

Research Solutions, Inc. OTCPK:RSSS FQ3 2018 Earnings Call Transcripts

Tuesday, May 15, 2018 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FY 2012-
	GUIDANCE
Revenue (mm)	42.00

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Call Participants

EXECUTIVES

Alan Louis Urban

CFO, Principal Accounting Officer & Secretary

Peter Victor Derycz

Founder, CEO, President & Director

ANALYSTS

Peter Rabover

Presentation

Operator

Good afternoon, everyone, and thank you for participating in today's conference call to discuss Research Solutions financial and operating results for its fiscal third quarter ended March 31, 2018.

Earlier today, the company issued a press release discussing these results, and a copy of the release is available for viewing and can be downloaded from the Investor Relations section of the company's website. Joining us today are Research Solutions President and CEO, Peter Derycz; and the company's CFO, Alan Urban. Following their remarks, we will open the call for your questions. Then before we conclude today's call, I will provide the necessary cautions regarding any forward-looking statements made by management. I will also provide information regarding the company's use of non-GAAP financial information.

Finally, I would like to remind everyone that this call will be recorded and made available for playback via link in the investors section of the company's website.

I'll now turn the call over to Peter Derycz, Research Solutions' President and CEO.

Peter Victor Derycz

Founder, CEO, President & Director

Thank you, operator, and good afternoon, everyone. I'll open the call with a few brief comments about our third quarter, and then pass the call to Alan to speak about our results in greater detail. Finally, I will return to address other initiatives and our outlook.

Our third quarter demonstrates the continued momentum in our strategy to deliver workflow efficiency solutions to organizations in life sciences, technology and academia. This can be seen in our fourth consecutive quarter of approximately 10% total revenue growth and annual recurring revenue in our SaaS Platforms business that has surpassed \$2 million. We now have over 200 organizations subscribed into our platform, which also drove healthy 7% growth in our Transactions business. As we expected, our new Platform customers are mostly SMBs, who are also contributing to the uptick in our transaction sales and associated gross margin increases.

Version 2.0 of our Article Galaxy platform went live in December and feedback from users have been quite well received. I will have more to say about Platforms and forthcoming upgrades, but first, I'd like to pass the call to Alan to walk through our fiscal Q3 results in detail.

Alan?

Alan Louis Urban

CFO, Principal Accounting Officer & Secretary

Thank you, Peter, and good afternoon, everyone. Jumping right into our third fiscal quarter results, our Platform subscription revenue increased 81% to \$489,000, which was driven by a 79% increase in total platform deployments to 208. This translates into 24 net incremental deployments in Q3. The quarter ended with \$2 million in annual recurring revenue from Platform, up 16% sequentially and 76% year-over-year. Please see today's press release for how we define and use annual recurring revenue and other non-GAAP terms.

Transaction revenue was up 7% to \$6.8 million compared to the same year-ago quarter. This was driven by an 8% growth in total customer count to 1,059. In addition, the number of corporate customers was up 6% to 848, and academic customers were up 15% to 211. Together, this drove a 3% increase in transaction count to approximately 220,000. Together, these businesses delivered consolidated revenue growth of approximately 10% to \$7.3 million versus \$6.6 million in the same year-ago quarter.

Moving on to gross margins. Our Platform business saw gross margins increase by 40 basis points to 78.9%. This increase was driven by proportional decreases in third-party data costs. Our target gross margin in Platforms remains in the high 70% to low 80% range.

Gross margin in our Transactions business was up 100 basis points to 22.6%. Our ongoing actions to improve margins, including price increases and cost efficiencies, are a key driver of the year-over-year improvement. Consolidated gross margin increased 240 basis points to 26.3% compared to the same year-ago quarter due to margin growth in our Transactions business and a revenue mix shift to our higher-margin Platforms business.

Our total operating expenses decreased by \$2.2 million compared to \$2.4 million in the same year-ago quarter. The decrease was primarily due to the continued optimization of sales and marketing resources and open sales and marketing positions.

