

Transcript of
Issuer Direct
Third Quarter 2020 Earnings Conference Call
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Participants

Brian Balbirnie - President & Chief Executive Officer
Steve Knerr - Chief Financial Officer

Analysts

Michael Grondahl - Northland Securities, Inc

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation's Third Quarter 2020 Earnings Conference Call. Today's call will be conducted by the company's Founder and 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 & Chief Executive Officer

Thank you, operator, and good afternoon, everyone. And thank you for joining us today to discuss the company's third quarter results. At the market close, we issued a press release announcing our results for the quarter. And during today's call, we will be referencing these results as well as talking about the remaining part of the year.

For your convenience, a copy of the press release is now available on our Investor Relations section of our website, and is also on our access to our newsroom for your reference during today's call.

Again, we're pleased with the quarterly results in several ways. Third quarter revenues were up 21% year-over-year, which also drove significant increases in operating income and EBITDA. A big shout out to our customers and partners whom we serve every day, they

continue to hold our offerings in high regard, finding true value and efficiencies in their respective workbooks. Remote or not, what we have continued to do this quarter has clearly been working, as we continue to expand overall customers and platform ARPU.

I'll now turn the call over to Steve, for a review of the third quarter results. After his remarks, I will discuss some key metrics we're tracking to close out the year strong. Steve?

Steve Knerr - Chief Financial Officer

Thank you, Brian, and good afternoon, everyone. As Brian mentioned, we are pleased again with the quarter as the third quarter was another record quarter for us in terms of operating income and EBITDA, while revenue and cash flow from operations remained close to the record level set during last quarter.

We continue to benefit from the shift and enhancements made to our virtual products, specifically with our webcasting and conference software product, and increased demand for newswire and overall subscriptions to our platform.

Getting into the details of this quarter, total revenue for the third quarter of 2020 was \$4.882 million, an increase of \$863,000 or 21%, compared to just over \$4 million for the same period of 2019. For the first 9 months of 2020, revenue totaled \$13.8 million, an increase of 12% or \$1.4 million from the first 9 months of 2019.

The growth once again came from our Platform and Technology revenue stream, which increased \$901,000 or 33%, of the \$1.6 million or 19% for the 3 and 9 months ended September 30, 2020 compared to the same periods of the prior year. As I noted earlier, majority of the increase in revenue came from our virtual products, notably our webcasting and conference software as some of the conferences we previously had scheduled as in-person conferences for Q2 were changed to virtual conferences conducted in Q3.

Additionally, ACCESSWIRE revenue continues to increase, as it increased 22% and 14% for the 3 and 9 month periods ended September 30, 2020, compared to the same periods of the last year. As with last quarter, this increase was due to both an increase in customers and an increase in revenue per release as we continue to benefit from our digital marketing and e-commerce platform that kicked off toward the end of the first quarter.

Lastly, we continue to generate increased revenue from licenses of Platform id. During the third quarter we signed 42 new contracts with annual contract value or ACV of \$360,000, bringing our overall contracts to 320 contracts with an ACV of just under \$2.5 million. This compares to 255 contracts with ACV of approximately \$2 million at the beginning of 2020.

As overall percentage of revenue, Platform and Technology revenue increased to a record 74% for the quarter, and 70% for the year compared to 67% and 65% for the same periods of 2019. Services revenue decreased \$38,000 or 3% and \$115,000. Also 3% during the third quarter and 9-month periods ended September 30, 2020 as compared to the same periods of 2019. The decrease in revenue is due to the continued decline in revenue of our ARS services due to customer attrition, as well as a decrease in transfer agent service revenue due to less corporate actions and directives of our customers, as well as a shift to more electronic processing of requests as compared to hardcopy processing, which tends to come with higher revenue.

This has been particularly heightened as a result of the COVID-19 pandemic. These decreases were partially offset by increases in teleconference and webcasting services revenue as a result of the increase in webcasting and conference events, as well as an increase in print and proxy fulfillment services as a result of a virtual annual meeting product.

