

Transcript of  
Issuer Direct Corporation  
Fourth Quarter 2020 Earnings Call  
March 4, 2021

**Participants**

Brian Balbirnie - President & Chief Executive Officer  
Steve Knerr - Chief Financial Officer

**Analysts**

Michael Grondahl - Northland Securities, Inc.

**Presentation**

**Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Issuer Direct Corporation Fourth Quarter and Year Ended 2020 Earnings Conference Call. Today's call will be conducted by the company's Founder and 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 company's abbreviated Safe Harbor statement. I'd like to remind you that statements made in this conference call concerning future revenues, results from operations, financial position, markets, economic conditions, product releases, partnerships and any other statements that may be construed as a prediction of future performance or events are forward-looking statements, which may involve known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from those expressed or implied by such statements.

Non-GAAP results will also be discussed on the call. The company believes 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 - President & Chief Executive Officer, Issuer Direct Corporation**

Thank you, operator. Good afternoon, everyone. And thank you for joining us to discuss the company's fourth quarter and year-end 2020 results.

At the market close, we issued a press release announcing our results for the quarter. During today's call, we will be referencing these results as well as talking a bit about fiscal 2021. For your convenience, a copy of the press release is now available on our Investor Relations section of our website, and is also on our ACCESSWIRE newsroom for your reference during today's call.

We are pleased with both our quarter and yearend results in so many ways. Specifically fourth quarter revenues were up 20% year-over-year, which also drove significant increases in operating income and EBITDA. Additionally, with the strong performance in the fourth quarter, we were able to deliver a record year in revenues of \$18,525,000, up 14% year-over-year. And total customers grew to 3,226, up 24% from the prior year. And lastly, several of our technology advancements help drive demands for our offerings, specifically in the second half of the year.

Before I turn the call over to Steve, I want to say a big thank you to the almost 100 employees at Issuer Direct. These results would not be possible without your hard work, your customer-first approach and your dedication to our strategy of being an industry-leading communications company. Our customers thank you. Our shareholders thank you. And I especially could not have done it without you, thank you.

Steve, take us through the numbers. And perhaps when you're done, we can spend a little time talking about what we have in store for 2021. Steve?

**Steve Knerr - Chief Financial Officer, Issuer Direct Corporation**

Thank you, Brian, and good afternoon, everyone. As Brian mentioned, the fourth quarter and full year of 2020 were successful in so many ways. We're extremely pleased with our team and the results we achieved together. As we have talked about, we had record revenues, EBITDA, customer accounts and cash flows from operations throughout the year.

We are committed to posting new record results in 2021 and beyond. We have good momentum with our sales and marketing teams, and new product upgrades and enhancements planned to help us achieve such results. Now, I'll highlight some of the results for the fourth quarter and full year of 2020.

Total revenue for the fourth quarter of 2020 was \$4.744 million, an increase of \$785,000 or 20% compared to just under \$4 million in the same period of 2019. For the full year of 2020, revenue totaled \$18.5 million, an increase of 14% or \$2.2 million for the full year of 2019.

As you may have read in this earnings release, and we'll see in our 10-K, we reclassified our categorization of revenue from platform and technology and services, to communications and compliance. This is more of a product-focused categorization as opposed to the method of delivery of the products as we had before.

Communications revenue groups revenue from ACCESSWIRE, webcasting and events which includes conferences, IR websites, and communications subscriptions at Platform id. The growth in revenue for the quarter and full year was driven by the growth of our Communications products.

Communications revenue increased \$759,000 or 32% and \$2,623,000, or 28% for the 3 months and full-year ended December 31, 2020, compared to the same periods of the prior year. This increase is due to the shift in enhancements we made to our virtual products during the first half of the year, specifically with our webcasting and conference software products, and increased demand for newswire and overall subscriptions to Platform id.

Standalone ACCESSWIRE revenue continues to increase as it increased 29% and 17% for the 3- and 12-month periods ended December 31, 2020 compared to the same period of last year. As with last quarter, the increase was due to both an increase in customers and an increase in revenue per release. So we continue to benefit from our digital marketing, e-commerce platform that we launched during the year.

Lastly, we continue to generate increased revenue from licenses of Platform id. During the fourth quarter, we signed 32 new contracts with an annual contract value, or ACV, of \$241,000, bringing our overall contracts to 341, with an ACV of just under \$2.7 million. This compares to 255 contracts with ACV of approximately \$2 million at the beginning of 2020.

As a percentage of overall revenue, communications revenue increased 65% for the quarter, 64% for the year, compared to 59% and 57% for the same period of 2019. Compliance revenue, which consists of our disclosure services and software, transfer agent services and software, whistleblower software and Investor Network services, as well as our print and proxy fulfillment services increased \$26,000 or 2% for the quarter, and decreased \$392,000 or 6% for the full year of 2020, compared to the same periods of the prior year.

