

**Transcript of
Issuer Direct
First Quarter 2019 Earnings Call
May 2, 2019**

Participants

Brian Balbirnie – Chief Executive Officer
Steve Knerr – Chief Financial Officer

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation first quarter 2019 Earnings Conference Call. Today's call will be conducted by the Company's Founder & Chief Executive Officer, Brian Balbirnie and its Chief Financial Officer, Steve Knerr, before I turn the call over to Mr. Brian Balbirnie, I'd like to read you the companies 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, estimated impact of tax reform, 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 – Chief Executive Officer

Welcome, everyone, and thank you for joining us today. After the market close today, we issued a press release announcing our results for the first quarter, 2019, a copy can be found in our Investor Relations section of our website and our ACCESSWIRE Newsroom for you to reference during today's call. Subsequent to this call we intend to file with the SEC our 10-Q for the quarter.

The first quarter marked a solid beginning to the year for Issuer Direct, both in record revenues, integration of our newly acquired Visual Webcaster and our core platform expansion.

We are happy to report in Q1 we achieved \$4.2 million in total revenue, which represents a 18% increase over Q1 of last year and 15% sequentially over Q4 2018. Something Steve will expand upon here in a couple minutes.

As we messaged last year, our Platform business continues to grow as a percentage of total overall revenues. For the first quarter 2019 Platform and technologies accounted for 64% of total revenues or \$2.665M, compared to 61% in Q4 2018 or \$2.230M. Our goals this year remain consistent to what we have previously stated in reaching 70% of our overall revenues derived from Platform & Technology business.

Something else Steve and I will talk about on today's call, will be our new format in how we will report our active customers for each period compared to the prior year. As we mentioned last quarter, we hoped to be able to do

this beginning with Q1, breaking down both public and private customers in an effort to provide better insight into our overall business. In the future as we continue to successfully transition further towards a full SaaS business, we will get into retention rates, MRR, ACV, which we believe are critical metrics that need to be known.

But at this point I'll turn it over to Steve for a deeper dive on our financial results, then following I'll elaborate further on some of the key takeaways for the period and what we're seeing for the remainder of the year, Steve?

Steve Knerr – Chief Financial Officer

Thank you Brian, and good afternoon everyone, I'll begin by going over our results for the first quarter and then turn it back to Brian for his quarterly remarks, followed by a Q&A session.

As Brian mentioned, we hit record revenues during the first quarter of 2019, primarily fueled by our acquisition of FSCwire in July 2018 and more recently, the Visual Webcaster Platform, which was acquired on January 3, 2019. We also grew organically through continued licensing of Platform id, as we focus on selling full subscriptions of the product. Lastly, we conducted a few successful conferences during the quarter using our new conference management module.

Revenue for the first quarter totaled \$4,179,000, an increase of 18%, or \$649,000, compared to revenue of \$3,530,000 for the first quarter of 2018. Leading the growth was revenue from our Platform and Technology revenue stream, which increased \$633,000, or 31%, to \$2,665,000 for the first quarter of 2019 compared to \$2,032,000 for the same period of 2018. Platform and Technology revenue increased to 64% of our total revenue for the first quarter of 2019 compared to 58% in Q1 2018 and Platform and Technology revenue from customers acquired in our acquisitions of FSCwire and VisualWebcaster totaled \$509,000 during the first quarter of 2019. We also increased our subscription base of Platform id by adding 20 additional subscriptions during the quarter with an annualized contract value of \$189,000. These increases were offset by the continued decline in revenue of our shareholder outreach offering which is specifically tied to our annual report distribution services.

Services revenue of \$1,514,000 for the first quarter of 2019 increased 1%, compared to the first quarter of 2018. The increase was due to an additional \$118,000 of Services revenue from customers acquired in the FSCwire and VisualWebcaster acquisitions as well as an increase in print and proxy distribution revenue due to the timing and size of projects during the quarter. These increases were offset by continued decline of revenue from our legacy annual report service, as well as, decline in revenue from our compliance services as we continue to face pricing pressure or customers begin to take advantage of our platform offerings.