Jumping into gross margin, our overall gross margin percentage was 72% and 71% for the 3 and 9 months ended September 30, 2020, compared to 70% and 69% for the same periods of the prior year. The increase in gross margin was led by expanded margins in our Platform and Technology revenue stream, which reported gross margin percentage of 77% and 76% for the quarter and 9 months ended September 30 2020, compared to 74% for both periods during 2019.

The increase was due to scale in our webcasting business is the higher revenue on a relatively fixed cost structure led to higher margins. Gross margin percentage from our services revenue stream were 57% and 59% for the 3 and 9 months ended September 30, 2020, compared to 60% and 61% for the same periods of the prior year. The decrease in gross margin was due to a decrease in transfer agent revenue, as well as an increase in lower margin teleconference and webcasting services revenue.

Continuing down the income statement, our record operating income was \$1,076,000 for the third quarter of 2020, almost 500% increase over \$180,000 during the third quarter of 2019. Operating income for the 9 months ended September 30, 2020 was \$2,325,000 compared to \$457,000 in the prior year. The increase in operating income is due to higher revenue and margins I just spoke about, as well as a decrease in operating expenses.

General and administrative expenses decreased \$177,000 or 14% and \$447,000 or 11% for the 3 and 9 months ended September 30, 2020, compared to the prior year, due to a decrease in bad debt expense primarily related to a large reserve that was taken during the first half of 2019. Additionally, stock compensation expense has decreased from the prior year.

On a year-to-date basis decreases were partially offset by increases in rent expense and personnel expenses. Product development expenses decreased \$76,000 or 26%, and \$397,000 or 41% for the 3- and 9-month period ended September 30, 2020 due to a decrease in headcount. Lastly, depreciation and amortization expense decreased due to intangible assets associated with the acquisition of PrecisionIR that became fully amortized during the period.

Partially offsetting these decreases was an increase in sales and marketing costs, which increased 12% and 10% for the quarter and 9 months ended September 30, 2020, due to an increase in personnel costs, as well as an increase in digital marketing and advertising expenses. As Brian will talk about, we expect product development and sales and marketing expenses to increase as we continue to expand those teams.

On a GAAP basis, net income and net income per diluted share quadrupled, as we regenerated net income of \$789,000 or \$0.21 per diluted share for Q3 2020, compared to \$200,000 or \$0.05 per diluted share during Q3, 2019. For the nine months ended September 30, 2020, net income was \$1,787,000 or \$0.47 per diluted share compared to \$617,000 or \$0.16 per diluted share during the prior year.

Switching gears to non-GAAP metric, EBITDA for the third quarter of 2020 increased 130% to \$1.4 million, or 29% of revenue, compared to \$610,000 or 15% of revenue during the third

quarter of 2019. EBITDA for the first 9 months of 2020 doubled \$3.4 million, or 25% of revenue, compared to \$1.7 million or 14% of revenue during the first 9 months of 2019.

Non-GAAP net income for the third quarter of 2020 increased to \$963,000 or \$0.26 per diluted share, compared to \$438,000 or \$0.11 per diluted share during the third quarter of 2019. Non-GAAP net income for the 9 months ended September 30, 2020 increased to \$2.3 million or \$0.62 per diluted share compared to \$1,433,000 or \$0.37 per diluted share during 2019.

On the balance sheet, our deferred revenue balance increased from \$1,812,000 as of December 31, 2019 to \$2,098,000 or 16% increase as of September 30, 2020. From a cash flow statement we generated near record cash flows from operations as we generated an additional \$1,321,000 during the third quarter of 2020 compared to \$1,160,000, during the same period of last year.

On a year-to-date basis, cash flow from operations was \$3.4 million for the first 9 months of 2020, compared to just under \$2 million for the same period of 2019. This is our second quarter of record results, and we are on path to push for more in the coming quarters and keep the momentum going. Well, we did benefit from some seasonality in certain products these past two quarters and we will continue to enhance and update our products by adding more features and investing our sales and marketing efforts to increase revenue. As we've seen the scale build our products, we will continually strive for more in order to enhance our shareholder value.

I'll now hand it back over to Brian, who will provide some update on the business and what we have planned for the remainder of the year. Brian?

