

Transcript of
Issuer Direct Corporation
Fourth Quarter and Year Ended December 31, 2021 Earnings Conference Call
March 03, 2022

Participants

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation
Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation
Steve Knerr - VP of Finance and Controller, Issuer Direct Corporation

Analysts

Luke Horton - Northland Securities

Presentation

Operator

Good afternoon. Thank you for standing by. And welcome to the Issuer Direct Corporation Fourth Quarter and Year End 2021 Earnings Conference Call. Today's call will be conducted by the Company's Founder and Chief Executive Officer, Brian Balbirnie, its Chief Financial Officer, Tim Pitoniak, and its VP of Finance and Controller, 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 that 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 CEO, Issuer Direct Corporation

Thank you, operator. Good afternoon, everyone. And thank you for joining us today to discuss the Company's fourth quarter and year end 2021 results. Just a few minutes ago, we issued a press release announcing our results for the quarter and full year, a copy of which is available in our newsroom for reference during today's call.

I'm very pleased with our fourth quarter results, which capped off an incredible year for Issuer Direct, specifically fourth quarter revenues were up 21% year-over-year, which also drove

increases in gross margins, net income and EBITDA. As a result, we were able to deliver a record year in revenues of \$21,883,000 up 18% from \$18,526,000 last year.

We also ended the quarter with a total customer account of 3,667, up 14% from 3,226 last year. And we were virtually spot on to our goals of 500 platform id subscriptions, ending the year with 497. Delivering 99 new subscriptions in the quarter, which also was a record number for us. And lastly, ACCESSWIRE was up 40% over the prior quarter in revenues.

Before we turn the call over to Steve for his prepared remarks on the quarter, I want to introduce you to Tim Pitoniak, our new Chief Financial Officer. I also want to thank Steve for his passion, dedication and hard work over the years. Steve, we look forward to your continued service as the new VP of Finance and Controller for Issuer Direct.

With that, Tim.

Tim Pitoniak - Chief Financial Officer, Issuer Direct Corporation

Thank you, Brian. And good afternoon everyone. I'm excited to join the Issuer Direct team, and I look forward to working with Brian, Steve and the rest of the organization to drive key initiatives over the coming years.

Before I turn the call over to Steve to walk through the detail. I wanted to point out some highlights for the fourth quarter and year ending 2021. As stated in the earnings release today, we achieved record revenues, EBITDA, and cash flows from operations throughout 2021. Revenue for the fourth quarter of 2021 increased \$974,000 or 21% compared to Q4 of 2020. For the full year ending 2021 revenue increased \$3.4 million or 18% compared to 2020.

Looking at some non-GAAP metrics. EBITDA for the fourth quarter of 2021 was \$987,000 or 70% of revenue compared to 745,000 or 16% of revenue during Q4 of 2020. For the full year of 2021 EBITDA was \$5,252,000 or 24% of revenue, compared to \$4,122,000 or 22% of revenue during 2020.

Non-GAAP net income was \$894,000 or \$0.23 per diluted share for Q4 2021, compared to \$682,000 or \$0.18 per diluted share during Q4 2020. For the full year 2021 non-GAAP net income was \$3,671,000 or \$0.96 per diluted share compared to just over \$3 million or \$0.80 per diluted share during 2020.

From a cash flow perspective, we continue to generate positive cash flow from operations as we generate over 1.4 million during the quarter compared to \$986,000 in the prior year. This brings our total cash flow from operations to \$4.7 million for 2021, compared to \$4.4 million during the prior year.

I will now turn the call over to Steve to walk through the details for the fourth quarter and full year ending December 31 2021.

Steve Knerr - VP of Finance and Controller, Issuer Direct Corporation

Thank you, Tim. And good afternoon, everyone. Before I jump into the results, I want to welcome Tim to the Issuer Direct team. Although we have built some solid growth over the last couple of years, I know there's more to come. And I look forward to working with you on some of these initiatives, and getting the company ready for success we know we can achieve.

