20% compared to the same period of 2023.

For the three months ended June 30, 2024, the decrease is attributable to a decrease in revenue from our compliance revenue stream. However, for the six months ended June 30, 2024, the decrease in revenue is attributable to both our Compliance and Communications revenue streams.

Our Communications business was flat for Q2 2024 compared to Q2 2023. For the first half of 2024, Communications revenue decreased $1.1 million or 9% compared to the first half of 2023. The decrease for the first half of the year was primarily related to a decrease in volume in our Newswire news distribution brand. Additionally, we had a decrease in our web testing and events business due to a large conference that occurred in the first quarter of last year but did not occur this year. As noted earlier, volumes from our ACCESSWIRE news distribution brand were lower comparably year-over-year for the first quarter and were flat year-over-year for the second quarter.

Communications revenue represented 77% and 78% of total revenue during the three and six months ended June 30, 2024, respectively, as compared to 62% and 68% for the same periods of 2023. Compliance revenue decreased $2 million or 53% and $2.5 million or 44% during the second quarter and first half of 2024, respectively 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 a few onetime significant transactions, which occurred during the three and six months ended June 30, 2023, however, did not occur in the current year. Additionally, we experienced 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 was $5.9 million and $11.1 million for Q2 and the first half of 2024, respectively. This is a decrease of $1.4 million or 19% and $3 million or 21% for the second quarter and six months of 2024 compared to the same periods of the prior year. However, gross margin percentages were relatively consistent at 77% and 76% for the three and six months ended June 30, 2024, compared to 76% and 77% for the same period of 2023. Gross margin from our Communications business increased to 78% and 77% for the three and six months ended June 30, 2024, compared to 76% and 77% for the same periods of the prior year. This was primarily attributable to optimization of our editorial staff and slightly lower distribution costs.

Gross margin percentage from our Compliance business decreased to 74% for both the three and six months ended June 30, 2024, compared to 76% and 77% during the same periods 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 income. We posted operating income of $334,000 and $282,000 for the three and six months ended June 30, 2024, respectively, compared to operating income of $1.7 million and $2.3 million for the same period of 2023. The decrease in operating income is primarily due to the decline in revenue, specifically from the onetime significant print and proxy projects in the prior year.

Operating expenses were flat for Q2 2024 compared to Q2 2023 and decreased $916,000 or 8% for the first half of 2024 compared to 2023. The decrease in G&A expenses of $623,000 or 14% was primarily the result of a benefit related to the reversal of previously recognized stock compensation expense associated with the resignation of an Executive Officer, as well as lower nonrecurring transaction and integration expenses. Sales and marketing costs decreased due to lower headcount and a reduction in sales commissions.

On a GAAP basis, we reported net income of $7,000 during Q2 of 2024, compared to net income of $1.4 million or $0.36 per diluted share during Q2 of 2023. For the first half of 2024, we reported a net loss of $132,000 or $0.03 per diluted share compared to net income of $1.2 million or $0.32 per diluted share during the prior year.

Looking to some non-GAAP metrics. We generated EBITDA of $1.1 million or 15% of revenue and $2 million or 14% of revenue for Q2 in the first half of 2024 compared to EBITDA of $2.9 million or 30% of revenue and $3.6 million or 20% of revenue during the same period of 2023. Adjusted EBITDA was $1.5 million or 19% of revenue and $2.2 million or 15% of revenue for the second quarter and first half of 2024 compared to $3 million or 31% of revenue and $4.9 million or 27% of revenue for the same period of 2023.

Non-GAAP net income was $847,000 or $0.22 per diluted share. $1.2 million or $0.31 per diluted share for the second quarter and first half of 2024 compared to $2 million and $0.53 per diluted share and $3.3 million or $0.87 per diluted share for the same period 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 1% to $5.5

million as of June 30, 2024. In the cash flow statement, we experienced negative cash flow from operations of $190,000 for the second quarter. We generated cash flow from operations of $796,000 for the first half of 2024 compared to $1.7 million and $2 million for the same periods of 2023.

The decline year-over-year is primarily due to the onetime significant print and proxy projects in the prior year as well as the timing of certain payments, which were required in the second quarter of 2024. I will now turn it back over to Brian, who will provide some more details on our business, things we are excited about, suppose other updates on customers, volumes and everything else we have planned for the second half of the year. Brian?

