

**Transcript of
Issuer Direct
First Quarter 2017 Earnings Call
May 4, 2017**

Participants

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

Analysts

Eric Weinstein – Chancellor Capital

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation first quarter 2017 Earnings Conference Call. As a reminder, today's call is being recorded.

Earlier today, Issuer Direct Corporation issued a press release that included certain cautionary language with respect to forward-looking statements. The Company would ask you to review the language in the press release regarding forward-looking statements, as they are equally applicable to any forward-looking statements made during this conference call.

Today's call will be conducted by the Company's Chief Executive Officer, Brian Balbirnie and its Chief Financial Officer, Steve Knerr, I'll now turn the call over to Mr. Steve Knerr.

Steve Knerr – Chief Financial Officer

Thank you, and good afternoon everyone. Before we begin, I need to read the following Safe Harbor statement. Statements or comments made on this conference call may be forward-looking statements that include financial projections or other statements of the company's plans, objectives, expectations or intentions. These matters involve certain risks and uncertainties. Our actual results may differ significantly from those projected or suggested in any forward-looking statement due to a variety of factors, which are discussed in detail in our recent SEC filings.

Further, we will discuss both GAAP and non-GAAP financial information on this call. We believe the presentation of non-GAAP information provides you with useful supplementary data concerning the company's ongoing operations and is an appropriate way for you to evaluate the company's performance. Non-GAAP results are, however, provided for informational purposes only. Please refer to the press release and related tables for GAAP information and a reconciliation of GAAP to non-GAAP information. We also posted to our website, in our Investors relations tab, a description as well as reconciliation of GAAP measures to which we will refer on this call.

With that out of the way, I'll begin by going over financial highlights, and then turn it over to Brian for his operational review and outlook, followed by a Q&A session. The Q1 Financial Highlights with prior year quarter comparisons are as follows. Revenue was \$2,856,000, down compared to \$3,277,000 in the first quarter of 2016. Absent a one-time benefit of \$316,000, which I will discuss in more detail, revenue for the first quarter of 2016 would have been \$2,961,000. Platform and Technology revenue increased 50% from Q1 2016.

Gross margin percentage was 74% compared to 77%, absent the aforementioned one-time benefit, would have been 74% during the first quarter of 2016. The Company's GAAP earnings per diluted share was \$0.11 compared to \$0.17. EBITDA margin decreased to 19% compared to 30%, however absent the aforementioned one-time benefit, would have been 23% for the first quarter of 2016. Non-GAAP net income was \$406,000, or \$0.14 per diluted share, as compared \$525,000 or \$0.18 per diluted share.

Once again, we continued our trend of generating positive cash flow from operations and increasing our cash balance over the prior quarter, as we generated \$647k dollars of cash flow from operations. On April 5, our Board of Directors declared a quarterly cash dividend of \$0.05 per share, making it our seventh consecutive quarter for paying dividends.

As I noted earlier, total revenue was \$2,856,000, a decrease compared to \$3,277,000 reported in the first quarter of 2016. It is important to note that revenue for the three months ended March 31, 2016, included a one-time benefit of \$316,000 due to the reversal of an accrual related to unused postage credits for ARS customers acquired as part of the acquisition of PrecisionIR. Excluding this one-time benefit, total revenue would have been \$2,961,000 for the first quarter of 2016. In order to more accurately reflect our business and our focus on a platform first engagement, we have condensed our reporting into two revenue streams, Platform and Technology, which consists of revenue from our platform id offering and the 9 products within it and Services, which consists of services requiring resources to perform work or the delivery of hard goods, including our traditional Edgar conversion, XBRL tagging and teleconference services as well as print, fulfillment and delivery of stock certificates, proxy materials or annual reports. I will now discuss the revenue from these two streams in more detail.

