

**Research Solutions, Inc. OTCPK:RSSS**  
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\*\*Estimates Data not available.

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# Call Participants

## EXECUTIVES

**Alan Louis Urban**

*CFO & Secretary*

**Peter Victor Derycz**

*Founder, CEO, President & Director*

# 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 2019 first quarter ended September 30, 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 replay via a link in the Investors section of the company's website.

I would now like to 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 first quarter 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.

Fiscal 2019 began on a strong note with continued momentum in our Platform business, which helps drive consolidated gross margin higher on a sequential basis for the third straight quarter. The value of the Platform is also growing, as reflected by our annual recurring revenue that has reached nearly \$2.5 million. Unique enhancements, like near daily innovation produced by our Gadget Factory, is also helping drive value and strong customer retention.

In October, we launched version 2.2 of our Platform, which features new self-registration capabilities that allows for more efficient lead generation and frictionless sign-ups. We believe this upgrade will increase the pace of deployment and provide important analytics that will drive more efficient sales and marketing campaigns. In fact, we have already received a few hundred self-sign-ups since the launch despite no marketing campaigns, including various enterprise inquiries. I will have more to say about the features of the launch and expand upon other initiatives after Alan walks through our first quarter financial results in more detail.

Alan?

## **Alan Louis Urban**

*CFO & Secretary*

Thank you, Peter, and good afternoon, everyone.

Jumping right into our fiscal first quarter results. Our Platform subscription revenue increased 52% to 589,000 in Q1, which was driven by a 48% increase in total Platform deployments to 239. This translates into 12 net incremental deployments in Q1. The quarter ended with \$2.4 million in annual recurring revenue from Platform, up 9% sequentially and 54% year-over-year. Please see today's press release for how we define and use annual recurring revenue and other non-GAAP terms.

We had a slight decline in the rate of sequential Platform deployments this quarter due to our newly hired sales and marketing heads, rebuilding their respective departments. We believe that the rebuild is absolutely required to meaningfully scale our Platform sales in the future. It is also important to note that our annual recurring revenue growth was still up on a year-over-year basis due to a large amount of upsell to existing Platform customers during the quarter.

Our Transaction revenue was up slightly to \$6.4 million compared to the same year-ago quarter. This was driven by 6% growth in total customer count to 1,084. In addition, the number of corporate customers was up 5% to 845, and academic customers were up 11% to 239. However, transaction count declined slightly from 205,000 to 202,000. Together, these businesses delivered consolidated revenue growth of 3% to \$7 million versus \$6.7 million in the same year-ago quarter.

Moving on to gross margins. Our Platform business saw our gross margins increase by 320 basis points to 81.6% compared to the same year-ago quarter. The increase was driven by continued proportional decreases in third-party data costs. Our target gross margin in Platform remains in the high 70% to low 80% range. Gross margin in our Transactions business was up 40 basis points to 23.1%, reflecting our continued actions to improve margins, such as price increases and cost efficiencies. As a result, consolidated gross margin increased 210 basis points to 28% compared to the same year-ago quarter.

Our total operating expenses decreased to \$2.2 million compared to \$2.6 million in the same year-ago quarter. The decrease was primarily due to the continued optimization and transformation of our sales and marketing resources, lower stock-based compensation expenses, and a handful of open positions.

Net loss from continuing operations totaled \$220,000 or negative \$0.01 per share compared to a net loss of \$830,000 or negative \$0.04 per share in the year-ago quarter. Adjusted EBITDA totaled negative \$100,000 compared to negative \$500,000 in the year-ago quarter. While year-over-year adjusted EBITDA continues to improve, we will remain opportunistic to future growth opportunities if we believe it could further accelerate Platform customer adoption and revenue growth.

Moving on to the balance sheet. Cash and equivalents at September 30, 2018, were \$4.5 million versus \$4.9 million at June 30, 2018. 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, 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 growing Platform business. First, I would like to expand on the dynamics we experienced this quarter. As Alan mentioned, our new Platform additions were a bit below prior quarters due to the transformation of how we sell this product. We reconstructed our sales and marketing organizations in July, bringing in new heads of those departments to not only drive our growth but to do so in a way that optimizes efficiency and investment returns. As a result, our first quarter reflected the transition away from certain strategies that weren't optimal and the testing of other strategies that are in their infancy stage, such as those evolved around self-registration learnings.

In fact, in early October, we launched Platforms version 2.2. As we have mentioned previously, version 2.2 features new self-registration capabilities that allow for more efficient lead generation and frictionless sign-ups, which we believe will drive more deployment.

In addition to our new framework enhancements, we continue to launch new Platform gadgets and daily gadget enhancements. To further accelerate this, we've added the capability within the Platform for users to be able to submit new gadget ideas to our Gadget Factory that can create and implement suggested gadgets to all users on the Platform, ultimately improving the user experience and building a community within the Platform.

The new release also included the introduction of our Reference Manager gadget. Reference and citation management is an activity that most of the scientific community engages in, and we're excited to bring this groundbreaking gadget to life after months of R&D. This is a powerful tool that provides key stand-alone capabilities in the arena of literature data accumulation and management, along with full interplay with our gadget ecosystem as well as integration with standard writing tools, such as Microsoft Word. Additionally, it is super workgroup friendly, which allows for better collaboration and research efficiency for scientific teams.

The new upgrade also has built-in analytics that will help us better understand our users. It will tell us things like where are they clicking on, where are they spending the most time, campaign and ROI tracking and where they drop off, among other things. These are exactly the key analytics we expect will help us build a better product for our users as well as inform our sales and marketing team about optimal customer acquisition techniques.

We have also initiated test marketing campaigns that will go through the end of this calendar year. These campaigns should provide us with informative data needed to drive a more efficient, ROI-driven marketing strategy next year. We are actively doing limited spend campaigns that will help optimize the combination of marketing platforms, messaging and target audiences. The results of these experiments will provide a data-driven approach to expanding our marketing campaigns at the start of the calendar year.

While still early days, we have already received a few hundred sign-ups because of the self-registration functionality, including some enterprise inquiries. We're pretty excited about these as they occurred organically before we started our test marketing campaigns. We will be analyzing self-registrations in great detail as we go forward and expect to start reporting some additional new KPI metrics as we evaluate this new data we now have available to us.

In our second quarter, we plan to launch version 2.3 of our Platform, which will feature even more framework enhancements. With this release, we are making improvements to our security, search engine optimization, e-commerce capabilities and messaging as well as further integration of open access content in key components of the Platform. We are progressing rapidly on this framework release and already working on version 2.4.

In summary, we believe the new features in version 2.2 of our Platform, particularly self-registration and the ability for our users to suggest new gadgets and gadget enhancements, will continue to drive growth in our Platform business. These upgrades, including upcoming features in our version 2.3 launch, along with the new leadership and restructuring of our sales and marketing team, position us well to further penetrate the multibillion-dollar Platform market.

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] There are no questions at this time. 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 important 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 the expected continued growth in Transaction and Platform deployments and revenue, that the company will be successful in executing its sales and marketing strategy, that the company will maintain and continue to develop its proprietary software, 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 were based on information available at this time. They are made in our 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, and all the risks and related information described from time to time in the company's filings 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 this presentation.

Today's presentation also included financial measures defined as non-GAAP financial measures by the SEC. The presentation of this financial information is not intended to be considered in isolation or as 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 their 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 November 28, 2018. Please refer to today's press release for dial-in instructions.

Thank you for joining us for the presentation. You may now disconnect.

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