Prior that, Tim alluded to the record revenue we had for both the fourth quarter and full year of 2021. Now I will provide a few more details on the results.

The increase in revenues due to double digit increases in both our communications and compliance revenue streams. For the fourth quarter of 2021 communications revenue was \$3,675,000, an increase of \$583,000 or 19% compared to Q4 2020, for the full year communications revenue ended just above \$14 million, an increase of \$2.2 million, or 18%, compared to 2020.

As in previous quarters, the increase in revenue is driven by our ACCESSWIRE brand and Newswire which drove both stand-alone press release revenue, and also new subscriptions of platform id. ACCESSWIRE revenue increased over 40% and 35% for the fourth quarter and full year of 2021 respectively, compared to the same period of 2020. This increase was due to an increase in both volume and revenue per release, just as a result of hard work from the sales team, eliminating our unlimited press release plans and selling packages of releases.

The sales team has also done a great job combining the sale press release packages with other products we offer, specifically our websites, user block and data team. For the fourth quarter we signed 99 new contracts with annual contract value or ACV of \$638,000, bringing our overall contracts to 497 with an ACV of over \$4.1 million. This compares to 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 \$8,286 as of December 31 2021 compared to \$7,850 as of December 31 2020.

Over half of the new subscriptions for the fourth quarter were sold to existing customers were only purchasing one product or service from us previously. During the fourth quarter and full year of 2021 communications revenue accounted for 64% of our total revenue compared to 65% and 64% of total revenue during the same period in the prior year. The decrease in communications revenue as a percentage of overall revenue for the fourth quarter is partially due to lower revenue from our webcasting and events products, as well as higher than expected increases in compliance revenue due to market activity.

Compliance revenue increased \$391,000 or 24% and \$1.2 million or 18% during the fourth quarter and full year of 2021 as compared to the same period of 2020. Both the capital markets and corporate transactions continue to fuel an increase in revenue from both print and proxy fulfillment services, as well as transfer agent services. Due to the reliance on markets and timing of certain projects revenue from these services tend to fluctuate from quarter-to-quarter.

Switching to gross margin, our overall gross margin increased 26% or \$868,000 and 23%, or over \$3 million during the fourth quarter and year ended December 31 2021 compared to the

same periods of the prior year. Overall gross margin percentage was 73% for the fourth quarter of 2021 and 74% for the full year 2021 compared to 70% and 71% for the same period of last year.

Gross margin from our communications business increased to 77% for the quarter, and 76% for the full year compared to 73% for the comparable periods of the prior year. The increase is due partly to product mix as a higher percentage of communications revenue came from our press release business compared to lower margin webcasting business as well as scale and price increases in our newswire business.

Gross margin percentage from our compliance business improve the 68% and 70% for Q4 2021 and full year 2021. Compared to 64% and 66% for the comparable periods of the prior year. The increase in compliance margins due to the increase in transfer agent revenue on a relatively fixed cost base, as well as decrease in amortization over compliance software.

Moving down to P&L to operating income. Our operating income was \$698,000 for the fourth quarter of 2021, compared to \$369,000 during the fourth quarter of 2020. For the full year 2021, operating income increased 39% to \$3,743,000, from \$2,694,000 during 2020. The increase in operating income was due to an increase in gross margin I just spoke about, partially offset by an increase in operating expenses due to continued investment, primarily in our sales and marketing and product development teams.

Sales and marketing costs increased 46% for the fourth quarter and 33% for the year due to increased salaries, higher sales commissions and increased spend on digital marketing. Product development costs increased 34% for the quarter and 48% for the year, compared to the same period of the prior year, also due to an increase in headcount our development team.

