Transcript of
Issuer Direct Corporation
Third Quarter 2024 Earnings Call
November 7, 2024

Participants

Brian Balbirnie - President & Chief Executive Officer, Issuer Direct Corporation
Steve Knerr - Vice President-Finance, Controller & Interim Chief Financial Officer, Issuer Direct Corporation

Analysts

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation's Third Quarter 2024 Earnings Conference Call. My name is John and I am your host of today's earnings call. I'd like to remind you that statements made in the 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 and 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, it's my pleasure to introduce the company's Founder and Chief Executive Officer, Brian Balbirnie and our Chief Financial Officer, Steve Knerr. Brian?

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

Good afternoon, everyone and thank you for joining us today to discuss the company's third quarter 2024 results. Our press release, which is accessible in our newsroom, was just released premarket this morning and provides key takeaways to our performance for the quarter and nine months ended September 30th.

Despite a decrease in overall revenues for the quarter, we made significant strides in our transition towards a reoccurring revenue model focused on our new media suite products in the third quarter. This shift contributed to a rise in total subscriptions reaching 1,121 by the end of the quarter, a 9% increase from the previous quarter and 7% year-over-year. As a result, our annual reoccurring revenue grew by nearly $1 million, compared to the prior quarter and over $1.4 million, compared to last year.

Customers' average revenues per subscriber also grew 7% year-over-year to $10,114 per customer from $9,477. As we have mentioned in previous calls, we believe we can continue to increase our ARR for the foreseeable future. Later in the call, we will discuss the additional KPIs we are tracking for the business this quarter and going forward.

As we round out our go-to-market offerings for 2025, we are going to continue to focus the remainder of the year, as well as selling our subscription platforms to our current installed base. Beginning next year, we will fully market both our refined brand and our subscription business to both Public Relations, as well as Investor Relations professionals under one platform. There's a lot more to talk about today. So, I will turn the call over to Steve to cover the quarterly highlights. Steve?

Steve Knerr - Vice President-Finance, Controller & Interim Chief Financial Officer, Issuer Direct Corporation

Thank you, Brian and good afternoon, everyone. As Brian mentioned, we are excited about our new press release subscriptions and are encouraged by the number of customers, who have moved to this subscription plan, leading to an increase in overall subscriptions by 9% since last quarter.

I'll now highlight some of our financial results we achieved during the third quarter and first nine months of 2024. Total revenue was $7 million from $7.6 million [ph] for the third quarter and first nine months of 2024, respectively, which was a decrease of $616,000 or 8% to $4.2 million or 16%, compared to the same periods of 2023. The decreases are attributable to both our compliance and communications revenue streams. Communications revenue decreased $597,000 or 10% to $1.7 million, or 9% for the quarter and nine months ended September 30th, 2024 as compared to the same periods of the prior year.

The decrease for the quarter is due to declines in revenue from both our ACCESSWIRE and Newswire news distribution brands. Although volumes of our core releases were up for the quarter for ACCESSWIRE. The decrease is due to lower average revenue per release due to the mix of releases as a higher percentage of releases were from lower distribution tiers. Revenue from our Newswire brand continues to decrease due to lower volumes and lower average revenue per release.

Additionally, we had a decrease in our webcasting and events business due to a large conference that occurred in the first quarter of last year did not reoccur this year, as well as lower revenue from our resellers. Communications revenue represented 79% and 78% of total revenue during the three and nine months ended September 30th, 2024 respectively, as compared to 80% and 72% for the same periods of 2023.

Compliance revenue decreased $19,000 or 1% and $2.5 million, or 35% during the third quarter and first nine months of 2024, compared to the same periods of 2023. The decrease in compliance revenue for the year-to-date period is primarily related to a decrease in revenue from print and proxy fulfillment services due to a few one-time significant transactions, which occurred during the nine months ended September 30th, 2023, however, did not occur in the current year.

Switching over to gross margins. Our overall gross margin was $5.2 million and $16.1 million for Q3 and the first nine months of 2024 respectively. This is a decrease of $600,000 or 10% and $3.7 million, or 19% for the third quarter and first nine months of 2024, compared to the same periods of the prior year. As a result, overall gross margin percentages decreased to 74% and 75% for the three and nine months ended September 30th, 2024, compared to 76% and 77% for the same periods of 2023.

