



Trading Under the Symbol: ISDR

Transcript of Issuer Direct First Quarter 2020 Earnings Call April 30, 2020

Participants

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

Analysts

Luke Horton – Northland Securities

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation first quarter 2020 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 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 and Chief Executive Officer

Thank you, operator. Welcome everyone, and thank you for joining us this afternoon. At the market close, we issued a press release announcing our results for the first quarter 2020. A copy of the press release is now available in the Investor Relations section of our website. It is also on our ACCESSWIRE Newsroom for you to reference during today's call and broadcast on investor network.

We ended the quarter making it a priority to protect our employees, their families and our communities. Our work from home process began at the beginning of March in our New York office, and by mid-March in Florida and our Corporate offices in Raleigh. This work from home policy, still remains in effect and likely will continue throughout Q2. Our team is doing an outstanding job ensuring our current customers continue to receive excellent care, and we're also gaining new customers during this time, which is extremely important to our growth strategy. We will talk more about where we were seeing this growth, and the impacts we believe it will have on our business a bit later.

We were pleased with our first quarter in several ways:

1. Q1 2020 is the final quarter we are reporting a year-over-year revenue comparison against prior year revenues that include a full quarter of the discontinued commentary segment of our press release business.

Removing the \$335,000 of discontinued commentary business revenue from Q1 2019 our total revenue during the first quarter of 2020 grew 4% year over year and our ACCESSWIRE revenue grew 36%.

2. We are pleased that our Q1 2020 EBITDA increased 11% and net income grew by 10% year over year.
3. We upgraded and released at the end of the quarter two new virtual product offerings to address the conference and annual meeting businesses we have, something else we will talk about here shortly.

There will be portions of today's call where Steve and or I will point to uncertain, unknown and to be determined times. That being said, we are not panicking, changing our business or putting our heads in the sand. We have advocated to our customers, now more than ever, if you can – tell your story, demonstrate to your stakeholders the value of your business, regardless if that's a product advancement, earnings, or even a human element of providing a update on what your business is doing in these unprecedented times.

Thankfully, we have a great story to tell, over the last 60 days, we have increased our marketing efforts to talking about how we can help the market we serve, both in products, advice and guidance. These visible and targeted marketing pieces have helped our business in the last several weeks, and is putting us in a great place for the back half of the year.

I'll now turn the call over to Steve, for a review of our first quarter, and after that I will detail our customer counts for the period, as well as ARPU, and some key metrics we're tracking from the first quarter and into this year.

Steve!

Steve Knerr – Chief Financial Officer

Thank you Brian, and good afternoon everyone.

First of all, I hope everyone on this call is staying safe and healthy and continues to do so. These are certainly exceptional times and the business environment continues to change on a daily basis. This is no different for Issuer Direct and as Brian mentioned, we essentially closed our office and moved all employees to work remotely in mid-March. However, as a Company, we didn't skip a beat and continue to upgrade and develop our products, gain new customers and deliver exceptional service. I am very proud of our employees and how they have handled the situation.

Jumping into the results for the quarter, total revenue for the first quarter of 2020 was \$4,016,000, a decrease of \$163,000, or 4%, compared to \$4,179,000 for the same period of 2019. Platform and Technology revenue increased \$20,000, or 1%, during the first quarter of 2020, as compared to the first quarter of 2019. The increase is primarily due to an increase in subscriptions of Platform id. signed over the past year. Although new contracts for Platform ID slowed during the last three weeks of the quarter due to COVID-19, we signed 30 new Platform id. subscriptions to new or existing customers with a total annual contract value of \$181,000 during the quarter. This brings our total Platform id. subscriptions as of March 31, 2020 to 273, with an annual contract value of \$2,098,000 as compared to 255 subscriptions as of December 31, 2019 with annual contract value of \$2,033,000. Revenue from our ACCESSWIRE business increased 1% compared to the same period of the prior year. Other than the impact of the investment commentary business, ACCESSWIRE revenue increased 36% compared to the first quarter of 2019. These increases were partially offset by declines in revenue from our webcasting and conference management software, due the cancellation and delay of in-person events as a result of the COVID-19 outbreak. Additionally, we continued to experience a decline in revenue from our shareholder outreach offering, which is typically tied in with contracts of ARS. As a percentage of overall revenue, Platform & Technology revenue increased to 67% of total revenue for the three months ended March 31, 2020, compared to 64% for the same period of 2019.

