Transcript of
Issuer Direct Corporation
Third Quarter 2021 Earnings Call
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Participants

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation
Steve Knerr - Chief Financial Officer, Issuer Direct Corporation

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation Third Quarter 2021 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, Issuer Direct Corporation

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

For your convenience and reference, a copy of the press release is now available in our newsroom at newsroom.issuerdirect.com. We are pleased with the results for the quarter. Our communications business continued to show strong signs of growth. While our compliance business continues to benefit from both regulatory and strong capital markets activity. Q3 revenues were up 12% over the prior year to $5.5 million, compared to $4.9 million in Q3 of last year.

Total revenues for the nine months ended September 30 were up 17% to $16.2 million from $13.8 million last year. Steve we'll expand upon the results for the quarter in a few minutes. Changing gears to customers. On a year-over-year basis, our total customer counts grew 14% for the quarter, from 3072 to 3498.

Our private customers grew to 1,815 from 1,597 in the prior year, and our public companies also grew to 1,683 from 1,475 also in the prior year. There is no doubt that regardless how we look at our business from a COVID adjusted basis or not, our customers continue to grow year-over-year. And in many product categories, our sequential revenues continue to grow.

As an example ACCESSWIRE grew double-digit sequentially to over 30% year-over-year for the third quarter. However, our indirect private customers slowed during the quarter due to our strategic decision to end relationships with certain resellers. We do not believe this will impact our ability to continue to gain customers and reach our customer goals going forward.

Our direct customers in this category continue to show strong signs of growth. In fact, and because our brand is further strengthening, our average price release has increased for the third quarter. We are of the opinion. We want to own the customer journey more so now than ever. And it is important to make these small changes in our business today, as we invest for long-term continued sustainable growth.

I will let Steve talk you through the numbers. And after his prepared remarks we can discuss the business and what's ahead for the quarter and next year. Steve?

Steve Knerr - Chief Financial Officer, Issuer Direct Corporation

Thank you, Brian. And good afternoon everyone. The third quarter was another solid quarter for us, as we continue focusing on growing our communications business. ACCESSWIRE continues to help drive overall revenue and subscription growth, expand margins, something I will touch on in a little bit.

We also continue to invest in our sales and marketing and product development teams and launched our newsroom product midway through the quarter, which we believe will help further increase sales and ACCESSWIRE and subscriptions and Platform id.

Total revenue for the third quarter of 2021 was $5,465,000, an increase of $583,000 or 12%, compared to $4,882,000 in Q3 of 2020. For the nine months ended September 30, 2021, total revenue was $16,165,000. The increase a $2.4 million or 17% from the first nine months of 2020.

The increase was due to double-digit increases in both our communications and compliance revenue streams. I'll begin with the communications revenue stream, which generated $3,686,000 in revenue, an increase of $330,000 or 10%, compared to Q3 of 2020.

For the nine months ended September 30, 2021, communications revenue was $10,383,000, the increase of $1.6 million or 18% compared to the same period of the prior year. The increase in revenue was driven by our ACCESSWIRE branded newswire, which drove both standalone press release revenue and also new subscriptions and Platform id.

ACCESSWIRE revenue increased 31% and 37% for the third quarter and first nine months of 2021, compared to the same periods of 2020. Due to an increase in volume and revenue per release. As Brian and I talked about further over the past couple of quarters, we have been moving customers from our unlimited press release plans to bundles of releases, which we have seen has increased revenue per lease and also helped to drive revenue per customer over ACCESSWIRE product. This has led to some customers moving from what we define as platform subscriptions. However, in the majority of those cases, we were able to maintain or increase customer spend with their new package offering.

Speaking of platform subscriptions, we also continue to generate increased revenue from licenses a Platform id. During the third quarter we signed 40 new contracts with annual contract value or ACV of $306,000, bringing our overall contracts to 418 to ACV of approximately $3.5 million. This compares the 341 contracts with an ACV of approximately $2.7 million at the beginning of 2021, reflects an increase in average revenue per contract, which is $8,373 as of September 30 2021 compared to $7,850 as of December 31, 2020.