Platform and Technology revenue increased \$468,000 or 50%, to \$1,414,000 during the first quarter of 2017, from \$945,000 during Q1 2016. Platform and Technology revenue increased to 49% of our total revenue for the quarter compared to 29% during the first quarter of last year as we continue to focus on developing and increasing this revenue stream. Driving this increase was the ongoing success of our Accesswire platform, for which revenue increased 90% compared to the same quarter a year ago, as we continue to penetrate the newswire market through additional distribution and realize the benefits of sales staff added in previous periods. In order to fuel further growth, we will continue to focus on enhancing this product by adding new features, expanding distribution and increasing sales staff throughout the year. We also experienced increased revenue from licensing of other products within our platform, most notably, our transfer agent, whistleblower, Blueprint and webcasting platforms.

Services revenue decreased \$890,000, or 38%, to \$1,443,000 in the first quarter of 2017 compared to \$2,332,000 during the first quarter of 2016. The decrease is primarily the result of a decrease in revenue from our annual report service, due in part to the one-time benefit included in Q1 2016 which I noted earlier, as well as continued attrition as customers leave the service, decrease hardcopy requirements or transition to digital delivery. Additionally, we experienced declines in our print and proxy distribution services and stock transfer services as revenue is project based, and tends to occur at the discretion of our customers or corporate directives. Revenue from XBRL services also declined as we continue to face pricing pressure from the industry.

Platform and Technology gross margin was 83% for the three months ended March 31, 2017, as compared to 82% for the same period of the prior year, as the increase in revenue was partially offset by higher amortization of capitalized software. Gross margin from our Services revenue stream was 65% for the first quarter of 2017 compared to 74% during the first quarter of 2016. Excluding the one-time benefit noted earlier, gross margin percentage would have been 70% for the first quarter of 2016. The decrease in gross margin was due to lower revenue associated with the fixed costs of delivering ARS, print and proxy and stock transfer services.

Operating expenses decreased \$82,000 during the three months ended March 31, 2017, primarily as a result of a decrease in amortization costs due to certain intangible assets which became fully amortized during 2016 as well as lower sales and marketing expenses as we transition our sales team to a platform first approach. Partially offsetting these decreases was an increase in G&A and product development expenses due to an increase in professional fees and payroll costs within our product development group.

EBITDA decreased to 19% of revenue for the quarter compared to 30% for Q1 2016. Excluding the one-time benefit noted earlier, EBITDA would have been 23% for the first quarter of 2016.

For GAAP purposes, we recorded net income of \$325,000, or \$0.11 per diluted share for the first quarter of 2017, as compared to net income of \$493,000, or \$0.17 per diluted share for the same period of 2016. Again, net income for the first quarter of 2016 includes the one-time benefit noted earlier.

We continue to focus on generating positive cash flow from operations as we generated \$647k dollars during the first quarter of 2017 compared to \$501k dollars during the first quarter of 2016.

Overall, our focus on Platform and Technology products resulted in increased revenue and margin from that revenue stream. We continue to remain excited about these products and are committed to invest more and leverage off this business in order to generate overall revenue growth, expand margins and increase EBITDA.

I will now turn it over to Brian who will discuss key metrics, product enhancements and operational strategies for 2017.

Brian Balbirnie – Chief Executive Officer

Thank you, Steve, good afternoon everyone, and thank you for joining us. Today's call is also being broadcast live via our company profile on Investor Network, a link of which can be found in today's earnings release, which was just filed a few minutes ago. You can also view the full text of our earnings release on our website in the investor relations section.

We are excited to speak with you today, not only to discuss our performance for the quarter, but also the presentation of our business from a financial reporting perspective. As you just heard from Steve and have seen in our earnings release and shortly in our quarterly filing, we have aligned our reporting presentation to better reflect our business and where we have our focus.

Delineating between our subscription business and our services segment is consistent with other companies that offer Cloud-based subscription platforms. We're hopeful that our current stakeholders and the markets will begin to value our business typical to a subscription company as we continue the growth of this part of our business.

