

Transcript of  
Issuer Direct Corporation  
ISDR Third Quarter 2023 Earnings Conference Call  
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**Participants**

Dee Brown - Director of Human Resources, Issuer Direct Corporation  
Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation  
Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation

**Analysts**

**Presentation**

**Operator**

Good day everyone and welcome to the Issuer Direct's Third Quarter 2023 Earnings Conference Call. At this time all participants have been placed on a listen-only mode. And we will open the floor for your questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host Dee Brown. Ma'am the floor is yours.

**Dee Brown - Director of Human Resources, Issuer Direct Corporation**

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation third quarter 2023 earnings conference call. My name is Dee Brown, Director of Human Resources here at Issuer Direct. I've been with the company for almost six years and I'm happy to meet you all today. Like David did last quarter this is our way of ensuring our shareholders get to know all of us here at Issuer Direct. We are both committed and excited to continue this each quarter.

With that said it is my pleasure to introduce the company's Founder and Chief Executive Officer, Brian Balbirnie; and its Chief Financial Officer, Tim Pitoniak.

Before I turn to 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 Mr. Balbirnie.

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

Greetings everyone, and thank you Dee for today's introduction. So happy you're able to do this for us today. Your tenure with us has produced so many improvements to our culture, our HR tools, processes and systems. Super cool for you to be doing this today and for your hard work on the hello my name is series with David.

As I said before, we will introduce new employees each quarter. I can't wait for the next quarter's call as well, where we'll have our longest standing employee give his intro, Mr. James Michael. Get ready, sir.

Now, let's talk about the quarter. We appreciate everyone joining us today to discuss our third quarter results. Our press release, which is accessible in our newsroom, has just been released and provides the key takeaways on our performance for the quarter. We are thrilled with the third quarter results today. Total revenue was up 43% year-over-year to \$7.6 million, driven by ACCESSWIRE and the Newswire acquisition. Tim will discuss this in detail shortly.

We've also delivered solid performance and earnings for the quarter, something we spoke about in our last call and earlier this year. Adjusted EBITDA was up 45% to \$1.8 million year-over-year. Our subscription business also grew 8% for the quarter, and our average prices per press release in our core news business has held steadily. And I will talk about why that's important a bit later.

We have continued to be bullish on our communications platform led by ACCESSWIRE, news brands. We are gaining market share each month, customers, and further brand recognition. We recognize that we still have a lot to do here, as I've said, and even though that we're in a challenging environment with budget cuts and economic uncertainty, we still have grown our core products and our news distribution, core earnings calls, and IR website businesses, something we feel confident we will continue to do for years to come.

As always, there's a lot to talk about. I'll turn the call over to Tim to cover the third quarter highlights. Tim?

**Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation**

Thank you, Brian, and good afternoon, everyone. As Brian mentioned, we continue to deliver positive quarterly results in top-line revenues, earnings and cash flows, not including with the benefit from our Newswire acquisition. Our news distribution business has grown 10% year-to-date on a standalone basis, and as a result, has helped drive quarterly revenue.

I will now highlight some of the results we've achieved during the third quarter. Total revenue for the third quarter of 2023 was \$7.6 million, an increase of 43%, compared to \$5.3 million for the same periods of 2022. For the nine months ended September 30th of 2023, total revenue was \$25.8 million, an increase of 58% from \$16.4 million for the same period of 2022. The increase for both periods was primarily driven by our communications business, increase in 74% and 76% for the three and nine months ended September 30th of 2023, respectively.

Communication revenue represents 80% and 72% of total revenue during the three and nine months ended September 30th of 2023, compared to 66% and 65% for the same periods of 2022. The increase in revenue was driven by the acquisition of Newswire, for which all revenue was included in the communication revenue. For the first nine months of 2023, we also generated increased revenue from our ACCESSWIRE business, which increased 10% compared to the same period of the prior year.

The increases for these three and nine months ended September 30th of 2023. We're partially offset by decrease in webcasting and events revenue compared to the same periods of the prior year. Compliance revenue decreased 17% and increased 25% during the three and nine months ended September 30th of 2023 respectively compared to the same periods of 2022. The decrease in compliance revenue for the quarters attributed to a decline in revenue from our transfer agent and print and proxy fulfillment services businesses due to a decrease in corporate activity and projects during the quarter.

