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# Call Participants

## EXECUTIVES

**Alan Louis Urban**

*CFO & 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 fourth quarter and full year ended June 30, 2019. 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 views of non-GAAP financial information.

Finally, I would like to remind everyone that this call will be recorded and available for replay via a 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. Please go ahead, sir.

## **Peter Victor Derycz**

*Founder, CEO, President & Director*

Thank you, operator, and good afternoon, everyone. I will open the call with general comments about the fourth quarter and fiscal year 2019. Then I'll pass it over to Alan to speak about our financial results in greater detail. I will return to speak about some of our exciting initiatives and the go-forward strategy as we move into the new fiscal year.

Fiscal 2019 was another step forward as we continue to grow our Platform business, provide exceptional value through our innovative research tool and optimize sales and marketing strategies. In fact, during the fourth quarter, our Platform revenue grew 52% while continuing to maintain a customer churn rate far better than industry standards, which speaks volumes to the value our platform provides. We remain committed to driving new user growth and are currently optimizing our marketing strategies to further align with this strategy.

Each day, we get smarter about the ways in which to expand our Platform customer base. And a result, we are focusing more on adding new corporations to the enterprise level of our platform, while relying less on generating leads to our self-registration option. This is based on the fact that most new sales are coming in for the enterprise offering. Although many leads are generated via self registrations. I'll expand more on this a bit later.

In conjunction with the shift, we have launched various digital marketing campaigns specifically targeting organizations that we know can significantly benefit from our enterprise offering, And we continue to measure the effectiveness of each campaign and strive for lower costs and better efficiency.

To further drive growth in this area, we are also intensely focused on nurturing leads through better follow-up practices, which we believe will improve conversion rates.

Overall, we believe a more focused and direct outreach to potential enterprise customers will be more efficient and accelerate revenue growth going forward. I will expand more upon our upcoming initiatives to execute this go-forward strategy and exciting enhancements coming to the platform in the coming months. But first, I'd like to pass it over to Alan to walk through our fourth quarter financial results in detail. Alan?

## **Alan Louis Urban**

*CFO & Secretary*

Thanks, Peter, and good afternoon, everyone. Jumping right into our fiscal fourth quarter results, our Platform subscription revenue increased 52% to \$804,000 in Q4, which was driven by a 33% year-over-year increase in total Platform deployments from 227 to 301. This translates into 20 net incremental deployments in Q4, up 7% from Q3. The quarter ended with \$3.2 million in annual recurring revenue, up 8% sequentially and 43% year-over-year. Please see today's press release for how we define and use annual recurring revenue and other non-GAAP terms.

Our Transaction revenue increased slightly to \$6.7 million compared to \$6.6 million in the same year ago quarter. The improvement was primarily due to our transaction count increasing from 213,000 to 215,000, and total active customer count growing from 1,081 to 1,090. Within the total active customer count, the number of corporate customers was down slightly to 832, while academic customers were up 12% to 258.

Together these businesses delivered consolidated revenue of \$7.5 million, an increase of 4% compared to \$7.2 million in the same year ago quarter.

Moving on to gross margin. Our Platform business saw gross margin increase by 150 basis points to 82.3% compared to the same year ago quarter. This increase was driven by continued proportional decreases in third-party data costs. Our target gross margin in the Platform segment remains in the high 70% to low 80% range. Gross margin in our Transactions business was up 60 basis points to 23.5%, primarily due to decreased copyright expenses. As a result, consolidated gross margin increased 260 basis points to 29.8% compared to the same year ago quarter.

Our total operating expenses were \$2.4 million compared to \$2.1 million in the same year ago quarter. The increase was primarily due to increased sales and marketing and technology and product spend in our Platform business. Net loss from continuing operations totaled \$156,000 or nil per share compared to a net loss of \$136,000 or negative \$0.01 per share in the same year ago quarter. Adjusted EBITDA totaled negative \$41,000 compared to negative \$27,000 in the year ago quarter.

Moving on to the balance sheet, cash and cash equivalents at June 30, 2019, were \$5.4 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 will now turn the call back to Peter. Peter?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Thanks, Alan. I'd first like to highlight the notable Platform upgrades we made and the various enhancements we have in the pipeline for the first half of fiscal 2020.

We are committed to continually upgrading and enhancing our platform to ensure we are consistently providing the most innovative and valuable research tools for our customers. In fact, during the fourth quarter, we launched a new refreshed look and feel to the platform that we believe provide users a more intuitive experience to navigate all of the different gadgets and research tools.

Although we are happy with where of our platform currently sits and we continue to receive good feedback from our customers, our development team remains hard at work to continually see drive improvement and the end-user friendliness of the platform.

This is being driven by our product group doing more end-user research to better understand the new user experience and interface, which we will continue to upgrade in order to better nurture our new sales.

