

Transcript of
Issuer Direct Corporation
First Quarter 2023 Earnings Conference Call
May 11, 2023

Participants

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation
Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation

Analysts

Mike Grondahl - Northland Securities
Walter Ramsley - R-Squared

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Issuer Direct Corporation First Quarter 2023 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, Tim Pitoniak.

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 during this conference call concerning future revenues, results from operations, financial position, markets, economic conditions, product releases, partnerships and any other statement 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 - Founder and Chief Executive Officer, Issuer Direct Corporation

Thank you, operator and good afternoon and thank you for joining us today to discuss the company's first quarter 2023 results. Just after the market closed today, we issued a press release announcing our results for the quarter, a copy of which is available in our newsroom for reference during today's call. I am pleased with our first quarter results. Total revenue was up

63% to \$8.6 million, driven by our continued growth in our ACCESSWIRE business, as well as the Newswire acquisition.

We also drove margin improvement from 77% to 79% for the quarter. Tim will cover in more detail later in the call. We have made some significant progress, both in integration, cost savings and new product lineups for the remaining part of 2023, something I will highlight after Tim's prepared remarks.

There's a lot more to talk about today, so I will turn the call over to Tim to cover the first quarter highlights. Tim?

Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation

Thank you, Brian, and good afternoon, everyone. As Brian mentioned, 2023 is off to a good start, driven by both sides of the business. However, we are most encouraged by the growth in our press release distribution businesses of ACCESSWIRE and Newswire, along with our increased margins and positive cash flows. I will now highlight some of the results we achieved during the first quarter.

Total revenue for the first quarter of 2023 was \$8.6 million, an increase of \$3.3 million, or 63%, compared to \$5.3 million for the same period of 2022. Our communications business led the growth increasing \$3.2 million, or 94%, to \$6.6 million, or 76% of total revenue. During Q1 of 2022, Communication revenue accounted for 64% of total revenue. The increase in revenue was driven by our acquisition of Newswire, for which all revenue is included in Communications revenue.

We also generated increased revenue from our ACCESSWIRE business, which increased 21% compared to the same period of the prior year, primarily due to an increase in average price per release. Compliance revenue increased 8%, or \$148,000 during the first quarter of 2023 compared to the same period of 2022.

This increase was primarily related to an increase in revenue from our transfer agent services due to an increase in corporate actions during the period, as well as an increase in print and proxy fulfillment services due to larger transactions and an increase in the number of projects.

Switching over to gross margins. Our overall gross margins increased 67%, or \$2.7 million to \$6.8 million compared to the same period of 2022. Gross margin percentage was 79% for the first quarter of 2023, compared to 77% for the same period of 2022. Gross margin from our Communications business increased from 78% in Q1 of 2022 to 79% in Q1 of 2023. Due to the acquisition of Newswire and additional scale from our ACCESSWIRE business, gross margins from our Compliance business improved from 75% to 78% during the quarter, primarily related to a decrease in headcount and outsourcing costs associated with compliant services.

Moving to operating income. We posted operating income of \$581,000 for Q1 of 2023, compared to \$688,000 during Q1 of 2022. The decrease in operating income, despite an increase in gross margins is due to an increase in operating expenses, primarily amortization expense

attributed to intangible assets acquired during the Newswire acquisition, as well as additional costs attributed to operating the Newswire business.

Additionally, we had an increase in onetime transaction expenses, stock comp expense, and employee related costs, all of which are expenses associated with our continued investment for future growth. General, administrative costs increased 39% due to additional cost to operate the Newswire business, one-time transaction integration cost associated with the transaction, stock compensation expense, and employee related costs associated with investments for future growth.

These increases were partially offset by a reduction in executive recruiting fees compared to the same period of 2022. Sales and marketing costs increased 88% due to the addition of the Newswire sales team. Product development cost increased 181%, directly attributed to additional costs associated with operating the Newswire business, as well as the hiring of a new Chief Technology Officer.

On a GAAP basis, we reported a net loss of \$144,000 or \$0.04 per diluted share during Q1 of 2023, compared to net income of \$516,000 or \$0.13 per diluted share during Q1 of 2022. I will discuss this decrease in a minute as the change compared to the same period of 2022 was impacted by additional amortization expense attributed to intangible assets acquired during the Newswire acquisition, as well as an increase in onetime transaction expenses, changes in the fair value of the interest rate swap, and stock compensation expense.