Gross margin from our communication business also decreased to 75% and 76% for the three and nine months ended September 30th, 2024, compared to 76% and 78% for the same periods of the prior year. These decreases are primarily related to the decrease in revenue noted earlier. Gross margin percentage from our compliance business decreased to 74% and 72% for the three and nine months ended September 30th, 2024, compared to 76%, 75% for the same periods of 2023. This decrease is primarily due to lower margins on smaller print and proxy fulfillment projects.

Moving to operating income. We posted operating income of $156,000 and $438,000 for the three and nine months ended September 30th, 2024 respectively, compared to operating income of $593,000 and $2.9 million for the same periods of 2023. The decrease in operating income is primarily due to the decline in revenue specifically for the year-to-date period from the significant print and proxy projects in the prior year. Total operating expenses decreased $163,000, or 3% and $1.3 million, or 7% for the three and nine months ended September 30th, 2024 respectively, compared to the same periods of 2023. This was led by decreases in our G&A, and sales and marketing expenses.

G&A expenses were relatively flat for the quarter and decreased $827,000 or 12% for the nine months ended September 30th, 2024, as compared to the same period of 2023. This decrease was primarily the result of the benefit related to the reversal of previously recognized stock compensation expense associated with the resignation of an executive officer, as well as lower non-recurring transaction and integration expenses.

Sales and marketing expenses decreased $220,000 or 12% and $574,000 or 9% for the quarter nine months ended September 30th, 2024, as compared to the prior year due to lower headcount and reduction in sales commissions. Product development expenses increased $90,000 or 15% and $157,000 or 8% for the three and nine months ended September 30th, 2024, due to increased headcount within our development group as we continue to invest in our platform and products. Additionally, our capitalized software spend decreased $15,000 for the quarter, however, has increased for the year-to-date period by $218,000.

On a GAAP basis, we reported a net loss of $466,000 or $0.12 per diluted share during Q3 of 2024, compared to net income of $273,000 or $0.07 per diluted share during Q3 of 2023. For the first nine months of 2024, we reported a net loss of $598,000 or $0.16 per diluted share compared to net income of $1.5 million, or $0.39 per diluted share during the prior year.

Looking into some non-GAAP metrics. Non-GAAP net income was $641,000 or $0.17 per diluted share and $1.8 million, or $0.47 per diluted share for Q3 and the first nine months of 2024, compared to $1 million, or $0.27 per diluted share and $4.3 million, or $1.13 per diluted share for the same periods of 2023. We generated EBITDA of $590,000 or 8% of revenue and $2.6 million, or 12% of revenue for Q3 and first nine months of 2024 respectively, compared to EBITDA of $1.5 million, or 20% of revenue and $5.1 million, also 20% of revenue during the same period of 2023. Adjusted EBITDA was $1.4 million, or 20% of revenue and $3.6 million, or 17% of revenue for Q3 and the first nine months of 2024, compared to $1.8 million, or 23% of revenue and $6.7 million, or 26% of revenue for the same periods of 2023.

Switching over to the balance sheet and cash flow statement. Our deferred revenue balance, which is revenue we expect to recognize primarily over the next 12 months, is $5.3 million, as of September 30th, 2024, a 2% decrease from year end. On the cash flow statement, we had a solid quarter of generating cash as cash flow from operations were $1.5 million and $2.3 million for the quarter nine months ended September 30th, 2024 as compared to $287,000 and $2.3 million for the same periods of 2023.

I will now turn it back over to Brian, who will provide some more details on our business, things we are excited about, those other updates on the customers' volumes and everything else we have planned for the remainder of the year and into 2025. Brian?

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

Thank you, Steve. Something we typically do not do in great detail in our quarterly calls is talk about our product roadmap, strategy and where we're headed, and I'd like to do that with you today. In the opening remarks, I mentioned the subscription growth for the third quarter. I would like to further break down what made up these results. Of the approximately 200 new PR platform subscriptions sold in the third quarter, it contributed $1.4 million in ARR or a 14% year-over-year increase. New subscriptions in the quarter resulted in a 92% retention going into Q4.