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

Thank you, Steve. At the beginning of the call, we spoke about customer count growth for the quarter, where we're seeing brands like BlackBerry, David's Bridal and several other large enterprises beginning to use our Communications platform, which helped our customers subscribing to our platform to $10,057 annually compared to $8,523 last year's same period. That's an 18% year-over-year growth in our subscription business.

Now to put this in context, when we began selling what was Platform ID subscriptions a couple of years back, we were averaging $6,000 a customer. This ARR has moved essentially $1,000 a year higher, and like we guided a couple of quarters ago, this number should level out at around $14,000 a year by Q3 2025.

We have some exciting things to share with you next quarter on this where we will be moving our metrics to MRR, churn rate, net dollar retention and other critical metrics we are focused on as we round out our pivot to a subscription-first business. Speaking of subscriptions, we ended the quarter with 1,032 customers subscribing to our platform, up 2% year-over-year. However, I will guide you on where we're headed. At the beginning of Q3, we launched a pilot. And in about a month of selling, we have added 100 of these new subscriptions.

There were a majority of customers -- current customers that increased their spends and began subscribing to our new MRR offerings opposed to the bundled lumpy utilization business that we've discussed in prior calls. There's a lot more here I want to talk about, but the pilot has given us the data points we needed to begin this full shift this quarter. So we might need to pop next quarter on our call, where we will be disclosing so much of what we're doing in the future, including who we will be going forward.

Also because of the success, we have created a new organization in the company. This new customer experience team will be responsible for onboarding, training, supporting and learnings about our new customer needs reporting back to our newly created product teams to build details on product improvements and to help drive our product road map.

Even though we have built these two new organizations since Q2, it is important to illustrate that we're still committed to cost containment and driving further leverage in our business. In the back half of the year, we will see approximately $400,000 of savings per quarter. Our management team is also focused on finding further savings in our organization of approximately $300,000 to $500,000 by further streamlining our systems, vendors and headcount alignment by the end of the year. What began for us in 2006, has served us well. This compliance and regulatory business has been very much part of our DNA and has grown and matured, but it's time to set it free.

Not to try to be nostalgic, but it's time to move our brand, our future and our focus of our highly scalable Communications platform business. I've said it briefly in prior quarters and in our prepared presentations so this won't be a shock for most everyone. We are beginning the process to establish a time line to sell the Compliance business. There's a lot of details to figure out as well as accounting treatments to work through but ultimately, we are trying to put us in a position by the end of the year as to be a fully public relations and investor relations communication technology company.

This focus will provide us the ability to scale, further leverage from improved gross margins, develop a streamlined efficient business process around one platform and one team and a new monthly reoccurring revenue model. With the proper execution, this will also afford our shareholders to see market cap appreciation whereby we will be valued based on our fundamental KPIs as well as industry comps that will be directly aligned with the renewed focus that we'll have.

It is mutually understood that today's ISDR is undervalued. Debt on the balance sheet, seasonal lumpy revenues and many other factors go into what investors ultimately pin as a company's value. Going forward, we believe investors will derive value in our common shares based on the growth, earnings power and execution of our clear KPIs we intend to set forth.

Like in the past, when those targets got hit, the market cap aligned. Going forward, these targets will get hit again, and we will all benefit from that. I would like to speak briefly about our commercial banking relationship. We initially entered into a $20 million term loan, which was set to mature and to be paid in full by December 2028. As of the end of Q2, we had approximately $18 million balance. Management believes that we'll be able to exit a portion of the Compliance business, thus paving a way for the company to be debt-free almost two years earlier than originally planned.

Based on this and the transition of the business to a full subscription, the company entered into an amendment of the term loan to modify the covenants, giving the business a bit more headroom in its fixed charge and leverage ratios. This is great news for the business and its shareholders, and we will be able to unlock the value of the asset in a meaningful way.

Steve highlighted revenues and comparative periods thoroughly. However, I'd like to address a couple of things. One, the decrease in overall revenues for the quarter were well messaged to everyone last year, and that's driving a decrease in onetime projects that were baked into our forecast this year as well as the analyst number. This should not come as a surprise to anyone. Two, we have delivered 37 consecutive quarters of cash flow from operations that ended here in Q2. We will pick it back up in Q3 and rebuild another string of consecutive quarters. Moving our business to an MRR model will help bad debt, age receivables and customer credit risks. So like any other business doing a full SaaS pivot, this will help us in the long run.