As we have said in the past, less than 10% of our business was comprised of subscriptions two years ago, fast forward to today - for the first quarter ended March 31, 49% of our revenues came from this portion of our business. Even though Accesswire was the driver, helping this segment deliver 83% gross margins, we still are confident in the rest of this business, which for the most part also had gains in revenues.

The changes in our reporting also means we have introduced new KPI's measurement beginning this quarter. We care about subscribers to our platform, and in the coming quarters we will look to share additional KPI's to this top line tracking metric we are focused on. For the quarter ended March 31, 2017 we saw a 25% increase in our customer base from 1,405 last year to 1,761 for this quarter ended March 31, 2017; and on a sequential basis, we saw a 3% decrease in customers. A small portion of the decrease is attributed to customer attrition in our electronic Investor Network platform, also we are seeing private companies license part of our platform for a short term specified period appose to annual. This is an area of focus for us as we have historically been a public

markets company, understanding the private company market specifically in the news business is teaching us subscriptions based sales is much better than the pay as you go model. None the less we will continue to provide in our earnings calls the details behind these year over year and sequentially.

Our services business, which is our core compliance, print and fulfillment of materials saw an 18% decrease in customers from 630 last year to 517 this quarter ended March 31, 2017 and a 5% decrease sequentially from 546 customers. We have spoken for well over a year about our business transition, and how we view the services component of our business. Being heavily tied to printed goods, fulfillment and a commoditized compliance offerings – we continue to believe this part of our business will become less of our overall revenues.

We ended last year having reached over 2,000 combined customers. With the changes in what we discussed above – we feel this presentation better aligns our performance and focus on our platform business, when you combine the numbers we do have some small groups of customers that have cross over from platforms to services. Something we feel good about on a go forward basis, as there are portions of our platforms our customers will continue to need help performing some element of their work. However, service only portions of our business are less sticky and inherent to higher than normal attrition rates due to factors such as pricing pressures, and M&A activities. Our teams remain confident and excited about this fiscal year, with a focus of customer growth as one of the most important internal KPI's.

In summary, and as both of us said several minutes ago, Platform and Technologies revenues for the quarter ended March made up 49% of our overall revenues, something we have targeted and messaged to have been achieved by years' end. Even though we're ahead of our estimates internally, we still understand clearly, we have a lot of work to accomplish in our platform business.

One of those areas is to expand the distribution circuits in our newswire offering, Accesswire. We feel confident we will be able to continue to add to this distribution which will only but make our offerings even stronger in the market against the larger 3 providers in North American.

Another area we feel very good about right now is the interest we are seeing in our webcast API product offering. If you recall we began this fiscal year, broadcasting earnings calls on our Investor Network platform. The goal was to scale into the business, and by years' end can provide all exchange listed companies earnings webcast on our platform for free, we are on pace to meet this, and in fact are seeing early indicators of utilization more than we anticipated. As recently as this week, we are seeing mid-cap and large-cap companies have audiences 50 to 75% larger than they typically are getting with their current providers. So, as a reminder - our initiative here is simple, create more demand, drive more traffic, and create better relationships by making our customers' information more readily available to the markets.

Out of these simple initiatives, we will get user data, demographics, habits and engagements to license and provide back to our customers. This additional revenue opportunity is key to unlocking our entire Platform id communication module – when we look at the business long term we see clear values in our technology, but if we don't stay ahead by driving better analytics we run the risk of being commoditized in a competitive space, with this audience analytic and other developments we have underway – we feel very good about the long-term performance of our communications platforms offerings.

Lastly, inside of our communications offering is something we are using to drive home the analytics and peer analysis business. Classify's intelligence of buy side, sell side and media targeting solutions is fast becoming a great add on to our Accesswire news business. Customers are choosing to utilize media and or retail groups to target their messages. When we originally built Classify we intended for this to be a standalone product subscription, what we have quickly learned is that the database is valued more so with specific messaging or based on an event appose to a passive access subscription model. This is why we have added to the product

offering to include a peer review and analysis dashboard, as we feel this further helps draw together our communication offerings into one subscription.

