ISSUERDIRECT

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Transcript of Issuer Direct
Fourth Quarter and Year-End 2016 Earnings Call
March 2, 2017

Participants

Steve Knerr – CEO
Brian Balbirnie – CFO

Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation fourth quarter 2016 Earnings Conference Call. As a reminder, today's call is being recorded.

Earlier today, Issuer Direct Corporation issued a press release that included certain cautionary language with respect to forward-looking statements. The Company would ask you to review the language in the press release regarding forward-looking statements, as they are equally applicable to any forward-looking statements made during this conference call.

Today's call will be conducted by the Company's Chief Executive Officer, Brian Balbirnie and its Chief Financial Officer, Steve Knerr, I'll now turn the call over to Mr. Steve Knerr.

Steve Knerr - CFO
Thank you, and good afternoon everyone,

Before we begin, I need to read the following Safe Harbor statement. Statements or comments made on this conference call may be forward-looking statements that include financial projections or other statements of the company's plans, objectives, expectations or intentions. These matters involve certain risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statement due to a variety of factors, which are discussed in detail in our recent SEC filings. Further, we will discuss both GAAP and non-GAAP financial information on this call. We believe the presentation of non-GAAP information provides you with useful supplementary data concerning the company's ongoing operations and is an appropriate way for you to evaluate the company's performance. Non-GAAP results are, however, provided for informational purposes only. Please refer to the press release and related tables for GAAP information and a reconciliation of GAAP to non-GAAP information. We also posted to our website, in our Investors relations tab, a description as well as reconciliation of GAAP measures to which we will refer on this call.

With that out of the way, I'll begin by going over financial highlights, and then turn it over to Brian for his operational review and outlook, followed by a Q&A session.

Q4 marked another successful quarter for Issuer Direct, as we continued our transition to a cloud first engagement. The Q4 Financial Highlights with prior year quarter comparisons are as follows:

- We achieved revenue of $2.8 million, which represents a 3% increase over the same period in the prior year
- Gross margin percentage expanded to 75% compared to 70%.
- The Company's GAAP earnings per diluted share was $0.17 compared to a loss of $0.10 per diluted share

- EBITDA margin was 24% compared to 20%
- Non-GAAP net income was $498,000, or $0.17 per diluted share, as compared $397,000 or $0.14 per diluted share.
- Once again, we continued our trend of generating positive cash flow from operations and increasing our cash balance over the prior quarter, as we generated $741k dollars of cash flow from operations
- On February 10, we paid a quarterly cash dividend of $0.05 per share, making it our sixth consecutive quarter for paying dividends

Highlights for the year ended December 31 2016, with prior year comparisons are as follows:

- We achieved revenue of $12.1 million compared to $11.6 million. Excluding a one-time benefit of $316k in Q1 2016, related to the reversal of an accrual for unused postage credits related to ARS clients acquired in the PrecisionIR acquisition, revenue would have been $11.7 million, up slightly from the prior year.
- Gross margin expanded to 75% from 70%
- The Company's GAAP earnings per diluted share was $0.54 compared to $0.06
- EBITDA margin expanded to 26% from 20%
- Non-GAAP net income was $2.0 million, or $0.69 per diluted share, compared to $1.8 million, or $0.71 per diluted share. The decrease in Non-GAAP EPS despite higher Non-GAAP net income is the result of more shares outstanding due to the final conversion of the Red Oak Note into 418,000 shares of the Company's common stock in August 2015.

As I noted earlier, total revenue increased 3% to $2.8 million and 4% to $12.1 million during the three and twelve-month periods ended December 31, 2016 compared to the same periods of the prior year. I will now discuss some of the contributing factors to the changes in revenue across our revenue streams.

Disclosure management revenue decreased 5% for the quarter and 8% for the year. As noted in previous quarters, this decline is due to continued pricing pressure and competition in the Edgar and XBRL markets, as well as a shift in some clients from our traditional services work over to licenses of Blueprint. However, partially offsetting this decrease was an increase in transactional revenue in our transfer agent business, primarily due to continued success within our community banking clients as well new projects with Regulation A+ clients. As Brian will talk about in a few minutes, we believe there is growth potential within the Regulation A+ space,that may benefit us from both a technology and services aspect as we work with these clients.

Shareholder communication revenue decreased 10% and 5% during the three and twelve-month periods ended December 31, 2016, respectively, compared to the same periods of the prior year. Again, as we noted in previous quarters, we continue to experience declines of our hardcopy ARS services as companies transition to electronic delivery or elect to leave the service altogether. Additionally, as customers have migrated from ARS to our Investor Network Platform, revenue has shifted into our platform and technology revenue stream. Accesswire continues to provide impressive results, as revenue increased 44% for the quarter and 60% year to date compared to the same periods of the prior year. This success is attributable to expanding partnerships and investments of increased distribution and sales staff which were made during the third and fourth quarters. We continue to focus on new opportunities and strategies for 2017 to continue the momentum built in 2016 with Accesswire. Also, our Proxy and print distribution services grew by 50% during the quarter and year-to-date periods due to successful partnerships and cross selling from existing transfer agent clients.