And lastly, it would have been nice to continue The Street. But honestly, having done it for almost 10 years, we're setting our sights long-term and have our objectives and know what we need to do. In summary, we can see why the management team and Board are happy where the business is headed. We increased customers, news distribution volumes and PR revenues. Subscription customers and added new MRR subscriptions and strengthened our banking relationship. We have a plan we're working on to become debt-free almost two years earlier than originally planned.

As always, it was nice spending time with you today and discussing the results for our second quarter. Operator, please go ahead with the Q&A portion of the call.

Operator

Certainly. The floor is now open for questions. [Operator Instructions] There appear to be no questions in queue at this time. We do have one question from Brock Erwin with CleverInvesting. Please pose your question. Your line will be live.

Q: Hey guys. So I know in the past, you've been pretty thoughtful about capital allocation when to raise money, when to buy back shares. Maybe we want to take on some debt. So just given the stock is trading at such a low value now, I'm wondering if you aren't seriously considering buying back shares at this price.

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

Brock, nice to talk to you again. That's a good question. And I think something we've discussed openly in investor presentations and likely other past quarterly calls. I would tell you our main objective today is to continue to get back to generating cash the way we had in the past, continue to service our debt and pay full attention to our ratios there to meet bank covenants.

If that continues and we generate excess of cash that we plan, we would likely seriously consider at these levels or when that time happens if the levels are the same to look at a repurchase program. Like we've done in the past, we bought back several million dollars of stock in years past and retired shares in years past. And so that's -- you know and many folks know as a significant shareholder, that's a benefit to all of us, and we surely want to do it. Any potential disposal of part of our Compliance business may result in a portion of repayment of debt and stock repurchase. Those are things that are open to discussion based on what the values end up being for those assets at the right time. But definitely something the Board has discussed in the past and is looking at.

Q: Okay. It sounds like there are some bank covenants, and obviously, you need to comply with all that stuff. But I mean, I don't know what your targets are for cash generation, but it seems like even just a little buyback program could be nice. What are your thoughts on that?

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

I don't disagree with you, right? It's tough thing. I mean, I think I kind of told you exactly what I can say to you. I appreciate your comment about it, and I don't necessarily disagree, right? I think to be fair to our shareholders and the business and our customers and employees equally all across the board. And like I said, our main objective is to service that debt, continue to grow the business and invest in the areas that we can. And so I view capital allocation as kind of a multipronged approach, and repurchasing shares is one of them. It's a great way to do it. It has proved well in the past for us. We've helped many shareholders in the past moved blocks of shares to other new shareholders as we continue to evolve the story. So I guess kind of the ending comment, if we can, we will, if that's a fair statement.

Q: Okay. Appreciate it. Thanks, Brian.

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

Thank you, Brock. Talk to you soon.

Operator

Your next question is coming from Mike Grondahl with Northland Securities. Please pose your question. Your line is live.

Q: Hi guys, this is Lucas [ph] on for Mike.

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

Hi, Lucas.

Q: I actually just got disconnected there at the end. So apologies if this is a repeat at all. But I was just going to say it's great to see the bounce back in volumes, especially from last quarter's comments about kind of expecting it to be flat throughout the year. So I was just wondering if this was kind of directly due to just elevated distribution across the market and competitors were up to or if this is specific to Issuer Direct in the new product suite and sales hires and -- just trying to get a sense of if there was some more market share gain here during the quarter.

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

Yes. Definitely more market share gain has been attributable to volume increases, which result in revenue increases and it's likely ahead of what we planned. You're right. We talked about last quarter, how we believe for the next couple of quarters, it would be light. I will tell you, your comment is correct. And I don't know that I could share and articulate the percentages of how the impact came from each, right?

New sales leadership, new sales teams is definitely making an impact, right? That's a fair statement. The brand ACCESSWIRE is very strong in the market and the inbound activity that we're getting, specifically, inbound activity on very large accounts is now coming in at a rate that we've never seen before. So that's helping drive price, as I highlighted in the call today.

So the indicators are very good. The platform, Media Suite, things of what you mentioned is probably a smaller contribution compared to the others we just mentioned. I'd say that, that's so early on in this evolution here that probably in the back half of the year, that will have its next level of impact to us, which would be even better from a volume perspective.