Net loss from continuing operations totaled \$300,000 or a negative \$0.01 per share compared to a net loss of \$800,000 or negative \$0.03 per share in the same year-ago quarter. Adjusted EBITDA totaled negative \$100,000 compared to negative \$600,000 in the year-ago quarter. As introduced last quarter but worth repeating, we have grown our Platforms business at a strong clip and believe significant growth opportunities remain. To that end, we have decided to be more opportunistic in future growth opportunities if we believe it could further accelerate customer adoption. We believe it's prudent to have the flexibility to invest in opportunities that may arise as we look to further our platform penetration.

An example of such investments will be in sales and marketing, both investments in human capital and strategies to drive optimum efficiency and investment returns.

Moving on to the balance sheet. Cash and equivalents at March 31, 2018, were \$4.8 million versus \$5.8 million at June 30, 2017. There were no outstanding borrowings under our revolving line of credit, and our balance sheet continues to remain clean with cash and receivables comprising nearly all of our assets and accounts payable and accrued expenses and deferred revenue representing nearly all of our liabilities.

This completes our financial summary. I'll now turn the call back to Peter.

Peter?

Peter Victor Derycz

Founder, CEO, President & Director

Thanks, Alan. I'd like to spend more time on our Platforms business. As we mentioned, the strong growth in this business continues. Our priorities are to continue this momentum, and we see this being executed in 2 ways. First, we will continue to make framework additions that provide an enriching user experience. As mentioned, version 2.0 went live in December. Some of the features of the launch included the ability for our customers to get an in-depth view of all gadgets, which will help improve the speed of adoption and rollout to intercompany workgroups. It also features more administrator controls, tabbed gadget dashboards, instant article ordering, enhanced literature search tools and full-screen gadgets, all deployed on a new and more scalable computing and data storage backlog.

Later this May, we will launch version 2.1, which features powerful reference management tools for researchers. These tools will allow users to compile videographies and list of scientific studies that users may be interested, fostering a greater collaboration amongst workgroups. This tool, combined with other gadgets, will also help researchers accelerate the publishing of their research as well as help them save time with literature-intensive projects.

Additionally, it will have easy import and export features to improve the connectivity between Article Galaxy and external databases or pools researchers use in their daily workflows. This unique collaboration tool will be built into our system day 1 and is yet another unique differentiator of our cloud-based platform.

Version 2.2 will feature our self-registration capabilities and will go live in the early summer. As previously discussed, the power of self-registration will allow more efficient lead generation and frictionless sign-ups,

which we believe will drive even more deployments and transactions. Within this powerful framework, we are delivering a constant stream of innovation with weekly launches of new smart platform apps we call gadgets. In fact, in conjunction with our 2.2 launch, our gadget factory will be delivering our users daily innovation. Our gadget-oriented systems architecture allows us to be super agile in response to customer requests for new functionalities. It's also allowed us to tailor the platform to specific verticals and ultimately, allows the users to make it their own through the addition, removal and rearrangement of their gadgets. We're super excited about our gadget-oriented framework and look forward to delighting customers with it.

The second way to continue our Platform momentum is reconstructing our sales and marketing teams to not only drive our growth, but do it in a way that optimizes efficiency and investment returns. This includes leveraging digital marketing of our new self-provisioning platform that will enable us to cast a wider net and market directly to end users and the execution of strategic hires to help implement this plan.

In summary, our third quarter continues to deliver results that indicate our strategy is right on track. We believe the upgrade in our Platforms technology infrastructure discussed today, particularly self-registration capabilities, along with the sales and marketing team benefiting from our focus and investment will drive continued momentum in this business and our entire organization. With that, I'd now like to turn the call back over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions] The first question is from Peter Rabover of Artko Capital.