70% of those platform subscriptions resulted in a subscription net dollar retention of 125% or $640,000 in increased annual spend. 30% of those platform subscriptions came from new customers yielding approximately $0.5 million in ARR. This new PR platform subscription assisted in our growth, as we said earlier, to 1,121 subscribing customers that grew 7% year-over-year and 9% for the prior quarter, which in total resulted at a 94% retention.

We believe that the market will continue to show interest in our new platform subscriptions that will continue to undergo significant upgrades in both features and functionality, which will result in further stickiness and uplifts in our ARR. These planned upgrades, as well as feature additions will help us get to what we guided last quarter, whereas we still continue to believe subscription values can grow to $14,000 by Q3 of 2025.

What we have not stated in the past is what we're going to upgrade and/or include to get us there, and that's what we're hopeful to share with you today. Our product roadmap has a full slate of features coming throughout 2025 that will include the following: an expansion of our media database beyond North America to more of a global footprint of the most active journalists and media professionals also significant upgrades to our distribution and engagement report.

To be fair, we're setting out to build a gold standard in engagement reporting and analytics that is actionable and quantifiable engagement to our customer stories in real time. Additional broadcast media, podcast and other conversational platforms that are growing in popularity, a trend both our teams, our partners and our customers are identifying with us. Also, industry-first social engagement partnerships, our approach is very deliberate and straightforward. We do not intend to build or buy a social media component to our platform or technology.

We have our sights set on strategic partnerships with leading social media management platforms with scale that will open up our architecture and plug directly into and with their core platforms. We will see this happen midyear 2025 as a partnered integration and/or a small uplift in subscription cost to gain access to these leading platforms directly from within their communications platform with us. Additionally, very pointed product add-ons that are geared towards a broader audience in the enterprise.

Public Relations is not the only department that we have our sights set on. Long-term, we are building and tooling our systems to address the growing needs of both internal and external communication departments depending on the company size. Also, enhance and broaden the use of our AI solution, Amy. We have spent over a year essentially gathering user stories, the engagement, practicality of AI and exactly what customers feel about it. We have embraced it in both our press release creation process, as well as our pitching product last year and early this year.

Looking ahead in late 2025. We intend to offer a very unique product add-on to every press release, whereby our customers can choose to use our AI supported video creation service that summarizes a story and narrative in one to two minutes and produces a full video for them to include in their press release or use in other marketing messaging.

To be very articulate, this technology has the capability of taking the narrative of today's prepared remarks, turning it into a fully-produced video with my persona, as well as my voice. We look at the traditional press release distribution business a bit differently. Traditional wire distributions today is the leader. But tomorrow, the advancements of AI and natural language modeling are going to bring so many options to life for both Investor Relations and Public Relations professionals.

To be clear, we will never replace the human editorial process. We are now, however, committed to bringing to market tools that extend the traditional press release into a full media, social snippet and earned media pitching product, all within one platform. Also, earned media exclusive components to our platform. We are working on finishing a partnership with a leading media company, whereby our customers will get direct access to have their press releases considered as a source for a full editorial written piece in one of the industry's top 5 brand publications with over 100 million unique visitors a month. Having access to this type of our media should be of interest to a good portion of our customers that are seeking to expand their brand, launch new products or even promote an event that's tied to a cause or a specific community.

Also, something else that we are working on that is very special to us, we will not see becoming available to any of our competitor landscape anytime soon is the add-on for us to be able to create, contribute and monitor a company's individual Wikipedia page, which by recent Internet traffic reports rank it as one of the top 5 websites. This won't be for every customer, but brands that have presence, communal associations, media authority and facts surrounding who and what they are, is an ideal candidate for this. And this is slated to be released mid-2025.

Adjacency departments, as we talked about earlier, are key add-ons for us, meaning what can we bolt into our communications platform that puts our business in a position to see a higher TAM opportunity, the total addressable market, from corporate communications, marketing and HR departments. These products have to address a problem and serve a real need to the business. Because we're all in on a customer-first approach, our teams have been looking at ways to expand and improve our monitoring product not only for external, but also internal people.

We intend to do this by way of producing a product add-on to our Media Suite monitoring component, whereby customers will be able to identify their competitors, employees, as well as other non-traditional monitoring targets and allow our technology to go deep and wide into every social media account possibly to gather, analyze and report in real time. What are my vendors, employees, partners, as well as my shareholders saying about my company, my brand, other competitors or even me? Every good communication strategy should include an element of brand protection.

