Transcript of
Issuer Direct
Fourth Quarter and Year End December 31, 2013
Earnings Call
March 6, 2014

Participants

Brian Balbirnie - Chief Executive Officer
Wes Pollard - Chief Financial Officer

Analysts

Walter Ramsley - Walrus Partners

Presentation

Operator
Ladies and gentlemen thank you for standing by. Welcome to the Issuer Direct Corporation Fourth Quarter and Year ended December 31, 2013 Earnings conference call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator's instructions) 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, Wes Pollard. I'll now turn the call over to Mr. Wes Pollard.

Wes Pollard - Chief Financial Officer
Thank you and good morning, 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 as to the company's plans, objectives, expectations or intentions. These matters involve certain risk 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 Web site in our Investor Relations tap a description, as well as a reconciliation of GAAP measures to which we'll refer on this call. I'll now turn the call over to Brian.

Brian Balbirnie - Chief Executive Officer

Thank you, Wes and welcome, everyone to Issuer Direct's earnings call for the fourth quarter and year ended December 31, 2013. I'm excited to discuss what's clearly a record year for Issuer Direct, a year of tremendous strategic importance as well marked by a milestone acquisition that I firmly believe changed the trajectory of the company in a very positive way.

Over the next few minutes, I'd like to talk about our business and review some of our activities for the quarter and year. Following my remarks, our Chief Financial Officer, Wes Pollard, will discuss our operating results and key metrics in greater detail. We will then be happy to answer any questions that you may have for us today thereafter.

As we announced in our press release this morning, we achieved gross margins of 71% on revenues of $3.6 million in the fourth quarter 2013 compared to just 67% gross margin on revenues of $1.2 million in the fourth quarter of 2012. This represents a year-over-year revenue growth for the quarter of 205%. Not only have we continued our focus on gross margins, but also with the addition of PrecisionIR, we are now seeing the momentum for our top line numbers begin to take shape.

Our full year 2013 results are equally as meaningful, and I will let Wes cover these in greater detail in a moment. But before we get to that point, I'd like to touch on our revenue streams and a few notable points of the year for 2013 and coming into this year, 2014.

For the year ended December 31, 2013, our disclosure management business was up nearly a million dollars to $3.9 million with gross margins of 74% compared to $3 million and gross margins of 69% in 2012. For the quarter ended December 31st, revenues from this business were $840,000 with gross margins of 72% compared to $900,000 or 73% gross margins for the previous year. Although we experienced a slight decrease in this business for the fourth quarter, we are encouraged overall by the markets and long-term demands for our products as the capital markets tend to drive the demand for this part of our business.

Our shareholder communications business for the year ended December 31, 2013 was up $3.2 million to $4.4 million compared to just $1.1 million in the same period last year. Margins are significantly better as well for 2013, 66% compared to just 48% in the previous year. If you just look at the last quarter, you'll start to see these trends. The fourth quarter ended December 31st, revenues were 2.5 million compared to $240,000 in the previous quarter year 2012. The significant growth in this business was primarily due to the acquisition of PrescisionIR and our focus on building the technologies that are accelerating this portion of our business.

Software licensing will continue to grow at similar rates as it has over the past several quarters. Revenues from software licensing for the year ended December 31, 2013 were $505,000 compared to just $189,000 the previous year. The fourth quarter alone, revenues were up $242,000 from just $43,000 in the previous year. The overall margins will remain true to typical software licensing, in the 90% range or higher.

During 2013, we accomplished several key initiatives. We closed a transformative acquisition in PrecisionIR. We completed cost cutting measures with that organization of a million dollars in annualized savings. We increased marketing spend and kick-started our annual report service business for 2013 and beyond, and we released upgrades to our market data cloud and Webcasting platforms. Additionally, throughout the year, we've appointed an independent board and created both a Compensation Committee and Audit Committee to bolster our corporate governance.

We are very pleased with the acquisition of PrecisionIR, which was completed August 22nd just this past year. The integration is on track and we are now focused entirely on the cross selling opportunities and brand building with our products and services. For the past six months since the acquisition, our teams have been focused entirely on operational efficiencies, systems, people and branding.

In 2014, we will focus on strategic cross selling opportunities between both company's client bases. Like Issuer Direct, PrecisionIR had approximately 750 clients. The combined client count is now over 1,500 public companies, mutual funds, banks, brokers, and compliance professionals.