Switching gears to gross margin, our overall gross margin percentage was 69% for the first quarter of 2019, compared to 71% for the same period of the prior year. Cost of revenues increased \$281,000 during the first quarter compared to the prior year. A majority of this increase is due to costs associated with delivering revenue of our VisualWebcaster Platform as well as an increase in press release distribution costs. As a result of these increases in costs, Platform and Technology gross margin percentage decreased to 75% for the first quarter of 2019 compared to 79% for the same period of the prior year. As we continue to work through the integration of our VisualWebcaster product, we anticipate building more scale and identifying costs which we will be able to stream-line in order to bring gross margin more in-line with previous quarters. Gross margin percentage from our Services revenue stream was 58% for the three months ended March 31, 2019, compared to 60% for the same period of the prior year.

Moving down to operating expenses, we had an increase in operating expenses of \$536,000, or 24%, during the first quarter of 2019 compared to 2018. A majority of this increase is related to an increase in G&A expense, which increased \$357,000, or 36% due to an increase in bad debt expense of \$181,000, acquisition related expenses of \$112,000 and increased corporate headcount as we position ourselves for top-line growth. Sales and marketing expenses increased \$70,000, or 9% compared to the prior year, due to increase in personnel costs

as we re-align and continue to build the sales and marketing team. Product development expenses were higher as well, increasing \$39,000 or 13% due to an additional headcount over the prior year. Lastly, amortization expense increased due to additional amortization resulting from intangible assets acquired as part of both the FSCwire and VisualWebcaster acquisitions.

Our income tax expense was \$13,000 for the first quarter of 2019 compared to a benefit of \$10,000 in the prior year. Each period benefited from a tax benefit associated with the exercise of stock-based compensation during the respective periods.

For GAAP purposes, we recorded net income of \$205,000, or \$0.05 per diluted share, for the first quarter of 2019, as compared to net income of \$320,000, or \$0.10 per diluted share for the same period of 2018. Non-GAAP net income was \$518,000, or \$0.13 per diluted shares for the first quarter of 2019 compared to \$458,000, or \$0.15 per diluted share for the first quarter of 2018. Both GAAP and Non-GAAP earnings per diluted share were negatively affected by an increase in shares outstanding as a result of the secondary offering we completed in August 2018.

Looking at some other metrics, EBITDA for the first quarter of 2019 was \$558,000, or 13% of revenue, compared to \$655,000, or 19% of revenue during the same period of the prior year. We continue to generate positive cash flows from operations as we generated an additional \$536,000 during the first quarter of 2019, similar to the \$537,000 generated in the first quarter of 2018. Also, our deferred revenue balance increased to \$1,464,000, a 17% increase since year-end, due to additional licenses of Platform ID I mentioned earlier.

In conclusion, we had another productive quarter as we generated good revenue growth and are looking for more growth to come throughout the year. We still have some work to do in completing the integration of VisualWebcaster in order to build more scale and obtain the last remaining press release distribution points needed. We also continue to build-out and refine our products, including our conference software management and insight and analytics modules

With that, I will turn it back to Brian who will now talk further about our products and outlook for the remainder of 2019 and beyond.

Brian Balbirnie – Chief Executive Officer

Thanks, Steve.

The first quarter was a good beginning to the year for us, resulting in annual record revenues, further acceleration of our platform & technology business, and roll out of our conference platform module, which I will talk more about in a few minutes.

First quarter 2019 platform business sequentially increased to 64% from 61% of our overall revenues for the quarter. In order to keep this momentum and further expand our platform strategy, new customer acquisition is extremely important, as well as expansion of ARPU from our current customers. Our goal are unchanged, as we expect to see platform spends reach over 70% of overall revenues in 2019.

During the quarter, the Company had 1,482 publicly traded customers, compared to just 1,176 during the same period last year.

During the quarter the Company had 764 privately held customers compared to just 606 during the same period last year.