The year-to-date increase in compliance revenue is related to an increase in revenue from our print and proxy fulfillment services business due to a few significant transactions which occur during the first half of the year as well as an increase in revenue from our transfer agent service business due to an increase in corporate actions and directives during the first half of 2023.

Switching over to gross margin. Our overall gross margin percentage was 76% and 77% for the third quarter and first nine months of 2023 respectively, compared to 77% for the same periods of 2022. Gross margins from our communications business were 75% and 77% for the three and nine months ended September 30th of 2023 respectively, compared to 77% and 78% for the same periods of 2022. The decrease in gross margin percentage for the quarter is primarily related to an increase in distribution costs as we continue to expand our reach and global footprint.

Moving to operating income. We posted operating income of \$593,000 for Q3 of 2023, compared to \$789,000 in Q3 of 2022. Operating income was \$2.9 million for the first nine months of 2023, compared to \$2.6 million during the first nine months of 2022. The decrease in quarterly operating income is primarily related to the additional amortization expense attributed to intangible assets acquired in the Newswire acquisition.

The increase in year-to-date operating income is primarily due to an increase in revenue partially offset by an increase in cost of revenues and operating expenses. General administrative costs increased 23% and 35% during the third quarter and the first nine months of 2023 respectively. The increase is primarily driven by additional expenses associated with costs to operate the Newswire business, employee-related expenses, and stock compensation expense to the nine

months ended September 30th of 2023. The increase is also related to one time transaction costs partially offset by a reduction in executive recruiting fees.

Sales and marketing costs increased 49% for the third quarter and 62% for the first nine months of 2023, compared to the same periods of 2022, due to the addition of the Newswire sales team. Product development costs increased 137% and 157% during the three and nine months ended September 30th of 2023 compared to the same periods of 2022. The increase is directly attributed to additional costs associated with operating the Newswire business as well as the hiring of our new Chief Technology Officer.

It is also important to note that during the three and nine months ended September 30th of 2023, we capitalized \$152,000 and \$319,000 respectively in costs related to building our new artificial intelligent component of our Newswire known as AI mee, as well as upgrades to our immediate database product.

On a GAAP basis, during Q3 of 2023, we generated net income of \$273,000 or \$0.07 per diluted share compared to \$686,000 or \$0.19 per diluted share during Q3 of 2022. Net income for the first nine months of 2023 was \$1.5 million or \$0.39 per diluted share compared to \$2 million or \$0.55 per diluted share for the first nine months of 2022.

Net income for the three and nine months ended September 30th of 2023 were impacted by operating expense items discussed previously, as well as additional interest expense associated with the Newswire acquisition. These increases were partially offset by income resulting from the change in the fair value of our interest rate swap and interest income. Additionally, the nine months ended September 30th of 2023 was impacted by a payment to extinguish our note payable resulting from the Newswire transaction.

Looking to some non-GAAP metrics. EBITDA for the third quarter of 2023 was \$1.5 million, or 20% of revenue, compared to \$952,000 or 18% of revenue in Q3 of 2022. For the first nine months of 2023, EBITDA was \$5.1 million or 20% of revenue compared to \$3.1 million, or 19% of revenue, during the first nine months of 2022.

Adjusted EBITDA for Q3 of 2023 was \$1.8 million, or 23% of revenue, compared to \$1.2 million or 23% of revenue for the same period of 2022. Adjusted EBITDA for the first nine months of 2023 was \$6.7 million or 26% of revenue, compared to \$3.9 million or 24% of revenue for the first nine months of 2022.

Non-GAAP net income for Q3 of 2023 was \$1 million, or \$0.27 per diluted share, compared to \$978,000, or \$0.27 per diluted share during the same period of 2022. Non-GAAP net income for the first nine months of 2023 was \$4.3 million, or \$1.13 per diluted share compared to \$2.9 million, or \$0.77 cents per diluted share during the first nine months of 2022.

Switching over to balance sheet and cash flow statement. Our deferred revenue balance, which is revenue we expect to recognize primarily over the next 12 months, decreased to \$5.2 million as of September 30th of 2023 compared to \$5.4 million as of December 31st of 2022. The decrease

in deferred revenue was driven by an opening balance sheet adjustment recorded during the period attributed to the Newswire acquisition.