One of the benefits we obtained from the acquisition is the channel partners that PrecisionIR has. These partners represent a key part of our long-term strategic growth in our shareholder communications business. Additionally, we are looking at ways to deliver unique content to over 20,000 corporate issuers to these partners that we have in our data stream network such as earnings notifications, corporate alerts, news snip-its and social sentiment. The Dow Jones, Yahoo Finance, *Businessweek*, Bloomberg are just a few of the examples of the partners that we have today.

Our business remains healthy with approximately 75% of our revenues continuing to be under contract, and we do not anticipate this changing. The benefits we get from the annualized contracts are tremendous. Not only does it make it easier to illustrate our business to the markets, but also allows us to present useful year-over-year comparative results that are more reflective of our true business.

I'd like to talk a minute a little bit about our technology. We continue to make significant strides in both our market stream products, but also our overall cohesive disclosure management system. We closed the year with several new products that will be released throughout 2014. These technology advancements will fuel our growth both in the fiscal year of 2014 and beyond. Some of these products will be sold through new strategic channel partners here in North America as well as Europe.

With that, I'll now turn the call over to Mr. Wes Pollard, our Chief Financial Officer, who will take you through the financial results in greater detail. Wes?

Wes Pollard - Chief Financial Officer

Thank you, Brian. Highlights of the fourth quarter of 2013 are as follows: Our revenues increased 205% to $3.6 million as compared to just $1.2 million in the fourth quarter of 2012. EBITDA increased 137% to $660,000 in the fourth quarter of 2013 as compared to just $278,000 in the fourth quarter of 2012.

Non-GAAP net income increased 82% to $337,000 as compared to just $185,000 in the fourth quarter of 2012. Also, during the fourth quarter of 2013, we generated enough cash flow from operations to fully pay off the $500,000 on our line of credit that was outstanding at the beginning of the quarter.

Highlights of the year ended December 31, 2013 are as follows: Full year 2013 revenues increased 105% to $8.8 million as compared to just $4.3 million in fiscal 2012. EBITDA increased 216% to $2.2 million as compared to just $830,000 in fiscal 2012. Non-GAAP net income increased 126% to $1.4 million as compared to just $631,000 in fiscal 2012. Cash flow from operations increased to $1.4 million during the year ended December 31, 2013 as compared to just $754,000 in 2012.

Now, I'd like to take a minute to talk about non-GAAP earnings per share. In the past, we have talked about non-GAAP earnings per share in an attempt to better represent the true results of our operations and cash flows without being distorted by non-cash and non-recurring charges. When preparing prior non-GAAP reconciliations, we have simply added back such non-cash and non-recurring charges in an attempt to present a fair presentation of our operations.

However, in the earnings release we presented today and also in future earnings releases we are going to revise our computation to include the book tax impact of all items to better show what actual net income would look like even though several of these non-cash charges would create timing differences for tax purposes. Therefore, our non-GAAP income for the period discussed is different than they would have been using the prior methodology.

For example, using our prior methodology, non-GAAP income for the year ended December 31, 2013 would have been $1.9 million or $0.95 per share whereas given full book tax effect to every reconciling item results in $1.4 million, or $0.71 per share. Furthermore, using our prior methodology, non-GAAP income for the three-month period ended December 31, 2013 would have been $585,000 or $0.29 per share whereas given full book tax effect to every reconciling item results in $337,000, or $0.16 per share.

For GAAP purposes, net income increased to $629,000, or $0.31 per diluted share for the year ended December 31, 2013 as compared to $306,000 or $0.15 per diluted share in 2012. Net income for the year ended December 31, 2013 includes $447,000 of non-cash interest expense related to a convertible note payable used to finance the acquisition of PrecisionIR, as well as $293,000 of amortization of intangible assets related to PrecisionIR.

Also for GAAP purposes, the company reported a net loss of $67,000, or $0.03 per diluted share compared to net income of $114,000, or $0.05 per diluted share for the fourth quarter of 2012. However, the fourth quarter of 2012 was burdened with $313,000 of non-cash interest expense related to the convertible note payable used in the PrecisionIR transaction, as well as $205,000 of amortization of intangible assets related to PrecisionIR. As Brian previously mentioned, we experienced revenue growth from all three of our revenue streams in 2013.