We also made several functionality and capability improvements to the various parts of the platform during the fourth quarter. It is very important for our user base to be able to utilize all features in conjunction with each other, so we provided additional interlinking and data transfer capabilities between gadgets. This allows users to further seamlessly integrate work from one gadget to another with less hiccups or interference during the data integration and transfer processes.

During the quarter, we implemented several updates and improvements to one of our flagship gadgets, the Reference Manager. Including added integrations support for PubMed, improved sharing support, improved privacy functionality for shared folders and new admin and export capabilities. We also plan to introduce full compatibility for Microsoft Word on macOS.

We originally anticipated this happening in the fourth quarter, but experienced some minor delays during the quarter and anticipated -- and anticipate this new feature along with many more launching in early fiscal 2020.

In addition to updating the Reference Manager, we made improvements to many of our gadgets as we are constantly evaluating how each one can provide more value to users. For example, we updated the e-journal table of contents gadget to show article abstracts provide richer metadata and integrate better with the Reference Manager gadget, along with general look and feel improvements.

During the quarter, we also launched new biomedical gadgets, including the protein interaction searcher, the CRISPR-Cas9 experiment searcher and the NASA GeneLab searcher. These gadgets are very useful because they provide in a single platform a variety of tools that help researchers save time and money.

Some of the positive feedback we've received has been specifically related to our platform providing a single stop, not only for scientific literature, but also for better use time-saving tools, all within a unified platform.

We will continue to focus on this aspect of our platform as we plan further improvements to it. On that note, from a product perspective, we're currently working on some exciting initiatives that should help grow our Platform sales. The primary one being Article Galaxy scholar, which provides specialized interface of our platform for the University market. A version of Article Galaxy Widget for nonenterprise customers, which would provide a taste of this powerful tool to anyone interested in giving it a test drive. A search and discovery gadget that will help user search for and keep track of key scientific literature with full connectivity to Reference Manager gadget and article ordering.

We're also continuing to work on additional data management and storage capabilities. Our product road map is looking strong, being guided in large part by customer and prospect needs, which should help improve our footprint in the information marketplace.

Moving on to our go-forward strategy, I wanted to further expand on the rationale behind the shift in marketing towards targeting specific organizations rather than individual customers. During the quarter, we realized that while the new leads we were generating from the self-registration were good, getting them to convert into paying customers was taking longer than expected and required a substantial amount of nurturing.

Our platform has proven to be an incredibly valuable tool for our current enterprise customers, and we want to bring on as many R&D-focused SMB organizations as possible to experience the full spectrum of benefits that we have to offer.

As I mentioned earlier, we launched specific marketing campaigns focused on targeting these types of organizations and will continue to optimize the methodologies behind these campaigns to ensure we are reaching and engaging with as many potential enterprise customers as possible.

With that being said, we're still doing everything we can to capitalize on the individual leads that do come through the free self-registration option, and we'll continue to provide that offering going forward.

Overall, we are incredibly pleased with how we performed during the past fiscal year and our current positioning in the market. As we consistently make enhancements to our platform, it continues to provide user substantial value through important tools that make the research and development process much more efficient.

It has become our goal to substantially increase our enterprise level user base, so that many more R&D-focused organizations can realize the significant benefit our platform offers. And we believe the new

marketing approach we outlined, along with our fully trained sales team, will allow us to further expand the platform and accelerate revenue growth.

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 comes from Peter Rabover with Artko Capital.

## Peter Rabover

Peter, congratulations on getting another year under the belt. I was wondering, what -- can you talk about maybe what the difficulties are in converting leads into clients? Like, what are the hangups with people?

## Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. I'm not sure to characterize it that way, but what we found is we launch self-registration capability back in October with sort of 4 tiers. And what we're finding is that people are signing up for the free tier and people are coming to and becoming enterprise customers through the enterprise tier and not sort of a lot of actions in between. So we're finding great leads in the free sign-ups, and -- but they tend to jump to enterprise, rather than to professional or to workgroup. And so we figured, okay, while we figured that out and do some more user experience research, let's just focus our marketing efforts on the enterprise, that's where the money is coming in.

## Peter Rabover

And then when you say enterprise, are you saying like more -- like, you're focusing on more volume of seats, like, you're going forward, like, 10-seat contracts, rather than just 1 company, 1 seat type of thing, is that what you mean?

## Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. We had this -- we have today the professional tier which is, like, 9 95 and the workgroup tiers at a very affordable price point as well. And the enterprise, it's an average of \$10,000, right? And -- but we're finding that people are signing up for enterprise and that's where our sales are coming from right now. And so one enterprise deal makes up for a lot of professional and workgroup accounts and so that's what we're focused. I think there is work that we can do on the user experience too and then see what other -- how our mix of capabilities and functionality that are available to the professional and to the workgroup work out. But at this point, we are saying, "Okay. Well, it's enterprise what people want, that's what we're focus on selling and continue driving revenue that way." And do some additional research on our pricing tiers and the user sign-up experience.