Looking to some non-GAAP metrics, we generated EBITDA of \$782,000 for Q1 of 2023, a decrease of \$68,000, or 8% compared to Q1 of 2022. As a percentage of revenue, EBITDA decreased to 9% for Q1 of 2023, compared to 16% in Q1 of 2022. However, adjusted EBITDA for Q1 of 2023 increased 66% to \$1.9 million, compared to \$1.1 million in Q1 of 2022. This increase was driven by onetime costs related to higher acquisition and integration expenses, as well as the \$370,000 payment made to extinguish our note payable resulting from the Newswire transaction.

We also recorded noncash items like \$165,000 loss related to the change in fair value of our interest rate swap, as well as higher stock compensation. As a percentage of revenue, adjusted EBITDA was 22% for both the first quarter of 2023 and 2022. Non-GAAP net income for Q1 of 2023 increased to \$1.3 million, or \$0.33 per diluted share compared to \$830,000 or \$0.22 per diluted share in Q1 of 2022. The increase in non-GAAP net income was driven by the same items just discussed impacting adjusted EBITDA.

Switching over to the balance sheet and the cash flow statement. Our deferred revenue balance, which is revenue we expect to recognize primarily over the next 12 months decreased slightly to \$5.2 million as of March 31, 2023 compared to \$5.4 million as of December 31, 2022. This was driven by backlog, which Brian will discuss shortly.

On the cash flow statement, we generated cash flow from operations of \$272,000 for Q1 of 2023 compared to \$548,000 during Q1 of 2022. Cash flow from operations in the quarter was primarily impacted by a onetime payment of \$370,000 related to the early termination of the note

payable associated with the Newswire acquisition. This resulted in an adjusted free cash flow of \$739,000 for Q1 of 2023 compared to \$603,000 for Q1 of 2022. This is the 33rd consecutive quarter of positive cash flow for the company.

I will now turn it back over to Brian who will provide some updates on the business, new products in the pipeline, and everything else we have planned for the remainder of the year.

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Thank you, Tim. Our first quarter was another record quarter of revenues and increased gross margins, customer growth, and sustained subscribers to the most important products in our product lineup. We could not be more pleased with the progress we're making here and look forward to what is shaping up to be an amazing year for Issuer Direct. As Tim and I both mentioned, revenues for the quarter were \$8.6 million, driven by solid performance in our news distribution business, which drove just over \$5.6 million in revenue for the quarter, with gross margins of 80%.

Our news distribution business represents 86% of our Communications business and 66% of our overall total revenues for the quarter. Conversely, we also saw gains on our Compliance business up 8% year-over-year. We will continue to see news distribution business contribute even more to the communications business in the coming quarters. We're not only taking market share from the incumbent, but we're also winning new accounts daily that are new businesses who have never used a Newswire provider before.

This is a good indicator as it shows a clear marking in our industry that is still continuing to grow.

Moving to our customers. If you recall, we talked on our last call about classifying customers in a different way in 2023 and beyond. With that said, what we had talked about was to account for customers who had had active contracts during the 12 month period of measurement, whereas in 2022 and previously we only reported customers who did work with us during the quarter.

Improving this KPI will give us a true sense of our annual customers and align with what our peers are doing in the market. Therefore, with that said, we have continued to move upmarket with many of our core communications products, signing deals that began in the quarter and deals with future start dates. Being that as it is, we ended the quarter up 29% in customers to a record 10,052, compared to 7,813 in the same period last year. Q1 2023 numbers included 2,262 customers from Newswire, which grew sequentially 89%.

But keep in mind that was only for two months of the quarter. In our last call, we did talk about seeing some customers not perform work in the quarter that we expected, and we anticipated seeing that happen in Q2. We are happy to report that this was the case and something that we wanted to update you on.

Moving to subscriptions. We ended the quarter with 1,001 active customers subscribing to our products, compared to 964 customers during the same period last year. Conversely, we are also

seeing a trend this year develop whereby the sales organization has had success signing deals with future start dates. These contracts did not show up in revenue for the quarter or deferred revenues for the period that we reported today.

Therefore, we are going to begin talking about revenues, deferred and backlog going forward. Additionally, we have continued to drive average revenue per subscriber higher. The results are \$8,688 in Q1 compared to \$7,016 in Q1 last year and \$8,641 in Q4. This is a 24% increase year-over-year in subscription contract value. We are confident our subscription business will continue to grow at double-digit teens when we look at 2023 entirely as we implement our core complete communications platform strategy.