On a GAAP basis for the fourth quarter of 2021, we generated net income of \$616,000 or \$0.16 per diluted share, compared to \$319,000, or \$0.08 per diluted share during the fourth quarter of 2020. Net income was \$3,291,000, or \$0.86 per diluted share for the full year of 2021 compared to net income of \$2,106,000, or \$0.56 per diluted share for 2020.

Included in net income for the full year of 2021 is a benefit of \$366,000 related to filing for the employee retention credits under the Cares Act.

One last thing I want to highlight on the balance sheet, our deferred revenue balance increased 40% to \$3,086,000 as of December 31 2021, compared to \$2,212,000, at the end of the prior year. This represents revenue we generally expect to recognize over the next 12 months is a good indicator of the growth built in the business and yet to come.

Overall is a great conclusion to the year and motivates us to keep the momentum going into 2022. Thank you for participating in the call today. I'll now hand it back over to Brian, who will provide some updates on the business and a few of our plans to keep the success going for 2022. Brian.

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

Thank you guys. I feel like we were just here talking about 2019 results at the onset of COVID in March 2020. Thankfully, in the two years, customers, revenues, earnings and product advancements all have continued their upward trajectory.

Something that we're becoming accustomed to learning from and carrying forward with us for what we expect will be another record year 2022. We could not have done it without our hard working teams, we will be celebrating here beginning March 21, and our annual Employee Appreciation Week.

Today, I'd like to spend some time talking to you about what's ahead for this year and beyond. I think with both Tim and Steve's commentary, you do not need me to reiterate any of their prepared remarks.

Last month marked our 16th year of operations. I guess what they say is true, Time flies when you're having fun. I've been asked by many of you and I am still having fun. I mean, who would not be having the time in their life when they get to wake up every day, live out a dream, work with amazing people win and retain great customers and have equally as passionate shareholders joining us on this journey.

There are a lot of KPIs one can look at, but this is a very measurable indicator. And that's to look yourself in the mirror to reaffirm this journey that you're on is still the journey that drives you to get up at 5am and give it your all every day. We're hard working group and our results show it. So let's get right into what's ahead for us this year and beyond.

Our platform has undergone some significant improvements last year and heading into 2022 we are planning to do even more. Largely our teams are focused on creating the very best experiences for our customers, that gets us closer to our ultimate vision of reinventing our brands share, tell and inspire their audiences.

We will continue to do this by paying particular attention to the customer journey, listening to their needs and understanding when and where to invest both in our platform and beyond.

Earlier last year, we launched ACCESSWIRE 2.0, which is a real time collaboration suite. The platform will continue to advance as we've learned more about what our customers want, and need and their storytelling process.

We feel that finding workflow nuances and creating efficient ways to accomplish those nuances is where value is created for us and where we build significant competitive advantages. We built the newswire based on the better, faster, cheaper model, not too dissimilar from how we built our compliance business.

Today and for years to come, we're gearing up to refine this message to be the most innovative communications platform in the market, led by our newswire solution that brings solutions to real life use for our customers.

We also upgraded our Investor Relations, virtual events and webcasting products and brought to market our newsroom suite last year, a product that is young in its lifecycle, and continues to get better and better each quarter.

This year we'll be even busier in new product innovations beginning with a new virtual events do it yourself system, which is set to launch next week. A robust virtual events designed suite intended to meet what we believe will be the norm. And now what is called hybrid events for years to come.

Let's use an annual meeting as an example. Over the last two years, 1000s of companies had no choice but to embrace virtual technologies by hiring skill companies and technologies to produce these complex events.

Today, virtual components are very similar to just what a Zoom meeting is for most of us. Therefore, we took the very best of our own coding and our solutions, knowledge and technology and voting and integrations and put them together to build a competitive entry point product that will give customers the features, customizations and the ability to upgrade to a white glove fully managed solution should they need it.

The best thing about this advancement is customers can create their event, have live landing page URLs, phone numbers and producer links, and be seconds away from hosting their hybrid annual meeting, conference or any other type of event for both onsite and virtual as a requirement.