The increase for the quarter was due to an increase in print and proxy fulfillment revenue due to an increase in the size and number of projects during the quarter. The decrease for the full year is due to continued attrition in our ARS and Investor Network customers, which we have spoken about in the past quarters and a decrease in transfer agent revenue due to a shift from paper-based processing to electronic processing of company and shareholder directives. These 2 decreases were partially offset by an increase in print and proxy fulfillment services for the year.

Moving on to gross margin. Our overall gross margin percentage was 70% and 71% for the 3 months and full year ended December 31, 2020, compared to 67% and 69% for the same periods of the prior year. The increase in gross margin was led by expanded margins in our communications product, which reported gross margin percentage of 73% for the fourth quarter and full year of 2020, compared to 70% and 72% for both periods of 2019.

The increase was due to scale on our ACCESSWIRE and virtual events business is the higher revenue on a relatively fixed cost structure led to higher margins. Gross margin percentage from our compliance business also improved from 63% to 64% for the quarter, and 65% to 66% for the full year of 2020.

Continuing through the income statement, our operating income was \$369,000 for the fourth quarter and \$2.7 million for the full year of 2020, compared to \$17,000 and \$474,000 during the same periods of the prior year. For the fourth quarter, the increase is due to an increase in gross margin partially offset by an increase in general and administrative expenses, due to a one-time accrual of \$350,000 recorded in the fourth quarter regarding sales and use tax compliance.

As a result of our growing customer base transition from a service-based company to a cloud-based platform company, and the complex economic nexus provisions of various states, we completed an assessment of our sales and use tax position during the year. As a result, we

recorded a one-time estimate of our current and historical state sales and use tax liabilities of approximately \$350,000 in the fourth quarter and full year December 31, 2020.

The increase in operating income for the full year of 2020 was due to an increase in gross margin, as well as a decrease in operating expenses, primarily due to a decrease in product development expenses due to lower headcount and a decrease in amortization expenses due to intangible assets, which became fully amortized during the year.

As Brian will discuss product and development expenses are expected to increase in 2021, as we continue to develop and rollout our product upgrades and new products throughout the year. These decreases in product development and amortization were offset by an increase in sales and marketing expenses, which increased 7% for the year due to an increase in personnel costs, as well as digital marketing and advertising expenses.

On a GAAP basis, net income and income per diluted share quadrupled, as we generated net income of \$319,000 or \$0.08 per diluted share during Q4 of 2020, compared to \$69,000 or \$0.02 per diluted share during Q4 of 2019. For the full year of 2020, these same measures more than tripled with net income of \$2.1 million or \$0.56 per diluted share, compared to \$686,000 or \$0.18 per diluted share during the prior year.

Changing gears to non-GAAP metrics, EBITDA for the fourth quarter of 2020 increased to \$745,000 or 16% of revenue, compared to \$423,000 or 11% of revenue during the fourth quarter of 2019. EBITDA for the full year of 2020 almost doubled to \$4.1 million or 22% of revenue compared to \$2.1 million or 13% of revenue during the full year of 2019.

Non-GAAP net income for the fourth quarter of 2020 increased to \$682,000 or \$0.32 per diluted share compared to \$261,000 or \$0.07 per diluted share during the fourth quarter of 2019. For the full year 2020, non-GAAP net income increased to just over \$3 million from \$1.7 million. And non-GAAP net income per diluted share almost doubled from \$0.44 per diluted share to \$0.80 per diluted share.

On the balance sheet, our deferred revenue balance, which is revenue we expect to recognize throughout 2021 increased from \$1,812,000 as of December 31, 2019 to \$2,212,000 as of December 31, 2020, a 22% increase. From a cash flow statement, we generated record cash flows for the year, as we generated \$4.4 million for the full year compared to \$2.9 million during 2019. Although, a successful year, we now put this year behind us, and continue to execute on our strategy of being an industry-leading communications company.

You will benefit from what we have learned throughout the year and use it to continue our focus on continually enhancing and updating our product, investing in our sales and marketing efforts, refining our operations and back-office functions. There are many exciting things we're working on and look forward to sharing them with you in the upcoming quarters.

Now, I'll hand it back over to Brian, who will provide some updates on the business, and what we have planned for the remainder of the year. Brian?

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

Thank you, Steve. There's a lot to cover here. We had a nice quarter and year led by our Communications business, something we should expect to see continue over the foreseeable future. But before we get into 2021 and beyond, let's expand upon some highlights from Steve's remarks. We ended the quarter with a total of 3,226 customers a new record in this year, something we believe will continue as we have our eyes set on reaching 5,000 customers by 2023.