When we acquired PrecisionIR, management stated that we expected that the acquisition would more than double or revenue and our EBITDA. The numbers previously reported, both revenues and EBITDA, for 2013, for the fourth quarter of 2013 in particular, clearly demonstrate that we have been able to do this. In 2014, we anticipate that we will continue to achieve revenue growth as compared to the prior year with the largest increases coming from our shareholder communication services and software licenses.

We will also strive to maintain margins of 70% or better and also anticipate that EBITDA will continue to increase as compare to comparable periods of 2013. As in the past, we will strive to keep our operating costs in line with our revenue growth so that we can continue our history of achieving positive cash flows from operations. And with that, I will turn it back over to Brian.

Brian Balbirnie - Chief Executive Officer
Thank you, Wes. Operator, can we now please open up the call for questions?

Operator
We do have a question coming from the line of Walter Ramsley with Walrus Partners.

<Q>: Wes, I had a question about the non-GAAP numbers. I mean I appreciate all you did to put together the fourth quarter. Can you just kind of help us out and tell us what the non-GAAP tax-adjusted earnings were for the other three quarters for the year so that we can have a clean set of numbers to compare against next year or this year?

Wes Pollard - Chief Financial Officer
Walter, that's a great question. As I've said in my comments, in the past when we calculated non-GAAP earnings per share, we were just simply adding back items like stock comp and non-cash interest expense that created timing differences for our actual tax returns, but for both tax purposes, it would have actually had a tax impact during the period. So, we look at year-end as these numbers are getting bigger and bigger. We wanted to make sure that we were more accurately stating what net income would look like going forward.

If you look at the table in our earnings release, you'll see that for the year under the prior methodology, it would have been $0.95 per share. With the current methodology, it comes out to $0.71 per share. So, compared to the numbers that we were looking at, I think through September 30th, we were at $0.65. So, the comparable number to that would be $0.95.

Now, I know what you're asking in terms of breaking down the $0.71 by quarter. I do not have that information right off hand. I can get that to you subsequent to this call.

I think the bigger highlight that I want to make is that when we acquired PrecisionIR, we stated that that acquisition would more than double revenue and more than double EBITDA. If you look at what we were able to do in the fourth quarter, we certainly more than doubled EBITDA and, quite frankly, we tripled our revenue. So, I think that that acquisition has done everything that we said it would do. But, I can follow-up with you and get you the breakout by quarter on the non-GAAP so that you'll have that information.

<Q>: Okay. I would appreciate that, Wes. I mean I can sort of plough through it myself, but I'd like to just have the same set of numbers to make sure that I'm getting it consistent with what you guys are reporting.

Wes Pollard - Chief Financial Officer
Absolutely.

<Q>: One other question for either one of you really; the fourth quarter, can you just discuss what sort of seasonality affects the company in the fourth quarter and what other seasonal factors you envision for the current year?

Brian Balbirnie - Chief Executive Officer
I'll take that, Walter. This is Brian. I think that, quite honestly, we're starting to see the seasonality begin to diminish greatly as we've talked about in previous earnings calls about the contractual percentage of revenue that we've got, of a good blend of 75%; 25% being contracted and non-contract services.

We'll tend to see less seasonality as you come into 2014, however keeping in mind that 80% of the corporate issuers that file in North America have a 12/31 fiscal year-end. So, you tend to see a lot of that work, whether it's license and/or services come within the first 120 days.

The decrease I think you saw in our disclosure reporting group in the fourth quarter is really just a fact of regulatory work that's pushed from period-to-period. We previously have talked about it as backlog, and it's not lost revenue. It's not attrition. It's just revenue that's been pushed out to the coming quarter due to delays for corporate issuers and capital markets work. So, I think you'll tend to see less seasonality than you have in the past.

Operator
It appears we have no further questions at this time. I would now like to turn the floor back over to Mr. Balbirnie for any concluding comments.

Brian Balbirnie - Chief Executive Officer

Thank you, Jessie. I appreciate it very much. I'd like to take a quick minute just to thank everybody for today in the review of our operating results for the fourth quarter and year-end December 31, 2013. We look forward to talking with you again on our next earnings call. Meanwhile, if you have any further questions, Wes and I are both happy to discuss both today's results and previous results with you at any time. Again, thank you and have a great day.

Operator
Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time and we thank you for your participation.