As most of you know, ACCESSWIRE has been one of the fastest growing newswires in North America, delivering over 35% growth year-over-year when you compare 2021 to the prior year. We've also been working to expand our global distribution footprint and offering that we have our sights set on.

Our European markets will be first coming mid-year, followed by Asia Pacific and South America late in 2022. These expanded and direct content relationships will allow us to improve our international press release, offerings, expand our customer reaches, and also give us a seat at the table with larger global brands.

The strong signs of growth in ACCESSWIRE is something that we have messaged the last couple of years, and something we believe we can continue to achieve here this year and beyond. Average first time customer deal sizes are consistent with prior quarters and we're seeing positive pipeline indicators in the mid to large cap segments, many of which have predominant brand recognition.

We've always had some prevailing thoughts as we demonstrate our capabilities to these larger brands, we will begin to see the results and influx of new interest. Some of this is because of our partnerships with groups like IHSI PRIOR and others are from direct results of our sales organization.

These are the areas that we're seeing the indicator specifically around the core IR MPR products, are newswire, webcasting, and IR websites.

In summary, our communications business led by ACCESSWIRE is where we're experiencing the majority of our customer growth, and in total customers grew 14% over the prior year to 3,667 customers as I had mentioned earlier. We anticipate customer accounts in 2022 will grow another 20%, reaching as high as 4500 customers by the end of 2022.

Our platform business has also done well for the quarter and year almost reaching the 500 goal we set out in Q1 of last year's guidance, adding another 99 in the quarter. Resulting in a total of 497 platform subscriptions for 2021. Of the 99, 42 were to new customers with average contract values of 8900. Whereas the 57 renewals were customers moving from page ago and to our unlimited or average contract sizes of 4600.

Moving forward beginning with Q1 2022 we will be releasing total customers as we have done today. And add to that our new KPI that will illustrate the total number of customers that is subscribing to our products, not just platform id. We are changing this KPI because it is more reflective of our business on our go forward basis.

Additionally, as we go through the year, we will continue to find additional KPIs such as retention, and customer lifetime values.

Moving along to some other items, as we spoke about in our last quarterly call, we mentioned that we've been working towards completing our SOC 2 two type 2 controls audit and investment that we thought was important to both our customers and our business. We are pleased to have completed this audit at the end of last year, and are able to represent to our customers current and future that our SOC 2 type 2 audit reporting guidelines will continue this year and beyond.

This was done in pursuit of our customer first approach and operational excellence that we are driven to deliver each and every customer. From the world's largest brands like Sherwin Williams, Synchrony and Columbia Sportswear, and Moderna, all the way to emerging markets, public companies and private businesses all over the world, we feel confident, we have a platform that fits any type or size of business.

Also, as a company, we've been working hard to improve our external facing initiatives, specifically surrounding ESG and Dei. We have a new investor website coming in the next handful of weeks that will set forth our environmental, social and governance approaches, as well as our diversity, equity and inclusion commitments.

Two very important areas for us to represent the market. Internally, this is something we pride ourselves on and it's something that we're working towards being more outward and leading for a market cap size that we are. Even though we are a smaller printing company, it is our goal to represent to the market, like a larger enterprise within. We retain and recruit by leading in this way, and we win customers by showing the strengths.

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, our product development and our client success teams.

Before we get to the Q&A portion of the call, I would like to provide an update on our capital allocation strategy. As we have said in the past, we need to invest in our business, continue to repurchase our shares when and where prudent and lastly earmark capital to use when we find assets that we believe can be transformational to the business.

This has not changed. And during the quarter we incurred approximately \$250,000 in costs related to strategic corporate projects, including merger and acquisition related expenses. These expenses are necessary to evaluate opportunities for us, as we believe that can have an impact on our business, our customers and continue to build our shareholder value. This is something that we expect will continue in 2022 and something we look forward to providing updates to each quarter when applicable.