If you look a bit deeper into the classification of these customers, this is where the story really begins to show itself, as well as the importance of execution and our product platform. Sales and marketing and overall growth is communications business. To end the year, we had 1,498 public companies as customers, essentially flat over the prior year, and 1,728 private companies as customers, up 58% from 1,092 last year.

Our public company business has not seen significant growth this year. However, the trends sometimes are not seen in the summaries of just the numbers. As an example, the majority of the Platform id., subscriptions sold in 2020 are a result of public companies taking advantage of our subscription platform and an average spend of \$7,500. Whereas the majority of the customers lost during these periods were single product categories like our Investor Network offering.

Conversely, our private company customers have been consistently growing by percentages year-over-year. A good indicator is our newswire brand, but it's beginning to find deeper penetration into the North American markets to go from 1,092 customers in Q4 of 2019 and 1,597 customers in Q3 of 2020, to get us to 1,728 in Q4 is outstanding.

We will take a few minutes to talk about what we intend to do to keep this trend moving in the right direction, as well as what else we have planned for these private customers. But before we do, let's spend a few minutes talking about our subscription business as a whole.

We ended 2019 with 255 platform subscriptions with an ARPU of \$7,972. And in 2020, we grew this 34% to 341 with an ARPU of \$7,850. So even with ARPU is off 1.5 points over the full year, we were able to push past the year's goal of 320 subscriptions, a number that I'm still not satisfied with. We believe, we can get 2021 subscriptions up another 35% in a year-over-year comp, and if ARPU holds in line, we will end 2021 with well over \$3 million in platform subscriptions.

We look forward to the continued platform innovation, as well as key strategic product releases that will help assist and push us even further. This has been an impressive year and outstanding results. We are in a nice growth phase. I recall earlier last year we spoke about the investment we were making in our business and our platform, and hopes that our gross margins, EBITDA margins would return to historical levels and are better. We are pleased that we could deliver this and now look to what is next. And what we are going to do in the business this year that will drive similar or healthier results.

Steve touched on our business lines changing from platform and technologies, and services to communications and compliance. Not a big surprise as we have been messaging this for a while

now. Absent of the allocation Steve discussed, I want to touch on why we're doing this. As most of you know the growth in our platform business was driven by our newswire brand, our platform subscriptions, and most recently in 2020, our events business are major components to our overall communications business strategy.

When we look at our future, we see these continuing to grow at a rate of which requires focus, investment and strategic direction. This is our company, it is our strategy, and where we need to add adjacencies in order to accelerate our business. This leads me to the innovation, R&D spend, and our plans for 2021. Over the past couple of years, we have developed our platform that accomplished some fundamental objectives, consistency and customer loyalty, while keeping an eye on opportunities for scale.

This year, we're going to increase R&D spend by 40% compared to last year for a total of 5% of revenues in 2021 in order to round our product features for our platform, innovate the communications workflow process and strengthen our brand through elegant technologies that customers will love.

This will lead us to several new features, platform enhancements and entirely new products this year. One specifically, we recently announced as our collaboration drafting engine for our newswire product, as an easy-to-use multi-user cloud-based editing enhancement that gives PR, IR and storytellers, the ability to work on the same press release at the same time.

Moving to the creation of the story closer to the editorial process and distribution channels will save our customers time, and costs associated with creating, editing and approval of these releases. This is a first to market solution is not available for many of our newswire competitors.

We also plan to launch this year, new products geared towards our entire customer base, which would benefit a good percentage of the 1,700 plus private companies that we have today. Specifically, one will be focused on where and how a story, a company's message, where it lives, gets engaged with in and report it from.

This new product will be an add-on to our newswire business, and be the first of many subscription elements that will round out our communications business in 2021. Another is an extension of our events business, where we see this new product feature becoming a part of our entire ecosystem, specifically investors, journalists and interested parties should have an easier way and maybe automated way to connect with companies and their brands.

We believe that we've developed an elegant way for this to happen from our conference app, press release, webcast, and even a company's Corporate or Investor Relations website. Doing these things are vital to our communications business. We are working hard to round out our offerings provide added value to our customers, and in return achieved recurring ARR revenues that have both scale and stickiness.

As a recap to something else Steve mentioned earlier, our newswire business continues to grow considerably increasing 29% and 17% for the 3- and 12-month period ended December 31, 2020 compared to the prior year. We also have seen sequential growth in customers and revenues.

Something else we should be able to expand substantially, once we have all of our new products to market and a renewed ARR model that fits every customer.

In closing, it was nice to see our fourth quarter revenues increase 20%. Gross margin has increased by 3%. And net income increased 300%-plus, as well as EBITDA increases by 76%. This translated into a record year for revenues, increasing 14%, gross margins of 2% increase and net income by 200%-plus, as well as EBITDA increases of 92%.