Also, during the quarter we entered into 25 new platform id subscriptions, valued at \$239,000, or just under \$10,000 in average subscription revenues, of which we saw 20 activate services during the quarter, the balance for future start dates this year. These new contracts have contributed to the 17% increase in deferred revenue

since year end. At March 31, we have 129 active Platform id communication and compliance subscriptions with annual contact values of approximately \$1,500M.

Moving on to ACCESSWIRE - We have improved our distribution, pricing and subscriptions during the period. The expanded distributions points to millions include the addition of Big News Network, News360, Digital Media Online, and a handful of specialty trade publications in consumer electronics, cannabis, health and media. Some of which have driven delivery costs higher for the period and lower gross margins slightly, but a necessary step in order to gain both customers and further acceptance in the market.

During Q2 we intend to add even more distribution, launch our advanced press release drafting tools and new online interface. These planned advancements are necessary to keep ahead of the market and build for growth we expect during 2019 and beyond.

Moving on to the recently announced Visual Webcaster acquisition announced in January. We have completed most all the integration of accounting, operations and technology infrastructure. There are no doubt other areas to focus on now that integration is in a good spot, something we look forward to sharing with you over the coming quarters.

This is an instrumental product for us, we have begun moving our legacy Issuer Direct earnings webcast customers to this platform, and we have also integrated the VisualWebcaster product into and with our conference software and believe it will be a driving force of revenue contribution when combined together, which we have begun to see in the last several weeks.

With all that said, we are still getting to know our newly acquired customers both federal governments, public and private companies. Over the coming months we are going to be focused on building product roadmaps based on customer feedback, in hopes of learning their needs better and determining what platform id components can also benefit their organizations with the intentions of finding ways to expand customer revenues.

This is a great segue to spend some time talking about our new conference software, a new initiative we recently launched essentially in Q1, which saw a few events during the quarter and commitments for several more this year. In the last 90 days we have been heads down delivering the best events we can, in fact, right now – day three of Planet MicroCap is going on with our conference platform, where investors are meeting with 100+ companies today.

We have learned a great deal, and like any other software product – there is always components to improve upon and do better. Our team is listening, learning and iterating to make the product better everywhere we can. We are on track to more than double our events this quarter and continue to build pipeline for the back half of the year. Because the numbers of events were not material, we did not call these out separately in our client count numbers today, but rather included them in our private customer numbers. Revenues attributable to these events was \$66,000 for the first quarter.

In order to keep pace with the expected momentum, we have invested in sales personnel and look to add to our marketing teams to assist our customers with their events. As the pipeline of opportunity grow, we believe we will sign 20+ events this year and by 2020 do 4-5 times this number, a business were excited about, and ties directly into our strategy of bringing the issuer and investor closer together.

Moving on to our sales and marketing team – we have continued to invest and expand the team and will continue to look to refine and add key components the remaining part of the year. In fact, during the last 60 days we added two head count to our sales organization with several more planned this year. These new additions bring

the total team to 25 or 30% of our workforce. This includes both account managers, business development managers, marketing and onboarding personnel.

Adding headcount is vital to achieve our client growth objectives. We believe the market is ripe to acquire new customers and having experienced personnel will help us achieve this, something we need to deliver on during the 1H of the year.

We are encouraged by our continued client expansion, specifically the customers that are purchasing our platform, and the investments we're making in the business, both in our new product development and our employee base, which will put us in a position to further grow and scale the business.

We have enjoyed speaking with you today and look forward to your questions and visiting with you again soon. Operator, could we please begin the Q&A portion of our call.

Operator

Thank you. At this time, we will be conducting a question and answer session. [Operator instructions]. Our first question today is coming from Mike Grondahl of Northland Securities. Please go ahead, sir.

Q: Yes, Brian and Steve, on the conference management software, would you describe that as sort of inline with your expectations or ahead of schedule? How would you characterize that?

Brian Balbirnie – Chief Executive Officer

Hi, Mike. This is Brian. I think we're in line. It is a product offering that only has a couple of incumbents there today. Sales cycles typically are three to six months, so I think releasing that product at a very early stage late last year with full availability to go into production in Q1 to do a small handful of events in Q1 to more than double that in Q2 and a good pipeline for the rest of the year, I think we're in good stead. I think as we begin to build the remaining part of the year, we're going to start to build significant pipelines for into next year and beyond.