From a development perspective we have continue to invest in our platform modules by advancing critical features that we believe will keep us ahead of the market – further cementing us as the platform of choice long term in our communications and compliance businesses. Our viewpoint has us confident were on track and should begin to move several of these platforms into full candidate releases this year, which means our sales teams will be focused on building pipelines and executing our strategy of subscription focused sales.

In closing, for the remaining part of 2017, our teams are going to be focused on expanding our customers under subscription in our platform and technology business; continuing to add to our distribution reach through new and existing partnerships; adding key sales and operational staff where and when applicable; executing upon opportunities in the M&A markets we feel can help us further build critical mass to elements of our platform; and lastly, continuing our commitment of refining our platform focus.

With that I'd like to turn the call back to the operator for questions.

Operator

Thank you. The floor is now open for questions. [Operator instructions.] Our first question comes from Miles Jennings. Miles, go ahead.

Q: Good afternoon, Brian. I was curious about the agreement you had with the London Stock Exchange, and I think, probably, you've had that agreement long enough so you can give us a comment on how that's working and if you're incorporating more corporations into your services. And, also, are there other exchanges, English-speaking exchanges, I assume, that could use your services?

Brian Balbirnie – Chief Executive Officer

No, I'm happy to talk about our relationship with the London Stock Exchange and maybe others. It's a history of relationship that we entered into by way of acquisition with PrecisionIR back in 2013, and we have continued to operate our partnership as a strategic outreach for the FTSE 1000 and other LSE listed companies that investors seek to request materials, hard copy or electronic. So, investors that visit London Stock Exchange's platforms today have our content data from our market data product on our investor network product to fulfill fact sheets, investor kits and interim reports for those listed companies.

The second component of that, that expanded partnership that you're referencing came by way of a strategic relationship with our regulatory product Blueprint. There are several hundred duly listed companies on LSE and either NASDAQ or New York Stock Exchange here in the US that require SEC filings, part of the listing requirements to submit financial data. The London Stock Exchange and the RNS Group is using that product to exclusively file those documents. We are working with them, currently today, to expand the relationship even further as we're doing filing work for groups like BP and Barclays and Glaxo.

There are some of the largest FTSE 1000 companies are using the product platforms with LSE today and lastly, they are in the process of integrating portions of our News Distribution Network to further enhance their reach into the US markets. Lastly, I think the other part of your question, Miles, was are we doing that with other? And as most folks and our investors know in the community, we've had a strategic partnership with the New York Stock Exchange for going on three years to utilize our whistleblower platforms into and with current listed and newly listed IPO candidate clients, both on NYSE and NYSE MKTS listings. We continue to expand that relationship and other verticals as well as other US exchanges as we have a pretty good focus on what we refer to as our Exchange Partner Program or EPP for short.

So, that's US, and we do have foreign interests as well and we are looking at exchanges there, primarily in the EU, that we can expand upon.

Q: Excellent. Let me just ask one further question. I'm hoping that you aren't offering too many free services to gain new customers in the Newswire area. And I just wondered what the trend in revenue per client is. I don't need the actual revenue but as far as the trend in the revenue per client in the Newswire alone business.

Brian Balbirnie – Chief Executive Officer

I don't have the specific numbers to your point, to not need the specific numbers. What we find is that news business comes by way of three different flavors. Obviously, there's public company consistent news; that is we and other public companies need to submit their earnings announcements, earnings releases, product releases, regulatory FD. There seems to be a steady stream of that, very predictable revenues that we can assign good ARPU values to.

Then, the growing part of our business, as I mentioned in part of our conversation here today, was the private company news market where the market is much larger for us compared to the public company space. But, the consistency of those articles and the number of releases that they run are far less, and so what we're finding is that that there are better ways to approach that market by subscription-based sales, giving them newsrooms and custom applications, as well as news articles for an annualized fee rather than a pay-as-you-go fee.