Brian Balbirnie - President & Chief Executive Officer

Thank you, Steve. Impressive results. We are in a nice growth face. If I recall earlier last year, we spoke about the investment we were making in our business and our platform, and hopes that our gross margins, EBITDA margins, would also return to historical levels or be better, as well as produced 70% or greater revenues from our Platform and Technology enabled offerings.

We are very fortunate to see all these come to fruition, as you just highlighted. Definitely a motivator to continue here in the fourth quarter, but also in the next year, our events business will no doubt be a contributor to this, as well as our communications offerings like ACCESSWIRE, something we'll touch on here in a few minutes. But for now, let's expand a bit on what Steve just mentioned.

The third quarter was again another interesting quarter for us. We continue to improve on how to recruit, hire, and develop, sell and deliver in this distributed way. And what was now illustrates another great quarter. That alone is an accomplishment. But to do it and achieve in a record way something our employees and shareholders should all be thrilled about. And here is crazy as it's been. It's nice to have this momentum, so we can close out the year strong.

But candidly, I think we're just hitting our stride. And on an annual basis, I think we can continue to deliver good year-over-year growth for years to come. And obviously, we're working hard to try and normalize the seasonality of our business, which we all know in the

fourth quarter tends to be that from a historical perspective. As we build our platform business, expand our newswire and introduce new products early next year. This will only help these initiatives overall. We have been fortunate again this quarter to deliver strong customer numbers.

On a year-over-year basis, our private company business continues to outperform our expectations where customers were up 60% from 997 to 1,597 year-over-year. Our public company customers also grew 6% during the quarter to 1,475 from 1,394 year-over-year, again, in combination a record number of customers totaling 3,072 or 28% over last year. I know we talked a lot on these calls about the importance of gaining new customers.

And we're doing that great execution to a degree is like hand-to-hand combat very tactical each quarter. I don't want to lessen the importance of customer growth. But we are spending more time ensuring that we're moving our strategy forward as well strategically adding new products to the platform is key to our next couple of quarters.

So we can realize the customer power we have by introducing a refreshing pricing model geared towards a monthly reoccurring offering to thousands of customers using our communications platform. This should have a profound impact on our customer's stickiness, usage in revenue smoothing, and predictability. This aligns with what we've mentioned in the last call. Our growth in customer demand comes from our events and communications business. And as such, realigning how we classify our revenues will be important to complete here for the year end.

We continue to believe this will help the investment community understand our business, the areas of growth and the contributions of earnings, a good part of the customer growth is no doubt driven by ACCESSWIRE, where we saw revenues increased 7% sequentially and 22% year-over-year, which in many ways coincides with the customer growth for the periods where you're seeing customer goes slightly ahead as we introduced our new e-commerce platform over the last quarter and a half.

Although growth is evident, we have a lot to do here in this space. Further product innovation is planned. International distribution is beginning to take shape as well as additional domestic distribution points. So we can deliver our customer demands and expectations as it relates to customers telling their story.

We spoke last quarter on our goals of getting to the market share we expect by the end of 2022, we are on pace and have expectations to move to 25% year-over-year growth at the beginning of next year. Again in the quarter, we benefit from our new product offerings we have spoken about in prior call.

Our events business consisting of our virtual annual meetings, non-deal roadshow and deal roadshow solutions, Analysts Day and Investor Day, earnings and conference being suffer all 100% virtual and delivered by our events platform. Most of these virtual events were new and out of the gate in early Q2, and become a permanent part of our product lineup. The market may see a return to normal and personal events sometime next year. But it is our belief virtual events will continue to be a part of this for many years to come.

I personally believe in the usefulness of an in-person event. But there's no denying the engagement and efficiency gained from the virtual component with our platform is starting to

show true. Investor participation to the company presentations which generally have garnered 30 – 20 to 30 investors in the physical room, and perhaps dozens listening in a virtual way that made up that event. Today, these company presentations done on our platform all virtually are seeing audiences in the hundreds.