Services revenue decreased \$183,000, or 12%, during the first quarter of 2020, as compared to the same period of 2019. The decrease is partially due to a decrease in revenue from our transfer agent services due to a decline in corporate transactions, directives and actions as well as temporary delays in bank and broker processing due to COVID-19. We expect this to be a temporary delay and revenues to return to normal as banks and brokers adapt to processing electronically. Revenue from print and proxy fulfillment services also declined due to a large one-time project in Q1 2019 that was not repeated this year. Revenue from ARS services also continues to decline. These decreases were partially offset by an increase in webcasting services revenue due to an increase in teleconference events as customers began to hold more virtual meetings as a result of the COVID-19 outbreak.

Switching gears to gross margin, our total gross margin for the first quarter of 2020 was \$2,763,000, or 69% of revenue, compared to \$2,877,000, also 69% of revenue, during the first quarter of 2019. Platform and Technology gross margin was 74% during Q1 2020 as compared to 75% for the same period of the prior year. The decrease in gross margin percentage is primarily related to additional distribution and editorial costs related to expanding the capabilities of our newswire business, coupled with the loss of the investment commentary business. Services gross margin % was 57% in Q1 2020 compared to 58% in Q1 2019.

Operating income was \$248,000 for Q1 2020, as compared to operating income of \$147,000 during the same period of the prior year. The increase in operating income despite the decrease in gross margin is the result of lower operating expenses. General and administrative expenses decreased \$145,000, or 11%, due to a decrease in bad debt expense as well as a decrease in acquisition-related expenses of acquiring VWP which were incurred during the Q1 2019 that were not incurred during Q1 2020. Product development expense decreased \$143,000, or 42%, due to a decrease in headcount. Partially offsetting these decreases was an increase in sales and marketing costs, which increased \$76,000, or 9%, during the three months ended March 31, 2020, compared to the same period of the prior year due to an increase in headcount.

On a GAAP basis, we generated net income of \$226,000, or \$0.06 per diluted share, during Q1 2020, compared to \$205,000, or \$0.05 per diluted share, during the same period of 2019.

Looking at some Non-GAAP metrics, first quarter 2020 EBITDA increased 11% to \$622,000, or 15% of revenue, compared to \$558,000, or 13% of revenue, during the first quarter of 2019. Non-GAAP net income for the first quarter of 2020 was \$397,000, or \$0.10 per diluted share, compared to \$518,000, or \$0.13 per diluted share, during the first quarter of 2019.

Moving to the balance sheet and cash flow statement, we continue to generate positive cash flows from operations as we generated an additional \$602,000 during the first quarter of 2020, a 12% increase over \$536,000 in Q1 2019. On the balance sheet, our deferred revenue balance increased from \$1,812,000 to \$1,879,000.

Overall, despite the challenges we are currently facing, I believe Issuer Direct is in relatively good position. We are continuing to evolve our products in order to adapt to the changing needs of our customers and have a strong balance sheet to get us through these difficult times. Brian will now talk further about some of the updates we have made to our products and what lies ahead for Issuer Direct. Brian?

Brian Balbirnie – President and Chief Executive Officer

Thank you, Steve, as you highlighted, we had a decent quarter given the circumstances and are laser focused on what we need to do this quarter and remaining part of the year. Last quarter we spoke about organic growth in 2020, and that has not changed, perhaps what has changed are what customers are in need of, something we will talk more about in a few minutes.

As I mentioned at the opening of the call, our 80 + employees essentially have been remote since March assisting our customers, and delivering every step of the way. In fact, and as Steve mentioned, doing a great job, not to mention, learning new products as we pivoted some of our businesses toward a virtual event.

On a year over year basis, our customer counts continue to show strong signs of growth in combination. More so in our private company business, where customers were up 69% from 764 to 1,289 year-over-year. Our public company customers during the quarter were essentially flat, at 1,473 for the quarter from 1,482 last year. Last quarter we talked about our digital strategy and our investment and focus here. This customer growth is being driven by this effort both on a direct and agency model. This might very well be the largest single customer count jump we have had in our history, jumping 69% year-over-year. Keep in mind the majority of these private customers are all buying our newswire service. Our goal in the coming year and into next year is to build, buy or partner with adjacencies to expand customer spend, improve stickiness and reduce possible future churn. We see this business long term continuing to grow, revenues expand both in total but also per customer as we find and successfully integrate these adjacencies. Having a clean capital structure, and fantastic balance sheet puts us in a good position here.