But volumes did grow, right? We said that we would like to get to close to high teens percentages at the end of the year and into 20% next year. We're going to exceed that. We're ahead of pace in what we're doing. We've had seen some industry slowdown in other competitors, and we're the benefactors of some of that, winning some large accounts. And so they're all really good indicators for us, something that we continue to monitor on a daily basis. And we're not seeing that change right now and since Q2 ended.

Q: Okay. Got it. And then yes, just touching on pricing there. I think you mentioned it was up 15% in the quarter. I was just wondering kind of the mix between is that selling into existing customers? Or is that mainly due to onboarding these newer, larger customers?

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

It's a combination. Yes, new customer activity is definitely higher in price points that we're able to take price where possible, right? We still want to provide value to our client, and we still want to be perceived as the highest quality Newswire with the best distribution at the best price.

So we don't want to sacrifice those initiatives, although the pricing power of the current contracts in the last quarter were higher than prior quarters. But we are seeing some benefactors of distribution add-ons and creativity and add-on services to our distribution to our customers that are now buying more broadly North America and Asia-Pac, Europe and then targeted other regions of the world. So we're starting to see some of that happen as well.

Q: Okay. Got it. And then just one more here. Just on the comments about the Compliance business and looking to sell that. Is that something you guys are in the process now? Is there interest out there from buyers? Are you guys -- any sort of valuation metrics that you guys are hoping to get for it? Or are you kind of holding out until you get the right number? How are you thinking about the process of that?

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

Yes, we've not begun a process, right? We've made a decision as a Board that we need to move ahead with this. We obviously had to focus on getting the quarter done and behind us. We've got to unpack a lot of what the impact of that could be to the business, both from a discontinued operations kind of perspective from an accounting treatment, as I mentioned on the call, as well as what the process and how long would be to exit that business. What the shared services agreement would be to do it to sell to a buyer, then we'll still need to be involved.

And then ultimately, what the valuation is, right? What is the market willing to pay? We're going to canvas the market and we're going to talk to a few key folks that we believe could have interest, whether we hire a bank or not is undetermined at this stage, but it is a close community of people. So I think we should be relatively able to do this efficiently and quickly in less than a six-month period. So the goal is to -- if it has a market value of what we believe then we should be able to end the year with a transaction being completed or before that.

Q: Got it. Okay. Makes sense. Thank you guys for taking the questions and congrats on the quarter. Really nice to see the sequential improvement from 1Q.

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

Thank you, Lucas.

Operator

[Operator Instructions] We have a follow-up question from Brock Erwin with CleverInvesting. Please pose your question. Your line is live. Your line is live, Brock.

Q: Sorry. I was not mute. I was just curious if you could give an update for us on AImee, the AI content generation tool you launched? And if there's any metrics you could share on that product, that would be great.

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

Yes. AImee is currently in production with customers in two areas. One, as a press release drafting tool to enhance content to write content over the customer so chooses. About 20% of our customers are using AImee actively to do so, which to be fair and market statistics we're seeing from the competitors on our competitors shopping, it's about average in the industry. There is a little bit of reluctancy in the PR firms to use some of the automated AI engine products. So look, I'm fine with that. I believe that that's something to grow on. Now the area that we do see AImee having as biggest opportunity is, one, currently in production.

And two, I'll discuss with you something at the product road map idea, is that in the pitching product of our media suite, customers can take a pitch from AImee and sent the journalists in our database by selecting key journalists and writers that they want to reach out to their community or industry and that Aimee automatically write and schedule and send a pitch to them. That is being used at a higher frequency than anything else from an AI tool perspective. And then the product road map idea is by the end of the year is to have AImee pre-write those oppose for our customers based on the press release to auto schedule them as a service add-on.

So we're looking at introducing levels of our subscription product. And that would be one area that our AI infrastructure will help drive revenue. And I say that to you only because it was clear at the very beginning of launch that AImee was a zero revenue-driven technology initiative that we had.

Significant amount of cost. Not much of which we capitalized to begin to roll it out. So we've got to now get utilization, get cut patterns of use and interest and then start to exploit those opportunities to generate subscription revenue, and that's what we're intending to do by the end of the year.

Q: Got it. Makes sense. Thanks. One other thing I was curious about is you mentioned the slowdown that the industry as a whole is kind of going over for the news distribution. I was just wondering if you could maybe elaborate a little bit about what you feel is causing that?