During Q3 2021, communications revenue accounted for 67% of our total revenue, and 64% of total revenue for the first nine months of 2021. In the prior year, communications revenue was 69% and 64% of total revenue respectively. The decrease in communications revenue as a percentage of overall revenue it's partially due to low revenue from our webcasting and events products as well as a higher than expected increase in compliance revenue due to market activity.

Compliance revenue increased $253,000 or 17%, and $777,000, or 16% during the three and nine-month periods ended September 30, 2021, as compared to the same period of 2020. Both the capital markets and corporate transactions sparked an increase in revenue for both print and proxy fulfillment services, as well as transfer agent services. Due to the reliance on the markets and timing of certain projects, revenue from these services tends to fluctuate from quarter-to-quarter.

Moving on to gross margin, our overall gross margin increased 18% or $615,000 between 2% or $2,156,000 during the three and nine months ended September 30, 2021, compared to the same periods of the prior year.

Overall gross margin percentage was 75% for the third quarter of 2021, and 74% for the first nine months of 2021, compared to 72% and 71% for the same period of last year. Gross Margin from our communications business increased to 78% for the quarter, and 75% year-to-date, compared to 74% and 73% for the same periods of the prior year.

The increase is due partly to product mix, as the higher percentage of communications revenue came from our press release business, compared to lower margin webcasting business. Additionally, we experienced lower distribution and teleconference costs during the quarter.

Gross margin percentage from our compliance business improved to 69% and 71% for the third quarter of 2021 in the first nine months of 2021 respectively from 67% during the same periods of the prior-year. The increase in compliance margin is due to the increase in transfer agent revenue on a relatively fixed cost base, so the decrease in amortization of our compliance software.

Continuing on to operating income, our operating income was $977,000 for the third quarter of 2021 compared to $1,076,000 during Q3 of 2020. For the nine months ended September 30 2021, operating income increased 31% to $3,045,000 from $2,325,000 during the first nine months of 2020. The third quarter of 2021 decrease in operating income was due to an increase in operating expenses due to continued investment primarily in our sales and marketing and product development teams. Sales and marketing costs increased 39% during the third quarter, and 29% year-to-date due to increased headcount and higher sales commissions.

Product development costs increased 76% for the quarter and 54% year-to-date compared to the same periods of the prior-year also due to an increase in headcount of our development team. We also capitalized $54,000 of costs related to the development of our Newsroom product.

On a GAAP basis, during Q3 2021, we generated net income of $1,024,000 or $0.27 per diluted share, compared to $789,000 or $0.21 per diluted share during Q3 of 2020. Net income was $2,675,000 or $0.70 per diluted share for the first nine months of 2021 compared to net income of $1,787,000 or $0.47 per diluted share for the first nine months of 2020. Included in net income for both the three and nine months ended September 30 2021 to $366,000 related to the filing of our employee retention credits under the CARES Act.

Looking at some non-GAAP metrics, EBITDA for the second quarter of 2021 was $1,632,000 or 30% of revenue compared to $1,401,000 or 29% of revenue during Q3 of 2020. For the first nine months of 2021 EBITDA was $4,265,000 or 26% of revenue compared to $3,377,000 or 25% of revenue during the first nine months of 2020.

EBITDA for the three and nine months ended September 30 2021, includes the ERC credits I just spoke about. Non-GAAP net income was $906,000, or $0.24 per diluted share for Q3 of 2021 compared to $963,000 or $0.26 per diluted share during Q3 of 2020. For the first nine months of 2021, non-GAAP net income increased to $2,778,000 or $0.73 per diluted share, compared to $2,334,000 or $0.62 per diluted share for the first nine months of 2020.