Peter Rabover

Peter, I was just wondering on the growth opportunities -- or I guess, the growth spend opportunities that you're talking about. How direct is that spend? Is that a pretty predictable lever so for every dollar you spend, you'll get XYZ recurring revenue growth? And how quickly can you implement that? Or is that still more of a guessing game where you spend X amount of dollars and see if this marketing strategy works or not? So maybe you can elaborate on that.

Peter Victor Derycz

Founder, CEO, President & Director

Yes. Well, yes, first of all, we do not want to engage in any guessing games. So we are reorganizing our sales and marketing engine to be very data-driven and metrics-driven. So we will do some small experimentation in digital and social marketing, but that's just to determine what the best messaging is so that we can -- so that we'd use that money, that we're doing it in a way that can be measured, and it's providing positive return. No big media spend. In other words, we really want to be data-driven in our approach.

Peter Rabover

No, that's fine. But I guess, what I'm trying to say is, do you -- you had a really pretty nice clip, 80% growth in the Platform business. Is there a way for you to say, "Hey, if we spend \$3 million this quarter, it might be a big EBITDA loss, but that will generate XYZ revenue, and that will be recurring revenue." Is there a way for you to do that? Or are you still kind of being cautious with your spend?

Peter Victor Derycz

Founder, CEO, President & Director

So we're still being a little cautious because as I mentioned in the call, we are, this summer, launching what we call our self-registration and self-provisioning platform. So at this point, we're enterprise sales-driven. That is we have some marketing responses to our -- to existing marketing efforts. We have sales reps knocking on doors and so on. But come this summertime, we're going to be allowing users, workgroups and enterprises, to sign up all on their own on the website. That is common with other SaaS platforms. And so at that point in time, we'll have a little bit more direct measurement of what marketing activities are driving which kind of sign-ups and contracts online. So to that point, as we evolve that new capability that we'll be looking at works worth investing.

Operator

[Operator Instructions] At this time, this concludes our question-and-answer session.

Before we conclude today's call, I would like to provide Research Solutions' safe harbor statements that include cautions regarding forward-looking statements made during today's call as well as statements regarding the company's use of non-GAAP financial information.

Statements made by management during today's call contain forward-looking statements that include information relating to future events and future financial and operating performance. Examples of such forward-looking statements in this presentation include, but are not limited to, statements regarding the expected continued improvement and market acceptance of the company's products and services and expected continued growth in transaction and platform deployments, that the company will continue to stay a very lean and efficient organization and that the company faces few barriers in terms of achieving greater global expansion and revenue growth. Such forward-looking statements should not be interpreted

as guarantee of future performance or results and will not necessarily be accurate indications of the times at/or by which the performance or those results will be achieved.

The forward-looking statements are based on information available at this time. They are made in management's good faith belief as at that time with respect to future events and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed and/or suggested by the forward-looking statements.

Important factors that could cause differences include, but are not limited to, changes in economic conditions, general competitive factors, acceptance of company's products in the market, the company's success in obtaining new customers and new platform deployments, the company's success in technology and product development, the company's ability to execute its business model and strategic plans, the company's success in integrating acquired entities and assets and all the risks and related information described from time to time in the company's filing with the SEC, that is the Securities and Exchange Commission, including the financial statements and related information contained in the company's annual report on Form 10-K and interim quarterly report on Form 10-Q. The company undertakes no obligation to publicly update or revise any forward-looking statements whether because of new information, future events or otherwise. The company also assumes no obligation to update the cautionary information provided in the presentation.

Today's presentation also includes financial measures defined as non-GAAP financial measure by the SEC. The presentation of this financial information is not intended to be considered in isolation or as a substitute for the financial information prepared or presented in accordance with the generally accepted accounting principles accepted in the U.S., otherwise referred to as GAAP. Please refer to more detailed discussion about the company's use of non-GAAP measures and the reconciliation to the nearest GAAP measures in today's earnings press release.

Finally, I would like to remind everyone that the recording of today's call will be available for replay after 8:00 p.m. Eastern today and through May 29, 2018. Please refer to today's press release for dialing instructions. Thank you for joining us for the presentation. You may now disconnect.

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