On the cash flow statement, we generated cash flow from operations of \$287,000 and \$2.3 million for the three and nine months ended September 30th of 2023 respectively, compared to \$1.4 million and \$3 million during the same periods of 2022. Adjusted free cash flow was \$127,000 or \$2.6 million for the three and nine months ended September 30th of 2023 respectively, compared to \$1.4 million and \$3.1 million for the same periods of 2022. Cash flows for the three months ended September 30th of 2023 was negatively impacted by year-over-year increase in tax payments of approximately \$700,000.

I'll now hand it back over to Brian, who will provide some updates on the business, new products in the pipeline, 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. As we have said before, our customer growth is an important KPI for us. Total customers grew to 12,171 up from 7,084 last year. This total includes customers that were acquired in the Newswire acquisition late last year. This is a 72% year-over-year customer growth. With some of the new things that we've planned this coming year, we feel confident that we can continue to see customer increases with a goal of seeing 20% plus growth by the end of 2024.

Moving along to subscriptions, we ended the quarter with 1,050 customers subscribing to our products with an average spend of \$9,447, which is up from 971 into our \$7,154 the prior year. This is a 32% revenue expansion, and 8% customer growth on a year-over-year basis. Part of the increase was attributable to the success of our PR Optimizer product for the quarter. We have a busy fourth quarter with our new products that are in pre-launch marketing stage, and we are confident that these new products will further drive these metrics and continue to increase a clearer ARR model for us next year.

We still are seeing a good bit of headway here in the U.S. We continue to take share from the incumbents and win new business, and obviously having a more comprehensive subscription platform gives our sales organization the ability to sell into a full, total addressable market of the communications space. Conversely, in Canada, we're beginning to see signs of new customer activity slowing slightly, not just in our results, but the industry as a whole. As we talked about in prior quarters, this fourth quarter is the period in which we will release our full new media suite, a new subscription product that will include our media database, pitching products, monitoring as well as existing newsrooms, reporting platforms, and our global news distribution offerings.

We are excited to offer and launch these products in a full annual reoccurring revenue model beginning at \$10,000 to \$12,000 a year. We anticipate having a few different plans that will go all the way up to \$18,000 a year as we learn what the market needs further and meets customers values and features that may not be available in the market. One example is our AI engine, AI mee. The solution has been fully integrated into both our storytelling process but also into our

pitching processes and now our mentioning tools that scan millions of articles with our AI engine to examine content for our customers and report those mentions back to them in near real time.

Our goal is to assist in a contextual way that we can anticipate journalists to engage, cover, and bring brands to life by making our customers aware of who these individuals are in our platform. The progression here to move to an ARR business is deliberate. As we spoke about earlier, we have 1,050 subscribers to our products. I want to see the number increase significantly by the end of 2024 and be able to report to you our ARR, our retention and churn, our dollar value retention on renewals and lifetime values as we mature to a full subscription business.

As I mentioned earlier, our PR Optimizer, formerly MAP, Product Suite performed well for the quarter driving an over \$200,000 in new ARR from just a handful of customers. We are continuing to build momentum on this new product for us and are encouraged by the upgrades that we've made and the brand shift will continue to show results on our pipeline and the results in the coming quarters.

But truth be told, it's early on in this product life cycle. So in the year-end call, we will discuss a year review of all of our products, their performance and where we will guide for growth from each of our products going forward. Not to be fully repetitive, but our third quarter was a strong year-over-year growth quarter in revenues, consistent gross margins, customer growth, and sustained subscribers in the most important products in our product lineup.

We could not be more pleased with the progress that we're making and look forward to what is shaping up to be an amazing year for Issuer Direct. As Tim and I both mentioned, revenues for the quarter were \$7.6 million, up year-over-year mostly because of the Newswire acquisition. You will see in our compliance business, it did slow down for the quarter, something I have said this year would occur and had not until this recent quarter. The decrease is driven by one-time projects moving as well as capital markets activity being significantly more challenging than in quarters past.