Our public company business is where we could see some lumpiness in the approaching quarters. As one would expect, capital markets could tighten here in the coming months, making it difficult for the very small public companies to raise capital or find favorable debt instruments to execute their business models. At least for Q1, having virtually flat customer count year-over-year is not concerning to us, as we had several projects and delays due to decisions out of our control, many of those annual meetings, and projects are occurring in Q2 for us. However, this is not an indicator of anything other than what it is. We have had quarters like this before, where revenues and customers move from quarter to quarter. My point is here, things are consistent for us today. The caveat is the capital markets and we all will see how that will unfold over the next several months. This is why that private and growing newswire business is so vitally important to us as a company.

With that, let's talk about what we did coming out of Q1, essentially building and taking to market two new products that is a good amount of demand for today.

One, being a virtual annual meeting – a combination of our annual meeting proxy business and webcast business, merged together to create a virtual annual experience for both our customer and their shareholders. Obviously, there are no physical annual meetings happening anytime soon, so this was a well timed occurrence for us. We have discipline in both core components that are required to host a virtual meeting. Thankfully we did this, as it's safe to assume all our physical annual meetings in March and for at least this quarter ended June have all been either moved virtual or postponed. Given the fact this is new to us, we have to be realistic, training internal staff, ramping up sales team, onboarding and delivery teams – we have high expectations for success, we just don't have a handle on what success is yet. One thing is certain, this virtual annual meeting product is a right time right place product for us. It will absolutely lead to customer growth, revenue expansion and profitability and something we truly believe at this point will be a product for us for years to come. In terms of economics and depending on the suite of solutions selected, customers are subscribing in the range of \$3-9K, which will be generally earned during the period of the meeting – meaning we should expect to see all revenues from virtual annual meetings that happen before June 30, show up in revenues for us in Q2.

Second, was our conference software business and finding a way to move it all virtual. Just like physical annual meetings, all investor conferences for several months beginning in March have been cancelled, we have events under contract as far out as October are all going virtual and or have delayed permanently. This meant in order to be competitive in this business we had to adapt and quick. The first thing we did was integrate audio video and screen sharing technologies into our conference platform – so we could mimic all the same physical attributes of a physical meeting, see, hear and share.

You all know what I am referring to. The day of the conference you have an agenda telling you what room, table and time you need to meet. We had to take that concept, and make it virtual, without losing the engagement factor like many conferences did with traditional phonelines early on in Q1. It has to be effortless, and it had to be perfect, after all - no one else had this tech in the conference business, and there has never been a virtual conference where there were companies presenting while 1:1's were going on at the same couple day period all in one platform. Fast forward to today, we have now done two events just like this, we have hosted hundreds of meetings and presentation with thousands of investors perfectly. Now we have our eyes set on proving to the market we have the tech, the team and the capabilities to do this even more than we already have. So yes this means reselling Banks and conference organizers on our platform for many of the same events we had in a physical sense that were cancelled. Simply rebuilding the pipeline, all things considered a great position to be in. Coming in the next couple weeks we will be releasing some of the new wins along with their event schedules – we could not be more excited about having this advancement in our arsenal. We see this platform coming to life for both deal and non-deal road shows, analyst days and many other events that investors and issuers interact.

A hot topic for our shareholders and candidly our competition is accesswire. I would like to spend a few minutes discussing a few points – during the quarter ended March we did not see a slow down or lack of customer activity, as Steve just mentioned, absent of our last quarterly comparison on commentary, Accesswire revenues were up 36%, impressive growth, customers are equally impressive as we discussed a couple minutes ago.

Our Digital marketing strategy is working and were not even fully deployed in this effort. We feel confident that Accesswire has a compelling story to the communications space both in IR and PR, and like many of you have come to expect were making headways in distributions every quarter. Schwab's street smart edge platform went live during Q1, the first step in full Schwab distribution. Like other broker platforms we have obtained in the past, we expect this to take some time to be fully live in Schwab.

Again our newswire is a right time right place product. During uncertain economic times, companies naturally look for better deals, equal service and consolidation. Our model has been about just this for years, we feel like we have a viable news offering to compete with anyone, we have better tech and we have a great editorial and compliance team to back it up just like the incumbent.