In closing, and as always, I want to thank everyone for listening to today's call. Yes, we had a record year in revenues, earnings and customers as well as appreciation in our share price. But I will tell you, the best years for us are still ahead. Our refined communication strategy is coming to fruition this year, coupled with several new other factors that we soon will be able to talk about, and which will lead to greater access of our brand.

Operator, can we please begin the Q&A portion of the call?

**Operator**

At this time, we would like to take any questions that you may have. [Operator Instructions] Our first question is from Mike Grondahl with Northland Securities. Please proceed.

**Q:** Hey, guys. Congratulations on the quarter. Brian, is there anything to call out? Or is it possible to break out a little bit of the virtual conference business in 4Q and kind of speak to a backlog there? How you think that's going to perform in 2021?

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

Yeah. Hey, Mike, and thanks, thanks for the question as always. The virtual conference business does have some backlog into this year. Obviously, there were deals signed, end of year, that will be recognized into the coming first half of the year, offhand approximately \$0.25 million in contracts and commitments that are signed and done for the first half.

I think that what we've seen is a reluctance to commit over the entire year as conference organizers and banks think about what the possibilities are for physical events in the back half of the year. So as we get closer to full vaccine rollouts, we'll begin to see that materialize into both hybrid event as I think everybody is ready to embrace or physical events, and we'll begin to see some of that trend transcend.

As far as to break out revenues, specifically due to our conference business, we don't currently do that. Obviously, it's impacting both our webcast lines, where they contributed to significant growth over the periods, as well as the conference business. From a number of events perspective, we're likely up about 30% over the prior year in number of events.

Just from conferences, we're likely up over 150%. On non-conference, virtual events, such as non-deal roadshows, deal roadshows and Investor Days, which also lead into some of that technology. So as a whole, that business unit is performing well, and something that we believe will have growth over 2021 over 2020 revenues.

**Q:** Got it. And as you look to 2021, what's 1 or 2 new products or new features, that we should really be sort of watching for and better understanding as maybe they can move the dial a little bit on revenue?

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

Yeah, we've mentioned a couple in today's call. One, I'll touch on them in a high level for time for everybody. We believe that the editing process of a release is costly, likely more costly than the actual cost of distribution. And what that really means is that IR, PR, legal and executives spend a good amount of time drafting the company's message and story, and disclosure, and have a difficult time trying to manage that workflow.

As we've been able to build a product that allows them to do that inside of our ecosystem, they can actually collaborate and communicate and draft the press release all at the same time. So we believe by doing that, bringing that storytelling and drafting and curation process closer to the editorial will be impactful, not for all of our customers, but for customers, like agencies and IR firms.

And that, candidly, is areas that we want to focus on more this year than we have in the past year to build leverage and scale into our newswire business. And something else that we've talked about several times in our calls that we're building and unlikely halfway through the efforts to build this is a newsroom product.

And I touched on it today, where an article is and how it's engaged with. As we continue to grow these ACCESSWIRE customers on a standalone basis, as the numbers suggest, the majority of that growth comes from private companies.

And as we think about how to get a pay-as-you-go or a small subscriber into a full ARR model, we have to find additional products. And the newsroom product is one that we'll have in Q3 that will enable us to move these customers into a reoccurring revenue in the pay-as-you-go model. The rest of it becomes a natural progression.

It is what else are we missing? And the buy, build scenarios of what we need to establish and execute upon here at Issuer Direct, is what are the additional products that we need to have that our customers identify with and are already spending wallet share on. And we've identified those. And we're going to begin to roll those products out in the back half of this year as well.

**Q:** Got it. And then, maybe lastly, is there any update on the stock buybacks from like think about 11 months ago or a year ago?

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

Yes, there is actually. We were patient at the market for a good period of time throughout last year with a ceiling price. As of recent Board meeting, the Board has removed the ceiling and there's about \$460,000 left of that initial \$1 million repurchase that's subject to limitation.

Our broker will be in the market utilizing the remaining part of that buyback. So we're happy about that. We think it's the right thing to do. We've been given the growth of the business and



the cash that we're generating. There's no reason why we can't execute against that at current market prices.

**Q:** Got it. Okay, great. Well, hey, thanks a lot, and congrats and good luck in 2021.

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

Thank you, Mike.

**Operator**

[Operator Instructions] Ladies and gentlemen, we have reached the end of the question-and-answer session. And I would like to turn the call back to management for closing remarks.

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

Thank you. I appreciate it. Thank you to everybody for joining us today. It looks like from our webcast numbers and our real-time analytics dashboard, one of our new upgraded products that we'll be releasing to our customers this week. We had a record number of participants listening. So we appreciate your time.

We look forward to follow up both individually and at any of the investor conferences that we will be participating in, in the next couple of months. Until then, I hope that your day is well. And we look forward to talking to you again. Thank you.

**Operator**

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great day.