We do anticipate that this business unit to be soft for the fourth quarter and into 2024, as it is our belief the numbers of deals being financed and overall corporate actions work is continuing to weaken. With that said, if we benefit from any of the one-time projects, we will see our compliance business top-line revenues grow for that particular quarter. Conversely, our News distribution business drove \$5.3 million in revenue for the quarter, 87% of our communications business, and 70% of our entire business for the quarter came from our News platforms, which is more than doubled the prior year of \$2.6 million.

We are seeing industry volumes flat, but however we continue to see growth both in volumes as well as revenues, which is our ACCESSWIRE business was up 9% for the quarter. As always, it was nice spending time with you today and discussing the results for the quarter. We look forward to talking with you on our follow-up calls. We remain confident in the business, so much so that we are expanding our sales organization to capitalize on the opportunities that we see next year both in our new products but also in our new media suite coming to market.



Our brands continue to serve us well in the market and we look forward to sharing more updates with you next quarter. Operator, can we please begin the question-and-answer period of the call?

**Operator**

Certainly. Everyone at this time, we will be conducting a question-and-answer session. [Operator Instructions]. Your first question is coming from Mike Grondahl from Northland Securities. Your line is live.

**Q:** Yes, hey guys, this is Luke on for Mike. Just wanted to touch quick on the new product pipeline, sort of how you see that plan out here in the 2024, I know we'll probably get a better update on it next earnings call, but just trying to think of understanding, so is this going to be all of these products coming to market at once and then it'll be kind of customers will get a pick and choose what they want to include in their bundle and that will affect their pricing or sort of kind of how this is being launched?

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

Yes, hey Luke, this is Brian. It's a great question. The media suite product is going to be launched in three different variations. There'll be one that will include a media database and pitching solution. That particular product suite will sit around the entry points that we discussed earlier in today's call and that will be focused on customers that are doing between three and 25 press releases currently with us today as a way to increase their annual spend and moving them more towards an ARR type of solution.

The other options are going to be the media database pitching monitoring product along with a newsroom and their news distribution included in that. And so you maybe think about the latter two options being a basic and pro model or a some sort of premium version that will scale up to the higher number we discussed of 18,000. And what that really means, the two differences of the latter two plans will be additional ways to pitch additional press releases, more robust newsrooms, more customizations on the platform, assisted media targeting compared to maybe more of another solution.

So this product is perfectly aligned that the customers would not be a candidate to buy a PR Optimizer product from us, which we are looking, those are the firms looking for us to build strategy, write content, calendaring, and do media outreach for them. This solution is geared towards companies have a discipline internally to do it themselves. They want those solutions all wrapped up into one.

**Q:** Okay, got it. And then as far as Almee going in with this product suite, it's the pricing of Almee going to be baked in to these offerings, or is that something that would be an additional cost if that wants to be included?

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

Yes, I think the way the AI world is today is that you have to expect that it's going to be part of a solution. There's no additional add-on. And so we released it on our news platform earlier this year as a way for customers to help build brand tonality on their messaging. And then have the ability to optimize from there. We've done the same with pitching and we're doing it with monitoring of articles. Our price point would include it.

**Q:** Correct. Okay. Got it. And then what's the strategy behind growing the customer base here to that 20% growth by 2024 that you had mentioned or kind of how do you bridge that gap?

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

Yes, it's actually quite simple, right? As we've talked about for the last couple of years, our news distribution business continues to grow and outpace the market in growth and percentage of market, but we are also only dealing with customers that can only buy press releases from us. And all the public companies tend to utilize our IR platforms and our earnings call platforms like we're doing on today's call. The larger market opportunity for us, that TAM, sits in the private company marketplace and those customers are looking for media database, the analytics and pitching products that we're going to be bringing to market here.

So we're going to see significant customer growth as a result of having those additional products that allow us to see that the table would be incumbents for longer when we're going to bake off with customers and RFPs and everything else. So actually have the entire suite that customers are looking for.

**Q:** Got it. Makes sense. Well, thanks for taking the questions, guys, and looking forward to hearing some updates about the new products getting launched here.

**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 CEO and Founder, Brian Balbirnie for closing remarks. Please go ahead.

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

Matthew, thank you. We appreciate the help as always and we appreciate everybody spending time with us today and listening to today's third quarter earnings call. We look forward to the follow-up as we do normally. We're excited to remain part of the year and beyond and we look forward to you all being a part of Issuer Direct. Thank you so 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.