On the cash flow statement, we continue to generate positive cash flow from operations as we generated $1,238,000 during the quarter compared to $1,321,000 in the prior-year. In the first nine months of 2021 cash flow from operations amounted to $3,319,000 compared to $3,400,000 during the prior-year. Slight decrease in cash flow from operations due to the investment in our sales and marketing and product development teams I spoke about earlier.

On the balance sheet, our deferred revenue balance which is revenue we expect to recognize primarily over the next 12 months increased to $2,696,000 as of September 30 2021 compared to $2,212,000 as of December 31 2020, increase of 22%.

We're now looking to finish the year strong with record annual revenue. The sales team is hitting its stride, bringing in new platform subscriptions as revenue from our ACCESSWIRE platform continues to grow. We also begin to look to new sales of our newsroom product to aid in increasing overall revenue. Lastly, we will continue to push for overall customer EBITDA in cash flow growth. Thank you for your time. I'll now hand it back over to Brian who will provide some updates on the business, our new products and everything else we have planned for the remainder of the year starting 2022. Brian?

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

Thank you, Steve. Make sure it is really flown by, not sure about all of you. But for us, it's hard to believe we're already in November. We have lots to discuss, as always, so I'll jump right in. As most of you know, we launched our newsroom suite about five weeks into the third quarter. This is a solid initial launch well beyond a traditional minimal viable product. And in fact, customers have been live since Q3 using this feature of the newsroom, Brand Asset Manager and Contact Manager.

We envisioned this product being added to our communications platform subscription for all new customers. We also envision it being used as a tool for renewal and retention to our current customers. In fact, the newsroom sold in the eight weeks before quarter end included about 60% going to current customers and approximately 40% to new customers.

We have a pipeline that is growing every day because of this product and something we feel confident will help our communications business continue to grow as it has for the last several years. At the end of the quarter, we also released a new event management module, giving current and new customers the ability to build their quarterly earnings Analysts Day key opinion leader calls and Annual Meeting events in real time with our intuitive events wizard.

Our platform has integrations with Zoom, Teams and other leading DIY type solutions. This will give customers the option to connect, schedule and host their own meetings in a self managed way and use our production events engineers to produce a white glove service we have done for customers like Johnson & Johnson, Dell and Sherwin-Williams for years. Upgrading our front end to our already robust platform was key for us as we move more to a hybrid event for what was completely virtual the last year and a half.

We believe the marketplace has learned the value of our technologies and are more willing today to embrace hybrid concepts. Coupled with our event management platform, we believe we have an industry leading solution for hosting a hybrid event in the Investor Relations space.

Overall, our platform business specifically communication platform business performed well for the quarter, selling 40 new customers during the period and ending the period with 418 with an average annual price of $8,305 up slightly from $8,200 in the second quarter.

This tells us a couple of things. First, we still continue to work through some of the unlimited subscriptions from prior-years. Based on this, the third quarter resulted in 25 platform ID customers churning out of the subscription during the period, but only 13 more customers actually lost, between 12 of the 25 opted to subscribe to single products, but they had deeper value for causing them to be platform ID losses, but not through customer losses and in fact dozen customers have a contract value that increased 11,000 for the period.

This is something we talked about in our last quarterly call, and message clearly, that we anticipate the last quarter of this year will be better. But we still will see some customers leaving the unlimited plans and entering into valued subscriptions on a standalone product or entry level way.

Second, we need to entirely change the way we talk about customers subscribing to our platform. We need to be telling you total subscriptions to our platform and the ARR associated with it, thus giving you a term percentage to benchmark for, this is something that we're prepared to do looking forward to next year's KPIs. Our Newswire business continues to show strong signs of significant growth, as Steve said, increasing over 30% for the third quarter compared to last year, a percentage we messaged well over a year-ago we needed to achieve.