Then, the third element of that business is the reseller marketplace which we've also viewed as a necessary evil; something that we continue to do. But, by vast majority, the average spend per Newswire client is much greater in a public company client than there is in a private company client today.

Q: And, if you look at just the public companies, is the revenue per customer increasing or decreasing on a quarterly basis as far as you can see?

Brian Balbirnie – Chief Executive Officer

Since we've taken over Accesswire, it is increased. I think that we've talked about that in previous calls; that the price point of a news article at Accesswire given the limited distribution it had two and a half years ago was indicative of what you were getting and today—

Q: Oh, I see. By your reach, you're actually expanding revenue in the Newswire area, I guess.

Brian Balbirnie – Chief Executive Officer

That's correct.

Q: Thanks a lot. That was a timely acquisition of Newswire, especially in light of converting to a platform, losing revenue on the service side and gaining it on a platform. But, with Newswire increasing sharply, it sort of makes this transition smoother from the investment standpoint.

Brian Balbirnie – Chief Executive Officer

Correct. Absolutely. Thank you.

Operator

And our next question comes from Eric Weinstein from Chancellor Capital. Eric, go ahead.

Q: Thanks. Hi, Brian. Congratulations on the platform and technology side of the business; that's growing really nicely. I guess half the company is revenue based a quarter earlier than anticipated. On the other hand, it is

important because the legacy business is declining so rapidly. I think we're all looking forward to more sustained growth in revenue and profitability, and we're trying to figure out how to get there. There are a lot of moving pieces, and I'm hoping you can help us peel back the onion a little bit.

So, breaking it down, the services revenue is declining but to be fair, you're cannibalizing a bunch of it with the platform and technology side of the business. So, it's down, if I think you said 38% year-over-year, but customers are only down 18% year-over-year for that side of that business, is the 18% more from secular pressure and the rest is going into the platform technology side of the business?

I'm trying to just get a sense of what the pressures are there in terms of being down 38% and then expecting that to continue to the extent that the first quarter has a big contribution for manual reports and proxies and the rest of the year probably shouldn't have that. Should we really expect 38% to continue or should that taper off a bit? Then, I'll come back on the platform side.

Brian Balbirnie – Chief Executive Officer

Yes, sure. We'll talk about the service component. I think it's a lot of moving parts, as you mentioned. There's this old legacy annual report service business that contributes to a good portion of those losses. There is the one-time benefit in Q1 2016 that Steve mentioned and a couple of times in his portion of today's call that does have an impact to that. So, if you give way for that, the percentages aren't as great in a comparative purpose, but candidly absent of ARS, you're right. To a degree, we are cannibalizing some of this business. We are proactively beginning to want to move clients quicker to this scalable platform and technology segment of our business that we've talked a lot about for the last year.

But, there is part of that business too that are project-based timing efforts, right? That's the AGM or the Annual General Meeting that a company has that typically happens within the first, say, 120 days of the fiscal year. Some of those projects tend to move from Q1 to Q2, so you do see some lumpiness there in that segment. I believe you're going to continue to see some of that lumpiness as a result of some of those things.

By us realigning our revenue streams, really gets us away from trying to talk a lot about each one of those proxy annual meeting, stock transfer services, all of the other service components that we have. So there is a lot of moving parts there that contribute to some of that attrition and/or a decrease in revenue. But, I think when you back out the one time, ARS numbers, and you begin to look at it, you're really not as heavily concentrated, as high on attrition as you should see going on a forward basis.

However, with that said, we don't know what the XBRL markets will be as we phase into iXBRL. We may see an increase in service revenue there as a result of the difficulty of clients tagging their own documents. Buying software is like blueprint. They may not have the ability to do some of this change in regulatory tagging, so we may see a benefit to that much like we did back at the beginning, if you remember what XBRL did for disclosure reporting group then.

You wanted to follow up, I think, on platform and technology?