We also have continued to invest in our people and our platform throughout the year and will continue to do so this year. And lastly, just this week as a Board, we approved a new \$5 billion stock repurchase plan, which we intend to fund from free cash generated from our operations. We have done this in the past and are committed to continuing to do this going forward.

Again, I'd like to thank our teams once again for their hard work and dedication to our customer first approach. As always, we appreciate you listening today. Operator can you please open the call for questions.

Operator

[Operator Instructions] The first question is coming from Mike Grondahl from Northland Securities, your line is live.

Q: Hey guys, this is Luke on for Mike. Congrats on a nice quarter to finish out the year here. I don't know if I missed it on the call. But did you guys mentioned the sales team headcount at all? I think you guys had mentioned last quarter was 29 and then growing to 34 to 36 somewhere in that range throughout 2022. Any update there?

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

Yes. Hey, Luke. Nice to hear from you. We have added headcount at the back end of the year, starting this year, we've added three new additions, we've got plans to continue to add more to that initiative both in our sales, both strategic account, field sales folks with industry experience, as well as younger SDR type individuals in our sales team. Additional marketing headcount has also been added content writers and more strategic focused individuals in our marketing team. So we're still continuing down that path and we'll continue to do that the remaining part of the year as well.

Q: Great, thanks. And then touching on that IHS market partnership, you had been getting any customer feedback on this partnership and kind of how that's been performing.

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

I think customer interest is more appropriate there. I think that I address sales team members, whether I approve your product sets and our teams have been working together jointly to go into opportunities and build pipeline. I'm not sure yet that there's enough feedback yet in that loop to create a good feedback loop. We're starting to win deals, we've got a lot of pipelines starting to come as a result of it.

As you can imagine, and an organization like theirs, and ours gearing up sales organizations with collateral training and joint meetings takes time, and a lot of their customers, as with our customers, when you begin looking at contracts, you're talking six months to eight months ahead before your renewal periods, when you're making decisions to find another vendor.

So, our teams continue to work, we're optimistic that we'll start to see opportunities there. We talked to really nice brands, on a weekly basis, and I think we'll continue to make additional headway. And as a result of some of those early wins and our other larger cap wins, we're starting to get a lot of inbound interest from others. So I think it's complimentary between that and what our sales team is doing independently.

Q: Okay, got it. And then just lastly here, I know you touched on this at the end of the call, but just as far as the M&A front. There are certain type of parameters you're looking for here, as far as M&A goes, and kind of what the appetite is here going into 2022?

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

Yes, as we said before, at a lot of conferences that we've done in presentations and past earnings calls, we're going to look for product sets that are very complementary to our communications business, which will plug in immediately with our newsroom newswire products, as well as be complimentary on the public company side to our IR website business and webcasting businesses.

So typically, in the marketplace that we serve, there's tends to be five or six products that large companies and small companies buying, we believe we have an ecosystem that can handle both, there are some assets there that we would like to have, media database and more analytic based platforms that we feel can drive further value to our business and as we've touched on, and as we've touched on for many quarters, we continue to spend time in that area. And we want to find the right assets to make the most sense for the business, not only for our customers, but also our shareholders.

Q: Got it. Great. Well, thanks for taking the time to answer the questions and congrats again on a strong end of the year.

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

Thank you, Luke. Appreciate it as always.

Operator

[Operator Instructions] Okay, we have no further questions in queue. I'd like to turn it back to management for any closing remarks.

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

Thank you, John. As always, I appreciate it. We also appreciate everyone's time today. We know the markets are busy and I look forward to visiting with you at some of the upcoming conferences early this year. And our next earnings call. Yes, that even means in-person at some of these investor conferences. Have a great evening. Thank you.

Operator

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.

Brian Balbirnie - Founder and CEO, Issuer Direct Corporation

Thanks, John.

Operator

You're very welcome.