Our platform and technology products also delivered increases, as overall revenue for these products approximately doubled during the quarter and year-to-date periods compared to the same periods of the prior year. The primary reason for the increase was due to the shift of approximately $80k and $412k of revenue during the three and twelve months ended December 31, 2016, respectively, for electronic ARS customers to our Investor Network platform. Additionally, while marginal in size, licensing of each of our products in this revenue stream increased, namely our transfer agent, iR Direct, iProxy, whistleblower, webcasting, Blueprint and Classify platforms. Again, showing our focus on building a cloud-first engagement through each of these platforms. Gross margin was 75% for the three and twelve months ended December 31, 2016, as compared to 70% for both periods of the prior year. The increase is due to increased revenue from our high margin Accesswire business as well as our continued transition to a cloud-based subscription model resulting in stream-lined costs.

Operating expenses decreased $604k and $438k during the three and twelve months ended December 31, 2016, primarily due to a $547k impairment loss on intangible assets recorded during the fourth quarter of 2015 as a result of our annual review of impairment. Our review during 2016 concluded there was no such impairment. Additionally, slight increases in product development and sales and marketing costs as a result of increased headcount were offset by a decrease in amortization costs due to certain intangible assets which became fully amortized during 2016. In addition to the decrease in operating expenses, interest expense decreased $626k for the year due to the final conversion of the Red Oak note in August 2015, and as a result we no longer have any interest expenses related to the Note.

Due to higher revenue and expanded margins, EBITDA increased to 24% of revenue for the quarter and 26% of revenue on a year-to-date basis, which was an increase from 20% during both periods of the prior year. We expect EBITDA levels to remain above 20% for future quarters.

For GAAP purposes, we recorded net income of $510k, or $0.17 per diluted share for the fourth quarter of 2016, as compared to net loss of $294k, or $0.10 per diluted share for the same period of 2015. For the year-to-date period, net income was $1.6 million or $0.54 per diluted share compared to net income of $145k or $0.06 per diluted share during the prior year.

We continue to focus on generating positive cash flow from operations as we generated $741k dollars during the fourth quarter of 2016 compared to $865k dollars during the fourth quarter of 2015.

Overall, it was a successful quarter and year for Issuer Direct, as we were able to increase revenue, expand margins and continue our focus on product development to not only enhance our current products but build new products as well. During the fourth quarter of 2016, we capitalized an additional $400k of software development costs related to Blueprint, Classify and Investor Network, bringing our total investment to $1.5 million for the year. And the fun is just beginning, as Brian will now talk further about product enhancements and roll-outs expected during 2017. Brian?

Brian Balbirnie - CEO

Thank you, Steve, good afternoon everyone, and thank you for joining us. Today's call is also being broadcast live via our company profile on Investor Network, a link of which can be found in today's earnings release, which was just filed a few minutes ago. You can also view the full text of our earnings release on our website in the investor relations section.

In today's call, I'd like to cover a few topics in depth more so on our platform and business, since Steve did such a great job reporting the numbers on a good year.

First, I would like to talk a bit about some of our key events in 2016 along with a review of our progress towards our principal strategic objectives of our business transition to a platform first company;

Platform ID is our newly branded client dashboard, formally known for almost 10 years as the DMS, or Disclosure Management System. Platform ID, encompasses the very same components of our current business, but in more unified and focused way. Leading the way with our platform is enabling our intuitive dashboard power by Classify, that gives our clients the ability to research their peers, get updates on shareholders and institutional movement, performance charts, financial data and relevant news and research.

Speaking of news, Accesswire is one of the gems in our business, growing faster than any other part of our business. As we mentioned last quarter, we continue to invest in Accesswire being a fixture in the investor conference and trade show circuit – we remain committed to utilizing these venues to promote the brand where and when possible, as well as support the conferences where our partners and clients depend on exposure and engagement. Accesswire remains the leading news platform for conference presentation releases in the small cap and smaller space. Additionally, this past quarter, we added additional distribution to our ever-growing circuits, a commitment we have had since inception, and something we expect to continue to do this year as well. Specifically, we added key partner distribution in Europe with the LSE and other key EU focused partners, and we already have expanded agreements in the works for 2017 that will further round out our distribution offering.

Like Accesswire, we have been committed to aligning and advancing the remaining part of our shareholder communications platform. As an example, our newly advanced Webcasting platform, was a key development in Q4. What has historically been an undisrupted market for over a decade is now a prime focus for us in 2017. Our webcast and development teams have advanced our current platforms and virtualized our systems, putting us on track to have one of the largest libraries of public company's earnings event archives in the industry, which will live on Investor Network. We intend to license this data in 2017 with the sole intent of building a brand for our Investor Network property. Just this quarter we began broadcasting hundreds of companies calls, next quarter we intend to double that to almost 1,000 and by the end of the year have every earnings call each quarter available on our Investor Network platform. Typically, companies pay hundreds of dollars if not more each quarter to broadcast their call via the web, and in most cases, they get little or no value from this. Our believe is we can drive more traffic to a company's webcast via a platform that has millions of subscribers already, this competitive advantage is something most webcasting companies can't match. The result of this benefit will give us an analytics product to license to every public company that seeks to understand their audience and engage in the post call follow up.