I say that to quantify that a lot of the investment banks that we're speaking with today aren't typical to what we've had success so far. We've worked the bottom up, the microcap space that we're familiar with, some of the larger investment banks we're talking to have 20-plus events a year. So, as we believe we continue to deliver as we have, we're going to have a good opportunity to be in a position early next year to find ourselves doing their work as well, so I think we're within expectations right now.

Q: Okay. Is there an update on the insights and analytics module?

Brian Balbirnie – Chief Executive Officer

Yes, we didn't actually talk about it today, and that wasn't intentional or deliberate by any stretch of the imagination. We spent a good deal of time on our last call talking about it. We intend to release at the end of June. Our current customers will be able to gain access to a 30-day trial of that add-on module to see what engagement they'll see in analytic data. We'll be able to derive from them both from conferences to earnings events to shareholder data and analysis, and then get our sales teams fully trained and up to speed and begin selling that product in the back half of the year.

Q: Got it. Great. I'll jump back in the queue. Thanks.

Brian Balbirnie – Chief Executive Officer

Thank you.

Operator

We do have additional questions coming from Mr. Grondahl of Northland Securities. Please go ahead, sir.

Q: Just following up. ACCESSWIRE, E-Trade, Ameritrade, Schwab, Merrill Lynch, what's the status with each one of those?

Brian Balbirnie – Chief Executive Officer

As on the distribution we added already in this past first quarter, we have equal for that and more in this second quarter which will include a handful of what you're talking and asking about. Our fees were delivered live at the end of the quarter into the TD Ameritrade thinkorswim platform through one of our aggregated partners and theirs. We are waiting for final implementation to occur, and we were told in the last couple of days that that can happen either today, tomorrow, or in a couple of weeks.

So, we are patiently waiting. Our customers are patiently waiting, and we're committed to continuing to do it. We've delivered on ever other distribution [indiscernible] that we have made a commitment to do, and we don't see that this will be any different for us. It's patience. We're playing the long game here, so I think we're fine, and our customers today fully understand that.

Q: Got it. Then, after FSC, Visual Webcaster, what does the acquisition pipeline look like today? Are you talking to anybody? Is it full? Is it light? How would you describe it?

Brian Balbirnie – Chief Executive Officer

Yes, by any stretch of the imagination, it's not a buffet. We're being very careful in the kinds of transactions that we'll be contemplating. We are talking to folks. We continue to do that as we've messaged since mid to late last year. Like Visual Webcaster, like FSC, and others that we've done, we're going to do the right transactions that fit in the right time, and if that takes us another month or another six months, that is the timeline that we're not terribly worried about.

We're trying to find specific transactions and opportunities that fit in our core wheelhouse and not look for adjacencies right now. We have a lot going on. I think all of our shareholders and folks that know our business understand that we do an awful lot given our size, and the last thing I think we need to be doing is trying to find something else that we can add into our platform as an adjacency. We just don't have that opportunity to be able to handle and be successful.

So, we continue to look at some of those folks. I wish I could tell you that something's further along, but for obvious reasons, I can't do that at this time. As soon as we do have that data point available to share it with you, you guys will be the first to know, that's for sure.

Q: Is there anything in particular you're looking for or you've realized you have a need for.

Brian Balbirnie – Chief Executive Officer

Yes, look it's a big focus of our capital allocation. We have to invest and deploy the capital that we've raised and we've continued to accumulate over the years, so we've always done a good job at that. I like to say that both Steve and I are stewards of the balance sheet, and we're going to look for things that fit into our communication side of our business specifically. We're going to look for things that specifically can have impact and news whether it be distribution or customers or global expansion, perhaps maybe even an opportunity. We're going to look for things that sit in this analytics and analysis platform that we've been able to put together.