## Peter Rabover

Okay. Could you maybe give us some color on the 301 customers? I guess, some demographics of what kind of companies they are and maybe revenue levels or something like that, just so maybe having a better idea of where the success is coming from in getting new customers?

## Peter Victor Derycz

*Founder, CEO, President & Director*

Yes. We have been targeting the -- what we call the small, medium-size business market. So these are companies that, let's say, 1,000 employees or less. And that's typically been our sweet spot, that's where we found that there were sort of lot of organic sales occurring. And so I would say, it's typically, yes, small R&D firms that fit into that SMB category. And they need solutions, they are typically in some sort of a growth mode. And so they haven't built out all the resources. Internally, they need to build out, and they come into sort of a plug-and-play solution to help them have sort of literature side and the information side of their business managed. And so that's where we're seeing the success, really is what we call SMBs.

## Peter Rabover

I mean, I guess maybe how many of your 301 customers are, like, Fortune 500 or Fortune 1000 customers? Is there a way to quantify that?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

I'm not sure we've quantified that before, but I would say is sort of the 80-20 rule. And there's only 20 -- top 20 pharma companies in the world, right. So I'd say those would probably fall on the 80-20 line.

**Peter Rabover**

Okay. And then maybe -- you guys kind of are seeing a continued decline in transactions -- in the Transactions business. And do you have a better idea of what's happening there, why that's happening and how you can stop sort of that bleeding?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. It's sort of stabilized actually. And so we're seeing a bit of a stabilization there. So we pointed out in another presentation that the dynamic is some of the large customers we had as R&D shifts to small and medium-sized businesses had dropped their volume a bit. And while at the same time, our small and medium type of businesses is sort of picking that up. And so as that shift occurs, we're starting to see a bit of a stabilization of that right now.

**Peter Rabover**

But, like, do you have an idea of ...

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Maybe even a small -- or maybe even a slight increase.

**Peter Rabover**

Okay. Yes. Is it -- I guess, what I'm asking is -- is it something external that there is just less academic papers with? Or maybe if there is just more people going into the dark web, like, is there specific reason why that sort has been happening, do you have an idea on that?

**Peter Victor Derycz**

*Founder, CEO, President & Director*

No. The phenomenon that we've been able to make is entirely has to do with just the nature of our own customer base. So our Transaction business historically was founded on large, let's say, life science companies as customers. And we found that these large life science companies, their volumes tend to dwindle a little bit or drop a little bit over time. And that gets picked up by all the new SMBs that we're adding. The only macro trend that I would say is out there that we sort of point to is the fact that large pharma is outsourcing more of their R&D to basically the biotech industry and contract research organizations. And by outsource that takes on many, many meanings, right. The pharma company may say, "Hey, look, let's just buy an interesting biotech company when they have product we're interested in." And so -- instead of doing research on our own, and so we've seen large life science companies focus more on their -- we're finding that their core competencies are more in the marketing and distribution of the medical products and that they rely more and more on -- for R&D on contract research organizations and the biotech industry. So that's an external trend that's going on that clearly is part of the driver of our strategy to focus on SMBs.

**Peter Rabover**

Okay. And maybe the final question. I think last quarter and I know you mentioned it on this call as well, but maybe a little bit more details. You kind of have your sales organization replaced now and you've been testing out various lead generation things, like customer acquisition strategies. And so maybe a little bit

more color on what's working, what's not, what things have you changed in the last since you've really started to push for the bigger enterprise sales of the product? I mean, clearly, you're getting the pricing on it, so that's great. But from existing customers so just more of what working is the question.

**Peter Victor Derycz**

*Founder, CEO, President & Director*

Yes. So our sales team has been -- yes, like I said, has been reorganized. And so I would say the people that are -- it's a fully trained and have some experience are doing really well. And then, yes, we're working on training the newer ones to get to the levels of the other sales reps. So that's one phenomenon that's going on. We are focused in pretty heavily now on lead generation and lead nurturing. So from all these free sign-ups and those types of people, there are a lot of people that we can nurture along the path to becoming an enterprise customer. And so we identify them and we nurture them through additional content, additional touch points and lead them into enterprise customers. So that's sort of one side of our overall revenue is just what we call new new sales through this type of activity. And then we have additional sales that also generated by our customer happiness group, which is, in addition to renewing accounts, they're also upselling them as well and that drive some revenue generation and as well as increases in our average sales price.

**Operator**

At this time, this concludes the 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 and 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 related to future events and future financial and operating performance. The 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 for our 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 and 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.

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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 included 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 substitution 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 October 3, 2019. 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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