Equally interesting is the first time customers subscribing to ACCESSWIRE from our digital sales efforts. We have seen the average deal size grow to $850. This is 40% higher than it was in Q2 of this year. And in fact, the current quarter that we're in is showing strong signs of expanding even from those third quarter numbers.

Our compliance business saw sharper gains than we anticipated, both from regulatory filing requirements imposed by the SEC. And from the general capital market activity and IPOs. During the quarter, the business was up 14% from the last year. So in the fourth quarter, we should see similar activity from regulatory filings as well as capital markets activity. We will continue to evaluate this business, and on our next call be able to provide some forward guidance on our expectations and business line performance for 2022 and beyond.

Moving along and something I think that is important to address is the investment we're making in the business. These investments are critical and in order to continue to move up market, we have to meet certain security guidelines set forth and a framework referred to as stock two. If we were to examine similar market cap size companies out there today, less than 20% of them currently have an active stock two. And if we look further at our competitors, approximately 50% of them in here to the service organization controls. Couple this with ADA compliance and penetration testing, we have made considerable investments in the resources and tools to meet and exceed our customer needs.

So for context, I think it is important to hear about these items in more detail opposed due to seeing G&A increase for the period. We anticipate the majority of these costs will be completed this year, which sets us up for good success next year. Adding to this or also additional headcount in our development team to help with these critical projects, such as the newsroom and virtual events, suites that we talked about and anticipated 2022 new products, both through integrations and internal developments.

Labor pools have tightened in R&D and as well as other parts of our business and will likely contribute to upward labor cost pressures, as we've seen and heard from many other industries, but nothing that we have not modeled into next year and beyond. We did not anticipate this type of negative effect on gross margins. And if we continue to grow top-line revenues like we have, there will be no impact to EBITDA on a consolidated basis.

From a sales and marketing perspectives, like G&A, we have continued to make investments in our headcount ending the quarter with 29 compared to just 24 in the prior year. From a marketing perspective, we have also increased our budgets to be more opportunistic about what we're seeing in the business and in the industry. Early indications are illustrating both our new customer wins and ACVs are beginning to expand as a result of this investment.

Previously, I mentioned that the initial deal size and our newswire business growing, this would not be possible without the added focus and investment in marketing that we have made. Conversely, from a component of compensation, members of our sales team are paid on contract values upfront, whereas we earn the business over a contract period either one or two years. Having members of your new business team exceeding quarter means your upfront load sales cost commissions are higher, thus increasing your sales and marketing expense for the period. Evidence of this comes from deferred revenue growing by 20% over the prior period.

Continuing the momentum is important right now as we continue to accelerate our business, release new products and demonstrate strong signs of average revenue per customer increasing in our subscription business, which is an area I'd like to expand upon a bit for a minute.

Beginning next year, we will disclose the total number of customers subscribing to our product platform, opposed to just the customers purchasing what we have referred to as platform ID. I know we have spent considerable amounts of time talking about platform ID subscriptions and using that as a KPI for the investment community. However, as a subscription business it is important to illustrate the number of customers subscribing to our IR platforms, our webcast solutions and newsroom products that are -- those are all annual contracts. When we examine this the total customers increased by over 50% from the 418 today were reporting is platform ID standalone. This is super important for us to illustrate on our next call and going forward in the future.

Lastly, as we have said in the past, review and take our capital allocation strategies very seriously. We previously mentioned that we need to invest in the business, continue to repurchase our shares when and where it's prudent. And lastly, EMR Capital to us when we find the assets, we believe can be transformational to the business.

During the quarter, we invested heavy in the business perhaps slightly more than we had planned. But as I previously mentioned, this was critical components to our platform, and the required customer demands. Security has to be top of mind for us at a price that we have to pay to continue to grow our business.

We're also looking at establishing another repurchasing plan early in 2022. And as most of you know, we have completed the previously $2 million repurchase plan in the first part of this fiscal year. And lastly, we continue to make progress on M&A and believe the markets have assets for us that can transform our business next year and beyond to be a market leader and a subscription based product that delivers customers messages, monitors the impacts and engages audiences around the world from one ecosystem.