Now, I get the technology is not perfect in the space for investors and companies. Like anything else, maturity and systems understanding issues and innovation prevails most generally. And we are a firm believer and what we're looking forward to as hybrid events for years to come. I think it's important to highlight the financial results of this event business as described above. We generated almost \$1.3 million in the third quarter, 16% greater than Q2 this year, and 65% over Q3 last year.

Household brands like Sherwin-Williams, Columbia Sports, Johnson & Johnson continue to use, and also new banking clients like Canaccord, Cantor Fitzgerald went virtual with their technologies in this quarter, as a good portion of the small microcap space also continued to use our platform to conduct meetings and presentations with our platform. This is a very respectable third quarter.

At the end of September, we sit at \$13,792,000 in revenue, almost \$10 million of which is coming from our Platform and Technology business. Total revenue of 12% year-over-year, but more encouraging is that the Platform and Technology up 9% of the question sequentially from Q2 and 33% over last year, and 19% for the 9 months ended September momentum we want to try to continue. Obviously, we all should understand that portions of our business are still seasonal in nature, as I discussed earlier, and the fourth quarter tends to be a lighter quarter compared to prior quarter.

With that said, we do expect to see growth in the last quarter of the year perhaps just not as aggressive as we've seen April through September. But for reference Q4 2019, we achieved 9% year-over-year growth from Q4 2018 with revenues of \$3.9 million. We expect to see similar percentage growth or greater this year, as we look to close out the year as strong as possible. COVID-19, election results and market fluctuations could impact customers and revenues, something everyone is monitoring globally.

Our capital allocation strategy has allocation strategy has not changed. If anything it has provided a good bit more conviction and discipline to where we're headed. We remain disciplined in our M&A approach. And although we continue to do work on several stories, we continue to assess several key factors in progressing any of these opportunities. We have a stock repurchase plan that we're in the market when possible.

And lastly, more importantly, in my opinion, we have made big investments in our business over the last quarter or two, expanding headcount both in R&D, sales and marketing, and our new editorial department expansion. Something we will do again this quarter as we prepare for continued growth in our business.

In closing, as always, I want to thank everyone for listening to today's call. We are very motivated more than ever, not only to perform here in the fourth quarter, similar to what we've done in the past couple of quarters, but also continue to innovate and expand our platform for our customers.

Operator, could we please begin the Q&A portion of the call?

Operator

Thank you, sir. At this time, we'll be conducting a question-and-answer session. [Operator Instructions]

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

Q: Hey, guys, congratulations on another nice quarter. Brian, in your kind of wrap-up, you mentioned a little bit about new products and maybe a newer pricing model kind of monthly. Could you just go into those two a little bit more, if it's possible to give us a little bit of a preview?

Brian Balbirnie - President & Chief Executive Officer

Sure. Yeah. As everybody knows, Mike, and thank you for the comments on the quarter, we have been hard at work in a development way and an industry analysis way of looking at wallet share spent by customers. What is it that they're purchasing besides newswire at the time of purchase and making a decision to buy and select the newswire, us being one of the 4 major in North America?

And we defined what those products are, what tends to be more sticky than others, and then prioritize those products, so that they'll be there at the point of purchase and/or at the buying decision time of the customer. And so, what that will mean for us, strategically as we look out into the future, is to predict private and public companies' news distribution is vastly different. Public companies, as we all know, are very cyclical in nature, it's every quarter, at least in earnings advisory and earnings press release. And maybe throughout the year they're scattered 8 to 10 more releases.

On a private company, you just don't know what you're going to look at. So for us to provide some staying power with these customers, to provide more stickiness, we're looking at things like media database, media monitoring, and those engagement profiles that will help tell our customer story broader, and then be able to bring the power of social media and news to their own web platform and systems in a newsroom way.

So each of those products will be rolled out in stages, strategically throughout the ACCESSWIRE system, starting early next year, that will give our customers the ability to upgrade into a more monthly service or MRR, if you will, that will allow them to utilize all of those product platforms. If we do that successfully, and we believe that we will, we get that predictability in the modeling, which makes it much different when we think about the thousands of private companies that will use ACCESSWIRE this year and going into next.