Q: Yes. So, on platform technology, I guess if we can—if you can isolate, I don't know if you do it internally or not, what you're cannibalizing from services versus organic growth from outside, can you talk about trends there? Is that part or is that organic piece accelerating? Right now, it still seems like it's small in terms of absolute dollars. Does that have the growing, 100% year-over-year, which sounds like a lot, but if it's such a small base, does that actually have the potential to continue to accelerate?

Brian Balbirnie – Chief Executive Officer

Yes. I think it's led by Accesswire and then some of the others said we're pouring gas all over in this webcast API product platform that we have. So, yes, I think it's going to continue to scale. That business is poised for that. Miles brought it up on one of his questions that Accesswire was well-timed in the market. Subsequent, thereafter, we had some acquisitions in the space that caused folks to look at a different opportunity. So, more specifically, there's not much cannibalization going on from a platform base with the exception of two components. One is the regulatory piece, the disclosure part, the ability for clients to either one: hire a service provider to do their disclosure work with the SEC or buy a software platform like Blueprint. So, we have some of our clients that are making the migration, the natural shift themselves as well as suggest a shift from us.

The second component is which has been something that the industry as a whole has been affected by is the amount of printed materials that one is doing today is much less and that does, overall, impact. It doesn't really cannibalize, but it impacts our revenues from services as it relates to proxy engagements, Annual Meeting Management and the print-related services that happen as a result of that.

Folks are tending to license our proxy more, use more of that as an access model which should help drive that even further in the future. So, there's not as much internal cannibalization as much as it is organic push into the market and expansion of getting market share from others.

Q: Got it. And the non-Accesswire piece of platform and technology, it's really small now. The whole segment is really being driven by Accesswire. Where are we in the stage of development there and what are your expectations for that piece going forward?

Brian Balbirnie – Chief Executive Officer

We have actually wound down most of the development efforts. There's a regulatory change happening consistent with XBRL to this new inline tagging, so we do have some significant development efforts underway there then we expect to be done here in the back half of the year that will be ready, plenty of time ahead, for what iXBRL will mean to the market. But as it relates to our webcasting components, our classified products, our investor network pieces, most of all of those have been pushed into production or are candidate [ph] products that are in release now that are generating revenue.

So, in our webcasting, we see gains in our [audio disruption] outreach and analytics product, Classified. We see some small marginal gains just like Whistleblower and Blueprint, as Steve mentioned earlier. So, although a smaller component of that revenue segment, it still is seeing some revenue gain there as we expected it to see, high single digits, and we'll continue to ramp that up as we really platform ID underway in a bundled offering this year.

Q: Do you expect that that piece within the next two or three years could be 20%, 30%, 40% of the whole platform and technology business?

Brian Balbirnie – Chief Executive Officer

Component other than Accesswire?

Q: Yes.

Brian Balbirnie – Chief Executive Officer

Yes, absolutely. I think that's fair to say. Yes, absolutely. I think that one of the things that you'll find is that that's going to be the predominant part of our business with along with the Accesswire piece and less and less folks are going to be utilizing us for those service components. Each one is tied to themselves, so if you think about an event, we've talked about this a lot before, and I speak a lot about this in our investor presentations to the markets, is that companies tend to have five main events. There are the three quarterly filings, the annual report

and an annual meeting. Those five events are geared towards our platform. Each one of the components that they can license affects that event, whether it's talking to the shareholders from an annual meeting, distributing content from an earnings release, a webcast earnings call like we're doing today and a regulatory component. We've aligned our platforms to meet that event-based management style of subscription, so folks tend to look at that to centralize their reporting, centralize their communications into one cohesive offering, and that's where we feel the driving force behind this bundled platform ID will be for us.

Q: Great. That was very helpful. Thanks.

Brian Balbirnie – Chief Executive Officer

Thank you, Eric.

Operator

That appears to be all the questions at this time.

Brian Balbirnie – Chief Executive Officer

Thank you, Kat. Steve and I would like to thank everyone for attending today's call. Should you have any questions after a review of our quarterly filing, please feel free to give us a call.

Thank you and have a great day.