ISSUERDIRECT
Trading Under the Symbol: ISDR

Transcript of
Issuer Direct Corporation
Second Quarter 2019 Earnings Call
August 1, 2019

Participants

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

Analysts

Mike Grondhal – Northland Capital

Presentation

Operator
Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation second quarter 2019 Earnings Conference Call. Today's call will be conducted by the Company's Founder & Chief Executive Officer, Brian Balbirnie and its Chief Financial Officer, Steve Knerr, before I turn the call over to Mr. Brian Balbirnie, I'd like to read you the companies 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, estimated impact of tax reform, 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 – Chief Executive Officer
Welcome, everyone, and thank you for joining us today. At the market close today, we issued a press release announcing our results for the second quarter, 2019, a copy of the press release is now available in our Investor Relations section of our website and on our ACCESSWIRE Newsroom for you to reference during today's call.

This quarter was a solid showing for Issuer Direct, both in revenues, customers our core platform subscriptions.

New subscriptions were a high for us, generating 38 net new platform subscriptions for the quarter, 90% over last quarter and 40% over prior year.

Customers were also at an all-time high. Our public and private company business saw significant growth in new customers on a yoy basis. As we will talk about today ARPU's have come down on a sequential basis, but we are not alarmed by this result. It's directly tied to the significant growth in private company business, and the lower contracts values then tend to garner. Giving way for private contact spends, our public company subscriptions signed in Q2 still have an arpu of $8,000.

We reported in $4.1M in total revenue for the second quarter, which represents a 9% increase over Q2 of last year and decrease of 1% sequentially over Q1 this year. Something Steve will expand upon here in a couple minutes.

Something, I'd like to speak about here at the beginning of today's call, is the changes we have seen in the industry in regard to the newswire business. We all segment customers slightly differently – but at the end of the day, it's no different than public, private, legal and investor commentary. During the second quarter and something we spoke about in an investor presentation on May 30 in New York and available on webcast, was that distribution was changing by certain partners. This change specifically was a decision to stop all investor commentary news from all newswires.

In terms of impacts, we generated $485K in Q2 last year in investor commentary news. If you were to remove the commentary revenues and the acquisition of FSCWire, our core news business grew 34% yoy, plus; we were successful in adding new customers, essentially getting us back to a flat quarter in total Accesswire Revenue. Given our momentum here, we feel good about moving this business unit back to nice yoy growth in the coming quarters.

In reflection, this is a good thing for our business long term – we are 100% focused on Public and Private customers, and our sales and marketing teams are aligned in this respect. This will pay dividends for us in distribution, and market perception.

As we messaged last year, our Platform business continues to grow as a percentage of total overall revenues, which I will let Steve talk about here shortly in detail. Our goals this year remain unchanged, we see our platform and technology business reaching 70% of our overall revenues driven by our subscription businesses and news platform.

Lastly, after Steve's remarks I will share with you some advancements in our distribution which were excited about.

Steve, at this point I'll turn it over to you, for a deeper dive of our financial results, then following your remarks, I'll elaborate further on some of the key takeaways for the period and what we're seeing for the remainder of the year.

Steve Knerr – Chief Financial Officer
Thank you Brian, and good afternoon everyone,

As Brian mentioned, despite the challenge we faced during the quarter with the investment commentary news business, we made good strides in almost doubling our Platform id subscriptions from the first quarter and increasing our total customers during the quarter. We also continue to work with our acquired customers and businesses from the acquisitions of the Virtual Webcast Platform or VWP, and FSCwire, a Canadian newswire. Additionally, we had continued success with new subscriptions of our conference management module.

Turning to the results for the quarter, total revenue increased 9%, or $339,000 to $4,138,000 for the second quarter of 2019 compared to $3,799,000 for the same period of 2018. Revenue for the six months ended June 30, 2019 totaled $8,317,000, an increase of 13%, or $988,000, compared to revenue of $7,329,000 for the first half of 2018. Leading the growth was revenue from our Platform and Technology revenue stream, which increased $415,000, or 18% and $1,049,000 or 25% during the three and six months ended June 30,2019, compared to the same periods of the prior year. Platform and Technology revenue increased to 64% of our total revenue for both the three and six months ended June 30, 2019 compared to 59% and 58% for the same periods of 2018. A majority of the growth was fueled by our acquisitions of VWP in the early part of 2019 and FSCwire during the third quarter of 2018. Platform and Technology revenue from customers acquired from these acquisitions was $468,000 and $977,000 during the three and six months ended June 30, 2019, respectively. Additionally, we generated increased revenue from subscriptions of Platform ID as we entered into 38, net new subscriptions during the quarter with an annualized contract value of $227,000. This brings our total net new subscriptions for 2019 to 58 and our overall total as of June 30 to 163 subscriptions, with annual contract value over $1,500,000. Our continued focus of moving customers to subscriptions of Platform Id will help drive recurring revenue and predictability of revenue.