The benefactor of many of the initiatives in 2016 mentioned above, is our Investor network. Early in 2017 we will retire many our legacy platforms and drive all our issuer interest (from shareholders and prospective holders to our new ecosystem that is the hub for investor analytics. I will say that I am looking forward to the commentary and news that will come out of our partner network that will drive further value for our Investor Network brand.

Accesswire, our webcasting platform, along with our entire shareholder communications system is the driving force behind Platform ID, we have made significant progress this past year and have some very exciting things to do in 2017, which I think was Steve's point earlier – "the fun is just beginning" – our transformation to a platform first company is evident in our business, and this year we are going to see the rewards for that by introducing the industry's first flat fee Public company platform, whereby corporate issuers will be able to file their disclosure with regulatory agencies, create a release, update their IR platform, schedule an earnings call just like this one, manage their shareholders, find new shareholders, and virtually everything else Issuer Direct provides for one flat simple straight forward fee. No gimmicks, no catches. This platform subscription will help us further expand our average revenue per issuer, something we have been working hard to increase over the last couple years and something we expect to grow this year.

And finally, last quarter I spoke a bit about Regulation A +, and how we were experiencing some growth here. We ended 2016 with revenues and a promising pipeline. But we still viewed the market as highly undefined and fragmented. We quickly understood there was an opportunity to build some tech here, and to be able to go lead in this market. So as agile as we are, we began in late December a quick build of some very intensive and complex code to connect banking platforms, AML regulations, know your Customer (KYC) standards and subscription document building all in one platform,that an investor could self-direct and invest from any device. Its call Transferly, our new stock transfer platform, a very FinTECH focused brand, and something we expect to see big things from this year.

We ended the year on a high note in many areas of our business, many of which I just discussed, but one specific internal goal was to hit the 2,000 customers mark, we ended 2016 with 2101 combined customers, better than expected. Our teams remain confident and excited about this fiscal year, and getting closer to our goal of 3,000 customers in 2017.

I won't repeat everything Steve just reported, but a couple take a-ways I feel are worth expanding upon are in our disclosure management business. We full recognize the pricing pressures in this business, but in contrast the services from our transfer business increased 38% for the quarter, and 42% for the year. Whereas we saw decreases of 13% for the quarter 17% YTD in our Edgar XBRL services business. This does not however fully tell the story, as some of our customers opted to transition to a platform subscription with Blueprint, helping contribute to some of our losses in this area. A reality if we're going to make the complete turn to a software platform company.

As Steve mentioned, our Accesswire news business was up 44% for the quarter and 60% for the year, and on a sequential basis, the business was up 12%. We can't say it enough how excited we are about our newswire business, but also understand we have a long way to go to get to where we want to be. With that said, we should continue to see 80% plus gross margins in this business, quarter after quarter, and in fact - we feel confident that our cross-selling abilities will begin to take shape this year, now that client count numbers are beginning to steadily grow. The natural subscriptions would be newsrooms, IR platforms and targeting products all a part of our core Platform id ecosystem.

As a result of, the efforts just mentioned, and something we have said in previous calls, we expected to see margin expansion as a result of the growth were experiencing, for the 4th quarter, we saw margins expand year over year from 70% to 75%, and 1% higher sequentially from 74% in Q3. A trend we are motivated to see move even more. 16,29 to 16.41

In closing, I wanted to give everyone a bit more insight into 2017, and how we will be reporting our revenues. As everyone knows, our business has been going through transformations not just in our regulatory business but also in our shareholder communication space. Historically we have had to spend a lot of time talking about each revenue stream and the components of each to give investors an opportunity to see inside of each of our business, the growth drivers and the areas of retraction. I am happy to tell you, in 2017 we will no longer be doing that. We will instead be a very clear concise platform and technology company with a services component, not much different than our peers. We firmly believe that shining a light on our business in this way will help investors will be able to clearly model, subscription revenues, client count numbers, average revenues per user and even revenues per employee which from my research, a software as a service company average around $200K per employee per year. Were virtually there today, but our goal is to be far beyond the average in 2017.

With that I'd like to turn the call back to the operator for questions.

Operator
Thank you. The floor is now open for questions. [Operator instructions]. Please hold while we poll for questions.

And there appear to be no questions at this time.

Brian Balbirnie - CEO
Steve and I would like to thank everyone for attending today's call, it truly means a lot to us to have your continued support, belief and trust in us to navigate our company to the next level. This month I was reminded, this February was our 11th year, not anyone of them the same, each one better than the year before in so many ways. I guess it is true, time really does fly when you're having fun.

Thank you.