We're going to look for things that fit inside of our conference business that we believe would be great add-ons to what we're doing. Those are our areas of scale, and if we can put ourselves in a position to have a product solution from the subscription set that can bring margins back into the 80s at some point and provide a scale both

on the public and private side, that's where we need to be deploying that capital. We really don't have an interest at this point to pouring capital into something that we see margin compression and commoditization in the market, so we're going to be careful about those and focus on the things that we see tremendous upside.

Q: Got it. Platform technology customers or service customers, will those be in the 10-Q, or are you guys just done disclosing those? It's just public and private companies.

Brian Balbirnie – Chief Executive Officer

That's a great question. I'm glad you asked that, and we had messaged this in the past call that we were going to switch to this format. There's more to come here.

I think the business is, as we continue the backend of this transition of what this old profitable service business was, and now led by a very deliberate strategy of platform-first engagements and subscriptions, we believe it's a better story could be told about our public and private customers because the [indiscernible] of those are very different, and as we begin to open up the values of what a public and private company are, we want to be able to show and demonstrate to what those drivers look like, not necessarily who bought what from a technology and who bought services because there are crossover clients, and those crossover clients then make that story harder to understand sometimes, and those change from quarter-to-quarter based on the seasonality and the things that may do.

We feel like it's really important to talk about the number of public and private companies that we have. So, those are the metrics that we'll be using going forward this year and beyond.

Q: Got it. Then, one financial question. There was a sentence in the release about bad debt expense. It had increased. Can you talk about that a little bit?

Brian Balbirnie – Chief Executive Officer

Yes, we've been really fortunate. I think Steve and I both, in our organization, from having customers that move in and out of the 30 to 60 to 90 days and back current again, and from time to time in our 13-year history, we have clients here and there that accumulate larger balances. We have customers that are very big and obviously customers that are very small and/or new, so we have a couple clients with some larger balances that we're working with, and that's the extent of what we're taking the reserve on and what that looks like. They continue to do work with us. We continue to have a good, open dialog with them, and we don't see anything more coming of that, and we don't have any other issues with the rest of our client base when it comes to that.

Q: Got it. Lastly, what one or two things are you most excited about for 2019?

Brian Balbirnie – Chief Executive Officer

I will tell you one thing that came up in kind of the pre-early on this year, this conference world that we represent, absent of us being a provider of sovereign technologies for these events, but just being a presenter. To sit at tables and talk to prospective shareholders and current shareholders about our business, and they've always looked to the name and the brand saying that they've seen press releases with the dateline that says ACCESSWIRE, and they may have seen it on our website or something else that had Issuer Direct's name attached to it.

I think what's really exciting for us as a company is that a lot of the things that we do today have brand visibility in everything. So, if you're listening to an earnings webcast today, it says powered by Issuer Direct, if you're at an event the mobile software that you're using or the conference software that you're using says powered by Issuer Direct, the press releases and our platform ID products, so this ecosystem that we've built, which is essentially

from ID is being seen from all angles, investment banks, small investors, funds family offices, public and private companies, and the millions of shareholders and just prospecting consumers that receive this content.

That's a flattering thing, and that's a big responsibility for us to be delivering that ecosystem out to the marketplace. So, as we think in the future, as we're successful about integrating all these pieces and building critical mass, that's very exciting, and I think that that touches probably every tentacle of our business. Not to sound too terribly corny, but I think that gives demonstration for us as management that we're excited about a lot of the things that we're doing.

Q: Got it. Okay. Hey, thanks, guys.

Brian Balbirnie – Chief Executive Officer

Thank you, Mike.

Operator

Thank you. At this time, I'd like to turn the floor back over to management for closing comments.

Brian Balbirnie – Chief Executive Officer

Donna, thank you very much. I appreciate everybody's time today and, Mike, for your great questions as always. I think, in short, it's a pleasure to be able to spend the time with everybody as we do each and every quarter and between the quarters on calls and conferences. I know there are thousands of other companies to be listening to, so it's a privilege. It drives our passion every single day to have you have the opportunity to listen to us talk about the quarter. Thank you and have a great day.