Partially offsetting the increases in Platform and Technology revenue I just spoke about, were decreases in ACCESSWIRE revenue as a result of the investment commentary business and the continued decline in subscriptions of our shareholder outreach offering which are typically tied in with our ARS customers. ACCESSWIRE revenue for the second quarter was negatively impacted by the decision of one of our key partners to no longer accept investment commentary content, which accounted for approximately $78,000 and $403,000 of revenue during the three and six months ended June 30, 2019, respectively, compared to $485,000 and $863,000 during the same periods of 2018. Removing the impact of the investment commentary business and the acquisition of FSCwire, ACCESSWIRE revenue increased 34% and 21% during the three and six months ended June 30, 2019, respectively, compared to the same periods of the prior year. This is consistent with the increase we are seeing in our Accesswire customers as well and a good indicator for the long-term growth of the business.

Moving to services revenue, which decreased of $76,000 or 5% to $1,477,000 for the second quarter of 2019 and a decrease of $61,000 or 2% to $2,991,000 for the six months ended June 30, 2019 compared to the same periods of the prior year. The decrease is primarily the result of a decline in revenue from our transfer agent services due to a decline in corporate transactions, directives or actions, which are difficult to predict as they are controlled by our customers and the conditions of the market, and tend to fluctuate from quarter to quarter. Additionally, revenue from ARS services declined as customers continue to elect to leave the service or transition to digital fulfillment. These decreases were offset by the acquisitions of VWP and FSCwire, which accounted for $181,000 and $298,000 of Services revenue during the three and six months ended June 30, 2019, respectively.

Transitioning to gross margin, our overall gross margin percentage was 70% for the second quarter of 2019 and 69% for the first six months of 2019, compared to 73% and 72% for the same periods of the prior year. Cost of revenues increased $220,000, or 21% during the second quarter and $501,000 or 24% for the first half of 2019 compared to the same periods of the prior year. A majority of this increase is due to costs associated with delivering revenue of our VisualWebcaster Platform as well as an increase in press release distribution and editorial costs. As a result of these increases in costs, Platform and Technology gross margin percentage decreased to 73% and 74% for the three and six months ended June 30, 2019 compared to 81% and 80% for the same periods of 2018. As we continue to work through the integration of our VisualWebcaster product, we anticipate building more scale and identifying costs which we will be able to stream-line in order to bring gross margin more in-line with previous quarters. Gross margin percentage from our Services revenue stream was 63% and 61% for the three and six months ended June 30, 2019, compared to 61% and 60% for the same period of the prior year.

Moving down to operating expenses, we had an increase in operating expenses of $584,000, or 27%, during the second quarter of 2019 and $1,120,000 or 26% for the first half of 2019 compared to the same periods 2018. A majority of this increase is related to an increase in bad debt expense of $282,000 and $463,000 for the three and six months ended June 30, primarily associated with fully reserving the AR balances of two investment commentary customers. The remaining increase is primarily attributable to increases associated with the acquisitions of FSCwire and VWP as well as increases in headcount and personnel expenses as the company positions itself for growth. Sales and marketing expenses increased $76,000 and $146,000, 0r 10% and 9% for the three and six months ended June 30, 2019, respectively, compared to the same period of the prior year, due to increase in personnel costs as we re-align and continue to build the sales and marketing team. Product development expenses were higher as well, increasing $58,000 and $97,000 for the three and six months ended June 30, 2019 due to an additional headcount over the prior year. Lastly, amortization expense increased due to additional amortization resulting from intangible assets acquired as part of both the FSCwire and VisualWebcaster acquisitions.

On the income tax line, our effective tax rate is lower than prior year due to a tax benefit associated with the exercise of stock-based compensation as well as other tax credits playing a larger impact on lower pre-tax income than they did in 2018.

For GAAP purposes, we recorded net income of $212,000, or $0.05 per diluted share, for the second quarter of 2019, as compared to net income of $366,000, or $0.12 per diluted share for the same period of 2018. For the six months ended June 30, 2019, net income was $417,000, or $0.11 per diluted share compared to net income of $686,000 or $0.22 per diluted share during the first half of 2018. The decrease in earnings per share was due in part to lower net income as well as the increase in shares outstanding for the three and six months ended June 30, 2019 due to the secondary offering completed in August 2018.