Is it customer behavior is changing, are companies deciding to distribute their news less often or maybe on social media more? Or do you have any idea of maybe what's going on in the industry to kind of explain this shift? And maybe do you think it's temporary in nature. Obviously, it's a guess, but would be great to get your answer.

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

Yes. I'll give you my educated guess about that. The PR slowdown has a contribution of a couple of things. Capital markets drive a lot of business on the public company side, where capital markets are constrained and the capital is not flowing as easily. There's not as much M&A. There's not as much activity in businesses initiatives to invest and promote and produce new platform services and technologies and hiring tends to slow down the flow of press releases. And that is a historical factual item. If you go back and look at these volumes in 20 years, every time there is some economic uncertainty or slowdowns in markets or capital constraints, that tends to slow down.

So that is temporary. It does return. It always has returned. So we're not concerned about that one bit. The private company side of the business, I would tell you likely they're producing less content down than they have historically. They're not doing it in a replacement way, meaning, they're not using social media or any other brand awareness or retargeting or ads to try and reach broader markets. They just have less to talk about. The PR firms that we work with, some of the largest in the world, say that their customer budgets have decreased over the last 18 months as a result of PR public relations, right? If I use that acronym correctly to you, and they expect that to return as well.

Historically, Gartner, Burton-Taylor says that the industry is growing at about an 8% CAGR for the better part of the last 10 years. It is probably at 0 now. we are seeing growth. So that means the industry competitors, the incumbents are moving down in volume in the market, and we're moving up. And so we're satisfied with that. We'll continue to take market share from them. And when markets return, to healthy growth, we'll then have our fair percentage of the new customers coming in the market as well.

Q: Appreciate it. Thanks for your thoughts.

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

Kelly or Jenny, is there any further questions that we have today from our shareholders or interested parties in the call?

Operator

Yes, you do have another question from [indiscernible]. Please pose your question. Your line is live.

Q: How is it going, Brian. Thanks for taking the call here. I just want to congratulate you on the quarter. Really good to see this bounce back in growth here. I just was wondering if you could provide some more color on the pilot so far. I was just wondering if you could provide us with what that conversion time is from when you pitch that to the customers, for when they convert to the ARR-based model? And then if you could just provide some color on what the long-run gross margins you see in that pivot are.

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

Yes. And I'm going to split that question into two. And I appreciate the question. I'm going to split it into two parts. And the first part with a little humor, if you don't mind, I'm going to say that we'll wait for the details on what that is with a little bit of next quarter, as I said in the call. I want to give our sales and marketing opportunities to really sign through what that product looks like. And to be fair to everybody, I don't want our competition to understand what we're doing before we have to. So I'm being very thoughtful there. If you can allow me a little bit of latitude in that.

From a direct part of your question, about how many calls it takes to close and the time line it takes to close moving an MQL SQL into a closed one opportunity? We're seeing about 50% of these calls happen with a one call close, keeping in mind that these -- majority of them are new -- are current customers rather. So the current customers are buying a pattern of press release, let's say, and other products from us, not in a subscription way that are built on utilization or bought in the bundle, which as we've talked about in the past, it's been a very difficult thing for us to forecast and handle and manage. So this subscription element removed all those barriers.

So the customer recognizes the value, right? We recognize the opportunity for smooth revenue patterns, smooth cash flows and the typical MRR model that everybody would understand clearly, about 80% gross margin in the product. And so we'll get some leverage out of that as we add different things on to it. And to be honest, the product teams and marketing teams have already established what the first, second, third and fourth product add-on will be over the next 12 months. So they're ready and market proven to be able to add on additional products that we already have into this suite. So we're looking to see something substantial.

This is going to be a game changer for the industry. And to be fair, it's next quarter when we get to talk about it in detail and show it to our customers and our shareholders rather on the next call.

Q: Hi, awesome. Thanks, Brian.

Operator

Thank you very much. Well, that appears to be the end of our question-and-answer session. At this time, I would now like to turn the floor over to Brian Balbirnie for any closing remarks.

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

Jenny, thank you both to you and Kelly today for assisting us with our call to our shareholders and interested folks that took the time to participate today. Thank you for the hour-plus opportunity. We look forward to doing follow-up calls with you. As always, you know how to reach us. And within the next 15 to 20 minutes, the 10-Q will be filed on EDGAR. You'll be able to read the full disclosure of everything we talked about today. Thank you so much. Have a good night.

Operator

Thank you very much. This does conclude today's conference. You may now disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.