With current technology today, this can be accomplished and fully integrated into our daily reporting to our customers delivered directly to their desktops via our monitoring solution. We believe there are several things that we will learn about bringing this product to life, one that could drive reasonable ARR expansion. Lastly, and still directly focused on the corporate communications executives, is to extend our Investor Relations CMS technology into an easy to use newsletter product for internal comps. This product enhancement will drive incremental value but also give us a touch point to a broader budgetary pool of executives within our current customer base and beyond.

If successful here, our technology, brand and our people will continue to create the trust and authority in the market as a leading platform to assist in the creation of the story, the monitoring and the brand and market sentiment, pitch audiences all the way to helping drive and improve communication, both internal and external constituents, while monitoring all of this from one platform. There are several areas our team is kicking around as we continue to gather customer product, marketing and development team feedback. These are exciting times for us and we feel very fortunate to have a Media Suite platform that we can springboard from to add these new features, as well as a path to see ARR moving towards our goals that we have spoken about previously.

In closing, we begin providing unofficial industry volume and market share information on past calls. We have made so much progress here far ahead of our expectations and quantity of press releases disseminated daily. I recall sharing well over a year ago, we expected to double our industry volumes in the year. To put that in context, six quarters ago, we accounted for just a little less than 8% of industry volumes.

Without naming names, based on research and the large newswire in Q3 of this year accounted for 30.15% of quarterly volume distributed in the market. Second was 24.3%, a very similar newswire to us today. And lastly, 21.7% from a longstanding very brand trusted institutional newswire. Then there's us, a highly-focused team that is dedicated to disrupting the industry, putting the customer first in every way we can, creating distribution options more than anybody, making our pricing and platform flexible and reinventing how they can and should be turning to a subscription business. We had to be able to do this without sacrificing operational quality and margin.

The commitment has resulted in us now having 20.28% of the market share as of the end of Q3, something that we are proud of and believe that we can continue to grow and move through the market, build our brand further and expand our product sets. To achieve this result, we had to focus on volume-based businesses this year to assist in driving growth. The benefit here is significant to us as we bring to market our new Media Suite platform subscriptions and add-ons we talked about today. The more our brand is visible, the better and easier it is going to be for our sales and marketing teams to execute on our strategy. Also, to set expectations, volumes, revenues and average prices per release is taking on new metrics, and we're focused on selling a full subscription platform and not a bundle or single releases as much as we had in the past.

As we execute on the remaining weeks of the year, I can tell you our teams are focused not only on the business at hand, the product advancements discussed earlier for next year, but also the continued assessment of our compliance business as the possibilities of finding a buyer that strategically fits. This move towards a comprehensive Investor Relations and Public Relations ARR subscription model has gained traction in both our current and new customers, strengthening our competitive advantage beyond what we expected.

Lastly, as we discussed last quarter, we are excited about our new MRR subscription product and the add-ons coming next year that will further drive increases towards our ARR goals. This change has an effect on our overall revenues, deferred and backlog, something that we expected. However, long-term benefits, we will see our expanded margins, a growing and predictable revenue stream, stronger KPIs for everyone and most importantly, a robust platform that is trusted in the market and illuminates our customers' voice.

As we continue to execute this strategy under one brand, we are and have been fiscally watching of the optimizations needed in our SG&A categories of our P&L, as well as cost containment in areas of the business further. This is and can be done in short order, providing a clear path to continue generating further cash flows from operations, increased earnings power, as well as reducing the company's debt position. As always, it was nice spending time with you today and discussing the results for the third quarter with Steve.

Operator, can we please go ahead with the Q&A portion of the call?

Operator

Thank you. [Operator Instructions] Okay. There are currently no questions in queue.

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

John, thank you as always for assisting us today. Nice job. Thank you for the folks that joined the call today both on the webcast and teleconference. We look forward to doing follow-up calls with you in the coming days. Look forward to sharing more about our strategy, our new brand coming, as well as our new product timelines and add-ons. Again, a pleasure. Thank you so much. Have a good night.

Operator

Thank you. This concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.