In closing, our team remains excited about the business, our customers, and our continued growth, which we're seeing in our financial results and in our pipeline. We look forward to sharing with you our entire year in fourth quarter results in February of next year. As always, we appreciate your listening today.

Operator, could we please open the call for questions?

Operator

Certainly, ladies and gentlemen, the floor is now open for questions. [Operator Instructions] And we have a question coming from Mike Grondahl from Northland. Mike, your line is live. Please go ahead.

Q: Hi, it's Michael on for Mike. Thanks for taking our questions. And also congrats on the quarter. Steve first off just on newsroom. He's talking about the sales strategy there. Are going after the same type of customers or is there something different we should think about for that product?

Steve Knerr - Chief Financial Officer, Issuer Direct Corporation

Yes, thanks, Michael. Hope you're doing well. The newsroom product is a very big focus for us in both our public and our private customer practice business. We believe that agencies over a period of time have proof-of-concept in the market, meaning that the number of installs and subscriptions that we've got that we'll see agencies begin to adopt. The bigger focus for us today is a direct SMB style customer that typically does four to six press releases a year that may spend $2,000 to $4,000 on PR believe that they're primed to increase their subscriptions to for another 2,000 plus to add in our newsroom products, that's been our biggest focus.

We also then examine our current install base that are not using a news feed or newsroom concept, current customers and then renewing contracts and including that with it as well. So we're bullish on both of those categories. We're really not focused on the vertical. We really do believe that when we examine the web by vast majority in SMB space, less than 15% of customers are actually publishing news on their website live when it hits a newswire, whether it's us or somebody else. So we're going to focus on our current clients to sell this product, and then begin to expand into the market and to our competing newswire friends and sell their customers our newswire suites.

Q: Got it. And then just on the sales and marketing team. I think you mentioned 29 is kind of headcount today, up from 24 a year ago. Should kind of think about a similar growth rate over the next year, getting to the sort of mid-30s area?

Steve Knerr – Chief Financial Officer, Issuer Direct Corporation

I would. I think optimum plans for next year is probably 34 to 36 on our sales team. And we believe that our digital strategies, our go-to-markets, and the SMB categories are really going to help us get there. And the investment that we need to make and those folks will pay for themselves very quickly in those categories. But that that's a right number to think about.

Q: Okay, maybe just on gross margin. Some nice gains year-over-year. Sounds like a lot dramatic ACCESSWIRE that continues to get more scale. Should we continue to kind of see kind of just study incremental progress there?

Steve Knerr – Chief Financial Officer, Issuer Direct Corporation

Yeah, you're right. ACCESSWIRE is a big component and fuel in gross margin, obviously an revenue driver for our communications categories. Product is typically higher gross margins in news that it is in telecommunications. So I think leverage in ACCESSWIRE continuing to expand, continuing to do what it's doing at 30% or greater on a year-over-year basis is going to be a driving component to that as long as we can continue to do that, which we believe we can, we should see gross margins on that category. It's 78%, 80% and likely would scale in the low-80s and years in the future.

Q: Thanks. I'll held back in the queue.

Steve Knerr – Chief Financial Officer, Issuer Direct Corporation

Thank you, Mike.

Operator

Thank you. [Operator Instructions]. There were no other questions from the lines at this time.

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

Perfect. Paul, thank you so much. Thank you to our investors and analysts and shareholders listening to today. As always, we look forward to visiting with you again, I think it's March 3 actually is our earnings date for our annual. And fourth quarter numbers, I think I previously had said February 2022. So it will be March. I appreciate that very much. And thank you again.

Operator

Thank you ladies and gentlemen. This does conclude today's conference. You may disconnect at this time. Have a wonderful day. Thank you for your participation.