However, we do expect to see deferred revenues and backlog numbers move around as we continue to see contract start dates and subscriptions move out throughout the year. Last quarter we talked about industry slowdowns and news volumes. I would tell you that the end of Q1, we did see this begin to pick up and as such, our ACCESSWIRE standalone business was up 21% year-over-year and 6% sequentially. This success is something that we're seeing as an early indicator in Q2 as well.

Part of the success here has been attributable to our new customer acquisition strategy, but also our ability to continue to take price in the market. As we mentioned, since the acquisition of Newswire November last year, we have expected to see full cost savings of the transaction be fully illustrated in Q2 of this year.

We benefited from revenues in Q4 as well as Q1 and partial savings in Q1. But the full benefit of the \$2 million previously discussed last quarter will be seen incrementally in the P&L for June 30 this year and beyond. I would like to finish the call today talking about our core communication product sets coming this year. As most of you know, we acquired certain assets in the Newswire transaction that have fully afforded us the ability to open up the total addressable market that we have been looking for quite some time.

These products will include media database, media monitoring, pitching, as well as a new integrated Storytelling AI recommendation engine. According to the industry analysts, the Communication space that includes these products as well as news distribution and social media has a market value of over \$5 billion. News distribution alone is \$800 million and something that we have talked a lot about in the past. In our Media Database product, we have combined specific data sets proprietary to our process that intuitively link articles published by writers and journalists in tune with each media professional record.

We are further enabling confidence rankings of the contact for engagement, completeness and deliverability. These key components we believe will separate us from other Media Database products in the market. This will be available as a standalone subscription or uniquely bundled with other products in our product lineup. We have also added our pitching products and Campaign Manager into and with our Media Database. It is an easy to use, targeting and customizable campaign pitching solution that allows customers to pitch one-to-one or to a group. As we progress, we will also add in our proven virtual event products, giving companies the ability to do live pitches as to as many media professionals as they would like.

We believe this will be key to marketers and PR professionals who are launching new products as well as critical company announcements. We also will pivot this product later in the year to the Investor Relations category. At some point in 2023, we will be able to do this because we believe our core architecture can utilize datasets from both IR and PR.

And of course, monitoring. Monitoring the outcomes and measuring them against benchmarks is critical. This is why, lastly, we will be adding in our monitoring and analysis reporting engines telling a story is a great first step, but doing it without a plan in place to measure the outcomes is not as impactful as it could be.

Our PR Optimizer customers recognize the value of having a PR strategy team manage the process for them. Hence why we want to bring this knowledge to a unified product that will tie our communications products together.

Lastly, and something I'm very personally excited about most is bringing technology to the market that helps all of our customers. Not to say that we don't want to sell subscriptions to the new products we just talked about, we do and we will. But I'm passionately wanting to find prominent ways to help our customers ideate their stories. This will help them with our recommendation engine. It produce great quality, engaging content with the help of a trusted system doing the heavy lifting.

It will be as easy -- it would be easy to say that we added a ChatGPT to our authoring tool, but everyone's doing that. You get what you pay for. And in storytelling, brand building businesses there is and should be a careful consideration to the content, the use of terms and the protection you're not only using someone else's messaging, but also make sure it's unique to yourself.

ChatGPT is great, but it exhibits a lot of these risks and not something that we're willing and interested in bringing to market. Conversely, we have built a writer assistant. Let's call her AI and me. I think all of you get AI and me, AI and me an intelligent plugin that will be available to all of our customers to use, whereby you can answer a series of questions, write a short paragraph, and AI and me will go to work for you using our AI engine, your industry, your company information, and our databases to create an amazing starting place for you to tell your story.

The first phase is set to release this quarter free to all customers. The next advancement will be for us to link traffic engagement by industry and provide full recommendations and suggestions of your outcomes, giving our customers the ability to change tonality on the fly plus dozens of other key attributes. Some of which we will be sharing with you next quarter when we release the upgrade of AI and me.