Q: Got it. And maybe just lastly, what one or two things are you kind of most excited about for 2021?

Brian Balbirnie - President & Chief Executive Officer

Just one or two things? There's a lot, but that's a good question. And...

Q: I guess, I'm forcing you to prioritize.

Brian Balbirnie - President & Chief Executive Officer

Yeah, right, 100%. I would say that the staying power of our events business, not just being a webcast business or an investor conference business, or an annual events or NDR business. We're really prioritizing our resources internally, of bringing all those platforms together into one system. We're really excited about that.

As a lot of folks listening today's call, you've been at dozens of investor conferences over the past several months. Our brand is prevalent in a lot of these ways, supporting conference organizers. And it is very important for us to be there to support that industry and the partners doing those events to be able to have and be the backbone for these public companies. And then, that is exciting for us.

It obviously gives us branding power in the customer. It gives us decision influence when it comes to their communication platform. And as you can see from our ARPU expansion in this quarter, that's already starting to take shape. So we're very excited about that and if I was to prioritize anything and its importance, but that is it today.

Q: Got it. Well, hey, thanks a lot. And I like the acceleration in the business, that's for sure.

Brian Balbirnie - President & Chief Executive Officer

Thank you, Mike.

Operator

[Operator Instructions] We have a question from [Dean Treyer] [ph], a private investor. Please proceed with your question.

Q: Hey, guys, congrats to you and your team on executing so well during this very unpredictable year.

Brian Balbirnie - President & Chief Executive Officer

Thank you, Dean.

Q: I have a couple of questions. Can you maybe give me an idea sort of how an investor should look at your operating expenses kind of moving forward as some of the restrictions on travel and expenses like that loosen a bit?

Brian Balbirnie - President & Chief Executive Officer

Well, that is something interesting. We haven't talked about that a lot. I know a lot of companies have paid a lot of attention to OpEx and operating expense in general, as a result of travel restrictions are pulling back. And I will tell you that absent of the small travel that we did have in previous periods. We have not decreased some of our operating expenses as it relates to grow in the business and investing and what we need to do.

There are likely some small savings that I would suggest that we have had in the past couple of quarters related to not travel, but I don't know that they're material enough to have impacted our results in any way. As Steve and I think through the plans for next year and beyond, we're not paying attention to travel expenses or anything else is related to we've actually invested more in our marketing side of our business. Our sales marketing headcount now accounts for 24% of our overall company, and we're going to continue to look at that and ways of long-term growth. So yeah, it hasn't affected us.

Q: Okay, that's helpful. Thank you. And then, lastly, any updates you can provide on sort of the M&A climate as you see it right now? Or as you're seeing it right now?

Brian Balbirnie - President & Chief Executive Officer

Yeah, it's top of mind for a lot of folks, and it perhaps maybe dovetails into your first question specifically about lack of travel, right. It is slightly challenging to do thorough M&A in this climate, specifically as it relates to international. So we continue to find ways to use teams concept or a screen-share concept or own technology to meet with folks and begin to look at their financials and get to understand and learn their management teams. It has likely slowed down significantly, some of that synergistic due diligence that we'd like to call, right, really getting to understand the business and do our work on it.

I don't think it'd be an impediment for us to be able to do something in the future, but I do think it's something that has likely slowed us down shortly. I think we all took for granted. We could jump in a plane and go somewhere. And now that gives pause to a whole new way of operating. But, yeah, I'm optimistic that as we continue to do work, we're going to find the right fit for us at the right time.

Q: Okay, okay. Thank you so much.

Brian Balbirnie - President & Chief Executive Officer

Thank you, Dean.

Operator

Gentlemen, there are no further questions at this time. I'd like to turn the call back to Brian Balbirnie for closing remarks.

Brian Balbirnie - President & Chief Executive Officer

Brock, thank you very much. I appreciate it very much and everyone else for their questions and participation to spend about 30 minutes with Steve and I today. It is always welcome. We look forward to doing it again in our yearend results late February 2021 when we will announce. I hope all of you have a safe and great evening. Thank you.

Operator

This concludes today's conference call. You may now disconnect your lines. Thank you for your participation.