Looking at some Non-GAAP metrics, total EBITDA for the second quarter of 2019 was $550,000, or 13% of revenue, compared to $935,000, or 25% of revenue during the same period of the prior year. For the first half of 2019, total EBITDA was $1,108,000, also 13% of revenue, compared to $1,590,000 or 22% of revenue during the first half of 2018. EBITDA results were directly impacted by the investment commentary business with a decline in revenue and increase in bad debt expense noted earlier. Non GAAP net income for the second quarter of 2019 was $477,000 or $0.12 per diluted share compared to $663,000 or $0.21 per diluted share during the second quarter of 2018. For the first half of 2019, Non GAAP net income was $995,000 or $0.26 per diluted share compared to $1,121,000 or $0.36 per diluted share during the first six months of 2018.

We continue to generate positive cash flows from operations as we generated an additional $259,000 during the second quarter of 2019, or $795,000 for the first six months of 2019 compared to $1,052,000 and $1,589,000 during the same periods of the prior year. On the balance sheet, our deferred revenue balance increased to $1,624,000, a 30% increase since year-end, a direct result of the additional licenses of Platform ID I mentioned earlier as well as increases in press release packages.

In conclusion, we had another solid quarter as we generated revenue growth and increased subscriptions of Platform ID and Accesswire customer counts. We remain optimistic the growth in these two areas will drive long-term results and mitigate the short-term impact of the investment commentary business. With that, I will turn it back to Brian who will now talk further about our products and outlook for the remainder of 2019 and beyond.

Brian Balbirnie – Chief Executive Officer
Thanks, Steve.

The second quarter sure was a quick three months. I'd like to spend some time updating everyone on the business and highlight some areas of interest, including some good subscription growth as well as talk about our plans for the back half of the year.

As I said earlier, our platform business is seeing good signs of growth, but I can't say it enough, in order to keep this momentum and further expand our platform strategy, new customer acquisition is extremely important, as well as cross selling efforts to our current book of business.

We ended the quarter with 1,440 publicly traded customers, compared to 1,179 during the same period last year, and 997 privately held customers compared to 734 during the same period last year.

Moving on to ACCESSWIRE - We have continued to improve our distribution, pricing strategy and new customer acquisition. The expanded distributions points to millions include the addition of Think or Swim from TD Ameritrade, TradeGO, Turnkey Brokers, and several trade publications such as Mining Stock Education, Digital Video, CreativeMac, and Bio portfolio. Now let's get back to what everyone wants to hear – and tha'ts TD. The first stage went live several weeks ago at the beginning of Q2 for think or swim customers on TD. This was a big step for us – which draws us closer to the official Q3 launch of the entire TD platform for ACCESSWIRE this month.

Also, since quarter end, we have gone live with Business Insider and were either in testing contracts process that will yield Desjardin Online brokerage, Teletrader, CNN Money, and Merrill Lynch. These investments regardless of cost are paramount to our business and future growth of our news product and platform id communications offerings.

Something else we mentioned last quarter was the advancement of our Accesswire editorial platform. This has occurred both for our editors and customers. Some early feedback as quoted from a customer earlier this month stated the following "I am impressed how easy it really was to set up my press release, clean up formatting including my financial tables, with the click of a couple buttons, set distribution and schedule for final editorial review in minutes." end quote. There is nothing better than having feedback from your client. It's not only motivation for us, but validation in our technology. This product advancement is crucial for scale, as well as turnaround times for our teams – but equally important, putting the technology in the hand of the customers is truly the exciting thing here. The drafting process should be easier, quicker and gratifying, and we have future advancements planned – like adding video with a click of a button and a drag and drop document option, a similar feature to what we have in Blueprint our disclosure platform.

Another area of our business that has progress nicely is our webcasting business, over the last couple quarters. We have seen some accounts increase their spend, and we have initiated efforts to go live in Q3 with our Chinese CDN, which will accommodate future growth in our key accounts. The back half of this year, we will begin to turn our focuses on cross selling accounts strategic Platform id solutions. Also our development and frontline operations teams continue to gather client feedback to assess product advancements that can be made to maintain and improve client stickiness.

Moving on to our conference software business – which is a very nice platform id adjacency for us. As of the end of Q2 we have completed 7 conferences. We have 11 more signed that will be completed over the next 12 months. Our goal was to have 20 events signed and or delivered by years end. We feel good about this and the pipeline were building into the future.

If I were to specifically characterize this conference software business, I'd say we are in going into our third phase. Product build being one, soft launch being 2 and now commercialization and investment to really get this platform into the community. Revenues attributable in q2 was $56,000 and $122,000 for the 6 months. We expect to earn approx. $150K in the back half of the year on the events that will take place before years end. In summary, this is a business we believe will be significant for us in 2020 and beyond, and ties directly into our strategy of bringing the issuer and investor closer together.

Sales and Marketing did a great job this quarter getting us back on track in platform subscriptions. As you recall, Q1 we sold 20 platform subscriptions with a total annual contract value of $189,000. In Q2, we signed 38 with an annual contract value of $227,000. Our team has their objectives and looks to continue this momentum of reaching our stated target. In fact, we already have a dozen sold in Q2 that have future start dates this year, and this quarter is also off to a rapid start.