There are super exciting additions to our communications platform and vital to our long-term growth as a business. We want to get pass the \$8,688 in annual subscription value today with a target of getting to 12,000 and beyond. These new subscriptions and these products will help us drive to that result. As always, it was nice spending time with you today as in discussing the results for the quarter. We look forward to talking to you and doing a follow-up calls. We remain

confident in the business, our teams, and our product platforms, our revenues, margins and customer wins, as well as the average revenue per subscriber growing. Our brands continue to serve us well in the market as we look forward to sharing more updates with you next quarter.

Operator can we please begin the Q&A portion of the call.

Operator

Certainly. At this time we'll be conducting a question-and-answer session. [Operator Instructions]. Your first question is coming from Mike Grondahl from Northland Securities. Your line is live.

Q: Hey guys, congratulations on the quarter. Brian, I just want to get a little bit of clarity. On the year-end call there was a little bit of industry wide weakness with communications and ACCESSWIRE and Newswire were. It seem to be caught up in that. Are you saying now that's kind of passed and you're back to growing again or less concerned about the industry? I guess just clarify us on what the updated commentary was?

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Yes. Thanks, Mike. It's a good question. I would tell you, as we talked about just a couple of minutes ago. No doubt Q1 was up 21% standalone ACCESSWIRE, right. This core business that everyone is tracking. We're seeing volumes, as I slightly indicated a little forward-looking, that volumes in the industry are continuing to climb. They're not yet climbed back to what historical levels would be, but the indicator is they're beginning to show signs that they're coming back.

Now, I would caution that in two ways, we're optimistic that they're going to continue to get better and for several reasons for us. One is that we're still making wonderful headway against the incumbent as we talked about taking market share. So regardless whether the industry is growing by volume, we continue to grow, which is a good thing relative to our size, as well as taking price, as we talked about. But we are seeing volumes come back. We are seeing new customer entrance to the market in the last call at 90 days that we probably didn't see late last year and early into this year.

We're going to watch the financial markets. We're going to see how things progress there that could be an impact of what may or may not happen in volumes. PR industry in general, historically, for as long as I've been in this industry 17 years, you are susceptible to market corrections. Does insinuate that volumes do go up and down a little bit, but the early indicator for us is it's bouncing back much quicker, which is a good thing to your point.

Q: Got it. And then is the best way for us to see the price that you're taking out there. I would refer to them, those ARPU numbers that you gave us for sort of 1Q '23 versus 1Q '22, and then 4Q. Could you repeat those numbers and maybe just clarify if that's a good indicator of the price you're taking in the market?

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Yes, look, I think that subscription values and this is a historical kind of conversation, right? It's not philosophical, it's just a historical conversation. Is that typically for several years, when we began the subscription business, we never were increasing price on renewal, right? We weren't and didn't have product stable products, not stable as and consistency, but stable in the stable, right, products in our product lineup rather that we were able to add to subscriptions to increase.

We've done a good job on the subscription business, and that is press releases, IR websites, earnings calls, newsrooms, whistleblower services, and our compliance tools that have afforded us the ability to take some price there. That's one side that's a good thing. We believe we're going to continue to do that. That's the numbers we talked about in the call getting to \$8,688 this Q1 compared to \$7,016 in the Q2 prior year.

But what is more interesting to us is when we look at the average price of a press release and we don't disclose this to the markets in general. So I'm going to be vague and look to do this in future quarters for everybody. But I would tell you that if we go back to kind of late 2021, we were likely sub \$200 average press release prices. And as volume has increased steadily, so has price consistently. And so that number has grown significantly close to \$300 now. And if we remove certain segments of the market, we are very close to \$500 average price in the press release.

And so that's very consistent with the Newswire theme of where they're at. And we feel like there's still room in the market. A lot of our investors have asked us, as you take price, is there still compression here? Could you see you being the more expensive solution? I would tell you that even at a \$500 to \$700 rate, we're still going to be right below by 10% to 15% of what everybody else is in the market and have plenty of margin opportunities to get aggressive should we need to, if the markets force us to do that.

So we're confident that we'll still take price on PR. We're confident that our subscription business will continue to grow. As it relates to adding new products, as it relates to us reestablishing the market in a subscription way that will include PR and some of the new solutions that I talked about at the end of the call today.

Q: Got it. And just lastly, Brian, if there's one or two products that we should sort of be focused on the rest of this year, what would you highlight those as?

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Yes, it's interesting. We're going to sell the Pitching and Media database as a product together, so I wouldn't want to call them out individually, because I think they go hand-in-hand. We have a firm belief that if you have a database to work for media professionals and journalists across the globe, you need to be able to have a communication outlet to them. And we feel like that communication outlet needs to be done more in a non-traditional way than it's done in the market.