In closing, I want to thank everyone for listening to today's call. We clearly see there could be some challenging times ahead for the public markets – and as such, like everyone else, we stand to lose a meaningful amount of our small-micro-nano cap customers to either economic impacts, M&A or some other anomaly where they go dark for a period of time. This is a risk known by all of us, investor and employee. However what I will tell you is, I feel good about our platform, our ability to pivot and stay agile – I love the grit we have to battle for customers and win a good percentage of the time, and if we are going to lose, make our competitor feel our presence by pricing them down. We have a leading newswire that gains customers virtually daily. We have a webcast platform and conference product that has plentiful demand and opportunities, these are the here and now - and not forgotten is our entire ecosystem, for when issuers can once again focus on strategic decision, our Platform id product offering will be there for them.

We enjoy spending time with you, reporting on our operating results, the business and what we have been building to address market demands. We look forward to your questions and visiting with you again soon. Operator, could we please begin the Q&A portion of our call.

Thank you to everyone who took the time to visit with us on today's call. We look forward to speaking with you again. In the meantime, stay safe, and take care!

Operator

At this time we'll be conducting a question and answer session. [Operator instructions]. One moment, please, while we poll for questions. [Operator instructions]. One moment, please, while we poll for questions.

Our first question comes from Mike Grondahl with Northland Securities. Please proceed with your question.

Q: Hi, guys. Congrats on the quarter. This is Luke Horton on the call for Mike. I just had a question on any update on sales force as far as hires or productivity?

Brian Balbirnie – President and Chief Executive Officer

Hi, Luke. How are you?

Q: Good.

Brian Balbirnie – President and Chief Executive Officer

Yes, we have held our sales team consistent. I will tell you that we've slightly slowed down a little bit of the key hires that we intended to continue to make for our sales organization. We have a team that's delivering today. We're going to work through the next quarter or two before we resume some of our strategic hires in the field. But today I think we're at the capacity of which we ended. Our sales and marketing teams sit today with a total of 24, 15 in sales and 9 in marketing now, so I think we're good at present.

Q: Okay. Awesome, thanks. How does the private or public company funnel for new business look? It looks like you guys had a lot of added private companies there in the quarter.

Brian Balbirnie – President and Chief Executive Officer

Yes, we had good success. We talked about this the last couple of quarters, we are moving our private company practice business to, rather than an outbound call, to more of a digital marketing campaign, and we're about probably 50%, 60% of the way into that campaign now. So, pipelines look strong, as I indicated a few minutes ago, new client activations are happening daily now. The average price per release begins to increase, and continues to do so, so we feel confident about that. Our competitive landscape hasn't changed. We still have the same viable competitors that we go up against. We're not seeing any changes in that market. So, we're going to continue to increase the spend, increase the activities in our digital presence to be able to drive inbound leads. And then to our point, as we continue to build that critical mass, is to find additional product adjacencies that we can begin cross-selling those customers, to really make them more sticky into our platform.

Q: Okay, awesome. Then just one last one here. I don't know if you guys touched on this, but is there any new distribution partners for ACCESSWIRE?

Brian Balbirnie – President and Chief Executive Officer

Yes, there's a handful, some of which are not as material as some of the coveted Schwab's and Merrill Lynch's that people like to talk about. Our thoughts are twofold. We are not going to stop in our pursuit of gaining every bit of distribution that we can. Adding the StreetSmart Edge platform from Schwab is evidence of that, much like we did several quarters ago with the TD Ameritrade platform of thinkorswim first, and then we dovetail into the rest of the platform.

But we're going to continue to do that. I will tell you, however, from a private company sense of growth, some of those distribution points aren't as critical for them, for obvious reasons. Then secondarily, as mid-cap companies and large-cap companies tend to look for different options, for budgetary reasons or just for contract expiration, they're now coming to us seeking our distribution platform, and less and less are the Schwab's and the Merrill's even talked about. So, we feel again, right time, right place, although that doesn't mean that we're going to stop

or slow down. We're going to continue that pursuit and feel confident that both Schwab and Merrill will be fully done by the end of the year.

Q: Got it. Thanks, guys. That's it from me. Have a good one.

Brian Balbirnie – President and Chief Executive Officer

Thank you, Luke.

Steve Knerr – Chief Financial Officer

Thanks, Luke.

Operator

[Operator instructions]. One moment, please, while we poll for questions. There are no further questions at this time. At this point I'd like to turn the call back over to Brian Balbirnie for closing comments.

Brian Balbirnie – President and Chief Executive Officer

Thank you. As always, a tough day in the earnings business, Amazon, Apple and a bunch of others on this reporting day. Thank you to everyone who took the time to visit with us and listen to today's call with Steve and I. We look forward to speaking with you again. In the meantime, stay safe and take care.

Operator

This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.