Since quarter end, we have added two more sales headcount and we have 2-3 more we intend on hiring by years end. These business development managers were recruiting for will be both in the office and strategically in the field. As we just talked about the added distribution, gives us the comfort that were making the progress necessary this year, and that its time to ramp up some of our sales headcount in order to be ready to take advantage of this. Adding this headcount is vital to achieve our client growth objectives. We still believe the market is ripe to acquire new customers, something we plan on delivering in the 2H of this year.

An area we continue to spend time is on, is the M&A front – I know that perhaps some shareholders would have expected to have seen another acquisition by now, and I am here to tell you – I am with you in that. However, we as a team are committed to doing transactions that make sense for the business, and if that takes more time, we are comfortable with that decision. We have a viable business, with several growing and valuable assets like ACCESSWIRE, which I have been told by some shareholders that just that business alone is worth our market cap and beyond based on its uniqueness and position in the market. For this reason and many others, I personally believe the business is undervalued and we as a management team are committed to delivering on our stated objectives. We are confident that as we continue to execute, our shareholders will be rewarded in share appreciation.

In closing, we are encouraged by our continued client expansion, specifically the customers that are purchasing our platforms, and the investments were making in the business, both in our new product development and our employee base, which will put us in a position to further grow and scale the business.

We have enjoyed speaking with you today and look forward to your questions and visiting with you again soon. Operator, could we please begin the Q&A portion of our call.

Closing remarks
Thank you to everyone who took the time to visit with us on today's call, goodbye.

Operator
Gentlemen, thank you for your prepared remarks today. [Operator instructions]. We'll take our first question from Mike Grondahl, with Northland Capital. Please go ahead, sir. Your line is open.

Q: Hi, this is Michael on for Mike. Thanks for taking our questions. Maybe first, just on the Think or Swim platform, I know it's early yet, but feedback on how that's going so far.

M
Hi, Michael. Yes. No, it's fantastic. I think there's a significant pent up demand for that entire TD platform. Obviously, it was critical for us to start with a portion of their system, and the target now is August 29th. We're seeing significant traffic as a result of that, so both our smaller public companies and large cap companies through our exchange partnerships are beginning to see some institutional pull on that platform, as well as retail folks as well. I think it's a welcome for our current customers and it is absolutely a welcome for customers in our pipeline who have been waiting for that to occur.

Q: Got it. Then, how about on the insights and analytics module? I think you mentioned in the last quarter about some trials starting end of June; any update on that?

M
I think we're exactly still at that point where we're in it, we're in a trial demo mode with some clients. We continue to monitor data. I think that the reality of the world that we live, for us, it's very important that we get the privacy of this data accurately nailed down.

We are doing our best with groups like Privacy Shield and others to ensure that we have those processes in place before we do a full commercial launch at the back half of this year. Results are there, engagement is there, both from our news platform, our earnings event systems, our IR platforms, and our investor network systems. The good news is that once our customers have full access to this, engagement profiles, and relationships could be built from that. I think we just want to be very careful that we treat the privacy with utmost and forthright concern.

Q: Okay. Then, just on the, I might have missed this, but just a nice jump in the number of private clients, can you step by what's driving that in the quarter?

M
Yes, we have—I think our sales and marketing teams have done a really good job. We've refined our marketing messages to attract and target the right folks. Our sales teams are being able to close loops on opportunities from initial call to close, so the pipeline is getting better and better every single day there. I think the maturity in the brand is starting to show itself through now, where agencies and other folks in the community are starting to reach out to us and begin to want to build integrations.

We focused a lot during Q2 of building API relationships with a lot of agencies and partners to be able to embed Accesswire into their platforms. We had done that in years past with London Stock Exchange, and OTC Markets, and others; now it's really about these agencies, and how do we go drive volume in our news network. I think that's critical for Accesswire. It's a pillar of strength. A lot of our other competitor news wires that they have; I think we've done a fantastic job there with both our public and private gains, but to your point, our private company business really is ignited. We couldn't be happier with the progress there. I think that in hindsight, if commentary [ph] business having been lost, we'd be looking 18%, 19% year-over-year growth in total business, and compared very much even more so than that in our news business on a standalone basis. To make back this ground is very encouraging for us, and those client count numbers should be able to continue.

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

Operator
Thank you, Mike. [Operator instructions]. I do not see any signals from the group. Brian and Steve, I'll turn it back to the leadership team for any additional or closing remarks.

M
Tim, I appreciate it very much. I thank you and everyone else for spending time with you on today's call, and look forward to talking to you again in the future. I appreciate it. Have yourself a great day. Take care.