Our competitors typically allow folks to pitch media via email, right. It's not very innovative, to be honest. And so we're developing ways that we can do it by desktop delivery, by using our events products that we built, right. We were really good at pre-COVID times launching our event technologies and our virtual events products, including our webcast solutions into it. So we feel like we can give marketers and PR professionals the ability to reach and pitch in a different way. So I think the combination of those will be important. A monitoring product is going to take time. You need media database and pitching customers in order for monitoring to really take hold. So that will likely come later, even though the product will be available this year.

But I'm actually really excited about AI and me. I think that AI engine recommendation system is the evolution of where the PR industry is going. And we all need help writing good unique content. We just want to do it in a very thoughtful way. So this recommendation engine will be available to customers free to begin with here in the next call it 60 days. And then there'll be a subscription product that they'll be able to buy up into tonality scoring and research, peer review.

So in other words, I'm writing a press release. I want to compare it to my peers. Am I using the same acronyms as they are? Is something different? And what engagement are they getting compared to what I'm getting? And this recommendation engine has all that data set in it. So we're excited about that, what it could mean to a customer. We feel strongly that if we could make it easier for them to produce content to the world and tell their story in a magnified way, there may be a predisposition for them to do it more often, and there's some ease there.

And so competitively, we're jumping ahead of what the market is doing and just using free solutions like ChatGPT to find ways to be more creative there. So I'm excited about that product as well.

Q: Got it. Hey, thank you.

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

You're welcome, Mike. Thank you.

Operator

Thank you. [Operator Instructions] Your next question is coming from Walter Ramsley from R-Squared. Your line is live.

Q: Hey, Brian. Congratulations. That was quite a surprisingly strong quarter, at least in my mind. The question I have, I got a couple of questions, actually. Your overall business, if you put it all, combine everything now, is there any seasonality that we should be on the lookout for?

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

I think seasonality is a lesser extent. It is going to continue to be less and less over the next several quarters here call it the next year. Our compliance businesses have done really well. We've -- I hate to continue to say this, that we message it will go down single-digits, but it

continues to grow and that helps the seasonality adjustments there. To the extent that that continues, we're hopeful, but we believe that business is less of a seasonal component to us than it has been in the past.

The PR volume business and acquiring the Newswire assets and folding that into our communications business definitely helps the majority of our businesses now as we talked about today are coming from that segment in that business unit. So we feel that that's going to minimize some of this. And so we're going to begin to see very predictable, sequential, not only sequential customer growth, subscription growth, but also revenue growth here in the coming quarters.

Q: Yeah. Good. And then the other question has to do with the company that you acquired, Newswire. Are there additional cost savings or other just changes in the business model that we should be cognizant of?

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Yes, look, we had a plan in November when we acquired the assets of what we needed to do with the organization. Tech stack integration, people integration, back office systems, finance HR, vendor management. We had a plan to go through from November to February and do the majority of all those changes.

And so, as we talked about, we got the benefit of a little bit of revenue in Q4. We had the benefit of the revenues in Q1 with a month essentially of savings. We're going to see all of the cost savings that we worked hard through integration that will really come out fully in Q2. We don't anticipate that there's additional further cost savings in the business that we need to do. The business is doing very well for us in combination with our communications segment.

As you can tell, the effect of gross margin increases, as Tim talked about there was some one-time costs associated with the transaction, right. And we're through those. And so I think a good real baseline for the business is really going to be what Q2 shapes up to be both revenue growth wise and earnings wise.

Q: But anyway, it looks like you've done terrific job putting it all together, and the outlook seems great. So congratulations again. Thanks for answering the questions.

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Thank you, Walter.

Operator

Thank you. [Operator Instructions]. Thank you. That concludes our Q&A session. I'll now hand the conference back to Brian Balbirnie, Founder and Chief Executive Officer of Issuer Direct for closing remarks. Please go ahead.

Brian Balbirnie - Founder and Chief Executive Officer, Issuer Direct Corporation

Thank you, Matthew. We appreciate it as always so. And thank you to everybody for participating in today's call. We look forward to following-up with you again soon. We are excited about what remains part of the year and beyond for Issuer Direct. We'll let you go. Have yourself a wonderful night. Thank you.